CHAPTER I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

Tamil Nadu is one of the most urbanised States in India. Tamil Nadu has a total of 32 districts. The population growth of Tamil Nadu in the current decade was 7.03 *per cent* which was far less than other general category States (13.42 *per cent*) **(Appendix 1.1)**. The Gross State Domestic Product (GSDP) of Tamil Nadu State has been growing at a compound annual growth rate (11.04 *per cent*) which is lower than other general category States (12.54 *per cent*) for the period 2000-01 to 2008-09. As far as social indicators are concerned, Tamil Nadu has fared better than National average in respect of Population below poverty line (22.5 *per cent*), literacy (73.45 *per cent*), infant mortality rate (31 per 1000 live births) and Life expectancy at birth (66.2 years). Though Tamil Nadu State has lower urban inequality (0.36) compared to All India average (0.37) the States rural inequality (0.32) is higher than All India average (0.30).

This chapter provides a broad perspective of the finances of the Government of Tamil Nadu during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The structure of Government Accounts and the layout of the Finance Accounts are shown in **Appendix 1.2.** The methodology adopted for the assessment of the fiscal position of the State is given in **Appendix 1.3.** A time series data on State Government finances is given in **Appendix 1.4.**

1.1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2009-10) *vis-à-vis* the previous year while **Appendix 1.5** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.1: Summary of Current Year's Fiscal Operations

(₹ in crore)

2008-09	Receipts	2009-10	2008-09	Disbursements	2009-10		
Section-A: Revenue					**Non Plan**	**Plan**	**Total**
55,042	Revenue receipts	55,844	53,590	Revenue expenditure	46,602	12,773	59,375
33,684	Tax revenue	36,547	18,578	General Services	20,275	22	20,297
5,712	Non-tax revenue	5,027	21,371	Social Services	13,267	9,690	22,957
8,511	Share of Union Taxes/ Duties	8,756	9,661	Economic Services	9,349	2,273	12,122
7,135	Grants from Government of India	5,514	3,980	Grants-in-aid and Contributions	3,711	288	3,999

Table 1.1: Summary of Current Year's Fiscal Operations (concld.)

(₹ in crore)

2008-09	Receipts	2009-10	2008-09	Disbursements	2009-10		
Section-B: Capital					**Non Plan**	**Plan**	**Total**
..	Misc. Capital Receipts	--	9,104	Capital Outlay	148	8,425	8,573
1,934	Recoveries of Loans and Advances	2,587	2,830	Loans and Advances disbursed	2,368	633	2,290
11,841	Public Debt receipts	15,557	2,216	Repayment of Public Debt	**	**	2,512
..	Contingency Fund	1	1	Contingency Fund	**	**	..
81,409	Public Account receipts	87,275	78,429	Public Account disbursements	**	**	85,256
12,173	Opening Cash Balance	16,229	16,229	Closing Cash Balance	**	**	19,487
1,62,399	**Total**	**1,77,493**	**1,62,399**	**Total**			**1,77,493**

(Source: Finance Accounts for the years 2008-09 and 2009-10)

** Bifurcation of Plan and Non- Plan not available

The significant changes during 2009-10 as compared to the previous year are given below:

- Revenue receipts of the State increased only marginally by ₹ 802 crore (1.5 *per cent*) over the previous year. The increase is very marginal although there was an increase in the State's own tax revenue (₹ 2,863 crore) and Share of Union Taxes/Duties (₹ 245 crore). It was duly offset by decreases in Non-tax revenue (₹ 685 crore) and Grants from Government of India (₹ 1,621 crore).

- Revenue expenditure increased by ₹ 5,785 crore (10.8 *per cent*) over the previous year, mainly due to increase in expenditure on General Services (₹ 1,719 crore) and Social Services (₹ 1,586 crore) and Economic Services (₹ 2,461 crore).

- While the expenditure on Economic Services registered an increase of 26 *per cent*, expenditure on General Services increased by 9 *per cent*.

- Capital expenditure on asset creation decreased by ₹ 531 crore (5.8 *per cent*) over the previous year while there was an increase in Repayment of Public Debt by ₹ 296 crore (13.4 *per cent*).

- Public Account receipts and disbursements increased by ₹ 5,866 crore (7.2 *per cent*) and ₹ 6,827 crore (8.7 *per cent*) respectively. Net receipts under Public Account decreased by ₹ 961 crore over the previous year.

- The net impact of these transactions led to a significant increase of ₹ 3,258 crore in the cash balance at the end of the year over previous year.

Review of the fiscal situation

As per the Tamil Nadu Fiscal Responsibility Act, 2003 (FRBM Act), in line with the recommendations of the Twelfth Finance Commission (TFC), the State Government was to eliminate the revenue deficit by the end of 2007-08 and reduce the fiscal deficit to not more than three *per cent* of the Gross State Domestic Product (GSDP) by 2008-09. Further, the Act envisaged to cap outstanding guarantees at a level not exceeding the previous year's revenue receipts or 10 *per cent* of GSDP, whichever was the least.

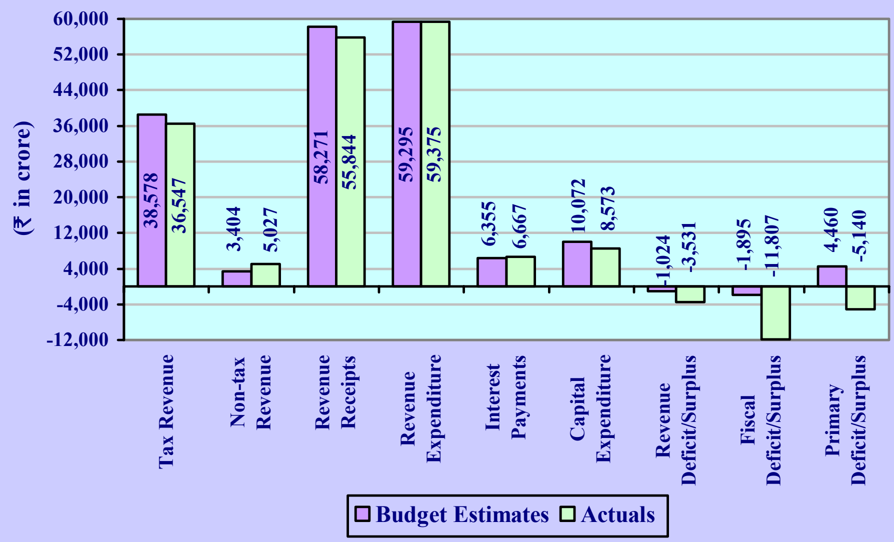
Though the State was able to achieve the goal set in the FRBM Act till 2008-09, during 2009-10 the revenue deficit of the State was ₹ 3,531 crore (0.9 *per cent* of GSDP). Further, the trend in increase in revenue expenditure *vis-à-vis* revenue receipts has led the State to a position of a revenue deficit State.

Budget Analysis

The budget papers presented by a State Government provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the Budget Estimates are indicative of non-attainment and non-optimization of the desired fiscal objectives, due to a variety of causes, some within the control of the Government and some outside.

Chart 1.1 presents the Budget Estimates and actuals for some important fiscal parameters.

Chart 1.1 : Selected Fiscal Parameters : Budget Estimates *vis-a'-vis* Actuals - 2009-10



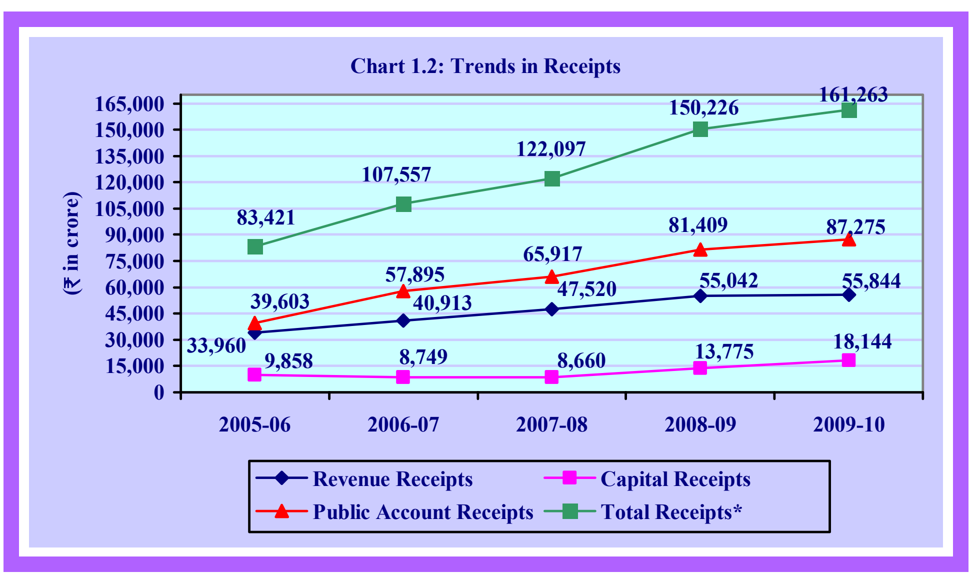
The actuals were fairly in line with estimates, barring the following:

- Non-tax receipts surpassed the estimates by 48 *per cent*.
- While revenue receipts were less than the estimate by ₹ 2,427 crore (4 *per cent*), revenue expenditure was more than the estimates by ₹ 80 crore (0.13 *per cent*). The capital expenditure fell short of the estimate by ₹ 1,499 crore (15 *per cent*), indicating difficulties in fund absorption for capital works.
- Revenue deficit, fiscal deficit and primary deficit were off the mark, mainly due to the differences between estimates and actuals in revenue receipts and expenditure. Against an estimated primary surplus of ₹ 4,460 crore, the financial year ended with a primary deficit of ₹ 5,140 crore which was 215 *per cent* below the estimate. The revenue deficit and fiscal deficit were ₹ 3,531 crore and ₹ 11,807 crore respectively against the estimate of ₹ 1,024 crore and ₹ 1,895 crore respectively.

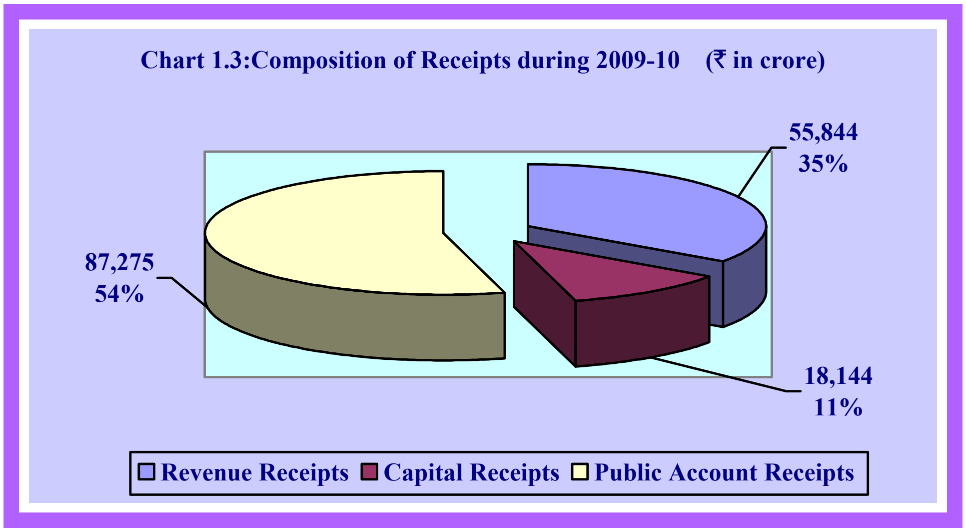
1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from the Public Account. **Table 1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2005-10. **Chart 1.3** depicts the composition of resources of the State during the current year.



* Excludes receipt under Contingency Fund



- The total resources of the State increased by ₹ 11,037 crore (7.3 *per cent*) over the previous year, mainly due to increase of ₹ 5,866 crore (7.2 *per cent*) in Public Account receipts and ₹ 4,369 crore (32 *per cent*) in capital receipts.

- Public Debt receipts went up by ₹ 3,716 crore, an increase of 31.4 *per cent* over the previous year, mainly due to a substantial increase in open market borrowings. Open market borrowings increased from ₹ 9,598 crore in 2008-09 to ₹ 12,599 crore in 2009-10, an increase of 31 *per cent* over the previous year, which would have been more but for a sharp increase of ₹ 633 crore by way of resources raised through Special Securities issued to the National Small Savings Fund.

- The State's tax revenue increased from ₹ 33,684 crore in 2008-09 to ₹ 36,547 crore in 2009-10 (increase of 8.5 *per cent)*, while the percentage of tax receipts to revenue receipts increased only by 4 *per cent* i.e., from 61 *per cent* in 2008-09 to 65 *per cent* in 2009-10.

1.2.2 Funds transferred to State Implementing Agencies outside the State Budgets

The Central Government has been transferring a sizeable quantum of funds directly to State implementing agencies[1] for the implementation of various schemes/programmes in social and economic sectors which are recognized as critical. As these funds are not routed through the State Budget/State Treasury System, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated. The funds directly transferred to State implementing agencies under nine major programmes assisted by Government of India are presented in **Table 1.2.**

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[1] State implementing agencies include any organization/institution including Non-Governmental organization which is authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State.

Table 1.2: Funds transferred directly to State Implementing Agencies

(₹ in crore)

Programme/scheme	Implementing agency in the State	Funds transferred directly by Government of India during 2009-10
Mahatma Gandhi National Rural Employment Guarantee Scheme	District Rural Development Agencies	1,371.19
Indira Awaas Yojana	District Rural Development Agencies	394.52
Pradhan Mantri Gram Sadak Yojana	District Rural Development Agencies	520.00
Sarva Shiksha Abhiyan	State Project Directorate	475.60
Additionalities under National Rural Health Mission	State Health Society	164.25
Treasury Mechanism-Infrastructure maintenance	State Health Society	178.75
Reproductive Child Health Programme	State Health Society	153.55
National Rural Drinking Water Programme	Tamil Nadu Water Supply and Drainage Board	375.16
	Other Agencies	305.77
Total		**3,938.79**

(Source: Controller General of Accounts, Government of India)

- Out of ₹ 3,938.79 crore transferred to State implementing agencies, a major amount of ₹ 2,285.71 crore (58 *per cent)* was transferred to District Rural Development Agencies in respect of the three programmes/schemes as mentioned in **Table 1.2** above. Direct transfer of funds from Union to State implementing agencies ran the risk of improper utilisation of funds by these agencies. Unless uniform accounting policies are followed by all these agencies with proper documentation and timely reporting of expenditure, it would be difficult to monitor the end use of these direct transfers. The same percentage of funds were transferred even during 2008-09.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own taxes and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2005-10 are presented in **Appendix 1.4** and depicted in **Charts 1.4 and 1.5** respectively.

Chart 1.4: Trends in Revenue Receipts

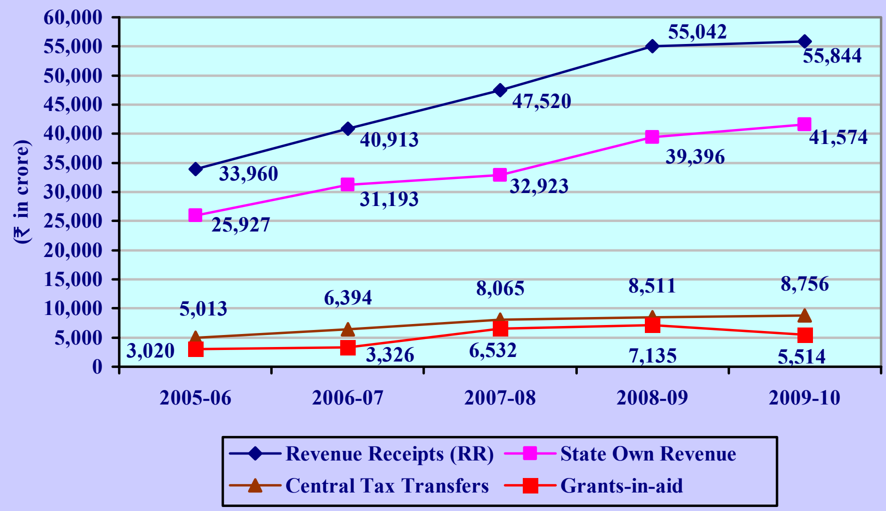
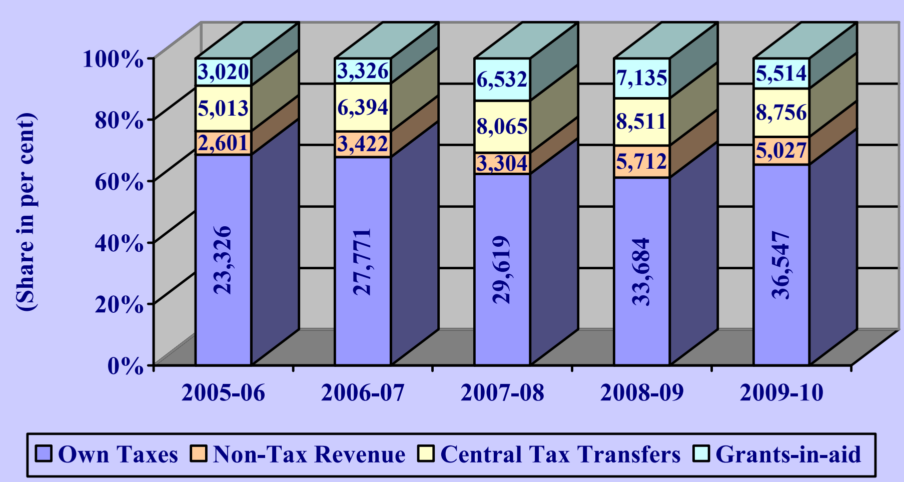


Chart 1.5: The composition of Revenue Receipts during 2005-10 (Value in crores of rupees)



- The compounded annual growth rate of revenue receipts stood at 13.18 *per cent* in the current decade which was less than the other general category States (14.40 *per cent*).

- The revenue receipts of the State grew by ₹ 802 crore over the previous year. The growth was drastically subdued at 1.5 *per cent* as against the average annual growth of 18 *per cent* during 2005-09. The sluggish growth in revenue receipts was mainly due to reduced receipt of Grants-in-aid from Government of India.

- The increase of ₹ 802 crore in revenue receipts (1.5 *per cent*) did not keep pace with the increase of ₹ 5,785 crore in revenue expenditure (10.8 *per cent*).

- Non-tax revenue during 2009-10 included ₹ 263 crore received as debt relief from Government of India. The amount of receipt on this account was the same during 2008-09 as well.

The trends in revenue receipts relative to GSDP are presented in **Table 1.3** below:

Table 1.3: Trends in Revenue Receipts relative to GSDP

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) (₹ in crore)	**33,960**	**40,913**	**47,520**	**55,042**	**55,844**
Rate of growth of RR (*per cent*)	19.4	20.5	16.1	15.8	1.5
RR/GSDP[2] (*per cent*)	14.5	14.8	15.6	16.2	14.7
Buoyancy Ratios[3]					
Revenue Buoyancy with reference to GSDP (ratio)	1.18	1.14	1.59	1.41	0.12
State's own tax Buoyancy with reference to GSDP (ratio)	1.25	1.06	0.66	1.22	0.72
Revenue Buoyancy with reference to State's own taxes (ratio)	0.94	1.07	2.43	1.15	0.17

(Source: Finance Accounts of Government of Tamil Nadu)

- The GSDP at the current rate was estimated to increase from ₹ 3,39,212 crore in 2008-09 to ₹ 3,79,503 crore in 2009-10, representing an increase of 11.88 *per cent*. However, the rate of growth of revenue receipts showed a declining trend despite the increase in GSDP, indicating that the State's aim to widen the tax base and augment revenue could not be achieved.

- The State's own tax buoyancy with reference to GSDP stood at 0.72 as against 1.2 prescribed by the TFC, indicating lower growth than the normative projection made by the Commission.

- Revenue receipts as a percentage of GSDP declined during the year 2009-10 after continuous increase during last three years.

- Revenue buoyancy with reference to GSDP and with reference to State's own taxes came down during the year. In 2007-08, the growth rate of revenue receipts was 1.59 times more than that of GSDP, but in the next two years, the low growth rate of revenue receipts relative to GSDP pushed the revenue buoyancy ratio down. The revenue buoyancy ratio was 1.41 in 2008-09 and 0.12 in 2009-10.

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2 Advance estimate of GSDP of ₹ 3,79,503 crore has been adopted for 2009-10.

3 Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one *per cent*.

Debt waiver under Debt Consolidation and Relief facilities

The Twelfth Finance Commission has framed a scheme of debt relief of Central loans named 'Debt Consolidation and Relief Facilities' based on fiscal performance of the State linked to the reduction of deficits of the States. Under the scheme, the repayments due on Central loans from 2005-06 to 2009-10, after consolidation and reschedulement of loans, will be eligible for write off. The amount sanctioned by GOI as debt relief each year will be adjusted by showing repayment of Central loans and crediting the amount to the head of account '0075 Miscellaneous General Services – 800 Other Receipts'. The States will be eligible for the benefit subject to fulfilment of certain conditions, *viz*., legislating FRBM Act, gradual abolition of revenue deficit by 2008-09, bringing annual reduction targets for fiscal deficit, bringing out the Annual Fiscal Policy Statement etc. As assessed by TFC, in the case of Tamil Nadu, the amount of repayment due for the period 2005-10 after consolidation and reschedulement was ₹ 1718.15 crore. The ratio of total repayment to average revenue deficit (2001-02 to 2003-04) is 0.46 by which repayments will be written off for every rupee reduction in revenue deficit. Thus, the annual repayment due was ₹ 343.63 crore. During the period 2005-10, GOI sanctioned ₹ 1053.12 crore as debt relief for Government of Tamil Nadu, as detailed below:

(₹ in crore)

Year	Debt relief due as per TFC recommendations	Debt relief sanctioned by the Central Government
2005-06	343.63	..
2006-07	343.63	263.28
2007-08	343.63	263.28
2008-09	343.63	263.28
2009-10	343.63	263.28
Total	**1,718.15**	**1,053.12**

The shortfall of ₹ 665.03 crore in receipt of the benefit of debt relief scheme, and the non-tax revenue receipts to that extent, was due to non-fulfillment of the conditions for receiving the debt relief, by the State Government. Further as the State has become a revenue deficit State during 2009-10, the State stands to lose the debt relief to the tune of ₹ 343.63 crore.

1.3.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid is determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts, Central assistance for Plan schemes etc., the State's performance in mobilization of additional resources was assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The gross collection in respect of major taxes and duties as well as the components of non-tax receipts are given in **Table 1.4**.

Table 1.4: Components of State's own resources

(₹ in crore)

Revenue Head	2005-06	2006-07	2007-08	2008-09	2009-10
Tax Revenue					
Taxes on sales, trades etc.	15,555	17,727	18,156	20,675	22,662
State excise	3,177	3,986	4,764	5,756	6,741
Taxes on vehicles	1,125	1,261	1,483	1,710	2,025
Stamp duty and Registration fees	2,085	2,997	3,805	3,794	3,662
Land revenue	179	121	78	208	117
Taxes on goods and passengers	985	1244	1,097	979	1,092
Other taxes[4]	220	435	236	562	248
Total	**23,326**	**27,771**	**29,619**	**33,684**	**36,547**
Non-Tax Revenue					
Interest receipts	797	1,104	1,242	1,465	1,797
Dividends & Profits	22	30	40	36	48
Other non-tax receipts	1,782	2,288	2,022	4,211	3,182
Total	**2,601**	**3,422**	**3,304**	**5,712**	**5,027**

- As per the Medium Term Fiscal Policy Statement, tax revenue was projected as 10.10 *per cent* of GSDP. Against the projected revenue of ₹ 38,330 crore, the State could realise ₹ 36,547 crore, resulting in short collection of tax revenue of ₹ 1,783 crore (4.65 *per cent*).

- The compounded annual growth rate of own tax revenue stood at 12.88 *per cent* in the current decade which was less than the other general category States (13.59 *per cent*).

- Though the own tax revenue of the State increased by ₹ 2,863 crore over the previous year, the growth rate of its own tax revenue, which averaged 13.1 *per cent* per annum during 2006-09 slowed down to 8.5 *per cent* during 2009-10.

- The marked decline in the growth rate of own tax revenue was mainly due to reduced collection of stamp duty and registration fees. The revenue through stamp duty and registration fees declined by ₹ 132 crore due to the impact of the economic slowdown as against the annual average growth of 23.5 *per cent* during 2006-09. There was also a decrease of 43.75 *per cent* in respect of land revenue.

- The non-tax revenue of the State decreased by ₹ 685 crore (12 *per cent*) over the previous year. However, the compounded annual growth rate of the State (12.72 *per cent*) was better than other general category States (12.08 *per cent*).

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[4] Other taxes include taxes on immovable property other than agricultural land and taxes and duties on electricity.

- The decline in the growth rate of non-tax revenue was mainly due to decrease in non-tax revenue receipts by ₹ 1,894.95 crore under consumer industries which was duly offset by increase in receipts under other urban development schemes (₹ 631.88 crore) and interest receipts (₹ 332.21 crore).

1.3.2 Loss of Revenue due to Evasion of Taxes

Tax evasion leads to non-realisation of legally available revenue to the Government. As of 31 March 2009, the Commercial Taxes Department of the Government had detected 3,908 cases of evasion of sales tax / value added tax. During 2009-10, 7,131 new cases were detected. However, the department completed assessments only in respect of 7,298 cases leading to a pendency of 3,741 cases as at the end of March 2010. As assessments were not completed in a large number of cases, the extent of revenue realisable from tax evaders could not be assessed.

1.3.3 Revenue Arrears

As on 31 March 2010, revenue arrears amounted to ₹ 11,384.57 crore (sales tax: ₹ 10,990.06 crore; taxes on vehicles: ₹ 3.67 crore). Out of this, ₹ 5,562.49 crore was outstanding for more than five years (sales tax: ₹ 5,354.90 crore; taxes on vehicles: ₹ 1.70 crore).

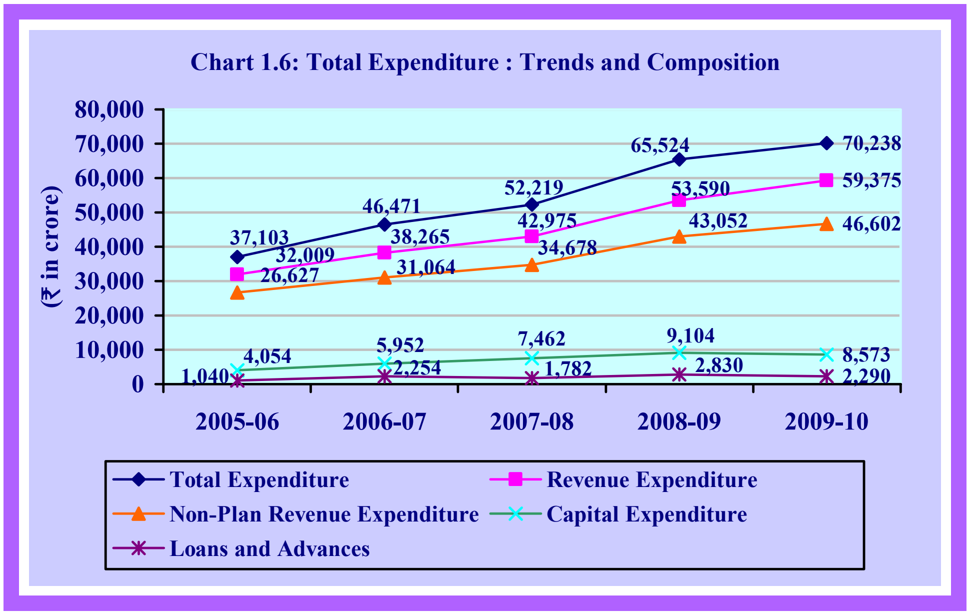
Considering the huge sums involved, Government needs to take note of these mounting arrears.

1.4 Application of Resources

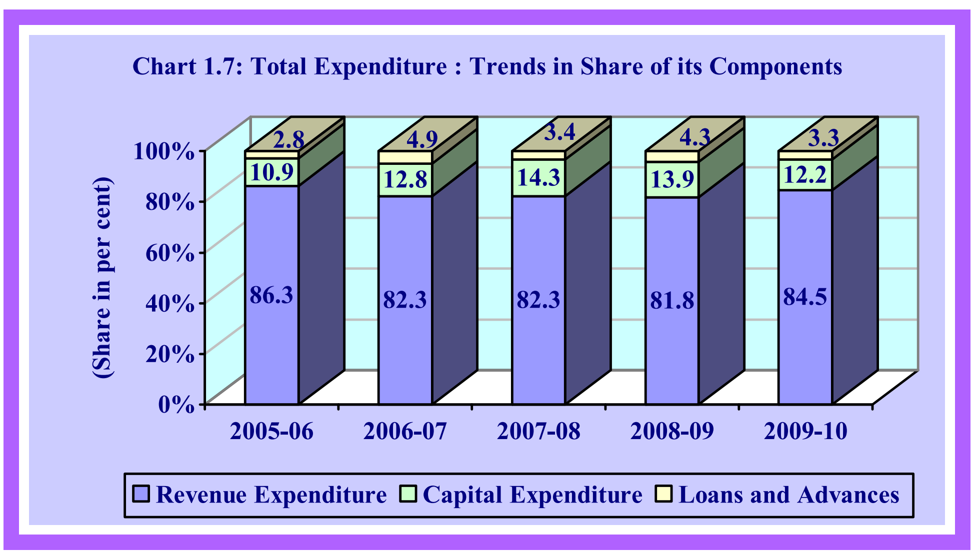
Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially the expenditure directed towards development of social sector.

1.4.1 Growth and Composition of Expenditure

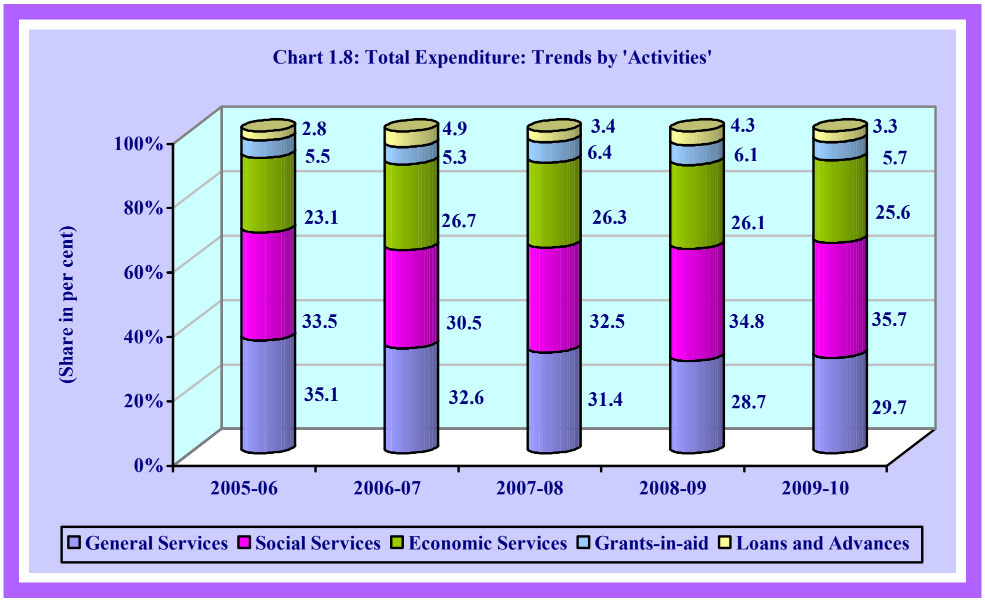
Chart 1.6 presents the trends in total expenditure over a period of five years (2005-10) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.7 and 1.8** respectively.



- The total expenditure[5] during 2009-10 increased by ₹ 4,714 crore (7.2 *per cent*) over the previous year. The revenue expenditure increased by ₹ 5,785 crore (10.8 *percent)* and non-plan expenditure increased by ₹ 3,550 crore (8.2 *per cent*). The revenue expenditure was 84.53 *per cent* of the total expenditure, of which 78.49 *per cent* was on the Non-Plan component.
- The Capital Expenditure decreased by ₹ 531 crore (5.8 *per cent*) and the loans and advances also decreased by ₹ 540 crore (19 *per cent*).
- Revenue receipts of the State met 79.5 *per cent* of the total expenditure during 2009-10 as against 91 *per cent* during 2007-08 and 84 *per cent* during 2008-09.



5 Total expenditure includes revenue expenditure, capital expenditure and loans and advances.



- The expenditure on General Services, Social Services and Economic Services during 2009-10 grew by 10.7 *per cent*, 10.1 *per cent* and 5.3 *per cent* respectively over the previous year.

- The increase in the expenditure on Social Services was mainly on account of increased spending of ₹ 1,875 crore on General Education and ₹ 728 crore on Health and Family Welfare.

- The expenditure on General Education (₹ 10,341 crore) and Health and Family Welfare (₹ 3,017 crore) surpassed the normative projections made by TFC by ₹ 3,234 crore and ₹ 1,245 crore respectively, indicating greater thrust laid on these areas by the Government. It was, however, noticed that the salaries and wages component of the expenditure for General Education grew by 41 *per cent* against TFC's recommended growth of six *per cent*. Similarly, the salaries and wages component under Health and Family Welfare grew by 45 *per cent* against TFC's recommended growth rate of five *per cent*.

- Expenditure on repayment of Public Debt went up from ₹ 2,216 crore in 2008-09 to ₹ 2,512 crore in 2009-10.

1.4.2 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.5** and **Chart 1.9** present the trends in the expenditure on these components during 2005-10.

Table 1.5: Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10
Salaries and wages, *of which*	8,376 (24.6)	8,694 (21.2)	9,690 (20.4)	12,859 (23.4)	15,638 (28)
Non-Plan Head	7,449	7,673	8,641	11,470	14,141
Plan Head*	927	1,021	1,049	1,389	1,497
Salary grants**	1,590 (4.6)	1,863 (4.5)	2,072 (4.3)	2,756 (5)	3,219 (5.8)
Interest Payments	4,559 (13.4)	5,506 (13.5)	6,086 (12.8)	5,963 (10.8)	6,667 (11.9)
Expenditure on Pension	4,460 (13.1)	5,430 (13.3)	6,017 (12.7)	7,735 (14)	8,385 (15)
Subsidies	3,426 (10.1)	4,177 (10.2)	4,305 (9.1)	6,600 (12)	6,653 (11.9)
Total	**22,412 (65.3)**	**25,670 (62.7)**	**28,170 (59.3)**	**35,913 (65.2)**	**40,562 (72.6)**

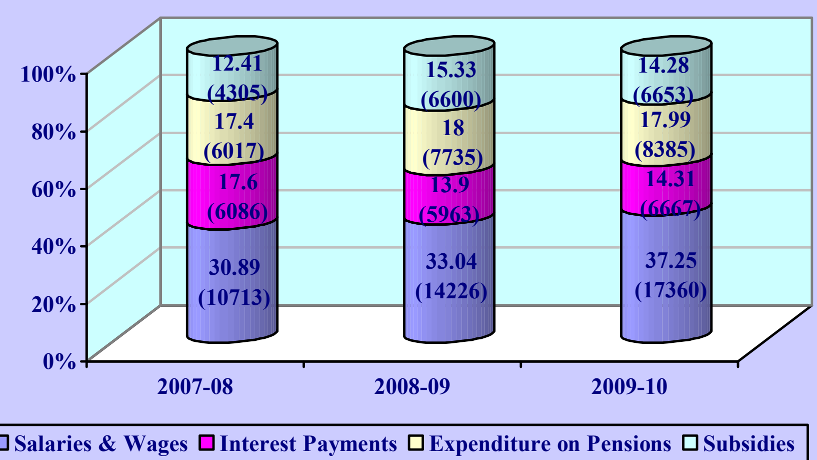
(Source: Finance Accounts of Government of Tamil Nadu)

Figures in the parentheses indicate percentage of revenue receipts

* Plan head also includes the salaries and wages paid under Centrally Sponsored Schemes

** Salary grants are released to aided educational institutions and Urban Local Bodies towards meeting the expenditure on salaries of teachers and staff.

Chart 1.9: Share of Committed Expenditure in Non-Plan Revenue Expenditure during 2007-10
(Value in labels in crores of rupees)



➢ The committed expenditure stood at 72.6 *per cent* of total revenue receipts of the State during 2009-10 as against 59.3 *per cent* during 2007-08 and 65.2 *per cent* during 2008-09.

- The committed expenditure stood at 87.04 *per cent* of the Non-Plan revenue expenditure during 2009-10 as against 81.23 *per cent* during 2007-08 and 83.42 *per cent* during 2008-09 mainly due to an increase of ₹ 3,242 crore in salary expenditure (20.8 *per cent*) consequent on implementation of pay commission awards.

- The expenditure on salaries and wages, inclusive of salary grants was ₹ 18,857 crore and accounted for 42.5 *per cent* of revenue expenditure net of interest and pension as against TFC's normative prescription of 35 *per cent*.

- The expenditure on salaries and wages, which gradually declined from the level of 29.3 *per cent* of revenue receipts in 2005-06 to the level of 24.75 *per cent* in 2007-08, moved upward from 2008-09 and stood at 33.77 *per cent* during 2009-10. The increase was mainly due to implementation of sixth pay commission recommendations and payment thereon to Government staff.

- Expenditure on pension, as a percentage of revenue receipts, increased from 14 *per cent* in 2008-09 to 15 *per cent* in 2009-10.

- Expenditure on pension at ₹ 8,385 crore overshot the TFC's projection of ₹ 7,405 crore. There was an increase of 8.4 *per cent* in pension expenditure over the previous year.

- Subsidies were on a continuous increase. They went up by ₹ 53 crore (0.80 *per cent*) in 2009-10 when compared to previous year. The subsidy paid under Public Distribution System Support and to Electricity Board alone accounted for ₹ 5,368 crore (81 *per cent*).

- The expenditure towards interest payments increased by ₹ 704 crore (11.81 *per cent*) over the previous year. This was mainly due to repayment of interest on market loans to the extent of ₹ 715 crore. As a percentage of Non-Plan expenditure, it increased from 13.9 in 2008-09 to 14.31 *per cent* in 2009-10.

1.4.3 Financial Assistance by State Government to Local Bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.6.**

Table 1.6: Financial Assistance to Local Bodies, etc

(₹ in crore)

Financial Assistance to Institutions	2005-06	2006-07	2007-08	2008-09	2009-10
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	484	570	605	433	703
Municipal Corporations and Municipalities	954	1591	393	1865	1965
Zilla Parishads and Other Panchayati Raj Institutions	1,287	1,508	3,216	1,890	2101
Development Agencies	202	295	920	217	286
Hospitals and Other Charitable Institutions	20	20	19	106	126
Other Institutions[6]	2,119	4,753	3,248	5,726	5,636
Total	**5,066**	**8,737**	**8,401**	**10,237**	**10817**
Assistance as per percentage of Revenue Expenditure	16	23	20	19	18

(Source: Accounts compiled by the Principal Accountant General (A&E), Tamil Nadu)

- Financial assistance to local bodies and other institutions increased from ₹ 5,066 crore in 2005-06 to ₹ 10,817 crore in 2009-10. As a percentage of the revenue expenditure, it declined marginally from the level of 19 *per cent* in 2008-09 to 18 *per cent* in 2009-10. Assistance to hospitals and other charitable institutions showed a quantum jump from ₹ 20 crore in 2006-07 to ₹ 126 crore in 2009-10. The assistance to educational institutions showed a quantum increase of 62 *per cent* over the previous year.

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects *viz*., adequacy of the expenditure (i.e. adequate provisions for providing public services), efficiency of expenditure use and its effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key Social Services like education, health etc. Low fiscal priority (ratio of expenditure category to aggregate expenditure) would be attached to a particular sector if it was below the national average. **Table 1.7** analyses the fiscal priority of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during 2005-06 and 2009-10.

6 Institutions/agencies connected with water supply and sanitation, housing, social welfare, labour and employment, forestry and wild life, agriculture and allied activities, village and small industries, industries and minerals and relief on account of natural calamities.

Table 1.7: Fiscal Priority of the State in 2005-06 and 2009-10

(In *per cent*)

Fiscal Priority by the State	AE/GSDP	DE#/AE	SSE/AE	CE/AE	Education/ AE	Health/ AE
General Category States Average (Ratio) 2005-06	**17.75**	**61.76**	**30.76**	**13.97**	**14.95**	**4.05**
Tamil Nadu State's Average (Ratio) 2005-06	15.80	59.45	33.52	10.93	14.21	4.42
General Category States Average (Ratio) 2009-10	**18.24**	**66.05**	**35.76**	**14.85**	**16.21**	**4.28**
Tamil Nadu State's Average (Ratio) 2009-10	18.51	64.65	35.75	12.21	15.76	4.94

AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure

CE: Capital Expenditure

Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

Source : For GSDP, the information was collected from the State's Directorate of Economics and Statistics

- In 2005-06, the Tamil Nadu Government spent relatively less as a proportion of GSDP compared to the general category States' average. In the current year, the Government spent relatively higher as a proportion of GSDP as the AE/GSDP ratio of the State stood at 18.51 *per cent* which was higher than the general category States' average of 18.24 *per cent*. However, the relatively low fiscal priority given to DE in 2005-06 continues even during the current year as the State's DE/AE ratio of 64.65 *per cent* during 2009-10 was lower than the all State's DE/AE ratio of 66.05 *per cent*.

- The priority given to CE continues to be relatively lower in comparison with the general category States' average as the CE/AE ratios of the State at 10.93 and 12.21 *per cent* during 2005-06 and 2009-10 respectively were lower than the all States' average ratios of 13.97 and 14.85 *per cent* in these years.

- The priority given to SSE in the State was adequate as the State's SSE/AE ratio of 35.75 *per cent* was almost equal to the general category State's average ratio of 35.76 *per cent* in 2009-10. This indicates that even though the aggregate spending of the State as a proportion of GSDP has increased in comparison with the all States' average during the Award Period, there is no marked departure in the relative priorities accorded by the Government to DE, SSE and CE.

- The priority given to DE and CE continue to lag behind the general category States' average even as the SSE continues to receive higher priority. In other words, the relative increase in aggregate expenditure has not really helped the Economic Sector and in asset formation.

- The priority given to Education continues to be relatively lower in comparison to general category State's average as the Education to AE ratio of the State at 14.21 and 15.76 during 2005-06 and 2009-10 respectively is relatively lower than the general category State's average ratios of 14.95 and 16.21 in these years.

1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods[7]. Apart from improving the allocation towards development expenditure[8], particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure on operation and maintenance of the existing Social and Economic Services. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.8** presents the trends in development expenditure relative to the aggregate expenditure of the State during 2005-10, **Table 1.9** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected Social and Economic Services during 2008-09 and 2009-10.

Table 1.8: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10
Development Expenditure (a to c)	**22,058 (59.4)**	**28,835 (62.1)**	**32,464 (62.2)**	**42,736 (65.2)**	**45,412 (64.6)**
a. Development Revenue Expenditure	17,089 (46.0)	20,823 (44.8)	23,497 (45.0)	31,032 (47.4)	35,079 (49.9)
b. Development Capital Expenditure	3,929 (10.6)	5,758 (12.4)	7,185 (13.8)	8,874 (13.5)	8,043 (11.4)
c. Development Loans and Advances	1,040 (2.8)	2,254 (4.9)	1,718 (3.3)	2,761 (4.2)	2,290 (3.3)

(Source: Finance Accounts of Government of Tamil Nadu)
Figures in parentheses indicate percentage of aggregate expenditure

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7 Core public goods are goods which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g., enforcement of law and order, security and protection of rights; pollution free air and other environmental goods, road infrastructure etc. Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than the ability and willingness to pay the Government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

8 The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into Social Services, Economic Services and General Services. Broadly, the Social and Economic Services constitute development expenditure, while expenditure on General Services is treated as non-development expenditure.

Table 1.9: Efficiency of Expenditure Use in Selected Social and Economic Services

(Percentage)

Social/Economic Infrastructure	2008-09		2009-10	
	Ratio of CE to TE	Ratio of S&W to RE	Ratio of CE to TE	Ratio of S&W to RE
Social Services (SS)				
General Education	1.12	85.55	3.27	58.27
Health and Family Welfare	7.78	71.57	13.09	64.25
WS, Sanitation, & HUD	21.82	1.29	29.29	1.66
Total (SS)	**6.06**	**50.14**	**7.88**	**42.47**
Economic Services (ES)				
Agri & Allied Activities	27.54	30.99	17.68	30.00
Irrigation and Flood Control	43.38	28.56	48.76	30.20
Power & Energy	47.49	0.08	9.31	0.11
Transport	71.09	10.78	69.40	14.61
Total (ES)	**39.14**	**15.57**	**23.48**	**14.22**
Total (SS+ES)	**20.76**	**39.37**	**14.62**	**32.71**

(Source: Finance Accounts of Government of Tamil Nadu)

TE: Total expenditure on the Sector/Service concerned; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages.

Development expenditure, in real terms and as a percentage of the aggregate expenditure of the State, was increasing continuously during 2005-10.

However, the development capital expenditure as a percentage of aggregate expenditure of the State, declined from the level of 13.5 in 2008-09 to 11.5 in 2009-10. As a percentage of development expenditure, it came down from 20.76 in 2008-09 to 17.71 in 2009-10.

Expenditure on Social Services

- The capital expenditure on Social Services had increased from ₹ 1,434 crore in 2008-09 to ₹ 2,151 crore in 2009-10 (50 *per cent)* in real terms and as a percentage of aggregate expenditure of the State, it had increased from 2.19 in 2008-09 to 3.06 in 2009-10. As a percentage of total expenditure on Social Services, it increased from 6.06 in 2008-09 to 7.88 in 2009-10.

Expenditure on Economic Services

- The capital expenditure on Economic Services had decreased from ₹ 7,440 crore in 2008-09 to ₹ 5,892 crore in 2009-10.
- The capital expenditure on Agriculture and Allied Activities declined significantly from ₹ 1,484 crore in 2008-09 to ₹ 939 crore in 2009-10. As a percentage of total expenditure on Agriculture and Allied Activities, it declined from 27.54 in 2008-09 to 17.68 in 2009-10.
- The capital expenditure on Power and Energy fell steeply from ₹ 1,171 crore in 2008-09 to ₹ 135 crore in 2009-10. It fell from 1.79 *per cent* of the total expenditure in 2008-09 to a meagre 0.19 *per cent* in 2009-10. This indicated that Government's spending on infrastructural requirement of power and energy is very low. Since Tamil Nadu is a power shortage State it will be prudent to increase investment in power generation projects.

1.6 Financial Analysis of Government Expenditure and Investments

In the post-Fiscal Responsibility and Budget Management (FRBM) framework, the State is expected to keep its fiscal deficit (and borrowings) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market-based resources, the State Government needs to initiate measures to earn adequate returns on its investments, recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies and take requisite steps to infuse transparency in financial operations. This section presents a broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* the previous years.

1.6.1 Financial Results of Irrigation Works

Ensuring the commercial viability of irrigation projects through realization of adequate revenue by way of user charges has been a policy of Government of India. The TFC prescribed recovery of 80 *per cent* of the maintenance expenditure on major, medium and minor irrigation projects by way of non-tax revenue from them. Audit, however, found that the revenue from irrigation projects (₹ 34.80 crore) during 2009-10 was only 4.62 *per cent* of the maintenance expenditure.

Appendix IX of Finance Accounts depicts the financial results of five major and 47 medium irrigation projects. The revenue realized from these projects during 2008-09 was ₹ 11.71 crore. After meeting the working and maintenance expenditure (₹ 134.03 crore) and interest charges (₹ 117.17 crore), these 52 projects suffered a net loss of ₹ 239.50 crore during 2009-10.

1.6.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2010 is given in **Table 1.10**.

Table 1.10: Department-wise profile of incomplete projects

(₹ In crore)

Department	No. of Incomplete Projects*	Initial Budgeted Cost	Revised Total Cost of Projects**	Cost Over-runs	Cumulative actual expenditure as on 31.3.2010
Buildings	6	36.04	-	-	28.47
Roads and Bridges	38	239.80	347.02	107.22	319.97
Irrigation (Water Resources) and Flood Control	15	349.60	370.33	20.73	374.76
Total	**59**	**625.44**	**717.35**	**127.95**	**723.20**

(Source: Finance Accounts of Government of Tamil Nadu).

* Only those projects which were scheduled to be completed before 31 March 2010 were included.

** Indicates the revised total cost of the projects as per the last revision by the State Government as of March 2010.

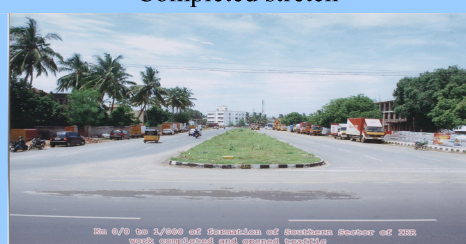
- Failure to complete projects on time leads to escalation of project costs and delays the accrual of the projects' benefits to the society at large. Further, delays also result in postponement of revenue realization from projects.

Case study on delay in accrual of benefits of investment

Way back in 1992, the Government of Tamil Nadu accorded administrative sanction for the formation of Southern Sector Inner Ring Road (SS-IRR) for connecting Old Mahabalipuram Road (Rajiv Gandhi Salai) and NH 45 in Chennai city at a cost of ₹ 9 crore. The Highways Department split the work into two Reaches viz., Reach I covering a five KM stretch and Reach II covering a 4.4 KM stretch. The work on Reach II was completed as early as in 1996 at a total cost of ₹ 2.07 crore. The work on Reach I suffered inordinate delays due to land acquisition issues and lack of coordination with railway authorities who simultaneously executed Metropolitan Mass Rapid Transport System (MRTS) rail network using the median of the SS-IRR. The land acquisition process initiated in 1992 was completed only in 2009.

As of June 2010, three sub-stretches measuring 950 metres and a high level bridge of 350 metres under Reach I remained incomplete and the original objective of linking two busy transport corridors of the city had not been achieved to benefit the people despite pouring Government investment to the tune of ₹ 111.72 crore against the original estimate of ₹ nine crore.

Completed stretch



Incomplete stretch

1.6.3 Investment and returns

As of 31 March 2010, Government had invested ₹ 8,107 crore in statutory corporations, rural banks, joint stock companies and co-operatives **(Table 1.11).** The average return on these investments was 0.4 *per cent* while Government paid an average interest rate of 7.3 *per cent* on its borrowings during 2009-2010.

Table 1.11: Return on Investment

Investment/Return/Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year (₹ in crore)	2,744.60	4,278.43	6,230.40	6,471.22	8,107.24
Return (₹ in crore)	20.92	26.32	22.10	35.59	30.18
Return (in *per cent*)	0.8	0.6	0.4	0.5	0.4
Average rate of interest on Government borrowing (in *per cent*)	7.8	8.6	8.9	7.7	7.3
Difference between interest rate and return (in *per cent)*	7.0	8.0	8.5	7.2	6.9

(Source: Finance Accounts of Government of Tamil Nadu)

As of March 2010, Government has invested in two statutory corporations (₹ 2,474 crore), 67 Government companies (₹ 2,593 crore), six Joint Stock companies (₹ 2 crore) and 9,138 co-operatives (₹ 3,038 crore). During 2009-

10, Government infused an additional capital of ₹ 211 crore into seven ailing State Transport Undertakings, which had accumulated a total loss of ₹ 4,514 crore. Other major investments made included ₹ 100 crore on Tamil Nadu Electricity Board and ₹ 28 crore on Tamil Nadu Power Finance Corporation.

1.6.4 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many of these institutions/ organizations. **Table 1.12** presents the outstanding loans and advances as on 31 March 2010 and interest receipts *vis-à-vis* interest payments during the last three years.

Table 1.12: Average interest received on loans advanced by the State Government

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2007-08	2008-09	2009-10
Opening Balance	6,149	6,918	7,814
Amount advanced during the year	1,782	2,830	2,290
Amount repaid during the year	1,013	1,934	2,587
Closing Balance	6,918	7,814	7,517
Net increase (+) / decrease (-)	769	896	(-) 297
Interest Receipts	72	205	266
Interest receipts as percentage of outstanding Loans and advances	1.1	2.8	3.5
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	8.9	7.7	6.7
Difference between interest payments and interest receipts (*per cent*)	(-) 7.8	(-) 4.9	(-) 3.2

(Source: Finance Accounts of Government of Tamil Nadu)

- The quantum of loans advanced decreased from ₹ 2,830 crore in 2008-09 to ₹ 2,290 crore in 2009-10, a decrease of 19.1 *per cent*. Repayments also increased from ₹ 1,934 crore in 2008-09 to ₹ 2,587 crore in 2009-10 (33.8 *per cent*), resulting in decrease in the outstanding balance from ₹ 7,814 crore in 2008-09 to ₹ 7,517 crore in 2009-10. The difference between the interest payments and interest receipts decreased from 4.9 *per cent* in 2008-09 to 3.2 *per cent* in 2009-10.

- The major recipients of loans and advances were (i) Social Sector- water supply, sanitation, housing and urban development (₹ 612 crore), out of which ₹ 340 crore were advanced to Metro Rail project in Chennai and (ii) Economic Sector - (a) Agriculture and Allied Services (₹ 1,185 crore), out of which ₹ 1,150 crore was advanced for food storage and warehousing to statutory corporations, boards and Government companies, (b) Industries and Minerals (₹ 108 crore) and (iii) Transport Sector (₹ 277 crore), out of which ₹ 150 crore was given as short term loans to State transport undertakings and ₹ 127 crore as ways and means advance to Transport Corporations.

1.6.5 Cash Balances and Investment of Cash Balances

Table 1.13 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.13: Cash Balances and Investment of Cash Balances

(₹ in crore)

Particulars	As on 1 April 2009	As on 31 March 2010	Increase (+)/ Decrease (-)
Cash Balances	16,229	19,487	3,258
Investments from Cash Balances (a to d)			
(a) GOI Treasury Bills	14,060	17,252	3,192
(b) GOI Securities	2,280	180	(-) 2,100
(c) Other Securities, if any specify	(-) 137	2,029	2,166
(d) Others - (Treasury/departmental cash balance, remittance etc.)	26	26	--
Funds-wise Break-up of Investment from Earmarked balances (a to c)			
(a) Sinking Fund	2,273	2,451	178
(b) Famine Relief Fund	--	--	--
(c) Infrastructure Development Fund	142	--	(-) 142
Interest realised	589	799	210

(Source: Finance Accounts of Government of Tamil Nadu)

- The cash balance as on 31 March 2010 increased by ₹ 3,258 crore over the previous year.
- The interest realised during the year on investment of cash balances increased by ₹ 210 crore as compared to the previous year.

The State Government maintained the minimum cash balance of ₹ 3.25 crore with the Reserve Bank during 2009-10 under an agreement with the Reserve Bank of India. No ways and means advance and overdraft was taken during the year.

1.7 Assets and Liabilities

1.7.1 Growth and Composition of Assets and Liabilities

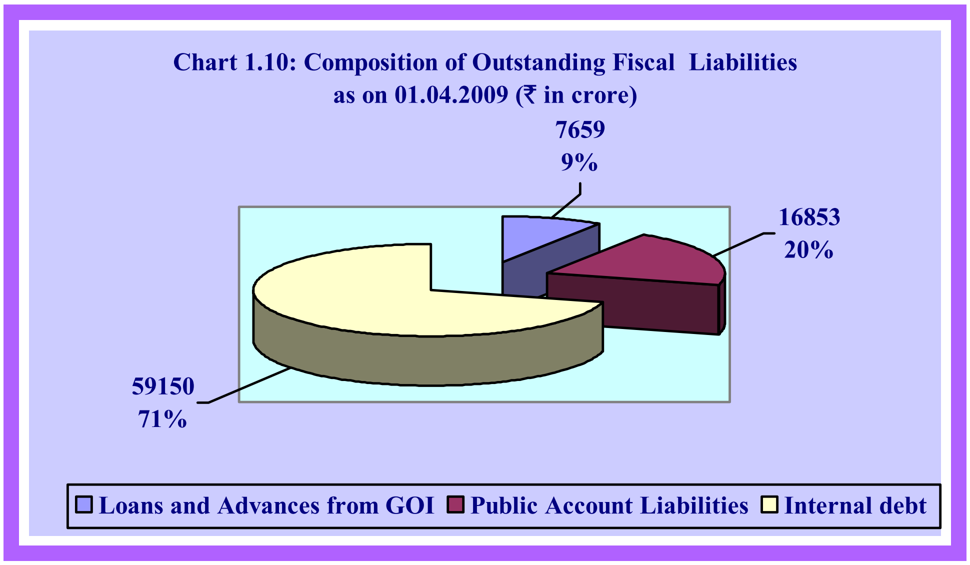
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.5** gives an abstract of such liabilities and assets as on 31 March 2010, compared with the corresponding position on 31 March 2009. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from GOI, receipts from the Public Account and Reserve

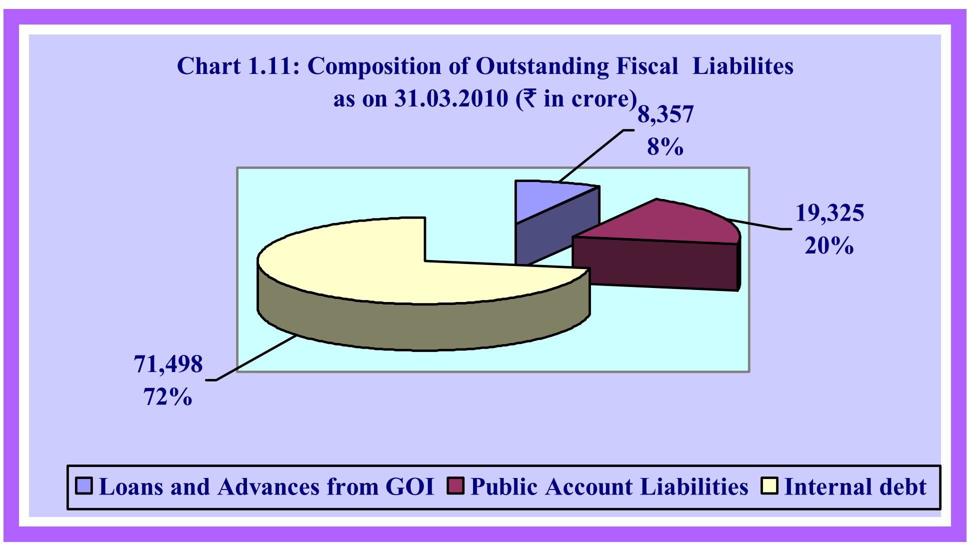
Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and cash balances.

The Tamil Nadu Fiscal Responsibility Act, 2003 defines the total liability of the State as 'the liabilities under the Consolidated Fund of the State and the Public Account of the State', which include loans and advances from the Central Government, open market borrowings, loans from financial institutions, Provident Fund balances of Government employees, Reserve funds, Deposits etc.

1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.4**. However, the composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Charts 1.10** and **1.11.**





- The outstanding fiscal liabilities have shown a steady increase from ₹ 62,310 crore at the end of 2005-06 to ₹ 99,180 crore as at the end of 2009-10.

- The fiscal liabilities as at the end of 2009-10 represented 178 *per cent* of the revenue receipts during the year as against 152 *per cent* of the revenue receipts during 2008-09.

- Public Account Liabilities at 20 *per cent* of the fiscal liabilities at the end of 2009-10 remained the same as that of the previous year. Internal debt at 72 *per cent* of fiscal liabilities was marginally higher than that of the previous year (71 *per cent*) whereas, outstanding loans and advances decreased from 9 to 8 *per cent* during the same period.

1.7.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of defaults by borrowers for whom the guarantees have been extended.

As per Statement 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and the outstanding guarantees for the last three years is given in **Table 1.14**.

Table 1.14: Guarantees given by the Government of Tamil Nadu

(₹ in crore)

Guarantees	2007-08	2008-09	2009-10
Maximum amount guaranteed	20,090	11,062	12,830
Outstanding amount of guarantees	5,410	4,633	6,297
Percentage of maximum amount guaranteed to total Revenue receipts	42	20	23
Criteria as per the TN Fiscal Responsibility Act, 2003	Cent *per cent* revenue receipts of previous year or 10 *per cent* of GSDP, whichever is lower.		

(Source: Finance Accounts of Government of Tamil Nadu)

- Government has constituted (March 2003) a "Guarantees Redemption Fund" for discharge of invoked guarantees. No expenditure was met from the fund during 2009-10. The balance in the Fund as of March 2010 was ₹ 109 crore.

- The maximum amount guaranteed was well within the stipulations of the Tamil Nadu Fiscal Responsibility, Act 2003. As a percentage of revenue receipts, it increased from 20 in 2008-09 to 23 in 2009-10. Similarly as a percentage of GSDP, it increased from 3.26 in 2008-09 to 3.38 in 2009-10.

1.7.4 Off-Budget Borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the liabilities shown in **Appendix 1.5**, the State guarantees loans availed of by Government companies/corporations. These companies/corporations borrow funds from the market/financial institutions for implementation of various State Plan programmes projected outside the State budget. Although the State Government projects that funds for these programmes would be met out of the resources mobilized by these companies/corporations outside the State budget, in reality, the borrowings of many of these concerns are repaid by the Government and ultimately turn out to be liabilities of the State Government termed as 'off-budget borrowings'. Though off-budget borrowings are not permissible under Article 293 (3), the State continues to undertake such off-budget borrowings. Details of borrowings collected from Tamil Nadu Water Supply and Drainage Board (Board) disclosed that as of 31 March 2010, the Board owed ₹ 104 crore to two financial organisations towards its borrowings for executing various water supply projects. As the State Government had undertaken to repay the principal and interest, the off-budget borrowings, which add to the fiscal liability of the State and are not captured in the Finance Accounts of the State.

1.8 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyze the various indicators that determine the debt sustainability[9] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization[10]; sufficiency of non-debt receipts[11]; net

[9] Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to the sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between the costs of additional borrowings and the returns from such borrowings. It means that the rise in fiscal deficit should match the increase in the capacity to service the debts.

[10] A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are either zero, positive or moderately negative. Given the rate spread (GSDP growth rate – interest rate) and the quantum spread (Debt X rate spread), the debt sustainability condition states that if the quantum spread together with the primary deficit is zero, the debt-GSDP ratio would be constant or the debt would stabilize eventually. On the other hand, if the primary deficit together with the quantum spread turns out to be negative, the debt-GSDP ratio would be rising. In case it is positive, the debt-GSDP ratio would eventually be falling.

[11] Adequacy of incremental non-debt receipts of the State to cover incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

availability of borrowed funds[12]; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State Government securities. **Table 1.15** analyzes the debt sustainability of the State according to these indicators for a period of three years beginning from 2007-08.

Table 1.15: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2007-08	2008-09	2009-10
Debt Stabilization (Quantum Spread + Primary Deficit)	5,391	7,195	(-) 1,300
Sufficiency of Non-debt Receipts (Resource Gap)	(+) 270	(-) 4,862	(-) 3,259
Net Availability of Borrowed Funds	(-) 1,334	6,627	7,287
Burden of Interest Payments (IP/RR Ratio)	12.8	10.8	11.9
Maturity Profile of internal debts & GOI loans (in years)			
0 – 1	1,359 (2.4)	1,629 (2.4)	1,997 (2.8)
1 – 3	3,967 (6.9)	5,148 (7.7)	5,966 (8.3)
3 – 5	6,687 (11.7)	7,632 (11.4)	7,101 (9.9)
5 – 7	10,295 (18)	7,870 (11.8)	9,778 (13.7)
7 and above	34,875 (61)	44,531 (66.7)	46,656 (65.3)

(Source: Finance Accounts of Government of Tamil Nadu)
Figures in brackets represent percentage of total outstanding internal debts and GOI loans

- The net availability of borrowed funds during 2009-10 was ₹ 7,287 crore, an increase of ₹ 660 crore. This was a result of increase in receipts under internal debts from ₹ 10,798 crore in 2008-09 to ₹ 14,527 crore in 2009-10 and simultaneous increase in expenditure on repayment of internal debts from ₹ 1,897 crore in 2008-09 to ₹ 2,180 crore. Further, the interest payments, which decreased to ₹ 5,963 crore in 2008-09 increased to ₹ 6,667 crore in 2009-10.

- Rising debt-GSDP ratio as indicated by quantum spread together with Primary Deficit turning negative, increased net availability of borrowed funds and the negative resource gap (₹ 3,259 crore) was a matter of concern. This was a result of insufficiency of the incremental non-debt receipts (₹ 1,455 crore) to meet the incremental primary expenditure (₹ 4,010 crore). The high incremental primary expenditure was mainly due to an increase of ₹ 5,081 crore under primary revenue expenditure.

- Bunching of repayments in any particular year will cause financial stress to that year's budget. The maturity profile of the State's debt indicates a year-on-year increase in its repayment burden. Hence, the greater the awareness of future debt payments, the Government will be in a position to ensure that fresh borrowings do not have to be paid back in those years where maximum repayment is due.

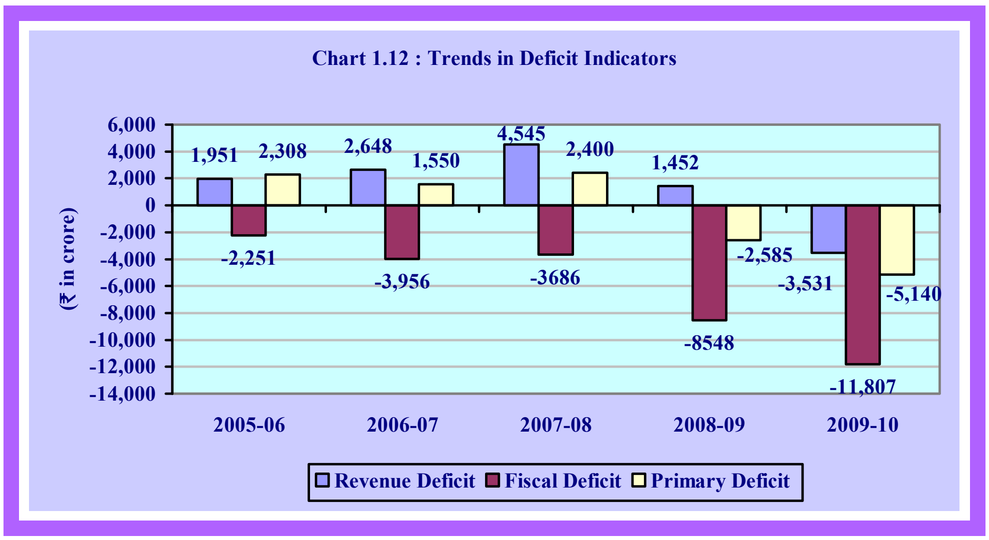
[12] Defined as the ratio of the debt redemption (principal + interest payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption, indicating the net availability of borrowed funds.

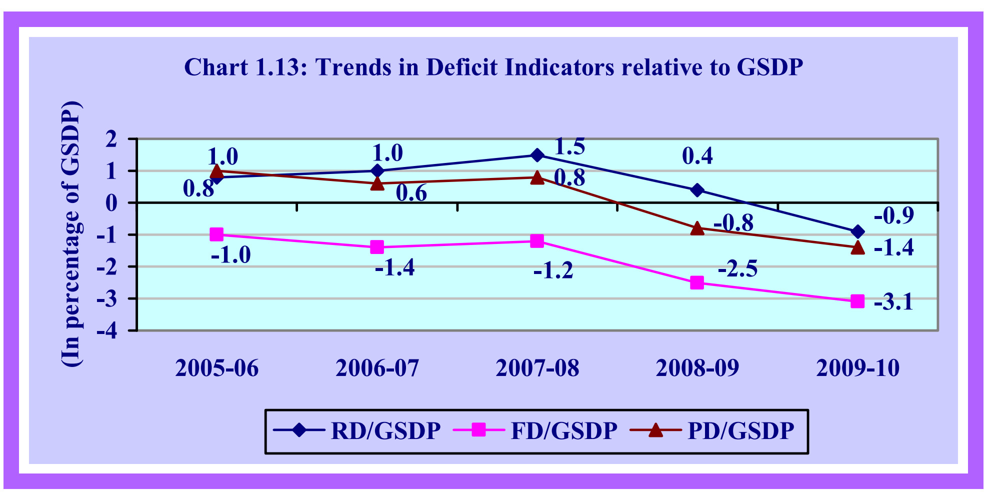
1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under FRBM Act/Rules for the financial year 2009-10.

1.9.1 Trends in Deficits

Charts 1.12 and **1.13** presents the trends in deficit indicators over the period 2005-10.





- The revenue surplus, which prevailed during the last four continuous years, turned negative with a deficit of ₹ 3,531 crore.

- The fiscal deficit and primary deficit increased by ₹ 3,259 crore and ₹ 2,555 crore over 2008-09.

1.9.2 Composition of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in **Table 1.16.**

Table1.16: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Decomposition of Fiscal Deficit		**(-) 2,251**	**(-) 3,956**	**(-) 3,686**	**(-) 8,548**	**(-) 11,807**
1	Revenue Surplus/Deficit (-)	1,951	2,648	4,545	1,452	(-) 3,531
2	Net Capital Expenditure	4,054	5,952	7,462	9,104	8,573
3	Net Loans and Advances	148	652	769	896	(-) 297
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	1,214	1,372	4,127	8,792	11,725
2	Loans from GOI	139	(-) 213	469	724	698
3	Special Securities issued to National Small Savings Fund	6,094	3,898	(-) 782	(-) 173	271
4	Loans from Financial Institutions	(-) 528	(-) 2,600	287	282	351
5	Small Savings, PF etc	328	256	383	578	980
6	Deposits and Advances	(-) 7	1130	138	1576	712
7	Suspense and Miscellaneous	1086	963	162	194	(-) 547
8	Remittances	138	52	(-) 130	78	57
9	Reserve Funds	(-) 74	168	130	553	817
10	Contingency Fund	(-) 16	16	-	-	1
	Total	**8,374**	**5,042**	**4,784**	**12,604**	**15,065**
11	Overall Surplus/Deficit (-) (Cash Balance)	6,123	1,086	1,098	4,056	3,258

(Source: Finance Accounts of Government of Tamil Nadu)

* All these figures are net of disbursements/outflows during the year.

- Despite substantial decline in the capital expenditure and net loans and advances, the fiscal deficit increased from ₹ 8,548 crore in 2008-09 to ₹ 11,807 (38 *per cent*) due to a revenue deficit of ₹ 3,531 crore in the current year as against a surplus of ₹ 1,452 crore during 2008-09.

- The State is increasingly banking on market borrowings for financing its fiscal deficit. The net market borrowings during 2009-10 increased to ₹ 11,725 crore from ₹ 8,792 crore during 2008-09.

- Deposits and Advances decreased by ₹ 864 crore over 2008-09.

- The overall surplus of ₹ 3,258 crore, an increase from ₹ 1,086 crore in 2006-07 and ₹ 1,098 crore in 2007-08 and a decrease from ₹ 4,056 crore during 2008-09, indicated that the borrowings were in excess of requirement.

1.9.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The bifurcation of the primary deficit **(Table 1.17)** would indicate the extent to which the deficit had been on account of enhancement in capital expenditure, which may have been desirable to improve the productive capacity of the State's economy.

Table 1.17: Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary revenue deficit (-) / surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2005-06	34,852	27,450	4,054	1,040	32,544	7,402	2,308
2006-07	42,515	32,759	5,952	2,254	40,965	9,756	1,550
2007-08	48,533	36,889	7,462	1,782	46,133	11,644	2,400
2008-09	56,976	47,627	9,104	2,830	59,561	9,349	(-) 2,585
2009-10	58,431	52,708	8,573	2,290	63,571	5,723	(-) 5,140

(Source: Finance Accounts of Government of Tamil Nadu)

- During the period 2005-06 to 2009-10, non-debt receipts increased from ₹ 34,852 crore to ₹ 58,431 crore (67.7 *per cent)* against an increase of 92.01 *per cent* in primary revenue expenditure, 111.47 *per cent* in capital expenditure, 120.19 *per cent* in loans and advances and 95.3 *per cent* in primary expenditure.

- Capital expenditure as a percentage of primary expenditure marginally increased from 12.46 in 2005-006 to 13.49 in 2009-10. Loans and advances as a percentage of primary expenditure increased from 3.2 in 2005-06 to 3.60 in 2009-10.

- The adequacy of non-debt receipts to meet the primary expenditure led to the emergence of primary surplus during 2005-06 to 2007-08. However, the non-debt receipts were not enough to meet expenditure requirements during 2008-09 and 2009-10, resulting in primary deficit. The primary revenue expenditure increased by 11 *per cent* while the capital expenditure and disbursement of loans and advances decreased by 6 *per cent* and 19 *per cent* respectively over the previous year.

1.10 Conclusion and Recommendations

The State's own taxes are not keeping pace with its GSDP. The State's non-tax revenue has decreased by ₹ 685 crore (12 *per cent*) during 2009-10. The fall in non-tax revenue is a matter of concern. Further, the State has become a revenue deficit State from its status of revenue surplus as the revenue surplus which was ₹ 1,452 crore during 2008-09 turned to revenue deficit of ₹ 3,531 crore due to disproportionate growth of revenue expenditure (10.8 *per cent)* vis-à-vis revenue receipts (1.5 *per cent*). The State should take steps to ensure increase in non-tax revenue and State's own taxes as well as contain unproductive revenue expenditure.

Committed expenditure consumed 73 *per cent* of the revenue receipts as against 65 *per cent* during 2008-09, mainly due to increase in salaries, pension and subsidies. This leaves less room for the State Government for current operations.

Capital expenditure has decreased by ₹ 531 crore (5.83 *per cent*) during 2009-10. Capital expenditure on asset creation, as a percentage of aggregate expenditure, stood at 12.21 as against the general category States average of 14.85. The priority given to Capital Expenditure continues to be relatively lower in comparison to other general category States. As development of the State depends on the investment on asset creation, the State would be better off by paying more attention on incurring capital expenditure.

The Government of Tamil Nadu has been giving due priority to the social sector. However, compared to the general category States' average, there appears to be a need for greater priority to Economic Services and creation of productive assets through greater priority to capital expenditure.

The revenue from irrigation projects was too low to sustain them. Blocking of huge sums in incomplete projects delays and undermines the economic benefits realizable through them. Investments of the Government in statutory corporations, public sector companies and co-operatives continue to yield meagre returns. Unless there is very clear social justification, continued investment on non revenue generating projects may be avoided as the financial stability of the state could be adversely affected.

Rising debt-GSDP ratio as indicated by quantum spread together with Primary Deficit turning negative, increased net availability of borrowed funds and the negative resource gap was a matter of concern. The Government has not curtailed off-budget borrowings. Government needs to tone up its cash balance management system, ensure proper planning for borrowings and curtail off-budget borrowings.

As large amount of money is being given directly by Government of India to State implementing agencies like DRDA, the State Government may institute a mechanism for centralised monitoring of utilisation of funds.