

**CHAPTER I**  
**FINANCES OF THE**  
**STATE GOVERNMENT**



## CHAPTER I

### FINANCES OF THE STATE GOVERNMENT

#### Profile of Tamil Nadu

The State is located on the eastern coast, surrounded by the States of Andhra Pradesh, Karnataka and Kerala. It is the 11<sup>th</sup> largest State in terms of geographical area (1,30,058 sq.km) and the seventh largest by population. The State's population increased from 6.24 crore in 2001 to 7.21 crore in 2011 recording a decadal growth of 15.54 *per cent*. The percentage of population below the poverty line was lower than the all-India average. The State's Gross Domestic Product (GSDP<sup>1</sup>) in 2014-15 at current prices was ₹ 9,76,703 crore. The literacy rate increased from 73.45 *per cent* in 2001 to 80.09 *per cent* in 2011. General data relating to the State is given in **Appendix 1.1**.

#### Gross State Domestic Product (GSDP)

GSDP is the market value of all officially recognised final goods and services produced within the State in a given period of time. The growth of GSDP is an important indicator of the State's economy as it indicates the standard of living of the State's population. The trends in the annual growth of India's Gross Domestic Product (GDP) are indicated in **Table 1.1** and the State's GSDP at current prices are indicated in **Table 1.1** and **Chart 1.1**.

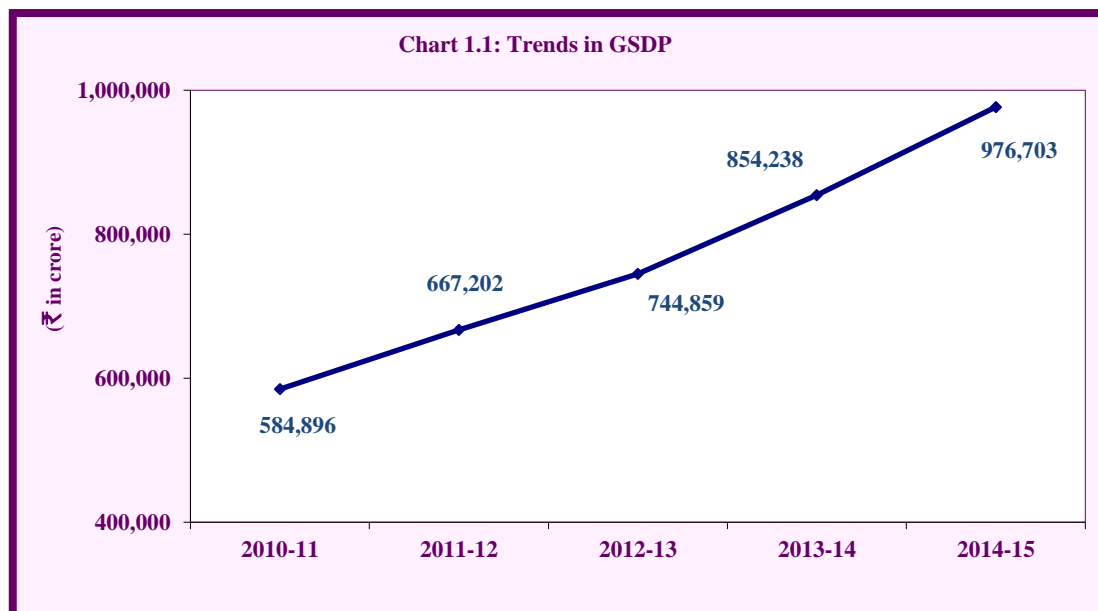
**Table 1.1: Trends in Gross Domestic Product (GDP) and Gross State Domestic Product (GSDP)**

	2010-11	2011-12	2012-13	2013-14	2014-15
India's GDP (₹ in crore)	72,48,860	83,91,691	93,88,876	1,04,72,807	1,15,09,810*
Growth rate of GDP ( <i>per cent</i> )	18.66	15.77	11.88	11.54	..
GSDP (₹ in crore)	5,84,896	6,67,202	7,44,859	8,54,238	9,76,703
Growth rate of GSDP ( <i>per cent</i> )	21.92	14.07	11.64	14.68	14.34

(Source: Information from Ministry of Statistics and Programme Implementation and concerned Accountants General and Department of Economics and Statistics)

\* Excludes GSDP of Goa, Andaman and Nicobar Islands and Chandigarh

<sup>1</sup> Abbreviations used in this Report are listed in Glossary at Page 138



## 1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Tamil Nadu (GoTN) during the current year (2014-15) and analyses critical changes in the major fiscal aggregates relative to the previous year (2013-14) keeping in view the overall trend during the last five years.

Some of the Acts and Rules which regulate the receipts of the State Government are the Tamil Nadu Value Added Tax Act, 2006; Tamil Nadu Motor Vehicles Act, 1974; Tamil Nadu Prohibition Act, 1937; Medicinal and Toilet Preparations (Excise Duty) Act, 1955; Indian Stamp Act, 1899 and the Registration Act, 1908, as amended from time to time.

All receipts of GoTN are accounted for in the Consolidated Fund of the State constituted under Article 266 (1) of the Constitution of India. Expenditure therefrom is authorised by the State Legislature through Appropriation Act. Money so authorised by the Appropriation Act is required to be spent as per provisions contained in the Tamil Nadu Budget Manual, the Tamil Nadu Financial Code and instructions issued by the Finance Department from time to time. The Tamil Nadu Financial Code contains the financial regulations of general nature issued by the Finance Department for the guidance of various offices and departments.

Apart from the above, GoTN enacted the Tamil Nadu Fiscal Responsibility Act, 2003 (TNFR Act), (amended in 2010 and 2011) to ensure long-term financial stability by eliminating revenue deficit, containing fiscal deficit and prudential debt management. It also fixed the timeframe for achieving the fiscal targets set. The salient features of the TNFR Act, 2003 (as amended till September 2011) are given in **Appendix 1.3 - Part B**.

The structure of Government Accounts and the layout of Finance Accounts are shown in **Appendix 1.2**. The methodology adopted for assessment of the fiscal position of the State is given in **Appendix 1.3 - Part A**. A time series data on the State Government finances is given in **Appendix 1.4**.

### 1.1.1 Summary of Fiscal Transactions in 2014-15

**Table 1.2** presents the summary of the State Government's fiscal transactions during the current year (2014-15) *vis-à-vis* the previous year (2013-14) while **Appendix 1.5** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

**Table 1.2: Summary of Fiscal operations in 2014-15**

(₹ in crore)								
Receipts	2013-14	2014-15	Disbursements	2013-14	2014-15			
Section-A: Revenue						Non Plan	Plan	Total
<b>Revenue receipts</b>	<b>1,08,036</b>	<b>1,22,420</b>	<b>Revenue expenditure</b>	<b>1,09,824</b>	<b>94,668</b>	<b>34,160</b>	<b>1,28,828</b>	
Tax revenue	73,718	78,656	General Services	35,729	41,474	181	41,655	
Non-tax revenue	9,343	8,351	Social Services	45,276	25,059	25,290	50,349	
Share of Union Taxes/ Duties	15,853	16,824	Economic Services	19,644	19,196	7,647	26,843	
Grants from Government of India	9,122	18,589	Grants-in-aid and Contributions	9,175	8,939	1,042	9,981	
Section-B: Capital and Others								
Misc. Capital Receipts	..	16	Capital Outlay	17,173	531	17,272	17,803	
Recoveries of Loans and Advances	620	1,351	Loans and Advances disbursed	2,242	2,980	1,339	4,319	
Public Debt receipts	24,814	31,080	Repayment of Public Debt	4,977	*	*	6,488	
Contingency Fund	..	19	Contingency Fund	19	..	..	..	
Public Account receipts	1,48,117	1,63,707	Public Account disbursements	1,44,022	*	*	1,59,384	
Opening Cash Balance	21,234	24,564	Closing Cash Balance	24,564	*	*	26,335	
<b>Total</b>	<b>3,02,821</b>	<b>3,43,157</b>	<b>Total</b>	<b>3,02,821</b>			<b>3,43,157</b>	

(Source: Finance Accounts for the respective years)

\* Bifurcation of Plan and Non- Plan disbursement are not available

The significant changes that occurred during 2014-15, as compared to the previous year are enumerated below:

- **Revenue receipts** of the State increased by ₹ 14,384 crore (13.31 *per cent*) over the previous year. This was due to increase in the State's own tax revenue (₹ 4,938 crore), share of Union taxes/duties (₹ 971 crore) and grants from Government of India (GoI) (₹ 9,467 crore) which was partly offset by decrease in non-tax revenue (₹ 992 crore).
- **Revenue expenditure** increased by ₹ 19,004 crore (17.30 *per cent*) over the previous year due to increase in expenditure on General Services (₹ 5,926 crore), Social Services (₹ 5,073 crore), Economic Services (₹ 7,199 crore) and Grants-in-aid and contributions (₹ 806 crore).

- The expenditure on General Services, Social Services and Economic Services registered an increase of 16.59 *per cent*, 11.20 *per cent* and 36.65 *per cent* respectively in 2014-15 as against 12.88 *per cent*, 17.23 *per cent* and 11.44 *per cent* respectively in 2013-14.
- **Capital expenditure** increased by ₹ 630 crore (3.67 *per cent*) over the previous year. The increase in capital expenditure during the year was mainly under Energy, Transport, Irrigation and Flood Control, Education, Sports, Art and Culture and Agriculture and Allied Activities. There was a substantial increase in repayment of public debt by ₹ 1,511 crore (30.36 *per cent*).
- **Recoveries of loans and advances** during the year increased by ₹ 731 crore (117.90 *per cent*) mainly due to increase in recoveries under “Ways and Means Advances for Electricity Schemes” and “Industry and Minerals” partly offset by decrease in recoveries under Water Supply, Sanitation, Housing and Urban Development and Agriculture and Allied activities.
- **Public Account receipts and disbursements** increased by ₹ 15,590 crore (10.53 *per cent*) and ₹ 15,362 crore (10.67 *per cent*) respectively. Net receipts under Public Account increased by ₹ 228 crore over the previous year.
- The net impact of these transactions led to an increase of ₹ 1,771 crore in the cash balance at the end of the year over the previous year.

### 1.1.2 Review of the fiscal situation

In compliance with the recommendations of the Thirteenth Finance Commission (ThFC) and as per Medium Term Fiscal Plan (MTFP), the State was to eliminate revenue deficit by the end of 2011-12 and contain the fiscal deficit as a percentage of GSDP within three *per cent* by 2011-12. In compliance with the provisions of TNFR Act, the State Government prepared a MTFP for the period 2014-15.

Major fiscal variables provided in the budget based on recommendations of the ThFC and as targeted in the TNFR Act of the State, are given in **Table 1.3**.

**Table 1.3: Major targeted and projected fiscal variables of the State**

Fiscal variables	2014-15			
	ThFC targets for the State	Targets as prescribed in TNFR Act	Targets proposed in the Budget	Projections made in MTFP
Revenue Deficit (-) / Surplus (+) (₹ in crore)	Surplus path to be maintained	Eliminate revenue deficit by 2011-12 and adhere to it thereafter	289.36	664.06
Fiscal Deficit/GSDP (in <i>per cent</i> )	3.0	3.0	2.73	2.52
Ratio of total outstanding debt of the Government to GSDP (in <i>per cent</i> )	25.2	25.2	18.91	25.2

(Source: (i) ThFC recommendations; (ii) TNFR Act; (iii) State’s MTFP and (iv) Budget Speech - 2014-15)

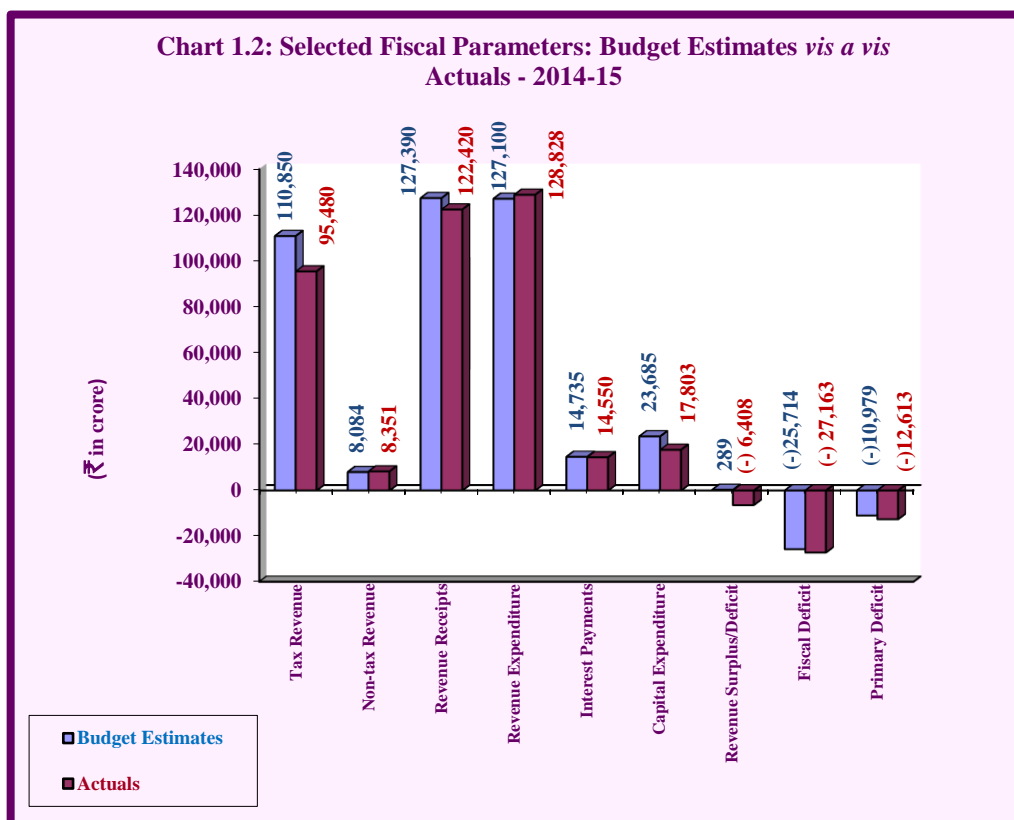
The State was able to achieve revenue surplus during 2011-12 and continued to maintain it during 2012-13 as projected in MTFP. However, from 2013-14 the State has become revenue deficit. The revenue deficit of the State was ₹ 6,408 crore (0.66 per cent of GSDP) during 2014-15. Though, the State failed to achieve the revenue surplus targets projected in the budget and MTFP, it could however contain the fiscal deficit as a percentage of GSDP to 2.78 per cent during 2014-15, which was within the target of three per cent of GSDP as envisaged under the TNFR Act but exceeded the projections made in MTFP.

The Revenue deficit of ₹ 6,408 crore was understated by ₹ 926.99 crore due to misclassification of grants-in-aid under capital heads of account (₹ 50 crore), short contribution to sinking fund (₹ 634.40 crore), short contribution to Guarantee Redemption Fund (₹ 233.95 crore), short transfer to Reserve Funds (₹ 8.12 crore) and non-accommodation of debit (₹ 0.52 crore). Similarly, fiscal deficit was understated by ₹ 876.99 crore.

### 1.1.3 Budget estimates and actuals

The budget papers presented by the 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-optimisation of the desired fiscal objectives.

**Chart 1.2** presents the budget estimates and actuals for some important fiscal parameters in 2014-15.



(Source: Annual Financial Statement and Finance Accounts for 2014-15)

(Tax revenue includes State's share of Union taxes and duties)

The variations between the estimates and actuals were as follows:

- The actual tax revenue was less than the estimates by ₹ 15,370 crore. The decrease in tax revenue with respect to estimates was mainly due to reduction in collection under Taxes on Sales, Trade, etc., by ₹ 8,011 crore, Stamps and Registration Fees by ₹ 2,108 crore, taxes on vehicles by ₹ 1,318 crore and taxes on goods and passengers by ₹ 1,167 crore.
- Non-tax revenue was marginally higher than the estimate by ₹ 267 crore (3.30 per cent).
- Capital expenditure was less than the estimate by ₹ 5,882 crore (24.83 per cent).
- The actual fiscal deficit was more than the budget estimate mainly due to increase in revenue deficit as compared to Budget Estimate.

#### **1.1.4 Non-implementation of Major Policy initiatives**

The major policy initiatives that were announced in the budget but were not implemented are as given in **Table 1.4**.

**Table 1.4: Details of Major policy initiatives**

(₹ in crore)

Sl. No.	Scheme as announced in the Budget	Provision in Budget	Withdrawal through re-appropriation/ surrender
1.	Global Investors Meet	100	100
2.	Implementation of Cooum River Restoration Project	500	500
3.	Implementation of Mono Rail Project	200	200

(Source: Budget Speech and Appropriation Accounts for 2014-15)

During the year 2014-15, an amount of ₹ 100 crore allotted for Global Investors Meet was surrendered without utilisation.

During budget speech 2014-15, an amount of ₹ 500 crore was set aside for Implementation of Cooum River Restoration Project which was not utilised.

An amount of ₹ 200 crore provided during 2014-15 for Implementation of Mono Rail Project was surrendered due to non-finalisation of the bid process for the project.

#### **1.1.5 Additional Financial Sanctions**

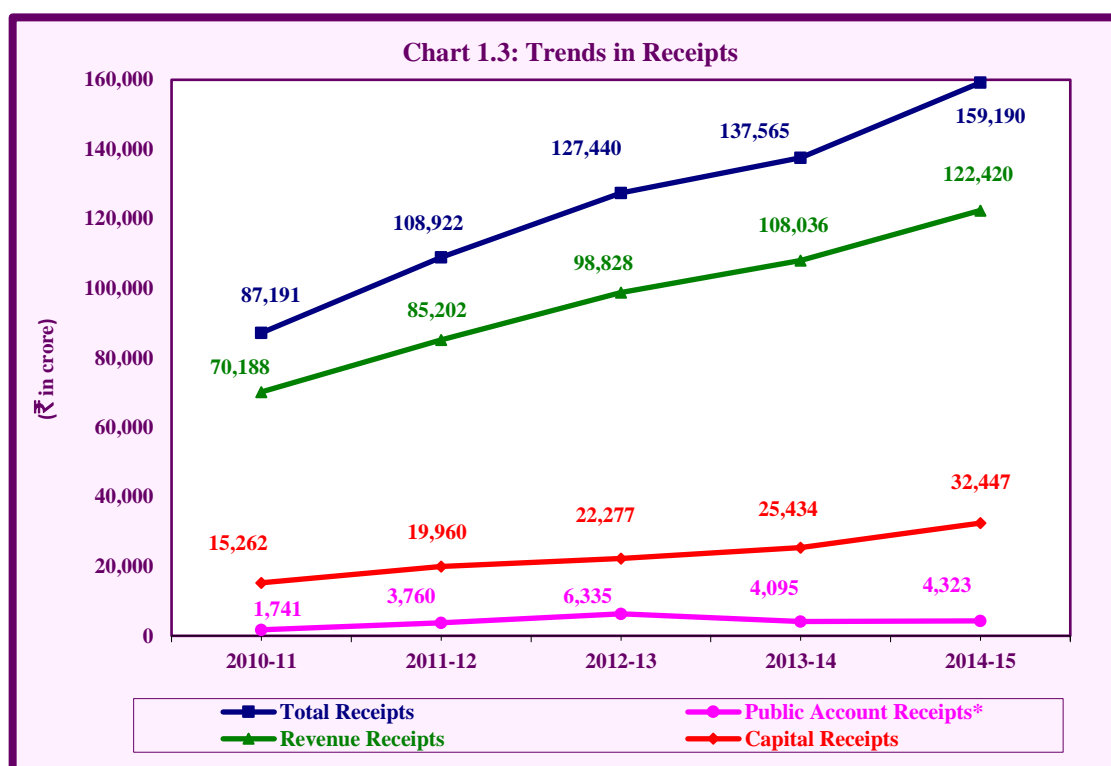
The Government issued 2,826 Additional Financial Sanctions (called ASL) or Additional Sanction Ledger for 3,893 Heads of account from April 2014 to March 2015 amounting to ₹ 12,007 crore, to be funded out of anticipated savings by re-appropriations and advances from the Contingency Fund in case of New Service or New Instrument of Service by invoking an emergency provision under paragraph 153 (g) of the Tamil Nadu Budget Manual. This practice defeats the concept of Budgetary and Financial control.



## 1.2 Resources of the State

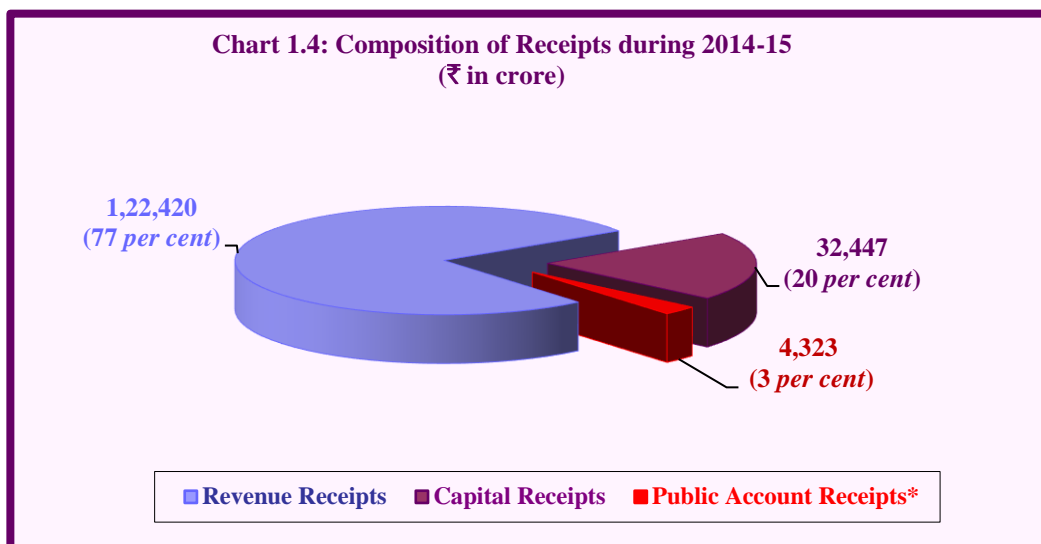
### 1.2.1 Resources of the State as per the Annual Finance Accounts

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 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. Besides, the fund available in the public account after disbursements is also utilised by the Government to finance its deficit. **Chart 1.3** depicts the trends in various components of the receipts of the State during 2010-15. **Chart 1.4** depicts the composition of receipts of the State during the current year.



(Source: Finance Accounts for the respective years)

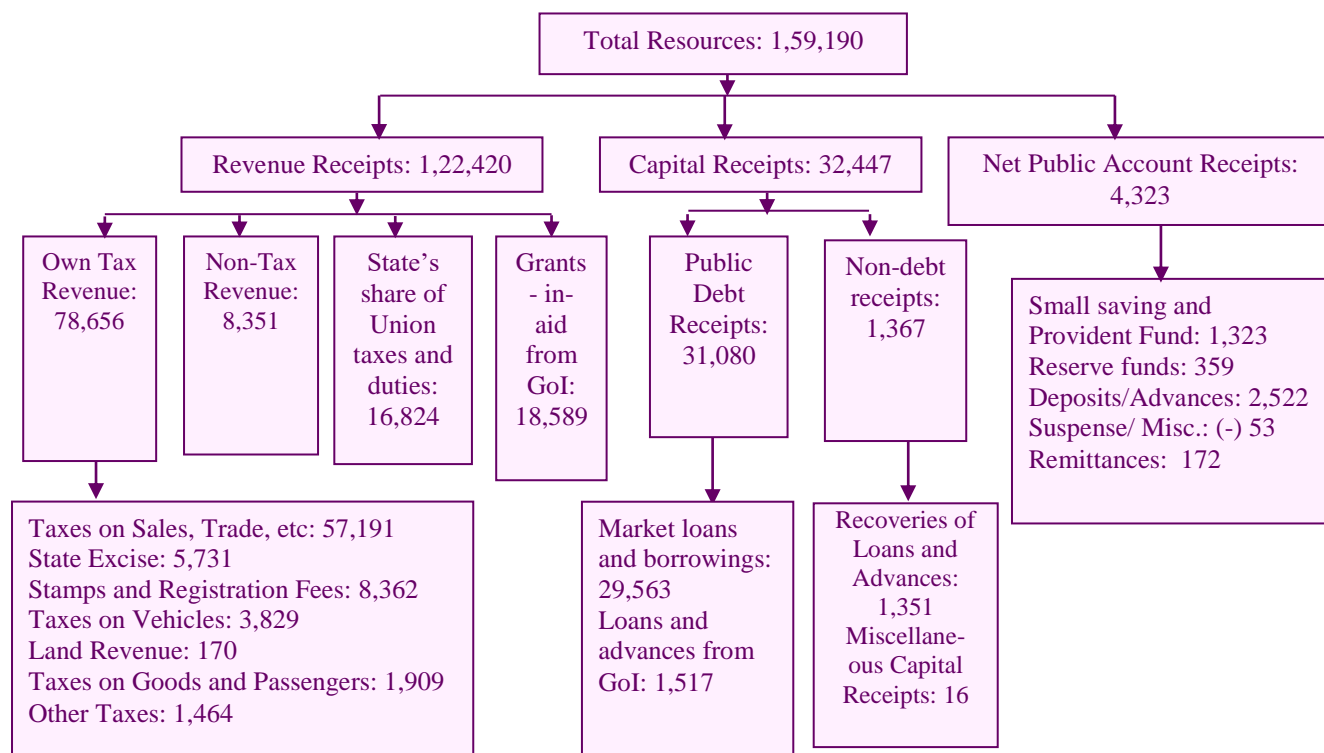
\* Net Public Account Receipts



(Source: Finance Accounts)

\* Net Public Account Receipts

**Flow Chart** indicates the components and sub components of the resources of the State (All figures are ₹ in crore)

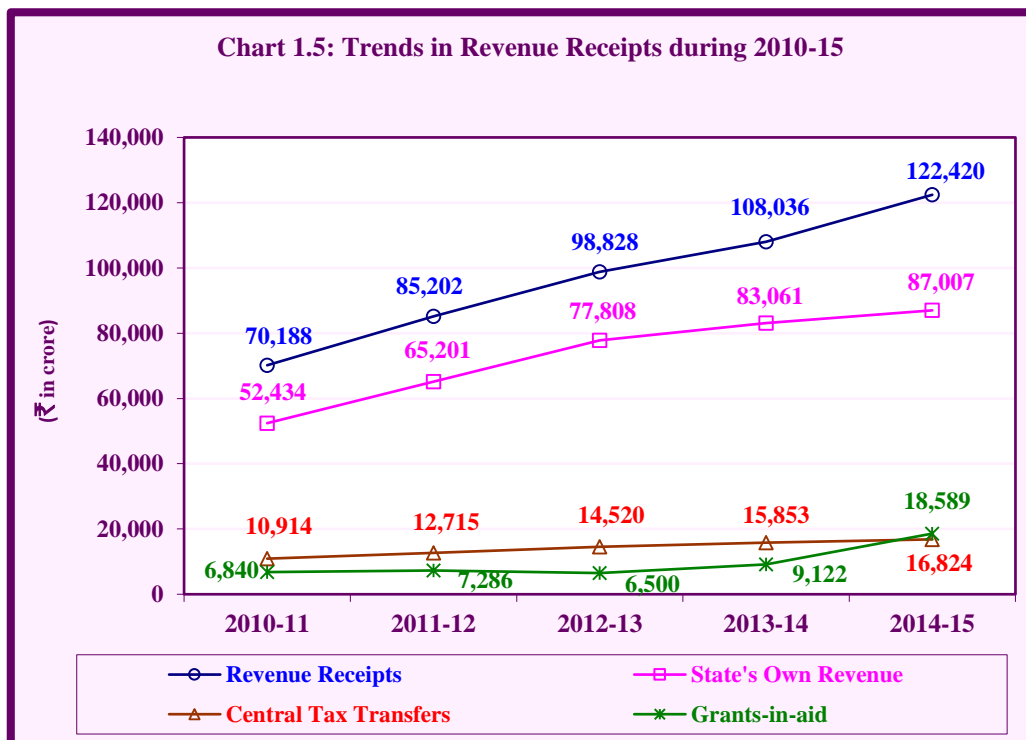


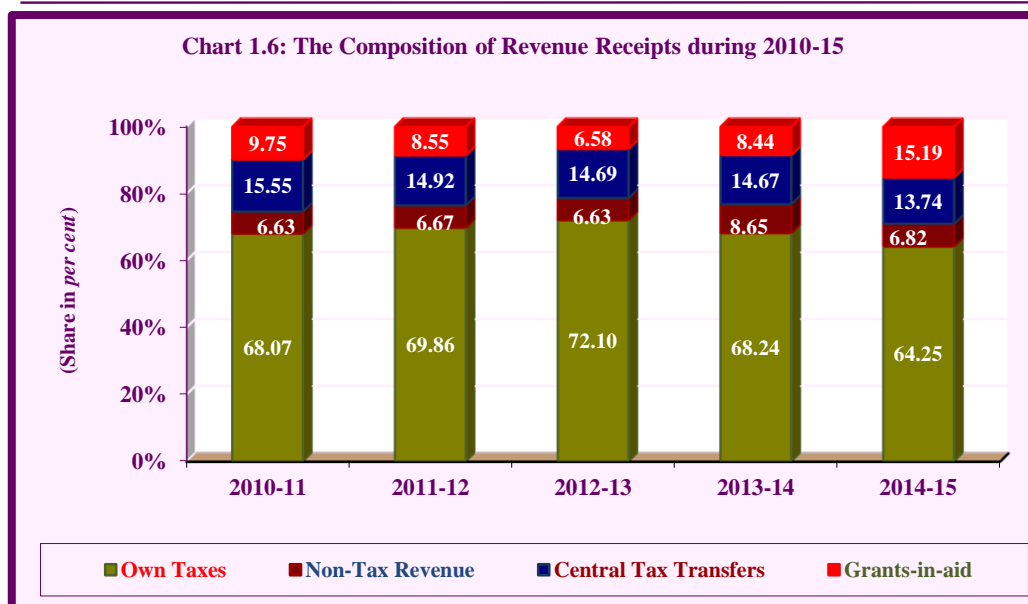
- The total resources of the State Government in the year 2014-15 were ₹ 1,59,190 crore. Of these, revenue receipts were ₹ 1,22,420 crore constituting 76.90 per cent of total resources. The capital receipts (₹ 32,447 crore) and net public account receipts (₹ 4,323 crore) constituted 20.38 and 2.72 per cent of the total resources respectively.
- The total resources of the State increased by ₹ 21,625 crore (15.72 per cent) over the previous year mainly due to increase of ₹ 7,013 crore (27.57 per cent) in capital receipts, ₹ 14,384 crore (13.31 per cent) in revenue receipts and ₹ 228 crore (5.57 per cent) in net public account receipts.

- The capital receipts increased by ₹ 7,013 crore, an increase of 27.57 per cent over the previous year. This was mainly due to increase in Public Debt receipts by ₹ 6,266 crore, an increase of 25.25 per cent over the previous year and in recoveries of loans and advances by ₹ 731 crore.
- The State's tax revenue increased from ₹ 73,718 crore in 2013-14 to ₹ 78,656 crore in 2014-15 (increase of 6.70 per cent) while the percentage of tax receipts to revenue receipts decreased by 3.98 i.e., from 68.23 in 2013-14 to 64.25 in 2014-15.
- The increase in Revenue Receipts when compared to previous year was mainly due to increase of ₹ 737 crore under Central Sales Tax, ₹ 1,721 crore under State Sales Tax due to increase in rate of tax on Indian Made Foreign Spirit and Beer which was revised from multiple rates ranging between 185 and 245 per cent to single rate of 220 per cent and ₹ 1,019 crore under State Value Added Tax.
- The steep increase of ₹ 9,467 crore under grants-in-aid from Government of India was due to increase in receipt of GoI Grants for State Plan Schemes.

### 1.3 Revenue Receipts

Statement-14 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 2010-15 are presented in **Appendix 1.4** and depicted in **Charts 1.5** and **1.6** respectively.





(Source: Finance Accounts for the respective years)

- The compound annual growth rate of revenue receipts during 2013-15 stood at 13.31 *per cent* which was less than that of the other General Category States (16.10 *per cent*) (**Appendix 1.1**).
- Revenue receipts of the State grew by ₹ 14,384 crore in 2014-15 over the previous year. The growth rate of revenue receipts which was on a downward trend from 25.69 *per cent* in 2010-11 to 9.32 *per cent* in 2013-14 has reversed during 2014-15 and increased to 13.31 *per cent* but it still remained below the average annual growth rate of 18.10 *per cent* during 2010-14 as mentioned in **Table 1.5**. The increase in growth rate, however, was mainly due to reasons as already discussed.
- Grants-in-aid as a percentage of revenue receipts increased from 8.44 in 2013-14 to 15.19 of revenue receipts in 2014-15.
- The non-tax revenue hovered around 6 to 7 *per cent* in the last five years except during 2013-14 when it stood at 8.65 *per cent*.
- The central tax transfers decreased from 15.55 to 13.74 *per cent* during 2010-15.

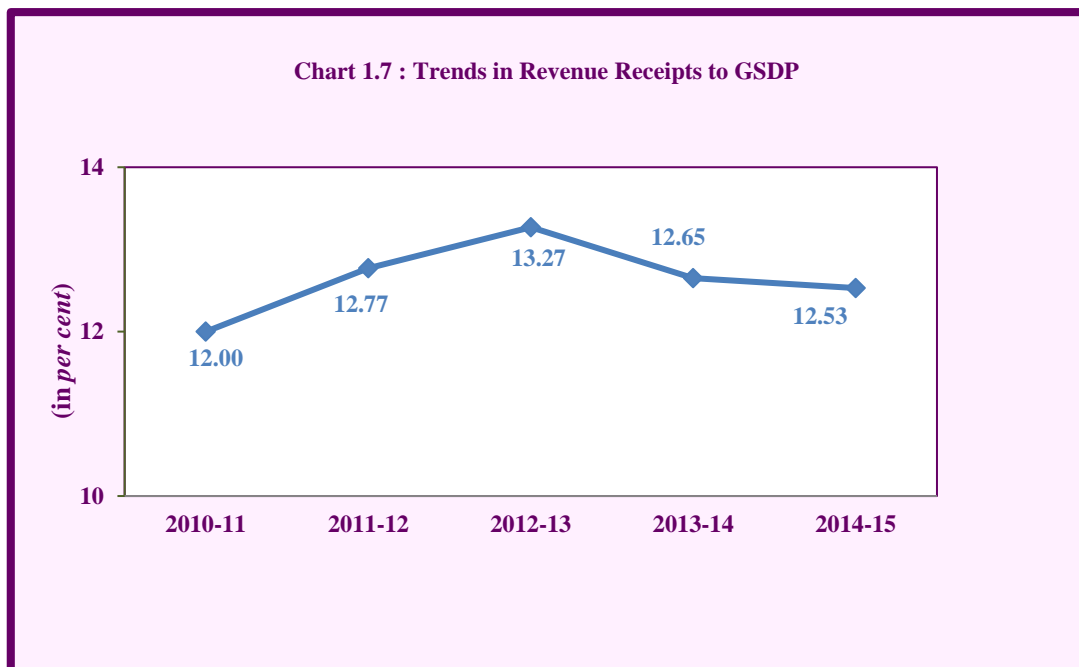
The trends in revenue receipts relative to GSDP are presented in **Table 1.5** and **Chart 1.7**.

**Table 1.5: Trends in Revenue Receipts relative to GSDP**

	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue Receipts (₹ in crore)	70,188	85,202	98,828	1,08,036	1,22,420
Rate of growth of Revenue Receipts ( <i>per cent</i> )	25.69	21.39	15.99	9.32	13.31
Revenue Receipts/GSDP ( <i>per cent</i> )	12.00	12.77	13.27	12.65	12.53
<b>Buoyancy Ratios<sup>2</sup></b>					
Revenue Buoyancy with reference to GSDP	1.17	1.52	1.37	0.63	0.93
State's own tax buoyancy with reference to GSDP	1.40	1.75	1.69	0.24	0.47
Revenue Buoyancy with reference to State's own taxes	0.84	0.87	0.81	2.69	1.99

(Source: Finance Accounts for the respective years and Information from Ministry of Statistics and Programme Implementation for GSDP figures)

<sup>2</sup> See glossary



(Source: Finance Accounts for the respective years and Information from Ministry of Statistics and Programme Implementation for GSDP figures)

- The GSDP at the current rate was estimated to increase from ₹ 8,54,238 crore in 2013-14 to ₹ 9,76,703 crore in 2014-15, representing an increase of 14.34 per cent.
- The revenue receipts as a percentage of GSDP which was on an increasing trend till 2012-13 started decreasing from 2013-14 and stood at 12.53 during the current year.
- Revenue buoyancy and State's own tax buoyancy with reference to GSDP increased during the year.
- The revenue buoyancy with reference to State's own taxes decreased from 2.69 in 2013-14 to 1.99 in 2014-15 due to drop in growth rate of all parameters (**Chart 1.6**) other than Grants-in-aid.

### 1.3.1 State's Own Resources

As the State's share in central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, the State's performance in mobilisation of resources was assessed in terms of its own resources comprising own tax and non-tax sources. The State's tax and non-tax receipts for the year 2014-15 *vis-a-vis* assessment made by ThFC and MTFP are given in the **Table 1.6**.

**Table 1.6: State's Actual Tax and Non-tax Revenue Receipts**

	(₹ in crore)			
	ThFC targets for the State	Targets proposed in the Budget	Projections made in MTFP	Actuals
Tax Revenue	75,037	91,835	1,01,557	78,656
Non-tax Revenue	3,928	8,084	6,988	8,351

(Source: ThFC recommendations and Budget Speech - 2014-15)

### 1.3.1.1 Tax Revenue

The gross collection in respect of major taxes and duties are given in **Table 1.7**.

**Table 1.7: Components and trend of State's Tax Revenue**

Revenue Head	2010-11	2011-12	2012-13	2013-14	2014-15	Percentage of increase (+)/ decrease (-) over previous year
Taxes on Sales, Trade, etc.	28,614	36,289	44,041	53,532	57,191	6.84
State Excise	8,116	9,975	12,126	5,035	5,731	13.82
Taxes on Vehicles	2,660	3,101	3,928	3,684	3,829	3.94
Stamps and Registration Fees	4,651	6,581	7,645	8,251	8,362	1.35
Land Revenue	113	87	131	273	170	(-) 37.73
Taxes on Goods and Passengers	1,626	2,123	2,252	1,843	1,909	3.58
Other Taxes <sup>3</sup>	2,002	1,361	1,131	1,100	1,464	33.09
<b>Total</b> <b>(Growth Rate in per cent)</b>	<b>47,782</b> <b>(30.74)</b>	<b>59,517</b> <b>(24.56)</b>	<b>71,254</b> <b>(19.72)</b>	<b>73,718</b> <b>(3.46)</b>	<b>78,656</b> <b>(6.70)</b>	<b>6.70</b>

(Source: Finance Accounts for the respective years)

- The compound annual growth rate of own tax revenue during 2013-15 stood at 6.70 per cent, which was less than the average of General Category States (10.51 per cent) (**Appendix 1.1**).
- The own tax revenue of the State increased by ₹ 4,938 crore over the previous year. The growth rate of State's own tax revenue, which was at 19.72 per cent in 2012-13 decreased sharply to 3.46 per cent in 2013-14. However, during 2014-15 the same had increased to 6.70 per cent.
- The increase in own tax revenue was mainly due to increase in collection of taxes on sales, trade, etc., (6.84 per cent), State Excise (13.82 per cent) and other taxes (33.09 per cent), which was partly offset by decrease in collection of Land Revenue (37.73 per cent).

### 1.3.1.2 Non-tax Revenue

The details of collection of non-tax revenue for the period 2010-15 are given in **Table 1.8**.

**Table 1.8: Components and trend of State's non-tax revenue**

Revenue Head	2010-11	2011-12	2012-13	2013-14	2014-15	Percentage of increase (+)/ decrease (-) over previous year
Interest receipts	1,663	2,021	2,010	3,347	2,490	(-) 25.61
Dividends and Profits	27	36	43	75	99	32.00
Other non-tax receipts	2,962	3,627	4,501	5,921	5,762	(-) 2.69
<b>Total</b>	<b>4,652</b> <b>(8.87)</b>	<b>5,684</b> <b>(8.72)</b>	<b>6,554</b> <b>(8.42)</b>	<b>9,343</b> <b>(11.25)</b>	<b>8,351</b> <b>(9.60)</b>	<b>(-) 10.62</b>

(Source: Finance Accounts for the respective years)

Figures in brackets indicate percentage of non-tax revenue to State's own resources.

<sup>3</sup> Other taxes include taxes on immovable property other than agricultural land, taxes and duties on electricity and agricultural income

- Though compound annual growth rate of non-tax revenue of the State during 2005-14 was higher (17.33 per cent) when compared to General Category States (13.53 per cent), it was (-) 10.62 per cent during 2013-15 which was lower (10.07 per cent) than that of General category States (**Appendix 1.1**). The non-tax revenue of the State decreased by ₹ 992 crore in 2014-15 over the previous year. As a proportion of the State's own resources, the non-tax revenue decreased from 11.25 per cent in 2013-14 to 9.60 per cent in 2014-15.
- The decrease in interest receipts was mainly due to decrease in interest on belated payment of electricity tax (₹ 590.81 crore) and interest from Public Sector and other undertakings (₹ 322.36 crore).

### 1.3.2 Grants-in-aid from GoI

The Grants-in-aid received from GoI are given in **Table 1.9**.

**Table 1.9: Grants-in-aid**

(₹ in crore)					
Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Non-plan Grants	2,813	2,585	1,311	3,194	6,078
Grants for State Plan Schemes	2,142	2,562	2,765	3,348	11,255
Grants for Central Plan Schemes	158	223	224	264	282
Grants for Centrally Sponsored Schemes	1,727	1,916	2,200	2,316	974
Grants for Special Plan Schemes	-	-	-	-	-
<b>Total</b>	<b>6,840</b>	<b>7,286</b>	<b>6,500</b>	<b>9,122</b>	<b>18,589</b>
Percentage of increase/decrease over previous year	24.05	6.52	(-) 10.80	40.34	103.78
Total grants as a percentage of Revenue Receipts	9.75	8.55	6.58	8.44	15.18

(Source: Finance Accounts for the respective years)

The considerable increase in Grants-in-aid from GoI in 2014-15 as compared to 2013-14 was due to increase in receipt of GoI Grants for State Plan Schemes.

### 1.3.3 Central Tax transfers

Central Tax transfers during the last five years are given in **Table 1.10**.

**Table 1.10: Central Tax transfers**

(₹ in crore)					
Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
State's share of Union taxes and duties	10,914	12,715	14,520	15,853	16,824
Percentage of increase over previous year	24.65	16.50	14.20	9.18	6.13

(Source: Finance Accounts for the respective years)

- The steep increase (24.65 per cent) in the central transfers during 2010-11 was due to release of non-plan grants by GoI to cover the State's resource gap. Although the quantum of State's share of union taxes and duties showed an increasing trend during 2010-15, its rate of growth showed a decreasing trend from 2011-12 onwards.

### **1.3.4 Optimisation of the ThFC grants**

Transfers to the State on recommendations of ThFC during 2010-15 are given in **Appendix 1.6**.

The reasons for non availing the ThFC grants in the preceding years have been discussed in the Report on State Finances of the Comptroller and Auditor General of India for the respective years. In respect of 2014-15 as against ₹ 3,083.31 crore recommended by ThFC the State Government received ₹ 2,570.44 crore from Government of India during the year 2014-15 which included ₹ 723.12 crore relating to earlier years. In the following cases the ThFC grants were not availed.

- The State could not avail the recommended general performance grant of ₹ 285.82 crore for 2014-15 in respect of Urban Local Bodies due to non-compliance of all the nine conditions by the Municipal Administration and Water Supply Department within the specified time. The State, however, received ₹ 53.09 crore during 2014-15 towards its share of forfeited performance grant<sup>4</sup> related to 2013-14.
- Due to delay in furnishing the utilisation certificate the GoI has not released the grants-in-aid in full in respect of Disaster Relief and Improving Outcome for the year 2014-15.
- As the conditions stipulated in the guidelines laid down by the ThFC relating to growth of actual expenditure and budget estimate were not met, grant (₹ 164 crore) was not released in respect of Elementary Education during 2014-15 though the amount had been spent by GoTN. The request of GoTN for releasing the grant is pending with GoI.
- In respect of State Specific Needs Grant the actual release made by GoI was short by ₹ 79.77 crore out of which ₹ 44.45 crore was not released due to non-furnishing of completion certificate by the State Government.
- Due to non-compliance of conditions relating to setting up of Water Regulatory Authority and receipts to the required level, no grants was released in respect of Water Sector Management during 2014-15.

### **1.3.5 Forgone Revenue**

Discounts, waivers and exemptions, deferments, write off, etc., in the collection of Sales tax leading to revenue forgone by the State, as furnished by the Commissioner of Commercial Taxes, is furnished in **Table 1.11**.

---

<sup>4</sup> Performance Grant of non-performing States redistributed to all States by GoI



**Table 1.11: Discounts, waiver, exemption, deferment and write off in collection of Sales Tax**  
(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Discount	81.63	103.02	25.83	Nil	Nil
Waiver	131.38 (2008-09 to 2012-13)			113.57	Nil
Exemption	1.09	11.29	21.68	0.01	8.48
Deferment	3,522.42 (2008-09 to 2012-13)			1,174.11	2,902.91
Write off	Not available			448.32	Nil

(Source: Information furnished by the Commissioner of Commercial Taxes)

## 1.4 Capital Receipts

Public debt receipts, recoveries of loans and advances and miscellaneous capital receipts are the capital receipts of the Government. The trends in growth and composition of capital receipts are given in **Table 1.12**.

**Table 1.12: Trends in growth and composition of capital receipts**

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Capital Receipts</b>	<b>15,262</b>	<b>19,960</b>	<b>22,277</b>	<b>25,434</b>	<b>32,447</b>
Miscellaneous capital receipts	-	-	-	-	16
Recovery of loans and advances	770	3,180	1,057	620	1,351
Public debt receipts	14,492	16,780	21,220	24,814	31,080
Rate of growth of public debt receipts	(-) 6.85	15.79	26.46	16.94	25.25
Rate of growth of non-debt capital receipts	(-) 70.24	312.99	(-) 66.76	(-) 41.34	120.48
Rate of growth of GSDP	21.92	14.07	11.64	14.68	14.34
Rate of growth of capital receipts	(-) 15.88	30.78	11.61	14.17	27.57

(Source: Finance Accounts for the respective years and Information on GSDP from Ministry of Statistics and Programme Implementation)

- The recoveries of loans and advances which were high during 2011-12 declined abnormally in terms of value and rate of growth in 2012-13 which continued to decline during 2013-14 and reached a new low in the four year period. However, during 2014-15 the recoveries increased by ₹ 731 crore (117.90 per cent) over the previous year on account of increase in recovery of ways and means advance for electricity schemes and under Industry and Minerals.
- The rate of growth of public debt receipts which showed an increasing trend during 2011-12 and 2012-13, declined during 2013-14 has however increased during 2014-15 and stood at 25.25 per cent. There was an increase of ₹ 6,266 crore during 2014-15 over the previous year which was mainly due to increase in Market loans (₹ 4,801 crore).

## 1.5 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, etc., which do not form part of the Consolidated Fund, are accounted for in the Public Account, set up under Article 266 (2) of the Constitution of India and are not subject to vote by the State Legislature. Here the Government acts as a banker. The balance after disbursements is the fund available with the Government for use. The Public Account receipts are given in **Table 1.13**.

**Table 1.13: Trends in growth and composition of Public Account Receipts**

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Public Account Receipts</b>					
Small Savings, Provident Fund, etc.	5,049.86	5,555.32	6,054.66	6,485.14	6,825.96
Reserve Fund	1,461.55	2,247.74	2,218.32	2,538.91	1,769.17
Deposits and Advances	22,194.41	25,321.72	28,987.81	30,833.61	32,819.87
Suspense and Miscellaneous	73,897.92	87,463.89	98,242.67	1,03,332.77	1,16,363.89
Remittances	4,095.86	4,124.23	3,932.99	4,926.85	5,927.51
<b>Total (a)</b>	<b>1,06,699.60</b>	<b>1,24,712.90</b>	<b>1,39,436.45</b>	<b>1,48,117.28</b>	<b>1,63,706.40</b>
<b>Public Account Disbursements</b>					
Small Savings, Provident Fund, etc.	3,778.20	4,442.47	4,720.36	5,222.80	5,503.08
Reserve Fund	2,567.54	1,961.30	1,070.00	1,750.69	1,410.55
Deposits and Advances	20,768.18	23,594.71	25,784.34	27,659.49	30,297.69
Suspense and Miscellaneous	73,879.78	86,966.21	97,586.01	1,04,488.99	1,16,416.92
Remittances	3,965.01	3,988.58	3,939.92	4,900.06	5,755.75
<b>Total (b)</b>	<b>1,04,958.71</b>	<b>1,20,953.27</b>	<b>1,33,100.63</b>	<b>1,44,022.03</b>	<b>1,59,383.99</b>
<b>Public Account Net (a)-(b)</b>	<b>1,740.89</b>	<b>3,759.63</b>	<b>6,335.82</b>	<b>4,095.25</b>	<b>4,322.41</b>

(Source: Finance Accounts for the respective years)

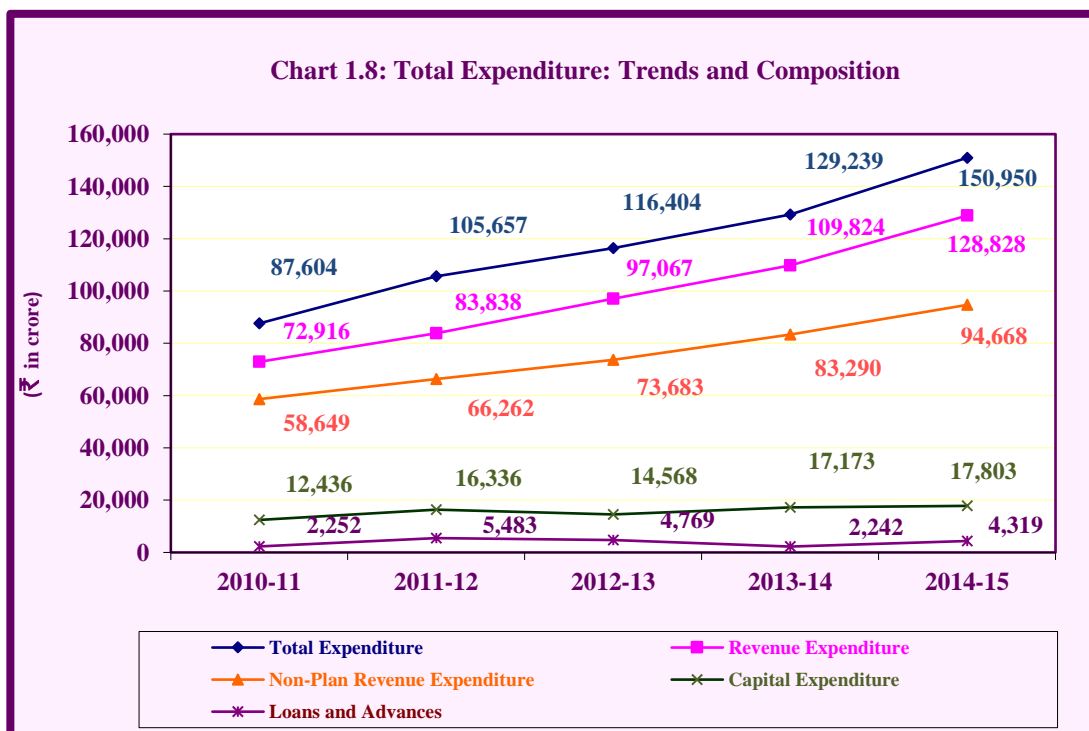
- The net Public Account receipts which declined during 2013-14 had increased during 2014-15 and stood at ₹ 4,322.41 crore which was mainly due to increase in Small Savings, Provident Funds and Deposits and Advances.

## 1.6 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.

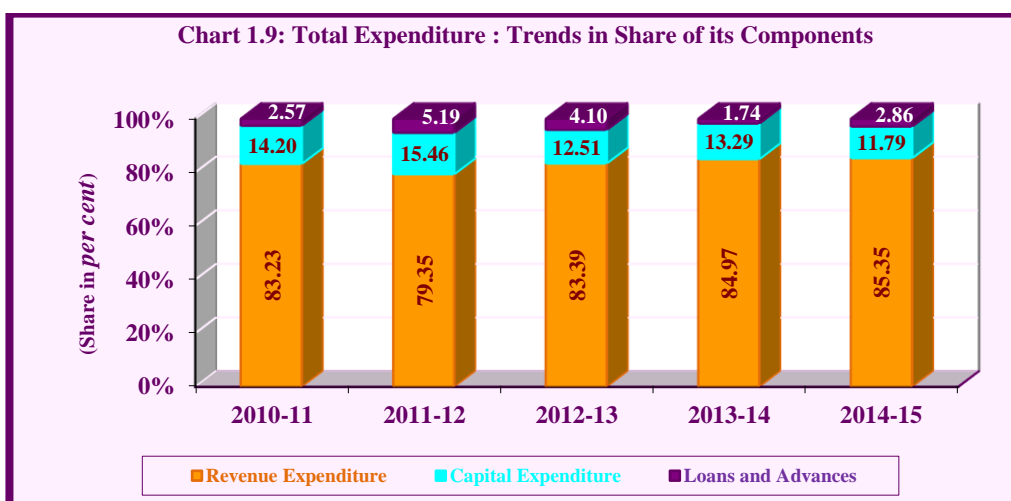
### 1.6.1 Growth and Composition of Expenditure

**Chart 1.8** presents the trends in total expenditure<sup>5</sup> over a period of five years (2010-15) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.9** and **1.10** respectively.

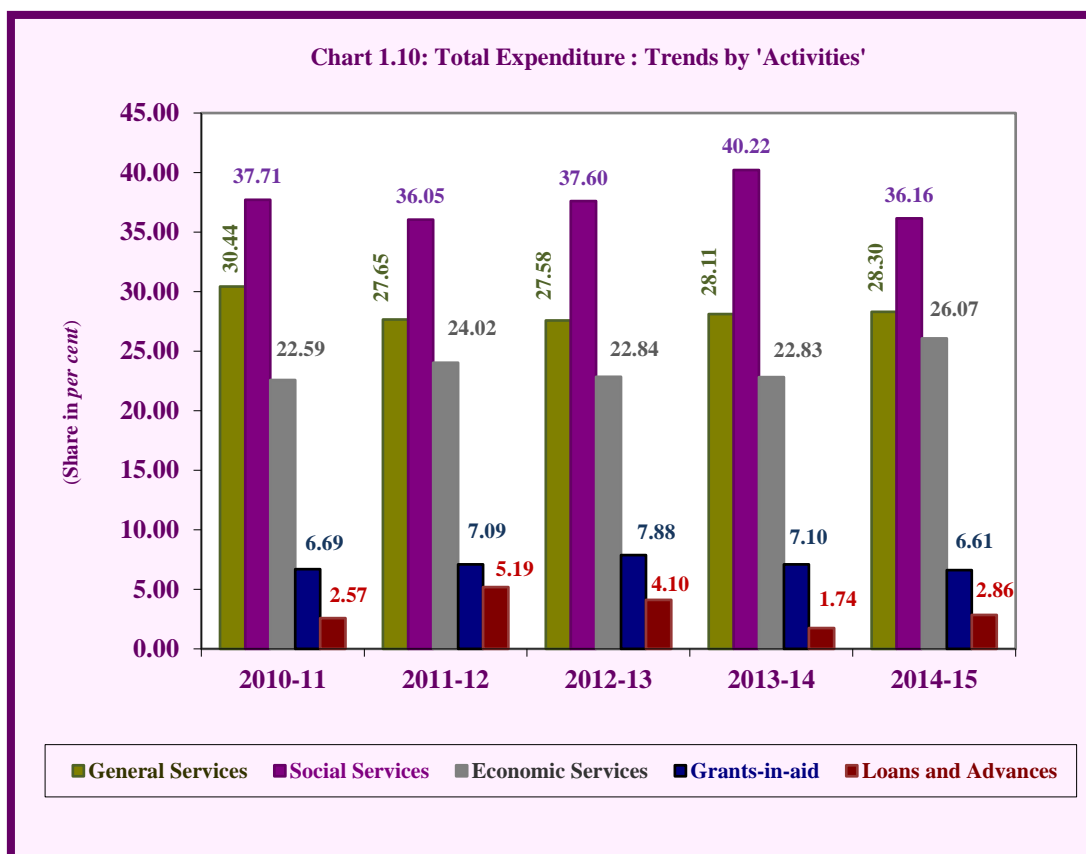


(Source: Finance Accounts for the respective years)

- Of the total expenditure of ₹ 1,50,950 crore during 2014-15, revenue expenditure (₹ 1,28,828 crore) accounted for 85.35 per cent. Out of the revenue expenditure, 73.48 per cent (₹ 94,668 crore) was incurred on the non-plan component.
- During the current year, the capital expenditure increased marginally by ₹ 630 crore (3.67 per cent).



<sup>5</sup> Total expenditure includes revenue expenditure, capital expenditure and disbursement of loans and advances and excludes public debt repayment



(Source: Finance Accounts for the respective years)

- The expenditure on General Services, Social Services and Economic Services during 2014-15 was 28.30, 36.16 and 26.07 *per cent* of the total expenditure and grew by 17.58, 5 and 33.36 *per cent* respectively over the previous year.
- The higher growth rate of expenditure on Economic Services in 2014-15 was mainly on account of increased spending of ₹ 4,689.47 crore on Rural Employment and ₹ 3,778.06 crore on Power.
- During 2010-15, while the ratio of expenditure on General Services to total expenditure remained more or less at the same levels, the expenditure on Economic Services increased to 26.07 *per cent* of total expenditure during 2014-15. Expenditure on Social Services declined from 40.22 *per cent* in 2013-14 to 36.16 *per cent* in 2014-15.

### 1.6.2 Revenue Expenditure

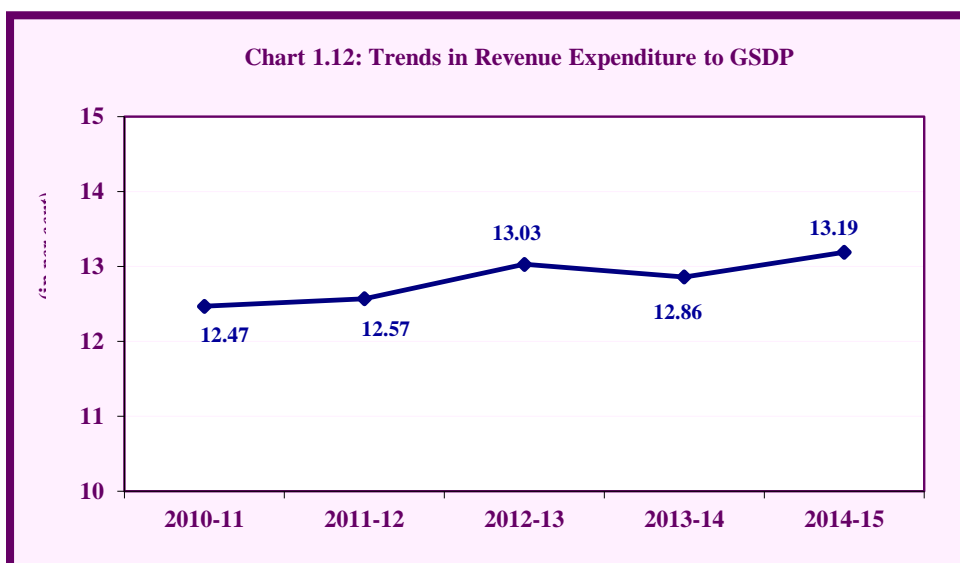
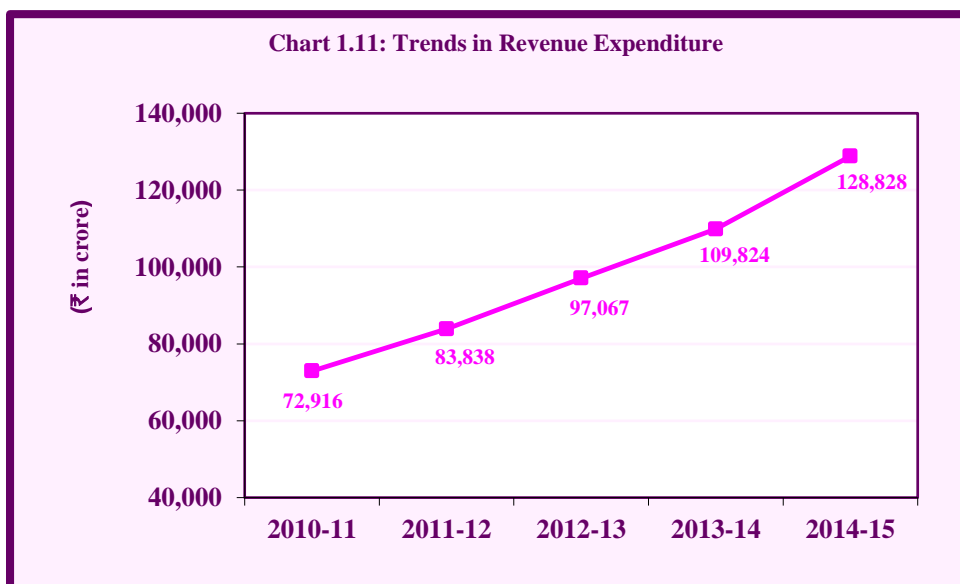
The trend of revenue expenditure of the State is given in **Table 1.14** and **Chart 1.11** and the trend of revenue expenditure to GSDP is given in **Chart 1.12**.

Table 1.14: Trends in growth and composition of revenue expenditure

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue Receipts	70,188	85,202	98,828	1,08,036	1,22,420
Revenue Expenditure	72,916	83,838	97,067	1,09,824	1,28,828
Revenue Deficit/Surplus	(-) 2,728	1,364	1,761	(-) 1,788	(-) 6,408
GSDP	5,84,896	6,67,202	7,44,859	8,54,238	9,76,703
Revenue Receipt to GSDP (in per cent)	12.00	12.77	13.27	12.65	12.53
Revenue Expenditure to GSDP (in per cent)	12.47	12.57	13.03	12.86	13.19
Revenue surplus (deficit) to GSDP(in per cent)	(-) 0.47	0.20	0.24	(-) 0.21	(-) 0.66

(Source: Finance Accounts for the respective years and Information from Ministry of Statistics and Programme Implementation)



(Source: Finance Accounts for the respective years and Information from Ministry of Statistics and Programme Implementation)

- The State which had revenue surplus during 2011-12 and 2012-13 and became revenue deficit in 2013-14, continued the trend of revenue deficit in 2014-15 also.

### 1.6.3 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 1.15** presents the trend in the expenditure on these components during 2010-15.

**Table 1.15: Components of Committed Expenditure**

(₹ in crore)

Components of committed expenditure	2010-11	2011-12	2012-13	2013-14	2014-15
Salaries and wages, of which	19,029 (27.11)	21,466 (25.20)	22,255 (22.52)	25,688 (23.78)	28,663 (23.41)
Non-Plan Head	17,150	19,278	20,109	23,055	25,794
Plan Head*	1,879	2,188	2,146	2,633	2,869
Salary grants**	4,017 (5.72)	4,390 (5.15)	4,416 (4.47)	4,861 (4.50)	5,392 (4.40)
Interest payments	7,940 (11.31)	8,871 (10.41)	10,205 (10.33)	12,405 (11.48)	14,550 (11.89)
Expenditure on pension	10,951 (15.60)	11,747 (13.79)	12,365 (12.51)	13,927 (12.89)	16,360 (13.36)
Subsidies	7,739 (11.02)	8,698 (10.20)	9,592 (9.71)	9,646 (8.93)	10,373 (8.47)
<b>Total</b>	<b>49,676</b> <b>(70.77)</b>	<b>55,172</b> <b>(64.75)</b>	<b>58,833</b> <b>(59.53)</b>	<b>66,527</b> <b>(61.58)</b>	<b>75,338</b> <b>(61.54)</b>

(Source: Finance Accounts for the respective years)

Figures in the brackets indicate percentage to 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

- The committed expenditure (₹ 75,338 crore) stood at 61.54 per cent of the total revenue receipts (₹ 1,22,420 crore) of the State during 2014-15 as against 61.58 per cent during 2013-14. Though the committed expenditure was increasing during 2010-15 its ratio with revenue receipts decreased marginally during 2014-15.
- During 2014-15, expenditure on salaries and wages, inclusive of salary grants was ₹ 34,055 crore and accounted for 34.78 per cent of the revenue expenditure net of interest and pension, which was within the ThFC normative prescription of 35 per cent.
- The expenditure towards interest payments increased by ₹ 2,145 crore (17.29 per cent) during 2014-15 over the previous year. This was mainly due to increase in payment of interest on Market loans, other internal debt and defined contributory pension scheme to the extent of ₹ 1,934 crore, ₹ 320 crore and ₹ 251 crore respectively which was partially offset by decrease in interest payment on state provident funds to the extent of ₹ 77 crore and recovery of overpayments of ₹ 371 crore. As a percentage of non-plan revenue expenditure it was increasing from 2012-13 and stood at 15.37 in 2014-15.

### Subsidies

In a welfare State, it is not uncommon to provide subsidies/subventions to disadvantaged sections of the society. Subsidies are dispensed not only explicitly but also implicitly by providing subsidised public service to the

people. Budgetary support to financial institutions, inadequate return on investments, poor recovery of user charges, assistance in cash/kind to individuals, etc., fall under the category of implicit subsidies<sup>6</sup>.

(a) Explicit subsidies were on a continuous increase. They went up by ₹ 727 crore (7.54 per cent) in 2014-15 when compared to the previous year. A list of major schemes for which the State Government provided subsidy during 2010-15 is given in **Table 1.16**.

**Table 1.16: List of major schemes for which subsidy was given by the State Government**  
(₹ in crore)

Name of the scheme	2010-11	2011-12	2012-13	2013-14	2014-15
Social Safety Net - Food Security - Public Distribution System Support	3,950.00	4,900.00	4,900.00	4,900.00	5,000.00
Electricity - Compensation to Tamil Nadu Electricity Board (TNEB) due to reduction in tariff to domestic consumers	1,254.77	1,763.07	1,838.37	1,842.00	2,482.00
Reimbursement of Social cost on student concessions in bus fares	302.22	389.84	335.84	622.56	448.00
Free distribution of handloom clothes to the people below poverty line	256.00	350.00	357.90	486.36	519.16
National Agriculture Development Programme - Agriculture Department	49.47	88.07	124.84	109.52	75.28
Payment to Tamil Nadu Electricity Board on behalf of Power loom weavers	55.68	50.74	177.99	235.10	269.10

(Source: Finance Accounts for the respective years)

(b) In addition to the subsidies classified in the accounts under the object head '11-Subsidies', the State Government also provided implicit subsidies during 2012-13 to 2014-15, some of which are listed in **Table 1.17**.

**Table 1.17: Implicit Subsidies given during 2012-13 to 2014-15**

(₹ in crore)

Name of the scheme	Expenditure incurred		
	2012-13	2013-14	2014-15
Free supply of grinders, mixies, fans etc.	1,311.31	1,350.00	1,261.95
Marriage Assistance Scheme - Distribution of four gram gold coins for Thirumangalyam	674.15	563.19	643.98
Free supply of uniforms to school children	298.30	388.39	424.87
Free supply of bicycles to students studying in Standard XI and XII in Government/Government aided Higher Secondary Schools	137.87	216.96	218.01
Free distribution of sheep/goat to the persons living below poverty line under Special Component Plan	140.58	194.80	196.97
Providing sanitary napkins free of cost to adolescent girls(Nomenclature changed during 2013-14 as Menstrual Hygiene Programme)	55.05	54.60	54.49
Free distribution of milch cows to each family living below poverty line under Special Component Plan	43.10	42.50	42.96
Free distribution of laptops	1,386.44	1,044.62	828.49
Dr. Muthulakshmi Reddy Maternity Assistance Scheme	642.57	641.62	618.83
Chief Minister's Comprehensive Health Insurance Scheme	248.38	739.25	758.33
<b>Total</b>	<b>4,937.75</b>	<b>5,235.93</b>	<b>5,048.88</b>

(Source: Finance Accounts for the respective years)

<sup>6</sup> Subsidies which were not booked under the object head "11-Subsidies" under relevant major head of account are "Implicit Subsidies"

It was noticed that these implicit subsidies were classified under other object heads such as (i) 09-Grants-in-aid (laptop scheme and Marriage assistance scheme), (ii) 24-Materials and Supplies (grinders, mixies and fans), (iii) 10-Contributions (health insurance) etc. This accounting treatment is not clear and does not transparently disclose the nature of expenditure as is required. From **Table 1.15** and **Table 1.17**, it could be seen that apart from ₹ 10,373 crore incurred on explicit subsidy, the State Government also provided implicit subsidies.

#### **1.6.4 Financial Assistance by State Government to Local Bodies and other institutions**

The 73<sup>rd</sup> and 74<sup>th</sup> Constitutional amendments gave Constitutional status to Panchayat Raj Institutions and Urban Local Bodies respectively and established a system of uniform structure, regular elections, regular flow of funds through Finance Commission, etc. In Tamil Nadu, there are 664 Urban Local Bodies (12 Municipal Corporations, 124 Municipalities and 528 Town Panchayats) and 12,940 Panchayat Raj Institutions (31 District Panchayats, 385 Panchayat Unions and 12,524 Village Panchayats).

The quantum of assistance provided by way of grants and loans to the local bodies and others during the current year and in the earlier years is presented in **Table 1.18**.

**Table 1.18: Financial assistance to Local Bodies, etc.**

(₹ in crore)					
Financial Assistance to Institutions	2010-11	2011-12	2012-13	2013-14	2014-15
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	940	1,249	2,550	3,111	4,446
Urban Local Bodies	2,841	3,031	3,460	3,548	4,142
Panchayat Raj Institutions	3,071	3,585	4,502	4,376	4,868
Development Agencies	190	336	253	646	899
Hospitals and Other Charitable Institutions	314	363	483	448	1,131
Other Institutions <sup>7</sup>	6,559	7,361	9,965	12,720	18,734
<b>Total</b>	<b>13,915</b>	<b>15,925</b>	<b>21,213</b>	<b>24,849</b>	<b>34,220</b>
Assistance as percentage of Revenue Expenditure	19.08	19.00	21.85	22.63	26.56

(Source: Finance Accounts for the respective years)

- Financial assistance to the local bodies and other institutions increased from ₹ 13,915 crore in 2010-11 to ₹ 34,220 crore in 2014-15. During 2014-15, financial assistance to local bodies and other institutions increased by ₹ 9,371 crore (37.71 per cent) over the previous year. As a percentage of revenue expenditure it increased from 19.08 in 2010-11 to 26.56 in 2014-15.

<sup>7</sup> Institutions/agencies connected with water supply and sanitation, housing, social welfare, labour and employment, forestry and wild life, agriculture and allied activities, industries and minerals, relief on account of natural calamities and village and small industries



## 1.7 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 expenditure (i.e. adequate provisions for providing public services), efficiency of expenditure use and its effectiveness (assessment of outlay-outcome relationships for selected services).

### 1.7.1 Adequacy of Public Expenditure

The responsibilities relating to the expenditure on social sector and the economic sector are largely State subjects. Enhancing human development level 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 deemed to have been given to a particular sector, if it was below the national average. **Table 1.19** analyses the fiscal priority of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during 2014-15.

**Table 1.19: Fiscal Priority of the State in 2011-12 and 2014-15**

Fiscal Priority of the State	(In per cent)					
	AE/ GSDP	DE <sup>#</sup> /AE	SSE/AE	CE/AE	Education/ AE	Health/ AE
General Category States* Average (Ratio) 2011-12	15.98	65.39	36.63	13.23	17.10	4.68
Tamil Nadu State's Average (Ratio) 2011-12	16.53	65.06	36.42	15.46	14.80	4.18
General Category States Average (Ratio) 2014-15	16.49	69.12	36.50	14.01	16.23	5.04
Tamil Nadu State's Average (Ratio) 2014-15	15.46	64.84	36.81	11.79	16.46	4.95

(Source: For GSDP, Information from Ministry of Statistics and Programme Implementation)

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

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

\* General Category States exclude Puducherry

- In 2014-15, the proportion of Aggregate Expenditure to GSDP was low as compared to the General Category States. As compared to 2011-12, Tamil Nadu spent lesser proportion of its GSDP on Aggregate Expenditure in 2014-15.
- The Development Expenditure as a proportion of Aggregate Expenditure in Tamil Nadu was lower than the General Category States' average in 2011-12 and 2014-15.
- During 2014-15, priority given to Social sector by Tamil Nadu was marginally better than that of General Category States.
- In Tamil Nadu, the proportion of capital expenditure *vis-à-vis* aggregate expenditure during 2014-15 was far less than that during

2011-12. It was, however, more than that of the General Category States during 2011-12 and was significantly less during 2014-15.

### 1.7.2 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 Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods<sup>8</sup>. Apart from improving the allocation towards development expenditure<sup>9</sup>, the efficiency of expenditure use 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 need to be kept in mind. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure. **Table 1.20** presents the trends in development expenditure relative to the aggregate expenditure of the State during 2010-15.

**Table 1.20: Development Expenditure**

(₹ in crore)

Components of Development Expenditure	2010-11	2011-12	2012-13	2013-14	2014-15
Development Expenditure (a to c)	54,917 (62.69)	68,742 (65.06)	74,874 (64.32)	83,385 (64.52)	97,869 (64.84)
a. Development Revenue Expenditure	41,131 (46.95)	47,404 (44.86)	56,251 (48.32)	64,920 (50.23)	77,192 (51.14)
b. Development Capital Expenditure	11,694 (13.35)	16,062 (15.20)	14,111 (12.12)	16,571 (12.82)	16,739 (11.09)
c. Development Loans and Advances	2,092 (2.39)	5,276 (5.00)	4,512 (3.88)	1,894 (1.47)	3,938 (2.61)

(Source: Finance Accounts for the respective years)

Figures in brackets indicate percentage of aggregate expenditure

Though development expenditure, in real terms was increasing continuously during 2010-15, the percentage of aggregate development capital expenditure decreased during the year to 11.09.

**Table 1.21** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected Social and Economic Services during 2013-14 and 2014-15.

<sup>8</sup> 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 subsidised 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 subsidised 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.

<sup>9</sup> See glossary

**Table 1.21: Efficiency of Expenditure Use in Selected Social and Economic Services**  
(in per cent)

Social/Economic Infrastructure	2013-14		2014-15	
	Ratio of CE to TE	Ratio of S&W to RE	Ratio of CE to TE	Ratio of S&W to RE
<b>Social Services (SS)</b>				
Education, Sports, Art and Culture	1.69	50.52	2.41	49.92
Health and Family Welfare	9.78	63.26	7.61	55.59
Water Supply, Sanitation, Housing and Urban Development	64.02	1.73	41.86	1.51
<b>Total (SS)</b>	<b>17.19</b>	<b>48.06</b>	<b>10.02</b>	<b>45.79</b>
<b>Economic Services (ES)</b>				
Agriculture and Allied Activities	9.27	20.63	10.51	21.34
Irrigation and Flood Control	43.35	26.77	47.40	25.38
Power and Energy	53.54	0.10	55.03	0.06
Transport	69.14	10.59	69.95	10.83
<b>Total (ES)</b>	<b>40.78</b>	<b>16.42</b>	<b>44.26</b>	<b>14.89</b>
<b>Total (SS+ES)</b>	<b>25.69</b>	<b>38.97</b>	<b>23.54</b>	<b>36.90</b>

(Source: Finance Accounts for the respective years)

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

#### **Expenditure on Social Services**

- Capital expenditure on Social Services decreased in real terms and also as a percentage of total expenditure of selected services. As a percentage to aggregate expenditure of the State, it decreased from 4.74 in 2013-14 to 2.80 in 2014-15 (**Appendix 1.4**).
- The ratio of expenditure on salaries and wages to revenue expenditure in respect of Health and Family Welfare under selected social services decreased from 63.26 in 2013-14 to 55.59 in 2014-15 while there was only a marginal decrease in respect of other services.

#### **Expenditure on Economic Services**

- The capital expenditure on Economic Services increased from ₹ 9,862 crore in 2013-14 to ₹ 12,505 crore in 2014-15 (26.80 per cent).
- The increase in capital expenditure on Economic Services was mainly due to increase in capital expenditure on Energy, Transport, Irrigation and Agriculture and Allied Activities.
- There was only a marginal variation in the ratio of expenditure on salaries and wages to revenue expenditure under selected economic services.

### **1.8 Financial Analysis of Government Expenditure and Investments**

In the post-Fiscal Responsibility and Budget Management framework, the State is expected to keep its fiscal deficit (and borrowings) at low levels without compromising its capital expenditure/investment (including loans and

advances) requirements. In addition, in a transition to dependence on market-based resources, the State Government needs to initiate measures to earn adequate return 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.

### **1.8.1 Financial Results of Irrigation projects**

Ensuring the commercial viability of irrigation projects through realisation of adequate revenue by way of user charges would be prudent on the part of Government. However, it was observed that the revenue from irrigation projects (₹ 52.50 crore) during 2014-15 was only 4.26 *per cent* of the maintenance expenditure (₹ 1,232.46 crore).

The financial results of five major and 47 medium irrigation projects are depicted in Appendix VIII of the Finance Accounts. The revenue realised from these projects during 2014-15 was ₹ 10.63 crore. After meeting the working and maintenance expenditure (₹ 294.76 crore) and interest charges (₹ 122.34 crore), these 52 projects suffered a net loss of ₹ 406.47 crore during 2014-15.

### **1.8.2 Incomplete projects**

The department-wise information pertaining to incomplete projects as on 31 March 2015 is given in **Table 1.22**.

**Table 1.22: Department-wise profile of incomplete projects**

(₹ in crore)

Department	No. of Incomplete Projects*	Initial Budgeted Cost	Revised Total Cost of Projects**	Expenditure during the year	Cumulative actual expenditure as on 31 March 2015
Roads and Bridges	38	209.39	227.67	52.95	155.88
Irrigation (Water Resources) and Flood Control	22	638.27	638.27	85.10	527.17
<b>Total</b>	<b>60</b>	<b>847.66</b>	<b>865.94</b>	<b>138.05</b>	<b>683.05</b>

(Source: Collected from various sources by Accountant General (A&E) and included in Appendix IX of Finance Accounts for 2014-15).

\* Only those projects which were scheduled to be completed before 31 March 2015 were included.

\*\* Indicates the revised total cost of the projects as per the last revision by the State Government up to March 2015

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

### **1.8.3 Investments and returns**

Government invested up to March 2015, ₹ 23,065 crore in statutory corporations, rural banks, joint stock companies and co-operatives (**Table 1.23**).

Table 1.23: Return on Investments

Investment/Return/Cost of Borrowings	2010-11	2011-12	2012-13	2013-14	2014-15
Investment at the end of the year (₹ in crore)	10,223	14,456	15,718	19,724	23,065
Return (₹ in crore)	22.33	30.23	30.83	39.66	97.13
Return (in per cent)	0.22	0.21	0.20	0.20	0.42
Average rate of interest on Government borrowing (in per cent)	7.53	7.43	7.43	7.90	8.12
Difference between interest rate and return (in per cent)	7.31	7.22	7.23	7.70	7.70

(Source: Finance Accounts for the respective years)

Government invested (up to March 2015) in two Statutory corporations (₹ 15,368 crore), 66 Government companies (₹ 6,050 crore), five Joint Stock companies (₹ 2 crore) and 9,150 co-operatives (₹ 1,645 crore). During 2014-15 Government infused an additional capital of ₹ 488.66 crore into seven ailing State Transport Undertakings which had an accumulated loss of ₹ 10,381.35 crore. There was one major investment of ₹ 4,300.32 crore made by Government in 2014-15 in Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO).

It may be observed that the return from the investment was meagre. The average rate of return increased from 0.22 per cent in 2010-11 to 0.42 per cent in 2014-15. On the other hand, Government paid interest at an average rate of 8.12 per cent on its borrowings during 2014-15.

#### 1.8.4 Loans and advances by State Government

In addition to the investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many of these institutions/organisations. Table 1.24 presents the outstanding loans and advances as on 31 March 2015 and interest receipts vis-à-vis interest payments during the last three years.

Table 1.24: Average interest received on loans advanced by the State Government

(₹ in crore)

Quantum of Loans/Interest receipts/cost of borrowings	2012-13	2013-14	2014-15
Opening Balance	11,302	15,014	16,636
Amount advanced during the year	4,769	2,242	4,319
Amount repaid during the year	1,057	620	1,351
Closing Balance	15,014	16,636	19,604
Net increase (+) / decrease (-)	3,712	1,622	2,968
Interest receipts	364.88	747.83	129.73
Interest receipts as percentage of outstanding Loans and advances	2.77	4.73	0.72
Interest payments as percentage of outstanding fiscal liabilities of the State Government	7.43	7.90	8.12
Difference between interest payments and interest receipts (per cent)	4.66	3.17	7.40

(Source: Finance Accounts for the respective years)

- The repayment of loans and advances which had drastically come down from ₹ 1,057 crore in 2012-13 to ₹ 620 crore in 2013-14 has improved and stood at ₹ 1,351 crore in 2014-15.

- Under Social Sector, the major recipient of loans and advances was Chennai Metro Rail Ltd. (₹ 598.22 crore).
- Under Economic Sector an amount of ₹ 2,073.47 crore was advanced during 2014-15 for Energy which included ₹ 1,000 crore ways and means advance for electricity schemes and an equal amount was also repaid during the year 2014-15.

### 1.8.5 Cash Balances and Investment of Cash Balances

**Table 1.25** depicts the cash balances and investments made by the State Government out of cash balances during the year.

**Table 1.25: Cash Balances and Investment of Cash Balances**

(₹ in crore)

Sl. No.	Particulars	As on 31 March 2014	As on 31 March 2015
(a)	<b>General Cash Balance</b>		
1	Cash in Treasuries	..	..
2	Deposits with Reserve Bank	(-) 2,79.27	(-) 55.30
3	Remittances in Transit	16.80	16.80
	<b>Total</b>	<b>(-) 2,62.47</b>	<b>(-) 38.50</b>
4	Investments held in the Cash Balance Investment Account	14,047.95	11,964.07
	<b>Total (a)</b>	<b>13,785.48</b>	<b>11,925.57</b>
(b)	<b>Other Cash Balances and Investments</b>		
1	Cash with Departmental Officers viz., Public Works and Forest Departments	1.93	2.18
2	Permanent advances for contingent expenditure with Departmental Officers	7.91	8.35
3	Investments of earmarked funds	10,768.34	14,398.96
	<b>Total (b)</b>	<b>10,778.18</b>	<b>14,409.49</b>
	<b>Total (a) and (b)</b>	<b>24,563.66</b>	<b>26,335.06</b>

(Source: Finance Accounts for the respective years)

- The State Government maintained the minimum required daily cash balance of ₹ 3.25 crore with the Reserve Bank of India during 2014-15. No ways and means advance or overdraft was taken during the year.
- The cash balance as on 31 March 2015 increased by ₹ 1,771.40 crore. The increase over the previous year was mainly due to increase in investments of earmarked funds.

## 1.9 Assets and Liabilities

### 1.9.1 Growth and Composition of Assets and Liabilities

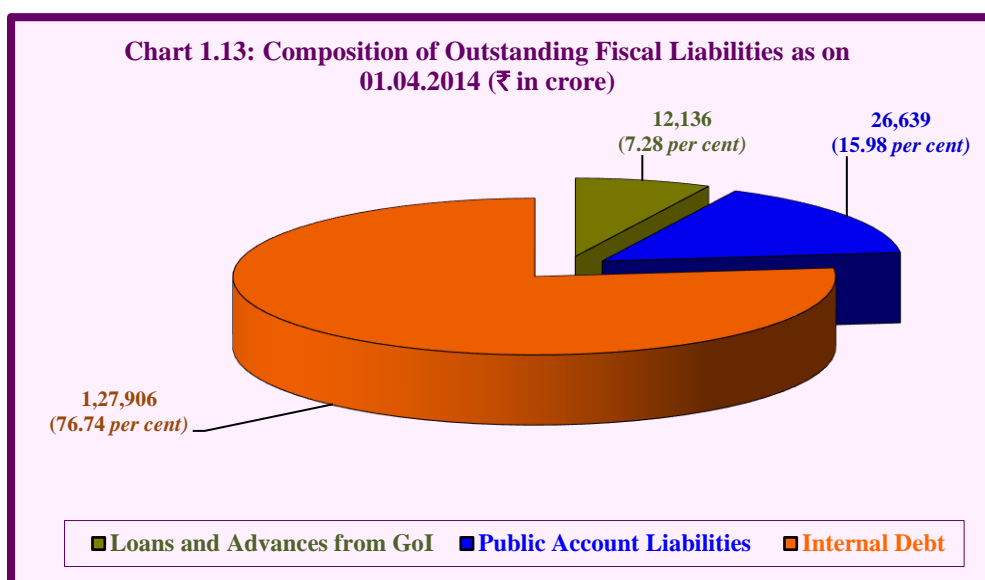
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.5** gives an abstract of such liabilities and assets as on 31 March 2015, compared with the corresponding position on 31 March 2014.

While the liabilities 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.

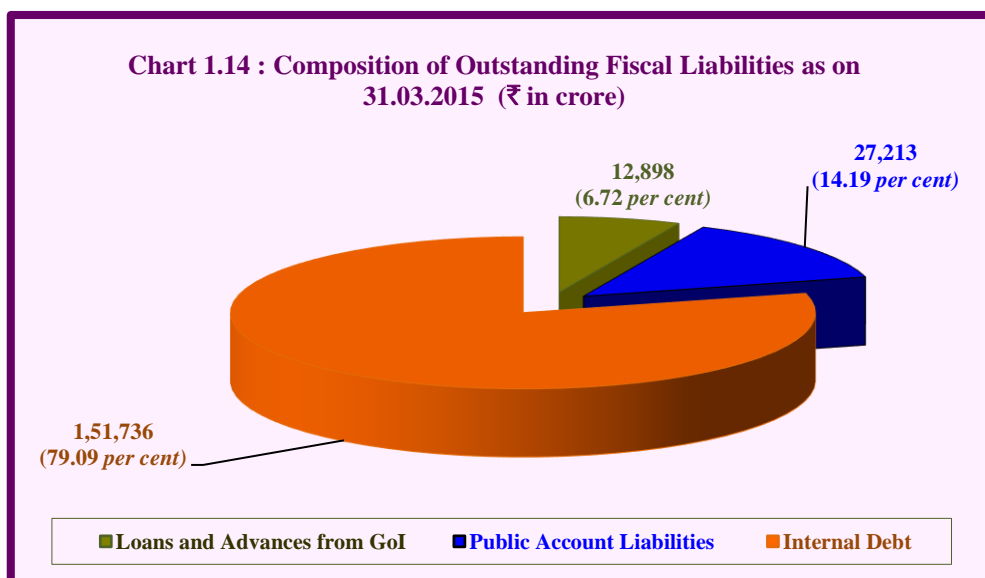
The TNFR Act defines the total liability of the State as ‘the liabilities under the Consolidated Fund of the State and the Public Account of the State’, which include loans and advances from the Central Government, open market borrowings, loans from financial institutions, Provident Fund balances of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

### 1.9.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.4**. The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Charts 1.13** and **1.14**.



(Source: Finance Accounts for 2013-14)



(Source: Finance accounts for 2014-15)



- The outstanding fiscal liabilities have shown a steady increase from ₹ 1,11,657 crore at the end of 2010-11 to ₹ 1,91,847 crore at the end of 2014-15.
- The fiscal liabilities at the end of 2014-15 represented 156.71 *per cent* of the revenue receipts during the year as against 154.28 *per cent* of the revenue receipts during 2013-14. However, the outstanding liabilities as a percentage of GSDP was 19.64 which was within the norm of 25.2 *per cent* prescribed for the year 2014-15 in the TNFR Act.
- Public Account liabilities as a percentage of the total fiscal liabilities decreased from 15.98 at the end of 2013-14 to 14.19 in 2014-15. Internal debt at 79.09 *per cent* of the fiscal liabilities was higher than that of the previous year (76.74 *per cent*) whereas the percentage of outstanding loans and advances decreased from 7.28 in 2013-14 to 6.72 in 2014-15.

### **1.9.3 Transactions under Reserve Fund**

There are 27 Reserve Funds earmarked for specific purposes out of which six Reserve Funds were inoperative for two to nine years in which an amount of ₹ 35.19 crore was locked up. There was also short transfer of ₹ 8.12 crore which resulted in understatement of Revenue deficit to that extent and non-fulfilment of the purposes for which the funds were set up.

### **1.9.4 Contingent liabilities**

#### **Status of Guarantees**

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 1.26**.

**Table 1.26: Guarantees given by Government of Tamil Nadu**

(₹ in crore)

Guarantees	2012-13	2013-14	2014-15
Outstanding amount of guarantees	24,071	49,499	53,698
Percentage of outstanding amount guaranteed to total Revenue receipts of previous year	28.25	50.09	49.70
Percentage of outstanding amount guaranteed to GSDP	3.23	5.79	5.50

(Source: Finance Accounts for the respective years)

- Government constituted (March 2003) a “Guarantee Redemption Fund” for discharge of invoked guarantees. An amount of ₹ 13.40 crore being the contribution and ₹ 9.09 crore being accrued interest on investments were transferred to the fund during the year leaving a closing balance of ₹ 180.88 crore at the end of the year. An



amount of ₹ 149.86 crore was invested in Treasury bills out of the fund.

- The maximum amount guaranteed was well within the stipulations (i.e. within cent *per cent* revenue receipts of the previous year or 10 *per cent* of GSDP whichever is lower) of the Tamil Nadu Fiscal Responsibility Act, 2003. As a percentage of revenue receipts of previous year, it has marginally decreased from 50.09 in 2013-14 to 49.70 in 2014-15. Similarly as a percentage of GSDP, it decreased marginally from 5.79 in 2013-14 to 5.50 in 2014-15.

### 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 the 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 specify that funds for these programmes would be met out of the resources mobilised 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 undertook such off-budget borrowings. Details of such borrowings collected from three agencies are given in **Table 1.27**.

**Table 1.27: Details of off-budget borrowings**

(₹ in crore)

Sl. No.	Name of Agency	Off-budget borrowings outstanding as of March 2015	Borrowings repaid by Government
1	Tamil Nadu Water Supply and Drainage Board	21.06	9.11
2.	Tamil Nadu Co-operative Housing Federation Limited	12.42	6.20
3.	Tamil Nadu Rural Housing and Infrastructure Development Corporation	720.37	25.73

(Source: Information furnished by the Agencies)

Besides, the Government had provided guarantee for loan amounting to ₹ 43,621.64 crore raised by TANGEDCO as on 31 March 2015. Any eventual default in repayment by TANGEDCO, which had an accumulated loss of ₹ 65,222.10 crore as on 31 March 2015, would result in additional liability to the Government.

The capital funds amounting to ₹ 780.98 crore provided by the Government to Tamil Nadu Water Supply and Drainage (TWAD) Board under Minimum Needs Programme (MNP) up to 31 March 2014 had been used by the Board to meet revenue deficit, which was included in the CAG’s comments on the accounts of the Board for the year 2013-14.

The State Government undertook to repay the principal and interest, but the off-budget borrowings which add to the fiscal liability of the State are not captured in the Finance Accounts of the State.

### **1.9.5 Analysis of Borrowings of Government**

The market borrowings of the State increased from ₹ 9,981 crore in 2010-11 to ₹ 25,550 crore in 2014-15 and the outstanding market borrowings at the end of the year increased from ₹ 49,723 crore in 2010-11 to ₹ 1,20,327 crore in 2014-15.

The percentage of outstanding market borrowings of the State to its total liabilities (₹ 1,91,847 crore) was 62.72 at the end of 2014-15 which was higher than the all India average of 46.80. The percentage of outstanding market borrowings to GSDP increased from 8.50 in 2010-11 to 12.32 in 2014-15.

While 26 *per cent* of the outstanding market borrowings on 31 March 2015 has to be repaid during the period 2015-20, the remaining 74 *per cent* has to be repaid in the next five years i.e., 2020-2025 (**Appendix 1.7**) which would cause a fiscal strain on the State's finances and the roll over risk of resorting to additional borrowings to meet huge repayments during those years could not be ruled out.

The internal debt of the Government includes loans obtained from financial institutions booked under the Major Head 6003-109. A comment has been made in the Report of the C&AG of India on State Finances for the year ended March 2014 regarding net minus balance of ₹ 25.19 crore. No effective action has been taken by Government to reconcile the minus balances and the net minus balance has increased to ₹ 51.94 crore during 2014-15.

## **1.10 Debt Management**

Apart from the magnitude of debt of the State Government, it is important to analyse the various indicators that determine the debt sustainability<sup>10</sup> of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation<sup>11</sup>; sufficiency of non-debt receipts<sup>12</sup>; net availability of borrowed funds<sup>13</sup>; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State Government debts. **Table 1.28** analyses the debt sustainability of the State according to these indicators for a period of three years beginning from 2012-13.

---

<sup>10</sup> See glossary

<sup>11</sup> See glossary

<sup>12</sup> See glossary

<sup>13</sup> See glossary

Table 1.28: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2012-13	2013-14	2014-15
Debt*/GSDP (percentage)	16.14	16.39	16.86
Sufficiency of Non-debt Receipts (Resource Gap)	756	(-) 4,064	(-) 6,580
Net Availability of Borrowed Funds	7,519	9,567	11,975
Burden of Interest Payments (Interest payment/ Revenue Receipts) Ratio	10.33	11.48	11.89
<b>Maturity profile of internal debts and GoI loans (in years)</b>			
0 – 1	3,711 (3.09)	4,068 (2.91)	3,861.10 (2.35)
1 – 3	7,929 (6.60)	7,944 (5.67)	10,852.42 (6.59)
3 – 5	10,852 (9.03)	18,222 (13.01)	25,932.68 (15.75)
5 – 7	25,907 (21.55)	26,342 (18.81)	29,586.51 (17.97)
7 and above	60,071 (49.97)	69,448 (49.59)	78,717.10 (47.81)
Year wise details not available	11,735 (9.76)	14,018 (10.01)	15,684.65 (9.53)

(Source: Finance Accounts for the respective years)

\* Excluding Public Account liabilities

Figures in brackets represent percentage to total outstanding internal debts and GoI loans

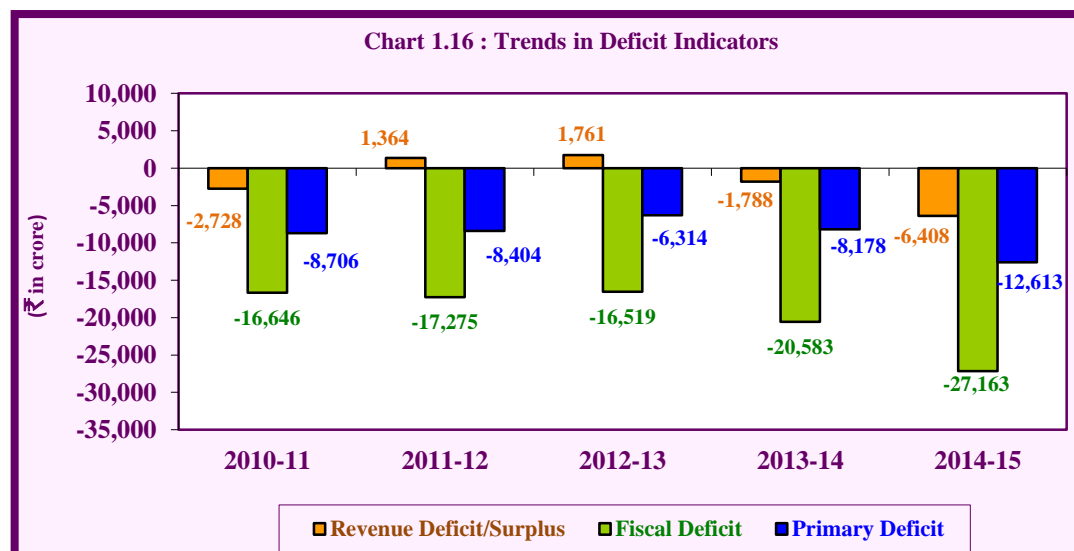
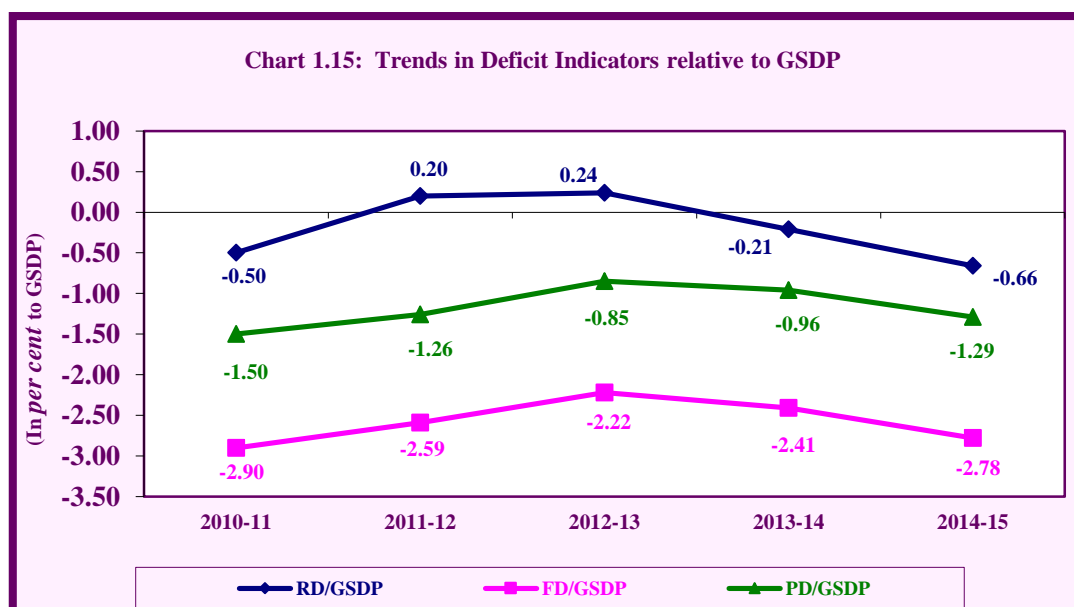
- A falling Debt-GSDP ratio can be considered as leading towards stability. However, the State's Debt-GSDP ratio has been gradually increasing from 2012-13 onwards and stood at 16.86 *per cent* during 2014-15.
- Another indicator for debt sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental expenditure. Positive resource gaps strengthen the capacity of State to sustain the debt. Though the State experienced a positive resource gap during 2012-13, the resource gap became negative in the succeeding years.
- The net availability of borrowed funds increased from ₹ 9,567 crore in 2013-14 to ₹ 11,975 crore during 2014-15. This was mainly due to increase in receipts under internal debts from ₹ 22,803 crore in 2013-14 to ₹ 29,563 crore in 2014-15 (**Appendix 1.4**).
- The State did not have details of repayment schedule for an amount of ₹ 15,685 crore.
- 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. In Tamil Nadu, the greater portion of repayments would happen between the 5<sup>th</sup> and 7<sup>th</sup> years from borrowings and beyond seven years. Government could face challenges in order to meet the liabilities at that time.

## 1.11 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 for the financial year 2014-15 under TNFR Act.

### 1.11.1 Trends in Deficits

Charts 1.15 and 1.16 present the trends in deficit indicators over the period 2010-15.



(Source: Finance Accounts for the respective years and Information from Ministry of Statistics and Programme Implementation)

- The revenue surplus, which prevailed during 2011-12 and 2012-13 turned negative in the succeeding years and it stood at ₹ 6,408 crore in 2014-15.
- The primary deficit which was at ₹ 6,314 crore in 2012-13 was on an increasing trend and was ₹ 12,613 crore in 2014-15.
- The fiscal deficit for the year 2014-15 stood at ₹ 27,163 crore as compared to ₹ 20,583 crore in 2013-14.
- The ratio of fiscal deficit to GSDP has been on increasing trend from 2013-14 and during 2014-15 it was 2.78 per cent.

### 1.11.2 Composition of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in **Table 1.29**.

**Table 1.29: Components of Fiscal Deficit and its Financing Pattern**

		(₹ in crore)				
	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Decomposition of Fiscal Deficit</b>		<b>(-) 16,646</b>	<b>(-) 17,275</b>	<b>(-) 16,519</b>	<b>(-) 20,583</b>	<b>(-) 27,163</b>
1	Revenue Surplus(+) / Deficit (-)	(-) 2,728	1,364	1,761	(-) 1,788	(-) 6,408
2	Net Capital Expenditure	(-) 12,436	(-) 16,336	(-) 14,568	(-) 17,173	(-) 17,787
3	Net Loans and Advances	(-) 1,482	(-) 2,303	(-) 3,712	(-) 1,622	(-) 2,968
<b>Financing Pattern of Fiscal Deficit*</b>						
1	Market Borrowings	8,704	13,109	15,670	18,681	23,144
2	Loans from GoI	1,036	594	833	1,314	762
3	Special Securities issued to National Small Savings Fund	1,540	(-)1,024	(-) 661	(-) 733	190
4	Loans from Financial Institutions	(-) 85	270	363	575	496
5	Small Savings, Provident Fund, etc.	1,272	1,113	1,334	1,262	1,323
6	Deposits and Advances	1,426	1,727	3,203	3,174	2,522
7	Suspense and Miscellaneous	18	498	657	(-) 1,156	(-) 53
8	Remittances	131	136	(-) 7	27	172
9	Reserve Funds	(-) 1,106	287	1,148 <sup>@</sup>	788	359
10	Contingency Fund	(-) 30	30	-	(-) 19	19
<b>Total</b>		<b>12,906</b>	<b>16,740</b>	<b>22,540</b>	<b>23,913</b>	<b>28,934</b>
11	Overall Surplus(+)/Deficit (-) (Cash Balance)	(-) 3,740	(-) 535	6,021	3,330	1,771

(Source: Finance Accounts for respective years)

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

@ Differs from previous year closing balance due to recasting the transfer of cumulative interest on investment of Guarantee Redemption Fund in GoI Treasury Bills.

- The main factor contributing to the increase in fiscal deficit was the increase in revenue deficit from ₹ 1,788 crore in 2013-14 to ₹ 6,408 crore in 2014-15.
- The fiscal deficit was largely managed by market borrowings, loan from GoI and other financial institutions and from the proceeds of small savings and deposits and advances.

### 1.11.3 Quality of Deficit/Surplus

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 bifurcation of the primary deficit (Table 1.30) 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 1.30: 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)
2010-11	70,958	64,976	12,436	2,252	79,664	5,982	(-) 8,706
2011-12	88,382	74,967	16,336	5,483	96,786	13,415	(-) 8,404
2012-13	99,885	86,862	14,568	4,769	1,06,199	13,023	(-) 6,314
2013-14	1,08,656	97,419	17,173	2,242	1,16,834	11,237	(-) 8,178
2014-15	1,23,787	1,14,278	17,803	4,319	1,36,400	9,509	(-) 12,613

(Source: Finance Accounts for the respective years)

- The primary revenue expenditure increased by 17.31 per cent in 2014-15 over the previous year while the capital expenditure increased by 3.67 per cent in 2014-15 over the previous year and loans and advances increased by 92.64 per cent in 2014-15 over the previous year.
- During the period 2010-11 to 2014-15, non-debt receipts increased from ₹ 70,958 crore to ₹ 1,23,787 crore (74.45 per cent) against an increase of 75.88 per cent in primary revenue expenditure, 43.16 per cent in capital expenditure and 71.22 per cent in primary expenditure indicating that the non-debt receipts did not match with the expenditure.
- Capital expenditure as a percentage of primary expenditure decreased from 14.70 in 2013-14 to 13.05 in 2014-15. Loans and advances as a percentage of primary expenditure increased from 1.92 in 2013-14 to 3.17 in 2014-15.
- The non-debt receipts were not enough to meet the primary expenditure requirements from 2010-11 onwards, resulting in primary deficit, which increased from ₹ 8,706 crore in 2010-11 to ₹ 12,613 crore in 2014-15.

### 1.12 Follow up action by State Government

In the Report of the Comptroller and Auditor General of India on State Finances for the year ended 31 March 2014, it was pointed out that an amount of ₹ 201 crore was pending to be transferred to various Reserve Funds. The State Government had taken action and the amount pending to be transferred has been reduced to ₹ eight crore during the year 2014-15.

In case of inoperative Personal Deposit (PD) Account, a total of 408 cases were pointed out during 2013-14. The Government issued (September 2013) orders for closing all inoperative PD accounts. It was noticed that there were 130 inoperative PD accounts as on 31 March 2015 as against 408 in the previous year.

The large scale operation of additional financial sanctions was pointed out during 2013-14, however, no action has been taken to contain the operation of additional financial sanctions.

### 1.13 Conclusion

**Fiscal position:** The State which had maintained revenue surplus during 2011-12 and 2012-13 registered a revenue deficit during 2013-14 which increased to ₹ 6,408 crore during 2014-15. The State thus failed to achieve one of the fiscal management targets as prescribed in the TNFR Act. It, however, kept fiscal deficit, relative to GSDP, within the limit laid down under the TNFR Act. The fiscal deficit increased from ₹ 20,583 crore in 2013-14 to ₹ 27,163 crore during 2014-15 and the ratio of fiscal deficit to GSDP was 2.78 *per cent* in 2014-15 which was within the target of three *per cent*. One factor contributing to the increase in fiscal deficit was increase in revenue deficit during the year.

**Accuracy of Revenue Deficit/Fiscal Deficit:** The revenue deficit and fiscal deficit were understated by ₹ 926.99 crore and ₹ 876.99 crore respectively.

**Revenue Receipts:** During the current year, the State's revenue receipts (₹ 1,22,420 crore) increased by 13.31 *per cent* over the previous year. The compound annual growth rate of revenue receipts during 2013-15 stood at 13.31 *per cent* which was less than that of the other General Category States (16.10 *per cent*). The growth rate of revenue receipts which was on a downward trend from 25.69 *per cent* in 2010-11 to 9.32 *per cent* in 2013-14 has reversed during 2014-15 and increased to 13.31 *per cent*. However it still remained below the average annual growth rate of 18.10 *per cent* during 2010-14. The increase in growth rate was mainly due to increase in Grants-in-aid from Central Government. The State's own tax revenue increased by ₹ 4,938 crore over the previous year and the growth rate, which was at 19.72 *per cent* in 2012-13 decreased sharply to 3.46 *per cent* in 2013-14. However, during 2014-15 the same had increased to 6.70 *per cent*. The State's revenue receipts, as a percentage of GSDP decreased from 12.65 in 2013-14 to 12.53 in 2014-15.



The non-tax revenue of the State decreased by ₹ 992 crore in 2014-15 (10.62 *per cent*) over the previous year. As a proportion of the State's own resources, the non-tax revenue decreased from 11.25 *per cent* in 2013-14 to 9.60 *per cent* in 2014-15.

**Revenue expenditure:** Of the total expenditure of ₹ 1,50,950 crore during 2014-15, revenue expenditure (₹ 1,28,828 crore) accounted for 85.35 *per cent*. Out of the revenue expenditure, 73.48 *per cent* (₹ 94,668 crore) was incurred on the non-plan components. The committed expenditure (₹ 75,338 crore) stood at 61.54 *per cent* of the total revenue receipts (₹ 1,22,420 crore) of the State during 2014-15 as against 61.58 *per cent* during 2013-14.

**Capital expenditure:** The capital expenditure (₹ 17,803 crore) during the current year increased by ₹ 630 crore (3.67 *per cent*) over the previous year due to more investment under Energy, Transport, Irrigation and Flood Control, Education, Sports, Art and Culture and Agriculture and Allied Activities.

**Adequacy and priority of expenditure:** In 2014-15, the proportion of Aggregate Expenditure to GSDP (15.46 *per cent*) was low as compared to the General Category States (16.49 *per cent*). Development expenditure as a proportion of aggregate expenditure in the State was lower (64.84 *per cent*) than the General Category States average (69.12 *per cent*).

**Investments and returns:** The State invested ₹ 23,065 crore in various Government Companies and Corporations up to March 2015. While the Government paid interest at an average rate of 8.12 *per cent* on its borrowings during 2014-15, the average return on its investments was only 0.42 *per cent*.

**Debt Management:** The outstanding fiscal liabilities have shown a steady increase from ₹ 1,11,657 crore in 2010-11 to ₹ 1,91,847 crore at the end of 2014-15. These represented 156.71 *per cent* of the revenue receipts. However, the outstanding liabilities as a percentage of GSDP was 19.64, which was within the norm of 25.20 *per cent* prescribed for the year 2014-15 in the TNFR Act.