CHAPTER I

FINANCES OF THE STATE GOVERNMENT

Summary

Revenues of the State Government consist mainly of its own tax and non-tax revenue, Central tax transfers and grants-in-aid from the Government of India. With reference to 2003-04, the revenue receipts during 2004-05 increased by 20 *per cent* to Rs 28452 crore and the revenue expenditure increased by 15 *per cent* to Rs 29155 crore. Consequently, the revenue deficit further declined from Rs 1565 crore to Rs 703 crore. This positive development enabled reduction of Fiscal deficit as well as Primary deficit. Moreover, it enabled the State Government to manage its cash balance without resorting to any overdraft from the Reserve Bank of India.

The targets set for 2004-05 under the Medium Term Fiscal Reforms Plan were mostly achieved by the Government. However, the following factors remain to be of concern:

(i) The percentage of total expenditure to revenue receipts was 122.3 indicating that only about 82 *per cent* of the State's total expenditure was met from its current revenues, leaving the balance to be financed by borrowings.

(ii) The fiscal liabilities of the State were almost double its revenue receipts.

(iii) Return on investment of the Government funds in companies, co-operative units, etc. continued to be meagre and fetched only 0.9 *per cent* during 2004-05 while the Government continued to borrow funds from market at a higher rate of interest.

1.1 Introduction

The Finance Accounts of the Government of Tamil Nadu are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State of Tamil Nadu. The layout of the Finance Accounts is depicted in Box 1.1 below:

Box 1.1

Lay-out of Finance Accounts

The Finance Accounts of Tamil Nadu contains 19 statements as depicted below:

Statement No. 1 presents the summary of transactions of the State Government – receipts and expenditure, revenue and capital, public debt receipts and disbursements, etc. in the Consolidated Fund of the State, Contingency Fund and Public Account.

Statement No. 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of 2004-05.

Statement No. 3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.

Statement No. 4 indicates the summary of debt position of the State which includes internal debt, borrowing from Government of India, other obligations and service of debt.

Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments, recoveries in arrears, etc.

Statement No. 6 gives the summary of guarantees given by the Government for repayment of loans, etc. raised by the statutory corporations, local bodies and other institutions.

Statement No. 7 gives the summary of cash balances and investments made out of such balances.

Statement No. 8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2005.

Statement No. 9 shows the revenue and expenditure under different heads for the year 2004-05 as a percentage of total revenue/total expenditure.

Statement No. 10 indicates the distribution between the Charged and Voted expenditure incurred during the year.

Statement No. 11 indicates the detailed account of revenue receipts by minor heads.

Statement No. 12 provides detailed account of revenue expenditure by minor heads and capital expenditure by major heads under Non Plan and Plan.

Statement No. 13 depicts the detailed capital expenditure incurred during and to the end of 2004-05.

Statement No. 14 shows the details of investments of the State Government in statutory corporations, government companies, other joint stock companies, cooperative banks and societies, etc. up to the end of 2004-05.

Statement No. 15 depicts the capital and other expenditure to the end of 2004-05 and the principal sources from which the funds were provided for that expenditure.

Statement No. 16 gives the detailed account of receipts, disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.

Statement No. 17 presents detailed account of debt and other interest bearing obligations of the Government.

Statement No. 18 provides the detailed account of loans and advances given by the Government, the amount of loan repaid during the year, the balance as on 31 March 2005 and the amount of interest received during the year.

Statement No. 19 gives the details of earmarked balances of Reserve Funds/Deposits Accounts.

1.2 Trend of Finances with reference to the previous year

Financial position of the State Government during the current year as compared to the previous year was as under:

(Rupees in crore)

2003-04	Sl.No	Major Aggregates	2004-05
23706	1.	**Revenue Receipts**	**28452**
15945	2.	Tax Revenue	19357
2094	3.	Non-Tax Revenue	2209
5667	4.	Other Receipts	6886
575	5.	**Non-Debt Capital Receipts**	**783**
575	6.	Of which Recovery of Loans	**783**
24281	7.	**Total Receipts (1+5)**	**29235**
21506	8.	**Non-Plan Expenditure**	**26384**
20835	9.	On Revenue Account	25251
4700	10.	Of which Interest Payments	4755
671	11.	On Capital Account	1133
550	12.	Of which loans disbursed	849
8366	13.	**Plan Expenditure**	**8421**
4436	14.	On Revenue Account	3904
3930	15.	On Capital Account	4517
461	16.	Of which Loans disbursed	237
29872	17.	**Total Expenditure (8+13)**	**34805**
5591	18.	**Fiscal Deficit (17-1-5)**	**5570**
1565	19.	**Revenue Deficit (9+14-1)**	**703**
891	20.	**Primary Deficit (18-10)**	**365**

1.3 Summary of Receipts and Disbursements

Table 1 summarises the state of Finances of the Government of Tamil Nadu for the year 2004-05 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts and disbursements made during the year as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table 1: Summary of Receipts and Disbursements for the year 2004-05

(Rupees in crore)

	Receipts				**Disbursements**				
2003-04	**Section-A: Revenue**		**2004-05**	**2003-04**	**Section-A: Revenue**	**Non-Plan**	**Plan**	**Total**	**2004-05**
23705.71	**Revenue receipts -**		**28451.53**	**25270.95**	**Revenue expenditure-**	25251.40	3903.47	29154.87	**29154.87**
15944.97	-Tax revenue	19357.04		10589.11	-General services	12021.58	36.69	12058.27	
2093.79	-Non-tax revenue	2208.35		8597.77	-Social Services	7232.64	2450.11	9682.75	
3544.20	-Share of Union Taxes/Duties	4236.39		4607.40	-Economic Services	4220.45	1233.63	5454.08	
2122.75	-Grants from Government of India	2649.75		1476.67	-Grants-in-aid and Contributions	1776.73	183.04	1959.77	
1565.24	**Revenue deficit carried over to Section B**		**703.34**						
25270.95	**Total**		**29154.87**	**25270.95**	**Total**				**29154.87**

(Rupees in crore)

	Receipts			Disbursements	
	Section-B : Capital and others			**Section-B : Capital and others**	
169.35	Opening Cash balance	684.58	579.63	Opening Overdraft from Reserve Bank of India-	..
			3589.91	Capital Outlay-	4563.96
574.55	Recoveries of Loans and Advances-	783.38	1010.57	Loans and Advances disbursed-	1085.84
9723.32	Public debt receipts-	12136.41	1565.24	Revenue deficit brought down-	703.34
..	Amount transferred to Contingency Fund-	Nil	3948.33	Repayment of Public debt-	7188.09*
28106.63	Public Account receipts-	31863.89	27195.59	Public Account disbursements-	30734.60
..	Closing Overdraft from Reserve Bank of India-	Nil	684.58	Cash Balance at end-	1192.43
38573.85	**Total**	**45468.26**	**38573.85**	**Total**	**45468.26**
63844.80	**Grand Total**	**74623.13**	**63844.80**	**Grand Total**	**74623.13**

* Includes net transactions under ways and means advances: Rs 204.88 crore

1.4 Audit Methodology

Audit observations on the Finance Accounts for the year 2004-05 bring out the trends in the major fiscal aggregates of receipts and expenditure from the statements of the Finance Accounts for the year 2004-05 and wherever else necessary, show these in the light of time series data (**Appendix I**), Abstract of Receipts and Disbursements (**Appendix II**), Sources and Application of Funds (**Appendix III**), Summarised Financial position of the Government of Tamil Nadu (**Appendix IV**) and periodic comparisons. The reporting parameters are depicted in the Box 1.2.

Box 1.2

Reporting Parameters

Fiscal aggregates such as tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to Gross State Domestic Product (GSDP) at current market prices. The data given by the Department of Economics and Statistics of the State Government for the GSDP at current prices have been used for this purpose.

For tax revenues, non-tax revenues, revenue expenditure, etc. buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.

For most series, a trend growth during 2000-05 has been indicated. Some of the terms used here are explained in **Appendix V**.

The key indicators adopted for analysing the State finances are (i) Resources by volumes and sources, (ii) Application of resources, (iii) Assets and Liabilities and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account. They are defined in Box 1.3.

Box 1.3

State Government Funds and the Public Account

Consolidated Fund	**Contingency Fund**
All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled 'The Consolidated Fund of State' established under Article 266(1) of the Constitution of India.	Contingency Fund of State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by the Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.

Public Account

Besides the normal receipts and expenditure of the Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which the Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursements are made from it.

State Finances by key indicators

1.5 Resources by volume and sources

1.5.1 Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenue, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources *viz*., market loans, borrowings from financial institutions/ commercial banks, etc., loans and advances from Government of India as well as accruals from Public Account.

Table 2 shows the total receipts of the Government of Tamil Nadu (Rs 73235 crore) for the year 2004-05, by volume and source.

Table 2: Resources of Government of Tamil Nadu

(Rupees in crore)

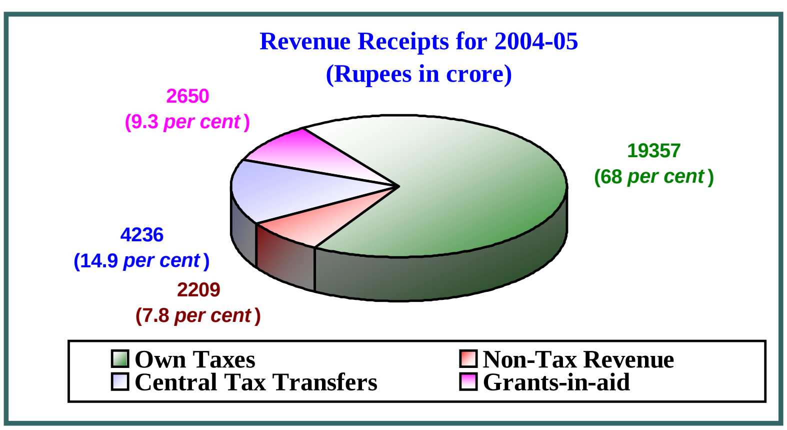
I	**Revenue Receipts**				28452
II	**Capital Receipts**				12919
		a.	Recovery of Loans and Advances	783	
		b.	Debt Receipts	12136	
III	**Public Account Receipts**				31864
		a.	Small Savings and Provident Fund	1982	
		b.	Reserve Funds	2057	
		c.	Deposits and Advances	10076	
		d.	Suspense and Miscellaneous	15461	
		e.	Remittances	2288	
	Total Receipts				**73235**

Revenue Receipts

1.5.2 Statement 11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts of the Government consist mainly of its own tax, non-tax revenue, Central tax transfers and grants-in-aid from the Government of India. Revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and their buoyancies are indicated in Table 3 below:

Table 3: Revenue Receipts - Basic Parameters
(value in crore of Rupees and others in percentage)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Receipts	18317	18818	20837	23706	28452
- Own Taxes	12282	13010	14342	15945	19357
- Non-Tax Revenue	1711	1557	1861	2094	2209
- Central-Tax Transfers	2784	2870	3047	3544	4236
- Grants-in-aid	1540	1381	1587	2123	2650
Rate of growth of					
- Revenue Receipts	12.2	2.7	10.7	13.8	20.0
- Own Taxes	12.5	5.9	10.2	11.2	21.4
GSDP growth	11.6	1.7	8.1	8.6	12.1
Revenue Receipts/GSDP	13.0	13.1	13.4	14.1	15.1
Buoyancy with reference to GSDP of					
- Own Taxes	1.08	3.47	1.26	1.30	1.77
- Revenue	1.05	1.59	1.32	1.60	1.65



1.5.3 Overall revenue receipts of the State increased from Rs 18317 crore in 2000-01 to Rs 28452 crore in 2004-05. The Revenue Receipts rose by 20 *per cent* during 2004-05 mainly due to increased collection towards Sales Tax (Rs 1992 crore), State Excise (Rs 892 crore), Stamps and Registration Fees (Rs 288 crore), Taxes on Goods and Passengers (Rs 153 crore), Taxes on Vehicles (Rs 80 crore) besides increase in grants-in-aid from the Government of India (Rs 527 crore) and share of Union Taxes and Duties (Rs 692 crore).

1.5.4 Overall growth of the four components of Revenue Receipts during 2000-05 had also differed significantly. While the State's own taxes recorded a growth of 57.6 *per cent*, the non-tax revenue recorded a growth of 29.1 *per cent*. The growth of revenue from Central tax transfers and grants-in-aid was 52.2 and 72.1 *per cent* respectively.

1.5.5 While the revenue from the State's own resources (Tax and Non-tax revenue) decreased from 76.4 *per cent* of the total revenue receipts in 2000-01 to 75.8 *per cent* during 2004-05, the contribution of Central tax transfers and grants-in-aid from the Government of India together, increased from 23.6 *per cent* of the total revenue receipts in 2000-01 to 24.2 *per cent* in 2004-05. In absolute terms also, the Central tax transfers and grants-in-aid increased from Rs 2784 crore and Rs 1540 crore to Rs 4236 crore and Rs 2650 crore respectively during 2000-05.

1.5.6 The sources of receipts during the period 2000-01 to 2004-05 are given in Table 4 below.

Table 4: Sources of Receipts – Trends **(Rupees in crore)**

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic Product
		Non-Debt Receipts including Contingency Fund receipts	Debt receipts	Accruals in Public Account		
2000-01	18317	359	4731	21286	44693	141109
2001-02	18818	325	4522	21209	44874	143517
2002-03	20837	433	9396	27156	57822	155099
2003-04	23706	575	9723	28107	62111	168457
2004-05	28452	783	12136	31864	73235	188921

Arrears of revenue

1.5.7 The arrears of revenue which had steadily increased from Rs 8707 crore in 2000-01 to Rs 9424 crore in 2002-03 decreased to Rs 7247 crore during 2003-04. However, the arrears increased to Rs 7728 crore in 2004-05. Outstanding revenue, as a percentage of tax and non-tax revenue decreased from 40.2 *per cent* in 2003-04 to 35.8 *per cent* in 2004-05. Of the arrears of Rs 7728 crore as of March 2005, Rs 1826 crore (24 *per cent*) were outstanding for more than five years. The arrears mainly pertained to Sales Tax (Rs 7106 crore), Mines and Minerals (Rs 256 crore) and Stamp Duty and Registration Fees (Rs 183 crore).

1.6 Application of resources

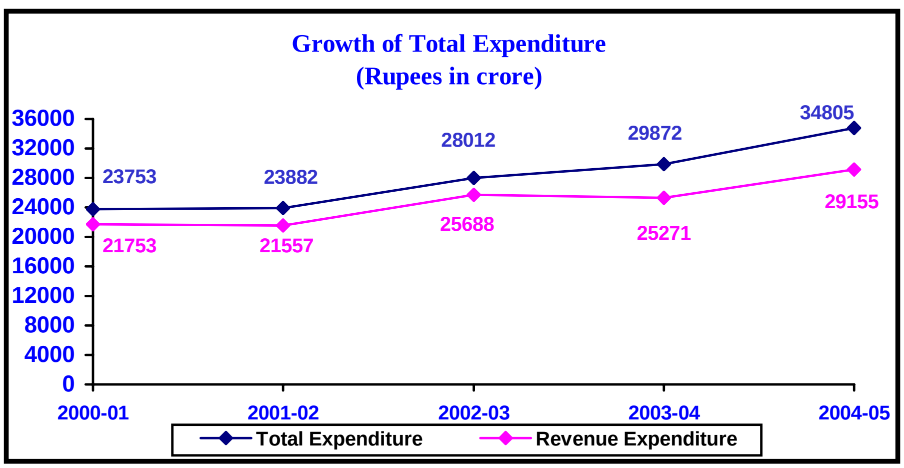
Trend of Growth

1.6.1 Statement 12 of the Finance Accounts gives the details of expenditure by minor heads. Total expenditure of the State, its annual rate of growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table 5 below:

Table 5: Total Expenditure – Basic Parameters
(value in crore of Rupees and others in percentage)

	2000-01	2001-02	2002-03	2003-04	2004-05
Total expenditure (TE)	23753	23882	28012	29872	34805
Rate of Growth	7.9	0.5	17.3	6.6	16.5
TE/GSDP	16.8	16.6	18.1	17.7	18.4
TE/Revenue Receipts	129.7	126.9	134.4	126.0	122.3
Buoyancy of total expenditure with					
GSDP	0.68	0.29	2.14	0.77	1.36
Revenue Receipts	0.65	0.19	1.62	0.48	0.83

1.6.2 Overall expenditure of the Government comprising revenue expenditure, capital expenditure and the loans and advances increased from Rs 23753 crore in 2000-01 to Rs 34805 crore in 2004-05. The rate of growth of total expenditure increased from 6.6 *per cent* in 2003-04 to 16.5 *per cent* in 2004-05. While the Revenue Expenditure during 2004-05 increased by 15.4 *per cent* as compared to the previous year, the Capital expenditure and loans and advances disbursed increased by 27.1 *per cent* and 7.4 *per cent* over the previous year's figures. The percentage of total expenditure to revenue receipts during 2004-05 was 122.3 indicating that only about 81.7 *per cent* of the State's total expenditure was met from its current revenue, leaving the balance to be financed by borrowings.

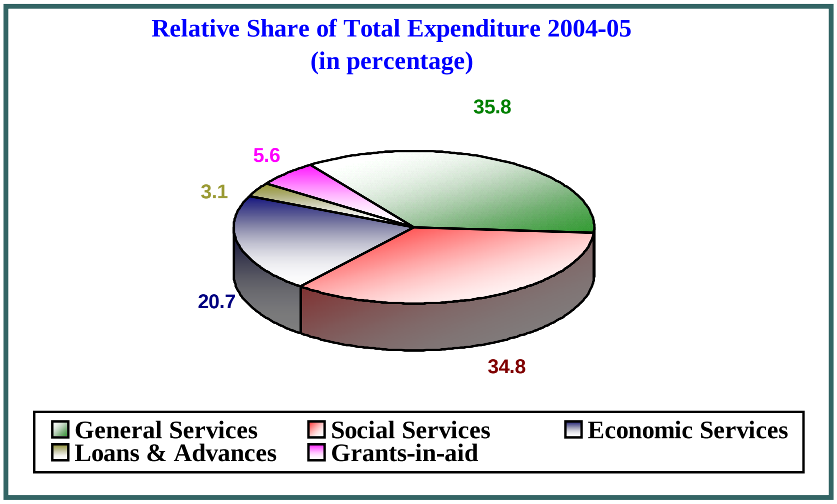


1.6.3 The relative share of different components in total expenditure is indicated in Table 6.

Table 6: Components of Total Expenditure – Relative share (in percentage)

	2000-01	2001-02	2002-03	2003-04	2004-05
General Services	22.7	23.3	21.2	20.6	22.1
Interest Payments	13.1	14.7	14.7	15.7	13.7
Social Services	35.5	34.9	30.7	33.9	34.8
Economic Services	22.7	21.8	25.3	21.5	20.7
Loans and Advances	1.9	2.3	2.5	3.4	3.1
Grants-in-aid	4.1	3.0	5.6	4.9	5.6
Total	**100**	**100**	**100**	**100**	**100**

1.6.4 Interest payments and expenditure on General Services considered as non-developmental expenditure together accounted for 35.8 *per cent* of total expenditure in 2004-05. There was a decline in the share of Social Services from 35.5 *per cent* to 34.8 *per cent* during 2000-05. The share of Economic Services also declined from 25.3 *per cent* in 2002-03 to 20.7 *per cent* in 2004-05.



Incidence of Revenue expenditure

1.6.5 Revenue expenditure had the predominant share in total expenditure. Such expenditure does not increase the Assets of the Government. Overall revenue expenditure, its rate of growth, ratio of revenue expenditure to the State's GSDP and revenue receipts are indicated in Table 7 below.

Table 7: Revenue Expenditure – Basic Parameters
(value in crore of Rupees and others in percentage)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Expenditure (RE)	21753	21557	25688	25271	29155
Rate of Growth	4.9	(-) 0.9	19.2	(-) 1.6	15.4
RE/GSDP	15.4	15.0	16.6	15.0	15.4
RE as *percent* of TE	91.6	90.3	91.7	84.6	83.8
RE as *per cent* to Revenue Receipts	118.8	114.6	123.3	106.6	102.5

1.6.6 Overall revenue expenditure of the Government increased from Rs 21753 crore in 2000-01 to Rs 25688 crore in 2002-03 and after marginally declining to Rs 25271 crore in 2003-04, increased by 15.4 *per cent* to Rs 29155 crore in 2004-05. As a percentage of GSDP, the revenue expenditure ranged between 15.0 and 16.6. Further, the ratio of revenue expenditure to total expenditure was 83.8 in 2004-05; *i.e.*, 83.8 *per cent* of total expenditure of the State was in the nature of expenditure on current consumption. The increase of Rs 3884 crore in Revenue Expenditure over 2003-04 figures was mainly due to increase under Power (Rs 625 crore), Relief on account of Natural Calamities (Rs 598 crore), Compensation and Assignments to Local Bodies and Panchayati Raj Institutions (Rs 483 crore), General Education (Rs 406 crore), Roads and Bridges (Rs 188 crore), Civil Supplies (Rs 162 crore), Medical and Public Health (Rs 113 crore), Police (Rs 111 crore) and Social Security and Welfare (Rs 91 crore) which was partly offset by the decrease under other Rural Development Programmes (Rs 337 crore). The ratio of revenue expenditure to revenue receipts declined from 123.3 *per cent* in 2002-03 to 102.5 *per cent* in 2004-05, indicating decline in State's dependence on borrowing for meeting the current expenditure.

Trend of salary expenditure

1.6.7 The salary expenditure including Dearness Allowance of the State Government over the last five years is given below (Table 8). Salaries alone consumed nearly 28.9 *per cent* of the revenue receipts of the Government during 2004-05. Expenditure on salaries after decreasing from Rs 7265 crore in 2001-02 to Rs 7066 crore in 2003-04, increased by 16.6 *per cent* to Rs 8238 crore in 2004-05 which was mainly due to release of withheld Dearness Allowance instalments. While salary expenditure as a percentage of GSDP increased from 4.2 to 4.4 with reference to previous year, the same as a percentage of Revenue Receipts declined from 29.8 to 28.9 over the same period.

Table 8: Salary Expenditure **(Rupees in crore)**

	2000-01	2001-02	2002-03	2003-04	2004-05
Salary Expenditure	7169	7265	7225	7066	8238
As *per cent* of GSDP	5.1	5.1	4.7	4.2	4.4
As *per cent* of Revenue Receipts	39.1	38.6	34.7	29.8	28.9

Huge expenditure on pension payments

1.6.8 Pension payments consumed 13.7 *per cent* of the revenue receipts of the Government during 2004-05 and increased by 33.3 *per cent* from Rs 2927 crore in 2000-01 to Rs 3902 crore in 2004-05. Significant increase in expenditure on pension during 2004-05 was mainly due to release of withheld Dearness Allowance instalments to pensioners, payment of arrears of commuted value of pension and gratuities and leave encashment at the time of retirement. As a percentage of revenue expenditure, it constituted about 13.4 *per cent* during 2004-05.

Interest payments

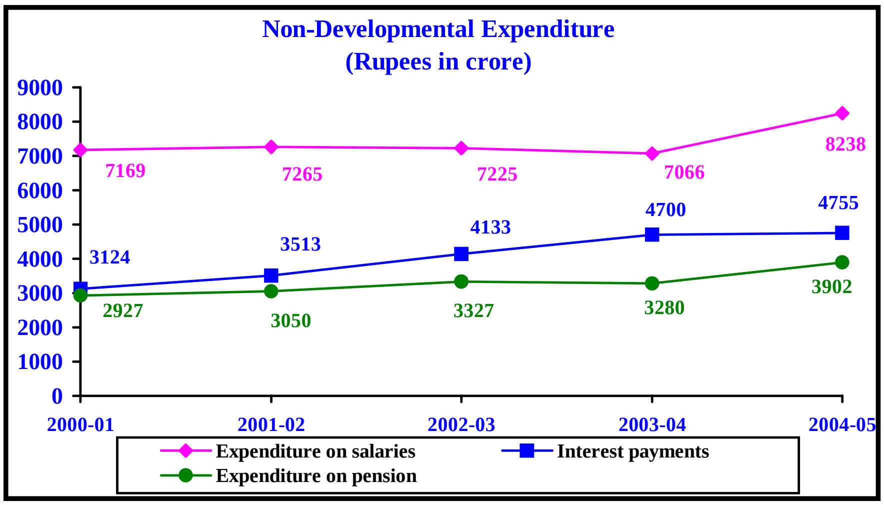
1.6.9 Interest payments made during the period 2000-01 to 2004-05 along with its percentage to Revenue Receipts and Revenue Expenditure are given in Table 9 below:

Table 9: Interest payments

Year	Interest payments (Rupees in crore)	Percentage of Interest payments with	
		Revenue Receipts	Revenue Expenditure
2000-01	3124	17.1	14.4
2001-02	3513	18.7	16.3
2002-03	4133	19.8	16.1
2003-04	4700	19.8	18.6
2004-05	4755	16.7	16.3

Interest payments increased by 52.2 *per cent* from Rs 3124 crore in 2000-01 to Rs 4755 crore in 2004-05 (the average growth rate being 12 *per cent*) primarily due to continued reliance on borrowings to meet the Fiscal Deficit. During 2004-05, the Government raised Rs 2599.36 crore from open market at a weighted average rate of interest of 6.3 *per cent* per annum. It also borrowed Rs 5914.50 crore from National Small Savings Fund at 9.5 *per cent* per annum and Rs 1258.60 crore at 9 *per cent* per annum from the Government of India during the year.

1.6.10 The growth of salaries, pensions and interest payments is depicted in the following chart.



Subsidies

1.6.11 Subsidies can be defined as the difference between the cost of goods and services provided and the actual recoveries made from its users. Subsidies are categorised as Direct and Indirect. In case of direct subsides there are clear norms for identification of beneficiaries and specific budgetary allocation.

1.6.12 Direct subsidies as compiled from accounts, increased by Rs 833 crore to Rs 2513 crore in 2004-05 and it constituted 8.6 *per cent* of the Revenue Expenditure (Rs 29155 crore). The position of direct subsidies during the last three years and its percentage to Revenue Expenditure is given below:

(Rupees in crore)

Year	Direct subsidies	Rate of growth	Percentage with Revenue Expenditure
2002-03	1768	(-) 19.9	6.9
2003-04	1680	(-) 5.0	6.6
2004-05	2513	49.6	8.6

1.6.13 Major recipients of subsidies were (a) Tamil Nadu Electricity Board (Rs 1062.50 crore), (b) Tamil Nadu Civil Supplies Corporation-Social cost for Public Distribution System support (Rs 1035 crore), (c) State Transport Corporations towards reimbursement of cost of concessional bus fare for students (Rs 231.39 crore) and (d) Tamil Nadu Handloom Weavers Cooperative Society Limited (Co-optex) towards free distribution of handloom cloth to the people below poverty line (Rs 181.66 crore). The increase in direct subsidies during the year was mainly on account of assistance to Tamil Nadu Electricity Board due to reduction in tariff for domestic consumers (Rs 937.50 crore).

1.6.14 In June 2004, the Government of Tamil Nadu issued a policy directive to the Tamil Nadu Electricity Regulatory Commission (TNERC) regarding (a) extending free supply of electricity to agricultural consumers (except self financing scheme farmers) and hut consumers from 1 April 2004 and (b) reduction of tariff to domestic consumers. While allowing the above, TNERC directed the Government of Tamil Nadu to pay Tamil Nadu Electricity Board (TNEB) in advance, such sums as to compensate TNEB the burden imposed by the reduction in tariff. Rupees 1250.65 crore were extended as assistance due to reduction in tariff to domestic consumers (Rs 937.50 crore) as direct subsidy and due to sanction of income support to small and marginal farmers for operating pump sets, etc consequent to the free supply of electricity to agricultural consumers (Rs 313.15 crore[1]) as indirect subsidy.

1.6.15 Government issued (August 2003) orders for stopping supply of essential commodities under Public Distribution System (PDS) to ration card holders with family income of more than Rs 5,000 per month. The cards of such persons were stamped as Honorary cards (H cards). Accordingly, about 18 lakh card holders were taken out of the PDS thereby reducing the subsidy burden of the Government. Further, to weed out benefits in respect of bogus cards, the Government had earlier introduced (July 2002) Rice coupons for 1.12 crore card holders. This entitled the coupon holders to 20 kilos of rice per month at a price of Rs 3.50 per kg. As a result, the off-take of essential commodities and subsidy thereon declined. Consequently, the subsidy burden on the Government declined from Rs 1240 crore in 2002-03 to Rs 800 crore in 2003-04. However, based on the representations from the public, the Government withdrew (May 2004) the “H” stamping of cards, enabling once again all card holders to draw all essential commodities based on their options

[1]

Payment on behalf of farmers using pump sets	: Rs 302.17 crore
Scheme for improving income of farmers operating pump set irrigated land	: Rs 9.20 crore
Income support to small and marginal farmers for operating pump sets	: Rs 1.78 crore
Total	**Rs 313.15 crore**

irrespective of their income. The consumer subsidies had again increased from Rs 800 crore in 2003-04 to Rs 1035 crore in 2004-05.

1.7 Plan, Capital and Development Expenditure

1.7.1 Government spends money for different activities ranging from maintenance of law and order and regulatory functions to various developmental activities. Government expenditure is broadly classified into Plan and Non-plan and also Revenue and Capital. While the plan and capital expenditure are usually associated with asset creation, the non-plan and revenue expenditure are identified with expenditure on establishment, maintenance and services. By definition, therefore, the plan and capital expenditure can be viewed as contributing to the development of social and economic sectors.

1.7.2 The ratio of Government's plan expenditure, capital expenditure and developmental expenditure to total expenditure as reflected in Statement 12 of Finance Accounts is tabulated below.

Table 10: Category of Expenditure – (*per cent* to the total expenditure)

	2000-01	2001-02	2002-03	2003-04	2004-05
Plan expenditure	18.0	17.5	16.4	27.4	24.3
Capital expenditure	6.6	7.6	6.0	12.4	13.5
Development expenditure[2]	63.5	61.1	63.1	62.4	63.1

(Total expenditure does not include loans and advances)

Plan expenditure though increased to 27.4 *per cent* in 2003-04 decreased to 24.3 *per cent* in 2004-05. Capital expenditure which ranged between 6.0 and 7.6 *per cent* of total expenditure during 2000-03, increased to 13.5 *per cent* in 2004-05. The share of development expenditure which showed marginal decrease in 2003-04 has again come to the level of 2002-03 *i.e.* 63.1 *per cent* during the year. The increase in capital expenditure under Plan head during the year was mainly due to adjustment of prior period capital expenditure (Rs 1365 crore) consequent to the State Government taking over (March 2005) the repayment of some borrowings of six of its agencies that were used for projects involving capital expenditure[3]. The other factors for this increase were the increased expenditure under Water Supply and Sanitation (Rs 218 crore), Other Rural Development Programmes (Rs 404 crore) and Housing (Rs 233 crore) partly offset by the decreased expenditure under Roads and Bridges (Rs 388 crore), Urban Development (Rs 274 crore), Power Projects (Rs 115 crore) and Public Works (Rs 51 crore).

1.7.3 The share of revenue and capital expenditure under Plan was 48 and 52 *per cent* respectively. While the major plan expenditure under revenue was under Social Welfare and Nutrition (31.5 *per cent*), Rural Development (10.3

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2 Includes expenditure on Social Services, Economic Services and Grants-in-aid.

3 Tamil Nadu Water Supply and Drainage Board (Rs 688 crore), Tamil Nadu Rural Housing Infrastructure Development Corporation (Rs 193 crore), Tamil Nadu Police Housing Corporation Limited (Rs 188 crore), Chennai Metropolitan Development Authority (Rs 140 crore), Tamil Nadu Slum Clearance Board (Rs 99 crore) and Tamil Nadu Housing Board (Rs 57 crore).

per cent) and Agriculture and Allied Activities (10.2 *per cent*), the major plan expenditure under capital was under Water Supply and Sanitation (51 *per cent*) and Roads and Bridges (19.7 *per cent*). Of the developmental expenditure, Social Services (Rs 12132 crore) and Economic Services (Rs 7193 crore) accounted for 57 *per cent* and 33.8 *per cent* respectively.

Financial Assistance to local bodies and other institutions

1.7.4 The quantum of assistance provided by way of grants and loans to local bodies etc., during the period of five years ending 2004-05 was as follows:

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Universities and Educational Institutions	1676	761	316	325	388
Municipal Corporations and Municipalities	125	505	866	847	919
Panchayati Raj Institutions	915	630	1351	1735	1584
Development Agencies	731	571	186	312	189
Hospitals and other Charitable Institutions	9	2	4	19	9
Other institutions	514	508	3265	1890	2395
Total	3970	2977	5988	5128	5484
Percentage of growth over previous year	(-) 6	(-) 25	101	(-) 14	7
Assistance as a percentage of revenue expenditure	18	14	23	20	19

As seen from the table, the grants-in-aid extended to Panchayati Raj Institutions, Development Agencies and Hospitals and other Charitable Institutions decreased during the year.

Misappropriation, losses, etc.

1.7.5 Cases of misappropriation of the Government money reported to Audit upto March 2005 and on which report on final action *viz*., write-off or recovery was pending at the end of June 2005 were as under:

	Number of cases	Amount (Rupees in lakh)
Cases reported up to the end of March 2004 and outstanding at the end of June 2004	374	589.67
Cases reported during April 2004 to March 2005	16	81.07
Total	**390**	**670.74**
Cases cleared during July 2004 to June 2005	28	4.36
Cases outstanding at the end of June 2005	362	666.38

Department-wise and year-wise analysis of the pending cases are given in **Appendix VI**. In all these cases, report on the Departmental action taken and results of the proceedings against the Government servants responsible, which are required to be sent to audit, were still awaited.

1.7.6 Further, 249 cases of shortage, theft, damage to property, etc., involving Rs 1.66 crore were reported to audit upto March 2005 by Departments other than Public Works, Highways and Forest Departments. Two thousand eight hundred and nineteen cases involving Rs 16.74 crore were either reported by or noticed during audit of Public Works, Highways and

Forest Departments upto March 2005. Department-wise and year-wise analysis of these cases are contained in **Appendix VII**.

1.8 Assets and Liabilities

1.8.1 Government accounting system does not attempt a comprehensive accounting of the fixed assets, e.g. land owned by the Government. However, the Government accounts do capture the financial liabilities arising from loans taken and the assets created out of expenditure. Statements 16 and 17 of the Finance Accounts show the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. **Appendix IV** presents an abstract of such liabilities and the assets as on 31 March 2005, compared with the corresponding position on 31 March 2004.

1.8.2 The liabilities as per **Appendix IV** mainly comprise moneys owed by the Government arising from internal borrowings, loans and advances from the Government of India, receipts from the Public Account and reserve funds. During 2004-05, the liabilities grew by 12.9 *per cent*.

1.8.3 Similarly, assets comprise mainly capital expenditure and loans and advances given by the Government and grew by 27.4 *per cent* during 2004-05.

Financial results of irrigation works

1.8.4 Statement 3 of the Finance Accounts depicts the financial results of five major and 47 medium irrigation projects involving capital expenditure of Rs 2259.37 crore at the end of March 2004. It shows that revenue realised from these projects during 2003-04 was Rs 7.36 crore only and this was not sufficient to cover even the direct working expenses (Rs 94.88 crore). After meeting the working and maintenance expenditure (Rs 98.92 crore) and interest charges (Rs 113.86 crore), the projects suffered a net loss of Rs 209.06 crore[4]. The losses comprised of Rs 135.91 crore on the major irrigation projects and Rs 73.15 crore on the medium irrigation projects.

Incomplete projects

1.8.5 As per information received from the State Government, there were 47 incomplete projects which were scheduled for completion before 31 March 2005 on which Rs 618.80 crore of capital expenditure was incurred. Each of these projects cost more than Rs one crore but were incomplete for reasons such as non-receipt of revised Administrative sanction, pending land acquisition, delay in finalisation of tenders, etc.

Fiscal Liabilities – Public Debt and Guarantees

1.8.6 The Constitution of India (Article 293) provides that State may borrow within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time be fixed by an Act of Legislature. However, no such law was passed in the State (Article 293) to lay down any such limit.

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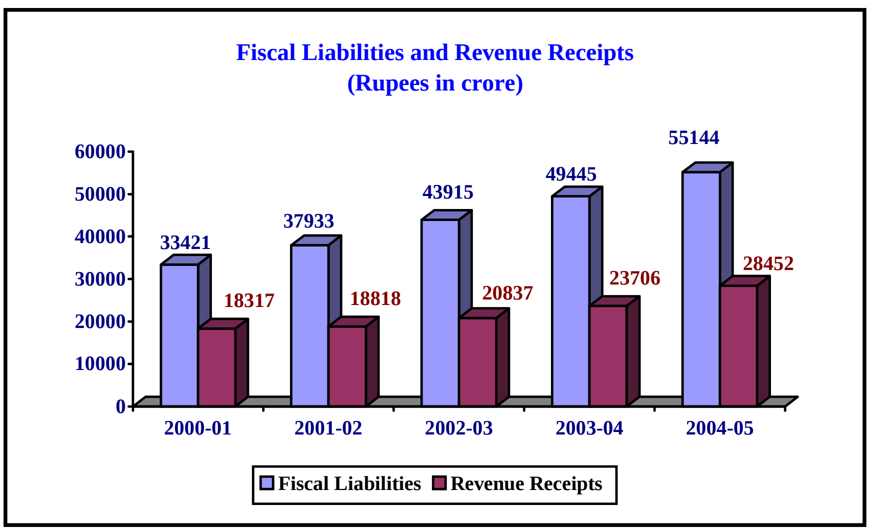
[4] Includes Rs 3.64 crore representing revenue foregone or remission of revenue during 2003-04.

1.8.7 Statement 4 read with Statements 16 and 17 of the Finance Accounts show the year-end balances under Debt, Deposit and Remittance heads from which the liabilities are worked out. Table 11 below gives the fiscal liabilities[5] of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources (Tax and non-Tax receipts) and the buoyancy of these liabilities with respect to these three parameters. It would be observed that the overall fiscal liabilities of the State increased from Rs 33421 crore in 2000-01 to Rs 55144 crore in 2004-05 at an average annual rate of 14.2 *per cent*. These liabilities *vis-à-vis* GSDP increased from 23.7 *per cent* in 2000-01 to 29.2 *per cent* in 2004-05; their ratio to revenue receipts increased from 182.5 *per cent* in 2000-01 to 208.6 *per cent* in 2003-04 and then decreased to 193.8 *per cent* in 2004-05.

1.8.8 At the end of 2004-05, the fiscal liabilities (Rs 55144 crore) were 1.94 times the revenue receipts of the State. The rate of growth of Fiscal Liabilities was arrested during 2003-05, in comparison to the period 2000-03. For each one *per cent* increase in GSDP, Revenue Receipts and Own Resources, the direct fiscal liabilities of the State have gone up by 0.95, 0.58 and 0.59 *per cent* respectively during 2004-05.

Table 11: Fiscal Liabilities – Basic Parameters
(value in crore of Rupees and others in percentage)

	2000-01	2001-02	2002-03	2003-04	2004-05
Fiscal Liabilities	33421	37933	43915	49445	55144
Rate of Growth	17.6	13.5	15.8	12.6	11.5
Percentage of Fiscal Liabilities to					
(a) GSDP	23.7	26.4	28.3	29.3	29.2
(b) Revenue Receipts	182.5	201.6	210.8	208.6	193.8
(c) Own Resources	238.8	260.4	271	274.1	255.7
Buoyancy of Fiscal Liabilities to					
(a) GSDP	1.52	7.94	1.95	1.47	0.95
(b) Revenue Receipts	1.44	5	1.48	0.9	0.58
(c) Own Resources	1.26	3.29	1.41	1.1	0.59



5 Fiscal liabilities comprise (a) Internal Debt, (b) Loans and Advances from Central Government, (c) Small Savings, Provident Fund etc., (d) Receipts of Local Funds etc., (e) Civil Deposits and (f) Reserve Funds etc.

Total contingent liabilities constituting guarantees given by the Government stood at Rs 8424 crore at the end of 2004-05.

1.8.9 Another important indicator of debt sustainability is net availability of funds after repayment of the principal on account of the earlier contracted liabilities and interest. The net funds available on account of internal debt and loans and advances from the Government of India declined from Rs 3788 crore in 2002-03 to Rs 988 crore in 2004-05. The Table 12 below gives the position of the receipt and repayment of internal debt over the last five years. The net funds available, after providing for the interest and repayments, varied between 3.9 *per cent* and 20.1 *per cent* during 2000-05. There was marked reduction in availing of ways and means advances and overdraft from the Reserve Bank of India. These fell from Rs 10535 crore during 2002-03 to Rs 1337 crore in 2004-05 and contributed to a sharp decline in Receipt and Repayment under Internal Debt.

Table 12: Net Availability of Borrowed Funds (Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Internal Debt[6]					
Receipt	11530	12575	17883	10410	12215[7]
Repayment (Principal + Interest)	8227	10855	11851	5774	7216
Net Fund Available	3303	1720	6032	4636	4999
Net Fund Available (*per cent*)	29	14	34	45	41
Loans and Advances from GOI					
Receipt	66	913	920	1023	1259
Repayment (Principal + Interest)	1953	2108	3164	4608	5270
Net Fund Available	(-) 1887	(-) 1195	(-) 2244	(-) 3585	(-) 4011
Net Fund Available (*per cent*)	..	..	..	..	..
Total Public Debt					
Receipt	11596	13488	18803	11433	13474
Repayment (Principal + Interest)	10180	12963	15015	10382	12486
Net Fund Available	1416	525	3788	1051	988
Net Fund Available (*per cent*)	12.2	3.9	20.1	9.2	7.3

Guarantees issued by the State Government

1.8.10 As provided under Article 293 of the Constitution, the Government give guarantees for the due discharge of certain liabilities like repayment of loans, share capital, etc. raised by the Statutory Corporations, the Government companies, co-operative institutions etc. These guarantees constitute contingent liabilities of the State since in the event of non-payment of loans, there may be an obligation on the Government to honour these commitments. According to the Tamil Nadu Fiscal Responsibility Act passed by the State Legislature in May 2003, as amended in February 2004, the Government should cap the total outstanding guarantees to 100 *per cent* of the total revenue receipts in the preceding year or at ten *per cent* of GSDP, whichever is lower, and cap the risk weighted guarantees to 75 *per cent* of the total revenue receipts of the preceding year or at 7½ *per cent* of GSDP, whichever is lower.

[6] Includes ways and means advances and overdraft.

[7] Includes Rs 1365 crore relating to prior period capital expenditure as mentioned in paragraph 1.7.2.

1.8.11 State Government categorised the guarantees according to the risk involved and assigned risk weightage to each. Where the guaranteed loan is fully serviced by Government by way of debt service grant/provision in the budget, it is treated as guarantee with 'Nil Risk' with zero *per cent* weightage assigned to it. Guarantees in respect of institutions that are not in good financial health including those that have been or are likely to be wound up are considered as 'Very High Risk' with 80 *per cent* risk weightage assigned to it. Rest of the guarantees were categorised as 'Low Risk' (25 *per cent* Risk weightage), 'Medium Risk' (40 *per cent* Risk weightage) and 'High Risk' (60 *per cent* Risk weightage) based on the financial health of institution and its ability to service the debt.

Outstanding Guarantees

1.8.12 Maximum amount of guarantees as on 31 March 2005 was Rs 17220 crore against which sums outstanding on that date were Rs 8423.99 crore (Principal: Rs 8311.79 crore; Interest: Rs 112.20 crore). The outstanding amount for 2004-05 was 35.5 *per cent* of Revenue Receipts and 50 *per cent* of ten *per cent* of GSDP for the previous year *viz.*, 2003-04. Risk weighted outstanding guarantees as on 31 March 2005 were yet to be compiled by the Finance Department. Year-wise position of outstanding guarantees during the last five years *vis-à-vis* the prescribed ceiling of 100 *per cent* of Total Revenue Receipts and ten *per cent* of GSDP in the respective preceding years is given in the following table.

(Rupees in crore)

Year	Outstanding amount of guarantee at the end of the year	Revenue Receipts of the previous year	Percentage of (2) to (3)	10 *per cent* of GSDP of the previous year	Percentage of (2) to (5)
(1)	(2)	(3)	(4)	(5)	(6)
2000-01	6780	16328	41.5	12645	53.6
2001-02	8570	18317	46.8	14111	60.7
2002-03	8677	18818	46.1	14352	60.5
2003-04	10098	20837	48.5	15510	65.1
2004-05	8424	23706	35.5	16846	50.0

The above table indicates that the trend of faster growth of outstanding guarantees *vis-à-vis* GSDP was arrested during 2004-05.

Guarantee Redemption Fund

1.8.13 Government constituted a Guarantee Redemption Fund (GRF) in March 2003 for discharge of invoked guarantees. An amount of Rs 100 crore was credited to the Fund up to the end of 2004-05 and Rs 93.50 crore were met from the Fund. Of this, Rs 89.99 crore were met from the Fund towards discharge of invoked guarantees during 2004-05 as detailed below.

(Rupees in crore)

1.	Tamil Nadu Film Development Corporation Limited	4.85
2.	Tamil Nadu Khadi and Village Industries Board	0.75
3.	Cooperative Spinning Mills	76.57
4.	Tamil Nadu Steels Limited	5.00
5.	Tamil Nadu Textiles Corporation Limited, Coimbatore	1.12
6.	State Level Bankers' Committee	0.45
7.	Tamil Nadu State Construction Corporation Limited	1.25
	Total	**89.99**

Though the accretions to the Fund were to be invested in specified securities, no investment was made. The Balance at the credit of the Fund as on 31 March 2005 was Rs 6.50 crore.

Guarantee Commission

1.8.14 The institutions availing guarantee from the Government of Tamil Nadu were required to pay a commission to the Government at the rate of half *per cent per annum* on the outstanding balance of guaranteed amount. As per the particulars obtained by audit, while Rs 9.31 crore were collected towards guarantee commission during 2004-05, and Rs 74.44 crore were pending collection from various institutions as on 31 March 2005.

Government in the Finance Department had stated in September 2001 that instructions had been issued to the Departments for review of remittance of guarantee fees and fresh guarantees were not to be issued to institutions against whom guarantee commission was outstanding. However, pending guarantee commissions continue to persist.

1.9 Management of deficits

Fiscal Imbalances

1.9.1 The deficit in the Government account represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management by the Government. Further, the ways in which the deficit is financed and the resources so raised are applied are important pointers of fiscal health.

1.9.2 The details of Revenue/Fiscal/Primary Deficits during the period 2000-01 to 2004-05 and their ratio to GSDP, along with the ratio of Revenue Deficit (RD) to Fiscal Deficit (FD) during this period are given in Table 13 below:

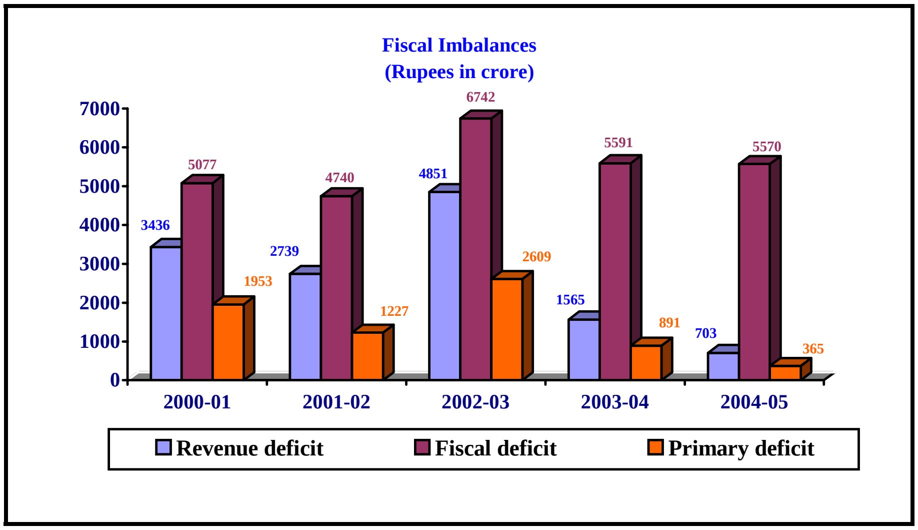
Table 13: Fiscal Imbalances – Basic Parameters
(value in crore of Rupees and others in percentage)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue deficit (RD)	3436	2739	4851	1565	703
Fiscal deficit (FD)	5077	4740	6742	5591	5570
Primary deficit (PD)	1953	1227	2609	891	365
RD/GSDP	2.4	1.9	3.1	0.9	0.4
FD/GSDP	3.6	3.3	4.3	3.3	2.9
PD/GSDP	1.4	0.9	1.7	0.5	0.2
RD/FD	67.7	57.8	72.0	28.0	12.6
RD/RR	18.8	14.6	23.3	6.6	2.5
BCR (Rupees in crore)	(-) 2375	(-) 1526	(-) 3010	(+) 1280	(+) 1962

The revenue deficit of the State, which is the excess of its revenue expenditure over revenue receipts (Statement 1 of the Finance Accounts), after increasing from Rs 2739 crore in 2001-02 to Rs 4851 crore in 2002-03 declined sharply to Rs 703 crore in 2004-05. As a percentage of revenue receipts, it increased from 14.6 *per cent* in 2001-02 to 23.3 *per cent* in 2002-03 and then declined sharply to 2.5 *per cent* in 2004-05. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, after increasing from Rs 4740 crore in 2001-02 to Rs 6742 crore in 2002-03, decreased to

Rs 5570 crore in 2004-05. The primary deficit of the State, after rising from Rs 1227 crore in 2001-02 to Rs 2609 crore in 2002-03, fell sharply to Rs 365 crore in 2004-05. The significant reduction in Revenue Deficit during this year was the cumulative result of 20 *per cent* growth in Revenue Receipts and 15.4 *per cent* growth in Revenue Expenditure. This in turn had a positive impact on fiscal and primary deficits and the RD/FD Ratio.

1.9.3 Though the revenue deficit decreased during 2004-05, its existence indicates that the State Government had still to borrow funds to meet its current obligations. The ratio of revenue deficit to fiscal deficit was 12.6 *per cent* in 2004-05. This indicated that 12.6 *per cent* of the borrowings were applied to revenue expenditure and the debt burden would affect the repayment capacity of the Government. As a proportion to State's GSDP, revenue deficit was 0.4 *per cent* in 2004-05 and fiscal deficit was 2.9 *per cent.*



Medium Term Fiscal Reforms Programme

1.9.4 Eleventh Finance Commission (EFC) in its report (July 2000) laid down broad parameters of fiscal correction in the State Sector. Each State was required to draw up a Medium Term Fiscal Reforms Programme (MTFRP) to achieve the objective of zero revenue deficit by 2008-09. The MTFRP was to form the basis of a Memorandum of Understanding (MoU) between the State and Ministry of Finance, Government of India (GOI). Further, the EFC recommended an Incentive Fund from which grants were to be released to the States based on their fiscal performance. The Incentive Fund releases proposed for Tamil Nadu were Rs 402.36 crore on achieving a minimum improvement of five percentage points in the revenue deficit as a proportion of its revenue receipts each year till 2004-05 over the base year 1999-2000.

1.9.5 The State Government passed the "Tamil Nadu Fiscal Responsibility Act, 2003" in May 2003 which included the objectives required to be achieved by it under the MTFRP and signed the MoU regarding this with the GOI in September 2003. State Government further amended it in February 2004 through Tamil Nadu Fiscal Responsibility (Amendment) Act, 2004.

1.9.6 The table below depicts the main targets set under the MTFR Plan for 2004-05 and the actual achievements thereagainst. The actual position with the relevant key indicators at the end of 2004-05 was as given below:

Table 14: Position of key indicators

(Rupees in crore)

	Projected in MTFR plan	Projected in Revised Estimate 2004-05	Actuals	Target achieved with reference to Revised Estimate Yes (Y)/ No (N)
Total Revenue Receipts (TRR)	24039	26794	28452	Y
State's Own Revenues (SOR)	18585	20402	21566	Y
State's Own Tax Receipts (SOTR)	17159	18561	19357	Y
Non-Tax Revenue	1426	1841	2209	Y
Central Revenue	5454	6392	6886	Y
(a) Shared taxes	3710	4246	4236	N
(b) Grants-in-aid	1744	2146	2650	Y
Total Revenue Expenditure	27434	28482	29155	N
Capital Outlay	2945	3608	4564	Y
Net lending	424	157	303	N
Salaries	9145	8447	8238	Y
Pension and Retirement benefits	4520	4066	3902	Y
Subsidies	5728	7366	2513	Y
Interest payments	5271	4977	4755	Y
Revenue Deficit	3395	1688	703	Y
Fiscal Deficit	6764	5447	5570	N
Primary Deficit	1493	470	365	Y
GSDP	179309	188162	188921	Y
Rate of growth of GSDP (*per cent*)	8	10.34	12	Y
Percentage of RD to				
(a) TRR	14.12	6.3	2.5	Y
(b) FD	50.19	30.98	12.6	Y
Percentage of Interest payment to TRR	22	19	16.7	Y

The above table indicates that the Government had achieved most of the targets set for 2004-05 under the MTFR Plan.

1.10 Investments and returns

1.10.1 Statement 14 of the Finance Accounts showed that as on 31 March 2005, the Government had invested Rs 2557.71 crore in statutory corporations, rural banks, joint stock companies and cooperatives. As indicated in Table 15 below the Government's return on this investment by way of dividend was not only meagre but also continued to decline till 2004-05 except during 2003-04. The loss making Government companies and cooperatives in which investment aggregated Rs 1371.87 crore had incurred a cumulative loss of Rs 3952.88 crore as of March 2005. While the Government paid interest at the average rate of nine to ten *per cent* on its borrowing during 2000-05, the return on its investment was around one *per cent* during the period.

Table 15: Return on Investment

Year	Investment at the end of the year (Rupees in crore)	Return (Rupees in crore)	Percentage of Return	Average rate of interest on Government borrowing (*per cent*)	Difference between interest rate and percentage of return
2000-01	2954.21	36.53	1.2	10.1	8.9
2001-02	2967.46	33.45	1.1	9.8	8.7
2002-03	3131.26	25.99	0.8	10.1	9.3
2003-04	2464.36	27.20	1.1	10.1	9.0
2004-05	2557.71	24.25	0.9	9.1	8.2

Loans and Advances by State Government

1.10.2 In addition to its investment, the Government has also been providing loans and advances to many of these parastatals. Total outstanding balance of the loans/advances rose steadily from Rs 4125 crore in March 2001 to Rs 5351 crore as on 31 March 2005 (Table 16).

Table 16: Average interest received on loans advanced by the State Government

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Opening Balance	4031	4125	4348	4612	5048
Amount advanced during the year	453	547	697	1011	1086
Amount repaid during the year	359	324	433	575	783
Closing Balance	4125	4348	4612	5048	5351
Net addition	94	223	264	436	303
Interest received	204	271	311	215	175
Average rate of interest earned	5	6.4	6.9	4.5	3.4
Average rate of interest paid	10.1	9.8	10.1	10.1	9.1
Difference between rate of interest received and paid	(-) 5.1	(-) 3.4	(-) 3.2	(-) 5.6	(-) 5.7

The above table indicates that the difference between the average rate of interest paid by the State Government over that earned increased progressively from 3.2 *per cent* in 2002-03 to 5.7 *per cent* in 2004-05.

1.11 Management of cash balances

It is generally desirable that the Government's flow of resources should match its expenditure obligations. However, to take care of any temporary mis-matches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from the Reserve Bank of India has been in place. The WMA availed of during 2003-04 and 2004-05 declined sharply with reference to earlier years as indicated in Table 17. Moreover, no overdraft during the year was availed of, reversing the trend of earlier years.

Table 17: Ways and Means Advances and Interest paid thereon

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Ways and means advances					
Taken during the year	5151.63	4855.47	8624.44	1710.13	1337.07
Outstanding on 31 March	241.53	101.63	651.42	596.33	391.45
Interest paid	14.51	21.88	20.46	7.64	1.40
Overdraft					
Taken during the year	1712.93	4110.24	1911.22	Nil	Nil
Outstanding on 31 March	Nil	Nil	579.63	Nil	Nil
Interest paid	1.89	4.72	3.98	0.86	Nil
Number of days of overdraft	76	148	71	2	Nil

1.12 Conclusions

Though the Government reduced the revenue and fiscal deficits during 2004-05, the investments of the Government funds in companies, cooperative units, etc. continued to fetch only a meagre return ranging between 0.8 and 1.2 *per cent* during 2000-05, while the Government continued to borrow funds from market at higher rates of interest. The fiscal liabilities of the State was about twice the revenue receipts. The rate of growth of fiscal liabilities during 2003-05 was less than that of revenue receipts indicating improvement in Government's capacity to sustain this liability. The increase of 52.2 *per cent* in interest payments during 2000-05 showed continued reliance of the Government on borrowings to meet deficit. The percentage of total expenditure to revenue receipts was 122.3 indicating that 82 *per cent* of the State's total expenditure was met from its current revenues, leaving the balance to be financed by borrowings.