

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

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1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (**Appendix 1.1-Part A**). The Finance Accounts of the Government of Tamil Nadu are laid out in 19 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 lay out of the Finance Accounts is depicted in **Appendix 1.1 -Part B**.

1.1.1 Summary of Receipts and Disbursements

Table 1.1 summarises the finances of the Government of Tamil Nadu for the year 2006-07 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table 1.1: Summary of receipts and disbursements for the year 2006-07

(Rupees in crore)

2005-06	Receipts	2006-07	2005-06	Disbursements	2006-07		
Section-A: Revenue					Non Plan	Plan	Total
33960	Revenue receipts	40913	32009	Revenue expenditure	31064	7201	38265
23326	Tax revenue	27771	12891	General services	14952	43	14995
2601	Non-tax revenue	3422	11316	Social services	7597	5429	13026
5013	Share of Union Taxes/Duties	6394	5773	Economic services	6356	1441	7797
3020	Grants from Government of India	3326	2029	Grants-in-aid and Contributions	2159	288	2447
Section-B: Capital							
--	Misc. Capital Receipts	--	4054	Capital Outlay	99	5853	5952
892	Recoveries of Loans and Advances	1602	1040	Loans and Advances disbursed	1982	272	2254
8966	Public Debt receipts*	7147	2046	Repayment of Public Debt*			4690
--	Contingency Fund	16	16	Contingency Fund			..
39603	Public Account receipts	57895	38132	Public Account disbursements			55326
1192	Opening Cash Balance	7316	7316	Closing Cash Balance			8402
84613	Total	114889	84613	Total			114889

* Excluding net transactions under ways and means advances and overdraft.

Following are the significant changes during 2006-07 over previous year:

- Revenue receipts increased by Rs 6953 crore over last year mainly due to increase in State's Own Tax Revenue (Rs 4445 crore) and State's Share in Central taxes and duties (Rs 1381 crore) and non-tax revenue (Rs 821 crore).
- An increase of Rs 6265 crore in revenue expenditure in 2006-07 over last year was due to increase in expenditure under all components viz., General Services (Rs 2104 crore), Social Services (Rs 1710 crore), Economic Services (Rs 2024 crore) and Grants-in-aid and contributions (Rs 418 crore).
- The capital expenditure and disbursement of loans and advances have increased by Rs 1898 crore and Rs 1214 crore in 2006-07 over the previous year. Steep increase in loans and advances disbursed was mainly under Loans for Urban Development Schemes, Cooperation schemes, Cooperative Sugar mills, Industrial Financial Institutions and State Transport undertakings.
- Despite an increase of Rs 2644 crore in repayments of debt and of Rs 17194 crore in public account disbursements, cash balances of the State increased from Rs 7244.78 crore during 2005-06 to Rs 8302.53 crore during 2006-07.

1.1.2 State Fiscal Position by Key Indicators

The fiscal position of the State Government during the current year as compared to the previous year is given in **Table 1.2**.

Table 1.2

(Rupees in crore)

2005-06	Sl. No	Major Aggregates	2006-07
33960	1	Revenue Receipts (2+3+4)	40913
23326	2	Tax Revenue (Net)	27771
2601	3	Non-Tax Revenue	3422
8033	4	Other Receipts	9720
892	5	Non-Debt Capital Receipts	1602
892	6	<i>Of which</i> Recovery of Loans	1602
34852	7	Total Receipts (1+5)	42515
27326	8	Non-Plan Expenditure (9+11)	33145
26627	9	On Revenue Account	31064
4559	10	<i>Of which</i> Interest Payments	5506
699	11	On Capital Account	2081
716	12	<i>Of which</i> Loans disbursed	1982

(Rupees in crore)

2005-06	Sl. No	Major Aggregates	2006-07
9777	13	Plan Expenditure (14+15)	13326
5382	14	On Revenue Account	7201
4395	15	On Capital Account	6125
323	16	<i>Of which</i> Loans disbursed	272
37103	17	Total Expenditure (8+13)	46471
(+) 1951	18	Revenue Deficit (-)/ Revenue Surplus (+) (1-9-14)	(+) 2648
(-) 2251	19	Fiscal Deficit (-)/Fiscal Surplus (+)(1+5-17)	(-) 3956
(+) 2308	20	Primary Deficit (-)/ Primary Surplus (+) (19 -10)	(+) 1550

Table 1.2 shows that revenue receipts increased by Rs 6953 crore (20.5 per cent) during 2006-07 while revenue expenditure increased by Rs 6256 crore (19.5 per cent) over the previous year resulting in an increase of Rs 697 crore in revenue surplus during 2006-07 over the previous year. Given an increase of Rs 710 crore in non debt capital receipts and an increase of Rs 1898 crore and Rs 1214 crore respectively in capital expenditure and disbursement of loans and advances, fiscal deficit has increased by Rs 1705 crore in 2006-07 over the previous year. An increase of Rs 947 crore in interest payments however resulted in a decline of Rs 758 crore in primary surplus in 2006-07 over the previous year.

1.2 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts are analysed wherever necessary over the period of 2001-07 and observations are made on their behaviour. In its Restructuring Plan of state finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all states are required to enact the Fiscal Responsibility (FR) Acts and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their FR Acts and in other Statements required to be laid in the legislature under the Act are used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP) is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices.

Table 1.3:Trends in Growth and composition of GSDP

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Gross State Domestic Product (GSDP)	149074	158370	175897	200780	223528	246266
Growth rate of GSDP	5.6	6.2	11.1	14.1	11.3	10.2

The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc., with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure etc., are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. Audit observations on the Statements of Finance Accounts for the year 2006-07 bring out the trends in the major fiscal aggregates of receipts and expenditure; wherever necessary analyse them and show these in the light of time series data (**Appendix 1.2**), Abstract of Receipts and Disbursements (**Appendix 1.3**), Sources and Applications of funds (**Appendix 1.4**) and Summarised Financial Position of Government of Tamil Nadu (**Appendix 1.5**). The 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 definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix 1.1 Part C**.

1.2.2 The Tamil Nadu Fiscal Responsibility (TNFR) Act

The State Government has enacted the Tamil Nadu Fiscal Responsibility Act, 2003 in May 2003, to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework.

Accordingly, the Tamil Nadu Legislative Assembly had passed the Tamil Nadu Fiscal Responsibility (Amendment) Act, 2005 (Act 7 of 2005) on 10 May 2005. According to the Act the Government is committed to

- reduce the ratio of revenue deficit to revenue receipt every year by three *per cent* to five *per cent* depending on the economic situation in that year to a level below five *per cent* by 31 March 2008, eliminate revenue deficit by 2008-09 and adhere to it thereafter,
- reduce the ratio of fiscal deficit to GSDP every year by 0.25 *per cent* to 0.30 *per cent* beginning from financial year 2002-03 with medium term goal of the ratio of fiscal deficit to GSDP not being more than three *per cent* to be attained by March 2008 and adhere to it thereafter,
- cap the total outstanding guarantee to hundred *per cent* of the total revenue receipts in the preceding year or at 10 *per cent*, of the previous year GSDP whichever is lower, and,

- cap the risk weighted guarantees to 75 per cent of the total revenue receipts in the preceding year or at 7.5 per cent of the GSDP, whichever is lower.

1.2.3 Fiscal Policy Statement(s) 2006-07

In compliance with this Act, a MTFP based on current fiscal trends and policy initiatives undertaken by the Government has been prepared with the projections for the period 2005-08 and it was placed before the Legislative Assembly along with the Budget for 2006-07 on 27 July 2006.

This Act was subsequently amended to bring it in line with the requirements prescribed by the Twelfth Finance Commission. According to Section 3(1) of this Act, the Government is required to place before the Legislative Assembly a Medium Term Fiscal Plan (MTFP) along with the Budget. Section 3(2) of this Act, requires that the MTFP shall set forth a multi-year rolling target for the fiscal indicators like revenue deficit and fiscal deficit while clearly indicating the underlying assumptions made to arrive at those projections.

The **table 1.4** depicts comparative position of selected fiscal variables vis-à-vis the targets set for them in MTFP for 2006-07.

Table 1.4: Position of key indicators

(Rupees in crore)

	Projected in MTFP for 2006-07	Actual	Percentage increase (+)/ decrease (-) over MTFP projections
Total Revenue Receipts (TRR)	31695	40913	(+) 29
State's Own Revenues (SOR)	24389	31193	(+) 28
State's Own Tax Receipts	22476	27771	(+) 24
Non-Tax Revenue	1913	3422	(+) 79
Total Revenue Expenditure	33092	38265	(-) 16
Capital Outlay	4475	5952	(+) 33
Salaries	10357	8645	(+) 17
Pension and Retirement benefits	5313	5430	(-) 2
Subsidies	8074	4177	(+) 48
Interest payments	5571	5506	(+) 1
Revenue Deficit	(-) 1397	(+) 2648	(+) 290
Fiscal Deficit	(-) 6076	(-) 3956	(+) 35
Primary Deficit	(-) 505	(+) 1550	(+) 407

The comparative position reveals that the Government has achieved the targets set for 2006-07 under the MTFP for 2006-07 except in case of total revenue expenditure and pension and retirement benefits. As a result of better fiscal performance of the State, a debt waiver of Rs 263.28 crore was granted by the Government of India to the State as an incentive under DCRF¹ during 2006-07.

¹ Debt Consolidation Relief Facility

1.3 Trends and composition of Aggregate Receipts

Resources of the State Government consist of revenue receipts and capital receipts. 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 as well as accruals from Public Account. **Table 1.5** shows that the total receipts of the State Government for the year 2006-07 were Rs 107573 crore. Of these, revenue receipts were Rs 40913 crore, constituting 38 per cent of the total receipts. The balance came mainly from borrowings and Public Account.

Table 1.5: Trends in Growth and composition of Aggregate Receipts

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Sources of State's Receipts						
I Revenue Receipts	18818	20837	23706	28452	33960	40913
II Capital Receipts	4846	9829	10298	12919	9858	8749
Recovery of Loans and Advances	324	433	575	783	892	1602
Public Debt Receipts	4522	9396	9723	12136	8966	7147
Miscellaneous Capital Receipts	..	..	..	..	..	..
III Contingency Fund	1	..	..	..	..	16
IV Public Account Receipts	21209	27156	28107	31864	39603	57895
a. Small Savings, Provident Fund etc.	2863	2895	2688	1982	2943	3214
b. Reserve Fund	196	(-) 159	737	2057	6310	2388
c. Deposits and Advances	6915	8113	8742	10076	8914	11601
d. Suspense and Miscellaneous	6561	12044	12286	15461	19308	38662
e. Remittances	4674	4263	3654	2288	2128	2030
Total Receipts	44874	57822	62111	73235	83421	107573

The revenue, capital and Public Account receipts constituted 38, 8 and 54 per cent of total receipts respectively. The debt capital receipts which create future repayment obligation after increasing from Rs 4522 crore in 2001-02 to Rs 12136 crore in 2004-05, decreased to Rs 7147 crore in 2006-07. The recovery of loans and advances is improved by Rs 710 crore over previous year.

1.3.1 Revenue Receipts

Statement 11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. Overall revenue receipts, its annual rate of growth, GSDP, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table 1.6**.

Table 1.6: Revenue Receipts - Basic Parameters

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Receipts (RR)	20837	23706	28452	33960	40913
Own Taxes (<i>per cent</i>)	14342 (69)	15945 (67)	19357 (68)	23326 (68)	27771 (68)
Non-Tax Revenue (<i>per cent</i>)	1861 (9)	2094 (9)	2209 (8)	2601 (8)	3422 (8)
Central Tax Transfers (<i>per cent</i>)	3047 (14)	3544 (15)	4236 (15)	5013 (15)	6394 (16)
Grants-in-aid (<i>per cent</i>)	1587 (8)	2123 (9)	2650 (9)	3020 (9)	3326 (8)
Rate of growth of RR (<i>per cent</i>)	10.7	13.8	20.0	19.4	20.5
RR/GSDP (<i>per cent</i>)	13.2	13.5	14.2	15.2	16.6
Revenue Buoyancy (ratio) with GSDP	1.72	1.24	1.42	1.71	2.01
State's own taxes Buoyancy (ratio) with GSDP	1.64	1.01	1.51	1.81	1.87
Revenue Buoyancy with reference to State's own taxes (ratio)	1.05	1.23	0.93	0.95	1.07
GSDP Growth (<i>per cent</i>)	6.2	11.1	14.1	11.3	10.2

General Trends

The revenue receipts have shown a progressive increase over the period 2001-07 with only marginal changes in its composition i.e., the share of own taxes, non-tax revenue, Central tax transfers and grants-in-aid changing minimally. The increase of 20.5 *per cent* in Revenue Receipts during 2006-07 was on account of increase in State's own taxes (19.1 *per cent*), non-tax revenue (31.6 *per cent*), Central tax transfers (27.5 *per cent*) and Grants-in-aid from GOI (10.1 *per cent*).

Tax Revenue:

Tax revenue increased by 19.1 *per cent* during the current year (Rs 27771 crore) over the previous year (Rs 23326 crore). The revenue from Sales Taxes not only contributed major share of tax revenue (64 *per cent*) but also increased by 14 *per cent* over the previous year. The other major contributors for the increase in the State's tax revenue are Stamps and Registration Fees (Rs 912 crore), State Excise (Rs 809 crore) and Taxes on Goods and Passengers (Rs 258 crore). **Table 1.7** below shows the trend of tax revenue during 2001-07.

Table 1.7: Tax revenue

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Taxes on Sales, Trades etc.	8386	9590	11005	12996	15555	17727
State Excise	2058	2114	1657	2549	3177	3986
Taxes on Vehicles	648	746	934	1015	1125	1261
Stamps and Registration Fees	1138	1079	1316	1604	2085	2997
Land Revenue	50	8	18	72	179	121
Taxes on Goods and Passengers	283	489	611	764	985	1244
Other taxes*	447	316	404	357	220	435
Total	13010	14342	15945	19357	23326	27771

* other taxes includes taxes on immovable property other than Agricultural land and taxes and duties on electricity.

Non-Tax Revenue:

Non-tax revenue which constituted 8 *per cent* of total revenue receipts increased by Rs 821 crore recording a growth rate of 31.6 *per cent* over previous year. The major contributors for the increase over previous year are Interest receipts (Rs 306 crore), Miscellaneous General Services (Rs 600 crore) and Non-ferrous Mining and Metallurgical Industries receipts (Rs 101 crore) off-set by the decrease in receipts under Food, Storage and Warehousing (Rs 221 crore). The increase under interest receipts was mainly due to increased interest received from Investment of cash balances (Rs 207 crore) departmental Commercial Undertakings (Rs 47 crore) local bodies (Rs 47 crore) and other interest receipts (Rs 49 crore) which was offset slightly by the decrease under interest received from Public sector and other undertakings. The debt relief (Rs 263.28 crore) given by Government of India under DCRF booked under the head 'Miscellaneous General Services' was one of reasons for a sharp increase in non tax revenue of the State during the current year.

The actual revenue receipts vis-à-vis assessments made by State Government to Twelfth Finance Commission (TFC) for 2006-07 are given below:

Table 1.8

(Rupees in crore)

	Assessment made by State Government and projected in TFC report	Projections made by State Government under revised medium term fiscal plan for 2006-07	Actuals
Tax revenue	24091	22476	27771
Non-tax revenue	2513	1913	3422

The tax revenue has increased by 15.3 *per cent* and the non-tax revenue by 36.2 *per cent* over the normative assessment made by the TFC for the State for 2006-07. The actual realisation of tax revenue also exceeded by 23.6 *per cent* as compared to the projection made by State Government for 2006-07 under MTFP. The actual realisation of non-tax revenue was higher by 78.9 *per cent* than the projection made under MTFP for 2006-07.

Central Tax Transfers:

Central tax transfers increased by Rs 1381 crore (28 *per cent*) over the previous year and constituted 16 *per cent* of the total revenue receipts. The increase was mainly due to Corporation tax (Rs 612 crore), Customs duties (Rs 270 crore), Taxes on income other than Corporation tax (Rs 236 crore) and Service tax (Rs 244 crore).

Grants-in-aid:

Grants-in-aid from Government of India increased by Rs 306 crore (10 *per cent*) from Rs 3020 crore in 2005-06 to Rs 3326 crore in the current year. The increase was mainly under grants under State Plan schemes (Rs 598 crore) offset by the decrease under Non-plan grants (Rs 263 crore) and Central/Centrally sponsored plan schemes (Rs 29 crore). Details of Grants-in-aid from GOI are given in **Table 1.9**.

Table 1.9 : Grants-in-aid from Government of India

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Grants for State plan schemes	668	603	937	1054	986	1584
Non-plan grants	168	455	532	961	1290	1027
Grants for Central schemes	66	66	57	73	67	88
Centrally sponsored schemes	480	463	597	562	677	627
Total	1382	1587	2123	2650	3020	3326
Percentage of increase/decrease over previous year	(-) 10.1	(+) 14.9	(+) 33.7	(+) 24.9	(+) 14	(+) 10.1

1.3.2 Arrears of Revenue

The arrears of revenue which was Rs 11132.07 crore in 2005-06 steeply decreased to Rs 318.48 crore during 2006-07. Of the arrears, Rs 127.39 crore (40 per cent) were outstanding for more than five years. The arrears mainly pertained to Stamp Duty and Registration Fees (Rs 160.35 crore) and Urban Land Tax (Rs 114.98 crore).

1.4 Application of resources

1.4.1 Growth of Expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.10**.

Table 1.10: Total Expenditure – Basic Parameters

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Total expenditure (TE)*	23882	28012	29872	34805	37103	46471
Rate of Growth (<i>per cent</i>)	0.5	17.3	6.6	16.5	6.6	25.2
TE/GSDP Ratio (<i>per cent</i>)	16.0	17.7	17.0	17.3	16.6	18.9
RR/TE Ratio (<i>per cent</i>)	78.8	74.2	79.4	81.8	91.5	88.0
Buoyancy of Total Expenditure with reference to:						
GSDP (ratio)	0.10	2.77	0.60	1.17	0.58	2.48
RR (ratio)	0.19	1.62	0.48	0.83	0.34	1.23

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

Total expenditure during the current year has increased by Rs 9368 crore over the previous year mainly due to increase under Revenue expenditure (Rs 6256 crore) Capital expenditure (Rs 1898 crore) and repayment of loans and advances (Rs 1214 crore). In terms of Plan and Non-plan expenditure, the plan expenditure increased by Rs 3549 crore and the non-plan expenditure registered an increase of Rs 5819 crore over last year. The percentage of total expenditure to revenue receipts during 2006-07 was 113.6 indicating that

about 88 *per cent* of the State's total expenditure was met from its current revenue, leaving the balance to be financed by borrowings.

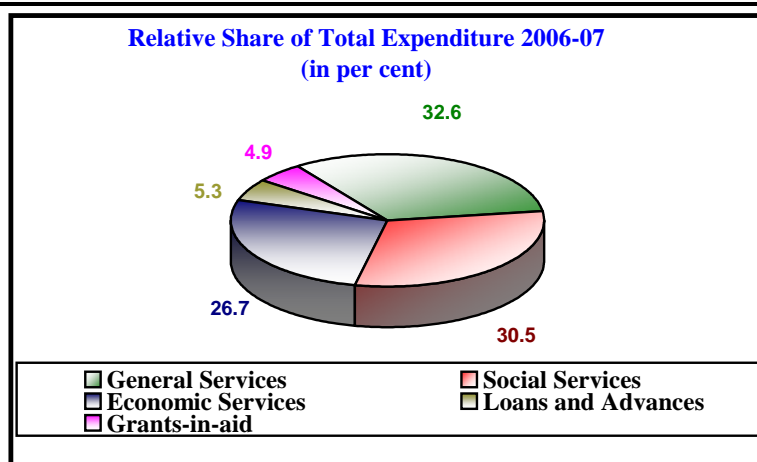
Trends in Total Expenditure by Activities

In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table 1.11**.

Table 1.11: Components of Expenditure – Relative Share

	2002-03	2003-04	2004-05	2005-06	2006-07
General Services	35.9	36.3	35.7	35.1	32.6
<i>Of which</i> Interest payments	14.7	15.7	13.7	12.3	11.8
Social Services	30.7	33.9	34.9	33.5	30.5
Economic Services	25.3	21.5	20.7	23.1	26.7
Grants-in-aid	5.6	4.9	5.6	5.5	5.3
Loans and Advances	2.5	3.4	3.1	2.8	4.9

(per cent)



Interest payments and expenditure on General Services considered as non-developmental expenditure together accounted for 32.6 *per cent* of total expenditure in 2006-07. The share of Social Services after increasing from 30.7 *per cent* in 2002-03 to 34.9 *per cent* in 2004-05 declined to 30.5 *per cent* in 2006-07. The share of Economic Services after declining from 25.3 *per cent* in 2002-03 to 20.7 *per cent* in 2004-05, increased to 26.7 *per cent* in 2006-07. While the Grants-in-aid decreased from 5.6 *per cent* in 2004-05 to 5.3 *per cent* in 2006-07, the loans and advances after decreasing from 3.4 *per cent* in 2003-04 to 2.8 *per cent* in 2005-06, increased to 4.9 *per cent* in 2006-07.

1.4.2 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue

expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table 1.12**.

Table 1.12: Revenue Expenditure: Basic Parameters

	(Rupees in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure (RE)	25688	25271	29155	32009	38265
<i>Of which</i>					
Non-Plan Revenue Expenditure (NPRE)	22715	20835	25251	26627	31064
Plan Revenue Expenditure (PRE)	2973	4436	3904	5382	7201
Rate of Growth (<i>per cent</i>)					
Revenue Expenditure	19.2	(-) 1.6	15.4	9.8	19.5
NPRE	18.7	(-)8.3	21.2	5.4	16.7
PRE	22.5	49.2	(-) 12.0	37.9	33.8
NPRE/GSDP (<i>per cent</i>)	14.3	11.8	12.6	11.9	12.6
NPRE as <i>per cent</i> of TE	81.1	69.7	72.5	71.8	66.8
NPRE as <i>per cent</i> of RR	109.0	87.9	88.7	78.4	75.9
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	3.07	(-) 0.15	1.09	0.86	1.92
Revenue Receipts (ratio)	1.79	(-) 0.11	0.77	0.51	0.95

Overall revenue expenditure of the Government, declined from Rs 25688 crore in 2002-03, to Rs 25271 crore in 2003-04 and then increased to Rs 38265 crore in 2006-07. The percentage of increase over 2005-06 was 19.5. While the increase under non-plan revenue expenditure was 16.7 *per cent*, the increase under plan revenue expenditure was 33.8 *per cent*. The non-plan revenue expenditure as a percentage of GSDP declined from 14.3 *per cent* in 2002-03 to 12.6 *per cent* in 2006-07. As a percentage of total expenditure and revenue receipts, the non-plan revenue expenditure declined respectively from 81.1 *per cent* to 66.8 *per cent* and from 109 *per cent* to 75.9 *per cent* during 2002-07. This indicated that 66.8 *per cent* of total revenue expenditure was non-plan revenue expenditure and 75.9 *per cent* of revenue receipts was utilised towards non-plan revenue expenditure during 2006-07. The increase of Rs 4437 crore in NPRE during the current year was mainly due to increase under Pension and Other Retirement Benefits (Rs 970 crore), interest payments (Rs 947 crore), General Education (Rs 737 crore), Civil Supplies (Rs 683 crore), Roads and Bridges (Rs 352 crore), Compensation assignments to local bodies (Rs 311 crore), Crop Husbandry (Rs 295 crore), Police (Rs 185 crore), Power (Rs 155 crore), Medical and Public Health (Rs 149 crore), Village and Small Industries (Rs 100 crore) offset by the decrease under Relief on account of Natural Calamities (Rs 1597 crore). The increase in PRE by Rs 1819 crore over previous year was mainly due to Information and Publicity (Rs 694 crore), Housing (Rs 366 crore), Urban Development (Rs 297 crore), Social Security and Welfare (Rs 262 crore), and Other Rural Development Programmes (Rs 180 crore) offset by decrease under Miscellaneous General Services (Rs 250 crore).

The actual non-plan revenue expenditure vis-à-vis assessments made by State Government and projected in the report of TFC are given below:

Table 1.13

(Rupees in crore)

	Assessment made by State Government and projected in TFC report	Projections made by State Government under revised medium term fiscal plan for 2006-07	Actual non-plan revenue expenditure during 2006-07
Non-plan revenue expenditure	26064.90	32200.88	31064.47

The actual NPRE during the current year (Rs 31064 crore) had exceeded the NPRE (Rs 26065 crore) projected in the TFC report by Rs 4999 crore, but it remained marginally lower than the projections made by the Government in MTFP.

1.4.3 Committed Expenditure

1.4.3.1 Expenditure on Salaries

Table 1.14: Expenditure on Salaries

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Salaries	7225	7066	8238	8342	8645
As per cent of GSDP	4.6	4.0	4.1	3.7	3.5
As per cent of RR	34.7	29.8	28.9	24.6	21.1

Salary expenditure including Dearness Allowance of the State Government over the last five years is given above (**Table 1.14**). Salaries alone consumed nearly 21.1 per cent of the revenue receipts of the Government during 2006-07.

Salary expenditure of the State Government (Rs 8645 crore) during 2006-07 constituted 31.6 per cent of the Revenue expenditure net interest and pension payments (Rs 27329 crore²) and was within the norm of 35 per cent recommended by the TFC.

1.4.3.2 Pension Payments

Table 1.15: Expenditure on Pensions

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Pensions	3327	3280	3902	4460	5430
Rate of Growth	9.1	(-) 1.4	19.0	14.3	21.7
As per cent of GSDP	2.1	1.9	1.9	2.0	2.2
As per cent of RR	16.0	13.8	13.7	13.1	13.3
As per cent of NPRE	14.6	15.7	15.5	16.8	17.5

Pension payments during the current year have increased by Rs 970 crore recording a growth rate of 21.7 per cent over previous year. Pension payments consumed 13.3 per cent of the revenue receipts of the Government

² Revenue expenditure (Rs 38265 crore) less interest payment (Rs 5506 crore) and pension payments (Rs 5430 crore).

during 2006-07 and increased by 63.2 *per cent* from Rs 3327 crore in 2002-03 to Rs 5430 crore in 2006-07. Significant increase in expenditure on pension during 2006-07 was mainly due to increase of 52.6 *per cent* over last year's expenditure under family pensions, 37 *per cent* under superannuation and retirement benefits and 43.3 *per cent* under pensions to employees of State aided Educational Institutions. As a percentage of non-plan revenue expenditure, it constituted about 17.5 *per cent* during 2006-07.

The actual pension payments during 2006-07 (Rs 5430 crore) were less than the assessment made (Rs 5564 crore) by State Government and projected by TFC. The Government also introduced a contributory pension scheme for employees recruited on or after April 2003 to mitigate impact of raising pension liabilities of Government in future.

1.4.3.3 Interest payments

Interest payments made during the period 2002-03 to 2006-07 along with its percentage to Revenue Receipts and Revenue Expenditure are given in **Table 1.16** below:

Table 1.16: Interest payments

Year	Interest Payments (Rupees in crore)	Growth rate	Percentage of Interest payments with reference to	
			Revenue Receipts	Revenue Expenditure
2002-03	4133	17.6	19.8	16.1
2003-04	4700	13.7	19.8	18.6
2004-05	4755	1.2	16.7	16.3
2005-06	4559	(-) 4.1	13.4	14.2
2006-07	5506	20.8	13.5	14.4

Interest payments increased by 33.2 *per cent* from Rs 4133 crore in 2002-03 to Rs 5506 crore in 2006-07 (the average growth rate being 9.8 *per cent*) primarily due to continued reliance on borrowings to meet the Fiscal Deficit. During 2006-07, the Government raised Rs 1814.47 crore from open market at an average rate of interest of 8.1 *per cent* per annum. It also borrowed Rs 4013.45 crore from National Small Savings Fund at 9.5 *per cent* per annum from GOI during the year. However, the actual interest payment made (Rs 5506 crore) was lower than the projection made for 2006-07 under MTFP (Rs 5571 crore). The interest payments as a ratio of revenue receipts was 13.5 *per cent* which was within the norm of 15 *per cent* recommended by the TFC to be achieved by all the States by 2009-10.

1.4.3.4 Subsidies

State Government has been paying subsidies to specific targeted groups as well as various corporations. The trends in the subsidies given by the State Government during the last five years are given in **Table 1.17**.

Table 1.17: Subsidies

Year	Amount (Rupees in crore)	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in revenue expenditure
2002-03	1768	(-) 19.9	6.9
2003-04	1680	(-) 5.0	6.6
2004-05	2513	49.6	8.6
2005-06	3426	36.3	10.7
2006-07	4177	21.9	10.9

The increase in total subsidies paid was mainly due to the increased subsidy of Rs 750 crore given for food security under Public Distribution System from Rs 1200 crore in 2005-06 to Rs 1950 crore in 2006-07.

1.5 Expenditure by Allocative Priorities

1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore, ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. The higher the ratio of these components to total expenditure and GSDP, the better is the quality of expenditure. **Table 1.18** gives these ratios during 2002-07.

Table 1.18: Indicators of Quality of Expenditure

	(Rupees in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Expenditure	1628	3590	4564	4054	5952
Revenue Expenditure	25688	25271	29155	32009	38265
<i>As per cent of Total Expenditure</i>					
Capital Expenditure	5.8	12.0	13.1	10.9	12.8
Revenue Expenditure	91.7	84.6	83.8	86.3	82.3
<i>As per cent of GSDP</i>					
Capital Expenditure	1.0	2.0	2.3	1.8	2.4
Revenue Expenditure	16.2	14.4	14.5	14.3	15.5

Though the Revenue expenditure in absolute terms increased from Rs 32009 crore in 2005-06 to Rs 38265 crore in 2006-07, as a percentage to total expenditure, it decreased from 86.3 to 82.3 over last year. However, capital expenditure increased in absolute terms by Rs 1898 crore as well as a percentage of total expenditure from 10.9 to 12.8 over last year. Also both revenue and capital expenditure as a percentage of GSDP increased from 14.3 per cent to 15.5 per cent and 1.8 per cent to 2.4 per cent respectively over last year.

1.5.2 Expenditure on Social Services

Given the fact that human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc. have a strong linkage with eradication of poverty and economic progress, it would

be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 1.19** summarises the expenditure incurred by the State Government in expanding and strengthening of Social Services in the State during 2001-07.

Table 1.19: Expenditure on Social Services**(Rupees in crore)**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Education, Sports, Art and Culture	4299.80	4158.92	4254.13	4696.66	5273.06	6240.04
Revenue Expenditure of which	4292.87	4145.33	4175.06	4597.28	5012.54	6061.10
Salary and Wages component	2473.88	2324.59	2257.11	2434.09	2535.98	3184.02
Non-salary Wage component	1818.99	1820.74	1917.95	2163.19	2476.56	2877.08
Capital Expenditure	6.93	13.59	79.07	99.38	260.52	178.94
Health and Family Welfare	1219.66	1236.25	1268.87	1351.95	1639.11	1670.51
Revenue Expenditure of which	1184.39	1187.88	1202.96	1304.16	1392.87	1551.97
Salary and Wages component	862.45	836.70	820.54	858.57	890.83	1057.75
Non-salary Wage component	321.94	351.18	382.42	445.59	502.04	494.22
Capital Expenditure	35.27	48.37	65.91	47.79	246.24	118.54
Water Supply, Sanitation, Housing and Urban Development	938.15	981.89	1837.53	2606.63	900.18	1922.35
Revenue Expenditure of which	324.31	443.53	556.70	402.88	404.03	1185.20
Salary and Wages component	23.80	18.59	18.35	19.28	21.24	24.43
Non-salary Wage component	300.51	424.94	538.35	383.60	382.79	1160.77
Capital Expenditure	613.84	538.36	1280.83	2203.75	496.15	737.15
Other Social Services	1885.45	2213.04	2749.50	3476.98	4625.29	4325.55
Revenue Expenditure of which	1875.49	2197.30	2663.05	3378.43	4506.96	4228.07
Salary and Wages component	620.94	602.36	736.42	783.27	751.98	905.01
Non-salary Wage component	1254.55	1594.94	1926.63	2595.16	3754.98	3323.06
Capital Expenditure	9.96	15.74	86.45	98.55	118.33	97.48
Total (Social Services)	8343.06	8590.10	10110.03	12132.22	12437.64	14158.45
Revenue Expenditure of which	7677.06	7974.04	8597.77	9682.75	11316.40	13026.35
Salary and Wages component	3981.07	3782.24	3832.42	4095.21	4200.04	5171.21
Non-salary Wage component	3695.99	4191.80	4765.35	5587.54	7116.36	7855.14
Capital Expenditure	666.00	616.06	1512.26	2449.47	1121.24	1132.10

The total expenditure under Social Services increased from Rs 8343 crore in 2001-02 to Rs 14158 crore in 2006-07 indicating the Government commitment to improve social well being of the society. The salary component in total expenditure under social services decreased from 47.7 *per cent* in 2001-02 to 44.3 *per cent* in 2006-07. However, the non-salary component in total expenditure increased from 36.5 *per cent* to 55.5 *per cent* over the same period. While the Revenue expenditure under Social Services increased by 69.7 *per cent* from Rs 7677 crore in 2001-02 to Rs 13026 crore in 2006-07, the Capital expenditure increased by 70 *per cent* from Rs 666 crore to Rs 1132 crore over the same period.

Recognising the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education and health and family welfare should increase only by five to six *per cent* while non-salary expenditure under non-plan heads should increase by 30 *per cent* per annum during the award period. However, trends in expenditure (taking expenditure under both plan and non plan heads) reveal that the salary and wage component under education sector increased by 28.7 *per cent* over 2005-06 while non-salary and wage component by 58.2 *per cent*. Similarly under

Health and Family Welfare sector, the salary and wage component increased by 22.6 *per cent* while Non-salary and wage component decreased by 53.5 *per cent*. The expenditure pattern both in education and health services has not been as per the norms of the TFC which needs correction in the ensuing years.

1.5.3 Expenditure on Economic Services

Expenditure on economic services includes all such services that promote directly or indirectly, productive capacity within the State's economy. The expenditure on economic services (Rs 12422 crore) during 2006-07 accounted for 26.7 *per cent* of the total expenditure (Table 1.20).

Table 1.20: Expenditure on Economic Services

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Agriculture, Allied activities	1342.95	1241.62	1199.77	1391.02	1430.23	3288.87
Revenue Expenditure of which	1238.85	1143.51	1102.10	1291.16	1251.73	1799.30
Salary and Wages component	491.10	470.52	454.48	484.92	504.34	575.76
Non-salary Wage component	747.75	672.99	647.62	806.24	747.39	1223.54
Capital Expenditure	104.10	98.11	97.67	99.86	178.50	1489.57
Irrigation and Flood Control	718.36	789.10	783.04	847.30	797.38	932.02
Revenue Expenditure of which	416.35	486.09	537.75	569.70	532.33	605.13
Salary and Wages component	134.27	124.44	117.70	131.83	130.56	154.46
Non-salary Wage component	282.08	361.65	420.05	437.87	401.77	450.67
Capital Expenditure	302.01	303.01	245.29	277.60	265.05	326.89
Power and Energy	134.63	2027.27	640.10	1149.41	1052.00	1357.07
Revenue Expenditure of which	34.63	2002.27	440.10	1064.41	1027.07	1182.07
Salary and Wages component	0.83	0.56	0.59	0.64	0.72	0.78
Non-salary Wage component	33.80	2001.71	439.51	1063.77	1026.35	1181.29
Capital Expenditure	100.00	25.00	200.00	85.00	25.00	175.00
Transport	671.75	742.22	1682.20	1480.52	2254.20	2540.46
Revenue Expenditure of which	263.90	367.59	451.25	638.14	618.83	859.38
Salary and Wages component	74.05	71.36	68.56	70.47	83.16	93.95
Non-salary Wage component	189.85	296.23	382.69	567.67	535.67	765.43
Capital Expenditure	408.75	374.63	1230.94	842.38	1635.37	1681.08
Other Economic Services	2335.06	2299.45	2127.59	2324.59	3046.32	4303.94
Revenue Expenditure of which	2288.64	2262.16	2076.23	1890.66	2342.53	3350.86
Salary and Wages component	269.75	258.48	248.50	267.44	260.54	303.66
Non-salary Wage component	2018.89	2003.68	1827.73	1623.22	2081.99	3047.20
Capital Expenditure	46.42	37.29	51.36	433.93	703.79	953.08
Total (Economic Services)	5203.67	7099.65	6432.68	7192.84	8580.21	12422.37
Revenue Expenditure of which	4242.39	6261.62	4607.41	5454.07	5772.50	7796.75
Salary and Wages component	970.01	925.36	889.82	955.30	979.33	1128.62
Non-salary Wage component	3272.38	5336.26	3717.59	4498.77	4793.17	6668.13
Capital Expenditure	961.28	838.03	1825.27	1738.77	2807.71	4625.62

The total expenditure in 2006-07 under Economic Services increased by 45 *per cent* over 2005-06 mainly because of increase under Revenue Expenditure by 35 *per cent* and under Capital expenditure by 65 *per cent*.

Out of the total expenditure on Economic Services during 2006-07, Other Economic Services constituted 35 *per cent*, Agriculture and Allied activities constituted 26 *per cent*, Transport constituted 20 *per cent*, Energy constituted 11 *per cent* and Irrigation and Flood Control constituted 8 *per cent*. As compared 2001-02, the total expenditure in 2006-07 under Agriculture and

allied activities increased by Rs 1946 crore of which the increases in Revenue expenditure and Capital expenditure were Rs 560 crore and Rs 1386 crore respectively. Similarly the increase of total expenditure under Transport during 2001-07 was Rs 1868 crore of which the share of increase in Revenue and Capital expenditure were Rs 596 crore and Rs 1272 crore respectively. Under Irrigation and flood control, the increase under total expenditure during 2001-07 was Rs 214 crore with the increase under Revenue and Capital expenditure amounting to Rs 189 crore and Rs 25 crore respectively. The salary component in total expenditure on economic services decreased from 18.6 *per cent* in 2001-02 to 9.1 *per cent* in 2006-07. The non-salary component increased from Rs 3272.38 crore in 2001-02 to Rs 6668.13 crore in 2006-07 at an average rate of growth of 19.9 *per cent* per annum.

The trends in revenue and capital expenditure on economic services indicate that the capital expenditure increased from Rs 961.28 crore in 2001-02 to Rs 4625.62 crore in 2006-07, while revenue expenditure increased from Rs 4242.39 crore in 2001-02 to Rs 7796.75 crore in 2006-07.

An increase of Rs 2024 crore (35 *per cent*) in revenue expenditure under economic services during 2006-07 over previous year was mainly due to increased revenue expenditure under Agriculture and Allied Activities (Rs 548 crore), Rural Development (Rs 80 crore), Irrigation and Flood Control (Rs 73 crore), Energy (Rs 155 crore), Industry and Minerals (Rs 178 crore), Transport (Rs 241 crore) and General Economic Services (Rs 749 crore) and increased Capital Expenditure mainly under Agriculture and allied activities (Rs 1311 crore), Rural Development (Rs 293 crore), Irrigation and Flood Control (Rs 62 crore) and Energy (Rs 150 crore).

1.5.4 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies etc., during the period of five years ending 2005-06 is given in **Table 1.21** below:

Table 1.21: Financial Assistance to local bodies and other institutions

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	316	325	388	484	570
Municipal Corporations and Municipalities	866	847	919	954	1591
Zilla Parishads and Other Panchayati Raj Institutions	1351	1735	1584	1287	1508
Development Agencies	186	312	189	202	295
Hospital and Other Charitable Institutions	4	19	9	20	20
Other Institutions ³	3265	1890	2395	2119	4753
Total	5988	5128	5484	5066	8737
Assistance as a percentage of RE	23	20	19	16	23

³ Institutions/Agencies connected with Water Supply and Sanitation, Housing, Social Welfare, Labour and Employment, Forestry and Wild Life, Agriculture and Allied Activities, Village and Small Industries, Industries and Minerals and Relief on account of Natural Calamities.

As seen from the above table, grants-in-aid extended to Municipal Corporations and Municipalities and Other Institutions increased during 2006-07, as compared to last year by 67 and 124 *per cent* respectively.

The increase of grants-in-aid to Municipal Corporations and Municipalities was mainly due to assistance to new schemes viz., Jawaharlal Nehru Urban Renewal Mission (Rs 123 crore) and urban infrastructure development schemes for small and medium towns (Rs 173 crore) besides increased provision of grants to the ULBs as per the recommendations of State Finance Commission.

1.6 Misappropriation, losses, defalcations, etc.

Cases of misappropriation of Government money reported to Audit up to March 2007 and on which report on final action viz., write-off or recovery was pending at the end of June 2007 are given below in **Table 1.22**.

Table 1.22: Misappropriation cases

	Number of cases	Amount (Rupees in lakh)
Cases reported up to the end of March 2006 and outstanding at the end of June 2006	290	699.06
Cases reported during April 2006 to March 2007	5	10.74
Total	295	709.80
Cases cleared during July 2006 to June 2007	33	4.74
Cases outstanding at the end of June 2007	262	705.06

Department-wise and year-wise analysis of the pending cases are given in **Appendix 1.6**. In all these cases, report on departmental action taken and results of the proceedings against Government servants responsible, which are required to be sent to audit, were still awaited.

Further, 252 cases of shortage, theft, damage to property, etc., involving Rs 2 crore were reported to audit up to March 2007 by departments other than Public Works, Highways and Forest Departments. Besides, 2824 cases involving Rs 17.01 crore were either reported by or noticed during audit of Public Works, Highways and Forest Departments up to March 2007. Department-wise and year-wise analysis of these cases are contained in **Appendix 1.7**.

1.7 Delay in furnishing utilisation certificates

Of the 7,156 utilisation certificates (UC) due in respect of grants and loans aggregating Rs 1196.44 crore paid upto 2005-06, 3,843 UCs for an aggregate amount of Rs 876.88 crore were in arrears. Details of department-wise break-up of outstanding UCs are given in **Appendix 1.8**

1.8 Assets and Liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, Government accounts do capture the financial liabilities of the Government and assets created out of the expenditure incurred.

Appendix 1.5 gives an abstract of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly, the capital outlay and loans and advances given by the State Government and cash balances. **Appendix 1.2** depicts the time series data on State Government finances for the period 2002-07.

During 2006-07, liabilities grew by 7.2 *per cent*. Similarly, assets comprising mainly capital expenditure and loans and advances given by the Government grew by 18.8 *per cent* during 2006-07.

1.8.1 Financial results of Irrigation Works

Statement 3 of Finance Accounts depicts the financial results of five major and 47 medium irrigation projects involving capital expenditure of Rs 2454.08 crore at the end of March 2006. It shows that revenue realised from these projects during 2005-06 was Rs 11.74 crore only and this was not sufficient to cover even the direct working expenses. After meeting the working and maintenance expenditure (Rs 117.72 crore) and interest charges (Rs 114.22 crore), the projects suffered a net loss of Rs 223.19 crore. The losses comprised Rs 157.62 crore on the major irrigation projects and Rs 65.57 crore on the medium irrigation projects.

1.8.2 Incomplete projects

According to information received from the State Government, there were 82 incomplete projects which were scheduled for completion before 31 March 2007 on which Rs 565 crore of capital expenditure was incurred. Each of these projects cost more than Rs 1 crore but were incomplete for reasons such as non-receipt of revised administrative sanction, pending land acquisition, delay in finalisation of tenders, etc. The time overrun noticed as of 31 March 2007 in the incomplete projects ranged between 16 days to 75 months.

1.8.3 Financial analysis of Government investments

1.8.3.1 Government Investments and returns

As of 31 March 2007, Government had invested Rs 4278.43 crore in statutory corporations, rural banks, joint stock companies and co-operatives (**Table 1.23**). The return on this investment was between 0.8 and 1.1 *per cent* in the last five years while Government paid interest at the average rate of 7.8 to 10.1 *per cent* on its borrowings during this period.

Table 1.23: Return on Investment

Year	Investment at the end of the year (Rupees in crore)	Return	Percentage of return	Average rate of interest on government borrowing (per cent)	Difference between interest rate and return
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
2005-06	2744.60	20.92	0.8	7.8	7.0
2006-07	4278.43	26.32	0.6	8.6	8.0

The above investments of Rs 4278.43 crore were made by State Government in 69 companies (statutory corporations: 2, Government Companies: 63 and Joint Stock companies: 4) and Cooperative institutions. Of these, the investment aggregated to Rs 1538.63 crore in 34 loss making government companies and cooperative institutions. The cumulative loss as of March 2007 in the above loss making companies worked out to Rs 3961 crore. Some of the Government companies incurring huge cumulative loss of more than Rs 100 crore are given below:

Table 1.24

Name of the corporation	Cumulative loss as of 31 March 2007 (Rupees in crore)
Metropolitan Transport Corporation (Chennai Division I)	526.20
Express Transport Corporation (Tamil Nadu Division I) Limited	459.79
Tamil Nadu State Transport Corporation (Coimbatore) Limited	214.21
Tamil Nadu State Transport Corporation (Villupuram) Limited	182.56

1.8.3.2 Loans and advances by State Government

In addition to investments in co-operative societies, corporation and companies, Government has also been providing loans and advances to many of these institutions/organisations. Total outstanding loans and advances as on 31 March 2007, was Rs 6151 crore (**Table 1.25**). Average rate of interest received against these loans advanced was 5.9 per cent during 2006-07 as against 5.4 per cent in previous year.

Table 1.25: Average Interest Received on Loans Advanced by the State Government

	(Rupees in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Opening Balance	4348	4612	5048	5351	5499
Amount advanced during the year	697	1011	1086	1040	2254
Amount repaid during the year	433	575	783	892	1602
Closing Balance	4612	5048	5351	5499	6151
Net addition	264	436	303	148	652
Interest Received	311	215	175	292	343
Average rate of interest earned (in per cent)	6.9	4.5	3.4	5.4	5.9
Average interest rate paid on borrowings by State Government (in per cent)	10.1	10.1	9.1	7.8	8.6
Difference between weighted interest paid and average rate of interest received (in per cent)	(-) 3.2	(-) 5.6	(-) 5.7	(-) 2.4	(-) 2.7

The above table indicates that the difference between the average rate of interest paid by the State Government over that earned, after decreasing from 5.7 per cent in 2003-04 to 2.4 per cent in 2005-06, increased slightly to 2.7 per cent in 2006-07.

Loans and Advances given increased from Rs 1040 crore in 2005-06 to Rs 2254 crore in 2006-07 mainly due to increased loan under Urban Development Schemes and cooperation schemes and to cooperative sugar mills, Industrial Financial Institutions and State Transport Undertakings.

Similarly amount of loan repaid, increased from Rs 892 crore in 2005-06 to Rs 1602 crore in 2006-07 mainly due to increased repayment of loans under Agriculture and Allied Activities (Rs 913 crore) offset by the decreased

repayment of loans under Energy (Rs 77 crore) and Industry and Minerals (Rs 98 crore).

1.8.4 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) – ordinary and special – from Reserve Bank of India (RBI) has been put in place.

Ways and Means Advances and Overdrafts availed, the number of occasions it was availed and interest paid by the State during 2002-06 are detailed in **Table 1.26**.

Table 1.26: Ways and Means Advances and Overdrafts of the State

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Ways and Means Advances					
Availed in the Year	8624.44	1710.13	1337.07	675.12	--
Outstanding WMAs, if any	651.42	596.33	391.45	--	--
Number of Days	284	41	23	14	--
Interest Paid	20.46	7.64	1.40	0.61	--
Overdraft					
Availed in the year	1911.22	--	--	--	--
Number of Days	71	2	--	--	--
Interest Paid	3.98	0.86	--	--	--

The Ways and Means Advance availed of declined sharply since 2002-03 as indicated in **Table 1.26** and no Ways and Means Advances were obtained during 2006-07. State had not availed of any overdraft since 2003-04.

1.9 Undischarged Liabilities

1.9.1 Fiscal Liabilities – Public Debt and Guarantees

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a 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 the Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits. 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 1.27 gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table 1.27: Fiscal Liabilities – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities (Rupees in crore)	43915	49445	55144	62310	66320
Rate of Growth (<i>per cent</i>)	15.8	12.6	11.5	13	6.4
Ratio of Fiscal Liabilities to					
GSDP (<i>per cent</i>)	27.7	28.1	27.5	27.9	26.9
Revenue Receipts (<i>per cent</i>)	210.8	208.6	193.8	183.5	162.1
Own Resources (<i>per cent</i>)	271.0	274.1	255.7	240.3	212.6
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	2.53	1.14	0.81	1.15	0.63
Revenue Receipts (ratio)	1.48	0.9	0.58	0.67	0.31
Own Resources (ratio)	1.41	1.1	0.59	0.64	0.32

The overall fiscal liabilities of the State increased from Rs 43915 crore in 2002-03 to Rs 66320 crore in 2006-07. Fiscal liabilities of the State comprise Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (Rs 53082 crore) comprise of market loan (Rs 16376 crore) loan from GOI (Rs 6466 crore), Special Securities issued to National Small Savings Fund of the Central Government (Rs 25630 crore) and other loans (Rs 4610 crore). The Public Account liabilities (Rs 13238 crore) comprise of Small Savings, Provident Fund (Rs 7088 crore), Interest bearing obligations (Rs 1982 crore) and non-interest bearing obligations (Rs 4168 crore) both containing deposits and other earmarked funds.

The growth rate of Fiscal Liabilities was 6.4 *per cent* during 2006-07 over previous year. The ratio of fiscal liabilities to GSDP increased from 27.7 *per cent* in 2002-03 to 28.1 *per cent* in 2003-04 and then decreased to 26.9 *per cent* in 2006-07. These liabilities stood at 1.62 times of the revenue receipts and 2.13 times of the State's own resources at the end of 2006-07. The fiscal liabilities had grown faster than the State's GSDP during 2002-06. The buoyancy of these liabilities with respect to GSDP during the year 2006-07 was 0.63 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.63 *per cent* during 2006-07.

State Government had a set up sinking fund for amortisation open market loans, Central Government loans and Special Securities issued to National Small Savings Fund. As of March 2007, the balance in sinking fund was Rs 1574.11 crore out of which Rs 1380.43 crore were invested in securities.

1.9.2 Status of Guarantees – Contingent liabilities

1.9.2.1 Guarantees given

Guarantees are given by Government of Tamil Nadu for the due discharge of certain liabilities like loan, repayment of share capital etc., raised by statutory corporation, Government companies and cooperative institutions as also for payment of interest and minimum dividend.

Table 1.28: Guarantees given by Government of Tamil Nadu**(Rupees in crore)**

Year	Maximum amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to total revenue receipt
2002-03	16353	8677	78.5
2003-04	18843	10098	79.5
2004-05	17220	8424	60.5
2005-06	13669	5564	40.3
2006-07	15942	4038	39.0

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 honor these commitments. The maximum guarantees given in a year and the outstanding guarantees at the close of the year are given in **Table 1.28**

In consideration of the guarantees given by the Government, the institutions, in some cases are required to pay guarantee fees. During 2006-07, Rs 4.25 crore was received as guarantee fees and Rs 18.84 crore was pending recovery towards the guarantee fees as on 31 March 2007.

1.9.2.2 Capping of total outstanding guarantees as per TNFR Act, 2003

According to the TNFR Act passed by the State Legislature in May 2003 as amended in February 2004 and May 2005 the Government should cap the total outstanding guarantees to 100 per cent of the total revenue receipts in the preceding year or at 10 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 7.5 per cent of GSDP, whichever is lower.

Table 1.29: Outstanding guarantee compared to revenue receipts and GSDP**(Rupees in crore)**

Year	Outstanding amount of guarantee at the end of the year	Revenue Receipts of the previous year	Percentage of column (2) figures to column (3) figures	GSDP of previous year	Percentage of column(2) to column (5)
(1)	(2)	(3)	(4)	(5)	(6)
2003-04	10098	20837	48.5	158370	6.5
2004-05	8424	23706	35.5	175897	4.8
2005-06	5564	28452	19.6	200780	2.8
2006-07	4038	33960	11.9	223528	1.8

From the above figures (**Table 1.28**), it is seen that maximum amount of guarantees as on 31 March 2007 was Rs 15942 crore against which sums outstanding on that date were Rs 4038 crore (Principal: Rs 3960 crore; Interest: Rs 78 crore). The outstanding guarantees for 2006-07 at 11.9 per cent of revenue receipts and 1.8 per cent GSDP for the previous year viz., 2005-06 were within the ceiling limits prescribed under TNFRBM Act 2003 as amended thereafter in 2005.

1.9.2.3 Guarantee Redemption Fund

Government constituted a Guarantee Redemption Fund (GRF) in March 2003 for discharge of invoked guarantees. The guarantee fees collected are initially credited to Government account and then transferred to this fund. During

2003-04 to 2006-07, Rs 224 crore had been credited to the Guarantee Redemption Fund and out of this Rs 162.21 crore was met from the fund on invoking guarantees during the above period, as detailed below:

Table 1.30

(Rupees in crore)

Year	Amount	
	Deposited	Withdrawn
2003-04	50.00	3.51
2004-05	50.00	89.99
2005-06	74.00	67.98
2006-07	50.00	0.73
Total	224.00	162.21

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 2007 was Rs 61.79 crore. During 2006-07, Rs 50 crore were credited and Rs 0.73 crore were met from the fund for meeting guarantee given for Tamil Nadu Handloom Weavers Cooperative Society Limited (Co-optex).

1.10 Debt Sustainability

The debt sustainability is defined as the ability of the State to maintain a constant debt – GDP ratio, over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between cost of additional borrowings with returns from such borrowings. It means the rise in fiscal deficit should match with the increase in capacity to service the debt. A prior condition for debt sustainability is the debt stabilisation in terms of debt/GSDP ratio.

1.10.1 Debt-stabilisation

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided preliminary balances are either zero or positive or are moderately negative. Given the rates spread (GSDP growth rate – interest rate) and quantum spread (debt * rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt – GSDP ratio would be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt – GSDP ratio would be rising and in case it is positive, debt – GSDP ratio would eventually be falling. Trends in fiscal variable indicating the progress towards the debt-stabilisation are indicated in **Table 1.31**.

Table 1.31 : Debt-sustainability – interest rate and GSDP in per cent

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
GSDP growth	5.64	6.24	11.07	14.15	11.33	10.17
Weighted interest rate	11.04	7.20	6.15	6.29	7.69	8.10
Interest spread	(-) 5.40	(-) 0.96	4.92	7.86	3.64	2.07
Quantum spread (Rs in crore)	(-) 1804.73	(-) 364.16	2160.62	3886.38	2007.24	1289.82
Primary deficit(-)/surplus(+)	(-) 1227	(-) 2609	(-) 891	(-) 815	(+) 2308	(+) 1550

Table 1.31 reveals that quantum spread together with primary deficit has been negative during 2001-02 and 2002-03 led to an increase in debt-GSDP ratio during these years. From 2003-04 onwards, the quantum spread together with primary deficit turned positive, indicating the declining trend in debt/GSPD ratio from 28.1 in 2003-04 to 26.9 in 2006-07. The ratio of fiscal deficit to GSDP also moved almost on similar trajectory indicating a decline since 2002-03. These trends indicate that the State is moving towards debt stabilisation, which in turn improves the debt sustainability position of the State.

1.10.2 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its 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 primary expenditure. **Table 1.32** indicates the resource gap as defined for the period 2002-07.

Table 1.32: Net Availability of Borrowed Funds

(Rupees in crore)

Year	Incremental			Total Expenditure	Resource Gap
	Non-debt Receipts	Primary Expenditure ⁴	Interest Payments		
2001-02	466	(-) 260	389	129	337
2002-03	2128	3510	620	4130	(-) 2002
2003-04	3011	1293	567	1860	1151
2004-05	4954	4878	55	4933	21
2005-06	5617	2494	(-) 196	2298	3319
2006-07	7663	8421	947	9368	(-) 1705

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. During 2001-07, only two out of six years reflects the negative resources gaps indicating an enhancement in the capacity of the State to meet its expenditure out of its non debt receipts. During the current year the negative resource gap was primarily on account of a steep increase in primary expenditure over the previous year.

1.10.3 Net availability of borrowed funds

Another important indicator of debt sustainability is the net availability of funds after the payment of the principal on account of earlier contracted liabilities and interest.

Table 1.33 below gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State over the last five years.

⁴ Primary Expenditure is defined as the Total Expenditure net of the interest payments.

Table 1.33: Net Availability of Borrowed Funds

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Internal Debt					
Receipt	17883	10410	12215	9200	6820
Repayment (Principal + Interest)	11851	5774	7216	5841	8311
Net Fund Available	6032	4636	4999	3359	(-) 1491
Net Fund Available (<i>per cent</i>)	34	45	41	37	..
Loans and Advances from GOI					
Receipt	920	1023	1259	442	327
Repayment (Principal + Interest)	3164	4608	5270	728	1169
Net Fund Available	(-) 2244	(-) 3585	(-) 4011	(-) 286	(-) 842
Net Fund Available (<i>per cent</i>)	--	--	--	--	..
Total Public Debt					
Receipt	18803	11433	13474	9642	7147
Repayment (Principal + Interest)	15015	10382	12486	6569	9480
Net Fund Available	3788	1051	988	3073	(-) 2333
Net Fund Available (<i>per cent</i>)	20.1	9.2	7.3	31.9	..

The net funds available on account of internal debt and loans and advances from GOI after declining from Rs 3788 crore in 2002-03 to Rs 988 crore in 2004-05, increased to Rs 3073 crore in 2005-06. However, during 2006-07, repayment of both internal debt and loans and advances from GOI was higher than the receipt under them. The **Table 1.33** above 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 7.3 *per cent* and 31.9 *per cent* during 2002-06.

1.11 Management of deficits

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.

1.11.1 Trends in deficits

Table 1.34 given below showing the basic parameters of fiscal imbalances during the period 2002-07 revealed that the State Government improved its financial position over the years and achieved revenue surplus and primary surplus during 2005-06 and 2006-07 but continued to have fiscal deficit.

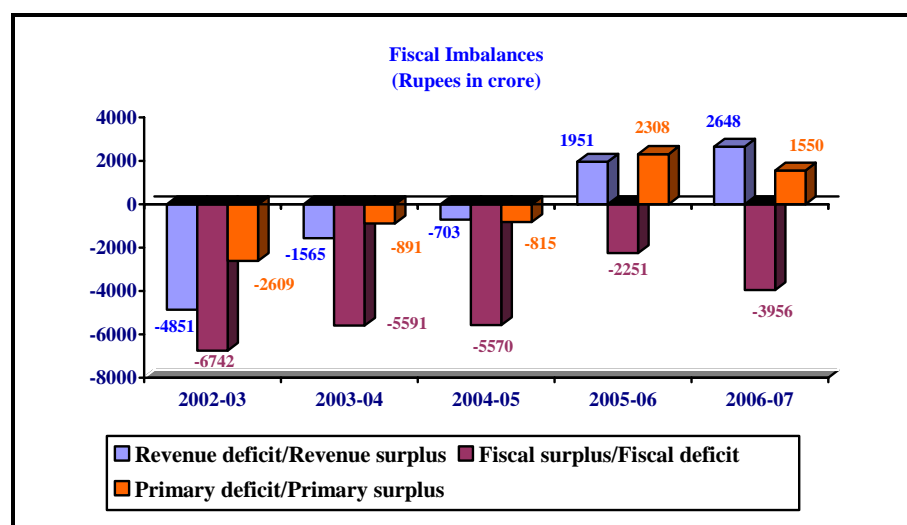
Table 1.34: Fiscal Imbalances: Basic Parameters

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue deficit (RD) (-) / Revenue Surplus (RS) (+) (Rupees in crore)	(-) 4851	(-) 1565	(-) 703	(+) 1951	(+) 2648
Fiscal deficit (FD) (Rupees in crore)	(-) 6742	(-) 5591	(-) 5570	(-) 2251	(-) 3956
Primary deficit ⁵ (PD) (-) / Primary surplus (PS) (+) (Rupees in crore)	(-) 2609	(-) 891	(-) 815	(+) 2308	(+) 1550

⁵ Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the States during the course of the year.

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07
RD or RS/GSDP (per cent)	(-) 3.1	(-) 0.9	(-) 0.4	0.9	1.1
FD/GSDP (per cent)	(-) 4.3	(-) 3.2	(-) 2.8	(-) 1.0	(-) 1.6
PD or PS/GSDP (per cent)	(-) 1.6	(-) 0.5	(-) 0.4	1.0	0.6
RD or RS/FD (per cent)	72.0	28.0	12.6	(-) 86.7	(-) 66.9

Table 1.34 reveal that the revenue account experienced huge deficit during 2002-05, as the revenue expenditure exceeds the revenue receipts during all those years. However, during 2005-06 and 2006-07, the revenue account turned in to a surplus mainly due to increased revenue receipts. The fiscal deficit, which represents the total borrowings of the Government and its total resource gap, after improving from Rs 6742 crore in 2002-03 to Rs 2251 crore in 2005-06, again increased to Rs 3956 crore in 2006-07. The Primary deficit of the State decreased from Rs 2609 crore in 2002-03 to Rs 815 crore in 2004-05. During 2005-06, it turned into primary surplus of Rs 2308 crore. In 2006-07, the primary surplus slightly declined to Rs 1550 crore because the increase in fiscal deficit (Rs 1705 crore) was more than the increase in the interest payments (Rs 947 crore).



1.11.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary Deficit into Primary Revenue Deficit⁶ and Capital Expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of RD to FD indicates the extent to which borrowed funds were used for current consumption. The ratio of RD to FD declined steeply during 2002-05 and the RD was wiped out and turned into surplus during 2005-06 and 2006-07. This trajectory shows a consistent improvement in the quality of deficit.

The bifurcation of the factors resulting in to primary deficit or surplus of the State during the period 2001-07 reveals (**Table 1.35**) that throughout this period except in the year 2002-03, the primary deficit was on account of

⁶ Primary Revenue Deficit is the gap between non-interest revenue expenditure of the State and its non-debt receipts and it indicate the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet primary expenditure requirements in the revenue account during these years, rather left some receipts to meet the expenditure under the capital account. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account, resulting in primary deficit till 2004-05. During 2005-06 and 2006-07, the availability of sufficient surplus out of non-debt receipts after meeting the primary expenditure led to the primary surplus.

Table 1.35: Primary deficit/surplus – Bifurcation of factors

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and advances	Primary Expenditure	Primary Revenue Deficit (-)/ Surplus (+) with reference to Revenue expenditure	Primary Deficit (-)/ Surplus (+) with reference to Capital expenditure
(1)	(2)	(3)	(4)	(5)	(6)=(3)+(4)+(5)	(7)= (2)-(3)	(8)=(2)-(6)
2001-02	19142	18044	1778	547	20369	1098	(-) 1227
2002-03	21270	21555	1628	697	23880	(-) 285	(-) 2610
2003-04	24281	20571	3590	1011	25172	3710	(-) 891
2004-05	29235	24400	4564	1086	30050	4835	(-) 815
2005-06	34852	27450	4054	1040	32544	7402	2308
2006-07	42515	32759	5952	2254	40965	9756	1550

1.12 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table 1.36** below presents a summarised position of Government finances over 2002-07, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

Table 1.36: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07
I Resource Mobilisation					
Revenue Receipt/GSDP	13.2	13.5	14.2	15.2	16.6
Revenue Buoyancy	1.72	1.24	1.42	1.71	2.01
Own Tax/GSDP	1.64	1.01	1.51	1.81	1.87
II Expenditure Management					
Total Expenditure/GSDP	17.7	17.0	17.3	16.6	18.9
Total Expenditure/Revenue Receipts	134.4	126.0	122.3	109.3	113.6
Revenue Expenditure/Total Expenditure	91.7	84.6	83.8	86.3	82.3
Capital Expenditure/Total Expenditure	5.8	12.0	13.1	10.9	12.8
Buoyancy of TE with RR	1.62	0.48	0.83	0.34	1.23
Buoyancy of RE with RR	1.79	0.11	0.77	0.51	0.95
III Management of Fiscal Imbalances					
Revenue deficit (-) /Revenue Surplus (+) (Rs in crore)	(-) 4851	(-) 1565	(-) 703	(+) 1951	(+) 2648
Fiscal deficit (Rs in crore)	(-) 6742	(-) 5591	(-) 5570	(-) 2251	(-) 3956
Primary Deficit (-)/ Primary Surplus (+) (Rs in crore)	(-) 2609	(-) 891	(-) 815	(+) 2308	(+) 1550
Revenue Deficit/Fiscal Deficit	72.0	28.0	12.6	(-) 86.7	(-) 66.9

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07
IV Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	27.7	28.1	27.5	27.9	26.9
Fiscal Liabilities/RR	210.8	208.6	193.8	183.5	162.1
Buoyancy of FL with RR	1.48	0.91	0.58	0.67	0.31
Buoyancy of FL with Own Receipt	1.41	1.11	0.59	0.64	0.32
Net Funds Available under Public Debt	20.1	9.2	7.3	31.9	..
V Other Fiscal Health Indicators					
Return on Investment	0.8	1.1	0.9	0.8	0.6
Balance from Current Revenue (Rs in crore)	(-) 3010	(+) 1280	(+) 1962	(+) 6054	(+) 7550
Financial Liabilities / Assets	0.42	0.45	0.51	0.61	0.67

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of resources. The buoyancy of the revenue receipts indicates the nature of tax regime and the State's increasing access to resources. The revenue receipts comprising only tax and non-tax resources of the State but also the transfers from Union Government as a ratio to GSDP during the current year is 16.6 *per cent* an increase of 1.4 percentage point over the previous year. The ratio of own taxes to GSDP showed improvement since 2003-04 and it increased from 1.51 *per cent* in 2003-04 to 2.10 *per cent* in 2006-07.

Various ratios containing the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resources mobilisation efforts. The revenue expenditure as a percentage of total expenditure declined from 91.7 *per cent* in 2002-03 to 82.3 *per cent* in 2006-07 (except during 2005-06). The ratio of Revenue Expenditure to Total Expenditure during 2006-07 is 82.3 which indicate that 82.3 *per cent* of total expenditure of the State was in the nature of current consumption. Increasing reliance on revenue receipts to finance the total expenditure reflected by the falling total expenditure to revenue receipts ratio which was 113.6 during 2006-07 indicates that about 88 *per cent* of total expenditure was met from its current revenues, leaving only a small portion of revenue receipts for new ventures and for which Government has to borrow funds necessarily.

However, decreasing ratio of fiscal liabilities to revenue receipts and increasing proportion of plan expenditure and Capital expenditure in the total expenditure indicate improvement in both developmental and quality of expenditure.

Revenue surplus and significant decline in fiscal deficit since 2002-03, despite a slight increase during 2006-07 indicates improvements in fiscal position of the State. The Balance from Current Revenue (BCR Rs 7550 crore) increased by 285 *per cent* over 2004-05 indicates that ample funds are available for creation of assets and to meet State Plan Schemes in the last two years.

1.13 Conclusion

The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit – has shown a mixed trend in 2006-07 relative to the previous year. Although revenue surplus has improved during 2006-07 by Rs 697 crore but fiscal deficit and primary surplus has indicated deterioration primarily on account of an increase Rs 1898 crore and

Rs 1214 crore respectively in capital expenditure and disbursement of loans and advances during the current year over the previous year.

The expenditure pattern of the State reveals that the revenue expenditure as a *percentage* to total expenditure although indicated a declining trend but it still constitutes little more than 82 *per cent* of the total expenditure during 2006-07 leaving inadequate resources for expansion of services and creation of assets as a result of which only 67 *per cent* of fiscal liabilities of the State has asset backup during 2006-07. The NPRE of the State at Rs 31064 crore during 2006-07 exceeded the normative projection of the TFC for the State for the year by Rs 4999 crore. Moreover, within the non plan revenue expenditure, four components – salary expenditure, pension liabilities, interest payments and subsidies – constitute about 76 *per cent* of NPRE during 2006-07. These trends in expenditure indicate the need for changing allocative priorities. The increasing fiscal liabilities accompanied with negligible rate of return on government investments and inadequate interest cost recovery on loans and advances might lead to a situation of unsustainable debt situation in medium to long run, unless suitable measures are initiated to compress the non plan revenue expenditure and to mobilise the additional resources both through the tax and non tax sources in ensuing years.
