CHAPTER I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

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1.1 Introduction

This chapter discusses the financial position of the State Government, based on the analysis of the information contained in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of the State Government. In addition, the chapter also contains a section on the analysis of indicators of financial performance of the Government, based on certain ratios and indices developed on the basis of the information contained in the Finance Accounts and other information furnished by the State Government. Some of the terms used in this chapter are explained in the Appendix I.

1.2 Financial position of the State

In the Government accounting system, comprehensive accounting of the fixed assets like land and buildings etc., owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. Exhibit I gives an abstract of such liabilities and assets as on 31 March 2002, compared with the corresponding position on 31 March 2001. While the liabilities in this statement consist mainly of external and internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. It would be seen from Exhibit I that while the liabilities grew by 13.1 *per cent*, the assets grew by only 11.8 *per cent* during 2001-2002. There was overall deterioration in the financial condition.

1.3 Sources and applications of funds

1.3.1 Exhibit III gives the position of sources and applications of funds during the current and the preceding year. The main sources of funds include the revenue receipts of the Government, recoveries of the loans and advances, public debt and the receipts in the Public Account. These are applied mainly on revenue and capital expenditure and on lending for developmental purposes. It would be seen that the revenue receipts constitute the most significant source of fund for the State Government, and their relative share went up from 76.7 *per cent* in 2000-2001 to 78.8 *per cent* during 2001-2002. The share of recoveries of loans and advances went down marginally from 1.5 *per cent* to 1.4 *per cent*. The share of receipts from Public debt was 14.4 *per cent* and that of receipts in the Public Account was 4.8 *per cent*.

1.3.2 Revenue Receipts were mainly applied for revenue expenditure. The Revenue Expenditure constituted 90.3 *per cent* of the total expenditure of the State Government. The continuous excess of revenue expenditure over the revenue receipts led to revenue deficit. The net decrease of Rs 195.47 crore in the revenue expenditure compared to 2000-2001 was attributable mainly to less expenditure on employment schemes, MLA Constituency Development Schemes, Community Development Schemes, Tariff Compensation to Tamil Nadu Electricity Board for free supply of electricity to farmers and Adult Education. The percentage of capital expenditure to total expenditure of the State went up from 6.5 *per cent* to 7.4 *per cent* and lending for development purposes from 1.9 *per cent* to 2.3 *per cent*.

EXHIBIT I
SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF TAMIL NADU AS ON 31 MARCH 2002

(Rupees in crore)

As on 31.03.2001	Liabilities		As on 31.03.2002
10935.90	Internal Debt (excluding overdrafts) -		14058.56
5818.53	Market Loans bearing interest	6860.86	
17.72	Market Loans not bearing interest	5.24	
645.98	Loans from Life Insurance Corporation of India	789.02	
4212.14	Loans from other Institutions	6301.81	
241.53	Ways and Means Advances	101.63	
..	Overdrafts from Reserve Bank of India	..	
11929.36	Loans and Advances from Central Government -		12251.91
126.00	Pre 1984-85 Loans	105.95	
4031.45	Non-Plan Loans	3915.18	
7661.37	Loans for State Plan Schemes	8111.51	
32.79	Loans for Central Plan Schemes	32.06	
77.75	Loans for Centrally Sponsored Plan Schemes	87.21	
149.39	Contingency Fund		150.00
5819.96	Small Savings, Provident Funds, etc.		6380.55
3533.62	Deposits		4059.90
1235.45	Reserve Funds		1215.84
324.12	Remittance Balances		251.20
33927.80			**38367.96**
As on 31.03.2001	**Assets**		**As on 31.03.2002**
10795.48	Gross Capital Outlay on Fixed Assets -		12587.10
2963.27	Investments in shares of Companies, Corporations, etc.	2952.14	
7832.21	Other Capital Outlay	9634.96	
4125.05	Loans and Advances -		4347.58
335.25	Loans for Power Projects	262.45	
3314.30	Other Development Loans	3530.81	
475.50	Loans to Government servants and Miscellaneous loans	554.32	
33.45	Reserve Fund Investments		33.33
8.08	Advances		6.53
(-) 256.70	Suspense and Miscellaneous Balances		(-)370.14
225.24	Cash -		81.81
122.59	Cash in Treasuries and Local Remittances	119.28	
95.55	Deposits with Reserve Bank	(-) 44.39	
3.09	Departmental Cash Balance	1.13	
5.68	Permanent Advances	5.79	
(-) 1.67	Cash Balance Investments	..	
18997.20	Deficit on Government Account -		21681.75
3435.78	(i) Revenue Deficit of the current year	2738.94	
(-) 18.26	(ii) Miscellaneous Deficit	(-) 40.68	
15579.68	Accumulated deficit up to 31 March 2001	18983.49*	
33927.80			**38367.96**

* **differs from the figures for last year due to proforma correction.**

EXHIBIT II
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2001-2002

(Rupees in crore)

2000-2001		Receipts		2001-2002	2000-2001		Disbursements	Non-Plan	Plan	Total	2001-2002
		Section-A: Revenue									
18316.66	I	Revenue receipts		18818.03	**21752.44**	I	Revenue expenditure-				21556.97
12282.24		-Tax revenue	13009.70		**8353.71**		**General services**	**8908.37**	**12.59**	**8920.96**	
					7792.21		**Social Services-**	**6540.26**	**1136.80**	**7677.06**	
1710.78		-Non-tax revenue	1556.72		4396.00		-Education, Sports, Art and Culture	4058.74	234.13	4292.87	
					1160.49		-Health and Family Welfare	858.63	325.76	1184.39	
2783.75		-State's share of Union Taxes	2870.07		338.73		-Water Supply, Sanitation, Housing and Urban Development	169.60	154.71	324.31	
					19.26		-Information and Broadcasting	13.06	0.41	13.47	
264.61		-Non-Plan grants	167.89		495.35		-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	248.90	225.95	474.85	
680.22		-Grants for State Plan Scheme	667.31		107.73		-Labour and labour Welfare	102.35	2.57	104.92	
					1223.62		-Social Welfare and Nutrition	1086.31	192.42	1278.73	
595.06		-Grants for Central and Centrally sponsored Plan Schemes	546.34		51.03		-Others	2.67	0.85	3.52	
					4628.01		**Economic Services-**	**3239.42**	**1002.96**	**4242.38**	
					1334.37		-Agriculture and Allied Activities	875.60	363.25	1238.85	
					656.11		-Rural Development	122.61	348.51	471.12	
					15.27		-Special Areas Programmes	0.25	15.63	15.88	
					428.91		-Irrigation and Flood control	330.78	85.57	416.35	
					2.93		-Energy	0.48	34.15	34.63	
					247.10		-Industry and Minerals	100.99	69.50	170.49	
					265.79		-Transport	203.97	60.44	264.41	
					16.21		-Science, Technology and Environment	..	5.95	5.95	
					1661.32		-General Economic Services	1604.74	19.96	1624.70	
					978.51		**Grants-in-aid and Contributions-**	**442.18**	**274.39**	**716.57**	
							Total	19130.23	2426.74	21556.97	
3435.78	II	Revenue deficit carried over to Section B		2738.94		II	Revenue Surplus carried over to Section B				
21752.44		**Total**		**21556.97**	**21752.44**		**Total**				**21556.97**
		Section-B : Others									
84.43	III	Opening Cash balance including Permanent Advances and Cash Balance Investment		225.24	98.13	III	Opening Overdraft from Reserve Bank of India				..
..	IV	Miscellaneous Capital receipts			**1546.88**	IV	Capital Outlay-				1777.91
					152.03		**General Services-**	**83.52**	**67.11**	**150.63**	
					634.15		**Social Services-**	**39.62**	**626.38**	**666.00**	
					13.67		-Education, Sports, Art and Culture	(-) 0.10	7.03	6.93	
					26.89		-Health and Family Welfare	..	35.27	35.27	
					571.11		-Water Supply, Sanitation, Housing and Urban Development	39.45	574.39	613.84	
					2.71		-Information and Broadcasting	(-) 0.28	..	(-) 0.28	
					16.28		-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	0.38	9.03	9.41	

EXHIBIT II – (concld.)

(Rupees in crore)

2000-2001				2001-2002	2000-2001			Non-plan	Plan	Total	2001-2002
		Section-B: Others (concld)									
					4.19		-Social Welfare and Nutrition	..	0.07	0.07	
					(-) 0.70		-Others	0.17	0.59	0.76	
					760.70		**Economic Services-**	**(-) 3.90**	**965.18**	**961.28**	
					100.49		-Agriculture and Allied Activities	(-) 3.90(b)	108.00	104.10	
					194.55		-Rural Development	..	33.60	33.60	
					13.28		-Special Areas Programmes	..	11.53	11.53	
					291.85		-Irrigation and Flood Control	..	302.01	302.01	
					(-) 219.43		-Energy	..	100.00	100.00	
					0.24		-Industry and Minerals	(c)	0.73	0.73	
					378.09		-Transport	..	408.75	408.75	
					1.63		-General Economic Services	(d)	0.56	0.56	
					1546.88		**Total**	**119.24**	**1658.67**	**1777.91**	
359.35	**V**	Recoveries of Loans and Advances-		324.34	**452.65**	**V**	Loans and Advances disbursed-				546.87
77.91		-From Power Projects	105.58		..		-For Power Projects			32.77	
101.07		-From Government Servants	105.42		150.10		-To Government Servants			184.47	
180.37		-From Others	113.34		302.55		-To Others			329.63	
					3435.78	**VI**	Revenue deficit brought down				2738.94
4731.47	**VI**	Public debt receipts-		4521.54	**757.30**	**VII**	Repayment of Public debt-				1076.34
..		-External debt	..		..		-External debt			..	
4665.00		-Internal debt other than Ways and Means Advances	3609.23		162.75		-Internal debt other than Ways and Means Advances and Overdraft			346.68	
..		- Net transactions under Ways and Means Advances	..		72.18(e)		- Net transactions under Ways and Means Advances			139.90(e)	
66.47		-Loans and Advances from Central Government	912.31		522.37		-Repayment of Loans and Advances to Central Government			589.76	
..	**VII**	Appropriation to Contingency Fund		..	..	**VIII**	Appropriation to Contingency Fund				..
..	**VIII**	Amount transferred to Contingency Fund		0.61	**0.61**	**IX**	Expenditure from Contingency Fund				..
21285.60	**IX**	Public Account receipts-		21209.10	**19944.26**	**X**	Public Account disbursements-				20058.97
2792.47		-Small Savings and Provident Funds	2863.10		1821.25		-Small Savings and Provident Funds			2302.51	
224.36		-Reserve Funds	196.38		192.28		-Reserve Funds			215.87	
6007.18		-Suspense and Miscellaneous	6560.69		5986.51		-Suspense and Miscellaneous			6406.57	
5109.28		-Remittances	4674.31		4903.71		-Remittances			4747.23	
7152.31		-Deposits and Advances	6914.62		7040.51		-Deposits and Advances			6386.79	
..	**X**	Closing Overdraft from Reserve Bank of India		..	**225.24**	**XI**	Cash Balance at end-				81.80
					122.59		-Cash in Treasuries and Local Remittances		119.28		
					95.55		-Deposits with Reserve Bank		(-) 44.39		
					8.77		-Departmental Cash Balance including permanent Advances		6.91		
					(-) 1.67		-Cash Balance Investment		..		
26460.85		**Total**		**26280.83**	**26460.85**		**Total**				**26280.83**

(b) minus expenditure is due to repayment of share capital; (c) Rs 2,083 only; (d) Rs (-) 596 only and (e) Represents receipts: Rs 4855.47 crore and disbursements: Rs 4995.37 crore.

EXHIBIT III

SOURCES AND APPLICATIONS OF FUNDS

(Rupees in crore)

2000-2001		**Sources**	**2001-2002**
18316.66	1.	Revenue receipts	18818.03
359.35	2.	Recoveries of Loans and Advances	324.34
3974.17	3.	Increase in Public debt other than overdraft	3445.20
(-) 98.13	4.	Increase in overdraft	..
	5.	Net receipts from Public Account:	
971.22		Increase in Small Savings and Provident Funds	560.59
111.80		Increase in Deposits and Advances	527.83
32.08		Increase in Reserve Funds	(-) 19.49
20.67		Net effect of suspense and Miscellaneous transactions	154.12
205.57		Net effect of Remittance transactions	(-) 72.92
(-) 0.61	6.	Net effect of Contingency Fund transactions	0.61
..	7.	Decrease in closing cash balance	143.44
23892.78		**Total**	**23881.75**
2000-2001		**Applications**	**2001-2002**
21752.44	1.	Revenue expenditure	21556.97
452.65	2.	Lending for development and other purposes	546.87
1546.88	3.	Capital expenditure	1777.91
140.81	4.	Increase in closing cash balance	..
23892.78		**Total**	**23881.75**

Explanatory Notes for Exhibits I, II and III:

1. The abridged accounts in the foregoing statements have to be read with comments and explanations in the Finance Accounts.
2. Government accounts being mainly on cash basis, the deficit on Government account, as shown in Exhibit I, indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation or variation in stock figures etc., do not figure in the accounts.
3. Suspense and Miscellaneous balances include cheques issued but not paid, payments made on behalf of the State and other pending settlements etc.
4. There was a difference of Rs 219.38 lakh (net debit) between the figures reflected in the Accounts and that intimated by the Reserve Bank of India under "Deposits with Reserve Bank". A net difference of Rs 84.50 lakh (net debit) had been reconciled (April 2002) leaving a balance of net debit of Rs 134.88 lakh.

EXHIBIT IV

TIME SERIES DATA ON STATE GOVERNMENT FINANCES

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Part A. Receipts					
1. Revenue Receipts	**13587 (45)**	**14261 (43)**	**16328 (41)**	**18317 (41)**	**18818 (42)**
(i) Tax Revenue	**8686 (64)**	**9625 (67)**	**10919 (67)**	**12282 (67)**	**13010 (69)**
Taxes on Agricultural Income	39	39	18	5	2
Taxes on Sales, Trade, etc	5604	6113	7024	8197 (67)	8386 (65)
State Excise	1300	1710	1834	1869 (15)	2058 (16)
Taxes on vehicles	470	518	578	590 (5)	648 (5)
Stamps and Registration fees	632	673	818	910 (7)	1138 (9)
Land Revenue	60	28	47	56 (1)	50
Taxes on goods and passengers	215	183	223	242 (2)	283 (2)
Other Taxes	581	544	600	413 (3)	445 (3)
(ii) Non Tax Revenue	**1122**	**1157**	**1357**	**1711 (9)**	**1557 (8)**
(iii) State's share of Union taxes and duties	**2728**	**2409**	**2667**	**2784 (15)**	**2870 (15)**
(iv) Grants in aid from Government of India	**1051**	**1070**	**1385**	**1540 (8)**	**1381 (8)**
2 . Miscellaneous Capital Receipts	..	..	..	..	..
3. Total Revenue and Non debt capital receipts (1+2)	13587	14261	16328	18317	18818
4. Recoveries of Loans and Advances	1217	323	314	359	324
5. Public Debt Receipts	**2133 (7)**	**2678 (8)**	**3711 (9)**	**4731**	**4522 (10)**
Internal Debt (excluding Ways and Means Advances and Overdrafts)	698	1044	1288	4665	3609
Net transactions under Ways and Means Advances and Overdrafts	..	..	412	..	..
Loans and Advances from Government of India	1435	1634	2011	66	913
6. Total Receipts in the Consolidated Fund (3+4+5)	16937	17262	20353	23407	23664
7. Contingency Fund Receipts	5	..	..	..	1
8. Public Account Receipts	13062	15791	19545	21286	21209
9. Total Receipts of the State (6+7+8)	**30004**	**33053**	**39898**	**44693**	**44874**
Part B. Expenditure/Disbursement					
10. Revenue Expenditure	**14951 (91)**	**17698 (94)**	**20728 (97)**	**21753 (93)**	**21557 (90)**
Plan	2131	2431	2341	2336 (11)	**2427 (11)**
Non Plan	12820	15267	18387	19417 (89)	19130 (89)
General Services (including interest payments)	4672	5880	7743	8354	8921
Social Services	5614	7101	7644	7792	7677
Economic Services	3835	3682	4316	4628	4242
Grants-in-aid and contributions	830	1035	1025	979	717
11. Capital Expenditure	**1468 (9)**	**1153 (6)**	**645 (3)**	**1547 (7)**	**1778 (8)**
Plan	883	1199	1447	1867	1659 (93)
Non Plan	585	(-) 46	(-) 802#	(-) 320#	119 (7)
General Services	55	114	156	152	151
Social Services	247	228	270	634	666
Economic Services	1166	811	219	761	961
12. Disbursement of Loans and Advances	**507**	**510**	**651**	**453**	**547**
13. Total (10+11+12)	**16926**	**19361**	**22024**	**23753**	**23882**
14. Repayments of Public Debt	**408 (1)**	**519 (2)**	**603 (2)**	**855(2)**	**1076(2)**
Internal Debt (excluding Ways and Means Advances and Overdrafts)	**61**	**110**	**132**	**163**	**346**
Net transactions under Ways and Means Advances and Overdraft	**..**	**..**	**..**	**170**	**140**
Loans and Advances from Government of India	**347**	**409**	**471**	**522**	**590**
15. Appropriation to Contingency Fund	**..**	**..**	**..**	**..**	**..**
16. Total disbursement out of Consolidated Fund (13+!4+15)	**17334**	**19880**	**22627**	**24608**	**24958**
17. Contingency Fund disbursements	**..**	**..**	**..**	**1**	**..**
18. Public Account disbursements	**12529**	**14201**	**17213**	**19944**	**20059**
19. Total disbursement by the State (16+17+18)	**29863**	**34081**	**39840**	**44553**	**45017**
Part C. Deficits					
20. Revenue Deficit (1-10)	**1364**	**3437**	**4400**	**3436**	**2739**
21. Fiscal Deficit (3+4-13)	2122	4777	5382	5077	4740
22. Primary Deficit (21-23)	358	2655	2671	1953	1227
Part D. Other data					
23. Interest Payments (included in revenue expenditure)	1763	2122	2711	3124	3513
24. Arrears of Revenue (Percentage of Tax and non-tax Revenue Receipts)	4382(45)	6325(59)	8664(71)	8707 (62)	9171(63)
25. Financial Assistance to local bodies etc.	2037	3767	4221	3970	2977
26. Ways and Means Advances/Overdraft availed (days)					
Ways and Means Advances availed (days)	..	742(38)	3761(202)	5152 (219)	4855 (206)
Overdraft availed (days)	..	..	1486(55)	1713 (76)	4110 (148)
27. Interest on Ways and Means Advances/Overdraft	..	@	8	16	27
28. Gross State Domestic Product (GSDP)	103646	119063	127438	137305	146144
29 Outstanding debt (year end)	13720	15882	18989	22865	26310
30. Outstanding guarantees (year end) (including interest)	4472	6151	5654	6780	8570
31. Maximum amount guaranteed (year end)	8398	11559	10223	11027	14695
32. Number of incomplete projects	21	17	16	20	59
33. Capital blocked in incomplete projects	116	215	215	304	824

Figures in bracket represent percentages (rounded) to total of each sub-heading;
 # Minus figure is mainly due to conversion of equity in Tamil Nadu Electricity Board to tariff compensation;
@ not debited to account during 1998-99.

1.4 Financial operations of the State Government

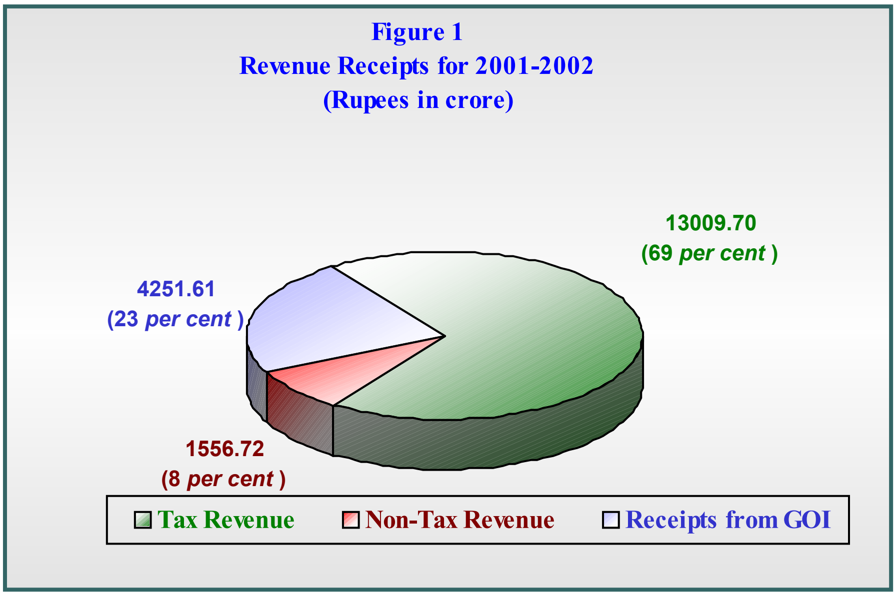
1.4.1 Exhibit II gives the details of the receipts and disbursements made by the State Government. The revenue expenditure (Rs 21557 crore) during the year exceeded the revenue receipts (Rs 18818 crore) resulting in a revenue deficit of Rs 2739 crore. The revenue receipts comprised tax revenue (Rs 13010 crore), non-tax revenue (Rs 1557 crore), State's share of Union taxes and duties (Rs 2870 crore) and grants-in-aid from the Central Government (Rs 1381 crore). The main sources of tax revenue were sales tax (65 *per cent*), state excise (16 *per cent*) and stamps and registration fees (9 *per cent*). Non-tax revenue came mainly from interest receipts (32 *per cent*) and economic services (29 *per cent*).

1.4.2 The capital receipts comprised of Rs 324 crore from recoveries of loans and advances and Rs 4522 crore from public debt. Against this, the expenditure was Rs 1778 crore on capital outlay, Rs 547 crore on disbursement of loans and advances and Rs 1076 crore on repayment of public debt. The receipts in the Public Account amounted to Rs 21209 crore, against which disbursements of Rs 20059 crore were made. The net effect of the transactions in the Consolidated Fund, Contingency Fund and Public Account was a decrease in the cash balance from Rs 225 crore at the beginning of the year to Rs 82 crore at the end of the year.

1.4.3 The financial operations of the State Government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in Exhibit II and the time series data for the five year period from 1997-98 to 2001-2002, presented in Exhibit IV.

1.5 Revenue receipts

1.5.1 The revenue receipts consist mainly of tax and non-tax revenue and receipts from Government of India (GOI). Their relative shares during 2001-2002 are shown in Figure 1. The rate of growth of Revenue Receipts was 3 *per cent* only during 2001-2002, while it was 12 *per cent* in 2000-2001 and 14 *per cent* in 1999-2000.



1.5.2 Tax revenue

Tax Revenue constituted the major share (69 *per cent*) of revenue receipts. Exhibit IV shows that the relative contribution of sales tax had gone down to 65 *per cent* in 2001-2002 from 67 in 2000-2001. The share of excise duty had increased to 16 *per cent* from 15 *per cent*. The taxes on vehicles, which constituted 5 *per cent* of total tax revenue, remained the same in both the years. The percentage of registration fees increased to 9 from 7 *per cent*.

1.5.3 Non-tax revenue

The non-tax revenue during the year was Rs 1557 crore, which was 9 *per cent* less than that in 2000-2001. While it had grown in the previous four years, it had actually fallen in the current year.

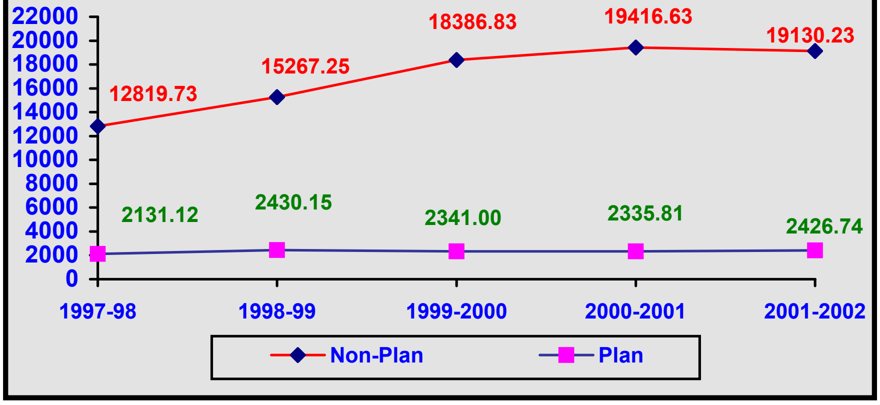
1.5.4 State's share of Union taxes and duties and grants-in-aid from the Central Government

The State's share of Union taxes (Excise Duties and Income Tax) increased by 3 *per cent* during the year, and the grants-in-aid from the Central Government declined by 10 *per cent*. Consequently, as a percentage of revenue receipts, both taken together declined from 28 *per cent* in 1997-98 to 23 during 2001-2002.

1.6 Revenue expenditure

1.6.1 Revenue expenditure accounted for 92 *per cent* of the total expenditure* of the State Government. Reversing the trend of the last five years, the revenue expenditure declined during 2001-2002 by 1 *per cent*. However, a comparison shows that the growth in Non-Plan component of revenue expenditure over the five year period (49 *per cent*) far surpassed that of Plan expenditure (14 *per cent*), as can be seen in Figure 2.

Figure 2
Growth of Plan and Non-Plan revenue expenditure
(Rupees in crore)



1.6.2 Sector-wise analysis shows that while the expenditure on General Services increased by 91 *per cent* from Rs 4672 crore in 1997-98 to Rs 8921 crore in 2001-2002, the corresponding increases in expenditure on Social Services and Economic Services were only 37 and 11 *per cent* respectively. As a proportion of total revenue expenditure, the share of General Services increased from 31 *per cent* in 1997-98 to 41 in 2001-2002, whereas the share of Social Services decreased from 38 *per cent* to 36 and that of Economic Services from 26 *per cent* to 20 in the above period.

1.6.3 Subsidies

Subsidies can be defined as the difference between the cost of goods and services provided and the actual recoveries made from those using the goods and services. There are two types of subsidies *viz*., direct subsidies and indirect subsidies. While there is a clear identification of beneficiaries and budgetary allocation in respect of direct subsidies, indirect subsidies arise due to non-recovery of user-charges for the services provided or due to non-recovery of loans to public sector undertakings, cooperative societies, etc.

* Represents revenue and capital expenditure.

During 2001-2002, the direct subsidies, compiled as per accounts, worked out to Rs 2206 crore and the same constituted 10.2 *per cent* of the Revenue Expenditure (Rs 21557 crore). Subsidy to Tamil Nadu Civil Supplies Corporation Limited towards losses incurred on procurement and supply of food articles under Public Distribution System (PDS) (Rs 1525 crore) and Tariff compensation to Tamil Nadu Electricity Board for free supply of electricity to farmers (Rs 322.50 crore) were the major subsidies.

1.6.4 Interest payments

Interest payments increased steadily by 99 *per cent* from Rs 1763 crore in 1997-98 to Rs 3513 crore in 2001-2002. Interest payments accounted for 16 *per cent* of revenue expenditure during 2001-2002, as compared to 12 *per cent* in 1997-98. This is further discussed in the section on financial indicators.

1.6.5 Financial assistance 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 2001-2002 was as follows:

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Universities and Educational Institutions	960	1527	1531	1676	761
Municipal Corporations and Municipalities	159	217	112	125	505
Panchayati Raj Institutions	197	1402	1430	915	630
Development agencies	364	210	474	731	571
Hospitals and Other Charitable Institutions	4	9	12	9	2
Other institutions	353	402	662	514	508
Total	**2037**	**3767**	**4221**	**3970**	**2977**
Percentage of growth over previous year	(-) 11	85	12	(-) 6	(-) 25
Assistance as a percentage of revenue expenditure	14	21	20	18	14

1.6.6 Loans and advances disbursed by the State Government

(i) The Government gives loans and advances to Government companies, corporations, local bodies, autonomous bodies, cooperatives, non-Government institutions, etc., for developmental and non-developmental activities. The position for the last five years given below shows that the outstanding loans and advances increased steadily by 24 *per cent* from Rs 3507 crore at the end of 1997-98 to Rs 4348 crore at the end of 2001-2002.

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Opening balance	4217	3507	3694	4031	4125
Amount advanced during the year	507	510	651	453	547
Amount repaid during the year	1217	323	314	359	324
Closing balance	3507	3694	4031	4125	4348
Net addition	(-)710	187	337	94	223
Interest received	345	223	178	204	271

(ii) Loans due for repayment from Water Supply and Sanitation, Housing and Urban Development Sectors were deeply in arrears, affecting the State finances seriously.

(a) The interest due but not paid by Corporations and Municipalities was Rs 156.49 crore as on 31 March 2002. As against the demand of Rs 83.69 crore for loan annuities for the year 2001-2002, only Rs 1.93 crore (2.3 *per cent*) has been recovered. The Commissioner of Municipal Administration (CMA) reported to Government that the urban local bodies were financially weak and loan recoveries could be improved after the quinquennial revision of taxes due in 2003.

The Municipalities/ Corporations remitted the amount due through demand drafts to CMA. CMA deposited the drafts in savings bank account and transferred the amount to Government account after a delay of 1 to 7 months. Thus, Government receipts were unnecessarily detained out of Government account. As of June 2002, Rs 3.92 crore was so detained.

(b) State Government sanctioned Rural Housing Scheme, obtaining loans from Life Insurance Corporation (LIC) and General Insurance Corporation (GIC) during the period 1978-89 for construction of houses for economically weaker sections. Perusal of connected records revealed that as of March 2002 principal amount with interest due was Rs 47.32 crore and penal interest due was Rs 40.72 crore. This had serious implication for State finances.

(c) Loan amount of Rs 111.77 crore (Principal: Rs 53.22 crore and Interest: Rs 58.55 crore) was outstanding from Chennai Corporation as of March 2002, of which, Rs 53.78 crore (Principal: Rs 23.60 crore and Interest: Rs 30.18 crore) was outstanding under Water Supply, Housing and Urban Development. Chennai Corporation has requested (April 1998) for write off of loans of Rs 53.37 crore and interest of Rs 29.39 crore due to the poor financial condition. The Government decision was awaited (July 2002).

(d) The request of Tamil Nadu Slum Clearance Board (TNSCB) (January 2000) to convert the outstanding loans of Rs 6.27 crore as grant in view of the financial crunch faced by TNSCB due to increased administrative expenditure, insufficient rental collection etc., is pending with Government (May 2002).

(e) Rupees 49.71 crore and Rs 3.13 crore were pending from Town Panchayats towards principal and interest respectively against the loan for urban water supply schemes. Finance Director, Tamil Nadu Water Supply and Drainage (TWAD) Board stated (June 2002) that reconciliation between Town Panchayats and the Board had not been completed for 329 Town Panchayats. Obviously, TWAD Board failed to monitor repayment of loan and interest due.

1.7 Capital expenditure

Capital expenditure leads to asset creation. In addition, financial assets arise from moneys invested in Public Sector Undertakings (PSUs), Corporations, etc., and through loans and advances. Capital expenditure was between 6 and 9 *per cent* of total expenditure during 1997-2002 (except in 1999-2000 when it was 3 *per cent*). The capital expenditure under plan showed a steady growth from Rs 883 crore in 1997-98 to Rs 1867 crore in 2000-2001, but declined to Rs 1659 crore in 2001-2002 mainly due to less expenditure under General Services and Rural Development. It is also observed that the non-plan capital expenditure on General Services and Social Services increased from Rs 14.45 crore in 2000-2001 to Rs 123.14 crore in 2001-02, mainly under Police Housing and Urban Development.

1.8 Quality of expenditure

1.8.1 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 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 quality of expenditure.

1.8.2 Wastage in public expenditure, diversions of funds and funds blocked in incomplete projects would also impinge negatively on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account, after booking them as expenditure, can also be considered as a negative factor in judging the quality of expenditure. Another possible indicator is the increase in the expenditure on General Services, to the detriment of Economic and Social Services.

1.8.3 The following table lists out the trend in these indicators:

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
1. Plan expenditure as a percentage of:					
- Revenue expenditure	14	14	11	11	11
- Capital expenditure	60	104*	224*	121*	93
2. Capital expenditure as a percentage of total expenditure**	9	6	3	7	8
3. Expenditure on General services (*per cent*)					
- Revenue	31	33	37	38	41
- Capital	4	10	24	10	9
4. Amount of wastages and diversion of funds detected during test audit (Rupees in crore)	353	1767	599	403	641
5. Non-remunerative expenditure on incomplete projects (Rupees in crore)	116	215	215	304	824
6. Unspent balances booked as expenditure at the time of their transfer to personal deposit account (Rupees in crore)	495	652	764	1894	423

* **Exceeded 100 *per cent* due to exhibition of minus expenditure under Non-plan.**

** **Total expenditure represents total of Revenue and Capital expenditure.**

The share of plan expenditure on the revenue side was practically the same at 11 *per cent* in the last three years. The share of capital expenditure to total expenditure (Revenue and Capital) was in the range of 6 to 9 *per cent* except in 1999-2000. While the share of General Services has increased on the revenue side from 31 *per cent* in 1997-98 to 41 in 2001-2002, on the capital side, it had declined from 24 *per cent* in 1999-2000 to 9 in 2001-2002. The plan capital expenditure on General Services declined from Rs 140 crore in 2000-2001 to Rs 67 crore in 2001-2002, mainly under Police and Public Works.

1.9 Financial Management

The issue of financial management in the Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent chapters of this Report deal with these issues especially as they relate to the expenditure management in the Government, based on the findings of the test-audit. Some other parameters, which can be segregated from the accounts and other related financial information of the Government are discussed in this section.

1.9.1 Investments and returns

Investments are made to promote developmental, manufacturing, marketing and social sector activities. The sector-wise details and the number of institutions invested in were as under:

Sector		Number of Institutions	Amount invested	
			as on 31.3.2002	During 2001-2002
			(Rupees in crore)	
(1)	Statutory Corporations	2	1149.28	..
(2)	Government Companies	75	1528.74	0.53
(3)	Joint Stock Companies	6	2.53	..
(4)	Cooperative Institutions	9568	271.59	0.83
	Total	**9651**	**2952.14**	**1.36**

The investments and the returns realised during the last five years by way of dividend and interest were as follows:

(Rupees in crore)

Year	Investment at the end of the year[a]	Return	Percentage of return	Rate of interest on Government borrowings
1997-98	1316.43	18.45	1.40	13.05 and 12.30
1998-99	1560.63	24.29	1.56	12.50 and 12.15
1999-2000	2702.77[b]	41.95	1.55	12.25, 11.85 and 11.74
2000-2001	2954.21[c]	36.53	1.23	12.00, 11.70, 10.52 and 10.50
2001-2002	2952.14	33.45	1.13	10.35, 9.38, 9.45, 8.30 and 8

(a) The figures are as per particulars furnished by the companies/departments.

(b) Variation mainly due to inclusion of equity share capital of Rs 1045.48 crore in Tamil Nadu Electricity Board, not reported in earlier years.

(c) Differs from the figures furnished in last year's Report due to adoption of revised figures communicated by departments/companies.

Thus, while the Government was raising high cost capital from the market, its investments in government companies etc., fetched insignificant returns. As on 31 March 2002, 33 of the government companies in which Government had invested Rs 844.23 crore were running under loss and the accumulated loss was Rs 2163.10 crore upto the end of 2001-2002.

1.9.2 Financial results of irrigation works

The financial results of 5 major and 47 medium irrigation projects with a capital outlay of Rs 1990.23 crore at the end of March 2001 showed that revenue realised from these during 2000-2001 (Rs 8.27 crore) was only 0.42 *per cent* of the capital outlay and these were not sufficient to cover even the direct working expenses (Rs 65.74 crore). After meeting the working expenditure (Rs 66.36 crore) and interest charges (Rs 101.51 crore), the schemes suffered a net loss of Rs 159.84 crore. The loss was substantial (Rs 110.45 crore) in all the major irrigation projects.

1.9.3 Incomplete projects

As of 31 March 2002, there were 59 projects in which Rs 824.22 crore were blocked. Each of these projects cost in excess of Rs 1 crore and were scheduled for completion before 31 March 2002, but were incomplete.

1.9.4 Arrears of revenue

The arrears of revenue increased by 5 *per cent* during the year. The outstanding arrears registered a steady increase from Rs 4382.00 crore in 1997-98 to Rs 9171.38 crore in 2001-2002 (Exhibit IV) and their percentage increased from 45 *per cent* of the revenue raised during 1997-98 to 63 *per cent* during 2001-2002. Of the arrears, Rs 1558.34 crore (17 *per cent*) were pending for more than five years. The arrears pertained mainly to Sales Tax (Rs 1195 crore) and 'Mines and Minerals' (Rs 221.32 crore). In sum, there was slackening of revenue efforts on the part of the Government.

1.9.5 Ways and means advances and overdraft

(a) Under an agreement with the Reserve Bank of India, the State Government maintains a minimum daily cash balance of Rs 3.25 crore from 1 May 1999. If the balance fell below the agreed minimum on any day, the deficiency had to be made good by taking ways and means advances (WMA)/overdraft (OD). In addition, special ways and means advances are also made by the Bank whenever necessary. Recourse to WMA/OD means a mismatch between the receipts and expenditure of the Government, and hence reflects poorly on the financial management in Government. Government resorted to sizeable amounts of Ways and Means advance (Rs 4855.47 crore) and overdraft (Rs 4110.24 crore) during the year to maintain its ways and means position.

The extent to which the Government maintained the minimum balance with the Bank during 1998-2002 is given below:

			1998-99	1999-2000	2000-2001	2001-2002
(i)	Number of days on which minimum balance was maintained					
	(a)	Without obtaining any advance	327	105	70	6
	(b)	By obtaining ordinary ways and means advances	38	167	189	180
	(c)	By obtaining special ways and means advance	Nil	35	30	26
(ii)	Number of days on which minimum balance was not maintained even after availing ways and means advance to the full extent and no overdraft was obtained		Nil	4	Nil	5
(iii)	Number of days on which overdraft was taken		Nil	55	76	148

The above table depicts a substantial deterioration in the financial management of the State and its overdependence on the RBI to finance its day-to-day expenditure.

The quantum of ways and means advances and overdrafts taken by the Government and interest paid thereon during 1998-99 and 2001-2002 is detailed below:

(Rupees in crore)

		1998-99	1999-2000	2000-2001	2001-2002
(A)	Ways and means advances				
(i)	Advances taken during the year (Gross)	742.34	3761.15	5151.63	4855.47
(ii)	Advances outstanding at the end of the year	Nil	313.71	241.53	101.63
(iii)	Interest paid	..	7.07	14.51	21.88
(B)	Overdraft				
(i)	Overdraft taken during the year (Gross)	Nil	1485.97	1712.93	4110.24
(ii)	Overdraft outstanding at the end of the year	Nil	98.13	Nil	Nil
(iii)	Interest paid	Nil	0.52	1.89	4.72

The overdraft was rising over the last three years and increased by 177 *per cent* and most of the increase was in 2001-2002. This indicates the overdependence of the State on RBI for day-to-day financial management.

(b) Perusal of records relating to funds transferred to 8342 – Other Deposits (Deposits bearing interest) of 2 Corporations *viz.,* Tamil Nadu Power Finance and Infrastructure Development Corporation Limited and Tamil Nadu Transport Development Finance Corporation Limited revealed that Government had directed these Corporations to deposit their surplus funds (Rs 78.46 crore) and loans borrowed by them (Rs 110 crore) to the Government account. This was done to augment the cash balance of Government and Government paid interest of Rs 3.77 crore (at 11.25 *per cent*) and Rs 4.85 crore (at 12.5 *per cent*) respectively to these two Corporations.

1.9.6 Deficit

1.9.6.1 Deficits in Government account represent gaps between the receipts and expenditure. The nature of deficit is an important indicator of the prudence of financial management in the Government. Further, the ways of financing the deficit and the application of the funds raised in this manner are important pointers of the fiscal prudence of the Government. The discussion in this section relates to three concepts of deficit *viz*., Revenue Deficit, Fiscal Deficit and Primary Deficit.

1.9.6.2 The Revenue Deficit is the excess of revenue expenditure over revenue receipts. The Fiscal Deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants-in-aid received). Primary Deficit is fiscal deficit less interest payments. Exhibit V gives a break-up of the deficit in Government account for 2001-2002.

EXHIBIT V

OVERALL FINANCIAL TRANSACTIONS OF GOVERNMENT

(Rupees in crore)

CONSOLIDATED FUND				
Receipt	**Amount**		**Disbursement**	**Amount**
Revenue	18818	**Revenue deficit: 2739**	Revenue	21557
Miscellaneous capital receipts	..		Capital	1778
Recovery of loans and advances	324		Loans and advances disbursement	547
Sub Total	19142	**Gross fiscal deficit: 4740**	Sub Total	23882
Public debt receipts	4522		Public debt repayment	1076
Total	**23664**	**A: Deficit in Consolidated Fund : 1294**		**24958**
PUBLIC ACCOUNT				
Receipt	**Amount**		**Disbursement**	**Amount**
Small savings, Provident Fund etc.	2863		Small savings, Provident Fund etc.	2302
Deposits and advances	6915		Deposits and advances	6387
Reserve funds	196		Reserve funds	216
Suspense and miscellaneous	6561		Suspense and miscellaneous	6407
Remittances	4674		Remittances	4747
Total	**21209**	**B: Surplus in Public Account: 1150**		**20059**
Decrease in cash balance (A-B) : 144				

The table shows that the Revenue Deficit of Rs 2739 crore was fully financed from the net borrowings (Rs 3446 crore). The Fiscal Deficit of Rs 4740 crore was financed by net proceeds of the public debt (Rs 3446 crore) and partly by the surplus (Rs 1150 crore) from Public Account. Exhibit IV shows that the Revenue Deficit had risen to Rs 4400 crore in 1999-2000 but declined thereafter to Rs 2739 crore in 2001-2002. The same trend was shown in the Fiscal Deficit.

1.9.6.3 The fiscal deficit (FD) represents total net borrowings of the Government. These borrowings are applied for meeting the Revenue Deficit (RD), for making the Capital Expenditure (CE) and for giving loans to various bodies for developmental and other purposes. The relative proportions of these applications would indicate the financial prudence of the State Government and also the sustainability of its operations because continued borrowing for revenue expenditure would not be sustainable in the long run. The following table shows the position for the last five years.

Ratio	1997-98	1998-99	1999-2000	2000-2001	2001-2002
RD/FD	0.64	0.72	0.82	0.68	0.58
CE/FD	0.69	0.24	0.12	0.30	0.37
Net loans/FD	(-) 0.33	0.04	0.06	0.02	0.05
Total	1.00	1.00	1.00	1.00	1.00

It would be seen that more and more of the borrowed funds have been applied for meeting the revenue expenditure till 1999-2000. The situation has improved during 2001-2002, when the RD/FD ratio fell to 0.58. While application of borrowed funds to meet capital expenditure showed sharp decline upto 1999-2000, it increased slightly during 2000-2002 partly due to lower Fiscal Deficit. In 2001-2002, 58 *per cent* of the borrowings were used to meet the Revenue deficit and 37 *per cent* for Capital Expenditure. The Revenue Expenditure is still required to be controlled to avoid any further suffering in capital formation, as further borrowings will lead to increased interest burden.

1.9.7 Guarantees given by the State Government

Guarantees are given by the State Government for due discharge of certain liabilities like repayment of loans and share capital raised by the statutory corporations, Government companies and cooperative institutions etc., and payment of interest and dividend by them. They constitute contingent liability of the State. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limits within which Government may give guarantees on the security of the Consolidated Fund of the State. Exhibit IV lists the amounts of outstanding guarantees at the end of each year during 1997-2002, which showed an increasing trend. While Rs 0.11 crore were received as guarantee commission during 2001-2002, Rs 32.47 crore of guarantee commission were outstanding for recovery from 7 Government companies/corporations (Rs 3.59 crore) and from Cooperative institutions (Rs 28.88 crore) as on 31 March 2002.

1.10 Public debt

1.10.1 The Constitution of India provides that a State may borrow within the territory of India, upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature. No law had been passed by the State Legislature laying down any such limit. The total liabilities of the Government as at the end of the last five years are given in the following table. During the five year period, the total liabilities of the Government had grown by 96 *per cent*. This was on account of 243 *per cent* growth in internal debt, 27 *per cent* growth in loans and advances from Government of India and 105 *per cent* growth in other liabilities. During 2001-2002, Government borrowed Rs 1159.76 crore at interest rates of 10.35, 9.45, 9.38, 8.30 and 8 *per cent* per annum.

(Rupees in crore)

Year	Internal debt	Loans and advances from Central Government	Total public debt	Other liabilities$^{\alpha}$	Total liabilities	Ratio of debt to GSDP
1997-98	4099.12	9620.56	13719.68	5657.45	19377.13	0.19
1998-99	5035.90	10845.66	15881.56	7176.55	23058.11	0.20
1999-2000	6603.96	12385.26	18989.22	9440.71	28429.93	0.22
2000-2001	10935.90	11929.36	22865.26	10555.58	33420.84	0.24
2001-2002	14058.56	12251.91	26310.47	11622.98	37933.45	0.26

1.10.2 Funds raised through Public debt, the amount of repayment and net funds available are given in the following table:

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Internal Debt					
- Receipt	698	1789	1700	4665$^{\beta}$	3609
- Repayment					
(i) Principal	61	852	132	333	487
(ii) Interest	449	548	704	1029	1403
Net funds available (*per cent*)	188(27)	389(22)	864 (51)	3303 (71)	1719 (48)

$^{\alpha}$ Other liabilities include small savings, provident funds, reserve funds and deposits, etc.

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Loans and advances from Government of India					
Receipt during the year	1435	1634	2011	66[β]	913
Repayment					
(i) Principal	347	409	471	522	590
(ii) Interest	1041	1189	1359	1431	1518
Net funds available(*per cent*)	47(3)	36(2)	181(9)	(-) 1887	(-) 1195
Other liabilities					
Receipt during the year	6118	7433	9482	10089	9897
Repayment					
(i) Principal	5590	5914	7218	8975	8830
(ii) Interest	273	385	648	663	593
Net funds available(*per cent*)	255(4)	1134(15)	1616(17)	451 (4)	474 (5)

It would be seen that there was a substantial increase in Debt/GSDP ratio indicating worsening position during the year. Overall, only 48 *per cent* of the borrowings under internal debt were available for investment and other expenditure after meeting repayment obligations.

The maturity profile of debt for the State over a period of 20 years revealed that both the quantum of borrowings made during each year as well as the outstanding loans at the end of each year has been continuously increasing. Similarly, the interest payments have also been rising steadily. As a result, the net availability of funds through public borrowings as a percentage of the borrowings under Public Debt (excluding payment of interest) during the year has progressively reduced from 63 *per cent* in 1998-99 to 26 *per cent* in 2001-2002. There is an urgent need for the Government to address the high debt servicing cost and find ways to arrest the trend.

1.11 Indicators of the financial performance

1.11.1 A Government may either wish to maintain its existing level of activity or increase its level of activity. For maintaining its current level of activity, it would be necessary to know how far the means of financing are sustainable.

β Huge increase/decrease is due to inclusion of Rs 2300.53 crore (Rs 1013.56 crore in 1999-2000 and Rs 1286.97 crore in 2000-2001) towards "Investment on special securities of State Government" under Internal Debt hitherto classified as "Loans against share of small savings collection" under "Loans and advances from Government of India" as per orders of Controller General of Accounts.

Similarly, if Government wishes to increase its level of activity, it would be pertinent to examine the flexibility of the means of financing and finally, Government's increased vulnerability in the process. All the State Governments continue to increase the level of their activity principally through Five Year Plans which translate to Annual development plans and are provided for in the State Budget. Broadly, it can be stated that non-plan expenditure represents Government maintaining the existing level of activity*, while plan expenditure entails expansion of activity. Both these activities require resource mobilisation increasing Government's vulnerability. In short, financial health of a Government can be described in terms of sustainability, flexibility and vulnerability. These terms are defined as follows:

(i) Sustainability

Sustainability is the degree to which a Government can maintain existing programmes and meet existing creditor requirements without increasing the debt burden.

(ii) Flexibility

Flexibility is the degree to which a Government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden.

(iii) Vulnerability

Vulnerability is the degree to which a Government becomes dependent on and therefore vulnerable to sources of funding outside its control or influence, both domestic and international.

(iv) Transparency

There is also the issue of financial information provided by the Government. This consists of Annual Financial Statement (Budget) and the Accounts. As regards the budget, the important parameters are timely presentation indicating the efficiency of budgetary process and the accuracy of the estimates. As regards accounts, timeliness in submission, for which milestones exist, and completeness of accounts would be the principal criteria for transparency.

1.11.2 Information available in Finance Accounts can be used to profile Sustainability, Flexibility and Vulnerability that can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such

* There are exceptions to this, notably transfer of Plan to Non-Plan at the end of Plan period.

indices/ratios is given in the Appendix I. Exhibit VI indicates the behaviour of these indices/ratios over the period from 1997-98 to 2001-2002. The implications of these indices/ratios of the State on the financial health of the State Government are discussed in the following paragraphs.

EXHIBIT VI

FINANCIAL INDICATORS FOR GOVERNMENT OF TAMIL NADU

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Sustainability					
BCR (Rs in crore)	(-)163	(-) 1914	(-)3226	(-) 2375	(-) 1526
Primary Deficit (PD) (Rs in crore)	358	2655	2671	1953	1227
Interest Ratio	0.10	0.13	0.15	0.15	0.16
Capital outlay/Capital receipts	0.46	0.32	0.16	0.28	0.37
Total Tax receipts/GSDP	0.11	0.10	0.11	0.10	0.11
State Tax Receipts/GSDP	0.08	0.08	0.09	0.09	0.09
Return on Investment ratio	0.0140	0.0156	0.0155	0.0123	0.0113
Flexibility					
BCR (Rs in crore)	(-)163	(-) 1914	(-)3226	(-) 2375	(-) 1526
Capital repayments/Capital borrowings	0.19	0.19	0.18	0.14	0.21
State tax receipts/GSDP	0.08	0.08	0.09	0.09	0.09
Debt/GSDP	0.19	0.20	0.22	0.24	0.26
Vulnerability					
Revenue Deficit(RD) (Rs in crore)	1364	3437	4400	3436	2739
Fiscal Deficit(FD) (Rs in crore)	2122	4777	5382	5077	4740
Primary Deficit(PD) (Rs in crore)	358	2655	2671	1953	1227
PD/FD	0.17	0.56	0.50	0.38	0.26
RD/FD	0.64	0.72	0.82	0.68	0.58
Outstanding Guarantees/revenue receipts	0.33	0.43	0.35	0.37	0.46
Assets/Liabilities	0.60	0.52	0.46	0.44	0.43

Note: 1. Fiscal deficit has been calculated as: Revenue expenditure + Capital expenditure + Net loans and advances – Revenue receipts – Non loan capital receipts.

2. In the ratio Capital outlay vs. Capital receipts, the denominator has been taken as Internal loans + Loans and Advances from Government of India + Net receipts from small savings, Provident Fund etc., + Repayments received from loans advanced by the State Government – Loans advanced by State Government.

1.11.3 The behaviour of the indices/ratios is discussed below.

(i) Balance from current revenues (BCR)

BCR is defined as revenue receipts minus plan assistance grants minus non-plan revenue expenditure. A positive BCR shows that the State Government has surplus from its revenues for meeting plan expenditure. The Exhibit VI shows that the BCR was negative during the last five years suggesting that Government had to depend only on borrowings to meet its plan expenditure. Though the BCR improved from Rs (-) 3226 crore in 1999-2000 to Rs (-) 1526 crore in 2001-2002 because of sizeable increase in revenue receipts, still it was substantially negative. This clearly indicated that Government expenditure was expanding more as compared to its resources, leading to increased borrowings and heavy debt-servicing burden.

(ii) Interest ratio

Higher the ratio less the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts. In case of Tamil Nadu, the ratio has been rising from 0.10 during 1997-1998 to 0.16 in 2001-2002. A rising interest ratio has adverse implications for the sustainability, since it points to rising interest burden.

(iii) Capital outlay/capital receipts

This ratio would indicate to what extent the capital receipts are applied for capital formation. A ratio of less than one would not be sustainable in the long term inasmuch as it indicates that a part of the capital receipts is being diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments are being made from revenue surplus as well. The trend analysis of this ratio would throw light on the fiscal performance of the State Government. A rising trend would mean an improvement in the performance. In the case of Tamil Nadu, the ratio has been below 0.5 since 1997-98 indicating that a substantial part of the capital receipts is not available for investment.

(iv) Tax receipts vs Gross State Domestic Product (GSDP)

Tax receipts consist of state taxes and state's share of central taxes. The latter can also be viewed as central taxes paid by people living in the state. Tax receipts suggest sustainability. But the ratio of tax receipts to GSDP would have implications for the flexibility as well. While a low ratio would imply that the Government can tax more, and hence its flexibility, a high ratio may not only point to the limits of this source of finance but also its inflexibility. Time series analysis shows that in case of Tamil Nadu, this ratio ranged between 0.10 and 0.11 during the period of 1997-98 to 2001-2002. The ratio of State tax receipts to GSDP ranged between 0.08 and 0.09 during the above period. This trend suggests that while the State Government had the option to raise more resources through taxation, it chose the easier option of borrowing to meet its increasing revenue and fiscal deficits.

(v) Return on Investment (ROI)

The ROI is the ratio of the earnings to the capital employed. A high ROI suggests sustainability. The exhibit presents the return on Government's investments in statutory corporations, Government companies, joint stock companies and cooperative institutions. It shows that the ROI has been negligible and has declined from 1.40 *per cent* in 1997-98 to 1.13 *per cent* in 2001-2002.

(vi) Capital repayments vs Capital borrowings

This ratio would indicate the extent to which the capital borrowings are available for investment, after capital repayments. The lower the ratio, higher would be the availability of capital for investment. This ratio which was 19 *per cent* during 1997-98, declined to 14 *per cent* during 2000-2001 and then increased to 21 *per cent* during 2001-2002.

(vii) Debt vs Gross State Domestic Product (GSDP)

The GSDP is the total internal resource base of the State Government, which can be used to service debt. An increasing ratio of Debt/GSDP would signify a reduction in the Government's ability to meet its debt obligations and therefore increasing risk for the lender. This ratio which was 0.19 in 1997-98 increased to 0.26 during 2001-2002. In fact, during 1998-99 to 2001-2002, while the outstanding debt increased by 65 *per cent,* the growth in GSDP was only 23 *per cent*, indicating significant growth of indebtedness in the last four years.

(viii) Revenue deficit/Fiscal deficit

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the revenue expenditure financed by borrowings etc. Evidently, higher the revenue deficit, the more vulnerable is the State. Since fiscal deficit represents the aggregate of all the borrowings, the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance non-productive revenue expenditure. Thus, higher the ratio, the worse off the State, because that would indicate that the debt burden is increasing without adding to the repayment capacity of the State. During 2001-2002, 58 *per cent* of the borrowings were applied to revenue expenditure.

(ix) Primary deficit (PD) vs Fiscal deficit (FD)

Primary deficit is the fiscal deficit minus interest payments. It represents non-interest borrowings of the Government, on account of its current actions (interest payments relate to the past actions of the Government). Primary deficit is sustainable only when the economy grows at a rate higher than the interest rate on borrowings. This not being the case, fiscal prudence would require aiming at a zero primary deficit or primary surplus. As Exhibit VI shows, the primary deficit was substantial in the last four years. It was Rs 1227 crore in 2001-2002 which was 26 *per cent* of the fiscal deficit. It suggests that the sustainability is adversely affected as the burden of interest payment continued to be substantial.

(x) Guarantees vs Revenue receipts

Outstanding guarantees, including the letters of comfort issued by the Government, indicate the risk exposure of a Government and should therefore be compared with the ability of the Government to pay *viz*., its revenue receipts. Thus, the ratio of the total outstanding guarantees to total revenue receipts of the Government would indicate the degree of vulnerability of the State Government. In Tamil Nadu, this ratio has been in the range of 0.33 to 0.46 during the period 1997-2002.

(xi) Assets vs Liabilities

This ratio indicates the solvency of the Government. A ratio of more than 1 would indicate that the Government is solvent (assets are more than the liabilities) while a ratio of less than 1 would be a contra indicator. As explained in para 1.2, the accounting of assets and liabilities in the Government pertains mainly to the financial assets and liabilities. In the case of Tamil Nadu, this ratio has declined from 0.60 in 1997-98 to 0.43 in 2001-2002 indicating that the increase in liabilities has not led to corresponding increase in the assets. This suggests imprudent financial management.

(xii) Budget

(a) Off-Budget Borrowings

Apart from the borrowings under constitutional provision discussed in para 1.10, Government resorted to borrowings through a few corporations to access funds from the market/financial institutions. The borrowings so made are termed as "Off-Budget Borrowings". The discharge of these liabilities was either covered by a guarantee given by Government or the repayment of principal with interest thereon, was met by the Government through specific budget provisions. The amounts so borrowed were deposited in Public Account of the Government under specific orders, so as to improve the Ways and Means position of the Government and make it available to Government for their use.

Information sought by Audit (May 2002) from the Finance Department on such "Off Budget-Borrowings" made during 1999-2002 was not furnished as of July 2002. However, it was ascertained that Rs 1613.69 crore were borrowed by two corporations during 1999-2002, as shown below:

(Rupees in crore)

	Name of the Corporation	Funds borrowed and deposited in Public Account of the Government				Repayment due and made upto the end of March 2002	Borrowings pending at the end of March 2002
		1999-2000	2000-2001	2001-2002	Total		
1.	Tamil Nadu Industrial Development Corporation Limited (TIDCO)	695.56	338.45	384.37	1418.38	..	1418.38
2	Tamil Nadu Police Housing Corporation Limited (TNPHC)	80.72	99.98	14.61	195.31	32.37	162.94
	Total	**776.28**	**438.43**	**398.98**	**1613.69**	**32.37**	**1581.32**

The liabilities accrued against these borrowings were not included in the pending debt position of the Government. Since the Government accepted the responsibility of repayment of principal with interest of the above borrowings, these liabilities had become committed liabilities and hence Government's indebtedness at the end of each year should have been compiled taking into account the outstanding against these borrowings. Non-inclusion of Rs 1581.30 crore, being the pending debts against the Off Budget-Borrowings made during 1999-2002 by these two Corporations, resulted in understating of Government's actual committed debt position to that extent.

Other significant points noticed relating to the Off Budget-Borrowings made by the two Corporations are given below:

Tamil Nadu Industrial Development Corporation (TIDCO)

During 1999-2002, with a view to mobilise funds for payment of Government share for Railway projects in the State and for financing the project for upgradation of roads, TIDCO was entrusted with floating of Railway Bonds and Road Bonds. Rupees 1418.38 crore were raised and repayment of principal amount with interest at the time of maturity (September 2004 and after) was committed by Government through appropriate provisions in the budget. The funds mobilised were credited to the Deposit account of TIDCO under Public Account. Rupees 1071.82 crore[#] was spent directly by TIDCO from the deposit account and the expenditure was not debited under the relevant heads relating to the projects in Government accounts.

Tamil Nadu Police Housing Corporation (TNPHC)

Government permitted TNPHC to borrow to construct police quarters/provide basic amenities in Police Recruit Schools. Out of Rs 200.30 crore borrowed during 1999-2002 from Housing Development Finance Corporation (HDFC) and Housing and Urban Development Corporation Limited (HUDCO), Rs 195.31 crore was deposited in their Deposit Account in Government Public Account. The borrowed funds were debited to the relevant capital head "4055-Capital Outlay on Police" by contra-credit to the Deposit account of TNPHC. At the end of March 2002, TNPHC had repaid Rs 32.37 crore through the budgetary support of Government.

Further, off-budget borrowings were also resorted to by Chennai Metropolitan Development Authority and Tamil Nadu State Construction Corporation as discussed below.

Chennai Metropolitan Development Authority (CMDA)

M/s Chennai Metropolitan Development Authority (CMDA : Rs 132.28 crore) and Tamil Nadu State Construction Corporation (TNSCC : Rs 119.28 crore) raised Rs 251.56 crore, being 70 *per cent* of the cost of two projects from Housing and Urban Development Corporation (HUDCO). The Capital Grants released to CMDA for repayment of loans and interest to HUDCO were shown as investment under the head "4217 Urban Development". Rupees 37.28 crore provided in the Budget for 1999-2002 towards Government share for the bridge project was drawn and paid to TNSCC and shown as expenditure in the accounts. The amount was actually released to the divisions by TNSCC along with the loan and spent subsequently. Thus, the procedure adopted was against all accounting norms and distorted the Government accounts.

[#] Railway project: Rs 347.28 crore, Road Projects: Rs 479 crore and other expenditure towards Interest on Bond: Rs 243.92 crore and Arranger/Issue expenditure: Rs 1.62 crore

Tamil Nadu State Construction Corporation (TNSCC)

TNSCC also raised Rs 139.58 crore from HUDCO for "construction of 106 bridges" scheme.

The above two nodal agencies were also paid Rs 45.46 lakh towards service charges (Rs 26.62 lakh) and bank charges (Rs 18.84 lakh) for disbursing the funds to the executing divisions. Besides, Rs 51.45 lakh (0.25 *per cent* of loan) were given by HUDCO to these agencies as Research and Development Charges for timely completion of legal documentation. Had the loans been obtained directly by the Government, it could have saved Rs 45.46 lakh besides receiving Rs 51.45 lakh for Research and Development.

(b) There was no delay in submission of the budget and its approval. The details are given in the following table:

Preparation	Month of submission	Month of approval
Vote on account	February 2001	February 2001
Budget	September 2001	September 2001
Supplementary I	September 2001	September 2001
Supplementary II	March 2002	March 2002

Chapter II of this Report carries a detailed analysis of variations in the budget estimates and the actual expenditure as also of the quality of budgetary procedure and control over expenditure. It indicates defective budgeting and inadequate control over expenditure, as evidenced by persistent surrenders ranging between Rs 2756 crore and Rs 3800 crore during 1997-2002 *vis-à-vis* the final modified grant. Significant variations (excess/saving) between the final modified grant and actual expenditure were also persistent.

(xiii) Accounts

There was no significant delay in the submission of accounts by the treasuries/departments during 2001-2002.

1.11.4 Conclusion

During 2001-2002, the revenue deficit was controlled due to increase in revenue receipts and fall in revenue expenditure compared to the previous year. Despite controlling the growth in revenue expenditure, the outstanding debt at the year end had risen by 15 *per cent* over the previous year, pointing to increasing debt burden. The finances of the State continued to be dependent on the Ways and Means Advance/overdraft from RBI for managing day to day expenditure. Interest payments had risen by 12 *per cent* compared to

2000-2001. Only 48 *per cent* of Internal Debt was available to meet expenditure after meeting repayments due. A substantial portion (58 *per cent*) of borrowings was used to finance revenue expenditure, while ideally borrowings should be for development expenditure only. The continuous growth of outstanding debt and interest payments that has occurred over the last 20 years had disturbed the State finances.