CHAPTER I
FINANCES OF THE STATE GOVERNMENT

In Summary

Huge Revenue and Fiscal deficit year after year indicate continued macro imbalances in the State. In Tamil Nadu Revenue deficit had increased from Rs 2739 crore in 2001-02 to Rs 4851 crore in 2002-03. The fiscal deficit has risen from Rs 4740 crore in 2001-02 to Rs 6742 crore in 2002-03 (current year).

Revenues of the State consist mainly of its own tax and non-tax revenue, central tax transfers and grants-in-aid from Government of India. Overall revenue receipts increased from Rs 14261 crore in 1998-99 to Rs 20837 crore in 2002-03 at an average trend rate of 9.2 *per cent.* There were, however, significant inter year variations in the growth rates. During the current year the revenue receipts grew by 10.7 *per cent.* This was due to 10.2 *per cent* increase in tax revenue and 19.5 *per cent* increase in non-tax revenue. Arrears of revenue were high at Rs 9424 crore and represented 58.2 *per cent* of tax and non-tax revenue receipts of the current year. On an average 76.6 *per cent* of the revenue came from State's own resources. Central tax transfers and grants-in-aid from Government of India increased over the last year by 6.2 and 14.9 *per cent* respectively.

Total expenditure of the State increased from Rs 19361 crore in 1998-99 to Rs 28012 crore in 2002-03 at an average trend rate of 9.7 *per cent.* The rate of growth of expenditure in 2002-03 was 17.3 *per cent* which was much higher than the average trend rate for five years. While the revenue expenditure grew by 19.2 *per cent* in the current year, the revenue receipts grew only by 10.7 *per cent.* This had resulted in huge increase in Revenue deficit during 2002-03, and consequent increase in Fiscal and Primary deficits. There was 8.4 *per cent* decline under capital expenditure and 11.0 *per cent* increase under non-development expenditure during the last year. The interest payments during 2002-03 were Rs 4133 crore and the same grew by 17.6 *per cent* over the last year. The average growth rate of interest payments during the period 1998-2003 was 18.4 *per cent.* Debt burden (fiscal liabilities) of the State was Rs 43915 crore as at the end of the current year which was 15.8 *per cent* more than the corresponding figure last year. The average rate of interest paid on the borrowings of the State during 1998-2003 was more than the average rate of growth of State GSDP, violating the cardinal rule of debt sustainability. The finances of the State continued to be dependent on the ways and means advance/overdraft from Reserve Bank of India for managing day to day expenditure.

Though it is not uncommon for a State to borrow for widening its infrastructure and for creating income generating assets, an ever increasing ratio of fiscal liabilities to GSDP together with a large revenue deficit could lead the State finances into a debt trap. A good signal is that the State Government passed the "Tamil Nadu Fiscal Responsibility Act, 2003" in May 2003 and entered into Memorandum of Understanding with Government of India in September 2003. The State Government proposes to take appropriate measures to reduce the revenue and fiscal deficits and outstanding debt to sustainable level in the coming years.

1.1 Introduction

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

Lay-out of Finance Accounts

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

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

Statement No 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of 2002-03.

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

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

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

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

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

Statement No.8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2003.

Statement No.9 shows the revenue and expenditure under different heads for the year 2002-2003 as a percentage of total revenue/total expenditure.

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

Statement No.11 indicates the detailed account of revenue receipts by minor heads under Non Plan, State Plan and Centrally Sponsored Schemes separately.

Statement No.12 provides detailed account of revenue and capital expenditure by minor heads under Non Plan, State Plan and Centrally Sponsored Schemes separately.

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2002-2003.

Statement No.14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, cooperative banks and societies etc. up to the end of 2002-03.

Statement No.15 depicts the capital and other expenditure to the end of 2002-03 and the principal sources from which the funds were provided for that expenditure.

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

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

Statement No.18 provides the detailed account of loans and advances given by the Government, the amount of loan repaid during the year, the balance as on 31 March 2003, and the amount of interest received during the year.

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

1.2 Trend of Finances with reference to previous year

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

(Rupees in crore)

2001-02	Sl.No	Major Aggregates	2002-03
18818	**1.**	**Revenue Receipts**	**20837**
13010	2.	Tax Revenue (Net)	14342
1557	3.	Non-Tax Revenue	1861
4251	4.	Other Receipts	4634
324	**5.**	**Non-Debt Capital Receipts**	**433**
324	6.	Of which Recovery of Loans	433
19142	**7.**	**Total Receipts (1+5)**	**21270**
19478	**8.**	**Non-Plan Expenditure**	**23122**
19130	9.	On Revenue Account	22715
3513	10.	Of which Interest Payments	4133
348	11.	On Capital Account	407
229	12.	Of which loans disbursed	277
4404	**13.**	**Plan Expenditure**	**4890**
2427	14.	On Revenue Account	2973
1977	15.	On Capital Account	1917
318	16.	Of which Loans disbursed	419
23882	**17.**	**Total Expenditure (8+13)**	**28012**
4740	**18.**	**Fiscal Deficit (17-7)**	**6742**
2739	**19.**	**Revenue Deficit (9+14-1)**	**4851**
1227	**20.**	**Primary Deficit (18-10)**	**2609**

1.3 Summary of Receipts and Disbursements

Table 1 summarises the state of Finances of the Government of Tamil Nadu for the year 2002-03 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts and disbursements made during the year as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table 1: Summary of Receipts and Disbursements for the year 2002-2003

(Rupees in crore)

	Receipts				**Disbursements**				
2001-2002	**Section-A: Revenue**		**2002-2003**	**2001-2002**	**Section-A: Revenue**	**Non-Plan**	**Plan**	**Total**	**2002-2003**
18818.03	**Revenue receipts -**		**20836.74**	**21556.97**	**Revenue expenditure-**				**25687.70**
13009.70	-Tax revenue	14341.71		8920.96	-General services	9869.68	25.23	9894.91	
1556.72	-Non-tax revenue	1860.62		7677.06	-Social Services	6389.67	1584.38	7974.05	
2870.07	-Share of Union Taxes/Duties	3047.57		4242.38	-Economic Services	5042.03	1219.59	6261.62	
1381.54	-Grants from Government of India	1586.84		716.57	Grants-in-aid and Contributions	1413.86	143.26	1557.12	
2738.94	Revenue deficit carried over to Section B		4850.96		Total	22715.24	2972.46	25687.70	
21556.97	**Total**		**25687.70**	**21556.97**	**Total**				**25687.70**
	Section-B : Capital and others				**Section-B : Capital and others**				
225.24	Opening Cash balance		81.80	..	Opening Overdraft from Reserve Bank of India-				..
				1777.91	Capital Outlay-				1627.54
324.34	Recoveries of Loans and Advances-		432.69	546.87	Loans and Advances disbursed-				696.65
4521.54	Public debt receipts-		8816.77[(e)]	2738.94	Revenue deficit brought down-				4850.96
0.61	Amount transferred to Contingency Fund-		..	1076.34	Repayment of Public debt-				2144.49
21209.10	Public Account receipts-		27155.49	20058.97	Public Account disbursements-				27577.39
..	Closing Overdraft from Reserve Bank of India-		579.63	81.80	Cash Balance at end-				169.35
26280.83	**Total**		**37066.38**	**26280.83**	**Total**				**37066.38**
47837.80	**Grand Total**		**62754.08**	**47837.80**	**Grand Total**				**62754.08**

(e) includes net transactions under ways and means advances: Rs 549.79 crore

1.4 Audit Methodology

Audit observations on the statements of the Finance Accounts for the year 2002-2003 bring out the trends in the major fiscal aggregates of receipts and expenditure and wherever necessary show these in the light of time series data (Appendix I) and periodic comparisons. Major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and loans and advances have been presented as percentages to the Gross State Domestic Product (GSDP) at current market prices. Tax revenue, non-tax revenue, revenue expenditure etc., with their respective buoyancy projections have been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP. The key indicators adopted for the purpose are: (i) resources by volume and sources (ii) application of resources (iii) assets and liabilities and (iv) management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the 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.

1.5 State Finances by key indicators

Resources by volume and sources

1.5.1 Resources consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenue, non-tax revenue, State's share of Union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/ commercial banks, loans and advances from Government of India as well as accruals from Public Account). Table 2 shows the total receipts of the Government of Tamil Nadu (Rs 57822 crore) for the year 2002-03, by volume and source.

Table 2: Resources of Tamil Nadu

(Rupees in crore)

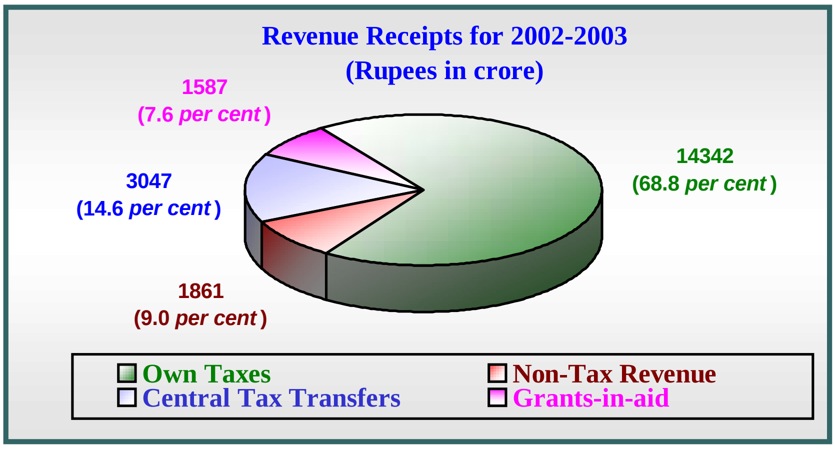
I	**Revenue Receipts**			20837
II	**Capital Receipts**			9829
	a.	Recovery of Loans and Advances	433	
	b.	Debt Receipts	9396	
III	**Public Account Receipts**			27156
	a.	Small Savings and Provident Fund	2895	
	b.	Reserve Funds	(-) 159	
	c.	Deposit and Advances	8113	
	d.	Suspense and Miscellaneous	12044	
	e.	Remittances	4263	
	Total Receipts			**57822**

Revenue Receipts

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

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

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	Average
Revenue Receipts	14261	16328	18317	18818	20837	17712
Own Taxes	9625	10919	12282	13010	14342	12036
Non-Tax Revenue	1157	1357	1711	1557	1861	1529
Central-Tax Transfers	2409	2667	2784	2870	3047	2755
Grants-in-aid	1070	1385	1540	1381	1587	1392
Rate of growth	5.0	14.5	12.2	2.7	10.7	9.2
Revenue Receipts/GSDP	12.0	12.8	13.3	12.7	13.6	12.9
Revenue Buoyancy	0.34	2.07	1.58	0.33	3.06	1.14
GSDP growth	14.9	7.0	7.7	8.2	3.5	8.05



1.5.3 Overall revenue receipts of the State increased from Rs 14261 crore in 1998-99 to Rs 20837 crore in 2002-2003, at an average rate of 9.2 *per cent* per annum. There were however significant inter year variations in the growth rates which ranged from 2.7 to 14.5 *per cent.*

1.5.4 Overall growth of the four components of Revenue Receipts during 1998-2003 had also differed significantly. While the own taxes of the State recorded a growth of 49 *per cent* during 1998-2003, the non-tax revenue recorded a growth of 60.8 *per cent*. The growth of revenue from Central taxes and grants-in-aid was 26.5 and 48.3 *per cent* respectively.

1.5.5 While on an average 76.6 *per cent* of the revenue had come from the State's own resources, the contribution of Central tax transfers and grants-in-aid together declined from 24 *per cent* of the total revenue to 22 *per cent* during the above period.

1.5.6 The sources of receipts during the period 1998-99 to 2002-03 are given in Table 4 below.

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

Year	Revenue Receipts	Capital Receipts			Total receipts	Gross State Domestic Product
		Non-Debt Receipts including Contingency Fund receipts	Debt Receipts	Accruals in Public Account		
1998-1999	14261	323	2678	15791	33053	119063
1999-2000	16328	314	3711	19545	39898	127438
2000-2001	18317	359	4731	21286	44693	137305
2001-2002	18818	325	4522	21209	44874	148585
2002-2003	20837	433	9396	27156	57822	153729

Arrears of revenue

1.5.7 The arrears of revenue registered an increasing trend from Rs 6325 crore in 1998-99 to Rs 9424 crore in 2002-03. The outstanding revenue as on 31 March 2003 was 58.2 *per cent* of the tax and non-tax revenue realised during 2002-2003. Of the arrears of Rs 9424 crore as of March 2003, Rs 2379 crore (25 *per cent*) were pending for more than five years. The arrears mainly pertained to Sales Tax (Rs 8719 crore) and Mines and Minerals (Rs 463 crore). The deterioration in the position of the arrears of revenue reflected slackening revenue realisation efforts of the State Government.

1.6 Application of resources

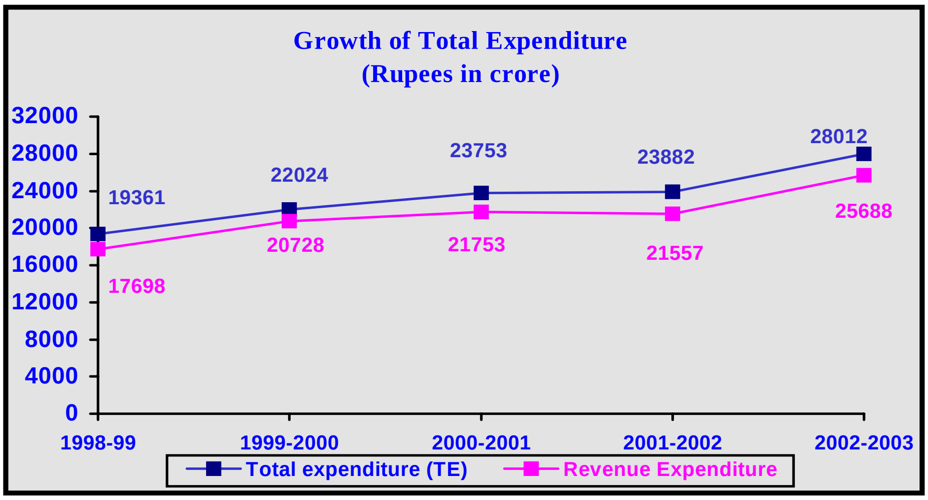
Trend of Growth

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

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

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	Average
Total expenditure (TE)	19361	22024	23753	23882	28012	23406
Rate of Growth	14.4	13.8	7.9	0.5	17.3	9.7
TE/GSDP	16.3	17.3	17.3	16.1	18.2	17.1
TE/Revenue Receipts	135.8	134.9	129.7	126.9	134.4	132.1
Buoyancy of total expenditure with						
GSDP	0.97	1.97	1.03	0.06	4.94	1.21
Revenue Receipts	2.88	0.95	0.65	0.19	1.62	1.05

1.6.2 Overall expenditure of the State comprising revenue expenditure, capital expenditure and the loans and advances increased from Rs 19361 crore in 1998-99 to Rs 28012 crore in 2002-2003, at an average trend rate of 9.7 *per cent* per annum. The rate of growth of total expenditure declined from 14.4 *per cent* in 1998-99 to 0.5 *per cent* in 2001-2002. However it went upto 17.3 *per cent* in 2002-2003. This was due to 19.2 *per cent* increase in Revenue Expenditure during the year. The average ratio of total expenditure to revenue receipts was 132.1 *per cent,* indicating that only a little over three-fourth of the State's total expenditure was met from its current revenue, leaving the balance to be financed by borrowings.

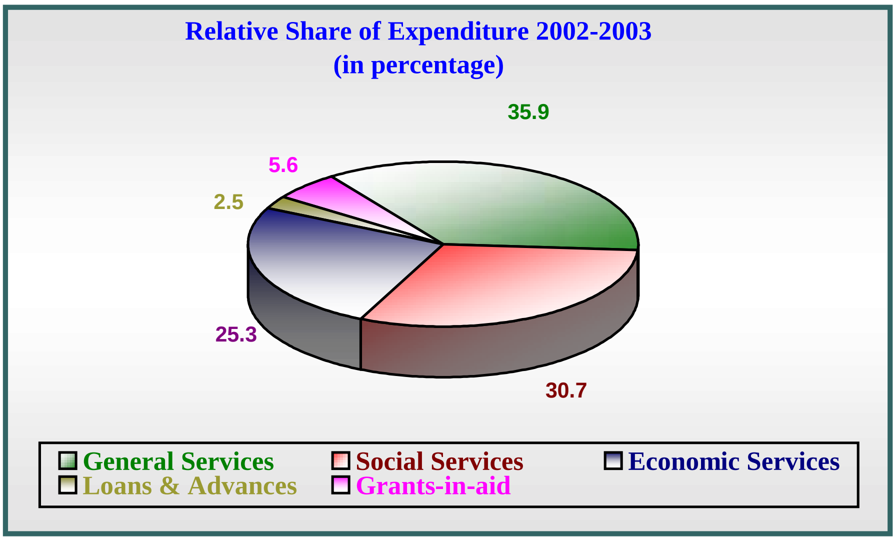


1.6.3 The relative share of activity components in total expenditure is indicated in Table 6.

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

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
General Services	20.0	23.5	22.7	23.3	21.2	22.1
Interest Payments	11.0	12.3	13.1	14.7	14.7	13.2
Social Services	37.9	35.9	35.5	34.9	30.7	35.0
Economic Services	23.2	20.6	22.7	21.8	25.3	22.7
Loans and Advances	2.6	3.0	1.9	2.3	2.5	2.5
Grants-in-aid	5.3	4.7	4.1	3.0	5.6	4.5

1.6.4 Interest payments and expenditure on general services considered as non-developmental, together accounted for nearly 36 *per cent* of total expenditure in 2002-2003. There was a steady decline in the share of Social Services from 37.9 *per cent* to 30.7 *per cent* during the five year period.



Incidence of Revenue expenditure

1.6.5 Revenue expenditure had the predominant share in total expenditure. Revenue expenditure is incurred to maintain the current level of services and does not represent any addition in the State's service network. Overall revenue expenditure, its rate of growth, ratio of revenue expenditure to State's GSDP and revenue receipts are indicated in Table 7 below.

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

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Revenue Expenditure (RE)	17698	20728	21753	21557	25688	21485
Rate of Growth	18.4	17.1	4.9	(-)0.9	19.2	10.03
RE/GSDP	14.9	16.3	15.8	14.5	16.7	15.7
RE as % of TE	91.4	94.1	91.6	90.3	91.7	91.8
RE as % to Revenue Receipt	124.1	126.9	118.8	114.6	123.3	121.3

1.6.6 Overall revenue expenditure of the State increased from Rs 17698 crore in 1998-99 to Rs 25688 crore in 2002-2003, at an average trend rate of 10.03 *per cent* per annum. As a percentage of GSDP, the revenue expenditure ranged between 14.5 and 16.7. Further, the ratio of revenue expenditure to total expenditure was 91.7 in 2002-03; in other words 91.7 *per cent* of total expenditure of the State was in the nature of expenditure on current consumption. Revenue expenditure increased by Rs 4131 crore during the year. This was mainly due to assistance of Rs 1962 crore to Tamil Nadu Electricity Board (TNEB) to fund an one time settlement of dues with Central utilities, increase in compensation and assignments to Local Bodies and Panchayati Raj Institutions (PRI) by Rs 840 crore, increase in interest payment by Rs 620 crore. The ratio of revenue expenditure to revenue receipt has peaked at 123.3 *per cent* during 2002-03. This indicated increasing dependence of the State on borrowing for even meeting the current expenditure.

High salary expenditure

1.6.7 Salaries alone took away nearly 34.7 *per cent* of the revenue receipts of the Government during 2002-03. The expenditure on salaries increased from Rs 6445 crore in 1998-99 to Rs 7225 crore in 2002-03. However, the salary expenditure as a percentage of Revenue Receipts declined from 45.2 to 34.7 *per cent*.

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

	1998-99	1999-2000	2000-01	2001-02	2002-03	Growth Rate
Salary Expenditure	6445	7242	7169	7265	7225	6.6
As % of GSDP	5.4	5.7	5.2	4.9	4.7	5.2
As % of Revenue Receipts	45.2	44.4	39.1	38.6	34.7	39.9

Huge expenditure on pension payments

1.6.8 Pension payments took away as much as 16 *per cent* of the revenue receipts of the Government during 2002-03 and it increased by 96.7 *per cent* from Rs 1691 crore in 1998-99 to Rs 3327 crore in 2002-03.

Interest payments

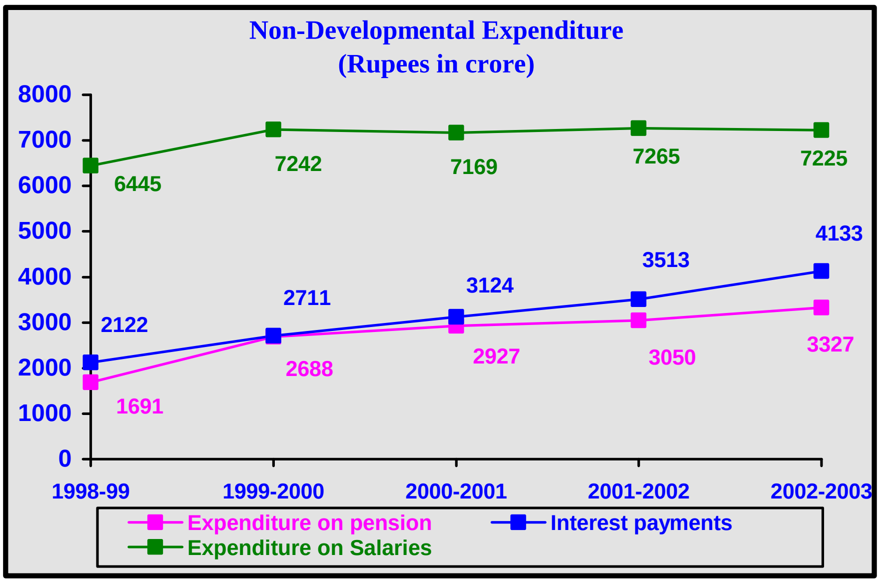
1.6.9 Interest payments made during the period 1998-99 to 2002-03 along with its percentage to Revenue Receipts and Revenue Expenditure are given in Table 9 below:

Table 9: Interest payments

Year	Interest payments (Rs in crore)	Percentage of Interest payments with reference to	
		Revenue Receipts	Revenue Expenditure
1998-1999	2122	14.9	12.0
1999-2000	2711	16.6	13.1
2000-2001	3124	17.1	14.4
2001-2002	3513	18.7	16.3
2002-2003	4133	19.8	16.1

Interest payments increased steadily by 95 *per cent* from Rs 2122 crore in 1998-99 to Rs 4133 crore in 2002-03 (the average growth rate was 18.4 *per cent*) primarily due to continued reliance on borrowings to meet the Fiscal Deficit. State Government raised Rs 2325 crore from open market at a weighted average rate of interest of 7.12 *per cent* per annum. It also borrowed Rs 2200 crore from National Small Savings Fund at 10.5 *per cent* per annum and Rs 920 crore from Government of India during the year.

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



Subsidies

1.6.11 Subsidies can be defined as the difference between the cost of goods and services provided and the actual recoveries made from 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 from public sector undertakings, cooperative societies etc.

1.6.12 During 2002-03, the Direct subsidies, compiled as per accounts, worked out to Rs 1768.42 crore and the same constituted 6.9 *per cent* of the Revenue Expenditure (Rs 25688 crore). Subsidy to Tamil Nadu Civil Supplies Corporation Limited (TNCSC) towards losses incurred for procurement and supply of food articles under Public Distribution System (PDS) (Rs 1240 crore) and Tariff compensation to the TNEB for the free supply of electricity to farmers (Rs 250 crore) were the major subsidies.

1.6.13 The Budget Speech for 2002-03 stated that untargeted and open-ended subsidy schemes have played havoc with the finances of State Government and that all the departments have been instructed to recalibrate the existing schemes suitably. As a result, the direct subsidies declined from Rs 2206 crore during 2001-2002 to Rs 1768 crore during 2002-2003. The decline was mainly under the following items.

	Nature of subsidy	Amount of subsidy given during	
		2001-02	2002-03
		(Rupees in crore)	
(i)	Subsidy to TNCSC towards losses incurred for procurement and supply of food articles under PDS	1525	1240
(ii)	Tariff compensation to TNEB for the free supply of electricity to farmers	323	250
(iii)	Reimbursement of social cost on student concessions in Bus fares	96	49
(iv)	Free distribution of Handloom cloth to the people below poverty line	89	25

1.7 Expenditure by Allocative Priorities

1.7.1 The Government's plan expenditure, capital expenditure and developmental expenditure emerging from Statement 12 of Finance Accounts reflect the allocative priorities. Higher the ratio of these components to total expenditure better is the efficiency of the State apparatus. Table 10 below gives the ratio of these components of expenditure to State's total expenditure.

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

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Plan expenditure	19.3	17.7	18.0	17.5	16.4	17.7
Capital expenditure	6.1	3.0	6.6	7.6	6.0	5.9
Development expenditure*	68.2	63.0	63.5	61.1	63.1	63.6

(Total expenditure does not include loans and advances)

Plan expenditure declined from 19.3 *per cent* of total expenditure in 1998-99 to 16.4 *per cent* in 2002-2003. Similarly, capital expenditure ranged between 3.0 and 7.6 *per cent* of total expenditure. There was also a decline in the share of development expenditure in this period.

1.7.2 Major portion of plan expenditure of Rs 1498 crore under capital outlay was under 'Water Supply and Sanitation' (29 *per cent*), 'Roads and Bridges' (25 *per cent*) and 'Irrigation and Flood Control' (20 *per cent*). Of the developmental expenditure, Social Services (Rs 8590 crore) and Economic Services (Rs 7100 crore) accounted for 50 *per cent* and 41 *per cent* respectively. Expenditure on Social Services was mainly under General Education, Social Welfare and Nutrition, Health and Family Welfare and Water Supply and Sanitation. Expenditure under Economic Services was mainly on Energy, Agriculture and Allied Activities, Civil Supplies and Irrigation and Flood Control.

Financial Assistance to local bodies and other institutions

1.7.3 The quantum of assistance provided by way of grants and loans to local bodies etc., during the period of five years ending 2002-03 was as follows:

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

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Universities and Educational Institutions	1527	1531	1676	761	316
Municipal Corporations and Municipalities	217	112	125	505	866
Panchayati Raj Institutions	1402	1430	915	630	1351
Development Agencies	210	474	731	571	186
Hospitals and other Charitable Institutions	9	12	9	2	4
Other institutions	402	662	514	508	3265
Total	3767	4221	3970	2977	5988
Percentage of growth over previous year	85	12	(-) 6	(-) 25	101
Assistance as a percentage of revenue expenditure	21	20	18	14	23

The increase in financial assistance provided during the year is due to release of Eleventh Finance Commission grants.

Excess release of grant and non-adjustment of unspent grant

1.7.4 The erstwhile Tamil Nadu Port Department was converted as Tamil Nadu Maritime Board (Board) with effect from 18 March 1997. Government released grants-in-aid to the Board based on the budget deficit projected by the Board. The funds were credited to its Personal Deposit Account. The Board in their proposals to Government for budgetary support included depreciation on buildings, machinery and furniture etc., also as an item of expenditure for computing the budgetary deficit, to be financed through grant-in-aid. Since depreciation was not a real expense and no outgo of cash was involved, the budget deficit should be arrived at after excluding this. However, Government released during 1997-2002 grants-in-aid totalling Rs 6.87 crore[*] including Rs 1.84 crore[**] towards depreciation.

1.7.5 The Board, while submitting their budget estimates for the year to Government, does not intimate the unutilised grant available. Although balance 'amount of grant due to Government' was exhibited in the annual accounts, the Government also did not adjust this amount while releasing grant for the subsequent year. The unspent amount of Rs 90.37 lakh remaining as of March 2002 needs to be adjusted before releasing subsequent grants.

1.7.6 Thus, in all, there was an excess release of grants-in-aid totalling Rs 2.74 crore[@] to the Tamil Nadu Maritime Board during 1997-2002, due to provision of grant against the ineligible item of depreciation and non-adjustment of unspent grants.

Misappropriation, losses, etc.

1.7.7 Cases of misappropriation of Government money reported to Audit upto March 2003 and on which final action was pending at the end of June 2003 were as under:

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* Consisting of funds as budgetary support and for implementation of Part II schemes of which Rs 5.95 crore credited to PD account and Rs 92.18 lakh released directly.

** Figures as per Profit and Loss Account of the Board

@ Amount allowed as Depreciation : Rs 1.84 crore plus the unspent grant Rs 90.37 lakh

	Number of cases	Amount (Rupees in lakh)
Cases reported to end of March 2002 and outstanding at the end of June 2002	402	372.51
Cases reported during April 2002 to March 2003*	32	167.82
Total	**434**	**540.33**
Cases cleared during July 2002 to June 2003	54	2.69
Cases outstanding at the end of June 2003	380	537.64

Department-wise and year-wise analyses of the pending cases are given in Appendix II. In all these cases, report on the departmental action taken and results of the proceedings against Government servants responsible, which are required to be sent to Audit, were still awaited (July 2003).

1.7.8 Further, 280 cases of shortage, theft, damage to property, etc., involving Rs 1.65 crore were reported to Audit upto March 2003 by departments other than Public Works, Highways and Forest Departments. 2,780 cases involving Rs 16.18 crore were either reported by or noticed during audit of Public Works, Highways and Forest Departments upto March 2003. Department-wise and year-wise analyses of these cases are contained in Appendix III.

1.8 Assets and Liabilities

1.8.1 The Government accounting system does not attempt a comprehensive accounting of fixed assets, i.e. land, buildings etc., owned by the Government. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure. Statement 16 and details in Statement 17 of Finance Accounts show the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. Appendix IV presents an abstract of such liabilities and the assets as on 31 March 2003, compared with the corresponding position on 31 March 2002.

1.8.2 The liabilities as per Appendix IV mainly comprise money owed by the State Government such as internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Fund. During 2002-03, the liabilities grew by 15.5 *per cent*.

1.8.3 Similarly, the assets comprise mainly the capital expenditure and loans and advances given by the State Government and grew by 10.8 *per cent* only during 2002-03.

Financial results of irrigation works

1.8.4 Statement 3 of Finance Accounts depicts the financial results of five major and 47 medium irrigation projects with a capital expenditure of Rs 2056.74 crore at the end of March 2002. It showed that revenue realised from these projects during 2001-2002 (Rs 7.38 crore) was only 0.36 *per cent* of the capital expenditure and these were not sufficient to cover even the direct

* Includes one case noticed during test-check of Seed Farm, Tiruvannamalai District (Agriculture Department). An Assistant Director, Seed Processing Unit Tiruvannamalai misappropriated Rs 1.64 crore during 1998-2001. The case is pursued by Vigilance and Anti-Corruption Department. Departmental action was also in progress.

working expenses (Rs 48.29 crore). After meeting the working and maintenance expenditure (Rs 48.51 crore) and interest charges (Rs 107.96 crore), the projects suffered a net loss of Rs 149.31 crore. The loss was substantial (Rs 107.54 crore) in all the major irrigation projects.

Incomplete projects

1.8.5 As per information received from the State Government, there were 45 incomplete projects in which Rs 372.98 crore were blocked as of 31 March 2003. Each of these projects cost more than Rupees one crore and was scheduled for completion before 31 March 2003, but was incomplete, for reasons such as non-receipt of revised Administrative sanction, pending land acquisition, delay in following World Bank procedures and delay in finalisation of tender etc.

Commercial activities

1.8.6 Activities of quasi-commercial nature are performed by the departmental undertakings of certain Government departments. These undertakings are to prepare *pro forma* accounts in the prescribed format showing the results of annual financial operation. The Heads of Departments in Government are to ensure that the undertakings, which are funded by budgetary release, prepare the accounts on time and submit the same to Accountant General for audit.

1.8.7 As of March 2003, there are three such undertakings in the Government of Tamil Nadu. However, only two undertakings had finalised their accounts up to 2000-01. One undertaking had not replied to the audit comments on the accounts for the years from 1997-2001 and therefore these accounts are yet to be certified as of August 2003. The third undertaking, Chank Fisheries, Ramanathapuram has not finalised its accounts from the year 1997-98 onwards. Rupees 9.86 crore have been invested by the State Government in respect of these three undertakings at the end of the financial year up to which their accounts were completed.

1.8.8 The Comptroller and Auditor General of India has commented in the Audit Reports of the State about the failure of the Heads of Departments and the management of the undertakings in timely preparation of the *pro forma* accounts. Accountant General (Audit) II, has reminded the Secretary of the concerned departments periodically in this matter. Government has neither initiated action against the defaulting management for their failure to prepare the accounts nor took any effective initiative to set the position right. As a result, accountability of the management and Government in respect of the public funds spent by these undertakings was not ensured.

1.8.9 The department-wise position of arrears in preparation of *pro forma* accounts, and the financial position of the three undertakings are given in Appendix V and VI respectively.

Fiscal Liabilities – Public Debt and Guarantees

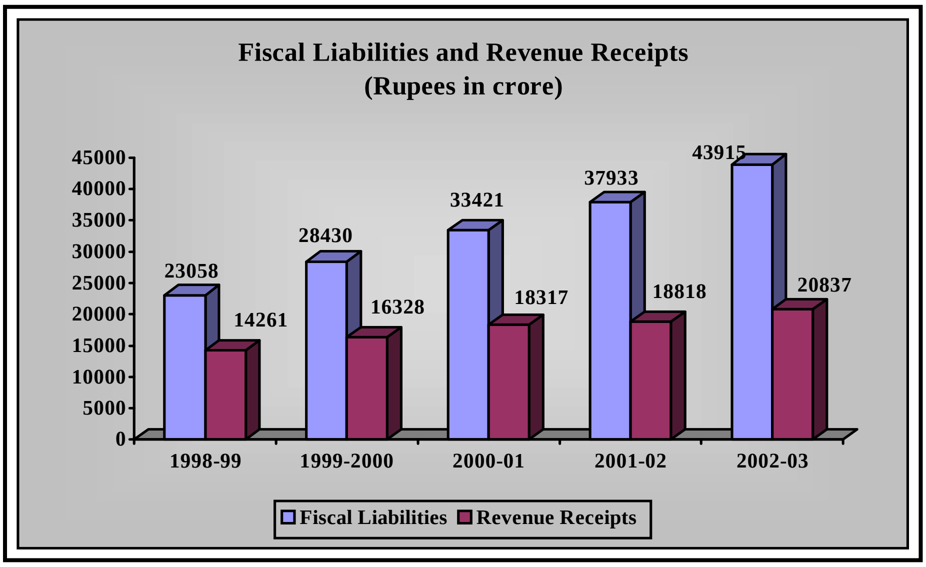
1.8.10 The Constitution of India (Article 293) provides that State may borrow within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time be fixed by an act of Legislature. However, no such law was passed in the State (Article 293) to lay down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

1.8.11 Statement 4 read with Statements 16 and 17 of Finance Accounts show the year-end balances under Debt, Deposit and Remittance heads from which the liabilities are worked out. Table 11 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters. It would be observed that the overall fiscal liabilities of the State increased from Rs 23058 crore in 1998-1999 to Rs 43915 crore in 2002-2003 at an average annual rate of 17.8 *per cent*. These liabilities as ratio to GSDP increased from 19.4 *per cent* in 1998-99 to 28.6 *per cent* in 2002-2003; their ratio to revenue receipts increased from 161.7 to 210.8 *per cent* over the five year period.

1.8.12 Currently the fiscal liabilities including the contingent liabilities were more than 2.5 times the revenue receipts of the State. The direct fiscal liabilities of the State have grown much faster compared to its rate of growth of GSDP, revenue receipts and own resources. On average for each one *per cent* increase in GSDP, Revenue Receipts and own resources, the direct fiscal liabilities of the State have gone up by 2.2, 1.9 and 1.7 *per cent* respectively.

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

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Fiscal Liabilities	23058	28430	33421	37933	43915	33351
Rate of Growth	19.0	23.3	17.6	13.5	15.8	17.8
Percentage of Fiscal Liabilities to						
GSDP	19.4	22.3	24.3	25.5	28.6	24.3
Revenue Receipts	161.7	174.1	182.5	201.6	210.8	188.3
Own Resources	213.9	231.6	238.8	260.4	271.0	245.9
Buoyancy of Fiscal Liabilities to						
GSDP	1.28	3.33	2.29	1.65	4.51	2.21
Revenue Receipts	3.80	1.61	1.44	5.00	1.48	1.94
Own Resources	1.92	1.68	1.26	3.29	1.41	1.67



1.8.13 Increasing liabilities raises the issue of its sustainability. Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. However, in Tamil Nadu average interest rate on fiscal liabilities at 10.1 *per cent* during 1998-2003 exceeded the rate of growth of GSDP at 8.05 *per cent* as indicated in Table 12.

Table 12: Debt sustainability – Interest Rate and GSDP growth (in *per cent*)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Weighted Interest Rate	10.0	10.5	10.1	9.8	10.1	10.10
GSDP Growth	14.9	7.0	7.7	8.2	3.5	8.05
Interest spread	4.9	(-) 3.5	(-) 2.4	(-) 1.6	(-) 6.6	(-) 2.05

1.8.14 Another important indicator of debt sustainability is net availability of funds after repayment of the principal on account of the earlier contracted liabilities and interest. The Table 13 below gives the position of the receipt and repayment of internal debt over the last five years. The net funds available on account of the internal debt and loans and advances from Government of India, after providing for the interest and repayments, varied from 3.9 *per cent* to 20.1 *per cent* during 1998-2003.

Table 13: Net Availability of Borrowed Funds (Rs in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Internal Debt*						
Receipt	1046	6535	11530	12575	17883	9914
Repayment (Principal + Interest)	658	5671	8227	10855	11851	7452
Net Fund Available	388	864	3303	1720	6032	2462
Net Fund Available (*per cent*)	37	13	29	14	34	25
Loans and Advances from GOI						
Receipt	1634	2011	66	913	920	1109
Repayment (Principal + Interest)	1598	1830	1953	2108	3164	2131
Net Fund Available	36	181	(-) 1887	(-) 1195	(-) 2244	(-) 1022
Net Fund Available (*per cent*)	2	9	-	-	-	-
Total Public Debt						
Receipt	2680	8546	11596	13488	18803	11023
Repayment (Principal + Interest)	2256	7501	10180	12963	15015	9583
Net Fund Available	424	1045	1416	525	3788	1440
Net Fund Available (*per cent*)	15.8	12.2	12.2	3.9	20.1	13.1

Guarantees given by the State Government

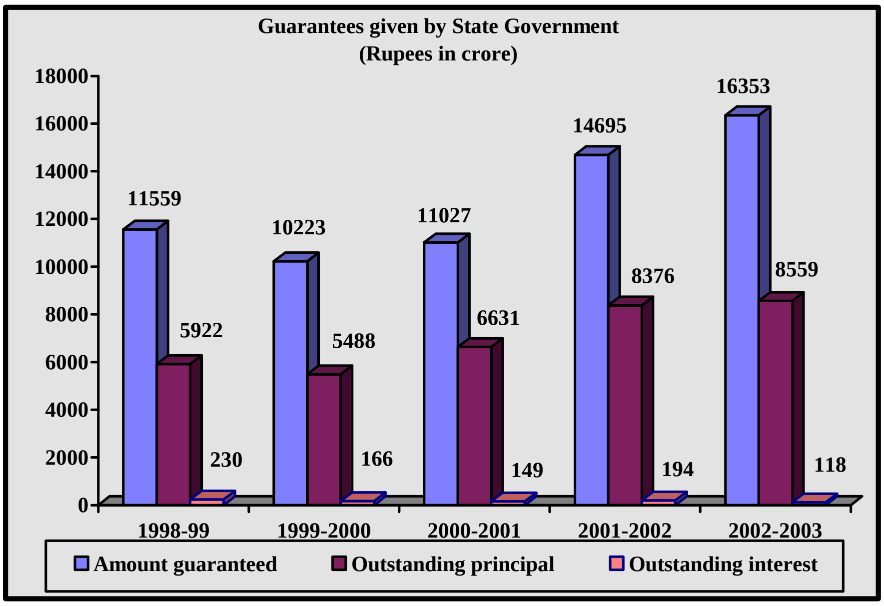
1.8.15 In addition to these liabilities Government had guaranteed loans for its various Corporations and others, which stood at Rs 8677 crore as of March 2003. The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment of loans there may be an obligation on the Government to honour these commitments. According to the Tamil Nadu Fiscal Responsibility Act passed by the State Legislature in May 2003, Government should cap outstanding risk weighted guarantees to 100 *per cent* of the total revenue receipts in the preceding year or at 10 *per cent* of GSDP and whenever the limits specified are exceeded, no fresh guarantee should be given.

1.8.16 The maximum amount for which guarantees were given by the State Government during the last five years was as under:

* There is change in the previous years Audit Reports in respect of Internal Debt figures because of inclusion of Ways and Means Advances and Overdraft for the years 1998-2002.

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantee at the year end		Percentage to total revenue
		Principal	Interest	
1998-1999	11559	5922	230	81
1999-2000	10223	5488	166	63
2000-2001	11027	6631	149	60
2001-2002	14695	8376	194	78
2002-2003	16353	8559	118	78



1.8.17 The amounts of outstanding guarantees at the end of each year during 1998-2003 showed an increasing trend. While Rs 71.61 crore were received as guarantee commission during 2002-2003, Rs 32.96 crore of guarantee commission were outstanding for recovery from seven Government Companies/ Corporations (Rs 4.20 crore) and from Cooperative Institutions (Rs 28.76 crore) as on 31 March 2003. Government has constituted a Guarantee Redemption Fund in March 2003 for discharge of invoked guarantees.

1.9 Management of deficits

Fiscal Imbalances

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

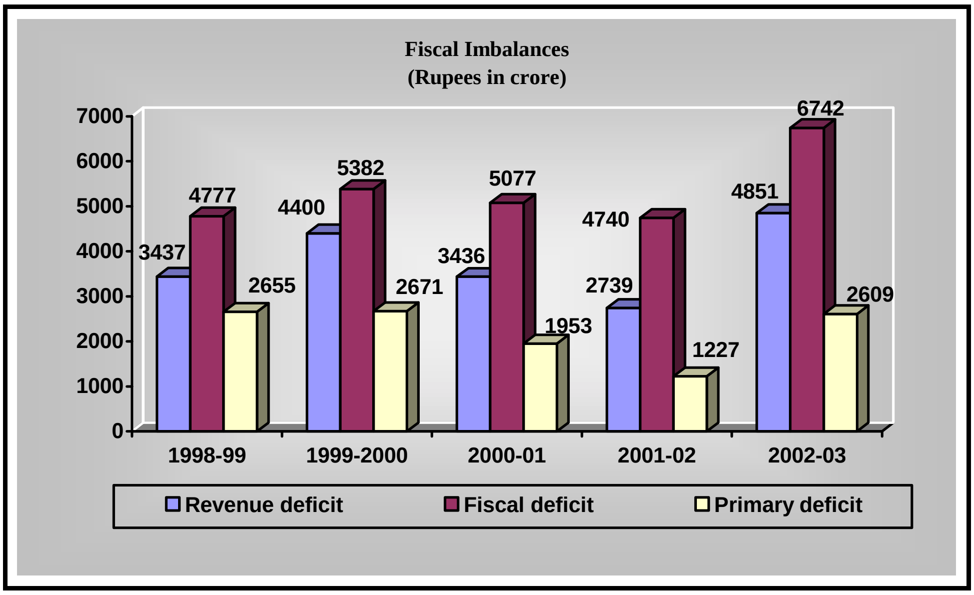
1.9.2 The details of Revenue/Fiscal/Primary Deficits during the period 1998-99 to 2002-03 and their ratio to GSDP, along with the ratio of Revenue Deficit (RD) to Fiscal Deficit (FD) during this period are given in Table 14 below:

Table 14: Fiscal Imbalances– Basic Parameters
(value in crore of Rupees and others in percentage)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Revenue deficit	(-) 3437	(-) 4400	(-) 3436	(-) 2739	(-) 4851	(-) 3773
Fiscal deficit	(-) 4777	(-) 5382	(-) 5077	(-) 4740	(-) 6742	(-) 5344
Primary deficit	(-) 2655	(-) 2671	(-) 1953	(-) 1227	(-) 2609	(-) 2223
RD/GSDP	(-) 2.9	(-) 3.5	(-) 2.5	(-) 1.8	(-) 3.2	(-) 2.7
FD/GSDP	(-) 4.0	(-) 4.2	(-) 3.7	(-) 3.2	(-) 4.4	(-) 3.9
PD/GSDP	(-) 2.2	(-) 2.1	(-) 1.4	(-) 0.8	(-) 1.7	(-) 1.6
RD/FD	72.0	81.8	67.7	57.8	72.0	70.6

The revenue deficit of the State, which is the excess of its revenue expenditure over revenue receipts, (Statement 1 of Finance Accounts) was Rs 2739 crore in 2001-2002 and shot up to Rs 4851 crore in 2002-2003. As a percentage of revenue receipts it has gone up from 14.6 *per cent* in 2001-02 to 23.3 *per cent* in 2002-03. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, was Rs 4740 crore in 2001-2002, but increased to Rs 6742 crore in 2002-2003. The primary deficit of the State was Rs 1227 crore in 2001-2002 but rose to Rs 2609 crore in 2002-2003. The increase in revenue deficit and fiscal deficits during 2002-03 over the figures for 2001-02 clearly showed that the financial position of the State has further worsened.

1.9.3 The existence of revenue deficit indicates that the State Government had to borrow funds to meet its current obligations. The ratio of revenue deficit to fiscal deficit was 57.8 *per cent* in 2001-2002, but went up to 72 *per cent* in 2002-2003. This indicated that 72 *per cent* of the borrowings were applied to revenue expenditure and the debt burden of the Government is high, affecting the repayment capacity of the Government. As a proportion to State's gross domestic product, revenue deficit was 3.2 *per cent* in 2002-2003 and fiscal deficit was 4.4 *per cent.*



Recommendations of Eleventh Finance Commission

Medium Term Fiscal Reforms Programme

1.9.4 Eleventh Finance Commission (EFC) in its report laid down broad parameters of fiscal correction in the State Sector. Each State was required to draw up the Medium Term Fiscal Reforms Programme (MTFRP) to achieve the objective of zero revenue deficit. The MTFRP should form the basis of a Memorandum of Understanding (MoU) between the State and Ministry of Finance, GOI. Further the EFC recommended an Incentive Fund from which grants were to be released to States based on their fiscal programme. The Incentive Fund releases proposed for Tamil Nadu were Rs 402 crore. On the basis of the recommendations of the EFC, Government of India (GOI) created Fiscal Reforms Facility (2000-01 to 2004-05) to motivate the States to undertake MTFRP. Release of the Incentive Fund was to be based on achieving a minimum improvement of five percentage points in the revenue deficit as a proportion of its revenue receipts each year till 2004-05 over the base year 1999-2000.

1.9.5 The Budget Speech for 2002-2003 announced that the Government has prepared a Medium Term Fiscal Reforms Programme aimed at reducing Revenue deficit to zero and Fiscal deficit to two *per cent* of the Gross State Domestic Product (GSDP) by 2006-07. However, for the year 2002-03 the Revenue deficit was Rs 4851 crore which was 23 *per cent* of the total revenue receipts. The Fiscal deficit was Rs 6742 crore or four *per cent* of GSDP. State Government passed the “Tamil Nadu Fiscal Responsibility Act, 2003” in May 2003. The MoU between Government of India and Government of Tamil Nadu was entered into on 2 September 2003.

Utilisation of upgradation/Special problem grants recommended by Eleventh Finance Commission

1.9.6 With a view to modernise and rationalise the administrative set up of the States in the interest of speed, efficiency and sound fiscal management, EFC recommended for the period 2000-05, grants of Rs 202.86 crore for upgradation of standards in twelve non-developmental and social sectors and services[*] and Rs 49 crore towards slum improvement works in Chennai, Coimbatore and Madurai cities as special problem grant. The grants were to be released by the Government of India (GOI), Ministry of Finance, in a phased manner during 2000-04[**], leaving the final year 2004-05.

1.9.7 Out of Rs 137.55 crore released by GOI during 2000-03, Rs 124.78 crore was released to the departments concerned for incurring expenditure and the remaining amount of Rs 12.77 crore (Appendix VII (A)) was kept unreleased by State Government. Details given by Finance Department revealed that though Rs 119.38 crore was shown as expenditure out of Rs 133.53 crore released by GOI under 11 sectors and services, the

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[*] (1) District Administration, (2) Police Administration, (3) Prisons Administration, (4) Fire Services, (5) Judicial Administration, (6) Fiscal Administration, (7) Health services, (8) Elementary Education, (9) Computer training to school children, (10) Public Libraries, (11) Heritage protection and (12) Augmentation of traditional water resources.

[**] 2000-01: Rs 101.30 crore, 2001-02: Rs 50.65 crore, 2002-03: Rs 50.65 crore and 2003-04: Rs 49.26 crore.

departmental records showed that the utilisation certificates were sent for Rs 82.09 crore only (Appendix VII (B)).

1.9.8 Test-check of records (during July 2003) of five Sectors/Services *viz.*, Health Services, Fire Services, Elementary Education and Computer training to school children for which upgradation grants were released and slum improvement works for which special problem grant was released revealed the following:

- Under Health Services, Government released Rs 13.17 crore (Rs 1.18 crore towards construction and Rs 11.99 crore towards equipment) to Tamil Nadu Medical Services Corporation Limited (TNMSC) and the same was kept in the Deposit Account of the Corporation. Though TNMSC reported that Rs 3.24 crore alone was utilised and the remaining amount of Rs 9.93 crore was available in their Deposit account as unutilised, Director of Medical and Rural Health Services furnished (November 2002) utilisation certificate for Rs 8.26 crore to Government. While two Ultra sound Machines (cost : Rs 5.80 lakh) purchased were kept in the Drug warehouses of TNMSC, equipment costing Rs 14.50 lakh could not be installed due to non-completion of buildings for seven Regional Diagnostic Centres (RDC). CT scans for three RDCs costing Rs 2.33 crore were installed in the connected hospitals, as the separate buildings intended for housing these CT scans are still under construction.

- Under Elementary Education, the Director of Elementary Education (DEE) drew Rs 4.79 crore and released to the District Rural Development Agencies (DRDAs), who were the implementing agencies, in April 2002. While Rs 3.14 crore were utilised during 2002-03, Rs 1.65 crore remained unutilised with DRDAs as of March 2003. Due to belated release of funds by DEE, the works approved for 2001-02 were taken up only during 2002-03. This resulted in postponement of works approved for 2002-03 to the next year *viz.*, 2003-04 and 1906 works are yet to be commenced as of March 2003.

- Under Slum improvement works for which a special problem grant of Rs 49 crore was earmarked by EFC, State Level Empowered Committee (SLEC) recommended construction of 2820 tenements (cost : Rs 35.25 crore) and 916 individual houses costing Rs 6.87 crore, both in Madurai and Coimbatore cities. Out of Rs 19.71 crore released by GOI upto March 2003, State Government released Rs 19 crore to the Tamil Nadu Slum Clearance Board (TNSCB) with a direction to keep the same in the deposit account under Public Account as of March 2003. However, the entire amount of Rs 19 crore released and credited to the Deposit account of TNSCB was withdrawn and deposited by TNSCB in Corporation Bank, Kilpauk, outside Government account. Rupees 3.93 crore was lying unutilised in this account as of March 2003. Despite completion of 1620 units in Chennai city, other facilities like water supply, sewer lines etc were yet to be provided (May 2003). In Madurai and Coimbatore cities, the works were yet to be commenced as of May 2003, due to delay in finalising the proposals of construction.

In their reply (October 2003), Government stated that it would endeavour to ensure full utilisation of the outlays provided within the award period, which is upto March 2005.

Irregular utilisation and non-refund of Government of India subsidy

1.9.9 With a view to helping the small mechanised fishing sector, a Centrally sponsored scheme to reimburse fully to the fishermen the Central Excise Duty (CED) payable on High Speed Diesel Oil (HSD) used by small mechanised fishing boats below 20 metre length was being implemented. Under the scheme, 35 paise per litre of HSD used was reimbursed by Government of India (GOI) and the State Government in the ratio of 80:20 (GOI share: 28 paise and State share: seven paise). State Government increased its share of subsidy to 17 paise from 1997-98. The state share along with the central share was credited to the personal deposit account of Director of Fisheries (DOF), from where disbursements to the fishermen were made.

1.9.10 The amount of GOI share released towards reimbursement of CED on HSD for the years 1999-2001, funds reported as utilised during the period, amount eligible for reimbursement from GOI, and the actual unutilised GOI assistance are given below.

(Rupees in lakh)

Reimbursed for the year (month of release)	**GOI share released**	**State share released**	**Quantity of HSD (in litres)**	**Amount reimbursed to fishermen**	**Amount of GOI assistance reported as utilised**	**Amount of GOI assistance eligible**	**Actual unutilised GOI assistance**
1999-2000 (March 2000 and June 2000)	200.00	50.00	3,53,44,252	159.05	127.24	98.96	101.04
2000-2001 (February 2002)	117.10	50.00	3,68,11,406	165.65	103.07	103.07	14.03

1.9.11 The excess amount of GOI share of Rs 28.28 lakh misreported as utilised for the year 1999-2000, was in fact diverted to meet the State share at enhanced rate (at 17 paise per litre) to the extent of Rs 10.09 lakh* and the remaining amount of Rs 18.19 lakh was remitted to State Government account during March-April 2001.

1.9.12 Similarly, of the unutilised GOI share of Rs 14.03 lakh in respect of 2000-2001, Rs 12.58 lakh** was diverted to meet the State share at increased rate and the balance of Rs 1.45 lakh was remitted to State Government account. Further, although DOF was yet to receive and compile the details of subsidy actually released to the eligible fishermen for the year, the utilisation certificate was furnished to GOI, indicating that Central assistance of Rs 103.07 lakh had been utilised and balance of Rs 14.03 lakh remained unutilised. This amount was yet to be refunded to GOI, despite the fact that the scheme itself came to a close on 31 March 2002.

1.10 Investments and returns

1.10.1 Statement 14 of Finance Accounts showed that as on 31 March 2003, Government had invested Rs 2992.74 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Cooperatives. Government's return

* 3,53,44,252 litres @ 17paise per litre (i.e.) Rs 60.09 lakh - Rs 50 lakh.

** 3,68,11,406 litres @ 17 paise per litre (i.e.) Rs 62.58 lakh - Rs 50 lakh.

on this investment was not only meagre ranging between 0.9 and 1.6 *per cent* during 1998-2003, it was also on a continuous decline as indicated in Table 15 below. 53 Government Companies with an aggregate investment of Rs 1216.48 crore were incurring a loss and their accumulated losses amounted to Rs 3826.29 crore as of March 2003. While Government was borrowing at high rates of interest to finance its expenditure, its investments in companies etc. fetched a meagre return.

Table 15: Return on Investment

Year	Investment at the end of the year (Rs in crore)	Return (Rs in crore)	Percentage of Return	Rate of interest on Government Borrowing (in *per cent*)
1998-1999	1560.63	24.29	1.6	12.50 and 12.15
1999-2000	2702.77	41.95	1.6	12.25, 11.85 and 11.74
2000-2001	2954.21	36.53	1.2	12.00, 11.70, 10.52 and 10.50
2001-2002	2967.46	33.45	1.1	10.35, 9.38, 9.45, 8.30 and 8
2002-2003	2992.74	25.99	0.9	7.80, 7.30, 6.80, 6.95 and 6.75

Loans and Advances by State Government

1.10.2 In addition to its investment, Government has also been providing loans and advances to many of these parastatals. Total outstanding balance of the loans/advances rose steadily from Rs 3694 crore in March 1999 to Rs 4612 crore as on 31 March 2003 (Table 16).

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

(Rupees in crore)

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
Opening Balance	3507	3694	4031	4125	4348
Amount advanced during the year	510	651	453	547	697
Amount repaid during the year	323	314	359	324	433
Closing Balance	3694	4031	4125	4348	4612
Net addition	187	337	94	223	264
Interest received	223	178	204	271	311
Average rate of Interest received on loans advanced	6.2	4.6	5.0	6.4	6.9
Average interest rate paid by the State	10.0	10.5	10.1	9.8	10.1
Difference between rate of interest received and paid	(-) 3.8	(-) 5.9	(-) 5.1	(-) 3.4	(-) 3.2

1.11 Management of cash balances

It is generally desirable that the Government's flow of resources should match its expenditure obligations. However, to take care of any temporary mis-matches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from Reserve Bank of India has been put in place. However, the Government has been increasingly using this mechanism over the years. Normally these advances should be liquidated during the year. The Government has increasingly been drawing in excess of its WMA limits from RBI, and had outstandings at the end of the year, as indicated in Table 17.

Table 17: Ways and Means Advances and Interest paid thereon

(Rupees in crore)

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
Ways and means advances					
Taken in the year	742.34	3761.15	5151.63	4855.47	8624.44
Outstanding	Nil	313.71	241.53	101.63	651.42
Interest paid	..	7.07	14.51	21.88	20.46
Overdraft					
Taken in the year	Nil	1485.97	1712.93	4110.24	1911.22
Outstanding	Nil	98.13	Nil	Nil	579.63
Interest paid	Nil	0.52	1.89	4.72	3.98
Number of days State was in overdraft	Nil	55	76	148	71

Government resorted to overdraft and /or Ways and Means advances on 359 days and 355 days during 2001-2002 and 2002-2003 respectively which indicated the overdependence of the State on RBI for day-to-day financial management.

1.12 Financial performance *vis-à-vis* Budget Speech for the year 2002-03

1.12.1 While presenting the Budget proposals for 2002-2003 in March 2002, Government stated that the growth in receipts comprising Central resource transfers, own tax and non-tax revenues have failed to keep pace with the unprecedented rise in revenue expenditure since 1998, mainly towards employee compensation, interest payments and subsidies, and to cover the mismatch, Government resorted to heavy borrowing to finance the revenue gap, resulting in alarmingly high and unsustainable revenue deficit and fiscal deficit.

Debt management

1.12.2 According to the Budget Speech, long-term loans such as those extended by Central Government and other internal debt sources comprise nearly 2/3 of the Fiscal deficit of the State Government and the rest is financed through the balances in Public Account, which include Small Savings and State Provident Funds.

1.12.3 Consequent to the announcement of GOI permitting the State Government to go in for debt substitution so as to replace the high-interest outstanding loans from the GOI and other financial institutions with the low interest loans, outstanding high-cost debt to GOI to the tune of Rs 1045.89 crore has been swapped in 2002-03. Similarly, in respect of high-cost loans obtained earlier from HUDCO, rate of interest on debt to the tune of Rs 897.18 crore as direct borrowing by Government and Rs 1078.89 crore obtained by

State owned Public Sector Undertakings has been reset to a lower rate in the range of 10.13 to 10.75 *per cent* during 2002-2003.

Power Sector reforms

1.12.4 According to the Budget Speech, there is a commitment to make Tamil Nadu Electricity Board (TNEB), self-supportive and commercially viable while protecting the interest of the people. The State Government has signed a Memorandum of Understanding (MoU) with GOI in January 2002 which envisages reforms in the power sector. The MoU provides that (i) the outstanding dues of TNEB will be securitised. State Government will float tax free bonds with an interest rate of 8.5 *per cent* to fund a one time settlement of dues with the Central utilities. Rupees 1962.14 crore have been given as assistance to TNEB for this purpose during 2002-03. (ii) The State Electricity Regulatory Commission (SERC) will be activated.

1.12.5 SERC has been activated in 2001-02. The revision of tariff during December 2001 and March 2003 yielded additional resource mobilisation to the extent of Rs 1296.44 crore during 2002-2003. The tariff order had brought the agricultural community under tariff net. State Government also decided in August 2003 to provide subsidy to small and marginal farmers as well as hut dwellers for payment of electricity charges.

1.12.6 A comparison of the Budget Estimates of various parameters for 2002-03 *vis-à-vis* actual receipts/expenditure is given in Appendix VIII. The salient observations are given below:

Revenue Receipts

1.12.7 The actual Revenue Receipts (Rs 20837 crore) were marginally higher than the Budget estimates (Rs 20628 crore).

1.12.8 Tax Revenue realised was Rs 14342 crore which exceeded the estimate of Rs 14254 crore. While the realisation under Taxes on Sales, Trades etc, Taxes on Vehicles and Taxes on Goods and passengers exceeded the estimate, revenue under State Excise and Stamps and Registration fees was less than the estimate.

1.12.9 Interest Receipts and Receipts under Economic Services contributed to increase (Rs 400 crore) over the estimates under Non-Tax Revenue. The actuals were less than the projections under share of Central Taxes (Rs 3047 crore against Rs 3199 crore) and Grants-in-aid from GOI (Rs 1587 crore against Rs 1715 crore).

Revenue expenditure

1.12.10 Revenue expenditure under all the services (General, Social and Economic Services) and Grants-in-aid was less than the estimate. The significant shortfall under Social Services was mainly under General Education (Rs 890 crore), Medical and Public Health (Rs 137 crore), which was partly offset by the excess over estimate under Relief on account of natural calamities (Rs 264 crore).

Capital expenditure

1.12.11 The Capital expenditure was far less than the Budget Estimate (BE) mainly under Water supply and sanitation (Rs 110 crore), Roads and Bridges (Rs 344 crore), Flood control projects (Rs 48 crore) and Police (Rs 47 crore).

Loans and Advances

1.12.12 While the estimated net disbursement was Rs 456 crore, the disbursement of Loans and Advances by Government exceeded the recoveries by Rs 264 crore. The recoveries were Rs 433 crore while the estimate was Rs 215 crore.

Public Debt

1.12.13 Internal debt raised during the year was far higher than the BE by 44 *per cent*, while Loans and Advances received from GOI was lower by 28 *per cent*. The repayments exceeded the BE approved by the Legislature.

Public Account

1.12.14 While it was estimated that net inflow from Public Account transactions would be Rs 1459 crore, the actual disbursements exceeded the receipts by Rs 422 crore.

Deficits

1.12.15 The Revenue deficit, Fiscal deficit and the overall surplus/ deficit anticipated for the year and the actuals for the year along with other parameters are as given below:

(Rupees in crore)

Sl.No.		2002-2003	
		BE	**Actuals**
1	Revenue Deficit	6233	4851
2	Public Debt receipts	13698	18803
3	Public Debt disbursements	7592	11551
4	Public Debt (Net)	(+) 6106	(+) 7252
5	Capital expenditure excluding public debts and including net loans and advances	2662	1892
6	Fiscal Deficit (1+5)	8895	6743*
7	Surplus(+)/Deficit(-) in capital account (4-5)	(+) 3444	(+) 5360
8	Net Consolidated Fund (1-7)	(-) 2789	(+) 509
9	Net Public Account	(+) 1459	(-) 422
10	Overall Surplus(+)/Deficit(-)	(-) 1330	(+) 87

1.12.16 The revenue deficit was contained to a value within the budget estimate. The actual fiscal deficit was well below the estimate due to

* Rupees 6742.46 crore – higher rounding adopted for agreement.

reduction in revenue deficit and capital expenditure (including net loans and advances). The Public Account disbursements were higher than the receipts by Rs 422 crore, while the budget estimated that receipts would exceed the disbursements by Rs 1459 crore. This resulted in actual overall surplus being Rs 87 crore as against the anticipated budget deficit of Rs 1330 crore.

1.13 Conclusion

1.13.1 Increasing revenue and fiscal deficit indicates growing fiscal imbalances of the State. Similarly, increase in ratio of revenue deficit to fiscal deficit indicates that the application of borrowed funds has largely been to meet current consumption. All the four indicators of fiscal imbalances for 2002-2003 show deterioration compared to 2001-2002 indicating increasing unsustainability and vulnerability of State finances.

1.13.2 Huge increase in revenue deficit from Rs 2739 crore during 2001-2002 to Rs 4851 crore during 2002-2003 was as a result of increase (19.2 *per cent*) in revenue expenditure which far exceeded the growth (10.7 *per cent*) in revenue receipts. Consequently, fiscal and primary deficits also shot up during the year. Revenue deficit as a percentage of revenue receipts increased from 14.6 *per cent* during 2001-2002 to 23.3 *per cent* during 2002-2003. While the fiscal deficit and primary deficit as percentages to revenue receipts were 25.2 and 6.5 respectively during 2001-2002, they went upto 32.4 and 12.5 respectively during the current year, indicating a further deterioration in the fiscal situation in 2002-03. The average rate of interest paid on the borrowing during 1998-2003 has also exceeded the average rate of growth of the State GDP, violating the cardinal rule of debt sustainability. Revenue deficit to fiscal deficit ratio showed that 72 *per cent* of the borrowings were applied to revenue expenditure. Debt burden (fiscal liabilities) of the Government had increased by 15.8 *per cent* compared to the previous year. Interest payments were higher by 17.6 *per cent*. The high buoyancy of fiscal liabilities both with respect to its revenue receipts and to its own resources indicates its increasing unsustainability. There was 8.4 *per cent* decline under capital expenditure and 11 *per cent* increase under non-development expenditure.

1.13.3 The finances of the State continued to be dependent on the ways and means advance/overdraft from RBI for managing day to day expenditure. The State's low return on investment indicates an implicit subsidy and use of high cost borrowing for investments, which yield very little. A greater part of the liabilities of Government are without an asset backup.