

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

Profile of Tamil Nadu

The State is located on the eastern coast, surrounded by the States of Andhra Pradesh, Karnataka and Kerala. It is the 11th largest State in terms of geographical area (1,30,058 sq.km) and the seventh largest by population. The State's population increased from 6.24 crore in 2001 to 7.21 crore in 2011 (Provisional figure) recording a decadal growth of 15.54 *per cent*. The percentage of population below the poverty line was lower than the all-India average. The State's Gross Domestic Product (GSDP) in 2012-13 at current prices was ₹ 7,44,474 crore. The literacy rate increased from 73.45 *per cent* in 2001 to 80.33 *per cent* in 2011 (Provisional figure). The per capita income of the State was ₹ 1,03,256¹ against the all-India average of ₹ 78,177. General data relating to the State is given in **Appendix 1.1**.

Gross State Domestic Product (GSDP)

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

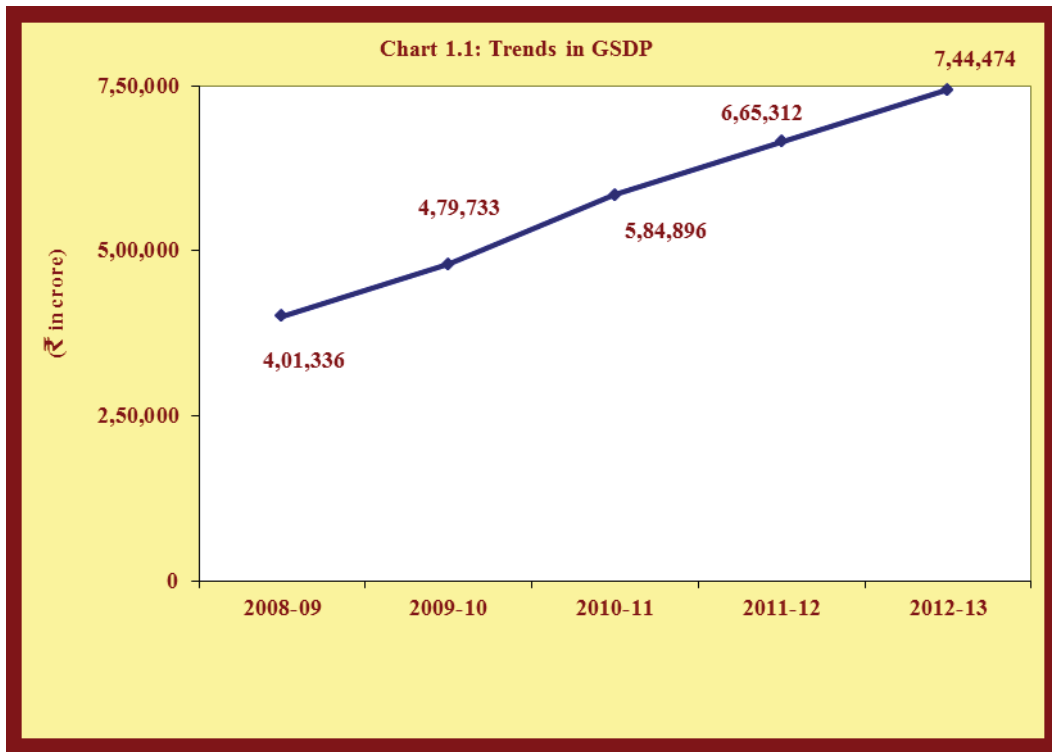
Table 1.1: Trends in Gross Domestic Product (GDP) and Gross State Domestic Product (GSDP)

	2008-09	2009-2010	2010-11 (RE)	2011-12 (QE)	2012-13 (AE)
India's GDP (₹ in crore)	53,03,567	61,08,903	72,66,967	83,53,495	94,61,013
Growth rate of GDP (<i>per cent</i>)	15.75	15.18	18.96	14.95	13.26
GSDP (₹ in crore)*	4,01,336	4,79,733	5,84,896	6,65,312	7,44,474
Growth rate of GSDP (<i>per cent</i>)	14.40	19.53	21.92	13.75	11.90

* RE: Revised Estimate; QE: Quick Estimate; AE: Advance Estimate
(Source: Information furnished by Director of Economics and Statistics)

Abbreviations used in this Report are listed in Glossary at Page 136

¹ GSDP (₹ 7,44,474 crore) divided by 2011 census population (7.21 crore).



1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Tamil Nadu (GoTN) during the current year (2012-13) and analyses critical changes in the major fiscal aggregates relative to the previous year (2011-12) keeping in view the overall trend during the last five years.

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

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

Apart from the above, GoTN enacted the Tamil Nadu Fiscal Responsibility Act, 2003 (TNFR Act), (amended in 2010 and 2011) to ensure long-term financial stability by achieving revenue surplus, containing fiscal deficit, prudential debt management and also fixed the timeframe for achieving the

fiscal targets set. The salient features of the TNFR Act, 2003 (as amended till September 2011) are given in **Appendix 1.3 – Part B**.

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

1.1.1 Summary of Fiscal Transactions in 2012-13

The **Table 1.2** presents the summary of the State Government's fiscal transactions during the current year (2012-13) *vis-à-vis* the previous year (2011-12) while **Appendix 1.5** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.2: Summary of Fiscal operations in 2012-13

(₹ in crore)

Receipts	2011-12	2012-13	Disbursements	2011-12	2012-13		
Section-A: Revenue					Non Plan	Plan	Total
Revenue receipts	85,202	98,828	Revenue expenditure	83,838	73,683	23,384	97,067
Tax revenue	59,517	71,254	General Services	28,941	31,616	36	31,652
Non-tax revenue	5,684	6,554	Social Services	33,262	19,335	19,288	38,623
Share of Union Taxes/ Duties	12,715	14,520	Economic Services	14,142	14,351	3,277	17,628
Grants from Government of India	7,286	6,500	Grants-in-aid and Contributions	7,493	8,381	783	9,164
Section-B: Capital and Others							
Misc. Capital Receipts	-	-	Capital Outlay	16,336	217	14,351	14,568
Recoveries of Loans and Advances	3,180	1,057	Loans and Advances disbursed	5,483	4,599	170	4,769
Public Debt receipts	16,780	21,220	Repayment of Public Debt	3,830	-	-	5,015
Contingency Fund	30	-	Contingency Fund	-	-	-	-
Public Account receipts	1,24,713	1,39,721	Public Account disbursements	1,20,953	-	-	1,33,101
Opening Cash Balance	15,747	15,212	Closing Cash Balance	15,212	-	-	21,518
Total	2,45,652	2,76,038	Total	2,45,652			2,76,038

(Source: Finance Accounts for the respective years)

The significant changes that occurred during 2012-13, as compared to the previous year are enumerated below:

- **Revenue receipts** of the State increased by ₹ 13,626 crore (15.99 *per cent*) over the previous year. This was due to increase in the State's own tax revenue (₹ 11,737 crore), share of Union taxes/duties (₹ 1,805 crore), non-tax revenue (₹ 870 crore) which was offset by ₹ 786 crore due to decrease in grants from Government of India (GoI).
- **Revenue expenditure** increased by ₹ 13,229 crore (15.78 *per cent*) over the previous year due to increase in expenditure on General Services (₹ 2,711 crore), Social Services (₹ 5,361 crore), Economic Services (₹ 3,486 crore) and Grants-in-aid and contributions (₹ 1,671 crore).

- The expenditure on General Services, Social Services and Economic Services registered an increase of 9.37 *per cent*, 16.12 *per cent* and 24.65 *per cent* in 2012-13 as against 11.64 *per cent*, 15.06 *per cent* and 15.71 *per cent* respectively in 2011-12.
- **Capital expenditure** decreased by ₹ 1,768 crore (10.82 *per cent*) over the previous year and repayment of public debt increased by ₹ 1,185 crore (30.94 *per cent*). The decrease in capital expenditure during the year was mainly due to less investment in power sector and less expenditure on flood control, water supply and sanitation, cooperation and education which was partly offset by more capital expenditure on urban development, major and medium irrigation, rural development and police housing.
- **Recoveries of loans and advances** during the year decreased by ₹ 2,123 crore (66.76 *per cent*) mainly due to decrease in recoveries under “Power projects” and “Road Transport”.
- **Public Account receipts and disbursements** increased by ₹ 15,008 crore (12.03 *per cent*) and ₹ 12,148 crore (10.04 *per cent*) respectively. Net receipts under Public Account increased by ₹ 2,860 crore over the previous year.
- The net impact of these transactions led to an increase of ₹ 6,306 crore in the cash balance at the end of the year over the previous year.

1.1.2 Review of the fiscal situation

In compliance with the provisions of TNFR Act, the State Government prepared a Medium Term Fiscal Plan (MTFP) with the projections for the period 2010-13. In line with the recommendations of the Thirteenth Finance Commission (ThFC) and as per MTFP, the State was to eliminate revenue deficit by the end of 2011-12 and contain the fiscal deficit as a percentage of GSDP within three *per cent* by 2011-12.

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

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

Fiscal variables	2012-13			
	ThFC targets for the State	Targets as prescribed in TNFR Act	Targets proposed in the Budget	Projections made in MTFP
Revenue Deficit (-) / Surplus (+) (₹ in crore)	Surplus path to be maintained	Eliminate revenue deficit by 2011-12 and adhere to it thereafter	2,376	3,912
Fiscal Deficit/GSDP (in <i>per cent</i>)	3.00	3.00	2.87	2.37
Ratio of total outstanding debt of the Government to GSDP (in <i>per cent</i>)	24.80	24.80	19.60	24.80

(Source: (i) ThFC recommendations; (ii) TNFR Act; (iii) State’s MTFP and (iv) Budget Speech – 2012-13)

The State was able to achieve revenue surplus during 2011-12 and continued to maintain revenue surplus during 2012-13 as projected in MTFP. The revenue surplus of the State was ₹ 1,761 crore (0.24 *per cent* of GSDP)

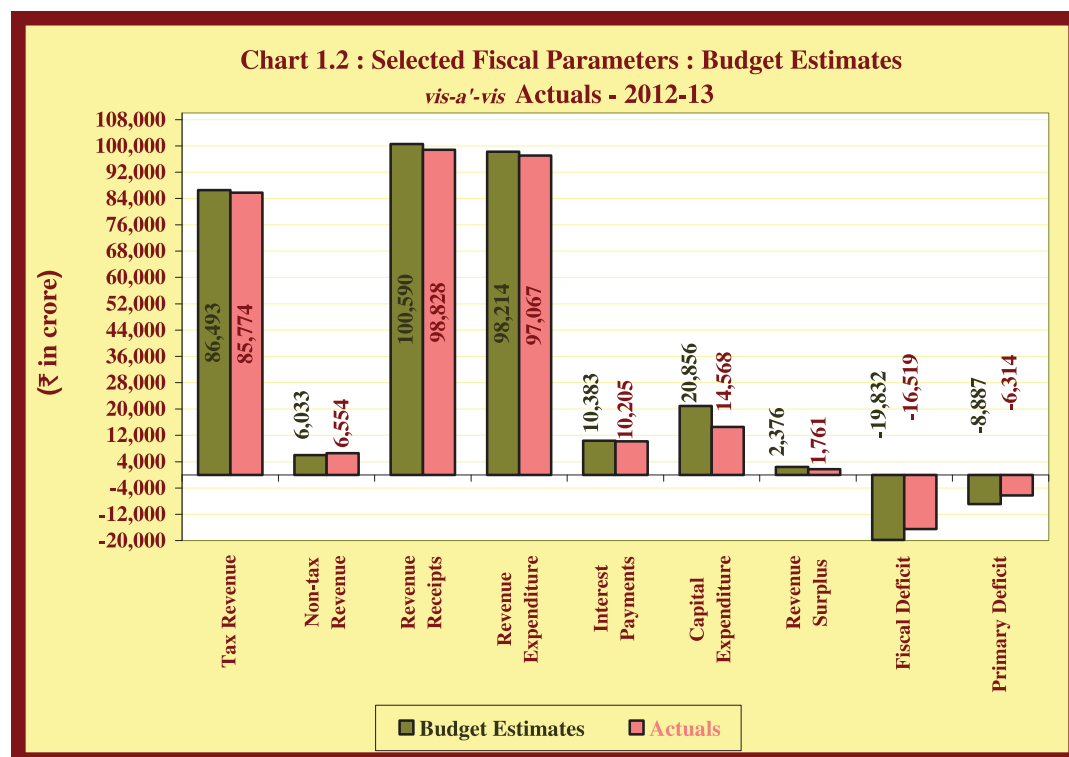
during 2012-13. However, the State was not able to achieve the revenue surplus targets of ₹ 2,376 crore projected in the budget and ₹ 3,912 crore as envisaged in the MTFP. The State could contain the fiscal deficit as a percentage of GSDP to 2.22 *per cent* during 2012-13, which was within the target of three *per cent* of GSDP as envisaged under the TNFR Act as well as MTFP. The actual Revenue surplus of ₹ 1,761 crore was overstated by ₹ 250 crore due to short transfer/contribution of ₹ 191 crore to Reserve Fund and ₹ 221 crore to New Pension Scheme and excess transfer of ₹ 162 crore to State Disaster Response Fund during the year.

Further, it was noticed that an amount of ₹ 790 crore pertaining to the period 2000-01 to 2012-13 was not transferred to Reserve Funds. The revenue surplus of the years in which such balances were not transferred was overstated or the revenue deficit was understated.

1.1.3 Budget estimates and actuals

(a) The budget papers presented by the State Government provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the Budget Estimates are indicative of non-attainment and non-optimisation of the desired fiscal objectives.

Chart 1.2 presents the budget estimates and actuals for some important fiscal parameters in 2012-13.



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

(Source: Annual Financial Statement and Finance Accounts for 2012-13)

The variations between the estimates and actuals were as follows:

- Non-tax revenue was higher than the estimate by ₹ 521 crore (nine *per cent*).

- Capital expenditure was less than the estimate by ₹ 6,288 crore (30.15 per cent).
- An amount of ₹ 1,500 crore provided in the budget under ‘Grant 53 – Special Programme Implementation’ was originally classified as Capital item under “Free distribution of laptops”. An expenditure of ₹ 1,386.44 crore incurred under this scheme was transferred to Revenue head at the end of the year. The incorrect classification during budgeting led to decrease in the actual revenue surplus (₹ 1,761 crore) as against the budget estimate of ₹ 2,376 crore.
- The actual fiscal deficit was less than the budget estimate mainly due to less capital expenditure.

(b) Upward revision of the annual privilege fee² and license fee under State Excise and increase in the life time tax in respect of motor vehicles during 2012-13 resulted in realisation of additional revenue of ₹ 685.15 crore and ₹ 427.42 crore respectively and contributed to increase in the State’s revenue receipts.

1.1.4 Major Policy Initiatives given up

In the budget speech for 2012-13 legislation was proposed to be introduced to form the Tamil Nadu Infrastructure Development Board for implementing new projects in line with the vision document 2023 which envisages substantial investment in key infrastructure projects. Accordingly, initial provision of ₹ 1,000 crore was made in the budget for the creation of Tamil Nadu Infrastructure Development Fund but no expenditure was incurred and the entire provision was subsequently withdrawn in re-appropriation.

Similarly, to correct the vast regional disparities across the State in key parameters of development viz., health, education, per capita income, etc., a State Balanced Growth Fund was proposed to be constituted to implement targeted programmes in identified backward blocks and a sum of ₹ 100 crore was provided. However, no expenditure was incurred and the entire provision was withdrawn in re-appropriation.

Thus, two major policy initiatives did not take off.

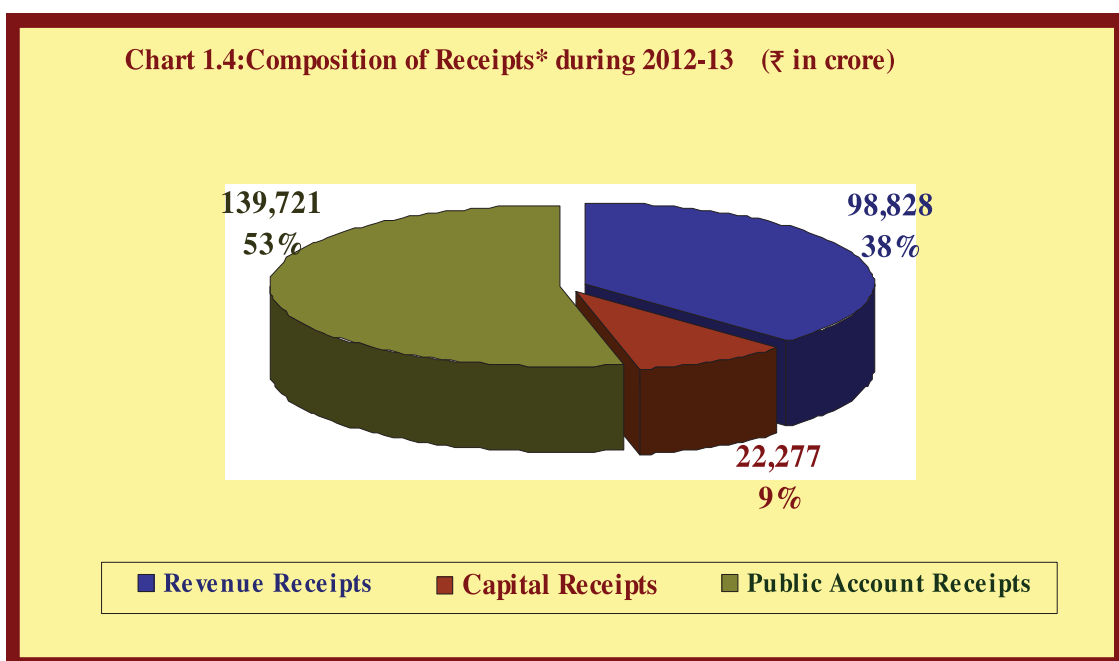
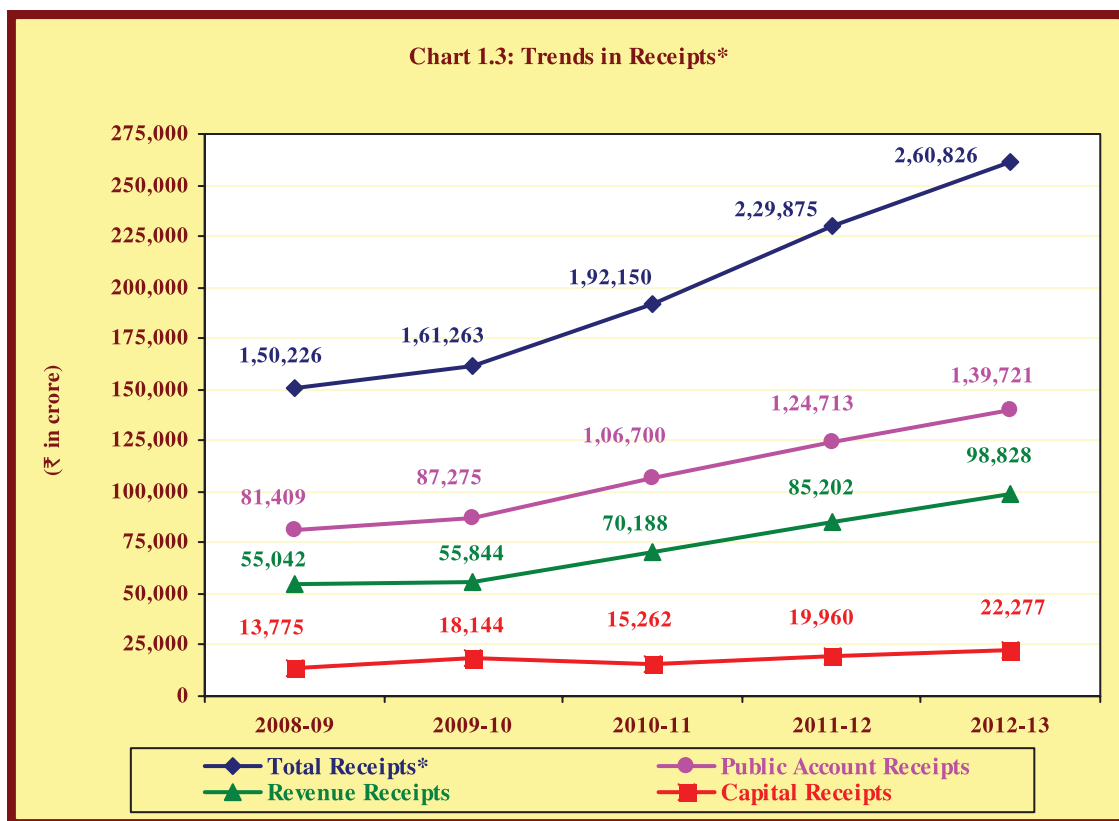
1.2 Resources of the State

1.2.1 Resources of the State as per the Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State’s share of Union taxes and duties and grants-in-aid from GoI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI. Besides, the fund available in the public account after disbursements is also utilised by the Government to finance its deficit. **Table 1.2** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts, while **Chart 1.3** depicts the trends in various components

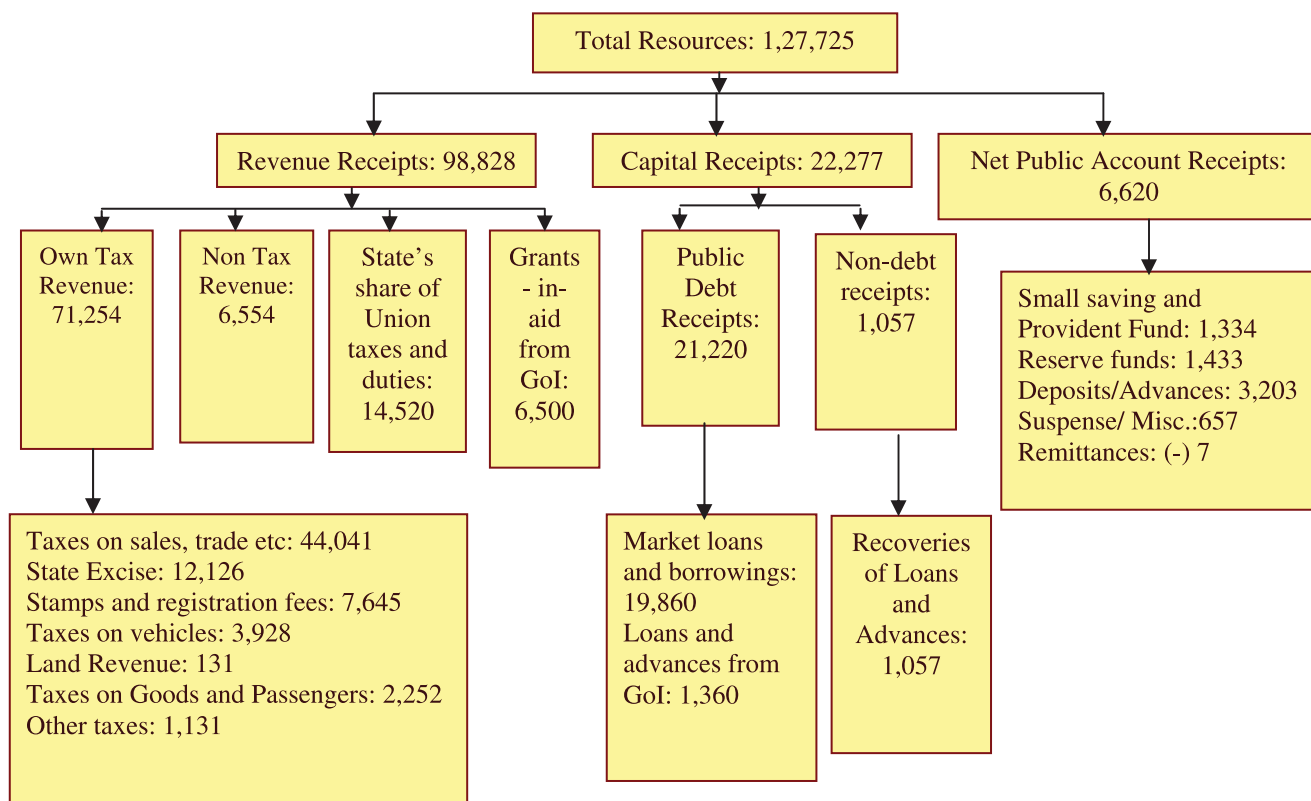
² Annual privilege fee is the fee paid for the privilege to sell spirit, IMFS and beer

of the receipts of the State during 2008-13. **Chart 1.4** depicts the composition of receipts of the State during the current year.



* Exclude receipts under Contingency Fund and include gross receipts under the Public Account.

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



- The total resources of the State Government in the year 2012-13 were ₹ 1,27,725 crore. Of these, revenue receipts were ₹ 98,828 crore constituting 77.38 per cent of total resources. The capital (₹ 22,277 crore) and net public account receipts (₹ 6,620 crore) constituted 17.44 per cent and 5.18 per cent of the total resources respectively.
- The total resources of the State increased by ₹ 18,803 crore (17.26 per cent) over the previous year mainly due to increase of ₹ 2,860 crore (76.06 per cent) in net public account³ receipts and ₹ 13,626 crore (15.99 per cent) in revenue receipts.
- The capital receipts increased by ₹ 2,317 crore, an increase of 11.61 per cent over the previous year. This was mainly due to increase in Public Debt receipts by ₹ 4,440 crore, an increase of 26.46 per cent over the previous year, which was offset by decrease in recoveries of loans and advances by ₹ 2,123 crore, a decrease of 66.76 per cent over the previous year.
- The State's tax revenue increased from ₹ 59,517 crore in 2011-12 to ₹ 71,254 crore in 2012-13 (increase of 19.72 per cent) while the percentage of tax receipts to revenue receipts increased only by 2.25 i.e., from 69.85 in 2011-12 to 72.10 in 2012-13.

³ Includes Small Savings, Provident Fund, Reserve Fund, Suspense and Miscellaneous, Remittances and Deposits and Advances

1.2.2 Funds transferred to State Implementing Agencies outside the State Budget

GoI has been transferring a sizeable quantum of funds directly to the State implementing agencies⁴ for implementation of various schemes/programmes in social and economic sectors, which are recognised as critical. Under the present system, these funds are not routed through the State Budget/State Treasury system and hence flow of these funds is not captured in the Finance Accounts of the State. As such, the Annual Finance Accounts of the State does not provide a complete picture of the resources under the control of the State Government. There is no single agency monitoring the use of these funds and no data is readily available on such programmes on the amounts spent on major flagship programmes. An appendix giving details of funds transferred directly to State implementing agencies outside State budget is included in the Finance Accounts by capturing data from the website of the Controller General of Accounts. The details of funds directly transferred to State implementing agencies by GoI under some major programmes are presented in **Table 1.4**.

Table 1.4: Funds transferred directly to State implementing agencies

(₹ in crore)

Programme/scheme	Implementing agency in the State	Funds transferred directly by GoI during 2012-13
Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	District Rural Development Agencies	3,546
Rural Housing - Indira Awaas Yojana (IAY)	District Rural Development Agencies	363
Integrated Watershed Management Programme	District Rural Development Agencies	236
Aajeevika (National Rural Livelihoods Mission)	District Rural Development Agencies	142
Equity to all Metro Rail Corporations	Chennai Metro Rail Limited	990
Externally Aided Projects / Pass through Assistance to all Metro Rail Corporations	Chennai Metro Rail Limited	722
Subordinate debt to all Metro Rail - Equity Capital in respect of Chennai Metro Rail Limited	Chennai Metro Rail Limited	114
Sarva Shiksha Abhiyan (SSA)	Tamil Nadu State Mission of Education for All	716
Rashtriya Madhyamik Shiksha Abhiyan	Tamil Nadu State Mission of Rashtriya Madhyamik Shiksha Abhiyan	276
National Rural Drinking Water Programme	Tamil Nadu Water Supply and Drainage Board	570
National Rural Health Mission	Tamil Nadu State Health Society	500
Member of Parliament Local Area Development Scheme	Collectors	281
Central Rural Sanitation Programme	Tamil Nadu State Water and Sanitation Mission	128
	Other Agencies	412
Total		8,996

(Source: Appendix VII of Finance Accounts for the year 2012-13)

⁴ State implementing agencies include any organisation/institution including Non-Governmental organisation which is authorised by the GOTN to receive funds from the GoI for implementing specific programmes in the State.

Out of the funds transferred to State implementing agencies, a major amount of ₹ 4,287 crore (47.65 per cent) was transferred to the District Rural Development Agencies in respect of the programmes/schemes as mentioned in the **Table 1.4**. In respect of these programmes, the fund transfer increased from ₹ 936 crore in 2008-09 to ₹ 4,287 crore in 2012-13 showing an increase of 358 per cent in five years.

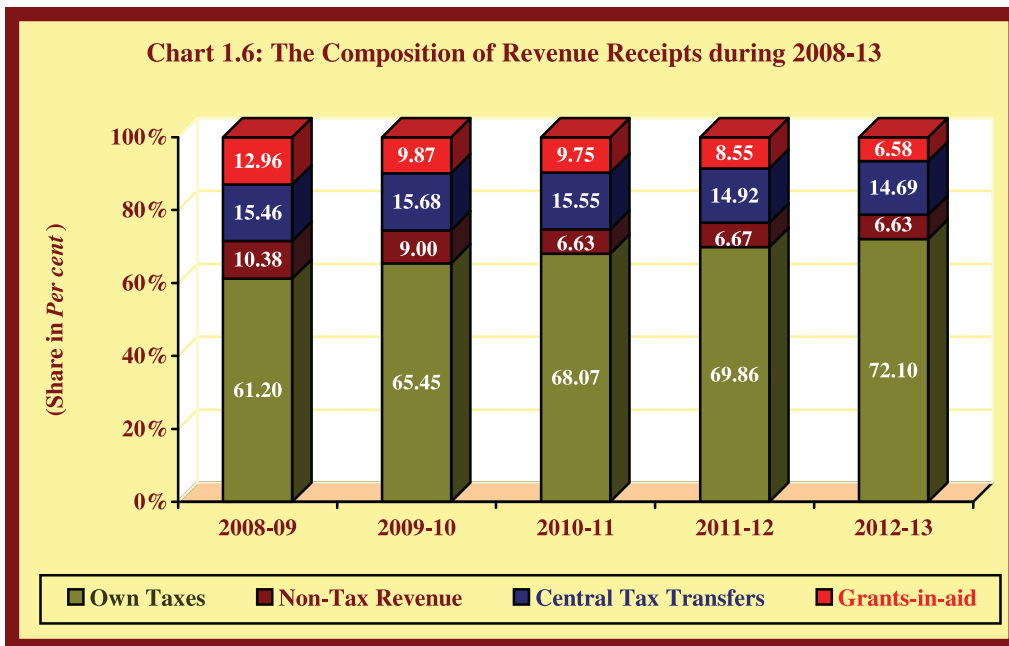
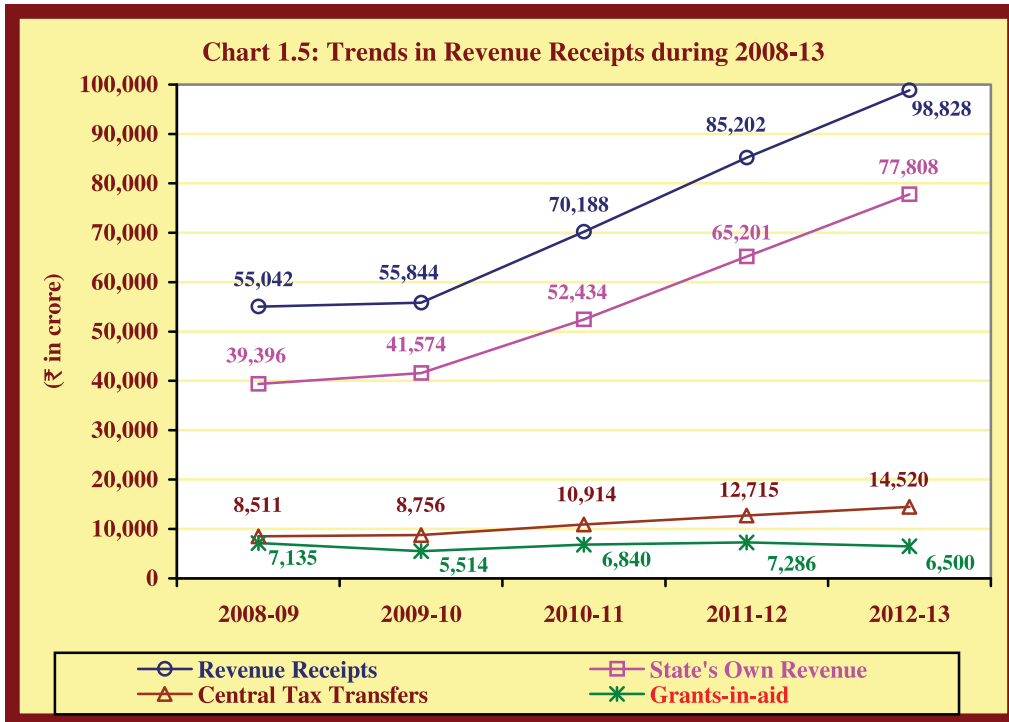
Test check of three cases of direct transfer of funds in the past revealed the following:

- An amount of ₹ 43.50 lakh was released (October 2008) directly to the Dean, Government Medical College, Theni by GoI for upgradation of Psychiatric Wing of the Medical College under National Mental Health Programme. The Dean remitted (September 2010) the amount into State Government account as per the instructions (March 2010) of the Director of Medical Education and the same was lying unutilised with State Government (December 2013).
- GoI released an amount of ₹ 5.79 crore (September 2010) for implementation of the Centrally Sponsored Scheme 'Assistance for Capacity Building – Upgradation and strengthening of emergency facilities at Government Medical College and Hospital, Vellore'. However, only ₹ 1.59 crore was utilised (August 2013) and the balance ₹ 4.20 crore remained unutilised in the Savings Bank account opened for this purpose defeating the objective of the scheme.
- Under the Centrally Sponsored Scheme of 'Setting up of Speciality Clinics', GoI sanctioned ₹ 10 lakh each for setting up Siddha clinic and Ayurveda clinic in Sri Ramachandra Medical College and Research Institute, Chennai. Out of ₹ 20 lakh released (November 2008), only ₹ 7.17 lakh was utilised and the remaining ₹ 12.83 lakh was remitted (August 2012) into the State Government's account.

In all the three cases, instead of refunding the unutilised amounts to GoI, the amounts were remitted into the State Government account.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own taxes and non-tax revenues, central tax transfers and grants-in-aid from GoI. The trends and composition of revenue receipts over the period 2008-13 are presented in **Appendix 1.4** and depicted in **Charts 1.5** and **1.6** respectively.



- The compound annual growth rate of revenue receipts stood at 15.35 per cent in the current decade, which was less than that of the other General Category States⁵ (17.48 per cent).
- The revenue receipts of the State grew by ₹ 13,626 crore in 2012-13 over the previous year. However, the growth rate of revenue receipts decreased from 21.39 per cent in 2011-12 to 15.99 per cent in 2012-13 which was below the average annual growth rate of 16.09 per cent during 2008-12 as mentioned in **Table 1.5**. The reduction in growth rate was mainly due to decrease in grants-in-aid from the GoI.

⁵ General Category States exclude Delhi, Goa and Puducherry

- The contribution of the State's own tax revenue increased from 61.20 *per cent* in 2008-09 to 72.10 *per cent* in 2012-13. On the other hand, the non-tax revenue decreased from 10.38 *per cent* of the total revenue receipts in 2008-09 to 6.63 *per cent* in 2012-13.
- The central tax transfers and the grants-in-aid decreased from 15.46 *per cent* to 14.69 *per cent* and from 12.96 *per cent* to 6.58 *per cent* respectively during 2008-13.

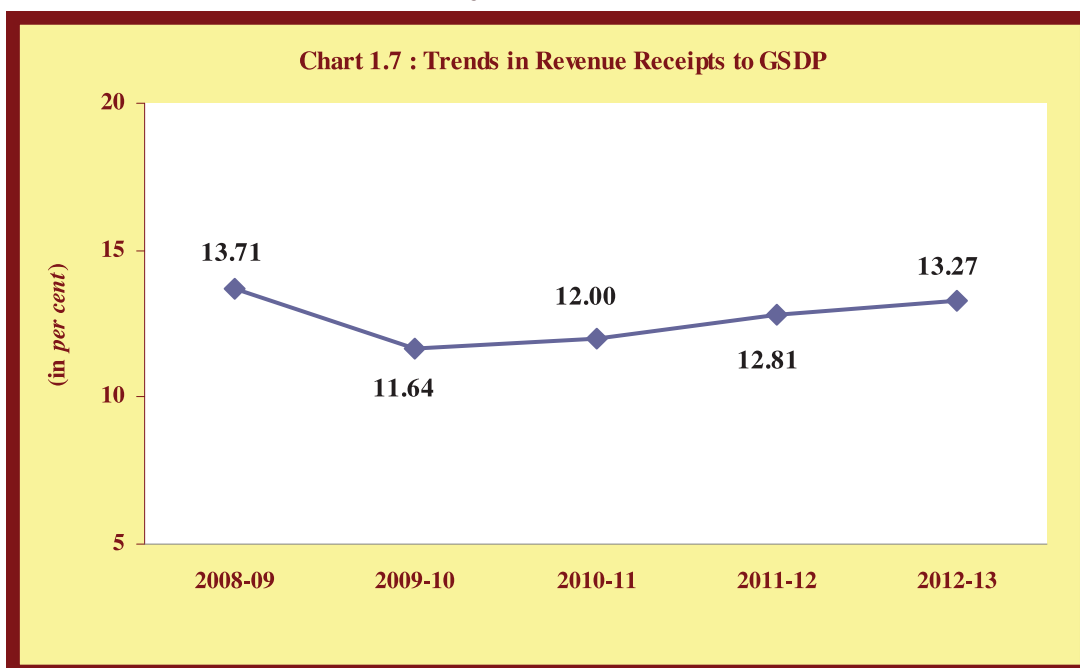
The trends in revenue receipts relative to GSDP are presented in **Table 1.5** and **Chart 1.7**.

Table 1.5: Trends in Revenue Receipts relative to GSDP

	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue Receipts (₹ in crore)	55,042	55,844	70,188	85,202	98,828
Rate of growth of Revenue Receipts (<i>per cent</i>)	15.83	1.46	25.69	21.39	15.99
Revenue Receipts/GSDP ⁶ (<i>per cent</i>)	13.71	11.64	12.00*	12.81*	13.27
Buoyancy Ratios⁷					
Revenue Buoyancy with reference to GSDP	1.10	0.07	1.17	1.56	1.34
State's own tax buoyancy with reference to GSDP	0.95	0.44	1.40	1.79	1.66
Revenue Buoyancy with reference to State's own taxes	1.15	0.17	0.84	0.87	0.81

* Revised GSDP figures were adopted for 2010-11 and 2011-12

(Source: Finance Accounts for the respective years and Information furnished by Director of Economics and Statistics for GSDP figures)



- The GSDP at the current rate was estimated to increase from ₹ 6,65,312 crore in 2011-12 to ₹ 7,44,474 crore in 2012-13, representing an increase of 11.90 *per cent*.

⁶ Advance estimate of GSDP of ₹ 7,44,474 crore has been adopted for 2012-13.

⁷ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one *per cent*.

- The revenue receipts as a percentage of GSDP increased from 11.64 in 2009-10 to 13.27 in the current year.
- Revenue buoyancy with reference to GSDP and with reference to State's own tax revenue has decreased during the year. The revenue buoyancy with reference to State's own taxes which showed an increasing trend in 2010-11 and 2011-12 declined during 2012-13.

1.3.1 State's Own Resources

As the State's share in central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, the State's performance in mobilisation of resources was assessed in terms of its own resources comprising own tax and non-tax sources. The State's tax and non-tax receipts for the year 2012-13 *vis-a-vis* assessment made by ThFC and MTFP are given in the **Table 1.6**.

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

	(₹ in crore)			
	ThFC targets for the State	Targets proposed in the Budget	Projections made in MTFP	Actuals
Tax Revenue	59,289	71,461	56,708	71,254
Non-tax Revenue	3,198	6,033	3,740	6,554

(Source: (i) ThFC recommendations; (ii) State's MTFP and (iii) Budget Speech – 2012-13)

- The Tax and Non-tax revenues were higher than the targets fixed by ThFC as well as projections made in the MTFP and were close to the budget estimates.

1.3.1.1 Tax Revenue

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

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

	(₹ in crore)					
Revenue Head	2008-09	2009-10	2010-11	2011-12	2012-13	Percentage of increase over previous year
Taxes on sales, trade, etc.	20,675	22,662	28,614	36,289	44,041	21.36
State excise	5,756	6,741	8,116	9,975	12,126	21.56
Taxes on vehicles	1,710	2,025	2,660	3,101	3,928	26.67
Stamp duty and Registration fees	3,794	3,662	4,651	6,581	7,645	16.17
Land revenue	208	117	113	87	131	50.57
Taxes on goods and passengers	979	1,092	1,626	2,123	2,252	6.08
Other taxes ⁸	562	248	2,002	1,361	1,131	(-)16.90
Total (Growth Rate in per cent)	33,684 (13.72)	36,547 (8.50)	47,782 (30.74)	59,517 (24.56)	71,254 (19.72)	19.72

(Source: Finance Accounts for the respective years)

- The compound annual growth rate of own tax revenue stood at 16.15 *per cent* in the current decade, which was less than the General Category States average (17.44 *per cent*) (**Appendix 1.1**).

⁸ Other taxes include taxes on immovable property other than agricultural land, taxes and duties on electricity and agricultural income

- The own tax revenue of the State increased by ₹ 11,737 crore over the previous year. The growth rate of its own tax revenue, which was at 30.74 per cent in 2010-11 stood at 19.72 per cent in 2012-13. The decreasing trend in growth rate in terms of Revenue Receipts does not augur well for the State.
- The increase in own tax revenue was mainly due to increase in collection of State excise (21.56 per cent), taxes on sales, trade, etc., (21.36 per cent), stamp duty and registration fees (16.17 per cent), taxes on goods and passengers (6.08 per cent) and taxes on vehicles (26.67 per cent) which was partly offset by decrease in collection of other taxes (16.90 per cent).

1.3.1.2 Non-tax Revenue

The details of collection of non-tax revenue for the period 2008-13 are given in **Table 1.8**.

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

(₹ in crore)

Revenue Head	2008-09	2009-10	2010-11	2011-12	2012-13	Percentage of increase over previous year
Interest receipts	1,465	1,797	1,663	2,021	2,010	(-) 0.54
Dividends & Profits	36	48	27	36	43	19.44
Other non-tax receipts	4,211	3,182	2,962	3,627	4,501	24.10
Total	5,712 (14.50)	5,027 (12.09)	4,652 (8.87)	5,684 (8.72)	6,554 (8.42)	15.31

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

(Source: Finance Accounts for the respective years)

- The non-tax revenue of the State increased by ₹ 870 crore in 2012-13 (15.31 per cent) over the previous year. As a proportion of the State's own resources, the non-tax revenue which stood at 14.50 per cent in 2008-09 showed a decreasing trend over the years and it finally reduced to 8.42 per cent in 2012-13.

1.3.2 Grants-in-aid from GoI

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

Table 1.9: Grants-in-aid

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Non-plan Grants	2,626	1,800	2,813	2,585	1,311
Grants for State Plan Schemes	3,378	2,253	2,142	2,562	2,765
Grants for Central Plan Schemes	101	130	158	223	224
Grants for Centrally Sponsored Schemes	1,030	1,331	1,727	1,916	2,200
Grants for Special Plan Schemes	-	-	-	-	-
Total	7,135	5,514	6,840	7,286	6,500
Percentage of increase over previous year	9.23	(-) 22.72	24.05	6.52	(-) 10.80
Total grants as a percentage of Revenue Receipts	12.96	9.87	9.75	8.55	6.58

(Source: Finance Accounts for the respective years)

The drop in Grants-in-aid from GoI in 2012-13 as compared to 2011-12 was as a result of decrease in non-plan grants to the State which was due to non-availing of ThFC grants as discussed in paragraph 1.3.5.

Two cases of unutilised central grants are discussed below:

- GoI released (February 2012) a grant of ₹ 4.38 crore under Central Plan Scheme *viz.*, 'Scheme for Implementation of Persons with Disabilities Act 1995' to provide facilities and services of non-recurring nature to persons with disabilities. But, the State Government made provision in the supplementary estimates only (March 2013) rendering the grant under Central Plan scheme lying unutilised for a period of one year.
- An amount of ₹ 43.40 crore was released (December 2011 and March 2012) by GoI for the scheme of Information and Communication Technology in Schools. However, the tender was floated on the first occasion (March 2013) after delay of one year from the date of sanction of funds. The lone bidder in the first call (March 2013) was rejected on the grounds of non-fulfilment of tender conditions and as there was no response to the second call (April 2013) tender was again floated on the third occasion (August 2013). The tender was under process and the grant remained unutilised (September 2013).

1.3.3 Debt waiver under the debt consolidation and relief facilities

As per the ThFC recommendations, benefit of interest relief on loans availed from National Small Savings Fund (NSSF) and the write-off of outstanding loans by GoI and State specific grants would be made available to the States on bringing the necessary amendments/enactments of Fiscal Responsibility and Budget Management Act to include targets for debt-GSDP ratio for the period from 2011-12 to 2014-15. The State Government was able to maintain the debt-GSDP ratio within the limits (19.09 as against 24.1 in 2010-11, 19.11 as against 24.5 in 2011-12 and 19.80 as against 24.8 in 2012-13) set in the TNFR Act, 2003 as amended in September 2011.

The State Government was entitled for interest relief from 2010-11 as given in **Table 1.10**:

Table 1.10: Interest relief on the loan availed from National Small Savings Fund
(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
ThFCs tentative interest relief on NSSF loans	166.69	158.25	148.81	139.36	129.92
Interest Relief Received	-	12.76	116.13	-	-

(Source: Report of the ThFC and Information furnished by Finance Department)

GoI reiterated the inclusion of the debt-GSDP ratio clause in the TNFR Act as a pre-condition for interest relief on NSSF loans and that States were eligible for such relief only from the date of issue of the notification of enactment/amendment to the Act or from the date the enactment/amendment came into effect, whichever is later. The TNFR Act, 2003 was amended to incorporate this clause only in September 2011 and the amendment took effect from 3 November 2011. As the State Government failed to amend the TNFR Act in time, it lost the opportunity to get interest relief of ₹ 166.69 crore for the year 2010-11 and received only ₹ 128.89 crore for the years 2011-12 and 2012-13 as against its entitled interest relief of ₹ 307.06 crore for these two years.

1.3.4 Central Tax transfers

The Central Tax transfers are given in **Table 1.11**.

Table 1.11: Central Tax transfers

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
State's share of Union taxes and duties	8,511	8,756	10,914	12,715	14,520
Percentage of increase over previous year	5.53	2.88	24.65	16.50	14.20

(Source: Finance Accounts for the respective years)

- The steep increase (24.65 per cent) in the central transfers during 2010-11 was due to release of non-plan grants by GoI to cover the State's resource gap. Although the quantum of State's share of union taxes and duties was on an increasing trend during 2008-13, its rate of growth showed a decreasing trend from 2011-12.

1.3.5 Optimisation of the ThFC grants

Transfers to the State on recommendations of ThFC during 2012-13 are given in **Table 1.12**.

Table 1.12: Transfers on recommendations of ThFC

(₹ in crore)

Sl No	Particulars	Recommendations of the ThFC	Actual release	Expenditure under relevant Revenue/ Capital Head
1	Local Bodies			
	Basic grants to Panchayat Raj Institutions	389.16	408.84	408.84
	General Performance grants to Panchayat Raj Institutions	267.07	-	-
	Basic grants to Urban Local Bodies	299.34	314.48	314.48
	General Performance grants to Urban Local Bodies	205.43	32.05	32.05
2	Disaster Relief	242.71	121.36	242.71
3	Improving outcome grants	85.80	-	47.09
4	Environment related grants	35.62	35.62	48.16
5	Elementary Education	141.00	141.00	141.00
6	Roads and bridges	453.00	-	453.00
7	State specific needs grants	325.00	25.00	228.01
8	Grants for capacity building	5.00	-	4.01
	Total	2,449.13	1,078.35	1,919.35

(Source: Information furnished by Finance Department)

As against ₹ 2,449.13 crore recommended by ThFC for the year 2012-13, the State Government spent ₹ 1,919.35 crore, though it received only ₹ 1,078.35 crore from GoI. Two cases of non-availing of ThFC grants are discussed below.

- The State could not avail the recommended general performance grant of ₹ 472.50 crore for 2012-13 due to non-adherence to the conditions⁹ stipulated by the ThFC. The State, however, received ₹ 32.05 crore for 2012-13 towards its share of forfeited performance grant¹⁰.
- As the actual expenditure for 2010-11, Revised Estimate for 2011-12 and the Budget estimate for 2012-13 for operation and maintenance of roads and bridges in the State fell short of ThFC's projections,

⁹ (i) Establishment of proper Audit System for all Local Bodies, (ii) Constitution of independent Local Body Ombudsman, (iii) Electronic transfer of funds to Local Bodies (iv) Formation of State Level Property Tax Board, etc.

¹⁰ Performance Grant of non-performing States redistributed to all States by GoI

the State could not avail the grant of ₹ 453 crore during 2012-13 and the entire expenditure was borne by the State.

1.3.6 Forgone Revenue

Discounts, waivers and exemptions, deferments, etc., in the collection of Sales tax leading to revenue forgone by the State, as furnished by the Commissioner of Commercial Taxes, is furnished in **Table 1.13**.

Table 1.13: Discounts, waiver, exemption and deferment in collection of Sales Tax
(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Discount	0.97	9.85	81.63	103.02	25.83
Waiver	131.38 (from 2008-09 to 2012-13)				
Exemption	1.73	0.07	1.09	11.29	21.68
Deferment	3,522.42 (from 2008-09 to 2012-13)				

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

1.4 Capital Receipts

Public debt receipts, recoveries of loans and advances and miscellaneous capital receipts are the capital receipts of the Government. The trends in growth of capital receipts are given in **Table 1.14**.

Table 1.14: Trends in growth and composition of capital receipts
(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Capital Receipts	13,775	18,144	15,262	19,960	22,277
Miscellaneous capital receipts	-	-	-	-	-
Recovery of loans and advances	1,934	2,587	770	3,180	1,057
Public debt receipts	11,841	15,557	14,492	16,780	21,220
Rate of growth of public debt receipts	54.85	31.38	(-) 6.85	15.79	26.46
Rate of growth of non-debt capital receipts	90.92	33.76	(-) 70.24	312.99	(-) 66.76
Rate of growth of GSDP	14.40	19.53	21.92	13.75	11.90
Rate of growth of capital receipts	59.06	31.72	(-) 15.88	30.78	11.61

(Source: Finance Accounts for the respective years and information furnished by Director of Economics and Statistics)

- The recoveries of loans and advances which were high during 2011-12 declined abnormally in terms of value and rate of growth in 2012-13. The decrease during 2012-13 was ₹ 2,123 crore (66.76 per cent) over the previous year. Government stated (October 2013) that steps have been taken to improve the overall monitoring mechanism of recovery of loans.
- The decreasing trend in the rate of growth of public debt receipts during 2009-10 and 2010-11 reversed in the past two years. There was an increase of ₹ 4,440 crore (26.46 per cent) during 2012-13 over the previous year.

1.5 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, etc., which do not form part of the Consolidated Fund, are accounted for in the Public Account, set up under Article 266 (2) of the Constitution of India and are not subject to vote by the State Legislature. Here the Government acts as a banker. The balance after disbursements is the fund available with the Government for use. The Public Account receipts are given in **Table 1.15**.

Table 1.15: Trends in growth and composition of Public Account Receipts

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Public Account Receipts					
Small Savings, Provident Fund, etc.	3,713.36	4,259.10	5,049.86	5,555.32	6,054.66
Reserve Fund	1,560.25	1,363.38	1,461.55	2,247.74	2,503.22
Deposits and Advances	17,510.80	19,446.83	22,194.41	25,321.72	28,987.81
Suspense and Miscellaneous	55,987.76	58,494.68	73,897.92	87,463.89	98,242.67
Remittances	2,637.03	3,711.14	4,095.86	4,124.23	3,932.99
Total (a)	81,409.20	87,275.13	1,06,699.60	1,24,712.90	1,39,721.35
Public Account Disbursements					
Small Savings, Provident Fund, etc.	3,135.65	3,279.41	3,778.20	4,442.47	4,720.36
Reserve Fund	1,007.25	545.96	2,567.54	1,961.30	1,070.00
Deposits and Advances	15,934.51	18,734.68	20,768.18	23,594.71	25,784.34
Suspense and Miscellaneous	55,793.23	59,041.73	73,879.78	86,966.21	97,586.01
Remittances	2,558.97	3,654.49	3,965.01	3,988.58	3,939.92
Total (b)	78,429.61	85,256.27	1,04,958.71	1,20,953.27	1,33,100.63
Public Account Net (a)-(b)	2,979.59	2,018.86	1,740.89	3,759.63	6,620.72 Say 6,620

- The net Public Account receipts which was on a decreasing trend till 2010-11 started to increase from the year 2011-12 and stood at ₹ 6,620 crore during 2012-13 which was indicative of increase in liability of the Government.

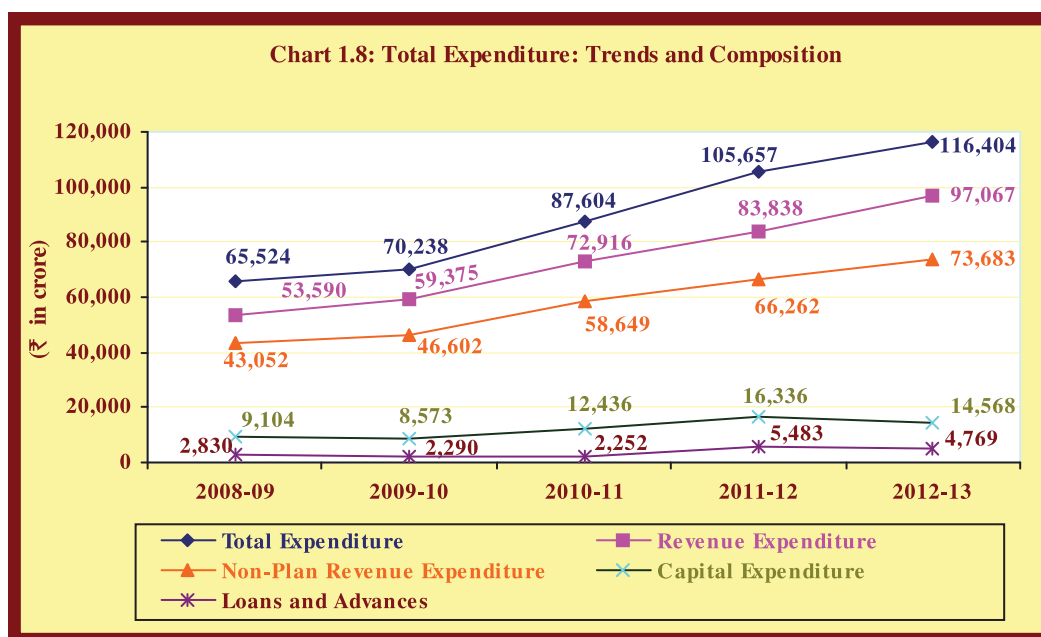
1.6 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially the expenditure directed towards development of social sector.

1.6.1 Growth and Composition of Expenditure

Chart 1.8 presents the trends in total expenditure¹¹ over a period of five years (2008-13) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.9** and **1.10** respectively.

¹¹ Total expenditure includes revenue expenditure, capital expenditure and disbursement of loans and advances and excludes public debt repayment



(Source: Finance Accounts for the respective years)

- Of the total expenditure of ₹ 1,16,404 crore during 2012-13, revenue expenditure (₹ 97,067 crore) accounted for 83.39 per cent. Out of the revenue expenditure, 75.91 per cent (₹ 73,683 crore) was incurred on the non-plan component.
- During the current year, the capital expenditure decreased by ₹ 1,768 crore (10.82 per cent) mainly due to decrease in investments in Power projects.
- As per Government orders (May 1992), the expenditure on land acquisition was to be incurred by the Land Acquisition Officer by presenting bills directly to the treasury and passing on the debits to Highways divisions through “8658-Suspense Account”. It was, however, noticed that during 2012-13 an amount of ₹ 236.18 crore provided for land acquisition for road works was drawn (February and March 2013) by the Divisional Engineer, Highways (Construction and Maintenance), Chengalpattu debiting the head of account “5054 Capital outlay on roads and bridges” and credited to the head “8443-Deposits”. Thus, transfer of funds without incurring any expenditure during 2012-13 resulted in inflated capital expenditure.

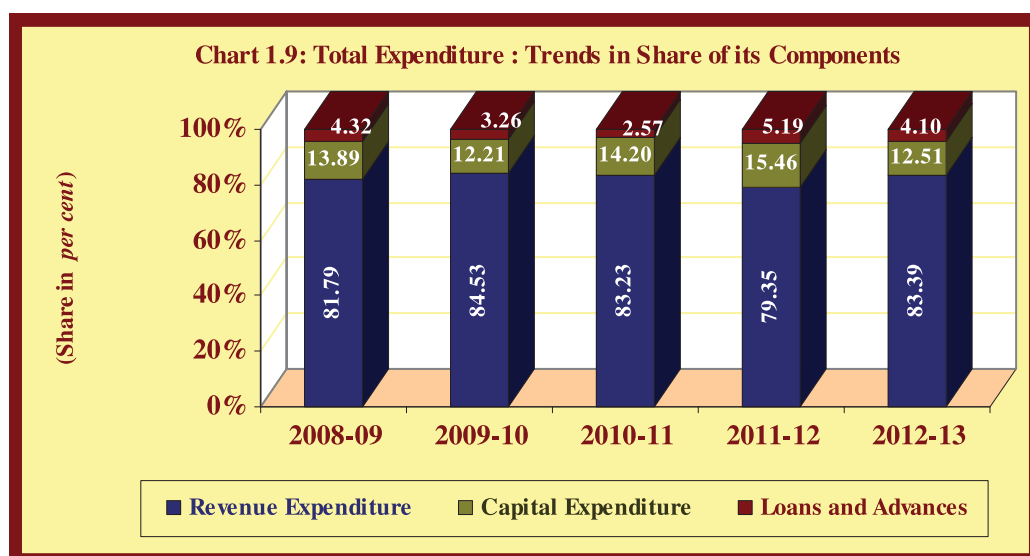
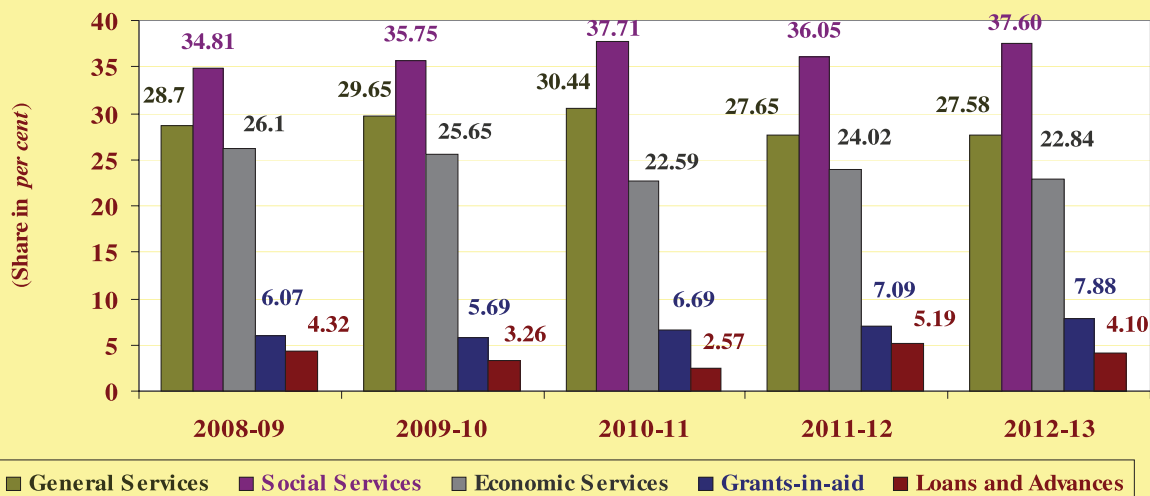


Chart 1.10: Total Expenditure : Trends by 'Activities'



- The expenditure on General Services, Social Services and Economic Services during 2012-13 was 27.58, 37.60 and 22.84 *per cent* of the total expenditure and grew by 9.91 *per cent*, 14.94 *per cent* and 4.76 *per cent* respectively over the previous year.
- The increase in the expenditure on Social Services in 2012-13 was mainly on account of increased spending of ₹ 2,069.99 crore on General Education and ₹ 1,768.38 crore on Social Security and Welfare. The lower growth rate of expenditure on Economic Services in 2012-13 was mainly on account of decreased spending of ₹ 2,506.94 crore on Power projects.
- During 2008-13, about one third of the total expenditure was on Social Services. But, the proportion of expenditure on Social, Economic and General Services to the total expenditure remained more or less at the same levels during the said period.

1.6.2 Revenue Expenditure

The trend of revenue expenditure of the State is given in **Table 1.16** and **Chart 1.11** and the trend of revenue expenditure to GSDP is given in **Chart 1.12**.

Table 1.16: Trends in growth and composition of revenue expenditure

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue Receipts	55,042	55,844	70,188	85,202	98,828
Revenue Expenditure	53,590	59,375	72,916	83,838	97,067
Revenue Deficit/Surplus	1,452	(-) 3,531	(-) 2,728	1,364	1,761
GSDP	4,01,336	4,79,733	5,84,896	6,65,312	7,44,474
Revenue Receipt to GSDP (in <i>per cent</i>)	13.71	11.64	12.00	12.81	13.27
Revenue Expenditure to GSDP (in <i>per cent</i>)	13.35	12.38	12.47	12.60	13.04
Revenue surplus (deficit) to GSDP (in <i>per cent</i>)	0.36	(-) 0.74	(-) 0.47	0.21	0.24

(Source: Information furnished by Director of Economics and Statistics and Finance Accounts for the respective years)

Chart 1.11: Trends in Revenue Expenditure

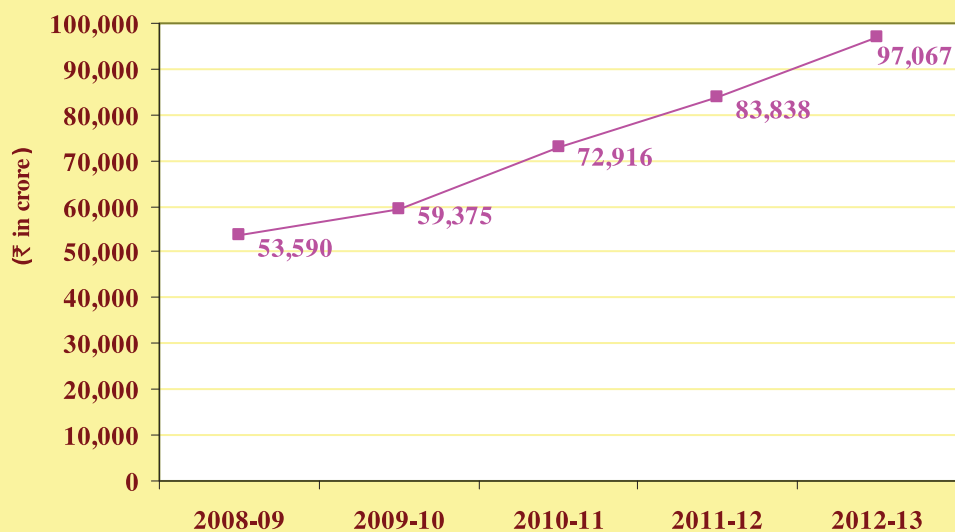
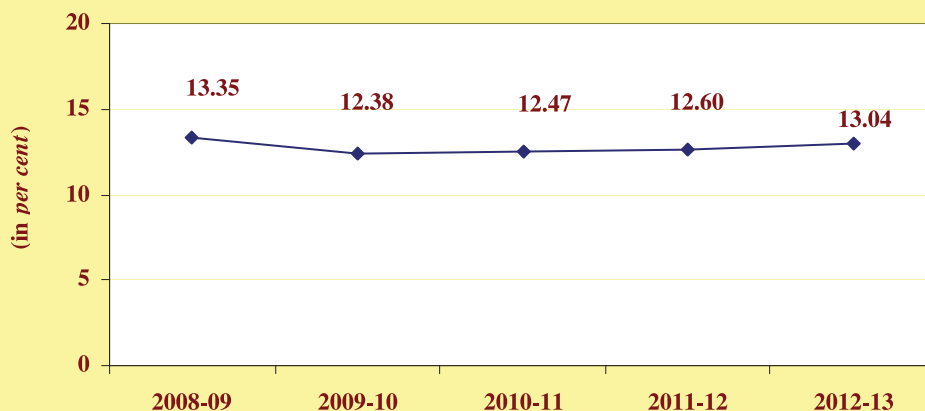


Chart 1.12: Trends in Revenue Expenditure to GSDP



- The State which was in revenue deficit during 2009-10 and 2010-11 became a revenue surplus State during 2011-12 and the trend continued in 2012-13 also.

1.6.3 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.17** presents the trend in the expenditure on these components during 2008-13.

Table 1.17: Components of Committed Expenditure

(₹ in crore)

Components of committed expenditure	2008-09	2009-10	2010-11	2011-12	2012-13
Salaries and wages, of which	12,859 (23.36)	15,638 (28.00)	19,029 (27.11)	21,466 (25.20)	22,255 (22.52)
Non-Plan Head	11,470	14,141	17,150	19,278	20,109
Plan Head*	1,389	1,497	1,879	2,188	2,146
Salary grants**	2,756 (5.00)	3,219 (5.76)	4,017 (5.72)	4,390 (5.15)	4,416 (4.47)
Interest payments	5,963 (10.83)	6,667 (11.93)	7,940 (11.31)	8,871 (10.41)	10,205 (10.33)
Expenditure on pension	7,735 (14.05)	8,385 (15.01)	10,951 (15.60)	11,747 (13.79)	12,365 (12.51)
Subsidies	6,600 (11.99)	6,653 (11.91)	7,739 (11.02)	8,698 (10.20)	9,592 (9.71)
Total	35,913 (65.25)	40,562 (72.63)	49,676 (70.77)	55,172 (64.75)	58,833 (59.53)

Figures in the brackets indicate percentage to revenue receipts

* Plan head also includes the salaries and wages paid under Centrally Sponsored Schemes

** Salary grants are released to aided educational institutions and Urban Local Bodies towards meeting the expenditure on salaries of teachers and staff

(Source: Finance Accounts for the respective years)

- The committed expenditure (₹ 58,833 crore) stood at 59.53 per cent of the total revenue receipts (₹ 98,828 crore) of the State during 2012-13 as against 64.75 per cent during 2011-12. Though the committed expenditure was increasing during 2008-13 its ratio with revenue receipts kept decreasing from 2009-10 due to increasing trend of revenue receipts.
- During 2012-13, expenditure on salaries and wages, inclusive of salary grants was ₹ 26,671 crore and accounted for 35.80 per cent of the revenue expenditure net of interest and pension, as against the ThFC normative prescription of 35 per cent.
- The expenditure towards interest payments increased by ₹ 1,334 crore (15.04 per cent) during 2012-13 over the previous year. This was mainly due to increase in payment of interest on market loans to the extent of ₹ 1,318 crore. As a percentage of non-plan revenue expenditure, it decreased from 13.54 per cent in 2010-11 to 13.39 per cent in 2011-12 but increased to 13.85 per cent in 2012-13.

Subsidies

In any welfare State, it is not uncommon to provide subsidies/subventions to disadvantaged sections of the society. Subsidies are dispensed not only explicitly but also implicitly by providing subsidised public service to the people. Budgetary support to financial institutions, inadequate return on investments, poor recovery of user charges, assistance in cash/kind to individuals, etc., fall under the category of implicit subsidies¹².

¹² Subsidies which were not booked under the object head "11-Subsidies" under relevant major head of account are "Implicit Subsidies"

(a) Explicit subsidies were on a continuous increase. They went up by ₹ 894 crore (10.28 *per cent*) in 2012-13 when compared to the previous year. A list of major schemes for which the State Government provided subsidy during 2008-13 is given in **Table 1.18** below:

Table 1.18: List of major schemes for which subsidy was given by the State Government
(₹ in crore)

Name of the scheme	2008-09	2009-10	2010-11	2011-12	2012-13
Social Safety Net – Food Security – Public Distribution System Support	2,700	4,000	3,950	4,900	4,900
Electricity – Compensation to TNEB due to reduction in tariff to domestic consumers	1,160.45	1,301.05	1,254.77	1,763.07	1,838.37
Reimbursement of Social cost on student concessions in bus fares	300.62	300.83	302.22	389.84	335.84
Free distribution of handloom clothes to the people below poverty line	256.00	256.01	256.00	350.00	357.90
National Agriculture Development Programme – Agriculture Department	42.78	48.56	49.47	88.07	124.84
Capital subsidy to micro, small, medium and agro-based industries	19.96	29.86	44.99	49.83	59.94

(Source: Finance Accounts for the respective years)

(b) In addition to the subsidies classified in the accounts under the object head ‘11-Subsidies’, the State Government also provided implicit subsidies in 2011-12 and 2012-13, some of which are listed in **Table 1.19**.

Table 1.19: Implicit Subsidies given in 2011-12 and 2012-13

(₹ in crore)

Name of the scheme	Expenditure incurred	
	2011-12	2012-13
Free supply of grinders, mixies, etc.	830.02	1,311.31
Marriage Assistance Scheme – Distribution of four gram gold coins for Thirumangalyam	658.93	674.15
Free supply of uniforms to school children	191.49	298.30
Free supply of bicycles to students studying in Standard XI and XII in Government/Government aided Higher Secondary Schools	164.70	137.87
Free distribution of sheep/goat to the persons living below poverty line under Special Component Plan	127.80	140.58
Providing sanitary napkins free of cost to adolescent girls	43.59	55.05
Free distribution of milch cows to each family living below poverty line under Special Component Plan	41.98	43.10
Free distribution of laptops	29.00	1,386.44
Dr. Muthulakshmi Reddy Maternity Assistance Scheme	531.64	642.57
Chief Minister’s Comprehensive Health Insurance Scheme	326.68	248.38
Total	2,945.83	4,937.75

(Source: Finance Accounts for the respective years)

It was noticed that these implicit subsidies were classified under other object heads such as (i) 76-Computers and accessories (free distribution of laptops),

(ii) 24-Materials and Supplies (grinders and mixies) and (iii) 09-Grants-in-aid (Marriage assistance scheme), etc. This accounting treatment is not clear and does not transparently disclose the nature of expenditure as is required. From **Table 1.17** and **Table 1.19**, it could be seen that apart from ₹ 9,592 crore incurred on explicit subsidy, the State Government also provided implicit subsidies.

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

The 73rd and 74th Constitutional amendments gave Constitutional status to Panchayat Raj Institutions and Urban Local Bodies respectively and established a system of uniform structure, regular elections, regular flow of funds through Finance Commission, etc. In Tamil Nadu, there are 664 Urban Local Bodies (10 Municipal Corporations, 125 Municipalities and 529 Town Panchayats) and 12,940 Panchayat Raj Institutions (31 District Panchayats, 385 Panchayat Unions and 12,524 Village Panchayats).

The quantum of assistance provided by way of grants and loans to the local bodies and others during the current year and in the previous years is presented in **Table 1.20**.

Table 1.20: Financial assistance to Local Bodies, etc.

(₹ in crore)					
Financial Assistance to Institutions	2008-09	2009-10	2010-11	2011-12	2012-13
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	433	703	940	1,249	2,550
Urban Local Bodies	1,865	1,965	2,841	3,031	3,460
Panchayat Raj Institutions	1,890	2,101	3,071	3,585	4,502
Development Agencies	217	286	190	336	253
Hospitals and Other Charitable Institutions	106	126	314	363	483
Other Institutions ¹³	5,726	5,636	6,559	7,361	9,965
Total	10,237	10,817	13,915	15,925	21,213
Assistance as percentage of Revenue Expenditure	19.10	18.22	19.08	19.00	21.85

(Source: Information furnished by the Principal Accountant General (A&E), Tamil Nadu)

- Financial assistance to the local bodies and other institutions increased from ₹ 10,237 crore in 2008-09 to ₹ 21,213 crore in 2012-13. During 2012-13, financial assistance to local bodies and other institutions increased by ₹ 5,288 crore (33.21 *per cent*) over the previous year. As a percentage of revenue expenditure, it remained more or less at the same level of 19 *per cent* during 2008-12, but increased to 21.85 *per cent* during 2012-13.

¹³ Institutions/agencies connected with water supply and sanitation, housing, social welfare, labour and employment, forestry and wild life, agriculture and allied activities, village and small industries, industries and minerals and relief on account of natural calamities.

1.7 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects *viz.*, adequacy of expenditure (i.e. adequate provisions for providing public services), efficiency of expenditure use and its effectiveness (assessment of outlay-outcome relationships for selected services).

1.7.1 Adequacy of Public Expenditure

The responsibilities relating to the expenditure on social sector and the economic sector are largely State subjects. Enhancing human development level requires the States to step up their expenditure on key social services like education, health, etc. Low fiscal priority (ratio of expenditure category to aggregate expenditure) would be deemed to have been given to a particular sector, if it was below the national average. **Table 1.21** analyses the fiscal priority of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during 2012-13.

Table 1.21: Fiscal Priority of the State in 2009-10 and 2012-13

Fiscal Priority of the State	(In per cent)					
	AE/ GSDP	DE [#] /AE	SSE/AE	CE/AE	Education/ AE	Health/ AE
General Category States* Average (Ratio) 2009-10	17.06	66.05	35.73	14.96	16.19	4.24
Tamil Nadu State's Average (Ratio) 2009-10	14.64	64.65	35.75	12.21	15.76	4.94
General Category States Average (Ratio) 2012-13	15.93	65.79	32.77	13.23	17.23	4.47
Tamil Nadu State's Average (Ratio) 2012-13	15.64	64.32	38.09	12.52	15.35	4.54

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

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

* General Category States exclude Delhi, Goa and Puducherry

(Source : For GSDP, the information was collected from the State's Directorate of Economics and Statistics)

- In 2012-13, Tamil Nadu spent marginally lesser proportion of its GSDP on Aggregate Expenditure as compared to the General Category states. As compared to 2009-10, Tamil Nadu spent higher proportion of its GSDP on Aggregate Expenditure in 2012-13.
- Development expenditure as a proportion of Aggregate Expenditure in Tamil Nadu was lower than the General Category states' average in 2009-10 and 2012-13.
- During 2012-13, priority given to Social sector by Tamil Nadu was better than that of General Category States.
- In Tamil Nadu, the proportion of capital expenditure *vis-à-vis* aggregate expenditure during 2012-13 was close to that during 2009-10. It was, however, less than that of the General Category States both during 2009-10 and 2012-13.

1.7.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods¹⁴. Apart from improving the allocation towards development expenditure¹⁵, the efficiency of expenditure use reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure on operation and maintenance of the existing Social and Economic Services need to be kept in mind. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure. **Table 1.22** presents the trends in development expenditure relative to the aggregate expenditure of the State during 2008-13.

Table 1.22: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2008-09	2009-10	2010-11	2011-12	2012-13
Development Expenditure (a to c)	42,736 (65.22)	45,412 (64.65)	54,917 (62.69)	68,742 (65.06)	74,874 (64.32)
a. Development Revenue Expenditure	31,032 (47.36)	35,079 (49.94)	41,131 (46.95)	47,404 (44.86)	56,251 (48.32)
b. Development Capital Expenditure	8,874 (13.54)	8,043 (11.45)	11,694 (13.35)	16,062 (15.20)	14,111 (12.12)
c. Development Loans and Advances	2,761 (4.22)	2,290 (3.26)	2,092 (2.39)	5,276 (5.00)	4,512 (3.88)

Figures in brackets indicate percentage of aggregate expenditure
(Source: Finance Accounts of respective years)

Though development expenditure, in real terms was increasing continuously during 2008-13, the percentage of aggregate development capital expenditure decreased during the year to 12.12 after a rising trend for previous two years.

Table 1.23 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected Social and Economic Services during 2011-12 and 2012-13.

¹⁴ Core public goods are goods which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g., enforcement of law and order, security and protection of rights; pollution free air and other environmental goods, road infrastructure, etc. Merit goods are commodities that the public sector provides free or at subsidised rates because an individual or society should have them on the basis of some concept of need, rather than the ability and willingness to pay the Government and, therefore, wishes to encourage their consumption. Examples of such goods include the provision of free or subsidised food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation, etc.

¹⁵ The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorised into Social Services, Economic Services and General Services. Broadly, the Social and Economic Services constitute development expenditure, while expenditure on General Services is treated as non-development expenditure.

Table 1.23: Efficiency of Expenditure Use in Selected Social and Economic Services
(in per cent)

Social/Economic Infrastructure	2011-12		2012-13	
	Ratio of CE to TE	Ratio of S&W to RE	Ratio of CE to TE	Ratio of S&W to RE
Social Services (SS)				
Education, Sports, Art and Culture	2.39	55.38	1.16	51.66
Health and Family Welfare	4.53	65.26	5.74	58.42
Water Supply, Sanitation, Housing and Urban Development	70.63	2.55	63.91	1.86
Total (SS)	18.14	53.08	16.62	48.34
Economic Services (ES)				
Agriculture and Allied Activities	12.91	34.85	11.57	21.28
Irrigation and Flood Control	66.04	36.88	68.82	45.08
Power and Energy	46.42	0.11	22.62	0.09
Transport	72.02	19.33	69.78	12.30
Total (ES)	45.81	24.29	35.62	17.65
Total (SS+ES)	30.82	45.86	24.37	39.62

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

(Source: Finance Accounts of the respective years)

Expenditure on Social Services

- Capital expenditure on Social Services increased in real terms, but as a percentage to aggregate expenditure of the State it marginally decreased from 4.56 in 2011-12 to 4.42 in 2012-13 (**Appendix 1.4**).

Expenditure on Economic Services

- The capital expenditure on Economic Services decreased from ₹ 11,239 crore in 2011-12 to ₹ 8,961 crore in 2012-13 (20.27 per cent).
- The decrease in capital expenditure on Economic Services was mainly due to decrease in capital expenditure on Power and Energy by ₹ 2,600 crore compared to previous year.
- The ratio of expenditure on salaries and wages to the revenue expenditure, under selected economic services decreased in all services indicated in **Table 1.23** other than Irrigation and Flood Control during 2012-13 as compared to 2011-12.

1.8 Financial Analysis of Government Expenditure and Investments

In the post-Fiscal Responsibility and Budget Management framework, the State is expected to keep its fiscal deficit (and borrowings) at low levels without compromising its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to dependence on market-based resources, the State Government needs to initiate measures to earn

adequate return on its investments, recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies and take requisite steps to infuse transparency in financial operations. This section presents a broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* the previous years.

1.8.1 Financial Results of Irrigation projects

Ensuring the commercial viability of irrigation projects through realisation of adequate revenue by way of user charges has to be a prudent policy of Government. However, it was observed that the revenue from irrigation projects (₹ 26.97 crore) during 2012-13 was only 4.47 per cent of the maintenance expenditure (₹ 603.82 crore).

The financial results of five major and 47 medium irrigation projects are depicted in Appendix IX of the Finance Accounts. The revenue realised from these projects during 2012-13 was ₹ 9.43 crore. After meeting the working and maintenance expenditure (₹ 262.81 crore) and interest charges (₹ 121.02 crore), these 52 projects suffered a net loss of ₹ 374.39 crore during 2012-13.

1.8.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2013 is given in **Table 1.24**.

Table 1.24: Department-wise profile of incomplete projects

(₹ in crore)

Department	No. of Incomplete Projects*	Initial Budgeted Cost	Revised Total Cost of Projects**	Expenditure during the year	Cumulative actual expenditure as on 31 March 2013
Buildings	20	7,086	7,742	1,092	6,372
Roads and Bridges	13	7,021	7,156	2,589	5,643
Irrigation (Water Resources) and Flood Control	15	66,475	70,576	7,187	44,231
Total	48	80,582	85,474	10,868	56,246

* Only those projects which were scheduled to be completed before 31 March 2013 were included.

** Indicates the revised total cost of the projects as per the last revision by the State Government up to March 2013

(Source: Collected from various sources by PAG (A&E) and included in Appendix X of Finance Accounts for 2012-13).

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

1.8.3 Investments and returns

Government invested up to March 2013, ₹ 15,718 crore in statutory corporations, rural banks, joint stock companies and co-operatives (**Table 1.25**).

Table 1.25: Return on Investments

Investment/Return/Cost of Borrowings	2008-09	2009-10	2010-11	2011-12	2012-13
Investment at the end of the year (₹ in crore)	6,471.22	8,107.24	10,222.64	14,455.65	15,718.00
Return (₹ in crore)	35.59	30.18	22.33	30.23	30.83
Return (in per cent)	0.55	0.37	0.22	0.21	0.20
Average rate of interest on Government borrowing (in per cent)	7.71	7.29	7.53	7.43	7.43
Difference between interest rate and return (in per cent)	7.16	6.92	7.31	7.22	7.23

(Source: Finance Accounts for the respective years)

Government invested (up to March 2013) in two statutory corporations (₹ 7,910 crore), 68 Government companies (₹ 4,771 crore), six Joint Stock companies (₹ two crore) and 9,146 co-operatives (₹ 3,035 crore). During 2012-13 Government infused an additional capital of ₹ 170.73 crore into six ailing State Transport Undertakings which had an accumulated loss of ₹ 7,267.04 crore. There was one major investment of ₹ 211.21 crore made by Government in 2012-13 in Chennai Metro Rail Limited.

It may be observed that the return from the investment was meagre. The average rate of return declined from 0.55 per cent in 2008-09 to 0.20 per cent in 2012-13. On the other hand, Government paid an average interest rate of 7.43 per cent on its borrowings during 2012-13.

1.8.4 Loans and advances by State Government

In addition to the investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many of these institutions/organisations. **Table 1.26** presents the outstanding loans and advances as on 31 March 2013 and interest receipts *vis-à-vis* interest payments during the last three years.

Table 1.26: Average interest received on loans advanced by the State Government

(₹ in crore)

Quantum of Loans/Interest receipts/cost of borrowings	2010-11	2011-12	2012-13
Opening Balance	7,517	8,999	11,302
Amount advanced during the year	2,252	5,483	4,769
Amount repaid during the year	770	3,180	1,057
Closing Balance	8,999	11,302	15,014
Net increase (+) / decrease (-)	1,482	2,303	3,712
Interest receipts	78	497.20	364.88
Interest receipts as percentage of outstanding Loans and advances	0.94	4.90	2.77
Interest payments as percentage of outstanding fiscal liabilities of the State Government	7.53	7.43	7.43
Difference between interest payments and interest receipts (per cent)	6.59	2.53	4.66

(Source: Finance Accounts for the respective years)

- The difference between the interest payments and interest receipts increased from 2.53 per cent in 2011-12 to 4.66 per cent in 2012-13 due to poor recovery.
- (i) Under Social Sector, the major recipients of loans and advances were farmers affected by drought (₹ 360.91 crore), Urban development (₹ 100 crore), Water Supply and Sanitation Pooled Fund under KfW (German Development Bank) line of credit (Master Financing Indenture) (MFI) (₹ 32.50 crore) and (ii) under Economic Sector, the major recipients of loans and advances were Tamil Nadu Electricity

Board (₹ 909 crore), soft loans to industrial units (₹ 375 crore) and short term loan to Tamil Nadu Generation and Distribution Corporation Ltd. (TANGEDCO) (₹ 352 crore).

1.8.5 Cash Balances and Investment of Cash Balances

Table 1.27 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.27: Cash Balances and Investment of Cash Balances

(₹ in crore)			
Sl. No.	Particulars	As on 31 March 2012	As on 31 March 2013
(a)	General Cash Balance		
1.	Cash in Treasuries	-	-
2.	Deposits with Reserve Bank	151.73	(-) 1,062.77
3.	Remittances in Transit	16.80	16.80
	Total	168.53	(-) 1,045.97
4.	Investments held in the Cash Balance Investment Account	11,665.84	17,299.05
	Total (a)	11,834.37	16,253.08
(b)	Other Cash Balances and Investments		
1.	Cash with Departmental Officers viz. Public Works and Forest Departments	2.09	1.98
2.	Permanent advances for contingent expenditure with Departmental Officers	7.36	7.39
3.	Investments of earmarked funds	3,367.81	5,255.99
	Total (b)	3,377.26	5,265.36
	Total (a) and (b)	15,211.63	21,518.44

(Source: Finance Accounts for the respective years)

- The State Government maintained the minimum required daily cash balance of ₹ 3.25 crore with the Reserve Bank of India during 2012-13 under an agreement with the Reserve Bank of India. No ways and means advance or overdraft was taken during the year.
- The cash balance as on 31 March 2013 increased by ₹ 6,306 crore over the previous year mainly due to surplus (₹ 6,620 crore) in the public account transactions during the year. The cash balance (₹ 21,518 crore) available with the State Government continued to be high.

1.9 Assets and Liabilities

1.9.1 Growth and Composition of Assets and Liabilities

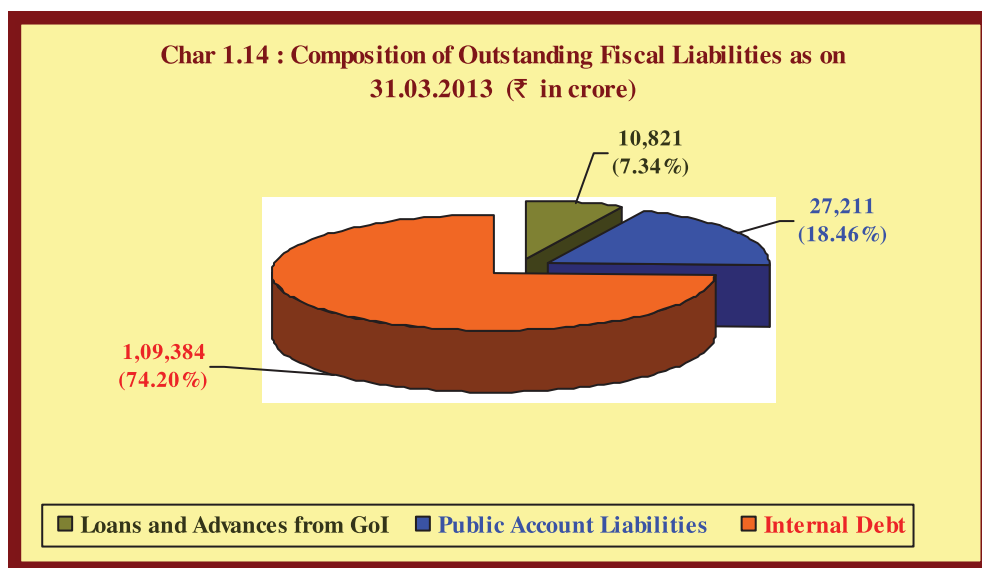
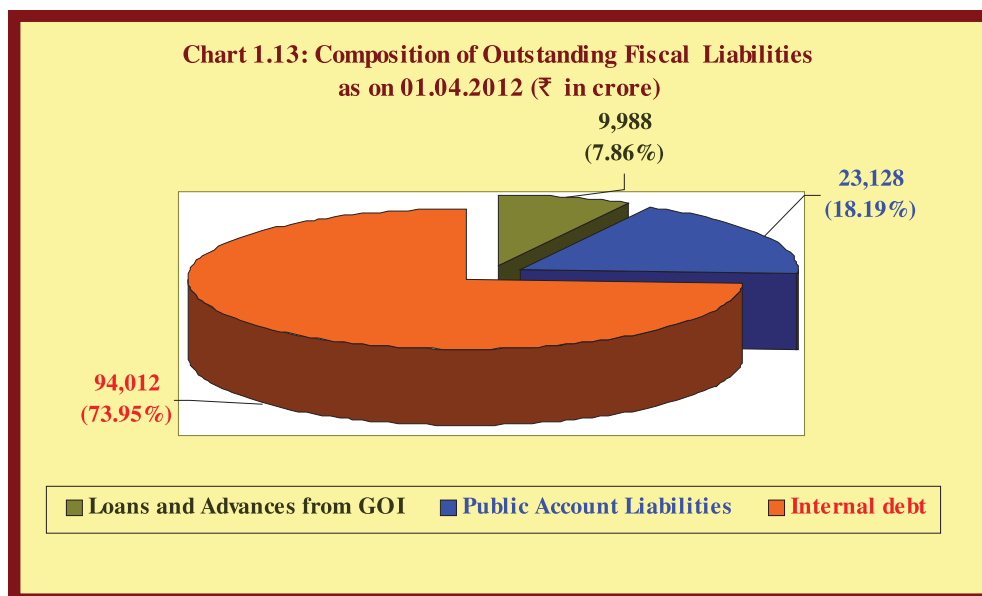
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.5** gives an abstract of such liabilities and assets as on 31 March 2013, compared with the corresponding position on 31 March 2012. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from GoI, receipts from the Public Account and Reserve funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and cash balances.

The TNFR Act defines the total liability of the State as 'the liabilities under the Consolidated Fund of the State and the Public Account of the State', which include loans and advances from the Central Government, open market

borrowings, loans from financial institutions, Provident Fund balances of Government employees, Reserve funds, Deposits, etc.

1.9.2 Fiscal Liabilities

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



- The outstanding fiscal liabilities have shown a steady increase from ₹ 83,662 crore at the end of 2008-09 to ₹ 1,47,416 crore at the end of 2012-13.
- The fiscal liabilities at the end of 2012-13 represented 149.16 per cent of the revenue receipts during the year as against 149.21 per cent of the revenue receipts during 2011-12. However, the outstanding liabilities as a percentage of GSDP was 19.80 which was within the norm of 24.80 prescribed for the year 2012-13 in the TNFR Act.
- Public Account liabilities as a percentage of the total fiscal liabilities increased marginally from 18.19 in 2011-12 to 18.46 at the end of

2012-13. Internal debt at 74.20 *per cent* of the fiscal liabilities was marginally higher than that of the previous year (73.95 *per cent*) whereas the percentage of outstanding loans and advances decreased from 7.86 in 2011-12 to 7.34 in 2012-13.

1.9.3 Transactions under Reserve Fund

Reserve Funds created for specific and well-defined purposes are kept in the Public Account of the State and they are fed by contributions or grants from the Consolidated Fund of a State or from outside agencies. The expenditure relating to the fund is initially accounted for under the Consolidated Fund itself for which the vote of the legislature is obtained. At the end of the year, expenditure so incurred is transferred to the Fund through operation of deduct entries in the accounts. The cess or revenue collected are initially accounted for under the receipt heads concerned and then transferred to the fund account to the extent provision is made in the Appropriation Act for transfer to the fund. If it is Government contribution, it is transferred to the Fund by making provision in the Budget. There were 29 reserve funds earmarked for specific purposes, out of which 11 funds were inoperative. The total accumulated balance in these funds as on 31 March 2013 was ₹ 5,324.43 crore, out of which the balance in the inoperative accounts was ₹ 44.69 crore.

Test check of one inoperative account *viz.*, the Tamil Nadu Special Welfare Fund revealed that it was inoperative from 2003 due to ban on sale of lottery tickets and had an unutilised balance of ₹ 30.74 crore as on 31 March 2013. On this being pointed out, Government stated (October 2013) that the possibility of utilising the fund balances during 2013-14 would be explored.

Out of 18 funds in operation, transactions in four funds *viz.*, Sugarcane Cess Fund, State Infrastructure and Amenities Fund, Tamil Nadu Victim Compensation Fund and Funds for Priority Schemes in Rural Areas were test-checked in audit which revealed the following:

1.9.3.1 Sugarcane Cess Fund

Sugarcane cess is collected at the rate of ₹ five per tonne of sugarcane brought into the sugar factory for consumption, use or sale and credited to the receipt head and then transferred to the fund account. The fund is to be utilised for sugarcane development and research purposes including road development in sugarcane grown areas. The Commissioner of Sugar is the controlling authority for estimating and reconciling the expenditure. The accumulated balance in the fund account was ₹ 12.33 crore as on 31 March 2013.

Review of statement of sugarcane cess collected, credited to the receipt head and transferred to the fund during the years 2006-07 to 2012-13 revealed that a sum of ₹ 17.78 crore has not been transferred to the fund account as detailed in the **Appendix 1.6**. Government replied (October 2013) that necessary action would be taken to transfer the fund during 2013-14 by obtaining approval of the Legislature.

1.9.3.2 State Infrastructure and Amenities Fund

The State Infrastructure and Amenities Fund was created for the purpose of creating infrastructure facilities in the State. The infrastructure and basic amenities charges collected by the Town and Country Planning Department at the rates¹⁶ specified by the Government are credited to the fund.

¹⁶ Commercial and IT Building: ₹ 500 per sq.m., Multi-storeyed Building: ₹ 1,000 per sq m., Institution: ₹ 200 per sq.m. and Building for industrial use: ₹ 300 per sq.m.

Statement of charges collected, credited to the receipt head concerned and transferred to the fund account during 2009-10 to 2012-13 revealed that a sum of ₹ 765.76 crore has not been transferred to the fund account as detailed in **Table 1.28**.

Table 1.28: Collections not transferred to the State Infrastructure and Amenities Fund
(₹ in crore)

Year	Receipt under the head '0217'	Amount transferred to the fund	Amount to be transferred
2009-10	617.11	562.00	55.11
2010-11	371.80	180.00	191.80
2011-12	331.74	Nil	331.74
2012-13	607.11	420.00	187.11
Total	1,927.76	1,162.00	765.76

(Source: VLC Data and Appropriation Accounts for the respective years)

The Finance Department replied (October 2013) that exact appropriation equivalent to the revenue realised could not be made within the same financial year due to non-availability of reconciled receipt figures up to March and that the backlog in the transfer to the fund account would be cleared in a phased manner.

1.9.3.3 Tamil Nadu Victim Compensation Fund

The Tamil Nadu Victim Compensation Fund was created in 2000 for the purpose of paying compensation to the victims/families of victims. Twenty *per cent* of the wages of the prisoners is collected and credited to the fund. The Inspector General of Prisons is the estimating, reconciling and controlling authority of the fund.

Review of departmental records showed that out of the receipts collected and remitted into the Consolidated Fund up to March 2013, an amount of ₹ 1.19 crore was yet to be transferred to the Reserve fund. It was, however, noticed that as per the Finance Accounts for 2012-13, only an amount of ₹ 0.35 crore was to be transferred to the Reserve fund as detailed in **Table 1.29** indicating non-reconciliation of the receipts by the Inspector General of Prisons with the PAG (A & E) figures.

Table 1.29: Receipts not transferred to Victim Compensation Fund
(₹ in lakh)

Year	Receipt under the head '0235'	Amount transferred to the fund	Amount to be transferred
2007-08	317.48	Nil	317.48
2008-09	34.72	Nil	34.72
2009-10	85.58	Nil	85.58
2010-11	42.67	Nil	42.67
2011-12	51.52	485.71	(-) 434.19
2012-13	63.22	74.51	(-) 11.29
Total	595.19	560.22	34.97

(Source: VLC Data, Finance and Appropriation Accounts for the respective years)

In reply, Government stated (October 2013) that the Inspector General of Prisons was directed to reconcile the figures and transfer the amount due to the fund by making necessary budget provision.

1.9.3.4 Funds for priority schemes in rural areas

The fund for priority schemes in rural areas was created (November 2007) for the purpose of creation of basic infrastructure in rural areas. One-third of the assigned revenue (local cess, local cess surcharge, surcharge on stamp duty and entertainment tax) due to the Rural Local Bodies is credited to the fund.

The details of receipts and expenditure under the fund account for the years 2010-11 to 2012-13 are as given in **Table 1.30**.

Table 1.30: Details of receipts and expenditure during 2010-13

(₹ in lakh)

Year	Opening balance	Receipt	Expenditure	Closing balance
2010-11	9,900.00	-	9,900.00	Nil
2011-12	Nil	17,747.50	17,747.50	Nil
2012-13	Nil	22,252.82	22,252.82	Nil

(Source: Details furnished by Director of Rural Development and Panchayat Raj)

As per the guidelines issued (November 2007), expenditure on construction of office and residential buildings for Government, Private, Co-operative and Commercial Organisations, maintenance and repair works, etc., is not admissible under the fund.

However, test check of records disclosed the following inadmissible expenditure on construction of building, repair and maintenance work (**Table 1.31**).

Table 1.31: Inadmissible expenditure

Year	District	Name of the work	Amount (₹ in lakh)
2007-08	Nagapattinam	Construction of Milk Producers' Co-operative Society Building at Pappampadi	2.79
		Construction of Public Distribution shop building at Pappampadi	2.53
	Madurai	Permanent repair of Chavadi Pottalpatti Adi Dravidar Colony	0.70
2008-09	Pudukottai	Maintenance of cement concrete pavement at Sivankoil Road at Northamalai Block	2.00
2011-12	Krishnagiri	Maintenance of Santhanoor road KM 0/0 4/7 Dhamotharahalli at Kaveripattinam Block	43.80

(Source: Details furnished by Director of Rural Development and Panchayat Raj)

On this being pointed out, the Principal Secretary, Finance Department stated (October 2013) that the works were taken up due to local exigencies and the Director of Rural Development and Panchayat Raj has been instructed to send proposal for ratification. He further stated that suitable instructions will be issued to the implementing officers to adhere to the guidelines.

1.9.4 Contingent liabilities

Status of Guarantees

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of defaults by borrowers for whom the guarantees have been extended by Government. According to the TNFR Act passed by the State Legislature in May 2003, as amended in February 2004 and further amended in

2010 and 2011, Government should cap the total outstanding guarantees to 100 *per cent* of the total revenue receipts in the preceding year or at 10 *per cent* of GSDP whichever is lower.

1.9.4.1 Outstanding guarantees

As per Statement 9 of the Finance Accounts, the outstanding guarantees for the years 2011-12 and 2012-13 are given in **Table 1.32**.

Table 1.32: Guarantees given by GoTN

Guarantees	₹ in crore)	
	2011-12	2012-13
Outstanding amount of guarantees	22,117 ¹⁷	24,071
Percentage of outstanding amount guaranteed to total Revenue receipts of previous year	31.51	28.25
Percentage of outstanding amount guaranteed to GSDP	3.32	3.23

(Source: Finance Accounts for 2012-13)

The outstanding guarantees were within the norms fixed in the TNFR Act and as a percentage of revenue receipts of the previous year, it decreased from 31.51 in 2011-12 to 28.25 in 2012-13. Similarly as a percentage of GSDP, it decreased from 3.32 in 2011-12 to 3.23 in 2012-13.

Out of the total outstanding guarantees of ₹ 24,071 crore as on 31 March 2013, guarantees for an amount of ₹ 23,024 crore (95.65 *per cent*) pertained to the three State electricity companies¹⁸.

1.9.4.2 Guarantee Redemption Fund

Government constituted (March 2003) a “Guarantee Redemption Fund” for discharge of invoked guarantees. The fund is credited with the guarantee fee collected and Government contributions. As on 31 March 2013, the fund had a balance of ₹ 424.63 crore of which ₹ 408.01 crore was invested by Government in auction treasury bills.

1.9.4.3 Payment of guarantee fee

As per orders of Government, guarantee fee at 0.5 *per cent* per annum was to be paid by the companies/institutions receiving Government guarantee on the outstanding guaranteed amount in two half yearly instalments. As per Finance Accounts for 2012-13, the Government received guarantee fee of ₹ 2.48 crore from the companies/institutions.

As per information furnished by the Finance Department (September 2013) guarantee fee of ₹ 302.72 crore was due from 19 institutions as detailed in **Appendix 1.7**.

In the test-checked three departments, the guarantee fee was due to be paid by the nine institutions indicated in **Table 1.33**.

¹⁷ Differs from previous year (2011-12) since the figures furnished by the Government form the basis instead of figures obtained from the institutions

¹⁸ TNEB Limited, TANGEDCO and Tamil Nadu Transmission Corporation Limited

Table 1.33: Details of guarantee fee due

Name of the Department	Name of the Institution	Amount of guarantee fee due (₹ in lakh)	Period for which due
Energy	TANGEDCO	27,093.00	From 2002-03 to 2012-13
Handlooms, Handicrafts, Textiles and Khadi	Tamil Nadu Khadi and Village Industries Board	112.99	2012-13
Industries	1. Ambur Co-operative Sugar mills	2.08	2012-13
	2. Madurantakam Co-operative Sugar mills	3.24	2010-11 and 2012-13
	3. Kallakurichi-I Co-operative Sugar mills	0.61	2012-13
	4. National Co-operative Sugar mills	4.12	2012-13
	5. Vellore Co-operative Sugar mills	13.19	2012-13
	6. Tirupathur Co-operative Sugar mills	8.92	2012-13
	7. M.R.K. Co-operative Sugar mills	27.80	2010-11 to 2012-13
Total		27,265.95	

(Source: Information furnished by the departments)

Guarantee fee of ₹ 270.93 crore is outstanding from the TANGEDCO. TANGEDCO stated (September 2010) that Government sanctioned (March 2002) tariff compensation to TNEB and adjusted it against the guarantee fee dues up to 2001-02. From 2002-03 onwards, neither did the Board pay the guarantee fee nor did the Government adjust the outstanding guarantee fee. The Board was requesting the Government to sanction special subsidy for adjustment against the outstanding fee. TANGEDCO informed (March 2013) Government that TANGEDCO was consistently incurring loss due to non-matching of overall rate of realisation per unit with the overall average cost of supply at consumer's end and requested Government that the total guarantee fee of ₹ 270.93 crore payable to Government up to 31 March 2013 may be sanctioned as subsidy as a special case. Government's response is awaited in this regard (December 2013).

Off-Budget Borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the liabilities shown in **Appendix 1.5**, the State guarantees the loans availed of by Government companies/corporations. These companies/corporations borrow funds from the market/financial institutions for implementation of various State Plan programmes projected outside the State budget. Although the State Government specify that funds for these programmes would be met out of the resources mobilised by these companies/corporations outside the State budget, in reality, the borrowings of many of these concerns are repaid by the Government and ultimately turn out to be liabilities of the State Government termed as 'off-budget borrowings'. Though off-budget borrowings are not permissible under Article 293 (3), the State undertook such off-budget borrowings. Details of such borrowings collected from two agencies are given in **Table 1.34**.

Table 1.34: Details of off-budget borrowings

(₹ in crore)

Sl. No.	Name of Agency	Off-budget borrowings outstanding as of March 2013	Borrowings repaid by Government
1	Tamil Nadu Water Supply and Drainage Board	46.06	19.06
2.	Tamil Nadu Co-operative Housing Federation Limited	25.98	18.72
		72.04	37.78

(Source: Information furnished by the Agencies)

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

1.10 Debt Management

Apart from the magnitude of debt of the State Government, it is important to analyse the various indicators that determine the debt sustainability¹⁹ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation²⁰; sufficiency of non-debt receipts²¹; net availability of borrowed funds²²; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State Government debts. **Table 1.35** analyses the debt sustainability of the State according to these indicators for a period of three years beginning from 2010-11.

Table 1.35: Debt Sustainability: Indicators and Trends

(₹ in crore)			
Indicators of Debt Sustainability	2010-11	2011-12	2012-13
Debt Stabilisation (Quantum Spread + Primary Deficit)	(-) 732	(-) 2,386	(-) 631
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 4,839	(-) 628	756
Net Availability of Borrowed Funds	4,375	5,374	7,519
Burden of Interest Payments (Interest payment/ Revenue Receipts Ratio)	11.3	10.41	10.33
Maturity Profile of internal debts and GoI loans (in years)			
0 – 1	2,800 (3.08)	3,930 (3.78)	3,711 (3.09)
1 – 3	7,658 (8.41)	7,778 (7.48)	7,929 (6.60)
3 – 5	7,944 (8.73)	7,944 (7.64)	10,852 (9.03)
5 – 7	10,865 (11.93)	18,193 (17.49)	25,907 (21.55)
7 and above	58,384 (64.12)	55,883 (53.73)	60,071 (49.97)
Year wise details not available	3,399 (3.73)	10,272 (9.88)	11,735 (9.76)

Figures in brackets represent percentage to total outstanding internal debts and GoI loans
(Source: Finance Accounts for the respective years)

¹⁹ Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. It also refers to the sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between the costs of additional borrowings and the returns from such borrowings.

²⁰ A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are either zero, positive or moderately negative. Given the rate spread (GSDP growth rate – interest rate) and the quantum spread (Debt X rate spread), the debt sustainability condition states that if the quantum spread together with the primary deficit is zero, the debt-GSDP ratio would be constant or the debt would stabilise eventually. On the other hand, if the primary deficit together with the quantum spread turns out to be negative, the debt-GSDP ratio would be rising. In case it is positive, the debt-GSDP ratio would eventually be falling.

²¹ Adequacy of incremental non-debt receipts of the State to cover incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

²² Defined as the ratio of the debt redemption (principal + interest payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption, indicating the net availability of borrowed funds.

- The quantum spread together with the primary deficit improved from ₹ (-) 2,386 crore in 2011-12, to ₹ (-) 631 crore in 2012-13. Negative figures of debt stabilisation indicate the rising debt-GSDP ratio, which would affect the State's ability to service the debt.
- Another indicator for debt sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental expenditure. Positive resource gaps strengthen the capacity of State to sustain the debt. Though the State experienced a negative resource gap in 2010-11 and in 2011-12 it became positive during 2012-13.
- The net availability of borrowed funds increased from ₹ 5,374 crore in 2011-12 to ₹ 7,519 crore during 2012-13. This was due to increase in receipts under internal debts from ₹ 15,600 crore in 2011-12 to ₹ 19,860 crore in 2012-13.
- Negative debt stabilisation and continued burden of interest payment at about 10.33 *per cent* of revenue receipts every year suggest that the State's sustainability of debt continued to be strained.
- Bunching of repayments in any particular year will cause financial stress to that year's budget. The maturity profile of the State's debt indicates a year-on-year increase in its repayment burden. The greater the awareness of future debt payments, the Government will be in a position to ensure that fresh borrowings will not have to be scheduled for repayment in those years where maximum repayment is due. In Tamil Nadu, greater portion of repayments would happen between the 5th and 7th years from borrowings and beyond seven years. The State did not have details of repayment schedule for an amount of ₹ 11,735 crore. Scheduling of huge repayment liabilities to future years is not prudent as Government may have difficulty to meet the liabilities at that time.

1.10.1 Market borrowings

State Governments borrow funds from various sources under the provisions of Article 293 of the Constitution of India with the consent of GoI. They resort to borrowings when their own resources are insufficient to meet the capital expenditure including loans and advances. Market borrowings are one of the major sources of borrowings besides loans from Special Provident Fund, NSSF, negotiated loans, etc. The TNFR Act mandates the State Government to ensure fiscal stability and sustainability as well as prudent debt management through limits on State Government's borrowings.

The estimated requirement of market borrowings based on fiscal deficit targets are submitted by the State Government through the State's Annual Plans to the Planning Commission, GoI for approval. After approval, a proposal for borrowings from the market is sent to Ministry of Finance, GoI for their consent. The borrowings are made in a phased manner throughout the year and funds are arranged through the Reserve Bank of India. Each *tranche* of market borrowings is based on the requirements of Governments and market conditions. **Appendix 1.8** indicates the various fiscal parameters connected with market borrowings.

A review of market borrowings by the State during 2008-13 revealed the following:

(i) During 2008-13, the State borrowed within the net annual borrowing limits approved by GoI and the net market borrowings were less than the fiscal deficits except in 2008-09 in which the net borrowings marginally exceeded the fiscal deficit by ₹ 244 crore.

(ii) The market borrowings of the State increased from ₹ 9,598 crore in 2008-09 to ₹ 17,997 crore in 2012-13 and the outstanding market borrowings at the end of the year increased from ₹ 29,295 crore in 2008-09 to ₹ 78,502 crore in 2012-13.

(iii) The percentage of market borrowings of the State to its total liabilities (₹ 1,47,416 crore) was 53.25 at the end of 2012-13 which was higher than the all India average of 41.20.

(iv) The percentage of outstanding market borrowings to GSDP increased from 7.30 in 2008-09 to 10.54 in 2012-13.

(v) While 18 *per cent* of the outstanding market borrowings on 31 March 2013 is to be repaid during the period 2013-18, the remaining 82 *per cent* is repayable in the next five years *viz.*, 2018-2023 (**Appendix 1.9**) casting a strain on the State's finances and giving rise to the risk of roll over to additional borrowings to meet huge repayments during those years.

(vi) As per ThFC recommendations, States with large cash balances are to make efforts towards utilising them before resorting to fresh borrowings and follow the practice of borrowing on requirement rather than on availability. During 2008-13, the State had huge general cash balances ranging between ₹ 11,834 crore and ₹ 17,027 crore and failed to utilise the cash balance before resorting to fresh borrowings. It was noticed in audit that the progressive capital expenditure up to December 2012 was ₹ 10,543 crore as against the budget estimate of ₹ 22,231 crore and the State invested ₹ 9,221 crore out of the general cash balance in 14 day treasury bills. However, the State invested ₹ 4,000 crore out of the cash balance in 91 day Auction Treasury Bills during December 2012 and January 2013 and at the same time resorted to fresh borrowings of ₹ 2,000 crore in February and March 2013.

On this being pointed out, the Principal Secretary, Finance Department stated (October 2013) that the Government had not yet achieved fiscal surplus and the borrowings were made to finance the fiscal deficit and that the cash balance reflected in the accounts was not Government money but accumulated surplus in the Public Account which were the liabilities of Government. It was further stated that the cash balance included the amount of uncashed cheques at the year end.

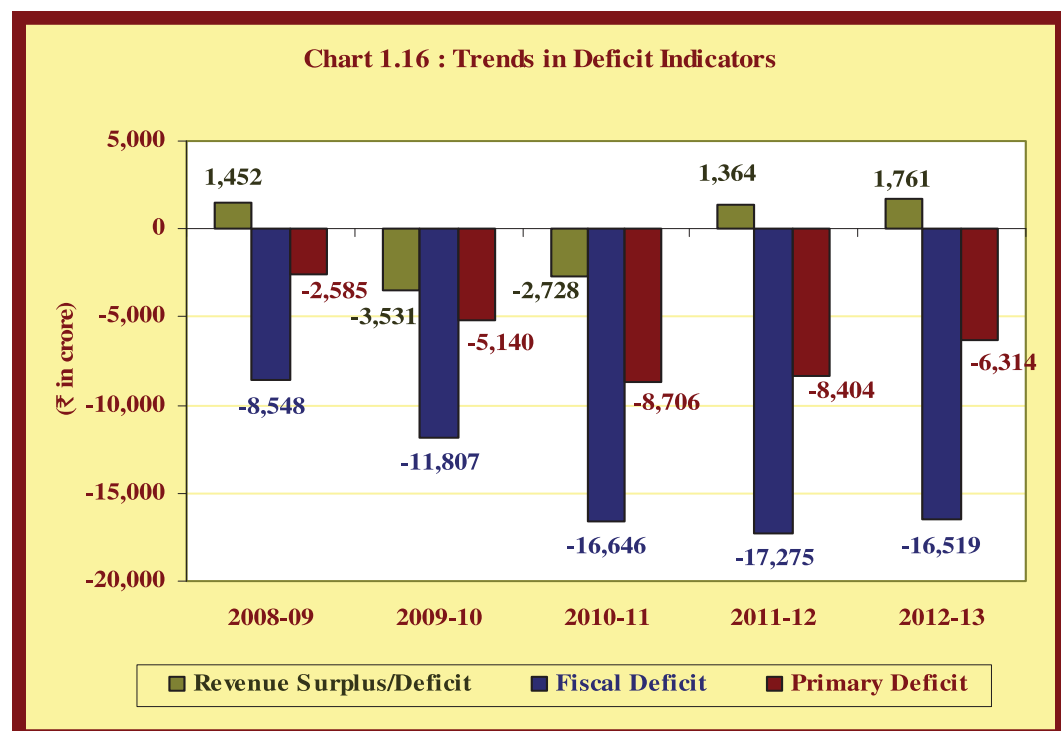
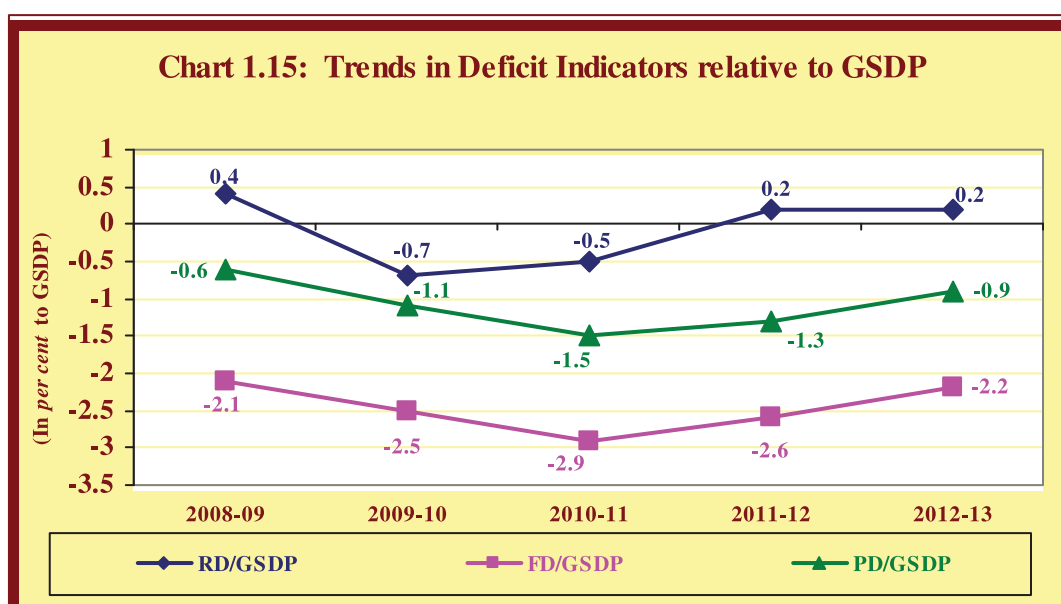
The reply is not acceptable since the Public Account accretions include interest bearing obligations and the surplus cannot be kept idle as cash balance in low interest (five *per cent*) earning 14 day Treasury Bills. Moreover, the State Government acts as a banker in respect of the Public Account and pays interest to the provident fund balance, interest bearing deposits and reserve funds. For instance, the State allowed interest at the rate of 8.8 *per cent* during 2012-13 for the State provident fund balance of ₹ 12,453 crore as on 31 March 2013. During 2012-13, interest realised on cash balance investments including Auction Treasury Bills was ₹ 678 crore whereas Government allowed interest of ₹ 1,165 crore on the State provident fund balance alone. Thus, the Government failed to utilise the surplus cash balance prudently and to curtail the market borrowings based on requirement.

1.11 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set for the financial year 2012-13 under TNFR Act.

1.11.1 Trends in Deficits

Charts 1.15 and 1.16 presents the trends in deficit indicators over the period 2008-13.



- The revenue deficit, which prevailed during 2009-10 and 2010-11 turned positive in 2011-12 with a revenue surplus of ₹ 1,364 crore and increased further to ₹ 1,761 crore during 2012-13.
- The primary deficit has been decreasing from 2011-12 and stood at ₹ 6,314 crore during 2012-13.
- Though the ratio of fiscal deficit to GSDP increased from 2.1 in 2008-09 to 2.9 in 2010-11, it reduced to 2.2 in 2012-13 against the target of three *per cent* to be achieved by 31 March 2012 as envisaged in TNFR Act. The fiscal deficit for the year 2012-13 stood at ₹ 16,519 crore as compared to ₹ 17,275 crore in 2011-12.

1.11.2 Composition of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in **Table 1.36**.

Table 1.36: Components of Fiscal Deficit and its Financing Pattern

		(₹ in crore)				
	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Decomposition of Fiscal Deficit		(-) 8,548	(-) 11,807	(-) 16,646	(-) 17,275	(-) 16,519
1	Revenue Surplus/Deficit (-)	1,452	(-) 3,531	(-) 2,728	1,364	1,761
2	Net Capital Expenditure	(-) 9,104	(-) 8,573	(-) 12,436	(-) 16,336	(-) 14,568
3	Net Loans and Advances	(-) 896	297	(-) 1,482	(-) 2,303	(-) 3,712
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	8,792	11,725	8,704	13,109	15,670
2	Loans from GoI	724	698	1,036	594	833
3	Special Securities issued to National Small Savings Fund	(-) 173	271	1,540	(-) 1,024	(-) 661
4	Loans from Financial Institutions	282	351	(-) 85	270	363
5	Small Savings, Provident Fund, etc.	578	980	1,272	1,113	1,334
6	Deposits and Advances	1,576	712	1,426	1,727	3,203
7	Suspense and Miscellaneous	194	(-) 547	18	498	657
8	Remittances	78	57	131	136	(-) 7
9	Reserve Funds	553	817	(-) 1,106	287	1,433
10	Contingency Fund	-	1	(-) 30	30	-
Total		12,604	15,065	12,906	16,740	22,825
11	Overall Surplus(+)/Deficit (-) (Cash Balance)	4,056	3,258	(-) 3,740	(-) 535	6,306

* All these figures are net of disbursements/outflows during the year
(Source: Finance Accounts for respective years)

- One of the factors contributing to the decrease in fiscal deficit was the decrease in capital expenditure from ₹ 16,336 crore in 2011-12 to ₹ 14,568 crore in 2012-13.
- The fiscal deficit was largely managed by market borrowings, loan from GoI and other financial institutions and from the proceeds of Small savings, deposits and advances.

1.11.3 Quality of Deficit/Surplus

The decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The bifurcation of the primary deficit (Table 1.37) would indicate the extent to which the deficit had been on account of enhancement in capital expenditure, which may have been desirable to improve the productive capacity of the State's economy.

Table 1.37: Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary revenue deficit (-) / surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2008-09	56,976	47,627	9,104	2,830	59,561	9,349	(-) 2,585
2009-10	58,431	52,708	8,573	2,290	63,571	5,723	(-) 5,140
2010-11	70,958	64,976	12,436	2,252	79,664	5,982	(-) 8,706
2011-12	88,382	74,967	16,336	5,483	96,786	13,415	(-) 8,404
2012-13	99,885	86,862	14,568	4,769	1,06,199	13,023	(-) 6,314

(Source: Finance Accounts for the respective years)

- The primary revenue expenditure increased by 15.87 per cent in 2012-13 over the previous year while the capital expenditure and loans and advances decreased by 10.82 per cent and 13.02 per cent respectively in 2012-13 over the previous year.
- During the period 2008-09 to 2012-13, non-debt receipts increased from ₹ 56,976 crore to ₹ 99,885 crore (75.31 per cent) against an increase of 82.38 per cent in primary revenue expenditure, 60.02 per cent in capital expenditure and 78.30 per cent in primary expenditure indicating that the non-debt receipts did not match with the expenditure.
- Capital expenditure as a percentage of primary expenditure decreased from 15.29 in 2008-09 to 13.72 in 2012-13. Loans and advances as a percentage of primary expenditure decreased from 4.75 in 2008-09 to 4.49 in 2012-13.
- The non-debt receipts were not enough to meet the primary expenditure requirements from 2008-09 onwards, resulting in primary deficit, which increased from ₹ 2,585 crore in 2008-09 to ₹ 8,404 crore in 2011-12. However, during the current year (2012-13) it has dropped to ₹ 6,314 crore.

1.12 Conclusion and Recommendations

Fiscal position: The State continued to maintain revenue surplus during 2012-13 and kept fiscal deficit relative to GSDP below the limit laid down under TNFR Act. The State's revenue surplus during 2012-13 was ₹ 1,761 crore. The fiscal deficit came down from ₹ 17,275 crore in 2011-12 to ₹ 16,519 crore in 2012-13 and the ratio of fiscal deficit to GSDP was 2.2 in 2012-13 which was within the target of three per cent. One of the factors

contributing to the decrease in fiscal deficit was the decrease in capital expenditure during the year.

Revenue Receipts: During the current year, the State's revenue receipts (₹ 98,828 crore) increased by 15.99 *per cent* over the previous year. The compound annual growth rate of revenue receipts stood at 15.35 *per cent* in the current decade, which was less than that of the other General Category States (17.48 *per cent*). The growth rate of revenue receipts decreased from 21.39 *per cent* in 2011-12 to 15.99 *per cent* in 2012-13 which was below the average annual growth rate of 16.09 *per cent* during 2008-12. The decrease in growth rate was mainly due to decrease in grants from the GoI. The own tax revenue of the State increased by ₹ 11,737 crore over the previous year and the growth rate, which was at 30.74 *per cent* in 2010-11 stood at 19.72 *per cent* in 2012-13, showing a decreasing trend from 2011-12. The State's revenue receipts as a percentage of GSDP marginally increased from 12.81 in 2011-12 to 13.27 in 2012-13.

The non-tax revenue of the State increased by ₹ 870 crore in 2012-13 (15.31 *per cent*) over the previous year. As a proportion to the States' own resources, it was 14.50 *per cent* in 2008-09 and 8.42 *per cent* in 2012-13.

Revenue expenditure: Of the total expenditure of ₹ 1,16,404 crore during 2012-13, revenue expenditure (₹ 97,067 crore) accounted for 83.39 *per cent*. Out of the revenue expenditure, 75.91 *per cent* (₹ 73,683 crore) was incurred on the non-plan components. The committed expenditure (₹ 58,833 crore) stood at 59.53 *per cent* of the total revenue receipts (₹ 98,828 crore) of the State during 2012-13 as against 64.75 *per cent* during 2011-12.

Capital expenditure: The capital expenditure (₹ 14,568 crore) during the current year decreased by ₹ 1,768 crore (10.82 *per cent*) from the previous year due to less investment in power sector and less expenditure on flood control, water supply and sanitation, co-operation and education. ***Increased priority to physical capital formation will increase the growth prospects of the State by creating durable assets.***

Adequacy and priority of expenditure: In the year 2012-13, the State spent marginally lower proportion of its GSDP on aggregate expenditure (15.64 *per cent*) as compared to General Category States (15.93 *per cent*). Development expenditure as a proportion of aggregate expenditure in the State was lower (64.32 *per cent*) than the General Category States' average (65.79 *per cent*). ***The State should plan its expenditure in such a way that optimal priority is given to development expenditure.***

Investments and returns: The State invested ₹ 15,718 crore in various Government Companies and Corporations up to March 2013. While the Government paid an average interest rate of 7.43 *per cent* on its borrowings during 2012-13, the average return on its investments was only 0.20 *per cent*. ***Government should ensure better value for its investments.***

Debt Management: The outstanding fiscal liabilities steeply increased from ₹ 83,662 crore in 2008-09 to ₹ 1,47,416 crore at the end of 2012-13 and represented 149.16 *per cent* of the revenue receipts. However, the outstanding liabilities as a percentage of GSDP was 19.80, which was within the norm of

24.80 *per cent* prescribed for the year 2012-13 in the TNFR Act. However, the negative debt stabilisation and continued burden of interest payments at more than 10 *per cent* of revenue receipts every year suggest that the State's sustainability of debt continued to be strained. ***Restricted borrowings will go a long way in prudent debt management.***

Reserve Funds: There was short transfer of funds of ₹ 790 crore from the Consolidated Fund to Reserve funds during the period 2000-01 to 2012-13. The revenue surplus of the years in which such balances were not transferred was overstated or the revenue deficit was understated.