

CHAPTER I
FINANCES OF THE
STATE GOVERNMENT

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Profile of Tamil Nadu

The State of Tamil Nadu 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 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 2016-17 at current prices was ₹ 12,98,511 crore. The literacy rate increased from 73.45 *per cent* in 2001 to 80.1 *per cent* in 2011. General data relating to the State is given in **Appendix 1.1**.

Gross State Domestic Product

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**.

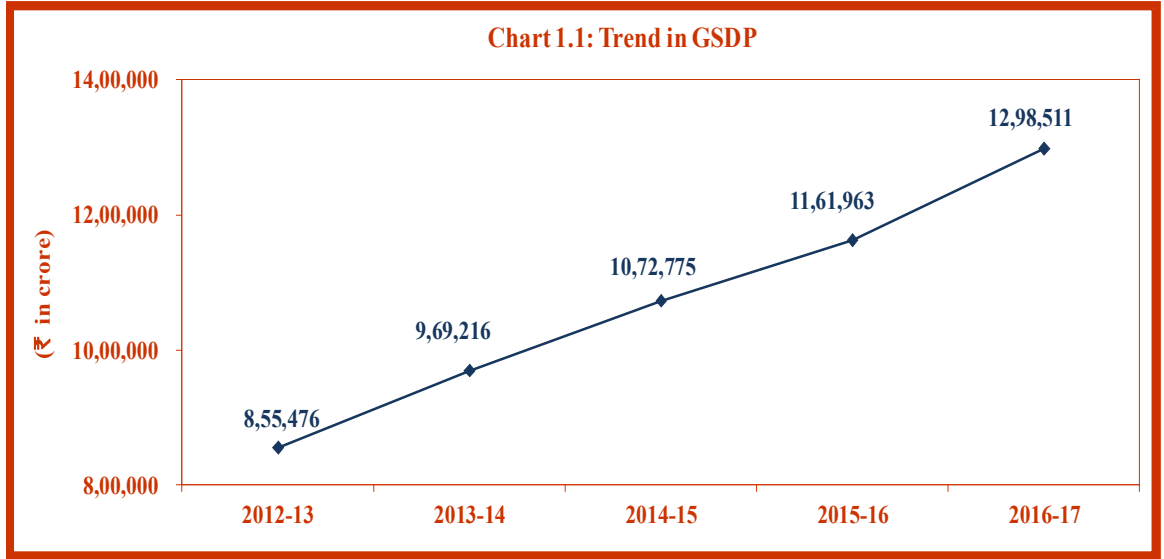
Table 1.1: Trends in Gross Domestic Product and Gross State Domestic Product

	2012-13	2013-14	2014-15	2015-16	2016-17**
India's GDP* (₹ in crore)	99,44,013	1,12,33,522	1,24,45,128	1,36,82,035	1,51,83,709
Growth rate of GDP (<i>per cent</i>)	13.82	12.97	10.79	9.94	10.98
GSDP* (₹ in crore)	8,55,476	9,69,216	10,72,775	11,61,963	12,98,511
Growth rate of GSDP (<i>per cent</i>)	13.84	13.30	10.68	8.31	11.75

* GDP and GSDP figures are with reference to the base year 2011-12

** Provisional figures

(Source: Department of Economics and Statistics and Central Statistics Office)



1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Tamil Nadu (GoTN) during the current year (2016-17) and analyses critical changes in the major fiscal aggregates relative to the previous year (2015-16), 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; the Tamil Nadu Motor Vehicles Taxation Act, 1974; the Tamil Nadu Prohibition Act, 1937; the Medicinal and Toilet Preparations (Excise Duties) Act, 1955; the 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.

GoTN enacted the Tamil Nadu Fiscal Responsibility Act, 2003 (TNFR Act) and amended from time to time (last amended in 2017), to ensure long-term financial stability by eliminating revenue deficit, containing fiscal deficit and through prudent debt management. It also fixed the timeframe for achieving the fiscal targets.

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**. The salient features of the TNFR Act, 2003 (as amended till March 2017) are given in **Appendix 1.3 - Part B**. A time series data on the State Government's finances are given in **Appendix 1.4**.

1.1.1 Summary of fiscal transactions in 2016-17

Table 1.2 presents the summary of the State Government's fiscal transactions during the current year (2016-17) *vis-à-vis* the previous year (2015-16), 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 2016-17

(₹ in crore)

Receipts	2015-16	2016-17	Disbursements	2015-16	2016-17		
Section-A: Revenue					Non-Plan	Plan	Total
Revenue receipts	1,29,008	1,40,231	Revenue expenditure	1,40,993	1,17,889	35,306	1,53,195
Tax revenue	80,476	85,941	General Services	45,512	51,368	84	51,452
Non-tax revenue	8,918	9,914	Social Services	54,806	31,530	23,767	55,297
Share of Union Taxes/Duties	20,354	24,538	Economic Services	29,943	25,427	8,553	33,980
Grants from Government of India	19,260	19,838	Grants-in-aid and Contributions	10,732	9,564	2,902	12,466
Section-B: Capital and Others							
Miscellaneous Capital Receipts	0	1	Capital Outlay	18,995	416	20,293	20,709
Recoveries of Loans and Advances	684	3,548	Loans and Advances disbursed	2,331	25,174	872	26,046
Public Debt receipts	36,066	66,143	Repayment of Public Debt	6,605	*	*	8,200
Contingency Fund	0	19	Contingency Fund	19	--	--	0
Public Account receipts	1,82,545	1,81,475	Public Account disbursements	1,77,442	*	*	1,73,007
Opening Cash Balance	26,335	**28,262	Closing Cash Balance	28,253	*	*	38,522
Total	3,74,638	4,19,679	Total	3,74,638			4,19,679

* Bifurcation of Plan and Non-Plan disbursement is not available

** Differs from previous year by ₹ 9 crore (₹ 10 crore invested with State Bank of India as a Term Deposit in respect of Tamil Nadu Consumer Welfare Fund has been included - ₹ 1 crore rounding off)

(Source: Finance Accounts for the respective years)

The significant changes that occurred during 2016-17, as compared to the previous year are enumerated below:

- **Revenue receipts** of the State increased by ₹ 11,223 crore (8.70 *per cent*) over the previous year. This was due to increase in the State's own tax revenue (₹ 5,465 crore), State's share of Union taxes and duties (₹ 4,184 crore), Non-Tax revenue (₹ 996 crore) and Grants from Government of India (GoI) (₹ 578 crore).
- **Revenue expenditure** increased by ₹ 12,202 crore (8.65 *per cent*) over the previous year due to increase in expenditure on General Services (₹ 5,940 crore), Economic Services (₹ 4,037 crore), Grants-in-aid and contributions (₹ 1,734 crore) and Social Services (₹ 491 crore).
- The expenditure on General Services, Economic Services, Grants-in-aid and contributions registered an increase of 13.05 *per cent*, 13.48 *per cent* and 16.16 *per cent* respectively in 2016-17 as against 9.26 *per cent*, 11.55 *per cent* and 7.52 *per cent* respectively in 2015-16. There was a sharp decline in the growth rate of expenditure on Social Services which was only 0.9 *per cent* in 2016-17 while it grew by 8.85 *per cent* in 2015-16.
- **Capital expenditure** increased by ₹ 1,714 crore (9.02 *per cent*) over the previous year as against 6.70 *per cent* in 2015-16. The increase during the year was mainly under Energy, Water Supply, Sanitation, Housing & Urban Development, Irrigation & Flood Control, Transport and Health & Family Welfare.
- **Recoveries of loans and advances** during the year increased by ₹ 2,864 crore (418.71 *per cent*) mainly due to increase in recoveries under Energy, Water Supply, Sanitation, Housing & Urban Development and Agriculture & Allied Activities, partly offset by decrease in recoveries under Industries & Minerals and Transport. It was noticed that an amount of ₹ 1,415 crore was disbursed as soft loans to industrial units under structured assistance package controlled by Industries Commissioner and Director of Industries and Commerce (6860.60.600.AC) from 2008-09 to 2016-17, out of which only ₹ 8.73 crore was recovered during 2011-12 and no recovery was made thereafter.
- **Loans and advances** disbursed during the year increased sharply by ₹ 23,715 crore (1,017.37 *per cent*), mainly due to increase in loans disbursed under Energy. An amount of ₹ 22,815 crore was disbursed on account of taking over of Tamil Nadu Generation and Distribution Corporation (TANGEDCO) loan as part of Ujwal DISCOM Assurance

Yojana (UDAY) scheme, a Government of India (GoI) initiative, for revival of electricity distribution companies.

- **Public Account receipts and disbursements** decreased by ₹ 1,070 crore (0.58 *per cent*) and by ₹ 4,435 crore (2.5 *per cent*) respectively. Net receipts under Public Account increased by ₹ 3,365 crore over the previous year.
- The net impact of these transactions led to an increase of ₹ 10,260 crore¹ in the **cash balance** at the end of the year over the previous year.

1.1.2 Review of the fiscal situation

The targeted timeline to eliminate revenue deficit and reduce fiscal deficit was extended by GoTN from time to time by amending the TNFR Act, 2003. As per the amended Act, the State was to eliminate revenue deficit by the end of 2019-20 and contain the fiscal deficit as a percentage of GSDP within three *per cent*, by 31 March 2018 and adhere to it thereafter. In compliance with the provisions of TNFR Act, 2003, the State Government prepared a Medium Term Fiscal Plan (MTFP) for the period 2016-17 wherein the State had projected to have a revenue surplus.

Major fiscal variables provided in the budget based on recommendations of the Fourteenth Finance Commission (FFC) and as targeted in the TNFR Act, 2003 along with actuals thereof are given in **Table 1.3**.

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

Fiscal variables	2016-17				Actuals
	FFC targets for the State	Targets as prescribed in TNFR Act	Targets proposed in the Budget	Projections made in MTFP	
Revenue Deficit (-)/ Surplus(+) (₹ in crore)	--	Eliminate revenue deficit by 2019-20 and adhere to it thereafter	(-) 15,854.47	311.45	(-) 12,964
Fiscal Deficit/GSDP (in per cent)	3	3	2.96	2.43	4.33
Ratio of total outstanding debt of the Government to GSDP (in per cent)	21.72	25.2	18.43	18.43	21.82

(Source: (i) FFC recommendations; (ii) TNFR Act; (iii) State's MTFP and (iv) Budget Speech - 2016-17)

The State was able to achieve revenue surplus during 2012-13, however, from 2013-14 onwards, the State had become revenue deficit. The revenue deficit increased from ₹ 1,788 crore during 2013-14 to ₹ 12,964 crore (one *per cent* of GSDP) during 2016-17.

¹ Differs by ₹ 1 crore from the figures given in **Paragraph 1.8.5** and **Table 1.31** due to rounding off

During 2016-17, the State failed to achieve revenue surplus as projected in the MTFP. Though, the State could contain its revenue deficit within the target proposed in the Budget, it could not contain the fiscal deficit to GSDP as envisaged under the TNFR Act, 2003, FFC, Budget and MTFP.

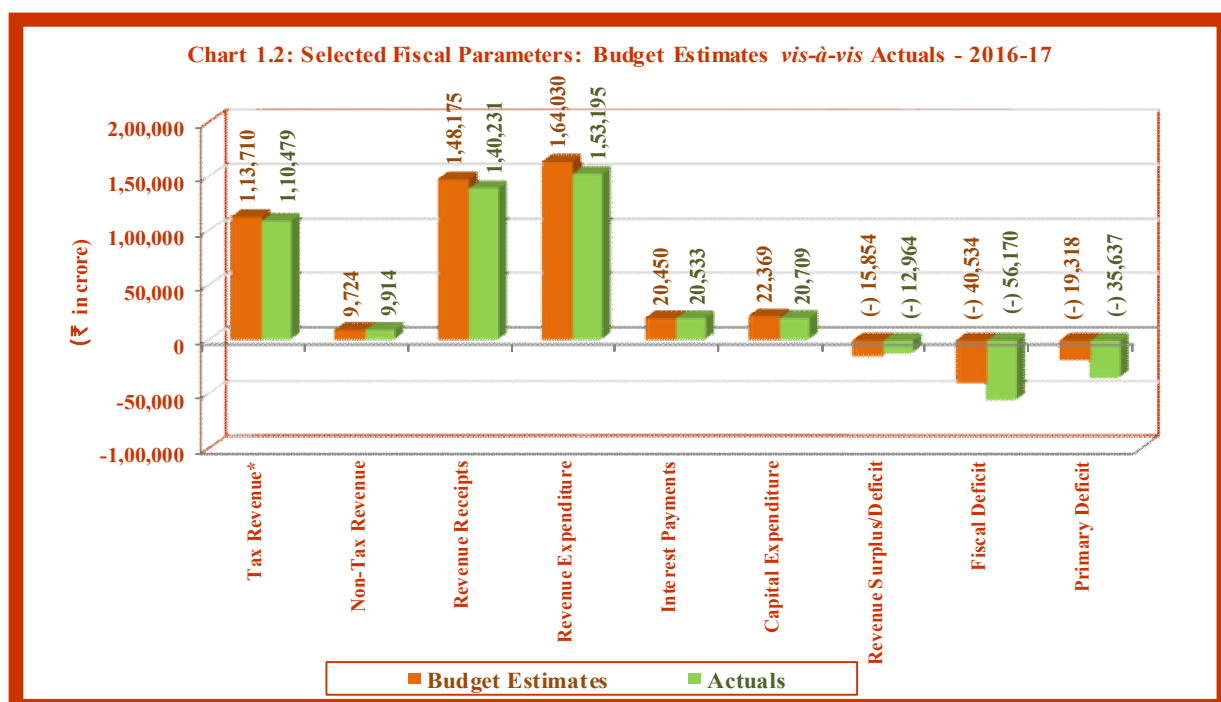
The Revenue deficit of ₹ 12,964 crore was understated by ₹ 3,011 crore due to

- short contribution to Sinking Fund (₹ 1,095 crore),
- short contribution to Guarantee Redemption Fund (₹ 244 crore),
- short transfer to Reserve Funds (₹ 1,600 crore), including ₹ 1,448 crore in respect of National Disaster Response Fund, which was released by GoI on 31 March 2017 and
- short contribution to Defined Contributory Pension Scheme (₹ 72 crore).

1.1.3 Budget estimates and actuals

The budget documents presented by the State Government provide descriptions of projections and 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 2016-17.



* Tax revenue includes State's share of Union taxes and duties
(Source: Annual Financial Statement and Finance Accounts for 2016-17)

The variations between the estimates and actuals were as under:

- The actual tax revenue was less than the estimates by ₹ 3,231 crore. The decrease in tax revenue with respect to estimates was mainly due to reduction in collection under Taxes on Sales, Trade, etc., by ₹ 1,601 crore, Stamps and Registration Fees by ₹ 2,621 crore and State Excise by ₹ 388 crore, which was off set mainly by increase in share of Union taxes and duties by ₹ 1,520 crore.
- Non-tax revenue was marginally higher than the estimate by ₹ 190 crore (1.95 per cent).
- Capital expenditure was less than the estimate by ₹ 1,660 crore (7.42 per cent).
- The actual fiscal deficit was more than the budget estimate mainly due to assistance given in the form of loan to TANGEDCO as part of UDAY scheme assistance.

1.1.4 Non-implementation of major policy initiatives

The major policy initiatives that were announced in the Budget, but not implemented were as given in **Table 1.4**.

Table 1.4: Details of major policy initiatives

(₹ in crore)

Sl. No.	Scheme as announced in the Budget	Provision in Budget	Withdrawal through re-appropriation/surrender
1.	Transfer to Tamil Nadu Infrastructure Development Fund	2,000	1,970
2.	Grants to Tamil Nadu Infrastructure Development Board for Project Preparation Fund	100	100

(Source: Budget Speech and Appropriation Accounts for 2016-17)

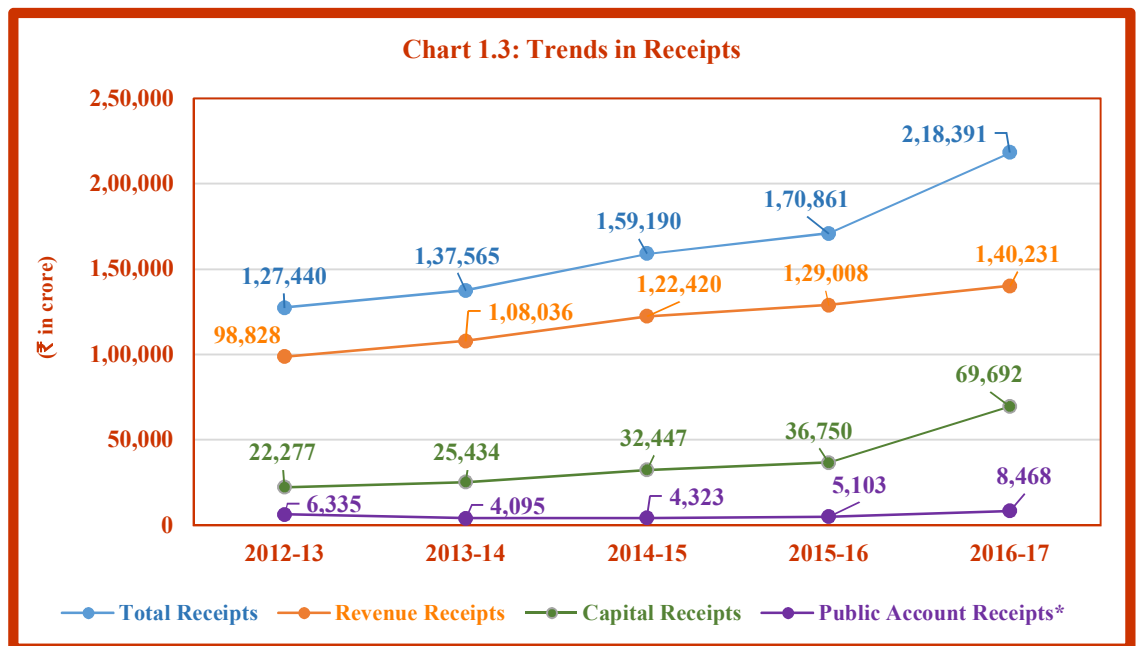
During the year 2016-17, provisions made for two major schemes viz., Tamil Nadu Infrastructure Development and Project Preparation Fund were not utilised. In respect of the former 98.5 per cent of the funds provided was withdrawn and in the latter the entire provision was withdrawn.

1.2 Resources of the State

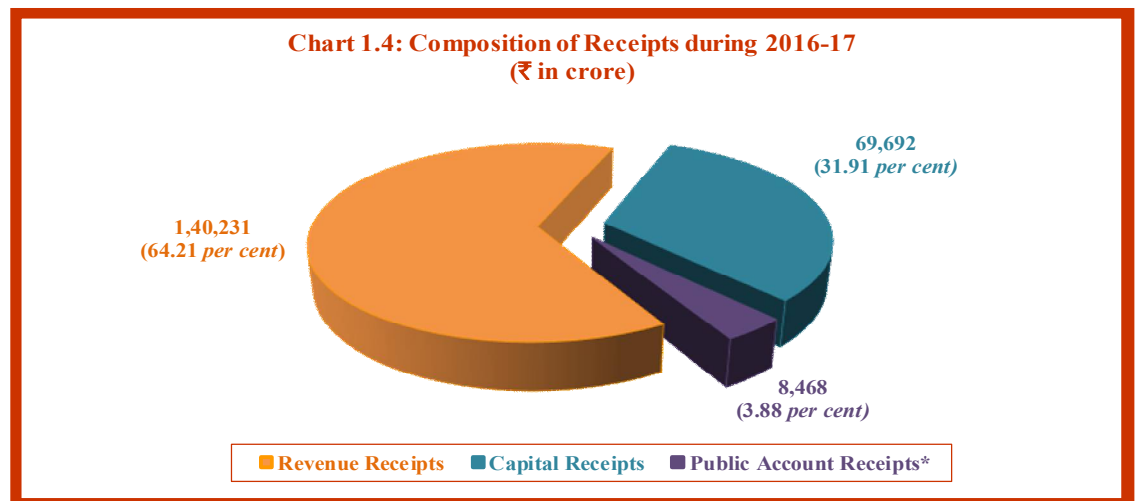
1.2.1 Resources of the State as per the Annual Finance Accounts

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. **Chart 1.3** depicts the trends in various components of the receipts of the State during 2012-17. **Chart 1.4** depicts the composition of receipts of the State during the current year.

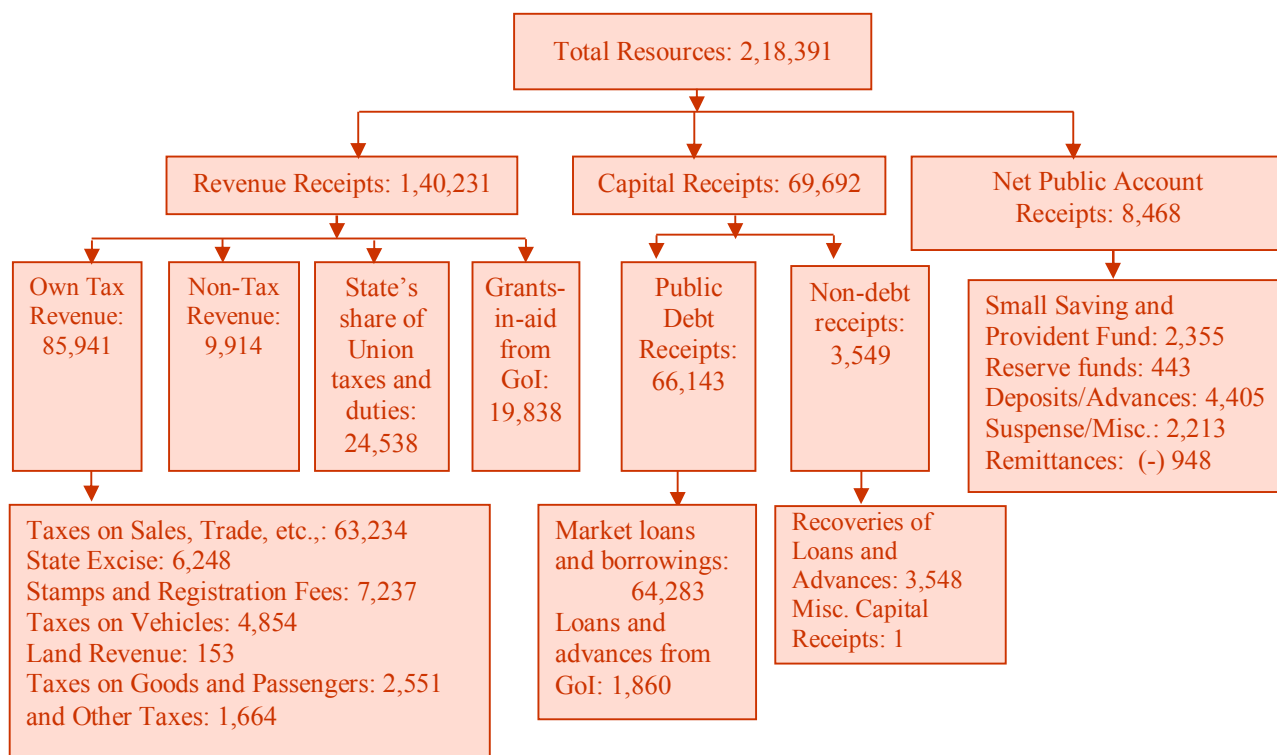


* Net Public Account Receipts
(Source: Finance Accounts for the respective years)



* Net Public Account Receipts
(Source: Finance Accounts for 2016-17)

Flow Chart indicates the components and sub-components of the resources of the State (all figures are ₹ in crore)



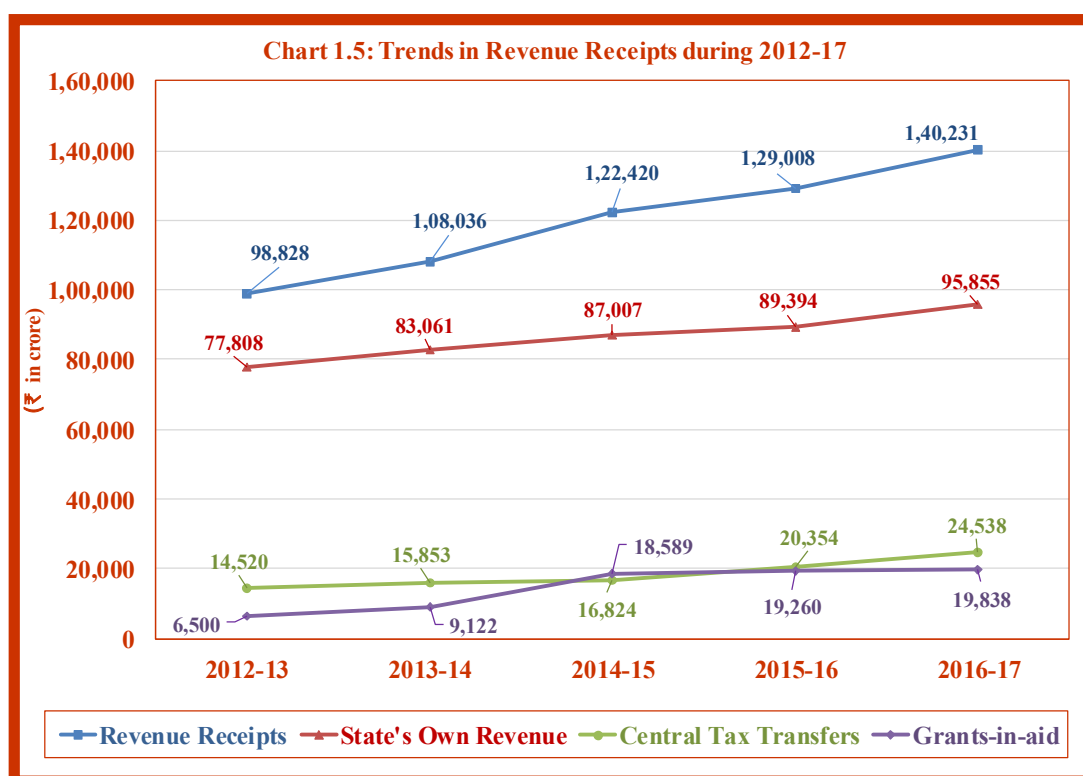
- The total resources of the State Government in the year 2016-17 were ₹ 2,18,391 crore. Of these, revenue receipts were ₹ 1,40,231 crore, constituting 64.21 *per cent* of total resources. The capital receipts (₹ 69,692 crore) and net public account receipts (₹ 8,468 crore) constituted 31.91 and 3.88 *per cent* of the total resources respectively.
- The total resources of the State increased by ₹ 47,530 crore (27.82 *per cent*) over the previous year due to increase of ₹ 11,223 crore (8.70 *per cent*) in revenue receipts, ₹ 32,942 crore (89.64 *per cent*) in capital receipts and ₹ 3,365 crore (65.94 *per cent*) in net public account receipts.
- The increase in capital receipts (₹ 32,942 crore) by 89.64 *per cent* over the previous year was mainly due to increase in recoveries of loans and advances by ₹ 2,864 crore, an increase of 418.71 *per cent* and increase in Public Debt receipts by ₹ 30,077 crore (83.39 *per cent*).
- The State's tax revenue increased from ₹ 80,476 crore in 2015-16 to ₹ 85,941 crore in 2016-17 (increase of 6.79 *per cent*) while the percentage of tax receipts to revenue receipts decreased by 1.09 i.e., from 62.38 in 2015-16 to 61.29 in 2016-17.
- The increase in tax revenue (₹ 5,465 crore) in 2016-17 when compared to the previous year was mainly due to increase under (i) Taxes on

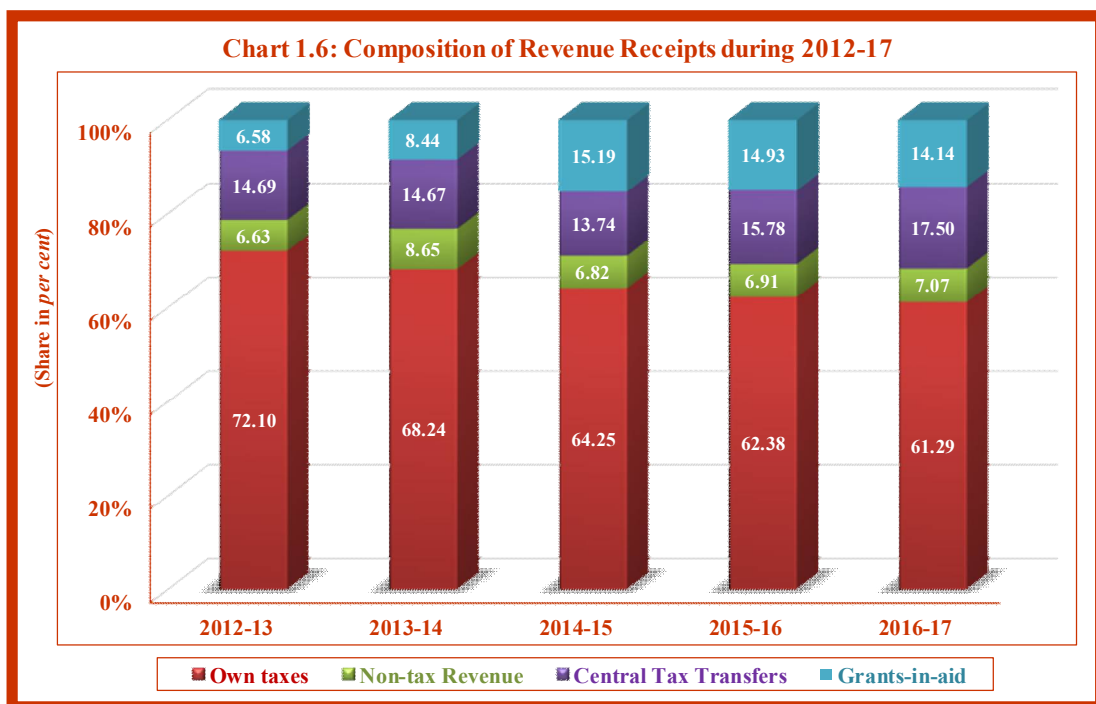
Sales, Trade, etc.,: ₹ 5,712 crore, (ii) Taxes on vehicles: ₹ 621 crore, (iii) State Excise: ₹ 412 crore and (iv) Taxes on goods and passengers: ₹ 398 crore, which was offset by decrease in collections under (i) Stamps and Registration fees (₹ 1,484 crore), (ii) Land Revenue (₹ 105 crore) and (iii) other taxes (₹ 89 crore).

- State's share of Union taxes and duties increased by ₹ 4,184 crore (20.56 per cent) over the previous year.

1.3 Revenue receipts

Statement-14 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 2012-17 are presented in **Appendix 1.4** and depicted in **Charts 1.5** and **1.6** respectively.





(Source: Finance Accounts for the respective years)

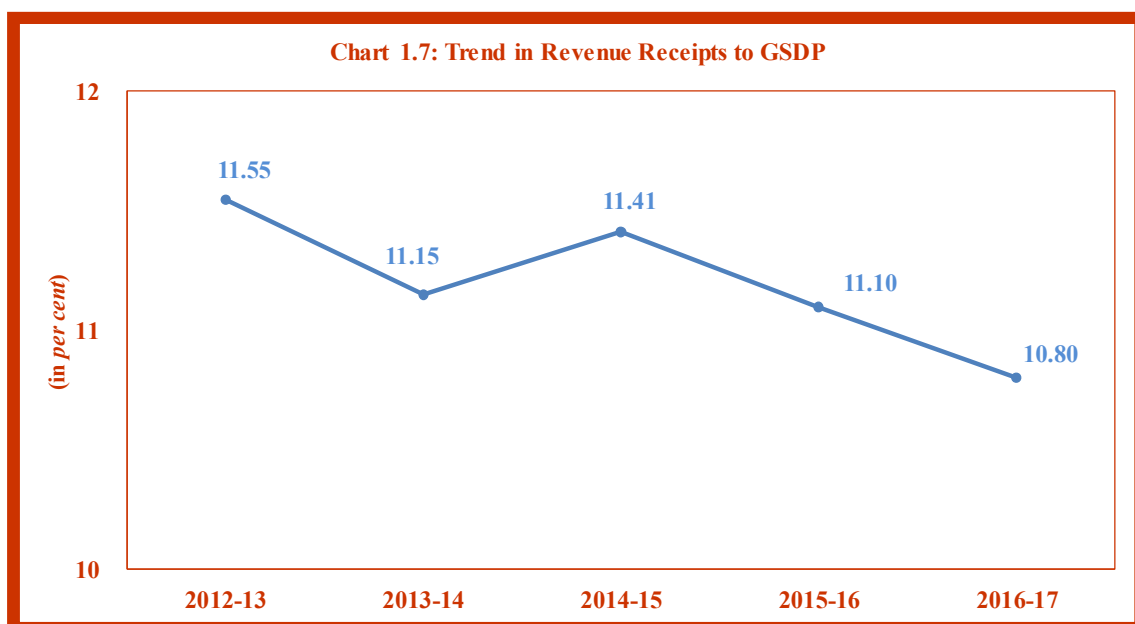
- The annual growth rate of revenue receipts during 2016-17 stood at 8.70 *per cent*, which was much less than the growth rate (11.52 *per cent*) of the General Category States (GCS) (**Appendix 1.1**).
- Revenue receipts of the State grew by ₹ 11,223 crore in 2016-17 over the previous year. The growth rate of revenue receipts, which decreased from 15.99 *per cent* in 2012-13 to 9.32 *per cent* during 2013-14, increased to 13.31 *per cent* during 2014-15. It dropped to a five year low of 5.38 *per cent* during 2015-16 and again increased to 8.70 *per cent* during 2016-17, as given in **Table 1.5**.
- Grants-in-aid as a percentage of revenue receipts decreased from 14.93 in 2015-16 to 14.14 in 2016-17.
- The non-tax revenue hovered around 6 to 7 *per cent* in the last five years except during 2013-14 when it stood at 8.65 *per cent*.
- The central tax transfers increased from 15.78 *per cent* in 2015-16 to 17.50 during 2016-17 due to FFC recommendations.

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

	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue Receipts (₹ in crore)	98,828	1,08,036	1,22,420	1,29,008	1,40,231
Rate of growth of Revenue Receipts (<i>per cent</i>)	15.99	9.32	13.31	5.38	8.70
Revenue Receipts/GSDP (<i>per cent</i>)	11.55	11.15	11.41	11.10	10.80
Buoyancy Ratios²					
Revenue Buoyancy with reference to GSDP	1.16	0.70	1.25	0.65	0.74
State's own tax buoyancy with reference to GSDP	1.42	0.26	0.63	0.28	0.58
Revenue Buoyancy with reference to State's own taxes	0.81	2.69	1.99	2.33	1.28

(Source: Finance Accounts for the respective years and Department of Economics and Statistics for GSDP figures)



(Source: Finance Accounts for the respective years and Department of Economics and Statistics for GSDP figures)

- The GSDP at current prices was estimated to increase from ₹ 11,61,963 crore in 2015-16 to ₹ 12,98,511 crore in 2016-17, representing an increase of 11.75 *per cent*.
- The revenue receipts as a percentage of GSDP which ranged between 11.10 and 11.55 during 2012-16 dropped to 10.80 during 2016-17.
- Revenue buoyancy and State's own tax buoyancy with reference to GSDP increased by 0.09 and 0.30 *per cent* respectively during the year.

² See glossary

- The revenue buoyancy with reference to State's own taxes decreased from 2.33 in 2015-16 to 1.28 in 2016-17 due to drop in growth rate of State's own taxes and grants-in-aid.

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 own tax and non-tax revenue receipts for the year 2016-17 *vis-à-vis* assessment made by FFC, its Budget and MTFP are given in the **Table 1.6**.

Table 1.6: State's actual tax and non-tax revenue receipts

	(₹ in crore)			
	FFC targets for the State	Targets proposed in the Budget	Projections made in MTFP	Actuals
Own Tax Revenue	1,28,008	90,692	1,09,815	85,941
Non-tax Revenue	11,302	9,724	9,294	9,914

(Source: FFC recommendations and Budget Speech - 2016-17)

While the own tax revenue during 2016-17 fell short of the targets and projections made, the non-tax revenue exceeded the MTFP projections and targets fixed under the budget but did not meet the FFC.

1.3.1.1 Own 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 own tax revenue

	(₹ in crore)					
Revenue Head	2012-13	2013-14	2014-15	2015-16	2016-17	Variation over previous year (in per cent)
Taxes on Sales, Trade, etc.	44,041	53,532	57,191	57,522	63,234	9.93
State Excise	12,126	5,035	5,731	5,836	6,248	7.06
Taxes on Vehicles	3,928	3,684	3,829	4,233	4,854	14.67
Stamps and Registration Fees	7,645	8,251	8,362	8,721	7,237	(-) 17.02
Land Revenue	131	273	170	258	153	(-) 40.70
Taxes on Goods and Passengers	2,252	1,843	1,909	2,153	2,551	18.49
Other Taxes ³	1,131	1,100	1,464	1,753	1,664	(-) 5.08
Total (Growth rate over previous year in per cent)	71,254 (19.72)	73,718 (3.46)	78,656 (6.70)	80,476 (2.31)	85,941 (6.79)	6.79

(Source: Finance Accounts for the respective years)

³ Other taxes include taxes on immovable property other than agricultural land, taxes and duties on electricity and agricultural income

- The annual growth rate of own tax revenue during 2016-17 stood at 6.79 per cent, which was less than the average growth rate (13.5 per cent) of the GCS (**Appendix 1.1**).
- The own tax revenue of the State increased by ₹ 5,465 crore over the previous year. The growth rate of State's own tax revenue, which was at 19.72 per cent in 2012-13 had a declining trend, dropped significantly to 2.31 per cent in 2015-16 and increased to 6.79 per cent in 2016-17.
- The increase in growth rate of own tax revenue over the previous year was mainly due to increase in collection of Taxes on Goods and Passengers (18.49 per cent), Taxes on vehicles (14.67 per cent) and Taxes on sales, trade etc. (9.93 per cent).

1.3.1.2 Non-tax revenue

The details of collection of non-tax revenue for the period 2012-17 are given in **Table 1.8**.

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

(₹ in crore)

Revenue Head	2012-13	2013-14	2014-15	2015-16	2016-17	Variation over previous year (in per cent)
Interest receipts	2,010	3,347	2,490	2,953	4,319	46.26
Dividends and Profits	43	75	99	140	185	32.14
Other non-tax receipts	4,501	5,921	5,762	5,825	5,410	(-) 7.12
Total	6,554 (8.42)	9,343 (11.25)	8,351 (9.60)	8,918 (9.98)	9,914 (10.34)	11.17

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

(Source: Finance Accounts for the respective years)

- The compound annual growth rate of non-tax revenue of the State during 2007-16 was higher (13.21 per cent) when compared to GCS (9.45 per cent), which declined to 11.17 per cent when compared with GCS (12.10 per cent) during 2016-17 (**Appendix 1.1**).
- The non-tax revenue of the State increased by ₹ 996 crore in 2016-17 over the previous year. As a proportion of the State's own resources, the non-tax revenue which stood at 9.98 per cent in 2015-16 increased slightly to 10.34 per cent in 2016-17.

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	2012-13	2013-14	2014-15	2015-16	2016-17
Non-plan Grants	1,311	3,194	6,078	5,832	6,757
Grants for State Plan Schemes	2,765	3,348	11,255	12,017	10,550
Grants for Central Plan Schemes	224	264	282	694	496
Grants for Centrally Sponsored Schemes	2,200	2,316	974	717	2,035
Total	6,500	9,122	18,589	19,260	19,838
Percentage of increase/decrease over previous year	(-) 10.80	40.34	103.78	3.61	3.00
Total grants as a percentage of Revenue Receipts	6.58	8.44	15.18	14.93	14.15

(Source: Finance Accounts for the respective years)

The percentage of increase in grants-in-aid over the previous year was lower (3.00) in 2016-17 when compared to the percentage of increase in 2015-16 (3.61). As a percentage of revenue receipts also, it was only marginally lower when compared to the previous year. In terms of value, the increase in Grants-in-aid from GoI in 2016-17 as compared to 2015-16 was due to increase in receipt of GoI grants for Non-Plan (₹ 925 crore) and Centrally Sponsored Schemes (₹ 1,318 crore), off-set by decrease in grants for State Plan Scheme (₹ 1,467 crore) and grants of Central Plan Scheme (₹ 198 crore).

1.3.3 Central tax transfers

Central Tax transfers during the last five years are given in **Table 1.10**.

Table 1.10: Central tax transfers

(₹ in crore)					
Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
State's share of Union taxes and duties	14,520	15,853	16,824	20,354	24,538
Percentage of increase over previous year	14.20	9.18	6.13	20.98	20.56

(Source: Finance Accounts for the respective years)

- The growth rate of State's share of Union taxes and duties which was on a decreasing trend during 2012-15, improved considerably during 2015-16 (20.98 *per cent*), however, declined marginally (20.56 *per cent*) in 2016-17. In terms of value, the increase was mainly due to increased transfers under Corporation tax (₹ 1,483 crore), Union excise duties (₹ 1,372 crore) and Taxes on income other than Corporation Tax (₹ 1,061 crore).

1.3.4 Optimisation of the FFC grants

Transfers to the State on recommendations of FFC during 2016-17 are given in **Table 1.11**.

Table 1.11: Transfers on recommendations of FFC

(₹ in crore)

Particulars	Recommendation of the FFC	Actual release	Expenditure under relevant Revenue/ Capital Head	Unutilised amount/Excess expenditure col. (3) - col. (4)
(1)	(2)	(3)	(4)	(5)
Basic grants to Panchayat Raj Institutions	1,312	1,312	1,312	0.00
Basic Grants to Urban Local Bodies	1,094	1,094	1,094	0.00
Disaster Relief	535	535	535	0.00
Total	2,941	2,941	2,941	0.00

(Source: Information obtained from Finance Department)

The FFC grants of ₹ 2,941 crore were fully utilised by the State.

1.3.5 Foregone revenue

Discounts, waivers and exemptions, deferments, write off, etc., in the collection of Sales tax leading to revenue foregone by the State are given in **Table 1.12**.

Table 1.12: Discounts, waivers, exemptions, deferments and write-off in collection of Sales Tax

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Discount	26	0	0	0	0
Waiver	131	114	0	60	120
Exemption	22	*	8	4	0
Deferment	3,522	1,174	2,903	237	0
Write-off	Not available	448	0	461	466
Total	3,701	1,736	2,911	762	586

* ₹ 1 lakh

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

Waivers, deferments and write-off of taxes registered a healthy decline over the past five years.

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 and composition of capital receipts are given in **Table 1.13**.

Table 1.13: Trends in growth and composition of capital receipts

(Amount ₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Capital Receipts	22,277	25,434	32,447	36,750	69,692
Miscellaneous capital receipts	0	0	16	0	1
Recovery of loans and advances	1,057	620	1,351	684	3,548
Public debt receipts	21,220	24,814	31,080	36,066	66,143
Rate of growth of public debt receipts	26.46	16.94	25.25	16.04	83.39
Rate of growth of non-debt capital receipts	(-) 66.76	(-) 41.34	120.48	(-) 49.96	418.86
Rate of growth of GSDP	13.84	13.30	10.68	8.31	11.75
Rate of growth of capital receipts	11.61	14.17	27.57	13.26	89.64

(Source: Finance Accounts for the respective years and Information on GSDP from Department of Economics and Statistics)

- The recoveries of loans and advances increased significantly during 2016-17 due to recoveries of Ways and Means advances for Electrical schemes under Energy Department amounting to ₹ 2,401 crore during 2016-17, which in turn increased the growth rate of non-debt capital receipts which stood at (-) 49.96 *per cent* in 2015-16 considerably to 418.86 *per cent* during 2016-17.
- Public debt receipts in terms of value increased gradually from ₹ 21,220 crore during 2012-13 to ₹ 36,006 crore in 2015-16. It, however, registered a steep increase of 83.39 *per cent* and increased to ₹ 66,143 crore in 2016-17 due to increase in receipts under market loans and bonds during the current year.

1.5 Public account receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds and deposits and advances 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 for the period 2012-17 are given in **Table 1.14**.

Table 1.14: Trends in growth and composition of public account receipts

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Public Account Receipts					
Small Savings, Provident Fund, etc.	6,055	6,485	6,826	7,491	8,107
Reserve Fund	2,218	2,539	1,769	3,308	2,674
Deposits and Advances	28,988	30,833	32,820	40,022	36,989
Suspense and Miscellaneous	98,242	1,03,333	1,16,364	1,25,672	1,33,686
Remittances	3,933	4,927	5,927	6,052	19
Total (a)	1,39,436	1,48,117	1,63,706	1,82,545	1,81,475
Public Account Disbursements					
Small Savings, Provident Fund, etc.	4,720	5,223	5,503	5,853	5,752
Reserve Fund	1,070	1,751	1,410	2,907	2,231
Deposits and Advances	25,784	27,659	30,298	35,876	32,584
Suspense and Miscellaneous	97,586	1,04,489	1,16,417	1,26,574	1,31,473
Remittances	3,940	4,900	5,756	6,232	967
Total (b)	1,33,100	1,44,022	1,59,384	1,77,442	1,73,007
Public Account Net (a)-(b)	6,336	4,095	4,322	5,103	8,468

(Source: Finance Accounts for the respective years)

- The Public Account receipts which increased gradually in terms of value from 2012-13, decreased during the current year when compared with 2015-16 by ₹ 1,070 crore.
- The net Public Account receipts, which was ₹ 6,336 crore during 2012-13 decreased by ₹ 2,241 crore (35.36 per cent) in 2013-14, showed an increasing trend thereafter and stood at ₹ 8,468 crore during the current year.

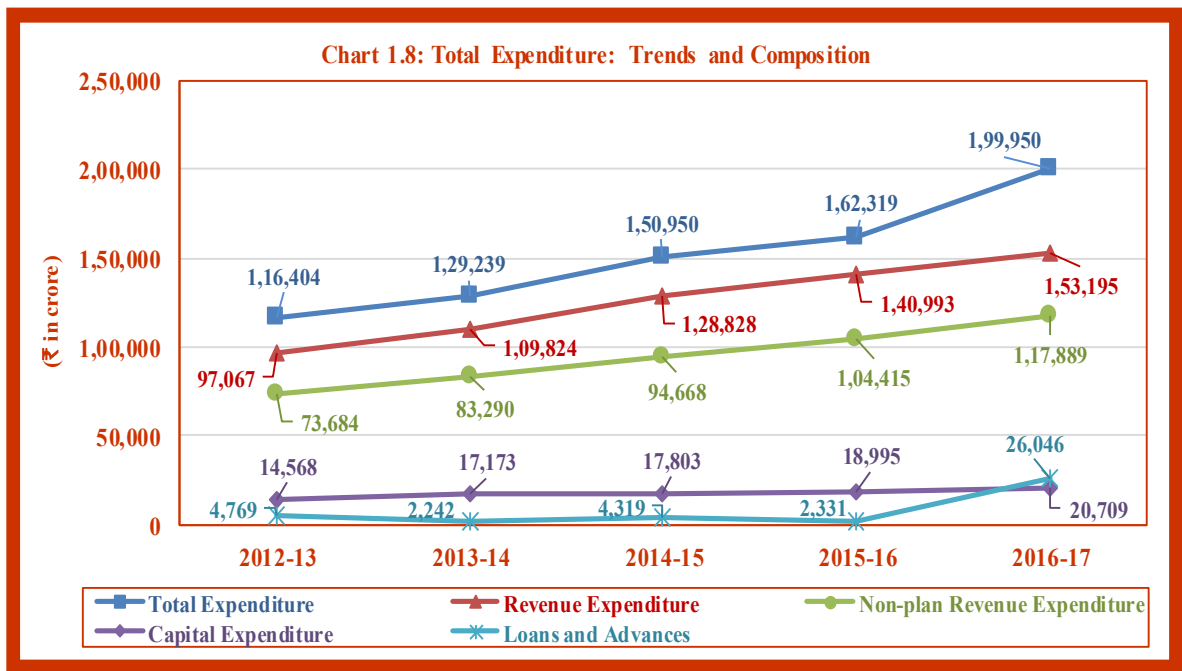
1.6 Application of resources

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

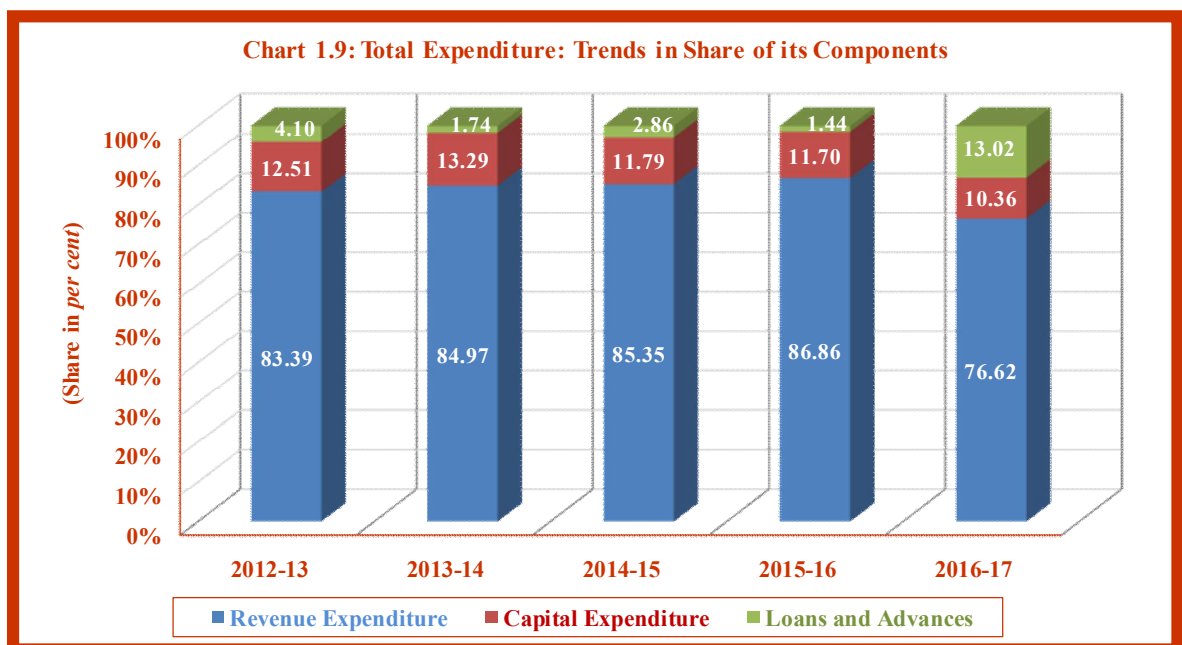
Chart 1.8 presents the trends in total expenditure⁴ over a period of five years (2012-17) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.9** and **1.10** respectively.

⁴ Total expenditure includes revenue expenditure, capital expenditure and disbursement of loans and advances and excludes public debt repayment

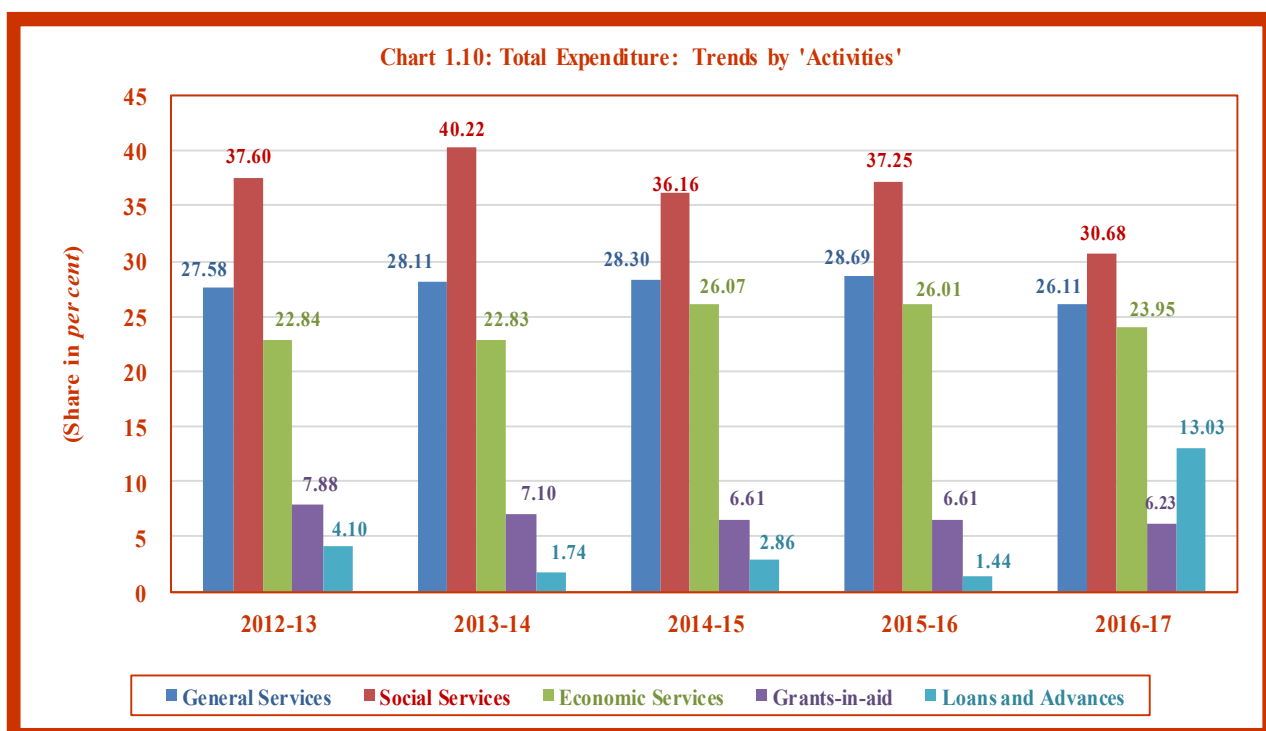


(Source: Finance Accounts for the respective years)

- Of the total expenditure of ₹ 1,99,950 crore during 2016-17, revenue expenditure (₹ 1,53,195 crore) accounted for 76.62 per cent. Out of the revenue expenditure, 76.95 per cent (₹ 1,17,889 crore) was incurred on the non-plan component.
- During the current year, the capital expenditure increased marginally by ₹ 1,714 crore (9.02 per cent) over the previous year.



(Source: Finance Accounts for the respective years)



(Source: Finance Accounts for the respective years)

- The expenditure on General Services, Social Services and Economic Services during 2016-17 was 26.11, 30.68 and 23.95 *per cent* of the total expenditure and grew by 12.10, 1.44 and 13.44 *per cent* respectively over the previous year.
- The higher growth rate of expenditure on Economic Services in 2016-17 was mainly on account of increased spending of ₹ 26,873 crore on Energy, ₹ 2,108 crore on Agriculture & Allied Activities and ₹ 940 crore on Industry & Minerals which was partly offset by reduction in expenditure (₹ 1,615 crore) on Rural Development.
- During 2012-17, while the ratio of expenditure on General Services, Social Services and Economic Services to total expenditure remained more or less at the same levels till 2015-16, there was drastic decrease in spending on Social Services during 2016-17. However, the expenditure on Loans and Advances increased significantly to 13.03 *per cent* of total expenditure during the current year which was mainly due to the State taking part in UDAY scheme for restructuring TANGEDCO.

1.6.2 Revenue expenditure

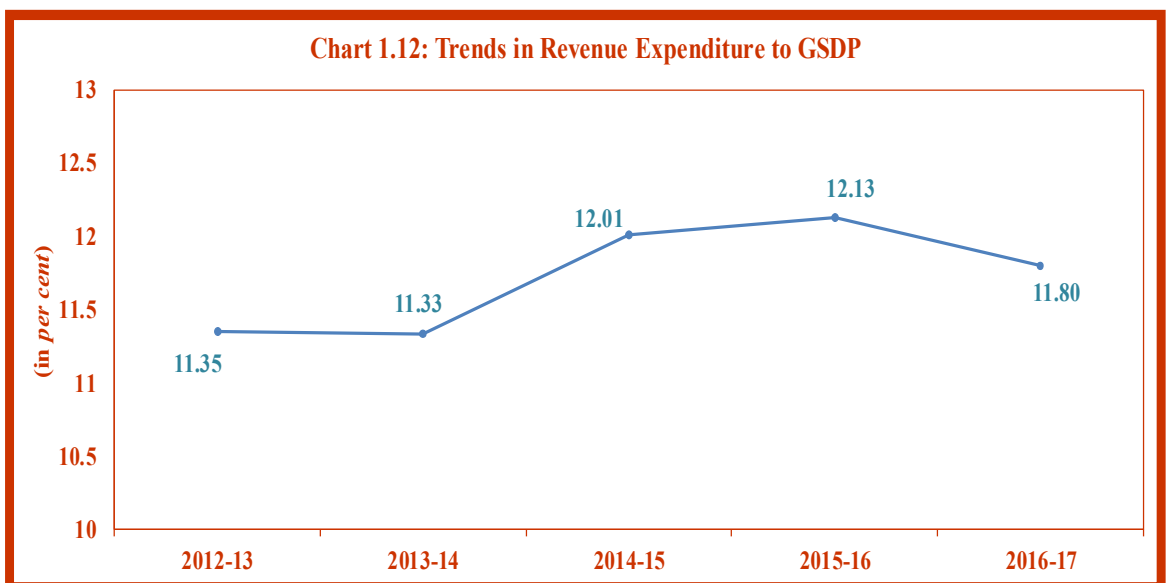
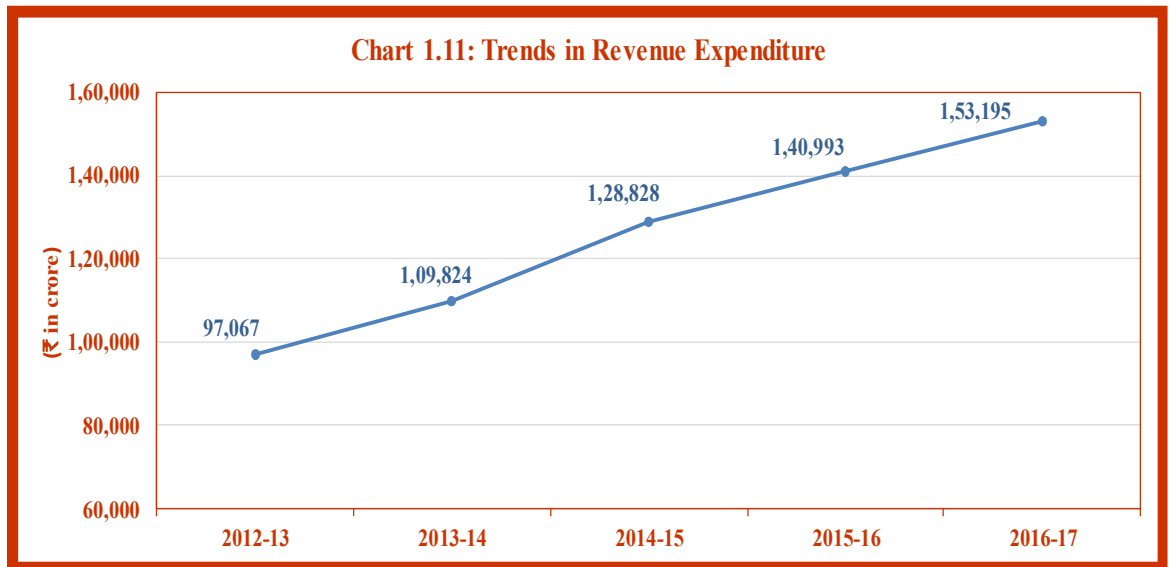
The trend of revenue expenditure of the State is given in **Table 1.15** and **Chart 1.11** and the trend of revenue expenditure to GSDP is given in **Chart 1.12**.

Table 1.15: Trends in growth and composition of revenue expenditure

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue Receipts	98,828	1,08,036	1,22,420	1,29,008	1,40,231
Revenue Expenditure	97,067	1,09,824	1,28,828	1,40,993	1,53,195
Revenue Deficit/Surplus	1,761	(-) 1,788	(-) 6,408	(-) 11,985	(-) 12,964
GSDP	8,55,476	9,69,216	10,72,775	11,61,963	12,98,511
Revenue Receipt to GSDP (in per cent)	11.55	11.15	11.41	11.10	10.80
Revenue Expenditure to GSDP (in per cent)	11.35	11.33	12.01	12.13	11.80
Revenue surplus (deficit) to GSDP (in per cent)	0.21	(-) 0.18	(-) 0.60	(-) 1.03	(-) 1.00

(Source: Finance Accounts for the respective years and information on GSDP from Department of Economics and Statistics)



(Source: Finance Accounts for the respective years and information on GSDP from Department of Economics and Statistics)

- The State has been registering revenue deficit since 2013-14 and the deficit stood at ₹ 12,964 crore during 2016-17.
- The ratio of revenue expenditure to GSDP which was on an increasing trend since 2013-14, declined during 2016-17 and stood at 11.8 per cent.

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 1.16** presents the trend in the expenditure on these components during 2012-17.

Table 1.16: Components of committed expenditure

(₹ in crore)

Components of committed expenditure	2012-13	2013-14	2014-15	2015-16	2016-17
Salaries and wages, of which	22,255 (22.52)	25,688 (23.78)	28,663 (23.41)	30,664 (23.77)	33,158 (23.65)
Non-Plan Head	20,109	23,055	25,794	27,940	30,134
Plan Head*	2,146	2,633	2,869	2,724	3,024
Salary grants**	4,416 (4.47)	4,861 (4.50)	5,392 (4.40)	5,712 (4.43)	6,088 (4.34)
Interest payments	10,205 (10.33)	12,405 (11.48)	14,550 (11.89)	17,391 (13.48)	20,533 (14.64)
Expenditure on pension	12,365 (12.51)	13,927 (12.89)	16,360 (13.36)	17,235 (13.36)	18,879 (13.46)
Subsidies	9,592 (9.71)	9,646 (8.93)	10,373 (8.47)	12,315 (9.55)	16,092 (11.48)
Total	58,833	66,527	75,338	83,317	94,750
Total as a percentage of revenue receipts	59.53	61.58	61.54	64.58	67.57
Total as a percentage of revenue expenditure	60.61	60.58	58.48	59.09	61.85

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 (₹ 94,750 crore) stood at 67.57 per cent of the total revenue receipts (₹ 1,40,231 crore) of the State during 2016-17, as against 64.58 per cent during 2015-16. The committed expenditure in terms of value was on an increasing trend during 2012-17 along with ratio of revenue receipts except for the marginal decrease during 2014-15.
- The committed expenditure (₹ 94,750 crore) stood at 61.85 per cent of the total revenue expenditure (₹ 1,53,195 crore) of the State during 2016-17, as against 59.09 per cent during 2015-16. The committed expenditure as a percentage of revenue expenditure gradually declined from 60.61 per cent in 2012-13 to 58.48 per cent in 2014-15, before registering increase in 2015-16 and 2016-17.

- During 2016-17, expenditure on salaries and wages, inclusive of salary grants was ₹ 39,246 crore which accounted for 34.49 *per cent* of the revenue expenditure excluding interest payments and pension.
- The expenditure towards interest payments increased by ₹ 3,142 crore (18.07 *per cent*) during 2016-17 over the previous year. This was mainly due to increase in payment of interest on Market loans, State Provident funds and Special Securities issued to National Small Savings Fund of the Central Government by State Government to the extent of ₹ 2,446 crore, ₹ 474 crore and ₹ 191 crore respectively. As a percentage of non-plan revenue expenditure, it was on an increasing trend from 2012-13 and stood at 17.42 in 2016-17.

Subsidies

In a welfare State, it is common 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 subsidies⁵.

(a) Explicit subsidies were on a continuous increase. They went up by ₹ 3,777 crore (30.67 *per cent*) in 2016-17 when compared to the previous year. A list of schemes for which the State Government provided subsidy during 2012-17 is given in **Table 1.17**.

Table 1.17: List of schemes for which subsidy was given by the State Government

(₹ in crore)

Name of the scheme	2012-13	2013-14	2014-15	2015-16	2016-17
Social Safety Net - Food Security - Public Distribution System Support	4,900	4,900	5,000	5,300	5,500
Electricity - Compensation to Tamil Nadu Electricity Board (TNEB) due to reduction in tariff to domestic consumers	1,838	1,842	2,482	2,885	4,271
Subsidy to farmers for Agricultural inputs	0	0	0	0	1,626
Subsidy to farmers for Horticultural inputs	0	0	0	0	152
Value Added Tax Refund Subsidy for Promotion of Industries	825	500	600	1,000	1,600
Reimbursement of Social cost on student concessions in bus fares	336	623	448	480	505
Free distribution of handloom clothes to the people below poverty line	358	486	519	484	472
National Agriculture Development Programme - Agriculture Department	125	110	75	135	186
Payment to TNEB on behalf of Powerloom weavers	178	235	269	312	386
Installation of Drip and Sprinklers Irrigation System in farmers' holdings in Ground Water Stresses Blocks	104	59	125	156	246
Other subsidies schemes	928	891	855	1,563	1,148
Total	9,592	9,646	10,373	12,315	16,092

(Source: Finance Accounts for the respective years)

⁵ Subsidies which were not booked under the object head "11-Subsidies" under the relevant major head of account are "Implicit Subsidies"

(b) In addition to the subsidies classified in the accounts under the object head '11-Subsidies', the State Government also provided implicit subsidies during 2012-17, some of which are listed in **Table 1.18**.

Table 1.18: Implicit subsidies given during 2012-17

(₹ in crore)

Name of the scheme	Expenditure incurred				
	2012-13	2013-14	2014-15	2015-16	2016-17
Free supply of grinders, mixies, fans, etc.	1,311	1,350	1,262	2,000	933
Marriage Assistance Scheme - Distribution of four gram gold coins for Thirumangalyam	674	563	644	630	721
Free supply of uniforms to school children	298	388	425	382	410
Free supply of bicycles to students studying in Standard XI and XII in Government/ Government aided Higher Secondary Schools	138	217	218	235	250
Free distribution of sheep/goat to the persons living below poverty line under Special Component Plan	141	195	197	194	29
Menstrual Hygiene Programme (Providing sanitary napkins free of cost to adolescent girls)	55	55	55	45	45
Free distribution of milch cows to each family living below poverty line under Special Component Plan	43	42	43	42	14
Free distribution of laptops	1,387	1,045	828	1,100	511
Dr. Muthulakshmi Reddy Maternity Assistance Scheme	643	642	619	600	928
Chief Minister's Comprehensive Health Insurance Scheme	248	739	758	928	593
Total	4,938	5,236	5,049	6,156	4,434

(Source: Finance Accounts for the respective years)

It was noticed that these implicit subsidies were classified under other object heads such as (i) 09-Grants-in-aid (Laptop scheme and Marriage assistance scheme), (ii) 24-Materials and Supplies (grinders, mixies and fans), (iii) 10-Contributions (health insurance), etc. This accounting does not transparently disclose the nature of expenditure as is required. From **Table 1.17** and **Table 1.18**, it could be seen that apart from ₹ 16,092 crore incurred on explicit subsidy, the State Government also provided implicit subsidies. Further, the implicit subsidy for the schemes listed in **Table 1.18** was at an all time low during 2016-17, compared to the preceding four years.

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 (12 Municipal Corporations, 124 Municipalities and 528 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 earlier years is presented in **Table 1.19**.

Table 1.19: Financial assistance to Local Bodies, etc.

(₹ in crore)					
Financial Assistance to Institutions	2012-13	2013-14	2014-15	2015-16	2016-17
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	2,550	3,111	4,446	3,989	3,526
Urban Local Bodies	3,460	3,548	4,142	4,083	5,020
Panchayat Raj Institutions	4,502	4,376	4,868	5,433	6,196
Development Agencies	253	646	899	610	1,192
Hospitals and Other Charitable Institutions	483	448	1,131	1,497	1,294
Other Institutions ⁶	9,965	12,720	18,734	20,696	22,169
Total	21,213	24,849	34,220	36,308	39,397
Assistance as percentage of Revenue Expenditure	21.85	22.63	26.56	25.75	25.72

(Source: Finance Accounts for the respective years)

- Financial assistance to the local bodies and other institutions increased from ₹ 21,213 crore in 2012-13 to ₹ 39,397 crore in 2016-17. During 2016-17, financial assistance to local bodies and other institutions increased by ₹ 3,089 crore (8.51 *per cent*) over the previous year. As a percentage of revenue expenditure, it increased from 21.85 in 2012-13 to 25.72 in 2016-17.

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).

⁶ Institutions/agencies connected with water supply and sanitation, housing, social welfare, labour and employment, forestry and wildlife, agriculture and allied activities, industries and minerals, relief on account of natural calamities and village and small industries

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 and health. 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 1.20** analyses the fiscal priority of the State Government with regard to development expenditure⁷, social sector expenditure and capital expenditure during 2013-14, 2015-16 and 2016-17.

Table 1.20: Fiscal priority of the State in 2013-14, 2015-16 and 2016-17

(In per cent)

Fiscal Priority of the State		AE/ GSDP	DE [#] /AE	SSE/AE	CE/AE	Education/ AE	Health/ AE
General Category States' Average (Ratio)	2013-14	14.80	70.00	38.20	13.70	17.70	4.60
	2015-16	16.05	70.63	36.29	14.89	15.63	4.45
	2016-17	16.70	70.90	32.20	19.70	15.20	4.80
Tamil Nadu State (Ratio)	2013-14	15.13	64.52	40.54	13.29	16.65	4.66
	2015-16	13.97	64.53	37.46	11.70	16.09	5.14
	2016-17	15.40	67.51	31.06	10.36	13.51	4.32

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

(Source: For GSDP, information from Department of Economics and Statistics)

- In 2016-17, the proportion of AE to GSDP was low as compared to GCS. As compared to 2013-14, the AE to GSDP ratio increased from 15.13 to 15.40.
- The development expenditure as a proportion of AE of the State was lower than the average of GCS during 2016-17. It, however, increased from 64.52 *per cent* in 2013-14 to 67.51 *per cent* in 2016-17.
- During 2016-17, the State gave lesser priority to social sector in comparison with GCS. The proportion of the expenditure on social sector to AE declined from 40.54 in 2013-14 to 31.06 in 2016-17.
- The proportion of capital expenditure to aggregate expenditure of the State at 10.36 during 2016-17 was much less than the average of 19.70 in GCS.

⁷ See glossary

- The proportion of the expenditure on Education and Health to AE were also less than the average proportion in GCS in 2016-17.

1.7.2 Efficiency of expenditure

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 Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods⁸. Apart from improving the allocation towards development expenditure, the efficiency of expenditure 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 1.21** presents the trends in development expenditure relative to the aggregate expenditure of the State during 2012-17.

Table 1.21: Development expenditure

(₹ in crore)

Components of Development Expenditure	2012-13	2013-14	2014-15	2015-16	2016-17
Development Expenditure (a to c)	74,874 (64.32)	83,385 (64.52)	97,869 (64.84)	1,04,739 (64.53)	1,34,991 (67.51)
(a) Development Revenue Expenditure	56,251 (48.32)	64,920 (50.23)	77,192 (51.14)	84,749 (52.21)	89,277 (44.65)
(b) Development Capital Expenditure	14,111 (12.12)	16,571 (12.82)	16,739 (11.09)	17,941 (11.05)	19,959 (9.98)
(c) Development Loans and Advances	4,512 (3.88)	1,894 (1.47)	3,938 (2.61)	2,049 (1.26)	25,755 (12.88)

Figures in brackets indicate percentage of aggregate expenditure

(Source: Finance Accounts for the respective years)

Development expenditure increased continuously during 2012-17, and hovered around 64 *per cent* of aggregate expenditure up to 2012-16. It increased significantly to 67.51 *per cent* during 2016-17.

⁸ 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.

The increase was mainly due to increase in Development loans and advances which increased drastically from 1.26 *per cent* of the aggregate expenditure in 2015-16 to 12.88 *per cent* in 2016-17. The surge in the development loans and advances during the current year was basically attributable to disbursement of ₹ 22,815 crore as loan to TANGEDCO under UDAY scheme. If this amount is discounted then the State would have incurred only ₹ 1,12,176 crore towards Development Expenditure which would account for 56.10 *per cent* of aggregate expenditure.

Table 1.22 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected Social and Economic Services during 2015-16 and 2016-17.

Table 1.22: Efficiency of expenditure use in selected Social and Economic Services
(in *per cent*)

Social/Economic infrastructure	2015-16		2016-17	
	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	4.21	53.44	3.66	55.47
Health and Family Welfare	6.94	52.71	7.95	57.16
Water Supply, Sanitation, Housing and Urban Development	53.47	1.94	48.79	1.63
Total (SS)	9.31	48.94	9.72	50.60
Economic Services (ES)				
Agriculture and Allied Activities	11.59	20.09	8.93	16.45
Irrigation and Flood Control	34.72	25.09	42.94	25.10
Energy	41.96	0.03	13.06	0.02
Transport	74.75	19.28	76.90	16.66
Total (ES)	27.95	15.03	19.09	11.69
Total (SS+ES)	17.13	39.23	14.78	37.49

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 for the respective years)

Expenditure on Social Services

- While capital expenditure on Social Services, as a percentage of total expenditure marginally increased over previous year, Capital expenditure on Economic Service drastically decreased over previous year, mainly due to less capital expenditure on energy.
- The ratio of expenditure on salaries and wages to revenue expenditure in respect of Water Supply, Sanitation, Housing and Urban Development under selected Social Services decreased from 1.94 in 2015-16 to 1.63 in 2016-17, while in respect of other selected services it increased.

Expenditure on Economic Services

- Capital expenditure on Economic Services, as a percentage of total expenditure of selected services, decreased overall except under Irrigation and Flood Control where the ratio rose to 42.94.
- There was only a marginal decline in the ratio of expenditure on salaries and wages to revenue expenditure under selected economic services except Irrigation and Flood Control. Whereas, the ratio of expenditure on salaries and wages to revenue expenditure under selected social services registered increase except under water supply, sanitation, Housing and Urban Development.

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 would be prudent on the part of Government. However, it was observed that the revenue from irrigation projects (₹ 36 crore) declined to 2.83 *per cent* from 3.33 *per cent* (2015-16) of the maintenance expenditure (₹ 1,271 crore) during 2016-17.

The financial results of five major and 47 medium irrigation projects are depicted in Appendix VIII of the Finance Accounts for 2016-17. The revenue realised from these projects during 2016-17 was ₹ 11 crore. After meeting the working and maintenance expenditure (₹ 297 crore) and interest charges (₹ 123 crore), these 52 projects suffered a net loss of ₹ 409 crore during 2016-17.

1.8.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2017 is given in **Table 1.23**. Details of incomplete projects are given in **Appendix 1.6**.

Table 1.23: 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 2017
Roads and Bridges	25	113.24	113.24	33.62	55.10
Buildings	1	40.00	97.40	10.00	83.00
Total	26	153.24	210.64	43.62	138.10

* Only those projects scheduled to be completed before 31 March 2017 were included

** Indicates the revised total cost of the projects as per the last revision by the State Government up to March 2017

(Source: Collected from various sources by Accountant General (Accounts & Entitlements) and included in Appendix IX of Finance Accounts for 2016-17)

Failure to complete the projects in 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 2017) ₹ 29,811 crore in statutory corporations, rural banks, joint stock companies and co-operatives (Table 1.24).

Table 1.24: Return on investments

Investment/Return/Cost of Borrowings	2012-13	2013-14	2014-15	2015-16	2016-17
Investment at the end of the year (₹ in crore)	15,718	19,724	23,065	25,725	29,811
Return (₹ in crore)	31	40	97	156	185
Return (in per cent)	0.20	0.20	0.42	0.61	0.62
Average rate of interest on Government borrowing (in per cent)	7.43	7.90	8.12	8.38	8.11
Difference between interest rate and return (in per cent)	7.23	7.70	7.70	7.77	7.49

(Source: Finance Accounts for the respective years)

Government invested (up to March 2017) in two Statutory corporations (₹ 22,450 crore), 58 Government companies (₹ 6,838 crore), five Joint Stock companies (₹ 1 crore) and 9,149 Co-operatives (₹ 522 crore). During 2016-17, Government infused an additional capital of ₹ 204.50 crore into four ailing State Transport Undertakings which had an accumulated loss of ₹ 7,543 crore.

Though the average rate of return increased from 0.20 per cent in 2012-13 to 0.62 per cent in 2016-17, the return on investment during 2012-17 was meagre

compared to Government's average rate of borrowing of 8.11 *per cent* during the year.

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 1.25** presents the outstanding loans and advances as on 31 March 2017 and interest receipts *vis-à-vis* interest payments during the last five years.

Table 1.25: Average interest received on loans advanced by the State Government

(₹ in crore)

Quantum of loans/interest receipts/cost of borrowings	2012-13	2013-14	2014-15	2015-16	2016-17
Opening balance	11,302	15,014	16,636	19,604	21,251
Amount advanced during the year	4,769	2,242	4,319	2,331	26,046
Amount repaid during the year	1,057	620	1,351	684	3,548
Closing balance	15,014	16,636	19,604	21,251	43,749
Net increase (+)/decrease (-)	3,712	1,622	2,968	1,647	22,498
Interest receipts	365	748	130	186	1,372
Interest receipts as percentage of outstanding loans and advances	2.77	4.73	0.72	0.91	4.22
Interest payments as percentage of outstanding fiscal liabilities of the State Government	7.43	7.90	8.12	8.38	8.11
Difference between interest payments and interest receipts (<i>per cent</i>)	4.66	3.17	7.40	7.47	3.89

(Source: Finance Accounts for the respective years)

- The recovery of loans and advances which was at ₹ 684 crore in 2015-16 had improved to ₹ 3,548 crore in 2016-17. The increase was mainly due to repayment of Ways and Means advances for electricity schemes which was ₹ 2,401 crore during 2016-17.
- The interest receipts which was at ₹ 186 crore in 2015-16 had improved to ₹ 1,372 crore in 2016-17. This was mainly due to repayment of interests in respect of Ways and Means Advances to Statutory Corporations, Boards and Government Companies under which there was an increase of ₹ 1,059 crore.
- Under Social Sector, the major recipients of loans and advances were Loans for Metro Rail Project in Chennai with assistance of Japan International Co-operation Agency (JICA) (₹ 500 crore) and Loans to TNUDF for implementing World Bank assisted Tamil Nadu Sustainable Urban Development Project (TNSUDP) (₹ 150 crore).

- Under Economic Sector, an amount of ₹ 23,806 crore was advanced during 2016-17 for Energy Sector, which included ₹ 22,815 crore for taking over the debt of TANGEDCO under UDAY scheme, ₹ 400 crore for Ways and Means Advances for electricity schemes and ₹ 591 crore to Tamil Nadu Transmission Corporation Limited (TANTRANSCO) for Tamil Nadu Transmission System Improvement Project. Another major recipient of loans and advances under this sector was Industry and Minerals (₹ 594 crore).

1.8.5 Cash balances and investment of cash balances

Table 1.26 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.26: Cash balances and investment of cash balances

(₹ in crore)

Sl. No.	Particulars	As on 31 March 2016	As on 31 March 2017
(a)	General Cash Balance		
1.	Cash in Treasuries	0.00	0.00
2.	Deposits with Reserve Bank of India	(-) 54.51	(-) 305.55
3.	Remittances in Transit	16.80	16.80
	Total	(-) 37.71	(-) 288.55
4.	Investments held in the Cash Balance Investment Account	9,415.86	15,144.29
	Total (a)	9,378.15	14,855.54
(b)	Other Cash Balances and Investments		
1.	Cash with Departmental Officers viz., Public Works and Forest Departments	4.16	4.16
2.	Permanent advances for contingent expenditure with Departmental Officers	8.37	8.39
3.	Investments of earmarked funds	18,872.00*	23,653.91
	Total (b)	18,884.53	23,666.46
	Total (a) and (b)	28,262.68	38,522.00

* Differs from previous year by ₹ 10 crore as the amount invested with SBI as a Term Deposit in respect of Tamil Nadu Consumer Welfare Fund has been included.

(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 2016-17. No ways and means advance or overdraft was taken during the year.
- The general cash balance as on 31 March 2017 increased to ₹ 14,856 crore as the Government could not incur the budgeted expenditure on various programmes leading to savings of ₹ 22,026 crore out of total appropriation of ₹ 2,33,667 crore.

- The total cash balance as on 31 March 2017 increased by ₹ 10,259 crore⁹. The increase over the previous year was mainly under investments held in the Cash Balance Investment Account and investments of earmarked funds.

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 Part B** gives an abstract of such liabilities and assets as on 31 March 2017, compared with the corresponding position on 31 March 2016. While the liabilities 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, 2003 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.

The ratio of financial assets and liabilities as on 31 March 2017 was 0.83, indicating that asset creation was not keeping pace with the liabilities.

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 last five years is presented in **Table 1.27** and for 2016-17 in **Chart 1.13**.

Table 1.27: Trends in outstanding fiscal liabilities

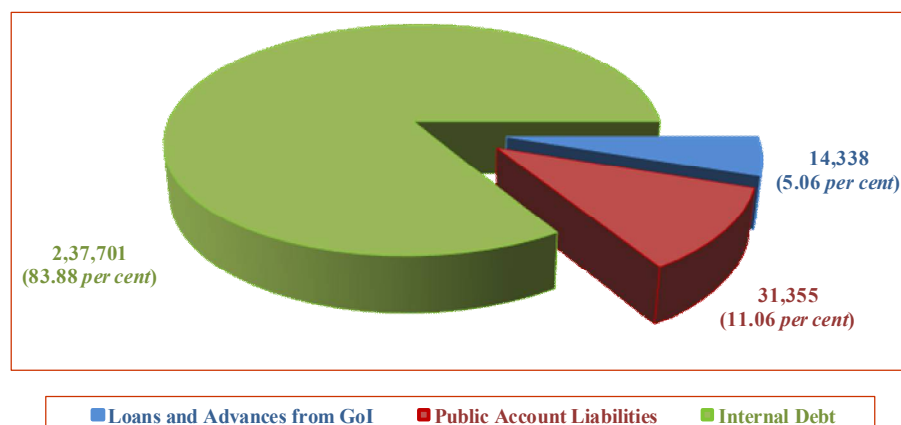
(₹ in crore)					
Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Internal Debt	1,09,384 (74.20)	1,27,906 (76.74)	1,51,736 (79.09)	1,80,693 (81.02)	2,37,701 (83.88)
Public Account Liabilities	27,211 (18.46)	26,639 (15.98)	27,213 (14.19)	28,934 (12.97)	31,355 (11.06)
Loans and Advances from GoI	10,821 (7.34)	12,136 (7.28)	12,898 (6.72)	13,403 (6.01)	14,338 (5.06)
Total	1,47,416	1,66,681	1,91,847	2,23,030	2,83,394

Figures in brackets indicate percentage to outstanding fiscal liabilities

(Source: Finance Accounts for the respective years)

⁹ Differ by ₹ 1 crore from figures in **Paragraph 1.1.1** due to rounding off

Chart 1.13: Composition of Outstanding Fiscal Liabilities as on 31.03.2017 (₹ in crore)



(Source: Finance accounts for 2016-17)

- The share of internal debt, which constitutes a major component of outstanding fiscal liabilities has progressively increased both in value and as a percentage of outstanding fiscal liabilities from ₹ 1,09,384 crore (74.2 per cent) in 2012-13 to ₹ 2,37,701 crore (83.88 per cent) in 2016-17. In contrast, the percentage share of Public Account Liabilities and Loans and Advances from GoI have been on a declining trend from 2012-13.
- The outstanding fiscal liabilities had increased from ₹ 2,23,030 crore at the end of 2015-16 to ₹ 2,83,394 crore at the end of 2016-17.
- The fiscal liabilities at the end of 2016-17 represented 202.09 per cent of the revenue receipts during the year as against 172.88 per cent of the revenue receipts during 2015-16. However, the outstanding liabilities as a percentage of GSDP was 21.82, which was marginally above the norm of 21.72 prescribed for the year 2016-17 as per FFC.
- Public Account liabilities as a percentage of the total fiscal liabilities decreased from 12.97 in 2015-16 to 11.06 in 2016-17. Internal debt at 83.88 per cent of the fiscal liabilities was higher than that of the previous year (81.02 per cent), whereas the percentage of outstanding loans and advances from GoI decreased from 6.01 in 2015-16 to 5.06 in 2016-17.

1.9.3 Transactions under Reserve Fund

There were 23 Reserve Funds earmarked for specific purposes, out of which six funds were inoperative for 1 to 11 years. The total accumulated balance as on 31 March 2017 under Reserve Funds was ₹ 7,040 crore (₹ 6,833 crore in active funds and ₹ 207 crore in inoperative funds) out of which ₹ 5,699 crore (80.95 per cent) was invested.

There was short transfer of ₹ 1,600 crore to Reserve Funds during 2016-17, which resulted in understatement of Revenue and Fiscal Deficits to that extent. The short transfer which stood at ₹ 27 crore at the end of 2015-16 rose to ₹ 1,600 crore mainly on account of non transfer of ₹ 1,448 crore which related to National Disaster Response Fund which could not be transferred as it was received on 31 March 2017.

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. As per Statement 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and the outstanding guarantees for the last five years are given in **Table 1.28**.

Table 1.28: Guarantees given by Government of Tamil Nadu

Guarantees	2012-13	2013-14	2014-15	2015-16	2016-17
Outstanding amount of guarantees	24,070	49,499	53,698	51,586	29,145
Percentage of outstanding amount guaranteed to total Revenue receipts of previous year	28.25	50.09	49.70	42.14	22.59
Percentage of outstanding amount guaranteed to GSDP	2.81	5.11	5.01	4.44	2.24

(₹ in crore)

(Source: Finance Accounts for the respective years)

- GoTN constituted (March 2003) a “Guarantee Redemption Fund” for discharge of invoked guarantees. An amount of ₹ 14 crore being the contribution and ₹ 10 crore being gain on sale of securities were transferred to this Fund during the year, leaving a closing balance of ₹ 231 crore at the end of the year. As of 31 March 2017, an amount of ₹ 199 crore was invested in GoI Treasury bills out of the Fund.
- The maximum amount guaranteed was well within the stipulations (i.e. within cent *per cent* revenue receipts of the previous year or 10 *per cent* of GSDP whichever is lower) of the TNFR Act, 2003. As a percentage of revenue receipts of previous year, it had decreased from 42.14 in 2015-16 to 22.59 in 2016-17. Similarly, as a percentage of GSDP, it decreased from 4.44 in 2015-16 to 2.24 in 2016-17.

1.9.5 Analysis of market borrowings of Government

The market borrowings of the State increased from ₹ 17,997 crore in 2012-13 to ₹ 37,250 crore in 2016-17 and the outstanding market borrowings at the end of the year increased from ₹ 78,502 crore in 2012-13 to ₹ 1,82,942 crore in 2016-17.

The percentage of outstanding market borrowings of the State to its total liabilities (₹ 2,83,394 crore) was 64.55 at the end of 2016-17, which was

higher than the all India average of 51.5. The percentage of outstanding market borrowings to GSDP stood at 14.09 at the end of 2016-17.

Since 50 *per cent* of the outstanding market borrowings on 31 March 2017 has to be repaid during the period 2017-24 (**Appendix 1.7**), this would cause a fiscal strain on the State's finances and the roll over risk of resorting to additional borrowings to meet huge repayments during those years could not be ruled out.

The internal debt of the Government includes loans obtained from financial institutions booked under the Major Head 6003-109. A comment had been made in the Report of the Comptroller and Auditor General of India on State Finances for the year ended 31 March 2016 regarding net minus balance of ₹ 73 crore. No effective action had been taken by Government to reconcile the minus balances and the net minus balance had increased to ₹ 86 crore during 2016-17. The net minus balance was a result of net of adverse balances of ₹ 471 crore and positive balance of ₹ 385 crore.

The State Government stated that it would obtain item-wise details from the Office of the Accountant General (Accounts & Entitlements), Tamil Nadu and take remedial action as it would also have an impact on the Revenue and Fiscal Deficits.

1.9.6 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**, companies/corporations borrow funds from the market/financial institutions for implementation of various State Plan programmes projected outside the State budget. These borrowings were repaid by the companies/corporates through funds specifically provided by Government and ultimately turn out to be liabilities on the State Government. These are termed as 'off-budget borrowings'. Though off-budget borrowings are not permissible under Article 293 (3), the State Government undertook such off-budget borrowings. Details of such borrowings collected from three agencies as on 31 March 2017 are given in **Table 1.29**.

Table 1.29: Details of off-budget borrowings

(₹ in crore)

Sl. No.	Name of Agency	Off-budget borrowings as of March 2017	Borrowings repaid by Government
1.	Tamil Nadu Rural Housing and Infrastructure Development Corporation	617	51
2.	Tamil Nadu Co-operative Housing Federation Limited	2	4
3.	Water and Sanitation Pooled Fund - Tamil Nadu Urban Infrastructure Financial Services Limited	310	53

(Source: Information furnished by the Agencies)

Though State Government undertook to repay the principal and interest, the off-budget borrowings, which add to the fiscal liabilities 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 sustainability¹⁰ of the State. This section assesses the sustainability of debt of the State Government in terms of (i) debt as a percentage of GSDP, (ii) rate of growth of outstanding debts, (iii) interest payments/revenue receipts ratio and (iv) net availability of borrowed funds¹¹ and the maturity profile of State Government debts. **Table 1.30** analyses the debt sustainability of the State according to these indicators for a period of five years beginning from 2012-13.

Table 1.30: Debt sustainability: indicators and trends

(₹ in crore)					
Indicators of Debt Sustainability	2012-13	2013-14	2014-15	2015-16	2016-17
Rate of growth of outstanding debts* (percentage)	15.58	16.50	17.56	17.89	29.85
Debt*/GSDP (percentage)	14.05	14.45	15.34	16.70	19.41
Growth rate of GSDP (In per cent)	13.84	13.30	10.68	8.31	11.75
Average interest rate of outstanding debt (In per cent)	7.75	7.89	8.28	8.18	7.73
Burden of Interest Payments (Interest payment/Revenue Receipts) Ratio	10.33	11.48	11.89	13.48	14.64
Debt Repayment/Debt Receipts	23.63	20.06	20.88	18.31	12.40
Net debt available to the State	7,519	9,567	11,975	14,780	40,704
Maturity profile of internal debts and GoI loans (in years)					
0 - 1	3,711 (3.09)	4,068 (2.91)	3,861.10 (2.35)	4,430.49 (2.28)	7,116.24 (2.82)
1 - 3	7,929 (6.60)	7,944 (5.67)	10,852.42 (6.59)	18,916.28 (9.74)	27,876.98 (11.06)
3 - 5	10,852 (9.03)	18,222 (13.01)	25,932.68 (15.75)	28,235.97 (14.55)	30,136.44 (11.96)
5 - 7	25,907 (21.55)	26,342 (18.81)	29,586.51 (17.97)	36,951.50 (19.04)	46,513.48 (18.46)
7 and above	60,071 (49.97)	69,448 (49.59)	78,717.10 (47.81)	88,212.86 (45.45)	1,20,738.48 (47.90)
Year-wise details not available	11,735 (9.76)	14,018 (10.01)	15,684.65 (9.53)	17,348.55 (8.94)	19,657.00 (7.80)

* Excluding Public Account liabilities

Figures in brackets represent percentage to total outstanding internal debts and GoI loans

(Source: Finance Accounts for the respective years and information on GSDP from Department of Economics and Statistics)

¹⁰ See glossary

¹¹ See glossary

- The outstanding debt grew by 29.85 *per cent* over previous year. Increase in the growth rate of outstanding debt was high at 11.96 *per cent*.
- Interest payments on debt and other liabilities totalling ₹ 20,533 crore constituted 14.64 *per cent* of revenue receipts during the year, being 1.16 *per cent* increase over previous year. The increase in interest payment/revenue receipt ratio from 13.48 in 2015-16 to 14.64 in 2016-17 was due to increased interest payments (by 18.07 *per cent*) as compared to revenue receipts (8.70 *per cent*) during the year.
- The decrease in debt repayment/debt receipts ratio was mainly due to increase in total debt receipts by ₹ 30,077 crore as compared to debt repayment made during the year which increased by ₹ 1,595 crore only.
- Increase in net debt available to the State was mainly due to increase in receipt under internal debt from ₹ 34,695 crore in 2015-16 to ₹ 64,283 crore in 2016-17 (**Appendix 1.4**).
- 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. In Tamil Nadu, the greater portion of repayments would happen after five years. Therefore, Government could face challenges after five years and fall into a debt trap.
- Under the UDAY scheme, GoTN was to discharge ₹ 22,815 crore, out of the total debt¹² of ₹ 30,420 crore of TANGEDCO, by way of interest free loan and grant to them during 2016-17. As per the MOU signed among GoI, GoTN and TANGEDCO, GoTN was to release ₹ 4,563 crore and ₹ 18,252 crore during 2016-17 as grant and interest free loan respectively. GoTN, however, in violation of MOU terms, released the entire sum of ₹ 22,815 crore as interest free loan which resulted in reduction of revenue deficit to that extent.

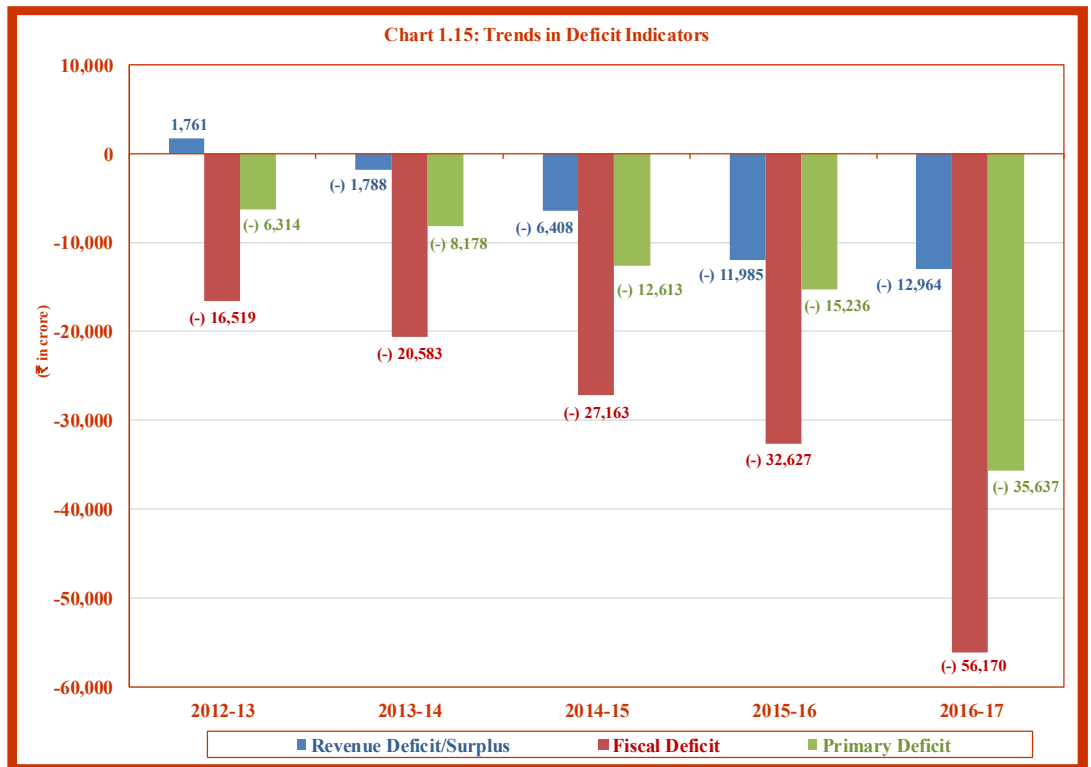
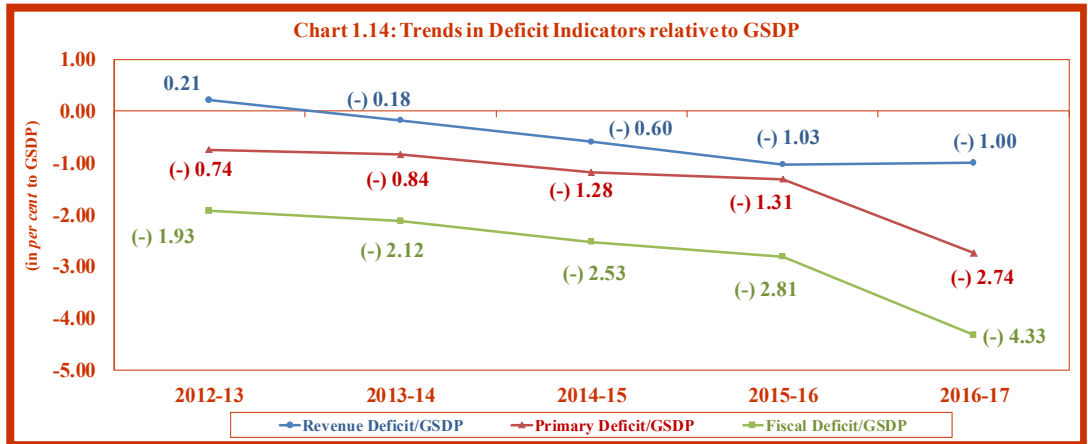
1.11 Fiscal Imbalances

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 as 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 2016-17 under TNFR Act, 2003.

¹² 75 *per cent* of TANGEDCO's debt on power distribution

1.11.1 Trends in Deficits

Charts 1.14 and 1.15 present the trends in deficit indicators over the period 2012-17.



(Source: Finance Accounts for the respective years and Department of Economics and Statistics)

- The revenue surplus, which was ₹ 1,761 crore during 2012-13 turned negative in the succeeding years and stood as revenue deficit of ₹ 12,964 crore in 2016-17.
- The primary deficit, which was at ₹ 6,314 crore in 2012-13, was on an increasing trend and was ₹ 35,637 crore in 2016-17.
- The fiscal deficit, which was on an increasing trend from 2012-13, stood at ₹ 56,170 crore in 2016-17 as compared to ₹ 32,627 crore in 2015-16, an increase of 72.16 per cent over the previous year.

1.11.2 Composition of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit had undergone a compositional shift as reflected in **Table 1.31**.

Table 1.31: Composition of fiscal deficit and its financing pattern

		(₹ in crore)				
Sl.No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Decomposition of Fiscal Deficit		(-) 16,519	(-) 20,583	(-) 27,163	(-) 32,627	(-) 56,170
1.	Revenue Surplus (+)/ Deficit (-)	1,761	(-) 1,788	(-) 6,408	(-) 11,985	(-) 12,964
2.	Net Capital Expenditure	(-) 14,568	(-) 17,173	(-) 17,787	(-) 18,995	(-) 20,708
3.	Net Loans and Advances	(-) 3,712	(-) 1,622	(-) 2,968	(-) 1,647	(-) 22,498
Financing Pattern of Fiscal Deficit*						
1.	Market Borrowings	15,670	18,681	23,144	27,623	34,993
2.	Loans from GoI	833	1,314	762	505	935
3.	Special Securities issued to National Small Savings Fund	(-) 661	(-) 733	190	595	(-) 1,749
4.	Loans from Financial Institutions	363	575	496	739	23,763
5.	Small Savings, Provident Fund, etc.	1,334	1,262	1,323	1,638	2,355
6.	Deposits and Advances	3,203	3,174	2,522	4,145	4,405
7.	Suspense and Miscellaneous	657	(-) 1,156	(-) 53	(-) 902	2,213
8.	Remittances	(-) 7	27	172	(-) 180	(-) 948
9.	Reserve Funds	1,148@	788	359	401	443
10.	Contingency Fund	..	(-) 19	19	(-) 19	19
	Total	22,540	23,913	28,934	34,545	66,429
11.	Overall Surplus(+)/ Deficit (-) (Cash Balance)	6,021	3,330	1,771	1,918	10,259

* All these figures are net of disbursements/outflows during the year

@ Differs from previous year's closing balance due to recasting the transfer of cumulative interest on investment of Guarantee Redemption Fund in GoI Treasury Bills.

(Source: Finance Accounts for the respective years)

- The main factor contributing to the increase in fiscal deficit was the steep increase in Net loans and advances from ₹ 1,647 crore in 2015-16 to ₹ 22,498 crore in 2016-17.
- The fiscal deficit was largely managed by market borrowings, loans from other financial institutions and GoI and from the proceeds of small savings and 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 1.32) 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 1.32: 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)
2012-13	99,885	86,862	14,568	4,769	1,06,199	13,023	(-) 6,314
2013-14	1,08,656	97,419	17,173	2,242	1,16,834	11,237	(-) 8,178
2014-15	1,23,787	1,14,278	17,803	4,319	1,36,400	9,509	(-) 12,613
2015-16	1,29,692	1,23,602	18,995	2,331	1,44,928	6,090	(-) 15,236
2016-17	1,43,780	1,32,662	20,709	26,046	1,79,417	11,118	(-) 35,637

(Source: Finance Accounts for the respective years)

- The primary revenue expenditure increased by 7.33 per cent in 2016-17 over the previous year while the capital expenditure increased by 9.02 per cent and loans and advances multiplied over the previous year.
- During the period 2015-16 and 2016-17, non-debt receipts increased from ₹ 1,29,692 crore to ₹ 1,43,780 crore (10.86 per cent) against an increase of 7.33 per cent in primary revenue expenditure, 9.02 per cent in capital expenditure and 23.80 per cent in primary expenditure indicating that the non-debt receipts did not match with these expenditure.
- Capital expenditure as a percentage of primary expenditure decreased from 13.11 in 2015-16 to 11.54 in 2016-17. Loans and advances as a percentage of primary expenditure increased from 1.61 in 2015-16 to 14.52 in 2016-17.
- The non-debt receipts were not enough to meet the primary expenditure requirements from 2012-13 onwards, resulting in primary deficit, which increased from ₹ 6,314 crore in 2012-13 to ₹ 35,637 crore in 2016-17.

1.12 Follow-up action by State Government

In the Report of the Comptroller and Auditor General of India on State Finances for the year ended 31 March 2016, it was pointed out that an amount of ₹ 123 crore was pending to be transferred to various Reserve Funds. Even, during 2016-17, the receipts collected were not transferred. There was short transfer of ₹ 1,600 crore, which resulted in under-statement of Revenue and Fiscal Deficits to that extent. The short transfer, which stood at ₹ 123 crore at the end of 2015-16, rose to ₹ 1,600 crore, mainly on account of non transfer of ₹ 1,448 crore which related to National Disaster Response Fund which could not be transferred as it was received only on 31 March 2017.

The Audit Report on State Finances for the year ended 31 March 2016 pointed out pending regularisation of an excess expenditure of ₹ 850.26 crore pertaining to 2012-15. GoTN did not take action for regularisation of this amount during 2016-17. Together with the excess of ₹ 82.16 crore during 2015-16, ₹ 932.42 crore relating to 2012-16, remained to be regularised (March 2017).

Government took action to identify and pool Personal Deposit (PD) Accounts not authorised by AG (A&E), out of the 130 inoperative PD Accounts pointed out in **Paragraph 3.5** of Comptroller and Auditor General of India's Report on State Finances for the year ended March 2015. However, ₹ 355.88 crore so pooled under a separate subhead 'AC- Minor head - 106' under '8443 Civil Deposits' remained outside the Consolidated Fund as of 31 March 2017, which needs to be reviewed and reconciled by the Government.

Similarly, cases of misappropriation, shortage, theft and loss persisted despite being pointed out in earlier Audit Reports and final action by the State Government in this regard was pending as discussed in **Paragraph 3.6** of Chapter III of this Report.

1.13 Conclusion

Fiscal position: The revenue surplus, which prevailed during 2012-13 turned negative in the succeeding years and stood at ₹ 12,964 crore in 2016-17. During 2016-17, the State failed to achieve revenue surplus as projected in the MTFP. Though, the State could contain its revenue deficit within the target proposed in the Budget, it could not contain the fiscal deficit to GSDP as envisaged under the TNFR Act, 2003, FFC, Budget and MTFP. The fiscal deficit increased from ₹ 32,627 crore in 2015-16 to ₹ 56,170 crore, an increase of 72.16 per cent.

Accuracy of Revenue Deficit/Fiscal Deficit: There were short transfers of ₹ 3,011 crore to Sinking Fund, Guarantee Redemption Fund, various reserve funds and defined contributory pension scheme, which resulted in understatement of Revenue and Fiscal Deficits to that extent.

Revenue receipts: Revenue receipts of the State, grew by ₹ 11,223 crore in 2016-17 over the previous year and stood at ₹ 1,40,231 crore. The annual growth rate of revenue receipts during 2016-17 stood at 8.70 *per cent*, which was much less than growth rate (11.52 *per cent*) of the General Category States. The fluctuating growth rate of revenue receipts, increased to 8.70 *per cent* during 2016-17 against 5.38 *per cent* in the previous year. The revenue receipts as a percentage of GSDP which ranged between 11.10 and 11.55 during 2012-16 dropped to 10.80 during 2016-17. The revenue buoyancy with reference to State's own taxes decreased from 2.33 in 2015-16 to 1.28 in 2016-17 due to drop in growth rate of State's own taxes and grants-in-aid.

Revenue expenditure: Of the total expenditure of ₹ 1,99,950 crore during 2016-17, revenue expenditure (₹ 1,53,195 crore) accounted for 76.62 *per cent*. Out of the revenue expenditure, 76.95 *per cent* (₹ 1,17,889 crore) was incurred on the non-plan component. The committed expenditure (₹ 94,750 crore) stood at 67.57 *per cent* of the total revenue receipts (₹ 1,40,231 crore) of the State during 2016-17, as against 64.58 *per cent* during 2015-16.

Capital expenditure: Capital expenditure increased by ₹ 1,714 crore (9.02 *per cent*) over the previous year as against 6.70 *per cent* in 2015-16. The increase in capital expenditure during the year was mainly under Energy, Water Supply, Sanitation, Housing & Urban Development, Irrigation & Flood control, Transport and Health & Family Welfare.

Adequacy and priority of expenditure: In 2016-17, the proportion of Aggregate Expenditure to GSDP was low as compared to General Category States. Similarly, the development expenditure as a proportion of Aggregate Expenditure (67.51 *per cent*) was also lower than the average of General Category States (70.90 *per cent*) during 2016-17.

Investments and returns: Government invested ₹ 29,811 crore in statutory corporations, Government companies, joint stock companies and co-operatives. Though the average rate of return increased from 0.20 *per cent* in 2012-13 to 0.62 *per cent* in 2016-17, the return on investment during 2012-17 was meagre. On the other hand, Government paid interest at an average rate of 8.11 *per cent* on its borrowings during 2016-17.

Debt Management: The outstanding fiscal liabilities had increased from ₹ 2,23,030 crore at the end of 2015-16 to 2,83,394 crore at the end of 2016-17. The fiscal liabilities at the end of 2016-17 represented 202.09 *per cent* of the revenue receipts during the year as against 172.88 *per cent* of the revenue receipts during 2015-16. The outstanding liabilities as a percentage of GSDP was 21.82, which was marginally above the norm of 21.72 prescribed for the year 2016-17 as per FFC.