

## CHAPTER I

### FINANCES OF THE STATE GOVERNMENT

#### 1.1 Introduction

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

#### 1.1.1 Summary of Receipts and Disbursements

**Table 1.1** summarises the finances of the Government of Tamil Nadu for the year 2007-08 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

**Table 1.1: Summary of receipts and disbursements for the year 2007-08**

(Rupees in crore)

2006-07	Receipts	2007-08	2006-07	Disbursements	2007-08		
					Non Plan	Plan	Total
<b>Section-A: Revenue</b>							
40913	Revenue receipts	47520	38265	Revenue expenditure	34678	8297	42975
27771	Tax revenue	29619	14995	General services	16092	37	16129
3422	Non-tax revenue	3304	13026	Social services	9001	6725	15726
6394	Share of Union Taxes/Duties	8065	7797	Economic services	6524	1247	7771
3326	Grants from Government of India	6532	2447	Grants-in-aid and Contributions	3061	288	3349
<b>Section-B: Capital</b>							
--	Misc. Capital Receipts	--	5952	Capital Outlay	203	7259	7462
1602	Recoveries of Loans and Advances	1013	2254	Loans and Advances disbursed	1633	149	1782
7147	Public Debt receipts*	7647	4690	Repayment of Public Debt*			3546
16	Contingency Fund	--	..	Contingency Fund			--
57895	Public Account receipts	67392	55326	Public Account disbursements			66709
7316	Opening Cash Balance	8402	8402	Closing Cash Balance			9500
<b>114889</b>	<b>Total</b>	<b>131974</b>	<b>114889</b>	<b>Total</b>			<b>131974</b>

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

Following are the significant changes during 2007-08 over previous year:

- Revenue receipts of the State increased by Rs 6607 crore over last year mainly due to increase in grants-in-aid from GOI (Rs 3206 crore),

State's Own Tax Revenue (Rs 1848 crore) and State's Share in Central taxes and duties (Rs 1671 crore). The non-tax revenue of the State declined by Rs 118 crore during the year.

- Revenue expenditure increased by Rs 4710 crore (12 per cent) over previous year mainly due to increase in expenditure on General Services (Rs 1134 crore) and Social Services (Rs 2700 crore).
- Capital expenditure increased by Rs 1510 crore (25 per cent) over previous year.
- Receipts and disbursements under Loans and Advances decreased by Rs 589 crore and Rs 472 crore over the previous year respectively.
- Public Account receipts and disbursements increased by Rs 9497 crore and Rs 11383 crore respectively during the year 2007-08 over previous year.
- Cash balance of the State increased from Rs 8402 crore during 2006-07 to Rs 9500 crore during 2007-08.

### 1.1.2 Fiscal Position by Key Indicators

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

**Table 1.2: Fiscal position of State Government**

(Rupees in crore)

2006-07	Sl. No	Major Aggregates	2007-08
<b>40913</b>	<b>1</b>	<b>Revenue Receipts (2+3+4)</b>	<b>47520</b>
27771	2	Tax Revenue (Net)	29619
3422	3	Non-Tax Revenue	3304
9720	4	Other Receipts	14597
<b>1602</b>	<b>5</b>	<b>Non-Debt Capital Receipts</b>	<b>1013</b>
1602	6	<i>Of which</i> Recovery of Loans	1013
<b>42515</b>	<b>7</b>	<b>Total Receipts (1+5)</b>	<b>48533</b>
<b>33145</b>	<b>8</b>	<b>Non-Plan Expenditure (9+11)</b>	<b>36514</b>
31064	9	On Revenue Account	34678
5506	10	<i>Of which</i> Interest Payments	6086
2081	11	On Capital Account	1836
1982	12	<i>Of which</i> Loans disbursed	1633
<b>13326</b>	<b>13</b>	<b>Plan Expenditure (14+15)</b>	<b>15705</b>
7201	14	On Revenue Account	8297
6125	15	On Capital Account	7408
272	16	<i>Of which</i> Loans disbursed	149
<b>46471</b>	<b>17</b>	<b>Total Expenditure (8+13)</b>	<b>52219</b>
(+) 2648	<b>18</b>	<b>Revenue Deficit (-)/ Revenue Surplus (+) (1-9-14)</b>	(+) 4545
(-) 3956	<b>19</b>	<b>Fiscal Deficit (-)/Fiscal Surplus (+) (1+5-17)</b>	(-) 3686
(+) 1550	<b>20</b>	<b>Primary Deficit (-)/ Primary Surplus (+) (19 -10)</b>	(+) 2400

**Table 1.2** shows that revenue receipts increased by Rs 6607 crore (16.1 *per cent*) during 2007-08 whereas revenue expenditure increased by Rs 4710 crore (12.3 *per cent*) resulting in an increase of revenue surplus of Rs 1897 crore during 2007-08. Given the incremental surplus of Rs 1897 crore in revenue account and decrease in non-debt capital receipts by Rs 589 crore, increase in capital expenditure by Rs 1510 crore along with decrease of Rs 472 crore in the disbursement of loans and advances, the fiscal deficit has decreased by Rs 270 crore during the current year. Consequently taking into account the increase of Rs 580 crore under interest payments, the primary surplus increased by Rs 850 crore.

## 1.2 Methodology adopted for the assessment of Fiscal position

**1.2.1** The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts are analysed wherever necessary over the period of 2002-08 and observations are made on their behaviour. In its Restructuring Plan of State Finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all states are required to enact the Fiscal Responsibility (FR) Acts and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their FR Acts and in other Statements required to be laid in the legislature under the Act are used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP) is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices.

**Table 1.3: Gross State Domestic Product – Growth trends**

	2003-04	2004-05	2005-06	2006-07	2007-08
Gross State Domestic Product (Rs in crore)	175897	200780	223528	246266	279287
Growth rate of GSDP(in <i>per cent</i> )	11.1	14.1	11.3	10.2	13.4

The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc., with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure etc., are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. Audit observations on the Statements of Finance Accounts for the year 2007-08 bring out the trends in the major fiscal aggregates of receipts and expenditure; wherever

necessary analysed them and show these in the light of time series data (**Appendix 1.2**), Abstract of Receipts and Disbursements (**Appendix 1.3**), Sources and Applications of funds (**Appendix 1.4**) and Summarised Financial Position of Government of Tamil Nadu (**Appendix 1.5**). The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix 1.1 Part C**.

### **1.2.2 The Tamil Nadu Fiscal Responsibility (TNFR) Act**

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

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

- reduce the ratio of revenue deficit to revenue receipt every year by three *per cent* to five *per cent* depending on the economic situation in that year to a level below five *per cent* by 31 March 2008, eliminate revenue deficit by 2008-09 and adhere to it thereafter,
- reduce the ratio of fiscal deficit to GSDP every year by 0.25 *per cent* to 0.30 *per cent* beginning from financial year 2002-03 with medium term goal of the ratio of fiscal deficit to GSDP not being more than three *per cent* to be attained by March 2008 and adhere to it thereafter,
- cap the total outstanding guarantee to hundred *per cent* of the total revenue receipts in the preceding year or at 10 *per cent*, of the previous year GSDP whichever is lower, and,
- cap the risk weighted guarantees to 75 *per cent* of the total revenue receipts in the preceding year or at 7.5 *per cent* of the GSDP, whichever is lower.

### **1.2.3 Fiscal Policy Statement(s) 2007-08 and Road map to achieve the fiscal targets**

The TNFR Act, 2003, was subsequently amended to bring it in line with the requirements prescribed by the Twelfth Finance Commission. According to Section 3(1) of this Act, the Government is required to place before the Legislative Assembly a Medium Term Fiscal Plan (MTFP) along with the Budget. Section 3(2) of this Act, requires that the MTFP shall set forth a multi-year rolling target for the fiscal indicators like revenue deficit and fiscal

deficit while clearly indicating the underlying assumptions made to arrive at those projections.

In compliance of this Act, a medium term fiscal plan based on current fiscal trends and policy initiatives undertaken by Government has been prepared with the projections for the period 2007-2010 and placed before the Legislative Assembly along with the budget for 2007-08 on 27 March 2007.

**Table 1.4** depicts comparative position of selected fiscal variables vis-à-vis the targets set under Fiscal Responsibility and Budget Management (FRBM) Act/TFC for 2007-08.

**Table 1.4: Position of key indicators**

(Rupees in crore)

	<b>Targets/Norms prescribed under FRBM Act/TFC</b>	<b>Actual</b>	<b>Percentage increase (+)/ decrease (-) projections</b>
State's Own Tax Receipts	27792	29619	(+) 6.6
Non-Tax Revenue	2920	3304	(+) 13.15
Capital Outlay/GSDP Ratio	3 per cent to be achieved by 2009-10	2.7	Marginally below the TFC norms
Interest payments/RR Ratio	To be within 15 per cent by 2009-10	12.8	Already within the TFC Norms
Revenue Deficit/GSDP Ratio	To be eliminated by 2008-09	Revenue Surplus (Rs 4545 crore)	Attained Revenue Surplus since 2005-06
Fiscal Deficit/GSDP Ratio	3 per cent by 2007-08 as per FRBM Act	1.3	Within the ceiling limit of FRBM Act
Debt/GSDP Ratio	30.8 per cent by 2009-10	25.4	Already within the TFC Norms
Outstanding Guarantees	100 per cent of RR of previous year or 10 per cent of GSDP of previous year as per FRBM Act	13.2 per cent of RR of previous year or 2.2 per cent of GSDP of previous year	Within the ceiling limit of FRBM Act

The trends presented in the table reveal that the State has achieved most of the targets/norms prescribed in FRBM Act, 2003 as amended in 2005 as well as laid down by TFC in its restructuring plan of State finances during its award period (2005-10). Linked to its fiscal performance of the State, a debt waiver of Rs 263.28 crore was granted by the Government of India to the State as an incentive under DCRF<sup>1</sup> during 2007-08.

<sup>1</sup> In pursuance of the recommendations of the Twelfth Finance Commission (TFC) for fiscal consolidation and elimination of revenue deficit of the State, Government of India formulated a scheme "The States' Debt Consolidation and Relief Facility (DCRF) (2005-06 to 2009-10)" under which general debt relief is provided by consolidating and rescheduling at substantially reduced rate of interest the Central loans granted to States on enacting the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficits of State.

### 1.3 Trends and composition of Aggregate Receipts

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from GOI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table 1.5** shows that the total receipts of the State Government for the year 2007-08 were Rs 123572 crore. Of these, revenue receipts were Rs 47520 crore, constituting 38.5 *per cent* of total receipts. The balance came from capital receipts by way of recovery of loans (Rs 1,013 crore) and borrowings under Public Debt (Rs 7,647 crore) and from Public Account (Rs 67,392 crore).

**Table 1.5: Trends in Growth and composition of Aggregate Receipts**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Sources of State's Receipts</b>						
<b>I Revenue Receipts</b>	<b>20837</b>	<b>23706</b>	<b>28452</b>	<b>33960</b>	<b>40913</b>	<b>47520</b>
<b>II Capital Receipts</b>	<b>9829</b>	<b>10298</b>	<b>12919</b>	<b>9858</b>	<b>8749</b>	<b>8660</b>
Recovery of Loans and Advances	433	575	783	892	1602	1013
Public Debt Receipts	9396	9723	12136	8966	7147	7647
Miscellaneous Capital Receipts	..	..	..	..	..	--
<b>III Contingency Fund</b>	..	..	..	..	<b>16</b>	--
<b>IV Public Account Receipts</b>	<b>27156</b>	<b>28107</b>	<b>31864</b>	<b>39603</b>	<b>57895</b>	<b>67392</b>
a. Small Savings, Provident Fund etc.	2895	2688	1982	2943	3214	3476
b. Reserve Fund	(-) 159	737	2057	6310	2388	2594
c. Deposits and Advances	8113	8742	10076	8914	11601	13912
d. Suspense and Miscellaneous	12044	12286	15461	19308	38662	45183 <sup>2</sup>
e. Remittances	4263	3654	2288	2128	2030	2227
<b>Total Receipts</b>	<b>57822</b>	<b>62111</b>	<b>73235</b>	<b>83421</b>	<b>107573</b>	<b>123572</b>

The revenue, capital and Public Account receipts constituted 38.5, 7 and 54.5 *per cent* of total receipts respectively. The debt capital receipts which create future repayment obligation after increasing from Rs 9396 crore in 2002-03 to Rs 12136 crore in 2004-05, decreased to Rs 7647 crore in 2007-08. The recovery of loans and advances came down by Rs 589 crore from the previous year. The steep increase in receipts under Public Account during 2006-07 and 2007-08 was primarily because of the increase of Rs 19,354 crore and Rs 6,521 crore under the head 'suspense and miscellaneous' mainly due to the increased issue of cheques under Treasury cheques (Rs 9986 crore and Rs 3333 crore) and Pre-audit cheques (Rs 9932 crore and Rs 22041 crore)

<sup>2</sup> Against the receipt of Rs 45183 crore, Rs 45021 crore were disbursements with the net effect of Rs 162 crore under suspense and miscellaneous during the year 2007-08.

during 2006-07 and 2007-08 respectively, which were not encashed during the years.

### 1.3.1 Revenue Receipts

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

**Table 1.6: Revenue Receipts - Basic Parameters**

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Revenue Receipts (RR)</b>	<b>23706</b>	<b>28452</b>	<b>33960</b>	<b>40913</b>	<b>47520</b>
Own Taxes ( <i>per cent</i> )	15945 (67 )	19357 (68 )	23326 (68 )	27771 (68)	29619 (62)
Non-Tax Revenue ( <i>per cent</i> )	2094 (9 )	2209 (8 )	2601 (8 )	3422 (8)	3304 (7)
Central Tax Transfers ( <i>per cent</i> )	3544 (15 )	4236 (15 )	5013 (15 )	6394 (16)	8065 (17)
Grants-in-aid ( <i>per cent</i> )	2123 (9 )	2650 (9 )	3020 (9 )	3326 (8)	6532 (14)
Rate of growth of RR ( <i>per cent</i> )	13.8	20.0	19.4	20.5	16.1
RR/GSDP ( <i>per cent</i> )	13.5	14.2	15.2	16.6	17.0
<b>Buoyancy Ratios<sup>3</sup></b>					
Revenue Buoyancy (ratio) with GSDP	1.24	1.42	1.71	2.01	1.20
State's own taxes Buoyancy (ratio)with GSDP	1.01	1.51	1.81	1.87	0.50
Revenue Buoyancy with reference to State's own taxes (ratio)	1.23	0.93	0.95	1.07	2.4

#### • General Trends

The rate of growth of revenue receipts which had shown a progressive increase over the period 2003-07 in abstract terms, decreased to 16.1 *per cent* during 2007-08 as compared to revenue receipts of 2006-07. The share of own taxes, non-tax revenue, Central tax transfers and grants-in-aid did not exhibit significant changes during 2003-07. However, the percentage of own taxes in the total revenue receipts decreased from 68 *per cent* in 2006-07 to 62 *per cent* in 2007-08 and non-tax revenue decreased from eight to seven *per cent* while the percentage of grants-in-aid to total receipts increased from eight *per cent* in 2006-07 to 14 *per cent* in 2007-08 and Central tax transfer from 16 to 17 *per cent*.

<sup>3</sup> Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable.

• **Tax Revenue**

Tax revenue increased by 6.7 per cent during the current year (Rs 29619 crore) over the previous year (Rs 27771 crore). The revenue from Sales Taxes not only contributed major share of tax revenue (61.3 per cent) but also increased by 2.4 per cent over the previous year. The other major contributors for the increase in the State's tax revenue are Stamps and Registration Fees (Rs 3805 crore), State Excise (Rs 4764 crore) and Taxes on Goods and Passengers (Rs 1097 crore). The increase under State Excise (Rs 778 crore) was mainly due to revision of additional Vend fee for IMFC products under Foreign Liquors and Spirits, besides Malt liquor and other receipts while the increase under Stamps-Judicial, Stamps-non Judicial and Registration fees led to increases under Stamps and Registration (Rs 808 crore). The increase under taxes on vehicles (Rs 222 crore) was due to the increased receipts under the Indian Motor Vehicle Act and State Motor Vehicle Taxation Acts. **Table 1.7** shows the trend of tax revenue during 2002-08.

**Table 1.7: Tax revenue**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Taxes on Sales, Trades etc.	9590	11005	12996	15555	17727	18156
State Excise	2114	1657	2549	3177	3986	4764
Taxes on Vehicles	746	934	1015	1125	1261	1483
Stamps and Registration Fees	1079	1316	1604	2085	2997	3805
Land Revenue	8	18	72	179	121	78
Taxes on Goods and Passengers	489	611	764	985	1244	1097
Other taxes*	316	404	357	220	435	236
<b>Total</b>	<b>14342</b>	<b>15945</b>	<b>19357</b>	<b>23326</b>	<b>27771</b>	<b>29619</b>

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

• **Non-Tax Revenue**

Non-tax revenue which constitute 7 per cent of total revenue receipts decreased by Rs 118 crore (3.4 per cent) over previous year mainly due to decreased receipts under other receipts-miscellaneous general services (Rs 328 crore) off-set by the increased non-tax revenue under Technical Education, General Education and Arts and Culture (Rs 85 crore), Police (Rs 32 crore), Other Administrative Services (Rs 26 crore) and Non-ferrous mining and metallurgical industries (Rs 15 crore).

The actual revenue receipts vis-à-vis assessments made by State Government to Twelfth Finance Commission (TFC) for 2007-08 are given in **Table 1.8**.



**Table 1.8: Revenue receipts projected by TFC and MTFP**

(Rupees in crore)

	Assessment made by State Government and projected in TFC report	Projections made by State Government under revised medium term fiscal plan for 2007-08	Actuals
Tax revenue	24091	30387	29619
Non-tax revenue	2513	2539	3304

Tax revenue increased by 23 *per cent* and non-tax revenue by 31.5 *per cent* over the normative assessment made by the TFC for the State for 2007-08. The actual realization of tax revenue was however less by 2.5 *per cent* as compared to the projection made by State Government for 2007-08 under MTFP while in case of non-tax revenue it was higher by 30.1 *per cent* than the projection made under MTFP for 2007-08.

- **Central Tax Transfers**

Central tax transfers increased by Rs 1671 crore (26.1 *per cent*) over the previous year and constituted 17 *per cent* of the total revenue receipts. The increase was mainly due to Corporation tax (Rs 564 crore), Customs duty (Rs 277 crore), Taxes on income other than Corporation tax (Rs 506 crore), Service tax (Rs 192 crore) and Union Excise Duties (Rs 131 crore).

- **Grants-in-aid**

Grants-in-aid from Government of India increased by Rs 3206 crore (96 *per cent*) from Rs 3326 crore in 2006-07 to Rs 6532 crore in the current year. The increase was mainly under grants under State Plan schemes (Rs 582 crore), Non-plan grants (Rs 2436 crore) and Central/Centrally sponsored plan schemes (Rs 188 crore). Details of Grants-in-aid from GOI are given in **Table 1.9**.

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

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Grants for State plan schemes	603	937	1054	986	1584	2166
Non-plan grants	455	532	961	1290	1027	3463
Grants for Central schemes	66	57	73	67	88	81
Centrally sponsored schemes	463	597	562	677	627	822
Total	1587	2123	2650	3020	3326	6532
Percentage of increase/decrease over previous year	(+) 14.9	(+) 33.7	(+) 24.9	(+) 14	(+) 10.1	(+) 96.4

The non-plan grants increased by Rs 2436 crore in 2007-08 as compared to 2006-07 receipts, mainly because of the receipt of "Grants to cover up gap in resources" (Rs 2688 crore) and grants for relief and rehabilitation of displaced persons and repatriates (Rs 23 crore), offset by the receipt of decreased grants under proviso to Article 275(1) of the Constitution for the Welfare of Tribal population (Rs 209 crore) and grants towards calamity relief fund (Rs 70 crore). Grants for State plan schemes increased by Rs 582 crore mainly due to increased receipt of grants during 2007-08 under Block Grants

(Rs 731 crore), offset by the decreased grants under grants from Central Road Fund (Rs 64 crore) and Grants against external assistance (Rs 80 crore).

### **1.3.2 Arrears of Revenue**

The arrears of revenue as on 31 March 2008 of six principal heads of revenue (Sales Tax, Stamp Duty and registration fees, Urban land tax, State excise, Land revenue and Taxes on vehicles) amounted to Rs 8560.51 crore of which Rs 3250.61 crore were outstanding for more than five years. The arrears mainly pertained to Sales Tax (Rs 8221.59 crore), Stamp duty and registration fees (Rs 148.81 crore) and Urban land tax (Rs 113.61 crore). The position of arrears of revenue at the end of 2007-08 in respect of remaining departments was not furnished (November 2008) despite having been called for.

## **1.4 Application of resources**

### **1.4.1 Growth of Expenditure**

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

**Table 1.10: Total Expenditure – Basic Parameters**

	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total expenditure (TE)*	28012	29872	34805	37103	46471	52219
Rate of Growth ( <i>per cent</i> )	17.3	6.6	16.5	6.6	25.2	12.4
TE/GSDP Ratio ( <i>per cent</i> )	17.7	17.0	17.3	16.6	18.9	18.7
RR /TE Ratio ( <i>per cent</i> )	74.2	79.4	81.8	91.5	88.0	91.0
<b>Buoyancy of Total Expenditure with reference to:</b>						
GSDP (ratio)	2.77	0.60	1.17	0.58	2.48	0.92
RR (ratio)	1.62	0.48	0.83	0.34	1.23	0.77

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

Total expenditure during the current year has increased by Rs 5748 crore over the previous year mainly due to increase under revenue expenditure (Rs 4710 crore) and capital expenditure (Rs 1510 crore) which was offset by a decrease under loans and advances disbursed (Rs 472 crore). In terms of Plan and Non-plan expenditure, the plan expenditure increased by Rs 2379 crore and the non-plan expenditure registered an increase of Rs 3369 crore over last year. The percentage of total expenditure to revenue receipts during 2007-08 was 109.9 indicating that about 90 *per cent* of the State's total expenditure was met

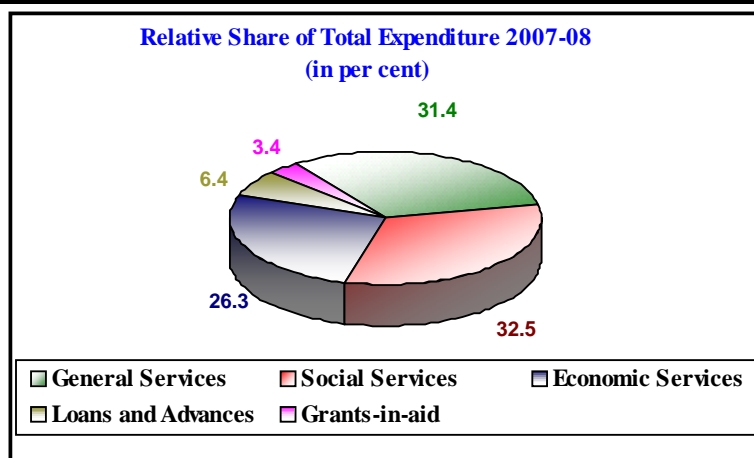
from its current revenue, leaving the balance to be financed by either non-debt capital receipts and or borrowings.

### Trends in Total Expenditure by Activities

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

**Table 1.11: Components of Expenditure – Relative Share**

	2003-04	2004-05	2005-06	2006-07	2007-08
General Services	36.3	35.7	35.1	32.6	31.4
<i>Of which</i> Interest payments	15.7	13.7	12.3	11.8	11.7
Social Services	33.9	34.9	33.5	30.5	32.5
Economic Services	21.5	20.7	23.1	26.7	26.3
Grants-in-aid	4.9	5.6	5.5	5.3	6.4
Loans and Advances	3.4	3.1	2.8	4.9	3.4



Interest payments and expenditure on General Services considered as non-developmental expenditure together accounted for 31.4 *per cent* of total expenditure in 2007-08. The share of Social Services exhibited relative stability during the period 2003-07 while Economic Services and Grants-in-aid indicated increasing tendency only during the last two years. The share of loans and advances also remained almost stable except a jump to 4.9 *per cent* in 2006-07 which however again returned to 3.4 *per cent* in 2007-08.

### 1.4.2 Incidence of Revenue expenditure

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

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

**Table 1.12: Revenue Expenditure: Basic Parameters**

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Expenditure (RE)	25271	29155	32009	38265	42975
<i>Of which</i>					
Non-Plan Revenue Expenditure (NPRE)	20835	25251	26627	31064	34678
Plan Revenue Expenditure (PRE)	4436	3904	5382	7201	8297
Rate of Growth ( <i>per cent</i> )					
Revenue Expenditure	(-) 1.6	15.4	9.8	19.5	12.3
NPRE	(-)8.3	21.2	5.4	16.7	11.6
PRE	49.2	(-) 12.0	37.9	33.8	15.2
NPRE/GSDP ( <i>per cent</i> )	11.8	12.6	11.9	12.6	12.4
NPRE as <i>per cent</i> of TE	69.7	72.5	71.8	66.8	66.4
NPRE as <i>per cent</i> of RR	87.9	88.7	78.4	75.9	73.0
<b>Buoyancy of Revenue Expenditure with</b>					
GSDP (ratio)	(-) 0.15	1.09	0.86	1.92	0.92
Revenue Receipts (ratio)	(-) 0.11	0.77	0.51	0.95	0.76

Overall revenue expenditure of the Government, increased from Rs 25271 crore in 2003-04 to Rs 42975 crore in 2007-08. The percentage of increase over 2006-07 was 12.3. While the increase under non-plan revenue expenditure was Rs 3614 crore (11.6 *per cent*), the increase under plan revenue expenditure was Rs 1096 crore (15.2 *per cent*).

The increase of Rs 3614 crore under Non-plan Revenue Expenditure was mainly under Pension and Other Retirement benefits (Rs 587 crore), Interest payments and servicing of debt (Rs 580 crore) and Other Administrative Services (Rs 194 crore) all under General Services, Social Welfare and Nutrition (Rs 494 crore), Education, Sports, Arts and Culture (Rs 624 crore), Health and Family Welfare (Rs 236 crore), Welfare of SC, ST and backward classes (Rs 35 crore) all under Social Services, Rural Development (Rs 193 crore) and Irrigation and Flood Control (Rs 53 crore), both under Economic Services and Grants-in-aid and Contributions (Rs 902 crore), offset by the decreased expenditure under Fiscal services (Rs 166 crore), organs of state (Rs 55 crore), Civil supplies (Rs 84 crore) and Industries and Minerals (Rs 37 crore).

The increase of Rs 1096 crore under Plan Revenue Expenditure was mainly under Education, Sports, Arts and Culture (Rs 161 crore), Urban Development (Rs 132 crore), Irrigation and Flood Control (Rs 29 crore), Welfare of SC, ST and Backward Classes (Rs 49 crore), Social Welfare and Nutrition (Rs 984 crore) all under Social Services, Agriculture and Allied activities (Rs 18 crore) under Economic Services, offset by the decreased expenditure under Health and Family Welfare (Rs 51 crore) and Water Supply and Sanitation (Rs 83 crore) both under Social Services, Industries and Minerals (Rs 102 crore), Rural Development (Rs 66 crore), Village and Small Industries (Rs 89 crore) all under Economic Services.

The actual non-plan revenue expenditure vis-à-vis assessments made by State Government and projected in the report of TFC are given in **Table 1.13**:

**Table 1.13: Non-plan revenue expenditure projected by TFC and MTFP**  
(Rupees in crore)

Assessment made by State Government and projected in TFC report	Projections made by State Government under revised medium term fiscal plan for 2007-08	Actual non-plan revenue expenditure during 2007-08
29616.62	37515	34678

The actual NPRE during the current year (Rs 34678 crore) had exceeded the NPRE (Rs 29617 crore) projected by TFC for the year by Rs 5061 crore, but it remained lower than the projections made by the Government in MTFP.

### 1.4.3 Committed Expenditure

#### 1.4.3.1 Expenditure on Salaries

**Table 1.14: Expenditure on Salaries**

(Rupees in crore)					
Heads	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Salaries	7066	8238	8342	8645	9636
As per cent of GSDP	4.0	4.1	3.7	3.5	3.4
As per cent of RR	29.8	28.9	24.6	21.1	20.3

Salary expenditure (including Dearness Allowance) of the State Government over the last five years is in **Table 1.14**. Salaries alone consumed nearly 20.3 per cent of the revenue receipts of the Government during 2007-08. Increase of Rs 991 crore in expenditure of salaries during 2007-08 was mainly due to payment of dearness allowance (Rs 934 crore). Salary expenditure of the State Government (Rs 9636 crore) during 2007-08 constituted 31.2 per cent of the revenue expenditure net of interest and pension payments (Rs 30872 crore<sup>4</sup>) and was within the norm of 35 per cent recommended by the TFC.

#### 1.4.3.2 Pension Payments

**Table 1.15: Expenditure on Pensions**

(Rupees in crore)					
Heads	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Pensions	3280	3902	4460	5430	6017
Rate of Growth	(-) 1.4	19.0	14.3	21.7	10.8
As per cent of GSDP	1.9	1.9	2.0	2.2	2.1
As per cent of RR	13.8	13.7	13.1	13.3	12.7
As per cent of NPRE	15.7	15.5	16.8	17.5	17.4

Pension payments during the current year have increased by Rs 587 crore recording a growth rate of 10.8 per cent over previous year. Pension

<sup>4</sup> Revenue expenditure (Rs 42975 crore) less interest payment (Rs 6086 crore) and pension payments (Rs 6017 crore).

payments consumed 12.7 *per cent* of the revenue receipts of the Government during 2007-08 and increased by 83.4 *per cent* from Rs 3280 crore in 2003-04 to Rs 6017 crore in 2007-08. As a percentage of non-plan revenue expenditure, it constituted about 17.4 *per cent* during 2007-08. Significant increase in expenditure on pension during 2007-08 was mainly due to the increase under commuted value of pensions by 14 *per cent*, superannuation and retirement benefits by ten *per cent*, family pensions by 11 *per cent* and pensions to employees of state aided educational institutions by eight *per cent*, due to increase in number of pensioners.

The actual pension payments during 2007-08 (Rs 6017 crore) were slightly less than the assessment made (Rs 6120 crore) by State Government and projected by TFC. The Government also introduced a contributory pension scheme for employees recruited on or after April 2003 to mitigate impact of raising pension liabilities of Government in future.

### **1.4.3.3 Interest payments**

Interest payments made during the period 2003-04 to 2007-08 along with its percentage to revenue receipts and revenue expenditure are given in **Table 1.16:**

**Table 1.16: Interest payments**

Year	Interest Payments (Rupees in crore)	Growth rate (in percentage)	Percentage of Interest payments with reference to	
			Revenue Receipts	Revenue Expenditure
2003-04	4700	13.7	19.8	18.6
2004-05	4755	1.2	16.7	16.3
2005-06	4559	(-) 4.1	13.4	14.2
2006-07	5506	20.8	13.5	14.4
2007-08	6086	10.5	12.8	14.2

Interest payments increased by 29.5 *per cent* from Rs 4700 crore in 2003-04 to Rs 6086 crore in 2007-08 (the average growth rate being 8.4 *per cent*) primarily due to continued reliance on borrowings to meet the fiscal deficit. During 2007-08, the Government raised Rs 4942 crore from open market at an average rate of interest of 8.9 *per cent* per annum. It also borrowed Rs 534 crore from National Small Savings Fund at 9.4 *per cent* per annum from GOI during the year. The actual interest payment made (Rs 6086 crore) was only marginally higher than the projection made for 2007-08 under MTFP (Rs 5999 crore). The interest payments as a ratio of revenue receipts was 12.8 *per cent* which was within the norm of 15 *per cent* recommended by the TFC to be achieved by all the States by 2009-10.

### 1.4.3.4 Subsidies

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

**Table 1.17: Subsidies**

Year	Amount (Rupees in crore)	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in revenue expenditure
2003-04	1680	(-) 5.0	6.6
2004-05	2513	49.6	8.6
2005-06	3426	36.3	10.7
2006-07	4177	21.9	10.9
2007-08	4305	3.1	10.0

The major subsidies extended during 2007-08 consists of subsidy to Tamil Nadu Electricity Board under Power sector (Rs 1243 crore), consumer subsidies to Tamil Nadu Civil Supplies Corporation (Rs 1950 crore); reimbursement of students concessions in bus fare (Rs 300 crore), subsidies for free distribution of handloom cloth to the people below poverty line under other Social Security and Welfare Programmes (Rs 256 crore), subsidy to small and marginal farmers for providing agricultural inputs damaged due to flood under relief on account of natural calamities (Rs 142 crore), reimbursement of loss incurred by rural urban fair price shops (Rs 107 crore), crop husbandry grants (Rs 56 crore), Assistance to Gram Panchayats towards reduction in electricity tariff in Village Panchayats (Rs 58 crore), fisheries grants (Rs 37 crore), Grants for Handloom Industries towards rebate on sale of handloom cloth (Rs 40 crore) and Grants to Small Scale Industries (Rs 11 crore). The increase in total subsidies extended during 2007-08 over 2006-07 figures was mainly due to the increased subsidy of Rs 116 crore given for free distribution of handloom cloth to the people below poverty line under social security and welfare programmes.

## 1.5 Expenditure by Allocative Priorities

### 1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore, ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. The higher the ratio of these components to total expenditure and GSDP, the better is the quality of expenditure. **Table 1.18** depicts these ratios during 2003-08.

**Table 1.18: Indicators of Quality of Expenditure**

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Capital Expenditure</b>	<b>3590</b>	<b>4564</b>	<b>4054</b>	<b>5952</b>	<b>7462</b>
<b>Revenue Expenditure</b>	<b>25271</b>	<b>29155</b>	<b>32009</b>	<b>38265</b>	<b>42975</b>
<i>Of which social and economic services</i>	13205	15137	17088	20823	23497
Salary and Wage component	4722	5050	5179	6300	7102
Non salary wage component	8483	10087	11909	14523	16395
<b>As per cent of Total Expenditure</b>					
Capital Expenditure	12.0	13.1	10.9	12.8	14.3
Revenue Expenditure	84.6	83.8	86.3	82.3	82.3
<b>As per cent of GSDP</b>					
Capital Expenditure	2.0	2.3	1.8	2.4	2.7
Revenue Expenditure	14.4	14.5	14.3	15.5	15.4

Though the revenue expenditure in absolute terms increased from Rs 38265 crore in 2006-07 to Rs 42975 crore in 2007-08, as a percentage to total expenditure, it remained the same at 82.3 *per cent*. However, capital expenditure increased in absolute terms by Rs 1510 crore and as a percentage of total expenditure from 12.8 to 14.3 over last year. The increase in capital expenditure during 2007-08 over the last year was mainly due to the increase under Police (Rs 67 crore) and Public Works (Rs 21 crore) under General Services, Water Supply (Rs 140 crore) and Education, Sports, Arts and Culture (Rs 43 crore) under Social Services, Transport (Rs 626 crore), Energy (Rs 315 crore), Industries and Minerals (Rs 158 crore), Rural Development (Rs 100 crore), Agriculture and allied activities (Rs 87 crore) and Irrigation and flood control (Rs 38 crore) all under Economic services.

### **1.5.2 Expenditure on Social Services**

Given the fact that human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc. have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 1.19** summarises the expenditure incurred by the State Government in expanding and strengthening of Social Services in the State during 2002-08.



Table 1.19: Expenditure on Social Services

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Education, Sports, Art and Culture</b>						
<b>Revenue Expenditure of which</b>	<b>4145.33</b>	<b>4175.06</b>	<b>4597.28</b>	<b>5012.54</b>	<b>6061.10</b>	<b>6845.75</b>
Salary and Wages component	2324.59	2257.11	2434.09	2535.98	3184.02	3628.39
Non-salary and Wage component	1820.74	1917.95	2163.19	2476.56	2877.08	3217.36
<b>Capital Expenditure</b>	<b>13.59</b>	<b>79.07</b>	<b>99.38</b>	<b>260.52</b>	<b>178.94</b>	<b>222.25</b>
<b>Total</b>	<b>4158.92</b>	<b>4254.13</b>	<b>4696.66</b>	<b>5273.06</b>	<b>6240.04</b>	<b>7068.00</b>
<b>Health and Family Welfare</b>						
<b>Revenue Expenditure of which</b>	<b>1187.88</b>	<b>1202.96</b>	<b>1304.16</b>	<b>1392.87</b>	<b>1551.97</b>	<b>1737.06</b>
Salary and Wages component	836.70	820.54	858.57	890.83	1057.75	1230.73
Non-salary and Wage component	351.18	382.42	445.59	502.04	494.22	506.33
<b>Capital Expenditure</b>	<b>48.37</b>	<b>65.91</b>	<b>47.79</b>	<b>246.24</b>	<b>118.54</b>	<b>95.79</b>
<b>Total</b>	<b>1236.25</b>	<b>1268.87</b>	<b>1351.95</b>	<b>1639.11</b>	<b>1670.51</b>	<b>1832.85</b>
<b>Water Supply, Sanitation, Housing and Urban Development</b>						
<b>Revenue Expenditure of which</b>	<b>443.53</b>	<b>556.70</b>	<b>402.88</b>	<b>404.03</b>	<b>1185.20</b>	<b>1279.29</b>
Salary and Wages component	18.59	18.35	19.28	21.24	24.43	26.27
Non-salary and Wage component	424.94	538.35	383.60	382.79	1160.77	1253.02
<b>Capital Expenditure</b>	<b>538.36</b>	<b>1280.83</b>	<b>2203.75</b>	<b>496.15</b>	<b>737.15</b>	<b>803.85</b>
<b>Total</b>	<b>981.89</b>	<b>1837.53</b>	<b>2606.63</b>	<b>900.18</b>	<b>1922.35</b>	<b>2083.14</b>
<b>Other Social Services</b>						
<b>Revenue Expenditure of which</b>	<b>2197.30</b>	<b>2663.05</b>	<b>3378.43</b>	<b>4506.96</b>	<b>4228.07</b>	<b>5863.53</b>
Salary and Wages component	602.36	736.42	783.27	751.98	905.01	1023.11
Non-salary and Wage component	1594.94	1926.63	2595.16	3754.98	3323.06	4840.42
<b>Capital Expenditure</b>	<b>15.74</b>	<b>86.45</b>	<b>98.55</b>	<b>118.33</b>	<b>97.48</b>	<b>116.97</b>
<b>Total</b>	<b>2213.04</b>	<b>2749.50</b>	<b>3476.98</b>	<b>4625.29</b>	<b>4325.55</b>	<b>5980.50</b>
<b>Social Services</b>						
<b>Revenue Expenditure of which</b>	<b>7974.04</b>	<b>8597.77</b>	<b>9682.75</b>	<b>11316.40</b>	<b>13026.35</b>	<b>15725.63</b>
Salary and Wages component	3782.24	3832.42	4095.21	4200.04	5171.21	5908.50
Non-salary and Wage component	4191.80	4765.35	5587.54	7116.36	7855.14	9817.13
<b>Capital Expenditure</b>	<b>616.06</b>	<b>1512.26</b>	<b>2449.47</b>	<b>1121.24</b>	<b>1132.10</b>	<b>1238.86</b>
<b>Grand Total</b>	<b>8590.10</b>	<b>10110.03</b>	<b>12132.22</b>	<b>12437.64</b>	<b>14158.45</b>	<b>16964.49</b>

The total expenditure under Social Services increased from Rs 8590 crore in 2002-03 to Rs 16964 crore in 2007-08 indicating the Government commitment to improve social well being of the society. The salary component in total expenditure under social services decreased from 44 *per cent* in 2002-03 to 34.8 *per cent* in 2007-08. However, the non-salary component in total expenditure increased from 48.8 *per cent* to 57.9 *per cent* over the same period. While the Revenue expenditure under Social Services increased by 97 *per cent* from Rs 7974 crore in 2002-03 to Rs 15725 crore in 2007-08, the Capital expenditure increased by 101 *per cent* from Rs 616 crore to Rs 1239 crore over the same period.

Recognizing the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education and health and family welfare should increase only by five to six *per cent* while non-salary expenditure under non-plan heads should increase by 30 *per cent* per annum during the award period. However, trends in expenditure (taking expenditure under both plan and non plan heads) reveal that the salary and wage component under education sector increased by 14 *per cent* over

2006-07 while non-salary and wage component by 11.8 *per cent*. Similarly under Health and Family Welfare sector, the salary and wage component increased by 16.4 *per cent* while non-salary and wage component by 2.5 *per cent*. The expenditure pattern both in education and health services has not been as per the norms of the TFC which needs correction in the ensuing years.

### 1.5.3 Expenditure on Economic Services

Expenditure on economic services includes all such services that promote directly or indirectly, productive capacity within the State's economy. The expenditure on economic services (Rs 13718 crore) during 2007-08 accounted for 26.3 *per cent* of the total expenditure (Table 1.20).

Table 1.20: Expenditure on Economic Services

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Agriculture, Allied activities</b>						
<b>Revenue Expenditure of which</b>	<b>1143.51</b>	<b>1102.10</b>	<b>1291.16</b>	<b>1251.73</b>	<b>1799.30</b>	<b>1831.87</b>
Salary and Wages component	470.52	454.48	484.92	504.34	575.76	606.25
Non-salary Wage component	672.99	647.62	806.24	747.39	1223.54	1225.62
<b>Capital Expenditure</b>	<b>98.11</b>	<b>97.67</b>	<b>99.86</b>	<b>178.50</b>	<b>1489.57</b>	<b>1576.20</b>
<b>Total</b>	<b>1241.62</b>	<b>1199.77</b>	<b>1391.02</b>	<b>1430.23</b>	<b>3288.87</b>	<b>3408.07</b>
<b>Irrigation and Flood Control</b>						
<b>Revenue Expenditure of which</b>	<b>486.09</b>	<b>537.75</b>	<b>569.70</b>	<b>532.33</b>	<b>605.13</b>	<b>628.86</b>
Salary and Wages component	124.44	117.70	131.83	130.56	154.46	157.27
Non-salary Wage component	361.65	420.05	437.87	401.77	450.67	471.59
<b>Capital Expenditure</b>	<b>303.01</b>	<b>245.29</b>	<b>277.60</b>	<b>265.05</b>	<b>326.89</b>	<b>365.28</b>
<b>Total</b>	<b>789.10</b>	<b>783.04</b>	<b>847.30</b>	<b>797.38</b>	<b>932.02</b>	<b>994.14</b>
<b>Power and Energy</b>						
<b>Revenue Expenditure of which</b>	<b>2002.27</b>	<b>440.10</b>	<b>1064.41</b>	<b>1027.07</b>	<b>1182.07</b>	<b>1170.26</b>
Salary and Wages component	0.56	0.59	0.64	0.72	0.78	0.79
Non-salary Wage component	2001.71	439.51	1063.77	1026.35	1181.29	1169.47
<b>Capital Expenditure</b>	<b>25.00</b>	<b>200.00</b>	<b>85.00</b>	<b>25.00</b>	<b>175.00</b>	<b>490.00</b>
<b>Total</b>	<b>2027.27</b>	<b>640.10</b>	<b>1149.41</b>	<b>1052.00</b>	<b>1357.07</b>	<b>1660.26</b>
<b>Transport</b>						
<b>Revenue Expenditure of which</b>	<b>367.59</b>	<b>451.25</b>	<b>638.14</b>	<b>618.83</b>	<b>859.38</b>	<b>875.08</b>
Salary and Wages component	71.36	68.56	70.47	83.16	93.95	96.68
Non-salary Wage component	296.23	382.69	567.67	535.67	765.43	778.40
<b>Capital Expenditure</b>	<b>374.63</b>	<b>1230.94</b>	<b>842.38</b>	<b>1635.37</b>	<b>1681.08</b>	<b>2307.28</b>
<b>Total</b>	<b>742.22</b>	<b>1682.20</b>	<b>1480.52</b>	<b>2254.20</b>	<b>2540.46</b>	<b>3182.36</b>
<b>Other Economic Services</b>						
<b>Revenue Expenditure of which</b>	<b>2262.16</b>	<b>2076.23</b>	<b>1890.66</b>	<b>2342.53</b>	<b>3350.86</b>	<b>3265.23</b>
Salary and Wages component	258.48	248.50	267.44	260.54	303.66	331.97
Non-salary Wage component	2003.68	1827.73	1623.22	2081.99	3047.20	2933.26
<b>Capital Expenditure</b>	<b>37.29</b>	<b>51.36</b>	<b>433.93</b>	<b>703.79</b>	<b>953.08</b>	<b>1207.59</b>
<b>Total</b>	<b>2299.45</b>	<b>2127.59</b>	<b>2324.59</b>	<b>3046.32</b>	<b>4303.94</b>	<b>4472.82</b>
<b>Economic Services</b>						
<b>Revenue Expenditure of which</b>	<b>6261.62</b>	<b>4607.41</b>	<b>5454.07</b>	<b>5772.50</b>	<b>7796.75</b>	<b>7771.30</b>
Salary and Wages component	925.36	889.82	955.30	979.33	1128.62	1192.97
Non-salary Wage component	5336.26	3717.59	4498.77	4793.17	6668.13	6578.33
<b>Capital Expenditure</b>	<b>838.03</b>	<b>1825.27</b>	<b>1738.77</b>	<b>2807.71</b>	<b>4625.62</b>	<b>5946.35</b>
<b>Grand Total</b>	<b>7099.65</b>	<b>6432.68</b>	<b>7192.84</b>	<b>8580.21</b>	<b>12422.37</b>	<b>13717.65</b>

The total expenditure in 2007-08 under Economic Services increased by 10.4 *per cent* over 2006-07 mainly because of increase under Capital expenditure by 28.6 *per cent*. Out of the total expenditure on Economic Services during 2007-08, Other Economic Services constituted 32.6 *per cent*, Agriculture and Allied activities constituted 24.8 *per cent*, Transport constituted 23.2 *per cent*, Power and Energy constituted 12.1 *per cent* and Irrigation and Flood Control constituted 7.3 *per cent*.

The trends in revenue and capital expenditure on economic services indicate that the capital expenditure increased from Rs 838 crore in 2002-03 to Rs 5946 crore in 2007-08, while revenue expenditure increased from Rs 6262 crore in 2002-03 to Rs 7771 crore in 2007-08. Within the revenue expenditure, component of salary expenditure has increased by 29 per cent from Rs 925 crore in 2002-03 to Rs 1193 crore in 2007-08 while non-salary component has increased by 23 per cent from Rs 5336 crore to Rs 6578 crore during this period. The increase in expenditure under economic services during 2007-08 over the previous year was solely on account of increase in capital expenditure which was mainly due to increased capital expenditure under Transport (Rs 626 crore), Power and Energy (Rs 315 crore), other economic services (Rs 255 crore) and Agriculture and allied activities (Rs 86 crore).

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

The quantum of assistance provided by way of grants and loans to local bodies etc., during the period of five years 2003-08 is given in **Table 1.21**:

**Table 1.21: Financial Assistance to local bodies and other institutions**

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	325	388	484	570	605
Municipal Corporations and Municipalities	847	919	954	1591	393
Zilla Parishads and Other Panchayati Raj Institutions	1735	1584	1287	1508	3216
Development Agencies	312	189	202	295	920
Hospital and Other Charitable Institutions	19	9	20	20	19
Other Institutions <sup>5</sup>	1890	2395	2119	4753	3248
Total	5128	5484	5066	8737	8401
Assistance as a percentage of RE	20	19	16	23	20

As seen from the table, while the grants-in-aid extended during 2007-08 to Zilla Parishads and Other Panchayati Raj Institutions and Development Agencies increased by 113 and 212 *per cent* respectively, the grants-in-aid

<sup>5</sup> 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.

extended to Municipal Corporations and Municipalities and Other Institutions decreased by 75 and 32 *per cent* respectively as compared to last year.

### **1.6 Misappropriation, losses, defalcations, etc.**

Cases of misappropriation of Government money reported to Audit up to March 2008 and on which report on final action *viz.*, write-off or recovery was pending at the end of June 2008 are given in **Table 1.22**.

**Table 1.22: Misappropriation cases**

(Rupees in lakh)

	Number of cases	Amount
Cases reported up to the end of March 2007 and outstanding at the end of June 2007	262	705.06
Cases reported during April 2007 to March 2008	2	2.26
Total	264	707.32
Cases cleared during July 2007 to June 2008	12	0.50
Cases outstanding at the end of June 2008	252	706.82

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

Further, 253 cases of shortage, theft, damage to property, etc., involving Rs 2.15 crore were reported to audit up to March 2008 by departments other than Public Works, Highways and Forest Departments. Besides, 2823 cases involving Rs 17.01 crore were either reported by or noticed during audit of Public Works, Highways and Forest Departments up to March 2008. Department-wise and year-wise analysis of these cases are contained in **Appendix 1.7**.

### **1.7 Delay in furnishing utilization certificate**

Of the 3,843 utilisation certificates (UC) due in respect of grants and loan aggregating Rs 876.88 crore paid upto 2006-07, 2,399 UCs for an aggregate amount of Rs 1167.40 crore were in arrears. Details of department-wise break-up of outstanding UCs are given in **Appendix 1.8**.

### **1.8 Assets and Liabilities**

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, Government accounts do capture the financial liabilities of the Government and assets created out of the expenditure incurred. **Appendix 1.5** gives an abstract of such liabilities and the assets as on 31 March 2008, compared with the corresponding position on 31 March 2007.

While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly, the capital outlay and loans and advances given by the State Government and cash balances. **Appendix 1.2** depicts the time series data on State Government finances for the period 2002-08.

During 2007-08, liabilities grew by 7.5 per cent. Similarly, assets comprising mainly capital expenditure and loans and advances given by the Government grew by 21.2 per cent during 2007-08.

### 1.8.1 Financial results of Irrigation Works

Statement 3 of Finance Accounts depicts the financial results of five major and 47 medium irrigation projects involving capital expenditure of Rs 2580.96 crore at the end of March 2007. It shows that revenue realised from these projects during 2006-07 was Rs 16.24 crore only. After meeting the working and maintenance expenditure (Rs 129.25 crore) and interest charges (Rs 120.57 crore), the projects suffered a net loss of Rs 232.77 crore. The losses comprised Rs 162.51 crore on the major irrigation projects and Rs 70.26 crore on the medium irrigation projects.

### 1.8.2 Incomplete projects

As per information received from the State Government, as of 31 March 2008 there were 49 incomplete projects which were scheduled for completion before March 2008 in which Rs 1222.55 crore were blocked in the projects having cost above rupees one crore as given in **Table 1.23**:

**Table 1.23: Incomplete projects**

(Rupees in crore)

Department	Number of incomplete Projects	Initial Budgeted cost	Revised cost of Projects	Cumulative actual expenditure as on 31.03.2008
Buildings	2	3.38	3.38*	2.65
Roads and Bridges	43	441.84	501.15**	255.20
Irrigation (Water Resources) and Flood Control	4	323.46	309.62***	964.70
<b>Total</b>	49	768.68	814.15	1222.55

\* no revision of project cost was made in both works.

\*\* In 39 works there was no revision of project cost.

\*\*\* In two works there was no revision of project cost.

The time overrun as of March 2008 was up to six months in respect of nine works; seven months to one year in respect of seven works; more than a year up to two years in respect of 26 works and more than two years in respect of seven works.

### 1.8.3 Financial analysis of Government investments

#### 1.8.3.1 Government Investments and returns

As of 31 March 2008, Government had invested Rs 6230.40 crore in statutory corporations, rural banks, joint stock companies and co-operatives (**Table 1.24**). The return on these investments were between 0.4 and 1.1 *per cent* in the last five years while as the Government paid interest at the average rate of 7.8 to 10.1 *per cent* on its borrowings during this period.

**Table 1.24: Return on Investment**

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on government borrowing	Difference between interest rate and return
	(Rupees in crore)		(per cent)		
2003-04	2464.36	27.20	1.1	10.1	9.0
2004-05	2557.71	24.25	0.9	9.1	8.2
2005-06	2744.60	20.92	0.8	7.8	7.0
2006-07	4278.43	26.32	0.6	8.6	8.0
2007-08	6230.40	22.10	0.4	8.9	8.5

During 2007-08, fresh investments to the tune of Rs 1952 crore were made in nine Government companies besides primary credit societies and agricultural banks, co-operative sugar mills, industrial co-operative societies, industrial co-operative tea factories and Integrated Co-operative Development Projects.

The investment of Rs 6230.40 crore was made by State Government in 73 companies (Statutory Corporations: 2, Government companies: 65 and Joint Stock Companies: 6) and Other Cooperative institutions. Of these, the investment aggregated to Rs 1502.60 crore in 39 loss making Government companies and cooperative institutions. The cumulative loss as of March 2008 in the above loss making companies worked out to Rs 5803.77 crore. In six companies<sup>6</sup> which are incurring loss, Government invested Rs 141.45 crore during 2007-08 in addition to the investment of Rs 2.55 crore, Rs 0.13 crore and Rs 0.04 crore in loss making co-operative sugar mills, industrial co-operative Societies and industrial co-operative tea factories respectively. Some of the Government companies incurring huge cumulative loss of more than Rs 200 crore at the end of March 2008 are shown in **Table 1.25**.

<sup>6</sup> Metropolitan Transport Corporation (Chennai Division-I) Limited: Rs 75 crore, Tamil Nadu State Transport Corporation (Madurai) Limited: Rs 40.95 crore, Tamil Nadu State Transport Corporation (Kumbakonam) Limited: Rs 4.50 crore, Tamil Nadu State Transport Corporation (Salem) Limited:Rs 8.50 crore, Tamil Nadu Handicrafts Development Corporation Limited, Chennai: Rs 0.25 crore and State Express Transport Corporation Limited, Chennai: Rs 12.25 crore.

Table 1.25

(Rupees in crore)

Name of the corporation	Cumulative loss as of 31 March 2008
1. Tamil Nadu State Transport Corporation (Madurai) Limited	919.76
2. Metropolitan Transport Corporation (Chennai Division I) Limited	589.53
3. State Express Transport Corporation (Tiruchy Division I) Limited	519.89
4. Tamil Nadu State Transport Corporation (Kumbakonam) Limited	323.29
5. Tamil Nadu State Transport Corporation (Coimbatore) Limited	214.21

Besides, the cumulative loss in 15 cooperative sugar mills was Rs 1266.62 crore.

### 1.8.3.2 Loans and advances by State Government

In addition to investments in co-operative societies, corporation and companies, Government has also been providing loans and advances to many of these institutions/organisations. Total outstanding loans and advances as on 31 March 2008, was Rs 6918 crore (**Table 1.26**). Average rate of interest received against these loans advanced was 1.1 *per cent* during 2007-08 as against 4.3 *per cent* in previous year.

Table 1.26: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Opening Balance</b>	<b>4612</b>	<b>5048</b>	<b>5350<sup>@</sup></b>	<b>5497</b>	<b>6149</b>
Amount advanced during the year	1011	1085 <sup>@</sup>	1039 <sup>@</sup>	2254	1782
Amount repaid during the year	575	783	892	1602	1013
<b>Closing Balance</b>	<b>5048</b>	<b>5350<sup>@</sup></b>	<b>5497<sup>@</sup></b>	<b>6149</b>	<b>6918</b>
Net addition	436	303	148	652	769
Interest Received	215	175	292	251*	72
Average interest receipts as per cent to outstanding loans (in <i>per cent</i> )	4.5	3.4	5.4	4.3	1.1
Average interest rate paid on borrowings by State Government (in <i>per cent</i> )	10.1	9.1	7.8	8.6	8.9
Difference between weighted interest paid and average rate of interest received (in <i>per cent</i> )	(-) 5.6	(-) 5.7	(-) 2.4	(-) 4.3	(-) 7.8

@ differs from the figures of previous years due to rounding of figures

\* differs from last year due to correction

Loans and Advances disbursed decreased from Rs 2254 crore in 2006-07 to Rs 1782 crore in 2007-08 mainly due to lesser disbursement of loans under Agricultural and allied activities (Rs 630 crore).

Similarly amount of loan repaid, decreased from Rs 1602 crore in 2006-07 to Rs 1013 crore in 2007-08 mainly due to increased repayment of loan under Agricultural and allied activities (Rs 513 crore) and Water Supply (Rs 201 crore), offset by decrease in repayment of loan under Industries and Minerals (Rs 140 crore).

#### **1.8.4 Management of cash balances**

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

Ways and Means Advances and Overdrafts availed, the number of occasions it was availed and interest paid by the State during 2003-08 are detailed in **Table 1.27**.

**Table 1.27: Ways and Means Advances and Overdrafts of the State**

	(Rupees in crore)				
	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Ways and Means Advances</b>					
Availed in the Year	1710.13	1337.07	675.12	--	--
Outstanding WMAs, if any	596.33	391.45	--	--	--
Number of Days	41	23	14	--	--
Interest Paid	7.64	1.40	0.61	--	--
<b>Overdraft</b>					
Availed in the year	--	--	--	--	--
Number of Days	2	--	--	--	--
Interest Paid	0.86	--	--	--	--

No Ways and Means Advances were obtained during 2006-07 and 2007-08. State had not availed of any overdraft since 2004-05.

The cash balance of the State increased from Rs 8402 crore at the end of March 2007 to Rs 9500 crore at the end of March 2008. The increase was mainly due to the increase in cash balance investment (Rs 1987.59 crore) offset by the decrease in Deposit with Reserve Bank of India (Rs 889.78 crore).

## **1.9 Undischarged Liabilities**

### **1.9.1 Fiscal Liabilities – Public Debt and Guarantees**

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Accounts. It



includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits. Statement 4 read with Statements 16 and 17 of the Finance Accounts show the year end balances under Debt, Deposit and Remittance heads from which the liabilities are worked out.

**Table 1.28** gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

**Table 1.28: Fiscal Liabilities – Basic Parameters**

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Fiscal Liabilities (Rupees in crore)</b>	<b>49445</b>	<b>55144</b>	<b>62310</b>	<b>66320</b>	<b>71072</b>
Rate of Growth ( <i>per cent</i> )	12.6	11.5	13	6.4	7.2
<b>Ratio of Fiscal Liabilities to</b>					
GSDP ( <i>per cent</i> )	28.1	27.5	27.9	26.9	25.4
Revenue Receipts ( <i>per cent</i> )	208.6	193.8	183.5	162.1	149.6
Own Resources ( <i>per cent</i> )	274.1	255.7	240.3	212.6	215.9
<b>Buoyancy of Fiscal Liabilities to</b>					
GSDP (ratio)	1.14	0.81	1.15	0.63	0.54
Revenue Receipts (ratio)	0.9	0.58	0.67	0.31	0.45
Own Resources (ratio)	1.1	0.59	0.64	0.32	1.30

The overall fiscal liabilities of the State increased from Rs 49445 crore in 2003-04 to Rs 71072 crore in 2007-08. Fiscal liabilities of the State comprise Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (Rs 57184 crore) comprise of market loan (Rs 20504 crore) loan from GOI (Rs 6935 crore), Special Securities issued to National Small Savings Fund of the Central Government (Rs 24848 crore) and other loans (Rs 4897 crore). The Public Account liabilities (Rs 13888 crore) comprise of Small Savings, Provident Fund (Rs 7471 crore), Interest bearing obligations (Rs 2288 crore) and non-interest bearing obligations (Rs 4129 crore) both containing deposits and other earmarked funds.

The growth rate of Fiscal Liabilities was 7.2 *per cent* during 2007-08 over previous year. The ratio of fiscal liabilities to GSDP decreased from 28.1 *per cent* in 2003-04 to 25.4 *per cent* in 2007-08. These liabilities stood at 1.50 times of the revenue receipts and 2.16 times of the State's own resources at the end of 2007-08. The buoyancy of these liabilities with respect to GSDP

during the year 2007-08 was 0.54 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.54 *per cent* during 2007-08.

State Government had set up a sinking fund for amortization of open market loans, Central Government loans and Special Securities issued to National Small Savings Fund. As of March 2008, the balance in sinking fund was Rs 1995.85 crore out of which Rs 1862.23 crore were invested in securities.

## **1.9.2 Status of Guarantees – Contingent liabilities**

### **1.9.2.1 Guarantees given**

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

**Table 1.29: Guarantees given by Government of Tamil Nadu**

(Rupees in crore)

<b>Year</b>	<b>Maximum amount guaranteed</b>	<b>Outstanding amount of guarantees</b>	<b>Maximum amount guaranteed as per cent to total revenue receipt</b>
2003-04	18843	10098	79.5
2004-05	17220	8424	60.5
2005-06	13669	5564	40.3
2006-07	15942	4038	39.0
2007-08	20090	5410	42.3

These guarantees constitute contingent liabilities of the State since in the event of non-payment of loans, there may be an obligation on the Government to honor these commitments. The maximum guarantees given in a year and the outstanding guarantees at the close of the year are given in above **Table 1.29**

In consideration of the guarantees given by the Government, the institutions, in some cases are required to pay guarantee fees. During 2007-08, Rs 28.85 crore was received as guarantee fees and Rs 145.96 crore was pending recovery towards the guarantee fees as on 31 March 2008.

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

According to the TNFR Act 2003 as amended in February 2004 and May 2005 the Government should cap the total outstanding guarantees to 100 *per cent* of the total revenue receipts in the preceding year or at 10 *per cent* of GSDP, whichever is lower and cap the risk weighted guarantees to 75 *per cent* of the total revenue receipts of the preceding year or at 7.5 *per cent* of GSDP, whichever is lower.

**Table 1.30: Outstanding guarantee compared to revenue receipts and GSDP**

(Rupees in crore)

Year	Outstanding amount of guarantee at the end of the year	Revenue Receipts of the previous year	Percentage of column (2) figures to column (3) figures	GSDP of previous year	Percentage of column (2) to column (5)
(1)	(2)	(3)	(4)	(5)	(6)
2004-05	8424	23706	35.5	175897	4.8
2005-06	5564	28452	19.6	200780	2.8
2006-07	4038	33960	11.9	223528	1.8
2007-08	5410	40913	13.2	246266	2.2

It is seen that maximum amount of guarantees as on 31 March 2008 was Rs 20090 crore against which sums outstanding on that date were Rs 5410 crore (Principal: Rs 5343 crore; Interest: Rs 67 crore). The outstanding guarantees for 2007-08 at 13.2 per cent of revenue receipts and 2.2 per cent of GSDP for the previous year viz., 2006-07 were within the ceiling limits prescribed under TNFRBM Act 2003 as amended thereafter in 2005. Also the outstanding risk weighted guarantees as on 31 March 2007 stood at 4.3 per cent of total revenue receipts and 0.7 per cent of GSDP. The details of outstanding risk weighted guarantees as on 31 March 2008 were yet to be furnished by Government.

### 1.9.2.3 Guarantee Redemption Fund

Government constituted a Guarantee Redemption Fund (GRF) in March 2003 for discharge of invoked guarantees. The guarantee fees collected are initially credited to Government account and then transferred to this fund. During 2003-04 to 2007-08, Rs 274 crore had been credited to the Guarantee Redemption Fund and out of this Rs 175.06 crore was withdrawn from the fund to meet the liabilities arising due to invoking of guarantees during the above period, as detailed below:

**Table 1.31: Amounts deposited and withdrawn in Guarantee Redemption Fund**

(Rupees in crore)

Year	Amount	
	Deposited	Withdrawn
2003-04	50.00	3.51
2004-05	50.00	89.99
2005-06	74.00	67.98
2006-07	50.00	0.73
2007-08	50.00	12.85
<b>Total</b>	<b>274.00</b>	<b>175.06</b>

Though the accretions to the Fund were to be invested in specified securities, no investment was made. The balance at the credit of the Fund as on 31 March 2008 was Rs 98.94 crore. During 2007-08, Rs 50 crore were credited and Rs 12.85 crore were met from the fund for meeting guarantee given for Tamil Nadu Handloom Weavers Cooperative Society Limited (Co-optex) (Rs 0.67 crore) and Pudukkottai, Bharathy and Kanniyakumari Co-operative Spinning Mills (Rs 12.18 crore).

## 1.10 Debt Sustainability

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

### 1.10.1 Debt-stabilisation

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided preliminary balances are either zero or positive or are moderately negative. Given the rates spread (GSDP growth rate – interest rate) and quantum spread (debt x rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt – GSDP ratio would be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt – GSDP ratio would be rising and in case it is positive, debt – GSDP ratio would eventually be falling. Trends in fiscal variable indicating the progress towards the debt-stabilisation are indicated in **Table 1.32**.

**Table 1.32: Debt-sustainability – interest rate and GSDP in per cent**

	2003-04	2004-05	2005-06	2006-07	2007-08
GSDP growth	11.07	14.15	11.33	10.17	13.41
Weighted interest rate	6.15	6.29	7.69	8.60	8.90
Interest spread	4.92	7.86	3.64	1.57	4.51
Quantum spread (Rs in crore)	2160.62	3886.38	2007.24	978.27	2991.03
Debt/GSDP ratio	28.1	27.5	27.9	26.9	25.4
Primary deficit (-) / surplus(+)	(-) 891	(-) 815	(+)2308	(+)1550	(+)2400

**Table 1.32** reveals that quantum spread together with primary deficit has been positive throughout the period 2003-08 indicating the declining trend in debt/GSDP ratio from 28.1 in 2003-04 to 25.4 in 2007-08. The ratio of fiscal deficit to GSDP also moved almost on similar trajectory indicating a decline since 2003-04. These trends indicate that the State is moving towards debt stabilization which might improve the debt sustainability position of the State in the medium to long run.

### 1.10.2 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. The

persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. **Table 1.33** indicates the resource gap as defined for the period 2002-08.

**Table 1.33: Net Availability of Borrowed Funds**

(Rupees in crore)

Year	Incremental				Resource Gap
	Non-debt Receipts	Primary Expenditure <sup>7</sup>	Interest Payments	Total Expenditure	
2003-04	3011	1293	567	1860	1151
2004-05	4954	4878	55	4933	21
2005-06	5617	2494	(-) 196	2298	3319
2006-07	7663	8421	947	9368	(-) 1705
2007-08	6018	5168	580	5748	(+) 270

During 2003-08, only on one occasion the negative resource gap was observed and that too on account of steep increase in primary expenditure.

### 1.10.3 Net availability of borrowed funds

Another important indicator of debt sustainability is the net availability of funds after the payment of the principal on account of earlier contracted liabilities and interest. **Table 1.34** gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State over the last five years.

**Table 1.34: Net Availability of Borrowed Funds**

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Internal Debt</b>					
Receipt	10410	12215	9200	6820	6868
Repayment (Principal + Interest)	5774	7216	5841	8311	7756
Net Fund Available	4636	4999	3359	(-) 1491	(-) 888
Net Fund Available ( <i>per cent</i> )	45	41	37	..	--
<b>Loans and Advances from GOI</b>					
Receipt	1023	1259	442	327	779
Repayment (Principal + Interest)	4608	5270	728	1169	815
Net Fund Available	(-) 3585	(-) 4011	(-) 286	(-) 842	(-) 36
Net Fund Available ( <i>per cent</i> )	--	--	--	..	--
<b>Total Public Debt</b>					
Receipt	11433	13474	9642	7147	7647
Repayment (Principal + Interest)	10382	12486	6569	9480	8572
Net Fund Available	1051	988	3073	(-) 2333	(-) 925
Net Fund Available ( <i>per cent</i> )	9.2	7.3	31.9	..	--

<sup>7</sup> Primary Expenditure is defined as the Total Expenditure net of the interest payments.

The net funds available on account of internal debt and loans and advances from GOI after declining from Rs 1051 crore in 2003-04 to Rs 988 crore in 2004-05, increased to Rs 3073 crore in 2005-06. During 2006-08, debt redemption ratio exceeded the unity when the repayments towards the discharge of past debt obligations were significantly more than the fresh debt receipts during the year indicating the fact that no borrowed funds were available for development purposes during this period.

## **1.11 Management of deficits**

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

### **1.11.1 Trends in deficits**

**Table 1.35** showing the basic parameters of fiscal imbalances during the period 2003–08 revealed that the State Government improved its financial position over the years and achieved revenue surplus and primary surplus during 2005-06 to 2007–08 but continued to have fiscal deficit.

**Table 1.35: Fiscal Imbalances: Basic Parameters**

<b>Parameters</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
Revenue deficit (RD) (-) / Revenue Surplus (RS) (+) (Rupees in crore)	(-) 1565	(-) 703	(+) 1951	(+) 2648	(+) 4545
Fiscal deficit (FD) (Rupees in crore)	(-) 5591	(-) 5570	(-) 2251	(-) 3956	(-) 3686
Primary deficit <sup>8</sup> (PD) (-) / Primary surplus (PS) (+) (Rupees in crore)	(-) 891	(-) 815	(+) 2308	(+) 1550	(+) 2400
RD or RS/GSDP ( <i>per cent</i> )	(-) 0.9	(-) 0.4	0.9	1.1	1.6
FD/GSDP ( <i>per cent</i> )	(-) 3.2	(-) 2.8	(-) 1.0	(-) 1.6	(-) 1.3
PD or PS/GSDP ( <i>per cent</i> )	(-) 0.5	(-) 0.4	1.0	0.6	0.9
RD or RS/FD ( <i>per cent</i> )	28.0	12.6	(-) 86.7	(-) 66.9	(-) 123.3

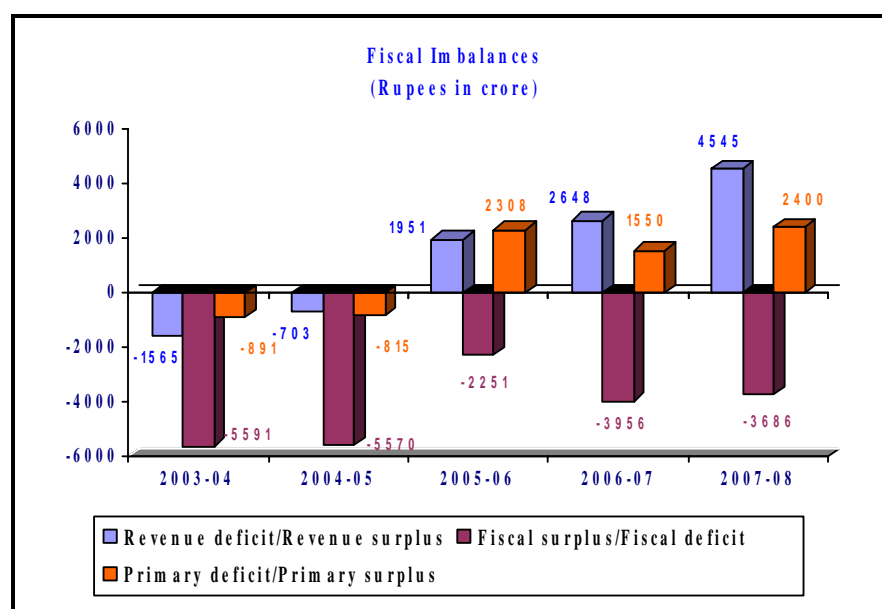
**Table 1.35** reveal that the revenue account experienced huge deficit during 2003-05, as the revenue expenditure exceeds the revenue receipts during all those years. However, from 2005-06 onwards the revenue account not only turned into a surplus but it increased from Rs 1951 crore in 2005-06 to Rs 4545 crore in 2007-08. An increase of Rs 1897 crore in revenue surplus during 2007-08 was mainly on account of the fact that the revenue receipts increased by Rs 6607 crore (16.2 *per cent*) against the increase of Rs 4710 crore (12.3 *per cent*) in revenue expenditure over the previous year. The improvement in revenue surplus of the State may however be seen in view of

<sup>8</sup> Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the States during the course of the year.

the fact that about 74 per cent of the incremental revenue receipts of the State during 2007-08 (Rs 4877 crore) are contributed by the central transfers comprising of State's share in central taxes and duties and grants-in-aid from the Union of India.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap, improved from Rs 5570 crore in 2004-05 to Rs 2251 crore in 2005-06, because increase in revenue receipts was higher than the increase in revenue expenditure and decrease in capital expenditure during the period. However, during 2006-07 and 2007-08 due to increased revenue and capital expenditure which was much higher than the increase in revenue receipts, the fiscal deficit declined to Rs 3956 crore in 2006-07 and then slightly improved to Rs 3686 crore in 2007-08.

The Primary deficit of the State decreased from Rs 891 crore in 2003-04 to Rs 815 crore in 2004-05. During 2005-06, it turned into primary surplus of Rs 2308 crore which slightly decreased to Rs 1550 crore in 2006-07 but during the current year it again increased to Rs 2400 crore which was the resultant of decrease in fiscal deficit and increase in the interest payments during the year.



### 1.11.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary Deficit into Primary Revenue Deficit<sup>9</sup> and Capital Expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of RD to FD indicates the extent to which borrowed funds were used for current consumption. The ratio of RD to FD declined steeply during 2004-05 and the

<sup>9</sup> Primary Revenue Deficit is the gap between non-interest revenue expenditure of the State and its revenue receipts and it indicate the extent to which the revenue receipts of the State are able to meet the primary expenditure incurred under revenue account.

RD was wiped out and turned into surplus during 2005-06 to 2007-08. This trajectory shows a consistent improvement in the quality of deficit.

The bifurcation of the factors resulting in to primary deficit or surplus of the State during the period 2002-08 reveals (Table 1.36) that throughout this period except in the year 2002-03, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet primary expenditure requirements in the revenue account during these years, rather left some receipts to meet the expenditure under the capital account. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account, resulting in primary deficit till 2004-05. During 2005-06 to 2007-08, the adequacy of non-debt receipts to meet the primary expenditure led to the emergence of primary surplus during these years.

**Table 1.36: Primary deficit/surplus – Bifurcation of factors**

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and advances	Primary Expenditure	Non-debt receipts vis-à-vis Primary Revenue expenditure	Primary Deficit (-)/ Surplus (+) with reference to Capital expenditure
(1)	(2)	(3)	(4)	(5)	(6)=(3)+(4)+(5)	(7)= (2)-(3)	(8)=(2)-(6)
2002-03	21270	21555	1628	697	23880	(-) 285	(-) 2610
2003-04	24281	20571	3590	1011	25172	3710	(-) 891
2004-05	29235	24400	4564	1086	30050	4835	(-) 815
2005-06	34852	27450	4054	1040	32544	7402	2308
2006-07	42515	32759	5952	2254	40965	9756	1550
2007-08	48533	36889	7462	1782	46133	11644	2400

## 1.12 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 1.37 presents a summarized position of Government finances over 2003-08, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.



Table 1.37: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2003-04	2004-05	2005-06	2006-07	2007-08
<b>I Resource Mobilization</b>					
Revenue Receipt/GSDP	13.5	14.2	15.2	16.6	17.0
Revenue Buoyancy	1.24	1.42	1.71	2.01	1.20
Own Tax/GSDP	9.06	9.64	10.44	11.26	10.61
<b>II Expenditure Management</b>					
Total Expenditure/GSDP	17.0	17.3	16.6	18.9	18.7
Total Expenditure/Revenue Receipts	126.0	122.3	109.3	113.6	109.9
Revenue Expenditure/Total Expenditure	84.6	83.8	86.3	82.3	82.3
Capital Expenditure/Total Expenditure	12.0	13.1	10.9	12.8	14.3
Buoyancy of TE with RR	0.48	0.83	0.34	1.23	0.77
Buoyancy of RE with RR	0.11	0.77	0.51	0.95	0.76
<b>III Management of Fiscal Imbalances</b>					
Revenue deficit (-)/Revenue Surplus (+) (Rs in crore)	(-) 1565	(-) 703	(+) 1951	(+) 2648	(+) 4545
Fiscal deficit (Rs in crore)	(-) 5591	(-) 5570	(-) 2251	(-) 3956	(-) 3686
Primary Deficit (-)/ Primary Surplus (+) (Rs in crore)	(-) 891	(-) 815	(+) 2308	(+) 1550	(+) 2400
Revenue Deficit/Fiscal Deficit	28.0	12.6	(-) 86.7	(-) 66.9	(-) 123.3
<b>IV Management of Fiscal Liabilities</b>					
Fiscal Liabilities/GSDP	28.1	27.5	27.9	26.9	25.4
Fiscal Liabilities/RR	208.6	193.8	183.5	162.1	149.6
Buoyancy of FL with RR	0.91	0.58	0.67	0.31	0.45
Buoyancy of FL with Own Receipt	1.11	0.59	0.64	0.32	1.30
Net Funds Available under Public Debt	9.2	7.3	31.9	..	--
<b>V Other Fiscal Health Indicators</b>					
Return on Investment	1.1	0.9	0.8	0.6	0.4
Balance from Current Revenue (Rs in crore)	(+) 1280	(+) 1962	(+) 6054	(+) 7550	(+) 10223
Financial Liabilities / Assets	0.45	0.51	0.61	0.67	0.76

The trends in ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy and accessibility of State to resources. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The revenue receipts as a ratio to GSDP has consistently increased during the period 2003-08 and reached to 17.0 per cent during the year. The percentage of own taxes to GSDP improved from 9.06 in 2003-04 to 10.61 in 2007-08.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource

mobilization efforts. The revenue expenditure as a percentage to total expenditure although declined during 2003-08 but it still continued to share about 82.3 per cent of total expenditure during 2007-08. The relatively higher buoyancy ratio of total expenditure as compared to that of revenue expenditure with respect to revenue receipts indicates the propensity of the State Government to create assets by resorting to *inter alia* capital expenditure. Increasing reliance on revenue receipts to finance the total expenditure which amounts to 91 *per cent* during 2007-08 indicates decreasing dependence on borrowed funds. This is also reflected by the decreasing ratio of financial liabilities to revenue receipts. The proportion of capital expenditure in the total expenditure and GSDP at 14.3 *per cent* and 2.7 *per cent* with inter year variations are relatively low.

Revenue surplus from 2005-06 onwards and significant decline in fiscal deficit since 2002-03, indicates improvements in fiscal position of the State. The Balance from Current Revenue remained positive and consistently increased during the period 2003-08 indicating the adequate availability of funds for meeting the development requirements of the State.

### **1.13 Conclusion**

The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit – indicated significant improvement in 2007-08 relative to the previous year. The State has achieved the revenue and fiscal deficits targets relative to GSDP laid down under the Rules framed under the TNFRBM Act during the year. The improvement in fiscal position of the State was observed to be mainly on account of increase in revenue receipts by Rs 6607 crore (16.2 *per cent*) against an increase of Rs 4710 crore (12.3 *per cent*) in revenue expenditure resulting an increase of Rs 1897 crore in revenue surplus in 2007-08 over the previous year. The improvement in revenue surplus of the State may however be seen in view of the fact that about 74 *per cent* of the incremental revenue receipts of the State during 2007-08 (Rs 4877 crore) are contributed by the central transfers comprising of State's share in central taxes and duties and grants-in-aid from the Union of India. The expenditure pattern of the State reveals that the revenue expenditure as a percentage to total expenditure although indicating a declining trend, still constitutes a little more than 82 *per cent* of the total expenditure during 2007-08 and its NPRES component at Rs 34678 crore during 2007-08 exceeded the normative projection of the TFC for the year by Rs 5061 crore. Moreover, within the non plan revenue expenditure, four components viz. salary expenditure, pension liabilities, interest payments and subsidies constitute about a sizeable 75 *per cent* of NPRES during 2007-08. These trends in expenditure indicate the need for changing allocative priorities. The increasing fiscal liabilities accompanied with negligible rate of return on government investments and inadequate interest cost recovery on loans and advances might lead to a unsustainable situation in medium to long run unless suitable measures are initiated to compress the non plan revenue expenditure and to mobilize the additional resources both through the tax and non tax sources in ensuing years. State continued to give guarantees to various institutions for

raising resources and the maximum guarantees given during 2007-08 constituted 42.3 *per cent* of the revenue receipts of the State. The guarantees to the extent of Rs 175 crore have already been invoked during the period 2003-08 and with many Government companies and cooperative institutions continuing to incur losses, there is an inherent risk of invocation of more government guarantees in the future.