CHAPTER I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

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1.1 Introduction

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

1.2 Financial position of the State

In the Government accounting system, comprehensive accounting of the fixed assets like land and buildings etc., owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. Exhibit I gives an abstract of such liabilities and assets as on 31 March 2001, compared with the corresponding position on 31 March 2000. While the liabilities in this statement consist mainly of external and internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. It would be seen from Exhibit I that while the liabilities grew by 18.1 *per cent*, the assets grew by only 13.5 *per cent* during 2000-2001, mainly as a result of a very high (21.9 *per cent*) increase in deficit. There was overall deterioration in the financial condition.

1.3 Sources and applications of funds

1.3.1 Exhibit III gives the position of sources and applications of funds during the current and the preceding year. The main sources of funds include the revenue receipts of the Government, recoveries of the loans and advances, public debt and the receipts in the Public Account. These are applied mainly on revenue and capital expenditure and on lending for developmental purposes. It would be seen that the revenue receipts constitute the most significant source of fund for the State Government, and their relative share went up from 74 *per cent* in 1999-2000 to 76.7 *per cent* during 2000-2001. The share of recoveries of loans and advances went up marginally from 1.4 *per cent* to 1.5 *per cent*. As a result, the Government had to meet its requirement through increased borrowings (the share of public debt went up from 14.1 to 16.2 *per cent*) and partly from the receipts from Public Account (their share went down from 10.6 *per cent* in 1999-2000 to 5.6 *per cent* in 2000-2001).

1.3.2 The funds were mainly applied for revenue expenditure. Though its share went down from 93.9 *per cent* to 91 *per cent*, it remained significantly higher than the share of the revenue receipts (76.7 *per cent*) in the total receipts of the State Government. This led to the revenue deficit. The increase in the revenue expenditure during the year was attributable mainly towards increase in consumer subsidies under “Civil Supplies”, interest payment on internal debt and payments of pension and other retirement benefits. While the percentage of capital expenditure went up from 2.9 *per cent* to 6.5 *per cent*, lending for development purposes went down from 3 *per cent* to 1.9 *per cent*.

EXHIBIT I
SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF TAMIL NADU AS ON 31 MARCH 2001

(Rupees in crore)

As on 31.03.2000	Liabilities		As on 31.03.2001
6505.83	Internal Debt (excluding overdrafts) -		10935.90
4768.73	Market Loans bearing interest	5818.53	
14.34	Market Loans not bearing interest	17.72	
247.91	Loans from Life Insurance Corporation of India	645.98	
1161.14	Loans from other Institutions	4212.14	
313.71	Ways and Means Advances	241.53	
98.13	Overdrafts from Reserve Bank of India		NIL
12385.26	Loans and Advances from Central Government -		11929.36
146.05	Pre 1984-85 Loans	126.00	
5142.45	Non-Plan Loans	4031.45	
6981.71	Loans for State Plan Schemes	7661.37	
33.62	Loans for Central Plan Schemes	32.79	
81.43	Loans for Centrally Sponsored Plan Schemes	77.75	
150.00	Contingency Fund		149.39
4848.74	Small Savings, Provident Funds, etc.		5819.96
3422.05	Deposits		3533.62
1204.25	Reserve Funds		1235.45
118.55	Remittance Balances		324.12
28732.81			**33927.80**
As on 31.03.2000	**Assets**		**As on 31.03.2001**
9248.67	Gross Capital Outlay on Fixed Assets -		10795.48
2724.44	Investments in shares of Companies, Corporations, etc.	2963.27	
6524.23	Other Capital Outlay	7832.21	
4031.75	Loans and Advances -		4125.05
413.16	Loans for Power Projects	335.25	
3192.04	Other Development Loans	3314.30	
426.55	Loans to Government servants and Miscellaneous loans	475.50	
34.33	Reserve Fund Investments		33.45
8.31	Advances		8.08
(-) 254.29	Suspense and Miscellaneous Balances		(-) 256.70
84.43	Cash -		225.24
(-)28.82	Cash in Treasuries and Local Remittances	122.59	
107.18	Deposits with Reserve Bank	95.55	
2.12	Departmental Cash Balance	3.09	
5.63	Permanent Advances	5.68	
(-)1.68	Cash Balance Investments	(-) 1.67	
15579.61	Deficit on Government Account -		18997.20
4400.30	(i) Revenue Deficit of the current year	3435.78	
(-) 37.54	(ii) Miscellaneous Deficit	(-) 18.26	
11216.85	Accumulated deficit up to 31 March 2000	15579.68*	
28732.81			**33927.80**

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

EXHIBIT II

ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2000-2001

(Rupees in crore)

		Receipts					Disbursements				
1999-2000				**2000-2001**	**1999-2000**			**Non-Plan**	**Plan**	**Total**	**2000-2001**
		Section-A: Revenue									
16327.53	**I**	Revenue receipts		18316.66	20727.83	**I**	Revenue expenditure-				21752.44
10918.93		-Tax revenue	12282.24		7743.12		General services	8346.20	7.51	8353.71	
					7643.83		Social Services-	6644.09	1148.12	7792.21	
1356.85		-Non-tax revenue	1710.78		4348.72		-Education, Sports, Art and Culture	4190.63	205.37	4396.00	
					1141.48		-Health and Family Welfare	858.59	301.90	1160.49	
2667.00		-State's share of Union Taxes	2783.75		413.36		-Water Supply, Sanitation, Housing and Urban Development	173.80	164.93	338.73	
					16.60		-Information and Broadcasting	18.94	0.32	19.26	
218.52		-Non-Plan grants	264.61		470.21		-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	249.30	246.05	495.35	
598.06		-Grants for State Plan Scheme	680.22		104.79		-Labour and labour Welfare	105.19	2.54	107.73	
					1133.65		-Social Welfare and Nutrition	997.25	226.37	1223.62	
568.17		-Grants for Central and Centrally sponsored Plan Schemes	595.06		15.02		-Others	50.39	0.64	51.03	
					4315.81		Economic Services-	3480.57	1147.44	4628.01	
					2010.75		-Agriculture and Allied Activities	1015.87	318.50	1334.37	
					556.75		-Rural Development	127.56	528.55	656.11	
					14.70		-Special Areas Programmes	0.25	15.02	15.27	
					394.93		-Irrigation and Flood control	337.19	91.72	428.91	
					2.35		-Energy	0.71	2.22	2.93	
					194.51		-Industry and Minerals	110.27	136.83	247.10	
					326.07		-Transport	241.22	24.57	265..79	
					5.59		-Science, Technology and Environment	..	16.21	16.21	
					810.16		-General Economic Services	1647.50	13.82	1661.32	
					1025.07		Grants-in-aid and Contributions-	945.77	32.74	978.51	
					20727.83		Total	19416.63	2335.81	21752.44	
4400.30	**II**	Revenue deficit carried over to Section B		3435.78		**II**	Revenue Surplus carried over to Section B				
20727.83		**Total**		**21752.44**	**20727.83**		**Total**				**21752.44**
		Section-B : Others									
26.87	**III**	Opening Cash balance including Permanent Advances and Cash Balance Investment		84.43	..	**III**	Opening Overdraft from Reserve Bank of India				98.13
	IV	Miscellaneous Capital receipts		..	644.93	**IV**	Capital Outlay-				1546.88
					155.96		General Services-	12.32	139.71	152.03	
					270.31		Social Services-	2.13	632.02	634.15	
					62.10		-Education, Sports, Art and Culture	0.42	13.25	13.67	
					67.53		-Health and Family Welfare	..	26.89	26.89	
					100.88		-Water Supply, Sanitation, Housing and Urban Development	(a)	571.11	571.11	
					2.27		-Information and Broadcasting	2.71	..	2.71	
					33.76		-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes		16.28	16.28	

(a) Rs 2,438 only

EXHIBIT II – (concld.)

(Rupees in crore)

1999-2000				2000-2001	1999-2000			Non-plan	Plan	Total	2000-2001
		Section-B: Others (concld)									
					1.29		-Social Welfare and Nutrition	..	4.19	4.19	
					2.48		-Others	(-) 1.00	0.30	(-) 0.70	
					218.66		Economic Services-	(-) 334.51	1095.21	760.70	
					105.35		-Agriculture and Allied Activities	(-) 18.27[B]	118.76	100.49	
					0.50		-Rural Development	..	194.55	194.55	
					14.42		-Special Areas Programmes	..	13.28	13.28	
					361.20		-Irrigation and Flood Control	..	291.85	291.85	
					(-) 726.05		-Energy	(-) 319.43[c]	100.00	(-) 219.43	
					1.06		-Industry and Minerals	0.49	(-) 0.25	0.24	
					460.11		-Transport	2.70	375.39	378.09	
					2.07		-General Economic Services	(d)	1.63	1.63	
					644.93		Total	(-) 320.06	1866.94	1546.88	
314.08	**V**	Recoveries of Loans and Advances-		359.35	651.17	**V**	Loans and Advances disbursed-				452.65
75.30		-From Power Projects	77.91		..		-For Power Projects			..	
93.23		-From Government Servants	101.07		149.25		-To Government Servants			150.10	
145.55		-From Others	180.37		501.92		-To Others			302.55	
					4400.30	**VI**	Revenue deficit brought down				3435.78
3710.53	**VI**	Public debt receipts-		4731.47	602.87	**VII**	Repayment of Public debt-				855.43
..		-External debt	..		..		-External debt			..	
1287.98		-Internal debt other than Ways and Means Advances	4665.00		131.76		-Internal debt other than Ways and Means Advances and Overdraft			162.75	
313.71		- Net transactions under Ways and Means Advances	..								
2010.71		-Loans and Advances from Central Government	66.47		..		- Net transactions under Ways and Means Advances			72.18[e]	
					471.11		-Repayment of Loans and Advances to Central Government			522.37	
..	**VII**	Appropriation to Contingency Fund		..	..	**VIII**	Appropriation to Contingency Fund				..
..	**VIII**	Amount transferred to Contingency Fund		..	..	**IX**	Expenditure from Contingency Fund				0.61
19545.00	**IX**	Public Account receipts-		21285.60	17212.78	**X**	Public Account disbursements-				19944.26
2690.85		-Small Savings and Provident Funds	2792.47		1542.45		-Small Savings and Provident Funds			1821.25	
168.62		-Reserve Funds	224.36								
5004.56		-Suspense and Miscellaneous	6007.18								
4978.97		-Remittance	5109.28		181.17		-Reserve Funds			192.28	
6702.00		-Deposits and Advances	7152.31		4885.21		-Suspense and Miscellaneous			5986.51	
					5028.99		-Remittances			4903.71	
					5574.96		-Deposits and Advances			7040.51	
98.13	**X**	Closing Overdraft from Reserve Bank of India		..	84.43	**XI**	Cash Balance at end-				225.24
					(-) 28.82		-Cash in Treasuries and Local Remittances		122.59		
					107.18		-Deposits with Reserve Bank		95.55		
					7.75		-Departmental Cash Balance including permanent Advances		8.77		
					(-) 1.68		-Cash Balance Investment		(-) 1.67		
23596.48		**Total**		**26460.85**	**23596.48**		**Total**				**26460.85**

(b) minus expenditure is due to repayment of share capital; (c) minus expenditure is due to adjustment of share capital in Tamil Nadu Electricity Board to arrears of tariff compensation due to the Board; (d) (-) 1860 only; and (e) Represents receipts: Rs 5151.63 crore and disbursements: Rs 5223.81 crore.

EXHIBIT III

SOURCES AND APPLICATIONS OF FUNDS

(Rupees in crore)

1999-2000		Sources	2000-2001
16327.53	1.	Revenue receipts	18316.66
314.08	2.	Recoveries of Loans and Advances	359.35
3009.53	3.	Increase in Public debt other than overdraft	3974.17
98.13	4.	Increase in overdraft	(-) 98.13
	5.	Net receipts from Public Account:	
1148.40		Increase in Small Savings and Provident Fund	971.22
1127.04		Increase in Deposits and Advances	111.80
(-)12.55		Increase in Reserve Funds	32.08
119.35		Net effect of suspense and Miscellaneous transactions	20.67
(-)50.02		Net effect of Remittance transactions	205.57
..	6.	Net effect of Contingency Fund transactions	(-) 0.61
..	7.	Decrease in closing cash balance	..
22081.49		**Total**	**23892.78**
1999-2000		**Applications**	**2000-2001**
20727.83	1.	Revenue expenditure	21752.44
651.17	2.	Lending for development and other purposes	452.65
644.93	3.	Capital expenditure	1546.88
57.56	4.	Increase in closing cash balance	140.81
22081.49		**Total**	**23892.78**

Explanatory Notes for Exhibits I, II and III:

1. The abridged accounts in the foregoing statements have to be read with comments and explanations in the Finance Accounts.
2. Government accounts being mainly on cash basis, the deficit on Government account, as shown in Exhibit I, indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation or variation in stock figures etc., do not figure in the accounts.
3. Suspense and Miscellaneous balances include cheques issued but not paid, payments made on behalf of the State and other pending settlements etc.
4. There was a difference of Rs 92.56 lakh (net credit) between the figures reflected in the Accounts and that intimated by the Reserve Bank of India under “Deposits with Reserve Bank”. A net difference of Rs 37.45 lakh (net credit) had been reconciled (April 2001) leaving a balance of net credit of Rs 55.11 lakh.
5. Arrears of tariff compensation of Rs 319.43 crore to Tamil Nadu Electricity Board for supply of electricity at concessional rates to agriculturists was adjusted against the equity share capital assistance to Tamil Nadu Electricity Board under Capital Expenditure.

EXHIBIT IV

TIME SERIES DATA ON STATE GOVERNMENT FINANCES

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
Part A. Receipts					
1. Revenue Receipts	**11961 (45)**	**13587 (45)**	**14261 (43)**	**16328 (41)**	**18317 (41)**
(i) Tax Revenue	**7983 (67)**	**8686 (64)**	**9625 (67)**	**10919 (67)**	**12282 (67)**
Taxes on Agricultural Income	14	39	39	18	5 (-)
Taxes on Sales, Trade, etc	5341	5604	6113	7024	8197 (67)
State Excise	1063	1300	1710	1834	1869 (15)
Taxes on vehicles	425	470	518	578	590 (5)
Stamps and Registration fees	591	632	673	818	910 (7)
Land Revenue	19	60	28	47	56 (1)
Taxes on goods and passengers	187	215	183	223	242 (2)
Other Taxes	530	581	544	600	413 (3)
(ii) Non Tax Revenue	**885**	**1122**	**1157**	**1357**	**1711 (9)**
(iii) State's share of Union taxes and duties	**2166**	**2728**	**2409**	**2667**	**2784 (15)**
(iv) Grants in aid from Government of India	**927**	**1051**	**1070**	**1385**	**1540 (8)**
2 . Miscellaneous Capital Receipts	..	..	..	..	..
3. Total Revenue and Non debt capital receipts (1+2)	11961	13587	14261	16328	18317
4. Recoveries of Loans and Advances	659	1217	323	314	359
5. Public Debt Receipts	**1778 (7)**	**2133 (7)**	**2678 (8)**	**3711 (9)**	**4731**
Internal Debt (excluding Ways and Means Advances and Overdrafts)	471	698	1044	1288	4665
Net transactions under Ways and Means Advances and Overdrafts	..	..	..	412	..
Loans and Advances from Government of India[$]	1307	1435	1634	2011	66
6. Total Receipts in the Consolidated Fund (3+4+5)	14398	16937	17262	20353	23407
7. Contingency Fund Receipts	*	5	..	..	..
8. Public Account Receipts	12388	13062	15791	19545	21286
9. Total Receipts of the State (6+7+8)	**26786**	**30004**	**33053**	**39898**	**44693**
Part B. Expenditure/Disbursement					
10. Revenue Expenditure	**13065 (93)**	**14951 (91)**	**17698 (94)**	**20728 (97)**	**21753 (93)**
Plan	2297	2131	2431	2341	2336 (11)
Non Plan	10768	12820	15267	18387	19417 (89)
General Services (including interest payments)	4096	4672	5880	7743	8354
Social Services	5121	5614	7101	7644	7792
Economic Services	3516	3835	3682	4316	4628
Grants-in-aid and contributions	332	830	1035	1025	979
11. Capital Expenditure	**920 (7)**	**1468 (9)**	**1153 (6)**	**645 (3)**	**1547 (7)**
Plan	781	883	1199	1447	1867
Non Plan	139	585	(-) 46	(-) 802[#]	(-) 320[#]
General Services	30	55	114	156	152
Social Services	208	247	228	270	634
Economic Services	682	1166	811	219	761
12. Disbursement of Loans and Advances	**1080**	**507**	**510**	**651**	**453**
13. Total (10+11+12)	**15065**	**16926**	**19361**	**22024**	**23753**
14. Repayments of Public Debt	**338 (1)**	**408 (1)**	**519 (2)**	**603 (2)**	**855(2)**
Internal Debt (excluding Ways and Means Advances and Overdrafts)	**24**	**61**	**110**	**132**	**163**
Net transactions under Ways and Means Advances and Overdraft	**..**	**..**	**..**	**..**	**170**
Loans and Advances from Government of India[$]	**314**	**347**	**409**	**471**	**522**
15. Appropriation to Contingency Fund	**..**	**..**	**..**	**..**	**..**
16. Total disbursement out of Consolidated Fund (13+!4+15)	**15403**	**17334**	**19880**	**22627**	**24608**
17. Contingency Fund disbursements	**5**	**..**	**..**	**..**	**1**
18. Public Account disbursements	**11393**	**12529**	**14201**	**17213**	**19944**
19. Total disbursement by the State (16+17+18)	**26801**	**29863**	**34081**	**39840**	**44553**
Part C. Deficits					
20. Revenue Deficit (1-10)	**1104**	**1364**	**3437**	**4400**	**3436**
21. Fiscal Deficit (3+4-13)	2445	2122	4777	5382	5077
22. Primary Deficit (21-23)	969	358	2655	2671	1953
Part D. Other data					
23. Interest Payments (included in revenue expenditure))	1476	1763	2122	2711	3124
24. Arrears of Revenue (Percentage of Tax and non-tax Revenue Receipts)	3471(39)	4382(45)	6325(59)	8664(71)	8416 (60)
25. Financial Assistance to local bodies etc.,	2279	2037	3767	4221	3970
26. Ways and Means Advances/Overdraft availed (days)					
Ways and Means Advances availed (days)	..	..	742(38)	3761(202)	5152 (219)
Overdraft availed (days)	..	..	..	1486(55)	1713 (76)
27. Interest on Ways and Means Advances/Overdraft	..	..	@	8	16
28. Gross State Domestic Product (GSDP)	91914	104683	117044	128646	147093
29 Outstanding debt (year end)	11995	13720	15882	18989	22865
30. Outstanding guarantees (year end)	4339	4472	6151	5654	6780
31. Maximum amount guaranteed (year end)	7881	8398	11559	10223	11027
32. Number of incomplete projects	6	21	17	16	20
33. Capital blocked in incomplete projects	101	116	215	215	304

Figures in bracket represent percentages (rounded) to total of each sub-heading; [$] Includes Ways and Means Advances from Government of India;
[#] Minus figure is mainly due to conversion of equity in Tamil Nadu Electricity Board to tariff compensation @ not debited to account during 1998-99;

1.4 Financial operations of the State Government

1.4.1 Exhibit II gives the details of the receipts and disbursements made by the State Government. The revenue expenditure (Rs 21753 crore) during the year exceeded the revenue receipts (Rs 18317 crore) resulting in a revenue deficit of Rs 3436 crore. The revenue receipts comprised tax revenue (Rs 12282 crore), non-tax revenue (Rs 1711 crore), State's share of Union taxes and duties (Rs 2784 crore) and grants-in-aid from the Central Government (Rs 1540 crore). The main sources of tax revenue were sales tax (67 *per cent*), state excise (15 *per cent*) and stamps and registration fees (7 *per cent*). Non-tax revenue came mainly from interest receipts (24 *per cent*) and economic services (42 *per cent*).

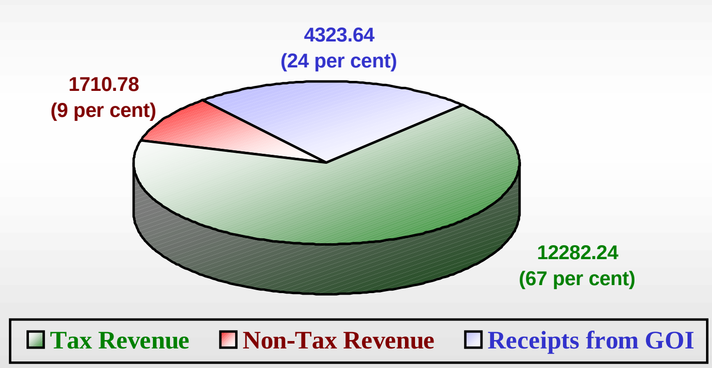
1.4.2 The capital receipts comprised Rs 359 crore from recoveries of loans and advances and Rs 4731 crore from public debt. Against this, the expenditure was Rs 1547 crore on capital outlay, Rs 453 crore on disbursement of loans and advances and Rs 855 crore on repayment of public debt. The receipts in the Public Account amounted to Rs 21286 crore, against which disbursements of Rs 19944 crore were made. The net effect of the transactions in the Consolidated Fund, Contingency Fund and Public Account was an increase in the cash balance from Rs 84 crore at the beginning of the year to Rs 225 crore at the end of the year.

1.4.3 The financial operations of the State Government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in Exhibit II and the time series data for the five year period from 1996-97 to 2000-2001, presented in Exhibit IV.

1.5 Revenue receipts

1.5.1 The revenue receipts consist mainly of tax and non-tax revenue and receipts from Government of India (GOI). Their relative shares during 2000-2001 are shown in Figure 1. The growth of Revenue Receipts declined from 14 *per cent* during 1999-2000 to 12 *per cent* during 2000-2001.

Figure 1
Revenue Receipts for 2000-2001
(Rupees in crore)



1.5.2 Tax revenue

This constituted the major share (67 *per cent*) of the revenue receipts. Exhibit IV shows that the relative contribution of sales tax had gone up from 64 *per cent* in 1999-2000 to 67 *per cent* of tax revenue in 2000-2001, while that of excise duty, which had gone down from 17 *per cent* in 1999-2000 to 15 *per cent* in 2000-2001. The taxes on vehicles which constituted 6 *per cent* of total tax revenue collection during 1996-97 declined to 5 *per cent* during subsequent years. The percentage of registration fees to total tax revenue ranged between 7 and 8 during 1996-97 to 2000-2001.

1.5.3 Non-tax revenue

The non-tax revenue constituted 8 *per cent* of the revenue receipts of the Government during 1997-98 to 1999-2000 and 9 *per cent* during 2000-2001. The growth rate registered in 2000-2001 was 26 *per cent*.

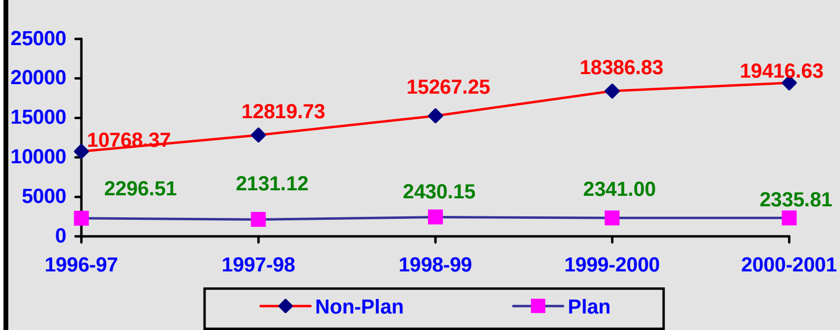
1.5.4 State's share of Union taxes and duties and grants-in-aid from the Central Government

The State's share of Union taxes (Excise Duties and Income and Tax) increased by 4 *per cent* during the year, and the grants in aid from the Central Government also increased by 11 *per cent*. However, as a percentage of revenue receipts, they (both taken together) declined from 28 *per cent* in 1997-98 to 24 *per cent* during 2000-2001.

1.6 Revenue expenditure

1.6.1 The revenue expenditure accounted for most (93 *per cent*) of the expenditure of the State Government and increased only by 5 *per cent* during 2000-2001 as against the growth of 17 *per cent* during 1999-2000. A comparison shows that the growth in Non-Plan component of revenue expenditure over the five year period (80 *per cent*) far surpassed that in Plan expenditure (2 *per cent*), as can be seen in Figure 2.

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



1.6.2 Sector wise analysis shows that while the expenditure on General Services which includes expenditure on Organs of State, Fiscal Services, Interest payments and servicing of debt and Pensions and other Retirement benefits etc., increased by 104 *per cent*, from Rs 4096 crore in 1996-97 to Rs 8354 crore in 2000-2001, the corresponding increases in expenditure on Social Services and Economic Services were only 52 and 32 *per cent* respectively. As a proportion of total revenue expenditure, the share of General Services increased from 31 *per cent* in 1996-97 to 38 *per cent* in 2000-2001, whereas the share of Social Services decreased from 39 *per cent* to 36 *per cent* and that of Economic Services decreased from 27 *per cent* to 21 *per cent* in the above period.

1.6.3 Subsidies

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

The highest subsidy was given to Tamil Nadu Civil Supplies Corporation Limited (TNCSC) towards losses incurred for procurement and supply of food articles under Public Distribution System (PDS). It was Rs 4753 crore over the five year period 1996-2001. Subsidy given to Tamil Nadu Electricity Board (TNEB) towards tariff compensation for free supply of electricity to farmers was Rs 3159 crore during the same period.

1.6.4 Interest payments

Interest payments increased steadily by 112 *per cent* from Rs 1476 crore in 1996-97 to Rs 3124 crore in 2000-2001. Interest payments accounted for 14 *per cent* of revenue expenditure during 2000-2001, as compared to 11 *per cent* in 1996-97. This is further discussed in the section on financial indicators.

1.6.5 Financial assistance to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to different local bodies etc., during the period of five years ending 2000-2001 was as follows:

(Rupees in crore)

	1996-97	**1997-98**	**1998-99**	**1999-2000**	**2000-2001**
Universities and Educational Institutions	40	960	1527	1531	1676
Municipal Corporations and Municipalities	106	159	217	112	125
Panchayati Raj Institutions	928	197	1402	1430	915
Development agencies	67	364	210	474	731
Hospitals and Other Charitable Institutions	3	4	9	12	9
Other institutions	1135	353	402	662	514
Total	**2279**Ψ	**2037**	**3767**	**4221**	**3970**
Percentage of growth over previous year	93	(-) 11	85	12	(-) 6
Assistance as a percentage of revenue expenditure	17	14	21	20	18

Ψ Figures reported since 1996-97 include loan assistance also.

It may be seen that there was decrease in the assistance to Panchayati Raj Institutions in 2000-2001.

1.6.6 Loans and advances disbursed by the State Government

(i) The Government gives loans and advances to Government companies, corporations, local bodies, autonomous bodies, cooperatives, non-Government institutions, etc., for developmental and non-developmental activities. The position for the last five years given below shows that the outstanding loans and advances increased by 18 *per cent* from Rs 3507 crore at the end of 1997-98 to Rs 4125 crore at the end of 2000-2001.

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
Opening balance	3796	4217	3507	3694	4031
Amount advanced during the year	1080	507	510	651	453
Amount repaid during the year	659	1217	323	314	359
Closing balance	4217	3507	3694	4031	4125
Net addition	421	(-)710	187	337	94
Interest received	163	345	223	178	204

Out of loans advanced to municipalities, panchayat union councils, town panchayats and village panchayats, the detailed accounts of which were kept by the Principal Accountant General (Accounts and Entitlements) and in the office of Commissioner of Municipal Administration, recovery of Rs 179.38 crore (principal: Rs 167.85 crore and interest: Rs 11.53 crore) was in arrears as on 31 March 2001. Details in respect of loans, the detailed accounts of which were maintained by the departmental officers, had not been furnished to the Principal Accountant General (Accounts and Entitlements) by 68 heads of department.

(ii) Government sanctioned through Registrar of Cooperative Societies (RCS) various loans like short term agricultural loans, loans for improving marketing activities, loans for improving the borrowing power of SC, ST and Women Members of Cooperative Societies etc.

A test check of records in Office of RCS revealed that RCS did not maintain any loan ledger and raise any demand for the dues in respect of loans disbursed by him to the Apex Cooperative Institutions[1] in the State. RCS in reply to audit stated that Apex institutions themselves worked out the dues and remitted it to Government.

Recoveries in respect of loans to other Cooperatives are watched by Circle Deputy Registrars, RCS was compelled to collect the information about dues from Deputy Registrar and Apex institutions for reporting to Government, whenever necessary. Test-check in respect of 2000-2001 disclosed that there were differences between loan dues reported for budget proposals and the balances in DCB statements. This was due to non inclusion of loans sanctioned under schemes like Integrated Cooperative Development Project etc., in DCB. There was no coordination and monitoring of loan recovery by RCS.

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[1] Tamil Nadu State Apex Cooperative Bank (TNSCB), Tamil Nadu Consumer Cooperative Federation (TNCCF), Tamil Nadu Cooperative State Agricultural and Rural Development Bank (TNCSA & RDB) and Tamil Nadu Marketing Federation (TANFED)

1.7 Capital expenditure

Capital expenditure leads to asset creation. In addition, financial assets arise from moneys invested in institutions or undertakings outside Government i.e. public sector undertakings (PSUs), corporations, *etc.* and loans and advances. The capital expenditure after showing a growth of 56 *per cent* and 59 *per cent* during 1996-97 and 1997-98 respectively, decreased by 21 *per cent* during 1998-99 and by 44 *per cent* during 1999-2000 and then increased by 140 *per cent* during 2000-2001. Its share in total expenditure has declined from 9 *per cent* in 1997-98 to 3 *per cent* in 1999-2000 and then increased to 7 *per cent* during 2000-2001. Though capital expenditure under plan increased, that under Non-plan in 2000-2001 was negative mainly due to reduction of investment in Tamil Nadu Electricity Board by Rs 319.43crore and its adjustment towards tariff compensation to the Board for supply of free electricity to farmers. This book adjustment did not help the Tamil Nadu Electricity Board, since the tariff compensation has not reached the Tamil Nadu Electricity Board in cash. Exhibit IV shows that most of the capital expenditure has been on Economic and Social Services.

1.8 Quality of expenditure

1.8.1 Government spends money for different activities ranging from maintenance of law and order and regulatory functions to various developmental activities. Government expenditure is broadly classified into Plan and Non-plan and Revenue and Capital. While the plan and capital expenditure are usually associated with asset creation, the non-plan and revenue expenditure are identified with expenditure on establishment, maintenance and services. By definition, therefore, in general, the plan and capital expenditure can be viewed as contributing to the quality of expenditure.

1.8.2 Wastage in public expenditure, diversions of funds and funds blocked in incomplete projects would also impinge negatively on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account, after booking them as expenditure, can also be considered as a negative factor in judging the quality of expenditure. As the expenditure was not actually incurred in the concerned year, it should be excluded from the figures of expenditure for that year. Another possible indicator is the increase in the expenditure on General Services, to the detriment of Economic and Social Services.

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

	1996-97	1997-98	1998-99	1999-2000	2000-2001
1. Plan expenditure as a percentage of:					
- Revenue expenditure	18	14	14	11	11
- Capital expenditure	85	60	104*	224*	121*
2. Capital expenditure as a percentage of total expenditure**	7	9	6	3	7
3. Expenditure on General services (*per cent*)					
- Revenue	31	31	33	37	38
- Capital	3	4	10	24	10
4. Amount of wastages and diversion of funds detected during test audit (Rupees in crore)	200	353	1767	599	403
5. Non-remunerative expenditure on incomplete projects (Rupees in crore)	101	116	215	215	304

	1996-97	1997-98	1998-99	1999-2000	2000-2001
6. Unspent balances under personal deposit account, booked as expenditure at the time of their transfer to the deposit head (Rupees in crore)	601	495	652	764	1894

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

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

The share of plan expenditure on the capital side declined upto 1997-98 and then went up during 1998-99 and 1999-2000 but again declined during 2000-2001. The share of capital expenditure to total expenditure (Revenue and Capital), declined during 1998-99 and 1999-2000 and went up during 2000-2001. The share of General Services, at the same time, has increased on the revenue side from 31 in 1996-97 to 38 *per cent* in 2000-2001. On the capital side, it has increased from 3 *per cent* in 1996-97 to 24 *per cent* in 1999-2000 and then decreased to 10 *per cent* in 2000-2001.

1.9 Financial Management

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

1.9.1 Investments and returns

Investments are made out of the capital outlay by the Government to promote developmental, manufacturing, marketing and social activities. The sector-wise details of investments made and the number of concerns involved were as under:

	Sector	Number of concerns	Amount invested (Rupees in crore)	
			as on 31.3.2001	During 2000-2001
(1)	Statutory Corporations	2	1149.28	100.00
(2)	Government Companies	75	1518.79	182.02
(3)	Joint Stock Companies	6	2.53	..
(4)	Cooperative Institutions	9485	292.67	0.30
	Total	**9568**	**2963.27**	**282.32**

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

(Rupees in crore)

Year	Investment at the end of the year[(a)]	Return	Percentage of return	Rate of interest on Government borrowing from open market
1996-97	1066.63	22.20	2.08	13.85 and 13.75
1997-98	1316.43	18.45	1.40	13.05 and 12.30

(Rupees in crore)

Year	Investment at the end of the year[(a)]	Return	Percentage of return	Rate of interest on Government borrowing from open market
1998-99	1560.63	24.29	1.56	12.50 and 12.15
1999-2000	2702.77[(b)]	41.95	1.54	12.25, 11.85 and 11.74
2000-2001	2963.27	36.53	1.23	12.00, 11.70, 10.52 and 10.50

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

(b) Huge difference from previous years figures is mainly due to inclusion of equity share capital of Rs 1045.48 crore in Tamil Nadu Electricity Board, not reported in earlier years; differs from the figures furnished in last year's Report due to adoption of revised figures communicated by departments/companies.

Thus, while the Government was raising high cost borrowings from the market, its investments in Government companies etc., fetched insignificant returns. As on 31 March 2001, 49 of the Government companies in which Government had invested Rs 1196.77 crore were running under loss and the accumulated loss was Rs 2118.53 crore up to March 2000.

1.9.2 Financial results of irrigation works

The financial results of 5 major and 47 medium irrigation projects with a capital outlay of Rs 1928.95 crore at the end of March 2000 showed that revenue realised from these during 1999-2000 (Rs 7.04 crore) was only 0.36 *per cent* of the capital outlay and these were not sufficient to cover even the direct working expenses (Rs 52.16 crore). After meeting the working expenditure (Rs 52.71 crore) and interest charges (Rs 90.58 crore), the schemes suffered a net loss of Rs 136.25 crore. The loss was substantial (Rs 93.75 crore) in all the major irrigation projects.

1.9.3 Incomplete projects

As of 31 March 2001, there were 20[*] projects in which Rs 303.74 crore were blocked. These projects were each of cost exceeding Rs 1 crore and were scheduled for completion before 31 March 2001 but were incomplete.

1.9.4 Arrears of revenue

The arrears of revenue pending collection slightly decreased by 3 *per cent* during the year. The outstanding arrears registered an increase from Rs 3471.05 crore in 1996-97 to Rs 8415.69 crore in 2000-2001 (Exhibit IV) and their percentage increased from 39 *per cent* of the revenue raised during 1996-97 to 60 *per cent* during 2000-2001. Of the arrears of Rs 8415.69 crore as of March 2001, Rs 1751.54 crore (21 *per cent*) were pending for more than five years. The arrears pertained mainly to Sales Tax (Rs 7197 crore) and 'Mines and Minerals' (Rs 1047.34 crore). The overall deterioration in the position of arrears of revenue showed a slackening of the revenue efforts of the State Government.

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* As per further information collected from Department.

1.9.5 Ways and means advances and overdraft

Under an agreement with the Reserve Bank of India, the State Government had to maintain with the Bank a minimum daily cash balance of Rs 1.10 crore upto 30 April 1999 and Rs 3.25 crore from 1 May 1999. If the balance fell below the agreed minimum on any day, the deficiency had to be made good by taking ways and means advances (WMA)/overdraft (OD) from the Bank. In addition, special ways and means advances are also made by the Bank whenever necessary. Recourse to WMA/OD means a mismatch between the receipts and expenditure of the Government, and hence reflects poorly on the financial management in Government. Government resorted to sizeable amounts of Ways and Means advance (Rs 5151.63 crore) and overdraft (Rs 1712.93 crore) during the year to maintain its ways and means position.

The extent to which the Government maintained the minimum balance with the Bank during 1998-99 to 2000-2001 is given below:

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

The position of ways and means advances and overdrafts taken by the State Government and interest paid thereon during 1998-99 and 2000-2001 is detailed below:

(Rupees in crore)

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

1.9.6 Deficit

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

1.9.6.2 The Revenue Deficit is the excess of revenue expenditure over revenue receipts. The Fiscal Deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants-in-aid received). Primary Deficit is fiscal deficit less interest payments. Exhibit V gives a break-up of the deficit in Government account for 2000-2001.

EXHIBIT V

OVERALL FINANCIAL TRANSACTIONS OF GOVERNMENT

(Rupees in crore)

CONSOLIDATED FUND				
Receipt	**Amount**		**Disbursement**	**Amount**
Revenue	18317	**Revenue deficit: 3436**	Revenue	21753
Miscellaneous capital receipts	..		Capital	1547
Recovery of loans and advances	359		Loans and advances disbursement	453
Sub Total	18676	**Gross fiscal deficit: 5077**	Sub Total	23753
Public debt receipts	4731		Public debt repayment	855
Total	**23407**	**A: Deficit in Consolidated Fund : 1201**		**24608**

PUBLIC ACCOUNT				
Receipt	**Amount**		**Disbursement**	**Amount**
Small savings, Provident Fund etc.	2793		Small savings, Provident Fund etc.	1821
Deposits and advances	7152		Deposits and advances	7040
Reserve funds	225		Reserve funds	192
Suspense and miscellaneous	6007		Suspense and miscellaneous	5987
Remittances	5109		Remittances	4904
Total Public Account	21286	**B: Deficit in Consolidated Fund financed by Public Account: 1201**		19944
Increase in cash balance (B-A) : 141				

The table shows that the Revenue Deficit of Rs 3436 crore was fully met from the net amount from the borrowings (Rs 3876 crore). The Fiscal Deficit of Rs 5077 crore was financed by net proceeds of the public debt (Rs 3876 crore) and partly by the surplus from (Rs 1201 crore) from Public Account. Revenue Deficit at the end of 2000-2001 is less than the previous year because of the growth rate (12 *per cent*) of Revenue receipts being higher than that of Revenue expenditure (5 *per cent*) over previous year. Exhibit IV shows that the Revenue Deficit has increased by 211 *per cent* over the five year period. The Fiscal Deficit has also increased considerably during the same period by 108 *per cent*.

As stated in paragraph 1.7, Government had shown payment of arrears of tariff compensation to Tamil Nadu Electricity Board (Rs 319.43 crore) and adjusted the same by reduction of its investment in Tamil Nadu Electricity Board as done during 1999-2000. Had the tariff compensation been paid in cash to Tamil Nadu Electricity Board, the Gross fiscal deficit during 2000-2001, would have gone up by Rs 319.43 crore.

1.9.6.3 Application of the borrowed funds (Fiscal Deficit)

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

Ratio	1996-97	1997-98	1998-99	1999-2000	2000-2001
RD/FD	0.45	0.64	0.72	0.82	0.68
CE/FD	0.38	0.69	0.24	0.12	0.30
Net loans/FD	0.17	(-) 0.33	0.04	0.06	0.02
Total	1.00	1.00	1.00	1.00	1.00

It would be seen that while more and more of the borrowed funds have been applied for meeting the revenue expenditure in the last five years, its application to capital expenditure declined sharply during the last three years. Therefore, if the revenue expenditure is not controlled, the capital formation will further suffer and borrowings will increase leading to increased debt burden.

1.9.7 Guarantees given by the State Government

Guarantees are given by the State Government for due discharge of certain liabilities like repayment of loans, share capital, etc., raised by the statutory corporations, Government companies and cooperative institutions etc., and payment of interest and dividend by them. They constitute contingent liability of the State. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limits within which Government may give guarantees on the security of the Consolidated Fund of the State. Exhibit IV lists the amounts of outstanding guarantees at the end of each year during 1996-2000, which showed an increasing trend. While Rs 0.53 crore were received as guarantee commission during 2000-2001, Rs 4.54 crore of guarantee commission were outstanding for recovery from 4 Government companies/corporations (Rs 1.63 crore) and from Cooperative institutions (Rs 2.91 crore) as on 31 March 2001.

Government constituted in May 1998 Guarantee Fund to discharge the invoked guarantee, if any, on default of repayment of loans availed by Government Corporations/Undertakings or other institutions on Government guarantee. Guarantee commission collected from the loanee institutions was to be credited to the fund opened under the head of account '8443.Civil Deposits - Other Deposits. Guarantee Fund'. All the Corporations/Boards/ Undertakings concerned were to remit the guarantee commission (at ½ *per cent* on the outstanding amount) due every year to this Head of Account.

It was observed that while any Reserve Fund has to be constituted with the approval of the Legislature, this fund was constituted by an Executive order. Further the procedure of crediting the Guarantee Commission, an item of Revenue Receipts directly to Public Account and the accounting of the transactions of the Fund under Deposit Head is not in order. As per codal provisions, no amount should be credited to Deposit Head if it can be properly credited to some other known head in the Government Account. The proper procedure would be to credit the Guarantee Commission to Revenue Receipt head '0075.Miscellaneous General Services. Guarantee Fees' in the first instance and transfer equal amount to Guarantee Fund through appropriation and the Fund should be accounted under the Head '8235.General and Other Reserve Funds'.

The balance shown under Guarantee Fund was Rs 41.70 crore as on 31.03.2000 and Rs 44.66 crore as on 31.03.2001.

It was noticed that during 1999-2000 and 2000-01, Government had to pay from the Guarantee Fund amount of Rs 14.82 crore (Rs 9.10 crore during 1999-2000 and Rs 5.72 crore during 2000-2001) on behalf of 7 Cooperative Spinning Mills[2] (Rs 9.75 crore) and one Public Sector Undertaking[3] (Rs 5.07 crore) consequent on invocation of guarantee. The total amount consisted of Principal : Rs 8.77 crore and Interest : Rs 6.05 crore. Of the amount paid, Rs 6.02 crore (two cases in 1999-2000 and one in 2000-2001) were sanctioned as grants, while rest of the payments (totalling Rs 8.80 crore) were sanctioned as loans/advances from the Fund to the borrowing institutions.

Payments on account of invocation of guarantee have to be recorded by debiting the regular grant head (2075.800) or loan head (6075.800) as the case may be under the Consolidated Fund of the State with suitable entries for recovery from the Guarantee Fund. Payments were made directly from the Guarantee Fund and accounted for in Deposit head. This procedure was also irregular. As details of Public Account are not presented to Legislature, these escaped the notice of the Legislature. Further, in view of the fact that the Loans/Advances were not recorded under the regular loan head, watching their recovery would be rendered ineffective.

The default in repayment of loan by borrowing institutions was attributed (September 2001) by Government to weak financial position or their operation becoming unviable due to a variety of reasons including Government policies.

1.10 Public debt

1.10.1 The Constitution of India provides that a State may borrow within the territory of India, upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the State. No law had been passed by the State Legislature laying down any such limit. The details of the total liabilities of the State Government as at the end of the last five years are given in the following table. During the five year period, the total liabilities of the Government had grown by 95 *per cent*. This was on account of 216 *per cent* growth in internal debt, 40 *per cent* growth in loans and advances from Government of India and 106 *per cent* growth in other liabilities. During 2000-2001, Government borrowed Rs 1092.47 crore in the open market at interest rates of 10.50, 10.52, 11.70 and 12 *per cent* per annum.

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[2] Villupuram, Nagappattinam, Kancheepuram, Srivilliputhur, Erode and Kanyakumari District Cooperative Spinning Mills and Cauvery Spinning and Weaving Mill, Pudukottai.

[3] Tamil Nadu Film Development Corporation Limited.

(Rupees in crore)

Year	Internal debt	Loans and advances from Central Government	Total public debt	Other liabilities[α]	Total liabilities	Ratio of debt to GSDP
1996-97	3462.24	8532.53	11994.77	5129.52	17124.29	0.19
1997-98	4099.12	9620.56	13719.68	5657.45	19377.13	0.19
1998-99	5035.90	10845.66	15881.56	7176.55	23058.11	0.20
1999-2000	6603.96	12385.26	18989.22	9440.71	28429.93	0.22
2000-2001	10935.90	11929.36	22865.26	10555.58	33420.84	0.23

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

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
Internal Debt					
- Receipt	471	698	1789	1700	4665[β]
- Repayment					
- (i) Principal	24	61	852	132	333
- (ii) Interest	375	449	548	704	1029
- Net funds available (*per cent*)	72(15)	188(27)	389(22)	864 (51)	3303 (71)
Loans and advances from Government of India					
- Receipt during the year	1307	1435	1634	2011	66[β]
- Repayment					
- (i) Principal	314	347	409	471	522
- (ii) Interest	895	1041	1189	1359	1431
- Net funds available (*per cent*)	98(7)	47(3)	36(2)	181(9)	(-) 1887
Other liabilities					
- Receipt during the year	6351	6118	7433	9482	10089
- Repayment					
- (i) Principal	5605	5590	5914	7218	8975
- (ii) Interest	205	273	385	648	663
- Net funds available (*per cent*)	541(9)	255(4)	1134(15)	1616(17)	451 (4)

It would be seen that there was a substantial increase in Debt/GDP ratio indicating worsening position during the year. Overall, only 71 *per cent* of the borrowings under internal debt was available for investment and other expenditure after meeting the repayment obligations. Considering that the outstanding debt has been increasing year after year, the net availability of funds through public borrowings is going to reduce further. There is an urgent need for the Government to assess high debt servicing cost and ways to arrest the trend.

1.10.3 In addition to the borrowings mentioned above, Government also discharged the liability towards repayment of certain loans availed by some

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α Other liabilities include small savings, provident funds, reserve funds and deposits, etc.

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

Boards/Government companies for implementation of schemes on behalf of Government. It was noticed that the outstanding liability as on 31 March 2001 was Rs 1017.94 crore in respect of two undertakings *viz*., Tamil Nadu Police Housing Corporation Limited (Rs 277.90 crore) for construction of Police quarters and Tamil Nadu Water Supply and Drainage Board (Rs 740.04 core) towards implementation of Rural Water Supply Schemes.

1.10.4 Government borrowed Rs 855.97 crore[4] (Rs 437.52 crore during 1999-2000 and Rs 418.45 crore during 2000-2001) from HUDCO (Rs 635.52 crore) and HDFC (Rs 220.45 crore) for giving Housing Building Advance to Government employees. Against this, House Building Advances actually given to the employees amounted to only Rs 195.98 crore (Rs 95.16 crore in 1999-2000 and Rs 100.82 crore in 2000-2001). Thus the balance amounts (Rs 342.36 crore during 1999-2000 and Rs 317.63 crore) were utilised to meet the fiscal deficit of the respective years.

1.10.5 Similarly, Tamil Nadu Water Supply and Drainage (TWAD) Board borrowed Rs 374.25 crore in 1999-2000 and Rs 28.31 crore in 2000-2001, from Life Insurance Corporation of India (LIC) and Housing and Urban Development Corporation (HUDCO) for water supply schemes, and deposited it in Public Account; thus the borrowed funds were deployed for improving ways and means position of the State Government.

1.11 Indicators of the financial performance

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

(i) Sustainability

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

(ii) Flexibility

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

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[4] As per department's figures: Rs 580 crore. Reasons for variation awaited from Department.

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

(iii) Vulnerability

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

(iv) Transparency

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

1.11.2 Information available in Finance Accounts can be used to flesh out Sustainability, Flexibility and Vulnerability that can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in the Appendix I. Exhibit VI indicates the behaviour of these indices/ratios over the period from 1996-97 to 2000-2001. The implications of these indices/ratios of the state on the financial health of the State Government are discussed in the following paragraphs.

EXHIBIT VI

FINANCIAL INDICATORS FOR GOVERNMENT OF TAMIL NADU

	1996-97	1997-98	1998-99	1999-2000	2000-2001
Sustainability					
BCR (Rs in crore)	409	(-)163	(-) 1914	(-)3226	(-) 2375
Primary Deficit (PD) (Rs in crore)	969	358	2655	2671	1953
Interest Ratio	0.10	0.10	0.13	0.15	0.15
Capital outlay/Capital receipts	0.60	0.46	0.32	0.16	0.28
Total Tax receipts/GSDP	0.11	0.11	0.10	0.11	0.10
State Tax Receipts/GSDP	0.09	0.08	0.08	0.08	0.08
Return on Investment ratio	0.0208	0.0143	0.0156	0.0154	0.0123
Flexibility					
BCR (Rs in crore)	409	(-)163	(-) 1914	(-)3226	(-) 2375
Capital repayments/Capital borrowings	0.19	0.19	0.19	0.18	0.14
State tax receipts/GSDP	0.09	0.08	0.08	0.08	0.08
Debt/GSDP	0.19	0.19	0.20	0.22	0.23
Vulnerability					
Revenue Deficit(RD) (Rs in crore)	1104	1364	3437	4400	3436
Fiscal Deficit(FD) (Rs in crore)	2445	2122	4777	5382	5077
Primary Deficit(PD) (Rs in crore)	969	358	2655	2671	1953
PD/FD	0.40	0.17	0.56	0.50	0.38
RD/FD	0.45	0.64	0.72	0.82	0.68
Outstanding Guarantees/revenue receipts	0.36	0.33	0.43	0.35	0.37
Assets/Liabilities	0.63	0.60	0.52	0.46	0.44

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

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

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

(i) Balance from current revenues (BCR)

BCR is defined as revenue receipts minus plan assistance grants minus non-plan revenue expenditure. A positive BCR shows that the State Government has surplus from its revenues for meeting plan expenditure. The table shows that the State Government had positive BCR only during 1996-97 and the BCR was negative during the subsequent four years suggesting that Government had to depend only on borrowings for meeting its plan expenditure. Though the BCR slightly redeemed from Rs (-) 3226 crore in 1999-2000 to Rs (-) 2375 crore in 2000-2001 because of sizeable rise in revenue receipts, still it was substantially negative due to steep rise in non-plan revenue expenditure as compared to growth in revenue receipts. This clearly indicated that Government expenditure was uncontrolled as compared to the resources, leading to increased borrowings and a very heavy debt servicing burden in future years also.

(ii) Interest ratio

The higher the ratio the less the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts. In case of Tamil Nadu, the ratio has shot up to 0.15 during 1999-2000 and 2000-2001 after having been at 0.10 during 1996-97 and 1997-98. A rising interest ratio has adverse implications for the sustainability, since it points to rising interest burden.

(iii) Capital outlay/capital receipts

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

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

Tax receipts consist of state taxes and state’s share of central taxes. The latter can also be viewed as central taxes paid by people living in the state. Tax receipts suggest sustainability. But the ratio of tax receipts to GSDP would have implications for the flexibility as well. While a low ratio would imply that the Government can tax more, and hence its flexibility, a high ratio may not only point to the limits of this source of finance but also its inflexibility. Time series analysis shows that in case of Tamil Nadu, this ratio ranged between 0.10 and 0.11 during the period of 1996-97 to 2000-2001. The ratio of State tax receipts to GSDP has also remained static at 0.08, after declining from 0.09. This trend suggests that while the State Government had the option to raise more resources through taxation, it chose the easier option of borrowing to meet its increasing revenue and fiscal deficits.

(v) Return on Investment (ROI)

The ROI is the ratio of the earnings to the capital employed. A high ROI suggests sustainability. The table presents the return on Government’s investments in statutory corporations, Government companies, joint stock companies and cooperative institutions. It shows that the ROI in case of Government of Tamil Nadu has been negligible and has declined from 2.08 *per cent* in 1996-97 to 1.23 *per cent* in 2000-2001.

(vi) Capital repayments vs Capital borrowings

This ratio would indicate the extent to which the capital borrowings are available for investment, after repayment of capital. The lower the ratio, the higher would be the availability of capital for investment. In case of Tamil Nadu Government, this ratio which had been at 19 *per cent* during 1996-97 to 1999-2000, declined to 14 *per cent* during 2000-2001.

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

The GSDP is the total internal resource base of the State Government, which can be used to service debt. An increasing ratio of Debt/GSDP would signify a reduction in the Government's ability to meet its debt obligations and therefore increasing risk for the lender. In the case of Tamil Nadu, this ratio which had been at 0.19 in 1996-97 to 1997-98 increased to 0.23 during 2000-2001, indicating significant growth of indebtedness in the last three years.

(viii) Revenue deficit/Fiscal deficit

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the revenue expenditure financed by borrowings etc. Evidently, the higher the revenue deficit, the more vulnerable is the State. Since fiscal deficit represents the aggregate of all the borrowings, the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance non-productive revenue expenditure. Thus, the higher the ratio the worse off the state because that would indicate that the debt burden is increasing without adding to the repayment capacity of the state. During 2000-2001, 68 *per cent* of the borrowings were applied to revenue expenditure as compared to 45 *per cent* in 1996-97. This is a most unfavourable trend since only 32 *per cent* was available out of the borrowings for asset formation during 2000-2001.

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

Primary deficit is the fiscal deficit minus interest payments. It represents non-interest borrowings of the Government, on account of its current actions (interest payments relate to the past actions of the Government). Primary deficit is sustainable only when the economy grows at a rate higher than the interest rate on borrowings. This not being the case, fiscal prudence would require aiming at a zero primary deficit or primary surplus. In case of Tamil Nadu, as Exhibit VI shows, the primary deficit was substantial in the last three years. It was Rs 1953 crore in 2000-2001 which was 38 *per cent* of the fiscal deficit. It suggests that the sustainability is adversely affected as the burden of interest payment continued to be substantial.

(x) Guarantees vs Revenue receipts

Outstanding guarantees, including the letters of comfort issued by the Government, indicate the risk exposure of a State Government and should therefore be compared with the ability of the Government to pay *viz*., its revenue receipts. Thus, the ratio of the total outstanding guarantees to total revenue receipts of the Government would indicate the degree of vulnerability of the State Government. In case of Tamil Nadu, this ratio has been in the range of 0.33 to 0.43 during the period 1996-2001.

(xi) Assets vs Liabilities

This ratio indicates the solvency of the Government. A ratio of more than 1 would indicate that the State Government is solvent (assets are more than the liabilities) while a ratio of less than 1 would be a contra indicator. As explained in para 1.2, the accounting of assets and liabilities in the Government pertains mainly to the financial assets and liabilities. In case of Tamil Nadu, this ratio has declined from 0.63 in 1996-97 to 0.44 in 2000-2001 indicating that the increase in liabilities has not led to corresponding increase in the assets. This suggests imprudent financial management.

(xii) Budget

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

Preparation	Month of submission	Month of approval
Vote on account	March 2000	March 2000
Budget	March 2000	May 2000
Supplementary I	November 2000	November 2000
Supplementary II	February 2001	February 2001

Chapter II of this Report carries a detailed analysis of variations in the budget estimates and the actual expenditure as also of the quality of budgetary procedure and control over expenditure. It indicates defective budgeting and inadequate control over expenditure, as evidenced by persistent surrenders of significant amounts ranging between Rs 3776 crore and Rs 628 crore during 1996-97 to 2000-2001 *vis-à-vis* the final modified grant. Significant variations (excess/saving) between the final modified grant and actual expenditure were also persistent.

(xiii) Accounts

There was no significant delay in the submission of accounts by the treasuries/departments during 2000-2001.

1.11.4 Conclusion

State Government’s rise in expenditure was sizeable compared to the expenditure during 1999-2000. State Government incurred higher expenditure of about Rs 1927 crore, during the year. Though the capital expenditure during the year increased by Rs 902 crore, the increase in Revenue expenditure was about Rs 1025 crore. The revenue deficit was lower by about Rs 964 crore compared to the last year, due to sharp increase in revenue receipts. The increase in Revenue expenditure was partly due to the increase in consumer subsidies under “Civil Supplies” (Rs 829.98 crore), “Interest payments on Internal Debt” (Rs 325.18 crore) and in “Pensions and other retirement benefits” (Rs 238.84 crore). Under Capital expenditure State Government adjusted the investment of Rs 319.43 crore with Tamil Nadu Electricity Board towards Tariff compensation payable to the Board for free supply of electricity to farmers. This book adjustment, apart from limiting the borrowing of the State Government (as no cash payment was made), restricted the State’s gross Fiscal Deficit.

Heavy borrowing resorted to by State Government to meet the revenue deficit resulted in substantial increase in interest payment. A substantially negative BCR has added to the worsened financial position of the State, aggravating the imbalance between Assets and Liabilities. Other fiscal indicators also changed for the worse. Overall the financial picture of the State has worsened during the year.