CHAPTER I

FINANCES OF THE STATE GOVERNMENT

In Summary

Revenues of the State consist mainly of its own tax and non-tax revenue, central tax transfers and grants-in-aid from Government of India. With reference to 2002-03, the revenue receipts during 2003-04, increased by 13.8 *per cent* to Rs 23706 crore while revenue expenditure declined by 1.6 *per cent* to Rs 25271 crore. Consequently, the revenue deficit declined from Rs 4851 crore to Rs 1565 crore. This positive development enabled reduction of Fiscal deficit as well as Primary deficit.

The targets set for 2003-04 under the Medium Term Fiscal Reforms Plan were mostly achieved by the Government. However, the following factors remain to be of concern:

(i) The percentage of total expenditure to revenue receipts was 126 indicating that only about 80 *per cent* of the State's total expenditure was met from its current revenue, leaving the balance to be financed by borrowings

(ii) The fiscal liabilities of the State were more than twice its revenue receipts.

(iii) The ratio of outstanding guarantees to GSDP also showed an increasing trend indicating that the cap specified in the Fiscal Responsibility Act could be breached within the next few years.

(iv) Investment of Government funds in companies, co-operative units etc. continued to fetch only a meagre return of 1.2 *per cent* while Government continued to borrow funds from market at a higher rate of interest.

1.1 Introduction

The Finance Accounts of the Government of Tamil Nadu are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State of Tamil Nadu. The layout of the Finance Accounts is depicted in Box 1.1 below:

Box 1.1

Lay-out of Finance Accounts

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

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

Statement No. 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of 2003-04.

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

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

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

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

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

Statement No. 8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2004.

Statement No. 9 shows the revenue and expenditure under different heads for the year 2003-04 as a percentage of total revenue/total expenditure.

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

Statement No. 11 indicates the detailed account of revenue receipts by minor heads.

Statement No. 12 provides detailed account of revenue expenditure by minor heads and capital expenditure by major heads under Non Plan and Plan.

Statement No. 13 depicts the detailed capital expenditure incurred during and to the end of 2003-04.

Statement No. 14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, cooperative banks and societies etc. up to the end of 2003-04.

Statement No. 15 depicts the capital and other expenditure to the end of 2003-04 and the principal sources from which the funds were provided for that expenditure.

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

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

Statement No. 18 provides the detailed account of loans and advances given by the Government, the amount of loan repaid during the year, the balance as on 31 March 2004 and the amount of interest received during the year.

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

1.2 Trend of Finances with reference to previous year

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

(Rupees in crore)

2002-03	Sl.No	Major Aggregates	2003-04
20837	**1.**	**Revenue Receipts**	**23706**
14342	2.	Tax Revenue (Net)	15945
1861	3.	Non-Tax Revenue	2094
4634	4.	Other Receipts	5667
433	**5.**	**Non-Debt Capital Receipts**	**575**
433	6.	Of which Recovery of Loans	575
21270	**7.**	**Total Receipts (1+5)**	**24281**
23122	**8.**	**Non-Plan Expenditure**	**21506**
22715	9.	On Revenue Account	20835
4133	10.	Of which Interest Payments	4700
407	11.	On Capital Account	671
277	12.	Of which loans disbursed	550
4890	**13.**	**Plan Expenditure**	**8366**
2973	14.	On Revenue Account	4436
1917	15.	On Capital Account	3930
419	16.	Of which Loans disbursed	461
28012	**17.**	**Total Expenditure (8+13)**	**29872**
6742	**18.**	**Fiscal Deficit (17-1-5)**	**5591**
4851	**19.**	**Revenue Deficit (9+14-1)**	**1565**
2609	**20.**	**Primary Deficit (18-10)**	**891**

1.3 Summary of Receipts and Disbursements

Table 1 summarises the state of Finances of the Government of Tamil Nadu for the year 2003-04 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts and disbursements made during the year as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table 1: Summary of Receipts and Disbursements for the year 2003-2004

(Rupees in crore)

	Receipts				**Disbursements**				
2002-2003	**Section-A: Revenue**		**2003-2004**	**2002-2003**	**Section-A: Revenue**	**Non-Plan**	**Plan**	**Total**	**2003-2004**
20836.74	**Revenue receipts -**		**23705.71**	**25687.70**	**Revenue expenditure-**				**25270.95**
14341.71	-Tax revenue	15944.97		9894.91	-General services	10556.22	32.89	10589.11	
1860.62	-Non-tax revenue	2093.79		7974.05	-Social Services	6242.59	2355.18	8597.77	
3047.57	-Share of Union Taxes/Duties	3544.20		6261.62	-Economic Services	2707.47	1899.93	4607.40	
1586.84	-Grants from Government of India	2122.75		1557.12	-Grants-in-aid and Contributions	1328.93	147.74	1476.67	
4850.96	Revenue deficit carried over to Section B		**1565.24**	25687.70	Total	20835.21	4435.74	25270.95	
25687.70	**Total**		**25270.95**	**25687.70**	**Total**				**25270.95**

(Rupees in crore)

	Receipts			Disbursements	
	Section-B : Capital and others			**Section-B : Capital and others**	
81.80	Opening Cash balance	169.35	..	Opening Overdraft from Reserve Bank of India-	579.63
			1627.54	Capital Outlay-	3589.91
432.69	Recoveries of Loans and Advances-	574.55	696.65	Loans and Advances disbursed-	1010.57
8816.77	Public debt receipts-	9723.32	4850.96	Revenue deficit brought down-	1565.24
..	Amount transferred to Contingency Fund-	Nil	2144.49	Repayment of Public debt-	3948.33[e]
27155.49	Public Account receipts-	28106.63	27577.39	Public Account disbursements-	27195.59
579.63	Closing Overdraft from Reserve Bank of India-	Nil	169.35	Cash Balance at end-	684.58
37066.38	**Total**	**38573.85**	**37066.38**	**Total**	**38573.85**
62754.08	**Grand Total**	**63844.80**	**62754.08**	**Grand Total**	**63844.80**

(e) Includes net transactions under ways and means advances: Rs 55.09 crore

1.4 Audit Methodology

Audit observations on the Finance Accounts for the year 2003-04 bring out the trends in the major fiscal aggregates of receipts and expenditure and from the statements of the Finance Accounts for the year 2003-04 and wherever else necessary, show these in the light of time series data (Appendix I), Abstract of Receipts and Disbursements (Appendix II), Sources and Application of Funds (Appendix III), Summarised Financial position of Government of Tamil Nadu (Appendix IV) and periodic comparisons. The reporting parameters are depicted in the Box 1.2.

Box 1.2

Reporting Parameters

Fiscal aggregates such as tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to Gross State Domestic Product at current market prices. The data given by the Department of Economics and Statistics of the State Government for the GSDP at current prices have been used for this purpose.

For tax revenues, non-tax revenues, revenue expenditure etc. buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.

For most series, a trend growth during 1999-2004 has been indicated. Some of the terms used here are explained in Appendix V.

The key indicators adopted for analysing the State finances are (i) Resources by volumes and sources, (ii) Application of resources, (iii) Assets and Liabilities and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the

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 accounts of the State Government are kept in three parts (i) Consolidated Fund (ii) Contingency Fund and (iii) Public Account. They are defined in Box 1.3.

<table>
<tr><th colspan="2">Box 1.3
State Government Funds and the Public Account</th></tr>
<tr><td>Consolidated Fund

All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled ‘The Consolidated Fund of State’ established under Article 266(1) of the Constitution of India.</td><td>Contingency Fund

Contingency Fund of State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.</td></tr>
<tr><td colspan="2">Public Account

Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursements are made from it.</td></tr>
</table>

State Finances by key indicators

1.5 Resources by volume and sources

1.5.1 Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenue, non-tax revenues, State’s share of Union taxes and duties and grants-in-aid from the Central Government. Capital receipts are comprised of miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources *viz.* market loans, borrowings from financial institutions/ commercial banks, etc., loans and advances from Government of India as well as accruals from Public Account.

Table 2 shows the total receipts of the Government of Tamil Nadu (Rs 62111 crore) for the year 2003-04, by volume and source.

Table 2: Resources of Government of Tamil Nadu

(Rupees in crore)

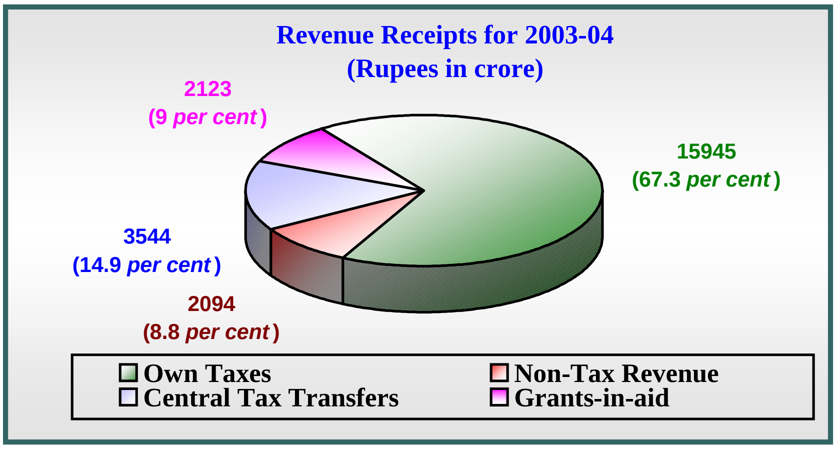
I	**Revenue Receipts**			23706
II	**Capital Receipts**			10298
	a.	Recovery of Loans and Advances	575	
	b.	Debt Receipts	9723	
III	**Public Account Receipts**			28107
	a.	Small Savings and Provident Fund	2688	
	b.	Reserve Funds	737	
	c.	Deposit and Advances	8742	
	d.	Suspense and Miscellaneous	12286	
	e.	Remittances	3654	
	Total Receipts			**62111**

Revenue Receipts

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

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

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue Receipts	16328	18317	18818	20837	23706
- Own Taxes	10919	12282	13010	14342	15945
- Non-Tax Revenue	1357	1711	1557	1861	2094
- Central-Tax Transfers	2667	2784	2870	3047	3544
- Grants-in-aid	1385	1540	1381	1587	2123
Rate of growth of Revenue Receipts	14.5	12.2	2.7	10.7	13.8
Revenue Receipts/GSDP	12.9	13.0	13.1	13.5	13.9
Revenue Buoyancy	2.07	1.05	1.59	1.39	1.34
GSDP growth	7.0	11.6	1.7	7.7	10.3



1.5.3 Overall revenue receipts of the State increased from Rs 16328 crore in 1999-2000 to Rs 23706 crore in 2003-04. The Revenue Receipts rose by 13.8 *per cent* during 2003-04 mainly due to increased Sales Tax collections, grants-in-aid from Government of India and share of Union Taxes.

1.5.4 Overall growth of the four components of Revenue Receipts during 1999-2004 had also differed significantly. While the State's own taxes recorded a growth of 46 *per cent* during 1999-2004, the non-tax revenue recorded a growth of 54.3 *per cent*. The growth of revenue from Central taxes and grants-in-aid was 32.9 and 53.3 *per cent* respectively.

1.5.5 While the revenue from the State's own resources, increased from 75.2 *per cent* of the total revenue in 1999-2000 to 76.1 *per cent* during 2003-04, the contribution of Central tax transfers and grants-in-aid from Government of India together, declined from 24.8 *per cent* of the total revenue to 23.9 *per cent* during the above period. However in absolute terms, the Central tax transfers and grants-in-aid increased from Rs 2667 crore and Rs 1385 crore to Rs 3544 crore and Rs 2123 crore respectively during the above period.

1.5.6 The sources of receipts during the period 1999-2000 to 2003-04 are given in Table 4 below.

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

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic Product@
		Non-Debt Receipts including Contingency Fund receipts	Debt receipts	Accruals in Public Account		
1999-2000	16328	314	3711	19545	39898	126449
2000-2001	18317	359	4731	21286	44693	141109
2001-2002	18818	325	4522	21209	44874	143517
2002-2003	20837	433	9396	27156	57822	154566
2003-2004	23706	575	9723	28107	62111	170530

@ GSDP figures of all years revised adopting the figures communicated by Government.

Arrears of revenue

1.5.7 The arrears of revenue which had steadily increased from Rs 6325 crore in 1999-2000 to Rs 9424 crore in 2002-03 decreased to Rs 7247 crore during 2003-04, which is a favourable development in State finances. The outstanding revenue as on 31 March 2004 was 40.2 *per cent* of the tax and non-tax revenue raised during 2003-04 as compared to 58.2 *per cent* during the previous year. Of the arrears of Rs 7247 crore as of March 2004, Rs 1663 crore (23 *per cent*) were outstanding for more than five years. The arrears mainly pertained to Sales Tax (Rs 6529 crore) and Mines and Minerals (Rs 397 crore).

1.6 Application of resources

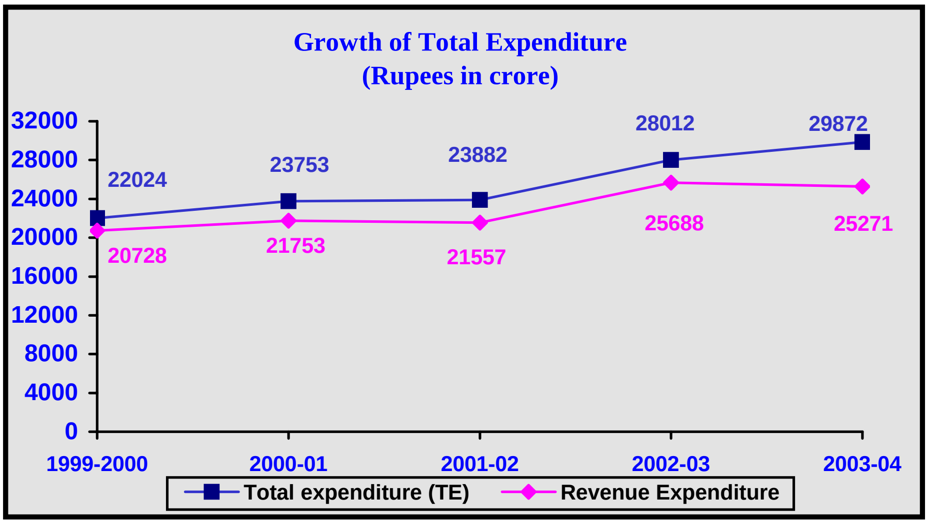
Trend of Growth

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

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

	1999-2000	2000-01	2001-02	2002-03	2003-04
Total expenditure (TE)	22024	23753	23882	28012	29872
Rate of Growth	13.8	7.9	0.5	17.3	6.6
TE/GSDP	17.4	16.8	16.6	18.2	17.5
TE/Revenue Receipts	134.9	129.7	126.9	134.4	126.0
Buoyancy of total expenditure with					
GSDP	1.97	0.68	0.29	2.25	0.64
Revenue Receipts	0.95	0.65	0.19	1.62	0.48

1.6.2 Overall expenditure of the State comprising revenue expenditure, capital expenditure and the loans and advances increased from Rs 22024 crore in 1999-2000 to Rs 29872 crore in 2003-04. The rate of growth of total expenditure declined from 17.3 *per cent* in 2002-03 to 6.6 *per cent* in 2003-04. While the Revenue Expenditure during 2003-04 declined by 1.6 *per cent* as compared to the previous year, the Capital expenditure and loans and advances disbursed increased by 120.5 *per cent* and 45.3 *per cent* over the previous year's figures. The percentage of total expenditure to revenue receipts during 2003-04 was 126 indicating that only about 80 *per cent* of the State's total expenditure was met from its current revenue, leaving the balance to be financed by borrowings.

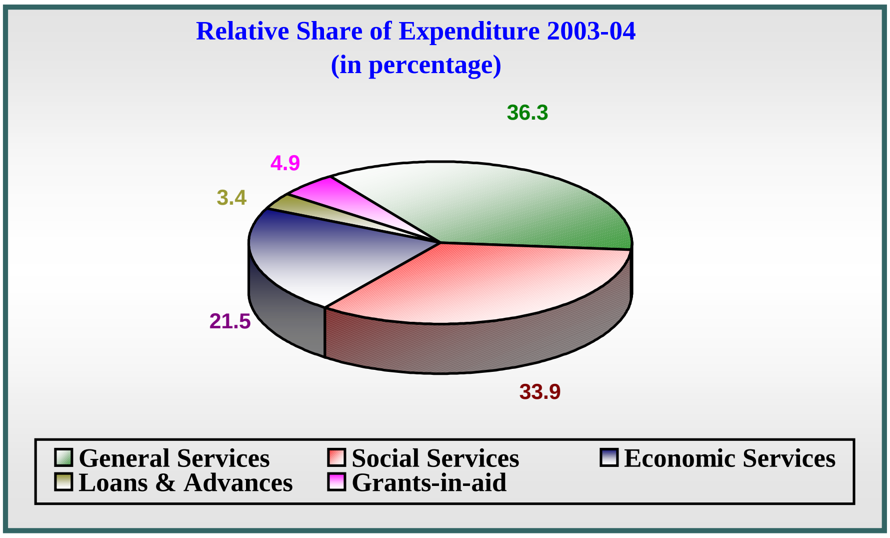


1.6.3 The relative share of different components in total expenditure is indicated in Table 6.

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

	1999-2000	2000-01	2001-02	2002-03	2003-04
General Services	23.5	22.7	23.3	21.2	20.6
Interest Payments	12.3	13.1	14.7	14.7	15.7
Social Services	35.9	35.5	34.9	30.7	33.9
Economic Services	20.6	22.7	21.8	25.3	21.5
Loans and Advances	3.0	1.9	2.3	2.5	3.4
Grants-in-aid	4.7	4.1	3.0	5.6	4.9
Total	**100**	**100**	**100**	**100**	**100**

1.6.4 Interest payments and expenditure on General Services considered as non-developmental expenditure together accounted for 36.3 *per cent* of total expenditure in 2003-04. There was a steady decline in the share of Social Services from 35.9 *per cent* to 33.9 *per cent* during the five year period.



Incidence of Revenue expenditure

1.6.5 Revenue expenditure had the predominant share in total expenditure. Such expenditure does not increase the Assets of the Government. Overall revenue expenditure, its rate of growth, ratio of revenue expenditure to State's GSDP and revenue receipts are indicated in Table 7 below.

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

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue Expenditure (RE)	20728	21753	21557	25688	25271
Rate of Growth	17.1	4.9	(-) 0.9	19.2	(-) 1.6
RE/GSDP	16.4	15.4	15.0	16.6	14.8
RE as % of TE	94.1	91.6	90.3	91.7	84.6
RE as % to Revenue Receipt	126.9	118.8	114.6	123.3	106.6

1.6.6 Overall revenue expenditure of the State increased from Rs 20728 crore in 1999-2000 to Rs 25688 crore in 2002-03 and then decreased marginally to Rs 25271 crore in 2003-04. As a percentage of GSDP, the revenue expenditure ranged between 14.8 and 16.6. Further, the ratio of revenue expenditure to total expenditure was 84.6 in 2003-04; in other words, 84.6 *per cent* of total expenditure of the State was in the nature of expenditure on current consumption. The decrease of revenue expenditure by Rs 417 crore in 2003-04 was mainly due to decrease under 'Assistance to Electricity Board'[1] and 'consumer subsidies' under Civil Supplies. The ratio of revenue expenditure to revenue receipt has declined from 126.9 *per cent* in 1999-2000

[1] During 2002-03, assistance of Rs 1962 crore was extended to Tamil Nadu Electricity Board (TNEB) as an one time settlement of its dues with Central utilities.

to 106.6 *per cent* in 2003-04, indicating decline in State's dependence on borrowing for meeting the current expenditure.

Trend of salary expenditure

1.6.7 The salary expenditure including Dearness Allowance of the State Government over the last five years given below (Table 8) revealed that Salaries alone consumed nearly 29.8 *per cent* of the revenue receipts of the Government during 2003-04. The expenditure on salaries decreased from Rs 7225 crore in 2002-03 to Rs 7066 crore in 2003-04. The salary expenditure as a percentage of Revenue Receipts and GSDP declined from 34.7 to 29.8 *per cent* and from 4.7 to 4.1 *per cent* respectively as compared to the last year. This is a positive trend from the point of view of health of the Government's finances.

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

	1999-2000	2000-01	2001-02	2002-03	2003-04
Salary Expenditure	7242	7169	7265	7225	7066
As % of GSDP	5.7	5.1	5.1	4.7	4.1
As % of Revenue Receipts	44.4	39.1	38.6	34.7	29.8

Huge expenditure on pension payments

1.6.8 Pension payments consumed 13.8 *per cent* of the revenue receipts of the Government during 2003-04 and it increased by 22 *per cent* from Rs 2688 crore in 1999-2000 to Rs 3280 crore in 2003-04. As a percentage of revenue expenditure, it constituted about 13 *per cent* during 2003-04.

Interest payments

1.6.9 Interest payments made during the period 1999-2000 to 2003-04 along with its percentage to Revenue Receipts and Revenue Expenditure are given in Table 9 below:

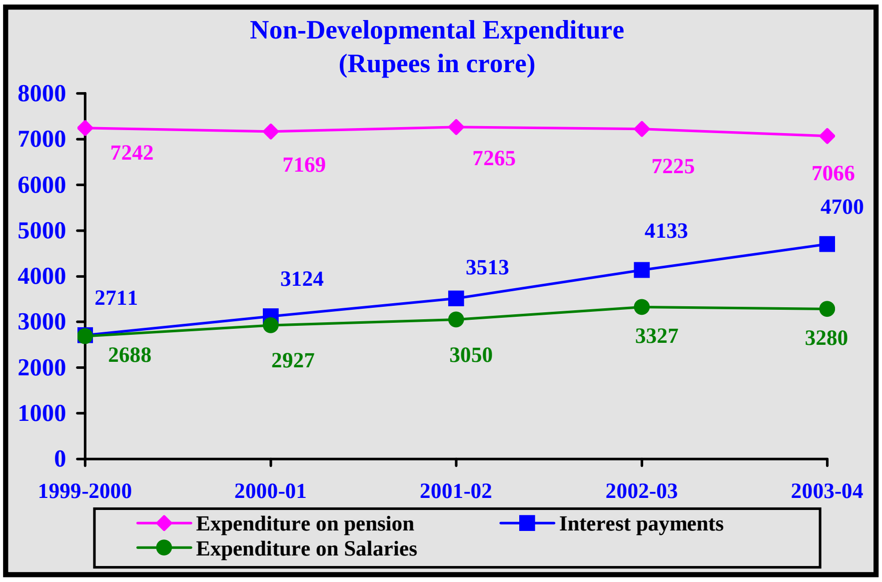
Table 9: Interest payments

Year	Interest payments (Rupees in crore)	Percentage of Interest payments with	
		Revenue Receipts	Revenue Expenditure
1999-2000	2711	16.6	13.1
2000-2001	3124	17.1	14.4
2001-2002	3513	18.7	16.3
2002-2003	4133	19.8	16.1
2003-2004	4700	19.8	18.6

Interest payments increased by 73.4 *per cent* from Rs 2711 crore in 1999-2000 to Rs 4700 crore in 2003-04 (the average growth rate being 16.5 *per cent*) primarily due to continued reliance on borrowings to meet the Fiscal Deficit. During 2003-04, Government raised Rs 2850.96 crore from open market at a weighted average rate of interest of 6.15 *per cent* per annum. It also borrowed Rs 3785.46 crore from National Small Savings Fund at

9.5 *per cent* per annum and Rs 1023 crore at 10.5 *per cent* per annum from Government of India during the year.

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



Subsidies

1.6.11 Subsidies can be defined as the difference between the cost of goods and services provided and the actual recoveries made from its users. Subsidies are categorised as Direct and Indirect. In case of direct subsides there are clear norms for identification of beneficiaries and specific budgetary allocation.

1.6.12 The Budget Speech for 2003-04 envisaged reduction of the subsidy burden of the State Government through proper targeting of the most deserving sections and through recovery of cost-based user charges from others.

1.6.13 Direct subsidies as compiled from accounts, declined from Rs 1768.42 crore during 2002-03 to Rs 1680 crore during 2003-04 and constituted 6.6 *per cent* of the Revenue Expenditure (Rs 25271 crore). Major subsidies comprised (a) subsidy to Tamil Nadu Civil Supplies Corporation Limited (TNCSC) towards losses incurred on supplies to Public Distribution System (PDS) (Rs 800 crore), (b) free distribution of handloom cloth to the people below poverty line (Rs 174 crore) and (c) reimbursement of subsidy on concessional bus fare for eligible students (Rs 155 crore). Two major subsidies *viz* Power and food subsidies are discussed below:

1.6.14 In June 2004, Government of Tamil Nadu issued a policy directive to the Tamil Nadu Electricity Regulatory Commission (TNERC) regarding (a) extending free supply of electricity to agricultural consumers (except self financing scheme farmers) and hut consumers from 1 April 2004 and (b) reduction of tariff to domestic consumers. While allowing the above, TNERC directed the Government of Tamil Nadu to pay Tamil Nadu Electricity Board (TNEB) in advance such sums as to compensate TNEB the burden imposed by the reduction in tariff. TNERC has estimated that the total subsidy payable during 2004-05 by the Government of Tamil Nadu to TNEB for 2004-05 would be Rs 928.25 crore.

- Thus, the benefit of reduction in revenue deficit during 2003-04 would be offset by the above subsidy during 2004-05.

1.6.15 Government issued (August 2003) orders for stopping supply of essential commodities under Public Distribution System (PDS) to ration card holders with family income of more than Rs 5000 per month. The cards of such persons were stamped as Honorary cards (H cards). Accordingly, about 18 lakh card holders were taken out of the PDS thereby marginally reducing the subsidy burden of Government.

- To weed out benefits in respect of bogus cards, Government had earlier introduced (July 2002) Rice coupons for 1.12 crore card holders. This entitled the coupon holders to 20 kilos of rice per month at a price of Rs 3.50 per kg. As a result, the off-take of essential commodities and subsidy thereon declined. Consequently, the subsidy burden on the Government declined from Rs 1240 crore in 2002-03 to Rs 800 crore in 2003-04.

- However, based on the representations from public, Government withdrew (May 2004) the "H" stamping of cards, enabling once again all card holders to draw all essential commodities irrespective of their income. This could increase the annual burden of subsidy on the Government to the extent of the reduction experienced earlier.

1.7 Plan, Capital and Development Expenditure

1.7.1 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 also 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, the plan and capital expenditure can be viewed as contributing to the development of social and economic sectors.

1.7.2 The ratio of Government's plan expenditure, capital expenditure and developmental expenditure to total expenditure as reflected in Statement 12 of Finance Accounts is tabulated below.

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

	1999-2000	2000-01	2001-02	2002-03	2003-04
Plan expenditure	17.7	18.0	17.5	16.4	27.4
Capital expenditure	3.0	6.6	7.6	6.0	12.4
Development expenditure[2]	63.0	63.5	61.1	63.1	62.4

(Total expenditure does not include loans and advances)

[2] Includes expenditure on Social Services, Economic Services and Grants-in-aid.

Plan expenditure declined from 17.7 *per cent* of total expenditure in 1999-2000 to 16.4 *per cent* in 2002-03 and then increased to 27.4 *per cent* of total expenditure in 2003-04. Capital expenditure which ranged between 3.0 and 7.6 *per cent* of total expenditure during 1999-2003, increased to 12.4 *per cent* of total expenditure in 2003-04. The share of development expenditure in this period ranged between 61.1 *per cent* and 63.5 *per cent*. Increase in capital expenditure under plan head during the year was mainly due to adjustment of prior period capital expenditure on (a) State's share towards Railway Projects and (b) Other Districts Roadworks earlier met from proceeds of Bonds floated by Tamil Nadu Industrial Development Corporation (Rs 1423.38 crore) during 1999-2002 and parked in a Personal Deposit Account.

1.7.3 The share of revenue and capital expenditure under plan was 56 and 44 *per cent* respectively. While the major plan expenditure under revenue was under Social Welfare and Nutrition (25.4 *per cent*), Rural Development (17.7 *per cent*) and Agriculture and allied activities (11.9 *per cent*), the major plan expenditure under capital was under Water Supply and Sanitation (36 *per cent*) and Roads and Bridges (35.5 *per cent*). Of the developmental expenditure, Social Services (Rs 10110 crore) and Economic Services (Rs 6432 crore) accounted for 56.1 *per cent* and 35.7 *per cent* respectively.

Financial Assistance to local bodies and other institutions

1.7.4 The quantum of assistance provided by way of grants and loans to local bodies etc., during the period of five years ending 2003-04 was as follows:

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Universities and Educational Institutions	1531	1676	761	316	325
Municipal Corporations and Municipalities	112	125	505	866	847
Panchayati Raj Institutions	1430	915	630	1351	1735
Development Agencies	474	731	571	186	312
Hospitals and other Charitable Institutions	12	9	2	4	19
Other institutions	662	514	508	3265	1890
Total	4221	3970	2977	5988	5128
Percentage of growth over previous year	12	(-) 6	(-) 25	101	(-) 14
Assistance as a percentage of revenue expenditure	20	18	14	23	20

As seen from the table, the grants-in-aid extended to Panchayati Raj Institutions increased during the year. Decrease in the quantum of financial assistance to "Other Institutions" during the year was mainly due to release of Rs 1962 crore during 2002-03 towards grants-in-aid to Tamil Nadu Electricity Board as an one time settlement for payment of dues to Central utilities.

Misappropriation, losses, etc.

1.7.5 Cases of misappropriation of Government money reported to Audit upto March 2004 and on which report on final action *viz.* write-off or recovery was pending at the end of June 2004 were as under:

	Number of cases	**Amount (Rupees in lakh)**
Cases reported to end of March 2003 and outstanding at the end of June 2003	380	537.64
Cases reported during April 2003 to March 2004[3]	7	53.26
Total	**387**	**590.90**
Cases cleared during July 2003 to June 2004[4]	13	1.23
Cases outstanding at the end of June 2004	374	589.67

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

1.7.6 Further, 266 cases of shortage, theft, damage to property, etc., involving Rs 1.63 crore were reported to Audit upto March 2004 by departments other than Public Works, Highways and Forest Departments. 2815 cases involving Rs 16.56 crore were either reported by or noticed during audit of Public Works, Highways and Forest Departments upto March 2004. Department-wise and year-wise analysis of these cases are contained in Appendix VII.

1.8 Assets and Liabilities

1.8.1 Government accounting system does not attempt a comprehensive accounting of fixed assets, e.g. land owned by the Government. However, Government accounts do capture the financial liabilities arising from loans taken and the assets created out of expenditure. Statements 16 and 17 of Finance Accounts show the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. Appendix IV presents an abstract of such liabilities and the assets as on 31 March 2004, compared with the corresponding position on 31 March 2003.

1.8.2 The liabilities as per Appendix IV mainly comprise monies owed by the Government arising from internal borrowings, loans and advances from the Government of India, receipts from the Public Account and reserve funds. During 2003-04, the liabilities grew by 12.7 *per cent*.

1.8.3 Similarly, assets comprise mainly capital expenditure and loans and advances given by the Government and grew by 22.4 *per cent* during 2003-04.

[3] Includes a case of misappropriation of Rs 37.55 lakh by staff of Government School, Nayaganaipiriyal, Perambalur District, noticed during test-check of Office of Chief Educational Officer, Perambalur. Criminal and Departmental action against a B.T. Assistant responsible for misappropriation of Rs 28.32 lakh during 1993-2000 was in progress. Action was pending in respect of balance amount misappropriated in this case.

[4] All the 13 cases relate to recovery from the responsible persons.

Financial results of irrigation works

1.8.4 Statement 3 of Finance Accounts depicts the financial results of five major and 47 medium irrigation projects involving capital expenditure of Rs 2164.31 crore at the end of March 2003. It shows that revenue realised from these projects during 2002-03 (Rs 4.24 crore) was only 0.20 *per cent* of the capital expenditure and this was not sufficient to cover even the direct working expenses (Rs 92.61 crore). After meeting the working and maintenance expenditure (Rs 94.36 crore) and interest charges (Rs 112.05 crore), the projects suffered a net loss of Rs 203.54 crore. The losses comprised of Rs 133.47 crore on the major irrigation projects and Rs 70.07 crore on the medium irrigation projects.

Incomplete projects

1.8.5 As per information received from the State Government, there were 59 incomplete projects which were scheduled for completion before 31 March 2004 on which Rs 551.63 crore of capital expenditure was incurred. Each of these projects cost more than Rupees one crore but were incomplete for reasons such as non-receipt of revised Administrative sanction, pending land acquisition, delay in finalisation of tender etc.

Commercial activities

1.8.6 Activities of quasi-commercial nature are performed by the departmental undertakings of certain Government departments. These undertakings are to prepare proforma accounts in the prescribed format showing the results of annual financial operations. The Heads of Departments in Government are to ensure that undertakings which are funded by budgetary release, prepare the accounts on time and submit the same to Accountant General for audit. Though there are no such undertakings in the Government of Tamil Nadu as of March 2004, one such erstwhile departmental undertaking *viz.*, Government Agricultural Engineering Workshop, Chennai which was closed from 28 August 2002 has finalised its accounts upto 2001-02 only. Rupees 7.84 crore had been invested by the State Government in this undertaking till the end of 2001-02.

1.8.7 Paragraphs 6.1 and 1.8.8 of the Reports of the Comptroller and Auditor General of India (Civil) for the years ended 31 March 2002 and 31 March 2003 respectively mentioned the failure of the Heads of Departments and the management of the undertakings regarding timely preparation of the proforma accounts. Accountant General (Audit) II reminded the Secretary of the concerned departments periodically in this matter.

1.8.8 The financial position of Agricultural Engineering Workshop is given in Appendix VIII.

Fiscal Liabilities – Public Debt and Guarantees

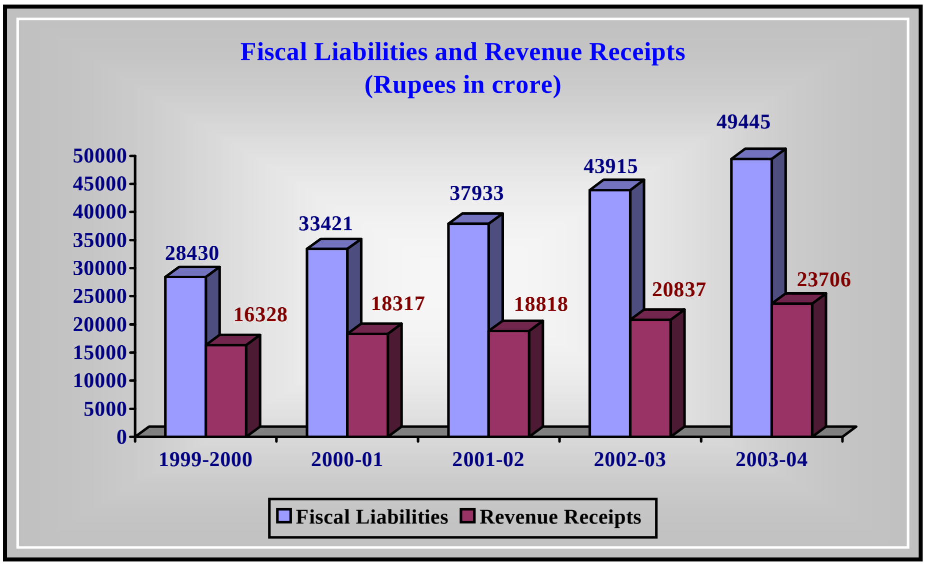
1.8.9 The Constitution of India (Article 293) provides that State may borrow within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time be fixed by an act of Legislature. However, no such law was passed in the State (Article 293) to lay down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

1.8.10 Statement 4 read with Statements 16 and 17 of Finance Accounts show the year-end balances under Debt, Deposit and Remittance heads from which the liabilities are worked out. Table 11 below gives the fiscal liabilities[5] of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources (Tax and non-Tax receipts) and the buoyancy of these liabilities with respect to these three parameters. It would be observed that the overall fiscal liabilities of the State increased from Rs 28430 crore in 1999-2000 to Rs 49445 crore in 2003-04 at an average annual rate of 16.2 *per cent*. These liabilities *vis-à-vis* GSDP increased from 22.3 *per cent* in 1999-2000 to 29 *per cent* in 2003-04; their ratio to revenue receipts increased from 174.1 to 208.6 *per cent* over the five year period.

1.8.11 At the end of 2003-04, the fiscal liabilities (Rs 49445 crore) were more than twice the revenue receipts of the State. During 1999-2004, the fiscal liabilities of the State grew much faster compared to its rate of growth of GSDP, revenue receipts and own resources. For each one *per cent* increase in GSDP, Revenue Receipts and own resources, the direct fiscal liabilities of the State have gone up by 1.2, 0.9 and 1.1 *per cent* respectively during 2003-04.

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

	1999-2000	2000-01	2001-02	2002-03	2003-04
Fiscal Liabilities	28430	33421	37933	43915	49445
Rate of Growth	23.3	17.6	13.5	15.8	12.6
Percentage of Fiscal Liabilities to					
(a) GSDP	22.3	24.3	25.5	28.6	29
(b) Revenue Receipts	174.1	182.5	201.6	210.8	208.6
(c) Own Resources	231.6	238.8	260.4	271.0	274.1
Buoyancy of Fiscal Liabilities to					
(a) GSDP	3.33	2.29	1.65	4.51	1.2
(b) Revenue Receipts	1.61	1.44	5.00	1.48	0.9
(c) Own Resources	1.68	1.26	3.29	1.41	1.1



5 Fiscal liabilities comprise (a) Internal Debt (b) Loans and Advances from Central Government (c) Small Savings, Provident Fund etc. (d) Receipts of Local Funds etc. (e) Civil Deposits (f) Reserve Funds etc.

Total contingent liabilities constituting guarantees given by Government stood at Rs 10098 crore at the end of 2003-04.

1.8.12 Another important indicator of debt sustainability is net availability of funds after repayment of the principal on account of the earlier contracted liabilities and interest. The net funds available on account of internal debt and loans and advances from Government of India declined from Rs 3788 crore in 2002-03 to Rs 1051 crore in 2003-04. The Table 12 below gives the position of the receipt and repayment of internal debt over the last five years. The net funds available, after providing for the interest and repayments, varied from 3.9 *per cent* to 20.1 *per cent* during 1999-2004. There was marked reduction in availing of ways and means advances and overdraft from Reserve Bank of India. These fell from Rs 10535 crore during 2002-03 to Rs 1710 crore in 2003-04 and contributed to a sharp decline in Receipt and Repayment under Internal Debt.

Table 12: Net Availability of Borrowed Funds (Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Internal Debt[6]					
Receipt	6535	11530	12575	17883	10410
Repayment (Principal + Interest)	5671	8227	10855	11851	5774
Net Fund Available	864	3303	1720	6032	4636
Net Fund Available (*per cent*)	13	29	14	34	45
Loans and Advances from GOI					
Receipt	2011	66	913	920	1023
Repayment (Principal + Interest)	1830	1953	2108	3164	4608
Net Fund Available	181	(-) 1887	(-) 1195	(-) 2244	(-) 3585
Net Fund Available (*per cent*)	9	-	-	-	-
Total Public Debt					
Receipt	8546	11596	13488	18803	11433
Repayment (Principal + Interest)	7501	10180	12963	15015	10382
Net Fund Available	1045	1416	525	3788	1051
Net Fund Available (*per cent*)	12.2	12.2	3.9	20.1	9.2

Guarantees issued by the State Government

1.8.13 As provided under Article 293 of the Constitution, Government give guarantees for the due discharge of certain liabilities like repayment of loans, share capital etc. raised by Statutory Corporations, Government companies, Co-operative institutions etc. 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 honour these commitments. According to the Tamil Nadu Fiscal Responsibility Act passed by the State Legislature in May 2003, as amended in February 2004, Government should cap the total outstanding guarantees to 100 *per cent* of the total revenue receipt in the preceding year or at ten *per cent* of GSDP whichever is lower and cap the risk weighted guarantees to 75 *per cent* of the total revenue receipt of the preceding year or at 7½ *per cent* of GSDP whichever is lower.

1.8.14 State Government categorised the guarantees according to the risk involved and assigned risk weightage to each. Where the guaranteed loan is fully serviced by Government by way of debt service grant/provision in the

6 Includes ways and means advances and overdraft

budget, it is treated as guarantee with 'Nil Risk' with zero *per cent* weightage assigned to it. Guarantees in respect of institutions that are not in good financial health including those that have been or are likely to be wound up are considered as 'Very High Risk' with 80 *per cent* risk weightage assigned to it. Rest of the guarantees were categorised as 'Low Risk' (25 *per cent* Risk weightage), 'Medium Risk' (40 *per cent* Risk weightage) and 'High Risk' (60 *per cent* Risk weightage) based on the financial health of institution and its ability to service the debt.

Outstanding Guarantees

1.8.15 During 2003-04 Government gave fresh guarantees aggregating Rs 1662.18 crore on behalf of various institutions. Maximum amount of guarantees as on 31 March 2004 was Rs 18843 crore against which sums outstanding on that date were Rs 10098.39 crore (Principal: Rs 9961.16 crore; Interest: Rs 137.23 crore). The outstanding amount for 2003-04 was 48.5 *per cent* of Revenue Receipt and 65.3 *per cent* of ten *per cent* of GSDP for the previous year *viz.* 2002-03. Risk weighted outstanding guarantees as on 31 March 2004 are yet to be compiled by Finance Department. Yearwise position of outstanding guarantees during the last five years *vis-à-vis* the prescribed ceiling of 100 *per cent* of Total Revenue Receipts and ten *per cent* of GSDP in the respective preceding years is given in the following table.

(Rupees in crore)

Year	Outstanding amount of guarantee at the end of the year	Revenue Receipts of the previous year	Percentage of (2) to (3)	10 *per cent* of GSDP of the previous year	Percentage of (2) to (5)
(1)	(2)	(3)	(4)	(5)	(6)
1999-2000	5654	14261	39.6	11821	47.8
2000-2001	6780	16328	41.5	12645	53.6
2001-2002	8570	18317	46.8	14111	60.7
2002-2003	8677	18818	46.1	14352	60.5
2003-2004	10098	20837	48.5	15457	65.3

The above table suggests that if the trend of faster growth of outstanding guarantees *vis-à-vis* GSDP continues, the percentage in column (6) above could touch the cap set under the Fiscal Responsibility Act within the next few years.

Category-wise guarantees issued

1.8.16 During the year 2003-04, Government issued guarantees for loans amounting to Rs 513.43 crore to four institutions[7] which were categorised under 'Very High Risk' guarantees.

1.8.17 Government has categorised the guarantees to loans etc. as 'Nil risk' where the loan is fully serviced by Government. As of 31 March 2003, Government had issued Rs 3401.72 crore guarantee under 'Nil risk' category with budgetary support.

[7] Tamil Nadu Co-operative Housing Federation Ltd.: Rs 48.55 crore; Co-operative and Public sector sugar mills: Rs 454.18 crore; TN Handloom Development Corporation: Rs 2.20 crore and Southern Structural Ltd.: Rs 8.50 crore.

Accounting of 'Nil Risk' guarantee

1.8.18 Government resorted to off-budget borrowing amounting to Rs 1423.38 crore during 1999-2003 through Tamil Nadu Industrial Development Corporation for financing various Government projects. In 2003-04, Government decided to make necessary adjustment in accounts to exhibit these as Public Debt. Audit observed that the other 'Nil Risk' category loans amounting to Rs 1978.34 crore[8], being serviced fully by Government through Budgetary provision, would also require to be classified as Public Debt of the State Government, instead of projecting the same as contingent liability, to reflect the true position of Government's liability.

Guarantee Redemption Fund

1.8.19 Government constituted a Guarantee Redemption Fund (GRF) in March 2003 for discharge of invoked guarantees. An amount of Rs 50 crore was credited to the Fund during 2003-04. 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 2004 was Rs 46.49 crore.

1.8.20 Test-check of records[9], during June 2004 revealed the following:

- In view of its mounting losses and financial liabilities, Government in July 2002, ordered the winding up of the Tamil Nadu Film Development Corporation (TNFDC). As on 31 March 2003, TNFDC's guaranteed loans outstanding was Rs 7.82 crore constituting dues to other Government corporations. Besides this, an amount of Rs 4.06 crore was pending recovery from TNFDC in respect of a guarantee invoked in 2000. Government, in June 2003 sanctioned an additional amount of Rs 3.51 crore to Tamil Nadu Newsprint and Papers Limited towards its dues from TNFDC arising from a loan guaranteed by the Government. The amount so paid was to be adjusted against value of assets to be transferred to Government from TNFDC. As of July 2004, the assets were still to be transferred and an amount of Rs 7.57 crore was pending from TNFDC.

- In January 2002, Government stood guarantee to a loan of Rs 100 crore availed by the Tamil Nadu Transport Development Finance Corporation (TNTDFC) from LIC of India for procuring 1000 buses in 2001-02 to replace overaged buses in State Transport Undertakings (STU). The loan was drawn from LIC in instalments of Rs 40 crore in March and Rs 60 crore in September 2002 and deposited in Special Personal Deposit Account of the Corporation. As of July 2004, only Rs three crore had been spent and balance of Rs 97 crore was lying unutilised in the deposit account.

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8 Figures as per Budget Memorandum 2004-05 – TN Police Housing Corporation Limited: Rs 268.47 crore; TN Rural Housing and Infrastructure Development Corporation Limited: Rs 242.81 crore; TN State Construction Corporation Limited: Rs 113.52 crore; TN Backward Classes Economic Development Corporation Limited: Rs 19.49 crore; TN Medical Services Corporation Limited: Rs 51.51 crore; TN Slum Clearance Board: Rs 88.99 crore; Chennai Metropolitan Development Authority: Rs 206.92 crore; TN Water Supply and Drainage Board: Rs 919.26 crore; and TN Housing Board: Rs 67.37 crore.

9 Records of TN Industrial Investment Corporation, TN Film Development Corporation, TN Transport Development Finance Corporation, TN State Construction Corporation, TN Electricity Board and TN Industrial Development Corporation.

Due to financial reconstruction of the STUs with effect from 1 April 2002, the fund position of STUs improved enabling TNTDFC to procure buses from out of its own funds and only an amount of Rs three crore was utilised out of the loan amount from LIC.

Even while the first instalment of Rs 40 crore was lying unutilised, TNTDFC, with the approval of the Government, drew the balance loan amount of Rs 60 crore in September 2002 from LIC of India for advancing a long term loan of Rs 75 crore to Metrowater to finance its water augmentation projects and to procure 2275 buses during 2002-03 as per the intimation (August 2002) of Government. Since Metrowater declined to avail the loan at 11 *per cent* due to availability of loans at lower rate of interest (10.25 *per cent* to 10.50 *per cent*) from other financial institutions and the proposed procurement of buses did not materialise, TNTDFC requested (January 2003) Government's permission to foreclose the LIC loan. Government, however, in April 2004 requested LIC to reset the loan at the prevailing interest rate.

Government have been paying interest at 10.75 *per cent* on the amount deposited in Special Personal Deposit Account. Had the loan been foreclosed and the loan amount repaid in January 2003, Government would have saved on payment of interest of Rs 16.51 crore[10] on Rs 97 crore retained in Special PD Account.

Guarantee Commission

1.8.21 The institutions availing guarantee from Government of Tamil Nadu were required to pay a commission to Government at the rate of half *per cent per annum* on the outstanding balance of guaranteed amount. As per details collected by Audit, a sum of Rs 89.62 crore was pending to be collected from various institutions as on 31 March 2004. This included Rs 26.08 crore due from institutions under 'Very High Risk' category to whom fresh guarantees were issued during 2003-04. Major amounts due included - Tamil Nadu Electricity Board: Rs 44.01 crore, Tamil Nadu Co-operative Housing Federation Limited: Rs 19.89 crore, Tamil Nadu Water Supply and Drainage Board: Rs 7.18 crore and Sugar Mills: Rs 4.97 crore.

Government in Finance Department had stated in September 2001 that instructions had been issued to Departments for review of remittance of guarantee fees and fresh guarantees were not to be issued to institutions against whom guarantee commission was outstanding. However, pending guarantee commissions continue to persist.

1.8.22 Government had also stated in September 2001 that action was being taken to improve the MIS system on guarantees. However, proper data base on all outstanding guarantees and those sanctioned annually is still not available in Finance Department (July 2004).

Off-Budget Borrowings

1.8.23 Apart from the borrowings under constitutional provision discussed in paragraphs 1.8.9 and 1.8.10, Government resorted to borrowings through a few corporations to access funds from various financial institutions. The amounts so borrowed were deposited in Public Account of the Government under specific orders and drawals from it were made by Government companies. Such borrowings are termed as "Off-Budget Borrowings". The discharge of the liabilities of such borrowings was either

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10 10.75 *per cent* on Rs 97 crore for the period January 2003 to July 2004.

covered by a guarantee given by Government or the repayment of principal with interest thereon, was met by the Government through specific budget provisions. The following cases of "Off-Budget Borrowings" came to notice of Audit during 2003-04:

Sl. No.	Name of the Corporation	Amount borrowed (Rs in crore)	Period of borrowing	Reasons for borrowing
(1)	Tamil Nadu Rural Housing and Infrastructure Development Corporation	69.25	2001-2002	Towards implementation of Anna Marumalarchi Thittam, a State scheme
		24.00	2001-2002	Towards implementation of Self-sufficiency scheme, a State scheme
(2)	Tamil Nadu Backward Classes Economic Development Corporation	19.98	2001-2003	Towards construction of hostels for students belonging to Backward Classes, Most Backward Classes and Denotified communities.
	Total	**113.23**		

1.8.24 The liabilities accrued against the borrowings were not included in the pending debt position of the Government. Since the Government accepted the responsibility of repayment of these loans with interest, these liabilities have become committed liabilities and hence Government's indebtedness at the end of each year resulted in understating of Government's actual committed debt position to that extent.

1.9 Management of deficits

Fiscal Imbalances

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

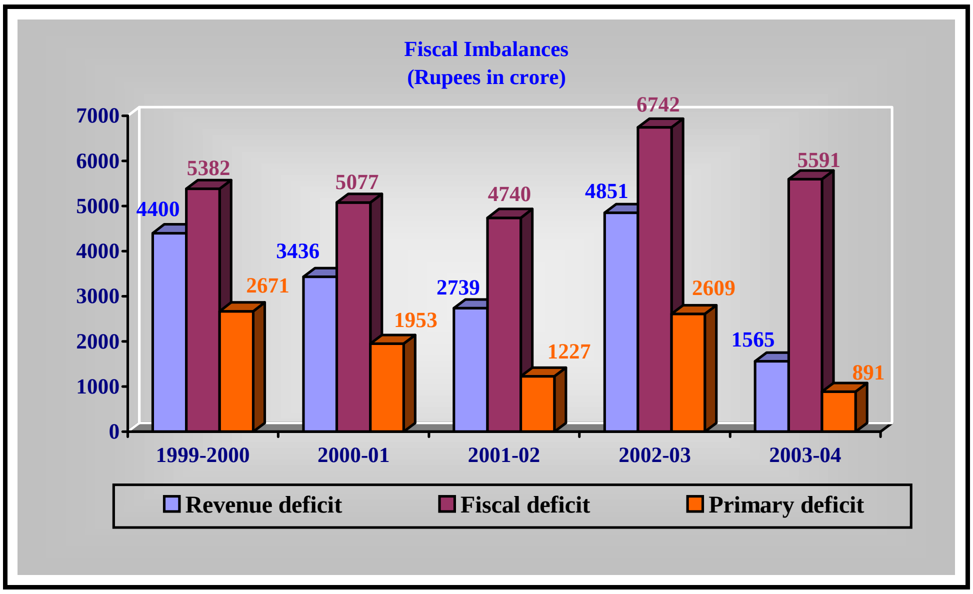
1.9.2 The details of Revenue/Fiscal/Primary Deficits during the period 1999-2000 to 2003-04 and their ratio to GSDP, along with the ratio of Revenue Deficit (RD) to Fiscal Deficit (FD) during this period are given in Table 13 below:

Table 13: Fiscal Imbalances – Basic Parameters
(value in crore of Rupees and others in percentage)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue deficit	4400	3436	2739	4851	1565
Fiscal deficit	5382	5077	4740	6742	5591
Primary deficit	2671	1953	1227	2609	891
RD/GSDP	3.5	2.4	1.9	3.1	0.9
FD/GSDP	4.3	3.6	3.3	4.4	3.3
PD/GSDP	2.1	1.4	0.9	1.7	0.5
RD/FD	81.8	67.7	57.8	72.0	28.0
RD/RR	26.9	18.8	14.6	23.3	6.6
BCR (Rupees in crore)	(-) 3226	(-) 2375	(-) 1526	(-) 3010	(+) 1280

The revenue deficit of the State, which is the excess of its revenue expenditure over revenue receipts (Statement 1 of Finance Accounts), increased from Rs 2739 crore in 2001-02 to Rs 4851 crore in 2002-03 and then declined sharply to Rs 1565 crore in 2003-04. As a percentage of revenue receipts, it increased from 14.6 *per cent* in 2001-02 to 23.3 *per cent* in 2002-03 and then declined to 6.6 *per cent* in 2003-04. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, after increasing from Rs 4740 crore in 2001-02 to Rs 6742 crore in 2002-03, decreased to Rs 5591 crore in 2003-04. The primary deficit of the State, after rising from Rs 1227 crore in 2001-02 to Rs 2609 crore in 2002-03, fell down to Rs 891 crore in 2003-04. The significant reduction in Revenue Deficit during this year was the cumulative result of 13.8 *per cent* growth in Revenue Receipts and 1.6 *per cent* decline in Revenue Expenditure. This in turn had a positive impact on fiscal and primary deficits and the RD/FD Ratio.

1.9.3 Though the revenue deficit decreased during 2003-04, its existence indicates that the State Government had still to borrow funds to meet its current obligations. The ratio of revenue deficit to fiscal deficit was 28 *per cent* in 2003-04. This indicated that 28 *per cent* of the borrowings were applied to revenue expenditure and the debt burden would affect the repayment capacity of the Government. As a proportion to State's GSDP, revenue deficit was 0.9 *per cent* in 2003-04 and fiscal deficit was 3.3 *per cent.*



Medium Term Fiscal Reforms Programme

1.9.4 Eleventh Finance Commission (EFC) in its report (July 2000) laid down broad parameters of fiscal correction in the State Sector. Each State was required to draw up a Medium Term Fiscal Reforms Programme (MTFRP) to achieve the objective of zero revenue deficit by 2008-09. The MTFRP was to form the basis of a Memorandum of Understanding (MoU) between the State and Ministry of Finance, Government of India (GOI). Further, the EFC recommended an Incentive Fund from which grants were to be released to States based on their fiscal performance. The Incentive Fund releases proposed for Tamil Nadu were Rs 402.36 crore to be released on achieving a minimum improvement of five percentage points in the revenue deficit as a proportion of its revenue receipts each year till 2004-05 over the base year 1999-2000.

1.9.5 The State Government passed the "Tamil Nadu Fiscal Responsibility Act, 2003" in May 2003 which included the objectives required to be achieved by it under the MTFRP and signed the MoU regarding this with GOI in September 2003.

1.9.6 The table below depicts the main targets set under the MTFR Plan for 2003-04 and the actual achievements thereagainst. The actual position with the relevant key indicators at the end of 2003-04 is as given below:

Table 14: Position of key indicators

(Rupees in crore)

	Projected in MTFR plan	Actuals	Target achieved Yes (Y)/No (N)
Total Revenue Receipts (TRR)	22567	23706	Y
State's Own Revenues (SOR)	17470	18039	Y
State's Own Tax Receipts (SOTR)	15942	15945	Y
Non-Tax Revenue	1529	2094	Y
Central Revenue	5097	5667	Y
(a) Shared taxes	3435	3544	Y
(b) Grants-in-aid	1662	2123	Y
Total Revenue Expenditure	26084	25271	Y
Capital Outlay	2359	3590	Y
Net lending	215	436	Y
Salaries	8920	7066	Y
Pension and Retirement benefits	3635	3280	Y
Subsidies	6184	1680	Y
Interest payment	4672	4700	N
Revenue Deficit	3517	1565	Y
Fiscal Deficit	6091	5591	Y
Primary Deficit	1419	891	Y
GSDP	166027	170530	Y
Rate of growth of GSDP	8 *per cent*	10.3 *per cent*	Y
Percentage of RD to			
(a) TRR	15.6 *per cent*	6.6 *per cent*	Y
(b) FD	57.7 *per cent*	28.0 *per cent*	Y
(c) GSDP	3.7 *per cent*	3.3 *per cent*	Y
Salary payment to TRR	39.52	29.81	Y
Salary payment to SOTR	55.95	44.31	Y
Pension payment to TRR	16.11	13.8	Y
Pension payment to SOTR	22.80	20.6	Y
Interest payment to TRR	20.7	19.8	Y

The above table indicates that the Government had achieved almost all the targets set for 2003-04 under the MTFR Plan.

1.10 Investments and returns

1.10.1 Statement 14 of Finance Accounts showed that as on 31 March 2004, Government had invested Rs 2257.13 crore in statutory corporations, rural banks, joint stock companies and cooperatives. As indicated in Table 15 below Government's return on this investment by way of dividend was not only meagre but also continued to decline till 2002-03. The loss making Government companies and cooperatives in which investment aggregated Rs 1383 crore had incurred a cumulative loss of Rs 4261.84 crore as of March 2004. While Government was borrowing at high rates of interest to finance its expenditure, its investments in companies etc. fetched a meagre return.

Table 15: Return on Investment

Year	Investment at the end of the year (Rupees in crore)	Return (Rupees in crore)	Percentage of Return	Rate of interest of Government borrowing (in *per cent*)
1999-2000	2702.77	41.95	1.6	12.25, 11.85 and 11.74
2000-2001	2954.21	36.53	1.2	12.00, 11.70, 10.52 and 10.50
2001-2002	2967.46	33.45	1.1	10.35, 9.38, 9.45, 8.30 and 8
2002-2003	2992.74	25.99	0.9	7.80, 7.30, 6.80, 6.95 and 6.75
2003-2004	2257.13	27.20	1.2	6.40, 6.35, 6.20, 6, 5.90 and 5.85

Loans and Advances by State Government

1.10.2 In addition to its investment, Government has also been providing loans and advances to many of these parastatals. Total outstanding balance of the loans/advances rose steadily from Rs 4031 crore in March 2000 to Rs 5048 crore as on 31 March 2004 (Table 16).

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

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Opening Balance	3694	4031	4125	4348	4612
Amount advanced during the year	651	453	547	697	1011
Amount repaid during the year	314	359	324	433	575
Closing Balance	4031	4125	4348	4612	5048
Net addition	337	94	223	264	436
Interest received	178	204	271	311	215
Average rate of interest earned	4.6	5.0	6.4	6.9	4.5
Average rate of interest paid	10.5	10.1	9.8	10.1	10.1
Difference between rate of interest received and paid	(-) 5.9	(-) 5.1	(-) 3.4	(-) 3.2	(-) 5.6

The above table indicates that the State Government has not been successful in using GOI permission for substituting high interest loans with low interest loans.

1.10.3 Government ordered (July 1998) that Commissioner of Municipal Administration (CMA) was (a) to monitor and collect the loan dues and (b) all the loans[11] alongwith interest should be consolidated into a single loan with effect from 1 April 1998. The loan amount was to be repaid in 20

[11] Loans for water supply schemes, road works, sewerage and sanitation scheme, drainage, ways and means, etc.

years in half yearly instalments with interest at 13.5 *per cent* per annum. In the same order Government also directed that in case of non-repayment of instalments by municipalities or corporations, the same would be recovered from the devolution of funds to be released to them by the CMA. Accordingly, the aggregate loan amount due from all municipalities and corporations (other than Chennai Corporation) was calculated by CMA as Rs 479.40 crore as of 1 April 1998. It was observed that between April 1998 and March 2004, CMA adjusted Rs 207.13 crore (Rs 154.90 crore from State Finance Commission (SFC) grants and Rs 52.23 crore by actual repayment by municipalities/corporations).

At the end of March 2004, Rs 719.78 crore were outstanding of which Rs 302.68 crore (Principal: Rs 87.19 crore and interest: Rs 215.49 crore) was overdue from 91 municipalities and five corporations. CMA stated (June 2004) in reply to Audit that (a) the weak financial position of municipalities was the main reason for the unsatisfactory repayment of loan and (b) in some cases the quantum of SFC grants from which adjustment was to be made was less than the loan amount due.

A review of a few selected schemes is detailed in paragraph 4.4.1.

1.11 Management of cash balances

It is generally desirable that the Government's flow of resources should match its expenditure obligations. However, to take care of any temporary mis-matches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from Reserve Bank of India has been in place. The Ways and Means Advances availed during 2003-04 declined sharply with reference to earlier years as indicated in table 17. Moreover, no overdraft during the year was availed, reversing the trend of earlier years.

Table 17: Ways and Means Advances and Interest paid thereon

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Ways and means advances					
Taken during the year	3761.15	5151.63	4855.47	8624.44	1710.13
Outstanding on 31 March	313.71	241.53	101.63	651.42	596.33
Interest paid	7.07	14.51	21.88	20.46	7.64
Overdraft					
Taken during the year	1485.97	1712.93	4110.24	1911.22	Nil
Outstanding on 31 March	98.13	Nil	Nil	579.63	Nil
Interest paid	0.52	1.89	4.72	3.98	0.86
Number of days of overdraft	55	76	148	71	2

1.12 Conclusions

Though Government reduced the revenue and fiscal deficits during 2003-04, the following areas require attention.

- The percentage of total expenditure to revenue receipts was 126 indicating that only a little over three-fourth of the State's total expenditure was met from its current revenue, leaving the balance to be financed by borrowings.

- The fiscal liabilities of the State were more than twice its revenue receipts. The direct fiscal liabilities have grown much faster compared to the rate of growth of GSDP, revenue receipts and Government's own resources. The increasing liabilities could lead to the path of unsustainability.

- Interest payments increased steadily by 73.4 *per cent* during the period 1999-2004. This was due to the continued reliance of the Government on borrowings to meet deficit.

- The ratio of outstanding guarantees to GSDP is also on the increasing trend indicating that the cap specified in the Fiscal Responsibility Act could be touched within the next few years.

- Investment of Government funds in companies, co-operative units etc. continued to fetch only a meagre return of 1.2 *per cent* while Government continued to borrow funds from market at a higher rate of interest.

- Reducing non-productive revenue expenditure, increasing the revenue receipts by restructuring and modernising the tax collection system, reprioritising resource allocation, increasing investments on infrastructure, using borrowed funds for growth generation and curbing the tendency of utilising borrowed funds to meet current expenditure in the coming years could help to achieve the various financial parameters aimed in the Medium Term Fiscal Responsibility Plan.