

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

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Profile of Tamil Nadu

Tamil Nadu is located on the eastern coast, surrounded by the States of Andhra Pradesh, Karnataka and Kerala. It is the 11th largest State in terms of geographical area (1,30,058 sq.km) and the seventh largest by population. It is one of the most urbanised States in India. The State's population increased from 6.24 crore in 2001 to 7.21 crore in 2011 (Provisional figure) recording a decadal growth of 15.54 *per cent*. The percentage of population below the poverty line was lower than the all-India average. The State's Gross State Domestic Product (GSDP) in 2011-12 at current prices was ₹ 6,39,025 crore, which was higher than that of the general category states' average. The State's literacy rate increased from 73.45 *per cent* (as per 2001 census) to 80.33 *per cent* (as per 2011 census). General data relating to the State is given in **Appendix 1.1**.

1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Tamil Nadu during the current year (2011-12) and analyses critical changes in the major fiscal aggregates relative to the previous year (2010-11), keeping in view the overall trends during the last five years.

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

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

Apart from the above, the Government of Tamil Nadu enacted the Tamil Nadu Fiscal Responsibility Act, 2003 (TNFR Act), which was amended in 2010 and 2011 to ensure long-term financial stability by achieving revenue surplus, containing fiscal deficit and prudential debt management. The salient features of the TNFR Act, 2003 (as amended till September 2011) are given in **Appendix 1.3 – Part B**.

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

1.1.1 Summary of Fiscal Transactions in 2011-12

The **Table 1.1** presents the summary of the State Government's fiscal transactions during the current year (2011-12) *vis-à-vis* the previous year (2010-11), while **Appendix 1.5** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.1: Summary of Fiscal operations in 2011-12

(₹ in crore)

2010-11	Receipts	2011-12	2010-11	Disbursements	2011-12		
Section-A: Revenue					Non Plan	Plan	Total
70,188	Revenue receipts	85,202	72,916	Revenue expenditure	66,262	17,576	83,838
47,782	Tax revenue	59,517	25,924	General Services	28,889	52	28,941
4,652	Non-tax revenue	5,684	28,909	Social Services	19,534	13,728	33,262
10,914	Share of Union Taxes/ Duties	12,715	12,222	Economic Services	10,970	3,172	14,142
6,840	Grants from Government of India	7,286	5,861	Grants-in-aid and Contributions	6,869	624	7,493
Section-B: Capital							
..	Misc. Capital Receipts	..	12,436	Capital Outlay	120	16,216	16,336
770	Recoveries of Loans and Advances	3,180	2,252	Loans and Advances disbursed	5,145	338	5,483
14,492	Public Debt receipts	16,780	3,297	Repayment of Public Debt	-	-	3,830
..	Contingency Fund	30	30	Contingency Fund	-	-	..
1,06,700	Public Account receipts	1,24,713	1,04,959	Public Account disbursements	-	-	1,20,953
19,487	Opening Cash Balance	15,747	15,747	Closing Cash Balance	-	-	15,212
2,11,637	Total	2,45,652	2,11,637	Total			2,45,652

(Source: Finance Accounts for the respective years)

The significant changes that occurred during 2011-12, as compared to the previous year are enumerated below:

- **Revenue receipts** of the State increased by ₹ 15,014 crore (21.39 *per cent*) over the previous year. This was due to increase in the State's own tax revenue (₹ 11,735 crore), share of Union taxes/duties (₹ 1,801 crore), grants from Government of India (₹ 446 crore) and non-tax revenue (₹ 1,032 crore).
- **Revenue expenditure** increased by ₹ 10,922 crore (14.98 *per cent*) over the previous year, due to increase in expenditure on General Services

(₹ 3,017 crore), Social Services (₹ 4,353 crore), Economic Services (₹ 1,920 crore) and Grants-in-aid and contributions (₹ 1,632 crore).

- The expenditure on General Services, Social Services and Economic Services registered an increase of 11.64 *per cent*, 15.06 *per cent* and 15.71 *per cent* respectively in 2011-12 over the previous year.
- **Capital expenditure** increased by ₹ 3,900 crore (31.36 *per cent*) over the previous year and repayment of public debt increased by ₹ 533 crore (16.17 *per cent*). The rise in capital expenditure was mainly on power projects, urban development, water supply and sanitation, flood control projects, roads and bridges, co-operation, major and medium irrigation and minor irrigation which was partly offset by decrease in capital expenditure on housing, other rural development programmes, public works, nutrition, medical and public health and consumer industries.
- **Recoveries of loans and advances** increased by ₹ 2,410 crore (312.99 *per cent*) over the previous year mainly due to increase in recoveries under “Loans for agriculture and allied activities” and “Power projects”.
- **Public Account receipts and disbursements** increased by ₹ 18,013 crore (16.88 *per cent*) and ₹ 15,994 crore (15.24 *per cent*) respectively. Net receipts under Public Account increased by ₹ 2,019 crore over the previous year.
- The net impact of these transactions led to a decrease of ₹ 535 crore in the **cash balance** at the end of the year over the previous year.

1.1.2 Review of the fiscal situation

The State Government had enacted the Tamil Nadu Fiscal Responsibility Act, 2003 to ensure long-term financial stability by achieving revenue surplus, containing fiscal deficit and prudential debt management. In compliance of this Act, the State Government had prepared a Medium Term Fiscal Plan (MTFP) with the projections for the period 2010-13. In line with the recommendation of the Thirteenth Finance Commission (TFC) and as per MTFP, the State was to eliminate revenue deficit by the end of 2011-12 and contain the fiscal deficit as a percentage of Gross State Domestic Product (GSDP) within three *per cent* by 2011-12.

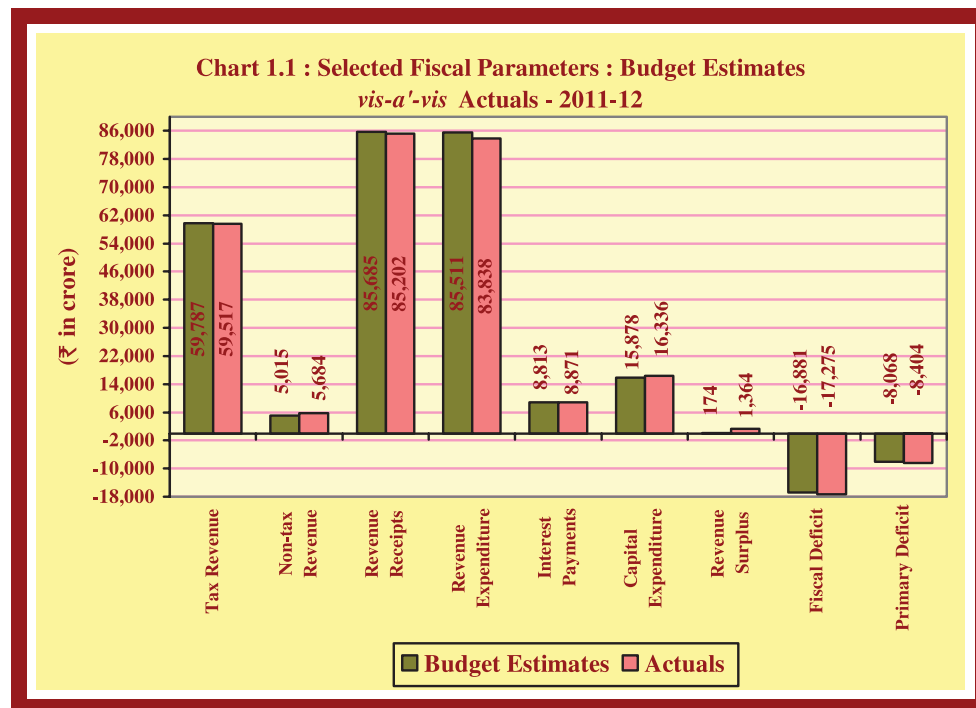
The State was able to achieve revenue surplus during 2011-12 as projected in MTFP. The revenue surplus of the State was ₹ 1,364 crore (0.21 *per cent* of GSDP) during 2011-12. It was also able to contain the fiscal deficit as a percentage of GSDP to 2.70 *per cent* during 2011-12, which was within three *per cent* envisaged in MTFP.

1.1.3 Budget estimates and actuals

The budget papers presented by the State Government provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the Budget

Estimates are indicative of non-attainment and non-optimisation of the desired fiscal objectives due to a variety of causes, some within the control of the Government and some beyond the control of the Government.

Chart 1.1 presents the budget estimates and actuals for some important fiscal parameters in 2011-12.



(Source: Annual Financial Statement and Finance Accounts for 2011-12)

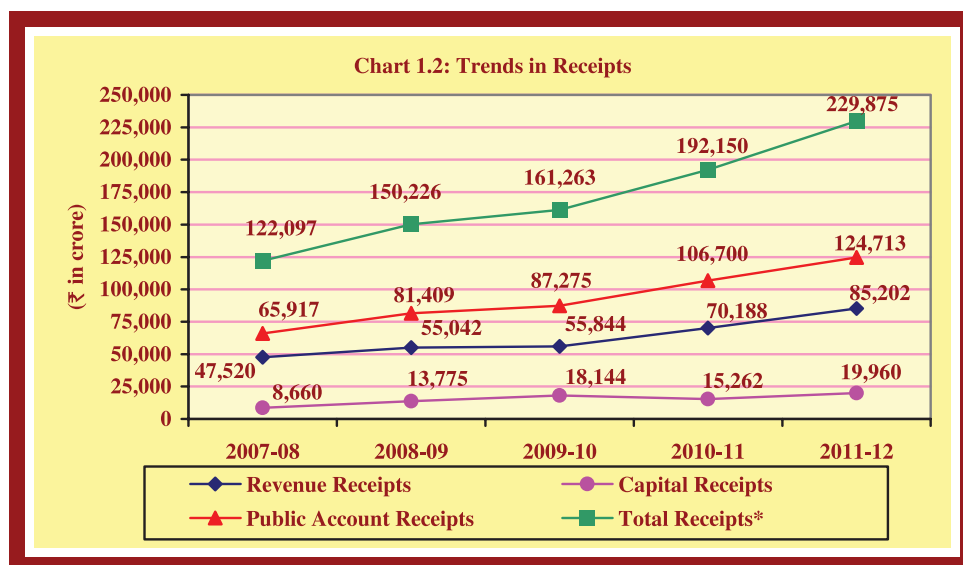
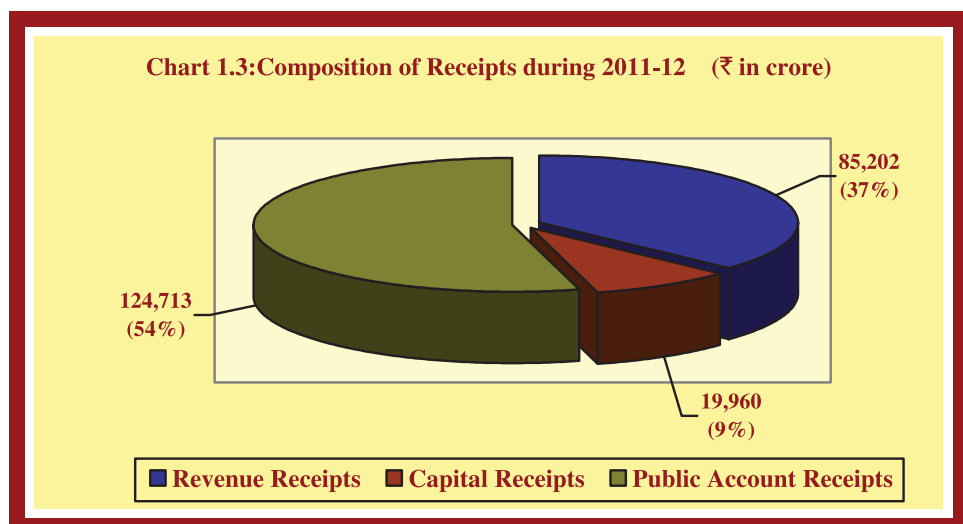
The actuals were generally in line with the estimates.

As against the estimated revenue surplus of ₹ 174 crore, the actual revenue surplus was ₹ 1,364 crore, which includes central loans written off to the extent of ₹ 98.18 crore shown under Non-tax revenue.

1.2 Resources of the State

1.2.1 Resources of the State as per the Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from the Public Account. **Table 1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts, while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2007-12. **Chart 1.3** depicts the composition of resources of the State during the current year.



- The total receipts of the State Government in the year 2011-12 were ₹ 2,29,875 crore. Of these, revenue receipts were ₹ 85,202 crore constituting 37 per cent. The capital (₹ 19,960 crore) and public account receipts (₹ 1,24,713 crore) constituted 9 per cent and 54 per cent of the total receipts, respectively.
- The total resources of the State increased by ₹ 37,725 crore (19.63 per cent) over the previous year, mainly due to increase of ₹ 18,013 crore (16.88 per cent) in Public Account receipts and ₹ 15,014 crore (21.39 per cent) in revenue receipts.
- The capital receipts increased by ₹ 4,698 crore, an increase of 30.78 per cent over the previous year. This was mainly due to increase in Public Debt receipts by ₹ 2,288 crore, an increase of 15.79 per cent over the previous year, due to a substantial increase in open market borrowings and also due to increase in recoveries of loans and advances by ₹ 2,410 crore, an increase of 312.99 per cent over the previous year.

- The State's tax revenue increased from ₹ 47,782 crore in 2010-11 to ₹ 59,517 crore in 2011-12 (increase of 24.56 per cent), while the percentage of tax receipts to revenue receipts increased only by 1.77 per cent i.e., from 68.08 per cent in 2010-11 to 69.85 per cent in 2011-12.

1.2.2 Funds transferred to State Implementing Agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to the State implementing agencies¹ for implementation of various schemes/programmes in social and economic sectors, which are recognised as critical. As these funds are not routed through the State Budget/State Treasury System, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the State's receipts and expenditure as well as other fiscal parameters derived from them are underestimated. During the year 2011-12, central funds of ₹ 7,608.01 crore were transferred directly to the State implementing agencies. The programmes assisted by Government of India whose funds were, thus, transferred are presented in **Table 1.2**.

Table 1.2: Funds transferred directly to State Implementing Agencies

(₹ in crore)

Programme/scheme	Implementing agency in the State	Funds transferred directly by Government of India during 2011-12
Mahatma Gandhi National Rural Employment Guarantee Scheme	District Rural Development Agencies	2,815.52
Rural Housing - Indira Awaas Yojana	District Rural Development Agencies	330.76
Aajeevika (National Rural Livelihoods Mission)	District Rural Development Agencies	103.61
Externally Aided Projects / Pass through Assistance to all Metro Rail Corporations	Chennai Metro Rail Corporation	1,290.00
Equity to all Metro Rail Corporation	Chennai Metro Rail Corporation	545.00
Sarva Shiksha Abhiyan	Tamil Nadu State Mission of Education for All	681.42
National Rural Drinking Water Programme	Tamil Nadu Water Supply and Drainage Board	429.55
National Rural Health Mission	Tamil Nadu State Health Society	424.49
Rashtriya Madhyamik Shiksha Abhiyan (RMSA)	Tamil Nadu State Mission of RMSA	197.19
Pradhan Mantri Gram Sadak Yojana	State Rural Roads Development Agency	160.00
	Other Agencies	630.47
Total		7,608.01

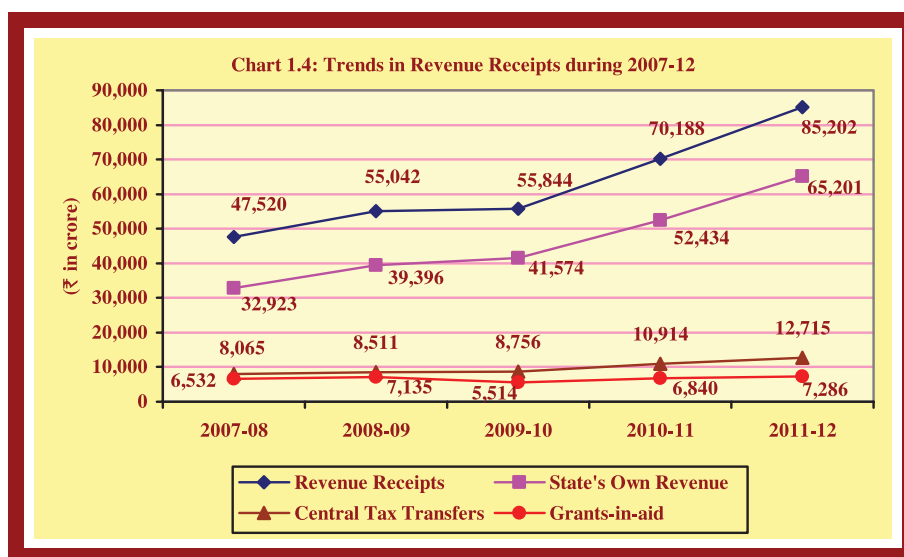
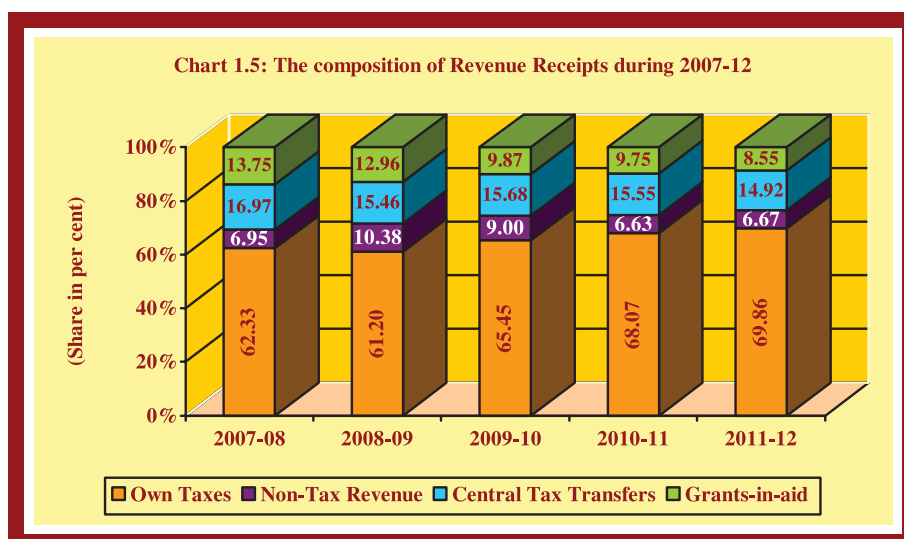
(Source: Information furnished by the Principal Accountant General (A&E), Tamil Nadu)

¹ State implementing agencies include any organization/institution including Non-Governmental organisation which is authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State.

- Out of the funds transferred to State implementing agencies, a major amount of ₹ 3,249.89 crore (42.72 *per cent*) was transferred to the District Rural Development Agencies (DRDAs) in respect of the programmes/schemes as mentioned in the **Table 1.2**. In respect of these programmes, the fund transfer was raised from ₹ 936 crore in 2008-09 to ₹ 3,250 crore in 2011-12 showing an increase of 247 *per cent* in four years. Direct transfer of funds from Government of India to State implementing agencies, ran the risk of improper utilisation of funds by these agencies. Unless uniform accounting policies are followed by all these agencies with proper documentation and timely reporting of expenditure, it would be difficult to monitor the end use of these direct transfers.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own taxes and non-tax revenues, central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2007-12 are presented in **Appendix 1.4** and depicted in **Charts 1.4** and **1.5** respectively.



- The compound annual growth rate of revenue receipts stood at 15.12 *per cent* in the current decade, which was less than that of the general category states (16.86 *per cent*).
- The revenue receipts of the State grew by ₹ 15,014 crore in 2011-12 over the previous year. The growth in 2011-12 was buoyant at 21.39 *per cent* as against 25.69 *per cent* in 2010-11 and the average annual growth was 14.78 *per cent* during 2007-11. The robust growth in revenue receipts was mainly due to improved tax revenue of ₹ 11,735 crore during 2011-12.
- The contribution of the State's own taxes increased from 62.33 *per cent* in 2007-08 to 69.86 *per cent* in 2011-12. On the other hand, the non-tax revenue decreased from 10.38 *per cent* of the total revenue receipts in 2008-09 to 6.67 *per cent* in 2011-12.
- The central tax transfers and the grants-in-aid decreased from 16.97 *per cent* to 14.92 *per cent* and from 13.75 *per cent* to 8.55 *per cent* respectively, during 2007-12.

The trends in revenue receipts relative to GSDP are presented in **Table 1.3**.

Table 1.3: Trends in Revenue Receipts relative to GSDP

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts (RR) (₹ in crore)	47,520	55,042	55,844	70,188	85,202
Rate of growth of RR (<i>per cent</i>)	16.15	15.83	1.46	25.69	21.39
RR/GSDP ² (<i>per cent</i>)	13.55	13.71	11.64*	12.39*	13.33
Buoyancy Ratios³					
Revenue Buoyancy with reference to GSDP (ratio)	1.24	1.10	0.07	1.42	1.67
State's own tax buoyancy with reference to GSDP (ratio)	0.51	0.95	0.44	1.70	1.92
Revenue Buoyancy with reference to State's own taxes (ratio)	2.43	1.15	0.17	0.84	0.87

(Source: Finance Accounts for the respective years)

* Revised GSDP figures furnished by Government for 2009-10 and 2010-11 were adopted.

- The GSDP at the current rate was estimated to increase from ₹ 5,66,422 crore in 2010-11 to ₹ 6,39,025 crore in 2011-12, representing an increase of 12.82 *per cent*.
- Though revenue receipts as a percentage of GSDP increased from 11.64 *per cent* in 2009-10 to 13.33 *per cent* in the current year, it remained more or less at the same level of about 13 *per cent* during 2007-12.
- Revenue buoyancy with reference to GSDP and with reference to State's own taxes has gone up during the year. The revenue buoyancy with reference to State's own taxes, which had started to decline from 2008-09 showed a reversal in trend since 2010-11.

² Advance estimate of GSDP of ₹ 6,39,025 crore has been adopted for 2011-12.

³ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one *per cent*.

1.3.1 State's Own Resources

As the State's share in central taxes and grants-in-aid is determined on the basis of recommendations of the Finance Commission, the State's performance in mobilisation of resources was assessed in terms of its own resources comprising own tax and non-tax sources. The gross collection in respect of major taxes and duties as well as the components of non-tax receipts are given in **Table 1.4**.

Table 1.4: Components of State's own resources

(₹ in crore)

Revenue Head	2007-08	2008-09	2009-10	2010-11	2011-12
Taxes on sales, trades etc.	18,156	20,675	22,662	28,614	36,289
State excise	4,764	5,756	6,741	8,116	9,975
Taxes on vehicles	1,483	1,710	2,025	2,660	3,101
Stamp duty and Registration fees	3,805	3,794	3,662	4,651	6,581
Land revenue	78	208	117	113	87
Taxes on goods and passengers	1,097	979	1,092	1,626	2,123
Other taxes ⁴	236	562	248	2,002	1,361
Total	29,619	33,684	36,547	47,782	59,517
Interest receipts	1,242	1,465	1,797	1,663	2,021
Dividends & Profits	40	36	48	27	36
Other non-tax receipts	2,022	4,211	3,182	2,962	3,627
Total	3,304	5,712	5,027	4,652	5,684

(Source: Finance Accounts for the respective years)

- The compound annual growth rate of own tax revenue stood at 15.29 *per cent* in the current decade, which was less than the general category states⁵ average (16.74 *per cent*) (**Appendix 1.1**).
- The own tax revenue of the State increased by ₹ 11,735 crore over the previous year. The growth rate of its own tax revenue, which was at 6.65 *per cent* in 2007-08 picked up to 30.74 *per cent* in 2010-11, but decreased to 24.56 *per cent* in 2011-12.
- The growth rate of own tax revenue was mainly due to increase in collection of taxes on sales, trade, etc. (26.82 *per cent*), stamps and registration (41.5 *per cent*), taxes on goods and passengers (30.57 *per cent*).
- The non-tax revenue of the State increased by ₹ 1032 crore in 2011-12 (22.18 *per cent*) over the previous year. As a proportion to the State's own resources, it was 10.04 *per cent* in 2007-08 and 8.72 *per cent* in 2011-12. There was decrease in land revenue in 2011-12 due to decrease in sale proceeds of waste lands and redemption of land tax.

1.4 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted

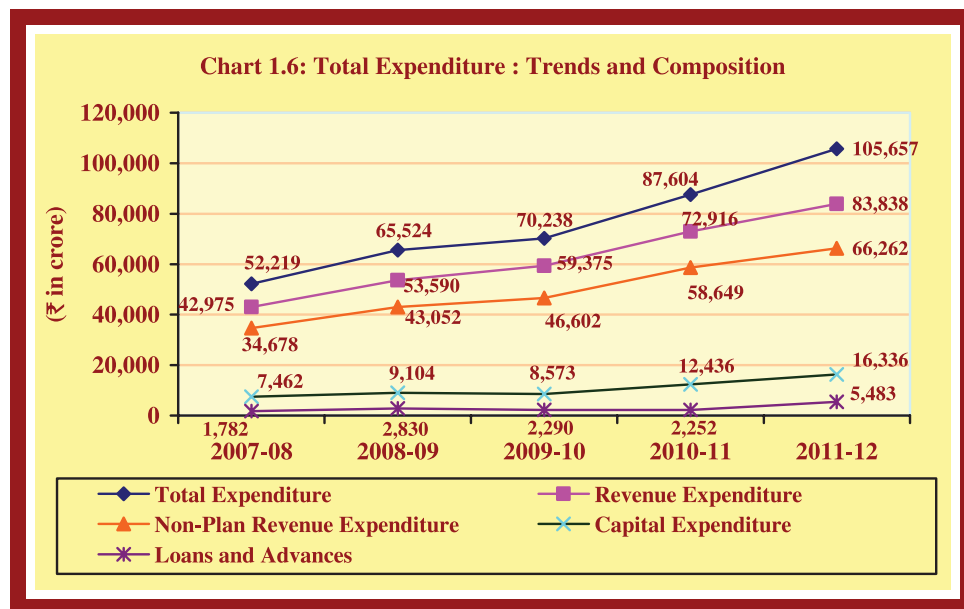
⁴ Other taxes include taxes on immovable property other than agricultural land, taxes and duties on electricity and agricultural income

⁵ General category states exclude Delhi, Goa and Puducherry

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

1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure⁶ over a period of five years (2007-12) and its composition both in terms of ‘economic classification’ and ‘expenditure by activities’ is depicted in **Charts 1.7 and 1.8** respectively.

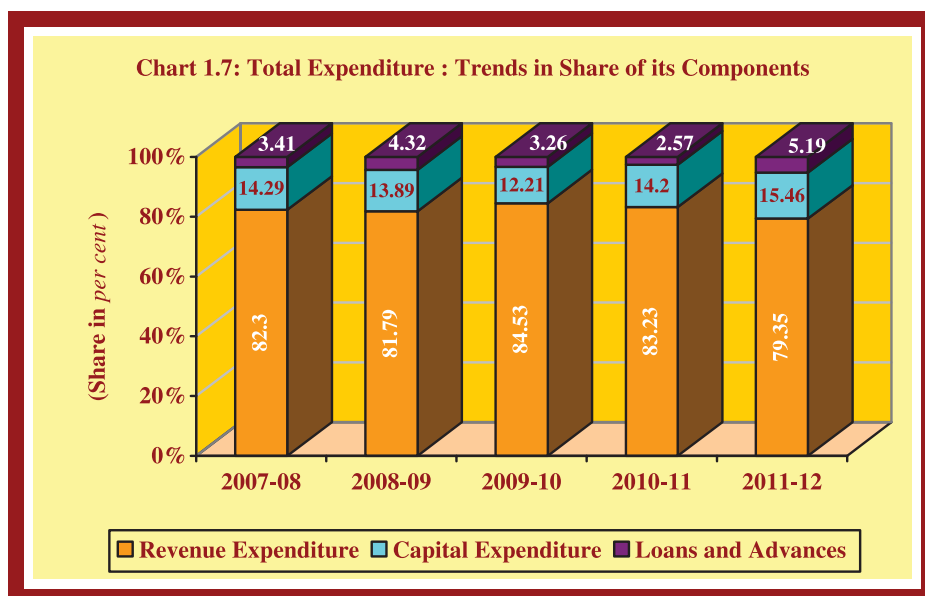
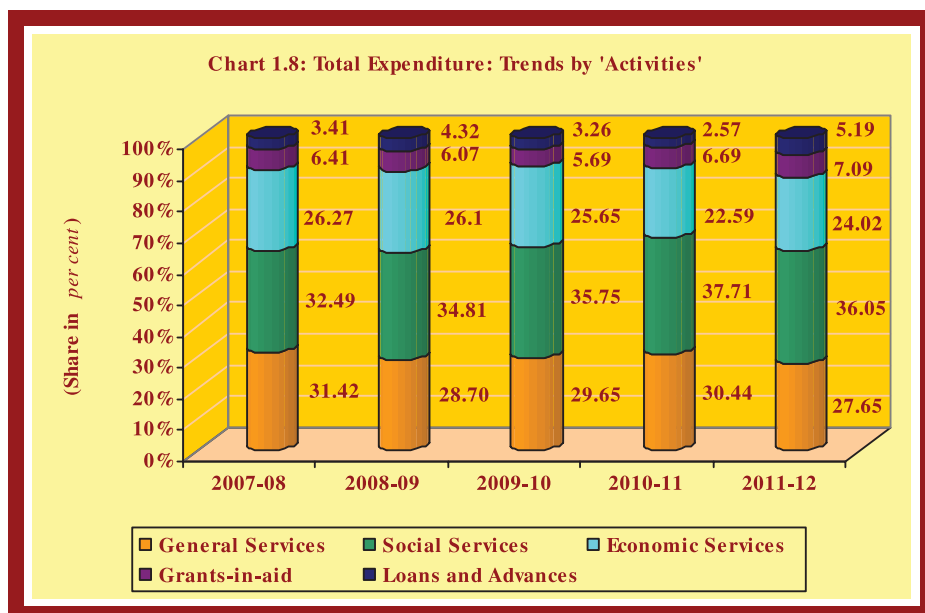


- During the five year period 2007-12, nearly 79 to 85 *per cent* of the total expenditure constituted revenue expenditure, whereas capital expenditure ranged between 12 and 15 *per cent* of the total expenditure during the same period.
- Of the total expenditure of ₹ 1,05,657 crore during 2011-12, revenue expenditure (₹ 83,838 crore) accounted for 79.35 *per cent* of the total expenditure.
- The total expenditure during 2011-12 increased by ₹ 18,053 crore (20.61 *per cent*) over the previous year. The revenue expenditure increased by ₹ 10,922 crore (14.98 *per cent*) and non-plan revenue expenditure increased by ₹ 7,613 crore (12.98 *per cent*). The revenue expenditure (₹ 83,838 crore) was 79.35 *per cent* of the total expenditure, of which 79.04 *per cent* was on the non-plan component.
- During the current year, the capital expenditure increased by ₹ 3,900 crore (31.36 *per cent*) mainly due to increase in investments in

⁶ Total expenditure includes revenue expenditure, capital expenditure and disbursement of loans and advances

Public Sector and other undertakings. The capital expenditure ranged between 12.21 *per cent* and 15.46 *per cent* of the total expenditure during 2007-12 showing no significant improvement.

- Revenue receipts of the State met 80.64 *per cent* of the total expenditure during 2011-12 as against 80.12 *per cent* of the total expenditure during 2010-11 and 79.51 *per cent* during 2009-10.



- The expenditure on General Services, Social Services and Economic Services during 2011-12 was 27.65, 36.05 and 24.02 *per cent* of the total expenditure and the expenditure grew by 9.56 *per cent*, 15.30 *per cent* and 28.23 *per cent* respectively over the previous year.

- The increase in the expenditure on Economic Services in 2011-12 was mainly on account of increased spending of ₹ 1,005 crore on Civil Supplies and ₹ 3,273 crore on Power.
- During 2007-12, about one third of the total expenditure was on social services. But, the proportion of expenditure on social, economic and general services to the total expenditure remained more or less at the same levels during the said period.

1.4.2 Committed Expenditure

(i) The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.5** presents the trend in the expenditure on these components during 2007-12.

Table 1.5: Components of Committed Expenditure

(₹ in crore)

Components of committed expenditure	2007-08	2008-09	2009-10	2010-11	2011-12
Salaries and wages, of which	9,690 (20.39)	12,859 (23.36)	15,638 (28.00)	19,029 (27.11)	21,466 (25.20)
Non-Plan Head	8,641	11,470	14,141	17,150	19,278
Plan Head*	1,049	1,389	1,497	1,879	2,188
Salary grants**	2,072 (4.36)	2,756 (5.00)	3,219 (5.76)	4,017 (5.72)	4,390 (5.15)
Interest Payments	6,086 (12.81)	5,963 (10.83)	6,667 (11.93)	7,940 (11.31)	8,871 (10.41)
Expenditure on Pension	6,017 (12.66)	7,735 (14.05)	8,385 (15.01)	10,951 (15.60)	11,747 (13.79)
Subsidies	4,305 (9.06)	6,600 (11.99)	6,653 (11.91)	7,739 (11.02)	8,698 (10.20)
Total	28,170 (59.28)	35,913 (65.25)	40,562 (72.63)	49,676 (70.77)	55,172 (64.75)

(Source: Finance Accounts for the respective years)

Figures in the brackets indicate percentage of revenue receipts

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

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

- The committed expenditure (₹ 55,172 crore) stood at 64.75 per cent of the total revenue receipts (₹ 85,202 crore) of the State during 2011-12 as against 70.77 per cent during 2010-11. It had increased from 59.28 per cent in 2007-08 to 72.63 per cent of the total revenue receipts in 2009-10. However, in the last two years, it has been decreasing and stood at 64.75 per cent in 2011-12.
- Expenditure on salaries and wages, inclusive of salary grants was ₹ 25,856 crore and accounted for 40.90 per cent of the revenue

expenditure net of interest and pension, as against the TFC's normative prescription of 35 *per cent*.

- The expenditure towards interest payments increased by ₹ 931 crore (11.73 *per cent*) over the previous year. This was mainly due to repayment of interest on market loans to the extent of ₹ 630 crore. As a percentage of Non-Plan revenue expenditure, it decreased from 13.54 *per cent* in 2010-11 to 13.39 *per cent* in 2011-12.
- Subsidies increased from ₹ 4305 crore in 2007-08 to ₹ 8698 crore in 2011-12. A list of major schemes for which the State Government has been giving subsidy year after year from 2008-09 till 2011-12 is given in **Table 1.5 A** below:

Table 1.5 A: List of major schemes for which subsidy was given by the State Government

(₹ in crore)

Name of the scheme	2008-09	2009-10	2010-11	2011-12
Social safety Net – Food Security – Public Distribution System Support	2,700.00	4,000.00	3,950.00	4,900.00
Electricity – Compensation to TNEB due to reduction in tariff to domestic consumers	1,160.45	1,301.05	1,254.77	1,763.07
Reimbursement of Social cost on student concessions in bus fares	300.62	300.83	302.22	389.84
Free distribution of handloom cloth to the people below poverty line	256.00	256.01	256.00	350.00
National Agriculture Development Programme	42.78	48.56	49.47	88.07
Capital subsidy to micro, small, medium and agro-based industries	19.96	29.86	44.99	49.83

(Source: Finance Accounts for the respective years)

(As the figures for the year 2007-08 could not be identified from the Finance Accounts correctly, the figures for four years from 2008-09 are given in the **Table 1.5A**)

- The food subsidy increased from ₹ 2,700 crore in 2008-09 to ₹ 4,900 crore in 2011-12.

(ii) The State Government had also given implicit subsidies⁷ in 2011-12, some of which are listed in **Table 1.5 B**.

⁷ Subsidies which were not booked under the detailed head “11-Subsidies” under relevant major head of account are “Implicit Subsidies”

Table 1.5 B: Implicit Subsidies given in 2011-12

(₹ in crore)

Name of the scheme	Expenditure incurred
Free supply of grinders, mixies etc.	830.02
Marriage Assistance Scheme – Distribution of four gram gold coins for Thirumangalyam	658.93
Free supply of uniform to school children	191.49
Free supply of bicycles to students studying in Standard XI and XII in Government/Government Aided Higher Secondary Schools	164.70
Free distribution of sheep/goat to the persons living below poverty line	127.80
Providing sanitary napkins free of cost to adolescent girls to reduce the risk of infection and infertility in future	43.59
Free distribution of milch cows to each family living below poverty line	41.98
Free distribution of laptops to students	29.00
Total	2,087.51

(Source: Finance Accounts 2011-12)

Expenditure of ₹ 29 crore incurred on the scheme ‘Free distribution of laptops to students’ was incorrectly classified under the capital head of account and to that extent the capital expenditure of the year 2011-12 was overstated.

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

The 73rd and 74th Constitutional amendments gave Constitutional status to Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs) respectively and established a system of uniform structure, regular elections, regular flow of funds through Finance Commission etc. In Tamil Nadu, there are 719 ULBs (10 Municipal Corporations, 150 Municipalities, 559 Town Panchayats) and 12,940 Panchayat Raj Institutions (31 District Panchayats, 385 Panchayat Unions and 12,524 Village Panchayats).

The quantum of assistance provided by way of grants and loans to the local bodies and others during the current year and in the previous years is presented in **Table 1.6**.

Table 1.6: Financial assistance to Local Bodies, etc

(₹ in crore)

Financial Assistance to Institutions	2007-08	2008-09	2009-10	2010-11	2011-12
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	605	433	703	940	1,249
Urban Local Bodies	393	1,865	1,965	2,841	3,031
Panchayat Raj Institutions	3,216	1,890	2,101	3,071	3,585
Development Agencies	920	217	286	190	336
Hospitals and Other Charitable Institutions	19	106	126	314	363
Other Institutions ⁸	3,248	5,726	5,636	6,559	7,361
Total	8,401	10,237	10,817	13,915	15,925
Assistance as percentage of Revenue Expenditure	19.55	19.10	18.22	19.08	19.00

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

⁸ Institutions/agencies connected with water supply and sanitation, housing, social welfare, labour and employment, forestry and wild life, agriculture and allied activities, village and small industries, industries and minerals and relief on account of natural calamities

- Financial assistance to the local bodies and other institutions increased from ₹ 8,401 crore in 2007-08 to ₹ 15,925 crore in 2011-12. As a percentage of revenue expenditure, it remained more or less at the same level of 19 *per cent* during 2007-12.
- The financial assistance to educational institutions and development agencies increased by ₹ 309 crore and ₹ 146 crore respectively during 2011-12 over the previous year.

1.5 Quality of Expenditure

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

1.5.1 Adequacy of Public Expenditure

The responsibilities relating to the expenditure on social sector and the economic sector are largely State subjects. Enhancing human development level requires the States to step up their expenditure on key social services like education, health etc. Low fiscal priority (ratio of expenditure category to aggregate expenditure) would be deemed to have been given to a particular sector, if it was below the national average. **Table 1.7** analyses the fiscal priority of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during 2011-12.

Table 1.7: Fiscal Priority of the State in 2008-09 and 2011-12

(In per cent)						
Fiscal Priority of the State	AE/GSDP	DE [#] /AE	SSE/AE	CE/AE	Education/AE	Health/ AE
General Category States* Average (Ratio) 2008-09	17.00	67.09	34.28	16.47	15.41	3.97
Tamil Nadu State's Average (Ratio) 2008-09	16.33	65.12	36.11	13.89	13.59	3.79
General Category States* Average (Ratio) 2011-12	16.09	66.44	36.57	13.25	17.18	4.30
Tamil Nadu State's Average (Ratio) 2011-12	16.53	65.06	36.42	15.46	14.80	4.18
*: General Category States exclude three states i.e., Delhi, Goa and Puducherry.						
AE : Aggregate Expenditure DE : Development Expenditure SSE : Social Sector Expenditure						
CE : Capital Expenditure						
# Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.						
(Source : For GSDP, the information was collected from the State's Directorate of Economics and Statistics)						

- In 2011-12, Tamil Nadu had spent marginally higher proportion of its GSDP on aggregate expenditure as compared to the general category states. As compared to 2008-09, Tamil Nadu had spent more or less the same proportion of its GSDP on aggregate expenditure in the year 2011-12.
- Development expenditure consists of both economic and social sector expenditure. Development expenditure as a proportion of aggregate expenditure in the State was lower (65.06) than the general category States' average (66.44) implying low priority to these sectors.

- During the year 2011-12, priority given by the State to social sector was similar to the position in the general category States. As a proportion of aggregate expenditure, the expenditure on education and health increased from 13.59 *per cent* in 2008-09 to 14.80 *per cent* in 2011-12 and 3.79 *per cent* in 2008-09 to 4.18 *per cent* in 2011-12 respectively.
- In Tamil Nadu, though the proportion of capital expenditure to aggregate expenditure was lower in 2008-09, it increased considerably in 2011-12 as compared to the general category States' average.

1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods⁹. Apart from improving the allocation towards development expenditure¹⁰, the efficiency of expenditure use reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure on operation and maintenance of the existing Social and Economic Services need to be kept in mind. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure. **Table 1.8** presents the trends in development expenditure relative to the aggregate expenditure of the State during 2007-12.

Table 1.8: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12
Development Expenditure (a to c)	32,464 (62.16)	42,736 (65.22)	45,412 (64.65)	54,917 (62.69)	68,742 (65.06)
a. Development Revenue Expenditure	23,497 (45.00)	31,032 (47.36)	35,079 (49.94)	41,131 (46.95)	47,404 (44.86)
b. Development Capital Expenditure	7,185 (13.76)	8,874 (13.54)	8,043 (11.45)	11,694 (13.35)	16,062 (15.20)
c. Development Loans and Advances	1,718 (3.29)	2,761 (4.22)	2,290 (3.26)	2,092 (2.39)	5,276 (5.00)

(Source: Finance Accounts for the respective years)

Figures in brackets indicate percentage to aggregate expenditure

⁹ Core public goods are goods which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g., enforcement of law and order, security and protection of rights; pollution free air and other environmental goods, road infrastructure etc., Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than the ability and willingness to pay the Government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc

¹⁰ The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into Social Services, Economic Services and General Services. Broadly, the Social and Economic Services constitute development expenditure, while expenditure on General Services is treated as non-development expenditure

Though development expenditure, in real term was increasing continuously during 2007-12, as a percentage to aggregate expenditure of the State it remained more or less at 65 *per cent* during 2007-12 except 2007-08 and 2010-11.

The development capital expenditure as a percentage to aggregate expenditure of the State has been showing an increasing trend from 2009-10. It has increased from 11.45 *per cent* in 2009-10 to 15.20 *per cent* in 2011-12.

Table 1.9 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected Social and Economic Services during 2010-11 and 2011-12.

Table 1.9: Efficiency of Expenditure Use in Selected Social and Economic Services

(Percentage)

Social/Economic Infrastructure	2010-11		2011-12	
	Ratio of CE to TE	Ratio of S&W to RE	Ratio of CE to TE	Ratio of S&W to RE
Social Services (SS)				
General Education	2.58	55.26	2.39	55.38
Health and Family Welfare	7.40	58.05	4.53	65.26
Water Supply, Sanitation, Housing and Urban Development	59.03	2.29	70.63	2.55
Total (SS)	16.21	50.91	18.14	53.08
Economic Services (ES)				
Agri & Allied Activities	11.18	36.86	12.91	34.85
Irrigation and Flood Control	50.81	33.91	66.04	36.88
Power & Energy	51.29	0.13	46.42	0.11
Transport	69.71	26.18	72.02	19.33
Total (ES)	44.99	27.19	45.81	24.29
Total (SS+ES)	26.41	45.48	30.82	45.86

(Source: Finance Accounts for the respective years)

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

Expenditure on Social Services

- Though the capital expenditure on Social Services had increased from ₹ 4,123 crore in 2010-11 to ₹ 4,823 crore in 2011-12 (16.98 *per cent*) in real terms, as a percentage of aggregate expenditure of the State, it had marginally decreased from 4.71 in 2010-11 to 4.56 in 2011-12 (**Appendix 1.4**).
- Among the selected social services given in **Table 1.9**, the ratio of capital expenditure to the aggregate expenditure had decreased under all the services except Water Supply, Sanitation, Housing and Urban Development which increased from 59.03 in 2010-11 to 70.63 in 2011-12.

Expenditure on Economic Services

- The capital expenditure on Economic Services had increased from ₹ 7,571 crore in 2010-11 to ₹ 11,239 crore in 2011-12.
- The capital expenditure on Agriculture and Allied Activities increased from ₹ 459 crore in 2010-11 to ₹ 728 crore in 2011-12. As a percentage

of capital expenditure on Agriculture and Allied Activities to total expenditure increased from 11.18 in 2010-11 to 12.91 in 2011-12. This was mainly due to increase under all activities except Soil and Water Conservation under which the capital expenditure declined from ₹ 48 crore in 2010-11 to ₹ 38 crore in 2011-12.

- The capital expenditure on Power and Energy increased from ₹ 1,335 crore in 2010-11 to ₹ 4,100 crore in 2011-12. The increase was due to higher investments in the State Electricity Board. But as a percentage to total expenditure on Power and Energy, the capital expenditure decreased from 51.29 *per cent* in 2010-11 to 46.42 *per cent* in 2011-12.
- The ratio of expenditure on salaries and wages to the Revenue expenditure under social services increased from 50.91 in 2010-11 to 53.08 in 2011-12, whereas under economic services the ratio decreased from 27.19 in 2010-11 to 24.29 in 2011-12.

1.6 Financial Analysis of Government Expenditure and Investments

In the post-Fiscal Responsibility and Budget Management framework, the State is expected to keep its fiscal deficit (and borrowings) at low levels without compromising its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to dependence on market-based resources, the State Government needs to initiate measures to earn adequate returns on its investments, recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies and take requisite steps to infuse transparency in financial operations. This section presents a broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* the previous years.

1.6.1 Financial Results of Irrigation projects

Ensuring the commercial viability of irrigation projects through realisation of adequate revenue by way of user charges has been a policy of Government. However, it was observed that the revenue from irrigation projects (₹ 26.77 crore) during 2011-12 was only 3.66 *per cent* of the maintenance expenditure (₹ 731.51 crore).

Appendix IX of the Finance Accounts depicts the financial results of five major and 47 medium irrigation projects. The revenue realised from these projects during 2011-12 was ₹ 10.18 crore. After meeting the working and maintenance expenditure (₹ 264.44 crore) and interest charges (₹ 120.83 crore), these 52 projects suffered a net loss of ₹ 375.09 crore during 2011-12.

1.6.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2012 is given in **Table 1.10**.

Table 1.10: Department-wise profile of incomplete projects

(₹ in crore)

Department	No. of Incomplete Projects*	Initial Budgeted Cost	Revised Total Cost of Projects**	Cost Over-runs	Cumulative actual expenditure as on 31.3.2012
Buildings	18	806.56	815.77	9.21	585.16
Roads and Bridges	11	2,149.93	2,150.63	0.70	2,201.81
Irrigation (Water Resources) and Flood Control	6	138.90	212.25	73.35	129.75
Total	35	3,095.39	3,178.65	83.26	2,916.72

(Source: Finance Accounts of Government of Tamil Nadu).

* Only those projects which were scheduled to be completed before 31 March 2012 were included.

** Indicates the revised total cost of the projects as per the last revision by the State Government as of March 2012

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

1.6.3 Investment and returns

As of 31 March 2012, Government had invested ₹ 14,455.65 crore in statutory corporations, rural banks, joint stock companies and co-operatives (Table 1.11).

Table 1.11: Return on Investment

Investment/Return/Cost of Borrowings	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year (₹ in crore)	6,230.40	6,471.22	8,107.24	10,222.64	14,455.65
Return (₹ in crore)	22.10	35.59	30.18	22.33	30.23
Return (in <i>per cent</i>)	0.35	0.55	0.37	0.22	0.21
Average rate of interest on Government borrowing (in <i>per cent</i>)	8.86	7.71	7.29	7.53	7.43
Difference between interest rate and return (in <i>per cent</i>)	8.51	7.16	6.92	7.31	7.22

(Source: Finance Accounts for the respective years)

As of March 2012, Government had invested in two statutory corporations (₹ 7,909 crore), 68 Government companies (₹ 3,511 crore), six Joint Stock companies (₹ 2 crore) and 9,136 co-operatives (₹ 3,034 crore). During 2011-12, Government infused an additional capital of ₹ 144.13 crore into five ailing State Transport Undertakings, which had accumulated loss of ₹ 5,297.59 crore. There was one major investment of ₹ 4,100 crore made by

the Government in 2011-12 in Tamil Nadu Generation and Distribution Corporation Limited (formerly Tamil Nadu Electricity Board).

It may be observed that the return from the investment was meagre. The average rate of return had declined from 0.55 *per cent* in 2008-09 to 0.21 *per cent* in 2011-12. On the other hand, Government paid an average interest rate of 7.43 *per cent* on its borrowings during 2011-12.

1.6.4 Loans and advances by State Government

In addition to the investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many of these institutions/ organizations. **Table 1.12** presents the outstanding loans and advances as on 31 March 2012 and interest receipts *vis-à-vis* interest payments during the last three years.

Table 1.12: Average interest received on loans advanced by the State Government

(₹ in crore)

Quantum of Loans/Interest receipts/ cost of borrowings	2009-10	2010-11	2011-12
Opening Balance	7,814	7,517	8,999
Amount advanced during the year	2,290	2,252	5,483
Amount repaid during the year	2,587	770	3,180
Closing Balance	7,517	8,999	11,302
Net increase (+) / decrease (-)	(-) 297	1,482	2,303
Interest receipts	266	78	497.20
Interest receipts as percentage of outstanding Loans and advances	3.47	0.94	4.90
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	7.29	7.53	7.43
Difference between interest payments and interest receipts (<i>per cent</i>)	(-) 3.82	(-) 6.59	(-) 2.53

(Source: Finance Accounts for the respective years)

- The quantum of loans advanced increased from ₹ 2,252 crore in 2010-11 to ₹ 5,483 crore in 2011-12. Repayments also increased from ₹ 770 crore in 2010-11 to ₹ 3,180 crore in 2011-12. The difference between the interest payments and interest receipts decreased from 6.59 *per cent* in 2010-11 to 2.53 *per cent* in 2011-12 due to better recovery.
- The major recipients of loans and advances were (i) Social Sector- water supply, sanitation, housing and urban development (₹ 397 crore), out of which ₹ 161 crore were advanced to Tamil Nadu Cooperative Housing Federation Limited as ways and means advance and ₹ 154 crore were advanced to Public Sector and other undertakings (ii) Economic Sector- (a) Agriculture and Allied Activities (₹ 1378 crore), out of which ₹ 130.50 crore and ₹ 129.05 crore were advanced as ways and means advances to Tamil Nadu Cooperative Marketing Federation Limited and Tamil Nadu Cooperative Milk Producers' Federation Limited respectively and ₹ 1000 crore were given as loan for food storage and warehousing, (b) Energy (₹ 2955 crore), the entire amount was advanced as ways and

means advances for Electricity Schemes, and (c) Transport Sector (₹ 446 crore), out of which ₹ 309 crore was advanced as ways and means advances to Transport undertakings and ₹ 138 crore were given as short term loan to State Transport undertakings.

1.6.5 Cash Balances and Investment of Cash Balances

Table 1.13 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.13: Cash Balances and Investment of Cash Balances

(₹ in crore)

Particulars	As on 31 March 2011	As on 31 March 2012	Increase (+)/ Decrease (-)
Cash Balances	15,747	15,212	(-) 535
Investments from Cash Balances (a to d)			
(a) GOI Treasury Bills	9,877	10,687	810
(b) GOI Securities	3,620	979	(-) 2,641
(c) Other Securities	2,224	3,520	1,296
(d) Others (Treasury/departmental cash balance, remittance etc.)	26	26	..
Funds-wise break-up of Investment from Earmarked balances (a and b)			
(a) Sinking Fund	2,653	2,864	211
(b) Infrastructure Development Fund	109	503	394
Interest realised	683	652	(-) 31

(Source: Finance Accounts for the respective years)

- The cash balance as on 31 March 2012 decreased by ₹ 535 crore over the previous year. The cash balance (₹ 15,212 crore) available with the State Government continued to be high.

The State Government maintained the minimum required cash balance of ₹ 3.25 crore with the Reserve Bank of India during 2011-12 under an agreement with the Reserve Bank of India. No ways and means advance or overdraft was taken during the year.

1.7 Assets and Liabilities

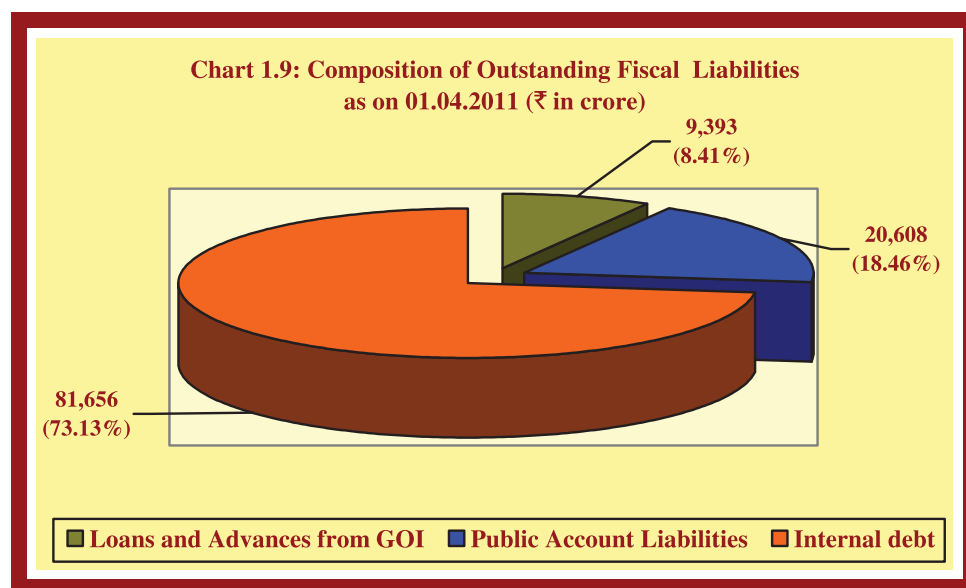
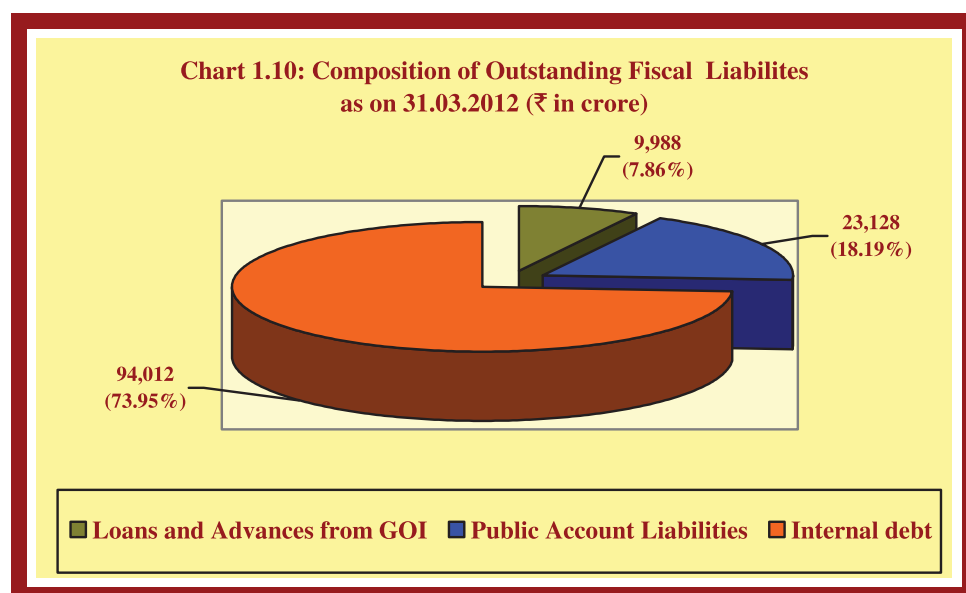
1.7.1 Growth and Composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.5** gives an abstract of such liabilities and assets as on 31 March 2012, compared with the corresponding position on 31 March 2011. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and cash balances.

The Tamil Nadu Fiscal Responsibility Act, 2003 defines the total liability of the State as ‘the liabilities under the Consolidated Fund of the State and the Public Account of the State’, which include loans and advances from the Central Government, open market borrowings, loans from financial institutions, Provident Fund balances of Government employees, Reserve funds, Deposits etc.

1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.4**. The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Charts 1.9** and **1.10**.



- The outstanding fiscal liabilities steeply increased from ₹ 71,072 crore at the end of 2007-08 to ₹ 1,27,128 crore at the end of 2011-12.
- The fiscal liabilities at the end of 2011-12 represented 149.21 *per cent* of the revenue receipts during the year, as against 159.08 *per cent* of the revenue receipts during 2010-11. However, the outstanding liabilities as a percentage of GSDP was 19.89, which was well within the norm of 24.50 *per cent* prescribed for the year 2011-12 in the Tamil Nadu Fiscal Responsibility Act.
- Public Account liabilities as a percentage of the total fiscal liabilities decreased marginally from 18.46 *per cent* at the end of 2010-11 to 18.19 *per cent* in 2011-12. Internal debt at 73.95 *per cent* of the fiscal liabilities was marginally higher than that of the previous year (73.13 *per cent*), whereas the percentage of outstanding loans and advances decreased from 8.41 *per cent* in 2010-11 to 7.86 *per cent* in 2011-12.

1.7.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of defaults by borrowers for whom the guarantees have been extended. As per Statement 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and the outstanding guarantees for the last three years is given in **Table 1.14**.

Table 1.14: Guarantees given by the Government of Tamil Nadu

(₹ in crore)			
Guarantees	2009-10	2010-11	2011-12
Maximum amount guaranteed	12,830	16,884	10,431
Outstanding amount of guarantees	6,297	15,955	9,751
Percentage of maximum amount guaranteed to total Revenue receipts of previous year	23.31	30.23	14.86
Percentage of maximum amount guaranteed to GSDP	2.67	2.98	1.63
Criteria as per the TN Fiscal Responsibility Act, 2003	Maximum amount of guarantees was to be within cent <i>per cent</i> revenue receipts of the previous year or 10 <i>per cent</i> of GSDP, whichever is lower.		

(Source: Finance Accounts for the respective years)

- The Government had given 21 guarantees for an amount of ₹ 10,431 crore upto March 2012 of which three guarantees amounting to ₹ 48.72 crore were invoked during 2011-12.
- Government had constituted (March 2003) a “Guarantees Redemption Fund” for discharge of invoked guarantees. An amount of ₹ 402.46 crore was credited to and ₹ 391.77 crore was disbursed from the fund during 2011-12. The balance in the Fund as of March 2012 was ₹ 29.93 crore.
- The maximum amount guaranteed was well within the stipulations (i.e. within cent *per cent* revenue receipts of the previous year) of the Tamil Nadu Fiscal Responsibility Act, 2003. As a percentage of revenue receipts of previous year, it decreased from 30.23 in 2010-11 to 14.86 in 2011-12. Similarly as a percentage of GSDP, it decreased from 2.98 in 2010-11 to 1.63 in 2011-12.
- But, as against a guarantee fee of ₹ 17.29 crore receivable, only ₹ 1.74 crore was realised during the year 2011-12.

1.7.4 Analysis of Borrowings of Government

The Thirteenth Finance Commission in their report observed that, the primary reason for accumulation of cash balances with the States is borrowing more than the fiscal deficit and that accumulation of cash balance beyond a certain level to be treated as inefficient as it would lead to interest burden. The cash balances and the borrowings made by the State during 2007-12 are given in **Table 1.15**.

Table 1.15: Details of borrowings and cash balances

(₹ in crore)

Year	Fiscal Deficit	Borrowings	Excess of borrowings over the fiscal deficit	Cash balances as of 31 March
2007-08	3,686	7,647	3,961	12,172
2008-09	8,548	11,841	3,293	16,229
2009-10	11,807	15,557	3,750	19,487
2010-11	16,646	14,492	-2,154	15,747
2011-12	17,275	16,780	-495	15,212

(Source: Finance Accounts for the respective years)

It may be observed from the above that the borrowings exceeded the fiscal deficit by ₹ 3,961 crore, ₹ 3,293 crore and ₹ 3,750 crore during the years 2007-08, 2008-09 and 2009-10 respectively. Though during 2010-11 and 2011-12, the borrowings were lesser than the fiscal deficit by ₹ 2,154 crore, and ₹ 495 crore respectively, there were huge cash balances in these years. The huge cash balances varying between ₹ 12,172 crore at the end of 2007-08 and ₹ 19,487 crore in 2009-10 and ₹ 15,212 crore in 2011-12 could be attributed to the borrowings made in excess/close to the level of the fiscal deficits. As indicated in **Table 1.13**, the interest earned on the cash balances was less as compared to the cost of borrowings.

1.7.5 Off-Budget Borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the liabilities shown in **Appendix 1.5**, the State guarantees loans availed of by Government companies/corporations. These companies/corporations borrow funds from the market/financial institutions for implementation of various State Plan programmes projected outside the State budget. Although the State Government specify that funds for these programmes would be met out of the resources mobilized by these companies/corporations outside the State budget, in reality, the borrowings of many of these concerns are repaid by the Government and ultimately turn out to be liabilities of the State Government termed as 'off-budget borrowings'. Though off-budget borrowings are not permissible under Article 293 (3), the State undertook such off-budget borrowings. Details of such borrowings collected from two agencies are given in **Table 1.16** below:

Table 1.16 : Details of off-budget borrowings

(₹ in crore)

Sl. No.	Name of Agency	Off-budget borrowings outstanding as of March 2012	Borrowings repaid by Government
1	Tamil Nadu Water Supply and Drainage Board	65.12	19.17
2.	Tamil Nadu Cooperative Housing Federation Limited	41.16	23.41
	Total	106.28	42.58

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

1.8 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyze the various indicators that determine the debt sustainability¹¹ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation¹²; sufficiency of non-debt receipts¹³; net availability of borrowed funds¹⁴; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State Government debts. **Table 1.17** analyzes the debt sustainability of the State according to these indicators for a period of three years beginning from 2009-10.

¹¹ Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. It also refers to the sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between the costs of additional borrowings and the returns from such borrowings.

¹² A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are either zero, positive or moderately negative. Given the rate spread (GSDP growth rate – interest rate) and the quantum spread (Debt X rate spread), the debt sustainability condition states that if the quantum spread together with the primary deficit is zero, the debt-GSDP ratio would be constant or the debt would stabilize eventually. On the other hand, if the primary deficit together with the quantum spread turns out to be negative, the debt-GSDP ratio would be rising. In case it is positive, the debt-GSDP ratio would eventually be falling.

¹³ Adequacy of incremental non-debt receipts of the State to cover incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

¹⁴ Defined as the ratio of the debt redemption (principal + interest payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption, indicating the net availability of borrowed funds.

Table 1.17: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2009-10	2010-11	2011-12
Debt Stabilization (Quantum Spread + Primary Deficit)	(-) 1,300	(-) 732	(-) 2,386
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 3,259	(-) 4,839	(-) 628
Net Availability of Borrowed Funds	7,287	4,375	5,374
Burden of Interest Payments (IP/RR Ratio)	11.9	11.3	10.41
Maturity Profile of internal debts & GOI loans (in years)			
0 – 1	1,997 (2.79)	2,800 (3.08)	3,930 (3.78)
1 – 3	5,966 (8.35)	7,658 (8.41)	7,778 (7.48)
3 – 5	7,101 (9.93)	7,944 (8.73)	7,944 (7.64)
5 – 7	9,778 (13.68)	10,865 (11.93)	18,193 (17.49)
7 and above	46,656 (65.25)	58,384 (64.12)	55,883 (53.73)
Year wise details not available		3,399 (3.73)	10,272 (9.88)

(Source: Finance Accounts for the respective years)

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

- The quantum spread together with the primary deficit has been negative and increased from ₹ (-) 1,300 crore in 2009-10 to ₹ (-) 2,386 crore in 2011-12, although it dropped to ₹ (-) 732 crore in 2010-11. Negative figures of debt stabilisation indicate the rising debt-GSDP ratio, which would affect the State's ability to service the debt.
- Another indicator for debt sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental expenditure. Positive resource gaps strengthen the capacity of State to sustain the debt. The State experienced a negative resource gap in 2009-10 and it continued to be so in 2010-11 and in 2011-12. These trends indicate that the State needs to make sustainable efforts to mobilise more resources of its own to meet the incremental liabilities arising on account of additional primary expenditure and interest payments during the year. If the negative resource gap persists or increases in the ensuing years, the State's capacity to sustain the additional debt liabilities would tend to deteriorate.
- The net availability of borrowed funds during 2011-12 was ₹ 5,374 crore, an increase of ₹ 999 crore over the previous year. This was mainly due to increase in receipts under internal debts.
- Negative debt stabilisation, negative resource gap, continued burden of interest payment at about 11 *per cent* of revenue receipts every year suggest that the State's sustainability of debt continued to be strained.
- Bunching of repayments in any particular year will cause financial stress to that year's budget. The maturity profile of the State's debt indicates a year-on-year increase in its repayment burden. If the Government is well aware of future debt payments, it will be in a position to ensure that fresh borrowings will not have to be scheduled for repayment in those years

where maximum repayment is due. In Tamil Nadu, greater portion of repayments would happen between five and seven years and beyond seven years from borrowings. The State did not have details of repayment schedule for an amount of ₹ 10,272 crore. Scheduling of huge repayment liabilities to future years is not a welcome step, as in future Government may have difficulty to meet the huge liabilities of past.

1.8.1 Debt consolidation and relief facility

As per the XIII Finance Commission recommendations, benefit of interest relief on loans availed from National Small Savings Fund (NSSF) and the write-off of outstanding loans by Government of India and State specific grants would be made available to the States on bringing the necessary amendments/ enactments of FRBM Act to include targets for debt-GSDP ratio for the period from 2011-12 to 2014-15. The State Government was able to maintain the debt-GSDP ratio within the limits of 24.1 in 2010-11 and 24.5 in 2011-12 set in the TNFR Act, 2003 as amended in September 2011.

The State Government was entitled for interest relief from 2010-11 as given in **Table 1.18**:

Table 1.18: Interest relief on the loan availed from National Small Savings Fund

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Interest relief on NSSF loans	166.69	158.25	148.81	139.36	129.92

(Source: Report of the XIII Finance Commission)

But the TNFR Act, 2003 was amended only in September 2011 and the amendment took effect from 3 November 2011. As the State Government failed to amend the TNFR Act in time, it lost the scope to get interest relief of ₹ 166.69 crore for the year 2010-11 and part of ₹ 158.25 crore for the year 2011-12. The matter was taken up (May 2012) with GOI and their reply is awaited (July 2012).

1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set for the financial year 2011-12 under TNFR Act.

1.9.1 Trends in Deficits

Charts 1.11 and **1.12** presents the trends in deficit indicators over the period 2007-12.

Chart 1.11 : Trends in Deficit Indicators

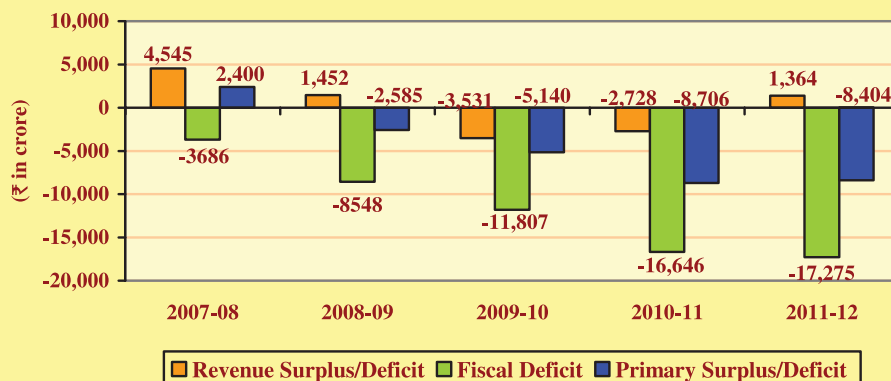
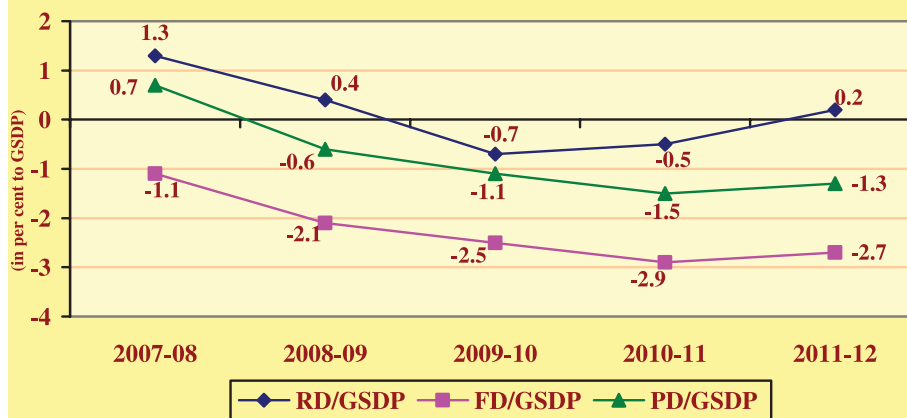


Chart 1.12: Trends in Deficit Indicators relative to GSDP



- The revenue deficit, which prevailed during 2009-10 and 2010-11 turned positive in 2011-12 with a revenue surplus of ₹ 1,364 crore.
- The primary surplus of ₹ 2,400 crore in 2007-08 turned into primary deficit of ₹ 2,585 crore in 2008-09 and the deficit increased further to ₹ 5,140 and ₹ 8,706 in 2009-10 and 2010-11 respectively, but has slightly decreased to ₹ 8,404 crore in 2011-12.
- Though the ratio of fiscal deficit to GSDP increased from 1.1 in 2007-08 to 2.9 in 2010-11, it has marginally reduced to 2.7 in 2011-12 against the target of 3 per cent to be achieved by 31 March 2012 as envisaged in TNFR Act. The fiscal deficit for the year 2011-12 stood at ₹ 17,275 crore as compared to ₹ 16,646 crore in 2010-11.

1.9.2 Composition of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in **Table 1.19**.

Table 1.19: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Decomposition of Fiscal Deficit		(-) 3,686	(-) 8,548	(-) 11,807	(-) 16,646	(-) 17,275
1.	Revenue Surplus/Deficit (-)	4,545	1,452	(-) 3,531	(-) 2,728	1,364
2.	Net Capital Expenditure	(-) 7,462	(-) 9,104	(-) 8,573	(-) 12,436	(-) 16,336
3.	Net Loans and Advances	(-) 769	(-) 896	297	(-) 1,482	(-) 2,303
Financing Pattern of Fiscal Deficit*						
1.	Market Borrowings	4,127	8,792	11,725	8,704	13,109
2.	Loans from GOI	469	724	698	1,036	594
3.	Special Securities issued to National Small Savings Fund	(-) 782	(-) 173	271	1,540	(-) 1,024
4.	Loans from Financial Institutions	287	282	351	(-) 85	270
5.	Small Savings, PF etc	383	578	980	1,272	1,113
6.	Deposits and Advances	138	1,576	712	1,426	1,727
7.	Suspense and Miscellaneous	162	194	(-) 547	18	498
8.	Remittances	(-) 130	78	57	131	136
9.	Reserve Funds	130	553	817	(-) 1,106	287
10.	Contingency Fund	-	-	1	(-) 30	30
Total		4,784	12,604	15,065	12,906	16,740
11.	Overall Surplus / Deficit (-) (Cash Balance)	1,098	4,056	3,258	(-) 3,740	(-) 535

(Source: Finance Accounts for the respective years)

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

- The factor contributing to the increase in fiscal deficit was the increase in capital expenditure, which increased from ₹ 12,436 crore in 2010-11 to ₹ 16,336 crore in 2011-12 and reduction in net availability of loans and advances.
- The fiscal deficit was largely managed by market borrowings, loan from GOI and other financial institutions and from the proceeds of Small savings, deposits and advances.

1.9.3 Quality of Deficit/Surplus

The decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The bifurcation of the primary deficit (Table 1.20) would indicate the extent to which the deficit had been on account of enhancement in capital expenditure, which may have been desirable to improve the productive capacity of the State's economy.

Table 1.20: Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary revenue deficit (-) / surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2007-08	48,533	36,889	7,462	1,782	46,133	11,644	2,400
2008-09	56,976	47,627	9,104	2,830	59,561	9,349	(-) 2,585
2009-10	58,431	52,708	8,573	2,290	63,571	5,723	(-) 5,140
2010-11	70,958	64,976	12,436	2,252	79,664	5,982	(-) 8,706
2011-12	88,382	74,967	16,336	5,483	96,786	13,415	(-) 8,404

(Source: Finance Accounts of Government of Tamil Nadu)

- The primary revenue expenditure, capital expenditure and loans and advances increased by 15.38 *per cent*, 31.36 *per cent* and 143.47 *per cent* in 2011-12 over the previous year.
- During the period 2007-08 to 2011-12, non-debt receipts increased from ₹ 48,533 crore to ₹ 88,382 crore (82.11 *per cent*) against an increase of 103.22 *per cent* in primary revenue expenditure, 118.92 *per cent* in capital expenditure and 109.80 *per cent* in primary expenditure. Thus, the non-debt receipts did not match with the expenditure.
- Capital expenditure as a percentage of primary expenditure increased only marginally from 16.17 in 2007-08 to 16.88 in 2011-12. Loans and advances as a percentage of primary expenditure increased just from 3.86 in 2007-08 to 5.67 in 2011-12. Thus, the primary deficit was mostly on account of increase in the primary revenue expenditure.
- The adequacy of non-debt receipts to meet the primary expenditure led to the emergence of primary surplus in 2007-08. However, the non-debt receipts were not enough to meet the expenditure requirements from 2008-09 onwards, resulting in primary deficit, which increased from ₹ 2,585 crore in 2008-09 to ₹ 8,404 crore in 2011-12.

1.10 Conclusion and Recommendations

Revenue Receipts: During the current year, the State's revenue receipts (₹ 85,202 crore) increased by 21.39 *per cent* over the previous year. The robust growth in revenue receipts was mainly due to increased tax revenue. The State's revenue receipts as a percentage of GSDP marginally increased from 12.39 *per cent* in 2010-11 to 13.33 *per cent* in 2011-12. But it remained more or less at the same level of about 13 *per cent* during 2007-12.

The non-tax revenue of the State increased by ₹ 1,032 crore in 2011-12 (22.18 *per cent*) over the previous year. As a proportion to the States' own resources, it was 10.04 *per cent* in 2007-08 and 8.72 *per cent* in 2011-12.

Revenue expenditure: Of the total expenditure of ₹ 1,05,657 crore during 2011-12, revenue expenditure (₹ 83,838 crore) accounted for 79.35 *per cent* of the total expenditure. Out of the revenue expenditure, 79.04 *per cent* (₹ 66,262 crore) was incurred on the non-plan component. The committed expenditure (₹ 55,172 crore) stood at 64.75 *per cent* of the total revenue receipts (₹ 85,202 crore) of the State during 2011-12 as against 70.77 *per cent* during 2010-11. *There is a necessity to contain the committed expenditure particularly the salaries and subsidies.*

Capital expenditure: The capital expenditure (₹ 16,336 crore) during the current year increased by ₹ 3,900 crore (31.36 *per cent*) over the previous year. It ranged between 12.21 *per cent* and 15.46 *per cent* of the total expenditure during 2007-12 showing no significant improvement. *Increased priority to physical capital formation will increase the growth prospects of the State by creating durable assets.*

Adequacy and priority of expenditure: In the year 2011-12, the State had spent marginally higher proportion of its GSDP on aggregate expenditure (16.53) as compared to general category States (16.09). Development expenditure (Expenditure on Social and Economic services) as a proportion of aggregate expenditure in the State was lower (65.06) than the general category States' average (66.44) implying low priority. *The State should plan its expenditure in such a way that maximum priority is given to development expenditure.*

Investment and returns: As of March 2012, the State had invested ₹ 14,456 crore in various Government Companies and Corporations. While the Government paid at an average interest rate of 7.43 *per cent* on its borrowings during 2011-12, the average return on its investments was only 0.21 *per cent*. *Government should ensure better value for its investments.*

Debt Management: The outstanding fiscal liabilities steeply increased from ₹ 71,072 crore in 2007-08 to ₹ 1,27,128 crore at the end of 2011-12. However, the outstanding liabilities as a percentage of Gross State Domestic Product (GSDP) was 19.89, which was well within the norm of 24.50 *per cent* prescribed for the year 2011-12 in the Tamil Nadu Fiscal Responsibility Act. However, the negative debt stabilisation and resource gap, continued burden of interest payment at about 11 *per cent* of revenue receipts every year suggest that the State's sustainability of debt continued to be strained. Due to borrowings made by the State in excess/close to the level of the fiscal deficits, there were huge cash balances. *Restricted borrowings will go a long way in prudent debt management.*

Fiscal position: The State had revenue deficit of ₹ 2,728 crore in 2010-11, but, it turned into a revenue surplus of ₹ 1,364 crore in 2011-12. The primary deficit had marginally decreased from ₹ 8,706 crore in 2010-11 to ₹ 8,404 crore in 2011-12. In absolute term, though the fiscal deficit increased from ₹ 16,646 crore in 2010-11 to ₹ 17,275 crore in 2011-12, the ratio of fiscal deficit to GSDP which was 2.7 in 2011-12 was within the target of 3 per cent to be achieved by 31 March 2012.