

CHAPTER I
FINANCES OF THE
STATE GOVERNMENT

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Profile of Tamil Nadu

Tamil Nadu is the 11th largest state in terms of geographical area (1,30,058 sq.km) and the seventh largest by population. As per the census, the State's population increased from 6.24 crore in 2001 to 7.21 crore in 2011, recording a decadal growth of 15.54 *per cent*. The percentage of population below the poverty line in the State is lower than the all-India average. The Human Development Index (HDI) of the State (2007-08) was 0.57, which was higher than national HDI of 0.47. The State's Gross Domestic Product (GSDP) in 2017-18 at current prices was ₹ 14,27,074 crore. General data relating to the State is given in **Appendix 1.1**.

Gross State Domestic Product

The trends in the annual growth of India's Gross Domestic Product (GDP) and State's GSDP at current prices are indicated in **Table 1.1**.

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

	2013-14	2014-15	2015-16	2016-17	2017-18
India's GDP (₹ in crore)	1,12,33,522	1,24,45,128	1,37,64,037	1,52,53,714	1,67,73,145
Growth rate of GDP (<i>per cent</i>)	12.97	10.79	10.60	10.82	9.96
Per capita GDP (in ₹)*	92,824	1,02,835	1,13,734	1,26,043	1,38,598
GSDP (₹ in crore)	9,68,530	10,72,678	11,76,500	12,70,490	14,27,074
Growth rate of GSDP (<i>per cent</i>)	13.30	10.75	9.68	7.99	12.32
Per capita GSDP (in ₹)**	1,34,331	1,48,776	1,63,176	1,76,212	1,97,930

* calculated based on the Population of 121.02 crore as per census 2011

** calculated based on the Population of 7.21 crore as per census 2011

(Source: Central Statistics Office)

1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Tamil Nadu (GoTN) during the current year (2017-18) and analyses critical changes in the major fiscal aggregates relative to the previous year (2016-17), keeping in view the overall trend during the last five years.

All receipts of GoTN are accounted for in the Consolidated Fund of the State constituted under Article 266 (1) of the Constitution of India. Expenditure therefrom is authorised by the State Legislature through Appropriation Act. Money so authorised by the Appropriation Act is required to be spent as per provisions contained in the Tamil Nadu Budget Manual, the Tamil Nadu

Abbreviations used in this Report are listed in Glossary at Page 136

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Financial Code and instructions issued by the Finance Department from time to time.

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

The structure of Government Accounts and the layout of Finance Accounts are shown in **Appendix 1.2**. The methodology adopted for assessment of the fiscal position of the State is given in **Appendix 1.3 - Part A**. The salient features of the TNFR Act, 2003 are given in **Appendix 1.3 - Part B**. A time series data on the State Government's finances are given in **Appendix 1.4**.

1.1.1 Summary of fiscal transactions in 2017-18

Table 1.2 presents the summary of the State Government's fiscal transactions during the current year (2017-18) *vis-à-vis* the previous year (2016-17), while **Appendix 1.5** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.2: Summary of fiscal operations in 2017-18

(₹ in crore)

Receipts	2016-17	2017-18	Disbursements	2016-17	2017-18		
Section-A: Revenue					State Fund Expenditure	Central Assistance (including CS/CSS)	Total
Revenue receipts	1,40,231	1,46,280	Revenue expenditure	1,53,195	1,59,441	8,433	1,67,874
Tax revenue	85,941	*93,737	General Services	51,452	60,423	28	60,451
Non-tax revenue	9,914	10,764	Social Services	55,297	53,633	6,157	59,790
Share of Union Taxes/Duties	24,538	**27,100	Economic Services	33,980	33,914	2,248	36,162
Grants from Government of India	19,838	14,679	Grants-in-aid and Contributions	12,466	11,471	0	11,471
Section-B: Capital and Others							
Miscellaneous Capital Receipts	1	2	Capital Outlay	20,709	17,511	2,692	20,203
Recoveries of Loans and Advances	3,548	8,472	Loans and Advances disbursed	26,046	6,517	--	6,517
Public Debt receipts	66,143	45,722	Repayment of Public Debt	8,200	8,991	--	8,991
Contingency Fund	19	--	Contingency Fund	--	--	--	..
Public Account receipts	1,81,475	1,95,989	Public Account disbursements	1,73,007	--	--	1,84,209
Opening Cash Balance	28,262	38,522	Closing Cash Balance	38,522	--	--	47,193
Total	4,19,679	4,34,987	Total	4,19,679			4,34,987

* Includes SGST of ₹ 24,589 crore

** Includes CGST component of ₹ 383 crore and IGST component of ₹ 2,736 crore

(Source: Finance Accounts for the respective years)

The significant changes that occurred during 2017-18, as compared to the previous year are enumerated in the succeeding sub paragraphs.

- **Revenue receipts** of the State increased by ₹ 6,049 crore (4.31 *per cent*) over the previous year. This was due to increase in the State's own tax revenue (₹ 7,796 crore), State's share of Union taxes and duties (₹ 2,562 crore), Non-Tax revenue (₹ 850 crore) and off set by decrease in Grants from Government of India (GoI) (₹ 5,159 crore).
- **Revenue expenditure** increased by ₹ 14,679 crore (9.58 *per cent*) over the previous year due to increase in expenditure on General Services (₹ 8,999 crore), Social Services (₹ 4,493 crore) and Economic Services (₹ 2,182 crore), off set by the decrease in Grants-in-aid and contributions (₹ 995 crore).
- The buoyancy of the revenue expenditure with reference to revenue receipts during 2017-18 was 2.22 and during 2016-17 it was 0.99. This indicated disproportionately higher growth in revenue expenditure in relation to the revenue receipts. Revenue expenditure buoyancy with reference to GSDP decreased to 0.78 from 1.08 in 2016-17.
- The expenditure on General Services, Social Services and Economic Services registered an increase of 17.49 *per cent*, 8.13 *per cent* and 6.42 *per cent* respectively in 2017-18 as against 13.05 *per cent*, 0.90 *per cent* and 13.48 *per cent* respectively in 2016-17. However, grants-in-aid and contributions registered a sharp decrease of 7.98 *per cent* in 2017-18 against an increase of 16.16 *per cent* in 2016-17.
- **Capital expenditure** decreased by ₹ 506 crore (2.44 *per cent*) over the previous year as against 9.02 *per cent* increase in 2016-17. The decrease during the year was mainly under Energy, Agriculture and allied activities, Industry and Minerals under Economic Services and Education, Sports, Art & Culture, Health & Family Welfare, Water Supply, Sanitation, Housing & Urban Development under Social Services.
- Capital expenditure as a percentage of GSDP of the State was at 1.42. Compared to its neighbouring States of Karnataka and Kerala with capital expenditure at 2.73 *per cent* and 1.28 *per cent* respectively of GSDP, Tamil Nadu spent more on asset creation compared to Kerala but lesser than Karnataka.
- **Recoveries of loans and advances** during the year increased by ₹ 4,924 crore (138.78 *per cent*). The recoveries under Energy and Transport were robust.
- **Loans and advances** disbursed during the year decreased by ₹ 19,529 crore (74.98 *per cent*) from the previous year's ₹ 26,046 crore on account of loans to the power utility under UDAY scheme.

- **Public Account receipts and disbursements** increased by ₹ 14,514 crore (Eight *per cent*) and by ₹ 11,202 crore (6.47 *per cent*) respectively. Net receipts under Public Account increased by ₹ 3,312 crore over the previous year.
- The net impact of these transactions led to an increase of ₹ 8,671 crore in the **cash balance** at the end of the year over the previous year.

1.1.2 Review of the fiscal situation

The targeted timeline to eliminate revenue deficit and reduce fiscal deficit was extended by GoTN from time to time by amending the TNFR Act, 2003. In compliance with the provisions of TNFR Act, 2003, the State Government prepared a Medium Term Fiscal Plan (MTFP) for the period 2017-18.

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

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

Fiscal variables	2017-18				Actuals
	FFC targets for the State	Targets as prescribed in TNFR Act	Targets proposed in the Budget	Projections made in MTFP	
Revenue Deficit (₹ in crore)	--	Eliminate revenue deficit by 2019-20	15,930.35	35,473.27	21,593.87
Revenue Deficit / GSDP (in <i>per cent</i>)	--	--	1.06	2.28	1.51
Fiscal Deficit/GSDP (in <i>per cent</i>)	3.00	3.00	2.79	4.14	2.79
Primary Deficit / GSDP (in <i>per cent</i>)	---	--	1.06	2.23	0.97
Ratio of total outstanding debt of the Government to GSDP (in <i>per cent</i>)	22.54	25.20	20.90	22.54	22.88

(Source: (i) FFC recommendations; (ii) TNFR Act; (iii) State's MTFP and (iv) Budget Speech - 2017-18)

The revenue deficit increased from ₹ 1,788 crore in 2013-14 to ₹ 21,594 crore (1.51 *per cent* of GSDP) in 2017-18.

During 2017-18, though the State could contain its revenue deficit within the target proposed in the MTFP, it failed to achieve the target proposed in the budget. The State was able to contain the fiscal deficit to GSDP as envisaged under the TNFR Act, 2003, FFC, Budget and MTFP.

The Revenue deficit of ₹ 21,594 crore was understated by ₹ 1,339 crore mainly due to

- short contribution to Sinking Fund (₹ 1,108 crore),
- short contribution to Guarantee Redemption Fund (₹ 128 crore),
- short transfer to Reserve Funds (₹ 60 crore) and

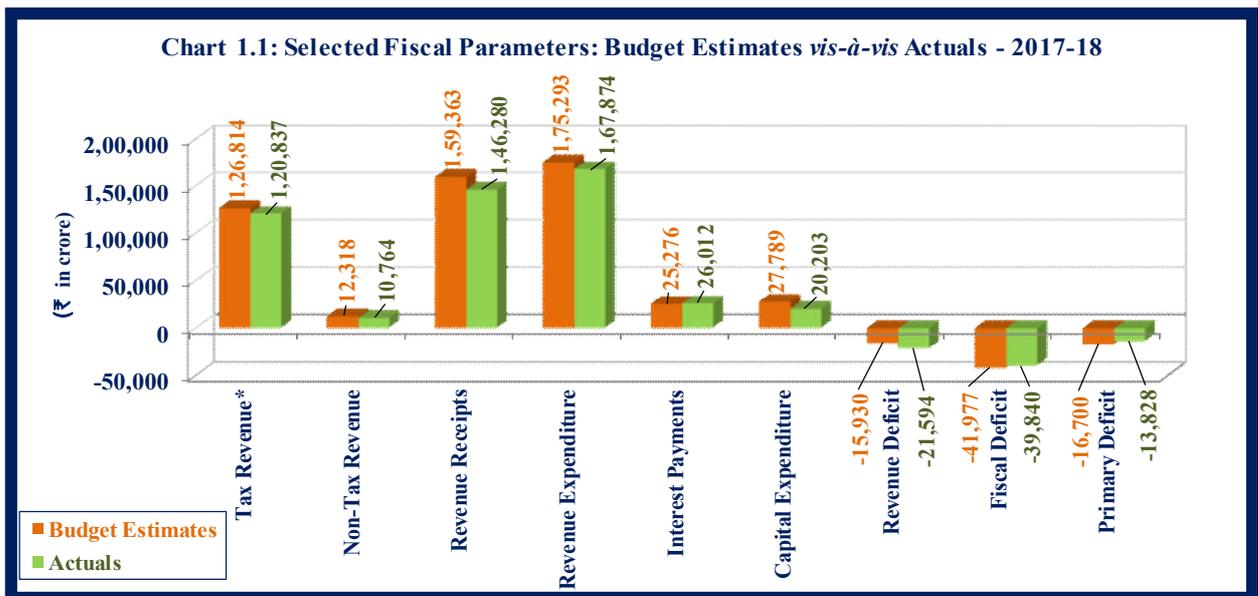
- short contribution to Defined Contributory Pension Scheme (₹ 38 crore).

During the Exit Conference, held on 27 December 2018, the Additional Chief Secretary to Government, Finance Department, opined that transfer of money to the above designated Funds was not compulsory. The fact, however, remained that GoTN itself had notified these Funds and prescribed the scale of contribution. While it is well within the powers of the Government to reduce contributions to the designated Funds, such reductions would not augur well for the financial health of the State.

1.1.3 Budget estimates and actuals

The Budget provides description of estimated revenue and expenditure for a particular fiscal year. The difference in actual receipts and expenditure against budget estimates due to unforeseen events or over/underestimation of revenue or expenditure at the stage of budget preparation, adversely impacts the desired fiscal objectives.

Chart 1.1 presents the budget estimates and actuals for some important fiscal parameters in 2017-18.



* Tax revenue includes State's share of Union taxes and duties
(Source: Annual Financial Statement and Finance Accounts for 2017-18)

The variations between the estimates and actuals were as under.

- The actual tax revenue and non-tax revenue was less than the estimates by ₹ 5,977 crore and ₹ 1,554 crore respectively.
- Capital expenditure substantially fell short of the budget estimates. It was less than the estimate by ₹ 7,586 crore (27.30 per cent).
- While revenue deficit exceeded the budget estimate, fiscal deficit was well within the budget estimate mainly because of increase in the recoveries of loans and advances by 60 per cent.

1.1.4 Non-implementation of major schemes announced in the Budget

The major schemes announced in the Budget, but not implemented/partially implemented were as given in **Table 1.4**.

Table 1.4: Details of major schemes announced in the Budget

(₹ in crore)

Sl. No.	Scheme as announced in the Budget	Provision in Budget	Withdrawal through re-appropriation/surrender
1	Transfer to Tamil Nadu Infrastructure Development Fund	2,000	2,000
2	Chennai Mega City Development Mission	400	400
3	Grants to Tamil Nadu Infrastructure Development Board for Project Preparation Fund	200	200
4	Mission for Water Resources Management and Reviving Kudimaramath	300	223

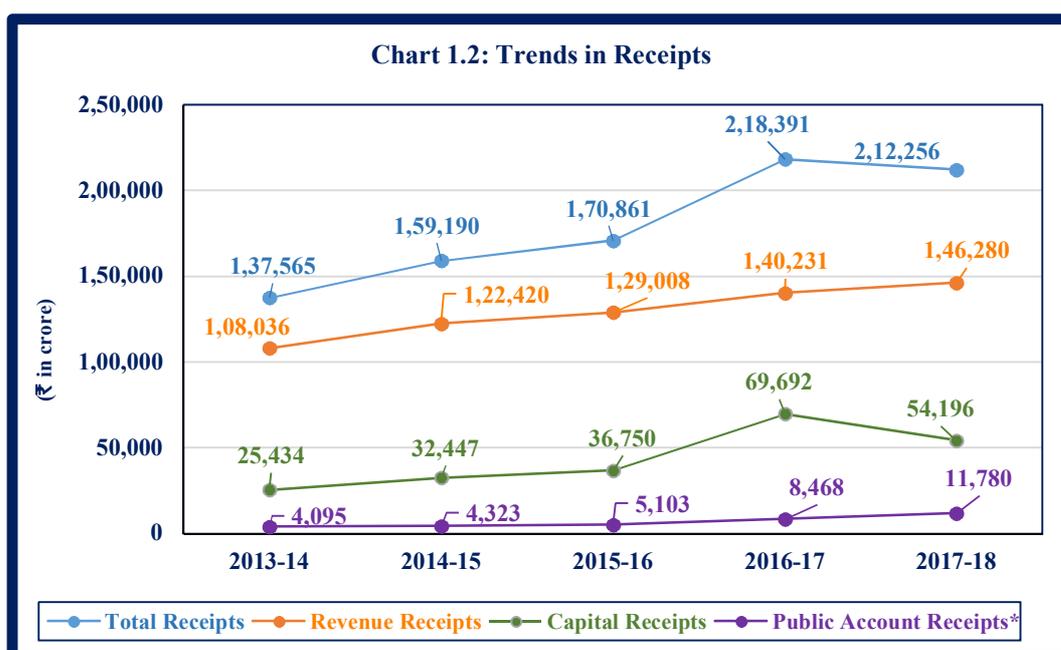
(Source: Budget Speech and Appropriation Accounts for 2017-18)

In respect of the first three items, entire provision was withdrawn and for the fourth item, 74 per cent of the funds provided was withdrawn.

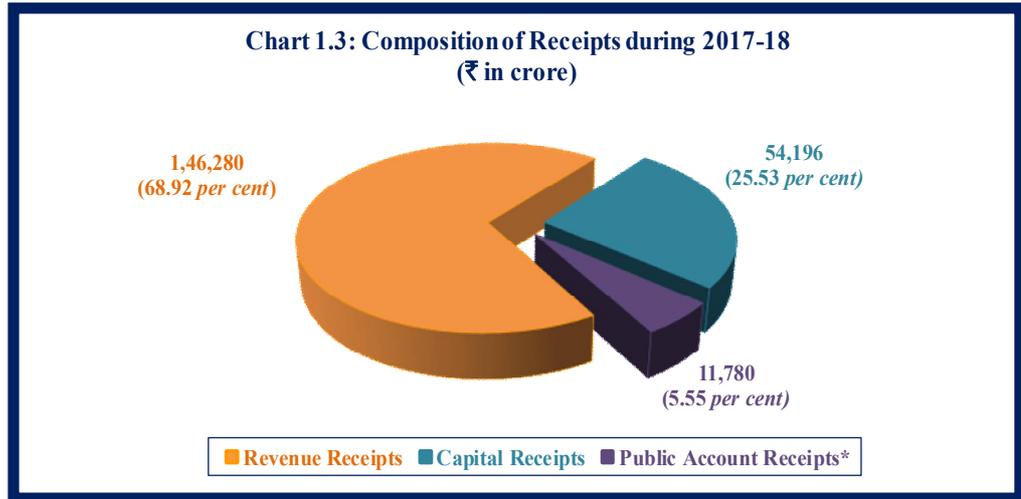
1.2 Resources of the State

1.2.1 Resources of the State as per the Annual Finance Accounts

Revenue and Capital are the two streams of receipts that constitute the resources of the State Government. Besides, the fund available in the Public Account after disbursements is also utilised by the Government. **Chart 1.2** depicts the trends in various components of the receipts of the State during 2013-18. **Chart 1.3** depicts the composition of receipts of the State during the current year.



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

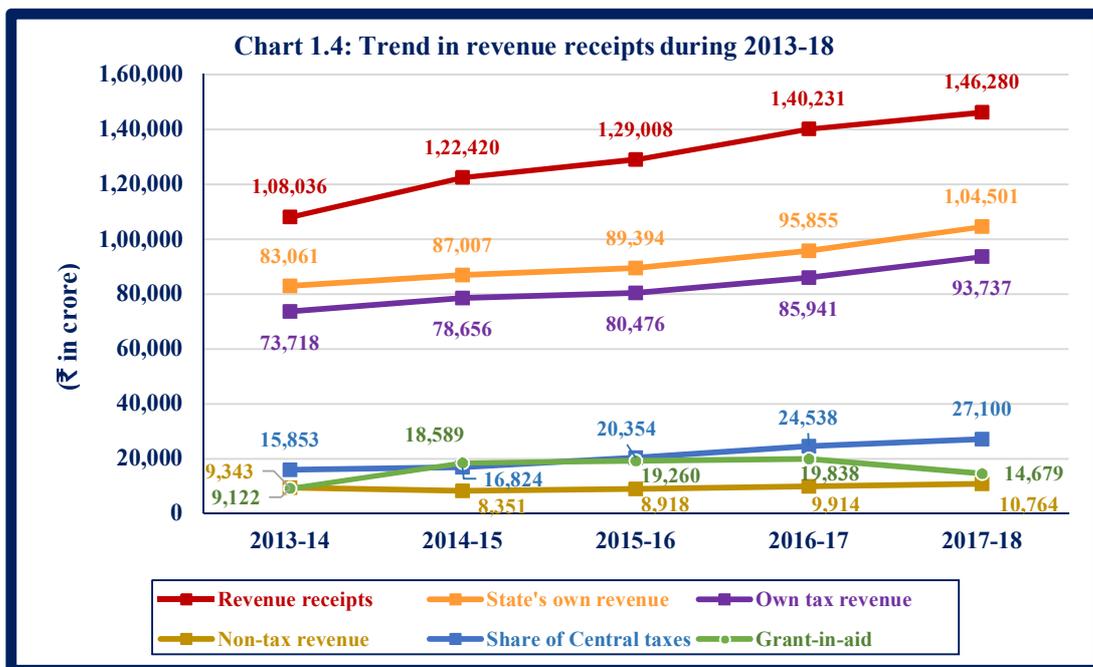


* Net Public Account Receipts
(Source: Finance Accounts for 2017-18)

- The total resources of the State Government in 2017-18 were ₹ 2,12,256 crore. Of these, revenue receipts were ₹ 1,46,280 crore, which constituted 68.92 per cent of total resources. The capital receipts (₹ 54,196 crore) and net public account receipts (₹ 11,780 crore) constituted 25.53 and 5.55 per cent of the total resources respectively.
- The total resources of the State decreased by ₹ 6,135 crore (2.81 per cent) over the previous year due to decrease in capital receipts of ₹ 15,496 crore (22.23 per cent), off set by the increase of ₹ 6,049 crore (4.31 per cent) in revenue receipts and ₹ 3,312 crore (39.11 per cent) in net public account receipts.
- The decrease in capital receipts (₹ 15,496 crore) by 22.23 per cent over the previous year was mainly due to decrease in Public Debt receipts by ₹ 20,421 crore (30.87 per cent).
- The State's tax revenue increased from ₹ 85,941 crore in 2016-17 to ₹ 93,737 crore in 2017-18 (increase of 9.07 per cent).
- The tax revenue increased by ₹ 7,796 crore in 2017-18 when compared to the previous year. The year on year growth in tax revenue, which ranged from 2.31 per cent to 6.79 per cent during 2013-17, increased to 9.07 per cent in 2017-18. The components-wise increase during the year could not be compared with the previous year due to implementation of GST which subsumed several taxes viz., Taxes on Goods and Passengers, Taxes on Sales, Trade etc.
- State's share of Union taxes and duties increased by ₹ 2,562 crore (10.44 per cent) over the previous year which included IGST.

1.3 Revenue receipts

Statement-14 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own taxes and non-tax revenues, central tax transfers and grants-in-aid from GoI. The trends of revenue receipts over the period 2013-18 are presented in **Appendix 1.4** and depicted in **Chart 1.4**.



(Source: Finance Accounts for the respective years)

- The annual growth rate of revenue receipts during 2017-18 stood at 4.31 per cent, which was much less than the growth rate of revenue receipts (11.30 per cent) in the General Category States (GCS) (**Appendix 1.1**).
- The growth rate of revenue receipts, which decreased from 8.70 per cent in 2016-17 to 4.31 per cent during 2017-18, is the lowest in the last five years period, as given in **Table 1.5**.
- Grants-in-aid as a percentage of revenue receipts decreased from 14.14 in 2016-17 to 10.03 in 2017-18.
- The non-tax revenue increased slightly from 7.07 per cent in 2016-17 to 7.36 per cent in 2017-18.
- The central tax transfers increased from 17.50 per cent in 2016-17 to 18.53 per cent during 2017-18.

The trends in revenue receipts relative to GSDP is presented in **Table 1.5**.

Table 1.5: Trends in revenue receipts relative to GSDP

	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue Receipts (₹ in crore)	1,08,036	1,22,420	1,29,008	1,40,231	1,46,280
Rate of growth of Revenue Receipts (<i>per cent</i>)	9.32	13.31	5.38	8.70	4.31
Revenue Receipts/GSDP (<i>per cent</i>)	11.15	11.41	10.97	11.04	10.25
Buoyancy Ratios¹					
Revenue Buoyancy with reference to GSDP	0.70	1.24	0.56	1.09	0.35
State's own tax buoyancy with reference to GSDP	0.26	0.62	0.24	0.85	0.74
Revenue Buoyancy with reference to State's own taxes	2.69	2.00	2.33	1.28	0.48

(Source: Finance Accounts for the respective years and Central Statistics Office for GSDP figures)

- The revenue receipts as a percentage of GSDP ranged between 10.25 and 11.41 during 2013-18.
- The GSDP growth rate picked up to 12.32 *per cent* during 2017-18, which is the more than the All India rate of 9.96. The rate of growth of revenue receipts, however, stood at 4.31 *per cent*. This dragged down the revenue buoyancy from 1.09 in 2016-17 to 0.35 in 2017-18. The steep fall was mainly due to slow growth of receipts under taxes on sale of IMFL and beer (7.43 *per cent*), negative growth of receipts under State excise ((-) 6.93 *per cent*) and reduction in grants-in-aid from GoI from ₹ 19,838.20 crore in 2016-17 to ₹ 14,679.44 crore in 2017-18. Revenue buoyancy with reference to State's own taxes stood at 0.48 in 2017-18, which is the lowest in the last five year period.

1.3.1 State's own resources

The State's own tax and non-tax revenue receipts for the year 2017-18 *vis-à-vis* assessment made by FFC, its Budget and MTFP are given in the **Table 1.6**.

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

	FFC targets for the State	Targets proposed in the Budget	Projections made in MTFP	Actuals
Own Tax Revenue	1,46,893	99,590	1,03,086	93,737
Non-tax Revenue	12,806	12,318	13,057	10,764

(Source: FFC recommendations and Budget Speech - 2017-18)

Both own tax revenue and non-tax revenue during 2017-18 fell short of the target fixed under FFC, Budget and MTFP. The State's own tax revenue stood at ₹ 93,737 crore against the FFC target of ₹ 1,46,893 crore and the budget projection of ₹ 99,590 crore.

¹ See glossary.

1.3.1.1 Own tax revenue

The gross collection in respect of major taxes and duties are given in **Table 1.7**.

Table 1.7: Components and trend of State's own tax revenue

(₹ in crore)

Revenue Head	2013-14	2014-15	2015-16	2016-17	2017-18	Variation over previous year (in per cent)
State Goods and Service Tax	Nil	Nil	Nil	Nil	24,589	--
Taxes on Sales, Trade, etc.	53,532	57,191	57,522	63,234	46,356	(-) 26.69
State Excise	5,035	5,731	5,836	6,248	5,815	(-) 6.93
Taxes on Vehicles	3,684	3,829	4,233	4,854	5,363	10.49
Stamps and Registration Fees	8,251	8,362	8,721	7,237	9,195	27.06
Land Revenue	273	170	258	153	152	(-) 0.65
Taxes on Goods and Passengers	1,843	1,909	2,153	2,551	900	(-) 64.72
Other Taxes ²	1,100	1,464	1,753	1,664	1,367	(-) 17.85
Total (Growth rate over previous year in per cent)	73,718 (3.46)	78,656 (6.70)	80,476 (2.31)	85,941 (6.79)	93,737 (9.07)	9.07

(Source: Finance Accounts for the respective years)

- The annual growth rate of own tax revenue during 2017-18 stood at 9.07 per cent, which was less than the average growth rate (12.20 per cent) of the GCS (**Appendix 1.1**).
- The increase in growth rate of own tax revenue over the previous year was mainly due to increase in Taxes on Vehicles (10.49 per cent) and Stamps and Registration Fees etc. (27.06 per cent). However, the growth rate of tax components which got subsumed under GST could not be determined during the year.
- Own tax revenue as a percentage of GSDP of the State during 2017-18 was 6.57 as compared to its neighbouring States of Karnataka and Kerala which were 6.64 per cent and 6.77 per cent respectively. GoTN was the lowest among the three States in terms of own tax revenue as a percentage of GSDP.

1.3.1.2 Goods and Services Tax

GoTN implemented the Goods and Services Tax (GST) Act with effect from 1 July 2017. According to GST (Compensation to the Stats) Act 2017, Central Government will compensate the States for loss of revenue arising on account of implementation of GST for a period of five years. The compensation payable to the State shall be calculated for every financial year after the receipt of final revenue figure, as audited by the CAG of India. A base year (2015-16) revenue figure of taxes subsumed under GST was finalised under GST Act. In Tamil Nadu, the revenue realised through the taxes since now

² Other taxes include taxes on immovable property other than agricultural land, taxes and duties on electricity and agricultural income.

subsumed into GST was ₹ 29,786.36 crore during the base year (2015-16). The revenue to be protected for any year was to be calculated by applying a growth rate of 14 per cent per annum.

The projected revenue for the year 2017-18 (1 July 2017 to 31 March 2018) in accordance with the base year figure was ₹ 29,032.77 crore (₹ 29,786.36 x 9/12 x 1.14 x 1.14). Revenue figure under GST for the year 2017-18 has been depicted in Finance Accounts as per nature of receipts i.e. State Goods and Services (SGST) Tax, Input Tax Credit cross utilisation of SGST and IGST (Integrated Goods and Services Tax), Apportionment of IGST - transfer-in Tax component to SGST and Advance apportionment from IGST. Against the projected revenue of ₹ 29,032.77 crore, the revenue receipts of the State Government under GST during the year 2017-18 is given in **Table 1.8**.

Table 1.8: Projected and actual receipt on implementation of GST Act

(₹ in crore)

Period	Projected revenue *	Pre-GST taxes	SGST	IGST	Total tax collected	Compensation	Total including compensation	Deficit
1	2	3	4	5	6 =(3+4+5)	7	8 =(6+7)	9 =(2-8)
July 2017 to March 2018	29,032.77	3,356.30	15,882.32	8,706.99	27,945.61	632.00	28,577.61	455.16

* Projected based on a growth rate of 14 per cent
(Figures excluding refunds, as worked out by GoTN)

As seen from **Table 1.8**, against the projected revenue of ₹ 29,032.77 crore during July 2017 to March 2018, the receipt was ₹ 28,577.61 crore under the new tax regime, which worked out to a growth of 12.21 per cent as against the projected growth of 14 per cent.

1.3.1.3 Non-tax revenue

The details of collection of non-tax revenue during the period 2013-18 are given in **Table 1.9**.

Table 1.9: Components and trend of State's non-tax revenue

(₹ in crore)

Revenue Head	2013-14	2014-15	2015-16	2016-17	2017-18	Variation over previous year (in per cent)
Interest receipts	3,347	2,490	2,953	4,319	5,199	20.37
Dividends and Profits	75	99	140	185	159	(-) 14.05
Other non-tax receipts	5,921	5,762	5,825	5,410	5,406	(-) 0.07
Total	9,343 <i>(11.25)</i>	8,351 <i>(9.60)</i>	8,918 <i>(9.98)</i>	9,914 <i>(10.34)</i>	10,764 <i>(10.30)</i>	8.57

Figures in brackets indicate percentage of non-tax revenue to State's own resources.
(Source: Finance Accounts for the respective years)

- While the compound annual growth rate of non-tax revenue of the State during 2008-17 was lesser (7.10 per cent) when compared to

GCS (9.50 per cent), it was more (8.60 per cent) than GCS (5.90 per cent) during 2017-18 (**Appendix 1.1**).

- The non-tax revenue of the State increased by ₹ 850 crore in 2017-18 over the previous year. As a proportion of the State's own resources, the non-tax revenue which stood at 10.34 per cent in 2016-17 decreased slightly to 10.30 per cent in 2017-18.

1.3.2 Grants-in-aid from GoI

The Grants-in-aid received from GoI are given in **Table 1.10**.

Table 1.10: Grants-in-aid

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Non-plan Grants	3,194	6,078	5,832	6,757	*
Grants for State Plan Schemes	3,348	11,255	12,017	10,550	*
Grants for Central Plan Schemes	264	282	694	496	*
Grants for Centrally Sponsored Schemes	2,316	974	717	2,035	10,983
Others	-	-	-	-	3,696
Total	9,122	18,589	19,260	19,838	14,679
Percentage of increase/decrease over previous year	40.34	103.78	3.61	3.00	(-) 26.01
Total grants as a percentage of Revenue Receipts	8.44	15.18	14.93	14.15	10.03

* Government did not provide grants under non-plan due to merger of non-plan/plan scheme. (Source: Finance Accounts for the respective years)

- The total grants-in-aid includes ₹ 632 crore towards compensation on loss of revenue due to roll out of GST. The grants-in-aid decreased by ₹ 5,159 crore (26 per cent) over the previous year. As a percentage of revenue receipts, grants-in-aid, which stood at 14.15 in 2016-17, decreased significantly to 10.03 in 2017-18.

1.3.3 Central tax transfers

Central Tax transfers during the last five years are given in **Table 1.11**.

Table 1.11: Central tax transfers

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
State's share of Union taxes and duties	15,853	16,824	20,354	24,538	27,100
Percentage of increase over previous year	9.18	6.13	20.98	20.56	10.44

(Source: Finance Accounts for the respective years)

- The growth rate of State's share of Union taxes and duties, which stood at 20.56 per cent in 2016-17, declined to 10.44 per cent in 2017-18. The decrease in growth rate was partly attributable to the decrease in the State's share of Customs duty from ₹ 3,124 crore in 2016-17 to ₹ 2,735 crore in 2017-18.

1.3.4 Optimisation of the FFC grants

Transfers from GoI to the State during 2017-18 on the recommendations of FFC are given in **Table 1.12**.

Table 1.12: Transfers on recommendations of FFC

(₹ in crore)

Particulars	Recommendation of the FFC	Actual release	Expenditure	Unutilised
(1)	(2)	(3)	(4)	(5)=(3-4)
Basic grants to Panchayat Raj Institutions	1,516	758	758	0.00
Basic Grants to Urban Local Bodies	1,264	449	449	0.00
Disaster Relief	748*	748*	748*	0.00
Total	3,528	1,955	1,955	0.00

* It includes State's contribution of ₹ 187 crore

(Source: Information obtained from Finance Department)

- The FFC grants of ₹ 1,955 crore were fully utilised by the State. Short receipt of ₹ 758 crore and ₹ 815 crore in respect of basic grants to PRIs and ULBs respectively due to non-conduct of Local Body election by the State was one of the reasons for the decrease in Grants-in-aid from GoI.

1.3.5 Foregone revenue

Discounts, waivers and exemptions, deferments, write-off, etc., in the collection of Sales tax leading to revenue foregone by the State are given in **Table 1.13**.

Table 1.13: Discounts, waivers, exemptions, deferments and write-off in collection of Sales Tax

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Discount	0	0	0	0	0
Waiver	114	0	60	120	5
Exemption	*	8	4	0	0
Deferment	1,174	2,903	237	0	0
Write-off	448	0	461	466	0
Total	1,736	2,911	762	586	5

* ₹ 1 lakh

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

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

1.3.6 Arrears of revenue

The arrears of revenue as on 31 March 2018 in major revenue heads are detailed below in **Table 1.14**.

Table 1.14: Arrears of revenue as on 31 March 2018

(₹ in crore)

Sl. No.	Heads of revenue	Amount outstanding	Remarks
1	Sales Tax/ VAT	28,937.94	<ul style="list-style-type: none"> ➤ Recovery through recovery certificate: ₹ 6,967 crore; ➤ Recovery at various other stages: ₹ 8,664.66 crore; ➤ Stayed by judicial authorities: ₹ 9,255.38 crore and ➤ Other stages/causes: ₹ 4,050.90 crore.
2	Stamp Duty and Registration fees	395.09	<ul style="list-style-type: none"> ➤ Recovery through recovery certificate: ₹ 395.03 crore and ➤ Stayed by judicial authorities: ₹ 0.06 crore.
3	Taxes on vehicles	1.45	<ul style="list-style-type: none"> ➤ Recovery through recovery certificate: ₹ 1.23 crore and ➤ Stayed by judicial authorities: ₹ 0.22 crore.
4	Electricity Taxes	744.18	<ul style="list-style-type: none"> ➤ Recovery through recovery certificate: ₹ 39.17 crore; ➤ Stayed by judicial authorities: ₹ 533.72 crore and ➤ Other stages/causes: ₹ 171.29 crore.
Total		30,078.66	

(Source: Figures furnished by the department)

- As could be seen from **Table 1.14**, while 53.42 *per cent* of the outstanding amount was under recovery process, recovery of 32.55 *per cent* of the outstanding amount was under judicial stay and recovery action was yet to be initiated in respect of the remaining 14.03 *per cent*.
- The arrears as on 31 March 2018 represented 32.08 *per cent* of State's own taxes revenues. Effective action to recover these taxes on time would help reduce the revenue deficit of the State.

1.4 Capital receipts

Public debt receipts, recoveries of loans and advances and miscellaneous capital receipts are the capital receipts of the Government. The trends in growth and composition of capital receipts are given in **Table 1.15**.

Table 1.15: Trends in growth and composition of capital receipts

(Amount ₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Capital Receipts	25,434	32,447	36,750	69,692	54,196
Miscellaneous capital receipts	0	16	0	1	2
Recovery of loans and advances	620	1,351	684	3,548	8,472
Public debt receipts	24,814	31,080	36,066	66,143	45,722
Rate of growth of public debt receipts	16.94	25.25	16.04	83.39	(-) 30.87
Rate of growth of non-debt capital receipts	(-) 41.34	120.48	(-) 49.96	418.86	138.77
Rate of growth of GSDP	13.30	10.75	9.68	7.99	12.32
Rate of growth of capital receipts	14.17	27.57	13.26	89.64	(-) 22.23

(Source: Finance Accounts for the respective years and Information on GSDP from Central Statistics Office)

- The recoveries of loans and advances increased significantly during 2017-18 mainly due to conversion of TANGEDCO's loan of ₹ 4,563 crore as Grants-in-aid under UDAY scheme.

- The rate of growth of capital receipts decreased considerably during 2017-18 when compared to 2016-17, which had the effect of increased borrowing under UDAY scheme.
- Public debt receipts decreased from ₹ 66,143 crore during 2016-17 to ₹ 45,722 crore in 2017-18.

1.5 Public account receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds and deposits and advances which do not form part of the Consolidated Fund, are accounted for in the Public Account, set up under Article 266 (2) of the Constitution of India and are not subject to vote by the State Legislature. Here the Government acts as a banker. The Public Account receipts for the period 2013-18 are given in **Table 1.16**.

Table 1.16: Trends in growth and composition of public account receipts

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Public Account Receipts					
Small Savings, Provident Fund, etc.	6,485	6,826	7,491	8,107	8,390
Reserve Fund	2,539	1,769	3,308	2,674	4,644
Deposits and Advances	30,833	32,820	40,022	36,989	44,180
Suspense and Miscellaneous	1,03,333	1,16,364	1,25,672	1,33,686	1,38,776
Remittances	4,927	5,927	6,052	19	(-) 1
<i>Total (a)</i>	<i>1,48,117</i>	<i>1,63,706</i>	<i>1,82,545</i>	<i>1,81,475</i>	<i>1,95,989</i>
Public Account Disbursements					
Small Savings, Provident Fund, etc.	5,223	5,503	5,853	5,752	6,055
Reserve Fund	1,751	1,410	2,907	2,231	3,653
Deposits and Advances	27,659	30,298	35,876	32,584	36,106
Suspense and Miscellaneous	1,04,489	1,16,417	1,26,574	1,31,473	1,38,389
Remittances	4,900	5,756	6,232	967	6
<i>Total (b)</i>	<i>1,44,022</i>	<i>1,59,384</i>	<i>1,77,442</i>	<i>1,73,007</i>	<i>1,84,209</i>
Public Account Net (a)-(b)	4,095	4,322	5,103	8,468	11,780

(Source: Finance Accounts for the respective years)

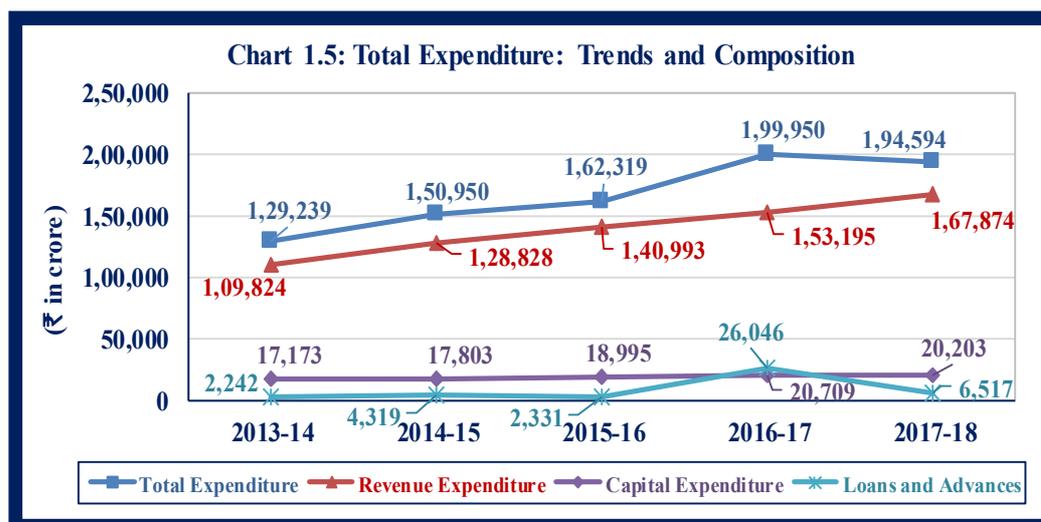
- The Public Account receipts which increased gradually from 2013-14, slightly decreased in 2016-17 and again increased by eight *per cent* in 2017-18 and stood at ₹ 1,95,989 crore.
- The net Public Account receipts, which was ₹ 4,095 crore during 2013-14 showed an increasing trend and stood at ₹ 11,780 crore during the current year.

1.6 Application of resources

1.6.1 Growth and composition of expenditure

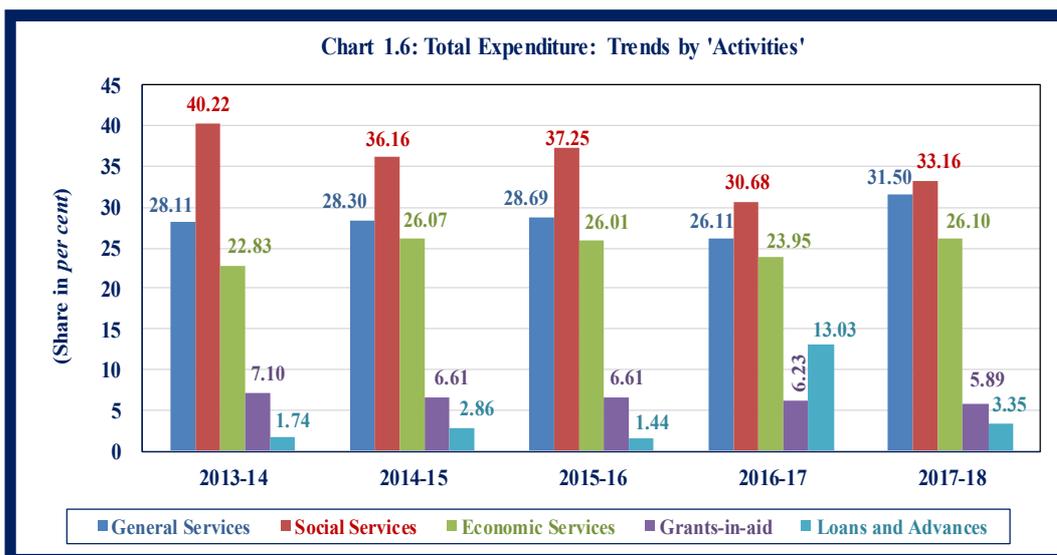
Chart 1.5 presents the trends in total expenditure³ over a period of five years (2013-18) and its composition by activities is depicted in **Chart 1.6**.

³ Total expenditure includes revenue expenditure, capital expenditure and disbursement of loans and advances and excludes public debt repayment.



(Source: Finance Accounts for the respective years)

- Of the total expenditure of ₹ 1,94,594 crore during 2017-18, revenue expenditure (₹ 1,67,874 crore), capital expenditure (₹ 20,203 crore) and Loans and advances (₹ 6,517 crore) accounted for 86.27 per cent, 10.38 per cent and 3.35 per cent respectively.
- Capital expenditure marginally declined from ₹ 20,709 crore in 2016-17 to ₹ 20,203 crore in 2017-18, a decrease of 2.44 per cent in previous year. Capital expenditure was mainly on Roads and Bridges (₹ 6,844 crore), investments in State Transport Undertakings (STUs) (₹ 3,004 crore), Urban development (₹ 2,579 crore) and irrigation (₹ 1,205 crore). Compared to 2016-17, the Capital expenditure on Power reduced from ₹ 4,523 crore to ₹ 781 crore, the Capital expenditure on Road Transport (Investment in STUs) increased from ₹ 158 crore to ₹ 3,004 crore.



(Source: Finance Accounts for the respective years)

- The expenditure on General Services, Social Services and Economic Services during 2017-18 was 31.50, 33.16 and 26.10 per cent of the

total expenditure and grew by 17.42, 5.19 and 6.03 *per cent* respectively over the previous year.

- The higher growth rate of expenditure on General Services in 2017-18 was mainly on account of increase in interest payments (₹ 5,479 crore) and pension and other retirement benefits (₹ 2,387 crore).
- The ratio of expenditure on social service to total expenditure fluctuated between 30.68 and 40.22 *per cent* during 2013-14 and 2016-17. It has slightly increased in 2017-18, over previous year.
- The share of loans and advances to the total expenditure had increased significantly during 2016-17 and stood at 13.03 *per cent* of total expenditure due to the State's participation in UDAY scheme for restructuring TANGEDCO. It, however, declined to 3.35 *per cent* of the total expenditure during the current year.

1.6.2 Revenue expenditure

The trend of revenue expenditure of the State is given in **Table 1.17**.

Table 1.17: Trends in growth and composition of revenue expenditure

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue Receipts	1,08,036	1,22,420	1,29,008	1,40,231	1,46,280
Revenue Expenditure	1,09,824	1,28,828	1,40,993	1,53,195	1,67,874
Revenue Deficit/Surplus	(-) 1,788	(-) 6,408	(-) 11,985	(-) 12,964	(-) 21,594
GSDP	9,68,530	10,72,678	11,76,500	12,70,490	14,27,074
Revenue Receipt to GSDP (in <i>per cent</i>)	11.15	11.41	10.97	11.04	10.25
Revenue Expenditure to GSDP (in <i>per cent</i>)	11.34	12.01	11.98	12.06	11.76
Revenue surplus /deficit to GSDP (in <i>per cent</i>)	(-) 0.18	(-) 0.60	(-) 1.02	(-) 1.02	(-) 1.51

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

- The State has registered revenue deficit of ₹ 21,594 crore during 2017-18, which was on an increasing trend since 2013-14. This would indicate that the State may not eliminate revenue deficit by 2019-20 as per TNFR Act.
- The ratio of revenue expenditure to GSDP ranged between 11.34 and 12.06 *per cent* during 2013-17 and stood at 11.76 *per cent* during the current year.

1.6.3 Committed expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.18** presents the trend in the expenditure on these components during 2013-18.

Table 1.18: Components of committed expenditure

(₹ in crore)

Components of committed expenditure	2013-14	2014-15	2015-16	2016-17	2017-18
Salaries and wages	25,688 (23.78)	28,663 (23.41)	30,664 (23.77)	33,158 (23.65)	37,140 (25.39)
Salary grants*	4,861 (4.50)	5,392 (4.40)	5,712 (4.43)	6,088 (4.34)	6,819 (4.66)
Interest payments	12,405 (11.48)	14,550 (11.89)	17,391 (13.48)	20,533 (14.64)	26,012 (17.78)
Expenditure on pension	13,927 (12.89)	16,360 (13.36)	17,235 (13.36)	18,879 (13.46)	21,132 (14.45)
Subsidies	9,646 (8.93)	10,373 (8.47)	12,315 (9.55)	16,092 (11.48)	15,230 (10.41)
Total	66,527	75,338	83,317	94,750	1,06,333
<i>Total as a percentage of revenue receipts</i>	<i>61.58</i>	<i>61.54</i>	<i>64.58</i>	<i>67.57</i>	<i>72.69</i>
<i>Total as a percentage of revenue expenditure</i>	<i>60.58</i>	<i>58.48</i>	<i>59.09</i>	<i>61.85</i>	<i>63.34</i>

Figures in the brackets indicate percentage to revenue receipts

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

(Source: Finance Accounts for the respective years)

- The committed expenditure (₹ 1,06,333 crore) stood at 72.69 per cent of the total revenue receipts (₹ 1,46,280 crore) of the State during 2017-18, as against 67.57 per cent during 2016-17. The increase in 2017-18 was mainly due to implementation of pay commission award and due to increase in interest payments.
- The committed expenditure (₹ 1,06,333 crore) stood at 63.34 per cent of the total revenue expenditure (₹ 1,67,874 crore) of the State during 2017-18, as against 61.85 per cent during 2016-17. The committed expenditure as a percentage of revenue expenditure gradually increased from 59.09 in 2015-16 to 63.34 in 2017-18.
- During 2017-18, expenditure on salaries and wages, inclusive of salary grants was ₹ 43,959 crore which accounted for 36.41 per cent of the revenue expenditure excluding interest payments and pension.
- The expenditure towards interest payments increased by ₹ 5,479 crore (26.68 per cent) during 2017-18 over the previous year. Increase in payment of interest on market loans was a contributing factor.

1.6.3.1 Management of Defined Contributory Pension Scheme

GoTN launched Defined Contributory Pension Scheme (CPS) for its employees from 1 April 2003. Under the scheme, employees contribute 10 per cent of their Basic Pay + DA and GoTN makes matching contribution. The employee contribution, recovered from salary and the Government contribution debited from the Consolidated Fund are kept as a Deposit in Public Accounts (8342 Other Deposits - 117 CPS). The Fund balance is invested in 91 days Treasury Bills (T Bills) and continued to be reinvested on

maturity. CPS accounts of individual Government employees⁴ are maintained by Government Data Centre (GDC). Every year GDC calculates the interest due at the notified rates and credits the interest to the CPS Account of individual Government employee.

On creation of National Pension System (NPS) architecture Pension Fund Regulatory and Development Authority (PFRDA) repeatedly requested (2008 and 2009) GoTN to join NPS. GoTN declined (2010) to join NPS architecture and initially cited non-enactment of PFRDA Act by the Parliament, to justify its decision to continue with the existing system of retaining the Pension Fund money in Public Accounts of the State. Even after the PFRDA Act, 2013 came into force, GoTN did not take any decision. Based on growing demand from the Government employees associations, in February 2016, GoTN constituted an Expert Committee to study the feasibility of reverting back to the old system of pension. The Committee had not submitted its Report (October 2018). As such GoTN had not notified extension of NPS to employees of State Government under Section 12 (4) of PFRDA Act, 2013. Audit of implementation of CPS disclosed:

(a) Shortfall in matching contribution by Employer: During the three year period 2015 to 2018, the Employer's matching contribution towards CPS fell short of Employees' contribution by ₹ 204.89 crore.

(b) Short Investment of the Pension Fund: As of March 2018, out of ₹ 23,392.42 crore accumulated in the Deposit head under Public Accounts, only ₹ 22,506.24 crore stood invested in 91 days T Bills.

(c) Short receipt of interest: During 2015-18, GoTN allowed interest at rates⁵ ranging from 7.60 to 8.70 *per cent* on the balance held by individual CPS Account holders. Whereas, it earned interest only at 6.03 *per cent* to 7.85 *per cent* by investing the balance in 91 days T Bills.

Thus, short investment of the fund, together with lesser realisation of interest on T Bill investments had resulted in earning only ₹ 2,984.36 crore as interest during 2015-18 against ₹ 3,781.48 crore allowed as interest to CPS Account holders. Audit observed that by not joining the NPS architecture under PFRDA Act, 2013, GoTN had incurred an avoidable additional expenditure of ₹ 797.12 crore (₹ 3,781.48 crore - ₹ 2,984.36 crore).

1.6.3.2 Subsidies

Subsidies are dispensed not only explicitly but also implicitly by providing subsidised public service to the people. Budgetary support to financial institutions, inadequate return on investments, poor recovery of user charges, assistance in cash/kind to individuals, etc., fall under the category of implicit subsidies⁶. Subsidies consumed 10.41 *per cent* of State's revenue.

(a) Explicit subsidies were on a continuous increase from 2013-14 to 2016-17 and it reduced to ₹ 15,230 crore in 2017-18. A list of schemes for

⁴ Including employees of Local Bodies and aided educational institutions.

⁵ GoTN allowed interest on the balances at a rate on par with GPF interest rate, which was revised periodically.

⁶ Subsidies which were not booked under the object head "11-Subsidies" under the relevant major head of account are "Implicit Subsidies".

which the State Government provided subsidy during 2013-18 is given in **Table 1.19**.

Table 1.19: List of schemes for which subsidy was given by the State Government
(₹ in crore)

Name of the scheme	2013-14	2014-15	2015-16	2016-17	2017-18
Social Safety Net - Food Security - Public Distribution System Support	4,900	5,000	5,300	5,500	6,000
Electricity - Compensation to Tamil Nadu Electricity Board (TNEB) due to reduction in tariff to domestic consumers	1,842	2,482	2,885	4,271	3,623
Subsidy to farmers for Agricultural inputs	--	--	--	1,626	81
Subsidy to farmers for Horticultural inputs	--	--	--	152	4
Value Added Tax Refund Subsidy for Promotion of Industries	500	600	1,000	1,600	1,600
Reimbursement of Social cost on student concessions in bus fares	623	448	480	505	541
Free distribution of handloom clothes to the people below poverty line	486	519	484	472	484
National Agriculture Development Programme - Agriculture Department	110	75	135	186	204
Payment to TNEB on behalf of Powerloom weavers	235	269	312	386	387
Installation of Drip and Sprinklers Irrigation System in farmers' holdings in Ground Water Stresses Blocks	59	125	156	246	--
Other subsidies schemes	891	855	1,563	1,148	2,306
Total	9,646	10,373	12,315	16,092	15,230

(Source: Finance Accounts for the respective years)

(b) The expenditure on subsidy increased from ₹ 9,646 crore in 2013-14 to ₹ 16,092 crore in 2016-17, however there was marginal decline to ₹ 15,230 crore during 2017-18. The decrease was mainly on account of reduction of subsidies on agricultural and horticultural inputs by ₹ 1,693 crore.

(c) Subsidies are to be booked in the accounts under the object head '11-Subsidies'. The State Government also provided implicit subsidies during 2013-18 which were not booked under the object head '11 - Subsidies' but were booked under (i) 09-Grants-in-aid (Laptop scheme and Marriage assistance scheme), (ii) 24-Materials and Supplies (grinders, mixies and fans), (iii) 10-Contributions (health insurance), etc. Some of which are listed in **Appendix 1.6**.

Implicit subsidies in the form of marriage assistance, maternity assistance, free supply of laptop, uniform, etc., has come down from ₹ 6,156 crore in 2015-16 to ₹ 4,433 crore in 2017-18.

1.6.4 Financial assistance by State Government

(a) Local bodies

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 664 ULBs (12 Municipal Corporations, 124 Municipalities and 528 Town Panchayats) and 12,940 PRIs (31 District Panchayats, 385 Panchayat Unions and 12,524 Village Panchayats).

Consequent upon the 74th amendment to the Constitution, the State Legislature amended the Tamil Nadu District Municipalities Act, 1920 for transferring certain powers and responsibilities to ULBs. Out of the 18 functions enlisted in the Twelfth Schedule of the Constitution, 12 functions have been devolved to the Town Panchayats and 17 functions to Municipalities and Municipal Corporations of the State. In respect of Greater Chennai Corporation (GCC), 13 out of 18 functions have been devolved.

Eleventh Schedule of the Constitution of India empowered the State Legislatures to devolve 29 functions to PRIs. GoTN has delegated powers to the three tiers of Panchayats to supervise, assist and monitor the works, falling under the 29 subjects implemented by various departments.

The quantum of assistance provided during 2013-18 by way of grants to the local bodies is presented in **Table 1.20**.

Table 1.20: Financial assistance to Local Bodies

(₹ in crore)					
Local Body	2013-14	2014-15	2015-16	2016-17	2017-18
Urban Local Bodies	3,548	4,142	4,083	5,020	4,585
Panchayat Raj Institutions	4,376	4,868	5,433	6,196	4,326
Total	7,924	9,010	9,516	11,216	8,911
Assistance as percentage of Revenue Expenditure	7.22	6.99	6.75	7.32	5.31

(Source: Finance Accounts for the respective years)

- During the year, assistance to ULBs and PRIs as a percentage of revenue expenditure, decreased to 5.31 from 7.32 in the previous year.
- The short release was mainly under optimisation of the FFC grant as commented in **Paragraph 1.3.4** above.
- The Fifth State Finance Commission (SFC) recommended devolution of 10 *per cent* of net State's own tax revenue to Local Bodies in the ratio of 56:44 to PRIs and ULBs respectively. GoTN accepted the recommendation. It was, however, noticed that during 2017-18, against ₹ 5,433 crore entitled to PRIs as SFC grants, GoTN released only ₹ 5,116 crore. Similarly, against ₹ 4,269 crore due to ULBs as SFC grants, GoTN released only ₹ 3,796 crore.
- Against the budget provision of ₹ 5,128 crore as assistance to PRIs, the actual release was only ₹ 4,326 crore. Similarly, against the budget provision of ₹ 5,189 crore as assistance to ULBs, the actual release was only ₹ 4,585 crore.

(b) Other institutions

The quantum of assistance provided by way of grants to the other institutions during the current year and in the earlier years is presented in **Table 1.21**.

Table 1.21: Financial assistance to other institutions

(₹ in crore)					
Financial Assistance to Institutions	2013-14	2014-15	2015-16	2016-17	2017-18
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	3,111	4,446	3,989	3,526	3,894
Development Agencies	646	899	610	1,192	2,066
Hospitals and Other Charitable Institutions	448	1,131	1,497	1,294	1,630
Other Institutions ⁷	12,720	18,734	20,696	22,169	24,130
Total	16,925	25,210	26,792	28,181	31,720
Assistance as percentage of Revenue Expenditure	15.41	19.57	19.00	18.40	18.90

(Source: Finance Accounts for the respective years)

- Financial assistance to the other institutions increased from ₹ 16,925 crore in 2013-14 to ₹ 31,720 crore in 2017-18. During 2017-18, financial assistance to educational institutions increased by ₹ 368 crore (10.44 *per cent*) over the previous year. As a percentage of revenue expenditure, financial assistance to other institutions marginally increased from 18.40 in 2016-17 to 18.90 in 2017-18.

1.7 Quality of 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).

1.7.1 Adequacy of public expenditure

Table 1.22 analyses the fiscal priority of the State Government with regard to development expenditure⁸, social sector expenditure and capital expenditure during 2013-14, 2016-17 and 2017-18.

Table 1.22: Fiscal priority of the State in 2013-14, 2016-17 and 2017-18

Fiscal Priority of the State		(In per cent)					
		AE/ GSDP	DE [#] /AE	SSE/AE	CE/AE	Education/ AE	Health/ AE
General Category States' Average	2013-14	14.70	66.50	37.60	13.60	17.20	4.50
	2016-17	17.30	70.80	35.70	15.30	15.20	4.50
	2017-18	16.10	67.90	36.70	14.40	15.50	4.90
Tamil Nadu	2013-14	13.34	64.52	40.54	13.29	16.65	4.66
	2016-17	15.74	67.51	31.06	10.36	13.51	4.32
	2017-18	13.64	62.45	34.31	10.38	15.21	5.36

Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed

AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure CE: Capital Expenditure

(Source: For GSDP, information from Central Statistics Office)

⁷ Institutions/agencies connected with water supply and sanitation, housing, social welfare, labour and employment, forestry and wildlife, agriculture and allied activities, industries and minerals, relief on account of natural calamities and village and small industries.

⁸ See glossary.

- In all the three years 2013-14, 2016-17 and 2017-18, the percentage of AE to GSDP was low in the State as compared to GCS.
- The development expenditure as a percentage of AE of the State was lower than the average of GCS during all the three years 2013-14, 2016-17 and 2017-18.
- Except the expenditure on Health, the development expenditure, social sector expenditure, capital expenditure and the expenditure on Education of the State as a percentage of AE was lower than the GCS in 2017-18.
- The proportion of capital expenditure to aggregate expenditure of the State at 10.38 during 2017-18 was less than the average of 14.40 in GCS.

1.7.2 Efficiency of expenditure

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Government to take appropriate expenditure rationalisation measures. **Table 1.23** presents the trends in development expenditure relative to the aggregate expenditure of the State during 2013-18.

Table 1.23: Development expenditure

(₹ in crore)

Components of Development Expenditure	2013-14	2014-15	2015-16	2016-17	2017-18
Development Expenditure (a to c)	83,385 <i>(64.52)</i>	97,869 <i>(64.84)</i>	1,04,739 <i>(64.53)</i>	1,34,991 <i>(67.51)</i>	1,21,518 <i>(62.45)</i>
(a) Development Revenue Expenditure	64,920 <i>(50.23)</i>	77,192 <i>(51.14)</i>	84,749 <i>(52.21)</i>	89,277 <i>(44.65)</i>	95,952 <i>(49.31)</i>
(b) Development Capital Expenditure	16,571 <i>(12.82)</i>	16,739 <i>(11.09)</i>	17,941 <i>(11.05)</i>	19,959 <i>(9.98)</i>	19,356 <i>(9.95)</i>
(c) Development Loans and Advances	1,894 <i>(1.47)</i>	3,938 <i>(2.61)</i>	2,049 <i>(1.26)</i>	25,755 <i>(12.88)</i>	6,210 <i>(3.19)</i>

Figures in brackets indicate percentage of aggregate expenditure
(Source: Finance Accounts for the respective years)

- Development expenditure decreased from 67.51 *per cent* in 2016-17 to 62.45 *per cent* in 2017-18. During the five year's period from 2013-14 to 2017-18, while the development revenue expenditure marginally declined from 50.23 *per cent* to 49.31 *per cent*, the development capital expenditure declined steeply from 12.82 *per cent* to 9.95 *per cent*.
- The expenditure on development loans declined significantly from 12.88 *per cent* of the aggregate development expenditure in 2016-17 to 3.19 *per cent* of aggregate expenditure during the year. The higher expenditure on loans during 2016-17 was on account of interest free loan to TANGEDCO under UDAY scheme.

Table 1.24 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected Social and Economic Services during 2016-17 and 2017-18.

**Table 1.24: Efficiency of expenditure use in selected Social and Economic Services
(In per cent)**

Social/Economic infrastructure	2016-17		2017-18	
	Ratio of CE to TE	Ratio of S&W to RE	Ratio of CE to TE	Ratio of S&W to RE
Social Services of which				
Education, Sports, Art and Culture	3.66	55.47	2.08	57.22
Health and Family Welfare	7.95	57.16	3.90	49.37
Water Supply, Sanitation, Housing and Urban Development	48.79	1.63	33.66	1.32
Total (Social Services)	9.72	39.89	7.09	41.48
Economic Services of which				
Agriculture and Allied Activities	8.93	16.45	6.79	15.14
Irrigation and Flood Control	42.94	25.10	43.13	25.68
Energy	13.06	0.02	8.05	0.01
Transport	76.90	16.66	66.22	12.56
Total (Economic Services)	19.09	9.14	26.71	9.40
Total (Social and Economic Services)	14.78	28.18	15.93	29.39

CE: Capital expenditure on the Sector/Service concerned; TE: Total expenditure on the Sector/Service concerned; RE: Revenue expenditure on the Sector/Service concerned; S&W: Salaries and Wages on the Sector/Service concerned
(Source: Finance Accounts for the respective years)

Expenditure on Social Services

- The capital expenditure on Social Services, as a percentage of total expenditure decreased over previous year.
- The ratio of expenditure on salaries and wages to revenue expenditure in respect of Water Supply, Sanitation, Housing and Urban Development under selected Social Services decreased from 1.63 in 2016-17 to 1.32 in 2017-18, while in respect of Education, Sports, Art and Culture, it increased from 55.47 to 57.22 during the period.

Expenditure on Economic Services

- Capital expenditure on Economic Services, as a percentage of total expenditure of selected services, decreased overall except under Irrigation and Flood Control, where the ratio marginally rose to 43.13.
- There was also a decline in the ratio of expenditure on salaries and wages to revenue expenditure under selected economic services except Irrigation and Flood Control.

1.8 Financial analysis of Government expenditure and investments

This section presents a broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* the previous years.

1.8.1 Financial results of irrigation projects

Ensuring the commercial viability of irrigation projects through realisation of adequate revenue by way of user charges would be prudent on the part of Government. However, it was observed that the revenue from irrigation projects (₹ 34 crore) declined to 2.36 *per cent* from 2.83 *per cent* (2016-17) of the maintenance expenditure (₹ 1,439 crore) during 2017-18.

The financial results of five major and 47 medium irrigation projects are depicted in Appendix VIII of the Finance Accounts for 2017-18. The revenue realised from these projects during 2017-18 was ₹ 10 crore. After meeting the working and maintenance expenditure (₹ 321 crore) and interest charges (₹ 136 crore), these 52 projects suffered a net loss of ₹ 447 crore during 2017-18.

1.8.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2018 is given in **Table 1.25**.

Table 1.25: Department-wise profile of incomplete projects

(₹ in crore)

Department	No. of incomplete projects*	Initial budgeted cost	Revised total cost of projects**	Expenditure during the year	Cumulative actual expenditure as on 31 March 2018
Roads and Bridges , etc.	79	1,393.16	1,573.74	396.40	1,144.84
Buildings	55	142.82	142.82	120.45	131.43
Total	134	1,535.98	1,716.56	516.85	1,276.27

* Only those projects scheduled to be completed before 31 March 2018 were included

** Indicates the revised total cost of the projects as per the last revision by the State Government upto March 2018.

(Source: Collected from various sources by Accountant General (Accounts & Entitlements) and included in Appendix IX of Finance Accounts for 2017-18)

Failure to complete the projects in time leads to escalation of project costs and delays the accrual of the projects' benefits to the society at large. Delays also result in postponement of revenue realisation from the projects.

1.8.3 Investments and returns

Government invested (upto March 2018) ₹ 33,579 crore in statutory corporations, joint stock companies and co-operatives (**Table 1.26**).

Table 1.26: Return on investments

Investment/Return/Cost of Borrowings	2013-14	2014-15	2015-16	2016-17	2017-18
Investment at the end of the year (₹ in crore)	19,724	23,065	25,725	29,811	33,579
Return (₹ in crore)	40	97	156	185	153
Return (in per cent)	0.20	0.42	0.61	0.62	0.45
Average rate of interest on Government borrowing (in per cent)	7.90	8.12	8.38	8.11	8.53
Difference between borrowing interest rate and return on investment (in per cent)	7.70	7.70	7.77	7.49	8.08

(Source: Finance Accounts for the respective years)

Government invested (upto March 2018) in two Statutory corporations (₹ 23,232 crore), 58 Government companies (₹ 9,824 crore), five Joint Stock companies (₹ 1 crore) and 9,149 Co-operatives (₹ 522 crore). During 2017-18, Government infused an additional capital of ₹ 3,001.48 crore into eight State Transport Undertakings.

The average rate of return increased from 0.20 per cent in 2013-14 to 0.62 per cent in 2016-17 and declined to 0.45 per cent in 2017-18. The return on investment during 2013-18 was meagre compared to Government's average rate of borrowing of 8.53 per cent during the year. The low returns on investment was mainly on account of poor financial results of public sector undertakings.

1.8.4 Loans and advances by State Government

In addition to the investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many of these institutions/organisations. Table 1.27 presents the outstanding loans and advances as on 31 March 2018 and interest receipts vis-à-vis interest payments during the last five years.

Table 1.27: Average interest received on loans advanced by the State Government

Quantum of loans/interest receipts/cost of borrowings	(₹ in crore)				
	2013-14	2014-15	2015-16	2016-17	2017-18
Opening balance	15,014	16,636	19,604	21,251	43,749
Amount advanced during the year	2,242	4,319	2,331	26,046	6,517
Amount repaid during the year	620	1,351	684	3,548	8,472
Closing balance	16,636	19,604	21,251	43,749	41,794
Net increase (+)/decrease (-)	1,622	2,968	1,647	22,498	(-) 1,955
Interest receipts	748	130	186	1,372	1,484
Interest receipts as percentage of outstanding loans and advances	4.73	0.72	0.91	4.22	3.47
Interest payments as percentage of outstanding fiscal liabilities of the State Government	7.90	8.12	8.38	8.11	8.53
Difference between interest payments and interest receipts (per cent)	3.17	7.40	7.47	3.89	5.06

(Source: Finance Accounts for the respective years)

- The recovery of loans and advances which was at ₹ 3,548 crore in 2016-17 had improved to ₹ 8,472 crore in 2017-18. The increase was mainly due to conversion of TANGEDCO's loan of ₹ 4,563 crore as Grants-in-aid under UDAY scheme.
- Major recipients of loans and advances were Chennai Metro Rail Corporation Limited (₹ 800 crore) and Loans to TN Urban Development Fund for implementing World Bank assisted Tamil Nadu Sustainable Urban Development Project (₹ 225 crore), Transport Corporations (₹ 2,519 crore), TANGEDCO and others (₹ 508 crore) and Tamil Nadu Cement Corporation (₹ 300 crore).
- The interest receipts which was at ₹ 1,372 crore in 2016-17 had increased to ₹ 1,484 crore in 2017-18.

1.8.5 Cash balances and investment of cash balances

Table 1.28 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.28: Cash balances and investment of cash balances

(₹ in crore)			
Sl. No.	Particulars	As on 31 March 2017	As on 31 March 2018
(a)	General Cash Balance		
1	Cash in Treasuries	0.00	0.00
2	Deposits with Reserve Bank of India	(-) 305.55	(-) 81.18
3	Remittances in Transit	16.80	16.80
	Total	(-) 288.75	(-) 64.38
4	Investments held in the Cash Balance Investment Account	15,144.29	18,585.03
	<i>Total (a)</i>	<i>14,855.54</i>	<i>18,520.65</i>
(b)	Other Cash Balances and Investments		
1	Cash with Departmental Officers viz., Public Works and Forest Departments	4.16	4.16
2	Permanent advances for contingent expenditure with Departmental Officers	8.39	8.40
3	Investments of earmarked funds	23,653.91	28,660.23
	<i>Total (b)</i>	<i>23,666.46</i>	<i>28,672.79</i>
	Total (a) and (b)	38,522.00	47,193.44

(Source: Finance Accounts for the respective years)

- The State Government maintained the minimum required daily cash balance of ₹ 3.25 crore with the Reserve Bank of India during 2017-18. No ways and means advance or overdraft was taken during the year.
- The general cash balance as on 31 March 2018 increased to ₹ 18,521 crore as the Government could not incur the budgeted expenditure on various programmes, leading to savings of ₹ 28,179 crore out of total grant and appropriation of ₹ 2,36,802 crore.

- The total cash balance as on 31 March 2018 increased by ₹ 8,671 crore. The increase over the previous year was mainly under investments held in the Cash Balance Investment Account and investments of earmarked funds.

1.9 Assets and liabilities

1.9.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.5 Part B** gives an abstract of such liabilities and assets as on 31 March 2018, compared with the corresponding position on 31 March 2017. While the liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from the Public Account and Reserve funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and cash balances.

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

The ratio of financial assets and liabilities as on 31 March 2018 was 0.79, indicating that asset creation was not keeping pace with the liabilities.

1.9.2 Financial assets

Loans and advances made by the Government form part of its financial assets. During 2016-17 under Ujjwal DISCOM Assurance Yojana (UDAY), a financial revival package for electricity distribution companies (DISCOMs), GoTN released ₹ 22,815 crore to TANGEDCO as interest free loan. As the scheme guidelines, the loan amount would be converted as grant over a period of five years commencing from 2017-18. During 2017-18, as per the scheme guidelines, GoTN converted ₹ 4,563 crore as grants.

As the loan of ₹ 18,252 crore outstanding as of 31 March 2018 (₹ 22,815 crore - ₹ 4,563 crore) under UDAY would ultimately to be waived off by GoTN by releasing grants-in-aid over the next four years, the entire sum was not an asset in its real sense, despite being depicted under loans and advances.

1.9.3 Fiscal liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.4**. The composition of fiscal liabilities during the last five years is presented in **Table 1.29** and for 2017-18 in **Chart 1.7**.

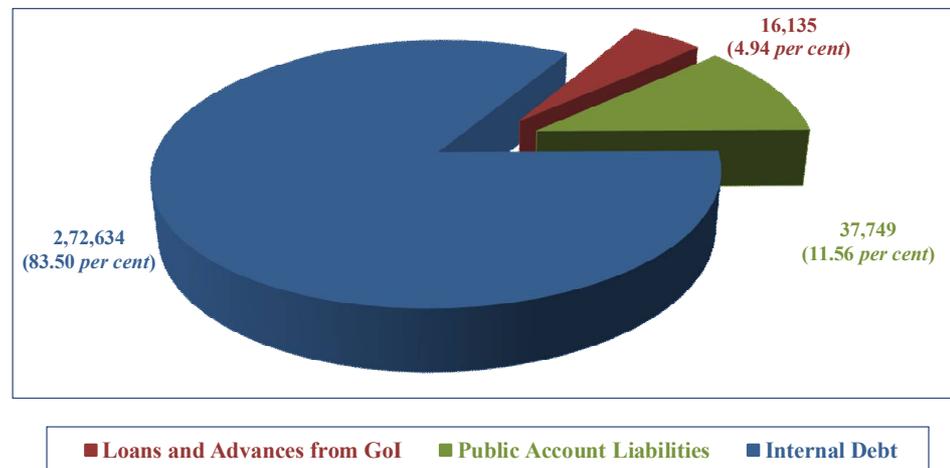
Table 1.29: Trends in outstanding fiscal liabilities

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Internal Debt	1,27,906 (76.74)	1,51,736 (79.09)	1,80,693 (81.02)	2,37,701 (83.88)	2,72,634 (83.50)
Public Account Liabilities	26,639 (15.98)	27,213 (14.19)	28,934 (12.97)	31,355 (11.06)	37,749 (11.56)
Loans and Advances from GoI	12,136 (7.28)	12,898 (6.72)	13,403 (6.01)	14,338 (5.06)	16,135 (4.94)
Total	1,66,681	1,91,847	2,23,030	2,83,394	3,26,518

Figures in brackets indicate percentage to outstanding fiscal liabilities
(Source: Finance Accounts for the respective years)

Chart 1.7: Composition of outstanding fiscal liabilities as on 31-03-2018 (₹ in crore)



(Source: Finance accounts for 2017-18)

- The share of internal debt, which constitutes a major component of outstanding fiscal liabilities has progressively increased in terms of value from ₹ 1,27,906 crore (76.74 per cent) in 2013-14 to ₹ 2,72,634 crore (83.50 per cent) in 2017-18. The percentage share of Loans and Advances from GoI has been on a declining trend from 2013-14.
- The outstanding fiscal liabilities had increased by 15.22 per cent from ₹ 2,83,394 crore at the end of 2016-17 to ₹ 3,26,518 crore at the end of 2017-18.
- The fiscal liabilities at the end of 2017-18 represented 223.21 per cent of the revenue receipts during the year as against 202.09 per cent of the revenue receipts during 2016-17.
- The outstanding liabilities as a percentage of GSDP was 22.88, which was marginally above the norm of 22.54 prescribed for the year 2017-18 as per FFC.

- Public Account liabilities as a percentage of the total fiscal liabilities decreased from 12.97 in 2015-16 to 11.06 in 2016-17 and slightly increased to 11.56 in 2017-18. Internal debt at 83.50 *per cent* and GoI loans at 4.94 *per cent* of the fiscal liabilities was lower than that of the previous year 83.88 *per cent* and 5.06 *per cent* respectively.

1.9.4 Transactions under Reserve Fund

There were 23 Reserve Funds earmarked for specific purposes at the beginning of the year. One Reserve Fund was closed during the year. Out of the remaining 22 Reserve Funds, five Funds were inoperative for one to eight years. The total accumulated balance as on 31 March 2018 under Reserve Funds was ₹ 14,185 crore (₹ 13,991 crore in active funds and ₹ 194 crore in inoperative funds) out of which ₹ 6,154 crore (43.38 *per cent*) was invested. A few of the reserve funds are discussed below:

1.9.4.1 Consolidated Sinking Fund

The State Government has created a Consolidated Sinking Fund (CSF) in 2005-06 for amortisation of Open Market Loans, Government of India Loans and Special Securities issued to National Small Savings Fund availed of by the State Government. The State Government is required to contribute one to three *per cent* of the outstanding open market loans, as at the end of the previous year, to CSF. During the year, the State Government contributed ₹ 721.56 crore to the Fund, which works out to 0.39 *per cent* of the open market loans of ₹ 1,82,942 crore as on 1 April 2017. Thus, there was a short contribution of ₹ 1,107.86 crore calculated at the minimum rate of one *per cent*. As on 31 March 2018, CSF had a balance of ₹ 5,865.54 crore, of which ₹ 5,311.45 crore was invested in GoI securities.

1.9.4.2 Other Reserve Funds

There was short transfer of ₹ 60 crore to Reserve Funds during 2017-18, which resulted in understatement of Revenue and Fiscal Deficits to that extent. The short transfer which stood at ₹ 1,600 crore at the end of 2016-17 reduced to ₹ 60 crore mainly on account of transfer of ₹ 1,448 crore which related to National Disaster Response Fund which could not be transferred during the previous year as it was received on 31 March 2017.

1.9.5 Sugarcane Cess Fund

Sugarcane cess is being collected as per the provisions of Section 14(1) of Tamil Nadu Sugar Factories Act, 1949 at the rate of ₹ 5 per metric tonne of cane crushed. The Sugarcane Cess Fund was constituted out of the sugarcane cess. The cess fund is to be utilised for specific purposes, *viz.*, (i) Road work in area of specific mills (60 *per cent*), (ii) Road work in other areas (20 *per cent*), (iii) Research and Development (10 *per cent*) and (iv) Miscellaneous purposes (10 *per cent*).

Audit observed that:

- the sugarcane cess collected by GoTN was not transferred to the Fund regularly. As of March 2018, the short transfer was ₹ 1.48 crore and
- at the beginning of the year the opening balance stood at ₹ 35.41 crore and during the year the receipt was ₹ 4.50 crore, out of which only ₹ 1.53 crore (34 *per cent* of the Receipt during the year) was spent. Non-utilisation of the fund balance for the approved purposes resulted in a balance of ₹ 38.38 crore (96 *per cent*) in the Fund as on 31 March 2018.

1.9.6 Contingent liabilities

Status of Guarantees

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of defaults by borrowers for whom the guarantees have been extended. As per Statement 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and the outstanding guarantees for the last five years are given in **Table 1.30**.

Table 1.30: Guarantees given by Government of Tamil Nadu

(₹ in crore)

Guarantees	2013-14	2014-15	2015-16	2016-17	2017-18
Outstanding amount of guarantees	49,499	53,698	51,586	29,540*	36,131
Percentage of outstanding amount guaranteed to total Revenue receipts of previous year	50.09	49.70	42.14	20.19	24.70
Percentage of outstanding amount guaranteed to GSDP	5.11	5.01	4.38	2.32	2.53

* Differ from previous year due to inclusion of outstanding guarantees to the tune of ₹ 394.72 crore in Industries Sector

(Source: Finance Accounts for the respective years)

- GoTN constituted (March 2003) a “Guarantee Redemption Fund” for discharge of invoked guarantees. An amount of ₹ 13.70 crore being the contribution and ₹ 13.04 crore being gain on sale of securities were transferred to this Fund during the year, leaving a closing balance of ₹ 257.25 crore at the end of the year. As of 31 March 2018, an amount of ₹ 225.40 crore was invested in GoI Treasury bills out of the Fund.
- The risk weighted guarantees were well within the stipulations of the TNFR Act, 2003 (i.e. 75 *per cent* revenue receipts of the previous year or 7.50 *per cent* of GSDP whichever is lower). As a percentage of revenue receipts of previous year, it had increased from 20.19 in 2016-17 to 24.70 in 2017-18. Similarly, as a percentage of GSDP, it increased from 2.32 in 2016-17 to 2.53 in 2017-18.

1.9.7 Off-budget borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the liabilities shown in **Appendix 1.5**, companies/corporations borrow funds from the market/financial institutions for implementation of various State Plan programmes projected outside the State budget. These borrowings were repaid by the companies/corporates through funds specifically provided by Government and ultimately turn out to be liabilities on the State Government. These are termed as ‘off-budget borrowings’. Though off-budget borrowings are not permissible under Article 293 (3), the State Government undertook such off-budget borrowings. Details of such borrowings collected from four agencies as on 31 March 2018 are given in **Table 1.31**.

Table 1.31: Details of off-budget borrowings

(₹ in crore)			
Sl. No.	Name of Agency	Off-budget borrowings as of March 2018	Borrowings repaid by Government during the year
1	Tamil Nadu Civil Supplies Corporation	2,723	2,890
2	Tamil Nadu Rural Housing and Infrastructure Development Corporation	566	54
3	Tamil Nadu Water Supply and Drainage (TWAD) Board	182	62
4	Water and Sanitation Pooled Fund - Tamil Nadu Urban Infrastructure Financial Services Limited	283	58
Total		3,754	3,064

(Source: Information furnished by the Agencies)

Though State Government undertook to repay the principal and interest, the off-budget borrowings, which add to the fiscal liabilities of the State, are not captured in the Finance Accounts of the State.

1.10 Debt management

Apart from the magnitude of debt of the State Government, it is important to analyse the various indicators that determine the debt sustainability⁹ of the State. This section assesses the sustainability of debt of the State Government in terms of (i) debt as a percentage of GSDP, (ii) rate of growth of outstanding debts, (iii) interest payments/revenue receipts ratio and (iv) net availability of borrowed funds¹⁰ and the maturity profile of State Government debts. **Table 1.32** analyses the debt sustainability of the State according to these indicators for a period of five years beginning from 2013-18.

⁹ See glossary.

¹⁰ See glossary.

Table 1.32: Debt sustainability - indicators and trends

(₹ in crore)

Indicators of Debt Sustainability	2013-14	2014-15	2015-16	2016-17	2017-18
Rate of growth of outstanding debts* (percentage)	16.50	17.56	17.89	29.85	14.57
Debt*/GSDP (percentage)	14.46	15.35	16.50	19.84	20.24
Growth rate of GSDP (in <i>per cent</i>)	13.30	10.75	9.68	7.99	12.32
Average interest rate of outstanding debt (in <i>per cent</i>)	7.89	8.28	8.18	7.73	8.01
Burden of Interest Payments (Interest payment/Revenue Receipts) Ratio	11.48	11.89	13.48	14.64	17.78
Debt Repayment/Debt Receipts	20.06	20.88	18.31	12.40	19.66
Net debt available to the State	9,567	11,975	14,780	40,704	15,064
Maturity profile of internal debts and GoI loans (in years)					
0 - 1	4,068 (2.91)	3,861.10 (2.35)	4,430.49 (2.28)	7,116.24 (2.82)	13,051.10 (4.52)
1 - 3	7,944 (5.67)	10,852.42 (6.59)	18,916.28 (9.74)	27,876.98 (11.06)	28,238.09 (9.78)
3 - 5	18,222 (13.01)	25,932.68 (15.75)	28,235.97 (14.55)	30,136.44 (11.96)	39,235.11 (13.59)
5 - 7	26,342 (18.81)	29,586.51 (17.97)	36,951.50 (19.04)	46,513.48 (18.46)	52,617.82 (18.22)
7 and above	69,448 (49.59)	78,717.10 (47.81)	88,212.86 (45.45)	1,20,738.48 (47.90)	1,33,099.19 (46.09)
Year-wise details not available	14,018 (10.01)	15,684.65 (9.53)	17,348.55 (8.94)	19,657.00 (7.80)	22,528.01 (7.80)

* Excluding Public Account liabilities

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

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

- The outstanding debt grew by 14.57 *per cent* over previous year. When compared to previous year, the growth rate slowed down.
- The burden of interest payments (interest payments/revenue receipts) continuously increased from 11.48 *per cent* in 2013-14 to 17.78 *per cent* in 2017-18.
- The increase in debt repayment/debt receipts ratio was mainly due to decrease in total debt receipts by ₹ 20,421 crore as compared to debt repayment made during the year which increased by ₹ 791 crore only.
- The net debt available to the State decreased drastically mainly due to decrease in receipt under public debt from ₹ 66,143 crore in 2016-17 to ₹ 45,722 crore in 2017-18 (**Appendix 1.4**). The net debt available to the Government was only ₹ 15,064 crore due to repayment of ₹ 8,991 crore and interest payments of ₹ 21,667 crore. The net debt available was only 33 *per cent* of the total borrowings during the current year as compared to 61 *per cent* during 2016-17 and 41 *per cent* during 2015-16.
- 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. During

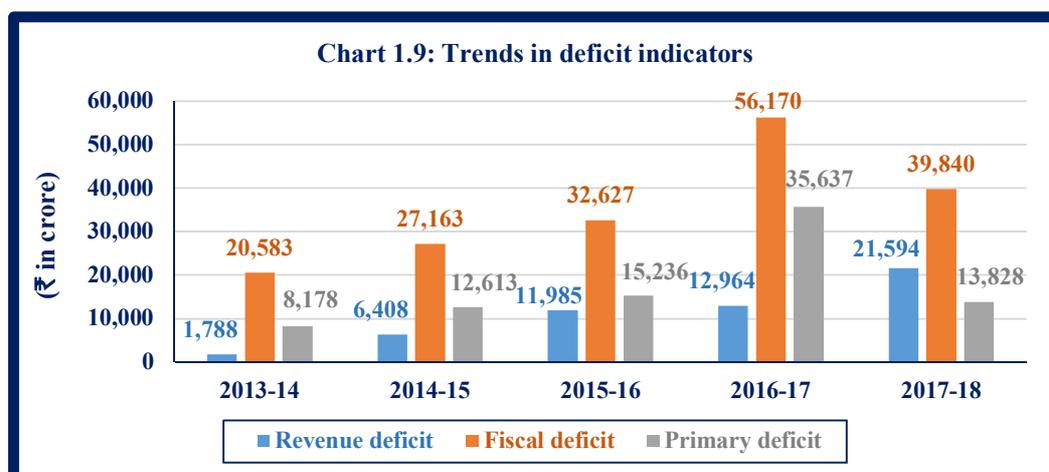
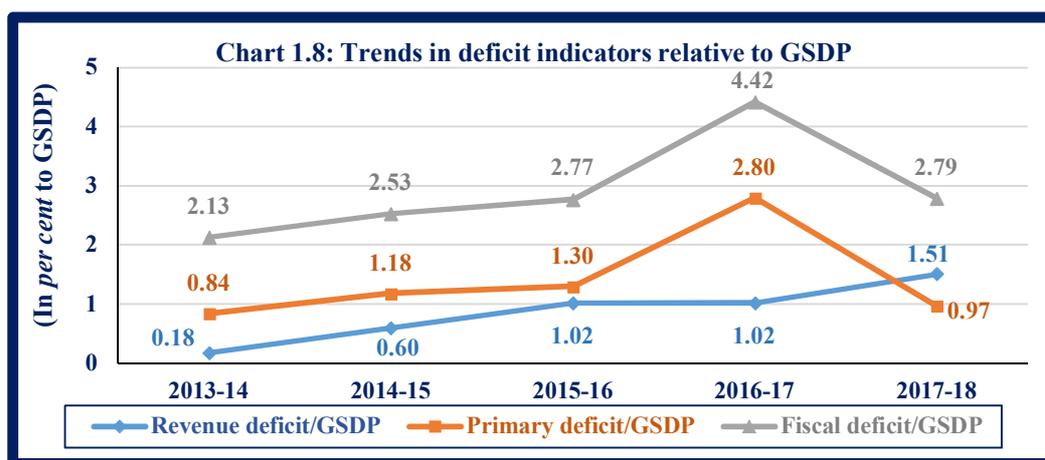
the four year period from 2021-22 to 2024-25, 31.81 per cent of the current outstanding, totalling ₹ 91,852.93 crore will become due for repayment. The Government is likely to face challenges during that periods.

1.11 Fiscal imbalances

Three key fiscal parameters, viz., revenue, fiscal and primary deficits, indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government Accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied as important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set for the financial year 2017-18 under TNFR Act, 2003.

1.11.1 Trends in deficits

Charts 1.8 and 1.9 present the trends in deficit indicators over the period 2013-18.



(Source: Finance Accounts for the respective years and Central Statistics Office)

- The revenue deficit was on an increasing trend from ₹ 1,788 crore during 2013-14 to ₹ 21,594 crore in 2017-18. During the current year, revenue deficit increased by ₹ 8,630 crore (66.57 per cent) over the previous year.
- The primary deficit, which was at ₹ 8,178 crore in 2013-14, was on an increasing trend and was ₹ 35,637 crore in 2016-17 and decreased to ₹ 13,828 crore in 2017-18.
- The fiscal deficit, which was on an increasing trend from 2013-14, stood at ₹ 56,170 crore in 2016-17. In 2017-18, it decreased to ₹ 39,840 crore. Considering the capital expenditure of only ₹ 20,203 crore, the high fiscal deficit is indicative of the fact that the borrowing during the year was utilised for the financing revenue expenditure, thereby less prioritising the capital expenditure.

1.11.2 Composition of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit had undergone a compositional shift as reflected in **Table 1.33**.

Table 1.33: Composition of fiscal deficit and its financing pattern

		(₹ in crore)				
Sl.No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Decomposition of Fiscal Deficit		20,583	27,163	32,627	56,170	39,840
1	Revenue Deficit	1,788	6,408	11,985	12,964	21,594
2	Net Capital Expenditure	17,173	17,787	18,995	20,708	20,201
3	Net Loans and Advances	1,622	2,968	1,647	22,498	(-) 1,955
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	18,681	23,144	27,623	34,993	36,023
2	Loans from GoI	1,314	762	505	935	1,797
3	Special Securities issued to National Small Savings Fund	(-) 733	190	595	(-) 1,749	(-) 1,749
4	Loans from Financial Institutions	575	496	739	23,763	660
5	Small Savings, Provident Fund, etc.	1,262	1,323	1,638	2,355	2,334
6	Deposits and Advances	3,174	2,522	4,145	4,405	8,074
7	Suspense and Miscellaneous	(-) 1,156	(-) 53	(-) 902	2,213	388
8	Remittances	27	172	(-) 180	(-) 948	(-) 7
9	Reserve Funds	788	359	401	443	991
10	Contingency Fund	(-) 19	19	(-) 19	19	..
Total		23,913	28,934	34,545	66,429	48,511
11	Overall Surplus(+)/ Deficit (-) (Cash Balance)	3,330	1,771	1,918	10,259	8,671

* All these figures are net of disbursements/outflows during the year
(Source: Finance Accounts for the respective years)

- Though revenue deficit steeply increased by ₹ 8,630 crore, fiscal deficit decreased mainly due to steep increase in net loans and advances from a negative value of ₹ 22,498 crore in 2016-17 to a positive value of ₹ 1,955 crore in 2017-18.
- The fiscal deficit was largely managed by market borrowings, loans from other financial institutions and GoI and from the proceeds of small savings and deposits and advances.

1.11.3 Quality of deficit/surplus

The decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The bifurcation of the primary deficit (Table 1.34) 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 1.34: Primary Deficit/Surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary revenue surplus	Primary deficit (-)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2013-14	1,08,656	97,419	17,173	2,242	1,16,834	11,237	8,178
2014-15	1,23,787	1,14,278	17,803	4,319	1,36,400	9,509	12,613
2015-16	1,29,692	1,23,602	18,995	2,331	1,44,928	6,090	15,236
2016-17	1,43,780	1,32,662	20,709	26,046	1,79,417	11,118	35,637
2017-18	1,54,754	1,41,862	20,203	6,517	1,68,582	12,892	13,828

(Source: Finance Accounts for the respective years)

- While the primary revenue expenditure increased by 6.93 per cent in 2017-18 over the previous year, the capital expenditure decreased by 2.44 per cent and loans and advances decreased by 74.98 per cent over the previous year.
- During the year 2017-18, though non-debt receipts increased by ₹ 10,974 crore and primary expenditure decreased by ₹ 10,835 crore, non-debt receipts was not enough to meet the primary expenditure mainly due to increase of primary revenue expenditure by ₹ 9,200 crore.
- Capital expenditure as a percentage of primary expenditure increased from 11.54 in 2016-17 to 11.98 in 2017-18. Loans and advances as a percentage of primary expenditure decreased from 14.52 in 2016-17 to 3.87 in 2017-18.

1.12 Follow-up action by State Government

The Audit Report on State Finances for the year ended 31 March 2017 pointed out pending regularisation of an excess expenditure of ₹ 932.42 crore pertaining to 2012-16. Together with the excess of ₹ 167.16 crore during 2016-17, ₹ 1,099.58 crore relating to 2012-17, remained to be regularised (March 2018).

Similarly, cases of misappropriation, shortage, theft and loss persisted despite being pointed out in earlier Audit Reports as discussed in **Paragraph 3.6** of Chapter III of this Report.

1.13 Conclusion

Fiscal position: The revenue deficit increased from ₹ 1,788 crore in 2013-14 to ₹ 21,594 crore (1.51 *per cent* of GSDP) in 2017-18. During 2017-18, though the State could contain its revenue deficit within the target proposed in the MTFP, it failed to achieve the target proposed in the budget. The State could contain the fiscal deficit to GSDP as envisaged under the TNFR Act, 2003, FFC, Budget and MTFP. There were short transfers of ₹ 1,339 crore to Sinking Fund, Guarantee Redemption Fund, various reserve funds and defined contributory pension scheme, which resulted in understatement of Revenue and Fiscal Deficits to that extent.

Revenue receipts of the State increased by ₹ 6,049 crore (4.31 *per cent*) over the previous year and stood at ₹ 1,46,280 crore. The annual growth rate of revenue receipts during 2017-18 stood at 4.31 *per cent*, was much less than the growth rate (11.30 *per cent*) of revenue receipts in General Category States. The growth rate of revenue receipts also declined from 8.70 *per cent* in 2016-17 to 4.31 *per cent* during 2017-18, which is the lowest for the last five years. The revenue receipts as a percentage of GSDP ranged between 10.25 and 11.41 during 2013-18. Revenue buoyancy with reference to State's own taxes stood at 0.48 in 2017-18, which is the lowest in the last five year period.

Revenue expenditure: Of the total expenditure of ₹ 1,94,594 crore during 2017-18, revenue expenditure (₹ 1,67,874 crore) accounted for 86.27 *per cent*. The committed expenditure (₹ 1,06,333 crore) stood at 63.34 *per cent* of the total revenue expenditure (₹ 1,67,874 crore) of the State during 2017-18, as against 61.85 *per cent* during 2016-17. Audit observed that by not joining the NPS architecture under the PFRDA Act, 2013, GoTN had incurred an avoidable additional expenditure of ₹ 797.12 crore.

Capital expenditure decreased by ₹ 506 crore ((-) 2.44 *per cent*) over the previous year as against 9.02 *per cent* increase in 2016-17. The proportion of capital expenditure to aggregate expenditure of the State at 10.38 during 2017-18 was less than the average of 14.40 in General Category States.

Adequacy and priority of expenditure: In 2017-18, aggregate expenditure as a percentage of GSDP as well as development expenditure as a percentage of aggregate expenditure declined over the previous year.

Investments and returns: Government invested (upto March 2018) ₹ 33,579 crore in statutory corporations, joint stock companies and co-operatives. The average rate of return increased from 0.20 *per cent* in 2013-14 to 0.62 *per cent* in 2016-17 and declined to 0.45 *per cent* in 2017-18. The return on investment during 2013-18 was meagre compared to Government's average rate of borrowing of 8.53 *per cent* during the year.

Debt Management: The outstanding fiscal liabilities had increased from ₹ 2,83,394 crore at the end of 2016-17 to ₹ 3,26,518 crore at the end of 2017-18. The fiscal liabilities at the end of 2017-18 represented 223.21 *per cent* of the revenue receipts during the year as against 202.09 *per cent* of the revenue receipts during 2016-17. The outstanding liabilities as a percentage of GSDP was 22.88, which was marginally above the norm of 22.54 prescribed for the year 2017-18 by FFC.