

15. STATE FINANCE

While the economy was expected to have grown at 6.7 per cent during 2008-09, it was considered as the year of down turn and global financial melt down. The loan waiver for farmers to the tune of Rs.70000 crores, hike in the salary to Government employees and the increased expenditure on the National Rural Employment Guarantee Scheme were the main factors in stemming the down turn. The budget of the Central Government for the year 2008-09 had expected the revenue to fall to 1.4 per cent against the estimate of 1.5 per cent and the fiscal deficit at 3.1 per cent against the estimate of 3.3 per cent. By 2010-11, the total revenue deficit would become 'Nil' as per the estimates.

Salient Features of the Budget:

The State budget of 2008-09 had been a revenue surplus budget which focused mainly on farmers and women welfare with the development of SHGs. The Government had proposed to disburse new crop loans to the tune of Rs.1500 crores. While the rate of interest on crop loans had been reduced from 9 per cent in 2005-06 to 7 per cent in 2006-07 and to 5 per cent in 2007-08, it was proposed to reduce this rate of interest to 4 per cent from the financial year 2008-09.

With a view to upgrade the agricultural sector, a new method of paddy cultivation '*System of Rice Intensification (SRI)*' was introduced to increase the production and to reduce the cost of production and the requirement of water. It has been decided to extend this system to 18.75 lakh acres of cultivable land during 2008-09. For the benefit of farmers availing crop loans, the Government had decided to organize Farmer's Self Help Groups with the provision of revolving fund to the extent of Rs.10 crores through co-operative banks so as to enable them to buy agricultural inputs at a lower price and market their produce at a better price.

A proposal was made to overcome the problem of inter-state river water disputes through the National Programme of inter-linking of all the rivers of the country. Initially, it was decided to link inter-state river with financial assistance from the Centre. Being the pioneering State in the establishment of Special Economic Zones (SEZs), Tamil Nadu had approved 32 SEZs till the financial year 2008-09. During the last 2 years, 343 major and minor bridges had been constructed at a cost of Rs.214 crore. In order to ease the traffic congestion in the important roads of Chennai city, it was proposed to construct circular corridor with four lane and six lane roads to a length of 120 kms at a cost of Rs.2300 crore. To meet the growing needs of the drinking water requirements of the Chennai city, apart from the construction of Minjur desalination plant, additional plant of 100 mld., capacity at Nemmeli was proposed to be set up.

During this fiscal year, Ariyalur district emerged along with a proposal to create 2 new taluks at Karambakkudi and Ponnamaravathi in Pudukkottai district. It was planned to increase the total number of SHGs with an additional intake of 4 lakh women members.

Annual income ceiling of the Scheduled Castes, Scheduled Tribes, Backward and Most Backward Classes and Denotified Communities of the students was proposed to be enhanced by one fold, from the present level of Rs.50000/- to Rs.100000/-.

For the welfare of the children orphaned by AIDS affected parents, the Government had decided to provide a maintenance allowance to the NGOs who had taken care of the children. For an equal treatment of transgender in the lines of disabled, the State had established welfare boards and facilities to take up Vocational training either individually or in groups.

The Climate Change Research Centre at Anna University would be provided with a one time grant of one crore rupees to create awareness and encourage research among the students and general public in the State.

The Eleventh Five Year Plan had been implemented with an outlay of Rs.16,000 crores during this fiscal year. Provision for maintenance of existing assets has been made for as per the 12th Finance Commission recommendations. The outlays on Education, Health and Nutrition had been increased significantly.

Medium Term Fiscal Plan:

The financial commitments due to the waiver of loans to farmers, expenditure for the various welfare schemes announced and implemented by the Government and the likely increase in salary expenditure due to the recommendations of Sixth Pay Commission have been taken into account in the Medium Term Fiscal Plan of the period 2008-2011.

The Budget Estimate of 2008-09 had shown a revenue surplus of Rs.84.05 crores and the fiscal deficit as a percentage of GSDP was estimated at 2.98 per cent. However, the revenue surplus of the Revised Estimate (2008-09) had declined to Rs.7.73 crore and the fiscal deficit over GSDP also had declined to 2.65 per cent. The trend of Medium Term Fiscal Plan during the year 2009-10 indicates a revenue deficit of Rs.(-) 1024.14 crore. This marginal deficit is expected to be transitory and the State is expected again to achieve revenue surplus in 2010-11 which would continue in 2011-12 also. However, the MTFP has envisaged the fiscal deficit as a percentage of GSDP as 2.99 per cent during 2009-10 and is projected to be 2.73 per cent during 2010-11 and 2011-12. The State is prudently managing its contingent liabilities. It is proposed to restrict the issue of new guarantees, while capital expenditure had been substantially increased, provisions have also been made for maintenance of public assets as per the 12th Finance Commission's recommendations.

Table – 1: Trend of select fiscal indicators of Medium Term Fiscal Plan

(Rs. crores in current prices)						
Year	Revenue Deficit / Surplus	% of R.D. over GSDP	Fiscal Deficit / Surplus	% of F.D. over GSDP	% of R.D. over GSDP*	% of F.D. over GSDP*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2007-08 (Projections)	- 607.86	- 0.22	- 7239.50	- 2.68	- 0.51	- 3.57
2007-08 (Actuals)	4545.49	1.50	- 3685.59	- 1.22	0.35	- 2.44
2008-09 (Projections)	98.89	0.03	- 8014.15	- 2.58	- 0.67	- 3.66
2008-09 (B.E.)	84.05	0.03	- 9792.30	- 2.98	- 0.42	- 3.85
2008-09 (R.E.)	7.73	0.002	- 9248.13	- 2.65	1.01	- 3.75

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(1)	(2)	(3)	(4)	(5)	(6)	(7)
2009-10 Projections	65.12	0.02	- 10986.33	- 2.96	- 0.57	- 3.76
2009-10 (B.E.)	- 1024.14	0.23	- 11823.43	- 2.99	- 1.02	- 3.82
2010-11 (Projections) (as per 2008-09 budget)	74.38	0.02	- 12292.18	- 2.93	- 0.55	- 3.68
2010-11 (Projections) (as per 2009-10 budget)	35.68	0.001	- 12288.95	- 2.73	- 0.56	- 3.36
2011-12 (Projections)	50.87	0.01	- 14026.01	- 2.73	- 0.36	- 3.23

* This includes financial performance of the Tamil Nadu Electricity Board along with the State Budget. Source : Budget speech 2008-09 and 2009-10.

Analysis of Performance of the Budget 2008-09:

The Revised Estimate of 2008-09 of the revenue account had shown a sharp decline in the revenue surplus by 99 per cent which reflects almost a 'Nil' surplus situation. While the revenue receipts (2008-09 – RE) had increased by 16.6 per cent, the subsequent increase in revenue disbursements by 28.9 per cent (a slightly higher proportion than revenue receipts) had resulted in a deep decline in revenue surplus. The reason behind the increase in revenue disbursement was due to filling up of vacant posts, salary and pension related expenditures consequent on payment of interim arrears and increase in pay and allowance of legislators and other social security pension.

Table – 2: Overall Budget (Rs. lakhs)

Sl. No.	Details	2006-07 (Accounts)	2007-8 (Accounts)	2008-09 (R.E.)
I.	Consolidated fund			
A.	Revenue Account			
1	Receipts	4091323	4752050	5541029
2	Disbursements	3826497	4297501	5540256
3	Surplus or Deficit	264826	454549	773
B.	Capital Account			
1	Receipts	714717	764692	1220020
2	Disbursements	1129451	1177669	1197385
3	Surplus or Deficit	(-)414734	(-)412977	22635
I	Consolidated fund (net)	(-)149909	41572	23408
II	Contingency Fund (net)	1637		0
III	Public Account (net)	151104	130579	100301
IV	Total transactions (net)	2832	(-)89006	123709

Note: B-2 (Disbursements) – Public Debt (Repayment) + Expenditure met from Capital Account + Loans and Advances (net) Source: Annual Financial Statement.

In contrary to the revenue account, the Revised Estimate (2008-09) of the capital account had shown a surplus capital of Rs.22635 lakh compared to that of 2007-08 (A) figures of Rs.(-) 412977 lakh. A higher share of increase in capital receipts during 2008-09 (RE) by 59.5 per cent with a meagre increase of 1.67 per cent by capital

disbursements during the same period compared to the year 2007-08 (A) has resulted in a surplus in capital account. The decline in revenue surplus and the increase in surplus capital had reduced the position of net consolidated fund by 43.7 per cent during 2008-09 (RE) as compared to 2007-08 (A).

The overall position of the budgeted transaction of the 2008-09 (RE) had shown a surplus budget of Rs.123708 lakh especially due to higher share of public accounts (a major component of the financial transaction) of Rs.100300 lakh. The same component had shown a negative figure of Rs.(-) 130578 lakh during the year 2007-08 (A).

Analysis of Revenue Receipts:

Revenue receipts is the income to the Government through various sources. As per the Revised Estimate 2008-09, revenue receipts from Tax revenue and Non-Tax revenue would be in the ratio of 78 : 22 respectively. Compared to the actuals of 2007-08, the tax revenue of 2008-09 (RE) was estimated to increase by 14.19 per cent and that of non-tax revenue by 25.86 per cent.

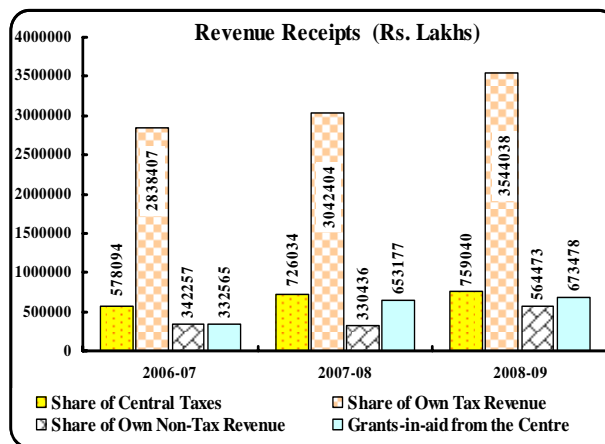


Table –3: Receipts on Revenue Account by Principal Heads

Sl.No.	Details	(Rs. lakhs)		
		2006-07 (Accounts)	2007-08 (Accounts)	2008-09 (R.E.)
I.	Tax revenue (A+B)	3416501	3768438	4303078
A.	Share of Central Taxes	578094	726034	759040
1	Income Tax (other than Corporation tax)	121182	171805	175220
2	Union excise and additional excise duties	456912	554229	583820
B	State's Own Tax Revenue	2838407	3042404	3544038
1	Agricultural Income Tax	7	11	0
2	Land Revenue	12068	7803	17756
3	Urban Land Tax	1445	1575	1794
4	Stamps and Registration Fee	299746	380474	442982
5	State Excise Duties	398642	476405	570918
6	General Sales Tax	1546525	1643412	1976932
7	Central Sales Tax	226191	172224	113668
8	Taxes on Vehicles	126088	148321	172634
9	Electricity Duties	26640	3722	36078
10	Entertainment Tax	4037	909	572
11	Betting Tax	579	624	586
12	Luxury Tax	8973	15582	20821
13	Sugarcane Cess	1824	1101	1600
14	Taxes on Goods & Passengers	124350	109747	95809
15	Share of Net Proceeds Assigned to States (other taxes)	-40	(-)31	(-)28
16	Service Tax	61332	80524	91916
17	Deduct – Refunds	0	0	0

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Sl.No.	Details	2006-07 (Accounts)	2007-08 (Accounts)	2008-09 (R.E.)
II.	Non tax revenue (A+B)	674822	983613	1237951
A.	State's Own Non Tax Revenue	342257	330436	564473
1	Interest Receipts & Dividend and Profits	113400	128220	132133
2	General Services	82539	55761	66781
3	Social Services	52041	55170	58860
4	Economic Services	94278	91285	306699
B.	Grants-in-Aid from the Centre	332565	653177	673478
	Total Revenue Receipts (I&II)	4091323	4752051	5541029

Source: Budget Memorandum.

Of the total tax revenue of Rs.4303078 lakh during 2008-09 (R.E), State's own tax revenue accounted for 82 per cent and the central taxes accounted for 18 per cent. Compared to the year 2007-08 (A), the revenue of all the components of tax had increased during 2008-09 (RE) other than the components of Central Sales Tax, Entertainment tax, betting tax and taxes on goods and passengers. A comparative analysis of the major components of revenue receipts from state's own Non-Tax Revenue had indicated that there was an increase by 70.8 per cent between 2007-08 (A) and 2008-09 (RE). This increase was due to the anticipation of higher receipts from Interest Receipts, Other Administrative Services, Medical and Public health, Fisheries, Major and Medium Irrigation Schemes, Non-Ferrous Mining and Metallurgical Industries. Grants-in-aid from the Centre had shown a minimum increase of 3.11 per cent due to the inclusion of grants from the National Calamity Contingency Fund and the compensation from the Centre for the loss to the State due to Value Added Tax. In total, the total revenue to the Government had increased by 16.6 per cent during 2008-09 (RE) as compared to 2007-08 (A).

Revenue Expenditure Analysis:

Revenue expenditure is the expenditure constituted by development expenditure, non-development expenditure and compensation and assignments to Local Bodies. For the Revised Estimate for 2008-09, the above expenditure items had accounted for 58 per cent, 35 per cent and 7 per cent respectively. Development expenditure is the major component of revenue expenditure which was

constituted by social services and economic services in the proportion of 69 : 31 respectively. The expenditure of social and economic services had considerably increased by 40.41 per cent and 26.56 per cent respectively during 2008-09 (RE) as compared with 2007-08 (A). The reason behind the increase in social services was due to payment of interim arrears, repairs and restoration of damaged roads and bridges, irrigation and flood control works and cash compensation to persons affected in floods on account of Cyclone 'Nisha'.

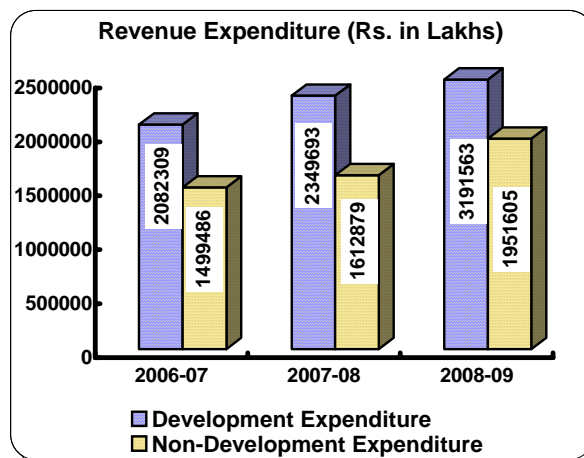


Table – 4: Expenditure on Revenue Account by Principal Heads

(Rs. lakhs)

Sl.No.	Details	2006-07 (Accounts)	2007-8 (Accounts)	2008-09 (R.E.)
I.	Development expenditure (A+B)	2082309	2349693	3191563
A.	Social Services	1302634	1572563	2207995
1	Education, Art & Culture, Sports	606110	684575	931177
2	Medical and Public Health	130972	144223	204464
3	Family Welfare	24225	29482	42963
4	Water Supply and Sanitation	8422	4627	23615
5	Housing	46978	45715	131190
6	Urban Development	63121	77586	76947
7	Labour and Employment	14430	13984	21301
8	Welfare of SC, ST and OBC	87433	95786	116294
9	Social Security and Welfare	159479	236710	274692
10	Nutrition	87664	113321	149003
11	Relief on Account of Natural Calamities	(-)2206	42709	149958
12	Other Social Services, Information & Publicity	76006	83845	86391
B.	Economic Services	779675	777130	983568
1	General Economic Services	216878	209396	299291
2	Agriculture and Allied Services	179930	183187	249102
3	Rural Development	67817	80483	77558
4	Special Area Programme	1265	1203	1415
5	Irrigation and Flood Control	60514	62886	67860
6	Energy	118207	117026	129450
7	Industry and Minerals	48224	34432	64689
8	Transport	85939	87508	92105
9	Science, Technology and Environment	901	1009	2098
II.	Non-development Expenditure (General Services)	1499486	1612879	1951605
1	Organs of State	36541	31077	43653
2	Fiscal Services	66993	50259	65232
3	Debt Services	595599	653585	650533
4	Administrative Services	251522	270423	380907
5	Pension and Miscellaneous General	548830	607535	811280
III.	Compensation & Assignments to Local Bodies and Panchayat Raj	244701	334930	397088
	Total Revenue Expenditure (I+II+III)	3826497	4297502	5540256

Source: Annual Financial Statement.

Similarly, as a normal practice, the Economic services also tendered to increase due to higher provision made for Crop Husbandry schemes, subsidy to Civil Supplies Corporation under PDS system, free Supply of LPG connection and gas stove to poor families.

General services which is the sole component of non-development expenditure had increased by 21 per cent during 2008-09 (RE) as compared to 2007-08 (A), owing to the higher provision made for ensuing Parliament Elections, Interest payment, Pension expenditure consequent on payment of Interim Arrears. The increase in grants and contributions to Panchayat Raj Institutions was effected by the higher provision for devolution to Local Bodies based on State's Own tax Revenue Estimate. The overall position of the revenue expenditure was estimated to increase by 28.92 per cent during 2008-09 (RE) as compared to the actual expenditure of 2007-08 (Rs.429750 lakh).

Analysis of Capital Account:

Capital Receipts:

Capital account is constituted by consolidated fund, contingencies fund and public account. Since contingency fund is raised during emergency situations, it remains 'Nil' in general. Public account and consolidated fund had accounted for 91 per cent and 9 per cent respectively during 2008-09 (RE) under both receipts and disbursements. In total, the Gross Capital receipts and Gross Capital Disbursements had declined by 4.6 per cent and 8.4 per cent respectively during 2008-09 (RE) as compared to the actual figure of 2007-08.

Table -5: Capital Account-Receipts

(Rs. lakhs)

Sl. No.	Details	2006-07 (Accounts)	2007-08 (Accounts)	2008-09 (R.E.)
I	Consolidated fund	874962	865963	1363781
1	Public debt	714717	764692	1220020
	i. Internal debt	682031	686806	1097401
	ii. Loans and advances from GOI	32686	77886	122619
2	Loans and advances repaid to State Government	160245	101271	143761
II.	Contingency fund	1637	0	0
III.	Public Account	17978309	15285910	14045781
1	Small Savings, Provident fund etc.	321416	347628	435507
2	Reserve fund	238773	259372	498688
3	Deposits and advances	1160054	1391151	1194469
4	Suspense and miscellaneous	16055030	13065063	11691416
5	Remittances	203036	222696	225701
IV.	Gross capital receipts (I+II+III)	18854908	16151873	15409562

Source: Annual Financial Statement

In the Revised Estimate for 2008-09, under capital receipts, consolidated fund registered a growth of 57.49 per cent compared to 2007-08 (A) and the subsequent decline in the public account by 8.1 per cent had resulted in the overall decline of capital receipts by 4.6 per cent (Rs.15409562 lakh). An average of 12.3 per cent decline in the deposits and advances and suspense and miscellaneous receipts of the Revised Estimate of public account had resulted in the overall reduction of public account from Rs.15285910 lakh 2007-08 (A) to Rs.14045781 lakh in 2008-09 (RE).

Table - 6: Capital Account-Disbursements

(Rs. lakhs)

Sl. No.	Details	2006-07	2007-08	2008-09
		(Accounts)	(Accounts)	(R.E.)
I.	Consolidated fund (1+2+3)	1289696	1278939	1341146
1	Capital expenditure outside the revenue account	595237	746223	890014
2	Public debt	469026	354560	271799
	i. Internal debt	415000	323526	239877
	ii. Repayment of loans and advances to GOI	54026	31034	31922
3	Loans and advances of the State Government	225433	178156	179333
4	Appropriation to Contingency Fund	0	0	0
II.	Contingency fund	0	0	0
III.	Public account	17827205	15416489	13945480
1	Small Savings, Provident fund etc.	295823	309295	375163
2	Reserve fund	221992	246399	500614
3	Deposits and advances	1047065	1377370	1189259
4	Suspense and miscellaneous	16064489	13247685	11655283
5	Remittances	197836	235740	225161
IV.	Gross Capital Disbursements (I+II+III)	19116901	16695428	15286626

Source: Annual Financial Statement.

A similar pattern of increase was registered in consolidated fund by 4.8 per cent and decline in public account by 9.54 per cent under capital disbursements during 2008-09 (RE) as compared to 2007-08 (A) which had resulted in the overall decline in capital disbursements to Rs.15286626 lakh. Under public account, the increase in reserve fund by one fold (Rs. 500614 lakh) had been subsidised by the average reduction of deposits, advances, suspense and other miscellaneous funds by 12.8 per cent during 2008-09 (RE). This has resulted in the overall reduction of capital disbursements.

Capital Expenditure:

Total Capital Expenditure is constituted by development expenditure and non-development expenditure in the proportion of 97:3 during the Revised Estimate of 2008-09. Economic Services incurred a higher proportion of 75 per cent of total allocation followed by social services at 22 per cent and General Services at 3 per cent. Compared to the year 2007-08 (A), a higher proportion of about 55.1 per cent (Rs.192118 lakh) of funds was raised for social services followed by economic services at 12.52 per cent (Rs.669054 lakh) and General Services at 4.12 per cent (Rs.28842 lakhs) during 2008-09 (RE). The total capital expenditure incurred by the Government was Rs.890014 lakh which is 19.27 per cent higher than in 2007-08 (A).

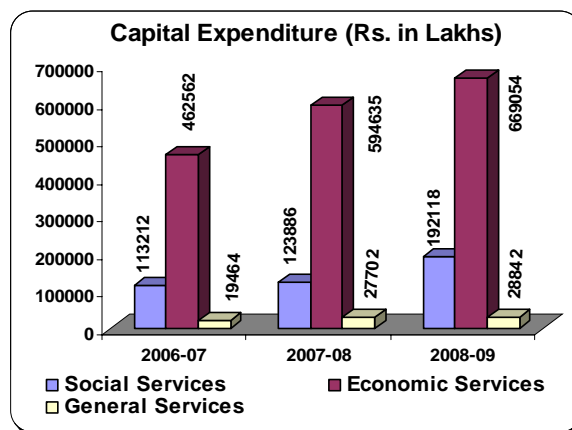


Table -7: Capital Expenditure

(Rs. lakhs)

Sl. No.	Details	2006-07	2007-08	2008-09
		(Accounts)	(Accounts)	(R.E.)
I.	Development expenditure (A+B)	575774	718521	861172
A.	Social Services	113212	123886	192118
1	Education, Sports, Art & Culture	17894	22225	13987
2	Medical, Public Health & Family Welfare	11854	9579	14460
3	Water Supply, Sanitation, Housing & Urban Development	73715	80385	143793
4	Welfare of SC, ST & OBC	8580	10251	13483
5	Social Welfare & Nutrition	378	875	2592
6	Other Social Services	791	571	3803
B.	Economic Services	462562	594635	669054
1	Agriculture & Allied Services	148957	157620	133419
2	Rural Development	90316	100348	131181
3	Special Area Programme	2930	3177	4215
4	Irrigation & Flood Control	32689	36529	50208
5	Industry & Minerals	173	15986	226
6	Energy	17500	49000	67050
7	Transport	168108	230728	281351
8	General Economic Services	1889	1247	1404
II.	Non-development Expenditure	19464	27702	28842
	Total Capital Expenditure (I+II)	595238	746223	890014

Source: Annual Financial Statement.

An increase of 20 per cent in the total capital expenditure during 2008-09 (RE) was due to the shifting of incomplete works in respect of Roads, Bridges and Buildings to the financial year 2009-10.

State Annual Plan 2008-09:

The plan allocation of the State during 2008-09 (RE) was Rs.16,00,000 lakh which was about 12.48 per cent higher than the allocation made during the year 2007-08 (Rs.14,22,432 lakh). Of the total allocation, a higher proportion of 34.09 per cent was allocated for social and community services followed by power sector at 15.62 per cent and Transport and Communication sector at 14.45 per cent. A comparison between 2007-08 (A) and 2008-09 (RE) shows that the allocation made for co-operation, Industry and Minerals sector, Transports and Communication and General Economic Services had declined.

Table – 8: Plan Expenditure – State Schemes

(Rs. lakhs)

Sl. No.	Details	2006-07 (Accounts)	2007-08 (Accounts)	2008-09 (R.E.)
1	Agriculture and Allied Services	63900	66906	114260
2	Co-operation	20172	50444	21093
3	Rural Development	158897	138577	160371
4	Irrigation and Flood Control	32740	36283	48400
5	Power	195040	210442	249959
6	Industry and Minerals	83811	68355	59809
7	Transport and Communication	186194	242698	231134
8	Science, Technology & Environment	401	706	1989
9	General Economic Services	17434	21610	11793
10	Education	56450	65399	73632
11	Health	33882	45237	66868
12	Social and Community Services	406960	467879	545429
13	General Services (Stationery & Printing, Public Works)	11823	7896	15263
	Total	1267704	1422432	1600000

Source: Annual Plan – Budget link 2008-09