TAMILNADU STATE FINANCES

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CONTENTS

LIST OF TABLES

LIST OF CHARTS

Chapter 1

Introduction

1.1. Introduction

In general, the fiscal profiles of the States have improved since 2010-11. While the fiscal deficit of all States put together decreased from 2.8 percent in 2009-10 to 2.1 percent of GDP at current market prices (2004-05 series) in 2013-14BE, the revenue surplus of all States put together increased to 0.4 percent of GDP. Outstanding liabilities of State governments (at the consolidated level) as a proportion of GDP declined since 2004-05[4], but the pace of reduction slowed down considerably in 2013-14, reflecting the impact of deceleration in nominal GDP growth (RBI, 2014)[5]. The slowdown in growth momentum could affect the revenue raising capacity of States, with adverse implications for incremental debt and debt servicing capacity of some States. However, the severity of the impact would vary based on their tax bases, expenditure efficiency etc.

In addition, some of the recent policy initiatives (restructuring of Centrally Sponsored Schemes, Food Security Act 2013 etc.) of the Central government would entail additional responsibility at State level. As a result, the finances of the States are not only being shaped by their own policies but also by the policies of the Central Government. Revenue raising prospects of State Governments in the medium-term would also be influenced by the proposed goods and services tax (GST).

Against this backdrop, this study reviews the finances of Tamil Nadu State Government since 2002. Specifically, this study reviews and analyzes the following:

(i) the overall trends in revenues, expenditures and fiscal balances;
(ii) the trends in the level and composition of revenue receipts and expenditures;
(iii) the composition and trends in own tax and own non tax revenues;
(iv) the trends and composition of capital receipts and expenditures; and
(v) the ways of improving financial performances of Tamil Nadu Government.

In making the above analysis, this study compares the financial performance and tax structure of Tamil Nadu with those of the major State Governments in India. On the basis of the results of the analysis, this study provides suggestions for improving the financial performance of Government of Tamil Nadu.

1.2 Macro-economic Environment

The performance of the Indian economy over the past two years (4.47 percent in 2012-13 and 4.86 percent in 2013-14) has been disappointing. The last time the Indian economy

[4] It reflects the combined impact of favorable macroeconomic conditions and fiscal consolidation at the state level, complemented by debt relief and interest relief provided by the centre.

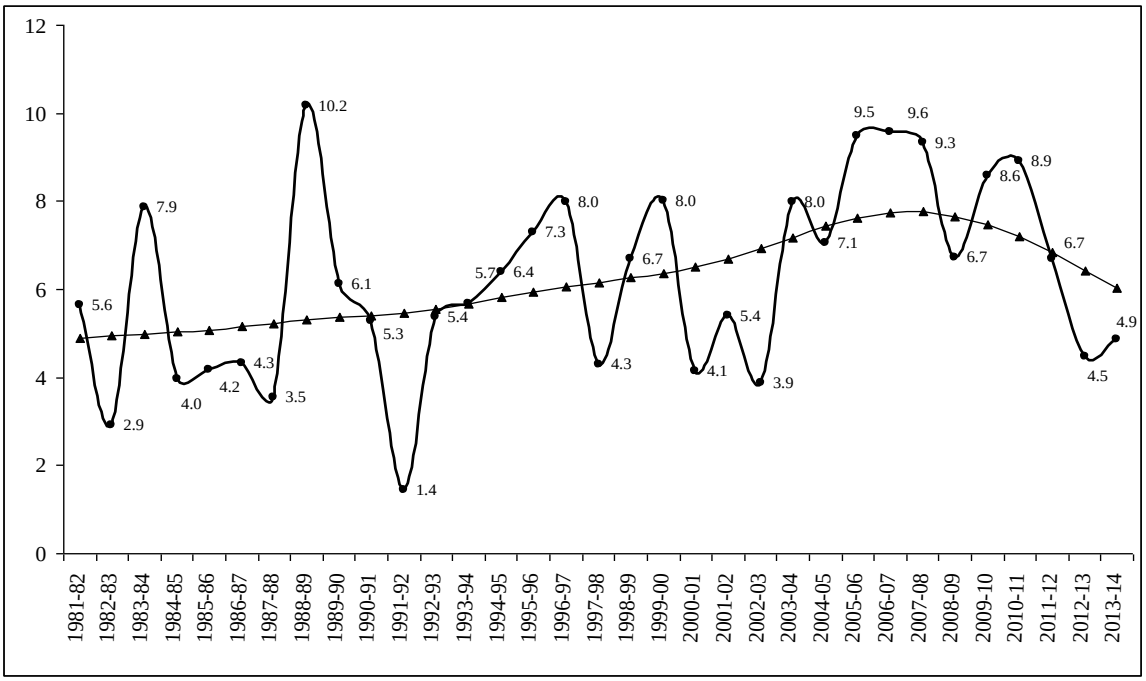
[5] Reserve Bank of India (2014), State Finances A Study of Budgets of 2013-14, Jan 2014.

has gone through a slowdown in the GDP (factor cost) growth was in the early years of the current century (i.e., last decade). At that time, the average GDP growth in real terms for the three years (2000-01 to 2003-03) was 4.47 percent, which was three percentage points below the trend growth rate, estimated using HP Filter (Chart 1.1). The estimated GDP growth rates for 2012-13 and 2013-14 are about 4.5 percentage points less than the preceding peak growth rate of 9.57 percent in 2007-08.

The quick estimates for 2013-14 place the growth rate of GDP at 4.86 percent. This is well below the trend growth rate. The trend growth rate continuously increased from 4.89 percent in 1981-82 to 7.76 in 2007-08. After that it has been continuously declining and it is estimated at 6.02 in 2013-14. This down turn in the overall economic condition of the nation is the major concern.

The Fourteenth Finance Commission needs to take into account this downturn in the economy while making its projections for the award period. This sudden economic downturn, however, may provide an opportunity for the Finance Commission to revise its methodology in order to make more appropriate fiscal projections, which will enable a more appropriate and just distribution between the Union and the States of the net proceeds of taxes, allocation amongst the States of such proceeds and recommendations on grants to the States.

Chart 1.1: Trend and Actual Growth Rates of GDP (2004-05 base series) (% per year)



The revised methodology needs to maintain the essential balance between the principles of fiscal autonomy, efficiency and equity. That is, it needs to resolve the vertical and horizontal imbalances in resources consistent with the Constitutional assignment of responsibilities to the two tiers of the Government and encourage efficiency and resolve

deficiencies in fiscal capacities of individual States without giving an incentive to lower revenue effort.

1.3. A Note on Vertical Transfers

Table 1.1 shows the trends in vertical transfers, that is the sharing of resources between the Centre and the States (taken as a group). Total transfers (tax devolution plus grants) to the States declined a peak of close to 40 percent of Centre's gross revenue receipts to just above 35 percent during the award period of the Tenth and Eleventh Finance Commissions. In the award period of the Twelfth Finance Commission, it increased to 37.2 percent. There is also indication that the transfers to the States in the first three years of the award period of Thirteenth Finance Commission has increased further. But there is a possibility that this trend may be reversed as the Central tax buoyancy as well as the GDP growth rate have fallen significantly in the recent years.

Table 1.1: Transfers Relative to Centre's Gross Revenue Receipts and GDPmp

(Rs. Crore)

Finance Commi-ssions	Years	Share in Central Taxes	Total Grants	Total Transfers	Centre's Gross Revenue Receipts	Transfers as per cent of	
						CGRR	GDP
Eighth	1984-85	5777	5053	10830	29327	36.93	4.22
	1985-86	7491	6555	14047	35535	39.53	4.85
	1986-87	8474	7041	15516	41424	37.46	4.79
	1987-88	9598	8641	18239	46628	39.12	4.95
	1988-89	10669	9704	20373	54261	37.55	4.66
Ninth	1989-90	13232	8573	21805	65329	33.38	4.34
	1990-91	14535	12384	26920	69531	38.72	4.59
	1991-92	17197	15327	32524	83227	39.08	4.83
	1992-93	20522	17636	38158	94639	40.32	4.93
	1993-94	22240	21223	43463	98024	44.34	4.88
	1994-95	24843	20194	45037	116160	38.77	4.31
Tenth	1995-96	29285	20744	50029	139269	35.92	4.08
	1996-97	36061	23336	59397	162218	36.62	4.18
	1997-98	43548	25164	68711	177095	38.80	4.37
	1998-99	39145	24214	63359	188586	33.60	3.51
	1999-00	43481	31022	74503	224754	33.15	3.68
Eleventh	2000-01	51944	37431	89375	244686	36.53	4.10
	2001-02	53398	42936	96335	255011	37.78	4.09
	2002-03	56480	42560	99041	288694	34.31	3.90
	2003-04	67366	49977	117344	332149	35.33	4.13
	2004-05	80159	57168	137326	384851	35.68	4.24
Twelfth	2005-06	95887	77480	173367	443890	39.06	4.69
	2006-07	122331	95793	218124	556423	39.20	5.08
	2007-08	153600	10724	164324	694690	23.65	3.29
	2008-09	161979	126944	288923	699033	41.33	5.13
	2009-10	167992	150382	318374	734467	43.35	4.91

Finance Commi-ssions	Years	Share in Central Taxes	Total Grants	Total Transfers	Centre's Gross Revenue Receipts	Transfers as per cent of	
						CGRR	GDP
Thirteenth	2010-11	223203	169398	392601	1007013	38.99	5.04
	2011-12RE	259412	226992	486404	1021874	47.60	5.42
	2012-13BE	306541	267936	574477	1236716	46.45	5.73
Commission Period Averages					Eighth	38.11	4.70
					Ninth	39.10	4.65
					Tenth	35.62	3.97
					Eleventh	35.92	4.09
					Twelfth	37.32	4.62
					Thirteenth	44.35	5.40

Source (Basic Data): Indian Public Finance Statistics (Various years); CGRR-Centre's Gross Revenue Receipts; RE-Revised Estimates; BE-Budget Estimates.

1.4. A Note on Central Tax Buoyancy

Table 1.2 shows the Central tax buoyancy (as well as States tax buoyancy). The Central taxes buoyancy was 1.36 during 2000-01 to 2007-08 and declined to 0.855 during 2008-09 to 2012-13. During the same periods, the States' own taxes buoyancy increased marginally from 1.17 to 1.3. As the Central taxes buoyancy has eroded in recent years there may be a possibility that the States' share of Central taxes will decline. This is clearly an area of concern for the States.

Table 1.2: Buoyancy: Central and State Taxes

Central/State Taxes		1960-61 to 1969-70	1970-71 to 1979-80	1980-81 to 1989-90	1990-91 to 1999-00	2000-01 to 2007-08	2008-09 to 2012-13	2000-01 to 2010-11
Gross Central Taxes	Direct	1.31	1.44	0.91	1.36	1.948	0.836	1.61
	Indirect	1.69	1.75	1.14	0.70	0.968	0.911	0.82
	Total	1.56	1.66	1.09	0.86	1.363	0.855	1.15
Central Taxes (Net)	Direct	1.29	1.42	0.81	1.46	2.046	0.748	1.64
	Indirect	1.64	1.57	1.20	0.69	0.917	0.899	0.79
	Total	1.53	1.52	1.12	0.86	1.355	0.809	1.12
States Own Taxes	Direct	0.41	0.81	1.08	0.66	1.015	1.097	1.13
	Indirect	1.57	1.63	1.13	1.01	1.178	1.302	1.19
	Total	1.36	1.55	1.13	1.00	1.173	1.297	1.19
States Gross Taxes	Direct	0.93	1.31	1.18	1.16	1.673	1.072	1.52
	Indirect	1.66	1.87	1.08	0.95	1.168	1.217	1.14
	Total	1.45	1.76	1.09	0.97	1.245	1.187	1.19

Source (Basic Data): Indian Public Finance Statistics (Various years)

Another area of concern is the increased contribution of cesses and surcharges to the Centre's gross revenue receipts over the years. While the Centre has been levying a number of cesses and surcharges on both direct and indirect taxes, these are kept out of

the purview of sharing with the States under the recommendations of the Finance Commission as provided in the 80th Amendment.

Table 1.3 shows that the contribution of cesses and surcharges to Centre's gross revenue receipts progressively increased from 3 percent in 2000-01 to 11.5 percent in 2007-08. After that it started declining and now it is around 8 percent.

Table 1.3: Cesses and Surcharges

(Rs. Crore)

Year	Cesses and Surcharges			Centre's Gross Tax Revenues	Cesses and Surcharges as % of Centre's Gross Tax Revenues
	Cesses	Surcharges	Total		
2000-01	3467	2188	5655	188605	3.00
2001-02	3618	557	4175	187060	2.23
2002-03	5703	719	6423	215905	2.97
2003-04	6222	827	7049	254348	2.77
2004-05	10752	3336	14088	304957	4.62
2005-06	13749	4658	18407	366151	5.03
2006-07	18283	5382	23665	473513	5.00
2007-08	38551	29627	68178	593147	11.49
2008-09	27698	26035	53733	605298	8.88
2009-10	28521	12268	40788	624527	6.53
2010-11	39951	8592	48542	793072	6.12
2011-12	42825	15806	58630	889176	6.59
2012-13RE	54037	16054	70091	1038037	6.75
2013-14BE	61857	36109	97966	1235870	7.93

Source: Budgets of the Union Government (Various Issues)

1.5. Plan of the Report

Chapter 2 provides an overview of Tamil Nadu economy while Chapter 3 provides an overview of fiscal trends in Tamil Nadu. Chapter 4 analyzes the tax performances of Tamil Nadu and Chapter 5 reviews the growth and composition expenditures. Chapter 6 discusses about the performance of selective public sector utilities in Tamil Nadu while the final Chapter 7 provides the concluding remarks.

Chapter 2

Tamil Nadu Economy: An Overview

This Chapter assesses the growth performance of Tamil Nadu, its sectoral growth pattern, and compares the performance of Tamil Nadu economy with that of other major Indian States.

2.1. Growth Performance

During 1982-83 to 2012-13, the long-term (average) growth of Tamil Nadu economy at constant prices was 6.56 percent against the all India average growth of 6.25 percent (not shown).[6] While both Tamil Nadu economy (4.97 percent) and Indian economy (4.98 percent) grew at almost the equivalent rate during 1982-83 to 1991-91, Tamil Nadu economy grew at 5.83 percent, which was slightly less than the GDP growth of 6.12 percent during 1992-93 to 2001-02. During 2002-03 to 2012-13, the Tamil Nadu economy grew at an average rate of 8.68 percent, which was about 1.2 percentage points above the all India growth of 7.51 percent.

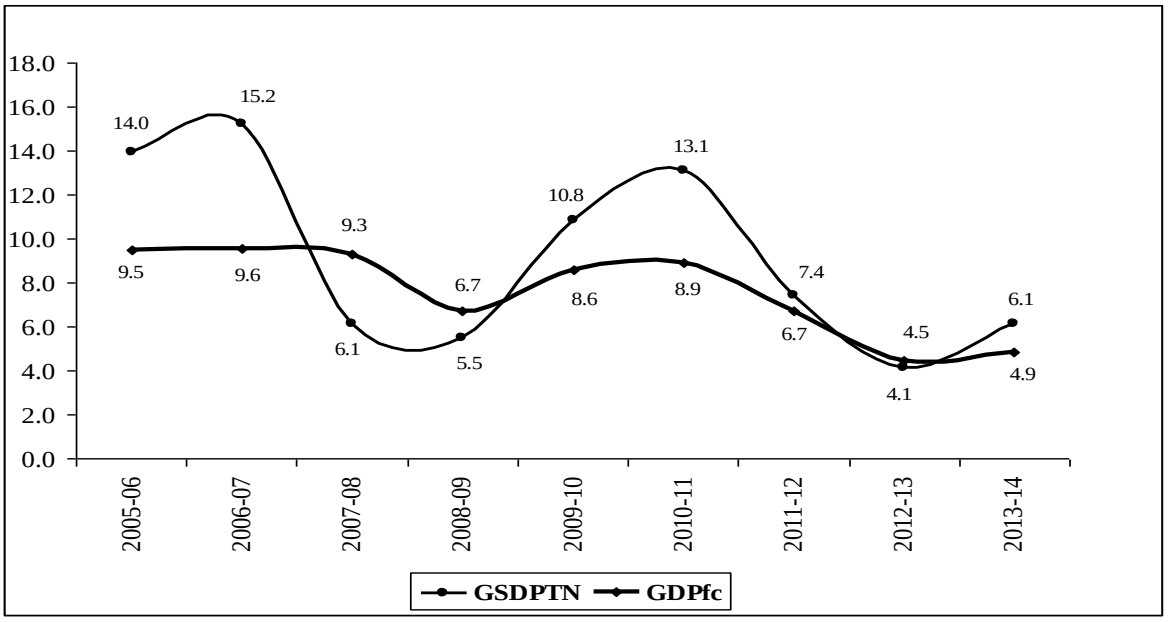
Like the Indian economy, the performance of Tamil Nadu economy over the past two years (4.14 percent in 2012-13 and 6.12 percent in 2013-14) has been disappointing (Table 2.1). The quick estimates for 2013-14 place the GSDP growth of Tamil Nadu at 6.1 percent. While it is slightly improved over the previous year, this is about 7 percentage points less than the preceding peak growth of 13.1 in 2010-11. This downturn in the economic condition is a concern.

Chart 2.1 compares the GSDP growth of Tamil Nadu with GDP growth during 2005-06 to 2013-14. We can observe that growth rate of Tamil Nadu has been more than the GDP growth in some years but the reverse is also true for some other years. Tamil Nadu's growth is highly volatile and more vulnerable to external shocks as compared to the all India growth pattern due to increased globalization and structural changes in the economy.

[6]. Up to 2004-05, the 1999-00 (base series) prices and after that 2004-05 prices are used.

Chart 2.1: Growth Rate of Tamil Nadu GSDP and the Overall GDP Growth

(% per year)



2.2 Sectoral Growth Pattern

Table 2.1 (and Chart 2.2) provides a profile of sectoral growth rates and the overall GSDP growth rate for the period from 2004-05 to 2013-14. All figures relate to the GSDP at 2004-05 prices.

Chart 2.2: Sectoral Growth in Tamil Nadu (% per year)

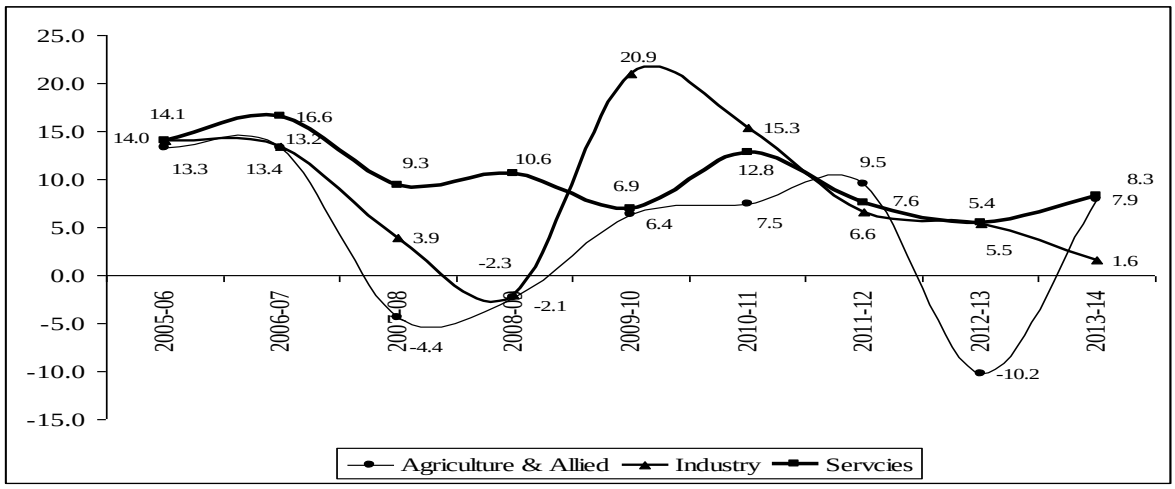


Table 2.1: Annual Growth Rates: Sector-wise Performances at 2004-05 Prices

Sectors/Sub-sectors	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Avg.	XI Plan	Last 2yrs.
GSDP (Tamil Nadu)												
Agriculture & Allied	13.26	13.24	-4.41	-2.29	6.35	7.47	9.51	-10.22	7.93	4.54	3.32	-1.14
Agriculture	11.49	15.42	-4.69	-2.70	6.56	7.69	10.62	-12.04	8.93	4.59	3.50	-1.56
Industry	14.08	13.44	3.86	-2.06	20.93	15.32	6.60	5.38	1.61	8.79	8.93	3.49
Manufacture	15.11	18.75	0.59	-1.31	29.18	12.31	3.52	-1.31	3.53	8.93	8.86	1.11
Mining & Quarrying	-4.86	4.36	1.17	-1.78	9.30	3.13	12.78	5.02	3.10	3.58	4.92	4.06
Construction	16.19	4.45	18.61	5.31	5.18	22.49	10.46	13.48	1.73	10.88	12.41	7.60
Services	14.02	16.57	9.33	10.56	6.90	12.80	7.57	5.51	8.26	10.17	9.43	6.88
Trade Hotels Restaurants	16.28	20.58	4.30	3.66	4.50	13.22	5.53	-0.22	4.47	8.04	6.24	2.12
Transport, Storage, Communication	12.40	13.56	9.35	15.49	13.87	14.13	6.82	5.43	3.21	10.47	11.93	4.32
Real Estate, Ownership of Dwellings	15.17	16.50	16.75	13.40	6.82	10.03	12.66	11.36	13.24	12.88	11.93	12.30
Banking and Insurance	17.55	19.09	17.11	10.18	2.97	14.65	10.52	10.52	14.00	12.95	11.09	12.26
Other Services	9.38	11.80	5.40	14.48	7.45	12.65	4.15	3.76	7.76	8.54	8.82	5.76
GSDP	13.96	15.21	6.13	5.45	10.83	13.12	7.42	4.14	6.13	9.15	8.59	5.14

Source (Basic Data): Central Statistical Organization, Government of India.

During 2005-06 to 2013-14, the agriculture and allied sector in Tamil Nadu grew at an average rate of 4.54 percent (as against its growth of 3.96 percent at all India level). In the Eleventh Plan period (2007-08 to 2011-12), this sector grew at 3.32 percent as it recorded negative growth in the initial two years due to bad monsoons.[7] In the initial two years of Twelfth Plan period, this sector recorded an average negative growth (-1.14 percent) due to monsoon failure. Thus, there is an element of cyclicality in the growth process of agriculture sector.

In the Eleventh Plan period, industry recorded an average growth rate of 8.93 percent. After 2010-11, its growth continuously declined and reached just 1.6 percent in 2013-14. The growth story of services sector is more or less similar to that of industry. While it grew at an average rate of 9.43 percent in the Eleventh Plan period, it grew only at 6.88 percent in the last two years. Global slow down in 2011-12 and worldwide recession after that year affected both industry and services sector in Tamil Nadu.

Chart 2.2 clearly indicates that all these three major sectors went through a recession after 2010-11, particularly industry. It also shows that the agriculture and allied sector and industry growths are more volatile than services growth.

2.3 Structure of GSDP

Like in many other Indian States, the structure of gross state domestic product (GSDP) in Tamil Nadu has been shifting away from agriculture towards non-agriculture, particularly services. The share of agriculture and allied sector in total GSDP (in 1999-00 prices) of Tamil Nadu in 1999-00 was about 17 percent and the shares of industry and services sectors were 30 percent and 53 percent respectively (not shown). As indicated in Table 2.2, the share of agriculture and allied sector declined to about 11 percent in 2004-05 (at 2004-05 prices) and further to 7.4 percent in 2013-14. During 2004-05 to 2013-14, the share of industry declined marginally from 31.6 percent to 30.3 percent and the contribution of services sector increased from 57.2 percent to 62.3 percent.

Table 2.2: Share of GSDP (GDP) in Tamil Nadu (India) at 2004-05 Prices (%)

Sectors/Sub-Sectors	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Tamil Nadu										
Agriculture & Allied of which	11.1	11.1	10.9	9.8	9.1	8.7	8.3	8.4	7.3	7.4
Agriculture	9.6	9.4	9.4	8.5	7.8	7.5	7.1	7.4	6.2	6.4
Industry of which	31.6	31.7	31.2	30.5	28.4	30.9	31.5	31.3	31.7	30.3
Manufacture	19.8	20.0	20.6	19.6	18.3	21.3	21.2	20.4	19.4	18.9
Mining & Quarrying	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5

[7] In the initial two years of Tenth Plan (i.e., 2002-03 and 2003-04) also, this sector registered a negative growth.

Sectors/Sub-Sectors	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Construction	9.0	9.2	8.3	9.3	9.3	8.8	9.5	9.8	10.7	10.2
Services of which	57.2	57.3	57.9	59.7	62.6	60.4	60.2	60.3	61.1	62.3
Trade, Hotels and Restaurants	17.1	17.4	18.2	17.9	17.6	16.6	16.6	16.3	15.6	15.4
Transport, Storage, Communication	9.3	9.1	9.0	9.3	10.2	10.4	10.5	10.5	10.6	10.3
Real Estate, Owner ship of Dwellings	10.5	10.6	10.7	11.8	12.7	12.2	11.9	12.5	13.3	14.2
Banking and Insurance	7.2	7.5	7.7	8.5	8.9	8.3	8.4	8.6	9.2	9.8
Other Services	13.2	12.6	12.3	12.2	13.2	12.8	12.8	12.4	12.3	12.5
GSDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source (Basic Data): Central Statistical Organization, Government of India.

2.4. Interstate Comparison

An interstate comparison reveals that Tamil Nadu ranks fifth in GSDP (in 2004-05 prices) growth among the major Indian states (Table 2.3). During 2005-14, its average annual GSDP growth was 9.15 percent, which was higher than all India GDP growth of 7.62 percent and GSDP growth of any of the southern state. During the same period, Uttarkhand ranked first with its GSDP growth of 12.8 percent. Interestingly, the poorer state -Bihar recorded almost a double-digit growth during this period and obtained the second rank. Tamil Nadu obtained 9th rank in average rate of growth of agriculture and allied sector during 2005-06 to 2013-14. It ranked 6th in industrial growth, next only to Uttarkhand, Bihar, Gujarat, Maharashtra, and Kerala. It also ranked 6th in services sector growth, next only to Uttarkhand, Haryana, Gujarat, Jharkhand, and Bihar.

Table 2.3: 9 Year Average Annual Growth of GSDP and Sectors of Major States (2005-06 to 2013-14) in 2004-05 prices

States	Agriculture & Allied		Industry		Services		GSDP	
	Growth (%)	Rank	Growth (%)	Rank	Growth (%)	Rank	Growth (%)	Rank
Andhra Pradesh	5.11	7	7.88	10	9.73	10	8.21	8
Assam	3.65	12	2.84	20	8.21	20	5.79	20
Bihar	4.64	8	16.16	2	10.35	5	9.79	2
Chhattisgarh	6.65	3	6.56	13	9.92	9	7.66	12
Gujarat	5.36	4	9.58	3	11.45	3	9.75	3
Haryana	3.68	11	6.25	14	11.99	2	8.60	7
Himachal Prad.	4.47	10	7.75	11	10.00	8	7.79	10
Jammu& Kash.	1.91	18	3.74	19	8.89	16	5.81	19
Jharkhand	8.26	2	5.30	18	11.28	4	7.73	11
Karnataka	3.43	13	6.13	15	9.08	14	7.25	15

States	Agriculture & Allied		Industry		Services		GSDP	
	Growth (%)	Rank	Growth (%)	Rank	Growth (%)	Rank	Growth (%)	Rank
Kerala	-0.52	20	8.98	5	9.63	11	8.07	9
Madhya Pradesh	9.56	1	8.08	8	8.73	18	8.69	6
Maharashtra	5.34	5	9.16	4	10.07	7	9.31	4
Orissa	2.75	15	8.04	9	9.25	13	7.47	14
Punjab	1.46	19	8.58	7	8.72	19	6.68	18
Rajasthan	5.27	6	6.79	12	9.39	12	7.55	13
Tamil Nadu	4.54	9	8.79	6	10.17	6	9.15	5
Uttar Pradesh	3.21	14	5.89	16	8.93	15	6.72	17
Uttarkhand	2.75	16	16.84	1	13.43	1	12.80	1
West Bengal	2.56	17	5.44	17	8.87	17	6.85	16
India	3.96		6.91		9.08		7.62	

Source (Basic Data): Central Statistical Organization, Government of India.

2.5. Concluding Remarks

As agriculture growth is highly volatile, its risk adjusted return may be very low and so this sector may not be able to attract private investment. Given the fact that growth of this sector is vital for food security in the state and for providing livelihood for more than 50 percent of population, the state needs to make necessary and sufficient investments in this sector to ensure the growth. Manufacturing growth is also vital as it has the potential to generate job opportunities.

Chapter 3

Fiscal Trends: An Overview

In this Chapter, we look at the overall fiscal trends in Tamil Nadu. Specifically we examine the key fiscal indicators-expenditure, revenues, fiscal deficit, revenue deficit, etc and trends and composition of revenue receipts. We also compare Tamil Nadu's revenue performance with that of other major Indian States.

3.1. Key Fiscal Indicators

Tamil Nadu has managed its finances in a fiscally prudent manner. Like all State Governments in the country, Tamil Nadu had witnessed a serious deterioration in various indicators of fiscal balance towards the end of the 1990s and in the early years of the current century including large revenue and fiscal deficits relative to GSDP. But these imbalances were brought under prudent limits in the framework of Fiscal Responsibility and Budget Management Act (FRBMA), which was enacted in 2003, making Tamil Nadu one of the first States to enact such legislation even prior to the recommendation of the Twelfth Finance Commission. As a result, by 2005-06, the revenue account was brought into surplus (Table 3.1).

Budget expenditure (revenue expenditure + capital expenditure) of Tamil Nadu as a ratio of its GSDP stood around 14.4-16.4 percent from 2002-03 to 2014-15BE (Table 3.2). Within this total, interestingly the ratio of capital expenditure went up. It relative to GSDP increased from 1.36 percent to 2.78 percent. At the same time, the revenue expenditure relative to GSDP declined from 15.01 percent to 13.49 percent. The revenue receipts on the other hand increased from 12.17 percent to 13.52 percent. Growth rate estimates show that during 2002-03 to 2014-15, the GSDP at current prices grew at the annual rate of 15.33 percent. Since the economy was growing fairly fast, one could expect an equally fast growth of government sector. As expected, revenue receipts in current prices grew at 16.44 percent while the revenue expenditure at 14.46 percent.

Table 3.1: Tamil Nadu State Finances: Selected Fiscal Aggregates

(Rs. Crore)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14RE	2014-15BE
Own Tax Revenues	14342	15945	19357	23326	27771	29619	33684	36547	47782	59517	71254	83363	91835
Own Non Tax Revenues	1861	2094	2208	2601	3423	3304	5712	5027	4651	5684	6554	7857	8084
State's Own Revenue	16202	18039	21565	25927	31194	32923	39397	41574	52434	65201	77809	91221	99919
Total Central Transfers	4634	5667	6886	8033	9720	14597	15646	14270	17754	20001	21019	25588	27470
Share in Central Taxes	3048	3544	4236	5013	6394	8065	8511	8756	10914	12715	14520	16486	19014
Grants	1587	2123	2650	3020	3326	6532	7135	5514	6840	7286	6499	9102	8456
Total Revenue Receipts	20837	23706	28452	33960	40913	47520	55042	55844	70188	85202	98828	116808	127390
Total Revenue Expenditure	25688	25271	29155	32009	38265	42975	53590	59375	72916	83838	97067	116564	127100
Capital Expenditure *of which*	2324	4600	5650	5094	8207	9244	11934	10863	14688	21819	19337	22662	26208
Capital Outlay	1628	3590	4564	4055	5952	7462	9104	8573	12436	16336	14568	19763	23685
Loans & Advances (Gross)	697	1011	1086	1040	2254	1782	2830	2291	2252	5483	4769	2899	2523
Recoveries of Loans ,Advances	433	575	783	892	1602	1013	1934	2587	770	3181	1058	775	204
Revenue Deficit@	4851	1565	703	-1951	-2648	-4545	-1452	3531	2729	-1364	-1760	-244	-289
Fiscal Deficit	6742	5591	5570	2251	3956	3686	8548	11807	16647	17274	16519	21643	25714
Outstanding liabilities *	44470	51760	55970	63850	68560	73890	86150	101710	114470	130630	147416	165459	189256
GSDP at Current Prices#	171151	189782	219003	257833	310526	350819	401336	479733	584896	665312	744474	850319	942225

* At the end of March; # 2004-05 base series since 2004-05; before 2004-05 the growth rate of 1999-00 series was used to get the comparable figures in respective years; @ minus sign means surplus

Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years); RE-Revised Estimates; BE-Budget Estimates. For GSDP, CSO website and for outstanding liabilities, State Finances-A Study of Budget (various issues) of Reserve Bank of India.

Table 3.2: Tamil Nadu State Finances: Selected Fiscal Aggregates (%)

(Per cent of GSDP 2004-05 base series)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14RE	2014-15 BE
Own Tax Revenues	8.38	8.40	8.84	9.05	8.94	8.44	8.39	7.62	8.17	8.95	9.57	9.80	9.75
Own Non Tax Revenues	1.09	1.10	1.01	1.01	1.10	0.94	1.42	1.05	0.80	0.85	0.88	0.92	0.86
State's Own Revenue	9.47	9.51	9.85	10.06	10.05	9.38	9.82	8.67	8.96	9.80	10.45	10.73	10.60
Total Central Transfers	2.71	2.99	3.14	3.12	3.13	4.16	3.90	2.97	3.04	3.01	2.82	3.01	2.92
Share in Central Taxes	1.78	1.87	1.93	1.94	2.06	2.30	2.12	1.83	1.87	1.91	1.95	1.94	2.02
Grants	0.93	1.12	1.21	1.17	1.07	1.86	1.78	1.15	1.17	1.10	0.87	1.07	0.90
Total Revenue Receipts	12.17	12.49	12.99	13.17	13.18	13.55	13.71	11.64	12.00	12.81	13.27	13.74	13.52
Total Revenue Expenditure	15.01	13.32	13.31	12.41	12.32	12.25	13.35	12.38	12.47	12.60	13.04	13.71	13.49
Capital Expenditure *of which*	1.36	2.42	2.58	1.98	2.64	2.63	2.97	2.26	2.51	3.28	2.60	2.67	2.78
Capital Outlay	0.95	1.89	2.08	1.57	1.92	2.13	2.27	1.79	2.13	2.46	1.96	2.32	2.51
Loans & Advances (Gross)	0.41	0.53	0.50	0.40	0.73	0.51	0.71	0.48	0.39	0.82	0.64	0.34	0.27
Recoveries of Loans & Advances	0.25	0.30	0.36	0.35	0.52	0.29	0.48	0.54	0.13	0.48	0.14	0.09	0.02
Revenue Deficit	2.83	0.82	0.32	-0.76	-0.85	-1.30	-0.36	0.74	0.47	-0.21	-0.24	-0.03	-0.03
Fiscal Deficit	3.94	2.95	2.54	0.87	1.27	1.05	2.13	2.46	2.85	2.60	2.22	2.55	2.73
Outstanding liabilities at end of March *	25.98	27.27	25.56	24.76	22.08	21.06	21.47	21.20	19.57	19.63	19.80	19.46	20.09
GSDP at Current Prices	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Computed using Table 3.1.

It is noticed that while revenue receipts-GSDP ratio increased continuously from 12.17 percent in 2002-03 to 13.71 percent in 2008-09, it suddenly declined to 11.64 percent in 2009-10 and 12 percent in 2010-11, registering about 2 percentage points fall over 2008-09. This was mainly due to the fact that own revenues as percentage of GSDP declined by 1 percentage point as a result of introduction of State VAT and central transfers declined by 1 percent point due to the fall in central tax buoyancy and slow down of the economy.

As indicated earlier, since 2005-06, the revenue account in Tamil Nadu showed surplus except in two years: 2009-10 and 2010-11, with the erosion of central tax buoyancy and economic downturn. However, in those years also, the revenue deficit was less than 1 percent of GSDP. The fiscal deficit (=net borrowing) relative to GSDP was kept below 3 percent since 2003-04. Interestingly, this borrowed amount was fully used for meeting capital expenditure since 2005-06.

The outstanding liabilities (stock of public debt) relative GSDP was 27.27 percent in 2003-04. After this year, this ratio started decreasing and reached 19.57 percent in 2010-11. Then it started increasing marginally and was slated to be 20.09 percent in 2014-15BE. This is still an acceptable level as the Twelfth Finance Commission had suggested an overall target of 28 percent for the states as whole. This is also well below the norms prescribed by the Thirteen Finance Commission as well as the state's FRBM Act, 2003.

3.2. Trends and Composition of Revenue Receipts

Own tax revenues constituted the largest single revenue source of Tamil Nadu. As per 20014-15 BE, own taxes constitute about 72 percent of total revenue receipts of the State. Own non-tax accounts for 6.3 percent. While tax devolution (shared tax) contributes 14.9 percent, grants contribute 6.6 percent (Table 3.3). During 2001-03 to 2013-14, own revenue (own tax + own non-tax) accounts for 74-78 percent of total revenues of the State (except in two years: 2007-08 and 2008-09) while the fiscal transfers to Tamil Nadu which comes from Finance Commission tax devolution and grants, Plan grants, and grants under various centrally sponsored schemes, accounts for 22-26 percent (Chart 3.1).

Relative to GSDP, own revenues increased from 9.47 percent in 2002-03 to 9.82 percent in 2008-09 (Table 3.2). After that, it declined to 8.67 in 2009-10, due to 0.8 percentage point decline in own tax revenue and 0.4 percentage point decline in own non tax revenue over the previous year. Then it started increasing and reached 10.73 percent in 2013-14. During 2002-03 to 2013-14, the own tax revenue as a ratio of GSDP increased from 8.38 percent to 9.8 percent while own non-tax revenue declined marginally from 1.1 percent to 0.9 percent. It is noted that the slightly lower figure for own tax revenue (7.62 percent) in 2009-10 reflects the consensus of the revenue impact of introduction of State VAT.

Table 3.3: Composition of Revenue Receipts (%)

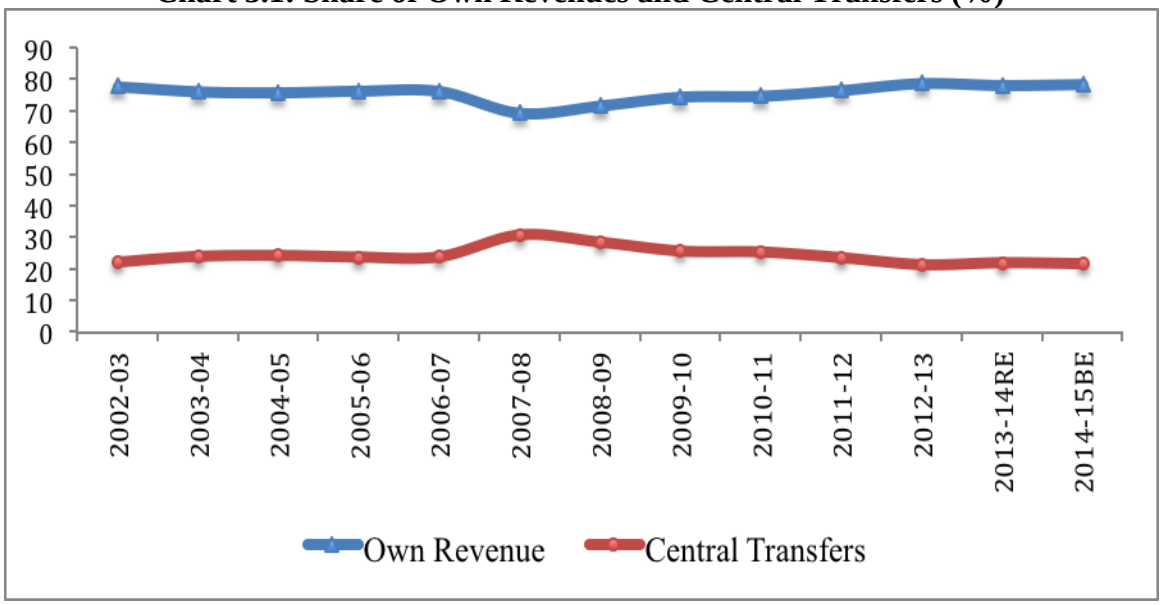
Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14RE	2014-15BE
Own Tax	68.8	67.3	68.0	68.7	67.9	62.3	61.2	65.4	68.1	69.9	72.1	71.4	72.1
Own Non Tax	8.9	8.8	7.8	7.7	8.4	7.0	10.4	9.0	6.6	6.7	6.6	6.7	6.3
Own Revenue	77.8	76.1	75.8	76.3	76.2	69.3	71.6	74.4	74.7	76.5	78.7	78.1	78.4
Central Transfers	22.2	23.9	24.2	23.7	23.8	30.7	28.4	25.6	25.3	23.5	21.3	21.9	21.6
Share in Central Taxes	14.6	14.9	14.9	14.8	15.6	17.0	15.5	15.7	15.5	14.9	14.7	14.1	14.9
Grants	7.6	9.0	9.3	8.9	8.1	13.7	13.0	9.9	9.7	8.6	6.6	7.8	6.6
Total Revenue Receipts	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Computed using Table 3.1.

It is noticed that the own non-tax revenue relative to GSDP is less than 1 percent.. Part of the reason for low collection of non-tax revenue is that the State is not well endowed with major minerals. Another reason is that some user charges (such as drinking water and transport charges) do not go directly to the State's treasury but are collected by the State owned enterprises. There is some potential for the State to increase the non-tax revenues.

Table 3.4 shows the changing structure of non-tax revenues over time. The proportion of revenues from economic services was 52 percent in 1990-91 (not shown). After that year, it started declining and reached 33 percent in 2002-03. Then it continued to decline and reached 17.9 in 2014-15 (Table 3.4). During 2002-03 to 2014-15, the share of almost all economic services declined except the metallurgical industries. The possibilities of raising fees and service charges in line with inflation need to be examined.

Chart 3.1: Share of Own Revenues and Central Transfers (%)



At the same time, the proportion of revenues for general services declined from 20.9 percent to 12.7. But the proportion of revenues from social services increased from 14.1 percent to 42 percent. This was due to the rise in the shares of (i) education, sports and arts, (ii) medical and public health, and (iii) urban development. Efforts are needed to increase shares of other social services. Interest receipts accounted for 30.6 percent of total own non-tax revenues of the State in 2002-03. It increased to 37.6 percent in 2007-08 and then it started declining and reached 27.1 percent in 2014-15.

As shown in Table 3.2, the transfers remained around 3-4 percent of the total revenues of Tamil Nadu during 2002-03 to 20014-15. The shared tax is the second largest single source of revenue of the State. Currently it forms approximately 15 percent of the total receipts. The combined share of shared tax and grants is about 22 percent. It is however, noted that the combined share of shared tax and grants was 32 percent in 1980-81 (not shown). This decline is partly due to the changes in the successive Finance Commission's recommendations and modified Gadgil formula for allotting state plan assistance by the Centre and partly as a result of State's own effort in resource mobilization.

Table 3.4: Structure of Own Not-Tax Revenues in Tamil Nadu (%)

Sources	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Interest Receipts	30.6	25.4	25.6	30.7	32.3	37.6	25.7	35.8	35.8	35.6	30.7	26.1	27.1
Dividends and Profits	1.40	1.30	1.10	0.86	0.88	1.20	0.63	0.96	0.58	0.62	0.66	0.64	0.63
General Services	20.85	16.3	14.9	8.65	24.1	16.9	11.8	14.1	8.67	11.39	9.44	9.47	12.7
Pub.Serv. Commission	0.03	0.06	0.02	0.11	0.17	0.15	0.07	0.10	0.24	0.06	0.37	0.33	0.32
Police	3.10	1.92	1.85	2.32	1.48	2.50	2.32	1.91	1.97	2.38	2.48	2.29	2.24
Jails	0.06	0.06	0.06	0.07	0.05	0.05	0.02	0.03	0.03	0.03	0.04	0.03	0.03
Stationery & Printing	0.25	0.23	0.42	0.26	0.31	0.27	0.14	0.18	0.31	0.15	0.23	0.18	0.17
Public Works	0.47	0.56	0.59	0.50	0.39	0.65	0.26	0.39	0.58	0.25	0.23	0.25	0.25
Other Adm. Services	4.13	7.02	5.48	3.32	2.71	3.59	2.28	3.93	3.29	5.08	2.63	2.34	2.26
Other services	23.09	9.29	6.89	2.23	19.1	9.79	7.47	7.67	2.34	3.47	3.46	4.05	7.41
Social Services	14.06	22.8	21.3	17.2	15.2	16.7	10.4	26.4	29.5	27.82	36.5	43.9	41.7
Education, Sports, Art	4.81	5.85	6.49	8.07	6.31	9.12	5.30	7.63	11.2	8.50	11.5	21.8	19.9
Medical & Pub. Health	4.46	2.87	8.69	3.49	2.82	2.95	2.48	1.82	2.84	5.36	6.65	5.43	6.29
Family Welfare	0.04	0.30	0.08	1.38	1.29	0.00	0.46	0.58	0.69	1.00	1.07	0.72	0.79
Water Supply& San.	0.44	0.32	0.38	0.11	0.04	0.02	0.00	0.01	0.01	0.00	0.08	0.00	0.00
Housing	1.20	1.16	1.11	0.96	1.75	0.92	0.52	0.93	1.23	0.99	2.44	0.83	0.81
Urban Development	0.07	9.30	1.73	0.83	0.67	1.15	0.11	13.1	11.7	10.34	12.7	13.3	12.3
Information and Publicity	0.25	0.37	0.15	0.24	0.17	0.16	0.16	0.54	0.08	0.10	0.12	0.11	0.10
Labour & Employment	1.18	1.13	1.16	1.08	1.14	1.10	0.72	0.76	0.88	0.76	1.26	0.95	0.92
Social Security, Welfare	1.42	1.27	0.94	0.78	0.91	1.14	0.57	0.89	0.84	0.66	0.65	0.66	0.57
Other Social Services	0.18	0.20	0.55	0.21	0.10	0.13	0.10	0.10	0.11	0.11	0.08	0.08	0.08
Economic Services	33.13	34.2	37.1	42.7	27.6	27.6	51.5	22.8	25.5	24.60	22.7	19.9	17.9
Crop Husbandry	3.34	2.94	2.59	2.55	2.18	2.49	1.29	1.84	2.50	2.20	1.92	1.34	1.15
Animal Husbandry	0.34	0.31	0.32	0.29	0.21	0.22	0.14	0.17	0.16	0.13	0.13	0.11	0.10
Dairy Development	0.13	0.07	0.07	0.07	0.04	0.04	0.03	0.03	0.04	0.03	0.06	0.02	0.02
Fisheries	0.68	0.63	0.58	0.67	0.53	0.64	0.34	0.09	0.12	0.14	0.16	0.10	0.07

Sources	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Forestry and Wild Life	8.46	4.31	7.02	5.33	2.40	1.40	1.45	1.73	2.99	1.86	1.43	1.86	0.55
Cooperation	0.99	0.83	0.85	1.14	0.42	0.51	0.33	0.42	0.42	0.34	0.31	0.23	0.22
Other Agri. Programs	0.99	0.86	0.89	0.77	0.68	0.68	0.42	0.60	0.62	0.47	0.42	0.39	0.36
Major and Medium irri.	0.59	0.81	1.06	0.75	1.00	0.58	0.45	0.66	0.57	0.44	0.39	0.46	0.33
Minor Irrigation	0.17	0.33	0.16	0.08	0.05	0.05	0.13	0.03	0.04	0.03	0.02	0.02	0.02
Village & Small ind.	1.93	0.87	0.75	0.78	1.51	0.46	0.15	0.18	0.59	0.33	0.47	0.35	0.12
Industries	0.01	0.01	0.02	0.01	0.00	0.01	35.8	3.01	0.68	0.01	0.51	0.00	0.00
Metallurgical Industries	9.73	18.0	18.6	17.9	16.6	17.6	9.23	12.2	14.5	16.6	14.2	13.6	13.5
Ports and Light Houses	0.00	0.00	0.00	0.00	0.00	0.03	0.00	0.05	0.10	0.08	0.08	0.06	0.06
Roads & Bridges	1.43	1.17	1.71	1.39	0.96	1.21	0.80	1.22	1.40	1.09	1.26	0.50	0.78
Inland Water Transport	0.13	0.20	0.10	0.07	0.08	0.07	0.04	0.05	0.04	0.04	0.01	0.01	0.01
Tourism	0.06	0.14	0.61	1.35	0.45	0.69	0.45	0.06	0.03	0.01	0.02	0.03	0.02
Civil Supplies	0.12	0.07	0.14	0.37	0.08	0.09	0.09	0.08	0.14	0.09	0.07	0.05	0.05
Others	4.08	2.82	2.03	9.32	0.56	0.85	0.33	0.44	0.50	0.69	1.29	0.78	0.47
Non-Tax Revenues	100.0	100	100	100	100	100	100	100	100	100	100	100	100

Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years)

Table 3.5 shows Tamil Nadu's share in Central gross taxes as well as grants recommended by various Finance Commissions. Tamil Nadu has been getting a lower and lower share of transfers from the Centre. The Thirteenth Finance Commission has recommended Tamil Nadu's share in total divisible pool of Central taxes at 4.969 percent (5.047 percent in the case of service tax) as against the share of 5.305 percent recommended by the Twelfth Finance Commission. However, the Thirteenth Finance Commission has recommended a total grant of Rs. 11366.9 crore for the five year period for maintenance roads and bridges, improving delivery of justice, issuing UIDS, forests, water sector, elementary education etc.

Table 3.5: Share of Tamil Nadu in Central Taxes and Finance Commission Grants (%)

Finance Commissions	Share in Central Taxes	Share in FC Grants
Third	7.48	4.92
Fourth	7.9	4.86
Fifth	7.56	3.21
Sixth	7.59	0
Seventh	7.68	1.69
Eighth	6.85	0.58
Ninth (1)	7.12	1.74
Ninth (2)	6.84	1.05
Tenth	6.12	3.64
Eleventh	5.39	2.28
Twelfth	5.31	2.9
Thirteenth	4.98	4.396

Source (Basic Data): Vithal and Sastry (2001) for data up to Tenth Finance Commission and Reports of the Eleventh, Twelfth and Thirteenth Finance Commissions thereafter.

Table 3.6 shows the composition of central grants to Tamil Nadu from 2002-03 to 2014-15. While the plan grants increased from Rs. 1132 crore in 2002-03 to Rs. 5486 crore in 2014-15, the non plan grants increased from Rs. 455 crore to Rs. 2971 crore. During this period, the plan grants increased at an average annual rate of 15.8 percent while the non-plan increased at 38.6 percent. Of plan grants, the state plan grant grew at 18.45 percent per annum while the CSS grew at 15.48 percent per annum. The central plan grants increased at 13.2 percent per annum.

It is also noted that in absolute term, total grants increased from Rs.1587 crore to Rs. 8456 crore during 2002-03 to 2014-15 registering an average rate of growth of 18.2 percent per annum.

Table 3.6: Composition of Central Grants to Tamil Nadu

Type of Grants	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
													Rs. Crore
Non Plan Grants	455	532	961	1394	932	3463	2626	1800	2813	2585	1311	3253	2971
Plan Grants of which	1132	1591	1689	1627	2393	3069	4509	3714	4027	4701	5188	5849	5486
State Plan Schemes	602	936	1054	882	1678	2166	3378	2253	2142	2562	2765	3096	2884
Central Plan Schemes.	66	57	73	67	88	81	101	130	158	223	224	324	220
Centrally Sponsored Schemes	463	597	562	677	627	822	1030	1331	1727	1916	2199	2429	2381
Grants from Centre	1587	2123	2650	3020	3326	6532	7135	5514	6840	7286	6499	9102	8456
													Percentages
Non Plan Grants	28.7	25.1	36.3	46.1	28.0	53.0	36.8	32.6	41.1	35.5	20.2	35.7	35.1
Plan Grants of which	71.3	74.9	63.7	53.9	72.0	47.0	63.2	67.4	58.9	64.5	79.8	64.3	64.9
State Plan Schemes	38.0	44.1	39.8	29.2	50.5	33.2	47.3	40.9	31.3	35.2	42.5	34.0	34.1
Central Plan Schemes.	4.2	2.7	2.7	2.2	2.6	1.2	1.4	2.4	2.3	3.1	3.4	3.6	2.6
Centrally Sponsored Schemes	29.2	28.1	21.2	22.4	18.9	12.6	14.4	24.1	25.3	26.3	33.8	26.7	28.2
Grants from Centre	100.0	100.0	100.0	100	100	100.0	100	100.0	100	100.0	100.0	100	100.0

Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years)

3.3 Interstate Comparison

Tamil Nadu's revenue performance compares well with those of other major States in the country. In 2012-13 RE, per capita own tax revenue of Tamil Nadu at Rs. 10801 was the highest among major Indian States. That is it obtained 1st rank in terms of per capita own tax revenue (Table 3.7). In respect of own tax revenue as percent of GSDP, Tamil Nadu occupied second rank, next only to Karnataka.

Tamil Nadu also ranked second in terms per capita revenue receipts, next only to Himachal Pradesh. However, it ranked 14th in terms of revenue receipts-GSDP ratio. In terms of per capita own non tax revenues, Tamil Nadu compared poorly. It occupied 12th rank in terms of per capita own non tax and ranked 14th in terms of own non-tax revenue-GSDP ratio.

Table 3.7: Revenue Receipts in Selected States in 2012-13 RE

States	Per capita (Rs.)				As % of GSDP			
	Revenue	Own Tax Revenue	Own non tax Revenue	Central Transfers	Revenue	Own Tax Revenue	Own non tax Revenue	Central Transfers
Andhra Pradesh	12742	7281	1497	3964	14.5	8.3	1.7	4.5
Assam	12284	2647	977	8660	27.0	5.8	2.2	19.1
Bihar	6682	1649	124	4909	21.2	5.2	0.4	15.6
Chhattisgarh	12433	5062	1865	5507	21.0	8.6	3.2	9.3
Gujarat	12577	8720	891	2966	11.3	7.8	0.8	2.7
Haryana	14493	9307	1865	3320	11.0	7.0	1.4	2.5
Himachal Pradesh	24006	7214	2728	14064	22.7	6.8	2.6	13.3
Jharkhand	10057	2698	1194	6164	19.6	5.3	2.3	12.0
Karnataka	14058	8859	629	4570	16.2	10.2	0.7	5.3
Kerala	13814	9073	1276	3465	13.8	9.1	1.3	3.5
Madhya Pradesh	9690	3995	1015	4680	19.3	7.9	2.0	9.3
Maharashtra	12567	8738	962	2867	10.5	7.3	0.8	2.4
Orissa	10660	3578	1519	5562	17.9	6.0	2.5	9.3
Punjab	13179	8161	1650	3368	13.7	8.5	1.7	3.5
Rajasthan	9851	4345	1754	3752	14.9	6.6	2.7	5.7
Tamil Nadu	14944	10801	982	3161	13.7	9.9	0.9	2.9
Uttar Pradesh	7595	2931	669	3995	20.4	7.9	1.8	10.7
Uttarkhand	16929	5951	1493	9485	15.1	5.3	1.3	8.5
West Bengal	7935	3569	176	4191	11.6	5.2	0.3	6.1

Source (Basic Data): Reserve Banks of India, State Finance: A Study of State Budgets (various years).

As can be seen in Table 3.8, the share of own tax revenues in Tamil Nadu constitutes about 72 percent of total revenues. This is the highest among the major Indian States. The corresponding figures for Maharashtra, Gujarat and Kerala are 69.5 percent, 69.3 percent and 65.7 percent. Tamil Nadu is the fourth lowest in terms of percentage share of non tax revenues, next after Bihar, Karnataka and West Bengal.

It is also noticed from Table 3.7 that Tamil Nadu was the fourth lowest in terms of central transfers as percentage of GSDP in 2012-13RE, next only to Maharashtra, Gujarat, and Haryana. It also the lowest in terms of percentage share of grants and fifth lowest in terms of percentage share of shared tax revenues.

Table 3.8: Composition of Revenue Receipts in Selected States in India (2012-13RE) (%)

States	Own tax	Own Non-tax	Shared Tax	Grants
Andhra Pradesh	57.1	11.7	18.5	12.6
Assam	21.5	8.0	27.9	42.6
Bihar	24.7	1.9	49.5	23.9
Chhattisgarh	40.7	15.0	23.1	21.2
Gujarat	69.3	7.1	12.1	11.4
Haryana	64.2	12.9	8.4	14.5
Himachal Prad.	30.1	11.4	13.9	44.7
Jharkhand	26.8	11.9	26.3	35.0
Karnataka	63.0	4.5	14.7	17.8
Kerala	65.7	9.2	14.2	10.9
Madhya Pradesh	41.2	10.5	30.0	18.3
Maharashtra	69.5	7.7	10.5	12.3
Orissa	33.6	14.3	29.6	22.6
Punjab	61.9	12.5	10.3	15.3
Rajasthan	44.1	17.8	25.0	13.1
Tamil Nadu	72.3	6.6	14.3	6.9
Uttar Pradesh	38.6	8.8	38.0	14.6
Uttarkhand	35.2	8.8	19.0	37.0
West Bengal	45.0	2.2	29.5	23.3

Source (Basic Data): Reserve Banks of India, State Finance: A Study of State Budgets (various years).

3.4 Concluding Remarks

This Chapter has briefly reviewed the overall fiscal trends in Tamil Nadu. Tamil Nadu's government finances has been well managed since 2005-06. The revenue account showed surplus in almost all years except in two years. The fiscal deficit and outstanding liabilities as a ratio of GSDP were kept below the norms prescribed in the FRBM Act, 2003. Tamil Nadu ranked 1st in terms of per capita own tax revenue among the major Indian States. However, it ranked 12th in terms of per capita non tax revenue. Therefore, there is a potential for raising non tax revenues of the State. The major worry for the State is that the State has been awarded a lower and lower share of central taxes by the successive Finance Commissions.

Chapter 4

Tax Performance

In this Chapter, we assess the overall tax performance of Tamil Nadu in terms of the annual growth and the buoyancy of various taxes, and composition of own tax revenues. We also compare the tax performance of Tamil Nadu with that of other major States in the country.

4.1. Composition of Own Tax revenues

As mentioned in the previous Chapter, own tax revenue is the largest single revenue source of Tamil Nadu Government. During 2002-03 to 2014-15, the own tax revenues of Tamil Nadu (in nominal terms) grew at average rate of 16.93 percent, which was slightly higher than that of GSDP in the same period (15.33 percent). The own tax relative to GSDP increased from 8.4 percent in 2002-03 to 9.75 percent in 2014-15.

Among the state taxes, sales tax (predominantly State VAT) is by far the most important own tax revenue source (Table 4.1). The sales tax as percentage of GSDP was 5.8 percent in 2003-04 and increased to 6.03 percent in 2005-06. After that it declined and reached 4.72 in 2009-10 due to introduction of State VAT and global slow down of the economy. Then it started increasing and currently it is estimated to be 6.92 percent of GSDP (as per 2014-15BE).

Next comes state excise. Its relative importance has increased steadily over the years. Its percentage share increased from 10.4 percent in 2003-04 to 18.5 percent in 2009-10. After that it started declining and reached 7 percent level in 2014-15. This decrease in state excise is due to abolition of vend fees and additional vend fees for malt liquors and foreign liquors and sprits. The state excise relative to GSDP declined from 0.87 percent to 0.69 percent during 2003-04 to 2014-14.

Table 4.1: Composition of Tax Revenues

Taxes	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14Re**	**2014-15BE**
As % of Own Tax Revenues												
Sales Tax	69.0	67.1	66.6	63.9	61.4	61.4	61.9	59.9	60.9	61.9	70.4	71.0
State Excise	10.4	13.1	13.6	14.3	16.1	17.0	18.5	17.0	16.8	17.0	7.0	7.1
Stamps Duties	8.2	8.3	9.0	10.9	12.8	11.3	10.0	9.8	11.1	10.8	11.0	11.4
Motor Vechile tax	5.8	5.2	4.9	4.6	5.0	5.1	5.5	5.5	5.3	5.5	5.5	5.6
Goods&Pass. Tax	3.8	4.0	4.2	4.5	3.7	2.9	3.0	3.4	3.6	3.1	3.4	3.4
Others	2.6	2.3	1.8	2.0	1.1	2.3	1.0	4.4	2.5	1.8	2.7	1.5
Own Tax Revenue	100	100	100	100	100	100	100	100	100	100	100	100

Taxes	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14Re	2014-15BE
As % of GSDP												
Sales Tax	5.80	5.93	6.03	5.71	5.18	5.15	4.72	4.89	5.45	5.92	6.90	6.92
State Excise	0.87	1.16	1.23	1.28	1.36	1.43	1.41	1.39	1.50	1.63	0.69	0.69
Stamps Duties	0.69	0.73	0.81	0.97	1.08	0.95	0.76	0.80	0.99	1.03	1.08	1.11
Motor Vehicle tax	0.49	0.46	0.44	0.41	0.42	0.43	0.42	0.45	0.47	0.53	0.54	0.55
Goods & Pass. Tax	0.32	0.35	0.38	0.40	0.31	0.24	0.23	0.28	0.32	0.30	0.33	0.33
Others	0.22	0.20	0.16	0.18	0.09	0.19	0.08	0.36	0.22	0.17	0.26	0.15
Own Tax Revenue	8.40	8.84	9.05	8.94	8.44	8.39	7.62	8.17	8.95	9.57	9.80	9.75

Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years).

On the other hand, the share of stamps duty and registration increased from 8.2 percent to 11.4 percent. The stamp duty and registration as percentage of GSDP increased from 0.69 percent to 1.11 percent. The motor vehicle tax relative to GSDP also increased marginally form 0.49 percent to 0.55 percent.

4.2 Own Tax Buoyancy

Table 4.2 shows the annual buoyancy and the growth rates of major taxes. In 2009-10 the own tax buoyancy was 1.03 in 2003-04. It declined to 0.44 in 2009-10 due to decline in the buoyance of almost all taxes. Then it increased to 1.79 in 2011-12 and again it declined to 0.94 in 2014-15 due to economic downturn. It is noticed that the buoyancy of almost all taxes except excise duty in 2014-15 are less than that in 2003-04.

Table 4.2: Own Tax Revenues in Tamil Nadu: 2004-05 to 2013-14

Taxes	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14Re	2014-15BE
Annual Growth Rate (%)												
Sales Tax	14.76	18.10	19.69	13.97	2.42	13.87	9.61	26.27	26.82	21.36	33.26	11.10
State Excise	-21.60	53.82	24.62	25.49	19.51	20.81	17.12	20.40	22.91	21.56	-51.60	10.47
Stamps Duties	21.99	21.87	29.95	43.77	26.93	-0.29	-3.47	26.99	41.50	16.18	20.62	13.54
Motor Vehicle tax	25.30	8.61	10.86	12.08	17.63	15.26	18.43	31.38	16.58	26.68	16.66	12.31
Goods & Pass. Tax	24.81	25.03	28.94	26.25	-11.74	-10.82	11.56	48.89	30.60	6.04	24.19	10.00
Other Taxes	30.02	1.73	-6.74	38.95	-43.71	146.70	-52.61	478.42	-31.56	-12.84	74.56	-33.86
Own Tax Revenue	11.18	21.40	20.50	19.06	6.65	13.73	8.50	30.74	24.56	19.72	16.99	10.16
Tax Buoyancy												
Sales Tax	1.36	1.18	1.11	0.68	0.19	0.96	0.49	1.20	1.95	1.80	2.34	1.03
State Excise	-1.98	3.50	1.39	1.25	1.50	1.45	0.88	0.93	1.67	1.81	-3.63	0.97

Taxes	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14Re	2014-15BE
Stamps Duties	2.02	1.42	1.69	2.14	2.08	-0.02	-0.18	1.23	3.02	1.36	1.45	1.25
Motor Vehicle tax	2.32	0.56	0.61	0.59	1.36	1.06	0.94	1.43	1.21	2.24	1.17	1.14
Goods & Pass. Tax	2.28	1.63	1.63	1.28	-0.91	-0.75	0.59	2.23	2.23	0.51	1.70	0.93
Other Taxes	2.76	0.11	-0.38	1.91	-3.37	10.19	-2.69	21.82	-2.30	-1.08	5.24	-3.13
Own Tax Revenue	1.03	1.39	1.16	0.93	0.51	0.95	0.44	1.40	1.79	1.66	1.20	0.94

Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years); RE-Revised Estimates; BE-Budget Estimates.

4.3 Interstate Comparisons

As can be seen in Table 4.3, Tamil Nadu ranks first in per capita sales tax revenue (Rs. 6592) and second in sales tax revenue-GSDP ratio (6 percent), next only to Kerala (6.6 percent) among the major States in the country. It is also interesting to note that the state excise in Tami Nadu accounts for nearly 17 percent total own tax revenues, which is the second largest among the major States next only to Karnataka (21.1 percent).

Table 4.3: Composition of Own Tax Revenues in Major Indian States (2012-13 RE)

States	Sales Tax		Composition of Own tax Revenue (%)				
	Per Capita (Rs.)	% of GSDP	Sales Tax	State Excise	Stamps and Reg. Fees	Motor Vehicle Tax	Other Taxes
Andhra Pradesh	4892	5.6	67.2	16.8	7.9	5.8	2.3
Assam	2002	4.4	75.6	6.7	2.3	3.9	11.4
Bihar	809	2.6	49.0	16.5	11.6	3.9	19.0
Chhattisgarh	2812	4.8	55.5	16.7	7.2	4.6	15.9
Gujarat	6389	5.7	73.3	0.2	9.1	4.2	13.3
Haryana	6303	4.8	67.7	12.4	13.8	3.2	3.0
Himachal Pradesh	4535	4.3	62.9	15.9	3.2	4.3	13.8
Jharkhand	2068	4.0	76.6	7.5	5.6	6.3	3.9
Karnataka	4708	5.4	53.1	21.1	9.9	6.5	9.3
Kerala	6609	6.6	72.8	7.5	11.4	6.2	2.1
Madhya Pradesh	1959	3.9	49.0	16.9	11.7	5.1	17.3
Maharashtra	5162	4.3	59.1	9.5	16.4	4.5	10.5
Orissa	2290	3.8	64.0	9.8	3.6	5.6	17.0
Punjab	5001	5.2	61.3	15.6	12.3	4.1	6.7
Rajasthan	2672	4.0	61.5	12.8	10.9	7.4	7.4
Tamil Nadu	6592	6.0	61.0	17.0	11.6	5.7	4.7
Uttar Pradesh	1775	4.8	60.6	16.7	14.9	5.1	2.8
Uttarkhand	4021	3.6	67.6	16.7	9.5	4.5	1.7
West Bengal	2091	3.1	58.6	7.9	10.5	3.6	19.4

Source (Basic Data): Reserve Banks of India, State Finance: A Study of State Budgets (various years).

4.4. Concluding Remarks

Sales tax is by far the most important own tax revenue source in Tamil Nadu. It relative to GSDP is 6.92 percent in 2014-15BE. In fact Tamil Nadu ranks first in per capita sales tax revenue among the major Indian States. The share of state excise in the total own tax revenue of Tamil Nadu declined from 18.5 percent in 2009-10 to 7 percent in 2014-15 due to the abolition of vend fees and additional vend fees for malt liquor and foreign liquor and spirits. Another concern is the buoyancies of almost all taxes in 2014-15 were less than that in 2003-04.

Chapter 5

Growth and Composition of Expenditures

This Chapter analyzes the trends and composition of Government Expenditures. It also looks at the composition of revenue expenditures and compares the level of expenses in Tamil Nadu with that of other major Indian States.

5.1 Composition of Budget Expenditure

The total expenditure of government of Tamil Nadu stood around 16 percent of GSDP in almost all years shown in Table 5.1 (except in a few years). The revenue expenditure accounted for 92 percent in 2002-03 and its share declined to 82.9 percent in 2014-15 while the share of capital expenditure increased from 8.3 percent to 17.1 percent. Relative to GSDP, the revenue expenditure declined from 15 percent in 2002-03 to 13.5 percent in 2014-15 while the capital expenditure increased from 1.4 percent to 2.8 percent.

Table 5.1: Composition of Budget Expenditure

Expenditures	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Rs. Crore													
Revenue Expenditure	25688	25271	29155	32009	38265	42975	53590	59375	72916	83838	97067	116564	127100
Capital Expenditure	2324	4600	5650	5094	8207	9244	11934	10863	14688	21819	19337	22662	26208
Total Expenditure	28012	29871	34805	37103	46472	52219	65524	70238	87604	105657	116404	139226	153308
As % of Total Expenditure													
Revenue Expenditure	91.7	84.6	83.8	86.3	82.3	82.3	81.8	84.5	83.2	79.3	83.4	83.7	82.9
Capital Expenditure	8.3	15.4	16.2	13.7	17.7	17.7	18.2	15.5	16.8	20.7	16.6	16.3	17.1
Total Expenditure	100	100	100	100	100	100	100	100	100	100	100	100	100
As % of GSDP													
Revenue Expenditure	15.0	13.3	13.3	12.4	12.3	12.2	13.4	12.4	12.5	12.6	13.0	13.7	13.5
Capital Expenditure	1.4	2.4	2.6	2.0	2.6	2.6	3.0	2.3	2.5	3.3	2.6	2.7	2.8
Total Expenditure	16.4	15.7	15.9	14.4	15.0	14.9	16.3	14.6	15.0	15.9	15.6	16.4	16.3

Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years)

5.2. Trends and Composition of Revenue Expenditures

Table 5.2 shows that about 57 percent of Tamil Nadu's total revenue expenditure outlay was on development services. During 2002-03 to 2014-15, the proportion of outlay on social services increased from 31.3 percent to 37.7 percent while the proportion of outlay on economic services declined from 24.7 percent to 20 percent (Chart 5.1). The decline in the proportion of outlay on economic services was taken place mainly under irrigation,

flood and drainage and power services. The increase in the proportion of outlay on social services was mainly due to increase in the outlay on urban development and social security and welfare (Table 5.3).

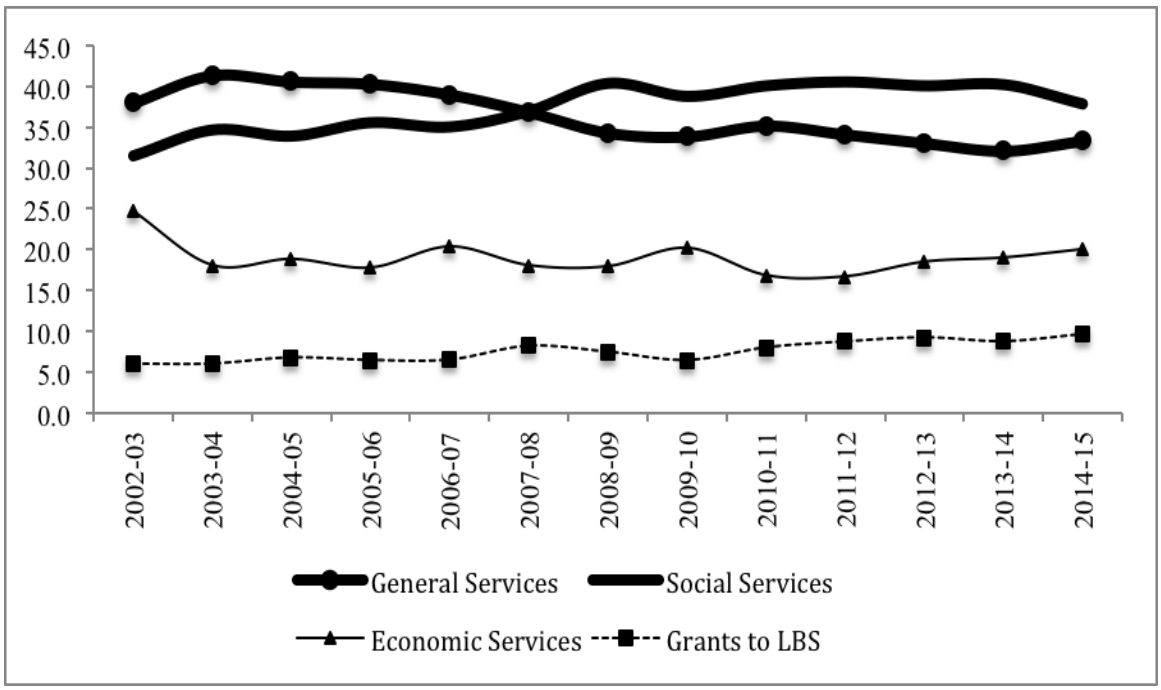
Table 5.2: Revenue Expenditures: Development Vs Non Development Expenditures
(As % of Total Revenue Expenditures)

Year	General Services	Grants to LBS	Non-Development	Social Services	Economic Services	Development Expenditures
2002-03	38.0	6.0	44.0	31.3	24.7	56.0
2003-04	41.4	6.0	47.4	34.6	18.0	52.6
2004-05	40.6	6.8	47.4	33.8	18.8	52.6
2005-06	40.3	6.5	46.8	35.5	17.7	53.2
2006-07	38.9	6.4	45.3	34.8	20.0	54.8
2007-08	36.9	8.2	45.1	36.9	18.0	54.9
2008-09	34.3	7.5	41.8	40.3	17.9	58.2
2009-10	34.0	6.5	40.5	38.7	20.3	59.0
2010-11	35.2	8.0	43.2	40.0	16.8	56.8
2011-12	34.1	8.7	42.9	40.5	16.7	57.1
2012-13	33.0	9.0	42.0	40.0	18.0	58.0
2013-14	32.1	8.8	40.9	40.1	19.0	59.1
2014-15	33.0	9.6	42.6	37.7	20.0	57.7

Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years)

The proportion of outlay on non-development services declined marginally from 44 percent in 2002-03 to 42.6 percent in 2014-15 (Table 5.2). The decline in proportion has taken place mainly under interest payment and debt servicing. The interest payment and debt servicing relative to GSDP declined from 2.4 percent in 2002-03 to 1.6 percent in 2014-15 (Chart 5.2). It is noticed that the share of compensation and assignments to local body governments in Tamil Nadu increased from 0.9 percent of GSDP in 2002-03 to 1.3 percent in 2014-15.

Chart 5.1: Composition of Revenue Expenditures (%)



In terms of absolute amount Tamil Nadu has provided the highest compensation to local bodies among the major India states in 2012-13RE. It also ranks second in terms of the compensation to LBs as percent of revenue expenditure as well as revenue receipts, next only to Assam. However, it ranks fifth in terms of the compensation to LBS as percent of own tax revenues among the major states in the country (Table 5.4).

Chart 5.2: Interest Payment and Grants to Local Bodies as Percent of GSDP

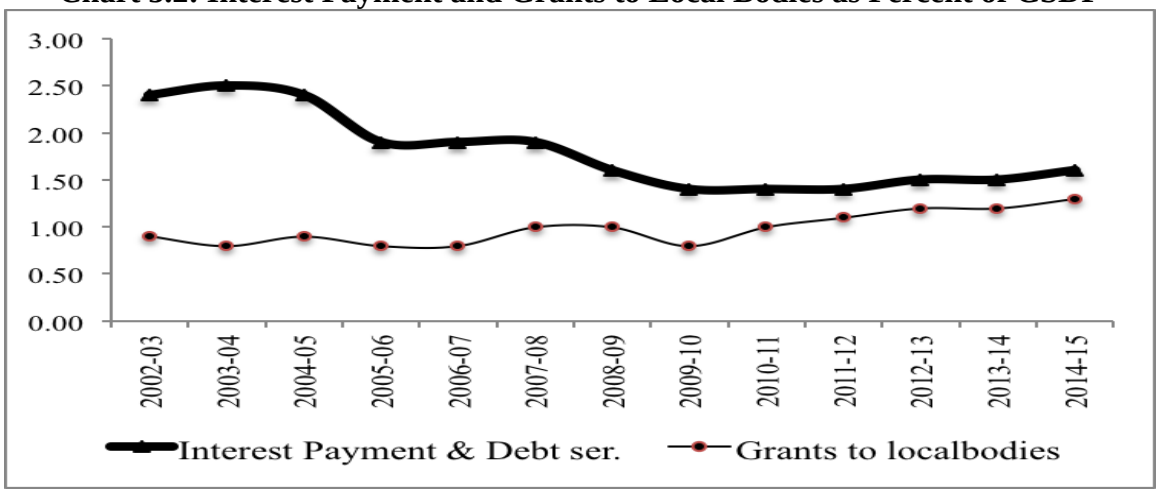


Table 5.3: Composition of Revenue Expenditures

(As % of GSDP)

Services	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Total Revenue Expenditure	15.0	13.3	13.3	12.4	12.3	12.2	13.4	12.4	12.5	12.6	13.0	13.7	13.5
General Services	5.7	5.5	5.4	5.0	4.8	4.5	4.6	4.2	4.4	4.3	4.3	4.4	4.5
Organs of State	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1
Fiscal Services	0.2	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest Payment & Debt ser.	2.4	2.5	2.4	1.9	1.9	1.9	1.6	1.4	1.4	1.4	1.5	1.5	1.6
Administrative Services	1.0	0.9	0.9	0.8	0.7	0.7	0.8	0.8	0.7	0.8	0.8	0.8	0.7
Pensions & Misc. Gen.Ser.	2.0	1.8	1.8	1.9	1.8	1.7	1.9	1.8	2.0	1.9	1.8	1.9	1.9
Grants to local bodies	0.9	0.8	0.9	0.8	0.8	1.0	1.0	0.8	1.0	1.1	1.2	1.2	1.3
Social Services	4.7	4.6	4.5	4.4	4.3	4.5	5.4	4.8	5.0	5.1	5.2	5.5	5.1
General Education	2.3	2.1	2.0	1.8	1.9	1.9	2.1	2.2	2.2	2.2	2.2	2.3	2.2
Technical Education	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Medical & Public Health	0.6	0.5	0.5	0.4	0.4	0.4	0.5	0.5	0.6	0.5	0.6	0.6	0.6
Family Welfare	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Water Supply & Sanitation	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.1	0.0
Housing	0.0	0.1	0.0	0.1	0.2	0.1	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Public Works	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.0	0.0
Urban Development	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.1	0.1	0.2	0.3	0.2
Welfare of SCs/STs/OBCs	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.3
Labour & Employment	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1
Social Security & Welfare	0.4	0.4	0.4	0.5	0.5	0.7	0.7	0.6	0.6	1.0	1.1	1.1	1.0
Nutrition	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Relief (Natural Calamities)	0.2	0.2	0.5	0.6	0.0	0.1	0.3	0.0	0.2	0.2	0.1	0.1	0.0
Economic Services	3.7	2.4	2.5	2.2	2.5	2.2	2.4	2.5	2.1	2.1	2.4	2.6	2.7
Agri and Allied	0.7	0.6	0.6	0.5	0.6	0.5	0.6	0.7	0.5	0.5	0.8	0.8	0.8
Rural Employment	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.0	0.0	0.1
Other Rural Devel.Programmes	0.2	0.3	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Irrigation, Flood and Drainage	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Power	1.2	0.2	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.5
Village & Small Industries	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Inudsties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.2
Transport and Communication	0.2	0.2	0.3	0.2	0.3	0.2	0.2	0.2	0.1	0.1	0.2	0.2	0.2
Civil Supplies	0.7	0.4	0.5	0.5	0.7	0.6	0.7	0.8	0.7	0.8	0.7	0.6	0.6
GSDP at Current Prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years).

Table 5.4: Compensation to LBs in Selective Indian States: 2012-13RE

States	Rs. Crore	% of Revenue Expenditure	% of Revenue Receipts	% of Own Tax Revenues
Andhra Pradesh	303	0.28	0.28	0.48
Assam	4016	10.74	10.49	48.67
Bihar	4	0.01	0.01	0.03
Chhattisgarh	854	2.83	2.64	6.49
Gujarat	164	0.23	0.22	0.31
Haryana	225	0.55	0.59	0.93
Himachal Pradesh	7	0.04	0.04	0.14
Jharkhand	1	0.00	0.00	0.01
Karnataka	5011	5.97	5.90	9.37
Kerala	4165	8.06	8.63	13.14
Madhya Pradesh	4235	6.48	5.90	14.32
Maharashtra	1490	1.03	1.03	1.48
Orissa	646	1.51	1.42	4.22
Punjab	772	1.75	1.97	3.18
Rajasthan	338	0.50	0.49	1.12
Tamil Nadu	9233	9.11	9.07	12.55
Uttar Pradesh	6245	4.13	3.99	10.33
Uttarkhand	848	5.30	4.93	14.01
West Bengal	560	0.66	0.78	1.73

Source (Basic Data): Reserve Banks of India, State Finance: A Study of State Budgets (various years).

Table 5.5 shows the economic classification of revenue expenditures for recent years. Salaries and wages and pension payments amounted to 41 percent of total revenue expenditure in 2012-13. Interest payments accounted for nearly 11 percent while subsidies for about 10 percent.

Table 5.5: Economic Classification of Revenue Expenditures

Items	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13
	Rs. crore			***As % of Total Revenue Expenditure***		
Interest Payment	7913	9418	10836	10.9	11.2	11.2
Subsidies	7739	8698	9592	10.6	10.4	9.9
Wages and Salaries	23825	26797	27597	32.7	32.0	28.4
Pension Payments	11635	12277	12494	16.0	14.6	12.9
Others	21804	26647	36548	29.9	31.8	37.7
Total Revenue Expenditure	72916	83838	97067	100.0	100.0	100.0

Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years)

5.3. Debt Portfolio of Tamil Nadu Government

Tamil Nadu has consciously diversified its debt portfolio to spread out risk and minimize the borrowing costs. The current debt portfolio includes: open market borrowings, loans through financial institutions, receipts form National Small Saving Scheme, contribution ot State Provident Fund, and loans from government of India. The composition of debt portfolio of Tamil Nadu State Government in 2013-14 RE is shown in Table 5.6.

Table 5.6: Composition of Debt Portfolio of Tamil Nadu Government (2013-14RE)

Sl. No.	Source	Rs. Crore	%	Interest Rate
1	Open Market Loans	96432	58.3	8.23%
2	Loans from National Small Savings Fund	24177	14.6	9.08%
3	Loans from Financial Institutions	6577	4.0	9.74%
4	Loans from Government of India *of which*	11782	7.1	8.16%
	Loans for Externally Aided Projects	6960	4.2	3.23%
5	Provident Funds etc	14202	8.6	8.70%
(1-5)	Budgetary Borrowings	153171	92.6	8.29%
6	Reserve Funds and Deposits	12288	7.4	
	Total Liabilities	165459	100.0	8.29%

Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years).

It is noticed from Table 5.6 that external loans are the cheapest source of borrowing followed by other loans from government of India. But these options are limited by the overall limits of external agencies and Government of India, open market borrowings are the next cheapest source. All other sources are either statutory liabilities or high cost ad hoc loans. The total outstanding liabilities of the State stood around Rs. 165460 crore which was about 19.5 percent of GSDP. This is well within the norms prescribed by the Thirteenth Finance Commission and the Tamil Nadu Fiscal Responsibility and Budgetary Management Act, 2003.

5.4. Interstate Comparison

Tamil Nadu compares well with other major States in per capita revenue expenditure. It ranks second in terms of the high per capita revenue expenditure, next only to Uttarkhand (Table 5.7)

Table 5.7: Composition of Revenue Expenditure in Major States (2012-13RE)

States	Revenue Expenditure		Composition of Revenue Expenditure (%)		
	Per Capita (Rs.)	As % of GSDP	General Services	Social Services	Economic Services
Andhra Pradesh	12546	14.3	31.3	41.5	27.0
Assam	12000	26.4	28.5	41.6	19.1
Bihar	6760	21.5	33.1	42.9	24.0
Chhattisgarh	11602	19.6	23.1	45.7	28.4
Gujarat	11931	10.7	35.1	41.8	22.8
Haryana	15705	11.9	29.9	39.8	29.7
Himachal Pradesh	23498	22.2	38.9	38.2	22.8
Jharkhand	8746	17.1	30.9	40.7	28.4
Karnataka	13902	16.0	25.2	39.0	29.8
Kerala	14789	14.8	41.1	36.4	14.4
Madhya Pradesh	8823	17.5	28.7	40.5	24.3
Maharashtra	12565	10.5	33.9	45.5	19.5
Orissa	9969	16.7	34.9	38.1	25.5
Punjab	14776	15.4	42.7	31.1	24.4
Rajasthan	9740	14.7	31.1	39.8	28.6
Tamil Nadu	14877	13.6	31.6	39.3	20.0
Uttar Pradesh	7326	19.7	41.1	39.1	15.6
Uttarkhand	15723	14.0	35.5	43.3	15.9
West Bengal	9401	13.8	40.9	42.5	15.9

Source (Basic Data): Reserve Banks of India, State Finance: A Study of State Budgets (various years).

5.5 Concluding Remarks

During 2002-03 to 2014-14, the share of capital expenditure in the total expenditure was almost doubled, that is, it increased from 8.3 percent to 17.1 percent. Nearly 58 percent of revenue expenditure was on development services in 2014-15 (38 percent on social services and 20 percent on economic services). Over the years, the share of social services increased due to increased outlay on urban development and social security and welfare while the share of economic services declined mainly due to fall in the outlay on irrigation, flood and drainage and power. Interestingly Tamil Nadu provides the highest compensation of Local Bodies among the major Indian States. Salaries and pension amounted to 41 percent of total revenue expenditure while interest payments and subsidies accounted for about 11 percent and 10 percent respectively.

Chapter 6

A Note on Public Sector Enterprises

This Chapter briefly reviews the performance of two major public sector enterprises in Tamil Nadu, namely electricity utilities and state transport utilities. Section 6.1 reviews the performance of the former while Section 6.2 reviews the performance of latter.

6.1. Electric Utility Sector

Tamil Nadu's physical performance in the electric utility sector is creditable.

- All villages in the state have been electrified, compared with the All- India figure of 84 percent. 98 habitations in remote forest areas are to be covered by solar power soon.
- The thermal plants plant load factors are above the national average.
- Her T&D loss of 16.95 percent in 2011-12 was well below the loss for India of 22.39 percent; The AT&C loss of 17.88 was also below the national average
- Tamil Nadu's per capita annual electricity consumption is 1065 kWh (734 kWh for India).
- Tamil Nadu energized 1,990,259 pump sets in March 2009 , nearly one-fifth of pump sets in India.
- Tamil Nadu's achievements in power generation from renewable energy sources have been widely acclaimed.

Tamil Nadu has initiated many reform measures in the power sector. The Tamil Nadu Electricity Board (TNEB) was restructured on November 1, 2010 into 3 companies:
TNEB Ltd, Tamil Nadu Generation and Distribution Corporation Ltd (TANGEDCO), and Tamil Nadu Transmission Corporation Ltd (TANTRANSCO). It created Tamil Nadu Electricity Regulatory Commission for determination of electricity tariffs. There are many independent power producers in the State. Multi-year tariffs, and competitive bidding for tariffs from independent power producers are followed. The State has participated in Government of India's rural electrification and restructured accelerated power development programmes. It has undertaken many demand side management programmes including adoption of increasing block tariff for large domestic consumers, stimulus for adoption of energy efficient lamps, replacement of energy inefficient pump sets by energy efficient pump sets, adoption of energy conservation building codes for large projects, and participation in Perform, Achieve and Trade scheme for large designated consumers of Bureau of Energy Efficiency.

The major concern is the growing financial losses. The average revenue – average cost ratio of 0 .6863 is below the ratio for India of 0.7782 in 2011-12. The average tariff in Tamil Nadu of Rs 352.73 was below the All -India figure of Rs 379.56. The Planning

Commission Annual Report 2011-12 on the working of State Public Undertakings and EDs estimates the losses with subsidy at Rs.8144 crore and without subsidy at Rs 10426.

In order to enable TANGEDCO to avail borrowings during the financial year 2012-13, the Government of Tamil Nadu has provided Government guarantee of Rs. 10,000 crore for transition loans i.e., Rs. 5,000 crore each from Rural Electrification Corporation Limited (REC) and Power Finance Corporation Limited (PFC). In addition, Government of Tamil Nadu has provided guarantee of Rs. 6000 crore to Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (TNPFC) for raising funds through issue of bonds for onward lending to TANGEDCO. In the process of implementing the Financial Restructuring Plan, Government guarantee of Rs. 18,493.45 crore has been sanctioned to TANGEDCO.[8]

6.2. State Road Transport Utility

Tamil Nadu fares well in terms of physical performance indicators such as fuel efficiency, vehicle productivity, and low average vehicle age. However, its financial performance has been poor. In 2011-12, all six road transport corporations incurred losses aggregating to Rs 1291 crore.

Every effort must be made to improve operational efficiency of SRTUs. Even then their social obligations may result in losses. There are a few options for improving the financial sustainability of the SRTUs. They are:

- Annual revisions of bus fares
- Allow pass –through for increase in labour, diesel and material costs, twice a year
- Central government may reimburse 50% of the costs of concessions related to rural/ remote area connectivity and subsidies for merit goods based on nationally agreed social goals
- Environmental considerations justify lower price for diesel. IT based payment mechanism be evolved
- The taxes – excise duty on motor vehicles and spare parts, motor vehicle tax, tax on diesel etc- may be lowered in view of the social and environmental benefits of bus transportation;
- Loans at lower interest rates may be arranged for SRTUs subject to the condition that they improve their operational efficiency in a time bound manner.

[8] Total outstanding guarantees of State Government in (Rs. billion) since 2002-13 are given below:

Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Guarantees	119.2	108.2	77.8	63.3	58.5	56.1	54.2	59.6	n.a	221.2

Chapter 7

Devolution to Rural and Urban Local Bodies

7.1 Introduction

In contemporary analysis of devolution reference is frequently made to the three Fs, namely, functions, finances and functionaries, more precisely their devolution to PRIs. One of the tests of devolution is the degree of autonomy with which these three components are made available to PRIs. By implication the success of decentralization is thought to be dependent on whether PRIs have access to adequate resources as well as the staff who are required to carry out the functions assigned to each tier in the system. Also considered is the specificity in the delegation of functions to Panchayats. Before taking up the detailed discussion of the issues mentioned above it is necessary to describe the constitutional position which will serve as a useful background to the study.

The relevant Articles are 243(G) and 243(H). The former states as follows:

"Subject to the provisions of this Constitution the legislature of a state may, by law endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon panchayats, at the appropriate level, subject to such conditions as may be specified therein, with respect to –

a) the preparation of plans for economic development and social justice,
b) The implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule.

Article 243 (H) reads as follows:

"The legislature of a state may, by law-

a) authorize a Panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;
b) assign to a Panchayat such taxes, duties, tolls and fees levied and collected by the State government for such purposes and subject to such conditions and limits;
c) provide for making such grants-in-aid to the Panchayats from the Consolidated Fund of the State and;
d) Provide for constitution of such funds by crediting all moneys received respectively, by or on behalf of the Panchayats and also for the withdrawal of such moneys there from, as may be specified in the law."

In addition Art.243(I) makes it incumbent upon states to constitute a quinquennial Finance Commission to review the financial position of the Panchayats and "to make recommendations to the Governor as to –

a) the principles which should govern

i) the distribution between the State and the Panchayats of the net proceeds of taxes, duties, tolls and fees leviable by the State, which *may be divided between them under this part* and the allocation between the Panchayats at all levels of their respective shares of such proceeds;
ii) the determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the Panchayats;
iii) the grant-in aid to the Panchayats from the Consolidated Fund of the State;

b) the measures needed to improve the financial position of the Panchayats;

c) any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Panchayats"

7.2 Highlights of State Finance Commission Recommendations – Tamilnadu

The highlights of the recommendations of the first two State Finance Commission Reports in Tamilnadu is given below:

First State Finance Commission

Tamil Nadu Government follows the principle of global sharing transmitting across the broad buoyancy instead of shared individual taxes. This makes the level of devolution more predictable since the total revenues do not fluctuate as much as proceeds from each tax item. The major recommendations including the financial devolution were accepted and implemented by the State Government. The funds devolved to the local bodies have been grouped by the State Finance Commission under two headings viz Pool –A and Pool-B.

Under **Pool A,** assigned revenue from surcharge on stamp duty, Local Cess, Local Cess Surcharge and 90 per cent of the entertainment tax based on place of origin of the tax is distributed to the Rural Local Bodies.

Pool B (Global Sharing), the State Finance Commission has grouped all the State taxes except entertainment tax and has recommended that 8 % of this should be shared with the local bodies in 1997-98. State government is devolving only 8 per cent of its revenue mobilized from state own tax revenue to local bodies.

Out of 100 per cent global sharing prescribed under Pool B for each year, 15 per cent shall be set apart as Reserve, Equalisation and Incentive Funds, remaining 85 per cent is shared among the rural and urban local bodies at the ration of 55:45. The 55 % allocated to the rural local bodies were shared between Village Panchayats, Panchayat Unions and District Panchayats.

Allocation between rural local bodies is shared between Village Panchayats, Panchayat Union and District Panchayats in the ratio of 47:45: 8.

The Equalisation and Incentive Grant is shared at the ratio of 60:40 among the rural and urban local bodies. The Equalisation and Incentive Grant is unique in the sense that financial and infrastructurally weak local bodies are assisted to bring about an equitable development. Therefore, it also extended to areas prone to natural calamities.

In 1999-2000 the ***Equalisation and Incentive Grant*** were distributed to the Village Panchayats and Panchayat Unions on the basis of the following purposes.

- Payment towards electricity charges by weaker Village Panchayats
- Creation of infrastructure facilities in less development Panchayats
- For Weaker Panchayat Union which could not meet the administrative expenses.
- Repair of 2000 Noon Meal centers
- Incentives for collection of House Tax
- Incentives for Village Panchayats which are maintaining common community, burial and burning ground for use of all communities.
- Awards for best performing Village Panchayats, Panchayat Unions and District Panchayats.

Further House Tax matching incentive is extended to the Village Panchayats at the rate of Rs.2 for every one rupee of house tax collected. It may be emphasized that these transfers are being done without transferring the cost of the Government Employees to the local bodies under Rural Development Department and other key sector Departments.

20 per cent of the SFC devolution to the Gram Panchayats has been reserved for capital works.

Apart from State Finance Commission (SFC) devolution, various plan, non-plan and discretionary grants and government loans etc are transferred from State government to local bodies every year.

Non plan discretionary grants to the local bodies in Tamilnadu are, maternity grants, social education grants, etc and plan grants such as *Anna Marumalarchi Thittam*, *Namakku Name Thittam*, Golden Jubilee water supply scheme grants to agency functions, schemes relating to Panchayat raj institutions etc., These funds are passed on to the local bodies outside the devolution package recommended by the SFC.

Table 7.1: First State Finance Commission Grant				
				Rs. in crores
Year	Village Panchayats	Panchayat Unions	District Panchayats	Total
1997-98	191.79	146.55	30.95	369.29
1998-99	240.19	180.01	33.52	453.72
1999-00	240.48	183.87	30.71	455.06
2001-01	307.34	231.69	38.76	577.79
2001-02	81.75	87.93	17.76	187.44
Total	**1061.55**	**830.05**	**151.70**	**2043.30**

Second State Finance Commission (SSFC)

SFC recommended a change in the Pool-B as follows. "The Commission recommends that the approach of global sharing is the proper mechanism for devolution from State to local bodies. The percentages of global sharing from out of SOTR after excluding Entertainment Tax shall be as under:

2002-03	8%
2003-04	8%
2004-05	9%
2005-06	9%
2006-07	10%".

But the state government kept the SFC grants as 8 % only.

Table 7.2: Second State Finance Commission Grant				
				Rs. in crores
Year	Village Panchayats	Panchayat Unions	District Panchayats	Total
2002-03	416.25	278.73	47.11	742.09
2003-04	355.62	266.89	49.01	671.52
2004-05	398.26	400.43	64.15	862.84
2005-06	499.27	426.25	69.23	994.75
2006-07	614.71	524.81	85.24	1224.76
Total	**2284.11**	**1897.11**	**314.74**	**4495.96**

Third State Finance Commission

The State Government constituted the Third State Finance Commission during December 2004 to assign revenues to the panchayat institutions in the state. The major recommendations included

- to increase the devolution grant from existing 8 per cent to 9 per cent of the State's Own Tax revenue in 2007-08. The devolution grant is to be shared between the rural and urban local bodies in the ration of 58:42.

- The 58 per cent devolution grant to rural local bodies to be distributed among the three tiers of PRIs, namely village panchayats, block panchayats and district panchayats in the ratio 60:32:8 from 2007-08.
- the allocation of SFC funds to the Village Panchayats based on the criteria adopted in the earlier years was not sufficient for many Panchayats to meet the minimum payment of electricity charges and water charges. Hence the Government ordered that the village Panchayat's share will be raised to 60 per of the devolution grant allocated to PRIs.

Table 7.3: Third State Finance Commission Grant

(Rs.in crores)

Year	Village Panchayats	Panchayat Unions	District Panchayats	Total
2007-08	950.15	506.75	126.69	1583.59
2008-09	1029.86	549.26	137.32	1716.64
Total	**1980.01**	**1056.01**	**264.01**	**3300.0**

7.3 Assigned Revenues

a. Local Cess and Local Cess Surcharge:

Section 167 of the Tamil Nadu Panchayats Act, 1994 provides for the levy of local cess at the rate of Re.1 on every rupee of land revenue realized in the State. The total amount realized from this source was distributed entirely to Village Panchayats. Similarly, Section 168 of the Act provides for the levy of local cess surcharge at such rate which may be considered suitable but not less than Rs.5 on every rupee of land revenue. The levy, collection and adjustment to Village Panchayats and Panchayat Unions is done by Revenue Department in the districts.

Table 7.4: Assigned Revenues: Local Cess and Local Cess Surcharge*

(Rs. in crores)

Year	Local cess	Local cess surcharge
1995-96	2.05	26.19
1996-97	2.13	24.26
1997-98	1.37	7.35
1998-99	2.81	14.20
1999-00	2.52	15.17
2000-01	5.94	29.96
2001-02	5.74	27.76
2002-03	5.10	26.03
2003-04	4.81	24.30
2004-05	1.42	7.07
2005-06 *	4.53	23.79
2006-07 *	3.41	18.33

* Source: Second and Third State Finance Commission Reports

b. Surcharge on Stamp duty on transfer of property

Under Section 175 of the Act, provision is made for crediting the proceeds under surcharge on Stamp duty to Village Panchayats. This is adjusted in quarterly installments by the Registration Department in the districts.

Table 7.5: Assigned Revenues: Surcharge on Stamp Duty *

Year	Surcharge on Stamp duty (Rs. in crores)
1995-96	48.85
1996-97	49.79
1997-98	39.23
1998-99	60.48
1999-00	66.67
2000-01	112.92
2001-02	128.57
2002-03	191.04
2003-04	122.91
2004-05	153.62
2005-06 @	63.87
2006-07 @	74.10

* Source : Second and Third State Finance Commissions Reports

@ Source : District Collectors Report

c. Entertainment Tax

90% of the Entertainment Tax collected in rural areas is assigned to rural local bodies. This is distributed between the Panchayat Unions and Village Panchayats in the ratio of 30:70 respectively by the Commercial Tax department in the districts.

Table 7.6: Assigned Revenues: Entertainment Tax

Year	Entertainment tax (Rs. in crores)
1995-96 *	7.71
1996-97 *	7.73
1997-98 *	5.73
1998-99 *	9.50
1999-00 *	10.32
2000-01 *	0
2001-02 *	0
2002-03 *	1.58
2003-04 *	2.44
2004-05 *	5.27
2005-06 @	0.59
2006-07 @	0.88

* Source : Second State Finance Commission Report
Source: Third State Finance Commission Report

@ Source: District Collectors' Report

d. Mines and Minerals

The quarry lease income from minor mineral is shared with local bodies. Previously, it was with Revenue Department but subsequently it was entrusted to a separate department called Geology and Mining. The department had issued instructions for adjusting the amount at the end of April every year which means after the closure of the financial year. From 2.10.2003, P.W.D. is operating the sand quarries and the income has gone to Government Account. However the Seignorage fees have been apportioned to local bodies.

Table 7.7: **Assigned Revenues : Lease amount derived from Mines and Minerals**

Year	Lease amount derived from Mines and Minerals (Rs. in crores)
2000-01 *	31.22
2001-02 *	35.08
2002-03 *	40.71
2003-04 *	39.62
2004-05 *	33.25

$ Source: Third State Finance Commission Report

e. Social Forestry Receipts

There was no statutory obligation for sharing the Social Forestry receipts till 1992 but the 73rd Constitutional Amendment Act, had assigned the Social Forestry and Farm Forestry to rural local bodies under Schedule - XI of the Constitution of India. The proceeds of social forestry from 1997-98 to 1999-2000 have been ordered to transfer the same to Panchayats. The Third State Finance Commission recommended to share the social forestry receipts on 50:50 basis as per Government orders.

Table 7.8: **Assigned Revenues : Social Forestry**

Year	Social Forestry (Rs. in crores)
1993-94 *	8.75
1994-95 *	
1995-96 *	
1996-97 *	
1997-98 *	6.92
1998-99 *	
1999-00 *	
2000-01 #	15.1643
2001-02 #	
2002-03 #	
2003-04 #	

Source: * G.O.Ms.No.33, Environment & Forests (Forests .6) Dept. Dt.15.2.2000
Source: $ G.O.Ms.No.234, Environment & Forests (Forests .6) Dept. Dt.27.12.2005
Source: # G.O(2D).No.93, Environment & Forests (Forests .6) Dept. Dt.15.11.2007

7.4 Pooled Assigned Revenue from 2007-08

The Assigned Revenues of rural local bodies include the class of taxes and levies like Entertainment Tax, levied under Entertainment Tax Act, 1939, surcharge on Stamp duty levied under Tamil Nadu Panchayats Act, 1994 and Local Cess / Local Cess Surcharge on land revenue levied under the Tamil Nadu Panchayats Act, 1994 are traditionally collected by the concerned Government departments and adjusted directly to local bodies by the District Collectors.

The system of adjusting Assigned Revenues to various rural local bodies through adjustments leads to considerable delay in transferring the funds.

To ensure quick transfer, the Government have issued orders to pool the Assigned Revenues. i.e. Local Cess, Local Cess Surcharge, Surcharge on Stamp Duty and Entertainment Tax at State Level and to apportion the same to rural local bodies.

Accordingly Government allocated Rs.270 Crores for Pooled Assigned Revenue for the year 2007-08. Out of this amount, Rs. 180 Crores had been released to all the Village Panchayats, Panchayat Unions and District Panchayats on population basis and Rs. 90 Crores released to districts for Priority Schemes.

During 2008-09, Government allocated Rs.541.77 Crores for Pooled Assigned Revenue out of this amount Rs.361.18 Crores has been released to all the Village Panchayats, Panchayat Unions and District Panchayats on population basis and Rs.180.59 Crores released to districts for Priority Schemes. During 2009-10, Government allocated Rs.359.49 Crores for Pooled Assigned Revenue out of this amount Rs.179.745 Crores has been released to all the Village Panchayats Panchayats Unions and District Panchayat on population basis and Rs.179.745 Crores has been released to districts for Priority Schemes.

Table 7.9 Pooled Assigned Revenue: Sources of Fund

Sl. No.	Tax	Rs. in Crores
1.	Local Cess	6.34
2.	Local Cess Surcharge	31.75
3.	Surcharge on Stamp Duty	228.73
4.	Entertainment Tax	2.50
	Total	269.32

Source: G.O.Ms.No.168, RD & PR (C4) Department dated 4.10.2007

7.5 Urban Local Bodies

The 74th Constitutional amendment gave constitutional status to Urban Local Bodies (ULBs) and established a system of uniform structure, regular election, regular flow of funds through Finance Commission etc. As a follow up, the States are required to entrust these bodies with powers, functions and responsibilities so as to enable them to function as institutions of self-government.

Consequent to the 74th amendment of the Constitution, the Government of Tamil Nadu amended the Tamil Nadu District Municipalities Act, 1920 for transferring the powers and responsibilities to ULBs in order to implement schemes for economic development and social justice including those in relation to the matters listed in the Twelfth Schedule of the Constitution.

7.5.1 Devolution of functions, functionaries and funds

Consequent to the 74th amendment of the Constitution, the Government of Tamil Nadu amended the Tamil Nadu District Municipalities Act, 1920 for transferring the powers and responsibilities to ULBs. Twelve out of 18 functions enlisted in the Twelfth Schedule of the Constitution have been devolved to the Town Panchayats. As per the information furnished (June 2010) by the Commissioner of Municipal Administration (CMA), 17 functions (except Fire Service) have been devolved to the municipalities and municipal corporations. In respect of Chennai City Municipal Corporation, only 13 functions have so far been devolved and the function of water supply was handled by the Chennai Metropolitan Water Supply and Sewerage Board.

As of March 2011, functionaries were not transferred to the ULBs to carry out the devolved functions. Government reported that plan and non-plan discretionary grants were being transferred to the ULBs in addition to successive State Finance Commission grants. These earmarked grants were intended for specific functions such as water supply, roads, public health, street lighting, sanitation, etc. entrusted to the ULBs. The ULBs were empowered to revise and levy local taxes such as Property / House Tax, Profession Tax, etc. based on the recommendations of State Finance Commissions (SFCs), as accepted by the Government and as per the Local Bodies Acts.

The major sources of finances of the urban local bodies include the State Finance Commission Grants, State Plan Grants, Central Finance Commission Grants, Centrally Sponsored Schemes Grants, Own Revenue, Assigned revenue and loans as given in the Table below:

Table 7.10 Funds Flow mechanism in ULBs in Tamilnadu (Amount in Crores)

Nature of Funds	2006-07	2007-08	2008-09	2009-10	2010-11
Own Revenue	2834	1511	1742	1992	2174
Assigned Revenue	298	453	451	370	372
Grants	1709	2000	1944	2658	3969
Loans	151	114	353	428	636

It may be observed that the own revenue mobilisation by the ULBs in the state has come down drastically from the 2006-07 figures which necessitates improved tax collection measures by these ULBs. Assigned revenues by the State Government is indicating a fluctuating trend but the grants received from GoI and State for various schemes has been showing an increase trend over the years. However, the disturbing trend is that the loans availed by the ULBs has gone up by almost 4 times during the period.

7.6 Central Finance Commissions:

Tenth Central Finance Commission Grant

The Tenth Finance Commission recommended an adhoc grant of Rs.71.83 Crores annually from 1996-97 to 2000-01 for the rural local bodies in Tamil Nadu to take up capital works which was the first time when a central finance commission touched the local bodies.

While releasing the amount the Government had stipulated that the local bodies could take up capital works from out of the Tenth Central Finance Commission's grant by suitable contribution from its general funds.

Table 7.11 : Tenth Central Finance Commission Grant

				(Rs in crores)
YEAR	Village Panchayats	Panchayat Unions	District Panchayats	Total
1996-97 *	5.43	38.40	28.00	71.83
1997-98 *	19.13	38.70	14.00	71.83
1998-99 *	18.63	46.20	7.00	71.83
1999-00 *	33.78	32.32	5.75	71.85
Total	**76.97**	**155.62**	**54.75**	**287.34**

*Source : Second State Finance Commission Report.

Eleventh Central Finance Commission Grants

The 11th central finance commission recommended grants to rural local bodies in Tamil Nadu for Rs.9,322.36 lakhs per annum for five years from 2000-01 to 2004-05. Out of this grant, Rs.519.12 lakhs per annum had been earmarked for maintenance of accounts in rural local bodies. This grant was released for the maintenance of civic services to Village Panchayats and Panchayat Unions in the ratio of 55 : 45 respectively based on the population which are having a primary responsibility in the maintenance of civic services by a suitable contribution from its general funds.

Table 7.12: Eleventh Central Finance Commission Grant

			(Rs in crores)
YEAR	Panchayat Unions	Village Panchayats	Total
2000-01	38.68	47.28	85.96
2001-02	38.68	47.28	85.96
2002-03	38.68	47.28	85.96
2003-04	40.68	53.38	94.25
2004-05	66.71	47.27	113.99
Total	**223.63**	**242.49**	**466.12**

Twelfth Central Finance Commission Grant

A total sum of Rs. 870 crores has been allotted to Tamil Nadu for the period from 2005-06 to 2009-10 under 12th Finance Commission Grant to rural local bodies. A sum of Rs.174 crores was released to Village Panchayats and Panchayat Unions in the ratio of 80: 20 respectively in the year 2005-06 and the entire grant is released only to Village Panchayats from the second instalment of funds in the year 2006-07 onwards. This grant is to be utilized entirely for the O & M costs of water supply, street lighting and sanitation.

Table 7.13: Twelfth Central Finance Commission Grant

			(Rs in crores)
YEAR	Panchayat Unions	Village Panchayats	Total
2005-06	34.80	139.20	174.00
2006-07	17.40	156.60	174.00
2007-08	0.00	174.00	174.00
2008-09	0.00	174.00	174.00
2009-10	0.00	174.00	174.00
Total	**52.20**	**817.80**	**870.00**

Chapter 8

Conclusion

This study has reviewed the finances of Government of Tamil Nadu during 2002-03 to 2014-15. The analyzes of trends and compositions of various key fiscal indictors over the years show:

1. Tamil Nadu's record of resource mobilization is one of the best among the states in the country. It ranks third in per capita revenue, next only to Himachal Pradesh and Uttarkhand and it has the highest per capita own tax revenue among the major States in the country. However, the own non-tax revenues are fairly low, However there is scope for improving the resource mobilisation efforts through better tax collection measures by the rural and urban local bodies apart from improving the collection of user charges. This would also strengthen the revenue base in the state.
2. While Tamil Nadu ranks first in per capita sales tax revenue, the share of state excise in the total own tax revenue has declined over the years due to the abolition of vend fees and additional vend fees for malt liquor and foreign liquor and spirits.
3. Another concern is the buoyancy of almost all taxes in recent years are lower than that in 2003-04 due to down turn of the economy.
4. The share of central transfers in the total revenue receipts of the State declined to 22 percent from 32 percent in early years of eighties, due to the changes in the successive Finance Commissions recommendations and modified Gadgil formula for allotting state plan assistance by the Centre and also due to State's increased own effort in resource mobilization
5. Tamil Nadu compares well with other States in per capita revenue expenditure. In fact, it ranks second in per capita revenue expenditure. Nearly 58 percent of revenue expenditure was incurred on development services. While salaries, wages and pension amounted to 41 percent, interest payments and subsidies together accounted or 21 percent of total revenue expenditure. Tamil Nadu ranks first in providing the highest compensation to local bodies. As Tamil Nadu has the largest number of Government employees, the forthcoming recommendations of seventh pay commission may have a severe financial implication.
6. During 2002-03 to 2014-15, the GSDP at current prices grew at 15.3 percent per annum while the revenue receipts and revenue expenditure grew at 16.4 percent and 14.5 percent respectively. As a result, the revenue account showed surplus in almost all years except in two years.
7. Interestingly, the share of capital outlay increased from 8.3 percent of total expenditure to 17.1 percent (i.e., almost doubled).
8. Its fiscal deficit and outstanding liabilities relative to GSDP kept below the norms prescribed in the FRBM Act, 2003.
9. The ongoing slowdown of the economy may result in low central tax buoyancy. This in turn may affect the share of states in the central pool.

10. Growth of agriculture, which is highly volatile, is vital for food security in the state and for providing livelihood for more than 50 percent of people. The state needs to make necessary investments in this sector to ensure growth.
11. Tamilnadu is one of the few states that has Universal Public Distribution System that involves huge subsidies. Efforts are needed to introduce the Targeted Public Distribution System focusing on BPL families in the state. Another area that has huge amount of subsidies is the electricity charges that needs to be increased at regular intervals. In recent past steps have been initiated by the state to increase the electricity tariff but more needs to be done in this area. There are many other policies initiated by the Government that involves huge subsidies and is putting burden on the State exchequer. The state needs to constitute a High Level Committee to look into issues of subisidies in the State and come out with a policy to Target the same to the people who are in need.
12. Manufacturing growth is also vital for generating employment opportunities. The state needs more investments to ensuring uninterrupted power supply to industries.
13. Contribution of cesses and surcharges to central government revenues increased significantly over the years. But they are kept out of the purview of sharing with the States under the recommendations of the Finance Commission as provided in the 80th Amendment.