REVIEW OF TRENDS IN RECEIPTS AND EXPENDITURE IN RELATION TO THE BUDGET ESTIMATES 2017-2018

The Tamil Nadu Fiscal Responsibility Act, 2003 (Act No.16 of 2003) has been enacted by the Tamil Nadu Legislative Assembly in the year 2003. According to Section 6(2) of this Act, the Minister-in-charge of the Department of Finance shall review every half year, the trends in receipts and expenditure in relation to the Budget Estimates and the remedial measures to be taken to achieve the budget targets, and place the outcome of such reviews before the Legislative Assembly.

Section 6(3) of the Act states that while placing the outcome of such review before the

Legislative Assembly, the Minister shall make a statement explaining:

a) Any deviation in meeting the obligations cast on the State Government under this Act;

b) Whether such deviation is substantial and relates to the actual or the potential budgetary outcomes; and

c) The remedial measures the State Government proposes to take.

The Hon'ble Deputy Chief Minister has reviewed the trends in receipts and expenditure for the period of six months from April to September 2017 in relation to the Budget Estimates 2017-2018 on 30th November 2017. The outcome of this review is placed before the Legislative Assembly.

REVENUE RECEIPTS

The Total Revenue Receipts of the Government include the following:

a) State's Own Tax Revenue

b) State's Own Non-Tax Revenue

c) Tamil Nadu's Share in Central Taxes

d) Grants-in-Aid from the Government of India

The Total Revenue Receipts are estimated at Rs.1,59,363 crore in Budget Estimates 2017-2018, which include Grants-in-Aid and Share in Central Taxes from the Government of India. The Total Revenue Receipts of the State Government upto the month of

September 2017 are Rs.67,204 crore. It constitutes 42.17 percent of that budgeted in the Budget Estimates 2017-2018. This shows a growth rate of 3.76 percent over the revenue receipts of the corresponding period of 2016-2017. The following table provides a comparative picture of the Total Revenue Receipts of the State Government in relation to the Budget Estimates 2017-2018.

TRENDS IN REVENUE RECEIPTS OF GOVERNMENT OF TAMIL NADU DURING THE FIRST SIX MONTHS OF THE FINANCIAL YEAR 2017-2018

Revenue Receipts	Preliminary Accounts 2016-2017	Budget Estimate 2017-2018	Accounts up to September 2016	Collections up to September 2017	Growth rate in 2017-2018 over 2016-2017 (up to Sept.)	% of Budget Estimate 2017-2018
	(Rs. in Crore)				%	
State's Own Tax Revenue	85,942	99,590	41,279	43,445	5.25	43.62
State's Own Non-Tax Revenue	9,914	12,318	3,517	3,486	-0.88	28.30
Share in Central Taxes	24,538	27,224	9,865	11,661	18.21	42.83
Grants-in-Aid	19,838	20,231	10,108	8,612	-14.80	42.57
Total Revenue Receipts	**1,40,232**	**1,59,363**	**64,769**	**67,204**	**3.76**	**42.17**

a) State's Own Tax Revenue:

The total State's Own Tax Revenue (SOTR) receipts in the first six months of this financial year i.e. upto the month of September 2017 is Rs.43,445 crore. This constitutes 43.62 percent of that estimated in the Budget Estimates 2017-2018. It shows a growth rate of 5.25 percent over the receipts in the corresponding period of the previous year 2016-2017.

The summary of the trends in State’s Own Tax Revenue during the first six months is given below:

State Taxes	Preliminary Accounts 2016-2017	Budget Estimate 2017-2018	Accounts up to Sept 2016	Collections up to Sept 2017	Growth rate in 2017-2018 over 2016-2017 (up to Sept.)	% of Budget Estimate 2017-2018
	(Rs. in Crore)				%	
Commercial Taxes	66,193	77,234	31,194	33,455	7.25	43.32
State Excise	6,248	6,903	3,061	2,765	-9.68	40.06
Stamps and Registration Fees	7,237	8,220	4,374	4,324	-1.15	52.60
Taxes on Vehicles	4,854	5,418	2,473	2,771	12.07	51.14
Others	1,410	1,815	177	130	-26.55	7.16
Total	**85,942**	**99,590**	**41,279**	**43,445**	**5.25**	**43.62**

The Goods and Services Tax was implemented from 1st July 2017, and the State is protected with a revenue growth of 14% over the previous financial year through Central Government compensation. Though the increased sales tax collection on petrol and diesel has helped the growth of Commercial Tax revenues, the Supreme Court's ban on liquor shops on National and State Highways had negatively impacted the total Commercial Tax collections. The combined impact has shown a net positive growth over the previous year, but leaves a sizeable shortfall from the Budget Estimates. This reduced growth rate of Commercial Tax revenues is reflected in the slow growth of the State's Own Tax Revenue (SOTR) receipts.

Revenue collections from Stamps and Registration Fees in the first half year have registered a negative growth when compared with that of the last year, and have impacted the State's financial resources significantly. As the Registration of unapproved plots was stayed by the Hon'ble High Court of Madras, there was a negative growth on revenue collections from Stamps and Registration Fees upto September 2017. The State Government had also reduced the Guideline value by 33%, and increased the stamp duty and registration fees to spur more registration of lands, without affecting the revenues of the State exchequer.

The Government has made an upward revision in the State Excise duty on IMFL and also revised its base rate to compensate the present loss. Further the issues relating to the unapproved layout is also resolved. With such measures, the Government will reduce the gap between the Budget Estimates and the actual collections for the financial year 2017-2018.

b) <u>State's Own Non-Tax Revenue:</u>

The collection upto the month of September 2017 is Rs.3,486 crore as against the Budget Estimates 2017-2018 of Rs.12,318 crore. This has shown a negative growth rate of 0.88 percent against the receipts during the corresponding period of the previous year and constitutes only 28.30 percent of Budget Estimates 2017-2018. It is expected that the revenue projected in Budget Estimates 2017-2018 would be achieved as there is a possibility of increase in interest receipts.

c) <u>State's Share in Central Taxes</u>:

Consequent to the 14th Finance Commission recommendations, the inter-se share of Tamil Nadu was reduced from 4.969% to 4.023% in the general divisible tax pool, i.e., 19.04% fall in the devolution of taxes to the State. As per the Preliminary Accounts 2016-2017, Share in Central Taxes received by Tamil Nadu in 2016-2017 is Rs.24,538 crore. If the inter-se share had not been reduced for Tamil Nadu, the State would have received about Rs.30,308 crore, but it actually received only Rs.24,538 crore, i.e., about Rs.5,770 crore lesser in 2016-2017. This huge shortfall is an annual loss to the State exchequer due to the 14th Finance Commission's recommendations.

Based on the recommendations of the Fourteenth Finance Commission, the Government of India has fixed a total amount of Rs.27,224 crore as the share of Central Taxes to Tamil Nadu for the year 2017-2018. During this financial year, this share is being released by the Government of India on a monthly basis. The receipts till the month of September 2017 is Rs.11,661 crore, which was about 18.21% more than the receipts during the corresponding period of the previous year. This constitutes about 42.83 percent of that estimated in Budget Estimates 2017-2018.

It is expected that the Government of India will be releasing the balance amount in the remaining months of the current financial year, so that the revenue receipts projected in Budget Estimates 2017-2018 would be achieved.

d) <u>Grants-in-Aid from the Government of India:</u>

As against the estimated receipts of Rs.20,231 crore under Grants–in–Aid from the Government of India including the Centrally Sponsored Schemes for 2017-2018, the total Grants-in-Aid received from the Government of India till the month of September 2017 is Rs.8,612 crore. This is only about 42.57 percent of the estimated receipts for 2017-2018. The total Grants-in-Aid received from the Government of India during the corresponding period of the previous year was Rs.10,108 crore. The drop in the Grants-in-Aid is mainly due to the direct release of MGNREGS grant by the Government of India to the implementing agency instead of routing it through the State Government.

The Central Government has rationalized and revised the sharing pattern of certain Centrally Sponsored Schemes, which implies that the State Government has to contribute more share from its own resources. Persistent efforts are being made for getting the release of arrears of Grants-in-Aid relating to previous years and for receipts of the current financial year from the Government of India, particularly with respect to the reimbursement of Post-Matric Scholarship scheme, Sarva Shiksha Abhiyan, Rashtriya Madhyamik Shiksha Abhiyan, and arrears of the 13th Finance

Commission grants. As the non receipt of the Government of India's grants will put the State's finances under severe strain, the departments were instructed to follow up with the Government of India for the timely release of the Grants-in-aid and the Budget Estimate is expected to be achieved.

REVIEW OF EXPENDITURE

(a) Revenue Expenditure

The estimated total revenue expenditure for the financial year 2017-2018 is Rs.1,75,293 crore. The total revenue expenditure incurred till the month of September 2017 is Rs.76,924 crore and it constitutes 43.88 percent of that estimated in the Budget Estimates. The revenue expenditure incurred during the corresponding period of the previous year was Rs.78,573 crore. The revenue expenditure for the first six months of 2017-2018 has shown a negative growth of 2.10 percent over the expenditure incurred during the corresponding period of the previous year. The drop in expenditure is mainly because of the release of the MGNREGS funds directly to the implementing agency in 2017-2018, whereas in 2016-2017 it was routed through the State Government.

The State Government has implemented the Seventh Pay Commission's recommendations from 1st October 2017, which will have an additional impact of Rs.6480 crore in this financial year. The summary of trends in Revenue Expenditure during the first six months of the current financial year is as follows:

Revenue Expenditure	Preliminary Accounts 2016-2017	Budget Estimate 2017-2018	Accounts up to September 2016	Expenditure up to September 2017	Growth rate in 2017-2018 over 2016-2017 (up to Sept.)	% of Budget Estimate 2017-2018
	(Rs. in Crore)				%	
Salaries (including Grants-in-Aid for Education)	40,124	46,332	21,631	22,112	2.22	47.73
Pensions & Retirement Benefits	18,432	20,577	10,127	11,124	9.84	54.06
Non-wage operation & Maintenance	8,748	9,764	3,309	2,919	-11.79	29.90
Subsidies and Transfers	64,364	72,616	35,077	30,525	-12.98	42.04
Interest Payments	21,449	25,982	8,428	10,232	21.40	39.38
Others	78	22	1	12	-	54.55
Total	**1,53,195**	**1,75,293**	**78,573**	**76,924**	**-2.10**	**43.88**

(b) Capital Expenditure

An amount of Rs.27,789 crore has been allocated towards Capital Expenditure for 2017-2018. Out of which, a sum of Rs.5,311 crore has been spent till the month of September 2017. Though this constitutes about 19.11 percent of the total allocation for Capital Expenditure in the financial year 2017-2018, it shows a growth of 12.19% over that of the previous year. In respect of Capital Expenditure, orders have been issued to implement various capital works and projects are being implemented expeditiously. Therefore, the pace of implementation of capital works will pick up in the ensuing months and the allocated funds will be utilized.

FISCAL INDICATORS OVER THE YEARS

The State Government amended the Tamil Nadu Fiscal Responsibility Act, 2003 in the month of March 2017. As per the amended Act, the State Government shall eliminate Revenue Deficit by 2019-2020 and Fiscal Deficit by 2017-2018. The State Government has been maintaining the Fiscal Deficit well within the stipulated norm of 3 percent to Gross State Domestic Product as per the Tamil Nadu Fiscal Responsibility Act, 2003. As the State Government had taken over the debt of TANGEDCO under the Government of India’s UDAY Scheme to the tune of Rs.22,815 crore, as per the Preliminary Accounts 2016-17, the Fiscal Deficit to GSDP was at 4.20 percent.

The year wise position of the fiscal indicators, since the enactment of Tamil Nadu Fiscal Responsibility Act, 2003 is furnished in Annexure - I.

The fiscal indicators for the first six months of the current financial year are as follows:

Fiscal Indicators in the current year

Fiscal Indicators	Budget Estimate 2017-2018	Till the month of September 2017
	(Rs. in crore)	
Total Revenue Receipts (TRR)	1,59,363	67,204
Revenue Expenditure	1,75,293	76,924
Revenue Surplus (+)/Deficit (-)	-15,930	-9,720
Total Capital Expenditure (including Loans and Advances Net)	26,046	7,289
Total Expenditure	2,01,339	84,213
Fiscal Deficit	41,977	17,009
Gross State Domestic Product	15,03,970	---
	(%)	
Revenue Surplus (+)/Deficit (-) over TRR (%) (Target)	---	---
Revenue Surplus (+)/Deficit (-) over TRR (%) (Actual)	-10.00	-14.46
% of Fiscal Deficit to Gross State Domestic Product (Target)	<3.00	<3.00
% of Fiscal Deficit to Gross State Domestic Product (Actual)	2.79	1.13

REVIEW OF FISCAL INDICATORS

The trends in receipts and expenditure in the first six months are generally in line with the Budget Estimates for 2017-2018, except for a few shortfalls explained in the previous paragraphs. Since the Official Committee had submitted its report on the Seventh Pay Commission's recommendations only in September, the impact of the pay revisions could not be estimated at the time of presenting the Budget in March 2017.

The significant fall in liquor sales has pulled down the State's Own Tax Revenue in a big way. Efforts are being stepped up for the collection of arrears besides taking revenue augmentation measures like revision of state excise duty and base rates on IMFL. The revenue collection from Stamps and Registration Fees has registered a negative growth when compared with the last year, and has impacted the State's financial resources. To compensate this, the Government has resolved the issue of unapproved layout besides stepping up its efforts to realise more revenue by expediting the collection on impounded documents.

The State Government has implemented the Seventh Pay Commission's revision from 1st October 2017, and it is expected that this pay revision will have an additional impact of Rs.6,480 crore on the State's finances in this financial year on account of both the revised salaries of existing employees and revised pensions of pensioners. Therefore, the revenue deficit is bound to increase over and above the budgeted Rs.15,930 crore. In order to contain this revenue deficit, the Government is taking serious steps to control revenue expenditure and step up revenue receipts.

In spite of these constraints on the fiscal position, the State Government continues to fulfill its committed expenditure and has been implementing various welfare and development schemes proactively in the current financial year also. However, efforts are being taken to minimize the revenue deficit by stringent austerity measures and controlling avoidable expenditure and by enhancing the revenue receipts. It is therefore expected that the State will adhere to the Budget Estimates to a large extent, except for the Revenue Deficit, which is expected to go up further. However, the Fiscal Deficit target and Debt to GSDP will remain within the projections.

A Medium Term Fiscal Plan (MTFP) is being presented by the Government along with the Budget on the management of the State's Finances with regard to the Tamil Nadu Fiscal Responsibility Act, 2003 (as amended).

This review of Trends in Receipts and Expenditure in relation to the Budget Estimates 2017-2018 is intended to present the actual status of State's Finances and the efforts taken by the State Government to bridge the revenue-expenditure gap if any in the Medium Term Fiscal Plan.

O.PANNEERSELVAM
Deputy Chief Minister

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Annexure – I

YEARWISE POSITION OF FISCAL INDICATORS

Details	REVENUE SURPLUS / DEFICIT			FISCAL DEFICIT		
	OVER TRR % (Target)	(Rs. in Crore)	OVER TRR % (Actual)	% to GSDP (Target)	(Rs. in Crore)	% to GSDP (Actual)
2003-04 Accounts	-20.28	-1565.24	-6.60	4.01	5591.16	3.19
2004-05 Accounts	-17.28	-703.34	-2.47	3.76	5569.76	2.75
2005-06 Accounts	-14.28	1951.33	5.75	3.51	2250.61	0.96
2006-07 Accounts	-11.28	2648.26	6.47	3.26	3956.00	1.43
2007-08 Accounts	-8.28	4545.49	9.57	3.01	3685.59	1.21
2008-09 Accounts	< -5.00	1452.25	2.64	<3.00	8547.76	2.52
2009-10 Accounts	**	-3531.22	-6.32	<4.00	11807.26	2.54
2010-11 Accounts	< -5.00	-2728.69	-3.89	<4.00	16646.62	3.21
2011-12 Accounts	0 / surplus	1364.1	1.60	<3.00	17274.08	2.97
2012-13 Accounts	0 / surplus	1760.27	1.78	<3.00	16518.99	2.39

Details	REVENUE SURPLUS / DEFICIT			FISCAL DEFICIT		
	OVER TRR % (Target)	(Rs. in Crore)	OVER TRR % (Actual)	% to GSDP (Target)	(Rs. in Crore)	% to GSDP (Actual)
2013-14 Accounts	< -5.00	-1788.24	-1.66	<3.00	20583.49	2.55
2014-15 Accounts	**	-6407.56	-5.23	<3.00	27162.44	2.49
2015-16 Accounts	**	-11985.35	-9.29	<3.00	32627.56	2.69
2016-17 Preliminary Accounts	**	-12973.00	-8.86	<3.00	56171.35	4.20
2017-18 Budget Estimates	**	-15930.35	-10.00	<3.00	41976.78	2.79

** Target not fixed.
GSDP – Gross State Domestic Product
TRR – Total Revenue Receipts