

## **Tamil Nadu Fiscal Responsibility Act, 2003**

### CONTENTS

1. Short Title And Commencement
2. Definitions
3. Medium Term Fiscal Plan To Be Laid Before The Legislature
4. Fiscal Management Principles
5. Measures For Fiscal Transparency
6. Measures To Enforce Compliance
7. Power To Make Rules
8. Protection Of Action Taken In Good Faith
9. Application Of Other Laws Not Barred
10. Power To Remove Difficulties

## **Tamil Nadu Fiscal Responsibility Act, 2003**

An Act to provide that it shall be the responsibility of the State Government to ensure fiscal stability and sustainability, and to enhance the scope for improving social and physical infrastructure and human development by achieving sufficient revenue surplus, reducing fiscal deficit and removing impediments to the effective conduct of fiscal policy and prudent debt management through limits on State Government's borrowings, debts and deficits, greater transparency in fiscal framework and for matters connected therewith or incidental thereto. As amended upto 2005. BE it enacted by the Legislative Assembly of the State of Tamil Nadu in the Fifty-fourth year of the Republic of India as follows:-

Statement of Object It is proposed to provide that it shall be the responsibility of the State Government to ensure fiscal stability and sustainability and to enhance the scope for improving social and physical infrastructure and human development by achieving sufficient revenue surplus, reducing fiscal deficit and removing impediments to the effective conduct of fiscal policy and prudent debt management through limits on State Government's borrowings, debts and deficits, greater transparency in fiscal framework.

2. The Bill seeks to achieve the above object. C. PONNAIYAN Minister for Finance

MEMORANDUM REGARDING DELEGATED LEGISLATION

Clauses 3(5), 5(2), 6(6), 7 and 10 of the Bill authorise the Government to make rules or to issue orders for the purposes specified therein.

2. The powers delegated are normal and not of

an exceptional character.

### **1. Short Title And Commencement :-**

(1) This Act may be called the Tamil Nadu Fiscal Responsibility Act, 2003.

(2) It shall come into force on such date as the State Government may, by notification, appoint.

### **2. Definitions :-**

In this Act, unless the context otherwise requires-

(a) "Budget" means the Annual Financial Statement laid before the Legislative Assembly under Article 202 of the Constitution;

(b) "Current Year" means the financial year preceding the ensuing year;

(c) "Ensuing Year" means the financial year for which the budget is being presented;

(d) "Financial Year" means the year beginning on the 1st April and ending on the 31st March next following;

(e) "Fiscal Deficit" means the excess of -

"(e) "Fiscal Deficit" means the excess of total disbursements from the Consolidated Fund of the State (excluding repayment of debt) over total receipts into the Consolidated Fund excluding the debt receipts during a financial year;"

(f) "Fiscal Indicators" means the measures such as numerical ceilings and proportions to Gross State Domestic Product, as may be prescribed, for evaluation of the fiscal position of the State Government;

(g) "Previous Year" means the financial year preceding the current year;

(gg) "Revenue Deficit" means the excess of revenue expenditure over revenue receipt".

(h) "Total Liabilities" means the liabilities under the Consolidated Fund of the State and the Public Account of the State.

### **3. Medium Term Fiscal Plan To Be Laid Before The Legislature :-**

(1) The State Government shall lay before the Legislative Assembly a Medium Term Fiscal Plan along with the Budget.

(2) The Medium Term Fiscal Plan shall set forth a multi-year rolling target for the prescribed fiscal indicators with specification of

underlying assumptions.

(3) In particular and without prejudice to the provisions contained in sub-section (2), the Medium Term Fiscal Plan shall include an assessment of sustainability relating to,-

(i) The balance between revenue receipts and revenue expenditure;

(ii) The use of capital receipts including borrowings for generating productive assets.

(4) The Medium Term Fiscal Plan shall, inter-alia, contain,-

(a) The medium term fiscal objectives of the State Government;

(b) An evaluation of the performance of the prescribed fiscal indicators in the previous year vis-a-vis the targets set out earlier, and the likely performance in the current year as per revised estimates.

(c) A statement on recent economic trends and future prospects for growth and development affecting fiscal position of the State Government.

(d) The strategic priorities of the State Government in the fiscal matters for the ensuing financial year;

(e) the policies of the State Government for the ensuing financial year relating to taxation, expenditure, borrowings and other liabilities, lending and investments, pricing of administered goods and services and description of other activities, such as guarantees and activities of Public Sector Undertakings which have potential budgetary implications and the key fiscal measures and targets pertaining to each of these;

(f) An evaluation as to how the current policies of the State Government are in conformity with the fiscal management principles set out in section 4 and the fiscal objectives set out in the Medium Term Fiscal Plan.

(5) The Medium Term Fiscal Plan shall be in such form as may be prescribed.

#### **4. Fiscal Management Principles :-**

(1) The State Government shall take appropriate measures to manage the revenue deficit, fiscal deficit and outstanding debt to sustainable levels.

(2) The State Government shall,-

(a) reduce the ratio of revenue deficit to revenue receipt every year by three per cent to five per cent depending on the economic situation in that year to a level below five per cent by 31st March

2008, eliminate revenue deficit by 2008-2009 and adhere to it thereafter;

(b) reduce the ratio of fiscal deficit to Gross State Domestic Product every year by 0.25 per cent to 0.30 per cent beginning from financial year 2002-2003 with medium term goal of not being more than three per cent of fiscal deficit to Gross State Domestic Product to be attained by 31st March 2008 and adhere to it thereafter.

(c) cap the total outstanding guarantees to hundred per cent of the total revenue receipt in the preceding year or at ten per cent of Gross State Domestic Product, whichever is lower;

(d) cap the risk weighted guarantees to seventy five per cent of the total revenue receipt in the preceding year or at seven and half per cent of Gross State Domestic Product, whichever is lower.

Provided that revenue deficit and fiscal deficit may exceed the limits specified under this sub-section due to ground or grounds of unforeseen demands on the finances of the State Government due to national security or natural calamity subject to the condition that the excess beyond limits arising due to natural calamities does not exceed the actual fiscal cost that can be attributed to the calamities:

Provided further that the ground or grounds specified in the first proviso shall be placed before the Legislative Assembly as soon as may be, after it becomes likely that such deficit amount may exceed the aforesaid limits, with an accompanying report stating the likely extent of excess, and reasons there for.

## **5. Measures For Fiscal Transparency :-**

(1) The State Government shall take suitable measures to ensure greater transparency in its fiscal operations, in public interest, in the preparation of the Budget.

(2) The State Government shall, at the time of presentation of the Budget, disclose in a statement in the form as may be prescribed,-

(a) The significant changes in the accounting standards, policies and practices affecting or likely to affect the computation of prescribed fiscal indicators;

(b) as far as practicable and consistent with protection of public interest, the contingent liabilities created by way of guarantees.

(c) Detail number of employees in Government, Public Sector Undertakings and aided institutions and related salaries.

## **6. Measures To Enforce Compliance :-**

- (1) The Budget and policies announced at the time of the budget, shall be consistent with objectives and targets specified in the Medium Term Fiscal Plan for the coming and future years.
- (2) 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, remedial measures to be taken to achieve the budget targets and place before the Legislative Assembly the outcome of such reviews.
- (3) While placing before the Legislative Assembly the outcome of such review, 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.
- (4) Whenever outstanding risk weighted guarantees exceed the limits specified in section 4, no fresh guarantee shall be given.
- (5) Any measure proposed in the course of the financial year, which may lead to an increase in revenue deficit, either through enhanced expenditure or loss of revenue, shall be accompanied by remedial measures, which will neutralize such increase or loss and such measures shall be clearly mentioned.
- (6) The State Government may assign an independent external agency to carry out the periodical review for the compliance of the provisions of this Act in the manner, as may be prescribed.

## **7. Power To Make Rules :-**

- (1) The State Government may make rules to carry out all or any of the purposes of this Act.
- (2) Every rule or order made under this Act shall, as soon as possible, after it is made, be placed on the table of the Legislative Assembly and if, before the expiry of the session in which it is so placed or in the next session, the Assembly makes any modification in any such rule or order, or the Assembly decides that the rule or order should not be made, the rule or order shall thereafter have effect only in such modified form or be of no effect, as the case may be, so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule or order.

## **8. Protection Of Action Taken In Good Faith :-**

No suit, prosecution or other legal proceeding shall lie against the State Government or any officer of the State Government for anything which is in good faith done or intended to be done under this Act or the rules made there under.

**9. Application Of Other Laws Not Barred :-**

The provisions of this Act shall be in addition to, and not in derogation of, the provisions of any other law for the time being in force.

**10. Power To Remove Difficulties :-**

If any difficulty arises in giving effect to the provisions of this Act, the State Government may, by order published in the Tamilnadu Government Gazette make such provisions not inconsistent with the provisions of this Act, as may appear to them to be necessary or expedient for removing the difficulty:

Provided that no order shall be made after the expiry of a period of two years from the date of commencement of this Act.