

CHAPTER 2

FINANCES OF THE STATE

This chapter provides a broad perspective of the finances of the Government of Tamil Nadu (GoTN) during the current year (2019-20) and analyses critical changes in the major fiscal aggregates relative to the previous year (2018-19), keeping in view the overall trend during the last five years.

2.1 Summary of fiscal transactions in 2019-20 vis-à-vis 2018-19

Table 2.1 presents the summary of the State Government's fiscal transactions during the current year (2019-20) vis-à-vis the previous year (2018-19) and **Appendix 2.1** depicts the trends of fiscal indicators over the period 2015-2020.

Table 2.1: Summary of fiscal operations in 2019-20 vis-à-vis 2018-19

(₹ in crore)

Receipts	2018-19	2019-20	Disbursements	2018-19	2019-20
Section-A: Revenue					
Revenue receipts	1,73,741.16	1,74,525.91	Revenue expenditure	1,97,200.60	2,10,434.73
State's Own Tax revenue	1,05,534.16	1,07,462.29	General Services	72,449.78	78,137.38
Non-tax revenue	14,200.02	12,887.84	Social Services	70,201.93	73,999.32
Share of Union Taxes/Duties	30,638.77	26,392.41	Economic Services	39,669.34	42,609.75
Grants from Government of India	23,368.21	27,783.37	Grants-in-aid and Contributions	14,879.55	15,688.28
Section-B: Capital and Others					
Miscellaneous Capital Receipts	--	--	Capital Outlay	24,310.84	25,631.58
			General Services	857.79	1,064.45
			Social Services	6,996.17	5,859.68
			Economic Services	16,456.88	18,707.45
Recoveries of Loans and Advances	6,913.43	5,384.01	Loans and Advances disbursed	6,478.03	4,022.25
Public Debt receipts	47,936.22	66,774.30	Repayment of Public Debt	15,063.62	17,866.46
Contingency Fund	--	10.32	Contingency Fund	10.32	--
Public Account receipts	2,34,438.56	2,61,483.49	Public Account disbursements	2,23,930.23	2,44,023.49
Opening Cash Balance	47,193.44	43,229.17	Closing Cash Balance	43,229.17	49,428.69
Total	5,10,222.81	5,51,407.20	Total	5,10,222.81	5,51,407.20

(Source: Finance Accounts)

Table 2.2: Major Changes in key fiscal aggregates in 2019-20 compared to 2018-19

Revenue Receipts	<ul style="list-style-type: none"> ✓ Revenue receipts of the State increased marginally by 0.45 per cent ✓ Own Tax receipts of the State increased by 1.83 per cent ✓ Own Non-tax receipts decreased by 9.24 per cent ✓ State's Share of Union Taxes and Duties decreased by 13.86 per cent ✓ Grants-in-Aid from Government of India increased by 18.89 per cent
Revenue Expenditure	<ul style="list-style-type: none"> ✓ Revenue expenditure increased by 6.71 per cent ✓ Revenue expenditure on General Services increased by 7.85 per cent ✓ Revenue expenditure on Social Services increased by 5.41 per cent ✓ Revenue expenditure on Economic Services increased by 7.41 per cent ✓ Expenditure on Grants-in-Aid increased by 5.44 per cent
Capital Outlay	<ul style="list-style-type: none"> ✓ Capital expenditure increased by 5.43 per cent ✓ Capital expenditure on General Services increased by 24.09 per cent ✓ Capital expenditure on Social Services decreased by 16.24 per cent ✓ Capital expenditure on Economic Services increased by 13.68 per cent
Loans and Advances	<ul style="list-style-type: none"> ✓ Disbursement of Loans and Advances decreased by 37.91 per cent ✓ Recoveries of Loans and Advances decreased by 22.12 per cent
Public Debt	<ul style="list-style-type: none"> ✓ Public Debt Receipts increased by 39.30 per cent ✓ Repayment of Public Debt increased by 18.60 per cent
Public Account	<ul style="list-style-type: none"> ✓ Public Account Receipts increased by 11.54 per cent ✓ Disbursement of Public Account increased by 8.97 per cent
Cash Balance	<ul style="list-style-type: none"> ✓ Cash balance increased by ₹ 6,199 crore (14.34 per cent) during 2019-20 compared to previous year

The significant changes that occurred during 2019-20, as compared to the previous year are enumerated in the succeeding sub paragraphs.

- **Revenue receipts** of the State increased by a meagre 0.45 per cent (₹ 785 crore) over the previous year, which includes ₹ 2.67 crore of interest receipts through book adjustments being the capitalisation of interest dues as a part of restructuring of loans and advances taken up by the Government during 2018-19.
- **Revenue expenditure** increased by ₹ 13,235 crore (6.71 per cent) over the previous year due to increase in expenditure on General Services by 7.85 per cent (₹ 5,688 crore), Social Services by 5.41 per cent (₹ 3,797 crore), Economic Services by 7.41 per cent (₹ 2,941 crore) and Grants-in-aid contributions by 5.44 per cent (₹ 809 crore).

- **Capital expenditure** increased by 5.43 per cent (₹ 1,321 crore) during 2019-20 over the previous year, as compared to the growth rate of 20.33 per cent in 2018-19 over 2017-18.
- **Public Debt Receipts i.e., borrowings** increased by ₹ 18,838 crore (39.30 per cent) over the previous year mainly due to increase in the Internal Debt by 42.08 per cent over the previous year.
- **Recoveries of loans and advances** during the year decreased by ₹ 1,529 crore (22.12 per cent). The recoveries include conversion of TANGEDCO's loan of ₹ 4,563 crore as grants-in-aid under UDAY scheme during the year through book adjustments. Thus, the actual recoveries of loans and advances during the year was only ₹ 821 crore.
- **Loans and advances** disbursed during the year decreased by ₹ 2,456 crore (37.91 per cent) from the previous year mainly due to the fact that during the previous year (2018-19), the Government capitalised interest dues amounting to ₹ 2,461.48 crore from certain loan recipient organisations and treated them as fresh loans during 2018-19 through book adjustments which had resulted in understatement of Revenue Deficit as well as inflation of loan disbursed to that extent during 2018-19.
- **Public Account receipts and disbursements** increased by ₹ 27,044 crore (11.54 per cent) and by ₹ 20,093 crore (8.97 per cent) respectively. Net receipts under Public Account increased by ₹ 6,951 crore over the previous year.
- The net impact of these transactions led to an increase of ₹ 6,199 crore in the **cash balance** at the end of the year over the previous year.

2.2 Sources and Application of Funds

Table 2.3: Details of Sources and Application of funds during 2018-19 and 2019-20

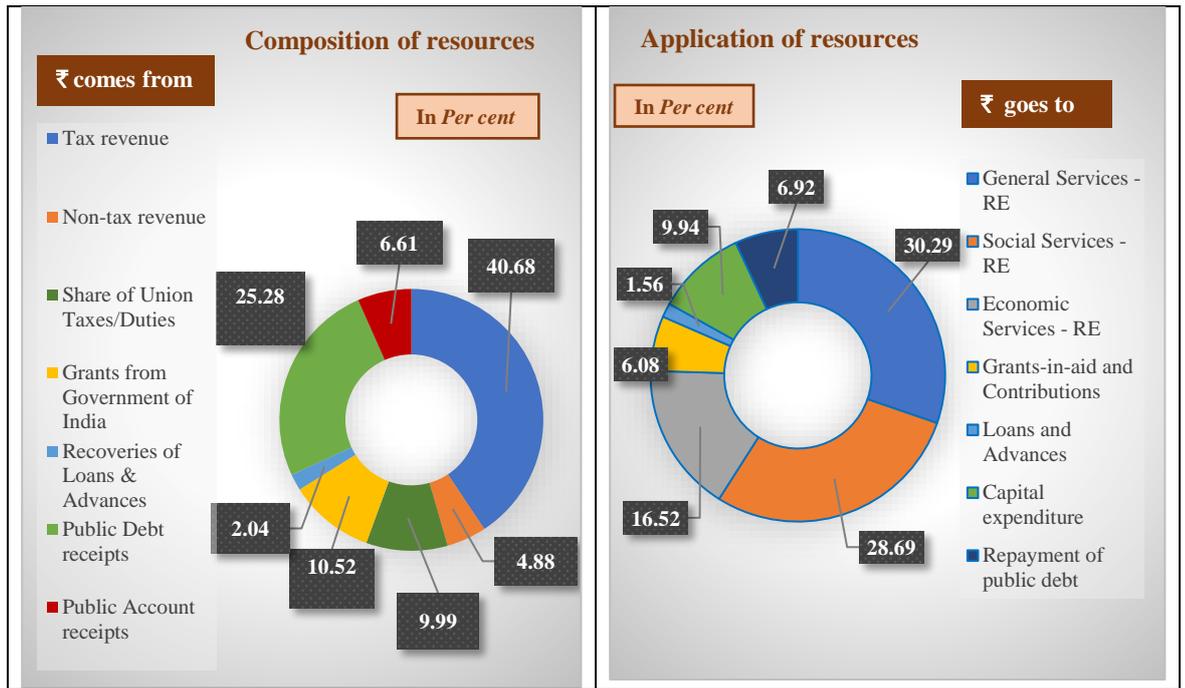
(₹ in crore)

	Particulars	2018-19	2019-20	Increase/ Decrease
Sources	Opening Cash Balance with RBI	47,193	43,229	(-) 3,964
	Revenue Receipts	1,73,741	1,74,526	785
	Recoveries of Loans and Advances	6,913	5,384	(-) 1,529
	Contingency Fund (recouped during the year)	--	10	10
	Public Debt Receipts (Net)	32,872	48,908	16,036
	Public Account Receipts (Net)	10,509	17,460	6,951
	Total	2,71,228	2,89,517	18,289
Application	Revenue Expenditure	1,97,200	2,10,435	13,235
	Capital Expenditure	24,311	25,632	1,321
	Disbursement of Loans and Advances	6,478	4,022	(-) 2,456
	Contingency Fund (Un-recouped)	10	--	(-) 10
	Closing Cash Balance with RBI	43,229	49,428	6,199
	Total	2,71,228	2,89,517	18,289

(Source: Finance Accounts)

¹ Tamil Nadu Generation and Distribution Corporation.

Chart 2.1: Composition and Application of resources



RE – Revenue Expenditure. (Source: Finance Accounts)

2.3 Resources of the State

The resources of the State are described below:

1. **Revenue receipts** consist of own tax revenue, non-tax revenue, State's share of Union taxes and duties and grants-in-aid from the Government of India (GoI)
2. **Capital receipts** comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI.

Both revenue and capital receipts form part of the Consolidated Fund of the State.

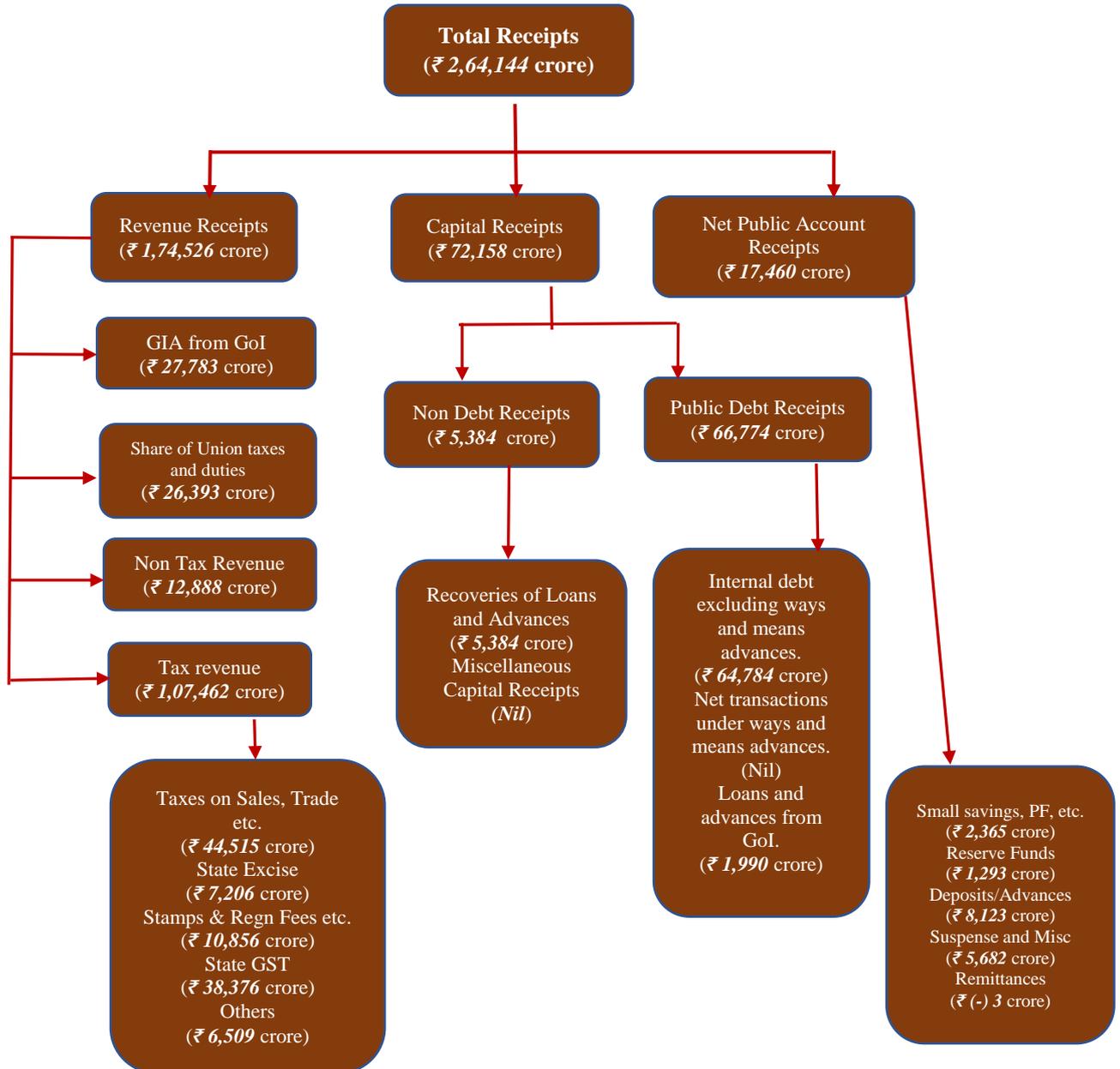
3. **Net Public Accounts receipts:** These are receipts and disbursements in respect of certain transactions such as small savings, provident fund, reserve funds, deposits, suspense, remittances, etc. which do not form part of the Consolidated Fund.

These are kept in the Public Account set up under Article 266 (2) of the Constitution and are not subject to vote by the State Legislature. Here, the Government acts as a banker. The balance after disbursements is the fund available with the Government for use.

2.3.1 Receipts of the State

Revenue and Capital are the two streams of receipts that constitute the resources of the State Government. Besides, the fund available in the Public Account (net of disbursement made from it) is also utilised by the Government to finance its deficit.

Composition of receipts of the State during 2019-20



The total resources of the State Government in 2019-20 were ₹ 2,64,144 crore. Of these, revenue receipts were ₹ 1,74,526 crore, which constituted 66.07 *per cent* of total resources. Capital receipts (₹ 72,158 crore) and net Public Account receipts (₹ 17,460 crore) constituted 27.32 and 6.61 *per cent* of the total resources respectively.

2.3.2 State's Revenue Receipts

Statement-14 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own taxes and non-tax revenues, central tax transfers and grants-in-aid from GoI.

2.3.2.1 Trends and growth of Revenue Receipts

The composition of revenue receipts, its trends and growth as well as revenue buoyancy with respect to GSDP over the five-year period are depicted in the **Table 2.4** below.

Table 2.4: Trend in Revenue Receipts

<i>Parameters</i>	2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Receipts (RR) (₹ in crore)	1,29,008	1,40,231	1,46,280	1,73,741	1,74,526
Rate of growth of RR (<i>per cent</i>)	5.38	8.70	4.31	18.77	0.45
Own Tax Revenue (₹ in crore)	80,476	85,941	93,737	1,05,534	1,07,462
Non-Tax Revenue (₹ in crore)	8,918	9,914	10,764	14,200	12,888
Rate of growth of Own Revenue (Own Tax and Non-tax Revenue) (<i>per cent</i>)	2.74	7.23	9.02	14.58	0.51
Gross State Domestic Product (₹ in crore) (2011-12 series)	11,76,500	13,02,639	14,65,051	16,30,208	18,45,853
Rate of growth of GSDP (<i>per cent</i>)	9.68	10.72	12.47	11.27	13.23
RR/GSDP (<i>per cent</i>)	10.97	10.77	9.98	10.66	9.46
Buoyancy Ratios²					
Revenue Buoyancy w.r.t GSDP	0.56	0.81	0.35	1.67	0.03
State's Own Revenue Buoyancy w.r.t GSDP	0.28	0.67	0.72	1.29	0.04

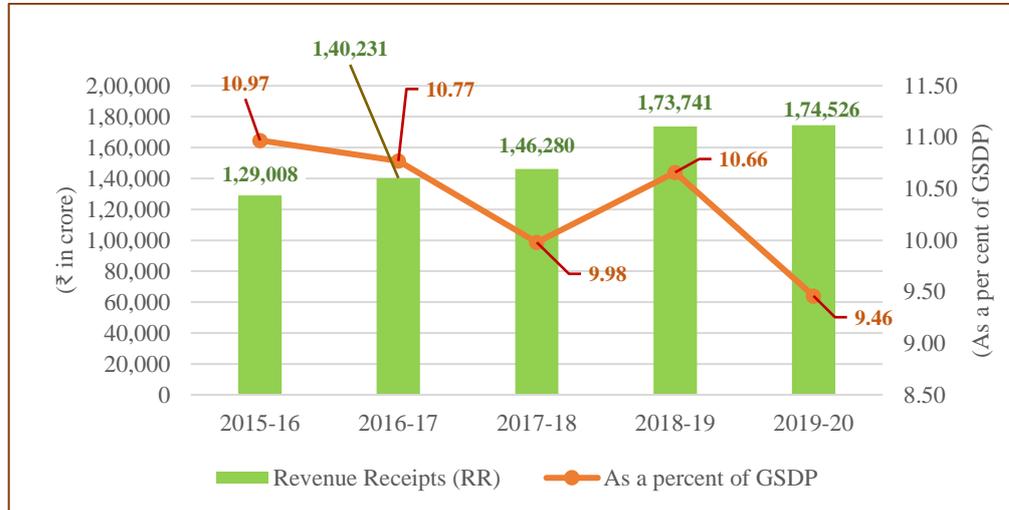
(Source of GSDP at current prices: Department of Economics and Statistics, Central Statistics Office)

- The annual growth rate of revenue receipts during 2019-20 stood at a meagre 0.45 *per cent*, which was much lower than the growth rate of revenue receipts (2.08 *per cent*) in the General Category States (GCS) (**Appendix 1.1**).

² Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy with respect to GSDP at 1.85 implies that Revenue Receipts tend to increase by 1.85 percentage points, if the GSDP increases by one *per cent*.

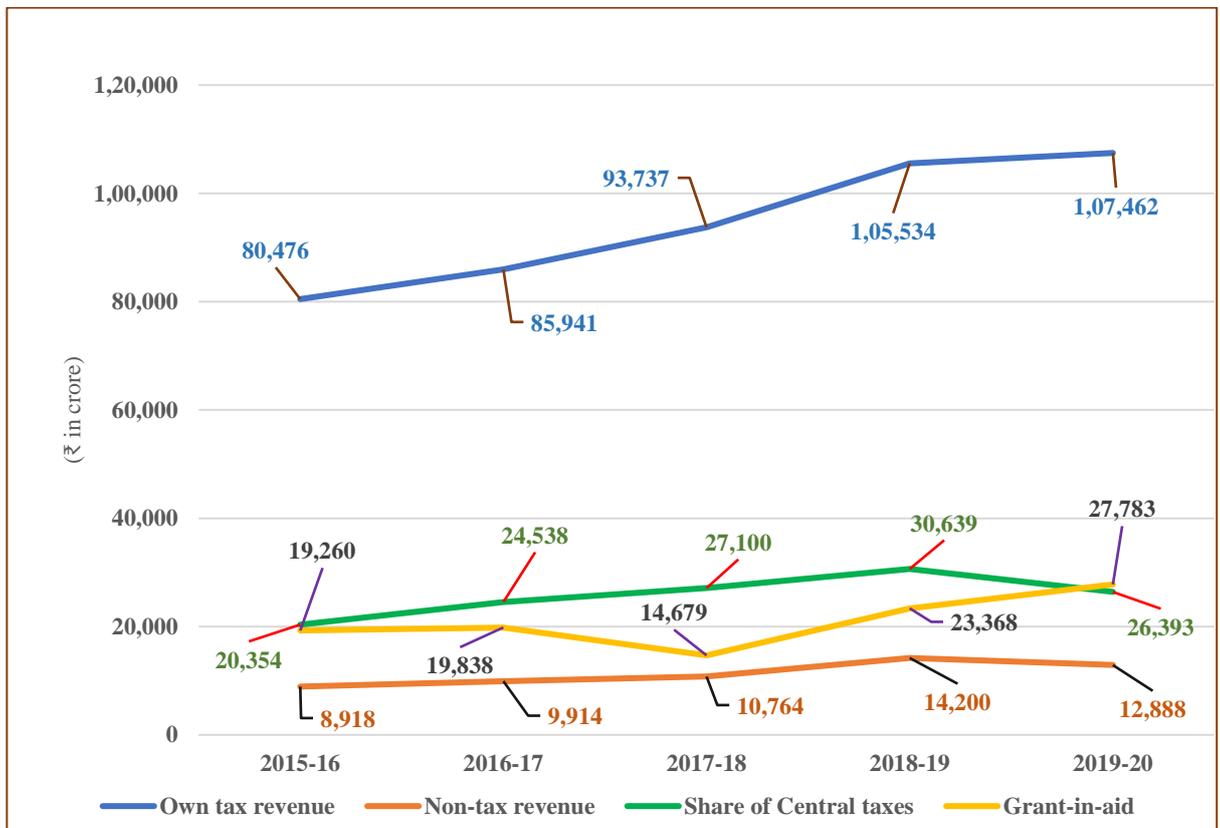
- The GSDP growth rate picked up to 13.23 per cent during 2019-20, which is more than the ‘All India’ rate of 7.21 per cent. Revenue buoyancy with reference to GSDP decreased drastically from 1.67 in 2018-19 to 0.03 during the current year.

Chart 2.2: Trend of Revenue Receipts



(Source: Finance Accounts for the respective years)

Chart 2.3: Trend of components of Revenue Receipts



(Source: Finance Accounts for the respective years)

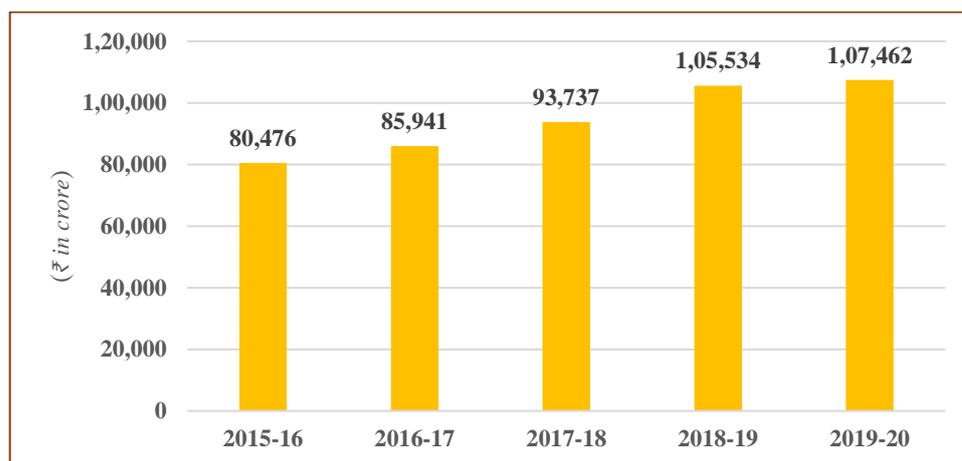
2.3.2.2 State's Own Resources

State's own resources comprises of revenue from its own tax and non-tax sources, the details of which are discussed in the following paragraphs.

Own Tax revenue

Own tax revenues of the State consist of State GST, State excise, taxes on vehicles, Stamp duty and Registration fees, Land revenue, taxes on goods and passengers, etc.

Chart 2.4: Growth of Own Tax Revenue during 2015-2020



(Source: Finance Accounts for the respective years)

Components of State's own tax revenue

The revenue in respect of major taxes and duties are given in **Table 2.5**

Table 2.5: Components of State's own tax revenue

Revenue Head	2015-16	2016-17	2017-18	2018-19	2019-20	Sparkline
State Goods and Service Tax	--	--	24,589	38,533	38,376	
Taxes on Sales, Trade, etc.	57,522	63,234	46,356	42,701	44,515	
State Excise	5,836	6,248	5,815	6,863	7,206	
Taxes on Vehicles	4,233	4,854	5,363	5,573	5,675	
Stamps and Registration Fees	8,721	7,237	9,195	11,066	10,856	
Land Revenue	258	153	152	178	258	
Taxes on Goods and Passengers	2,153	2,551	900	3	11	
Other Taxes	1,753	1,664	1,367	617	565	
Total	80,476	85,941	93,737	1,05,534	1,07,462	
(Growth rate over previous year in per cent)	(2.31)	(6.79)	(9.07)	(12.59)	(1.83)	

(Source: Finance Accounts for the respective years)

- The annual growth rate of own tax revenue during 2019-20 stood at 1.83 per cent, which was less than the average growth rate (2.12 per cent) of the GCS (**Appendix 1.1**).

- Own tax revenue as a percentage of GSDP of the State during 2019-20 was 5.82 as compared to its neighbouring States of Karnataka and Kerala which were 6.03 *per cent* and 5.89 *per cent* respectively.
- Other taxes showed a declining trend mainly due to considerable decrease in taxes and duties on electricity and increase in the refund of entertainment tax to Local Bodies.

State Goods and Services Tax (SGST)

As per the GST (Compensation to States) Act, 2017, States will be compensated for the shortfall in revenue arising on account of implementation of the goods and services tax considering an annual growth of 14 *per cent* from the base year, for a period of 5 years. The centre levies the Integrated GST (IGST) on interstate supply of goods and services, and apportions the share of tax to the State where the goods or services are consumed.

GoTN implemented the Goods and Services Tax (GST) Act with effect from 1 July 2017. According to GST (Compensation to the States) Act 2017, Central Government will compensate the States' for loss of revenue arising on account of implementation of GST for a period of five years. The compensation payable to the State shall be calculated for every financial year after the receipt of final revenue figure, as audited by the CAG of India. A base year (2015-16) revenue figure of taxes subsumed under GST was finalised under GST Act. In Tamil Nadu, the revenue realised through the taxes, since now subsumed into GST, was ₹ 29,786.36 crore during the base year (2015-16). The revenue to be protected for any year was to be calculated by applying a growth rate of 14 *per cent* per annum.

The projected revenue for the year 2019-20 in accordance with the base year figure was ₹ 50,307.98 crore (₹ 29,786.36 crore x 1.14 x 1.14 x 1.14 x 1.14). Revenue figure under GST for the year 2019-20 has been depicted in Finance Accounts as per nature of receipts i.e., State Goods and Services Tax (SGST), Input Tax Credit cross utilisation of SGST and IGST, Apportionment of IGST - transfer-in Tax component to SGST and Advance apportionment from IGST. The revenue receipts of the State Government under GST *vis-à-vis* the projections during the period 2017-20 is given in **Table 2.6**.

Table 2.6: Projected and actual receipt on implementation of GST Act

(₹ in crore)

Period	Projected revenue*	Pre-GST taxes	SGST	IGST	Total tax collected	Compensation	Total including compensation	Shortfall
1	2	3	4	5	6 = (3+4+5)	7	8 = (6+7)	9 = (2-8)
July 2017 to March 2018	29,032.77	3,356.30	15,882.32	8,706.99	27,945.61	632.00	28,577.61	455.16
April 2018 to March 2019	44,129.80	Nil	21,264.32	17,268.77	38,533.09	3,151.00	41,684.09	2,445.71
April 2019 to March 2020	50,307.98	Nil	24,148.35	14,227.84	38,376.19	8,922.03	47,298.22	3,009.76

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

As seen from table above, against the projected revenue of ₹ 50,307.98 crore for 2019-20, there was a shortfall of ₹ 3,009.76 crore and the receipt was ₹ 47,298.22 crore under the new tax regime, which worked out to a growth of 7.18 per cent as against the projected growth of 14 per cent.

Analysis of arrears of revenue and arrears of assessment

The arrears of revenue indicate delayed realization of revenue due to the Government. Similarly, arrears of assessment indicates potential revenue which is blocked due to delayed assessment. Both deprive the State of potential revenue receipts and ultimately affect the revenue deficit. These issues are currently reported in Chapter 1 of the Revenue Report. Arrears of revenue as on 31 March 2020 in some principal revenue heads are as follows:

Table 2.7: Arrears of revenue as on 31 March 2020

(₹ in crore)

Sl. No	Department	Amount outstanding on 31 March 2020	Amount outstanding for more than five years as on 31 March 2020
1	Prohibition and Excise	32.75	32.75
2	Registration	386.46	334.96
3	Commercial Tax (SGST)	100.74	--
4	Commercial Tax (other than GST)	29,583.92	11,481.81
	Total	30,103.87	11,849.52

(Source: Details as received from Commercial Taxes Department)

Details of evasion of tax detected by Department, refund cases, etc.

The cases of evasion of tax detected by the Excise & Taxation Department, cases finalised and the demands for additional tax raised are important indicators of revenue collection efforts of the State Government. Promptness in disposal of refund cases is an important indicator of performance of the Department. High pendency of refund cases may indicate red tape, vested interests, prevalence of speed money, etc. The details of evasion of tax detected and the details of refund cases are given in **Table 2.8** and **Table 2.9** respectively.

Table 2.8: Evasion of Tax Detected

Sl. No.	Head of revenue	Cases pending as on 31 March 2019	Cases detected during 2019-20	Total	No. of cases in which assessment / investigation completed and additional demand with penalty etc. raised		No. of cases pending for finalization as on 31 March 2020
					No. of cases	Amount of demand (₹ in crore)	
1	Commercial tax (Sales Tax / VAT)	5,201	416	5,617	2,969	4,883.91	2,648
2	Commercial tax (SGST)	--	5,214	5,214	5,087	406.54	127

(Source: Details as received from Commercial Taxes Department)

Table 2.9: Details of refund cases

Sl. No.	Particulars	SGST		Value Added Tax (VAT)		State Excise	
		No. of cases	Amount (₹ in crore)	No. of cases	Amount (₹ in crore)	No. of cases	Amount (₹ in crore)
1	Claims outstanding at the beginning of the year	2,337	90.78	3,475	102.78	2	0.10
2	Claims received during the year	20,889	2,671.50	941	188.80	1	0.01
3	Refunds made / rejected during the year	22,582	2,689.27	3,998	263.79	2	0.10
4	Balance outstanding at the end of year	644	73.01	418	27.79	1	0.01

(Source: Details as received from Commercial Taxes Department)

Non-tax revenue

Non-tax revenue consists of interest receipts, dividend and profits, mining and other departmental receipts etc. Details are given in Table 2.10 below:

Table 2.10: Components of State's non-tax revenue

Revenue Head	₹ in crore					Sparkline
	2015-16	2016-17	2017-18	2018-19	2019-20	
Interest receipts	2,953	4,319	5,199	6,875	4,356	
Dividends and Profits	140	185	159	156	192	
Other non-tax receipts	5,825	5,410	5,406	7,169	8,340	
a) Major and Medium Irrigation	40	34	31	45	48	
b) Road Transport	163	133	125	143	83	
c) Urban Development	624	648	514	1,016	781	
d) Education	1,355	1,195	1,153	1,592	1,793	
e) Non-Ferrous Mining	981	984	1,146	1,057	1,150	
f) Others	2,662	2,416	2,437	3,316	4,485	
Total	8,918	9,914	10,764	14,200	12,888	
Percentage of non-tax revenue to State's own resources	9.98	10.34	10.30	11.86	10.71	

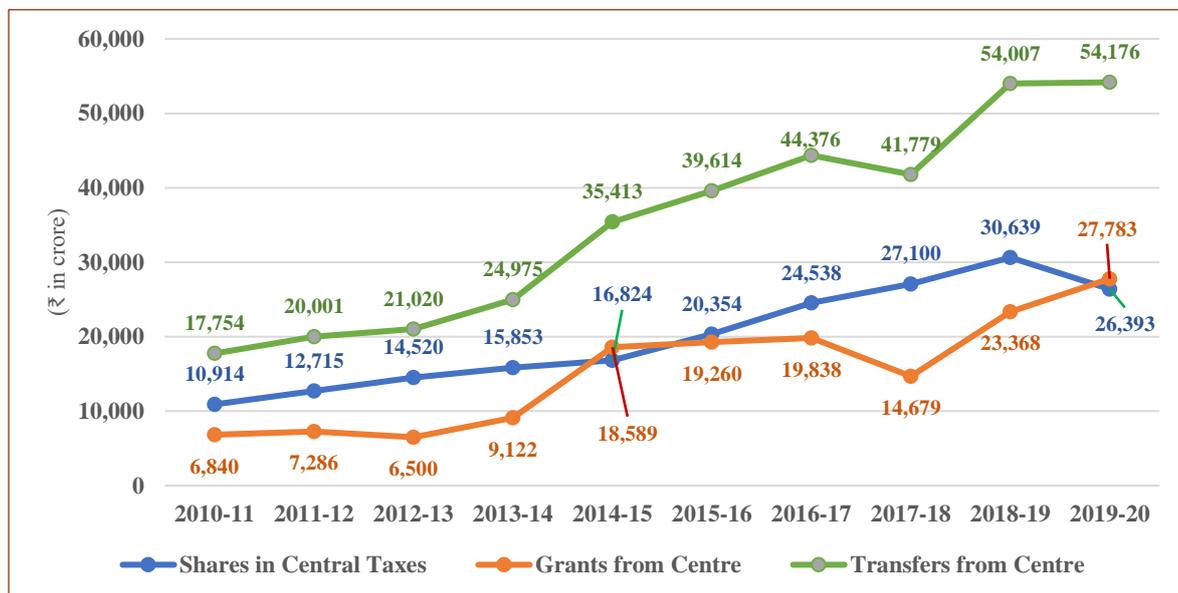
(Source: Finance Accounts for the respective years)

- The non-tax revenue of the State decreased by ₹ 1,312 crore in 2019-20 over the previous year. As a proportion of the State's own resources, the non-tax revenue which stood at 11.86 per cent in 2018-19 decreased to 10.71 per cent in 2019-20. The decrease in interest receipts by ₹ 2,519 crore was on account of the book adjustments due to restructuring of loans and advances to the tune of ₹ 2,461 crore during 2018-19, which had inflated the non-tax revenue during 2018-19.
- While the compound annual growth rate (CAGR) of non-tax revenue of the State was higher (14.97 per cent) when compared to GCS (11.19 per cent) during 2010-19, it turned negative {(-) 9.24 per cent} during 2019-20. This was due to the decrease in non-tax revenue. CAGR of General Category States was at (23.44 per cent) during the year (Appendix 1.1).

2.3.2.3 Transfers from the Centre

Transfers from Centre are heavily dependent on Finance Commission recommendations. The trends for a period of 10 years (2010-2020) is given in **Chart 2.5** below:

Chart 2.5: Trends in transfers from Centre



(Source: Finance Accounts for the respective years)

Central tax transfers

The details of State's share of Union taxes and duties, components of central tax transfers and grants-in-aid from GoI are given in **Tables 2.11 to 2.13**.

Table 2.11: State's share in Union taxes and duties - Actual devolution vis-à-vis Finance Commission projections

(₹ in crore)				
Year	Finance Commission Projections	Projections in FCR*	Actual tax devolution	Difference
1	2	3	4	5 (4-3)
2010-11	4.969 per cent of net proceeds of all shareable taxes excluding service tax and 5.047 per cent of net proceeds of shareable service tax (As per recommendations of TFC)	10,132	10,914	782
2011-12		11,884	12,715	831
2012-13		14,017	14,520	503
2013-14		16,534	15,853	(-) 681
2014-15		19,503	16,824	(-) 2,679
2015-16	4.023 per cent of net proceeds of all shareable taxes excluding service tax and 4.104 per cent of net proceeds of shareable service tax (As per recommendations of FFC)	23,389	20,354	(-) 3,035
2016-17		26,992	24,538	(-) 2,454
2017-18		31,189	27,100	(-) 4,089
2018-19		36,084	30,639	(-) 5,445
2019-20 (RE)		41,796	26,393	(-) 15,403

* Finance Commission Recommendations

(Source: Reports of the TFC & FFC, Finance Accounts and Annual Financial Statements)

Table 2.12: Components of Central Tax Transfers

(₹ in crore)					
Head	2015-16	2016-17	2017-18	2018-19	2019-20
Central Goods and Services Tax (CGST)	--	--	382.92	7,561.77	7,489.35
Integrated Goods and Services Tax (IGST)	--	--	2,735.56	603.50	--
Corporation Tax	6,379.84	7,862.52	8,298.06	10,654.53	8,998.76
Taxes on Income other than Corporation Tax	4,403.41	5,464.48	7,007.12	7,846.62	7,051.14
Customs	3,266.20	3,124.11	2,734.70	2,171.71	1,672.92
Union Excise Duties	2,748.63	4,120.15	2,858.60	1,443.22	1,163.13
Service Tax	3,535.13	3,948.52	3,082.99	282.27	0.00
Other Taxes *	20.65	17.99	(-) 0.25	75.15	17.11
Total Central Tax transfers	20,353.86	24,537.77	27,099.70	30,638.77	26,392.41
Revenue Receipts	1,29,008	1,40,231	1,46,280	1,73,741	1,74,526
Percentage of increase over previous year	20.98	20.56	10.44	13.06	(-) 13.86
Percentage of Central tax transfers to Revenue Receipts	15.78	17.50	18.53	17.63	15.12

* Includes Taxes on wealth, other taxes on Income and Expenditure and Other taxes and duties on commodities and services

(Source: Finance Accounts for the respective years)

- The actual devolution of State's share of Union taxes and duties was much less against the projections made by the Fourteenth Finance Commission (FFC) during the entire period (2015-2020) and the shortfall stood at (-) 36.85 per cent in 2019-20.
- The growth rate of State's share of net proceeds (Central tax transfers) turned negative from 13.06 per cent in 2018-19 to (-) 13.86 per cent in 2019-20, which resulted in a reduction of revenue receipts and thereby impacting the fiscal indicators.
- The decrease in growth rate is mainly attributable to decrease in Corporation Tax by ₹ 1,655.77 crore, Taxes on Income other than Corporation Tax by ₹ 795.48 crore, IGST by ₹ 603.50 crore and Customs by ₹ 498.79 crore in 2019-20.

Table 2.13: Grants-in-aid from GoI

(₹ in crore)					
Head	2015-16	2016-17	2017-18	2018-19	2019-20
Non-Plan Grants*	5,832.15	6,757.20	--	--	--
Grants for State Plan Schemes*	12,016.80	10,550.35	--	--	(-) 71.80
Grants for Central Plan Schemes*	693.96	495.47	--	(-) 0.01	--
Grants for Centrally Sponsored Schemes*	716.71	2,035.18	--	(-) 1.23	(-) 0.10
Grants for Special Plan Schemes	--	--	--	--	--
Grants for Centrally Sponsored Schemes (CSS)	--	--	10,982.97	14,820.26	12,463.85
Finance Commission Grants	--	--	1,951.04	3,705.46	5,905.69
Other transfers/Grants to States/Union Territories with Legislature	--	--	1,745.43	4,843.73	9,485.73 [§]
Total	19,259.62	19,838.20	14,679.44	23,368.21	27,783.37
Percentage of increase over the previous year	3.61	3.00	(-) 26.00	59.19	18.89
Percentage of GIA to Revenue Receipts	14.93	14.15	10.04	13.45	15.92

* There are no figures since the nomenclature of plan and non-plan grants was removed with effect from the year 2017-18 and replaced by Grants for CSS, Finance Commission Grants and Other Grants to States.

§ Includes an amount of ₹ 8,922 crore being compensation for loss of revenue due to implementation of GST (Source: Finance Accounts for the respective years)

- The grants-in-aid increased by ₹ 4,415.16 crore (18.89 per cent) over the previous year.
- As a percentage of revenue receipts, grants-in-aid, which stood at 13.45 in 2018-19, increased significantly to 15.92 in 2019-20 mainly due to increase in 'compensation for loss of revenue arising out of implementation of GST' by ₹ 5,771.03 crore over the previous year.

Fourteenth Finance Commission Grants

Transfers from GoI to the State during 2019-20 on the recommendations of FFC are given in **Table 2.14**

Table 2.14: Recommended amount, actual release and transfers of Grant-in-aid

(₹ in crore)

Transfers	Recomm- endation of the XIVFC 2015-20	Recommendation of the XIVFC			Actual Release by GOI			Release by State Government		
		2015-16 to 2018- 19	2019-20	Total	2015-16 to 2018- 19	2019-20	Total	2015-16 to 2018- 19	2019-20	{% of column (9) to column (6)}
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Local Bodies										
(i) Grants to PRIs										
(a) General Basic Grant	7,899.69	5,529.83	2,369.86	7,899.69	5,529.86	1,821.11	7,350.94	5,529.83	1,821.11	100.00
(b) General Performance Grants	877.74	588.10	289.64	877.74	172.12	--	172.12	172.12	--	--
(ii) Grants to ULBs										
(a) General Basic Grant	6,585.84	4,610.13	1,975.71	6,585.84	4,610.13	1,975.70	6,585.83	4,610.13	1,975.70	100.00
(b) General Performance Grants	1,646.47	1,103.16	543.31	1,646.47	322.87	--	322.87	322.87	--	--
Total for Local Bodies	17,009.74	11,831.22	5,178.52	17,009.74	10,634.95	3,796.81	14,431.76	10,634.95	3,796.81	100.00
State Disaster Response Fund*	*3,751.00	**2,926.00	**825.00	3,751.00	2,312.40	***500.85	2,813.25	2,926.00	707.10	141.18
Grand Total	20,760.74	14,757.22	6,003.52	20,760.74	13,065.25	4,297.66	17,362.91	13,560.95	4,503.91	104.80

* Including State share of 25 per cent of total grant.

** As per recommendation, 90 % Central share and 10% State share, but in ATR it has been decided that until GST is put in place, 75:25 will continue

*** Excess amount of ₹ 117.90 crore released as Central share during 2018-19 has been adjusted against the central share release for 2019-20

(Source: Details as furnished by the State Finance Department)

2.3.3 Capital receipts

Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI.

Table 2.15: Trends in growth and composition of capital receipts

Sources of State's Receipts	2015-16	2016-17	2017-18	2018-19	2019-20
Capital Receipts (₹ in crore)	36,750.35	69,691.43	54,196.15	54,849.65	72,158.31
Miscellaneous Capital Receipts	--	0.79	2.24	--	--
Recovery of Loans and Advances	683.81	3,547.96	8,472.35	6,913.43	5,384.01
Public Debt Receipts (₹ in crore)	36,066.54	66,142.68	45,721.56	47,936.22	66,774.30
<i>Internal Debt (₹ in crore)</i>	<i>34,695.71</i>	<i>64,282.94</i>	<i>42,968.86</i>	<i>45,596.47</i>	<i>64,784.61</i>
<i>Growth rate (per cent)</i>	<i>17.36</i>	<i>85.28</i>	<i>(-) 33.16</i>	<i>6.12</i>	<i>42.08</i>
<i>Loans and Advances from GoI (₹ in crore)</i>	<i>1,370.83</i>	<i>1,859.74</i>	<i>2,752.70</i>	<i>2,339.75</i>	<i>1,989.69</i>
<i>Growth rate (per cent)</i>	<i>(-) 9.64</i>	<i>35.67</i>	<i>48.02</i>	<i>(-) 15.00</i>	<i>(-) 14.96</i>
Rate of growth of debt Capital Receipts (per cent)	16.04	83.39	(-) 30.87	4.84	39.30
Rate of growth of non-debt Capital Receipts (per cent)	(-) 49.98	418.97	138.80	(-) 18.42	(-) 22.12
Rate of growth of GSDP (per cent)	9.68	10.72	12.47	11.27	13.23
Rate of growth of Capital Receipts (per cent)	13.26	89.63	(-) 22.23	1.21	31.56

(Source: Finance Accounts for the respective years)

- The recoveries of loans and advances during 2019-20 included the conversion of TANGEDCO's loan of ₹ 4,563 crore as grants-in-aid under UDAY scheme.
- Public Debt receipts increased from ₹ 47,936 crore during 2018-19 to ₹ 66,774 crore in 2019-20 mainly due to increase (₹ 19,300 crore) in market loans under internal debt.

2.3.4 State's performance in mobilization of resources

State's performance in mobilization of resources is assessed in terms of its own resources comprising own-tax and non-tax sources.

Tax and non-tax receipts vis-à-vis projections

The State's own tax and non-tax revenue receipts for the year 2019-20 vis-à-vis assessment made by FFC, its Budget and Medium Term Fiscal Plan (MTFP) are given in **Table 2.16**

Table 2.16: Tax and non-tax receipts vis-à-vis projections

	FFC projections	Budget Estimates	Projections made in MTFP	Actual	Percentage variation of actual over	
					Budget estimates	FFC projections
Own Tax revenue	1,93,433	1,24,813	1,26,098	1,07,462	(-) 13.90	(-) 44.44
Non-tax revenue	16,608	13,327	11,866	12,888	(-) 3.29	(-) 22.40

(Source: FFC recommendations and Budget Speech - 2019-20)

State's own tax revenue receipts during 2019-20 fell considerably short of the target fixed under FFC, Budget and MTFP. Though, the non-tax revenue

exceeded the target fixed in the MTFP, it fell short of the targets fixed under FFC and Budget. The State's own tax revenue was less by 14.78 per cent over projections made in MTFP.

2.4 Application of resources

The State Government is vested with the responsibility of incurring expenditure within the framework of fiscal responsibility legislations, while at the same time ensuring that the ongoing fiscal correction and consolidation process of the State is not at the cost of expenditure directed towards development of capital infrastructure and social sector. This paragraph along with subparagraphs gives the analysis of allocation of expenditure in the State.

2.4.1 Growth and composition of expenditure

The details of total expenditure, its composition, relative share of various sectors, trends, etc. are given below in **Tables 2.17, 2.18** and **Charts 2.6 to 2.8**

Table 2.17: Total expenditure and its composition

(₹ in crore)

Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Total Expenditure (TE)	1,62,319.23	1,99,951.25	1,94,593.86	2,27,989.47	2,40,088.56
Revenue Expenditure (RE)	1,40,993.22	1,53,195.26	1,67,873.63	1,97,200.60	2,10,434.73
Capital Expenditure (CE)	18,994.58	20,709.49	20,203.20	24,310.84	25,631.58
Loans and Advances	2,331.43	26,046.50	6,517.03	6,478.03	4,022.25
As a percentage of GSDP					
TE/GSDP	13.80	15.35	13.28	13.99	13.01
RE/GSDP	11.98	11.76	11.46	12.10	11.40
CE/GSDP	1.61	1.59	1.38	1.49	1.39
Loans and Advances/GSDP	0.20	2.00	0.44	0.40	0.22

(Source: Finance Accounts for the respective years)

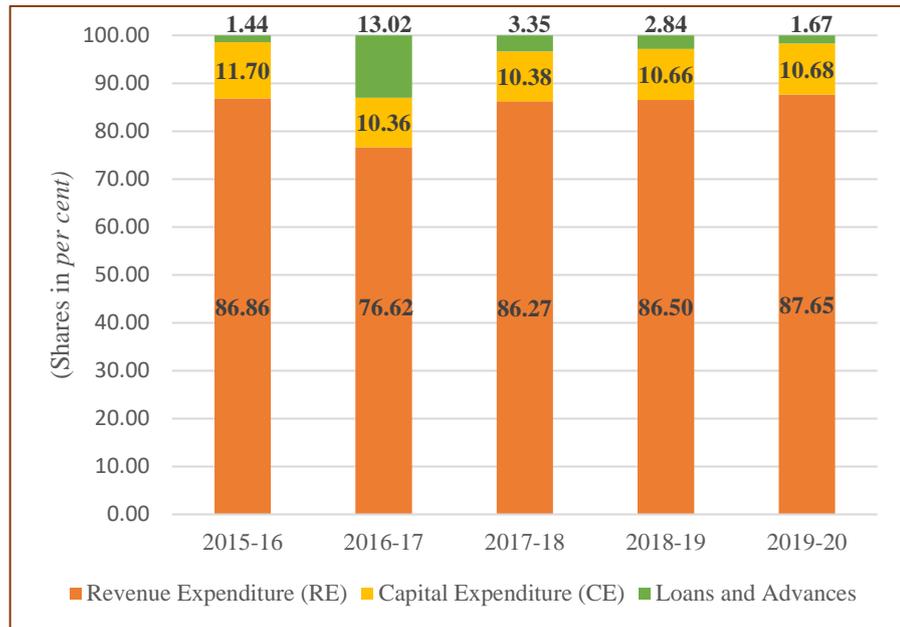
Table 2.18: Relative share of various sectors of expenditure

(in per cent)

Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
General Services *	28.69	26.11	31.50	32.15	32.99
Social Services *	37.25	30.68	33.16	33.86	33.26
Economic Services *	26.01	23.95	26.10	24.62	25.54
Others (Grants to Local Bodies and Loans and Advances)	8.05	19.26	9.24	9.37	8.21

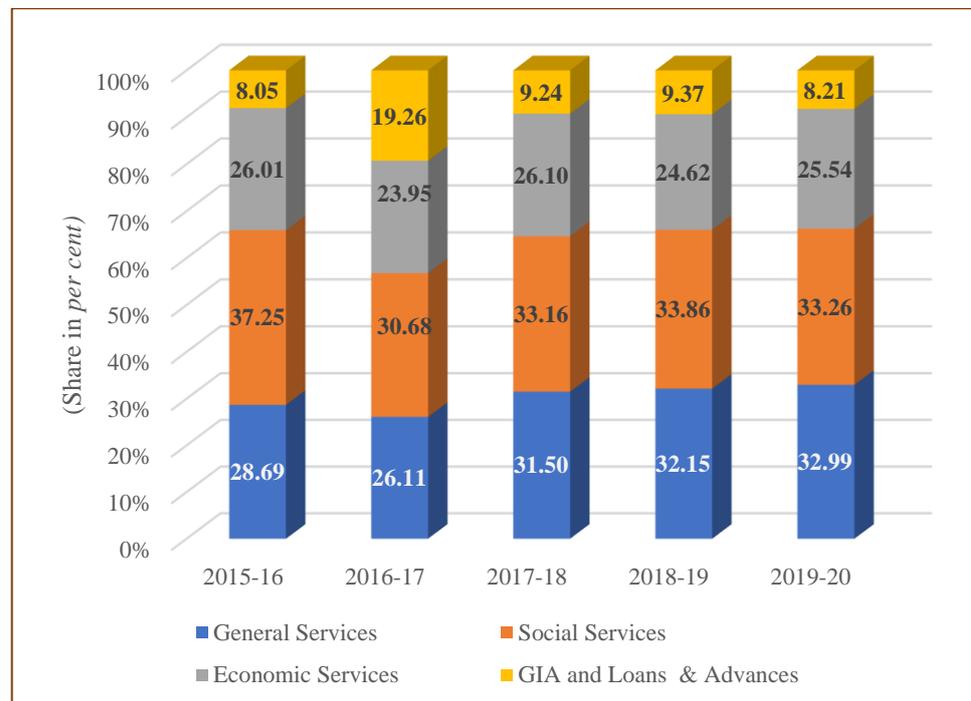
(* Sum of revenue and capital expenditure under these services)

Chart 2.6: Total Expenditure: Trends in share of its components



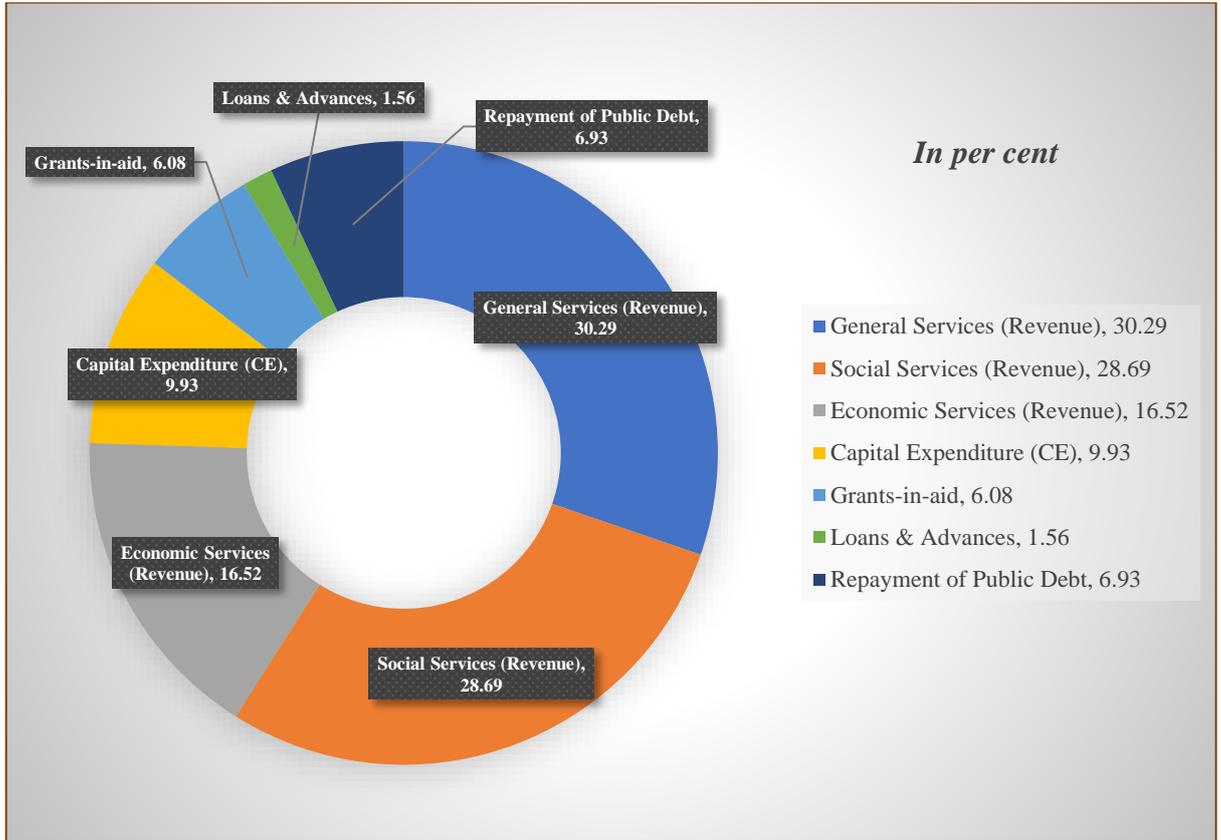
(Source: Finance Accounts for the respective years)

Chart 2.7: Total expenditure - Expenditure by activities



(Source: Finance Accounts for the respective years)

Chart 2.8: Composition of expenditure



(Source: Finance Accounts)

- Of the total expenditure of ₹ 2,40,089 crore during 2019-20, Revenue Expenditure (₹ 2,10,435 crore), Capital Expenditure (₹ 25,632 crore) and Loans and Advances (₹ 4,022 crore) accounted for 87.65 per cent, 10.68 per cent and 1.67 per cent respectively.

2.4.2 Revenue Expenditure

Revenue expenditure is incurred to maintain the current level of services and payment for the past obligation. As such, it does not result in any addition to the State's infrastructure and service network.

- Revenue Expenditure formed on an average 84.78 per cent (ranging from 86.86 per cent in 2015-16 to 87.65 per cent in 2019-20) of the total expenditure during the period 2015-20. Rate of growth of Revenue Expenditure has displayed wide fluctuation during the five-year period 2015-20 between 26.00 per cent in 2015-16 to 6.71 per cent in 2019-20. The overall Revenue Expenditure, its rate of growth, its ratio to Total Expenditure and buoyancy vis-à-vis GSDP and Revenue Receipts are indicated in **Table 2.19** and the sectoral distribution of Revenue Expenditure pertaining to 2019-20 is given in **Chart 2.9**.

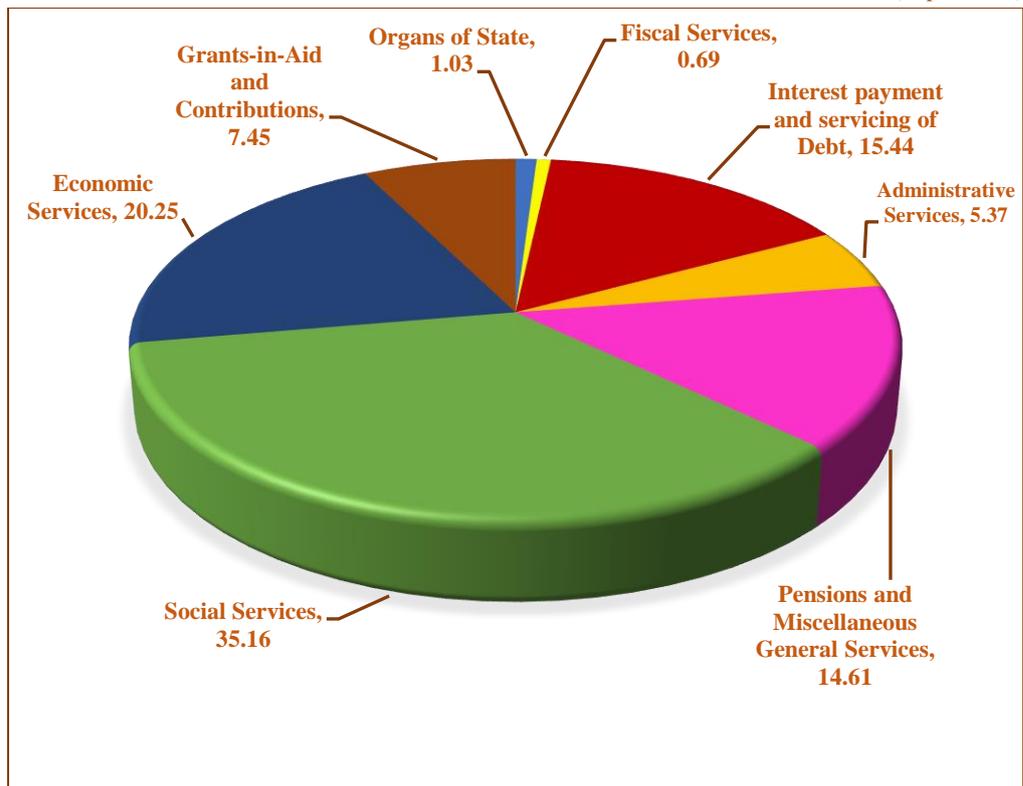
Table 2.19: Revenue Expenditure – Basic Parameters

Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Total Expenditure (TE) (₹ in crore)	1,62,319.23	1,99,951.25	1,94,593.86	2,27,989.47	2,40,088.56
Revenue Expenditure (RE) (₹ in crore)	1,40,993.22	1,53,195.26	1,67,874.00	1,97,200.60	2,10,434.73
Rate of Growth of RE (per cent)	26.00	8.65	9.58	17.47	6.71
Revenue Expenditure as percentage of TE	86.86	76.62	86.27	86.50	87.65
RE/GSDP (per cent)	11.98	11.76	11.46	12.10	11.40
RE as percentage of RR	109.29	109.24	114.76	113.50	120.58
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	2.69	0.81	0.77	1.55	0.51
Revenue Receipts (ratio)	4.83	0.99	2.22	0.93	14.91

(Source: Finance Accounts for the respective years)

Chart 2.9: Sector-wise distribution of revenue expenditure

(in per cent)



(Source: Finance Accounts)

- During 2019-20, although Revenue Expenditure witnessed a marginal increase of ₹ 13,234 crore (6.71 per cent) over the previous year, it declined as a percentage of GSDP from 12.10 per cent in 2018-19 to 11.40 per cent during the current year.
- Revenue Expenditure was lower only by ₹ 3,886 crore (1.81 per cent) vis-à-vis the assessment made in MTFP.

2.4.2.1 Major changes in Revenue Expenditure

Table 2.20 details significant variations under various Heads of Account with regard to Revenue Expenditure of the State during the current year and the previous year.

Table 2.20: Variation in Revenue Expenditure during 2019-20 compared to 2018-19

(₹ in crore)

Major Head	Description	2019-20	2018-19	Increase (+) / Decrease (-)
2202	General Education	36,658.92	31,582.09	5,076.83
2049	Interest Payments	31,980.19	28,757.01	3,223.18
2801	Power	8,728.44	7,662.70	1,065.74
2401	Crop Husbandry	8,839.19	7,801.19	1,038.00
3604	Compensation and Assignments to Local Bodies and Panchayat Raj Institutions	15,688.28	14,879.55	808.73
2055	Police	7,526.21	6,733.76	792.45
2015	Elections	794.47	192.00	602.47
2071	Pensions and other Retirement Benefits	30,201.77	29,629.60	572.17
2217	Urban Development	1,647.13	1,085.79	561.34
2852	Industries	2,763.30	2,249.50	513.80
2245	Relief on account of Natural Calamities	859.31	2,238.47	(-) 1,379.16
2505	Rural Employment	1,981.62	2,842.52	(-) 860.90
2216	Housing	3,161.48	3,922.86	(-) 761.38

(Source: Finance Accounts)

- Revenue Expenditure towards (i) General Education increased mainly under Salaries / Other allowances, student bus passes, reimbursement of tuition fees under Right to Education Act (RTE), supply of text books etc., and (ii) interest payments due to increase in repayment of debt charges.

2.4.2.2 Committed Expenditure

The committed expenditure of the State Government on revenue account consists of interest payments, expenditure on salaries and wages and pensions. It has first charge on Government resources. Upward trend on committed expenditure leaves the Government with lesser flexibility for development sector.

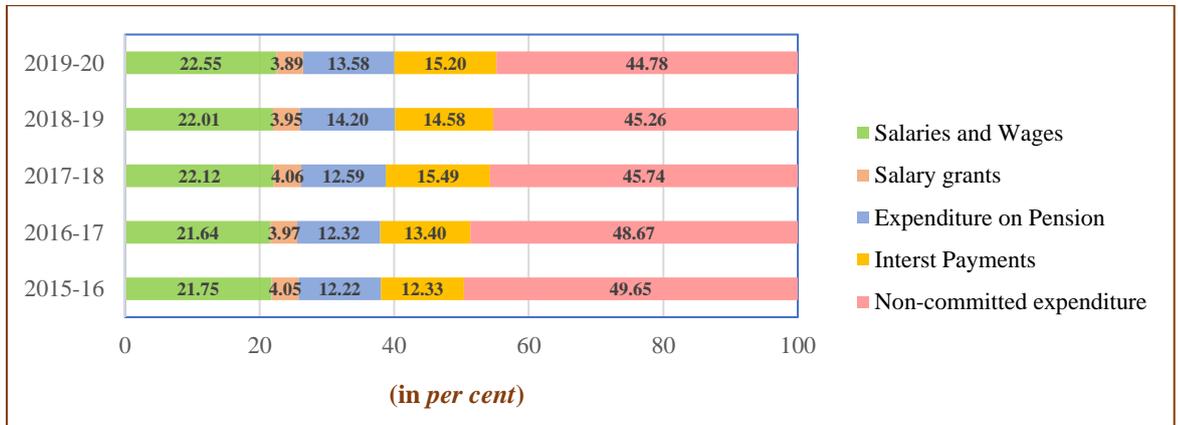
Table 2.21: Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2015-16	2016-17	2017-18	2018-19	2019-20
Salaries & Wages	30,664	33,158	37,140	43,394	47,447
Salary grants	5,712	6,088	6,819	7,792	8,190
Expenditure on Pensions	17,235	18,879	21,132	27,993	28,577
Interest Payments	17,391	20,533	26,012	28,757	31,980
Total	71,002	78,658	91,103	1,07,936	1,16,194
As a percentage of Revenue Receipts (RR)					
Salaries & Wages	23.77	23.65	25.39	24.98	27.19
Salary grants	4.43	4.34	4.66	4.48	4.69
Expenditure on Pensions	13.36	13.46	14.45	16.11	16.37
Interest Payments	13.48	14.64	17.78	16.55	18.32
Total	55.04	56.09	62.28	62.12	66.57
As a percentage of Revenue Expenditure (RE)					
Salaries & Wages	21.75	21.64	22.12	22.01	22.55
Salary grants	4.05	3.97	4.06	3.95	3.89
Expenditure on Pensions	12.22	12.32	12.59	14.20	13.58
Interest Payments	12.33	13.40	15.49	14.58	15.20
Total	50.35	51.33	54.26	54.74	55.22

(Source: Finance Accounts for the respective years)

Chart 2.10: Share of Committed expenditure in total Revenue Expenditure



(Source: Finance Accounts for the respective years)

- The committed expenditure (₹ 1,16,194 crore) is on an increasing trend mainly due to increase in expenditure towards salary / wages / salary grants and payment towards pensions and stood at 66.57 per cent of the total revenue receipts (₹ 1,74,526 crore) of the State during 2019-20, as against 62.12 per cent during 2018-19.
- The expenditure towards interest payments increased by ₹ 3,223 crore (11.21 per cent) during 2019-20 over the previous year.
- During 2019-20, expenditure on non-committed expenditure decreased gradually from 49.65 per cent in 2015-16 to 44.78 per cent in 2019-20 indicating that the committed liabilities of the State grew year on year leaving lesser funds towards other social and economic activities.

2.4.2.3 Undischarged liabilities in National Pension System

Government introduced the ‘National Pension System’ (NPS) applicable to all new entrants joining State Government Service on or after 2003. Under this system, employees contribute 10 *per cent* basic pay and dearness allowance, which is matched by the State Government and both employee’s and employer’s contribution are initially transferred to the Public Account (Major Head ‘8342-117- Defined Contributory Pension Scheme’).

GoTN launched Defined Contributory Pension Scheme (DCPS) for its employees from 1 April 2003. DCPS accounts of individual Government employees³ are maintained by Government Data Centre (GDC). Every year GDC calculates the interest due at the notified rates and credits the interest to the DCPS Account of individual Government employee.

The Central Government has enhanced the employer’s contribution rate to 14 *per cent* with effect from 01/04/2019. The State Government is yet to enhance the employer’s contribution in line with the Central Government. The State Government has the responsibility to deposit both employee’s and employer’s share with the designated authority i.e., National Securities Depository Limited (NSDL)/trustee bank for further investment as per the guidelines of NPS. The State Government opens a Current Account with the Bank for parking the funds before transfer to NSDL. On creation of National Pension System (NPS) architecture, Pension Fund Regulatory and Development Authority (PFRDA) repeatedly requested (2008 and 2009) GoTN to join NPS. GoTN declined (2010) to join NPS architecture and initially cited non-enactment of PFRDA Act by the Parliament, to justify its decision to continue with the existing system of retaining the Pension Fund money in Public Accounts of the State. The State Government, even after a lapse of 16 years from the inception of the New Pension Scheme *viz.*, Defined Contributory Pension Scheme (DCPS), has not designated a Fund Manager.

The expenditure on Pension and other Retirement benefits during the year in respect of State Government employees recruited on or before 31 March 2003 was ₹ 30,201.77 crore which is 14.35 *per cent* of total Revenue Expenditure of ₹ 2,10,434.73 crore during the year 2019-20. During the year 2019-20, out of total amount of ₹ 36,809.88 crore accumulated in the Fund as of 31 March 2020, an amount of ₹ 23,160.00 crore was invested under “New Group Superannuation Scheme with Cash Accumulation Plan” with Life Insurance Corporation of India. No interest has accrued from investment in LIC during the year. Out of the balance amount of ₹ 13,649.88 crore, an amount of ₹ 7,755.48 crore stands invested in Treasury Bills as of 31 March 2020. The investments during the year earned an interest of ₹ 1,251.52 crore.

Till the end of Financial Year 2019-20, Government has earned ₹ 5,960.51 crore (including ₹ 1,251.52 crore earned in 2019-20) as interest through investment in Treasury Bills. The amount of interest was credited in the Consolidated Fund

³ Including employees of Local Bodies and aided educational institutions.

under MH-0049-Interest Receipts. The receipts earned from DCPS accumulation should be transferred to the DCPS Fund under MH-8342-117 in the Public Account as this is earned on the investments made from the corpus of DCPS fund. However, on the contrary, the Government credited ₹ 1,251.52 crore as their receipts under Major head 0049-04-800-CW- Interest on Investment of Defined Pension Scheme Deposits for Government Servants into Consolidated Fund of State, thus overstating receipts and consequently impacting fiscal parameters to this extent. However, an amount of ₹ 2,438.14 crore was credited to the DCPS Fund as Interest by allocating provision under MH 2049 – Interest payments, by the State Government during the year, which worked out to 94.81 *per cent* over and above the interest earned on DCPS investments during the year.

As per office order GO.Ms. No. 158 dated 24.05.2019, the Government is required to pay interest at the rate of interest allowed to GPF, on the accumulation under DCPS Fund.

During the year 2019-20, the employees’ and the Government’s contributions towards DCPS were ₹ 2,619.01 crore and ₹ 2,597.55 crore respectively indicating a shortfall in Government’s contribution by ₹ 21.46 crore. This has resulted in understatement of Revenue Deficit and Fiscal Deficit to that extent.

2.4.2.4 Subsidies

Subsidies are dispensed not only explicitly and booked under the object head ‘subsidies’, but also implicitly⁴ by providing subsidised public service to the people. The subsidies extended during the period 2015-20, as a *per cent* of Revenue Receipts and Revenue Expenditure are detailed in the **Table 2.22** below:

Table 2.22: Expenditure on subsidies during 2015-20

	2015-16	2016-17	2017-18	2018-19	2019-20
Subsidies (₹ in crore)	12,315	16,092	15,230	18,922	20,144
Subsidies as a percentage of Revenue Receipts	9.55	11.48	10.41	10.89	11.54
Subsidies as a percentage of Revenue Expenditure	8.73	10.50	9.07	9.60	9.57

(Source: Finance Accounts for the respective years)

A list of schemes for which the State Government provided subsidy during 2015-20 is given in **Table 2.23**

⁴ Subsidies which were not booked under the object head “11-Subsidies” under the relevant major head of account are “Implicit Subsidies”.

Table 2.23: List of schemes for which subsidy was given by the State Government

(₹ in crore)

Name of the scheme	2015-16	2016-17	2017-18	2018-19	2019-20
Social Safety Net - Food Security - Public Distribution System Support	5,300	5,500	6,000	7,989	8,363
Electricity - Compensation to Tamil Nadu Electricity Board (TNEB) due to reduction in tariff to domestic consumers	2,885	4,271	3,623	3,076	3,367
Value Added Tax Refund Subsidy for promotion of Industries	1,000	1,600	1,600	2,000	2,560
Reimbursement of social cost on student concessions in bus fares	480	505	541	764	1,275
Free distribution of handloom clothes to the people below poverty line	484	472	484	468	484
Payment to TNEB on behalf of Powerloom weavers	312	386	387	343	336
Subsidy to farmers for Agricultural inputs	--	1,626	81	1	183
Other subsidies schemes	1,854	1,732	2,514	4,281	3,576
Total	12,315	16,092	15,230	18,922	20,144

(Source: Finance Accounts for the respective years)

Subsidies increased by 6.46 per cent during the year. The schemes under “other subsidies” (₹ 3,576 crore) include ₹ 1,659 crore expenditure under Central Assistance Schemes mainly towards Agricultural Sector and Fisheries.

Implicit subsidies in the form of marriage assistance, maternity assistance, free supply of laptop, uniform, etc., was on a decreasing trend from 2015-16 to 2018-19 (from ₹ 6,156 crore to ₹ 4,198 crore), but again increased by ₹ 628 crore during 2019-20 as detailed in **Table 2.23(a)**

Table 2.23(a): Major implicit subsidies given during 2015-20

Name of the scheme	Expenditure incurred (₹ in crore)				
	2015-16	2016-17	2017-18	2018-19	2019-20
Free supply of grinders, mixies, fans, etc.	2,000	933	0	0	0
Marriage Assistance Scheme - Distribution of four gram gold coins for Thirumangalyam	630	721	718	739	709
Free supply of uniforms to school children	382	410	390	384	411
Free supply of bicycles to students studying in Standard XI and XII in Government/ Government aided Higher Secondary Schools	235	250	16	382	230
Free distribution of sheep/goat to the persons living below poverty line	194	29	194	193	193
Menstrual Hygiene Programme (Providing sanitary napkins free of cost to adolescent girls)	45	45	46	46	46
Free distribution of Milch cows to each family living below poverty line	42	14	48	47	47
Free distribution of laptops	1,100	511	641	144	1,372
Dr. Muthulakshmi Reddy Maternity Assistance Scheme	600	928	646	900	883
Chief Minister's Comprehensive Health Insurance Scheme	928	593	1,734	1,363	935
Total	6,156	4,434	4,433	4,198	4,826

(Source: Detailed Appropriation Accounts of the respective years)

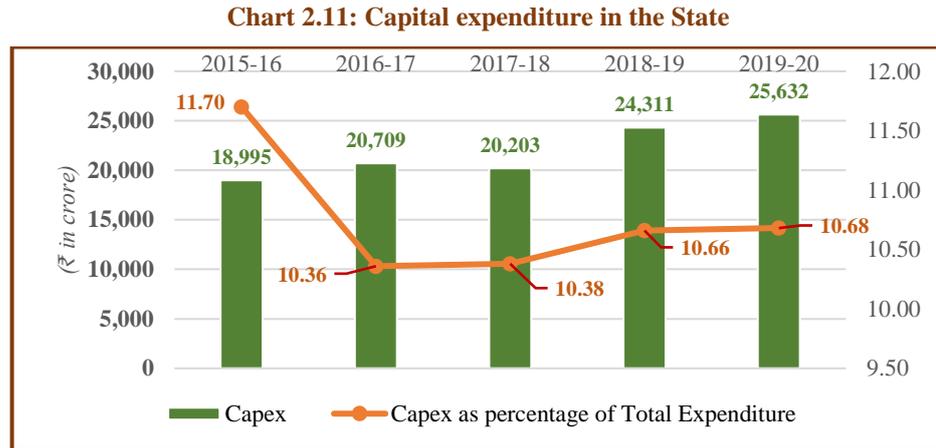
Though similar observations were made in the earlier Audit Reports, the Government continue to make provision under object heads other than ‘11-subsidies’, while operating such schemes.

2.4.3 Capital expenditure

Capital Expenditure (Capex) is primarily expenditure on creation of fixed infrastructure assets such as roads, buildings, etc. Capex is being met from

budgetary support and extra budgetary resources/off budget. In recent times, the infrastructure requirements have increased manifold and Special Purpose Vehicles (SPV) have been set up to carry out bulk of Capex.

During the year, the Government incurred ₹ 25,632 crore towards Capex, which increased by 5.4 per cent over the previous year. However, as a percentage of Total Expenditure, the increase was a meagre 0.02 per cent over the previous year. The trend in Capital expenditure during the period 2015-20 is shown in the **Chart 2.11** below.



(Source: Finance Accounts for the respective years)

2.4.3.1 Major changes in Capital Expenditure

The major changes in Capital expenditure during 2019-20 compared to 2018-19 is given in **Table 2.24** below.

Table 2.24: Major changes in Capital Expenditure

(₹ in crore)

Major Head	Description	2019-20	2018-19	Increase (+) / Decrease (-)
4217	Capital Outlay on Urban Development	2,840.93	4,433.28	(-) 1,592.35
4860	Capital Outlay on Consumer Industries	1.20	1,562.28	(-) 1,561.08
4515	Capital Outlay on other Rural Development Programmes	1,863.15	2,502.58	(-) 639.43
5054	Capital Outlay on Roads and Bridges	9,253.78	7,073.08	2,180.70
4801	Capital Outlay on Power Projects	763.60	194.58	569.02

(Source: Finance Accounts for the respective years)

The increase under ‘5054 – Capital Outlay on Roads and Bridges’ was mainly due to increased expenditure under sub major heads ‘District & Other Roads’ – ₹ 1,085 crore, ‘State Highways’ – ₹ 497 crore and ‘Roads’ – ₹ 449 crore and under ‘4801 – Capital Outlay on Power Projects’ was towards ‘Investments under State Electricity Boards’ – ₹ 419 crore.

The decrease under ‘4217 - Capital Outlay on Urban Development’ was mainly due to decrease in expenditure under sub major heads ‘Other Urban Development Schemes’ - ₹ 1,194 crore and ‘State Capital Development’ - ₹ 330 crore.

The decrease under ‘4860 - Capital Outlay on Consumer Industries’ was mainly due to decrease towards investments in Public Sector and Other undertakings under the sub major head ‘Sugar’.

The decrease under '4515 - Capital Outlay on other Rural Development Programmes' was mainly due to decrease under the minor heads '102 - Community Development' and '103 - Rural Development'.

2.4.3.2 Quality of capital expenditure

In the post-Fiscal Responsibility and Budget Management framework, the State is expected to keep its fiscal deficit not only at low levels but also eliminate revenue deficit and meet its capital expenditure/investment (including loans and advances) requirements from its own sources of revenue. In addition, the State Government is required to initiate measures to earn adequate returns on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* previous years.

Quality of investments in the companies, corporations and other bodies

As per Finance Accounts 2019-20, the State Government as on March 2020 had invested ₹ 39,866 crore in two Statutory Corporations, 57 Government Companies, five Joint Stock Companies and 9,156 various Co-operatives.

The average rate of return on these investments was a meagre 0.49 *per cent* in the last five years (2015-16 to 2019-20) while the average rate of interest paid by the Government on its borrowings during the same period was 8.27 *per cent*. As at the end of March 2020, Government has invested ₹ 25,379.73 crore in two Statutory Corporations, ₹ 13,984.44 crore in 57 Government Companies, ₹ 0.73 crore in five Joint Stock Companies and ₹ 500.61 crore in 9,156 Co-operatives. The investments at the end of the year and the details of return on investment for the period 2015-20 is given in **Table 2.25**.

Table 2.25: Return on Investment

Investment/return/ cost of borrowings	2015-16	2016-17	2017-18	2018-19	2019-20
Investment at the end of the year (₹ in crore)	25,725	29,811	33,579	36,480	39,866
Borrowings at the end of the year (₹ in crore)	2,23,030	2,83,394	3,26,518	3,68,736	4,23,743
Return (₹ in crore)	156	185	153	135	160
Return (<i>per cent</i>)	0.61	0.62	0.46	0.37	0.40
Average rate of interest on Government Borrowings (<i>per cent</i>)	8.38	8.11	8.53	8.27	8.07
Difference between interest rate and return (<i>per cent</i>)	7.77	7.49	8.07	7.90	7.67
Difference between interest on Government borrowings and return on investment (₹ in crore) #	1,998.83	2,232.84	2,709.83	2,881.92	3,057.72

Investment at the end of the year X Difference between interest rate and return

(Source: Finance Accounts of the respective years)

During 2019-20, State Government invested ₹ 763.59 crore in a Statutory Corporation⁵ and ₹ 3,544.91 crore in eleven Government Companies.

⁵ Tamil Nadu Generation and Distribution Corporation Ltd.(TANGEDCO)

Investments made in loss making companies

Capital expenditure in the companies, corporations and other bodies, which are loss making or where net worth is completely eroded is not sustainable. Investments made and loan given to Companies, Corporations and Co-operatives, which are loss making and those where 'net worth' is completely eroded, affect quality of capital expenditure.

As on March 2020, the Government has invested ₹ 6,116.80 crore in 20 loss making Companies / Corporations/ Co-operatives, out of which ₹ 736.02 crore has been invested in eight loss making Companies / Corporations/ Co-operatives during the current year as given in **Table 2.26** below:

Table 2.26: Investments made in loss making companies*(₹ in crore)*

Sl. No	Company/ Corporation	Investment made during the year 2019-20	Cumulative investment as on 31 March 2020	Cumulative loss as reported by the entity
1	Metropolitan Transport Corporation (Chennai) Limited (1972-2020)	72.03	822.03	5,078.36
2	Tamil Nadu State Transport Corporation (Salem) Limited (1972-2020)	9.55	531.70	3,369.81
3	Tamil Nadu State Transport Corporation (Madurai) Limited (2010-2020)	11.37	854.52	4,376.32
4	Tamil Nadu State Transport Corporation (Tirunelveli) Limited (2010-2020)	470.55	611.86	826.42
5	Tamil Nadu State Transport Corporation (Coimbatore) Limited (1990-2020)	91.47	984.07	4,743.97*
6	Tamil Nadu State Transport Corporation (Kumbakonam) Limited (1971-2020)	59.83	879.07	4,361.87
7	State Express Transport Corporation Tamil Nadu Limited (1984-2020)	20.72	354.70	2,727.03
8	Pallavan Transport Consultancy Services Limited (1984-2020)	0.50	0.60	2.19
	Total	736.02	5038.55	25485.97

* Relates to cumulative loss upto 2018-19 only

(Source: Finance Accounts)

It was further noticed that, investment has been made by the Government in Tamil Nadu Generation and Distribution Corporation (TANGEDCO) whose net worth is completely eroded. The net worth of the Company as on 31 March 2019, the investment made during the current year 2019-20 and the cumulative investment of Government in the Company is given below in **Table 2.26(a)**.

Table 2.26(a): Investment made in companies whose net worth is completely eroded*(₹ in crore)*

Company / Corporation	Net worth as on 31.03.2019	Investment made during the year	Cumulative investment as on 31 March 2020
Tamil Nadu Generation and Distribution Corporation Ltd.	(-) 68,160.02	763.59	25,375.93
Total	(-) 68,160.02	763.59	25,375.93

(Source: Data collected from commercial audit wing and Finance Accounts)

If the State Government keeps on investing in loss making Government companies, there are no chances of return on investment. Investments made in

companies which are loss making and those where net worth is eroded, affect the quality of capital expenditure.

Difference in figures of Government and PSUs

The State Public Sector Undertakings (SPSUs) in Tamil Nadu which consists of State Government Companies and Statutory Corporations are established to carry out activities of commercial nature keeping in view the welfare of the people. The figures in respect of investments as per the records of the PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the PSUs concerned and the Finance Department should carry out reconciliation of the differences.

The position in this regard as on 31 March 2020 is given in **Table 2.26(b)**.

Table 2.26(b): Equity as per Finance Accounts vis-à-vis records of SPSUs

(₹ in crore)

Sl. No	Amount invested in	Amount as per		Difference
		Finance Accounts	SPSUs	
1	Share capital /Equity	9,784.75	11,161.95	1,377.20

(Source: Compiled based on information received from PSUs and Finance Accounts)

There were differences in respect of 55 companies / Corporations as reflected in Section 2 - Statement 19 of Finance Accounts. The major differences in investments made by the Government (as per Statement 16 of Finance Accounts) and PSUs were observed under (i) Tamil Nadu Power Finance and Infrastructure Development Corporation, (ii) Tamil Nadu Sugar Corporation Limited and (iii) Tamil Nadu Transport Development Finance Corporation Limited.

The Government and the PSUs should take concrete steps to reconcile the differences.

Quantum of loans disbursed and recovered during five years

In addition to the investments in Co-operative Societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations.

Table 2.27 presents the outstanding loans and advances as on 31 March 2020 and interest receipts vis-à-vis interest payments during the last five years.

Table 2.27: Outstanding loans and advances

(₹ in crore)

Quantum of loans disbursed and recovered	2015-16	2016-17	2017-18	2018-19	2019-20
Opening balance of outstanding loans	19,604	21,251	43,749	41,794	41,359
Amount advanced during the year	2,331	26,046	6,517	6,478	4,022
Amount recovered during the year	684	3,548	8,472	6,913	5,384
Closing balance of outstanding loans	21,251	43,749	41,794	41,359	39,997
Net addition	1,647	22,498	(-) 1,955	(-) 435	(-) 1,362
Interest received	186	1,372	1,484	2,703	4
Interest receipts as a percentage of outstanding Loans and Advances given by the Government.	0.91	4.22	3.47	6.50	0.01
Average rate of Interest paid on the outstanding borrowings of the Government	8.38	8.11	8.53	8.27	8.07
Difference between the rate of interest paid and interest received (per cent)	7.47	3.89	5.06	1.77	8.06

(Source: Finance Accounts for the respective years)

- The recovery of loans and advances which was at ₹ 6,913 crore in 2018-19 reduced to ₹ 5,384 crore in 2019-20. This includes the conversion of TANGEDCO's loan of ₹ 4,563 crore as Grants-in-aid under UDAY scheme.
- Loans advanced during the year includes ₹ 2.67 crore relating to capitalisation of the interest dues from two loan recipient organisations and treating them as fresh loans through book adjustments.

Capital expenditure transferred to Reserve Funds

Capital expenditure (₹ 25,632 crore) as reported in the Finance Accounts depicts the net figures after adjusting (deducting) the amount (₹ 110.28 crore) met from the reserve funds *viz.*, State Innovation Fund.

Implementation of Ujwal Discom Assurance Yojana (UDAY)

The Ministry of Power, Government of India (GoI) had launched (November 2015) the Ujwal Discom Assurance Yojana (UDAY) Scheme for the financial turnaround of Power Distribution Companies (DISCOMs).

With an objective to improve the operational and financial efficiency of the State DISCOMs, a tripartite Memorandum of Undertaking (MoU) was executed between Ministry of Power (GoI), concerned State Government and State Power Distribution Companies. This scheme facilitated State Governments to take over 75 per cent of DISCOM's outstanding debt over a period of two years. The Government of Tamil Nadu raised loans to the extent of ₹ 22,815.00 crore during February-March 2017 by issuing Non-Statutory Liquidity Ratio Bonds (Non-SLR) through RBI Nagpur.

The assistance to the extent of ₹ 22,815 crore was treated as 'Loan' by the State Government. Tamil Nadu State Government converted the interest free loan into grant (total 5 equal instalments) commencing from the year 2017-18 by appropriating funds for ₹ 4,563 crore and carried out necessary book adjustments. After converting the interest free loan into grant during 2017-18, 2018-19 and 2019-20, the outstanding loan yet to be adjusted is ₹ 9,126.00 crore.

As the loan of ₹ 9,126 crore outstanding as of 31 March 2020 (₹ 22,815 crore - (₹ 4,563 crore x 3)) under UDAY would ultimately be waived off by GoTN, as shown in **Table 2.28**, by converting the loans into grants over the next two years, the entire sum was not an asset in its real sense, despite being depicted under loans and advances.

Table 2.28: Position Loan/ Grant under UDAY

(₹ in crore)

Year	Outstanding Interest free loan	Loan amount converted as Grant	Balance outstanding
2016-17	22,815	--	22,815
2017-18	22,815	4,563	18,252
2018-19	18,252	4,563	13,689
2019-20	13,689	4,563	9,126

(Source: Finance Accounts for the respective years)

2.4.4 Expenditure priorities

Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a

particular sector, if the allocation is below the respective national average. The higher the ratio of these components to total expenditure, the quality of expenditure is considered to be better. Expenditure priority of the State with regard to Health, Education and Capital expenditure are shown in **Table 2.29** below:

Table 2.29: Expenditure priorities

(in per cent)

Ratios	AE/GSDP	CE/AE	CE on Education/AE	CE on Health/AE
General Category of States (GCS) Average (2015-16)	16.97	14.81	15.68	4.79
Tamil Nadu	13.80	11.70	16.15	5.14
General Category of States (GCS) Average (2019-20)	15.15	12.97	15.91	5.21
Tamil Nadu	13.01	10.68	16.20	5.13
Karnataka	12.35	16.93	12.64	4.37
Kerala	13.39	7.39	16.40	6.59

AE: Aggregate Expenditure, CE: Capital Expenditure, (Source: Central Statistics Office)

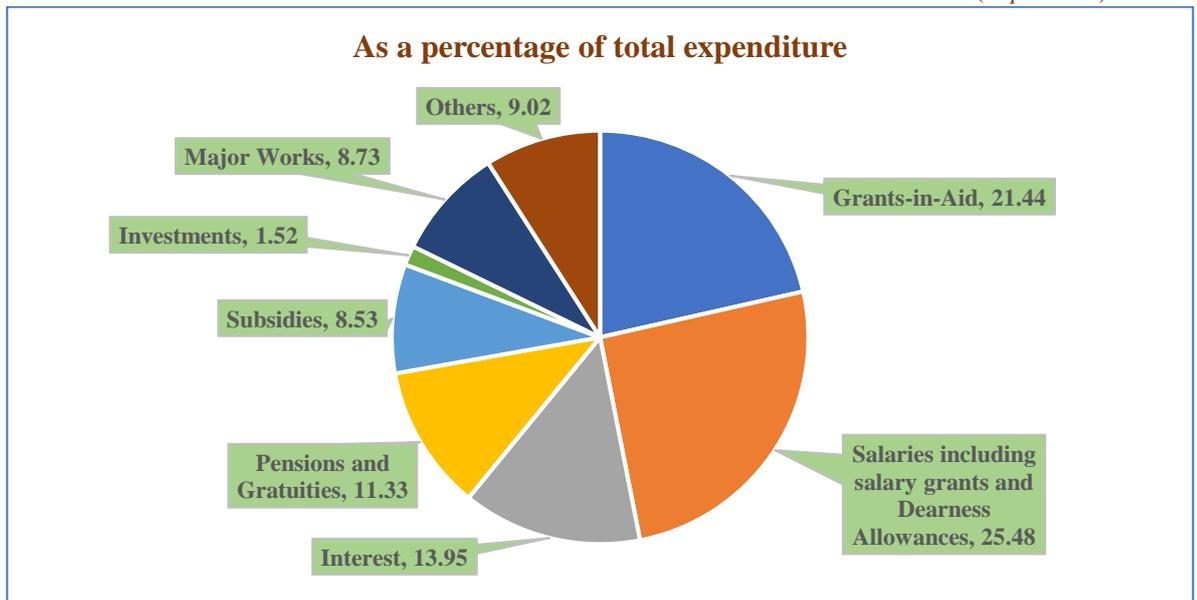
- The percentage of AE to GSDP was low in the State as compared to GCS but higher than its neighbouring State Karnataka.
- The Capital expenditure on Education as a percentage of AE during the year was higher than GCS and Karnataka.
- The Capital expenditure on Health as a percentage of AE was lower than GCS but higher than Karnataka.
- The percentage of overall Capital Expenditure to Aggregate Expenditure was less than GCS Average but higher than that of Kerala.

2.4.5 Object head wise expenditure

The Object head wise expenditure during the year is depicted in **Chart 2.12** below.

Chart 2.12: Object head wise expenditure

(in per cent)



(Source: Finance Accounts)

- While 50.76 per cent of the total expenditure was incurred towards salaries & allowances, pensionary payments and interest commitments, investments during the year was a meagre 1.52 per cent and the expenditure on major works stood at 8.73 per cent, indicating that more than half of the expenditure was towards committed expenditure.
- The expenditure on grants-in-aid and subsidies were 21.44 per cent and 8.53 per cent of the total expenditure respectively

2.5 Public Account

Receipts and Disbursements in respect of certain transactions such as Small Savings, Provident Funds, Reserve Funds, Deposits, Suspense, Remittances etc., which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State Legislature. The Government acts as a banker in respect of these accounts. The balance after disbursements during the year is the fund available with the Government for use for various purposes.

2.5.1 Net Public Account Balances

The component-wise net balances in Public Account of the State is given in Table 2.30 below.

Table 2.30: Component-wise net Public Account balances as of 31 March of the year

(₹ in crore)

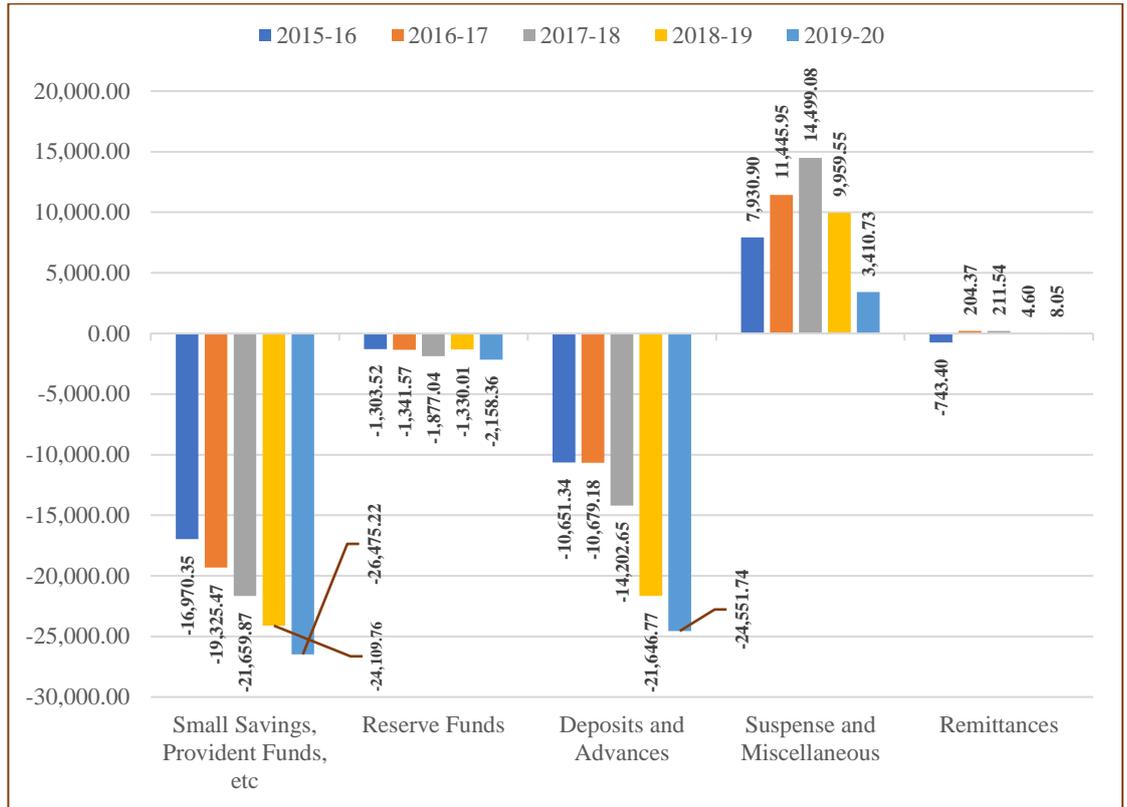
Sector	Sub-Sector	2015-16	2016-17	2017-18	2018-19	2019-20
I. Small Savings, Provident Funds, etc	Small Savings, Provident Funds, etc	(-) 16,970.35	(-) 19,325.47	(-) 21,659.87	(-) 24,109.76	(-) 26,475.22
J. Reserve Funds	(a) Reserve Funds bearing Interest	--	--	--	--	(-) 113.42
	(b) Reserve Funds not bearing Interest	(-) 1,303.52	(-) 1,341.57	(-) 1,877.04	(-) 1,330.01	(-) 2,044.94
K. Deposits and Advances	(a) Deposits bearing Interest	(-) 2,901.79	(-) 2,581.33	(-) 4,128.42	(-) 8,008.32	(-) 9,323.98
	(b) Deposits not bearing Interest	(-) 7,758.58	(-) 8,106.84	(-) 10,083.23	(-) 13,646.16	(-) 15,235.43
	(c) Advances	9.03	8.99	9.00	7.71	7.67
L. Suspense and Miscellaneous	(b) Suspense	(-) 624.97	(-) 134.35	(-) 121.00	(-) 141.69	(-) 283.10
	(c) Other Accounts	8,554.63	11,579.06	14,618.84	10,100.00	3,692.59
	(d) Accounts with Governments of Foreign Countries	1.24	1.24	1.24	1.24	1.24
	(e) Miscellaneous	--	--	--	--	--
M. Remittances	(a) Money Orders, and other Remittances	(-) 748.58	197.20	199.04	(-) 0.50	(-) 0.51
	(b) Inter-Governmental Adjustment Account	5.18	7.17	12.50	5.10	8.56
Total		(-) 21,737.71	(-) 19,695.90	(-) 23,028.94	(-) 37,122.39	(-) 49,766.54

Note: +ve denotes debit balance and -ve denotes credit balances

(Source: Finance Accounts for the respective years)

Chart 2.13: Yearly changes in composition of Public Account balances

(₹ in crore)



(Source: Finance Accounts for the respective years)

- The public account liability of the Government increased from ₹ 37,122.39 crore in 2018-19 to ₹ 49,766.54 crore in 2019-20.
- The major contributions to the public account were from (i) small savings, provident fund, etc. and (ii) deposits.

2.5.2 Reserve Funds

Reserve Funds are created for specific and defined purposes under the Public Account of the State Government. These funds are met from contributions or grants from the Consolidated Fund of the State.

There are 25 Reserve Funds earmarked for specific purposes, out of which two Reserve Funds were inoperative for two and ten years. The total accumulated balance as on 31 March 2020 under Reserve Funds was ₹ 16,995.52 crore (includes ₹ 23.61 crore in inoperative Reserve Funds). Some of the major Reserve Funds are discussed below.

2.5.2.1 Consolidated Sinking Fund

The State Governments have set up the Sinking Fund in line with the recommendations of the Twelfth Finance Commission (XII FC) for amortization of market borrowings as well as other loans and debt obligations. The fund is managed by the Reserve Bank of India

The State Government has created a Consolidated Sinking Fund (CSF) in 2005-06 for amortisation of Open Market Loans, Government of India Loans and Special Securities issued to National Small Savings Fund availed of by the State Government. The fund is managed by the Reserve Bank of India. As per the Notification in Tamil Nadu Gazette, the Government may contribute at the rate of 0.5 *per cent* of the outstanding liabilities as at the end of the previous year, to CSF. During the year, the State Government contributed ₹ 509.88 crore to the Fund, which works out to only 0.14 *per cent* of the outstanding liabilities of ₹ 3,68,736.16 crore as on 1 April 2019.

Thus, there was a short contribution of ₹ 1,333.80 crore (₹ 1,843.68 crore minus ₹ 509.88 crore)

As on 31 March 2020, CSF had a balance of ₹ 6,938.95 crore, of which ₹ 6,642.99 crore was invested in GoI securities.

The interest earned on the investments made during the year was ₹ 509.88 crore. The rate of return on investments made from the fund during the year was 7.99 *per cent*.

Due to the increased trend in the liabilities, the Government may initiate contributing more to this fund to tide over the future commitments adequately.

2.5.2.2 State Disaster Response Fund

Government of India replaced the erstwhile Calamity Relief Fund with the State Disaster Response Fund (SDRF) with effect from 1 April 2010. In terms of the guidelines of the Fund, the Centre and States are required to contribute to the Fund in a certain proportion. The contributions are to be transferred to the Public Account to Major Head – 8121. Expenditure during the year is incurred by operating Major Head – 2245.

The State Governments are required to pay interest to the SDRF at the rate applicable to overdrafts under overdraft Regulation Guidelines of the RBI. The interest is to be credited on a half yearly basis. The accretions to the SDRF together with the income earned on the investment of SDRF is to be invested in Central Government dated Securities, auctioned Treasury Bills and other interest earning deposits with Scheduled Commercial Banks.

The SDRF is to be used only for meeting the expenditure for providing immediate relief to the victims of a disaster and the provision for disaster preparedness, restoration, reconstruction and mitigation should not be a part of SDRF. Such expenditure has to be built into the normal budgetary heads/ State Plan Funds, etc.

During the year 2019-20, the State Government transferred ₹ 707.10 crore to SDRF Account towards natural calamities (Central Share of ₹ 500.85 crore and State share of ₹ 206.25 crore).

The details of expenditure charged to SDRF is given below in **Table 2.31**.

Table 2.31: Details of expenditure charged to SDRF

(₹ in crore)

Major Head of Account	Minor Head of Account	Expenditure during 2019-20
2245- Relief on Account of Natural Calamities - 01- Drought.	101 - Gratuitous Relief	183.42
	102 - Drinking Water supply	281.86
	800 - Other Expenditure	0.02
	911 - Deduct-Recoveries of Overpayments	(-) 2.22
	Sub Total	463.08
2245- Relief on Account of Natural Calamities - 02- Floods, Cyclones etc.	101 - Gratuitous Relief	19.36
	106 - Repairs and Restoration of Damaged Roads and Bridges	0.13
	111 - Ex-Gratia payment to bereaved families	7.83
	113 - Assistance for repairs / reconstruction of houses	5.77
	114 - Assistance to Farmers for purchase of Agricultural inputs	19.71
	117 - Assistance to Farmers for purchase of livestock	0.04
	118 - Assistance for repairs / replacement of damaged boats and equipment for fishing	36.23
	122 - Repairs and Restoration of Damaged Irrigation and Flood control works	0.27
	190 - Assistance to Public Sector and Other undertakings	14.26
	191 - Assistance to Municipal Corporations	7.25
	192 - Assistance to Municipalities / Municipal Councils	0.83
	193 - Assistance to Nagar Panchayats / Notified Area Committees or equivalent thereof	1.56
	282 - Public Health	8.78
	800 - Other Expenditure	127.42
911 - Deduct-Recoveries of Overpayments	(-) 22.21	
Sub Total	227.23	
2245- Relief on Account of Natural Calamities - 80 - General	800 - Other Expenditure	167.51
	Sub-Total	167.51
	Grand Total	857.82
05 - State Disaster Response Fund	901- Deduct - Amount met from State Disaster Response Fund	(-) 707.10

(Source: Appropriation Accounts)

The State Government spent (₹ 857.82 crore) during the year, which was much more than the amount transferred to the fund (₹ 707.10 crore). Hence, the balance in the fund was 'Nil' as on 31 March 2020.

2.5.2.3 Guarantee Redemption Fund

State Government constitutes 'Guarantee Redemption Fund' for meeting the payment obligations arising out of the guarantees issued by the Government in respect of bonds issued and other borrowings by the State Public Sector Undertakings or other Bodies and invoked by the beneficiaries. The accumulations in the Fund are to be utilised only towards payment of the guarantees issued by the Government and not paid by the institutions on whose behalf guarantee was issued. The State Government is required to contribute an amount equivalent to at least three *per cent* of the outstanding guarantees at the end of the second financial year preceding the current financial year as reflected

in the books of accounts maintained by the Accountant General (A&E). The funds are invested by the RBI.

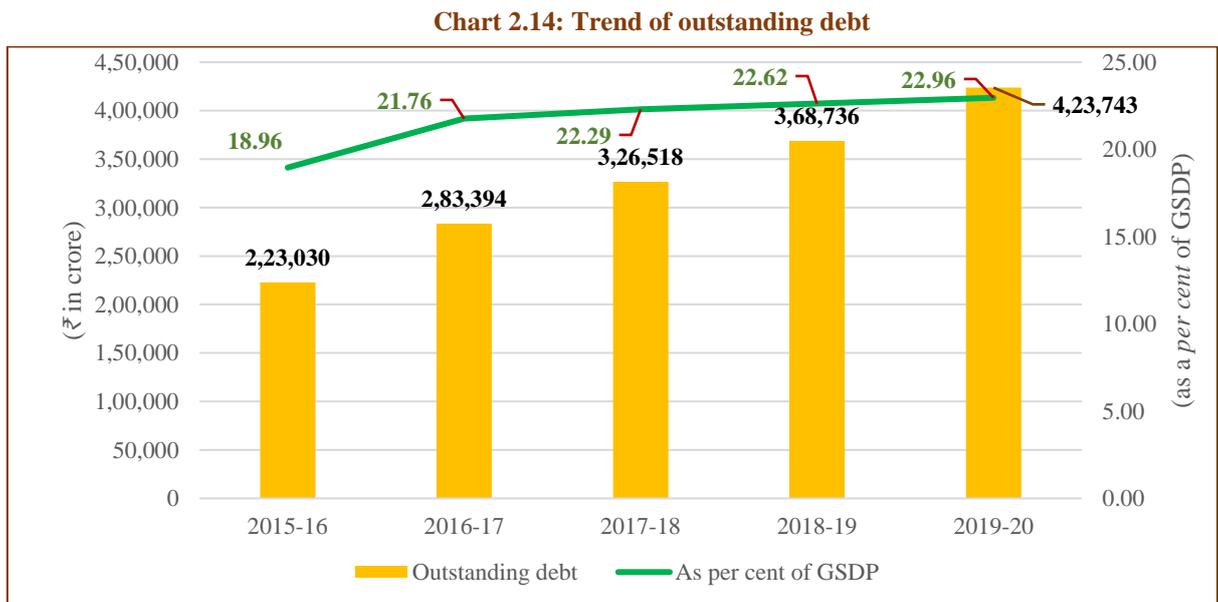
The Guarantee Redemption Fund (GRF) was constituted in March 2003 for meeting the expenditure incurred towards discharging the guarantees invoked and is administered by the Reserve Bank of India. As per the guidelines of the GRF scheme in Tamil Nadu, which was issued based on the advice of the Reserve Bank of India, the State Government is to contribute a minimum of 1 *per cent* of outstanding guarantees at the beginning of the year in the year of constitution of the Fund, and thereafter a minimum of 0.50 *per cent* every year to achieve a corpus of minimum of 3 to 5 *per cent* of the outstanding of the previous year.

As per the guidelines, the required Contribution amounts to ₹ 218.31 crore (0.50 *per cent* of outstanding guarantees of ₹ 43,661.08 crore as on 1 April 2019). During the year, the State Government contributed ₹ 278.61 crore. The closing balance as on 31 March 2020 as ₹ 700.94 crore out of which ₹ 639.98 crore was invested in treasury bills. The gain on sale of securities during the year was ₹ 27.42 crore. The rate of return on investments made from the fund during the year was 5.98 *per cent*. No guarantees were invoked during 2019-20.

2.6 Debt management

Debt management is the process of establishing and executing a strategy for managing the Government's debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other sovereign debt management goals that the Government may have set through enactment or any other annual budget announcements.

Trend analysis of outstanding debt (includes internal debt of the State Government, loans and advances from GoI and Public Account liabilities) and in terms of debt as a percentage of GSDP for the period 2015-16 to 2019-20 is given in **Chart 2.14**.



(Source: Finance Accounts for the respective years)

2.6.1 Debt profile: Components

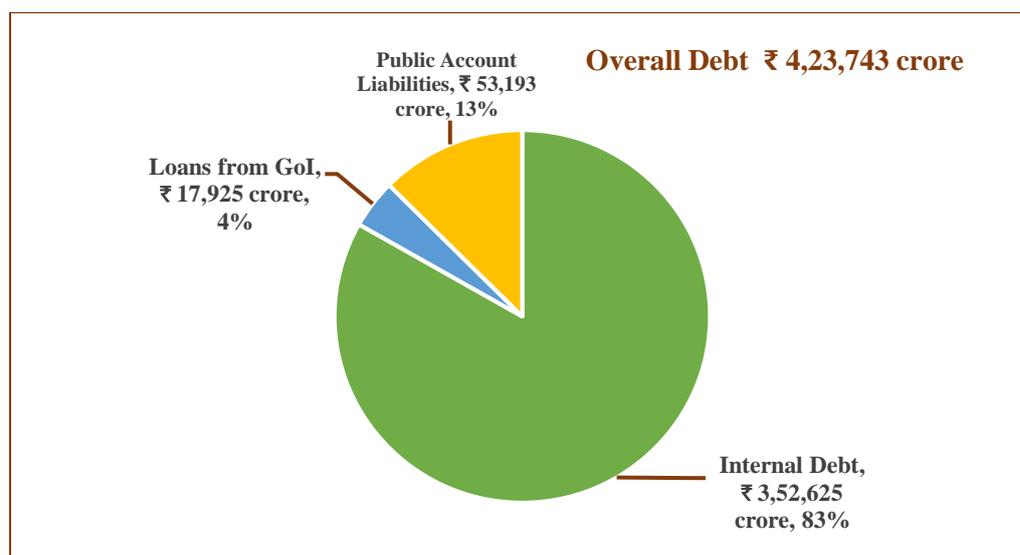
Total debt of the State Government typically constitutes internal debt of the State (market loans, ways and means advances from RBI, special securities issued to National Small Savings Fund and loans from financial institutions, etc.), loans and advances from the Central Government and Public Account Liabilities. The component-wise debt trends is given in **Table 2.32** and breakup of outstanding debt at the end of 2019-20 is shown in **Chart 2.15**.

Table 2.32: Component wise debt trends

	2015-16	2016-17	2017-18	2018-19	2019-20	
Outstanding Debt	2,23,030	2,83,394	3,26,518	3,68,736	4,23,743	
Public Debt (₹ in crore)	Internal Debt	1,80,693	2,37,701	2,72,634	3,04,350	3,52,625
	Loans from GoI	13,403	14,338	16,135	17,292	17,925
Public Account Liabilities (₹ in crore)	28,934	31,355	37,749	47,094	53,193	
Rate of growth of outstanding debt (percentage)	16.25	27.07	15.22	12.93	14.92	
Gross State Domestic Product (GSDP) (₹ in crore)	11,76,500	13,02,639	14,65,051	16,30,208	18,45,853	
Debt/GSDP (per cent)	18.96	21.76	22.29	22.62	22.96	
Total Debt Receipts (₹ in crore)	1,21,368	1,52,903	1,62,088	1,63,335	1,87,208	
Total Debt Repayments (₹ in crore)	90,185	91,539	1,18,964	1,21,117	1,32,202	
Total Debt Available (₹ in crore)	31,183	61,364	43,124	42,218	55,006	
Debt Repayments/Debt Receipts (per cent)	74.31	59.87	73.39	74.15	70.62	

(Source: Finance Accounts for the respective years)

Chart 2.15: Break up of Outstanding Debt at the end of the Financial Year 2019-20



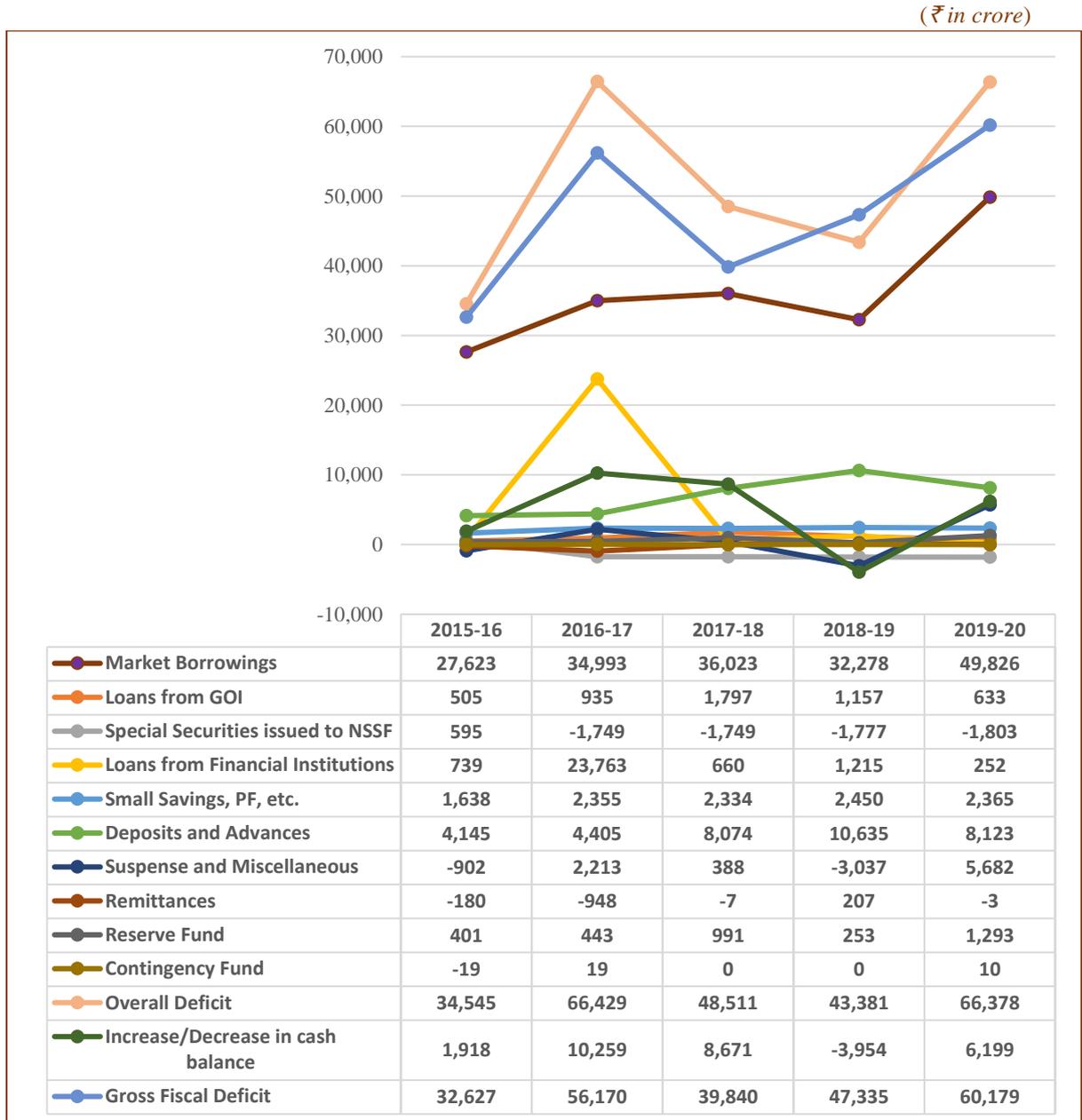
(Source: Finance Accounts)

- The internal debt of the Government increased by 15.86 per cent from ₹ 3,04,350 crore at the end of 2018-19 to ₹ 3,52,625 crore at the end of 2019-20.
- During the year 2019-20, Open Market Loans (one security at 7.59 per cent, six securities at 6.97 per cent, two securities at 7.11 per cent, two securities at 6.70 per cent, one security at 6.50 per cent, one security at 6.90 per cent, one security at 7.20 per cent, one security at 7.19 per cent, one security at 7.15 per cent, one security at 7.05 per cent, one security

at 7.17 per cent and one security at 6.94 per cent interest) were raised through the RBI by the State Government to the extent of ₹ 20,790 crore by re-issue of existing Government Securities which has resulted in allowing discount amount of ₹ 190.89 crore apart from interest liability of ₹ 19,366.96 crore to be discharged till the time of redemption of loan in 2050.

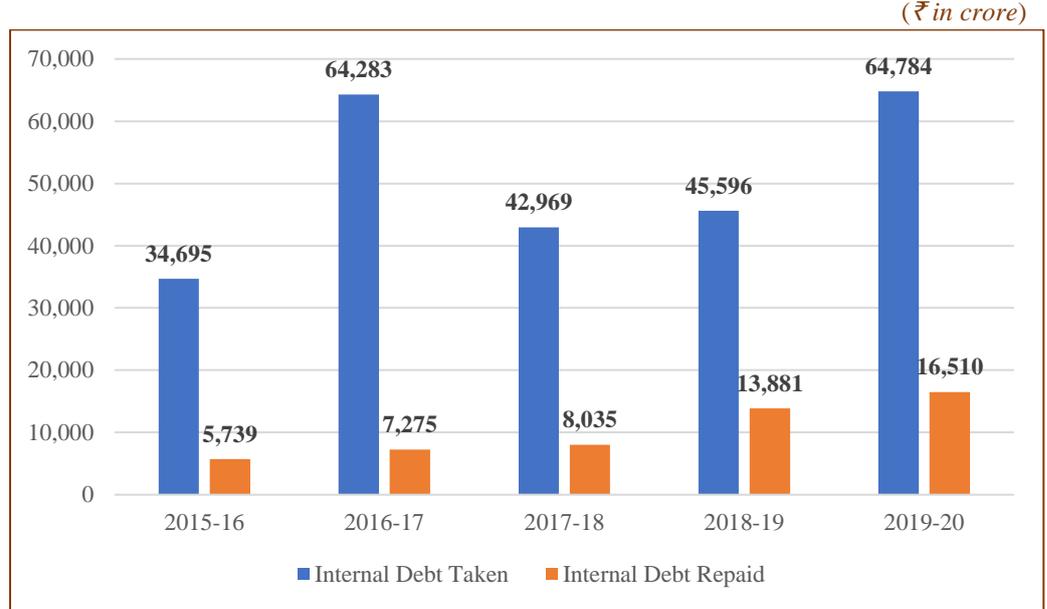
The component-wise debt trends and the repayments of internal debt *vis-à-vis* internal debt taken are shown below in **Charts 2.16 and 2.17**.

Chart 2.16: Component wise debt trends



(Source: Finance Accounts for the respective years)

Chart 2.17: Internal debt taken vis-à-vis repaid



(Source: Finance Accounts for the respective years)

The components of Fiscal deficit and the financing pattern of the deficit is shown in **Table 2.33** and Financing of fiscal deficit expressed through a water fall chart is shown in **Chart 2.18**.

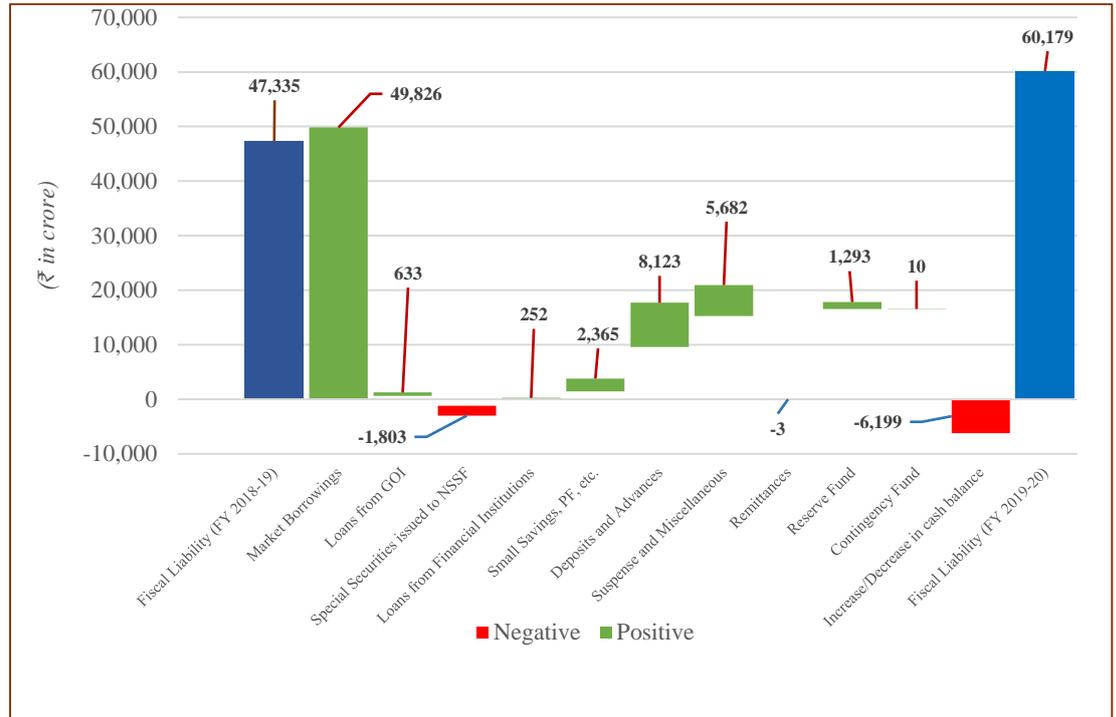
Table 2.33: Components of fiscal deficit and its financing pattern

(₹ in crore)

Particulars		2015-16	2016-17	2017-18	2018-19	2019-20
Composition of Fiscal Deficit		32,627	56,170	39,840	47,335	60,179
1	Revenue Deficit	11,985	12,964	21,594	23,459	35,909
2	Net Capital Expenditure	18,995	20,708	20,201	24,311	25,632
3	Net Loans and Advances	1,647	22,498	(-) 1,955	(-) 435	(-) 1,362
Financing Pattern of Fiscal Deficit						
1	Market Borrowings	27,623	34,993	36,023	32,278	49,826
2	Loans from GOI	505	935	1,797	1,157	633
3	Special Securities issued to NSSF	595	(-) 1,749	(-) 1,749	(-) 1,777	(-) 1,803
4	Loans from Financial Institutions	739	23,763	660	1,215	252
5	Small Savings, PF, etc.	1,638	2,355	2,334	2,450	2,365
6	Deposits and Advances	4,145	4,405	8,074	10,635	8,123
7	Suspense and Miscellaneous	(-) 902	2,213	388	(-) 3,037	5,682
8	Remittances	(-) 180	(-) 948	(-) 7	207	(-) 3
9	Reserve Fund	401	443	991	253	1,293
10	Contingency Fund	(-) 19	19	--	--	10
11	Overall Deficit	34,545	66,429	48,511	43,381	66,378
12	Increase/Decrease in cash balance	1,918	10,259	8,671	(-) 3,954	6,199
13	Gross Fiscal Deficit	32,627	56,170	39,840	47,335	60,179

(Source: Finance Accounts for the respective years)

Chart 2.18: Financing of fiscal deficit expressed through a water fall chart



(Source: Finance Accounts)

The details of receipts and disbursements financing the fiscal deficit component-wise is during the year is shown in **Table 2.34**.

Table 2.34: Receipts and Disbursements under components financing the fiscal deficit

(₹ in crore)

Sl. No	Particulars	Receipt	Disbursement	Net
1	Market Borrowings	62,425	12,599	49,826
2	Loans from GOI	1,990	1,357	633
3	Special Securities issued to NSSF	--	1,803	(-) 1,803
4	Loans from Financial Institutions	2,360	2,108	252
5	Small Savings, PF, etc.	9,028	6,662	2,366
6	Deposits and Advances	48,689	40,566	8,123
7	Suspense and Miscellaneous	2,00,515	1,94,833	5,682
8	Remittances	--	3	(-) 3
9	Reserve Fund	3,251	1,959	1,292
10	Contingency Fund	10	--	10
11	Total / Overall Deficit	3,28,268	2,61,890	66,378
12	Cash balance	49,428	43,229	6,199
13	Total / Gross Fiscal Deficit	2,78,840	2,18,661	60,179

(Source: Finance Accounts)

2.6.2 Debt profile: Maturity and Repayment

Debt maturity and repayment profile indicates commitment on the part of the Government for debt repayment or debt servicing. The details of debt and the debt repayment period is shown in **Table 2.35** and **Chart 2.19**.

Table 2.35: Debt Maturity profile of repayment of State debt

Period of repayment (Years)	Amount (₹ in crore)	Percentage (w.r.t. Public debt)
0 – 1	13,410	3.62
1 – 3	67,743	18.28
3 – 5	68,126	18.38
5 – 7	92,721	25.02
7 and above	1,01,913	27.50
Others ⁶	26,637	7.20
Total	3,70,550	100.00

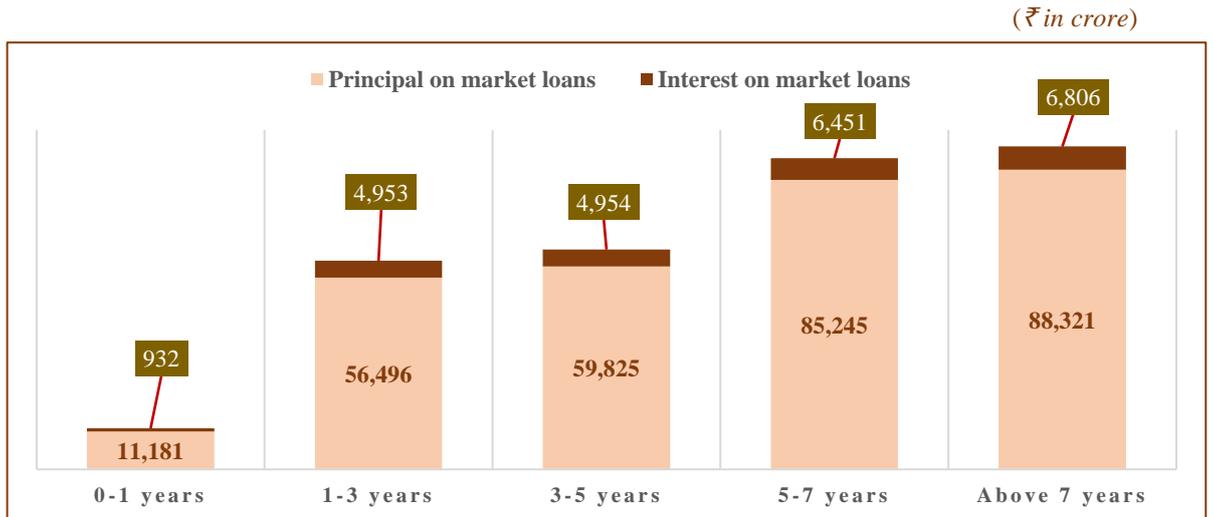
(Source: Finance Accounts)

Chart 2.19: Debt Maturity Profile



(Source: Finance Accounts)

Chart 2.20: Repayment Schedule of market loans



(Source: Finance Accounts)

⁶ Payment schedule of this amount is not being maintained by the Accountant General (A&E).

2.7 Debt Sustainability Analysis (DSA)

Debt sustainability is defined as the ability of the State to service its debt in the current and future years. DSA considers the feasibility of meeting debt related financial obligations during a period beginning with the present and is a crucial aspect for assessing the financial health of an economy. A high level of debt raises number of challenges. A high debt level is generally associated with higher borrowing requirements and therefore, a higher risk of rollover crisis (being unable to fulfil borrowing requirements or being able to do so at high interest rates).

The trends in debt sustainability indicators for the period 2015-16 to 2019-20 is shown below in **Table 2.36** and **Chart 2.21**.

Table 2.36: Trends in debt Sustainability indicators

Debt Sustainability Indicators	2015-16	2016-17	2017-18	2018-19	2019-20
Outstanding Public Debt* (₹ in crore)	1,94,096	2,52,039	2,88,769	3,21,642	3,70,550
Rate of Growth of Outstanding Public Debt (per cent)	17.90	29.85	14.57	11.38	15.21
GSDP (₹ in crore)	11,76,500	13,02,639	14,65,051	16,30,208	18,45,853
Rate of Growth of GSDP (per cent)	9.68	10.72	12.47	11.27	13.23
Public Debt*/GSDP (per cent)	16.50	19.35	19.71	19.73	20.07
Debt Maturity profile of repayment of State debt – including default history, if any					
Average Interest Rate of Outstanding Public Debt (per cent)	8.18	7.73	8.01	7.97	7.71
Percentage of Interest payment to Revenue Receipt	13.48	14.64	17.78	16.55	18.32
Percentage of Debt Repayment to Debt Receipt	18.31	12.4	19.66	31.43	26.76
Net Debt available to the State# (₹ in crore)	14,780	40,704	15,064	8,562	22,218
Net Debt available as per cent to Debt Receipts	40.98	61.54	32.95	17.86	33.27
Debt Stabilisation (Quantum spread ^{\$} + Primary Deficit) (₹ in crore)	(-) 12,742	(-) 29,816	(-) 2,662	(-) 8,782	(-) 9,172

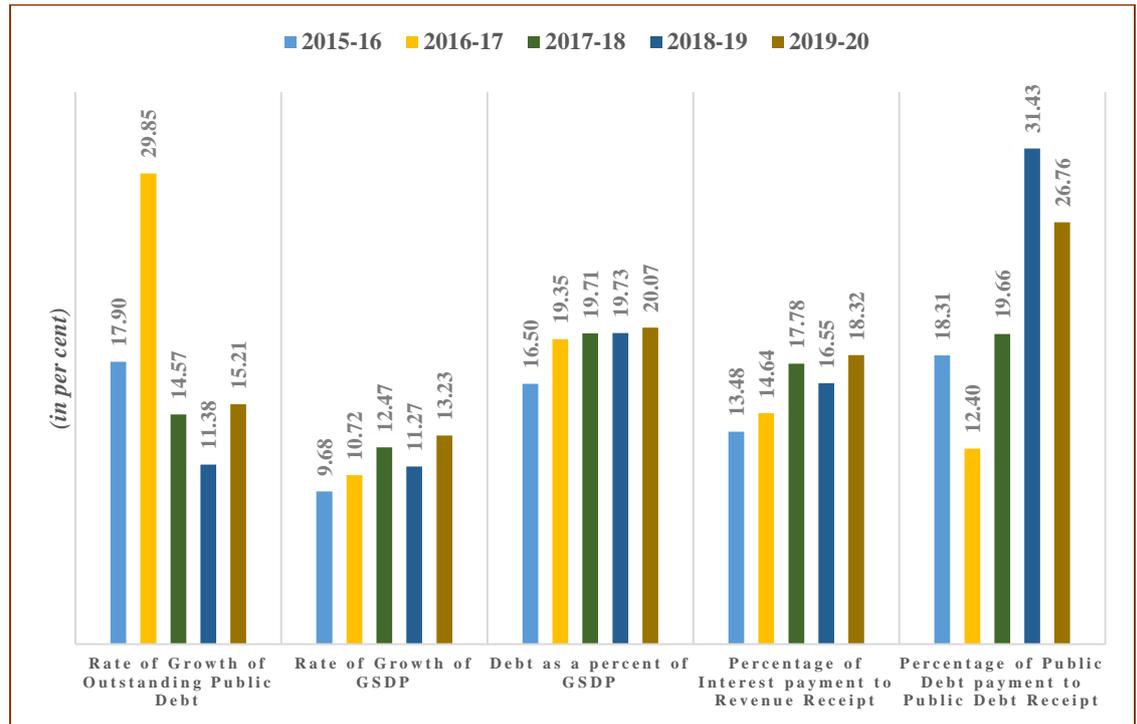
*Outstanding Public Debt is the sum of outstanding balances under the heads 6003-Internal Debt and 6004- Loans and Advances from the Central Government.

#Net debt available to the State Government is calculated as excess of Public debt receipts over Public debt repayment and interest payment on Public Debt.

\$ Quantum Spread = {Previous year fiscal liability (Debt Stock) * Interest spread (GSDP growth rate – Average Interest paid)}/100

(Source: Finance Accounts for the respective years)

Chart 2.21: Trends of Debt Sustainability indicators



(Source: Finance Accounts for the respective years)

- A sustainable fiscal policy is one where the debt to GSDP ratio is stable or declining over a period of time. However, from the above it could be seen that the debt to GSDP ratio is on an increasing trend which means higher levels of debt which in turn leads to higher deficits.
- The ratio of interest payments to revenue receipts is on an increasing trend. If significant portion of borrowed funds are used for repayment of borrowings and interest thereon, the net debt available with the State for developmental activities is curtailed.
- The decrease in percentage of debt repayment to debt receipt and increase in net debt available to the State during the year is mainly due to reissue of market loans by the Government (₹ 20,970 crore).

2.7.1 Utilisation of borrowed funds

Borrowed funds should ideally be used to fund capital creation and developmental activities. Using borrowed funds for meeting current consumption and repayment of interest on outstanding loans is not sustainable.

The trends in the utilisation of borrowed funds during the period 2015-16 to 2019-20 is shown in **Table 2.37** and **Chart 2.22**.

Table 2.37: Utilisation of borrowed funds

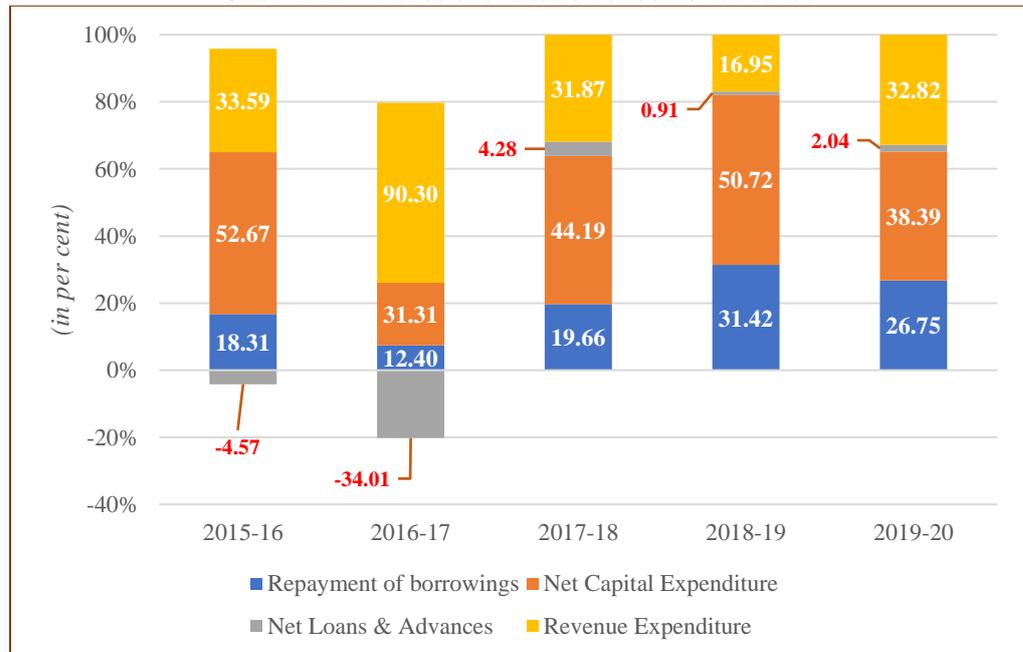
(₹ in crore)

Year		2015-16	2016-17	2017-18	2018-19	2019-20
Total Borrowings (Public Debt)	A	36,066	66,143	45,722	47,936	66,774
Repayment of earlier borrowings (Principal) (percentage)	B	6,605 (18.31)	8,200 (12.40)	8,991 (19.66)	15,064 (31.43)	17,866 (26.76)
Net capital expenditure (percentage)	C	18,995 (52.67)	20,709 (31.31)	20,203 (44.19)	24,311 (50.72)	25,632 (38.39)
Net loans and advances	D	(-) 1,647	(-) 22,498	1,955	435	1,362
Portion of Revenue expenditure met out of net available borrowings	E = A - B - C - D	12,113	59,732	14,573	8,126	21,914

(Source: Finance Accounts for the respective years)

- The total borrowings increased by 39.30 per cent during the year.
- The revenue expenditure met out of the net available borrowings increased by 169.68 per cent.

Chart 2.22: Trends of utilisation of borrowed funds



(Source: Finance Accounts for the respective years)

2.7.2 Status of Guarantees – Contingent Liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. The State Governments have come out with legislations or instructions with regard to cap on the guarantees.

As per Article 293 of the Constitution of India, limits for giving guarantees by the State Government have to be fixed by the State Legislature. Tamil Nadu Fiscal Responsibility Act 2003, prescribes a cap on total outstanding guarantees

to 100 per cent of total Revenue Receipts of the preceding year and 10 per cent of Gross State Domestic Product (GSDP), whichever is lower and cap on risk weighted guarantees to 75 per cent of total Revenue Receipts of the preceding year and 7.5 per cent of GSDP, whichever is lower.

The total outstanding guarantees of the State Government were ₹ 47,318.87 crore as on 31 March 2020. This constituted 27.24 per cent of the total revenue receipts of 2018-19 (₹ 1,73,741.16 crore) and 2.56 per cent of the GSDP (₹ 18,45,853 crore at current prices). No guarantee was invoked during the year. Further, as against the estimated receivable Guarantee Fees of ₹ 1,498.83 crore, Guarantee Fees received by the Government was ₹ 278.61 crore. Thus, there was a short collection of Guarantee Fees to the tune of ₹ 1,220.22 crore.

The details of outstanding guarantees given by the Government during the period 2015-16 to 2019-20 is given below in **Table 2.38**

Table 2.38: Guarantees given by the State Government

(₹ in crore)

Guarantees	2015-16	2016-17	2017-18	2018-19	2019-20
Ceiling applicable to the outstanding amount of guarantees including interest (Criteria)	To cap the total outstanding guarantee to 100 per cent of the total revenue receipt in the preceding year or 10 per cent of GSDP whichever is lower. To Cap the Risk Weighted Guarantees to 75 per cent of the Total Revenue Receipts in the preceding year (or) at 7.5 per cent of GSDP, whichever is lower				
Outstanding amount of guarantees including interest	51,586	29,540	36,131	44,163	47,319

(Source: Finance Accounts for the respective years)

2.7.3 Management of Cash Balances

As per the agreement with the Reserve Bank of India, Tamil Nadu State has to maintain a minimum daily cash balance of ₹ 3.25 crore with the Bank. If the balance falls below the agreed minimum on any day, the deficiency is made good by taking ordinary Ways and Means Advances (WMA)/Special Ways and Means Advances (SWMA)/Overdrafts (OD) from time to time. The limit for Ordinary Ways and Means Advances to the State Government is ₹ 2,475 crore with effect from 1 February 2016. The limit of Special ways and Means Advances is revised by the Bank from time to time. State Government invests its surplus cash balance in short and long-term GoI Securities and Treasury Bills. The profits derived from such investments are credited as receipts under the head '0049-Interest Receipts'. The cash balances are invested in the Consolidated Sinking Fund and Guarantee Redemption Fund as well.

The State Government maintained the minimum daily cash balance with the RBI during 2019-20 and no WMA/ SWMA/ OD was availed during the year.

The details of cash balance and their investments during the year 2019-20 is shown in **Table 2.39** below:

Table 2.39: Cash Balances and their investment

(₹ in crore)

	Opening balance on 1 April 2019	Closing balance on 31 March 2020
A. General Cash Balance		
Cash in treasuries	--	--
Deposits with Reserve Bank of India	(-) 459.88	923.33
Deposits with other Banks	--	--
Remittances in transit – Local	16.80	16.80
Total	(-) 443.08	940.13
Investments held in Cash Balance investment account	11,008.09	10,141.94
Total (A)	10,565.01	11,082.07
B. Other Cash Balances and Investments		
Cash with departmental officers viz., Public Works, Forest Officers	4.16	4.16
Permanent advances for contingent expenditure with department officers	8.41	8.40
Investment in earmarked funds	32,651.59	38,334.06
Total (B)	32,664.16	38,346.62
Total (A + B)	43,229.17	49,428.69
Interest realized	6,875.21	4,355.50

(Source: Finance Accounts)

Cash Balances (and its investments) of the State Government at the end of the current year increased significantly by ₹ 6,199 crore from ₹ 43,229 crore in 2018-19 to ₹ 49,428 crore in 2019-20. This was mainly due to increase in investment in earmarked funds by ₹ 5,682 crore from ₹ 32,652 crore in 2018-19 to ₹ 38,334 crore in 2019-20.

The State Government has earned an interest of ₹ 301 crore during 2019-20 from the investments made in GoI Securities and Treasury Bills. Out of the investment of ₹ 38,334 crore in earmarked funds, ₹ 6,643 crore was invested in the Consolidated Sinking Fund and ₹ 640 crore in Guarantee Redemption Fund at the end of the year.

The trends of cash balance investment account of the Government and market loans availed *vis-à-vis* the cash balances during the period 2015-16 to 2019-20 are shown in **Table 2.40** and **Chart 2.23** and the month wise movement of cash balances and net cash balance investments during the year is shown in **Chart 2.24**.

Table 2.40: Cash Balance Investment Account (Major Head-8673)

(₹ in crore)

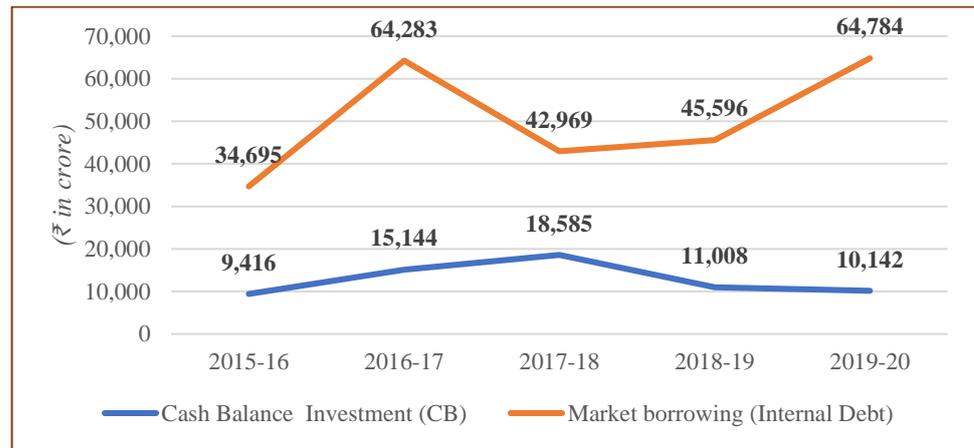
Year	Opening Balance	Closing Balance	Increase (+) / decrease (-)	Interest earned
2015-16	11,964.07	9,415.86	(-) 2,548.21	487.51
2016-17	9,415.86	15,144.29	5,728.43	521.57
2017-18	15,144.29	18,585.03	3,440.74	564.26
2018-19	18,585.03	11,008.09	(-) 7,576.94	729.20
2019-20	11,008.09	10,141.94	(-) 866.15	300.72

(Source: Finance Accounts for the respective years)

The trend analysis of the cash balance investment of the State Government during 2015-20 revealed that investment increased significantly during 2016-17 and 2017-18. However, the investment reduced by ₹ 7,577 crore to the end of 2018-19 and further reduced by ₹ 866 crore during 2019-20 and stood at ₹ 10,142 crore at the end of the current year.

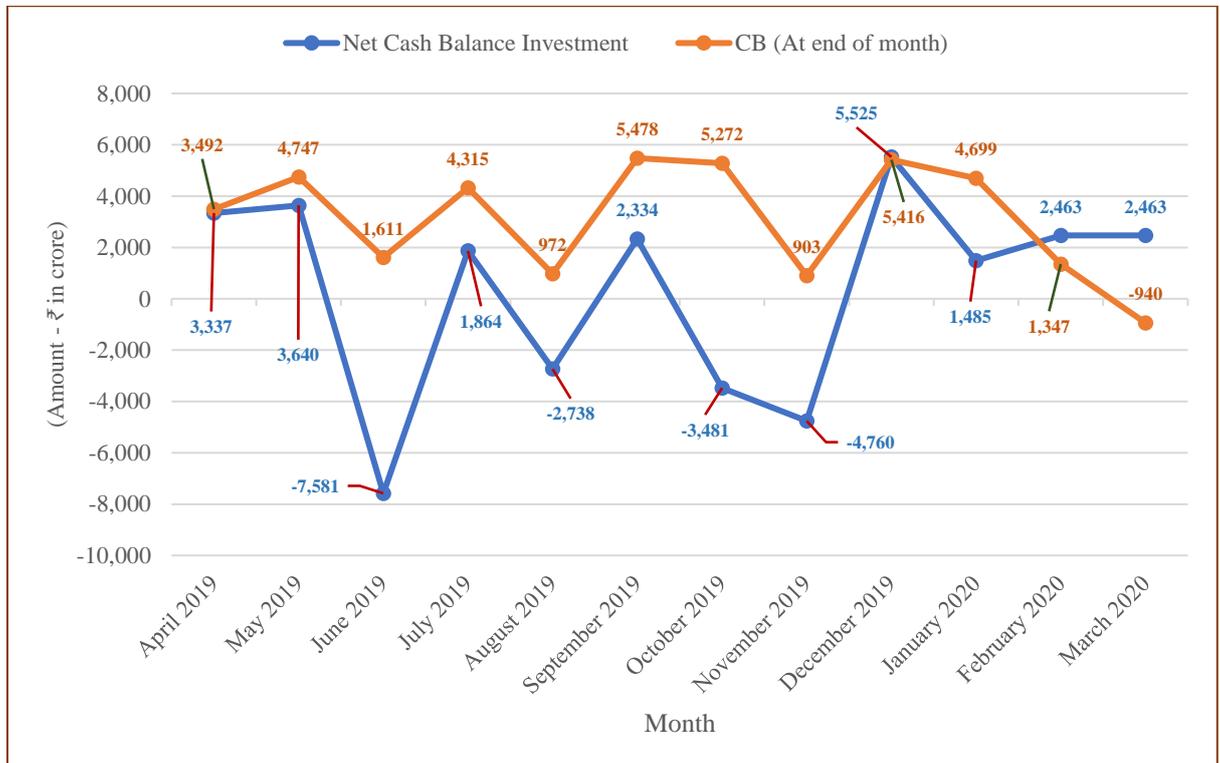
Chart 2.23 compares the balances available in the Cash Balance Investment Account and the Market Loans taken by the State during the period 2015-20. Market Loans were taken at higher interest rates whereas investment in Treasury Bills yielded interest at lower rates.

Chart 2.23: Market loans vis-à-vis Cash Balance



(Source: Finance Accounts for the respective years)

Chart 2.24: Month wise movement of Cash Balances and net cash balance investments during the year



(Source: Finance Accounts)

2.8 Conclusion and recommendations

State's Own Resources:

Own tax revenue: The annual growth rate of own tax revenue during 2019-20 stood at 1.83 *per cent*, which was less than the average growth rate (2.12 *per cent*) of the GCS.

Own tax revenue as a percentage of GSDP of the State during 2019-20 was 5.82 as compared to its neighbouring States of Karnataka and Kerala which were 6.03 *per cent* and 5.89 *per cent* respectively.

Non-tax revenue: The non-tax revenue of the State decreased by ₹ 1,312 crore in 2019-20 over the previous year. As a proportion of the State's own resources, the non-tax revenue which stood at 11.86 *per cent* in 2018-19 decreased to 10.71 *per cent* in 2019-20.

While the compound annual growth rate (CAGR) of non-tax revenue of the State was higher (14.97 *per cent*) when compared to GCS (11.19 *per cent*) during 2010-19, it turned negative {(-) 9.24 *per cent*} during 2019-20. CAGR of General Category State was much higher (23.44 *per cent*) during the year.

State's performance in mobilization of resources: State's own tax revenue receipts during 2019-20 fell considerably short of the target fixed under FFC, Budget and MTFP. Though, the non-tax revenue exceeded the target fixed in the MTFP, it fell short of the targets fixed under FFC and Budget. The State's own tax revenue was less by 14.78 *per cent* over projections made in MTFP.

Recommendation: *The Government should take steps to collect the arrears of revenue and strengthen the machinery for detection of evasion of taxes.*

(Paragraphs 2.3.2.2 and 2.3.4)

Revenue expenditure: Rate of growth of Revenue Expenditure has displayed wide fluctuation during the five-year period 2015-20 between 26.00 *per cent* in 2015-16 to 6.71 *per cent* in 2019-20. During 2019-20, although Revenue Expenditure witnessed a marginal increase of ₹ 13,234 crore (6.71 *per cent*) over the previous year, it declined as a percentage of GSDP from 12.10 *per cent* in 2018-19 to 11.40 *per cent* during the current year.

Capital expenditure: The Government has invested ₹ 5,504.94 crore in loss making Companies / Corporations/ Co-operatives, of which ₹ 265.47 crore has been invested during the current year.

Recommendation: *The State Government should rationalise its investments so as to maximise the return on investment.*

(Paragraphs 2.4.2 and 2.4.3)

Undischarged liabilities in National Pension System: The State Government, even after a lapse of 16 years from the inception of the New Pension Scheme viz., Defined Contributory Pension Scheme (DCPS), has not designated a Fund Manager.

During the year 2019-20, the employees' and the Government's contributions towards DCPS were ₹ 2,619.01 crore and ₹ 2,597.55 crore respectively indicating a shortfall in Government's contribution by ₹ 21.46 crore.

Recommendation: *The State Government should take immediate action to designate a Fund Manager and ensure that there is no shortfall in the matching contribution towards DCPS.*

(Paragraph 2.4.2.3)

Short Contribution to Consolidated Sinking Fund: During the year, the State Government contributed ₹ 509.88 crore to the Fund, which works out to only 0.14 per cent rate against the rate of 0.5 per cent of the outstanding liabilities of ₹ 3,68,736.16 crore as on 1 April 2019 resulting in a short contribution of ₹ 1,333.80 crore (₹ 1,843.68 crore minus ₹ 509.88 crore).

Recommendation: *The State Government should ensure that the contributions to the fund as prescribed are made which would help in the repayment of public debt and act as a cushion for amortization of all liabilities and ensure good fiscal governance particularly since the State continues to reel under fiscal deficit since 2013-14 onwards.*

(Paragraph 2.5.2.1)