WHITE PAPER

ON

TAMIL NADU GOVERNMENT'S FINANCES

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List of Frequently Used Abbreviations with Expansion

Abbreviation	Expansion
ARV	Annual Rental Value
CAGR	Compounding Annual Growth Rate
CMWSSB	Chennai Metropolitan Water Supply and Sewerage Board
DISCOM	Distribution Company
FD	Fiscal Deficit
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GST	Goods & Services Tax
GSDP	Gross State Domestic Product
GVA	Gross Value Added
IMFS	Indian Made Foreign Spirits
RD	Revenue Deficit
SCT	Share of Centre Taxes
SFC	State Finance Commission
SONTR	State's Own Non-Tax Revenue
SOTR	State's Own Tax Revenue
SPU	State Public Undertaking
TANGEDCO	Tamil Nadu Electricity Generation & Distribution Corporation
TANTRANSCO	Tamil Nadu Transmission Corporation
TASMAC	Tamil Nadu State Marketing Corporation
TRR	Total Revenue Receipt
TWAD	Tamil Nadu Water Supply and Drainage Board
UDAY	Ujwal DISCOM Assurance Yojana
ULB	Urban Local Body
VAT	Value Added Tax
YoY	Year-On-Year

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Glossary of Terms

Before analysing the fiscal trends in Tamil Nadu, it will be useful to understand some of the concepts and terms used in the budgeting process:

1. *Revenue Receipts:* Revenue receipts comprise four components namely, a) State's Own Tax Revenue b) Share of Central taxes c) Non- tax revenue and d) Grants from Central Government.

2. *Revenue Expenditure*: It includes the money spent by the State Government on items such as salary, pension, interest payments, subsidies, grants to institutions etc. These do not create assets.

3. *Capital Receipts:* It includes disinvestment proceeds, borrowings by Government and repayment of loans and advances by the State Public Sector Undertakings and Statutory Boards.

4. *Capital Expenditure:* It includes expenditure, which creates assets like roads, irrigation projects, school buildings, hospitals, etc., share capital assistance in Public Sector Undertakings and also includes loans given by the State Government.

5. *Revenue Deficit:* Normally, revenue receipts should exceed revenue expenditure so that the balance could be used for financing capital expenditure. But, if the revenue expenditure exceeds revenue receipts, the shortfall is called revenue deficit. This gap has to be bridged by either resorting to withdrawal of cash reserves or through borrowings.

6. *Fiscal Balance*: The fiscal balance is defined as the difference between total receipts (i.e. revenue receipts, and non-debt capital receipts) and total expenditure (i.e. revenue and capital expenditure). *Fiscal deficit* loosely indicates that quantum of Government's borrowings, which is used in financing the revenue and capital expenditure.

INTRODUCTION

In the Governor's Address to start the term of the 16th Legislative Assembly of Tamil Nadu on 21.6.2021, it was indicated that the Government would place a White Paper detailing the fiscal situation of Tamil Nadu in the public domain to enable the Members of the Legislative Assembly and the people to understand the true status of their Government's finances.

Every Government is elected with the mandate to accelerate economic development to ensure that more jobs and livelihood opportunities are created for the people, to provide public goods-including maintenance of law and order, and for the provision of justice, education, health care, transport and other basic infrastructure and environmental protection. The economic core of governance is the process of raising resources to pay for the provision of public goods and services and the creation of such vital infrastructure, and to provide a safety net for the most under-privileged and unfortunate victims of circumstance. When adequate resources are fairly raised, properly managed, and efficiently utilized, the Government can fulfill the promises made to the people. Taxation must be fair and targeted, and at a level where it is not oppressive but adequate to cover essential expenditure. Resources should be utilized minimizing wastage and corruption.

Tamil Nadu is a State with enormous potential. The people of our State aspire to be at the forefront of economic growth and prosperity. They have a legitimate expectation that they should receive high quality infrastructure and public goods and services like good roads and the supply of clean water, from the Governments they elect. Hence, the yardsticks to be applied for Tamil Nadu whether developmental indicators or fiscal parameters are aspirational yardsticks, and progress must be calibrated with reference to the full potential of our State.

Through this White Paper we seek to place before the elected representatives and the electorate, an accurate and detailed statement of the present fiscal position of Tamil Nadu, the challenges posed, and the fiscal risks and vulnerabilities we face. We hope this report will provide a common understanding of the variables that both direct and constrain the Government's actions and policies, as we work to ensure that we fulfill our commitments to the people. Such a common understanding is in keeping with the Hon'ble Chief Minister's vision of a transparent Government that functions with continuous engagement with the electorate.

This report is structured in sections starting with an assessment of the State's fiscal position, which was the primary objective stated in the Governor's Address. It details the state of the core finances of Tamil Nadu, with an examination of the path that led to this situation. It further deepens the analysis to review the status of major Public Sector Enterprises and agencies that provide essential services such as water, power, transportation, and local administration to the people of the state.

The next section covers the economic scenario for the period covering the 13th (2006 – 2011), 14th (2011-2016), and 15th (2016 – 2020) Legislative Assemblies of Tamil Nadu. It examines the economic outcomes that Tamil Nadu has experienced, taking into consideration factors both within and beyond the control of the Government of Tamil Nadu.

The final section is a conclusion which encapsulates the findings, and highlights some of the immediate and longer-term implications for Government policy and planning. It also states some of the specific actions that will be undertaken in an ongoing effort to bring greater transparency to the functioning of the Government, in keeping with the Hon'ble Chief Minster's policy vision.

Purpose of this White Paper

- To enable the Members of the Legislative Assembly and the people to understand the true status of their government's finances.
- To provide an accurate and detailed statement of the present fiscal position of Tamil Nadu, the challenges posed, and the fiscal risks and vulnerabilities we face.
- This White Paper analyzes the trends in State's fiscal position, current economic scenario and summarizes the findings, impact & implications for the State and also the actions to be taken in the conclusion sections.

I. FISCAL POSITION

A serious cause of concern for Tamil Nadu over the past decade has been the slowdown in economic growth from the peak level reached in 2011-2012. There has been a steady deterioration in the finances of Government of Tamil Nadu particularly, post 2013-14.

With the Covid-19 pandemic exacerbating the situation, Tamil Nadu faced a substantial further deterioration in 2020-21 of an already stressed fiscal situation. The headline indicators for the stressed fiscal situation are the rising revenue and fiscal deficits year on year, and the consequent increased debt burden.

The fiscal position of the State: Deteriorating for the past 8 years

Such a long-term trend has affected development investments which in turn has affected growth.

- Between 2006-13, in 5 out of 7 years, TN had a net revenue surplus. Since 2013, revenue deficit has become a recurring phenomenon.
- The revenue deficit (RD) of TN stands at ₹61,320 crore (FY 2020-21) which is, 3.16% of Gross State Domestic Product.
- The average revenue deficit for all States and UTs was 0.1 % of GDP in 2017-18 & 2018-19, for Tamil Nadu it was 1.5 %and 1.4 %of GSDP, respectively.
- The Fiscal Deficit (FD) of the State for FY 2020-21 is ₹92,305 crore (4.43% of GSDP).
- The ratio of RD as a % FD is 52.48% for 2016-21 and it was just 14.94% in 2011-16.

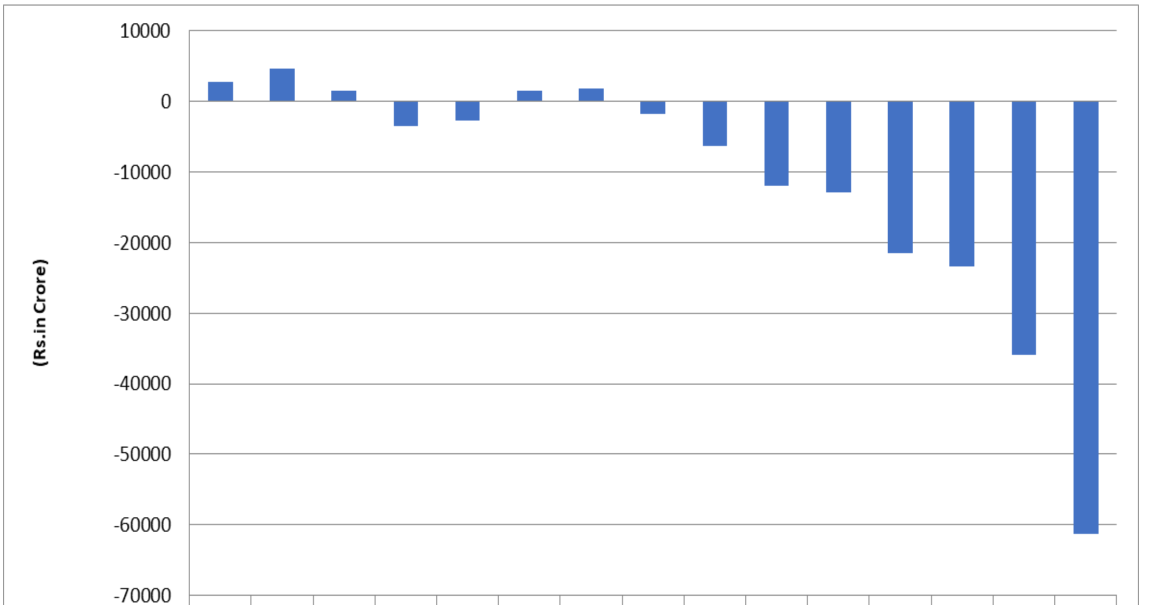
The deterioration of the fiscal situation of the State over the past 15 years can be clearly noted in the trends of the revenue and fiscal deficits seen from Table 1 and the charts that follow.

Table 1: Revenue Deficit and Fiscal Deficit Trends

Year	Revenue Deficit / Surplus (in crores)	Revenue Deficit as a percentage of GSDP	Fiscal Deficit (in crores)	As a percentage of GSDP
(1)	(2)	(3)	(4)	(5)
2006-07	(+)2648	(-)0.81	-3956	1.21
2007-08	(+)4545	(-)1.24	-3686	1.00
2008-09	(+)1452	(-)0.35	-8548	2.07
2009-10	-3531	0.71	-11807	2.37
2010-11	-2729	0.45	-16647	2.74
2011-12	(+)1364	(-)0.18	-17274	2.30
2012-13	(+)1760	(-)0.21	-16519	1.93
2013-14	-1789	0.18	-20584	2.13
2014-15	-6408	0.60	-27162	2.53
2015-16	-11985	1.02	-32628	2.77
2016-17	-12964	1.00	-56171	4.31
2017-18	-21594	1.47	-39840	2.72
2018-19	-23459	1.44	-47335	2.90
2019-20	-35909	1.95	-60179	3.26
2020-21	-61320	3.16	-92305	4.43*

**It does not include Rs. 6,241 crore which was received as back-to-back in lieu of GST Compensation*
Note: (+) Positive sign in column 2 indicates that it is a surplus year. Negative (-) sign in deficit indicator in Column 3 indicates that it is a revenue surplus year.

Figure 1: Trends in Revenue Deficit/ Surplus



	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Revenue Deficit / Surplus (in crores)	2648	4545	1452	-3531	-2729	1364	1760	-1789	-6408	-11985	-12964	-21594	-23459	-35909	-61320

Figure 2: Revenue Deficit as a percentage of GSDP

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Revenue Deficit as % of GSDP	-0.81	-1.24	-0.35	0.71	0.45	-0.18	-0.21	0.18	0.60	1.02	1.00	1.47	1.44	1.95	3.16

Note: Negative (-) sign in deficit indicator indicates that it is a revenue surplus year

Figure 3: Trends in Fiscal Deficit

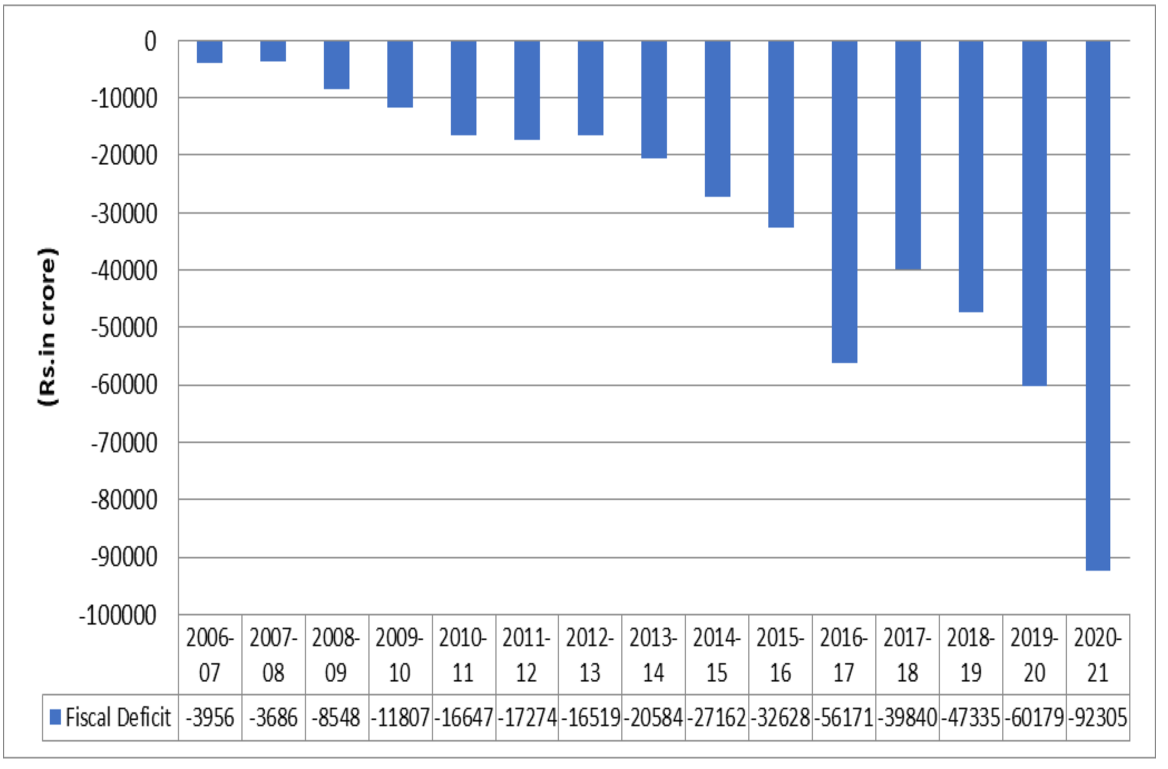
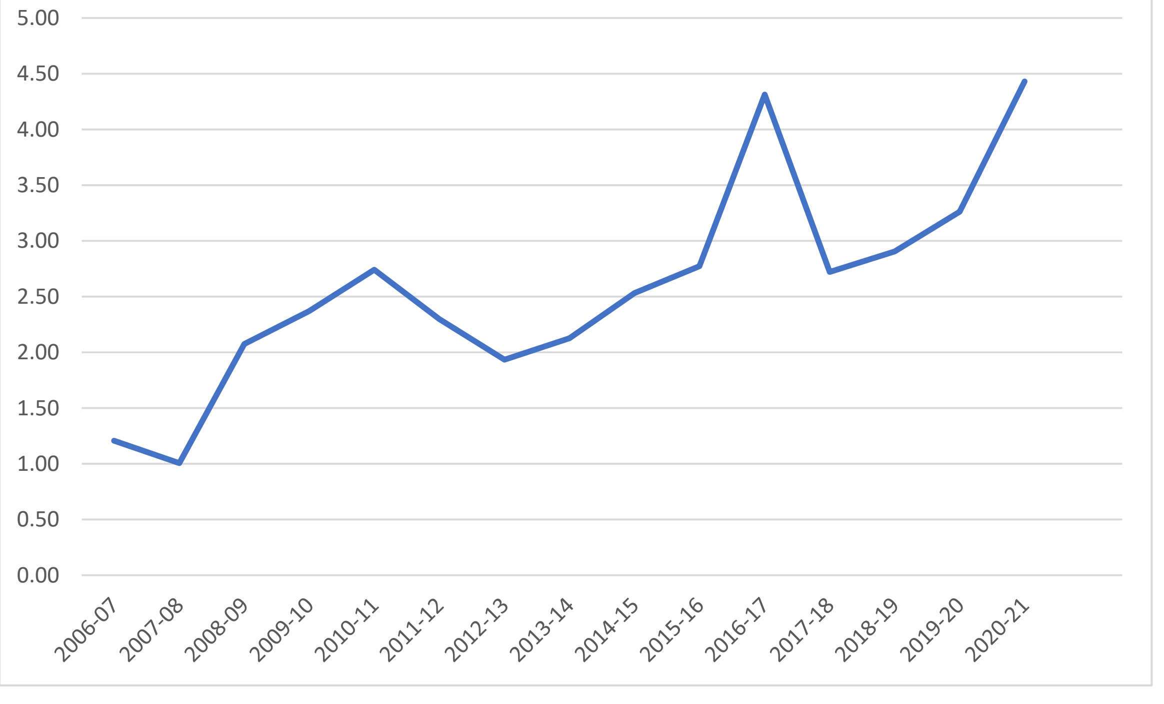


Figure 4: Fiscal Deficit as a percentage of GSDP



The Government of Tamil Nadu had been in revenue surplus from 2006-07 to 2008-09. In 2009-2010 and 2010-11 revenue deficits were recorded, when in the aftermath of the global financial crisis there was an overall dip in growth and consequently revenue, and expenditure rose with the implementation of the Sixth Pay Commission recommendations with a financial impact from 01.06.2009. The situation turned around in 2011-12 and 2012-13 when revenue surpluses were again seen. **However, this improvement was short lived and since 2013-14, the State has continuously been in revenue deficit.** This worsening situation has become truly alarming. From a revenue surplus of Rs.1,760 crore in 2012-13, the fiscal balance worsened and a revenue deficit of Rs.1,789 crore was recorded in 2013-14 that grew almost 4 times to Rs.6,408 crore in 2014-15 and there was further deterioration with the revenue deficit widening to Rs.35,909 crore in 2019-20 even before the Covid-19 pandemic struck. As a percentage of GSDP, the revenue deficit has increased from 0.18 per cent in 2013-14 to 1.95 per cent in 2019-20. 2020-21 was the year of Covid-19 pandemic and the preliminary accounts indicate that the revenue deficit would be Rs. 61,320 crores. This is 3.16 per cent of GSDP i.e. more than the entire normally permissible fiscal deficit. **This leaves Tamil Nadu in an unsustainable fiscal situation.**

When compared with other States, in 2017-18 and 2018-19 while the average revenue deficit for all States and UTs was 0.1 per cent of GSDP in both years, for Tamil Nadu it was 1.5 per cent and 1.4 per cent of GSDP respectively. Comparator States like Maharashtra, Gujarat and Karnataka recorded revenue surpluses in both the years.

Table 2: Revenue Deficit as a percentage of GSDP – Comparison with similar States

S.No	State	2017-18	2018-19
1	Tamil Nadu	1.5	1.4
2	Gujarat	-0.4	-0.2
3	Karnataka	-0.3	0.0
4	Maharashtra	-0.1	-0.5

Source: RBI State Finances- A Study of Budgets 2020-21

Note: (-) Negative Sign in deficit indicators shows a surplus

The trends in fiscal deficit have been similar as logic dictates. A fiscal deficit of Rs.3,956 crore in 2006-07 which was 1.21 per cent of GSDP, has increased to Rs.92,305 crore in 2020-21 as per preliminary accounts, which is 4.43 per cent of GSDP. Till 2019-20, except for 2016-17, the fiscal deficit was maintained within the 3 per cent limit prescribed under the Tamil Nadu Fiscal Responsibility Act, 2003. In 2016-17, the takeover of debt of TANGEDCO under the UDAY programme increased the fiscal deficit beyond 3 per cent which had been specifically authorised by the Government of India. In some years, the limit was adhered to, in part by postponing certain items of expenditure including subsidies due to Tamil Nadu Civil Supplies Corporation, STUs and Co-operatives to the subsequent fiscal year. **This meant that expenditure was not actually controlled, but commitments were built up and the deficits were hidden.** The overhang of such postponed expenditure was partly cleared in 2019-20 and 2020-21 when the Covid-19 pandemic situation loosened the rigour of the fiscal deficit limit of 3 per cent of GSDP and higher fiscal deficits were recorded.

Overall Tamil Nadu's fiscal deficit at 2.7 per cent and 2.9 per cent of GSDP in 2017-18 and 2018-19 was higher than the average of 2.4 per cent across all States in both years. Comparator States like Maharashtra, Gujarat and Karnataka recorded lower fiscal deficits in both years.

Table 3: Fiscal Deficit as a percentage of GSDP – Comparison with similar States

S.No	State	2017-18	2018-19
1	Tamil Nadu	2.7	2.9
2	Gujarat	1.6	1.8
3	Karnataka	2.3	2.5
4	Maharashtra	1.0	0.9

Source: RBI State Finances- A Study of Budgets 2020-2021

Normally, fiscal deficits up to reasonable limits are welcomed, as Governments can legitimately borrow money for capital expenditure which induces further growth and consequently more revenues. Hence, if the borrowings are indeed applied for capital expenditure which supports growth, fiscal deficits up to 3 per cent are sustainable.

The current levels of fiscal deficit are unsustainable primarily because a substantial portion of the fiscal deficit is simply to fund the revenue deficit. Table 4 shows the revenue deficit as a percentage of the fiscal deficit. Since the year 2017-18, the share of revenue deficit in fiscal deficit has shown a substantial jump to 50 per cent or more. Hence the borrowings of the Government are not contributing towards capital expenditure but are instead being utilised for current expenditure.

Table 4: Revenue Deficit as a percentage of Fiscal Deficit

Year	Revenue Surplus / Deficit (in crores)	Fiscal Deficit (in crores)	RD as a percentage of FD
(1)	**(2)**	**(3)**	**(4)**
2006-07	(+)2,648	-3956	N/a
2007-08	(+)4,545	-3,686	N/a
2008-09	(+)1,452	-8,548	N/a
2009-10	-3,531	-11,807	29.91
2010-11	-2,729	-16,647	16.39
2011-12	(+)1,364	-17,274	N/a
2012-13	(+)1,760	-16,519	N/a
2013-14	-1,789	-20,584	8.69
2014-15	-6,408	-27,162	23.59
2015-16	-11,985	-32,628	36.73
2016-17	-12,964	-56,171	23.08
2017-18	-21,594	-39,840	54.20
2018-19	-23,459	-47,335	49.56
2019-20	-35,909	-60,179	59.67
2020-21	-61,320	-92,305	66.43

* N/a indicates a revenue surplus year

The full extent of this deterioration is seen in Table 5. Tamil Nadu was once a revenue surplus State. In fact, the Financial Responsibility Act, 2003 calls for a balanced revenue budget, that is with no revenue deficit. That target is hard to achieve every year due to the inevitable economic or other events or crises that can occur well after a budget is approved by the Legislature. Such events will tend to impact revenues far more than the Government can unilaterally control expenses. The 2008 revenue deficit driven by the *Global Financial Crisis (GFC)* is a clear example. However, the last five years have been unique in recent history. Not only was there a revenue deficit each and every year, but it also actually increased in absolute magnitude in each of the last five years. This unprecedented decline started well before the advent of COVID-19, which greatly worsened the situation globally.

Table 5: Revenue Deficit as a percentage of Fiscal Deficit over 5-year periods

S.No	Period	5-yr. Revenue Deficit (Rs. in crore)	5-yr. Fiscal Deficit (Rs. in crore)	Revenue Deficit as percentage Of Fiscal Deficit
1	2006-07 to 2010-11	(2,385)	44,644	NA
2	2011-12 to 2015-16	17,058	1,14,167	14.94%
3	2016-17 to 2020-21	1,55,246*	2,95,830	52.48%

Overall Debt

This rising trend of revenue-deficit-driven fiscal deficits must be funded mainly by borrowing, which has sharply increased the total debt outstanding. It is expected to reach Rs.5,70,189 crore on 31.3.2022 as per the Interim Budget Estimates of 2021-22.

Table 6: Outstanding Debt Trends ^^

(Rs. in crores)

Year	Debt Outstanding at beginning of year	Net Debt during year	Total Outstanding Debt at the end of year	Outstanding Debt as a percentage of GSDP
2006-2007	57457.17	2712.84	60170.01	18.37
2007-2008	60170.01	4484.64	64654.65	17.61
2008-2009	64654.65	10203.14	74857.79	18.16
2009-2010	74857.79	14024.73	88882.52	17.85
2010-2011	88882.52	12466.95	101349.47	16.68
2011-2012	101349.47	14062.91	115412.38	15.36
2012-2013	115412.38	17539.39	132951.77	15.55
2013-2014	132951.77	21099.47	154051.24	15.91
2014-2015	154051.24	25915.54	179966.79	16.78
2015-2016	179966.79	31099.21	211066.00	17.94
2016-2017	211066.00	60298.09	271364.09	20.83
2017-2018	271364.09	39065.11	310429.19	21.19
2018-2019	310429.19	35322.49	345751.68	21.21
2019-2020	345751.68	51273.31	397024.99	21.51
RE 2020-2021	397024.99	88477.56*	485502.55	24.98
IBE 2021-2022	485502.54	84686.75	570189.29	26.69

^^ Outstanding Debt includes E-Public Debt and I- Small Savings, Provident Fund, etc.

* It excludes an amount of Rs.7,608.38 crore projected as receipts towards B2B Loan for GST Compensation Shortfall

Figure 5: Outstanding Debt - Trends

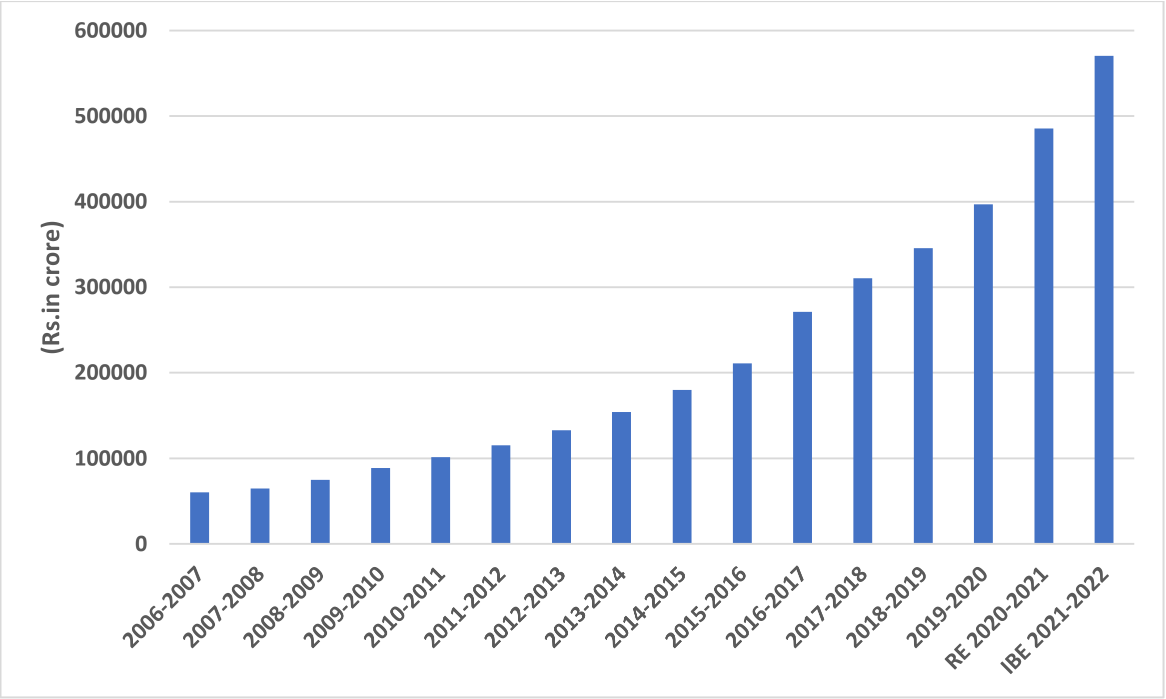
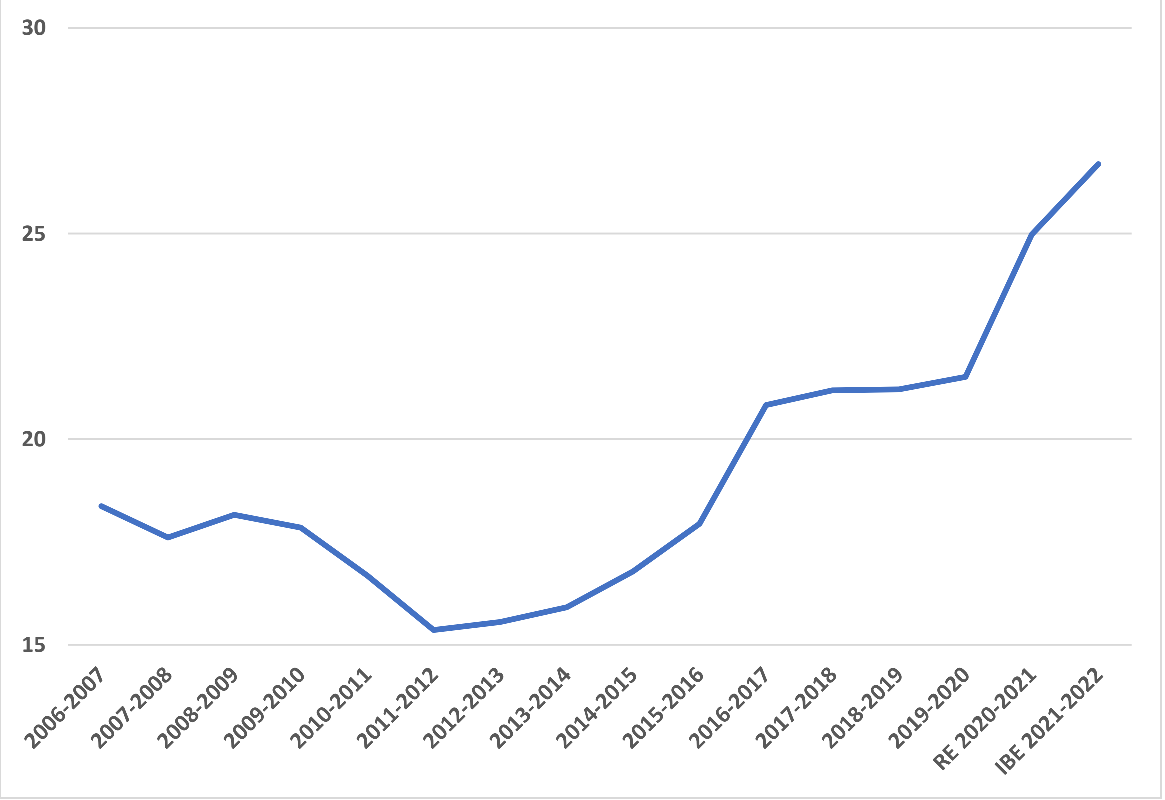


Figure 6: Outstanding Debt as a percentage of GSDP



The overall debt level which had reached at 18.37 per cent of GSDP in 2006-07 was brought down to 16.68 per cent in 2010-11 and further to 15.36 per cent in 2011-12. **The period since 2012-13 has seen a continuous increase in the overall debt level of the State Government and that has now reached almost 25 per cent of GSDP which was the limit prescribed by the 14th Finance Commission.** The total outstanding debt in Revised Estimates 2020-21 is Rs.4,85,502.55 crore which is already 24.98 per cent of GSDP. The overall debt stock has gone up by more than 3.47 per cent of GSDP in 2020-21 above.

Although the 15th Finance Commission has relaxed the debt limits mainly to accommodate the impact of the Covid-19 pandemic, the State's overall debt is unsustainably high. Table 7 shows the total liability outstanding as on 31.3.2019 of some select States. Tamil Nadu's outstanding liabilities as a percentage of GSDP are significantly higher than the comparator States of Maharashtra, Gujarat and Karnataka. **Tamil Nadu has the dubious distinction of currently being the largest borrower in the open market amongst all States in India.**

Table 7: Outstanding Public liabilities of State Governments as on 31.03.2019

State	Total Outstanding Liabilities (Rupees in Crores)	As percentage of GSDP
Gujarat	2,98,755.10	19.9
Karnataka	2,86,328.70	18.5
Maharashtra	4,38,841.80	16.7
Tamil Nadu	4,01,503.80	24.6

Source: RBI State Finances – A study of Budgets 2020-21

Overall Debt: The worsening Deficit situation has led the State to be over-reliant on debt. The Public Debt is ₹2,63,976 per family in Tamil Nadu.

- As per the Interim Budget Estimate (IBE) of 2021-22, the Overall Debt of the State will be ₹5,70,189 Crore.
- Public Debt as % of GSDP is 26.69%.
- It is worthwhile to note that, the Public Debt as % GSDP was 18.37% in 2007.
- Almost every State has reduced the PD / GSDP Ratio between 2003 – 2019. Tamil Nadu was also following the trend by reducing the Ratio from 26 % to 17% until 2012. However, the situation has been worsening since then.

Financing the Fiscal Deficit

A curious feature that can be seen from the Table 4 which represents the overall fiscal deficit and Table 6 which shows the actual net borrowing in each financial year, is that the actual borrowing or net debt incurred each year does not match the fiscal deficit number. This raises a question as to how the fiscal deficit is actually financed each year.

Table 8 illustrates how the fiscal deficits have been financed in the period from 2006-07. The gap between the fiscal deficit and the net public debt is covered by transactions in the Public Account and drawdowns of cash balances during the year.

Each year the State Government, dips into opening cash balance, or despite incurring the expenditure on the Consolidated Fund either on the revenue or the capital head of account, impounds the cash in the Public Account or delays the actual pay out of cash beyond the fiscal year. In good years, the Government adds to the closing cash balance or pays out money from the Public Account.

Thereby the Government indirectly borrows on the Public Account to finance the balance of the fiscal deficit. In the period between 2006-07 to 2016-17, there were years in which there was no reliance on the Public Account or the amounts involved were relatively small. In the last three years, however, the amounts drawn from the Public Account are large and represent a significant proportion of the fiscal deficit.

Combining the amounts across each 5-year term of the three past Governments as in Table 9 shows the dramatic increase in the reliance on other sources of financing over the past 15 years. This progression is stark in absolute quantity but it is also true in terms of the proportion of the total fiscal deficit that is financed from other sources across each of the 5-year terms.

Table 8: Financing the Fiscal Deficit (Rs. in crore)

Year	Fiscal Deficit #	Public Debt (Net)	Fiscal Deficit met through other means
2006-07	3956.00	2456.91	1499.09
2007-08	3685.59	4101.32	-415.73
2008-09	8547.76	9625.43	-1077.67
2009-10	11807.26	13045.03	-1237.77
2010-11	16646.62	11195.29	5451.33
2011-12	17274.07	12950.06	4324.01
2012-13	16518.99	16205.09	313.90
2013-14	20583.49	19837.13	746.36
2014-15	27162.44	24592.66	2569.78
2015-16	32627.56	29461.19	3166.37
2016-17	56171.35	57942.96	-1771.61
2017-18	39839.52	36730.70	3108.82
2018-19	47334.89	32872.6	14462.29
2019-20	60178.63	48907.85	11270.78
RE 2020-21	104498.35	92497.95*	12000.40

It excludes I – small savings
***** It includes an amount of Rs.7,608.38 crore projected as receipts towards B2B Loan for GST Compensation Shortfall

Table 9: Reliance on Other Means to meet Fiscal Deficit

S.No	Period	Average Annual Amount (Rs. in crore)	Total 5-yr. Amount (Rs. in crore)
1	2006-07 to 2010-11	843.85	4,219.25
2	2011-12 to 2015-16	2224.08	11,120.42
3	2016-17 to 2020-21	7814.14	39,070.68

Table 10 shows the increasing reliance on other means of financing, beyond the Public Debt. From Rs.4,219 crore (9.45 per cent) in the 2006-2011 period, other sources provided Rs.11,120 crore (9.74 per cent) in the 2011-2016 period, and a massive Rs. 39,071 crore (12.68 per cent) in the 2016-2021 period.

Table 10: Increasing Reliance on Other Means

S.No	Period	5-yr Fiscal Deficit (Rs. in crore)	5-yr Other Means to Finance Deficit (Rs. in crore)	percentage of Fiscal Deficit Financed by Other Means
1	2006-07 to 2010-11	44,644	4,219	9.45%
2	2011-12 to 2015-16	1,14,167	11,120	9.74%
3	2016-17 to 2020-21 (R.E.)	3,08,023	39,071	12.68%

To look at it from another perspective, the true Debt Outstanding at the end of 2020-21, is better approximated at Rs. 5,24,574 crores, of which Rs. 4,85,503 crore represents the total public debt outstanding, and Rs. 39,071 crore represents the amounts to be settled with internal accounts like the Public Account and Cash Balances, to return to the status quo ante as of 2015-16.

Financing the Fiscal Deficit: Dramatic increase in "*financed by other means*"

- Traditionally the fiscal deficit "financed by other means" are very negligible and marginal in percentage
- However, the Fiscal deficit financed by "Other Means" for the period 2016-21 was staggering 12.68% of the total Fiscal Deficit and in real numbers it is ₹39,071 Crores
- Particularly in the last 3 years, amounts drawn from the Public Account to manage the fiscal deficit are significant and more than 10% of the FD in proportion.

Government Guarantees

The overall guarantees provided by the Government of Tamil Nadu amounted to Rs.3,960.09 crore in 2006-07. This was 1.21 per cent of GSDP in that year. This amount had gone up to Rs.9,751.29 crore in 2011-12 which was 1.30 per cent of GSDP.

Subsequently due to large increases in guarantees to the power sector, the total amount of guarantees issued by the Government of Tamil Nadu went up to Rs. 53,697 crores in 2014-15 and started declining after 2016-17 when loans of TANGEDCO were taken over by the Government under the UDAY scheme.

Immediately thereafter the guarantees started rising again and reached Rs.47,318.87 crore in 2019-20. In 2020-21, due to the very adverse financial situation in both the power and transport sectors, the total guarantees nearly doubled to Rs.91,818.44 crore in just one year.

Of this, Rs.82,916.90 crore related to the power sector. The transport sector which had negligible outstanding guarantees till 2018-19, has an outstanding guarantee of Rs.4,642.72 crore at the end of 2020-21. These guarantees represent a large contingent liability for the State Government. **In 2019-20, Tamil Nadu had the 3rd highest guarantees outstanding amongst all states after Telangana and Andhra Pradesh**.

Table 11: Outstanding Government Guarantees (Rs.in crore)

Year	Power Sector	Transport Sector	Co-operative Sector	Others	Total
2006-07	2665.18	64.25	494.05	736.61	3960.09
2007-08	2693.90	50.75	1844.85	753.02	5342.52
2008-09	3323.14	44.23	471.44	648.65	4487.46
2009-10	4379.72	34.25	766.89	940.29	6121.15
2010-11	9383.38	24.25	5689.49	857.68	15954.8
2011-12	9024.25	14.25	19.92	692.87	9751.29
2012-13	23024.31	4.25	498.44	543.49	24070.49
2013-14	48031.16	4.25	385.27	1078.62	49499.3
2014-15	51939.64	4.25	267.71	1486.01	53697.61
2015-16	49507.44	4.25	359.75	1714.25	51585.69
2016-17	26996.58	4.25	380.63	1763.82	29145.28
2017-18	32745.28	754.25	294.23	2337.28	36131.04
2018-19	40770.61	4.25	630.28	2255.94	43661.08
2019-20	43580.96	903.50	686.79	2147.62	47318.87
2020-21	82916.90	4642.72	1474.31	2784.51	*91818.44

*Total guarantees approved by the Government of Tamil Nadu.

Figure 7: Trends in Outstanding Guarantees

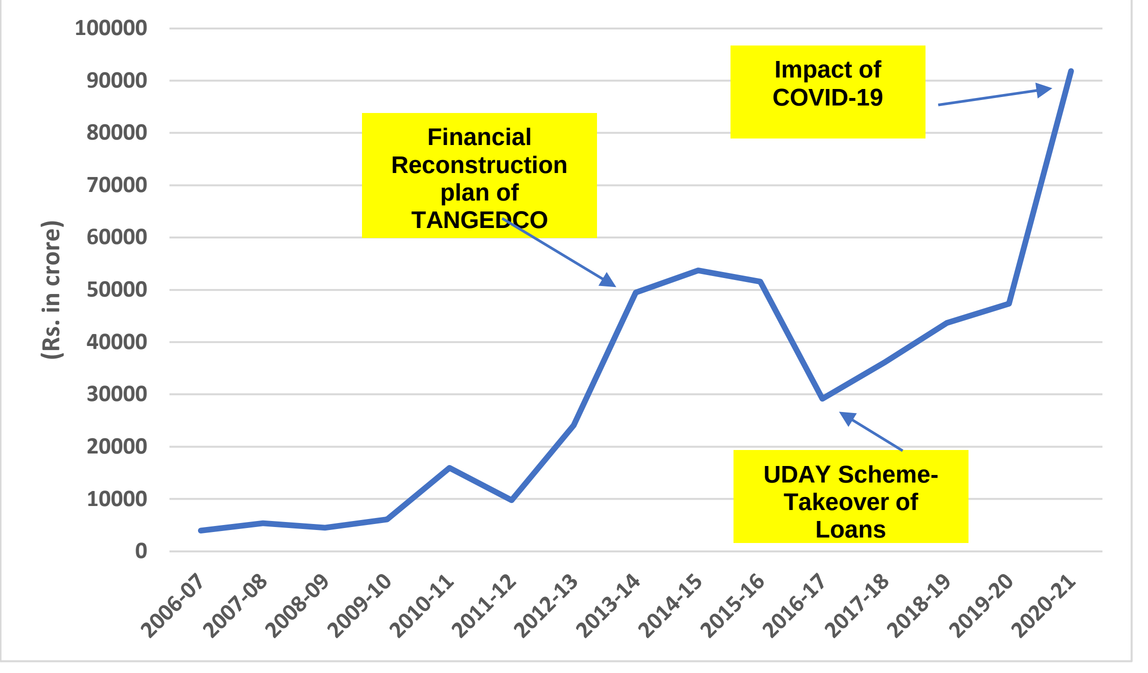


Table 12: Government Guaranteed Loans as a percentage of Outstanding Loans (other than Government Loans) in Power Sector and Transport Sector

(Rs.in crore)

Year	Outstanding Power Sector Guarantees	Outstanding Power sector Loans	percentage of Guaranteed Loans	Outstanding Transport Sector Guarantees	Outstanding Transport Sector Loans	percentage of Guaranteed Loans
2006-07	2665.18	10561.03	25.24	64.25	912.93	7.04
2007-08	2693.9	13745.21	19.60	50.75	1023.01	4.96
2008-09	3323.14	20249.94	16.41	44.23	1147.2	3.86
2009-10	4379.72	38505.52	11.37	34.25	1223	2.80
2010-11	9383.38	35875.67	26.16	24.25	1338.77	1.81
2011-12	9024.25	41196.32	21.91	14.25	1482.85	0.96
2012-13	23024.31	51981.04	44.29	4.25	1585.56	0.27
2013-14	48031.16	73425.24	65.42	4.25	1612.49	0.26
2014-15	51939.64	85027.84	61.09	4.25	1779.79	0.24
2015-16	49507.44	92080.47	53.77	4.25	2562.32	0.17
2016-17	26996.58	99630.58	27.10	4.25	3723.7	0.11
2017-18	32745.28	111782.86	29.29	754.25	5331.24	14.15
2018-19	40770.61	124990.08	32.62	4.25	5618.45	0.08
2019-20	43580.96	139737.96	31.19	903.5	7978.29	11.32
2020-21	82916.9	159688.67	51.92	4642.72	11840.29	39.21

Figure 8 : Government Guaranteed Loans as a percentage of Outstanding Loans (other than Government Loans) in Power Sector and Transport Sector

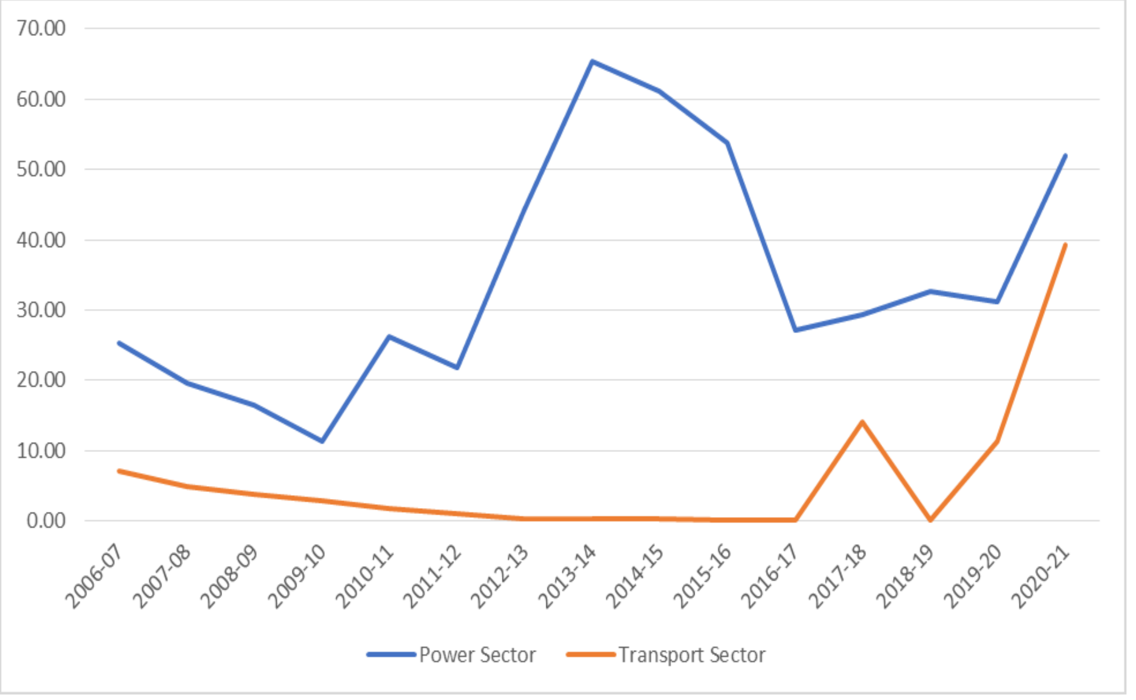
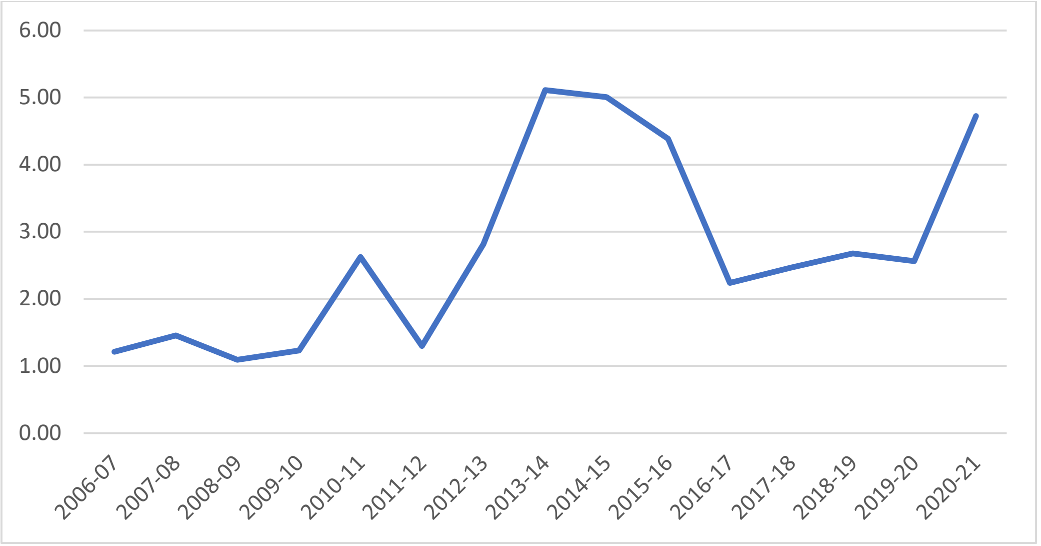


Table 13: Outstanding Guarantees as a percentage of GSDP

Year	Outstanding Guarantees (Rs.in crore)	Guarantees as a percentage of GSDP
2006-07	3960.09	1.21
2007-08	5342.52	1.46
2008-09	4487.46	1.09
2009-10	6121.15	1.23
2010-11	15954.8	2.63
2011-12	9751.29	1.30
2012-13	24070.49	2.82
2013-14	49499.3	5.11
2014-15	53697.61	5.01
2015-16	51585.69	4.38
2016-17	29145.28	2.24
2017-18	36131.04	2.47
2018-19	43661.08	2.68
2019-20	47318.87	2.56
2020-21	91818.44	4.72

Figure 9: Outstanding Guarantees as a percentage of GSDP



Such guarantees do not form a part of the State government's loans, but they are contingent liabilities, and the State Government could be placed in a position of having to discharge the guaranteed loan liability in case of default. In the face of sustained losses incurred by these agencies, such guarantees represent a real fiscal risk.

High Government Guarantees will lower the Credit Rating of the Government

- The outstanding Government Guarantees for FY 2020-21 was ₹ 91,818 Crores.
- This is 4.72% of the GSDP, which is the 3rd highest in the Country behind Andhra Pradesh & Telangana which are recently split States.
- 95% of the Government Guarantees of the Government of Tamil Nadu is on the account of Power and Transport Sector borrowings. (Power Sector 90% + Transport Sector 5%)
- The Government runs a risk of increasing its Debt burden if PSUs default on repayments.

Trends in Revenue Receipts

The overall deficit scenario is directly relatable to the trends both on the revenue receipt and expenditure sides of budgetary transactions. While there was a substantial deterioration in the overall fiscal balance of Tamil Nadu during 2020-21, the Covid-19 pandemic year, **it needs to be noted that the fiscal situation of the State had already deteriorated.**

The total revenue receipts of Tamil Nadu were at a level of Rs.40,913 crore in 2006-07, they have reached Rs.1,69,012 crore in 2020-21, after having peaked at Rs.1,74,526 crore in 2019-2020.

Table 14: Trends in Revenue Receipts

(Rs.in crores)

Year	State's Own Tax Revenue	Non Tax Revenue	Share in Central Taxes	Grants-in-Aid from Government of India	Total Revenue Receipts
2006-07	27771.15	3422.57	6393.86	3325.65	40913.23
2007-08	29619.10	3304.37	8065.27	6531.77	47520.51
2008-09	33684.37	5712.33	8510.80	7135.01	55042.51
2009-10	36546.67	5027.05	8756.19	5514.22	55844.13
2010-11	47782.18	4651.45	10913.97	6840.02	70187.62
2011-12	59517.31	5683.57	12714.95	7286.31	85202.14
2012-13	71254.28	6554.26	14519.69	6499.48	98827.71
2013-14	73718.11	9343.27	15852.76	9122.28	108036.42
2014-15	78656.54	8350.6	16824.03	18589.27	122420.44
2015-16	80476.08	8918.31	20353.86	19259.62	129007.87
2016-17	85941.41	9913.76	24537.76	19838.20	140231.13
2017-18	93736.61	10764.00	27099.70	14679.44	146279.75
2018-19	105534.16	14200.02	30638.77	23368.21	173741.16
2019-20	107462.29	12887.85	26392.41	27783.37	174525.92
2020-21	106171.70	9040.43	24906.62	28893.52	169012.27

Figure 10: Total Revenue Receipts - Trends

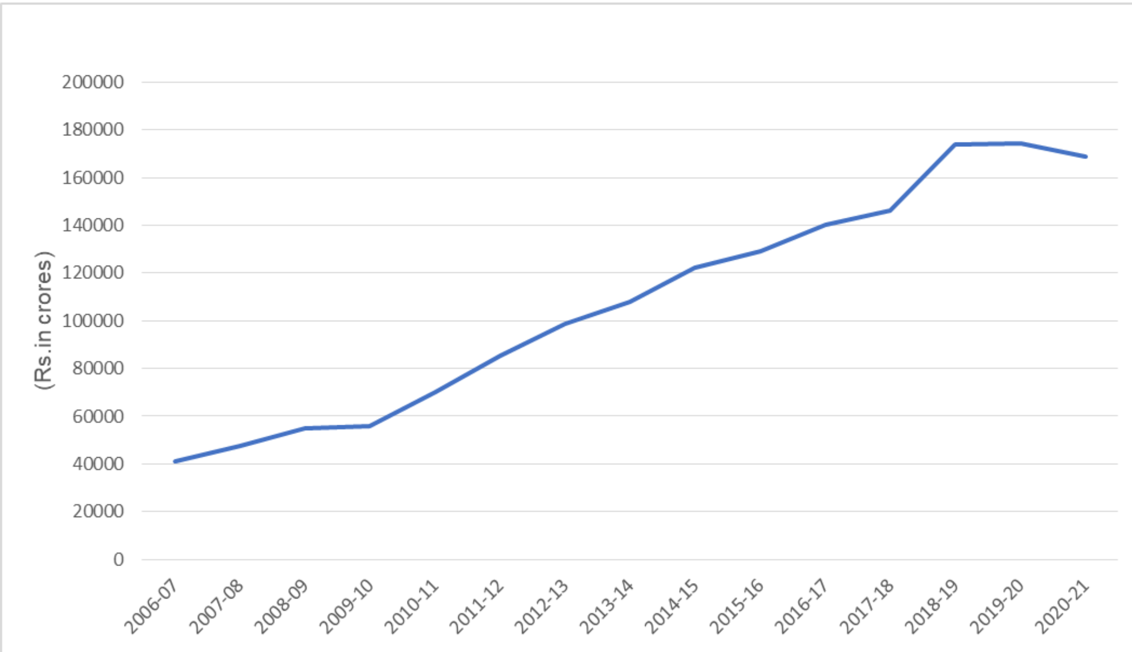
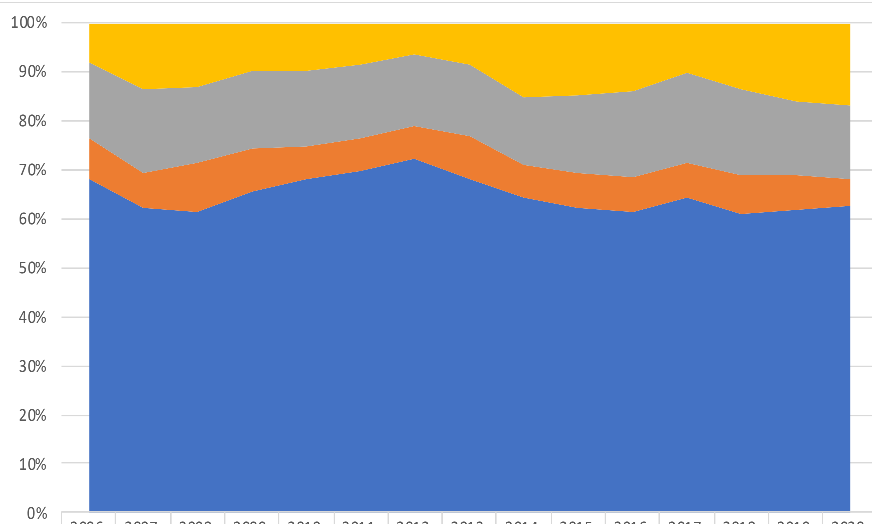


Figure 11: Trends in Composition of Revenue Receipts



	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Grants-in-Aid from Government of India	8.13	13.75	12.96	9.87	9.75	8.55	6.58	8.44	15.18	14.93	14.15	10.04	13.45	15.92	17.10
Share in Central Taxes	15.63	16.97	15.46	15.68	15.55	14.92	14.69	14.67	13.74	15.78	17.50	18.53	17.63	15.12	14.74
Non Tax Revenue	8.37	6.95	10.38	9.00	6.63	6.67	6.63	8.65	6.82	6.91	7.07	7.36	8.17	7.38	5.35
State's Own Tax Revenue	67.88	62.33	61.20	65.44	68.08	69.85	72.10	68.23	64.25	62.38	61.29	64.08	60.74	61.57	62.82

■ State's Own Tax Revenue ■ Non Tax Revenue ■ Share in Central Taxes ■ Grants-in-Aid from Government of India

The total revenue receipts of the State were 12.49 per cent of GSDP in 2006-07 and had peaked at 13.35 per cent of GSDP in 2008-09. Subsequently, the total revenue receipts as a proportion of GSDP have declined, in particular, the State's Own Tax Revenue (SOTR) has registered a significant decline. The total revenue receipts stood at 11.41 per cent of GSDP in 2014-15 and have fallen to just 8.7 per cent in 2020-21. The compound annual growth rate of revenue receipts from 2006-07 to 2010-11 was 11.40 per cent. This declined to 8.65 per cent in the 2011-12 to 2015-16 period and further to 3.80 per cent in the period from 2016-17 to 2020-21. As the growth of Total Revenue Receipts (TRR) was well below the nominal GSDP growth in the same period, TRR declined as a proportion of GSDP.

Table 15: Total Revenue Receipts as a percentage of GSDP

Year	Total Revenue Receipts (Rs. in crores)	Total Revenue Receipts as a percentage of GSDP
2006-07	40913.23	12.49
2007-08	47520.51	12.95
2008-09	55042.51	13.35
2009-10	55844.13	11.21
2010-11	70187.62	11.55
2011-12	85202.14	11.34
2012-13	98827.71	11.56
2013-14	108036.42	11.15
2014-15	122420.44	11.41
2015-16	129007.87	10.97
2016-17	140231.13	10.77
2017-18	146279.75	9.98
2018-19	173741.16	10.66
2019-20	174525.92	9.46
2020-21	169012.27	8.70

Figure 12: Total Revenue Receipts as a percentage of GSDP

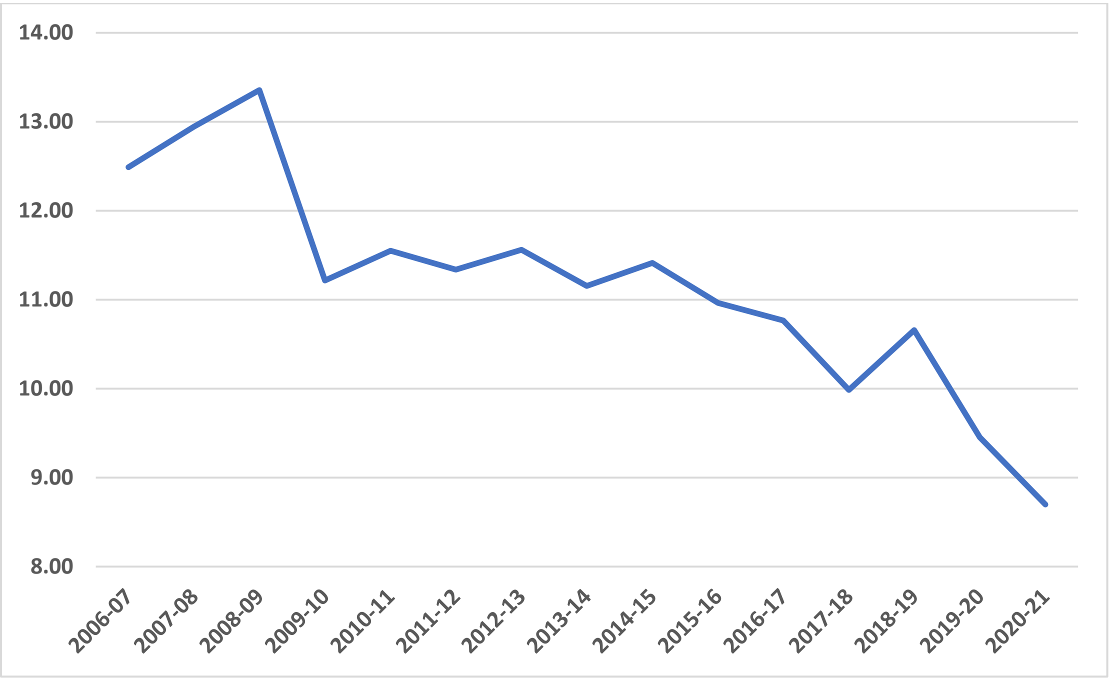


Table 16: Total Revenue Receipts- Average of TRR as a percentage of GSDP and CAGR

Period	Average of Revenue Receipts as a percentage of GSDP	Total Revenue Receipts- CAGR (percentage)
2006-07 to 2010-11	12.31	11.40
2011-12 to 2015-16	11.29	8.65
2016-17 to 2020-21	9.91	3.80

The main element of revenue receipts of the State is the State's Own Tax Revenue and accounted for close to 70 per cent of the total revenues till 2013-14. Subsequently the proportion of SOTR to total revenue has declined, falling to 60.74 per cent in 2018-19 and is currently 62.82 per cent in 2020-21.

Table 17: State's Own Tax Revenue as a percentage of Total Revenue Receipts

Year	State's Own Tax Revenue (Rs.in crore)	State's Own Tax Revenue as a percentage of TRR
2006-07	27771.15	67.88
2007-08	29619.10	62.33
2008-09	33684.37	61.20
2009-10	36546.67	65.44
2010-11	47782.18	68.08
2011-12	59517.31	69.85
2012-13	71254.28	72.10
2013-14	73718.11	68.23
2014-15	78656.54	64.25
2015-16	80476.08	62.38
2016-17	85941.41	61.29
2017-18	93736.61	64.08
2018-19	105534.16	60.74
2019-20	107462.29	61.57
2020-21	106171.70	62.82

The CAGR of SOTR was 11.46 per cent in the period 2006-07 to 2010-11. Subsequently CAGR has slowed down to 6.22 per cent in the 2011-12 to 2015-16 period and has been quite anaemic at 4.32 per cent between 2016-17 and 2020-21. In fact, in 2019-20 and 2020-21 the growth rate has been just 1.83 per cent and (-)1.20 per cent respectively. As a proportion of GSDP, SOTR at 8.48 per cent in 2006-07 was at its highest level in recent years. SOTR was at 8.34 per cent of GSDP in 2012-13. **Subsequently, SOTR as a proportion of GSDP has been declining each year reaching 6.40 per cent in 2017-18 and 5.82 per cent in 2019-20 and finally just 5.46 per cent in 2020-21. This is a source of grave concern**.

Table 18: State's Own Tax Revenue- Year on Year Growth and CAGR

Year	State's Own Tax Revenue YoY Growth
2006-07	19.06
2007-08	6.65
2008-09	13.73
2009-10	8.50
2010-11	30.74
CAGR (2006-07 to 2010-11)	**11.46**
2011-12	24.56
2012-13	19.72
2013-14	3.46
2014-15	6.70
2015-16	2.31
CAGR (2011-12 to 2015-16)	**6.22**
2016-17	6.79
2017-18	9.07
2018-19	12.59
2019-20	1.83
2020-21	-1.20
CAGR (2016-17 to 2020-21)	**4.32**
OVERALL CAGR	**9.35**

Figure 13: State's Own Tax Revenue – Year on Year Growth Trends

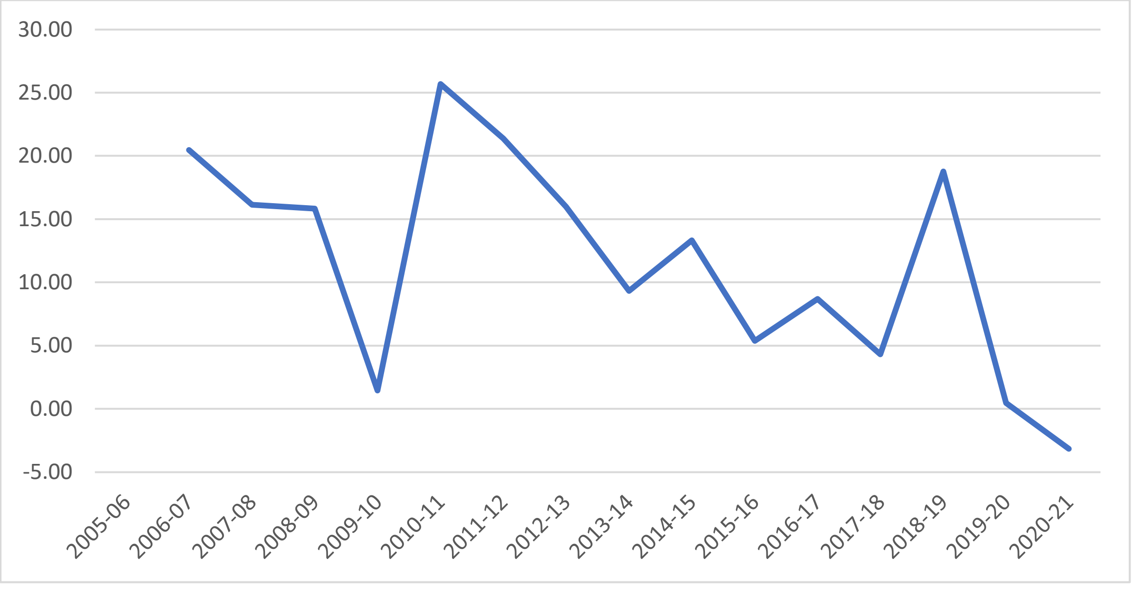


Table 19: State's Own Tax Revenue as a percentage of GSDP

Year	Gross State Domestic Product	Commercial Taxes	State Excise	Stamps and Registration Fees	Taxes on Vehicle	Others	State's Own Tax Revenue
2006-07	327614	**5.83**	1.22	0.91	0.38	0.13	**8.48**
2007-08	367089	5.29	1.30	**1.04**	0.40	0.04	8.07
2008-09	412188	5.30	1.40	0.92	0.41	0.14	8.17
2009-10	497972	4.81	1.35	0.74	0.41	0.04	7.34
2010-11	607656	5.01	1.34	0.77	0.44	0.31	7.86
2011-12	751486	5.15	1.33	0.88	0.41	0.15	7.92
2012-13	854825	5.45	**1.42**	0.89	**0.46**	0.11	8.34
2013-14	968530	5.75	0.52	0.85	0.38	0.11	7.61
2014-15	1072678	5.54	0.53	0.78	0.36	0.12	7.33
2015-16	1176500	5.11	0.50	0.74	0.36	0.13	6.84
2016-17	1302639	5.08	0.48	0.56	0.37	0.11	6.60
2017-18	1465051	4.91	0.40	0.63	0.37	0.09	6.40
2018-19	1630208	4.98	0.42	0.68	0.34	0.05	6.47
2019-20	1845853	4.49	0.39	0.59	0.31	0.05	5.82
2020-21	1943399	4.19	0.40	0.60	0.23	0.04	5.46

Table 20: Average of SOTR as a percentage of GSDP

S.No	Period	Average of SOTR as a percentage of GSDP
1	2006-07 to 2010-11	7.98
2	2011-12 to 2015-16	7.61
3	2016-17 to 2020-21	6.15

Figure 14: Percentage Share of Components in SOTR

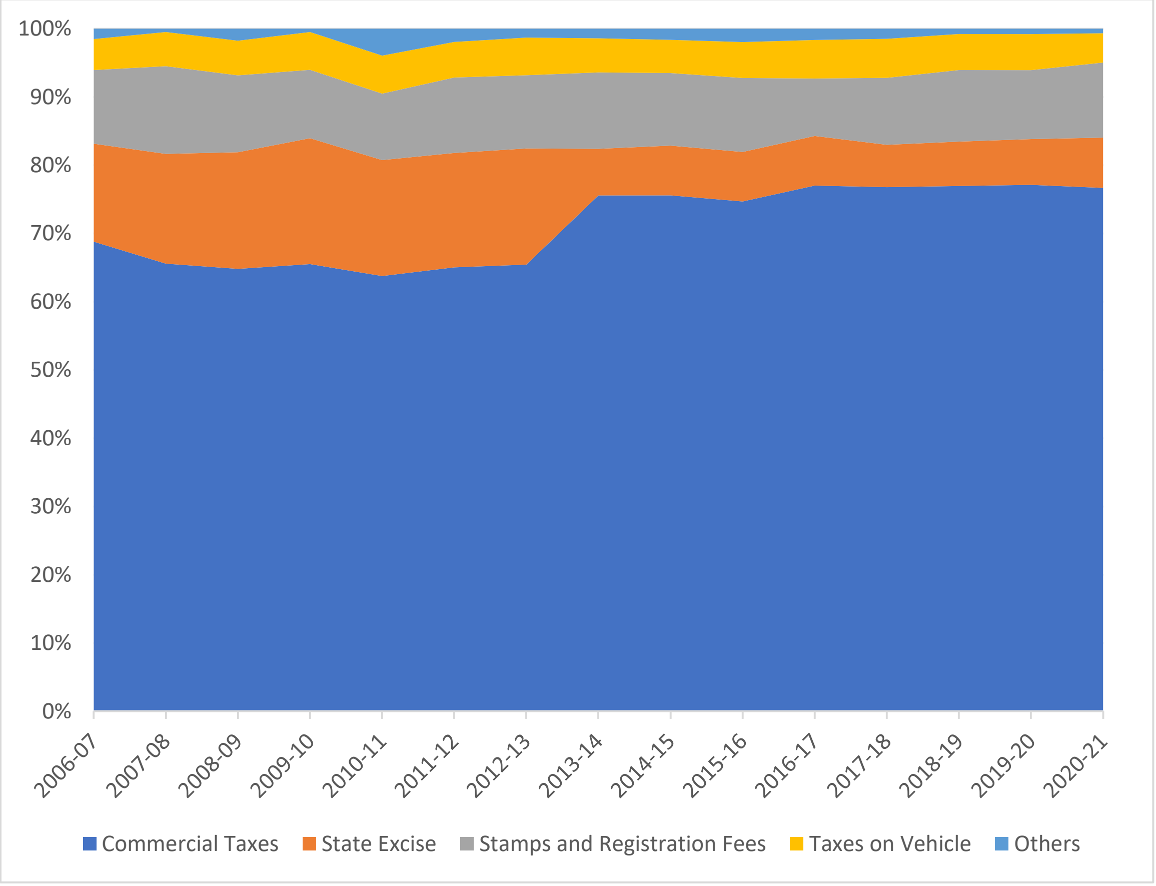


Figure 15: State's Own Tax Revenue as percentage of GSDP

While the low level of SOTR to GSDP ratio in 2020-21 can be attributed to the impact of Covid-19 pandemic, there are two major areas of concern. First, there has been a steady and consistent decline in the SOTR to GSDP ratio ever since 2011-12. **The overall decline by almost 3 per cent GSDP is very disturbing as it represents at current GSDP levels over Rs.60,000 crore of revenue foregone in the year**. What is of even greater concern is that the decline in Tamil Nadu's SOTR to GSDP ratio is sharper than the average tax to GSDP ratio decline across all States during the period from 2011-12 to 2018-19. **In fact, for the first time in 2018-19, the Tamil Nadu's overall tax to GSDP ratio, which had consistently been above the national level, fell below the national average.** This is an extremely serious issue which requires urgent attention of the Government.

While examining the trends of tax revenues from among the components of States Own Tax Revenues, the main component is Commercial Taxes. Commercial Taxes as a proportion of GSDP had reached 5.83 percent in 2006-07. While this proportion fluctuated above 5 percent of GSDP for a number of years, in 2013-14 it reached 5.75 per cent and has declined since. The decline has been quite substantial in 2015-16 and 2016-17 at 5.11 percent and 5.08 per cent of GSDP. **It is thus clear that the decreasing trend had set in even before GST was introduced with effect from 1.7.2017.** Thereafter, the proportion of Commercial Taxes to GSDP declined even further, reaching 4.49 per cent in 2019-20 and 4.19 per cent in 2020-21. Commercial Taxes as a proportion of GSDP in 2020-21 are 28 per cent off their peak level.

TN has lower Tax Rates than many States leading to the continued loss in Revenues

- The proportion of Commercial Taxes to GSDP declined reaching 4.49 %in 2019-20 and 4.19 %in 2020-21.
- The State lost approximately 0.27% GSDP in revenue due to the reduction in revenue from abolition of vend fee and reduction of license fee was not fully made up by increase in VAT on IMFS.
- The number of vehicles registered in Tamil Nadu is higher than in the neighboring States, but the total revenue as motor vehicle tax has not kept pace since the tax rates have not been revised in the past fifteen years.
- States like Maharashtra collected much larger sums annually as electricity tax, since the existing rates of tax on Electricity are lower in TN.

Table 21 presents sub-elements of Commercial Taxes, tax on sale of petrol and diesel, tax on the sale of IMFL and tax collected on all other commodities as VAT / GST since the introduction of VAT in 2007-08. The tax collected on the commodities now covered under GST peaked at 3.25 per cent in 2012-13 and thereafter steadily declined to 2.12 per cent in 2019-20 and even further to 1.99 per cent in 2020-21. This decline commenced before introduction of GST in 2017-18.

The collection of revenue from petrol and diesel has remained in the range of 1 per cent of GSDP. The revenue from VAT levied on IMFL and Beer was in the range of 1 per cent up to 2012-13 and increased to 1.72 per cent in 2013-14 on account of the changed structure of levy of taxes following changes in the Union Budget 2013-14. The State's excise duties were reduced and VAT on IMFL and Beer was increased. Subsequent to this, the collection of VAT on IMFL has fallen to 1.4 per cent of GSDP by 2019-20.

The drop of almost 1 per cent GSDP in commercial tax collection is on commodities which are currently under GST. The drop has also been accentuating since the introduction of GST. Factors including the lack of revenue neutrality in GST rate structure, the exemptions provided, and the failure of the GST Network to deliver on the promises of institutional improvements for enhanced tax efficiency, seem to have lowered tax realisation by Tamil Nadu.

Table 21: Components of Commercial Taxes as a percentage of GSDP

Year	Commercial Taxes as percentage to GSDP	Tax collection from the sale of Petrol & Diesel as percentage to GSDP	Tax collection from the sale of IMFL and Beer as percentage to GSDP	All other Commodities under CT (VAT, GST, etc) as percentage to GSDP
2007-08	5.29%	1.01%	1.22%	3.05%
2008-09	5.30%	1.29%	1.16%	2.85%
2009-10	4.81%	1.16%	1.00%	2.65%
2010-11	5.01%	1.13%	1.03%	2.86%
2011-12	5.15%	1.11%	0.96%	3.09%
2012-13	5.45%	1.11%	1.09%	3.25%
2013-14	5.75%	1.13%	1.72%	2.91%
2014-15	5.54%	1.02%	1.71%	2.81%
2015-16	5.11%	0.86%	1.70%	2.55%
2016-17	5.08%	0.88%	1.58%	2.63%
2017-18	4.91%	1.03%	1.41%	2.48%
2018-19	4.98%	1.09%	1.49%	2.40%
2019-20	4.49%	0.97%	1.40%	2.12%
2020-21	4.19%	0.86%	1.33%	1.99%

State Excise Duty and VAT

Revenue from State Excise Duty ranged between 1.22 per cent to 1.42 per cent of GSDP in 2006-07 to 2012-13. In the Union Budget for the year 2013-14 presented on 28th February 2013, a significant change was made in the definition of “Income” in the Finance Act by which certain types of levies of

State Governments on State Public Sector Undertakings were specifically excluded as deductions from Income. This amendment affected the levy of vend fee and licensee fee which were part of State Excise Duty by the Government of Tamil Nadu on the Tamil Nadu State Marketing Corporation (TASMAC). To overcome this difficulty in March 2013, the Government removed vend fee and reduced the license renewal fee rate substantially. This resulted in a decline in excise duty collection which was intended to be made up by increasing the Value Added Tax levied on the sale of Indian Made Foreign Spirits (IMFS).

As a result, the excise duty revenue fell from 1.42 per cent of GSDP in 2012-13 to 0.52 per cent of GSDP in 2013-14 and has hovered at that level in the period since. On the other hand, the revenue from VAT on IMFS as a proportion of GSDP increased only from 1.09 per cent to 1.72 per cent in 2013-14. **Effectively, the reduction in revenue from abolition of vend fee and reduction of license fee was not fully made up by increase in VAT. The State lost approximately 0.27 per cent GSDP in revenue due to these changes**.

Thereafter, the State Government took a number of measures to curtail the sale of liquor by reducing the working hours of shops and closing down of number of retail shops. The Supreme Court also ordered closure of liquor shops along highways. All these factors have also caused further drop in revenue from the sale of IMFS.

Table 22 shows the trend of collection of State Excise Duty and VAT on IMFS, which has declined to 1.74 per cent of GSDP in 2020-21 from the peak level of 2.55 per cent in 2008-09.

Table 22: Trends in Excise Duties and VAT on Beer and IMFS

(Rs.in crore)

Year	Excise Duties	VAT on Beer and IMFS	Total	Year on Year Growth (percentage)	As a percentage of GSDP
2006-07	3,986.42	209.12	4,195.54	28.84	1.28
2007-08	4,764.06	4,491.70	9,255.76	120.61	2.52
2008-09	5,755.52	4,772.49	10,528.01	13.75	2.55
2009-10	6,740.68	4,971.40	11,712.08	11.25	2.35
2010-11	8,115.94	6,246.78	14,362.72	22.63	2.36
2011-12	9,975.21	7,198.24	17,173.45	19.57	2.29
2012-13	12,125.68	9,342.45	21,468.13	25.01	2.51
2013-14	5,034.91	16,639.39	21,674.30	0.96	2.24
2014-15	5,731.18	18,364.84	24,096.02	11.17	2.25
2015-16	5,836.02	20,018.81	25,854.83	7.30	2.20
2016-17	6,248.16	20,538.40	26,786.56	3.60	2.06
2017-18	5,815.28	20,652.56	26,467.84	-1.19	1.81
2018-19	6,863.12	24,314.87	31,177.99	17.80	1.91
2019-20	7,205.97	25,824.47	33,030.44	5.94	1.79
2020-21	7,821.66	25,924.40	33,746.06	2.17	1.74

Table 23: Excise Duties and VAT on Beer and IMFS- CAGR

S. No	Period	CAGR (percentage)
1	2006-07 to 2010-11	27.91
2	2011-12 to 2015-16	8.53
3	2016-17 to 2020-21	4.73

Taxes on Motor Vehicle

Motor Vehicle Tax in Tamil Nadu is levied on a specific basis on trucks, tractors, etc., and an ad valorem basis on cars and two wheelers. **The tax rates have not been revised in the past fifteen years.** The data from the Road Transport Yearbook indicates that although the number of vehicles registered in Tamil Nadu is higher than in the neighboring States, the total revenue as motor vehicle tax has not kept pace. In fact, the average revenue from a vehicle in Tamil Nadu is substantially lower than in Karnataka and Kerala.

Likewise, the rationalization of electricity tax is also overdue. The Tamil Nadu system of levy of electricity tax allows certain categories of buyers of power to escape the tax. On certain other categories, the specific rate at 10 paise per unit consumption of captive consumption and 5 percent for other categories is much lower than in other comparator States. **States such as Maharashtra collected much larger sums annually as electricity tax.**

Tax Buoyancy

Table 24: Tax Buoyancy of Tamil Nadu

Taxes	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 RE
ST + GST	0.68	0.19	0.96	0.49	1.20	1.91	1.54	1.63	0.64	0.06	0.93	0.98	1.29	0.15	0.54
State Excise	1.25	1.50	1.45	0.88	0.93	1.63	1.56	-4.42	1.29	0.19	0.66	-.0.56	1.60	0.36	1.77
Stamp duties	2.14	2.08	-0.02	-0.18	1.23	2.95	1.17	0.60	0.13	0.44	-1.59	2.17	1.81	-0.14	-0.14
MV Tax	0.59	1.36	1.06	0.94	1.43	1.18	1.93	-0.47	0.37	1.09	1.37	0.84	0.35	0.13	-4.10
Goods & Pass tax	1.28	-0.91	-0.75	0.59	2.23	2.17	0.44	-1.37	0.33	1.32	1.72	-5.19	-8.84	20.36	-15.79
Others	1.91	-3.37	10.19	-2.69	21.82	-2.24	-0.93	0.67	1.77	2.37	-0.89	-1.31	-4.23	0.26	24.12
Own Tax Revenue	0.93	0.51	0.95	0.44	1.40	1.75	1.43	0.26	0.62	0.24	0.63	0.73	1.12	0.13	0.49

Table 24 also shows the annual buoyancy of major taxes in Tamil Nadu since 2006-07. During 2011-12 to 2018-19, the own tax revenues of Tamil Nadu (in nominal terms) grew at average rate of 8.7 per cent which was lower than the growth rate of GSDP in the same period (11.7 per cent). As a result, the average own tax buoyancy of the State is estimated at 0.74. In only

2 out of 7 years, the own tax buoyancy is above 1 and, in the rest, it is less than one. It is noticed that the buoyancy of almost all taxes is fluctuating over the years and in many years their buoyancies are less than one or negative.

To sum up, there could be a number of factors for the decline in the tax to GSDP ratio. **Certain taxes like Motor Vehicle tax carry specific rates which have not been revised for many years**. Hence, their collection to the proportion of GSDP has not risen. This is despite the increase in the overall number of vehicles on the roads. In March, 2013 vend fee and additional vend fee had been abolished due to the changes in the definition of deductions permissible in income for Income Tax purpose in the Finance Act, 2013. This loss has not been adequately made up through State VAT.

However, it is clear that there are unexplained declines in the proportion of Commercial Taxes to GSDP. Overall, for all taxes, lax tax administration could also be a factor for the declined trends and would need attention. There is a need for more detailed study of the reasons for the large drop in SOTR as a proportion of GSDP. Such an analysis would be critical for any efforts to increase the tax to GSDP ratio.

Non-Tax Revenue

Table 25: State's Own Non- Tax Revenue as a percentage of GSDP

Year	Non-Tax Revenue (Rs.in crore)	As a percentage of GSDP
2006-07	3422.57	1.04
2007-08	3304.37	0.90
2008-09	5712.33	1.39
2009-10	5027.05	1.01
2010-11	4651.45	0.77
2011-12	5683.57	0.76
2012-13	6554.26	0.77
2013-14	9343.27	0.96
2014-15	8350.6	0.78
2015-16	8918.31	0.76
2016-17	9913.76	0.76
2017-18	10764.00	0.73
2018-19	14200.02	0.87
2019-20	12887.85	0.70
2020-21	9040.43	0.47

The States Own Non-Tax Revenue as a percentage of GSDP touched a high of 1.39 per cent in 2008-09. Since 2010-11, this revenue as a percentage of GSDP has generally remained below 0.8 per cent, except in 2018-19. The major items of non-tax revenue for the Government of Tamil Nadu includes royalty on mines and minerals, interest receipts and various fees and charges levied by the Government There are many opportunities to raise more revenues through non-tax receipts. **Some States including Kerala, Gujarat and Uttar Pradesh raise much higher amounts as non-tax revenue. This is a source of revenue which remains under-utilised in our State due to both non levy and leakage**.

Some States including Kerala, Gujarat and Uttar Pradesh raise much higher amounts as non-tax revenue. This is a source of revenue which remains under-utilized due to both non levy and leakage.

- The SONTR for 2020-21 is ₹9,040 crore and its 0.47% of the GSDP
- There are many opportunities to raise more revenues through non-tax receipts like royalty on mines and minerals, interest receipts and other fees and charges levied by the government.
- This is a source of revenue underutilized due to both non levy and leakage.

Table 26: Average of SONTR as a percentage of GSDP

Period	Average of SONTR as a percentage of GSDP
2006-07 to 2010-11	1.02
2011-12 to 2015-16	0.81
2016-17 to 2020-21	0.71

Table 27: SONTR- Year on Year Growth

Year	Year on Year Growth
2006-07	31.60
2007-08	-3.45
2008-09	72.87
2009-10	-12.00
2010-11	-7.47
2011-12	22.19
2012-13	15.32
2013-14	42.55
2014-15	-10.62
2015-16	6.80
2016-17	11.16
2017-18	8.58
2018-19	31.92
2019-20	-9.24
2020-21	-29.85
CAGR	**6.69**

Figure 16: Non-Tax Revenue – Trends

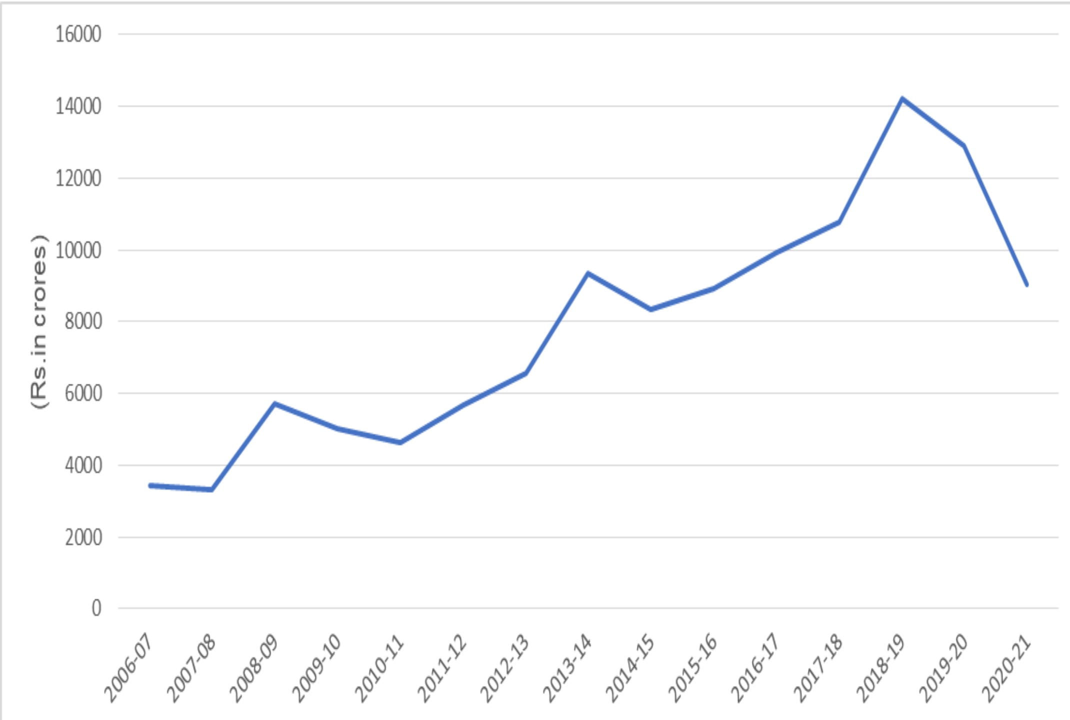
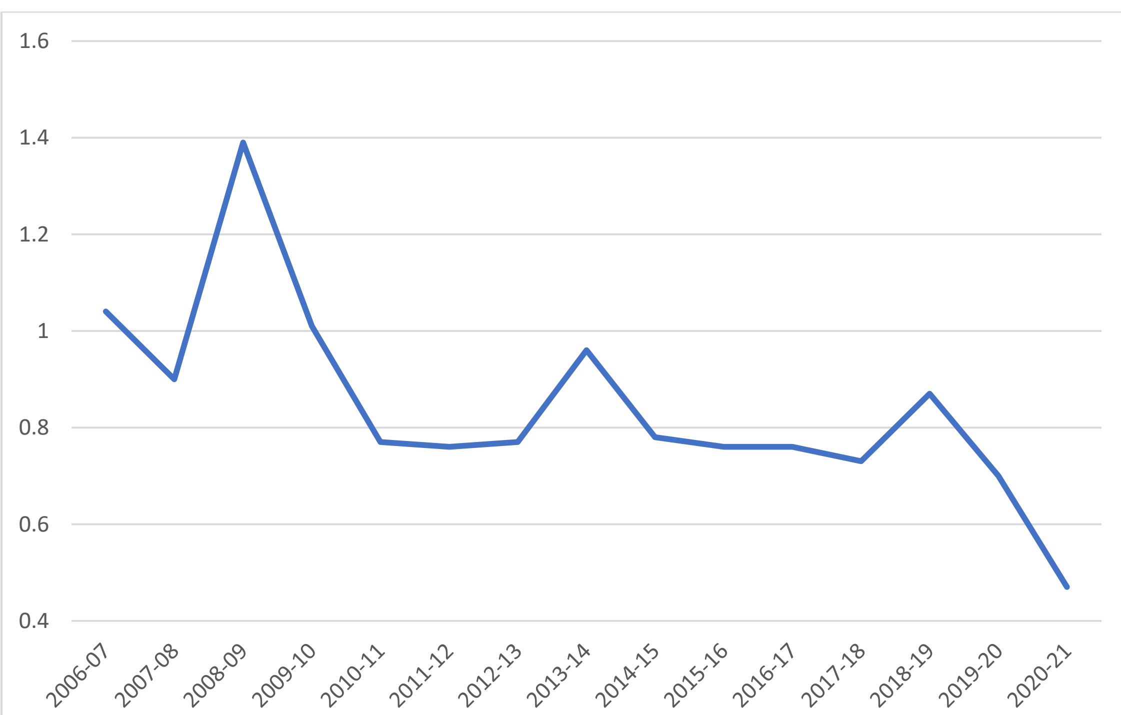


Figure 17: SONTR a percentage of GSDP



Share of Central Taxes (SCT)

Table 28 below shows Tamil Nadu's receipts as its share in Central taxes since 2006-07. Such receipts dropped sharply from a peak of 2.20 per cent of GSDP in 2007-08 to 1.43 per cent in 2019-20 pre-COVID, and further still to only 1.28 per cent in 2020-21. The increase in levy of cess in the Union Budget for 2021-22, and the decrease in the devolution to all States from the Union will result in a further decline this year.

Table 28: Share of Central Taxes as a percentage of GSDP

Year	Share in Central Taxes (Rs.in crore)	Share in Central Taxes As a percentage of GSDP
2006-07	6393.86	1.95
2007-08	8065.27	2.20
2008-09	8510.80	2.06
2009-10	8756.19	1.76
2010-11	10913.97	1.80
2011-12	12714.95	1.69
2012-13	14519.69	1.70
2013-14	15852.76	1.64
2014-15	16824.03	1.57
2015-16	20353.86	1.73
2016-17	24537.76	1.88
2017-18	27099.70	1.85
2018-19	30638.77	1.88
2019-20	26392.41	1.43
2020-21	24906.63	1.28

Tamil Nadu's Share in Central Taxes are determined by two factors, Tamil Nadu's horizontal share in the pool of divisible taxes and the size of the divisible pool itself.

Table 29: Share in Central Taxes- Average of SCT as a percentage of GSDP and CAGR

Period	Average of Share in Central Taxes as a percentage of GSDP	CAGR (percentage)
2006-07 to 2010-11	1.95	11.29
2011-12 to 2015-16	1.67	9.87
2016-17 to 2020-21	1.67	0.30

Switch to the 2011 population by both the 14th and 15th Finance Commissions has adversely affected Tamil Nadu.

- The Share in Central Taxes was 2.20% of GSDP in 2007-08 and now it declined to 1.28% of GSDP in 2020-21
- Tamil Nadu has 6.124% share of the population of the country and but only 4.079% share in the total tax revenue of the country, which is a proportion of 66.607%. This is the third lowest proportion after Haryana and Maharashtra.
- Before the next Finance Commission, a much stronger case needs to be made for a formula which results in higher allocation of resources to performing States that are primarily dependent on their own sources of revenue.
- Concessions provided on the levy of certain taxes by the Union have resulted in lower resource flows to the State. Most notable in this regard is the sharp reduction in Corporate Income Tax rates in the Union Budget for 2017-18.

Figure 18: Share in Central Taxes – Trends

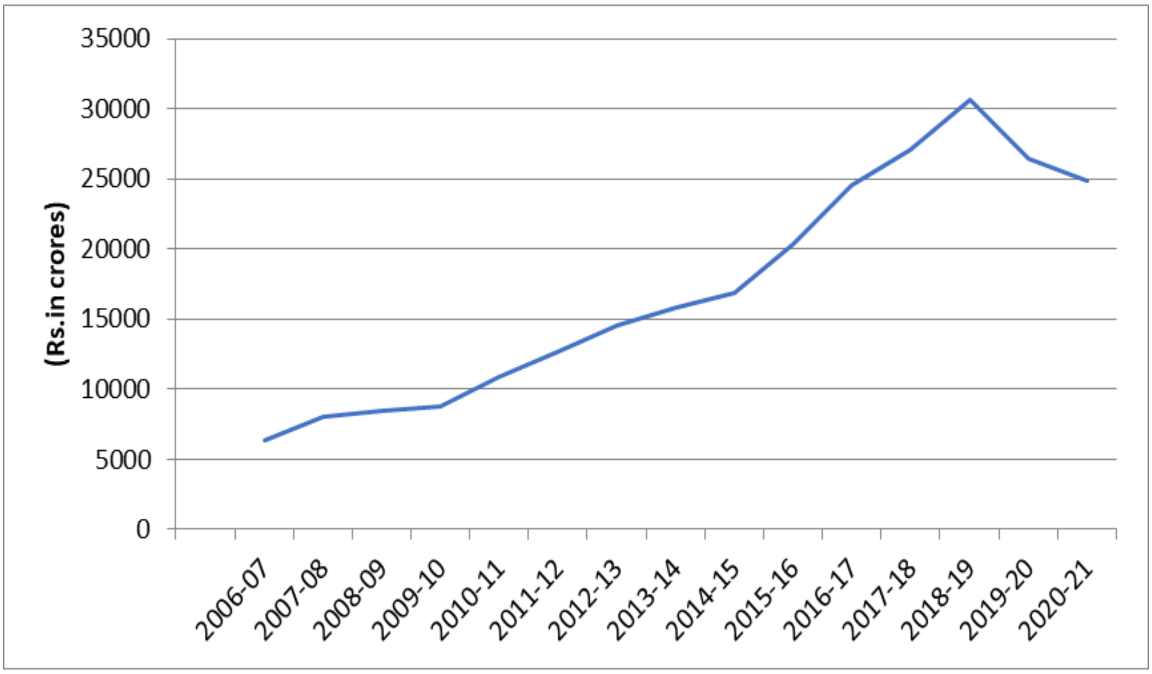


Table 30 below shows the decline in Tamil Nadu's share of the divisible pool of Union taxes in successive Finance Commission periods. This share declined from 6.637 per cent during the 10th Finance Commission period from 1996 to 2000 when the global sharing system was introduced, to 5.385 per cent in the 11th Finance Commission period and 5.305 per cent in the 12th Finance Commission period, further to 4.969 per cent in the 13th Finance Commission period.

There was a massive drop of almost 20 per cent in Tamil Nadu's share during the 14th Finance Commission period to just 4.023 per cent. The high weightage to the per capita income distance criteria combined with the relatively higher per capita income of Tamil Nadu in the years 2010-11, 2011-12 and 2012-13 due to rapid growth in that period, primarily caused this considerable loss of horizontal share.

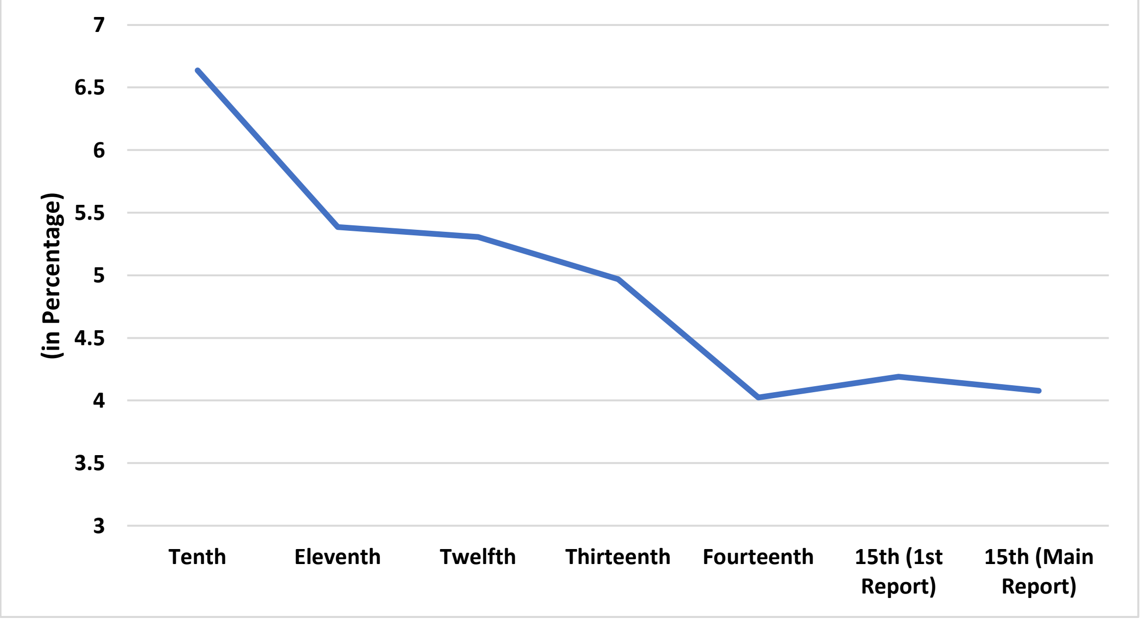
The switch to using the 2011 Census population (instead of the 1971 population) by both the 14th and 15th Finance Commissions has adversely affected Tamil Nadu and other States which excelled at population management in the national interest. The increased weightage for the area criteria and the introduction of forest cover criteria also affected Tamil Nadu.

Thanks to the relative drop in per capita income vis-à-vis other States in period from 2016-17 to 2018-19, and the slight drop in weightage to the per capita income distance criterion, Tamil Nadu's share in the divisible pool during the 15th Finance Commission has gone up marginally to 4.079 per cent.

Table 30: Finance Commission recommended – Horizontal share

Finance Commissions	Share in Central Taxes (in percentage)
Tenth	6.637
Eleventh	5.385
Twelfth	5.305
Thirteenth	4.969
Fourteenth	4.023
15th (1st Report)	4.189
15th (Main Report)	4.079

Figure 19: Finance Commissions: Horizontal share



Amongst 28 States in India when we compare the proportion between the inter se share of population and the inter se share in the divisible pool of taxes, Tamil Nadu which has 6.124 per cent share of the population and 4.079 per cent share in the tax revenue which is a proportion of 66.607 per cent. This is the third lowest proportion after Haryana and Maharashtra.

Table 31: Inter-se Population – 15th Finance Commission

Sl. No.	States	2011 Population (Million)	Inter se Share of population (percentage)	Inter se share of States in SCT (percentage)	Difference in terms of Percentage
1	**2**	**3**	**4**	**5**	**6 (Col. 5/4*100)**
1	Andhra Pradesh	49.577	4.208	4.047	96.174
2	Arunachal Pradesh	1.384	0.117	1.757	1501.709
3	Assam	31.206	2.649	3.128	118.082
4	Bihar	104.099	8.836	10.058	113.830
5	Chhattisgarh	25.545	2.168	3.407	157.149
6	Goa	1.459	0.124	0.386	311.290
7	Gujarat	60.440	5.130	3.478	67.797
8	Haryana	25.351	2.152	1.093	50.790
9	Himachal Pradesh	6.865	0.583	0.830	142.367
10	Jharkhand	32.988	2.800	3.307	118.107
11	Karnataka	61.095	5.186	3.647	70.324
12	Kerala	33.406	2.835	1.925	67.901
13	Madhya Pradesh	72.627	6.164	7.850	127.352
14	Maharashtra	112.374	9.538	6.317	66.230
15	Manipur	2.856	0.242	0.716	295.868
16	Meghalaya	2.967	0.252	0.767	304.365
17	Mizoram	1.097	0.093	0.500	537.634
18	Nagaland	1.979	0.168	0.569	338.690
19	Odisha	41.974	3.563	4.528	127.084
20	Punjab	27.743	2.355	1.807	76.730
21	Rajasthan	68.548	5.818	6.026	103.575
22	Sikkim	0.611	0.052	0.388	746.154
23	**Tamil Nadu**	**72.147**	**6.124**	**4.079**	**66.607**
24	Telangana	35.004	2.971	2.102	70.751
25	Tripura	3.674	0.312	0.708	226.923
26	Uttar Pradesh	199.812	16.959	17.939	105.779
27	Uttarakhand	10.086	0.856	1.118	130.607
28	West Bengal	91.276	7.747	7.523	97.109
All States		**1178.190**	**100.00**	**100.00**	

Likewise, when the share of States in all India GDP is compared with the inter se share in the divisible pool of taxes, Tamil Nadu and other higher income states receive a much smaller proportion. These two measures taken together, after excluding the small hilly States show that some large States are deriving resources from the central pool in excess of their population share and GDP. **The per capita income distance criteria mainly benefits large States which have low per capita income**.

Table 32: Share in GDP and Inter-se share in SCT- 15th Finance Commission

State	GSDP 2018-19 (Rs. in Crore)	Inter-se share of GDP (percentage)	Inter se share of States in SCT (percentage)	Difference in percentage terms (Col.4/Col.3)*100
1	2	3	4	5
Andhra Pradesh	868782	4.891	4.047	82.750
Arunachal Pradesh	24315	0.137	1.757	1283.640
Assam	315881	1.778	3.128	175.909
Bihar	522224	2.940	10.058	342.137
Chhattisgarh	318573	1.793	3.407	189.980
Goa	73159	0.412	0.386	93.727
Gujarat	1333668	7.508	3.478	46.326
Haryana	698830	3.934	1.093	27.784
Himachal Pradesh	154430	0.869	0.830	95.476
Jharkhand	297204	1.673	3.307	197.663
Karnataka	1490657	8.391	3.647	43.461
Kerala	787209	4.431	1.925	43.440
Madhya Pradesh	780099	4.391	7.850	178.758
Maharashtra	2571477	14.476	6.317	43.639
Manipur	27915	0.157	0.716	455.639
Meghalaya	32167	0.181	0.767	423.575
Mizoram	22786	0.128	0.500	389.805
Nagaland	28392	0.160	0.569	356.010
Odisha	491968	2.769	4.528	163.499
Punjab	529607	2.981	1.807	60.611
Rajasthan	916491	5.159	6.026	116.801
Sikkim	29214	0.164	0.388	235.932
Tamil Nadu	**1627230**	**9.160**	**4.079**	**44.530**
Telengana	845503	4.760	2.102	44.163
Tripura	48023	0.270	0.708	261.896
Uttar Pradesh	1607328	9.048	17.939	198.262
Uttarkhand	236720	1.333	1.118	83.898
West Bengal	1084348	6.104	7.523	123.245
All States	**17764200**	**100**	**100**	

Before the next Finance Commission, a much stronger case needs to be made for a formula which results in higher allocation of resources to performing States that are primarily dependent on their own sources of revenue to prevent such continued discrimination.

Considerable attention was given to the report of the 14th Finance Commission (award period 2015-16 – 2019-20) which increased the share of States in the overall divisible pool of Union taxes from 32 per cent to 42 per cent. This was hailed as a major reform by which the resource flow to the States was substantially enhanced. While it is true that the non-discretionary flows went up substantially, the actual gross flows did not increase and may have in fact reduced. This was because the system of Plan Grants as Normal Central Assistance from the Union to the States was completely given up with the abolition of the Union Planning Commission. Further, the share of States in financing a number of Centrally Sponsored Schemes was substantially enhanced. Concessions provided on the levy of certain taxes by the Union have resulted in lower resource flows to the State. Most notable in this regard is the sharp reduction in Corporate Income Tax rates in the Union Budget for 2017-18. This has in a number of ways also been a regressive step as it has reduced the share of direct taxes as a proportion of overall taxes. It also reversed a longer trend where direct tax revenue had been increasing as a proportion of the Union taxes. Further, the Union Government increasingly resorted to the levy of cesses and surcharges on various items of Union tax levy. Under Article 270 and 271 of the Constitution such levies do not form part of the divisible pool of taxes.

Cesses and Surcharges

The increasing proportion of cesses and surcharges levied by the Government of India which are not sharable with the States is a serious source of concern. The proportion of cesses and surcharges has gone up from 10.4 per cent in 2011-12 to 20.2 per cent in the Revised Estimates for 2019-20. These cesses and surcharges are not shareable with the States.

The levy of surcharge on personal income tax which commenced in the Union Budget of 2013-14 and has subsequently been expanded considerably has deprived States share of the most buoyant element of direct taxation.

A particularly egregious instance has been the major change in the tax structure on petroleum products effected by the Government of India. Not only have the Union levies on petroleum products increased substantially, but further, the share of Union Excise Duties which are shareable with States has been brought down sharply and the cesses and surcharges increased very substantially, to deprive States of their share of the revenue. The Union Government's levies on petrol have gone up substantially in the past 7 years since 2014. These levies were Rs.10.39 in May, 2014 and by May, 2021 these had gone up to Rs.32.90 per litre. This is an increase of 216 per cent. The increase in levies is particularly steep in the period since May, 2020.

Table 33: Changes in tax vis-à-vis cess and surcharge (Rs. per lt.)

Excise duty	**Petrol**		**Diesel**	
	April 2017	April 2020	April 2017	April 2020
Tax	9.48	1.40	11.33	1.80
Cess and surcharge	12.00	31.50	6.00	30.00
TOTAL	21.48	32.90	17.33	31.80

(Sources: Petroleum planning and analysis cell: PRS)

The proportion of Cess and Surcharges has gone up from 10.4% in 2011-12 to 20.2% in 2019-20 (RE). These Cess and Surcharges are not shareable with the States.

- Levies on Diesel and Petrol: The Union Government's levies on petrol have gone up substantially in the past 7 years since 2014. These levies were ₹10.39 in May 2014 and by May 2021 these had gone up to ₹32.90 per litre. This is an increase of 216 per cent
- Apart from increasing the Central Levies, the share of Union Excise Duties which is shareable with States has been brought down sharply and the cess and surcharges increased very substantially to deprive the States of their share of the revenue.
- Grants in Aid increased from 8.13% in 2006-07 to 17.10% of Revenue receipts in 2020-21, which is a undermines the financial independence and Federalism
- TN Lost Rs.2,577 Crores since the previous Government failed to conduct the Local Body Elections on time.

The Union Government increased the cess and surcharges on petrol by Rs.18 per litre and on diesel by Rs.21 per litre in May 2020. At the same time, the basic Excise Duty on petrol and diesel was reduced by Rs.6.50 per litre. Effectively the overall Central levies on petrol went up by Rs.11.50 per litre and on diesel by Rs.14.50 per litre. In the Union Budget for 2021-22, the Union Finance Minister has announced the Agriculture Infrastructure Development Cess of Rs.2.50 per litre of petrol and Rs.4 per litre of diesel, which is also not sharable with States.

All this meant that while the Union Government has received substantial additional revenue from levies on petrol and diesel, the share of the State Governments through devolution of Union Excise Duty was also brought down substantially.

In 2020-21, the revenue to the Union Government from levies on petrol and diesel was Rs.3,89,622 crore which was 63 percent higher than the revenue of Rs.2,39,452 crore in 2019-20. On the other hand, the Government of Tamil Nadu in 2020-21 received only Rs.837.75 crore as share of the tax devolution from the Union Excise Duties on petrol and diesel as against the Rs.1,163.13 crore received in 2019-20.

This has resulted in a situation where the State Governments, which have largely left the net effect of taxes on petrol and diesel unchanged during this period, have actually suffered a reduction in overall share of taxes they have received from petrol and diesel.

Grants in Aid from Union Government

The grants in aid from Union Government, as a proportion of total revenue receipts and as a proportion of GSDP have shown very high volatility. As Table 34 shows, they reached 17.10 per cent of total revenue receipts in 2020-21 and went as low as 8.13 per cent in 2006-07. Similarly, it has varied between 0.76 per cent in 2012-13 and 1.78 per cent in 2007-08 as a proportion on GSDP.

The growing proportion of grants to the overall revenue receipts in the period since 2014-15 indicates a higher dependence of the State Government on discretionary flows from the Government of India. Grants, even those recommended by the Finance Commission, are not released in time for a variety of reasons by the Union Government. **The non-release of a substantial portion of grants to local bodies recommended by the Fourteenth Finance Commission in the 2017-18 to 2019-20 period due to**

the failure to hold local body elections in time is a case in point. Tamil Nadu lost Rs.2,577.29 crore as grants as a result. In 2019-20 and 2020-21, grants in aid exceeded the share in central taxes that Tamil Nadu received. It is to be noted that GST Compensation payments by Government of India from the GST Compensation Cess Fund are accounted as Grants in aid.

Hence, even as non-discretionary flows are reduced, discretionary flows have increased, leading to a reduction of State autonomy, contrary to the principles of federalism as such grants can be unilaterally changed by the Union government.

GST Compensation

The GST compensation mechanism is expected to come to an end by 30th June, 2022. The Government of Tamil Nadu had joined GST on the basis of the assurance that the revenue losses would be compensated. The Government of India provided assurance regarding compensation primarily in the belief that the implementation of GST on the whole would be a revenue neutral exercise. Further, with the enhanced productivity in the economy and the projected efficiency gains, the need for actual pay out of compensation may not arise. In fact, for many States including Tamil Nadu, the base year revenue chosen for calculation of compensation in 2015-16, followed an unrepresentative single digit revenue growth for 3 years in 2013-14, 2014-15 and 2015-16. Despite this, even before the onset of the Covid-19 pandemic, the actual collection of GST did not match the protected revenues and compensation become payable.

Post the Covid-19 pandemic, the revenues fell further including of the compensation cess. Hence the funds to compensate States were inadequate**. It is unlikely that situation would normalise in the current fiscal year and the States' revenue growth from 2022-23 would reach the pre-2013-14 levels, that the States really require**.

The lack of buoyancy in GST revenue is a cause for serious concern and this is a major factor on which the fiscal health of the States and in particular of Tamil Nadu would hinge on in the period post 30th June, 2022. Hence, the GST structure and the alternatives to it would dominate the discourse on Centre-State fiscal relations from the next year onwards.

Table 34: Grants-in- Aid as a percentage of Total Revenue Receipts and GSDP

Year	Grants- in- Aid (Rs.in crore)	As a percentage of Total Revenue Receipts	As a percentage of GSDP
2006-07	3325.65	8.13	1.02
2007-08	6531.77	13.75	1.78
2008-09	7135.01	12.96	1.73
2009-10	5514.22	9.87	1.11
2010-11	6840.02	9.75	1.13
2011-12	7286.31	8.55	0.97
2012-13	6499.48	6.58	0.76
2013-14	9122.28	8.44	0.94
2014-15	18589.27	15.18	1.73
2015-16	19259.62	14.93	1.64
2016-17	19838.20	14.15	1.52
2017-18	14679.44	10.04	1.00
2018-19	23368.21	13.45	1.43
2019-20	27783.37	15.92	1.51
2020-21	28893.52	17.10	1.49

Table 35: GST Compensation Due to Tamil Nadu (as on 31.03.22)

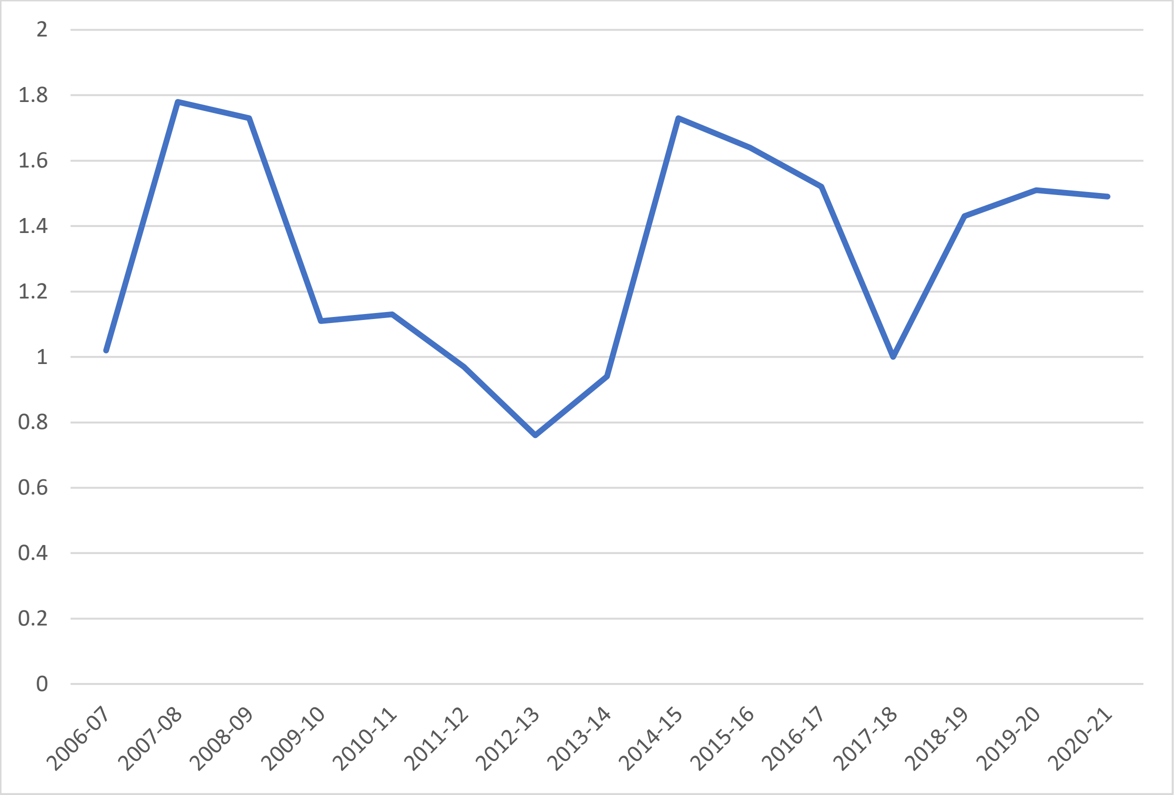
(Rs.in crore)

Years	Protected Revenue	Actual Tax Collection	Revenue Gap	Compensation Received	Balance
2017-18 (from July'17 to March 2018)	29032.77	28014.77	1018.00	1018.00	0.00
2018-19	44129.8	38766.72	5363.08	5363.08	0.00
2019-2020	50307.98	37979.36	12328.62	12305.00	23.62
2020-2021	57351.09	39455.71	17895.38	---	4821.70
Grant Component				6832.68	
B2B Loan Component for GST Compensation Shortfall				6241.00	
2021-2022 (Estimated)	65380.24	46374.04	19006.20	---	15187.70
Grant Component				---	
B2B Loan Component for GST Compensation Shortfall				3818.50	
Total	246201.88	190590.60	55611.28	35578.26	20033.02

Table 36: Grants-in-Aid- Average of Grants-in-Aid as a percentage of GSDP and CAGR

Period	Average of Grants-in-Aid as a percentage of GSDP	CAGR (percentage)
2006-07 to 2010-11	1.35	15.51
2011-12 to 2015-16	1.21	21.46
2016-17 to 2020-21	1.39	7.81

Figure 20: Grants-in-Aid as a percentage of GSDP



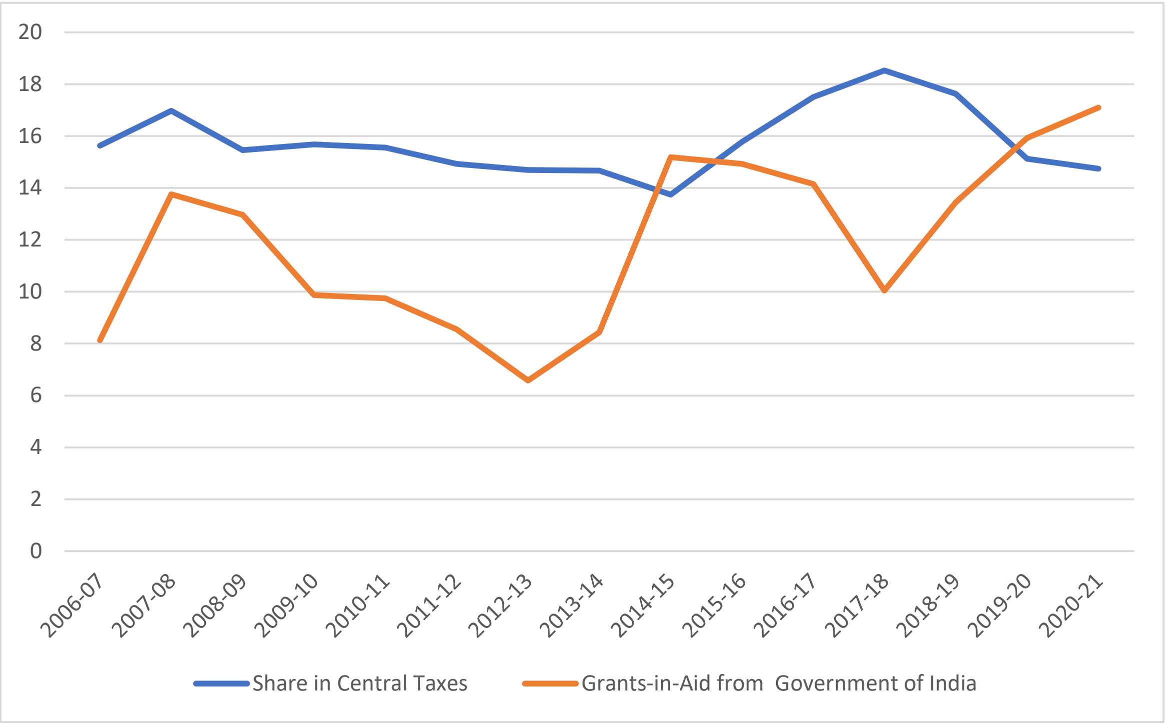
Even before the onset of the Covid-19 pandemic, the actual collection of GST did not match the projected revenues.

- The buoyancy in GST revenue is a cause for serious concern and this is a major factor on which the fiscal health of the States and in particular of Tamil Nadu would hinge on in the period post 30th June 2022.
- The Union Government could not pay the GST Compensation as committed to the State Governments.
- The outstanding Compensation for 2021-22 (Estimated) ₹20.033/- crore.

Table 37: Share in Central Taxes and Grants-in Aid as a percentage of Total Revenue Receipts

Year	Share in Central Taxes	Grants-in-Aid from Government of India
2006-07	15.63	8.13
2007-08	16.97	13.75
2008-09	15.46	12.96
2009-10	15.68	9.87
2010-11	15.55	9.75
2011-12	14.92	8.55
2012-13	14.69	6.58
2013-14	14.67	8.44
2014-15	13.74	15.18
2015-16	15.78	14.93
2016-17	17.50	14.15
2017-18	18.53	10.04
2018-19	17.63	13.45
2019-20	15.12	15.92
2020-21	14.74	17.10

Figure 21: Percentage Share of Grants in aid and Share of Central Taxes in Total Revenue Receipts



Trends in Expenditure

Revenue Expenditure

Revenue expenditure is the largest component of the State's overall expenditure. Total revenue expenditure has ranged between 11.16 per cent and 13.00 per cent of GSDP over the past 15 years (Table 42). After years of double-digit growth, growth in revenue expenditure of the State Government slowed down to 9.44 per cent in 2015-16. The CAGR of revenue expenditure is 8.50 per cent in the five-year period since 2015-16. Except for the year 2018-19 when revenue expenditure grew by 17.47 per cent primarily on account of the implementation of the 7th Pay Commission and spike in the retirement linked expenditure, expenditure growth has been in single digits. There has also been a high growth in the subsidy and grants in aid pay out in 2018-19.

Table 38: Revenue Expenditure- Year on Year Growth (percentage)

Year	Salaries & Wages	Non-wage Operation & Maintenance	Subsidies	Grants-in-Aid	Transfers and others	Pensions & Other Retirement benefits	Interest Payment	Others	Total
2006-07	19.35	-2.52	26.32	38.80	-1.21	21.28	20.13	-57.89	19.54
2007-08	13.68	8.25	10.29	13.83	33.44	10.60	10.32	-25.00	12.31
2008-09	31.56	1.17	44.84	24.12	69.12	28.24	-1.64	83.33	24.70
2009-10	21.86	7.51	4.34	0.47	10.99	6.96	11.89	-45.45	10.79
2010-11	22.23	-5.01	16.92	32.38	19.98	40.93	18.52	183.33	22.81
2011-12	12.47	36.44	19.24	5.33	63.73	5.52	12.01	-58.82	14.98
2012-13	2.99	33.45	42.54	12.18	42.76	1.77	15.06	142.86	15.78
2013-14	15.46	5.95	2.77	16.89	15.94	13.33	21.17	76.47	13.14
2014-15	16.34	5.55	9.46	44.15	5.28	11.76	19.41	46.67	17.30
2015-16	0.17	2.46	12.36	19.16	17.72	6.75	15.84	-72.73	9.44
2016-17	8.05	-10.11	27.91	4.19	-13.05	9.12	18.09	558.33	8.65
2017-18	12.10	6.81	21.81	-18.87	18.35	10.79	24.14	-72.15	9.58
2018-19	16.79	8.98	21.79	16.42	6.30	33.23	10.26	9.09	17.47
2019-20	10.08	7.98	5.77	5.26	-2.28	0.72	12.20	4.17	6.71
2020-21	-0.75	14.90	53.24	11.01	-14.47	-11.70	-3.33	-20.00	9.46

Table 39: Total Revenue Expenditure- CAGR

Period	CAGR (percentage)
2006-07 to 2010-11	13.76
2011-12 to 2015-16	10.96
2016-17 to 2020-21	8.50

Tamil Nadu has been recording a declining trend in terms of development expenditure. Development expenditure includes the expenditure on social services like education, medical and public health, water supply and sanitation, housing, urban development, nutrition and on economic services including agriculture and allied activities, rural development, special area programmes, irrigation, industry and minerals, transport and communication.

Development expenditure in Tamil Nadu which was 62.9 per cent in 2011-12 as against all States average of 63.1 per cent, has declined and gone down to 57.5 per cent in 2018-19 which is substantially below of States average of 62.9 per cent. The decline in the proportion of development expenditure in Tamil Nadu is a cause for concern.

Table 40: Development Expenditure as a percentage of Aggregate Disbursement

(In Per cent)

S. No.	State	2011-12 (Accounts)	2012-13 (Accounts)	2013-14 (Accounts)	2014-15 (Accounts)	2015-16 (Accounts)	2016-17 (Accounts)	2017-18 (Accounts)	2018-19 (Accounts)	2019-20 (RE)	2020-21 (BE)
1	Tamil Nadu	62.9	61.8	62.3	62.4	62.1	64.9	59.8	57.5	56.7	57.4
2	Gujarat	65.3	67.9	67.4	68.3	68.1	66.2	64.4	63.9	64.9	62.8
3	Maharashtra	65.6	65.4	63.9	64.9	63.7	64.0	61.0	60.0	63.4	61.2
4	Karnataka	71.0	70.5	69.0	69.1	70.5	73.2	73.1	72.0	69.7	67.0
	All States & UT**	**63.1**	**63.4**	**63.1**	**65.5**	**67.1**	**67.6**	**64.2**	**62.9**	**63.8**	**63.4**

** Data from 2017-18 onwards include Delhi and Puducherry also.

Source – RBI – State Finances

It may also be noted that salary expenditure has ranged between 26.19 per cent and 32.67 per cent of total expenditure and likewise pension and retirement expenditure has actually fallen from an average of 14.50 per cent of overall expenditure in the year 2006-07 to 2010-11 period to about 12 per cent of total expenditure in the last 5 years. The percentage expenditure on subsidies and grants in aid taken together has gone up from 33.13 per cent in 2006-07 to 2010-11 period to 41 per cent in the 2016-17 to 2020-21 period.

Grants in aid were Rs.6,126.69 crore in 2006-07. They have risen to Rs.31,410.53 crore in 2020-21. As a proportion of total expenditure, grants in aid were 16.01 per cent in 2006-07 and has fallen to 13.64 per cent in 2020-21. **On the other hand, subsidies which amounted to Rs.4,841.80 crore in 2006-07 which was 12.65 per cent of revenue expenditure and 1.48 per cent of GSDP have risen much faster and have reached the level of Rs.62,338.84 crore in 2020-21 which represents 27.06 per cent of total revenue expenditure and 3.21 per cent of GSDP**. Even if 2020-21 was an outlier year due to the COVID-19 pandemic, subsidies had reached 19.5 per cent of total expenditure and 2.36 per cent of GSDP in 2018-19 itself.

Table 41: Items of Revenue Expenditure as a percentage of Total Revenue Expenditure

Year	Salaries & Wages	Non-wage Operation & Maintenance	Subsidies	Grants-in-Aid	Transfers and others	Pensions & Other Retirement benefits	Interest Payment	Others
2006-07	27.95	10.90	12.65	16.01	2.97	14.22	15.27	0.02
2007-08	28.29	10.51	12.43	16.23	3.53	14.01	15.00	0.01
2008-09	29.85	8.52	14.43	16.15	4.79	14.40	11.83	0.02
2009-10	32.83	8.27	13.59	14.65	4.80	13.90	11.95	0.01
2010-11	32.67	6.40	12.94	15.79	4.69	15.96	11.53	0.02
2011-12	31.96	7.59	13.42	14.47	6.67	14.64	11.23	0.01
2012-13	28.43	8.75	16.52	14.02	8.23	12.87	11.16	0.02
2013-14	29.01	8.19	15.01	14.48	8.43	12.89	11.96	0.03
2014-15	28.77	7.37	14.00	17.79	7.57	12.28	12.17	0.03
2015-16	26.34	6.90	14.38	19.37	8.14	11.98	12.88	0.01
2016-17	26.19	5.71	16.92	18.58	6.51	12.03	14.00	0.05
2017-18	26.79	5.57	18.81	13.75	7.04	12.16	15.86	0.01
2018-19	26.64	5.16	19.50	13.63	6.37	13.80	14.89	0.01
2019-20	27.48	5.23	19.33	13.45	5.83	13.02	15.65	0.01
2020-21	24.92	5.49	27.06	13.64	4.56	10.50	13.83	0.01

Table 42: Items of Revenue Expenditure as a percentage of GSDP

Year	Salaries & Wages	Non-wage Operation & Maintenance	Subsidies	Grants-in-Aid	Transfers and others	Pensions & Other Retirement benefits	Interest Payment	Others	Total
2006-07	3.26	1.27	1.48	1.87	0.35	1.66	1.78	0.00	11.68
2007-08	3.31	1.23	1.45	1.90	0.41	1.64	1.76	0.00	11.71
2008-09	3.88	1.11	1.88	2.10	0.62	1.87	1.54	0.00	13.00
2009-10	3.91	0.99	1.62	1.75	0.57	1.66	1.42	0.00	11.92
2010-11	3.92	0.77	1.55	1.89	0.56	1.91	1.38	0.00	12.00
2011-12	3.57	0.85	1.50	1.61	0.74	1.63	1.25	0.00	11.16
2012-13	3.23	0.99	1.88	1.59	0.93	1.46	1.27	0.00	11.36
2013-14	3.29	0.93	1.70	1.64	0.96	1.46	1.36	0.00	11.34
2014-15	3.46	0.89	1.68	2.14	0.91	1.48	1.46	0.00	12.01
2015-16	3.16	0.83	1.72	2.32	0.98	1.44	1.54	0.00	11.98
2016-17	3.08	0.67	1.99	2.18	0.77	1.41	1.65	0.01	11.76
2017-18	3.07	0.64	2.16	1.58	0.81	1.39	1.82	0.00	11.46
2018-19	3.22	0.62	2.36	1.65	0.77	1.67	1.80	0.00	12.10
2019-20	3.13	0.60	2.20	1.53	0.66	1.48	1.78	0.00	11.40
2020-21	2.95	0.65	3.21	1.62	0.54	1.25	1.64	0.00	11.85

Table 43: Total Revenue Expenditure- Average of TRE as percentage of GSDP

Period	Average
2006-07 to 2010-11	12.06
2011-12 to 2015-16	11.57
2016-17 to 2020-21	11.71

Such large increases call for some urgent course correction measures for improved targeting and reorientation of subsidies to areas which enhance the public good and have positive externalities. **Cost effectiveness of alternative means of delivering the intended financial assistance to stakeholders could also be explored, without compromising on the delivery of essential commodities and services to vulnerable segments of the population.**

Revenue Expenditure (RE) is the largest component of State's overall expenditure. Mis-governance of RE components has been happening even before COVID.

- Subsidies amounted to 12.65% (₹ 4841.80 Crores) of RE & 1.48% of GSDP in 2006-07. Has risen much faster and reached the level of 27.06% of RE (₹ 62338.84 Crore) & 3.21% of GSDP in 2020-21.
- Power Subsidy is the highest at 1.10% GSDP among all the other subsidies. It is very alarming because the Government is also losing money on the Power Sector due to mounting losses of TANGEDCO/TANTRANSCO.
- Food subsidy amounts to 0.49% of GSDP &
- Transport Subsidy is 0.19% of GSDP
- Such large increase calls for some urgent measures for improving the targeting and re-orientation of subsidies. Cost effectiveness of alternative means of delivering the intended financial assistance to the stakeholders could also be explored.
- The rate of growth of Revenue Expenditure is 12.71% which is higher than the rate of growth of Revenue Receipts 9.92%. This widening gap between receipts and expenditure led to the worsening Revenue Deficit of the State.

The major items of subsidies are food subsidy, power subsidy and transport subsidy and the trends in these three subsidy payments are in Table 44.

Table 44: Trends in Food, Power and Transport Subsidy

(Rs.in crore)

Year	Food Subsidy	As percentage of GSDP	Power Subsidy	As percentage of GSDP	Transport Subsidy	As percentage of GSDP
2006-07	2026.49	0.62	1424.84	0.43	350.49	0.11
2007-08	1950.00	0.53	1465.03	0.40	300.29	0.08
2008-09	2700.00	0.66	1493.44	0.36	301.01	0.07
2009-10	4000.00	0.80	1651.21	0.33	301.27	0.06
2010-11	3950.00	0.65	1626.78	0.27	302.52	0.05
2011-12	4900.00	0.65	2013.45	0.27	390.23	0.05
2012-13	4900.00	0.57	4082.64	0.48	536.37	0.06
2013-14	4900.00	0.51	4917.99	0.51	1123.17	0.12
2014-15	5000.00	0.47	5988.07	0.56	1048.40	0.10
2015-16	5300.00	0.45	6696.71	0.57	737.10	0.06
2016-17	5500.00	0.42	8132.48	0.62	1126.12	0.09
2017-18	6000.00	0.41	12405.17	0.85	1380.74	0.09
2018-19	7988.77	0.49	12294.67	0.75	1131.17	0.07
2019-20	8363.13	0.45	13769.21	0.75	1559.02	0.08
2020-21	9604.26	0.49	21349.71	1.10	3704.39	0.19

The growth in the power subsidy is particularly alarming and it currently represents more than 1 per cent of GSDP. Although Tamil Nadu provides rice free to all rice card holders through the Public Distribution System, a significant portion of the subsidy on rice is actually met through the National Food Security Act, 2013 framework as an assured quantity of rice is allocated at a subsidized price and the State Government further subsides to provide free rice. The State Government meets the entire subsidy on edible oil and Tur Dal which are supplied at subsidized prices.

Grants in aid, subsidies and interest payments have been the three faster growing items of expenditure over the last 15 years. Salaries, wages, pension and retirement benefits have grown more slowly at a rate lower than the overall rate of growth of expenditure. One key reason for the relatively slower rate of salary related expenditure is the non-filling of a large number of vacancies in Government departments.

While it may have saved some expenditure and offers opportunities for productivity enhancement, non-availability of key personnel in a number of departments could have also affected efficiency and effectiveness and thereby state capacity to delivery outcomes.

On the whole, since the rate of growth of revenue expenditure at 12.71 per cent is significantly faster than the rate of growth of revenue receipts at 9.92 per cent, the revenue deficit for Tamil Nadu has widened significantly.

Capital Expenditure

Capital expenditure averaged 1.97 per cent of GSDP in the period from 2006-07 to 2010-11. It declined to 1.78 per cent in the period from 2011-12 to 2015-16 and further to 1.50 per cent in the period between 2016-17 and 2020-21. It had fallen to just 1.39 per cent in 2019-20 to 1.38 per cent in 2017-18. In 2020-21, due to the special efforts to boost the capital expenditure, it had gone up to 1.67 per cent of GSDP.

Table 45: Trends in Capital Expenditure

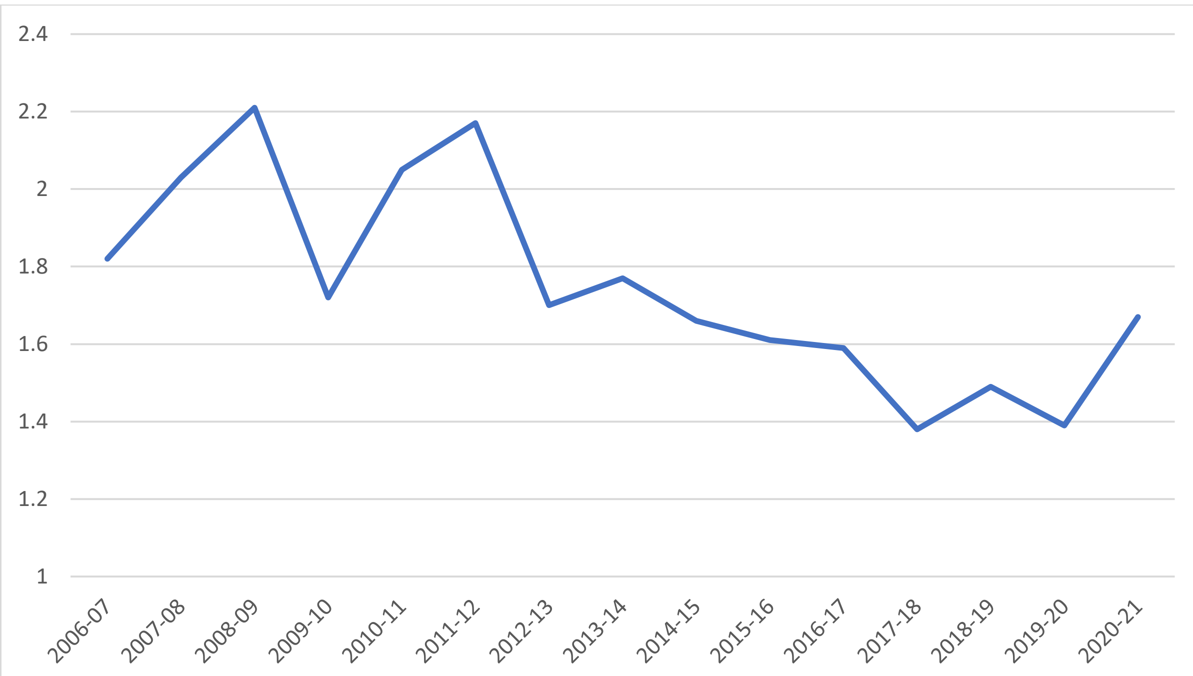
Year	Gross State Domestic Product (Rs.in crore)	Total Capital Expenditure (Rs.in crore)	Capital Expenditure as percentage of GSDP	Year on Year Growth
2006-07	327614	5953	1.82	46.81
2007-08	367089	7462	2.03	25.35
2008-09	412188	9104	2.21	22
2009-10	497972	8572	1.72	-5.84
2010-11	607656	12437	2.05	45.09
2011-12	751486	16336	2.17	31.35
2012-13	854825	14568	1.7	-10.82
2013-14	968530	17173	1.77	17.88
2014-15	1072678	17804	1.66	3.67
2015-16	1176500	18995	1.61	6.69
2016-17	1302639	20709	1.59	9.02
2017-18	1465051	20202	1.38	-2.45
2018-19	1630208	24311	1.49	20.34
2019-20	1845853	25632	1.39	5.43
2020-21	1943399	32474	1.67	26.69

The high variation in the year-on-year growth of capital expenditure and the fact that in some years like in 2012-13 to 2017-18, capital expenditure actually declined are causes for concern. Capital expenditure has become the first area where cuts are imposed to manage the fiscal deficit and this has considerable impact on growth prospects of the State’s economy.

Table 46: Capital Expenditure- Average of Capital Expenditure as percentage of GSDP and CAGR

Period	Average	CAGR (percentage)
2006-07 to 2010-11	1.97	15.88
2011-12 to 2015-16	1.78	3.06
2016-17 to 2020-21	1.50	9.41

Figure 22: Capital Expenditure as percentage of GSDP



Local Body Devolution

In Tamil Nadu, there are 664 Urban Local Bodies comprising 15 Municipal Corporations, 121 Municipalities and 528 Town Panchayats. Currently more than 50 per cent of the population of the State lives in Urban areas which calls for enhanced resource allocation for Urban Local Bodies to improve their service delivery.

Table 47: Compensation and Assignment to LBs in Selected Indian States 2018-19 (Actuals)

S.No.	States	Rs. In Crore	percentage of Revenue Expenditure	percentage of Revenue Receipts	percentage of Own Tax Revenues
1	Andhra Pradesh	41.14	0.03	0.04	0.07
2	Assam	273.89	0.48	0.43	1.67
3	Bihar	3.91	0.00	0.00	0.01
4	Chhattisgarh	895.16	1.39	1.38	4.09
5	Gujarat	364.82	0.27	0.27	0.45
6	Haryana	221.80	0.29	0.34	0.52
7	Himachal Pradesh	9.39	0.03	0.03	0.12
8	Jharkhand	0.00	0.00	0.00	0.00
9	Karnataka	5425.31	3.30	3.29	5.56
10	Kerala	8898.72	8.07	9.58	17.44
11	Madhya Pradesh	7671.66	5.42	5.10	14.72
12	Maharashtra	20107.21	7.53	7.21	10.68
13	Orissa	1363.02	1.60	1.37	4.39
14	Punjab	2264.66	3.00	3.64	7.12
15	Rajasthan	0.08	0.00	0.00	0.00
16	**Tamil Nadu**	**14879.55**	**7.55**	**8.56**	**14.02**
17	Uttar Pradesh	12100.39	4.01	3.67	9.85
18	Uttarkhand	1459.32	4.53	4.67	11.82
19	West Bengal	488.73	0.31	0.33	0.79

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

Tamil Nadu has been ranked as one of the States that provides the highest fiscal autonomy to local bodies. In fact, the Government of Tamil Nadu has provided one of the highest compensation and assignments to local bodies and ranked second in terms of compensation and assignments to local bodies as a percentage of revenue expenditure.

At present 7.55 percentage of total revenue expenditure and 14.02 percentage of own tax revenues are provided as compensation and assignments to local bodies in the State. Table 48 below indicates that the total amount paid as compensation and assignments to rural and urban local bodies in the State.

Table 48: Grants and Assistance to Local Bodies in Tamil Nadu

(Rs. In crore)

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Municipal Corporation	477	453	680	808	1014	1339	1376	1511	1912	1770	2384	2525
Municipalities/ Councils	634	617	1220	1403	1903	1425	1697	1864	2119	1852	2441	2502
Nagar Panchayat	393	500	654	1064	1052	1094	1182	1210	1555	1469	2003	2085
Zilla/District Panchayats	137	276	225	267	340	329	342	347	394	285	337	323
Block/ Intermediate Panchayats	723	751	1188	1419	1736	1768	1952	1540	1508	1320	1554	1591
Gram Panchayats	1615	1403	1895	2532	3119	3220	3432	4260	4978	4774	6161	6661
All Local Bodies	**3980**	**3999**	**5861**	**7493**	**9164**	**9175**	**9980**	**10731**	**12466**	**11470**	**14880**	**15688**
As percentage of Total Contribution to Local Bodies												
Municipal Corporation	11.99	11.32	11.6	10.79	11.06	14.6	13.79	14.08	15.34	15.43	16.02	16.1
Municipalities / Councils	15.94	15.42	20.82	18.73	20.77	15.53	17	17.37	17	16.14	16.41	15.95
Nagar Panchayat	9.86	12.49	11.15	14.2	11.48	11.92	11.84	11.28	12.48	12.81	13.46	13.29
Zilla / District Panchayats	3.45	6.9	3.84	3.56	3.72	3.59	3.43	3.23	3.16	2.49	2.26	2.06
Block / Inter mediate Panchayats	18.17	18.79	20.27	18.94	18.94	19.27	19.56	14.35	12.1	11.51	10.44	10.14
Gram Panchayats	40.58	35.08	32.32	33.79	34.04	35.1	34.39	39.7	39.93	41.62	41.4	42.46
All Local Bodies	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

As per the recommendations of the Fifth State Finance Commission, 10 per cent of Net State Own Tax Revenue is being devolved to local bodies. This amount is further split between Rural and Urban Local Bodies at a ratio of 56:44.

Despite substantial devolution of resources, local bodies have not been paying for electricity and water availed from TANGEDCO and TWAD Board. Table 49 below shows local body dues to these organizations.

Table 49: Outstanding Electricity Charges dues & Water Charges dues of Local bodies

(Rs. In Crores)

S.No.	Local Body	Electricity dues to TANGEDCO	Water charges due to TWAD Board
1	Corporations	411.52	261.05
2	Municipalities	163.99	10.09
3	Town panchayats	41.29	10.82
4	Village panchayats	642.39	202.14
	Total	1259.20	484.10

The source of revenue of the Urban Local Bodies consists of Tax Revenue, Non-Tax Revenue, Grants and Borrowings. Apart from SFC devolution and Local body grants recommended by the State and Union Finance Commissions, the main source of tax revenue of Urban Local Bodies is Property Tax which constitutes more than 50 per cent of the tax revenue of ULBs.

Property is an ideal tax base for local bodies as it is not mobile, can be objectively verified and subjected to tax in a fair, equitable and progressive manner as is the case with direct taxation.

As per the provisions laid down in the Municipal Corporation Acts, the Corporation Councils are empowered to fix the rate of taxation for levy of Property Tax within the minimum and maximum percentage (within the range of 15.5 per cent to 35 per cent) on the annual rental value of the buildings. In respect of Municipalities and Town Panchayats, there is a provision for periodic revision of Property Tax once in five years in the Tamil Nadu District Municipalities Act, 1920. **The last general Property Tax revision was done in the year 2008.**

By the end of the financial year 2020-21, in 664 ULBs, there were 89,53,969 Property Tax assessments with an annual demand of Rs.2565.05 crore. The Urban Local Bodies in the State are levying property tax on buildings based on the Annual Rental Value (ARV) which is determined through a Zonal Basic Value fixed by the respective Municipal Councils, by dividing the entire area of the local body into 3 or 4 zones taking into account of the average rental value in each zone. Since 1998, the method of levying of Property Tax on plinth area basis and zonal basic value is being adopted. The rental value of the building in an area is linked with the capital value (guideline value) of the land.

The Fifth State Finance Commission which submitted its report in December, 2016, observed that the proportion of property tax to GSDP in Tamil Nadu had actually declined from 0.21 per cent to 0.16 per cent between 2007-08 and 2012-13. Further Tamil Nadu's property tax collection as a percentage of GSDP is significantly lower than the States like Maharashtra and Andhra Pradesh. The Commission had also outlined issues like updation of property registers and enumeration of properties, improving efficiency, assessment and evaluation system, reviewing exemptions and addressing the tax rate to increase the Property Tax collection. The recommendations of the Fifth State Finance Commission on Property Tax report were accepted partially by the Government of Tamil Nadu but have not been effectively implemented.

In 2018, based on the orders of the Hon'ble Division Bench of Madras High Court in W.P.No.2730 of 2018, the Government had issued orders for taking up general revision of Property Tax with effect from 1.4.2018. However, there were anomalies in the revised taxation structure and the Government formed a committee to examine this issue and also held in abeyance the general revision. As on date, the Committee's Report is awaited and the revision has not been given effect to.

The periodic revision of Property Tax assumes greater significance in view of the State and Union Finance Commission recommendations. The Fifth SFC had recommended a target of 0.60 per cent of GSDP by the last year of award period i.e. 2021-22 which was reduced by the State Government to 0.25 per cent of GSDP. Achieving even this reduced target is doubtful. **This leaves a large potential of tax collection untapped even after more than 25 years of local self-governance.**

The 15th Union Finance Commission has recommended that ULBs to be eligible for grants have to fulfil the entry level additional mandatory conditions including fixation and operationalization of minimum floor rate for Property Tax in 2021-22 by the relevant State, consistent improvement in the collection of Property Tax in tandem with the growth rate of State's own GSDP and timely placing of audited accounts in the public domain. **The condition of notifying the floor rates of Property Tax in 2021-22 will apply for eligibility of Union Finance Commission grants from 2022-23.**

The introduction of GST implies that the State's ability to take up additional resource mobilization measures in a major area of State taxation is considerably constrained. It is thus critical to enhance Property Tax collection especially for Urban Local Bodies. Enhanced Property Tax collection would increase the self-reliance of Urban Local Bodies, reduce the burden on State finances to augment local body resources through scheme grants and devolution and would bring in more public resources for infrastructure creation and effective service delivery.

Tamil Nadu is the most urbanised among the large states with more than 50% of population being urban.

- 7.55% State's Total Revenue Expenditure and 14.02% of State's Own Tax Revenues (₹14,879.55 Crores) are provided as compensation and assignments to Local Bodies in the State.
- Local bodies have an ideal tax base in Property as it is not mobile, can be objectively verified and subjected to tax in a fair and equitable manner.
- Tamil Nadu's Property Tax collection as a % GSDP is significantly lower than States like Maharashtra & Andhra Pradesh.
- The last general Property Tax Revision was done in the year 2008. Despite the TNDMA 1920 prescribing a revision every 5 years.
- A large potential of tax collection is left untapped even after more than 25 years of local self-governance.
- Since the potential for enhancing SOTR & GST are very limited, it is critical to enhance Property Tax collection especially for Urban Local Bodies.
- A large potential of tax collection is left untapped even after more than 25 years of local self-governance.

Performance of State PSUs and Statutory Boards

The performance of State PSUs has a significant bearing on the finances of the State Government and can also pose fiscal risks. PSUs receive budgetary support in the form of equity capital, loans and subsidies. There are 60 PSUs (*including five newly incorporated PSUs)* and 9 Statutory Boards in Tamil Nadu. Of these, 26 PSUs are loss making.

Resorting to additional borrowing then becomes imperative to cover their losses. Large PSUs and Boards, such as Tamil Nadu Generation and Distribution Corporation Limited, Tamil Nadu Transmission Corporation Limited, State Transport Undertakings, Tamil Nadu Water Supply and Drainage Board and Chennai Metropolitan Water Supply and Sewerage Board which provide critical public services, are unable to borrow on the strength of their balance sheets due to poor financial position, and hence their borrowing necessarily has to be backed by Government guarantees.

The deteriorating financial situation of the PSUs has resulted in a scenario where they cannot borrow without a guarantee from the Government. The details of Government Guarantee outstanding of all SPSUs and Statutory Boards is detailed in Table 50

Table 50: Outstanding Government Guarantees to SPSUs & Statutory Boards

(Rs. in crore)

Year	Government Guarantee Outstanding
2006-07	3466.04
2007-08	3497.67
2008-09	4016.02
2009-10	5354.26
2010-11	10265.31
2011-12	9731.37
2012-13	23572.05
2013-14	49114.03
2014-15	53429.90
2015-16	51225.94
2016-17	28764.65
2017-18	35836.81
2018-19	43030.80
2019-20	46632.08
2020-21	90344.13

Table 51: Percentage increase in outstanding guarantees

[Rs. in crore]

Year	Outstanding Govt. Guarantee	Increase / Decrease	Increase / Decrease percentage
2006-07	3466.04	---	---
2011-12	9731.37	(+)6265.33	180.76%
2020-21	90344.13	(+)80612.76	828.38%

Performance of the PSUs: Out of 60 PSUs , 26 are loss making. They are dependent on Government Guarantees since their credit ratings are too low.

- Government Guarantees have sky-rocketed from 3466.04 crore in 2006-07 to a gigantic 90344.13 crore in 2020-21. (2507% increase)
- Outstanding Government Loans have increased from 1578.69 crore in 2006-07 to 20019.98 crore in 2020-21 (605% increase).
- Outstanding Debt of TANGEDCO, TANTRANSCO & STUs is 1,99,572.55 crore put together.
- The Outstanding Debts of PSUs & the Government is 36% of GSDP which is significantly higher than the permissible limit of 25%.

•Their poor financial condition leads to deterioration in the quality of services and poses risks to the State Government's already over stretched fiscal resources. Hence, reform in this area cannot be postponed any further.

The details of Government Loan outstanding of all SPSUs is as detailed below:

Table 52: Outstanding Government Loans to SPSUs

(Rs. in crore)

Years	Government Loan
2006-07	1578.69
2007-08	2113.31
2008-09	2919.61
2009-10	2388.51
2010-11	3552.02
2011-12	2837.23
2012-13	3003.77
2013-14	3325.50
2014-15	3441.83
2015-16	4043.12
2016-17	4152.21
2017-18	26159.22
2018-19	26542.20
2019-20	23240.27
2020-21	20019.98

Table 53: Percentage increase in Government Loans

(Rs. in Crore)

Year	Government Loan	Increase / Decrease	Increase / Decrease percentage
2006-07	1578.69	---	---
2011-12	2837.23	(+)1258.54	79.72%
2020-21	20019.98	(+)17182.75	605.62%

96.92 per cent of Government Guarantees and 87.80 per cent of Government loans extended to PSUs are to the power and transport sector PSUs. **A detailed quantitative analytical risk assessment of PSUs based on indicators such as profitability, liquidity, solvency and financial performance, to indicate the likelihood of materialisation of risk of contingent liabilities needs to be undertaken.** The accumulated debt of the power sector and transport sector PSUs is Rs.1.99 lakh crores as on 31.3.2021 as detailed below.

Table 54: Outstanding Debt of Power & Transport sector PSUs

SPSUs	Outstanding debt (Rs. in Crore)
TANGEDCO	1,34,119.94
TANTRANSCO	25,568.73
STUs	39,883.88
Total	1,99,572.55

If the outstanding debt of just the power and transport sector PSUs is aggregated along with Government debt, the total amounts to 36 per cent of GSDP, significantly higher than the permissible limit.

The accumulated losses of the two Water Sector Boards amount to Rs.5282.57 crores as on 31.3.2021 as detailed below:

Table 55: Accumulated Losses of Water Sector Boards

Name of entity	**Accumulated losses (Rs. in crore)**
CMWSSB	2581.77
TWAD Board	2700.80
Total	5282.57

The primary reason for the precarious financial position of these agencies is the under recovery of operational costs, which consequently leaves no surplus to invest in capital assets or to maintain existing ones leading to lower efficiency and higher costs, in turn creating a vicious cycle of unsustainable borrowings, mounting debt servicing burden and further losses.

The High Level Committee constituted under the Chairmanship of Dr. C.Rangarajan to study the economic impact of COVID-19 on Tamil Nadu in its report has indicated as follows:

"The C&AG's Report 2018 also draws attention to the low returns received from large investments in Public Enterprises in the State. The Government has invested Rs.33,579 crore in Statutory Corporations, Joint Stock companies and Cooperatives. While the opportunity cost of investments as measured by the average rate of interest on Government borrowings is 8.08 per cent, the average rate of return on the investments works out to a paltry 0.45 per cent."

The returns received from State PSUs by the Government is detailed in Table 56 below:

Table 56: Returns received from State PSUs by Government

[Rs. in crore]

Year	Government Investment in Share Capital	Dividend Received	Return on Equity (percentage)
2006-07	1862.01	32.41	1.74%
2007-08	2113.55	36.61	1.73%
2008-09	2284.62	37.10	1.62%
2009-10	2439.60	37.70	1.55%
2010-11	2630.36	42.90	1.63%
2011-12	2713.52	39.36	1.45%
2012-13	2796.04	38.35	1.37%
2013-14	3174.92	95.60	3.01%
2014-15	3295.97	135.47	4.11%
2015-16	3769.04	188.30	5.00%
2016-17	4054.43	146.26	3.61%
2017-18	29142.64	154.37	0.53%
2018-19	31842.81	172.25	0.54%
2019-20	36549.44	201.78	0.55%
2020-21	38212.06	94.65*	---

Note: During 2017-18 TNEB, TANGEDCO and TANTRANSCO have been transferred from Statutory Boards and included in the SPSUs.

* Interim Dividend received from some of the SPSUs.

State Transport Undertakings

The STUs have borrowed heavily from the TN Transport Development Finance Corporation (TDFC) and lately from banks as well. The details of the total outstanding liabilities of all STUs (loans from TDFC and GoTN and other statutory liabilities), accumulated loss and net annual loss of all STUs are shown below:

Table 57: Outstanding liabilities, accumulated loss & net annual loss of all STUs

[Rs. in crore]

Details	2011-12	2020-21	Increase / decrease	Increase / decrease in (percentage)
Net Annual loss	1791.65	7984.05	6192.40	(+) 345.63%
Accumulated Loss	8761.69	42143.69	33382.00	(+)381.00%
Total Outstanding Liabilities	8848.73	39883.88	31035.15	(+)350.73%

While the accumulated loss and the total outstanding liabilities of all STUs during 2011-12 are almost similar, there is a huge variation between the accumulated loss and the total outstanding liabilities during 2020-21 and this is due to conversion of Government loans, ways and means advances and interest due to the tune of Rs.3,001.47 crore into equity share capital during 2017-18.

The factors contributing to a sustained increase in losses over the last 10 years have been due to high employee, pension, diesel and Interest costs as detailed in Table 58.

Table 58: Major costs incurred by STUs (Rs.in Crore)

Details	2011-12	2020-21	Increase / decrease	Increase / decrease (percentage)
Employee cost	3757.89	8235.94	(+)4478.05	(+)119.16%
Diesel cost	2726.37	1966.85	(-)759.52	(-)27.86%
Pension cost	274.60	1279.60	(+)1005.00	(+)365.99%
Interest cost	490.62	1871.38	(+)1380.76	(+)281.43%
Total	7249.48	13353.77	(+)6104.29	(+)84.20%

The diesel cost of Rs.1966.85 crore incurred during 2020-21 may not show a correct picture considering that the STUs were not able to operate full bus services due to the COVID-19 pandemic lockdown restrictions. The operational revenue generated by all STUs is as detailed below:

Table 59: Operating revenue of all STUs (Rs. in crore)

Details	2011-12	2019-20	2020-21	Increase/ decrease 2011-12 vs 2019-20	Increase/ decrease percentage 2011-12 vs 2019-20
Operating income	6008.82	8827.39	3517.31	(+)2818.57	(+)46.91%
Other income (excluding Subsidy)	159.98	200.40	62.84	(+)40.42	(+)25.27%
Total	6168.80	9027.79	3580.15	(+)2858.99	(+)46.35%

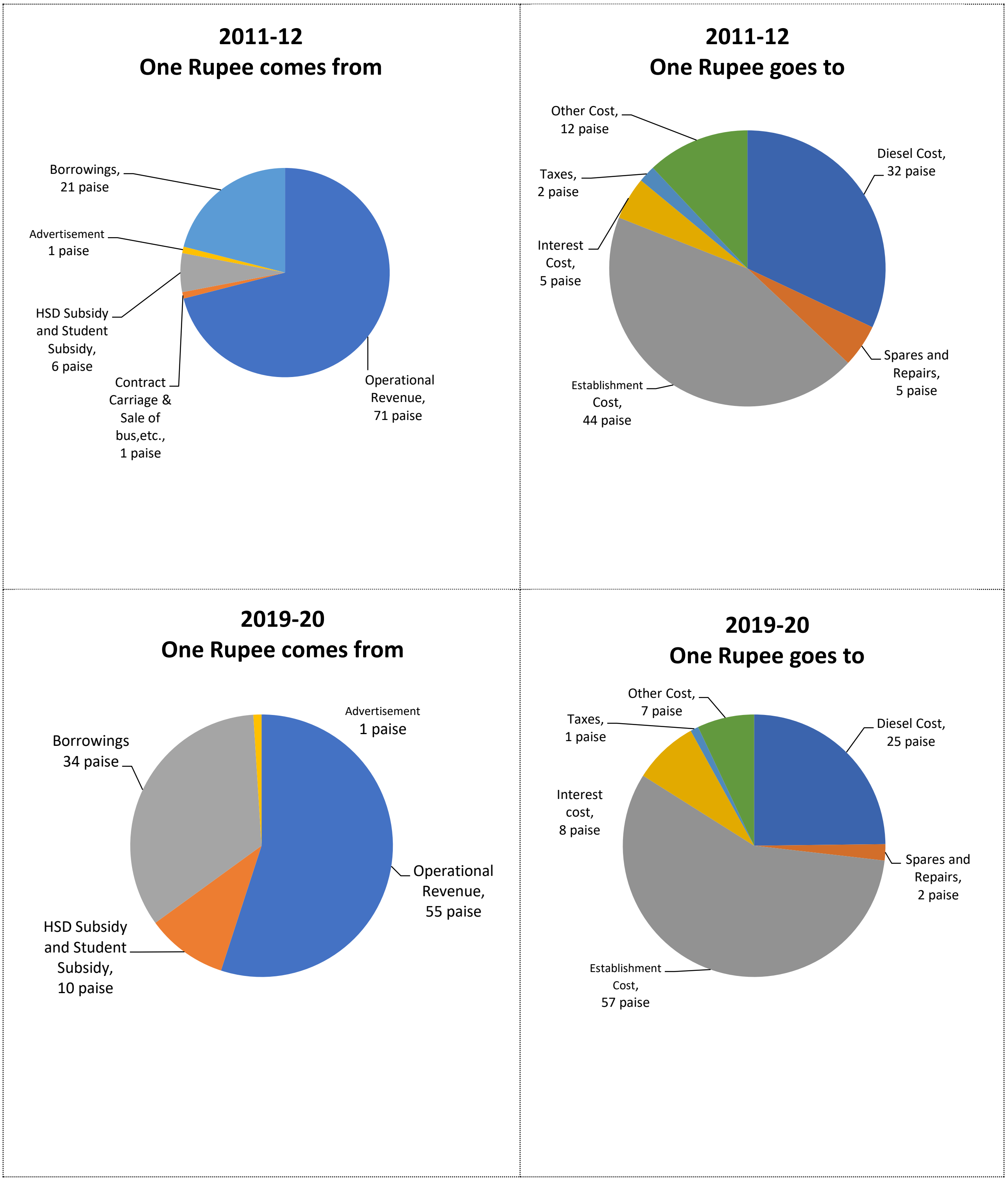
As the STUs were not able to operate full bus services due to COVID-19 pandemic lockdown restrictions during 2020-21, operating income revenue generated by all the STUs in 2019-20 has been taken for comparison purposes. **From table 59, it can be seen that the operating income generated by the STUs at present is not adequate to meet even the employee and pension cost**.

STUs are making a loss of ₹59.15/- for every Km operated.

- The accumulated loss of the STUs in 2020-21 is 42143.69 crore which was 8761.69 in 2011-12 (381 % Increase)
- The high losses are due to;
    - Frequent revisions in diesel prices without a concomitant increase in fare.
    - Inadequacies in material management and cost management leading to high procurement costs.
    - High employee and pension cost compared to previous decade is also an important factor.

The cost per kilometer incurred by all STUs works out to Rs.96.75 as of now, whereas the revenue recovery of STUs is just Rs.37.60 per km, leading to a loss of Rs.59.15 per km operated. A portion of the loss is being compensated by way of diesel and student subsidy by the Government. Frequent revisions in diesel prices without a concomitant increase in fare has added to the growing deficit of the STUs. Inadequacies in material management and cost management and the consequent high procurement cost of materials and spares have also contributed to the financial misery of the STUs. High employee and pension cost compared to the previous decade is also an important factor.

Figure 23: Accounting of Income and Expenditure of every rupee in all STUs



The trends of the payout in reimbursement of subsidy for student concession in bus fare, diesel subsidy in the last decade is as detailed below:-

Table 60: Trends in subsidies to STUs

(Rs. in crore)

Details	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Incr/decr 2011-12 vs 2020-21
Grant	22.78	22.78	21.60	22.78	32.78	35.88	33.86	33.00	30.00	30.00	(+) 31.69%
Student subsidy	438.97	452.52	452.96	448.00	480.00	505.35	541.78	764.72	1274.85	3430.04	(+) 681.38%
Diesel Subsidy	0.00	200.00	500.00	600.00	256.72	617.17	816.12	333.08	237.55	268.16	-
Total	461.75	675.30	974.56	1070.78	769.50	1158.40	1391.76	1130.80	1542.40	3728.20	(+) 707.41%

The quality of service and fleet strength has deteriorated over a period of years. Fleet strength which was 21,197 in 2011-12, instead of increasing to meet the growing population needs, has actually reduced to 20,670 in 2020-21 as a result of inability of STUs to invest in capital assets. This is also reflected in the shrinking model share of public transport among different types of transport.

STUs have not focused on route rationalization and continued to operate buses on uneconomic routes which did not necessarily serve remote areas, and ceded many profitable routes to private operators.

TANGEDCO

The outstanding debt of Tamil Nadu Generation and Distribution Corporation [TANGEDCO] as on 31.3.2021 is Rs.1,24,974.49 crore (excluding GoTN Loan) and Rs.1,34,119.94 crore (*including GoTN loan of Rs.4,582.45 crore and UDAY Loan of Rs.4,563.00 crore*). The details of the total outstanding liabilities, Accumulated loss and Net Annual Loss of the erstwhile Tamil Nadu Electricity Board [TNEB] and TANGEDCO are shown below:

Table 61: Loans and Liabilities of TNEB / TANGEDCO

[Rs. in crore]

Details	2011-12	2020-21	Increase / decrease	Increase / decrease (percentage)
Net Annual Loss	15055.34	32553.19	(+)17497.85	(+)116.22%
Accumulated loss	53696.25	111084.50	(+)57388.25	(+)106.88%
Total Outstanding liabilities	31040.12	134119.94	(+) 103079.82	(+)332.09%

As per the notification on Final Transfer Scheme issued vide G.O.Ms.49 Energy (B1) dated 13.8.2015, TANGEDCO's accumulated losses as on 31.03.2016 were reduced from Rs.92,116.95 crore to Rs.55,820.83 crore, since GoTN took over the fixed assets of the erstwhile TNEB and treated them as a Revaluation Reserve of Rs.51,441 crore, which was then adjusted against the accumulated losses of the erstwhile TNEB as on 31.10.2010. The balance reserves have been carried forward to the successor companies viz., TANGEDCO and TANTRANSCO and necessary adjustments have been made in the accumulated losses during 2015-16.

The Union Government implemented the Ujwal DISCOM Assurance Yojana (UDAY) scheme for a financial restructuring of DISCOMS. Under this scheme, the State Governments have to take over 75 per cent of the debt of the DISCOMS as on 30.9.2015 through the issue of bonds and convert / write off 25 per cent of the debt of DISCOMS owed to the State Government by releasing grants in aid and commit to progressively take over the losses of the DISCOMs - 5 per cent of the losses of the previous year in 2016-17, 10 per cent in 2017-18, 25 per cent in 2018-19, 50 per cent in 2019-20 and so on. On this basis, the State Government has released grants to TANGEDCO as per the Table 62 below

Table 62: Loss funding under UDAY scheme

(Rs. in crore)

Financial Year	Loss incurred	percentage of Loss funding	Amount	Due during	Released during
2016-17	4348.76	5%	217.43	2017-18	2017-18
2017-18	7760.78	10%	776.08	2018-19	2019-20
2018-19	12623.41	25%	3155.85	2019-20	Rs.8373.19 during 2020-21
2019-20	11964.93	50%	5982.47	2020-21	
2020-21	11792.88	50%	5896.44	2021-22	*

The two important parameters for operational improvements and financial turnaround envisaged under UDAY Scheme are:

(a) reduction in Aggregate Technical & Commercial (AT&C) loss to 13.50 per cent ; and

(b) reduction of gap between Average Cost of Supply (ACS) and Average Revenue Realised (ARR) to zero by 2018-19.

While TANGEDCO was supposed to achieve the target of reduction of AT&C losses to 13.50 per cent by 2018-19, TANGEDCO has been able to reduce it to 12.39 per cent during 2019-20.

Despite these measures, the losses of TANGEDCO continue to increase. This is primarily because the average cost of supply of electricity works out to Rs.9.06 per unit, whereas the average rate of realization is Rs.6.70 per unit in 2020-21, thereby leaving a shortfall of Rs.2.36 per unit. The revised ARR and ACS gap including subsidy is as detailed below:-

Table 63: Gap between ARR & ACS

Elements	2015-16	2016-17	2017-18	2018-19	2019-20	RE 2020-21
Units Input (Million units)	68629	68055	69214	76126	77391	73312
ARR (Rs per unit)	5.90	6.35	6.23	6.04	6.35	6.70
ACS (Rs per unit)	6.88	7.28	8.01	8.29	8.49	9.06
Gap between ARR and ACS (Rs. per unit)	-0.98	-0.93	-1.78	-2.25	-2.14	-2.36

The losses of TANGEDCO are caused by both high costs and low recoveries. There has been a sustained increase in costs over the last 10 years including employee costs, pension costs and interest costs as detailed in Table 64.

Table 64: Major costs incurred by TANGEDCO

(Rs in crore)

Details	2011-12	2020-21	Increase / decrease	Increase / decrease (percentage)
Employee cost	2227.65	5832.64	(+) 3604.99	(+) 161.83%
Pension cost	1536.74	3203.57	(+)1666.83	(+)108.47%
Interest cost	3588.08	11225.43	(+) 7637.35	(+)212.85%
Total	7352.47	20261.64	(+)12909.17	(+)175.58%

In addition to the above costs, increase in primary input cost of coal and increase in cost through external power purchase agreements also contribute to the increase in overall cost.

Table 65: Fuel costs & Power Purchase costs

[Rs. in crore]

Details	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Increase/ Decrease percentage 2011-12 vs 2020-21
Fuel cost (including Coal, gas)	6110.07	6396.87	5862.57	9746.26	8744.22	8036.98	7291.64	9431.70	8267.41	6500.97	(+) 6.40%
Power purchase expenses	21034.51	25740.83	30529.29	30651.70	31617.63	37384.59	41071.77	44178.31	47145.89	47330.83	(+) 125.02%
Total expenditure	32022.85	36971.19	42056.91	47375.50	48097.47	53996.80	58917.25	66041.96	67785.56	66638.05	(+) 108.10%
Fuel cost / Total expenditure percentage	19.08%	17.30%	13.94%	20.57%	18.18%	14.88%	12.38%	14.28%	12.20%	9.76%	
Power purchase expenses / Total expr percentage	**65.69%**	**69.62%**	**72.59%**	**64.70%**	**65.74%**	**69.23%**	**69.71%**	**66.89%**	**69.55%**	**71.03%**	

There is year to year variation in the relative cost of generation of power through own units of TANGEDCO and the average cost of power purchase as detailed in Table 66. In the most recent period, power purchase has been cheaper than own generation.

Table 66: Own generation (Vs) Power purchases cost

[Rs. per unit]

Details	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Own Generation										
(a) Hydel	1.11	0.75	0.64	0.71	0.72	1.16	1.07	0.65	0.77	0.70
(b) Thermal	3.64	5.47	4.01	4.53	3.89	3.85	3.94	4.30	4.70	4.87
(c) Gas	3.60	2.70	2.93	3.77	4.28	3.32	3.00	3.51	3.52	2.81
Power Purchases	3.76	3.61	4.17	4.05	3.65	3.92	4.22	4.27	4.33	4.42

The Ministry of Power has instructed DISCOMS to Open Letters of Credit [LC] for power purchase to ensure that payments are not delayed. Hence, TANGEDCO has had to open LCs or make advance payments, enhancing their borrowing requirement.

On the revenue side, there has been no revision of tariff for the past 7 years. Against the average cost of supply of Rs.9.06 per unit, the recovery from 18 per cent of the electricity supplied to the agriculture sector is NIL, while the subsidy payout is Rs.3.32 per unit. **Hence, TANGEDCO does not get fully subsidized for the full cost of supply to Agriculture which is Rs.8225 crore and the cross subsidization is beyond the permissible 20 per cent.**

Likewise, in the case of domestic consumers on an average TANGEDCO recovers Rs.2.23 per unit. Domestic tariff subsidy is on an average Rs.1.09 per unit as against the total cost of supply of

Rs.9.06 per unit leaving a large under recovery gap of Rs.5.74 per unit. With 32,639 million units of electricity supplied to domestic sector, the total loss on account of domestic supply is Rs.18,735 crore in the year 2020-21. Clearly those who consume more electricity are receiving greater subsidies.

Over the years, there has been a steady decline in TANGEDCO's share in supply to industries. It was mainly due to the cheaper alternatives like captive power plants and open access to third party consumers through power exchanges. This was possible due to weak legal regulatory regime for captive power plants and was accelerated due to high industrial power tariff.

The high tariff has also made Tamil Nadu uncompetitive as an industrial destination vis-à-vis other major States in India. Industrial supply by TANGEDCO is dropping due to the cheaper alternatives being available as captive generation and open access as tabulated in Table 67.

Table 67: Open Access & Direct supply power in Industry

(in Million Units)

Year	HT INDUSTRY		
	Open Access	Direct supply	TANGEDCO share
2011-12	6712	10137	60%
2012-13	8191	7699	48%
2013-14	9551	9796	51%
2014-15	9648	11188	54%
2015-16	10281	11408	53%
2016-17	14295	8948	38%
2017-18	15611	9204	37%
2018-19	15728	10804	41%
2019-20	16382	9874	38%
2020-21	15242	6957	31%

Even as TANGEDCO was unable to recover its operational costs, it kept huge bills pending with mounting interest costs. There was also excessive capital expenditure with high-cost borrowing. This resulted in a vicious cycle of huge pendency of bills, increased interest payments and poor recovery from the capital assets created.

As the focus was on short term survival and cash management, huge liabilities have been created for the long term. A complete restructuring cannot be postponed much further.

TANTRANSCO

The details of the total outstanding liabilities, accumulated loss and net annual loss of TANTRANSCO over the last 10 years is as detailed below:-

Table 68: Loss and Liabilities of TANTRANSCO

[Rs. in crore]

Details	2011-12	2020-21	Increase / decrease	Increase / decrease in (percentage)
Net Annual Loss	0.00	1299.99	(+)1299.99	---
Accumulated loss	4031.86	6782.35	(+)2750.49	(+) 68.22%
Total Outstanding liabilities	10156.20	25568.73	(+)15412.53	(+) 151.75%

While there was no gap between the Revenue receipts and Revenue expenditure during 2011-12, the revenue deficit has increased to Rs.1299.99 crore during 2020-21. The factors contributing to a sustained increase in losses over the last 10 years have been high increase in employee costs and interest cost as detailed below:

Table 69: Major costs incurred by TANTRANSCO

(Rs in crore)

Details	**2011-12**	**2020-21**	**Increase / decrease**	**Increase / decrease (percentage)**
Employee cost	291.48	1465.36	(+) 1173.88	(+) 402.73%
Interest cost	1144.98	1916.14	(+) 771.16	(+) 67.35%
Others expenses	308.40	1141.49	(+)833.09	(+)270.13%
Total	1744.86	4522.99	(+)2778.13	(+)159.22%

The factors contributing to the accumulated losses are:

(i) Revenues from operations are not in consonance with expenditure as there is no periodic tariff revision, with only 4 tariff revisions during the last 10 years viz., FY 2012, 2013, 2014 and 2017

(ii) Capital expenditure incurred for the establishment of the transmission network has also increased every year at an average of Rs. 3500 to 4000 crores followed by increase in interest cost.

(iii) Commitments towards increase in revenue expenditure were also met through borrowings with additional interest burden.

TWAD Board

The annual deficit, accumulated deficit and total outstanding liabilities of TWAD Board is as detailed below:

Table 70: Loss & Liabilities of TWAD Board

[Rs. in crore]

Details	2011-12	2020-21	Increase / decrease	Increase / decrease (percentage)
Annual deficit	144.10	390.17	(+)246.07	(+)170.76%
Accumulated deficit	574.15	2700.80	(+)2126.65	(+)370.40%
Total Outstanding liabilities	422.24	2890.26	(+)2468.02	(+)584.51%

The variation between the accumulated deficit and the total outstanding liabilities is mainly due to the financial support as Operation and Maintenance Grant and Gap Filling Grants received from the Government to the tune of Rs.571 crore in 2018-19 and Rs.449 crore in 2019-20 totaling Rs.1020 crore.

The factors contributing to a sustained increase in costs over the last 10 years have been the high increase in pension cost and maintenance cost of Combined Water Supply Schemes which has increased as more CWSS are maintained on outsourcing contract basis and not with the Board's own employees.

Table 71: Major costs incurred by TWAD Board

(Rs in crore)

Details	2011-12	2020-21	Increase / decrease	Increase / decrease in (percentage)
Maintenance of CWSS	314.16	896.20	(+)582.04	(+)185.27%
Employee cost	156.94	108.12	(-)48.82	(-) 31.11%
Pension cost & Family pension	130.47	309.70	(+)179.23	(+)137.37%
Other expenses	50.76	18.33	(-)32.43	(-)63.89%
Total	652.33	1332.35	(+)680.02	(+)104.24%

The main contributing factor to deficits is gross under recovery of the operational costs. While the operational cost is about Rs.20.81 per kilo litre only Rs.10.42 per kilo litre is levied from Urban Local Bodies (ULBs) and Rs.8.11 per kilo litre from Rural Local Bodies towards water charges during 2020-21. The cost recovery (excluding Government Grant, Interest, depreciation etc.,) works out to 44.21 per cent only based on the Revised Estimates 2020-21. A substantial portion of the dues from local bodies are not paid in time. The water charge payments due from the local bodies as on 31.3.2021 is Rs.484.10 crore as detailed below:

Table 72: Dues in Water charges

(Rs. in crore)

Beneficiary	Amount due
Corporations [ULBs]	261.05
Municipalities [ULBs]	10.09
Town Panchayats [ULBs]	10.82
Village Panchayats [RLBs]	202.14
Total	484.10

The total number of TWAD employees as on 31.3.2021 is 2583, whereas the total number of TWAD pensioners as on 31.3.2021 is 9101 which is more than thrice the number of serving employees. The outstanding liabilities of TWAD Board as on 31.3.2021 is Rs.2890.26 crore which includes Rs.1518.59 crore towards payment of electricity dues to TANGEDCO.

Local bodies finances were weakened due to utilization of devolution grants from Union Finance Commission and State Finance Commission for capital related expenditure, often through centralized directions although such a practice had specifically been decried in the recommendations of both the Commissions.

The Local Bodies have been unable to settle operational dues to both TANGEDCO and TWAD Board. This has created a vicious cycle of weaker local bodies putting additional pressure on the status of inefficient, poorly functioning PSUs/ Boards which eventually create further liabilities for the stake holding institutions and the State Government.

CMWSSB

The annual deficit, accumulated deficit and total outstanding liabilities of CMWSSB is as detailed below:

Table 73: Loss & Liabilities of CMWSSB

(Rs. in crore)

Details	2011-12	2020-21	Increase / decrease	Increase / decrease (percentage)
Annual deficit	181.72	353.49	(+)171.77	(+)94.52%
Accumulated deficit	391.78	2581.77	(+)2189.99	(+)558.98%
Total Outstanding liabilities	1370.32	1909.88	(+)539.56	(+)39.37%

The outstanding liabilities of CMWSSB as on 31.3.2021 are Rs.1,909.88 crore which includes Rs.1,522.16 crore towards outstanding loans from Government.

The factors contributing to a sustained increase in losses over the last 10 years have been high increase in employee cost, pension cost and operation and maintenance cost as detailed in Table 74.

Table 74: Major costs incurred by CMWSSB

(Rs. in crore)

Details	2011-12	2020-21	Increase / decrease	Increase / decrease in (percentage)
Operation & Maintenance	74.19	286.44	(+)212.25	(+)286.09%
Employee cost	106.09	140.50	(+) 34.41	(+)32.43%
Pension cost & Family pension	40.55	127.92	(+)87.37	(+)215.46%
Other expenses [which includes power, purchase of water from desalination plants]	226.93	497.68	(+)270.75	(+)119.31%
Total	447.76	1052.54	(+)604.78	(+)135.07%

The main contributing factor to increasing deficit is the gross under recovery of the operational costs. While the operational cost is about Rs.36.58 per kilo litre, the cost recovery (excluding Government Grant) is only Rs.14.08 per kl which works out to only 38 per cent only based on the Revised Estimates 2020-21.

The operational cost of CMWSSB is comparatively higher than the operational cost incurred by TWAD Board and this is due to the higher cost incurred for the purchase of desalinated water, and the higher distribution costs as CMWSSB distributes treated water to households whereas TWAD Board supplies water in bulk to ULBs and RLBs for further distribution to the households.

The tariff for domestic and partly commercial consumers have been revised during May 2018 with an annual increase of 5 per cent. Further, tariff for commercial and institutional consumers were revised in October 2017 with an annual increase of 10 per cent. However, the annual tariff revision was not carried out in May 2019 for domestic and partly commercial consumers due to the drought situation and annual tariff revision was not effected in 2020 due to the COVID-19 pandemic situation.

Tax revenue is a major source of revenue to CMWSSB as it collects 7 per cent of Annual Value of property as Water and Sewerage tax from consumers. Despite Greater Chennai Corporation revising the annual value of Property Tax during 2018-19, this was withheld subsequently affecting tax revenue.

CMWSSB supplies water through hired mobile water lorries apart from pipeline supply. The average cost incurred towards water supply to TNSCB tenements and other slums is around Rs.100 crore per year. However, CMWSSB receives Rs.36 crore only as grant from the Government to cover this expenditure.

While the total demand raised during 2020-21 was Rs.1,061.74 crore, the total amount actually collected was Rs.512.83 crore as on 31.3.2021 and the break-up details of the uncollected dues outstanding as on 31.3.2021 are in Table 75:

Table 75: Uncollected dues Outstanding at CMWSSB

(Rs. in crore)

Details	**Amount**
Tax	248.18
Flat Rate	152.06
Metered	81.35
Sewerage service charges	67.32
	548.91

The bulk of the receipts of CMWSSB are from Water and Sewerage Tax and flat charges for domestic connections. This is an inherently unfair and regressive system which favours those who live in large houses and bungalows and pay a flat fee without a meter, as opposed to the middle class who live in apartments and pay on the basis of bulk water metering, let alone the poor who use much less water per-capita independent of metering.

The total number of CMWSSB employees as on 31.3.2021 is 2,621 whereas the total number of CMWSSB pensioners as on 31.3.2021 is 5818 which is more than twice the number of serving employees.

STUs are making a loss of ₹59.15/- for every Km operated.

TANGEDCO & TANTRANSCO suffer both high costs and low recoveries.

TWAD: The accrued deficit is now ₹2,890.26 crore, while it was 422.24 crore in 2011-12.

CMWSSB: The accrued deficit is ₹1,909.88 crore while it was 1,370.32 crore in 2011-12.

The precarious financial situation of important PSUs and Statutory Boards that operate public utilities including electricity supply, water supply and public transportation is a cause of serious concern. **Their poor financial condition leads to deterioration in the quality of services and also poses risks to the State Government's already over stretched fiscal resources. Hence, reform in this area cannot be postponed any further**.

II. ECONOMIC GROWTH SCENARIO

The economic growth of any State or country is affected by multiple factors, of which some are within the control of its government, and some are beyond its control. Macroeconomic trends of the global and national economies will significantly constrain the ability of any State Government to achieve its objectives, even if it performs very well.

The past fifteen years have indeed brought unprecedented economic volatility and disruptions to the very way of life for much of humanity. At a global level, the Global Financial Crisis (GFC) of 2008-2009 had a major impact that led to profound changes in global financing and markets which are still evident today. Similarly, the recent COVID-19 pandemic has devastated many countries, though a diverse range of approaches have been taken by different governments.

At the national level, the economy has been in a secular decline starting with the Demonetization of 2016. The hurried adoption of GST further exacerbated the downturn, as a result of which higher productivity (prior to GST) states like Tamil Nadu suffered more keenly. The unprecedented national lockdown imposed on very short notice in March 2020 removed the last vestiges of hope for any recovery in the near-term.

In many ways, crises have disparate impacts across countries and States. For example, countries with advanced capital markets suffered a greater shock during the GFC, relative to emerging markets. Within India, Tamil Nadu’s relatively robust medical infrastructure and staffing helped it weather the pandemic better than many other states.

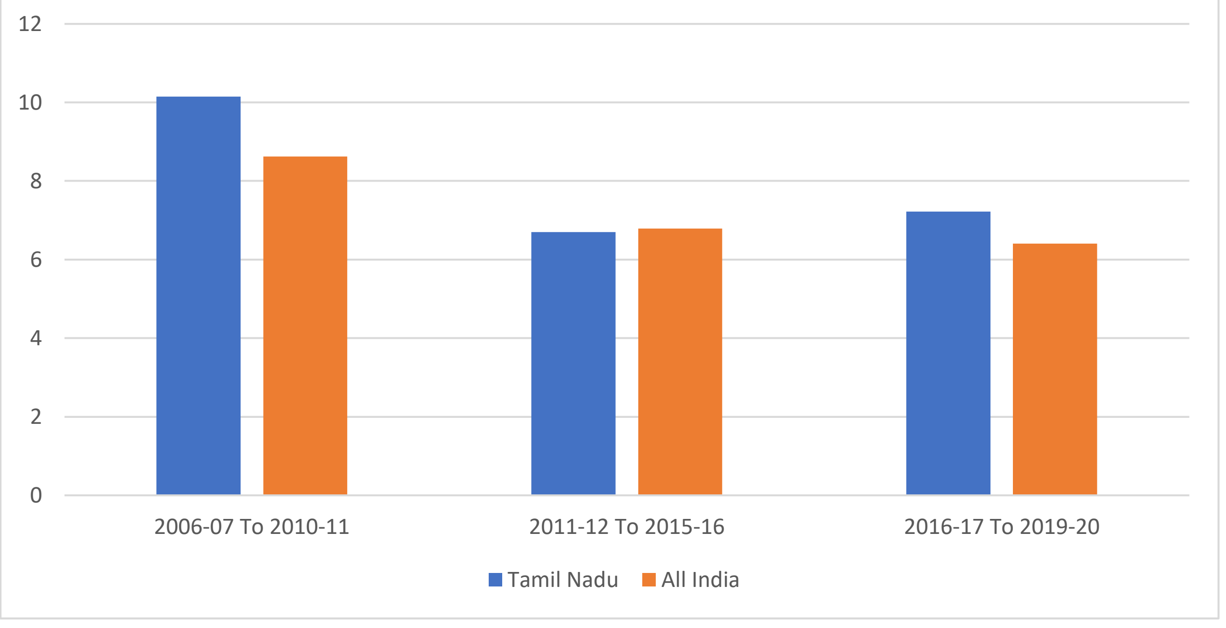
Even routine events, such as the decadal Pay Commissions, or the quinquennial Finance Commissions can affect the finances, and hence economy of each State differently. While it is always difficult to attribute effects to causes in complex systems, the combined effect of all of these events on the economy of Tamil Nadu is easily stated: a significant slowdown in economic growth from the peak level reached in 2011-2012.

The extent to which the growth slowdown was the effect and the steady fiscal deterioration **described above, particularly, post 2013-14** was the cause is hard to state. But basic economics suggests that the lack of fiscal discipline and management, which is beyond doubt, when compared to other affluent States in India, played a significant role in our economic and growth decline.

With the Covid-19 pandemic exacerbating the situation, Tamil Nadu faced a substantial further deterioration in 2020-21 of an already stressed fiscal situation. The compound impact of these on the overall fiscal situation is visible in the rising revenue and fiscal deficits year on year, and the consequent rapid increase in the debt burden.

Traditionally, economic growth of a State is measured in terms of its Gross State Domestic Product (GSDP) at constant prices. To examine the growth performance of Tamil Nadu we consider the period of 14 years from 2006-07 to 2019-20 and divide it into three sub periods: 2006-07 to 2010-11, 2011-12 to 2015-16 and 2016-17 to 2019-20. The effects of the pandemic and lockdown are so large that they should be treated as an exception, and hence excluded from much of the following discussion. The statistics for the first sub-period are with reference to the 2004-05 base year of the national income accounts whereas the last two sub-periods are with reference to the 2011-12 base year. In the first sub-period GSDP at factor cost (with 2004-05 base) is used to measure the economic growth and in the last two sub-periods GSDP at market prices (with 2011-12 base), is used.

Figure 24: Average Annual Growth Rate of GSDP of Tamil Nadu (at constant prices)



The average annual growth rate of real Gross State Domestic Product (GSDP) of Tamil Nadu for the above three distinct periods is 10.15 per cent, 6.70 per cent, and 7.22 per cent respectively. Hence there has been a significant slowdown in the second and third sub periods. Tamil Nadu's growth pattern is more volatile compared to the growth pattern for all States, and appears more vulnerable to external shocks. As can be seen from Table 76, in the first sub period, Tamil Nadu's growth performance was significantly better than the average for all States, whereas the State's growth rate fell close to the all India average growth in the second sub period of 2011-12 to 2015-16, before apparently accelerating again post-Demonetisation, as our State appears to have weathered the storm better than much of the rest of the country.

Table 76: Average Annual Growth Rate of GSDP of Tamil Nadu (at constant prices)

(in percentage)

Period	2006-07 To 2010-11	2011-12 To 2015-16	2016-17 To 2019-20
Tamil Nadu	10.15	6.70	7.22
All India	8.62	6.50	6.41

This ability to weather the storm can partially be attributed to the banking infrastructure in Tamil Nadu which is among the best, if not Number 1 in terms of widespread access to all citizens.

An inter-State comparison by the Madras School of Economics reveals that Tamil Nadu ranked third among major States in average growth during 2004-05 to 2011-12, but during 2012-13 to 2018-19, it ranked 11th and its average growth came down to about 7.1 per cent which is 3.2 per cent points less than the previous 7 years' growth of 10.3 per cent. The slowdown in economic growth in Tamil Nadu in the last decade is clearly a matter of considerable concern.

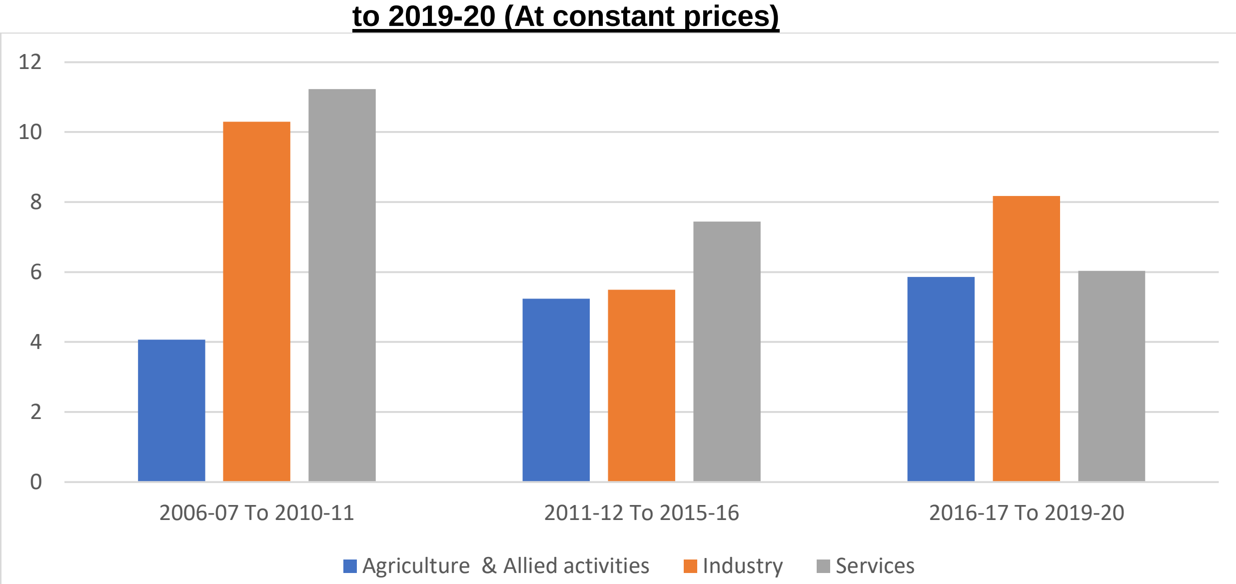
The following table depicts the major sector-wise GSDP average annual growth rate of Tamil Nadu from 2006-07 to 2019-20 clubbed in to three sub-periods.

Table 77: GSDP Sectoral Annual Average Growth Rate of Tamil Nadu – 2006-07 to 2019-20 (At constant prices)

(in percentage)

Sl. No.	Sector	2006-07 To 2010-11	2011-12 To 2015-16	2016-17 To 2019-20
1	Agriculture & Allied activities	4.07	5.24	5.86
2	Industry	10.30	5.49	8.17
3	Services	11.23	7.44	6.03
	GSDP	10.15	6.70	7.22

Figure 25: GSDP Sectoral Annual Average Growth Rate of Tamil Nadu – 2006-07 to 2019-20 (At constant prices)



The sectoral growth pattern reveals that overall, the services and secondary sectors recorded higher growth rates than the primary sector. Given that the primary sector continues to provide bulk of the employment, unless policy correctives are introduced, growth in Tamil Nadu would not be inclusive and could give rise to disparities.

As can be seen from Table 77, the sharpest decline in the growth rate has been in the industry sector which was 10.30 per cent in the period from 2006-07 to 2010-11, which declined to 5.49 per cent in the period 2011-12 to 2015-16 before accelerating to 8.17 per cent in the period from 2016-17 to 2019-20. The services sector likewise decelerated sharply from a 11.23 per cent growth in the period from 2006-07 to 2010-11 to 7.44 per cent in 2011-12 to 2015-16 and further to 6.03 per cent in the period 2016-17 to 2019-20. **Slowdown in the performance of industry and services in recent years is an area of concern. This skewed pattern of growth has meant that the largest segments of the economy, which are industry and services sectors failed to fire and grow rapidly enough. It also implies that Tamil Nadu could lose ground to comparator States unless these trends are quickly reversed.**

The sectoral contribution of the Manufacturing sector, which is a sub sector of the industries sector, (Table 78) in the overall GSDP over the years from 2011-12 to 2019-20 has fluctuated between 19.89 per cent and 25.32 per cent mainly due to the fluctuation in the production in the manufacturing units. While Tamil Nadu has a large number of MSMEs, the growth pattern of the industry sector is volatile, and the value added in the MSME sector is less than Maharashtra and Gujarat.

Table 78: Manufacturing Sector Growth Rate and Percentage Share – Tamil Nadu (At constant (2011-12) prices)

Year	GVA (in lakhs)	Percentage Share	Growth rate (in percentage)
2011-12	15176801	21.90	…
2012-13	16945553	23.37	11.65
2013-14	16632909	21.42	-1.84
2014-15	16209238	19.89	-2.55
2015-16	19970561	22.72	23.20
2016-17	22451412	23.90	12.42
2017-18	24898500	24.54	10.90
2018-19	26739746	24.97	8.31
2019-20	29486635	25.32	7.30

The Services sector occupies a share of 50 to 54 percent of State GVA over the years from 2011-12 to 2019-20 (Table 79)

Table 79: Share of Services Sector in GVA (At constant prices)

(in percentage)

States	Andhra Pradesh	Gujarat	Karna -taka	Kerala	Maha- rashtra	Rajas- than	Telan- gana	Uttar Pradesh	West Bengal	Tamil Nadu
2011-12	40.91	36.71	56.84	57.46	51.07	38.75	52.85	45.51	49.92	50.48
2012-13	44.38	37.52	59.55	59.06	52.19	40.39	55.68	46.26	50.55	51.55
2013-14	44.70	37.03	60.22	60.38	52.80	41.32	57.49	47.04	51.21	52.44
2014-15	44.95	36.46	61.80	60.76	54.26	41.65	61.72	49.61	52.76	54.32
2015-16	45.53	35.61	62.85	61.61	54.63	40.84	62.10	48.96	53.25	52.33
2016-17	42.79	35.16	62.49	61.13	54.52	40.41	63.55	46.28	51.96	52.12
2017-18	41.90	35.08	62.35	61.48	54.63	41.96	62.75	47.94	51.93	51.46
2018-19	43.40	35.87	63.71	62.39	55.44	44.90	63.08	48.51	52.39	51.66
2019-20	42.76	36.25	64.50	63.31	57.05	44.70	62.68	50.22	53.30	51.09

Source: Compiled based on the State GVA as available in MoSPI, GOI website as on 15.03.2021

As can be seen from Table 79, the share of the services sector, which represents the next stage of structural transformation of the economy, is lower in Tamil Nadu than some peer States like Karnataka, Kerala and Maharashtra.

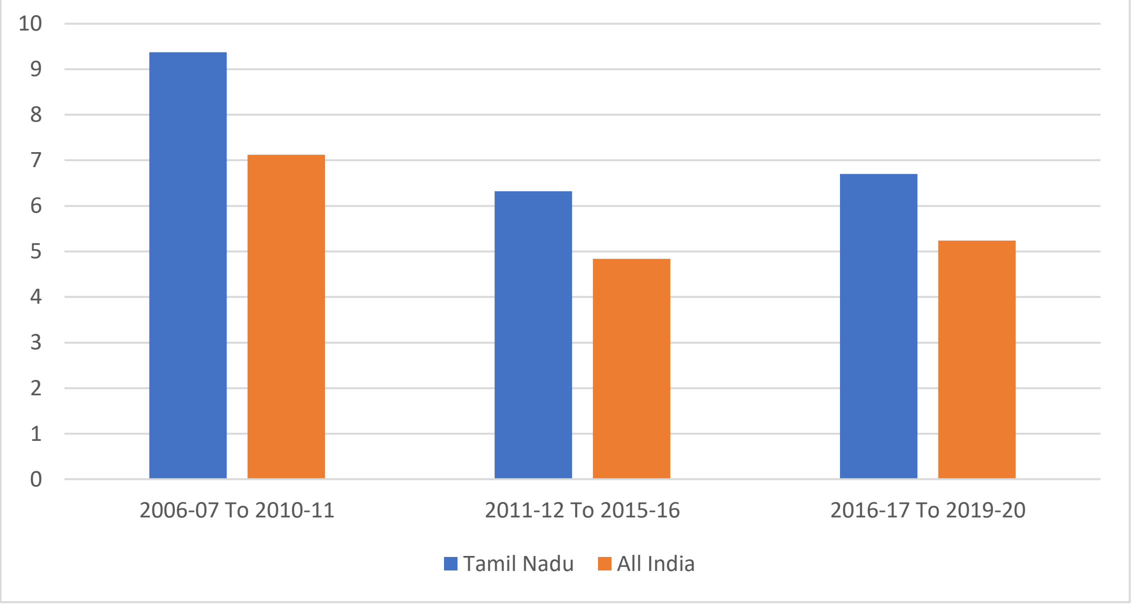
The per capita GSDP growth rate was 9.37 per cent for the period from 2006-07 to 2010-11 and later declined sharply to 6.32 per cent from 2011-12 to 2015-16 before increasing to 6.70 per cent in the period from 2016-17 to 2019-20. As is clear from Table 80, the growth rate of the State's per capita income is higher than the all-India level in all the three sub-periods.

Table 80: Annual Average Growth Rate of GSDP Per-capita Income of Tamil Nadu (at constant prices)

(in percentage)

Period	2006-07 To 2010-11	2011-12 To 2015-16	2016-17 To 2019-20
Tamil Nadu	9.37	6.32	6.70
All India	7.12	4.84	5.24

Figure 26: Annual Average Growth Rate of GSDP Per-capita Income of Tamil Nadu (at constant prices)



In Table 81, the comparable series of the per capita GSDP for the years 2004-05 to 2006-07 contained in the Thirteenth Finance Commission's Report, for the years 2010-11 to 2012-13 contained in the Fourteenth Finance Commission's Report and for the years 2016-17 to 2018-19 contained in the Fifteenth Finance Commission's Report are shown. For the three-year period 2010-11 to 2012-13, Tamil Nadu ranked fourth overall among large States in terms of per capita GSDP. This represents an improvement of two ranks in the intervening five years. At that point Tamil Nadu was on par with Gujarat and higher than States like Punjab, Kerala and Karnataka.

However, this changed noticeably by the 15th Finance Commission's Report, where the per capita GSDP for the period 2016-17 to 2018-19 has been taken into account. Tamil Nadu's position amongst large States in terms of per capita GSDP has now moved backwards to the 5th position. States like Kerala, Karnataka and Telangana have gone ahead of Tamil Nadu in terms of per capita GSDP in the period between 2016-17 and 2018-19. This slowdown relative to comparable States marks a real decline in competitiveness. We trust the analysis shown in the previous sections provides at least a partial explanation for how we once moved ahead (between 2007 and 2013), and why we have now fallen behind (between 2013 and 2019).

Table 81: Per Capita GSDP selected Large States

(in Rupees)

Sl. No.	States	13th Finance Commission Average Per capita GSDP (2004-05 to 2006-07)	Rank	14th Finance Commission Average Per capita GSDP (2010-11 to 2012-13)	Rank	15th Finance Commission Average Per capita GSDP (2016-17 to 2018-19)	Rank
1	Andhra Pradesh	30,561*	8	73,979	9	1,52,436	9
2	Bihar	8,851	15	24,584	17	39,951	17
3	Chhattisgarh	23,757	9	58,130	12	1,01,121	12
4	Gujarat	40,094	4	98,690	3	1,82,534	7
5	Haryana	43,797	1	1,16,179	1	2,25,547	1
6	Jharkhand	21,984	10	44,028	14	72,990	15
7	Karnataka	33,433	7	76,781	8	2,04,419	3
8	Kerala	38,278	5	89,715	6	2,05,114	2
9	Madhya Pradesh	18,187	13	42,996	15	86,077	14
10	Maharashtra	43,074	2	1,03,091	2	1,94,997	6
11	Odisha	21,280	12	54,877	13	1,01,416	11
12	Punjab	41,180	3	92,055	5	1,56,989	8
13	Rajasthan	21,779	11	58,985	10	1,10,086	10
14	**Tamil Nadu**	**36,563**	**6**	**98,327**	**4**	**1,95,377**	**5**
15	Telangana	n.a	n.a	83,738	7	1,97,505	4
16	Uttar Pradesh	15,548	14	33,815	16	65,351	16
17	West Bengal	27,418	8	58,323	11	99,685	13
All States		**30,902**		**64,290**		**1,25,246**	

* Note : Includes Telangana

Though a State with immense economic potential and human capital, the slowdown in economic growth in Tamil Nadu in the last decade is clearly a matter of considerable concern. Tamil Nadu ranked third among major States in average growth during 2004-05 to 2011-12, but during 2012-13 to 2018-19, it slid down to 11th Rank.

- The Avg. AGR of GSDP of TN has reduced from 10.15% in between 2006-2011 to 7.22% in between 2016-2020.
- National level disruptions like Demonetization (2016), hurried adoption of GST (2017) & and sudden lockdown in March 2020 have impacted growth.
- The falling economic growth rate of Tamil Nadu can be attributed to the lack of fiscal discipline, compared to other affluent States in India.

Skewed Sectoral Growth and Lack of Competitiveness are the key concerns that need to be addressed expeditiously.

- Industry and Services sectors failed to fire and grow rapidly enough. This also implies that Tamil Nadu could lose ground to comparator States unless these trends are quickly reversed.

Per Capita GDP strongly correlates to the economic health of the individuals of the State. The State is sliding down continuously after 2013 when compared to comparator States

- State's per capita income growth is higher than the all-India level in all the three sub-periods, but the gap narrowed in the second sub-period from 2011-12 to 2015-16.
- For the three-year period 2010-11 to 2012-13, Tamil Nadu ranked 4th overall among large States in terms of per capita GSDP, later it slid to the 5th position.
- Slowdown relative to neighbouring States needs careful analysis regarding causes and possible decline in competitiveness.

III. CONCLUSION:

The fiscal situation of the State is in dire circumstances, in part due to extraneous circumstances, but in substantial measure due to structural flaws in governance which have not been rectified in a timely manner. We hope this report clearly explains these circumstances, and how we arrived at this crucial juncture. The Covid pandemic has greatly exacerbated the situation and highlighted how vulnerable Tamil Nadu currently is. There are no buffers left. No fiscal headroom that will allow for delay.

Business-as-usual cannot continue, and our approach must fundamentally change if we are to break out of this vicious cycle of increasing debt and interest costs. On the other hand, this is an opportunity to effect "once in a generation" reforms, many of which should have been undertaken years ago by any responsible Government.

We must contain our interest costs in order to minimize or reduce our revenue deficit. That will require us to bring our debt relative to GSDP under control. In any democratic country it is difficult for the Government to drastically cut spending. Much less so when a newly elected Government has promises to fulfill, that will require significant additional spending. So, revenues will have to be raised in an equitable manner, as debt will otherwise balloon, and interest payments will overwhelm the Budget. In the last 3 to 4 years borrowing has been resorted to even for non-discretionary spending like salaries, pension and interest payments which were for many years before met out of the regular revenue receipts of Government. This practice must be stopped.

Transparency through information to the public is desirable of its own accord. This will enable the Government to pose realistic policy options before the people, and thereby gain greater acceptance for the eventual decisions of the Government. The first step in any solution is always a true recognition of the problem.

This report has been an attempt to collate a profound and detailed analysis into our economic situation, to provide a trigger for crucial reform efforts. We trust that this report, and others to follow which will delve into specific areas and causes, will inform the citizens and act as a catalyst for the broad societal consensus and participation that is crucial to successfully implement the structural reforms that are urgently needed.

Some of the corrective measures which need to be taken are well known. For further measures, the process of consulting experts and stakeholders is already ongoing. The first of such expert committees is the recently formed Chief Minister’s Global Economic Advisory Council, consisting of Nobel-laureate Prof. Esther Duflo, former Governor of the Reserve Bank of India Prof. Raghuram Rajan, former Chief Economic Advisor of India Dr. Arvind Subramanian, noted Economist Prof. Jean Drèze, and the former Union Finance Secretary and Economic Advisor to the Prime Minister, Mr. S. Narayan, IAS. In the coming weeks and months, other committees will be formed to advice on other areas of priority and concern.

Most of our current problems are the result of a lack of proper governance, especially over the last seven years, as evident in the data presented in this report. To avoid the perception of a political motive, we have very deliberately kept any discussion of the causes of the decline out of this this paper. But we hope the public discussions that will arise upon its publication will consider how and why the State has experienced this dramatic decline.

This decline is reversible.

Our conviction that this Government can reverse the decline and lift Tamil Nadu to its rightful place, arises from the Hon'ble Chief Minister's strong leadership and his often-stated policy of a transparent government, which continuously engages with civil society and is committed to providing the highest quality of administration.

This report is not an attempt to create a rationale for diluting or abandoning the commitments made to the people during the recently concluded elections. This Government's delivery of not only the promised Rs.4,000 per ration card, but also of 14 essential products not mentioned in any poll promise, serve as evidence of this Government's firm intent to honour its commitments.

We are a State with enormous resources, from large and valuable land holdings to significant equity stakes in public companies which are listed on stock exchanges. The resident and non-resident human resources of our state, and the Tamil diaspora across the world who hold enormous goodwill towards their motherland, are of even greater value than our material assets.

We understand that profound structural reforms in many aspects, starting with the Government's functioning, and expanding to many areas of policy and legislation, will be needed to achieve our ambitious goals. It would be fitting to conclude with an excerpt from the Hon'ble Chief Minister's remarks to the Economic Advisory Council:

"Tamil Nadu should become the model State in India which other States would seek to emulate. You must give us advice to make this happen.

These dreams of mine cannot be realized through ordinary reforms. I am aware that only through a total and dramatic transformation will my dreams be realized. Let me assure you that the Government of Tamil Nadu is prepared to do whatever it takes."

Dr. Palanivel Thiaga Rajan
Minister for Finance and
Human Resources Management