TAMIL NADU STATE GOVERNMENT FINANCES

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Executive Summary

- Tamil Nadu's government finance has been well managed since 2005-06. Its key fiscal parameters-revenue deficit, fiscal deficit and public debt relative to GSDP have been kept as per the norms of FRBM legislation. However, in the last two years the revenue deficit has exceeded 1 percent of GSDP. This is the concern as part of net borrowed amounts is used for meeting the revenue expenses of the State.
- Traditionally, Tamil Nadu's record of resource mobilization is one of the best among the States in the country. It usually had the highest per capita own tax revenue among the major States in the country. But currently, it ranks eighth in per capita revenue receipts and fourth in per capita own tax revenue. It ranks 16th in terms of revenue receipts-GSDP ratio and ninth in own tax-GSDP ratio.
- During 2006-07 to 2016-17, the own tax-GSDP ratio declined from 8.94 percent to 6.42 percent due various factors including the introduction of State VAT, global slowdown of the economy etc.
- Sales tax is by far the most important own tax revenue source in Tamil Nadu. It relative to GSDP was 5 percent in 2016-17. In fact, Tamil Nadu ranks third in per capita sales tax revenue among the major Indian States. It is noted that Tamil Nadu used to be the number one in per capita sales tax revenue in earlier years.
- The share of state excise in the total own tax revenue declined from 14.4 percent in 2006-07 to 6 percent in 2018-19BE due to the abolition of vend fees and additional vend fees for malt liquor and foreign liquor and spirits.
- During 2006-07 to 2018-19BE, the own tax buoyancy ranged between 0.3 and 1.8. In 8 out of 14 years, the own tax buoyancy is less than 1. It is the major concern. Another concern is that the buoyancy of almost all taxes is fluctuating over the years and in many years their buoyancies are less than one or negative. Tamil Nadu Government needs to take efforts to improve its own tax revenue performances.
- The own non-tax revenues are fairly low in Tamil Nadu. Although the State is endowed with long coastal areas, the contribution from fisheries sector is relatively low. Similarly the forestry, tourism etc bring very low revenues to State exchequer. There is a potential for the State to increase its non-tax revenues.
- Tamil Nadu's share in tax devolution also declined from 7.9 percent in Fourth Commission period to 4.023 percent in Fourteenth Finance Commission period due to the changes in the successive Finance Commissions recommendations. This is the major concern for the State.
- During 2006-07 to 2016-17, the share of capital expenditure in total expenditure increased from 17.7 percent to 23.4 percent. Relative to GSDP, it increased from 2.6 percent to 3.5 percent, indicating that the State Government used major portion of the borrowed amounts on investments.
- Interstate comparison reveals that Tamil Nadu ranks seventh in per capita revenue expenditure. However, it is the fourth lowest in revenue expenditure as percentage of GSDP, next only to Gujarat, Karnataka and Maharashtra.

- During 2006-07 to 2016-17, the proportion of revenue outlay on social services increased from 34.8 percent to 36.1 percent while the proportion of revenue outlay on economic services increased from 20 percent to 22.2 percent.
- At the same time, the share of compensation and assignments to local body governments increased from 6.4 percent to 8.1 percent. Both urban and rural bodies get almost equal share, except in a few recent years. In fact, Tamil Nadu has provided the highest compensation to local bodies among the major Indian States. It also ranks first in terms of the compensation to LBs as percent of revenue expenditure.
- Salaries, wages and pension payments amounted to 38.2 percent in 2016-17 while the interest payments accounted for 13.7 percent and the subsidies accounted for 10.4 percent. Interest payment was also kept around 1.2-1.9 percent of GSDP over the years.
- During 2006-07 to 2018-19BE the Government of Tamil Nadu spent less than 1 percent of GSDP on health and about 2 percent of GSDP on education. These are well below the international standards.
- Tamil Nadu's public debt is estimated at Rs. 3,55,845 crore, which is the fourth largest among Indian States. However, its debt-GSDP ratio is 22.29 percent, which is well below the norms given by Fourteenth Finance Commission and FRBM legislation and it is the fourth lowest among the Indian States.
- Our Bohn model based sustainability analysis indicates that in 10 out of 22 States the public debt is unsustainable. But in Tamil Nadu the debt is sustainable. The major concern is its debt servicing (interest) burden which is estimated at 17 percent of the revenue receipts of the State, which is significantly higher than the 10 percent norm recommended by the 14th Finance Commission.
- Currently, Tamil Nadu has 68 working PSUs and 6 non-working PSUs. Evidences indicate that the PSUs in Tamil Nadu have not had a great impact on the economy of the State except for providing direct employment of 2.84 lakh persons and investment of ₹ 153871. The net loss of the PSUs in Tamil Nadu increased from ₹1365 crore to ₹8435 crore over the years. A time bound programme of restructuring the SPSUs should be adopted to tackle the major hurdles in their performance. Immediate winding-up of the non-working units, closing down some of the working units which are not serving useful social purpose, revamping the working units to improve their working, rightsizing the manpower of the working units, are some of the major policy recommendations.
- India has been one among the fast growing larger economics in the world. However, its actual growth rates during the last 7 years were below the trend (potential) growth rate, except in 2015-16. During 2011-12 to 2017-18, the Indian economy (at 2011-12 prices) grew at 6.88 percent which is about 2 percentage points less than 8.7 percent growth obtained during 2003-04 to 2010-11. This down turn in the overall economic condition of the nation along with rising oil prices and inflation, rupee depreciation, etc is the major concern.

- Our VAR based macro model forecasts that the economy will get a moderate recovery and the average growth during 2019-20 to 2024-25 increase to 7.7 percent. This economic downturn and possible improved growth path, however, may provide an opportunity for the Fifteenth Finance Commission to revise its methodology in order to make more appropriate fiscal projections, which will enable a more appropriate and just distribution between the Union and the States of the net proceeds of taxes, allocation amongst the States of such proceeds and recommendations on grants to the States.
- Like Indian economy, Tamil Nadu' potential growth rate also declined in recent years. During 2011-12 to 2018-19, its average growth (at 2011-12 constant prices) was 7 percent which was 2.8 percentage points less than its recorded growth of 10.8 percent during 2004-05 to 2010-11.
- This fall in potential growth rate was mainly due to significant fall in growth of both manufacturing and construction. Higher growths of these two sectors are important from employment generation point of view. Further the fall in overall growth affects the tax buoyancy.
- The share of agriculture in GSDP has also been continuously declining. Net sown area has also be declining. Despite, Tamil Nadu manages to produce a record level of total food grain production of 113.85 Lakh Metric Tonnes (in 2015-16). The major concern is the frequent drought and excess rain/flooding in some years. As a result farmers lost their crops. As majority of farmers are small and medium, they find it difficult to afford the losses. What is required is farmers particularly small farmers needs support when there is a crop failure due to drought/excess rain.
- As Tamil Nadu is the second largest economy, next only to Maharashtra, the faster growth of this economy is vital for the faster growth of Indian economy.
- Total transfer (tax devolution plus grants) to the States was about 35 percent during the Tenth and Eleventh Finance Commissions periods. It increased to 37.3 percent and 42.3 percent during the 12th and 13th Finance Commission period respectively. There is also indication that the transfers to the States in the first four years of the award period of Fourteenth Finance Commission has increased further to above 50 percent. There is a greater possibility for continuation of this trend, as the Central tax buoyancy has increased significantly to 1.54 in the last three years. The State GST is also stabilizing and so there may be possibility that States tax buoyancy will also increase.
- While different Finance Commissions have used different criteria with varying weights due to their terms of References, the poorer States in general get strong support. For instances, the combined shares of four States-Bihar, Madhya Pradesh, Uttar Pradesh and West Bengal increased from 43.4 percent to 49.8 percent over the years. At the same time, the combined four southern States declined from 24 percent to 15.5 percent. The question remains is: how long the support to these States need to be extended? The continued support may be an incentive for the poorer States to keep their own revenue efforts at low

level.

- Contribution of cesses and surcharges to central government revenues increased significantly over the years. But they are kept out of the purview of sharing with the States under the recommendations of the Finance Commission as provided in the 80th Amendment. This is also a concern for Indian States.

Acknowledgement

This study is entrusted to Madras School of Economic by the Fifteenth Finance Commission of India. I am thankful to Dr. C. Rangarajan, the Chairman of Madras School of Economics for allowing me to undertake this study. I thank Mr. Renjith, the Research Assistant for this study, for compiling the necessary data and estimating the Bohn Sustainability Model for the study.

Chapter 1

Introduction

1.1. Fiscal Position of Indian States

In general, the consolidated fiscal position of the States improved during 2004-05 to 2014-15. The gross fiscal deficit (GFD) of all States put together as percent of GDP at market prices kept below the FRBM threshold level of 3 percent during this period. After that their condition deteriorated. Their GFD-GDP ratio crossed the threshold for the last three consecutive years, due to Ujwal Discom Assurance Yojana (UDAY) scheme, implementation of farm loan waivers and pay commission recommendations on salaries and pensions of State Government employees.

Outstanding liabilities of State governments (at the consolidated level) relative to GDP declined continuously during 2006-07 to 2014-15. After 2014-15, it started increasing again, raising the debt sustainability concerns associated with rising market borrowings. Following the Fourteenth Finance Commission's recommendation, the State Governments have reduced their reliance on the National Small Savings Fund (NSSF). Consequently, recourse to market borrowings for funding their GFD has increased steadily in recent years. As on March 2018, it accounted for 76.2 percent of total liabilities of States.

For 2018-19, the states have budgeted for a revenue surplus and a lower fiscal deficit of 2.6 percent. This consolidation is aimed to be facilitated by the expansion in revenues as the Goods and Services Tax (GST) stabilizes and gains traction. Even if there is a shortfall, the provision of compensation by the Centre may help smooth State finances from the revenue front. On the expenditure side, efforts needed to reverse the worsening of the revenue expenditure to capital expenditure ratio, enhance public expenditure efficiency etc. These efforts will strengthen the ability of the States to orient public expenditures towards growth-enhancing investments in education, health, job creation and inclusiveness (RBI, 2018).

Against this backdrop, this study reviews the finances of Tamil Nadu State Government since 2006-07. Specifically, this study reviews and analyzes the following:

i. the overall trends in revenues, expenditures and fiscal balances;
ii. the trends in the level and composition of revenue receipts and expenditures including the subsidies;
iii. the composition and trends in own tax and own non tax revenues;
iv. the trends and composition of capital receipts and expenditures;
v. the level of debt, its composition and its sustainability; and
vi. the impact of Public Enterprises finances on the health of State finances.

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

1.2 Macro-economic Environment

After reforms the growth picked up in our country. During 1994-95 to 1999-00, the average real (2011-12 constant prices) growth was 6.11 percent. However, the Indian economy had gone through a slowdown in the GDP (factor cost) growth in the early years of the current century (i.e., last decade). At that time, the average GDP growth in real terms for the three years (2000-01 to 2003-03) was 4.04 percent, which was three percentage points below the trend growth rate, estimated using HP Filter (Chart 1.1).

During 2003-04 to 2010-11, the economy grew at an impressive average rate of 8.7 percent. The growth rate was above 8 percent in all eight years except in 2008-09. In fact, the rate was 10.77 percent in 2010-11. After that the growth has been moderated. During 2011-12 to 2017-18, the average rate of growth declined to 6.88 percent which is about 2 percentage points less than the preceding peak average rate of 8.7 percent obtained during 2003-04 to 2010-11. It is also noticed that estimated GDP growth rates during the last 7 years were below the trend (potential) growth rate, except in 2015-16. The estimated nominal growth rates shown in Chart 1.2 also were less than the trend rate during the last 6 or 7 years.

Chart 1.1: Trend and Actual Growth Rates of GDP (2011-12 prices)

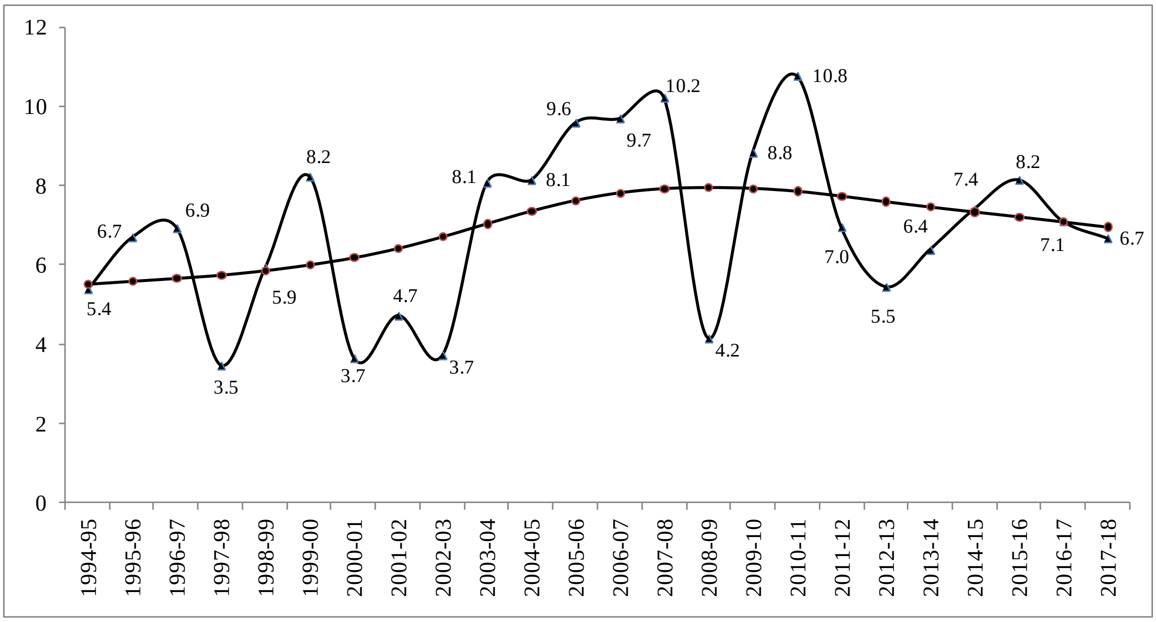
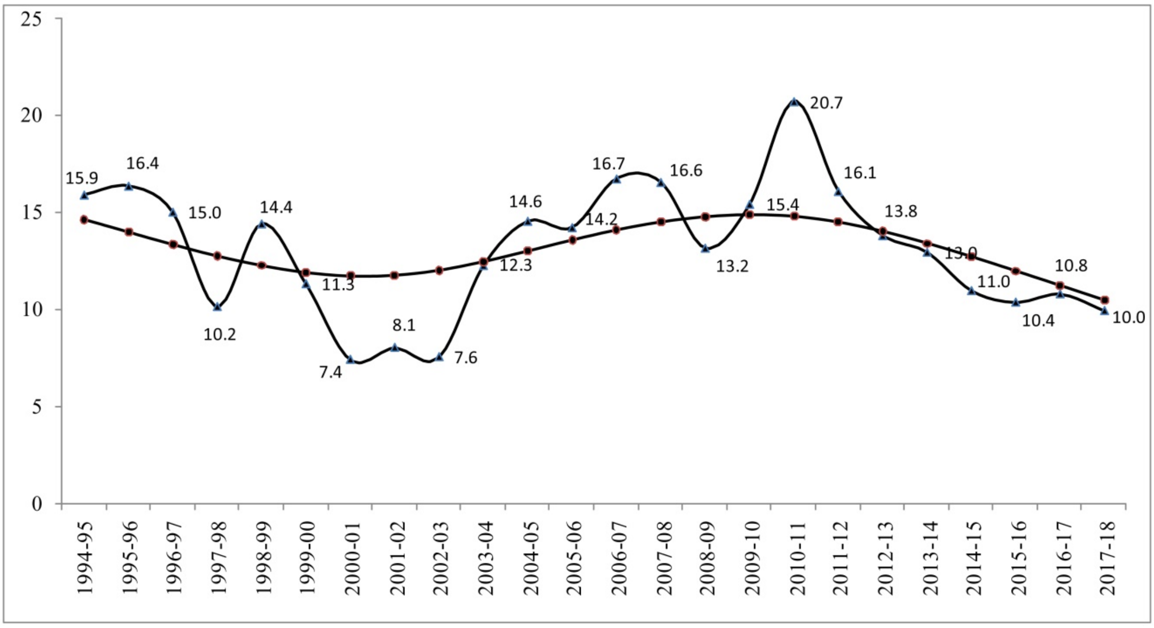


Chart 1.2: Trend and Actual Growth Rates of Nominal GDP (2011-12 base series)



In 2009-10, the trend growth was about 8 percent (Chart 1.1). After 2010-11, it started declining continuously and in 2017-18, it was 6.95 percent. This down turn in the overall economic condition of the nation along with rising oil prices and inflation, rupee depreciation, etc is the major concern. However, still India is one amongst the fastest growing major economies in the world.

In order to forecast the future growth of Indian economy (GDP), a simple VAR macroeconomic model is estimated with the annual data on four variables, namely GDP

(2011-12 series) real growth, WPI Inflation, Call Money rate and exchange rate during 2004-05 to 2017-18. This model based prediction, shown below indicates slightly improved future growth path. The average growth during 2019-20 to 2024-25 would increase to 7.65 percent.

VAR Model Based Prediction of Growth	
2019-20	8.08
2020-21	6.94
2021-22	7.22
2022-23	8.05
2023-24	8.13
2024-25	7.45

The Fifteenth Finance Commission needs to take into account the recent downturn in the economy and future (moderate) recovery while making its projections for the award period. This economic downturn and possible improved growth path, however, may provide an opportunity for the Finance Commission to revise its methodology in order to make more appropriate fiscal projections, which will enable a more appropriate and just distribution between the Union and the States of the net proceeds of taxes, allocation amongst the States of such proceeds and recommendations on grants to the States.

The revised methodology needs to maintain the essential balance between the principles of fiscal autonomy, efficiency and equity. That is, it needs to resolve the vertical and horizontal imbalances in resources consistent with the Constitutional assignment of responsibilities to the two tiers of the Government and encourage efficiency and resolve deficiencies in fiscal capacities of individual States without giving an incentive to lower revenue effort.

1.3 A Note on Vertical Transfers

Table 1.1 shows the trends in vertical transfers, i.e., the sharing of resources between the Centre and the States (taken as a group). Total transfers (tax devolution plus grants) to the States declined a peak of close to 40 percent of Centre’s gross revenue receipts to just above 35 percent during the award period of the Tenth and Eleventh Finance Commissions. In the award period of the Twelfth Finance Commission, it increased to 37.3 percent. It further increased to 42.3 percent during the award period of Thirteenth Finance Commission. There is also indication that the transfers to the States in the first four years of the award period of Fourteenth Finance Commission has increased further (i.e., above 50 percent). Also there is a possibility that this trend may continue as the Central tax buoyancy has increased significantly in the recent three or four years.

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

(Rs. Crore)

Finance Commissions	Years	Share in Central Taxes	Total Grants	Total Transfers	Centre's Gross Revenue Receipts	Transfers as percent of	
						CGRR	GDP
Eighth	1984-85	5777	5053	10830	29327	36.93	4.22
	1985-86	7491	6555	14047	35535	39.53	4.85
	1986-87	8474	7041	15516	41424	37.46	4.79
	1987-88	9598	8641	18239	46628	39.12	4.95
	1988-89	10669	9704	20373	54261	37.55	4.66
Ninth	1989-90	13232	8573	21805	65329	33.38	4.34
	1990-91	14535	12384	26920	69531	38.72	4.59
	1991-92	17197	15327	32524	83227	39.08	4.83
	1992-93	20522	17636	38158	94639	40.32	4.93
	1993-94	22240	21223	43463	98024	44.34	4.96
	1994-95	24843	20194	45037	116160	38.77	4.43
Tenth	1995-96	29285	20744	50029	139269	35.92	4.23
	1996-97	36061	23336	59397	162218	36.62	4.37
	1997-98	43548	25164	68711	177095	38.8	4.58
	1998-99	39145	24214	63359	188586	33.6	3.69
	1999-00	43481	31022	74503	224754	33.15	3.90
Eleventh	2000-01	51944	37431	89375	244686	36.53	4.36
	2001-02	53398	42936	96335	255011	37.78	4.34
	2002-03	56480	42560	99041	288694	34.31	4.15
	2003-04	67366	49977	117344	332149	35.33	4.38
	2004-05	80159	57168	137326	384851	35.68	4.48
Twelfth	2005-06	95887	77480	173367	443890	39.06	4.95
	2006-07	122331	95793	218124	556423	39.2	5.33
	2007-08	153600	10724	164324	694690	23.65	3.44
	2008-09	161979	126944	288923	699033	41.33	5.35
	2009-10	167992	150382	318374	734467	43.35	5.11
Thirteenth	2010-11	223203	169398	392601	1007013	38.99	5.22
	2011-12	259412	189408	448820	1010740	44.41	5.14
	2012-13	294357	191295	485652	1167831	41.59	4.88
	2013-14	322879	208565	531444	1331997	39.90	4.73
	2014-15	341269	329049	670318	1433632	46.76	5.38
Fourteenth	2015-16	511883	328290	840173	1706908	49.22	6.10
	2016-17	614450	377675	992125	1988653	49.89	6.50
	2017-18RE	676665	442873	1119538	2182093	51.31	6.67
	2018-19BE	790593	481343	1271936	2516331	50.55	
Commission Period Averages					Eighth	38.11	4.7
					Ninth	39.1	4.70
					Tenth	35.62	4.16
					Eleventh	35.92	4.34
					Twelfth	37.32	4.84
					Thirteenth	42.33	5.07
					Fourteenth	50.24	6.43

Source (Basic Data): Indian Public Finance Statistics (Various years); CGRR-Centre's Gross Revenue Receipts; RE-Revised Estimates; BE-Budget Estimates. Up to 1992-93, GDP 2004-05 base series was used and after that 2011-12 base was used.

1.4 A Note on Central Tax Buoyancy

Table 1.2 shows the Central tax buoyancy as well as States tax buoyancy. The Central taxes buoyancy was 1.11 during 2000-01 to 2009-10 and slightly increased to 1.19 during 2010-11 to 2017-18. During the same periods, the States' own taxes buoyancy decreased marginally from 1.16 to 1.04. It is interesting to notice that the Central taxes buoyancy in the last three years increased significantly to 1.54. If this trend continues, there may be a possibility that the States' share of Central taxes will increase further. The GST is stabilizing and so there may be possibility that States tax buoyancy will increase in the coming years.

Table 1.2: Buoyancy: Central and State Taxes

Central/States Taxes		1994-95 to 1999-00	2000-01 to 2004-05	2005-06 to 2009-10	2010-11 to 2014-15	2015-16 to 2017-18	2000-01 to 2009-10	2010-11 to 2017-18
Gross Central Taxes	***Direct***	1.48	1.83	1.48	0.90	1.31	1.65	1.05
	Indirect	0.90	0.85	0.57	1.08	1.85	0.71	1.37
	Total	1.07	1.21	1.01	0.97	1.54	1.11	1.19
Central Taxes (Net)	***Direct***	1.61	1.94	1.47	0.93	0.87	1.70	0.91
	Indirect	0.94	0.79	0.58	1.05	1.56	0.68	1.24
	Total	1.12	1.19	1.00	0.98	1.17	1.09	1.05
States Own Taxes	***Direct***	0.93	1.22	0.95	0.59	16.70	1.08	6.63
	Indirect	1.06	1.34	0.99	1.06	0.68	1.16	0.92
	Total	1.06	1.34	0.98	1.05	1.02	1.16	1.04
States Gross Taxes	***Direct***	1.32	1.59	1.46	0.82	3.57	1.53	1.85
	Indirect	1.00	1.29	0.89	1.07	0.99	1.09	1.04
	Total	1.02	1.33	0.99	1.02	1.48	1.16	1.19

Source (Basic Data): Indian Public Finance Statistics (Various years) and RBI Handbook of Statistics on Indian Economy.

However, there is an area which is a major concern for the States is the increased contributions of cesses and surcharges to the Centre's gross revenue receipts over the years. While the Centre has been levying a number of cesses and surcharges on both direct and indirect taxes, these are kept out of the purview of sharing with the States under the recommendations of the Finance Commission as provided in the 80th Amendment.

Table 1.3 shows that the contributions of cesses and surcharges to Centre's gross revenue receipts progressively increased from 3 percent in 2000-01 to 11.5 percent in 2007-08. After that it started declining and now it is around 7 percent.

Table 1.3: Cesses and Surcharges

(Rs. Crore)

Year	Cesses and Surcharges			Centre's Gross Tax Revenues	Cesses and Surcharges as % of Centre's Gross Tax Revenues
	Cesses	Surcharges	Total		
2000-01	3467	2188	5655	188605	3.00
2001-02	3618	557	4175	187060	2.23
2002-03	5703	719	6423	215905	2.97
2003-04	6222	827	7049	254348	2.77
2004-05	10752	3336	14088	304957	4.62
2005-06	13749	4658	18407	366151	5.03
2006-07	18283	5382	23665	473513	5.00
2007-08	38551	29627	68178	593147	11.49
2008-09	27698	26035	53733	605298	8.88
2009-10	28521	12268	40788	624527	6.53
2010-11	39951	8592	48542	793072	6.12
2011-12	42825	15806	58631	888898	6.60
2012-13	52756	7876	60632	1036234	5.85
2013-14	56989	14725	71714	1138733	6.30
2014-15	58797	16736	75533	1244885	6.07
2015-16	63116	20881	83998	1449958	5.79
2016-17	100908	25756	126664	1715822	7.38
2017-18	71315	67049	138363	1946119	7.11

Source: Budgets of the Union Government (Various Issues)

1.5 Plan of the Report

Chapter 2 provides an overview of Tamil Nadu economy while Chapter 3 provides an overview of fiscal trends in Tamil Nadu. Chapter 4 analyzes the tax performances of Tamil Nadu and Chapter 5 reviews the growth and composition expenditures. Chapter 6 deals with public debt management in Tail Nadu while Chapter 7 discusses about the performance public sector utilities in Tamil Nadu. Chapter 8 provides an overview on local body governments in Tamil Nadu while chapter 9 provides projection of revenues and expenditures during 2020-21 to 2014-25. The final Chapter 10 provides the concluding remarks.

Chapter 2

Tamil Nadu Economy: An Overview

This Chapter assesses the growth performance of Tamil Nadu and the sectoral growth pattern, and compares the performance of Tamil Nadu economy with that of other major Indian States. In fact Tamil Nadu is the second largest economy in the country, next only to Maharashtra. The faster growth of this economy is vital for the overall growth of nation.

2.1. Growth Performance

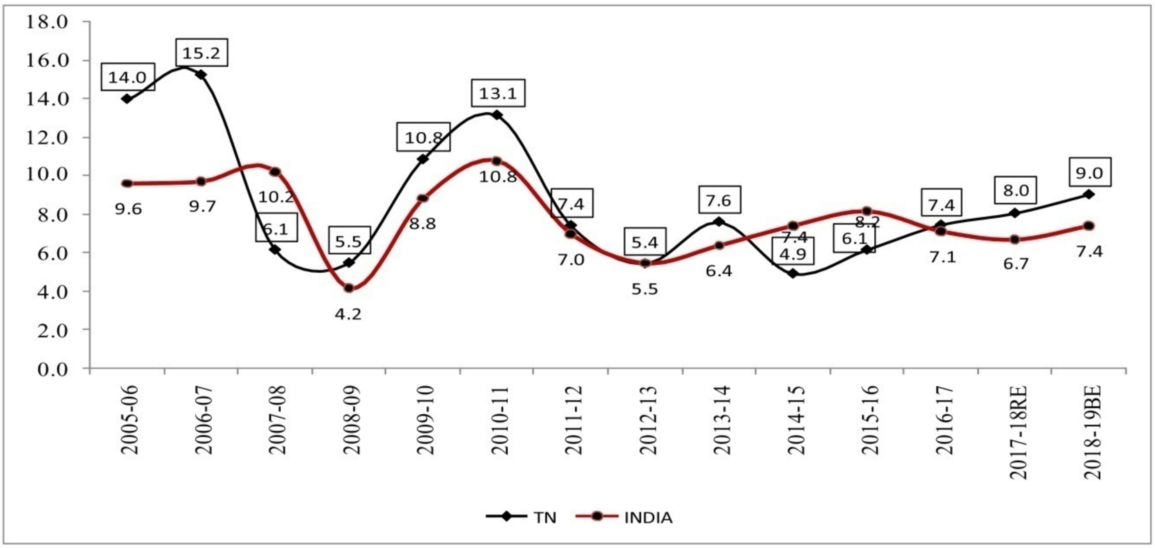
During 1982-83 to 2012-13, the long-term (average) growth of Tamil Nadu economy at constant prices was 6.56 percent against the all India average growth of 6.25 percent (not shown).[1] While both Tamil Nadu economy (4.97 percent) and Indian economy (4.98 percent) grew at almost the equivalent rate during 1982-83 to 1991-91, Tamil Nadu economy grew at 5.83 percent, which was slightly less than the GDP growth of 6.12 percent during 1992-93 to 2001-02.

During 2004-05 to 2010-11, the Tamil Nadu economy (2004-05 constant prices) grew at an average rate of 10.8 percent, which was about 2 percentage points above the all India growth of 8.9 percent. However, like the Indian economy, the performance of Tamil Nadu economy over the past six or seven years has also declined (Table 2.1). During 2011-12 to 2018-19, its average growth (at 2011-12 constant prices) is estimated at 7 percent as against all India average growth rate of 6.9 percent. This downturn in the economic condition is a serious concern.

Chart 2.1 compares the GSDP growth of Tamil Nadu with the GDP growth from 2005-06. One can observe that growth rate of Tamil Nadu has been more than the GDP growth in some years but the reverse is also true for some other years. Tamil Nadu's growth is highly volatile and more vulnerable to external shocks as compared to the all India growth pattern due to increased globalization and structural changes in the economy. It is also noticed that there is a structural downward shift in the growth path of Tamil Nadu economy as well as Indian economy after 2011-12.

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

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



2.2 Sectoral Growth Pattern

Table 2.1 (and Chart 2.2) provides a profile of sectoral growth rates and the overall GSDP growth rate for the period from 2004-05 to 2016-17. All figures relate to the GSDP at 2004-05 prices during 2004-05 to 2010-11 and after that at 2011-12 prices.

Chart 2.2: Sectoral Growth in Tamil Nadu

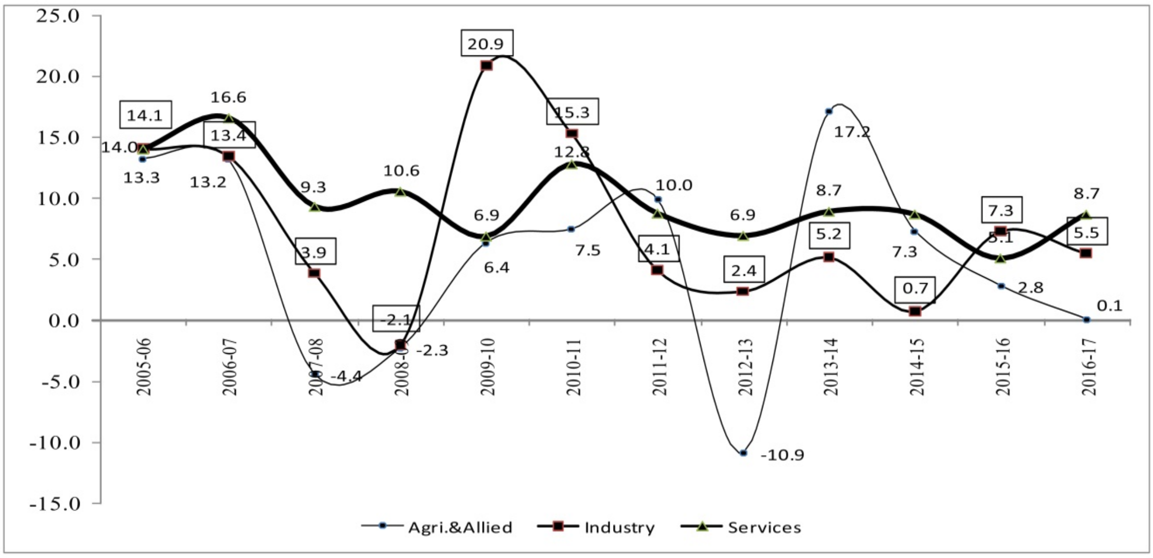


Table 2.1: Annual Growth Rates (%): Sector-wise Performances (at 2004-05 Prices till 2010-11 & 2011-12 Prices after that)

Sectors/Sub-sectors	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	Avg. 2005- 11	Avg. 2011- 17	Avg. 2005- 17
Agriculture & Allied	13.26	13.24	-4.41	-2.29	6.35	7.47	9.95	- 10.88	17.17	7.32	2.84	0.09	5.60	4.41	5.01
Agriculture	11.49	15.42	-4.69	-2.70	6.56	7.69	11.05	-21.53	19.67	3.88	-4.13	-18.52	5.63	-1.60	2.02
Industry	14.08	13.44	3.86	-2.06	20.93	15.32	4.09	6.90	1.72	-1.47	8.89	7.33	10.93	4.58	7.75
Manufacture	15.11	18.75	0.59	-1.31	29.18	12.31	1.42	11.65	-1.85	-2.57	11.18	6.85	12.44	4.45	8.44
Mining & Quarrying	-4.86	4.36	1.17	-1.78	9.30	3.13	13.15	-10.77	-2.63	-20.66	93.34	2.93	1.89	12.56	7.22
Construction	16.19	4.45	18.61	5.31	5.18	22.49	9.24	0.23	8.21	0.83	4.42	8.23	12.04	5.19	8.62
Services	14.02	16.57	9.33	10.56	6.90	12.80	8.77	6.94	8.93	8.70	5.10	8.69	11.70	7.86	9.78
Trade Hotels Restaurants	16.28	20.58	4.30	3.66	4.50	13.22	7.68	12.36	10.30	3.99	-0.90	6.56	10.42	6.66	8.54
Transport, Storage,Communication	12.40	13.56	9.35	15.49	13.87	14.13	7.53	6.76	5.13	5.20	6.45	8.84	13.13	6.65	9.89
Real Estate, Ownership of Dwellings	15.17	16.50	16.75	13.40	6.82	10.03	14.16	7.52	9.94	12.78	7.86	10.22	13.11	10.42	11.76
Banking and Insurance	17.55	19.09	17.11	10.18	2.97	14.65	9.73	9.66	11.64	11.07	6.82	9.80	13.59	9.79	11.69
Other Services	9.38	11.80	5.40	14.48	7.45	12.65	5.55	-0.97	7.07	9.48	5.76	7.78	10.19	5.78	7.99
GSDP	13.96	15.21	6.13	5.45	10.83	13.12	7.39	5.41	7.58	4.89	6.13	7.42	10.78	6.47	8.63

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

During 2005-06 to 2010-11, the agriculture and allied sector in Tamil Nadu grew at an average rate of 5.6 percent. In 2007-08 and 2008-09, this sector recorded a negative growth due to bad monsoons.[2] During 2011-12 to 2016-17, its average growth rate declined to 4.41 percent. In 2012-13 also this sector recorded a negative growth due to monsoon failure. Thus, there is an element of cyclicality in the growth process of agriculture sector. In addition, this sector growth is highly volatile and so the risk- adjusted return from this sector is low. As a result, attracting private investment is difficult. Therefore this sector needs government support at least during the monsoon failure which happens in every two out of five years. Earlier, like other States, Tamil Nadu used to get loans/grants from Union Planning Commission to support this sector. Now such option is not available. That is one of the reasons why the farmers from Tamil Nadu frequently agitated in Delhi in recent years.

During 2005-06 to 2010-11, industry recorded an impressive average growth rate of 10.93 percent. However, during 2011-12 to 2016-17, its average growth rate declined significantly to 4.58 percent. This happens mainly because of significant fall in the growth of both manufacturing and construction. This is the major concern. From the employment generation point of view, high growths of these two sectors are more important.

The growth story of services sector is more or less similar to that of industry. While it grew at an average rate of 11.7 percent during 2005-06 to 2010-11, it grew only at 7.86 percent from 2011-12. Global slow down in 2011-12 and worldwide recession after that year affected both industry and services sector in Tamil Nadu.

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

2.3 Structure of GSDP

Like in many other Indian States, the structure of gross state domestic product (GSDP) in Tamil Nadu has been shifting away from agriculture towards non-agriculture, particularly services. The share of agriculture and allied sector in total GSDP (in 1999- 00 prices) of Tamil Nadu in 1999-00 was about 17 percent and the shares of industry and services sectors were 30 percent and 53 percent respectively (not shown). As indicated in Table 2.2, the share

[2] In 2002-03 and 2003-04 also, this sector registered a negative growth.

of agriculture and allied sector declined to about 11 percent in 2004- 05 (at 2004-05 prices) and further to 9.93 percent in 2016-17 (at 2011-12 prices). During 2004-05 to 2016-17, the share of industry declined marginally from 31.65 percent to 31.39 percent and the contribution of services sector increased marginally from 57.2 percent to 58.68 percent.

Table 2.2: Sectoral Share of GSDP in Tamil Nadu

(Percent)

Sectors/ Sub -sectors	2004 - 05	2005 - 06	2006 - 07	2007-08	2008 - 09	2009 - 10	2010-11	2011 - 12	2012 - 13	2013 - 14	2014 - 15	2015 - 16	2016 - 17
Agriculture & Allied	11.12	11.06	10.87	9.79	9.07	8.70	8.27	11.67	9.87	10.75	11.00	10.66	9.93
Agriculture	9.60	9.39	9.41	8.45	7.80	7.50	7.14	7.15	5.33	5.92	5.87	5.30	4.02
Industry	31.65	31.68	31.20	30.53	28.35	30.94	31.54	33.99	34.48	32.60	30.62	31.42	31.39
Manufacture	19.83	20.03	20.65	19.57	18.31	21.35	21.20	20.20	21.39	19.52	18.13	18.99	18.89
Mining & Quarrying	0.75	0.62	0.56	0.54	0.50	0.49	0.45	0.43	0.37	0.33	0.25	0.46	0.44
Construction	8.97	9.15	8.30	9.27	9.26	8.79	9.52	12.31	11.70	11.77	11.31	11.13	11.22
Services	57.23	57.26	57.94	59.68	62.58	60.36	60.19	54.33	55.65	56.65	58.38	57.93	58.68
Trade Hotels Restaurants	17.06	17.41	18.22	17.91	17.60	16.60	16.61	10.55	11.25	11.53	11.43	10.68	10.59
Transport, Storage,Communication	9.27	9.14	9.01	9.29	10.17	10.45	10.54	7.10	7.19	7.03	7.05	7.07	7.17
Real Estate, Ownership of Dwellings	10.50	10.61	10.73	11.80	12.69	12.23	11.90	13.64	13.92	14.22	15.29	15.54	15.95
Banking and Insurance	7.24	7.47	7.72	8.52	8.90	8.27	8.38	5.35	5.56	5.77	6.11	6.15	6.29
Other Services	13.16	12.63	12.26	12.173	13.21	12.81	12.76	17.68	17.73	18.09	18.49	18.48	18.69
GSDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source (Basic Data): Central Statistical Organization, Government of India. GSDP 2004-05 Series till 2010-11 and 2011-12 Series after 2011-12.

2.4 Interstate Comparison

An interstate comparison reveals that Tamil Nadu ranks sixth in GSDP (in 2004-05 prices) growth during 2005-06 to 2010-11 among the Indian States (Table 2.3). During 2005-11, its average annual GSDP growth was 10.8 percent, which was higher than all India GDP growth of 8.77 percent and the GSDP growth of any of the Southern State. During the same period, Sikkim and Uttarkhand ranked first and second respectively. Interestingly, the poorer state - Bihar recorded almost a double-digit growth (9.2 percent) during this period. During 2012-13 to 2017-18, Tamil Nadu obtained only 20th rank with average rate of growth of 6.4 percent. At the same time, Gujarat recorded the highest growth of 9.85 percent among the major Indian States.

Table 2.3: Average Annual Growth of GSDP of Indian States (2005-11 & 2012-18)

States	2005-11$	Rank	2012-18#	Rank	States	2005-11$	Rank	2012-18#	Rank
Andhra Pradesh	7.58	24	8.23	7	Odisha	8.30	18	7.02	14
Arunachal Pradesh*	7.01	28	6.44	19	Punjab*	7.30	26	5.74	24
Assam*	5.47	31	7.09	12	Rajasthan	8.95	13	6.71	16
Bihar	9.16	12	6.58	18	Sikkim	20.35	1	6.63	17
Chhattisgarh	8.81	14	6.32	21	Tamil Nadu	10.78	6	6.42	20
Goa*	10.04	10	5.43	29	Telangana	11.78	3	7.86	9
Gujarat*	10.40	7	9.85	2	Uttar Pradesh	7.22	27	6.17	22
Haryana*	9.36	11	7.88	8	Uttarakhand	14.47	2	6.98	15
Himachal Pradesh	8.40	16	7.07	13	West Bengal	6.76	29	5.54	28
Jammu & Kashmir*	5.79	30	5.70	25	Chandigarh	7.87	23	7.30	11
Jharkhand	7.33	25	5.29	30	Delhi	10.33	8	8.42	4
Karnataka	8.61	15	8.32	6	Puducherry	11.30	4	5.69	26
Kerala*	8.07	19	5.78	23	Mizoram*	10.94	5	13.86	1
Madhya Pradesh*	7.93	22	8.32	5	Nagaland*	7.99	21	4.98	31
Maharashtra	10.21	9	7.36	10	Tripura**	8.34	17	9.71	3
Manipur*	4.53	32	5.68	27					
Meghalaya	8.04	20	3.38	32	Indian GDP	8.77		6.90	

$ in 2004-05 prices; # in 2011-12 prices; * Growth during 2012-17.

2.5 A Note on Agriculture in Tamil Nadu

Tamil Nadu is one of the most water starved States endowed with only 3 percent of the nation's water resources putting high stress on irrigation water availability and vulnerable to seasonal fluctuations causing uncertainty in agriculture production. The average annual rainfall of the State is around 921 mm which is less than the National average of 1,200 mm. The per capita water availability is 750 cubic meters per year as against the all India average per capita water availability of 2,200 cubic meters.

Net sown area continued to decline from (61.69 lakh ha.) 47.4 percent of total area in 1970-71 to 38.9 percent (43.47 lakh ha.) in 2016-17 due to increased urbanization and drought (Table 2.4). The state has a net irrigated area of 2. 835 million ha. (2016-17). Its irrigation intensity is relatively low as compared to the all-India average.

Table 2.4: Net/Gross Area Sown and Net/Gross Area Irrigated in Tamil Nadu

(in Lakh hectare)

Year	Net Area Sown	Gross Area Sown	Net Area Irrigated	Gross Area Irrigated
2004-05	5097	5889	2637	3087
2005-06	5244	6033	2920	3397
2006-07	5126	5843	2889	3309
2007-08	5062	5815	2864	3252
2008-09	5043	5824	2931	3393
2009-10	4892	5572	2863	3238
2010-11	4954	5753	2912	3348
2011-12	4986	5889	2964	3519
2012-13	4544	5140	2643	2991
2013-14	4714	5897	2679	3311
2014-15	4819	5995	2726	3394
2015-16	4833	6074	2833	3575
2016-17	43.47	51.29	28.35	na

Source: Directorate of Economics and Statistics, Government of Tamil Nadu

However, the "Second Green Revolution" launched in 2011-12 in Tamil Nadu is gaining momentum in the recent years. The Government of Tamil Nadu is in the forefront in formulating comprehensive policy framework among all the States by reinforcing farmer-friendly strategies to increase the cropped area, collective cultivation of consumer preferred crops, specific innovation in crop production technology, soil based fertilizer recommendation and application methods, water saving practices such as micro irrigation, System of Rice Intensification (SRI), changes in selection of cropping pattern to ward off the vagaries of monsoon and reducing input cost fortified with Business vision in crop production, mechanising agricultural operations to make farming smarter by saving time and cost, enriching farming knowledge and empowering farming community through use of ICT, establishing well structured marketing system and strengthening extension services for large-scale dissemination of productivity-increasing technologies and capacity building activities, enabling the State to be on high growth trajectory in Agriculture (Policy Note: Agriculture 2018-19).

Thus, Tamil Nadu has made impressive strides in agricultural sector and it has achieved two-fold increase in food grain production since the launch of Second Green Revolution. The technological breakthrough in increasing the productivity and the cultivable area has removed the impasse in agriculture production and the state surpassed 100 Lakh Metric Tonnes of Food Grain production in 2011-12, 2013-14, 2014-15 and 2015-16. The State was honoured with “Krishi Karman" award for having attained total food grain production of 101.52 Lakh Metric Tonnes by Government of India during the year 2011-12. The State was also given

“Krishi Karman" award for the best performance in pulses production of 6.14 Lakh Metric Tonnes during 2013-14 and for coarse cereals production of 40.79 Lakh Metric Tonnes for the year 2014-15. It was also awarded "Krishi Karman" for the fourth time for the best performance in Total Food grain production of 113.85 Lakh Metric Tonnes during 2015-16. The State has also bagged the “State Agriculture Leadership Award 2013”, “Food Production Program Leadership Award 2015” and “Global Agriculture Leadership Award 2016” from the leading magazine, “Agriculture Today” and awarded with the “National Gold Award for e-Governance” for the year 2014-15 by Government of India for its innovative spirits of the State.

The major concern is the frequent drought and excess rain/flooding in some years. As a result farmers lost their crops. As majority of farmers are small and medium, they find it difficult to afford the losses. As the share of agriculture in GSDP has been continuously declining and its growth is also highly volatile, the risk adjusted return from agriculture is low. Therefore, getting private investment is difficult. The public investment is also not happening as this sector's share is shrinking. What is required is farmers particularly small farmers needs support when there is a crop failure due to frequent drought/excess rain.

2.6 Concluding Remarks

During 2004-05 to 2010-11, the Tamil Nadu economy (2004-05 constant prices) grew at an average rate of 10.8 percent, which was about 2 percentage points above the all India growth of 8.9 percent. However, during 2011-12 to 2018-19, its average growth (at 2011- 12 constant prices) declined to 7 percent as against all India average growth rate of 6.9 percent. This downturn in the economic condition is a serious concern.

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

During 2005-06 to 2010-11, industry grew at 10.93 percent. However, during 2011-12 to 2016-17, it grew only at 4.58 percent. This happens mainly because of significant fall in the growth of both manufacturing and construction. This is the major concern. From the employment generation point of view, high growths of these two sectors are more imortant.

Chapter 3

Fiscal Trends: An Overview

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

3.1 Key Fiscal Indicators

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

Budget expenditure (revenue expenditure + capital expenditure) of Tamil Nadu as a ratio of its GSDP stood around 13.3-16.3 percent from 2004-05 to 2018-19BE (Table 3.2). The capital expenditure relative to GSDP declined from 2.58 percent in 2004-05 to 2.04 percent in 2018-19. That is, this ratio declined by 0.54 percentage points. At the same time, the revenue expenditure-GSDP ratio also declined by 1.16 percentage points (i.e., (from 13.3 percent to 12.14 percent). The revenue receipts on the other hand also declined from 12.99 percent of GSDP to 11.04 percent. Growth rate estimates show that during 2005-06 to 2016-17, the GSDP at current prices grew at the annual rate of about 15 percent.

Table 3.1: Tamil Nadu State Finances: Selected Fiscal Aggregates

(Rs. Crore)

Fiscal Indicators	2004- 05	2005- 06	2006- 07	2007- 08	2008- 09	2009- 10	2010- 11	2011- 12	2012- 13	2013- 14	2014-15	2015-16	2016-17	2017-18RE	2018-19BE
Own Tax Revenues	19357	23326	27771	29619	33684	36547	47782	59517	71254	73718	78657	80476	85941	98693	112616
Own Non Tax Revenues	2208	2601	3423	3304	5712	5027	4651	5684	6554	9343	8351	8918	9914	10767	11301
State's Own Revenue	21565	25927	31194	32923	39397	41574	52434	65201	77809	83061	87008	89394	95855	109460	123917
Total Central Transfers	6886	8033	9720	14597	15646	14270	17754	20001	21019	24975	35413	39614	44376	46365	52334
Share in Central Taxes	4236	5013	6394	8065	8511	8756	10914	12715	14520	15853	16824	20354	24538	27100	31707
Grants	2650	3020	3326	6532	7135	5514	6840	7286	6499	9122	18589	19260	19838	19265	20627
Total Revenue Receipts	28452	33960	40913	47520	55042	55844	70188	85202	98828	108036	122420	129008	140231	155825	176251
Total Revenue Expenditure	29155	32009	38265	42975	53590	59375	72916	83838	97067	109825	128828	140993	153195	174195	193742
Capital Expenditure of which	5650	5094	8207	9244	11934	10863	14688	21819	19337	19415	22122	21326	46756	31247	32585
Capital Outlay	4564	4055	5952	7462	9104	8573	12436	16336	14568	17173	17803	18995	20709	24298	28283
Loans & Advances (Gross)	1086	1040	2254	1782	2830	2291	2252	5483	4769	2,242	4,319	2,331	26047	6949	4302
Recoveries of Loans ,Advances	783	892	1602	1013	1934	2587	770	3181	1058	620	1351	684	3548	8881	5595
Revenue Deficit@	703	-1951	-2648	-4545	-1452	3531	2729	-1364	-1760	1788	6408	11985	12964	18370	17491
Fiscal Deficit	5570	2251	3956	3686	8548	11807	16647	17274	16519	20584	27,162	32,628	56,171	40736	44,481
Outstanding liabilities *	55144	62310	66320	71072	83662	99180	111657	127128	147416	170251	196589	235259	271364	3,11,882	3,55,845
GSDP at Current Prices#	219003	257833	310526	350819	401336	479733	584896	751486	855476	969216	1072775	1161963	1338766	1445227	1596253

* At the end of March; # 2004-05 base series till 2010-11 and after that 2011-12 base series; @ minus sign means surplus

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

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

(Percent of GSDP 2004-05 base series)

Fiscal Indicators	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013- 14	2014- 15	2015-16	2016-17	2017-18RE	2018-19BE
Own Tax Revenues	8.84	9.05	8.94	8.44	8.39	7.62	8.17	7.92	8.33	7.61	7.33	6.93	6.42	6.83	7.06
Own Non Tax Revenues	1.01	1.01	1.10	0.94	1.42	1.05	0.80	0.76	0.77	0.96	0.78	0.77	0.74	0.75	0.71
State's Own Revenue	9.85	10.06	10.05	9.38	9.82	8.67	8.96	8.68	9.10	8.57	8.11	7.69	7.16	7.57	7.76
Total Central Transfers	3.14	3.12	3.13	4.16	3.90	2.97	3.04	2.66	2.46	2.58	3.30	3.41	3.31	3.21	3.28
Share in Central Taxes	1.93	1.94	2.06	2.30	2.12	1.83	1.87	1.69	1.70	1.64	1.57	1.75	1.83	1.88	1.99
Grants	1.21	1.17	1.07	1.86	1.78	1.15	1.17	0.97	0.76	0.94	1.73	1.66	1.48	1.33	1.29
Total Revenue Receipts	12.99	13.17	13.18	13.55	13.71	11.64	12.00	11.34	11.55	11.15	11.41	11.10	10.47	10.78	11.04
Total Revenue Expenditure	13.31	12.41	12.32	12.25	13.35	12.38	12.47	11.16	11.35	11.33	12.01	12.13	11.44	12.05	12.14
Capital Expenditure of which	2.58	1.98	2.64	2.63	2.97	2.26	2.51	2.90	2.26	2.00	2.06	1.84	3.49	2.16	2.04
Capital Outlay	2.08	1.57	1.92	2.13	2.27	1.79	2.13	2.17	1.70	1.77	1.66	1.63	1.55	1.68	1.77
Loans & Advances (Gross)	0.50	0.40	0.73	0.51	0.71	0.48	0.39	0.73	0.56	0.23	0.40	0.20	1.95	0.48	0.27
Recoveries of Loans ,Advances	0.36	0.35	0.52	0.29	0.48	0.54	0.13	0.42	0.12	0.06	0.13	0.06	0.27	0.61	0.35
Revenue Deficit@	0.32	-0.76	-0.85	-1.30	-0.36	0.74	0.47	-0.18	-0.21	0.18	0.60	1.03	0.97	1.27	1.10
Fiscal Deficit	2.54	0.87	1.27	1.05	2.13	2.46	2.85	2.30	1.93	2.12	2.53	2.81	4.20	2.82	2.79
Outstanding liabilities *	25.18	24.17	21.36	20.26	20.85	20.67	19.09	16.92	17.23	17.57	18.33	20.25	20.27	21.58	22.29
GSDP at Current Prices#	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Computed using Table 3.1.

Since the economy was growing fairly fast, one could expect an equally fast growth of government sector. But the revenue receipts in current prices grew only at about 14 percent and the State's own revenue grew at 13.6 percent. So the own revenue buoyancy was less than one. On the other hand, the revenue expenditure grew at 14.58 percent which was slightly higher than revenue growth, leading to revenue deficit in some recent years.

It is noticed that while revenue receipts-GSDP ratio increased continuously from 12.99 percent in 2004-05 to 13.71 percent in 2008-09, it suddenly declined to 11.64 percent in 2009-10, registering about 2 percentage points fall over 2008-09. This was mainly due to the fact that own revenues as percentage of GSDP declined by 1 percentage point as a result of introduction of State VAT and central transfers declined by 1 percent point due to the fall in central tax buoyancy and slow down of the economy.

As indicated earlier, since 2005-06, the revenue account in Tamil Nadu showed either surplus or a smaller deficit. From 2015-16 onwards, the revenue deficit-GSDP ratio exceeded 1 percent. However, the fiscal deficit (=net borrowing) relative to GSDP was kept below 3 percent norm since 2004-05, except in only one year 2016-17 due to some adjustment made in connection with power sector. Interestingly this means that the borrowed amount was fully used for meeting capital expenditure.

The outstanding liabilities (stock of public debt) relative GSDP was 25.18 percent in 2004-05. After this year, this ratio started decreasing and reached 16.92 percent in 2011-12. Then, it started increasing and was slated to be 22.29 percent in 2018-18BE. This is still an acceptable level as the Twelfth Finance Commission had suggested an overall target of 28 percent for the states as whole. This is also well below the norms prescribed by the Thirteen Finance Commission and Fourteenth Finance Commission as well as the State's FRBM Act, 2003.

3.2 Trends and Composition of Revenue Receipts

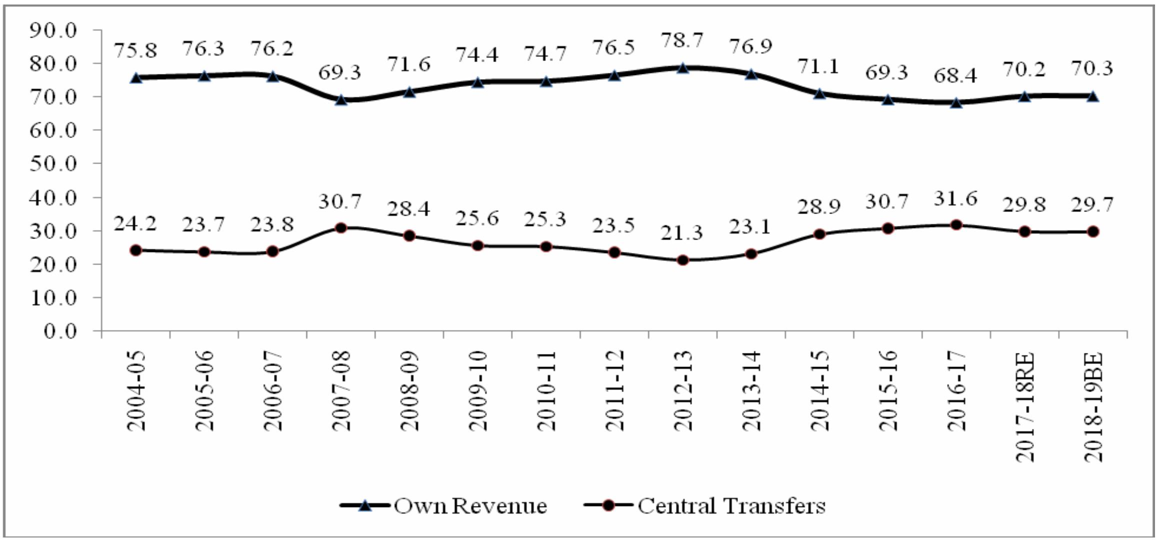
Own tax revenues constituted the largest single revenue source of Tamil Nadu. As per 2018-19BE, own taxes constitute about 64 percent of total revenue receipts of the State. Own non-tax accounts for 6.4 percent. While tax devolution (shared tax) contributes 18 percent, grants contribute 11.7 percent (Table 3.3). During 2004-05 to 2018-19BE, own revenue (own tax + own non-tax) accounts for 70-79 percent of total revenues of the State while the fiscal transfers to Tamil Nadu which comes from Finance Commission tax devolution and grants, Plan grants, and grants under various centrally sponsored schemes, accounts for 21-30 percent (Chart 3.1).

Table 3.3: Composition of Revenue Receipts (%)

Fiscal Indicators	2006 - 07	2007 - 08	2008-09	2009 - 10	2010 - 11	2011 - 12	2012 - 13	2013 - 14	2014 - 15	2015 - 16	2016 - 17	2017-18RE	2018-19BE
Own Tax	67.9	62.3	61.2	65.4	68.1	69.9	72.1	68.2	64.3	62.4	61.3	63.3	63.9
Own Non Tax	8.4	7.0	10.4	9.0	6.6	6.7	6.6	8.6	6.8	6.9	7.1	6.9	6.4
Own Revenue	76.2	69.3	71.6	74.4	74.7	76.5	78.7	76.9	71.1	69.3	68.4	70.2	70.3
Central Transfers	23.8	30.7	28.4	25.6	25.3	23.5	21.3	23.1	28.9	30.7	31.6	29.8	29.7
Share in Central Taxes	15.6	17.0	15.5	15.7	15.5	14.9	14.7	14.7	13.7	15.8	17.5	17.4	18.0
Grants	8.1	13.7	13.0	9.9	9.7	8.6	6.6	8.4	15.2	14.9	14.1	12.4	11.7
Total Revenue Receipts	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Computed using Table 3.1.

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



Relative to GSDP, own revenues declined from about 10.1 percent in 2006-07 to 9.1 percent in 2012-13 (Table 3.2). After that, it declined to about 7.1 in 2016-17, due to about 1 percentage point decline in own tax revenue from 2006-07 to 2012-13 and 1.5 percentage points decline from 2012-13 to 2016-17. During 2006-07 to 2016-17, the own non tax revenue also marginally declined by 0.27 percentage point. At the same time, the own tax revenue as a ratio of GSDP declined from 8.94 percent to 6.42 percent. It is noted that the slightly lower figure for own tax revenue (7.62 percent) in 2009-10 reflects the consensus of the revenue impact of introduction of State VAT.

It is noticed that the own non-tax revenue relative to GSDP was about 1 percent till 2010- 11 and from that year onwards, it was less than 1 percent. Part of the reason for low collection of non-tax revenue is that the State is not well endowed with major minerals. Another reason is that some user charges (such as drinking water and transport charges) do not go directly to the State's treasury but are collected by the State owned enterprises. There is some potential for the State to increase the non-tax revenues.

Table 3.4 shows the changing structure of non-tax revenues over time. The proportion of revenues from economic services was 52 percent in 1990-91 (not shown). After that year, it started declining and reached 27.6 percent in 2006-07. Then it continued to decline and reached 14.9 in 2016-17 (Table 3.4). During 2006-07 to 2016-17, the share of almost all economic services declined particularly the fisheries, forestry and metallurgical industries. The share of metallurgical industries alone declined by 5 percentage points. Although the State is endowed with long coastal areas, the contribution from fisheries sector is relatively low. Similarly the forestry, tourism etc bring very low revenues to State exchequer. These are the areas where the possibilities of raising fees and service charges in line with inflation exist and the State needs to examine this.

At the same time, the proportion of revenues for general services declined from 24.1 percent to 11.4 percent. But the proportion of revenues from social services increased from 15.2 percent to 28.3 percent. This was due to the rise in the shares of (i) education, sports and arts, (ii) medical and public health, and (iii) urban development. Efforts are needed to increase shares of other social services. Interest receipts accounted for 32.3 percent of total own non-tax revenues of the State in 2006-07. It increased to 43.6 percent in 2016-17.

There is a general belief that in health and education, private players dominate over the public due to their quality services. As Government provides many of education and health services either at free of cost or low cost, many of public institutions are either poorly maintained and/or proving low quality services. This issue needs to be addressed properly.

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

Sources	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
Interest Receipts	32.3	37.6	25.7	35.8	35.8	35.6	30.7	36.6	29.8	33.1	43.6	38.2	36.2
Dividends and Profits	0.88	1.2	0.63	0.96	0.58	0.62	0.66	0.8	1.2	1.6	1.9	0.0	0.0
General Services	24.1	16.9	11.8	14.1	8.67	11.39	9.44	7.3	9.9	16.0	11.4	10.8	10.1
Pub.Serv.Commission	0.17	0.15	0.07	0.1	0.24	0.06	0.37	0.2	0.2	0.2	0.1	0.00	0.00
Police	1.48	2.5	2.32	1.91	1.97	2.38	2.48	1.7	1.9	2.3	2.2	3.6	3.4
Jails	0.05	0.05	0.02	0.03	0.03	0.03	0.04	0.0	0.0	0.0	0.0	0.1	0.1
Stationery & Printing	0.31	0.27	0.14	0.18	0.31	0.15	0.23	0.2	0.2	0.2	0.2	0.0	0.0
Public Works	0.39	0.65	0.26	0.39	0.58	0.25	0.23	0.2	0.2	0.2	0.2	0.2	0.2
Other Adm. Services	2.71	3.59	2.28	3.93	3.29	5.08	2.63	1.9	2.2	7.8	4.4	2.0	1.8
Pension & Retir..Benefits								0.3	0.3	0.3	0.3	0.2	0.2
Other services	19.1	9.79	7.47	7.67	2.34	3.47	3.46	2.8	4.7	4.9	3.9	4.8	4.4
Social Services	15.2	16.7	10.4	26.4	29.5	27.82	36.5	36.8	40.4	31.8	28.3	34.1	35.7
Education, Sports, Art	6.31	9.12	5.3	7.63	11.2	8.5	11.5	18.1	23.1	15.2	12.1	12.1	12.8
Medical & Pub. Health	2.82	2.95	2.48	1.82	2.84	5.36	6.65	5.4	6.0	4.7	4.3	8.3	8.2
Family Welfare	1.29	0	0.46	0.58	0.69	1	1.07	0.8	1.2	2.1	1.6	0.00	0.00
Water Supply& San.	0.04	0.02	0	0.01	0.01	0	0.08	0.00	0.02	0.02	0.00	0.01	0.01
Housing	1.75	0.92	0.52	0.93	1.23	0.99	2.44	0.7	1.1	1.2	0.7	1.0	1.4
Urban Development	0.67	1.15	0.11	13.1	11.7	10.34	12.7	10.4	7.3	7.0	6.5	0.0	0.0
Information and Publicity	0.17	0.16	0.16	0.54	0.08	0.1	0.12	0.1	0.1	0.1	0.1	0.0	0.0
Labour & Employment	1.14	1.1	0.72	0.76	0.88	0.76	1.26	0.7	0.9	1.0	0.8	0.0	0.0
Social Security,Welfare	0.91	1.14	0.57	0.89	0.84	0.66	0.65	0.5	0.5	0.5	0.9	0.7	2.2
Other Social Services	0.1	0.13	0.1	0.1	0.11	0.11	0.08	0.0	0.0	0.0	1.3	10.2	9.3
Economic Services	27.6	27.6	51.5	22.8	25.5	24.6	22.7	19.3	18.8	17.5	14.9	16.9	18.0
Crop Husbandry	2.18	2.49	1.29	1.84	2.5	2.2	1.92	2.3	1.8	0.5	0.6	0.6	0.5
Animal Husbandry	0.21	0.22	0.14	0.17	0.16	0.13	0.13	0.1	0.1	0.1	0.2	0.1	0.1
Dairy Development	0.04	0.04	0.03	0.03	0.04	0.03	0.06	0.0	0.0	0.0	0.0	0.0	0.0
Fisheries	0.53	0.64	0.34	0.09	0.12	0.14	0.16	0.1	0.1	0.1	0.1	0.1	0.1
Forestry and Wild Life	2.4	1.4	1.45	1.73	2.99	1.86	1.43	2.1	1.7	1.0	0.3	1.0	0.9
Cooperation	0.42	0.51	0.33	0.42	0.42	0.34	0.31	0.2	0.3	0.3	0.3	0.3	0.3
Other Agri. Programs	0.68	0.68	0.42	0.6	0.62	0.47	0.42	0.4	0.4	0.4	0.4	0.4	0.4
Other rural dev.programs								0.1	0.3	0.6	0.3	0.3	0.3
Major and Medium irri.	1	0.58	0.45	0.66	0.57	0.44	0.39	0.4	0.6	0.5	0.3	0.4	0.3
Minor Irrigation	0.05	0.05	0.13	0.03	0.04	0.03	0.02	0.0	0.0	0.0	0.0	0.0	0.0
Energy								0.2	0.0	0.1	0.1	0.0	0.0
Village & Small ind.	1.51	0.46	0.15	0.18	0.59	0.33	0.47	0.4	0.2	0.4	0.2	0.3	0.3
Industries	0	0.01	35.8	3.01	0.68	0.01	0.51	0.3	0.1	0.1	0.1	0.0	0.0
Metallurgical Industries	16.6	17.6	9.23	12.2	14.5	16.6	14.2	10.0	11.7	11.0	9.9	11.3	12.9
Ports and Light Houses	0	0.03	0	0.05	0.1	0.08	0.08	0.0	0.0	0.0	0.0	0.0	0.0
Roads & Bridges	0.96	1.21	0.8	1.22	1.4	1.09	1.26	0.7	0.8	1.8	1.3	1.4	1.2
Inland Water Transport	0.08	0.07	0.04	0.05	0.04	0.04	0.01	0.01	0.01	0.00	0.00	0.00	0.00
Tourism	0.45	0.69	0.45	0.06	0.03	0.01	0.02	0.01	0.00	0.00	0.00	0.00	0.00
Civil Supplies	0.08	0.09	0.09	0.08	0.14	0.09	0.07	0.05	0.05	0.04	0.03	0.05	0.05
Others	0.56	0.85	0.33	0.44	0.5	0.69	1.29	1.8	0.5	0.5	0.5	0.6	0.6
Non-Tax Revenues	100	100	100	100	100	100	100	100	100	100	100	100	100

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

As shown in Table 3.2, the transfers remained around 2.5-4 percent of the total revenues of Tamil Nadu during 2006-07 to 2018-19BE. The shared tax is the second largest single source of revenue of the State. Its share ranged between 13.7 percent and 18 percent, while the share of grants ranged between 8.1 percent and 15.2 percent. It is noted that the combined share of shared tax and grants was about 23.8 percent in 2006-07. It was 32 percent in 1980-81 (not shown). This decline is partly due to the changes in the successive Finance Commission's recommendations and modified Gadgil formula for allotting state plan assistance by the Centre and partly as a result of State's own effort in resource mobilization. Currently the combined share of shared tax and grants is about 30 percent. This increase is mainly due to fall in own revenues of the State as stated earlier.

Table 3.5 shows Tamil Nadu's share in Central gross taxes as well as grants recommended by various Finance Commissions. Tamil Nadu has been getting a lower and lower share of transfers from the Centre. The Thirteenth Finance Commission has recommended Tamil Nadu's share in total divisible pool of Central taxes at 4.969 percent (5.047 percent in the case of service tax) as against the share of 5.305 percent recommended by the Twelfth Finance Commission. However, the Thirteenth Finance Commission has recommended a total grant of Rs. 11366.9 crore for the five year period for maintenance roads and bridges, improving delivery of justice, issuing UIDS, forests, water sector, elementary education etc. As the Fourteenth Finance Commission changed its approach (due to the abolition of Union Planning Commission), it has recommended 4.023 share for Tamil Nadu. Thus Tamil Nadu's share in tax devolution declined from 7.9 percent in Fourth Commission to 4.023 percent in Fourteenth Finance Commission. This is the major concern for the State.

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

(percent)

Finance Commissions	Share in Central Taxes	Share in FC Grants
Third	7.48	4.92
Fourth	7.9	4.86
Fifth	7.56	3.21
Sixth	7.59	0
Seventh	7.68	1.69
Eighth	6.85	0.58
Ninth (1)	7.12	1.74
Ninth (2)	6.84	1.05
Tenth	6.12	3.64
Eleventh	5.39	2.28
Twelfth	5.31	2.9
Thirteenth	4.98	4.396
Fourteenth	4.023	

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

The fall in tax devolution share is not only a concern for Tamil Nadu but also for many better performing States particularly the Southern States. During the Fifth Finance Commission period, the combined share of all four Southern States was 24.07 percent (see Table 3.6). During the 14th Finance Commission period, it declined to 15.54 percent (including Telangana it was 17.9 percent). One of the reasons for the change in the share is changing devolution criteria adopted by various Commissions due to their Terms of References (see Table 3.7).

Table 3.6: Share of Southern and Top 4 Sharing States in Tax Devolution

States	14th	13th	12th	11th	10th	9th	8th	7th	6th	5th
Andhra Pradesh	4.305	6.937	7.356	7.701	7.91	7.48	7.72	7.81	8.03	7.55
Karnataka	4.713	4.328	4.459	4.93	4.86	4.51	4.80	5.23	5.40	4.98
Kerala	2.5	2.341	2.665	3.057	3.50	3.32	3.53	3.98	3.82	3.98
Tamil Nadu	4.023	4.969	5.305	5.385	6.12	6.84	6.85	7.68	7.59	7.56
Telangana	2.437									
All 4 Southern States	**17.98**	**18.58**	**19.79**	**21.07**	**22.39**	**22.15**	**22.90**	**24.70**	**24.84**	**24.07**
Southern States Excl. Telangana	**15.54**	**18.58**	**19.79**	**21.07**	**22.39**	**22.15**	**22.90**	**24.70**	**24.84**	**24.07**
Bihar	9.665	10.917	11.028	14.597	11.29	11.00	11.23	11.18	10.40	11.05
Jharkhand	3.139	2.802	3.361							
Madhya Pradesh	7.548	7.12	6.711	8.838	7.40	7.44	7.81	7.98	7.66	7.45
Chhattisgarh	3.08	2.47	2.654							
Uttar Pradesh	17.959	19.677	19.264	19.798	16.25	15.79	16.58	16.65	16.20	16.77
Uttarakhand	1.052	1.12	0.939							
West Bengal	7.324	7.264	7.057	8.116	6.84	7.12	7.90	8.18	8.28	8.17
All 4 Top Share States	**49.77**	**51.37**	**51.01**	**51.35**	**41.78**	**41.35**	**43.52**	**43.99**	**42.54**	**43.44**
Top Share States Exc. Jharkhand, Chhattisgarh and Uttarakhand	**42.50**	**44.98**	**44.06**	**51.35**	**41.78**	**41.35**	**43.52**	**43.99**	**42.54**	**43.44**

Source: various Finance Commission Reports.

At the same time the combined share of Bihar, Madhya Pradesh, Uttar Pradesh and West Bengal (larger share States), increased from 43.44 percent to 49.8 percent (more than doubled than that of the combined share of southern States). As these States have been given strong support by various Finance Commissions over the last 50 years, the question remains is: how long the support to these States need to be extended? The continued support may be an incentive for these States to keep their own revenue efforts at low level.

Table 3.7: Tax Devolution Criteria of Various Finance Commissions

Criteria	5th	6th	7th	8th	9th	10th	11th	12th	13th	14th
Population	80+16.67*	75	25	25	25	20	10	25	25	17.5
Income Distance	-	25	-	50	50	60	62.5	50	-	50
Inverse Income	-	-	25	25	12.5	-	-	-	-	-
Poverty Ratio	-	-	25	-	12.5	-	-	-	-	-
Revenue Equalisation	-	-	25	-	-	-	-	-	-	-
Area	-	-	-	-	-	5	7.5	10	10	15
Index of Backwardness	20– 6.67*	-	-	-	-	-	-	-	-	-
Index of Infrastructure	-	-	-	-	-	5	7.5	-	--	-
Tax Effort	-	-	-	-	-	10	5	7.5	-	-
Fiscal Discipline	-	-	-	-	-	-	7.5	7.5	17.5	-
Fiscal Capacity Transfers	-	-	-	-	-	-	-	-	47.5	-
Demographic Change	-	-	-	-	-	-	-	-	-	10
Forest Cover	-	-	-	-	-	-	-	-	-	7.5
Total	100	100	100	100	100	100	100	100	100	100

* Among the states with per capita income below the all-state average; Source: Reports of Various Finance Commissions

Table 3.8 shows the composition of central grants to Tamil Nadu from 2006-07 to 2018-19BE. While the plan grants increased from Rs. 2393 crore in 2006-07 to Rs. 13428 crore in 2015-16, the non plan grants increased from Rs. 932 crore to Rs. 5832 crore. During this period, the plan grants increased at an average annual rate of 25.07 percent while the non-plan increased at about 49 percent. Of plan grants, the state plan grant grew at 37.6 percent per annum while the CSS grew at 6.9 percent per annum. The central plan grants increased at 31 percent per annum. It is also noted that in absolute term, total grants increased from Rs.3326 crore to Rs. 20627 crore during 2006-07 to 2018-19BE registering an average rate of growth of 21.5 percent per annum.

Table 3.8: Composition of Central Grants to Tamil Nadu

Type of Grants	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18R	2018-19B
Rs. Crore													
Non Plan/other Grants	932	3463	2626	1800	2813	2585	1311	3194	6078	5832			
Plan Grants of which	2393	3069	4509	3714	4027	4701	5188	5928	12511	13428	12751		
State Plan Schemes	1678	2166	3378	2253	2142	2562	2765	3349	11255	12017	10220		
Central Plan Schemes.	88	81	101	130	158	223	224	264	282	694	495		
Centrally Sponsored Schemes	627	822	1030	1331	1727	1916	2199	2315	974	717	2035	12807	13204
Other Grants/Transfers											6757	2557	2981
Finance Commission Grants												3901	4442
Grants from Centre	3326	6532	7135	5514	6840	7286	6499	9122	18589	19260	19838	19265	20627
Percentages													
Non Plan Grants	28	53	36.8	32.6	41.1	35.5	20.2	35	32.7	30.3	0	0	0
Plan Grants of which	72	47	63.2	67.4	58.9	64.5	79.8	65	67.3	69.7	64.3	0	0
State Plan Schemes	50.5	33.2	47.3	40.9	31.3	35.2	42.5	36.7	60.5	62.4	51.5	0	0
Central Plan Schemes.	2.6	1.2	1.4	2.4	2.3	3.1	3.4	2.9	1.5	3.6	2.5	0	0
Centrally Sponsored Schemes	18.9	12.6	14.4	24.1	25.3	26.3	33.8	25.4	5.3	3.7	10.3	66.5	64.0
Other Grants/Transfers											34.1	13.3	14.5
Finance Commission Grants											0	20.3	21.5
Grants from Centre	100	100	100	100	100	100	100	100	100	100	100	100	100

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

3.3 Interstate Comparison

Tamil Nadu’s revenue performance compares well with those of other major States in the country. In 2016-17 RE, per capita own tax revenue of Tamil Nadu at Rs. 11490 was the fourth highest among major Indian States. That is, Tamil Nadu ranked fourth in per capita own tax revenue. The top three States in per capita own tax revenue were Haryana, Kerala and Karnataka (Table 3.9). In respect of own tax revenue as percent of GSDP, Tamil Nadu occupied the ninth rank with 6.7 percent.

Table 3.9: Revenue Receipts in Selected States in 2016-17 RE

States	Per capita (Rs.)				As % of GSDP			
	Revenue	Own Tax Revenue	Own Non Tax Revenue	Central Transfers	Revenue	Own Tax Revenue	Own Non Tax Revenue	Central Transfers
Andhra Pradesh	24290	10389	786	10627	15.4	7	0.6	7.7
Assam	17599	3768	1346	12485	23.1	4.9	1.8	16.4
Bihar	11223	2455	210	8558	29.1	6.4	0.5	22.2
Chhattisgarh	22477	8139	2692	11646	21.6	7.8	2.6	11.2
Gujarat	17298	9955	2210	5132	9.7	5.6	1.2	2.9
Haryana	21999	13799	2676	5524	11	6.9	1.3	2.8
Himachal Pradesh	36953	9997	2093	24863	21.3	5.8	1.2	14.3
Jharkhand	15961	4636	2714	8611	22.7	6.6	3.9	12.3
Karnataka	20473	12667	1094	6711	11.7	7.3	0.6	3.8
Kerala	23489	12979	2930	7580	13.1	7.2	1.6	4.2
Madhya Pradesh	16000	5602	1321	9077	19.7	6.9	1.6	11.2
Maharashtra	18326	11428	1384	5513	9.7	6.1	0.7	2.9
Orissa	18010	5224	1987	10799	21.2	6.2	2.3	12.7
Punjab	17219	10140	2099	4981	12	7.1	1.5	3.5
Rajasthan	15678	6327	1679	7672	15.3	6.2	1.6	7.5
Tamil Nadu	18929	11490	1483	5956	11.1	6.7	0.9	3.5
Uttar Pradesh	12386	4148	1268	6971	21.9	7.3	2.2	12.3
Uttarkhand	23237	9998	1211	12028	12.9	5.6	0.7	6.7
West Bengal	13404	5071	211	8123	12.2	4.6	0.2	7.4

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

Tamil Nadu ranked eighth in terms per capita revenue receipts. However, it ranked 16th in terms of revenue receipts-GSDP ratio. In terms of per capita own non tax revenues, Tamil Nadu also compared poorly. It occupied 9th rank in terms of per capita own non tax and ranked 13th in terms of own non-tax revenue-GSDP ratio. It may be noticed that the per capita own non-tax revenue of Tamil Nadu of Rs. 1483 was only half of the top ranked Kerala's per capita own non-tax revenue. This is a clear indication that there is a need for Tamil Nadu to increase its non-tax revenue.

As can be seen in Table 3.10, the share of own tax revenues in Tamil Nadu constitutes 60.7 percent of total revenues. This is the fourth highest among the major Indian States, next only to Haryana (62.73 percent), Maharashtra (62.36 percent) and Karnataka (61.87 percent). Tamil Nadu ranked 11th in terms of percentage share of non tax revenues.

Table 3.10: Composition of Revenue Receipts in Selected States in India (2016- 17RE)

(Percent)

States	Own Tax	Own Non-tax	Shared Tax	Grants
Andhra Pradesh	53.00	3.24	21.31	22.44
Assam	21.41	7.65	32.09	38.85
Bihar	21.87	1.87	46.17	30.09
Chhattisgarh	36.21	11.98	29.96	21.86
Gujarat	57.55	12.78	16.74	12.93
Haryana	62.73	12.16	12.01	13.10
Himachal Pradesh	27.05	5.66	16.25	51.04
Jharkhand	29.04	17.00	31.64	22.31
Karnataka	61.87	5.34	21.65	11.14
Kerala	55.26	12.47	18.88	13.38
Madhya Pradesh	35.01	8.26	36.54	20.18
Maharashtra	62.36	7.55	15.34	14.75
Orissa	29.01	11.03	35.41	24.55
Punjab	58.89	12.19	18.69	10.24
Rajasthan	40.36	10.71	28.82	20.11
Tamil Nadu	60.70	7.83	17.06	14.40
Uttar Pradesh	33.49	10.24	38.10	18.17
Uttarkhand	43.03	5.21	25.39	26.38
West Bengal	37.83	1.58	34.50	26.09

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

It is also noticed from Table 3.9 that Tamil Nadu was the fourth lowest in terms of central transfers as percentage of GSDP in 2016-17RE, next only to Haryana, Maharashtra and Gujarat. It also the sixth lowest in terms of percentage share of grants and fifth lowest in terms of percentage share of shared tax revenues.

3.4 Concluding Remarks

This Chapter has briefly reviewed the overall fiscal trends in Tamil Nadu. Tamil Nadu's government finance has been well managed since 2005-06. The revenue account showed either surplus or smaller deficit in almost all years except in recent two years. The fiscal deficit as a ratio of GSDP was kept below the 3 percent norm prescribed in the FRBM Act, 2003 in all except in only one year, implying that the borrowed mount was utilized for making capital investments. The outstanding liabilities relative to GSDP was also kept below the norm prescribed by various Financial Commissions and FRBM legislation.

During 2006-07 to 2016-17, the own tax revenue as a ratio of GSDP declined from 8.94 percent to 6.42 percent due various factors including the introduction of State VAT, global slowdown of the economy etc. The own non tax revenue also marginally declined by 0.27

percentage point. Although the State is endowed with long coastal areas, the contribution from fisheries sector is relatively low. Similarly the forestry, tourism etc bring very low revenues to State exchequer. There is a potential for the State to increase its non-tax revenues. Tamil Nadu's share in tax devolution also declined from 7.9 percent in Fourth Commission period to 4.023 percent in Fourteenth Finance Commission period. This is the major concern for the State.

Tamil Nadu ranks eighth in terms per capita revenue receipts and fourth in per capita own tax revenue in recent year. However, it ranks 16th in terms of revenue receipts-GSDP ratio and ninth in own tax-GSDP ratio. Tamil Nadu Government needs to take efforts to improve its own revenue performances.

Chapter 4

Tax Performance

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

4.1. Composition of Own Tax Revenue

As mentioned in the previous Chapter, own tax revenue is the largest single revenue source of Tamil Nadu Government. During 2006-07 to 2016-17, the own tax-GSDP ration declined from 8.94 percent to 6.42 percent, i.e., by 2.52 percentage points. However, Tamil Nadu still ranked fourth in per capita own tax revenue next only to Haryana, Kerala and Karnataka.

During 2006-07 to 2018-19BE, the own tax revenues of Tamil Nadu (in nominal terms) grew at average rate of 13.17 percent, which was lower than that of GSDP in the same period (15.19 percent). As a result, the average own tax buoyancy of the State is estimated at 0.87.

Among the state taxes, sales tax (predominantly State VAT and recently GST) is by far the most important own tax revenue source (Table 4.1). The sales tax as percentage of GSDP was 5.7 percent in 2006-07 and decreased to 4.8 percent in 2011-12. After that it started increasing marginally every year and it is estimated to be 5.4 in 2018-19 BE.

Next comes state excise. Its relative importance has increased steadily till 2012-13. Its percentage share increased from 14.4 percent in 2006-07 to 17 percent in 2012-13. After that it started declining and reached 6 percent level in 2018-19BE. This decrease in state excise is due to abolition of vend fees and additional vend fees for malt liquors and foreign liquors and sprits. The state excise relative to GSDP declined from 1.4 percent to 0.4 percent during 2012-13 to 2018-19BE.

Table 4.1: Composition of Tax Revenue

Taxes	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18R	2018-19B
As Percent of Own Tax Revenue													
Sales Tax+GST	63.8	61.3	61.4	62.0	59.9	61.0	61.8	72.6	72.7	71.5	73.6	75.2	77.1
State Excise	14.4	16.1	17.1	18.4	17.0	16.8	17.0	6.8	7.3	7.3	7.3	6.6	6.2
Stamps Duties	10.8	12.8	11.3	10.0	9.7	11.1	10.7	11.2	10.6	10.8	8.4	9.9	9.7
Motor Vechile tax	4.5	5.0	5.1	5.5	5.6	5.2	5.5	5.0	4.9	5.3	5.6	5.7	5.5
Goods&Pass. Tax	4.5	3.7	2.9	3.0	3.4	3.6	3.2	2.5	2.4	2.7	3.0	0.9	-
Others	2.0	1.1	2.3	1.0	4.4	2.4	1.8	1.9	2.1	2.5	2.1	1.7	1.4
Own Tax Revenue	100	100	100	100	100	100	100	100	100	100	100	100	100
As Percent of GSDP													
Sales Tax+GST	5.7	5.2	5.2	4.7	4.9	4.8	5.1	5.5	5.3	5.0	4.7	5.1	5.4
State Excise	1.3	1.4	1.4	1.4	1.4	1.3	1.4	0.5	0.5	0.5	0.5	0.4	0.4
Stamps Duties	1.0	1.1	0.9	0.8	0.8	0.9	0.9	0.9	0.8	0.8	0.5	0.7	0.7
Motor Vechile tax	0.4	0.4	0.4	0.4	0.5	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Goods&Pass. Tax	0.4	0.3	0.2	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1	-
Others	0.2	0.1	0.2	0.1	0.4	0.2	0.1	0.1	0.2	0.2	0.1	0.1	0.1
Own Tax Revenue	8.9	8.4	8.4	7.6	8.2	7.9	8.3	7.6	7.3	6.9	6.4	6.8	7.1
Tax Buoyancy (%)													
Sales Tax+GST	0.7	0.2	1.0	0.5	1.2	2.0	1.5	1.6	0.6	0.1	0.7	2.2	1.6
State Excise	1.2	1.5	1.4	0.9	0.9	1.7	1.6	-4.4	1.3	0.2	0.5	0.5	0.8
Stamps Duties	2.1	2.1	0.0	-0.2	1.2	3.0	1.2	0.6	0.1	0.5	-1.1	4.5	1.1
Motor Vechile tax	0.6	1.4	1.1	0.9	1.4	1.2	1.9	-0.5	0.4	1.3	1.0	2.0	1.0
Goods&Pass. Tax	1.3	-0.9	-0.8	0.6	2.2	2.2	0.4	-1.4	0.3	1.5	1.2	-8.1	-
Others	1.9	-3.4	10.2	-2.7	21.8	-2.3	-0.9	0.7	1.8	2.8	-0.6	-1.1	-0.3
Own Tax Revenue	0.9	0.5	1.0	0.4	1.4	1.8	1.4	0.3	0.6	0.3	0.4	1.9	1.3

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

The share of stamps duty and registration was 10.8 percent in 2006-07 and 9.7 percent in 2018-19. The stamp duty and registration as percentage of GSDP declined from 1 percent to 0.7 percent. The motor vehicle tax relative to GSDP also increased marginally from 0.6 percent to 1 percent.

The latest data on monthly GST collection reveals that from July 207 to March 2018, Tamil Nadu received Rs. 24,907 crore through GST. After that till Jan 2019, it received Rs. 34589 crore. On an average the GST revenue in Tamil Nadu grew at 8-10 percent in each month. As the GST is stabilizing now, it is expected that the State’s own tax revenue will increase soon.

It is noted that the GST compensation from the Centre would be worked out based on 14 percent growth. Therefore, the gap between actual growth and 14 percent growth is the compensation to be received by the State.

4.2 Own Tax Buoyancy

Table 4.1 also shows the annual buoyancy of major taxes. During 2006-07 to 2018-19BE, the own tax buoyancy ranged between 0.3 (in 2013-14) and 1.8 (in 2011-12). In 6 out of 14 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 are fluctuating over the years and in many years their buoyancies are less than one or negative.

4.3 Interstate Comparison

As can be seen in Table 4.2, Tamil Nadu ranks third in per capita sales tax revenue (Rs. 8382), next only Kerala (Rs.10245) and Haryana (Rs. 9627). It ranks fourth in sales tax revenue-GSDP ratio (5 percent), next only to Kerala (6.6 percent) among the major States in the country. It is also interesting to note that the state excise in Tami Nadu accounts for nearly 17 percent total own tax revenues, which is the second largest among the major States next only to Karnataka (21.1 percent).

4.4. Concluding Remarks

Sales tax is by far the most important own tax revenue source in Tamil Nadu. It relative to GSDP was 5 percent in 2016-17RE. In fact Tamil Nadu ranks third in per capita sales tax revenue among the major Indian States. The share of state excise in the total own tax revenue of Tamil Nadu declined from 14.4 percent in 2006-07 to 6 percent in 2018-19BE due to the abolition of vend fees and additional vend fees for malt liquor and foreign liquor and spirits.

During 2006-07 to 2018-19BE, the own tax buoyancy ranged between 0.3 (in 2013-14) and 1.8 (in 2011-12). In 6 out of 14 years, the own tax buoyancy is above 1 and in the rest, it is less than one. It is the major concern. Another concern is that the buoyancy of almost all taxes is fluctuating over the years and in many years their buoyancies are less than one or negative.

Table 4.2: Composition of Own Tax Revenues in Major Indian States (2016-17 RE)

States	Sales Tax Per Capita % of		Sales	Composition of Own tax Revenue (%) State Stamps and Motor			Other
	(Rs.)	GSDP	Tax	Excise	Reg. Fees	Vehicle Tax	Taxes
Andhra Pradesh	7114	5.2	68.5	10.1	6.6	5.1	9.7
Assam	2794	3.7	74.1	8.0	2.3	4.4	11.2
Bihar	1234	3.3	50.3	0.2	2.2	5.0	42.4
Chhattisgarh	4476	4.8	55.0	17.0	6.6	4.5	16.8
Gujarat	7015	3.9	70.5	0.2	8.8	5.4	15.1
Haryana	9627	4.8	69.8	13.9	9.2	4.2	2.9
Himachal Pradesh	6240	3.6	62.4	18.7	3.4	3.5	11.9
Jharkhand	3517	5.4	75.9	9.0	4.2	6.6	4.4
Karnataka	7166	4.0	56.6	20.1	9.4	6.6	7.3
Kerala	10245	5.7	78.9	5.4	6.7	7.3	1.7
Madhya Pradesh	2837	3.5	50.6	17.4	8.8	5.0	18.1
Maharashtra	6783	3.6	59.4	9.9	14.6	4.9	11.2
Orissa	3066	3.6	58.7	12.9	4.6	5.3	18.5
Punjab	6233	4.3	61.5	17.9	8.6	4.9	7.1
Rajasthan	3905	3.8	61.7	16.2	6.9	7.8	7.4
Tamil Nadu	8382	5.0	72.9	7.3	9.1	5.4	5.2
Uttar Pradesh	2368	4.1	57.1	19.1	15.5	5.6	2.7
Uttarkhand	6585	3.7	65.9	17.5	7.2	4.7	4.6
West Bengal	3125	3.4	61.6	9.8	9.0	3.9	15.7

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

Chapter 5

Growth and Composition of Expenditure

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

5.1 Composition of Budget Expenditure

The total expenditure of government of Tamil Nadu ranged between 13.3 and 16.3 percent of GSDP during 2006-07 to 2018-19BE as shown in Table 5.1. The revenue expenditure accounted for above 80 percent in almost all years except in two years (2010- 11 and 2016-17). It is noted that its share declined from 82.3 percent in 2006-07 to 76.6 percent in 2016-17 while the share of capital expenditure increased from 17.7 percent to 23.4 percent. Relative to GSDP, the revenue expenditure declined from 12.3 percent in 2006-07 to 11.4 percent in 2016-17 while the capital expenditure increased from 2.6 percent to 3.5 percent.

Table 5.1: Composition of Budget Expenditure

Expenditures	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18RE	2018-19BE
Rs. Crore													
Revenue Expenditure	38265	42975	53590	59375	72916	83838	97067	109825	128828	140993	153195	174195	193742
Capital Expenditure	8207	9244	11934	10863	14688	21819	19337	19415	22122	21326	46756	31247	32585
Total Expenditure	46472	52219	65524	70238	87604	105657	116404	129240	150950	162319	199951	205442	226327
As Percentage of Total expenditure													
Revenue Expenditure	82.3	82.3	81.8	84.5	83.2	79.3	83.4	85.0	85.3	86.9	76.6	84.8	85.6
Capital Expenditure	17.7	17.7	18.2	15.5	16.8	20.7	16.6	15.0	14.7	13.1	23.4	15.2	14.4
Total Expenditure	100	100	100	100	100	100	100	100	100	100	100	100	100
As Percentage of GSDP													
Revenue Expenditure	12.3	12.2	13.4	12.4	12.5	11.2	11.3	11.3	12.0	12.1	11.4	12.1	12.1
Capital Expenditure	2.6	2.6	3.0	2.3	2.5	2.9	2.3	2.0	2.1	1.8	3.5	2.2	2.0
Total Expenditure	15.0	14.9	16.3	14.6	15.0	14.1	13.6	13.3	14.1	14.0	14.9	14.2	14.2

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

5.2 Trends and Composition of Revenue Expenditures

Table 5.2 shows that development services accounted for 54.3 percent of Tamil Nadu's total revenue expenditure outlay in 2006-07. It increased to 68.3 percent in 2016-17. During 2006-07 to 2016-17, the proportion of outlay on social services increased from 34.8 percent to 36.1 percent while the proportion of outlay on economic services increased from 20 percent to 22.2 percent (Chart 5.1). However, during the same period the outlay on social services relative to GSDP declined from 4.3 percent to 4.1 percent while the proportion of outlay on economic services relative to GSDP remained at 2.5 percent (Table 5.3).

Table 5.2: Revenue Expenditures: Development Vs Non Development Expenditures

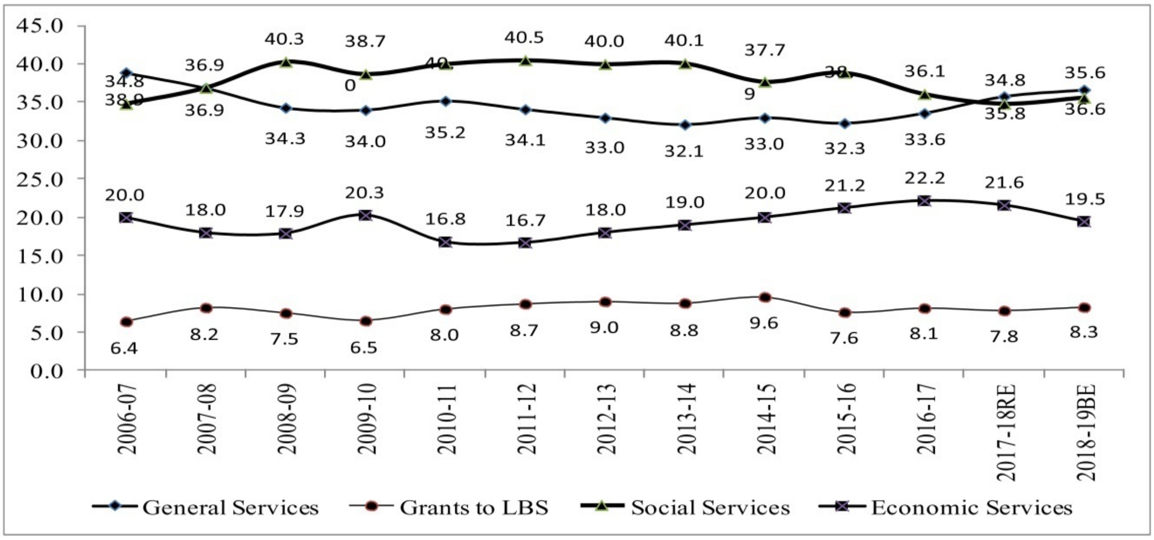
(As % of Total Revenue Expenditures)

Year	General Services	Grants to LBS	Non-Development	Social Services	Economic Services	Development Expenditures
2006-07	38.9	6.4	45.3	34.8	20	54.8
2007-08	36.9	8.2	45.1	36.9	18	54.9
2008-09	34.3	7.5	41.8	40.3	17.9	58.2
2009-10	34	6.5	40.5	38.7	20.3	59
2010-11	35.2	8	43.2	40	16.8	56.8
2011-12	34.1	8.7	42.9	40.5	16.7	57.1
2012-13	33.0	9.0	42.0	40.0	18.0	58.0
2013-14	32.1	8.8	40.9	40.1	19.0	59.1
2014-15	33.0	9.6	42.6	37.7	20.0	57.7
2015-16	32.3	7.6	39.9	38.9	21.2	60.1
2016-17	33.6	8.1	41.7	36.1	22.2	58.3
2017-18RE	35.8	7.8	43.6	34.8	21.6	56.4
2018-19BE	36.6	8.3	44.9	35.6	19.5	55.1

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

The proportion of outlay on non-development services declined marginally from 45.3 percent in 2006-07 to 41.7 percent in 2016-17 (Table 5.2). The decline in proportion has taken place mainly under interest payment and debt servicing. The interest payment and debt servicing relative to GSDP declined from 1.92 percent in 2006-07 to 1.56 percent in 2016-17 (Chart 5.2). It is noticed that the share of compensation and assignments to local body governments in Tamil Nadu increased from 0.79 percent of GSDP in 2006-07 to 0.93 percent in 2016-17. At the same period, its share in the total revenue expenditure also increased from 6.4 percent to 8.1 percent. It is also noticed from Table 5.4 that almost both urban bodies and rural bodies get equal share, except in a few recent years where urban share has slightly declined.

Chart 5.1: Composition of Revenue Expenditure (%)



In terms of absolute amount Tamil Nadu has provided the highest compensation to local bodies among the major Indian States in 2016-17RE. It also ranks first in terms of the compensation to LBs as percent of revenue expenditure, ranks second in terms of the compensation to LBs as percent of revenue receipts, next only to Kerala, and ranks third in terms of the compensation to LBS as percent of own tax revenues among the major States in the country (Table 5.5).

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

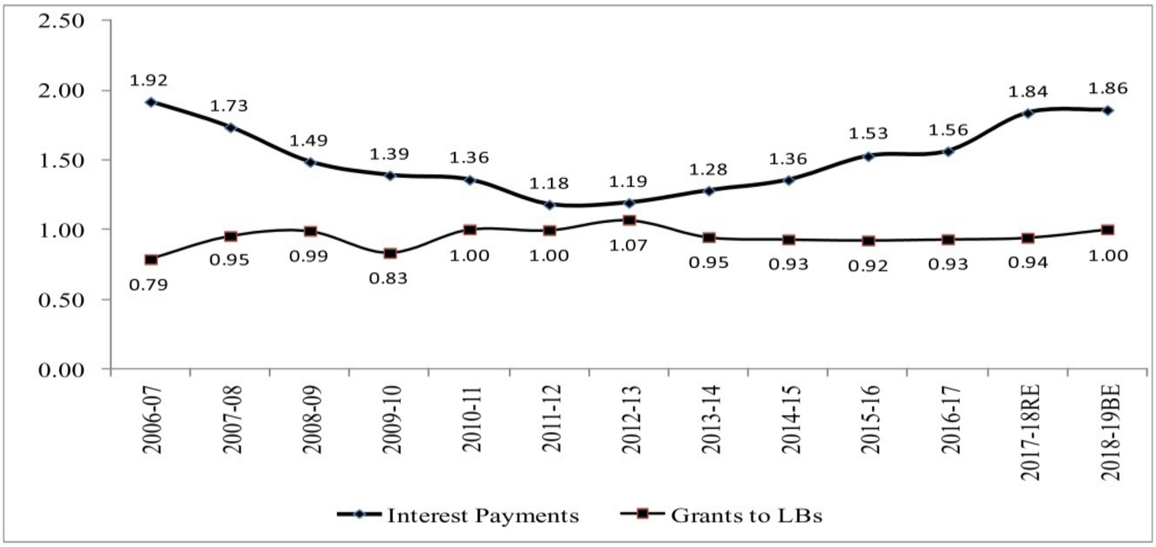


Table 5.3: Composition of Revenue Expenditure

(As % of GSDP)

Services	200 6-07	200 7-08	200 8-09	200 9-10	201 0-11	201 1-12	201 2-13	201 3-14	201 4-15	201 5-16	201 6-17	2017-18R E	2018-19B E
Total Revenue Expenditure	12.3	12.2	13.4	12.4	12.5	12.6	13	11.3	12.0	12.1	11.4	12.1	12.1
General Services	4.8	4.5	4.6	4.2	4.4	4.3	4.3	3.7	3.9	3.9	3.8	4.3	4.4
Organs of State	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fiscal Services	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest Payment & Debt ser.	1.9	1.9	1.6	1.4	1.4	1.4	1.5	1.3	1.4	1.5	1.6	1.8	1.9
Administrative Services	0.7	0.7	0.8	0.8	0.7	0.8	0.8	0.6	0.7	0.6	0.6	0.6	0.7
Pensions & Misc. Gen.Ser.	1.8	1.7	1.9	1.8	2	1.9	1.8	1.6	1.7	1.6	1.5	1.6	1.7
Grants to localbodies	0.8	1	1	0.8	1	1.1	1.2	0.9	0.9	0.9	0.9	0.9	1.0
Social Services	4.3	4.5	5.4	4.8	5	5.1	5.2	4.7	4.7	4.7	4.1	4.2	4.3
General Education	1.9	1.9	2.1	2.2	2.2	2.2	2.2	2.0	2.1	2.0	1.8	1.9	1.9
Technical Education	0.1	0	0.1	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Medical & Public Health	0.4	0.4	0.5	0.5	0.6	0.5	0.6	0.5	0.5	0.5	0.5	0.1	0.5
Family Welfare	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1
Water Supply & Sanitation	0	0	0.1	0	0.1	0	0	0.1	0.0	0.0	0.1	0.1	0.1
Housing	0.2	0.1	0.3	0.1	0.1	0.1	0.1	0.0	0.2	0.2	0.1	0.2	0.2
Public Works	0.1	0.1	0.1	0	0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Urban Development	0.2	0.2	0.3	0.4	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Welfare of SCs/STs/OBCs	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.3
Labour & Employment	0	0	0.1	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
Social Security & Welfare	0.5	0.7	0.7	0.6	0.6	1	1.1	0.9	0.8	0.8	0.6	0.5	0.6
Nutrition	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	0.3	0.3	0.2	0.2	0.2
Relief (Natural Calamities)	0	0.1	0.3	0	0.2	0.2	0.1	0.1	0.0	0.3	0.2	0.0	0.0
Economic Services	2.5	2.2	2.4	2.5	2.1	2.1	2.4	2.0	2.5	2.6	2.5	2.6	2.4
Agri and Allied	0.6	0.5	0.6	0.7	0.5	0.5	0.8	0.7	0.7	0.7	0.7	0.9	0.8
Rural Employ ment	0.1	0.1	0.1	0.1	0	0.1	0	0.0	0.4	0.5	0.4	0.1	0.2
Other Rural Devel.Programs	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Irrigation, Flood and Drainage	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Power	0.4	0.3	0.3	0.3	0.2	0.3	0.3	0.2	0.3	0.3	0.5	0.6	0.5
Village & Small Industries	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Industries	0	0	0	0	0.1	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transport &Communication	0.3	0.2	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Civil Supplies	0.7	0.6	0.7	0.8	0.7	0.8	0.7	0.5	0.5	0.5	0.4	0.4	0.4
GSDP at Current Prices	100	100	100	100	100	100	100	100	100	100	100	100	100

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

Table 5.4: Grants and Assistance to Local Governments in Tamil Nadu

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Rs. Crore											
Municipal Corporation	680	845	617	820	1038	1408	1414	1533	1970	1550	1766
Municipalities/Councils	784	909	1341	1401	1475	1210	1695	1339	1646	1115	1276
Nagar Panchayat	534	438	654	810	947	930	1034	1212	1403	1400	1601
Zilla/District Panchayats	137	276	225	267	325	327	342	347	377	289	331
Block/Inter mediate Panchayats	723	751	1188	1419	1736	1768	1952	1540	1508	1336	1529
Gram Panchayats	1030	1073	1658	2000	2441	2281	2574	3547	4311	3534	4043
All Localbodies	3980	3999	5861	7493	9164	9175	9980	10732	12466	13618	15993
As % of Total Contribution to Local Bodies											
Municipal Corporation	17.09	21.13	10.53	10.94	11.33	15.35	14.17	14.28	15.80	11.38	11.04
Municipalities/Councils	19.70	22.73	22.88	18.70	16.10	13.19	16.98	12.48	13.20	8.19	7.98
Nagar Panchayat	13.42	10.95	11.16	10.81	10.33	10.14	10.36	11.29	11.25	10.28	10.01
Zilla/District Panchayats	3.44	6.90	3.84	3.56	3.55	3.56	3.43	3.23	3.02	2.12	2.07
Block/Inter mediate Panchayats	18.17	18.78	20.27	18.94	18.94	19.27	19.56	14.35	12.10	9.81	9.56
Gram Panchayats	25.88	26.83	28.29	26.69	26.64	24.86	25.79	33.05	34.58	25.95	25.28
All Localbodies	100	100	100	100	100	100	100	100	100	100	100

Table 5.5: Compensation to LBs in Selective Indian States: 2016-17RE

States	Rs. Crore	% of Revenue Expenditure	% of Revenue Receipts	% of Own Tax Revenues
Andhra Pradesh	66	0.1	0.1	0.1
Assam	694	1.1	1.2	5.5
Bihar	5	0.0	0.0	0.0
Chhattisgarh	1151	2.0	1.8	5.1
Gujarat	419	0.4	0.4	0.6
Haryana	500	0.7	0.8	1.3
Himachal Pradesh	10	0.0	0.0	0.1
Jharkhand	0	0.0	0.0	0.0
Karnataka	5890	4.5	4.4	7.2
Kerala	7379	7.8	9.2	16.6
Madhya Pradesh	6941	5.6	5.5	15.7
Maharashtra	7736	3.3	3.5	5.6
Orissa	1018	1.4	1.3	4.4
Punjab	2038	3.2	4.0	6.7
Rajasthan	0	0.0	0.0	0.0
Tamil Nadu	12538	7.9	8.7	14.4
Uttar Pradesh	10688	4.4	4.0	11.8
Uttarkhand	902	3.6	3.6	8.3
West Bengal	623	0.4	0.5	1.3

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

It may be noted that the compensations and assignments to local bodies in Tamil Nadu include (i) grant-in-aid and assistance to local governments and (ii) sharing of proceeds of some assigned state taxes with local body governments. The devolution of funds is a major source of resources for the rural and urban Local Bodies. Currently Government of Tamil Nadu follow (as per the recommendation of State Finance Commission) adopts the vertical sharing ratio between rural and urban local bodies at 58:42 and the horizontal sharing ratio of SFC devolution funds at 60:32:8 among village panchayats, block panchayats and district panchayats respectively (Audit Report, 2015-16).[3] The details compensations and assignments to local bodies during 2016-17 to 2018-19 are given in Table 5.6. Table 5.7 presents the Department wise break-up of the compensation and assignments to local bodies in Tamil Nadu.

Table 5.6: Compensation and Assignments to Local Bodies in Tamil Nadu

(Rs. Crore)

Details	2016-17	2017-18RE	2018-19BE
Stamp Duty	332.80	168.63	168.63
Entertainment Tax	0.43	-	-
Grants inAid/Assistance to Rural Local bodies	6213.04	5286.04	6184.84
Grants inAid/Assistance to Urban Local bodies	4785.24	5428.78	6474.99
Other Miscellaneous Compensations and Assignments	800.85	2396.99	2827.22
Transfers to/from Reserve Fund/Deposit Account	333.23	337.26	337.26
Deduct - Recoveries of Overpayments			
Total	**12465.57**	**13617.69**	**15992.93**

[3] Assigned/shared revenues, includes the class of taxes and levies traditionally collected by government and assigned to the ULBs and PRIs. In other words, the taxes, duties, cesses and surcharges collected by the state government on behalf of local bodies and assigned to them are called assigned revenue. This includes entertainment tax and surcharge on stamp duty. Earlier, local cess and local cess surcharge on land revenue were also an important source of revenue for Rural Local Bodies which are no longer available.

Table 5.7: Department wise Compensation and Assignments to Local Bodies

(in lakhs)

Departments	Particulars	2016-17	2017-18	2018-19
ADMINISTRATION OF JUSTICE	Other Miscellaneous Compensations and Assignments	13.81	42	42
COMMERCIAL TAXES	Entertainment Tax		0.01	0.01
	Deduct - Recoveries of Overpayments	-0.03		
FINANCE DEPARTMENT	Other Miscellaneous ... Compensations and Assignments		0.01	0.01
MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT	Entertainment Tax		0.01	0.01
	Assistance to Municipal Corporations	191165.2	217151	258999.3
	Assistance to Municipalities / Municipal Councils	147071.44	157434.5	188169.8
	Assistance to Nagar Panchayats / Notified Area Committees	140286.87	168292	200329.5
	Other Miscellaneous	80071.03	86750.21	105622.8
REVENUE AND DISASTER MANAGEMENT DEPARTMENT	Entertainment Tax		0.01	0.01
	Other Miscellaneous Compensations and Assignments	0.37	0.43	0.43
RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT	Stamp Duty	33279.87	16862.83	16862.83
	Entertainment Tax	42.71	0.02	0.02
	Assistance to Zilla 37694.89 Parishads/District Level Panchayats	37694.89	28542.44	33678.14
	Assistance to Block Panchayats / Intermediate Level Panchayats	150779.56	132008.8	155369.1
	Assistance to Gram Panchayats	431124.66	367319.3	429436.4
	Other Miscellaneous ... Compensations and Assignments		152905.9	177056.4
	Transfer to Reserve Fund and Deposit Account	33322.58	33725.65	33725.65
HINDU RELIGIOUS AND CHARITABLE ENDOWMENTS	Other Miscellaneous Compensations and Assignments		0.03	0.03
FORESTS	Assistance to Zilla Parishads/District Level Panchayats	1704.84	734	0.01
	Total	**1246557.8**	**1361769**	**1599293**

Source : Tamil Nadu Budget 2018-19 (Budget Memorandum II)

Table 5.8 shows the economic classification of revenue expenditures during 2006-07 to 2018-19BE. Salaries and wages and pension payments amounted to 42 percent of total revenue expenditure in 2006-07. Their joint share continuously increased to 48.8 percent in 2010-11. Then it started declining and reached 38.2 percent in 2016-17. During 2006- 07 to 2016-17, the interest payments share declined from 15.6 percent to 13.7 percent while the share of subsidies declined marginally from 10.8 percent to 10.4 percent.

Table 5.8: Economic Classification of Revenue Expenditures

Year	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18RE	2018-19BE
Rs. Crore													
Salary, Wages	10700	12160	16000	19490	23830	26800	27600	31860	37600	37133	40124	45160	52171
Pension	5430	6017	7735	8385	11768	12597	13162	14860	15200	16892	18432	21569	25362
Interest Payment	5956	6086	5963	6667	7940	8871	10205	12405	14550	17742	20918	26551	29671
Subsidies	4177	4305	6600	6653	7739	8698	9592	9646	10373	12315	16092	15674	16321
Others	12002	14407	17292	18180	21639	26872	36508	41055	51105	56910	57630	65241	70216
Revenue Expenditure	38265	42975	53590	59375	72916	83838	97067	10982 5	128828	14099 3	153195	174195	193742
As % of Total Revenue Expenditure													
Salary, Wages	28.0	28.3	29.9	32.8	32.7	32.0	28.4	29.0	29.2	26.3	26.2	25.9	26.9
Pension	14.2	14.0	14.4	14.1	16.1	15.0	13.6	13.5	11.8	12.0	12.0	12.4	13.1
Interest Payment	15.6	14.2	11.1	11.2	10.9	10.6	10.5	11.3	11.3	12.6	13.7	15.2	15.3
Subsidies	10.9	10.0	12.3	11.2	10.6	10.4	9.9	8.8	8.1	8.7	10.5	9.0	8.4
Others	31.4	33.5	32.3	30.6	29.7	32.1	37.6	37.4	39.7	40.4	37.6	37.5	36.2
Revenue Expenditure	100	100	100	100	100	100	100	100	100	100	100	100	100

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

Table 5.9 shows the details of major subsidies in Tamil Nadu over the years. Food subsidy accounted for about 51 percent in 2008-09. Its share declined to 36.8 percent in 2018-19BE. Power subsidy is the second largest in recent year with 21.2 percent share, followed by industries and agriculture. It is noted that except food subsidies, the share of all other subsidies increased over the years

Table 5.9: Composition of Subsidies in Tamil Nadu

Details	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)	2018-19(B E)
Rs. Crore											
Civil supplies	3372	3399	3954	4900	4900	4900	5000	5300	5500	5500	6000
Power & Energy	1271	1281	1490	1730	1847	1863	2508	2902	4291	4631	3455
Industries	569	574	667	0	827	504	600	1009	1608	1610	2009
Agriculture	421	425	494	1059	612	534	438	1187	2664	1075	1670
Village & Small Industries	296	299	348	244	431	494	554	621	718	804	892
Socil Security & Welfare	287	289	337	180	417	497	530	496	490	743	774
General Education	232	234	272	391	337	623	448	480	505	541	767
Others	151	153	178	194	221	231	295	320	316	770	754
Total	6600	6653	7739	8698	9592	9646	10373	12315	16092	15674	16321
As % of Total Subsidy Expenses											
Civil supplies	51.1	51.1	51.1	56.3	51.1	50.8	48.2	43.0	34.2	35.1	36.8
Power & Energy	19.3	19.3	19.3	19.9	19.3	19.3	24.2	23.6	26.7	29.5	21.2
Industries	8.6	8.6	8.6	0.0	8.6	5.2	5.8	8.2	10.0	10.3	12.3
Agriculture	6.4	6.4	6.4	12.2	6.4	5.5	4.2	9.6	16.6	6.9	10.2
Village & Small Industries	4.5	4.5	4.5	2.8	4.5	5.1	5.3	5.0	4.5	5.1	5.5
Socil Security & Welfare	4.3	4.3	4.3	2.1	4.3	5.1	5.1	4.0	3.0	4.7	4.7
General Education	3.5	3.5	3.5	4.5	3.5	6.5	4.3	3.9	3.1	3.5	4.7
Others	2.3	2.3	2.3	2.2	2.3	2.4	2.8	2.6	2.0	4.9	4.6
Total	100	100	100	100	100	100	100	100	100	100	100

Chart 5.3 shows the quality of spending by the Government of Tamil Nadu over the years. Fiscal deficit has been kept as per FRBM norm of less than 3 percent of GSDP throughout the period except in only one year. Till 2013-14, more than borrowed (net) amount was used for capital formation. After that also, the net borrowed amount was mostly used for investment purpose. Interest payment was also kept around 1.2-1.9 percent of GSDP.

Chart 5.4 shows the education and health expenditure as percentage of GSDP in Tamil Nadu over the years. During 2006-07 to 2018-19BE the Government of Tamil Nadu spent less than 1 percent of GSDP on health and about 2 percent of GSDP on education.These are well below the international standards. This is the reason why many health and education indicators compare poorly with international standards.

Chart 5.3: Quality of Government Spending

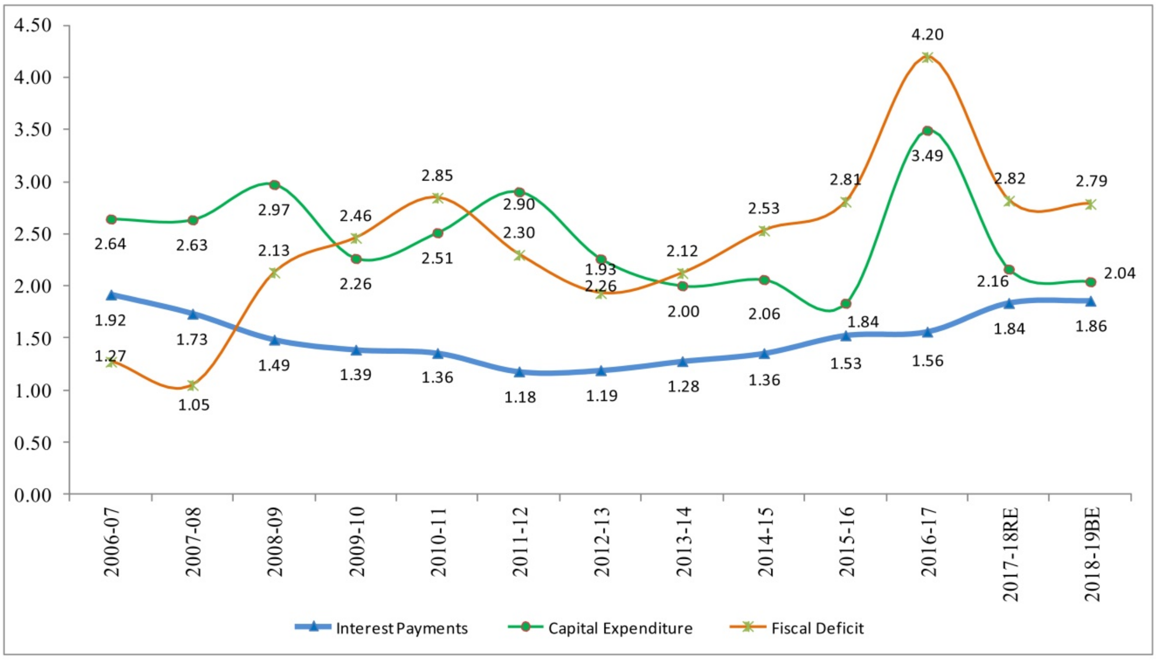
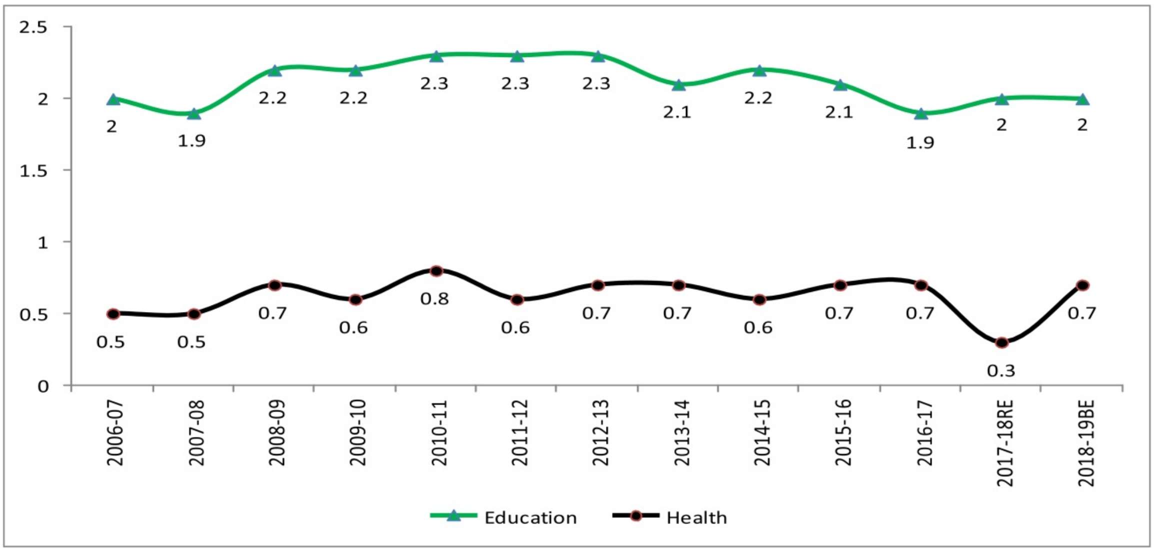


Chart 5.4: Education and Health Expenditures as % of GSDP in Tamil Nadu



5.3 Interstate Comparison

Tamil Nadu compares well with other major States in per capita revenue expenditure. It ranks seventh in terms of the high per capita revenue expenditure (Table 5.10). However, it is the fourth lowest in revenue expenditure as percentage of GSDP, next only to Gujarat, Karnataka and Maharashtra.

Table 5.10: Composition of Revenue Expenditure in Major States (2016-17RE)

States	Revenue Expenditure		Composition of Revenue Expenditure (%)		
	Per Capita (Rs.)	As % of GSDP	General Services	Social Services	Economic Services
Andhra Pradesh	22132	16.1	30.1	46.5	23.3
Assam	19588	25.7	32.4	45.8	20.7
Bihar	10498	27.2	30.8	44.7	24.5
Chhattisgarh	20751	20	22.0	46.5	29.4
Gujarat	16758	9.4	35.1	43.0	21.5
Haryana	26455	13.3	29.6	38.3	31.4
Himachal Pradesh	38250	22.1	35.9	39.8	24.2
Jharkhand	14336	20.4	28.0	42.4	29.6
Karnataka	20309	11.6	25.1	40.7	29.7
Kerala	27549	15.3	44.1	34.4	13.7
Madhya Pradesh	15806	19.5	24.9	39.4	23.9
Maharashtra	19524	10.3	32.2	44.6	19.9
Orissa	16379	19.3	28.3	42.0	28.4
Punjab	21028	14.7	46.2	28.5	22.1
Rajasthan	18081	17.7	29.8	38.6	31.6
Tamil Nadu	20964	12.3	33.1	36.4	22.7
Uttar Pradesh	11260	19.9	37.2	39.0	19.5
Uttarkhand	23275	12.9	37.7	42.4	16.3
West Bengal	14386	13.1	36.4	42.3	20.9

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

5.4 Concluding Remarks

During 2006-07 to 2016-17, the share of capital expenditure increased from 17.7 percent to 23.4 percent. Relative to GSDP, the capital expenditure increased from 2.6 percent to 3.5 percent. During the same period, the proportion of revenue outlay on social services increased from 34.8 percent to 36.1 percent while the proportion of revenue outlay on economic services increased from 20 percent to 22.2 percent. The share of compensation and assignments to local body governments in Tamil Nadu increased from 6.4 percent to 8.1 percent. Both urban and rural bodies get almost equal share, except in a few recent years. In fact, Tamil Nadu has provided the highest compensation to local bodies among the major Indian States in 2016-17RE. It also ranks first in terms of the compensation to LBs as percent of revenue expenditure.

Salaries and wages and pension payments amounted to 38.2 percent in 2016-17 while the interest payments accounted for 13.7 percent and the subsidies accounted for 10.4 percent. Interest payment was also kept around 1.2-1.9 percent of GSDP.

Interestingly, the Government of Tamil Nadu has kept the fiscal deficit as per FRBM norm of less than 3 percent of GSDP throughout the period except in only one year. Till 2013-14, more than borrowed (net) amount was used for capital formation. After that also, the net borrowed amount was mostly used for investment purpose. However, during 2006-07 to 2018-19BE the Government of Tamil Nadu spent less than 1 percent of GSDP on health and about 2 percent of GSDP on education. These are well below the international standards. This is the reason why many health and education indicators compare poorly with international standards.

Chapter 6

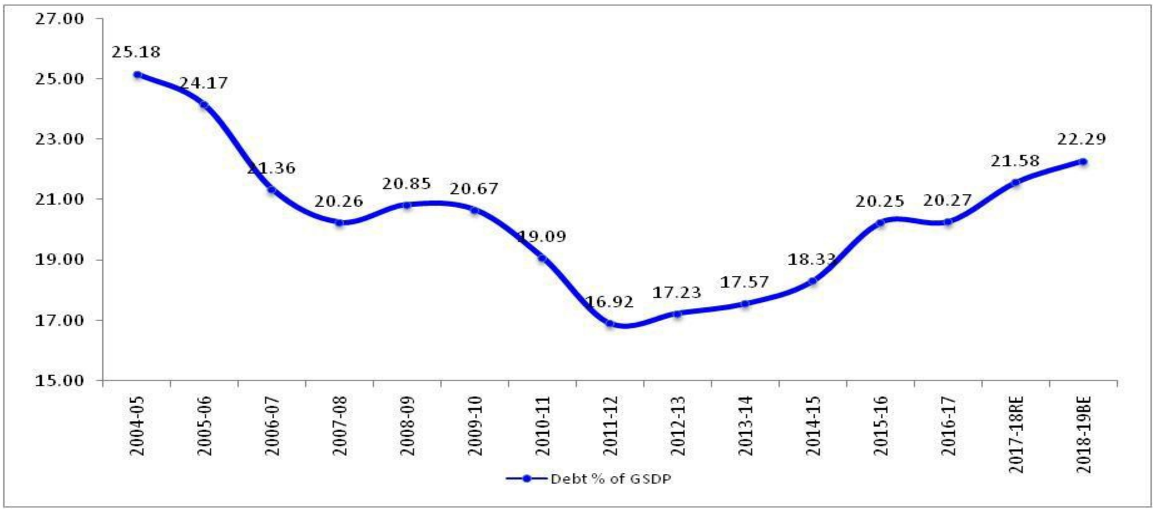
Public Debt Management in Tamil Nadu

The debt position of the State governments has become a matter of concern since late 1990s. Most State governments have been under severe fiscal stress for over a decade. They have borrowed continuously due to the growth in expenditure commitments of the States towards the decentralized delivery of government services. Unlike the Centre, the borrowing power of the States is limited and controlled by Aritlcle 293 of the Constitution. A State government cannot borrow on its own as long as it is indebted to the Centre. However, the state has an unlimited power to decide how to utilize the borrowed funds. This Chapter analyzes the trends and composition of public debt of the State of Tamil Nadu. Debt sustainability issue is also analyzed.

6.1 Public Debt of Tamil Nadu: Trend and Composition

According to the Tamil Nadu Government Budget estimates for 2018-19, the public debt of the State is Rs. 3,55,845 crore. The debt-GSDP ratio is 22.29 percent, which is however well below the norms given by Fourteenth Finance Commission and FRBM legislation. Chart 6.1 shows the trend of debt-GSDP of Tamil Nadu during 2004-05 to 2018-19BE. One may observe that the debt-GSDP ratio was 25.18 percent in 2004-05 and it continuously declined to 16.92 percent in 2011-12 (mainly due to FRBM legislation) and after that it started increasing and reached 22.29 percent in 2018-19BE.

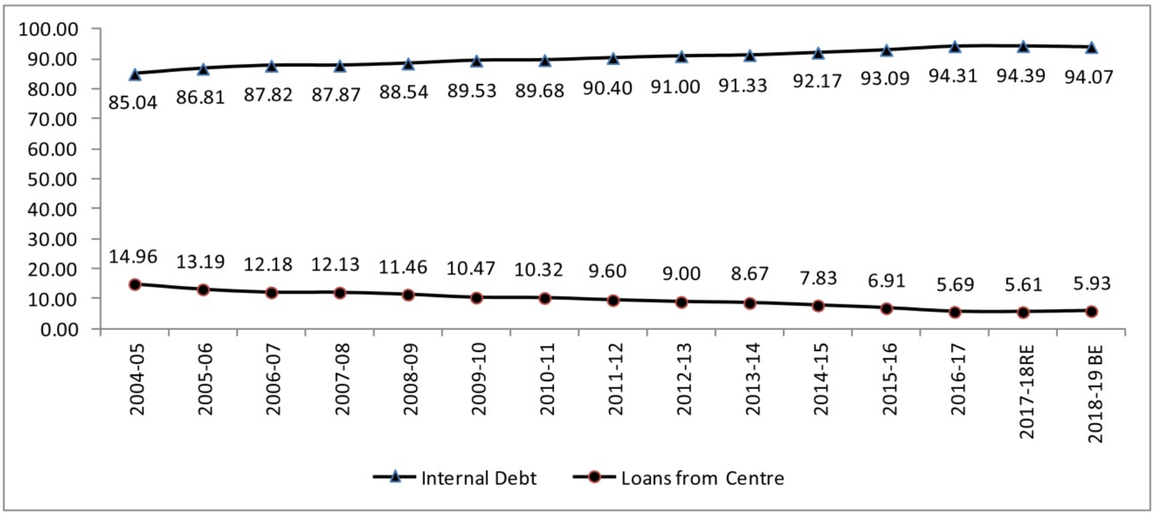
Chart 6.1: Debt as Percentage of GSDP in Tamil Nadu (2004-05 to 2018-19BE)



Tamil Nadu has consciously diversified its debt portfolio to spread out risk and minimize the borrowing costs. The sources of the State governments' debt are: internal debt, loans and advances from the central governments and public account liabilities. The internal debt consists of market loans, loans from Financial Institutions (FIs), Ways and Means Advances (WMA) from the Reserve Bank of India (RBI) and special securities issued to NSSF of the central governments. The loans and advances comprises non-plan loans, loans for state/union territory plan schemes, loans for central plan schemes, loans for centrally sponsored schemes, loans for special schemes and other loans. The public account includes small savings, provident funds, etc., reserve funds bearing interest, reserve funds not bearing interest, deposits bearing interest and deposits not bearing interest.[4]

Chart 6.2 furnishes the composition of the State government debt. The internal debt accounted for 85 percent in 2004-05 and it increased to about 94 percent in 2018-19BE. At the same time, the share of loans from the Centre declined from about 15 percent to about 6 percent.

Chart 6.2: Composition of Public Debt in Tamil Nadu

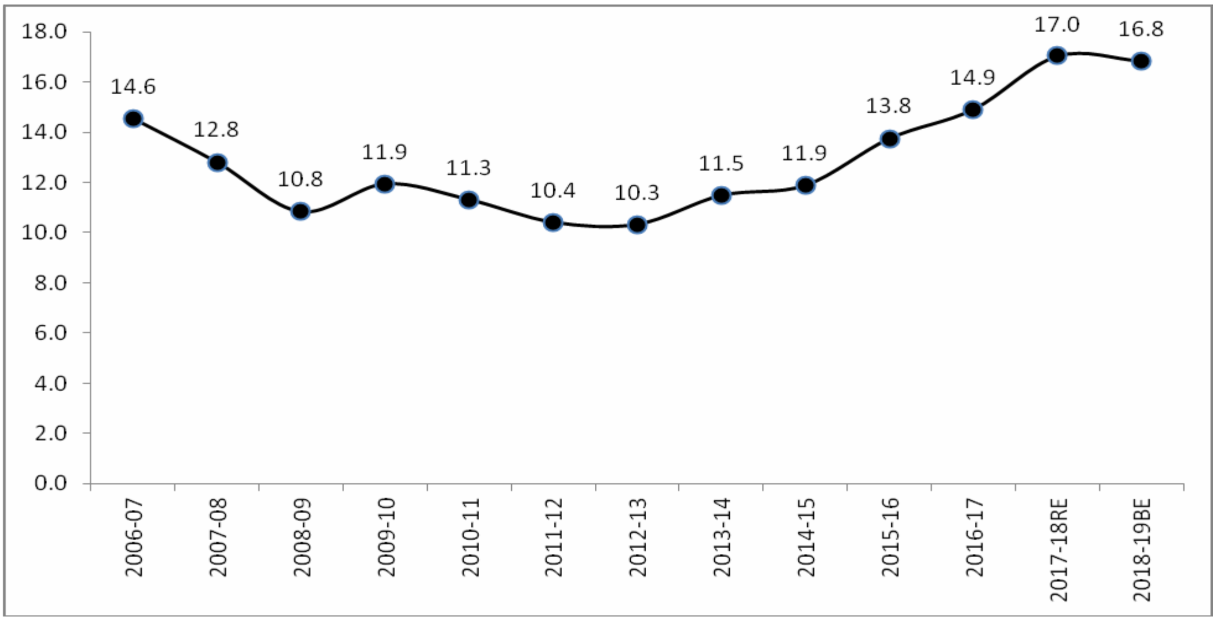


6.2 Debt Servicing Burden

One of the major consequences of having a high debt ratio is the outflow in terms of interest payments. The 14th Finance Commission recommended that interest payments should be less than or equal to 10 per cent of the revenue receipts in order to qualify for enhanced borrowing limit. However, the Chat 6.3 shows that the debt servicing burden was reduced to 10 percent level in 2012-13, but it increased to about 17 percent in recent year.

[4] The public debt stated in the state budget includes only the internal debt and the debt owed to the central government. However, the total debt outstanding as given in the Finance Accounts includes public account liabilities as well. Here we have considered what was indicated in the budget

Chart 6.3: Interest Payment as % of Revenue Receipts



6.3 Debt Position- An Interstate Comparison

Table 6.1 shows that Tamil Nadu is the 4th largest debt holding State (in absolute terms) as on March 2017. However, the debt-GSDP ratio of Tamil Nadu is fourth lowest among the States. Column 4 of Table 3 shows the share of each of 29 States to the total liabilities of all States together in 2017. While Tamil Nadu accounted for 7.68 percent of total States debt, its debt share is less than its GDP share. In fact Tamil Nadu is the second largest economy in the country. As its capacity to borrow is realtively good as comapred to other States, its current lelvel of debt may not pose sustainability issue.

Table 6.1: Total Liabilities of Indian States (as on March 2017)

State	Debt (Rs crore)	Debt to GSDP (%)	% of all States Debt
(1)	(2)	(3)	(4)
Andhra Pradesh	201314	29.43	5.46
Arunachal Pradesh	4606	23.96	0.12
Assam	43981	18.98	1.19
Bihar	138722	27.00	3.76
Chhattisgarh	43151	16.63	1.17
Goa	16549	25.56	0.45
Gujarat	243145	22.87	6.59
Haryana	146371	26.87	3.97
Himachal Pradesh	47244	42.97	1.28
Jammu and Kashmir	62207	54.19	1.69
Jharkhand	49746	20.53	1.35
Karnataka	211071	24.23	5.72
Kerala	189769	36.03	5.15
Madhya Pradesh	138073	20.39	3.74
Maharashtra	395858	18.36	10.73
Manipur	8808	47.99	0.24
Meghalaya	8982	30.49	0.24
Mizoram	6725	45.21	0.18
Nagaland	9415	39.59	0.26
Odisha	71623	19.20	1.94
Punjab	182551	43.28	4.95
Rajasthan	255002	36.12	6.91
Sikkim	4669	27.39	0.13
Tamil Nadu	**283394**	**20.27**	**7.68**
Telengana	134738	21.32	3.65
Tripura	11259	27.49	0.31
Uttar Pradesh	396880	33.37	10.76
Uttarakhand	44583	25.96	1.21
West Bengal	337682	34.72	9.16

Source : Finance accounts of the State governments

6.4 Debt Sustainability Analysis

The most comprehensive way to check for sustainability in government debt is to assess solvency.[5] A solvent government must be able to finance its deficit in the long run by

[5] Conceptually debt sustainability is given as long as debt not accumulate at a rate considerably exceeding the government's capacity to service it (without large policy adjustment, negotiating or defaulting). In simple term, "Sustainability is basically about good housekeeping" Blanchard et al., 1990.

avoiding a ponzi condition (the new debt issuance for servicing the existing debt). In order to say a government solvent, the initial debt stock has to be equal to the present value of future primary surpluses. Technically, the present discounted value of government debt should fall to zero (or a minimum acceptable limit) as time progresses. In addition, the increase or decrease of the debt burden is subject to the rise in real interest rate or the real growth rate.

Various empirical approaches are available in the literature to test for sustainability. However, the traditional approaches (indicator approach, unit root approach and cointegration approach) were criticized on various grounds. Bohn (1998) introduced a model-based solvency test popularly known as fiscal policy response function approach. According to him if the primary balance to GDP ratio (pb) is positive and at least a linearly rising function of the initial debt to GDP ratio ($d*$) the debt is sustainable. The model specification of this new approach is:

$$pb_t = \alpha + \beta d_t^{*} + \gamma Z_t + \varepsilon_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(6.1)$$

where β is the fiscal reaction parameter, Z_t is a set of other determinants of primary balance and ε_t is an error term. The function (equation 6.1) maps out how primary balance responds to the change in the debt stock and if β is positive and statistically significant the debt is sustainable. The model (6.1) can be extended and modified by including a few Z indicators as:

$$pd_t = \alpha + \beta d_{t-1} + \gamma yvar_t + \delta gvar_t + \varepsilon_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots..(6.2)$$

where pd_t is the primary surplus-GSDP ratio for the t_{th} time period; d_{t-1} is the debt-GSDP ratio for the t-1_{th} period; and $yvar_{it}$ and $gvar_{it}$ are business cycle variables to account for fluctuations in GSDP and primary public spending, respectively. They are calculated by subtracting the long-term trend of the GSDP (real) from its realized values and the long- term trend of primary spending of the government (real) from its realized values. The long-term trends of the respective variables are computed using the Hodrick-Prescott (HP) filter.

In order to test the sustainability of public debt in all major Indian states, this study employs the following extended version of the Bohn framework for panel data:

$$pd_{it} = \alpha + \beta d_{it-1} + yyvar_{it} + \delta gvar_{it} + \lambda_i + \mu_t + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots (6.3)$$

where d_{it-1} is the debt-GSDP ratio for the i_{th} state in t-1_{th} period. λ_i and μ_t are the individual (states') effects and time effects (year), respectively. If $\beta > 0$ and statistically significant, debt is sustainable. Equation (6.3) can be estimated using the standard panel data methodologies: fixed effects (FE) and random effects (RE). The former posits that the unobserved heterogeneity factors, λ_i and time effects, μ_t are correlated with other X variables in the equation, while the latter assumes that they are not. The choice of a relevant model depends on the Hausman statistics. If it supports the FEs model, then OLS can be used to estimate equation (6.3) by incorporating λ_i and μ_t with the state and year dummies. If the time dummies are jointly zero, then the model is a one-way FE model. If the Hausman supports the REs model, the GLS estimation procedure can be used.

As our interest is to test the debt sustainability of Tamil Nadu and compare the test result with the other major Indian States, i.e., to check whether debt is sustainable in each sample state including Tamil Nadu, the study allows d_{it-1} to interact with each of the state dummies (K_i) in Equation (6.3) to get:

$$pb_{it} = \alpha + \Sigma_i \beta_i k_i * d_{it-1} + \gamma\, yvar_{it} + \delta gvar_{it} + \lambda_i + \mu_t + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots(6.4)$$

The coefficients associated with these interaction terms (β_s) would directly reveal whether debt is sustainable in each state.

This study considers 22 major Indian States: Andhra Pradesh, Assam, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Himachal Pradesh, Jammu Kashmir, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh, Uttarakhand and West Bengal. State-wise real and nominal GSDP (is compiled from the Central Statistical Organization (CSO), Ministry of Statistics and Programme Implementation (MOSPI), Government of India website (http://www.mospi.gov.in/data) and all the other fiscal variables from the Comptroller and Auditor General (CAG) of India audit reports and the finance accounts of the state governments for the period 2005-06 to 2016-17 are used.

It is noticed that the lagged debt ratio is used to take into account the endogeneity issue. Since the lagged debt ratio is included, the total observations in the final analyses include 264 (22 states x 12 years). Table 6.2 presents the descriptive statistics of the study variables. Table 6.3 shows the panel unit root tests using the Levin, Lin, Chu (LLC) and the Im Pesaran Shin (IPS) results. Both test results confirm that all the variables used in the study are stationary, i.e., they are I(0).

Table 6.2: Descriptive Statistics of the Study Variables (2005-06 to 2016-17)

Definition	Variables	Mean	Std. Deviation
Primary balance (Rs. Crores)	PB_{it}	-3118.47	6859.72
Primary balance-GSDP ratio (%)	pb_{it}	-0.61	1.78
Public debt (Rs. Crores)	D_{it}	92291.34	84851.50
Debt-GSDP ratio (%)	d_{it}	31.28	10.96
Nominal GSDP (Rs. Crores)	$ngsdp_{it}$	341349.00	342542.80
Real GSDP (Rs. Crores)	$rgsdp_{it}$	210181.90	190980.00
Real GSDP gap (Rs. Crores)	$yvar_{it}$	-0.00001	6515.37
Primary expenditure (Rs. Crores)	pe_{it}	51877.98	48719.05
Real primary expenditure (Rs. Crores)	rpe_{it}	31523.71	25267.25
Real primary expenditure gap (Rs. Crores)	$gvar_{it}$	-0.00004	3765.07
State-specific public debt			
d_{it-1}× Dummy for Andhra Pradesh	K_1	25.75	3.54
d_{it-1}×Dummy for Assam	K_2	26.64	5.57
d_{it-1}× Dummy for Bihar	K_3	36.74	11.76
d_{it-1}×Dummy for Chhattisgarh	K_4	16.95	4.68
d_{it-1}× Dummy for Goa	K_5	28.64	4.23
d_{it-1}× Dummy for Gujarat	K_6	27.71	3.81
d_{it-1}× Dummy for Haryana	K_7	20.57	3.00
d_{it-1}× Dummy for Himachal Pradesh	K_8	50.53	9.82
d_{it-1}× Dummy for Jammu & Kashmir	K_9	54.72	2.59
d_{it-1}× Dummy for Jharkhand	K_{10}	24.61	2.81
d_{it-1}× Dummy for Karnataka	K_{11}	23.97	1.87
d_{it-1}× Dummy for Kerala	K_{12}	32.73	1.87
d_{it-1}× Dummy for Madhya Pradesh	K_{13}	29.71	6.56
d_{it-1}× Dummy for Maharashtra	K_{14}	22.94	3.76
d_{it-1}× Dummy for Odisha	K_{15}	26.69	11.08
d_{it-1}× Dummy for Punjab	K_{16}	36.58	5.89
d_{it-1}× Dummy for Rajasthan	K_{17}	34.12	8.24
d_{it-1}**× Dummy for Tamil Nadu**	K_{18}	**20.87**	**1.93**
d_{it-1}× Dummy for Tripura	K_{19}	37.17	5.63
d_{it-1}× Dummy for Uttar Pradesh	K_{20}	39.95	7.19
d_{it-1}× Dummy for Uttarakhand	K_{21}	29.00	6.07
d_{it-1}× Dummy for West Bengal	K_{22}	41.67	5.44

Source (basic data): CSO and CAG reports (computed by authors).

Table 6.3: Results of Panel Unit Root Tests

Variables	LLC t statistics	IPS w statistics
pb_{it}	-4.946***	-1.757**
d_{it}	-12.062***	-2.229**
$yvar_{it}$	-2.352**	-1.638**
$gvar_{it}$	-2.489**	-3.543***

Note: *** and ** indicate rejection of the null hypothesis of the panel containing unit roots (non-stationarity) at the 1 per cent and 5 per cent levels of significance, respectively; LLC - Levin, Lin and Chu test ; IPS- Im, Peseran and Shin test.

Table 6.4 presents the estimation results of Equation 6.3 (Model 1). The Chow test and Hausman statistics support the one-way fixed effects (FEs) model. The business cycle variable $yvar$ is positive as expected, but not statistically significant even at the 10% level. The primary expenditure gap variable $gvar$ has a negative coefficient and is statistically significant at the 1% level, implying that primary spending above its normal value has reduced the primary surplus ratio.

The coefficient of d_{it-1} is positive and statistically significant at the 1% level, indicating the sustainability of public debt in Indian States as a whole. It is noticed that the dependent variable is the primary balance (which may be positive or negative) and when on average the debt to GDP ratio increases by 1 unit, the primary balance-GDP ratio increases by 0.1340 unit. Thus, the latter is a linear and positive function of the former.

In order to check whether public debt is sustainable in each State, we estimate equation 6.4 by allowing the d_{it-1} variable to interact with each State dummy. The Chow test and Hausman statistics support the one-way fixed-effects model. The estimated results are shown in Table 6.4 (Model 2).

As in Model 1, $yvar$ is not statistically significant while $gvar$ has a negative and significant coefficient. The coefficient of the lagged debt to GSDP ratio and State dummy interaction term ψ is positive and statistically significant for Andhra Pradesh, Assam, Haryana, Himachal Pradesh, Jharkhand, Odisha, Punjab, Rajasthan and Tripura, indicating that their public debt is sustainable. For Bihar, Kerala and Tamil Nadu the coefficients of debt-interaction term is positive but statistically significant only at 10% level implying that debt is sustainable for these three States too. But they are moving closer to unsustainable zone if corrections are not made.

Table 6.4: Estimation Results of Fiscal Policy Response Function for Indian States (Dependent Variable: Primary Surplus to GSDP Ratio)

Variables	Model 1	Model 2
$yvar_{it}$	0.00002 (1.224)	0.00002 (1.154)
$gvar_{it}$	-0.0002 (-6.061)***	-0.0002 (-6.541)***
$d_{it\text{-}1}$	0.1340 (8.998)***	-
$d_{it\text{-}1}$ × Dummy for Andhra Pradesh (K_1)		0.2310 (2.019)**
$d_{it\text{-}1}$ × Dummy for Assam (K_2)		0.2620 (3.687)***
$d_{it\text{-}1}$ × Dummy for Bihar (K_3)		0.0595 (1.764)*
$d_{it\text{-}1}$ × Dummy for Chhattisgarh (K_4)		-0.0042 (-0.401)
$d_{it\text{-}1}$ × Dummy for Goa (K_5)		-0.0248 (-0.264)
$d_{it\text{-}1}$ × Dummy for Gujarat (K_6)		0.0520 (0.499)
$d_{it\text{-}1}$ × Dummy for Haryana (K_7)		0.3790 (2.833)***
$d_{it\text{-}1}$ × Dummy for Himachal Pradesh (K_8)		0.1510 (3.751)***
$d_{it\text{-}1}$ × Dummy for Jammu & Kashmir (K_9)		0.0022 (0.0144)
$d_{it\text{-}1}$ × Dummy for Jharkhand (K_{10})		0.440 (3.177)***
$d_{it\text{-}1}$ × Dummy for Karnataka (K_{11})		0.3070 (1.444)
$d_{it\text{-}1}$ × Dummy for Kerala (K_{12})		0.3801 (1.784)*
$d_{it\text{-}1}$ × Dummy for Madhya Pradesh (K_{13})		0.0853 (1.411)
$d_{it\text{-}1}$ × Dummy for Maharashtra (K_{14})		-0.0073 (-0.069)
$d_{it\text{-}1}$ × Dummy for Odisha (K_{15})		0.1680 (4.687)***
$d_{it\text{-}1}$ × Dummy for Punjab (K_{16})		0.2580 (3.819)***
$d_{it\text{-}1}$ × Dummy for Rajasthan (K_{17})		0.1710 (3.534)***
$d_{it\text{-}1}$ **× Dummy for Tamil Nadu** (K_{18})		**0.3696 (1.795)***
$d_{it\text{-}1}$ × Dummy for Tripura (K_{19})		0.339 (4.819)***
$d_{it\text{-}1}$ × Dummy for Uttar Pradesh (K_{20})		0.0777 (1.406)
$d_{it\text{-}1}$ × Dummy for Uttarakhand (K_{21})		-0.0441 (-0.674)
$d_{it\text{-}1}$ × Dummy for West Bengal (K_{22})		-0.0125 (-0.172)
Constant	-4.491 (-8.107)***	-6.9850 (-2.352)**
State Effects	Included	Included
Adjusted R2	0.453	0.550
F Statistics	8.260	5.950
Hausman Statistics	50.64	101.58
Observations	264	264

Source: Author's construction; t statistics in parentheses; Asterisks ***, **,* indicate levels of significance at 1%. 5% and 10% respectively

For Gujarat, Jammu and Kashmir, Madhya Pradesh, Karnataka, Uttar Pradesh and West Bengal, the debt interaction coefficient is positive but not statistically significant even at the 10% level. For Chhattisgarh, Goa, Maharashtra, Uttarakhand and west Bengal the coefficient is negative but not significant. Therefore, debt is not sustainable in these 10 States. The nutshell of the sustainability analysis is that the debt is sustainable in Tamil Nadu at present.

6.5 Concluding Remarks

Tamil Nadu’s public debt is estimated at Rs. 3,55,845 crore (in 2018-19BE), which is the fourth largest among Indian States. However, its debt-GSDP ratio is 22.29 percent, which is well below the norms given by Fourteenth Finance Commission and FRBM legislation. In fact, the debt-GSDP ratio of Tamil Nadu is the fourth lowest among the Indian States. While Tamil Nadu accounts for 7.68 percent of total debt of Indian States, its debt share is less than its GDP share. The major concern is that its debt servicing (interest) burden is estimated at 17 percent of the revenue receipts of the State, which is significantly higher than the 10 percent norm recommended by the 14th Finance Commission.

The Bohn model based debt sustainability analysis indicates that the debt is sustainable in Andhra Pradesh, Assam, Bihar, Haryana, Himachal Pradesh, Jharkhand, Kerala, Odisha, Punjab, Rajasthan, Tamil Nadu and Tripura. The debt is unsustainable in Chhattisgarh, Goa, Gujarat, Jammu and Kashmir, Madhya Pradesh, Maharashtra Karnataka, Uttar Pradesh, Uttarakhand and West Bengal, The nutshell of the sustainability analysis is that the debt is sustainable in Tamil Nadu at present, but is significant only at 10 percent. Tamil Nadu's debt is closer to the unsustainable level.

Chapter 7

State Public Sector Enterprises in Tamil Nadu

A Public Sector Undertaking (PSU) or a Public Sector Enterprise (PSE) is a company or an enterprise in which the majority of the stake (more than 50%) is owned by the Government. Similar to many other federal countries, the state-owned enterprises in India are owned either by the union government, or the state governments, or both. The State Level Public Sector Undertakings (SPSUs) occupy an important place in the State economy. It consists of State Government companies and statutory corporations. It has been established to carry out activities of commercial nature while keeping in view the welfare of the people. The State Government exercises control over the affairs of these PSUs through its administrative departments. This Chapter briefly reviews the performance of public sector enterprises in Tamil Nadu.

7.1 Growth and Development of SPSUs in Tamil Nadu

Table 7.1 shows the details of the SPSUs in Tamil Nadu as on 31 March 2017. Tamil Nadu has 68 working PSUs[6] (67 Companies and 1 Statutory Corporation) and 6 non- working PSUs5 (all Companies) which employs around 2.84 lakh employees with a turnover ₹ 110850 crores (~8.54 % GDP) and accumulated losses of ₹ 78854 crores. While the total investment (capital and long-term loans) in 74 (68 working and 6 no- working) PSUs are ₹153871, the state contribution towards equity, loans and grants/subsidies is ₹ 6127. Of the 68 working PSUs, 39 PSUs earned a profit of ₹ 931 crores and 25 PSUs incurred loss of ₹ 9,366 crores (CAG Report, 2017).

The details of number of SPSUs of Tamil Nadu since 2006-07 are furnished in Table 2. Out of 6 non-working SPSUs as on March 2017, one SPSU had commenced liquidation process and in respect of another SPSU, merger orders were issued and its implementation is pending. The closure orders for remaining 4 SPSUs were issued but the liquidation process had not yet started. The only statutory corporation is Tamil Nadu Warehousing Corporation (TANWARE).

[6] Non-working PSUs are those which have ceased to carry on their operations

Table 7.1: Details of the SPSUs in Tamil Nadu (as on 31 March 2017)

Particulars	No.	Particulars	Amount (₹ crore)
Number of SPSUs	74	Total Turnover of SPSUs	110850
Number of Working SPSUs	68	Total Investment in SPSUs	153871
Number of Non-working SPSUs	6	State Contribution to SPSUSs	6127
No. of Government Companies	73	Net loss (-) of SPSUs	-78854
No. of Statutory Corporations	1	Earned Profit of Working SPSUs	931
Profit Earned Working SPSUs	39	Incurred Loss of Working SPSUs	9366
Loss Incurred Working SPSUs	25	Capital employed	83350
Number of Employees	283674	Return on Capital employed	5392

Source: Report of the CAG Audit on Public Sector Undertakings of Tamil Nadu for the year ended 31 March 2017; Note: Capital Employed represents Share Holders Funds PLUS Long Term Borrowings; Return on Capital Employed has been worked out by adding Profit and Interest charged to Profit and Loss Account.

Table 7.2: Number of SPSUs in Tamil Nadu from 2006-07

Year	Number of PSUs	Number of Working PSUs	Number of Non-working PSUs	Number of Government Companies	Number of Statutory Corporations
2006-07	69	58	14	67	2
2007-08	70	62	14	68	2
2008-09	75	64	11	73	2
2009-10	77	66	11	75	2
2010-11	76	67	9	75	1
2011-12	77	64	13	76	1
2012-13	77	64	13	76	1
2013-14	77	64	13	76	1
2014-15	72	65	7	71	1
2015-16	74	68	6	73	1
2016-17	74	68	6	73	1

Source: CAG Audit Report of Tamil Nadu, various years

Table 7.3 provides the details of turnover of working PSUs in Tamil Nadu over the years. In absolute term the turnover in 2006-07 was Rs 26207 crore and it increased continuously to Rs. 1,10, 850 crore in 2016-17, registering about 4.23 fold rise. However, the turnover relative to GSDP declined from 11.48 percent in 2006-07 to 8.23 percent in 2016-16.

Table 7.3: Turnover of the Working PSUs in Tamil Nadu (2006-07 to 2016-17)

Year	Turnover (in ₹ crore)	SPSUs' Turnover to GSDP Ratio
2006-07	26207.00	11.48
2007-08	38040.10	10.64
2008-09	42534.30	13.62
2009-10	47578.40	18.62
2010-11	55193.60	19.73
2011-12	65804.90	10.09
2012-13	70673.60	10.30
2013-14	83455.28	9.49
2014-15	87083.36	9.77
2015-16	99850.38	8.92
2016-17	110850.43	8.23

Source: CAG Audit Report of Tamil Nadu, various years and CSO.

Investment is a necessary pre-requisite for the growth of an undertaking. The total investment in SPSUs consists of capital and long term loans. The investment pattern of SPSUs of the state is portrayed in Table 7.4. The total investment increased from ₹ 15232 crore in 2006-07 to ₹153871 crore in 2016-17, registering a 10.1 fold rise. During this period, the loans increased from ₹12709 to ₹104151 crore, mainly due to the loans availed by the state transport and power undertakings from various sources. However, it is noticed that during this period, the share loan in total investment declined from 83.4 percent to 67.7 percent, because the capital registered 19.7 fold rise.

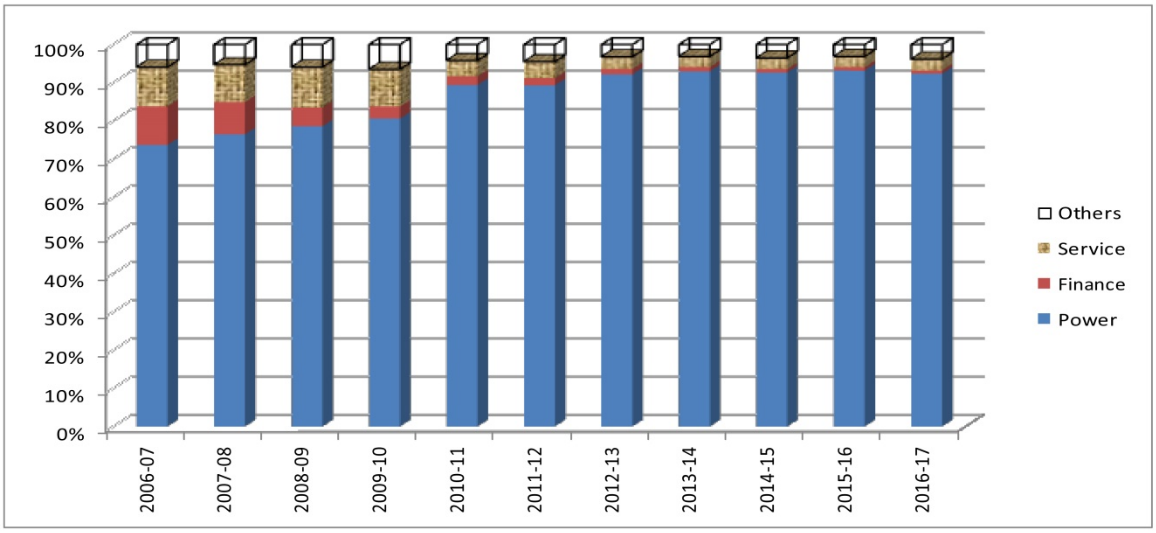
Further Chart 7.1 presents the shares of power, finance, services and others (industry, agriculture, infrastructure etc) in total investments in State PSUs in Tamil Nadu over the years. The power sector accounted for 73.8 percent in 2006-07. Its share increased continuously and reached 92.3 percent in 2016-17. Both finance and services sector together accounted for 20.4 in 2006-07, but their joint share declined to 3.8 percent of the total investment.

Table 7.4: Investment Patterns of SPSUs in Tamil Nadu (2006-07 to 2016-17)

Year	Capital (in ₹ crore)	Loans (in ₹ crore)	Total Investment (in ₹ crore)
2006-07	2523	12709	15232
2007-08	3396	16090	19485
2008-09	4672	23878	28550
2009-10	5506	30903	36408
2010-11	9762	46792	56554
2011-12	18281	43158	61439
2012-13	21191	62044	83236
2013-14	28423	74904	103327
2014-15	35016	86727	121743
2015-16	41814	98864	140677
2016-17	49720	104151	153871

Source: CAG Audit Report of Tamil Nadu, various years; Loans outstanding at the close of 2016-17 represent long-term loans only.

Chart 7.1: Sectoral Share of Investments in SPSUs (2006-07 to 2016-17)



7.2 Financial Support of State Government to SPSUs in Tamil Nadu

The State Government provides financial support to PSUs in various forms: equity, loans, grants/subsidies. Table 7.5 shows the overall trend in budgetary outgo in the form of equity, loans, grants/subsidies to PSUs in Tamil Nadu. The overall budgetary support of the State to PSUs increased from Rs. 4154 crore in 2006-07 to Rs.46127 crore in 2016- 17, registering

11.1 fold rise. The grants/subsidies accounted for about 92 percent in 2006-07, mainly due to the subsidy pull of electricity companies, Tamil Nadu Civil Supplies corporation and State Transport corporation. Then, it declined to about 40 percent in 2016-17. At the same time, the share of loan increased from accounted from 0.1 percent to about 52 percent.

Table 7.5: State Government's Contribution to SPSUs (2006-07 to 2016-17)

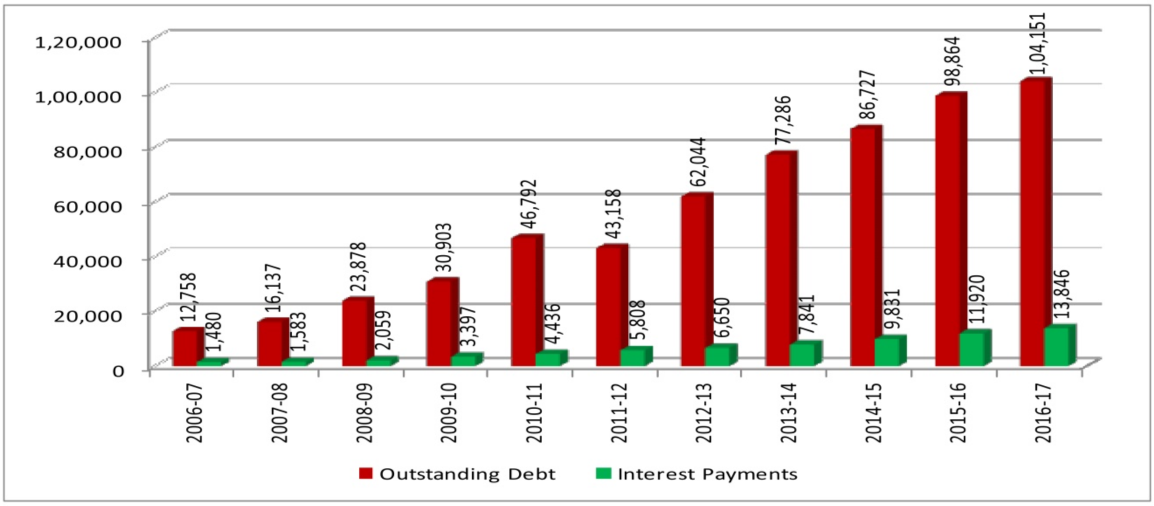
Year	Equity		Loans		Grants/Subsidy		Total (₹ crore)
	(₹ crore)	%	(₹ crore)	%	(₹ crore)	%	(₹crore)
2006-07	331	8.0	5	0.1	3818	91.9	4154
2007-08	873	17.8	42	0.9	3979	81.3	4895
2008-09	1051	14.7	776	10.9	5311	74.4	7138
2009-10	737	9.5	483	6.3	6509	84.2	7730
2010-11	5731	45.1	111	0.9	6852	54.0	12694
2011-12	1557	28.0	1647	29.6	2356	42.4	5560
2012-13	886	6.4	3261	23.4	9771	70.2	13918
2013-14	2670	19.1	44	0.3	11245	80.6	13960
2014-15	4663	20.0	6480	27.7	12225	52.3	23368
2015-16	3515	19.1	858	4.7	14043	76.3	18416
2016-17	4027	8.7	23837	51.7	18264	39.6	46127

Source: Same as in Table 7.4

Outstanding debt of the PSU is another matter of concern as the borrowings of the PSEs are usually from the State Government. The trends in outstanding debts of PSUs and interest payments to their debt stock are furnished in Chart 7.2. The outstanding liabilities of PSUs in Tamil Nadu increased from ₹1278 crore in 2006-07 to ₹1,04,151 crore in 2016-17, registering about 8.2 fold rise.

At the same time, the interest payments of PSUs increased by about 9.36 fold. It is noted that if the PSUs fail to repay their loans, the Government has no choice but to treat them as an investment. Therefore, the total loss shown by an undertaking may be greater than what it actually amounts to in their book of accounts.

Chart 7.2: Total Borrowings of SPSUs (₹ crore)



7.3 Profit and Losses of SPSUs in Tamil Nadu

Table 7.6 shows the trends in profits and losses of SPSUs during 2006-07 to 2016-17. In 2006-07, 17 PSUs made a collective profit of ₹194 crore and 36 incurred a total loss of ₹1682 crore and so the net loss of the PSUs in Tamil Nadu was ₹1365 crore. The net loss of PSUs of the State continuously increased over the years and it was estimated at ₹8435 crore in 2016-17. It is also noticed that the number of profit making PSUs increased over the years and at the same time the number of loss making enterprises declined, but the total profit of profit making PSUs were not sufficient enough to offset the total loss incurred by loss making institutions. Therefore, the net loss increased over the years.

Evidences also indicate that since 2012-13, 30 enterprises have been showing profits every year while 15 enterprises have been showing loss every year. At the same time 13 enterprises have been showing profit in some year and loss in other years.

The details of the top ten profit-making and top ten loss making PSUs in 2017-18 are shown in Table 7.7 and Table 7.8 respectively. It is interesting to note that the manufacturing and infrastructure sector PSUs are making profit whereas most of the service and power Sector PSUs are running under loss.

Table 7.6: Profits and Losses of SPSUs in Tamil Nadu (2006-07 to 2016-17)

(₹ crore)

Year	Profit-making SPSUs	Total Profit	Loss-making PSUs	Total Loss	Overall Net Profit/Loss
2006-07	17	194	36	-1682	-1365
2007-08	18	208	35	-1709	-1359
2008-09	38	566	20	-4303	-8036
2009-10	40	592	20	-8548	-11332
2010-11	40	493	23	-11924	-14011
2011-12	37	615	25	-14504	-13617
2012-13	43	615	19	-14232	-13617
2013-14	41	835	21	-13742	-12133
2014-15	41	1980	20	-16833	-14853
2015-16	41	811	21	-15685	-14873
2016-17	39	931	25	-9366	-8435

Source: Same as in Table 7.4; Note: The rest of the working PSUs are neither earned profit nor incurred any loss or not revealed its account.

Table 7.7: Top Ten Profit Making SPSUs as on March 2017

Name of the Enterprise	Sector	Profit Earned (₹ crore)
Tamil Nadu Newsprint and Papers Limited (TNPL)	Manufacturing	257.53
Tamil Nadu Power Finance and Infrastructure Development Corporation	Power	129.74
Tamil Nadu Industrial Development Corporation Limited (TIDCO)	Infrastructure	117.93
State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT)	Infrastructure	99.96
TIDEL Park Limited (TIDEL, Chennai)	Infrastructure	49.28
Arasu Cable TV Corporation Limited (Arasu Cable TV)	Service	34.95
IT Expressway	Infrastructure	33.39
Tamil Nadu Industrial Investment Corporation Limited (TIIC)	Finance	30.97
Tamil Nadu Magnesite Limited (TANMAG)	Manufacturing	21.74
Electronics Corporation of Tamil Nadu Limited (ELCOT)	Service	20.58

Source: Report of the CAG Audit on Public Sector Undertakings of Tamil Nadu for the year ended 31 March 2017

Table 7.8: Top Ten Loss Making SPSUs as on March 2017

Name of the Enterprise	Sector	Loss Incurred (₹ crore)
TANGEDCO	Power	5,786.82
Metropolitan Transport Corporation Limited (MTC)	Service	519.48
Tamil Nadu State Transport Corporation (Coimbatore) Ltd	Service	480.8
Tamil Nadu State Transport Corporation (Kumbakonam) Ltd	Service	477.22
Tamil Nadu State Transport Corporation (Villupuram) Ltd	Service	376.13
Tamil Nadu State Transport Corporation (Tirunelveli) Ltd	Service	368.02
Tamil Nadu State Transport Corporation (Madurai) Ltd	Service	345.35
Tamil Nadu State Transport Corporation (Salem) Ltd	Service	305.3
Tamil Nadu Transmission Corporation Limited (TANTRANSCO)	Power	263.4
State Express Transport Corporation Limited (SETC)	Service	177.09

Source: Report of the CAG Audit on Public Sector Undertakings of Tamil Nadu for the year ended 31 March 2017

7.4 Non-Working Public Sector Enterprises: A Brief Note

As indicated earlier, currently there are 6 non-working PSUs (they have ceased to carry on their operations) in Tamil Nadu (as on March 2017). They are:

1. Tamil Nadu Goods Transport Corporation Limited (TN Goods)
2. State Engineering and Servicing Company of Tamil Nadu Limited (SESCOT)
3. Tamil Nadu Agro industries Development Corporation Limited (TN AGRO)
4. Tamil Nadu Poultry Development Corporation Limited (TAPCO)
5. Tamil Nadu State Construction Corporation Limited (TN State Construction)
6. Southern Structurals Limited (SSL)

In fact, they have been existing for the last 14 to 27 years, having investment of ₹ 69.61 crore (0.05 *per cent of total investment*) with Rs. 47.65 capital and ₹ 21.96 long term loans. The government may yet to take a decision on winding up of these six PSUs. Currently since they are not contributing to the State economy/ meeting the intended objectives, they may be considered either to be closed down or revived.[7]

The TN Goods had commenced liquidation process and submitted winding up proposals. With respect of SESCOT**,** merger orders were issued but its implementation is pending. The closure orders for TN AGRO**,** TAPCO**,** TN State Construction and SSL were also issued, but the closure is in the process. While SSL and SESCOT had submitted its accounts for the year

[7] During 2016-17, two non-working PSUs incurred an expenditure of ₹ 14.08 lakh. This expenditure has been met from their internal resources.

2016-17, the remaining three PSUs are in arrears from one to four years (CAG, 2017). [8] A summary of the financial position and working results of the non working PSUs are furnished in Table 7.9. [9]

7.5 Budgetary Support to PSUs

Tamil Nadu Government provides budgetary support to PSUs in the form of loans, grants, guarantees etc. Table 7.10 shows the details of budgetary support of Government of Tamil Nadu to PSUs from 2014-15 to 2016-17.

In 2014-15, the budgetary support in the form of equity capital outgo, loans and grants/subsidy amounted to ₹ 23368 crore. It increased to ₹ 46127 crore in 2016-17. The guarantees issued/commitment of the Government of Tamil Nadu to PSUs was ₹ 53402 crore in 2014-15 and it declined to ₹ 26347 crore in 2016-17.

7.6 A Note on the Power Sector of the State

Tamil Nadu is one of the pioneer States in implementing 24×7 powers to all sectors. Having a largest wind and solar power generation capacity (8152.39 and 2034.25 MW as on 31 March 2018) in the country along with a reliable thermal and hydro power capacity, the State has placed its position much earlier in the list of 100 percent village electrification States. Tamil Nadu is one among the three largest consumers of electricity, accounting for almost 9 percent of total energy consumption in the country. It also ranks one among the top ten States in the country in terms of the per capita electricity consumption backed with high industrial and commercial activity.

[8] According to GAG Report 2018, the latest year till which the annual accounts of non-working PSUs finalized are : (1) TN AGRO -2015-16 , (2) TAPCO- 2017-18, (3) TN State Construction- 2017-18, (4) SSL – 2017-18; (5) SESCOT – 2017-18, (6) TN Goods – (Not mentioned).

[9] The details on total quantum of surplus lands with PSUs including the non-working PSUs are not available.

Table 7.9: Financial Position and Working Results of Non-Working PSUs in Tamil Nadu

Sector/Name of the Company	Sector	Address &Location	CMD/CEO	Loans Out Standing (₹Crore)	Paid-up capital (₹ Crore)	Net profit(+)/ Loss(-) (₹ Crore)	Capital employed (₹Crore)	Return on capital employed (₹Crore)	Turn Over	Man power
Tamil Nadu Agro Industries Development Corporation Limited (TN AGRO)	Agriculture & Allied	'Agro house' Industrial estate Guindy, Chennai, 600 032.	Mr. Shunchonngam Jatak Chiru (044 2234 2266)	20.96	6.01	(-) 2.73	17.56	0.91	---	---
Tamil Nadu Poultry Development Corporation Limited (TAPCO)	Agriculture & Allied	CIT Nagar, Nandanam, Chennai, Tamil Nadu, 600035	Dr r. Palaniswamy (24338714)	---	1.27	---	(-) 0.73	---	---	---
Tamil Nadu State Construction Corporation Limited (TN State Construction)	Infrastructure	Jawaharlal Nehru Salai, Arumbakkam, Chennai - 600106	+91-44-24750221	1.00	5.00	(-) 4.64	(-) 17.84	---	---	64
Southern Structurals Limited (SSL)	Manufacturing	M.T.H. Road, Pattabiram, Chennai 600072.	Thiru k. Meyyanathan (PIO) 28583438	---	34.50	(-) 11.41	(-) 230.34	(-) 0.18	---	---
State Engineering and Servicing Company of Tamil Nadu Limited (SESCOT)	Manufacturing (Subsidiary of TANSI)	A-28, Thiru-Vi-Ka Industrial Estate, Guindy, Chennai-600 032.	2250 1632	---	0.50	(-) 0.03	0.01	(-) 0.03	---	---
Tamil Nadu Goods Transport Corporation Limited (TN Goods)	Service	4, Sriram Nagar, South Street Alwarpet, Chennai-600018	---	---	0.33	---	(-) 0.30	0.07	---	---
Total	**---**			**21.96**	**47.70**	**(-)18.81**	**(-) 231.64**	**0.77**	**---**	**64**

Source: CAG Report on Public Sector Undertakings for the year ended 31 March 2017, Government of Tamil Nadu

Table 7.10: Annual Budgetary Support of Government of Tamil Nadu to PSUs

Particulars	2014-15		2015-16		2016-17	
	No.of PSUs	Amount (₹Crore)	No.of PSUs	Amount	No.of PSUs	Amount
Equity capital outgo from budget	14	4,663.25	12	3,515.07	12	4,027.01
Loans given from budget	9	6,479.95	8	858.19	7	23,836.59
Grants/subsidy from budget	21	12,224.93	18	14,042.79	18	18,263.54
Total Budgetary Support	**44**	**23368.13**	**38**	**18416.05**	**37**	**46127.14**
Guarantees issued	7	6,548.33	8	2,108.59	5	228.3
Guarantee commitment	13	46,853.57	13	49,083.40	11	23,118.44
Total Guarantees issued/committed	20	53,401.90	21	51,191.99	16	23,346.74
Total Support	64	76770.03	59	69608.04	53	69473.88

In the last two decades, the power utility has incurred significant capital spending to improve access and reliability of power supply in the State. The earlier events of supply shortage in agriculture sector, irregular load shedding etc has been disappeared. Currently, the average supply to agriculture sector is about 24 hours per day and continuous power supply is being extended to all areas of Tamil Nadu. Thus, to the large extent the State has been successful in meeting its long term goal for providing a reliable and quality power to all households, industry, commercial businesses, public needs, agriculture and any other electricity consuming entity.

Tamil Nadu Electricity Board (TNEB) was formed on July 1, 1957 under section 54 of the Electricity (Supply) Act 1948 as a vertically integrated utility responsible for power generation, transmission and distribution. The electricity network has since been extended to all villages and towns throughout the State. As per the provisions under the section 131 of the Electricity Act, 2003 TNEB was restructured on 1.11.2010 into TNEB Limited; Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO); and Tamil Nadu Transmission Corporation Limited (TANTRANSCO). As the former subsidiary was created to undertake power transmission in the State, the latter vested with power generation and distribution. Further, to regulate the generation, transmission and distribution, the Act facilitated the state to establish Tamil Nadu Electricity Regulatory Commission (TNERC).
TANGEDCO is engaged in generation and distribution of electricity in the State. The State

operates the most diversified electricity generation fleet in the country which includes renewables representing 35 percent, nuclear 8 percent, hydroelectricity 7 percent, thermal 45 percent of installed capacity as of March 2017. Further, the total installed power generation capacity in the State is about 30 GW (i.e., almost 9 percent of the total installed in India). Of these TANGEDCO operates 2.2 GW of hydroelectricity capacity, 4.3 GW of coal-fired power and 0.5 GW of gas power; it also has contracts for 6.0 GW of central government-owned thermal power generation and 5.6 GW of privately owned thermal power plants. Also, the distribution company has contracts for 10.6 GW of renewable energy capacity (7.9 GW wind, 1.7 GW solar, 0.2 GW of biomass and 0.7 GW from biomass co-generation plants). Interestingly, the surplus renewable power generation of the State is getting high demand in the national market as many other States falling short of meeting their renewable power obligation targets. Since TANGEDCO was the sole distribution licensee in the State until recently, it served nearly 3 crore consumers of the State and also supply electricity to 38 operational SEZs, which are engaged in exports as on March 2017.

While the TANTRANSCO manages the intra State transmission of electricity and the Power Grid Corporation of India limited (PGCIL) handles the Inter-state transmission. As on March 2017, the total intrastate transmission capacity is about 59953 megavolt ampere (MVA) with 908 extra high voltage (EHV) sub-stations while the interstate transmission capacity is about 9300 MVA with 11 EHV sub-stations. The Summarized Financial position of the 3 power companies are given in Table 7.11.

Table 7.11: Financial Position of Three Power Companies (2016-17)

(in ₹ Crores)

Name of the Company	Paid-up capital	Loans out standing	Turnover	Net profit(+)/ Loss(-)	Capital employed	Return on capital employed	Man power
TNEB Ltd	15364.39	-	-	(-) 0.26	15363.53	(-) 0.26	-
TANTRANSCO	4135.53	12768.61	2305.24	(-) 263.40	21436.59	796.41	---
TANGEDCO	13778.28	85208.75	49210.85	(-) 5786.82	35120.62	3035.03	86997

Source: Report of the CAG on Public Sector Undertakings for the year ended 31 March 2017

Role of Private Sector on Power Distribution : TANGEDCO was the sole distribution licensee in the State for power distribution until 2017. However, the TNERC has recently permitted the India Power Corporation (Tuticorin) Private Limited (IPCTPL), a Kolkata-based company, to provide electricity to units in the multi-product special economic zone

(SEZ) at Nanguneri in Tirunelveli district. The company received 25 years of license with effect from 2017 which is recognized by the Central government's Commerce department (co-developer of SEZ).

The idea of privatization in electricity distribution was not welcomed by the successive State governments. Pointing the past experience of the State and the experiences of many other States, the 10 year old idea of the Central government was continuously rejected by them. Earlier (about 20 years ago), the rural electricity cooperative societies were functioning as franchisees in the State. But, later, the government decided to merge them with the TNEB. The recent movement is backed by the authorities on the fact that TANGEDCO has been providing subsidy to a large number of consumers, including domestic category out of its "social commitments," which it can ill afford to abandon.

7.6 Concluding Remarks

Currently, Tamil Nadu has 68 working PSUs and 6 non-working PSUs. Evidences indicate that the PSUs in Tamil Nadu have not had a great impact on the economy of the State except for providing direct employment of 2.84 lakh persons and investment of ₹ 153871. The power sector accounted for 92.3 percent of investments in PSUs in Tamil Nadu in 2016-17. The overall budgetary support of the State to PSUs increased from ₹ 4154 crore in 2006-07 to ₹46127 crore in 2016-17, registering 11.1 fold rise. At the same time the outstanding liabilities of PSUs in Tamil Nadu increased from ₹1278 crore in 2006-07 to ₹1,04,151 crore in 2016-17, registering about 8.2 fold rise. The net loss of the PSUs in Tamil Nadu also increased from ₹1365 crore to ₹8435 crore.

While the manufacturing and infrastructure sector PSUs are profit making, the service and power Sector PSUs are running under loss. Thus, the overall financial performance of the SPSUs of Tamil Nadu is not impressive. However, the state is much close to the recommendations of Thirteenth Finance Commission i.e., ensuring the financially viability of all working SLPEs, except those in the welfare and utility sector and drawing- up a roadmap for closure of non-working SPSU.

A time bound programme of restructuring the SPSUs should be adopted soon to tackle the major hurdles in their performance. Immediate winding-up of the non-working units, step-by step closing down some of the working units which are not serving useful social purpose, revamping the working units to improve their working, rightsizing the manpower of the working units, incorporating a professional manner and minimizing state intervention in the public utility sector units, paying special attention to the power and transport which are running into huge losses and straining the government, setting up a separate cell for monitoring are some of the major policy recommendations.

Chapter 8

Local Body Governments in Tamil Nadu

The 73rd and 74th Amendments of Constitution accorded the statutory status to both urban local bodies (ULBs) and Rural Local Body Governments, called Panchayati Raj Institutions (PRIs). The Tamil Nadu State legislature enacted the Tamil Nadu Panchayats Act 1994. Accordingly, a three-tier system of Panchayati Raj Instituitions (PRIs) *viz.*, District Panchayats (DPs) at the district level, Panchayat Unions or Block Panchayats (BPs) at the intermediary level and Village Panchayats (VPs) at the village level was established. The State legislature also amended the Tamil Nadu District Municipalities Act, 1920, in order to transfer the powers and responsibilities to ULBs.

This Chapter provides an overview on receipts and expenditures of PRIs and ULBs in Tamil Nadu since 2011-12, prevailing mechanism of auditing of accounts of PRIs and ULBs, a track record of various State Finance Commission of Tamil Nadu and their recommendations, number functions devolved to the local body governments in Tamil Nadu, property tax rates and structures in the state etc.

8.1. Receipts and Expenditures of PRIs and ULBs in Tamil Nadu

Among the PRIS, the village panchayats alone have the power to levy taxes. The other sources of village panchayats and block panchayats are non-tax revenue, assigned revenues from the State government and grants given by the State government and Central and State Finance Commission grants. The details of receipts and expenditures of the PRIs during 2011-12 to 2016-17 are shown in Table 8.1.Own revenues accounted for about 7-14 percent of total receipts of PRIs during 2011-12 to 2016-17 while grants accounted for 74-83 percent. It is also noted that the total expenditures was only 33 percent of total receipts in 2011-12. But increased to 73 percent in 2016-17.

Table 8.1 also provides details of receipts and expenditures of ULBs during 2011-12 to 2016-17. Own revenues accounted for about 30-34 percent of total receipts during this period while grants constituted about 43-50 percent. Except in initial two years, the expenditures of ULBs exceeded their receipts. It may be noted that Tamil Nadu is one of the highly urbanized States in the country and about 50 percent people live in urban Tamil Nadu. Therefore urban local bodies need to provide services to these people.

Table 8.1: Receipts and Expenditures of PRIs & ULBs in Tamil Nadu

(₹ crore)

Receipts and Expenditures of PRIs						
Revenue/Expenditures	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Own Revenue	528	631	766	422	929	797
Assigned Revenue	564	705	975	866	713	333
Grants	3685	4,484	4,375	4,358	4,758	5,711
Total Revenue	4777	5,820	6,116	5,646	6,400	6,841
Revenue Expenditure	623	1,294	1,025	3,154	1,711	1,941
Capital Expenditure	940	1,308	1,813	2,385	1,985	3,019
Total Expenditure	1563	2602	2838	5539	3696	4960
Total Expenditure as % Revenues	33	45	46	98	58	73
Receipts and Expenditures of ULBs						
Own Revenue	2148	2,467	2,957	2,875	3,364	3,776
Assigned Revenue	780	1,084	1,211	1,047	1,717	1,469
Grants	3220	4,020	4,391	4,073	5,033	5,468
Loans	225	323	903	772	724	1,964
Total Revenue	6373	7,894	9,462	8,767	10,838	12,677
Revenue Expenditure	2559	3,461	4,985	5,331	6,704	6,895
Capital Expenditure	2221	3,117	5,107	4,954	6,750	6,406
Total Expenditure	4780	6578	10092	10285	13454	13301
Total Expenditure as % Revenues	75	83	107	117	124	105

Source: CAG *Audit Report (Local Bodies) for Tamil Nadu, various years*

8.2. Mechanisms of Auditing of Accounts of PRIs and ULBs

The auditing mechanism is more or less similar for both PRIs and ULBs. As far as the PRI is concerned, the Director of Local Fund Audit (DLFA) is the statutory Auditor for block panchayats and district panchayats, while DLFA conduct only test audit of village panchayats' accounts. The deputy block development officer audits the accounts of the village panchayats and certifies them. In fact, they should submit annually a consolidated report of the audited accounts of local bodies to state government, which should be placed before the legislative assembly (Section 20 of the Tamil Nadu Local Fund Audit Act, 2014). As per the act, DLFA should, send consolidated report of the accounts of local authorities audited during the previous financial year to the government on or before 30th September every year.

Government of Tamil Nadu has entrusted (August 1992) the audit of ULBs to the Director of Local Fund Audit (DLFA), who has to certify the correctness of accounts, assess internal control system and report cases of loss, theft and fraud to the audited entities and to state government. The CAG has been submitting the Consolidated Audit Report of local bodies to the State Government. The CAG also audits the PRIs and ULBs under Section 14(1&2) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971. Technical Guidance and Support (TGS) is provided by the CAG to DLFA.

8.3. Track Record of the State with Respect to the SFC

Tamil Nadu is one of the States in the country constituted five State Finance Commissions (SFCs) so far as required. The Government has either converged to or diverged from the SFC recommendations. The track record of the five SFCs are given below:

First State Finance Commission

- The 1st SFC divided the whole devolution into two pools viz., pool A and pool B. The first one comprised taxes such as surcharge on stamp duty, local cess and local cess surcharge and entertainment tax which belonged to local bodies but are collected by the government and to be shared with the local bodies. The second one consisted the rest of states own tax revenue, to be distributed to local bodies in increasing proportion growing from 8 percent to 12 percent over the five years.
- The commission recommended a ratio of 60:40 distributions between PRIs and ULBs.
- For horizontal distribution, the commission considered criteria such as total population, SC & ST population, financial viability, per capita house tax collection, core civic services, infrastructure maintenance deficiency, per capita receipts under own resources and existing per capita expenses on core services.
- The commission also recommended introduction of equalisation and incentive funds, property tax reforms with quinquennial revision, fixing of water supply norms, creation of a capital fund by allocating 10-15 percent from the revenue of ULBs, and switching over from house tax to property tax in Town Panchayats.

The Government of Tamil Nadu accepted 115 of the 413 recommendations made by the First SFC.

Second State Finance Commission

- The Second SFC again recommended increasing the percentage of devolution per annum from 8 percent to 10 percent.
- Considering urban growth, the commission recommended an increased share of 42 percent (from 40 percent) for ULBs and 58 percent share for PRIs.
- For Horizontal distribution, the Commission retained both the population parameters and per capita own income as suggested by the First SFC and introduced five new parameters, viz., area, population of agricultural labourers, asset maintenance resource gap, inverse of per capita land revenue, and salary and pension expenses.
- The Commission also recommended re-classification of Local Bodies based on 1991 census, incentivization of taxation efforts, equalisation funds onwards self-financing projects on sewerage, drainage and over bridges, strengthening of Gram Sabhas, debt relief package to ULBs and a time frame for audit and placement of Local Body accounts before the Legislative Assembly.

The Government accepted 283 of the 386 recommendations made by the Second SFC

Third State Finance Commission

- The Third SFC recommended a uniform 10 percent share of tax revenue for the entire award period, retained the concept of Pool A and Pool B and introduced a third, Pool C.
- This was to comprise specific purpose grants for local bodies with 0.5 – 1.0 percent of States Own Tax Revenue share.
- The Commission retained the RLB to ULB proportion as 58:42.
- For horizontal distribution, the Commission retained total population, SC-ST population and area as criteria and added two new parameters viz., women population and debt burden of local bodies.
- The Commission also recommended incentivization of Solid Waste Management activities, tax mapping by GIS, incentivization for debt repayment as per schedule and re-classification of Local Bodies on revenue basis.

The Government accepted 91 of the 308 recommendations made by the Third SFC.

Fourth State Finance Commission

- The Fourth SFC again recommended a uniform 10 percent share of State's own tax revenues for devolution.
- Devolution to ULBs was recommended to increase from 42 percent to 44 percent.
- For horizontal distribution, the Commission retained the Third SFC criteria except for omitting women population.
- Among other major recommendations, a special grant of Rs.200 crore was earmarked for Local Bodies out of the devolution for Solid Waste Management activities, continuation of the Infrastructure Gap Filling Fund and the Operations and Maintenance Fund with some increase and incentives for best practices.

The Government accepted 112 of the 130 recommendations made by the Fourth SFC.

Fifth State Finance Commission

- The 5th SFC recommended retaining the 10 per cent of the net State’s Own Tax Revenue (SOTR) for devolution.
- The Commission recommended the 56:44 sharing ratio between PRIs and ULBs
- In the event of a loss in State Tax collection due to the introduction of GST, but receives compensation from the Government of Indian, then the State Government should share 10 per cent of the compensation with the Local Bodies.
- A permanent SFC cell should be formed in Finance Department similar to the Kerala model to deal with the issues relating to State Finance Commissions.
- The Commission recommended bifurcation of large panchayats based on the population, ceiling on Profession Tax, quinquennial revision of House Tax, revision of fees, computerisation of the Property Tax, reiteration of unit measurement, introduction of GPS, GIS techniques for tax assessment, identifying, renovating and renting out the vacunt/unused land. Separate head for Stamps and Registration fees, internal audit in urban local bodies etc are the some of the other major recommendations made by the commission.
- The Commission recommends that the horizontal distribution of the SFC devolution to Rural Local Bodies may be done on the basis of 2011 census population (60 percent), area (15 percent), scheduled caste/tribe population (15 percent), per capita consumption expenditure, distance (10 percent) and to urban local bodies, on the basis of 2011 census population (65 percent), area (15 percent), per capita consumption expenditure, distance (10 percent), proportion of slum population (10 percent).

The Commission made 125 new recommendations for acceptance along with the reiteration of some of the existing recommendations by the previous Commissions.

8. 4 Functions Devolved to ULBs and PRIs

The X1th Schedule of the Constitution empowers State Legislatures to devolve 29 functions to PRIs. The main limitation of this provision is that unlike the Union, State and Concurrent Lists in the VIIth Schedule where it is ensured that there are clearly delineated powers between the Centre and the States and clarity on the powers which are shared under the concurrent list, most of the items in the XIth Schedule are also part of List II in the VII Schedule, i.e., they are also state subjects. Hence, an overlap is inevitable and the actual delegation from the state level to the local bodies varies from state to state. Similarly 18 functions are listed in the XIIth schedule of the Constitution for the Urban Local bodies.

Devolution of Functions to Panchayat Raj Institutions

1. Agriculture, including agricultural extension.
2. Land improvement, implementation of land reforms, land consolidation and soil
3. conservation.
4. Minor irrigation, water management and watershed development.
5. Animal husbandry, dairying and poultry.
6. Fisheries.
7. Social forestry and farm forestry.
8. Minor forest produce.
9. Small scale industries, including food processing industries.
10. Khadi, Village and Cottage industries.
11. Rural Housing.
12. Drinking water.
13. Fuel and fodder.
14. Roads, Culverts, Bridges, Ferries, Waterways and other means of communication.
15. Rural electrification, including distribution of electricity.
16. Non-conventional energy sources.
17. Poverty alleviation programme.
18. Education, including primary and secondary schools.
19. Technical training and vocational education.
20. Adult and non-formal education.

21. Libraries.
22. Cultural activities.
23. Market and fairs.
24. Health and sanitation, including hospitals, primary health centres and dispensaries.
25. Family Welfare.
26. Women and Child development.
27. Social Welfare, including welfare of the handicapped and mentally retarded.
28. Welfare of the weaker sections, and in particular, of the Scheduled Castes and
29. Schedule Tribes.
30. Public Distribution System.
31. Maintenance of community assets.

Devolution of Functions to Urban Local Bodies

1. Urban planning including town planning.
2. Regulation of land-use and construction of buildings.
3. Roads and bridges.
4. Water supply for domestic, industrial and commercial purposes.
5. Public health, sanitation conservancy and solid waste management.
6. Slum improvement and upgradation.
7. Urban poverty alleviation.
8. Provision of urban amenities and facilities such as parks, gardens, playgrounds.
9. Burials and burial grounds; cremations, cremation grounds; and electric crematoriums.
10. Vital statistics including registration of births and deaths.
11. Public amenities including street lighting, parking lots, bus stops and public conveniences.
12. Regulation of slaughter houses and tanneries.
13. Planning for economic and social development.
14. Fire services.
15. Urban forestry, protection of the environment and promotion of ecological aspects.
16. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.
17. Promotion of cultural, educational and aesthetic aspects.
18. Cattle pounds; prevention of cruelty to animals.

8.5 GST on Local Bodies

The 101st Constitution Amendment Act, which enables implementation of GST has substituted the present Entry 62 of List II of the Seventh Schedule with a new entry which reads as follows: “Taxes on entertainment and amusement to the extent levied and collected by a Panchayat or a Municipality or a Regional Council or a District Council”. Thus local bodies can be empowered to levy and collect entertainment tax and the commission has already recommended that government should introduce legislation to enable local bodies to collect entertainment tax.

8.6 Property Tax Rates and Structure in Tamil Nadu

The property taxes is designated as “Taxes on lands and buildings” (VIIth schedule of the Constitution). It represent an ideal tax base for local bodies as it is not mobile and can be objectively verified and subjected to tax in a fair and equitable manner. It is the chief source of fund to the municipal finance in the State. Similar to other tax impositions 3 stages are attendant on the imposition of property tax. They are (i) levy or declaration of liability (ii) assessment and (iii) Collection. The first one is a legislative function, the second one is quasi-judicial and the last one an executive function. The state legislature enacted (2013) the Tamil Nadu State Property Tax Board Act, 2013 and accordingly Government of Tamil Nadu framed (October 2014) the Tamil Nadu State Property Tax Board Rules in 2014.

In Tamil Nadu, before 1993, the Property Tax was assessed by the annual rental value method and by the capital value method. However, with effect from 1.10.1998, the Government of Tamil Nadu introduced a common method of calculation for arriving at the property tax in ULBs. While assessing the Property Tax in this method, the following details are taken into account to arrive the basic value of the property.

- Area of the building
- Age of the building
- Type of the building (i.e. RCC Roof, Tiled Roof and Thatched and AC Sheet)
- Usage of the building i.e. Residential, Commercial and Industrial
- Zonal value of the ULB concerned.

There are many steps in determining the annual value. The basic value is the rental yield per square feet of residential properties per month which is applicable in all the municipalities and township committees of different zones for taxation of the annual rental value of the buildings and lands. Further in order to determine the basic value, instructions have been given pertaining to the newly constructed residential (reinforced cement concrete-RCC) buildings measuring 1000 square feet to be converted into a rental value per square feet.

Based on the age of buildings, three types of reduction in the annual value is applicable. They are: (i) no depreciation for buildings that are up to 5 years old, (ii) 15% depreciation is applicable for buildings that are 5-15 years old and (iii) 20% depreciation is applicable for a building that has been existence for more than 20 years. For the taxation purposes, buildings are categorized into (a) thatched roof buildings with a discount of 50% (b) tiled and AC/ GA sheet building with a discount of 25% and (iii) RCC buildings with no discounts. Also, a discount of 30% is accorded to buildings occupied by the owners.

According to Rule 8(1) of Schedule IV of the Tamil Nadu District Municipalities Act 1920, the assessment books shall be updated by the executive authority once in 5 years. This forms the basis for quinquennial tax revisions, which are the backbone for the fiscal health of ULBs. The government should ensure the periodical revision of property tax which will improve the financial position of the ULBs. The last revision of property tax in most ULBs except Chennai Corporation[10] and the four Municipalities viz., Kallakurichi, Villupuram, Periakulam and Paramakudi was carried out in 2008.[11]

Depreciation has been allowed for age of the building and discount is allowed for the type of the building. As per established practices and procedures to carryout quinquennial revision of property tax, the ULB authorities have to conduct revision with the assistance of Special Revision Officers who inspect each and every house / building / vacant land in the jurisdiction of the entire town, thereby preventing escaped assessments and under-assessments.The State Finance Commission has recommended that the target for property tax collection for ULBs should be fixed to reach 0.60 percent of GSDP by the last year of award period i.e., 2021-22.

8.7 Concluding Remarks

During 2011-12 to 2016-17, own revenues accounted for about 7-14 percent of total receipts of PRIs in Tamil Nadu while grants accounted for 74-83 percent. At the same period, the total expenditures of PRIs was 73 percent of their revenues in 2016-17. Property tax is the major

[10] The last revision of Property Tax in Chennai Corporation took effect from 01.04.1998.

[11] On the previous occasion that a General Revision of Property Tax was carried out, ceilings were placed on the enhancement of Property Tax as indicated below: For Residential Building (Whether Owner occupied or rented) 25%, For Industrial Building 100% and For Commercial Building 150%

revenue source for ULBs. A common procedure is followed throughout the State to assess the property tax based on basic value of the property taking into account the area, age, type, usage of building and the zonal value of ULBs. Own revenues accounted for 30-34 percent of ULBs while grants accounted for 43-50 percent of total receipts of ULBs.

Director Local fund Audit is the statutory auditor for local bodies in Tamil Nadu. The CAG submits the Consolidated Audit Report of local Bodies to State Government. Tamil Nadu is one of the States in the country constituted 5 State Finance Commissions (SFCs) so far as required. In general it accepted and implemented most of the recommendations of these SFCs.

Chapter 9

Projections of Revenues and Expenditures: 2020-21 to 2024-25

This Chapter provides projections of the relevant revenues and expenditures of Tamil Nadu for the award period of 15th Finance Commission, i.e., during 2020-21 to 2024-25. It also provides the projected deficit and debt indicators.

The basic features of the projection methodology are as follows:

(i) 2018-19BE is used as the base year;

(ii) For major revenue items, tax buoyancy for the latest four years, i.e., 2015-16 to 2018-19 is used;

(iii) For all other components of revenues and expenditures, their actual (average) growth rate for the latest four years (2015-16 to 2018-19) is used;

(iv) Revenue deficit is calculated by subtracting the projected revenue receipts from revenue expenditure;

(v) Fiscal deficit is kept at 3 percent of projected GSDP;

(vi) Total liability is calculated by adding previous debt the current year fiscal deficit (net borrowing); and

(vii) The nominal GSDP is assumed to grow at 10.5 percent.

Table 9.1 presents projections of likely values of the relevant revenue components, revenue expenditure components, capital outlays and other major deficit indicators for Tamil Nadu during 2020-21 to 2024-25. As per our projections, the following major issues may be noted:

(i) The interest payment was 16.8 percent of revenue receipts of the Tamil Nadu Government which was higher than the Fourteenth Finance Commission's norm of 10 percent. Our projection indicates that it will reach 25.4 percent of revenue receipts in 2024-25. This is the major concern.

Table 9.1: Projections of Major Fiscal Indicators during 2020-21 to 2024-25

(₹ Crore)

sl.	Fiscal Indicators	Buoyancy	Growth %	2018-19B	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
1	Sales Tax+GST	1.13	11.9	86858	97199	108771	121721	136213	152430	170578
2	State Excise	0.48	5.03	6998	7350	7721	8110	8518	8947	9398
3	Stamps Duties	1.24	13.03	10936	12361	13972	15793	17852	20179	22809
4	Motor Vechile tax	1.31	13.75	6212	7066	8037	9142	10398	11827	13453
5	Others	0.19	2.01	1613	1645	1678	1712	1746	1782	1817
6	Own Tax Revenue	0.99	11.64	112616	125621	140179	156478	174728	195165	218055
7	Own Non Tax Revenues		7.88	11301	12192	13152	14189	15307	16513	17814
8	State's Own Revenue	(6)+(7)	11.32	123917	137813	153332	170667	190035	211678	235870
9	Total Central Transfers	(10)+(11)	12.58	52334	58358	65341	73444	82859	93810	106560
10	Share in Central Taxes		17.24	31707	37175	43585	51102	59914	70246	82360
11	Grants		2.69	20627	21184	21755	22342	22945	23564	24200
12	Total Revenue Receipts	(8)+(9)		176251	196171	218672	244110	272893	305488	342429
13	Salary, Wages		8.72	52171	56721	61669	67048	72896	79254	86166
14	Pension		13.7	25362	28840	32795	37292	42406	48221	54834
15	Interest Payment		19.63	29671	35495	42463	50798	60770	72699	86970
16	Subsidies		12.73	16321	18399	20741	23381	26358	29713	33496
17	Others		8.36	70216	76089	82453	89350	96823	104921	113697
18	Revenue Expenditure	sum of (13-17)		193742	215544	240121	267869	299253	334809	375163
19	Capital Outlay		12.36	28283	31779	35708	40123	45083	50656	56919
20	Revenue Deficit	(18)-(12)		17491	19373	21449	23759	26359	29320	32734
21	Fiscal deficit	3% GSDP		44481	47888	52916	58472	64611	71396	78892
22	GSDP at Current Prices#		10.5	1596253	1763860	1949065	2153717	2379857	2629742	2905865
23	Total Liabilities			355845	403733	456648	515120	579732	651128	730020

(ii) Total liability of the State Government was 22.3 percent in 2018-19. The debt sustainability analysis in Chapter 6 indicate that in Tamil Nadu the public debt is sustainable only at 10 percent significance level. Therefore Tamil Nadu's debt was already nearer to unsustainable level. Our projections in Table 9.1 shows that the debt-GSDP ratio will reach 25.1 percent level in 2024-25. The latest FRBM Review Committee recommended the debt as the medium anchor for fiscal policy rule in India and for all States together it recommended the debt-GDP ratio of 20 percent ceiling. Debt sustainability may be a concern for Tamil Nadu.

(iii) According to FRBM norms, revenue deficit needs to be zero level. In all our projection years, it may be around 1 percent level. This is also a concern.

In order to overcome the above concerns and maintain fiscal status in a prudent manner, the road map given in Table 9.2 may be useful. It uses almost all assumption used for Table 9.1 except the following:

(i) As GST is stabilizing and compensation from the Centre to State is based on 14 percent growth of GST, we may consider 14 percent growth of own tax revenues, instead of 11.32 percent.

(ii) the State's non tax revenue potential may be exploited such that it may grow at 10 percent instead of 7.88 percent.

(iii) Interest payment may be maintained at 10 percent of revenue receipts of the State as recommended by the Finance Commission so that the interest payment will reach Rs. 37377 crore in 2024-25 instead of Rs. 86970 crore in Table 9.1.

(iv) Debt-GSDP ratio should be around 20 percent so that debt is Tamil Nadu will be sustainable.

Due to these changes, the revenue deficit account will show a surplus from 2020-21 onwards. These increased revenues may be used to meet partially the capital expenses so that the fiscal deficit will go down. These would be possible only when the interest payment needs to be maintained at 10 percent of revenue receipts and debt needs to maintained at sustainable level of 20 percent of GSDP. Government of Tamil Nadu needs to take an appropriate strategy to achieve these targets.

Table 9.2: Road Map to Maintain the Fiscal Discipline

(₹ Crore)

sl.	Fiscal Indicators	Growth%	2018-19B	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
1	Own Tax Revenue	14	112616	128382	146356	166846	190204	216832	247189
2	Own Non Tax Revenues	10	11301	12431	13674	15042	16546	18200	20020
3	State's Own Revenue	(2)+(3)	123917	140813	160030	181887	206750	235033	267209
4	Total Central Transfers	12.58	52334	58358	65341	73444	82859	93810	106560
5	Share in Central Taxes	17.24	31707	37175	43585	51102	59914	70246	82360
6	Grants	2.69	20627	21184	21755	22342	22945	23564	24200
7	Total Revenue Receipts	(4)+(3)	176251	199172	225371	255331	289609	328843	373769
8	Salary, Wages	8.72	52171	56721	61669	67048	72896	79254	86166
9	Pension	13.7	25362	28840	32795	37292	42406	48221	54834
10	Interest Payment	10% of (7)	29671	19917	22537	25533	28961	32884	37377
11	Subsidies	12.73	16321	18399	20741	23381	26358	29713	33496
12	Others	8.36	70216	76089	82453	89350	96823	104921	113697
13	Revenue Expenditure	sum of(8-12)	193741	199966	220195	242604	267443	294994	325570
14	Revenue Deficit/Surplus (-)	(14)-(7)	17491	795	-5176	-12727	-22165	-33849	-48199
15	Rev. deficit/surplus as % GSDP	(14)/(16)*100	1.1	0.0	-0.3	-0.6	-0.9	-1.3	-1.7
16	GSDP at Current Prices#	10.5	1596253	1763860	1949065	2153717	2379857	2629742	2905865
17	Total Liabilities	20% of (16)	355845	352772	389813	430743	475971	525948	581173
18	Total Liabilities as % GSDP		22	20	20	20	20	20	20

Chapter 10

Conclusion

This study has reviewed the finances of Government of Tamil Nadu during 2006-07 to 2016-17. Specifically it has analyzed the overall trends in revenues, expenditures, fiscal balances, and outstanding liabilities, and their compositions over the years. It also compares the financial performance, tax structure and expenditure pattern of Tamil Nadu with those of the major State Governments in India. It has also briefly reviewed the sectoral growth of Tamil Nadu economy, macroeconomic environment in the country, central tax buoyancy and trends in vertical transfers since the eight Finance Commission period. This Chapter presents the summary of major findings of the study along with suggestions for improving the financial performance of Tamil Nadu State Government on the basis of the results of our analysis.

10.1 Summary of Major Findings and Policy Suggestions

(i) Macro-economic Environment in India

India has been one among the fast growing larger economics in the world. However, its actual growth rate during the last 7 years was below the trend (potential) growth rate, except in 2015-16. During 2011-12 to 2017-18, the Indian economy (at 2011-12 prices) grew at 6.88 percent which is about 2 percentage points less than 8.7 percent growth obtained during 2003-04 to 2010-11. This down turn in the overall economic condition of the nation along with rising oil prices and inflation, rupee depreciation, etc is the major concern. However, our VAR based macro model forecasts that the economy will get a moderate recovery and the average growth during 2019-20 to 2014-15 will increase to 7.7 percent.

This economic downturn and possible improved growth path, however, may provide an opportunity for the Fifteenth Finance Commission to revise its methodology in order to make more appropriate fiscal projections, which will enable a more appropriate and just distribution between the Union and the States of the net proceeds of taxes, allocation amongst the States of such proceeds and recommendations on grants to the States.

(ii) Tamil Nadu Economy

Like Indian economy, Tamil Nadu' potential growth rate also declined in recent years. During 2011-12 to 2018-19, its average growth (at 2011-12 constant prices) was 7 percent which was

2.8 percentage points less than its recorded growth of 10.8 percent during 2004-05 to 2010-11. This happens mainly due to significant fall in growth of both manufacturing and construction. Higher growths of these two sectors are important from employment generation point of view. Further the fall in overall growth affects the tax buoyancy. As Tamil Nadu is the second largest economy, next only to Maharashtra, the faster growth of this economy is vital for the faster growth of Indian economy.

There is a need to mention on agriculture sector. Its share in GSDP has been continuously declining. The net sown area has also been decreasing. Despite the State Government has taken initiatives to improve the productivity of agriculture output and somehow it manages to produce 113.85 lakh metric tonnes of Food production (in 2015-16). The major concern is the frequent drought and excess rain/flooding in some years. As a result farmers lost their crops. As majority of farmers are small and medium, they find it difficult to afford the losses. As the growth of agriculture is highly volatile, the risk adjusted return from agriculture is low. Therefore, getting private investment is difficult. The public investment is also not happening as this sector's share is shrinking. What is required is farmers particularly small farmers needs support when there is a crop failure/drought.

(iii) Fiscal Position of All States together

The fiscal position of all States together improved during 2004-05 to 2014-15 and their fiscal deficit relative to GDP kept below the FRBM threshold level of 3 percent during this period. However, for the last three consecutive years, their fiscal deficit-GDPratio GFD-GDP ratio crossed the threshold, due to Ujwal Discom Assurance Yojana (UDAY) scheme, implementation of farm loan waivers and pay commission recommendations on salaries and pensions of State Government employees. Outstanding liabilities of them relative to GDP declined continuously during 2006-07 to 2014-15, but after 2014-15, it started increasing again, raising the debt sustainability concerns associated with rising market borrowings.

(iv) Vertical Transfers

Total transfer (tax devolution plus grants) to the States was about 35 percent during the Tenth and Eleventh Finance Commissions periods. It increased to 37.3 percent and 42.3 percent during the 12th and 13th Finance Commission period respectively. There is also indication that the transfers to the States in the first four years of the award period of Fourteenth Finance Commission has increased further to above 50 percent. There is a greater possibility for continuation of this trend, as the Central tax buoyancy has increased significantly to 1.54 in the last three years. The GST is stabilizing and so there may be possibility that States tax buoyancy will also increase.

(v) Horizontal Transfers

While different Finance Commissions have used different criteria with varying weights due to their terms of References, the poorer States in general get strong support. For instances, the combined shares of four States-Bihar, Madhya Pradesh, Uttar Pradesh and West Bengal increased from 43.4 percent to 49.8 percent over the years. At the same time, the combined four Southern States declined from 24 percent to 15.5 percent. The question remains is: how long the support to these States need to be extended? The continued support may be an incentive for the poorer States to keep their own revenue efforts at low level.

(vi) Tamil Nadu Government Finance

Tamil Nadu's government finance has been well managed since 2005-06. Its key fiscal parameters-revenue deficit, fiscal deficit and public debt relative to GSDP have been kept as per the norms of FRBM legislation. Only in the last two years the revenue deficit has exceeded 1 percent of GSDP.

During 2006-07 to 2016-17, the own tax-GSDP ratio declined from 8.94 percent to 6.42 percent due various factors including the introduction of State VAT, global slowdown of the economy etc. Sales tax is by far the most important own tax revenue source in Tamil Nadu. It relative to GSDP was 5 percent in 2016-17. In fact Tamil Nadu ranks third in per capita sales tax revenue among the major Indian States. The share of state excise in the total own tax revenue of Tamil Nadu declined from 14.4 percent in 2006-07 to 6 percent in 2018-19BE due to the abolition of vend fees and additional vend fees for malt liquor and foreign liquor and spirits.

During 2006-07 to 2018-19BE, the own tax buoyancy ranged between 0.3 and 1.8. In 8 out of 14 years, the own tax buoyancy is less than 1.It is the major concern. Another concern is that the buoyancy of almost all taxes is fluctuating over the years and in many years their buoyancies are less than one or negative.

The own non tax revenue also marginally declined by 0.27 percentage point over the years. Although the State is endowed with long coastal areas, the contribution from fisheries sector is relatively low. Similarly the forestry, tourism etc bring very low revenues to State exchequer. There is a potential for the State to increase its non-tax revenues.

Tamil Nadu's share in tax devolution also declined from 7.9 percent in Fourth Commission period to 4.023 percent in Fourteenth Finance Commission period due to the changes in the successive Finance Commissions recommendations. This is the major concern for the State. Tamil Nadu now ranks eighth in per capita revenue receipts and fourth in per capita own tax revenue. It ranks 16th in terms of revenue receipts-GSDP ratio and ninth in own tax- GSDP ratio. Tamil Nadu Government needs to take efforts to improve its own revenue performances.

During 2006-07 to 2016-17, the share of capital expenditure increased from 17.7 percent to 23.4 percent. Relative to GSDP, it increased from 2.6 percent to 3.5 percent, indicating that the State Government used major portion of the borrowed amounts on investments. During the same period, the proportion of revenue outlay on social services increased from 34.8 percent to 36.1 percent while the proportion of revenue outlay on economic services increased from 20 percent to 22.2 percent.

The share of compensation and assignments to local body governments in Tamil Nadu increased from 6.4 percent to 8.1 percent. Both urban and rural bodies get almost equal share, except in a few recent years. In fact, Tamil Nadu has provided the highest compensation to local bodies among the major Indian States. It also ranks first in terms of the compensation to LBs as percent of revenue expenditure.

Salaries, wages and pension payments amounted to 38.2 percent in 2016-17 while the interest payments accounted for 13.7 percent and the subsidies accounted for 10.4 percent. Interest payment was also kept around 1.2-1.9 percent of GSDP.

During 2006-07 to 2018-19BE the Government of Tamil Nadu spent less than 1 percent of GSDP on health and about 2 percent of GSDP on education. These are well below the international standards.

(vii) Debt Sustainability

Tamil Nadu's public debt is estimated at Rs. 3,55,845 crore (in 2018-19BE), which is the fourth largest among Indian States. However, its debt-GSDP ratio is 22.29 percent, which is well below the norms given by Fourteenth Finance Commission and FRBM legislation and it is the fourth lowest among the Indian States. Our Bohn model based sustainability analysis indicates that in 10 out of 22 States the debt is unsustainable. But in Tamil Nadu the debt is sustainable. But it is significant only at 10 percent level. This means that Tamil NAdu's debt is closer to the unsustainable level. Another concern is its debt servicing (interest) burden which is estimated at 17 percent of the revenue receipts of the State, which is significantly higher than the 10 percent norm recommended by the 14th Finance Commission.

(viii) Public Sector Undertakings (PSUs)

Currently, Tamil Nadu has 68 working PSUs and 6 non-working PSUs. Evidences indicate that the PSUs in Tamil Nadu have not had a great impact on the economy of the State except for providing direct employment of 2.84 lakh persons and investment of ₹ 153871. The power sector accounted for 92.3 percent of investments in PSUs in Tamil Nadu. The net loss of the PSUs in Tamil Nadu increased from ₹1365 crore to ₹8435 crore over the years. While the manufacturing and infrastructure sector PSUs are profit making, the service and power Sector PSUs are running under loss.

A time bound programme of restructuring the SPSUs should be adopted to tackle the major hurdles in their performance. Immediate winding-up of the non-working units, step-by step closing down some of the working units which are not serving useful social purpose, revamping the working units to improve their working, rightsizing the manpower of the working units, incorporating a professional manner and minimizing state intervention in the public utility sector units, paying special attention to the power and transport which are running into huge losses and straining the government, setting up a separate cell for monitoring are some of the major policy recommendations.

(ix) Road Map to Maintain Fiscal Discipline

Immediate tasks for the State are: (i) bringing down the interest payment to 10 percent of total revenues as recommended by the Fourteenth Finance Commission; (ii) bringing down the debt-GSDP ratio to 20 percent level as recommended by the recent FRBM Review Committee; (iii) take efforts to raise own tax buoyancy such that own tax revenue will grow at 14 percent and exploit the non tax revenue potential of the State such that it will grwo at 10 percent level. With these initiatives the State will be able to maintain fiscal discipline as required by the FRBM Act.