CHAPTER 1

OVERVIEW

1.1 Profile of Tamil Nadu

Tamil Nadu is the 11th largest State in terms of geographical area (1,30,058 sq.km) and the seventh largest by population. As per the census, the State's population increased from 6.24 crore in 2001 to 7.21 crore in 2011, recording a decadal growth of 15.54 *per cent*. The percentage of population below the poverty line in the State is 11.3 *per cent* as compared to the all-India average of 21.9 *per cent*. General data relating to the State is given in **Appendix 1.1**.

1.1.1 Gross State Domestic Product

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time.

Changes in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors, which correspond to the Agriculture, Industry and Service sectors.

Table 1.1: Trends in GSDP compared to the National GDP

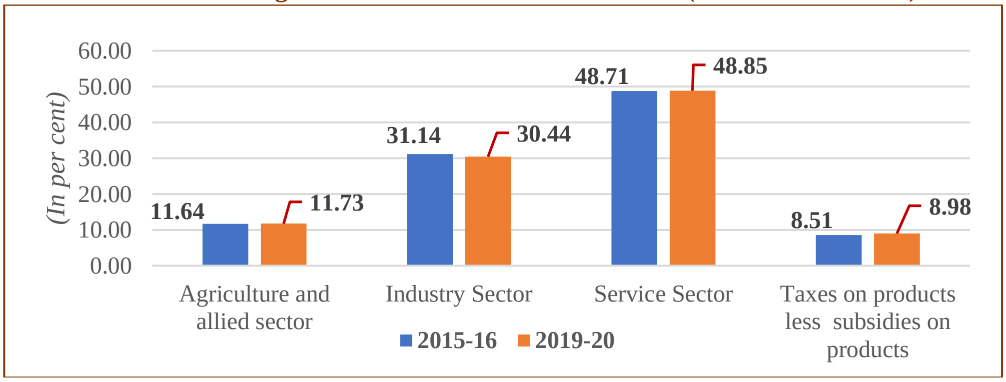
(*₹ in crore*)

Year	2015-16	2016-17	2017-18	2018-19	2019-20
National GDP (2011-12 Series)	1,37,71,874	1,53,91,669	1,70,98,304	1,89,71,237	2,03,39,849
India's Growth rate of GDP over previous year (in *per cent*)	10.46	11.76	11.09	10.95	7.21
State's GSDP at current prices (2011-12 Series)	11,76,500	13,02,639	14,65,051	16,30,208	18,45,853
Growth rate of State's GSDP over previous year (in *per cent*)	9.68	10.72	12.47	11.27	13.23

Source: GoI's Economic Survey (2019-20) and Department of Economics and Statistics, Central Statistics Office (CSO).

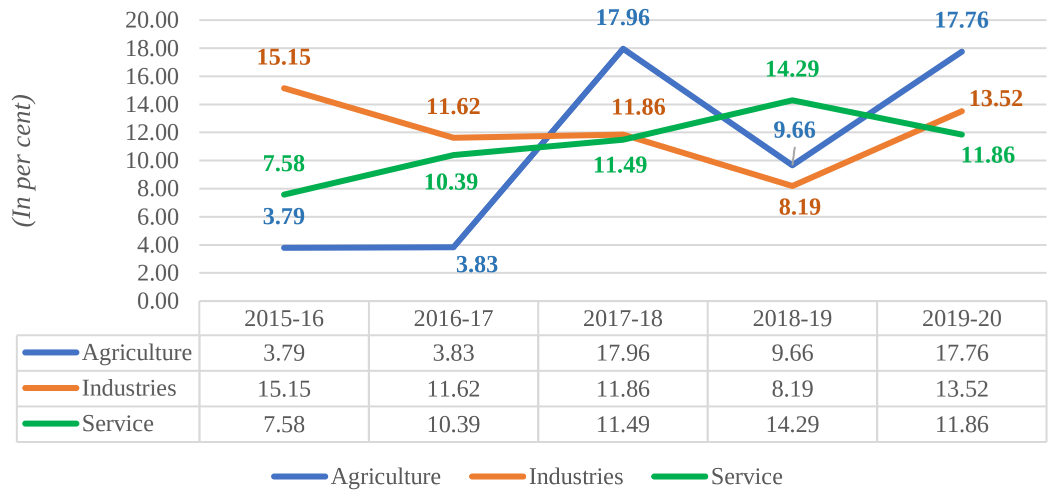
The State's growth rate of Gross Domestic Product (GSDP) in 2019-20 at current prices was 13.23 *per cent* as against India's growth rate of 7.21 *per cent*.

Chart 1.1: Change in sectoral contribution to GSDP (2015-16 to 2019-20)



(*Source: Department of Economics and Statistics, Central Statistics Office*)

Chart 1.2: Sectoral growth in GSDP



	2015-16	2016-17	2017-18	2018-19	2019-20
Agriculture	3.79	3.83	17.96	9.66	17.76
Industries	15.15	11.62	11.86	8.19	13.52
Service	7.58	10.39	11.49	14.29	11.86

(Source of data: Department of Economics and Statistics, State Government)

1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151 (2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) is prepared and submitted under Article 151 (2) of the Constitution of India.

Accountant General (Accounts & Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the State Government, and the statements received from the Reserve Bank of India. In Tamil Nadu, the Treasuries compile the accounts from the vouchers (primary compilation) which, along with the vouchers, are then furnished to Accountant General (A&E) for secondary compilation. These accounts are audited independently by the Principal Accountant General (Audit - I), and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State for the year 2019-20 constitute the core data for this report. Other sources include the following:

- Budget of the State for the year 2019-20: for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- Results of audit carried out by the Office of the Principal Accountant General (Audit-I), Tamil Nadu;
- Other data with Departmental Authorities and Treasuries (accounting as well as MIS),
- GSDP data and other State related statistics; and
- Various audit reports of the CAG of India.

The analysis is also carried out in the context of recommendations of the XIV Finance Commission (FC), Tamil Nadu State Financial Responsibility and Budget Management Act (TNFR Act), best practices and guidelines of the Government of India. An entry conference was held with State Finance Department on 25/09/2020 and the exit conference was held on 12/03/2021. Replies of the Government received in the exit conference have been incorporated suitably in the report wherever applicable.

1.3 Report Structure

The SFAR is structured into the following four Chapters:

Chapter – 1	**Overview** This Chapter describes the basis and approach to the Report and the underlying data provides an overview of structure of government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/ surplus.
Chapter – 2	**Finances of the State** This chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2015-16 to 2019-20, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.
Chapter – 3	**Budgetary Management** This chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.
Chapter – 4	**Quality of Accounts & Financial Reporting Practices** This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.

1.4 Overview of Government Account Structure and Budgetary Processes

It is necessary to understand the structure of Government Accounts in order to appreciate the analysis of the finances of the State Government given in Chapter 2 of this report.

The structure of Government Accounts and the layout of Finance Accounts are shown in **Appendix 1.2**. The methodology adopted for assessment of the fiscal position of the State is given in **Appendix 1.3 - Part A**. The salient features of the TNFR Act, 2003 are given in **Appendix 1.3 - Part B**.

Government Accounts are defined by the twin principles of Fund based accounting and functional classification of transactions of the Government. Fund based accounting system involves sourcing and allocating all receipts and disbursements to one of the three Funds, viz., Consolidated Fund, Contingency Fund and Public Account. These Funds are created by the Constitution and function as instruments of public accountability. The details and purpose of each of these Funds are as given below:

1. Consolidated Fund of the State (Article 266(1) of the Constitution of India)

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, etc.), Ways and Means advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No money can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (e.g., salaries of Constitutional authorities, loan repayments etc.) constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

2. Contingency Fund of the State (Article 267(2) of the Constitution of India)

This Fund is in the nature of an imprest which is established by the State Legislature by law, and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. Expenditure from the Fund is recouped subsequently by debiting the expenditure to the concerned functional major head under the Consolidated Fund of the State. The corpus of this Fund in Tamil Nadu is ₹ 150 crore.

3. Public Accounts of the State (Article 266(2) of the Constitution)

Apart from the above, all other public money received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes re-payables like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a statement of estimated receipts and expenditures of the Government in respect of every financial year. This 'Annual Financial Statement' (AFS) constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

Revenue receipts consists of tax revenue, non-tax revenue, share of Union Taxes/ Duties, and grants from Government of India.

Revenue expenditure consists of all those expenditures of the Government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the Government departments and various services, interest payments on debt incurred by the Government, and grants given to various institutions (even though some of the grants may be meant for creation of assets).

Capital receipts consist of Debt receipts and Non-debt receipts as explained below:

- **Debt receipts:** Market Loans, Bonds, Loans from financial institutions, Net transaction under Ways and Means Advances, Loans and Advances from Central Government, etc.;
- **Non-debt receipts:** Proceeds from disinvestment, Recoveries of loans and advances;

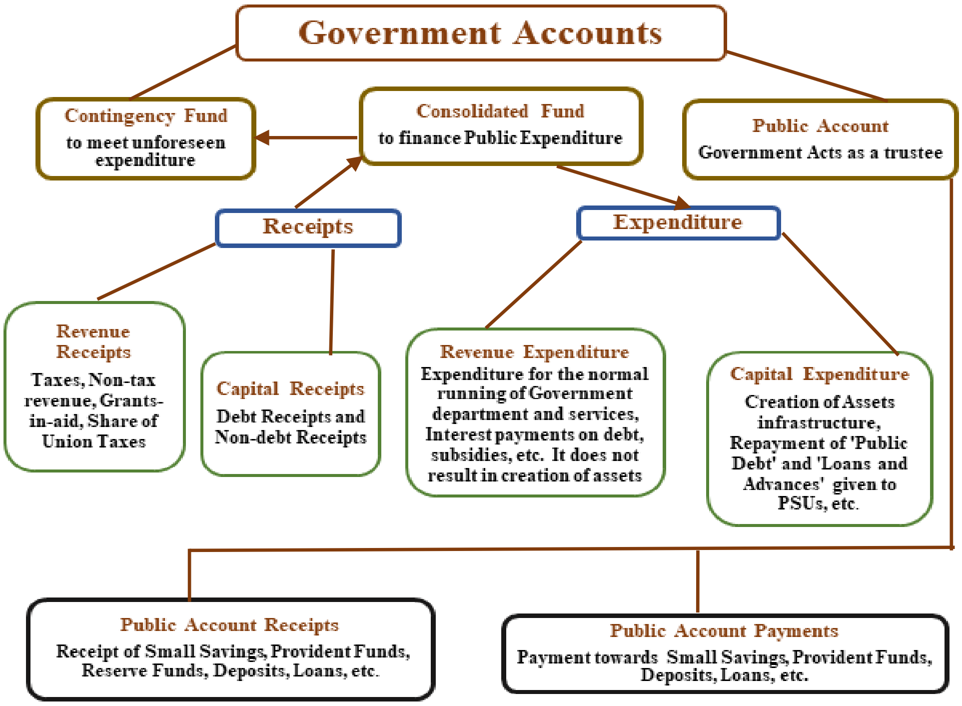
Capital expenditure includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the Government to PSUs and other parties.

At present, we have an accounting classification system in Government that is both functional and economic.

	Attribute of transaction	**Classification**
Standardized in List of Major and Minor Heads (LMMH) by CGA	Function- Education, Health, etc.	Major Head under Grants (4-digit)
	Sub-Function	Sub Major head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub scheme	Detailed Head (3-digit) - Salary, Maintenance etc.
	Economic nature/Activity	Object Head (2-digit) - Pay, Periodical maintenance, etc.

The functional classification lets us know the department, function, scheme or programme, and object of the expenditure. Economic classification helps organize these payments as revenue, capital, debt, etc. Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. For instance, 0 and 1 is for revenue receipts, 2 and 3 for revenue expenditure, etc. Economic classification is also achieved by an inherent definition and distribution of some object heads. For instance, generally “Pay” object head is revenue expenditure, “Major Works” object head is capital expenditure. Object head is the primary unit of appropriation in the budget documents.

Structure of Government Accounts



Fund based accounting coupled with functional and economic classification of transactions facilitates an in-depth analysis of Government activities / transactions and enables legislative oversight over Public Finances.

Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of Tamil Nadu caused to be laid (02/2019) before the State Legislature, a statement of the estimated receipts and expenditure of the State for the year 2019-20, in the form of an **Annual Financial Statement** (referred to as Budget) with estimates of expenditure

- charged upon the Consolidated Fund of the State;
- the sums required to meet other expenditure proposed to be made from the Consolidated Fund of the State; and shall distinguish expenditure on Revenue Account from other expenditure.

In terms of Article 203, the above was submitted to the State Legislature in the form of 54 Demands for Grants/ Appropriations and two 'Other Publications' for Debt Charges and Public Debt repayments. After approval of these, the Appropriation Bill was passed (July 2019) by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund.

In terms of Article 205 of the Constitution, if the amount authorized by the Appropriation Act to be expended for a particular service for the current financial year is found to be insufficient for the purposes of that year or when a need has arisen during the current financial year for supplementary or additional expenditure on some "New Service" not contemplated in the Annual Financial Statement for that year, another Statement showing the estimated amount of that expenditure shall be laid before the House of the Legislature of the State. The provisions of the Constitution relating to the Annual Financial Statement will apply to the Supplementary Statement.

During the year 2019-20, three Supplementary Statements / Estimates were laid before the Legislature of the State in July 2019, January 2020 and March 2020 and Act was passed in July 2019, February 2020 and March 2020 respectively.

The State Budget Manual details the budget formulation process and guides the State Government in preparing its budgetary estimates and monitoring its expenditure activities. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter 3** of this Report.

1.4.1 Snapshot of Finances

The following table provides the details of actual financial results *vis-à-vis* Budget Estimates (Revised) for the year 2019-20 *vis-à-vis* actual of 2018-19.

Table 1.2: Financial results *vis-à-vis* Budget Estimates (Revised) for the year 2019-20 *vis-à-vis* actual of 2018-19

(*₹ in crore*)

Sl. No.	Components	2018-19 Actuals	2019-20 (Budget Estimates Revised)	2019-20 Actuals	Percentage of actual to BE	Percentage of actual to GSDP$
1	Tax Revenue	1,05,534	1,20,810	1,07,462	*88.95*	*5.82*
2	Non-Tax Revenue	14,200	14,195	12,888	*90.79*	*0.70*
3	Share of Union taxes/duties	30,639	26,392	26,393	*100.00*	*1.43*
4	Grants-in-aid and Contributions	23,368	30,464	27,783	*91.20*	*1.51*
5	**Revenue Receipts (1+2+3+4)**	**1,73,741**	**1,91,861**	**1,74,526**	***90.96***	***9.46***
6	Recovery of Loans and Advances	6,913	5,473	5,384	*98.37*	*0.29*
7	Other Receipts	--	--	--	--	--
8	Borrowings and other Liabilities (a)	41,829	51,708	56,399	*109.07*	*3.06*
9	**Capital Receipts (6+7+8)**	**48,742**	**57,181**	**61,783**	***108.05***	***3.35***
10	**Total Receipts (5+9)**	**2,22,483**	**2,49,042**	**2,36,309**	***94.89***	***12.80***
11	**Revenue Expenditure**	**1,97,200**	**2,16,933**	**2,10,435**	***97.00***	***11.40***
12	Interest payments	28,757	31,680	31,980	*100.95*	*1.73*
13	**Capital Expenditure (14+15)**	**30,789**	**35,460**	**29,654**	***83.63***	***1.61***
14	Capital outlay	24,311	31,221	25,632	*82.10*	*1.39*
15	Loan and advances	6,478	4,239	4,022	*94.88*	*0.22*
16	**Total Expenditure (11+13)**	**2,27,989**	**2,52,393**	**2,40,089**	***95.13***	***13.01***
17	**Revenue Deficit: (5-11)**	(-) 23,459	(-) 25,072	(-) 35,909	*143.22*	*1.95*
18	**Fiscal Deficit {(5+6+7)-16}**	(-) 47,335	(-) 55,059	(-) 60,179	*109.30*	*3.26*
19	**Primary Deficit (18-12)**	(-) 18,578	(-) 23,379	(-) 28,199	*120.62*	*1.53*

(a) Borrowings and other Liabilities: Net (Receipts-Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts - Disbursements) of Public Account + Net of Opening and Closing Cash Balance.

$ GSDP at current prices ₹ 18,45,853 crore

(*Source: Budget documents and Finance Accounts*)

1.4.2 Snapshot of Assets and liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve funds, and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

Table 1.3: Summarised position of Assets and Liabilities

(*₹ in crore*)

Liabilities					Assets				
		2018-19	**2019-20**	***Per cent* increase**			**2018-19**	**2019-20**	***Per cent* increase / decrease**
Consolidated Fund									
A	Internal Debt	3,04,350	3,52,625	*15.86*	a	Gross Capital Outlay	2,20,003	2,45,635	*11.65*
B	Loans and Advances from GoI	17,292	17,925	*3.66*	b	Loans and Advances	41,359	39,997	*(-)3.29*
C	Contingency Fund	150	150	--	c	Contingency Fund	10	--	--
Public Account									
A	Small Savings, Provident Funds, etc.	24,110	26,475	*9.81*	a	Advances	8	8	--
B	Deposits	47,352	55,475	*17.15*	b	Remittance	5	8	*60.00*
C	Reserve Funds	8,284	9,577	*15.61*	c	Suspense and Miscellaneous	--	--	--
D	Suspense and Miscellaneous	1,061	6,744	*535.62*	d	Cash balance (including investment in Earmarked Fund)	43,229	49,429	*14.34*
						Total	**3,04,614**	**3,35,077**	*10.00*
						Cumulative excess of expenditure over receipts	97,985	1,33,894	*36.65*
	Total	**4,02,599**	**4,68,971**	***16.49***		**Total**	**4,02,599**	**4,68,971**	***16.49***

(*Source: Finance Accounts*)

Significant increase in liabilities by 16.49 *per cent* when compared to the previous year was mainly due to increase of market borrowings under 'Internal debt' during the year.

1.5 Fiscal Balance: Achievement of deficit and total debt targets

The Central and individual State Governments have passed Fiscal Responsibility and Budget Management Act (FRBM) with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit and keeping the overall/outstanding debt to acceptable levels, establishing improved debt management and improving transparency in a medium-term framework. In this context, the Act provides quantitative targets to be adhered by the State with regard to deficit measures and debt level.

The targeted timeline to eliminate revenue deficit and reduce fiscal deficit was extended by GoTN from time to time by amending the TNFR Act, 2003. In compliance with the provisions of TNFR Act, 2003, the State Government prepared a Medium-Term Fiscal Plan (MTFP) for the period 2019-20.

Three key fiscal parameters, *viz*., revenue, fiscal and primary deficits, indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government Accounts represents the gap between its receipts and expenditure. Further, the ways in which the deficit is financed and the resources raised are applied as important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set for the financial year 2019-20 under TNFR Act, 2003. Major fiscal variables provided in the budget and as targeted in the TNFR Act, 2003 along with actuals thereof are given in **Table 1.4**

Table 1.4 Compliance with provisions of State TNFR Act

Fiscal Parameters	Fiscal targets set in the Act	Achievement				
		2015-16	2016-17	2017-18	2018-19	2019-20
GSDP at current prices (₹ *in crore*)		**11,76,500**	**13,02,639**	**14,65,051**	**16,30,208**	**18,45,853**
Revenue Deficit (-) / Surplus (+) (₹ *in crore*)	Eliminate Revenue Deficit by 2019-20	(-) 11,985	(-) 12,964	(-) 21,594	(-) 23,459	(-) 35,909
		✗	✗	✗	✗	✗
Fiscal Deficit (-)/ Surplus (+) (as *percentage of* GSDP)	Three *per cent*	(-) 32,627 *(2.77)*	(-) 56,170 *(2.56)* *(4.31)**	(-) 39,840 *(2.72)*	(-) 47,335 *(2.90)*	(-) 60,179 *(3.26)*
		✓	✓	✓	✓	✗
Total outstanding debt (₹ *in crore*)		2,23,030	2,83,394	3,26,518	3,68,736	4,23,743
Ratio of total outstanding debt to GSDP (in *per cent*)	25.20 *per cent*	18.96	21.76	22.29	22.62	22.96
		✓	✓	✓	✓	✓

** With UDAY Scheme*

(Source: (i) TNFR Act; (ii) Budget Speech -2019-20 and (iii) Finance Accounts for the respective years - Statement 6)

- The revenue deficit increased from ₹ 11,985 crore in 2015-16 to ₹ 35,909 crore (1.95 *per cent* of GSDP) in 2019-20. Thus, the State could not adhere to the TNFR target of eliminating revenue deficit by 2019-20 and also failed to achieve the target proposed in the MTFP.

- Existence of revenue deficit is a cause of concern as revenue receipts were not able to meet even revenue expenditure. Moreover, part of the capital receipts was utilised to meet revenue expenditure, reducing availability of capital resources to that extent for creation of capital assets.

- The State was unable to contain the ratio of fiscal deficit to GSDP as envisioned in the TNFR Act, 2003 during 2019-20. The ratio of fiscal deficit to GSDP during the year stood at 3.26 *per cent*, much higher than 3.00 *per cent* envisaged in the TNFR Act, 2003.

- The deficit indicators show an increasing trend as the primary deficit increased by (₹ 9,621 crore) 51.79 *per cent* over the previous year mainly due to increase in revenue receipts by 0.45 *per cent* compared to increase of 6.71 *per cent* in revenue expenditure with only a marginal increase in the interest payments by ₹ 3,223 crore. The borrowings net of repayment was ₹ 48,908 crore and the Revenue deficit of ₹ 35,909 crore was financed by the borrowings.

In reply to these issues being raised in the exit conference, it was stated that necessary steps would be taken to reduce the revenue deficit in future. As regards the fiscal deficit, the Government accepted the fact that the ratio of fiscal deficit as a percentage of GSDP was high and stated that all efforts would be taken to keep the ratio within the prescribed limits from 2020-21.

Table 1.5: Actuals *vis-à-vis* projection in MTFP for 2019-20

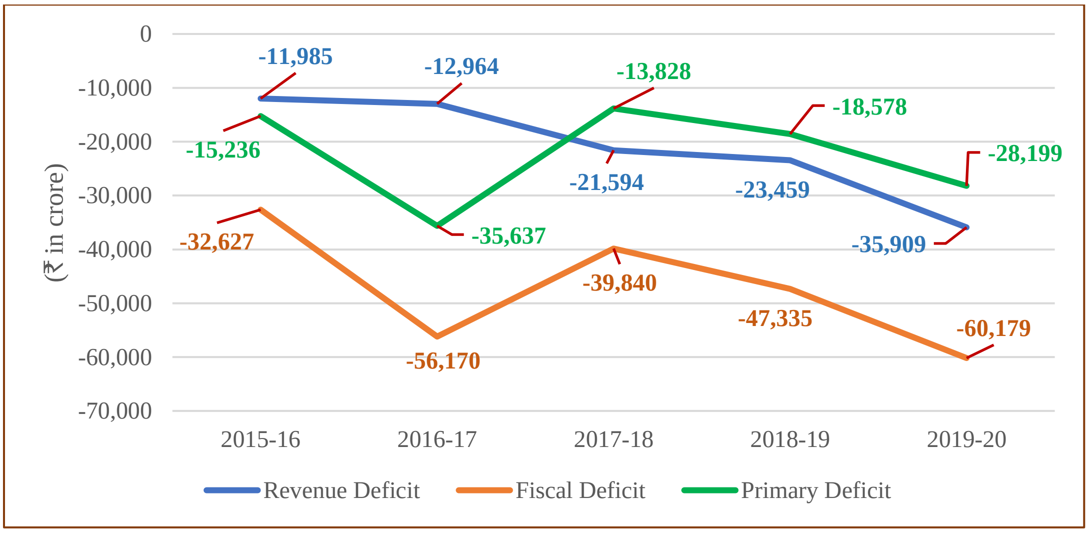
(*₹ in crore*)

Sl. No	Fiscal Variables	Projection as per MTFP	Actuals (2019-20)	Variation (in *per cent*)
1	Own Tax Revenue	1,26,098	1,07,462	(-) 14.78
2	Non-Tax Revenue	11,866	12,888	8.61
3	Share of Central Taxes	36,463	26,393	(-) 27.62
4	Grants-in-aid from GoI	22,690	27,783	22.45
5	Revenue Receipts (1+2+3+4)	**1,97,117**	**1,74,526**	(-) 11.46
6	Revenue Expenditure	2,14,321	2,10,435	(-) 1.81
7	Revenue Deficit (-)/ Surplus (+) (5-6)	(-) **17,204**	(-) **35,909**	108.73
8	Fiscal Deficit (-)/ Surplus (+)	**(-) 48,636**	**(-) 60,179**	23.73
9	Debt-GSDP ratio (*per cent*)	23.02	22.96	(-) 0.26
10	GSDP growth rate at current prices (*per cent*)	10.45	13.23	26.60

(*Source: (i) MTFP, (ii) Finance Accounts and GSDP figures from Central Statistics Office*)

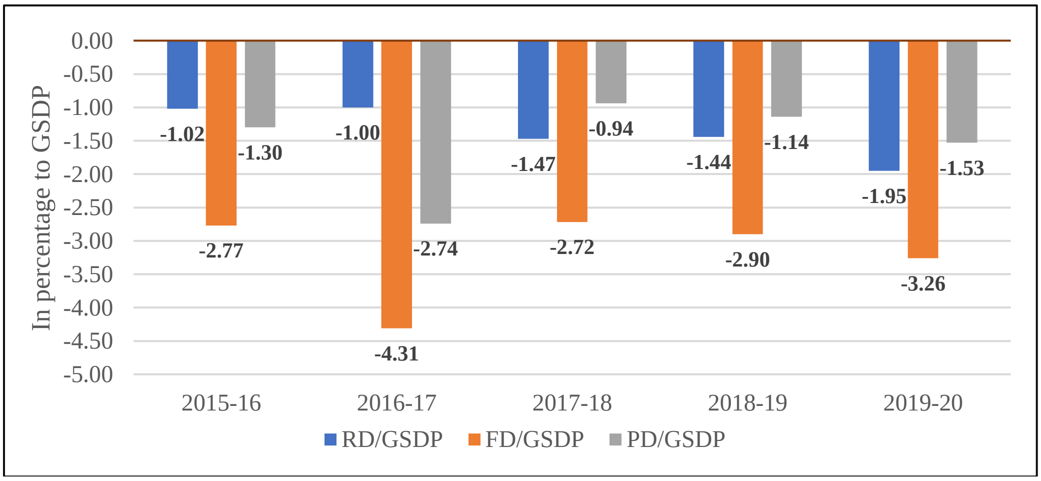
It may be seen from the table that significant drop in receipts under share of central taxes has been balanced by increase under grants-in-aid from Government of India. However, the actual increase of more than 100 *per cent* under revenue deficit is due to lesser Own tax revenue of the State than that anticipated in the MTFP projection for the year 2019-20.

Chart 1.3: Trends in deficit parameters



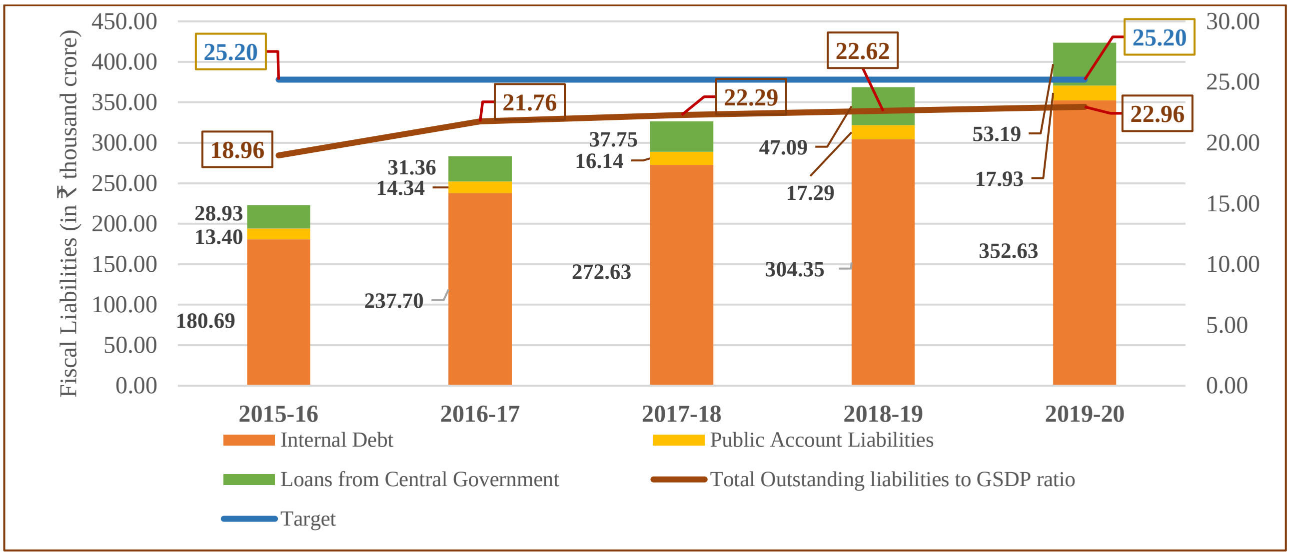
(*Source: Finance Accounts for the respective years*)

Chart 1.4: Trends in Surplus/Deficit relative to GSDP



(*Source: Finance Accounts for the respective years*)

Chart 1.5: Trends in Fiscal Liabilities and GSDP



(*Source: Finance Accounts for the respective years*)

Though the debt/GSDP ratio is well within the target of 25.20 *per cent* set in TNFR Act, it is on an increasing trend from 18.96 *per cent* in 2015-16 to 22.96 *per cent* in 2019-20. Further, due to continuous increase in the borrowings, the fiscal deficit to GSDP ratio also increased in the past three years and the State was unable to contain the ratio below 3 *per cent* as envisioned in the TNFR Act and stood at 3.26 *per cent* during the year.

1.6 Deficits and Total Debt after examination in audit

1.6.1 Post audit - Deficits

The **Table 1.6** assesses the actual surplus / deficit after taking into account short / non-contribution to Funds and incorrect classification / booking by the State Government during the year 2019-20. The overall impact on Revenue Deficit and Fiscal Deficit due to misclassification of capital expenditure as revenue expenditure, short contribution to New Pension Scheme and other reserve funds, etc. are detailed below:

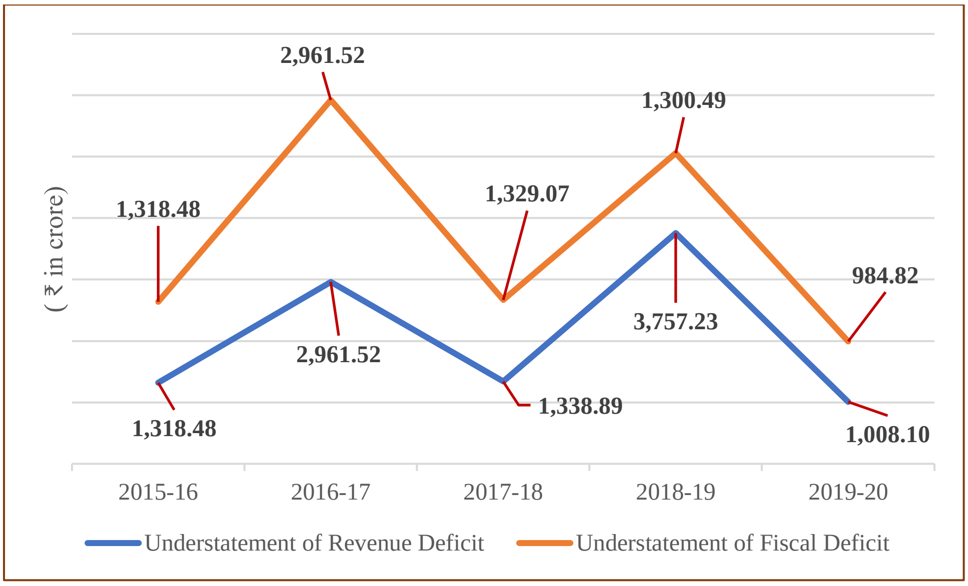
Table 1.6: Revenue and Fiscal Deficit, post examination by Audit

Particulars	Impact on Revenue Deficit (Understated (+) / overstated (-)) (*₹ in crore*)	Impact on Fiscal Deficit (Understated) (*₹ in crore*)
Expenditure met from Reserve Fund adjusted wrongly under Revenue expenditure instead of Capital expenditure	(+) 21.02	. .
Short contribution to New Pension Scheme	(+) 21.46	(+) 21.46
Short transfer to other Reserve Funds	(+) 130.49	(+) 130.49
Adjustment of previous year expenditure during current year under Reserve Fund	(+) 8.00	(+) 8.00
Wrong booking of repayment of loan under Fund	. .	(-) 0.43
Major works budgeted/ booked under Revenue section instead of Capital	(-) 0.84	. .
Non-settlement of SGST refunds	(+) 825.01	(+) 825.01
Write off of Central loans	(+) 0.29	(+) 0.29
Capitalisation of interest dues of two entities	(+) 2.67	. .
Total	**(+) 1,008.10**	**(+) 984.82**

(*Source: Finance Accounts and audit analysis*)

If the post audit fiscal deficit understated is taken into account, the fiscal deficit during the year would increase from ₹ 60,178.64 crore to ₹ 61,163.46 crore, thereby, widening the ratio of fiscal deficit to GSDP target set under TNFR act by 0.31 *per cent*. The resultant impact would be an increase of 0.05 *per cent* over the actual 3.26 *per cent* fiscal deficit to GSDP ratio depicted in the accounts

Chart 1.6 – Persistent understatement of Revenue and Fiscal Deficits



(Source: Finance Accounts for the respective years)

1.6.2 Post audit – Total Outstanding Debt

This broader definition of "total outstanding debt/ liabilities" would include the following components:

<table>
<tr><td rowspan="2">Liabilities upon the Consolidated Fund (I)</td><td>Internal Debt
Market Loans bearing interest
Market Loans not bearing interest
Loans from Life Insurance Corporation
Loans from other Institutions, etc.
Special Securities issued to the National Small Saving Fund of the Central Government</td></tr>
<tr><td>Loans and Advances from Central Government
Non-plan Loans
Loans for State Plan Schemes
Loans for Central Plan Schemes
Loans for Centrally Sponsored Plan Schemes
Other Loans for State Schemes</td></tr>
<tr><td rowspan="3">Liabilities upon Public Accounts (II)</td><td>Small Savings, Provident Funds, etc.</td></tr>
<tr><td>Reserve Funds</td></tr>
<tr><td>Deposits</td></tr>
<tr><td>Borrowings by State Public Sector Companies (III)</td><td rowspan="2">Where the principal and/or interest are to be serviced out of the State budgets</td></tr>
<tr><td>Borrowing by SPVs and other equivalent instruments (IV)</td></tr>
</table>

The broader definition of total outstanding debt / liabilities include off-budget borrowings i.e., the borrowings by State Public Sector for which the principal and / or interest are serviced out of State budgets. However, as per TNFR Act, 2003 (amended from time to time and last amended in 2017), the total liabilities are defined as "the liabilities under the Consolidated Fund of the State and the Public Account of the State". Hence, only items (I) and (II) referred in the table form part of the total outstanding debt / liabilities of the State Government.

However, the borrowings made by the Corporation(s) / Agencies for implementing various State Plan programmes, for which the State Government has undertaken to repay the principal and interest are not captured in the Finance Accounts of the State. These borrowings add to the liabilities of the State indirectly. The details of such outstanding borrowings are given in **Table 1.7** below:

Table 1.7: Details of outstanding off-budget borrowings

(₹ in crore)

Sl. No	Name of the Agency	Off-budget borrowings as of 31 March 2019	Borrowings repaid by Government during the year	Off-budget borrowings as of 31 March 2020
1	Tamil Nadu Rural Housing and Infrastructure Development Corporation	514.55	51.46	463.09
2	Water and Sanitation Pooled Fund – Tamil Nadu Urban Infrastructure Financial Services Limited	254.13	16.68	237.45
3	Tamil Nadu Water Supply and Drainage Board	5.79	2.55	3.24
4	Tamil Nadu Slum Clearance Board	0.05	0.05	Nil
	Total	**774.52**	**70.74**	**703.78**

(Source: Budget documents and Finance Accounts for the respective years)

Though the repayment of principal and interest is made through the budget, the outstanding off-budget borrowings of ₹ 703.78 crore do not form part of the outstanding debt liability (₹ 4,23,743 crore) of the Government as on 31 March 2020. As they are not depicted in the Finance Accounts, there is lack of transparency in the actual outstanding borrowings of the Government at the end of year and hence true picture of the liability of the Government cannot be ascertained through books of accounts. There were no off-budget borrowings during the year.

Analysis of the total outstanding debts / liabilities of the State Government in terms of (i) debt as a percentage of GSDP and (ii) rate of growth of outstanding Government debts are detailed in **Table 1.8** below:

Table 1.8: Total outstanding debts / liabilities

(₹ in crore)

	2015-16	2016-17	2017-18	2018-19	2019-20
Total outstanding debts/ liabilities	2,23,030	2,83,394	3,26,518	3,68,736	4,23,743
Rate of growth of outstanding debts (*in per cent*)	16.25	27.07	15.22	12.93	14.92
GSDP at current prices	11,76,500	13,02,639	14,65,051	16,30,208	18,45,853
Ratio of total outstanding debt to GSDP (in *per cent*)	18.96	21.76	22.29	22.62	22.96

(Source: Finance Accounts for the respective years)

- The outstanding debt grew by 14.92 *per cent* over previous year.
- Considering the capital expenditure of only ₹ 29,654 crore during the year and the high fiscal deficit, it is indicative that the borrowing during the year was utilised for financing the revenue expenditure,

thereby less prioritising the capital expenditure. To the extent of reduced capital formation, debt acts as 'burden' on future generations.

- Though the debt/GSDP ratio is well within the target of not being more than 25.20 *per cent* as per TNFR Act, 2003, if outstanding off-budget borrowing of ₹ 704 crore is included to the total outstanding liabilities, the ratio of total outstanding debt to GSDP will increase to 22.99 *per cent* i.e., by 0.03 *per cent* during the year.

1.7 Conclusion and Recommendations

Deficit indicators, revenue augmentation and expenditure management are major yardsticks for judging the fiscal performance of the Government.

Fiscal position: The revenue deficit is on an increasing trend from ₹ 11,985 crore in 2015-16 to ₹ 35,909 crore (1.95 *per cent* of GSDP) in 2019-20. The State could not adhere to the TNFR target of eliminating the revenue deficit by 2019-20 and also failed to achieve the target proposed (₹ 17,204 crore) in MTFP.

Existence of revenue deficit is a cause of concern as revenue receipts were not able to meet even the revenue expenditure. Moreover, part of capital receipts was utilised to meet revenue expenditure, reducing availability of capital resources to that extent for creation of capital assets.

Fiscal Deficit as a percentage of GSDP stood at 3.26 *per cent* during the year, much higher than 3 *per cent* envisaged in TNFR Act, 2003 and is also on an increasing trend from 2016-17.

Further, due to misclassification error and short contributions to reserve funds, etc., the overall Revenue and Fiscal deficits were understated by ₹ 1,008 crore and ₹ 985 crore respectively.

Recommendation: *The State Government has to initiate measures for creating increased fiscal space through augmenting own revenues so as to avoid utilisation of capital receipts (borrowings) to meet revenue expenditure, thereby moving towards achieving the targets set in the TNFR Act.*

(Paragraphs 1.5 and 1.6.1)