

### Profile of Telangana State

**T**elangana came into existence as a state of the Indian Union on 2 June 2014. With a geographical area of 1.12 lakh sq. km. and a population of 3.52 crore (2011 Census), it is the twelfth largest State in terms of both area and size of population (*Appendix 1.1*).

While 61.12 *per cent* of the population resides in rural areas, the remaining 38.88 *per cent* lives in urban areas. The capital city of Hyderabad accounts for over 30 *per cent* of the State's total urban population.

As specified in the Andhra Pradesh Reorganisation Act, 2014, the State of Telangana comprises<sup>1</sup> 10 districts viz., Adilabad, Karimnagar, Medak, Nizamabad, Warangal, Rangareddy, Nalgonda, Mahaboobnagar, Khammam (excluding the revenue villages in the Mandals specified<sup>2</sup> and the revenue villages of Bhurgampadu, Seetharamanagaram and Kondreka in Bhurgampadu Mandal) and Hyderabad.

### Gross State Domestic Product (GSDP)

GSDP is the market value of all officially recognized final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important economic indicator of the State economy. The GSDP of Telangana for 2015-16 was ₹ 5,83,117 crore.

**Table 1.1: Statement of GSDP**

Year	2014-15	2015-16
India's GDP <sup>3</sup> (₹ in crore)	1,24,88,205*	1,35,76,086 <sup>#</sup>
Growth rate of GDP ( <i>per cent</i> )	---	8.71
State's GSDP (₹ in crore)	5,22,001*	5,83,117 <sup>#</sup>
Growth rate of GSDP ( <i>per cent</i> )	---	11.71

Source: GSDP- Directorate of Economics & Statistics of Government of Telangana. \* First revised estimates, <sup>#</sup>Advance estimates

## 1.1 Introduction

This Chapter provides a broad perspective of the finances of the Government of Telangana during the year. This analysis is based on the Finance Accounts and information obtained from the State Government. The structure of Government Accounts and the layout of Finance Accounts are given in *Appendix 1.2*.

**As the financial data of 2014-15 pertained to only a ten month period and 2015-16 to a full financial year, no trend analysis has been attempted in this report.**

## 1.2 Summary of current year's fiscal transactions

**Table 1.2** presents the summary of State Government's fiscal transactions during the year 2015-16, while *Appendix 1.3* provides the details of receipts and disbursements as well as overall fiscal position during the year.

<sup>1</sup> 31 Districts with effect from 11 October 2016

<sup>2</sup> G.O.Ms. No.111, Irrigation and CAD (LA IV R&R-I) Department, dated 27 June 2005

<sup>3</sup> GDP data as per Central Statistics Office (July 2016)

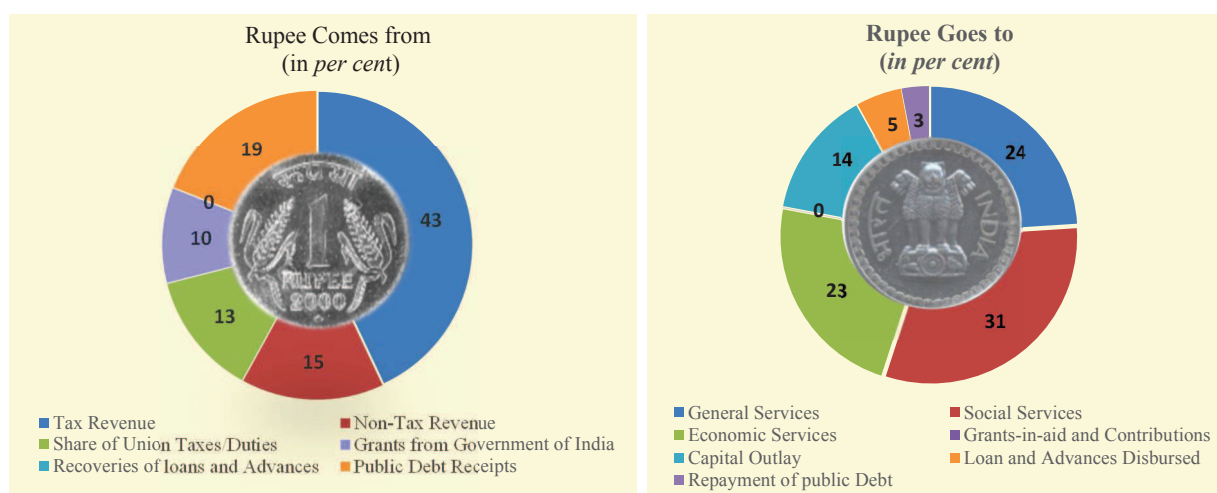
**Table 1.2: Summary of Receipts & Disbursements**

(₹ in crore)

Receipts	2014-15	2015-16	Disbursements	2014-15	2015-16		
<b>Section A – Revenue</b>							
				<b>Total</b>	<b>Non-Plan</b>	<b>Plan</b>	<b>Total</b>
<b>Revenue Receipts</b>	<b>51,042</b>	<b>76,134</b>	<b>Revenue Expenditure</b>	<b>50,673</b>	<b>54,656</b>	<b>21,240</b>	<b>75,896</b>
Tax Revenue	29,288	39,975	General Services	14,164	23,146	101	23,247
Non-Tax Revenue	6,447	14,414	Social Services	18,753	15,386	15,080	30,466
Share of Union Taxes/Duties	8,189	12,351	Economic Services	17,644	15,984	6,059	22,043
Grants from GoI	7,118	9,394	Grants-in-aid and Contributions	112	140	---	140
<b>Section B – Capital &amp; Others</b>							
Misc. Capital Receipts	---	---	Capital Outlay	8,373	---	13,590	13,590
Recoveries of Loans and Advances	77	88	Loans and Advances Disbursed	1,483	5,233	---	5,233
Public Debt Receipts	9,580	17,498	Repayment of Public Debt	1,727	2,845	---	2,845
Net of inter-state Settlement	---	---	Net of inter-state Settlement	--	359	---	359
Contingency Fund	50	---	Contingency Fund	50	---	---	---
Public Account Receipts	2,22,579	86,385	Public Account Disbursements	2,20,971	80,909	---	80,909
Opening Cash Balance	5,144	5,195	Closing Cash Balance	5,195	6,468	---	6,468
<b>Total</b>	<b>2,88,472</b>	<b>1,85,300</b>	<b>Total</b>	<b>2,88,472</b>	<b>1,50,470</b>	<b>34,830</b>	<b>1,85,300</b>

Source: Finance Accounts 2015-16

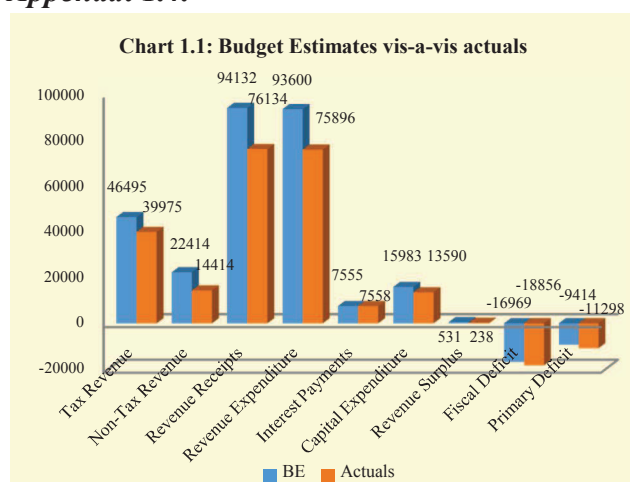
Government of Telangana generated revenue surplus of ₹ 238 crore during the year 2015-16. Its fiscal deficit (₹ 18,856 crore) stood at 3.23 per cent of GSDP during the current year. This is within the ceiling of 3.50 per cent prescribed by the 14<sup>th</sup> Finance Commission and MEFS<sup>4</sup>.



<sup>4</sup> Macro-Economic Framework Statement

### 1.3 Budget estimates and actuals

Budget Estimates (BE) and actuals for key fiscal parameters are given in **Chart 1.1** and **Appendix 1.4**.



Source: Budget in Brief and Finance Accounts 2015-16

There were considerable variations between budget estimates and actuals in respect of some items of expenditure. Shortfall of more than 25 per cent and above ₹500 crore were noticed mainly under Water Supply and Sanitation (82 per cent), Welfare of SCs, STs, OBCs and Minorities (39 per cent), Irrigation and Flood Control (33 per cent), Rural Development (33 per cent) and Power (27 per cent).

Overall, revenue expenditure was lower than the budget estimates by 19 per cent (₹17,704 crore). Of this, savings were ₹13,063 crore and ₹4,641 crore under Revenue Plan expenditure and Non-Plan expenditure, respectively.

Similarly, there was shortfall of 15 per cent (₹2,393 crore) in respect of capital expenditure mainly under Economic services (₹2,252 crore), where expenditure was ₹11,164 crore against the budget allocation of ₹13,416 crore.

On the receipts side, revenue receipts fell short of BE by 19.12 per cent (₹17,998 crore) mainly due to shortfall in Grants-in-aid, Taxes on Sales, Trade and Miscellaneous General services. Similar shortfall had occurred under these items during 2014-15. Fiscal and primary deficits were higher than BE by 11 per cent (₹1,887 crore) and 20 per cent (₹1,884 crore), respectively. Revenue surplus (₹238 crore) was lower than BE (₹531 crore) by 55 per cent (₹293 crore).

### 1.4 Fiscal Reform Path

As per Section 100 of AP State Reorganisation Act, 2014 any law which was in force in the composite state of Andhra Pradesh will continue to be in force in the territories which comprised it, unless otherwise provided by a competent authority. Therefore, FRBM Act 2005, as amended in 2011 by Composite state of Andhra Pradesh is also applicable to Telangana. Accordingly, the Statement of Fiscal policy was laid on the table of the Telangana State Legislature in March 2016. As per Rule 6 of AP Fiscal Responsibility and Budget Management Rules, 2006, the State Government, at the time of presenting the budget, makes disclosures as required under Section 10 of FRBM Act 2005 together with the prescribed statements. However, it was observed that disclosures<sup>5</sup> were made only partially in respect of Consolidated Sinking Fund, Guarantee Redemption Fund, Guarantees given by Government and details of number of employees' in Government, Public sector, Aided institutions and related Salaries and Pensions.

<sup>5</sup> Out of 10 disclosures required (Form-1 to Form-10), only four (Form-3, Form-4, Form-6 and Form-10) were made

A summary of FRBM Act 2005, as amended in 2011 and Section 100 of AP Reorganisation Act, 2014 and the targets prescribed in the Report of 14<sup>th</sup> Finance Commission are given in **Appendix 1.5**. Important targets relating to fiscal variables are indicated in **Table 1.3**.

**Table 1.3: Targets/Projections for Fiscal variables**

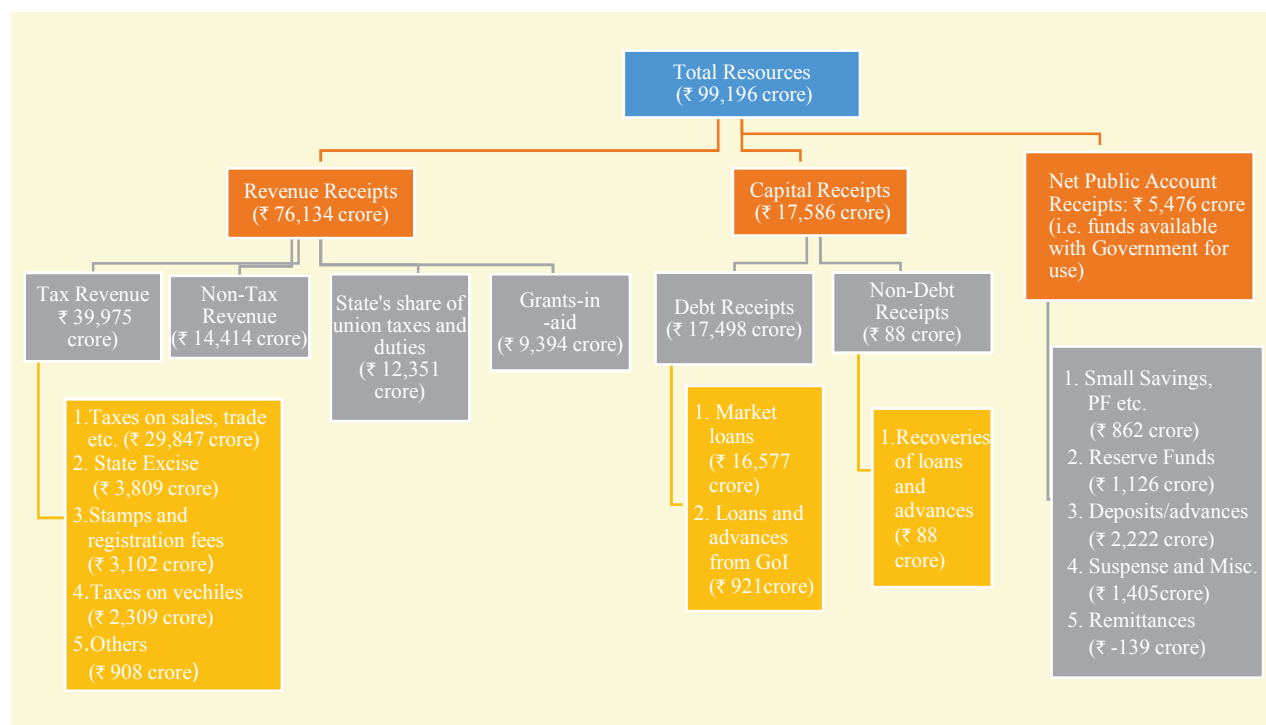
Fiscal variables	2015-16				
	14 <sup>th</sup> FC targets for the State	Targets prescribed in FRBM Act	Targets proposed in Budget	Projections made in MEFS	Actuals
Revenue Surplus (₹ in crore)	-	-	60.54	0.56	238
Fiscal Deficit/ GSDP (in per cent)	3.50	-	-	3.50	3.23
Ratio of total outstanding debt to GSDP (in per cent)	21.55	-	-	25.00	21.37

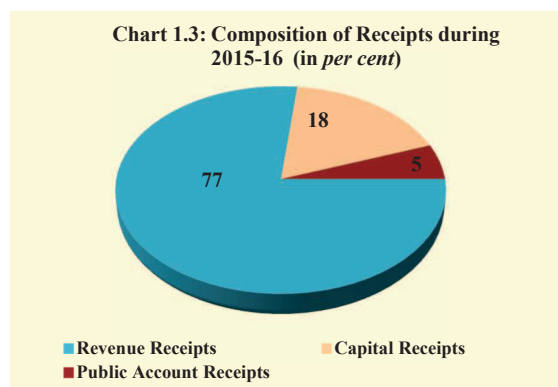
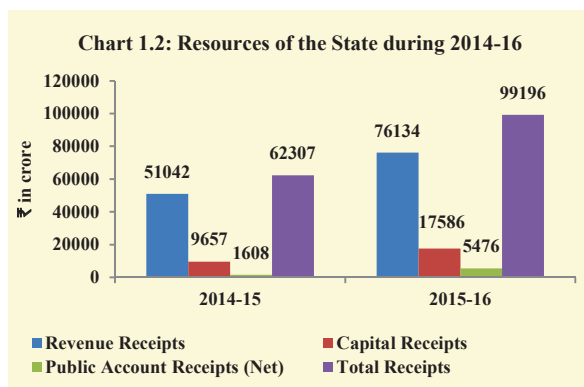
## 1.5 Resources of the State

### 1.5.1 Resources of the State as per Annual Finance Accounts

Revenue receipts and Capital receipts are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenue, non-tax revenue, State's share of Union taxes and duties and Grants-in-aid from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI as well as accruals from Public Account.

The following flowchart depicts the components and sub-components of resources of the State.



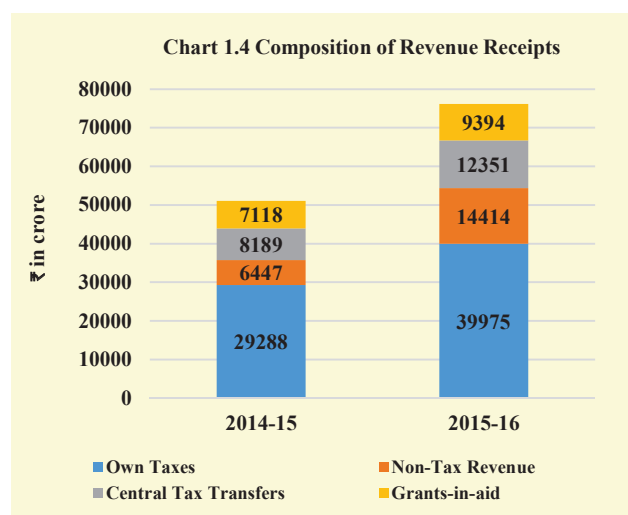


Out of the total resources of ₹ 99,196 crore of the State Government during the year 2015-16, revenue receipts (₹ 76,134 crore) constituted 77 per cent. Capital receipts (₹ 17,586 crore) and net Public Account receipts (₹ 5,476 crore) constituted 18 per cent and 5 per cent of the total resources respectively. **Chart 1.3** depicts the composition of total receipts of the State during the current year. Open Market borrowings constituted 94 per cent of capital receipts.

## 1.6 Revenue receipts

The composition of revenue receipts for the current year is presented in **Appendix 1.6** and also depicted in **Chart 1.4**.

During the year, Revenue receipts (₹ 76,134 crore) constituted 13 per cent of GSDP (₹ 5,83,117 crore). There was a shortfall of ₹ 17,998 crore (19.12 per cent) in revenue realized (₹ 76,134 crore) during the year against the projection of ₹ 94,132 crore made in the Budget. This was mainly due to shortfall of ₹ 8,000 crore under non-tax revenue and ₹ 3,006 crore in Grants-in-aid.



Source: Finance Accounts 2015-16

The actual receipts under the State's tax and non-tax revenue *vis-à-vis* projections made by the State Government during 2015-16 are given in **Table 1.4** below:

**Table 1.4: Tax and Non-tax Revenue *vis-à-vis* projections**

	14 <sup>th</sup> FC targets for the state	Projections by State Government in Budget	Projections by State Government in MEFS	Actuals
Tax Revenue	49,981	46,495	43,535	39,975
Non-Tax Revenue	7,444	22,414*	10,722	14,414

Source: Finance Accounts 2015-16 and MEFS 2016; \*Figure due to rounding

Actual realization of tax revenue was lower than the projection made by Government and Fourteenth Finance Commission. Actual non-tax revenue realized was lower than the estimates made by the Government, reasons for which are explained in paragraph 1.6.1.2.

## 1.6.1 State's own resources

While the State's share in Central taxes and Grants-in-aid are determined on the basis of recommendations of the Finance Commission and Central assistance for plan schemes etc., the State's performance in mobilization of resources is assessed in terms of its own resources comprising revenue from its own tax and non-tax resources.

### 1.6.1.1 Own tax revenue

The State's Own tax revenue (OTR) stood at ₹39,975 crore during the year and constituted 86 *per cent* of the estimated receipts (₹46,495 crore) and 52.51 *per cent* of the actual Revenue receipts (₹76,134 crore). Details are given in **Table 1.5**.

**Table 1.5: Components of State's Own Tax revenue**

(₹ in crore)

	2014-15		2015-16	
	Budget Estimates	Actuals	Budget Estimates	Actuals
Taxes on Sales, Trade etc.	26,963	22,121	35,463	29,847
State excise	2,824	2,808	3,916	3,809
Taxes on vehicles	2,227	1,618	2,500	2,309
Stamp Duty and Registration Fees	2,584	2,177	3,700	3,102
Land revenue	73	9	13	104
Taxes on goods and passengers	9	7	9	33
Other taxes <sup>6</sup>	698	548	894	771
<b>Total</b>	<b>35,378</b>	<b>29,288</b>	<b>46,495</b>	<b>39,975</b>

Source: Finance Accounts 2015-16

There was a shortfall of ₹5,616 crore under Taxes on Sales and Trade during the year which was mainly on account of the shortfall of ₹6,138 crore under Telangana VAT. Against estimates of ₹25,862 crore, an amount of ₹19,724 crore was only collected under Telangana VAT. An amount of ₹2,157 crore was collected against the estimates of ₹1,217 crore under Central Sales Tax Act, resulting in excess collection of ₹940 crore.

### 1.6.1.2 Non-Tax Revenue

Non-tax revenue (NTR) constituted 19 *per cent* of the total revenue receipts during the year.

**Table 1.6: Non-Tax Revenue**

(₹ in crore)

Revenue Head	2014-15		2015-16	
	Budget Estimates	Actuals	Budget Estimates	Actuals
Interest receipts	2,638	2,766	2,794	2,878
Dividends & Profits	20	134	20	69
Other non-tax receipts	10,584	3,547	19,600	11,467
<b>Total</b>	<b>13,242</b>	<b>6,447</b>	<b>22,414</b>	<b>14,414</b>

Source: Finance Accounts 2015-16

<sup>6</sup> Other Taxes include Taxes on Immovable Property other than Agricultural Land, Taxes and Duties on Electricity, Agricultural Income, Other taxes on Income and Expenditure, and other taxes and duties on commodities and services

During the year, non-tax revenue receipts collected were lower than the budget estimates by ₹ 8,000 crore (35.69 *per cent* of the budget estimates). Though an amount of ₹ 13,500 crore was estimated to be collected under ‘Regularization and sale of property’ during 2015-16, the State Government could realize an amount of ₹ 437.68 crore only, resulting in shortfall of 96.75 *per cent*. Among the other non-tax receipts, the major portion under Interest Receipts was from Departmental Commercial Undertakings (₹ 2,700 crore), including interest of ₹ 2,664 crore<sup>7</sup> which is notional in nature, arising out of book adjustments from Irrigation Projects. This amount constituted 18.48 *per cent* of the total non-tax revenue.

During the year 2015-16, there was an increase in Other Non-Tax Receipts over the previous year by ₹ 7,920 crore, mainly due to lapsing of balances in Personal Deposit Accounts and by remitting off budget borrowings (loans obtained from HUDCO) to Non-Tax Revenue Receipts under Water Supply Sanitation (HMWS&SB and TDWSC Ltd.) amounting to ₹ 1,150 crore and by Telangana State Housing Corporation Limited for an amount of ₹ 1,598.80 crore. The issue has been further discussed under paragraphs 1.8 and 1.12.4.

### 1.6.2 Central tax transfers

The State’s share in Union Taxes during the period was ₹ 12,351 crore. Major components of Central Tax transfers are Corporation Tax (₹ 3,870 crore), Taxes on Income other than Corporation Tax (₹ 2,675 crore), Customs Duty (₹ 1,979 crore), Service Tax (₹ 2,153 crore) and Union Excise Duties (₹ 1,662 crore). There was a shortfall of ₹ 472 crore in Central transfers against the budget figure of ₹ 12,823 crore, mainly under Service Tax (₹ 424 crore) and Corporation Tax (₹ 355 crore) and partly offset by excess collections under Union excise Duties (₹ 359 crore).

### 1.6.3 Grants-in-aid from Government of India

The details of Grants-in-aid from GoI and their composition during 2014-15 and 2015-16 are given in **Table 1.7**.

**Table 1.7: Grants-in-aid from Government of India**

Particulars	2014-15		2015-16	
	Budget Estimates	Actuals	Budget Estimates	Actuals
Non-Plan Grants	9,939	2,090	5,903	2,978
Grants for Centrally Assisted State Plan Schemes	11,781	5,028	6,497	6,416
<b>Total</b>	<b>21,721</b>	<b>7,118</b>	<b>12,400</b>	<b>9,394</b>
<b>Total grants as a percentage of Revenue Receipts</b>	<b>27.12</b>	<b>13.95</b>	<b>13.17</b>	<b>12.34</b>

Source: Finance Accounts 2015-16

During the year, total Grants-in-aid constituted 12.34 *per cent* of revenue receipts. There was a shortfall in grants-in aid under non-plan Grants by ₹ 2,925 crore, which was mainly due to reduction of Grants for Special Package and Additional Central Assistance (₹ 2,950 crore), CAMPA<sup>8</sup> Receipts (₹ 266 crore) and Compensation for loss of Revenue on account of

<sup>7</sup> As per Finance Accounts Statement no.14

<sup>8</sup> Compensatory Afforestation Fund Management and Planning Authority

phasing out of Central Sales Tax (CST) (₹127 crore), partly offset by excess grants under Grants from National Disaster Response Fund (₹472 crore).

### 1.6.3.1 Optimisation of 14<sup>th</sup> Finance Commission Grants

As per recommendations of 14<sup>th</sup> Finance Commission, GoI allocated grants of ₹905.57 crore during 2015-16. The details of grants released, disbursed and utilised during 2015-16 are given in the **Table.1.8**.

**Table 1.8: Grants released, disbursed and utilised during 2015-16**

(₹ in crore)							
Sl. No.	Department	Name of the Scheme	Total amount allocated during 2015-16	Amount released by GoI/State	Total Expenditure	UCs furnished	Balance amount to be released by GoI
1	2	3	4	5	6	7	8 (4 - 5)
1	Panchayat Raj	Basic Grant	580.34	580.34	580.34	580.34	---
2	Municipal Administration	Basic Grant	325.23	291.96	291.96	291.96	33.27
<b>Total</b>			<b>905.57</b>	<b>872.30</b>	<b>872.30</b>	<b>872.30</b>	<b>33.27</b>

Out of ₹905.57 crore recommended by FC, an amount of ₹872.30 crore was transferred to the State during the year 2015-16 and the shortfall was ₹33.27 crore. The Finance Department did not furnish the reasons for shortfall in grants from GoI.

### 1.6.3.2 Funds transferred to State implementing agencies outside the State budget

Government of India had decided to release all assistance related to the Centrally Sponsored Schemes/Additional Central Assistances to the State Government and not directly to implementing agencies from 1 April 2014. However, during 2015-16, GoI released ₹358.38 crore to the State implementing agencies directly in respect of Support to Discom for purchase of gas based power, National Rural Livelihood Mission etc., as shown in Appendix-VI of Finance Accounts.

## 1.7 Capital Receipts

The details of Capital Receipts and their composition during the year 2015-16 are given in **Table 1.9**.

**Table 1.9: Composition of Capital Receipts**

Sources of State's Receipts	2014-15		2015-16	
	Budget Estimates	Actuals	Budget Estimates	Actuals
<b>Capital Receipts (CR)</b>	<b>15,788</b>	<b>9,657</b>	<b>20,505</b>	<b>17,586</b>
Public Debt Receipts	15,713	9,580	19,630	17,498
Recovery of Loans and Advances	75	77	875	88

Source: Finance Accounts 2015-16

During 2015-16, capital receipts constituted 85.76 per cent of estimated amount of ₹20,505 crore. Public debt receipts comprised the major component of Capital receipts



(99.50 per cent). The shortfall in Capital receipts was mainly due to less Internal debt of the Government comprising the Market Loans, Loans from NABARD and ways & means advances (shortfall of ₹3,829 crore) and recovery of loans and advances (₹787 crore), partly offset by excess under loans from other institutions (₹511 crore), Special securities issued to NSSF (₹1,062 crore) and block loans under Loans and Advances from Central Government (₹121 crore).

## 1.8 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident fund, reserve funds, deposits, suspense, remittances etc., which do not form part of the Consolidated fund, are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State Legislature. Here, the Government acts as a banker. The balance after disbursements is the fund available with the Government for its own use. Composition of Public Account receipts and disbursements is detailed in Table 1.10.

**Table 1.10: Composition of Public Account receipts and disbursements**

Particulars	2014-15		2015-16	
	Budget Estimates	Actuals	Budget Estimates	Actuals
<b>A. Public Account Receipts</b>				
Small Savings, Provident Fund etc.	1,698	1,319	2,000	2,101
Reserve Fund	2,127	1,095	1,929	1,788
Deposits and Advances	27,707	23,433	30,478	39,840
Suspense and Miscellaneous	---	1,87,704	---	26,458
Remittances	---	9,028	---	16,198
<b>Total (A)</b>	<b>31,532</b>	<b>2,22,579</b>	<b>34,407</b>	<b>86,385</b>
<b>B. Public Account Disbursements</b>				
Small Savings, Provident Fund etc.	1,410	1,051	1,700	1,239
Reserve Fund	1,802	450	1,481	662
Deposits and Advances	23,555	21,274	30,177	37,619
Suspense and Miscellaneous	2,545	1,88,174	---	25,053
Remittances	---	10,022	---	16,336
<b>Total (B)</b>	<b>29,312</b>	<b>2,20,971</b>	<b>33,358</b>	<b>80,909</b>
<b>Net Public Account (A)-(B)</b>	<b>2,220</b>	<b>1,608</b>	<b>1,049</b>	<b>5,476</b>

Source: Finance Accounts 2015-16

Net public account receipts are mainly on account of net receipts under Deposits and Advances (₹2,221 crore). During the year 2014-15, unspent balances of ₹2,320 crore of various schemes were withdrawn from PD Accounts, of which an amount of ₹1,767 crore was minus debited (deduct expenditure) to revenue expenditure heads and ₹553 crore was credited to revenue receipts under the major head 0075 (Miscellaneous General services), instead of minus debiting to the respective expenditure heads.

During the year 2015-16, the entire amount of unspent balances of various schemes amounting to ₹4,217.56 crore were allowed to lapse to revenue receipts in terms of

instructions<sup>9</sup> issued by the State Government, instead of deducting the expenditure of the concerned service Major Heads of the schemes as per the rules. The revenue surplus was hence inflated and the fiscal deficit understated to the extent of ₹4,217.56 crore.

Rule 192(4) of Receipts and Payments Rules 1983, read with Article 271 (sub para 4) of Financial Code Volume I and para 3.10 of General directions in List of Major and Minor Heads, provides that in case of PD accounts that lapse to the Government account at the end of each financial year, the balance remaining at the credit of the account will be brought to 'Nil' by affording minus debit to the functional Head under Consolidated Fund. Further, if the unspent balance pertains to the previous years such lapsed balances shall be adjusted under Minor Head 912- deduct Recoveries below the Major Head where the original Expenditure was booked.

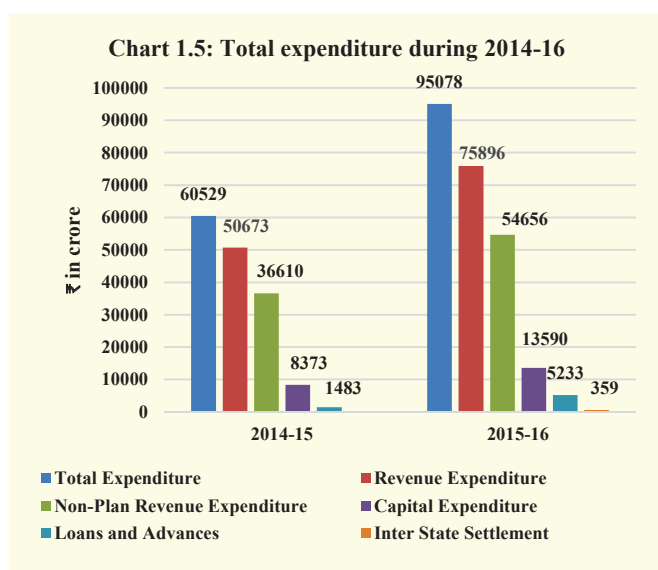
Contrary to the above provisions, the composite State of Andhra Pradesh<sup>10</sup> issued orders on the remittance of such lapsed deposits as revenue receipts. Also, during the year 2015-16, based on the G.O.Ms.No.43 dated 22 April 2000, Government of Telangana issued G.O.Ms.No.42 Finance (DCM) Department, dated 31 March 2016 on remittance of the unspent balances in PD Accounts to revenue receipts.

This has resulted in clear violation of accounting provisions and inflation of revenue receipts giving the State Government undue liberty in respect of the Fiscal deficit limits under the FRBM Act. State Government has to initiate action to review and amend the Government Order.

## 1.9 Application of resources

### 1.9.1 Composition of expenditure

Chart 1.5 presents the composition of total expenditure during the year 2015-16. The composition of total and sectoral expenditure is depicted in Chart 1.6 and 1.7 respectively.



Out of the total expenditure of ₹95,078 crore, revenue expenditure constituted 80 per cent, whereas capital expenditure and loans and advances constituted 14 per cent and six per cent respectively. During the year, 80.08 per cent of the total expenditure was met out of revenue receipts and the balance from borrowed funds. The total expenditure was less than the projected figure in the budget (₹1,11,975 crore).

Source: Finance Accounts 2015-16

Note: Total expenditure excludes repayment of public debt

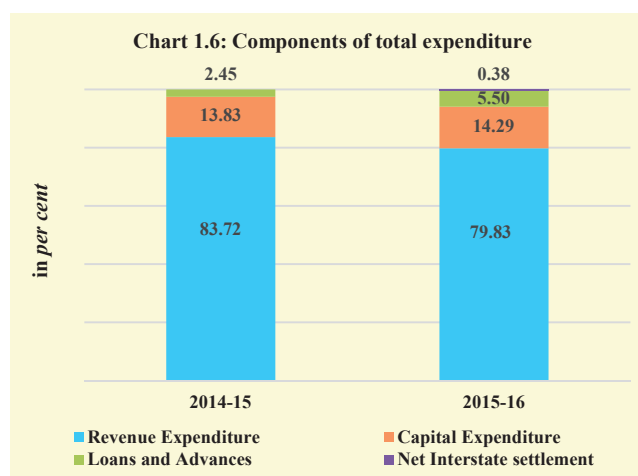
<sup>9</sup> G.O.Ms.No.42, Finance (DCM) Department, dated 31.03.2016

<sup>10</sup> G.O.Ms.No.43, Finance and Planning (WM) Department, dated 22.4.2000

Revenue expenditure (₹ 75,896 crore) constituted 13.01 *per cent* of GSDP and 80 *per cent* of Total expenditure, of which Non Plan Revenue Expenditure (NPRE) was ₹ 54,656 crore (57.48 *per cent*). Revenue Expenditure under General services was ₹ 23,247 crore, under Social services was ₹ 30,466 crore and under Economic services was ₹ 22,043 crore.

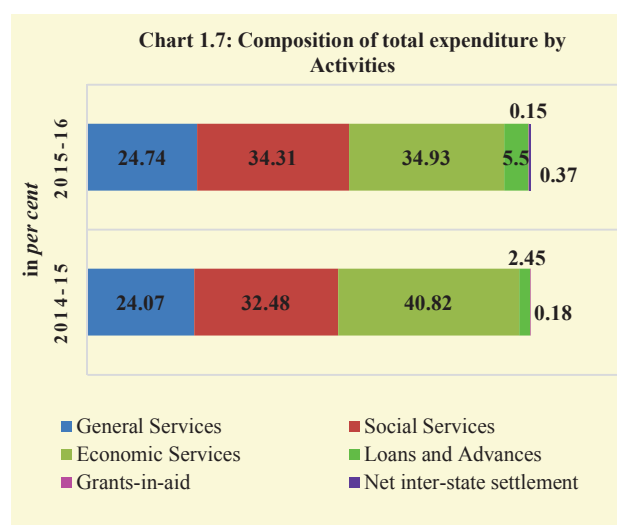
A major part of the revenue expenditure was incurred under Education, Sports, Art and Culture (₹ 10,469 crore), Social Welfare and Nutrition (₹ 8,008 crore), Welfare of SCs, STs, OBCs and Minorities (₹ 4,553 crore), Rural Development (₹ 4,749 crore), Health and Family welfare (₹ 3,655 crore) and Water supply, Sanitation, Housing and Urban Development (₹ 3,182 crore).

In the context of State finances, the quality of expenditure has always been an important issue. Currently, revenue expenditure, which is in the nature of current consumption, accounts for around 80 *per cent* of the State's aggregate expenditure, leaving only 20 *per cent* for investment in infrastructure and asset creation. Since this impedes the growth prospects of the State, there is a need to curtail those items of revenue expenditure which are unproductive.



Source: Finance Accounts 2015-16

During the year 2015-16, capital expenditure (₹ 13,590 crore) constituted 14 *per cent* of total expenditure. Capital expenditure was incurred mainly under Irrigation and Flood Control (₹ 7,776 crore), Transport (₹ 1,738 crore) and Water Supply, Sanitation, Housing and Urban Development (₹ 1,524 crore). Capital expenditure at 2.33 *per cent* of GSDP was less than the Budget estimates of ₹ 15,982 crore. Loans and advances disbursed (₹ 5,233 crore) during the year constituted 6 *per cent* of the total expenditure.



Source: Finance Accounts 2015-16

During 2015-16, the share of General Services and Social Services in total expenditure amounted to 25 *per cent* and 34 *per cent*, respectively. The share of Economic Services constituted 35 *per cent* of the total expenditure. The shares of revenue and capital expenditure in Social Services were 81 *per cent* and 6 *per cent* respectively, the rest being for loans and advances, while their respective shares in Economic Services were 66 *per cent* and 33 *per cent*.

## 1.9.2 Committed Expenditure

Committed expenditure of Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.11** and **Chart 1.8** present the expenditure on these components during 2015-16.

**Table 1.11: Components of committed expenditure**

Components of committed expenditure	2014-15	2015-16		
	Actuals	Budget Estimates	Actuals	Percentage variation
Salaries* & Wages, of which	12,200	22,722	20,404	-10.20
(i) Non-Plan	11,432	21,910	19,166	-12.52
(ii) Plan**	768	812	1,238	52.46
Interest payments	5,227	7,555	7,558	0.04
Pensions	4,210	8,236	8,217	-0.23
Subsidies	3,587	7,025	5,164	-26.49
<b>Total</b>	<b>25,224</b>	<b>45,538</b>	<b>41,343</b>	<b>-9.21</b>

Source: Voucher Level Computerization (VLC) data of PAG (A&E) Andhra Pradesh & Telangana

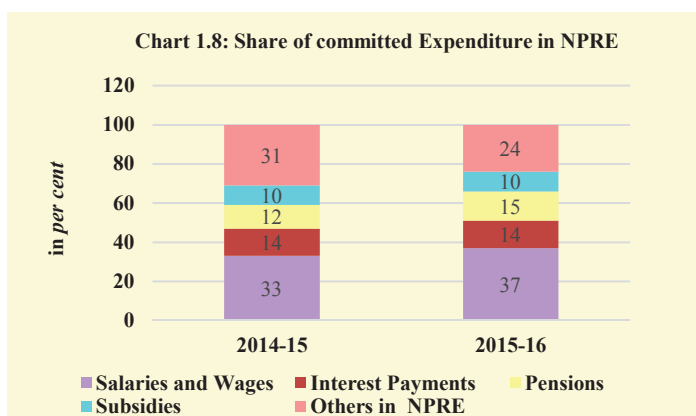
Note: \*It also includes the salaries paid out of grants-in-aid and work charged establishment.

\*\*Plan head also includes the salaries and wages paid under CSS.

Committed expenditure on salaries and wages, pensions, interest payments and subsidies constituted 75.64 per cent of non-plan revenue expenditure (NPRE) during 2015-16.

### 1.9.2.1 Salaries and wages

Expenditure on salaries and wages during the current year was less than the budget estimates by 10.20 per cent. During the current year, salaries constituted 26.88 per cent of revenue expenditure and 37.33 per cent of non-plan revenue expenditure.



Source Finance Accounts 2015-16

### 1.9.2.2 Interest payments

The share of interest payments (₹ 7,558 crore) in revenue expenditure was 10 per cent. It was, however, higher than the projection made in the Budget estimates (₹ 7,555 crore) and 14<sup>th</sup> FC assessments (₹ 7,057 crore). During 2015-16, interest payments as a per cent of total revenue receipts stood at 9.92 per cent.

### 1.9.2.3 Pensions

The expenditure on pension and other retirement benefits to State Government pensioners during the year was ₹ 8,217 crore, which was 10.79 per cent of revenue receipts. During the year 2015-16, pensionary benefits were lower than the budget estimates (₹ 8,236 crore) and 14<sup>th</sup> FC assessments (₹ 8,686 crore). Government had not estimated the yearly pension liabilities on actuarial basis for the ensuing years against the stipulation of the FRBM Act.

### Contributory Pension Scheme

State Government introduced a Contributory Pension Scheme for employees recruited on or after 1 September 2004. As per the guidelines, it is mandatory for every employee to contribute 10 *per cent* of basic pay and dearness allowance every month from salary and an equal contribution is to be made by the Government. The contribution details and corresponding amounts are to be transferred to the National Securities Depository Limited (NSDL) and to the fund managers appointed by the New Pension Scheme (NPS) Trust, respectively. Government of composite state of Andhra Pradesh had entered into agreements with NSDL on 21 November 2008 and NPS Trust on 15 September 2009.

During the year 2015-16, an amount of ₹359.16 crore was contributed by employees and ₹371.23 crore was contributed by the Government, of which Government transferred an amount of ₹769.56 crore to NSDL/Trustee Bank which included un-transferred amounts of previous years to the extent of ₹39.17 crore (₹36.28 crore employee contribution and ₹2.89 crore employer contribution). However, the contributions payable by the employees and the State Government from the inception of the scheme and the accrued interest thereon<sup>11</sup> was not estimated, nor was it possible to estimate the shortfall in the matching contribution of the State Government in 2015-16, or its impact, if any, on the revenue surplus in the absence of complete data. Failure to transfer the amounts along with accrued interest, represent outstanding liabilities of the Government under the scheme.

#### 1.9.2.4 Subsidies

The total expenditure on subsidies during the current year was ₹5,164 crore, of which assistance to Transmission Corporation of Telangana Limited under Agricultural and allied Subsidy was ₹3,926 crore (76 *per cent*) and subsidy on rice was ₹904 crore (17.50 *per cent*). Total subsidy was lower than the projections made in the Budget (₹7,025 crore).

Department-wise subsidies are listed in **Table 1.12**.

**Table 1.12: Department wise Subsidies**

Departments	(₹ in crore)	
	2014-15	2015-16
Civil Supplies	783	924
Power	2,400	3,926
Agricultural and other Allied activities	207	173
Others <sup>12</sup>	197	141
<b>Total subsidy</b>	<b>3,587</b>	<b>5,164</b>
Total Revenue Expenditure	50,673	75,896
Subsidy as a <i>per cent</i> of Revenue Expenditure	7.08	6.80

Source: Finance Accounts 2015-16

During the year, the percentage of subsidies to revenue expenditure was 6.80 *per cent*.

In addition, budgetary assistance was provided in the form of Grants-in-aid for various socio-

<sup>11</sup> Including interest payable in terms of G.O. Ms. No. 142, dated 17 June 2013

<sup>12</sup> Industries and Commerce, Rural Development, Minority Welfare, Information Technology & Communication, Panchayat Raj, Social Welfare, Women, Child and Disabled Welfare and Backward Classes Welfare Departments

economic services which was in the nature of subsidies. Scheme-wise details of these Grants-in-aid provided during 2015-16 are given in **Table 1.13**.

**Table 1.13: Department/Organization-wise subsidies given as Grants-in-aid**

			(₹ in crore)	
Sector	Department	Name of the Scheme	2014-15	2015-16
General Services	Revenue	Assistance to Municipalities/Corporations as Interest Free Loans (Vaddi leni Runalu)	2	66
Social Services	Medical and Health	Assistance to NIMS for treatment of BPL families not covered under Aarogyasri	-	25
Economic Services	Agriculture	Assistance to Cooperative Sugar Factories towards reimbursement of purchase Tax incentives	12	18
		Assistance to Small and Marginal Farmers towards Premium for Crop Insurance Scheme	-	15
		Crop Loans for Farmers (Pavala vaddi)	-	24
		Supply of Seeds, Fertilisers and Agricultural Implements	-	233
	Transport	Assistance to T.S.R.T.C. towards reimbursement of concessions extended to various categories of citizens	350	103
	Rural Development	Interest Free Loans to DWCRA Women (Vaddi leni Runalu)	104	197
		Interest free Loans to Farmers (Vaddi leni Runalu) & Crop Insurance	26	162
	Industries	Extension of Pavala Vaddi scheme to all SSI and Food Processing units	42	104
		Power Subsidy for Industries	297	324
		Supply of Milch Animals under CMs Package	-	4
		Incentives for Industrial Promotion	-	99
	Animal Husbandry	Incentives for Milk production	11	46
		Fodder and Feed Development	2	3
	Energy	Assistance to Telangana TRANSCO/DISCOMS towards reimbursement under INDIRAMMA Scheme	6	-
	<b>Total</b>			<b>1,046</b>

Source: Finance Accounts 2015-16

### 1.9.3 Financial Assistance to local bodies and other institutions

GoI enacted the 73<sup>rd</sup> and 74<sup>th</sup> Amendments to the Constitution to empower the local self-governing institutions like the Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs) to ensure a more participative governance structure in the country. GoI further entrusted the implementation of key socio-economic developmental programmes to PRIs and ULBs and devolved funds through successive Finance Commissions. The States, in turn, were required to entrust these local bodies with such powers, functions and responsibilities as would help them function as institutions of self-government and implement schemes for economic development and social justice, including those enumerated in the Eleventh and Twelfth Schedules to the Constitution.

Eleventh Schedule to 73<sup>rd</sup> Constitutional Amendment Act, 1992 had listed 29 subjects for devolution to strengthen the PRIs. During 2007-08, State Government had devolved

10 functions<sup>13</sup> to PRIs and, thereafter, no initiative was taken for devolving the remaining functions.

The 74<sup>th</sup> Constitutional Amendment Act, 1992 identified 18 functions for ULBs as incorporated in Twelfth Schedule to the Constitution. Except 'Fire Services' all the functions mentioned in this Schedule were devolved to ULBs in the State.

As stipulated in Article 243(1) of the Constitution, the Governor of the State shall set up the State Finance Commission within the period of one year from 73<sup>rd</sup> amendment of the Indian Constitution(1992) and at the end of every five years thereafter to review economic condition of various local bodies such as Panchayat Raj Institutions and Municipal Bodies of the State, to act as an arbitrator between Central and the State Government with regard to issues that are of financial nature like transfer of funds that are granted by the Central Government. The State Finance Commission has not yet been set up, by the Telangana Government.

### 1.9.3.1 Financial Assistance to Local bodies

The quantum of financial assistance provided by the State Government to local bodies and other institutions by way of grants and loans during the current year is given below:

Financial assistance, including grants and loans, extended to local bodies and other institutions during 2015-16 constituted 38.29 per cent of revenue expenditure. The major schemes/recipients of grants during the year were MGNREGA (₹1,555 crore), Sarva Shiksha Abhiyan (₹681 crore), Aasara pensions to disabled persons (₹750.22 crore), Aasara pensions to old age persons & widows (₹3177.07 crore), Financial Assistance to Beedi workers (₹463.78 crore), Swachh Bharath Mission (₹171 crore), Arogyasri Health Care Trust (₹332.72 crore) etc.

**Table 1.14: Financial assistance to Local Bodies etc.**

Name of the Institution	₹ in crore)	
	2014-15 Actuals	2015-16 Actuals
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	647.54	1,011.81
Municipal Corporations and Municipalities	932.02	932.77
Zilla Parishads and other PR Institutions	7,486.06	6,698.79
Development Agencies	65.44	221.54
Autonomous Bodies	902.25	1,240.34
Co-operative Institutions	60.64	100.37
Other Institutions <sup>14</sup>	10,868.97	18,852.86
<b>Total</b>	<b>20,962.92</b>	<b>29,058.48</b>
Assistance as percentage of Revenue Expenditure	41.37	38.29

Source: Finance Accounts 2015-16

## 1.10 Quality of Expenditure

### 1.10.1 Adequacy of public expenditure

Enhancing human development levels requires the states to step up their expenditure on key social services like education, health etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) can be said to be attached to a particular sector, if the

<sup>13</sup> (i) Agriculture and Agricultural extension (ii) Animal Husbandry, Dairy and Poultry (iii) Fisheries (iv) Rural Development (v) Drinking Water and Sanitation (vi) Primary, Secondary and Adult Education (vii) Health, Sanitation, Primary Health Centers, Dispensaries and Family Welfare (viii) Social Welfare (ix) Backward Classes Welfare (x) Women and Child Development

<sup>14</sup> Other institutions include institutions that received ad-hoc or one time grants during the year

ratios fall way below the respective national average. **Table 1.15** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2015-16.

**Table 1.15: Fiscal Priority of the State in 2015-16**

Fiscal Priority by the State	(in per cent)					
	AE/ GSDP	DE <sup>#</sup> / AE	SSE/ AE	CE/ AE	Education <sup>15</sup> / AE	Health/ AE
General Category States <sup>16</sup> Average (Ratio) 2014-15	14.81	70.74	37.75	14.37	17.01	5.13
Telangana's Average (Ratio) 2014-15	14.06	75.68	34.42	13.83	11.57	4.25
General Category States Average (Ratio) 2015-16	16.05	70.63	36.29	14.89	15.63	4.45
Telangana's Average (Ratio) 2015-16	16.31	74.64	39.33	14.29	11.15	3.95

AE: Aggregate Expenditure; DE: Development Expenditure; SSE: Social Sector Expenditure; CE: Capital Expenditure.  
<sup>#</sup> Development expenditure includes Development Revenue Expenditure, Development Capital expenditure and Loans and Advances disbursed.

Source: Finance Accounts 2015-16

A comparison of the data related to Telangana with that of the General Category States (GCS) revealed the following:

- Development expenditure as a proportion of aggregate expenditure has been higher in the State compared to the GCS average during the year 2015-16.
- Expenditure on Social Sector as a proportion of aggregate expenditure in Telangana was much higher than the GCS average during 2015-16, however, the share of expenditure on education as a proportion of aggregate expenditure was much lower than the GCS average. The level of expenditure on health was, however, comparable during the year.
- The share of capital expenditure in aggregate expenditure in the State was comparable to the GCS average during the year.

### 1.10.2 Efficiency of expenditure use

In view of the emphasis on public expenditure on socio-economic development works in successive Plans, it is important that the State Government takes appropriate expenditure rationalization measures and focus on provisioning of core public and merit goods<sup>17</sup>. Apart from improving the allocation towards development expenditure<sup>18</sup>, the efficiency of expenditure use is also reflected in the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total

<sup>15</sup> Exclusive of the expenditure relating to education under Welfare Departments

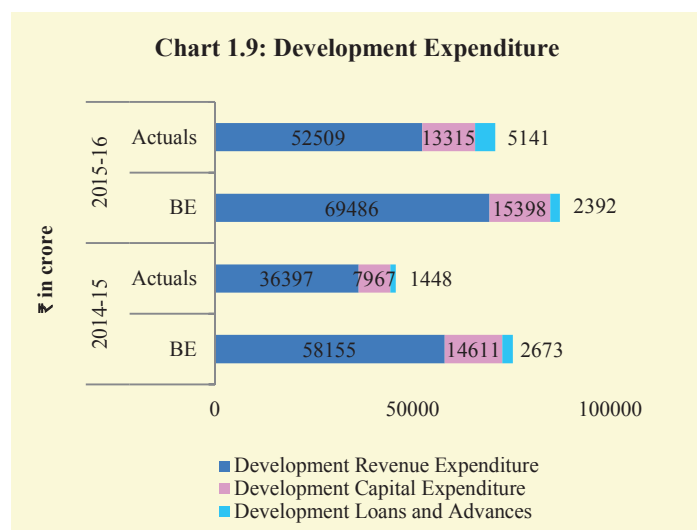
<sup>16</sup> Based on 18 General Category States such as Andhra Pradesh including Telangana, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, West Bengal and Delhi except Puducherry

<sup>17</sup> See glossary

<sup>18</sup> See glossary



expenditure (and/or GSDP), the better would be the quality of expenditure. **Chart 1.9** presents the components of development expenditure.



During 2015-16, the total development expenditure constituted 75 per cent of aggregate expenditure. Development revenue expenditure constituted 55 per cent of total aggregate expenditure. During the current year, development capital expenditure stood at 14 per cent, while development loans and advances constituted 5.41 per cent of total aggregate expenditure.

Source: Finance Accounts 2015-16

**Table 1.16** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected social and economic services.

**Table 1.16: Efficiency of expenditure on selected social and economic services**

(in per cent)

Social/Economic Infrastructure	2014-15			2015-16		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S&W	O&M		S&W	O&M
<b>Social Services (SS)</b>						
General Education	2.86	79.56	0.10	1.26	84.22	0.04
Health and Family welfare	3.17	51.61	0.30	2.76	55.70	0.16
Water Supply, Sanitation, Housing & Urban Development	8.24	10.27	1.16	32.38	14.23	3.46
<b>Total (SS)</b>	<b>4.01</b>	<b>66.82</b>	<b>0.34</b>	<b>6.60</b>	<b>41.03</b>	<b>0.54</b>
<b>Economic Services (ES)</b>						
Agriculture & Allied Activities	0.60	37.07	1.67	2.27	14.43	2.12
Irrigation & Flood Control	64.81	8.16	5.24	71.12	8.48	5.10
Power & Energy	9.85	0.16	0.02	10.55	0.20	0.02
Transport	49.40	3.15	57.69	56.08	1.24	79.81
<b>Total (ES)</b>	<b>34.08</b>	<b>9.89</b>	<b>7.09</b>	<b>33.62</b>	<b>9.39</b>	<b>6.42</b>
<b>Total (SS + ES)</b>	<b>23.02</b>	<b>39.71</b>	<b>3.94</b>	<b>20.23</b>	<b>27.75</b>	<b>3.01</b>

TE: Total Expenditure; RE: Revenue Expenditure; CE: Capital Expenditure; S&W: Salaries and Wages; O&M: Operation & Maintenance of respective sector.

Source: Finance Accounts 2015-16

The percentage of CE/TE in Social Sector under General Education, Health and Family Welfare, Water supply and Sanitation was 6.60 per cent. It was 4.01 per cent in the previous year. CE/TE in Economic Services was 33.62 per cent of total expenditure under Agriculture & Allied Activities, Irrigation and Flood Control, Power & Energy and Transport. It was

34.08 per cent during 2014-15. Funds earmarked for specific social sector activities were released but the unspent balances as of March 2016 lapsed, thereby negating the objective of allocating these funds as discussed in **Chapter-2**. Operation and Maintenance in these sectors constituted 3.01 per cent of the expenditure.

## 1.11 Financial analysis of Government expenditure and investments

In the post-Fiscal Responsibility Legislation (FRL) framework, the State is expected to keep its fiscal deficit under control. In addition, the State Government is expected to initiate measures to ensure adequate returns on its investments and higher rate of recovery of its loans and advances. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during 2015-16.

### 1.11.1 Financial results of Irrigation Projects

The State Government has not disclosed financial results of any of its Irrigation Projects despite having some of the largest Irrigation Projects.

### 1.11.2 Incomplete Projects

Blocking of funds on incomplete projects impinge negatively on the quality of expenditure. As per information provided by the Government, none of the 23 projects/works which were due for completion were yet to be completed by 31 March 2016. The total amount of funds expended on these projects as on 31 March 2016 was ₹24,224 crore. Further, for the incomplete projects, the original cost of projects was revised upwards by ₹14,051 crore. Reasons for delay were stated to be delays in land acquisition, delays in resettlement and rehabilitation, want of forest clearance, etc., in most of the projects/works. Non-completion of these projects within the stipulated period not only resulted in cost escalation, but also deprived the State of the intended benefits for prolonged periods.

The Department-wise position of incomplete projects, each costing above rupees one crore and due for completion, is detailed in **Table 1.17**. The details of Major and Medium Irrigation projects pending completion are given in *Appendix 1.7*.

**Table 1.17: Department-wise profile of incomplete projects**

(₹ in crore)					
Nature of works	No. of incomplete Projects	Original cost	Revised total cost of projects	Cost over run	Cumulative Expenditure as on 31-03-2016
<b>Irrigation and Command Area Development Department</b>					
Major and Medium Irrigation	16	16,134	30,185	14,051	23,397
<b>Roads and Buildings Department</b>					
Roads & Bridges	7	2,962	2,962	---	827
<b>Total</b>	<b>23</b>	<b>19,096</b>	<b>33,147</b>	<b>14,051</b>	<b>24,224</b>

Source: Departmental information

### 1.11.3 Investment and return

As of 31 March 2016, the State Government's investment stood at ₹1,329 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives. The status of return on the investment in these corporations/companies is given in **Table 1.18**.

**Table 1.18: Return on investment**

Investment/Return/Cost of Borrowings	2014-15	2015-16
Investment at the end of the year (₹ in crore)	382	1,329
Return (₹ in crore)	134*	69
Return ( <i>per cent</i> )	35.08	5.19
Average rate of interest on Government borrowing ( <i>per cent</i> )	6.97	8.50
Difference between interest rate and return ( <i>per cent</i> )	28.11	3.31

Source: Finance Accounts 2015-16

\* ₹ 132.84 crore was from Singareni Colleries Company Limited, Kothagudem.

During the year 2015-16, Government of Telangana invested ₹947 crore mainly in TS GENCO (₹524 crore), Telangana Road Transport Corporation (₹318 crore) and Telangana Drinking Water Supply Corporation Limited (₹100 crore) which were the major beneficiaries. Government earned a meagre return of ₹69 crore during the year on its investments of ₹1329 crore on various Corporations/Companies. Although, there was an increase of ₹947 crore in investments during the year, the return on investments during the year declined compared to the previous year.

An amount of ₹8,405 crore relating to investments made up to the end of 1 June 2014 was yet to be apportioned between the States of Andhra Pradesh and Telangana.

#### 1.11.4 Loans and advances by State Government

In addition to investments in Co-operative Societies, Corporations and Companies, the State Government has also been providing loans and advances to institutions/Organizations like Universities/Academic Institutions, PRIs, ULBs and Urban Development Authorities etc. **Table 1.19** presents the details of outstanding Loans and advances during the last five years.

**Table 1.19: Average interest received on loans advanced by State Government**

Quantum of Loans/Interest Receipts/Cost of Borrowings	(₹ in crore)			
	2014-15		2015-16	
	BE	Actual	BE	Actual
Opening Balance	---	---	---	---
Amount advanced during the year	2,673	1,483	2,392	5,233
Amount repaid during the year	75	77	875	88
Closing Balance	---	1,406	---	5,145
Of which outstanding balance for which terms and conditions have been settled	NA	NA	NA	NA
Net addition	NA	1,406	NA	5,145
Interest Receipts	NA	60	NA	53
Interest receipts as percentage of outstanding loans and advances	NA	4.27	NA	1.03
Interest payments as percentage to outstanding fiscal liabilities of the State Government.	NA	7.24	NA	7.71
Difference between interest receipts and interest payments ( <i>per cent</i> )	---	2.97	---	6.68

Source: Finance Accounts 2015-16; NA: Not available

It can be seen that the current level of recovery of loans is low with a significant gap between disbursements (₹ 5,233 crore) and recovery (₹ 88 crore). Loans advanced during the year increased by 252.86 per cent over previous year. Recovery of loans and advances (₹ 88 crore) was far less than the budget estimates of ₹ 875 crore and loans advanced were significantly more than the budget estimates of ₹ 2,393 crore. A major portion of the loans were disbursed under the schemes relating to Water Supply, Sanitation, Housing and Urban Development (₹ 4,779 crore).

### 1.11.5 Cash balances and investment of Cash balances

During the current year, State Government invested ₹ 2,504 crore in GoI Treasury Bills. **Table 1.20** depicts the cash balances and investments made by the State Government out of cash balances during the year.

**Table 1.20: Cash balances and their Investment**

	(₹ in crore)	
	Closing balance as on 31-03-2015	Closing balance as on 31-03-2016
<b>(a) General Cash Balance</b>		
Cash in Treasuries	---	---
Deposits with Reserve Bank	109.28	3.53
Deposits with other Banks	---	---
Remittances in transit - Local	2.07	2.07
<b>Total</b>	<b>111.35</b>	<b>5.60</b>
Investments held in Cash Balance investment account	1,870.35	2,503.94
<b>Total (a)</b>	<b>1,981.70</b>	<b>2,509.54</b>
<b>(b) Other Cash Balances and Investments</b>		
Cash with Departmental officers viz., Public Works Department Officers, Forest Department Officers & District Collectors	---	---
Permanent advances for contingent expenditure with Departmental officers	0.27	0.27
Investment of earmarked funds	3,212.60	3,958.25
<b>Total (b)</b>	<b>3,212.87</b>	<b>3,958.52</b>
<b>Grand total (a) + (b)</b>	<b>5,194.57</b>	<b>6,468.06</b>

Source: Finance Accounts 2015-16

State Government maintained the minimum daily cash balance of ₹ 1.38 crore with RBI on 362 days from 01 April 2015 to 31 March 2016 during the year without taking recourse to ways and means advances or overdrafts.

### 1.11.6 Reserve Funds

Reserve Funds are created for specific and defined purposes and are funded by contributions/grants from the Consolidated Fund of India/State. Out of the gross accumulated balance of ₹ 4,469 crore lying in these Funds as on 31 March 2016, ₹ 3,958.24 crore (88.57 per cent) was invested in the Treasury bills, leaving the total net accumulated balance ₹ 510.76 crore as on 31 March 2016 in these funds.

### 1.11.7 Consolidated Sinking Fund

On the recommendations of the Twelfth Finance Commission, the State Government of the composite state of Andhra Pradesh had revised the guidelines pertaining to the existing Sinking Fund (created in 1999-2000 for amortization of open market loans) with effect from January 2010. Under these revised guidelines, the State Government is required to make annual contributions to the Fund at 0.5 *per cent* of the outstanding liabilities at the end of the previous financial year. In terms of guidelines of the Reserve Bank of India (RBI), which administers the Fund, outstanding liabilities are defined as internal debt and Public Account liabilities of the State Government. As on 31 March 2015, the total outstanding liabilities of the Government amounted to ₹79,880 crore. During the year, the State Government contributed ₹384.94 crore to the Fund. The balance under the Fund as of 31 March 2016 was ₹3,497.07 crore.

### 1.11.8 State Disaster Response Fund (SDRF)

As per recommendation of the 13<sup>th</sup> Finance Commission, the SDRF was constituted with effect from 2010-11. In terms of the guidelines of the Fund, the Central and State Governments are required to contribute to the Fund in the proportion of 75:25. Accordingly, the Centre contributed ₹205.50 crore and State Government has contributed ₹68.50 crore to the fund during 2015-16. In addition, an amount of ₹468.20 crore was also released by GoI towards NDRF. The balance in the fund as on 31 March 2016 was ₹219.79 crore after incurring expenditure of ₹522.41 crore during the year.

### 1.11.9 Cheques and Bills

Credit balance under the Major Head 8670 Cheques and Bills indicates cheques issued which remain uncashed. During the year, cheques worth ₹25,084.52 crore were issued, against which cheques worth ₹24,344.80 crore were encashed, leaving a closing balance of ₹875.84 crore (Credit) as on 31 March 2016.

## 1.12 Assets and Liabilities

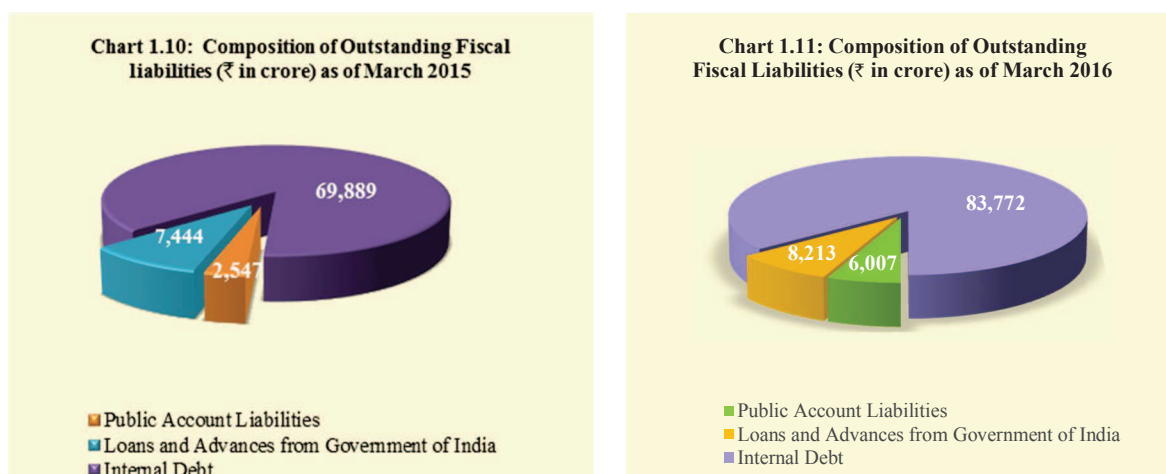
### 1.12.1 Composition of assets and liabilities

Government accounts reflect the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.8* gives an abstract of such assets and liabilities as on 31 March 2016. While liabilities consist mainly of internal borrowings, loans and advances from GoI and balances in the Public Account, assets comprise mainly capital outlay, loans and advances given by the State Government and cash balances.

The total liabilities of the State, as defined under the FRBM Act of the State, represent the liabilities under the Consolidated Fund and the Public Account of the State. These also include borrowings by the public sector undertakings and the special purpose vehicles and other equivalent instruments including guarantees where the principal and/or interest are to be serviced out of the State budget.

### 1.12.2 Fiscal liabilities

The outstanding fiscal liabilities of the State are presented in *Appendix 1.8*. The composition of fiscal liabilities during the current year is presented in **Chart 1.11**.



Source: Finance Accounts 2015-16

The total fiscal liability of the State as defined in the FRBM Act at the end of 2015-16 was ₹97,992 crore, which was 1.29 times its revenue receipts and 16.80 per cent of its GSDP. Total outstanding liabilities including Guarantees amounted to ₹1,24,611 crore (₹97,992 crore + ₹26,619 crore), which constituted 21.37 per cent of GSDP. This was within the ceiling of 25 per cent prescribed by the MEFS for the year 2015-16. However, the estimated target as per MEFS was higher than the normative assessment prescribed in 14<sup>th</sup> FC Report (21.55 per cent).

### 1.12.3 Status of Guarantees – Contingent Liabilities

Guarantees become liabilities of the State in case of default by the borrower for whom the guarantee has been extended by the State Government. The State Government, in its FRBM Act, had committed to limit the amount of annual incremental risk-weighted guarantees to 90 per cent of total revenue receipts in the preceding year and constituted Guarantee Redemption Fund in 2002-03 for discharging the guarantees invoked. During 2015-16, an amount of ₹83.94 crore<sup>19</sup> was contributed to the Fund and the entire balance (₹500.20 crore) as on March 2016 was invested in Government securities.

The maximum amount for which guarantees were given by the State and outstanding guarantees for 2015-16 are given in **Table 1.21**.

**Table 1.21: Guarantees given by the Government of Telangana**

Guarantees	(₹ in crore)	
	2014-15	2015-16
Maximum amount guaranteed	21,240	28,094
Outstanding amount of guarantees	18,265	26,619
Percentage of maximum amount guaranteed to total revenue receipts	41.61	36.90

Source: Finance Accounts 2015-16

<sup>19</sup> Half yearly interest received and reinvested

The maximum amount guaranteed during the year was ₹28,094 crore. The outstanding guarantees at the end of 2015-16 were mainly in respect of Power (₹13,588 crore), Municipalities/Local Bodies/Universities (₹3,025 crore), Telangana State Road Transport Corporation (₹488 crore), State Financial Corporation (₹478 crore) and Cooperatives (₹433 crore).

The outstanding guarantees (₹26,619 crore) during 2015-16 amounted to 34.96 per cent of Revenue Receipts (₹76,134 crore) and 4.56 per cent of the GSDP (₹5,83,117 crore).

#### 1.12.4 Off-Budget Borrowings

The borrowings of a State are governed by Article 293 of the Constitution of India. In addition to the liabilities shown in *Appendix 1.9*, the State Government guarantees loans availed by Government Companies/Corporations. These Companies/Corporations borrow funds from the market/financial institutions for implementation of various state plan schemes projected outside the State budget. Although, the State Government projects that funds for these programmes would be met out of the budget of the Company or Corporation, in reality, the borrowings of many of these concerns ultimately turn out to be the liabilities of the State Government and hence, constitute off-budget borrowings.

During the year 2015-16, three instances of crediting off-budget borrowings to Revenue Receipts under Consolidated Fund noticed are detailed below:

i) For implementation of the Two Bed Room Housing Programme in rural and urban areas, Government accorded permission<sup>20</sup> to Telangana State Housing Corporation Limited (TSHCL) for raising a loan amounting to ₹3,344.76 crore from M/s Housing and Urban Development Corporation (HUDCO) with the Government standing guarantee with budgetary provision for repayment of loan with interest during the entire repayment period. Accordingly, an amount of ₹1,600 crore was released by HUDCO on 22 March 2016 and HUDCO transferred a net amount of ₹1,598.80 crore to Current Account of TSHCL. However, on 24 March 2016, Government instructed<sup>21</sup> TSHCL to remit an amount of ₹1,598.80 crore to MH 0216 Revenue Receipts (Consolidated Fund). Accordingly, Corporation has remitted the said amount to Government Account<sup>22</sup> on 28 March 2016. On the same day, Government released an amount of ₹1,598.80 crore as additional funds under loan head MH 6216-Plan for meeting the expenditure on the schemes of Weaker Section Housing Programme. It was seen that the Government had paid ₹37.98 crore towards interest on the HUDCO loans on 7 September 2016.

ii) Government accorded sanction<sup>23</sup> for an expenditure of ₹1,900 crore to Hyderabad Metropolitan Water Supply and Sewerage Board (HMWS&SB), of which an amount of ₹1,700 crore was taken as loan from HUDCO under Government guarantee and the balance amount of ₹200 crore was to be met from the State funds for “Water Supply Distribution Network Project for the peripheral Circles of GHMC”. Accordingly, out of the ₹1,700 crore loan HUDCO transferred the first instalment of ₹700 crore to the account of

<sup>20</sup> GO.Ms.No.11, dated 20 November 2015 and Go.Ms.No.3, dated 7 January 2016 of Housing (RH&C.A1) Department

<sup>21</sup> Memo No.3588-C/72/A2/BG/2016, dated 24 March 2016

<sup>22</sup> Challan No.214088 to MH 0216 ‘Revenue receipts’

<sup>23</sup> G.O.Ms. No 138, dated 21 October 2015 Municipal Administration & Urban Development (B) Department

HMWS&SB on 29 March 2016. However, as per the instructions of the Government, HMWS&SB remitted the entire amount on 31 March 2016 to Government Account under MH 0215 Revenue Receipts.

iii) Government accorded permission to Telangana Drinking Water Supply Corporation Limited (TDWSCL) for borrowing ₹2,500 crore from HUDCO under guarantee of the Government for implementation of the Telangana Drinking Water Supply project. HUDCO released the first installment amounting to ₹998.82 crore to the (TDWSCL)<sup>24</sup> on 31 March 2015 and the same was transferred to the PD Account opened by it during March 2015, of which the unutilised balance of ₹970.30 crore as of 31 March 2016 was lapsed to MH 0075 Revenue Receipts (Consolidated Fund). An amount of ₹1,000 crore was also released to the Corporation's Current Account as second installment on 22 February 2016. Out of ₹1,000 crore released to Corporation as second installment, it was seen that an amount of ₹450 crore was remitted to Government Account under MH 0215 Revenue Receipts on 21 March 2016. An amount of ₹71.73 crore was released towards repayment of interest to the above HUDCO loan during the year 2015-16.

*It was observed that the loans raised by the Corporations from HUDCO were thus credited to Revenue Receipts to the extent of ₹3,719 crore (₹1,598.80 crore+₹700 crore+₹450 crore and ₹970.30 crore) through off-budget borrowing, which resulted in understatement of liabilities of the Government and overstatement of Revenue Receipts (₹3,719 crore), and consequent understatement of the fiscal deficit to that extent.*

### 1.13 Debt sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability<sup>25</sup> of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization<sup>26</sup>, sufficiency of non-debt receipts<sup>27</sup>, net availability of borrowed funds<sup>28</sup>, burden of interest payments (measured by ratio of interest payments to revenue receipts) and maturity profile of State Government securities. **Table 1.22** analyses the debt sustainability of the State according to these indicators during the year 2015-16.

**Table 1.22: Debt sustainability: Indicators**

Indicators of Debt Sustainability	2014-15	2015-16
Debt/GSDP ( <i>per cent</i> )	18.55	16.80
Average interest rate of outstanding debt (=interest paid/(Opening Balance of Public Debt + Closing Balance of Public debt)/2) ( <i>per cent</i> )	7.11	8.85
Interest Payments/Revenue Receipt ( <i>per cent</i> )	10.24	9.93
Debt Repayment/Debt Receipts ( <i>per cent</i> )	25.49	20.84
Net Debt Available to the State	2,894	7,957

Source: Finance Accounts 2015-16

<sup>24</sup> Account No.62411599743, State Bank of Hyderabad, Treasury Branch

<sup>25</sup> See glossary

<sup>26</sup> See glossary

<sup>27</sup> See glossary

<sup>28</sup> See glossary

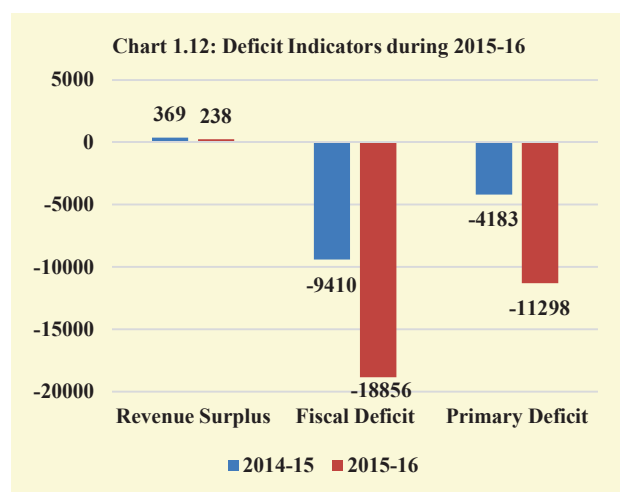


Debt/GSDP stood at 16.80 *per cent* during the year 2015-16. The net availability of borrowed funds was positive, indicating the availability of borrowed funds for purposes other than debt repayment. Interest payments as a percentage of revenue receipts were 9.93 *per cent*, against the normative rate of 8.08 *per cent* prescribed by 14<sup>th</sup> FC. During the year, the net debt available for development of capital expenditure was only 43 *per cent*.

## 1.14 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. Deficit in Government accounts represents the gap between its receipts and expenditure and the nature of deficit is an indicator of the prudence of the Government in fiscal management. Further, the ways in which the deficit is financed and the resources raised are applied, are important pointers to fiscal health. This section presents the nature, magnitude and the manner of financing these deficits and also assesses the actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2015-16.

### Trends in Deficits



During the year 2015-16, there was Revenue surplus of ₹238 crore and Fiscal deficit (₹18,856 crore) constituted 3.23 *per cent* of GSDP. Primary deficit stood at ₹11,298 crore. Revenue surplus was on account of misclassification of grants-in-aid (₹151 crore) under Capital Heads of account and incorrect crediting of ₹3,719 crore to revenue receipts from the loans obtained by the Corporations from HUDCO (off-budget borrowings), as a result of which Fiscal deficit was understated by ₹3,719 crore.

Source: Finance Accounts 2015-16

### 1.14.1 Components of Fiscal deficit and its financing pattern

The composition and financing of fiscal deficit are shown in **Table 1.23**.

**Table 1.23: Components of fiscal deficit and their financing pattern**

Sl. No.	Particulars	2014-15			2015-16		
		Receipts	Disbursements	Net	Receipts	Disbursements	Net
A	Decomposition of Fiscal Deficit(-)/Surplus(+) (1 to 4)	51,119	60,529	-9,410	76,222	95,078	(-)18,856
1	Revenue Surplus	51,042	50,673	369	76,134	75,896	238
2	Capital Outlay	-	8,373	-8,373	-	13,590	(-)13,590
3	Net Loans and Advances	77	1,483	-1,406	88	5,233	(-)5,145
4	Interstate Settlements	---	---	---	---	359	(-)359

(₹ in crore)

Sl. No.	Particulars	2014-15			2015-16		
		Receipts	Disbursements	Net	Receipts	Disbursements	Net
<b>B</b>	<b>Financing Pattern of Fiscal Deficit</b>						
<b>1</b>	<b>Net Borrowings from Consolidated Fund, of which</b>	<b>9,580</b>	<b>1,727</b>	<b>7,853</b>	<b>17,498</b>	<b>2,845</b>	<b>14,653</b>
	Market Borrowings*	9,494	1,727	7,767	16,577	2,694	13,883
	Loans from GoI	86	-	86	921	151	770
<b>2</b>	<b>Net Public Account, of which</b>	<b>3,16,110</b>	<b>3,14,386</b>	<b>1,724</b>	<b>1,53,529</b>	<b>1,49,431</b>	<b>4,098</b>
	Small Savings, PF etc.	1,319	1,051	268	2,101	1,239	862
	Reserve Funds	1,120	1,028	92	1,856	1,476	380
	Deposits and Advances	23,433	21,274	2,159	39,841**	37,619	2,222
	Suspense and Misc.	2,81,210	2,81,011	199	93,533	92,761	772
	Remittances	9,028	10,022	-994	16,198	16,336	-138
	Contingency Fund	50	-	<b>50</b>	-	-	-
<b>3</b>	<b>Accretion to Cash Balance</b>	<b>1,607</b>	<b>1,724</b>	<b>-117</b>	<b>4,204</b>	<b>4,098</b>	<b>105**</b>

Source: Finance Accounts. 2015-16; \* Includes borrowings from other institutions, \*\* Figures taken are due to rounding.

It can be seen that capital outlay mostly accounted for the Fiscal deficit (72.07 per cent) while market borrowings financed 73.62 per cent of the Fiscal deficit.

The maturity profile of State debt is shown in **Table 1.24**.

**Table 1.24: Maturity Profile of State Debt**

(₹ in crore)		
Maturity profile	Amount	Percentage
0 – 1 years	2,957	3.42
1 – 3 years	10,824	12.53
3 – 5 years	14,674	16.98
5 – 7 years	17,733	20.53
7 years and above	40,211	46.54
<b>Total</b>	<b>86,399</b>	<b>100.00</b>

Source: Finance Accounts 2015-16

To discharge its expenditure obligations, the Government had to borrow further, since fiscal surplus was not available during the year. The State Government raised ₹16,577 crore from market borrowings and ₹921 crore from Central loans during the year. The maturity profile of outstanding stock of public debt as on 31 March 2016 shows that 46.54 per cent of the total outstanding debt was in the maturity bucket of seven years and above.

It further indicated that the liability of the State to repay the debt would be ₹14,674 crore during 2019-21 and ₹17,773 crore during 2021-23, which would put a strain on the Government budgets during that period. The State may have to borrow further to repay these loans. A well thought out debt repayment strategy would have to be worked out by the Government to obviate additional borrowings, in these critical years.

Interest payments on market loans constituted 6.78 per cent of revenue receipts.

**Table 1.25: Interest payment as a percentage of revenue receipts**

Particulars	2014-15	2015-16
Interest payment on market loans (₹ in crore)	3,631	5,165
Percentage of revenue receipts	7.11	6.78

Source: Finance Accounts 2015-16

### 1.14.2 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit<sup>29</sup> and capital outlay (including loans and advances) indicate the quality of deficit in the State finances. The bifurcation of primary deficit (**Table 1.26**) into primary revenue deficit and capital outlay indicates the extent to which the deficit has been applied to augment asset creation in the State.

**Table 1.26: Primary deficit/surplus – bifurcation of factors**

Year	Primary revenue surplus	Capital Outlay	Loans and Advances & Interstate settlement	(₹ in crore)	
				Primary deficit(-)/ surplus(+)	Primary revenue surplus/ Capital Outlay ( <i>per cent</i> )
2014-15	5,673	8,373	1,483	(-) 4,183	67.75
2015-16	7,884	13,590	5,233+359	(-)11,298	58.01

Source: Finance Accounts 2015-16

During the year 2015-16, the State generated some primary revenue surplus which was applied towards meeting the requirement of capital outlay. As can be seen from **Table 1.26**, the primary revenue surplus met 58 *per cent* of the capital outlay. In other words, the non-debt receipts of the State (₹ 76,222 crore) met a significant part of the capital expenditure.

## 1.15 Apportionment of balances between Andhra Pradesh and Telangana

As per the Andhra Pradesh State Reorganisation Act, 2014, the balances under Cumulative Capital expenditure, Loans and Advances, Public Debt and the balances under Public Accounts are to be apportioned between Andhra Pradesh and Telangana States. The balances apportioned and unapportioned as on 31 March 2016 are given in **Appendix 1.9**.

### 1.16 Conclusion

*The State registered revenue surplus of ₹238 crore during 2015-16. It is overstated due to misclassification of grants-in-aid (₹151 crore) under capital heads and crediting off-budget borrowings (₹3,719 crore) to revenue receipts. Fiscal deficit which stood at 3.23 per cent of GSDP is understated by (₹3,719 crore) due to crediting off budget borrowing to revenue receipts. It would have the effect of increasing the ratio of fiscal deficit to GSDP from 3.23 per cent to 3.87 per cent.*

*Total outstanding liabilities constituted 21.37 per cent of GSDP which was within the ceiling of 21.55 per cent prescribed by the 14<sup>th</sup> Finance Commission.*

<sup>29</sup> See glossary

52.5 per cent of the revenue receipts of ₹76,134 crore during 2015-16 came from the State's own tax revenue and 19 per cent came from the revenue receipts from non-tax revenue collections, the rest coming from State's share of Central taxes 16.2 per cent as well as central grants (12.3 per cent). During the year, Government issued orders to remit the unspent balances in PD accounts to revenue receipts in violation of accounting provisions inflating revenue receipts to the extent of ₹4,218 crore.

Non-plan revenue expenditure of ₹54,656 crore constituted 72 per cent of the total revenue expenditure (₹75,896 crore) during the year. Capital expenditure (₹13,590 crore) stood at 14 per cent of the total expenditure constituting 2.33 per cent of GSDP. Capital projects in irrigation and road sectors were not completed in time resulting in non-achievement of the envisaged benefits. During the year, revenue expenditure accounted for 80 per cent of the State's aggregate expenditure, which was in the nature of current consumption, leaving only 20 per cent for investment in infrastructure and asset creation. Although the State Government accorded adequate fiscal priority to development expenditure during 2015-16, it could not ensure that the allocated funds released were utilised optimally for the intended purposes.

Despite an increase of ₹947 crore in investments during the year, the return on investments declined compared to the previous year. The current level of recovery of loans was low with a significant gap between disbursements (₹5,233 crore) and recovery (₹88 crore).

Maturity profile of debt indicates that State has to repay more than 53 per cent of its total debt within the next seven years.