

Profile of Telangana State

Telangana came into existence as 29th state of the Indian Union on 2 June 2014. With a geographical area of 1.12 lakh sq. km. and a population of 3.50 crore (2011 Census), it stood at 12th position among all States in terms of both area and size of population.

Sixty one *per cent* of its population reside in rural areas. The capital city of Hyderabad accounts for over 70 *per cent* of the State's total urban population.

Telangana, formed with 10 districts, was reorganized into 31 districts in October 2016. Profile of Telangana with demographic and other details are given in (*Appendix 1.1*).

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 2016-17 was ₹ 6,46,265 crore. Comparative figures of State's GSDP and All India Gross Domestic Product (GDP) at current prices along with their annual growth rate are shown in **Table 1.1**. Growth in Telangana was higher than the all-India average, since formation of the State.

Table 1.1: Statement of GSDP

Year	2014-15	2015-16	2016-17
India's GDP (₹ in crore)	1,24,45,128	1,36,82,035	1,51,83,709
Growth rate of GDP (<i>per cent</i>)	---	9.94	10.98
State's GSDP (₹ in crore)	5,05,664	5,67,588	6,46,265
Growth rate of GSDP (<i>per cent</i>)	---	12.25	13.86

Source: GSDP- Directorate of Economics & Statistics of Government of Telangana.

All India GDP: Central Statistical Organization of India (figures as on 1 August 2017)

1.1 Introduction

This report provides an analysis of the finances of the State Government, based on the audited accounts of the Government of Telangana for the year ended March 2017.

An entry conference was held with the Secretary to Government, Finance Department in October 2017 wherein the issues taken up for Audit Report on State Finances for the year ended March 2017 were explained. An exit conference was held with Principal Finance Secretary to Government in January 2018 wherein the audit findings were discussed. The response of the Government has been incorporated at appropriate places in the report.

This Chapter provides a broad perspective of the finances of the Government of Telangana during the year. The 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, trend analysis has been attempted in this report for 2015-16 and 2016-17 only.

1.2 Summary of current year's fiscal transactions

Table 1.2 presents the summary of State Government's fiscal transactions during the current year *vis-à-vis* the previous year. **Appendix 1.3** provides the details of receipts and disbursements as well as overall fiscal position during the year.

Table 1.2: Summary of Receipts & Disbursements

(₹ in crore)

Receipts	2015-16	2016-17	Disbursements	2015-16	2016-17		
Section A – Revenue				Total	Non-Plan	Plan	Total
Revenue Receipts	76,134	82,818	Revenue Expenditure	75,896	56,852	24,580	81,432
Tax Revenue	39,975	48,408	General Services	23,247	25,018	107	25,125
Non-Tax Revenue	14,414	9,782	Social Services	30,466	17,622	17,664	35,286
Share of Union Taxes/Duties	12,351	14,876	Economic Services	22,043	14,140	6,809	20,949
Grants from GoI	9,394	9,752	Grants-in-aid and Contributions	140	72	0	72
Section B – Capital & Others							
Misc. Capital Receipts	0	0	Capital Outlay	13,590	5	33,366	33,371
Recoveries of Loans and Advances	88	156	Loans and Advances Disbursed	5,233	446	2,956	3,402
Public Debt Receipts	17,498	44,819	Repayment of Public Debt	2,845	15,568	*	15,568
Net of inter-state Settlement	0	0	Net of inter-state Settlement	359	50	*	50
Contingency Fund	0	0	Contingency Fund	0	0.09	0	0.09
Public Account Receipts	86,385	1,09,094	Public Account Disbursements	80,909	1,05,368	*	1,05,368
Opening Cash Balance	5,195	6,468	Closing Cash Balance	6,468	4,164	*	4,164
Total	1,85,300	2,43,355	Total	1,85,300	1,82,453	60,902	2,43,355

Source: Finance Accounts; *Finance Accounts do not contain these figures

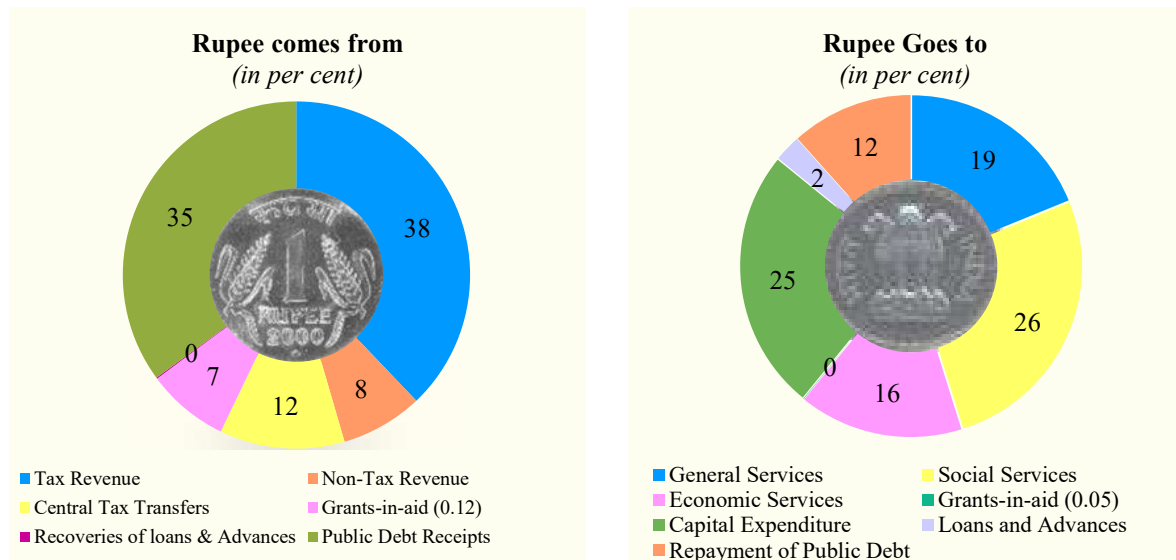
Government of Telangana generated revenue surplus of ₹ 1,386 crore during 2016-17. Its fiscal deficit (₹ 35,281 crore) stood at 5.46 per cent of GSDP during the current year. This is beyond the ceiling of 3.5 per cent prescribed for 2016-17 by the 14th Finance Commission and targeted in the Medium Term Fiscal Policy Statement (MFPS) of the State under Fiscal Responsibility and Budget Management (FRBM) legislation.

The ratio of fiscal deficit to GSDP after excluding amount transferred (₹ 7,500 crore) under UDAY scheme (details in Paragraph 1.12.5 *infra*) was 4.3 per cent; which was still beyond the ceiling of 3.5 per cent.

Significant changes in fiscal position of the State during 2016-17 over the previous year are given below:

Revenue Receipts	<ul style="list-style-type: none"> • Increased by 8.78 per cent • Tax Revenue increased by 21.10 per cent • Grants from GoI increased by 3.81 per cent
Revenue Expenditure	<ul style="list-style-type: none"> • Increased by 7.29 per cent • Plan expenditure increased by 15.73 per cent • Non-plan expenditure increased by 4.02 per cent
Capital Expenditure	<ul style="list-style-type: none"> • Increased by 145.56 per cent
Loans and Advances	<ul style="list-style-type: none"> • Recoveries increased by 77.27 per cent • Disbursements decreased by 34.99 per cent
Public Debt	<ul style="list-style-type: none"> • Receipts increased by 156.14 per cent • Repayments increased by 447.21 per cent
Cash Balance	<ul style="list-style-type: none"> • Decreased by 35.62 per cent

Composition of sources and application of funds in the Consolidated Fund of the State during 2016-17 is given below:



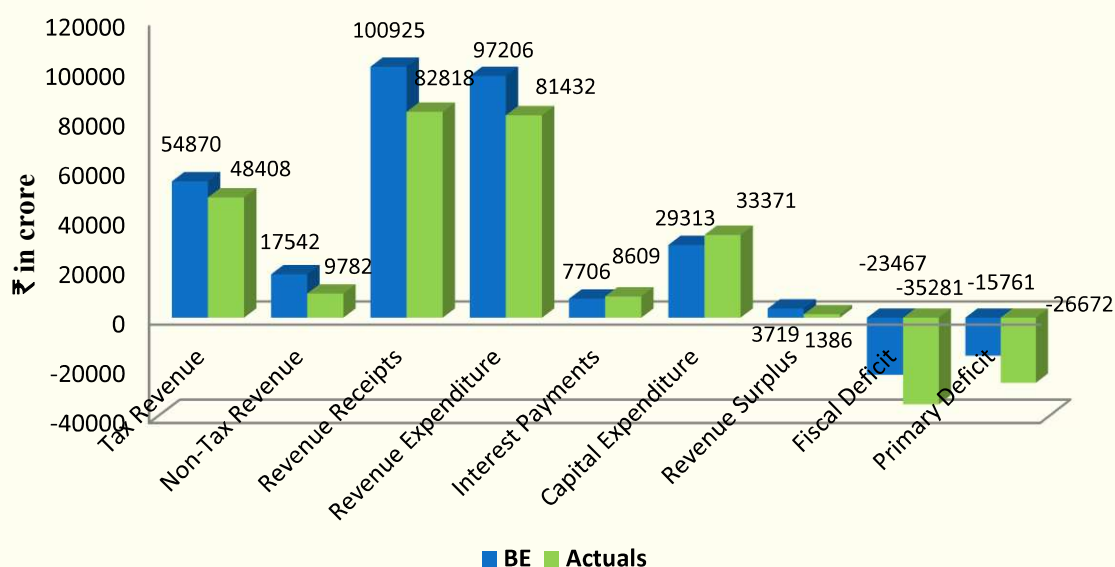
1.3 Budget estimates and actuals

Significant variations were noticed between budget estimates and actuals in respect of some items. Receipts under Miscellaneous General Services were lower by 81 per cent than budget estimates. Land Revenue was lower by 56 per cent than budget estimates. Expenditure in excess of budget estimates was the highest in Forestry and Wild life (52 per cent), while the

maximum shortfall in expenditure was noticed under Irrigation and Flood Control (75 per cent).

Overall, revenue expenditure (₹81,432 crore) was less than the budget estimates (₹97,206 crore) by 16 per cent and capital expenditure (₹33,371 crore) exceeded budget estimates (₹29,313 crore) by 14 per cent. Details are shown in *Appendix 1.4*.

Chart 1.1: Budget estimates vis-à-vis Actuals



On the receipts side, Revenue Receipts (₹82,818 crore) fell short of budget estimates (₹1,00,925 crore) by 18 per cent mainly due to shortfall in Grants-in-aid, Taxes on Sales, Trade and Miscellaneous General services. Fiscal and primary deficits were higher than BE by 50 per cent (₹11,814 crore) and 69 per cent (₹10,911 crore), respectively. Revenue surplus (₹1,386 crore) was lower than BE (₹3,718 crore) by 63 per cent (₹2,332 crore).

1.4 Fiscal Reform Path

Government of Telangana adopted¹ “The Andhra Pradesh Fiscal Responsibility and Budget Management Act, 2005” as “The Telangana Fiscal Responsibility and Budget Management Act, 2005” along with the Rules made thereunder in accordance with Section 101 of the A.P. Re-organization Act, 2014. As per Rule 6 of Telangana Fiscal Responsibility and Budget Management Rules, 2006, the State Government, at the time of presenting the budget, has to make disclosures required under Section 10 of FRBM Act 2005 together with the prescribed statements. Accordingly, Statement of Fiscal policy was laid on the table of the Telangana State Legislature in March 2016. However, it was observed that disclosures were made only partially. Out of 10 disclosures required, State Government made 6 disclosures. The following disclosures were not made:

¹ GO Ms No. 45 dated 1 June 2016 of Law (F) Department.

- Statement of assets
- Claims and commitments made by the Government on revenue demands raised but not realized
- Liability in respect of major works and contracts, committed liabilities in respect of land acquisition charges and claims on State Government in respect of unpaid bills on works and supplies
- Details of number of employees in Government, public sector and aided institutions and related salaries and pensions in the forms prescribed under FRBM legislation.

The statements on assets, claims and commitments, liabilities and details of employees were intended to increase transparency in the fiscal operation of the Government. The omission of the above statements impacted the intended objectives of the Act to that extent.

A summary of FRBM Act 2005, as amended in 2011 and the targets prescribed in the Report of 14th 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	2016-17			
	14 th FC targets	Targets in Budget	Projections made in MFPS	Actuals
Revenue Surplus (₹ in crore)	NA	3,718	NA	1,386
Fiscal Deficit/ GSDP (in <i>per cent</i>)	3.50	NA	3.50	5.46
Ratio of total outstanding debt to GSDP (in <i>per cent</i>)	22.23	NA	NA	18.76

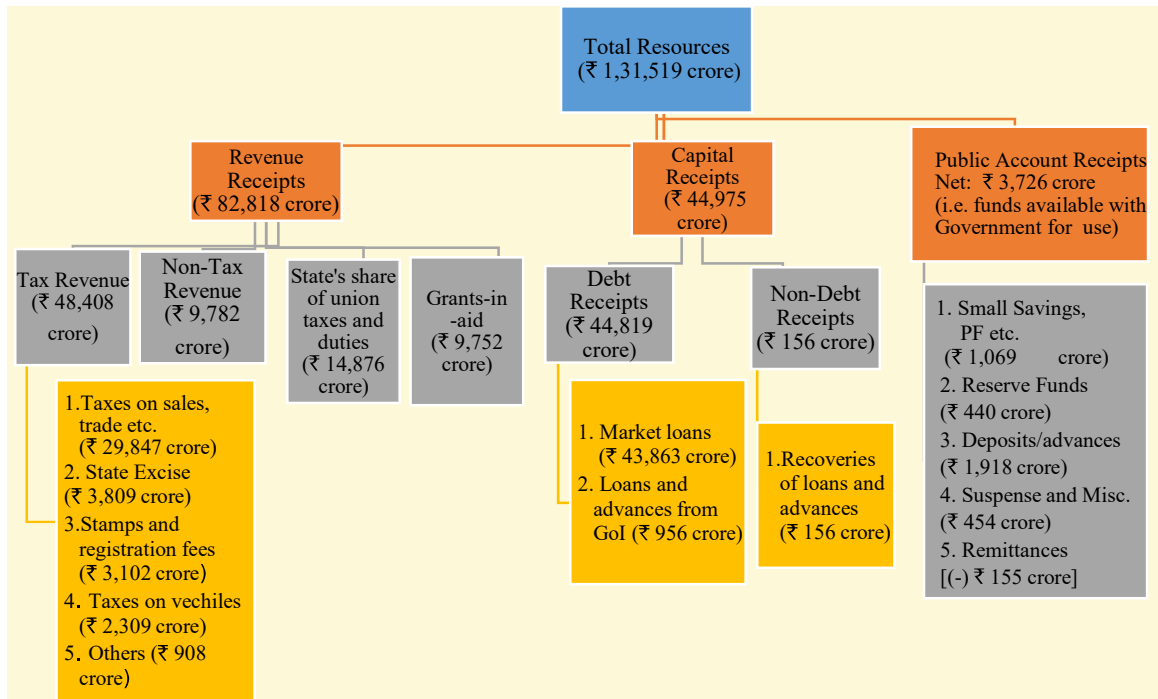
MFPS: Medium Term Fiscal Policy Statement; NA: Not Available

1.5 Resources of the State

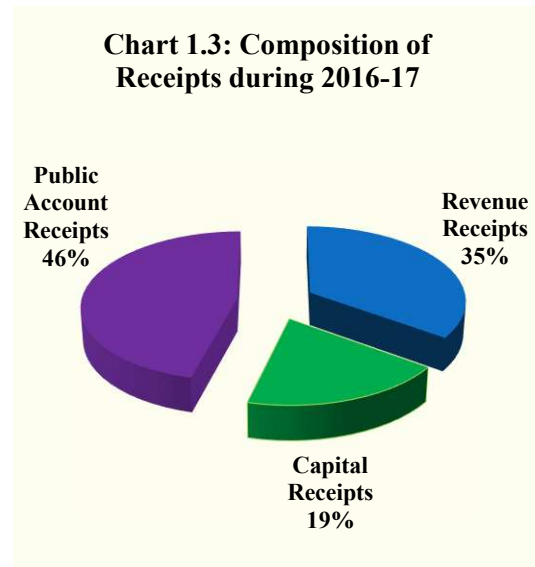
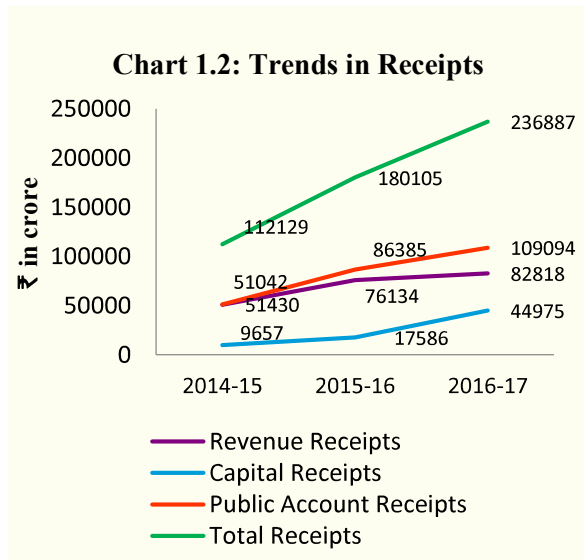
1.5.1 Resources of the State as per Annual Finance Accounts

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.

Composition of resources of the State during 2016-17



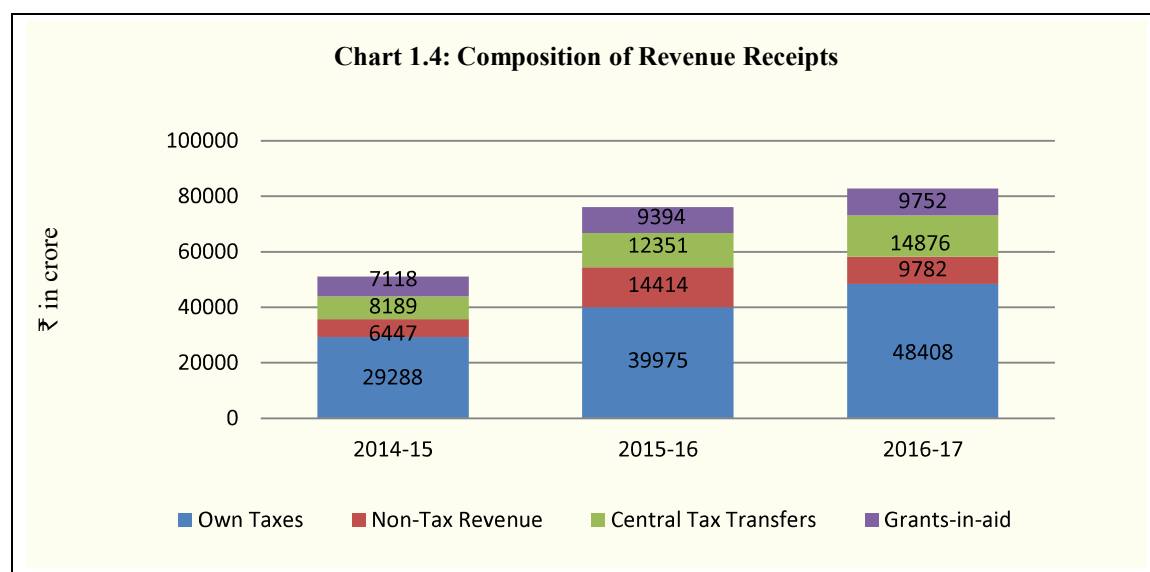
Revenue Receipts (₹ 82,818 crore) constituted 63 per cent of the total resources of ₹ 1,31,519 crore of the State Government during 2016-17. Capital Receipts (₹ 44,975 crore) accounted for 34 per cent of the total resources. Open Market borrowings constituted 70 per cent of Capital Receipts. **Chart 1.2** depicts trends in receipts during 2014-17 and **Chart 1.3** depicts the composition of total receipts of the State during the current year.



1.6 Revenue receipts

Time series data on State Government Finances during 2014-17 including the composition of Revenue Receipts during the current year is presented in **Appendix 1.6**. The composition of Revenue Receipts for the current year are depicted in **Chart 1.4**. During the year,

Revenue Receipts (₹ 82,818 crore) constituted 13 *per cent* of GSDP (₹ 6,46,265 crore).



The actual receipts under the State's Tax and Non-Tax Revenue during 2016-17 *vis-à-vis* projections made by 14th Finance Commission and the State Government in its budget are given in **Table 1.4**:

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

(₹ in crore)			
	14 th FC targets for the State	Budget Estimates by State Government	Actuals
Tax Revenue	57,890	54,870	48,408
Non-Tax Revenue	8,449	17,542	9,782

Source: Finance Accounts, Budget Estimates and report of 14th Finance Commission

Actual realization of Tax Revenue was lower than the projection made by Government (12 *per cent*) and Fourteenth Finance Commission (16 *per cent*). Actual Non-Tax Revenue realized was lower than the estimates made by the Government (44 *per cent*), reasons for which are explained in paragraph 1.6.1.2 *infra*.

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 guidelines for Central assistance for 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 actual collection of State's Own Tax Revenue (OTR) stood at ₹ 48,408 crore during the year and constituted 88 *per cent* of the Budgetary estimate receipts (₹ 54,870 crore) and 58 *per cent* of the actual Revenue Receipts (₹ 82,818 crore). Details are given in **Table 1.5**:

Table 1.5: Components of State's Own Tax Revenue

(₹ in crore)

	2014-15	2015-16	2016-17	
	Actuals	Actuals	Budget Estimates	Actuals
Taxes on Sales, Trade etc.	22,121	29,847	42,074	34,235
State excise	2,808	3,809	4,543	5,581
Taxes on vehicles	1,618	2,309	2,900	3,394
Stamp Duty and Registration Fees	2,177	3,102	4,292	3,822
Land revenue	9	104	16	7
Taxes on goods and passengers	7	33	10	11
Other taxes	548	771	1,035	1,358
Total	29,288	39,975	54,870	48,408

Source: Finance Accounts

There was a shortfall of ₹7,839 crore in collection under Taxes on Sales and Trade vis-à-vis projections in budget estimates during the year. This was mainly on account of the shortfall of ₹7,767 crore under State VAT. Against estimates of ₹30,936 crore, an amount of ₹23,169 crore was collected under State VAT. Under Central Sales Tax Act, an amount of ₹2,872 crore was collected against the estimates of ₹1,412 crore, resulting in excess collection of ₹1,460 crore.

The main reasons for significant increase or decrease compared to previous year are detailed in **Table 1.6:**

Table 1.6: Own Tax Revenue - Reasons for significant increase/decrease

(₹ in crore)

Revenue Head	2015-16 Actuals	2016-17 Actuals	Increase (+) or Decrease (-) (Percentage)	Actual Reasons for variation
State excise	3,809	5,581	1,772 (47)	Upward revision of rates of Excise Duty.
Taxes on vehicles	2,309	3,394	1,085 (47)	Upward revision of rates of fee for various services.
Taxes and Duties on Electricity	37	514	477 (1289)	Realization of Electricity Duty pertaining to the earlier years.
Land revenue	104	7	(-97 (93))	Decrease in receipts under Minor Head 'Other Receipts-800' during the year.
Taxes on goods and passengers	33	11	(-22 (67))	Decrease in receipts under 'Tax on entry of goods into local areas' during the year.

Source: Finance Accounts

1.6.1.2 Non-Tax Revenue

Non-tax revenue accounts for receipts from services rendered and supplies made by various Departments of Government and interest receipts. Non-Tax Revenue (NTR) constituted 12 *per cent* of the total Revenue Receipts during the year. The composition of non-tax revenue is detailed in **Table 1.7**:

Table 1.7: Non-Tax Revenue

Revenue Head	2014-15	2015-16	2016-17	
	Actuals	Actuals	Budget Estimates	Actuals
Interest receipts	2,766	2,878	1,701	1,791
Dividends & Profits	134	69	3	70
Other non-tax receipts	3,547	11,467	15,838	7,921
Total	6,447	14,414	17,542	9,782

Source: Finance Accounts

During the year, Non-Tax Revenue Receipts collected were lower than the budget estimates by ₹ 7,760 crore (44 *per cent* of the budget estimates). Though an amount of ₹ 10,900 crore was estimated to be collected under ‘Sale of Land and Property’ during 2016-17, the State Government could realize an amount of ₹ 1,810 crore only, resulting in shortfall of ₹ 9,090 crore (83 *per cent*). Among the other non-tax receipts, the major portion was ₹ 1,620 crore towards interest receipts from commercial undertakings, arising out of book adjustments from Irrigation (₹ 1,604 crore) and Power Projects (₹ 16 crore). This amount constituted 17 *per cent* of the total Non-Tax Revenue.

1.6.2 State’s share of Union Taxes

The 14th FC had recommended that the States’ share of central taxes be increased to 42 *per cent* from 2015-16 onwards. Consequently, the State’s share in the net proceeds of Central Taxes (excluding Service Tax) and net proceeds of Service Tax has been fixed at 2.44 *per cent* and 2.50 *per cent*, respectively.

The State’s share in Union Taxes during the year was ₹ 14,876 crore against estimated budget of ₹ 13,955 crore. Major components of Central Tax transfers were Corporation Tax (₹ 4,763 crore), Taxes on Income other than Corporation Tax (₹ 3,310 crore), Customs Duty (₹ 2,049 crore), Service Tax (₹ 2,404 crore) and Union Excise Duties (₹ 2,340 crore).

Devolution to the State was enhanced to the tune of ₹2,525 crore during 2016-17 on the basis of 14th Finance Commission recommendations. Audit noted that this led to increase in revenue expenditure by ₹5,536 crore over previous year.

1.6.3 Grants-in-aid from Government of India

The details of Grants-in-aid from GoI and their composition during 2014-15 to 2016-17 are given in **Table 1.8**:

Table 1.8: Grants-in-aid from Government of India

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	
	Actuals	Actuals	Budget Estimates	Actuals
Non-Plan Grants	2,090	2,978	6,608	3,057
Grants for Centrally Assisted State Plan Schemes	5,028	6,416	7,949	6,695
Total	7,118	9,394	14,557	9,752
Total grants as a percentage of Revenue Receipts	13.95	12.34	14.42	11.78

Source: Finance Accounts

During the year, total Grants-in-aid constituted 11.78 per cent of Revenue Receipts. When compared with budget estimates, there was a shortfall in grants-in aid under Non-Plan Grants by ₹ 3,551 crore. This was mainly due to shortfall under Grants for Special Package and Additional Central Assistance (₹ 2,650 crore; 85 per cent), CAMPA² Receipts (₹ 300 crore; 100 per cent) and compensation for loss of revenue on account of phasing out of Central Sales Tax (CST) (₹ 916 crore; 61 per cent). This shortfall was partly offset by receipt of grants under National Disaster Response Fund (₹ 328 crore) without any budget provision.

1.6.3.1 Optimisation of 14th Finance Commission Grants

As per recommendations of 14th Finance Commission, GoI allocated grants of ₹ 1,253.91 crore during 2016-17. The details of grants released, disbursed and utilised during 2016-17 are given in the **Table.1.9**:

Table 1.9: Grants released, disbursed and utilised during 2016-17

(₹ in crore)

Sl. No.	Department	Nature of Grant	Total amount allocated during 2016-17	Amount released by GoI	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	803.58	803.58	803.58	803.58	---
2	Municipal Administration	Basic Grant	450.33	428.90	428.90	428.90	21.43
Total			1,253.91	1,232.48	1,232.48	1,232.48	21.43

Source: Information furnished by Finance Department

²Compensatory Afforestation Fund Management and Planning Authority

Out of ₹ 1,253.91 crore recommended by FC, an amount of ₹ 1,232.48 crore was transferred to the State during 2016-17 with a shortfall of ₹ 21.43 crore. The Finance Department replied (January 2018) that GoI did not furnish any reasons for shortfall in release.

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 2016-17, GoI released ₹ 558.98 crore directly to the implementing agencies during the year for Support to DISCOMs for purchase of gas based power, National Rural Livelihood Mission etc., as shown in Appendix-VI of Finance Accounts 2016-17.

1.7 Capital Receipts

The details of Capital Receipts and their composition during 2014-15 to 2016-17 are given in **Table 1.10**:

Table 1.10: Composition of Capital Receipts

Sources of State's Receipts	2014-15	2015-16	2016-17	
	Actuals	Actuals	Budget Projections	Actuals
Capital Receipts (CR)	9,657	17,586	28,455	44,975
Miscellaneous Capital Receipts	---	---	---	---
Recovery of Loans and Advances	77	88	2,875	156
Public Debt Receipts	9,580	17,498	25,580	44,819

Source: Finance Accounts

During 2016-17, Capital Receipts exceeded the budget estimates by 158 *per cent*. Public debt receipts constituted major component of Capital Receipts (99.65 *per cent*).

1.8 Public Account Receipts

Receipts and disbursements in respect of 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. These 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 1.11**:

Table 1.11: Composition of Public Account receipts and disbursements

Particulars	2014-15	2015-16	2016-17	
	Actuals	Actuals	BE	Actuals
(₹ in crore)				
A. Public Account Receipts				
Small Savings, Provident Fund etc.	1,319	2,101	2,229	2,417
Reserve Fund	1,095	1,788	1,457	1,292
Deposits and Advances	23,433	39,840	29,102	43,378
Suspense and Miscellaneous	1,87,704	26,458	---	39,369
Remittances	9,028	1,6198	---	22,638
Total (A)	2,22,579	86,385	32,788	1,09,094
B. Public Account Disbursements				
Small Savings, Provident Fund etc.	1,051	1,239	1,847	1,348
Reserve Fund	450	662	1,180	852
Deposits and Advances	21,274	37,619	28,711	41,460
Suspense and Miscellaneous	1,88,174	25,053	---	38,915
Remittances	10,022	16,336	---	22,793
Total (B)	2,20,971	80,909	31,738	1,05,368
Public Account Net (A)-(B)	1,608	5,476	1,050	3,726

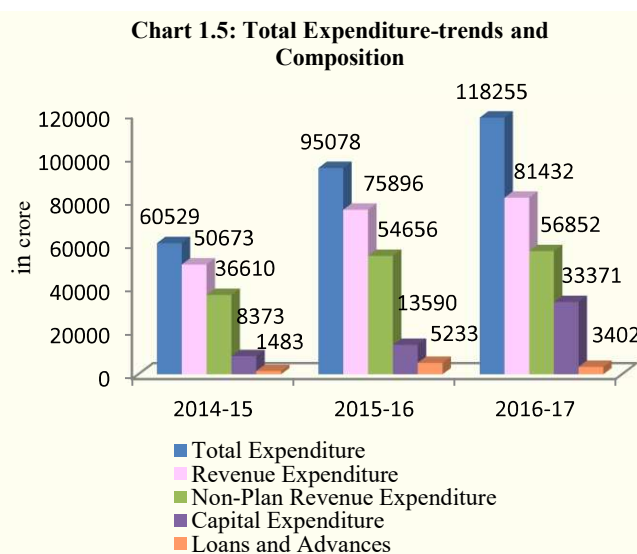
Source: Finance Accounts

Major portion of net public account receipts were under Deposits and Advances (₹ 1,918 crore).

1.9 Application of resources

1.9.1 Composition of expenditure

Chart 1.5 presents the composition of total expenditure during 2016-17. The composition of total and sectoral expenditure is depicted in *Chart 1.6* and *1.7* respectively.



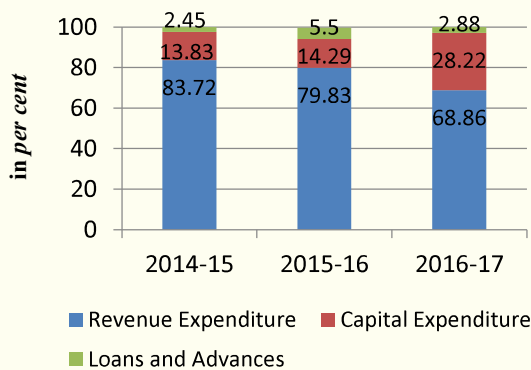
Out of the total expenditure of ₹ 1,18,255 crore, revenue expenditure (₹ 81,432 crore) constituted 69 per cent; capital expenditure (₹ 33,371 crore) constituted 28 per cent. During the year, 70 per cent of the total expenditure was met out of Revenue Receipts, the balance was met from borrowed funds. The total expenditure was less than that projected in the budget (₹ 1,27,266 crore).

Revenue expenditure (₹ 81,432 crore) constituted 13 per cent of GSDP and 69 per cent of total expenditure, of which, Non Plan Revenue Expenditure (NPRE) was ₹ 56,852 crore (48 per cent). Revenue Expenditure was ₹ 25,125 crore (31 per cent) under General services, ₹ 35,286 crore (43 per cent) under Social services and ₹ 20,949 crore (26 per cent) under Economic services.

A major part of the revenue expenditure was incurred under Education, Sports, Art and Culture (₹ 11,955 crore), Social Welfare and Nutrition (₹ 9,069 crore), Welfare of SCs, STs, OBCs and Minorities (₹ 6,592 crore), Rural Development (₹ 6,549 crore), Energy (₹ 4,593 crore), Health and Family welfare (₹ 4,590 crore) and Water supply, Sanitation, Housing and Urban Development (₹ 2,529 crore).

There was an increase of 7.29 per cent in Revenue Expenditure during current year (₹ 81,432 crore) over the previous year (₹ 75,896 crore). The major increase was under Welfare of SCs, STs, OBCs and Minorities (₹ 2,039 crore), and Rural Development (₹ 1,800 crore). The increase under Welfare head was mainly on Scholarships (RTF) under Welfare of Backward Castes (₹ 1,682 crore). Under Rural Development, the increase was mainly under assistance to PRIs for construction of Rural Roads (₹ 776 crore) and MGNREGA (₹ 584 crore).

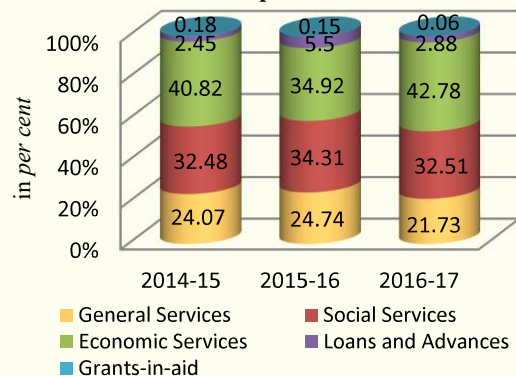
Chart 1.6: Trends in components of Total Expenditure



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 69 per cent of the State’s aggregate expenditure, leaving only 31 per cent for investment in infrastructure and asset creation.

During 2016-17, the share of General Services and Social Services in total expenditure amounted to 22 per cent and 35 per cent, respectively. The share of Economic Services constituted 43 per cent of the total expenditure. The share of revenue expenditure in Social Services was 86 per cent and 41 per cent in Economic Services.

Chart 1.7: Trends by Activities of Total Expenditure



During the year 2016-17, capital expenditure (₹ 33,371 crore) constituted 28 *per cent* of total expenditure. Capital expenditure was incurred mainly under Irrigation and Flood Control (₹ 13,665 crore), Energy (₹ 10,498 crore), Transport (₹ 3,180 crore) and Water Supply, Sanitation, Housing and Urban Development (₹ 2,210 crore). Capital expenditure (₹ 33,371 crore) at 5 *per cent* of GSDP (₹ 6,46,265 crore) was more than the Budget estimates (₹ 29,313 crore) by 14 *per cent*. Loans and advances disbursed (₹ 3,402 crore) during the year constituted 3 *per cent* of the total expenditure (₹ 1,18,255 crore).

Capital expenditure during current year (₹ 33,371 crore) was higher than the previous year's figures (₹ 13,590 crore) by 145.56 *per cent*. This was mainly due to increase under Energy (₹ 9,974 crore) and Irrigation and Flood Control (₹ 5,889 crore). Increase under Energy was mainly due to transfer of ₹ 7,500 crore by the State Government to DISCOMs under UDAY scheme and classification of this entire amount as investment. Increase under Irrigation and Flood Control was mainly due to increase under Kaleswaram Project (₹ 5,072 crore)³.

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 1.12** present the expenditure on these components during 2014-15 to 2016-17:

Table 1.12: Components of committed expenditure

Components of committed expenditure	2014-15	2015-16	2016-17		
	Actuals	Actuals	BEs	Actuals	Percentage variation
Salaries* & Wages, of which	12,200	20,404	20,496	21,897	6.84
(i) Non-Plan	11,432	19,166	19,194	20,557	7.10
(ii) Plan**	768	1,238	1,302	1,340	2.92
Interest payments	5,227	7,558	7,706	8,609	11.72
Pensions	4,210	8,217	8,691	9,011	3.68
Subsidies	3,587	5,164	7,428	5,935	(-)20.10
Total	25,224	41,343	44,321	45,452	2.55

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

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

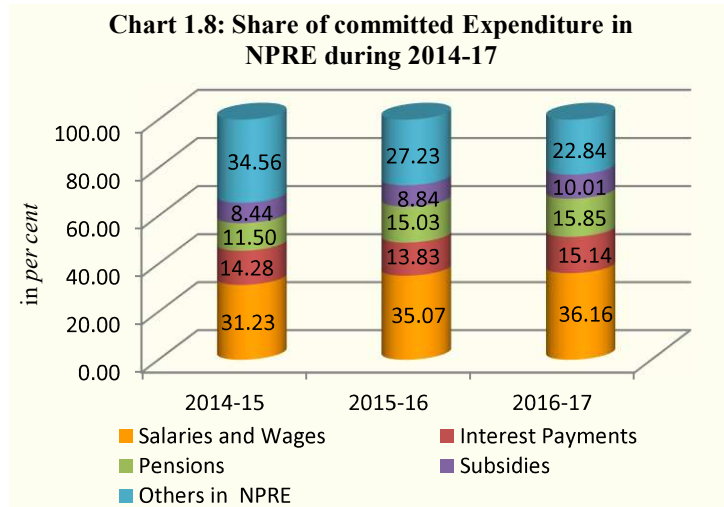
**Plan head also includes the salaries and wages paid under CSS.

Committed expenditure on salaries and wages, pensions, interest payments and subsidies constituted 56 *per cent* of Revenue Expenditure and 55 *per cent* of Revenue Receipts during 2016-17.

³ Other major irrigation projects which saw increased investment were Palamur Lift Irrigation (₹ 323 crore), Bhakta Ramadas LIS (₹ 121 crore) and Lower Penuganga Project (₹ 119 crore)

1.9.2.1 Salaries and wages

Expenditure on salaries and wages during the current year was more than the budget estimates by 7 per cent. During the current year, expenditure on salaries constituted 27 per cent of revenue expenditure and 36.16 per cent of non-plan revenue expenditure. Expenditure on salaries as a per cent of total Revenue Receipts stood at 26 per cent.



1.9.2.2 Interest payments

During 2016-17, the share of interest payments (₹ 8,609 crore) in revenue expenditure was 10.57 per cent. This was slightly higher than the projection made in the Budget estimates (₹ 7,706 crore) and 14th FC assessments (₹ 8,220 crore). Interest payments as a per cent of total Revenue Receipts stood at 10.39 per cent.

1.9.2.3 Pensions & Provident Fund

Pensions

The expenditure on pension and other retirement benefits to State Government pensioners during the year was ₹ 9,011 crore, which was 10.88 per cent of Revenue Receipts and 11.07 per cent of revenue expenditure. During 2016-17, pensionary benefits were higher than the budget estimates (₹ 8,691 crore), lower than 14th FC assessments (₹ 9,555 crore), but. Government was yet to estimate the yearly pension liabilities on actuarial basis for further years, as stipulated in 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 2016-17, ₹ 420.14 crore was the employees' contribution and ₹ 348.23 crore was the Government contribution. **There was short contribution of ₹ 71.91 crore by the**

Government. During the year, the Government transferred ₹ 574.78 crore to Trustee Bank, leaving a balance of ₹ 177.12 crore in the Fund as on 31 March 2017 on which the State Government is liable to pay interest. An amount of ₹ 730.64 crore in the Fund is yet to be apportioned between the states of Andhra Pradesh and Telangana. As AG (A&E) is not maintaining the accounts of individual employee's contribution, the correctness of recovery from the employee's salary bills cannot be vouched. No reconciliation of the amounts transferred has been carried out with NSDL/ Trustee Bank.

Uncollected, unmatched and untransferred amounts, with accrued interest, which represent outstanding liabilities under the Scheme, could not be estimated in the absence of complete data.

Accumulated Interest liability on Zilla Parishad Provident Fund (ZPPF)

Deposit account "MH 8338 - Deposits of Local Funds" includes contributions of employees of Zilla Parishads towards Provident Fund and payments made therefrom. The individual Provident Fund Accounts are maintained by the Chief Executive Officer (CEO), Zilla Parishad of the district concerned. On retirement/death of any employee, the accumulated balances including interest thereon are paid during final settlement. Since this is under the category of 'deposits bearing interest', the State Government has a liability to pay interest on balances in this account. Director of State Audit is responsible⁴ to consolidate the total interest payable on the balances and send proposals to Finance Department for necessary budget provision towards interest on ZPPF.

No budget provision was made for payment of interest on ZPPF and consequently the interest obligation was not discharged by the State Government at the rate applicable on GPF. **An amount of ₹ 1,069 crore was the accumulated interest liability of Government towards interest on deposits of ZPPF to end of March 2017.** Thus, undischarged liability being postponed, increases the burden on the Governments' revenue expenditure at later date. District-wise and year-wise details of undischarged interest obligation of Government towards ZPPF are shown in *Appendix 1.7*.

1.9.2.4 Subsidies

The total expenditure on subsidies during the current year was ₹ 5,935 crore, of which assistance to Transmission Corporation of Telangana Limited was ₹ 3,675 crore (62 per cent) and subsidy on rice was ₹ 2,017 crore (34 per cent). Total subsidy was lower than the projections made in the Budget (₹ 7,428 crore).

Department-wise subsidies are listed in **Table 1.13**:

⁴ G.O.Ms No. 317 Panchayat Raj (Accounts-I) department, dated 13 July 1984

Table 1.13: Department wise Subsidies

Departments	(₹ in crore)		
	2014-15	2015-16	2016-17
Civil Supplies	783	924	2,018
Power	2,400	3,926	3,675
Agricultural and other Allied activities	207	173	152
Others	197	141	90
Total subsidy	3,587	5,164	5,935
Total Revenue Expenditure	50,673	75,896	82,818
Subsidy as a % of Revenue Expenditure	7.08	6.80	7.17

Source: Finance Accounts

During the year, the percentage of subsidies to revenue expenditure was 7.17 per cent.

In addition, budgetary assistance was provided in the form of Grants-in-aid under “Detailed Head 310-312” instead of “330” for various socio-economic services which was in the nature of subsidies. Scheme-wise details of these Grants-in-aid provided during 2015-16 and 2016-17 are given in **Table 1.14**:

Table 1.14: Department/Organization-wise subsidies given as Grants-in-aid

Sector	Department	Name of the Scheme	(₹ in crore)	
			2015-16	2016-17
General Services	Revenue	Assistance to Municipalities/Corporations as Interest Free Loans (Vaddileni Runalu)	66	100
Social Services	Medical and Health	Assistance to NIMS for treatment of BPL families not covered under Aarogyasri	25	25
Economic Services	Agriculture	Assistance to Cooperative Sugar Factories towards reimbursement of purchase Tax incentives	18	18
		Assistance to Small and Marginal Farmers towards Premium for Crop Insurance Scheme	15	42
		Crop Loans for Farmers (Pavalavaddi)	24	3
		Supply of Seeds, Fertilisers and Agricultural Implements	233	702
	Transport	Assistance to TSRTC towards reimbursement of concessions extended to various categories of citizens	103	28
	Rural Development	Interest Free Loans to DWCRA Women (Vaddileni Runalu)	197	41
		Interest free Loans to Farmers (Vaddileni Runalu)& Crop Insurance	162	-
	Industries	Extension of Pavalavaddi Scheme to all SSI and Food Processing units	104	50
		Power Subsidy for Industries	324	16

Sector	Department	Name of the Scheme	2015-16	2016-17
		Supply of Milch Animals under CM's Package	4	-
		Incentives for Industrial Promotion	99	35
	Animal Husbandry	Incentives for Milk production	46	3
		Fodder and Feed Development	3	12
	Total		1,423	1,075

Source: Finance Accounts

Thus ₹1,075 crore given as Grants-in-aid understated the expenditure towards subsidies in Government Accounts to that extent.

1.9.3 Financial Assistance to local bodies and other institutions

GoI enacted the 73rd and 74th 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 Constitution (inserted by The Constitution (Seventy-third) Amendment Act, 1992) had listed 29 subjects for devolution to strengthen the PRIs. During 2007-08, State Government had devolved 10 functions⁵ to PRIs and, thereafter, no initiative was taken for devolving the remaining functions.

The Constitution (Seventy-fourth) 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-I(1) read with 243Y(1) of the Constitution, the Governor of the State shall constitute the State Finance Commission within the period of one year from 73rd amendment of the Indian Constitution (1992) and at the end of every five years thereafter to review financial position of Panchayat Raj Institutions and Urban Local Bodies of the State. **The State Finance Commission to recommend principles for distribution of divisible pool of the levies of the State between State and PRIs/ULBs had not been set up by the Government of Telangana as of March 2017.**

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 shown in **Table 1.15:**

⁵ (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

Table 1.15: Financial assistance to Local Bodies etc.
(₹ in crore)

Name of the Institution	2015-16	2016-17
	Actuals	Actuals
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	1,011.81	987.20
Urban Local Bodies	932.77	608.47
Panchayat Raj Institutions	6,698.79	7,488.45
Development Agencies	221.54	118.83
Other Autonomous Bodies	1,240.34	1,172.35
Co-operative Institutions	100.37	63.35
Other Institutions	18,852.86	20,209.17
Total	29,058.48	30,647.82
Assistance as percentage of Revenue Expenditure	38.29	37.64

Source: Finance Accounts

Financial assistance, including grants and loans, extended to local bodies and other institutions during 2016-17 constituted 37.64 per cent of revenue expenditure. The major recipient schemes of grants during the year were MGNREGA (₹ 2,139 crore), Sarva Shiksha Abhiyan (₹ 1,234 crore), Aasara pensions to old age persons & widows (₹ 1,063 crore), Financial Assistance to Beedi workers (₹ 431 crore), Swachh Bharath Mission (₹ 389 crore), Arogyasri Health Care Trust (₹ 386 crore), Aasara pensions to disabled persons (₹ 150 crore) etc.

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 ratios fall way below the respective national average. **Table 1.16** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2016-17.

Table 1.16: Fiscal Priority of the State in 2016-17

Fiscal Priority of the State	(in per cent)					
	AE/ GSDP	DE [#] / AE	SSE/ AE	CE/ AE	Education ⁶ / AE	Health/ AE
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
General Category States Average (Ratio) 2016-17	16.70	70.90	32.20	19.70	15.20	4.80
Telangana's Average (Ratio) 2016-17	18.30	78.08	34.89	28.22	10.32	4.62

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

Source: Finance Accounts

⁶Exclusive of the expenditure relating to education under Welfare Departments

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 was higher in the State compared to the GCS average during the year 2016-17.
- Expenditure on Social Sector as a proportion of aggregate expenditure in Telangana was higher than the GCS average during 2016-17. The share of expenditure on education as a proportion of aggregate expenditure was lower than the GCS average. The level of expenditure on health was, however, comparable during the year. Thus, the education sector was treated as a low priority area affecting human capital formation affecting all other sectors.
- The share of capital expenditure in aggregate expenditure in the State (28.22 *per cent*) was much higher than the GCS average (19.70 *per cent*) during the year reflecting a better long term financial management.

1.10.2 Efficiency of expenditure use

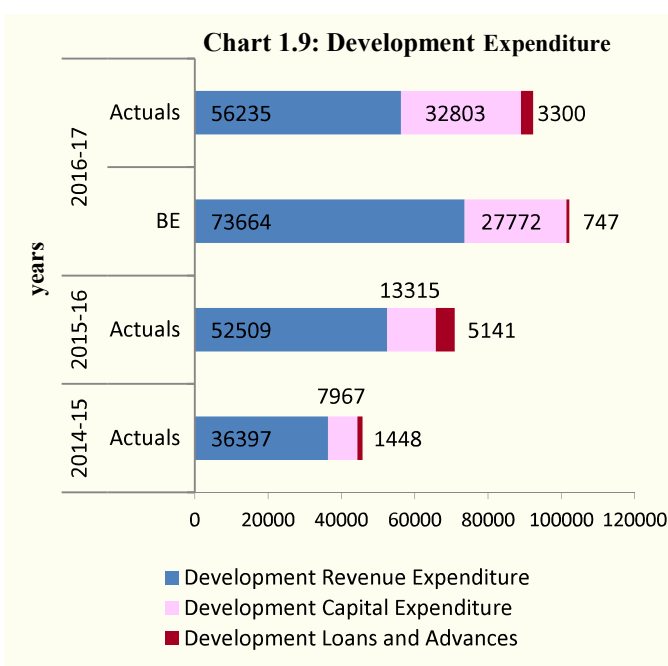
In view of the emphasis on public expenditure on socio-economic development works in successive Plans, it is important that the State Government takes appropriate expenditure rationalization measures and focus on provisioning of core public and merit goods⁷. Apart from improving the allocation towards development expenditure⁸, following ratios are important:

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

⁷ See glossary

⁸ See glossary



During 2016-17, the total development expenditure constituted 78 per cent of aggregate expenditure. Development revenue expenditure constituted 48 per cent of aggregate expenditure. During the current year, development capital expenditure stood at 28 per cent of aggregate expenditure. The capital expenditure of the State excluding ₹7,500 crore transferred to DISCOMs under UDAY scheme was ₹25,871 crore. Thus the major portion of development expenditure was subsumed in revenue account, without any asset creation.

Table 1.17 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected social and economic services.

Table 1.17: Efficiency of expenditure on selected social and economic services

(in per cent)

Social/Economic Infrastructure	2015-16			2016-17		
	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
Social Services (SS)						
Education	1.26	84.22	0.04	2.02	68.60	0.06
Health and Family welfare	2.76	55.70	0.16	7.09	37.08	0.18
Water Supply, Sanitation, Housing & Urban Development	32.38	14.23	3.46	46.63	16.89	5.46
Total (SS)	6.60	41.03	0.54	8.22	31.84	0.54
Economic Services (ES)						
Agriculture & Allied Activities	2.27	14.43	2.12	10.00	12.10	2.84
Irrigation & Flood Control	71.12	8.48	5.10	87.05	12.76	4.50
Energy	10.55	0.20	0.02	69.56	0.01	0.003
Transport	56.08	1.24	76.81	84.24	3.09	42.78
Total (ES)	33.62	9.39	6.42	58.59	9.11	2.62
Total (SS + ES)	20.23	27.75	3.01	36.84	23.37	1.31

Source: Finance Accounts; CE: Capital Expenditure; RE: Revenue Expenditure; TE: Total Expenditure; S&W: Salaries & Wages; O&M: Operation & Maintenance

The percentage of Capital Expenditure/Total Expenditure in Economic Services was 58.59 per cent under Agriculture & Allied Activities, Irrigation and Flood Control, Energy and Transport. It was 33.62 per cent in previous year, indicating an increased priority of

Government on creation of assets in these sectors. However, Operation and Maintenance expenditure on already created assets at 1.31 *per cent* of the Revenue Expenditure received lower priority (it was 3.01 *per cent* in the previous year).

1.11 Financial analysis of Government expenditure and investments

In the post-Fiscal Responsibility Legislation 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 2016-17.

1.11.1 Financial results of Irrigation Projects

The State Government has not disclosed financial results of any of its Irrigation Projects despite large Irrigation Projects in Telangana, existing and planned.

1.11.2 Incomplete Projects

Blocking of funds on incomplete projects impinges negatively on the quality of expenditure. As per information provided by the Government, 92 projects/works which were due for completion by 31 March 2017 remained incomplete. The total amount of funds expended on these projects as on 31 March 2017 was ₹ 50,216 crore. Further, the original cost of irrigation projects was revised upwards by ₹ 13,803 crore. Reasons for delay were stated to be delays in land acquisition, want of forest clearance, delay in shifting of Electric Poles, delay in shifting of utilities 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, due for completion and costing above rupees one crore is detailed in **Table 1.18**. The details of Major and Medium Irrigation projects pending completion are given in *Appendix 1.8*.

Table 1.18: Department-wise profile of incomplete projects

(₹ in crore)				
Nature of works	No. of incomplete Projects	Original cost	Cost over run	Cumulative Expenditure as on 31-03-2017
<i>Irrigation and Command Area Development Department</i>				
Major and Medium Irrigation	13	11,224	13,803	20,497
<i>Roads and Buildings Department</i>				
Roads & Bridges	79	1,01,897	12,875 [§]	29,719
Total	92	1,13,121	26,678	50,216

Source: Departmental information;

[§] Cost overrun to the extent of revised cost details provided by the department.

1.11.3 Investment and return

As of 31 March 2017, the State Government's investment stood at ₹ 13,075 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 1.19**:

Table 1.19: Return on investment

Investment/Return/Cost of Borrowings	2014-15	2015-16	2016-17
Investment at the end of the year (₹ in crore)	382	1,329	13,075
Return (₹ in crore)	134	69	70
Return (<i>per cent</i>)	35.08	5.19	0.54
Average rate of interest on Government borrowing (<i>per cent</i>)	6.97	8.50	7.40
Difference between interest rate and return (<i>per cent</i>)	28.11	3.31	6.86

Source: Finance Accounts

During the year 2016-17, Government of Telangana invested mainly in Power Distribution Companies of Telangana (DISCOMs) (₹ 10,497.62 crore), Telangana Road Transport Corporation (₹ 901 crore) and Telangana State Seeds Development Corporation Limited (₹ 242.17 crore). It may be noted here that while Government investments are highest in power sector, this sector accounted for 99.88 *per cent* of total losses incurred by the State working PSUs in 2016-17. During 2016-17, Government earned a meagre return of 0.54 *per cent* on its investments, funded mainly through borrowings on which it paid interest at 7.40 *per cent*. **Investments increased 10 times (₹ 11,747 crore) over previous year. However, the increase in return on investments was negligible at rupees one crore, indicating non-performing investments.** 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 also provides loans and advances to institutions/organizations like Universities/Academic Institutions, PRIs, ULBs and Urban Development Authorities etc. **Table 1.20** presents the details of outstanding Loans and advances during 2014-15 to 2016-17:

Table 1.20: Average interest received on loans advanced by State Government

Quantum of Loans/Interest Receipts/Cost of Borrowings	(₹ in crore)			
	2014-15 Actual	2015-16 Actual	2016-17 BE Actual	
Opening Balance	--	1,406	---	6,552
Amount advanced during the year	1,483	5,233	747	3,402
Amount recovered during the year	77	88	2,875	156
Closing Balance	1,406	6,552	--	9,798
Of which outstanding balance for which terms and conditions have been settled	NA	NA	NA	NA

Quantum of Loans/Interest Receipts/Cost of Borrowings	2014-15	2015-16	2016-17	
	Actual	Actual	BE	Actual
Net addition	1,406	5,145	80	3,246
Interest Receipts	60	53	NA	105
Interest receipts as percentage of outstanding loans and advances	4.27	0.80	NA	1.07
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	7.24	7.71	NA	6.39
Difference between interest receipts and interest payments (<i>per cent</i>)	2.97	6.91	---	5.32

Source: Finance Accounts; NA: Not Available

It can be seen that the current level of recovery of loans was low with a significant gap between disbursements (₹ 3,402 crore) and recovery (₹ 156 crore). Loans advanced during the year decreased by 34.98 *per cent* over previous year. Recovery of loans and advances (₹ 156 crore) was far less than the budget estimates of ₹ 2,875 crore. Loans advanced (₹ 3,402 crore) were more than the budget estimates of ₹ 747 crore. A major portion of the loans were disbursed under the schemes relating to Water Supply, Sanitation, Housing and Urban Development (₹ 2,282 crore) and Health and Family welfare (₹ 528 crore).

1.11.5 Cash balances and investment of Cash balances

During the current year, State Government invested ₹ 53 crore in GoI Treasury Bills. **Table 1.21** depicts the cash balances and investments made by the State Government out of cash balances during the year:

Table 1.21: Cash balances and their Investment

	(₹ in crore)		
	Closing balance as on 31-03-2015	Closing balance as on 31-03-2016	Closing balance as on 31-03-2017
(a) General Cash Balance			
Cash in Treasuries	---	---	---
Deposits with Reserve Bank	109.28	3.53	(-)169.25
Deposits with other Banks	---	---	---
Remittances in transit - Local	2.07	2.07	2.07
Total	111.35	5.60	(-)167.18
Investments held in Cash Balance investment account	1,870.35	2,503.94	52.59
Total (a)	1,981.70	2,509.54	(-)114.59
(b) Other Cash Balances and Investments			
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	0.29

	Closing balance as on 31-03-2015	Closing balance as on 31-03-2016	Closing balance as on 31-03-2017
Investment of earmarked funds	3,212.60	3,958.25	4,278.05
Total (b)	3,212.87	3,958.52	4,278.34
Grand total (a)+ (b)	5,194.57	6,468.06	4,163.75

Source: Finance Accounts

State Government maintained the mandatory minimum daily cash balance of ₹ 1.38 crore with RBI on 266 days during the year without taking Special Drawing Facility (SDF⁹) or ways and means advances(WMA) or overdrafts. For 99 days¹⁰ State Government depended on SDF (97 days: ₹ 7,136.30 crore) and WMA (75 days: ₹ 4,951.93 crore) for maintaining the minimum balance with RBI.

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 ₹ 4,909 crore lying in these Funds as on 31 March 2017, ₹ 4,278 crore (87.14 *per cent*) was invested in the Treasury bills, leaving the total net accumulated balance ₹ 631 crore as on 31 March 2017 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 2016, the total outstanding liabilities of the Government amounted to ₹ 97,992 crore. **During the year the State Government did not make any contribution to the Fund against the minimum required contribution of ₹ 489.96 crore.** The balance under the Fund as of 31 March 2017 was ₹ 3,775.71 crore.

1.11.8 State Disaster Response Fund (SDRF)

As per recommendation of the 13th 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 ₹ 216 crore and State Government had contributed its matching share of ₹ 72 crore to the fund. In addition, an amount of ₹ 328.16 crore was also released by GoI towards National Disaster Response Fund (NDRF). Thus, the aggregate amount transferred to the fund during the year was ₹ 616.16 crore. The balance in the fund as on

⁹ Previously known as Special Ways and Means Advances

¹⁰ The dates on which WMA were drawn fall on the same dates on which SDF was availed except for two days

31 March 2017 was ₹ 108.37 crore after incurring expenditure of ₹ 727.58 crore during the year (against Fund balance of ₹ 835.95 crore including Opening Balance of ₹ 219.79 crore).

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 ₹ 39,301.95 crore were issued, against which cheques worth ₹ 38,798.02 crore were encashed, leaving a closing balance of ₹ 1,379.77 crore (Credit) as on 31 March 2017.

1.12 Assets and Liabilities

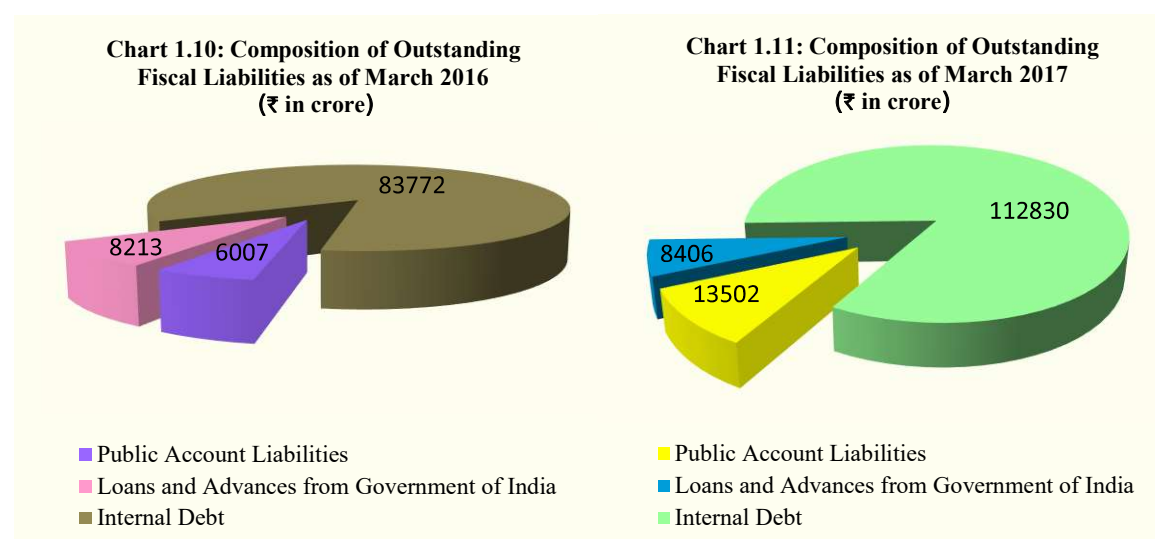
1.12.1 Composition of assets and liabilities

Government accounts reflect the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.9* gives an abstract of such assets and liabilities as on 31 March 2017. 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 1.9*. The composition of fiscal liabilities during the previous year and current year is presented in *Chart 1.10* and *Chart 1.11* respectively:



The total fiscal liabilities of the State at the end of 2016-17 was ₹ 1,34,738 crore, which was 1.63 times its Revenue Receipts and 20.85 per cent of GSDP. Total outstanding liabilities including Guarantees amounted to ₹ 1,57,424 crore (₹ 1,34,738 crore +

₹ 22,686 crore¹¹), which constituted 24.36 *per cent* of GSDP. This was within the ceiling of 25 *per cent* prescribed in the MFPS for the year 2016-17. The total outstanding liabilities stood at 23.20 *per cent* of GSDP after excluding ₹ 7,500 crore under UDAY Scheme.

1.12.3 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.

As on 31 March 2017, Telangana State Housing Corporation Limited (Housing Department) borrowed ₹ 3,368 crore from HUDCO. **Of this an amount of ₹ 1,000 crore was remitted into Government Account as Revenue Receipts, inflating the Revenue Receipts of the Government** (Paragraph 1.14 *infra* refers).

1.12.4 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 constituted Guarantee Redemption Fund in 2002-03 for discharging the guarantees invoked. As per FRBM Act, annual incremental risk-weighted guarantees are to be limited to 90 *per cent* of total Revenue Receipts in the preceding year. **During the year the State Government did not make any contribution to GRF and the entire balance (₹ 541.67 crore) as on March 2017 was invested in Government securities.**

The maximum amount for which guarantees were given by the State and outstanding guarantees for 2016-17 are given in **Table 1.22**:

Table 1.22: Guarantees given by the Government of Telangana

Guarantees	(₹ in crore)		
	2014-15	2015-16	2016-17
Maximum amount guaranteed	21,240	28,094	31,871
Outstanding amount of guarantees	18,265	26,619	29,965
Total Revenue Receipts	51,042	76,134	82,818
Percentage of maximum amount guaranteed to total Revenue Receipts	41.61	36.90	38.48
Percentage of outstanding guarantees to the total Revenue Receipts of preceding year	--	52.15	39.36

Source: Finance Accounts

The maximum amount guaranteed during the year was ₹ 31,871 crore. The outstanding guarantees at the end of 2016-17 were mainly in respect of Telangana Drinking Water Supply Corporation Ltd., (₹ 11,124 crore), Corporation under Energy Sector

¹¹ outstanding guarantees where the principal and interest are to be serviced out of State budget (as per Finance Accounts)

(₹4,618 crore), Cooperatives (₹2,193 crore), Telangana State Road Transport Corporation (₹660 crore), State Financial Corporation (₹418 crore) and Hyderabad Metropolitan Water Supply & Sewerage Board (₹3,525.27 crore).

The outstanding guarantees (₹29,965 crore) to end of 2016-17 amounted to 39.36 *per cent* of total Revenue Receipts (₹76,134 crore) of the preceding year, which is within the ceiling of 90 *per cent* prescribed under FRBM legislation. The outstanding guarantees stood at 4.64 *per cent* of the GSDP (₹6,46,265 crore).

1.12.5 Ujwal DISCOM Assurance Yojana (UDAY):

UDAY scheme was launched by Government of India in November 2015 for financial turnaround of Power Distribution Companies (DISCOMs). As per this scheme, the State Government shall take over 75 *per cent* of DISCOMs' debt outstanding as on 30 September 2015 over a period of two years; 50 *per cent* in 2015-16 and 25 *per cent* in 2016-17.

The Scheme was not implemented in Telangana during 2015-16. Total outstanding debt of DISCOMs at the end of September 2015 was ₹11,897 crore. Of this, Government had to take over 75 *per cent*, i.e., ₹8,923 crore as per the MoU (04 January 2017) under the scheme. For the remaining 25 *per cent* of debt, DISCOMs required to fully/partially issue State Government guaranteed bonds or get them converted by Banks/Financial Institutions into loans or bonds with interest not more than the banks base rate plus 0.1 *per cent*.

Government borrowed ₹8,931.51 crore through UDAY bonds during the year. Out of this, an amount of ₹7,500 crore only was released to DISCOMs to end of the year. It was stipulated in the MoU that, DISCOMs debt had to be taken over in the form of grant ₹4,462 crore (50 *per cent*), loan ₹2,230 crore (25 *per cent*) and equity ₹2,231 crore (25 *per cent*). As against this stipulation, entire amount transferred to DISCOMs had been booked under Capital Expenditure as equity. Booking of ₹3,750 crore (50 *per cent* of ₹7,500 crore released to DISCOMs) as equity instead of grant resulted in overstatement of revenue surplus to that extent. Banks/Financial Institutions had not issued any new bonds as stipulated in the UDAY Scheme for the remaining balance loans of DISCOMs.

State Government stated (January 2018) that the issue regarding treatment of transferred amount as equity instead of grant is under correspondence with GoI.

1.13 Debt Management

1.13.1 Debt sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability¹² of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization¹³, sufficiency of non-debt receipts¹⁴, net availability of borrowed funds¹⁵, burden of interest

¹²See glossary

¹³See glossary

¹⁴See glossary

¹⁵See glossary

payments (measured by ratio of interest payments to Revenue Receipts) and maturity profile of State Government securities. **Table 1.23** analyses the debt sustainability of the State according to these indicators during the year 2016-17:

Table 1.23: Debt sustainability: Indicators

Indicators of Debt Sustainability	2014-15	2015-16	2016-17
Outstanding Debt [#] (₹ in crore)	77,333	91,985	1,21,236
Rate of growth of outstanding debt	^	18.95	31.80
GSDP (₹ in crore)	5,05,664	5,67,588	6,46,265
Rate of growth of GSDP	^	12.25	13.86
Debt/GSDP (<i>per cent</i>)	15.29	16.21	18.76
Average interest rate of outstanding debt [(interest paid/(Opening Balance of Public Debt + Closing Balance of Public debt)/2)*100]	7.11	8.85	7.79
Interest Payments/Revenue Receipts (<i>per cent</i>)	10.24	9.93	10.40
Debt Repayment/Tax Revenue (<i>per cent</i>)	5.90	7.12	32.16
Debt Repayment/Debt Receipts (<i>per cent</i>)	18.03	16.26	34.74
Net Debt Available to the State (₹ in crore)	2,894	7,957	21,710

Source: Finance Accounts; # includes Internal Debt of the State Government and Loans and Advances from the Central Government; ^ Not applicable since Telangana was formed with effect from 2 June 2014

The net availability of borrowed funds was positive, indicating the availability of borrowed funds for purposes other than debt repayment. Debt/GSDP stood at 18.76 *per cent* during 2016-17 with an increase of 2.55 percentage points compared to previous year. Interest payments as a percentage of Revenue Receipts were 10.40 *per cent*, against the normative rate of 8.22 *per cent* prescribed by 14th Finance Commission. **The ratio of debt repayment to debt receipts during the year indicated that Government had utilized 34.74 *per cent* of borrowed funds for repayment of its existing debt which had increased by 18 percentage points over previous year.**

The repayment of Debt as percentage of tax revenue increased from 7.12 during 2015-16 to 32.16 during 2016-17.

1.13.2 Debt Profile

As per Annexure to Statement 17 of the Finance Accounts for the year 2016-17, the Maturity Profile of State Debt is shown in **Table 1.24**:

Table 1.24: Maturity Profile of State Debt

Maturity profile	Amount (₹ in crore)	Percentage
0 – 1 year	4,473	3.88
1 – 3 years	14,739	12.79
3 – 5 years	14,896	12.93
5 – 7 years	22,280	19.33
7 years and above	58,847	51.07
Total	1,15,235	100

Source: Finance Accounts

To discharge its expenditure obligations, the Government had to borrow further. **The State Government borrowed ₹43,863 crore as internal debt from market borrowings and loans from other financial institutions and ₹956 crore from Central loans during the year.**

The maturity profile of outstanding stock of public debt as on 31 March 2017 showed that 49 per cent (₹56,388 crore) of the total outstanding debt was in the maturity bucket of seven years and the balance thereafter.

It further indicated that the liability of the State to repay the debt would be ₹14,896 crore during 2020-22 and ₹22,280 crore during 2022-24. 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 those critical years.

Government replied (January 2018) that Public Debt was taken for longer tenure during the year 2017-18.

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 for the financial year 2016-17 *vis-à-vis* targets set under FRBM Act/Rules. Trends in deficit indicators and trends in deficit indicators relative to GSDP are depicted in **Chart 1.12** and **Chart 1.13** respectively:

Trends in Deficits

Chart 1.12: Trends in deficit indicators

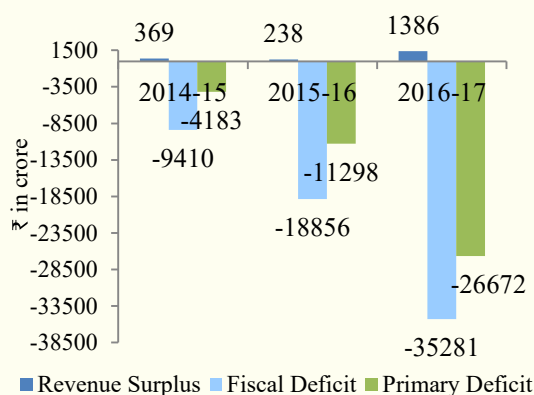
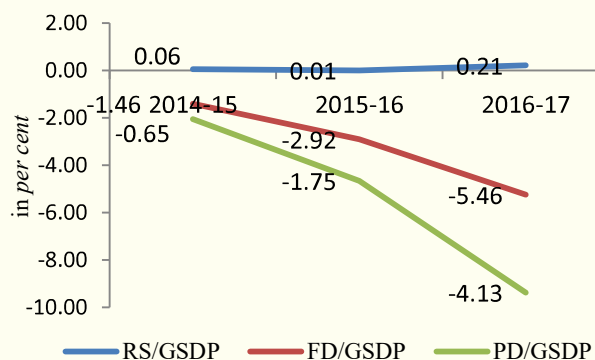


Chart 1.13: Trends in deficit indicators relative to GSDP



During the year 2016-17, there was a Revenue surplus of ₹1,386 crore. Fiscal deficit (₹35,281 crore) constituted 5.46 per cent of GSDP. Primary deficit stood at ₹26,672 crore.

However, the revenue surplus is overstated by ₹6,778 crore and fiscal deficit understated by ₹2,500 crore on account of the following:

- An amount of ₹3,750 crore (50 per cent of ₹7,500 crore released to DISCOMs) was booked as equity instead of grant, against the MoU under UDAY scheme.
- Borrowed funds of ₹1,500 crore of Hyderabad Metropolitan Water Supply & Sewerage Board were taken into government account as a remittance as per instructions of the government, thus overstating Revenue Receipts to that extent;
- A similar remittance of ₹1,000 crore from Telangana State Housing Corporation Limited (borrowed from HUDCO) was taken into account as Revenue Receipts.
- A sum of ₹528 crore of Revenue Expenditure was adjusted into Loan Account in respect of Health, Medical and Family Welfare Department by DTO (Urban), Hyderabad as per the instructions of Government, resulting in understatement of Revenue Expenditure to that extent.

The issues highlighted above are very serious and have vitiated the true and fair view of accounts of the Government.

1.14.1 Components of Fiscal deficit and its financing pattern

The composition and financing of fiscal deficit are shown in **Table 1.25:**

Table 1.25: Components of fiscal deficit and their financing pattern

Sl. No.	Particulars	(₹ in crore)				
		2014-15	2015-16	2016-17		
		Net	Net	Receipts	Disbursements	Net
A	Decomposition of Fiscal Deficit (1 to 4)	(-)9,410	(-)18,856	82,974	1,18,255	(-)35,281
1	Revenue Surplus	369	238	82,818	81,432	1,386
2	Capital Expenditure	(-)8,373	(-)13,590	-	33,371	(-)33,371

Sl. No.	Particulars	2014-15	2015-16	2016-17		
		Net	Net	Receipts	Disbursements	Net
3	Net Loans and Advances	(-)1,406	(-)5,145	156	3,402	(-)3,246
4	Interstate Settlements	---	(-)359	-	50	(-)50
B	Financing Pattern of Fiscal Deficit					
1	Net Borrowings from Consolidated Fund	7,853	14,653	44,819	15,568	29,251
a	Market Borrowings*	7,767	13,883	31,775	2,717	29,058
b	Loans from GoI	86	770	956	763	193
2	Net Public Account	1,724	4,098	1,63,836	1,57,979	5,857
a	Small Savings, PF etc.	268	862	2,417	1,348	1,069
b	Reserve Funds	92	380	1,457	1,337	120
c	Deposits and Advances	2,159	2,222	43,378	41,460	1,918
d	Suspense and Misc.	199	772	93,946	91,041	2,905
e	Remittances	(-)994	(-)138	22,638	22,793	(-)155
3	Contingency Fund	50	-	-	0.09	(-)0.09
4	Accretion to Cash Balance	(-)117	105**	6,030	5,857	173

Source: Finance Accounts. *Includes borrowings from other institutions, ** Figures taken are due to rounding.

It can be seen that capital expenditure mostly accounted for the Fiscal deficit (94.59 per cent) while market borrowings financed 82.36 per cent of the Fiscal deficit.

1.14.2 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit¹⁶ and capital expenditure (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 expenditure 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 (per cent)
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
2016-17	10,151	33,371	3,402+50	(-)26,672	30.42

Source: Finance Accounts

During the year 2016-17, the State generated some primary revenue surplus which was applied towards meeting the requirement of capital expenditure. As can be seen from Table 1.26, the primary revenue surplus met 30 per cent of the capital expenditure. In other words, the non-debt receipts of the State (₹ 82,974 crore) met a significant part of the capital expenditure.

¹⁶ See glossary

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 2017 are given in **Appendix 1.10**.

1.16 Significant Findings

The State registered revenue surplus of ₹1,386 crore during 2016-17. The revenue surplus was overstated by ₹6,778 crore on account of irregular accounting. Thus, the State had in revenue deficit of ₹5,392 crore in 2016-17. Fiscal deficit (₹35,281 crore) which stood at 5.46 per cent of Gross State Domestic Product (GSDP) was understated by ₹2,500 crore due to crediting of borrowed funds as Revenue Receipts.

The ratio of fiscal deficit to GSDP excluding amount transferred under Ujwal DISCOM Assurance Yojana (UDAY) scheme (₹7,500 crore) was 4.3 per cent. This exceeded the ceiling of 3.5 per cent stipulated for 2016-17 by the 14th Finance Commission and targeted in Medium Term Fiscal Policy Statement (MFPS) of the State under Fiscal Responsibility and Budget Management (FRBM) legislation.

Under UDAY scheme, against ₹8,931.51 crore borrowed through UDAY bonds during the year. Government released an amount of ₹7,500 crore only to DISCOMs to end of the year. The entire amount transferred to DISCOMs has been booked under Capital Expenditure as equity. Booking of ₹3,750 crore (50 per cent of ₹7,500 crore released to DISCOMs) as equity instead of grant resulted in overstatement of revenue surplus to that extent. Bank/Financial Institutions had not issued any new bonds as stipulated in the UDAY Scheme for the remaining balance loans of DISCOMs.

Capital expenditure (₹33,371 crore) was more than the Budget Estimates (₹29,313 crore). Its ratio to total expenditure stood at 28.22 per cent which was higher than the combined average (19.70 per cent) of General Category States. The capital expenditure of the State excluding ₹7,500 crore transferred to DISCOMs under UDAY scheme was ₹25,871 crore.

During the year, revenue expenditure accounted for 69 per cent of the State's aggregate expenditure, which was in the nature of current consumption, leaving only 31 per cent for investment in infrastructure and asset creation.

Devolution to the State was enhanced to the tune of ₹2,525 crore during 2016-17 on the basis of 14th Finance Commission recommendations. Audit noted that additional devolution led to increase in revenue expenditure by ₹5,536 crore over previous year.

During 2016-17, Government earned a meagre return of 0.54 per cent on its investments in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives. These investments were funded mainly through borrowings on which it paid interest at 7.40 per cent. Investments (₹13,075 crore) increased 10 times (₹11,747 crore)

over previous year (₹1,329 crore), the increase in return on investments was negligible at rupees one crore, indicating non-performing investments. The current level of recovery of loans was low with a significant gap between disbursements (₹3,402 crore) and recovery (₹156 crore).

The maturity profile of Debt as on 31 March 2017 indicated that State has to repay 49 per cent of debt amounting to ₹56,388 crore within the next 7 years.

The repayment of Debt as percentage of tax revenue increased from 7.12 during 2015-16 to 32.16 during 2016-17.