

This Chapter provides an audit perspective on the finances of the State Government during 2018-19 and analyses changes in major fiscal aggregates relative to 2017-18 keeping in view overall trends during the preceding four years.

The analysis is based on the details contained in the Finance Accounts of Government of Telangana. A profile of the State with demographic and other details is in *Appendix 1.1*. The structure of the Government Accounts is explained in *Part A* and the layout of the Finance Accounts in *Part B* of *Appendix 1.2*.

1.1 Gross State Domestic Product (GSDP)

The Gross State Domestic Product (GSDP)¹ of Telangana in 2018-19 at current prices was ₹8,65,688 crore. The trends in annual growth of Gross Domestic Product (GDP) of India and GSDP of the State at current prices and constant prices (Base year: 2011-12) are given in *Table 1.1*. Growth of GSDP in Telangana was higher than the all-India average at both current and constant prices.

Table 1.1: GDP of India and GSDP of the State

Year	2015-16 (TRE)	2016-17 (SRE)	2017-18 (FRE)	2018-19 (AE)
Current Prices				
India's GDP (₹ in crore)	1,37,71,874	1,53,62,386	1,70,95,005	1,90,10,164
Growth rate of GDP (<i>per cent</i>)	10.5	11.5	11.3	11.2
State's GSDP (₹ in crore)	5,77,902	6,59,033	7,53,811	8,65,688
Growth rate of GSDP (<i>per cent</i>)	14.24	14.04	14.38	14.84
Constant Prices (Base year – 2011-12)				
India's GDP (₹ in crore)	1,13,69,493	1,22,98,327	1,31,79,857	1,40,77,586
Growth rate of GDP (<i>per cent</i>)	8.0	8.2	7.2	6.8
State's GSDP (₹ in crore)	4,64,542	5,08,156	5,59,750	6,18,544
Growth rate of GSDP (<i>per cent</i>)	11.58	9.39	10.15	10.50

Source: Ministry of Statistics and Programme Implementation (figures as on 01 August 2019 and 02 September 2019 for GDP); TRE: Third Revised Estimates; SRE: Second Revised Estimates; FRE: First Revised Estimates; AE: Advance Estimates

1.2 Summary of Fiscal Transactions

Table 1.2 presents the summary of fiscal transactions of State Government during 2018-19 *vis-à-vis* 2017-18 and 2016-17. Further details of receipts and disbursements as well as overall fiscal position during 2018-19 are given in *Appendix 1.3*. Time series data of Government Finances for the years 2014-19 are given in *Appendix 1.4*.

¹ Gross Domestic Product (GDP) and Gross State Domestic Product (GSDP) refers to the market value of all officially recognised final goods and services produced within the Country and the State respectively in a given period of time, accounted without duplication and are an important indicator of the Country and State's economy.

Table 1.2: Summary of Fiscal Transactions in 2016-19

(₹ in crore)

Receipts				Disbursements			
	2016-17	2017-18	2018-19		2016-17	2017-18	2018-19
Section A – Revenue Account²							
Tax Revenue	48,408	56,520	64,674	General Services	25,125	30,872	34,199
Non-Tax Revenue	9,782	7,825	10,007	Social Services	35,286	37,260	39,721
Share of Union Taxes/Duties	14,876	16,420	18,561	Economic Services	20,949	17,200	23,158
Grants from Government of India	9,752	8,059	8,178	Grants-in-Aid and Contributions	72	33	5
Total Revenue Receipts	82,818	88,824	1,01,420	Total Revenue Expenditure	81,432	85,365	97,083
Section B – Capital Account³ and Others							
Miscellaneous Capital Receipts	--	--	---	Capital Expenditure	33,371	23,902	22,641
Recoveries of Loans and Advances	156	138	66	Loans and Advances disbursed	3,402	6,209	8,706
Public Debt ⁴ Receipts*	44,819	49,153	50,962	Repayment of Public Debt*	15,568	27,471	28,716
Net of inter-state Settlement ⁵	--	--	---	Net of inter-state Settlement	50	186	5
Contingency Fund	--	--	0.09	Contingency Fund	0.09	--	2.10
Public Account Receipts	1,09,094	1,06,511	1,14,152	Public Account Disbursements	1,05,368	98,664	1,09,222
Opening Cash Balance	6,468	4,164	6,993	Closing Cash Balance	4,164	6,993	7,218
Grand Total	2,43,355	2,48,790	2,73,593	Grand Total	2,43,355	2,48,790	2,73,593

Source: Finance Accounts

* excluding Ways and Means Advances⁶, Public Debt receipts are ₹32,731 crore in 2016-17, ₹26,231 crore in 2017-18 and ₹29,139 crore in 2018-19; Repayment of Public Debt was ₹3,480 crore in 2016-17, ₹4,549 crore in 2017-18 and ₹6,893 crore in 2018-19

² Revenue Account is the account of the current income and expenditure of the State. The income is derived mainly from taxes and duties, fees for services rendered, fines and penalties, revenue from Government estates such as forests and other miscellaneous items

³ Capital Account is the account of expenditure of a capital nature such as construction of buildings, laying of roads, irrigation and electricity projects. Such expenditure is met from sources other than current revenues, e.g. loans, surplus revenue of previous years, if any, and capital receipts. Capital Receipts include Miscellaneous Capital Receipts, Recoveries of Loans and Advances etc.

⁴ Public Debt comprises loans raised by Government such as market loans, loans from the Life Insurance Corporation of India, etc., and loans and advances from the Central Government

⁵ Inter-State Settlement is intended to provide for the accounting of sums due by one State Government to another under the financial settlement, on the setting up of new States or under the States' Reorganisation Acts as well as the financial settlement between the centre and foreign countries

⁶ Ways and Means Advances are temporary advances extended by RBI to the Government. These are meant to bridge the gap between expenditure and receipts. They are not a source of finance but are meant to provide support, for purely temporary difficulties that arise on account of mismatch/shortfall in revenue or other receipts for meeting Government liabilities

Composition and application of resources of the Consolidated Fund of the State in the year 2018-19 is given in **Appendix 1.5**.

The trends of Revenue Receipts (RR) / Revenue Expenditure (RE) / Capital Expenditure(CE) relative to GSDP at current as well as constant prices⁷ are given in **Table 1.3**.

Table 1.3: Trends in RR / RE / CE relative to GSDP

Particulars	2015-16	2016-17	2017-18	2018-19
Gross State Domestic Product at current prices	5,77,902	6,59,033	7,53,811	8,65,688
Revenue Receipts (RR) relative to GSDP				
RR at current prices (₹ in crore)	76,134	82,818	88,824	1,01,420
Rate of growth of RR at current prices (<i>per cent</i>)	*	8.78	7.25	14.18
RR at constant prices (₹ in crore)	61,200	63,858	65,957	72,466
Rate of growth of RR at constant prices (<i>per cent</i>)	*	4.34	3.29	9.87
RR/GSDP	13.17	12.57	11.78	11.72
Revenue Expenditure (RE) relative to GSDP				
RE at current prices (₹ in crore)	75,896	81,432	85,365	97,083
Rate of growth of RE at current prices (<i>per cent</i>)	*	7.29	4.83	13.73
RE at constant prices (₹ in crore)	61,008	62,789	63,389	69,367
Rate of growth of RE at constant prices (<i>per cent</i>)	*	2.92	0.95	9.43
RE/GSDP	13.13	12.36	11.32	11.21
Capital Expenditure (CE) relative to GSDP				
CE at current prices (₹ in crore)	13,590	33,371	23,902	22,641
Rate of growth of CE at current prices (<i>per cent</i>)	*	145.56	(-) 28.37	(-)5.28
CE at constant prices (₹ in crore)	10,924	25,731	17,749	16,177
Rate of growth of CE at constant prices (<i>per cent</i>)	*	135.54	-31.02	-8.85
CE/GSDP	2.35	5.06	3.17	2.62

Source: Finance Accounts and GSDP data from MoSPI (figures as on 01 August 2019) of respective years

* Not compared with 2014-2015, as figures for 2014-15 are for only 10 months (due to bifurcation of Andhra Pradesh State (combined) after 2 June 2014)

From the above table the following can be observed:

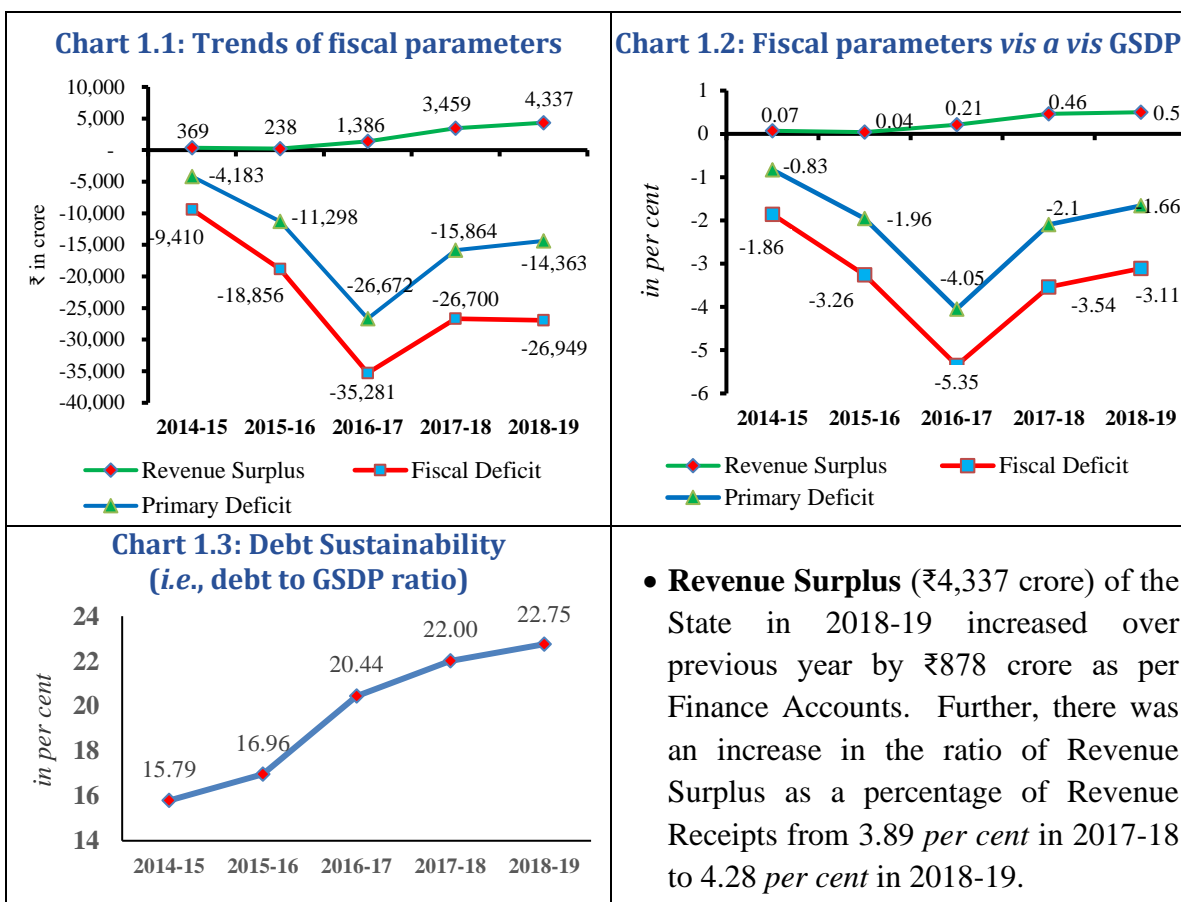
- While the GSDP at current prices was growing at a rate of more than 14 *per cent* from 2015-16 to 2018-19, the growth rates of Revenue Receipts and Revenue Expenditure was much lower in comparison to growth rate of GSDP in earlier years. However, the growth rates of both Revenue Receipts and Revenue Expenditure have risen in 2018-19 and came closer to the growth rate of GSDP.
- In comparison to 2015-16, the GSDP in 2018-19 has increased by 49.80 *per cent*, whereas the Revenue Receipts and Revenue Expenditure increased by 33.21 *per cent* and 27.91 *per cent* respectively.
- Both Revenue Receipts and Revenue Expenditure decreased marginally in 2018-19 as a *percentage* of GSDP.
- Capital Expenditure in 2018-19 has decreased in comparison to preceding year 2017-18 as well in comparison to GSDP.

⁷ Constant prices figures for Revenue Receipts, Revenue Expenditure and Capital Expenditure are arrived by using a deflator *i.e.*, ratio of GSDP at constant prices to GSDP at current prices for each year

1.3 Review of Fiscal Situation

1.3.1 Fiscal parameters

Three key fiscal parameters viz., (i) Revenue Surplus⁸ / Deficit, (ii) Fiscal Deficit⁹ and (iii) Primary Deficit¹⁰ help in assessing the fiscal situation of the Government. The way these deficits are financed assists in assessing the fiscal health of the Government. Trends in fiscal parameters (*Chart 1.1* and *Chart 1.2*) as per Finance Accounts indicate that the State's performance in 2018-19 had marginally improved over the preceding year. On the other hand, trends in Debt Sustainability *i.e.*, Debt as a percentage in GSDP has increased (*Chart 1.3*) as compared to preceding year.



Source: Finance Accounts

- **Fiscal Deficit** (₹26,949 crore), in 2018-19, has increased by ₹249 crore in comparison to preceding year (₹26,700 crore). Fiscal Deficit as a *percentage* of GSDP was 3.11 per cent, which is within the ceiling of 3.25 per cent¹¹ fixed by XIV Finance Commission and 3.5 per cent target set out in Medium Term Fiscal Policy Statement of the State Government as per FRBM Act.

⁸ Revenue Surplus = Revenue Receipts (-) Revenue Expenditure

⁹ Fiscal Deficit = Revenue Expenditure + Capital Expenditure + Net Loans and Advances (-) Revenue Receipts (-) Miscellaneous Capital Receipts

¹⁰ Primary Deficit = Fiscal Deficit (-) interest payments

¹¹ Ministry of Finance, Department of Expenditure letter No.F.No.40(6)/PF-S/2017-18, dated 11 September 2018

Fiscal Deficit position improved over previous year mainly due to decrease in Capital Expenditure by ₹1,261 crore.

- **Primary Deficit** (₹14,363 crore) in 2018-19 decreased by nine *per cent* in comparison to preceding year (₹15,864 crore). Though Primary Deficit, decreased, the non-debt receipts¹² (₹1,01,486 crore) were, however, not sufficient to meet Primary Expenditure¹³ (₹1,15,849 crore).
- As per XIV Finance Commission recommendations, the total outstanding **Debt**¹⁴ to **GSDP ratio** (in *per cent*) was to be less than 23.33 *per cent* for the year 2018-19. As per Medium Term Fiscal Policy Statement (MTFP) of the State Government, the total outstanding liabilities were to be less than 25 *per cent* of the GSDP. In 2018-19, the total outstanding liabilities (₹1,96,963 crore) of Telangana were 22.75 *per cent* of the GSDP, which is within the ceilings of both XIV Finance Commission and MTFP Statement. The outstanding liabilities, however, grew by 19 *per cent* over the previous year, indicating that the growth rate of liabilities was higher than growth rate of GSDP.

Impact on Revenue Surplus of State Government consequent to the incorrect / inadequate bookings is given in **Table 1.4**:

Table 1.4: Impact on Revenue Surplus and Fiscal Deficit

(₹ in crore)

Particulars	Impact on Revenue Surplus	Impact on Fiscal Deficit
(i) Overstatement of Revenue Receipts		
Lapsing of loan amounts in PD accounts as Non-Tax Revenue to Government without corresponding reduction in outstanding loans given ¹⁵ (refer Box 1.1, paragraph 1.3.1)	2,300.00	--
(ii) Understatement of Revenue Expenditure		
Providing loans instead of Grants in Aid to Autonomous Bodies, which do not have own resources of serving debt, for implementation of Government schemes ¹⁶ (refer paragraph 1.6.3)	3,908.80	--
Short contribution to Guarantee Redemption Fund	188.56	188.56
Non provision of interest on Interest bearing Reserve Funds and Deposits ¹⁷	29.30	29.30

¹² Non-debt receipts = Revenue Receipts + Miscellaneous Capital receipts + Recoveries of Loans and Advances

¹³ Primary Expenditure = (Revenue Expenditure – Interest payments) + Capital Expenditure + Loans and Advances + Inter State Settlements

¹⁴ Total outstanding debt includes Public Debt and Public Account Liabilities

¹⁵ (i) Telangana State Scheduled Castes Cooperative Development Corporation Limited: ₹1,500 crore and

(ii) Telangana State Scheduled Tribes Cooperative Finance Corporation Limited: ₹800 crore

¹⁶ (i) Telangana State Scheduled Castes Cooperative Development Corporation Limited: ₹1,500 crore, (ii) Telangana State Scheduled Tribes Cooperative Finance Corporation Limited: ₹900 crore, (iii) Arogyasri Health Care Trust: ₹621.70 crore, (iv) Telangana State Sheep and Goat Development Cooperative Federation Limited: ₹493.32 crore and (v) Telangana State Civil Supplies Corporation Limited: ₹393.78 crore

¹⁷ Interest liability not provided: (i) ₹23.96 crore on Deposits (₹299.50 crore) bearing interest in Defined Contribution Pension Scheme calculated at eight *per cent* (General Provident Fund Interest Rate) and (ii) ₹5.34 crore on Reserve Funds bearing interest (State Disaster Response Fund: ₹66.71 crore) calculated at eight *per cent* (average Ways and Means Advance Rate)

Particulars	Impact on Revenue Surplus	Impact on Fiscal Deficit
(iii) Understatement of Revenue Expenditure due to misclassification		
Assistance to Local Bodies and other institutions for creation of assets under Capital in the Government accounts instead of under Revenue ¹⁸	2,622.00	--
Classification of Minor works under Capital	351.20	--
Classification of incidental charges of Rythu Bandhu programme under Capital	60.00	--
Classification of Grants-in-Aid under Capital	48.60	--
(iv) Overstatement of Revenue Expenditure		
Decretal charges on Land Acquisition for irrigation projects classified under Revenue section instead of under Capital	(-)26.49	--
Total	9,481.97	217.86

Source: Finance Accounts

As a result, the Revenue Surplus was overstated by ₹9,481.97 crore and Fiscal Deficit was understated by ₹217.86 crore. Effectively, there was a Revenue Deficit of ₹5,144.97 crore instead of Revenue Surplus and the actual Fiscal Deficit was to be ₹27,166.86 crore (3.14 per cent of GSDP).

It is to be noted that while short contribution to Statutory Funds was persistent during the past few years, the provision of loans to institutions without definite streams to service their debt is relatively a recent phenomenon.

Box 1.1: Providing loans to Autonomous Bodies, not having revenue streams for debt servicing, for implementing Government Schemes

Report of the Comptroller and Auditor General of India on Telangana State Finances for the year 2017-18 mentioned that the State Government advanced loans amounting to ₹2,300 crore to two Autonomous Bodies (ABs)¹⁹, which were implementing various programmes taken up by the State Government for the benefit of Schedule Castes and Schedule Tribes. No terms and conditions like repayment period, rate of interest, etc., were stipulated while sanctioning the loans indicating that they were indirect subsidies. Moreover, these ABs did not have any definite revenue stream to service the loan. As a result, Revenue Expenditure was understated to that extent apart from overstatement of Revenue Surplus and Outstanding Loans in that year. These amounts were in the Personal Deposit (PD) Accounts of the ABs as of 31 March 2018.

In the year 2018-19, it was observed in audit, that these amounts of (₹1,500 crore and ₹800 crore) lying in PD accounts of these two ABs lapsed and were credited to

¹⁸ (i) Mahatma Gandhi National Rural Employment Guarantee Scheme (₹1,401.38 crore), (ii) Swachh Bharat Mission – Gramin (₹1,078.33 crore), (iii) Constituency Development Fund (₹74.16 crore), (iv) Purchase of surgical consumables (₹60.50 crore) and (v) Rashtriya Madhyamika Shiksha Abhiyan (₹7.63 crore)

¹⁹ (i) Telangana State Scheduled Castes Cooperative Development Corporation Limited: ₹1,500 crore and (ii) Telangana State Scheduled Tribes Cooperative Finance Corporation Limited: ₹800 crore

Government account as Revenue Receipts without corresponding reduction in the outstanding loan amounts.

Lapsing of amounts, which had been transferred to PD accounts as loans in the preceding year, as Revenue Receipts without corresponding change in the outstanding loan amounts resulted in overstatement of both Revenue Receipts and Assets of the Government in the form of outstanding Loans to a tune of ₹2,300 crore.

On the other hand, the State Government continued with provision of loans to these two ABs in 2018-19 also by providing ₹2,400 crore²⁰, thus taking total of outstanding loans to ₹4,700 crore. The Government stated (January 2020) that it was consciously providing loans to these institutions.

It was further observed in audit that the State Government has provided such similar loans amounting to ₹1,508.80 crore in 2018-19 to three other ABs²¹, which were also implementing Government schemes.

Providing funds in the form of loans to ABs, which do not have their own revenue resources for debt servicing and were implementing Government schemes, instead of in the form of either Grants-in-Aid or Subsidies resulted in understatement of Revenue Expenditure and overstatement of Revenue Surplus.

1.3.1.1 Composition and Financing of Fiscal Deficit

Fiscal Deficit represents the total financing the State requires (predominantly by drawing on its cash and investment balances with the RBI and by borrowing) to meet the excess of Revenue and Capital Expenditure (including Loans and Advances) over Revenue and non-debt receipts. The composition and financing of fiscal deficit are given in **Table 1.5**:

Table 1.5: Components of Fiscal Deficit and their financing pattern

(₹in crore)

Sl. No.	Particulars	2015-16	2016-17	2017-18	2018-19		
		Net	Net	Net	Receipts	Disburse-ments	Net
A	Decomposition of Fiscal Deficit (1 to 4)	(-)18,856	(-)35,281	(-)26,700	1,01,486	1,28,435	(-)26,949
1	Revenue Surplus	238	1,386	3,459	1,01,420	97,083	4,337
2	Capital Expenditure	(-)13,590	(-)33,371	(-)23,902	--	22,641	(-)22,641
3	Net Loans and Advances	(-)5,145	(-)3,246	(-)6,071	66	8,706	(-)8,640
4	Interstate Settlements	(-)359	(-)50	(-)186	--	5	(-)5

²⁰ (i) Telangana State Scheduled Castes Cooperative Development Corporation Limited: ₹1,500 crore; (ii) Telangana State Scheduled Tribes Cooperative Finance Corporation Limited : ₹900 crore

²¹ (i) Arogyasri Health Care Trust: ₹621.70 crore, (ii) Telangana State Sheep and Goat Development Cooperation Federation Limited: ₹493.32 crore and (iii) Telangana State Civil Supplies Corporation Limited: ₹393.78 crore

Sl. No.	Particulars	2015-16	2016-17	2017-18	2018-19		
		Net	Net	Net	Receipts	Disbursements	Net
B	Financing Pattern of Fiscal Deficit						
1	Net Borrowings	14,653	29,251	21,682	50,962	28,716	22,246
a	Market Borrowings*	13,883	29,058	21,458	50,528	27,882	22,646
b	Loans from GoI	770	193	224	434	834	(-)400
2	Net of Public Account	5,476	3,726	7,847	1,14,152	1,09,222	4,930
a	Small Savings, PF, etc.	862	1,069	976	2,427	1,582	845
b	Reserve Funds	1,126	440	278	1,598	68	1,530
c	Deposits and Advances	2,222	1,918	5,860	62,595	59,494	3,100
d	Suspense and Miscellaneous	1,405	454	(-)573	29,672	30,332	(-)660
e	Remittances	(-)139	(-)155	1,306	17,860	17,746	115
3	Contingency Fund	---	(-)0.09	---	0.09	2.10	(-)2.01
4	Total (1 to 3)	20,129	32,977	29,529	1,65,114	1,37,940	27,174
5	Increase (-) / Decrease (+) in Cash Balance	(-)1,273	2,304	(-)2,829	---	---	(-)225
6	Overall Surplus/ Deficit (4+5)	18,856	35,281	26,700	---	---	26,949

Source: Finance Accounts

* Includes borrowings from other institutions

It can be seen from the above that Capital Expenditure accounted for 84 per cent of the Fiscal Deficit, which was mainly financed by Market borrowings. This, however, needs to be viewed in the background that the State Government misclassified ₹9,508.46 crore of Revenue Expenditure as Capital Expenditure as discussed in *paragraph 1.3.1* above.

1.3.1.2 Quality of Deficit / Surplus

The bifurcation of Primary Deficit (*Table 1.6*) indicates the extent to which deficit has been on account of enhancement of Capital Expenditure, which is desirable to improve productive capacity of the Government.

Table 1.6: Primary Deficit/ Surplus – bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary Revenue Expenditure ²²	Capital Expenditure	Loans and Advances and Inter-State settlements	Primary Expenditure	Primary Revenue Surplus ²³	Primary Revenue Surplus / Capital Expenditure (per cent)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8
2015-16	76,222	68,338	13,590	5,592	87,520	7,884	58.01
2016-17	82,974	72,823	33,371	3,452	1,09,646	10,151	30.42
2017-18	88,962	74,529	23,902	6,395	1,04,826	14,433	60.38
2018-19	1,01,486	84,497	22,641	8,711	1,15,849	16,989	75.04

Source: Finance Accounts

²² Primary Revenue Expenditure = Revenue Expenditure – Interest payments

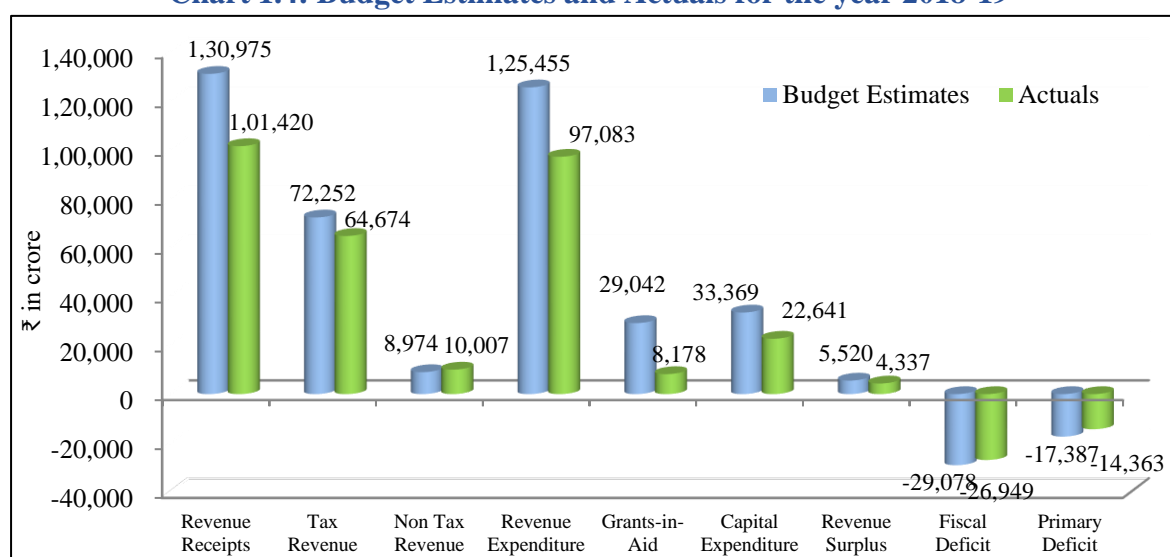
²³ Primary Revenue Surplus = Non-Debt Receipts (i.e., Revenue Receipts + Miscellaneous Capital Receipts + Recovery of Loans and Advances) – Primary Revenue Expenditure

- As can be seen from above, the non-debt receipts have not been sufficient to meet the Primary Expenditure.
- The Primary Revenue Surplus (₹16,989 crore) is equivalent to 75 per cent of the Capital Expenditure (₹22,641 crore) in 2018-19, an improvement over previous year.

1.3.2 Budget Estimates and Actuals

Changes of actual receipts and expenditure against budget estimates, either due to unanticipated and unforeseen events or under/over estimation of expenditure or revenue at the stage of budget preparation, adversely impacts the desired fiscal objectives. Significant variations were noticed between Budget Estimates and Actuals as shown in **Chart 1.4**:

Chart 1.4: Budget Estimates and Actuals for the year 2018-19



Source: Budget Estimates and Finance Accounts

It can be seen from above that the Revenue Receipts fell short of Budget Estimates (BE) by 23 per cent. Tax Revenue fell short of BE by 10 per cent mainly due to shortfall in GST (12 per cent) and Taxes on Sales, Trade, etc., (22 per cent). Shortfall in Grants-in-Aid was 72 per cent, which was mainly due to “Nil” receipts under, Grants for Special Package and additional Central Assistance (BE: ₹16,350 crore), Grants for Local Bodies (BE: ₹1,982 crore), National Employee Guarantee Fund (BE: ₹1,000 crore), Urban Rejuvenation Mission and Mission for Development of Smart Cities (₹365 crore). It is thus, necessary that a more reliable method of forecasting revenues is adopted to achieve better planning of expenditure.

- Non-Tax Revenue was higher than the BE by 11.50 per cent. The increase in Non-Tax Revenue was mainly due to increase in receipts in Mineral concession Fees, Rents and Royalties under Non-ferrous Mining and Metallurgical Industries (increase of ₹593 crore in comparison to BE of ₹3,254.06 crore), receipts from Guarantee Fees under Miscellaneous General Services (₹340 crore in comparison to BE of ‘nil’) and from lapsing of outstanding loans (₹2,300 crore in comparison to BE of ‘nil’) as discussed in **Box 1.1** (refer **Paragraph 1.3.1**).
- Revenue Expenditure was less than the BE by 22.60 per cent. The maximum shortfall in Revenue Expenditure was due to shortfall mainly under Irrigation and Flood Control

(₹7,860 crore i.e., 95 per cent) and Water Supply, Sanitation, Housing and Urban Development (₹5,858 crore i.e., 65 per cent).

- Capital Expenditure fell short of BE by 32 per cent mainly due to shortfall in General Economic Services (₹2,637 crore i.e., 79 per cent), Transport (₹1,593 crore i.e., 61 per cent), Welfare of SCs/STs/OBCs and Minorities (₹1,487 crore i.e., 71 per cent), Health and Family Welfare (₹629 crore i.e., 58 per cent) and Social Welfare and Nutrition (₹35 crore i.e., 85 per cent).
- Revenue Surplus was lower than BE by 21 per cent. Fiscal Deficit and Primary Deficit were higher than BE by seven per cent and 17 per cent respectively.

Recommendation 1: *The Finance Department should rationalise the budget preparation exercise, so that the gap between the budget estimates and actuals is minimised.*

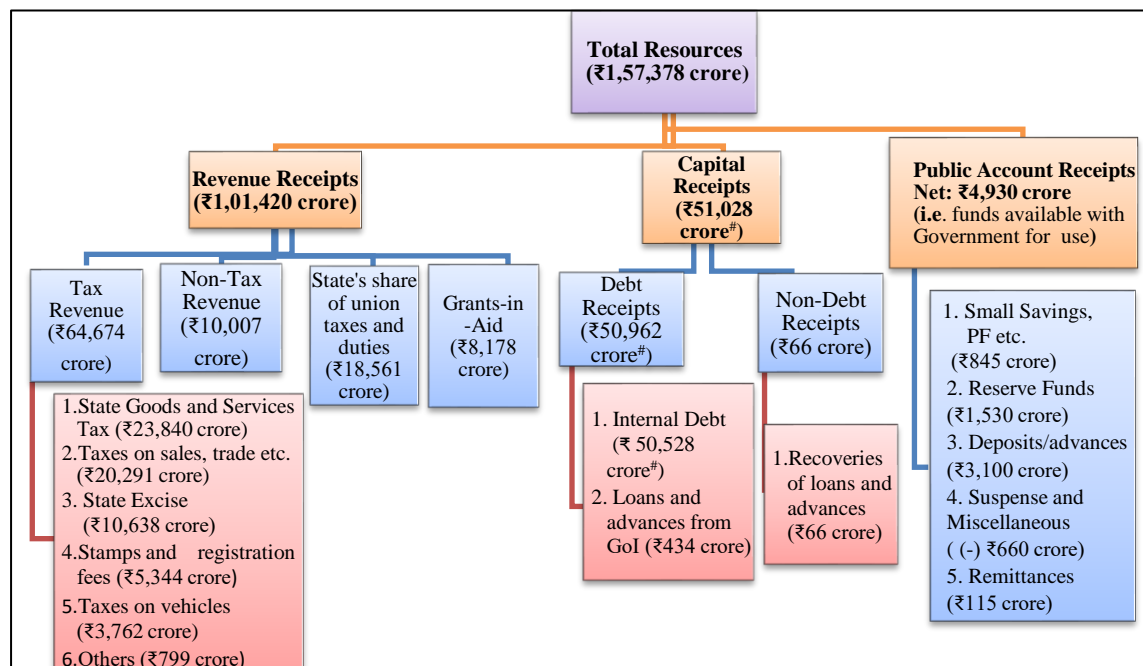
1.4 Financial Resources of the State

1.4.1 Resources of the State as per Annual Finance Accounts

Revenue Receipts consists of Tax Revenues, Non-Tax Revenues, State's share of Union taxes and duties, and Grants-in-Aid from Government of India (GoI). Receipts under Capital comprise of non-debt Capital Receipts and Debt Capital Receipts. Non-debt Capital Receipts include miscellaneous Capital Receipts such as proceeds from disinvestments, recoveries of Loans and Advances, while Debt Capital Receipts include debt receipts from internal sources (market loans, borrowings from financial institutions / commercial banks) and Loans and Advances from GoI. Public Accounts Receipts include funds available with Government for use i.e., Small Savings, Provident Fund, Reserve Funds, Deposits and Advances etc.

The overall composition of the State resources (₹1,57,378 crore) in 2018-19 is given in **Chart 1.5**.

Chart 1.5: Composition of Resources in 2018-19

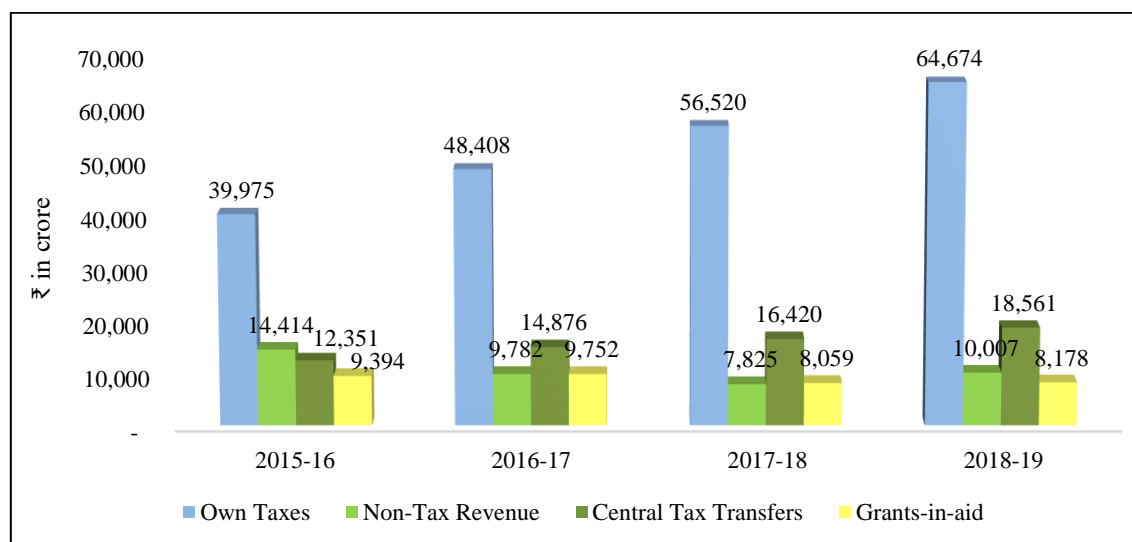


Source: Finance Accounts, # includes Ways and Means Advances of ₹21,823 crore

1.4.2 Revenue Receipts

Statement 14 of the Finance Accounts gives details of Revenue Receipts of the Government. The trends and composition of the Revenue Receipts during the years 2015-16 to 2018-19 are in **Chart 1.6**.

Chart 1.6: Composition of Revenue Receipts during the years 2015-16 to 2018-19



Source: Finance Accounts

It can be seen from the above chart that the Own Tax revenue and Central tax transfers have been increasing; whereas Non-Tax Revenue and Grants-in-Aid which saw a dip in 2017-18 were higher in 2018-19. The trends in Revenue Receipts relative to GSDP are presented in **Table 1.7**:

Table 1.7: Trends in Revenue Receipts relative to GSDP during 2014-19

Description of parameter	2014-15	2015-16	2016-17	2017-18	2018-19
Gross State Domestic Product (GSDP) (₹ in crore)	5,05,849	5,77,902	6,59,033	7,53,811	8,65,688
Rate of Growth of GSDP (in per cent)	---	14.24	14.04	14.38	14.84
Revenue Receipts (RR) (₹ in crore)	51,042	76,134	82,818	88,824	1,01,420
Rate of Growth of RR (in per cent)	---	49.16	8.78	7.25	14.18
RR/GSDP (in per cent)	10.09	13.17	12.57	11.78	11.72
State's Own Tax Revenue (OTR) (₹ in crore)	29,288	39,975	48,408	56,520	64,674
Rate of Growth of State's Own Tax Revenue (in per cent)	---	36.49	21.10	16.76	14.43
Buoyancy Ratios					
Revenue Buoyancy with respect to GSDP	---	3.45	0.63	0.50	0.96
State's Own Tax Revenue Buoyancy with respect to GSDP	---	2.56	1.50	1.17	0.97

Source: Finance Accounts and Ministry of Statistics and Programme Implementation for GSDP figures of respective years

From the table, it can be inferred that:

- Revenue buoyancy with reference to GSDP was higher in 2018-19 when compared to previous two years. However, it is still marginally less than ‘one’.
- The State’s Own Tax buoyancy with respect to GSDP was more than ‘one’ during the years 2015-16 to 2017-18. However, during 2018-19, it came down to below ‘one’, indicating less than optimum growth in Own Tax Revenue compared to the growth in GSDP.

1.4.2.1 State’s Own Resources

The State’s performance in mobilisation of resources is assessed in terms of Tax Revenue and Non-Tax Revenue, not including the State’s share in Central Taxes and Grants-in-Aid which is based on the recommendations of the Finance Commission.

State’s Own Tax Revenue

Components of State’s Own Tax Revenue are in **Table 1.8**:

Table 1.8: Components of State’s Own Tax Revenue

(₹ in crore)

	2015-16	2016-17	2017-18	2018-19	
	Actuals	Actuals	Actuals	Budget Projections	Actuals
State Goods and Services Tax	---	---	13,073	26,040	23,840
Taxes on Sales, Trade, etc.	29,847	34,235	25,107	25,942	20,291
State Excise	3,809	5,581	9,421	10,600	10,638
Taxes on Vehicles	2,309	3,394	3,590	3,950	3,762
Stamp Duty and Registration Fees	3,102	3,822	4,202	4,700	5,344
Land Revenue	104	7	4	5	0.42
Taxes on Goods and Passengers	33	11	88	---	189
Other Taxes	771	1,358	1,035	1,016	610
Total	39,975	48,408	56,520	72,253	64,674

Source: Finance Accounts

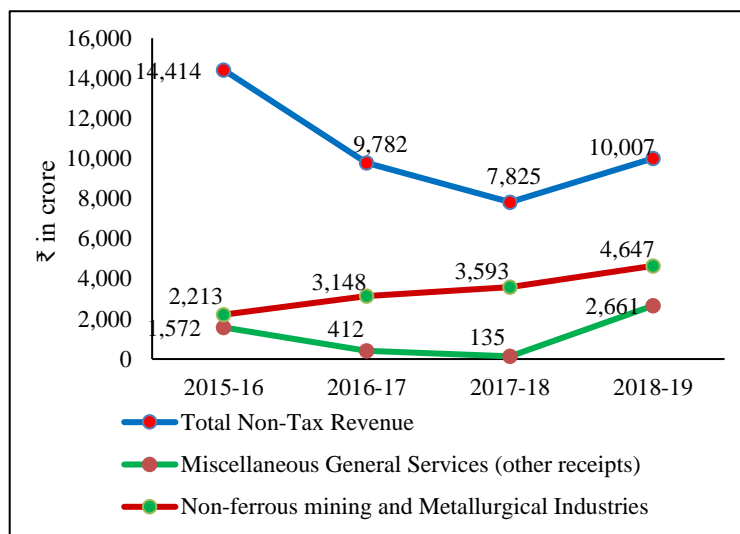
As seen from the above table, State’s Own Tax Revenue (SOTR) in 2018-19 was ₹64,674 crore and constituted 64 per cent of total Revenue Receipts. Tax Revenue grew by 14.43 per cent, at a rate marginally lower than the increase (14.84 per cent) in GSDP. The increase in State Goods and Services Tax (₹10,767 crore) was mainly due to higher receipts under ‘Input Tax Credit cross utilization of SGST and IGST’, ‘Advance apportionment from IGST’ and ‘Apportionment of IGST –Transfer-in of Tax component of SGST’.

Further, State’s Own Tax Revenue as a percentage of GSDP, which increased from 6.91 per cent in 2015-16 to 7.49 per cent in 2017-18, remained at the same level (7.47 per cent) in 2018-19 also.

Non-Tax Revenue

Non-Tax Revenue (NTR) accounts for receipts from services rendered and supplies made by various Departments of Government and interest receipts. NTR in 2018-19 was ₹10,007 crore and constituted 10 per cent of total Revenue Receipts. The increase (28 per cent) in NTR was due to increase in Other Receipts, receipts from Guarantee Fees, and receipts towards Mineral concession Fees, Rents and Royalties.

Chart 1.7: Non-Tax Revenue: 2015-16 to 2018-19



Source: Finance Accounts of years concerned

The following was observed in audit:

- There was a huge increase of 1,864 per cent under Other Receipts (₹2,660.71 crore) in 2018-19 as against ₹135.45 crore in 2017-18. This was mainly due to lapsing of amounts lying unutilised in PD accounts for more than one year, and includes ₹1,500 crore and ₹800 crore provided as loans in 2017-18 to Telangana State Scheduled Castes Development Corporation Limited and Telangana State Scheduled Tribes Cooperative Finance Corporation Limited (refer **Paragraph 1.3.1**).
- Revenue (₹4,646.94 crore) under the Non-ferrous Mining and Metallurgical Industries increased by 29 per cent during 2018-19 over the previous year (₹3,592.51 crore). Royalty from both, Major and Minor minerals increased considerably from ₹2,047 crore in 2017-18 to ₹2,483 crore in 2018-19 (21 per cent increase) and from ₹801 crore in 2017-18 to ₹1,339 crore in 2018-19 (67 per cent increase) respectively for Major and Minor minerals.
- Guarantee commission of ₹340 crore was received under Miscellaneous General Services from Telangana State Water Resources Infrastructure Development Corporation Limited for Guarantee given by the Government.

1.4.2.2 Efficiency in Tax collection

The efficiency in collection (measured in terms of cost of collection as a percentage of the Gross Revenue collection) of major taxes of the State remained almost constant compared to previous year (**Table 1.9**) in respect of Taxes on Vehicles, Stamps and Registration Fees, while there was improvement in the efficiency in respect of Taxes on Sales, Trade etc, State Goods and Services Tax and State Excise.

Table 1.9: Tax collected and cost of collection

		2015-16	2016-17	2017-18	2018-19
Taxes on Sales, Trade, etc., and SGST	Gross Revenue collection (₹ in crore)	29,847	34,235	40,068	44,130
	Cost of Collection (₹ in crore)	210	228	217	196
	<i>Percentage to Gross collection</i>	<i>0.70</i>	<i>0.67</i>	<i>0.54</i>	<i>0.44</i>
State Excise	Gross Revenue collection (₹ in crore)	3,809	5,581	9,421	10,638
	Cost of Collection (₹ in crore)	206	216	226	233
	<i>Percentage to Gross collection</i>	<i>5.41</i>	<i>3.87</i>	<i>2.40</i>	<i>2.19</i>
Taxes on Vehicles	Gross Revenue collection (₹ in crore)	2,309	3,394	3,589	3,762
	Cost of Collection (₹ in crore)	80	74	76	79
	<i>Percentage to Gross collection</i>	<i>3.46</i>	<i>2.18</i>	<i>2.12</i>	<i>2.10</i>
Stamps and Registration Fees	Gross Revenue collection (₹ in crore)	3,102	3,822	4,202	5,344
	Cost of Collection (₹ in crore)	62	68	69	89
	<i>Percentage to Gross collection</i>	<i>2.00</i>	<i>1.78</i>	<i>1.64</i>	<i>1.67</i>

Source: Finance Accounts

1.4.2.3 Goods and Services Tax (GST)

The State Government implemented Telangana Goods and Services Tax (TGST) Act with effect from 01 July 2017. The GST has four components viz., (i) GST receipts by the Centre (i.e., Central GST or CGST); (ii) GST receipts by the State (i.e., State GST or SGST); (iii) Integrated GST (IGST)²⁴, a tax on inter-State supply of Goods or Services or both by the Central Government and (iv) GST Compensation Cess²⁵. SGST is levied on intra-State supply of goods or services (except alcohol for human consumption and five specified petroleum products²⁶).

- (i) **CGST:** The State received ₹4,580.66 crore as share of net proceeds assigned to States under CGST during the year 2018-19.
- (ii) **SGST:** The receipts of the State through SGST was ₹23,840.18 crore²⁷.
- (iii) **IGST:** Telangana State received ₹36.56 crore per month as IGST for 10 months in 2018-19 up to January 2019 totalling to ₹365.50 crore. IGST for the months of February 2019 and March 2019 was not received.
- (iv) **GST Compensation:** According to GST (Compensation to the States) Act, 2017, the Central Government will compensate the States for loss of revenue arising on account of implementation of GST for a period of five years. The Compensation payable to the State shall be calculated for every financial year after the receipt of final revenue figures, as audited by the Comptroller and Auditor General of India. The projected revenue for any year of a State shall be calculated by applying the projected growth rate of (14 per cent per annum) over the base year (2015-16) revenue of the State.

²⁴ in respect of inter-State supply of Goods and Services, Integrated GST (IGST) is levied and collected by Government of India (GoI). The IGST so collected is apportioned between the Centre and the State where Goods and Services are consumed

²⁵ as per GST Compensation Cess Act, GST Compensation Cess is paid by GoI for a period of five years to the State in case the share of a State falls short of the revenue earned in the pre-GST regime

²⁶ Petroleum crude, High speed diesel, Motor spirit (Petrol), Natural gas and Aviation turbine fuel

²⁷ Includes (i) ₹20,912.60 crore as SGST, (ii) ₹1,873.47 crore as advance apportionment of IGST and (iii) ₹1,054.05 crore as apportionment of IGST-Transfer-in of Tax Component to SGST

The compensation was to be paid by GoI and to be received by the State considering the base figure of revenue of a State for the year 2015-16, escalated by 14 *per cent* per annum for the five years commencing from 01 July 2017. In case of Telangana, the revenue in the base year (2015-16) was ₹16,109 crore. Accordingly, Protected Revenue for the year 2018-19 was ₹23,866.19 crore²⁸.

The State received ₹23,840.18 crore as SGST and ₹1,073.30 crore as pre-GST tax collected during the year. Thus, the total amount received was ₹24,913.48 crore. As the collection of the State under SGST and taxes subsumed under SGST were more than the protected revenues for the year 2018-19, no GST Compensation was to be received.

With automation of collection of GST having taken place, it is essential for Audit to transition from sample checks to a comprehensive check of all transactions, to fulfil the CAG's constitutional mandate of certifying the Accounts. The required access to data is yet to be provided. Not having access to the data pertaining to all GST transactions has come in the way of comprehensively auditing the GST receipts. The accounts for the year 2018-19 are, therefore, certified on the basis of test audit, as was done when records were manually maintained, as a one-time exception.

1.4.2.4 State's share of Union Taxes

The different components of States share of Union Taxes during years 2015-16 to 2018-19 is given in **Table 1.10**, along with XIV Finance Commission projections for 2018-19 at a rate of 2.44 *per cent* of net proceeds of shareable Union Taxes and Duties.

Table 1.10: Different components of State's share of Union Taxes

(₹ in crore)

Component of State's share of Union taxes	2015-16	2016-17	2017-18	14 FC Projections for 2018-19	2018-19
Corporation Tax	3,870	4,763	5,027	5,393	6,454
Customs	1,979	2,049	1,657	946	1,315
Income Tax	2,675	3,310	4,245	4,772	4,753
Other Taxes and Duties on commodities and services	11	0	0	0	10
Service Tax	2,153	2,404	1,872	0	172
Wealth Tax	1	10	0	(-) 0.17	2
Union Excise Duties	1,662	2,340	1,731	922	874
CGST	NA	NA	231	6,181	4,581
IGST	NA	NA	1,657	512	366
Other Taxes on Income and Expenditure	0	0	0	0	34
Grand total	12,351	14,876	16,420	18,726	18,561
Devolution as <i>percentage</i> of Revenue Receipts of the State	16.22	17.96	18.49	--	18.30

Source: Finance Accounts

NA: Not applicable due to implementation of GST Act with effect from 1 July 2017

²⁸ Calculated at compounding increase of 14 *per cent* per annum for three years viz., 2016-17, 2017-18 and 2018-19 from the base year revenue of ₹16,109 crore (*i.e.*, ₹16,109 x 1.14 x 1.14 x 1.14 = ₹23,866.19 crore)

As seen from the above table, the devolution as a *percentage* of Revenue Receipts of the State has marginally decreased compared to preceding year. The devolution including Service Tax for 2018-19 is marginally less than the XIV Finance Commission projections of ₹18,726 crore. The higher devolutions in respect of Corporation Tax and Customs than the projections of XIV Finance Commission were undermined by lower receipts on account of devolution of CGST.

1.4.2.5 Grants-in-Aid from Government of India

The details of Grants-in-Aid and its composition during the years 2015-16 to 2018-19 are in **Table 1.11**.

Table 1.11: Grants-in-Aid from Government of India

(₹ in crore)

Particulars	2015-16	2016-17	2017-18	2018-19	
	Actuals	Actuals	Actuals	BE	Actuals
Non-Plan Grants	2,978	3,057	---	18,770	---
Grants for Centrally Assisted State Plan Schemes	6,416	6,695	---	10,272	---
Grants for Central and Centrally sponsored Plan Schemes	---	---	6,108	---	5,508
Finance Commission Grants	---	---	1,168	---	1,806
Other Transfers/Grants to States	---	---	783	---	864
Total	9,394	9,752	8,059	29,042	8,178
Total Grants as a <i>percentage</i> of Revenue Receipts	12.34	11.78	9.07	22.17	8.06

Source: Finance Accounts; BE: Budget Estimates

It can be seen from above that the Government of Telangana State (GoTS) was receiving less than ₹10,000 crore from GoI as Grants-in-Aid (GIA) during past few years. The GoTS, however, had estimated ₹29,042 crore as GIA receipts for 2018-19. The GIA actually received (₹8,178 crore), though marginally higher than the preceding year (₹8,059 crore) by 1.5 *per cent*, proved that the Budget Estimates were much higher than the trend of GIA receipts in recent years.

Recommendation 2: Receipts from Government of India as Grants-in-Aid may be estimated on a realistic basis keeping in view the actual receipts in the recent past.

1.4.2.6 Transfers of funds directly to implementing agencies without routing through Consolidated Fund of the State

With effect from 01 April 2014, it has been decided by Government of India (GoI) to release all assistance related to the Centrally Sponsored Schemes/Additional Central Assistances to the State Government and not directly to implementing agencies. During 2018-19, however, the GoI released ₹9,795 crore directly to the implementing agencies for National Rural Employment Guarantee Scheme (₹6,376 crore), Food Subsidy (₹2,559 crore), *etc.*, as shown in Appendix-VI of Finance Accounts 2018-19. Similar direct releases to implementing agencies had happened in 2017-18 (₹9,740.78 crore), 2016-17 (₹887.96 crore) and 2015-16 (₹858.38 crore) also.

1.4.3 Receipts under the Capital Section

The details of Capital Receipts and their composition for the years 2015-16 to 2018-19 are in **Table 1.12**:

Table 1.12: Composition of Capital Receipts

(₹ in crore)

Sources of State's Receipts	2015-16	2016-17	2017-18	2018-19	
	Actuals	Actuals	Actuals	BE	Actuals
Capital Receipts (CR)	17,586	44,975	49,291	41,007	51,028
Recovery of Loans and Advances	88	156	138	7,807	66
Public Debt Receipts [#]	17,498	44,819	49,153	33,200	50,962

Source: Finance Accounts

[#]includes Ways and Means Advances of ₹12,088 crore, ₹22,922 crore and ₹21,823 crore for 2016-17, 2017-18 and 2018-19 respectively.

As seen from above, Public debt receipts constituted major component of Capital Receipts (99.87 per cent).

1.4.3.1 Public Account Receipts and Disbursements

As per para 1.7 of Budget Manual, 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 as per Article 266 (2) of the Constitution. These are not subject to vote by State Legislature. Government acts as banker or trustee. The balance after disbursements is the fund available with the Government for its use. Composition of Public Account receipts and disbursements is detailed in **Table 1.13**:

Table.1.13: Composition of Public Account Receipts and Disbursements

(₹ in crore)

Particulars	2015-16 Actuals	2016-17 Actuals	2017-18 Actuals	2018-19	
				Budget Estimates	Actuals
A. Public Account Receipts					
Small Savings, Provident Fund, etc.	2,101	2,417	2,495	2,500	2,427
Reserve Fund	1,788	1,292	831	15,874	1,598
Deposits and Advances	39,840	43,378	54,048	51,392	62,595
Suspense and Miscellaneous	26,458	39,369	28,582	---	29,672
Remittances	16,198	22,638	20,555	---	17,860
Total (A)	86,385	1,09,094	1,06,511	69,766	1,14,152
B. Public Account Disbursements					
Small Savings, Provident Fund etc.	1,239	1,348	1,519	1,400	1,582
Reserve Fund	662	852	553	15,653	68
Deposits and Advances	37,619	41,460	48,188	50,213	59,494
Suspense and Miscellaneous	25,053	38,915	29,155	---	30,332
Remittances	16,336	22,793	19,249	---	17,746
Total (B)	80,909	1,05,368	98,664	67,266	1,09,222
Public Account Net (A) - (B)	5,476	3,726	7,847	2,500	4,930

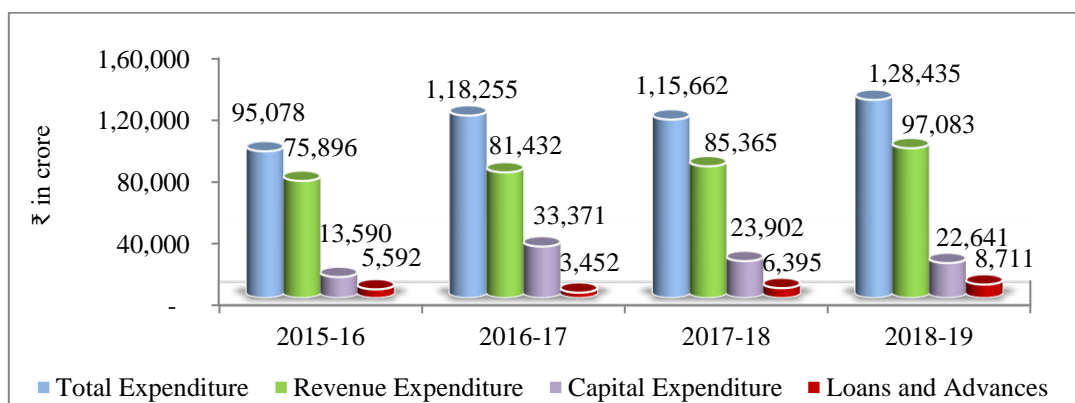
Source: Finance Accounts

1.5 Application of Resources

1.5.1 Growth and Composition of expenditure

The total expenditure in 2018-19 was ₹1,28,435 crore. **Chart 1.8** presents the trends and composition of total expenditure during 2015-16 to 2018-19.

Chart 1.8: Composition and Growth of expenditure during last four years



Source: Finance Accounts

Capital Expenditure, which was 21 per cent of total expenditure in 2017-18, has decreased to 18 per cent in 2018-19. On the other hand, the Revenue Expenditure increased from 74 per cent in 2017-18 to 76 per cent in 2018-19. The increase in Revenue Expenditure was mainly due to commencement of Investment Support Scheme (Rythu Bandhu) in 2018-19 on which ₹9,969.07 crore was spent.

From the sector wise perspective, Social Services²⁹ got preference with 40.45 per cent of the total expenditure over Economic Services³⁰ (32.33 per cent) and General Services (27.17 per cent) indicating prioritisation of Welfare. Component-wise major expenditures under different sectors in Revenue and Capital sections incurred in 2018-19 is given in **Table 1.14**:

Table 1.14: Major expenditure components under Revenue and Capital

Revenue				Capital			
Component	Sector	2017-18 (₹ in crore)	2018-19 (₹ in crore)	Component	Sector	2017-18 (₹ in crore)	2018-19 (₹ in crore)
Agriculture and Allied Activities	Economic	6,560	12,601	Irrigation and Flood Control	Economic	12,596	9,118
Education ³¹ , Sports, Art and Culture	Social	12,246	11,503	Water Supply, Sanitation, Housing and Urban Development	Social	1,873	4,253

²⁹ refers to welfare activities of the Government and includes (i) Education, Sports, Art and Culture, (ii) Health and Family Welfare, (iii) Water Supply, Sanitation, Housing and Urban Development, (iv) Information and Broadcasting, (v) Welfare of Scheduled Castes, Scheduled Tribes and Backward Classes, (vi) Labour and Labour Welfare, (vii) Social Welfare and Nutrition and (viii) Others

³⁰ refers to economic development activity sectors of the Government and includes (i) Agriculture and allied services, (ii) Irrigation and Flood Control, (iii) Energy, (iv) Industry and Minerals, (v) Transport, (vi) Science Technology and Environment, (vii) Rural Development and (viii) General Economic Services

³¹ includes General Education: ₹10,939 crore and Technical Education: ₹329 crore for 2018-19

Revenue				Capital			
Component	Sector	2017-18 (₹ in crore)	2018-19 (₹ in crore)	Component	Sector	2017-18 (₹ in crore)	2018-19 (₹ in crore)
Social Welfare and Nutrition	Social	8,864	10,709	Energy	Economic	2,721	2,400
Welfare of SCs, STs, OBCs and Minorities	Social	7,862	8,822	Rural Development	Economic	858	1,996
Energy	Economic	4,391	4,983	Transport	Economic	2,169	1,024
Health and Family Welfare	Social	4,768	4,912	Agriculture and Allied Activities	Economic	514	1,012
Water Supply, Sanitation, Housing and Urban Development	Social	2,964	3,220				
Rural Development	Economic	3,790	2,857				

Source: Finance Accounts

- Revenue Expenditure (₹97,083 crore) was higher than the preceding year's figures (₹85,365 crore) by 14 per cent. The increase over previous year was mainly due to higher outgo on Agriculture and Allied Activities (increase of ₹6,041 crore) including Investment Support Scheme Rythu Bandhu, Social Welfare and Nutrition (increase of ₹1,845 crore) and Welfare of SCs, STs, OBCs and Minorities (increase of ₹960 crore). Expenditure on Rural Development decreased as compared to previous year owing to less expenditure on schemes under Special Component Plan for Scheduled Castes (decrease of ₹158 crore), Tribal Area Sub-Plan (decrease of ₹131 crore) and Other Expenditure (decrease of ₹592 crore).
- Capital Expenditure during current year (₹22,641 crore) marginally decreased over preceding year (₹23,902 crore) by five per cent. This was mainly due to decrease under Irrigation and Flood Control (₹3,478 crore), Transport (₹1,145 crore) and Energy (₹321 crore).

Decrease under Irrigation and Flood Control was mainly due to less expenditure on Kaleshwaram Project (₹3,037 crore), Flood Flow Canal Project (₹600 crore), J. Chokka Rao Devadula Lift Irrigation Scheme (₹419 crore).

The Capital Expenditure, however, was much higher in Water Supply, Sanitation, Housing and Urban Development on account of increase in expenditure on Mission Bhagiratha (₹1,917 crore), Swachh Bharath Mission–Gramin (₹1,078 crore), and in Rural Development on account of Mahatma Gandhi National Rural Employment Guarantee Scheme (₹1,401 crore).

- Out of the total Development Expenditure³² (₹93,483 crore), 67 per cent was under Revenue section.

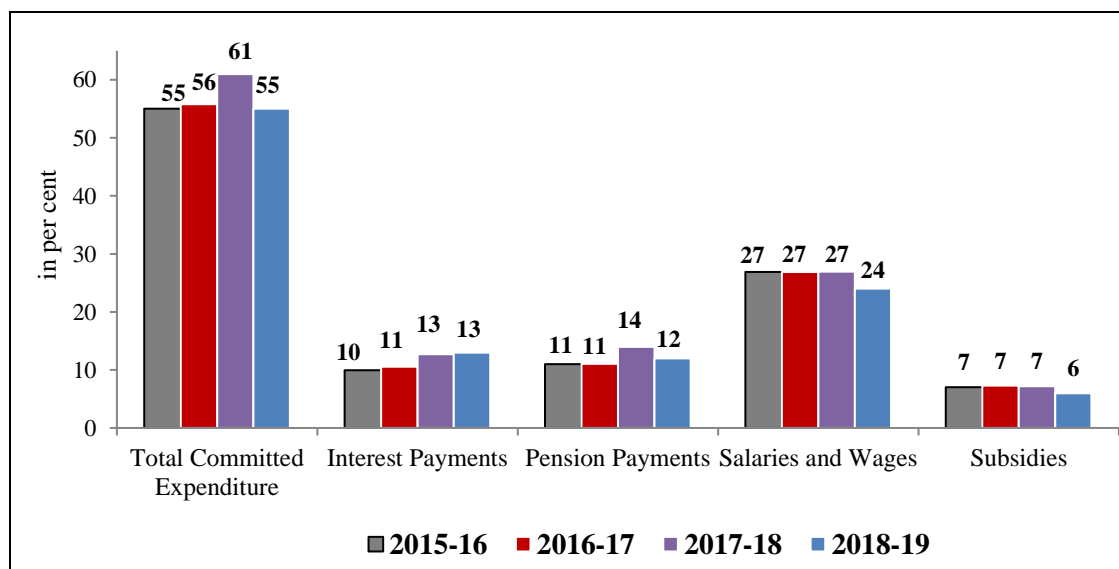
³² Development Expenditure is the expenditure incurred on Social and Economic Services. It includes Developmental Capital Expenditure (₹21,938 crore), Developmental Revenue Expenditure (₹62,879 crore) and Development Loans and Advances (₹8,666 crore)

1.5.2 Revenue Expenditure

1.5.2.1 Committed Expenditure

Committed expenditure of Government consists of interest payments (₹12,586 crore), salaries and wages (₹23,351 crore), pensions (₹11,477 crore) and subsidies (₹6,304 crore). The committed expenditure in 2018-19 was ₹53,718 crore and constituted 55 per cent of Revenue Expenditure (*Chart 1.9*).

Chart 1.9: Committed Expenditure as percentage of Revenue Expenditure



Source: Finance Accounts of years concerned

The following observations were made in audit:

- The burden of committed expenditure measured as a *percentage* of Revenue Expenditure of the State, which was steadily rising during the previous years has declined in 2018-19 (*Chart 1.9*).
- In comparison to preceding year, there was increase in interest payments (₹12,586 crore: increase by 16 per cent over 2017-18), Subsidies (₹6,304 crore: increase by two per cent over 2017-18) and Salaries and Wages (₹23,351 crore: increase by 1.5 per cent). Pension Payments (₹11,477 crore), on the other hand, decreased by four per cent.
- **Greater reliance on market borrowings by Government in recent years has led to increase in liabilities on account of interest payments. As a result, the interest payments relative to Revenue Receipts were much higher at 12.41 per cent as against target of 8.37 per cent fixed by XIV Finance Commission.**

1.5.2.2 Committed Expenditure – Subsidies

Details of Subsidies for various Departments are shown in **Table 1.15**:

Table 1.15: Department-wise Subsidies

(₹ in crore)

Sl. No.	Department	2017-18	2018-19
1	Power	3,262	3,705
2	Civil Supplies	1,181	1,432
3	Social Welfare	828	680
4	Agricultural and other allied activities	304	108
5	Tribal Welfare	267	215
6	Roads, Buildings and Ports	260	130
7	Others	57	34
Total		6,159	6,304
Revenue Expenditure		85,365	97,083

Source: Finance Accounts

It can be seen from above that Subsidies for Power and Civil Supplies increased in 2018-19 over preceding year by ₹443 crore and ₹251 crore respectively. Together Power (59 per cent) and Civil Supplies (22 per cent) constitute 81 per cent of the Subsidies. On the other hand, Subsidies of Social Welfare, Tribal Welfare, Transport, Agriculture and allied activities saw a decline in 2018-19. The decrease of Subsidies on Agriculture and allied activities is substantial (64 per cent) on account of decreased Subsidies in respect of Farm Mechanisation and Supply of Seeds.

Further, the Government incurred expenditure as ‘Grants-in-Aid’ and ‘Other expenditure’ which are in the nature of Subsidies like (i) interest free loans to DWCRA Women (Vaddileni Runalu) (₹1,402 crore), (ii) assistance to Transmission Corporation of Telangana Limited, for Agricultural and allied subsidy (₹1,256 crore), (iii) assistance to Municipalities / Corporations for interest free loans (Vaddileni Runalu) (₹166 crore), (iv) marginal subsidy to Telangana State Scheduled Castes Co-operative Development Corporation (₹46 crore), (v) power subsidy for industries (₹19 crore), etc. Though, these are in the nature of subsidies, they are however, not reflected as subsidies and the committed expenditure is understated to that extent.

Box 1.2: Implementation of a subsidy scheme through funds mobilised in the nature of Off-Budget Borrowings

Government of Telangana State (GoTS) has taken up a scheme for distribution of four lakh Sheep units at an estimated cost of ₹5,000 crore in three years from 2016-17 to 2018-19 to four lakh beneficiaries. The objectives were to (i) increase the Rural Economy in the State through Sheep rearing; (ii) make the State self-sufficient in Meat Production and export of meat to other states and countries and (iii) to strengthen the Primary Sheep Cooperative Societies.

An Autonomous Body viz., Telangana State Sheep and Goat Development Cooperative Federation Limited (TSSGDCFL) was the Nodal agency for implementing the Scheme. National Cooperative Development Corporation (NCDC) was to finance the scheme with 60 per cent (₹3,000 crore) as loan to TSSGDCFL, 20 per cent (₹1,000 crore) as subsidy

subject to availability. The remaining 20 per cent (₹1,000 crore) was to be the contribution from beneficiaries. As of March 2019, a total loan of ₹3,380 crore³³ was drawn by TSSGDCFL from NCDC. The scheme's funding pattern for the beneficiary through TSSGDCFL was modified by the GoTS as 75 per cent subsidy (₹3,750 crore) by the State Government and 25 per cent by the beneficiary contribution (₹1,250 crore).

The loans from NCDC to TSSGDCFL were guaranteed by Government of Telangana State (GoTS) i.e., in case of default by TSSGDCFL, the Government would repay any amounts due to NCDC. The total amount of guarantees provided by GoTS to TSSGDCFL to the end of 2018-19 was ₹3,160 crore.

It was, however, observed in audit that the TSSGDCFL did not have any definite stream of revenue resources of its own for repayment of loan. It was, in fact, implementing the scheme for which Government decided to provide subsidies. In the year 2018-19, the Government provided an amount of ₹493.32 crore, *albeit*, as Loans to TSSGDCFL for payment of interest (₹267.61 crore) and repayment of principal (₹225.71 crore) to NCDC.

Thus, it is evident that the State Government was implementing the subsidy scheme through Off – Budget Borrowings i.e., loans procured by an Autonomous body. The fact of implementing the scheme through Off-Budget Borrowing was also mentioned in the Budget speech.

Implementation of a subsidy scheme in the nature of Off-Budget Borrowings resulted in understatement of Revenue Expenditure.

1.5.2.3 Financial assistance to Local Bodies

Financial assistance to the tune of ₹37,908 crore was provided by the State Government to local bodies and other institutions by way of Grants and Loans in 2018-19 (**Table 1.16**). There was an increase in the overall quantum of assistance in comparison to previous year (₹30,416 crore) mainly due to increase in assistance to Agriculture and allied activities (141 per cent), Urban Local Bodies (93 per cent) and Social Welfare (30 per cent).

Under Agriculture and allied activities, increase is mainly due to provision of Grants under two new schemes viz., Investment Support Scheme (₹9,969 crore) and Insurance to Farmers (₹659 crore). In Urban Local Bodies increase is mainly under Pradhan Mantri Awas Yojana (Urban) (₹183 crore) and Hyderabad Road Development Scheme (₹277 crore). Increase in Social Welfare is mainly under Interest free loans to DWCRA Women (₹1,377 crore).

³³ ₹2,500 crore in 2017-18 and ₹880 crore in 2018-19

Table 1.16: Financial Assistance to Local Bodies and other institutions

(₹ in crore)

Sl. No.	Grants given to	2017-18	2018-19
1	Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	1,000	1,037
2	Urban Local Bodies	798	1,542
3	Panchayat Raj Institutions	6,376	5,996
4	Development Agencies	291	236
5	Other Autonomous Bodies	1,093	1,220
6	Co-operative Institutions	56	229
7	Agriculture and allied activities	4,614	11,165
8	Social Welfare	5,177	6,738
9	Rural Development	1,514	1,751
10	Other Institutions	9,497	7,994
Total		30,416	37,908
Assistance as percentage of Revenue Expenditure		36	39

Source: Finance Accounts

Box 1.3: Formation of State Finance Commission

As stipulated in Article 243-I (1) read with 243Y (1) of the Constitution, the Governor of the State shall constitute a 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 (PRI) and Urban Local Bodies (ULB) of the State and to recommend principles for distribution of divisible pool of levies of the State between State and PRI / ULB.

Though constitution of the State Finance Commission was notified in March 2015, within one year of formation of the Telangana State, the Chairman and member were appointed only in January 2018.

There after no progress was on records regarding recommendations of the State Finance Commission.

1.5.2.4 National Pension System

State Government employees recruited on or after 01 September 2004 are covered under the National Pension System (NPS), which is a defined contributory pension scheme. It is mandatory for employees to contribute 10 *per cent* of basic pay and dearness allowance every month. The State Government has to make equal contribution. The Government has to transfer these contribution amounts along with details to the National Securities Depository Limited (NSDL) and to the fund managers appointed by the NPS Trust, respectively.

On the bifurcation of the erstwhile combined State of Andhra Pradesh in 2014, a balance of ₹730.64 crore was available in the NPS Deposit Account of the combined Andhra Pradesh State, pending transfer to NSDL. This amount was to be apportioned between the States of Andhra Pradesh and Telangana. Of this amount, ₹365.21 crore was apportioned

in 2018-19, with Telangana State being allocated ₹134.60 crore, leaving an amount of ₹365.43 crore pending apportionment.

Details of contributions by employees and Government and transfers to NSDL are shown below in **Table 1.17**:

Table 1.17: Details of Contribution to NPS Deposit Account and transfer to NSDL

(₹ in crore)

Year	Employee contribution	Government contribution	Excess (+) / Shortfall (-) in Government contribution	Total contributions in the NPS Deposit Account *	Transferred to NSDL during the year	Closing Balance as on 31 st March in Pension Deposit Account
1	2	3	4 (=3-2)	5 (=3+2)	6	7
2014-15	197.66	177.65	(-)20.01	375.31	373.66	10.03
2015-16	359.16	371.23	12.07	730.39	769.56	(-)20.83
2016-17	420.14	348.23	(-)71.91	768.37	574.79	177.12
2017-18	481.61	431.74	(-)49.87	913.35	926.89	164.90
2018-19	532.62	604.84	72.22	1,137.46	1,171.58	273.57
Total	1,991.19	1,933.69	(-)57.50			

Source: Finance Accounts

*This amount does not include interest on legacy period and Foreign employers' contribution

As on 01 April 2018, the NPS Deposit Account under Defined Contribution Pension Scheme for Government Employees (Major Head of Account- 8342, Minor Head of Account - 117) had an opening balance of ₹164.90 crore. Receipts to the NPS Deposit Account during the year were Employee contribution (₹532.62 crore), the Government contribution (₹604.84 crore), Interest contribution for legacy period³⁴ (₹6.95 crore) and Foreign employers' contribution (₹1.23 crore). The apportionment amount of ₹134.60 crore was also received in the NPS Deposit Account. Of the total receipts of ₹1,445.14 crore (inclusive of all receipts, apportionment amount and opening balance) the Government transferred an amount of ₹1,171.58 crore to NSDL, leaving a closing balance of ₹273.57 crore in the NPS Deposit Account.

The interest liability on the opening balance of ₹164.90 crore was ₹13.19 crore (calculated at a rate of eight *per cent*³⁵), for which the Government did not make any provision. Further, interest will also be due on the amount to be apportioned to Telangana out of the ₹365.43 crore which is pending apportionment.

As Accountant General (Accounts and Entitlements) does not maintain the accounts of individual employee's contribution, the correctness of recovery from the employee's salary bills cannot be verified. No reconciliation of the amounts transferred has been carried out with NSDL/ Trustee Bank.

As per provisions of the NPS, the Government has to match the contribution of the Employees. As seen from the table above, over a period of five years, Employees

³⁴ Pertains to the period from September 2004 to March 2011

³⁵ Interest rate on General Provident Fund (State Government)

contributed an amount of ₹1,991.19 crore to the NPS Deposit Account, while the Government contributed an amount of ₹1,933.69 crore to the NPS Deposit Account, resulting in an overall short contribution of ₹57.50 crore by the Government. Thus, the current liability stands deferred to future years.

Further, the State Government has created an interest liability on the amount of ₹331.07 crore (which is the total of ₹273.57 crore, the amount not transferred to NSDL and ₹57.50 crore, the overall short contribution by the Government over five years), incorrectly used the funds that belong to its employees and created uncertainty in respect of benefits due to the employees affected / avoidable financial liability to Government in future, and, thus leading to possible failure of the scheme itself.

1.5.3 Capital Expenditure

Capital Expenditure (₹22,641 crore) saw a dip in 2018-19 *i.e.*, a decrease of ₹1,261 crore (5.27 *per cent*) from the preceding year (₹23,902 crore). The decrease was mainly under Major Irrigation (₹3,166 crore), Roads and Bridges (₹1,145 crore) and Special Development for Welfare and Development activities (₹828 crore). On the other hand, the Capital Expenditure booked under Mission Bhagiratha during 2018-19 increased by ₹1,918 crore which is 375 *per cent* higher than previous year.

- Out of Capital Expenditure of ₹22,641 crore during the year 2018-19, an expenditure of ₹4,756 crore was incurred on 20 delayed incomplete projects (please refer *Paragraph 1.6.1* for further details).
- The entire investment of ₹3,389 crore made by the Government during the year was in 11 companies, none of which has paid any dividend during the year indicating that the Government investments were in the loss making units in 2018-19 (please refer *Paragraph 1.6.2* for further details).

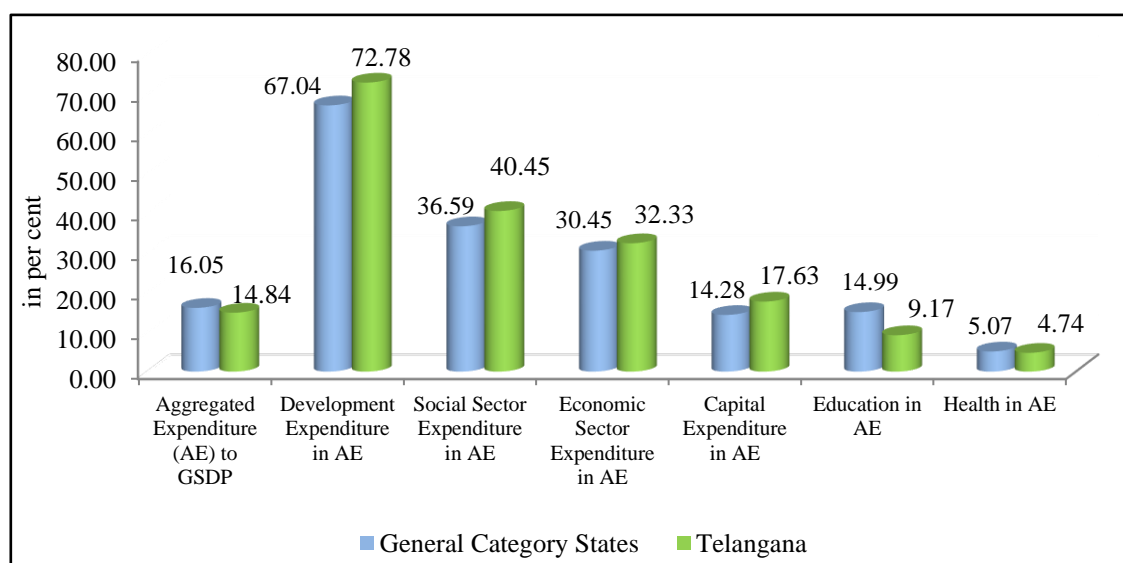
1.5.4 Quality of Expenditure

Quality of expenditure basically involves two aspects, *viz.*, adequacy of the expenditure (*i.e.*, adequate provisions for providing public services) and efficiency of expenditure use.

1.5.4.1 Adequacy of public expenditure

A comparison of fiscal priority of Telangana Government with other General Category States³⁶ (*Chart 1.10*) revealed that Telangana focussed more on Development Expenditure (₹93,483 crore) and Capital Expenditure (₹22,641 crore). The focus of Government on Education was comparatively lesser across the years.

³⁶ Undivided Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal

Chart 1.10: Prioritisation in public expenditure in percentage

Source: Finance Accounts

1.5.4.2 Per Capita expenditure in some major socio economic sectors

Per Capita expenditure for 2018-19 of Telangana in some major socio economic sectors and its comparison with the previous year 2017-18 is given in the **Table 1.18** below:

Table 1.18: Per Capita expenditure on some major socio economic sectors

Sector	2017-18			2018-19			Percentage increase (+) / decrease (-)
	Expenditure (₹ in crore)	Population of the State (in crore)	Per capita expenditure (in ₹)	Expenditure (₹ in crore)	Population of the State (in crore)	Per capita expenditure (in ₹)	
Health and Family Welfare	5,306	3.70	1,434	5,997	3.72	1,612	12.41
Education, Sports, Arts & Culture	12,492	3.70	3,377	11,782	3.72	3,167	(-)6.19
Agriculture	7,135	3.70	1,928	14,187	3.72	3,814	97.82
Rural Development	4,648	3.70	1,256	4,853	3.72	1,305	3.90
Transport	3,075	3.70	831	2,649	3.72	712	(-)14.32

Source: Expenditure figures from Finance Accounts of respective years and population figures from National Commission on Population 2019

From the above table the following can be observed:

- Agriculture got the top priority with 97.82 per cent increase in Per Capita expenditure over previous year due to a new Investment Support Scheme (Rythu Bandhu). There was a considerable increase (12.41 per cent) on Health and Family Welfare over previous year.
- There was a considerable dip in the Per Capita expenditure in respect of Transport (14.32 per cent) and Education, Sports, Arts and Culture (6.19 per cent).

1.5.4.3 Efficiency of expenditure use

Details of Capital and Revenue Expenditure on maintenance of social and economic services are in **Table 1.19** below:

Table 1.19: Efficiency of expenditure on selected social and economic services

(in per cent)

Social/Economic Infrastructure	2017-18			2018-19		
	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)						
General Education	1.98	69.63	0.08	2.37	85.27	0.00
Health and Family welfare	5.21	29.15	0.34	8.61	45.77	0.00
Water Supply, Sanitation, Housing & Urban Development	38.73	10.16	1.77	56.91	14.53	0.35
Total (SS)	7.11	31.17	0.31	12.39	35.61	0.03
Economic Services (ES)						
Agriculture & Allied Activities	7.27	12.37	3.34	7.43	9.30	0.00
Irrigation & Flood Control	96.94	63.07	19.10	95.91	67.35	15.12
Power & Energy	38.26	0.00	0.00	32.51	0.30	0.00
Transport	78.47	3.19	50.25	54.01	2.18	4.60
Total (ES)	54.36	11.45	3.59	41.34	10.46	0.51
Total (SS + ES)	30.00	24.94	1.35	25.87	26.34	0.21

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

It can be seen from above that, the ratio of Capital Expenditure to Total Expenditure in Water Supply, Sanitation, Housing and Urban Development has increased significantly, indicating the focus of the Government on asset creation under this sector.

In respect of Revenue Expenditure, the share of Salaries and Wages considerably increased over the preceding year in Health and Family Welfare followed by General Education under Social Sector. There was a dip in share of Operation and Maintenance (O&M) over the previous year in both Social Sector and Economic Sector.

1.6 Government Assets

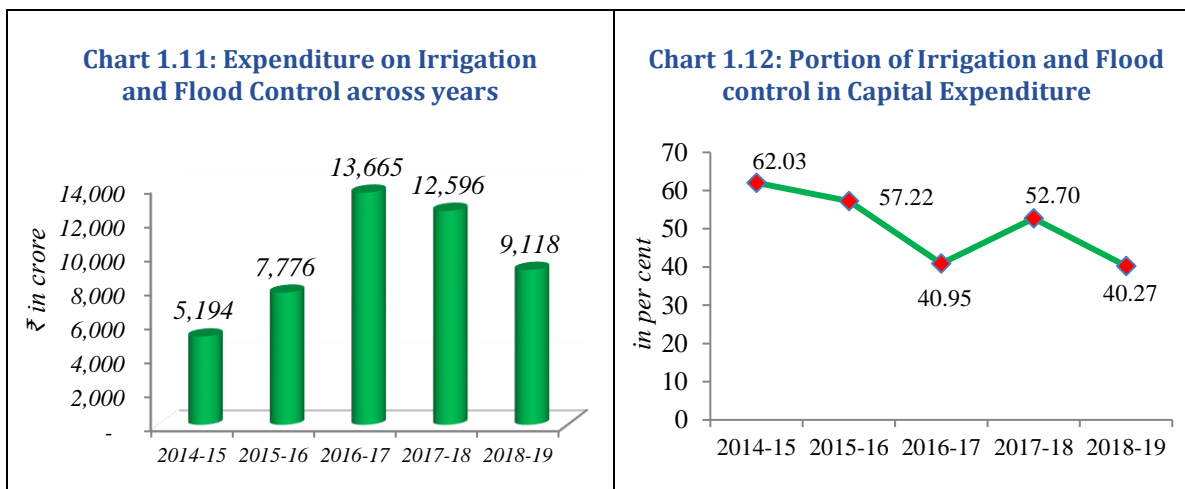
While the Government accounting system does not provide for comprehensive accounting of fixed assets like land and buildings owned by the Government, these can be derived from the accounting of financial liabilities and assets created out of expenditure incurred. **Appendix 1.6** gives an abstract of liabilities and assets, as on 31 March 2019, compared with the corresponding position on 31 March 2018.

Government assets mainly comprise of Capital outlay, Investments, Loans and Advances given by the State Government and cash balances.

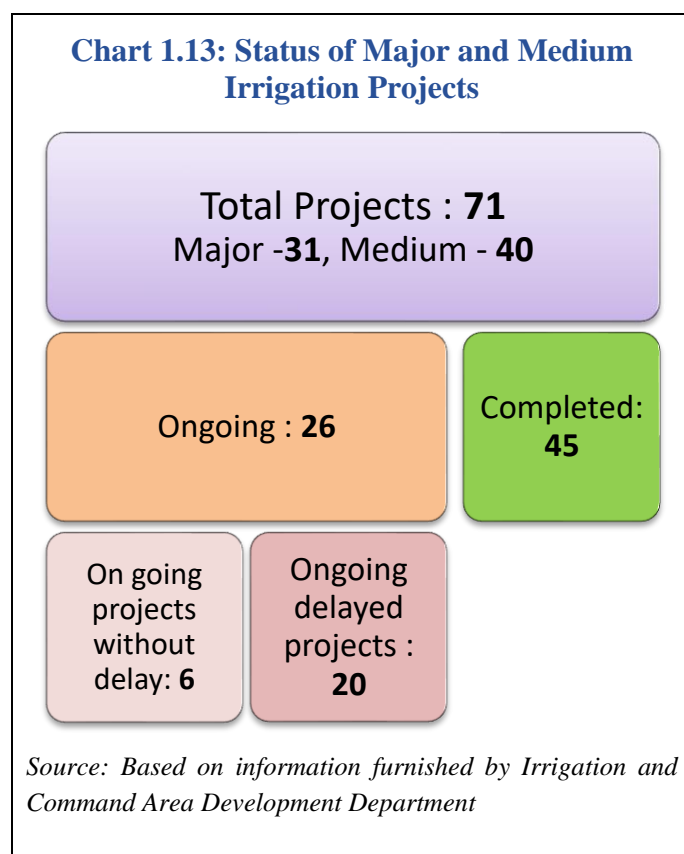
1.6.1 Capital outlays: Incomplete projects

Capital Expenditure has accounted for 13.83 per cent to 28.22 per cent of the Total Expenditure in the last five years. During the years 2014-19, an amount of ₹1,01,877 crore was spent on capital projects.

Within the capital projects, the major share of the Capital Expenditure was on Irrigation and Flood Control. An amount of ₹48,349 crore was spent on Irrigation and Flood control during the last five years. The capital outlay on Irrigation and Flood Control and its share in total Capital Expenditure of the Government are in **Chart 1.11** and **Chart 1.12**.



Source: Finance Accounts



Out of the 26 ongoing projects, as shown in **Chart 1.13**, there were 20 projects with delays ranging from three months to 11 years³⁷ beyond the scheduled date of completion these projects. The original estimated cost of these 20 delayed projects was ₹76,287 crore. The delays have led to revision of cost to ₹1,87,848 crore *i.e.*, an escalation of ₹1,11,561 crore (146 per cent). An amount of ₹1,00,494 crore has already been spent so far on these incomplete projects. Delays in completion of projects not only adversely affected the quality of the expenditure but also deprived the State of intended benefits of economic growth.

³⁷ 11 years: 6 projects (SRSP Stage II, Peddavagu at Jagannathpur, Sri KomaramBheem, Neelwai, Palemvagu, Modikuntavagu); 10 years: 1 project (M Baga Reddy Singur Canals); 9 years : 4 projects (Mahatma Gandhi Kalwakurthi Lift Irrigation Scheme, Rajiv Bheema Lift Irrigation Scheme, Jawahar Nettempadu Lift Irrigation Scheme, Lendi Project); 8 years: 1 Project (Koilsagar), 7 years: 1 Project (Sripadasagar Yellampally); 6 years: 3 Projects (AMR SLBC Project, Indiramma Flood flow Canal of SRSP, Kaleshwaram Lift Irrigation Scheme) and others with a delay of five years or less

Irrigation projects are taken up and approved on the basis of data that supports an implicit assumption that the benefits of the project will outweigh the costs. With time overruns, cost escalations and changes in design, the above averment made at planning stage, would come to naught.

Further, the State Government did not disclose financial results of any of the Irrigation projects. As a result, there was no proper assurance of returns from the heavy public investments in Irrigation and Flood control.

Recommendation 3: *State Government may compile working results of Major Irrigation Projects to assess benefits from persistent heavy investments in Irrigation sector. These working results would guide future investments in the sector.*

1.6.2 Investments

As of 31 March 2019, the State Government's investments stood at ₹19,754 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives. During the year 2018-19, Government of Telangana invested ₹3,388.55 crore in 11 entities. These investments were mainly in (i) Power Distribution Companies of Telangana (DISCOMs) (₹2,400 crore), (ii) Telangana State Seeds Development Corporation Limited (₹677 crore) and (iii) Telangana Backward Castes Cooperative Finance Corporation Limited (₹177 crore). However, neither the State Government nor the individual entities reconciled or confirmed these investments. Further, the Finance Department did not furnish the files pertaining to fresh investments made during the year. Hence, audit could not ensure that the investments were made with due diligence by the State Government and for the purpose for which the entities were created.

Details of Investments made by the Government are shown in **Table 1.20** below:

Table 1.20: Return on Investment

Sl. No.	Investment / Return / Cost of borrowings	2015-16	2016-17	2017-18	2018-19
1	Investment at the end of the year (₹ in crore)	1,329	13,075	16,365	19,754
2	Return in the form of Dividend (₹ in crore)	69	70	101	94
3	Rate of Return (RoR) (<i>per cent</i>)	5.19	0.54	0.62	0.48
4	Average rate of interest on Government borrowing (<i>per cent</i>)	8.50	7.40	7.21	6.93
5	Difference between RoR (<i>per cent</i>) and interest rate (3-4)	(-) 3.31	(-) 6.86	(-) 6.59	(-) 6.45

Source: Finance Accounts

As can be seen from the above, Return on Investment (RoI) in these Companies / Corporations has been very low. Further, even though the investments made by the Government has increased from ₹1,329 crore in 2015-16 to ₹19,754 crore in 2018-19, there is no marked increase in RoR from the Companies / Corporations.

1.6.3 Loans and Advances given by the State Government

Government provides Loans and Advances to Public Sector Undertakings, Local Bodies and Autonomous Bodies. **Table 1.21** presents the details of outstanding Loans and Advances during the years 2015-19:

Table 1.21: Details of Loans and Advances by State Government

Sl. No.	Quantum of Loans/Interest Receipts/ Cost of Borrowings	2015-16	2016-17	2017-18	2018-19
1	Opening Balance (₹ in crore)	1,406	6,552	9,798	15,869
2	Amount advanced during the year (₹ in crore)	5,233	3,402	6,209	8,706
3	Amount recovered during the year (₹ in crore)	88	156	138	66
4	Closing Balance (₹ in crore)	6,552	9,798	15,869	24,509
5	Net addition (₹ in crore)	5,145	3,246	6,071	8,640
6	Interest Receipts (₹ in crore)	53	105	84	7
7	Interest receipts as <i>percentage</i> of outstanding Loans and Advances (in <i>per cent</i>)	0.80	1.07	0.53	0.03
8	Interest payments as <i>percentage</i> to outstanding liabilities of the State Government (in <i>per cent</i>)	8.50	7.4	7.21	6.39
9	Difference between interest receipts and interest payments (in <i>per cent</i>)	(-)7.70	(-)6.33	(-)6.68	(-)6.36

Source: Finance Accounts;

Following observations are made in Audit:

- Loans and Advances to Autonomous Bodies and Corporations (₹8,706 crore) in 2018-19 increased significantly by 40 *per cent* (₹2,497 crore) over preceding year. This was, however, lower than Budget Estimates of ₹9,036 crore. Major portion of loans were disbursed for projects relating to Water Supply, Sanitation, Housing and Urban Development (₹3,596 crore) as well as for Social Welfare and Nutrition (₹2,400 crore), Road Transport (₹753 crore), Health & Family Welfare (₹621 crore), Agriculture and allied services (₹575 crore). Total balance of Loans and Advances given to the end of 31 March 2019 was ₹24,509 crore.
- The State Government has not confirmed the overdue Principal amount and interest under Loans and Advances. Further, acceptance of loan amounts, loan agreements and statement of reconciliation of outstanding loans were not made available to audit. As a result, it cannot be assured that the outstanding loans in the Government Accounts are properly reflected as borrowings from the Government in the records of the Loanee institutions.

Government advanced a loan of ₹276.28 crore and Grants-in-Aid of ₹222.60 crore in 2017-18 to Arogyasri Health Care Trust (AHCT). On cross verification of annual Receipts and Payment accounts of AHCT with that of Government Accounts, it was noticed that the annual Receipts and Payment accounts of AHCT depicted ₹182.05 crore as Advances and ₹461.38 crore as Grants-in-Aid. This indicates that the depiction of Loans and Grants by the institutions was not in conformity with the accounts of the Government.

- The Government has also been providing loans to Autonomous Bodies which are implementing Government subsidy schemes and which do not have a definite stream of revenue resources for servicing debt. Out of ₹24,509 crore loans provided by the Telangana Government after formation of the State, 28 *per cent* i.e., ₹6,920 crore³⁸ were provided to such institutes without definite stream of revenues of their own for debt servicing.
- As discussed earlier in *paragraph 1.3.1*, funds amounting to ₹2,300 crore kept in Personal Deposit Account of two institutions³⁹ originally debited under loan heads of account in 2017-18 and lapsed at the end of the year were resumed and credited back to the receipt head of account in 2018-19 instead of minus debit of the loan head. These amounts were, however, continued to be shown as outstanding under Loans in Government assets, and hence do not indicate the real worth of Government assets.
- Further, the Government gave fresh loans of ₹671 crore to Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB), and ₹19 crore to Telangana State Industrial Infrastructure Corporation (TSIIC) for repayment of their past loans. Government also gave loans (₹493.32 crore) for repayment of loan (₹225.71 crore) and payment of interest (₹267.61 crore) by Telangana State Sheep and Goat Development Cooperative Federation Limited (TSSGDCFL) to National Cooperative Development Corporation (NCDC) (please refer to *paragraph 1.5.2.2* for further details).
- The accounts of bodies like Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB) were in arrears since 2010-11. The Government, however, provided loans amounting to ₹5,932.30 crore to the Board to end of 31 March 2019 to this institution.

Providing unconditional loans and further loans to repay past loans without insisting on the financial discipline of rendering timely accounts *etc.* are detrimental to public accountability and indicative of poor financial management.

- The current level of recovery of loans was very low. An amount of ₹7,807 crore was estimated, in the budget, to be recovered in 2018-19. The actual recovery (₹66 crore) in 2018-19 was only 0.85 *per cent*. The Budget Estimates in this regard were consistently inflated in comparison to previous years' recovery trends⁴⁰.

³⁸ Telangana State Scheduled Castes Cooperative Development Corporation Limited (₹3,142 crore), Telangana State Scheduled Tribes Cooperative Finance Corporation Limited (₹1,776 crore), Arogyasri Health Care Trust (₹924 crore), Telangana State Sheep and Goat Development Cooperative Federation Limited (₹684 crore), Telangana State Civil Supplies Corporation Limited (₹393.78 crore)

³⁹ Telangana State Scheduled Castes Cooperative Development Corporation Limited (₹1,500 crore) and Telangana State Scheduled Tribes Cooperative Finance Corporation Limited (₹800 crore).

⁴⁰ In 2015-16, the recovery of loans and advances was ₹88 crore (10.06 *per cent*) as against budget provision of ₹875 crore. The Budget Estimates in the 2016-17 was ₹2,874 crore, the recovery of loans was ₹156 crore (5.43 *per cent*). The Budget Estimates in the 2017-18 was ₹5,807 crore, the recovery of loans was ₹138 crore (2.38 *per cent*). The Budget Estimates in the next year was ₹7,807 crore.

Low recovery and increase in amounts advanced have together led to increase in the amount of outstanding loans there by having an impact of ₹8,640 crore in the Fiscal Deficit.

- Interest receipts from outstanding Loans and Advances have been decreasing for the last two years and are a meagre 0.03 per cent in 2018-19.

Recommendation 4: *The State Government may place on record debt servicing capacity of the institutions before providing loans.*

1.6.4 Cash balance

The State Government's cash balances at the end of March 2019 amounted to ₹7,218 crore (*Appendix 1.3*). Out of this, an amount of ₹7,309 crore⁴¹ was cash balance investments (₹1,588.95 crore) and investments in earmarked funds (₹5,719.69 crore) including Sinking Funds (₹4,877.14 crore) and Guarantee Redemption Fund – Investment Account (₹837.70 crore). *Table 1.22* depicts the cash balances and investments made by the State Government out of cash balances during the year:

Table 1.22: Cash Balances and Investment of Cash Balances

(₹ in crore)

	Opening balance as on 01-04-2018	Closing balance as on 31-03-2019	Increase(+)/ Decrease(-)
(a) General Cash Balance			
Cash in Treasuries	---	---	---
Deposits with Reserve Bank	76.03	(-)93.29	(-)169.32
Deposits with other Banks	---	---	---
Remittances in transit - Local	2.07	2.07	0
Total	78.10	(-)91.22	(-)169.32
Investments held in Cash Balance investment account	2,277.42	1,588.95	(-)688.47
Total (a)	2,355.52	1,497.73	(-)857.79
(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	0.30	0.30	0
Investment of earmarked funds	4,637.09	5,719.69	1,082.60
Total (b)	4,637.39	5,719.99	1,082.60
Grand total (a)+ (b)	6,992.91	7,217.72	224.81

The Cash Balances at the end of March 2019 increased by ₹224.81 crore i.e., increase by three per cent compared to previous year.

The State Government has to maintain a mandatory minimum daily cash balance of ₹1.38 crore with the Reserve Bank of India (RBI). The Governments can avail Special Drawing Facility (SDF⁴²) against the collateral of Consolidated Sinking Fund (CSF),

⁴¹ This includes minus balance of ₹93.29 crore under Deposits with Reserve Bank.

⁴² previously known as Special Ways and Means Advances

Guarantee Redemption Fund (GRF) and Auction Treasury Bills (ATBs) balances and other investments in Government securities. The State Governments would be facilitated by RBI with Ways and Means Advances (WMA) for meeting temporary cash mismatches. Overdraft (OD) is advanced to the State Governments beyond their WMA limits.

State Government maintained mandatory minimum daily cash balance of ₹1.38 crore with RBI for 197 days during the year. State Government depended on SDF (for 168 days: ₹5,606.47 crore), WMA (for 135 days: ₹13,616.88 crore) and OD (for 32 days: ₹2,599.92 crore) for maintaining the minimum balance with RBI.

In monetary terms, however, SDF / WMA / OD marginally decreased by ₹1,099 crore (five *per cent* decrease) to ₹21,823.27 crore in 2018-19 from ₹22,921.77 crore in 2017-18, however it still indicates increasing dependency of Government on WMA. The interest payment on WMA (including SDF and OD) during 2018-19 was ₹15.44 crore as against ₹13.82 crore in 2017-18, *i.e.*, 12 *per cent* increase.

1.7 Government Liabilities

Total Liabilities of the Government consist mainly of internal borrowings, Loans and Advances from GoI and balances in the Public Account. The total liabilities of the State as of 31 March 2019 was ₹1,96,963 crore; its composition is at **Chart 1.14**.

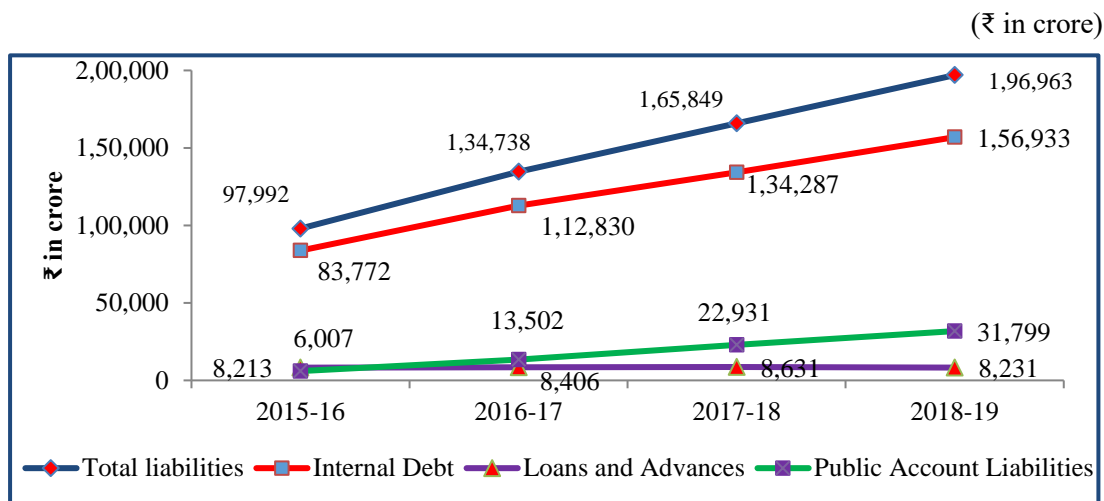
Chart 1.14: Components of total liabilities of the State Government

Total Liabilities (₹1,96,963 crore)		
Internal Debt from Market, financial institutions, etc. (₹1,56,933 crore)	Loans and Advances from Government of India (₹8,231 crore)	Public Account Liabilities where Government acts as a banker (₹31,799 crore)
Market Loans (₹1,33,719 crore)	Loans for Central Plan Schemes and other Loans (₹8,214 crore)	Small Savings, Provident Fund, etc. (₹10,117 crore)
Bonds (₹8,923 crore)	Non Plan Loans (₹17 crore)	Reserve Fund bearing interest (₹377 crore)
Loans from Financial Institutions (₹4,721 crore)		Reserve Fund not bearing interest (₹1,591 crore)
Special Securities issued to NSSF (₹8,860 crore)		Deposits bearing interest (₹2,440 crore)
Other Loans (₹710 crore)		Deposits not bearing interest (₹17,274 crore)

Source: Finance Accounts

Audit analysis showed that the liabilities are on an ascending trend (**Chart 1.15**) over the last four years. The total liabilities of the Government are 1.94 times of its Revenue Receipts. The liabilities constitute 22.75 *per cent* of the Gross State Domestic Product (GSDP), which, however, is within the limit of 25 *per cent* prescribed by Medium Term Fiscal Policy Statement (MTFP). The liabilities grew by 18.76 *per cent* over preceding year.

Chart 1.15: Trend of liabilities



Source: Finance Accounts

1.7.1 Reserve Funds

Reserve Funds are created for specific and defined purposes. These are funded by contributions/Grants from the Consolidated Fund of the State. Out of the gross accumulated balance of ₹7,687.68 crore lying in these Funds as on 31 March 2019, ₹5,719.69 crore was invested in the GoI Securities, leaving the total net accumulated balance of ₹1,967.99 crore (Reserve Funds bearing Interest: ₹377.07 crore and Reserve Funds not bearing Interest: ₹1,590.92 crore).

1.7.1.1 Consolidated Sinking Fund

Sinking Fund was created in the year 1999-2000 for amortisation of State's liabilities. As per guidelines⁴³, the State Government may contribute annual contributions to the Sinking Fund at 0.5 per cent of the outstanding liabilities at the end of the previous financial year. Accordingly, ₹829.25 crore was to be contributed in 2018-19 on the outstanding liabilities of ₹1,65,849 crore at the end of 2017-18. The contribution of State Government in 2018-19 was ₹500 crore. Further the interest earned on the investment from CSF was ₹352.31 crore. Thus, the total addition to CSF during the year was ₹852.31 crore.

1.7.1.2 Guarantee Redemption Fund

As per guidelines of Reserve Bank of India, Government of Telangana created⁴⁴ (June 2014) the Guarantee Redemption Fund (GRF) to meet its obligation pertaining to the Guarantees given by the Government on loans raised by bodies such as Public Sector Undertakings, Special Purpose Vehicles, etc., outside of the State budget. In case of default by the borrower, these guarantees become liabilities of the State Government. As such, guarantees, generally, are contingent liabilities.

A minimum of 0.5 per cent of outstanding guarantees was envisaged as annual contribution to raise the Fund to a minimum level of three per cent in next five years and eventually to a level of five per cent. Accordingly, ₹388.56 crore was to be contributed in 2018-19 on

⁴³ G.O.Ms.No. 3, Finance (DCM), dated 11 June 2014 on Revised Scheme of Consolidated Sinking Fund

⁴⁴ G.O.Ms.No. 4, Finance (DCM), dated 11.06.2014

the outstanding value (₹77,713 crore) of guarantees. State Government, however, has contributed only ₹200 crore leaving a shortfall of ₹188.56 crore.

- The total available balance in GRF as of March 2019 was ₹837.69 crore⁴⁵. This was only 1.08 *per cent* of the outstanding amount of guarantees (₹77,713 crore) as against the targeted three *per cent i.e.*, ₹2,331.39 crore. Thus, there was a short contribution of ₹1,493.70 crore in the Guarantee Redemption Fund.
- The State Government did not contribute in 2016-17 and 2017-18, though, it contributed ₹83.94 crore in 2015-16.

1.7.1.3 State Disaster Response Fund

The State Government constituted State Disaster Response Fund (SDRF) in 2010-11. As per the guidelines of the Fund, Government of India (GoI) and State Governments are required to contribute to the Fund in proportion of 75:25 respectively.

The amount available in the SDRF at the beginning of the year was ₹66.71 crore. During 2018-19, GoI contributed ₹226.50 crore and State Government had contributed its share of ₹75.50 crore to the fund. Out of ₹368.71 crore available in the fund, an amount of ₹15.23 crore was utilised, leaving a balance of ₹353.47 crore.

1.7.1.4 Non-discharge of interest obligation towards interest bearing deposits – Zilla Parishad Provident Fund

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 (ZPPF) are maintained by the Chief Executive Officer (CEO), Zilla Parishad of the district concerned. 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 responsible to consolidate the total interest payable on the balances and send proposals to Finance Department for necessary budget provision towards interest on ZPPF.

The Director of State Audit intimated that an amount of ₹934.55 crore was due towards interest on Zilla Parishad Provident Fund in respect of Panchayati Raj employees from 2000-01 to 2018-19.

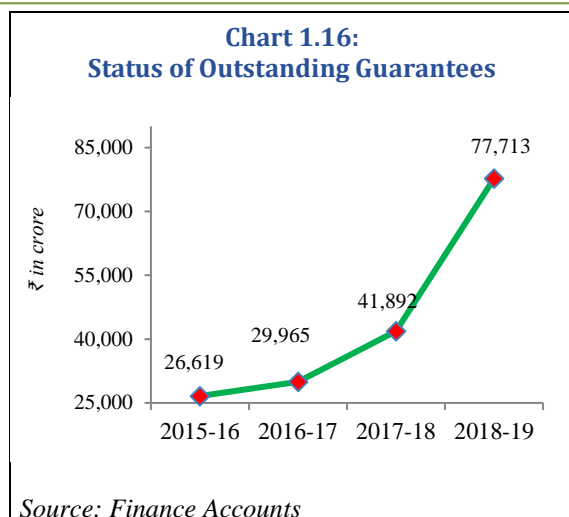
Thus, undischarged liability being postponed increases the burden on the Governments’ Revenue Expenditure at later date.

1.7.2 Guarantees

The State Government, at times, stands as a Guarantor for the loans obtained by Government Companies, Corporations or Autonomous Bodies. The Guarantees given by the Government might become the liabilities of the State Government in case of default by the borrower.

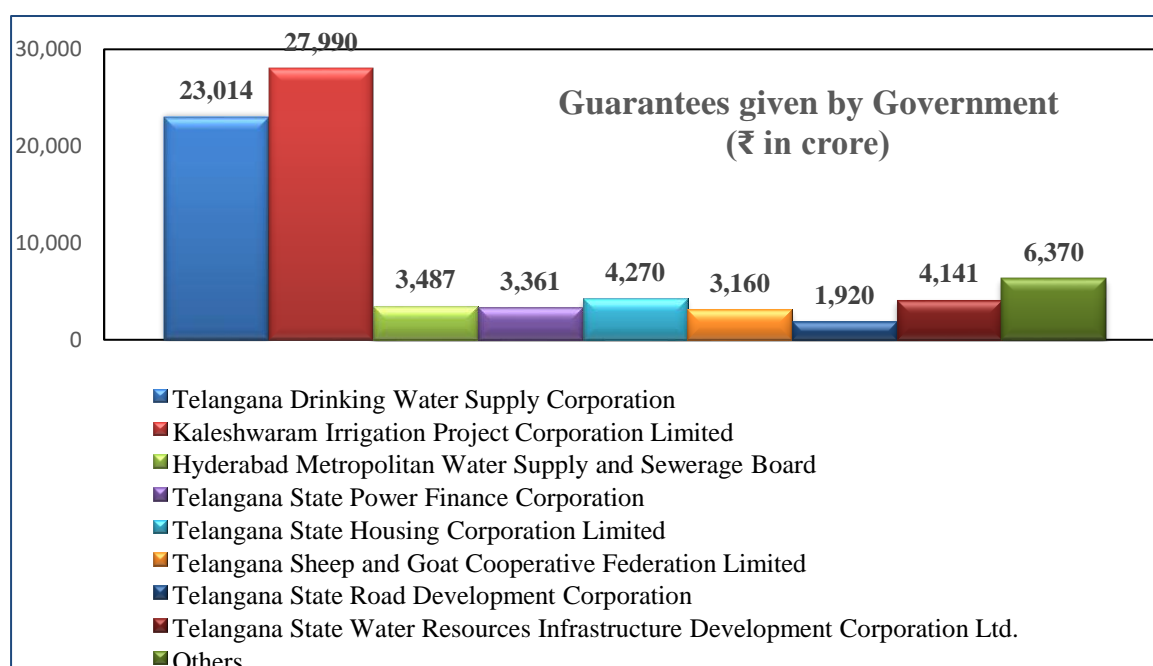
⁴⁵ including interest earned of ₹54.06 crore during the year

Fiscal Responsibility and Budget Management (FRBM) Act, 2005 stipulated that the annual risk weighted guarantees are to be limited to 90 per cent of the total Revenue Receipts in the preceding year. The outstanding guarantees (₹77,713 crore) (**Chart 1.16**) at end of 2018-19 stood at 87 per cent of total Revenue Receipts of the preceding year (₹88,824 crore). The outstanding Guarantees were within the FRBM ceiling (90 per cent).



Out of the total loans guaranteed by the Government, 65 per cent pertained to two Special Purpose Vehicles viz., (i) Telangana Drinking Water Supply Corporation for implementation of a flagship project: Mission Bhagiratha and (ii) Kaleshwaram Irrigation Project Corporation Limited for implementation of Kaleshwaram Project (**Chart 1.17**).

Chart 1.17: Entities in receipt of guarantees at the end of 31 March 2019



Source: Finance Accounts

The erstwhile Government of Andhra Pradesh (Combined) issued (September 2003) instructions⁴⁶ to be followed while providing guarantees. Audit analysed the compliance of the instructions contained in the Government Order by the State Government while extending the guarantees during 2018-19. The following are the findings in Audit:

⁴⁶ G.O.Ms.No.446, dated 29 September 2003

- The Government Order required that the financial performance of the borrowing entity shall be analysed in terms of its profitability, operational strength, and financial ratios. However, audit observed that :
 - The Government extended Guarantees (₹3,487 crore) to loans taken by Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB) whose annual accounts were in arrears from 2010-11 onwards.

Box 1.4: Guarantees to Kaleshwaram Irrigation Project Corporation Limited

The Kaleshwaram Irrigation Project was implemented by Irrigation and Command Area Development (I&CAD) Department through a SPV, viz., Kaleshwaram Irrigation Project Corporation Limited (KIPCL). The Detailed Project Report (DPR) of Kaleshwaram Project mentioned that the project would hardly generate any revenues as irrigation water was being provided at a very nominal water charges since the command area lies in the drought prone districts of Telangana. Hence, no analysis of the revenues was made in the DPR since there were no proposals for imposing water charges.

It was observed in audit that while providing guarantees of ₹27,990 crore to KIPCL for obtaining loans from various Banks, the I&CAD Department stipulated a condition that KIPCL shall undertake to repay the loans through revenue accruals from the project or project revenues.

In view of the mention in the DPR that there might be hardly any revenues from the Project, there is a risk that the Guarantee given by the State Government to KIPCL turns out to be an off budget borrowing.

The above indicates that the State Government provided Guarantees to the organisations without ensuring financial accountability through which financial performance could be assessed. Providing Guarantees without proper risk evaluation assumes importance in the back ground that all the Guarantees given by the Government were categorised as 100 *per cent* risk weighted as per the Statement of Fiscal Policy presented to the Legislatures.

- The Government Order of 2003 stipulated that the guarantee shall cover only the principal portion of the loan and not the interest thereon. In case, interest was also to be guaranteed, the reason for the same shall be detailed by the borrowing entity, and the same shall be examined by the Government. Guarantees worth ₹3,230 crore were, however, extended by the Government for three institutions⁴⁷ covering interest portion also. No reasons were found on record or furnished to audit for extending guarantees for the interest portion.
- Further, the GO also stipulated a Guarantee Commission of 0.5 *per cent* per annum or two *per cent* consolidated for the entire guarantee period from the borrowing entity. As such, Guarantee Commission of ₹388.56 crore⁴⁸ was to be received by the Government to the end of March 2019 from 26 institutions to which Guarantees of

⁴⁷ Telangana State Sheep and Goat Development Cooperative Federation Limited (₹3,160 crore), Singareni Collieries Company Limited (₹66.33 crore) and Co-operative Sugar Factories (₹4.02 crore)

⁴⁸ calculated at a rate of 0.5 *per cent* on the total guaranteed amount of ₹77,713 crore

₹77,713 crore were provided. Guarantee Commission of, however, ₹340 crore was received under Miscellaneous General Services from only one institution viz., Telangana State Water Resources Infrastructure Development Corporation Limited (TSWRIDCL). This was much higher (₹319.29 crore) than the Guarantee Commission of ₹20.71 crore actually receivable from TSWRIDCL on outstanding guarantees of ₹4,141 crore.

As the accretions by way of Guarantee Commission realised during the year would have to be transferred to Guarantee Redemption Fund in the succeeding year, short collection would make the GRF underfunded.

1.7.3 Debt Management

Outstanding Public Debt (internal debt and Loans and Advances from Government of India) of the State Government as of 31 March 2019 is ₹1,65,164 crore. The Outstanding Public Debt increased by 16 per cent over the preceding year, at a slightly higher rate than the growth of GSDP.

1.7.3.1 Debt analysis – Debt Sustainability and trends of debt repayment

Debt sustainability is defined as the ability of the State to service its debt liability in the future. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings, with returns from such borrowings. It means that increase in Fiscal Deficit should match with the increase in capacity to service the debt. **Table 1.23** analyses the Debt sustainability of the State according to these indicators.

Table 1.23: Debt Sustainability: Indicators and Trends

Particulars	2015-16	2016-17	2017-18	2018-19
Rate of growth of outstanding debt (public debt and other liabilities) (in per cent)	22.67	37.50	23.09	18.76
Rate of growth of GSDP (in per cent)	14.24	14.04	14.38	14.84
Average interest rate of outstanding debt	8.50	7.40	7.20	6.90
Interest Payments/Revenue Receipt (in per cent)	9.93	10.40	12.20	12.41
Receipts under Public Debt and other liabilities (₹ in crore)	61,136	91,902	1,06,641	1,17,715
Repayment (principal and interest) under public debt and other liabilities (₹ in crore)	50,581	68,160	89,039	1,03,666
Debt Redemption ((Principal + Interest Payments) / Debt Receipts) (in per cent)	82.74	74.17	83.49	88.07
Net Availability of Borrowed Fund (₹ in crore) (per cent)	10,555 (17.26)	23,742 (25.83)	17,602 (16.51)	14,049 (11.93)

Source: Finance Accounts

Notes: Receipts and Repayments under Public Debt include Ways and Means Advances

The following are observed:

- **Interest Payments:** Interest payments are increasingly consuming Revenue Receipts. Interest payments as percentage of Revenue Receipts increased from 9.93 per cent in 2015-16 to 12.41 per cent in 2018-19. The interest payments relative to Revenue Receipts were much higher at 12.41 per cent in comparison to the target of 8.37 per cent fixed by XIV Finance Commission.

- **Net Availability of Borrowed Funds:** The Net Availability of Borrowed Funds (NABF) indicates the amount that can be utilised by Government for its activities after payment of interests and repayment of borrowings. The NABF for purpose other than Debt repayment was ₹14,049 crore. The net availability of borrowed funds was lower in 2018-19 in comparison to 2017-18, when it was ₹17,602 crore.

It can be noted that there was a decrease (₹3,553 crore) in NABF despite higher (₹2,908 crore) market borrowings in comparison to 2017-18 (₹26,231 crore) on account of higher interest payments (₹1,750 crore) and higher principal repayments (₹12,877 crore). As a result, only 11.93 *per cent* of borrowed funds were available as compared to 16.51 *per cent* in 2017-18 .

- **Domar Model of Debt sustainability :** Fiscal Deficit of the State as a proportion of GSDP has fluctuated during the last four years between 2015-16 (3.23 *per cent*) and 2018-19 (3.11 *per cent*) with higher fiscal deficits in 2016-17 (4.3 *per cent*) and 2017-18 (3.55 *per cent*). The State registered Revenue Surplus and Primary Deficit during 2015-16 to 2018-19.

There are various approaches at assessing the debt sustainability, one such approach is Domar model⁴⁹.

An analysis on debt sustainability was carried out using this approach. The details are as follows:

g-r (g: real economic growth rate; r : real interest rate without taking inflation in to account)	s<0 (primary deficit) (s: Primary Balance)	s>0 (primary surplus) (s: Primary Balance)
g-r > 0 (strong economic growth)	public debt will converge to a stable level greater than zero	public debt will converge to a stable level less than zero leading to public savings
g-r < 0 (slow economic growth)	public debt will increase indefinitely, without converging to a stable level	undefined situation

The results of applying the analysis to Telangana are shown in **Table 1.24** below:

Table 1.24: Debt Sustainability as per Domar model

Year	Real Growth rate (g)	Real Interest rate (r)	Domar gap (g-r)	Primary Deficit (-) / Surplus ((+) s) (₹ in crore)
2015-16	11.58	2.98	8.60	(-) 11,298
2016-17	9.39	1.25	8.14	(-) 26,672
2017-18	10.15	3.35	6.80	(-) 15,864
2018-19	10.50	4.31	6.19	(-) 14,363

Source: Finance Accounts

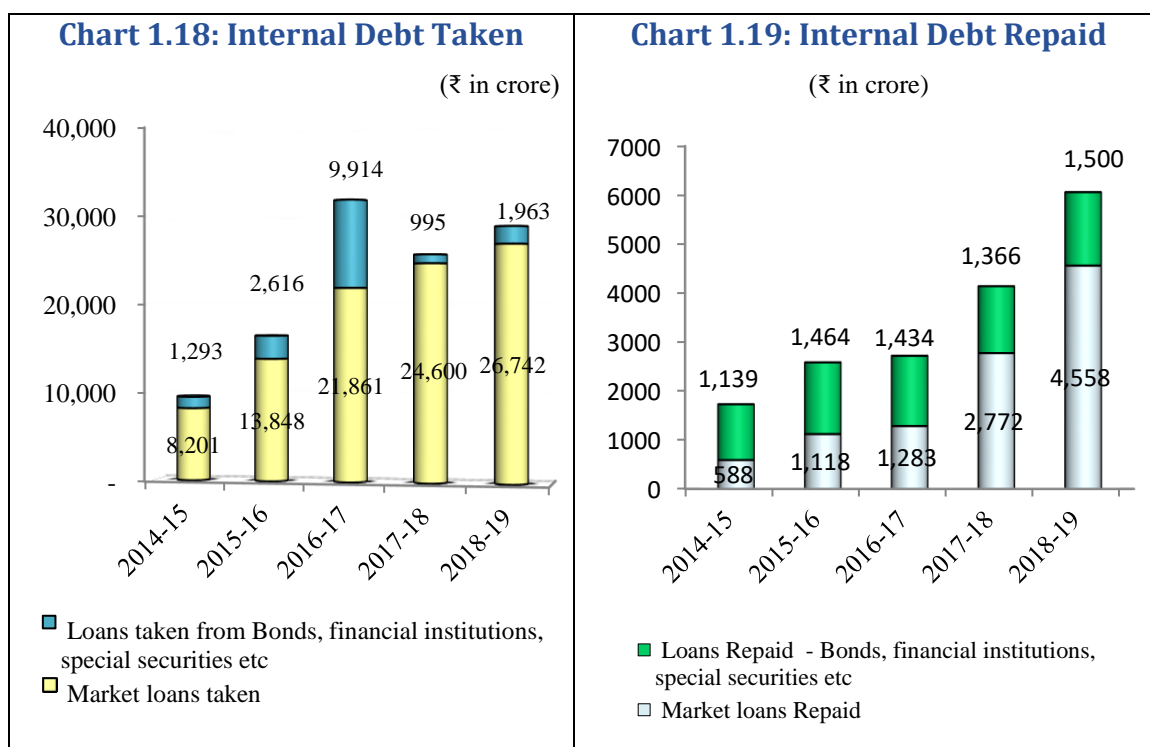
Further, Debt to GSDP ratio stood at 22.75 *per cent* and the Fiscal Deficit to GSDP ratio at 3.11 *per cent* in 2018-19. The corresponding Fiscal target of Debt limit as per Fiscal Responsibility and Budget Management (FRBM) Act, 2005 (amended in 2016) was 25 *per cent*, and Fiscal Deficit ceiling was 3.5 *per cent* of GSDP. Fiscal target of Debt limit as per XIV FC was 23.33 *per cent* and Fiscal Deficit ceiling was

⁴⁹ E.D. Domar, 1914-1997

3.25 per cent of GSDP. The Capital Expenditure of the State has hovered between 2015-16 (14.3 per cent) and 2018-19 (14.4 per cent) with higher Capital Expenditure in 2016-17 (28.2 per cent) and 2017-18 (16.7 per cent).

During 2014-15 to 2018-19, the State has registered primary deficit. However, it is seen that the Domar gap (g-r) is positive during the entire period from 2015-16 to 2018-19. Therefore, as per the Domar model, the public debt is stated to be stable. It is, however, noteworthy that the Domar gap (g-r) has been registering a decreasing trend. Moreover, other factors such as public account liabilities and *force majeure* events⁵⁰ and/or any other un-inventoried losses of revenue also have to be reckoned in assessing the debt sustainability/stability of the State⁵¹.

- Market borrowings** : Market borrowings (₹1,33,719 crore) form a major portion (85 per cent) of the internal debt (₹1,56,933 crore) of the State Government, with interest rates ranging from 5 to 13.99 per cent. In 2018-19, the State Government borrowed fresh market loans of ₹26,742 crore (**Chart 1.18**) and repaid ₹4,558 crore (**Chart 1.19**). The outstanding market borrowings as of 31 March 2019 were ₹1,33,719 crore. The net increase of market borrowings during the year was 20 per cent (₹22,184 crore).



Source: Finance Accounts

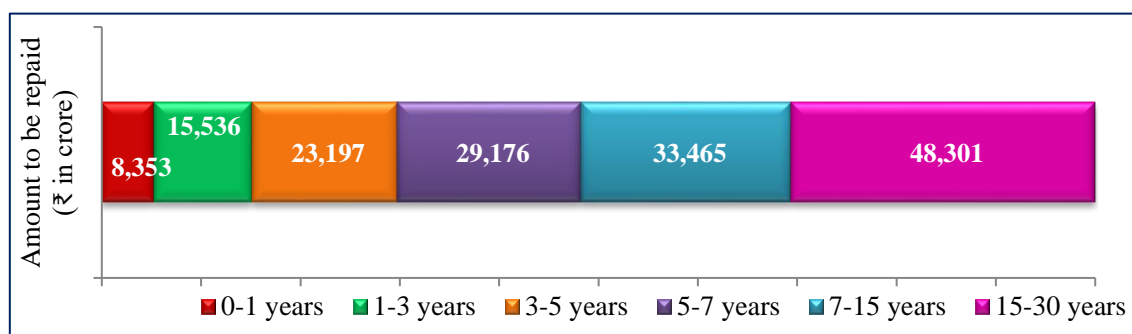
1.7.3.2 Debt repayment schedule

Public Debt maturity profile (**Chart 1.20**) indicates commitment on the part of the Government for debt repayment or debt servicing in the coming years.

⁵⁰ Like current Coronavirus crisis & its effect on GSDP.

⁵¹ As these cannot be anticipated or determined statistically, these have not been factored in the analysis

Chart 1.20: Debt Maturity profile



Source: Finance Accounts

Note: The total of ₹1,58,028 crore above varies with total outstanding debt of ₹1,65,164 crore due to non-availability of maturity details for debt servicing for ₹7,136 crore in the Finance Accounts.

The maturity profile of outstanding stock of public debt as on 31 March 2019 showed that 46 per cent (₹76,262 crore) of the total outstanding debt was to be repaid in next seven years and the balance thereafter. **The State needs to augment its resources or it would be forced to curtail its expenditure to meet the increasing debt repayment burden over the next seven years.**

Out of ₹26,742 crore market borrowings made in 2018-19, repayment of 51 per cent is due in the year 2043 (₹13,718 crore) and 23 per cent in 2038 (₹6,250 crore). This indicates that in 2018-19, the Government has been, borrowing loans with longer maturity of 20 and 25 years with interest rates ranging from 7.75 per cent to 8.75 per cent.

Box 1.5: Long term Projections

The internal debt from market, financial institutions *etc* was ₹1,56,933 crore and Loans and Advances from Government of India was ₹8,231 crore totalling to ₹1,65,164 crore (*paragraph 1.7.1*). Apart from servicing the debt, the State Government is also committed to fund 20 capital intensive irrigation projects that are in various stages of construction. The revised cost of these projects is ₹1,87,848 crore, out of which ₹1,00,494 crore was spent, leaving a further financial requirement of ₹87,354 crore on these delayed projects. There are another six ongoing projects, whose cost is estimated at ₹19,360 crore. Thus, Government will need to gather more than ₹1.78 lakh crore⁵² over the next seven years to meet its commitments.

Government also carries a direct contingent liability for another ₹77,713 crore by way of Guarantees mainly on account of Telangana Drinking Water Supply Corporation for Mission Bhagiratha (₹23,014 crore) and Kaleshwaram Irrigation Project Corporation Limited (₹27,990 crore) for Kaleshwaram Project. In view of the mention in the DPR of Kaleshwaram project that the Project would hardly generate any revenues, the Government would have to shoulder the responsibility of repaying the Loans taken by KIPCL in case it is unable to generate enough resources for servicing the debts.

⁵² ₹76,262 crore towards debt repayment, ₹87,354 crore for commitment towards delayed incomplete irrigation projects and ₹14,326 crore for ongoing irrigation projects

In the year 2018-19, the State Government has provided, *albeit* as a Loan, amounts for payment of interest and repayment of principal in respect of Telangana State Sheep and Goat Development Federation Corporation Limited (₹3,160 crore) for which it stood as a Guarantor.

The above indicates that there is a need for the State Government to undertake a study, supported by future projections, to measure its total fiscal commitments and the ability to meet them. Such study would help in risk assessment on its future borrowings or plan its receipts. It would also help in planning for Government's long-term debt servicing needs in view of longer-term borrowings.

1.8 Fiscal Reform Path

The State Government (combined State), in compliance with the recommendations of the Twelfth Finance Commission (TFC), enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 (amended in 2016).

1.8.1 Disclosures not made

Fiscal Responsibility and Budget Management (FRBM) Act, 2005 places an onus on the State Government to monitor and control the Fiscal Deficit. It also requires the State Government to make disclosures and statements under Section 10 of FRBM Act, 2005 together with Rule 6 of Fiscal Responsibility and Budget Management Rules, 2006.

The State Government, however, did not make the following four out of ten disclosures required to be made:

- Statement of Assets;
- Claims and commitments made by the Government on revenue demands raised but not realised;
- 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.

1.8.2 Fourteenth Finance Commission Ceiling and achievements

Achievement of Government on key indicators in terms of targets prescribed by the XIV Finance Commission with regards to fiscal reform path is as below:

- As per XIV Finance Commission recommendations, the outstanding debt⁵³ to GSDP ratio (in *per cent*) was to be less than 23.33 *per cent* for the year 2018-19. The achievement of the Government was 22.75 *per cent*, which is well within the permissible limit.

⁵³ Total outstanding debt includes Public Debt and Public Account Liabilities

- The ceiling limit prescribed as per the XIV Finance Commission recommendations for Fiscal Deficit was 3.25 *per cent* of the GSDP (₹8,65,688 crore). The achievement in 2018-19 (₹26,949 crore) was 3.11 *per cent*, which is within the limit.

1.9 Apportionment of Assets and Liabilities 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 status of apportionment as on 31 March 2019 is as under (details are at *Appendix I.7*):

- Out of the outstanding un-apportioned balance of ₹17,082.77 crore available under Deposits and Advances, an amount of ₹4,478.89 crore was apportioned to Telangana and ₹8,129.83 crore was apportioned to Andhra Pradesh in 2018-19 leaving un-apportioned balance of ₹4,474.04 crore.
- An amount of ₹1,51,349.67 crore under Capital Heads, ₹28,099.69 crore under Loans and Advances, ₹4,474.04 crore under Deposits and Advances, ₹238 crore under Suspense and Miscellaneous and ₹310.24 crore under Remittances was yet to be apportioned even after more than five years of State Re-organisation. Major amounts under Capital Head pertain to Major Irrigation (₹87,707.44 crore) and Roads and Bridges (₹17,182.87 crore). Major amount under Loans and Advances pertain to Loans for Housing (₹13,182.17 crore).

As such the depicted assets and liabilities of the State Government in the Finance Accounts are affected to that extent.