

Executive Summary

Fiscal situation of the State

There has been an increase in growth of Revenue Receipts (RR) and Revenue Expenditure (RE) during the years 2015-16 to 2018-19. As a percentage of Gross State Domestic Product (GSDP), however, both RR and RE have decreased marginally in 2018-19. The growth rates of RR and RE have risen in 2018-19 and came close to the growth rate of GSDP. Capital Expenditure (CE) has decreased in 2018-19 in comparison to preceding year as well as in comparison to GSDP.

(Paragraph 1.2)

The State registered a Revenue Surplus of ₹4,337 crore. The Fiscal Deficit was ₹26,949 crore. Revenue Surplus, however, was overstated by ₹9,481.97 crore and Fiscal Deficit was understated by ₹217.86 crore on account of misclassifications and non-contribution to Statutory Funds. Effectively, there was a Revenue Deficit of ₹5,144.97 crore and a Fiscal Deficit of ₹27,166.86 crore.

The two important fiscal parameters were within the limits, viz., (i) Fiscal Deficit was 3.11 *per cent* of GSDP (₹8,65,688 crore) and within the limit of 3.25 *per cent* prescribed by 14th Finance Commission (XIV FC) and 3.5 *per cent* target set out in Medium Term Fiscal Policy Statement of the State Government as per FRBM Act; (ii) the total outstanding liabilities (₹1,96,963 crore) were 22.75 *per cent* of the GSDP, which is within the limit of 23.33 *per cent* prescribed by XIV FC and also within 25 *per cent* as targeted by Medium Term Fiscal Policy Statement (MTFP) of the State Government.

Primary Deficit (₹14,363 crore), in 2018-19, has decreased by nine *per cent* in comparison to preceding year (₹15,864 crore). Primary Deficit, though decreased, indicates that the non-debt receipts were not sufficient to meet Primary Expenditure.

(Paragraph 1.3.1)

Mobilisation and application of Resources

Revenue Receipts (₹1,01,420 crore) in 2018-19 increased by ₹12,596 crore (14 *per cent*) over 2017-18. They were, however, lower than the budget estimates by ₹29,555 crore (23 *per cent*).

Revenue Expenditure (₹97,083 crore) in 2018-19 increased by ₹11,718 crore (14 *per cent*) over 2017-18. It was, however, lower than the budget estimates by ₹28,372 crore (23 *per cent*).

Capital Expenditure (₹22,641 crore) in 2018-19 decreased by ₹1,261 crore (five *per cent*) in comparison to 2017-18, which was, however, lower than the budget estimates by ₹10,728 crore (32 *per cent*).

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

(Paragraphs 1.2 and 1.3.2)

Summary of important audit findings and recommendations

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 in respect of Taxes on Vehicles, Stamps and Registration Fees, while there was improvement in efficiency in respect of Taxes on Sales, Trade *etc.*, State Goods and Services Tax and State Excise.

(Paragraph 1.4.2.2)

Committed Expenditure

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 by six *per cent* from 61 *per cent* of Revenue Expenditure in 2017-18 to 55 *per cent* in 2018-19.

There was increase in interest payments (16 *per cent*), subsidies (two *per cent*) and salaries (1.5 *per cent*). Pension payments, on the other hand, decreased by four *per cent*. Greater reliance on market borrowings by the Government in the recent years has led to increase in liabilities on account of interest payments.

(Paragraph 1.5.2.1)

Adequacy of public expenditure

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.

(Paragraph 1.5.4.1)

Per Capita expenditure in some major socio economic sectors

The 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*).

(Paragraph 1.5.4.2)

National Pension System

There was an overall shortfall in contribution by Government to a tune of ₹57.50 crore as compared to contribution by the employees during the last five years. As a result, the current liability of the Government stands deferred to future years.

An amount of ₹1,445.14 crore (inclusive of all receipts, apportionment amount and opening balance) was received into NPS deposit account, out of which the Government transferred an amount of ₹1,171.58 crore to National Securities Depository Limited (NSDL), leaving a closing balance of ₹273.57 crore in the NPS Deposit Account.

An amount of ₹730.64 crore available under National Pension System (NPS) deposit account *i.e.*, Defined Contributory Pension Fund as of 01 April 2018 was to be apportioned between Andhra Pradesh and Telangana. Out of this, an amount of ₹365.21 crore was apportioned in 2018-19 between the two States and Telangana received ₹134.60 crore. An amount of ₹365.43 crore was yet to be apportioned.

Thus, 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.

(Paragraph 1.5.2.4)

Capital Outlays: Incomplete Projects

The State Government has spent ₹1,01,877 crore on capital projects during the years 2014-19. Within the capital projects, the major share of the Capital Expenditure was on Irrigation and Flood Control. Delays in completion of projects, however, not only adversely affected the quality of the expenditure but also deprived the State of the intended benefits and economic growth. Out of 26 ongoing projects, 20 projects were delayed with delays ranging from three months to 11 years and led to escalation of projected cost to ₹1,87,848 crore. An amount of ₹1,00,494 crore was already spent on these incomplete projects so far. The State Government did not disclose the financial results of any of the Irrigation projects.

Recommendation: *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.*

(Paragraph 1.6.1)

Investments

As of 31 March 2019, the State Government's investment in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives stood at ₹19,754 crore. The Return on Investment (RoI) from Corporations / Companies was low at 0.48 *per cent* while the average rate of interest on Government borrowings was 6.93 *per cent*.

(Paragraph 1.6.2)

Loans and Advances given by the State Government

As of 31 March 2019, Loans and Advances given by the Government to Autonomous Bodies, Corporations *etc.*, were ₹24,509 crore. While the average rate of interest payments as a percentage of outstanding liabilities is 6.39 *per cent*, the interest receipts as a percentage of outstanding Loans and Advances was only 0.03 *per cent*.

Out of ₹24,509 crore loans provided, 28 *per cent i.e.*, ₹6,920 crore were provided to Autonomous Bodies without definite stream of revenues of their own for debt servicing. Thus, such Loans do not indicate real worth of Government assets.

Government provided loans (₹5,932.30 crore) to Hyderabad Metropolitan Water Supply and Sewerage Board, whose annual accounts were in arrears from 2010-11. Government also gave fresh loans of ₹1,083.32 crore to three autonomous bodies for servicing their past loans.

The current level of recovery of loans was very low. In the Budget estimates, an amount of ₹7,807 crore was estimated to be recovered in 2018-19. The actual recovery (₹66 crore), however, was only 0.85 per cent of the estimated recovery.

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

(Paragraph 1.6.3)

Ways and Means Advances

State Government maintained the mandatory minimum daily cash balance of ₹1.38 crore with RBI for only 197 days during the year. The State Government depended on Special Drawing Facility (for 168 days: ₹5,606.47 crore), Ways And Means Advances (for 135 days: ₹13,616.88 crore) and Over Draft (for 32 days: ₹2,599.92 crore) for maintaining the minimum balance with RBI. In monetary terms, however, SDF / WMA / OD decreased by ₹1,099 crore (five per cent decrease) in 2018-19 over 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.

(Paragraph 1.6.4)

Contribution to Reserve Funds

State Government was to contribute ₹829.25 crore to the Consolidated Sinking Fund (CSF) in 2018-19. 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.

The shortfall in contribution to Guarantee Redemption Fund (GRF) in the year 2018-19 was ₹188.56 crore. The State Government did not contribute in 2016-17 and 2017-18, though, it contributed ₹83.94 crore in 2015-16. The total available balance (₹837.69 crore) in GRF as of March 2019 was only 1.08 per cent of the outstanding amount of guarantees (₹77,713 crore) as against the target of three per cent.

(Paragraph 1.7.1)

Guarantees

Guarantees (₹77,713 crore) given by the Government to the end of 2018-19 stood at 87 per cent of total Revenue Receipts of the preceding year (₹88,824 crore) and was within the ceiling of 90 per cent. It was noted that the State Government was extending Guarantees to bodies that had not finalised their accounts.

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.

Guarantee Commission of ₹388.56 crore was to be received by the Government to the end of March 2019 from 26 institutions to which Guarantees of ₹77,713 crore were provided. Guarantee commission of ₹340 crore was, however, received from only one institution *viz.*, Telangana State Water Resources Infrastructure Development Corporation Limited (TSWRIDCL). This was much higher than the Guarantee Commission actually receivable from TSWRIDCL on the outstanding guarantees of ₹4,141 crore.

(Paragraph 1.7.2)

Debt Management

Outstanding Public Debt (₹1,65,164 crore) increased by 16 *per cent* in 2018-19 over the preceding year, at a slightly higher pace than growth of GSDP. Interest payments are increasingly consuming Revenue Receipts. Interest payments relative to Revenue Receipts were much higher at 12.41 *per cent* against the target of 8.37 *per cent* fixed by XIV Finance Commission.

Net Availability of Borrowed Funds (NABF) indicate the amount that can be utilised by Government for its activities after payment of interests and repayment of borrowings. There was a decrease (₹3,553 crore) in NABF despite higher market borrowings (₹2,908 crore) in comparison to 2017-18 (₹26,231 crore) on account of higher interest payments (₹1,750 crore) and higher principal repayments (₹12,877 crore).

The difference between real growth rate and real interest rate *i.e.*, Domar gap is positive during the period from 2015-16 to 2018-19. Therefore, as per Domar model, the Public Debt is stated to be stable. It is, however noteworthy that the Domar gap has been registering a decreasing trend. Moreover, other factors such as public liabilities and *force majeure* events have to be reckoned in assessing debt sustainability / stability of the State.

The maturity profile of outstanding public debt as of March 2019 showed that 46 *per cent* (₹76,262 crore) of total outstanding public debt is to be repaid over the next seven years.

(Paragraph 1.7.3)

Fiscal Reform Path

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

FRBM Act, 2005 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 four out of ten disclosures required to be made.

(Paragraph 1.8)

Apportionment of Assets and Liabilities between Andhra Pradesh and Telangana

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 between Andhra Pradesh and Telangana even after more than five years of State Re-organisation.

(Paragraph 1.9)

Excess expenditure

Excess expenditure of ₹29,133.69 crore was incurred in seven Grants and two Appropriations. A total expenditure of ₹3,507.17 crore was incurred at sub-head level without any budget provision in 34 cases. Persistent Excess expenditure occurred in Fiscal Administration, Planning, Surveys and Statistics and Home Administration Grants.

This is in violation of Article 204 of the Constitution which provides that no money shall be withdrawn from the Consolidated Fund except under appropriation by Law by the State Legislature. This vitiates the system of budgetary and financial control and encourages financial indiscipline in management of public resources.

Recommendation: Finance Department should ensure that no expenditure is incurred without budget provision or in excess to what has been passed by the Legislature. Government may analyse the reasons for persistent Excess expenditure, placing Grant IX – Fiscal Administration on priority.

(Paragraph 2.3.2.1)

Excess expenditure requiring regularisation

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get Excess expenditure over a Grant / Appropriation regularised by the State Legislature. State Government did not get the Excess expenditure of ₹55,517.30 crore, over and above the allocation pertaining to the years 2014-15 to 2017-18, regularised.

Recommendation: All the existing cases of Excess expenditure need to be regularised on priority. State Government may place a mechanism to check Excess expenditures which did not have the vote of State Legislature.

(Paragraph 2.3.2.2)

Savings

In the year 2018-19, the total savings were ₹66,614 crore, of which, ₹61,856 crore (93 per cent) pertain to 39 Grants with savings of more than ₹100 crore each and by more than 20 per cent of the total provision. In addition, during the years 2014-19, there were six Grants with persistent savings of more than ₹1,000 crore in each year.

Persistent Savings indicate that the schemes under these Grants did not receive the required priority by the Government or there was inefficiency in implementation by the Departments concerned / implementing agencies or both.

(Paragraph 2.3.2.3)

Re-appropriations

Re-appropriations are meant for transfer of saving in one scheme / unit to another within the same Grant and under same section (*i.e.*, Capital, Revenue or Loans). Finance Department, however, issued re-appropriation orders to mainly withdraw the budget provisions, on the last day of the financial year. There were several deficiencies in Re-appropriations like decrease of provisions in cases of Excess expenditures, augmentation of provision in cases of savings, issuing orders for withdrawing of entire provision whilst incurring full expenditure, issue of Re-appropriation orders without budget provisions, orders of withdrawing the provision of charged expenditure, unnecessary re-appropriation *etc.*

Recommendation: *By leveraging advancements in Information Technology, the State Government may issue Re-appropriation orders on the basis of real-time data so that the funds are utilised in an optimum manner.*

(Paragraph 2.5)

Rush of Expenditure

During 2018-19, out of the total expenditure of ₹1,61,570.20 crore, an amount of ₹55,077.98 crore (34.09 *per cent*) was spent in the last quarter of the financial year. However, it was observed that an amount of ₹50,179.11 crore (32.92 *per cent* of the total receipts of ₹1,52,447.94 crore) was received during the last quarter only. The expenditure during the last quarter this year was higher by 6.03 *percentage* points in comparison to 2017-18 when the expenditure during the last quarter was ₹41,848.98 crore (28.06 *per cent* of the total expenditure of ₹1,49,127.91 crore).

A Budget Provision of ₹2,400 crore was allocated under 4801 - Capital Outlay on Power Projects. Out of this, expenditure of ₹1,800 crore (75 *per cent*) was incurred in the month of March 2019.

(Paragraph 2.6)

Advances from Contingency Fund

An amount of ₹17.18 crore was sanctioned as advance from Contingency Fund, out of which an expenditure of ₹15.96 crore was incurred towards decretal charges and to deposit amounts in different courts in connection with acquisition of lands for various developmental activities of the Government. No expenditure was incurred in respect of ₹1.21 crore. In respect of ₹0.01 crore, neither expenditure was incurred, nor recoupment took place. On the whole, an amount of ₹15.07 crore only was recouped back to Contingency Fund. This indicates that the advances from Contingency Fund were not drawn with due diligence; were not spent after drawal; and were not fully recouped within the financial year.

(Paragraph 2.7)

Personal Deposit (PD) Accounts

The State Government reported that 182 accounts fall under the definition of Personal Deposit (PD) Accounts. This was at variance with the number of PD accounts reported in earlier years (28,674 in 2017-18 and 28,087 in 2016-17). The proliferation of number of

PD accounts in earlier years was owing to absence of unique ID to PD Administrators, considering all the Deposit Accounts operated by each Designated Drawing Officers as a separate PD account. Out of the 13,396 Category 'C' Deposit Accounts, all the test checked accounts (52) were operated as PD accounts at field level. Hence, the number of PD accounts reported as 182 was at variance with the situation at field level.

Amounts of ₹3,576 crore and ₹4,946 crore were transferred to Category 'C' Deposit Accounts in the months of March 2018 and March 2019 respectively, indicating that the PD accounts were being utilised for transfer of funds at the fag end of financial year to avoid lapse of budget.

PD Administrators in respect of seven test checked cases deposited an amount of ₹721.36 crore in Current Account / Savings Bank Account / Fixed Deposit Receipt account.

Unspent balances in respect of seven cases amounting to ₹467.38 crore in Category 'C' Deposit accounts pertaining to 2018-19, which should have been lapsed in view of the spirit of Budget Manual, Financial Code were not lapsed. Unspent balances in respect of five test checked cases amounting ₹309.64 crore pertaining to earlier financial years (*i.e.*, 2016-17 and 2017-18), which were to be lapsed as per Government Orders (April 2000) were not lapsed to the Government account at the end of 2018-19.

As per the information furnished by Directorate of Treasuries and Accounts, amounts of ₹321 crore and ₹2,606 crore were lapsed and credited to Government account as Revenue Receipts in March 2018 and March 2019 respectively, instead of as minus debit to the corresponding service Head of Account, resulting in overstatement of both Receipts and Expenditure.

Out of the 125 PD accounts reported to be in operation, there was no expenditure in respect of 76 accounts; no receipts in 40 accounts; and no balance in respect of 12 accounts.

Recommendation: Government may consider assigning a Unique ID to each PD Administrator. Government may review its orders of April 2000 to align them with Budget Manual and Financial Code. State Government may review Category 'C' Deposit Accounts being operated as PD accounts and bring them under the relevant Head of Account. State Government may also initiate action to close the inoperative PD accounts.

(Paragraph 3.1)

Submission of Annual Accounts by Autonomous Bodies

None of the 24 Autonomous Bodies, which were to submit their Annual Accounts for certification to Comptroller and Auditor General of India submitted their Annual Accounts in time. There were delays ranging from one to nine years in submission of accounts.

Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB) did not submit annual accounts from 2010-11 onwards. Despite non-rendering of accounts for nine years, the Government has been providing Loans and Guarantees to HMWSSB. The State Government has provided ₹874.80 crore as Loans to HMWSSB in 2018-19 alone. The total Loans outstanding as of March 2019 stood at ₹5,932.30 crore. Further, the value of Guarantees given by State Government to HMWSSB also increased from ₹3,399 crore (March 2018) to ₹3,487 crore (March 2019).

Metropolitan Legal Services Authority and Telangana State Group Life Insurance did not submit even their first Annual Accounts since 2010-11 and 2014-15 respectively, as of December 2019.

(Paragraph 3.4)

Submission of Detailed Contingent bills

Detailed Contingent bills (2,969) of funds drawn for items of contingent nature were not submitted for ₹340.39 crore, in the absence of which there was no assurance that the money was spent for purpose for which they were drawn. Out of the above, 1,651 bills worth ₹193.54 crore pertain to only three Departments. Further, there were 365 AC bills amounting to ₹30.12 crore pertaining to the period prior to bifurcation of the State.

Advances drawn and not accounted for increases the possibility of wastage / mis-appropriation / malfeasance *etc.*

(Paragraph 3.6)