

Chapter 2
Finances of the State

2.1 Introduction

This Chapter provides a broad perspective of the finances of the State, analyses the critical changes in key fiscal aggregates relative to preceding years, overall trends during the five-year period 2015-16 to 2019-20, debt sustainability of the State and key Public Account transactions, based on the Finance Accounts of the Government of Telangana.

2.2 Major changes in Key fiscal aggregates vis-à-vis 2018-19

A bird's eye view of major changes in key fiscal aggregates of the State during 2019-20, compared to the preceding year is given in *Table 2.1*.

Table 2.1: Changes in key Fiscal Aggregates in 2019-20 compared to 2018-19

Revenue Receipts	<ul style="list-style-type: none"> ➤ Revenue Receipts of the State increased by 1.11 per cent ➤ Own Tax receipts of the State increased by 4.52 per cent ➤ Own Non-tax receipts decreased by 26.45 per cent ➤ State's Share of Union Taxes and Duties decreased by 13.86 per cent ➤ Grants-in-Aid from Government of India increased by 41.83 per cent
Revenue Expenditure	<ul style="list-style-type: none"> ➤ Revenue Expenditure increased by 12.07 per cent ➤ Revenue Expenditure on General Services increased by 6.56 per cent ➤ Revenue Expenditure on Social Services increased by 15.39 per cent ➤ Revenue Expenditure on Economic Services increased by 14.53 per cent ➤ Expenditure on Grants-in-Aid decreased by 100 per cent
Capital Expenditure	<ul style="list-style-type: none"> ➤ Capital Expenditure decreased by 25.54 per cent ➤ Capital Expenditure on General Services decreased by 8.25 per cent ➤ Capital Expenditure on Social Services decreased by 68.59 per cent ➤ Capital Expenditure on Economic Services decreased by 11.45 per cent
Loans and Advances	<ul style="list-style-type: none"> ➤ Disbursement of Loans and Advances decreased by 0.07 per cent ➤ Recoveries of Loans and Advances decreased by 6.06 per cent
Public Debt	<ul style="list-style-type: none"> ➤ Public Debt Receipts increased by 48.21 per cent ➤ Repayment of Public Debt increased by 59.28 per cent
Public Account	<ul style="list-style-type: none"> ➤ Public Account Receipts decreased by 27.41 per cent ➤ Disbursement of Public Account decreased by 30.40 per cent
Cash Balance	<ul style="list-style-type: none"> ➤ Cash Balance increased by ₹ 4,878 crore (67.58 per cent) during 2019-20 compared to previous year

Source: Finance Accounts

2.3 Sources and Application of Funds

Comparison of the components of the sources and application of funds of the State during 2019-20 with those of the preceding year is shown in *Table 2.2*, while *Chart 2.1* and *Chart 2.2* give the details of receipts into and expenditure out of the Consolidated Fund of the State during 2019-20 in terms of *percentages*.

Table 2.2: Sources and Application of funds during 2018-19 and 2019-20

(₹ in crore)

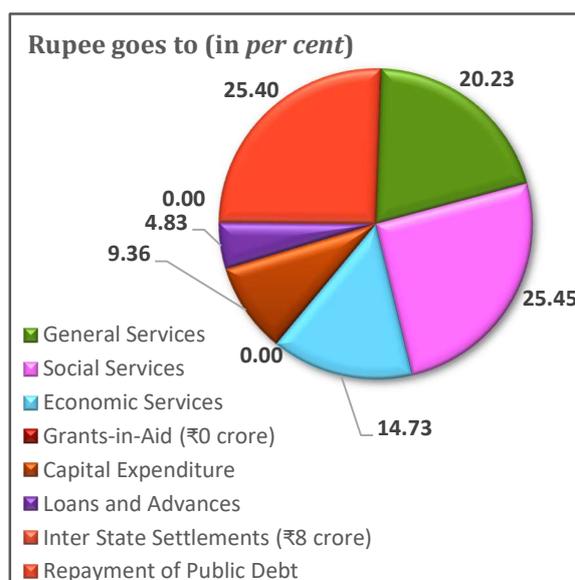
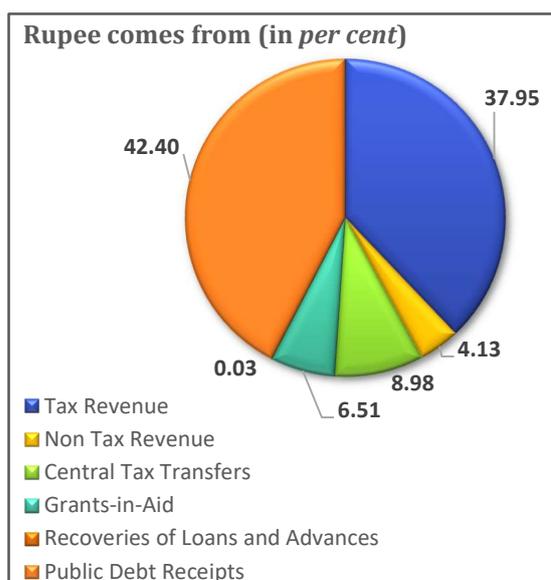
	Particulars	2018-19	2019-20	Increase / Decrease
Sources	Opening Cash Balance with RBI	6,993	7,218	225
	Revenue Receipts	1,01,420	1,02,544	1,124
	Recoveries of Loans and Advances	66	62	(-) 4
	Public Debt Receipts (Net)	22,246	29,793	7,547
	Public Account Receipts (Net)	4,930	6,846	1,916
	Total	1,35,655	1,46,463	10,808
Application	Revenue Expenditure	97,083	1,08,798	11,715
	Capital Expenditure	22,641	16,859	(-) 5,782
	Disbursement of Loans and Advances	8,706	8,700	(-) 6
	Inter-State Settlement	5	8	3
	Net Contingency Fund	2	2	0
	Closing Cash Balance with RBI	7,218	12,096	4,878
	Total	1,35,655	1,46,463	10,808

Source: Finance Accounts

Closing cash balance with RBI consists of cash balance investments and investments in earmarked funds including Sinking Fund and Guarantee Redemption Fund.

Chart 2.1: Composition of Resources

Chart 2.2: Application of Resources

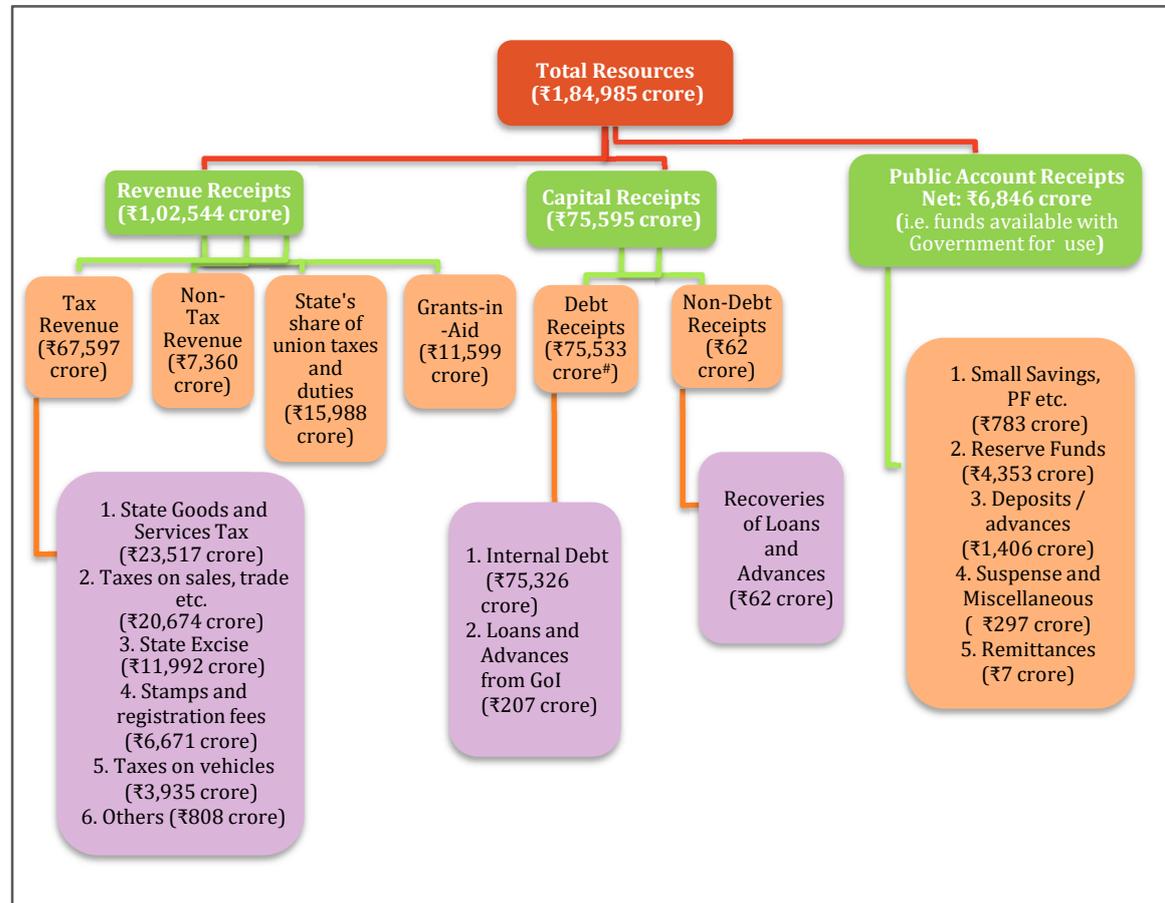


Source: Finance Accounts

2.4 Resources of the State

Chart 2.3 depicts the composition of resources of the State during 2019-20.

Chart 2.3: Composition of Receipts of the State during 2019-20



Source: Finance Accounts

Total Resources of the State during 2019-20 were ₹1,84,985 crore. Out of this, ₹1,34,365 crore (72.63 per cent) are State's own Receipts (Revenue Receipts including Own Tax Revenue, Non-Tax Revenue and Capital Receipts consisting of borrowings).

As depicted in **Table 2.1**, Revenue Receipts have increased only by 1.11 per cent during 2019-20 over the preceding year.

Revenue Receipts were also affected by decreased receipts on account of State share of net tax transfers from GoI and in unclaimed Deposits, Sale of Land and property, Guarantee fees and Other Receipts, Mineral concession Fees, Rents and Royalties and Other Receipts under Non-Tax Revenue as detailed in the following paragraphs.

2.4.1 State's Revenue Receipts

The trends and growth of Revenue Receipts as well as Revenue buoyancy with respect to GSDP during the five-year period 2015-20 are shown in **Table 2.3**.

Table 2.3: Trend in Revenue Receipts

Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Receipts (RR) (₹ in crore)	76,134	82,818	88,824	1,01,420	1,02,544
Rate of growth of RR (<i>per cent</i>)	49.16 ¹	8.78	7.25	14.18	1.11
Own Tax Revenue (₹ in crore)	39,975	48,408	56,520	64,674	67,597
Non-Tax Revenue (₹ in crore)	14,414	9,782	7,825	10,007	7,360
Rate of growth of Own Revenue (Own Tax and Non-Tax Revenue) (<i>per cent</i>)	52.20	6.99	10.58	16.06	0.37
Gross State Domestic Product (₹ in crore) (2011-12 Series)	5,77,902	6,58,325	7,53,127	8,61,031	9,69,604
Rate of growth of GSDP (<i>per cent</i>)	14.24	13.92	14.40	14.33	12.61
RR/GSDP (<i>per cent</i>)	13.17	12.58	11.79	11.78	10.58
Buoyancy Ratios					
Revenue Buoyancy w.r.t GSDP (Rate of growth of RR in <i>per cent</i> / Rate of growth of GSDP in <i>per cent</i>)	3.45	0.63	0.50	0.99	0.09
State's Own Revenue Buoyancy w.r.t GSDP	3.67	0.50	0.73	1.12	0.03

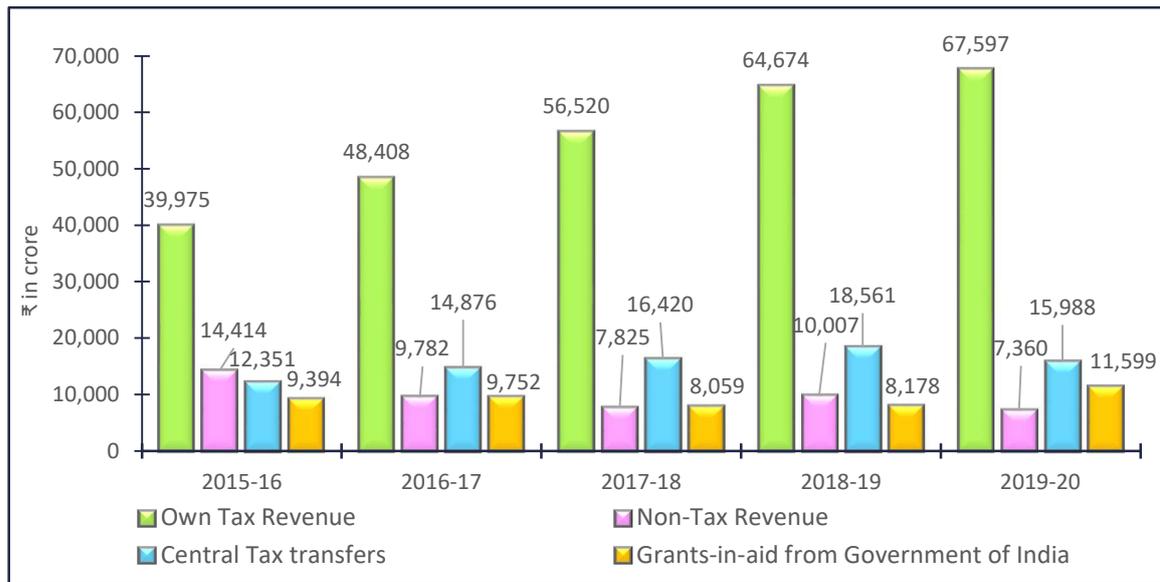
Source: Finance Accounts; for GSDP figures: Ministry of Statistics and Programme Implementation of respective years (figures as on 31 July 2020)

The following can be observed from the above table:

- While the growth rate of GSDP has consistently been higher than 10 *per cent*, the growth rate of RR has not shown the same consistency. In 2019-20, the growth rate of GSDP and RR was lowest amongst the five-year period. The growth rate of RR has decreased from 14.18 *per cent* in 2018-19 to a meagre 1.11 *per cent* in 2019-20.
- Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. Revenue buoyancy with reference to GSDP in 2019-20 at lower than 'one', registered the lowest in five years and implied that revenue receipts tend to increase by 0.09 *percentage* points, if the GSDP increases by one *per cent*.
- State's Own Revenue (Own Tax and Non-Tax) grew marginally by 0.37 *per cent* and was significantly lower than the increase (12.61 *per cent*) in GSDP.

Trend of composition of Revenue Receipts for the period 2015-20 are given in **Chart 2.4**.

¹ as figures for 2014-15 are for only 10 months (i.e., from 2 June 2014 to 31 March 2015) due to bifurcation of Andhra Pradesh State (combined), growth rate appears high in 2015-16 when compared to 2014-15

Chart 2.4: Trend of composition of Revenue Receipts during 2015-20

Source: Finance Accounts

The Own Tax Revenue has been growing year-on-year. Non-Tax Revenue has decreased in comparison to preceding year and was lowest during the five-year period. Central Tax transfers, which had been increasing during the years 2015-19, registered a dip in 2019-20. Grants-in-Aid from Government of India, on the other hand, have increased.

State Government stated during the Exit Conference (March 2021) that there was an overall economic slowdown across the country coupled with a marginal impact of Covid-19 pandemic during the last few days of March 2020.

2.4.1.1 State's own resources

State's share in Central taxes is determined on the basis of recommendations of the Finance Commission. Grant-in-Aid from Central Government is determined by the quantum of collection of Central Tax receipts and anticipated Central assistance for schemes. State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its Own Tax and Non-Tax sources.

(i) Own Tax Revenue

Own Tax Revenues of the State consist of State Goods and Services Tax (GST), State Excise, Taxes on vehicles, Stamp Duty and Registration Fees, Land Revenue, Taxes on Goods and Passengers, etc.

Own Tax Revenue at ₹67,597 crore in 2019-20 constituted 65.92 per cent of total Revenue Receipts (₹1,02,544 crore) of the year. While it had increased by 4.52 per cent (₹2,923 crore) over the previous year, as a percentage of GSDP however, it declined by 6.97 per cent in 2019-20 over the previous year.

During the current year, major contributors of Own Tax Revenue were State Goods and Services Tax (34.79 per cent), Taxes on Sales, Trades etc., (30.58 per cent) and State Excise (17.74 per cent). Component wise details of State's Own Tax Revenue collected during 2015-20 are detailed in **Table 2.4**.

Table 2.4: Components of State's Own Tax Revenue

(₹ in crore)

Revenue Head	2015-16	2016-17	2017-18	2018-19	2019-20	Sparkline
Taxes on Sales, Trade, etc.,	29,847	34,235	25,107	20,291	20,674	
State Goods and Services Tax	---	---	13,073	23,840	23,517	
State Excise	3,809	5,581	9,421	10,638	11,992	
Taxes on Vehicles	2,309	3,394	3,590	3,762	3,935	
Stamp and Registration Fees	3,102	3,822	4,202	5,344	6,671	
Land Revenue	104	7	4	0.42	1	
Taxes on Goods and Passengers	34	11	88	189	62	
Other Taxes	770	1,358	1,035	610	745	
Total	39,975	48,408	56,520	64,674	67,597	

Source: Finance Accounts

State Goods and Services Tax, State Excise, Taxes on Vehicles, Stamp duty and Registration Fees have been consistently increasing, while Taxes on sales, Land Revenue, Taxes on Goods and Passengers and Other Taxes have shown an undulating trend. The increase in State Excise during 2019-20 was mainly on account of user charges (₹1,036 crore) towards services rendered by the Department².

State Goods and Services Tax

State Government implemented the Telangana Goods and Services Tax (TGST) Act with effect from 01 July 2017. The GST has four components: (i) GST receipts by the Centre (CGST); (ii) GST receipts by the State (SGST); SGST is levied on intra-State supply of goods or services (except alcohol for human consumption and five specified petroleum products³); (iii) Integrated GST (IGST)⁴, a tax on inter-State supply of Goods or Services or both by the Central Government; and (iv) GST Compensation Cess⁵.

The receipts of Telangana in 2019-20 under above components are as under:

- CGST:** The State received ₹4,536.74 crore as share of net proceeds assigned to States under CGST during the year 2019-20.
- SGST:** The actual receipts of SGST were ₹23,629.65 crore during the year; this was reduced by an amount of ₹112.95 crore on account of advance apportionment of IGST, thus the net SGST was ₹23,516.70 crore.
- IGST:** State has not received any IGST during 2019-20.

² towards non-refundable application fee for shop licences

³ Petroleum crude, High speed diesel, Motor spirit (Petrol), Natural gas and Aviation turbine fuel

⁴ 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

⁵ 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

- d) **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 protected 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.

The revenue of Telangana in the base year (2015-16) was ₹16,109 crore. Accordingly, the Protected Revenue for the year 2019-20 was ₹27,207.46 crore⁶.

The State received ₹23,516.70 crore as SGST. The Pre-GST collected as taxes subsumed under SGST during the year was ₹851.52 crore (provisional figures). Since, the total collection (₹24,368.22 crore) of the State under SGST was less than the protected revenue (₹27,207.46 crore) for the year 2019-20, ₹2,839.24 crore was due as GST compensation. An amount of ₹2,263.16 crore was received during 2019-20 as Grants-in-Aid under ‘Compensation for loss of Revenue arising out of implementation of GST’.

(ii) Non-Tax Revenue (NTR)

Non-Tax Revenue refers to income of the State Government generated from sources other than taxation, such as receipts from medical, police, social and community services rendered and supplies made by various Departments of Government, like mining receipts, departmental receipts apart from interest receipts, dividends and profits, etc.

During 2019-20 State’s own NTR (₹7,360 crore) was seven *per cent* of total Revenue Receipts (₹1,02,544 crore). It decreased by ₹2,647 crore in 2019-20 in comparison to preceding year. The decrease (27 *per cent*) in State’s own NTR was mainly due to decrease in Interest Receipts and Miscellaneous General Services.

The component-wise details of Non-Tax Revenue collected during the years 2015-20 are shown in **Table 2.5**.

⁶ Calculated at compounding increase of 14 *per cent* per annum for four years viz., 2016-17, 2017-18, 2018-19 and 2019-20 from the base year revenue of ₹16,109 crore (*i.e.*, ₹16,109 x 1.14 x 1.14 x 1.14 x 1.14 = ₹27,207.46 crore)

Table 2.5: Components of State's Non-Tax Revenue

(₹ in crore)

Revenue Head	2015-16	2016-17	2017-18	2018-19	2019-20	Sparkline
Interest Receipts	2,878	1,791	116	60	18	
Dividends and Profits	69	70	101	94	115	
Other Non-Tax Receipts	11,467	7,921	7,608	9,853	7,227	
(a) Major and Medium Irrigation	34	29	1,527	36	31	
(b) Road Transport	42	31	17	34	46	
(c) Urban Development	1	1	28	9	21	
(d) Education	184	768	336	318	367	
(e) Non-ferrous mining	2,213	3,148	3,593	4,647	3,487	
(f) Other or miscellaneous	8,993	3,944	2,107	4,809	3,275	
Total	14,414	9,782	7,825	10,007	7,360	

Source: Finance Accounts

Most of the components of NTR have been wavering and receipts from non-ferrous mining, which have been increasing for the past four years, have declined during 2019-20.

- The decrease in Interest Receipts, in comparison to preceding year was mainly due to decrease of 65.25 per cent under 'Interest realised on investment of Cash Balances'.
- Revenue under 'Other or Miscellaneous' the component of Miscellaneous General Services decreased by 44.42 per cent during the year primarily due to decrease in (i) Sale of Land and Property by 51.02 per cent (from ₹848.45 crore in 2018-19 to ₹415.59 crore in 2019-20) and (ii) Guarantee Fees by 100 per cent (from ₹340.00 crore in 2018-19 to 'Nil' in 2019-20).
- The higher receipts under other Non-Tax Receipts in the preceding year (2018-19) were on account of lapsing of amounts (₹1,500 crore and ₹800 crore provided as loans in 2017-18 to Telangana State Scheduled Castes Cooperative Development Corporation Limited and Telangana State Scheduled Tribes Cooperative Finance Corporation Limited respectively) lying unutilised in Personal Deposits Accounts.
- Receipts under 'Other or Miscellaneous' the component of 'Other Rural Development Programmes'⁷ includes ₹103.99 crore unspent balances⁸ under Telangana Rural Inclusive Growth Project (TRIGP) consequent to pre-closure of the project. This amount was to be remitted back as reduction of Revenue Expenditure under functional Head of Account from which the expenditure was originally booked. However, the same was remitted into Government Account as Revenue Receipts. This has resulted in overstatement of Revenue Receipts and Revenue Expenditure as well to the extent of ₹103.99 crore.

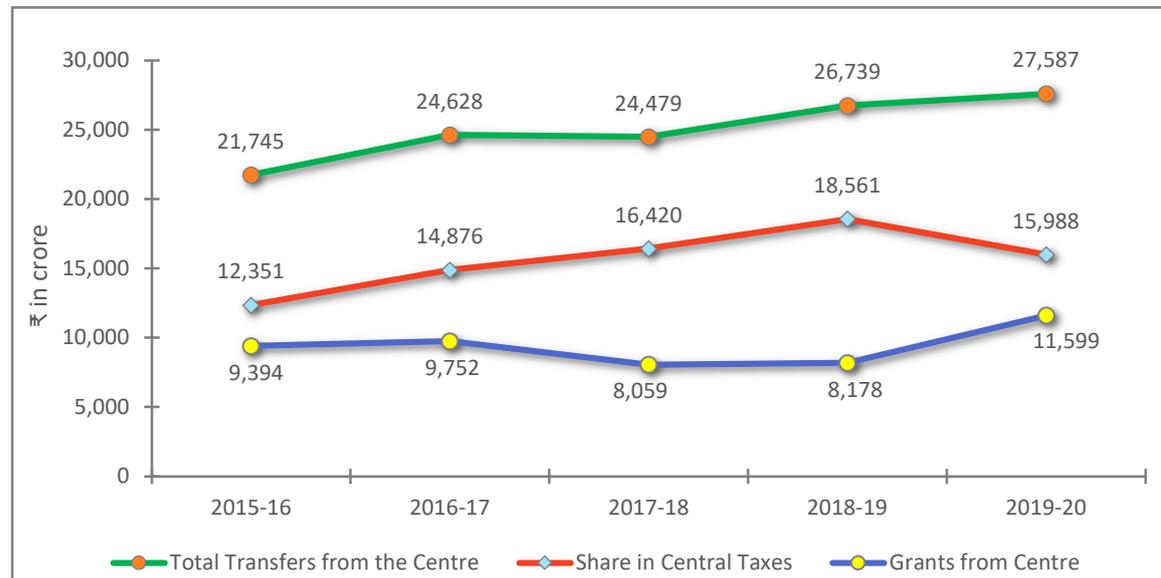
⁷ Head of Account : 0515-800 -Other Receipts

⁸ balance remaining out of the releases of ₹129.10 crore made by State Government to Society for Elimination of Rural Poverty (SERP) during 2015-19 (2015-16 : ₹7.50 crore, 2016-17 : ₹10.00 crore, 2017-18 : ₹11.60 crore and 2018-19 : ₹100.00 crore) under Head of Account 2501-800-310-312 for implementation of TRIGP

2.4.1.2 Devolution of Central Taxes and Grants from the Centre

Trends in transfers from Centre for the period 2015-20 are shown in **Chart 2.5**.

Chart 2.5: Trends in transfers from Government of India



Source: Finance Accounts

Actual devolution of State's share in Union taxes and duties vis-à-vis XIV Finance Commission (FFC) projections for the period 2015-20 are shown in **Table 2.6**.

Table 2.6: State's share in Union taxes and duties: Actual devolution vis-à-vis Finance Commission projections

(₹ in crore)

Year	Finance Commission projections	Projections in FCR	Actual tax devolution	Difference
1	2	3	4	5 (=4-3)
2015-16	2.437 per cent of net proceeds of all shareable taxes excluding service tax and 2.499 per cent of net proceeds of sharable service tax (As per recommendations of FFC)	14,274	12,351	(-),923
2016-17		16,478	14,876	(-),602
2017-18	As per fiscal consolidation roadmap of State Government	16,217	16,420	203
2018-19		18,057	18,561	504
2019-20		19,102	15,988	(-),114

Source: Finance Accounts

(i) Central Tax transfers

The component-wise Central Tax transfers to the State during 2015-16 to 2019-20 are given in **Table 2.7**.

Table 2.7: Central Tax Transfers

(₹ in crore)

Head	2015-16	2016-17	2017-18	2018-19	2019-20
Central Goods and Services Tax (CGST)	--	--	231	4,581	4,537
Integrated Goods and Services Tax (IGST)	--	--	1,657	366	--
Corporation Tax	3,870	4,763	5,027	6,454	5,451
Taxes on Income other than Corporation Tax	2,675	3,310	4,245	4,753	4,271
Customs	1,979	2,049	1,657	1,315	1,013
Union Excise Duties	1,662	2,340	1,731	874	705
Service Tax	2,153	2,404	1,872	172	--
Other Taxes ⁹	12	10	0	46	10
Central Tax transfers	12,351	14,876	16,420	18,561	15,988
Percentage of increase over previous year	50.82	20.44	10.38	13.04	(-)13.86
Percentage of Central tax transfers to Revenue Receipts	16.22	17.96	18.49	18.30	15.59

Source: Finance Accounts

During the current year, Central Tax transfers as a *percentage* of Revenue Receipts of the State decreased by 2.71 *percentage* points (₹2,753 crore) compared to 2018-19 due to decrease in all the components of Central Taxes.

(ii) Grants-in-Aid from Government of India

The details of Grants-in-aid (GIA) received from Government of India during 2015-20 are detailed in **Table 2.8**.

Table 2.8: Grants-in-Aid from Government of India

(₹ in crore)

Head	2015-16	2016-17	2017-18	2018-19	2019-20
Non-Plan Grants	2,978	3,057	--	--	--
Grants for State Plan Schemes	6,416	6,695	--	--	--
Grants for Centrally Sponsored Schemes (CSS)	--	--	6,108	5,508	5,729
Finance Commission Grants	--	--	1,168	1,806	3,219
Other transfers/Grants to States/Union Territories with Legislature	--	--	783	864	2,651
Total	9,394	9,752	8,059	8,178	11,599
Percentage of increase over the previous year	31.98	3.81	(-)17.36	1.48	41.83
Percentage of GIA to Revenue Receipts	12.34	11.78	9.07	8.06	11.31

Source: Finance Accounts

Grants-in-Aid from GoI increased by ₹3,421 crore (42 *per cent*) in 2019-20 compared to the previous year and constituted 11 *per cent* of Revenue Receipts during the year (an increase of three *per cent* over 2018-19). Grants for Centrally Sponsored Schemes (₹5,729 crore) constituted 49 *per cent* of total grants. Finance Commission Grants (₹3,219 crore) were provided for Rural Local Bodies (₹1,571 crore), Urban Local Bodies

⁹ include Taxes on Wealth, Other Taxes on Income and Expenditure, Other Taxes and Duties on Commodities and Services

(₹1,161 crore) and State Disaster Response Fund (SDRF) (₹487.50 crore) and constituted 28 *per cent* of the total grants during the year. Compensation for loss of revenue arising out of implementation of GST (₹2,263 crore) and Central Road Fund (₹234 crore) form major part of Other grants.

2.4.2 Capital Receipts

Capital Receipts comprise miscellaneous Capital Receipts such as proceeds from Disinvestments, recoveries of Loans and Advances, Debt Receipts from internal sources (Market Loans, Borrowings from Financial institutions / Commercial Banks) and Loans and Advances from Government of India. **Table 2.9** shows the trends in growth and composition of capital receipts.

Table 2.9: Trends in growth and composition of Capital Receipts

(₹ in crore)

Sources of State's Receipts	2015-16	2016-17	2017-18	2018-19	2019-20
Capital Receipts	14,741	29,407	21,820	22,312	29,855
Miscellaneous Capital Receipts	--	--	--	--	--
Recovery of Loans and Advances	88	156	138	66	62
Net Public Debt Receipts[#]	14,653	29,251	21,682	22,246	29,793
Internal Debt	13,883	29,058	21,458	22,646	30,025
Growth rate	78.74	109.31	(-26.15)	5.54	32.58
Loans and Advances from Gol	770	193	224	(-400)	(-232)
Growth rate	795.35	(-74.94)	16.06	(-278.57)	(-42.00)
Rate of growth of debt Capital Receipts	86.59	99.62	(-25.88)	2.60	33.93
Rate of growth of non-debt capital receipts	14.29	77.27	(-11.54)	(-52.17)	(-6.06)
Rate of growth of GSDP	14.24	13.92	14.40	14.33	12.61
Rate of growth of Capital Receipts (<i>per cent</i>)	85.89	99.49	(-25.80)	2.25	33.81

Source: Finance Accounts; GSDP – Source: Ministry of Statistics and Programme Implementation (figures as on 31 July 2020)

[#] excludes Ways and Means Advances of ₹112 crore, ₹12,088 crore, ₹22,922 crore, ₹21,823 crore and ₹37,248 crore for 2015-16, 2016-17, 2017-18, 2018-19 and 2019-20 respectively

Capital Receipts increased by 103 *per cent* from ₹14,741 crore in 2015-16 to ₹29,855 crore in 2019-20. During the year 2019-20, Capital Receipts increased by 34 *per cent* compared to the previous year and were significantly higher than the growth rate of GSDP (13 *per cent*) during 2019-20.

Public Debt receipts, consisting of borrowings taken from Market, Financial Institutions and Central Government, which create future repayment obligation, constituted a major component of Capital Receipts (99.79 *per cent*). Internal Debt (₹30,025 crore) increased by 27 *percentage* points during 2019-20 compared to 2018-19 (₹22,646 crore).

2.4.3 State's performance in mobilisation of resources

State's performance in mobilization of resources is assessed in terms of its own resources comprising own-tax and non-tax sources.

Table 2.10: Own Tax and Non-Tax Projections vis-à-vis actual Receipts

(₹ in crore)

	FFC projections	Budget Estimates	Actuals	Percentage variation of actual over	
				Budget estimates	FFC projections
Own Tax Revenue (OTR)	89,950	69,329	67,597	(-)2.50	(-)24.85
Non-Tax Revenue (NTR)	12,354	15,875	7,360	(-)53.64	(-)40.42

Source: FFC projects, Budget Estimates and Finance Accounts

- Realisation of Own Tax Revenue was lower vis-à-vis projections made by XIV FC (24.85 per cent).
- Actual realisation of NTR was significantly lower than both BEs of the Government (53.64 per cent) as well as projection of XIV FC (40.42 per cent).
- NTR could not meet budgetary projections primarily due to short realisation under 'Sale of Land and property', where the receipts were a paltry ₹416 crore as against BE of ₹10,000 crore.

2.5 Application of Resources

State Government is vested with the responsibility of incurring expenditure within the framework of fiscal responsibility legislations, while at the same time ensuring that the ongoing fiscal correction and consolidation process of the State is not at the cost of expenditure directed towards development of capital infrastructure and social sector. The analysis of allocation of expenditure in the State is given in the following paragraphs.

2.5.1 Growth and composition of expenditure

Total Expenditure, its composition and relative share in GSDP during the years 2015-16 to 2019-20 is presented in **Table 2.11**.

Table 2.11: Total Expenditure and its components

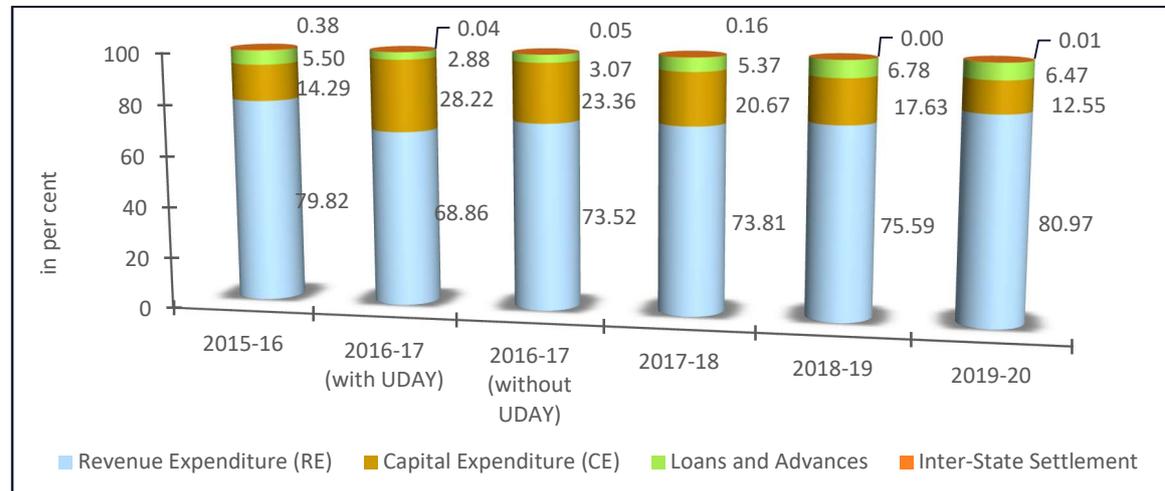
(₹ in crore)

Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Total Expenditure (TE)	95,078	1,18,255	1,15,662	1,28,435	1,34,365
Revenue Expenditure (RE)	75,896	81,432	85,365	97,083	1,08,798
Capital Expenditure (CE)	13,590	33,371	23,902	22,641	16,859
Loans and Advances	5,233	3,402	6,209	8,706	8,700
Inter-State Settlement	359	50	186	5	8
As a percentage of GSDP					
TE / GSDP	16.45	17.96	15.36	14.92	13.86
RE / GSDP	13.13	12.37	11.33	11.28	11.22
CE / GSDP	2.35	5.07	3.17	2.63	1.74
Loans and Advances / GSDP	0.91	0.52	0.82	1.01	0.90

Source: Finance Accounts

Total Expenditure of the State increased by 41 per cent from ₹95,078 crore in 2015-16 to ₹1,34,365 crore in 2019-20. During 2019-20, it increased by five per cent over preceding year. However, as a percentage of GSDP, the Total Expenditure has decreased over the last four years indicating reducing share of Government Expenditure to GSDP. **Chart 2.6** depicts the trend of the share of components in Total Expenditure.

Chart 2.6: Trend of share of components in Total Expenditure

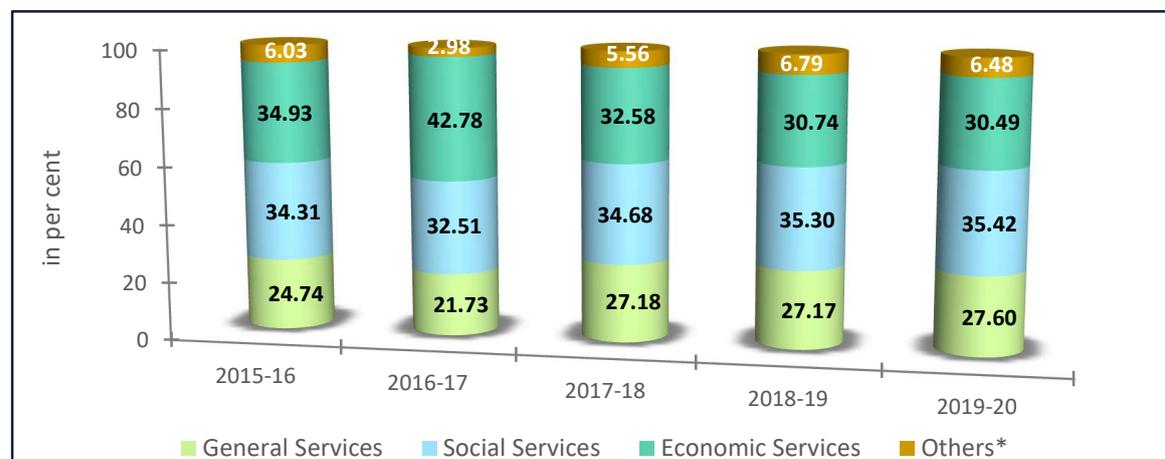


Source: Finance Accounts

Capital Expenditure, which was 18 per cent of Total Expenditure in 2018-19 has decreased by five percentage points to 13 per cent in 2019-20. On the other hand, Revenue Expenditure increased by five percentage points from 76 per cent in 2018-19 to 81 per cent in 2019-20. Loans and Advances (6.47 per cent) decreased marginally by 0.31 per cent over the previous year (6.78 per cent).

In terms of activities, Total Expenditure is composed of expenditure on (i) General Services including Interest Payments, (ii) Social Services, (iii) Economic Services and (iv) Others (includes Grants to Local Bodies, Loans and Advances and Interstate Settlement). Trends in Expenditure by activities are shown in **Chart 2.7**.

Chart 2.7: Trend of expenditure by activities during the past five years

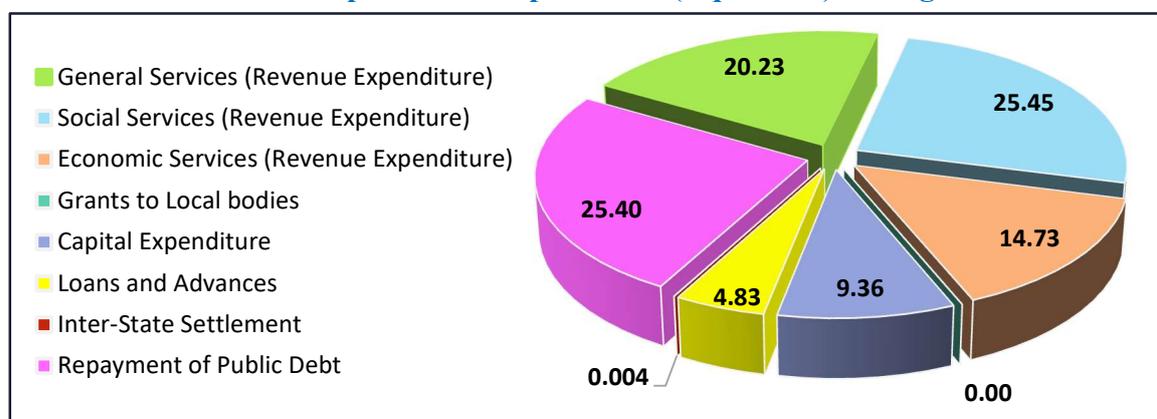


Source: Finance Accounts

* Others include Grants to Local Bodies, Loans and Advances and Interstate Settlement

The relative share of General Services and Social Services in the Total Expenditure marginally increased during the year 2019-20. **Chart 2.8** depicts the composition of expenditure for the year 2019-20.

Chart 2.8: Composition of expenditure (in per cent) during 2019-20



Source: Finance Accounts

2.5.2 Revenue Expenditure

Revenue Expenditure (RE) is incurred to maintain the current level of services and payment for the past obligation. As such, it does not result in any addition to the State's infrastructure and service network.

The overall Revenue Expenditure, its rate of growth, its ratio to Total Expenditure and buoyancy vis-à-vis GSDP and Revenue Receipts are indicated in **Table 2.12**.

Table 2.12: Revenue Expenditure – Basic Parameters

Parameter	2015-16	2016-17	2017-18	2018-19	2019-20
Total Expenditure (TE)	95,078	1,18,255	1,15,662	1,28,435	1,34,365
Revenue Expenditure (RE)	75,896	81,432	85,365	97,083	1,08,798
Rate of growth of RE (<i>per cent</i>)	49.78 ¹⁰	7.29	4.83	13.73	12.07
RE as a <i>per cent</i> of TE	79.82	68.86	73.81	75.59	80.97
RE / GSDP in <i>per cent</i>	13.13	12.37	11.33	11.28	11.22
RE as a <i>percentage</i> of RR	99.69	98.33	96.11	95.72	106.10
Buoyancy of RE with GSDP (ratio)	3.49	0.52	0.34	0.96	0.96
Revenue Receipts (ratio)	1.01	0.83	0.67	0.97	10.87

(₹ in crore)

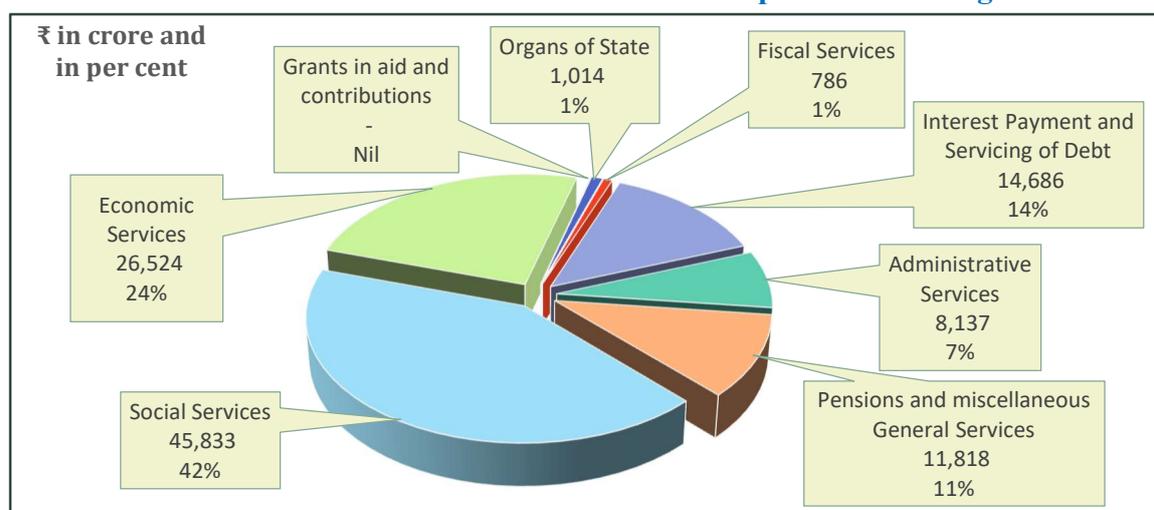
Source: Finance Accounts

- Buoyancy of RE to RR has increased significantly to 10.87 *per cent* in this year, which was less than 'one' during the previous three years. This indicates that the RE incurred by the Government has increased at much higher rate than its RR in 2019-20. As a result, the State could not achieve Revenue Surplus in 2019-20 as envisaged in TSFRBM Act.

¹⁰ as figures for 2014-15 are for only 10 months (i.e., from 2 June 2014 to 31 March 2015) due to bifurcation of Andhra Pradesh State (combined), growth rate appears high in 2015-16 when compared to 2014-15

Sectoral distribution of Revenue Expenditure pertaining to 2019-20 is given in **Chart 2.9**.

Chart 2.9: Sector-wise distribution of Revenue Expenditure during 2019-20



Source: Finance Accounts

2.5.2.1 Major changes in Revenue Expenditure

Variations under significant Heads of Account with regard to Revenue Expenditure of the State during the current year vis-à-vis the previous year is shown in **Table 2.13**.

Table 2.13: Variation in Revenue Expenditure during 2019-20 compared to 2018-19

(₹ in crore)

Major Heads of Account	2018-19	2019-20	Increase (+) / Decrease (-)
2235 - Social Security and Welfare	7,499	9,847	2,348
2401 - Crop Husbandry	11,298	13,112	1,814
2049 - Interest Payments	12,586	14,386	1,800
2245 - Relief on account of Natural Calamities	297	1,836	1,539
2515 - Other Rural Development Programmes	2,244	3,516	1,272
2225 - Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities	8,822	9,853	1,031
2015 - Elections	438	320	(-)118
2853 - Non-ferrous Mining and Metallurgical Industries	304	164	(-)140
2029 - Land Revenue	245	97	(-)148
2236 - Nutrition	2,912	2,738	(-)174
3054 - Roads and Bridges	702	360	(-)342
2501 - Special Programmes for Rural Development	603	219	(-)384
2216 - Housing	876	460	(-)416

Source: Finance Accounts

The increase of Revenue Expenditure over the preceding year was mainly under (i) Social Security and Welfare, due to higher outgo (₹2,471 crore) under Aasara Pensions, (ii) Interest Payments, due to higher interest payment (₹ 1,485 crore) on State Development Loans, and (iii) Crop Husbandry, due to higher outgo under Investment Support Scheme Rythu Bandhu (increase of ₹1,237 crore). Further, an expenditure of ₹1,187 crore was also incurred on Covid-19 Pandemic under Relief on account of Natural Calamities in 2019-20.

There was a decrease in Revenue Expenditure under (i) Housing, owing to decreased expenditure under Special Component plan for Scheduled Castes (Prime Minister Awas

Yojana – ₹64 crore and Two BHK scheme – ₹157.50 crore) and Tribal Area Sub Plan (Prime Minister Awas Yojana – ₹49 crore and Two BHK scheme – ₹92.50 crore) and (ii) Special Programme for Rural Development, owing to decreased expenditure under Assistance to SERP under TRIGP (₹100 crore), Assistance to SERP (₹122 crore) and Prime Minister Krishi Sinchayee Yojana (₹25 crore).

Audit analysis of the data pertaining to the five-year period 2015-20 revealed that, under Social Services Sector, the State Government spent ₹21,082.98 crore on Aasara Pensions (including pensions to disabled, old age persons, widows, weavers and toddy tappers), ₹16,702.07 crore on Teaching Grants to Mandal Praja Parishads, ₹15,982.90 crore on Teaching Grants to Zilla Praja Parishads and ₹9,549.52 crore towards Subsidy on Rice (Human Resources Development). Under Economic Services Sector, higher expenditure during the past five years occurred on Assistance to TRANSCO for agriculture and allied subsidies (₹21,626.98 crore), Investment Support Scheme (₹21,174.87 crore) and Scheme for Debt relief (₹13,088.16 crore).

2.5.2.2 Committed Expenditure

Committed expenditure of the State Government on revenue account consists of expenditure towards interest payments, expenditure on salaries and wages and pensions. Upward trend on committed expenditure leaves the Government with less flexibility for developmental expenditure. **Table 2.14** presents the trends in the components of Committed Expenditure during 2015-20.

Table 2.14: Components of committed expenditure

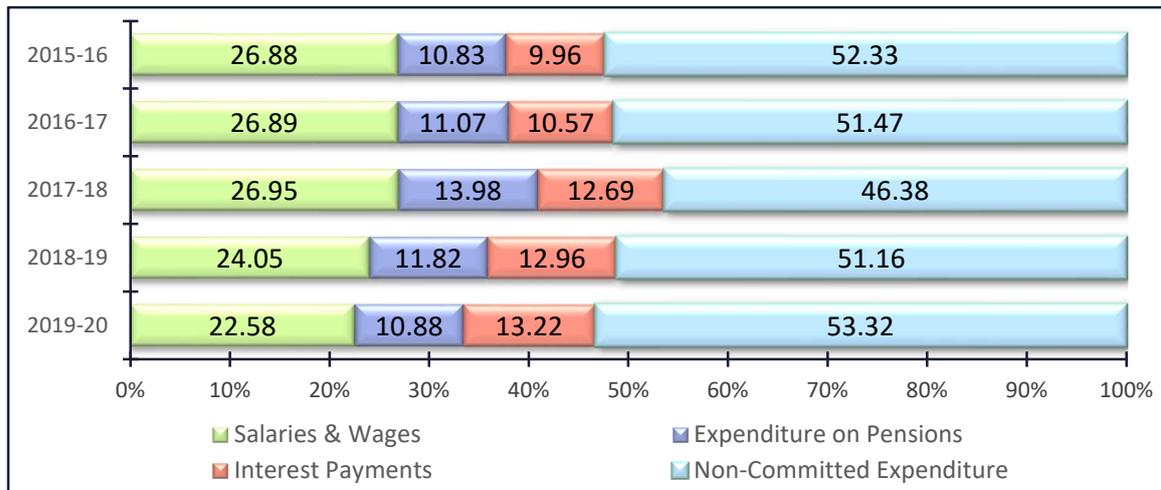
(₹ in crore)

Components of committed expenditure	2015-16	2016-17	2017-18	2018-19	2019-20
Salaries and Wages	20,404	21,897	23,003	23,351	24,564
Expenditure on Pensions	8,217	9,011	11,932	11,477	11,834
Interest Payments	7,558	8,609	10,836	12,586	14,386
Total	36,179	39,517	45,771	47,414	50,784
As a percentage of Revenue Receipts (RR)					
Salaries and Wages	26.80	26.44	25.90	23.02	23.95
Expenditure on Pensions	10.79	10.88	13.43	11.32	11.54
Interest Payments	9.93	10.40	12.20	12.41	14.03
Total	47.52	47.72	51.53	46.75	49.52

Source: Finance Accounts

Committed expenditure constituted about 50 per cent of the total revenue receipts during 2019-20. Although there was an increase in all the components of committed expenditure, it was primarily on account of increase in interest payments during the current year by ₹1,800 crore followed by an increase of ₹1,213 crore in salaries and wages over the previous year. Interest Payments increased by 90.34 per cent during the five-year period 2015-20. Greater reliance on market borrowings by Government in recent years has led to increased committed liabilities on interest payments. Consequently, interest payments relative to Revenue Receipts was considerably higher at 14.03 per cent as against 8.39 per cent in the projected roadmap of XIV Finance Commission for the current year.

The share of committed expenditure in total Revenue Expenditure is depicted in **Chart 2.10**.

Chart 2.10: Share of committed expenditure in Revenue Expenditure during the period 2015-16 to 2019-20

Source: Finance Accounts

Committed expenditure as a *percentage* of Revenue Expenditure has decreased during the current year (46.68 *per cent*) in comparison to the preceding year (48.84 *per cent*), resulting in better availability of resources for non-committed expenditure (expenditure on development or welfare activities). This is mainly due to comparatively less expenditure on Salaries (22.58 *per cent*) and Pensions (10.88 *per cent*).

2.5.2.3 Undischarged liabilities on account of National Pension System

Government of India introduced the ‘National Pension System’ (NPS) applicable to all new entrants joining State Government Service on or after 1 September 2004. Under this system, employees contribute 10 *per cent* basic pay and dearness allowance, which is matched by the State Government, and both employee’s and employer’s contribution are initially transferred to Public Account (Major Head ‘8342-117-Defined Contributory Pension Scheme’). The State Government has the responsibility to deposit both employee’s and employer’s share with the designated authority i.e., National Securities Depository Limited (NSDL)/trustee bank for further investment as per the guidelines of NPS.

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 composite Andhra Pradesh State, pending transfer to NSDL. This amount was to be apportioned between the successor 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.

As on 01 April 2019, the NPS Deposit Account under Defined Contributory Pension Scheme for Government Employees had an opening balance of ₹273.57 crore. Receipts to the NPS Deposit Account during the year were ₹1,184.31 crore (Employee contribution: ₹593.80 crore, Government contribution: ₹586.32 crore, Interest contribution for legacy period¹¹: ₹1.68 crore and Foreign employers’ contribution: ₹2.51 crore). Of the total

¹¹ pertains to the period from September 2004 to March 2011

receipts of ₹1,457.88 crore, the Government transferred an amount of ₹1,189.35 crore to NSDL, leaving a closing balance of ₹269.86 crore as of March 2020 in the NPS Deposit Account.

As per provisions of the NPS, the Government has to match the contribution of the employees. During the last six years, employees contributed an amount of ₹2,584.99 crore, while the Government contributed an amount of ₹2,520.01 crore, resulting in an overall short contribution of ₹64.98 crore by the Government. Consequently, the current liability stands deferred to future years. Further, the State Government has created an avoidable interest liability on the amount of ₹334.84 crore (short contribution by Government and amount yet to be transferred to NSDL).

2.5.2.4 Subsidies

Table 2.15 presents expenditure on subsidies for the five-year period 2015-16 to 2019-20.

Table 2.15: Expenditure on subsidies

	(₹ in crore)				
	2015-16	2016-17	2017-18	2018-19	2019-20
Subsidies (₹ in crore)	5,164	5,935	5,899	6,304	6,846
Subsidies as a <i>percentage</i> of Revenue Receipts	6.78	7.17	6.64	6.22	6.68
Subsidies as a <i>percentage</i> of Revenue Expenditure	6.80	7.29	6.91	6.49	6.29

Source: Finance Accounts

Subsidies as a *percentage* of Revenue Receipts increased from 6.22 *per cent* in 2018-19 to 6.68 *per cent* in 2019-20. However, as a *percentage* of Revenue Expenditure, this decreased by 0.20 *percentage* points in 2019-20 (6.29 *per cent*) over the previous year (6.49 *per cent*). Power (56 *per cent*) and Civil Supplies (20 *per cent*) together constitute 76 *per cent* of the total Subsidies (₹6,846 crore).

- Increase in subsidies under Power (₹3,872.13 crore) was due to an increase by ₹167.48 crore in Assistance to Transmission Corporation of Telangana Limited for Agricultural and allied Subsidy, Agriculture and allied activities (₹247.73 crore; an increase by ₹139.92 crore mainly on account of increase in Farm Mechanisation) and Roads, Buildings and Ports (₹460.00 crore; an increase by ₹330.00 crore on assistance to TSRTC towards Reimbursement of concessions extended to various categories of citizens).
- Subsidy towards Civil Supplies (₹1,340.16 crore) decreased marginally by six *per cent* in 2019-20 over the previous year (₹1,432.40 crore). Subsidy here was essentially towards subsidy on Rice (Human Resources Development ₹1,336.92 crore) and Distribution of L.P.G Connection to women in rural areas/municipal areas (₹3.24 crore)

Subsidies were also provided for other purposes in the form of ‘Grants-in-Aid’ and ‘Other expenditure’ on items, which are of the nature of subsidies. Illustrative items are listed below:

- Assistance to Transmission Corporation of Telangana Limited for Agricultural and allied subsidy (₹1,237 crore);
- Interest free loans to DWCRA Women (Vaddileni Runalu) (₹186 crore);

- (iii) Managerial subsidy to Telangana State Scheduled Castes Co-operative Development Corporation (₹60 crore);
- (iv) Power subsidy for industries (₹23 crore), etc

As a result of the above, the expenditure on subsidies is understated to that extent.

2.5.2.5 Financial assistance by the State Government to Local Bodies and Other Institutions

The State Government provided an amount of ₹44,967 crore to Local Bodies and other Institutions by way of Grants and Loans in 2019-20, which was significantly higher (₹7,059 crore) than in the preceding year.

Table 2.16: Financial assistance to Local Bodies and Other Institutions

(₹ in crore)

Name of the Institution	2015-16	2016-17	2017-18	2018-19	2019-20
(A) Local Bodies					
ULBs: Municipal Corporations and Municipalities	933	608	798	1,542	1,359
PRIs: Zilla Praja Parishads, Mandal Praja Parishads and Gram Panchayats	6,699	7,489	6,376	5,996	7,273
Total (A)	7,632	8,097	7,174	7,538	8,632
(B) Others					
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	1,012	987	1,000	1,037	965
Development Authorities	221	119	291	236	154
Statutory Corporations	593	930	1,071	1,409	1,421
Co-operative Institutions	100	63	56	229	68
Non-Governmental Organisations	542	615	1,004	775	962
Other Institutions ^s	18,958	19,837	19,820	26,684	32,765
Total (B)	21,426	22,551	23,242	30,370	36,335
Total (A+B)	29,058	30,648	30,416	37,908	44,967
Revenue Expenditure	75,896	81,432	85,365	97,083	1,08,798
Assistance as percentage of Revenue Expenditure	38.29	37.64	35.63	39.05	41.33

Source: Finance Accounts

^s Other institutions which received ad-hoc or one-time grants during the year mainly towards investment support scheme (₹11,204 crore), Aasara pensions (₹5,236 crore), Aasara pensions to old age pensions and widows (₹1,556 crore), Samagra Siksha (₹1,108 crore), etc.

The overall increase in comparison to previous year was mainly due to increase in SFC Grants to Gram Panchayats (₹701.83 crore), Fourteenth Finance Commission Grants to Zilla Parishads (₹414 crore) and to Gram Panchayats (₹502.22 crore).

2.5.3 Capital Expenditure

Capital Expenditure is incurred for acquisition and creation of capital assets. It is non-recurring in nature. It also includes 'Repayment of loans; and 'Discharge of Internal Debt' because it reduces liability. Capital Expenditure during the year 2019-20 (₹16,859 crore) was significantly lower (26 per cent) than that of the preceding year (₹22,641 crore).

2.5.3.1 Major changes in Capital Expenditure

Significant increase or decrease in various Heads of Account in Capital Expenditure (capex) during 2019-20 vis-à-vis previous year is shown in **Table 2.17**.

Table 2.17: Capital Expenditure – comparison between 2018-19 and 2019-20

(₹ in crore)

Major Heads of Accounts	2018-19	2019-20	Increase (+)/ Decrease (-)
4700- Capital outlay on Major Irrigation	7,822	8,375	553
5475- Capital Outlay on Other General Economic Services	701	794	93
4202- Capital Outlay on Education, Sports, Art and Culture	279	282	3
5054 Capital outlay on Roads and Bridges	1,024	957	(-67)
4225-Capital Outlay on Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities	618	481	(-)137
4801 Capital outlay on Power Projects	2,400	2,000	(-)400
4401- Capital Outlay on Crop Husbandry	681	0	(-)681
4515- Capital Outlay on Other Rural Development Programmes	1,996	1,008	(-)988
4215- Capital Outlay on Water Supply and Sanitation	4,236	744	(-)3,492

Source: Finance Accounts

The decrease in Capital Expenditure during the year 2019-20 was mainly due to decrease under Water Supply and Sanitation (₹3,492 crore), Other Rural Development Programmes (₹988 crore) and Crop Husbandry (₹681 crore).

In comparison to 2018-19, decrease in 2019-20 under Water Supply, Sanitation, Housing and Urban Development was mainly due to less expenditure on Mission Bhagiratha (₹1,690 crore), Swachh Bharath Mission–Gramin (₹1,078 crore) and National Rural Drinking Water Programme (₹597 crore). Decrease under Other Rural Development Programmes was mainly due to less expenditure on Mahatma Gandhi National Rural Employment Guarantee Scheme (₹824 crore). Decrease under Crop Husbandry was mainly due to less expenditure on Investment in Telangana State Seeds Development Corporation Limited (₹677 crore) and Afforestation Fund (₹157 crore).

Capital expenditure was higher under major irrigation due to higher expenditure on Kaleshwaram project (₹1,538 crore), J Chokka Rao Devadula Lift Irrigation Scheme (₹370 crore) and Kalwakurthy Lift Irrigation Scheme (₹313 crore).

Audit analysis of capex data over the five-year period from 2015-16 to 2019-20 revealed that the State Government spent ₹5,600.63 crore on Mission Bhagiratha, ₹1,703.07 crore on National Rural Drinking Water Programme, ₹1,078.32 crore on Swachh Bharath Mission (Gramin) in Social Sector. Under Economic Services Sector, higher capital expenditure during this period occurred on Dam and Appurtenant Works (₹21,329.06 crore), Canals and Distributaries (₹20,267.78 crore) under Irrigation and Flood control, Investment in DISCOMs (₹17,618.89 crore), Mission Kakatiya (₹4,427.34 crore and Major District Roads (₹2,776.43 crore).

The Government, however, has been implementing its flagship projects/schemes like Kaleshwaram and Mission Bhagiratha through Off-Budget Borrowings obtained by Special Purpose Vehicles (SPVs), apart from incurring capital expenditure through budget.

2.5.3.2 Quality of Capital Expenditure - Investments

Capital Expenditure in the Companies, Corporations, and other bodies, which are loss making (or where net worth is eroded) have less chances of providing returns. Return on

investment in Share Capital invested in PSUs and prompt recoveries of loans given to various bodies are important determinants of quality of Capital Expenditure.

As of 31 March 2020, the State Government's investments stood at ₹21,807 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives. During the year 2019-20, Government of Telangana invested ₹2,052.96 crore in seven entities. These investments were mainly in (i) Power Distribution Companies of Telangana (DISCOMs) (₹2,000 crore), (ii) Ramagundam Fertilizers and Chemicals Limited (₹47.93 crore) and (iii) T HUB Foundation (₹3.65 crore).

However, neither the State Government nor the individual entities reconciled or confirmed these investments. The information, furnished to audit by the institutions differs from the details in Finance Accounts. Details of investments made by the Government are shown in

Table 2.18:

Table 2.18: Return on Investment

Investment/return/ cost of borrowings	2015-16	2016-17	2017-18	2018-19	2019-20
Investment at the end of the year (₹ in crore)	1,329	13,075	16,365	19,754	21,807
Return on Investment (₹ in crore)	69	70	101	94	115
Return on investment in <i>per cent</i>	5.19	0.54	0.62	0.48	0.53
Interest paid on Government Borrowings (₹ in crore)	7,558	8,609	10,836	12,586	14,386
Average rate of interest on Government Borrowings (<i>per cent</i>)	8.50	7.40	7.21	6.93	6.70
Difference between return and interest rate (<i>per cent</i>)	(-3.31)	(-6.86)	(-6.59)	(-6.45)	(-6.17)
Difference between return on investment and interest on Government borrowings (₹ in crore) [#]	(-7,489)	(-8,539)	(-10,735)	(-12,492)	(-14,271)

Source: Finance Accounts;

[#] Investment at the end of the year

Return on Investment (RoI) in these Companies/ Corporations has been quite low consistently. Further, even though the investments made by the Government have increased from ₹1,329 crore in 2015-16 to ₹21,807 crore in 2019-20, there is no marked increase in RoI from the Companies/ Corporations.

Investments made and loan given to Companies, Corporations and Co-operatives, which are loss making and whose net worth is completely eroded, affect quality of Capital Expenditure.

In respect of 14 Companies / Corporations, whose net worth was (-)₹36,927.06 crore (i.e., net worth eroded completely), the State Government has invested an amount of ₹3,674.76 crore during the year 2019-20 and ₹28,476.01 crore as at the end of 31 March 2020.

Details of six Companies / Corporations whose net worth was below (-)₹500 crore are shown in **Table 2.19**.

Table 2.19: Investments made in Companies whose net worth is eroded

(₹ in crore)

Sl. No.	Company or Corporation	Net worth as of 31 March 2020	Investment made during 2019-20		Cumulative Investment as on 31 March 2020	
			Equity	Loan	Equity + Demerger Reserve	Loan
1	Southern Power Distribution Company of Telangana Limited	(-)17,291.45	1,400.00	0.00	12,740.92	337.55
2	Northern Power Distribution Company of Telangana Limited	(-)7,314.41	600.00	0.00	5,869.20	211.14
3	Telangana State Road Transport Corporation	(-)5,899.09	0.00	155.00	(-)127.63	995.09
4	Telangana State Housing Corporation Limited	(-)3,820.70	0.00	1,519.76	0.25	5,780.83
5	Telangana Drinking Water Supply Corporation	(-)1,825.19	0.00	0.00	2.00	0.00
6	Telangana Rajiv Swagruha Corporation Limited	(-)507.05	0.00	0.00	0.05	0.00
	Total	(-)36,657.89	2,000.00	1,674.76	18,484.79	7,324.61

Source: Information furnished by Companies / Corporations concerned

Further, the State Government has also provided a loan of ₹95 crore during 2019-20 and ₹2,278.45 crore to Hyderabad Metro Rail Limited, which has incurred a loss of ₹169.54 crore during 2018-19.

Capital expenditure in the Companies, Corporations, and other bodies, where net worth is completely eroded is not sustainable.

2.5.3.3 Quantum and quality of loans disbursed and recovered

Government provides Loans and Advances to Public Sector Undertakings, Local Bodies and Autonomous Bodies. **Table 2.20** presents the details of outstanding Loans and Advances during the years 2015-20:

Table 2.20: Quantum of loans disbursed and recovered during 2015-16 to 2019-20

(₹ in crore)

Quantum of loans disbursed and recovered	2015-16	2016-17	2017-18	2018-19	2019-20
Opening Balance of loans outstanding	1,406	6,552	9,798	15,869	24,509
Amount advanced during the year	5,233	3,402	6,209	8,706	8,700
Amount recovered during the year	88	156	138	66	62
Closing Balance of the loans outstanding	6,552	9,798	15,869	24,509	33,147
Net addition	5,145	3,246	6,071	8,640	8,638
Interest received	53	105	84	7	6
Interest rate on Loans and Advances given by the Government	0.81	1.07	0.53	0.03	0.02
Rate of Interest paid on the outstanding borrowings of the Government	8.50	7.40	7.21	6.94	6.70
Difference between the rate of interest received and interest paid (<i>per cent</i>)	(-)7.69	(-)6.33	(-)6.68	(-)6.91	(-)6.68

Source: Finance Accounts

- Loans and Advances to Autonomous Bodies and Corporations (₹8,700 crore) in 2019-20 stands almost constant compared to previous year (₹8,706 crore). This was, however, lower than Budget Estimates of ₹8,896 crore. Major portion of loans were disbursed for projects relating to Water Supply, Sanitation, Housing and Urban Development (₹4,723 crore)¹² as well as Agriculture and allied services (₹1,263 crore)¹³, Health and Family Welfare (₹720 crore)¹⁴, Irrigation and Flood Control (₹688 crore)¹⁵, Road Transport (₹571 crore)¹⁶, Energy (₹345 crore)¹⁷, Industry and Minerals (₹223 crore)¹⁸. Total Loans and Advances given up to 31 March 2020 was ₹33,147 crore.
- Out of the ₹8,700 crore loans provided during 2019-20, an amount of ₹6,557.26 crore was towards payment of interest/repayment of principal in respect of loans taken by various institutions for implementing Government schemes/projects and hence are in the nature of repayment of Off-Budget Borrowings. Such loans do not reflect a true picture of Government assets in the form of loans provided.
- Further, during the past three years, significant amounts of loans were given to institutions for repayment of loans which were taken earlier, for implementation of Government schemes or to those institutions which did not have definite revenue resources for repayment of loans as shown in **Table 2.21**:

Table 2.21: Loans given during 2017-18 to 2019-20 to institutions for repayment of loans / which do not have definite stream of revenue resources

(₹ in crore)

Sl. No.	Institution	Amount (as of March 2020)
Loans given to institutions, for repayment of loans from other institutions, in connection with implementation of Government Schemes		
1	Telangana Drinking Water Supply Corporation Limited for Mission Bhagiratha	5,271.19
2	Telangana State Sheep and Goat Development Cooperative Federation Limited	1,369.33
3	Hyderabad Metropolitan Water Supply and Sewerage Board	2,166.00
4	Telangana State Industrial Infrastructure Corporation	270.30
Loans given to institutions, not having definite stream of revenue resources for repayment of loans		
1	Telangana State Scheduled Castes Cooperative Development Corporation Ltd	3,000.00
2	Telangana State Scheduled Tribes Cooperative Finance Corporation Limited	1,700.00
3	Arogyasri Health Care Trust	2,146.26

Source: Finance Accounts

¹² mainly on account of Loans to Telangana Drinking Water Supply Corporation Limited (₹2,810.73 crore); Loans to Financial Institutions (₹830.28 crore) and Loans to Hyderabad Metropolitan Water Supply and Sewerage Board (₹825 crore)

¹³ mainly on account of Loans to Telangana State Sheep and Goat Development Cooperative Federation Limited (₹820.64 crore) and Loans to Horticulture Development Corporation (₹251.29 crore)

¹⁴ on account of Loans to Arogyasri Health Care Trust (₹720.12 crore)

¹⁵ mainly on account of Loans to Telangana State Water Resources Infrastructure Development Corporation Limited (₹361.24 crore) and Kaleshwaram Corporation (₹326.95 crore)

¹⁶ mainly on account of Loans to Telangana State Road Development Corporation (₹326.19 crore) and Telangana State Road Transport Corporation (₹240.00 crore)

¹⁷ mainly on account of interest / repayment loans of Power Finance Corporation Bonds (₹287.35 crore)

¹⁸ on account of repayment of Loans of Telangana State Industrial Infrastructure Corporation (₹222.71 crore)

In State Finances Audit Reports for the years ended March 2018 and March 2019, the Comptroller and Auditor General of India had pointed out that Budget Estimates for recovery of loans were high at ₹5,807 crore and ₹7,807 crore respectively, while the actual recoveries were only ₹138 crore and ₹66 crore respectively. For the current year, i.e., 2019-20, however, the Budget Estimates were more realistic at ₹45 crore and the actual recovery was ₹61.95 crore.

However, 99 per cent of recoveries (i.e., ₹61.63 crore) were from Government Servants only. The recovery from major institutions was only a meagre ₹0.32 crore under 'Loan assistance for integrated Co-operative Development projects (NCDC)'.

2.5.3.4 Capital blocked in Ongoing Projects

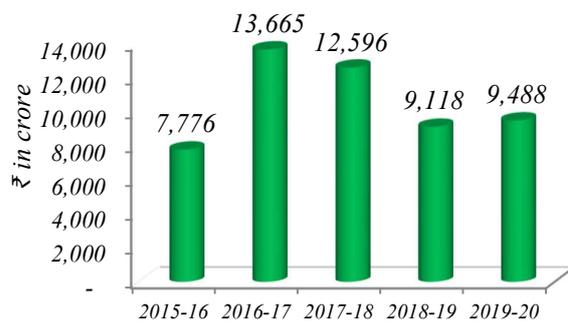
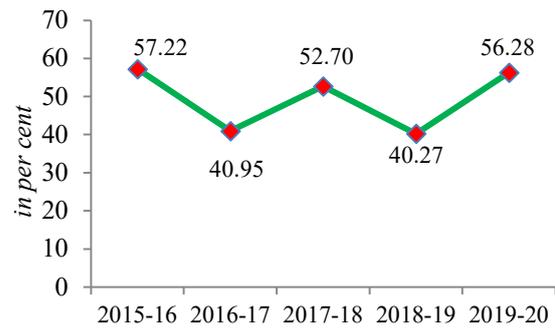
Blocking of funds on incomplete Projects/Works impinges negatively on the quality of expenditure and deprives the State of the intended benefits for prolonged periods. Further, the funds borrowed for implementation of these projects during the respective years leads to extra burden in terms of servicing of debt and interest liabilities. An assessment of trends in capital blocked in incomplete capital works indicate quality of Capital Expenditure.

Ongoing Project / work commenced in the year	No. of ongoing Projects / works	Estimated cost	Expenditure (as on 31 March 2020)
up to 2013-14	125	66,464.38	1,12,028.10
2014-15	18	331.44	166.27
2015-16	253	37,468.70	25,337.79
2016-17	81	43,559.04	11,283.92
2017-18	129	14,655.99	6,665.76
2018-19	297	4,433.84	1,360.18
2019-20	22	1,351.33	185.41
Total	925	1,68,264.73	1,57,027.44

Department	No. of ongoing projects / works	Estimated cost	Expenditure
Roads	521	8,417.18	3,081.98
Bridges	112	1,305.99	370.56
Buildings	63	81.35	31.82
Irrigation	24	1,16,823.02	1,26,849.85
Water Supply Schemes and others	205	41,637.19	26,756.23
Total	925	1,68,264.73	1,57,027.44

Source: Finance Accounts

Capital Expenditure incurred during the five-year period 2015-16 to 2019-20 ranged from 12.55 per cent to 28.22 per cent of the Total Expenditure. An amount of ₹1,10,363 crore was spent on capital projects during this period. Within the capital projects, the major share of capex (56.28 per cent) was on Irrigation and Flood Control (₹52,643 crore). Capital outlay on Irrigation and Flood Control and its share in total Capital Expenditure of the Government are shown in **Chart 2.11** and **Chart 2.12**.

Chart 2.11: Expenditure on Irrigation and Flood Control across years**Chart 2.12: Portion of Irrigation and Flood control in Capital Expenditure**

Source: Finance Accounts

There were 24 ongoing irrigation projects (commenced between 1983 to 2017) as of March 2020. The original cost of these projects was revised from ₹1,16,823.02 crore to ₹2,21,107.40 crore i.e., an escalation by ₹1,04,284.38 crore. An expenditure of ₹1,26,849.89 crore was incurred on these projects as of June 2020. In addition to this, as per Appendix IX of the Finance Accounts, the Government has a pending liability of ₹7,072.19 crore in respect of 19 ongoing irrigation projects.

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. Non-completion of projects not only adversely affects the quality of the expenditure but also deprives the State of intended benefits of economic growth. Further, the State Government did not disclose financial results of any of the irrigation projects. As a result, there was no assurance of returns from the public investments in Irrigation and Flood control.

In respect of other Departments, 580 projects / works¹⁹ with an estimated cost of ₹16,678.54 crore remained incomplete and an expenditure of ₹9,211.55 crore was incurred as of March 2020 on these delayed projects. In addition to this, as per Appendix IX of the Finance Accounts, the Government has a pending liability of ₹716.50 crore in respect of 362 other ongoing projects / works²⁰.

2.5.3.5 Implementation of Ujwal DISCOM Assurance Yojana (UDAY) – non-discharge of commitments under UDAY

Government of India introduced (November 2015) Ujwal DISCOM Assurance Yojana (UDAY) for financial turnaround of State Power Distribution Companies (DISCOMs). The participating States shall have to achieve operational and financial turnaround of DISCOMs as per Guidelines.

¹⁹ (i) 391 Road works with an estimated cost of ₹4,749.20 crore on which ₹2,133.58 crore was spent (ii) 52 Bridge works with an estimated cost of ₹295.77 crore on which ₹142.92 crore was spent (iii) 53 Building works with an estimated cost of ₹67.60 crore on which ₹31.20 crore was spent and (iv) 84 Water Supply Schemes and other projects / works with an estimated cost of ₹11,702.65 crore on which ₹6,903.85 crore was spent

²⁰ (i) 214 Road works with pending payment of ₹143.56 crore (ii) 38 Bridge works with pending payment of ₹54.36 crore (iii) 48 Building works with pending payment of ₹27.42 crore; and (iv) 62 Water Supply Schemes and other projects / works with pending payment of ₹491.16 crore

In terms of the scheme, the Government of Telangana State signed a tripartite Memorandum of Understanding (MoU) (January 2017) with the GoI and DISCOMs. As per the MoU, the State Government had to take over 75 per cent (₹8,923 crore) of outstanding debt (₹11,893 crore) of the DISCOMs as on 30 September 2015. Further, the State Government was also to take over the further losses in the following manner:

- 5 per cent of the loss of 2016-17 in the year 2017-18;
- 10 per cent of the loss of 2017-18 in the year 2018-19;
- 25 per cent of the loss of 2018-19 in the year 2019-20; and
- 50 per cent of the loss of previous year in the year 2020-21.

For taking over of 75 per cent of DISCOMs' outstanding debt, State Government borrowed an amount of ₹8,931.51 crore through UDAY bonds. It however, released only ₹7,723 crore²¹ to DISCOMs leaving a further commitment of ₹1,200 crore²² undischarged. Further, the Energy Department also issued Orders for takeover of further losses as shown in **Table 2.24**:

Table 2.24: Orders issued for discharge of commitment of UDAY

(₹ in crore)

Sl. No.	Description	Order dated	Amount of loss to be taken over
1	5 per cent of the losses of 2016-17	November 2017	310.44
2	10 per cent of the losses of 2017-18	August and December 2018	548.53
3	25 per cent of the losses of 2018-19	August 2019 and January 2020	2,004.68

Source: Government Orders concerned

However, as per the Accounts of the State Government, no amounts were released during the years 2018-19 or 2019-20. Thus, the accumulated commitment of ₹4,063.65 crore of the Government for taking over losses of DISCOMs under the UDAY scheme as agreed in the tripartite agreement remained undischarged as of end of March 2020. The current commitments stand postponed to future years besides non-achievement of objective of financial turnaround of DISCOMs as envisaged under UDAY scheme.

Further, the State Government had also not fulfilled its commitment to Telangana State Electricity Regulatory Commission (TSERC) in respect of 'Assistance to Transmission Corporation for agricultural and allied subsidy' in accordance with Section 65 of Electricity Act, 2003²³. Details are shown in **Table 2.25**.

²¹ please refer to paragraph 2.8 of Report of the Comptroller and Auditor General of India on Public Sector Undertakings for the year ended March 2019 on Government of Telangana for further details

²² Calculation: ₹8,923 crore (-) ₹7,723 crore

²³ If the State Government requires the grant of any subsidy to any consumer or class of consumers in the tariff determined by the State Electricity Regulatory Commission (SERC), the State Government shall, pay, in advance and in such manner as may be specified, the amount to compensate the person affected by the grant of subsidy in the manner the SERC may direct as a condition for any other person concerned to implement the subsidy provided for by the State Government

Table 2.25: Details of subsidy as computed by TSERC, commitment by State Government, Budget provision and Actual expenditure

(₹ in crore)

Sl. No.	Year	Computation by TSERC	Commitment by State Government	Budget	Expenditure	Commitment not discharged
(1)	(2)	(3)	(4)	(5)	(6)	(7) = (4) - (6)
1	2016-17	4,598.45	4,470.10	4,470.10	3,675.10	795.00
2	2017-18	4,797.22	4,777.04	3,680.85	2,951.42	1,825.62
3	2018-19	5,940.47	4,984.30	3,760.97	3,704.65	1,279.65
4	2019-20	*	*	5,984.00	3,872.13	2,111.87*
	Total			17,895.92	14,203.30	6,012.14

Source: Tariff Orders of TSERC, Budget documents and Appropriation Accounts

* As no Tariff Orders were passed for 2019-20, the budget estimates are taken for calculating the commitment not discharged

Thus, apart from non-discharge of its commitments under UDAY scheme, which was meant for financial turnaround of DISCOMs, non-release of committed subsidies would further dent the financial health of DISCOMs and in turn would adversely affect the investments and Return on Investments of the Government.

2.5.4 Expenditure priorities

Enhancing human development levels requires the State to step up its expenditure on key social services like Education, Health, etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if the allocation is below the respective national average. The higher the ratio of these components to Total Expenditure, the better is the quality of expenditure.

Table 2.26: Expenditure priority of the State with regard to Health, Education and Capital Expenditure

(in per cent)

	AE/ GSDP	SSE / AE	ESE / AE	DE / AE	CE / AE	Education/ AE	Health/ AE
General Category States Average (2015-16)	16.97	36.09	34.19	70.29	14.81	15.68	4.79
Telangana (2015-16)	16.45	39.33	35.31	74.64	14.29	11.15	3.95
General Category States Average (2019-20)	15.15	36.73	28.69	65.42	12.97	15.91	5.21
Telangana (2019-20)	13.86	39.48	32.79	72.27	12.55	9.33	5.14

Source: Finance Accounts of the States concerned

Note: Green font represents higher than average of General Category States and Red font represents lower than average of General Category States

AE: Aggregate Expenditure, GSDP: Gross State Domestic Product, CE: Capital Expenditure, SSE: Social Sector Expenditure, DE: Development Expenditure

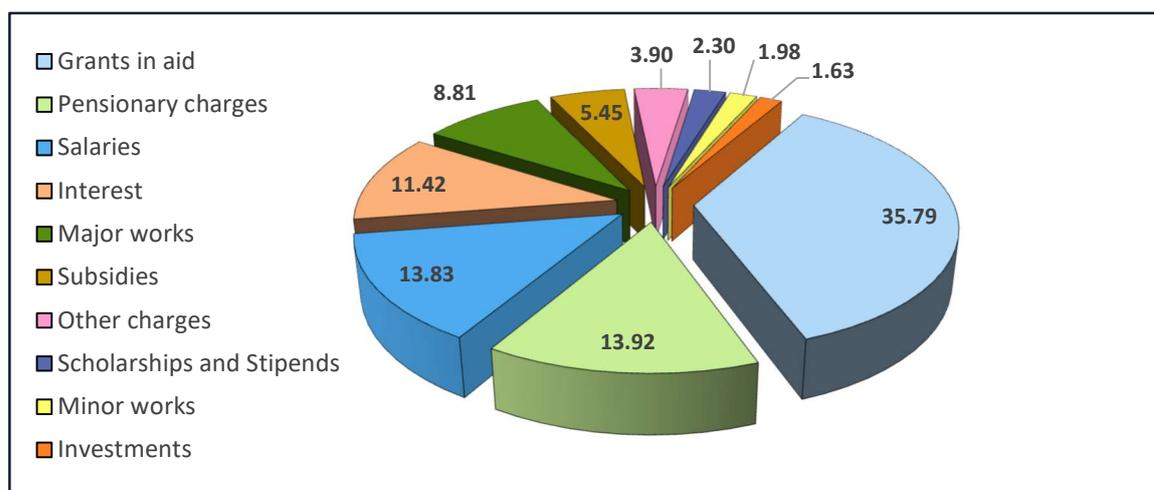
- The proportion of expenditure on Development (i.e., expenditure on Economic and Social Sectors) to Aggregate expenditure of Telangana has been higher than the average of other General Category States (GCS). This shows that the State gave higher priority to Development Expenditure.

- The State has, however, been persistently trailing in respect of expenditure on Education and Health compared to the average expenditure on these by the other GCS. This was reported in the State Finances Audit Reports of the Comptroller and Auditor General of India in the earlier years also.
- As mentioned earlier in this Chapter, capital expenditure witnessed substantial decline during 2019-20 and was less than that of the average of GCS.

2.5.5 Object-wise expenditure

The following chart on object-wise expenditure gives the purpose or object of expenditure.

Chart 2.13: Object-wise expenditure



Source: Finance Accounts

As can be seen from the Chart, most of the expenditure was in the form of Grants-in-Aid followed by expenditure on Pensions, Salaries and Interest.

2.6 Public Account

Receipts and Disbursements in respect of certain transactions such as Small Savings, Provident Funds, Reserve Funds, Deposits, Suspense, Remittances etc., which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266(2) of the Constitution. These are not subject to vote by the State Legislature. The Government acts as a banker in respect of these funds. The balance after disbursements during the year is the fund available with the Government for use for various purposes.

2.6.1 Net Public Account Balances

Component-wise net balances in Public Account as of 31 March of the year during the five-year period 2015-16 to 2019-20 are given in **Table 2.27**.

**Table 2.27: Component-wise net balances in Public Account
(as of 31 March of the year)**

(₹ in crore)

Sector and Sub-Sector	2015-16	2016-17	2017-18	2018-19	2019-20
Small Savings, Provident Funds etc	862	1,069	976	845	783
Reserve Funds					
a) Reserve Funds bearing interest	220	(-111)	(-41)	288	3,226*
b) Reserve Funds not bearing interest	905	551	319	1,242	1,127
Deposits					
a) Deposits bearing interest	147	433	216	121	140
b) Deposits not bearing interest	2,070	1,478	5,645	2,976	1,266
c) Advances	(-4)	7	(-1)	3	0.01
Suspense and Miscellaneous					
a) Suspense	666	(-50)	(-39)	113	292
b) Other Accounts	740	504	(-534)	(-773)	5
c) Accounts with Governments of Foreign Countries	(-0.02)	(-0.02)	(-0.02)	(-0.03)	(-0.02)
d) Miscellaneous	--	--	--	--	--
Remittances					
a) Money Orders and other Remittances	(-58)	151	(-116)	126	34
b) Inter-Governmental adjustment account	(-80)	(-306)	1,422	(-11)	(-27)
Total	5,468	3,726	7,847	4,930	6,846

Source: Finance Accounts

* The increase in Reserve Funds bearing interest in 2019-20 was due to establishment of a new Reserve Fund viz., State Compensatory Afforestation Fund

Note: +ve figures denote debit balance and -ve figures denote credit balances

2.6.2 Reserve Funds

Reserve Funds are created for specific and defined purposes. These are funded by contributions / Grants from Consolidated Fund of the State. Out of the gross accumulated balance of ₹12,040.93 crore lying in these Funds as on 31 March 2020, an amount of ₹6,839.27 crore was invested in GoI Securities, leaving a total net accumulated balance of ₹5,201.66 crore²⁴.

The transactions during the year 2019-20 under major reserve funds are detailed below.

2.6.2.1 Consolidated Sinking Fund

State Government set up the Sinking Fund in 1999-2000 in line with the recommendations of the Twelfth Finance Commission for amortization of market borrowings as well as other loans and debt obligations. The fund is managed by the Reserve Bank of India.

As per the guidelines²⁵, the State Government may contribute annually to the Consolidated Sinking Fund (CSF) at 0.5 per cent of the outstanding liabilities at the end of the previous financial year. Accordingly, ₹984.82 crore was to be contributed in 2019-20 on the outstanding liabilities of ₹1,96,963 crore at the end of 2018-19. However, the contribution

²⁴ Reserve Funds bearing Interest: ₹3,603.70 crore and Reserve Funds not bearing Interest: ₹1,597.96 crore

²⁵ G.O.Ms.No.3, Finance (DCM), dated 11 June 2014 on Revised Scheme of Consolidated Sinking Fund

of State Government in 2019-20 was only ₹300 crore. In addition to this, an interest of ₹450.16 crore was earned through the amounts invested from CSF. Thus, the total addition to CSF during the year was ₹750.16 crore and it fell short of the annual contribution by ₹234.66 crore. As of 31 March 2020, the balance in Sinking Fund was ₹5,650.73 crore, of which ₹5,610.26 crore was invested.

2.6.2.2 State Disaster Response Fund

Government of India replaced the erstwhile Calamity Relief Fund with the State Disaster Response Fund (SDRF) with effect from 1 April 2010. As per the guidelines of the Fund, GoI and State Governments are required to contribute to the Fund in the proportion of 75:25 respectively.

The contributions are to be transferred to the Public Account to Major Head of Account – 8121. Expenditure during the year is incurred by operating Major Head – 2245-Relief on account of Natural Calamities and later adjusted to Public Account. The SDRF is to be used for meeting expenditure for providing immediate relief to the victims of cyclone, drought, earthquake, fire, flood, tsunami, hailstorm, landslide, avalanche, cloud burst etc.

The amount available in SDRF as of 1 April 2019 was ₹353.48 crore. During 2019-20, GoI contributed ₹487.50 crore and State Government had contributed its share of ₹162.50 crore to the fund. Out of ₹1,003.48 crore available in the Fund, an amount of ₹25.81 crore was utilised, leaving a balance of ₹977.67 crore in the Fund.

2.6.2.3 Guarantee Redemption Fund

As per guidelines of Reserve Bank of India, Government of Telangana created²⁶ (June 2014) a Guarantee Redemption Fund (GRF) to meet its obligations 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.

- As per the guidelines, the State Government may contribute 0.5 *per cent* on the guarantees outstanding as on 31 December every year, so that the minimum level of three *per cent* is achieved during the subsequent five years. The GRF is to be gradually increased to a desirable level of five *per cent*. Accordingly, ₹448 crore was to be contributed in 2019-20 on the outstanding value (₹89,601 crore) of Guarantees. State Government, however, has contributed only ₹300 crore. Thus, there was a shortfall of ₹148 crore in contribution to the GRF.
- State Government contributed ₹83.94 crore to GRF initially in 2015-16 and thereafter did not contribute in 2016-17 and 2017-18. It, however, contributed (₹200 crore) again in 2018-19. Thus, there was lack of consistency on the part of the State Government in contributing to the GRF.

²⁶ G.O. Ms. No. 4, Finance (DCM), dated 11.06.2014

- As mentioned above, a minimum level of three *per cent* was to be achieved in five years after creation of GRF (2014). Accordingly, GRF should have an amount of ₹2,688 crore (i.e., three *per cent* on ₹89,601 crore). However, the total available balance in GRF as of March 2020 was ₹1,225.25 crore²⁷, which is only 1.37 *per cent* of the outstanding amount of Guarantees. Thus, the GRF is underfunded to the extent of ₹1,462.75 crore.
- In addition to the income accrued to the GRF, the accretions by way of Guarantee Commission realised during the preceding year from the institutions etc., to which guarantee was issued, would also be transferred to the Fund account, during the succeeding year. The State Government received an amount of ₹340 crore as Guarantee Commission during 2018-19, which was required to be transferred to the GRF during 2019-20. However, this was not done.

2.6.2.4 State Compensatory Afforestation Fund

Government of Telangana State established (February 2019) a new Reserve Fund²⁸ by name “State Compensatory Afforestation Fund (SCAF)” in accordance with ‘Compensatory Afforestation Fund Act, 2016 and Compensatory Afforestation Fund Rules, 2018.

During the year 2019-20, an amount of ₹3,110.38 crore (pertaining to outstanding balances available with State CAMPA prior to creation of SCAF) was received into SCAF. An amount of ₹501.26 crore was disbursed out of the Fund during the year leaving a balance of ₹2,609.12 crore in the Fund. However, the entire amount of ₹102.98 crore collected from the user agencies during 2019-20 was remitted into National Fund, as the payment gateway at State level was under establishment. Further details in this regard are given in *Paragraph 4.2.1*.

2.7 Debt Management

Debt management is the process of establishing and executing a strategy for managing the Government’s debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other sovereign debt management goals that the Government may have set through enactment or any other annual budget announcements.

2.7.1 Debt profile: Components

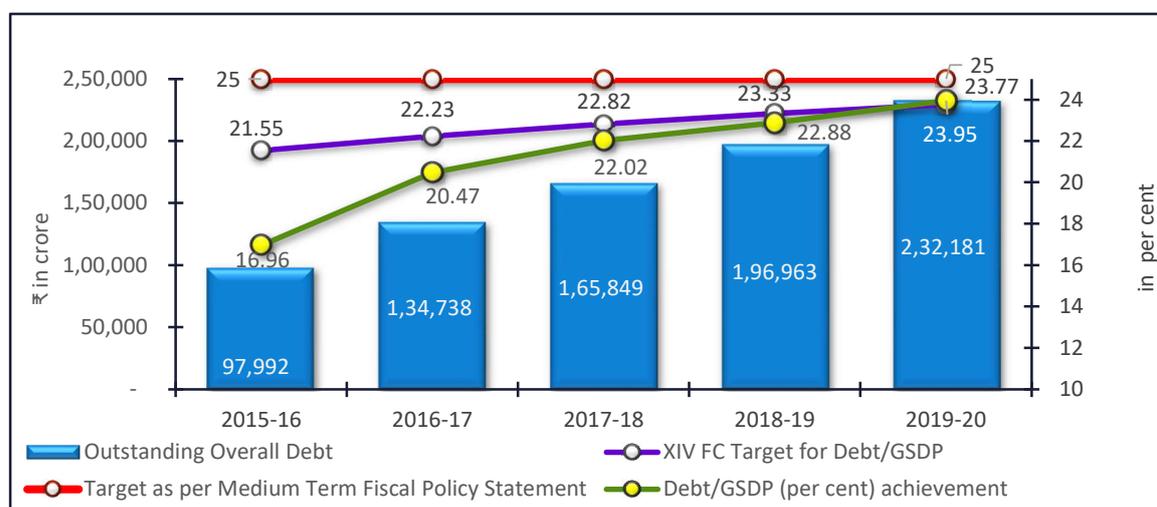
Total debt of the State Government comprises (i) Internal debt of the State (Market Loans, Ways and Means Advances from RBI, special securities issued to National Small Savings Fund and Loans from Financial Institutions, etc.), (ii) Loans and Advances from the Central Government, and (iii) Public Account Liabilities.

²⁷ including interest earned of ₹95.06 crore during the year

²⁸ in interest bearing section under Major Head of Account 8121- General and other Reserve Funds followed with Minor Head of Account 129

The total outstanding debt of the State Government at the end of 2019-20 was ₹2,32,181 crore. The trend of outstanding debt and ratio of debt to GSDP during the period 2015-20 is given in **Chart 2.14**.

Chart 2.14: Trend of total outstanding Debt



Source: Finance Accounts

The outstanding liabilities grew by 17.88 per cent over the previous year. As per XIV FC recommendations, the total outstanding Debt to GSDP ratio should be less than 23.77 per cent for 2019-20. The Government has marginally exceeded the target of XIV FC with 23.95 per cent Debt to GSDP. It was, however, lower than the target of 25 per cent as per MTFP Statement of State Government. However, if the Off-Budget Borrowings taken by various institutions on behalf of the Government are taken in to consideration, this ratio would go up to 31.29 per cent.

The details of total outstanding debt (i.e., Internal Debt, Loans from Government of India and Public Account Liabilities), debt receipts, debt repayments, ratio of debt to GSDP and the actual quantum of debt available to the State during 2015-20 are shown in **Table 2.28**.

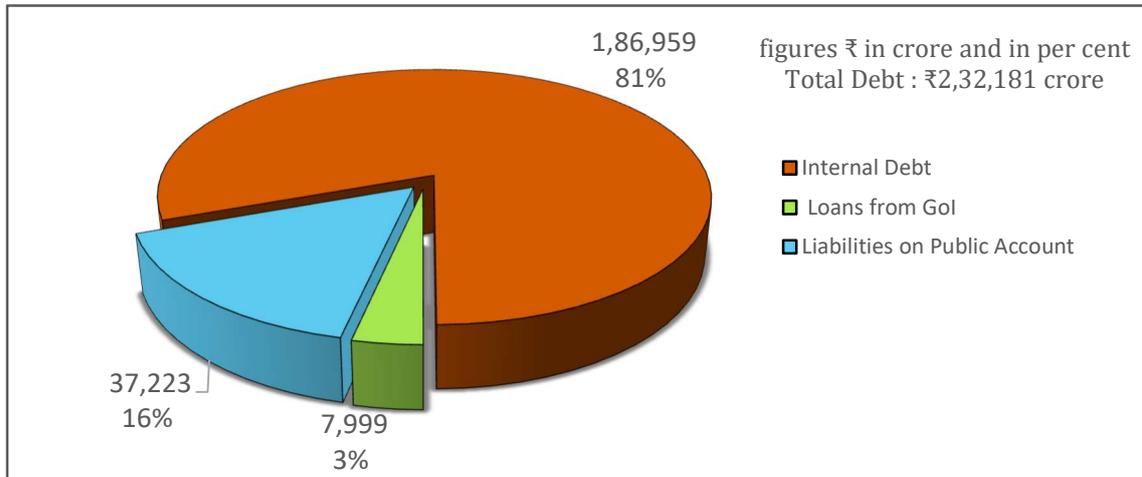
Table 2.28: Component-wise Debt trends

		(₹ in crore)				
		2015-16	2016-17	2017-18	2018-19	2019-20
Outstanding overall Debt		97,992	1,34,738	1,65,849	1,96,963	2,32,181
Public Debt	Internal Debt	83,772	1,12,830	1,34,287	1,56,933	1,86,959
	Loans from GoI	8,213	8,406	8,631	8,231	7,999
Public Account Liabilities		6,007	13,502	22,931	31,799	37,223
Rate of growth of outstanding debt (percentage)		22.67	37.50	23.09	18.76	17.88
Gross State Domestic Product (GSDP)		5,77,902	6,58,325	7,53,127	8,61,031	9,69,604
Total Outstanding Debt/GSDP (per cent)		16.96	20.47	22.02	22.88	23.95
Total Debt Receipts		61,136	91,902	1,06,641	1,17,715	1,43,870
Total Debt Repayments		43,023	59,551	78,203	91,080	1,08,652
Total Debt available		18,113	32,351	28,438	26,635	35,218
Debt Repayments/Debt Receipts (percentage)		70.37	64.80	73.33	77.37	75.52

Source: Finance Accounts

The breakup of outstanding overall Debt at the end of March 2020 is shown in **Chart 2.15**.

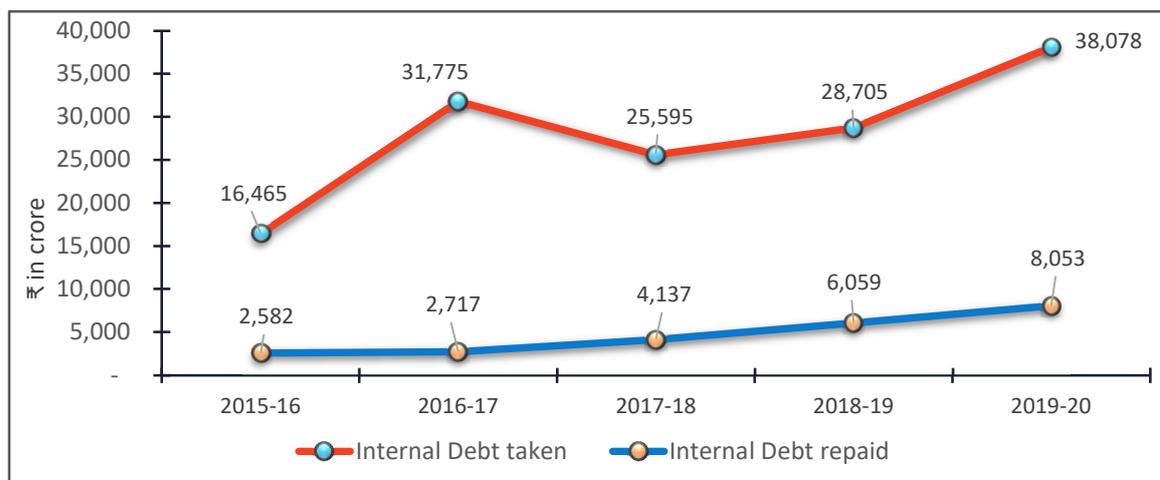
Chart 2.15: Break up of outstanding overall Debt at the end of March 2020



Source: Finance Accounts

Major portion of total outstanding debt is Internal Debt. The comparative trend of internal debt received and repaid are shown in **Chart 2.16**.

Chart 2.16: Comparative trend of internal debt taken and repaid



Source: Finance Accounts

Note: excluding Ways and Means Advances

The huge increase in 2016-17 was on account of borrowings for implementation of UDAY scheme. The gap between internal debt obtained and repaid has been widening during the past three years and increased considerably during 2019-20 as can be seen from the Chart above.

2.7.1.1 Components of Fiscal Deficit and its financing pattern

Fiscal Deficit represents the total financing that 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. Composition and financing of Fiscal Deficit are given in **Table 2.29**.

Table 2.29: Components of Fiscal Deficit and its financing pattern

(₹ in crore)

Particulars		2015-16	2016-17	2017-18	2018-19	2019-20
Composition of Fiscal Deficit						
1	Revenue Surplus / Deficit	238	1,386	3,459	4,337	(-)6,254
2	Net Capital Expenditure	(-)13,590	(-)33,371	(-)23,902	(-)22,641	(-)16,859
3	Net Loans and Advances	(-)5,145	(-)3,246	(-)6,071	(-)8,640	(-)8,638
4	Net Interstate Settlement	(-)359	(-)50	(-)186	(-)5	(-)8
Gross Fiscal Deficit		(-)18,856	(-)35,281	(-) 26,700	(-)26,949	(-)31,759
Financing Pattern of Fiscal Deficit						
1	Market Borrowings	12,730	20,578	21,828	22,184	30,697
2	Special Securities issued to NSSF	431	(-)799	(-)799	(-)814	(-)827
3	Loans from Financial Institutions	722	7,681	429	1,276	155
4	Loans from GOI	770	193	224	(-)400	(-)232
5	Small Savings, PF, etc.	862	1,069	976	845	783
6	Deposits and Advances	2,213	1,918	5,860	3,100	1,406
7	Suspense and Miscellaneous	1,405	454	(-)573	(-)660	297
8	Remittances	(-)139	(-)155	1,306	115	7
9	Reserve Fund	1,126	440	278	1,530	4,353
10	Net Contingency Fund	0	(-)0.09	0	(-)2.01	(-)2.11
11	Total	20,121	32,977	29,529	27,174	36,637
12	Increase (-) /Decrease (+) in Cash Balance	(-)1,265	2,304	(-)2,829	(-)225	(-)4,878
Gross Fiscal Deficit financed (11+12)		18,856	35,281	26,700	26,949	31,759

Source: Finance Accounts

Receipts and Disbursements under components financing the Fiscal Deficit for the year 2019-20 are detailed in **Table 2.30**.

Table 2.30: Receipts and Disbursements under individual components financing the Fiscal Deficit

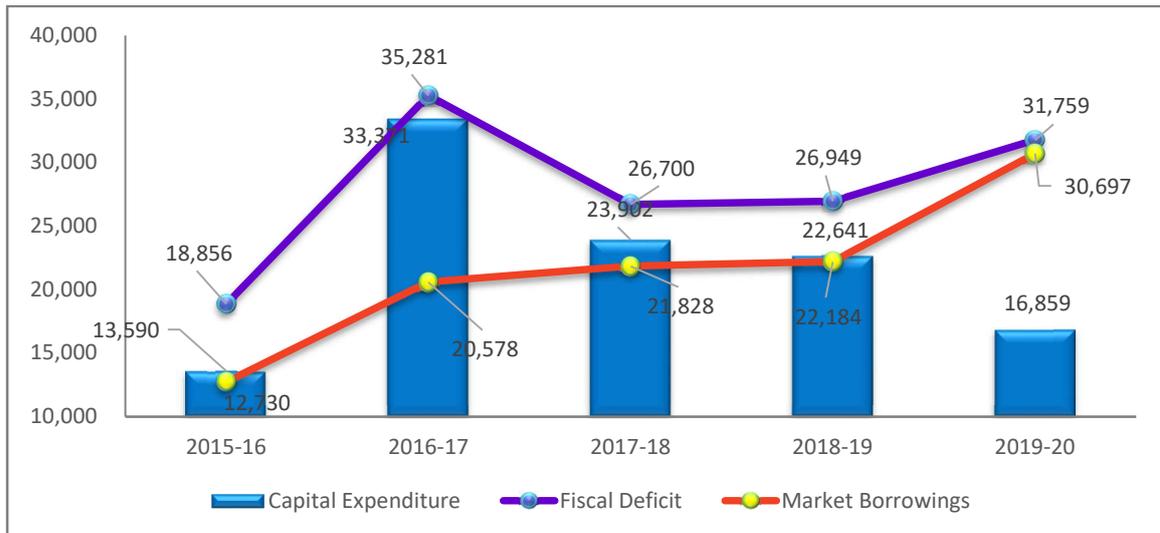
(₹ in crore)

Particulars		Receipts	Disbursements	Net
1	Market Borrowings	37,109	6,412	30,697
2	Special Securities issued to NSSF	0	827	(-)827
3	Loans from Financial Institutions	38,217	38,062	155
4	Loans from GOI	207	439	(-)232
5	Small Savings, PF, etc.	2,618	1,835	783
6	Deposits and Advances	60,402	58,996	1,406
7	Suspense and Miscellaneous	1,045	748	297
8	Remittances	13,860	13,853	7
9	Reserve Funds	4,935	582	4,353
10	Net Contingency Fund	2.10	4.21	(-)2.11
11	Overall Deficit	1,58,395	1,21,758	36,637
12	Increase/Decrease in Cash Balance	(-)4,878
13	Gross Fiscal Deficit	31,759

Source: Finance Accounts

In 2019-20, Capital Expenditure accounted for only 55 per cent of Market Borrowings and 53 per cent of Fiscal Deficit (**Table 2.29**). It may also be noted that 97 per cent of the Fiscal Deficit was financed from Market Borrowings.

Chart 2.17: Comparative trend of Capital Expenditure, Fiscal Deficit and Market Borrowings



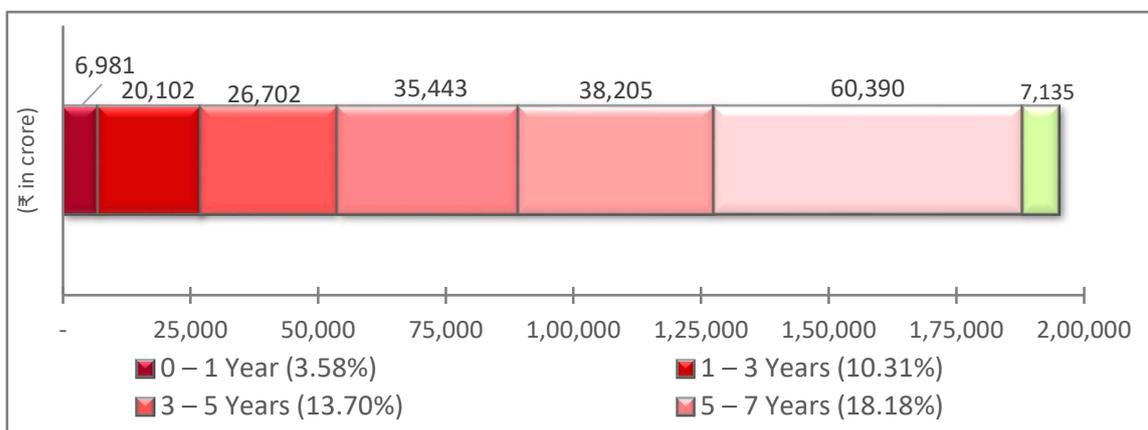
Source: Finance Accounts

Ideally, market borrowing should be utilised for creation of capital assets. However, as can be seen from the above chart, market borrowings were utilised for financing fiscal deficit.

2.7.2 Debt profile: Maturity and Repayment

Debt maturity and repayment profile indicates commitment on the part of the Government for debt repayment or debt servicing. Maturity profile of Public Debt is detailed in **Chart 2.18**.

Chart 2.18: Maturity profile of State debt



Source: Finance Accounts

The maturity profile of outstanding stock of public debt as on 31 March 2020 showed that 46 per cent (₹89,228 crore) of the total outstanding debt is to be repaid in next seven years. The State needs to augment its resources to meet the increasing debt repayment burden over the next seven years.

Out of ₹37,109 crore market borrowings during 2019-20, repayment of ₹14,089 crore is due during the years 2049-2060. This indicates that in respect of 38 per cent of the loans

taken during the year, the Government has resorted to borrowing with longer maturity with interests ranging from 6.94 *per cent* to 7.31 *per cent*.

Apart from the above the Government has also been resorting to Off-Budget Borrowings, which entail the liability of repayment by the Government as detailed below.

2.7.3 Off-Budget Borrowings

Off-Budget Borrowing (OBB) or off-budget financing generally refers to use of those financial resources by the Government for meeting expenditure requirements in a particular year or years, which are not reflected in the budget for that year/ those years for seeking grant/appropriation, hence remaining outside legislative control. These are financed through Government owned or controlled public sector enterprises or departmental commercial undertakings, which raise the resources through market borrowings on behalf of the Government. However, the Government is to repay the debt and/or service the debt from its budget. Therefore, off-budget borrowings/financing involve (a) payment of interest on recurrent basis and (b) repayment of the borrowings from budget as and when it is due.

The FRBM Act provides debt management framework through containing revenue and fiscal deficits. Prudential borrowing norms suggest that borrowed funds should be deployed in such a manner that return from deployment of borrowed funds is more than borrowing cost of debt to be sustainable. It is therefore essential that there should be a policy framework for deployment of borrowed funds keeping in mind cost of borrowing and potential for increase in income.

As per Article 293(1) of the Constitution of India, the State Governments can borrow within the territory of India, upon the security of the Consolidated Fund of the State within the limits fixed by State Legislature. The limit as per TSFRBM Act is three *per cent* of the estimated GSDP. The State Governments can also give Guarantees within limits as fixed by State Legislature.

Government of Telangana has been intimating the State Legislature over the last four years during presentation of Budget that it would implement certain flagship socio-economic schemes like Mission Bhagiratha, Kaleshwaram Project, Two bed-room Housing scheme etc. through OBB. However, it has not quantified the exact quantum of such borrowings in any of the Budget nor did it provide specific disclosure relating to the entities through which it planned to channelize extra budgetary resources.

In order to ascertain the extent of such Off-Budget Borrowings / Extra Budgetary Resources, Audit addressed the Public Sector Undertakings (PSUs) / Autonomous Bodies (ABs) implementing the concerned schemes/projects to provide the requisite information. Seven PSUs and three ABs informed Audit that they had mobilized ₹16,077.04 crore during 2019-20 and ₹85,380.96 crore to the end of March 2020 from various Banks on behalf of the Government, for which, principal and interest would be serviced out of the State Budget. Details in this regard are in **Table 2.31**:

Table 2.31: Borrowings by PSUs / ABs on behalf of State Government during 2019-20

(₹ in crore)

Sl. No.	Institution	PSU /AB	Borrowings during 2019-20	Borrowings by institution as of March 2020	Guarantee provided by Government as of March 2020	Funds provided (in the form of loans) by Government for payment of interest / repayment of loan
1	Kaleshwaram Irrigation Project Corporation Limited	PSU	12,644.89	42,741.79	35,086.37	326.95
2	Telangana Drinking Water supply Corporation Limited	PSU	1,391.39	25,375.62	24,021.00	2,810.73
3	Telangana State Housing Corporation Limited	PSU	1,519.76	6,344.76	--	821.85
4	Telangana State Horticulture Development Corporation Limited	PSU	0.00	874.00	702.25	251.29
5	Telangana State Industrial Infrastructure Corporation Limited	PSU	--	735.07	596.25	222.71
6	Telangana Seeds Development Corporation	PSU	93.50	293.08	--	--
7	Musi Riverfront Development Corporation Limited	PSU	7.50	12.50	--	--
8	Telangana State Power Finance Corporation Limited	PSU	--	--	3,151.00	287.35
9	Hyderabad Metropolitan Water Supply and Sewerage Board	AB	300.00	4,914.00	3,481.51	825.00
10	Telangana State Sheep and Goat Development Cooperative Societies Limited	AB	--	3,505.76	2,826.43	820.64
11	Telangana Fishermen Co-operative Societies Federation Limited	AB	120.00	584.38	479.50	122.24
12	Telangana State Dairy Development Co-operative Federation Limited	AB	--	--	343.58	68.50
	Total		16,077.04	85,380.96	70,687.89	6,557.26

Source: Finance Accounts, Information furnished by the PSUs/ABs concerned, Government Orders

As can be seen from the above table, Government mobilised ₹85,380.96 crore through OBB/ Extra Budgetary Resources to the end of March 2020 and ₹16,077.04 crore during

2019-20. Against the borrowings of ₹85,380.96 crore, the outstanding guarantees extended by the State Government to the lending institutions as of end of March 2020 stood at ₹70,687.89 crore.

During the year 2019-20, the State Government provided an amount of ₹6,557.26 crore from out of budget towards repayment of principal and/ or payment of interest. However, these amounts were provided to the concerned entities as ‘Loans’ and reflected in the Accounts of the Government as Assets, which indicate that the concerned entities will have the obligation to repay the loans to State Government. This also impacts the transparency of reporting financial transactions.

Further, the Detailed Project Report (DPR) of Kaleshwaram Project stated that the project would hardly generate any revenue, as water for irrigation purposes was being provided at nominal rates (since the command area lies in the drought prone districts of Telangana) and no analysis of the revenues was made in the DPR.

Telangana State Sheep and Goat Development Cooperative Federation Limited did not have any definite stream of revenue resource of its own and was, in fact, implementing a Government subsidy scheme.

The Government would have to shoulder the liability of repayment of Loans taken by those institutions, which are unable to generate enough resources for servicing the debts.

Table 2.32: Liabilities of State Government in the nature of Off-Budget Borrowings

Sl. No	Particulars	Amount (₹ in crore)
a.	Off budget fiscal operations such as borrowings by State Public Sector Companies, SPVs and other equivalent instruments on behalf of the State Government where the principal and/ or interest are to be serviced out of the State budgets	70,687.89
b.	Non-reimbursement of the Principal/interest component by the State Government to State Public Sector Companies/ Corporations, SPVs etc. of the loan taken by them on behalf of the State Government: (i) In respect of Telangana State Seeds Development Corporation for the year 2019-20 (₹304.62 crore) (ii) In respect of Telangana State Industrial Infrastructure Corporation Limited pertaining to previous years (₹81.91 crore towards interest)	386.53
c.	Deployment of own funds by the State Public Sector Companies/Corporations, SPVs etc. for execution of the Deposit work of the State Government which was to be financed by the State Government through borrowings (Hyderabad Road Development Corporation)	57.21
	Total of (a + b + c)	71,131.63

Source: Finance Accounts, Information furnished by the PSUs/ABs concerned

State Government stated (March 2021) that OBB were being utilised fully for creation of assets and hence, if OBBs are considered for re-calculating the fiscal parameters of the State, the expenditure incurred through OBBs may be considered as capital expenditure of the State. It was further stated that major projects like Mission Bhagiratha and

Kaleshwaram Lift Irrigation were entrusted to Special Purpose Vehicles (SPVs) which raised funds from Banks/financial institutions for implementation of the schemes and they would explore possibilities to repay the loans from their own resources, and that, Government provides financial assistance to these agencies in the form of loans depending on its Ways and Means position.

Government has not made available its policy, if any, with regard to deployment of borrowed funds. Without clear policy guidelines in this regard, there is a risk of utilising these funds in areas which do not generate enough returns to cover future debt servicing needs.

Being off-budget in nature, these borrowings do not form part of Finance Accounts. As mentioned above, State Government has also not disclosed the sources, purpose and extent of these borrowings appropriately as part of its budget documents. This has the impact of placing major sources of funding of Government's crucial socio-economic schemes/projects beyond the oversight and control of legislature.

2.7.4 Debt Sustainability

Debt sustainability is defined as the ability of the State to service its debt now and in future. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to maintain balance between costs of additional borrowings, with returns from such borrowings. **Table 2.33** analyses the sustainability of debt of the State according to generally accepted indicators:

Table 2.33: Debt Sustainability -Indicators and Trends

(₹ in crore)

Debt Sustainability Indicators	2015-16	2016-17	2017-18	2018-19	2019-20
Outstanding Public Debt*	91,985	1,21,236	1,42,918	1,65,164	1,94,958
Rate of Growth of Outstanding Public Debt	18.95	31.8	17.88	15.57	18.04
GSDP	5,77,902	6,58,325	7,53,127	8,61,031	9,69,604
Rate of Growth of GSDP	14.24	13.92	14.40	14.33	12.61
Public Debt/GSDP	15.92	18.42	18.98	19.18	20.11
Maturity profile of repayment of State Public Debt – including default history, if any	46,188	56,388	65,740	76,262	89,228
Average interest Rate of Outstanding Public Debt (<i>per cent</i>)	8.93	8.08	8.2	8.17	7.99
<i>Percentage</i> of Interest payment to Revenue Receipt	9.93	10.4	12.2	12.41	14.03
<i>Percentage</i> of Public Debt Repayment to Public Debt Receipts	59.19	36.94	58.65	66.85	59.72
Net Public Debt available to the State [#]	7,095	20,641	10,846	9,660	15,407
Net Public Debt available as <i>per cent</i> to Public Debt Receipts	40.81	63.06	41.35	33.15	40.28
Debt Stabilisation (Quantum spread + Primary Deficit)	(-)3,783	(-)17,688	(-)7,560	(-)7,789	(-)8,678

Source Finance Accounts

* Outstanding Public Debt is the sum of outstanding balances under the heads 6003-Internal Debt and 6004- Loans and Advances from the Central Government

Net debt available to the State Government is calculated as excess of Public debt receipts over Public debt repayment and interest payment on Public Debt

- The outstanding Public debt increased by 18.04 *per cent* over the preceding year, at a higher rate than the growth of GSDP, which grew by 12.61 *per cent*.
- After providing for Public Debt Repayments (₹45,740 crore) and interest payments (₹14,386 crore) out of Public Debt Receipts (₹75,533 crore) the Net Public Debt available for purposes other than debt servicing was ₹15,407 crore (20 *per cent*).
- The ratio of outstanding Public Debt to GSDP increased from 15.92 *per cent* in 2015-16 to 20.11 *per cent* in 2019-20.
- Interest payments are increasingly consuming Revenue Receipts as evidenced from their increase from 9.93 *per cent* of RR in 2015-16 to 14.03 *per cent* of RR in 2019-20. This was higher than the 8.39 *per cent* projected for States by XIV FC.

2.7.4.1 Utilisation of borrowed funds

Borrowed funds should ideally be used to fund capital creation and developmental activities. Using borrowed funds for meeting current consumption and repayment of interest on outstanding loans is not sustainable. Details of utilization of borrowed funds is shown in **Table 2.34**.

Table 2.34: Utilisation of borrowed funds

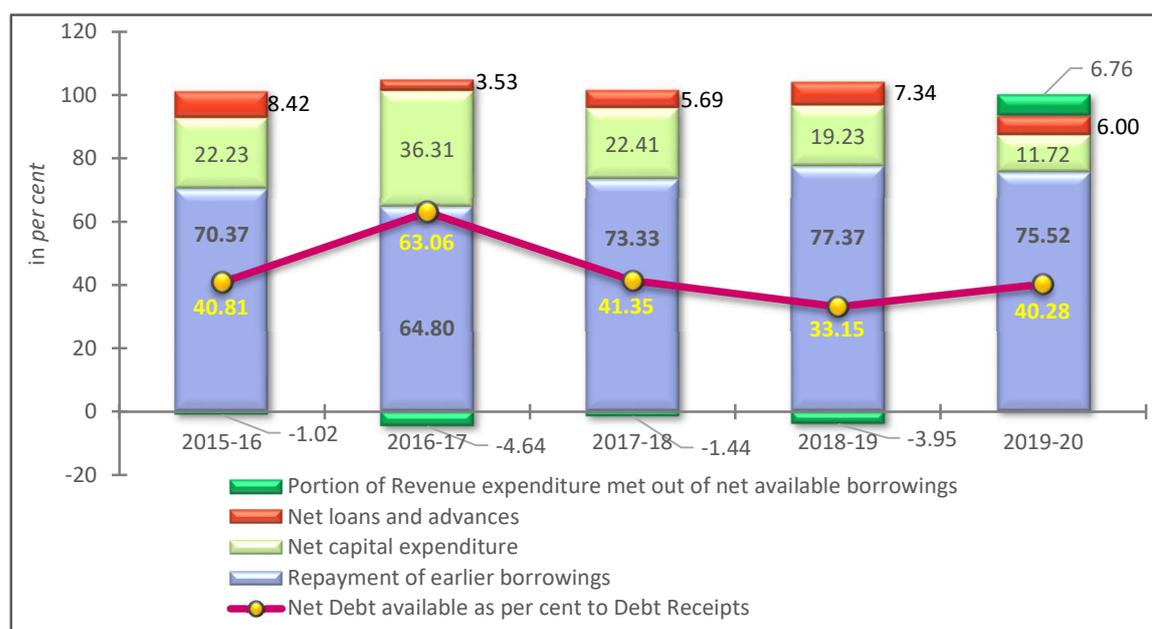
(₹ in crore)

Sl. No.		2015-16	2016-17	2017-18	2018-19	2019-20
1	Total Borrowings	61,136	91,902	1,06,641	1,17,715	1,43,870
2	Repayment of earlier borrowings (Principal) (<i>percentage</i>)	43,023 (70.37)	59,551 (64.80)	78,203 (73.33)	91,080 (77.37)	1,08,652 (75.52)
3	Net Capital Expenditure (<i>percentage</i>)	13,590 (22.23)	33,371 (36.31)	23,902 (22.41)	22,641 (19.23)	16,859 (11.72)
4	Net Loans and Advances (<i>percentage</i>)	5,145 (8.42)	3,246 (3.53)	6,071 (5.69)	8,640 (7.34)	8,638 (6.00)
5	Portion of Revenue Expenditure that was met out of net available borrowings (=1-2-3-4) (<i>percentage</i>)	(-)622 (-1.02)	(-)4,266 (-4.64)	(-)1,535 (-1.44)	(-)4,646 (-3.95)	9,721 (6.76)

Source Finance Accounts

Borrowings have been increasing over the years as can be seen from the above Table. During 2019-20, while borrowings have gone up by ₹26,155 crore over the previous year, revenue expenditure met out of net available borrowings has also increased significantly (₹9,721 crore) during the year, which raises concerns about non-sustainability of debt. Trends of utilisation of borrowed funds are shown in **Chart 2.19**.

Chart 2.19: Trend of utilisation of borrowed funds



Source: Finance Accounts

2.7.4.2 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. The details of outstanding guarantees given by the State Government during the period 2015-20 are shown in **Table 2.35**.

Table 2.35: Guarantees given by the State Government

		(₹ in crore)				
Sl. No.		2015-16	2016-17	2017-18	2018-19	2019-20
1	Ceiling applicable to outstanding value of Guarantees including interest (Criteria)*	45,938	69,241	74,536	79,942	2,02,840
2	Outstanding value of Guarantees including interest	26,619	29,965	41,892	77,713	89,601

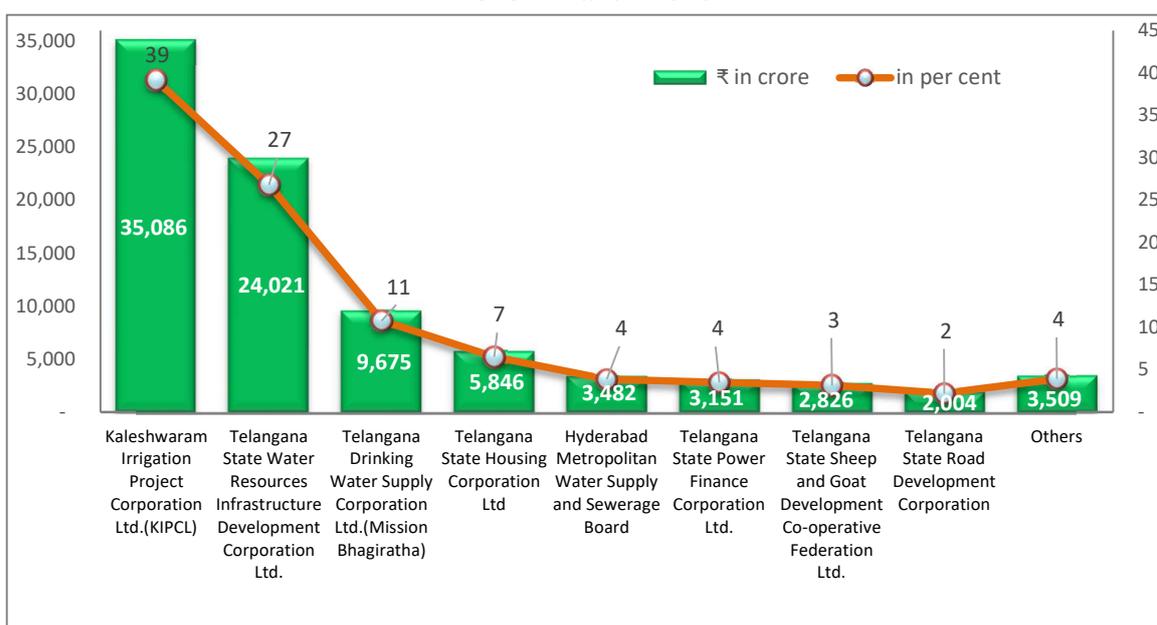
Source Finance Accounts

* TSFRBM Act, 2005 stipulated limiting the amount of annual incremental risk weighted guarantees to 90 per cent of the total Revenue Receipts of the preceding year. This limit, however, was increased (September 2020) to 200 per cent through TSFRBM (Amendment) Act, 2020

The outstanding Guarantees (₹89,601 crore) at end of March 2020 stood at 88 per cent of total Revenue Receipts of the preceding year (i.e., ₹1,01,420 crore in 2018-19). Thus, the outstanding Guarantees were well within the revised (September 2020) TSFRBM ceiling of 200 per cent.

Out of the total loans guaranteed by the Government, 66 per cent pertained to only two Special Purpose Vehicles viz., (i) Telangana Drinking Water Supply Corporation Limited for implementation of a flagship project: Mission Bhagiratha (₹35,086 crore) and (ii) Kaleshwaram Irrigation Project Corporation Limited for implementation of Kaleshwaram Project (₹24,021 crore) as shown in **Chart 2.20**.

Chart 2.20: Major institutions to which State Government provided Guarantees as of 31 March 2020



Source Finance Accounts

The erstwhile Government of Andhra Pradesh issued (September 2003) instructions²⁹ to be followed while providing guarantees. Audit verified compliance by the State Government with the instructions contained in the Government Order while extending guarantees during 2019-20 and observed the following:

- Government gave orders for providing guarantees to (i) Telangana State Civil Supplies Corporation Limited (January 2020) for ₹2,000 crore for stop gap financial arrangement in addition to the ₹18,000 crore guarantees already given and (ii) Telangana State MARKFED (November 2019) for ₹1,527.15 crore. However, these were not disclosed in the Statement of Fiscal Policy laid on the table of Legislature (March 2020).
- Further, the Government had also given orders for providing an additional guarantee of ₹3,213 crore to Telangana State MARKFED to obtain credit facility from National Cooperative Development Council / Banks / Financial Institutions for procurement of Maize at the fag end of the year (30 March 2020).
- 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, Government extended Guarantees (₹3,482 crore) to loans taken by Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB) whose annual accounts were in arrears from 2010-11 onwards.
- Government Order stipulated that the Administrative Departments in Secretariat and Heads of Departments shall evaluate the fiscal risk and classify the Guarantees as direct liability (100 per cent risk), high risk (75 per cent), medium risk (50 per cent),

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

low risk (25 per cent) and very low risk (5 per cent) based on factors like (i) debt servicing through Government support, (ii) repayment scheduled, (iii) financial performance of the entity, (iv) primary security, (v) valuation of assets and (vi) statutory liabilities prior to Government guaranteed debt.

The Finance Department, in the Statement of Fiscal Policy to be laid on the table of Legislature (March 2020) classified Guarantees worth ₹77,754 crore as having medium risk, ₹3,860 crore as having low risk and ₹7,987 crore as having very low risk. Previously, in Statement of Fiscal Policy laid on the table of Legislature in March 2018, the Government classified all the Guarantees as on that date (₹41,539 crore) as having direct liability.

However, the Finance Department could not provide any evidence regarding the risk evaluation or analysis of financial performance of entities conducted by the Departments concerned.

On the other hand, four entities³⁰ informed audit that they undertook borrowings (₹69,726.48 crore) on behalf of the Government. Further, majority of the Guarantees provided by the Government to institutions were for implementing Government schemes and in 2019-20, the Government has facilitated repayment of principal or payment of interest, *albeit*, in the form of providing further loans to those institutions indicating that the servicing of debt by these entities was exclusively through Government support. Therefore, such Guarantees could be construed as direct liabilities.

- 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 ₹448 crore³¹ was to be received by the Government to the end of March 2020 from 25 institutions to which Guarantees of ₹89,601 crore were provided. In addition, Guarantee Commission of ₹134.80 crore³² was also receivable on ₹2,000 crore Guarantee provided to TSCSC and ₹4,740.15 crore Guarantees provided to TS MARKFED as per the Government Orders issued during the year. No Guarantee Commission, however, was received during the year.

During the Exit Conference (March 2021), Government assured that it would review these aspects.

³⁰ (i) Kaleshwaram Irrigation Project Corporation Limited (₹42,741.79 crore), (ii) Telangana Drinking Water Supply Corporation Limited (₹25,375.62 crore), (iii) Telangana Horticulture Development Corporation (₹874.00 crore) and (iv) Telangana State Industrial Infrastructure Corporation Limited (₹735.07 crore)

³¹ calculated at a rate of 0.5 per cent on the total guaranteed amount of ₹89,601 crore

³² ₹40 crore Guarantee Commission from TSCSC and ₹94.80 crore from TS MARKFED (calculated at a rate of two per cent on guaranteed amounts of ₹2,000 crore and ₹4,740.15 crore respectively)

2.7.4.3 Management of Cash Balances

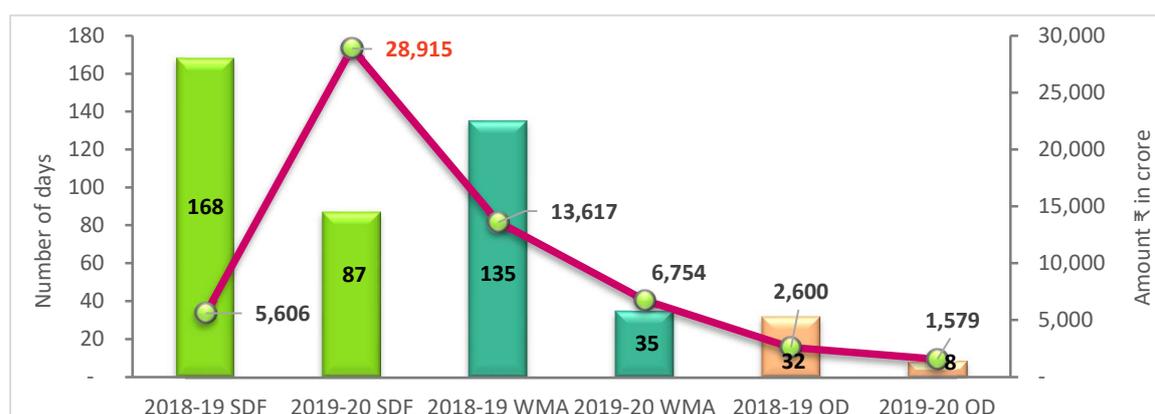
(i) Ways and Means Advances

As per an agreement with the Reserve Bank of India (RBI), State Government has to maintain a minimum daily Cash Balance of ₹1.38 crore with the RBI. If the balance falls below the agreed minimum on any day, the deficiency is made good (i) initially by a Special Drawing Facility (SDF³³) against the collateral of Consolidated Sinking Fund, Guarantee Redemption Fund and Auction Treasury Bills balances and other investments in Government securities, (ii) subsequently by Ways and Means Advances (WMA) and (iii) then by Overdraft (OD) beyond WMA limits.

The limit for ordinary WMA to the State Government is revised by the RBI from time to time. The operative limit for SDF was ₹1,963.72 crore and that of WMA was ₹1,080.00 crore after exhausting SDF.

State Government maintained the mandatory minimum daily Cash Balance of ₹1.38 crore with RBI for 279 days during the year. It depended on SDF for 87 days (amounting to ₹28,914.75 crore), WMA for 35 days (amounting to ₹6,754.20 crore) and OD for 8 days (amounting ₹1,578.64 crore) to maintain minimum balance with RBI. In 2018-19 the State Government has depended on SDF for 168 days, WMA for 135 days and OD for 32 days. Thus, the number of days on which the Government depended on WMA facilities has decreased in 2019-20. In monetary terms, however, the total amount of SDF, WMA and OD significantly increased by ₹15,424.32 crore (71 per cent) to ₹37,247.59 crore in 2019-20 from ₹21,823.27 crore in 2018-19. Comparative position between 2018-19 and 2019-20 in respect of dependency of Government on WMA is shown in **Chart 2.21**.

Chart 2.21: Status of drawl of WMA during 2019-20 vis-à-vis 2018-19



Source Finance Accounts

Dependency of the State Government on WMA increased the burden of interest payments as well. Interest payments on drawl of WMA (including SDF and OD) during 2019-20 was ₹29.19 crore as against ₹15.44 crore in 2018-19, i.e., an increase of 89 per cent.

³³ previously known as Special Ways and Means Advances

(ii) Investment of Cash Balances

The surplus Cash Balance of the State Government gets invested in short and long-term GoI Securities and Treasury Bills. The profits derived from such investments are credited under the Major Head '0049-Interest Receipts'.

The State Government's Cash Balances at the end of March 2020 amounted to ₹12,095.82 crore including Deposits with RBI ((-) ₹1,689.15 crore), investment in cash balance investment account (₹6,945.39 crore) and investment in earmarked funds (₹6,839.58 crore) viz. Sinking Fund (₹5,610.26 crore) and Guarantee Redemption Fund – Investment Account (₹1,225.25 crore). **Table 2.36** depicts the Cash Balances and their investment during the year.

Table 2.36: Cash Balances and their investment

(₹ in crore)

	Opening balance on 1 April 2019	Closing balance on 31 March 2020
A. General Cash Balance		
Cash in treasuries	--	--
Deposits with Reserve Bank of India	(-)93.29	(-)1,689.15
Deposits with other Banks	--	--
Remittances in transit – Local	2.07	--
Total	(-)91.22	(-)1,689.15
Investments held in Cash Balance investment account	1,588.95	6,945.39
Total (A)	1,497.73	5,256.24
B. Other Cash Balances and Investments		
Cash with departmental officers viz., Public Works, Forest Officers	--	--
Permanent advances for contingent expenditure with department officers	0.30	0.31
Investment in earmarked funds	5,719.69	6,839.27
Total (B)	5,719.99	6,839.58
Total (A + B)	7,217.72	12,095.82
Interest realized	22.97	7.98

Source Finance Accounts

The Cash Balance investments of the State during the period 2015-20 are shown in **Table 2.37**.

Table 2.37: Cash Balance Investment Account

(₹ in crore)

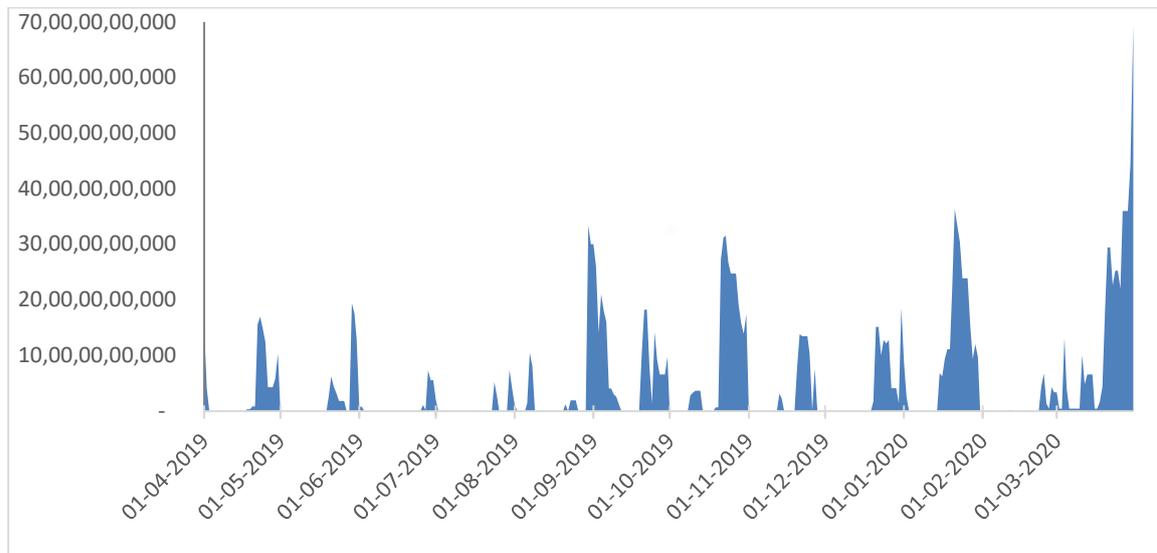
Year	Opening Balance	Closing Balance	Increase (+) / decrease (-)	Interest earned
2015-16	1,870.35	2,503.94	633.59	96.72
2016-17	2,503.94	52.59	(-)2,451.35	40.31
2017-18	52.59	2,277.42	2,224.83	17.43
2018-19	2,277.42	1,588.95	(-)688.47	22.97
2019-20	1,588.95	6,945.39	5,356.44	7.98

Source Finance Accounts

The State Government earned an interest of ₹7.98 crore during the year 2019-20 from the investments made in GoI Securities and Treasury Bills, which was significantly lower than the ₹22.97 crore earned during the previous year.

Daily balances of Cash Balance Investment Account are shown in **Chart 2.22**.

Chart 2.22: Cash Balance Investment Account during 2019-20

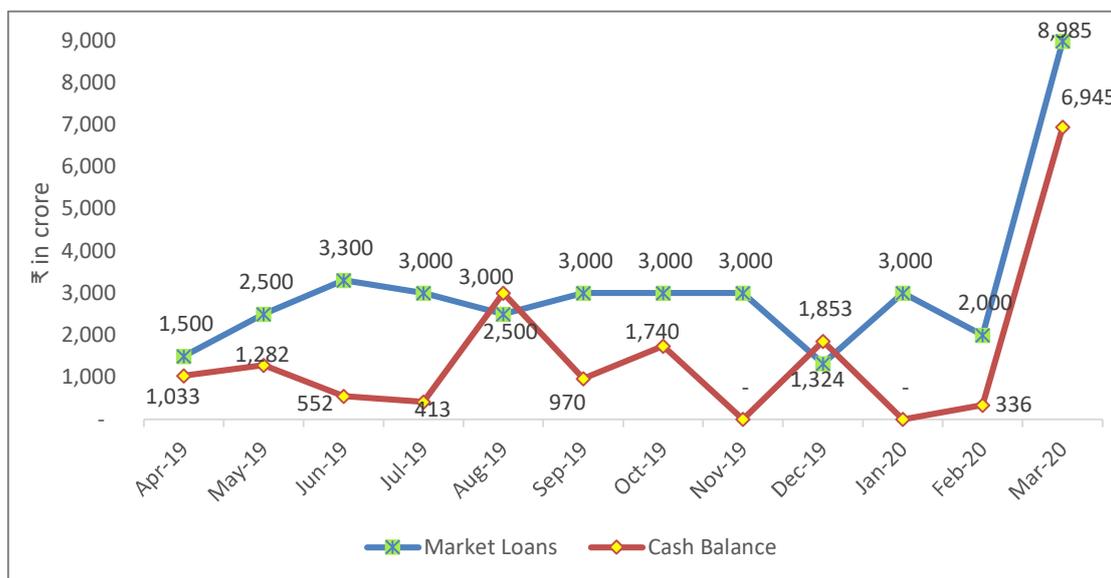


Source Information furnished by Accountant General (A&E)

Cash Investments have occurred more in the months of September 2019, November 2019, February 2020 and March 2020.

A comparative position of market borrowing vis-à-vis Cash Balances during each month is depicted in **Chart 2.23**.

Chart 2.23: Month-wise movement of Cash Balances Investment Account and Market Borrowings during 2019-20



Source Information furnished by Accountant General (A&E)

2.8 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 account are to be apportioned between the successor States of Andhra Pradesh and Telangana. The status of apportionment as of 31 March 2020 was as follows:

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 though nearly six years have elapsed after 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 assets and liabilities of the State Government as depicted in the Finance Accounts are affected to that extent.

As per IX Schedule of Andhra Pradesh Re-organisation Act, 2014, a total of 91 institutions, including Companies and Corporations were to be de-merged. An Expert Committee constituted for the purpose in May 2014 gave recommendations for de-merger in respect of all 91 institutions. The Telangana Government was yet to take a decision in the matter as of end of March 2020, since it had concerns on inadequate information about unutilised bank deposits relating to 23 out of these 91 institutions (*Appendix 2.1*).

2.9 Conclusion

Revenue receipts of the State increased marginally by ₹1,124 crore (1.11 *per cent*) while revenue expenditure increased by ₹11,715 crore (12.07 *per cent*) during the year 2019-20 over the previous year, resulting in the State registering a Revenue Deficit for the first time in 2019-20 during the five-year period 2015-2020. Key fiscal targets prescribed by the TSFRBM Act relating to Fiscal Deficit and ratio of total outstanding liabilities were achieved. About 97 per cent of Fiscal deficit was financed through market borrowings.

Committed expenditure on interest payments increased by ₹1,800 crore (14.30 *per cent*) over the previous year. At 14.03 *per cent*, interest payments relative to Revenue Receipts were higher than the target of 8.39 *per cent* fixed by XIV Finance Commission.

During 2019-20, the State continued to spend less on Education and Health as a proportion of its aggregate expenditure vis-à-vis the other General Category States.

State Government did not bestow required attention to asset creation during the year and capital expenditure dipped in comparison to the preceding year. Huge capital was blocked due to delays in completion of irrigation projects.

State Government has not discharged its commitment of ₹4,063.65 crore for taking over losses of DISCOMs under the UDAY scheme as agreed in the tripartite agreement with GoI and the DISCOMs as of end of March 2020. The current commitments stand

postponed to future years besides non-achievement of objective of financial turnaround of DISCOMs as envisaged under UDAY scheme.

Outstanding Public debt at the end of the year has increased by 18.04 *per cent* over the preceding year. In fact, its growth rate was higher than that of GSDP, which grew at 12.61 *per cent*. Nearly half of the total outstanding Public Debt (46 *per cent*) is to be repaid over the next seven years, indicating the need for the State to augment its resources to meet the repayment burden. State Government has also a liability for off-budget borrowings of ₹71,131.63 crore to the end of March 2020 (₹16,077.04 crore during the year 2019-20) taken by various entities on its behalf, which it has not disclosed appropriately as part of its budget documents. This has the impact of diluting public financial management and oversight role of the Legislature and placing major sources of funding of Government's crucial socio-economic projects beyond the control of the Legislature.

2.10 Recommendations

- i. *State Government needs to make stringent efforts to mobilise additional revenue resources to fund its various socio-economic developmental schemes rather than through debt financing its revenue expenditure.*
- ii. *Capital expenditure needs to be increased significantly for asset creation and provide stimulus for economic growth. Execution of projects need to be monitored closely and irrigation projects need to be completed expeditiously to derive the intended benefits.*
- iii. *State Government needs to honour its commitments with regard to UDAY scheme to ensure financial and operational turnaround of State DISCOMs.*
- iv. *State Government needs to disclose properly its off-budget borrowings by way of loans taken through Special Purpose Vehicles/ Public Sector Undertakings/ Autonomous Bodies for implementation of Government schemes, to ensure transparency and accountability with regard to fund management and compliance with TSFRBM norms.*