

Chapter 1
Overview

1.1 Profile of the State

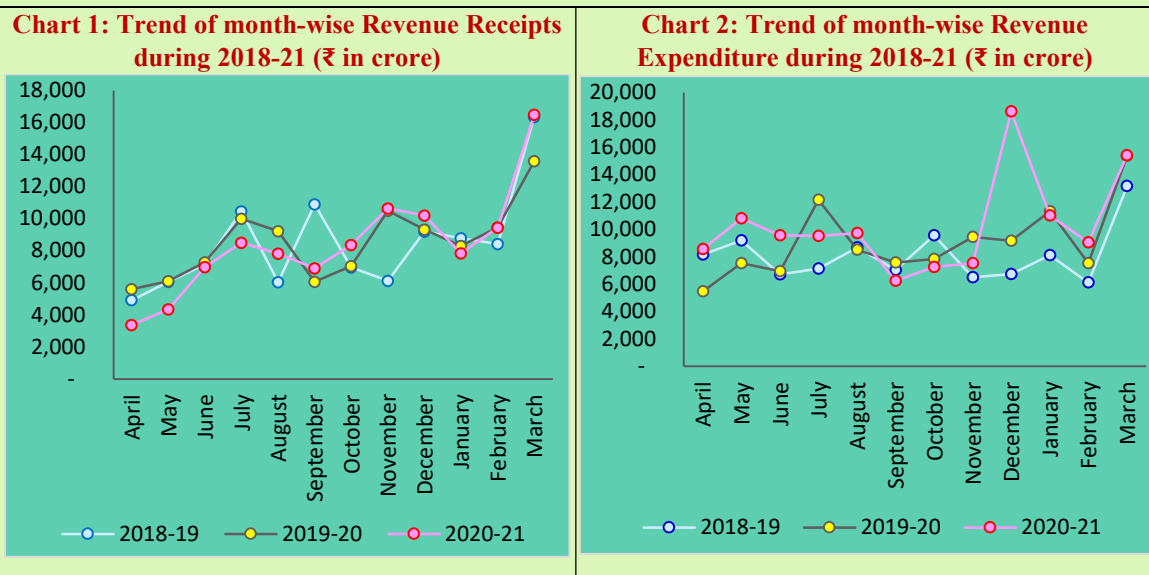
The State of Telangana came into existence on 2 June 2014 consequent to the bifurcation of the erstwhile composite State of Andhra Pradesh. Telangana is the 12th largest State in the country in terms of both area (1,12,077 square kilometres) as well as population (3.51 crore as per Census 2011). The per capita income¹ of Telangana at current prices was ₹2,37,632 in 2020-21, which was 1.84 times the all India average of ₹1,28,829. General and financial data relating to Telangana is given in *Appendix 1.1*.

The Covid-19 Pandemic had a huge adverse impact on economic activity across the globe and India. It also adversely impacted the State Finances of Telangana, which was already impacted by economic slowdown². We have prepared the Report keeping the background of the situation during 2020-21 in view, accordingly impact on key parameters are brought out in the box below.

Covid – 19 Pandemic and its impact on State Finances

During 2020-21, the growth rate of Telangana's Gross State Domestic Product (which was more than 10 per cent during 2016-17 to 2019-20) dipped to less than 3 per cent.

During 2020-21, the economic slowdown coupled with Covid -19 Pandemic had a twin effect of decreasing Revenue Receipts and increasing Revenue Expenditure, particularly in the initial months of the year as compared to previous year. Month-wise impact of Covid-19 Pandemic on the State's revenue and expenditure vis-à-vis previous years is shown in Charts 1 and 2:



Source: Finance Accounts

¹ As per Socio Economic Outlook 2021(prepared by Director of Economics and Statistics), the Per capita income measures the amount of money that would be available if the total value of all goods and services produced in the economy was divided equally among all citizens. An important point to note is that capital goods (e.g. machines) depreciate in value with time. To adjust for this, before dividing, we first subtract this depreciation from the GSDP.

² As noted by the XV Finance Commission in its Report for the year 2020-21

Revenue Receipts

In comparison to previous years, the Revenue Receipts during 2020-21 were considerably lesser in the beginning of the financial year, when the State was under lockdown imposed due to Covid-19 Pandemic. In comparison with April and May 2019 revenue receipts of the State decreased by 39.85 per cent (from ₹5,615.20 crore in 2019-20 to ₹3,377.60 crore in 2020-21) and 28.65 per cent (from ₹6,104.40 crore in 2019-20 to ₹4,355.76 crore in 2020-21) in April and May 2020 respectively. The Revenue Receipts continued to be less in July and August 2020 also, when partial lockdowns continued, as compared to the previous year.

However, the State Government received the following to combat the Covid-19 Pandemic:

- Amount of ₹1,004.82 crore from Telangana Building and Other Construction Workers Welfare Board (TBOCWFB) as ‘Grants, Donations, contributions received from Companies, Corporations, Bodies, Authorities and other Institutions’ to meet expenditure on pandemics (refer to **Box 2.1** of **paragraph 2.4.1.1** for further details) in April 2020.
- An amount of ₹462.36 crore from the Government of India as Grants-in-Aid/central assistance etc towards “National Health Mission (₹395.76 crore)” and “National Social Assistance Programme (₹66.60 crore)”. Out of this an amount of ₹248.42 crore were received in the months of April and May 2020.

Despite the above, the Revenue Receipts of the State Government decreased in comparison to previous year (by ₹1,629.45 crore) and were far below (less by ₹42,238 crore) when compared to Budget Estimates (refer to **paragraph 1.5.1** and **2.4.1** for further details).

Revenue Expenditure

In comparison to previous years, the Revenue Expenditure during 2020-21 was significantly higher during the first quarter. During the months of April, May and June 2019, the Revenue Expenditure of the State increased by 56.18 per cent (from ₹5,478.75 crore to ₹8,556.57 crore), 43.51 per cent (from ₹7,529.45 crore to ₹10,805.22 crore) and 37.74 per cent (from ₹6,941.64 crore to ₹9,561.40 crore) in April, May and June 2020 respectively. On the whole in 2020-21, the Revenue Expenditure increased by ₹14,414.51 crore (13.25 per cent) as compared to 2019-20.

During the previous year (2019-20), the State Government spent ₹1,242.08 crore towards Covid-19 Pandemic relief measures. **In the current year expenditure on Covid-19 Pandemic was ₹3,050.33 crore, out of which ₹2,734.89 crore was in April 2020**. Major portion of it was through transfer to Deposit account of Telangana Civil Supplies Corporation. Further, the entire expenditure on Covid – 19 Pandemic was classified as “Other Charges” at Detailed Head level under MH-2245-Relief on account of Natural Calamities, making it difficult to identify nature or form or object of expenditure (refer to **paragraph 1.5.2** and **2.5.2** for further details).

Expenditure on Medical and Public Health (Major Heads: 2210 and 4210)

The Revenue Expenditure on Major Head Medical and Public Health during 2020-21 (₹3,305.85 crore) was less than previous year (₹3,962.74 crore), while the Capital Expenditure in the current year (₹258.84 crore) was marginally higher than previous year (₹231.88 crore).

State Disaster Response Fund

Government of India (GoI), by way of special one-time dispensation for the year 2020-21 allowed (September 2020) the State Governments to utilise State Disaster Response Fund (SDRF) for procurement of essential equipment / setting up of testing laboratories for response to COVID-19

Pandemic and to take measures for quarantine, sample collection and screening with an overall cap of 50 per cent of annual allocation of the SDRF. An amount of ₹598.67 crore was received into SDRF during the year. GoI further allowed (March 2021) the States to utilize up to 10 per cent of opening balance in State Disaster Response Fund as on 01 April 2020 in addition to the utilisation of 50 per cent of allocation allowed earlier. There was an opening balance of ₹977.67 crore in the Fund. However, the amount adjusted as disbursements under SDRF was only ₹21.03 crore as against ₹397.11 crore allowed (Refer to **Box 2.4** of paragraph 2.6.2.2 for further details).

Cash Management

The State had to resort to more Ways and Means Advances, which are taken from Reserve Bank of India to bridge the gap between receipts and expenditure for day-to-day business of the Government. In monetary terms, the dependency on WMA (₹69,453.90 crore) in 2020-21 increased by 86.47 per cent when compared to 2019-20 (₹37,247.59 crore). It may also be noted that there was a decrease in the Cash balance (₹9,192.99 crore) as of 31 March 2021 by ₹2,902.83 crore as compared to ₹12,095.82 crore as of 31 March 2020.

Fiscal parameters

The Revenue surplus of ₹4,482 crore as contemplated in the Budget Estimates could not be achieved. The State registered a Revenue Deficit of ₹22,298 crore, which was higher by ₹16,044 crore (256.54 per cent) when compared to 2019-20.

Our observations in this report are in light of the above background.

1.1.1 Gross State Domestic Product of Telangana

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important economic indicator denoting the level of economic development over a period of time. Changes in sectoral contribution to the GSDP represent the changing structure of the State economy. Trends in annual growth of State's GSDP³ vis-à-vis Gross Domestic Product (GDP)⁴ of the country are given in **Table 1.1**.

Table 1.1: Trends in growth rate of GSDP vis-à-vis GDP

Year	2016-17	2017-18 (TRE)	2018-19 (SRE)	2019-20 (FRE)	2020-21 (AE)
GDP (2011-12 Series) (₹ in crore)	1,53,91,669	1,70,90,042	1,88,86,957	2,03,51,013	1,97,45,670
Growth rate of GDP over previous year (in per cent)	11.76	11.03	10.51	7.75	(-)2.97
State's GSDP (2011-12 Series) (₹ in crore)	6,58,325	7,50,050	8,60,078	9,57,207	9,80,407
Growth rate of GSDP over previous year (in per cent)	13.92	13.93	14.67	11.29	2.42

Source of data: Ministry of Statistics and Programme Implementation

TRE: Third Revised Estimates; SRE: Second Revised Estimates; FRE: First Revised Estimates; AE - Advanced Estimates

³ Gross State Domestic Product is adopted at current prices throughout this Report

⁴ Gross Domestic Product is adopted at current prices throughout this Report

During 2020-21, Telangana registered lowest growth rate in the last five years. However, GSDP of Telangana has all along registered a higher growth rate than the GDP of the country. While the country has registered a negative growth rate of 2.97 per cent in 2020-21, it is heartening to note that Telangana registered a positive growth rate of 2.42 per cent in spite of economic slowdown due to Covid-19 Pandemic and other factors.

The GSDP generated from economic activities is generally classified into Primary⁵, Secondary⁶ and Tertiary⁷ Sectors, broadly corresponding to Agriculture, Industry and Services respectively. The sectoral contribution to GDP and GSDP of the State during 2020-21 are given in **Charts 1.1** and **1.2**.

Chart 1.1: Sector-wise GDP for the year 2020-21 (₹ in crore and in per cent)

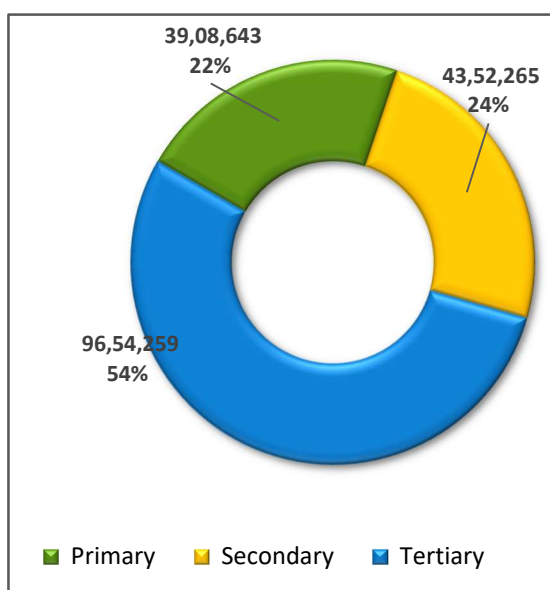
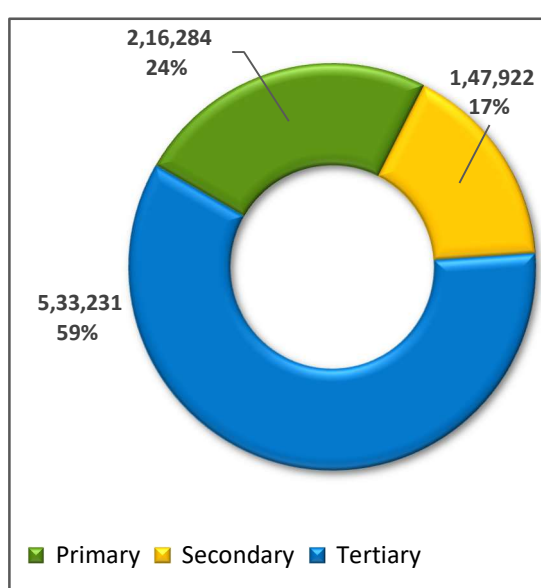


Chart 1.2: Sector-wise GSDP for the year 2020-21 (₹ in crore and in per cent)



Source: data of Ministry of Statistics and Programme Implementation for GDP and information furnished by Director of Economics and Statistics in respect of GSDP

However, the State's GSDP has a higher percentage of contributions from Services sector (higher by six per cent) and Agriculture and allied sectors (two per cent) than their contributions to the GDP of the country. The contribution from the secondary sector, i.e., Industries and Manufacturing to the GSDP is less to that extent when compared to GDP.

Under Primary sector, the major share was from 'Livestock' and 'Crops' which contributed 9.61 per cent and 8.22 per cent of GSDP respectively. Under Secondary sector, 'Manufacturing' contributed 9.59 per cent of GSDP. The major share of Tertiary sector in the GSDP of the State was on account of contribution from 'Real Estate, ownership of dwellings and professional services' which forms 18.87 per cent of GSDP.

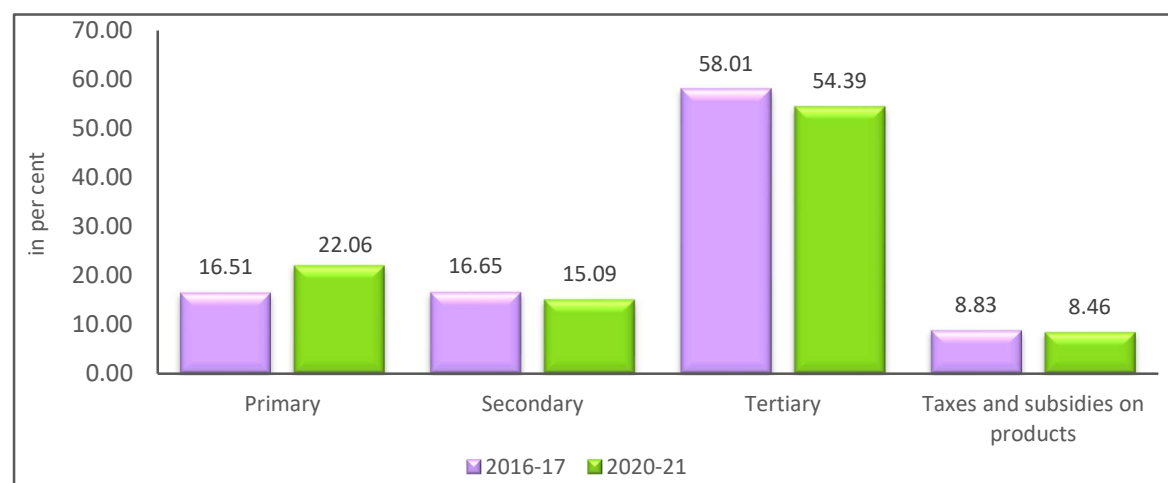
⁵ Primary Sector includes Crops, Livestock, Forestry and Logging, Fishing and Aquaculture and Mining and Quarrying

⁶ Secondary Sector includes Manufacturing, Electricity, Gas, Water Supply and Other utility services and Construction

⁷ Tertiary Sector is Services sector and includes Trade and Repair services, Hotels and Restaurants, Transport, Storage, Communication Services, Financial services, Real Estate, ownership of dwellings etc

Change in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The change in sectoral contribution to GSDP for the period 2016-21 is shown in **Chart 1.3**.

Chart 1.3: Changes in sectoral contribution to GSDP (2016-17 vis-à-vis 2020-21)

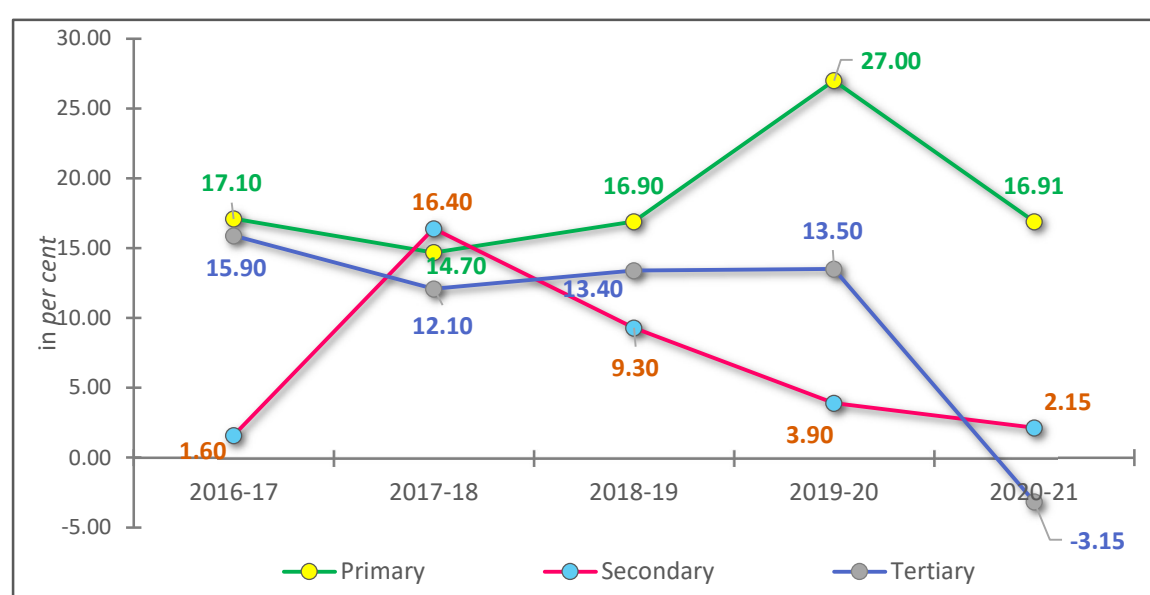


Source: Socio Economic Outlook 2021

The share of Primary sector in GSDP for 2020-21 was considerably higher than the previous years and is almost six *percentage* points higher than 2016-17. There was equivalent lower contribution from Secondary and Tertiary sectors. The huge increase in the share of Primary sector was mainly on account of Livestock (which increased from ₹39,816 crore in 2016-17 to ₹94,211 crore in 2020-21) and due to Crops (which increased from ₹43,529 crore in 2016-17 to ₹80,574 crore in 2020-21), both of which have nearly doubled. As a result of this, the contribution of Primary Sector to GSDP has also doubled in absolute terms, from ₹1,08,666 crore in 2016-17 to ₹2,16,284 crore.

Individual sectoral growth in GSDP is shown in **Chart 1.4**.

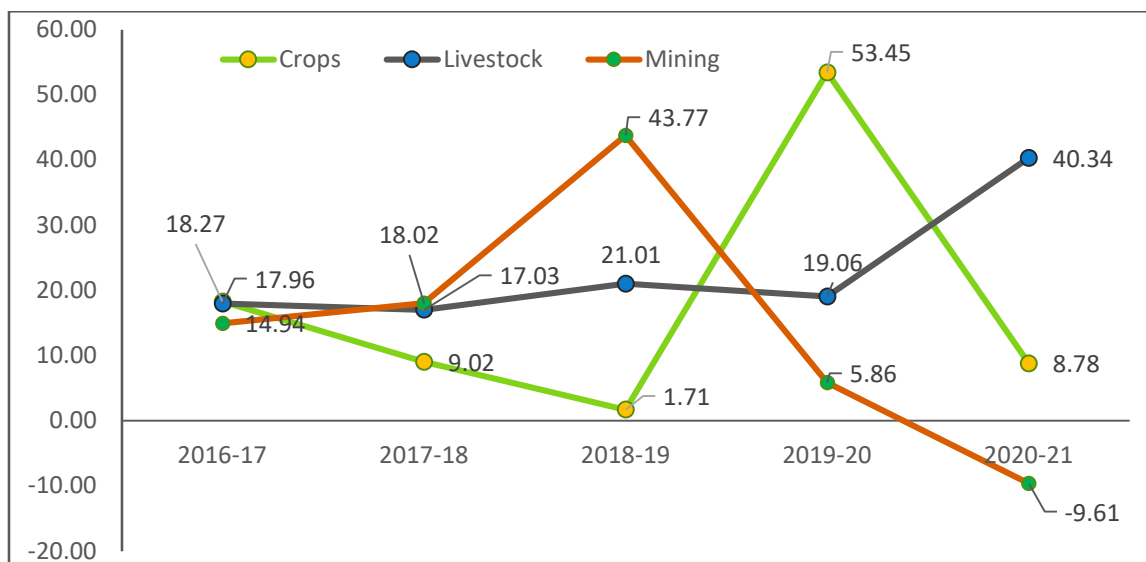
Chart 1.4: Sectoral growth rates of GSDP



Source: Socio Economic Outlook 2021 and information furnished by Director of Economics and Statistics in respect of 2020-21

The Primary sector has shown a consistent higher growth rate during the past three years, much higher than the other two sectors. While all the sectors have shown a fall in growth rates in 2020-21 in the background of Covid-19 Pandemic and other factors effecting economic progress, the Primary sector could still maintain a consistent growth rate.

Chart 1.5: Growth rate trends of main components in Primary sector



Source: Socio Economic Outlook 2021 and information furnished by Director of Economics and Statistics in respect of 2020-21

The livestock sector has been growing during the last five years and has shown a significant increase in growth during 2020-21. Growth rate of crops however has shown significant decrease during 2020-21.

1.2 Basis and approach to State Finances Audit Report

1.2.1 Preparation of Accounts of the State Government

Annual Accounts (Finance and Appropriation Accounts) are prepared by Accountant General (Accounts and Entitlements), Telangana from the compiled accounts and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the Government of Telangana and the advices received from the Reserve Bank of India. The treasuries, offices and/or Departments functioning under the control of the Government of Telangana are primarily responsible for preparation and correctness of the initial and subsidiary accounts as well as ensuring the regularity of transactions in accordance with the applicable laws, standards, rules and regulations relating to such accounts and transactions.

1.2.2 Audit of Accounts and preparation of State Finances Audit Report

The audit of annual accounts of Telangana is independently conducted in accordance with the requirements of Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, for expressing an opinion on these Accounts based on the results of such audit.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. The reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) of Telangana for the year ending 31 March 2021 has been prepared by the CAG for submission to the Governor of Telangana under Article 151 (2) of the Constitution of India.

1.2.3 Sources for preparation of State Finances Audit Report

Finance Accounts and Appropriation Accounts of the State for the year 2020-21 constitute the core data for the State Finances Audit Report (SFAR). Other sources include the following:

- Telangana State Fiscal Responsibility and Budget Management (TSFRBM) Act;
- Gross State Domestic Product (GSDP) and other State related statistics from Ministry of Statistics and Programme Implementation (MoSPI) and Director of Economics and Statistics, Government of Telangana;
- Budget of the State, both for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- Data from the Treasuries and Departmental authorities (accounting as well as Management Information System);
- Recommendations of the Fourteenth Finance Commission (XIV FC) and Fifteenth Finance Commission (XV FC); and
- Results of audit carried out by the office of the Accountant General (Audit).

1.3 Structure of State Finances Audit Report

The State Finances Audit Report is structured in the following five Chapters:

Table 1.2: Structure of State Finances Audit Report

Chapter - 1 Overview	<i>This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of Government Accounts, Budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the Deficits / Surplus.</i>
Chapter - 2 Finances of the State	<i>This Chapter is based on Finance Accounts of the State. It provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to preceding year(s), overall trends during the period from 2016-17 to 2020-21, Debt profile of the State and key Public Account transactions.</i>
Chapter - 3 Budgetary Management	<i>This Chapter is based on Appropriation Accounts of the State. It reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.</i>

Chapter - 4 Quality of Accounts and Financial Reporting Practices	<i>This Chapter reports on the Quality of Accounts rendered by various authorities of the State Government. It also reviews various issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.</i>
Chapter - 5 Financial Performance of State Public Sector Undertakings	<i>This chapter discusses financial performance of Government Companies, Statutory Corporations and Government Controlled Other Companies as revealed from their accounts.</i>

1.4 Overview of Government Accounts Structure

The Accounts of the Government are kept in three Parts:

1. Consolidated Fund of the State

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, etc.), Ways and Means Advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (*e.g.*, salaries of Constitutional authorities, loan repayments *etc.*), constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

2. Contingency Fund of the State

This Fund is in the nature of an imprest which is established by the State Legislature by law, and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional Major Head relating to the Consolidated Fund of the State.

3. Public Account of the State

Apart from above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net Cash Balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a statement of estimated receipts and expenditures of the Government in respect of every financial year. This 'Annual Financial Statement' constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

Revenue Receipts consists of tax revenue, Non-Tax Revenue, share of Union Taxes/ Duties, and grants from Government of India (GoI).

Revenue Expenditure consists of all those expenditures of the Government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the Government departments and various services, interest payments on debt incurred by the Government, and grants given to various institutions (even though some of the grants may be meant for creation of assets).

Capital Receipts consist of:

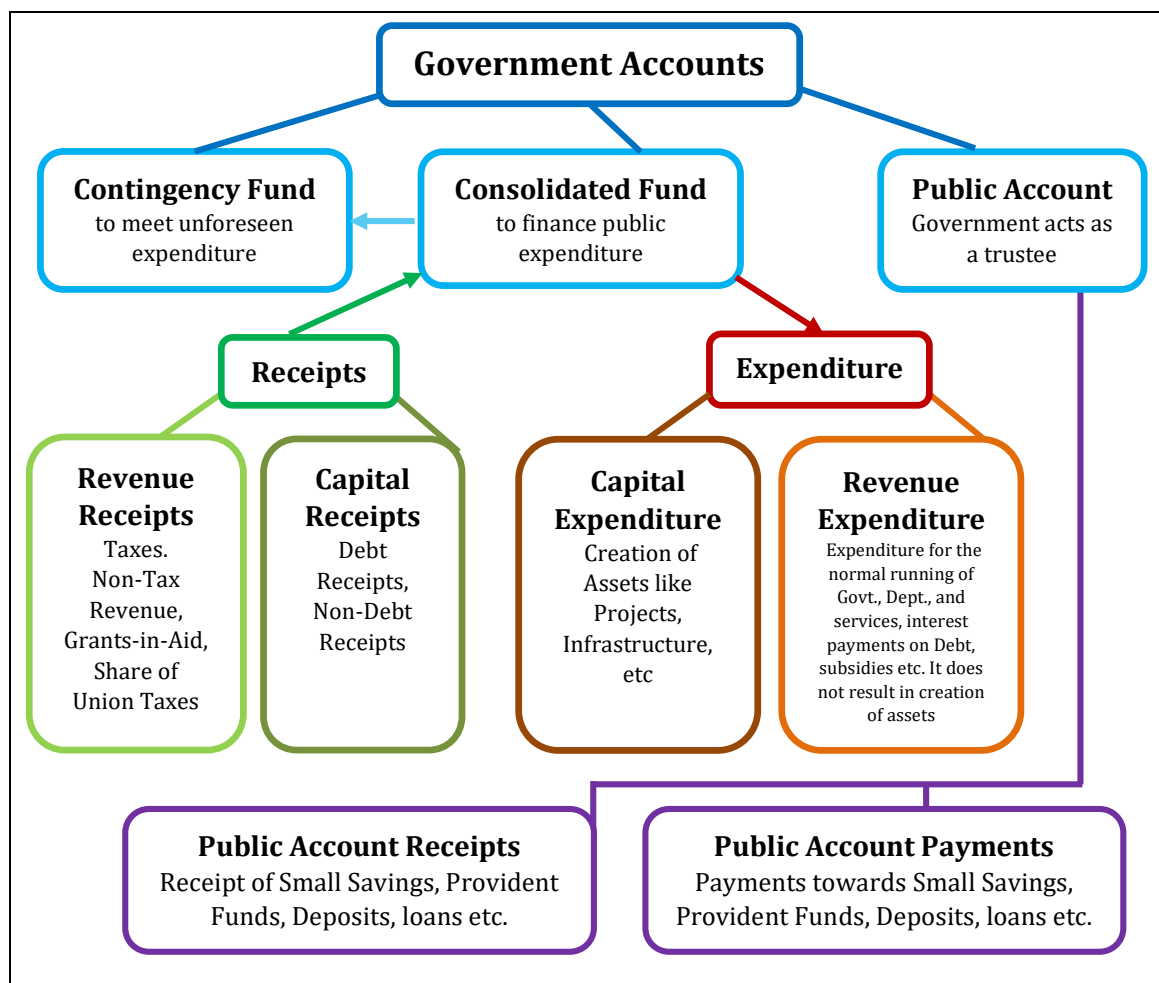
Debt receipts: Market Loans, Bonds, Loans from financial institutions, Net transactions under Ways and Means Advances, Loans and Advances from Central Government, etc.;

Non-debt receipts: Proceeds from disinvestment, Recoveries of Loans and Advances;

Capital Expenditure includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and Loans and Advances by the Government to PSUs and other parties.

A pictorial depiction of the structure of Government Accounts is given in **Chart 1.6**.

Chart 1.6: Structure of Government Accounts



Source: Finance Accounts

The accounting classification system in the Government is both functional and economic, as detailed below.

Table 1.3: Accounting classification framework

	Attribute of transaction	Classification
Standardised in List of Major and Minor Heads of Account of Union and States by Controller General of Accounts	Function - Education, Health, <i>etc.</i> , Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major Head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub scheme	Detailed Head (2-digit)
	Economic nature/Activity	Object head-salary, minor works, <i>etc.</i> (2-digit)

Functional classification involves arranging the receipts and expenditure by economic categories, distinguishing the Government transactions into Sections like Revenue and Capital (including Public Debt, Loans and Advances), Sectors like Tax Revenue from other revenue and Grants-in-Aid, Sub-sectors like Taxes on Income and Expenditure, fiscal services, *etc.* On the expenditure side also, the transactions are classified into Sectors *viz.*, General Services, Economic Services, Social Services and Grants-in-Aid and contributions and sub-divided into Major Heads of account below these Sectors. Major Heads of account falling within the Consolidated Fund generally correspond to 'Functions' of Government, such as 'Education', while Minor Heads subordinate to them identify the 'Programme' undertaken to achieve the objectives of the function represented by the Major Head. A programme may consist of a number of schemes or activities and these generally correspond to 'Sub-Heads' below the Minor Head. 'Detailed Head' below the Sub-Head, is primarily meant for itemised control over expenditure and indicates the object or nature of expenditure on a scheme or activity in terms of inputs such as 'Salaries', 'Office Expenses', 'Grants-in-Aid', *etc.*

1.5 Budgetary Process

In terms of Article 202 of the Constitution of India, the Governor of Telangana causes to be laid before the State Legislature, a statement of the estimated Receipts and Expenditure of the State for the year 2020-21, in the form of an Annual Financial Statement. In terms of Article 203, the statement is submitted to the State Legislature in the form of Demands for Grants/ Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund. The Budget Manual details the process of budget preparation, budget execution and budget monitoring.

Pragathi Paddu (Scheme Expenditure) and Nirvahana Paddu (Expenditure for Establishment / Maintenance): With effect from the year 2017-18 in accordance with the norms set by the Union Government, the Plan and Non-Plan distinction was done away with, to bring the public schemes and projects under a monitorable output-outcome frame.

Accordingly, Plan and Non-Plan budgets were replaced with “Pragathi Paddu (Scheme Expenditure)” and “Nirvahana Paddu (Expenditure for Establishment/ Maintenance)” in the State.

Special Development Fund: Consequent to enactment of Telangana State Scheduled Castes and Scheduled Tribes Special Development Fund (Planning, Allocation and Utilization of Financial Resources) Act, 2017, the State Government has been preparing sub-budgets in the form of Scheduled Castes Special Development Fund and Scheduled Tribes Special Development Fund, in which portions of the total Pragathi Paddu outlays of State in a Financial year are earmarked proportionate to the Scheduled Castes (15.45 *per cent*)/Schedules Tribes (9.08 *per cent*) population in the State. Special Development Funds of the Departments shall include only such schemes that secure direct and quantifiable benefits to the Scheduled Castes/Scheduled Tribe individuals or households or habitations or areas.

Outcome/ Performance Budget: **Outcome/Performance Budget** is a comprehensive operational document, conceived, presented and implemented in terms of programmes, projects and activities with their financial and physical aspects closely interwoven. It seeks to present the purposes and objectives for which funds are requested, the cost of various programmes and activities proposed for achieving these objectives and quantitative data measuring the work performed or services rendered or results accomplished under each programme and activity.

Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government along with utilisation of funds provided under Special Development Fund are detailed in *Chapter 3*.

1.5.1 Snapshot of Finances

Table 1.4 provides the details of actual financial results vis-à-vis Budget Estimates (BE) for the year 2020-21 in comparison to actuals for the year 2019-20. Time series data of Government Finances for the years 2016-21 are given in *Appendix 1.2*.

Table 1.4: Snapshot of Finances

Sl. No.	Components	2019-20 Actuals (₹ in crore)	2020-21 Budget Estimates (BE) (₹ in crore)	2020-21 Actuals (₹ in crore)	Percentage of Actuals to BE	Percentage of Actuals to GSDP
1	Own Tax Revenue	67,597	85,300	66,650	78.14	6.80
2	Non-Tax Revenue	7,360	30,600	6,101	19.94	0.62
3	Share of Union taxes/duties ^(a)	15,988	16,727	12,692	75.88	1.29
4	Grants-in-Aid and Contributions	11,599	10,525	15,471	146.99	1.58
5	Revenue Receipts (1+2+3+4)	1,02,544	1,43,152	1,00,914	70.49	10.29
6	Recovery of Loans and Advances	62	50	58	116.00	0.01
7	Other Receipts	--	--	--	--	--
8	Borrowings and other Liabilities ^(b)	31,759	33,191	49,038 ⁸	147.74	5.00
9	Capital Receipts (6+7+8)	31,821	33,241	49,096	147.70	5.01
10	Total Receipts (5+9)	1,34,365	1,76,393	1,50,010	85.04	15.30
11	Revenue Expenditure	1,08,798	1,38,670	1,23,212	88.85	12.57
12	Interest payments	14,386	14,615	16,841	115.23	1.72
13	Capital Expenditure^(c)	25,567	37,723	26,798	71.04	2.73
14	Capital outlay	16,859	22,061	15,922	72.17	1.62
15	Loan and advances	8,700	15,662	10,868	69.39	1.11
16	Inter-State Settlements	8	0	8	--	0.00
17	Total Expenditure (11+13)	1,34,365	1,76,393	1,50,010	85.04	15.30
18	Revenue Surplus (+) / Deficit (-) (5-11)	(-)6,254	4,482	(-)22,298	(-)497.50	(-)2.27
19	Fiscal Deficit {(5+6+7)-17}	(-)31,759	(-)33,191	(-)49,038	147.74	5.00
20	Primary Deficit (19-12)	(-)17,373	(-)18,576	(-)32,197	173.33	3.28

Source: Finance Accounts

(a) Includes State's share of Union Taxes

(b) Borrowings and other Liabilities: Net (Receipts-Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts - Disbursements) of Public Account + Net of Opening and Closing Cash Balance

(c) Expenditure on Capital Account includes Capital Expenditure and Loans and Advances disbursed and inter-state settlements

The State Government estimated its Revenue Receipts higher by 39.60 per cent than what was received last year. Actually, the Revenue Receipts were 29.50 per cent less than estimates. The gap between Budget Estimates and actual Revenue Receipts in 2020-21 was ₹42,238 crore. The State Government had to depend more on borrowings to compensate for shortfall in Revenue Receipts. Consequently, the Borrowings and liabilities were 47.74 per cent higher than the estimates. Even after higher borrowings, the total expenditure was short by around 14.96 per cent when compared to its estimates. Fiscal Deficit was also higher by 47.74 per cent in comparison to Budget Estimates.

⁸ This includes ₹2,380 crore of back-to-back loans in lieu of GST compensation shortfall, which is borrowed by GoI and would be serviced by it from out of GST compensation Cess and the repayment obligation need not be met from the other resources of the State

The Government stated (January 2022) that the budget was prepared before the onset of Covid-19 Pandemic and hence they were not in a position to factor it in the Budget Estimates before-hand.

1.5.2 Snapshot of Assets and Liabilities of the Government

Government accounts capture the financial liabilities of Government and assets created out of the expenditure incurred. Liabilities consist mainly of internal borrowings, Loans and Advances from Government of India, receipts from Public Account and Reserve Funds, while assets comprise mainly of the Capital outlay and Loans and Advances given by State Government and Cash Balances. Summarised position of Assets and Liabilities is shown in *Table 1.5*.

Table 1.5: Summarised position of Assets and Liabilities

		Liabilities			Assets				
		2019-20 (₹ in crore)	2020-21 (₹ in crore)	per cent increase (+) / decrease (-)		2019-20 (₹ in crore)	2020-21 (₹ in crore)	per cent increase (+) / decrease (-)	
Consolidated Fund									
A	Internal Debt	1,86,959	2,24,379	20.02	a	Gross Capital Outlay	1,18,735	1,34,657	13.41
B	Loans and Advances from GoI	7,999	10,174*	27.19	b	Loans and Advances	33,147	43,957	32.61
Contingency Fund		50	50	0.00			4	0	(-)100.00
Public Account									
A	Small Savings, Provident Funds, etc.	10,900	11,845	8.67	a	Advances	(-)23	(-)23	0.00
B	Deposits	21,121	26,201	24.05	b	Remittance
C	Reserve Funds	12,041	12,816	6.44	c	Suspense and Miscellaneous
D	Remittances	138	106	(-)23.19		Cash Balance (including investment in Earmarked Fund)	12,096	9,193	(-)24.00
E	Suspense and Miscellaneous Balances	498	266	(-)46.59		Total	1,63,959	1,87,784	14.53
						Deficit in Revenue Account	75,747	98,053	29.45
Total		2,39,706	2,85,837	19.24		Total	2,39,706	2,85,837	19.24

Source: Finance Accounts

* The figure of ₹10,174 crore includes ₹2,380 crore of back-to-back loans in lieu of GST compensation shortfall, which is borrowed by GoI and would be serviced from out of GST compensation Cess and the repayment obligation need not be met from the other resources of the State

In 2020-21, the Gross Capital outlay and Internal Debt increased by ₹15,922 crore (13.41 per cent) and ₹37,420 crore (20.02 per cent) respectively, as compared to previous year. The growth of ₹22,306 crore (29.45 per cent) in Revenue Account deficit is significant and concerning.

1.6 Fiscal Balance: Achievement of Deficit and total Debt targets

To ensure prudence in fiscal management and fiscal stability by progressive elimination of Revenue Deficit, reduction in Fiscal Deficit and prudent debt management, the State Government (erstwhile composite Andhra Pradesh) enacted the Andhra Pradesh Fiscal Responsibility and Budget Management Act (APFRBM), 2005, (amended in 2010, 2011). This Act was adapted by Government of Telangana in 2016 (TSFRBM Act) and subsequently amended in 2020. The Act prescribes fiscal targets for giving effect to the fiscal management objectives.

1.6.1 TSFRBM targets on key fiscal parameters and achievement thereon

Targets relating to key fiscal parameters as per TSFRBM Act during the five-year period 2016-17 to 2020-21 and their achievement is shown in **Table 1.6**.

Table 1.6: Compliance with the provisions of Fiscal Responsibility and Budget Management Act

Fiscal Parameters	Fiscal targets set in the Act	Achievement				
		2016-17	2017-18	2018-19	2019-20	2020-21
Revenue Deficit (-) / Surplus (+) (₹ in crore)	Revenue Surplus to be achieved during each year	1,386 ✓	3,459 ✓	4,337 ✓	(-)6,254 ✗	(-)22,298 ✗
Fiscal Deficit (-)/ Surplus (+) (as percentage of GSDP)	For the years 2016-18: 3.50 per cent	(-)5.36 per cent	(-)3.56 per cent	(-)3.13 per cent	(-)3.17 per cent	(-)5.00
	For the year 2018-19 : 3.25 per cent For the year 2019-20: 3.25 per cent + ₹1,435 crore* For the year 2020-21 : 4.75 per cent [#]	✗	✗	✓	✓	✗
Ratio of Total Outstanding Liabilities⁹ to GSDP (in per cent)	25 per cent	20.47 ✓	22.11 ✓	22.9 ✓	24.26 ✓	28.11 ¹⁰ ✗

Source: Finance Accounts for the years concerned and Ministry of Statistics and Programme Implementation in respect of GSDP, Statement of Fiscal Policy

* As per TSFRBM (Amendment) Act, 2020 (19 September 2020) which came into effect from 1 January 2020, additional Fiscal Deficit of ₹1,435 crore was permitted over and above 3.25 per cent of the GSDP in accordance with Government of India decision (February 2020) to allow additional borrowings beyond the State's eligibility as a one-time special dispensation for the Financial Year 2019-20.

[#] As per GoI letter dated 17 May 2020, in addition to the normal borrowing limit of 3 per cent of GSDP, Telangana has been able to avail the additional borrowing limit up to 1.75 per cent of GSDP (Unconditional: 0.50 per cent; Fulfilling three of the four reforms: 0.50 per cent; Implementation of One Nation One Ration Card System – 0.25 per cent; Ease of doing business reform: 0.25 per cent; Urban Local body/utility reforms: 0.25 per cent)

⁹ As per FRBM Act, "Total liabilities" means the liabilities under the Consolidated Fund of the State and Public Account of the State and shall also include borrowings by the Public Sector Undertakings and the Special Purpose Vehicles and other equivalent instruments including Guarantees where the principal and/or interest are to be serviced out of the State Budgets

¹⁰ Excludes ₹2,380 crore of back-to-back loans in lieu of GST compensation shortfall for which the repayment obligation need not be met from the other resources of the State

The purpose of GST compensation is to compensate States for loss of revenue arising on account of implementation of GST. During the year 2020-21, the State Government has received GST compensation of ₹3,103.07 crore as GIA from the GoI. Besides, due to inadequate balance in GST Compensation fund, shortfall in GST compensation was provided to the State as back to back loan of ₹2,380 crore which is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources. The revenue deficit of ₹22,298 crore and fiscal deficit of ₹49,038 crore of the State Government as depicted in the Finance Accounts 2020-21 should therefore, be read in conjunction with receipt of GST compensation of ₹2,380 crore as back to back loan with no repayment obligation on the State resources. Thus revenue deficit and fiscal deficit works out as ₹19,918 crore and ₹46,648 crore respectively during the year 2020-21 keeping in view the debt receipt of ₹2,380 crore in lieu of GST compensation.

The State could not achieve any of the above three targets during 2020-21. In fact, it failed to achieve a Revenue surplus for a second consecutive year since its formation in June 2014. The higher Revenue Deficit in 2020-21 was on account of higher Revenue Expenditure and lower Revenue Receipts when compared to 2019-20.

Further, achievement of the above targets as depicted in the accounts in earlier years have to be seen in the context of certain mis-classifications in accounts of the State Government as brought out in the State Finances Audit Reports of the Comptroller and Auditor General of India for the years concerned¹¹.

The Government stated (January 2022) that this shortfall was mainly because the borrowing limits were fixed by the GoI, based on the GSDP figures estimated at the beginning of the year. Further, the State planned its activities well ahead of the year, while audit analysed the figures after completion of the year. This mismatch is more pronounced in the current year because the State resources and GSDP have been adversely impacted, while the State had to expend more.

1.6.2 Achievement of projections made in Medium Term Fiscal Policy Statement

As per the TSFRBM Act, the Medium Term Fiscal Policy Statement shall set forth the fiscal management objectives and three year rolling targets for the prescribed fiscal indicators with clear enunciation of the underlying assumptions.

The State Government, along with budget documents, in the Statement of Fiscal Policy to be laid on the table of the Legislature has included Medium Term Fiscal Policy Statement (March 2021), in which the rolling targets for three years were mentioned. The achievement of these rolling targets was discussed in *paragraph 1.6.1* above.

The Medium Term Fiscal Policy Statement shall include the various assumptions behind the fiscal indicators and an assessment of sustainability relating to (i) the balance between revenue receipts and revenue expenditure; (ii) the use of capital receipts including borrowings for generating productive assets and (iii) estimated yearly pension liabilities

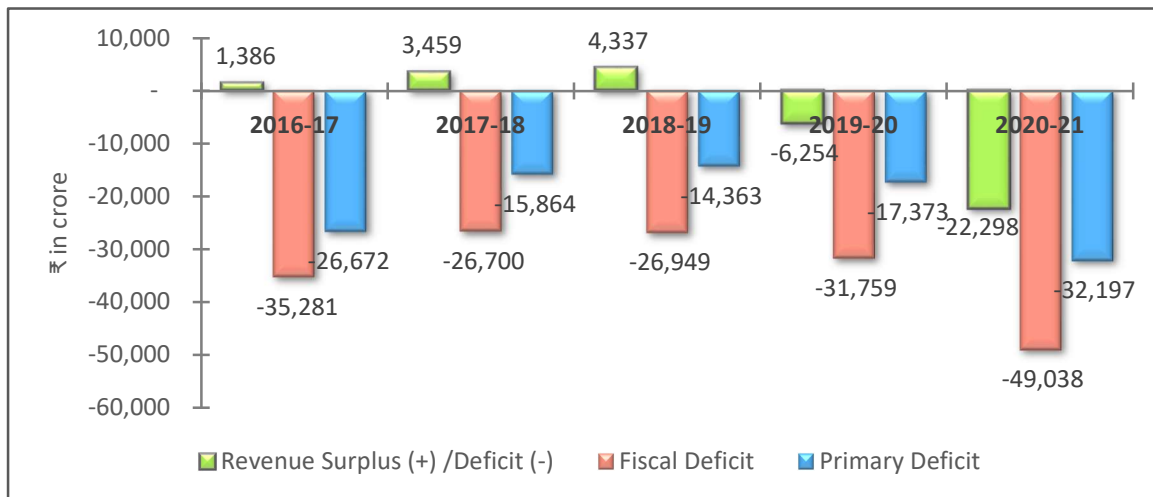
¹¹ previous year(s) SFAR can be accessed at <https://cag.gov.in/ag/telangana>

worked on actuarial basis for the next ten years. However, the Medium Term Fiscal Policy Statement did not include projections in respect of balance between revenue receipts and revenue expenditure, use of capital receipts for generating productive assets and yearly pension liabilities.

1.6.3 Trends of Surplus / Deficit

The trends of Surplus / Deficit parameters in absolute figures and relative to GSDP are depicted in **Chart 1.7** and **Chart 1.8**.

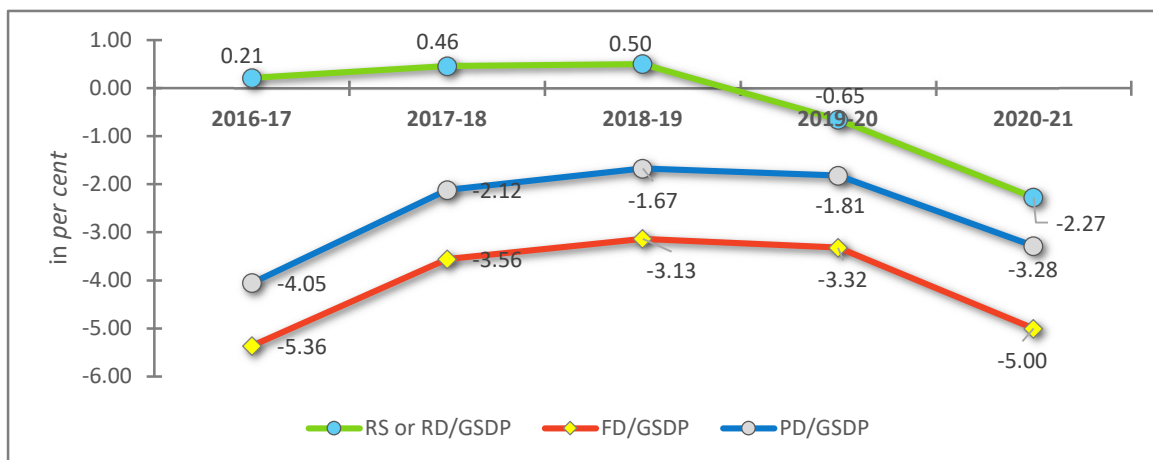
Chart 1.7: Trends of Surplus / Deficit parameters



Source: Finance Accounts

The State registered a Revenue Deficit of ₹22,298 crore during 2020-21. This Revenue Deficit was higher by ₹16,044 crore in comparison to previous year (₹6,254 crore). Fiscal Deficit (₹49,038 crore) and Primary Deficit (₹32,197 crore) were also higher by ₹17,279 crore and ₹14,824 crore respectively, compared to previous year.

Chart 1.8: Surplus / Deficit parameters relative to GSDP

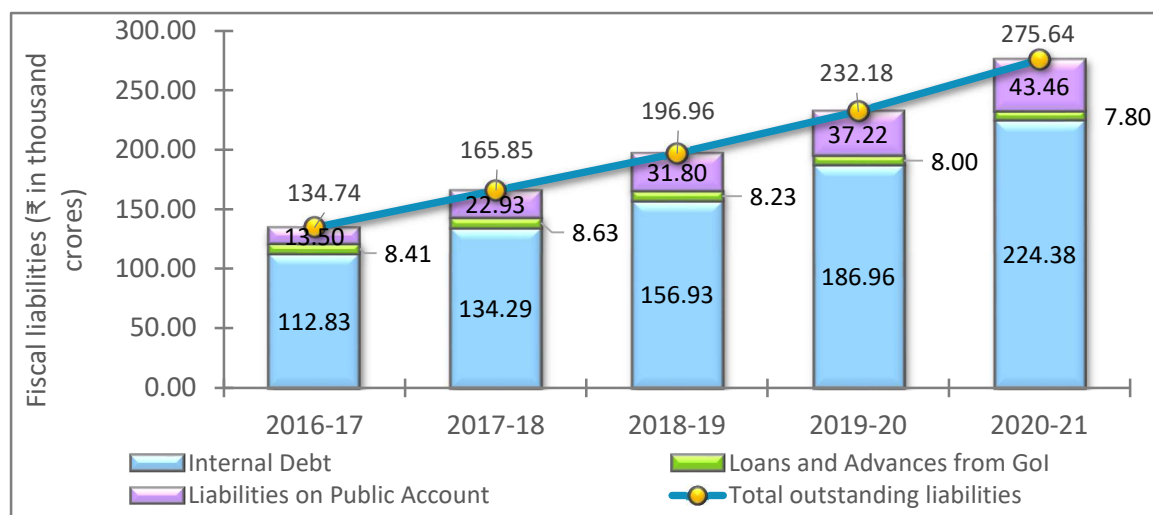


Source: Finance Accounts

The State's performance in respect of the three key fiscal parameters has shown a steep decline during the past two years.

The trend of fiscal liabilities during the five year period 2016-17 to 2020-21 is shown in **Chart 1.9**.

Chart 1.9: Trend of Fiscal Liabilities



Source: Finance Accounts

Note : The figures of ₹275.64 thousand crore and ₹7.80 thousand crore excludes ₹2,380 crore of back-to-back loans in lieu of GST compensation shortfall. The debt servicing of this loan would be done from the collection of cess in the GST compensation Fund and hence, repayment obligation will not be on the other resources of State

Total Outstanding Liabilities have more than doubled (104.57 per cent) from 2016-17 to 2020-21. Contributing to the increase is Internal Debt (98.87 per cent increase from 2016-17 to 2020-21) and Liabilities on Public Account (221.93 per cent increase from 2016-17 to 2020-21). Loans and Advances from Government of India have decreased by 7.25 per cent in 2020-21.

1.7 Deficits and Total Debt after examination in Audit

1.7.1 Deficits after examination in Audit

Misclassification of revenue expenditure as capital and *vice versa*, off budget fiscal operations, deferment of firm liabilities, non-deposit of mandatory amounts to National Pension System (NPS), etc. impact deficit parameters. In order to arrive at actual deficit figures, the impact has been re-computed as detailed in **Table 1.8**.

Table 1.8: Revenue and Fiscal Deficits after examination in Audit

(₹ in crore)

Particulars	Impact on Revenue Deficit (Understated (+) / overstated (-) (₹ in crore)	Impact on Fiscal Deficit (Understated) (₹ in crore)	Para Reference
Non discharge of Interest liabilities ¹²	213.24	213.24	4.3
Short contribution to National Pension System (NPS)	1.11	1.11	2.5.2.3
Misclassification			
(i) Revenue classified as Capital ¹³	377.26	--	3.4.9.1 and 3.4.9.2
(ii) Capital classified as Revenue ¹⁴	(-)46.98	--	3.4.9.3
Total	544.63	214.35	

Source: Finance Accounts and audit analysis

As a result, the Revenue and Fiscal Deficits were understated by ₹544.63 crore and ₹214.35 crore respectively.

Effectively, therefore, there was a Revenue Deficit of ₹22,842.63 crore (₹22,298 crore + ₹544.63 crore) and Fiscal Deficit of ₹49,252.35 crore (₹49,038 crore + ₹214.35 crore). The effective Fiscal Deficit of the State was 5.02 per cent of GSDP.

Apart from its liabilities of ₹2,75,638 crore (excluding back-to-back loans in lieu of GST compensation to be serviced out of GST compensation Cess), the State Government is also liable to pay the principal and interest on account of its Off-Budget Borrowings (OBB) to an extent of ₹97,940.45 crore (refer *paragraph 2.7.2* for further details). Considering that the OBB and other liabilities are to be serviced out of the State Budget, the ratio of Debt to GSDP would be 38.10 per cent, which is 13.10 per cent higher than the target of 25 per cent as per the TSFRBM Act. This is also 8.60 per cent higher than the norm of 29.50 per cent prescribed by the XV Finance Commission.

The Government replied (January 2022) that though it has extended Guarantees to various corporations to raise finances from Banks etc., for development expenditure, repayments are made from their accounts, and hence these cannot be considered as OBBs always for calculation of total outstanding liabilities of the State.

The reply is not acceptable as we have considered only those cases where payment of interest or repayment of principal was done from out of the Government resources only.

¹² (i) State Compensatory Afforestation Fund: ₹135.42 crore (*paragraph 4.3*); (ii) State Disaster Response Fund: ₹58.66 crore (*paragraph 4.3*); (iii) Defined Contribution Pension Scheme for Government Employees: ₹19.16 crore (*paragraph 4.3*)

¹³ (i) Treatment of payment of semi-annual interest on Andhra Pradesh Power Finance Corporation Bonds as loans: ₹375.31 crore (*paragraph 3.4.9.1*); (ii) Purchase of surgical consumables treated as Capital Expenditure: ₹1.50 crore (*paragraph 3.4.9.2*); (iii) Grants-in-Aid booked under Capital section instead of Revenue: ₹0.45 crore (*paragraph 3.4.9.2*)

¹⁴ (i) Purchase of Motor Vehicles: ₹3.22 crore; (ii) Purchase of Machinery and Equipment: ₹36.08 crore; (iii) Tools and Plants: ₹7.68 crore (*paragraph 3.4.9.3*)