

Executive Summary

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1 The Report

This report on the finances of the Government of Telangana for the financial year 2021-22 is brought out to assess the financial performance of the State vis-à-vis the Budget documents, Telangana State Fiscal Responsibility and Budget Management (TSFRBM) Act, Medium Term Fiscal Policy Statement, Fifteenth Finance Commission (XV FC) Report. It analyses the trends and structural profile of Government's receipts and disbursements.

This report provides an analytical review of the Finance Accounts of the State Government and is compiled based on the audited accounts of the Government of Telangana for the year ended 31 March 2022 and other data sources. Our opinions on the budgeting mechanism and implementation of Appropriation Act approved by the Legislature are also detailed out.

Further, analysis on the Quality of Accounts and compliance with respect to financial reporting practices such as prescribed financial rules, procedures and directives in terms of completeness, transparency, measurement and disclosure requirements are discussed.

The report concludes with an exposition of the financial performance of the State Public Sector Undertakings (SPSUs) and the impact of comments issued by the Comptroller and Auditor General of India after supplementary audit of their Financial Statements.

2 Audit Findings

2.1 Overview - Fiscal position

During 2021-22, Gross Domestic Product of India as well as Gross State Domestic Product (GSDP) of Telangana registered higher growth rate than the previous year as the economy improved after a slowdown due to the Covid-19 pandemic.

Despite increased Revenue Receipts (26 per cent increase), the State failed to register a Revenue Surplus for a third consecutive year. The other two fiscal targets viz., ratios of Fiscal Deficit to GSDP and Total Outstanding Liabilities to GSDP were also not achieved by the State in 2021-22. The Revenue Deficit (₹9,335 crore) was understated by ₹1,157 crore due to non-discharge of interest liabilities, on account of certain misclassifications between Revenue and Capital expenditure and transfer of lapsed deposit amount to Revenue head. Non-discharge of interest liabilities also impacted the Fiscal Deficit (₹46,638 crore) which was understated by ₹182 crore.

Apart from its total liabilities of ₹3,14,663 crore, the State is also liable to pay principal and interest on account of its Off-Budget Borrowings (OBB) to an extent of ₹1,18,955 crore. Taking into consideration the OBB and other liabilities that are being

serviced out of the State Budget, the ratio of Debt to GSDP would be 37.77 per cent, which is 12.77 per cent higher than the set target of 25 per cent as per the TSFRBM Act. This is also 8.47 per cent above the norms of 29.30 per cent as prescribed by the XV Finance Commission.

(Chapter 1)

2.2 Finances of the State

Revenue Receipts of the State increased by ₹26,555 crore (26 per cent) while Revenue Expenditure increased by ₹13,592 crore (11 per cent) in 2021-22 over the previous year. State's Own Tax Revenue (₹91,271 crore) registered increases in Stamps and Registration, State Goods and Services Tax, Taxes on Sales, Trade etc., and State Excise. Non-Tax Revenue (₹8,858 crore) and Central Tax transfers (₹18,721 crore) also increased by 46 per cent and 48 per cent respectively when compared to preceding year.

Receipts in Non-tax Revenue included ₹400 crore and ₹600 crore from deposits lapsed in Public Account pertaining to Telangana Scheduled Castes Cooperative Development Corporation Limited (TSCCDCL) and Telangana Scheduled Tribes Cooperative Finance Corporation Limited (TRICOR) respectively. This should have been classified as minus debit to the original service head i.e., Loans under Capital section. This led to overstatement of Revenue Receipts, understatement of Revenue Deficit and overstatement of assets under Loans.

Revenue Expenditure (₹1,36,804 crore) has increased by 11 per cent during 2021-22. Committed expenditure constituted about 50 per cent of the Revenue Receipts (RR) and 46 per cent of Revenue Expenditure (RE) in 2021-22. As a percentage to RR, all the components of Committed Expenditure have decreased when compared to the previous year. As a percentage of RE, Salaries and Wages and interest payments have taken major shares while expenditure on pension decreased. Overall, committed expenditure component increased in RE.

The State has been persistently trailing in respect of expenditure on Education and Health sectors. As a percentage to total expenditure, expenditure on Education and Health was eight per cent and four per cent respectively.

Capital Expenditure (₹28,874 crore) was significantly higher by 81 per cent in comparison to previous year. Huge capital expenditure of ₹1,09,612 crore was incurred cumulatively (as of March 2022) on incomplete irrigation projects. However, some investments and loans advanced during the year related to servicing of Off-Budget Borrowings of the Government. Loans and Advances given during the year (₹8,469 crore) have decreased in comparison to previous year (₹10,868 crore). Out of ₹8,469 crore, an amount of ₹7,338 crore was provided to institutions towards interest payments/principal repayments towards loans taken for implementing Government schemes.

State did not make statutory contributions of ₹1,378 crore, ₹676 crore and ₹96 crore to Consolidated Sinking Fund, Guarantee Redemption Fund and State Disaster Mitigation Fund respectively.

Though the State was disclosing the quantum of Guarantees given to institutions in the Budget documents, to a certain extent, it did not disclose its Off-Budget Borrowings of ₹1,18,955 crore to be serviced from out its resources. This would impact the Debt to Gross State Domestic Product ratio.

Major portion of OBB (₹66,854 crore) belongs to Kaleshwaram Irrigation Project Corporation Limited (KIPCL). The maximum repayment spread period of OBBs is 14 years and future liability on Kaleshwaram Project towards debt servicing would work out to ₹1,41,545 crore for next 14 years. In view of the confirmation by KIPCL that it had borrowed on behalf of the State Government and as the Detailed Project Report of the Kaleshwaram Project did not envisage any revenue streams, it is likely that the onus of bearing these huge liabilities would have to be borne by the State Government, which will constitute huge burden on State finances constraining state finances severely and capacity of State to have any developmental plans in near future.

As the State registered a Revenue Deficit, it had to finance Revenue Deficit from the Market Borrowings. The State Government will have to repay ₹2,52,048 crore as principal and interest on the Market borrowings by 2032-33 and this would put significant pressure on the Government finances.

There was no progress in apportionment of Assets and Liabilities between Andhra Pradesh and Telangana after 2018-19 indicating lack of emphasis on apportionment.

(Chapter 2)

2.3 Budgetary Management

Review of Budget components for Receipts revealed that Non-Tax Revenue and Grants-in-Aid were projected abnormally. Consequently, budget estimates for expenditure were also over-estimated, resulting in unspent provisions across several Grants.

The State Legislature approved Budget Estimates for ₹2,30,872 crore originally and supplemented it by ₹24,144 crore. The expenditure was ₹2,63,092 crore, resulting in net excess expenditure of ₹8,076 crore. Excluding the amount of Ways and Means Advances, which were taken for temporarily bridging the gap in finances, the expenditure is ₹1,95,818 crore. Hence, actual expenditure was only 77 per cent of the Budget Estimates.

Savings occurred in all parts of voted sections and excess expenditure was incurred in Revenue Charged and Public Debt Repayment sections. This indicated that the compulsory expenditure was under-estimated whereas the scheme expenditure was over-estimated. Similarly, budget for the administrative Grant like Fiscal Administration was under-estimated persistently, while welfare and development Grants were over-projected. As a result, excess expenditure occurred in Fiscal Administration Grant and savings occurred in welfare Grants, indicating shortfalls in expenditure on welfare schemes when compared to budget provisions.

There was an excess disbursement of ₹75,053 crore (including ₹67,174.40 crore on account of repayment of Ways and Means Advances from the Reserve Bank of India) over the authorisation made by the State Legislature under ten Grants and two

Appropriations during the financial year 2021-22. Excess disbursement of ₹2,14,062 crore pertaining to the years 2014-15 to 2020-21 is yet to be regularised by the State Legislature. This is in violation of the Articles 204 and 205 of the Constitution, which provides that no money shall be withdrawn from the consolidated fund except under appropriation made by Law by the State Legislature. This vitiates the system of budgetary and financial control and encourages financial indiscipline in management of public resources.

Excess expenditure occurred mainly on Service Pension Allocable to successor State of Telangana (₹5,046 crore), Telangana Dalit Bandhu (₹3,442), Post-bifurcation Service Pensions Allocable between the successor States of Andhra Pradesh and Telangana in the ratio of 58.32:41.68 (₹2,006 crore), Family Pension allocable to successor State of Telangana (₹1,929 crore), and Interest on State Development Loans (₹1,785 crore).

Major savings were in Scheme for debt relief to farmers (₹4,462 crore), Construction of Two Bed Room Houses to the Rural Poor (₹4,270 crore), Construction of Two Bed Room Houses to the Urban Poor (₹4,035 crore) and Special Development Fund for welfare and development activities (₹3,898 crore). Expenditure on maintenance of Irrigation Projects continued to be low persistently.

Entire Provisions remained unspent in respect of Hyderabad Urban Agglomeration (₹2,600 crore), Two Bed Room Houses (₹2,320 crore) and Most Backward Classes Development Corporation (₹500 crore). Under 23 Sub-heads in 13 Grants, the entire Supplementary Provision of ₹577 crore approved by Legislature remained unutilised.

State launched a major policy viz., CM Dalit Empowerment Program (or Telangana Dalit Bandhu) with an original Budget provision of ₹1,000 crore. An expenditure of ₹4,442 crore was booked as per Appropriation Accounts. However, Audit found that actual expenditure was only ₹2,101 crore as of March 2022. Amounts of ₹1,335 crore and ₹223 crore were lying in the Deposit Account and Bank Account of Telangana Scheduled Caste Cooperative Development Corporation Limited and ₹783 crore were with District Administrators. Despite availability of funds, out of 38,511 applications received, only 21,339 applications were sanctioned as of March 2022.

(Chapter 3)

2.4 Quality of Accounts and Financial Reporting Practices

State created (February 2022) a new fund, viz., Haritha Nidhi, outside the Government account which may result expenditure without legislative oversight.

At the end of the year, funds were lying in the Single Nodal Agency Accounts (₹1,201 crore) and in State Compensatory Afforestation fund (₹105 crore) in Bank Accounts outside the Government Account.

Government did not discharge its interest liability over the funds lying in State Disaster Response Fund (₹86 crore) and State Compensatory Afforestation Fund (₹76 crore) and Defined Contribution Pension Scheme Deposits (₹20 crore) totalling to ₹182 crore.

Utilisation certificates (49 UCs amounting to ₹3,313 crore) were yet to be submitted by Municipal Administration and Urban Development Department in respect of the grants released for various schemes.

Out of the 59 Controlling Officers who were to reconcile Receipts with Principal Accountant General (Accounts and Entitlements), 28 have not reconciled and 12 reconciled partially. Out of the 198 Controlling Officers who were to reconcile expenditure, 25 have not reconciled and 84 reconciled partially.

Delayed submission of Annual Accounts by Government Companies and Autonomous Bodies dilutes accountability of the Government Entities and defeats the purpose of preparation of accounts. The State Government was yet to comply with Indian Government Accounting Standards.

(Chapter 4)

2.5 Financial Performance of State Public Sector Undertakings (SPSUs)

As on 31 March 2022, 83 State Public Sector Undertakings in Telangana (including 80 Government Companies and 3 Statutory Corporations) were under the audit jurisdiction of the Comptroller and Auditor General of India (CAG). Of the 83 SPSUs, 8 SPSUs relate to power sector and 75 relate to sectors other than power including one Government Company newly incorporated during the year 2021-22. Out of these SPSUs, 16 companies were inactive and either defunct or under liquidation.

As per their latest accounts and/ or information furnished by 39 out of 67 working SPSUs for 2021-22, 39 SPSUs registered an annual turnover of ₹1,19,079.10 crore, which was equal to 10.37 per cent of the Gross State Domestic Product of Telangana State during 2021-22. As on 31 March 2022, the investment of the Central and State Governments and Others in equity and long-term loans in these 39 SPSUs was ₹1,26,303.70 crore. During the year 2021-22, the State Government provided budgetary support of ₹11,473.47 crore to 17 SPSUs. Out of the 39 working SPSUs, 17 SPSUs earned profits (₹1,955.83 crore), 18 SPSUs incurred losses (₹4,065.25 crore) and four SPSUs had reported nil profit or loss.

Major profit making SPSUs during the year 2021-22 were the Singareni Collieries Company Limited (₹1,227.04 crore), Telangana State Power Generation Corporation Limited (₹394.46 crore), Transmission Corporation of Telangana Limited (₹86.27 crore) and Telangana State Warehousing Corporation (₹109.21 crore). These profits were off-set by the losses incurred by Southern Power Distribution Company of Telangana Limited (₹626.80 crore), Northern Power Distribution Company of Telangana Limited (₹204.03 crore), Telangana State Road Transport Corporation (₹1,986.59 crore), Telangana State Housing Corporation Limited (₹817.16 crore) and Telangana Rajiv Swagruha Corporation Limited (₹324.23 crore).

As on 31 March 2022, the accumulated losses of 39 SPSUs were at ₹56,613.77 crore. As a result of losses, the combined net worth of 39 SPSUs was completely eroded and stood at (-)₹35,008.30 crore as on 31 March 2022.

Out of 67 working SPSUs, Financial Statements for the year 2021-22 were received only from 12 SPSUs in time. Fifty-one SPSUs have defaulted in timely submission of accounts. Of these, 32 SPSUs accounts were due for more than three years and 11 SPSUs have not submitted their first accounts since their incorporation. Non-submission of Annual accounts by these PSUs is amounting to violation of provisions of the Companies Act.

As a result of CAG audit, statutory auditors of eight SPSUs revised their Audit Report. In addition, significant comments highlighting inaccuracies in the Financial Statements impacting profitability by ₹284.97 crore and assets/ liabilities by ₹4,927.15 crore were also issued.

Irregularities and deficiencies in the financial reports observed during supplementary audit which are not material, were communicated to the Management of 13 SPSUs through 'Management Letter' for taking corrective action.

(Chapter 5)