

# Executive Summary

## ***About the Report***

*This Report of the CAG of India is on the State Finances for the year 2022-23. It provides an overview of the finances, budgetary management and quality of accounts, financial reporting practices and other matters relevant to State Finances.*

*This executive summary highlights the contents of this report and through snapshots of the important figures and aspects, provides insight into fiscal sustainability, performance against the budget intent, revenue and expenditure projection, the reasons for variations and its impact.*

Gross State Domestic Product (GSDP) (at current prices) grew at an average growth rate of 15.09 per cent from ₹8,57,427 crore in 2018-19 to ₹13,13,391 crore in 2022-23.

There was 16 per cent growth in GSDP over 2021-22. Revenue Receipts (RR) increased considerably by 25 per cent over previous year. The growth rate of RR decreased by one percentage point when compared to previous year 2021-22. The ratio of Revenue Receipts to GSDP increased by one percentage point from 11 per cent in 2021-22 to 12 per cent in 2022-23. State's Own Tax Revenue (SoTR), which decreased marginally in 2020-21 due to Covid-19 pandemic, has increased significantly in 2021-22 and continued considerable growth in 2022-23 also. It has increased significantly by 17 per cent (₹15,678 crore) over previous year. Total Expenditure (consisting of mainly Revenue Expenditure, Capital Expenditure and Loans and Advances) of Telangana increased by 50 per cent from ₹1,28,435 crore in 2018-19 to ₹1,92,535 crore in 2022-23 and by 11 per cent over preceding year. The State registered a Revenue Surplus (₹5,944 crore) after three years. Effectively, Revenue Surplus is only ₹1,680 crore as mentioned in the succeeding paragraph. The target for Fiscal Deficit was 5 per cent of the GSDP. The State registered a Fiscal Deficit of ₹32,556 crore (2.48 per cent of GSDP), which is under the permissible limit, after two years.

## ***Receipt-Expenditure Mismatch***

The State has different sources of receipts viz., (i) Revenue Receipts consisting of State Own Tax Revenue, Non-tax Revenue, Devolution of States' share in taxes, Grants-in-aid and transfers from the Union Government and (ii) Capital Receipts consisting of Debt and Non-debt capital receipts. The State Government's expenditure includes expenditure on revenue account as well as capital expenditure (assets creation, loans and advances, investments, etc.).

Revenue Receipts (RR) grew from ₹1,01,420 crore in 2018-19 to ₹1,59,350 crore in 2022-23. Capital Receipts decreased from ₹46,686 crore in previous year to ₹33,185 crore in 2022-23. Grants-in-Aid (₹13,179 crore) from Government of India increased by ₹4,560 crore (53 per cent) over previous year. Grants for Centrally Sponsored Schemes (CSS) (₹5,387 crore, 41 per cent of GIA) and Compensation for loss of revenue arising out of

implementation of GST (₹4,061 crore, 31 *per cent* of GIA) formed the major portion of the GIA. Revenue expenditure 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. In the past five years, Revenue Expenditure grew from ₹97,083 crore in 2018-19 to ₹1,53,406 crore in 2022-23. During the current year, the share of Revenue Expenditure was 80 *per cent* of the total expenditure and grew marginally over previous year (79 *per cent*). It consistently made a significant portion (76 to 82 *per cent*) of the total expenditure during this period.

### ***Result of expenditure beyond means***

The gap between the Revenue Receipt and Revenue expenditure results in either Revenue Surplus or Revenue Deficit. As per Accounts, the State registered a Revenue Surplus (₹5,944 crore) after three years. However, this Revenue Surplus was over-stated by ₹4,264 crore due to (i) Non-contribution to Consolidated Sinking Fund (₹1,536 crore) (ii) transfer of ₹1,400 crore Loans given earlier and kept in Deposit Account of Government Account as Non-Tax Revenue; (iii) Non-contribution to Guarantee Redemption Fund (₹951 crore); (iv) non-discharge of interest liabilities (₹131 crore); (v) short contribution to Defined Contributory Pension Fund Deposit Account (₹114 crore) and others. Effectively, there was a Revenue Surplus of only ₹1,680 crore.

The share of Capital Expenditure (excluding Loans and Advances) (₹17,881 crore, 9 *per cent*) in Total Expenditure was least during the past five years. Under Irrigation, Palamuru-Ranga Reddy (₹12,937 crore) and Kaleshwaram Project (₹11,370 crore) accounted for major Capital Expenditure during the past five years. As of March 2023, there were 20 incomplete irrigation projects (commenced between 1983 to 2018), on which an expenditure of ₹1,73,564 crore was incurred. The cost of these projects increased from ₹1,02,388 crore to ₹2,06,977 crore.

The gap between the total expenditure and total non-debt receipts of the State results in Fiscal Deficit. The target for Fiscal Deficit was 5 *per cent* of the GSDP. The State registered a Fiscal Deficit of ₹32,556 crore (2.48 *per cent* of GSDP), which is under the permissible limit, after two years. However, the limit was increased from 4 *per cent* to 5 *per cent* through an amendment (March 2022) to State FRBM Act. The Fiscal Deficit was understated by ₹2,749 crore due to (i) Non-contribution to Consolidated Sinking Fund (₹1,536 crore) (ii) Non-contribution to Guarantee Redemption Fund (₹951 crore); (iii) non-discharge of interest liabilities (₹131 crore); (iv) short contribution to Defined Contributory Pension Fund Deposit Account (₹114 crore) and others. Effectively, the Fiscal Deficit was ₹35,305 crore.

The Committed expenditure of the State Government on revenue account consists of expenditure towards interest payments, expenditure on salaries and wages and pensions. It has the first charge on the Government expenditure. As a *percentage* of Revenue Receipts (RR), the committed expenditure accounted for 46 *per cent* in 2022-23 and was least during the past five years, thus giving scope for more non-committed expenditure like welfare and development activities. Committed expenditure constituted about 47 *per cent* of Revenue Expenditure (RE).

There are also certain items of inflexible expenditure which cannot be ordinarily altered or are statutorily required on an annual basis, unlike variable transactions such as capital expenditure, etc. Inflexible Expenditure ranged from 02 to 07 *per cent* of RR and 03 to 05 *per cent* of RE and decreased by one *percentage* point when compared to previous year. Total Committed and Inflexible Expenditure constituted 51 *per cent* of the RE.

### ***Subsidies***

Subsidies as a percentage to Revenue Receipts and Revenue Expenditure decreased marginally during the current year. Assistance to Transmission Corporation of Telangana Ltd. for Agricultural and allied Subsidy (₹7,665 crore) alone covers 80 *per cent* of the subsidies.

### ***Loans and Advances***

Loans and Advances given by Government during the year were huge at ₹21,248 crore and increased by more than 150 *per cent* over previous year. The share of Loans and Advances (11 *per cent*) in the Total Expenditure was highest during the past five years.

Though loans provided to entities and recoverable by State Government, as of March 2023 stood at ₹72,998 crore, majority of them were towards repayment of Off-Budget Borrowings taken through entities like Kaleshwaram Irrigation Project Corporation Limited, and Telangana Drinking Water Supply Corporation Limited. Government has also provided Loans to entities which do not have definite stream of revenue resources like Telangana Scheduled Castes Co-operative Development Corporation Limited, Telangana Scheduled Tribes Cooperative Finance Corporation Limited and Arogyasree Health Care Trust. Such loans do not reflect the true picture of Government assets as Loans recoverable. Therefore, the recovery of Loans continued to be very poor.

### ***Off-budget borrowings***

The Government did not disclose the quantum or details of its Off-Budget Borrowings (OBB) in the Budget documents. Audit assessed the OBB to be around ₹1,18,629 crore. The State Government has also facilitated ₹17,829 crore as further loans to Entities *i.e.*, ₹8,696 crore towards interest payment, ₹3,531 crore towards principal repayment and ₹5,602 crore without any details whether it is interest payment or principal repayment in 2022-23 which are relatable to OBB.

### ***Contingent Liabilities on account of Guarantees***

Value of Guarantees given by the State Government as per Finance Accounts was ₹1,98,244 crore. The Government did not disclose Guarantees given to Telangana State Civil Supplies Corporation (₹50,000 crore) and Telangana State Seeds Development Corporation Limited (₹398 crore). The disclosure in respect of TS DISCOMs was short by ₹16,000 crore. Documentation regarding the risk assessment in respect of Guarantees given was not provided. Even the Guarantees which should have been classified as direct 100 *per cent* liability were being classified as medium to very low risk.

## **Debt sustainability**

Debt sustainability is defined as the ability of the State to service its debt now and in future. Sustainability of debt refers to sufficiency of liquid assets to meet current or debt obligations and the capacity to maintain balance between costs of additional borrowings, with returns from such borrowings. Debt sustainability analysis has been carried out based on fiscal and debt parameters; Domar approach and compliance of macro-fiscal parameters to the respective FRBM targets.

### **FRBM requirements and compliance with fiscal parameters**

The TSFRBM Act prescribes fiscal targets for giving effect to the fiscal management objectives in terms of Revenue Surplus / Revenue Deficit, Fiscal Deficit as a *percentage* of GSDP, Total outstanding liabilities as a *percentage* of GSDP. As per Accounts, the State registered a Revenue Surplus (₹5,944 crore) after three years. The target for Fiscal Deficit was 5 *per cent* of the GSDP. The State registered a Fiscal Deficit of ₹32,556 crore (2.48 *per cent* of GSDP), which is under the permissible limit, after two years. As per Medium Term Fiscal Policy Statement, the target set out for ratio of total outstanding liabilities to GSDP was 25 *per cent*. The ratio of total outstanding liabilities (₹3,49,537 crore) to GSDP achieved by State was 26.61 *per cent*. The State failed to achieve the target of 25 *per cent* for a third consecutive year.

Including Off-Budget Borrowings (OBB), the limit prescribed by the Fifteenth Finance Commission (XV FC) is 29.70 *per cent of the GSDP*. Considering OBB of ₹1,18,629 crore, this ratio would be 35.64 *per cent, i.e., 5.94 per cent* above the limit prescribed by XV FC.

As per the debt stabilisation analysis, the growth rate of outstanding Public Debt ranged between 12 *per cent* to 19 *per cent* over the past five years. This year, the growth rate decreased to 12 *per cent* when compared to the preceding year (17 *per cent*). The ratio of outstanding Public Debt to GSDP which was increasing year after year until 2020-21, shown a decreasing trend in the last two years. It was 24.63 *per cent* in 2020-21 and decreased to 23.04 *per cent* in 2022-23.

In terms of Domar model, the State always had a Primary Deficit during 2018-2023. Except Covid-19 year (2020-21), the Domar gap remained positive during this period indicating the Public Debt would converge to a stable level. However, during 2021-2023 a substantial portion (80 to 84 *per cent*) of Public Debt receipts were used for repayment of loans taken earlier implying that economic growth is not robust enough to service Debt. Further, other factors such as Public Account liabilities, Off-Budget Borrowings and any other un-inventoried losses of revenue have to be reckoned which make the debt sustainability of the State unstable.

*Overall review of Debt Sustainability suggests that the net Public Debt available to the State Government would be negative after considering out go on servicing of Off-Budget Borrowings. This may put significant pressure on the State finances and may push the debt sustainability of the State to an undesirable level. Further, substantial portion of market borrowings were utilised for providing Loans and Advances to PSUs/SPVs/ABs for servicing (principal and interest) of Off-Budget Borrowings. This is not healthy practice from the perspective of Debt Sustainability.*

### ***Telangana Haritha Nidhi***

A new fund Telangana Haritha Nidhi was constituted last year, outside the Government Accounts with mandatory contributions from people's representatives, Government servants and other voluntary contributions.

### ***Single Nodal Agency***

State Government will designate a Single Nodal Agency (SNA) for implementing each CSS. In respect of Telangana State, 77 CSS with 127 SNA accounts have been designated and corresponding accounts have been opened in the Banks. As informed by the State Government / SNAs, five CSS with five SNA accounts had nil balances, ₹2,170 crore was lying in commercial banks in the other 72 CSS as of March 2023.

### ***Budget performance***

#### ***Aggregate Budget outturn***

Aggregate Budget Outturn measures the extent to which the Aggregate Budget Expenditure Outturn/ actual expenditure reflects the amount originally approved, both in terms of less than approved and in excess of approved. In Revenue section, deviation in outturn compared with Budget Estimates (BE) was (-) 14 *per cent*. This was due to deviation between 0 and +/- 25 *per cent* in 17 Grants; between +/- 25 *per cent* to +/- 50 *per cent* in 10 Grants; and between +/-50 *per cent* to +/-100 *per cent* in 10 Grants. In Capital section, deviation in outturn compared with BE was (-) 39 *per cent*. This was due to deviation between 0 and +/- 25 *per cent* in 2 Grants; between +/- 25 *per cent* to +/-50 *per cent* in 9 Grants; between +/-50 *per cent* and +/-100 *per cent* in 13 Grants; and equal to or more than 100 *per cent* in 4 Grants. In Loans section, deviation in outturn compared with BE was (-) 12 *per cent*. This was due to deviation between 0 and +/- 25 *per cent* in 8 Grants; between +/-50 *per cent* and +/-100 *per cent* in 3 Grants; and equal to or more than 100 *per cent* in one Grant.

#### ***Expenditure Composition outturn***

Expenditure composition outturn measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. In Revenue section, deviation in outturn compared with Revised Estimates (RE) was (-) 19 *per cent*. This was due to deviation between 0 and +/- 25 *per cent* in 15 Grants; between +/- 25 *per cent* and +/-50 *per cent* in 13 Grants; between +/-50 *per cent* and +/-100 *per cent* in 9 Grants. In Capital section, deviation in outturn compared with RE was (-) 48 *per cent*. This was due to deviation between 0 and +/- 25 *per cent* in 3 Grants; between +/- 25 *per cent* and +/- 50 *per cent* in 9 Grants; between +/-50 *per cent* and +/-100 *per cent* in 13 Grants; and equal to or more than 100 *per cent* in 3 Grant.

## ***Other deficiencies in budgetary management***

### ***Excess expenditure***

During the year, an amount of ₹1,05,565 crore was incurred as excess expenditure. The State Government also failed to get the excess expenditure of ₹2,89,115 crore over and above the allocation, pertaining to the years 2014-15 to 2021-22, regularised by State Legislature. This is in violation of Article 204 of the Constitution.

Incurring expenditure without budget provisions not only continued this year also but has increased significantly as Government has spent ₹8,985 crore in 48 Sub-Heads without budget provision. The Government failed to obtain the approval of the Legislature despite incurring expenditure of ₹7,061 crore towards taking over losses of DISCOMs under UDAY. The Government also did not to obtain the approval of the Legislature for investment made in Telangana State Road Development Corporation (₹122 crore).

For the past five years, expenditure on account of Service Pensions allocable between Andhra Pradesh and Telangana was being estimated nominally below ₹50 crore, whereas the actual expenditure was more than ₹1,000 crore during each of the past five years. Similarly, expenditure on interest on State Development Loans was being under estimated persistently.

### ***Non-Tax Revenue (NTR)***

An amount of ₹25,422 crore was estimated to be received through Non-Tax Revenue (NTR) for 2022-23. The receipts were ₹19,554 crore. Even out of this, (i) ₹5,723 crore through 'Other Receipts' was mainly on account of lapsing of Deposit Accounts and, (ii) ₹5,003 crore through Royalty on Major Minerals due to arrears as well as advance payment of royalty by Singareni Collieries Company Limited, which was not expected.

Within NTR, the Government had estimated ₹15,500 crore to be received from Sale of Land and Property, where as it has received only ₹791 crore. The projections of receipts from NTR in Budget Estimates were on higher side persistently during the last three years.

### ***Grants-in-Aid***

The State Government estimated a huge amount of ₹41,002 crore as Grants-in-Aid (GIA) from Government of India. It has received only ₹13,179 crore. The State Government unrealistically projected ₹25,555 crore to be received as Special Package and Additional Central Assistance, which neither was found in GoI Budget proposals, nor was it received during 2022-23. Like NTR, the projections of receipts from GIA in Budget Estimates were on higher side persistently during the last two years.

### ***Other Receipts***

Even in Revised Estimates, presented in February 2023, huge receipts (₹7,500 crore) as Inter State settlement were estimated, which were not actually realised. The amount estimated was pertaining to electricity dues receivable by Telangana Power Companies from Andhra Pradesh Power Companies and not by State Government.

***Provisions totally unspent***

Huge allocations made in the current year remained totally unspent in respect of Construction of Two Bed Room Houses (₹11,000 crore), Assistance to Sheep and Goat Development Cooperative Federation Limited (₹1,000 crore), and Oil Palm cultivation (₹1,000 crore).

***Provisions largely unspent***

Huge portions of allocation on flagship schemes like Telangana Dalit Bandhu (Unspent provision: ₹15,700 crore), Scheme for debt relief to farmers (Unspent provision: ₹3,964 crore) remained unspent.

***Misclassifications in accounts***

Misclassifications of expenditure in respect of surgical consumables, minor works on afforestation etc., under Capital (₹140 crore) and purchase of machinery, equipment, motor vehicles, tools and plants under Revenue (₹25 crore) continued in the current year also.

***Quality of Accounts and Financial Reporting***

Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliance is one of the attributes of good governance. Reports on compliance and controls, if effective and operational, assist the Government in meeting its basic stewardship responsibilities, including strategic planning and decision-making.

***Discharge of interest liability***

Government did not discharge its interest liability of ₹131 crore over the funds lying in State Disaster Response Fund (₹53 crore), State Compensatory Afforestation Fund (₹47 crore), State Disaster Mitigation Fund (₹9 crore) and Defined Contribution Pension Scheme Deposits (₹22 crore) during the year. It also did not discharge interest liability ₹469 crore during the past five years.

***Operation of Omnibus minor head 800***

An amount of ₹6,560 crore was classified under Omnibus Minor Head 800 – Other Receipts with Description of Sub-Head and Detailed Heads also as Other Receipts/Other items and Other Receipts/Other items/Others respectively, thus, making it difficult to identify either the source or the nature of the receipt.

***Operation of Personal Deposit Accounts***

There were 131 Personal Deposit Accounts having a balance of ₹150 crore as of March 2023. During 2022-23, ₹2,008 crore was transferred from the Consolidated Fund of the State to these Accounts which was significantly increased by 230 *per cent* over previous year (₹608 crore). Steep increase in transfer from Consolidated Fund to PD Accounts could be avoiding of lapse of budget during the year. There were neither receipts nor payments in 71 PD Accounts, indicating their non-operation during 2022-23. Out of these 71 PD Accounts, 46 PD Accounts were not active last year as well. These in-operative PD Accounts may be reviewed and closed.

### **DC Bills against AC Bills**

As of March 2023, there were 321 Abstract Contingent (AC) Bills worth ₹191 crore for which Detailed Contingent Bills were awaited. There was a decrease in volume of unadjusted AC bills though value of unadjusted AC bills has increased when compared to 31 March last year (496 bills worth ₹159 crore).

### **Reconciliation**

Out of the 58 Controlling Officers who were to reconcile Receipts with Principal Accountant General (Accounts and Entitlements), 29 have not reconciled and 9 reconciled partially. Out of the 196 Controlling Officers who were to reconcile expenditure, 25 have not reconciled and 86 reconciled partially.

### **Submission of Annual Accounts**

There were 29 Autonomous Bodies which did not submit their Annual Accounts in time. There were delays ranging from one to sixteen years in submission of Accounts. Delayed submission of Annual Accounts by Autonomous Bodies dilutes accountability of the Government entities.

### **Compliance with IGAS**

The State Government was yet to comply with Indian Government Accounting Standards.

### **Working of State Public Sector Undertakings**

As on 31 March 2023, there were 83 State Public Sector Undertakings (SPSUs) in Telangana including 77 Government Companies (16 companies inactive either defunct or under liquidation), three Statutory Corporations and three Government Controlled Other Companies under the audit jurisdiction of the Comptroller and Auditor General of India (CAG). Out of the 83 SPSUs, 8 SPSUs relate to the Power sector and 75 relate to sectors other than power.

Audit noticed that the prescribed timelines regarding submission of Financial Statements were not adhered to by 55 SPSUs whose 196 accounts were in arrears. Out of the total profit of ₹3,857.48 crore earned by 6 working SPSUs, 98.76 per cent was contributed by three SPSUs only. One SPSU had reported nil profit or loss. Out of total loss of ₹11,969.66 crore incurred by 11 working SPSUs, loss of ₹11,898.57 crore was incurred by three SPSUs. The financial impact of CAG's comments issued during October 2022 to September 2023 on financial statements of SPSUs was ₹757.21 crore on profitability and ₹31,989.68 crore on the financial position.

*The State Government may insist upon the management of SPSUs to ensure timely submission of their financial statements. In the absence of finalised accounts, Government investments in such SPSUs remain outside the oversight of the State Legislature. The State Government may analyse the reasons for losses in loss making SPSUs and initiate steps to make their operations efficient and profitable. The State Government may also review the inactive Government Companies and take appropriate decisions on their revival/winding up.*