



Chapter 2
Finances of the State

2.1 Introduction

This Chapter provides a broad perspective of the finances, analyses the critical changes in key fiscal aggregates relative to preceding years, overall trends during the five-year period 2017-18 to 2021-22, 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 2020-21

A bird's eye view of major changes in key fiscal aggregates of the State during 2021-22, compared to the preceding year is given in *Table 2.1*.

Table 2.1: Changes in key Fiscal Aggregates in 2021-22 compared to 2020-21

Revenue Receipts	Revenue Receipts of the State increased by 26 per cent Own Tax receipts of the State increased by 37 per cent Own Non-tax receipts increased by 45 per cent State's Share of Union Taxes and Duties increased by 48 per cent Grants-in-Aid from Government of India decreased by 44 per cent
Revenue Expenditure	Revenue Expenditure increased by 11 per cent Revenue Expenditure on General Services increased by 13 per cent Revenue Expenditure on Social Services increased by 10 per cent Revenue Expenditure on Economic Services increased by 11 per cent
Capital Expenditure	Capital Expenditure increased by 81 per cent Capital Expenditure on General Services increased by 23 per cent Capital Expenditure on Social Services increased by 196 per cent Capital Expenditure on Economic Services increased by 66 per cent
Loans and Advances	Disbursement of Loans and Advances decreased by 22 per cent Recoveries of Loans and Advances decreased by 18 per cent
Public Debt	Public Debt Receipts increased by 2 per cent Repayment of Public Debt decreased by 1 per cent
Public Account	Public Account Receipts increased by 12 per cent Disbursement of Public Account increased by 19 per cent
Cash Balance	Cash Balance decreased by ₹1,098 crore (12 per cent) during 2021-22 compared to previous year

Source: Finance Accounts

- There is increase in Revenue Receipts in all its components, except Grants-in-Aid from Government of India.
- Revenue Expenditure also has increased. However, the rate of increase is not at par with that of Revenue Receipts. The higher rate of increase in Revenue Receipts (than in Revenue Expenditure) has led to reduction in Revenue Deficit.
- There is a significant increase in the Capital Expenditure, mainly in Social sector and Economic Sector services.
- While the Public Debt or Borrowings increased marginally, there was a considerable decrease in the Loans and Advances provided by State Government.

The above aspects are further discussed in the later paragraphs.

2.3 Sources and Application of Funds

Comparison of the components of the sources and application of funds of the State during 2021-22 with those of the preceding year is shown in **Table 2.2**.

Table 2.2: Sources and Application of funds during 2020-21 and 2021-22

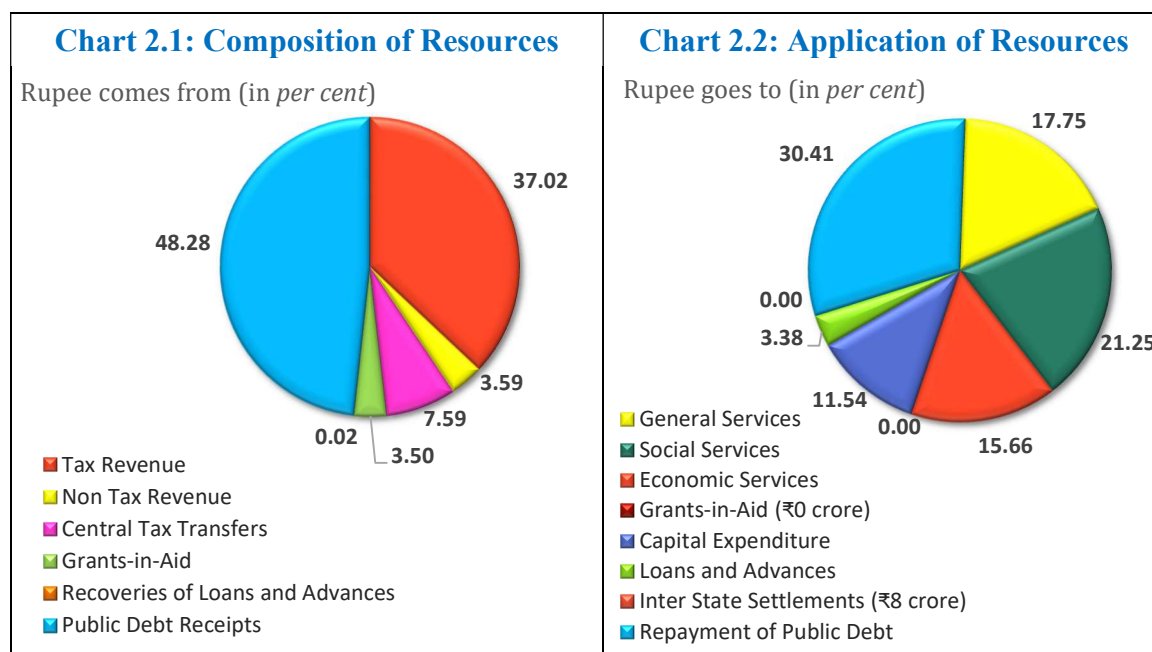
(₹ in crore)

Particulars		2020-21	2021-22	Increase (+) / Decrease (-)
Sources	Opening Cash Balance with Reserve Bank of India [#]	12,096	9,193	(-)2,903
	Revenue Receipts	1,00,914	1,27,469	26,555
	Recoveries of Loans and Advances	58	48	(-)10
	Public Debt Receipts (Net)	39,595	42,935	3,340
	Public Account Receipts (Net)	6,536	2,605	(-)3,931
	Total	1,59,199	1,82,250	23,051
Application	Revenue Expenditure	1,23,212	1,36,804	13,592
	Capital Expenditure	15,922	28,874	12,952
	Disbursement of Loans and Advances	10,868	8,469	(-)2,399
	Inter-State Settlement	8	8	0
	Net Contingency Fund	(-)4	0.05	4.05
	Closing Cash Balance with Reserve Bank of India [#]	9,193	8,095	(-)1,098
	Total	1,59,199	1,82,250	23,051

Source: Finance Accounts

[#] Cash balance with Reserve Bank of India includes cash balance investments and investments in earmarked funds including Sinking Fund and Guarantee Redemption Fund

The composition of State's resources and application of those resources pertaining to Consolidated Fund in terms of *percentages* is presented in **Chart 2.1** and **Chart 2.2**.



Source: Finance Accounts

The State Government primarily resorted to Public Debt (48.28 per cent) for its resources. However, the share of Public Debt in resources was lower than previous year (54 per cent).

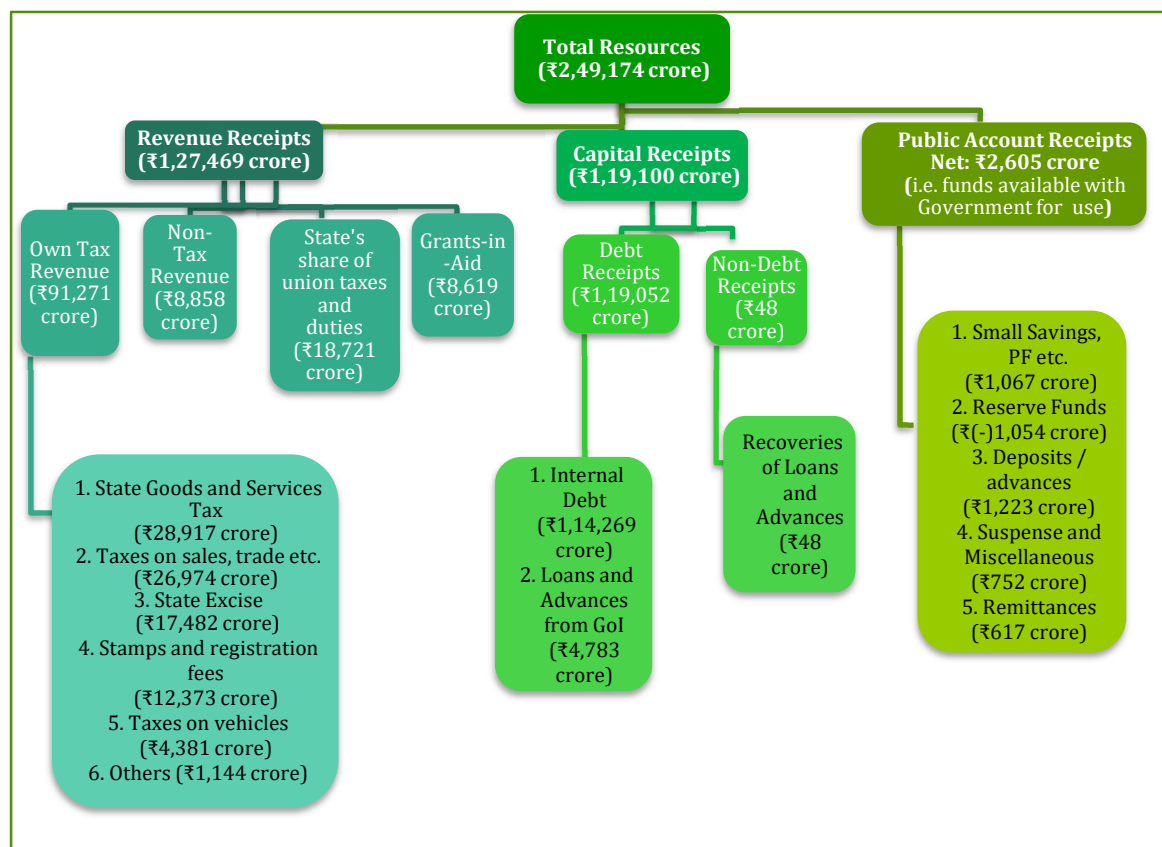
The share of Tax Revenue (37.02 per cent) and Non-Tax Revenue (3.59 per cent) increased in comparison to previous year, i.e., 31 per cent and 3 per cent respectively. The share of Central Tax transfers (7.59 per cent) adds to Resources and it has also increased in comparison to previous year (6 per cent). The share of Grants in aid (3.50 per cent) has decreased (7 per cent) than previous year. Higher share of Own Tax and Non-Tax Revenues and less share of Public Debt Receipts indicates that State's own resource mobilization increased in the current year.

However, State's dependency on Public Debt is impacting the application of resources mobilized as more than 30 per cent of the resources were utilised for repayment of Public Debt, which takes highest share in the application of resources. However, this was lower than the previous year's share of 34 per cent. The share of General, Social and Economic services in application of resources is almost as that of previous year. There is notable increase in the share of Capital Expenditure (12 per cent) to overall disbursements as against 7 per cent in previous year.

2.4 Resources of the State

Chart 2.3 depicts the composition of resources of the State during 2021-22.

Chart 2.3: Composition of Receipts of the State during 2021-22



Source: Finance Accounts

State's Own Receipts (₹1,00,129 crore) comprising Own Tax Revenue and Non-Tax Revenue constituted 79 per cent of Revenue Receipts. As mentioned in **Table 2.1**, the

Revenue Receipts increased by 26 per cent mainly owing to increase in Own Tax Revenue (increase by 37 per cent), Non-Tax Revenue (45 per cent) and State's share of Union Taxes and Duties (48 per cent).

The increase under Tax Revenue was on account of increase in receipts from (i) Stamps and Registration, (ii) State Goods and Services Tax, (iii) Taxes on Sales, Trade, etc. and (iv) State Excise. The increase in Non-Tax Revenue was mainly from (i) Miscellaneous General Services and (ii) Other Social Services.

These aspects are further discussed in the forthcoming paragraphs.

2.4.1 State's Revenue Receipts

Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. The trends and growth of Revenue Receipts as well as Revenue buoyancy with respect to Gross State Domestic Product during the five-year period 2017-22 are shown in **Table 2.3**.

Table 2.3: Trend in Revenue Receipts

Parameters	2017-18	2018-19	2019-20	2020-21	2021-22
Revenue Receipts (₹ in crore)	88,824	1,01,420	1,02,544	1,00,914	1,27,469
Growth rate of Revenue Receipts (per cent)	7	14	1	(-2)	26
Own Tax Revenue (₹ in crore)	56,520	64,674	67,597	66,650	91,271
Non-Tax Revenue (₹ in crore)	7,825	10,007	7,360	6,101	8,858
Total Own Revenue (₹ in crore)	64,345	74,681	74,957	72,751	1,00,129
Growth rate of Own Revenue (Own Tax and Non-Tax Revenue) (per cent)	11	16	0.37	(-3)	38
GSDP (₹ in crore) (2011-12 Series)	7,50,050	8,57,427	9,50,287	9,61,800	11,48,115
Growth rate of GSDP (per cent)	14	14	11	1	19
Revenue Receipts/ GSDP (per cent)	12	12	11	10	11
Buoyancy Ratios					
Revenue Buoyancy w.r.t GSDP (Rate of growth of Revenue Receipts in per cent / Rate of growth of GSDP in per cent)	0.52	0.99	0.10	(-1.31)	1.36
State's Own Revenue Buoyancy w.r.t GSDP (Rate of growth of Own Revenue in per cent / Rate of growth of GSDP in per cent)	0.76	1.12	0.03	(-2.43)	1.94

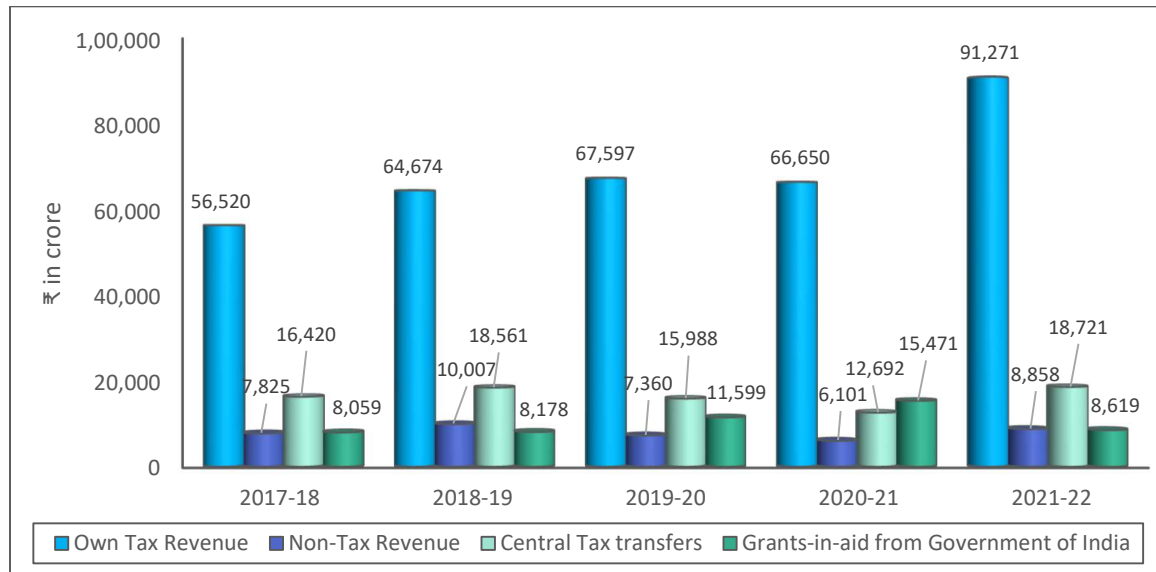
Source: Finance Accounts; for GSDP: Ministry of Statistics and Programme Implementation of respective years (figures as on 01 August 2022)

- The growth rate of Revenue Receipts showed an inconsistent trend in the last four years. However, Revenue Receipts were highest in the current year during the past five years.
- The ratio of Revenue Receipts to GSDP has registered a marginal increase during the current year in comparison to previous year.
- The Buoyancy ratio of both Revenue Receipts and Own Revenue registered more than '1' during the 2021-22 indicating that they grew at a better rate than the GSDP. In fact, the year 2020-21 was an exception as the revenues have been impacted by Covid-19

pandemic in the initial months of the financial year. Nonetheless, the buoyancy ratio of both Revenue Receipts and Own Revenue is highest in the current year during period 2017-22.

State's Revenue Receipts are generally categorized in four components viz., Own Tax Revenue, Non-Tax Revenue, Share of Central Taxes transferred to State and Grants-in-Aid (GIA) received from Government of India. The trend of these components for the period 2017-22 is given in **Chart 2.4**.

Chart 2.4: Trend of composition of Revenue Receipts during 2017-22



Source: Finance Accounts of the years concerned

State's Own Tax Revenue, which was growing year-on-year up to 2019-20 and decreased marginally in 2020-21 due to Covid-19 pandemic, has recovered in 2021-22. It has grown significantly due to increase in almost all sub-components such as Stamp Duty and Registration fees, State Goods and Services Tax, Taxes on Sales, Trade etc., and State Excise. Non-Tax Revenue and Central Tax transfers have also increased when compared to preceding year. Grants-in-Aid from Government of India, on the other hand, have decreased considerably by 44 per cent than the previous year.

2.4.1.1 State's own resources

State's share in Central taxes is determined based on recommendations of the Finance Commission and Grant-in-Aid from Central Government is determined by Central Tax receipts and anticipated Central assistance for schemes. Own Tax Revenue and Non-Tax Revenue are the two components that provide an understanding of the State's performance in mobilization of resources.

(i) Own Tax Revenue

Own Tax Revenues (OTR) includes State Goods and Services Tax, State Excise, Taxes on vehicles, Stamp Duty and Registration Fees, Land Revenue, Taxes on Goods and Passengers, etc.

During 2021-22, State's Own Tax Revenue (₹91,271 crore) constituted 72 per cent of total Revenue Receipts (₹1,27,469 crore). Own Tax Revenue has increased significantly by 37 per cent (₹24,621 crore) over the previous year. As a percentage to Gross State Domestic Product, OTR increased to 8 per cent in 2021-22 over previous year (7 per cent).

During the current year, major contributors of Own Tax Revenue were State Goods and Services Tax (32 per cent), Taxes on Sales, Trades etc., (30 per cent) and State Excise (19 per cent). Component wise details of State's Own Tax Revenue collected during 2017-22 are detailed in **Table 2.4**.

Table 2.4: Components of State's Own Tax Revenue

(₹ in crore)

Revenue Head	2017-18	2018-19	2019-20	2020-21	2021-22	Sparkline
State Goods and Services Tax	13,073	23,840	23,517	22,190	28,917	
Taxes on Sales, Trade, etc.	25,107	20,291	20,674	20,904	26,974	
State Excise	9,421	10,638	11,992	14,370	17,482	
Stamps Duty and Registration fees	4,202	5,344	6,671	5,243	12,373	
Taxes on Vehicles	3,590	3,762	3,935	3,338	4,381	
Taxes on goods and passengers	88	189	62	19	8	
Land Revenue	4	0.42	1	1	0.26	
Other Taxes	1,035	610	745	585	1,136	
Total	56,520	64,674	67,597	66,650	91,271	

Source: Finance Accounts of the years concerned

- Receipts from State Goods and Services Tax (SGST), introduced in 2017-18, stagnated in 2019-20 and saw marginal decline in 2020-21 due to Covid-19 pandemic. However, SGST has increased by 30 per cent over in 2021-22, indicating a strong recovery.
- Receipts from Taxes on Sales, Trade etc., which was stagnant during the three years from 2018-19 to 2020-21, also grew by 29 per cent during 2021-22.
- Receipts from State Excise have been consistently growing, year-on-year, even during the Covid-19 pandemic. In 2021-22, receipts grew by 22 per cent when compared to last year. This was mainly due to (i) increase (₹1,896 crore) in receipts from 'Foreign Liquors and spirits' on account of increase in volume of liquor and beer sales and (ii) increase (₹1,304 crore) in receipts from 'Other receipts' as collection of user charges for services rendered¹.
- The highest increase of ₹7,130 crore under OTR was in receipts from Stamps Duty and Registration Fees, which grew by 136 per cent. The huge growth was on account of revision of Market Values for properties twice during July 2021² and January 2022³

¹ on account of non-refundable application fees at a rate of ₹2 lakh for each application for Liquor Retail shops for license period 2021-23

² G.O.Ms.No.58, dated 20 July 2021

³ G.O.Ms.No.9, dated 29 January 2022

coupled with increase in the rates of Stamp Duties⁴, Registration Fee⁵ and Structure Rates⁶. There was also an increase in number of Documents registered in the current year. The number of documents registered in 2021-22 was 12.07 lakh, which showed an increase of 2.46 lakh documents (26 *per cent*), when compared to 9.61 lakh documents registered in the previous year.

- Receipts from Taxes on Vehicles, which was growing slowly and steadily since 2017-18, registered a considerable decrease in 2020-21. The decrease in 2020-21 was due to (i) exemptions⁷ given by the Government for payment of Tax in respect of motor transport vehicles for quarters ending June and Septembers 2020 (ii) decrease in the life tax on non-transport vehicles due to lesser registrations (iii) decrease in revenue from fees and taxes on detection by checking officers / motor vehicle inspectors. The regular growth was seen in 2021-22 despite a decline of five *per cent* in number of new vehicle registrations⁸.

State Goods and Services Tax

State Government implemented the Telangana Goods and Services Tax 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 levied on intra-State supply of goods or services (except alcohol for human consumption and five specified petroleum products⁹); (iii) Integrated GST (IGST)¹⁰, a tax on inter-State supply of Goods or Services or both by the Central Government; and (iv) GST Compensation Cess¹¹ and receipts under each component is given below:

- CGST:** The State received ₹5,573 crore as share of net proceeds assigned to States under CGST during the year 2021-22.
- SGST:** The total receipts of SGST were ₹28,917 crore during the year 2021-22, including apportionment of IGST (₹2,601 crore) and advance apportionment of IGST (₹1,263 crore).
- IGST:** State has not received any amount under this head since 2019-20.
- 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

⁴ G.O.Ms.No.59, dated 20 July 2021

⁵ G.O.Ms.No.60, dated 20 July 2021

⁶ C&IG of Registration and Stamps proceedings No. MV/539/2014, dated 20 July 2021

⁷ Transport, Roads & Buildings (Tr.I) Department G.O.Ms.No.64, dated 31 December 2020

⁸ Number of non-transport vehicles registered: 7.86 lakh during 2021-22 and 8.28 lakh during 2020-21

⁹ Petroleum crude, High speed diesel, Motor spirit (Petrol), Natural gas and Aviation turbine fuel

¹⁰ 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

¹¹ 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

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's (i.e., 2015-16) revenue of the State. The revenue of Telangana in the base year (2015-16) was ₹16,038 crore¹². Accordingly, the Protected Revenue for the year 2021-22 was ₹35,204 crore¹³.

The total collection (₹29,075 crore¹⁴) of the State under SGST was less than the protected revenue (₹35,204 crore) for the year 2021-22. Thus, ₹6,128 crore was due as GST compensation. An amount of ₹2,006 crore was received during 2021-22 as Grants-in-Aid under 'Compensation for loss of Revenue arising out of implementation of GST. Besides, the State Government also received 'back-to-back loan of ₹4,569 crore from GoI to meet the resource gap due to shortfall in GST compensation during 2021-22. The compensation received during the year was more by ₹446 crore, which might need to be adjusted. The total amount of receivable (provisionally calculated) as GST compensation each year and received is shown below:

Table 2.5: GST Compensation receivable (provisionally calculated) and received from 2017-18 to 2021-22

(₹ in crore)

Sl. No.	Details	2017-18*	2018-19	2019-20	2020-21	2021-22
1	Protected Revenue (calculated at a growth rate of 14 <i>per cent</i> over base year revenue of ₹16,038 crore)	15,632	23,762	27,088	30,881	35,204
2	SGST collected / received	13,073 [#]	23,840	23,517	22,190	28,917
3	Pre-GST collected as taxes subsumed in SGST	2,913	671	577	419	158
4	Total collection (2+3)	15,986	24,511	24,094	22,609	29,075
5	GST Compensation receivable (1-4), if any	0	0	2,994	8,272	6,129
6	GST Compensation received	169	0	2,263	3,103	2,006
7	Back-to-back loans in lieu of GST Compensation, which need not be repaid	0	0	0	2,380	4,569
8	Excess (-) / Shortfall (+) (5-6-7)	(-)169	0	731	2,789	(-)446

* for nine months from July 2017 to March 2018

including advance apportionment of ₹705 crore

Source: Finance Accounts of years concerned

Note: Provisional figures subject to final certification

(ii) Non-Tax Revenue

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.

¹² revised as per Government of India Office Memorandum dated 12 July 2022

¹³ Calculated at compounding increase of 14 *per cent* per annum for five years viz., 2016-17, 2017-18, 2018-19, 2019-20, 2020-21 and 2021-22 from the base year revenue of ₹16,038 crore (i.e., ₹16,038.46 crore * 1.14 * 1.14 * 1.14 * 1.14 * 1.14 * 1.14 = ₹35,204 crore)

¹⁴ SGST: ₹28,917 crore and Pre-GST collected as taxes subsumed under SGST

During 2021-22, State's own Non-Tax Revenue (₹8,858 crore) constituted seven *per cent* of total Revenue Receipts (₹1,27,469 crore). NTR increased significantly by ₹2,757 crore (45 *per cent*) in the current year when compared to the previous year.

Table 2.6: Components of State's Non-Tax Revenue

(₹ in crore)

Revenue Head	2017-18	2018-19	2019-20	2020-21	2021-22	Sparkline
Interest Receipts	116	60	18	34	20	
Dividends and Profits	101	94	115	94	52	
Other Non-Tax Receipts	7,608	9,853	7,227	5,973	8,786	
(a) Major and Medium Irrigation	1,527	36	31	18	24	
(b) Roads and Bridges	17	34	46	24	18	
(c) Urban development	28	9	21	7	93	
(d) Education	336	318	367	614	495	
(e) Non-ferrous mining	3,593	4,647	3,487	3,457	2,296	
(f) Others or Miscellaneous	2,107	4,809	3,275	1,853	5,860	
Total	7,825	10,007	7,360	6,101	8,858	

Source: Finance Accounts of the years concerned

Both interest receipts and dividends and profits have decreased in comparison to previous year. This depicts the quality of loans given and investments made by the Government.

The increase in Receipts from 'other Non-Tax Receipts' is due to increase in receipts from 'Others or Miscellaneous'.

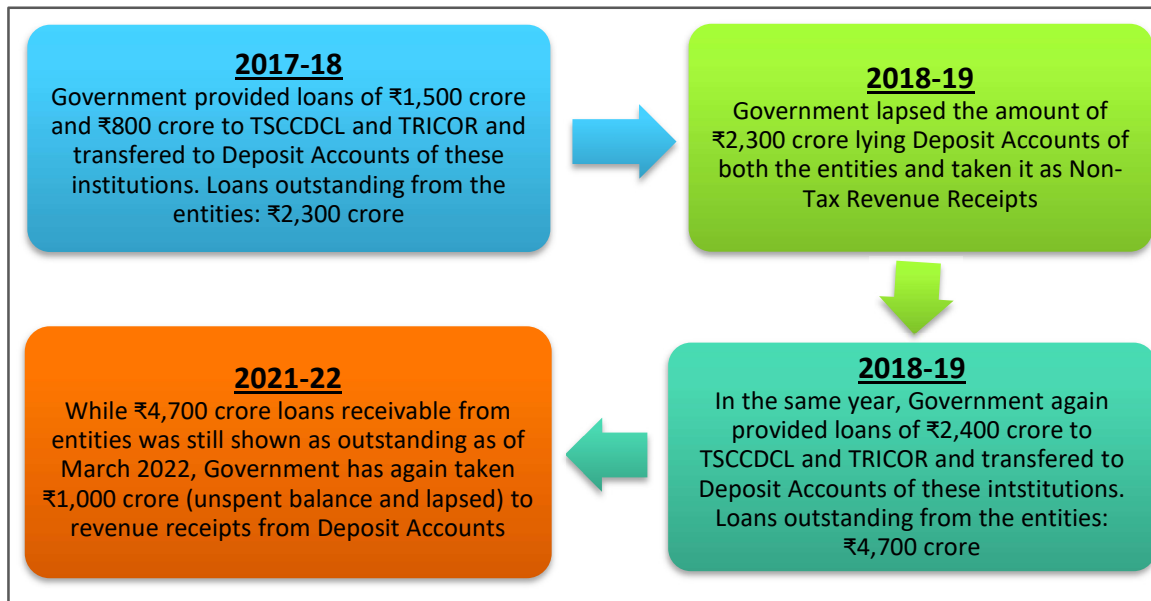
- Receipts from 'Other Social Services' (Major Head of Account: 0250) included ₹400 crore and ₹600 crore as amount of loans lapsed from Deposit Account in Public Account pertaining to Telangana Scheduled Castes Cooperative Development Corporation Limited (TSCCDCL) and Telangana Scheduled Tribes Cooperative Finance Corporation Limited (TRICOR) respectively.

State Government had advanced loans of ₹2,300 crore¹⁵ to these institutions in 2017-18 by crediting the Deposit Accounts of these institutions. These were advanced for the implementation of Government subsidy schemes. In the subsequent year, the same amounts were lapsed from the Deposit Accounts and credited back to Government Account as Revenue Receipts (**Box 1.1, Paragraph 1.3.1 of State Finances Audit Report for the year ended March 2019**).

¹⁵ To Telangana Scheduled Castes Cooperative Development Corporation Limited (₹1,500 crore) and Telangana Scheduled Tribes Cooperative Finance Corporation Limited (₹800 crore)

Again, an amount of ₹2,400 crore¹⁶ was advanced as loans in 2018-19. As a result, these institutions have a total outstanding loan of ₹4,700 crore¹⁷ in the Government Accounts. These transactions are presented in a pictorial manner in **Chart 2.5**.

Chart 2.5: Picture showing Provision of Loans, lapsing them and crediting to Government as Non-Tax Receipts



Source: Finance Accounts of the years concerned

The State Financial Code¹⁸, *inter alia*, stipulates that Personal Deposit accounts created by debit to the Consolidated fund should be closed at the end of the financial year by minus debit of the balance to the relevant service heads in the Consolidated fund. Further, as per List of Major and Minor Heads¹⁹, adjustment of expenditure against Reserve Fund / Deposit Accounts would be shown as a deduction under the minor head. Incorrect classification of the above ₹1,000 crore as Non-Tax Revenue instead of as reduction of loans has resulted in overstatement of Revenue Receipts as well as outstanding loans i.e., assets to that extent.

Government replied (November 2022) that these pertain to different schemes of Social Welfare Department and Tribal Welfare Department. These amounts were unspent balances lying in Personal Deposit (PD) Accounts and were eligible under category 'C' lapsable deposits to Government as per Government Orders²⁰. As the PD Administrators could not identify the original Schemes to which these releases pertained to, the balances were lapsed to Government under Departmental Receipts. The Government also stated that there is no Revenue Deficit/Surplus impact.

¹⁶ to Telangana Scheduled Castes Cooperative Development Corporation Limited (₹1,500 crore) and Telangana Scheduled Tribes Cooperative Finance Corporation Limited (₹900 crore)

¹⁷ to Telangana Scheduled Castes Cooperative Development Corporation Limited (₹3,000 crore) and Telangana Scheduled Tribes Cooperative Finance Corporation Limited (₹1,700 crore)

¹⁸ Paragraph 271 (iii) (4)

¹⁹ Paragraph 4.5 of General Directions

²⁰ G.O.Ms.No.43, dated 22 April 2000

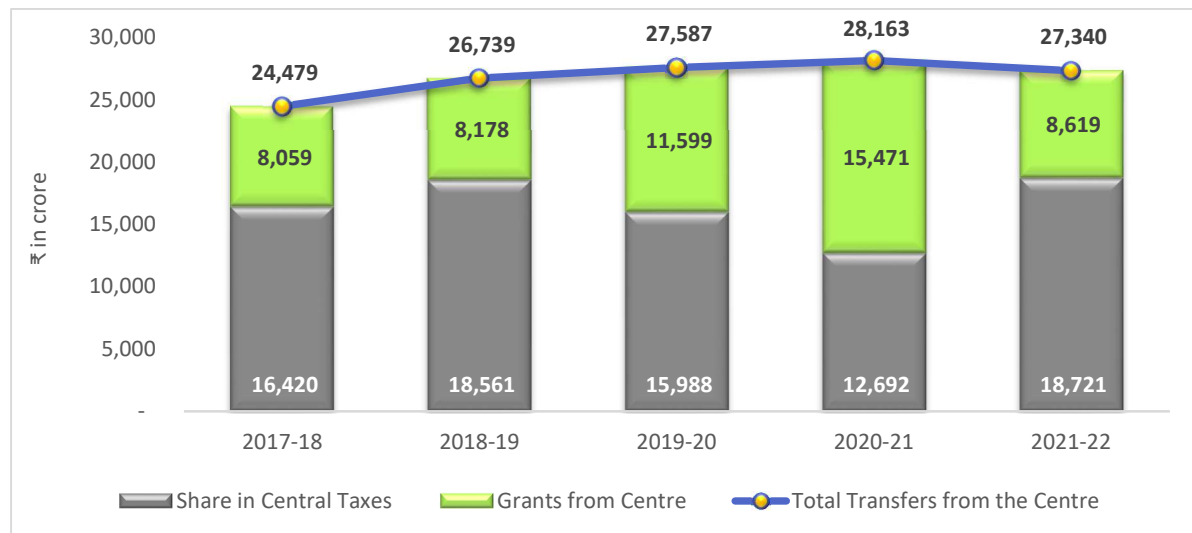
The reply is not correct as TSCCDCL and TRICOR stated that these amounts pertain to the earlier loans given by the Government. Further, this would also have a Revenue Deficit impact as mentioned above.

- There has been a huge increase in receipts from ‘Sale of Land and Property’, from ₹10 crore in 2020-21 to ₹2,708 crore in 2021-22. However, this was far below the budgeted amount of ₹16,000 crore. In earlier years also, the Government in its budget has been overestimating receipts from Sale of Land and Property and actual realisations were nominal in comparison to budgeted amounts.

2.4.1.2 Devolution of Central Taxes and Grants from the Centre

Trends of total transfers, share in central taxes and Grants-in-Aid from Centre for the period 2017-22 are shown in **Chart 2.6**.

Chart 2.6: Trends in transfers from Government of India



Source: Finance Accounts of the years concerned

In the current year, share in central share taxes has increased and share in Grants-in-Aid has decreased. Apart from this, more Grants-in-Aid are being released directly by the Government of India to the implementing agencies instead of routing through Consolidated Fund of State (*refer to paragraph 4.4 for details*). The tax devolution and Grants-in-Aid are discussed in the following paragraphs:

(i) Central Tax transfers

For its award period 2021-26, Fifteenth Finance Commission (XV FC) allocated 2.102 per cent of the total divisible pool of Union Taxes as *inter se* share to Telangana. Accordingly, XV FC assessed share of Telangana for the year as ₹13,844 crore²¹. However, the State has received an amount of ₹18,721 crore as share of Central Taxes, which was higher than projection in the XV FC Report. This contrasts with earlier years when the State Government received lesser amounts than the projected in the Finance Commissions' Reports (FCR).

²¹ 2.102 per cent of the assessed divisible pool Union Taxes amount of ₹6,58,591 crore

The details of actual devolution of State's share in Union taxes and duties vis-à-vis XIV FC / XV FC projections for the period 2017-22 are shown in **Table 2.7**.

Table 2.7: 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 (=Col.4 - Col. 3)
2017-18	As per XIV FC	18,916	16,420	(-),2,496
2018-19		21,885	18,561	(-),3,324
2019-20		25,350	15,988	(-),9,362
2020-21	As per XV FC	18,241	12,692	(-),5,549
2021-22		13,844	18,721	(+),4,877

Source: Finance Accounts of the years concerned and Finance Commissions' reports

The component-wise Central Tax transfers to the State during 2017-22 are given below:

Table 2.8: Central Tax Transfers

(₹ in crore)

Head	2017-18	2018-19	2019-20	2020-21	2021-22
Central Goods and Services Tax (CGST)	231	4,581	4,537	3,715	5,573
Integrated Goods and Services Tax (IGST)	1,657	366	--	--	--
Corporation Tax	5,027	6,454	5,451	3,865	4,649
Taxes on Income other than Corporation Tax	4,245	4,753	4,271	3,967	5,635
Customs	1,657	1,315	1,013	649	1,506
Union Excise Duties	1,731	874	705	422	899
Service Tax	1,872	172	--	63	438
Other Taxes ²²	0	46	10	11	21
Central Tax transfers	16,420	18,561	15,988	12,692	18,721
Percentage of increase over previous year	10	13	(-),14	(-),21	48
Percentage of Central tax transfers to Revenue Receipts	18	18	16	13	15

Source: Finance Accounts of the years concerned

As seen from the above table, there is considerable increase in almost all the components. Thus, Central Tax transfers as a *percentage* to Revenue Receipts of the State increased by 2 *percentage* points (₹6,029 crore) when compared to 2020-21.

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

The details of Grants-in-Aid received from Government of India (GoI) during 2017-22 are detailed in **Table 2.9**.

²² include Taxes on Wealth, Other Taxes on Income and Expenditure, Other Taxes and Duties on Commodities and Services

Table 2.9: Grants-in-Aid from Government of India

(₹ in crore)

Head	2017-18	2018-19	2019-20	2020-21	2021-22
Non-Plan Grants	--	--	--	--	--
Grants for State Plan Schemes	--	--	--	--	--
Grants for Centrally Sponsored Schemes	6,108	5,508	5,729	5,805	4,461
Finance Commission Grants	1,168	1,806	3,219	3,135	1,787
Other transfers/Grants to States	783	864	2,651	6,531	2,371
Total	8,059	8,178	11,599	15,471	8,619
Percentage of increase / decrease over the previous year	(-17)	1	42	33	(-44)
Percentage of Grants in Aid to Revenue Receipts	9	8	11	15	7

Source: Finance Accounts of the years concerned

- (i) The Grants-in-Aid (GIA) were less than the previous two years. It constituted only seven *per cent* of the Revenue Receipts (₹1,27,469 crore). Of the GIA received, 23.27 *per cent* was towards compensation for loss of revenue arising out of implementation of GST (₹2,006 crore). More than half, i.e., 51.76 *per cent* of GIA was towards Centrally Sponsored Schemes (₹4,461 crore).
- (ii) In the previous year i.e., 2020-21, Grants to cover gap in resources (₹2,638 crore) and Grants-in-Aid for creation of Capital assets (₹450 crore) constituted significant portion of GIA. There were no such receipts during the current year.
- (iii) The XV FC forecasted that Telangana would be the only State with pre-devolution Revenue Surplus of ₹2,155 crore during 2021-22. Hence, XV FC did not recommend any Revenue Deficits grants to Telangana. However, the State registered a Revenue Deficit of ₹9,335 crore during 2021-22 even after post-devolution of State's share of Central Taxes.
- (iv) The XV FC has recommended ₹449 crore towards State Disaster Response Fund (SDRF) for 2021-22 to Telangana, which was accepted by GoI. As against this, GoI has released ₹359 crore, leaving a shortfall of ₹90 crore.
- (v) For the year 2021-22, the XV FC recommended a grant of ₹1,365 crore to Rural Local Bodies (RLBs), which was also accepted by the GoI. However, the State has received only ₹683 crore²³ leaving a short fall of ₹682 crore.
- (vi) For the year 2021-22, the XV FC recommended a grant of ₹672 crore to Urban Local Bodies (ULBs), which was accepted by the GoI. However, the State has received ₹327 crore only. The shortfall is ₹345 crore.

Overall, the State did not receive specific grants of ₹1,117 crore recommended by XV FC and accepted by GoI during 2021-22.

²³ The actual receipts booked under this head was ₹1,101 crore which incorrectly included ₹418 crore received towards health grants (as against ₹419 crore recommended by XV FC)

2.4.2 Capital Receipts

Capital Receipts comprise Loans and Advances from GoI, miscellaneous Capital Receipts such as proceeds from Disinvestments, recoveries of Loans and Advances, Public Debt Receipts from internal sources (Market Loans, Borrowings from Financial institutions / Commercial Banks. **Table 2.10** shows the trends in growth and composition of capital receipts.

Table 2.10: Trends in growth and composition of Capital Receipts

(₹ in crore)

Sources of State's Receipts	2017-18	2018-19	2019-20	2020-21	2021-22
Capital Receipts	21,820	22,312	29,855	39,653	42,983
Miscellaneous Capital Receipts	--	--	--	--	--
Recovery of Loans and Advances	138	66	62	58	48
Net Public Debt Receipts[#]	21,682	22,246	29,793	39,595	42,935
Net Internal Debt	21,458	22,646	30,025	37,420	38,662
Growth rate of Net Internal Debt	(-26)	6	33	25	3
Net Loans and Advances from GoI	224	(-400)	(-232)	2,175 ^s	4,273 ^s
Growth rate of Loans and Advances from GoI	16	(-279)	(-42)	1,038	97
Growth rate of debt Capital Receipts	(-26)	3	34	33	8
Growth rate of non-debt Capital Receipts	(-12)	(-52)	(-6)	(-6)	(-17)
Growth rate of Gross State Domestic Product	14	14	11	1	19
Rate of growth of Capital Receipts (<i>per cent</i>)	(-26)	2	34	33	8

Source: Finance Accounts; For Gross State Domestic Product: Ministry of Statistics and Programme Implementation (figures as on 01 August 2022)

[#] Excludes Ways and Means Advances of ₹22,922 crore, ₹21,823 crore, ₹37,248 crore, ₹69,454 crore and ₹67,274 crore for 2017-18, 2018-19, 2019-20, 2020-21 and 2021-22 respectively

^s Includes ₹2,380 crore and ₹4,569 crore back-to-back loans in lieu of GST compensation shortfall during the years 2020-21 and 2021-22 respectively, which need not be repaid by the State Government

Public Debt receipts, consisting of borrowings taken from Market, Financial Institutions and Central Government, which create future repayment obligation, constituted the major part of Capital Receipts (99.89 *per cent*). The hike in Loans and Advances from GoI was due to receipt of ₹4,569 crore towards 'back-to-back loan in lieu of GST Compensation shortfall'.

Net Capital Receipts increased by eight *per cent* from ₹39,653 crore in the previous year to ₹42,983 crore in 2021-22. Net Internal Debt (₹38,662 crore) increased by three *percentage* points during 2021-22 compared to previous year (₹37,420 crore). These were significantly lower than the growth rate of Gross State Domestic Product (19 *per cent*) during 2021-22.

2.4.3 State's performance in mobilisation of resources

The XV FC considered the buoyancy as 1.10 for GST and 1.15 for non-GST taxes for States. The XV FC also estimated that Non-Tax Revenue would keep pace with Gross State Domestic Product growth rates of each State. Accordingly, for Telangana for the year 2021-22, it assessed Own-Tax Revenue (OTR) as ₹78,653 crore and Non-Tax Revenue as ₹12,400 crore. The Own Tax Revenue and Non-Tax Revenue projections by the XV FC and State Government in Budgets vis-à-vis actual performance in mobilisation of resources are shown below:

Table 2.11 Own Tax and Non-Tax Projections vis-à-vis actual receipts

(₹ in crore)

	XV FC projections	Budget Estimates	Actuals	Percentage variation of actual over	
				Budget estimates	XV FC projections
Own Tax Revenue	78,653	92,910	91,271	(-)1.76	16.04
Non-Tax Revenue	12,400	30,557	8,858	(-)71.01	(-)28.56

Source: FFC projections, Budget Estimates and Finance Accounts

- The State could achieve more than what is projected by XV FC in respect of own tax revenue during 2021-22 due to market buoyancy and revision of rates in certain components as discussed in earlier paragraphs. The performance in tax collection was also almost on par with the Budget Estimates indicating a pragmatic approach in estimation and collection by the State Government.
- The achievement in respect of NTR is below projections of XV FC and far below the Budget Estimates. In fact, the State Government, for the past few years, has been overestimating receipts from Sale of Land and Property (*refer Table 3.2 of Paragraph 3.2.2.1 for further details*).

2.5 Application of Resources

State Government is vested with the responsibility of incurring expenditure within the framework of fiscal responsibility legislations and 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 components of State expenditure are discussed in the following paragraphs.

2.5.1 Growth and composition of expenditure

Total Expenditure, its composition and relative share in Gross State Domestic Product during the years 2017-18 to 2021-22 is presented in *Table 2.12*.

Table 2.12: Total Expenditure and its components

(₹ in crore)

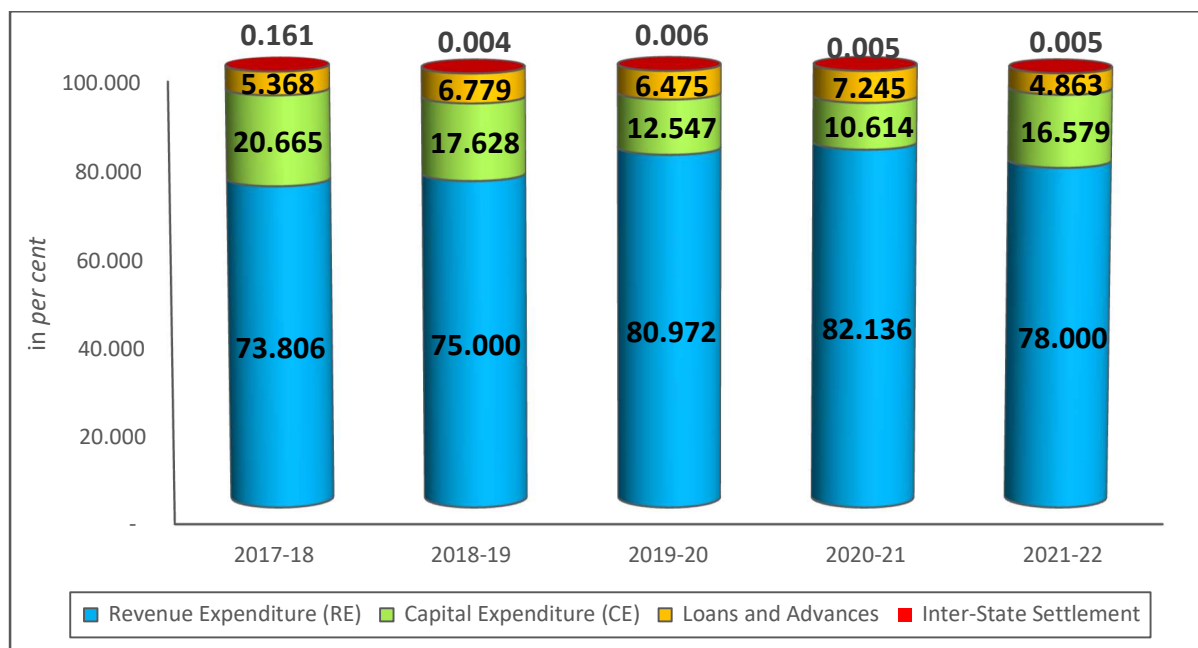
Parameters	2017-18	2018-19	2019-20	2020-21	2021-22
Total Expenditure	1,15,662	1,28,435	1,34,365	1,50,010	1,74,155
Revenue Expenditure	85,365	97,083	1,08,798	1,23,212	1,36,804
Capital Expenditure	23,902	22,641	16,859	15,922	28,874
Loans and Advances	6,209	8,706	8,700	10,868	8,469
Inter-State Settlement	186	5	8	8	8
As a <i>percentage</i> to Gross State Domestic Product					
Total Expenditure	15	15	14	16	15
Revenue Expenditure	11	11	11	13	12
Capital Expenditure	3	3	2	2	3
Loans and Advances	1	1	1	1	1

Source: Finance Accounts of the years concerned

Total Expenditure of the State increased by 51 *per cent* from ₹1,15,662 crore in 2017-18 to ₹1,74,155 crore in 2021-22 and by 16 *per cent* over preceding year. As a *percentage* to

GSDP, the Total Expenditure and Revenue Expenditure has decreased marginally over previous year whereas Capital Expenditure has increased in absolute terms as well as a percentage of Gross State Domestic Product in 2021-22. **Chart 2.7** depicts the trend of the share of components in Total Expenditure.

Chart 2.7: Trend of share of components in Total Expenditure



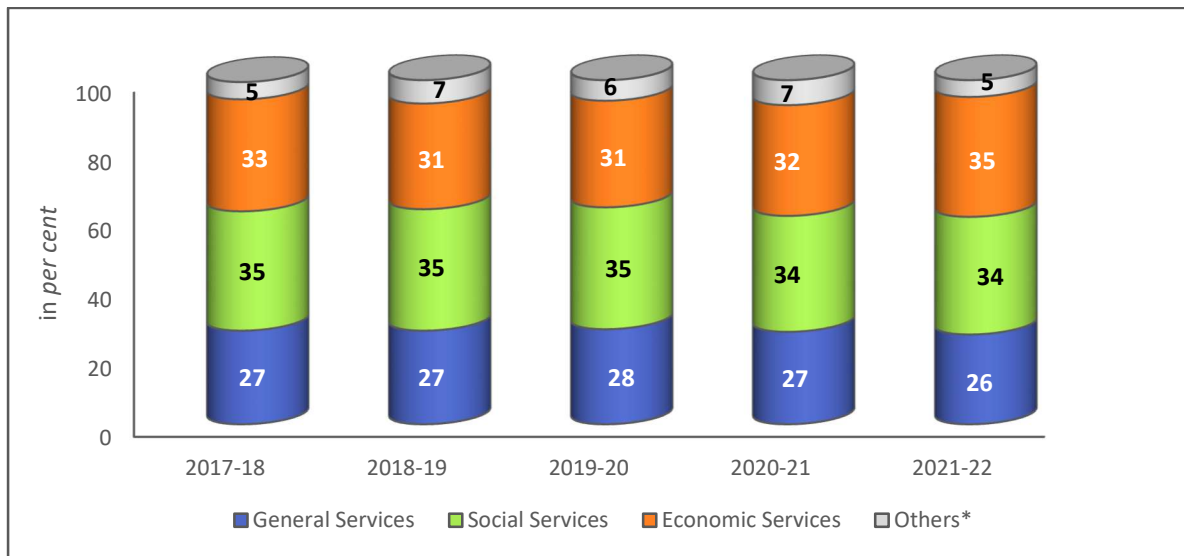
Source: Finance Accounts of the years concerned

Capital Expenditure decreased by nearly 4 *percentage* points to 17 *per cent* of Total Expenditure in 2021-22, from 21 *per cent* in 2017-18. However, it has shown an increase of nearly 6 *percentage* points in comparison to previous year.

On the other hand, Revenue Expenditure increased by 4 *percentage* points from 74 *per cent* in 2017-18 to 78 *per cent* in 2021-22. However, it decreased by 4 *percentage* points in 2021-22 in comparison to previous year. Loans and Advances also decreased by 2 *percentage* points over the previous year.

In terms of activities, Total Expenditure comprises 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 2.8**.

Chart 2.8: Trend of expenditure by activities during the past five years

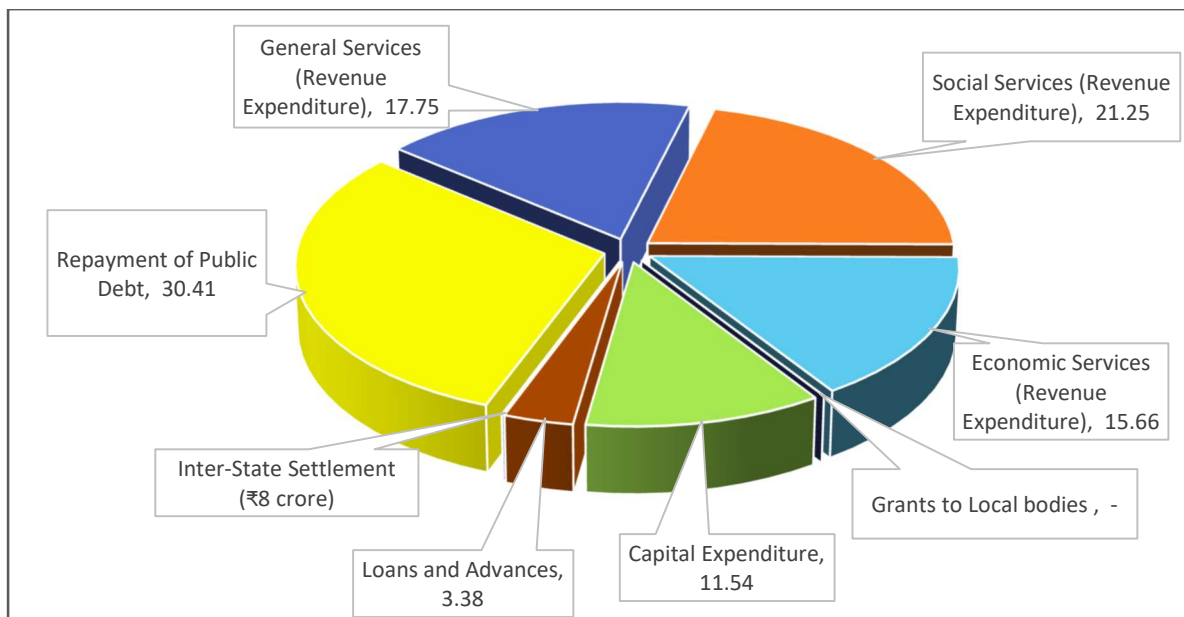


Source: Finance Accounts of the years concerned

* Others include Grants to Local Bodies, Loans and Advances and Inter-State Settlement

Chart 2.9 depicts the composition of expenditure for the year 2021-22.

Chart 2.9: Composition of expenditure (in per cent) during 2021-22



Source: Finance Accounts

2.5.2 Revenue Expenditure

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.

The overall Revenue Expenditure, its rate of growth, its ratio to Total Expenditure and buoyancy vis-à-vis Gross State Domestic Product and Revenue Receipts is indicated in **Table 2.13**.

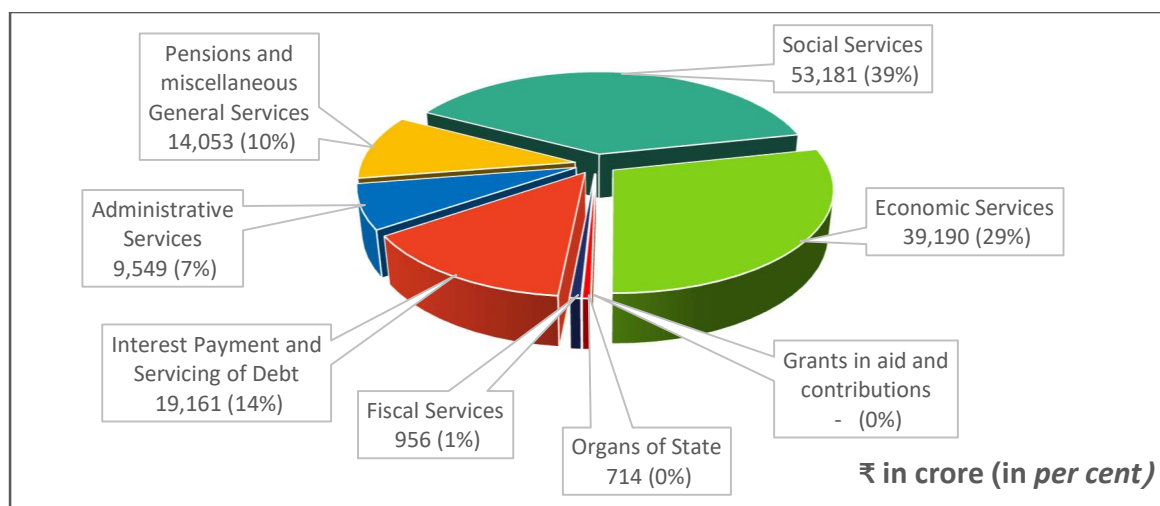
Table 2.13: Revenue Expenditure – Basic Parameters

(₹ in crore)

Sl. No.	Parameter	2017-18	2018-19	2019-20	2020-21	2021-22
1	Total Expenditure	1,15,662	1,28,435	1,34,365	1,50,010	1,74,155
2	Revenue Expenditure	85,365	97,083	1,08,798	1,23,212	1,36,804
3	Growth rate of Revenue Expenditure (<i>per cent</i>)	4.83	13.73	12.07	13.25	11.03
4	Revenue Expenditure as a <i>per cent</i> to Total Expenditure	73.81	75.59	80.97	82.14	78.55
5	Revenue Expenditure / Gross State Domestic Product in <i>per cent</i>	11.38	11.32	11.45	12.81	11.92
6	Revenue Expenditure as a <i>percentage</i> to Revenue Receipts	96.11	95.72	106.10	122.10	107.32
7	Growth rate of Gross State Domestic Product (<i>per cent</i>)	13.93	14.32	10.83	1.21	19.37
8	Buoyancy of Revenue Expenditure with Gross State Domestic Product (ratio)	0.35	0.96	1.11	10.95	0.57
9	Growth rate of Revenue Receipts (<i>per cent</i>)	7.25	14.18	1.11	(-) <i>1.59</i>	26.31
10	Buoyancy of Revenue Expenditure with Revenue Receipts (ratio)	0.67	0.97	10.87	(-) <i>8.33</i>	0.42

Source: Finance Accounts of the years concerned

- During the year 2021-22, Buoyancy ratios of Revenue Expenditure to Revenue Receipts and to GSDP were less than ‘one’, indicating that Revenue Expenditure was growing at a slower pace than the Revenue Receipts and GSDP.

Sectoral distribution of Revenue Expenditure pertaining to 2021-22 is given in **Chart 2.10**.**Chart 2.10: Sector-wise distribution of Revenue Expenditure during 2021-22**

Source: Finance Accounts

Major portion (39 *per cent*) of Revenue Expenditure was on Social Services, while nearly 32 *per cent* was on General Services like Administrative Services, Pensions, Interest Payments, etc.

2.5.2.1 Major changes in Revenue Expenditure

Significant variations under different Heads of Account regarding Revenue Expenditure of the State during the current year vis-à-vis the previous year is shown in **Table 2.14**.

Table 2.14: Variation in Revenue Expenditure during 2021-22 compared to 2020-21

(₹ in crore)

Major Heads of Account	2020-21	2021-22	Variation
Increase			
General Sector			
2049 - Interest Payments	16,841	19,161	2,320
2055 – Police	5,612	7,240	1,628
Social Sector			
2202 – General Education	11,763	13,844	2,081
2225 - Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities	8,824	15,450	6,627
Economic Sector			
2435 – Other Agricultural Programmes	(-)509	772	1,281
2801 – Power	9,958	11,111	1,153
Decrease			
General Sector			
2015 – Elections	54	(-)153	(-)207
Social Sector			
2211 - Family Welfare	2,441	2,194	(-)247
2216 – Housing	555	255	(-)301
2217 – Urban Development	3,816	2,665	(-)1,151
2245 - Relief on account of Natural Calamities	3,651	(-) 119	(-)3,770
Economic Sector			
2515 - Other Rural Development Programmes	4,895	4,410	(-)485

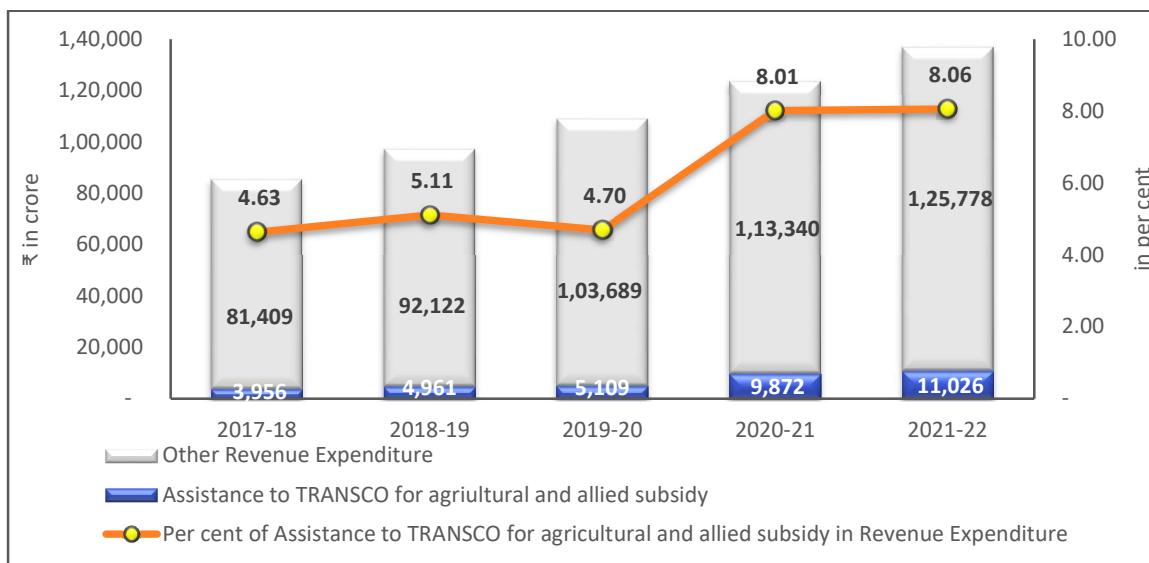
Source: Finance Accounts of the years concerned

The increase of Revenue Expenditure over the preceding year was mainly on account of the following:

- Sizeable expenditure (₹4,442 crore) was incurred on a new scheme viz., CM Dalit Empowerment Programme (Telangana Dalit Bandhu) under Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities;
- Higher interest payments (₹2,513 crore) on State Development Loans;
- Higher outlays on teaching grants to Mandal Praja Parishads by ₹890 crore and teaching grants Zilla Praja Parishads by ₹770 crore under General Education;
- Increase in expenditure on District Police Force by ₹596 crore and on City Police Force by ₹266 crore, Telangana Special police Units by ₹176 crore, Commissioner of Cyberabad Police by ₹167 crore, Commissioner of Rachakonda Police by ₹163 crore and Intelligence branch by ₹105 crore under Police;
- Higher disbursements (₹1,279 crore) on scheme for debt relief to farmers;
- Higher outgo (₹1,153 crore) under Assistance to TRANSCO for agriculture and allied subsidies under Power.

The expenditure on assistance to Transco for agriculture and allied subsidies has risen sharply over the last two years as shown in **Chart 2.11**.

Chart 2.11: Rise in assistance to TRANSCO for agriculture and allied subsidies vis-à-vis other Revenue Expenditure



Audit analysis of the data pertaining to the five-year period of 2017-22 revealed that major Revenue expenditure incurred on the following schemes / sub-heads:

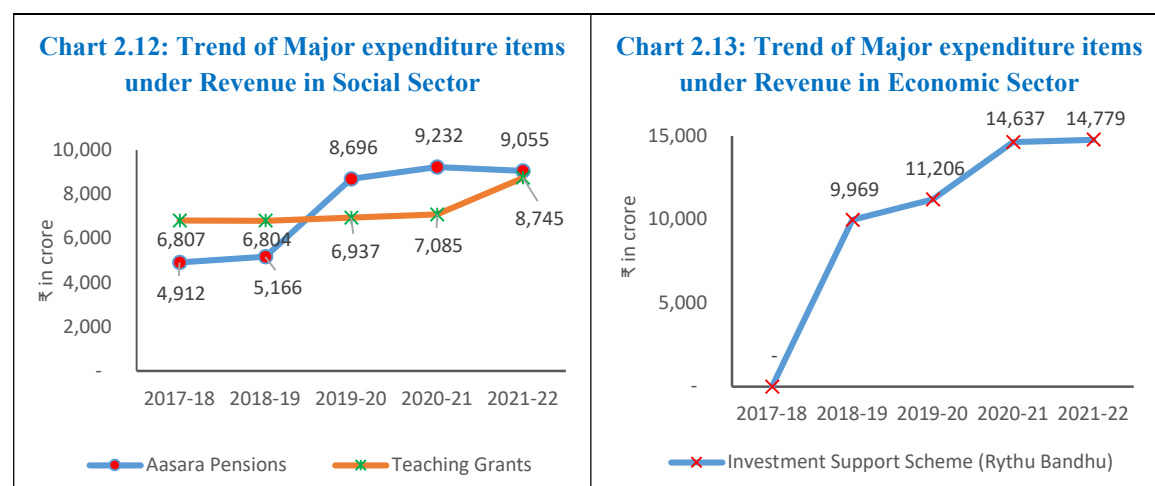
Table 2.15: Major schemes / sub-heads where Revenue Expenditure was significant during the past five years

(₹ in crore)

Social Services		Economic Services	
Aasara Pensions (including pensions to disabled, widows, weavers and toddy tappers and old age pensions etc.)	37,061	Investment Support Scheme (Rythu Bandhu)	50,591
Teaching Grants to Mandal Praja Parishads	18,833	Assistance to TRANSCO for agriculture and allied subsidies	34,924
Teaching Grants to Zilla Praja Parishads	17,544	Scheme for Debt Relief to farmers	5,280
Subsidy on Rice (Human Resources Development)	9,347		
Kalyana Lakshmi and Shaadi Mubarak	8,605		

Source: Finance Accounts of last five years

Apart from Assistance to TRANSCO for agricultural and allied subsidies, the outgo on Revenue components which had considerably increase in the past few years is shown below:



Source: Finance Accounts of last five years

Under Economic Sector, there is a persistent increase in both Investment Support Scheme (Rythu Bandhu) and Assistance to TRANSCO for agricultural and allied subsidy in the current year. Under Social Sector, there is nearly a twofold increase over the past five years in respect of Aasara pensions.

2.5.2.2 Committed Expenditure

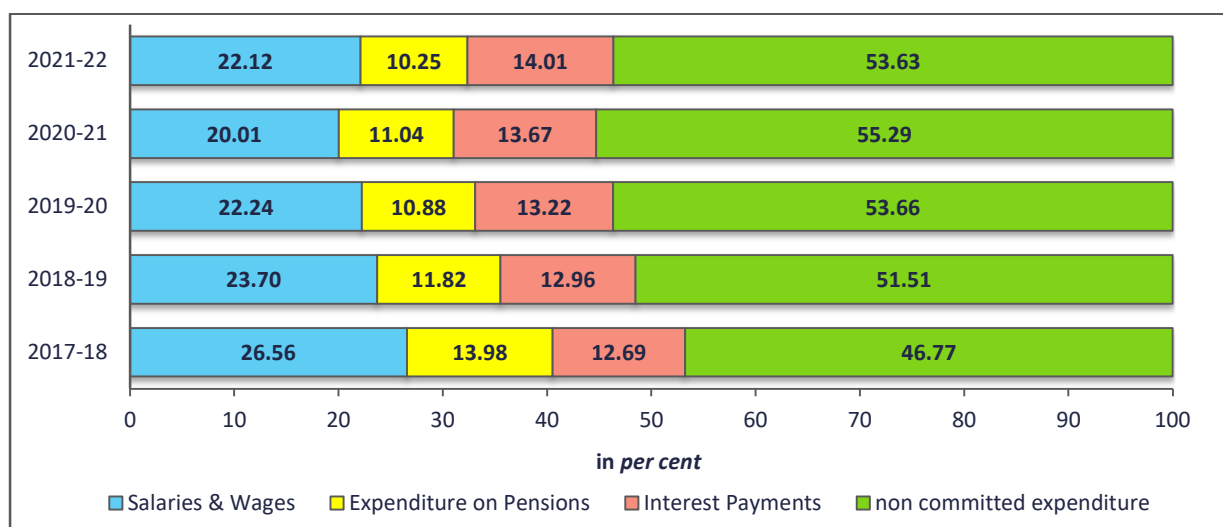
Committed expenditure of the State Government on revenue account consists of expenditure towards interest payments, expenditure on salaries and wages and pensions. Increasing share of committed expenditure restricts Government's ability to incur developmental expenditure. **Table 2.16** presents the trends in the components of Committed Expenditure during 2017-22.

Table 2.16: Components of committed expenditure

(₹ in crore)					
Components of committed expenditure	2017-18	2018-19	2019-20	2020-21	2021-22
Salaries and Wages	22,671	23,011	24,195	24,654	30,256
Expenditure on Pensions	11,932	11,477	11,834	13,599	14,025
Interest Payments	10,836	12,586	14,386	16,841	19,161
Total	45,439	47,074	50,415	55,094	63,442
As a percentage to Revenue Receipts (RR)					
Salaries and Wages	25.52	22.69	23.59	24.43	23.74
Expenditure on Pensions	13.43	11.32	11.54	13.48	11.00
Interest Payments	12.20	12.41	14.03	16.69	15.03
Total	51.15	46.41	49.16	54.60	49.77

Source: Finance Accounts of last five years

The share of committed expenditure in total Revenue Expenditure during the past five years is depicted in **Chart 2.14**.

Chart 2.14: Share of committed expenditure in Revenue Expenditure during the period 2017-18 to 2021-22

Source: Finance Accounts

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 previous year. As a percentage to RE, Salaries and Wages and interest payments have increased whereas expenditure on pension has decreased. Overall, the committed expenditure component has increased in RE.

- (i) Percentage of interest payments to RR was lower than the previous year. However, interest payments were higher by ₹2,320 crore in absolute terms. Greater reliance on market borrowings by Government in recent years has led to increased committed liabilities on interest payments. Consequently, interest payments nearly doubled during the five-year period 2017-22 from ₹10,836 crore to ₹19,161 crore. Interest payments, which were 12 per cent of RR in 2017-18, have increased to 15 per cent of RR in 2021-22.

Apart from this, the Government has facilitated interest payment of ₹6,490 crore for the loans taken by eleven institutions in the form of further loans²⁴/investments²⁵. These interest payments are relatable to Off-Budget Borrowings (refer to *paragraph 2.7.2*).

²⁴ As seen from the vouchers pertaining to Loans provided to following entities towards interest payment: (i) Kaleswaram Irrigation Project Corporation Limited (₹1,420 crore); (ii) Telangana Drinking Water Supply Corporation Limited (₹815 crore); (iii) Telangana State Housing Corporation (₹579 crore); (iv) Telangana State Power Finance Corporation (₹283 crore); (v) Telangana State Water Resources Infrastructure Development Corporation Limited (₹236 crore); (vi) Telangana State Sheep and Goat Development Cooperative Federation (₹234 crore); and (vii) Telangana State Police Housing Corporation (₹34 crore)

²⁵ As seen from the vouchers pertaining to investments made to following entities for interest payment: (i) Kaleswaram Irrigation Project Corporation Limited (₹1,284 crore); (ii) Telangana Drinking Water Supply Corporation Limited (₹927 crore); (iii) Telangana State Water Resources Infrastructure Development Corporation Limited (₹518 crore); (iv) Telangana State Road Development Corporation (₹160 crore)

- (ii) The Pension Expenditure marginally increased by ₹426 crore. However, its share in Revenue Expenditure decreased from 11 *per cent* to 10 *per cent*. This is due to the decision of the State Government to increase the retirement age of the Government employees from 58 years to 61²⁶ years based on the recommendations of the First Telangana Pay Revision Commission.
- (iii) The decision of the Government to increase retirement age along with implementation of First Pay Revision Commission, with monetary benefits payable from July 2021²⁷ led to increase in expenditure on Salaries and Wages by ₹5,602 crore over previous year. Further, its share in RE increased from 20 to 22 *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 National Pension System.

As per Finance Accounts, as on 01 April 2021, the National Pension System Deposit Account under Defined Contributory Pension Scheme for Government Employees had an opening balance of ₹287 crore. Receipts to the National Pension System Deposit Account during the year were ₹2,101 crore²⁸. Of the available total of ₹2,388 crore, Government transferred an amount of ₹2,074 crore to National Securities Depository Limited, leaving ₹314 crore²⁹ yet to be transferred.

As per provisions of the National Pension System, Government has to match the contribution of the employees. There is an overall short contribution of ₹66 crore³⁰ by the Government during the last eight years. Consequently, the current liability stands deferred to future years. Further, Government has created an avoidable interest liability on the amount of ₹380 crore (short contribution by Government and amount yet to be transferred to National Securities Depository Limited) to the end of March 2022.

Upon the bifurcation of the erstwhile combined State of Andhra Pradesh in 2014, a balance of ₹730.64 crore was available in the National Pension System Deposit Account of the composite Andhra Pradesh State, pending transfer to National Securities Depository Limited. This amount was to be apportioned between the successor States of Andhra

²⁶ G.O.Ms No 45, dated 30 March 2021

²⁷ G.O.Ms.No.51, dated 11 June 2021

²⁸ Includes ₹995 crore of Employee contribution, ₹1 crore contribution of Employees on Foreign Service, Government contribution of ₹995 crore, Foreign Employer contribution of ₹3 crore and an amount of ₹107 crore pertaining to failed transactions credited under 8342-117-04-002 which is to be adjusted

²⁹ As of March 2022, in the NPS Deposit Account

³⁰ Employees contribution ₹4,250.73 crore (-) Government contribution ₹4,184.62 crore

Pradesh and Telangana. Of this amount, ₹365.21 crore was apportioned in 2018-19 and Telangana was allocated ₹134.60 crore. An amount of ₹365.43 crore was yet to be apportioned as of March 2022.

The Director of Treasuries and Accounts (DTA) has informed (November 2022) the following discrepancies in the data available with the department and Finance Accounts.

Table 2.17: Details of contributions and transfers to NSDL as per Finance Accounts and as informed by DTA

(₹ in crore)

	As per Finance Accounts	As informed by DTA
Contribution made by employees during 2021-22	995	692
Contribution made by Government during 2021-22	995	821
Contribution of employees on foreign service	1	NA
Foreign employer contribution	3	NA
Amount pertaining to failed transactions	107	NA
Amount transferred to NSDL	2,074	1,661
Balance to be transferred to NSDL	314	124
Amount apportioned	365	345

Source: Finance Accounts and information furnished by DTA

Further, the DTA informed that the matter has been already taken up with Principal Accountant General (Accounts and Entitlements) for reconciliation.

2.5.2.4 Subsidies

Table 2.18 presents expenditure on subsidies for the five-year period 2017-18 to 2021-22.

Table 2.18: Expenditure on subsidies

	2017-18	2018-19	2019-20	2020-21	2021-22
Subsidies (₹ in crore)	5,899	6,304	6,846	9,566	10,218
Subsidies as a <i>percentage</i> of Revenue Receipts	7	6	7	9	8
Subsidies as a <i>percentage</i> of Revenue Expenditure	7	6	6	8	7

Source: Finance Accounts

Subsidies as a *percentage* to Revenue Receipts and Revenue Expenditure decreased marginally. Power (79 *per cent*) and Civil Supplies (12 *per cent*) together constituted 91 *per cent* (₹9,331 crore) of the total Subsidies.

- The increase in subsidies under Power towards Assistance to Transmission Corporation of Telangana Limited for Agricultural and allied Subsidy (₹8,061 crore; an increase by ₹642 crore) and under Roads, Buildings and Ports towards assistance to Telangana State Road Transport Corporation towards Reimbursement of concessions extended to various categories of citizens (₹790 crore; an increase by ₹190 crore) was set off to an extent by decrease in Subsidy on Rice (Human Resources Development: ₹1,271 crore), i.e., decrease by ₹178 crore.
- Apart from releases through subsidies, Assistance to Transmission Corporation of Telangana Limited for Agriculture and allied subsidy was also provided through Grants-in-Aid in respect of Special Component Plan for Scheduled Castes (₹1,867 crore) and Tribal Area sub-plan (₹1,098 crore). Thus, the expenditure on

Assistance to Transmission Corporation of Telangana Limited for Agriculture and allied subsidy was treated partly as subsidies (₹8,061 crore) and partly as Grants-in-Aid (₹2,965 crore). The reasons for resorting to different classifications were not known.

Apart from above, State Government continued to provide subsidies in other forms such as ‘Grants-in-Aid’ and ‘Other expenditure’. Illustrative examples are shown below:

- (i) Managerial subsidy to Telangana Scheduled Castes Co-operative Development Corporation (₹50 crore),
- (ii) Power subsidy for industries (₹7 crore);
- (iii) Managerial subsidy to Telangana State Vikalangula Co-operative Corporation (₹4 crore);

As a result, 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 ₹61,400 crore to Local Bodies and other Institutions by way of Grants and Loans in 2021-22, which was higher by ₹7,116 crore than in the preceding year.

Table 2.19: Financial assistance to Local Bodies and Other Institutions

(₹ in crore)					
Name of the Institution	2017-18	2018-19	2019-20	2020-21	2021-22
(A) Local Bodies					
Urban Local Bodies: Municipal Corporations and Municipalities	798	1,542	1,359	3,785	2,698
Panchayat Raj Institutions: Zilla Praja Parishads, Mandal Praja Parishads and Gram Panchayats	6,376	5,996	7,273	8,538	8,521
Total (A)	7,174	7,538	8,632	12,323	11,219
(B) Others					
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	1,000	1,037	965	985	1,032
Development Authorities	291	236	154	246	355
Statutory Corporations	1,071	1,409	1,421	2,632	3,370
Co-operative Institutions	56	229	68	15	167
Non-Governmental Organisations	1,004	775	962	511	600
Other Institutions*	19,820	26,684	32,765	37,572	44,657
Total (B)	23,242	30,370	36,335	41,961	50,181
Total (A+B)	30,416	37,908	44,967	54,284	61,400
Revenue Expenditure	85,365	97,083	1,08,798	1,23,212	1,36,804
Assistance as percentage of Revenue Expenditure	35.63	39.05	41.33	44.06	44.88

Source: Finance Accounts of the years concerned

* Other institutions which received ad-hoc or one-time grants during the year mainly towards investment support scheme (₹14,779 crore), Aasara Pensions (₹5,415 crore), Kalyana Lakshmi (₹2,070 crore), Aasara Pensions to old age persons and widows (₹1,685 crore), Samagra Siksha (₹979 crore), etc. (full details are available in Appendix III of Finance Accounts)

The financial assistance, predominantly in the form of Grants-in-Aid, has been increasing consistently and it doubled over the last five years. The overall increase in comparison to previous year was mainly due to increase in Telangana Dalit Bandhu Scheme by ₹4,442 crore, State Finance Commission Grants to Gram Panchayats by ₹843 crore, Mission Bhagiratha – Urban scheme by ₹550 crore, etc. The decrease in financial assistance

to Urban Local Bodies was mainly due to Finance Commission Grants, which decreased by ₹1,138 crore over the previous year.

Box 2.1: Implementation of recommendations of the State Finance Commission

As stipulated in Article 23-I (1) read with 243Y (1) of the Constitution, the Governor of the State shall constitute a State Finance Commission within the period of one year from 73rd amendment of the Indian Constitution (1992) and at the end of every five years thereafter to review financial position of Panchayat Raj Institutions and Urban Local Bodies of the State and to recommend principles for distribution of divisible pool of levies of the State between State and Panchayat Raj Institutions / Urban Local Bodies.

Within one year of formation of Telangana in 2014, constitution of the State Finance Commission was notified (March 2015). However, the Chairman and a member were appointed almost three years later (January 2018) and no formal orders were issued by Government indicating the terms of reference. The State Finance Commission had adopted the provisions of Article 243-Y read with section 250 Telangana State Panchayat Raj Act, 2018 and completed the assignment for the award period 2020-21 to 2024-25. The report was submitted to the Government in October 2020, after six months of commencement of the Financial Year 2020-21. The Government stated (January 2022) that the report of SFC is under examination and the funds were being released based on proportionate population. The Government is yet to accept the recommendations of the first SFC (October 2022).

2.5.3 Capital Expenditure

Capital Expenditure is incurred for acquisition and creation of capital assets. Capital Expenditure during the year 2021-22 (₹28,874 crore) was significantly higher (81 per cent) than that of the preceding year (₹15,922 crore).

2.5.3.1 Major changes in Capital Expenditure

Significant increase or decrease under various Heads of Account in Capital Expenditure during 2021-22 vis-à-vis previous year is shown in *Table 2.20*.

Table 2.20: Capital Expenditure – comparison between 2020-21 and 2021-22

(₹ in crore)

Major Heads of Accounts	2020-21	2021-22	Variation
Increase			
Social Sector			
4210 - Capital outlay on Medical and Public Health	259	498	239
4215- Capital outlay on Water Supply and Sanitation	1,042	5,329	4,287
Economic Sector			
4700 - Capital outlay on Major Irrigation	6,976	12,025	5,049
4875 - Capital outlay on Other Industries	16	679	663
5054 - Capital outlay on Roads and Bridges	1,151	1,759	608
5055 - Capital outlay on Road transport	0	938	938
5475 - Capital outlay on Other General Economic Services	742	1,893	1,151
Decrease			
Social Sector			
4202- Capital outlay on Education, Sports, Art, and Culture	531	49	(-) 482

Major Heads of Accounts	2020-21	2021-22	Variation
Economic Sector			
4406 - Capital outlay on Forestry and Wildlife	161	134	(-) 27
4435 - Capital outlay other Agricultural Programmes	38	5	(-) 33

Source: Finance Accounts of the years concerned

The increase in Capital outlay was mainly attributable to sharp increase in investments by ₹9,015 crore under Major Heads of Major Irrigation, Water Supply and Sanitation, Roads and Bridges, Road transport, etc., as discussed in subsequent *paragraph 2.5.3.2*.

The net higher expenditure under ‘other General Economic Services’ was due to increased disbursements towards Financial Support for Infrastructure Development (₹1,281 crore), towards Special Development Fund for welfare and development activities (₹981 crore) and Constituency Development Programme (₹300 crore) and decreases in other Special Development Fund for welfare and development activities (₹515 crore) under Other Expenditure.

Further, there was an increase (₹736 crore) in expenditure on Mission Bhagiratha scheme during the year 2021-22 (₹1,500 crore) when compared to the previous year (₹764 crore). However, Capital Expenditure decreased under few schemes / programmes like Civil works under Samagra Shiksha (₹429 crore), Pradhan Mantri Gram Sadak Yojana (₹48 crore) and Ware Housing Infrastructure Fund (₹33 crore).

Our analysis of the data pertaining to the five-year period of 2017-22 revealed that major Capital expenditure occurred on the following schemes / sub-heads:

Table 2.21: Major schemes / sub-heads where Capital Expenditure was significant during the past five years

Social Services (₹ in crore)		Economic Services (₹ in crore)	
Mission Bhagiratha	5,945	Kaleshwaram Project	13,587
National Rural Drinking Water Programme	1,812	Palamuru – Ranga Reddy Lift Irrigation Scheme	12,396
Swachh Bharath Mission (Gramin)	1,309	Investment in DISCOMs	7,121
		Special Development Fund for welfare and development activities	3,381
		Mission Kakatiya	3,106

Source: Finance Accounts of last five years

Further, Government has been also implementing its flagship projects/schemes like Kaleshwaram and Mission Bhagiratha, etc., through Off-Budget Borrowings (refer to *paragraph 2.7.2* for details) raised by Special Purpose Vehicles.

Box 2.2: Capital Expenditure on purchase of surgical consumables

For the past few years, expenditure on purchase of surgical consumables was being incorrectly classified as Capital Expenditure resulting in understatement of Revenue Expenditure and overstatement of Capital Expenditure. In the current year also, the trend continued, and an amount of ₹43 crore was booked under capital (refer to *paragraph 3.4.9.1 (i)*). We observed that the total progressive Capital expenditure as of March 2022 on this account was ₹173 crore. Such classification of Revenue expenditure on consumables as Capital expenditure is incorrect.

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 in quality of Capital Expenditure.

As of 31 March 2022, the State Government's investments stood at ₹30,919 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives. Government of Telangana invested an amount of ₹9,093 crore in ten entities during the year 2021-22. There is a sharp rise in the investments made during the year in comparison to a meagre ₹18 crore in 2020-21. The major investments are made in six institutions as shown below:

Table 2.22: Major investments made by Government during 2021-22

Sl.No.	Investment	Amount (₹ in crore)
1	Telangana Drinking Water Supply Corporation	3,708
2	Kaleshwaram Irrigation Project Corporation Limited	3,072
3	Telangana State Water Resources Infrastructure Development Corporation	1,095
4	Telangana State Road Development Corporation	573
5	Telangana State Road Transport Corporation	365
6	Telangana State Industrial Infrastructure Corporation	269
		9,082

Source: Finance Accounts

As the Finance Department did not provide files pertaining to investments made during the year, Audit is unable to ascertain the reasons for sudden sharp rise in investments in these institutions. The possibility that these investments are intended to serve as margin money/principal repayment/interest payment for the Off-Budget Borrowings taken by these institutions on behalf of the Government cannot be ruled out (refer to **paragraph 2.7.2** for further details). Audit noticed that the Government has invested ₹1,094 crore Telangana State Water Resources Infrastructure Development Corporation Limited during the year specifically for principal repayment and interest payment to the lending banks and financial institutions.

Year-wise details of investments made by the Government are shown in **Table 2.23**:

Table 2.23: Return on Investment

Investment/return/ cost of borrowings	2017-18	2018-19	2019-20	2020-21	2021-22
Investment at the end of the year (₹ in crore)	16,365	19,754	21,807	21,826	30,919
Return on Investment (₹ in crore)	101	94	115	94	52
Return on investment in <i>per cent</i>	0.62	0.48	0.53	0.43	0.17
Interest paid on Government Borrowings (₹ in crore)	10,836	12,586	14,386	16,841	19,161
Average rate of interest on Government Borrowings (<i>per cent</i>)	7.21	6.93	6.70	6.60	6.39
Difference between return on investment [#] and interest on Government borrowings (₹ in crore)	(-10,735)	(-12,492)	(-14,271)	(-16,747)	19,109
Difference between return and interest rate (<i>per cent</i>)	(-6.59)	(-6.45)	(-6.17)	(-6.17)	(-6.22)

Source: Finance Accounts of the years concerned

[#] Investment at the end of the year

Return on Investment (RoI) in these Companies/Corporations has been consistently low and was lowest in 2021-22. The investments made by the Government have increased from ₹16,365 crore in 2017-18 to ₹30,919 crore in 2021-22, registering an increase of 88.93 *per cent* over the past five years. Low RoI reflects poor performance of those Companies / Corporations, and it is a matter of concern.

Loans advanced and Investments made in Companies, Corporations and Co-operatives, which are loss making and whose net worth are completely eroded, affect the quality of Capital Expenditure. There were 17 Public Sector Undertakings whose net worth has been completely eroded due to accumulated losses leading to negative net worth of (-)₹50,476 crore (refer to *paragraph 5.7.2* for further details). As per finance accounts, the State Government has an investment of ₹20,298 crore in six³¹ of them as equity.

2.5.3.3 Quantum and quality of loans disbursed and recovered

Government provides Loans and Advances to State Public Sector Undertakings, Local Bodies and Autonomous Bodies. *Table 2.24* presents the details of outstanding Loans and Advances during the years 2017-22.

Table 2.24: Quantum of loans disbursed and recovered during 2017-18 to 2021-22

(₹ in crore)

Quantum of loans disbursed and recovered	2017-18	2018-19	2019-20	2020-21	2021-22
Opening Balance of loans outstanding	9,798	15,869	24,509	33,147	43,957
Amount advanced during the year	6,209	8,706	8,700	10,868	8,469
Amount recovered during the year	138	66	62	58	48
Closing Balance of the loans outstanding	15,869	24,509	33,147	43,957	52,379
Net addition	6,071	8,640	8,638	10,810	8,421
Interest received	84	7	6	6	6
Interest rate on Loans and Advances given by the Government	0.53	0.03	0.02	0.01	0.01
Rate of Interest paid on the outstanding borrowings of the Government	7.21	6.94	6.70	6.60	6.39
Difference between the rate of interest received and interest paid (<i>per cent</i>)	(-)6.68	(-)6.91	(-)6.68	(-)6.59	(-)6.38

Source: Finance Accounts of the years concerned

- Loans and Advances given decreased by ₹2,399 crore in comparison to previous year. Disbursement on account of Loans and Advances was only 35 *per cent* of the amount projected in the Budget Estimates (₹23,256 crore).
- Major portion of loans were disbursed for projects relating to Water Supply, Sanitation, Housing and Urban Development (₹4,202 crore)³², Irrigation and Flood Control

³¹ (i) Two DISCOMs: ₹17,619 crore, (ii) Telangana State Road Transport Corporation: ₹1,584 crore, (iii) Telangana State Water Resources Infrastructure Development Corporation Limited: ₹1,095 crore, (iv) Telangana Rajiv Swagraha Corporation Limited: ₹0.03 crore, and (v) Telangana State Housing Corporation Limited: ₹0.25 crore

³² Mainly on account of Loans to Telangana Drinking Water Supply Corporation Limited (₹1174.75 crore); Loans to Hyderabad Metropolitan Water Supply and Sewerage Board (₹1,239.52 crore) and Loans to Financial Institutions (₹1,485.61 crore)

(₹1,884 crore)³³, Agriculture and allied services (₹1,184 crore)³⁴, Energy (₹443 crore)³⁵, Health and Family Welfare (₹360 crore)³⁶, Industry and Minerals (₹213 crore)³⁷, and Road Transport (₹154 crore)³⁸.

- Out of the ₹8,469 crore loans provided during 2021-22, an amount of ₹7,338 crore (*Appendix 2.1*) was towards interest payments/principal repayments in respect of loans taken by 13 corporations for implementing various Government schemes. Finance Department did not provide files pertaining to Loans provided to the institutions (refer to *paragraph 2.7.2* for further details). Hence, there is a possibility that these loans relate to principal repayment or interest payment on Off-Budget Borrowings (OBBs). As such, these loans might not reflect a true picture of Government assets.

State Government may modify depiction of repayment liabilities of Off-Budget Borrowings as loans advanced to these institutions.

- Further, the Government continued to provide loans (₹360 crore in 2021-22) to Arogyasri Health Care Trust (AHCT), which does not have any definite stream of revenue resources of its own for loan repayment. Apart from AHCT, loans given to two other institutions are depicted in *Table 2.25* below.

Table 2.25: Loans given during 2017-18 to 2021-22 to institutions for repayment of loans / which do not have definite stream of revenue resources

(₹ in crore)

Sl. No.	Entity	Amount (as of March 2022)
Loans given to entities for loan repayment in connection with implementation of Government Schemes		
1	Telangana Drinking Water Supply Corporation Limited for Mission Bhagiratha	9,147
2	Hyderabad Metropolitan Water Supply and Sewerage Board	3,796
3	Telangana State Sheep and Goat Development Cooperative Federation Limited	2,901
4	Power Finance Corporation Bonds	1,626
5	Telangana State Industrial Infrastructure Corporation	538
Loans given to entities, not having definite stream of revenue resources for repayment of loans		
1	Telangana Scheduled Castes Cooperative Development Corporation Ltd	3,000
2	Arogyasri Health Care Trust and TS Vaidya Vidhan Parishad	2,866
3	Telangana Scheduled Tribes Cooperative Finance Corporation Limited	1,700

Source: Finance Accounts

- Government has not been stipulating terms of loans like interest rates, duration of repayment, number of instalments, etc. while providing loans to institutions. Government has also informed that loan balances as depicted in Finance Accounts are yet to be confirmed from the entities (November 2022).

³³ Mainly on account of Loans to Kaleshwaram Irrigation Project Corporation Limited (₹1,442.29 crore) and Telangana State Water Resources Infrastructure Development Corporation Limited (₹442.18 crore)

³⁴ Mainly on account of Loans to Telangana State Sheep and Goat Development Cooperative Federation Limited (₹734.09 crore) and Loans to Horticulture Development Corporation (₹219.33 crore)

³⁵ On account of interest / repayment of loans of Power Finance Corporation Bonds (₹442.80 crore).

³⁶ On account of Loans to Aarogyasri Health Care Trust (₹360.06 crore)

³⁷ On account of Loans of Telangana State Industrial Infrastructure Corporation (₹213.31 crore)

³⁸ On account of Loans to Telangana State Road Transport Corporation (₹154.32 crore)

- Overall, Government was able to recover loans primarily from Government Servants only. This constituted 99 per cent (₹47 crore) of the recovered loans (₹48 crore). The recovery from major institutions was a meagre ₹0.25 crore under ‘Loan assistance for integrated Co-operative Development projects’.
- Even in respect of interest, out of ₹6.11 crore received, ₹6.00 crore (98 per cent) was from Government servants only. A paltry sum of ₹0.11 crore interest was from Credit Co-operatives.

State Government may ensure that the orders sanctioning loan /agreements mention important terms and conditions like rate of interest, repayment schedule, etc. It also should firm up terms and conditions of earlier loans, if any, provided without them.

- State Government has provided ₹1,240 crore during 2021-22 as Loan to Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB), even though HMWSSB submitted Annual Accounts for the period from 2010-11 to 2019-20 only in December 2022. The cumulative loan provided to HMWSSB was ₹8,888 crore as of March 2022 (refer to *paragraph 4.14* for further details). Similarly, Telangana State Vaidya Vidhana Parishad whose accounts were in arrears since 2014-15 has been provided with a cumulative loan of ₹528 crore as of March 2022.

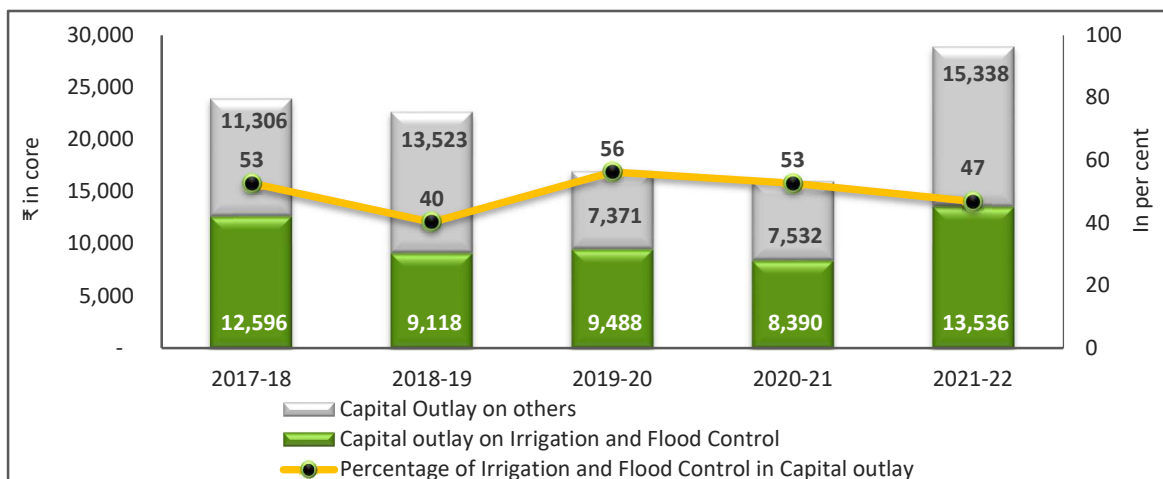
State Government may ensure submission of Annual Accounts by institutions before extending any further loans.

2.5.3.4 Capital employed in Ongoing/incomplete Projects

Capital employed in ongoing/incomplete Projects and Works impinges on the quality of expenditure if there are delays in completion. Further, funds borrowed for project implementation, if any, also results in extra burden of interest liabilities.

During the past five years, while the Capital outlay (₹1,08,198 crore) ranged from 11 per cent to 21 per cent of the Total Expenditure in each year, nearly half (i.e., ₹53,128 crore, 49 per cent) of total Capital outlay during these five years was on Irrigation and Flood Control.

Chart 2.15: Share of Irrigation and Flood control in capital outlay



Source: Finance Accounts of the years concerned

As per the information furnished by the State Government, 759 projects / works were incomplete, and an expenditure of ₹1,09,612 crore was incurred on them as of 31 March 2022. The age-wise and Department/wing wise profile is shown in **Table 2.26** and **Table 2.27**.

Incomplete Project / work commenced in the year	No. of incomplete Projects / works	Estimated cost (₹ in crore)	Expenditure (₹ in crore)
up to 2013-14	29	46,277	1,04,172
2014-15	7	7	3
2015-16	74	235	134
2016-17	186	898	552
2017-18	170	3,874	2,890
2018-19	195	795	785
2019-20	46	383	214
2020-21	26	1,922	814
2021-22	26	210	48
Total	759	54,601	1,09,612

Department / Wing	No. of incomplete projects / works	Estimated cost (₹ in crore)	Expenditure (₹ in crore)
Roads	690	3,015	2,313
Bridges	20	47	21
Buildings	32	1,654	1,242
Irrigation	11	47,538	1,04,573
Others	6	2,347	1,463
Total	759	54,601	1,09,612

Source: Finance Accounts

There were 11 incomplete irrigation projects (commenced between 2004 to 2018) to be completed by the year 2022. The original cost of these projects has increased from ₹47,538 crore to ₹1,21,534 crore i.e., an escalation by ₹73,996 crore (156 per cent). An expenditure of ₹1,04,573 crore was incurred on these projects as of March 2022. In addition to this, the Government has a pending liability of ₹3,512 crore in respect of six incomplete irrigation projects.

Irrigation projects are taken up on the assumption that the benefits of the project will outweigh the costs. Non-completion of projects deprives the State of the 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 on returns from the investments in Irrigation and Flood control.

In respect of other Departments, 748 projects / works with an estimated cost of ₹7,063 crore remained incomplete, and an expenditure of ₹5,039 crore was incurred as of March 2022 on these delayed projects. In addition to this, as per Appendix IX of the Finance Accounts, the Government has a pending liability of ₹3,841 crore in respect of 194 other ongoing projects / works³⁹.

Inordinate delays in the completion of these projects / works not only keep the financial burden of the Government increasing year after year, but also depriving the public of the intended benefits.

³⁹ (i) 159 Road works with pending payment of ₹59 crore (ii) 22 Bridge works with pending payment of ₹0.32 crore; and (iii) 13 irrigation projects with pending payment of ₹3,782 crore.

2.5.3.5 Implementation of Ujwal DISCOM Assurance Yojana – delay in discharge of commitments under the scheme

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 UDAY scheme Guidelines.

In terms of the scheme, the Government of Telangana signed a tripartite Memorandum of Understanding (January 2017) with the GoI and DISCOMs. As per the Memorandum of Understanding, the State Government had to take over 75 per cent (₹8,923 crore) of outstanding debt (₹11,897 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 released only ₹7,723 crore⁴⁰ to DISCOMs leaving a commitment of ₹1,200 crore⁴¹ undischarged. The Energy Department also issued orders for takeover of further losses as shown in **Table 2.28**:

Table 2.28: Orders issued for discharge of commitment of Ujwal DISCOM Assurance Yojana

(₹ in crore)			
Sl. No.	Description	Order dated	Amount of loss to be taken over
1	05 per cent of the losses of 2016-17	November 2017	310
2	10 per cent of the losses of 2017-18	August and December 2018	549
3	25 per cent of the losses of 2018-19	August 2019 and January 2020	2,005
4	50 per cent of the losses of 2019-20	November 2020	3,028
Total			5,892

Source: Government Orders concerned

However, as per the Accounts of the State Government, no amounts were released during the years 2018-19 to 2021-22. Thus, the accumulated commitment of ₹7,092 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 2022.

The Government informed (November 2022) that an amount of ₹6,646 crore was released to DISCOMs in June 2022 and orders were issued (June 2022) to deposit another ₹2,279 crore into DISCOMS from Pool Account and the entire liability on UDAY has been discharged.

⁴⁰ 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

⁴¹ Calculation: ₹8,923 crore (-) ₹7,723 crore

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. Expenditure priorities of Telangana in comparison to General States⁴² is given below:

Table 2.29: Expenditure priority of the State regarding Health, Education and Capital Expenditure

(in per cent)

	TE/ GSDP	SSE / TE	ESE / TE	DE / TE	CE / TE	Education/ TE	Health/ TE
Average of General States (2017-18)	16.13	36.65	31.17	67.82	15.56	15.17	5.09
Telangana (2017-18)	15.42	39.36	33.20	72.56	26.03	10.54	4.59
Average of General States (2021-22)	15.84	38.31	28.44	66.74	14.41	14.66	6.20
Telangana (2021-22)	15.17	36.80	37.11	73.91	21.44	8.14	4.19

Source: Finance Accounts of the States concerned

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

TE: Total Expenditure, GSDP: Gross State Domestic Product, SSE: Social Sector Expenditure, ESE: Economic Sector Expenditure, DE: Development Expenditure i.e., Expenditure on Social and Economic sectors, CE: Capital Expenditure

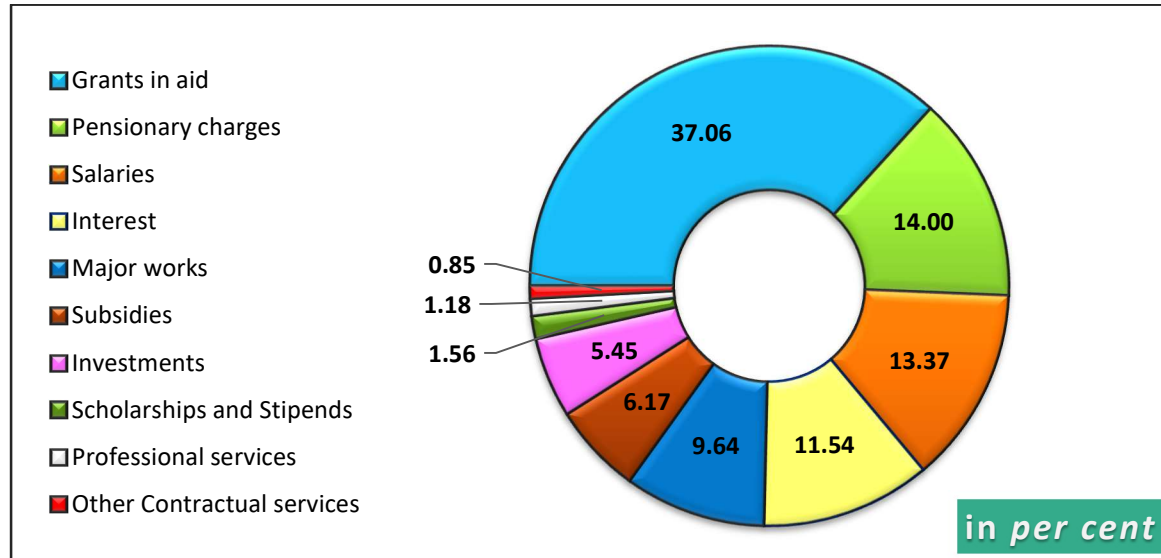
- The Total Expenditure of Telangana as a percentage of Gross State Domestic Product was marginally lower.
- The proportion of expenditure on Development (i.e., expenditure on Economic and Social Sectors) to Total expenditure has been higher than the average of other General States. This shows that the State gave high priority to Development Expenditure.
- Capital Expenditure, as a percentage of Total Expenditure decreased from 26 per cent in 2017-18 to 21 per cent in 2021-22. However, it is still higher (by almost 7 per cent) than the average of General States (14 per cent).
- The State has, been persistently trailing in respect of expenditure on Education (by 6 per cent) and Health (by 2 per cent) during 2021-22 when compared to the other General States.

⁴² Andhra Pradesh, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh and West Bengal

2.5.5 Object-wise expenditure

The following chart on object-wise expenditure gives the purpose or object of expenditure as a share of Total Expenditure.

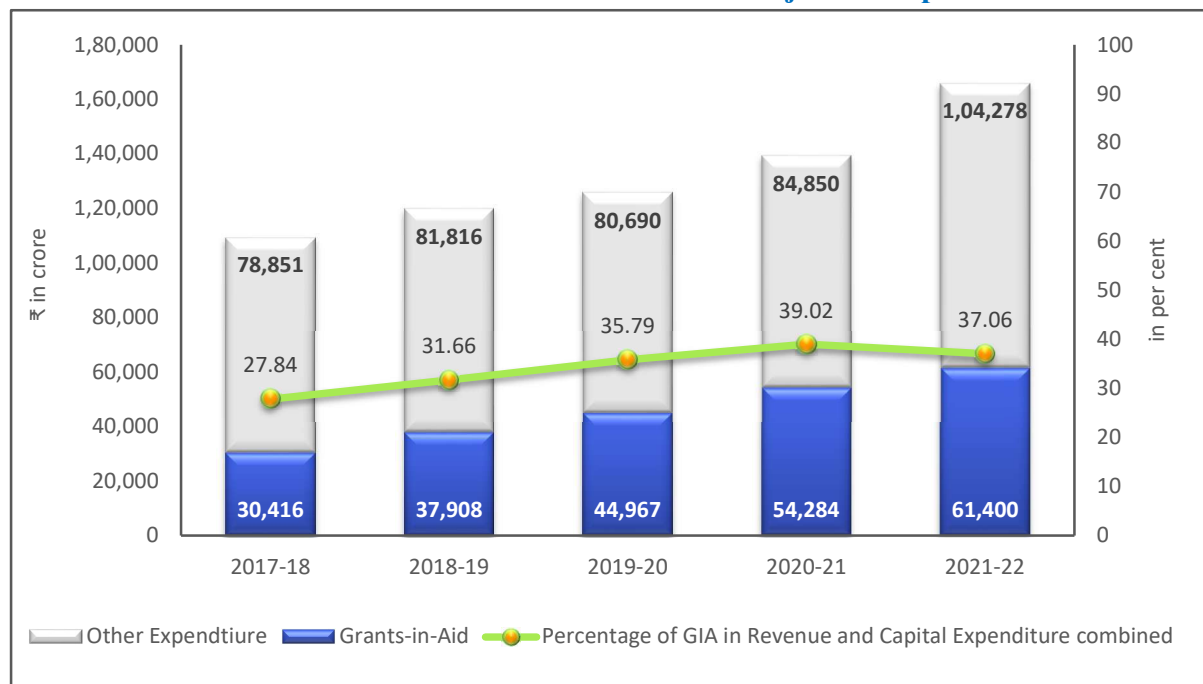
Chart 2.16: Object-wise expenditure



Source: Finance Accounts

Most of the expenditure was in the form of Grants-in-Aid followed by expenditure on Pensions, Salaries, and Interest. The share of Grants-in-Aid in the revenue expenditure is increasing year after year as mentioned in **Table 2.19**. It's share also increased from 28 per cent in 2017-18 to 37 per cent in 2021-22 as shown in **Chart 2.17** below on account of increasing expenditure on schemes like Rythu Bandhu, Dalit Bandhu, etc.

Chart 2.17: Share of Grants-in-Aid and other objects of expenditure



Source: Finance Accounts of the years concerned

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 to the Government for use for various purposes.

2.6.1 Net Public Account Balances

Component-wise net balances (increase / decrease) in Public Account as of 31 March of the year during the five-year period 2017-18 to 2021-22 are given in **Table 2.30**.

Table 2.30: Component-wise net balances (increase (+) / decrease (-)) in Public Account (as of 31 March of the year)

(₹ in crore)

Sector and Sub-Sector	2017-18	2018-19	2019-20	2020-21	2021-22
Small Savings, Provident Funds, etc.	976	845	783	945	1,067
Reserve Funds					
a) Reserve Funds bearing interest	(-41)	288	3,226	226	(-1,634)
b) Reserve Funds not bearing interest	319	1,242	1,127	548	580
Deposits					
a) Deposits bearing interest	216	121	140	180	72
b) Deposits not bearing interest	5,645	2,976	1,266	4,901	1,151
c) Advances	(-1)	3	0.01	0	0.01
Suspense and Miscellaneous					
a) Suspense	(-39)	113	292	(-229)	755
b) Other Accounts	(-534)	(-773)	5	(-3)	(-3)
c) Accounts with Governments of Foreign Countries	(-0.02)	(-0.03)	(-0.02)	(-0.02)	(-0.02)
d) Miscellaneous	--	--	--	--	--
Remittances					
a) Money Orders and other Remittances	(-116)	126	34	(-5)	583
b) Inter-Governmental adjustment account	1,422	(-11)	(-27)	(-27)	34
Total	7,847	4,930	6,846	6,536	2,605

Source: Finance Accounts of the years concerned

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

The huge decrease in Reserve Funds bearing interest in 2021-22 was due to higher outgo under State Disaster Risk Management Fund.

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 ₹11,761 crore lying in these Funds as on 31 March 2022, an amount of ₹7,975 crore was invested in Government of India Securities, leaving a net accumulated balance of ₹3,786 crore⁴³. The transactions during the year 2021-22 under major reserve funds are detailed below.

⁴³ Reserve Funds bearing Interest: ₹2,196.09 crore and Reserve Funds not bearing Interest: ₹1,590.20 crore

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 guidelines⁴⁴, the State Government may contribute annually to the Consolidated Sinking Fund at 0.50 *per cent* of the outstanding liabilities at the end of the previous financial year. Accordingly, ₹1,378 crore was to be contributed in 2021-22 on the outstanding liabilities of ₹2,75,638 crore as at the end of 2020-21. However, the State Government did not make any contribution in 2021-22. An interest of ₹472 crore was earned through the amounts invested from Consolidated Sinking Fund. As of 31 March 2022, the balance in Sinking Fund was ₹6,581 crore, of which ₹6,541 crore was invested.

The State Government has not been contributing to the CSF on a regular basis as shown below:

Table 2.31: Contributions required to be made to Consolidated Sinking Fund (CSF) and made during the past five years

(₹ in crore)

	2017-18	2018-19	2019-20	2020-21	2021-22
Outstanding liabilities at the end of previous year	1,34,738	1,65,849	1,96,963	2,32,181	2,75,638*
Contribution to be made	674	829	985	1,161	1,378
Contribution made by the State Government	Nil	500	300	Nil	Nil
Interest accrued on investments made from out of CSF	322	352	450	468	472

Source: Finance Accounts of the years concerned

* This excludes back-to-back loan of ₹2,380 crore received in lieu of GST compensation shortfall.

As against ₹5,027 crore required to be contributed to the CSF during the past five years, the Government contributed only ₹800 crore in two years viz., 2018-19 and 2019-20, leaving an aggregate shortfall of ₹4,227 crore. The fund is to be used for amortization of market borrowings, loans and debt obligations. Persistent non-contribution / short contribution to the CSF defeats the very purpose of fund.

2.6.2.2 State Disaster Risk Management Fund

The Fifteenth Finance Commission (XV FC) has recommended that the total States allocation for State Disaster Risk Management Fund (SDRMF) should be sub-divided into funding windows that encompasses the full disaster management cycle, i.e., (i) 80 *per cent* of the total allocation towards State Disaster Response Fund (SDRF) and (ii) 20 *per cent* towards State Disaster Mitigation Fund (SDMF), creation of which was advocated by National Disaster Management authority. SDMF is a part of SDRMF.

The XV FC recommended a grant of ₹449 crore from GoI to SDRMF and ₹150 crore from State Government in 75:25 *per cent* ratio. Since, GoI released only ₹359 crore, the State Government also released only ₹120 crore as its share. As a result of this, SDRMF is underfunded to an extent of ₹120 crore in the year 2021-22.

⁴⁴ G.O.Ms.No.3, Finance (DCM), dated 11 June 2014 on Revised Scheme of Consolidated Sinking Fund

(i) State Disaster Response Fund:

GoI replaced the erstwhile Calamity Relief Fund with the SDRF with effect from 1 April 2010. As per the guidelines of the Fund, Government of India 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 under Major Head of Account – 8121. Expenditure during the year is incurred by initially operating Major Head – 2245-Relief on account of Natural Calamities and later adjusted to Public Account. The SDRF is 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 SDRF had a balance of ₹1,555 crore on 1 April 2021. During 2021-22, GoI contributed ₹359 crore and State Government contributed its share of ₹120 crore to the fund. Out of this receipt of ₹479 crore, an amount of ₹120 crore (Central share ₹90 crore and State Share ₹30 crore) was accounted towards SDMF, as discussed in the *sub-paragraph (ii)* below. Out of ₹1,914 crore available in SDRF, an amount of ₹1,306 crore was utilised, leaving a balance of ₹608 crore in the Fund.

(ii) State Disaster Mitigation Fund (SDMF):

The SDMF fund is exclusively meant for mitigation projects in respect of disasters covered under SDRF / National Disaster Response Fund (NDRF). The Mitigation Fund shall be used for those local level and community-based interventions to reduce the risks and promote environment-friendly settlements and livelihood practices.

An amount of ₹120 crore was transferred from the receipts under SDRF to the Fund, being 20 *per cent* of the total receipt of ₹599 crore in previous year i.e., 2020-21. However, ₹96 crore (Central share ₹72 crore and State Share ₹24 crore) to be transferred from out of ₹479 crore receipts under SDRF during 2021-22 was not transferred to SDMF resulting in shortfall to that extent.

No expenditure was incurred from out of SDMF during the year.

2.6.2.3 Guarantee Redemption Fund

As per guidelines of Reserve Bank of India, Government of Telangana created⁴⁵ (June 2014) Guarantee Redemption Fund (GRF) to meet its obligations pertaining to the guarantees given by the Government on the borrowings taken by bodies such as Public Sector Undertakings, Special Purpose Vehicles, *etc.*, in case of default by the borrower.

- As per the guidelines (June 2014), the State Government may contribute 0.50 *per cent* on the guarantees outstanding as on 31 December every year, so that the minimum level of three *per cent* would be achieved during the subsequent five years. The Guarantee Redemption Fund is to be gradually increased to a desirable level of five *per cent*. Accordingly, ₹676.41 crore was to be contributed in 2021-22 on the outstanding value (₹1,35,283 crore) of Guarantees. State Government did not make any contribution in the year 2021-22.

⁴⁵ G.O.Ms. No. 4, Finance (DCM), dated 11 June 2014

The State Government has not been contributing to the GRF on a regular basis as shown below:

Table 2.32: Contributions required to be made to Guarantee Redemption Fund (GRF) and made during the past five years

(₹ in crore)

Sl. No.	Details	2017-18	2018-19	2019-20	2020-21	2021-22
1	Outstanding Guarantees	41,892	77,713	89,600	1,05,007	1,35,283
2	Contribution to be made	209	389	448	525	676
3	Contribution made	Nil	200	300	Nil	Nil
4	Minimum level at 3 per cent	1,257	2,331	2,688	3,150	4,058
5	Desired level at 5 per cent	2,095	3,886	4,480	5,250	6,764
6	Amount available in GRF*	587	838	1,225	1,325	1,431
7	Percentage of GRF to outstanding Guarantees	1.40	1.08	1.37	1.26	1.06
8	Shortfall to minimum level (Row 4 – Row 6)	670	1,493	1,463	1,825	2,627

Source: Finance Accounts of the years concerned

* includes interest earned through investments

There is a shortfall of ₹2,627 crore with reference to minimum level and a shortfall of ₹5,333 crore with reference to desired level of amount to be contributed to the fund.

- In addition to the income accrued to the fund, 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 ₹340 crore in 2018-19 and ₹6 crore in 2020-21 as Guarantee Commissions. These amounts were not transferred to GRF in the subsequent years as required.

Government informed (November 2022) that the contributions to GRF are being made after considering the Ways and Means position. Efforts were on to make good the short contribution and to reach the desirable level as per the fund guidelines.

2.6.2.4 State Compensatory Afforestation Fund

Government of Telangana established (February 2019) “State Compensatory Afforestation Fund” in accordance with ‘Compensatory Afforestation Fund Act, 2016 and Compensatory Afforestation Fund Rules, 2018.

There was an opening balance of ₹2,257 crore at the beginning of the year 2021-22. During the year, no amount was credited into the State Compensatory Afforestation Fund. An amount of ₹807 crore was disbursed out of the fund, leaving a balance of ₹1,450 crore at the end of the year. Further details are given in *Paragraph 4.2*.

2.7 Debt Management

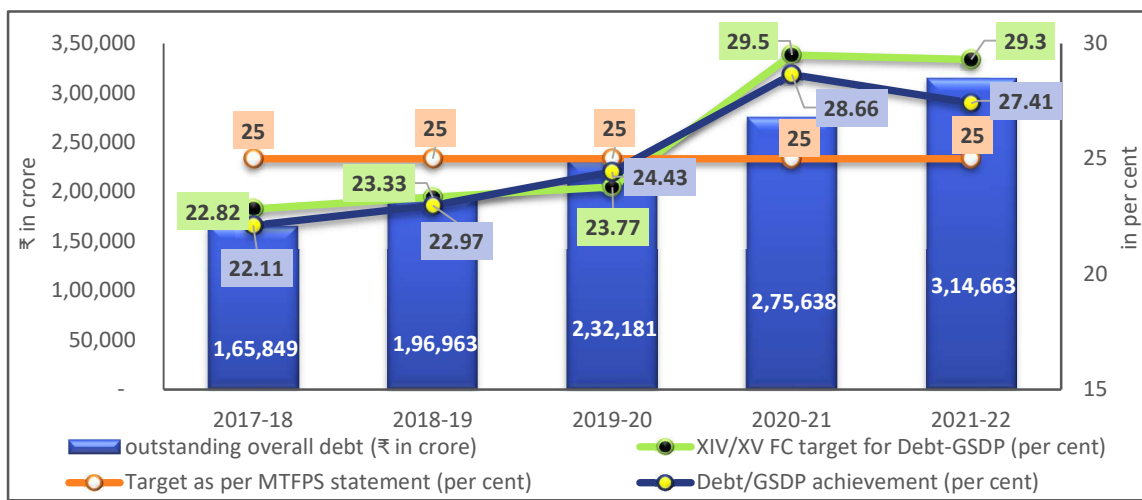
Debt management is the process of establishing and executing a strategy for managing the Government debt in order to raise the required amount of funding, mitigate risk and achieve cost objectives. It also aims to achieve sovereign debt management goals that the Government has set through Acts or Annual 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 Reserve Bank of India, 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.

The total outstanding debt of the State Government at the end of March 2022 was ₹3,21,612 crore⁴⁶. The trend of outstanding debt and ratio of debt to Gross State Domestic Product during the period 2017-22 is given in **Chart 2.18**.

Chart 2.18: Trend of total outstanding debt



Source: Finance Accounts

Note : The figures of ₹2,75,638 crore in 2020-21, and ₹3,14,663 crore 2021-22 excludes ₹2,380 crore and ₹6,949 crore of back-to-back loans received from GoI in lieu of GST compensation shortfall and has not been taken for calculation of debt ratio.

- The outstanding liabilities⁴⁷ grew by 14 per cent over the previous year and it nearly doubled within last five years.
- To foster transparency and to avoid non-transparent off-budget liabilities, the XV Finance Commission has recommended for higher borrowing limits to the State Governments. While the XIV FC recommended a limit around 23 per cent for Telangana, the XV FC increased the limit to 29 per cent. As per the Accounts, the State Government has achieved the target as prescribed by XV FC restricting the Debt – Gross State Domestic Product Ratio to 27 per cent. However, the State exceeded the limit of 25 per cent as targeted in Medium Term Fiscal Policy Statement presented to the State Legislature along with budget documents every year.
- This ratio, however, must be read in conjunction with the **paragraph 2.7.2** on Off-Budget Borrowings (OBB) and its impact on total liabilities.

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 Gross State

⁴⁶ This includes ₹6,949 crore of back-to-back loans from GoI in lieu of GST compensation shortfall

⁴⁷ excluding back-to-back loans in lieu of GST compensation shortfall

Domestic Product and the actual quantum of debt available to the State during 2017-22 are shown in **Table 2.33**.

Table 2.33: Component-wise Debt trends

(₹ in crore)

	2017-18	2018-19	2019-20	2020-21	2021-22	
Outstanding overall Debt	1,65,849	1,96,963	2,32,181	2,78,018*	3,21,612*	
Public Debt	Internal Debt	1,34,287	1,56,933	1,86,959	2,24,379	2,63,041
	Loans from Government of India	8,631	8,231	7,999	10,174*	14,448*
Off-Budget Borrowings	NA	3,160	70,688	95,182	1,18,955	
Public Account Liabilities	22,931	31,799	37,223	43,465	44,123	
Rate of growth of outstanding debt over previous year (percentage)	23.09	18.76	17.88	19.74	15.68	
Gross State Domestic Product (GSDP)	7,50,050	8,57,427	9,50,287	9,61,800	11,48,115	
Total Outstanding Debt/GSDP (per cent)	22.11	22.97	24.43	28.91	28.01	
Total Debt Receipts	1,06,641	1,17,715	1,43,870	1,87,503*	1,96,373*	
Total Debt Repayments	78,203	91,080	1,08,652	1,41,666	1,52,779	
Total Debt available	28,438	26,635	35,218	45,837	43,594	
Debt Repayments/Debt Receipts (percentage)#	73.33	77.37	75.52	75.55	77.80	

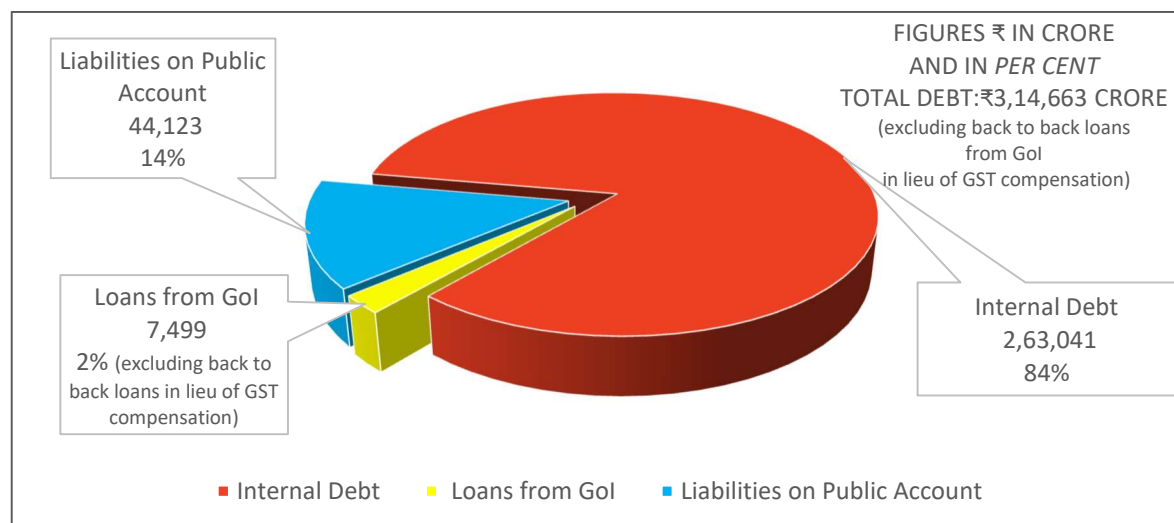
Source: Finance Accounts; NA: Not Available

* This includes back-to-back loans ₹2,380 crore in respect of 2020-21 and ₹6,949 crore in respect of 2021-22 received in lieu of GST compensation shortfall.

excluding Ways and Means Advances of ₹22,922 crore in 2017-18, ₹21,823 crore in 2018-19, ₹37,248 crore in 2019-20, ₹69,454 crore in 2020-21 and ₹67,274 crore in 2021-22 respectively, the percentages would be 66.03, 72.22, 66.96, 61.17 and 66.23 per cent respectively

The ratio of outstanding Debt/GSDP has decreased by almost one *per cent* when compared to previous year. Excluding the back-to-back loans, the Debt/GSDP ratio would be 27 *per cent*. The breakup of outstanding overall Debt at the end of March 2022 is shown in **Chart 2.19**.

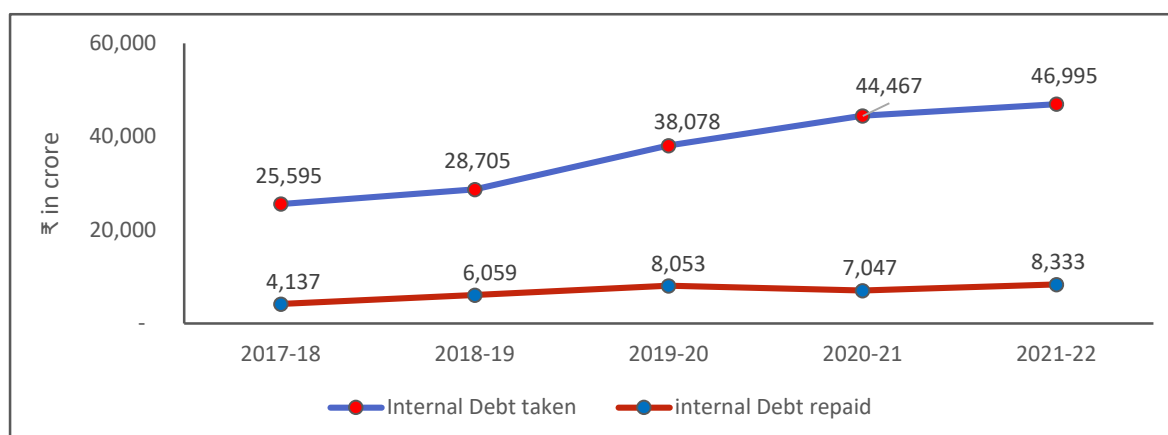
Chart 2.19: Break up of outstanding overall Debt at the end of March 2022



Source: Finance Accounts

The comparative trend of internal debt received and repaid are shown in **Chart 2.20**.

Chart 2.20: Comparative trend of internal debt taken and repaid



Source: Finance Accounts

Note: excluding Ways and Means Advances

2.7.1.1 Components of Fiscal Deficit and its financing pattern

Fiscal Deficit represents the total financing that the State requires 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 2.34**.

Table 2.34: Components of Fiscal Deficit and its financing pattern

(₹ in crore)

S.No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
Composition of Fiscal Deficit						
1	Revenue Surplus (+) / Deficit (-)	3,459	4,337	(-)6,254	(-)22,298	(-)9,335
2	Net Capital Expenditure	(-)23,902	(-)22,641	(-)16,859	(-)15,922	(-)28,874
3	Net Loans and Advances	(-)6,071	(-)8,640	(-)8,638	(-)10,810	(-)8,421
4	Net Interstate Settlement	(-)186	(-)5	(-)8	(-)8	(-)8
Gross Fiscal Deficit		(-) 26,700	(-)26,949	(-)31,759	(-)49,038	(-)46,638
Financing Pattern of Fiscal Deficit						
1	Market Borrowings	21,828	22,184	30,697	38,782	39,256
2	Special Securities issued to National Small Savings Fund	(-)799	(-)814	(-)827	(-)827	(-)827
3	Loans from Financial Institutions and other loans	429	1,276	155	(-)535	233
4	Loans from Government of India	224	(-)400	(-)232	2,175 ^s	4,273 ^s
5	Small Savings, PF, etc.	976	845	783	945	1,067
6	Deposits and Advances	5,860	3,100	1,406	5,081	1,223
7	Suspense and Miscellaneous	(-)573	(-)660	297	(-)232	752
8	Remittances	1,306	115	7	(-)32	617
9	Reserve Fund	278	1,530	4,353	774	(-)1,054
10	Net Contingency Fund	0	(-)2.01	(-)2.11	4.21	(-)0.05
11	Total	29,529	27,174	36,637	46,135	45,540
12	Increase (-) /Decrease (+) in Cash Balance	(-)2,829	(-)225	(-)4,878	2,903	1,098
Gross Fiscal Deficit financed (11+12)		26,700	26,949	31,759	49,038	46,638

Source: Finance Accounts

^s This is the net figure of Receipts of ₹2,665 crore in 2020-21 and ₹4,783 crore in 2021-22 repayable by State Government.

Receipts and Disbursements under components financing the Fiscal Deficit for the year 2021-22 are detailed in **Table 2.35**.

Table 2.35: Receipts and Disbursements under individual components financing the Fiscal Deficit

(₹ in crore)

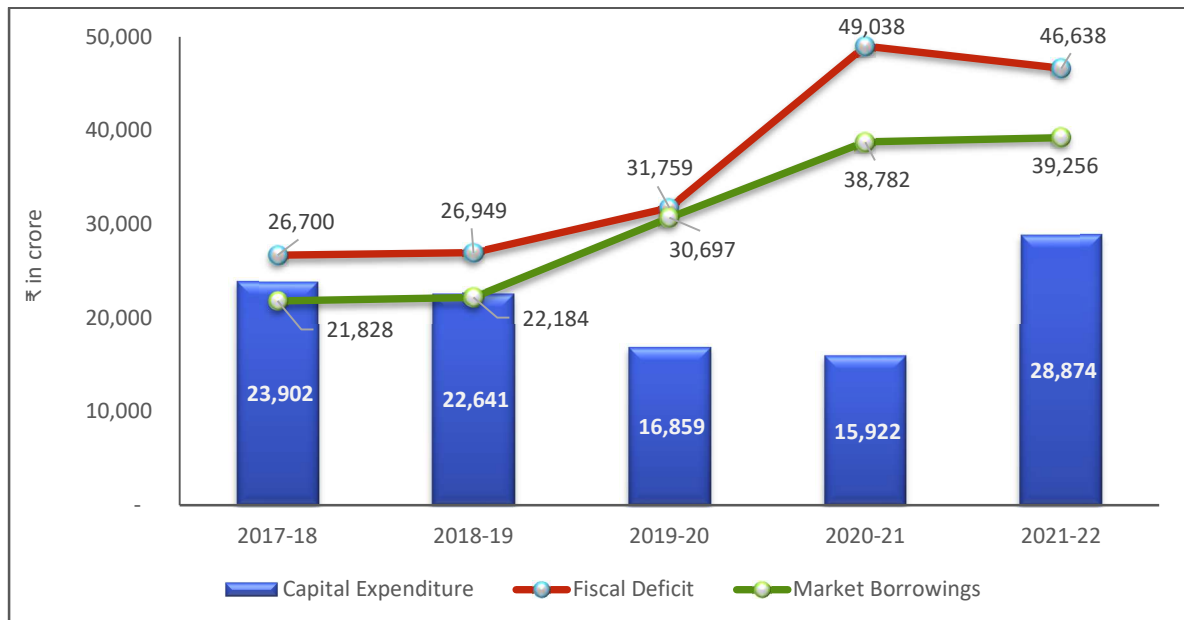
S.No.	Particulars	Receipts	Disbursements	Net
1	Market Borrowings	45,716	6,460	39,256
2	Special Securities issued to National Small Savings Fund	0	827	(-)827
3	Loans from Financial Institutions	1,278	1,045	233
4	Loans from Government of India	4,783 ^s	510	4,273
5	Small Savings, PF, etc.	2,659	1,592	1,067
6	Deposits and Advances	73,309	72,086	1,223
7	Suspense and Miscellaneous	2,567	1,815	752
8	Remittances	1,130	513	617
9	Reserve Funds	1,096	2,150	(-)1,054
10	Net Contingency Fund	0	0.05	0
11	Overall Deficit	1,32,538	86,998	45,540
12	Increase (-) / Decrease (+) in Cash Balance	1,098
13	Gross Fiscal Deficit	46,638

Source: Finance Accounts

^s This figure includes ₹4,569 crore back-to-back loans in lieu of GST compensation shortfall, which need not be repaid by the State Government

In 2021-22, Capital Expenditure accounted for only 74 per cent of Market Borrowings and 62 per cent of Fiscal Deficit (**Table 2.34**). Further, 79 per cent of the Fiscal Deficit was financed through Market Borrowings.

Chart 2.21: Comparative trend of Capital Expenditure, Fiscal Deficit and Market Borrowings



Source: Finance Accounts

Ideally, market borrowing should be utilised for creation of capital assets as Capital Expenditure. Upto 2018-19, the market borrowings were lesser than Capital expenditure.

indicating that market borrowings could have been fully utilised for creation of Capital, Assets. However, during the past three years, we noticed that Market borrowings were much higher than the Capital expenditure indicating that they were utilised for financing Fiscal Deficit.

2.7.2 Off-Budget Borrowings

Fiscal Responsibility and Budget Management (FRBM) Act and the Rules made thereunder prescribe the State Governments to pronounce rolling targets in respect of (i) Revenue Deficit as a *percentage* of Total Revenue Receipts, (ii) Fiscal Deficit as a *percentage* of GSDP and (iii) Outstanding total liabilities as a *percentage* of GSDP. These targets impose restrictions on the Government's revenue spending as well as borrowings during the year as well as outstanding total liabilities at the end of a financial year.

Off-Budget Borrowings (OBB) or Extra-Budgetary Resources (EBR) refers to financial resources that are raised to meet expenditure requirements of the Government but are not reflected in Government accounts. OBB are generally mobilised through Government owned or controlled Public Sector Undertakings (PSUs), Special Purpose Vehicles (SPVs), Autonomous Bodies (ABs), or Departmental Commercial Undertakings (DCUs). These institutions mobilise resources by borrowing from the market on behalf of the Government. The Government would generally repay debt and/or service debt from its budget. Therefore, off-budget borrowings/financing involves (a) payment of interest on recurrent basis and (b) repayment of the borrowings from budget as and when it is due. Further, Government extends Guarantees to such borrowings.

As per the State FRBM Act, the term 'total liabilities' also includes the borrowings by 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 State Budgets.

The Fifteenth Finance Commission (XV FC) in its report (November 2019) for the year 2020-21, recommended that in the interest of transparency, both the Union and the States need to make full disclosure of extra-budgetary borrowings; clearly identify outstanding extra-budgetary borrowings and eliminate them in a time-bound manner with transparent reporting of deficit and debt. The XV FC in its main report (October 2020) recommended that Governments may observe strict discipline by resisting further additions to the stock of Off-budget transactions and contingent liabilities which is against the norms of fiscal transparency and detrimental to fiscal stability. In view of this, XV FC has also allowed higher borrowing limits to foster transparency and to avoid non-transparent liabilities.

The Government of Telangana had total OBB of ₹1,18,955 crore at the end of March 2022 in respect of 12 PSUs and 4ABs. However, the Telangana Government did not specifically disclose the OBB in its budget documents for 2021-22.

Audit collected details of OBB from State Public Sector Undertakings (PSUs) and Autonomous Bodies (ABs) and the same are given below in **Table 2.36**:

Table 2.36: Details of OBB to the end of March 2022

(₹ in crore)

Sl. No.	Particulars	During the year 2021-22	Cumulative Borrowings at the end of March 2022	Value of Guarantees provided by the Government	Audit adopted the least amount as OBB	Remarks
1	OBB in respect of eight PSUs and two ABs on behalf of the Government at the end of March 2022	20,858	95,410	87,412	86,804	Appendix 2.2
2	Four PSUs and two ABs had informed OBB on behalf of State Government in previous years, but informed 'nil' borrowings, at the end of 31 March 2022.	Nil	Nil	35,667	32,151 ⁴⁸	Appendix 2.3
	Total				1,18,955	

Source: Information furnished by the Entities and Finance Accounts

As mentioned in earlier *paragraph 2.5.2.2*, the Government has also facilitated interest payment of ₹6,490 crore in respect of eleven entities, in the form of further loans in seven entities and as investment in four entities, as these entities could not service the borrowings on their own.

Box 2.3 Kaleshwaram Irrigation project

Among the borrowing PSUs/ABs, Kaleshwaram Irrigation Project Corporation Limited (KIPCL) is the major borrower, having borrowed from various sources to finance the Kaleshwaram Lift Irrigation Project. The details are as under:

As per the information furnished by the Irrigation and Command Area Development Department, a total expenditure of ₹86,788 crore was incurred on Kaleshwaram Project as of March 2022. The KIPCL has so far drawn loans amounting to ₹55,808 crore⁴⁹ towards Kaleshwaram project, which is 64 *per cent* of the total expenditure on the Project.

As informed by KIPCL, amount borrowed by it on behalf of the State Government during the year was ₹17,474 crore and to the end of March 2022 was ₹72,067 crore⁵⁰. The value of Guarantees given by State Government to the KIPCL as presented to the Legislature in March 2022 (as of January 2022) was ₹66,854 crore⁵¹.

Audit further noted that as per Detailed Project Report (DPR) of Kaleshwaram Project the project would hardly generate any revenues.

⁴⁸ ₹32,151 crore is in respect of three PSUs

⁴⁹ Excludes interest during construction of ₹8,475 crore

⁵⁰ Includes borrowings taken for Kaleshwaram project and partly Palamuru Ranga Reddy Lift Irrigation Scheme

⁵¹ As per the Details and copies of the Guarantees furnished by KIPCL, the value of Guarantees given by the State Government to KIPCL was ₹96,064 crore as of March 2022

Moreover, no analysis of the revenues was made in the DPR since there were no proposals for imposing water charges. Since, as of now, there are no provisions for obtaining revenues for water provided either for irrigation or drinking water, as such the servicing of this entire debt will be responsibility of the State exchequer.

In fact, during the year 2021-22, in the absence of revenue sources to KIPCL for repayment of borrowings and interest payment there on, the burden was borne by the State Government itself. The State Government provided during the year a loan of ₹1,442 crore to KIPCL for payment of interest during construction (₹1,420 crore), for principal repayment (₹22 crore) and as investments (₹3,072 crore). From the above and in view of the confirmation by KIPCL that it had borrowed on behalf of the State Government, the liability to repay the principal amount borrowed by KIPCL and pay interest thereon vests with the State Government itself.

Future Liability on KIPCL towards Debt Servicing, Power charges and others

Assuming that the KIPCL would draw the entire sanctioned loan amount of ₹87,449.15 crore and would start repayment of loans without any further extensions, the KIPCL/Government requires to pay a total amount of ₹1,41,544.59 crore in the next 14 years⁵² for debt servicing, as shown in **Table 2.37** below:

Table 2.37: Future financial commitment of account of debt servicing

(₹ in crore)

Year	Principal amount	Interest amount [@]	Total commitment
2022-23	2,765.39	4,145.34	6,910.73
2023-24	6,108.83	7,297.75	13,406.58
2024-25	6,950.64	7,511.51	14,462.15
2025-26	7,221.59	6,803.10	14,024.69
2026-27	7,221.59	6,080.91	13,302.50
2027-28	7,221.59	5,371.92	12,593.51
2028-29	7,221.59	4,637.60	11,859.19
2029-30	7,221.59	3,914.34	11,135.93
2030-31	7,640.55	3,177.31	10,817.86
2031-32	7,640.55	2,419.29	10,059.84
2032-33	7,640.55	1,654.11	9,294.66
2033-34	7,784.36	887.02	8,671.38
2034-35	4,037.23	255.90	4,293.13
2035-36	693.84	18.60	712.44
Total	87,369.89	54,174.70	1,41,544.59

Source: Projections based on the data made available by Irrigation and Command Area Development Department and KIPCL

[@] As per the loan agreements, the rate of interest was variable and would depend on the lending rates fixed by the respective banks/lending agencies from time to time. For calculation of the future interest commitment, Audit has taken the initial rates of interest mentioned in the respective loan agreements

⁵² The maximum repayment spread period of OBBs from 2022-23 is 14 years

Further, assuming that the project would become fully operational from the year 2024-25 and that lifting of water takes place as per plan, Kaleshwaram project would require an annual amount of ₹10,375 crore towards energy consumption charges (including fixed charges), which translates into ₹1,24,495 crore in the subsequent 12 years⁵³. In addition to the electricity cost, annual operation and maintenance (O&M) cost works out to ₹273 crore per annum, and depreciation of around ₹2,761 crore per annum. Taking repayment of loans, interests, operational & maintenance costs, and depreciation costs together will constitute huge burden on the State finances constraining State finances severely and capacity of the State to have any developmental plans in near future.

Considering such OBB of ₹1,18,955 crore at the end of March 2022 and total State's outstanding debt of ₹3,14,663 crore, the Debt to GSDP ratio would be 37.77 per cent⁵⁴ (₹4,33,618 crore on GSDP of ₹11,48,115 crore). This is far above the target fixed by XV FC (29.3 per cent) as well as by the State Government in its Medium-Term Fiscal Policy Statement (25 per cent).

Similarly, a case study explaining the details of OBB by Telangana State Police Housing Corporation is also detailed below:

Box 2.4: Case study

Purchase of vehicles through Telangana State Police Housing Corporation

To procure vehicles for the Police department, the Director General of Police, Telangana State (DGP) was permitted by the Government (January 2018) to borrow ₹500 crore through Telangana State Police Housing Corporation Limited (TSPHCL) from M/s Vijaya Bank (now M/s Bank of Baroda (Bank)) at an interest rate of 9 per cent. A tripartite agreement was concluded (May 2018) between the DGP, the TSPHCL and the Bank. The State also backed the loan with Government Guarantee in favour of TSPHCL. The borrowing of TSPHCL was repayable in 26 quarterly instalments. As of March 2022, TSPHCL has paid an amount of ₹328 crore⁵⁵ to the Bank.

- TSPHCL informed the Bank that the Loan agreement cum Hypothecation Deed would be executed by both TSPHCL and the DGP as the vehicles would be in the name of DGP. Audit noted that the vehicles were registered in the name of DGP/Home Department. TSPHCL confirmed (November 2022) that the Corporation have borrowed on behalf of the Government.
- The Tripartite agreement stipulated that the loan shall be repaid only through revenue accruals of the project and that the loan repayment should not be out of Budgetary allocation. However, it was noticed that the entire amount of

⁵³ Calculated from 2024-25 (when the project likely becomes operational) to 2035-36, i.e., the maximum debt servicing period as can be seen in Table 2.37 above

⁵⁴ i.e., Outstanding total debt ₹3,14,663 crore as per accounts plus Off-Budget Borrowings of ₹1,18,955 crore estimated in Audit totalling to ₹4,33,618 crore in GSDP of ₹11,48,115 crore

⁵⁵ principal repayment: ₹185 crore and interest payment: ₹143 crore

₹328 crore⁵⁶ paid to the Bank as of March 2022 by TSPHCL was from the Budgetary resources of the Government.

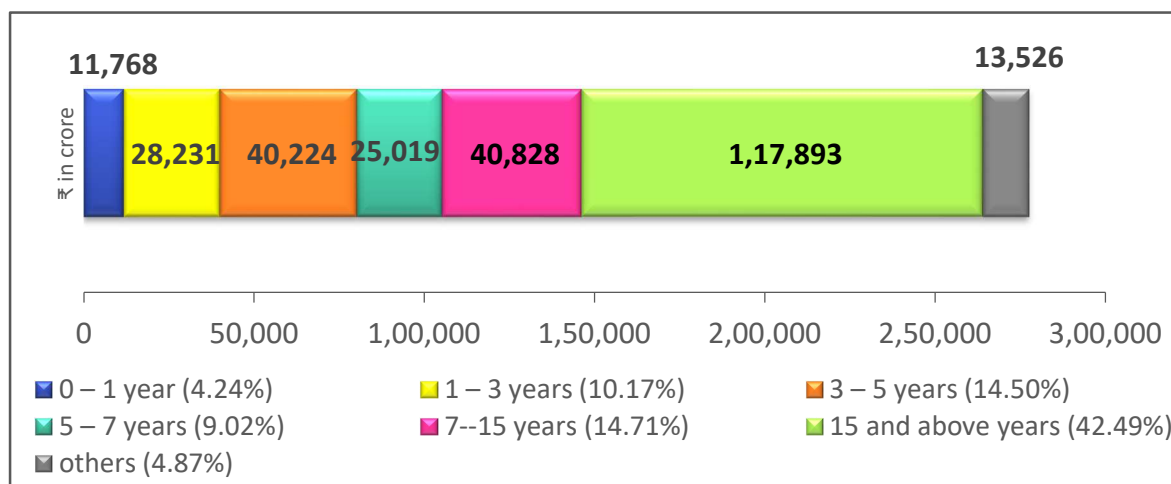
- The loan was availed at the interest rate of 9 *per cent* which was above the average borrowing rate (8.17 *per cent*) of State Government during 2018-19. This has resulted in an additional burden of interest on the State Government, to an extent of ₹13 crore⁵⁷ as of March 2022.

The above indicates that some of the major funding sources of Government's crucial socio-economic schemes/ projects are beyond the oversight and control of Legislature. Since the State Government did not disclose the sources, purpose and extent of these borrowings fully in budget documents and the information furnished to audit by the PSUs/ABs is incomplete, it is recommended that State Government may fully disclose all the Off-Budget Borrowings in the budget documents as recommended by the XV FC. It may also pronounce a specific reform path for removal of such indirect borrowings within a time frame, as recommended by XV FC.

2.7.3 Debt profile: Maturity and Repayment of Public Debt

Public 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 2.22*.

Chart 2.22: Maturity profile of State debt



Source: Finance Accounts

The maturity profile of outstanding stock of public debt as on 31 March 2022 showed that 46 *per cent* (₹1,05,242 crore) of the total outstanding public debt is to be repaid in next seven years.

Out of ₹45,716 crore market borrowings taken during 2021-22, repayment schedule of ₹29,716 crore will continue till 2032-2041. 65 *per cent* of loans taken during the year have

⁵⁶ Loans for Miscellaneous General Services (Major Head 6075, Minor Head 800, and Sub-Head 07): ₹226 crore up to March 2021 and Loans for Housing (Major Head 6216, Minor Head 800, Sub-Head 07): ₹102 crore

⁵⁷ Calculated as (0.83 *per cent* * ₹143 crore)/9 *per cent*

short to medium range maturity periods. In contrast, 59 per cent of loans taken in the previous year had longer maturity periods. The interest on the borrowings during the year ranged from 6.89 per cent to 7.37 per cent. The interest rates are similar for both, shorter and longer maturity periods.

2.7.3.1 Repayment of Market Borrowings and Interest

The borrowings of the State Government are governed by Article 293 of the Constitution of India. The State Government borrows money from market for implementation of various State Plan programmes and fulfilment of fiscal liabilities.

Based on the outstanding market borrowings as of March 2022, the repayment obligation of principal and interest to be paid on market borrowings for next ten years from 2023-24 onwards are calculated and shown in the **Table 2.38**:

Table 2.38: Year-wise details of repayment of Market Loans and Interest in the next ten years

(₹ in crore)

Sl. No.	Year	Principal to be repaid	Interest to be paid	Total to be repaid
1	2023-24	9,341	17,715	29,245
2	2024-25	13,118	16,835	32,142
3	2025-26	15,850	15,744	33,783
4	2026-27	19,786	14,478	36,453
5	2027-28	17,050	12,992	32,231
6	2028-29	4,461	11,748	18,398
7	2029-30	1,949	11,431	15,569
8	2030-31	3,000	11,281	17,470
9	2031-32	5,161	11,072	19,348
10	2032-33	8,087	10,682	20,809
	Total	97,803	1,33,978	2,31,782

Source: Finance Accounts

As can be seen from the above table, the State Government will have to repay ₹2,31,782 crore as principal and interest on the Market borrowings by 2032-33. Apart from this, State Government will also have a liability to repay ₹20,266 crore as principal in the next ten years in respect of borrowings taken from the following financial institutions:

Table 2.39: Repayment of Principal and interest on loans from other financial institutions in the next ten years

(₹ in crore)

Sl. No.	Institution	Principal	Interest	Total
1	National Small Saving Fund	5,827	2,493	8,320
2	Life Insurance Corporation of India	42	9	52
3	General Insurance Corporation of India	9	4	13
4	UDAY Bonds	8,923	NA	8,923*
5	National Bank for Agricultural and Rural Development	5,398	NA	5,398*
6	National Co-operative Development Corporation	67	NA	67*
	Total	20,266	2,506	22,772

Source: Finance Accounts

NA : Information not available

* this amount does not include interest payable as details of interest rates are not available

This indicates that the State Government will have to mobilize substantial amount (₹2,52,048 crore) in the next ten years for servicing of internal debt and this would put significant pressure on the Government finances.

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 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 2.40** analyses the sustainability of debt of the State according to generally accepted indicators:

Table 2.40: Debt Sustainability - Indicators and trends

(₹ in crore)

Debt Sustainability Indicators	2017-18	2018-19	2019-20	2020-21	2021-22
Outstanding Public Debt*	1,42,918	1,65,164	1,94,958	2,32,173 [§]	2,70,540 [§]
Rate of Growth of Outstanding Public Debt	17.88	15.57	18.04	19.09	16.53
GSDP	7,50,050	8,57,427	9,50,287	9,61,800	11,48,115
Rate of Growth of GSDP	13.93	14.32	10.83	1.21	19.37
Public Debt/GSDP	19.05	19.26	20.52	24.14	23.56
Maturity profile of repayment of State Public Debt – including default history, if any for next seven years	65,740	76,262	89,228	1,06,468	1,05,242
Average interest Rate of Outstanding Public Debt (<i>per cent</i>)	8.20	8.17	7.99	7.89	7.62
Percentage of Interest payment to Revenue Receipt	12.20	12.41	14.03	16.69	15.03
Percentage of Public Debt Repayment to Public Debt Receipts	58.65	66.85	59.72	54.47	59.32
Net Public Debt available to the State [#]	10,846	9,660	15,407	20,374	19,205
Net Public Debt available as <i>percentage</i> to Public Debt Receipts	41.35	33.15	40.28	45.53	40.68
Debt Stabilisation (Quantum spread + Primary Deficit)	(-)8,146	(-)8,417	(-)13,649	(-)41,530	527

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

§ Outstanding Public Debt does not include ₹2,380 crore in 2020-21 and ₹6,949 crore as of 2021-22 which are back-to-back loans given by GoI in lieu of GST compensation shortfall and the repayment obligation need not be met from the State resources.

- The growth rate of outstanding Public Debt ranged between 16 *per cent* to 19 *per cent* over the past five years. This year, the growth rate decreased to 17 *per cent* when compared to the preceding year (19 *per cent*). The ratio of outstanding Public Debt to GSDP which was increasing year on year until 2020-21, has decreased by nearly one *per cent* during 2021-22.
- The average interest rate of outstanding public debt has decreased marginally during the past five years from 8.20 *per cent* in 2017-18 to 7.62 *per cent* in 2021-22. The decreasing trend of interest rate may be attributed to zero borrowings from the National

Small Savings Fund (NSSF) since 2016-17 which had a higher debt servicing cost (9 per cent to 9.99 per cent). However, the Government is consistently borrowing from the markets at interest rates ranging from 7 per cent to 9.99 per cent⁵⁸. Interest payments almost doubled from ₹10,836 crore in 2017-18 to ₹19,161 crore in 2021-22.

- After providing for Public Debt Repayments (₹76,117 crore⁵⁹) and interest payments (₹19,161 crore), the Net Public Debt available for use was ₹19,205 crore (17 per cent). The ratio of Revenue Receipts to total outstanding Public Debt decreased from 62 per cent in 2017-18 to 47 per cent in 2021-22.

The Net Public Debt of the State Government would further be adversely impacted by Government's commitment to service on huge Off-Budget Borrowings taken by the PSUs in the coming years. This would put significant pressure on the Government finances and also push the debt sustainability of the Government to an undesirable level.

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 2.41**.

Table 2.41: Utilisation of borrowed funds

(₹ in crore)

Sl. No.		2017-18	2018-19	2019-20	2020-21	2021-22
1	Total Borrowings	1,06,641	1,17,715	1,43,870	1,85,123 [#]	1,91,804 [#]
2	Repayment of borrowings (Principal) (percentage)	78,203 (73.33)	91,080 (77.37)	1,08,652 (75.52)	1,41,666 (76.53)	1,52,779 (79.65)
3	Net Capital Expenditure (percentage)	23,902 (22.41)	22,641 (19.23)	16,859 (11.72)	15,922 (8.60)	28,874 (15.05)
4	Net Loans and Advances (percentage)	6,071 (5.69)	8,640 (7.34)	8,638 (6.00)	10,810 (5.84)	8,421 (4.39)
5	Portion of Revenue Expenditure that was met out of balance borrowings* (=1-2-3-4) (percentage)	(-)1,535 (-1.44)	(-)4,646 (-3.95)	9,721 (6.76)	16,725 (9.03)	1,730 (0.90)

Source: Finance Accounts

[#] Outstanding Public Debt does not include back-to-back loans in lieu of GST compensation shortfall of ₹2,380 crore in 2020-21 and ₹4,569 crore in 2021-22, received from GoI and the repayment obligation need not be met from the resources of the State

* Negative figures indicate that there was Revenue Surplus in those years and hence, Revenue Expenditure need not be met from Net available borrowings

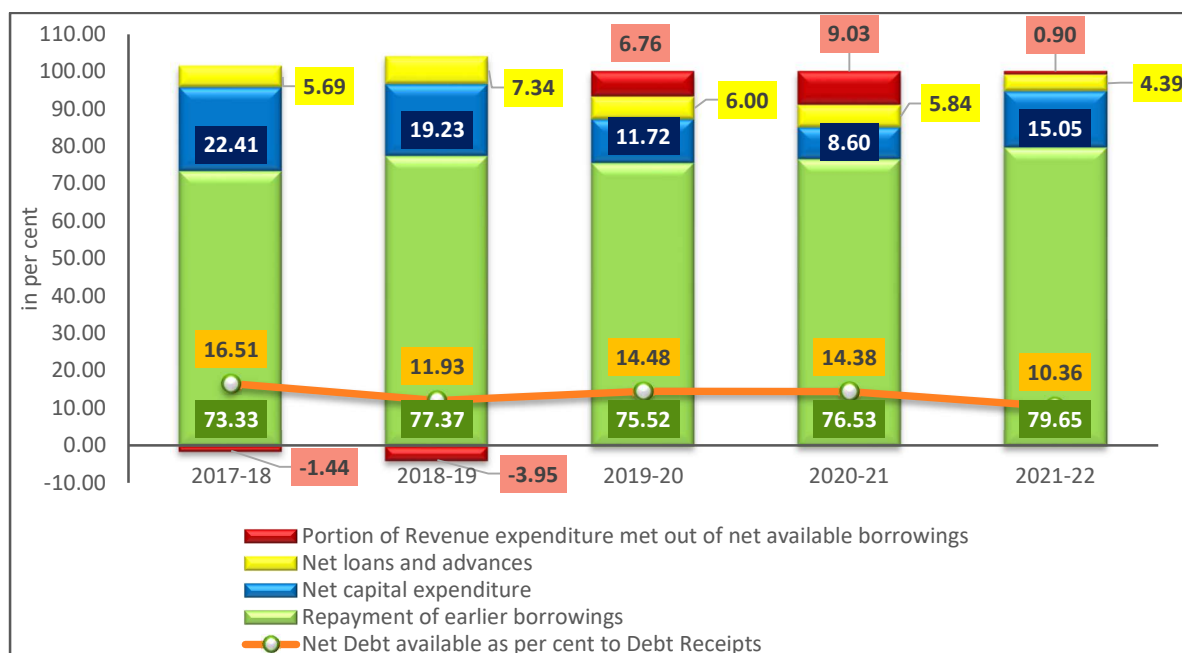
Interestingly, the portion of Revenue Expenditure met out of net available borrowed funds has decreased significantly from nine per cent in 2020-21 to one per cent in 2021-22. This can be attributed to decreased Revenue Deficit over previous year by ₹12,963 crore.

Trends of utilisation of borrowed funds are shown in **Chart 2.23**.

⁵⁸ an amount of ₹1,93,656 crore was borrowed in this range, which is 80 per cent of the total outstanding market borrowings of the Government

⁵⁹ including Ways and Means Advances repayment

Chart 2.23: Trend of utilisation of borrowed funds



Source: Finance Accounts

While utilisation of borrowings towards Capital Expenditure decreased from 2017-18 to 2020-21, and it increased by 6.45 per cent during 2021-22. However, this is still less by 7 per cent when compared to 2017-18.

2.7.4.2 Status of Guarantees – Contingent liabilities

Guarantees are contingent liabilities 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 2017-22 are shown in Table 2.42.

Table 2.42: Guarantees given by the State Government

(₹ in crore)

Sl. No.		2017-18	2018-19	2019-20	2020-21	2021-22
1	Revenue Receipts during the preceding year	82,818	88,824	1,01,420	1,02,544	1,00,914
2	Ceiling applicable to outstanding value of Guarantees including interest	74,536	79,942	2,02,840	2,05,088	2,01,828
3	Outstanding value of Guarantees including interest	41,892	77,713	89,601	1,05,007	1,35,283

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, was increased (September 2020) to 200 per cent through TSFRBM (Amendment) Act, 2020. Accordingly, the outstanding Guarantees (₹1,35,283 crore) at end of March 2022 stood at 134 per cent of total Revenue Receipts of the preceding year (i.e., ₹1,00,914 crore in 2020-21) and within the enhanced limit.

Out of the total guarantees, 77 per cent of the Guarantees pertained to only three entities viz., (i) Kaleshwaram Irrigation Project Corporation Limited mainly for implementation of Kaleshwaram Project (₹66,854 crore) and (ii) Telangana Drinking Water Supply Corporation Limited for implementation of Mission Bhagiratha (₹24,364 crore) and (iii) Telangana State Water Resources Infrastructure Development Corporation Limited (₹13,412 crore).

Out of the 19 guarantees worth ₹1,35,283 crore disclosed by State Government to the Legislature, 14 guarantees worth ₹1,23,708 crore (91 per cent) are related to Off-Budget Borrowings.

(i) Completeness of Guarantees Statement presented to Legislature by State Government:

The State Government has been presenting to the State Legislature, the list of Guarantees given by it in Volume V/2 – Statement of Guarantees and Debt Position. However, following guarantees given to the entities are not included in the Statement of Guarantees as required under ‘Indian Government Accounting Standards (IGAS) 1 – Guarantees given by the Government Disclosure requirements:

Table 2.43: Guarantees not included in the Statement placed before State Legislature along with Budget documents

Sl. No.	Institution	Amount (₹ in crore)
1	Telangana State Civil Supplies Corporation	61,600
2	Telangana State MARKFED	4,562
	Total	66,162

Source: Government Orders issued from time to time

Government (November 2022) stated that Guarantees given to Civil Supplies Corporation and MARKFED are purely temporary and that loans are repaid within three or four months as and when the cost is received from Food Corporation of India. There is no mention about tenure of the guarantees in J (i) under IGAS - 1. As these guarantees were for very short tenure, they were not included in the list of guarantees in Vol. V/2, Annexure to Budget Estimates.

The reply is not acceptable as (a) Indian Government Accounting Standards clearly stipulated that even the cash credit facility and financing seasonal agricultural operations shall fall within the ambit of class (i) of the Guarantees and hence are to be disclosed and (b) the Government has been extending such guarantees to these cash credit facilities for the past few years and they are in the nature of permanent roll-overs.

- Though Telangana State Seeds Development Corporation Limited stated that it had borrowed ₹398 crore to the end of March 2022 on behalf of the Government, there was no mention of this in the list of entities in Statement of Guarantees presented by the Government to the Legislature. In fact, this entity remitted a Guarantee Commission of ₹6 crore in December 2020 to Government Account.
- The value of Guarantees mentioned by the State Government to the Legislature (Volume V/2) was less in respect of the following:

Table 2.44: Value of Guarantees included in Budget documents and as intimated by the institutions to audit

(₹ in crore)

Sl. No.	Institution	As informed by institution to Audit	As per Budget documents
1	Southern Power Distribution Corporation of Telangana Limited	8,994	6,300
2	Northern Power Distribution Corporation of Telangana Limited	6,412	
3	Telangana State Power Generation Corporation Limited	980*	
4	Transmission Corporation of Telangana Limited	1	
	Total	15,407	6,300

Source: Finance Accounts and information furnished by institutions concerned

* The above guarantees are given by erstwhile Andhra Pradesh to erstwhile APGENCO and hence considered while totaling

(ii) Compliance to the instructions while providing Guarantees:

The erstwhile Government of Andhra Pradesh issued (September 2003) instructions⁶⁰ to be followed while providing guarantees. Compliance of these instructions were verified:

- 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 (₹2,873 crore) to loans taken by Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB) whose annual accounts were in arrears for more than a decade and have been submitted in December 2022.
- Government Order stipulated that the Administrative Departments in Secretariat and Heads of Departments shall evaluate the fiscal risk and classify the Guarantees⁶¹ as direct liability (100 per cent risk), high risk (75 per cent), medium risk (50 per cent), low risk (25 per cent) and very low risk (5 per cent).

The Finance Department, in the Statement of Fiscal Policy classified (March 2022) Guarantees as under:

Table 2.45: Categorisation of Guarantees based on risk

(₹ in crore)

Sl. No.	Category	Amount
1	Direct liability	0
2	High risk	0
3	Medium risk	41,730
4	Low risk	76,550
5	Very low risk	17,003
	Total	1,35,283

Source: Statement of Government Guarantees placed before Legislature along with budget documents in March 2022

⁶⁰ G.O.Ms.No.446, dated 29 September 2003

⁶¹ based on factors like (i) debt servicing through Government support, (ii) repayment schedules, (iii) financial performance of the entity, (iv) primary security, (v) valuation of assets and (vi) statutory liabilities prior to Government guaranteed debt

Government informed that it is doing an exercise to arrive at the risk weightage of each Guarantee based on certain factors like debt servicing through own sources or Government support, repayment schedule, financial performance, primary security, valuation of assets of entity. However, it did not provide the documents to Audit for cross verifying such risk evaluation.

Further, 14 guarantees worth ₹1,23,708 crore (91 per cent) out of the 19 mentioned in the Statement of Guarantees and Debt position by the Government could be related with Off-Budget Borrowings. Hence, they should have been classified under Direct Liability. However, Government has classified all the Guarantees as medium risk to very low risk.

- Further, the Government Order also stipulated a Guarantee Commission of 0.50 *per cent* per annum or two *per cent* consolidated for the entire guarantee period from the borrowing entity. Guarantee Commission of ₹676.42 crore⁶² was to be received by the Government to the end of March 2022 from 19 entities. However, amongst these 19 entities only one entity viz., Telangana State Horticulture Development Corporation remitted an amount of ₹17.48 crore as Guarantee Commission during the year 2021-22.

In fact, the Statement of Guarantees and Debt position (Volume V/2 of budget document) did not provide any information regarding Guarantee Commission ‘receivable and received’ though it is a mandatory disclosure as per IGAS 1.

Government stated (November 2022) that since Government Accounts are kept on cash basis and not on accrual basis, the Guarantee fees receivable from the entities was not worked out.

The reply is not acceptable as the IGAS 1 requires that the Guarantee Commission ‘receivable and received’ are to be disclosed and not complying with this does not help in keep tracking of receivables. This may also result in loss of revenue.

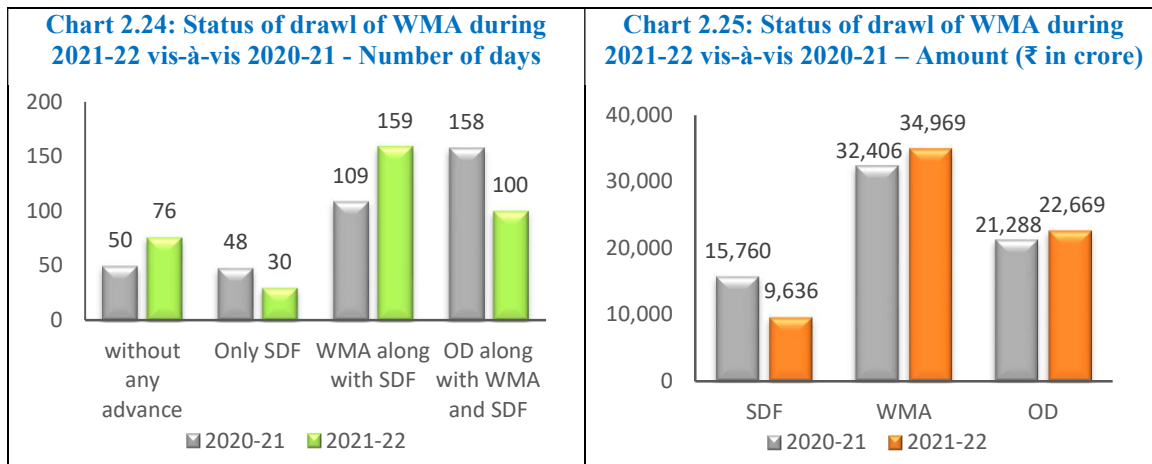
2.7.4.3 Management of Cash Balances

(i) Ways and Means Advances

As per an agreement with the Reserve Bank of India (RBI), the 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 (SDF) 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 SDF can be operated up to ₹554.49 crore. After exhausting SDF, WMA can be operated up to another ₹1,728 crore. Utilisation of these advances during the previous and the current years is depicted in **Chart 2.24** and **Chart 2.25**:

⁶² calculated at a rate of 0.50 *per cent* on the total guaranteed amount of ₹1,35,283 crore



Source: Finance Accounts of the years concerned

The number of days (76) where the State Government did not use WMA facilities has increased when compared to previous year (50), indicating an improvement in the position of keeping minimum cash balance with RBI.

However, State Government’s dependency on WMA for day-to-day activities has been increasing over the years. Over the last five years, the quantum of the total amount of the advances taken nearly tripled (₹22,922 crore in 2017-18 and ₹67,274 crore in 2021-22).

Interest payments on drawal of WMA (including SDF and OD) during 2021-22 was ₹70 crore as against ₹14 crore in 2017-18, indicating a significant increase of 400 per cent.

(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 to Government account.

The State Government’s Cash Balances at the end of March 2022 amounted to ₹8,094.86 crore including Deposits with RBI (₹64 crore), investment in cash balance investment account (₹55 crore) and investment in earmarked funds (₹7,975 crore) viz. Sinking Fund (₹6,541 crore) and Guarantee Redemption Fund – Investment Account (₹1,431 crore). **Table 2.46** depicts the Cash Balances and their investment during the year.

Table 2.46: Cash Balances and their investment

(₹ in crore)

	Opening balance on 1 April 2021	Closing balance on 31 March 2022
A. General Cash Balance		
Cash in treasuries	--	--
Deposits with Reserve Bank of India	(-)5.67	63.82
Deposits with other Banks	--	--
Remittances in transit – Local	--	--
Total	(-)5.67	63.82
Investments held in Cash Balance investment account	1,801.12	55.45
Total (A)	1,795.45	119.27

	Opening balance on 1 April 2021	Closing balance on 31 March 2022
B. Other Cash Balances and Investments		
Cash with departmental officers viz., Public Works, Forest Officers	--	--
Permanent advances for contingent expenditure with department officers	0.34	0.40
Investment in earmarked funds	7,397.20	7,975.19
Total (B)	7,397.54	7,975.59
Total (A + B)	9,192.99	8,094.86
Interest realised	7.73	0.46

Source: Finance Accounts

The Cash Balance investments of the State during the period 2017-22 are shown in **Table 2.47**.

Table 2.47: Cash Balance Investment Account

(₹ in crore)

Year	Opening Balance	Closing Balance	Increase (+) / decrease (-)	Interest earned
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
2020-21	6,945.39	1,801.12	(-)5,144.27	7.73
2021-22	1,801.12	55.45	(-)1,745.67	0.46

Source: Finance Accounts

The State Government earned an interest of ₹0.46 crore during the year 2021-22 from the investments made in Government of India Securities and Treasury Bills, which was much lower than the interest of ₹7.73 crore earned during the previous year.

2.8 Apportionment of Assets and Liabilities between Andhra Pradesh and Telangana

As per the Andhra Pradesh State Re-organisation 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.

2.8.1 Apportionment of amounts under Government Accounts

As of March 2022, significant amounts under Capital Heads (₹1,51,350 crore), Loans and Advances (₹28,100 crore), Deposits and Advances (₹4,474 crore), Suspense and Miscellaneous (₹238 crore) and remittances (₹310 crore) are to be apportioned. As such, the assets and liabilities of the State Government as depicted in the Finance Accounts are affected to that extent.

There has been no progress in this respect during the past three years after 2018-19 indicating lack of emphasis on apportionment.

2.8.2 Apportionment of assets and liabilities under Schedule IX of Andhra Pradesh Re-organisation Act, 2014

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, in May 2014, had given recommendations for de-merger of all the 91 institutions.

The Government informed (November 2022) that there is difference of opinion between two States on the demerger of institutions included under Schedule IX of Andhra Pradesh Re-organisation Act, 2014 and Ministry of Home Affairs in Government of India has taken up the matter to resolve the issue.

2.9 Conclusion

The State could not achieve any of the three key fiscal targets i.e., (i) maintenance of Revenue Surplus, (ii) targets of Fiscal Deficit to Gross State Domestic Product (GSDP), and (iii) target of Total Outstanding Liabilities to GSDP for the last two years. In fact, it registered a Revenue Deficit for a third consecutive year.

Revenue Receipts have increased significantly due to increase in State's Own Tax Revenue, Non-Tax Revenue and Share in Central Taxes. The increase in State's Own Tax Revenue was attributable to revision of rates in respect of registration, stamp duty, market values, coupled with recovery of the economy after Covid-19 pandemic. The State did not receive certain specific grants recommended by XV Finance Commission. The Government enhanced its Non-Tax Revenue Receipts by taking lapsed deposit amounts into Revenue account instead of taking it to Loan account. This has resulted in understatement of Revenue Deficit and overstatement of Assets in Loans.

Revenue Expenditure has also shown a considerable increase in all sectors viz., General Services, Social Services and Economic Services. Committed Expenditure under Revenue Expenditure increased mainly on account of Interest Payments and Salaries. While interest payments grew due to higher debt burden, payment on account of salaries grew due to implementation of Pay Revision Commission and revision of retirement age of Government employees.

Capital Expenditure also witnessed a significant rise on account of Major Irrigation, Water Supply and sanitation. Loans and Advances given during the year have decreased.

The State has, been persistently trailing in respect of expenditure on Education and Health when compared to the other General States.

Contribution to the Statutory funds such as Consolidated Sinking Fund and Guarantee Redemption Fund has been irregular for the past few years. The State Government did not contribute to the newly formed State Disaster Mitigation Fund during the current year. There was short contribution from Government of India and State Government in respect of State Disaster Response Fund.

Though the State Government disclosed the quantum of Guarantees and the entities to which they were given (to a certain extent), the State Government did not disclose its Off-Budget Borrowings to be serviced from its Budget. This would increase the total outstanding liabilities of the Government and also would impact the Debt ratio to Gross State Domestic Product. The State Government will have to mobilize substantial amount in the next ten years for servicing of internal debt and this would put significant pressure on the Government finances.

The Government continued to provide loans to institutions towards interest payments/principal repayments for meeting loans taken by the institutions on behalf of the Government.

As the State registered Revenue Deficit, it had to finance Revenue Deficit from the Market Borrowings.

There has been no progress in apportionment of Assets and Liabilities between Andhra Pradesh and Telangana for the last three years.

2.10 Recommendations

- i. State Government needs to fully disclose its off-budget borrowings taken through Special Purpose Vehicles/Public Sector Undertakings/Autonomous Bodies for implementation of Government schemes/programmes/works in the interest of transparency. It may also put forth a reform path to eliminate indirect borrowings within a time frame, as recommended by Fifteenth Finance Commission.*
- ii. Government may revisit the Government Orders regarding the Deposits Accounts in view of the instructions contained in List of Major and Minor Heads and Financial Code.*
- iii. Government needs to contribute to statutory funds as per the respective norms regularly to meet the contingencies for which they are created.*