Chapter II 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 2018-19 to 2022-23, 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 2021-22

A bird's eye view of major changes in key fiscal aggregates of the State during 2022-23, compared to the preceding year is given in the following Table:

Table 2.1: Changes in key Fiscal Aggregates in 2022-23 compared to 2021-22

Revenue Receipts	Revenue Receipts of the State increased by 25 *per cent* Own Tax receipts of the State increased by 17 *per cent* Own Non-tax receipts increased by 121 *per cent* State's Share of Union Taxes and Duties increased by 5 *per cent* Grants-in-Aid from Government of India increased by 53 *per cent*
Revenue Expenditure	Revenue Expenditure increased by 12 *per cent* Revenue Expenditure on General Services increased by 13 *per cent* Revenue Expenditure on Social Services increased by 8 *per cent* Revenue Expenditure on Economic Services increased by 17 *per cent*
Capital Receipts	Debt Capital Receipts decreased by 25 *per cent* Non-Debt Capital Receipts increased 1210 *per cent*
Capital Expenditure	Capital Expenditure decreased by 38 *per cent* Capital Expenditure on General Services increased by 26 per *cent* Capital Expenditure on Social Services decreased by 57 *per cent* Capital Expenditure on Economic Services decreased by 35 *per cent*
Loans and Advances	Disbursement of Loans and Advances increased by 150 *per cent* Recoveries of Loans and Advances increased by 1210 *per cent*
Public Debt	Public Debt Receipts increased by 7 *per cent* Repayment of Public Debt increased by 25 *per cent*
Public Account	Public Account Receipts increased by 11 *per cent* Disbursement of Public Account increased by 10 *per cent*
Cash Balance	Cash Balance increased by ₹2,824 crore (35 *per cent*) during 2022-23 compared to previous year

Source: Finance Accounts

- Revenue Receipts increased significantly. All components of Revenue Receipts showed an increase.
- Revenue Expenditure has also increased. However, Revenue Receipts increased at a higher rate than Revenue Expenditure. Thus, the State registered a Revenue Surplus this year.
- Capital Expenditure decreased significantly, mainly in the Social and Economic sector services.

- Public Debt or Borrowings increased marginally. Loans and Advances provided by State Government have increase substantially.

These aspects are further discussed in the subsequent paragraphs.

2.3 Sources and Application of Funds

Comparison of the components of the sources and application of funds of the State during 2022-23 with those of the preceding year is shown in the following Table:

Table 2.2: Sources and Application of funds during 2021-22 and 2022-23

(₹ in crore)

Particulars		2021-22	2022-23	Increase (+) / Decrease (-)
Sources	Opening Cash Balance with Reserve Bank of India#	9,193	8,095	(-)1,098
	Revenue Receipts	1,27,469	1,59,350	31,881
	Recoveries of Loans and Advances	48	629	581
	Public Debt Receipts (Net)	42,935	32,074	(-)10,861
	Public Account Receipts (Net)	2,605	3,306	702
	Total	**1,82,250**	**2,03,454**	**21,205**
Application	Revenue Expenditure	1,36,804	1,53,406	16,603
	Capital Expenditure	28,874	17,881	(-)10,993
	Disbursement of Loans and Advances	8,469	21,248	12,779
	Inter-State Settlement	8	0	(-)8
	Net Contingency Fund	**0.05**	**0**	**(-)0.05**
	Closing Cash Balance with Reserve Bank of India#	**8,095**	**10,919**	**2,824**
	Total	**1,82,250**	**2,03,454**	**21,205**

Source: Finance Accounts

Cash balance with Reserve Bank of India includes cash balance investments and investments in earmarked funds

The composition of State's resources and application of those resources pertaining to Consolidated Fund in terms of *percentages* is presented in the following charts:

Chart 2.1: Composition of Resources in 2022-23

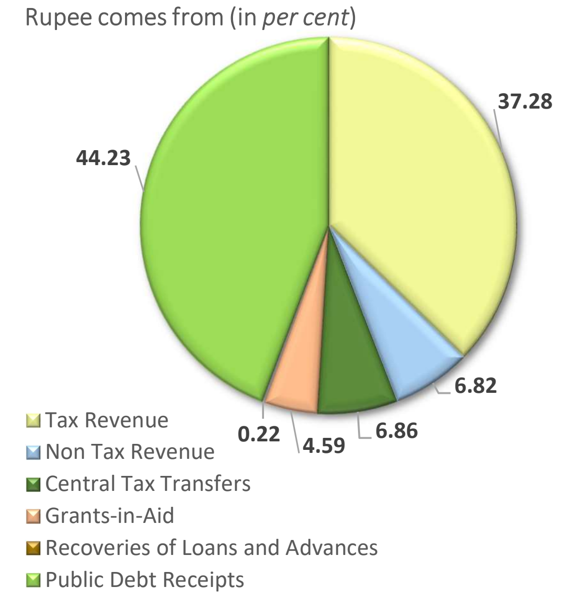
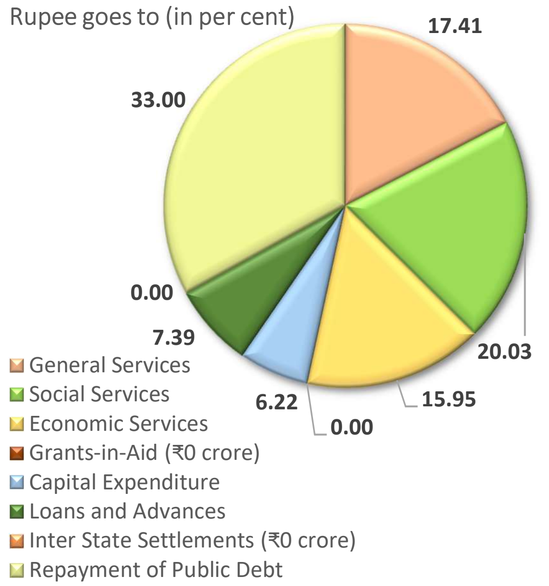


Chart 2.2: Application of Resources in 2022-23



Source: Finance Accounts

The State Government substantially resorted to Public Debt (44 *per* cent) for its resources. However, the share of Public Debt in resources was lower than previous year (48 *per cent*). For a second consecutive year the share of Public Debt Receipts has decreased.

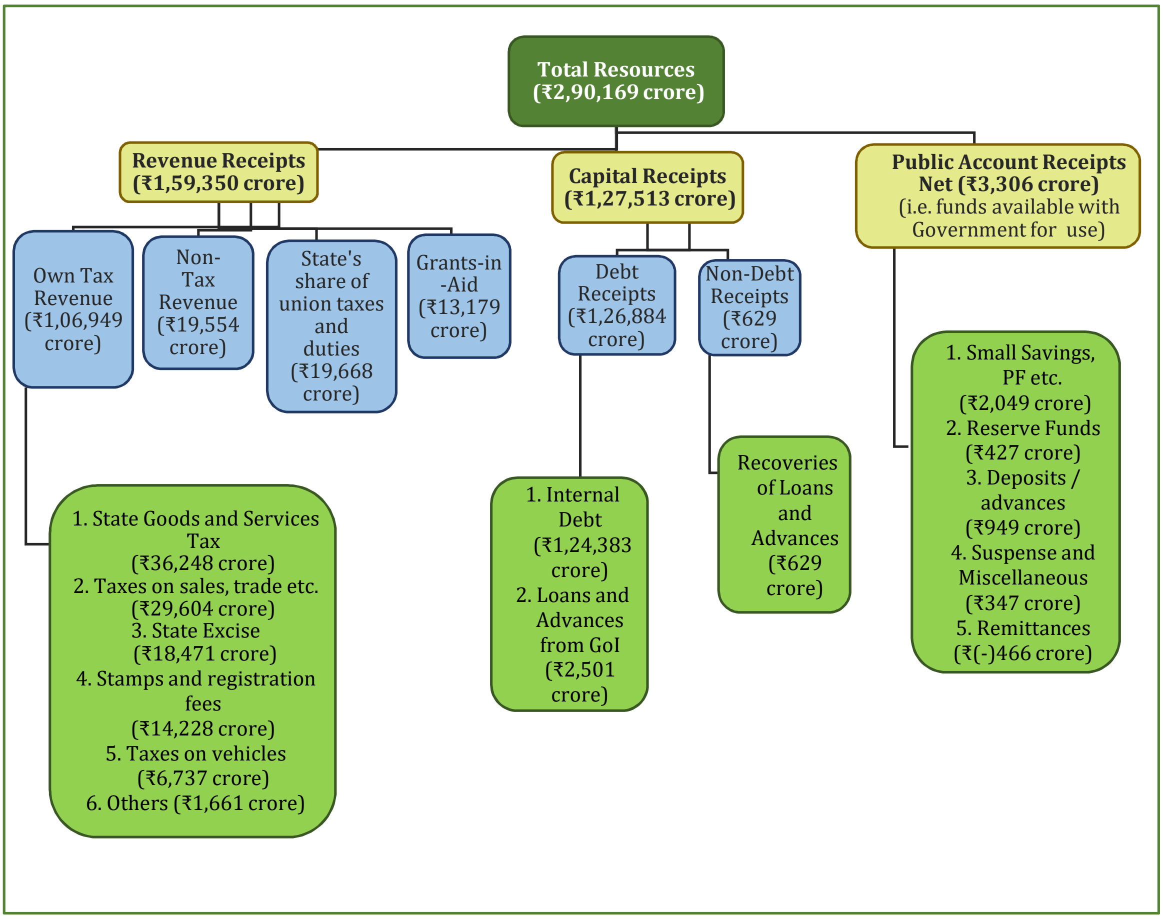
The share of Tax Revenue which was around 30 *per cent* in the Covid-19 Pandemic year of 2020-21 has increased considerably to 37 *per cent* during 2021-22 and further increased marginally in 2022-23 by 0.26 *percentage* points. The share of Non-Tax Revenue nearly doubled during the current year when compared to previous year. The share of Central Tax transfers has decreased slightly. The share of Grants-in-Aid has increased by one *percentage* point.

However, State's dependency on Public Debt is impacting the application of resources mobilized as nearly 33 *per cent* of the resources were utilised for repayment of Public Debt, which has consumed highest share in the application of resources. This was three *percentage* points higher than the previous year. The share of General and Economic services almost remained the same, while that of social services decreased by one *percentage* point. There is a decrease in the share of Capital Expenditure. Loans and Advances disbursed increased by more than four *percentage* points.

2.4 Resources of the State

The following chart depicts the composition of resources of the State during 2022-23.

Chart 2.3: Composition of Receipts of the State during 2022-23



Source: Finance Accounts

Revenue Receipts constituted nearly 55 *per cent* of the total resources. Share of Capital Receipts is 44 *per cent*. Net Public Account Receipts formed the remaining 01 *per cent*. State's Own Receipts (₹1,26,503 crore) comprising Own Tax Revenue and Non-Tax Revenue constituted 79 *per cent* of Revenue Receipts.

2.4.1 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 (GSDP) during the five-year period 2018-23 are shown below:

Table 2.3: Trend in Revenue Receipts

Parameters	2018-19	2019-20	2020-21	2021-22	2022-23
Revenue Receipts (₹ in crore)	**1,01,420**	**1,02,544**	**1,00,914**	**1,27,469**	**1,59,350**
Growth rate of Revenue Receipts (*per cent*)	14	1	(-)2	26	25
Own Tax Revenue (₹ in crore)	64,674	67,597	66,650	91,271	1,06,949
Non-Tax Revenue (₹ in crore)	10,007	7,360	6,101	8,858	19,554
Grants-in-Aid (GIA) from Government of India (₹ in crore)	8,178	11,599	15,471	8,619	13,179
Total Own Revenue (₹ in crore)	74,681	74,957	72,751	1,00,129	1,26,503
Growth rate of Own Revenue (Own Tax and Non-Tax Revenue) (*per cent*)	16	0.37	(-)3	38	26
GSDP (₹ in crore) (2011-12 Series)	**8,57,427**	**9,50,090**	**9,42,814**	**11,28,907**	**13,13,391**
Growth rate of GSDP (*per cent*)	14	11	(-)1	20	16
Revenue Receipts / GSDP (*per cent*)	12	11	11	11	12
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*)	1.01	0.10	1.59	1.32	1.56
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*)	1.15	0.03	2.94	1.88	1.65

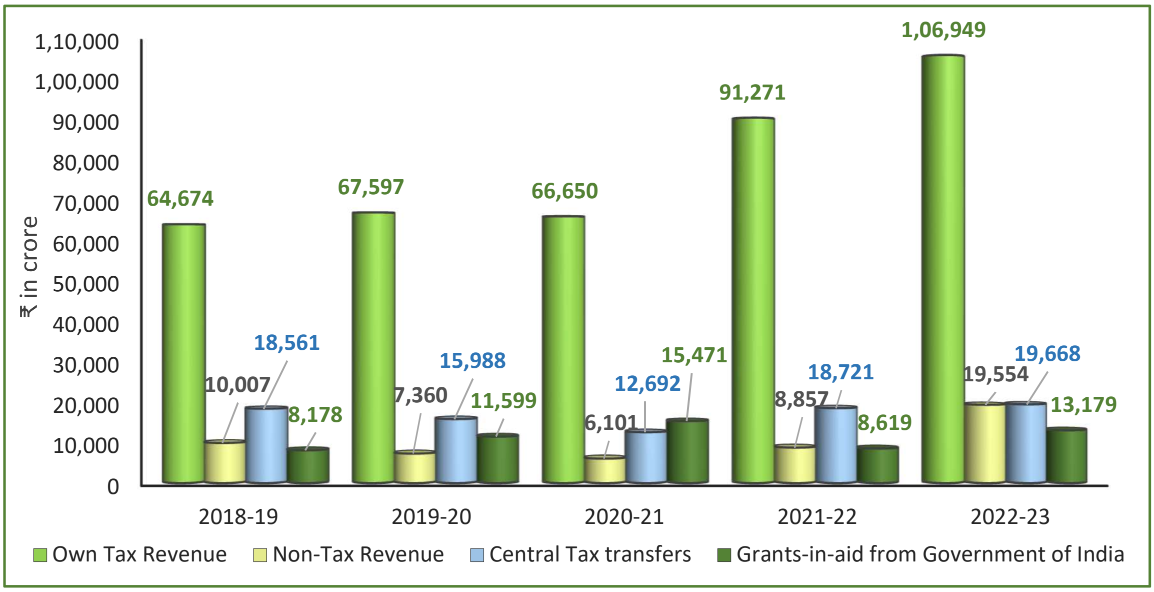
Source: (i) Finance Accounts; (ii) for GSDP: Ministry of Statistics and Programme Implementation of respective years (figures as on 01 August 2023)

- The growth rate of Revenue Receipts decreased by one *percentage* point when compared to previous year 2021-22.
- The ratio of Revenue Receipts to GSDP increased by one *percentage* point.
- The Buoyancy ratio of both Revenue Receipts and Own Revenue registered more than '1' during 2022-23 indicating that they grew at a higher rate than the GSDP. Revenue Buoyancy ratio increased slightly in the current year over previous year, while State's Own Revenue Buoyancy ratio decreased marginally.
- Grants-in-Aid (GIA) from Government of India (GoI) increased by ₹4,560 crore (53 *per cent)* over previous year.

State's Revenue Receipts are generally categorized in four components viz., (i) Own Tax Revenue, (ii) Non-Tax Revenue, (iii) Share of Central Taxes transferred to State and (iv) Grants-in-Aid (GIA) received from Government of India. Increase in Revenue Receipts by 25 *per cent*, as mentioned in ***Table 2.1***, was on account of increase in all the components of Revenue Receipts viz., Own Tax Revenue (17 *per cent* increase), Non-Tax Revenue (121 *per cent* increase), State's share of Union Taxes and Duties (05 *per cent* increase) and Grants-in-Aid (53 *per cent* increase).

The trend of these components for the period 2018-23 is given in the following chart:

Chart 2.4: Trend of composition of Revenue Receipts during 2018-23



Source: Finance Accounts of the years concerned

State's Own Tax Revenue, which decreased marginally in 2020-21 due to Covid-19 pandemic, has increased significantly in 2021-22 and continued considerable growth in 2022-23 also. Tax Revenue increased on account of increase in receipts from (i) State Goods and Services Tax, (ii) Taxes on Sales, Trade, etc. (iii) Stamps and Registration, (iv) Taxes on Vehicles, and (v) State Excise.

There is a sharp increase in Non-Tax Revenue. Non-Tax Revenue increased due to increase in receipts from (i) Miscellaneous General Services, (ii) Non-ferrous Mining and Metallurgical Industries, (iii) Forestry and Wildlife, (iv) Crop Husbandry, (v) Interest Receipts, and (vi) Major Irrigation.

There is a marginal increase in the Central Tax transfers while the Grants-in-Aid from Government of India were considerably higher during the year.

Receipts from Own Tax Revenue is the only component which showed continuous growth, except for the year 2020-21, and is the most dependable source of income to the State. All the other components have shown an uneven trend.

2.4.1.1 State's own resources

State's share in Central taxes is determined based on recommendations of the Finance Commission and Grants-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) include State Goods and Services Tax, Taxes on Sales, Trade etc., State Excise, Taxes on vehicles, Stamp Duty and Registration Fees, Land Revenue, Taxes on Goods and Passengers, etc.

During 2022-23, State's Own Tax Revenue (₹1,06,949 crore) constituted 67 *per cent* of total Revenue Receipts (₹1,59,350 crore). Own Tax Revenue has increased significantly by 17 *per cent* (₹15,678 crore) over previous year. Like previous year, OTR as a *percentage* to Gross State Domestic Product stands at 8 *per cent* in 2022-23.

During the current year, major contributors of Own Tax Revenue were State Goods and Services Tax (34 *per cent*), Taxes on Sales, Trades etc., (28 *per cent*), State Excise (17 *per cent*) and Stamps and Registration (13 *per cent*). Component wise details of State's Own Tax Revenue during 2018-23 are detailed below:

Table 2.4: Components of State's Own Tax Revenue

(₹ in crore)

Revenue Head	2018-19	2019-20	2020-21	2021-22	2022-23	Sparkline
State Goods and Services Tax	23,840	23,517	22,190	28,917	36,248	
Taxes on Sales, Trade, etc.	20,291	20,674	20,904	26,974	29,604	
State Excise	10,638	11,992	14,370	17,482	18,471	
Stamps Duty and Registration fees	5,344	6,671	5,243	12,373	14,228	
Taxes on Vehicles	3,762	3,935	3,338	4,381	6,737	
Taxes on goods and passengers	189	62	19	8	27	
Land Revenue	0.42	1	1	0.26	0.27	
Other Taxes	610	745	585	1,136	1,634	
Total	**64,674**	**67,597**	**66,650**	**91,271**	**1,06,949**	

Source: Finance Accounts of the years concerned

- Receipts from State Goods and Services Tax (SGST), which marginally decreased in 2020-21 due to Covid-19 Pandemic, showed strong recovery and increased by 30 *per cent* and 25 *per cent* in 2021-22 and 2022-23 respectively.
- Receipts from Taxes on Sales, Trade etc., which were nearly stagnant during the first three years of the period from 2018-19 to 2020-21, also grew considerably by 29 *per cent* in 2021-22 and decently by 10 *per cent* in 2022-23.
- Receipts from State Excise have been consistently growing, year-on-year, even during the Covid-19 pandemic. In 2022-23, receipts from State Excise grew by six *per cent* when compared to last year. This was mainly due to (i) increase (₹1,864 crore) in receipts from 'Foreign Liquors and spirits' on account of increase in volume of liquor and beer sales and (ii) increase (₹492 crore) in receipts from 'Malt Liquor'.

- Taxes on Vehicles, Stamp duty and Registration Fees which decreased in 2020-21, have increased in 2021-22 and 2022-23.
- A similar slump and recovery can be seen in receipts from Taxes on goods and passengers and Other Taxes. It increased due to increase under 'tax on entry on goods into local areas (₹20 crore)' and under 'Luxury Tax (₹21 crore)' respectively.
- Land Revenue remained almost the same as that of the previous year.
- In other taxes, receipts increased from (i) Taxes on consumption and sale of electricity (₹338 crore) and (ii) Taxes on Professions, Trades, Callings and Employment (₹135 crore).

(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.

During 2022-23, State's own Non-Tax Revenue (₹19,554 crore) constituted 12 *per cent* of total Revenue Receipts (₹1,59,350 crore). NTR increased significantly by ₹10,696 crore (121 *per cent*) in the current year when compared to the previous year.

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

(₹ in crore)

Revenue Head	2018-19	2019-20	2020-21	2021-22	2022-23	Sparkline
Interest Receipts	60	18	34	20	267	
Dividends and Profits	94	115	94	52	78	
Other Non-Tax Receipts	9,853	7,227	5,973	8,786	19,209	
(a) Major and Medium Irrigation	36	31	18	24	144	
(b) Roads and Bridges	34	46	24	18	2	
(c) Urban development	9	21	7	93	9	
(d) Education	318	367	614	495	343	
(e) Non-ferrous mining	4,647	3,487	3,457	2,296	7,494	
(f) Others or Miscellaneous	4,809	3,275	1,853	5,860	11,217	
Total	**10,007**	**7,360**	**6,101**	**8,858**	**19,554**	

Source: Finance Accounts of the years concerned

- Increase in Interest receipts was due to receipt of interest ₹247 crore from Telangana Transmission Corporation on account of Loans to Telangana TRANSCO for High Voltage Distribution System (HVDS). It is unusual that while the total outstanding Loan was ₹736 crore only, whereas interest received during the year was 34 *per cent* of the loan amount.

- Increase in dividend is due to increase in dividend from other investments in Co-operative Societies.
- The net increase in receipt of around ₹120 crore from Major and Medium irrigation was due to receipt of ₹144 crore classified as 'Other Receipts' at Minor head, Sub-Head, and Detailed head levels.
- A sharp increase is noticed in receipts from Non-ferrous mining and Metallurgical Industries from ₹2,296 crore in 2021-22 to ₹7,493 crore in 2022-23.
  - Under this, Mineral concession Fees, Rents and Royalties have registered a dip in the previous year 2021-22 to ₹1,582 crore from ₹2,751 crore in 2020-21 and ₹2,787 crore in 2019-20. This year the receipts under this head increased sharply to ₹6,553 crore. Out of this ₹4,818 crore was received in June 2022 alone. The Singareni Collieries Company Limited had informed that it had remitted (June 2022) ₹4,577 crore towards Royalty/Cess. This amount included Royalty of ₹5 crore pertaining to 2020-21, ₹1,750 crore pertaining to 2021-22, advance payment of ₹613 crore. Thus, the receipt of arrears and advance Royalties has resulted in an increase in the receipts under Non-ferrous mining.
  - Receipts under sale of Sand has increased from ₹714 crore in 2021-22 to ₹940 crore in 2022-23.
- The increase in Receipts from 'other Non-Tax Receipts' is due to increase in receipts under 'Miscellaneous General Services (₹5,875 crore)' which is mainly due to increase in 'Other Receipts (by ₹4,533 crore)' and in 'Sale of Land and property (by ₹1,361 crore)'.
  - Other receipts were ₹1,189 crore in 2021-22 which soared to ₹5,723 crore in 2022-23. However, in the absence of details, Audit could not make any analysis as to the nature of receipts which were accounted for as 'Other Receipts – Other Receipts – Other Receipts' under Minor head, Sub-Head, and Detailed head levels. Out of this, ₹5,562 crore was remitted by PAO, Hyderabad Urban under Miscellaneous General Services. Audit scrutiny revealed that it was due to lapsing of Deposits and crediting the same to Government Account as Revenue Receipts instead of as reduction of expenditure (refer to ***Paragraphs 3.2.2.1*** and ***4.7***).

    The source and purpose of such huge receipts were not forthcoming from the accounts. Further, the Government also did not furnish any details in this regard despite being called for by audit. Huge receipts without proper classification affects transparency in the accounts.

Box 2.1: Loans provided lapsed as Revenue Receipts resulting in boosting of Revenue Surplus

Receipts from 'Other Receipts' included ₹1,100 crore and ₹300 crore lapsed from Deposit Accounts (in Public Account) pertaining to Telangana Scheduled Castes Cooperative Development Corporation Limited (TSCCDCL) and Telangana Scheduled Tribes Cooperative Finance Corporation Limited (TRICOR) respectively, which were earlier given to them as Loans. This is narrated hereunder:

State Government had provided Loans of ₹2,300 crore[1] to these institutions, for the implementation of Government subsidy schemes, in 2017-18 by crediting to their Deposit Accounts in Public Account. In the subsequent year, 2018-19, the same amounts were lapsed as per Government Orders from Deposit Account and credited to Government Account as Revenue Receipts instead of writing off the Loans. However, an amount of ₹2,400 crore[2] was advanced as Loans again in 2018-19 (***Box 1.1, Paragraph 1.3.1 of State Finances Audit Report for the year ended March 2019***). Thus, the total outstanding Loan receivable from these institutions in the Government Accounts was ₹4,700 crore[3].

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

2017-18
Government provided loans of ₹1,500 crore and ₹800 crore to TSCCDCL and TRICOR and transfered to their Deposit Accounts. Loans outstanding from the entities: ₹2,300 crore

2018-19
The entire amount of ₹2,300 crore lying unutilised in the Deposit Accounts was lapsed by the Government and had taken as Non-Tax Revenue Receipts instead of reducing the Outstanding Loans. In the same year, Government again provided loans of ₹2,400 crore to TSCCDCL and TRICOR and transfered to Deposit Accounts of these intstitutions.
Loans outstanding from the entities:₹4,700 crore

2021-22
While the loans of ₹4,700 crore receivable from entities was still shown as outstanding as of March 2022, Government had again taken ₹1,000 crore (unspent balance and lapsed) to Revenue Receipts from Deposit Accounts instead of reducing outstanding Loans.

2022-23
While ₹4,700 crore loans receivable from entities was still shown as outstanding as of March 2023, Government has again taken ₹1,400 crore (unspent balance and lapsed) to Revenue Receipts from Deposit Accounts instead of reducing outstanding Loans.

Source: Finance Accounts of the years concerned

---

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

[2] To Telangana Scheduled Castes Cooperative Development Corporation Limited (₹1,500 crore), and Telangana Scheduled Tribes Cooperative Finance Corporation Limited (₹900 crore)

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

As per List of Major and Minor Heads[4], adjustment of expenditure against Reserve Fund/ Deposit Accounts would be shown as a deduction under the minor head. Further, the State Financial Code[5], *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.

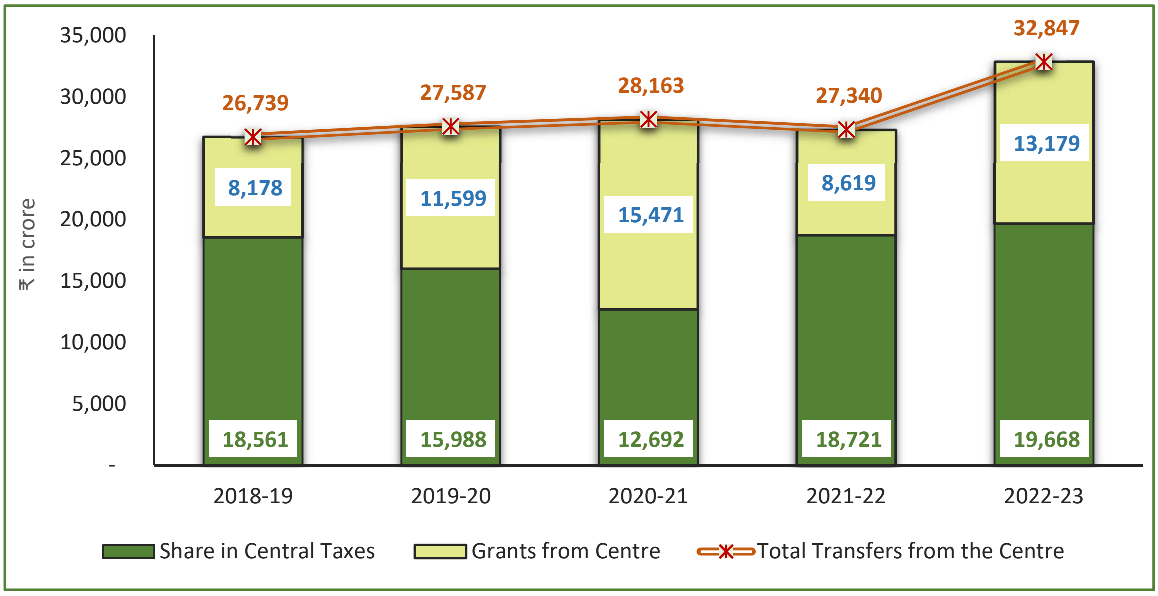
Thus, incorrect classification of the above ₹1,400 crore as Non-Tax Revenue instead of as reduction of Loans resulted in overstatement of Revenue Receipts as well as outstanding loans i.e., assets to that extent.

- Under 'Sale of Land and Property' the receipts were ₹4,069 crore in 2022-23 as against the ₹2,708 crore during 2021-22. This was due to huge increase in receipts under 'Sale proceedings of open plots / flats / Houses' from ₹49 crore in 2021-22 to ₹3,278 crore in 2022-23. However, the 'sale of land and property' (sub-head) decreased from ₹2,658 crore in 2021-22 to ₹791 crore in 2022-23.

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 2018-23 are shown in the following chart.

Chart 2.6: Trends in transfers from Government of India



Source: Finance Accounts of the years concerned

In the current year, both share in Central Taxes and Grants-in-Aid from Government of India have increased. Apart from this, further Grants-in-Aid are also being released directly by the Government of India to the implementing agencies instead of routing through Consolidated Fund of State (***refer to Paragraph 4.3 for details)***. The tax devolution and Grants-in-Aid are discussed in the following paragraphs.

4 Paragraph 4.5 of General Directions
5 Paragraph 271 (iii) (4)

(i) Central Tax transfers

Fifteenth Finance Commission (XV FC) allocated 2.102 *per cent* of the total divisible pool of Union Taxes as *inter se* share to Telangana during the period 2021-26. Accordingly, XV FC assessed share of Telangana for the year as ₹15,400 crore[6]. However, the State has received an amount of ₹19,668 crore as share of Central Taxes, which was higher than projection in the XV FC Report, like previous year. This contrasts with earlier years *i.e.,* prior to 2021-22, when the State Government received lesser amounts than the projections in the Finance Commissions' Reports (FCR).

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 2018-23 are shown in the following Table:

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

(₹ in crore)

Year	Finance Commission Projections	Projections in FCR	Actual tax devolution	Difference
1	2	3	4	5 (=Col.4 - Col. 3)
2018-19	As per XIV FC	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
2022-23		15,400	19,668	(+)4,268

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

The component-wise Central Tax transfers to the State during 2018-23 are given below:

Table 2.7: Central Tax Transfers

(₹ in crore)

Head	2018-19	2019-20	2020-21	2021-22	2022-23
Central Goods and Services Tax (CGST)	4,581	4,537	3,715	5,573	5,640
Integrated Goods and Services Tax (IGST)	366	--	--	--	--
Corporation Tax	6,454	5,451	3,865	4,649	6,399
Taxes on Income other than Corporation Tax	4,753	4,271	3,967	5,635	6,534
Customs	1,315	1,013	649	1,506	785
Union Excise Duties	874	705	422	899	246
Service Tax	172	--	63	438	31
Other Taxes[7]	46	10	11	21	33
Central Tax transfers	**18,561**	**15,988**	**12,692**	**18,721**	**19,668**
Percentage of increase over previous year	13	(-)14	(-)21	48	5
Percentage of Central tax transfers to Revenue Receipts	18	16	13	15	12

Source: Finance Accounts of the years concerned

Though the Central Tax transfers increased by five *per cent* over the previous year, as a *percentage* of Revenue Receipts of the State, it's share heads decreased by three *percentage* points due to higher growth rate in other Components of Revenue Receipts.

---

6 2.102 *per cent* of the assessed divisible pool Union Taxes amount of ₹7,32,628 crore

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

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

The details of Grants-in-Aid (GIA) received from Government of India (GoI) during 2018-23 are detailed below:

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

(₹ in crore)

Head	2018-19	2019-20	2020-21	2021-22	2022-23
Grants for Centrally Sponsored Schemes	5,508	5,729	5,805	4,461	5,387
Finance Commission Grants	1,806	3,219	3,135	1,787	3,423
Other transfers/Grants to States	864	2,651	6,531	2,371	4,369
Total	**8,178**	**11,599**	**15,471**	**8,619**	**13,179**
Percentage of increase / decrease over previous year	1	42	33	(-)44	53
Percentage of Grants-in-Aid to Revenue Receipts	8	11	15	7	8

Source: Finance Accounts of the years concerned

Grants-in-Aid from GoI increased by ₹4,560 crore (53 *per cent*) in 2022-23 compared to the previous year. Share of GIA also increased by one *percentage* point. Grants for Centrally Sponsored Schemes (₹5,387 crore, 41 *per cent* of GIA) and Compensation for loss of revenue arising out of implementation of GST (₹4,061 crore, 31 *per cent* of GIA) formed the major portion of the GIA.

(a) Grants for Centrally Sponsored Schemes

Out of the GIA of ₹5,387 crore received for Centrally Sponsored Schemes during 2022-23, the major amounts were towards the following:

- Sarva Siksha Abhiyan: ₹1,143 crore;
- Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA): ₹1,089 crore;
- Integrated Child Development Services (ICDS): ₹754 crore;
- National Health Mission: ₹724 crore;
- Pradhan Mantri Gram Sadak Yojana (PMGSY): ₹321 crore;
- Post Matric Scholarships: ₹239 crore; and
- National Social Assistance Programme (NSAP): ₹216 crore.

(b) Single Nodal Agency Accounts

Department of Expenditure, Ministry of Finance, Government of India, issued guidelines[8] for opening of Single Nodal Agency Account and monitoring the utilisation of funds for each Centrally Sponsored Scheme (CSS) at the State level. As per the guidelines, every State Government will designate a Single Nodal Agency (SNA) for implementing each CSS. The SNA will open a Single Nodal Account for each CSS at the State level in a Scheduled Commercial Bank authorized by the State Government to conduct government business. As per the procedure, the State Government is to transfer the Central share received in its accounts to the concerned SNA's account along with corresponding State

[8] F.No. 1(13) PFMS/FCD/2020 dated 23 March 2021

share. The other accounts of the Implementing Agencies are required to be closed or converted to zero balance account and funds lying unutilized in these accounts are to be returned to the Single Nodal Account of the scheme. A certificate to the effect shall be furnished by the Secretary of the concerned Department of the State Government by 31 January 2022.

Accordingly, 77 CSS with 127 SNA accounts[9] have been designated and corresponding accounts have been opened in the Banks in respect of Telangana State. The Government of India has provided an amount of ₹5,030 crore towards CSS during the year. The State Government, along with its share of ₹2,847 crore transferred the entire amount of ₹7,877 crore to the SNAs as Grants-in-Aid bills. Detailed vouchers and supporting documents of actual expenditure were not received by Principal Accountant General (Accounts and Entitlements) from the SNAs. As informed by the State Government / SNAs, five CSS with five SNA accounts had nil balances, ₹2,170 crore was lying in commercial banks in the other 72 CSS as of March 2023.

Further, Department of Expenditure, Ministry of Finance, Government of India, issued guidelines[10] for interest accruing in the SNAs shall be classified and deposited under the standard Minor Head '801' – Interest or other earnings from Grantee on unspent balances below the concerned functional Major Head/Sub-major head in the Revenue Receipts. However, interest receipts amounting to ₹8 crore booked under the Major Head '0049-801 – Interest or other earnings from Grantee on unspent balances' resulting in overstatement of Interest Receipts of the State Government.

(c) Grants recommended by Fifteenth Finance Commission

Recommendations of the Fifteenth Finance Commission (XV FC) for the five-year period of 2021-22 to 2025-26 as well as for the year 2022-23 for Telangana and actual receipts during 2022-23 are shown below:

Table 2.9: Recommendations of the XV Finance Commission

(₹ in crore)

Sl. No.	Grant Recommended		Amount recommended by XV FC		Actual Receipts during 2022-23	Difference
			For five-year period 2021-26	For the year 2022-23		
(1)	(2)		(3)	(4)	(5)	(6) = (4)-(5)
1	Grants to Rural Local Bodies		7,201	1,415	2,097	(-)682*
	(a) Performance/Tied Grants#		4,321	849	1,258	
	(b) Untied Grants		2,880	566	839	
2	Grants to Urban Local Bodies		3,682	697	718	(-)21**
	(i) Performance/ Tied Grant#	Million-plus Cities	1,939	367		
		Non-Million Plus Cities	1,046	198		
	(ii) General Basic/ Untied Grant	Million-plus Cities	NA	NA		
		Non-Million Plus Cities	697	132		
Total Grants to Local bodies (1+2)			10,883	2,112	2,815	

9 Some CSS are having multiple State linked schemes

10 F.No. 1(13) PFMS/2022 dated 15 July 2022

<table>
<tr><th rowspan="2">Sl. No.</th><th rowspan="2" colspan="2">Grant Recommended</th><th colspan="2">Amount recommended by XV FC</th><th rowspan="2">Actual Receipts during 2022-23</th><th rowspan="2">Difference</th></tr>
<tr><th>For five-year period 2021-26</th><th>For the year 2022-23</th></tr>
<tr><td>(1)</td><td colspan="2">(2)</td><td>(3)</td><td>(4)</td><td>(5)</td><td>(6) = (4)-(5)</td></tr>
<tr><td rowspan="2">3</td><td rowspan="2">State Disaster Response Fund</td><td>Centre share</td><td>2,483</td><td>472</td><td>189</td><td>283</td></tr>
<tr><td>State Share</td><td>827</td><td>157</td><td>63</td><td>NA</td></tr>
<tr><td>4</td><td colspan="2">Health Grants</td><td>2,228</td><td>419</td><td>419</td><td>0</td></tr>
<tr><td>5</td><td colspan="2">Grants for Critical Care Hospitals</td><td>270</td><td>54</td><td>0</td><td>54</td></tr>
<tr><td>6</td><td colspan="2">Grants for District integrated Public Health Indicators</td><td>27</td><td>6</td><td>0</td><td>6</td></tr>
<tr><td>7</td><td colspan="2">Grants for Training of Allied Healthcare Workers</td><td>221</td><td>44</td><td>0</td><td>44</td></tr>
<tr><td>8</td><td colspan="2">Grants for DNB courses</td><td>106</td><td>16</td><td>0</td><td>16</td></tr>
<tr><td>9</td><td colspan="2">Grants for Higher Education</td><td>189</td><td>36</td><td>0</td><td>36</td></tr>
<tr><td>10</td><td colspan="2">Agriculture Performance Incentive Grant to States</td><td>1,665</td><td>333</td><td>0</td><td>333</td></tr>
<tr><td>11</td><td colspan="2">Grants for Maintenance of PMGSY Roads</td><td>255</td><td>47</td><td>0</td><td>47</td></tr>
<tr><td>12</td><td colspan="2">Grants for Judiciary</td><td>245</td><td>49</td><td>0</td><td>49</td></tr>
<tr><td>13</td><td colspan="2">Grants provided for Statistics (₹1.50 crore per district overall)</td><td>46</td><td>31</td><td>0</td><td>31</td></tr>
<tr><td>14</td><td colspan="2">State Specific Grants</td><td>2,362</td><td>472</td><td>0</td><td>472</td></tr>
</table>

Source: XV Finance Commission Report and Finance Accounts

 # For drinking water, rainwater harvesting, SWS and Sanitation, NA: Not Applicable

** There was shortfall of equal amount i.e., ₹682 crore during the previous year*

*** There was shortfall of ₹345 crore during the previous year*

It can be noted from above that the State Government did not receive (i) ₹283 crore under SDRF, (ii) ₹616 crore Sector Specific Grants (items 5 to 13 above) and (iii) ₹472 crore State Specific Grants.

- Though the Government of India (GoI) has accepted the recommendation of the XV FC with regards to SDRF, it has released only ₹189 crore instead of ₹472 crore. Thus, there was a shortfall of ₹283 crore during the year.
- With respect to Sector Specific Grants, GoI in its explanatory memorandum has stated that it would give due consideration to sectors identified by the XV FC while formulating and implementing existing and new Centrally Sponsored and Central Sector Schemes.
- With regards to State Specific Grants, the GoI decided that due consideration would be given to the recommendation of the XV FC keeping in view the united resources with the State Governments and the fiscal commitments of the Central Government.

2.4.2 Capital Receipts

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

Table 2.10: Trends in growth and composition of Capital Receipts

(₹ in crore)

Sources of State's Receipts	2018-19	2019-20	2020-21	2021-22	2022-23
Capital Receipts	**22,312**	**29,855**	**39,653**	**42,983**	**32,702**
Miscellaneous Capital Receipts	--	--	--	--	--
Recovery of Loans and Advances	66	62	58	48	629
Net Public Debt Receipts[#]	**22,246**	**29,793**	**39,595**	**42,935**	**32,073**
Net Internal Debt	22,646	30,025	37,420	38,662	30,089
Growth rate of Net Internal Debt (*per cent*)	*6*	*33*	25	3	(-)22
Net Loans and Advances from GoI	(-)400	(-)232	2,175[$]	4,273[$]	1,984
Growth rate of Loans and Advances from GoI (*per cent*)	(-)*279*	(-)*42*	1,038	97	(-)54
Growth rate of debt Capital Receipts (*per cent*)	3	34	33	8	(-)25
Growth rate of non-debt Capital Receipts (*per cent*)	(-)52	(-)6	(-)6	(-)17	1,210
Growth rate of Gross State Domestic Product (*per cent*)	14	11	(-)1	20	16
Growth rate of Capital Receipts (*per cent*)	2	34	33	8	(-)24

Source: Finance Accounts; for Gross State Domestic Product: Ministry of Statistics and Programme Implementation (figures as on 01 August 2023)

\# *Excludes Ways and Means Advances of ₹21,823 crore, ₹37,248 crore, ₹69,454 crore, ₹67,274 crore and ₹82,823 crore for 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 respectively*

$ *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.*

The State Government has resorted to lesser borrowings during the year. Net Capital Receipts decreased by 24 *per cent* from ₹42,983 crore in the previous year to ₹32,702 crore in 2022-23. Net Internal Debt taken (₹30,089 crore) during the year is 22 *per cent* less than the previous year.

Public Debt receipts, consisting of borrowings taken from Market, Financial Institutions and Central Government, which create future repayment obligation, constituted major part of Capital Receipts (98.08 *per cent*). In the previous year, 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'. There was no such loan in 2022-23.

2.4.3 State's performance in mobilisation of resources

The Own Tax Revenue (OTR) and Non-Tax Revenue (NTR) projections by the XV FC and State Government in Budgets vis-à-vis actual performance in mobilisation of resources for the year 2022-23 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	
				XV FC projections	Budget estimates
Own Tax Revenue	89,464	1,08,212	1,06,949	20	(-)1
Non-Tax Revenue	13,969	25,422	19,554	40	(-)23

Source: FFC projections, Budget Estimates and Finance Accounts

- Mobilisation of OTR was significantly higher than the projections of XV FC for 2022-23. It is on par with the Budget Estimates indicating a realistic estimation.
- Mobilisation of NTR was also considerably higher than the projections of XV FC. It was, however, significantly lower than the estimates of the Government in Budget indicating over-estimation of receipts from NTR (refer to ***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 2018-19 to 2022-23 is presented in the following Table:

Table 2.12: Total Expenditure and its components

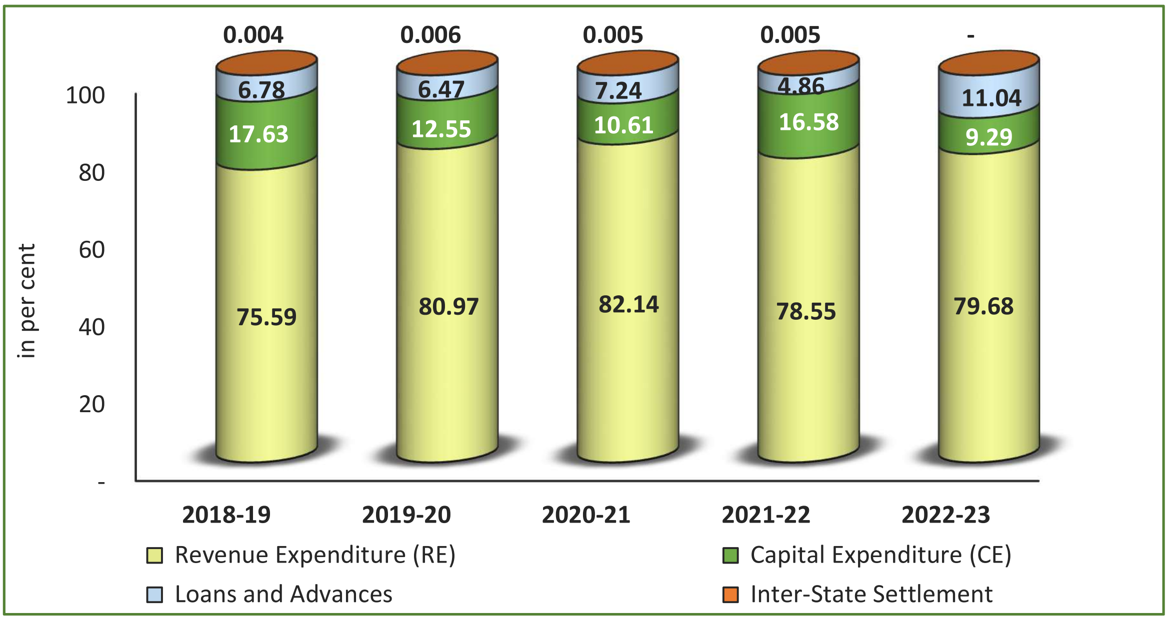
(₹ in crore)

Parameters	2018-19	2019-20	2020-21	2021-22	2022-23
Total Expenditure	**1,28,435**	**1,34,365**	**1,50,010**	**1,74,155**	**1,92,535**
Revenue Expenditure	97,083	1,08,798	1,23,212	1,36,804	1,53,406
Capital Expenditure	22,641	16,859	15,922	28,874	17,881
Loans and Advances	8,706	8,700	10,868	8,469	21,248
Inter-State Settlement	05	08	08	08	00
As a *percentage* to Gross State Domestic Product					
Total Expenditure	**15**	**14**	**16**	**15**	**15**
Revenue Expenditure	11	11	13	12	12
Capital Expenditure	03	02	02	03	01
Loans and Advances	01	01	01	01	02

Source: Finance Accounts of the years concerned

Total Expenditure of the State increased by 50 *per cent* from ₹1,28,435 crore in 2018-19 to ₹1,92,535 crore in 2022-23 and by 11 *per cent* over preceding year. As a *percentage* to GSDP, Revenue Expenditure during 2022-23 was same as that of previous year. Capital Expenditure decreased in absolute terms as well as in terms of *percentage* of GSDP. The following chart depicts the trend of the share of components of Expenditure.

Chart 2.7: Trend of share of components in Total Expenditure

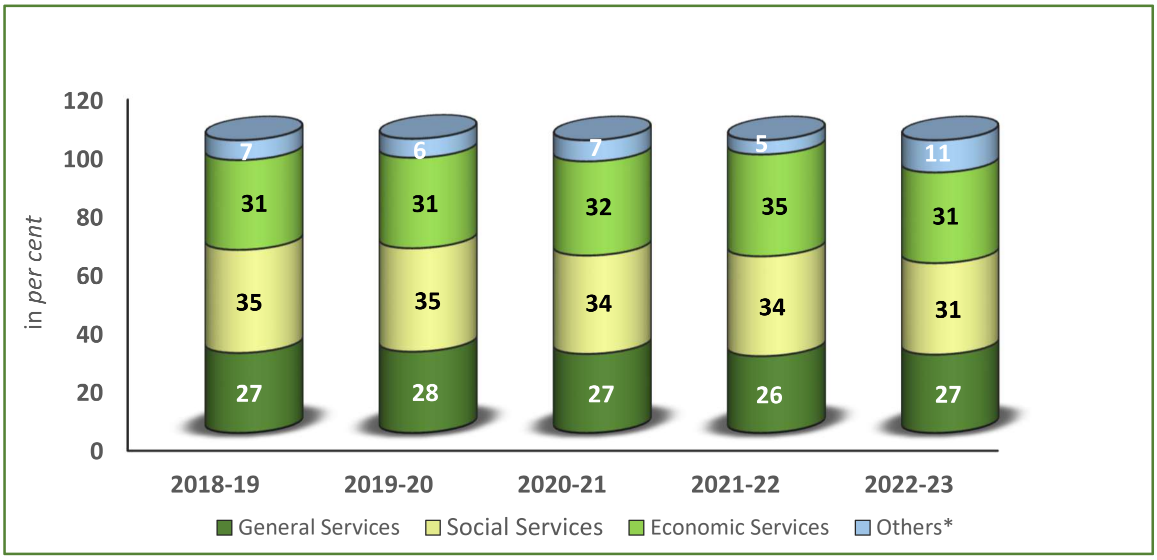


Source: Finance Accounts of the years concerned

- The share of Revenue Expenditure in Total Expenditure was one *percentage* point higher than previous year.
- Share of Capital Expenditure was least during the past five years whereas share of Loans and Advances given were highest. However, the high share of Loans and Advances does not truly reflect the Government assets as many of them were provided to service Off-Budget Liabilities of the Government (refer to ***Paragraph 2.5.3.3***).

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 the following chart:

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



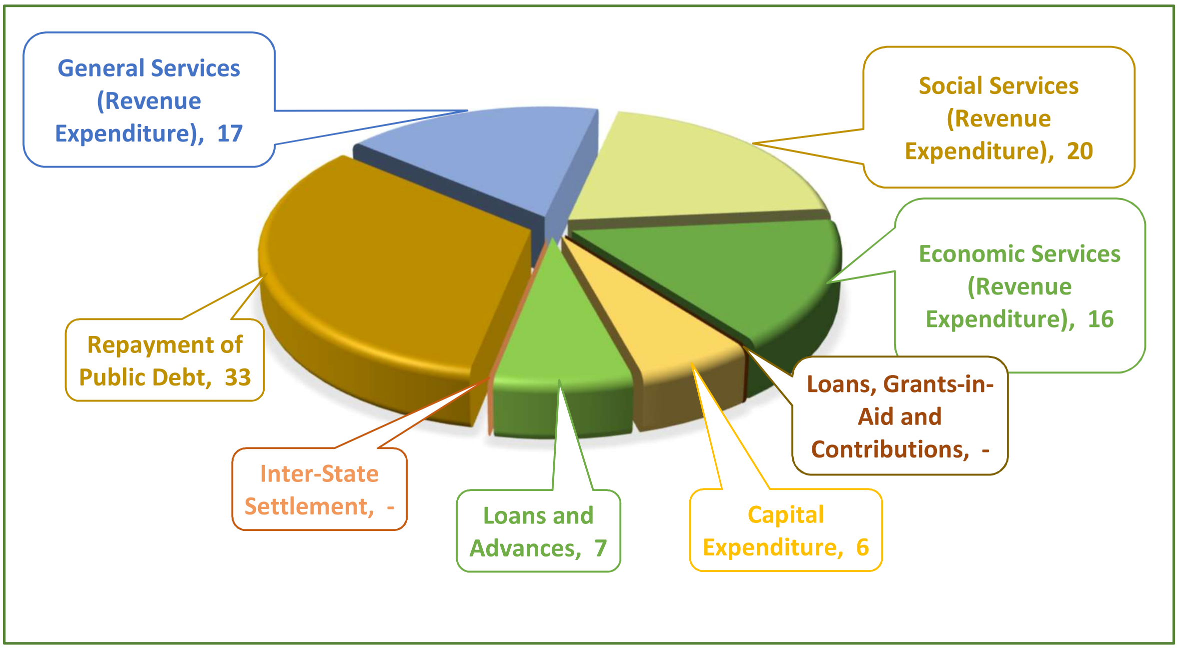
Source: Finance Accounts of the years concerned

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

The share of General Services is almost constant across the years. However, the share of Social and Economic services has decreased during the current year. Loans and Advances provided have increased in the current year as mentioned above.

The following Chart shows the composition of expenditure for the year 2022-23.

Chart 2.9: Composition of expenditure (in *per cent*) during 2022-23



Source: Finance Accounts

Note: Loans, Grants-in-Aid and Contributions in the above chart for State mainly refers to Compensation and Assignments to Local Bodies and Panchayat Raj Institutions, which are Nil during the year

The major portion of expenditure is towards Repayment of Public Debt followed by Social Services. Capital Expenditure is less than 10 *per cent*.

2.5.2 Revenue Expenditure

Revenue Expenditure is incurred to maintain the current level of services and payment for the past obligation. It also includes all subsequent charges for maintenance and all working expenses. 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 shown in the table below.

Table 2.13: Revenue Expenditure – Basic Parameters

(₹ in crore)

Sl. No.	Parameter	2018-19	2019-20	2020-21	2021-22	2022-23
1	**Total Expenditure**	**1,28,435**	**1,34,365**	**1,50,010**	**1,74,155**	**1,92,535**
2	**Revenue Expenditure**	**97,083**	**1,08,798**	**1,23,212**	**1,36,804**	**1,53,406**
3	Growth rate of Revenue Expenditure (*per cent*)	14	12	13	11	12
4	Revenue Expenditure as a *per cent to* Total Expenditure	76	81	82	79	80
5	Revenue Expenditure / Gross State Domestic Product in *per cent*	11	11	13	12	12
6	Revenue Expenditure as a *percentage to* Revenue Receipts	96	106	122	107	96
7	Growth rate of Gross State Domestic Product (*per cent*)	14	11	(-)01	20	16
8	Buoyancy of Revenue Expenditure with Gross State Domestic Product (ratio)	0.96	1.12	NC	0.56	0.74
9	Growth rate of Revenue Receipts (*per cent*)	14	1	(-)2	26	25
10	Buoyancy of Revenue Expenditure with Revenue Receipts (ratio)	0.97	10.89	NC	0.42	0.49

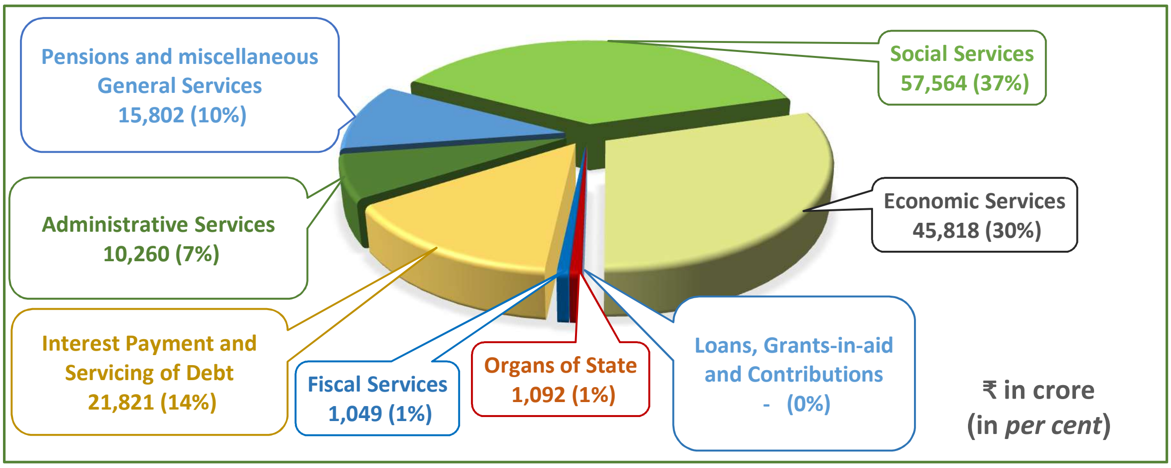
Source: Finance Accounts of the years concerned

NC: Not calculated as growth rates of GSDP or Revenue Receipts is negative

Revenue Expenditure increased by ₹56,323 crore (58 *per cent*) during the past five years from ₹97,083 crore in 2018-19 to ₹1,53,406 crore in 2022-23. Revenue Expenditure grew by around 12 *per cent* over previous year. The ratio of Revenue Expenditure (RE) with GSDP is around 12 *per cent*. Buoyancy ratios of RE to RR and RE to GSDP were less than '1', indicating that Revenue Expenditure was growing at a slower pace than RR and GSDP.

Sectoral distribution of Revenue Expenditure pertaining to 2022-23 is given below:

Chart 2.10: Sector-wise distribution of Revenue Expenditure during 2022-23



Source: Finance Accounts

Note: Loans, Grants-in-Aid and Contributions in the above chart for State mainly refers to Compensation and Assignments to Local Bodies and Panchayat Raj Institutions, which are Nil during the year

Major portion of Revenue Expenditure was on Social Services (37 *per cent*), while nearly 31 *per cent* was on General Services like Interest Payments, Pensions, and Administrative Services, etc.

2.5.2.1 Major changes in Revenue Expenditure

Highest variations under different Heads of Account regarding Revenue Expenditure of the State during the current year vis-à-vis the previous year is shown below:

Table 2.14: Variation in Revenue Expenditure during 2022-23 compared to 2021-22

(₹ in crore)

Major Heads of Account	2021-22	2022-23	Variation
Increase			
General Sector			
2049 - Interest Payments	19,161	21,821	2,660
2071 - Pensions and Other Retirement benefits	14,025	15,816	1,791
Social Sector			
2202 - General Education	13,844	16,483	2,639
2235 - Social Security and Welfare	10,328	12,181	1,853
Economic Sector			
2801 - Power	11,111	17,678	6,567
2515 - Other Rural Development Programmes	4,410	5,733	1,323
Decrease			
Social Sector			
2225 - Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	15,450	11,537	(-)3,913
Economic Sector			
2435 - Other Agricultural Programmes	772	47	(-)725
3055 - Road Transport	890	459	(-)432
2401 - Crop Husbandry	17,303	17,031	(-)272
2852 - Industries	1,067	803	(-)264

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 of ₹7,061 crore on 'Taking over of DISCOM's losses under UDAY Scheme' under Power;
- Higher interest payments (₹2,632 crore) on State Development Loans (also refer to ***Paragraph 3.2.2.5***);
- Higher disbursements on Pre-Bifurcation Service Pensions (₹1,435 crore), Pre-Bifurcation Family Pensions (₹684 crore) and Post-Bifurcation Service Pensions allocable between Successor States of Andhra Pradesh and Telangana (₹795 crore) under Pensions and other Retirement Benefits (also refer to ***Paragraph 3.2.2.6***);
- Substantial expenditure of ₹1,904 crore on Assistance to Gram Panchayats under Other Rural Development Programmes;
- Higher outgo (₹1,093 crore) on Aasara Pensions under Social Security and Welfare; and
- Higher outlays on teaching grants to Mandal Praja Parishads by ₹831 crore and teaching grants to Zilla Praja Parishads by ₹843 crore under General Education.

The decrease in Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes was mainly on account of decrease (by ₹2,442 crore) in expenditure under Telangana Dalit Bandhu scheme.

Audit analysis of the data pertaining to the five-year period of 2018-23 revealed that major Revenue expenditure (₹5,000 crore or more) was incurred on the following schemes / sub-heads:

Table 2.15: Major schemes / sub-heads where Revenue Expenditure was significant during 2018-19 to 2022-23

(₹ in crore)

Social Services		Economic Services	
Aasara Pensions (including pensions to disabled, widows, weavers and toddy tappers and old age pensions etc.)	42,296	Investment Support Scheme (Rythu Bandhu)	64,970
Teaching Grants to Mandal Praja Parishads	20,777	Assistance to TRANSCO for agriculture and allied subsidies	41,468
Teaching Grants to Zilla Praja Parishads	19,213	Insurance to Farmers	5,738
Kalyana Lakshmi and Shaadi Mubarak	9,999		
Subsidy on Rice (Human Resources Development)	8,482		
National Health Mission	6,899		
Telangana Dalit Bandhu	6,442		

Source: Finance Accounts of last five years

It can be seen from the above that Aasara pensions related expenditure constituted the highest share under Social Sector during the past five years. A huge expenditure of ₹1,06,438 crore has been spent on two schemes in Agriculture under Economic Services as mentioned above.

The trend of Revenue Expenditure components which constituted major share is shown in the below charts:

Chart 2.11: Trend of Major expenditure items under Revenue in Social Sector

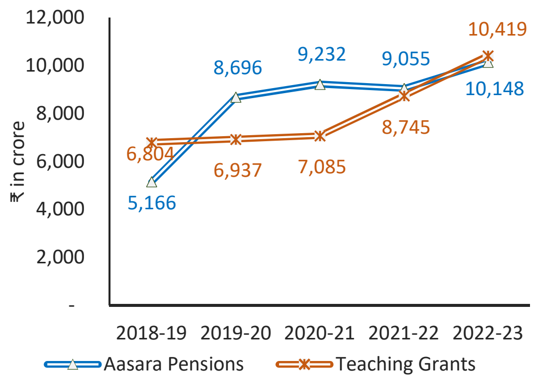
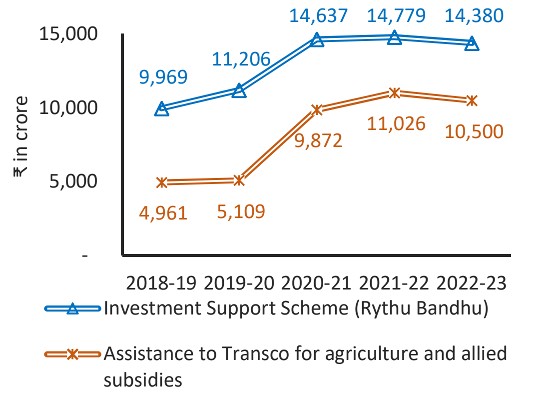


Chart 2.12: Trend of Major expenditure items under Revenue in Economic Sector



Source: Finance Accounts of last five years

The outgo on Aasara Pensions has nearly doubled during the past five years and that of Teaching Grants also showed considerable increase. The expenditure on Investment Support Scheme, which commenced in 2018-19, increased considerably in the first two years and continued at the same level during the past three years. The expenditure on Assistance to Transco for agriculture and allied subsidies had risen sharply in the previous two years but declined slightly in 2022-23.

2.5.2.2 Committed Expenditure and Inflexible Expenditure

The Committed expenditure of the State Government on revenue account consists of expenditure towards interest payments, expenditure on salaries and wages and pensions. It has the first charge on the Government expenditure. There are also certain items of inflexible expenditure which cannot be ordinarily altered or are statutorily required on an annual basis, unlike variable transactions such as capital expenditure, etc. For example, the following items may be considered as inflexible expenditure.

(i) Devolution to Local Bodies – Statutory devolutions to local bodies for pay and allowances (devolution/transfer for capital expenditure)

(ii) Statutory requirements of contribution to Reserve Funds – Contribution to Consolidated Sinking Fund (CSF), Guarantee Redemption Fund (GRF), State Disaster Mitigation / Response Fund (SDMF/SDRF), etc.

(iii) Recoupment of Contingency Fund – Amount recouped within the year.

(iv) Transfer of Cess to reserve fund / other body, which are statutorily required - Amount of State share to be transferred to SNAs / spent by the State.

(v) Share contribution of CSS against the Central Fund received – Amount of State share to be transferred to SNAs / spent by the State.

(vi) Payment of interest on the balances of the interest-bearing fund as if they could have been invested and payment of interest on public debt as charged expenditure – Interest payment.

Upward trend on committed expenditure leaves the Government with lesser flexibility for development sector. Trend analysis of committed and inflexible expenditure and their components are depicted in the following table:

Table 2.16: Components of committed expenditure and inflexible expenditure

(₹ in crore)

Components of committed expenditure and Inflexible expenditure	2018-19	2019-20	2020-21	2021-22	2022-23
Committed Expenditure					
Salaries and Wages	23,011	24,195	24,654	30,256	35,130
Expenditure on Pensions	11,477	11,834	13,599	14,025	15,816
Interest Payments	12,586	14,386	16,841	19,161	21,821
Sub-Total	**47,074**	**50,415**	**55,094**	**63,442**	**72,767**
Inflexible Expenditure					
Statutory devolution to Local Bodies	1,466	3,386	5,945	3,293	2,827
Contribution to Reserve funds	1,002	1,250	599	479	252
Recoupment of Contingency Fund	0.09	2.10	4.21	0.00	0.05
State share contribution towards CSS against the Central Fund received	NA	NA	NA	2,167	3,282
Payment of interest on the balances of interest-bearing funds as if they could have been invested and payment of interest on public debt as charged expenditure – Interest payment	NA	23	213	182	131
Sub-Total	**2,468**	**4,661**	**6,761**	**6,121**	**6,492**
As a *percentage* to Revenue Receipts (RR)					
Salaries and Wages	23	24	24	24	22

Components of committed expenditure and Inflexible expenditure	2018-19	2019-20	2020-21	2021-22	2022-23
Expenditure on Pensions	11	11	14	11	10
Interest Payments	12	14	17	15	14
Sub-Total	**46**	**49**	**55**	**50**	**46**
Inflexible Expenditure as *percentage* to RR					
Sub-Total	**02**	**05**	**07**	**05**	**04**
Inflexible Expenditure as *percentage* to RE					
Sub-Total	**03**	**04**	**05**	**05**	**04**
Non-committed RE	50,009	58,383	68,118	73,362	80,639
Total Expenditure	**1,28,435**	**1,34,365**	**1,50,010**	**1,74,155**	**1,92,535**
***Percentage* of TE**	**39**	**43**	**45**	**42**	**42**
Total Committed and Inflexible Expenditure	**49,542**	**55,076**	**61,855**	**69,563**	**79,259**
Percentage of TE	**39**	**41**	**41**	**40**	**41**
Subsidies	6,304	6,846	9,566	10,218	9,634
Subsidies as percentage of Non-committed expenditure	**13**	**12**	**14**	**14**	**12**

Source: Finance Accounts of last five years

NA: Not available

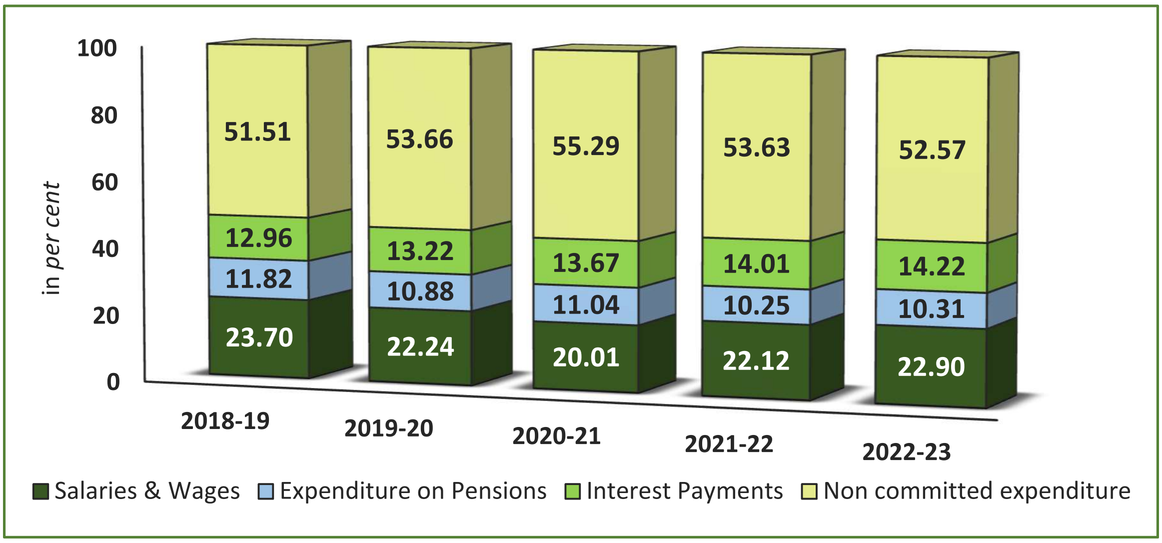
As a *percentage* of Revenue Receipts (RR), the committed expenditure accounted for 46 *per cent* and was least during the past five years, thus giving scope for more non-committed expenditure like welfare and development activities. As a percentage to RR, all the components of Committed Expenditure have decreased when compared to previous year, though they have increased in absolute terms.

Inflexible Expenditure ranged from 02 to 07 *per cent* of RR and 03 to 05 *per cent* of RE.

Non-committed expenditure is around 39 to 45 *per cent* of the Total Expenditure during the past five years. Within the Non-Committed expenditure subsidies constituted 12 to 14 *per cent*, which further reduce the fiscal space for welfare and development activities.

The share of committed expenditure in total Revenue Expenditure during the past five years is depicted in the following Chart:

Chart 2.13: Share of committed expenditure in Revenue Expenditure during the period 2018-19 to 2022-23



Source: Finance Accounts

Committed expenditure constituted about 47 *per cent* of Revenue Expenditure (RE) in 2022-23. Total Committed and Inflexible Expenditure constituted 51 *per cent* of the RE. As a percentage to RE, all the components of Committed Expenditure viz., Salaries and Wages, Pensions and interest payments have increased.

Greater reliance on market borrowings by the Government in recent years led to increased committed liabilities on interest payments. Consequently, interest payments have grown by nearly 73 *per cent* during the past five-year period 2018-23 from ₹12,586 crore to ₹21,821 crore. It can be seen from the above chart that the interest payments as a *percentage* of Revenue Expenditure have been continuously increasing.

Apart from this, the Government facilitated interest payment of ₹8,696 crore for the loans taken by seven institutions in the form of further loans[11]. These interest payments are relatable to Off-Budget Borrowings (*refer to **Paragraph 2.7.2***).

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 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.

As per Finance Accounts, as on 01 April 2022, the NPS Deposit Account under Defined Contributory Pension Scheme for Government Employees had an opening balance of ₹314 crore. Receipts to National Pension System Deposit Account during the year were ₹2,214 crore[12]. Of the available total of ₹2,528 crore, Government transferred ₹1,455 crore to National Securities Depository Limited, leaving a balance of ₹1,073 crore[13] yet to be transferred.

As per provisions of the National Pension System, Government has to match the contribution of the employees. There is a short contribution of ₹114 crore during the year by Government and an overall short contribution of ₹180 crore[14] 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 ₹1,253 crore payable to NSDL (short

---

[11] As seen from the vouchers pertaining to Loans provided to following entities towards interest payment: (i) Kaleswaram Irrigation Project Corporation Limited (₹6,608 crore); (ii) Telangana State Water Resources Infrastructure Development Corporation Limited (₹1,106 crore); (iii) Telangana Drinking Water Supply Corporation Limited (₹581 crore); (iv) Telangana State Road Development Corporation (₹212 crore); (v) Telangana State Power Finance Corporation (₹127 crore); (vi) Telangana State Dairy Development Cooperative Federation Limited (₹40 crore); and (vii) Telangana State Police Housing Corporation (₹22 crore) and interest paid details are not available in respect of others.

[12] Includes ₹1,136 crore of Employee contribution; Government contribution of ₹1,022 crore; and ₹55 crore is under reconciliation

[13] As of March 2023, in Defined Contribution Pension Scheme for Government employees Deposit Account in Public Account

[14] Employees contribution ₹5,387 crore (-) Government contribution ₹5,207 crore

contribution by Government and amount yet to be transferred to National Securities Depository Limited) to the end of March 2023. Director of Treasuries and Accounts (DTA) stated (September 2023) that there are no Government instructions for payment of interest to the amounts other than legacy period from 01 September 2004 to 31 March 2011 (refer to ***Paragraph 4.2*** for non-discharge of interest liability).

Upon the bifurcation of the erstwhile combined State of Andhra Pradesh in 2014, a balance of ₹730 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 Pradesh and Telangana. Of this amount, ₹365 crore was apportioned in 2018-19 and Telangana was allocated ₹135 crore. No further apportionment occurred during 2019-23 and an amount of ₹365 crore is yet to be apportioned as of March 2023.

The Director of Treasuries and Accounts (DTA) has informed (September 2023) the following discrepancies in the data available with it 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 the year	1,136	932
Contribution made by Government during the year	1,022	861
Amount transferred to NSDL	1,455	1,220
Balance to be transferred to NSDL	1,073	446
Amount apportioned	365	345

Source: Finance Accounts and information furnished by DTA

Further, the DTA informed (September 2023) that the matter has been taken up with Principal Accountant General (Accounts and Entitlements).

2.5.2.4 Subsidies

The following table presents expenditure on subsidies for the five-year period 2018-19 to 2022-23.

Table 2.18: Expenditure on subsidies

	2018-19	2019-20	2020-21	2021-22	2022-23
Subsidies (₹ in crore)	6,304	6,846	9,566	10,218	9,634
Subsidies as a *percentage* of Revenue Receipts	06	07	09	08	06
Subsidies as a *percentage* of Revenue Expenditure	06	06	08	07	06

Source: Finance Accounts

- Subsidies decreased by ₹584 crore (6 *per cent*) compared to previous year. Subsidies as a *percentage* to Revenue Receipts and Revenue Expenditure decreased marginally during the current year. The decrease was mainly on account of (i) Assistance to Transmission Corporation of Telangana Ltd. for Agricultural and allied Subsidy (decrease by ₹396 crore) and (ii) Assistance to T.S.R.T.C towards Reimbursement of Concessions extended to various categories of citizens (decrease by ₹331 crore).

- Only three subsidy items cover 99 *per cent* of the total subsidies. They are: (i) Assistance to Transmission Corporation of Telangana Ltd. for Agricultural and allied Subsidy (₹7,665 crore, 80 *per cent*); (ii) Subsidy on Rice (Human Resource Development) (₹1,341 crore, 14 *per cent*), and (iii) Assistance to T.S.R.T.C towards Reimbursement of Concessions extended to various categories of citizens (₹459 crore, 5 *per cent*).

(i) Implicit Subsidies

Implicit Subsidies arise when the Government provides social and economic goods/services at a price lesser than the cost of goods and services incurred by the Government and are indirect or in kind or can be given as a concession but not specifically described as subsidies. The following are considered as such implicit subsidies:

- It was mentioned above that the Government provided ₹7,665 crore as subsidies towards Assistance to Transmission Corporation of Telangana Ltd. for Agricultural and allied Subsidy. Apart from this Government provided another ₹2,835 crore towards same in the form of Grants-in-Aid. Out of this ₹1,785 crore was under Minor Head Special Component Plan for Scheduled Castes and ₹1,050 crore was under Tribal Area Sub-plan. The reason for allocating ₹2,835 crore as Grants-in-Aid for the same purpose under different heads was not known.
- Power subsidy for industries (₹101 crore) and Managerial subsidy to Telangana Scheduled Castes Co-operative Development Corporation (₹40 crore) were provided in the form of Grants-in-Aid.

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

The State Government provided an amount of ₹69,317 crore to Local Bodies and other Institutions by way of Grants and Loans in 2022-23, which was higher by ₹7,917 crore than in the preceding year.

Table 2.19: Financial assistance to Local Bodies and Other Institutions

(₹ in crore)

Name of the Institution	2018-19	2019-20	2020-21	2021-22	2022-23
(A) Local Bodies					
Urban Local Bodies: Municipal Corporations and Municipalities	1,542	1,359	3,785	2,698	4,110
Panchayat Raj Institutions: Zilla Praja Parishads, Mandal Praja Parishads and Gram Panchayats	5,996	7,273	8,538	8,521	11,127
Total (A)	**7,538**	**8,632**	**12,323**	**11,219**	**15,237**
(B) Others					
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	1,037	965	985	1,032	1,134
Development Authorities	236	154	246	355	241
Statutory Corporations	1,409	1,421	2,632	3,370	3,205
Co-operative Institutions	229	68	15	167	81
Non-Governmental Organisations	775	962	511	600	555
Other Institutions*	26,684	32,765	37,572	44,657	48,864
Total (B)	**30,370**	**36,335**	**41,961**	**50,181**	**54,080**
Total (A+B)	**37,908**	**44,967**	**54,284**	**61,400**	**69,317**

Name of the Institution	2018-19	2019-20	2020-21	2021-22	2022-23
Grants-in-Aid on salary	6,563	6,957	7,192	8,533	9,848
Grants-in-Aid for creation of Capital Assets	7	0	139	693	613
Grants-in-Aid for non-salary	31,337	38,010	46,953	52,174	58,856
Grant-in-Aid given in kind	State Government has not provided the information				
Revenue Expenditure	97,083	1,08,798	1,23,212	1,36,804	1,53,406
Assistance as percentage of Revenue Expenditure	39.05	41.33	44.06	44.88	45.19

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 (₹14,366 crore), Aasara Pensions (₹6,383 crore), Telangana Dalit Bandhu (₹2,000 crore), Aasara Pensions to old age persons and widows (₹1,863 crore), Kalyana Lakshmi (₹1,544 crore), Insurance to Farmers (₹1,448 crore), Samagra Siksha (₹1,216 crore), etc. (full details are available in Appendix III of Finance Accounts*

It can be noted from the above table that the Government's spending is increasingly taking the form of Grants-in-Aid. While 39 *per cent* of Revenue Expenditure was in the form of Financial Assistance in 2018-19, it has grown to more than 45 *per cent* in 2022-23.

The main reasons for the increase in Financial Assistance during 2022-23 were expenditure of ₹7,061 crore on taking over losses of DISCOMs under UDAY and provision of Grants-in-Aid of ₹1,876 crore towards Assistance to Gram Panchayats.

Box 2.2: Implementation of recommendations of the State Finance Commission

As per 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), but without any formal orders indicating 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 Government in October 2020, after six months of commencement of the Financial Year 2020-21.

The Government earlier i.e., in the previous years informed (January 2022) that the report of SFC is under examination and the funds were being released based on proportionate population. Further information is awaited from the Government.

Delay in appointment of members to State Finance Commission and subsequent delay in acceptance and implementation of the recommendations resulted in release of funds without relevant recommendations apart from non-compliance to the Constitutional mandate.

It is recommended that the State Government may take appropriate action on the Report of the State Finance Commission and ensure that the mechanism of State Finance Commission is kept functional.

2.5.3 Capital Expenditure

Capital Expenditure is incurred for acquisition and creation of capital assets. Capital Expenditure during the year 2022-23 (₹17,881 crore) was 38 *per cent* lower than that of the preceding year (₹28,874 crore). In terms of *percentages* of the Total Expenditure, the Capital Expenditure during 2022-23 was lowest during the last five years at 9 *per cent* of the Total Expenditure. It was highest at 18 *per cent* of the Total Expenditure in 2018-19.

2.5.3.1 Major changes in Capital Expenditure

Significant increase or decrease under various Heads of Account in Capital Expenditure during 2022-23 vis-à-vis previous year is shown in the following table.

Table 2.20: Capital Expenditure – Comparison between 2021-22 and 2022-23

(₹ in crore)

Major Heads of Accounts	2021-22	2022-23	Variation
Increase			
Social Sector			
4202 - Capital outlay on Education, Sports, Art and Culture	49	585	536
4210- Capital outlay on Medical and Public Health	498	806	308
General Sector			
4059 - Capital outlay on Public Works	447	698	251
Decrease			
Economic Sector			
4700 - Capital outlay on Major Irrigation	12,025	7,427	(-) 4,597
5055 - Capital outlay on Road Transport	938	123	(-) 815
4702 - Capital outlay on Minor Irrigation	1,383	677	(-) 706
4515 – Capital outlay on Other Rural Development Programmes	2,600	1,946	(-) 653
Social Sector			
4215 - Capital outlay on Water Supply and Sanitation	5,329	941	(-) 4,387

Source: Finance Accounts of the years concerned

The decrease in Capital outlay was mainly due to decrease in investments. There were huge investments of ₹9,093 crore in 2021-22 mainly in (i) Telangana Drinking Water Supply Corporation Limited (₹3,708 crore), (ii) Kaleshwaram Corporation (₹3,072 crore), (iii) Telangana State Water Resources Infrastructure Development Corporation (₹1,095 crore), (iv) Telangana State Road Development Corporation (₹573 crore), (v) Telangana State Road Transport Corporation (₹365 crore), and (vi) Telangana State Industrial Infrastructure Corporation (₹269 crore). Out of these entities, the only entity that got investment during the current year was Telangana State Road Transport Corporation (₹122 crore).

Apart from investments, Capital Expenditure also decreased in respect of (i) Palamuru-Ranga Reddy Lift Irrigation Scheme (decrease by ₹576 crore), (ii) Mission Bhagiratha (decrease by ₹568 crore), (iii) Minor Irrigation works under Rural Infrastructure Development Fund (decrease by ₹387 crore) and (iv) Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) (decrease by ₹673 crore).

The net higher expenditure under 'Education, Sports, Art and Culture' was due to increased disbursements towards Civil Works under Samagra Shiksha (₹247 crore). There were increases in (i) construction of Buildings for Secretariat (from ₹86 crore in 2021-22 to ₹367 crore in 2022-23), (ii) Constituency Development Programme (₹432 crore in 2021-22 to ₹1,029 crore in 2022-23), (iii) Hospitals and Dispensaries (₹338 crore in 2021-22 to ₹589 crore in 2022-23).

Highest Capital Expenditure during the past years 2018-23 incurred in respect of the following:

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)	
Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)	6,145	Palamuru – Ranga Reddy Lift Irrigation Scheme	12,937
Mission Bhagiratha	6,366	Kaleshwaram Project	11,370
		Rural Water Supply	6,798
		Special Development Fund for welfare and development activities	3,839

Source: Finance Accounts of last five years

Apart from the Capital Expenditure on its own, the Government has also been implementing few Capital-intensive flagship projects / schemes like Kaleshwaram, Mission Bhagiratha, Palamuru Ranga Reddy Scheme etc., through Off-Budget Borrowings raised by Special Purpose Vehicles (refer to ***Paragraph 2.7.2*** for details).

Box 2.3: 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. The issue was brought to the notice of the Government in the past few years through State Finances Audit Reports of the years concerned.

In the current year also, the trend continued, and an amount of ₹50 crore was booked under capital (refer to ***Paragraph 3.4.9.1 (i)***). We observed that the total progressive Capital expenditure as of March 2023 on this account was ₹223 crore. Such classification of Revenue expenditure on consumables as Capital expenditure is incorrect.

2.5.3.2 Quality of Capital Expenditure – Investments

Capital Expenditure of the Government in the form of investment in 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 2023, State Government's investments stood at ₹31,100 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives. During 2022-23, Government of Telangana invested ₹181 crore in three entities. There is a drastic decline in the investments during the year when compared to previous year (₹9,093 crore) 2021-22. The investments were made in mainly two institutions as shown below:

Table 2.22: Major investments made by Government during 2022-23

Sl. No.	Investment	Amount (₹ in crore)
1	Telangana State Road Transport Corporation	122
2	Ramagundam Fertilizers and Chemicals Limited	54

Source: Finance Accounts

Year-wise details of investments made, and Return on Investment by the Government are shown in the following table:

Table 2.23: Investments and Return on Investment

Investment/return/ cost of borrowings	2018-19	2019-20	2020-21	2021-22	2022-23
Investment at the end of the year (₹ in crore)	19,754	21,807	21,826	30,919	31,100
Return on Investment (₹ in crore)	94	115	94	52	78
Return on investment in *per cent*	0.48	0.53	0.43	0.17	0.25
Interest paid on Government Borrowings (₹ in crore)	12,586	14,386	16,841	19,161	21,821
Average rate of interest on Government Borrowings (*per cent*)	6.94	6.70	6.63	6.49	6.57
Difference between return on investment[#] and interest on Government borrowings (₹ in crore)	**(-)12,492**	**(-)14,271**	**(-)16,747**	**(-)19,109**	**(-)21,743**
Difference between return and interest rate (*per cent*)	(-)6.46	(-)6.17	(-)6.20	(-)6.32	(-)6.32

Source: Finance Accounts of the years concerned
[#] Investment at the end of the year

Return on Investment (RoI) in these Companies/Corporations has been quite low consistently. Investments made by the Government have increased from ₹19,754 crore in 2018-19 to ₹31,100 crore in 2022-23, registering an increase of 57.44 *per cent* over the past five years. However, there was no notable increase in RoI from the Companies/ Corporations.

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 9 Public Sector Undertakings whose net worth has been completely eroded due to accumulated losses leading to negative net worth of (-)₹50,931 crore (refer to ***Paragraph 5.7.2*** for further details). As per finance accounts, the State Government has an investment of ₹17,621 crore in four[15] 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. The following presents the details of outstanding Loans and Advances during the years 2018-23.

[15] (i) Two DISCOMs: ₹17,619 crore, (ii) Telangana Water Resource Development Corporation Limited: ₹2 crore, (iii) Telangana State Housing Corporation Limited: ₹0.25 crore, and (iv) Telangana Rajiv Swagruha Corporation Limited: ₹0.03 crore

Table 2.24: Quantum of loans disbursed and recovered during 2018-19 to 2022-23

(₹ in crore)

Quantum of loans disbursed and recovered	2018-19	2019-20	2020-21	2021-22	2022-23
Opening Balance of loans outstanding	15,869	24,509	33,147	43,957	52,379
Amount advanced during the year	8,706	8,700	10,868	8,469	21,248
Amount recovered during the year	66	62	58	48	629
Closing Balance of the loans outstanding	**24,509**	**33,147**	**43,957**	**52,379**	**72,998**
Net addition	8,640	8,638	10,810	8,421	20,619
Interest received	7	6	6	6	253
Interest rate on Loans and Advances given by the Government	0.03	0.02	0.01	0.01	0.35
Rate of Interest paid on the outstanding borrowings of the Government	6.94	6.70	6.63	6.49	6.57
Difference between the rate of interest received and interest paid (*per cent*)	(-)6.91	(-)6.68	(-)6.62	(-)6.48	(-)6.22

Source: Finance Accounts of the years concerned

Loans and Advances given during 2022-23 shown a sharp increase i.e., by ₹12,779 crore in absolute terms and 150 *per cent* over previous year.

- Major increase in disbursement of Loans and Advances is seen in respect of Kaleshwaram Irrigation Project Corporation Limited (increase by ₹7,460 crore), Telangana State Water Resource Infrastructure Development Corporation Limited (increase by ₹1,424 crore), Hyderabad Metro Rail Limited (₹1,300 crore) and Telangana State Road Development Corporation (₹587 crore).
- The increase was also on account of fresh Loans provided to Telangana State MARKFED (₹1,107 crore) and Loans to Hyderabad Metro Water Supply & Sewerage Board for Sunkishala Intake Project KDWSP (₹725 crore).
- As per the Accounts, the Loans and Advances recoverable from various institutions as of March 2023 is ₹72,998 crore. A few major are mentioned below:

Table 2.25: Major Loans provided to Institutions and recoverable by Government

Sl. No.	Institution / Programme	₹ in crore
1	Kaleshwaram Irrigation Project Corporation Limited	12,318
2	Telangana Drinking Water Supply Corporation Limited	10,421
3	Hyderabad Metropolitan Water Supply and Sewerage Board	10,338
4	Financial Institutions (under Housing sector)	6,037
5	Telangana State Sheep and Goat Development Cooperative Federation Limited	3,816
6	Telangana State Water Resources Infrastructure Development Corporation Limited	3,665
7	Telangana Scheduled Castes Co-operative Development Corporation Limited	3,000
8	Hyderabad Metro Rail Project	2,627
9	Arogyasree Health Care Trust	2,812
10	Repayment of Power Finance Corporation Bond	2,398
11	Telangana Scheduled Tribes Cooperative Finance Corporation Limited	1,700
12	Weaker Section Housing Programme	1,599

Source: Finance Accounts

The State Government has earlier in its different Budget speeches declared that programmes like (i) Mission Bhagiratha being implemented by Telangana Drinking

Water Supply Corporation (ii) Major Irrigation Schemes like Kaleshwaram, Palamuru-Ranga Reddy, Sitarama, Devadula being implemented through Kaleshwaram Irrigation Project Corporation, Telangana State Water Resources Infrastructure Development Corporation, (iii) Two Bed Room Housing schemes being implemented through borrowings from Financial Institutions, (iv) Sheep and Goat programme being implemented by Telangana State Sheep and Goat Cooperative Federation limited are through Extra-Budgetary Resources. The loans mentioned at items (1), (2), (4), (5), and (6) are given by the Government towards principal repayment and interest payment of the borrowings taken from Banks/Financial institutions and are related to Extra-Budgetary Resourcing or Off-Budget Borrowings.

Further, Institutions mentioned at (7), (9) and (11) are those to which Government has given Loans, but do not have their own revenue resources for repayment to Government and are implementing Government schemes. Hence, these are to be considered as Grants-in-Aid provided in the form of Loans.

In respect of item (10) the loans provided were towards repayment of Power Finance Corporation Bonds taken by the erstwhile combined State of Andhra Pradesh. So, these loans are in fact towards discharge of Government liabilities.

Thus, these loans do not reflect the true picture of Government assets as Loans recoverable.

Hence, it is recommended that State Government may modify depiction of discharge of its liabilities on account of Off-Budget Borrowings as loans advanced to the entities.

- 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 all the entities (August 2023). There was no confirmation from the entities/institutions in earlier years also. The lack of confirmation continuously over the past few years could raise concerns about the fairness in depiction of Loans in accounts.
- Recovery of Loans continued to be poor this year also. Though an amount of ₹629 crore has been shown as recovery during the year 2022-23, much higher than recovery of ₹48 crore in the previous year 2021-22, an amount of ₹590 crore was received higher than previous disbursement in the accounts, thus increasing the negative balance in respect of Loans to Telangana Transco for modernisation and strengthening of Transmission system in Hyderabad metropolitan area. Out of the remaining ₹39 crore recovered during the year, ₹17 crore was recovery from Government Servants, ₹5 crore from loans given towards purchase of motor cars, and ₹7 crore was recovery from loans to honourable MLAs for purchase of Motor Cars.

Non-recovery from any of the institutions to whom huge loans were given also reinforces the view that many loans given are either towards discharge of Off-Budget Liabilities or to institutions which cannot repay on their own due to lack of own revenue resources.

- An amount of ₹253 crore was received as interest on Loans provided. However, out of this, as mentioned in ***Paragraph 2.4.1.1 (ii)*** earlier, an amount of ₹247 crore was from Telangana Transmission Corporation arising from out of Loans to Telangana TRANSCO for High Voltage Distribution System (HVDS), for which the principal outstanding itself only ₹736 crore. This means nearly 34 *per cent* is received as interest during the year. Another ₹6 crore was received from Government servants.

  Again, no interest was received from any of the institutions to whom huge loans were provided.

  Hence, it is recommended that **State Government may ensure that the orders sanctioning loan /agreements should specify conditions like rate of interest, repayment schedule, etc. It also should firm up terms and conditions of earlier loans, if any, provided without specifying the same.**

- State Government has provided ₹1,450 crore Loans to Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB) during 2022-23 and a total of ₹10,338 crore loans as of March 2023. However, Annual Accounts of Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB) were in arrears for three years from 2020-21. Similarly, Telangana Vaidya Vidhana Parishad, to which loans to an extent of ₹528 crore were provided, has not entrusted audit of their accounts from 2020-21 onwards, and in fact, has not submitted its accounts from 2014-15 onwards.

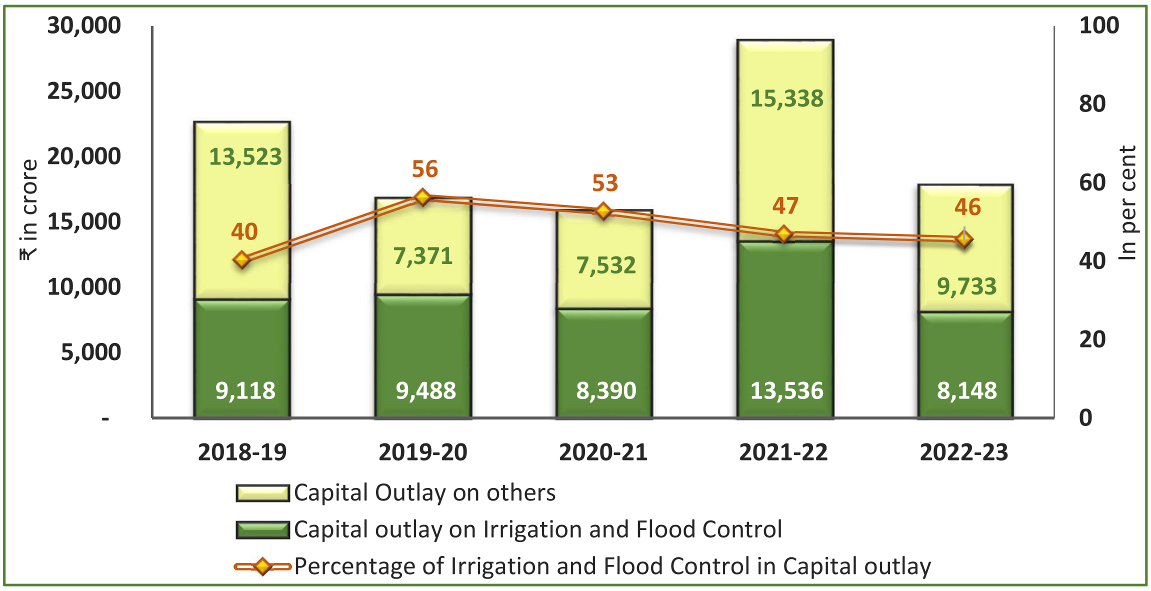
  The State Government may ensure timely submission of Annual Accounts by institutions before extending any further loans.

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, the Capital outlay was ₹1,02,177 crore which ranged from 09 *per cent* to 18 *per cent* of the Total Expenditure in each year. Nearly half (i.e., ₹48,679 crore, 48 *per cent*) of total Capital outlay during these five years was incurred on Irrigation and Flood Control.

Chart 2.14: 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, 280 projects / works were incomplete, and an expenditure of ₹1,78,354 crore was incurred on them as of March 2023. The age-wise and Department/wing wise profile is shown in following tables:

Table 2.26: Age profile of incomplete projects / works as on 31 March 2023

Incomplete Project / work commenced in the year	No. of incomplete Projects / works	Estimated cost (₹ in crore)	Expenditure (₹ in crore)
up to 2013-14	17	64,283	1,48,943
2014-15	1	1	1
2015-16	28	108	60
2016-17	47	37,726	24,858
2017-18	41	2,867	2,083
2018-19	75	615	439
2019-20	20	313	186
2020-21	11	2,084	1,705
2021-22	18	135	43
2022-23	22	272	36
Total	**280**	**1,08,404**	**1,78,354**

Source: Finance Accounts

Table 2.27: Department / Wing-wise profile of incomplete projects / works as on 31 March 2023

Department / Wing	No. of incomplete projects / works	Estimated cost (₹ in crore)	Expenditure (₹ in crore)
Roads	216	2,800	1,656
Buildings	25	1,741	1,898
Bridges	16	42	27
Irrigation	20	1,02,388	1,73,564
Others	3	1,433	1,209
Total	**280**	**1,08,404**	**1,78,354**

There were 20 incomplete irrigation projects (commenced between 1983 to 2018) to be completed by the year 2023. The original cost of these projects has increased from ₹1,02,388 crore to ₹2,06,977 crore i.e., an escalation by ₹1,04,589 crore (102 *per cent*). An expenditure of ₹1,73,564 crore was incurred on these projects as of March 2023. In addition to this, the Government has a pending liability of ₹8,971 crore in respect of 13 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, 260 projects/works with an estimated cost of ₹6,016 crore remained incomplete, and an expenditure of ₹4,790 crore was incurred as of March 2023 on these delayed projects. In addition to this, as per Appendix IX of the Finance Accounts, the Government has a pending liability of ₹1,096 crore in respect of 113 other ongoing projects/works[16].

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.

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 States[17] is given below:

Table 2.28: Expenditure priority of the State regarding Health, Education and Capital Expenditure

	TE/ GSDP	SSE / TE	ESE / TE	DE / TE	CE / TE	Education/ TE	Health/ TE
Average of General States (2018-19)	16.38	36.60	30.65	67.24	15.58	14.76	5.07
Telangana (2018-19)	**14.98**	**40.46**	**32.29**	**72.74**	**24.41**	**8.98**	**4.67**
Average of General States (2022-23)	15.79	38.11	29.17	67.28	15.22	14.85	5.68
Telangana (2022-23)	**14.66**	**34.54**	**38.84**	**73.37**	**20.32**	**9.06**	**4.57**

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

---

[16] (i) 84 Road works with pending payment of ₹181 crore (ii) 07 Buildings works with pending payment of ₹6 crore; and (iii) 22 irrigation projects with pending payment of ₹909 crore.

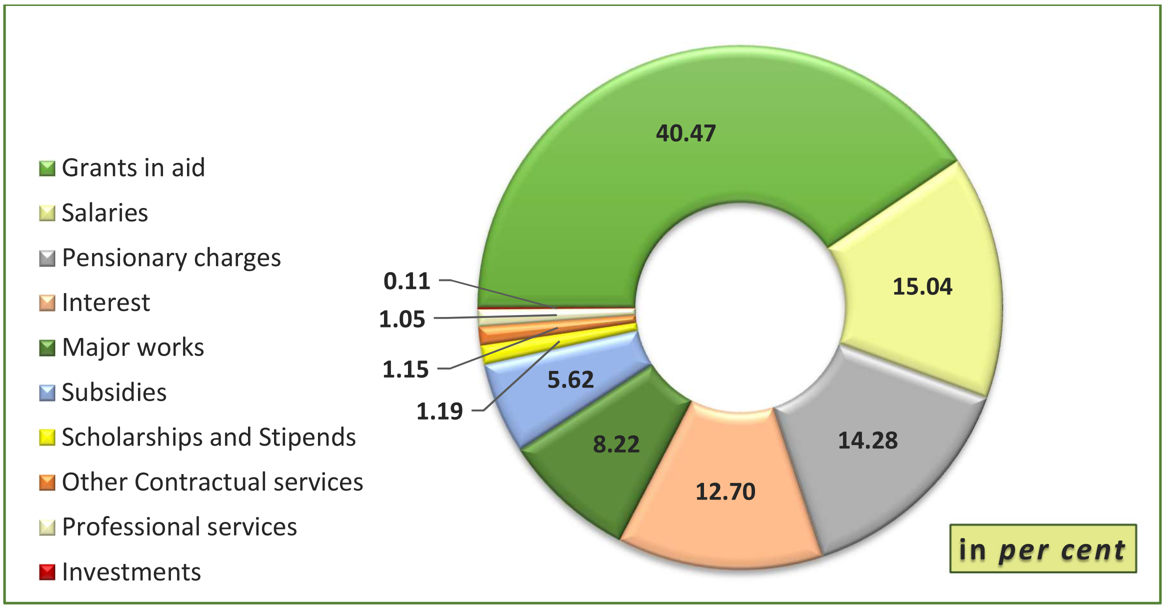
[17] Andhra Pradesh, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh and West Bengal

- The Total Expenditure of Telangana as a percentage of Gross State Domestic Product was lower by more than one *percentage* point when compared to General States.
- The proportion of expenditure on Development (i.e., expenditure on Social and Economic Sectors) to Total expenditure has been higher than the average of General States. This shows that the State has given high priority to Development Expenditure. This is mainly because of higher expenditure on Economic Services by more than nine *percentage* points. However, for the first time the expenditure on Social Services was lower than other General States.
- Capital Expenditure, as a percentage of Total Expenditure decreased from 24 *per cent* in 2018-19 to 20 *per cent* in 2022-23. However, it is still higher (by almost 05 *per cent*) than the average of General States (15 *per cent)*.
- The State has, been persistently trailing in respect of expenditure on Education (by almost 06 *per cent* during 2022-23) and Health (by 01 *per cent* during 2022-23) when compared to the other General States.

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.

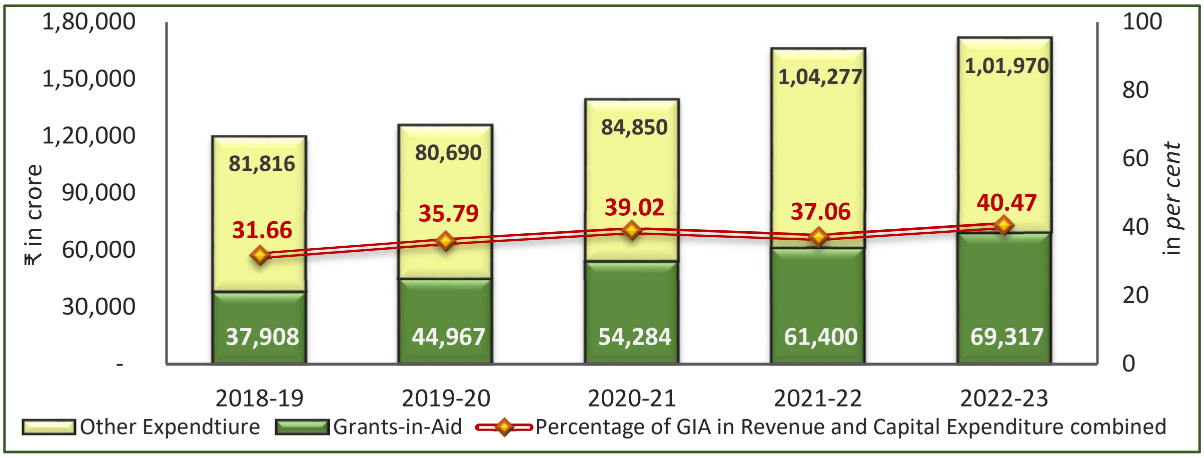
Chart 2.15: Object-wise expenditure



Source: Finance Accounts

Most of the expenditure was in the form of Grants-in-Aid followed by expenditure on Salaries, Pensions, 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 in Revenue and Capital Expenditure also increased from 32 *per cent* in 2018-19 to 40 *per cent* in 2022-23 as shown in chart below on account of increasing expenditure on schemes like Rythu Bandhu, Dalit Bandhu, etc.

Chart 2.16: 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., do not form part of the Consolidated Fund, and 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 2018-19 to 2022-23 are given in the next table:

Table 2.29: Component-wise net balances (increase (+) / decrease (-)) in Public Account (as of 31 March of the year)

(₹ in crore)

Sector and Sub-Sector	2018-19	2019-20	2020-21	2021-22	2022-23
Small Savings, Provident Funds, etc.	845	783	945	1,067	2,049
Reserve Funds					
a) Reserve Funds bearing interest	288	3,226	226	(-)1,634	(-)207
b) Reserve Funds not bearing interest	1,242	1,127	548	580	634
Deposits					
a) Deposits bearing interest	121	140	180	72	1,316
b) Deposits not bearing interest	2,976	1,266	4,901	1,151	(-)367
c) Advances	3	0.01	0	0.01	0.01
Suspense and Miscellaneous					
a) Suspense	113	292	(-)229	755	347
b) Other Accounts	(-)773	5	(-)3	(-)3	(-)0.26
c) Accounts with Governments of Foreign Countries	(-)0.03	(-)0.02	(-)0.02	(-)0.02	(-)0.03
d) Miscellaneous	--	--	--	--	--
Remittances					
a) Money Orders and other Remittances	126	34	(-)5	583	(-)462
b) Inter-Governmental adjustment account	(-)11	(-)27	(-)27	34	(-)4
Total	**4,930**	**6,846**	**6,536**	**2,605**	**3,306**

Source: Finance Accounts of the years concerned

- The increase of ₹2,049 crore in Small Savings, Provident Funds etc., was mainly due to increase in State Government Insurance Fund by ₹1,070 crore and General Provident Fund net balance by ₹945 crore.
- The decrease of ₹207 crore in Reserve Funds bearing interest was mainly on account of increase of ₹128 crore in State Disaster Response Fund and decrease of ₹336 crore in State Compensatory Afforestation Fund.
- The increase in Reserve Funds not bearing interest is due to receipts into Consolidated Sinking Fund and Guarantee Redemption Fund from out of investments.
- The increase in Deposits bearing interest by ₹1,316 crore in 2022-23 was mainly due to higher retention of fund under Defined Contribution Pension Scheme for Government Employees instead of transferring to National Security Deposits Limited (refer to ***Paragraph 2.5.2.3*** for further details).

2.6.2 Reserve Funds and Funds under Deposit Accounts

Reserve Funds are created for specific and defined purposes. These are funded by contributions / Grants from Consolidated Fund of the State. Out of the gross accumulated balance of ₹12,188 crore lying in these Funds as on 31 March 2023, an amount of ₹8,600 crore was invested in Government of India Securities, leaving a net accumulated balance of ₹3,588 crore[18].

The transactions during the year 2022-23 under major Reserve Funds are detailed below.

2.6.2.1 Consolidated Sinking Fund

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

As per the guidelines[19], the State Government may contribute annually to the Consolidated Sinking Fund at 0.50 *per cent* of the outstanding liabilities[20] at the end of the previous financial year. Accordingly, ₹1,536 crore was required to be contributed in 2022-23 on the outstanding liabilities of ₹3,07,163 crore as at the end of 2021-22. However, the State Government did not contribute any amount in 2022-23. An interest of ₹513 crore was earned through the amounts invested from Consolidated Sinking Fund. As of 31 March 2023, the balance in Sinking Fund was ₹7,094 crore, of which ₹7,053 crore was invested.

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

[18] Reserve Funds bearing Interest: ₹1,989 crore and Reserve Funds not bearing Interest: ₹1,599 crore
[19] G.O.Ms.No.3, Finance (DCM), dated 11 June 2014 on Revised Scheme of Consolidated Sinking Fund
[20] As per Consolidated Sinking Fund guidelines outstanding liabilities is defined to comprise of internal debt and public account liabilities of the Government

Table 2.30: Contributions required to be made to Consolidated Sinking Fund (CSF) and made during the past five years

(₹ in crore)

	2018-19	2019-20	2020-21	2021-22	2022-23
Outstanding liabilities at the end of previous year	1,57,218	1,88,733	2,24,182	2,67,843	3,07,163
Contribution to be made	786	944	1,121	1,339	1,536
Contribution made by the State Government	500	300	Nil	Nil	Nil
Interest accrued on investments made from out of CSF	352	450	468	472	513

Source: Finance Accounts of the years concerned

As against a requirement of ₹5,726 crore to be contributed to the CSF during the past five years, the Government had contributed only ₹800 crore in 2018-19 and 2019-20, leaving an aggregate shortfall of ₹4,926 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. The contributions are initially received in SDRF, out of which 20 *per cent* are to be transferred to SDMF.

The XV FC recommended a grant of ₹629 crore in total *i.e.,* ₹472 crore from GoI and ₹157 crore from State Government in 75:25 *per cent* ratio to SDRMF for the year 2022-23. However, Government of India has contributed an amount ₹189 crore only. This amount is received in Consolidated Fund of the State. State Government contributed ₹63 crore as 25 *per cent* of its share. Thus, the total contribution by GoI and State Government was of ₹252 crore as against ₹629 crore resulting in a short contribution of ₹377 crore towards SDRMF. The contribution amount of ₹252 crore was initially received in SDRF.

(i) State Disaster Response Fund

GoI replaced erstwhile Calamity Relief Fund with SDRF with effect from 01 April 2010. As per guidelines of SDRF, Government of India and State Governments are required to contribute to the Fund in the proportion of 75:25 respectively.

The contributions from GoI and State Government are to be transferred from Consolidated Fund of the State to the Public Account under Major Head of Account – 8121. Expenditure from SDRF during the year is incurred initially by operating Major Head – 2245 - Relief on account of Natural Calamities and later adjusted to SDRF. 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 ₹608 crore on 1 April 2022. As per the recommendations of the XV Finance Commission, during 2022-23 the GoI and State Government were required to contribute an amount of ₹503 crore, being 80 *per cent* of the recommended contribution of ₹629 crore to SDRMF. However, the GoI contributed ₹189 crore and the State Government contributed ₹63 crore totalling to ₹252 crore. Out of this, an amount of ₹50 crore was to be transferred to SDMF, which was not done.

Out of ₹860 crore available in SDRF, an amount of ₹123 crore was utilised, leaving a balance of ₹737 crore in the Fund.

(ii) State Disaster Mitigation Fund

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.

The SDMF had a balance of ₹120 crore on 1 April 2022. As per the recommendations of the XV Finance Commission, during 2022-23 the GoI and State Government were required to contribute an amount of ₹126 crore, being 20 *per cent* of the recommended contribution of ₹629 crore to SDRMF. However, no amounts were received into the SDMF during the year 2022-23. Even out of the amount of ₹252 crore contributed by GoI and the State Government to SDRF, the 20 *per cent* of ₹252 crore i.e., ₹50 crore was not apportioned to SDMF. No expenditure was also incurred from out of SDMF. Thus, the available balance in SDMF remained at ₹120 crore.

The State Government did not furnish any reasons for not utilising the SDMF towards mitigation of disasters.

2.6.2.3 Guarantee Redemption Fund

As per guidelines of Reserve Bank of India, Government of Telangana created[21] (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 decided to 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, ₹951 crore was to be contributed in 2022-23 on the outstanding value (₹1,90,244 crore as of 31 December 2022) of Guarantees. However, the State Government did not make any contribution in the year 2022-23.

The State Government has not been contributing to the GRF on a regular basis during the last five-years as shown below.

---

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

Table 2.31: Contributions required to be made to Guarantee Redemption Fund (GRF) and made during the past five years

(₹ in crore)

Sl. No.	Details	2018-19	2019-20	2020-21	2021-22	2022-23
1	Outstanding Guarantees	77,713	89,600	1,05,007	1,35,283	1,90,244
2	Contribution to be made	389	448	525	676	951
3	Contribution made	200	300	Nil	Nil	Nil
4	Minimum level at 3 *per cent*	2,331	2,688	3,150	4,058	5,707
5	Desired level at 5 *per cent*	3,886	4,480	5,250	6,764	9,512
6	Amount available in GRF*	838	1,225	1,325	1,431	1,543
7	*Percentage* of GRF to outstanding Guarantees	***1.08***	***1.37***	***1.26***	***1.06***	***0.81***
8	Shortfall to minimum level (Row 4 – Row 6)	**1,493**	**1,463**	**1,825**	**2,627**	**4,164**
9	Shortfall to desired level (Row 5 – Row 6)	**3,048**	**3,255**	**3,925**	**5,333**	**7,969**

Source: Finance Accounts of the years concerned

* *includes interest earned through investments*

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 had received ₹340 crore in 2018-19, ₹6 crore in 2020-21 and ₹17 crore in 2021-22 as Guarantee Commissions. These amounts were not transferred to GRF in 2019-20, 2021-22 and 2022-23 respectively as required.

Government informed (September 2023) that the contributions to GRF are being made keeping in view of Ways and Means position of the State Government. It also stated that there are not default cases in respect of Companies/Corporations/Autonomous Bodies, which have availed financial assistance from the Banks etc. on Government Guarantees. It further informed that efforts were on to fill the gap between short contribution and desirable level.

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 ₹1,450 crore at the beginning of the year 2022-23. During the year, an amount of ₹68 crore was credited into the State Compensatory Afforestation Fund and ₹404 crore was disbursed out of the fund, leaving a balance of ₹1,114 crore at the end of the year.

2.6.2.5 Rural Development Fund

Rural Development Fund (RDF) is part of the Development and Welfare Funds under Reserve Funds not bearing interest. RDF was created in accordance with Andhra Pradesh Rural Development Act 1996. The purpose of the fund was (i) to provide and accelerate comprehensive Rural Development including construction of rural Roads and Bridges; (ii) to augment storage facilities for storing agricultural produce and (iii) for maintaining and strengthening of public distribution system.

The details of contribution to the fund and expenditure from out of it are shown in the table below:

Table 2.32: Operation of Rural Development Fund

(₹ in crore)

Sl. No.	Year	Opening Balance	Addition due to apportionment between Andhra Pradesh and Telangana	Contribution to the Fund	Expenditure from the Fund	Balance in the Fund
1	2018-19	1,285	0	145	0	1,430
2	2019-20	1,430	0	0	0	1,430
3	2020-21	1,430	0	0	0	1,430
4	2021-22	1,430	0	0	0	1,430
5	2022-23	1,430	0	0	0	1,430

Source: Finance Accounts of the respective years

It can be seen from the above that except a contribution of ₹145 crore during 2018-19, the fund was not operated at all despite availability of huge balance of ₹1,430 crore in the fund.

2.6.2.6 Central Road and Infrastructure Fund

The erstwhile Central Road Fund (CRF), under Deposits Accounts, has been renamed[22] as the Central Road and Infrastructure Fund (CRIF). The CRIF is used for development and maintenance of National Highways, Railway projects, improvement of safety in Railways, State and Rural roads and other infrastructure, etc. In terms of the extant accounting procedure, the grants received by the State from the Centre are to be initially booked as Revenue Receipts under Major Head 1601. Thereafter, the amount received is to be transferred by the State Government to the Public Account under Major Head 8449 Other Deposits-Subventions from Central Road and Infrastructure Fund through functional Major Head(s).

During the year 2022-23, the State Government received grants of ₹275.89 crore towards CRIF and transferred the amount to MH 8449-00-103- Subventions form Central Road Fund. The State Government has incurred an expenditure of ₹128.11 crore and at the end of March 2023 the fund had a balance of ₹158.25 crore.

2.6.2.7 Building and Other Construction Workers Welfare Cess

The Government of India enacted the Building and Other Construction Workers Welfare Cess Act, 1996 (Cess Act) to levy and collect Cess for providing benefits to the workers.

[22] GoI's Gazette notification dated 31 March 2018

During the year 2022-23, the Government collected ₹89 crore as Labour Cess and transferred ₹70 crore to the Building and Other Construction Workers Welfare Board. As of March 2023, an amount of ₹30.56[23] crore was lying in Deposit Accounts awaiting transfer to the Building and Other Construction Workers Welfare Board.

2.6.3 Funds outside Consolidated Fund / Public Account of the State and dedicated Funds

As per Article 266 (1) of the Constitution of India, subject to the provisions of Article 267, all revenues received by the Government, all loans raised by that Government by the issue of treasury bills, loans or Ways and Means Advances and all moneys received by that Government in repayment of loans shall form one consolidated fund to be entitled "the Consolidated Fund of the State". Further, as per Article 266 (2), all other public moneys received by or on behalf of the Government of India or the Government of a State shall be credited to the public account of India or the public account of the State, as the case may be. Article 266 (3) prescribes that no money out of any Consolidated Fund shall be apportioned except in accordance with law for the purposes and in the manner provided for in the Constitution.

In the following case, funds/public monies were lying outside the Government Account as detailed below:

2.6.3.1 Telangana Haritha Nidhi

Government of Telangana launched (2015) "Telangana Ku Haritha Haram" Programme with a goal of afforestation. With the objective of enhancing plantation activity and sustaining it in the long run, the Chief Minister of the State announced (October 2021) the "Telangana Haritha Nidhi", a dedicated Green Fund for Telangana State[24]. Telangana Haritha Nidhi would be funded by contributions from public representatives, Government employees and other sections of society and a predefined portion of taxes, fees and other levies that the State Government imposes. The Forest Department would be the nodal department to operate the fund.

To effectively manage the fund and implement its activities, Government issued orders[25] regarding (i) establishment of a State Level Committee (ii) functions of State Level Committee (iii) activities for which the fund would be utilized (iv) and the Financial and Administrative arrangements in respect of the Fund. Subsequently, the Government issued orders[26] specifying the quantum of contribution to the fund from salaries/ honorarium/

[23] includes ₹11.42 crore pertaining to previous years and ₹19.14 crore for the year 2022-23
[24] Preamble of EFS&T (For.I) Dept. G.O.Rt.No. 139 dt.16.12.2021
[25] Government of Telangana, EFS&T (For.I) Department, G.O.Rt.No.139 dt.16.12.2021
[26] Government of Telangana, Finance (TFR) Department, G.O.Ms.No.17 dt.18.02.2022 and Government of Telangana, Finance (TFR) Department, G.O.Ms.No.16 dt.18.02.2022

remuneration of public representatives[27], Works contracts[28], Constituency Development Fund[29], issue of licenses[30] and salaries of all categories of employees[31]. All the contributions would be credited into the Telangana Green Fund Account maintained in a Nationalised Bank viz., State Bank of India.

As per the information furnished by Principal Chief Conservator of Forests (PCCF) the fund had received ₹35 crore and incurred expenditure of ₹15 crore from out of it leaving balance of ₹20 crore as on 31 March 2023.

- The fund is not maintained in Public Account (i.e., in the Government accounts) but is kept outside in a Nationalised Bank. The PCCF stated (August 2023) that having regard to the fact that the bulk of the contribution to the fund would be voluntary, for reasons of operational flexibility and keeping in view the direct supervision by the State Level Committee, the fund is being maintained in a Bank account with State Bank of India.

  The reply is not acceptable as the Government orders issued at the time of establishing the Fund mentioned that the fund would receive a predefined portion of taxes, fees and other levies that the State Government imposes. Further, Government had also issued orders prescribing specific amounts to be deducted from various categories of Public Servants and Government servants as also from Works contracts, Registrations done by Registrations and Stamps Department, Issue and renewals of licenses, Student admissions etc.

- Further, there was no Legislative approval for the creation of such Fund. The PCCF stated (August 2023) that setting up of the Fund does not require approval of the State Legislature and is well in the domain of the Executive. However, the authority under which the Fund is created by the Executive is not provided.

Thus, the fact remains that creation of a fund outside the Government Account results in moneys lying outside and may result in expenditure without Legislative oversight.

2.7 Public Liability Management

Management of Public Liability is the process of establishing and executing a strategy for managing the Government's liabilities 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.

---

27 (i) Honourable Member of Parliament/Member of Legislative Assembly/Member of Legislative Council/ Chairmen of Corporations: ₹6,000 per annum, (ii) All Chairmen of the Corporations and Chair Persons of Zilla Parishad: ₹1,200 per annum, (iii) Chair Persons of Mandal Praja Parishad/Zilla Parishad Territorial Constituency President: ₹600 per annum and (iv) Mandal Parishad Territorial Constituencies, Corporators, Municipal Counsellors and Surpanches: ₹120 per annum

28 0.01 *per cent*

29 10 *per cent*

30 (i) each issue or renewal of license to Shops and Business establishments: ₹1,000; (ii) each issue of renewal of license and permit to Bar and Wineshops: ₹1,000

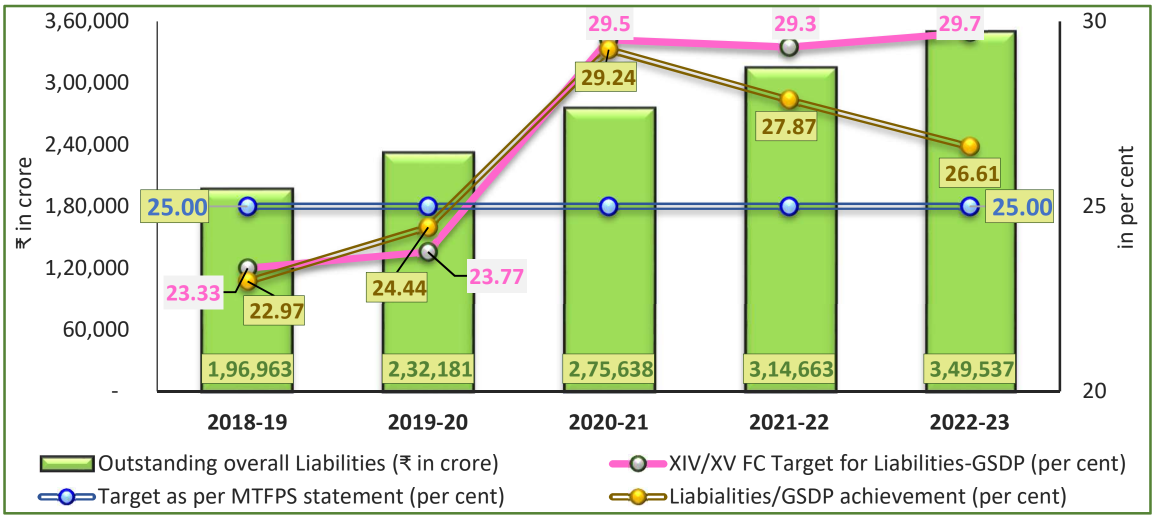
31 (i) All India Services: ₹1,200 per annum; (ii) All State Government Gazetted and Non-Gazetted Employees, Teachers, Grants-in-Aid employees including Corporations, Societies, Universities and Institutions under the control of State Government: ₹300 per annum

2.7.1 Liability profile: Components

Total liabilities of State Government comprise (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 liabilities of the State Government at the end of March 2023 was ₹3,56,486 crore[32]. The trend of outstanding liabilities and ratio of Liabilities to Gross State Domestic Product during the period 2018-23 is given in the chart below:

Chart 2.17: Trend of total outstanding liabilities



Source: Finance Accounts

Note: The figure of ₹2,75,638 crore in 2020-21 excludes ₹2,380 crore and the figures of ₹3,14,663 crore in 2021-22 and ₹3,49,537 crore in 2022-23, exclude ₹6,949 crore, which are received as back-to-back loans from GoI.

- The outstanding liabilities[33] grew by 11 *per cent* over the previous year and it has increased by ₹1,52,574 crore during the period 2018-23 *i.e.,* an increase by 77 *per cent*.
- As per the Medium-Term Fiscal Policy Statement, the State Government has set a target of limiting the Total outstanding liabilities to GSDP ratio to below 25 *per cent*. However, the State Government failed to limit the Total outstanding liabilities to GSDP ratio of 25 *per cent* and the ratio registered was at 26.61 *per cent*.
- The Fifteenth Finance Commission (XV FC) recommended for higher borrowing limit of around 29 *per cent* with a view to foster transparency and to avoid non-transparent Off-Budget liabilities. For the year 2022-23, the limit recommended specifically by XV FC was 29.70 *per cent*. After considering the Off-Budget liabilities, the Total outstanding liabilities ratio to GSDP would be 35.64 *per cent*, which is above the recommended target of the XV Finance Commission (details in ***Paragraph 2.7.2***).

The component-wise liability trends of the State for the period of five years from 2018-23 are shown in the table below.

---

[32] including ₹6,949 crore of back-to-back loans from GoI in lieu of GST compensation shortfall
[33] excluding back-to-back loans in lieu of GST compensation shortfall

Table 2.33: Component-wise Liabilities trends

(₹ in crore)

Components of fiscal liability	2018-19	2019-20	2020-21	2021-22	2022-23
Total Outstanding Liability	**1,96,963**	**2,32,181**	**2,75,638***	**3,14,663***	**3,49,537***
Public Debt					
Internal Debt	1,56,933	1,86,959	2,24,379	2,63,041	2,93,129
Loans from Government of India	8,231	7,999	7,794*	7,499*	9,485*
Public Account Liabilities	31,799	37,223	43,464	44,122	46,923
Small Savings, Provident Funds, etc.	10,117	10,900	11,845	12,912	14,962
Reserve Funds Bearing Interest	377	3,604	3,830	2,196	1,989
Reserve Funds not Bearing Interest	1,591	1,598	1,588	1,590	1,599
Deposits Bearing Interest	2,440	2,581	2,760	2,833	4,149
Deposits not Bearing Interest	17,274	18,540	23,441	24,591	24,224
Rate of growth of Total Outstanding Liability over previous year (*percentage*)	*18.76*	*17.88*	*18.72*	*14.16*	*11.08*
Gross State Domestic Product (GSDP)	8,57,427	9,50,090	9,42,814	11,28,907	13,13,391
Total Outstanding Liability/GSDP (*per cent*)	*22.97*	*24.44*	*29.24*	*27.87*	*26.61*
Borrowings and Other Liabilities (as per Statement 6 of Finance Accounts)					
Total Receipts	1,17,715	1,43,870	1,87,503*	1,96,373*	2,13,803*
Total Repayments	91,080	1,08,652	1,41,666	1,52,779	1,78,928
Net Funds available	26,635	35,218	45,837	43,594	34,875
Repayments / Receipts (*percentage*)[#]	*77.37*	*75.52*	*75.55*	*77.80*	*83.69*

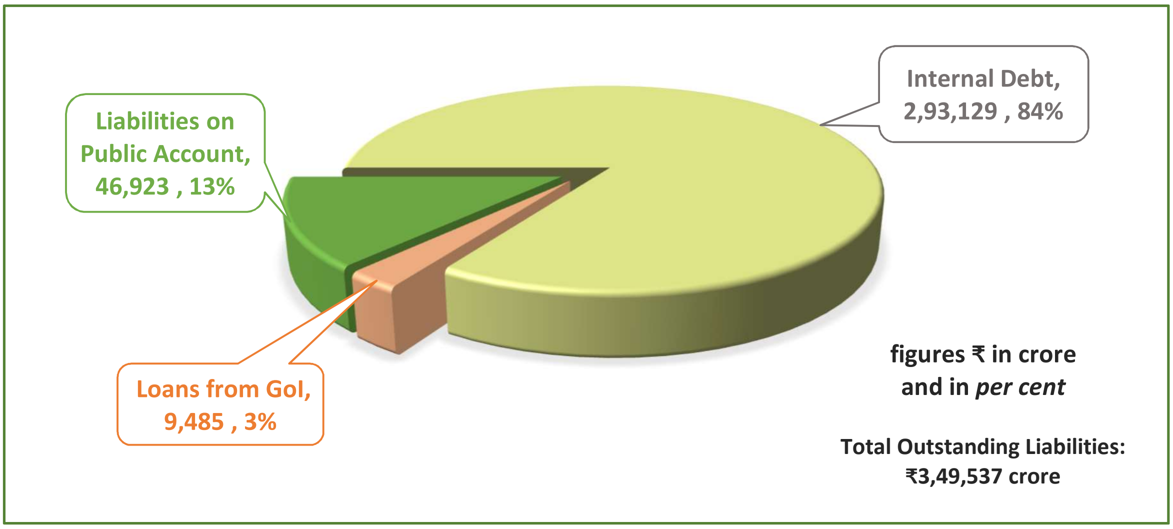
Source: Finance Accounts

* *This excludes back-to-back loans of ₹2,380 crore in 2020-21, ₹6,949 crore in 2021-22 and ₹6,949 crore in 2022-23 received in lieu of GST compensation shortfall which are not to be paid by the State from its sources.*

[#] *excluding Ways and Means Advances of ₹21,823 crore in 2018-19, ₹37,248 crore in 2019-20, ₹69,454 crore in 2020-21, ₹67,274 crore in 2021-22 and ₹82,823 crore in 2022-23 respectively, the percentages would be 72.22, 66.96, 61.17, 66.23 and 73.37 per cent respectively*

The ratio of outstanding liabilities/GSDP has decreased by 1.26 *per cent* when compared to previous year. The breakup of outstanding overall liabilities at the end of March 2023 is shown in the chart below:

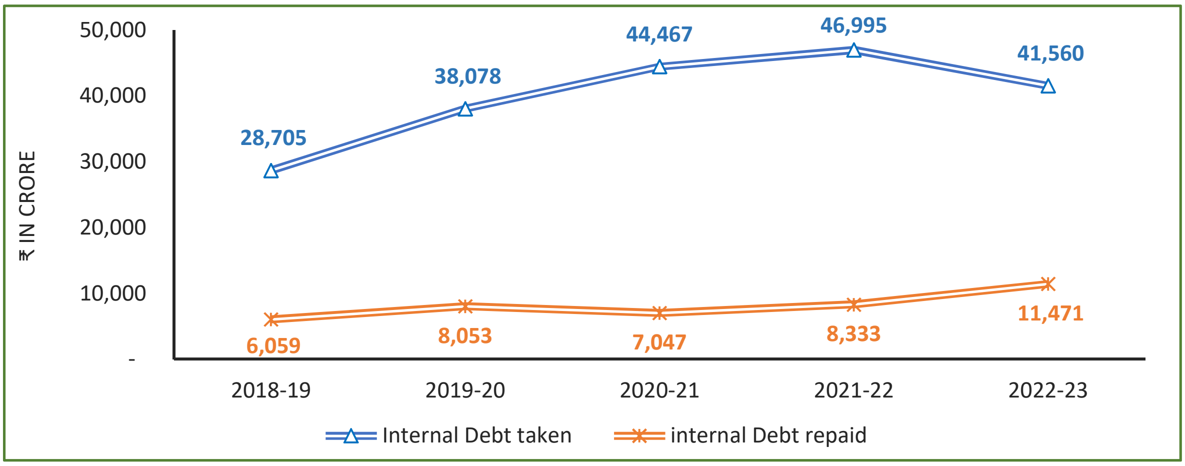
Chart 2.18: Break up of outstanding liabilities at the end of March 2023



Source: Finance Accounts

The comparative trend of internal debt received and repaid are shown in chart below:

Chart 2.19: Comparative trend of internal debt taken and internal debt repaid



Source: Finance Accounts

Note: excluding Ways and Means Advances taken or repaid

The above graph indicates that the lesser borrowings were taken, and more repayment was done when compared to previous year.

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 the following table:

Table 2.34: Components of Fiscal Deficit and its financing pattern

(₹ in crore)

S.No.	Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
Composition of Fiscal Deficit						
1	Revenue Surplus (+) or Deficit (-)	4,337	(-)6,254	(-)22,298	(-)9,335	5,944
2	Net Capital Expenditure	(-)22,641	(-)16,859	(-)15,922	(-)28,874	(-)17,881
3	Net Loans and Advances	(-)8,640	(-)8,638	(-)10,810	(-)8,421	(-)20,619
4	Net Interstate Settlement	(-)5	(-)8	(-)8	(-)8	0
Gross Fiscal Deficit		**(-)26,949**	**(-)31,759**	**(-)49,038**	**(-)46,638**	**(-)32,556**
Financing Pattern of Fiscal Deficit						
1	Market Borrowings	22,184	30,697	38,782	39,256	31,814
2	Special Securities issued to National Small Savings Fund	(-)814	(-)827	(-)827	(-)827	(-)827
3	Loans from Financial Institutions and other loans	1,276	155	(-)535	233	(-)898
4	Loans from Government of India	(-)400	(-)232	2,175	4,273	1,985
5	Small Savings, PF, etc.	845	783	945	1,067	2,049
6	Deposits and Advances	3,100	1,406	5,081	1,223	949
7	Suspense and Miscellaneous	(-)660	297	(-)232	752	347
8	Remittances	115	7	(-)32	617	(-)466
9	Reserve Fund	1,530	4,353	774	(-)1,054	427
10	Net Contingency Fund	(-)2.01	(-)2.11	4.21	(-)0.05	0.05
11	**Total**	**27,174**	**36,637**	**46,135**	**45,540**	**35,380**
12	Increase (-) /Decrease (+) in Cash Balance	(-)225	(-)4,878	2,903	1,098	(-)2,824
Gross Fiscal Deficit financed (11+12)		**26,949**	**31,759**	**49,038**	**46,638**	**32,556**

Source: Finance Accounts

Receipts and Disbursements under components financing the Fiscal Deficit for the year 2022-23 are detailed in the following table:

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

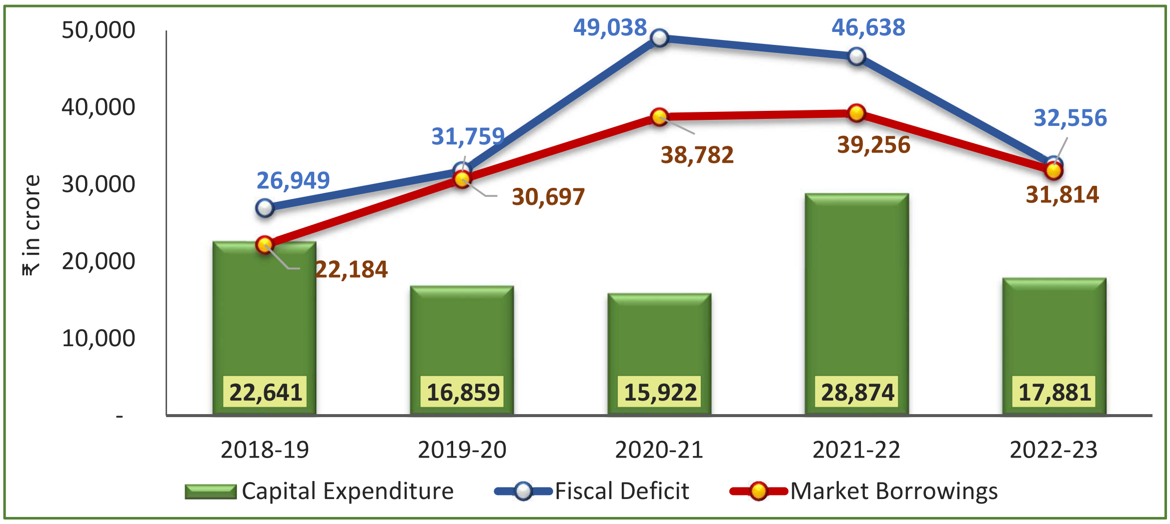
(₹ in crore)

Sl. No.	Particulars	Receipts	Disbursements	Net
1	Market Borrowings	40,150	8,336	31,814
2	Special Securities issued to National Small Savings Fund	0	827	(-)827
3	Loans from Financial Institutions	1,410	2,308	(-)898
4	Loans from Government of India	2,501	516	1,985
5	Small Savings, PF, etc.	3,281	1,232	2,049
6	Deposits and Advances	82,241	81,292	949
7	Suspense and Miscellaneous	2,709	2,362	347
8	Remittances	429	895	(-)466
9	Reserve Funds	996	569	427
10	Net Contingency Fund	0.05	0	0
11	**Overall Deficit**	**1,33,717**	**98,337**	**35,380**
12	Increase (-) / Decrease (+) in Cash Balance	--	--	(-)2,824
13	**Gross Fiscal Deficit**	--	--	**32,556**

Source: Finance Accounts

In 2022-23, only 56 *per cent* of Market Borrowings were used for Capital Expenditure. Further, 55 *per cent* of Fiscal Deficit only accounted for Capital Expenditure.

Chart 2.20: Comparative trend of Capital Expenditure, Fiscal Deficit and Market Borrowings



Source: Finance Accounts

Ideally, Market borrowings should be utilised for creation of capital assets through Capital Expenditure. It can be seen that in 2018-19, the market borrowings was lesser than Capital expenditure indicating that market borrowings could have been fully utilised for creation of Capital Assets. However, during the past four years, Capital Expenditure is much lower than the Market Borrowings indicating that Market Borrowings were being utilised for purposes other than Capital Expenditure.

Further, the above chart as well as ***Table 2.34*** suggest that despite Revenue Surplus, Capital Expenditure is less than Market Borrowings, which were utilised for providing Loans and Advances. Substantial amounts of Loans and Advances are utilised for repayment of Off-Budget Borrowings/loans, as mentioned in earlier ***Paragraph 2.5.3.3***.

The issue relating to Off-Budget Borrowings and their repayments are discussed in the succeeding paragraph.

2.7.2 Off-Budget Borrowings

Fiscal Responsibility and Budget Management (FRBM) Act and the Rules 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 place restrictions on the Government's revenue spending as well as borrowings during the year as well as outstanding total liabilities at the end of each financial year.

State Governments can borrow money within the territory of India, upon security of the Consolidated Fund of the State. The limits on such borrowings are regulated under Article 293(3) of the Constitution of India. The State Government is required to furnish to Government of India (GoI), the financial statements showing the estimates of receipts and repayments of all sources of borrowings, including Open Market Borrowings, other liabilities arising out of Public Account transfers, etc., based on which the GoI gives the consent for raising loans and fixes the borrowing ceiling for the State Government. However, State Governments bypass the Net Borrowing Ceiling by routing Borrowings outside budget through various State Government PSUs/ Corporations/ other Bodies despite being responsible for repayment of such loans would have an impact on the Revenue Deficit and Fiscal Deficit. Creating such liabilities, without disclosing them in the budget, raises questions both of transparency, and of inter-generational equity. Such off-budget borrowings are not taken into the disclosure statements in the budget documents or in the accounts, nor do these have Legislative approval.

Off-budget borrowings or off-budget financing generally refer to use of those financial resources by the Government for meeting expenditure requirements in a particular year or years, which are not reflected in the budget for that year/ those years for seeking grant/appropriation, hence remaining outside legislative control. They are financed through Government owned or controlled public sector enterprises or departmental commercial undertakings, which raise the resources through market borrowings on behalf of the Government. However, the Government is to repay the debt and/or service the debt from its budget. Therefore, off-budget borrowings /financing involve one, payment of interest on recurrent basis and second repayment of the borrowings from budget as and when it is due. Off budget borrowings also need to be distinguished from guarantees, which are contingent liability. All guarantees are not off budget arrangements. However, all off budget arrangements are either explicit payments or guarantees.

As per the State FRBM Act, the term 'Total Liabilities' shall also include borrowings by PSUs, SPVs and other equivalent instruments including guarantees given by the Government 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.

2.7.2.1 Non-Disclosure of OBB by State Government

Government of Telangana had in principle, intimated the State Legislature from 2016-17 to 2019-20 during presentation of Budget that it would implement six schemes and four projects through Extra-Budgetary Resources (EBR) / Off- Budget Borrowings (OBB). However, the State Government had neither detailed the quantum of such borrowings nor disclosed the names of the entities through which EBR/OBB was raised and other details in the budget Documents of the respective years.

When Entity-wise / Institution-wise details of OBB were sought for by audit specifically, the Government intimated (September 2023) audit to obtain the same from the Companies/ Corporations concerned.

Non-disclosing complete details of Off-Budget Borrowings in the Budget documents was in contravention of the XV FC recommendations ibid.

Details of Schemes/Projects/Programmes/Entity for which State Government raised Off-Budget borrowings and details thereof furnished by the Companies/Corporations are given below:

Table 2.36: Details of Off-Budget Borrowings Project/Scheme wise

(₹ in crore)

Sl. No.	Scheme / Project / Programme	Year of Budget speech	Value of OBB as informed by the Govern-ment	Borrowing on behalf of Government during the year#	Borrowing on behalf of the Government to the end of March 2023#	Value of Guarantees given by the Government @	Value of OBB considered (minimum of Col 6 and Col 7)
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*
1	Mission Bhagiratha (Telangana Drinking Water Supply Corporation Limited)	2016-17, 2017-18	NF	Nil	Nil	22,428	22,428
2	Two Bed Room Housing (Telangana State Housing Corporation Limited)	2016-17, 2017-18, 2018-19	NF	Nil	Nil	7,731	7,731
3	Micro Irrigation (Telangana State Horticulture Development Corporation	2017-18	NF	Nil	132	219	132

Sl. No.	Scheme / Project / Programme	Year of Budget speech	Value of OBB as informed by the Govern-ment	Borrowing on behalf of Government during the year#	Borrowing on behalf of the Government to the end of March 2023#	Value of Guarantees given by the Government@	Value of OBB considered (minimum of Col 6 and Col 7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
4	Musi River Front (Musi Riverfront Development Corporation Limited)	2017-18	NF	Nil	Nil	NA	--
5	Sheep Breeding Scheme (Telangana State Sheep and Goat Development Co-operative Federation Limited)	2018-19	NF	Nil	3,833	1,314	1,314
6	Fish Farming (Telangana Fishermen Co-operative Federation Limited)	2018-19	NF	Nil	600	275	275
7	Kaleshwaram Project (Kaleshwaram Irrigation Project Corporation Limited)	2019-20	NF	7,137	79,205	64,652	64,652
8	Palamuru-Rangareddy, Sitarama and Devadula (Telangana State Water Resources Infrastructure Development Corporation Limited)	2019-20	NF	1,112	15,284	12,953	12,953
							1,09,485

Source: Budget speeches of years concerned, information furnished by the institutions concerned and Finance Accounts

NF: Not furnished; NA: Not Available
 # As informed by the institution/entity concerned; @ As per Finance Accounts

Apart from the above schemes and entities, some PSUs/ABs have informed audit that they have borrowings on behalf of the Government during the current year or earlier years. The details are hereunder:

Table 2.37: Details of OBBs informed by the entities

(₹ in crore)

Sl. No.	Institution	Borrowing on behalf of Government during the year 2022-23	Borrowing on behalf of the Government to the end of March 2023	Value of Guarantees given by the Government@	Value of OBB considered (minimum of Col 4 and Col 5)
(1)	(2)	(3)	(4)	(5)	(6)
1	Telangana Power Finance Corporation Limited	Nil	2130	679	679
2	Telangana State Seeds Development Corporation	0.15	398	NA	398*
3	Telangana Urban Finance and Infrastructure Development Corporation	NF	NF	1,236	1,236
4	Telangana State police Housing Corporation	107	426	255	255
5	Hyderabad Metro Rail Limited	Nil	294	200	200

Sl. No.	Institution	Borrowing on behalf of Government during the year 2022-23	Borrowing on behalf of the Government to the end of March 2023	Value of Guarantees given by the Government@	Value of OBB considered (minimum of Col 4 and Col 5)
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
6	Telangana State Industrial Infrastructure Corporation Limited	Nil	Nil	262	262
7	Hyderabad Metropolitan Water Supply and Sewerage Board	Nil	Nil	2,567	2,567
8	Telangana State Dairy Development Cooperative Federation Limited	Nil	Nil	185	185
					5,782

Source: Information furnished by the institutions concerned and Finance Accounts

NF: Not furnished during the current year but informed in earlier years

@ *As per Finance Accounts*

* *₹398 crore is considered as per the information given by the entity though the Government did not disclose guarantees given. Since, Government has received (December 2020) Guarantee Commission from Telangana State Seeds Development Corporation this amount is considered*

The State Government has also facilitated ₹17,829 crore as further loans to Entities, i.e.₹8,696 crore towards interest payment, ₹3,531 crore towards principal repayment and ₹5,602 crore without any details whether it is interest payment or principal repayment during 2022-23 which are relatable to OBB**.**

A case study on Off-Budget Borrowings in respect of Telangana State Road Development Corporation is also detailed hereunder:

Box 2.4: Temporary transfer of Road and Bridge works to Telangana State Road Development Corporation for making payments by raising loans from Market

Government sanctioned (November 2014) 792 road and bridge works[34] costing ₹8,263 crore for completion during 2014-17 in a phased manner with the budget provision.

Subsequently, the Government adopted (June 2016) the Andhra Pradesh Road Development Act, 1998 and established (February 2017) the Telangana State Road Development Corporation (TSRDC). The Government increased (July 2017) maximum borrowing limit of TSRDC from ₹1,000 crore to ₹5,000 crore.

The Government temporarily entrusted works of 981 roads[35] to TSRDC with instructions to revert the assets back to Roads and Buildings (R&B) Department after completion. Government also advised the TSRDC to meet the financial commitment of the same, and

[34] (i) 403 roads works of widening single roads to double roads with a cost of ₹6,289 crore; (ii) 389 bridge works in place of dilapidated bridge and unbridged crossings with a cost of ₹1,974 crore

[35] (i) 930 works including 792 works mentioned above in November 2017 and (ii) another 51 works in December 2017

permitted TSRDC, from time to time[36], to approach Banks / Financial institutions for loans with Government Guarantee. Accordingly, TSRDC has drawn a loan of ₹4,167 crore from two consortia of Banks from 2017-18 to 2021-22. The Guarantees given by the Government to TSRDC to the end of March 2023 stood at ₹3,362 crore.

- According to clause 2.3.8.3 of Reserve Bank of India Master circular on Loans and Advances, Banks/Financial Institutions (FIs) are free to finance technically feasible, financially viable and bankable projects undertaken by public sector undertakings. However, term loans by the Banks/FIs should not be in lieu of or to substitute budgetary resources. The term loans could supplement budgetary resources if such supplementing was contemplated in project report.

  In the present case, the initial plan in November 2014 was to take up the work with budget provisions in three financial years and there were no plans of supplementation from the Banks/FIs. Thus, the temporary entrustment of works to TSRDC in November 2017 i.e., after three years of sanction was to enable TSRDC to make payments to the ongoing works taken up.

- Clause 2.3.8.3 mentioned above also stipulated that viability and bankability of projects should be ensured with revenue stream from the project being sufficient to take on the debt-servicing obligations and that the repayment/servicing of debt is not out of budgetary resources.

  These were the works originally taken up by the Roads and Buildings Department from budgetary support and are temporarily transferred to TSRDC to arrange for payments and hence do not generate any direct revenues to the TSRDC. In fact, TSRDC has itself informed (August 2023) that it can establish toll gates as per the TSRDC Act and the proposal is under consideration at the Government level. This proves that the TSRDC, so far, did not have any revenue resources to repay the borrowings taken for payment of bills in respect of works transferred from the Government. In this regard, it is interesting to note that during the previous year 2021-22, the State Government has provided an amount of ₹100 crore as 'Assistance to TSRTC towards payment of Toll fee to TSRDC' in the form of Grants-in-Aid, much before the acceptance of proposal for establishment of toll gates and collection of tolls.

The TSRDC informed (August 2023) audit that the Government has assisted ₹969 crore towards principal repayment and ₹1,284 crore towards interest payment.

In view of the FRBM definition of 'Total liabilities', as mentioned above, the borrowings taken by TSRDC with the Government Guarantee shall fall within the ambit of Total liabilities of the Government. Thus, the value of Guarantees *i.e.,* ₹3,362 crore given by the Government is considered as Off-Budget Borrowing.

Thus, the total Off-Budget Borrowing of Telangana can be assessed as ₹1,18,629 crore to the end of March 2023.

[36] ₹600 crore (October 2017), ₹600 crore (December 2017), ₹3,000 crore (April 2018)

Taking into account OBB of ₹1,18,629 crore at the end of March 2023, total outstanding liabilities of the State would work out to ₹4,68,166 crore (₹3,49,537 crore + ₹1,18,629 crore). The ratio Total Outstanding Liabilities to GSDP would be 35.64 *per cent*[37] (₹4,68,166 crore on GSDP of ₹13,13,391 crore) which is far above the target prescribed by XV FC (29.70 *per cent*) including Off-Budget Borrowings.

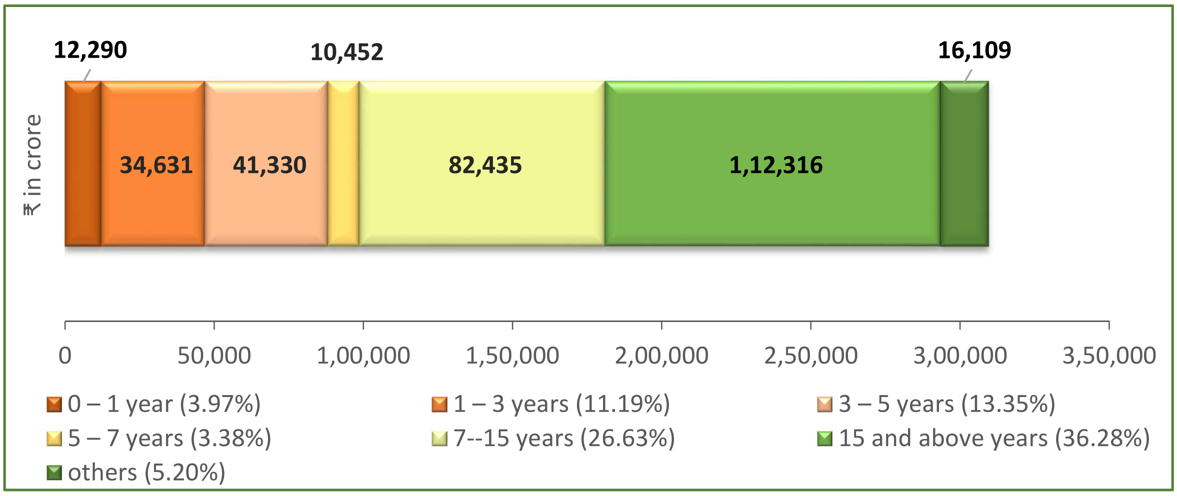
The above indicates that some of the major funding sources of Government's crucial socio-economic schemes/ projects are beyond the oversight and control of State Legislature.

Audit recommends that the State Government may fully disclose all the details of Off-Budget Borrowings in the budget documents as recommended by the XV FC. Government 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 comprises market borrowings, institutional loans, special securities issued to National Small Savings Fund (NSSF), loan given by Central Government etc. 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 the following Chart:

Chart 2.21: Maturity profile of State Public Debt



Source: Finance Accounts

The maturity profile of outstanding stock of Public Debt as on 31 March 2023 showed that 32 *per cent* (₹ 98,703 crore) of the total outstanding public debt is to be repaid in next seven years.

Out of ₹40,150 crore market borrowings[38] taken during 2022-23, repayment schedule of ₹29,650 crore *i.e.,* 74 *per cent* of borrowings ranges from the year 2033 to 2042. There is a considerable variation with reference to previous year when nearly 35 *per cent* of borrowings had longer maturity schedules.

[37] i.e., Outstanding total liabilities ₹3,49,537 crore as per accounts plus Off-Budget Borrowings of ₹1,18,629 crore estimated in Audit totalling to ₹4,68,166 crore on GSDP of ₹13,13,391 crore

[38] Market Borrowings are taken from Reserve Bank of India and accounted for under Major Head 6003 – Minor Head 101

The interest rate of borrowings during the year ranged from 7.45 *per cent* to 8.02 *per cent*. It is important to note that the interest rates are similar for shorter and longer maturity schedules.

2.7.3.1 Repayment of Internal Debt and Interest payment in the next ten years

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 2023, 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 below:

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	20,825	30,166
2	2024-25	13,118	19,945	33,063
3	2025-26	15,850	18,842	34,692
4	2026-27	19,786	17,588	37,374
5	2027-28	17,050	16,102	33,152
6	2028-29	4,461	14,858	19,319
7	2029-30	2,449	14,541	16,990
8	2030-31	4,500	14,353	18,853
9	2031-32	7,311	14,032	21,343
10	2032-33	8,587	13,479	22,066
	Total	**1,02,453**	**1,64,565**	**2,67,018**

Source: Finance Accounts

As can be seen from the above table, the State Government will have to repay ₹2,67,018 crore as principal and interest on the Market borrowings in the next ten years by 2032-33.

Apart from this, State Government will also have a liability to repay ₹19,210 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	5,551	3,926	9,477
2	Life Insurance Corporation of India	36	NA	36*
3	General Insurance Corporation of India	7	NA	7*
4	UDAY Bonds	8,031	NA	8,031*
5	National Bank for Agricultural and Rural Development	5,526	NA	5,526*
6	National Co-operative Development Corporation	59	NA	59*
	Total	**19,210**	**3,926**	**23,136**

Source: Finance Accounts
NA: Information not available;
** does not include interest payable as details of interest rates are not available*

The above information suggests that the State Government will have to mobilize substantial amount (₹2,86,228 crore) in the next ten years for servicing of public debt and this could put significant pressure on the State finances.

2.7.4 Debt Sustainability

Debt sustainability analysis has been carried out based on fiscal and debt parameters; Domar approach and compliance of macro-fiscal parameters to the respective FRBM targets. The results of analysis are given in the following paragraphs:

2.7.4.1 Debt Sustainability according to generally accepted indicators

Debt sustainability is defined as the ability of the State to service its debt now and in future. Sustainability of debt refers to sufficiency of liquid assets to meet current or debt obligations and the capacity to maintain balance between costs of additional borrowings, with returns from such borrowings. The following table 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	2018-19	2019-20	2020-21	2021-22	2022-23
Outstanding Public Debt* (as on 31st March of the year)	1,65,164	1,94,958	2,32,173$	2,70,540$	3,02,614$
Rate of Growth of Outstanding Public Debt	15.57	18.04	19.09	16.53	11.86
GSDP	8,57,427	9,50,090	9,42,814	11,28,907	13,13,391
Rate of Growth of GSDP	14.32	10.81	(-)0.77	19.74	16.34
Public Debt/GSDP (in *per cent*)	19.26	20.52	24.63	23.96	23.04
Maturity profile of repayment of Public Debt – for next seven years	76,262	89,228	1,06,468	1,05,242	98,703
Average interest Rate of Outstanding Public Debt (*per cent)*	8.17	7.99	7.89	7.62	7.61
Percentage of Interest payment to Revenue Receipts	12.41	14.03	16.69	15.03	13.69
Percentage of Public Debt Repayment to Public Debt Receipts during the year	66.85	59.72	54.47	59.32	76.73
Net Public Debt available to the State#	9,660	15,407	20,374	19,205	10,253
Net Public Debt available as *percentage* to Public Debt Receipts during the year	33.15	40.28	45.53	40.68	23.27
Primary deficit (-) or Primary surplus (+)	(-)14,363	(-)17,373	(-)32,197	(-)27,447	(-)10,735
Debt Stabilisation (Quantum spread + Primary Deficit)	(-)8,417	(-)13,747	(-)44,340	3,476	15,773

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 during the year*

$ *Outstanding Public Debt does not include ₹2,380 crore received to the end of 2020-21, ₹6,949 crore received to end of 2021-22 and 2022-23 as back-to-back loans given by GoI in lieu of GST compensation*

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

- The average interest rate of outstanding public debt has been decreasing marginally during the past five years from 8.17 *per cent* in 2018-19 to 7.61 *per cent* in 2022-23. However, in absolute terms, interest payments increased significantly from ₹12,586 crore in 2018-19 to ₹21,821 crore in 2022-23.
- After providing for Public Debt Repayments (₹94,810 crore[39]) and interest payments (₹21,821 crore), the Net Public Debt available for use was ₹10,253 crore (17 *per cent*). The ratio of Revenue Receipts to total outstanding Public Debt decreased from 61 *per cent* in 2018-19 to 53 *per cent* in 2022-23.

2.7.4.2 Debt Sustainability as per Domar model

There are various approaches at assessing the debt sustainability, one such approach is Domar[40] model. The Domar model states that the necessary premise for ensuring stability of public indebtedness is that the interest rates for Government borrowings should not exceed the growth rate of GDP/GSDP. The dynamics of public debt depending on the interest rate, growth rate of GSDP and the primary budget balance are as follows:

Domar gap: g-r (in which, g: real economic growth rate; r: real interest rate without taking inflation in to account)	**s<0 (Primary Deficit or PD) (s: Primary Balance)**	**s>0 (Primary Surplus or PS) (s: Primary Balance)**
g-r > 0 (strong economic growth)	Real economic growth exceeds real interest rate provided that the PD registered is stable and consistent with debt/GSDP then the debt is sustainable.	Real economic growth exceeds real interest rate and records PS then debt/GSDP ratio shall decrease, and debt tends towards stable level therefore sustainable.
g-r < 0 (slow economic growth)	Real economic growth is lower than real interest rate and records PD. Then debt tends to increase without limitations and becomes unsustainable.	Real economic growth is lower than real interest rate and records PS. Then debt is no longer sustainable if it is not decreased in the medium or long run

The results of the analysis by applying above model on Telangana State are shown in the table below:

Table 2.41: Debt Sustainability as per Domar model

Year	Real Growth rate (g)	Real Interest rate (r)	Domar gap (g-r)	Primary Deficit (-) or Surplus ((+) (s) (₹ in crore)	Assessment
2018-19	9.15	5.55	3.60	(-)14,363	g-r>0 and s<0; Hence, Public Debt will converge to a stable level greater than zero
2019-20	5.35	3.44	1.91	(-)17,373	
2020-21	(-)6.04	(-)0.07	(-)5.97	(-)32,197	g-r<0 and s<0; Hence, Public Debt will increase indefinitely, without converging to a stable level
2021-22	11.97	0.54	11.43	(-)27,477	g-r>0 and s<0; Hence, Public Debt will converge to a stable level greater than zero.
2022-23	7.76	-1.00	8.76	(-)10,735	

Source: Finance Accounts

[39] ₹94,810 crore is including Ways and Means Advances (WMA) repayment; excluding WMA of ₹82,823 crore, Public Debt Repayments would be ₹11,987 crore

[40] E.D. Domar, 1914-1997

During the last five years (2018-2023), the State always had a Primary Deficit. During the Covid-19 year (2020-21), the Domar gap had become negative and in all other years it remained positive. Thus, as per the Domar model analysis of Debt sustainability, it can be construed that the public debt would converge to a stable level greater than zero.

However, the trends of strong economic growth (expressed as g-r>0) by observing Domar gap in the year 2021-22 and 2022-23 cannot be generalised. Further, during the period 2021-2023 a substantial portion (80 to 84 *per cent*) of the public debt receipts were being used for repayment of loans taken in the earlier years, thereby implying that economic growth is not robust enough to service the debt.

Moreover, other factors such as Public Account liabilities, Off-Budget borrowings and any other un-inventoried losses of revenue also have to be reckoned which make the debt sustainability of the State unstable.

2.7.4.3 Debt Sustainability in terms of compliance of Macro-Fiscal parameters of FRBM targets

Details of the achievements vis-à-vis targets set in the Medium-Term Fiscal Policy Statement (A: Fiscal Indicators – Rolling Targets) (MTFPS) are shown below:

Table 2.42: Debt Sustainability in compliance with MTFPS

Fiscal parameters		Achievement vis-à-vis targets set in MTFPS				
		2018-19	2019-20	2020-21	2021-22	2022-23
Revenue Deficit (-) or Surplus (+) (₹ in crore) as a *percentage* of Total Revenue Receipts	Target	4.21	1.81	3.13	3.92	1.95
	Achievement	4.28	(-)6.10	(-)22.10	(-)7.32	3.73
Fiscal Deficit (₹ in crore) (as a *percentage* of GSDP)	Target	3.25 *per cent*	3.25 *per cent* (+) ₹1,435 crore*	4.75 *per cent*[#]	4.00 *per cent*	5.00 *per cent*[@]
	Achievement	3.14 *per cent*	3.19 *per cent* (+) 1,435 crore	5.20 *per cent*	4.13 *per cent*	2.48 *per cent*
Ratio of Total Outstanding Liabilities to GSDP (in *per cent*)	Target	25.00	25.00	25.00	25.00	25.00
	Achievement	22.97	24.44	29.24	27.87	26.61
Guarantees in terms of *percentage* of Revenue Receipts of the previous year	Target	90	200[$]	200	200	200
	Achievement	87	88	102	134	156

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

* *As per TSFRBM (Amendment) Act, 2020 (19 September 2020) which came into effect from 1 January 2020, additional Fiscal Deficit of ₹1,435 crore was permitted over and above 3.25 per cent of the GSDP in accordance with Government of India decision (February 2020) to allow additional borrowings beyond the State's eligibility as a one-time special dispensation for the Financial Year2019-20.*

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

[@] *In view of the extra borrowing space allowed by XV Finance Commission, State Government made amendment to State FRBM act increasing the Fiscal Deficit target to five per cent of the GSDP for the year 2022-23*

[$] *This limit was increased (September 2020) from 90 per cent to 200 per cent through TSFRBM (Amendment) Act, 2020*

- The State could not achieve Revenue Surplus for three consecutive years from 2019-20 to 2021-22. However, it registered Revenue Surplus of ₹5944 crore during the current year 2022-23. Effectively, Revenue Surplus is only ₹1,680 crore (Reference to ***Paragraph 1.8***).
- The State could not achieve Fiscal Deficit targets in 2020-21 and 2021-22, both of which were partially affected by Covid-19 pandemic. However, it could achieve the target in the current year.
- The State was not able to achieve the target in respect of Total outstanding liabilities to GSDP ratio for the past three years continuously. State's inability to achieve this target raises possible risk against the Debt Sustainability.
- The State was able to achieve targets in respect of the Guarantees with reference to Revenue Receipts of the previous year. However, this should be viewed in the backdrop that the State Government raised this limit from 90 *per cent* to 200 *per cent* in September 2020.

  Further, such increase in the limit of Guarantees is to be juxtaposed with the fact that the Government has been implementing major flagship projects / schemes through Off-Budget Borrowings raised by Public Sector Undertakings / Special Purpose Vehicles with Government Guarantees. Since, the onus of servicing such Off-Budget Borrowings is being taken over by the State Government in the past few years, the Debt Sustainability of the State is to be comprehended in tandem with this fact.
- The issue of Off-budget borrowings is discussed in the **Paragraph 2.7.2**. Considering the off-Budget borrowings (OBB) of ₹1,18,629 crore and other liabilities, which are being serviced out of the State Budget, the ratio of Debt to GSDP would be 35.64 *per cent*, which is 10.64 *per cent* above the set target of 25 *per cent* as per the TSFRBM Act. This is also 5.94 *per cent* above the limit (29.70 *per cent)* prescribed by the XV Finance Commission.

Overall review of Debt Sustainability, in terms of generally acceptable indicators, suggests that the net Public Debt available to the State Government would be negative after considering out go on servicing of Off-Budget Borrowings. This may put significant pressure on the State finances and may push the debt sustainability of the State to an undesirable level.

In terms of compliance of Macro-Fiscal parameters of FRBM targets, the Debt Sustainability scenario has improved in 2022-23. However, this should be viewed in conjunction with huge Guarantees given, majorly towards Off-Budget Borrowings. Moreover, Government was also not contributing to the Statutory Funds like Consolidated Sinking Fund intended for amortisation of market borrowings and Guarantee Redemption Fund intended to meet the obligations on account of Guarantees.

Further, as mentioned in ***Paragraph 2.7.1.1***, **substantial portion of market borrowings taken by the Government were utilised for providing Loans and Advances to PSUs/SPVs/ABs for servicing (principal and interest) of Off-Budget Borrowings. This is not healthy practice from the perspective of Debt Sustainability.**

2.7.4.4 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 the following table:

Table 2.43: Utilisation of borrowed funds

(₹ in crore)

S.No.		2018-19	2019-20	2020-21	2021-22	2022-23
1	Total Borrowings	1,17,715	1,43,870	1,85,123#	1,91,804#	2,13,803
2	Repayment of borrowings (Principal)	91,080	1,08,652	1,41,666	1,52,779	1,78,928
3	Net Capital Expenditure	22,641	16,859	15,922	28,874	17,881
4	Net Loans and Advances	8,640	8,638	10,810	8,421	20,619
5	Portion of Revenue Expenditure that was met out of balance borrowings (=1-2-3-4)	(-)4,646	9,721	16,725	1,730	(-)3,625

Source: Finance Accounts

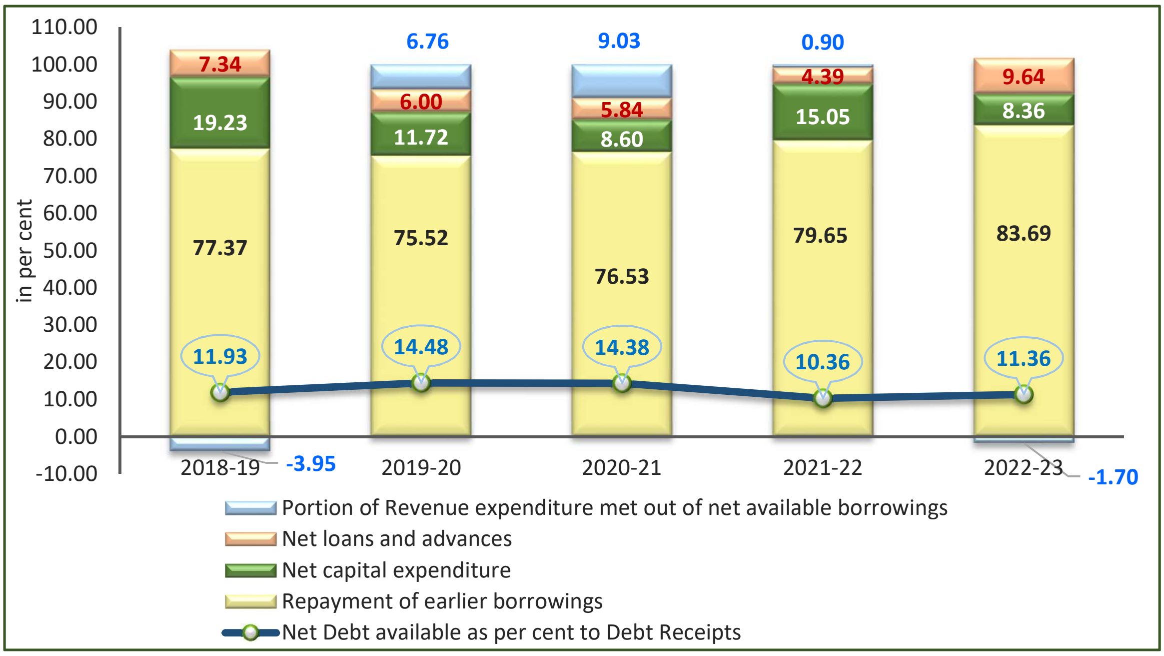
Outstanding Public Debt does not include back-to-back loans in lieu of GST compensation shortfall of ₹2,380 crore in 2020-21 and ₹4,569 crore in 2021-22, received from GoI

The portion of Revenue Expenditure that was met out of net available borrowed funds has resulted in negative figure which indicates that there was Revenue Surplus during the year which could be utilised for Capital Expenditure.

Considering interest payments of ₹21,821 crore and repayments of ₹1,78,928 crore the borrowings available for utilisation on capital expenditure/Loans and advances would be ₹13,054 crore.

Trends of utilisation of borrowed funds are shown in the chart below:

Chart 2.22: Trend of utilisation of borrowed funds



Source: Finance Accounts

It can be seen from above that the utilisation of borrowed funds towards Capital Expenditure has decreased, while utilisation for providing Loans and Advances has increased. The increase in share of repayment of earlier borrowings is due to Ways and Means Advances.

2.7.4.5 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 2018-23 are shown in the following table:

Table 2.44: Guarantees given by the State Government

(₹ in crore)

S. No.		2018-19	2019-20	2020-21	2021-22	2022-23
1	Revenue Receipts during the preceding year	88,824	1,01,420	1,02,544	1,00,914	1,27,469
2	Ceiling applicable to outstanding value of Guarantees including interest	79,942	2,02,840	2,05,088	2,01,828	2,54,938
3	Outstanding value of Guarantees including interest	77,713	89,601	1,05,007	1,35,283	1,98,244

Source: Finance Accounts

TSFRBM Act, 2005 stipulated that 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 (₹1,98,244 crore) at end of March 2023 stood at 156 *per cent* of total Revenue Receipts of the preceding year (i.e., ₹1,27,469 crore in 2021-22) which is within the enhanced limit.

Out of the total guarantees, 90 *per cent* of the Guarantees pertained to only five entities viz., (i) Kaleshwaram Irrigation Project Corporation Limited mainly for implementation of Kaleshwaram Project (₹64,652 crore), (ii) Telangana State Civil Supplies Corporation (₹50,000 crore), (iii) TS DISCOMS (₹27,852 crore), (iv) Telangana Drinking Water Supply Corporation Limited for implementation of Mission Bhagiratha (₹22,428 crore), and (v) Telangana State Water Resources Infrastructure Development Corporation Limited (₹12,953 crore).

Out of the 20 guarantees worth ₹1,98,244 crore, the State Government disclosed 19 guarantees worth ₹1,32,244 crore in the Budget documents presented to the Legislature (refer to ***sub-para (i)*** below). Out of these, 15 guarantees worth ₹1,18,320 crore (60 *per cent*) are related to institutions with Off-Budget Borrowings.

(i) Incompleteness of Statement of Guarantees presented by State Government to the Legislature

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.

- The Government did not include guarantees given to the Telangana State Civil Supplies Corporation (valuing to ₹50,000 crore) as required under 'Indian Government Accounting Standards (IGAS) 1 – Guarantees' given by the Government Disclosure requirements.

- Further, value of guarantees disclosed in respect of TS DISCOMs was found short by ₹16,000 crore as the Government disclosed guarantees only to an extent of ₹11,852 crore.
- Telangana State Seeds Development Corporation Limited (TSSDCL) has informed audit that it had borrowed ₹398 crore to the end of March 2023 on behalf of the Government and the same along with interest of ₹38 crore has not been reimbursed by the Government. However, there was no mention of this in the list of entities in Statement of Guarantees presented by the Government to the Legislature. In fact, TSSDCL has also remitted a Guarantee Commission of ₹6 crore in December 2020 to Government Account.

(ii) Non-compliance to the instructions while providing Guarantees

The erstwhile Government of Andhra Pradesh issued (September 2003) instructions[41] to be followed while providing Guarantees. Compliance of these instructions were verified:

- Government Order stipulated that the Administrative Departments in Secretariat and Heads of Departments shall evaluate the fiscal risk and classify[42] the Guarantees 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 (February 2023) Guarantees as under:

Table 2.45: Categorisation of Guarantees by State Government

(₹ in crore)

Sl. No.	Category	Amount
1	Direct liability	0
2	High risk	0
3	Medium risk	38,962
4	Low risk	74,361
5	Very low risk	15,920
	Total	**1,29,243***

Source: Statement of Government Guarantees placed before Legislature along with budget documents in February 2023

* *In addition to the Guarantees disclosed in the Budget Volume V/2, State Government has informed that it had provided additional Guarantees of ₹3,000 crore to TSSPDCL from 01 January 2023 to 31 March 2023. Further, guarantees worth ₹66,000 crore were not disclosed by the Government as mentioned in sub-para (i) above, which were taken into Finance Accounts. Hence, there is a difference between Finance Accounts and Budget documents.*

Government in Finance Department has stated (September 2023) that the Heads of the Departments shall evaluate the fiscal risk of the guarantees based on the parameters prescribed. However, it did not provide any documentation to audit regarding evaluation of such risk assessment. Since, 15 Guarantees worth ₹1,18,320 crore are related to Off-Budget Borrowings, they should have been classified as Direct liability with 100 *per cent* fiscal risk. However, Government classified all the guarantees as having medium to very low risk.

---

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

42 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 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 ₹991.22 crore[43] was to be received by the Government to the end of March 2023 from 20 entities. However, the Government assessed only ₹67 crore as receivable from only two entities[44].

  No Guarantee Commission or fee was received during the year.

2.7.4.6 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 ₹608.97 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 the following charts:

Chart 2.23: Status of drawl of WMA during 2022-23 vis-à-vis 2021-22 - Number of days

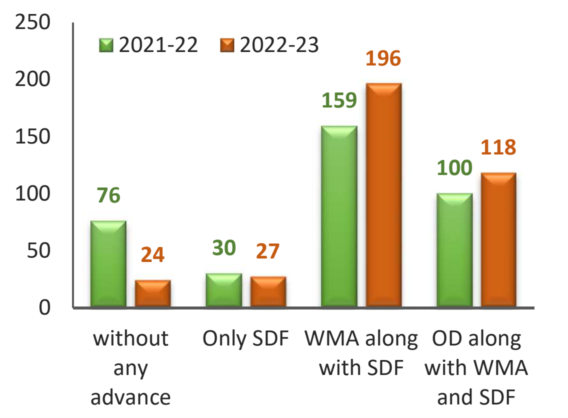
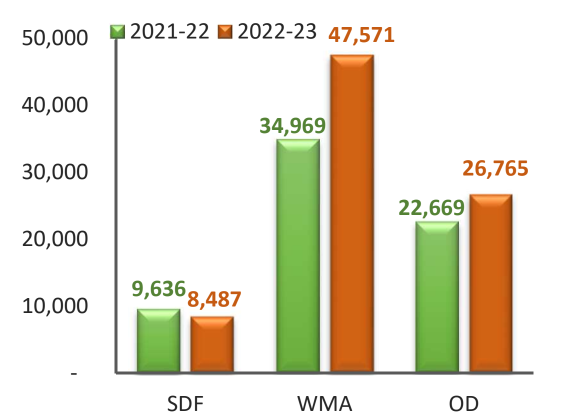


Chart 2.24: Status of drawl of WMA during 2022-23 vis-à-vis 2021-22 – Amount (₹ in crore)



Source: Finance Accounts of the years concerned

The number of days (341) where the State Government depended on WMA facilities has increased when compared to previous year (289), indicating a higher dependency on Ways and Means Advances. **In fact, the Government resorted to WMA for almost entire year, except 24 days.** The number of days with WMA along with SDF as also number of days depending on OD along with WMA and SDF have increased over previous year.

---

[43] calculated at a rate of 0.50 *per cent* on the total guaranteed amount of ₹1,98,244 crore
[44] ₹51 crore from TS DISCOMs and ₹16 crore from Telangana State Housing Corporation

A similar trend can be observed in monetary terms also. The value of all WMA advances during the year was ₹82,823 crore, which is much higher than the previous year (₹67,274 crore). The value of only SDF has decreased when compared to previous year. It however, increased considerably in respect of WMA and OD over previous year.

State Government's dependency on WMA for day-to-day activities has been increasing over the past few years. During the last five years, the quantum of the total amount of the advances taken increased significantly by 280 *per cent* (₹21,823 crore in 2018-19 and ₹82,823 crore in 2022-23). Consequently, interest payments on drawl of WMA (including SDF and OD) during 2022-23 was ₹94 crore as against ₹15 crore in 2018-19, indicating a significant increase of 527 *per cent*.

(ii) Investment of Cash Balances

The State Government invests its surplus cash balance in short and long-term Government of India 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 2023 amounted to ₹10,918.76 crore including Deposits with RBI (₹35 crore), investment in cash balance investment account (₹2,283 crore) and investment in earmarked funds (₹8,600 crore) *viz.*, Sinking Fund (₹7,053 crore) and Guarantee Redemption Fund – Investment Account (₹1,543 crore). The following table 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 2022	Closing balance on 31 March 2023
A. General Cash Balance		
Cash in treasuries	--	--
Deposits with Reserve Bank of India	63.82	34.78
Deposits with other Banks	--	--
Remittances in transit – Local	--	--
Total	**63.82**	**34.78**
Investments held in Cash Balance investment account	55.45	2,283.41
Total (A)	**119.27**	**2,318.19**
B. Other Cash Balances and Investments		
Cash with departmental officers viz., Public Works, Forest Officers	--	--
Permanent advances for contingent expenditure with department officers	0.40	0.40
Investment from earmarked funds	7,975.19	8,600.17
Total (B)	**7,975.59**	**8,600.57**
Total (A + B)	**8,094.86**	**10,918.76**
Interest realised	**0.46**	**0.00**

Source: Finance Accounts

The cash balance investments of the State during the period 2018-23 are shown below.

Table 2.47: Cash Balance Investment Account

(₹ in crore)

Year	Opening Balance	Closing Balance	Increase (+) / decrease (-)	Interest earned
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
2022-23	55.45	2,283.41	2,227.96	0.00

Source: Finance Accounts

Interest earned from the investments made in Government of India Securities and Treasury Bills is decreasing year on year from 2018-19 onwards and during 2022-23, the State Government did not receive any interest.

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 2023, 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 four 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 90 institutions[45].

The Ministry of Home Affairs (MHA) has constituted a dispute resolution sub-committee to resolve bilateral issues between the successor States. The sub-committee suggested to carry out the de-merger in three phases viz., (i) 53 Public Sector Undertakings (PSUs) for which there was no difference of opinion, (ii) 15 PSUs which are agreeable to Telangana State and not to Andhra Pradesh and (iii) 23 institutions, which are agreeable to Andhra Pradesh and not to Telangana.

---

[45] excepting Andhra Pradesh State Financial Corporation, the de-merger plan of which was sent Ministry of Finance in January 2016 by successor State of Andhra Pradesh.

The State Government has informed (September 2023) that it had communicated its objections in respect of 23 institutions to the Ministry of Home Affairs (MHA) and same is under examination by MHA.

2.9 Conclusion

Revenue Receipts of the State have increased considerably. Despite increase in Revenue Expenditure the State was able to register a Revenue Surplus after a gap of three years.

State Government substantially resorted to Public Debt for its resources. State's dependency on Public Debt is impacting the application of funds. Nearly one third of the resources were utilised for repayment of Public Debt. However, for the second consecutive year, the share of Public Debt receipts in the total receipts was decreased indicating lesser dependency on borrowing than previous year.

The share of Tax Revenue in total receipts has increased over previous year. State's Own Tax Revenue, which marginally decreased during Covid-19 year (2020-21), rose significantly in the subsequent years. Almost all the components of the State's Own Tax Revenue registered a notable growth. Goods and Services Tax, Taxes on Sales, Trade etc., Stamp Duty and Registration Fees, Taxes on Vehicles have shown noticeable growth.

The share of Non-Tax Revenue has nearly doubled over previous year. This is due to the huge increase in Miscellaneous General Services and Non-Ferrous Mining and Metallurgical Industries. The increase in respect of latter was due to remittance of arrears as well as advance payment of Royalty charges from Singareni Colleries Company Limited. The sources and nature of remittance in respect of Miscellaneous General services remained incomplete as remittances were classified as 'Other Receipts'. Huge receipts without proper classification affects transparency in the accounts. The lapsed Loans provided to Telangana Scheduled Castes Cooperative Development Corporation Limited and Telangana Scheduled Tribes Cooperative Finance Corporation Limited in 2018-19 were credited to Government Account as Non-Tax Revenue under Revenue Receipts resulting in inflation of Revenue surplus.

Grants-in-Aid from Government of India increased by more than half in 2022-23 as compared to the previous year, mainly on account of receipt of Grants for Centrally Sponsored Schemes. Main Grants from Government of India were in respect of Sarva Shiksha Abhiyan and Mahatma Gandhi National Rural Employment Guarantee Act.

Overall, the State was able to mobilise the Revenue as projected by Fifteenth Finance Commission in respect of both Tax Revenue and Non-Tax Revenues. But it could not achieve its budget estimates in respect of Non-Tax Revenue as they were overestimated despite huge increase from 'Other Receipts'.

On expenditure side share of Revenue expenditure grew marginally. This was mainly due to 'Taking over of DISCOM's losses under UDAY' and higher interest payments. The share of interest payments in committed expenditure and Revenue expenditure continued to increase. During the past five years, the highest share in Revenue expenditure was on Aasara Pensions in the Social Sector and Agriculture in the Economic Sectors. Government continued to provide 'Assistance to Transmission Corporation of Telangana Limited for Agricultural and allied Subsidy' in the form of subsidy as well as in the form of Grants-in-Aid. Government's spendings are increasingly taking the form of Grants-in-Aid.

Recommendations of the State Finance Commission are yet to be implemented. Delay in appointment of members to the State Finance Commission and subsequent delay in acceptance and implementation of the recommendations results in release of funds without relevant recommendations apart from non-compliance to the Constitutional mandate.

The share of Capital expenditure was least during the past five years. There was a huge drop in Government investments when compared to the previous year as Government provided Loans and Advances to the institutions related to its Off-Budget Borrowings instead of investments. Increase in Capital Expenditure is noted in construction of Civil Works under Samagra Shiksha, Buildings for Secretariat, Constituency Development Programme and Hospitals and Dispensaries. In Irrigation, the Palamuru-Ranga Reddy and Kaleshwaram Projects accounted for major Capital expenditure during the past five years. 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 projects. Return on Investments continued to be very low.

The share of Loans and Advances given was high mainly on account of debt servicing of Off-Budget Borrowings to institutions like Kaleshwaram Irrigation Project Corporation Limited, Telangana State Water Resource Infrastructure Development Corporation Limited and Telangana Drinking Water Supply Corporation Limited etc. Loans provided include institutions which do not have own revenue resources for repayment like Arogyasree Health Care Trust, Telangana Scheduled Castes Cooperative Development Corporation Limited, Telangana Scheduled Tribes Cooperative Finance Corporation Limited. The government's committed liability towards Power Finance Corporation Bond was also classified as Loans provided. Thus, such loans do not reflect the true picture of Government assets as loans recoverability from these institutions are remote.

Government has not been stipulating terms of loans like interest rates, duration of repayment, number of instalments, etc., while providing loans to institutions. The loan balances depicted in the Accounts were yet to be confirmed by the entities. Recovery of Loans continued to be poor. Non-recovery from any of the institutions to whom huge loans were provided also reinforces the view that many loans given are either towards discharge of Off-Budget Liabilities or to institutions which cannot repay on their own due to lack of own revenue resources.

The Government did not contribute to Statutory funds viz., Consolidated Sinking Fund and Guarantee Redemption Fund for a third consecutive year. It also did not transfer the required share from the State Disaster Response Fund to State Disaster Mitigation Fund.

A substantial amount lying in Rural Development Fund has not been utilised for the past five years. A new fund Telangana Haritha Nidhi was constituted last year, outside the Government Accounts with mandatory contributions from people's representatives, Government servants and other voluntary contributions.

During the year, less internal debt has been taken, and more repayments have been made in comparison to previous year. However, the State Government failed to limit the Total outstanding liabilities to GSDP ratio within the targeted ratio of 25 *per cent* for a third consecutive year. Considering Off-Budget Borrowings, the ratio is also much above the limit prescribed by Fifteenth Finance Commission. The Government did not disclose the quantum or details of its Off-Budget Borrowing in the budget documents. A case in point is where Roads and Bridge works were transferred to Telangana State Road Development Corporation for execution along with resource mobilisation.

Debt Maturity profile suggest that the Government would have to mobilize substantial amount of ₹2,86,228 crore in the next ten years for servicing of public debt, which could put significant pressure on the State finances.

Despite achieving Revenue Surplus, all the Market Borrowings could not be utilised towards Capital expenditure but were routed to providing Loans and Advances to institutions who raised Off-Budget Borrowings. This is not a healthy fiscal practice from the perspective of Debt Sustainability.

2.10 Recommendations

i. The Government may place a mechanism to capture the particulars of remittance up to detailed head level to avoid obscure classification like 'Other Receipts'.

ii. Government may uniformly classify Assistance to TRANSCO for agriculture and allied subsidies as subsidies instead of partly as subsidies and partly as Grants-in-Aid.

iii. The State Government may take appropriate action on the Report of the State Finance Commission and ensure that the mechanism of State Finance Commissions is kept functional.

iv. The State Government may increase the share of Capital expenditure in the Total Expenditure.

v. Government may review its investments to assess the reasons for consistent low return on investment.

vi. State Government may modify depiction of discharge of its liabilities on account of Off-Budget Borrowings as loans advanced. The State Government may ensure that the orders sanctioning loan / agreements should invariably stipulate the 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 specifying the same.

vii. The State Government may prepare and disclose financial results of irrigation projects.

viii. *Government needs to contribute to statutory funds as per the respective norms regularly to meet the contingencies for which they are created. It may utilise the amounts available in Rural Development Fund for the purposes for which it was created. The Government may bring Haritha Nidhi into Public Account fold instead of keeping it outside the Government Account.*

ix. *Government should make earnest efforts to keep the Total outstanding liabilities to Gross State Domestic Product ratio within the permissible limits. Including Off-Budget Borrowings, it should be within the limit prescribed by the Fifteenth Finance Commission. The State Government needs to fully disclose Off-Budget Borrowings in the budget documents, in addition to a Statement of Guarantees, in accordance with the recommendations of the Fifteenth Finance Commission. It may be ensured that all the market borrowings are utilised for Capital Expenditure.*