Chapter 1 Finances of the State Government

This Chapter provides an audit perspective on the finances of the State Government during 2017-18 and analyses changes in major fiscal aggregates relative to 2016-17 keeping in view overall trends during the preceding three years.

The analysis is based on the details contained in the Finance Accounts of the Government of Telangana. A profile of the State with demographic and other details is in ***Appendix 1.1.*** The structure of the Government Accounts is explained in ***Part A*** and the layout of the Finance Accounts in ***Part B*** of ***Appendix 1.2.***

1.1 Gross State Domestic Product (GSDP)

The Gross State Domestic Product (GSDP)[1] of Telangana in 2017-18 at current prices was ₹7,52,230 crore. The trends in annual growth of Gross Domestic Product (GDP) of India and GSDP of the State at current prices and constant prices (Base year: 2011-12) are in **Table 1.1.** Growth in Telangana was higher than the all-India average at both current and constant prices.

Table 1.1 GDP of India and GSDP of the State

Year	2014-15 (TRE)	2015-16 (SRE)	2016-17 (FRE)	2017-18 (AE)
Current Prices				
India's GDP (₹ in crore)	1,24,67,959	1,37,64,037	1,52,53,714	1,67,73,145
Growth rate (*per cent*)	*10.99*	*10.40*	*10.82*	*9.96*
State's GSDP (₹ in crore)	5,05,849	5,77,902	6,59,074	7,52,230
Growth rate (*per cent*)	---	*14.20*	*14.00*	*14.10*
Constant Prices (Base year – 2011-12)				
India's GDP (₹ in crore)	1,05,27,674	1,13,86,145	1,21,96,006	1,30,10,843
Growth rate (*per cent*)	*7.41*	*8.15*	*7.11*	*6.68*
State's GSDP (₹ in crore)	4,16,332	4,64,542	5,11,482	5,64,539
Growth rate (*per cent*)	---	*11.60*	*10.10*	*10.40*

Source: Ministry of Statistics and Programme Implementation (figures as on 29 August 2018); TRE: Third Revised Estimates; SRE: Second Revised Estimates; FRE: First Revised Estimates; AE: Advanced Estimates

1.2 Summary of Fiscal Transactions

Table 1.2 presents the summary of fiscal transactions of State Government during 2017-18 *vis-à-vis* 2016-17and 2015-16. Further details of receipts and disbursements as well as overall fiscal position during 2017-18 are in ***Appendix 1.3***. Time series data of Government Finances for the years 2014-18 is in ***Appendix 1.4***.

[1] Gross Domestic Product (GDP) and Gross State Domestic Product (GSDP) refers to the market value of all officially recognised final goods and services produced within the Country and the State respectively in a given period of time, accounted without duplication and are an important indicator of the Country and State's economy.

Table 1.2: Summary of Fiscal Transactions in 2017-18

(₹ in crore)

Receipts				Disbursements			
	2015-16	2016-17	2017-18		2015-16	2016-17	2017-18
Section A – Revenue Account[2]							
Tax Revenue	39,975	48,408	56,520	General Services	23,247	25,125	30,872
Non-Tax Revenue	14,414	9,782	7,825	Social Services	30,466	35,286	37,260
Share of Union Taxes/Duties	12,351	14,876	16,420	Economic Services	22,043	20,949	17,200
Grants from Government of India	9,394	9,752	8,059	Grants-in-aid and Contributions	140	72	33
Total Revenue Receipts	**76,134**	**82,818**	**88,824**	**Total Revenue Expenditure**	**75,896**	**81,432**	**85,365**
Section B – Capital Account[3] and Others							
Miscellaneous Capital Receipts	--	--	--	Capital Expenditure	13,590	33,371	23,902
Recoveries of Loans and Advances	88	156	138	Loans and Advances disbursed	5,233	3,402	6,209
Public Debt[4] Receipts*	17,498	44,819	49,153	Repayment of Public Debt*	2,845	15,568	27,471
Net of inter-state Settlement[5]	--	--	--	Net of inter-state Settlement	359	50	186
Contingency Fund	--	--	--	Contingency Fund	--	0.09	--
Public Account Receipts	86,385	1,09,094	1,06,511	Public Account Disbursements	80,909	1,05,368	98,664
Opening Cash Balance	5,195	6,468	4,164	Closing Cash Balance	6,468	4,164	6,993
Grand Total	**1,85,300**	**2,43,355**	**2,48,790**	**Grand Total**	**1,85,300**	**2,43,355**	**2,48,790**

Source: Finance Accounts

* *excluding the Ways and Means advances, the Public Debt receipts are ₹17,386 crore in 2015-16, ₹32,731 crore in 2016-17 and ₹26,231 crore in 2017-18; Repayment of Public Debt was ₹2,733 crore in 2015-16, ₹3,480 crore in 2016-17 and ₹4,549 crore in 2017-18*

Composition of resources and application of funds of the Consolidated Fund of the State in the year 2017-18 is in ***Appendix 1.5.***

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2 Revenue Account is the account of the current income and expenditure of the State. The income is derived mainly from taxes and duties, fees for services rendered, fines and penalties, revenue from Government estates such as forests and other miscellaneous items

3 Capital Account is the account of expenditure of a capital nature such as construction of buildings, laying of roads, irrigation and electricity projects. Such expenditure is met from sources other than current revenues, e.g. loans, surplus revenue of previous years, if any, and capital receipts

4 Comprises loans raised by Government such as market loans, loans from the Life Insurance Corporation of India, *etc*., and the borrowings from the Central Government

5 Inter-State Settlement is intended to provide for the accounting of sums due by one State Government to another under the financial settlement, on the setting up of new States or under the States Reorganisation Acts as well as the financial settlement between the centre and foreign countries

The trends of Revenue Receipts (RR) / Revenue Expenditure (RE) / Capital Expenditure (CE) relative to GSDP at current as well as constant prices[6] are in **Table 1.3**.

Table 1.3: Trends in RR / RE / CE relative to GSDP

Particulars	2015-16	2016-17	2017-18
Gross State Domestic Product at current prices	**5,77,902**	**6,59,074**	**7,52,230**
Revenue Receipts (RR) relative to GSDP			
RR at current prices (₹ in crore)	76,134	82,818	88,824
Rate of growth of RR at current prices (*per cent*)	*	*8.78*	*7.25*
RR at constant prices (₹ in crore)	*61,200*	*64,270*	*66,661*
Rate of growth of RR at constant prices (*per cent*)	*	*5.02*	*3.72*
RR/GSDP	***13.17***	***12.57***	***11.81***
Revenue Expenditure (RE) relative to GSDP			
RE at current prices (₹ in crore)	75,896	81,432	85,365
Rate of growth of RE at current prices (*per cent*)	*	*7.29*	*4.83*
RE at constant prices (₹ in crore)	61,008	63,196	64,065
Rate of growth of RE at constant prices (*per cent*)	*	*3.59*	*1.38*
RE/GSDP	***13.13***	***12.36***	***11.35***
Capital Expenditure (CE) relative to GSDP			
CE at current prices (₹ in crore)	13,590	33,371	23,902
Rate of growth of CE at current prices (*per cent*)	*	*145.56*	*(-) 28.37*
CE at constant prices (₹ in crore)	10,924	25,898	17,938
Rate of growth of CE at constant prices (*per cent*)	*	*137.07*	*(-)30.74*
CE/GSDP	***2.35***	***5.06***	***3.18***

Source: Finance Accounts and GSDP data from MoSPI (figures as on 29 August 2018) of respective years

**Not compared with 2014-2015, as figures for 2014-15 are for 10 months (i.e., from 2 June 2014 to 31 March 2015) due to bifurcation of Andhra Pradesh State (combined)*

As is evident from the table above, both Revenue Receipts and Revenue Expenditure have increased during the last three years, even after accounting for inflation. As a percentage of GSDP, however, both Revenue Receipts and Revenue Expenditure have been decreasing. Further, the growth rate of both Revenue Receipts and Revenue Expenditure decreased in 2017-18 as compared to the preceding year. Capital Expenditure, which had increased in 2016-17, however, saw a decline in 2017-18.

[6] Constant prices figures for Revenue Receipts, Revenue Expenditure and Capital Expenditure are arrived by using a deflator *i.e.*, ratio of GSDP at constant prices to GSDP at current prices for each year.

1.3 Review of fiscal situation

1.3.1 Fiscal parameters

Three key fiscal parameters *viz*., (i) Revenue Surplus[7] / Deficit, (ii) Fiscal Deficit[8] and (iii) Primary Deficit[9] help in assessing the fiscal situation of the Government. The way these deficits are financed assist in assessing the fiscal health of the Government. Trends in fiscal parameters (**Chart 1.1** and **Chart 1.2**) as per Finance Accounts indicate that the State's performance in 2017-18 was an improvement over the last year. Trends in Debt Sustainability (Ratio between debt and GSDP in *per cent*) and outstanding liabilities to GSDP are shown in **Chart 1.3** and **Chart 1.4.**

Chart 1.1: Trends of fiscal parameters
(₹ in crore)

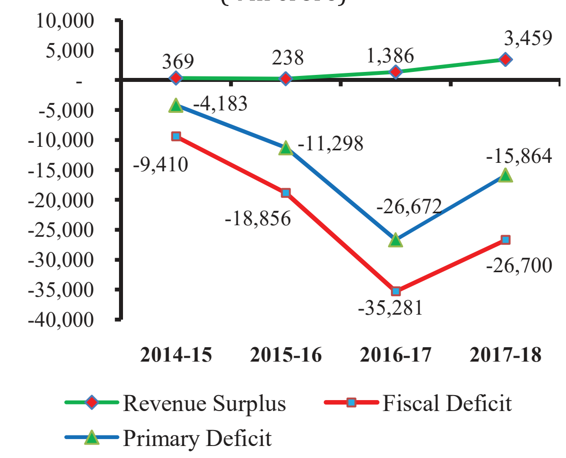


Chart 1.2: Fiscal parameters *vis a vis* GSDP
(in percentage)

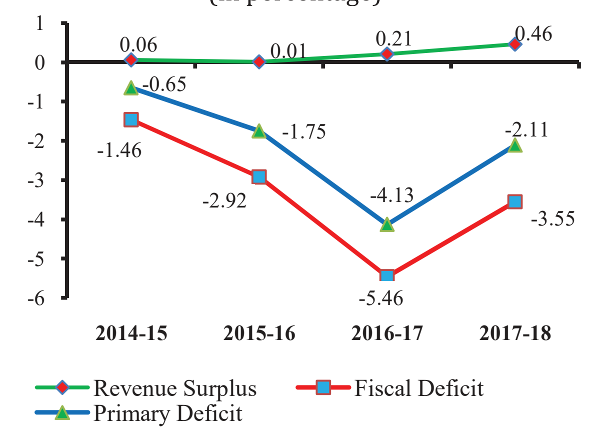


Chart 1.3: Debt Sustainability (*i.e.*, debt to GSDP ratio in *per cent*)

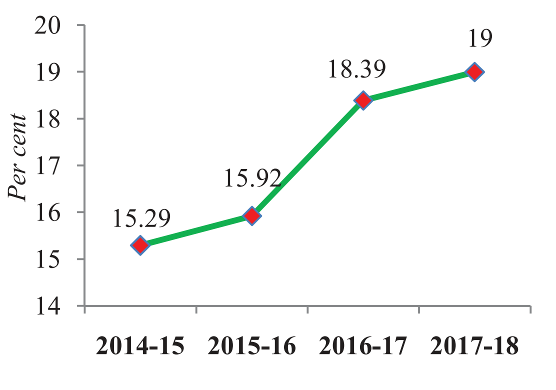
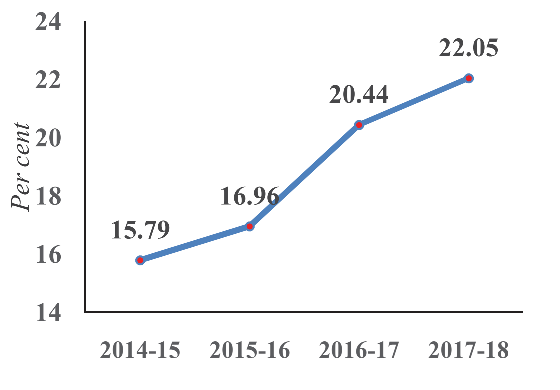


Chart 1.4: Total Outstanding Liabilities to GSDP ratio in *per cent*



Source: Finance Accounts

Note: In 2016-17, but for the increased Capital Expenditure of ₹7,500 crore incurred under Ujwal DISCOM Assurance Yojana (UDAY) scheme, which was implemented for financial turnaround of DISCOMs, the Fiscal Deficit and Primary Deficit would have been ₹28,781 crore (4.38 per cent) and ₹19,172 crore (2.97 per cent) respectively.

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7 Revenue Surplus = Revenue Receipts (-) Revenue Expenditure

8 Fiscal Deficit = Revenue Expenditure + Capital Expenditure + Net Loans and Advances (-) Revenue Receipts (-) Miscellaneous Capital Receipts

9 Primary Deficit = Fiscal Deficit (-) interest payments

- **Revenue Surplus** (₹3,459 crore) of the State in 2017-18 increased over previous year by ₹2,073 crore as per Finance Accounts.
- **Fiscal Deficit** (₹26,700 crore), in 2017-18, has decreased by ₹8,581 crore in comparison to preceding year (₹35,281 crore). Fiscal Deficit as a percentage of GSDP was 3.55 *per cent* and marginally exceeded the ceiling of 3.50 *per cent*[10] fixed by 14th Finance Commission. Fiscal Deficit position improved over previous year mainly due to reduced Capital Expenditure by ₹9,469 crore.
- **Primary Deficit** (₹15,864 crore) in 2017-18 decreased by 41 *per cent* in comparison to preceding year (₹26,672 crore). Though Primary Deficit, decreased, it was evident that the non-debt receipts[11] (₹88,962 crore) were not sufficient to meet Primary Expenditure (₹1,04,826 crore).
- As per 14th Finance Commission recommendations, the outstanding **Debt to GSDP ratio** (in *per cent*) was to be less than 22.82 *per cent* for the year 2017-18. The Debt-GSDP ratio (19 *per cent*), though increasing over the years, was within in the ceiling prescribed by the 14th Finance Commission.
- As per Medium Term Fiscal Policy Statement (MFPS) of the State Government, the total outstanding liabilities were to be less than 25 *per cent* of the GSDP. In 2017-18, the total outstanding liabilities of Telangana were 22.05 *per cent* of the GSDP, which is within the prescribed limit. The outstanding liabilities grew by 23 *per cent* over the previous year.

It was observed that the Revenue Surplus was overstated by ₹3,743.74 crore and Fiscal Deficit was understated by ₹954.60 crore on account of the following:

(i) Misclassification, (ii) non/short contribution to statutory funds, (iii) treating subsidies / Grants-in-Aid as loans as detailed in Table 1.4 below.

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[10] As per 14 Finance Commission recommendations, the State Government was eligible for fiscal deficit ceiling of 3.50 *per cent*(additional 0.5 *per cent* allowance over and above standard ceiling of 3 *per cent)* on account of the following:
(i) Additional 0.25 *per cent* is allowed if the ratio of Debt / GSDP of the State was less than 25 *per cent*. Debt/GSDP ratio in Telangana for 2015-16 (base year) was 16.21 *per cent*
(ii) A second 0.25 *per cent* is allowed if the ratio of Interest Payment / Total Revenue Receipts (IP/TRR) is less than 10 *per cent*. IP/TRR ratio in Telangana for 2015-16 was 9.92 *per cent*

[11] Non-debt receipts = Revenue receipts + Miscellaneous Capital receipts + Recoveries of Loans and Advances

Table 1.4: Impact on Revenue Surplus and Fiscal Deficit

(₹ in crore)

Particulars	Impact on Revenue Surplus (Overstated)	Impact on Fiscal Deficit (Understated)
(i) Misclassification		
Grants-in-Aid and Minor works booked under Capital	489.14	---
(ii) Non/short contribution to Statutory Funds		
Short contribution to National pension system	49.87	49.87
Non provision of interest on Interest bearing Reserve Funds and Deposits	21.59[12]	21.59
Non contribution to Consolidated Sinking Fund	673.69	673.69
Non contribution to Guarantee Redemption Fund	209.45	209.45
(iii) Subsidies / Grants-in-Aid classified as loans		
Assistance for subsidies treated as loans instead of grants / subsidies	2,300.00*	---
Total	**3,743.74**	**954.60**

Source: Finance Accounts

* *₹1,500 crore to Scheduled Castes Cooperative Development Corporation Limited and ₹800 crore to Telangana Scheduled* Tribes *Cooperative Finance Corporation Limited*

The State Government without furnishing details stated (January 2019) that it has consciously provided loans. It further, held the view that the calculations are hypothetical since the Government accounts are cash based accounts. The following was observed in audit:

- ₹2,300 crore sanctioned as loans was actually meant to be utilised for providing subsidies to the beneficiaries (refer **Box 1.1**).
- By not contributing to the statutory funds like Consolidated Sinking Fund, Guarantee Redemption Fund, the State Government has not incurred mandatory expenses, resulting in overstating of the Revenue Surplus.

Box 1.1: Subsidies treated as loans

Telangana Scheduled Castes Cooperative Development Corporation Limited (SCCDCL) and Telangana State Scheduled Tribes Cooperative Finance Corporation Limited (TRICOR) implement various programmes for the benefit of Schedule Castes and Schedule Tribes taken up by the State Government. These include distribution of subsidies to the targeted groups.

In March 2018, the State Government advanced loans of ₹1,500 crore and ₹800 crore respectively to these Corporations for transfer as subsidy under Land Purchase Scheme and other bank linked self-employment schemes *etc*. While, these were subsidies, they were treated as loans (and hence, Capital Expenditure) instead of grants (Revenue

12 Interest liability not provided: (i) ₹13.46 crore on Deposits (₹177.12 crore) bearing interest in Defined Contribution Pension Scheme calculated at 7.6 *per cent* (General Provident Fund Interest Rate) and (ii) ₹8.13 crore on Reserve Funds bearing interest (State Disaster Response Fund - ₹108.37 crore) calculated at 7.5 *per cent* (average Ways and Means Advance Rate)

Expenditure). This was not justified in view of the nature of the transfer being subsidy. Besides, both these institutions do not have any definite revenue stream to service the loan. Further, no terms and conditions like repayment period, rate of interest *etc*., were stipulated while sanctioning the loans. SCCDCL had, in fact, requested the Government for conversion of the loans in to subsidy.

Treating the transfers as loans instead of Grants-in-Aid or subsidies to these institutions resulted in understatement of Revenue Expenditure and overstatement of Revenue Surplus to the extent of ₹2,300 crore.

The Government stated (January 2019) it had consciously provided ₹2,300 crore as loans.

It, however, did not specify as to how it would ensure the institutions would be able to repay the loans as they did not have any revenue resource of their own. Further, both the above Corporations informed (March 2019) that they do not have their own resources and they did not approach the Government for loans. The Corporations also informed (March 2019) that amounts of ₹1,500 crore and ₹800 crore are still lying in their respective Personal Deposit Accounts.

1.3.1.1 Composition and Financing of Fiscal Deficit

Fiscal deficit represents the total financing the State requires (predominantly by drawing on its cash and investment balances with the RBI and by borrowing) to meet the excess of the revenue and capital expenditure (including loans and advances) over revenue and non-debt receipts. The composition and financing of fiscal deficit are in **Table 1.5**:

Table 1.5: Components of fiscal deficit and their financing pattern

(₹ in crore)

Sl. No.	Particulars	2015-16	2016-17	2017-18		
		Net	Net	Receipts	Disbursements	Net
A	**Decomposition of Fiscal Deficit (1 to 4)**	**(-)18,856**	**(-)35,281**	**88,962**	**1,15,662**	**(-)26,700**
1	Revenue Surplus	238	1,386	88,824	85,365	3,459
2	Capital Expenditure	(-)13,590	(-)33,371	-	23,902	(-)23,902
3	Net Loans and Advances	(-)5,145	(-)3,246	138	6,209	(-)6,071
4	Interstate Settlements	(-)359	(-)50	-	186	(-)186
B	**Financing Pattern of Fiscal Deficit**					
1	**Net Borrowings**	**14,653**	**29,251**	**49,153**	**27,471**	**21,682**
a	Market Borrowings*	13,883	29,058	48,517	27,059	21,458
b	Loans from GoI	770	193	636	412	224
2	**Net Public Account**	**5,476**	**3,726**	**1,06,511**	**98,664**	**7,847**
a	Small Savings, PF, *etc.*	862	1,069	2,495	1,519	976
b	Reserve Funds	1,126	440	831	553	278
c	Deposits and Advances	2,222	1,918	54,048	48,188	5,860
d	Suspense and Misc.	1,405	454	28,582	29,155	(-)573
e	Remittances	(-)139	(-)155	20,555	19,249	1,306

Sl. No.	Particulars	2015-16	2016-17	2017-18		
		Net	Net	Receipts	Disbursements	Net
3	**Contingency Fund**	-	(-)0.09	-	-	-
4	**Total (1 to 3)**	**20,129**	**32,977**	**1,55,664**	**1,26,135**	**29,529**
5	**Increase(-) / Decrease(+) in Cash Balance**	**(-)1,273**	**2,304**	--	--	**(-)2,829**
6	**Overall Surplus/Deficit (4+5)**	**18,856**	**35,281**	--	--	**26,700**

Source: Finance Accounts

** Includes borrowings from other institutions*

Market borrowings financed 80.36 *per cent* of the Fiscal deficit, which was mainly used to finance Capital Expenditure (89.52 *per cent*).

1.3.1.2 Quality of Deficit / Surplus

The bifurcation of Primary Deficit (**Table 1.6**) indicates the extent to which deficit has been on account of enhancement of Capital Expenditure, which may be desirable to improve productive capacity of the Government.

Table 1.6: Primary deficit/surplus – bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary Revenue Expenditure[13]	Capital Expenditure	Loans and Advances and Inter-State settlements	Primary Expenditure	Primary Revenue Surplus[14]	Primary deficit (-) / Surplus (+)	Primary Revenue Surplus/ Capital Expenditure (*per cent*)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)	9
2015-16	76,222	68,338	13,590	5,592	87,520	7,884	(-)11,298	58.01
2016-17	82,974	72,823	33,371	3,452	1,09,646	10,151	(-)26,672	30.42
2017-18	88,962	74,529	23,902	6,395	1,04,826	14,433	(-)15,864	60.38

Source: Finance Accounts

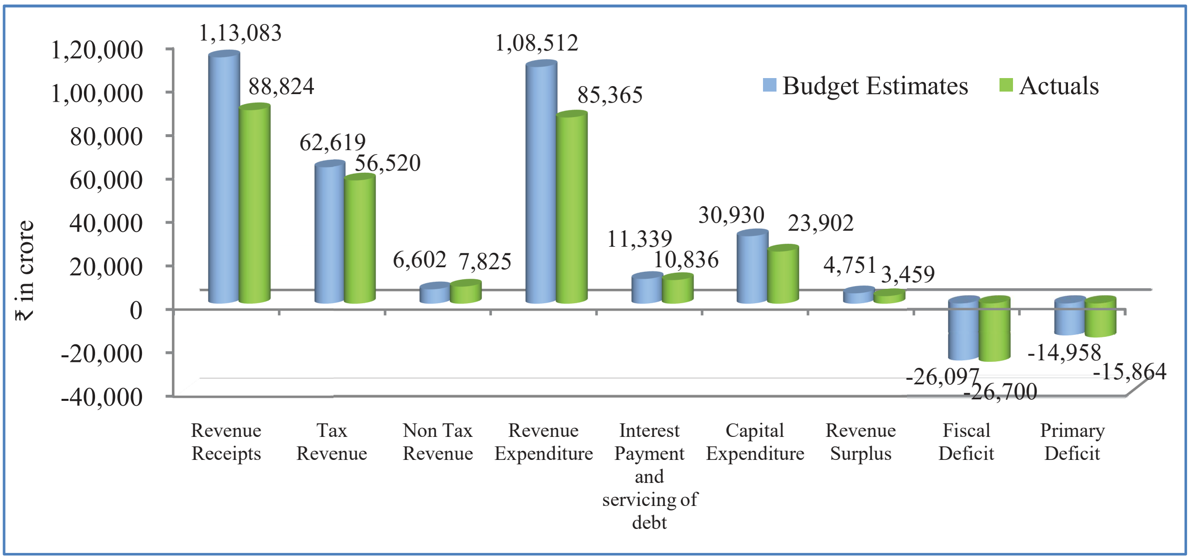
- As can be seen from above, the non-debt receipts were not sufficient to meet the Primary Expenditure.
- The Primary Revenue Surplus met 60 *per cent* of the Capital Expenditure in 2017-18, an improvement over the previous year.

1.3.2 Budget Estimates and Actuals

Shortfall of actual receipts and expenditure against budget estimates, either due to unanticipated and unforeseen events or under/over estimation of expenditure or revenue at the stage of budget preparation, adversely impacts the desired fiscal objectives. Significant variations were noticed between Budget Estimates and Actuals as detailed below (**chart 1.5**):

[13] Primary Revenue Expenditure = Revenue Expenditure – Interest payments
[14] Primary Revenue Surplus = Non-Debt Receipts (Revenue Receipts + Miscellaneous Capital Receipts + Recovery of Loans and Advances) – Primary Revenue Expenditure

Chart 1.5: Budget Estimates and Actuals for the year 2017-18



Source: Budget Estimates and Finance Accounts

- Revenue Receipts fell short of Budget Estimates (BE) by 21 *per cent.* Tax Revenue fell short of BE by 10 *per cent* mainly due to shortfall in Taxes on Sales, Trade/ GST *etc*. (18 *per cent)*. Shortfall in Grants-in-aid was 26 *per cent*.

- Non-Tax Revenue was higher than the BE by 18.52 *per cent*. Increase in non-tax revenue was due to receipt of ₹1,500 crore from "Major Irrigation (Kaleshwaram)".

- Revenue Expenditure was less than the BE by 21 *per cent*. The maximum shortfall in Revenue Expenditure was noticed under Irrigation and Flood Control (₹9,755 crore *i.e.,* 96 *per cent*).

- Capital Expenditure fell short of BE by 23 *per cent* mainly due to shortfall in Rural Development (₹3,453 crore *i.e*., 80 *per cent*), Irrigation and Flood Control (₹2,260 crore *i.e.,* 15 *per cent*), Water Supply, Sanitation, Housing and Urban Development (₹1,611 crore i.e. 46 *per cent*) and Welfare of SCs/STs/OBCs and Minorities (₹1,448 crore *i.e*., 78 *per cent*).

- Revenue Surplus was lower than BE by 24 *per cent.* Fiscal Deficit and Primary Deficit were higher than BE by two *per cent* and six *per cent* respectively.

Recommendation 1: The Finance Department should rationalise the budget preparation exercise, so that the gap between the budget estimates and actuals is bridged.

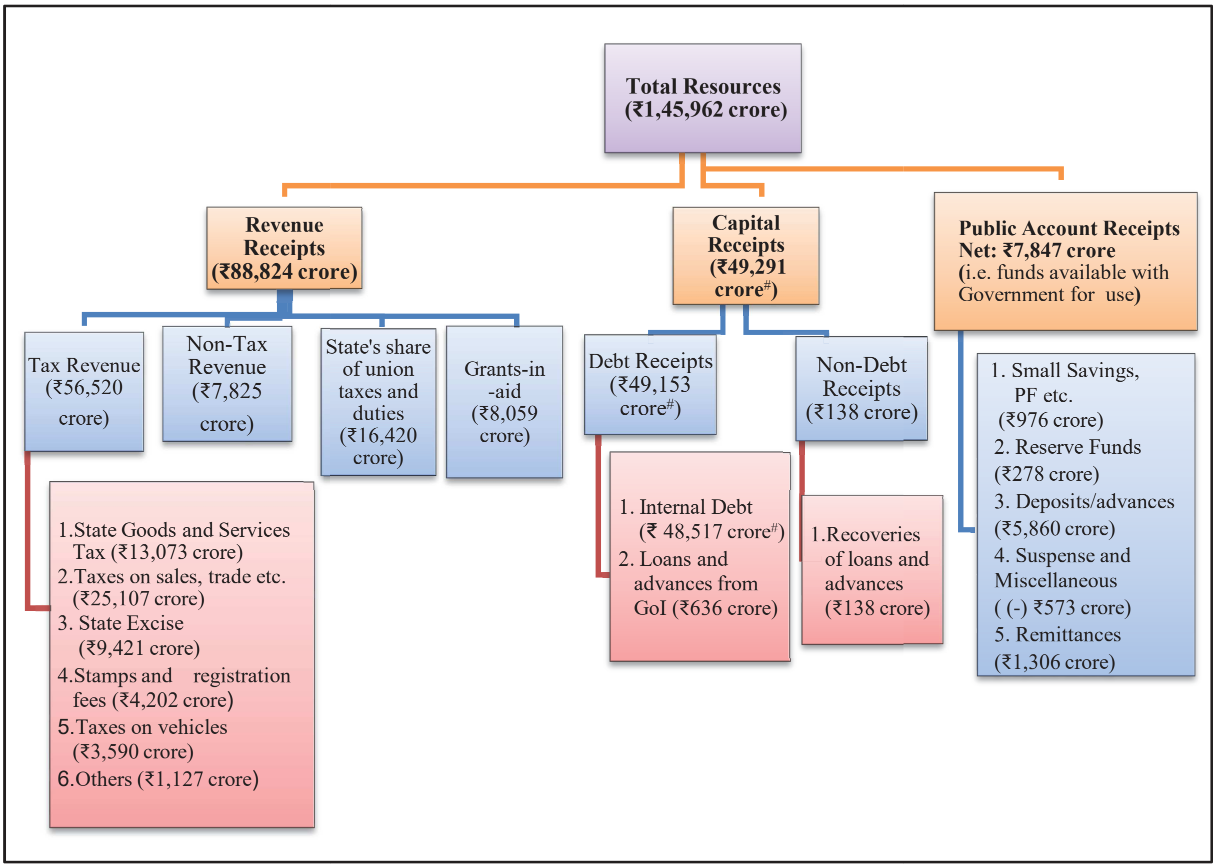
1.4 Financial Resources of the State

1.4.1 Resources of the State as per Annual Finance Accounts

Revenue Receipts consists of Tax Revenues, Non-Tax Revenues, State's share of Union taxes and duties, and Grants-in-Aid from Government of India (GoI). Receipts under Capital comprise of miscellaneous Capital Receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions / commercial banks) and loans and advances from GoI. Public Accounts Receipts include funds available with Government for use *i.e.,* Small Savings, Provident Fund, Reserve Funds, Deposits and Advances *etc*.

The overall composition of the State resources (₹1,45,962 crore) in 2017-18 is in **Chart 1.6**.

Chart 1.6: Composition of Resources in 2017-18



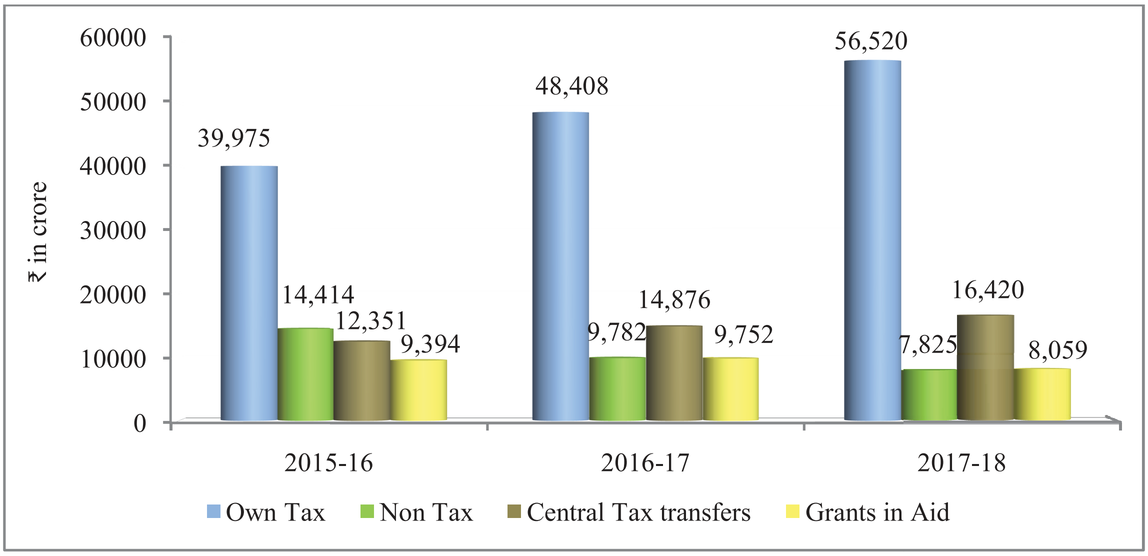
Source: Finance Accounts

#includes Ways and Means Advances of ₹22,922 crore

1.4.2 Revenue Receipts

Statement 14 of the Finance Accounts gives details of Revenue Receipts of the Government. The trends and composition of the Revenue Receipts during the years 2015-16 to 2017-18 are in **Chart 1.7**.

Chart 1.7: Composition of Revenue Receipts during the years 2015-16 to 2017-18



Source: Finance Accounts

As can be seen, the Own Tax revenue and Central tax transfers have been increasing; whereas non-tax revenue was falling over the years. Grants-in-Aid in 2017-18 were lower than the previous year.

1.4.2.1 State's Own Resources

The State's performance in mobilization of resources is assessed in terms of Tax Revenue and Non-Tax Revenue, not including the State's share in Central Taxes and Grant-in-Aid which is based on the recommendations of the Finance Commission.

State's Own Tax Revenue

Components of State's own Tax Revenue are in **Table 1.7**:

Table 1.7: Components of State's Own Tax Revenue

(₹in crore)

	2015-16	2016-17	2017-18	
	Actuals	Actuals	Budget Projections	Actuals
State Goods and Services Tax	---	---	---	13,073
Taxes on Sales, Trade,*etc.*	29,847	34,235	46,500	25,107
State excise	3,809	5,581	9,000	9,421
Taxes on vehicles	2,309	3,394	3,000	3,590
Stamp Duty and Registration Fees	3,102	3,822	3,000	4,202
Land revenue	104	7	15	4
Taxes on goods and passengers	33	11	5	88
Other taxes	771	1,358	1,099	1,035
Total	**39,975**	**48,408**	**62,619**	**56,520**

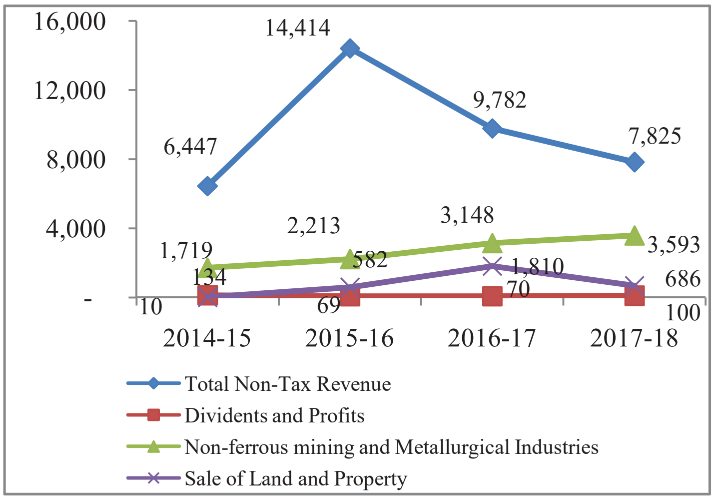
Source: Finance Accounts

State's Own Tax Revenue (SoTR) in 2017-18 was ₹56,520 crore and constituted 64 *per cent* of total Revenue Receipts. Tax Revenue grew by 17 *per cent* at a rate higher than the increase (14 *per cent*) in the economic base measured in terms of GSDP. The increase in State Excise (₹3,840.61 crore) was mainly due to revision of rates of taxation.

Non-Tax Revenue

Non-Tax Revenue (NTR) accounts for receipts from services rendered and supplies made by various Departments of Government and interest receipts. NTR in 2017-18 was ₹7,825 crore and constituted nine *per cent* of the total Revenue Receipts. The fall (20 *per cent*) in NTR was due to decrease in interest receipts and revenue from sale of land and property.

Chart 1.8: Non-Tax Revenue: 2014-15 to 2017-18



Source: Finance Accounts of years concerned

The following was observed in audit:

- Receipts from sale of land and property (₹686.43 crore) decreased significantly in comparison to previous year (₹1,809.93 crore). NTR of ₹1,500 crore from sale of land to a Special Purpose Vehicle (SPV) *viz.,* Kaleshwaram Irrigation Project Corporation Limited (KIPCL) was incorrectly classified as receipts from Major Irrigation instead as sale of Land and Property.
- The revenue (₹3,592.51 crore) under the Mines and Minerals increased by 14 *per cent* during 2017-18 over the previous year (₹3,148.40 crore). The increase was mainly due to increase in royalty (₹2,048 crore in 2017-18) of major minerals as compared to previous year (₹1,757 crore).
- The 'Interest from Departmental Commercial Undertakings (₹0.08 lakh)' was meagre in comparison to receipts of ₹1,620.12 crore in the preceding year. The receipts in 2016-17 included notional interest of ₹1,620.09 crore on account of a book adjustment from Irrigation and Power projects with equivalent expenditure under "Other Expenditure". Such notional adjustment on both Receipts and Expenditure side was not made in 2017-18.

1.4.2.2 Efficiency in Tax Collection

The cost of collection of major taxes of the State decreased during the last three years (**Table 1.8**) leading to greater efficiency (measured as cost of collection of tax as a percentage of the tax collection).

Table 1.8: Tax collected and Cost of collection

		2015-16	2016-17	2017-18
Taxes on Sales, Trade, *etc.*, and SGST	Gross Revenue collection (₹ in crore)	29,846	34,235	40,068
	Cost of Collection (₹ in crore)	210	228	217
	Percentage to Gross collection	***0.71***	***0.67***	***0.54***

		2015-16	2016-17	2017-18
State Excise	Gross Revenue collection (₹ in crore)	3,809	5,581	9,421
	Cost of Collection (₹ in crore)	206	216	226
	Percentage to Gross collection	***5.40***	***3.88***	***2.40***
Taxes on Vehicles	Gross Revenue collection (₹ in crore)	2,309	3,394	3,589
	Cost of Collection(₹ in crore)	80	74	76
	Percentage to Gross collection	***3.46***	***2.18***	***2.12***
Stamps and Registration fees	Gross Revenue collection (₹ in crore)	3,102	3,822	4,202
	Cost of Collection (₹ in crore)	62	68	69
	Percentage to Gross collection	***2***	***1.77***	***1.65***

Source: Finance Accounts

1.4.2.3 GST Compensation

The State Government implemented Goods and Services Tax (GST) Act, which became effective from 1 July 2017. According to GST (Compensation to the States) Act, 2017, the Central Government will compensate the States for loss of revenue arising on account of implementation of GST for a period of five years. The Compensation payable to the State shall be calculated for every financial year after the receipt of final revenue figures, as audited by the Comptroller and Auditor General of India. The projected revenue for any year of a State shall be calculated applying the projected growth rate of (14 *per cent* per annum) over the base year revenue of the State. The base year for calculation of revenue figures of taxes subsumed under GST was fixed as 2015-16.

In case of Telangana, the revenue in the base year (2015-16) was ₹16,109 crore. Projected revenue for the year 2017-18 (for 9 months from the date of commencement of GST *i.e.,* 1 July 2017 to 31 March 2018) assessed with respect to base year was ₹15,701 crore. During the period from 1 July 2017 to 31 March 2018, the State collected an amount of ₹16,458 crore including an amount of ₹3,385 crore pre-GST taxes and ₹705 crore towards advance apportionment of Integrated GST (IGST).

The State received an amount of ₹169 crore towards provisional GST Compensation.

1.4.2.4 State's share of Union Taxes

The devolution of different components of States share of Union Taxes during years 2015-16 to 2017-18 is in **Table 1.9**.

Table 1.9: Devolution of different components of State's share of Union Taxes

(₹ in crore)

Component of State's share of Union taxes	2015-16	2016-17	2017-18
Corporation Tax	3,870	4,763	5,027
Customs	1,979	2,049	1,657
Income Tax	2,675	3,310	4,245
Other Taxes and Duties on commodities and services	11	0	0
Service Tax	2,153	2,404	1,872

Component of State's share of Union taxes	2015-16	2016-17	2017-18
Wealth Tax	1	10	0
Union Excise Duties	1,662	2,340	1,731
CGST	NA	NA	231
IGST	NA	NA	1,657
Grand total	12,351	14,876	16,420
Devolution as percentage of Revenue Receipts of the State	*16.22*	*17.96*	*18.49*
NA: *Not applicable due to implementation of GST Act with effect from 1 July 2017*			

Source: Finance Accounts

As can be seen from the above, the devolution as a percentage of Revenue Receipts of the State has been increasing over the past three years.

1.4.2.5 Grants-in-Aid from Government of India

The details of Grants-in-Aid and its composition during the years 2015-16 to 2017-18 are in **Table 1.10**.

Table 1.10: Grants-in-aid from Government of India

(₹ in crore)

Particulars	2015-16	2016-17	2017-18	
	Actuals	Actuals	BE	Actuals
Non-Plan Grants	2,978	3,057	15,895	---
Grants for Centrally Assisted State Plan Schemes	6,416	6,695	10,962	---
Grants for Central and Centrally sponsored Plan Schemes	---	---	---	6,108
Finance Commission Grants	---	---	---	1,168
Other Transfers/Grants to States	---	---	---	783
Total	9,394	9,752	26,857	8,059
Total grants as a percentage of Revenue Receipts	*12.34*	*11.78*	*23.75*	*9.07*

Source: Finance Accounts; BE: Budget Estimates

Grants-in-Aid from GoI had reduced by 17 *per cent* in 2017-18 over previous year. The State Government stated (January 2019) that adopting direct benefit transfers (DBT), particularly in respect of schemes like MGNREGS would be one reason for decrease in receipt of Grants-in-Aid from GoI.

1.4.2.6 Transfers of funds directly to implementing agencies without routing through Consolidated Fund of the State

With effect from 01 April 2014, it has been decided by Government of India (GoI) to release all assistance related to the Centrally Sponsored Schemes/Additional Central Assistances to the State Government and not directly to implementing agencies. During 2017-18, however, the GoI released ₹9,741 crore directly to the implementing agencies for Food Subsidy (₹3,854 crore), National Rural Employment Guarantee Scheme (₹5,082 crore) *etc*., as shown in Appendix-VI of Finance Accounts 2017-18. Similar direct releases to implementing agencies had happened in 2016-17 (₹887.96 crore) and 2015-16 (₹858.38 crore).

1.4.3 Receipts under the Capital Section

The details of Capital Receipts and their composition for the years 2015-16 to 2017-18 are in **Table 1.11**:

Table 1.11: Composition of Capital Receipts

(₹ in crore)

Sources of State's Receipts	2015-16	2016-17	2017-18	
	Actuals	Actuals	BE	Actuals
Capital Receipts (CR)	**17,586**	**44,975**	**35,187**	**49,291**
Recovery of Loans and Advances	88	156	5,807	138
Public Debt Receipts[#]	17,498	44,819	29,380	49,153

Source: Finance Accounts

[#]includes Ways and Means Advances of ₹112 crore, ₹12,088 crore and ₹22,922 crore for 2015-16, 2016-17 and 2017-18 respectively.

Public debt receipts constituted major component of Capital Receipts (99.72 *per cent*).

1.4.3.1 Public Account Receipts

Receipts and disbursements in respect of transactions such as Small Savings, Provident Fund, Reserve Funds, Deposits, Suspense, Remittances, *etc*., which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266 (2) of the Constitution. These are not subject to vote by the State Legislature. Government acts as banker or trustee. The balance after disbursements is the fund available with the Government for its own use. Composition of Public Account receipts and disbursements is detailed in **Table 1.12**:

Table.1.12: Composition of Public Account Receipts and Disbursements

(₹ in crore)

Particulars	2015-16 Actuals	2016-17 Actuals	2017-18	
			Budget Estimates	Actuals
A. Public Account Receipts				
Small Savings, Provident Fund, *etc.*	2,101	2,417	1,233	2,495
Reserve Fund	1,788	1,292	2,079	831
Deposits and Advances	39,840	43,378	43,000	54,048
Suspense and Miscellaneous	26,458	39,369	---	28,582
Remittances	16,198	22,638	---	20,555
Total (A)	**86,385**	**1,09,094**	**46,312**	**1,06,511**
B. Public Account Disbursements				
Small Savings, Provident Fund, *etc.*	1,239	1,348	2,057	1,519
Reserve Fund	662	852	1,533	553
Deposits and Advances	37,619	41,460	41,672	48,188
Suspense and Miscellaneous	25,053	38,915	---	29,155
Remittances	16,336	22,793	---	19,249
Total (B)	**80,909**	**1,05,368**	**45,262**	**98,664**
Public Account Net (A)-(B)	**5,476**	**3,726**	**1,050**	**7,847**

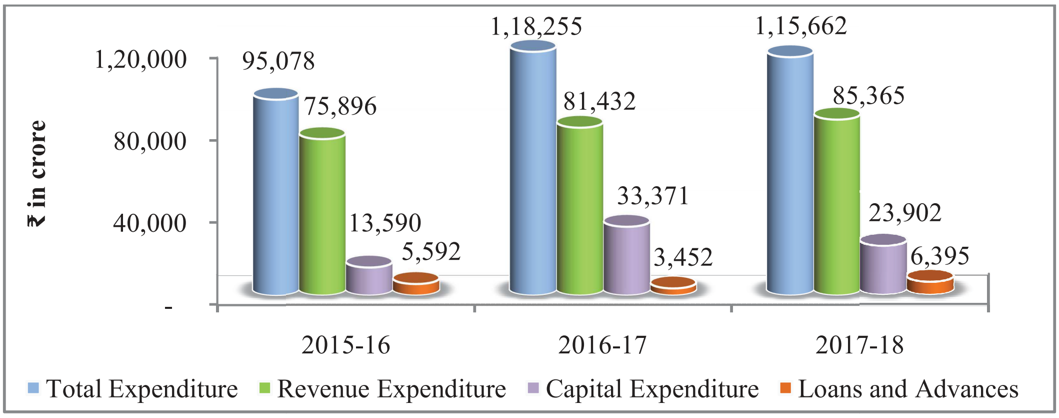
Source: Finance Accounts

1.5 Application of Resources

1.5.1 Growth and Composition of expenditure

The total expenditure in 2017-18 was ₹1,15,662 crore. **Chart 1.9** presents the trends and composition of total expenditure during 2015 to 2018.

Chart 1.9: Growth and Composition of expenditure during last three years



Source: Finance Accounts

Around 3/4th of the total expenditure in 2017-18 was Revenue Expenditure. Social Services[15] expenditure took precedence with 39.36 *per cent* over General (27.18 *per cent*) and Economic Services (33.20 *per cent*) in the total expenditure. Capital Expenditure, targeted towards creation of assets, constituted 21 *per cent* of the total expenditure, with the Economic Services[16] (84.47 *per cent*) receiving priority.

Component-wise major expenditure in Revenue and Capital sections incurred in 2017-18 is in **Table 1.13**:

Table 1.13: Major expenditure components under Revenue and Capital

Revenue				Capital			
Component	Sector	2016-17 (₹ in crore)	2017-18 (₹ in crore)	Component	Sector	2016-17 (₹ in crore)	2017-18 (₹ in crore)
Education[17], Sports, Art and Culture	Social	11,955	12,246	Irrigation and Flood control	Economic	13,655	12,596
Social Welfare and Nutrition	Social	9,069	8,864	Energy	Economic	10,498	2,721
Welfare of SCs, STs, OBCs and Minorities	Social	6,592	7,862	Transport	Economic	3,180	2,169

15 refers to welfare activities of the Government and includes (i) Education, Sports, Art and Culture, (ii) Health and Family Welfare, (iii) Water Supply, Sanitation, Housing and Urban Development, (iv) Information and Broadcasting, (v) Welfare of Scheduled Castes, Scheduled Tribes and Backward Classes, (vi) Labour and Labour Welfare, (vii) Social Welfare and Nutrition and (viii) Others

16 refers to economic development activity sectors of the Government and includes (i) Agriculture and allied services, (ii) Irrigation and Flood Control, (iii) Energy, (iv) Industry and Minerals, (v) Transport, (vi) Science Technology and Environment, (vii) Rural Development and (viii) General Economic Services

17 Include General Education:₹11,618 crore and Technical Education:₹336 crore

Revenue				Capital			
Component	**Sector**	**2016-17 (₹ in crore)**	**2017-18 (₹ in crore)**	**Component**	**Sector**	**2016-17 (₹ in crore)**	**2017-18 (₹ in crore)**
Agriculture and allied activities	Economic	6,122	6,560	Water Supply, Sanitation, housing and Urban Development	Social	2,209	1,873
Health and Family Welfare	Social	4,590	4,768	Rural Development	Economic	109	858
Energy	Economic	4,594	4,391				
Rural Development	Economic	6,549	3,790				
Water Supply, Sanitation, Housing and Urban Development	Social	2,529	2,964				

Source: Finance Accounts

- Revenue Expenditure (₹85,365 crore) was higher than the previous year's figures (₹81,432 crore) by 4.83 *per cent*. The increase over previous year was mainly due to higher outgo on Welfare of SCs, STs, OBCs and Minorities (₹1,270 crore), and Housing (₹522 crore) apart from committed Pension and other Retirement Benefits (₹2,921 crore) and Interest payments (₹2,226 crore). Expenditure on Rural Development decreased as compared to previous year owing to reduced assistance to Zilla Parishad, Gram Panchayat and Tribal Area Sub Plan.
- Capital Expenditure during current year (₹23,902 crore) was lower than the previous year's figures (₹33,371 crore) by 28 *per cent*. This was mainly due to decrease under Energy (₹7,776 crore), Irrigation and Flood Control (₹957 crore) and Transport (₹902 crore). Decreased expenditure under Energy was mainly due to lower investments in DISCOMs. Decrease under Irrigation and Flood Control was mainly due to lower expenditure on Mission Kakatiya, construction of New Irrigation Tanks under TSILIP and Lift Irrigation Works.
- Out of the total Development Expenditure[18], 65 *per cent* was under Revenue section.

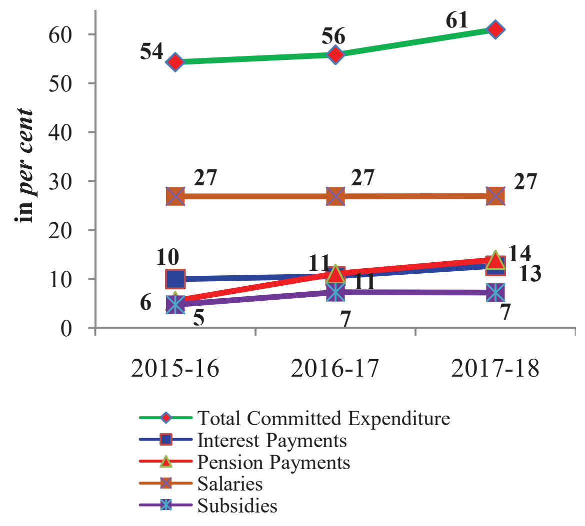
1.5.2 Revenue Expenditure

1.5.2.1 Committed Expenditure

Committed expenditure of Government consists of interest payments (₹10,836 crore), salaries and wages (₹23,003 crore), pensions (₹11,932 crore) and subsidies (₹6,159 crore). The committed expenditure in 2017-18 was ₹51,930 crore and constituted 61 *per cent* of Revenue Expenditure.

[18] Development Expenditure is the expenditure incurred on Social and Economic Services. It includes Developmental Capital Expenditure (₹23,337 crore), Developmental Revenue Expenditure (₹54,460 crore) and Development Loans and Advances (₹6,209 crore)

Chart 1.10: Committed Expenditure as percentage of Revenue Expenditure



Source: Finance Accounts of years concerned

The following observations were noted in Audit:

The burden of committed expenditure measured as a percentage of Revenue Expenditure of the State, was steadily rising (Chart 1.10).

This was due to increase in interest payments (₹10,836 crore: increase by 26 *per cent* over 2016-17) and pension payment (₹11,932 crore: increase by 32 *per cent* over 2016-17). **Greater reliance on market borrowings by the Government in the recent years has led to increase in liabilities on account of interest payments.**

As a result, the interest payments relative to revenue receipts were much higher at 12.19 *per cent* as against the target of 8.31 *per cent* fixed by 14th Finance Commission.

- The share of Salaries remained almost constant at 27 *per cent* of Revenue Expenditure.
- The share of subsidies also remained almost constant at seven *per cent* of the Revenue Expenditure (**Table 1.14**). Subsidies for power (₹3,262 crore)[19] which accounts for 53 *per cent* of the total subsidies, showed a marginally decreasing trend. Subsidies for Social welfare and Tribal welfare increased by ₹780.30 crore and ₹245.16 crore due to subsidy on rice, which had been included under "Civil Supplies" in 2016-17. In agriculture, the subsidies increased by 100 *per cent* due to increased subsidies on supply of seeds to farmers and farm mechanization.

Table 1.14: Department-wise Subsidies

(₹ in crore)

Sl. No.	Department	2016-17	2017-18
1	Power	3,675	3,262
2	Civil Supplies	2,018	1,181
3	Social Welfare	70	828
4	Agricultural and other Allied activities	152	304
5	Tribal Welfare	19	267
6	Transport	--	260
7	Others	20	57
Total		**5,935**	**6,159**
Revenue Expenditure		**81,432**	**85,365**

Source: Finance Accounts

[19] Assistance to Transmission Corporation of Telangana Ltd. for Agricultural and allied Subsidy (₹2,952 crore) and Towards Reimbursement of expenditure incurred by TSTRANSCO against Vidyut Bonds (₹310 crore)

Further, the Government incurred expenditure as 'Grants-in-Aid' and 'Other expenditure' amounting to ₹767 crore in 2017-18, which are in the nature of subsidy like incentives for industrial promotion (₹301 crore), assistance to small and marginal farmers towards crop insurance (₹114 crore), assistance to Municipalities / Corporations as interest free loans (₹102 crore), power subsidy for industries (₹101 crore) interest free loans to farmers and insurance (₹80 crore). **Though, these are in the nature of subsidies, they are however, not reflected as subsidies and the committed expenditure is understated to that extent.**

1.5.2.2 Financial assistance to Local Bodies

Financial assistance to the tune of ₹30,415.93 crore was provided by the State Government to local bodies and other institutions by way of grants and loans in 2017-18 (**Table 1.15**). There was a marginal dip in the overall quantum of assistance in comparison to previous year (₹30,648 crore) mainly due to 15 *per cent* reduction in assistance to Panchayat Raj Institutions (PRI). The cut impacted two programmes: Construction of Rural Roads (which has suffered persistent shortfall with respect to Budget Estimates) and Pradhan Mantri Gram Sadak Yojana, which did not receive grants in 2017-18 from the Government of Telangana.

Table 1.15: Financial Assistance to Local Bodies and other institutions

(₹ in crore)

Sl. No.	Grants given to	2016-17	2017-18
1	Educational Institutions (Aided Schools, Aided Colleges, Universities, *etc.*)	987	1,000
2	Urban Local Bodies	609	798
3	Panchayat Raj Institutions	7,489	6,376
4	Development Agencies	119	291
5	Other Autonomous Bodies	1,172	1,093
6	Co-operative Institutions	63	56
7	Agriculture and allied activities	4,268	4,614
8	Social Welfare	5,422	5,177
9	Rural Development	2,483	1,514
10	Other Institutions	8,036	9,497
Total		**30,648**	**30,416**
Assistance as percentage of Revenue Expenditure		***38***	***36***

Source: Finance Accounts

Box 1.2: Formation of State Finance Commission

As stipulated in Article 243-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 (PRI) and Urban Local Bodies (ULB) of the State and to recommend principles for distribution of divisible pool of levies of the State between State and PRI / ULB.

Though constitution of the State Finance Commission was notified in March 2015, within one year of formation of the Telangana State, the Chairman and member were appointed only in January 2018.

1.5.2.3 National pension system

State Government employees recruited on or after 01 September 2004 are covered under the National pension system (NPS), which is a defined contributory pension scheme. It is mandatory for employees to contribute 10 *per cent* of basic pay and dearness allowance every month. The State Government has to make equal contribution. The Government has to transfer these contribution amounts along with details to the National Securities Depository Limited (NSDL) and to the fund managers appointed by the NPS Trust, respectively. Audit analysis showed the following:

- During 2017-18, the employees' contribution was ₹481.61 crore and the Government contribution was ₹431.74 crore. The short contribution by the Government was of ₹49.87 crore. There were short contributions by Government in 2016-17 (₹71.91 crore) and 2014-15 (₹20.01 crore) also. In 2015-16, however, the Government, contributed more by ₹12.07 crore *vis-a-vis* employee's contribution of ₹359.16 crore. As Principal Accountant General (Accounts and Entitlements) is not maintaining the accounts of individual employee's contribution, the correctness of recovery from the employee's salary bills cannot be verified. No reconciliation of the amounts transferred has been carried out with NSDL/ Trustee Bank.

  In the absence of complete data, Audit could not estimate the total liability of the State Government since the inception of the scheme.

- The balance in the Pension Fund under Defined Contribution Pension Scheme for Government Employees (MH- 8342, MiH- 117) as of 31 March 2017 was ₹177.12 crore. The receipts into the fund in 2017-18 were ₹913.35 crore. The Government transferred ₹926.89 crore to NSDL / Trustee Bank leaving balance of ₹164.90 crore in the fund as of 31 March 2018. Government was liable to pay interest on this amount also. The interest liability on the opening balance of ₹177.12 crore was ₹13.46 crore (calculated at a rate of 7.6 per *cent*[20]), for which the Government did not make any provision. Further, an amount of ₹730.64 crore available in the Pension Fund was awaiting apportionment between the States of Andhra Pradesh and Telangana.

The short contribution of employer's share and non-provision of interest resulted in overstatement of Revenue Surplus and understatement of Fiscal Deficit (Refer Table 1.4).

Persistent short contribution by the State Government, short transfer to NSDL / Trustee Bank, and not-crediting the interest on un-transferred amount, unless rectified, will inevitably lead to bankruptcy of the NPS corpus and eventual failure of the scheme, hurting the interest of the subscribers.

1.5.3 Capital Expenditure

Capital Expenditure, which had registered a steady increase in the last three years, however, saw a dip in 2017-18 (₹23,902 crore) *i.e.,* a decrease of ₹9,469 crore

[20] General Provident Fund interest rate

(28 *per cent*) from the preceding year (₹33,371 crore) mainly on account of implementation of UDAY scheme in the year 2016-17, for which there was no expenditure in 2017-18. The Government, however, invested significantly in infrastructure projects like Kaleshwaram Project (₹4,419 crore) and Mission Bhagiratha (₹512 crore), which were implemented through Special Purpose Vehicles (SPVs). The State Government was also giving Guarantees for the loans taken by these SPVs (***refer Paragraphs 1.7.2).***

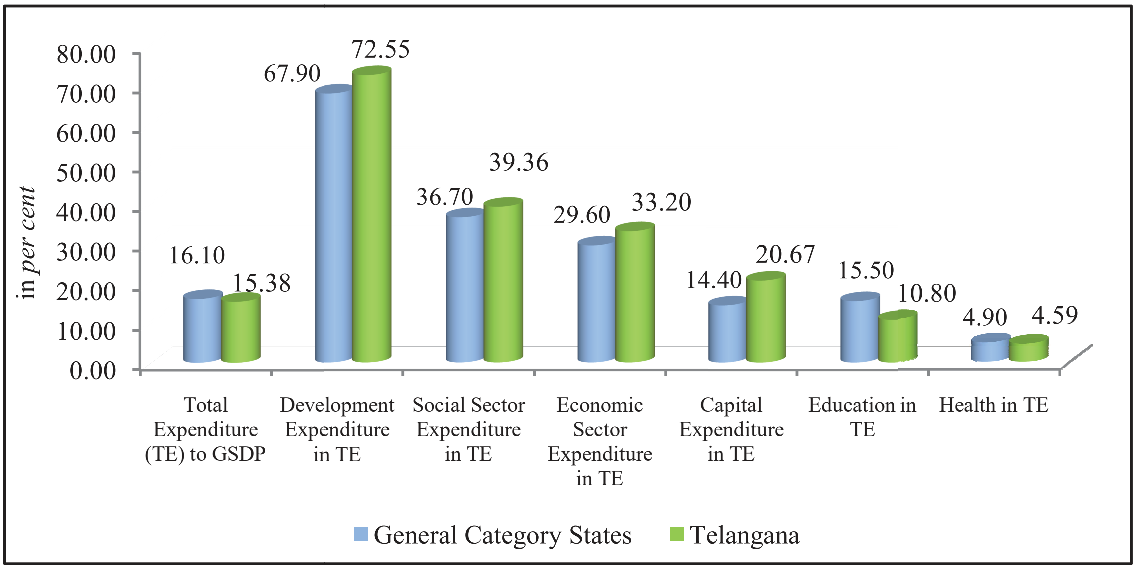
1.5.4 Quality of Expenditure

Quality of expenditure basically involves three aspects, *viz.,* adequacy of the expenditure (*i.e*., adequate provisions for providing public services), efficiency of expenditure use and effectiveness (assessment of outlay - outcome relationships for services).

1.5.4.1 Adequacy of public expenditure

A comparison of fiscal priority of Telangana Government with other General Category States[21] (**Chart 1.11)** revealed that Telangana fared favourably in its focus on Development Expenditure (₹84,006 crore) and Capital Expenditure (₹23,902 crore). However, the State lagged behind General Category States in the area of Education.

Chart 1.11: Prioritisation in public expenditure in percentage



Source: Finance Accounts

The State Government stated (January 2019) that expenditure on education is being incurred through other grants also such as expenditure on residential schools, scholarships to SC, ST and BC students, *etc*.

It was, however, seen that even after considering the expenditure on the residential schools *etc.,* under Social Welfare and Tribal Welfare, the percentage of Education in total expenditure was 12.45 *per cent* only and was still less than General Category States.

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

1.5.4.2 Efficiency of expenditure use

Details of Capital and Revenue Expenditure on maintenance of social and economic services are in **Table 1.16** below:

Table 1.16: Efficiency of expenditure on selected social and economic services

(in *per cent*)

Social/Economic Infrastructure	2016-17			2017-18		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S&W	O&M		S&W	O&M
Social Services (SS)						
General Education	2.02	68.60	0.06	1.98	69.63	0.08
Health and Family welfare	7.09	37.08	0.18	5.21	29.15	0.34
Water Supply, Sanitation, Housing &Urban Development	46.63	16.89	5.46	38.73	10.16	1.77
Total (SS)	**8.22**	**31.84**	**0.54**	**7.11**	**31.17**	**0.31**
Economic Services (ES)						
Agriculture & Allied Activities	10.00	12.10	2.84	7.27	12.37	3.34
Irrigation & Flood Control	87.05	12.76	4.50	96.94	63.07	19.10
Power & Energy	69.56	0.01	0.003	38.26	0.00	0.00
Transport	84.24	3.09	42.78	78.47	3.19	50.25
Total (ES)	**58.59**	**9.11**	**2.62**	**54.36**	**11.45**	**3.59**
Total (SS + ES)	**36.84**	**23.37**	**1.31**	**30.00**	**24.94**	**1.35**

Source: Finance Accounts; CE: Capital Expenditure; RE: Revenue Expenditure; TE: Total Expenditure; S&W: Salaries & Wages; O&M: Operation & Maintenance

The ratio of Capital Expenditure to Total Expenditure in Irrigation and Flood control has increased significantly, indicating the focus of the Government on asset creation under this sector.

In respect of Revenue Expenditure, the share of operation and maintenance (O&M) in respect of Transport under Economic Sector has grown considerably over preceding year indicating increasing burden of O&M. The share of salaries and wages in respect of General Education under Social Sector has increased marginally over the preceding year.

1.6 Composition of Assets and Liabilities

While the Government accounting system does not provide for comprehensive accounting of fixed assets like land and buildings owned by the Government, these can be derived from the accounting of financial liabilities and assets created out of expenditure incurred. ***Appendix 1.6*** gives an abstract of liabilities and assets, as on 31 March 2018, compared with the corresponding position 31 March 2017.

1.6.1 Government Assets

Government assets mainly comprise of Capital outlay, Investments, Loans and Advances given by the State Government and cash balances.

1.6.2 Capital outlays: Incomplete projects

The State Government has placed creation of infrastructure as a priority area since the formation of the State (2014). Accordingly, Capital Expenditure has accounted for 16 *per cent* to 22 *per cent* of the total expenditure in the last four years. During the years 2014-18, an amount of ₹79,236 crore was spent on capital projects.

Within the capital projects, more than 50 *per cent* of the Capital Expenditure was on Irrigation and Flood control, except in the year 2016-17, when it was 41 *per cent*. An amount of ₹39,231 crore was spent on Irrigation and Flood control during the last four years. The capital outlay on Irrigation and Flood control and its share in total Capital Expenditure of the Government are in **Chart 1.12** and **Chart 1.13**.

Chart 1.12: Expenditure on Irrigation and Flood Control across years

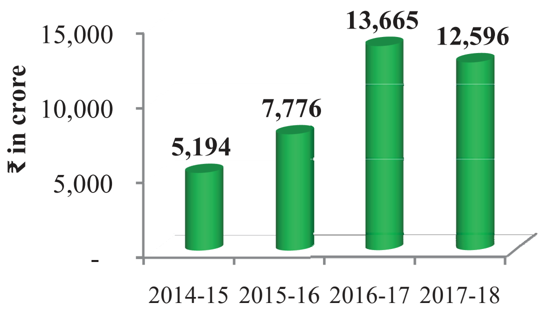
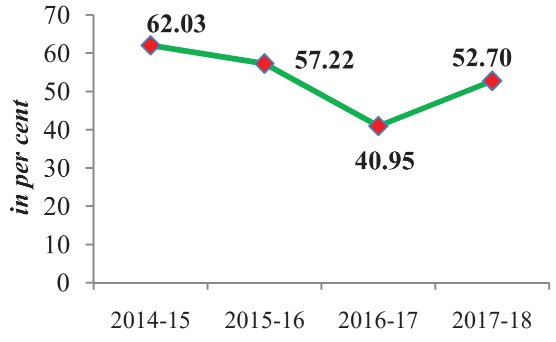


Chart 1.13: Portion of Irrigation and Flood control in Capital Expenditure



Source: Finance Accounts

There were 36 irrigation projects in various stages of construction in the State as of March 2018. Of these, in respect of 19 projects, there were delays ranging from 3 to 11 years. The original cost of these 19 projects was ₹41,201 crore. The delays have, however, led to revision of cost to ₹1,32,928 crore *i.e.,* an escalation of ₹91,727 crore. An amount of ₹70,758 crore has been spent so far and the projects remained incomplete.

Delays in completion of projects not only adversely affected the quality of the expenditure but also deprived the State of intended benefits and economic growth.

Irrigation projects are taken up and approved on the basis of data that supports an implicit assumption that the benefits of the project outweigh the costs. With time overruns, cost escalations and changes in design, the above averment made at planning stage, would come to naught.

The State Government did not disclose financial results of any of the irrigation projects. As a result, there was no assurance of return on the heavy public investments in Irrigation and Flood control.

Box 1.3: Creation of irrigation facilities under AIBP

Audit reviewed four projects[22] included under Accelerated Irrigation Benefits Programme in 2016-17[23]. It was found that none of the projects were completed even after a decade. Changes in the scope of work, necessitated by factors including shortfall in availability of water, led to cost escalation. ₹16,135 crore was expended on the projects but the creation and utilization of irrigation facilities was dismal. Audit further checked the status of the projects in December 2018 and found the following (**Table 1.17**):

[22] J Chokka Rao Devadula Lift Irrigation Scheme, Sri Ram Sagar Project Stage II, Indiramma Flood Flow Canal and Palemvagu Project

[23] Paragraph 3.1 of CAG's Report No. 6 of 2018 on Government of Telangana

Table 1.17: Status of AIBP projects reviewed by audit

Sl. No.	Description	J Chokka Rao Devadula Lift Irrigation Scheme	Sri Ram Sagar Project Stage II	Indiramma Flood Flow Canal	Palemvagu Project
1	Year of inclusion under AIBP	2006-07	2005-06	2005-06	2005-06
2	Approved project cost under AIBP (₹ in crore)	9,427.73	1,043.14	1,331.30	29.13
3	Expenditure as of March 2018 (₹ in crore)	9,305.71	1,115.12	5,511.60	202.77
4	Irrigation facility to be created (in acres)	5,57,654	3,97,949	2,52,882	10,132
5	Irrigation facility created (in acres) (figures in bracket *per cent*)	1,56,723 (28)	3,41,917 (85)	0 (0)	7,000 (69)

Source: Information furnished by Irrigation and Command area Development Department

The State Government stated (January 2019) that delay in completion of projects was mainly on account of problems of land acquisition, environmental clearances, *etc*. The Government further stated that benefits, however, were being reaped from usage of even partially developed irrigation system.

Recommendation 2: State Government may compile working results of Major Irrigation Projects to assess benefits from persistent heavy outlays in irrigation sector. These working results should guide future investments in the sector.

1.6.3 Investment in Public Sector Undertakings

As of 31 March 2018, the State Government's investment stood at ₹16,365 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives. In 2017-18, Government of Telangana invested mainly in (i) Power Distribution Companies of Telangana (DISCOMs) (₹2,721.27 crore), (ii) Telangana State Seeds Development Corporation Limited (₹228.80 crore), (iii) Telangana Backward Castes Cooperative Finance Corporation Limited (₹102 crore) and (iv) Kaleshwaram Irrigation Project Corporation Limited (₹100 crore). Audit analysis showed that the Return on Investment (RoI) in these Corporations / Companies has been low (**Table 1.18**).

Table 1.18: Return on Investment

Sl. No.	Investment / Return / Cost of borrowings	2015-16	2016-17	2017-18
1	Investment at the end of the year (₹ in crore)	1,329	13,075	16,365
2	Return in the form of Dividend (₹in crore)	69	70	101
3	Rate of Return (*per cent*)	5.19	0.54	0.62
4	Average rate of interest on Government borrowing (*per cent*)	8.50	7.4	7.21
5	Difference between RoR (*per cent*) and interest rate (3-4)	(-) 2.89	(-) 6.86	(-) 5.91

Source: Finance Accounts

Apart from infusion of equity, the State Government has also regularly provided budgetary support to these PSUs by way of loans and grants in aid.

Government investments are highest in power sector. However, losses from the power sector (₹6,202 crore) accounted for 94 *per cent* of total losses (₹6,619 crore) incurred by State working PSUs in 2017-18.

The State Government stated (January 2019) that tariff is a major issue.

Box 1.4: Financial turnaround of Power Distribution Companies (DISCOMs)

Government of India launched (November 2015) Ujwal DISCOM Assurance Yojana (UDAY) scheme for financial turnaround of Power Distribution Companies (DISCOMs). As per the scheme, the State Government was to take over 75 *per cent* of outstanding debt of the DISCOMs as on 30 September 2015 over a period of two years; 50 *per cent* in 2015-16 and 25 *per cent* in 2016-17 and transfer this sum to the DISCOMs in the form of grant (50 *per cent*), loan (25 *per cent*) and equity (25 *per cent*). The Government, however, made the entire transfer of ₹7,500 crore in the form of equity only during 2016-17.

The following actions of the State Government may adversely impact the achievement of the objectives of UDAY scheme:

- State Government decided to provide a nine-hour supply of power to farmers. This necessitated additional investment of ₹585.91 crore in strengthening the infrastructure. The State Electricity Regulatory Commission (SERC) directed the Southern Power Distribution Company Limited (SPDCL) to get the project funded from the State Government which was refused by the latter. SPDCL funded the project by market loans, adding to its debt stock.
- Due to the above policy of the Government (nine-hour supply of power to farmers), SPDCL exceeded the consumption of energy approved by the SERC. This led to an additional burden of ₹894.43 crore in 2016-17 on SPDCL which was not compensated by the Government. Government further enhanced (January 2018) the power supply to 24 hours a day, provided free of cost, which would further affect the finances of SPDCL.
- There was a shortfall of ₹268.60 crore in release of subsidies by Government to SPDCL as of March 2017, which affected the working capital requirement of DISCOM. This resulted in additional burden of ₹96.07 crore on SPDCL in the form of Delayed Payment Surcharge payable to Power Generation Companies.

Thus, State Government's actions have adversely impacted the DISCOMs, which in turn could impact Return on Investment.

Recommendation 3: In order to ensure financial turnaround of DISCOMs, the State Government may release their dues as well as compensate the DISCOMs while implementing new Government policies.

1.6.4 Loans and Advances given by the State Government

Government provides Loans and Advances to autonomous bodies such as Universities, Local Bodies and Urban Development Authorities and Corporations like Telangana Scheduled Castes Cooperative Development Corporation Limited (SCCDCL) and Telangana State Scheduled Tribes Cooperative Finance Corporation Limited (TRICOR), *etc*. **Table 1.19** presents the details of outstanding Loans and Advances during the years 2015-18:

Table 1.19: Details of Loans and Advances by State Government

Sl. No.	Quantum of Loans/Interest Receipts/Cost of Borrowings	2015-16	2016-17	2017-18
1	Opening Balance (₹ in crore)	1,406	6,552	9,798
2	Amount advanced during the year (₹ in crore)	5,233	3,402	6,209
3	Amount recovered during the year(₹ in crore)	88	156	138
4	Closing Balance (₹ in crore)	6,552	9,798	15,869
5	Net addition (₹ in crore)	5,145	3,246	6,071
6	Interest Receipts (₹ in crore)	53	105	84
7	Interest receipts as percentage of outstanding loans and advances (in *per cent*)	*0.80*	*1.07*	*0.53*
8	Interest payments as percentage to outstanding liabilities of the State Government (in *per cent*)	*8.50*	*7.4*	*7.21*
9	Difference between interest receipts and interest payments (in *per cent*)	*(-) 7.70*	*(-)6.33*	*(-) 6.68*

Source: Finance Accounts;

Following observations are made in Audit:

- Loans and Advances to Autonomous Bodies and Corporations (₹6,209 crore) in 2017-18 increased significantly by 83 *per cent* (₹2,807 crore) over previous year. This was higher than Budget Estimates of ₹5,545 crore. Total balance of Loans and Advances given to the end of 31 March 2018 was ₹15,869 crore. Major portion of loans were disbursed for projects relating to Water Supply, Sanitation, Housing and Urban Development (₹2,833 crore) as well as for Social Welfare and Nutrition (₹2,300 crore), Energy (₹294 crore) and Health & Family Welfare (₹276 crore).

- Apart from loans advanced to Telangana Scheduled Castes Cooperative Development Corporation Limited (SCCDCL) and Telangana State Scheduled Tribes Cooperative Finance Corporation Limited (TRICOR) ***(as discussed in Paragraph 1.3.1, Box 1.1),*** Government loans to certain other bodies[24] in 2017-18 amounting to ₹428.45 crore also did not specify conditions like schedule of repayment, rate of interest, number of installments, *etc*.

[24] Hyderabad Metropolitan Development Authority (HMDA) and Hyderabad Metro Rail Limited

- Further, the Government gave fresh loans to three autonomous bodies for servicing their past loans (**Table 1.20**).

Table 1.20: Loans for repayment of past loans

Sl. No.	Organization	Amount (₹ in crore)
1	Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB)	671*#
2	Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB)	524*
3	Telangana State Road Transport Corporation (TSRTC)	70
4	Telangana State Industrial Infrastructure Corporation (TSIIC)	29*
5	Telangana State Industrial Infrastructure Corporation (TSIIC)	4*
Total		**1,298**

Source: Information obtained from organizations concerned

**Two different loans; # for repayment of loans to HUDCO*

- The accounts of bodies like Hyderabad Metropolitan Water Supply and Sewerage Board(HMWSSB) as well as Hyderabad Metropolitan Development Authority (HMDA) were in arrears since 2010-11 and 2014-15 respectively, though Government provided loans amounting to ₹1,194.50 crore and ₹263.72 crore respectively to these institutions.

Providing unconditional loans and further loans to repay past loans without insisting on the financial discipline of rendering timely accounts *etc.* are detrimental to public accountability and indication of poor financial management.

The current level of recovery of loans was low. An amount ₹5,807 crore was estimated, in the budget, to be recovered in 2017-18. The actual recovery (₹138 crore) in 2017-18 was only 2.38 *per cent*. The Budget Estimates in this regard were consistently inflated in comparison to previous years' recovery trends[25]. **Low recovery and increase in amounts advanced have together led to increase in the stock of loans to ₹6,071 crore and has also impact on the Fiscal Deficit.**

Recommendation 4: The State Government may ensure that future loans and advances to autonomous bodies are predicated on furnishing of audited accounts of the previous year.

1.6.5 Cash balance

The cash balance as at the end of March 2018 was ₹6,993 crore (***Appendix 1.3)***. Out of this, an amount of ₹6,915 crore was cash balance investments (₹2,277 crore) and investments in earmarked funds (₹4,637.09 crore) including Sinking Funds (₹4,045.60 crore) and Guarantee Redemption Fund – Investment Account (₹586.65 crore).

[25] In 2015-16, the recovery of loans and advances was ₹88 crore (10.06 *per cent*) as against budget provision of ₹875 crore. The Budget Estimates in the 2016-17 was ₹2,874 crore, the recovery of loans was ₹156 crore (5.43 *per cent*). The Budget Estimates in the next year was ₹5,807 crore.

State Government maintained the mandatory minimum daily cash balance of ₹1.38 crore with RBI for only 161 days during the year without taking Special Drawing Facility (SDF[26]) or Ways and Means Advances (WMA) or Overdrafts (OD). For 204 days[27], the State Government depended on SDF (for 204 days: ₹11,278.42 crore), WMA (for 127 days: ₹10,878.46 crore) and OD (for 7 days: ₹764.89 crore) for maintaining the minimum balance with RBI. In monetary terms, however, SDF/WMA/OD increased by ₹10,834 crore (90 *per cent* increase) in 2017-18 over 2016-17 indicating increasing dependency of Government on WMA. The interest payment on WMA (including SDF and OD) during 2017-18 was ₹13.82 crore as against ₹7.40 crore in 2016-17, *i.e.,* 86 *per cent* increase.

1.7 Government Liabilities

Total Liabilities of the Government consist mainly of internal borrowings, loans and advances from GoI and balances in the Public Account. The total liabilities of the State as of 31 March 2018 was ₹1,65,849 crore; its composition is at **Chart 1.14**.

Chart 1.14: Components of total liabilities of the State Government

Total Liabilities (₹1,65,849 crore)		
Internal Debt from Market, financial institutions, *etc.* (₹1,34, 287 crore)	**Loans and Advances from Government of India (₹8,631 crore)**	**Public Account Liabilities where Government acts as a banker(₹22,931crore)**
Market Loans (₹1,11,536 crore)	Loans for Central Plan Schemes(₹8,612 crore)	Small Savings, Provident Fund, *etc.* (₹9,272 crore)
Bonds(₹8,923 crore)	Non Plan Loans (₹19 crore)	Reserve Fund bearing interest(₹90 crore)
Loans from Financial Institutions(₹3,962 crore)		Reserve Fund not bearing interest(₹1,431 crore)
Special Securities issued to NSSF(₹9,674 crore)		Deposits bearing interest (₹819 crore)
Other Loans(₹192 crore)		Deposits not bearing interest(₹11,319 crore)

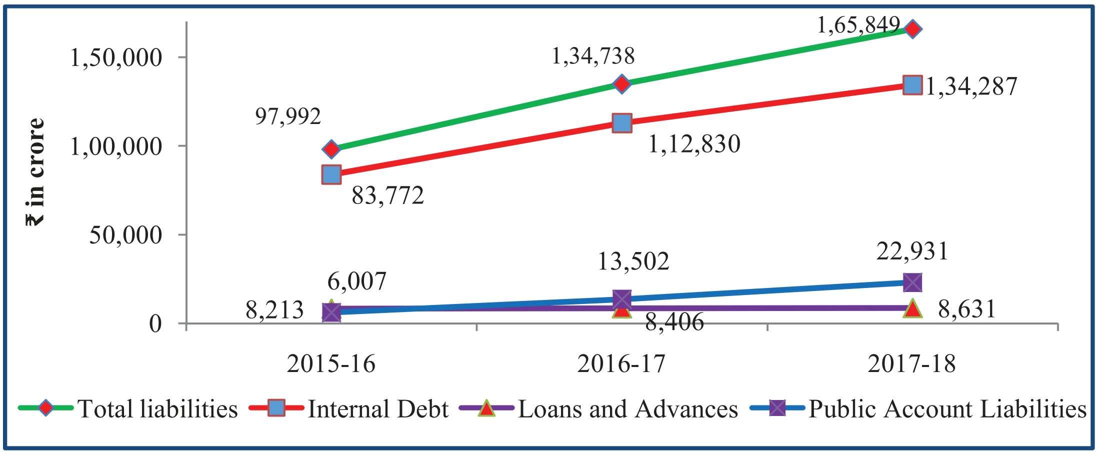
Source: Finance Accounts

Audit analysis showed that the **liabilities are on an ascending trend (Chart 1.15) over the last three years. The total liabilities of the Government are 1.87 times of its Revenue Receipts.** They constitute 22 *per cent* of the Gross State Domestic Product (GSDP), which, however, is within the limit of 25 *per cent* prescribed by Medium Term Fiscal Policy Statement (MFPS). The liabilities grew by 23 *per cent* over previous year.

[26] Previously known as Special Ways and Means Advances
[27] The dates on which WMA and overdraft were drawn fall on the same dates on which SDF was availed

Chart 1.15: Trend of liabilities

(₹ in crore)



Source: Finance Accounts

1.7.1 Reserve Funds

Reserve Funds are created for specific and defined purposes. These are funded by contributions/grants from the Consolidated Fund of the State. Out of the gross accumulated balance of ₹6,157.76 crore lying in these Funds as on 31 March 2018, ₹4,637.09 crore was invested in the GoI Securities, leaving the total net accumulated balance ₹1,520.67 crore as on 31 March 2018. Included in the Reserve Funds were 10 funds which were not in operation from 2012-13 onwards, with a balance of ₹16.43 crore as on 31 March 2018.

The State Government had not made mandatory contributions after 2015-16, to the following Reserve Funds.

1.7.1.1 Consolidated Sinking Fund

The Sinking Fund was created in 1999-2000 for amortization of the State's liabilities. As per the guidelines[28], the State Government was required to make annual contributions to the Sinking Fund at 0.5 *per cent* of the outstanding liabilities at the end of the previous financial year. The State Government contributed ₹384.93 crore in 2015-16. The State Government did not make any contribution thereafter. The aggregate shortfall of contribution to the Fund for the years 2016-18 was ₹1,163 crore (₹489.96 crore in 2016-17 and ₹673.69 crore in 2017-18). During this period, State's liabilities rose by 69 *per cent* from ₹97,992 crore as of March 2016 to ₹1,65,849 crore in March 2018. The balance in the fund as of March 2018 was ₹4,085.89 crore.

1.7.1.2 Guarantee Redemption Fund

As per guidelines of Reserve Bank of India, Government of Telangana created[29] (June 2014) the Guarantee Redemption Fund (GRF) to meet its obligation pertaining to the Guarantees given by the Government on loans raised by bodies such as Public Sector

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[28] revised in January 2010 as per the recommendations of 12th Finance Commission
[29] G.O. Ms. No. 4, Finance (DCM) Department, dated 11.06.2014

Undertakings, Special Purpose Vehicles, *etc.,* outside of the State budget. In case of default by the borrower, these guarantees become liabilities of the State Government. As such, guarantees, generally, are contingent liabilities. A minimum of 0.5 *per cent* of outstanding guarantees was envisaged as annual contribution to raise the Fund to a minimum level of three *per cent* in next five years and eventually to a level of five *per cent*. Accordingly, ₹209.45 crore was to be contributed during this year.

The State Government made a contribution of ₹83.94 crore in 2015-16 to the Fund and thereafter stopped further contributions. The aggregate shortfall in contribution for the last two years was ₹282.90 crore. The total available balance in GRF as of March 2018 was ₹586.65 crore[30]. This was only 1.46 *per cent* of the outstanding amount of guarantees (₹41,892 crore) as against the targeted three *per cent*. The Government replied that efforts would be made to reach the targeted level of three *per cent* in five years.

1.7.1.3 State Disaster Response Fund

The State Government constituted State Disaster Response Fund (SDRF) in 2010-11 replacing the erstwhile Calamity Relief Fund. As per the guidelines of the Fund, the Central and State Governments are required to contribute to the Fund in proportion of 75:25 respectively. There were no contributions to SDRF during 2017-18.

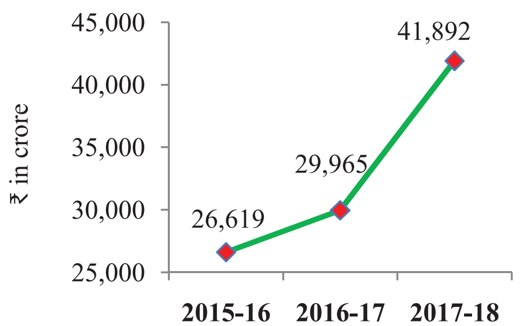
An amount of ₹58.40 crore was released by GoI towards National Disaster Response Fund (NDRF). The same was transferred to the Fund during the period. Expenditure of ₹100.06 crore incurred on natural calamities during the period was set off (MH 2245-05) against Fund balance of ₹166.77 crore (including Opening Balance of ₹108.37 crore), thus leaving the closing balance of ₹66.71 crore as on 31 March 2018.

Recommendation 5: The State Government must ensure that the contributions to Reserve Funds are made annually as stipulated, to enable a firm funding stream for the purpose of the Funds.

1.7.2 Guarantees

Fiscal Responsibility and Budget Management (FRBM) Act, 2005 stipulated that the annual risk weighted guarantees are to be limited to 90 *per cent* of the total Revenue Receipts in the preceding year. **The outstanding guarantees (₹41,892 crore) (Chart 1.16) to end of 2017-18 stood at 51 *per cent* of total Revenue Receipts of the preceding year (₹82,818 crore) and was thus within the FRBM ceiling (90 *per cent*).**

Chart 1.16: Status of Outstanding Guarantees

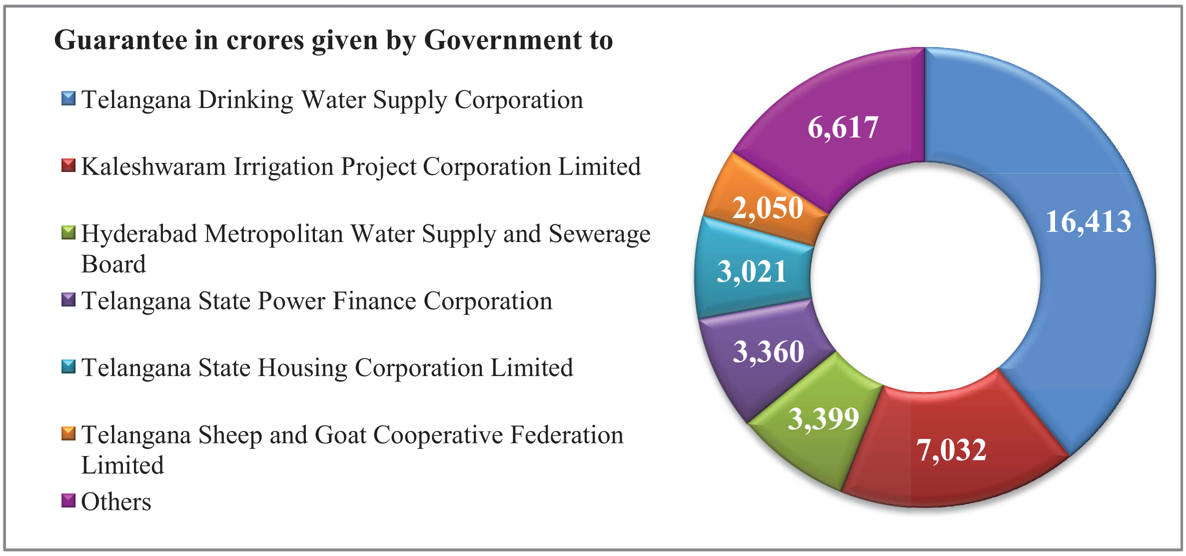


Source: Finance Accounts

[30] including interest earned of ₹46 crore during the year

Government categorised the guarantees as 100 *per cent* risk weighted *i.e.*, the risk of default was borne by the State Government. Out of the loans guaranteed by the Government, 39 *per cent* are pertaining to Telangana Drinking Water Supply Corporation which was implementing a flagship project: Mission Bhagiratha (**Chart 1.17**).

Chart 1.17: Bodies in receipt of guarantees at the end of 31 March 2018



Source: Finance Accounts

The erstwhile Government of Andhra Pradesh (Combined) issued (2003) instructions[31] to be followed while providing guarantees. Audit analysed the compliance of the instructions contained in the Government Order (GO) by the State Government while extending the guarantees during 2017-18. The following are the findings in Audit:

- The GO required that the financial performance of the borrowing entity shall be analysed in terms of its profitability, operational strength, and financial ratios. The Government extended Guarantees to loans taken by Hyderabad Metropolitan Water Supply and Sewerage Board (₹3,399 crore) whose annual accounts were in arrears from 2010-11 onwards. This indicates that the Government has given guarantees to the organisation without enforcing financial accountability.
- The Government Orders of 2003 stipulated that the guarantee shall cover only the principal portion of the loan and not the interest thereon. In case, interest was also to be guaranteed, the reason for the same shall be detailed by the borrowing entity, and the same shall be examined by the Government. Guarantees were, however, extended by the Government for the interest portion also on the loan amounting to ₹71.03 crore in respect of two borrowing entities[32]. No reasons were found on record or furnished to audit for extending guarantees for the interest portion.
- Further, the GO also stipulated a Guarantee Commission of 0.5 *per cent* per annum or two *per cent* consolidated for the entire guarantee period from the borrowing

[31] G.O.Ms.No.446, dated 29 September 2003
[32] Singareni Collieries Company Limited (₹66.33 crore) and Co-operative Sugar Factories (₹4.70 crore)

entity. No revenue on account of Guarantee Commission (₹209.45 crore[33]) was, however, received under sub-head 08 – Commission for Guarantees given by the Government[34] so far. The Government stated that the issue of charging Guarantee Commission at a prescribed rate is under consideration.

The analysis showed the State Government had extended guarantees to loans, which were categorised as 100 *per cent* risk weighted, taken by bodies whose accounts were pending finalisation for a long period indicating absence of any risk assessment.

Recommendation 6: The State Government must comply with its own orders and ensure that a comprehensive risk assessment informs its decisions to provide guarantees.

1.7.3 Debt Management

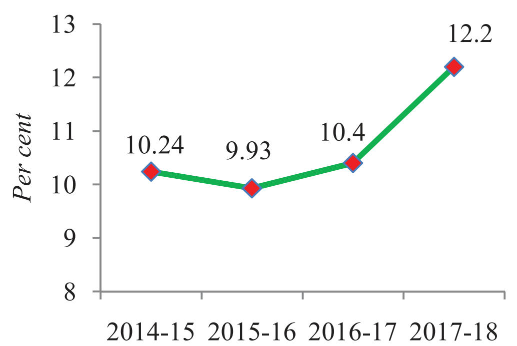
Outstanding Public Debt of the State Government (internal debt and loans & advances from Government of India) as of 31 March 2018 is ₹1,42,918 crore. **The Outstanding debt increased by 18 *per cent* over the preceding year, at a higher rate than the growth of GSDP.**

1.7.3.1 Net availability of borrowed funds

The Net availability (₹10,846 crore) of borrowed[35] funds (₹26,231 crore) after providing for interest payments (₹10,836 crore) and repayment of borrowings (₹4,549 crore), was positive (41 *per cent*), indicating availability of borrowed funds for purposes other than debt repayment. This was, however, lower than previous year (₹20,642 crore) significantly limiting the scope for development activities.

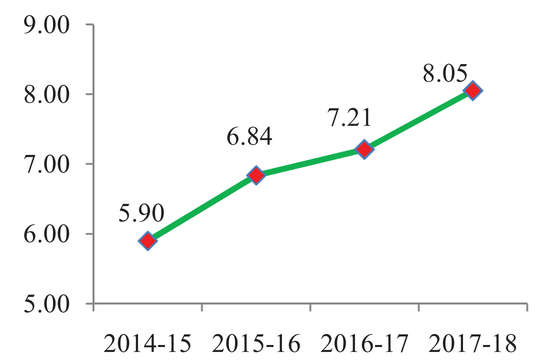
1.7.3.2 Debt analysis – Debt Sustainability and trends of debt repayment

Chart 1.18: Interest payments as a *per cent* of Revenue Receipts



This indicates that interest payments are increasingly consuming Revenue Receipts

Chart 1.19: Trend of Debt Repayment versus Tax Revenue (in *per cent*)



This indicates that 8 *per cent* of Tax Revenues is utilised for debt repayments*

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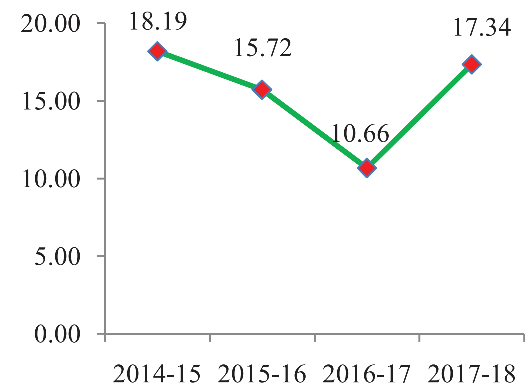
33 Calculated @ 0.5 *per cent* on the total guaranteed amount of ₹41,892 crore
34 Major Head 0070 – Other Administrative Services, 60- Other Services, Minor Head 800 – other receipts
35 excluding Ways and Means advances in Public Debt

Chart 1.20: Trend of Debt Repayment versus Debt Receipts (in *per cent*)



This indicates that 17 *per cent* of debt receipts are used to repay old outstanding loans

Debt to GSDP ratio of the State has increased from 15.29 *per cent* in 2014-15 to 19 *per cent* in 2017-18 (Refer Para 1.3.1). Debt position of the State Government is, further, analysed through other parameters in the **Chart 1.18, 1.19** and **Chart 1.20**.

The State Government, while accepting this, stated (January 2019) that the ratio between average interest rate (at about 8.5 *per cent*) and nominal GSDP growth rate (at about 14 *per cent*) was an indicator that finances are stable.

Source: Finance Accounts; Note: excluding Ways and Means Advances

**Government stated that initially for two years after bifurcation, the Andhra Pradesh Government made the debt repayment, which are now being reimbursed by Telangana Government*

It was observed that the interest payments relative to Revenue Receipts were much higher at 12.19 *per cent* as compared to the target of 8.31 *per cent* fixed by 14th Finance Commission.

Market borrowings (₹1,11,536 crore) form a major portion (83 *per cent*) of the internal debt (₹1,34,287 crore) of the State Government, with interest rates ranging from 5 to 13.99 *per cent*. In 2017-18, the State Government borrowed fresh market loans of ₹24,600 crore and repaid ₹2,772 crore. The outstanding market borrowings as of 31 March 2018 were ₹1,11,536 crore. The net increase of market borrowings during the year was 24 *per cent* (₹21,828 crore).

Chart 1.21: Internal Debt Taken

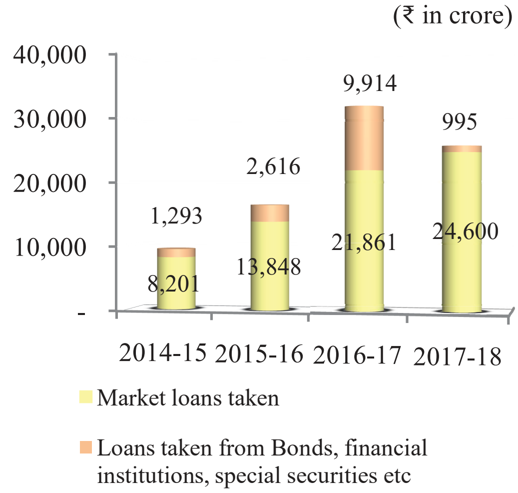
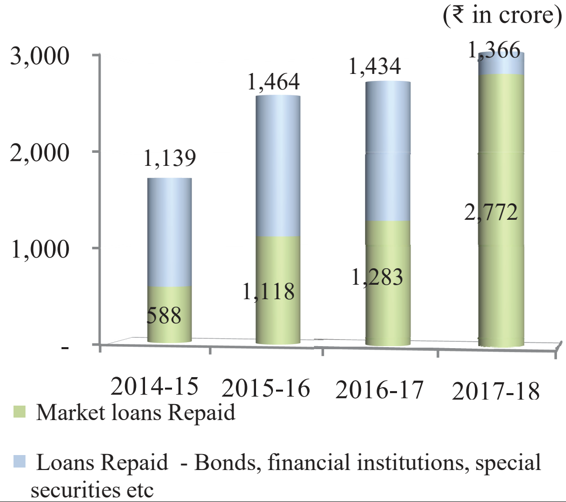


Chart 1.22: Internal Debt Repaid

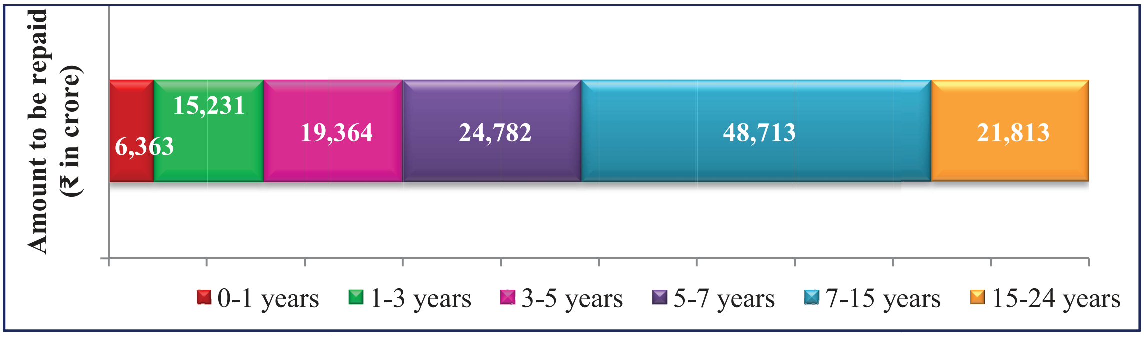


Source: Finance Accounts

1.7.3.3 Debt repayment schedule

Public Debt maturity profile **(Chart 1.23)** indicates commitment on the part of the Government for debt repayment or debt servicing in the coming years.

Chart 1.23: Debt Maturity profile



Source: Finance Accounts

Note: The total of ₹1,36,266 crore above varies with total outstanding debt of ₹1,42,918 crore due to (i) non-availability of maturity details for debt servicing for ₹6,284.32 crore in the Finance Accounts and (ii) bifurcation of Andhra Pradesh and Telangana (₹368.17 crore)

The maturity profile of outstanding stock of public debt as on 31 March 2018 showed that 48 *per cent* (₹65,740 crore) of the total outstanding debt was in the maturity bucket of one to seven years and the balance of ₹70,526 crore (52 *per cent*) from seventh year onwards. **The State needs to augment its resources or would be forced to curtail its Capital Expenditure to meet the increasing debt repayment burden over the next seven years.**

Box 1.5: Long Term Projections

The outstanding public debt of the State Government as of 31 March 2018 was ₹1,42,918 crore (paragraph 1.6.1). Apart from servicing the debt, the State Government is also committed to fund 19 capital intensive irrigation projects that are in various stages of construction. The revised cost of these projects is ₹1,32,928 crore, out of which ₹70,758 crore was spent, leaving a further financial requirement of ₹62,170 crore. In addition, the Government took up Palamuru Ranga Reddy Lift Irrigation Scheme in 2017 with a cost of ₹35,200 crore.

Thus Government will need to mop up more than ₹1.63 lakh crore[36] over the next seven years to meet its commitments. Government also carries a direct contingent liability for another ₹41,892 crore by way of Guarantees. Thus, the total outstanding commitment of the Government in the form of direct and indirect payments turns out to be ₹2.05 lakh crore. It may be noted that commitments on only irrigation projects and guarantees were accounted for in the above calculations.

Recommendation 7: The State Government may undertake a study, supported by future projections, to measure its total fiscal commitments and the ability to meet them. Such study can inform the risk assessment on its future borrowings.

[36] ₹65,740 crore towards debt repayment, ₹97,370 crore for commitment towards irrigation projects (₹62,170 crore for ongoing projects and ₹35,200 crore for Palamuru Rangareddy Lift Irrigation Scheme)

1.8 Fiscal Reform Path

The State Government (combined State), in compliance with the recommendations of the Twelfth Finance Commission (TFC), enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 (amended in 2011). Important targets relating to fiscal variables are to be amended from time to time in accordance with the Central Finance Commissions' recommendations. **Government of Telangana, however, is yet to amend its FRBM Act in accordance with the recommendations of the Fourteenth Finance Commission, especially on fiscal imbalances of the State Government viz., Revenue Deficit, Fiscal Deficit and Primary Deficit.**

1.8.1 Disclosures not made

Fiscal Responsibility and Budget Management (FRBM) Act, 2005 places an onus on the State Government to monitor and control the fiscal deficit. It also requires the State Government to make disclosures and statements under Section 10 of FRBM Act, 2005 together with Rule 6 of Fiscal Responsibility and Budget Management Rules, 2006.

The State Government, however, did not make the following four out of 10 disclosures required to be made:

- Statement of Assets;
- Claims and commitments made by the Government on revenue demands raised but not realized;
- Liability in respect of major works and contracts, committed liabilities in respect of land acquisition charges and claims on State Government in respect of unpaid bills on works and supplies;
- Details of number of employees in Government, public sector and aided institutions and related salaries and pensions in the forms prescribed under FRBM legislation.

1.8.2 14th Finance Commission Ceiling and achievements

Achievement of Government in key indicators in terms of targets prescribed by the 14th Finance Commission with regards to fiscal reform path is as below:

- As per 14th Finance Commission recommendations, the outstanding debt to GSDP ratio (in *per cent*) was to be less than 22.82 *per cent* for the year 2017-18. The achievement of the Government was 19 *per cent*, which is within the permissible limit.
- The ceiling limit prescribed by the 14th Finance Commission for Fiscal deficit was 3.50 *per cent* of the GSDP (₹7,52,230 crore). The achievement in 2017-18 (₹26,700 crore) was 3.55 *per cent*, which is marginally higher.

1.9 Apportionment of assets and liabilities between Andhra Pradesh and Telangana

As per the Andhra Pradesh State Reorganisation Act, 2014, the balances under Cumulative Capital Expenditure, Loans and Advances, Public Debt and the balances under Public Accounts are to be apportioned between Andhra Pradesh and Telangana States. The status of apportionment as on 31 March 2018 is as under (details are at ***Appendix 1.7***):

- From out of balance of ₹4,083.52 crore available under un-apportioned Small Savings and Provident Fund, an amount of ₹1,702.01 crore was apportioned to Telangana and ₹2,381.51crore was apportioned to Andhra Pradesh in 2017-18. The Reserve Funds were also apportioned.
- An amount of ₹1,51,349.67 crore under Capital Heads and an amount of ₹28,099.68 crore under Loans and advances was, however, yet to be apportioned even after more than four years of State Re-organisation. Major amounts under Capital Head pertain to Major Irrigation (₹87,707.44 crore) and Roads and Bridges (₹17,182.87 crore). Major amount under loans and advances pertain to loans for housing (₹13,182.17 crore).
- 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 (May 2014) was to give recommendations on the de-merger proposals of these institutions. The Committee has given its recommendations for de-merger in respect of 86 institutions. The Andhra Pradesh Government accepted the recommendations for demerger in respect of 40 institutions. The Telangana State Government did not accept recommendations (except in respect of two institutions) on the grounds that the recommendations were in deviation of the Act and overlook the definition given by the Government of India in May 2017.

  Out of the above 91 institutions, the Telangana Government obtained information with regards to assets and liabilities in respect of only 62 institutions. The cash balance as on 2 June 2014 (the date of coming into force of Andhra Pradesh State Re-organisation Act) in these 62 institutions was **₹3,189.26 crore** apart from fixed assets. The details of the remaining were not furnished by Telangana Government.

Thus, apportionment of assets and liabilities between Andhra Pradesh and Telangana has not been completed even after four years.

Recommendation 8: The State Government may take steps to ascertain the assets and liabilities in remaining Schedule IX institutions and also take concrete steps for apportionment of Capital Heads and Loans and Advances.