



**Chapter 2**  
**Finances of the State**



## 2.1 Introduction

This Chapter provides a broad perspective of the finances of the State, analyses the critical changes in key fiscal aggregates relative to preceding years, overall trends during the five-year period 2016-17 to 2020-21, 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 2019-20

A bird's eye view of major changes in key fiscal aggregates of the State during 2020-21, compared to the preceding year is given in *Table 2.1*.

**Table 2.1: Changes in key Fiscal Aggregates in 2020-21 compared to 2019-20**

Revenue Receipts	<ul style="list-style-type: none"> <li>➤ Revenue Receipts of the State decreased by 1.59 per cent</li> <li>➤ Own Tax receipts of the State decreased by 1.40 per cent</li> <li>➤ Own Non-tax receipts decreased by 17.11 per cent</li> <li>➤ State's Share of Union Taxes and Duties decreased by 20.62 per cent</li> <li>➤ Grants-in-Aid from Government of India increased by 33.38 per cent</li> </ul>
Revenue Expenditure	<ul style="list-style-type: none"> <li>➤ Revenue Expenditure increased by 13.25 per cent</li> <li>➤ Revenue Expenditure on General Services increased by 8.33 per cent</li> <li>➤ Revenue Expenditure on Social Services increased by 5.60 per cent</li> <li>➤ Revenue Expenditure on Economic Services increased by 33.22 per cent</li> <li>➤ No Expenditure on Grants-in-Aid in both the years</li> </ul>
Capital Expenditure	<ul style="list-style-type: none"> <li>➤ Capital Expenditure decreased by 5.56 per cent</li> <li>➤ Capital Expenditure on General Services increased by 20.78 per cent</li> <li>➤ Capital Expenditure on Social Services increased by 21.64 per cent</li> <li>➤ Capital Expenditure on Economic Services decreased by 10.06 per cent</li> </ul>
Loans and Advances	<ul style="list-style-type: none"> <li>➤ Disbursement of Loans and Advances increased by 24.92 per cent</li> <li>➤ Recoveries of Loans and Advances decreased by 6.45 per cent</li> </ul>
Public Debt	<ul style="list-style-type: none"> <li>➤ Public Debt Receipts increased by 54.35 per cent</li> <li>➤ Repayment of Public Debt increased by 68.32 per cent</li> </ul>
Public Account	<ul style="list-style-type: none"> <li>➤ Public Account Receipts decreased by 13.18 per cent</li> <li>➤ Disbursement of Public Account decreased by 13.96 per cent</li> </ul>
Cash Balance	<ul style="list-style-type: none"> <li>➤ Cash Balance decreased by ₹2,903 crore (24 per cent) during 2020-21 compared to previous year</li> </ul>

Source: Finance Accounts

As can be seen from the above, on one hand Revenue Receipts have decreased while Revenue Expenditure has gone up tremendously.

## 2.3 Sources and Application of Funds

Comparison of the components of the sources and application of funds of the State during 2020-21 with those of the preceding year is shown in **Table 2.2**.

**Table 2.2: Sources and Application of funds during 2019-20 and 2020-21**

(₹ in crore)

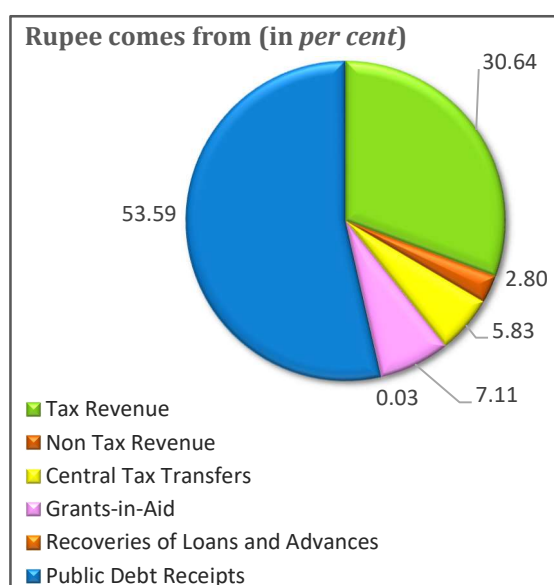
	Particulars	2019-20	2020-21	Increase / Decrease
<b>Sources</b>	Opening Cash Balance with Reserve Bank of India <sup>#</sup>	7,218	12,096	4,878
	Revenue Receipts	1,02,544	1,00,914	(-)1,630
	Recoveries of Loans and Advances	62	58	(-) 4
	Public Debt Receipts (Net)	29,793	39,595	9,802
	Public Account Receipts (Net)	6,846	6,536	(-)310
	<b>Total</b>	<b>1,46,463</b>	<b>1,59,199</b>	<b>12,736</b>
<b>Application</b>	Revenue Expenditure	1,08,798	1,23,212	14,414
	Capital Expenditure	16,859	15,922	(-) 937
	Disbursement of Loans and Advances	8,700	10,868	2,168
	Inter-State Settlement	8	8	0
	Net Contingency Fund	2	(-)4	(-)6
	Closing Cash Balance with Reserve Bank of India <sup>#</sup>	12,096	9,193	(-)2,903
	<b>Total</b>	<b>1,46,463</b>	<b>1,59,199</b>	<b>12,736</b>

Source: Finance Accounts

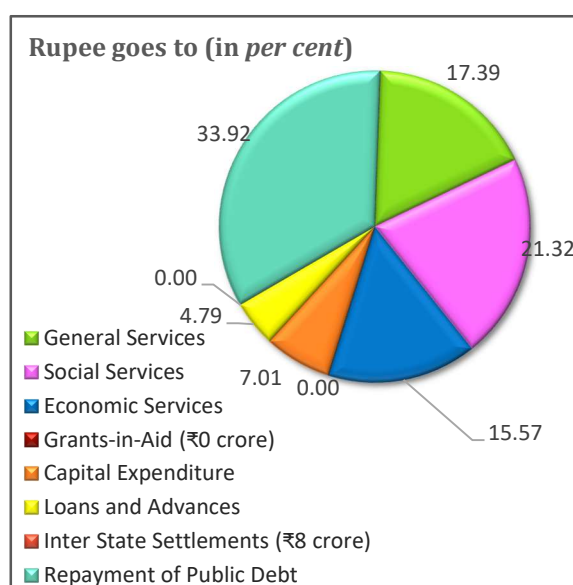
<sup>#</sup> Cash balance with Reserve Bank of India consists of cash balance investments and investments in earmarked funds including Sinking Fund and Guarantee Redemption Fund

The composition of State's resources and application of those resources in terms of percentages is presented in the **Chart 2.1** and **Chart 2.2** below:

**Chart 2.1: Composition of Resources**



**Chart 2.2: Application of Resources**



Source: Finance Accounts

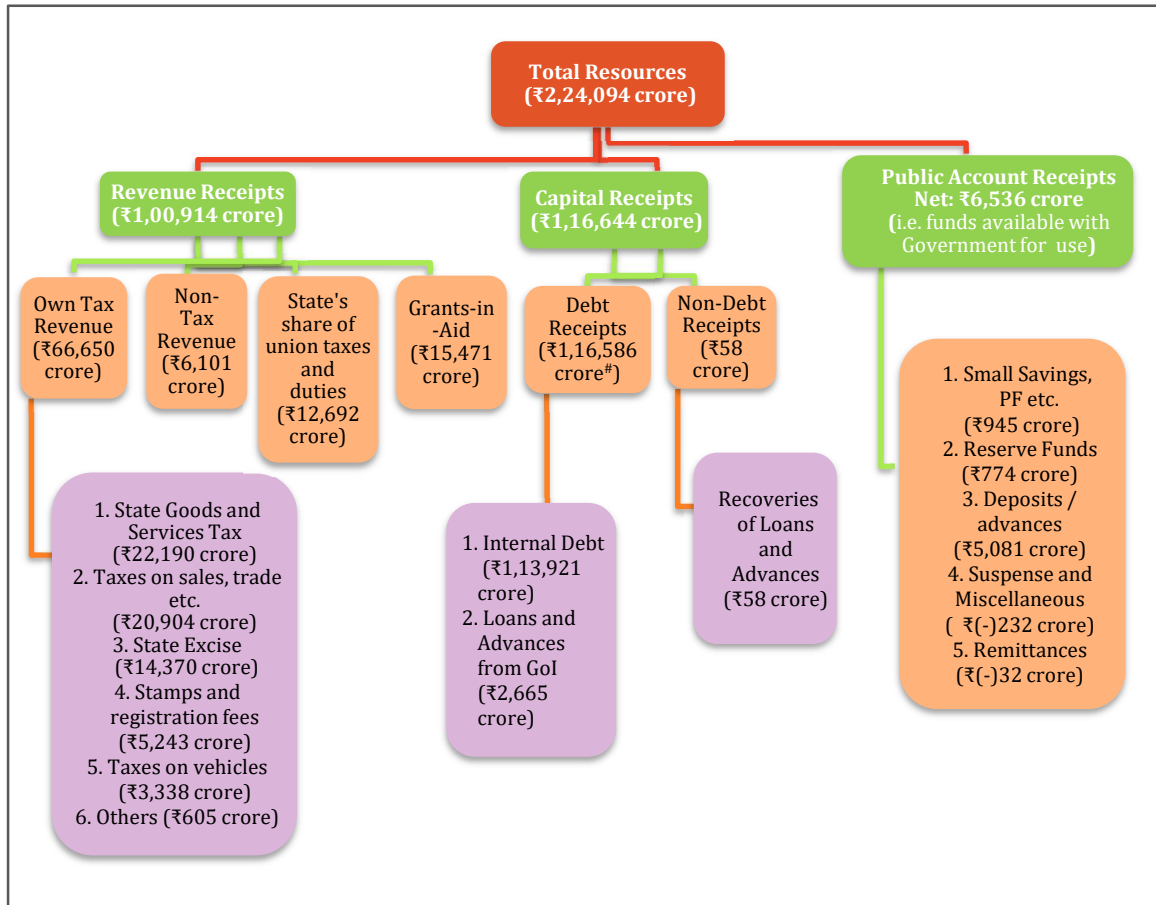
Public Debt receipts formed the major portion (53.59 per cent) of the resources of the State Government, which is more than half of the resources, followed by Tax Revenue.

The higher dependency on borrowings indicates Government resorted to raise public debt (which burdens the future generation) instead of exploring other resources. More than one fourth of the State's disbursements were on repayment of Public Debt followed by Social services.

## 2.4 Resources of the State

Chart 2.3 depicts the composition of resources of the State during 2020-21.

**Chart 2.3: Composition of Receipts of the State during 2020-21**



Source: Finance Accounts

Total Resources of the State during 2020-21 were ₹2,24,094 crore. As depicted in **Table 2.1**, Revenue Receipts decreased by 1.59 per cent during 2020-21 over the preceding year. Out of the total Revenue Receipts of ₹1,00,914 crore, States Own Receipts (₹72,751 crore) comprising Own Tax Revenue and Non-Tax Revenue constituted 72.09 per cent.

We observed that Revenue Receipts were affected by decrease under Corporation Tax, Stamps and Registration, State Goods and Services Tax under Tax Revenue as well as Miscellaneous General Services on account of less receipts from sale of land and property under Non-Tax Revenue.

## 2.4.1 State's Revenue Receipts

Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. The trends and growth of Revenue Receipts as well as Revenue buoyancy with respect to Gross State Domestic Product during the five-year period 2016-21 are shown in **Table 2.3**.

**Table 2.3: Trend in Revenue Receipts**

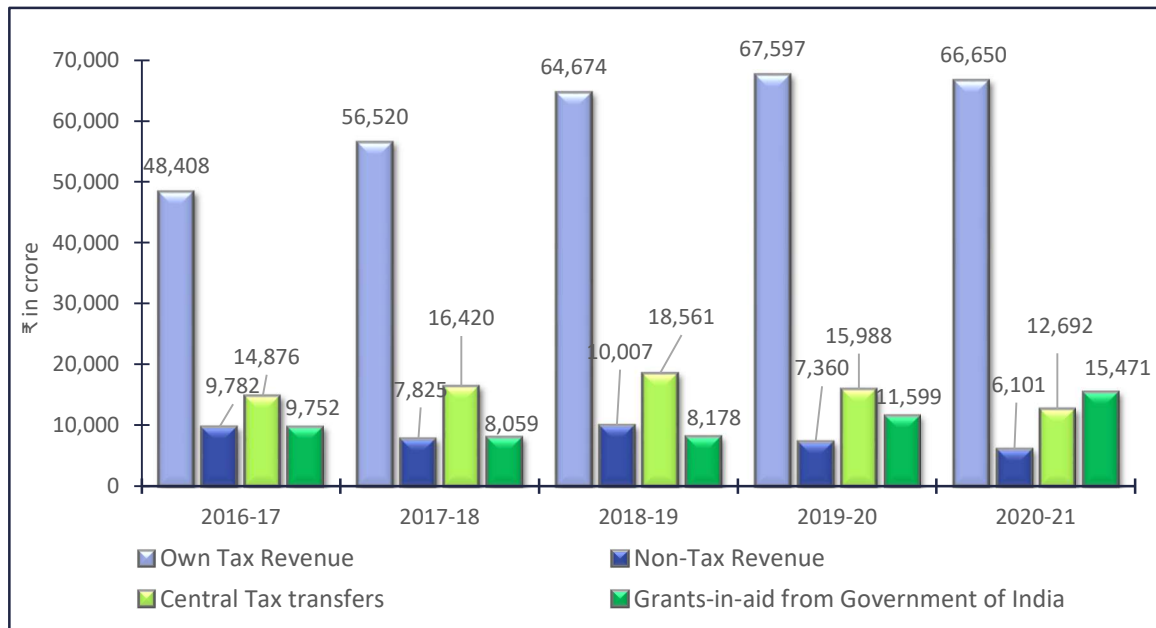
Parameters	2016-17	2017-18	2018-19	2019-20	2020-21
Revenue Receipts (₹ in crore)	82,818	88,824	1,01,420	1,02,544	1,00,914
Rate of growth of Revenue Receipts (per cent)	8.78	7.25	14.18	1.11	(-).59
Own Tax Revenue (₹ in crore)	48,408	56,520	64,674	67,597	66,650
Non-Tax Revenue (₹ in crore)	9,782	7,825	10,007	7,360	6,101
Total Own Revenue (₹ in crore)	58,190	64,345	74,681	74,957	72,751
Rate of growth of Own Revenue (Own Tax and Non-Tax Revenue) (per cent)	6.99	10.58	16.06	0.37	(-).294
GSDP (₹ in crore) (2011-12 Series)	6,58,325	7,50,050	8,60,078	9,57,207	9,80,407
Rate of growth of GSDP (per cent)	13.92	13.93	14.67	11.29	2.42
Revenue Receipts / GSDP(per cent)	12.58	11.84	11.79	10.71	10.29
<b>Buoyancy Ratios</b>					
Revenue Buoyancy w.r.t GSDP (Rate of growth of Revenue Receipts in per cent / Rate of growth of GSDP in per cent)	0.63	0.52	0.97	0.10	(-).066
State's Own Revenue Buoyancy w.r.t GSDP (Rate of growth of Own Revenue in per cent / Rate of growth of GSDP in per cent)	0.50	0.76	1.10	0.03	(-).121

Source: Finance Accounts; for Gross State Domestic Product figures: Ministry of Statistics and Programme Implementation of respective years (figures as on 02 August 2021)

We observed the following from the above table:

- The growth rate of Revenue Receipts showed an inconsistent trend in the last four years, and was lowest in the current year. .
- State's Own Revenue (Own Tax and Non-Tax) decreased by 2.94 per cent and was significantly lower than the increase in Gross State Domestic Product (2.42 per cent). Particularly, revenues during the initial five months the year viz., up to August 2021, were lower presumably due to Covid-19 Pandemic and full/partial lockdown.
- Both Revenue buoyancy and State's own revenue buoyancy (with respect to GSDP) in 2020-21 deteriorated and were the lowest in last five years, with the State's own revenue buoyancy being lesser than the overall revenue buoyancy (with respect to GSDP). However, the year 2020-21 being an exceptional year impacted by Covid - 19 Pandemic, the Revenue Buoyancy may not reflect true fiscal situation. Growth in own tax revenue/revenue receipts being negative for the State, will make the ratio also negative.

Trend of composition of Revenue Receipts for the period 2016-21 are given in **Chart 2.4**.

**Chart 2.4: Trend of composition of Revenue Receipts during 2016-21**

Source: Finance Accounts

State's Own Tax Revenue, which was growing year-on-year during the last four years, has declined marginally in 2020-21. Non-Tax Revenue and Central Tax transfers have decreased in comparison to the preceding year and were lowest during the five-year period. Grants-in-Aid from Government of India, on the other hand, have increased considerably by 33.38 per cent over the previous year.

#### 2.4.1.1 State's own resources

State's share in Central taxes is determined based on recommendations of the Finance Commission. Grant-in-Aid from Central Government is determined by the quantum of collection of Central Tax receipts and anticipated Central assistance for schemes. State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its Own Tax and Non-Tax sources.

##### (i) Own Tax Revenue

Own Tax Revenues of the State consist of State Goods and Services Tax, State Excise, Taxes on vehicles, Stamp Duty and Registration Fees, Land Revenue, Taxes on Goods and Passengers, etc.

During 2020-21, State's Own Tax Revenue (₹66,650 crore) constituted 66.05 per cent of total Revenue Receipts (₹1,00,914 crore). Own Tax Revenue had decreased marginally by 1.40 per cent (₹947 crore) over the previous year. As a percentage of Gross State Domestic Product, it declined to 6.80 per cent in 2020-21 over the previous year (7.06 per cent).

During the current year, major contributors of Own Tax Revenue were State Goods and Services Tax (33.29 per cent), Taxes on Sales, Trades etc., (31.36 per cent) and State Excise (21.56 per cent). Component wise details of State's Own Tax Revenue collected during 2016-21 are detailed in **Table 2.4**.

Table 2.4: Components of State's Own Tax Revenue

(₹ in crore)

Revenue Head	2016-17	2017-18	2018-19	2019-20	2020-21	Sparkline
Taxes on Sales, Trade, etc.	34,235	25,107	20,291	20,674	20,904	
State Goods and Services Tax	---	13,073	23,840	23,517	22,190	
State Excise	5,581	9,421	10,638	11,992	14,370	
Taxes on Vehicles	3,394	3,590	3,762	3,935	3,338	
Stamps Duty and Registration fees	3,822	4,202	5,344	6,671	5,243	
Land Revenue	7	4	0.42	1	1	
Taxes on goods and passengers	11	88	189	62	19	
Other Taxes	1,358	1,035	610	745	585	
Total	48,408	56,520	64,674	67,597	66,650	

Source: Finance Accounts

State Excise has been consistently increasing year on year. The increase in State Excise during 2020-21 was mainly due to increase (₹2,882 crore) in receipts from 'Foreign Liquors and Spirits'.

Taxes on Vehicles, Stamp duty and Registration Fees which were increasing till 2019-20, decreased in 2020-21. Taxes on Sales, Trade etc increased marginally in 2020-21 over 2019-20, while State Goods and Services Tax decreased marginally. Land Revenue remained same as that of last year. Other taxes and Taxes on goods and passengers declined considerably due to decrease under 'taxes on immovable property other than agricultural land (₹147.45 crore)' and 'tax on entry on goods into local areas (₹42.50 crore)' respectively.

### State Goods and Services Tax

State Government implemented the Telangana Goods and Services Tax Act with effect from 01 July 2017. The GST has four components: (i) GST receipts by the Centre (CGST); (ii) GST receipts by the State (SGST); SGST levied on intra-State supply of goods or services (except alcohol for human consumption and five specified petroleum products<sup>1</sup>); (iii) Integrated GST (IGST)<sup>2</sup>, a tax on inter-State supply of Goods or Services or both by the Central Government; and (iv) GST Compensation Cess<sup>3</sup>.

The receipts of Telangana in 2020-21 under above components are as below:

- CGST:** The State received ₹3,715.08 crore as share of net proceeds assigned to States under CGST during the year 2020-21.
- SGST:** The total receipts of SGST were ₹22,190.34 crore during the year 2020-21,

<sup>1</sup> Petroleum crude, High speed diesel, Motor spirit (Petrol), Natural gas and Aviation turbine fuel

<sup>2</sup> In respect of inter-State supply of Goods and Services, Integrated GST (IGST) is levied and collected by Government of India (GoI). The IGST so collected is apportioned between the Centre and the State where Goods and Services are consumed

<sup>3</sup> As per GST Compensation Cess Act, GST Compensation Cess is paid by GoI for a period of five years to the State in case the share of a State falls short of the revenue earned in the pre-GST regime



including apportionment of IGST (₹1,451.64 crore) and advance apportionment of IGST (₹1,528.47 crore).

- c) **IGST:** State has not received any amount during the years 2019-20 and 2020-21.
- d) **GST Compensation:** According to GST (Compensation to the States) Act, 2017, the Central Government will compensate the States for loss of revenue arising on account of implementation of GST for a period of five years. The Compensation payable to the State shall be calculated for every financial year after the receipt of final revenue figures, as audited by the Comptroller and Auditor General of India. The protected revenue for any year of a State shall be calculated by applying the projected growth rate of 14 *per cent* per annum over the base year (2015-16) revenue of the State.

The revenue of Telangana in the base year (2015-16) was ₹16,109 crore. Accordingly, the Protected Revenue for the year 2020-21 was ₹31,016.50 crore<sup>4</sup>.

The State received ₹22,190.34 crore as SGST. The Pre-GST collected as taxes subsumed under SGST during the year was ₹3,270.11 crore<sup>5</sup>. Since, the total collection (₹25,460.45 crore) of the State under SGST was less than the protected revenue (₹31,016.50 crore) for the year 2020-21, ₹5,556.05 crore was due as GST compensation. An amount of ₹3,103.07 crore was received during 2020-21 as Grants-in-Aid under ‘Compensation for loss of Revenue arising out of implementation of GST’. Apart from this, Government of India has provided ₹2,380 crore to Telangana as ‘back to back loan in lieu of GST Compensation shortfall’, which would be serviced from out of the GST Compensation Cess by the Central Government. Compensation amount of ₹72.98 crore was yet to be received for the current year (as of 31 March 2021).

Since 2017-18, an amount of ₹5,535.23 crore<sup>6</sup> was received in the form of Grants-in-Aid and ₹2,380 crore as back-to-back loans in lieu of GST compensation as against the receivable amount of ₹8,395.29 crore<sup>7</sup> (provisional). Compensation amount of ₹480.06 crore was yet (March 2021) to be received from Central Government .

## (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 2020-21, State’s own Non-Tax Revenue (₹6,101 crore) was six *per cent* of total Revenue Receipts (₹1,00,914 crore). It decreased by ₹1,259 crore (17.11 *per cent*) in 2020-21 when compared to the previous year, which was mainly due to decrease in ‘Other

<sup>4</sup> Calculated at compounding increase of 14 *per cent* per annum for five years viz., 2016-17, 2017-18, 2018-19, 2019-20 and 2020-21 from the base year revenue of ₹16,109 crore (*i.e.*, ₹16,109 \* 1.14 \* 1.14 \* 1.14 \* 1.14 \* 1.14 = ₹31,016.50 crore)

<sup>5</sup> Provisional figures

<sup>6</sup> (i) 2017-18: ₹169.00 crore, (ii) 2019-20: ₹2,263.16 crore, and (iii) 2020-21: ₹3,103.07 crore

<sup>7</sup> 2019-20: ₹2,839.24 crore, 2020-21: ₹5,556.05 crore

Receipts' under Miscellaneous General Services and 'Other Rural Development Programmes'.

The component-wise details of Non-Tax Revenue collected during the years 2016-21 are shown in **Table 2.5**.

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

(₹ in crore)

Revenue Head	2016-17	2017-18	2018-19	2019-20	2020-21	Sparkline
Interest Receipts	1,791	116	60	18	34	
Dividends and Profits	70	101	94	115	94	
Other Non-Tax Receipts	7,921	7,608	9,853	7,227	5,973	
(a) Major and Medium Irrigation	29	1,527	36	31	18	
(b) Roads and Bridges	31	17	34	46	24	
(c) Urban development	1	28	9	21	7	
(d) Education	768	336	318	367	614	
(e) Non-ferrous mining	3,148	3,593	4,647	3,487	3,457	
(f) Others or Miscellaneous	3,944	2,107	4,809	3,275	1,853	
Total	9,782	7,825	10,007	7,360	6,101	

Source: Finance Accounts

- Most of the components of Non-Tax Revenue have been wavering during the past five years.
- Receipts from 'Others or Miscellaneous' have decreased during 2020-21. Revenue under 'Others or Miscellaneous' component of Miscellaneous General Services decreased by 41.94 per cent during the year primarily due to decrease in (i) Sale of Land and Property by 97.66 per cent (from ₹415.59 crore in 2019-20 to ₹9.74 crore in 2020-21) and (ii) Other Receipts by 31.96 per cent (from ₹1,764.48 crore in 2019-20 to ₹1,200.51 crore in 2020-21).

**Since the State Government has been classifying huge amounts of receipts as other receipts without any clear details, we could not analyse the reasons for decrease in the NTR (please refer to paragraph 4.9 for further details).**

### **Box 2.1 : Receipts on account of Donations, contributions etc., towards Covid - 19 Pandemic**

Government informed<sup>8</sup> Secretary and Chief Executive Officer (CEO), Telangana Building and Other Construction Workers Welfare Board (TBOCWBB, an autonomous body) that the Commissioner, Civil Supplies spent an amount of ₹334.94 crore, towards providing ₹500 to labourers as cash and 12 kilogram of rice as a part of relief, mostly for Building and other construction workers, who were affected by Covid-19 Pandemic. The Government instructed (16 April 2020) the CEO to reimburse ₹334.94 crore as advance by crediting to State Disaster Response Fund (SDRF) under Reserve Funds in Public Account. Accordingly, CEO has remitted (17 April 2020) the amount to SDRF.

The Government again instructed<sup>9</sup> (22 April 2020) the CEO to deposit another ₹669.88 crore as advance towards the same purpose. The CEO remitted this amount also (28 April 2020) to SDRF. The remittance of total ₹1,004.82 crore was done by taking loans to a tune of ₹909 crore from Fixed Deposits and ₹95.82 crore from out of funds available in savings bank accounts.

We observed the following:

- As per section 22 of the Building and other construction workers' (regulation of employment and conditions of service) Act, 1996, the Board may grant loan or subsidy to a local authority or an employer in aid of any scheme approved by the State Government for the purpose connected with the welfare of building workers in any establishment. However, there is no provision in the Act, to provide Donations/ Grants/ Contribution to the State Government.
- The Government directed that the amount be credited to State Disaster Response Fund under Reserve Funds of Public Account instead of Loans and Advances/ Borrowings, though the memo mentioned the reimbursement as advance.
- After completion of the financial year 2020-21, the Government decided (June 2021) to transfer the amount, by book adjustment, from State Disaster Response Fund to its Revenue Receipts under Miscellaneous General Services by operating a new sub head "Grants, Donations, contributions received from Companies, Corporations, Bodies, Authorities and other Institutions to meet expenditure on pandemics". Thus, in effect, the State Government received ₹1,004.82 crore, initially as Advance from TBOCWBB towards Covid-19 Pandemic related activities, and later converted it as Grants/ Contributions/ Donations i.e., as Revenue Receipts.
- Majority of the expenditure on Covid-19 Pandemic relief activities by the Government was through transferring funds (₹2,657.66 crore) to a Public Sector

<sup>8</sup> Memo No.1272/Lab.I/A1/2020 dated 16.4.2020 for ₹334.94 crore of Labour, Employment, Training and Factories (LAB.I) Department

<sup>9</sup> Memo No. Memo No.1272/Lab.I /A1/2020-2 dated 22.4.2020 for ₹669.88 crore of Labour, Employment, Training and Factories (LAB.I) Department

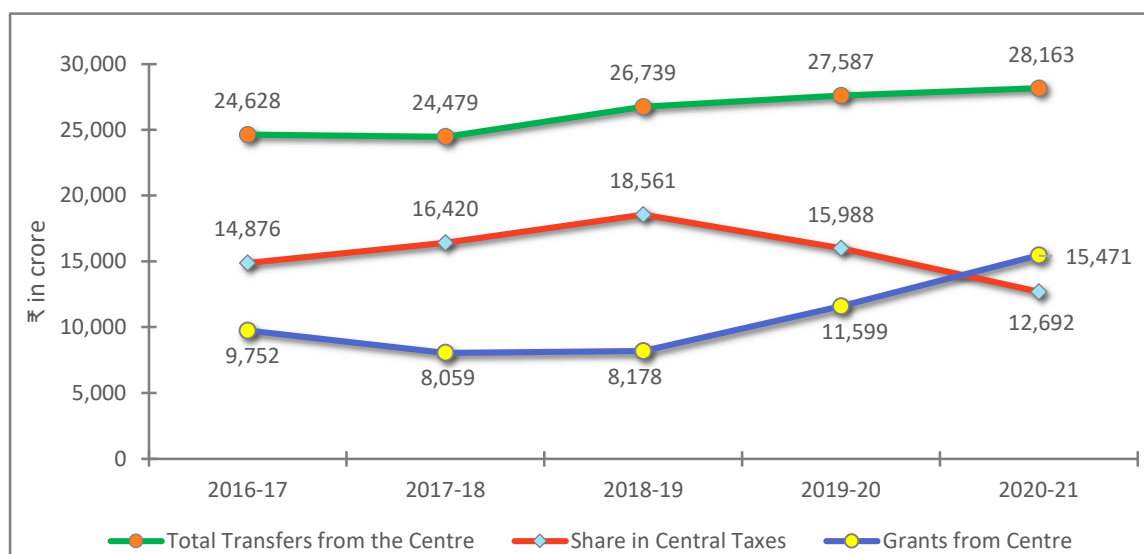
Undertaking i.e., Telangana State Civil Supplies Corporation. The same was booked as Revenue Expenditure. As an amount of ₹1,004.82 crore was received from TBOCWCB for the above purpose, the same should have been booked as reduction of expenditure, instead of as a Revenue Receipt. This resulted in boosting of both Revenue Receipts and Revenue Expenditure to an extent of ₹1,004.82 crore.

The Government replied (November 2021) that booking ₹1,004.82 crore as reduction of expenditure would result in showing less expenditure on Covid-19 Pandemic and would not reflect actual expenditure. The reply is not acceptable as the amounts that was spent was not from the Government funds, but in view of the urgency, it facilitated transfer of funds to Telangana Civil Supplies Corporation from TBOCWCB, which is vested with responsibility of taking up welfare activities for building and other construction workers.

#### 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 2016-21 are shown in **Chart 2.5**.

**Chart 2.5: Trends in transfers from Government of India**



Source: Finance Accounts

While share in central share taxes is decreasing during the past three years, the Grants-in-Aid have been increasing on the other hand. Apart from this, more Grants-in-Aid are being released directly by the Government of India, to the implementing agencies instead of routing through Consolidated Fund of State Government (*refer to paragraph 4.4 for details*). The tax devolution and Grants-in-Aid are discussed in the following paragraphs:

##### (i) Central Tax transfers

The Fifteenth Finance Commission in its Report for the year 2020-21 chose to keep net proceeds of Union taxes to be devolved to the States (i.e., divisible pool) at the same level of 42 per cent as recommended by earlier Fourteenth Finance Commission. However,

taking into account the re-organisation of erstwhile Jammu and Kashmir State in to Union Territories of Ladakh and Jammu & Kashmir and since Union Territories are the responsibilities of the Union Government and are within the purview of Union Budget, the Fifteenth Finance Commission recommended that the aggregate share of States be reduced by one *per cent* to 41 *per cent* of the divisible pool. It also took into account various other factors like population, area, forest and ecology, income distance criteria, demographic performance, tax efforts of the State.

Consequently, the Fifteenth Finance Commission allocated 2.133 *per cent* of the total divisible pool as *inter se* share of Telangana. Based upon the projected tax revenue of the Union Government and the shares derived from the horizontal devolution formula, Fifteenth Finance Commission has derived the share of each State in absolute numbers. This has been used to derive the post-devolution revenue deficit/surplus for States. Accordingly, based on the total projected tax devolution of ₹8,55,176 crore, Fifteenth Finance Commission projected that the Telangana would have a pre-devolution Revenue Surplus of ₹7,735 crore and hence recommended a tax devolution of ₹18,241 crore (being 2.133 *per cent* of ₹8,55,176 crore) to Telangana in 2020-21.

Actual devolution of State's share in Union taxes and duties vis-à-vis Fourteenth Finance Commission and Fifteenth Finance Commission projections for the period 2016-21 are shown in **Table 2.6**.

**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 (=4-3)
2016-17	As per XIV Finance Commission	16,370	14,876	(-)1,494
2017-18		18,916	16,420	(-)2,496
2018-19		21,885	18,561	(-)3,324
2019-20		25,350	15,988	(-)9,362
	As per XV Finance Commission	18,241	12,692	(-)5,549

Source: Finance Accounts

The component-wise Central Tax transfers to the State during 2016-17 to 2020-21 are given in **Table 2.7**.

**Table 2.7: Central Tax Transfers**

(₹ in crore)

Head	2016-17	2017-18	2018-19	2019-20	2020-21
Central Goods and Services Tax (CGST)	--	231	4,581	4,537	3,715
Integrated Goods and Services Tax (IGST)	--	1,657	366	--	...
Corporation Tax	4,763	5,027	6,454	5,451	3,865
Taxes on Income other than Corporation Tax	3,310	4,245	4,753	4,271	3,967
Customs	2,049	1,657	1,315	1,013	649
Union Excise Duties	2,340	1,731	874	705	422
Service Tax	2,404	1,872	172	--	63
Other Taxes <sup>10</sup>	10	0	46	10	11
<b>Central Tax transfers</b>	<b>14,876</b>	<b>16,420</b>	<b>18,561</b>	<b>15,988</b>	<b>12,692</b>
Percentage of increase over previous year	20.44	10.38	13.04	(-)13.86	(-)20.62
Percentage of Central tax transfers to Revenue Receipts	17.96	18.49	18.30	15.59	12.58

Source: Finance Accounts

During the current year, Central Tax transfers as a *percentage* of Revenue Receipts of the State decreased by 3.01 *percentage* points (₹3,296 crore) compared to 2019-20 due to decrease in all the components of Central Taxes.

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

The details of Grants-in-aid received from Government of India during 2016-21 are detailed in **Table 2.8**.

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

(₹ in crore)

Head	2016-17	2017-18	2018-19	2019-20	2020-21
Non-Plan Grants	3,057	--	--	--	...
Grants for State Plan Schemes	6,695	--	--	--	...
Grants for Centrally Sponsored Schemes	--	6,108	5,508	5,729	5,805
Finance Commission Grants	--	1,168	1,806	3,219	3,135
Other transfers/Grants to States	--	783	864	2,651	6,531
<b>Total</b>	<b>9,752</b>	<b>8,059</b>	<b>8,178</b>	<b>11,599</b>	<b>15,471</b>
Percentage of increase / decrease over the previous year	3.81	(-)17.36	1.48	41.83	33.38
Percentage of Grants in Aid to Revenue Receipts	11.78	9.07	8.06	11.31	15.33

Source: Finance Accounts

- Grants-in-Aid from Government of India increased by ₹3,872 crore (33.38 *per cent*) in 2020-21 compared to the previous year and constituted 15.33 *per cent* of Revenue Receipts (₹1,00,914 crore) during the year (an increase of four *per cent* over 2019-20). Grants for Centrally Sponsored Schemes (₹5,805 crore) constituted 37.52 *per cent* of total grants.

<sup>10</sup> include Taxes on Wealth, Other Taxes on Income and Expenditure, Other Taxes and Duties on Commodities and Services

- Grants-in-Aid (GIA) of ₹15,471 crore includes GIA towards compensation for loss of revenue arising out of implementation of GST ₹3,103 crore and the remaining GIA is towards other purposes.
- Apart from Compensation for loss of revenue arising out of implementation of GST (₹3,103 crore), major GIA include Grants to cover gap in resources (₹2,638 crore), Special Assistance (₹511 crore) and Grants-in-Aid for creation of Capital assets (₹450 crore). GST compensation increased in comparison to previous year by ₹840 crore. There were no receipts under Grants to cover gap in resources and Grants-in-Aid for creation of Capital assets during the previous year.
- The Fifteenth Finance Commission noted that 14 States (excluding Telangana) would have a post-devolution Revenue Deficit and hence recommended Revenue Deficit Grants to such States. However, it also noted that the sum of tax devolution is projected to decline from 2019-20 to 2020-21 for three States, viz., Karnataka, Mizoram and Telangana. To make up for this short fall the Fifteenth Finance Commission recommended a Special Grant of ₹723 crore to Telangana for the year 2020-21. The State did not receive such Special Grant during the year.

However, the Union Government while considering the report of XV Finance Commission for the year 2020-21 has requested (December 2019) the XV FC to reconsider the recommendation as it introduces a new principle. However, in the final report for the years 2021-26 of the XV FC this item was not mentioned. Hence, it was not clear on how the shortfall or decline was to be dealt with.

- In view of the impact of malnutrition on early education, the Fifteenth Finance Commission has recommended additional grants for nutrition for States for the year 2020-21. It clarified that these Grants were not to be substituted for either State share or Union share, but are additional. The first instalment was to be released in May 2020 and the second instalment was to be released after effective utilisation of the first instalment. The Fifteenth Finance Commission recommended an amount of ₹171 crore as Grants for Nutrition to Telangana. The State did not receive such Grants for Nutrition during the year.

However, the Union Government while considering the report of XV Finance Commission for the year 2020-21 has requested (December 2019) the XV FC to review the recommendation as a part of its overall proposal of measurable performance based incentives for States as per the Terms of Reference in the main Report.

In the final report the XV FC has reiterated these grants be given, albeit, as part of Integrated Child Development Scheme (ICDS). In fact, the Grants-in-Aid has decreased to ₹406.60 crore in 2020-21 from ₹547.22 crore in 2019-20 and ₹550.99 crore in 2018-19 towards ICDS.

- The Fifteenth Finance Commission recommended an amount of ₹50 crore each to Hyderabad, Bengaluru, Ahmedabad and Pune for reducing the risk of urban flooding in view of regular incidence of flooding and heavy losses. The accounts did not depict receipt of such Grants during the year.



- The Fifteenth Finance Commission recommended an amount of ₹20 crore each for ‘Catalytic assistance for preparing district level drought mitigation plans’ to 12 States, including Telangana for developing long-term district level drought mitigation plans to address the challenges posed by successive droughts. The accounts did not depict receipt of such Grants during the year.

On the whole, the State did not receive specific grants amounting to ₹964 crore recommended by XV Finance Commission. The State Government confirmed (November 2021) that the Government of India has not released the above grants.

## 2.4.2 Capital Receipts

Capital Receipts comprise miscellaneous Capital Receipts such as proceeds from Disinvestments, recoveries of Loans and Advances, Public Debt Receipts from internal sources (Market Loans, Borrowings from Financial institutions / Commercial Banks) and Loans and Advances from Government of India. **Table 2.9** shows the trends in growth and composition of capital receipts.

**Table 2.9: Trends in growth and composition of Capital Receipts**

(₹ in crore)

Sources of State's Receipts	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Capital Receipts</b>	<b>29,407</b>	<b>21,820</b>	<b>22,312</b>	<b>29,855</b>	<b>39,654</b>
Miscellaneous Capital Receipts	--	--	--	--	...
Recovery of Loans and Advances	156	138	66	62	58
<b>Net Public Debt Receipts<sup>#</sup></b>	<b>29,251</b>	<b>21,682</b>	<b>22,246</b>	<b>29,793</b>	<b>39,595</b>
Internal Debt	29,058	21,458	22,646	30,025	37,420
Growth rate of Internal Debt	109.31	(-26.15)	5.54	32.58	24.63
Loans and Advances from GoI	193	224	(-400)	(-232)	2,175 <sup>s</sup>
Growth rate of Loans and Advances from GoI	(-74.94)	16.06	(-278.57)	(-42.00)	1,037.50
Rate of growth of debt Capital Receipts	99.62	(-25.88)	2.60	33.93	32.90
Rate of growth of non-debt capital receipts	77.27	(-11.54)	(-52.17)	(-6.06)	(-6.45)
Rate of growth of Gross State Domestic Product	13.92	13.93	14.67	11.29	2.42
Rate of growth of Capital Receipts (per cent)	99.49	(-25.80)	2.25	33.81	32.82

Source: Finance Accounts; Gross State Domestic Product – Source: Ministry of Statistics and Programme Implementation (figures as on 02 August 2021)

<sup>#</sup> excludes Ways and Means Advances of ₹12,088 crore, ₹22,922 crore, ₹21,823 crore, ₹37,248 crore and ₹69,454 crore for 2016-17, 2017-18, 2018-19, 2019-20 and 2020-21 respectively

<sup>s</sup> This is the net figure of Receipts of ₹2,665 crore (including ₹2,380 crore back-to-back loans in lieu of GST compensation shortfall, which need not be repaid by the State Government) and repayments of ₹490 crore to GoI

Public Debt receipts, consisting of borrowings taken from Market, Financial Institutions and Central Government, which create future repayment obligation, constituted a major component of Capital Receipts (99.85 per cent). The sharp hike in Loans and Advances from GoI was due to receipt of ₹2,380 crore as ‘back-to-back loan in lieu of GST Compensation shortfall’.



Net Capital Receipts increased by 32.82 *per cent* from ₹29,855 crore in previous year to ₹39,654 crore in 2020-21. Net Internal Debt (₹37,420 crore) increased by 24.63 *percentage* points during 2020-21 compared to 2019-20 (₹30,025 crore). These were significantly higher than the growth rate of Gross State Domestic Product (2.42 *per cent*) during 2020-21. Net increase in the Market loans was ₹38,782.39 crore.

### 2.4.3 State's performance in mobilisation of resources

Taking into consideration the fact that State's GST revenues are protected through guaranteed compensation by Union Government under an assured annualized 14 *per cent* growth set against aggregate of Gross State Domestic Product of 11 *per cent*, the Fifteenth Finance Commission considered the buoyancy at 1.27 for GST. However, considering that recent economic slowdown was affecting the tax collections from non-GST taxes, the tax buoyancy was arrived at as 1.16 (for both GST and non-GST taxes) for States. The Fifteenth Finance Commission also estimated that Non-Tax Revenue would keep pace with Gross State Domestic Product growth rates of each State. Accordingly, it assessed Own-Tax Revenue (OTR) as ₹87,129 crore and Non-Tax Revenue as ₹10,728 crore for Telangana for the year 2020-21.

State's performance in mobilisation of resources is assessed in terms of its own resources comprising own-tax and non-tax sources, the estimates of which are made in the Budget. The Own Tax Revenue and Non-Tax Revenue projections by the Fifteenth Finance Commission and State Government in Budgets vis-à-vis actual performance in mobilisation of resources are shown below:

**Table 2.10: Own Tax and Non-Tax Projections vis-à-vis actual receipts**

(₹ in crore)

	Fifteenth Finance Commission projections	Budget Estimates	Actuals	Percentage variation of actual over	
				Budget estimates	Fifteenth Finance Commission projections
Own Tax Revenue	87,129	85,300	66,650	(-)21.86	(-)23.50
Non-Tax Revenue	10,728	30,600	6,101	(-)80.06	(-)43.13

Source: FFC projections, Budget Estimates and Finance Accounts

- Mobilisation of Own Tax Revenues was significantly below the projections made by Fifteenth Finance Commission and in the State's own Budget Estimates.
- Actual realisation of Non-Tax Revenue was only 19.94 *per cent* of the State's own estimates, while it was considerably lower than the projections of Fifteenth Finance Commission. Non-Tax Revenue could not meet budgetary projections primarily due to short realisation under 'Sale of Land and property', where the receipts were a paltry ₹9.74 crore as against Budget Estimates of ₹14,294 crore.

**We observed that, except in 2017-18 and 2018-19, Budget Estimates in respect of Non-Tax Revenue have been consistently on higher side during the past five years.**

The Government replied (January 2022) that the budget was prepared before onset of Covid-19 and the State Government was not in a position to factor it in the Budget Estimates beforehand. As GST is under the purview of GST council, the State was left with only one option for mobilising more funds through Sale of Land and Property (which was comparatively buoyant and not completely dependent on the prevailing economic situation).

## 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 2016-17 to 2020-21 is presented in **Table 2.11**.

**Table 2.11: Total Expenditure and its components**

(₹ in crore)

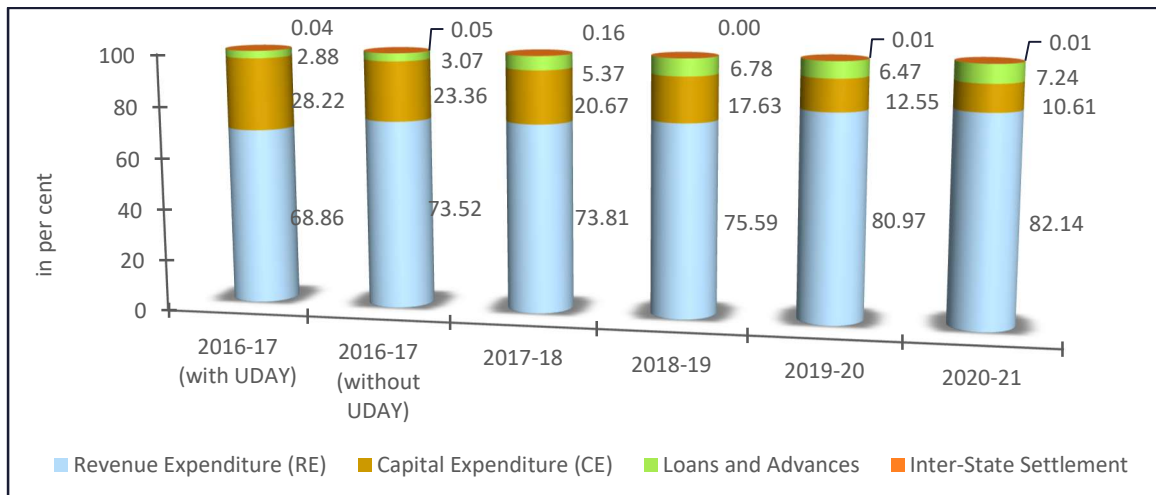
Parameters	2016-17	2017-18	2018-19	2019-20	2020-21
Total Expenditure	1,18,255	1,15,662	1,28,435	1,34,365	1,50,010
Revenue Expenditure	81,432	85,365	97,083	1,08,798	1,23,212
Capital Expenditure	33,371	23,902	22,641	16,859	15,922
Loans and Advances	3,402	6,209	8,706	8,700	10,868
Inter-State Settlement	50	186	5	8	8
<i>As a percentage of Gross State Domestic Product</i>					
Total Expenditure	17.96	15.42	14.93	14.04	15.30
Revenue Expenditure	12.37	11.38	11.29	11.37	12.57
Capital Expenditure	5.07	3.19	2.63	1.76	1.62
Loans and Advances	0.52	0.83	1.01	0.91	1.11

Source: Finance Accounts

Total Expenditure of the State increased by 27 per cent from ₹1,18,255 crore in 2016-17 to ₹1,50,010 crore in 2020-21 and by 12 per cent over preceding year.

Further, as a percentage of Gross State Domestic Product, the Total Expenditure has increased over previous two years, mainly on account of higher percentage of Revenue Expenditure and Net Loans and Advances given. Both the items (as a percentage of Gross State Domestic Product) were highest in 2020-21 amongst the past five years. On the other hand, Capital Expenditure was lowest in 2020-21, in absolute terms as well as a percentage of Gross State Domestic Product.

**Chart 2.6** depicts the trend of the share of components in Total Expenditure.

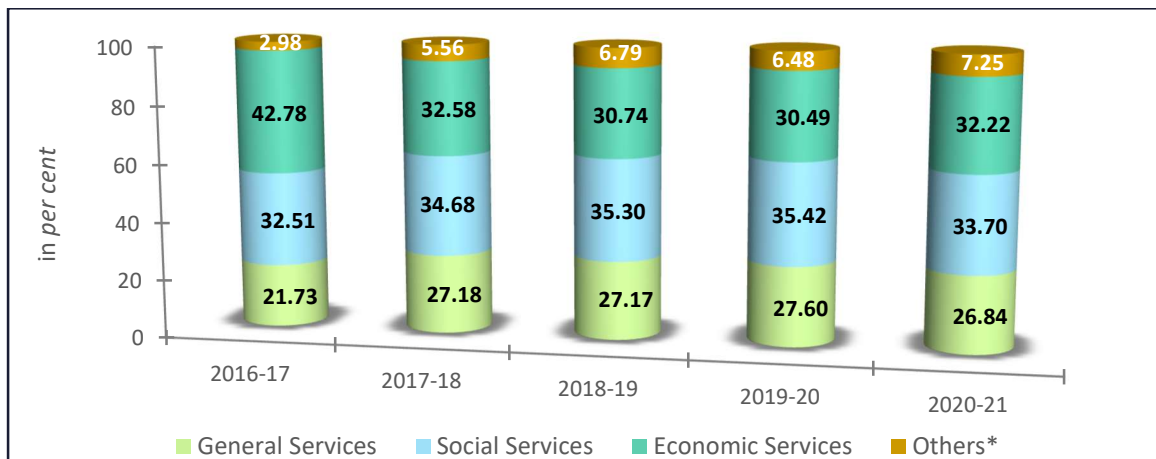
**Chart 2.6: Trend of share of components in Total Expenditure**

Source: Finance Accounts

Capital Expenditure, which was 23.36 per cent of Total Expenditure in 2016-17 has decreased by twelve percentage points to 10.61 per cent in 2020-21. Capital Expenditure decreased by nearly two percentage points in 2020-21 in comparison to previous year.

On the other hand, Revenue Expenditure increased by 8.62 percentage points from 73.52 per cent in 2016-17 to 82.14 per cent in 2020-21. Revenue Expenditure increased marginally by one percentage point in 2020-21 in comparison to previous year. Loans and Advances increased marginally by 0.77 per cent over the previous year.

In terms of activities, Total Expenditure comprises of expenditure on (i) General Services including Interest Payments, (ii) Social Services, (iii) Economic Services and (iv) Others (includes Grants to Local Bodies, Loans and Advances and Interstate Settlement). Trends in Expenditure by activities are shown in **Chart 2.7**.

**Chart 2.7: Trend of expenditure by activities during the past five years**

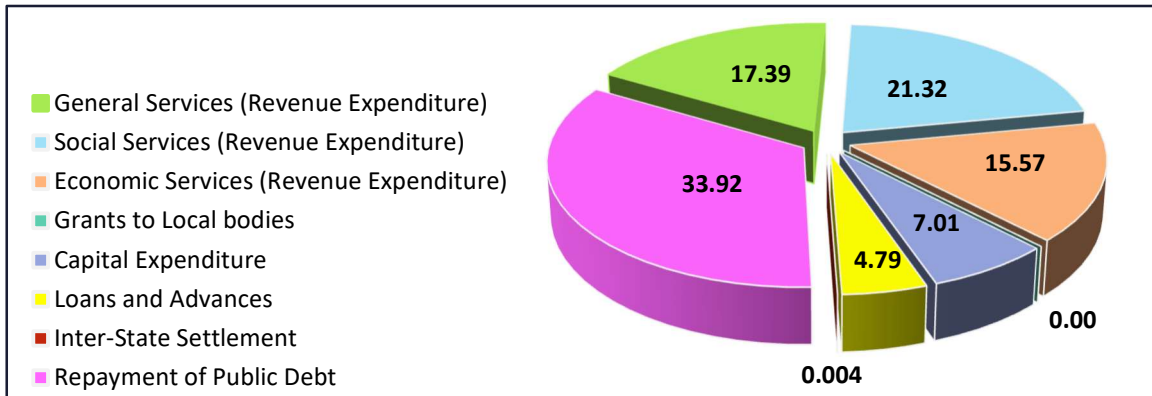
Source: Finance Accounts

\* Others include Grants to Local Bodies, Loans and Advances and Interstate Settlement

The relative share of General Services and Social Services in the Total Expenditure marginally decreased during the year 2020-21 as compared to previous year.

Chart 2.8 depicts the composition of expenditure for the year 2020-21.

**Chart 2.8: Composition of expenditure (in per cent) during 2020-21**



Source: Finance Accounts

## 2.5.2 Revenue Expenditure

Revenue Expenditure is incurred to maintain the current level of services and payment for the past obligation. As such, it does not result in any addition to the State's infrastructure and service network.

The overall Revenue Expenditure, its rate of growth, its ratio to Total Expenditure and buoyancy vis-à-vis Gross State Domestic Product and Revenue Receipts is indicated in Table 2.12.

**Table 2.12: Revenue Expenditure – Basic Parameters**

(₹ in crore)

Sl. No.	Parameter	2016-17	2017-18	2018-19	2019-20	2020-21
1	Total Expenditure	1,18,255	1,15,662	1,28,435	1,34,365	1,50,010
2	Revenue Expenditure	81,432	85,365	97,083	1,08,798	1,23,212
3	Rate of growth of Revenue Expenditure (per cent)	7.29	4.83	13.73	12.07	13.25
4	Revenue Expenditure as a per cent of Total Expenditure	68.86	73.81	75.59	80.97	82.14
5	Revenue Expenditure / Gross State Domestic Product in per cent	12.37	11.38	11.29	11.37	12.57
6	Revenue Expenditure as a percentage of Revenue Receipts	98.33	96.11	95.72	106.10	122.10
7	Rate of growth of Gross State Domestic Product (per cent)	13.92	13.93	14.67	11.29	2.42
8	Buoyancy of Revenue Expenditure with Gross State Domestic Product (ratio)	0.52	0.35	0.94	1.07	5.47
9	Rate of growth of Revenue Receipts (per cent)	8.78	7.25	14.18	1.11	(-1.59)
10	Buoyancy of Revenue Expenditure with Revenue Receipts (ratio)	0.83	0.67	0.97	10.87	(-8.33)

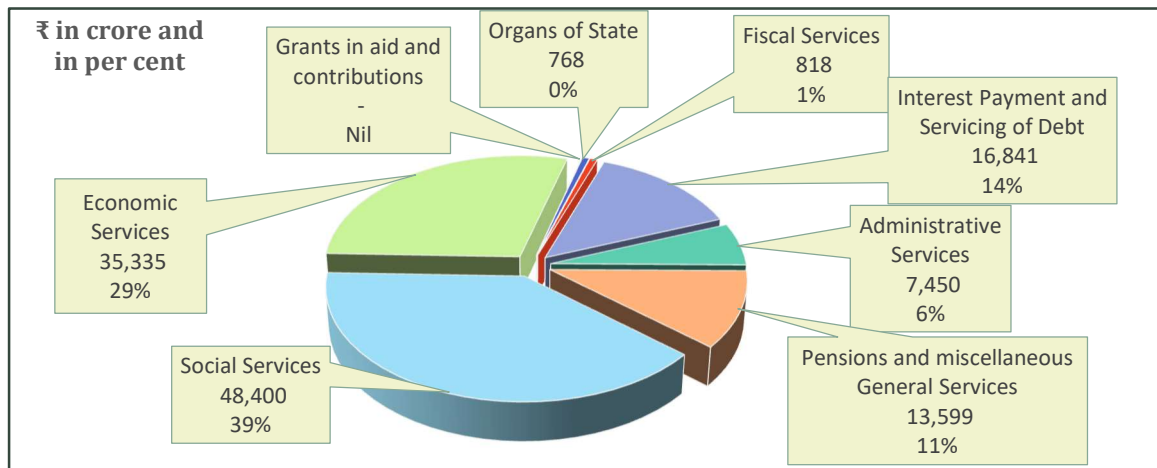
Source: Finance Accounts

- Buoyancy of Revenue Expenditure to Revenue Receipts was less than 'one' during the three years from 2016-17 to 2018-19. This indicated that Revenue Expenditure was growing at a slower pace than the Revenue Receipts. However, in the year 2019-20, the buoyancy of Revenue Expenditure to Revenue Receipts shot up to 10.87 suggesting

that growth rate of Revenue Expenditure was significantly higher than the growth rate of Revenue Receipts. The situation worsened in the year 2020-21 and dipped to negative, indicating that the Revenue Expenditure has increased even when the Revenue Receipts has shown negative growth. However, the year 2020-21 being an exceptional year impacted by Covid, the concept of Revenue Buoyancy may not reflect true fiscal situation. Growth in Revenue Receipts being negative for the State, will make the buoyancy ratio of Revenue Expenditure to Revenue Receipts negative.

Sectoral distribution of Revenue Expenditure pertaining to 2020-21 is given in **Chart 2.9**.

**Chart 2.9: Sector-wise distribution of Revenue Expenditure during 2020-21**



Source: Finance Accounts

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

### 2.5.2.1 Major changes in Revenue Expenditure

Variations under significant Heads of Account with regard to Revenue Expenditure of the State during the current year vis-à-vis the previous year is shown in **Table 2.13**.

**Table 2.13: Variation in Revenue Expenditure during 2020-21 compared to 2019-20**

(₹ in crore)

Major Heads of Account	2019-20	2020-21	Variation
<b>Increase</b>			
<b>General Sector</b>			
2049 - Interest Payments	14,386	16,841	2,455
<b>Social Sector</b>			
2245 - Relief on account of Natural Calamities	1,836	3,651	1,815
2217 - Urban Development	2,166	3,816	1,650
2515 - Other Rural Development Programmes	3,516	4,895	1,379
2211 - Family Welfare	1,987	2,441	454
2235 - Social Security and Welfare	9,847	10,292	445
<b>Economic Sector</b>			
2801 - Power	5,192	9,958	4,766
2401 - Crop Husbandry	13,112	16,761	3,649

Major Heads of Account	2019-20	2020-21	Variation
<b>Decrease</b>			
<b>General Sector</b>			
2015 – Elections	320	54	(-)266
2070 - Other Administrative Services	463	176	(-)287
<b>Social Sector</b>			
2225 - Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities	9,853	8,824	(-)1,029
2236 – Nutrition	2,738	2,007	(-)731
2210 - Medical and Public Health	3,963	3,306	(-)657
<b>Economic Sector</b>			
2853 - Non-ferrous Mining and Metallurgical Industries	165	43	(-)122

Source: Finance Accounts

The increase of Revenue Expenditure over the preceding year was mainly under (i) Power, due to higher outgo (₹4,763 crore) under Assistance to TRANSCO for agriculture and allied subsidies, (ii) Crop Husbandry, due to higher outgo ( ₹3,431 crore) under Investment Support Scheme Rythu Bandhu, (iii) Interest Payments, due to higher interest payment (₹2,453 crore) on State Development Loans and (iv) Relief on account of Natural Calamities due to higher expenditure (₹1,864 crore) under Covid-19 Pandemic.

There was a decrease in Revenue Expenditure under (i) Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities, owing to decreased expenditure(₹179 crore) under Assistance to Telangana State Residential Educational Institutions Society for Residential High Schools-Cum-Junior Colleges for Backward Classes, (ii) Nutrition due to decreased expenditure (₹686 crore) under Subsidy on Rice and (iii) Medical and Public Health, due to decreased expenditure (₹150 crore) under Centralised purchase of Drugs and Medicines.

Our analysis of the data pertaining to the five-year period of 2016-21 revealed that major Revenue expenditure occurred on the following schemes / sub-heads:

**Table 2.14: Major schemes / sub-heads where Revenue Expenditure was significant during the past five years**

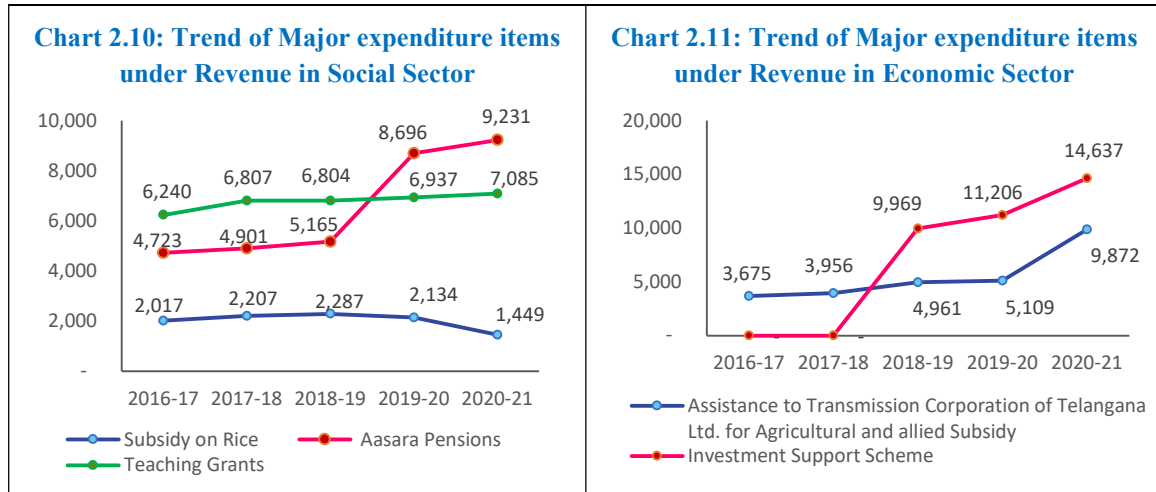
(₹ in crore)

Social Services		Economic Services	
Aasara Pension (including pensions to disabled, widows, weavers and toddy tappers and old age pensions)	32,716	Investment Support Scheme (Rythu Bandhu)	35,812
Teaching Grants to Mandal Praja Parishads	17,418	Assistance to Transco for agriculture and allied subsidies	27,574
Teaching Grants to Zilla Praja Parishads	16,455	Scheme for Debt Relief	8,535
Subsidy on Rice (Human Resources Development)	10,094		

Source: Finance Accounts of last five years

The trend of major expenditure items under Revenue in Social and Economic Sector is shown below:





Source: Finance Accounts of last five years

Under Economic Sector, there is a huge increase in both Investment Support Scheme (Rythu Bandhu) and Assistance to TRANSCO for agricultural and allied subsidy in the current year. Under Social Sector, Aasara Pensions have increased from ₹1,368 crore in 2016-17 to ₹7,595 crore in 2020-21. Teaching Grants of Mandal Praja Parishads and Zilla Praja Parishads have shown a steady and slow increase across the years, while the Subsidy on Rice has decreased in the current year.

### 2.5.2.2 Committed Expenditure

Committed expenditure of the State Government on revenue account consists of expenditure towards interest payments, expenditure on salaries and wages and pensions. Increasing share of committed expenditure restricts Government's ability to incur developmental expenditure. **Table 2.15** presents the trends in the components of Committed Expenditure during 2016-21.

**Table 2.15: Components of committed expenditure**

(₹ in crore)					
Components of committed expenditure	2016-17	2017-18	2018-19	2019-20	2020-21
Salaries and Wages	21,586	22,671	23,011	24,195	24,654
Expenditure on Pensions	9,011	11,932	11,477	11,834	13,599
Interest Payments	8,609	10,836	12,586	14,386	16,841
<b>Total</b>	<b>39,206</b>	<b>45,439</b>	<b>47,074</b>	<b>50,415</b>	<b>55,094</b>
<b>As a percentage of Revenue Receipts (RR)</b>					
Salaries and Wages	26.06	25.52	22.69	23.59	24.43
Expenditure on Pensions	10.88	13.43	11.32	11.54	13.48
Interest Payments	10.40	12.20	12.41	14.03	16.69
<b>Total</b>	<b>47.34</b>	<b>51.15</b>	<b>46.42</b>	<b>49.16</b>	<b>54.60</b>

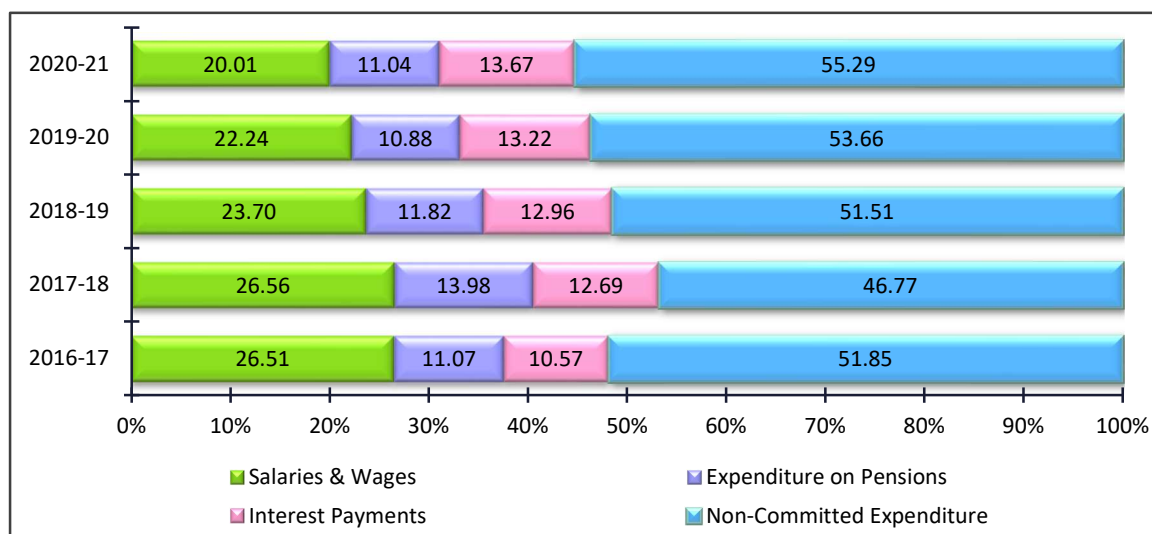
Source: Finance Accounts of last five years

Committed expenditure constituted about 54.60 per cent of the total revenue receipts during 2020-21. There was an increase in all the components of committed expenditure. Interest payments in particular, are increasingly consuming Revenue Receipts year after year. Interest payments were 10.40 per cent of RR in 2016-17 and increased to 16.69 per cent of Revenue Receipts in 2020-21. The continuous increase in committed expenditure and its share in Revenue Receipts results in lesser resource availability for non-committed expenditure (expenditure on development or welfare activities).

Greater reliance on market borrowings by Government in recent years has led to increased committed liabilities on interest payments. Consequently, interest Payments nearly doubled during the five-year period 2016-21. Relative to Revenue Receipts, interest payments increased by 2.66 *per cent* in comparison to previous year. In absolute terms, interest payments were higher by ₹2,455 crore over previous year. Pension payments also increased by ₹1,765 crore over previous year.

The share of committed expenditure in total Revenue Expenditure during the past five years is depicted in **Chart 2.12**.

**Chart 2.12: Share of committed expenditure in Revenue Expenditure during the period 2016-17 to 2020-21**



Source: Finance Accounts

Committed expenditure as a *percentage* of Revenue Expenditure has decreased during the current year (41.22 *per cent*) in comparison to the preceding year (46.68 *per cent*). The lesser share, despite higher committed expenditure in absolute terms (by ₹4,310 crore), indicates that the State Government has spent higher amounts on other non-committed expenditure.

### 2.5.2.3 Undischarged liabilities on account of National Pension System

Government of India introduced the ‘National Pension System’ applicable to all new entrants joining State Government Service on or after 1 September 2004. Under this system, employees contribute 10 *per cent* basic pay and dearness allowance, which is matched by the State Government, and both employee’s and employer’s contribution are initially transferred to Public Account (Major Head ‘8342-117-Defined Contributory Pension Scheme’). The State Government has the responsibility to deposit both employee’s and employer’s share with the designated authority i.e., National Securities Depository Limited (NSDL)/trustee bank for further investment as per the guidelines of National Pension System.

As on 01 April 2020, the National Pension System Deposit Account under Defined Contributory Pension Scheme for Government Employees had an opening balance of



₹269.86 crore. Receipts to the National Pension System Deposit Account during the year were ₹1,341.25 crore<sup>11</sup>. Of the available total of ₹1,611.11 crore, the Government transferred an amount of ₹1,324.13 crore to National Securities Depository Limited, leaving ₹286.98 crore<sup>12</sup> yet to be transferred.

As per provisions of the National Pension System, the Government has to match the contribution of the employees. There is a short contribution of ₹1.11 crore by the State Government to the fund in the year 2020-21. There is overall short contribution of ₹66.09 crore<sup>13</sup> by the Government during the last seven years. Consequently, the current liability stands deferred to future years. Further, the State Government has created an avoidable interest liability on the amount of ₹353.07 crore (short contribution by Government and amount yet to be transferred to National Securities Depository Limited).

On the bifurcation of the erstwhile combined State of Andhra Pradesh in 2014, a balance of ₹730.64 crore was available in the National Pension System Deposit Account of the composite Andhra Pradesh State, pending transfer to National Securities Depository Limited. This amount was to be apportioned between the successor States of Andhra Pradesh and Telangana. Of this amount, ₹365.21 crore was apportioned in 2018-19, with Telangana being allocated ₹134.60 crore, leaving an amount of ₹365.43 crore pending apportionment, which is yet (March 2021) to be settled.

#### 2.5.2.4 Subsidies

**Table 2.16** presents expenditure on subsidies for the five-year period 2016-17 to 2020-21.

**Table 2.16: Expenditure on subsidies**

	2016-17	2017-18	2018-19	2019-20	2020-21
Subsidies (₹ in crore)	5,935	5,899	6,304	6,846	9,566
Subsidies as a <i>percentage</i> of Revenue Receipts	7.17	6.64	6.22	6.68	9.48
Subsidies as a <i>percentage</i> of Revenue Expenditure	7.29	6.91	6.49	6.29	7.76

Source: Finance Accounts

Subsidies as a *percentage* of Revenue Receipts increased significantly from 6.68 *per cent* in 2019-20 to 9.48 *per cent* in 2020-21. As a *percentage* of Revenue Expenditure, it increased by 1.47 *percentage* points in 2020-21 (7.76 *per cent*) over the previous year (6.29 *per cent*). Power (78 *per cent*) and Civil Supplies (10 *per cent*) together constituted 88 *per cent* of the total Subsidies (₹8,398 crore).

- Increase in subsidies under Power was due to an increase in Assistance to Transmission Corporation of Telangana Limited for Agricultural and allied Subsidy (₹7,419.21 crore; an increase by ₹3,547 crore) and Roads, Buildings and Ports (₹600 crore; an increase by ₹140 crore on assistance to Telangana State Road Transport Corporation towards Reimbursement of concessions extended to various categories of citizens).

<sup>11</sup> Employee contribution: ₹670.38 crore (including ₹1.18 crore of Employees on Foreign Service and previous year balance of ₹2.39 crore), Government contribution: ₹669.27 crore and Foreign Employer contribution: ₹1.71 crore, totalling to ₹1,341.36 crore. There is a difference of ₹0.11 crore (₹1,341.36 crore - ₹1,341.25 crore), which is under investigation

<sup>12</sup> As of March 2021 in the NPS Deposit Account

<sup>13</sup> Employees contribution ₹3,255.37 crore (-) Government contribution ₹3,189.28 crore

- Decrease in subsidies under Civil Supplies was totally in Subsidy on Rice (Human Resources Development ₹979.33 crore), i.e., decrease by 27 per cent when compared to previous year (₹1,340.16 crore).
- Assistance to Transmission Corporation of Telangana Limited for Agricultural and allied subsidy is provided in the form of Grants-in-Aid also in respect of Special Component Plan for Scheduled Castes (₹1,545 crore) and Tribal Area sub-plan (₹908 crore). Thus, the expenditure on Assistance to Transmission Corporation of Telangana Limited for Agricultural and allied subsidy was treated partly as subsidies (₹7,419.21 crore) and partly as Grants-in-Aid (₹2,453 crore).

Apart from above, in other cases also the State Government continued providing subsidies in other forms such as 'Grants-in-Aid' and 'Other expenditure'. Illustrative examples are shown below:

- Power subsidy for industries (₹8 crore);
- Managerial subsidy to Telangana State Vikalangula Co-operative Corporation (₹7.8 crore);
- Managerial subsidy to Telangana State Scheduled Castes Co-operative Development Corporation (₹2.5 crore), etc.

As a result, the expenditure on subsidies is understated to that extent where the Government is providing subsidies through 'Grants-in-Aid' and 'Other expenditure'.

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

The State Government provided an amount of ₹54,283 crore to Local Bodies and other Institutions by way of Grants and Loans in 2020-21, which was significantly higher (₹9,316 crore) than in the preceding year.

**Table 2.17: Financial assistance to Local Bodies and Other Institutions**

(₹ in crore)

Name of the Institution	2016-17	2017-18	2018-19	2019-20	2020-21
<b>(A) Local Bodies</b>					
Urban Local Bodies: Municipal Corporations and Municipalities	608	798	1,542	1,359	3,785
Panchayat Raj Institutions: Zilla Praja Parishads, Mandal Praja Parishads and Gram Panchayats	7,489	6,376	5,996	7,273	8,542
<b>Total (A)</b>	<b>8,097</b>	<b>7,174</b>	<b>7,538</b>	<b>8,632</b>	<b>12,327</b>
<b>(B) Others</b>					
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	987	1,000	1,037	965	985
Development Authorities	119	291	236	154	246
Statutory Corporations	930	1,071	1,409	1,421	2,632
Co-operative Institutions	63	56	229	68	15
Non-Governmental Organisations	615	1,004	775	962	507
Other Institutions <sup>§</sup>	19,837	19,820	26,684	32,765	37,571
<b>Total (B)</b>	<b>22,551</b>	<b>23,242</b>	<b>30,370</b>	<b>36,335</b>	<b>41,956</b>
<b>Total (A+B)</b>	<b>30,648</b>	<b>30,416</b>	<b>37,908</b>	<b>44,967</b>	<b>54,283</b>

Name of the Institution	2016-17	2017-18	2018-19	2019-20	2020-21
Revenue Expenditure	81,432	85,365	97,083	1,08,798	1,23,212
<b>Assistance as percentage of Revenue Expenditure</b>	37.64	35.63	39.05	41.33	44.06

Source: Finance Accounts

<sup>s</sup> Other institutions which received ad-hoc or one-time grants during the year mainly towards investment support scheme (₹14,635 crore), Kalyana Lakshmi (₹1,656 crore), Aasara pensions (₹5,403 crore), Aasara pensions to old age persons and widows (₹1,723 crore), Samagra Siksha (₹1,135 crore), etc.

The overall increase in comparison to previous year was mainly due to increase in Investment Support Scheme by ₹3,430.74 crore, Finance Commission Grants to PR Bodies by ₹1,846.02 crore, State matching grant for Panchayat Raj Bodies by ₹1,206.80 crore, etc.

The increase in financial assistance to Urban Local Bodies was mainly due to Finance Commission Grants (₹1,272.11 crore), State matching grant to Finance Commission grants (₹885.19 crore) and construction of two bed room houses to urban poor (₹550.00 crore).

### Box 2.2: Formation of State Finance Commission

As stipulated in Article 23-I (1) read with 243Y (1) of the Constitution, the Governor of the State shall constitute a State Finance Commission within the period of one year from 73<sup>rd</sup> 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). The Chairman and a member were appointed almost three years later, only in January 2018. However, no formal orders were issued by Government indicating the terms of reference. The State Finance Commission adopted the provisions of Article 243-Y read with section 250 Telangana State Panchayat Raj Act, 2018 and completed the assignment for the award period 2020-21 to 2024-25. The report was submitted to the Government in October 2020 and the approval of Government is awaited (October 2021).

The Government stated (January 2022) that the final report is under examination and the funds were being released based on interim Report.

## 2.5.3 Capital Expenditure

Capital Expenditure is incurred for acquisition and creation of capital assets. It also includes 'Repayment of loans; and 'Discharge of Internal Debt' as it reduces liability. Capital Expenditure during the year 2020-21 (₹15,922 crore) was lower (six per cent) than that of the preceding year (₹16,859 crore).

### 2.5.3.1 Major changes in Capital Expenditure

Significant increase or decrease under various Heads of Account in Capital Expenditure during 2020-21 vis-à-vis previous year is shown in **Table 2.18**.

**Table 2.18: Capital Expenditure – comparison between 2019-20 and 2020-21**

(₹ in crore)

Major Heads of Accounts	2019-20	2020-21	Variation
<b>Increase</b>			
<b>Social Sector</b>			
4515- Capital outlay on Other Rural Development Programmes	1,008	2,479	1,471
4215- Capital outlay on Water Supply and Sanitation	744	1,042	298
4202- Capital outlay on Education, Sports, Art and Culture	282	531	249
<b>Economic Sector</b>			
5054 - Capital outlay on Roads and Bridges	957	1,151	194
4406 – Capital outlay on Forestry and Wild Life	62	161	99
<b>Decrease</b>			
<b>Social Sector</b>			
4225-Capital Outlay on Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities	481	254	(-)227
<b>Economic Sector</b>			
4801 - Capital outlay on Power Projects	2,000	0	(-)2,000
4700 - Capital outlay on Major Irrigation	8,375	6,976	(-)1,399
5475 - Capital outlay on Other General Economic Services	794	742	(-)52
4875 - Capital outlay on Other Industries	63	16	(-)47

Source: Finance Accounts

The decrease in Capital Expenditure during the year 2020-21 was mainly due to decrease under Power Projects (₹2,000 crore) and Major Irrigation (₹1,399 crore). Decrease under Power Projects was due to no additional Investments in DISCOMs. Decrease under Major Irrigation was mainly due to less expenditure on Kaleshwaram Project (₹490 crore) and Srisailam Left Bank Canal (Alemineti Madhava Reddy Project) (₹398 crore).

However, Capital expenditure was higher under few schemes / programmes like other Rural Development Programme like Mahatma Gandhi National Rural Employment Guarantee Act (₹1,352 crore), Pradhan Mantri Gram Sadak Yojana (₹197 crore) and Construction of Rural Roads (₹184 crore).

Our analysis of the data pertaining to the five-year period of 2016-21 revealed that major Capital expenditure occurred on the following schemes / sub-heads:

**Table 2.19: Major schemes / sub-heads where Capital Expenditure was significant during the past five years**

(₹ in crore)

Social Services		Economic Services	
Mission Bhagiratha	6,365	Investment in DISCOMs	17,619
National Rural Drinking Water Programme	1,703	Kaleshwaram Project	16,223
Swachh Bharath Mission (Gramin)	1,288	Palamuru – Ranga Reddy Lift Irrigation Scheme	10,010
		Mission Kakatiya	4,260
		Special Development Fund for welfare and development activities	3,183

Source: Finance Accounts of last five years

Apart from incurring Capital expenditure on its own through budget, the State Government, however, has been also implementing its flagship projects/schemes like Kaleshwaram and

Mission Bhagiratha through Off-Budget Borrowings (refer to *paragraph 2.7.2* for further details) obtained by Special Purpose Vehicles.

### **Box 2.3: Capital Expenditure on purchase of surgical consumables**

We observed in the State Finances Audit Reports, for the past few years, that the expenditure on purchase of surgical consumables was being incorrectly booked and classified as capital expenditure resulting in understatement of Revenue Expenditure and overstatement of Capital Expenditure. In the current year also, the trend continued and an amount of ₹1.50 crore was booked under capital (refer to *paragraph 3.4.9.2 (ii)*).

We observed that the total progressive Capital expenditure as of March 2021 on this account was ₹129.82 crore. Such incorrect classification of Revenue expenditure as Capital expenditure makes it difficult / impossible to identify the assets in future.

### **2.5.3.2 Quality of Capital Expenditure – Investments**

Capital Expenditure in the Companies, Corporations, and other bodies, which are loss making (or where net worth is eroded) have less chances of providing returns. Return on investment in Share Capital invested in PSUs and prompt recoveries of loans given to various bodies are important determinants in quality of Capital Expenditure.

As of 31 March 2021, the State Government's investments stood at ₹21,826 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives. Government of Telangana invested a meagre amount of ₹18.92 crore in five entities during the year 2020-2021. These investments were mainly in (i) Ramagundam Fertilizers and Chemicals Limited (₹14.00 crore), (ii) Handicraft Development Corporation Limited (₹2.00 crore), (iii) Telangana Vikalangua Cooperative Corporation (₹1.39 crore) and (iv) Telangana State Leather Industries Promotion Corporation (₹1.20 crore).

However, these were not confirmed by the departments concerned and the investee entities. The information, furnished to us by the institutions differs from the details in Finance Accounts (refer to *paragraph 4.15* for further details). Details of investments made by the Government are shown in *Table 2.20*:

**Table 2.20: Return on Investment**

Investment/return/ cost of borrowings	2016-17	2017-18	2018-19	2019-20	2020-21
Investment at the end of the year (₹ in crore)	13,075	16,365	19,754	21,807	21,826
Return on Investment (₹ in crore)	70	101	94	115	94
Return on investment in <i>per cent</i>	0.54	0.62	0.48	0.53	0.43
Interest paid on Government Borrowings (₹ in crore)	8,609	10,836	12,586	14,386	16,841
Average rate of interest on Government Borrowings ( <i>per cent</i> )	7.40	7.21	6.93	6.70	6.60
Difference between return on investment) <sup>#</sup> and interest on Government borrowings (₹ in crore)	(-8,539)	(-10,735)	(-12,492)	(-14,271)	(-16,747)
Difference between return and interest rate ( <i>per cent</i> )	(-6.86)	(-6.59)	(-6.45)	(-6.17)	(-6.17)

Source: Finance Accounts;

<sup>#</sup> Investment at the end of the year

**Return on Investment in these Companies/ Corporations has been consistently low.**

The investments made by the Government, as at the end of the year, have increased from ₹13,075 crore in 2016-17 to ₹21,826 crore in 2020-21. However, there is no marked increase in Return on Investment from the Companies/ Corporations.

Investments made and loans given to Companies, Corporations and Co-operatives, which are loss making and whose net worth is completely eroded, affect quality of Capital Expenditure.

The net worth of 15 Companies / Corporations was (-)₹49,142.76 crore, this means that their capital has eroded completely (refer to *paragraph 5.7.2* for further details). As per finance accounts, the State Government has an investment of ₹18,838.17 crore in five<sup>14</sup> of them as equity.

**2.5.3.3 Quantum and quality of loans disbursed and recovered**

Government provides Loans and Advances to State Public Sector Undertakings, Local Bodies and Autonomous Bodies. *Table 2.21* presents the details of outstanding Loans and Advances during the years 2016-21:

**Table 2.21: Quantum of loans disbursed and recovered during 2016-17 to 2020-21**

(₹ in crore)

Quantum of loans disbursed and recovered	2016-17	2017-18	2018-19	2019-20	2020-21
Opening Balance of loans outstanding	6,552	9,798	15,869	24,509	33,147
Amount advanced during the year	3,402	6,209	8,706	8,700	10,868
Amount recovered during the year	156	138	66	62	58
Closing Balance of the loans outstanding	9,798	15,869	24,509	33,147	43,957
Net addition	3,246	6,071	8,640	8,638	10,810
Interest received	105	84	7	6	6
Interest rate on Loans and Advances given by the Government	1.07	0.53	0.03	0.02	0.01
Rate of Interest paid on the outstanding borrowings of the Government	7.40	7.21	6.94	6.70	6.60
Difference between the rate of interest received and interest paid ( <i>per cent</i> )	(-)6.33	(-)6.68	(-)6.91	(-)6.68	(-)6.59

Source: Finance Accounts

- Loans and Advances to Autonomous Bodies and Corporations (₹10,868 crore) in 2020-21 have increased when compared to previous year (₹8,700 crore). This was, however, significantly lower (by ₹4,794 crore) than Budget Estimates of ₹15,662 crore. Major portion of loans were disbursed for projects relating to Water Supply, Sanitation, Housing and Urban Development (₹4,563 crore)<sup>15</sup> as well as Irrigation and Flood

<sup>14</sup> Two DISCOMs: ₹17,618.89 crore, Telangana State Road Transport Corporation: ₹1,219.00 crore, Telangana Rajiv Swagruha Corporation Limited: ₹0.03 crore, Telangana State Housing Corporation Limited: ₹0.25 crore

<sup>15</sup> Mainly on account of Loans to Telangana Drinking Water Supply Corporation Limited (₹2,701.47 crore); Loans to Hyderabad Metropolitan Water Supply and Sewerage Board (₹891.02 crore) and Loans to Financial Institutions (₹875.06 crore)



Control (₹2,643 crore)<sup>16</sup>, Agriculture and allied services (₹1,325 crore)<sup>17</sup>, Road Transport (₹964 crore)<sup>18</sup>, Energy (₹628 crore)<sup>19</sup>, Health and Family Welfare (₹360 crore)<sup>20</sup>, Industry and Minerals (₹268 crore)<sup>21</sup>. Total Loans and Advances given up to 31 March 2021 was ₹43,957 crore.

- Out of the ₹10,868 crore loans provided during 2020-21, an amount of ₹9,331.29 crore was towards interest payments/principal repayments in respect of loans taken by various institutions, for implementing Government schemes/projects. Hence, these are in the nature of interest payments/ principal repayments pertaining to Off-Budget Borrowings (OBBs). A similar observation was made in State Finances Audit Report of the Comptroller and Auditor General of India for the year 2019-20 also.

In fact, these loans do not reflect a true picture of Government assets (i.e., loans recoverable). Consistently booking discharge of its liabilities on account of Off-Budget Borrowings as loans provided creates a misperception between actually recoverable loans and discharge of its own liabilities. This seriously impacts the transparency in Government Accounts and misrepresents Government assets.

**We strongly recommend that the State Government should discontinue classifying discharge of liabilities on account of Off-Budget Borrowings as loans given and thus, as Government assets.**

- Further, during the past four years, significant amounts of loans were given to institutions for loan repayment which were taken earlier for implementation of Government schemes and to others which did not have definite revenue resources, as shown in **Table 2.22**:

<sup>16</sup> Mainly on account of Loans to Kaleshwaram Corporation (₹1,647.13 crore) and Telangana State Water Resources Infrastructure Development Corporation Limited (₹995.91 crore)

<sup>17</sup> Mainly on account of Loans to Telangana State Sheep and Goat Development Cooperative Federation Limited (₹797.31 crore) and Loans to Horticulture Development Corporation (₹300.43 crore)

<sup>18</sup> Mainly on account of Loans to Telangana State Road Development Corporation (₹563.84 crore) and Loans to Telangana State Road Transport Corporation (₹400.00 crore)

<sup>19</sup> Mainly on account of interest / repayment loans of Power Finance Corporation Bonds (₹375.31 crore) and Loans to Telangana TRANSCO for High Voltage Distribution System (₹252.41 crore)

<sup>20</sup> On account of Loans to Arogyasri Health Care Trust (₹360.06 crore)

<sup>21</sup> On account of repayment of Loans of Telangana State Industrial Infrastructure Corporation (₹268.10 crore)

**Table 2.22: Loans given during 2017-18 to 2020-21 to institutions for repayment of loans / which do not have definite stream of revenue resources**

(₹ in crore)

Sl. No.	Institution	Amount (as of March 2021)
<b>Loans given to institutions for repayment of loans in connection with implementation of Government Schemes</b>		
1	Telangana Drinking Water Supply Corporation Limited for Mission Bhagiratha	7,972.67
2	Telangana State Sheep and Goat Development Cooperative Federation Limited	2,166.65
3	Hyderabad Metropolitan Water Supply and Sewerage Board	3,057.02
4	Telangana State Industrial Infrastructure Corporation	538.40
5	Power Finance Corporation Bonds	1,183.59
<b>Loans given to institutions, not having definite stream of revenue resources for repayment of loans</b>		
1	Telangana State Scheduled Castes Cooperative Development Corporation Ltd	3,000.00
2	Telangana State Scheduled Tribes Cooperative Finance Corporation Limited	1,700.00
3	Arogyasri Health Care Trust	2,506.32

Source: Finance Accounts

- Government has not been stipulating important aspects like rate of interest, time period for repayment, number of instalments, etc. while providing loans to institutions. As a result the recovery of loans and interest recovery has been consistently very low during the past few years.
  - The Government was able to recover loans primarily from Government Servants only. This constituted 98 *per cent* (₹56.90 crore) of the recovered loans (₹58.16 crore). The recovery from major institutions was a meagre ₹1.26 crore under 'Loan assistance for integrated Co-operative Development projects'.
  - Even out of ₹5.50 crore interest received, ₹5.35 crore was from Government servants. Only a paltry sum of ₹0.15 crore was from loans given under Social and Economic sectors.

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

- State Government has provided ₹891.02 crore during 2020-21 as Loan to Hyderabad Metropolitan Water Supply and Sewerage Board, which has not submitted its annual accounts for more than a decade (from 2010-11 onwards). Despite this, the State Government continued to provide loans to it. The cumulative loan provided was ₹7,648.32 crore as of March 2021. Similarly, Telangana State Vaidya Vidhana Parishad whose accounts have been in arrears since 2014-15 has been provided with a cumulative loan of ₹528.16 crore as of March 2021.

State Government may predicate further extension of loans depending on submission of annual accounts by institutions.

#### 2.5.3.4 Capital blocked in Ongoing Projects

Blocking of funds on incomplete Projects/Works impinges the quality of expenditure. Further, the funds borrowed for implementation of these projects during the respective years leads to extra burden in terms of servicing of debt and interest liabilities.



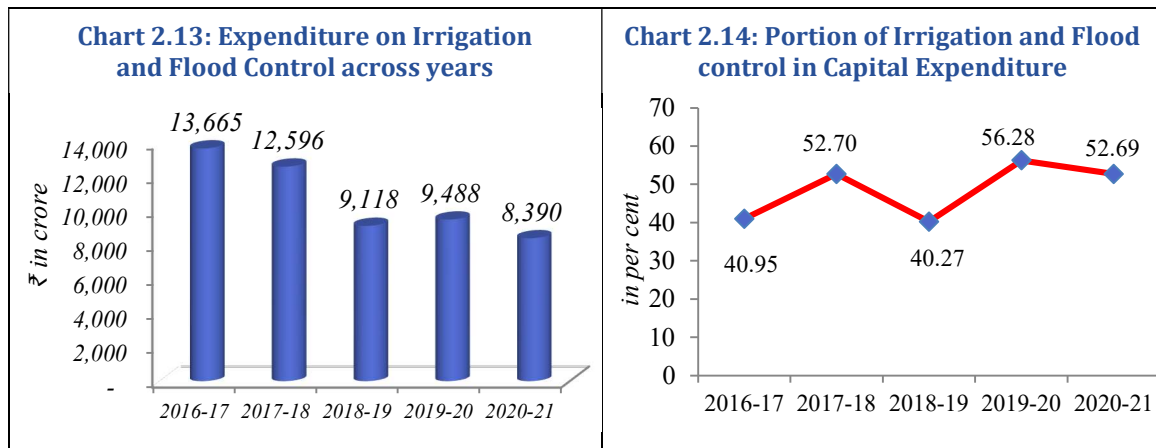
As per the information furnished by the State Government, 444 projects / works were ongoing and an expenditure of ₹1,53,635.85 crore was incurred on them as of 31 March 2021. The age-wise and Department/wing wise profile is shown in **Table 2.23** and **Table 2.24**.

Ongoing Project / work commenced in the year	No. of ongoing Projects / works	Estimated cost (₹ in crore)	Expenditure (₹ in crore)
up to 2013-14	26	66,144.57	1,23,430.41
2014-15	10	79.22	45.96
2015-16	45	8,741.75	5,700.81
2016-17	55	52,296.15	22,584.40
2017-18	41	1,998.25	741.79
2018-19	145	2,824.90	827.41
2019-20	27	384.76	126.20
2020-21	95	1,790.81	178.87
<b>Total</b>	<b>444</b>	<b>1,34,260.41</b>	<b>1,53,635.85</b>

Department/ Wing	No. of ongoing projects / works	Estimated cost (₹ in crore)	Expenditure (₹ in crore)
Roads	353	5,263.69	1,776.36
Bridges	35	92.55	44.62
Buildings	17	18.75	5.92
Irrigation	24	1,16,823.02	1,44,398.59
Others	54	12,062.40	7,410.36
<b>Total</b>	<b>444</b>	<b>1,34,260.41</b>	<b>1,53,635.85</b>

Source: Finance Accounts

Capital expenditure incurred during the five-year period 2016-17 to 2020-21 ranged from 10.61 per cent to 28.22 per cent of the Total Expenditure. An amount of ₹1,12,695 crore was spent on capital projects during this period. Within the capital projects, the major share of Capital expenditure (52.69 per cent) was on Irrigation and Flood Control (₹53,257 crore). Capital outlay on Irrigation and Flood Control and its share in total Capital Expenditure of the Government are shown in **Chart 2.13** and **Chart 2.14**.



Source: Finance Accounts

There were 24 ongoing irrigation projects (commenced between 1983 to 2017) as of March 2021. The original cost of these projects was revised from ₹1,16,823.02 crore to ₹2,19,859.33 crore i.e., an escalation by ₹1,03,036.31 crore (88.19 per cent). An expenditure of ₹1,44,398.59 crore was incurred on these projects as of March 2021. In addition to this, as per Appendix IX of the Finance Accounts, the Government has a pending liability of ₹9,523.13 crore in respect of 18 ongoing irrigation projects.

Irrigation projects are taken up and approved on the basis of data that supports an implicit assumption that the benefits of the project will outweigh the costs. Non-completion of projects deprives the State of 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 public investments in Irrigation and Flood control.

In respect of other Departments, 300 projects / works<sup>22</sup> with an estimated cost of ₹6,922.19 crore remained incomplete and an expenditure of ₹3,410.39 crore was incurred as of March 2021 on these delayed projects. In addition to this, as per Appendix IX of the Finance Accounts, the Government has a pending liability of ₹671.08 crore in respect of 230 other ongoing projects / works<sup>23</sup>.

#### **2.5.3.5 Implementation of Ujwal DISCOM Assurance Yojana – non-discharge of commitments under the scheme**

Government of India introduced (November 2015) Ujwal DISCOM Assurance Yojana (UDAY) for financial turnaround of State Power Distribution Companies (DISCOMs). The participating States shall have to achieve operational and financial turnaround of DISCOMs as per UDAY scheme Guidelines.

In terms of the scheme, the Government of Telangana signed a tripartite Memorandum of Understanding (January 2017) with the GoI and DISCOMs. As per the Memorandum of Understanding, the State Government had to take over 75 per cent (₹8,923 crore) of outstanding debt (₹11,897 crore) of the DISCOMs as on 30 September 2015. Further, the State Government was also to take over the further losses in the following manner:

- 5 per cent of the loss of 2016-17 in the year 2017-18;
- 10 per cent of the loss of 2017-18 in the year 2018-19;
- 25 per cent of the loss of 2018-19 in the year 2019-20; and
- 50 per cent of the loss of previous year in the year 2020-21.

For taking over of 75 per cent of DISCOMs' outstanding debt, State Government borrowed an amount of ₹8,931.51 crore through UDAY bonds. It however, released only ₹7,723 crore<sup>24</sup> to DISCOMs leaving a further commitment of ₹1,200 crore<sup>25</sup> undischarged. Further, the Energy Department also issued Orders for takeover of further losses as shown in **Table 2.25**:

<sup>22</sup> (i) 248 Road works with an estimated cost of ₹4,501.72 crore on which ₹1,505.96 crore was spent (ii) 32 Bridge works with an estimated cost of ₹80.18 crore on which ₹43.18 crore was spent (iii) 15 Building works with an estimated cost of ₹16.75 crore on which ₹5.32 crore was spent and (iv) 5 Water Supply Schemes and other projects / works with an estimated cost of ₹2,323.54 crore on which ₹1,855.93 crore was spent

<sup>23</sup> (i) 162 Road works with pending payment of ₹179.42 crore (ii) 27 Bridge works with pending payment of ₹16.55 crore (iii) 15 Building works with pending payment of ₹4.03 crore; and (iv) 26 Water Supply Schemes and other projects / works with pending payment of ₹471.08 crore

<sup>24</sup> please refer to paragraph 2.8 of Report of the Comptroller and Auditor General of India on Public Sector Undertakings for the year ended March 2019 on Government of Telangana for further details

<sup>25</sup> Calculation: ₹8,923 crore (-) ₹7,723 crore

**Table 2.25: Orders issued for discharge of commitment of Ujwal DISCOM Assurance Yojana**

(₹ in crore)			
Sl. No.	Description	Order dated	Amount of loss to be taken over
1	05 per cent of the losses of 2016-17	November 2017	310.44
2	10 per cent of the losses of 2017-18	August and December 2018	548.53
3	25 per cent of the losses of 2018-19	August 2019 and January 2020	2,004.68
4	50 per cent of the losses of 2019-20	November 2020	3,028.00
<b>Total</b>			<b>5,891.65</b>

Source: Government Orders concerned

However, as per the Accounts of the State Government, no amounts were released during the years 2018-19 to 2020-21. Thus, the accumulated commitment of ₹7,091.65 crore of the Government for taking over losses of DISCOMs under the UDAY scheme as agreed in the tripartite agreement remained undischarged as of end of March 2021. The current commitments stand postponed to future years besides non-achievement of DISCOMs' financial turnaround as envisaged under UDAY scheme.

#### 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<sup>26</sup> is given below:

**Table 2.26: Expenditure priority of the State with regard to Health, Education and Capital Expenditure**

(in per cent)							
	TE/ GSDP	SSE / TE	ESE / TE	DE / TE	CE / TE	Education/ TE	Health/ TE
Average of General States (2016-17)	17.12	35.81	35.16	70.97	19.77	14.93	5.49
Telangana (2016-17)	<b>17.96</b>	<b>34.89</b>	<b>43.20</b>	<b>78.08</b>	<b>31.14</b>	<b>10.11</b>	<b>4.62</b>
Average of General States (2020-21)	16.18	37.81	28.48	66.29	13.03	15.00	6.74
Telangana (2020-21)	<b>15.30</b>	<b>36.98</b>	<b>36.10</b>	<b>73.08</b>	<b>17.86</b>	<b>8.36</b>	<b>4.24</b>

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,

- As a percentage of Gross State Domestic Product, the Total Expenditure of Telangana, which was higher than the average of General States in 2016-17 by 0.84 percentage points, has declined and in 2020-21 it was 0.88 percentage points lower than General States.

<sup>26</sup> 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 proportion of expenditure on Development (i.e., expenditure on Economic and Social Sectors) to Total expenditure of Telangana has been higher than the average of other General States. This shows that the State gave higher priority to Development Expenditure.
- The State has, however, been persistently trailing in respect of expenditure on Education and Health when compared to the other General States. This was reported in the State Finances Audit Reports of the Comptroller and Auditor General of India in the earlier years also. In fact, the gap between General States and Telangana is increasing, which could be a matter of concern from the social perspective.

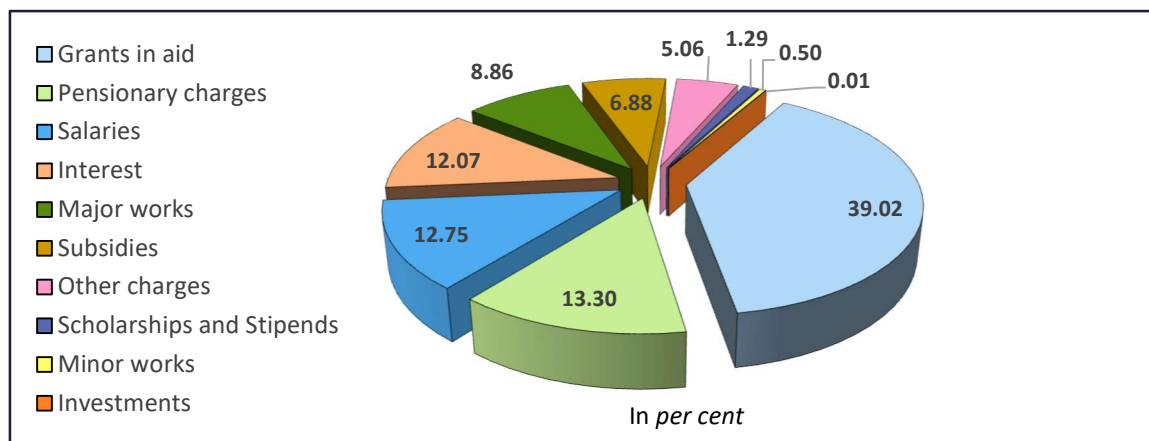
The Government stated (January 2022) that considering expenditure on Universities, BC Welfare, Forest College, Health Education, Minority Welfare, Social Welfare and Tribal Welfare, the expenditure as a percentage of total expenditure would be 14.02 in 2016-17 and 10.65 in 2020-21. The reply is not tenable as even after the above considerations, Telangana is still behind General States.

- As mentioned earlier in this Chapter, capital expenditure witnessed decline during 2020-21, but was higher than that of General States.

### 2.5.5 Object-wise expenditure

The following chart on object-wise expenditure gives the purpose or object of expenditure.

**Chart 2.15: Object-wise expenditure**



Source: Finance Accounts

As can be seen from the Chart, most of the expenditure was in the form of Grants-in-Aid followed by expenditure on Pensions, Salaries and Interest. Expenditure on Minor works and Investments is very less.

### 2.6 Public Account

Receipts and Disbursements in respect of certain transactions such as Small Savings, Provident Funds, Reserve Funds, Deposits, Suspense, Remittances etc., which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266(2) of the Constitution. These are not subject to vote by the State Legislature. The Government

acts as a banker in respect of these funds. The balance after disbursements during the year is the fund available to the Government for use for various purposes.

### 2.6.1 Net Public Account Balances

Component-wise net balances (increase / decrease) in Public Account as of 31 March of the year during the five-year period 2016-17 to 2020-21 are given in **Table 2.27**.

**Table 2.27: Component-wise net balances (increase (+) / decrease (-) in Public Account (as of 31 March of the year)**

(₹ in crore)

Sector and Sub-Sector	2016-17	2017-18	2018-19	2019-20	2020-21
Small Savings, Provident Funds, etc.	1,069	976	845	783	945
<b>Reserve Funds</b>					
a) Reserve Funds bearing interest	(-111)	(-41)	288	3,226*	226
b) Reserve Funds not bearing interest	551	319	1,242	1,127	548
<b>Deposits</b>					
a) Deposits bearing interest	433	216	121	140	180
b) Deposits not bearing interest	1,478	5,645	2,976	1,266	4,901
c) Advances	7	(-1)	3	0.01	0
<b>Suspense and Miscellaneous</b>					
a) Suspense	(-50)	(-39)	113	292	(-229)
b) Other Accounts	504	(-534)	(-773)	5	(-3)
c) Accounts with Governments of Foreign Countries	(-0.02)	(-0.02)	(-0.03)	(-0.02)	(-0.02)
d) Miscellaneous	--	--	--	--	--
<b>Remittances</b>					
a) Money Orders and other Remittances	151	(-116)	126	34	(-5)
b) Inter-Governmental adjustment account	(-306)	1,422	(-11)	(-27)	(-27)
<b>Total</b>	<b>3,726</b>	<b>7,847</b>	<b>4,930</b>	<b>6,846</b>	<b>6,536</b>

Source: Finance Accounts

\* The increase in Reserve Funds bearing interest in 2019-20 was due to establishment of a new Reserve Fund viz., State Compensatory Afforestation Fund

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

### 2.6.2 Reserve Funds

Reserve Funds are created for specific and defined purposes. These are funded by contributions / Grants from Consolidated Fund of the State. Out of the gross accumulated balance of ₹12,815.39 crore lying in these Funds as on 31 March 2021, an amount of ₹7,397.20 crore was invested in Government of India Securities, leaving a net accumulated balance of ₹5,418.19 crore<sup>27</sup>.

The transactions during the year 2020-21 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 loans and debt obligations. The fund is managed by the Reserve Bank of India.

<sup>27</sup> Reserve Funds bearing Interest: ₹3,829.93 crore and Reserve Funds not bearing Interest: ₹1,588.26 crore

As per the guidelines<sup>28</sup>, the State Government may contribute annually to the Consolidated Sinking Fund at 0.50 *per cent* of the outstanding liabilities at the end of the previous financial year. Accordingly, ₹1,160.90 crore was to be contributed in 2020-21 on the outstanding liabilities of ₹2,32,180.90 crore as at the end of 2019-20. However, the State Government did not make any contribution in 2020-21. An interest of ₹467.57 crore was earned through the amounts invested from Consolidated Sinking Fund. Thus, the total addition to Consolidated Sinking Fund during the year was ₹467.57 crore and it fell short of the annual contribution by ₹693.33 crore. As of 31 March 2021, the balance in Sinking Fund was ₹6,108.99 crore, of which ₹6,068.52 crore was invested.

Government replied (January 2022) that the contribution would be made every year keeping in view the Ways and Means position.

### 2.6.2.2 State Disaster Response Fund

Government of India replaced the erstwhile Calamity Relief Fund with the State Disaster Response Fund (SDRF) with effect from 1 April 2010. As per the guidelines of the Fund, Government of India and State Governments are required to contribute to the Fund in the proportion of 75:25 respectively.

The contributions are to be transferred to the Public Account under Major Head of Account – 8121. Expenditure during the year is incurred by initially operating Major Head – 2245-Relief on account of Natural Calamities and later adjusted to Public Account. The SDRF is used for meeting expenditure for providing immediate relief to the victims of cyclone, drought, earthquake, fire, flood, tsunami, hailstorm, landslide, avalanche, cloud burst etc.

The amount available in State Disaster Response Fund as of 1 April 2020 was ₹977.67 crore. During 2020-21, Government of India contributed ₹449 crore and State Government contributed its share of ₹149.67 crore to the fund. Out of ₹1,576.34 crore available in the Fund, an amount of ₹21.03 crore was utilised, leaving a balance of ₹1,555.31 crore in the Fund.

#### **Box 2.4: Adjustment to State Disaster Response Fund on account of Covid -19 Pandemic**

Government of India, by way of special one-time dispensation for the year 2020-21 allowed (September 2020) the State Governments to utilise State Disaster Response Fund for procurement of essential equipment / setting up of testing laboratories for response to Covid-19 Pandemic and to take measures for quarantine, sample collection and screening with an overall cap of 50 *per cent* of annual allocation of the State Disaster Response Fund. The Government of India further allowed (March 2021) the States to utilize up to 10 *per cent* of opening balance in State Disaster Response Fund as on 01 April 2020 by way of one-time special dispensation for Covid-19 containment measures during 2020-21 in addition to the utilisation of 50 *per cent* of allocation allowed earlier.

As such the State could have utilised, (i) an amount of ₹97.77 crore, being 10 *per cent* of the opening balance (₹977.67 crore) and (ii) an amount of ₹299.34 crore, being

<sup>28</sup> G.O.Ms.No.3, Finance (DCM), dated 11 June 2014 on Revised Scheme of Consolidated Sinking Fund



50 per cent of ₹598.67 crore (including Central and State's share) allocated to the fund during the year, totaling to ₹397.11 crore towards Covid-19 Pandemic measures.

However, the amount adjusted as disbursements from State Disaster Response Fund was only ₹21.03 crore during the year. Thus, the State Government had foregone an opportunity to adjust ₹376.08 crore to State Disaster Response Fund. Out of this, an amount of ₹282.06 crore (75 per cent), could have been to the Government of India's share, as per the funding pattern of State Disaster Response Fund.

Further, as per paragraph 3 (ii) of State Disaster Response Fund guidelines, a State Government may use up to 10 per cent of the funds available under the State Disaster Response Fund for providing immediate relief to the victims of natural disasters that they consider to be 'disasters' within the local context in the State and which are not included in the list of disasters of the Ministry of Home affairs subject to the condition that the State Government has listed the State specific natural disasters and notified clear and transparent norms and guidelines for such disasters with the approval of the State Authority i.e., State Executive Authority. However, we did not find any amount adjusted to SDRF towards local natural disasters during the year, as per Finance Accounts.

### 2.6.2.3 Guarantee Redemption Fund

As per guidelines of Reserve Bank of India, Government of Telangana created<sup>29</sup> (June 2014) a Guarantee Redemption Fund to meet its obligations pertaining to the guarantees given by the Government on the borrowings taken by bodies such as Public Sector Undertakings, Special Purpose Vehicles, etc., in case of default by the borrower.

- As per the guidelines (June 2014), the State Government may contribute 0.50 per cent on the guarantees outstanding as on 31 December every year, so that the minimum level of three per cent is achieved during the subsequent five years. The Guarantee Redemption Fund is to be gradually increased to a desirable level of five per cent. Accordingly, ₹525.03 crore was to be contributed in 2020-21 on the outstanding value (₹1,05,007 crore) of Guarantees. State Government, however, has not made any contribution in the year 2020-21. Thus, there was a shortfall of ₹525.03 crore in contribution to the Guarantee Redemption Fund.
- State Government contributed ₹83.94 crore to Guarantee Redemption Fund initially in 2015-16 and thereafter did not contribute in 2016-17 and 2017-18. It contributed ₹200 crore and ₹300 crore in 2018-19 and 2019-20 respectively. Again there was no contribution in 2020-21. Thus, there is inconsistency on the part of the State Government in Guarantee Redemption Fund contributions.
- As mentioned above, a minimum level of three per cent was to be achieved in five years after creation of Guarantee Redemption Fund (2014). Accordingly, Guarantee Redemption Fund should have an amount of ₹3,150.21 crore (i.e., three per cent on ₹1,05,007 crore). However, the total available balance in the fund as of March 2021

<sup>29</sup> G.O. Ms. No. 4, Finance (DCM), dated 11.06.2014

was ₹1,324.92 crore<sup>30</sup>, which is only 1.26 *per cent* of the outstanding amount of Guarantees. Thus, the Guarantee Redemption fund is underfunded to the extent of ₹1,825.29 crore, even after seven years of its inception.

- In addition to the income accrued to the fund, the accretions by way of Guarantee Commission realised during the preceding year from the institutions etc., to which guarantee was issued, would also be transferred to the Fund account, during the succeeding year. The State Government received an amount of ₹340 crore as Guarantee Commission during 2018-19, which was required to be transferred to the Guarantee Redemption Fund during 2019-20. However, this was not done either in 2019-20 or 2020-21. As a result, the Guarantee Redemption Fund is underfunded to that extent.

Government replied (January 2022) that the contribution would be made every year keeping in view of the Ways and Means position.

#### **2.6.2.4 State Compensatory Afforestation Fund**

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

There was an opening balance of ₹2,609.12 crore at the beginning of the year 2020-21. During the year, no amount was received into the State Compensatory Afforestation Fund. An amount of ₹352.07 crore was disbursed out of the fund leaving a balance of ₹2,257.05 crore at the end of the year.

Principal Chief Conservator of Forests informed (October 2021) that an amount of ₹124.17 crore receivable from user agencies into the State Compensatory Afforestation Fund during the year 2020-21 was remitted to National Fund, as the payment gateway at State level was under establishment. An amount of ₹92.68 crore pertaining to 2019-20 was also remitted to National Fund last year. Further details in this regard are given in **Paragraph 4.2.**

## **2.7 Debt Management**

Debt management is the process of establishing and executing a strategy for managing the Government debt in order to raise the required amount of funding, mitigate risk and achieve cost objectives, and to meet any other sovereign debt management goals that the Government may have set through enactment or any other annual budget announcements.

### **2.7.1 Debt profile: Components**

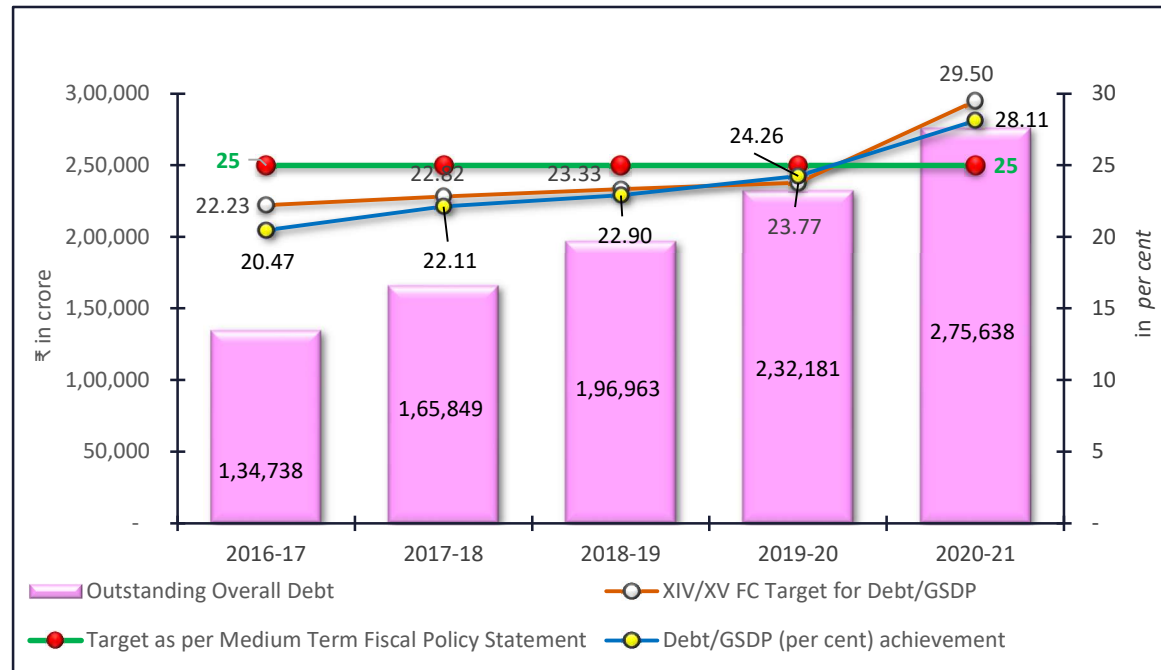
Total debt of the State Government comprises (i) Internal debt of the State (Market Loans, Ways and Means Advances from Reserve Bank of India, special securities issued to National Small Savings Fund and Loans from Financial Institutions, etc.), (ii) Loans and Advances from the Central Government, and (iii) Public Account Liabilities.

<sup>30</sup> including interest earned of ₹100.87 crore during the year



The total outstanding debt of the State Government at the end of 2020-21 was ₹2,78,018 crore<sup>31</sup>. The trend of outstanding debt and ratio of debt to Gross State Domestic Product during the period 2016-21 is given in **Chart 2.16**.

**Chart 2.16: Trend of total outstanding Debt**



Source: Finance Accounts

Note 1: The Fifteenth Finance Commission in its interim report for 2020-21 did not mention any target. Hence, the figures mentioned in its full report for 2021-26 have been considered, which is 5.73 percentage points higher than Fourteenth Finance Commission projections for 2019-20

Note 2: The figures of ₹2,75,638 crore in 2020-21 excludes ₹2,380 crore of back-to-back loans in lieu of GST compensation shortfall, which need not be repaid by the State Government

The outstanding liabilities (excluding back-to-back loans in lieu of GST compensation shortfall) grew by 18.72 per cent over the previous year. As per Fifteenth Finance Commission recommendations, the total outstanding Debt to Gross State Domestic Product ratio should be between 29.00 to 29.70 during the period 2020-21 to 2025-26. For the year, 2020-21, the Fifteenth Finance Commission recommended that the Debt to Gross State Domestic Product ratio should be less than 29.50 per cent for Telangana. Thus, a comparison of achievement for Debt-Gross State Domestic Product is being made as per the recommendations of the Fifteenth Finance Commission for the year 2020-21.

As per the Accounts, the State has achieved the target as prescribed by Fifteenth Finance Commission restricting the Debt – Gross State Domestic Ratio to 28.11 per cent. This ratio, however, exceeded the limit of 25 per cent as targeted by the State Government itself, in Medium Term Fiscal Policy Statement presented to the State Legislature along with budget documents.

<sup>31</sup> This includes ₹2,380 crore of back-to-back loans in lieu of GST compensation shortfall, which is borrowed by GoI and would be serviced by it from out of GST compensation Cess and the repayment obligation need not be met from the other resources of the State

Telangana State Fiscal Responsibility and Budget Management (TSFRBM) Act, considered “total liabilities” as the liabilities under the Consolidated Fund and Public Account of the State and shall include borrowings by Public Sector Undertakings and the Special Purpose Vehicles and other equivalent instruments including guarantees where the principal and/or interest are to be serviced out of State budgets. The Fifteenth Finance Commission<sup>32</sup> (November 2019) for the year 2020-21, has noted the tendency of Governments to borrow outside the Consolidated Fund, leading to accumulation of extra-budgetary liabilities. It suggested that the Governments should comply with the recommended path of debt consolidation and in doing so, the Governments must abide by the definition of both debt and fiscal deficit as contained in TSFRBM Act, which recognises issues connected with off-budget borrowings, contingent liabilities and guarantees. The Fifteenth Finance Commission opined that there is a need to make full disclosure of such extra-budgetary borrowings.

The State Government, however, did not make a full disclosure of such Extra-Budgetary/Off-Budget Borrowings in the budget documents 2020-21. We conservatively assessed the quantum of Off-Budget Borrowings taken by various institutions<sup>33</sup> on behalf of the Government. This was based on the extent of information furnished by various institutions like Public Sector Undertakings /Autonomous Bodies, Guarantees given and other Financial Statements of the Government (*refer to paragraph 2.7.2 for further details*).

Considering such Off-Budget Borrowings (₹ 97,940.45 crore), as at the end of March 2021, the Debt-Gross State Domestic Product ratio would be 38.10 *per cent* (i.e., ₹3,73,578.45 crore<sup>34</sup> on GSDP of ₹9,80,407 crore). This is much higher than both the targets fixed by Fifteenth Finance Commission in its Report and by the State Government in its Medium Term Fiscal Policy Statement.

The Government replied (January 2022) that though it has extended Guarantees to various corporations to raise finances from Banks etc., for development expenditure, repayments are made from their accounts, and hence these cannot be considered as OBBs always for calculation of total outstanding liabilities of the State.

The reply is not acceptable as we have considered only those cases where payment of interest or repayment of principal was done out of Government resources only.

The details of total outstanding debt (i.e., Internal Debt, Loans from Government of India and Public Account Liabilities), debt receipts, debt repayments, ratio of debt to Gross State Domestic Product and the actual quantum of debt available to the State during 2016-21 are shown in **Table 2.28**.

---

<sup>32</sup> Paragraph 2.53 of its report

<sup>33</sup> Considering the Borrowings made by PSUs/ABs on behalf of the Government as informed by former and Guarantees given by the Government as per the Finance Accounts, whichever is lower

<sup>34</sup> Total outstanding Debt: ₹2,75,638 crore and OBB: ₹97,940.45 crore (assessed on a conservative basis)

**Table 2.28: Component-wise Debt trends**

(₹ in crore)

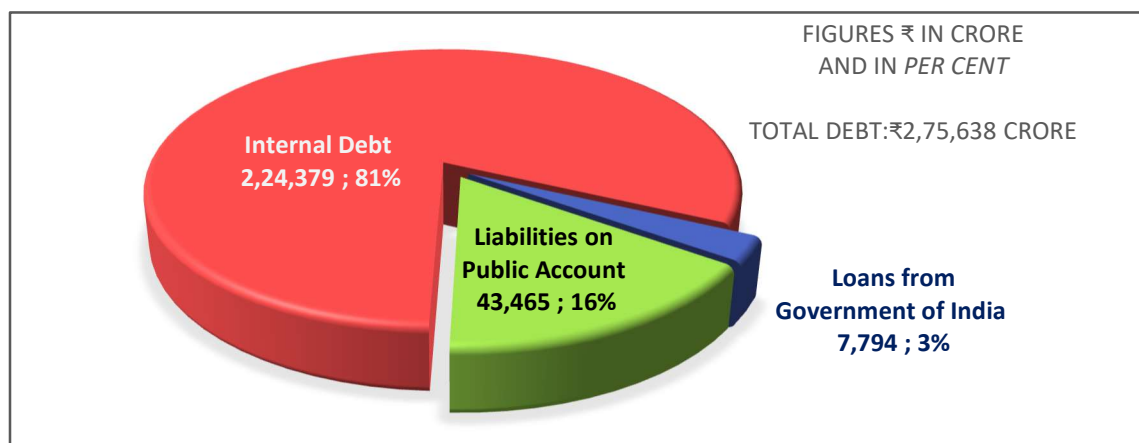
	2016-17	2017-18	2018-19	2019-20	2020-21	
Outstanding overall Debt	1,34,738	1,65,849	1,96,963	2,32,181	2,78,018*	
Public Debt	Internal Debt	1,12,830	1,34,287	1,56,933	1,86,959	2,24,379
	Loans from Government of India	8,406	8,631	8,231	7,999	10,174*
Public Account Liabilities	13,502	22,931	31,799	37,223	43,465	
Rate of growth of outstanding debt over previous year (percentage)	37.50	23.09	18.76	17.88	19.74	
Gross State Domestic Product (GSDP)	6,58,325	7,50,050	8,60,078	9,57,207	9,80,407	
Total Outstanding Debt/GSDP (per cent)	20.47	22.11	22.90	24.26	28.36	
Total Debt Receipts	91,902	1,06,641	1,17,715	1,43,870	1,87,503*	
Total Debt Repayments	59,551	78,203	91,080	1,08,652	1,41,666	
Total Debt available	32,351	28,438	26,635	35,218	45,837	
Debt Repayments/Debt Receipts (percentage) <sup>#</sup>	64.80	73.33	77.37	75.52	75.55	

Source: Finance Accounts

\* This includes ₹2,380 crore of back-to-back loans in lieu of GST compensation shortfall

# excluding Ways and Means Advances of ₹12,088 crore, ₹22,922 crore, ₹21,823 crore, ₹37,248 crore and ₹69,454 crore for 2016-17, 2017-18, 2018-19, 2019-20 and 2020-21 respectively, the percentages would be 59.46, 66.03, 72.22, 66.96 and 61.17 per cent respectively

The ratio of outstanding Debt to Gross State Domestic Product is continuously increasing over the past five-year period. The amount of total debt of ₹2,78,018 crore shown above included back to back loan of ₹2,380 crore. Debt/GSDP ratio excluding back to back loan in total debt (₹2,75,638 crore) would be 28.11 per cent instead of 28.36 per cent. Similarly, excluding back-to-back loans in lieu of GST compensation, which need not be repaid, Loans from Government of India would be ₹7,794 crore. The breakup of outstanding overall Debt at the end of March 2021 is shown in **Chart 2.17**.

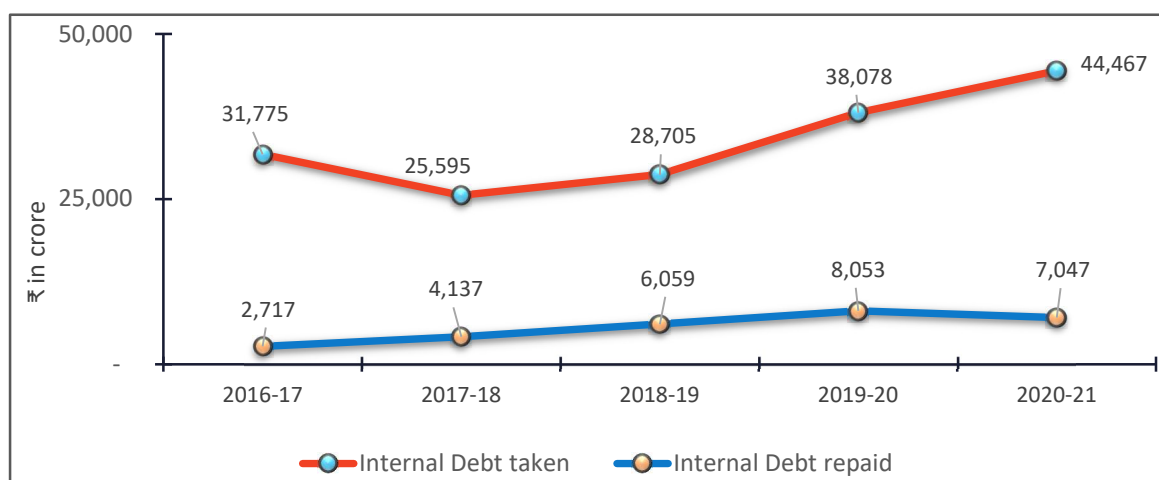
**Chart 2.17: Break up of outstanding overall Debt at the end of March 2021**

Source: Finance Accounts

Note : The figures of ₹2,75,638 crore and ₹7,794 crore exclude ₹2,380 crore of back-to-back loans in lieu of GST compensation shortfall, which is borrowed by GoI and would be serviced by it from out of GST compensation Cess and the repayment obligation need not be met from the other resources of the State

Major portion of the total outstanding debt is Internal Debt (81 per cent). The comparative trend of internal debt received and repaid are shown in **Chart 2.18**.

**Chart 2.18: Comparative trend of internal debt taken and repaid**



Source: Finance Accounts

Note: excluding Ways and Means Advances

In the current year the internal debt repaid is less than previous year. The gap between internal debt taken and repaid has been widening year on year and increased considerably during 2020-21 as can be seen from the Chart above.

### 2.7.1.1 Components of Fiscal Deficit and its financing pattern

Fiscal Deficit represents the total financing that the State requires (predominantly by drawing on its cash and investment balances with the Reserve Bank of India and by borrowing) to meet the excess of Revenue and Capital Expenditure (including Loans and Advances) over Revenue and non-debt receipts. Composition and financing of Fiscal Deficit are given in **Table 2.29**.

**Table 2.29: Components of Fiscal Deficit and its financing pattern**

(₹ in crore)

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Composition of Fiscal Deficit</b>					
1 Revenue Surplus (+) / Deficit (-)	1,386	3,459	4,337	(-)6,254	(-)22,298
2 Net Capital Expenditure	(-)33,371	(-)23,902	(-)22,641	(-)16,859	(-)15,922
3 Net Loans and Advances	(-)3,246	(-)6,071	(-)8,640	(-)8,638	(-)10,810
4 Net Interstate Settlement	(-)50	(-)186	(-)5	(-)8	(-)8
<b>Gross Fiscal Deficit</b>	<b>(-)35,281</b>	<b>(-) 26,700</b>	<b>(-)26,949</b>	<b>(-)31,759</b>	<b>(-)49,038</b>
<b>Financing Pattern of Fiscal Deficit</b>					
1 Market Borrowings	20,578	21,828	22,184	30,697	38,782
2 Special Securities issued to National Small Savings Fund	(-)799	(-)799	(-)814	(-)827	(-)827
3 Loans from Financial Institutions	7,681	429	1,276	155	(-)535
4 Loans from Government of India	193	224	(-)400	(-)232	2,175 <sup>s</sup>
5 Small Savings, PF, etc.	1,069	976	845	783	945
6 Deposits and Advances	1,918	5,860	3,100	1,406	5,081
7 Suspense and Miscellaneous	454	(-)573	(-)660	297	(-)232
8 Remittances	(-)155	1,306	115	7	(-)32

Particulars		2016-17	2017-18	2018-19	2019-20	2020-21
9	Reserve Fund	440	278	1,530	4,353	774
10	Net Contingency Fund	(-)0.09	0	(-)2.01	(-)2.11	4.21
<b>11</b>	<b>Total</b>	<b>32,977</b>	<b>29,529</b>	<b>27,174</b>	<b>36,637</b>	<b>46,135</b>
12	Increase (-) /Decrease (+) in Cash Balance	2,304	(-)2,829	(-)225	(-)4,878	2,903
<b>Gross Fiscal Deficit financed (11+12)</b>		<b>35,281</b>	<b>26,700</b>	<b>26,949</b>	<b>31,759</b>	<b>49,038</b>

Source: Finance Accounts

<sup>s</sup> This is the net figure of Receipts of ₹2,665 crore (including ₹2,380 crore back-to-back loans in lieu of GST compensation shortfall, which need not be repaid by the State Government) and repayments of ₹490 crore to GoI

Receipts and Disbursements under components financing the Fiscal Deficit for the year 2020-21 are detailed in **Table 2.30**.

**Table 2.30: Receipts and Disbursements under individual components financing the Fiscal Deficit**

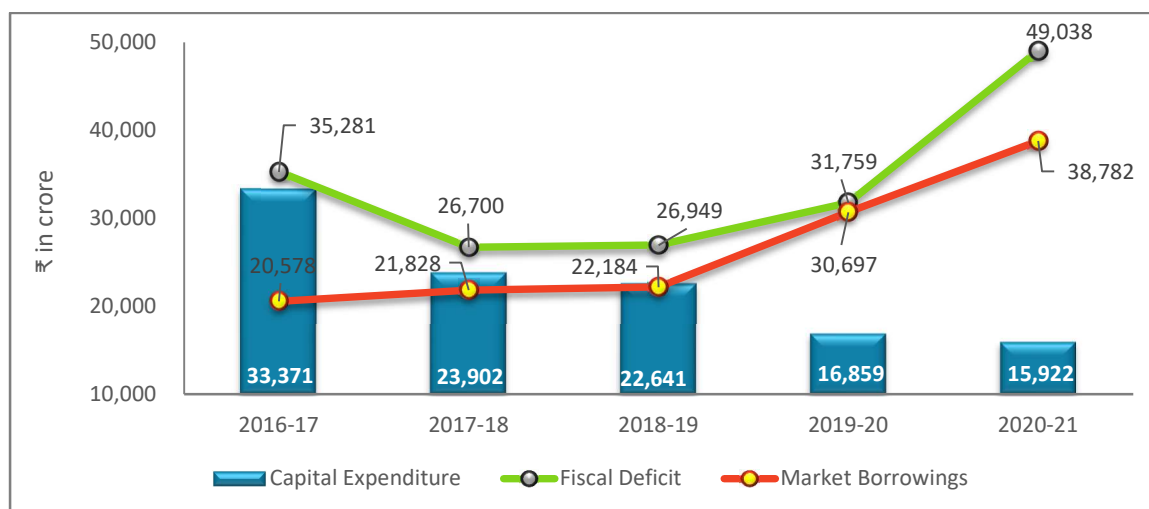
(₹ in crore)

Particulars		Receipts	Disbursements	Net
1	Market Borrowings	43,784	5,002	38,782
2	Special Securities issued to National Small Savings Fund	0	827	(-)827
3	Loans from Financial Institutions	13	548	(-)535
4	Loans from Government of India	2,665 <sup>s</sup>	490	2,175
5	Small Savings, PF, etc.	2,636	1,691	945
6	Deposits and Advances	66,893	61,813	5,081
7	Suspense and Miscellaneous	528	760	(-)232
8	Remittances	693	725	(-)32
9	Reserve Funds	1,188	414	774
10	Net Contingency Fund	4	0	4
<b>11</b>	<b>Overall Deficit</b>	<b>1,88,527</b>	<b>1,42,393</b>	<b>46,135</b>
12	Increase(-) / Decrease (+) in Cash Balance	--	--	2,903
<b>13</b>	<b>Gross Fiscal Deficit</b>	<b>--</b>	<b>--</b>	<b>49,038</b>

Source: Finance Accounts

<sup>s</sup> This figure includes ₹2,380 crore back-to-back loans in lieu of GST compensation shortfall, which need not be repaid by the State Government

In 2020-21, Capital Expenditure accounted for only 41.06 per cent of Market Borrowings and 32.47 per cent of Fiscal Deficit (**Table 2.29**). It may also be noted that 79.09 per cent of the Fiscal Deficit was financed from Market Borrowings.

**Chart 2.19: Comparative trend of Capital Expenditure, Fiscal Deficit and Market Borrowings**

Source: Finance Accounts

Ideally, market borrowing should be utilised for creation of capital assets through Capital Expenditure. Up to 2018-19, the market borrowings were lesser than Capital expenditure indicating that market borrowings could have been fully utilised for creation of Capital Assets. However, during the past two years, we noticed that Market borrowings were utilised for purposes other than creation of capital assets i.e., to finance Fiscal Deficit. Further, utilisation of market borrowings for financing Fiscal Deficit was much higher in 2020-21.

## 2.7.2 Off-Budget Borrowings

Off-Budget Borrowing or off-budget financing generally refers 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 and remains outside legislative control. These are generally financed through Government owned or controlled Public Sector Undertakings or departmental commercial undertakings, which raise resources through the market on behalf of the Government. The Government would, however, repay the debt and/or service the debt from its budget. Therefore, off-budget borrowings/financing involves (a) payment of interest on recurrent basis and (b) repayment of the borrowings from budget as and when it is due.

As mentioned in *paragraph 2.7.1* earlier, the Fifteenth Finance Commission, in paragraph 2.53 of its report (November 2019), noted the tendency of the Union and State Governments to borrow outside the Consolidated Fund, leading to accumulation of extra-budgetary liabilities. The Union Budget 2019-20 has disclosed extra-budgetary resources, however, such disclosures are not available for the States as a whole. Hence, it recommended that, in the interest of transparency, both the Union and States need to make full disclosure of extra-budgetary borrowings. It also recommended that the outstanding extra-budgetary liabilities need to be clearly identified and eliminated in a time-bound manner with transparent reporting of deficit and debt. Such disclosure is also important in



view of the definition of “total liabilities” in the State FRBM Act, which include the borrowings by Public Sector Undertakings and the Special Purpose Vehicles and other equivalent instruments including guarantees where the principal and / or interest are to be serviced out of State budgets.

Government of Telangana has been intimating the State Legislature over the last few years during presentation of Budget that it would implement certain flagship socio-economic schemes like Mission Bhagiratha, Kaleshwaram Project, Two bed-room Housing scheme etc., through OBB. However, it has neither quantified the exact quantum of such borrowings in the Budget nor provided specific disclosure relating to the entities through which it planned to channelise extra budgetary resources. Thus, the full disclosure of Off-Budget / Extra-budget borrowings / liabilities as recommended by the Fifteenth Finance Commission has not been made in the budget documents for the year 2020-21.

In order to ascertain the extent of such Off-Budget Borrowings / Extra Budgetary Resources, we addressed the State Public Sector Undertakings (PSUs) / Autonomous Bodies implementing the concerned schemes/projects to provide the requisite information. 14 State PSUs and 6 ABs informed us that they had mobilized ₹21,802.87 crore during 2020-21 and ₹1,11,898.69 crore to the end of March 2021 from various Banks on behalf of the Government, for which, principal and/or interest would be serviced out of the State Budget. Details in this regard are in *Appendix 2.1*.

We assessed (October 2021) the quantum of Off-Budget Borrowings by mapping (i) such borrowings by State PSUs / ABs concerned on behalf of the Government, during the year and up to March 2021, (ii) Guarantees given by the State Government and (iii) financial support provided by the Government from out of its budgetary resources for paying interest / repayment of principal. While such OBBs stood at ₹1,11,898.69 crore as of March 2021, the outstanding guarantees extended by the State Government to the institutions concerned as of end of March 2021 stood at ₹96,448.02 crore. During the year 2020-21, the State Government provided an amount of ₹9,331.29 crore from out of budget towards repayment of principal and/ or payment of interest. Thus, these borrowings by the State PSUs / ABs fall within the ambit of “Total liabilities” as prescribed in FRBM Act. The State Government, however, has provided these amounts to the State PSUs / ABs concerned as ‘Loans’ and reflected in the Accounts of the Government as Assets, indicating that these State PSUs/ABs shall have an obligation to repay the loans to State Government. Apart from non-reporting of Off-Budget Borrowings, this also impacts the transparency of reporting financial transactions.

We, however, noted that many of the institutions do not have revenue resources to repay the loans provided by the Government. For example, the Detailed Project Report of Kaleshwaram Project stated that the project would hardly generate any revenue, as water for irrigation purposes was being provided at nominal rates (since the command area lies in the drought prone districts of Telangana) and no analysis of the revenues was made in the Detailed Project Report. Similarly, Telangana State Sheep and Goat Development Cooperative Federation Limited did not have any definite stream of revenue resource of its own and was, in fact, implementing a Government subsidy scheme.



The Government would have to shoulder the liability of repayment of Loans taken by these institutions, which are unable to generate enough resources for servicing the debts.

Further, there are other instances of Government liabilities being shouldered by PSUs/ ABs like (i) non-reimbursement of principal / interest component by the State Government to State Public Sector Companies / Corporations, Special Purpose Vehicles etc., of the loan taken by them on behalf of the State Government and (ii) Deployment of own funds by the Statutory Public Sector Companies / Corporations, Special Purpose Vehicles, etc. for execution of the Deposit work of the State Government which was to be financed by the State Government through borrowings. The total of all such Off-Budget Borrowings worked out to ₹97,940.45 crore (*Appendix 2.2*) as on 31 March 2021.

Being off-budget in nature, these borrowings do not form part of Finance Accounts. As mentioned above, State Government has also not disclosed the sources, purpose and extent of these borrowings appropriately as part of its budget documents. This means that major funding sources of Government’s crucial socio-economic schemes/ projects are beyond the oversight and control of legislature.

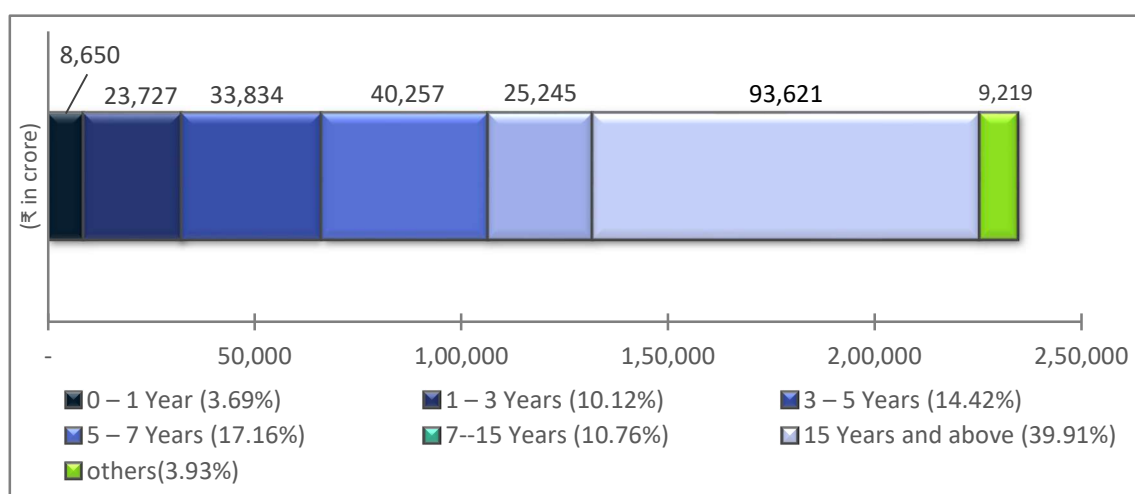
The Government stated (January 2022) that OBBs have come in to play in view of the financial restrictions for taking up development activities and that the State Government is generally utilising these OBBs for incurring Capital Expenditure alone, which is sound financial plan.

The reply is not acceptable as the FRBM norms stipulate for disclosure of all such borrowings which are serviced out of State Budget and the reply is silent about such disclosure.

### 2.7.3 Debt profile: Maturity and Repayment

Debt maturity and repayment profile indicates commitment on the part of the Government for debt repayment or debt servicing. Maturity profile of Public Debt is detailed in *Chart 2.20*.

**Chart 2.20: Maturity profile of State debt**



Source: Finance Accounts

The maturity profile of outstanding stock of public debt as on 31 March 2021 showed that 45.86 per cent (₹1,06,468 crore) of the total outstanding public debt is to be repaid in next seven years. The State needs to augment its resources to meet the increasing debt repayment burden over the next seven years.

Out of ₹43,784 crore market borrowings taken during 2020-21, repayment of ₹25,823 crore is due during the years 2041-2051. This indicates that in respect of 58.98 per cent of the loans taken during the year, the Government has been preferring to borrow with longer maturity periods. The interest on these borrowings is ranging from 6.61 per cent to 7.20 per cent. Interestingly, the interest rates for shorter maturity periods, prior to the year 2041, are also similar ranging from 5.85 per cent to 7.60 per cent.

## 2.7.4 Debt Sustainability

Debt sustainability is defined as the ability of the State to service its debt now and in future. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to maintain balance between costs of additional borrowings, with returns from such borrowings. **Table 2.31** analyses the sustainability of debt of the State according to generally accepted indicators:

**Table 2.31: Debt Sustainability - Indicators and trends**

(₹ in crore)

Debt Sustainability Indicators	2016-17	2017-18	2018-19	2019-20	2020-21
Outstanding Public Debt*	1,21,236	1,42,918	1,65,164	1,94,958	2,32,173 <sup>§</sup>
Rate of Growth of Outstanding Public Debt	31.80	17.88	15.57	18.04	19.09
GSDP	6,58,325	7,50,050	8,60,078	9,57,207	9,80,407
Rate of Growth of GSDP	13.92	13.93	14.67	11.29	2.42
Public Debt/GSDP	18.42	19.05	19.20	20.37	23.68
Maturity profile of repayment of State Public Debt – including default history, if any	56,388	65,740	76,262	89,228	1,06,468
Average interest Rate of Outstanding Public Debt (per cent)	8.08	8.20	8.17	7.99	7.89
Percentage of Interest payment to Revenue Receipt	10.40	12.20	12.41	14.03	16.69
Percentage of Public Debt Repayment to Public Debt Receipts	36.94	58.65	66.85	59.72	54.47
Net Public Debt available to the State <sup>#</sup>	20,641	10,846	9,660	15,407	20,374
Net Public Debt available as per cent to Public Debt Receipts	63.06	41.35	33.15	40.28	48.53
Debt Stabilisation (Quantum spread + Primary Deficit)	(-)17,688	(-)8,146	(-)7,310	(-)12,577	(-) 33,487

Source Finance Accounts

\* Outstanding Public Debt is the sum of outstanding balances under the heads 6003 - Internal Debt and 6004 - Loans and Advances from the Central Government

# Net debt available to the State Government is calculated as excess of Public debt receipts over Public debt repayment and interest payment on Public Debt

§ Outstanding Public Debt does not include ₹2,380 crore of back-to-back loans in lieu of GST compensation shortfall, which is borrowed by GoI and would be serviced by it from out of GST compensation Cess and the repayment obligation need not be met from the other resources of the State

- The ratio of outstanding Public Debt to GSDP increased from 18.42 *per cent* in 2016-17 to 23.68 *per cent* in 2020-21. The outstanding Public debt increased by 19.09 *per cent* over the preceding year, at significantly higher rate than the growth of GSDP, which grew by 2.42 *per cent*.
- The average interest rate of outstanding public debt has decreased marginally during the past four years from 8.20 *per cent* in 2017-18 to 7.89 *per cent* in 2020-21. However, this must be viewed in the background that the State Government has been obtaining borrowings with very long maturity periods. Further, there was no evidence on record to show that the Government has made any financial impact study for long maturity borrowings with marginally lesser interest rates.
- After providing for Public Debt Repayments (₹76,991 crore) and interest payments (₹16,841 crore) out of Public Debt Receipts (₹1,14,206 crore), the Net Public Debt available for other purposes was ₹20,374 crore (17.84 *per cent*). Net Public Debt available as a *percentage* of Public Debt receipts has been increasing considerably during the past three years indicating better availability of funds for development activities. However, during the past two years, the State registered Revenue Deficit, as a result of which, the Net Public Debt available was absorbed to that extent.
- The total outstanding debt and total outstanding public debt of the State Government at the end of 2020-21 was ₹2,78,018 crore and ₹2,34,553 crore as shown in the Finance Accounts 2020-21. During the year 2020-21, the State Government has received GST compensation of ₹3,103 crore as GIA from the GoI. Besides, due to inadequate balance in GST Compensation fund, shortfall in GST compensation was provided to the State as back to back loan of ₹2,380 crore which is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources.
- Due to this arrangement, the revenue deficit of ₹22,298 crore and fiscal deficit of ₹49,038 crore of the State Government as depicted in the Finance Accounts 2020-21 should therefore, be read in conjunction with receipt of GST compensation of ₹2,380 crore as back to back loan with no repayment obligation on the State resources.

#### **2.7.4.1 Utilisation of borrowed funds**

Borrowed funds should ideally be used to fund capital creation and developmental activities. Using borrowed funds for meeting current consumption and repayment of interest on outstanding loans is not sustainable. Details of utilization of borrowed funds is shown in **Table 2.32**.

**Table 2.32: Utilisation of borrowed funds**

(₹ in crore)

Sl. No.		2016-17	2017-18	2018-19	2019-20	2020-21
1	Total Borrowings	91,902	1,06,641	1,17,715	1,43,870	1,85,123 <sup>#</sup>
2	Repayment of earlier borrowings (Principal) (percentage)	59,551 (64.80)	78,203 (73.33)	91,080 (77.37)	1,08,652 (75.52)	1,41,666 (76.53)
3	Net Capital Expenditure (percentage)	33,371 (36.31)	23,902 (22.41)	22,641 (19.23)	16,859 (11.72)	15,922 (8.60)
4	Net Loans and Advances (percentage)	3,246 (3.53)	6,071 (5.69)	8,640 (7.34)	8,638 (6.00)	10,810 (5.84)
5	Portion of Revenue Expenditure that was met out of net available borrowings* (=1-2-3-4) (percentage)	(-)4,266 (-4.64)	(-)1,535 (-1.44)	(-)4,646 (-3.95)	9,721 (6.76)	16,725 (9.03)

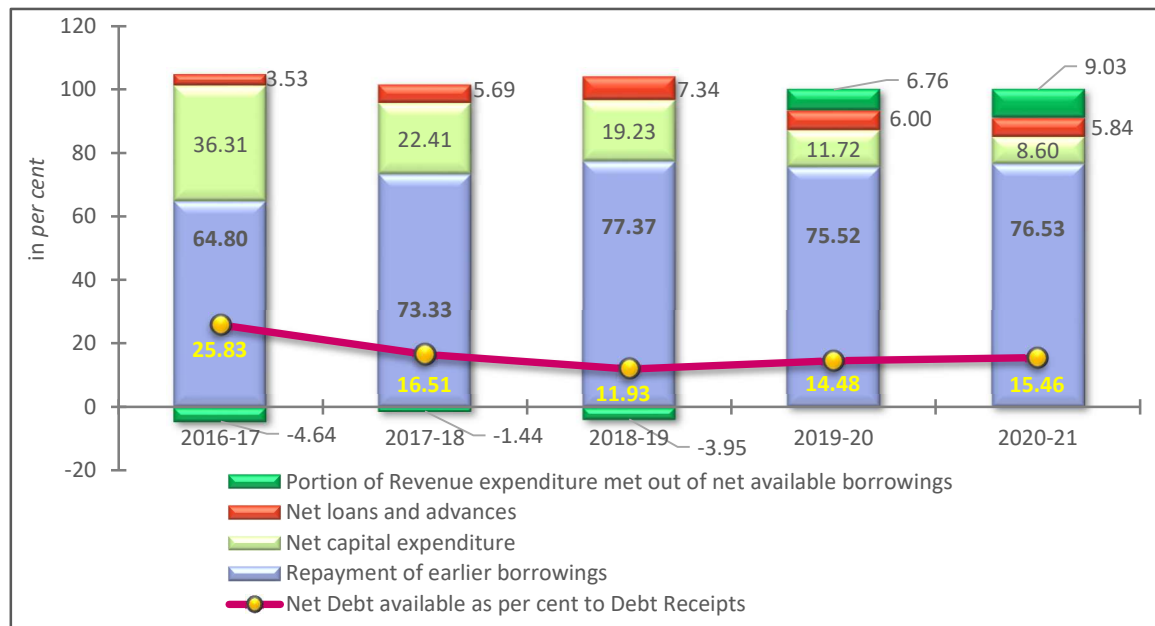
Source: Finance Accounts

<sup>#</sup> Outstanding Public Debt does not include ₹2,380 crore of back-to-back loans in lieu of GST compensation shortfall, which is borrowed by GoI and would be serviced by it from out of GST compensation Cess and the repayment obligation need not be met from the other resources of the State

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

Total borrowings have more than doubled during the past five years. During 2020-21, borrowings have gone up by ₹41,253 crore (28.67 per cent) over the previous year.

Trends of utilisation of borrowed funds are shown in **Chart 2.21**.

**Chart 2.21: Trend of utilisation of borrowed funds**

Source: Finance Accounts

While no Revenue Expenditure was met out of borrowed funds till 2018-19, during 2019-20 and 2020-21, the Revenue Expenditure was met out of net available borrowings. Further, this has also increased (₹7,004 crore) significantly during the year, which raises serious concerns about non-sustainability of debt.

### 2.7.4.2 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent 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 2016-21 are shown in **Table 2.33**.

**Table 2.33: Guarantees given by the State Government**

(₹ in crore)

Sl. No.		2016-17	2017-18	2018-19	2019-20	2020-21
1	Ceiling applicable to outstanding value of Guarantees including interest*	69,241	74,536	79,942	2,02,840	2,05,088
2	Outstanding value of Guarantees including interest	29,965	41,892	77,713	89,601	1,05,007

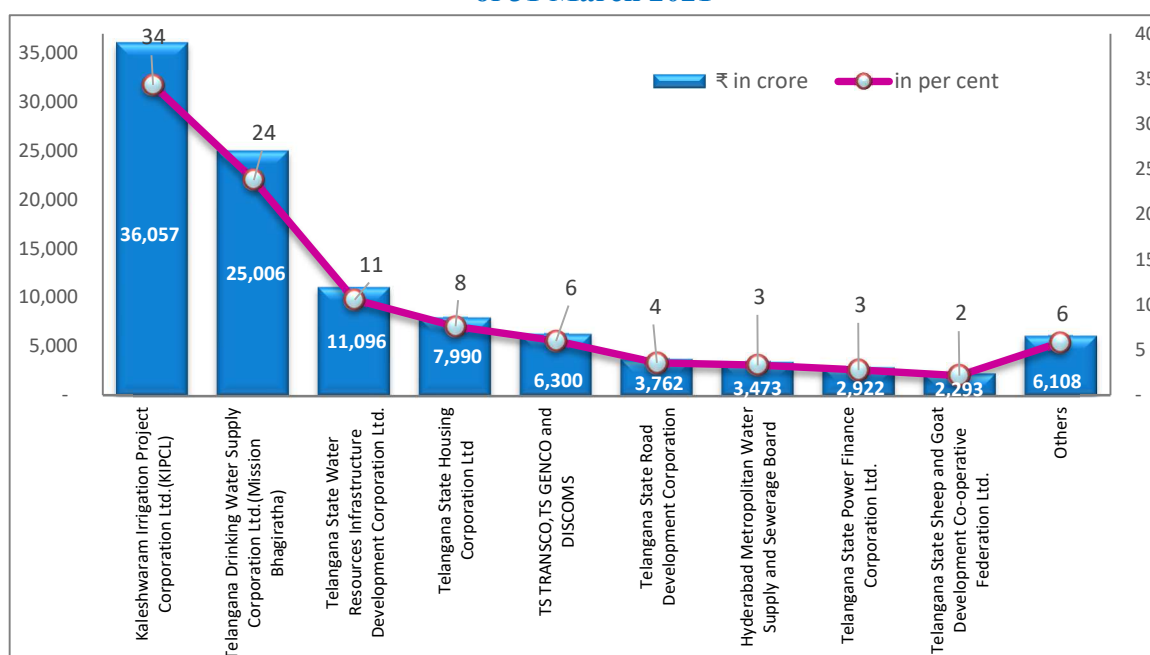
Source Finance Accounts

\* TSFRBM Act, 2005 stipulated limiting the amount of annual incremental risk weighted guarantees to 90 per cent of the total Revenue Receipts of the preceding year. This limit, however, was increased (September 2020) to 200 per cent through TSFRBM (Amendment) Act, 2020

The outstanding Guarantees (₹1,05,007 crore) at end of March 2021 stood at 102.40 per cent of total Revenue Receipts of the preceding year (i.e., ₹1,02,544 crore in 2019-20). The outstanding Guarantees were well within the revised (September 2020) TSFRBM ceiling of 200 per cent.

Out of the total loans guaranteed by the Government, 58 per cent pertained to only two Special Purpose Vehicles viz., (i) Kaleshwaram Irrigation Project Corporation Limited for implementation of Kaleshwaram Project (₹36,057 crore) and (ii) Telangana Drinking Water Supply Corporation Limited for implementation of a flagship project: Mission Bhagiratha (₹25,006 crore) as shown in **Chart 2.22**.

**Chart 2.22: Major institutions to which State Government provided Guarantees as of 31 March 2021**



Source Finance Accounts

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

The State Government has been presenting to the State Legislature, the list of Guarantees given by it. We noticed that there were certain discrepancies between the information presented to State Legislature by the State Government and the information furnished to us by the Public Sector Undertakings / Autonomous Bodies concerned.

- The Guarantees mentioned by the State Government to the Legislature does not include the following:

**Table 2.34: Guarantees not included in the Statement placed before State Legislature along with Budget documents**

Sl. No.	Institution	Amount (₹ in crore)
1	Telangana State Civil Supplies Corporation	45,000.00
2	Telangana State MARKFED	22,185.08
	<b>Total</b>	<b>67,185.08</b>

Source: Government Orders issued from time to time

The Government stated (November 2021) that the Guarantees provided to TSCSC etc was on a temporary basis, a facility given to them for procuring agriculture produce from the farmers during Covid-19 Pandemic to help them overcome effects of pandemic. Based on the guarantees provided by the Government, TSCSC raised loans from financial institutions and utilised these funds for purchase of agriculture products. These loans are repaid by the corporation in a period of 2-3 months on receipt of amounts from Food Corporation of India.

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

- The value of Guarantees mentioned by the State Government to the Legislature were way lower in respect of the following:

**Table 2.35: Cases where value of Guarantees included in the Statement placed before State Legislature along with Budget documents was way lower than the value intimated by the institutions**

(₹ in crore)			
Sl. No.	Institution	As informed by institution	As per Statement 20 of Finance Accounts
1	Southern Power Distribution Corporation of Telangana Limited	9,005.71	6,300.00
2	Northern Power Distribution Corporation of Telangana Limited	6,412.35	
3	Telangana State Power Generation Corporation Limited	1,051.13	
4	Transmission Corporation of Telangana Limited	2.22	
	<b>Total</b>	<b>16,471.41</b>	<b>6,300.00</b>

Source: Finance Accounts and information furnished by institutions concerned



In view of the definition of the term “total liabilities” as inclusive of all the liabilities under the Consolidated Fund and Public Account of the State and shall include borrowings by Public Sector Undertakings and the Special Purpose Vehicles and other equivalent instruments including guarantees where the principal and / or interest are to be serviced out of State budgets as per State Fiscal Responsibility and Budget Management (FRBM) Act, not disclosing all the Guarantees given by the State Government and / or full value of the Guarantees adversely affects the transparency of accounts and escapes Legislative oversight.

**(ii) Compliance to the instructions while providing Guarantees:**

The erstwhile Government of Andhra Pradesh issued (September 2003) instructions<sup>35</sup> to be followed while providing guarantees. Compliance of these instructions were verified.

- The Government Order required that the financial performance of the borrowing entity shall be analysed in terms of its profitability, operational strength, and financial ratios. However, Government extended Guarantees (₹3,473 crore) to loans taken by Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB) whose annual accounts were in arrears for more than a decade i.e., from 2010-11 onwards.
- Government Order stipulated that the Administrative Departments in Secretariat and Heads of Departments shall evaluate the fiscal risk and classify 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) 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.

The Finance Department, in the Statement of Fiscal Policy to be laid on the table of Legislature classified (March 2021) Guarantees as under:

**Table 2.36: Categorisation of Guarantees based on risk**

(₹ in crore)

Sl. No.	Category	Amount
1	Medium risk	40,391
2	Low risk	45,675
3	Very low risk	18,941
	<b>Total</b>	<b>1,05,007</b>

Source: Statement of Government Guarantees placed before Legislature along with budget documents in March 2021

However, the Finance Department could not provide any evidence regarding the risk -evaluation or analysis of financial performance of entities conducted by the Departments concerned either for the current year or for the last year. In fact, in March 2018, the Finance Department had classified all the Guarantees as on that date (₹41,539 crore) as having direct liability.

<sup>35</sup> G.O.Ms.No.446, dated 29 September 2003



On the other hand, 11 Public Sector Undertakings and 6 Autonomous Bodies have informed us that they undertook borrowings (₹1,11,898.69 crore) on behalf of the Government, for which the Government Guarantees as of March 2021 stood at ₹96,448.02 crore (*Appendix 2.1*).

Further, majority of the Guarantees provided by the Government to institutions were for implementing Government schemes and in 2020-21, the Government has facilitated repayment of principal or payment of interest, *albeit*, in the form of providing further loans to those institutions indicating that the servicing of debt by these entities was exclusively through Government support. A case in point is Telangana State Sheep and Goat Development Cooperative Federation Corporation Limited, which is implementing Government schemes with financial assistance from National Cooperative Development Corporation. The institution has no revenue source and the repayments are being made with budgetary support. However, the Guarantee in this case was considered as very low risk.

All such Guarantees given to institutions which depend on Government for repayment should be treated as direct liabilities. Hence, considering them as medium, low or very low risk category is incorrect and proves the risk assessment was not done methodically.

- Further, the GO 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. As such, Guarantee Commission of ₹525.03 crore<sup>36</sup> was to be received by the Government to the end of March 2021 from 19 institutions to which Guarantees of ₹1,05,007 crore were provided. In addition, Guarantee Commission of ₹699.40 crore<sup>37</sup> was also receivable on ₹25,000 crore Guarantee provided to Telangana State Civil Supplies Corporation (TSCSC) and ₹9,969.93 crore Guarantees provided to TS MARKFED as per the Government Orders issued from time to time. No Guarantee Commission, however, was received during the year.

The Government stated (November 2021) that the issue of collection of Guarantee Commission from the institutions is under consideration of the Government. However, the Government has been issuing Government Orders with a stipulation of payment of guarantee commission at the time of providing guarantees itself, including those given to TSCSC and TS MARKFED.

- Further, Telangana State Seeds Development Corporation, Hyderabad has remitted an amount of ₹6.00 crore as Guarantee Commission in December 2020. However, as per the Statement of Guarantees presented (March 2021) by the State Government to the State Legislature, as on 31 January 2021 along with Budget Documents presented, no Guarantees were given to Telangana State Seeds Development Corporation.

<sup>36</sup> calculated at a rate of 0.50 *per cent* on the total guaranteed amount of ₹1,05,007 crore

<sup>37</sup> ₹500.00 crore Guarantee Commission from TSCSC and ₹199.40 crore from TS MARKFED (calculated at a rate of two *per cent* on guaranteed amounts of ₹25,000 crore and ₹9,969.93 crore respectively given during the year)

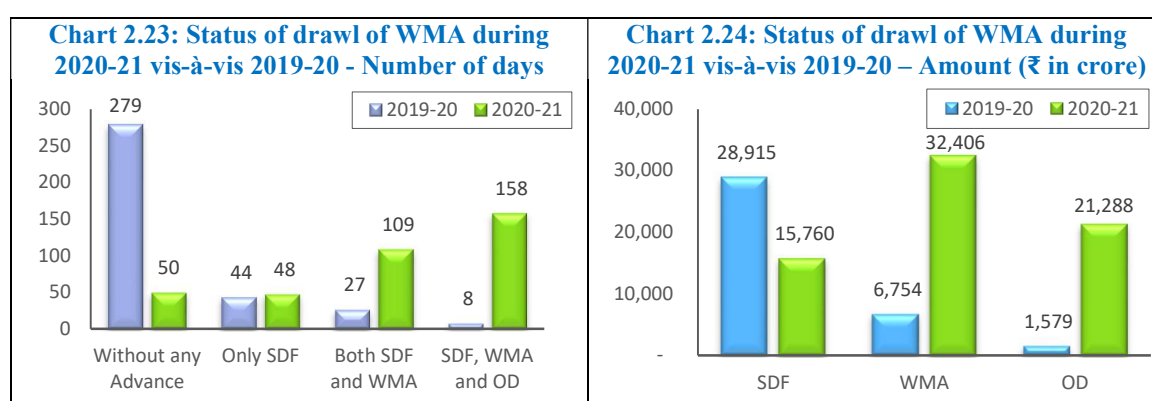
### 2.7.4.3 Management of Cash Balances

#### (i) Ways and Means Advances

As per an agreement with the Reserve Bank of India (RBI), the State Government has to maintain a minimum daily Cash Balance of ₹1.38 crore with the RBI. If the balance falls below the agreed minimum on any day, the deficiency is made good (i) initially by a Special Drawing Facility (SDF) against the collateral of Consolidated Sinking Fund, Guarantee Redemption Fund and Auction Treasury Bills balances and other investments in Government securities, (ii) subsequently by Ways and Means Advances (WMA) and (iii) then by Overdraft (OD) beyond WMA limits.

The limit for ordinary WMA to the State Government is revised by the RBI from time to time. The SDF can be operated up to ₹1,004.12 crore. After exhausting SDF, WMA can be operated up to another ₹1,728 crore.

Utilisation of these advances during the previous and the current years is depicted in **Chart 2.23** and **Chart 2.24**:



Source: Finance Accounts of the years concerned

The number of days on which the State Government maintained minimum daily cash balance of ₹1.38 crore without depending on any advances during 2020-21 (50 days) has decreased considerably when compared to previous year (279 days). The number of days on which the State Government depended on all the three advances i.e., SDF, WMA and OD during the current year (158 days) was also much higher than previous year (8 days) mainly on account of Covid-19 Pandemic. The total amount of all the advances taken during the year was ₹69,453.90 crore which was also considerably higher (₹32,206.32 crore i.e., by 86.46 per cent) than the previous year (₹37,249.59 crore).

Dependency of the State Government on WMA increased the burden of interest payments as well. Interest payments on drawal of WMA (including SDF and OD) during 2020-21 was ₹71.28 crore as against ₹29.19 crore in 2019-20, i.e., a significant increase of 144 per cent.

#### (ii) Investment of Cash Balances

The surplus Cash Balance of the State Government gets invested in short and long-term GoI Securities and Treasury Bills. The profits derived from such investments are credited under the Major Head '0049-Interest Receipts'.

The State Government's Cash Balances at the end of March 2021 amounted to ₹9,192.99 crore including Deposits with RBI ((-) ₹5.67 crore), investment in cash balance investment account (₹1,801.12 crore) and investment in earmarked funds (₹7,397.54 crore) viz. Sinking Fund (₹6,068.52 crore) and Guarantee Redemption Fund – Investment Account (₹1,324.92 crore). **Table 2.37** depicts the Cash Balances and their investment during the year.

**Table 2.37: Cash Balances and their investment**

(₹ in crore)

	Opening balance on 1 April 2020	Closing balance on 31 March 2021
<b>A. General Cash Balance</b>		
Cash in treasuries	--	...
Deposits with Reserve Bank of India	(-)1,689.15	(-)5.67
Deposits with other Banks	--	...
Remittances in transit – Local	--	...
<b>Total</b>	<b>(-)1,689.15</b>	<b>(-)5.67</b>
Investments held in Cash Balance investment account	6,945.39	1,801.12
<b>Total (A)</b>	<b>5,256.24</b>	<b>1,795.45</b>
<b>B. Other Cash Balances and Investments</b>		
Cash with departmental officers viz., Public Works, Forest Officers	--	...
Permanent advances for contingent expenditure with department officers	0.31	0.34
Investment in earmarked funds	6,839.27	7,397.20
<b>Total (B)</b>	<b>6,839.58</b>	<b>7,397.54</b>
<b>Total (A + B)</b>	<b>12,095.82</b>	<b>9,192.99</b>
<b>Interest realized</b>	<b>7.98</b>	<b>7.73</b>

Source: Finance Accounts

The Cash Balance investments of the State during the period 2016-21 are shown in **Table 2.38**.

**Table 2.38: Cash Balance Investment Account**

(₹ in crore)

Year	Opening Balance	Closing Balance	Increase (+) / decrease (-)	Interest earned
2016-17	2,503.94	52.59	(-)2,451.35	40.31
2017-18	52.59	2,277.42	2,224.83	17.43
2018-19	2,277.42	1,588.95	(-)688.47	22.97
2019-20	1,588.95	6,945.39	5,356.44	7.98
2020-21	6,945.39	1,801.12	(-)5,144.27	7.73

Source: Finance Accounts

The State Government earned an interest of ₹7.73 crore during the year 2020-21 from the investments made in Government of India Securities and Treasury Bills, which was marginally lower than ₹7.98 crore earned during the previous year.

## 2.8 Apportionment of Assets and Liabilities between Andhra Pradesh and Telangana

As per the Andhra Pradesh State Re-organisation Act, 2014, the balances under Cumulative Capital Expenditure, Loans and Advances, Public Debt and the balances under Public account are to be apportioned between the successor States of Andhra Pradesh and Telangana.

The status of apportionment as of 31 March 2021 was as follows:

An amount of ₹1,51,349.67 crore under Capital Heads, ₹28,099.69 crore under Loans and Advances, ₹4,474.04 crore under Deposits and Advances, ₹238 crore under Suspense and Miscellaneous and ₹310.24 crore under Remittances was yet to be apportioned though nearly seven years have elapsed after 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 such, the assets and liabilities of the State Government as depicted in the Finance Accounts are affected to that extent.

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 for the purpose in May 2014 gave recommendations for de-merger in respect of all 91 institutions. The Telangana Government was yet to take a decision in the matter as of end of March 2021, since it had concerns relating to 23 out of these 91 institutions (*Appendix 2.3*).

During the years 2019-20 and 2020-21, no balances were apportioned between the two States. The State Government stated (November 2021) that the apportionment was delayed due to Covid-19 Pandemic and would be finalised as early as possible.

However, the Government did not furnish any reasons as for non-apportionment prior to Covid-19 Pandemic. It also did not specifically mention whether the de-merger has been completed in respect of other 68 institutions or not.

## 2.9 Conclusion

The State could not achieve any of the three key fiscal targets i.e., maintenance of Revenue Surplus, targets of Fiscal Deficit to GSDP and total outstanding liabilities to GSDP. For the second consecutive year, the State registered a massive Revenue Deficit (₹22,298 crore).

Both States Own Tax Revenue and Non-Tax Revenue decreased in comparison to preceding year. The State received compensation towards revenue loss due to GST implementation, partly in the form of Grants and partly in the form of Loans. Share in central share taxes is decreasing during the past three years while the Grants-in-Aid have been increasing. The State was not in receipt of certain specific grants recommended by the XV Finance Commission.

Revenue Expenditure has increased while Capital Expenditure has decreased. There was an increase in all the components of committed expenditure within the Revenue Expenditure. Interest payments in particular, are increasingly consuming Revenue Receipts year after year. Huge capital was blocked due to delays in completion of irrigation projects.

Loans and Advances given during the year have increased. However, most were provided to institutions towards interest payments/principal repayments towards loans taken for implementing Government schemes. State Government has not discharged its commitment of ₹7,091.65 crore for taking over losses of DISCOMs under the UDAY scheme as agreed in the tripartite agreement with Government of India and the DISCOMs as of end of March 2021.

The Government did not make statutory contributions to Consolidated Sinking Fund and Guarantee Redemption Fund. The State Government could not utilize the amounts available in State Disaster Response Fund towards Covid-19 Pandemic though Government of India facilitated such utilisation.

The Government was not fully disclosing its Off-Budget borrowings / liabilities and thereby circumventing the FRBM norms. This has the dual impact of diluting public financial management and Legislative oversight.

Outstanding debt at the end of the year has increased by 19 *per cent* over the preceding year. In fact, its growth rate was higher than that of Gross State Domestic Product or Revenue Receipts. There was no evidence on record to show that the Government has made any financial impact study for long maturity borrowings with marginally lesser/similar interest rates.

The State Government was not fully disclosing all the Guarantees given by it to various institutions. As the State registered Revenue Deficit, Market borrowings had to be used to finance Revenue Deficit and Fiscal Deficit. Utilisation of Ways and Means and Advances has increased significantly in the current year.

There is no progress in apportionment of Assets and Liabilities between Andhra Pradesh and Telangana.

## 2.10 Recommendations

- i. *State Government needs to mobilise additional revenue resources to fund its various socio-economic developmental schemes to avoid financing of revenue expenditure through debt .*
- ii. *Capital expenditure needs to be increased significantly for asset creation and provide needed stimulus for economic growth.*
- iii. *State Government needs to honour its commitments with regard to UDAY scheme to ensure financial and operational turnaround of State DISCOMs.*
- iv. *State Government needs to disclose properly its off-budget borrowings by way of loans taken through Special Purpose Vehicles/ Public Sector Undertakings/ Autonomous*

*Bodies for implementation of Government schemes, to ensure transparency and accountability with regard to fund management and compliance with TSFRBM norms.*

- v. *State Government should invariably contribute to the statutory reserve funds like Consolidated Sinking Fund and Guarantee Redemption Fund.*
- vi. *The State Government should fully disclose all the Guarantees given by it, including cash credit facility as per Indian Government Accounting Standards -1.*