

Executive Summary

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1 The Report

This report on the finances of the Government of Telangana is brought out to assess the financial performance of the State during the year 2020-21 vis-à-vis the Budget documents, Telangana State Fiscal Responsibility and Budget Management (TSFRBM) Act, Medium Term Fiscal Policy Statement, Fifteenth Finance Commission (XV FC) Report. It also analyses the trends and structural profile of Government's receipts and disbursements.

This report provides an analytical review of the Finance Accounts of the State Government and is compiled based on the audited accounts of the Government of Telangana for the year ending 31 March 2021, Data from sources such as Economic Survey, Socio-Economic Outlook of Telangana, XV Finance Commission Report, etc for the year 2020-21.

Our opinions on the budgeting mechanism and implementation of Appropriation Act approved by the Legislature are also detailed out.

Further, analysis on the Quality of Accounts and compliance of the State Government in financial reporting practices with prescribed financial rules, procedures and directives with regards to their completeness, transparency, measurement and disclosure requirements are discussed.

The report concludes with exposition of the financial performance of the State Public Sector Undertakings (SPSUs) and the impact of comments issued after supplementary audit of the Financial Statements of these PSUs by the Comptroller and Auditor General of India.

2 Audit Findings

2.1 Fiscal position

During 2020-21, the economic slowdown coupled with Covid -19 Pandemic had a twin effect of decrease in Revenue Receipts and increase in Revenue Expenditure, particularly in the initial months of the financial year as compared to previous year. The State had to depend significantly on Ways and Means Advances.

During 2020-21, Telangana registered lowest growth rate in the last five years. However, while the country registered a negative growth rate of 2.97 per cent in 2020-21, it is heartening to note that the Telangana could still register a positive growth rate of 2.42 per cent.

The State was not able to 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 year 2020-21.

For the second consecutive year, the State registered a Revenue Deficit (₹22,298 crore). The Fiscal Deficit was ₹49,038 crore. The Revenue Deficit was understated to an extent of ₹545 crore and the fiscal deficit was understated to an extent of ₹214 crore due to non-discharge of interest liabilities, short contribution to National Pension System and on account of certain misclassifications between Revenue and Capital expenditure.

Although the percentage of total outstanding liabilities to GSDP (28.11 per cent) was within the limit of 29.50 per cent of GSDP prescribed by the XV Finance commission for the year 2020-21, this would be way above the limit at 38.10 per cent if the liabilities of the State Government regarding its Off-Budget Borrowings (OBB) of ₹97,940.45 crore are considered. Non-disclosure of OBB has a dual impact of diluting public financial management and Legislative oversight and is in contravention of the recommendations of the XV FC.

(Chapter 1)

2.2 Finances of the State

Revenue Receipts of the State decreased marginally by ₹1,630 crore (1.59 per cent) while Revenue Expenditure increased by ₹14,414 crore (13.25 per cent) during the year 2020-21 over the previous year. Both State's Own Tax Revenue (₹66,650 crore) and Non-Tax Revenue (₹6,101 crore) decreased marginally in comparison to preceding year. The State received compensation of ₹5,483 crore towards revenue loss due to GST implementation, partly as Grants (₹3,103 crore) and partly as back-to-back loans (₹2,380 crore) from GOI. The debt servicing of this loan would be done from the collection of cess in the GST compensation Fund and hence, repayment obligation will not be on the other resources of State. Share in central share taxes (₹12,692 crore during 2020-21) is decreasing during the past three years while the Grants-in-Aid (₹15,471 crore during 2020-21) have been increasing. As of March 2021, the State was not in receipt of certain specific Grants amounting to ₹964 crore recommended for the year 2020-21 by the XV Finance Commission.

Revenue Expenditure (₹1,23,212 crore) during 2020-21 has increased in comparison to previous year (₹1,08,798 crore) while Capital Expenditure (₹15,922 crore) has decreased from preceding year (₹16,859 crore).

The increase of Revenue Expenditure over the preceding year was mainly due to higher outgo of (i) ₹4,763 crore towards Assistance to TRANSCO for agriculture and allied subsidies (₹9,872 crore in 2020-21), (ii) ₹3,431 crore towards Investment Support Scheme i.e., Rythu Bandhu (₹14,637 crore in 2020-21), (iii) ₹2,453 crore towards interest payment on State Development Loans (₹16,841 crore in 2020-21) and (iv) ₹1,864 crore towards Relief on account of Natural Calamities due to higher expenditure under Covid-19 Pandemic (₹3,050 crore in 2020-21). The State Government received an amount of ₹1,005 crore from Telangana Building and Other Construction Workers' Welfare Board

in April 2020 towards expenditure incurred by Telangana Civil Supplies Corporation for welfare of labourers during initial Covid-19 Pandemic months. This amount was classified as Non-Tax Revenue under Revenue Receipts.

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 expenditure of ₹1,44,399 crore was incurred as of March 2021 on ongoing irrigation projects.

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

Loans and Advances given during the year (₹10,868 crore) have increased in comparison to previous year (₹8,700 crore). 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 ₹7,092 crore for taking over losses of DISCOMs under the UDAY scheme as agreed in the tripartite agreement with GoI and the DISCOMs as at end of March 2021.

The Government did not make statutory contributions of ₹1,161 crore and ₹525 crore to Consolidated Sinking Fund and Guarantee Redemption Fund respectively. The State Government adjusted only ₹21 crore from out of State Disaster Response Fund towards Covid-19 Pandemic expenditure whereas ₹397 crore could have been adjusted as per special one-time dispensation extended by Government of India (GoI), out of which ₹282 crore could have been the share of GoI.

Excluding back-to-back loans of ₹ 2,380 crore in lieu of GST compensation short fall the total outstanding Debt and outstanding Public Debt at the end of the year increased by 18.72 per cent and 19.09 per cent over the preceding year. Growth rate of these two was much higher than that of GSDP, which grew at 2.42 per cent or Revenue Receipts, which, in fact, have declined.

The Government resorted to longer maturity borrowings as 58.98 per cent of its market borrowings during the year were with a maturity of 20 to 30 years. However, there was no evidence on record to show that the Government has made any financial impact study for long maturity borrowings with similar interest rates.

The State Government was not fully disclosing all the Guarantees given by it to various institutions. The Government also did not ensure financial performance and accountability of institutions before providing Guarantees.

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 due to Covid-19 Pandemic.

There was no progress in apportionment of Assets and Liabilities between Andhra Pradesh and Telangana during 2019-20 and 2020-21.

(Chapter 2)

2.3 Budgetary Management

The State Legislature initially approved a budget of ₹1,82,959 crore and supplementary provision of ₹26,131 crore. The actual expenditure incurred was ₹2,34,088 crore, resulting in net excess expenditure of ₹24,998 crore.

Savings occurred in all parts of voted section, while excess expenditure occurred in Revenue Charged and Public Debt Repayment sections. The excess expenditure on Public Debt Repayment was mainly due to repayment of Ways and Means Advances. Excess expenditure under Revenue Charged section was mainly due to 'Interest on State Development Loans' (excess of ₹1,833 crore), 'Interest on General Provident Fund' (₹46 crore) and 'Telangana State Life Insurance Fund' (₹215 crore) which could have been provided in the Budget with reasonable accuracy.

There is a consistent trend of incurring expenditure without budget provision (₹1,247 crore during 2020-21) as also expenditure over and above the provision (₹81,514.54 crore) across the years in contravention of the Constitutional provisions. Such excess expenditure of ₹1,32,547 crore from 2014-15 to 2019-20 was yet to be regularised.

The budgets for the administrative Grants were under-estimated while welfare and development Grants were over-projected. As a result, persistent excess expenditure occurred in Fiscal Administration and Home administration Grants, while savings occurred in welfare Grants indicating inadequate implementation of welfare schemes.

Municipal Administration and Urban Development (Capital Voted - ₹7,547 crore), Housing (Revenue Voted - ₹7,069 crore) and Social Welfare (₹6,124 crore) were the Grants in which major amounts remained unspent during the year. There were persistent savings of more than ₹1,000 crore in Municipal Administration, Social Welfare, Tribal Welfare and Agriculture Grants.

Entire Provisions remained unspent in respect of Hyderabad Urban Agglomeration (₹10,000 crore), Construction of Two Bed Rooms House to the Rural Poor (₹3,150 crore), Two Bed Room Houses (₹1,850 crore), and Market intervention fund (₹1,000 crore). Of these, Hyderabad Urban Agglomeration and Market intervention Fund were new initiatives announced during the Budget speech. Out of ₹6,225 crore provided towards Scheme for debt relief to farmers, only an amount of ₹213 crore was spent, leaving an unspent provision of ₹6,012 crore. In respect of ₹5,000 crore provided towards construction of Two Bed Room Houses to the urban poor, only ₹550 crore was utilised resulting in saving of ₹4,450 crore. Low expenditure on maintenance of irrigation projects continued in the current year, like the previous year.

Under 22 Sub-heads in 17 Grants, the entire Supplementary Provision of ₹241 crore approved by Legislature was withdrawn indicating futility in obtaining approval for supplementary provisions at the end of the year.

(Chapter 3)

2.4 Quality of Accounts and Financial Reporting Practices

Amounts (₹269 crore) pertaining to State Compensatory Afforestation Fund (SCAF), which should have been maintained in public account, were kept in a Nationalised Bank. Amounts (₹217 crore) receivable from user agencies, which were to be credited to SCAF, were still with National CAMPA as payment gateway was under establishment.

Government did not discharge its interest liability over the funds lying in State Disaster Response Fund (₹59 crore) and State Compensatory Afforestation Fund (SCAF) (₹135 crore) and Defined Contribution Pension Scheme Deposits (₹19 crore).

There is a decrease in unadjusted Abstract Contingent bills both in number and amounts as on 31 March 2021. The average time take to adjust Abstract Contingent bills was abnormally high in respect of Health, Medical and Family Welfare Department (11 years) and in respect of Finance Department (5 years). Further, substantial average time taken by Revenue and Agriculture Departments (more than 2 years) is also a matter of concern since huge amounts are involved.

State Government has indiscriminately operated Minor Head '800' – Other Receipts and Other Expenditure and despite having relevant Minor Heads .

Non-reconciliation of accounts by the account rendering units/authorities affected accuracy and completeness of accounts of the State.

Delay in submission of Annual Accounts by the Government Companies and Autonomous Bodies dilutes accountability and impacts the purpose of preparation of accounts.

The State Government is yet to comply with the three notified Indian Government Accounting Standards.

(Chapter 4)

2.5 Financial Performance of State Public Sector Undertakings (SPSUs)

As on 31 March 2021, 82 State Public Sector Undertakings (SPSUs) Enterprises in Telangana (including 79 Government Companies and three Statutory Corporations) were under the audit jurisdiction of the Comptroller & Auditor General of India. Of the 82 PSUs, eight PSUs relate to Power Sector and 74 relate to sectors other than Power including three Government Companies newly incorporated during the year 2020-21. Out of these PSUs, 16 companies were inactive and under either liquidation or were defunct.

As per their latest accounts and information furnished, the PSUs registered an annual turnover of ₹66,316.99 crore, which was equal to 6.76 per cent of the Gross State Domestic Product (GSDP) of Telangana during 2020-21. As on 31 March 2021, the investment of the Central and State Governments and Others in equity and long-term loans in these 82 PSUs was ₹1,20,070.67 crore.

Out of the 30 PSUs which had furnished their accounts/ information for 2020-21, 12 PSUs earned profits (₹728.63 crore), 16 PSUs incurred losses (₹10,295.63 crore) and two PSUs had reported neither profit nor loss. Major profit-making PSUs during the year 2020-21 were Singareni Collieries Company Limited (SCCL) (₹272.64 crore), Telangana State Power Generation Corporation Limited (₹168.80 crore), Transmission Corporation of Telangana Limited (₹206.77 crore) and Telangana State Forest Development Corporation Limited (₹51.83 crore). Only one company SCCL declared dividend of ₹173.32 crore during the year 2020-21. However, the profits of the 12 PSUs were offset by the losses incurred by Southern Power Distribution Company of Telangana Limited (₹4,622.60 crore), Northern Power Distribution Company of Telangana Limited (₹2,440.36 crore), Telangana State Road Transport Corporation (₹2,329.23 crore) and Telangana State Housing Corporation Limited (₹733.15 crore). These huge losses during the above period contributed to the overall losses of the PSUs.

The total accumulated losses of 19 PSUs was ₹67,580.38 crore and after setting off accumulated profit of nine PSUs ₹7,723.78 crore, the net accumulated losses were at ₹59,856.60 crore as on 31 March 2021. As a result of losses, the combined net worth of 30 PSUs was completely eroded and it stood at (-) ₹38,741.14 crore as on 31 March 2021.

Out of 66 working PSUs, Financial Statements for the year 2020-21 were received only from seven PSUs in time. Fifty-nine PSUs have defaulted in timely submission of accounts. Of these, 36 PSUs accounts were due for more than three years and 16 PSUs have not even submitted their first accounts since their incorporation.

As a result of the audit of CAG, statutory auditors of seven PSUs revised their Audit Report. In addition, significant comments highlighting inaccuracies in the Financial Statements impacting profitability by ₹302.03 crore and assets / liabilities by ₹6,041.46 crore were also issued.

Irregularities and deficiencies in the financial reports observed during supplementary audit which are not material, were communicated to the Management of ten PSUs through 'Management Letters' for taking corrective action.

(Chapter 5)