CAG raps State for overstating revenue surplus and understating fiscal deficit

Pat on the taxes front as the cost of collection decreased

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The Comptroller and Auditor-General of India (CAG) has found fault with the State Government for overstating its revenue surplus and understating fiscal deficit on account of misclassification, non-contribution to statutory funds and classifying subsidies as loans.

The CAG said the State's revenue surplus pegged at ₹3,459 crore for the year 2017-18 and fiscal deficit ₹26,700 crore, the revenue surplus was overstated by ₹3,743.74 crore while the fiscal deficit was understated by ₹954.6 crore on account of misclassification, non-contribution to statutory funds and classifying subsidies as loans. "Effectively, there was a revenue deficit of ₹284.74 crore and fiscal deficit was ₹27,654 crore," the CAG said in its State Finances Audit Report for the year ended March 2018.

Further, the CAG said the fiscal deficit (₹26,700 crore) was 3.55 per cent of the GSDP pegged at ₹7,52,230 crore, which marginally exceeded the 3.5 per cent limit fixed by the 14th Finance Commission. The outstanding public debt to Gross State Domestic Product was 19 per cent, which was within the 22.82 per cent ceiling fixed by the finance panel. The outstanding liabilities too were 22.05 per cent of the GSDP well within the prescribed limit of 25 per cent as per the medium term fiscal policy statement of the State Government.

Revenue receipts

The revenue receipts (RR) and revenue expenditure (RE) had increased during the year 2015-16 to 2017-18 even after accounting for inflation. However, the RR and RE had decreased as percentage of the GSDP. The growth of RR and RE decreased in 2017-18 in comparison to the preceding year and the capital expenditure, which had increased in 2016-17, saw a decline in 2017-18. Revenue receipts (₹88,824 crore) in 2017-18 increased by ₹6,006 crore over 2016-17, but were lower than budget estimates by ₹24,259 crore.

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CAG faults government dues to discoms, delay in completion of projects

'Clearing dues essential to ensure fiscal turnaround of power utilities'

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The Comptroller and Auditor General (CAG) of India has suggested that the Telangana Government pay dues of energy charges from all government departments and local bodies to the distribution companies (discoms) and also compensate them appropriately while implementing new policies to ensure financial turnaround of the power utilities.

The recommendation made in the State Finances Audit Report for 2017-18, which was tabled in the Legislative Assembly and Council on Sunday, assumes significance in the backdrop of almost all discoms, except the Uttar and Dakshin discoms of Haryana, in the country running in losses in spite of their debt being taken over the by State governments concerned after joining the Ujjwal Discom Assurance Yojana (UDAY).

The State government's actions have adversely impacted the discoms, which in turn impacted the Return on Investment.

Union Minister of State for Energy R. K. Singh recently stated here that dues from various government departments and local bodies in Telangana to the two discoms were to the tune of ₹9,500 crore and the utilities' financial health would improve only if the dues were cleared.

In its comment/observation on investment in public sector undertakings as part of its audit report, the CAG said as of March 31, 2018, the State government's investments in statutory corporations, government companies, joint stock companies and cooperatives stood at ₹16,365 crore. The Return on Investment (RoI) was, however, low at 0.62% while the average rate of interest on the government's borrowings was 7.21%.

As the government investments were highest in power sector, losses from it (₹6,202 crore) accounted for 94% of total losses (₹6,619 crore) incurred by State PSUs in 2017-18. Further, the CAG report observed: "The State government's actions have adversely impacted the discoms, which in turn impacted the Return on Investment".

On irrigation

On its observation on capital outlays and incomplete projects, the CAG report suggested that the government compile working results of major irrigation projects to assess benefits from persistent heavy outlays. "The working results should guide future investments in the sector," the report said.

Stating that the State Government had treated creation of infrastructure as a priority area since formation of the State, the CAG report said ₹79,236 crore had been spent on capital projects during 2014-18. Within the capital projects, more than 50% of the expenditure was on irrigation and flood control, except in 2016-17. However, delay in completion of projects had adversely affected the quality of expenditure and deprived the State of intended benefits and economic growth, report said.

The CAG report pointed out that "in respect of 19 irrigation projects, whose original cost was ₹41,201 crore, the delays ranging from 3 to 11 years led to escalation of projected cost to ₹1,32,928 crore. So far, ₹70,758 crore was spent on these incomplete projects". The CAG also faulted the State government for not disclosing financial results of any of the irrigation projects.

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CAG raps State for overstating revenue surplus

The revenue expenditure (₹85,365 crore) increased by ₹3,933 crore (4.83 per cent) over the previous year.

It was, however, lower than the budget estimates by ₹23,147 crore. The capital expenditure on its part decreased by ₹9,469 crore (28 per cent) in comparison to 2016-17 which was, however, lower than the budget estimates by ₹7,028 crore, the CAG said, suggesting that the Finance department rationalise the budget preparation excise so that the gap between the budget estimates and actuals was bridged.

The State, however, received appreciation in terms of tax collection with the CAG stating that the cost of collection of major taxes of the State had decreased during the last three years, indicating greater efficiency (measured as cost of collection of tax as a percentage of tax collection). Telangana also fared favourably in its focus on development expenditure (₹84,006 crore) and capital expenditure (₹23,902 crore) in comparison to other general category states, but the State, however, lagged behind in the area of education.

The burden of committed expenditure measured as percentage of *the revenue expenditure was steadily rising due to increase in interest payments (26 per cent over 2016-17) and pension payment (32 per cent over 2016-17).*

"Greater reliance on market borrowings by the government in recent years led to increase in liabilities on account of interest payments," the CAG said in its report.