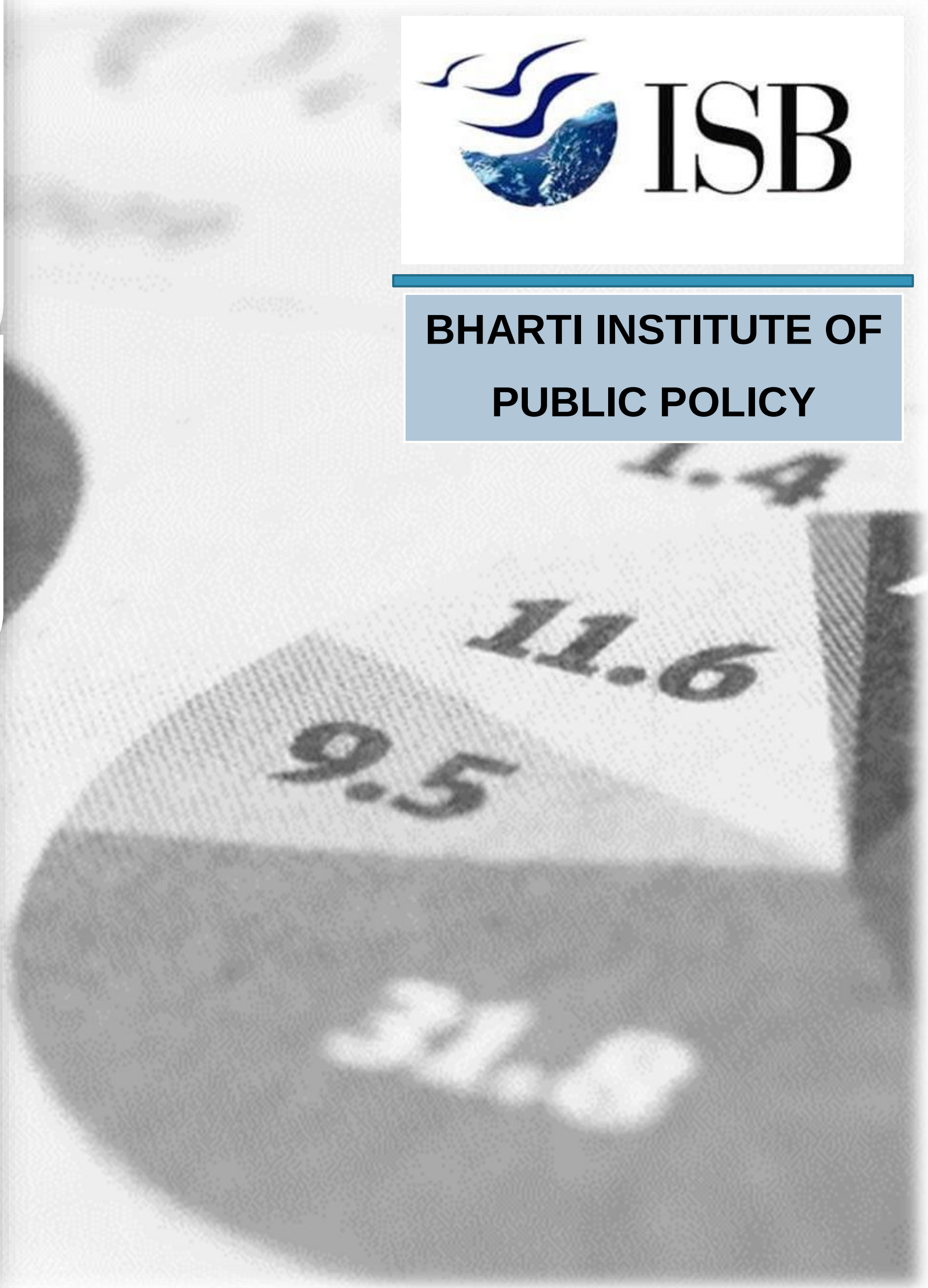

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BHARTI INSTITUTE OF PUBLIC POLICY

Evaluation of State Finances

A STUDY OF GOVERNMENT OF TELANGANA

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ABBREVIATIONS

ACA	Additional Central Assistance
Bn	Billion
CAG	Comptroller and Auditor General
CAPEX	Capital Expenditure
CR	Capital Receipts
DISCOMs	Distribution Companies
DTR	Distribution Transformer
EAP	Externally Aided Projects
EHT	Extra High Tension
ESIC	Employee State Insurance Corporation
FFC	Fourteenth Finance Commission
FRBM	Fiscal Responsibility Budget Management
GFD	Gross Fiscal Deficit
GIC	General Insurance Corporation
GOAP	Government of Andhra Pradesh
GPs	Gram Panchayats
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
IMF	International Monetary Fund
INR	Indian Rupee
ISI	Indian Statistical Institute
IPPE	Intensive Participatory Planning Exercise
IT/ITES	Information Technology/ Information Technology enabled services
K	Thousand
KV	Kilo Volt
LIC	Life Insurance Corporation
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MM	Million
MTFP	Medium Term Fiscal Policy

MU	Metric Unit
NABARD	National Bank for Agriculture and Rural Development
NCDC	National Cooperative Development Corporation
NDCE	Non-Departmental Commercial Enterprise
NEC	North Eastern council
NRLM	National Rural Livelihoods Mission
NSSF	National Small Savings Fund
OBC	Other Backward Class
PAN	Permanent Account Number
PD	Primary Deficit
PGCIL	Power Grid Corporation of India Ltd.
PRIs	Panchayati Raj Institutions
PSPCL	Punjab State Power Corporation Limited
PSUs	Public Sector Undertakings
RBI	Reserve Bank of India
RD	Revenue Deficit
RR	Revenue Receipts
SBI	State Bank of India
SC	Scheduled Caste
SDL’s	State Development Loans
SFC	State Finance Commission
SLDC	State Load Despatch Centre
SOTR	State Own Tax Revenue
ST	Scheduled Tribe
TCE	Total Capital Expenditure
TSNPDCL	Northern Power Distribution Company of Telangana Limited
TSSPDCL	Southern Power Distribution Company of Telangana Limited
UDAY	Ujjwal DISCOM Assurance Yojana
ULB’s	Urban Local Bodies
ULDC	Unified Load Despatch & Communication
WMA	Ways and Means Advances

MAP OF THE STATE

1

[1] Source: https://telangana.gov.in/About/Districts

EXECUTIVE SUMMARY

The importance of good public financial management for the effectiveness of the state has become increasingly clear over the years. Good public financial management supports not only good governance and transparency but is also crucial for effectively delivering the services on which human and economic development rely. For these reasons, time to time evaluation of state finances becomes a priority.

This report 'Evaluation of the State Finances with respect to the government of Telangana' presents a critical analysis of the financial health of the state, during the period 2014-15 to 2017-18. The report covers issues pertaining to the state finances: the revenue receipts and expenditures, deficits, debt and liability, performance of PRIs and Urban Local Bodies, performance of State Public Enterprises and its impact on the financial health of the state, impact of Power Sector Reforms on state's fiscal health, Contingent Liabilities, Subsidies, performance of Transport Sector, performance against the recommendation of 14th Finance Commission etc.

The study has used secondary data from different published sources like RBI reports, Finance Accounts, Budget Documents, CAG Reports, Reports of Public Enterprises, and Reports of various ministries. Simple techniques like ratio, percentage, graph etc. have been used to show changes in the fiscal parameters of the state over the period.

The document endeavours to explore and deliver a broad overview of the fiscal scenario vis-à-vis Government of Telangana from the very inception of the state in the year 2014. Here, major parameters of the State Government budget including receipts and expenditures of revenue and capital accounts have been studied and described with necessary analysis. The major findings of the report are as under:

1. Receipts & Expenditure: The total revenue receipts of government of Telangana, in general, exhibits a decent growth trend in the past four years, with an average growth rate of 31.49 % from 2014-15 to 2017-18. State's Own Tax Revenue and tax collections through state GST has been highest nationwide. State's Own Tax Revenue has witnessed an average growth rate of 17.2% in the past four fiscal years. On the contrary, State's Own Non-Tax Revenue has been declining over the period of study incapacitating revenue raising abilities of the State.

Based on comparative analysis of Government of Telangana's budget estimates of revenue receipts vis-à-vis the actuals, it can be inferred that there has been an over estimation of revenue receipts over the years ranging from 2014-15 to 2016-17. This aspect of the budget planning should be reviewed in order to pursue prudent budgetary practices of close estimation.

On the Revenue Expenditure front, Government of Telangana prioritised Development expenditure over non-development expenditure by spending sweeping amount of Rs. 562.35 Billion in the year 2016-17 for development purposes while Rs 251.25 Billion were provided for non-development purposes during the same year. Moreover, extensive growth of 112% in Development Expenditure and 120% in Non-Development Expenditure has been witnessed over the last four years i.e., between 2014-15 to 2017-18. However, the growth of Total Revenue Expenditure has witnessed a sharp decline from the year 2015-16 to 2016-17. Besides, Committed Expenditure of Telangana State encompassing interest payments, subsidies, salaries and wages and pensions account for about 52.2 % of the total revenue receipts during the year 2016-17 thereby restraining the considerable resources for fixed obligations.

Based on the Revenue Receipts generated, and Revenue Expenditure incurred during the year ending March 2017, Telangana has been a Revenue Surplus state. However, CAG reported this finding as overstatement of Revenue Surplus. The audit findings revealed that During the year 2016-17, there was a Revenue surplus of Rs. 13.86 Bn which is overstated by Rs. 67.78 Bn.

With respect to Capital Receipts, the state received highest funds through ‘Deposits & Advances’ followed by Internal Debt for the last two years as per the Budget Estimates. The government of Telangana banks upon ‘Market Loans’ for various welfare schemes, it being the highest component of Internal Debt. On the other hand, under Capital Expenditure, highest disbursements are made towards ‘Deposits &Advances’ followed by ‘Total Capital Outlay’ for the year 2016-17 and 2017-18. However, in the years 2014-15 and 2015-16, ‘Suspense & Miscellaneous’ accounted for both highest capital disbursements and capital receipts.

Comparison of Budget Estimates and Actuals of Capital Receipts and Expenditures reveals huge gap, denoting actuals being way higher than estimates. According to audit findings of CAG, capital expenditure (Rs. 333.71 Bn) was more than budget estimates (Rs. 293.13 Bn) and its ratio to total expenditure stood at 28.22%, much higher than general category states (19.70%).

Further, considering the Development and Non-Development Expenditure (both revenue and capital account and loans and advances by state for developmental and non-developmental purposes), government spends almost 77% on developmental purposes, rest on non-developmental purposes as per the estimates of 2017-18. Although, among general category states, Telangana ranks lower in Development Expenditure and Non-Development Expenditure, at 11th and 13th rank respectively; it runs various ambitious development and welfare schemes.

The key observation to be acknowledged is that government of Telangana' Tax to GSDP ratio has crossed the double-digit mark over the recent years of study. Moreover, Own tax revenue and GST collections of Telangana have been highest nationwide. Telangana ranks at 6th place among general category states in 'own tax revenue GSDP Ratio', performing a little better than Andhra Pradesh which is ranked at 12th place.

2. Debt & Liability Profile: Analysing the Debt and Liability profile of the state, it is observed that 'Internal Debt' accounted for being the highest 'Outstanding Liabilities' of the state throughout the period ranging from 2014-15 to 2017-18. Furthermore, the Debt-GSDP ratio has crossed the double-digit mark over the years of study witnessing growth increments. The maturity profile of Debt as on 31 March 2017 indicated that the State has to repay 48.93 per cent of debt amounting to Rs. 563.88 Bn within the next 7 years. The ratio of debt repayment to debt receipts during the year indicated that Government had utilized 34.74 per cent of borrowed funds for repayment of its existing debt which had increased by 18 percentage points over previous year. Though, the repayment of Debt as percentage of tax revenue increased from 7.12 during 2015-16 to 32.16 during 2016-17. Comparing with Andhra Pradesh, Telangana ranks at 17th place (15.9%) among general category states in terms of Total Outstanding Liabilities relative GSDP, whereas Andhra Pradesh is ranked at 10th place and has high debt burden (24.3% relative to GSDP).

3. Fiscal Consolidation and Management: Comprehending fiscal management of the state, the data reveals that revenue surplus accrued to the state over the period of study and Gross Fiscal deficit (which reveals money from borrowings) as percentage of GSDP as estimated stood at 5.5% in 2016-17 and 3.2% in 2017-18. However, CAG findings reveal that Fiscal deficit (Rs. 352.81 Bn) constituted 5.46 per cent of GSDP. Primary deficit stood at Rs. 266.72 Bn. Furthermore, the revenue surplus is overstated by Rs. 67.78 Bn and fiscal deficit understated by Rs. 25.00 Bn, as per CAG. The current fiscal deficit also surpasses the FRBM target of 3.5%.

4. Decentralisation Initiatives for PRIs and ULB's: State of Telangana issued guidelines to Panchayati Raj and Rural Development Department for the preparation of decentralized development plans along with launching of an exclusive program: 'Gram Jyoti' to empower gram panchayats. Seven Key areas viz: Drinking Water and Sanitation Sector, Health and Nutrition sector, Education, Infrastructure, Natural Resources Management, Agriculture, Social security and Poverty Reduction were identified as critical areas necessary for the holistic development of Gram Panchayat. Analysing the composition of Sources of funds of local bodies; it is observed that ‘Government of India Grants’ contribute largest to PRI’s funding while for ULB’s it is ‘Own Revenue’. Furthermore, in pursuance of the objective of providing financial autonomy to Local bodies, Fourteenth Finance Commission has recommended a Basic Grant of Rs. 4837.75 Crores to Rural Local Bodies and Rs. 2711.12 Crores to Urban Local Bodies to be released over a period of five years (2015-20). The commission also recommended a Performance Grant Rs. 537.53 Crores to Rural Local bodies and Rs. 677.78 Crores to Urban Local Bodies to be released over a period of four years (2016-2020). While the Basic Grant would cater to delivering of basic services, Performance Grant would develop a sense of accountability among the local bodies by ensuring their compliance with maintenance, audit and disclosure of books of accounts.

5. Fiscal Position of State Public Enterprises: Overviewing the state of Public-Sector Enterprises of Telangana, as on 31 March 2017, there were 69 PSUs in Telangana, out of which 43 were working PSUs. However, only 14 Working PSUs finalised their accounts, out of which six earned total profits of Rs. 947.51 Crores, other six incurred total losses of Rs. 5716.33 Crores and remaining two made no profit no loss. PSUs receive monetary support from the state government in the form of loans, equity, grants/subsidies, interest waive off and loans written off. The biggest loss-making companies belonged to Power sector accounting for 99.88% of the total losses incurred by the Working PSUs. Besides, the sectoral analysis of investments in PSU’s reveal that the highest share was grabbed by the Power Sector, thus reflecting a dichotomy since the sector incurring heaviest losses received highest investments.

6. Power Sector Overview & Reforms: Power Sector has the highest share of subsidy from the State amounting to 61.92% of the total Subsidies paid by the State of Telangana. Power Distribution Companies (DISCOMs) incurred accumulated losses of 21,220.22 Crores for the period 2015-16 and 2016-17 and the entire sector accounted for 99.88% of the total losses incurred by working PSUs of Telangana. The huge losses of DISCOMs are primarily attributed to excessive expenditure on power purchase with respect to revenue realised, increased employee costs and other operational expenditure. In order to improve the viability and performance of the Power Sector PSUs, Government of Telangana has made huge investment in the sector. However, it is observed that there has been a slight reduction in the investment in the year 2016-17 (Rs. 285.79 Billion) from the year 2015-16 (Rs. 291.27 Billion). Nevertheless, when compared with rest of the sectors, Power Sector stands highest in grabbing government investments

7. Subsidies: Subsidies hold an important responsible component for the State Government to incentivise economic growth and promote its welfare policies. It could be observed that Power Sector has received the highest subsidies throughout the timeline of three years beginning from 2014-15 when compared with rest of the sectors. Furthermore, subsidies account for about 7.17% of the revenue expenditure in the year 2016-17 which is more or less the same as that of past years (2014-15-7.08%; 2015-16-6.80%). In addition, budgetary assistance of Rs 10.75 Billion; though in nature of subsidy; was provided in the form of Grants-in-aid to various departments.

8. Contingent Liabilities: The major contingent liability of the state comprises of 'Outstanding Guarantees' (guarantees on behalf of public enterprises and the private sector, and state insurance schemes). The outstanding guarantees at the end of 2016-17 were majorly in respect of Telangana Drinking Water Supply Corporation Ltd., (11,124 crore), followed by Corporation under Energy Sector (4,618 crore).

9. Transport Sector: Analysing the Transport Sector of the state, it is observed that Telangana State Road Transport Undertakings is incurring losses, more in the year 2015-16 amounting to Rs. 7.02 Billion against the previous year losses of Rs. 4.01 Billion. Although, the Ministry of Road Transport and Highways evidenced the Undertakings as third best performer amongst the Indian States with respect to select parameters.

10. Outcome Evaluation of 14th Finance Commission vis-à-vis State Finances: The evaluation of the state finances is performed as per 14th Finance Commission Recommendations with respect to three parameters viz: Tax Devolution, Fiscal Deficit and Transfers to PRI's and ULB's. It is observed that increase in Tax Devolution to 42% has resulted in substantial rise in state's share in Central taxes. Against the fiscal deficit threshold of 3.5%, Telangana went up to 5.46% for the year 2016-17. With regards to Decentralisation, the entire amount as recommended by 14th Finance Commission is transferred and expended by both PRI's and ULB's.

ABOUT ISB

Indian School of Business is an internationally top-ranked, research-driven, independent management institution that grooms future leaders for India and the world.

Research being at the core of ISB, has always ignited per se a strong drive to utilise the knowledge and expertise of its human resource to engage with business, government and society, and to contribute to the welfare and development of the community at the local, national, and global levels.

It strives to produce not only the young leaders through its academic programmes but also offer high-quality research to various stakeholders through multiple engagements and knowledge sharing.

ABOUT BHARTI INSTITUTE OF PUBLIC POLICY

The Bharti Institute of Public Policy is an integral part of the ISB's Mohali campus. Functioning as an independent think-tank, the institute engages with policy makers by providing them with critical, evidence-based analyses of public policy rooted in data. The institute has partnered with the world-renowned Fletcher School of Law and Diplomacy at Tufts University, USA.

The institute works on policy challenges across diverse domains, the main ones being Agriculture and Food, Environment, Education, Financial Policy, Governance and Digital identity. The common foundation across the institute's domain specific research is the rigour brought to the analysis by the emphasis on using the best possible evidence available. This relentless focus on data and evidence has helped the institute secure a $2 million+ grant from the Bill and Melinda Gates Foundation to develop and build a portal providing various types of spatial and temporal data and associated visualisations to improve the quality of data-journalism in India. Other agencies with whom the institute has partnered and continues to work with include various state governments, and multilateral agencies like the World Bank, UNDP and UNICEF.

In terms of education, the Advanced Management Programme in Public Policy (AMP-PP), is a flagship programme developed by Bharti Institute of Public Policy at ISB. The institute is also responsible for offering the public policy specialisation in ISB's Post Graduate Programme (PGP). This specialisation comprises a carefully curated set of courses that impart necessary skills in the fast-changing world of policy to B-school graduates, as well as exposing them to the practices and challenges of the policy world.

TERMS OF REFERENCE

The Second party to the Contract will conduct the above study in accordance with the proposal submitted by it to the First Party and would broadly cover the following: -

1. The study should provide an analysis of the State Finances over a period of 4 years starting from 2014. Specifically, the study should include (and may not be restricted to) the following:

i. Estimation of revenue capacities of State and Measures to improve the tax-GDP ratio during last five years. Suggestions for enhancing the revenue productivity of the tax system in the State.

ii. Analysis of the state's own non-tax revenues and suggestion to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.,

iii. Expenditure pattern and trends separately for Revenue and Capital, and major components of expenditure there under. Measures to enhance allocative and technical efficiency in expenditures during the last 5 years. Suggestions for improving efficiency in public spending.

iv. Analysis of Deficits - Fiscal and Revenue.

v. The level of Debt: GSDP ratio and the use of debt (i.e. whether it has been used for capital expenditure or otherwise). Composition of the state's debt in terms of market borrowing, Central government debt (including those from bilateral/multilateral lending agencies routed through the Central government), liabilities in public account (small savings, provident funds etc) and borrowings from agencies such as NABARD, UC etc.

vi. Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various departments and aggregate.

vii. Analysis of the state's transfers to urban and rural local bodies in the State. Major decentralization initiatives.

viii. Impact of State Public Enterprises finances on the State's financial health and measures taken to improve their performance and/or alternatives of closure, disinvestment etc.

ix. Impact of Power Sector Reforms on States' fiscal health. In case reforms have not been implemented, the likely outcome on the States' fiscal health.

x. Analysis of contingent liabilities of the State.

xi. Subsidies given by the States (Other than Central subsidies), its targeting and evaluation.

xii. Outcome Evaluation of State Finances in the context of recommendations of the 14th Finance Commission.

xiii. Determination of a sustainable debt roadmap for 2020-25, taking into account impact of introduction of GST and other tax/non-tax trend forecasts.

The evaluation study is expected to critically analyse the overall States' finances over the four-year period with reference to above and the ToR of the the Finance Commission. Suggestions for improved financial performance may also be given.

PROFILE OF THE STATE

OVERVIEW

Telangana- the youngest state of India, came into existence on 2nd June 2014 as a result of the split of erstwhile Andhra Pradesh state. Telangana is surrounded by Maharashtra and Chhattisgarh in the North, Karnataka in the West and Andhra Pradesh in the South and East directions.

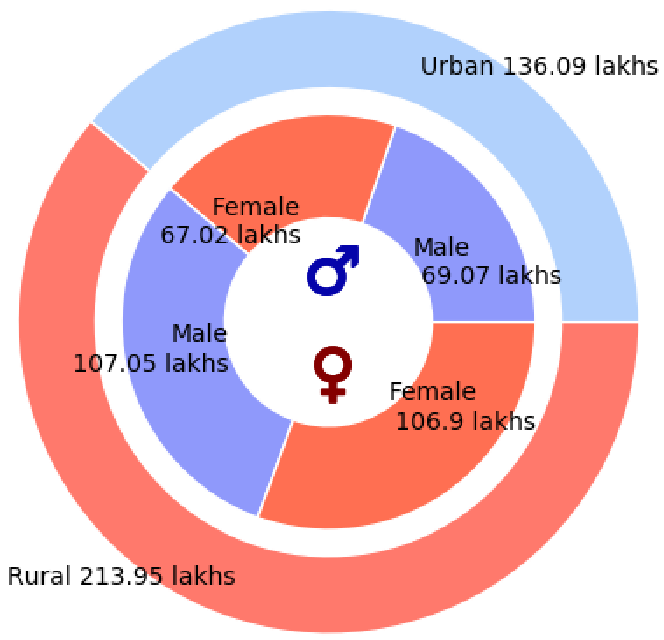
Telangana is the twelfth largest state in terms of both area (1,12,077 Sq. Km.) and population (3.50 crores) in India. The economy is mostly driven by agriculture and majority of the population resides in rural areas (61.12% of the total population).

Hyderabad is a premier hub for IT/ITeS and Pharma sectors. Apart from these, Telangana has a diverse industrial base with textiles, leather, minerals, food processing, nano-technology and biotechnology.

The Service sector is a major contributor in the GSDP of the state.

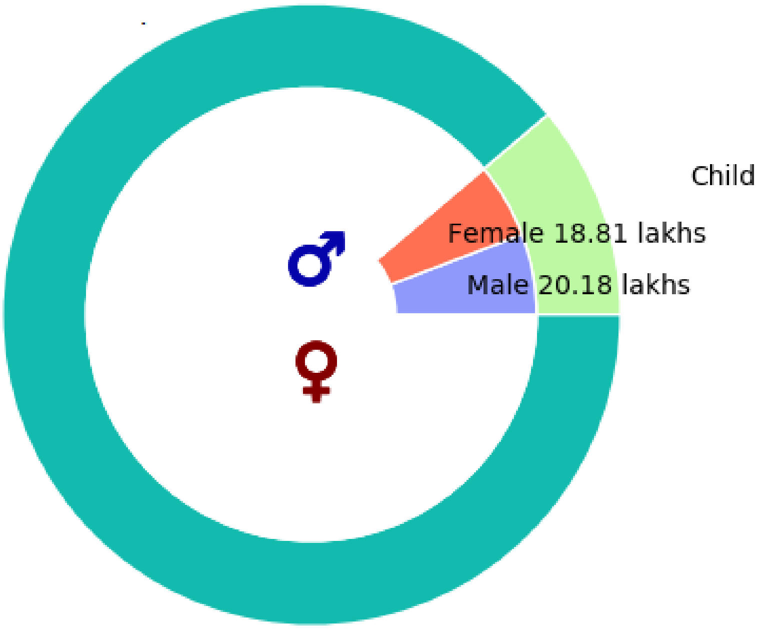
KEY STATISTICS OF THE STATE

Figure 1. Proportion of Urban/Rural Population to Total Population



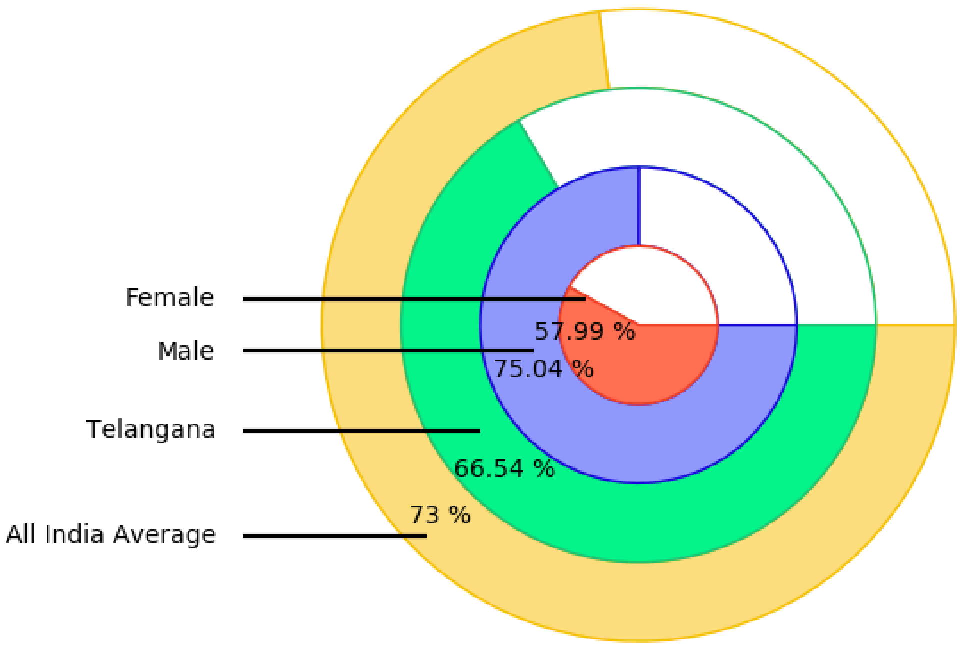
Source: https://www.telangana.gov.in/About/State-Profile

Figure 2. Gender-wise Child (0-6 years) Population



Source: https://www.telangana.gov.in/About/State-Profile

Figure 3. Literacy Rate
(as per 2011 Census)



Source: https://www.telangana.gov.in/About/State-Profile

Figure 4. Per Capita Income at Current Prices

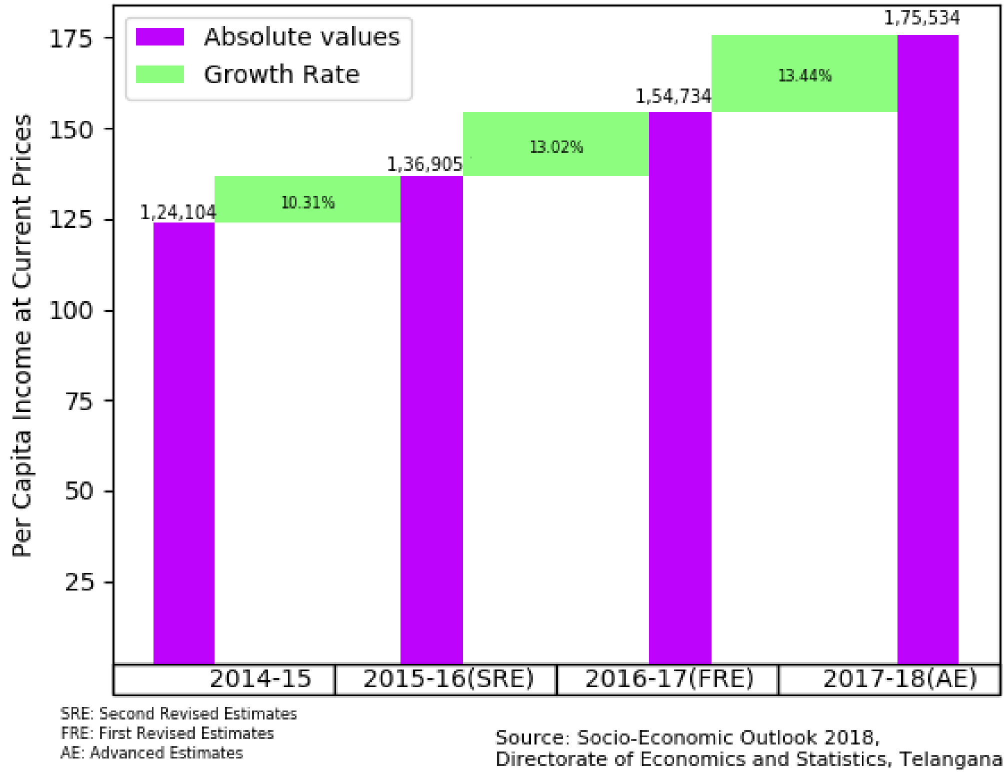


Figure 5. Gross State Domestic Product at Current Prices (in Bn INR)

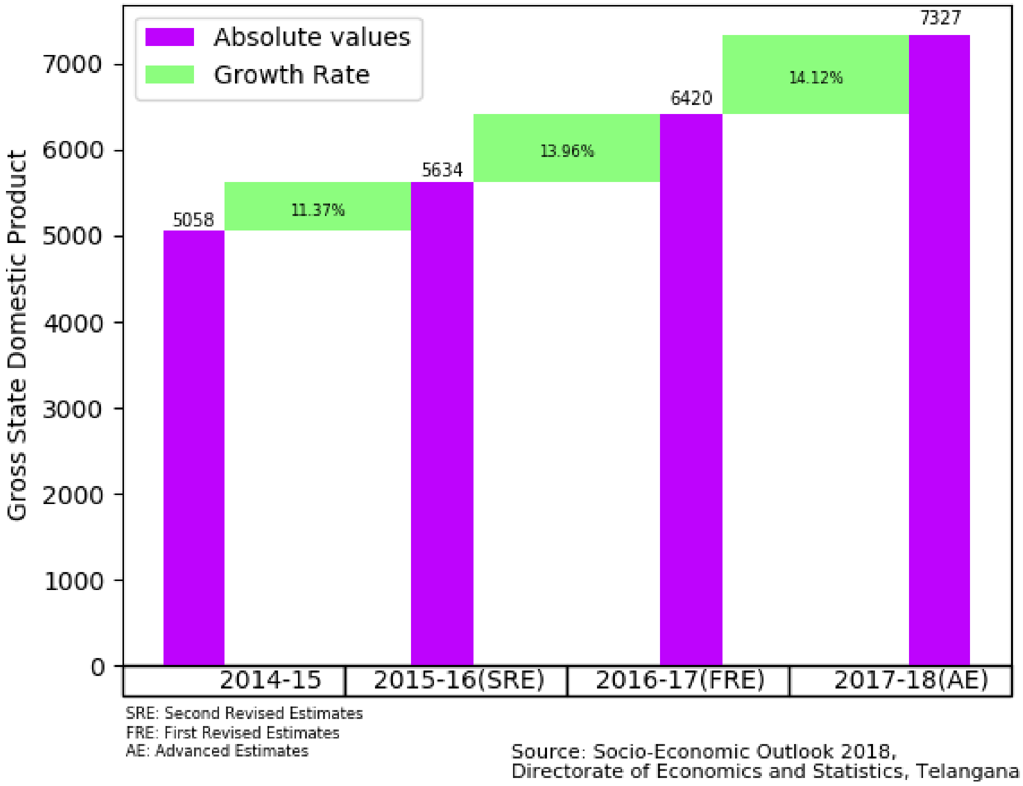
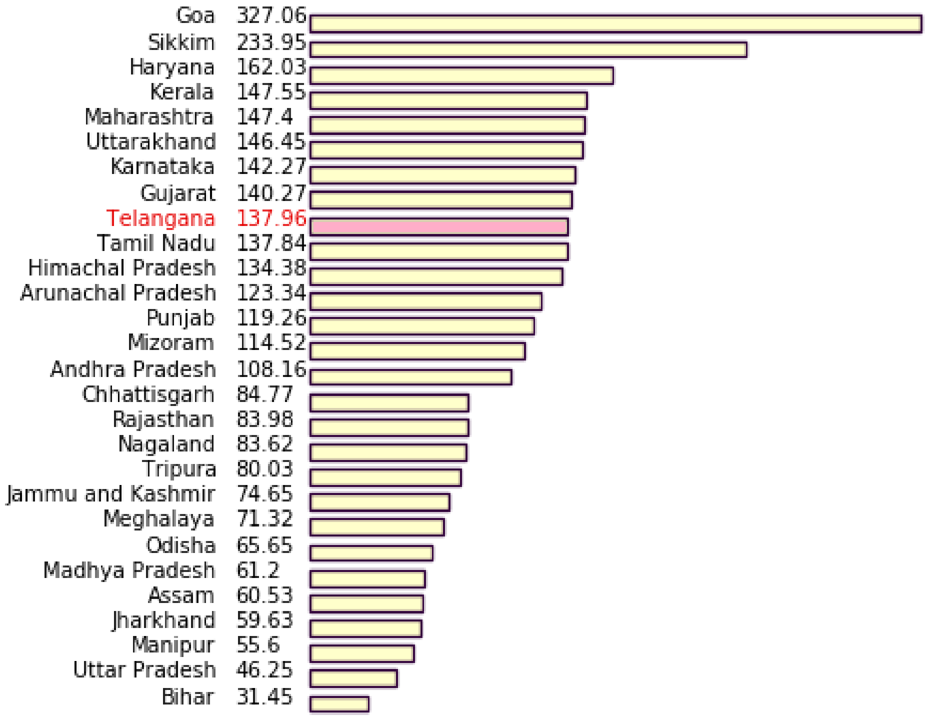
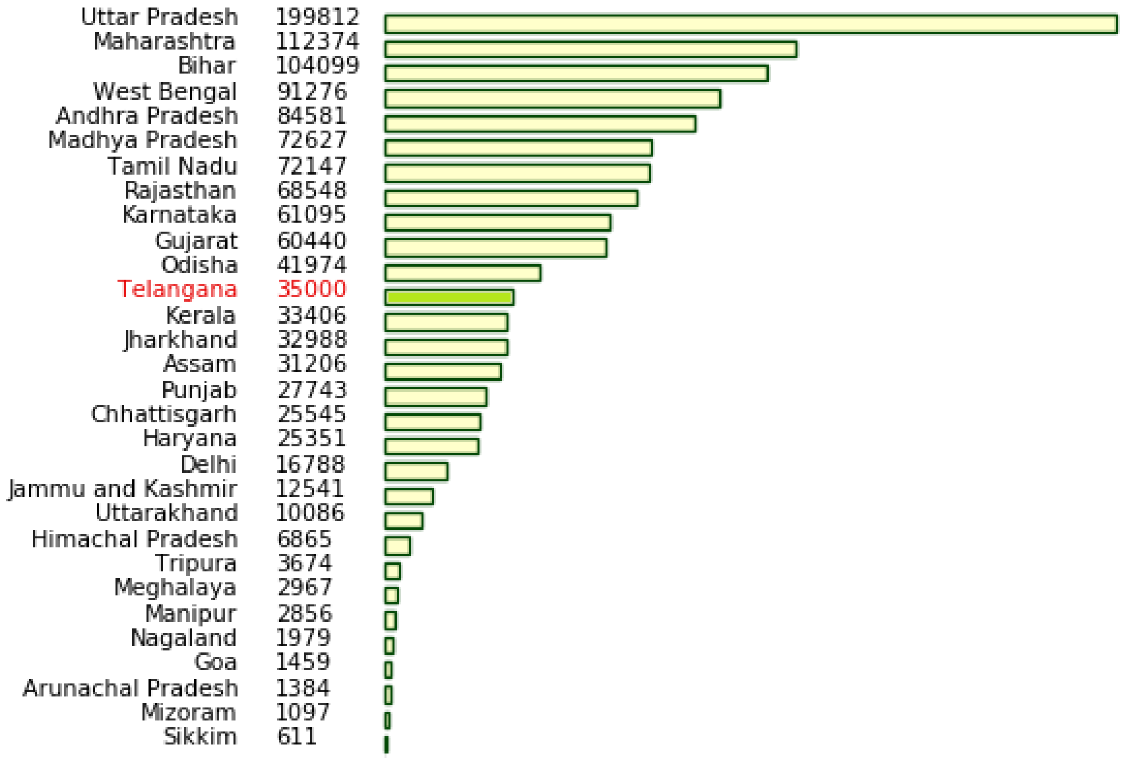


Figure 6. Per Capita Net State Domestic Product at Factor Cost (Current Prices) Base Year 2011-12 (in K INR)



Source: Handbook of Statistics on Indian States(2017-18),RBI

Figure 7. Statewise Population(as per 2011 census) (in K)



Source: Handbook of Statistics on Indian States(2017-18),RBI

Table 1. Telangana GSDP relative to All India GDP

Years	2014-15	2015-16(SRE)	2016-17(FRE)	2017-18(AE)
GSDP of Telangana(in Bn INR)	5058	5634	6420	7327
GDP of India(in Bn INR)	124680	137640	152537	167517
%age contribution	4.06	4.09	4.21	4.37

FRE: First Revised Estimates
SRE: Second Revised Estimates
AE: Advanced Estimates

Source: Socio-Economic Outlook 2018,
Directorate of Economics and Statistics, Telangana

1. FISCAL OUTLINE OF THE STATE

1.1. REVENUE RECEIPTS

All those government receipts which neither create liabilities nor reduce assets are treated as revenue receipts.

These receipts indicate government's cash inflow and are regular and recurring in nature. Government receives such receipts in its normal course of activities.

Such receipts include: taxes, interest and dividends, cess and other receipts for services by the government. These government receipts are meant for government expenditure.

Two major constituents of revenue receipts are: Tax Revenue and Non-Tax Revenue.

Figure 8 and Table 2 portrays the major components of Revenue Receipts over the years of study (2014-2018).

Tax revenue is a major constituent, having highest contribution towards state exchequer (Rs.374.77 Bn in 2014-15, Rs.796.24 Bn in 2017-18). It has been consistently increasing over the years and has seen approximately 112% increase from 2014-15 to 2017-18.

Although, Non-Tax Revenue has also registered an increase, its contribution to total revenue is quite low (Rs.135.65 Bn in 2014-15, Rs.334.59 Bn in 2017-18).

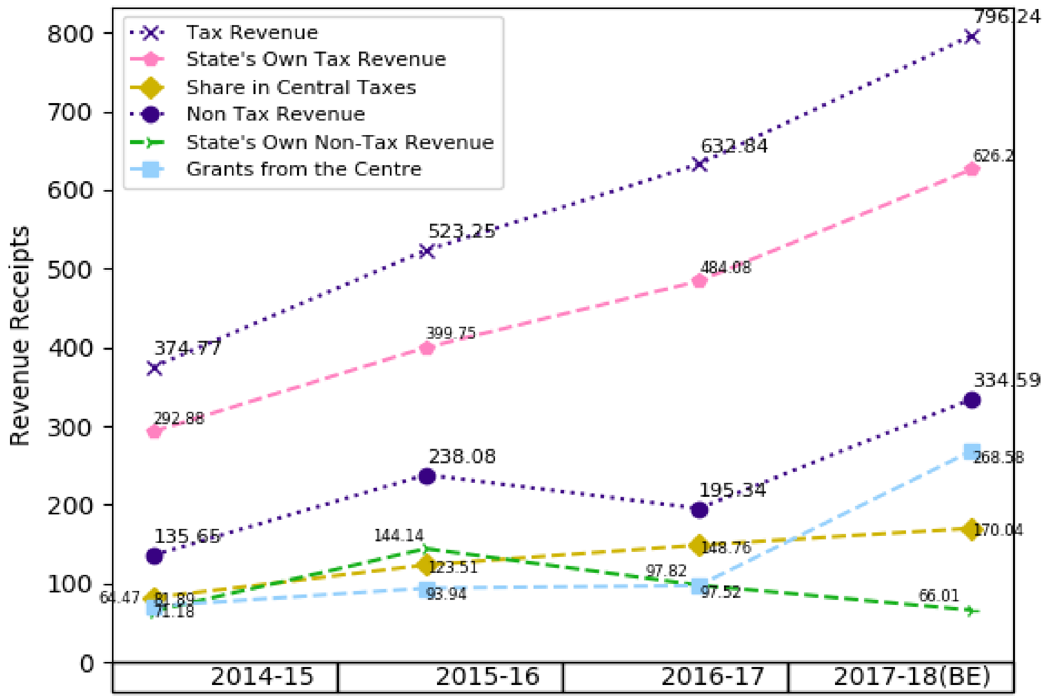
Table 2. Revenue Receipts (in Bn INR)

Years	2014-15	2015-16	2016-17	2017-18(BE)
1.Tax Revenue	374.77	523.25	632.84	796.24
2.State's Own Tax Revenue	292.88	399.75	484.08	626.2
3.Share in Central Taxes	81.89	123.51	148.76	170.04
4.Non Tax Revenue	135.65	238.08	195.34	334.59
5.State's Own Non-Tax Revenue	64.47	144.14	97.82	66.01
6.Grants from the Centre	71.18	93.94	97.52	268.58

- BE:Budget Estimates
- For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI ;
Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

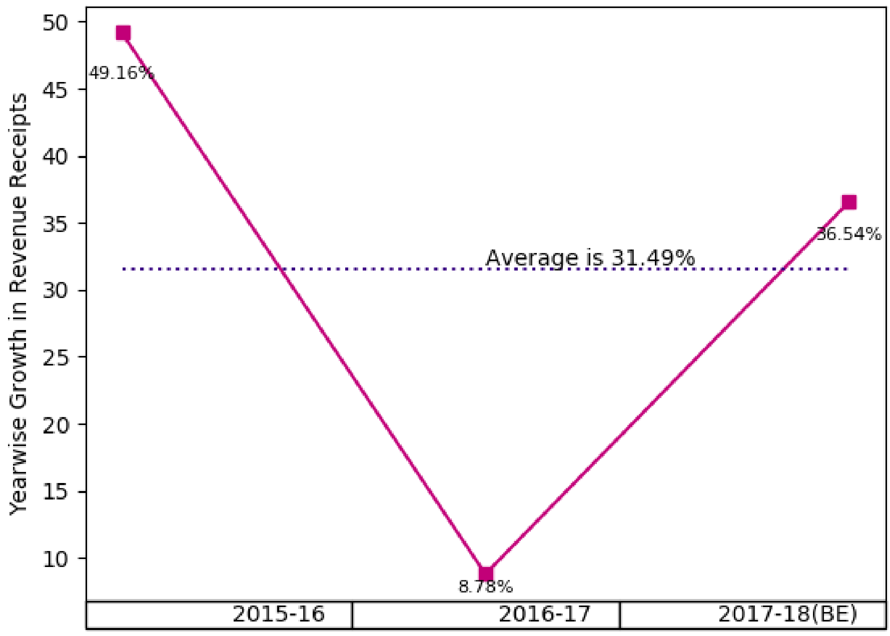
Figure 8. Revenue Receipts (in Bn INR)



• BE:Budget Estimates
•For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI; Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

Figure 9. Yearwise Growth in Revenue Receipts (in %)



• BE:Budget Estimates
•For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI; Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

Figure 9 shows the year wise growth of Revenue Receipts and unveils double digit average growth over years 2014-15 to 2017-18. There has been a dip in the growth rate in 2016-17 (8.78%) mainly due to fall in non-tax revenue, but the government estimates to cover it up in 2017-18, projecting 36.54% growth according to budget estimates.

1.1.1. Budget Estimates vis-à-vis Actuals

Prudent budget practice envisages the estimation of revenue receipts to be as close to actuals, as possible.

Based on a comparative analysis of government of Telangana's budget estimates of revenue receipts vis-à-vis the actuals, it can be inferred that there has been an over estimation of revenue receipts, in the period 2014-15 to 2016-17 (Table 3). For the year 2016-17, actuals have been taken from CAG. The difference between the Actuals and budget estimates for the year 2014-15, 2015-16, 2016-17 is Rs. 290.49 Bn, Rs. 179.98 Bn, Rs. 181.07 Bn respectively, depicting government's inability to project fiscal parameters and consequent faulty planning. However, it can be observed from the Table that this difference is gradually shrinking, though in percentage terms it is still in double digit.

Figure 11 shows percentage difference between Budget Estimates and Actuals; which is 36.27% in 2014-15, 19.12% in 2015-16 and 17.94% in 2016-17. Though, government of Telangana is trying hard to contain the gap between Actuals and Budget Estimates, it is still a double-digit mark.

Such situation poses a concern regarding the prudent fiscal planning of the state.

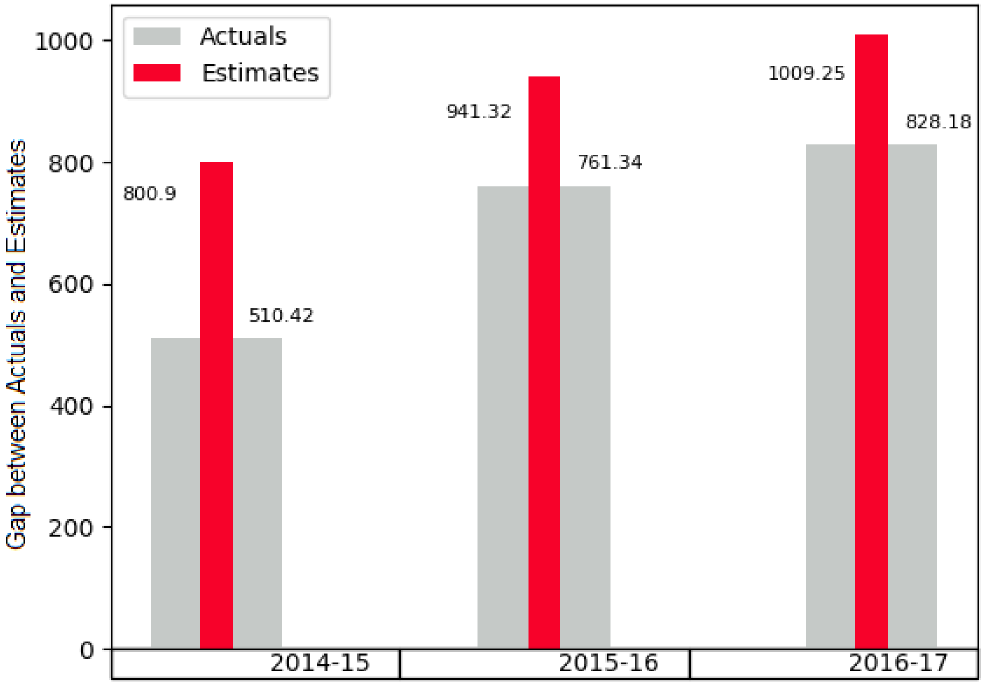
Table 3. Revenue Receipts : Budget Estimates vis-a-vis Actuals

Years	2014-15	2015-16	2016-17
1.Actuals(A) (in Bn INR)	510.42	761.34	828.18
2.Budget Estimates(B) (in Bn INR)	800.9	941.32	1009.25
3.(A-B) (in Bn INR)	-290.49	-179.98	-181.07
4.(A-B)/B (in %)	-36.27	-19.12	-17.94

For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI ; Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

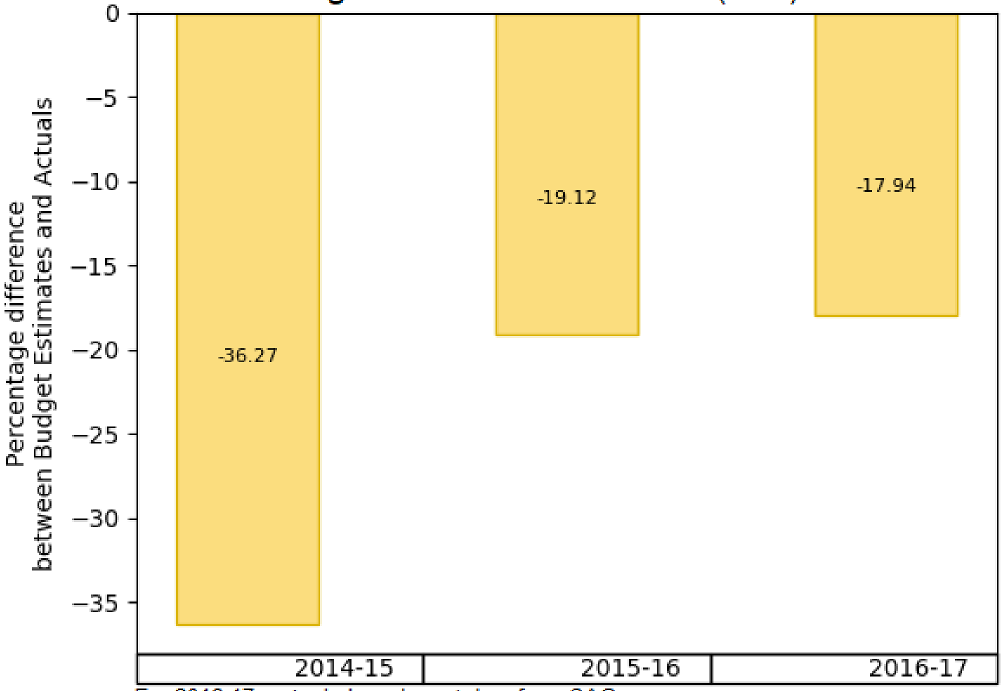
Figure 10. Reveue Receipts: Gap between Actuals and Estimates (in Bn INR)



For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI; Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

Figure 11. Percentage difference between Budget Estimates and Actuals (in %)



For 2016-17, actuals have been taken from CAG
%difference=100*(Actuals-Estimates)/Estimates

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI; Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

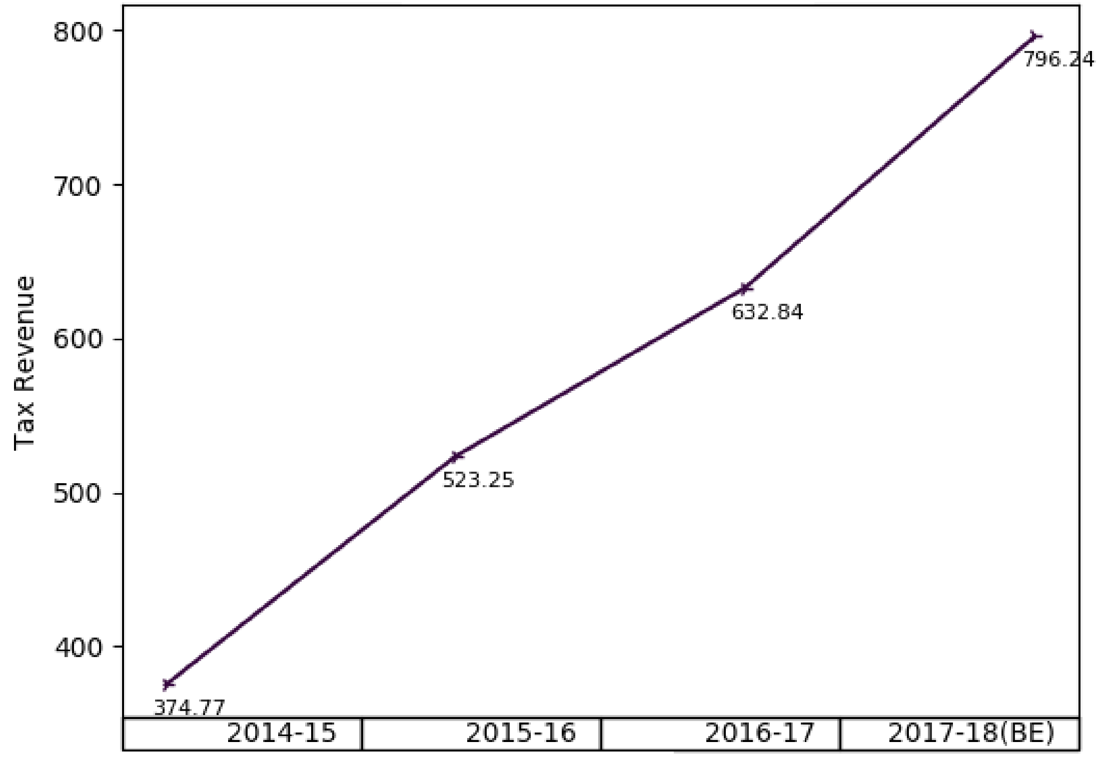
1.1.2. Tax Revenue

Tax Revenue refers to income earned by the government via taxation. Tax revenue is the primary source of income for the state and the income generated through taxation is used on state expenditure.

It gives thorough description of revenue collected through different sources like corporation tax, income tax, wealth tax, taxes on property, service tax, stamp & registration tax, land revenue etc.

Table 2 and Figure 12 clearly indicate a steep rise in tax revenue collection of the Telangana state. Tax revenue has registered a sharp rise from Rs. 374.77 Bn in 2014-15 to Rs. 796.24 Bn in 2017-18, which is almost a 112% rise from year 2014-15. It can be understood that Tax Revenue is the major source of government income and hence spending.

Figure 12. Tax Revenue (in Bn INR)



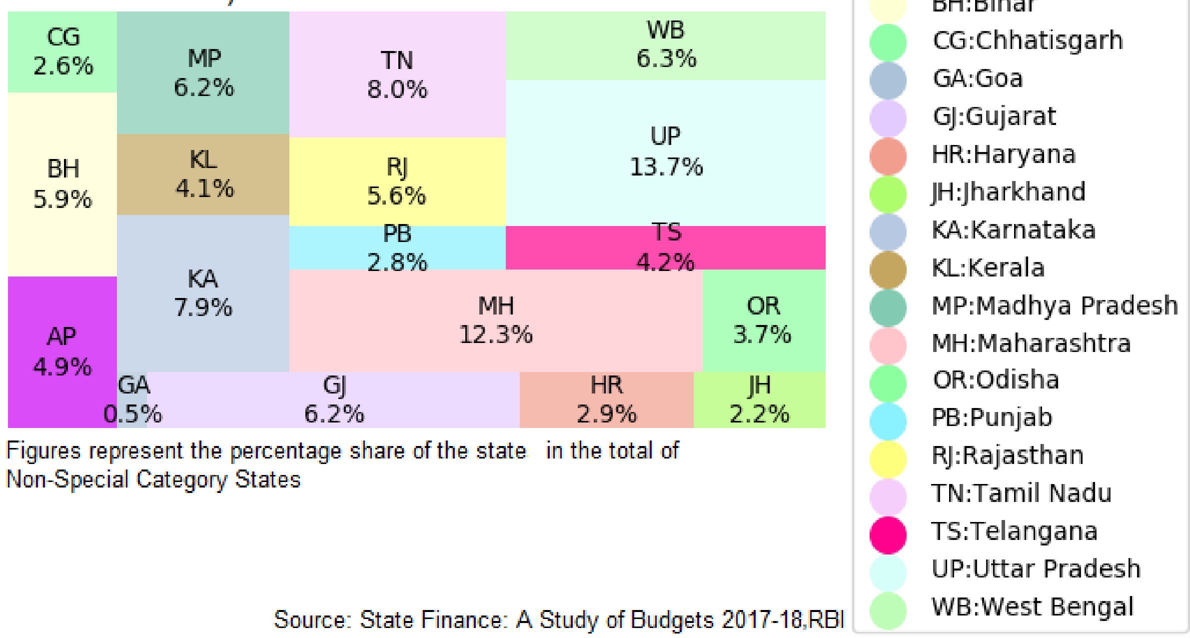
• BE:Budget Estimates
• For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI; Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

Figure 13 displays the percentage share of tax revenue of the state in the total tax revenue of Non-Special Category States (General Category States). The values correspond to 2015-16 accounts data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Uttar Pradesh and Maharashtra have the highest share of tax revenue at 13.7% and 12.3% respectively. Andhra Pradesh's share (4.9%) is slightly higher than Telangana (4.2%).

Figure 13. Tax Revenue of Non-Special Category States (2015-16 Accounts)

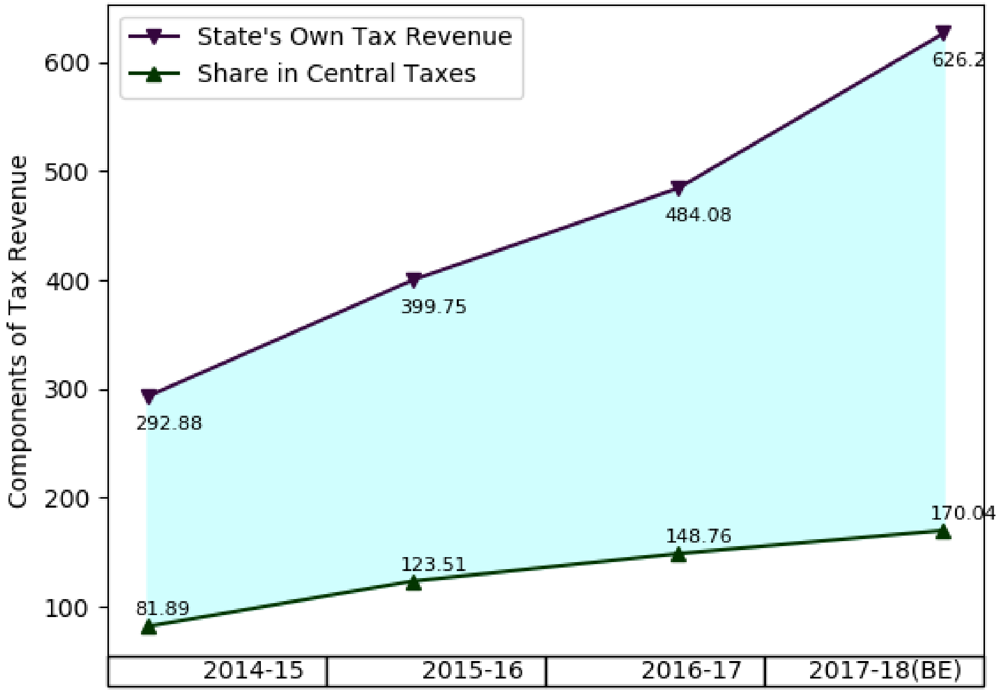


1.1.2.1. Components of Tax Revenue

Tax Revenue includes: State's Own Tax Revenue and Share in Central Taxes.

If we look at the components of the Tax Revenue (Figure 14) both State's Own Tax Revenue and Share in Central Taxes, have seen a spike over the years. The contribution of State's Own Tax Revenue in Tax Revenue (78.6%) is much more than Share in Central Taxes (21.4%), though Share in central Taxes has seen an increase after 2015-16 which is consequent to the increase in devolution share to 42% by 14th Finance Commission.

Figure 14. Components of Tax Revenue (in Bn INR)



• BE: Budget Estimates
• For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI ;
Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

Following chart lists the sub-components of ‘State’s Own Tax Revenue’ and ‘Share in Central Taxes’. The description and contribution of these sub-components has been discussed in the further chapters.

State's Own Tax Revenue

- Taxes on Income
- Taxes on Property and Capital Transactions
- Taxes on Commodities and Services

Share in Central Taxes

- Corporation Tax
- Income Tax
- Taxes on Wealth
- Customs
- Union Excise Duties
- Service Tax
- Other taxes and duties on Commodities and Services

1.1.2.2. State's Own Tax Revenue

State's Own Tax Revenue (SOTR) is the revenue generated through state tax sources, other than central taxes. It reveals the revenue generating capacity of the state.

The major components of State's Own Tax Revenue are:

a) Taxes on Income

b) Taxes on Property and Capital Transactions

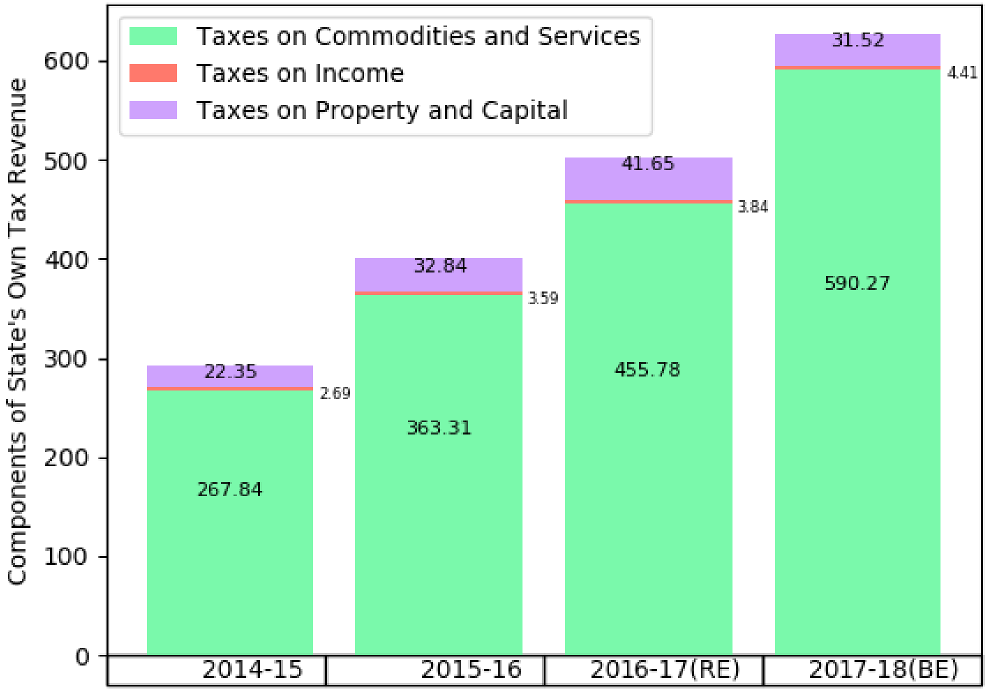
c) Taxes on Commodities and Services

Figure 15 displays the share of components of State's Own Tax Revenue from 2014-15 to 2017-18. Taxes on Commodities and Services is a major constituent with highest share in State's Own Tax Revenue (Rs. 267.84 Bn in 2014-15, Rs. 590.27 Bn in 2017-18).

Second major constituent is Taxes on Property and Capital Transactions with Rs. 22.35 Bn in 2014-15 and Rs. 31.52 Bn in 2017-18. 'Taxes on Income' contributes the least in State's Own Tax Revenue with Rs.2.69 Bn in 2014-15 and Rs. 4.41 Bn in 2017-18.

Telangana's average SOTR growth rate of 17.2%, is the highest nationwide for the past four financial years, which is 2014-15 to 2017-18.

Figure 15. Components of State's Own Tax Revenue (in Bn INR)

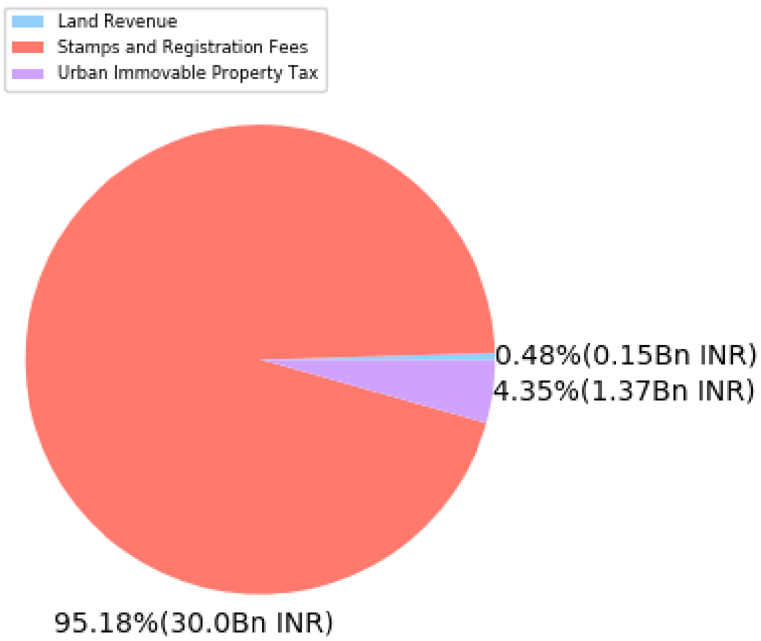


RE: Revised Estimates
BE: Budget Estimates
Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

If we look at the composition of 'Taxes on Income', 'Taxes on Professions, Trades, Callings and Employment' is the only contributing constituent and has seen a gradual rise from 2014 to 2018. As agriculture income is exempted from taxation, 'Agricultural Income Tax' has no contribution.

Figure 16 shows that 'Stamps and Registration Fees' form a major constituent of 'Taxes on Property and Capital' with 95.18% share, followed by 'Urban Immovable Property Tax' (4.35%), 'Land Revenue' (0.48%).

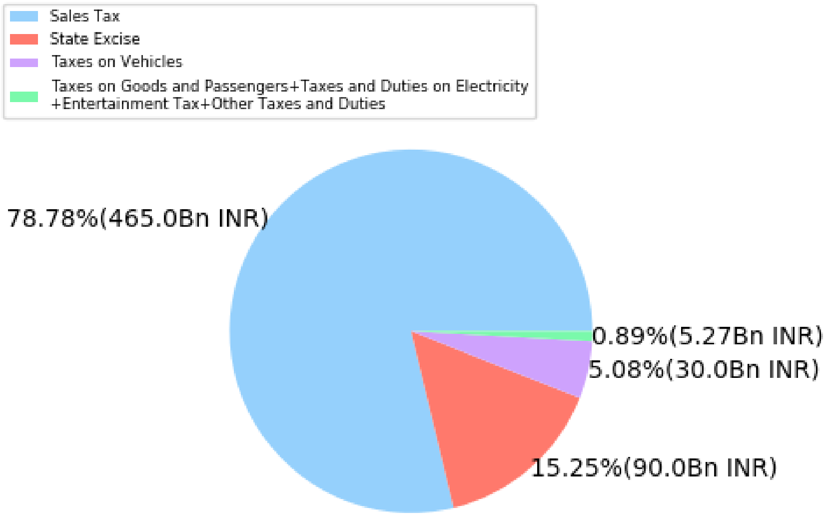
Figure 16. Composition of Taxes on Property and Capital (2017-18 Budget Estimates)



Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Figure 17 displays the composition of 'Taxes on Commodities and Services' and reveals that 'Sales Tax' is a major contributing element with 78.78% share, followed by 'State Excise' (15.25%), 'Taxes on Vehicles' (5.08%).

Figure 17. Composition of Taxes on Commodities and Services (2017-18 Budget Estimates)

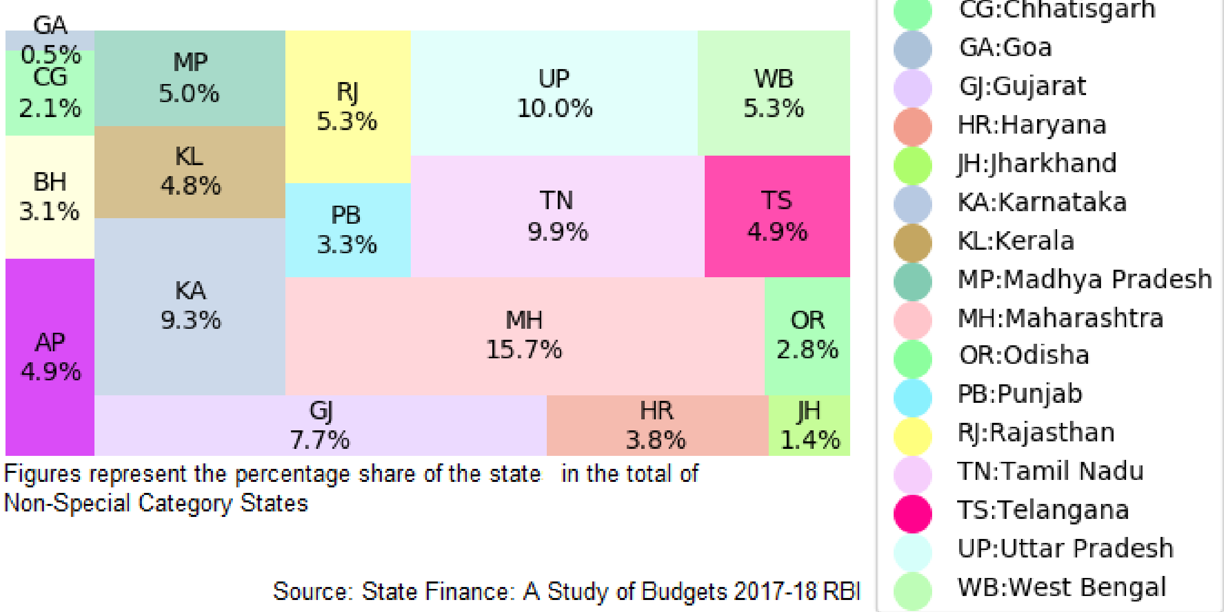


Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Figure 18 displays the percentage share of Own Tax Revenue of the state in the total own tax revenue of Non-Special Category States (General Category States). The values correspond to 2015-16 accounts data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Maharashtra and Uttar Pradesh have the highest share of Own Tax Revenue at 15.7% and 10.0% respectively. Both Andhra Pradesh and Telangana have same percentage contribution at 4.9%.

Figure 18. Own Tax Revenue of Non-Special Category States (2015-16 Accounts)



Figures represent the percentage share of the state in the total of Non-Special Category States

Source: State Finance: A Study of Budgets 2017-18 RBI

1.1.2.2.1. State's Own Tax Revenue-GSDP Ratio

Table 4 and figure 19 details the State's Own Tax Revenue relative to Gross State Domestic Product, which is a measure of revenue capacity of the state. Higher the proportion of State's Own Tax Revenue greater the government's discretion in spending on development purposes. On the other hand, lower proportion of State's Own Tax Revenue limits the government's capacity to spend and increases dependence on the Centre.

Though Telangana stands first compared to all other states in the country with an average State's Own Tax Revenue growth rate of 17.2% for four consecutive fiscal years, State's Own Tax Revenue relative to Gross State Domestic Product has remained confined within the range 5% to 9% and never touched double digit mark for the years 2014-2018. The scenario may possibly change post GST as it might affect the state's ability to levy new taxes or change current taxes.

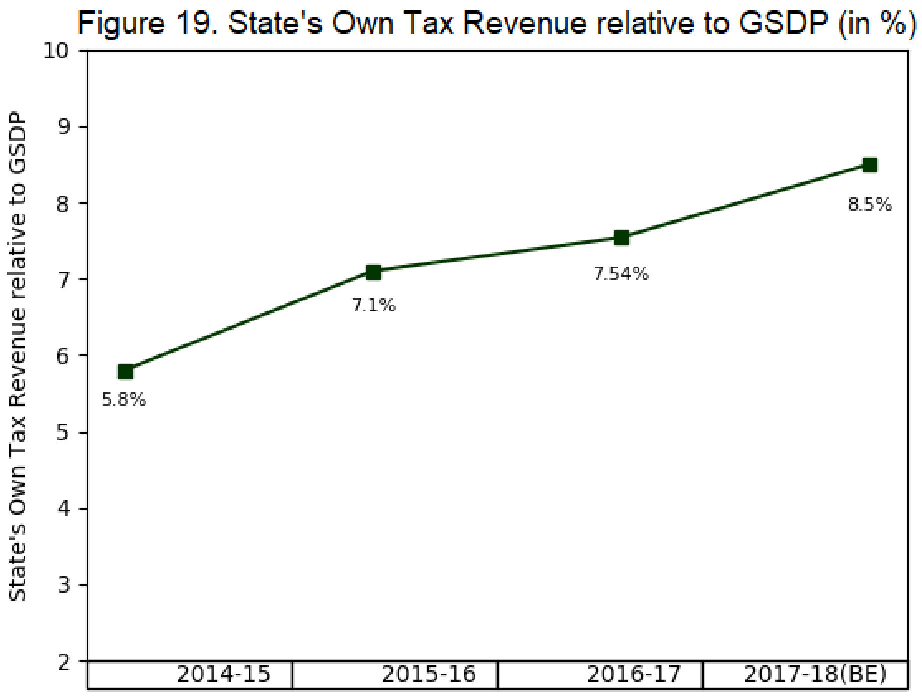
With the roll out of GST from 1 July, 2017, a number of state taxes have been subsumed under GST. These are State VAT, central sales tax, purchase tax, luxury tax, entry tax (all forms), entertainment tax (not levied by local governments), tax on advertisements, taxes on lotteries, betting and gambling and state surcharges and cesses so far, as they relate to supply of goods and services. What will be its impact on the own tax revenues of the state governments will depend on the revenue buoyancy of the GST. However, for the next five years the Union government has guaranteed all states governments a compensation equivalent to 14 per cent annual growth in revenues.

Table 4. State's Own Tax to GSDP Ratio

Years	2014-15	2015-16	2016-17	2017-18(BE)
1. State's Own Tax Revenue (in Bn INR)	292.88	399.75	484.08	626.2
2.GSDP(in Bn INR)	5058.49	5633.56(SRE)	6419.85(FRE)	7326.57(AE)
3. Tax to GSDP (in %)	5.8	7.1	7.54	8.5

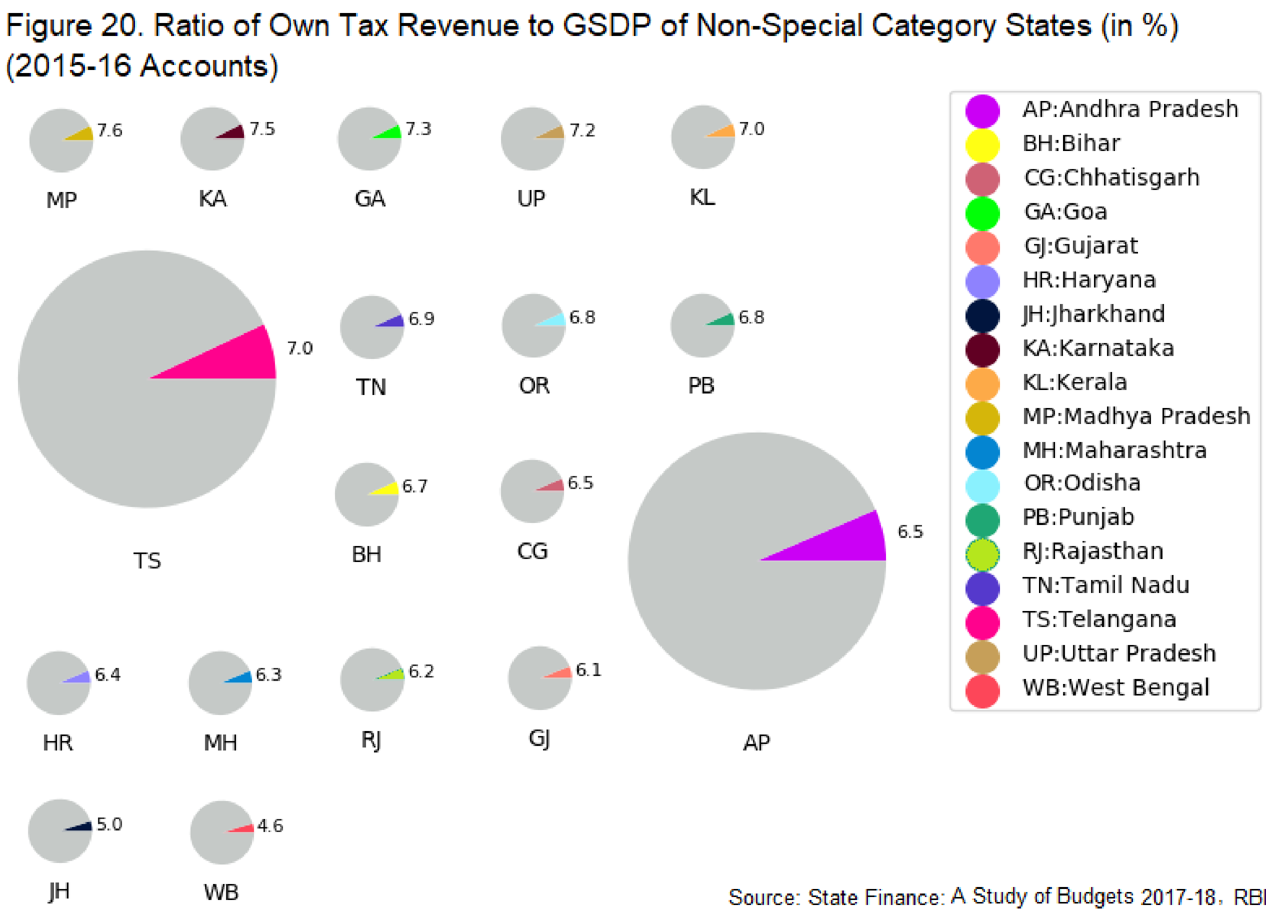
SRE: Second Revised Estimates FRE: First Revised Estimates AE: Advance Estimates
BE: Budget Estimates
For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI; Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017



• BE: Budget Estimates
• For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI; Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017



Source: State Finance: A Study of Budgets 2017-18, RBI

Figure 20 displays the ratio of own tax revenue to GSDP of Non-Special Category States (General Category States). The values correspond to 2015-16 accounts data taken from RBI (latest actuals available for all states).

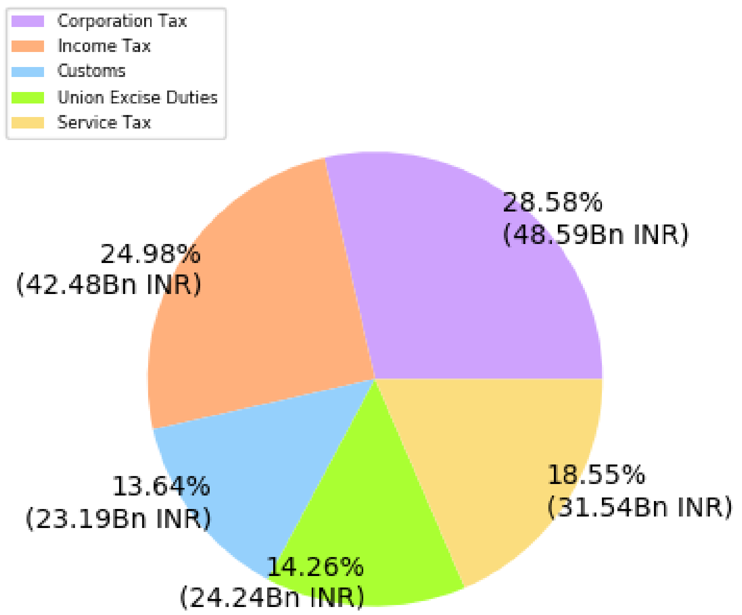
Among the Non-Special Category States, Madhya Pradesh and Karnataka have the highest share of own tax revenue relative to GSDP at 7.6% and 7.5% respectively. Telangana's share (7.0%) is higher than Andhra Pradesh (6.5%).

1.1.2.3. Share in Central Taxes

In India, most of the taxes are imposed and collected by the Union government and the state governments are left with very limited sources of the income to run their administration. Under the Article 280 of the Indian Constitution, Finance Commission is constituted every five years to give recommendations on the transfer of resources from the centre to state; so that the states can get a reasonable share in tax revenue of the centre government.

The central taxes devolved to states are untied funds, hence states can spend them according to their discretion. Over the years, tax devolved to states has constituted over 80% of the total central transfers to states. State's share of central taxes was increased to 42%, as per recommendations of the 14th Finance Commission.

Figure 21. Composition of Share in Central Taxes (2017-18 Budget Estimates)



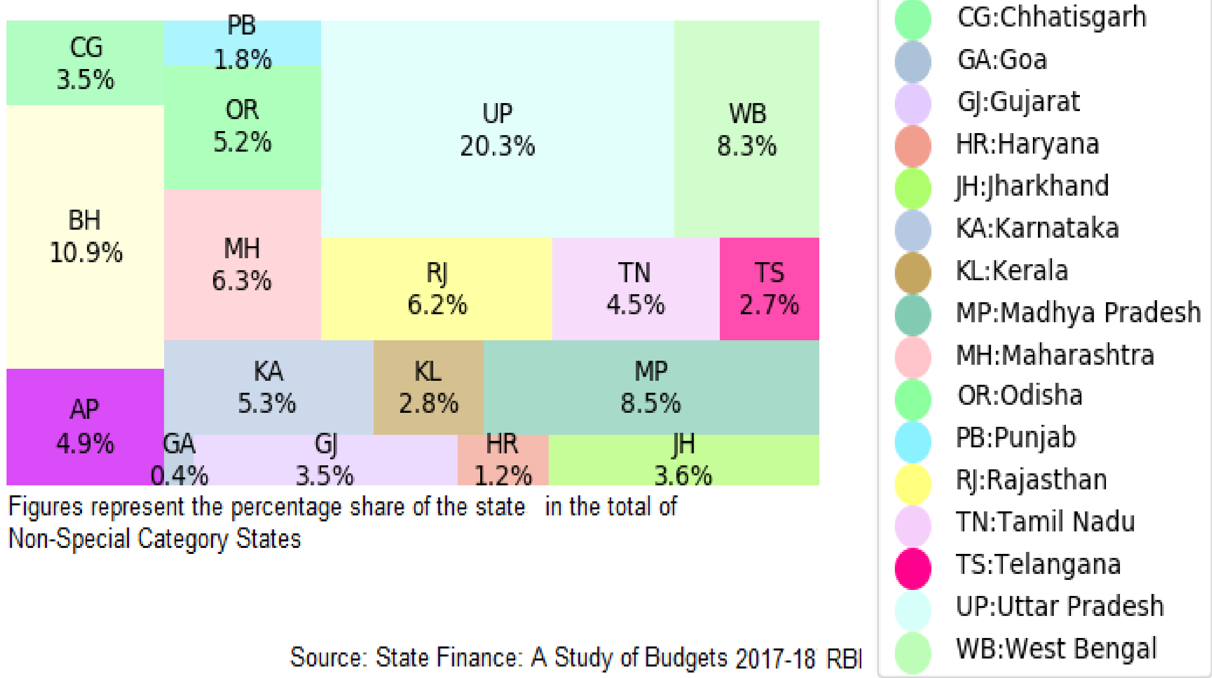
Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Figure 21 showing the composition of central taxes of Telangana; reveals that Corporate Tax (28.58%) adds maximum in the central tax pool. Second major contribution is that of Income Tax (24.98%) followed by Service Tax (18.55%), Union Excise Duties (14.26%) and Customs (13.64%).

Figure 22 displays the percentage share of 'Share in Central Taxes' of the state in the total central tax share of Non-Special Category States (General Category States). The values correspond to 2015-16 accounts data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Uttar Pradesh and Bihar have the highest share in central taxes at 20.3% and 10.9% respectively. Andhra Pradesh's share (4.9%) is much higher than Telangana (2.7%).

Figure 22. Share in Central Taxes of Non-Special Category States(2015-16 Accounts)



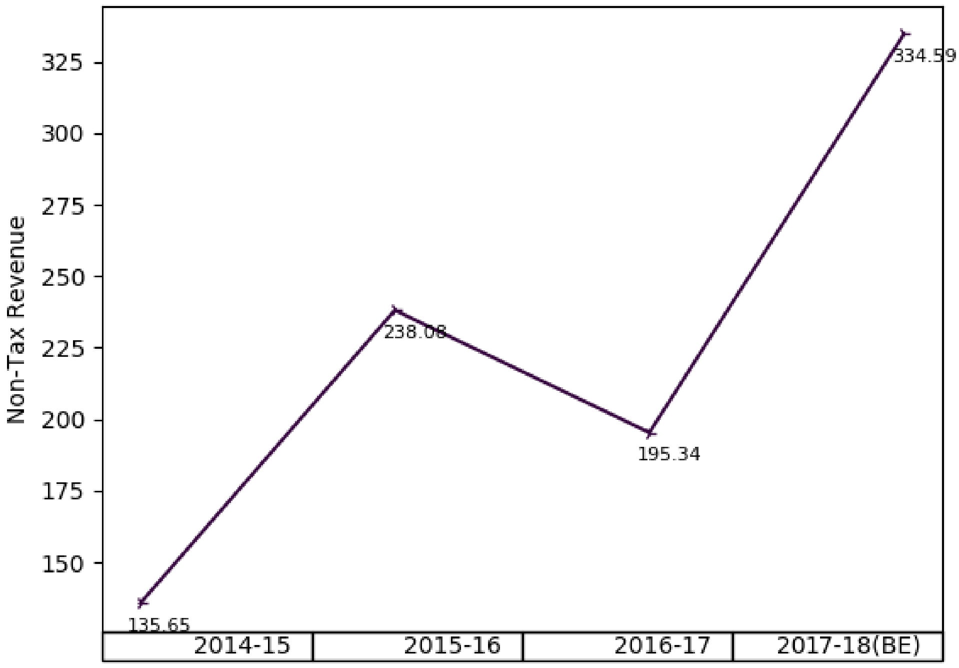
1.1.3. Non-Tax Revenue

Non-Tax Revenue refers to income of the government generated from sources other than taxation. Non-Tax Revenue comprises of two major contributions-(a) State's Own Non-Tax Revenue &, (b) Grants from the Centre.

Such receipts include: charges earned for various social and economic services provided by the government like: medical, police and defence, social and community services, power and railways; interest receipts, dividends and profits of departmental and non- departmental enterprises. Grants from the Centre include monetary aid received from Centre for various state plan schemes and Central schemes; and Non-Plan Grants.

Figure 23 shows the Non- Tax Revenue collection of the government of Telangana from 2014-15 to 2017-2018, amounting Rs. 135.65 Bn and Rs. 334.59 Bn. respectively. There has been an increase in Non-Tax Revenue collection of the state, an increase of 146% from 2014-15 to 2017-18 (BE).

Figure 23. Non-Tax Revenue (in Bn INR)

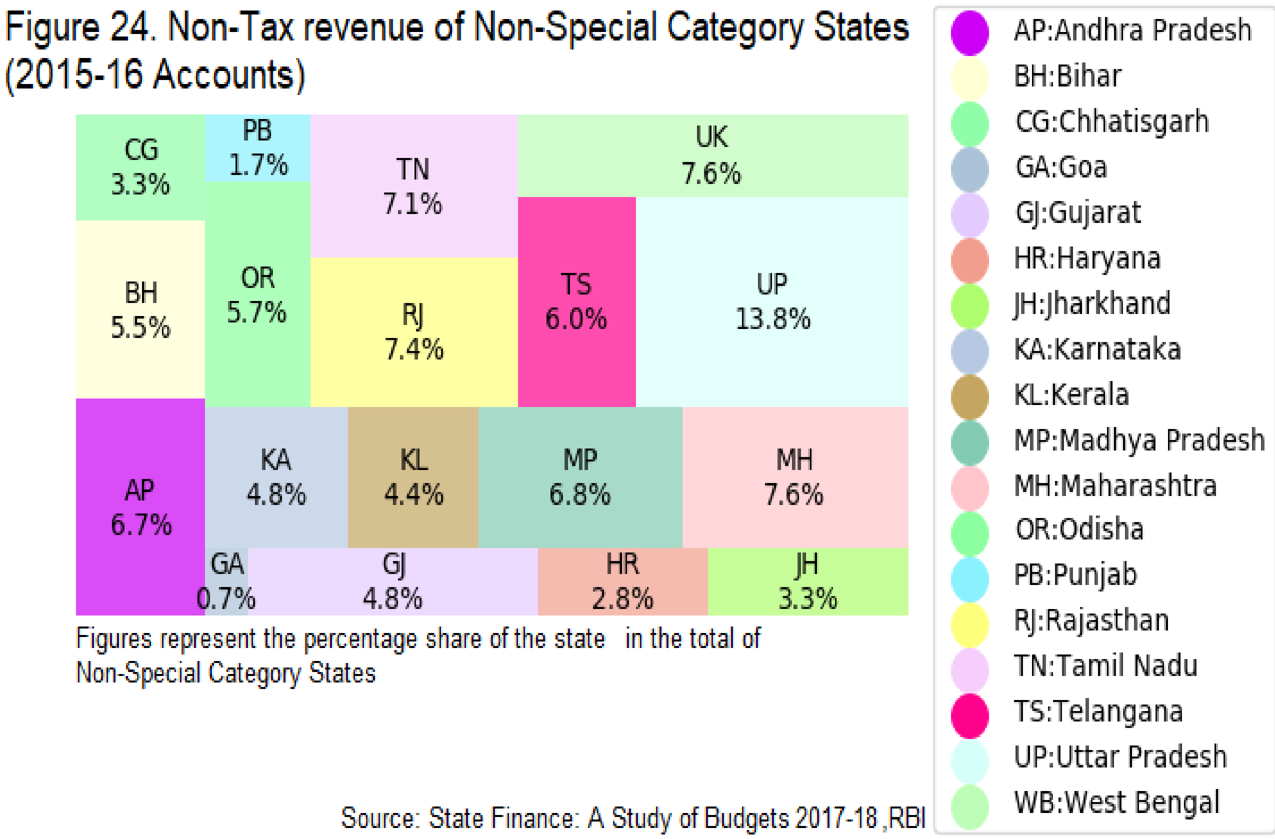


- BE: Budget Estimates
- For 2016-17, actuals have been taken form CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI; Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

Figure 24 displays the percentage share of Non-Tax Revenue of the state in the total non-tax revenue of Non-Special Category States (General Category States). The values correspond to 2015-16 accounts data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Uttar Pradesh and Uttarakhand, Maharashtra have the highest share of tax revenue at 13.8% and 7.6%, 7.6% respectively. Andhra Pradesh's share (6.7%) is slightly higher than Telangana (6.0%).



1.1.3.1. State's Own Non-Tax Revenue

State's Own Non-Tax Revenue directly indicates the revenue raising capacity of the State government from sources other than taxes. This revenue along with State's Own Tax Revenue amplifies the state government exchequer.

Figure 25 displays the percentage share of own non-tax revenue of the state in the total own non-tax revenue of Non-Special Category States (General Category States). The values correspond to 2015-16 accounts data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Uttar Pradesh and Telangana have the highest share of tax revenue at 16.3% and 10.2% respectively. Andhra Pradesh's share (3.5%) is much lower than Telangana (10.2%).

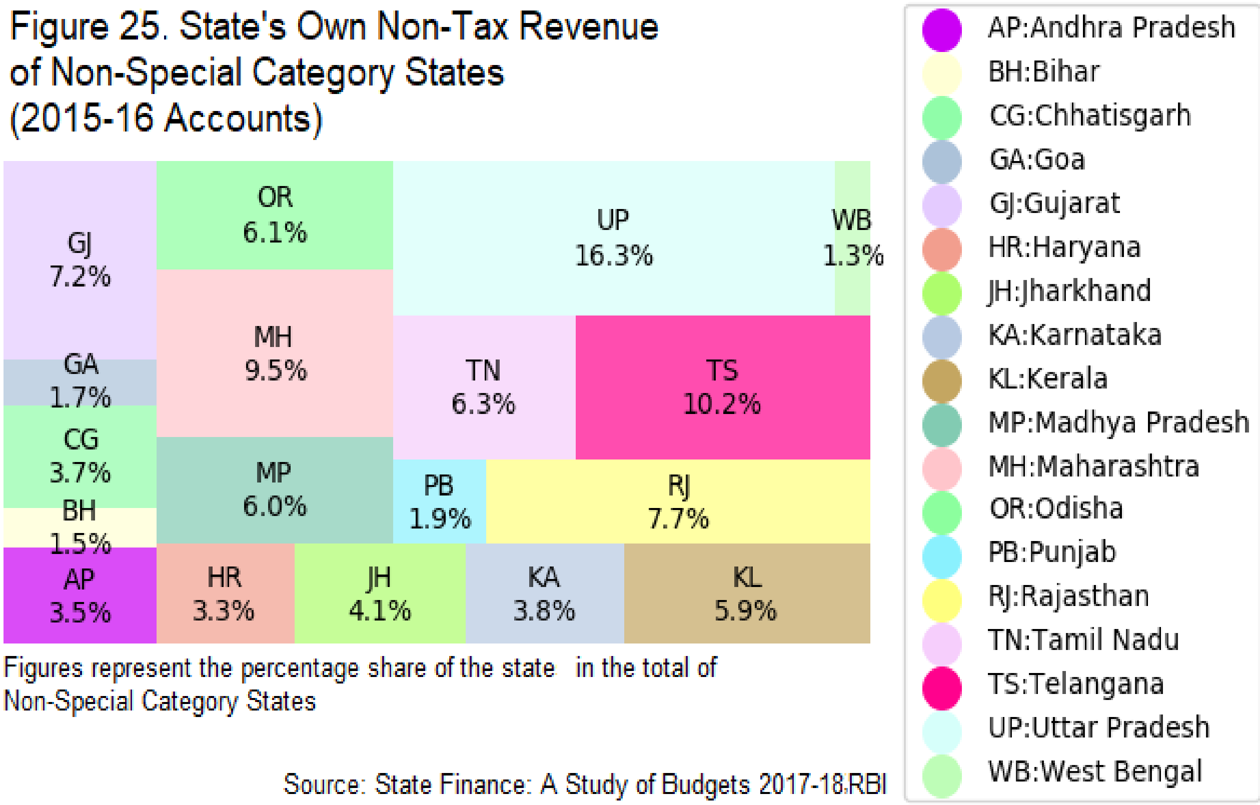


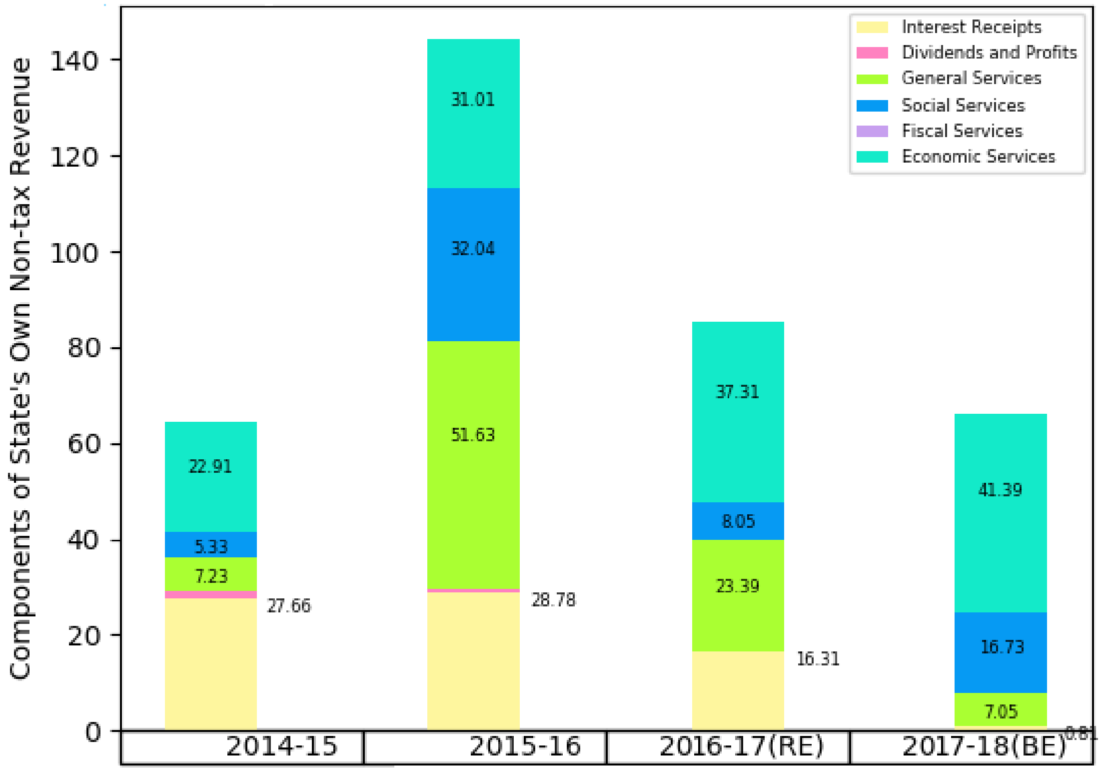
Figure 26 reveals a decline in the State's Own Non-Tax Revenue collection of Telangana and displays the components of State's Own Non-Tax Revenue and their movement over the years of study. The share of 'Economic Services' which includes crop husbandry, animal husbandry, fisheries, forestry & wildlife, co-operation, major medium & small irrigation projects, power, petroleum, village and small industries, tourism and others, has increased from Rs. 22.91 Bn. in 2014-15 to Rs. 41.39 Bn. in 2017-18. It has been a major constituent in the year 2017-18, adding highest to Non-Tax Revenue than other components.

The share of 'General Services' ballooned abnormally in the year 2015-16 to Rs.51.63 Bn from Rs. 7.23 Bn in the year 2014-15. Although then it reduced to Rs. 23.39 Bn in year 2016-17 and further to Rs.7.05 Bn in budget estimates of 2017-18.

'Social Services' which includes education, sports art & culture, medical & public health, family welfare, housing, urban development, labour & employment, social security & welfare, water supply & sanitation and others, upsurged to Rs. 32.04 Bn. in the year 2015-16, though it was temporary and reduced to Rs. 16.73 Bn. in year 2017-18.

One interesting point that can be inferred from the figure below is that the share of 'interest receipts' and 'Dividends & Profits' dwarfed in 2016-17 and 2017-18, which has adversely impacted the share of State's Own Non-Tax Revenue. It also indicates inadequate returns on investments by the government.

Figure 26. Components of State's Own Non-Tax Revenue (in Bn INR)



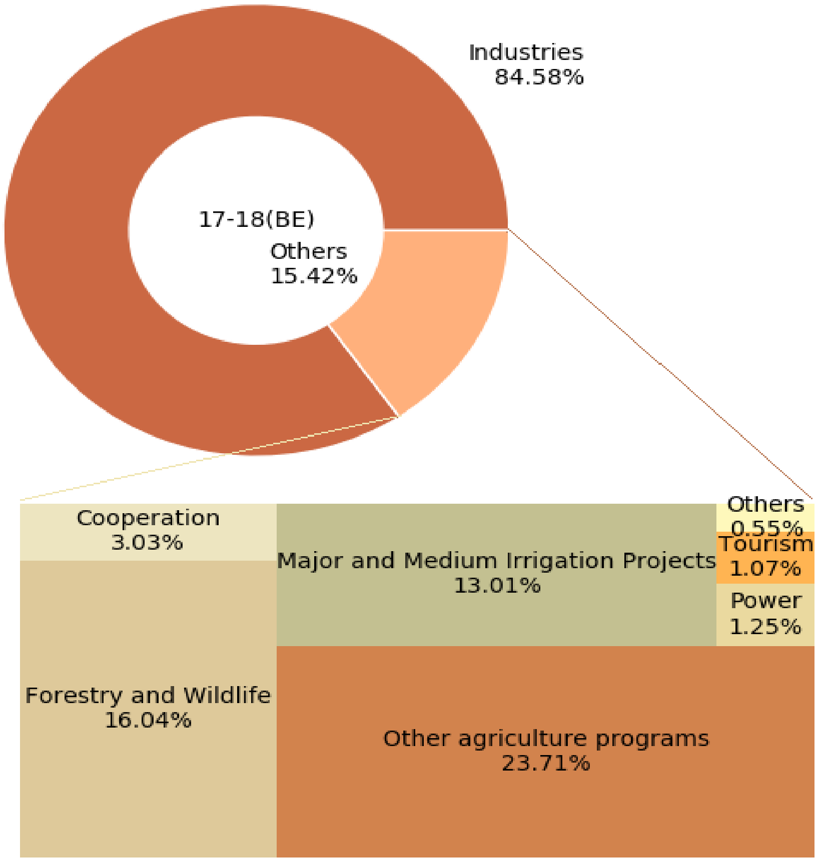
RE: Revised Estimates
BE: Budget Estimates

Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Figures 27 and 28 portray the composition of 'Economic Services' and 'Social Services' and the percentage contribution of their components.

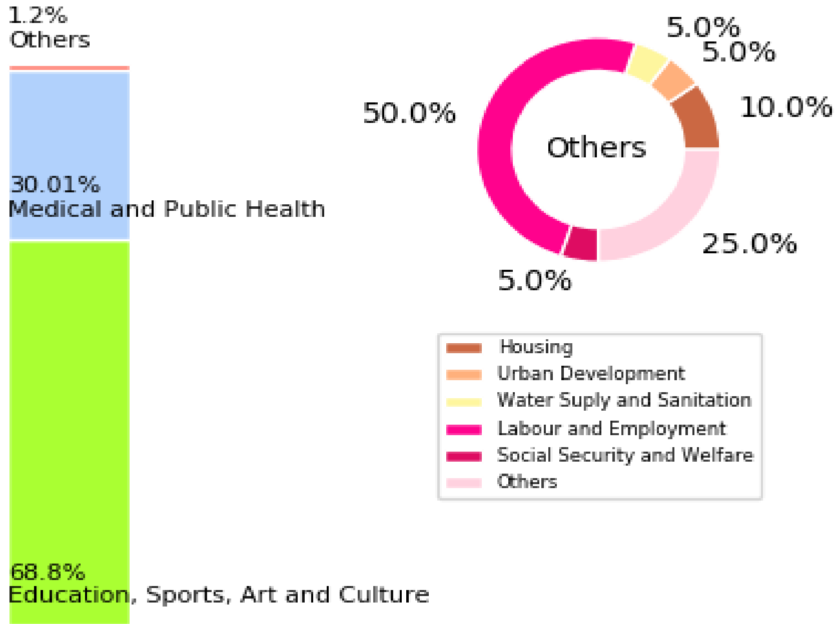
Under the head 'Economic Services' major receipts come from 'Industries' (84.58%) whereas under the head 'Social Services' major receipts come from 'Education, Sports, Arts & Culture' (68.8%).

Figure 27. Composition of Economic Services (2017-18 Budget Estimates)



Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Figure 28. Composition of Social Services (2017-18 Budget Estimates)

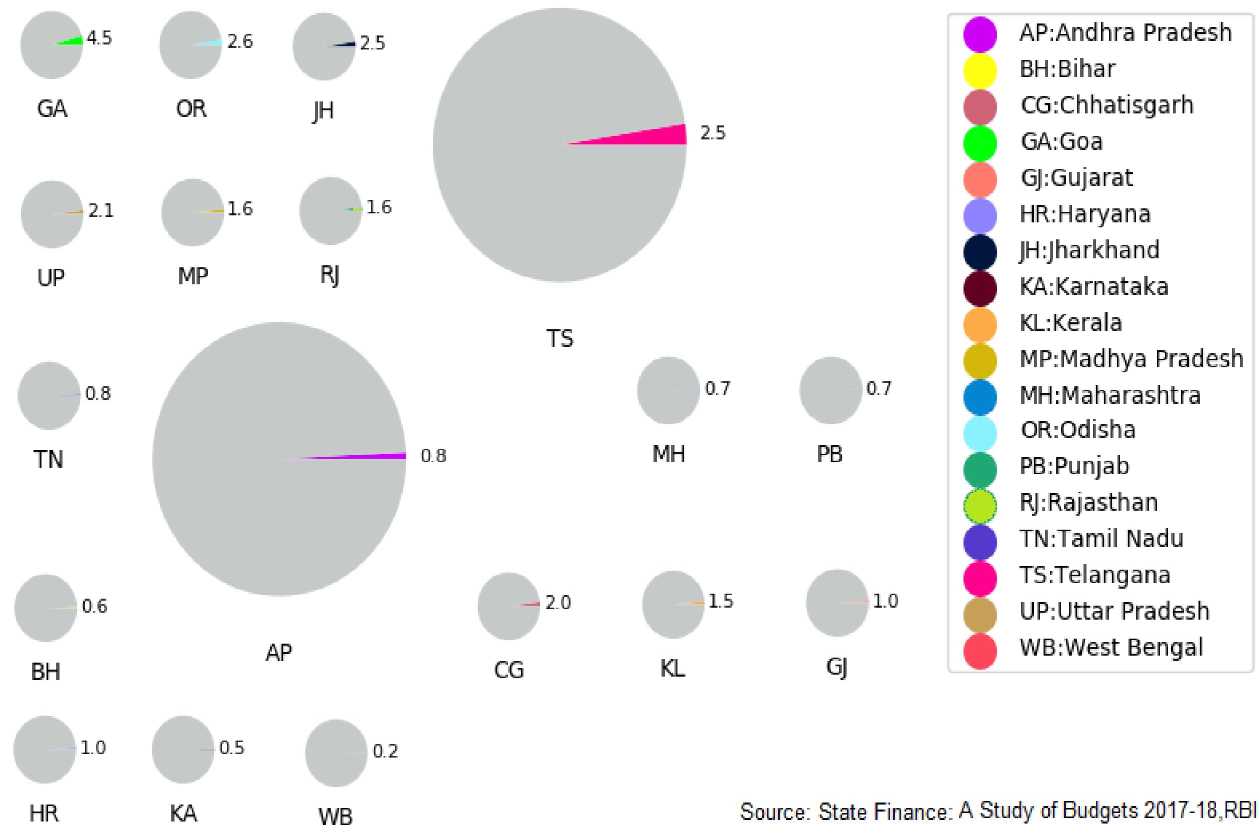


Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Figure 29 displays the ratio of own non-tax revenue of the state to GSDP of Non-Special Category States (General Category States). The values correspond to 2015-16 accounts data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Goa and Odisha have the highest share of own non-tax revenue relative to GSDP at 4.5% and 2.6% respectively. Andhra Pradesh's share (0.8%) is much lower than Telangana (2.5%).

Figure 29. Ratio of State's Own Non-Tax Revenue to GSDP of Non-Special Category States (in %) (2015-16 Accounts)



Source: State Finance: A Study of Budgets 2017-18,RBI

1.1.3.1.1. Dividends & Profits

Profits pertain to Departmental enterprises often referred to as Department Commercial Undertakings, are enterprises (not maintained as legal corporation) owned, controlled and run directly by public authorities. Government activities like irrigation, forest, railways, transport, communication, milk-supply, printing presses, mints, currency and coinage, security presses, ordnance factories and electricity are considered as commercial enterprises[2].

Dividends pertain to Non-Departmental Commercial enterprises (NDCE) which includes government companies with at least 51% of the paid-up capital held by Central Government or State Government or partly by both or, partly one or more State Governments and subsidiaries of government companies. Based on type of activity, NDCEs can be categorised into: Financial Enterprises (National Banks, financial corporations, LIC, GIC, ESIC) and Non-Financial Enterprises (undertakings related to agriculture, forestry, fishing, mining, manufacturing, electricity and gas, road, air and water transport, storage and warehousing, hotels and restaurants etc.)[3]

Figure 30 shows contribution of Dividends and Profits over the years 2014-2018. It can be understood that the share of dividends and profits have been quite low with Rs. 1.34 Bn. in 2014-15 to miniscule Rs. 0.03 Bn. in the year 2017-18.

Profits and Dividends have a diminutive share in State's Own Non-Tax Revenue, with just 0.05% contribution in the year 2017-18. In many cases no dividend is received due to losses, non-availability of surpluses or reinvestment.

It reflects that money being invested by the government of Telangana in Departmental enterprises and Non-Departmental Commercial enterprises is not generating enough return and profits.

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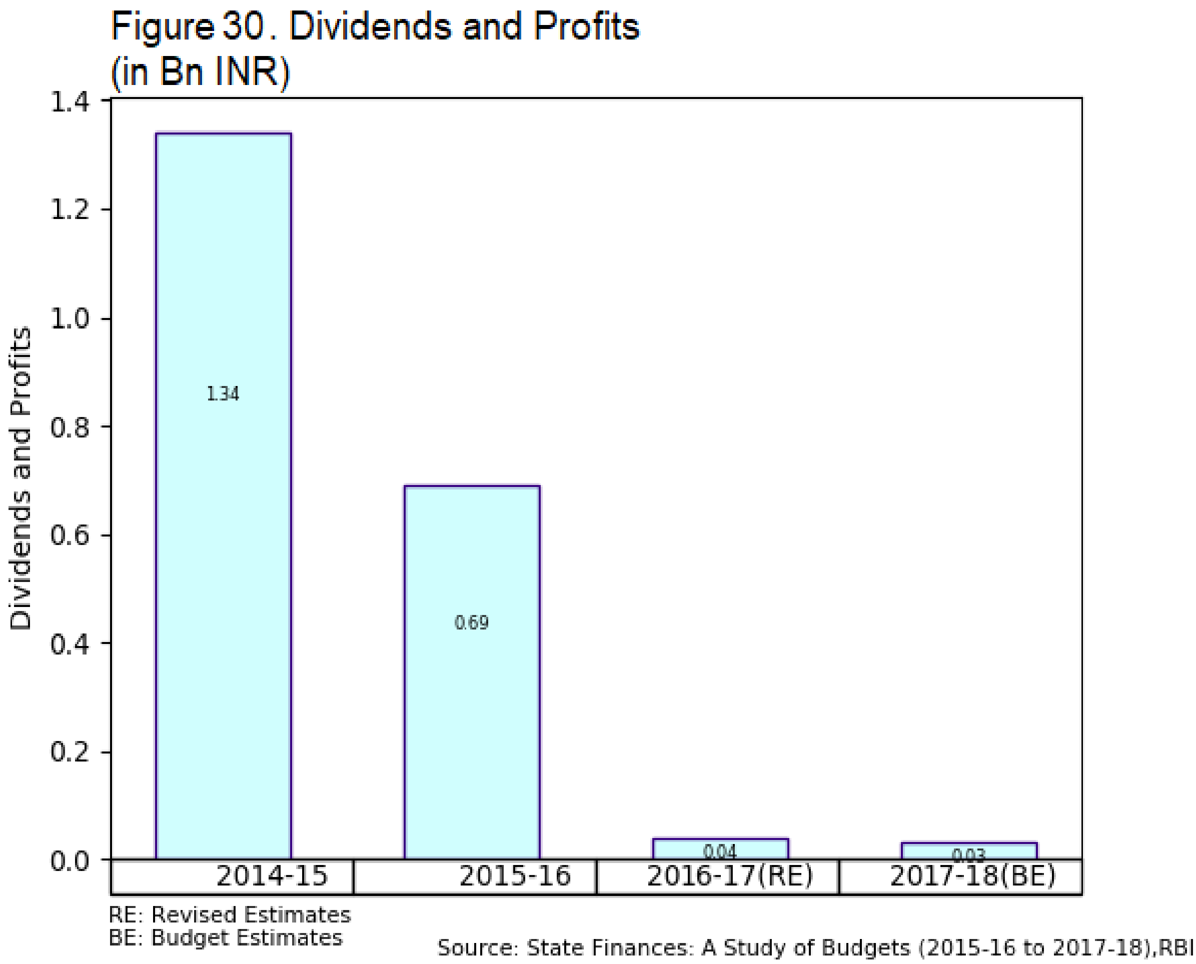
[2] Source: Ministry of Statistics and Programme Implementation, National Account Statistics: Sources & Methods, 2007, Chapter 27.

[3] Source: Ministry of Statistics and Programme Implementation, National Account Statistics: Sources & Methods, 2007, Chapter 27.



1.1.3.1.2. User Charges

User charges are fees that people are required to pay for using public services provided by the government. Government provides a variety of services; user charges is a measure not only covering the cost but also generate revenue and promote economic efficiency. Although, considering public welfare, many services are provided without any charges or at subsidised rates.

In case of certain merit goods, the government does not consider cost recovery as the primary objective, as investment in certain core development areas is necessary considering overall economic development.

Since the government of Telangana provides many services like: power, education, health, water-supply and sanitation, major and medium irrigation, minor irrigation, roads and bridges etc. at subsidised charges, it does not add much to the revenue of the state.

1.1.3.1.3. Suggestions to enhance State's Own Non-Tax Revenue

The government should minimise the fluctuations in the revenue generated through Non-Tax Revenue sources.

The government should adopt measures to increase the share of 'Economic Services' and 'Social Services' in State's Own Non-Tax Revenue and should also keep a check that whether investment in these services is efficiently leading to economic development of society.

Considering miniscule contribution of profits and dividends, government should opt for disinvestment or winding up of loss-making enterprises. Government can also formulate sound turnaround policy for financial recovery of poor performing units.

The methodology of determination of user charges can be changed considering economic status of different groups and also, depending on increase in the frequency of usage, charges can be increased every year by certain percentage. The government should also consider the recovery rates and overuse (overconsumption) of services (due to minimal charges).

1.1.3.2. Grants from the Centre

Grants from Centre is the amount of money received from Central Government meant for special purposes like: State Plan Schemes, Central Plan Schemes, Centrally Sponsored Schemes and Non-Plan Grants (Statutory Grants, Grants for relief on account of natural calamities etc.)

Grants from Centre is the second major component of Non-Tax Revenue. Table 5 exhibits major movement in components of 'Grants from the Centre' in the period 2014-15 to 2017-18. The government of Telangana receives no grants under the heads 'Centrally Sponsored Schemes' and 'NEC'. Grants received under the head 'Central Plan Schemes' have been zero over the years of study, other then 2015-16 in which grants amounting Rs. 5.9 Bn were received.

At the same time, contributions have noticeably increased under the heads 'Non-Plan Grants' and 'State Plan Schemes'.

Table 5. Components of Grants from the Centre (in Bn INR)

Years	2014-15	2015-16	2016-17(RE)	2017-18(BE)
1.State Plan Schemes	50.28	58.26	79.49	109.62
2.Central Plan Schemes	0.0	5.9	0.0	0.0
3.Centrally Sponsored Schemes	0.0	0.0	0.0	0.0
4.NEC	0.0	0.0	0.0	0.0
5.Non Plan Grants	20.9	29.78	56.08	158.95

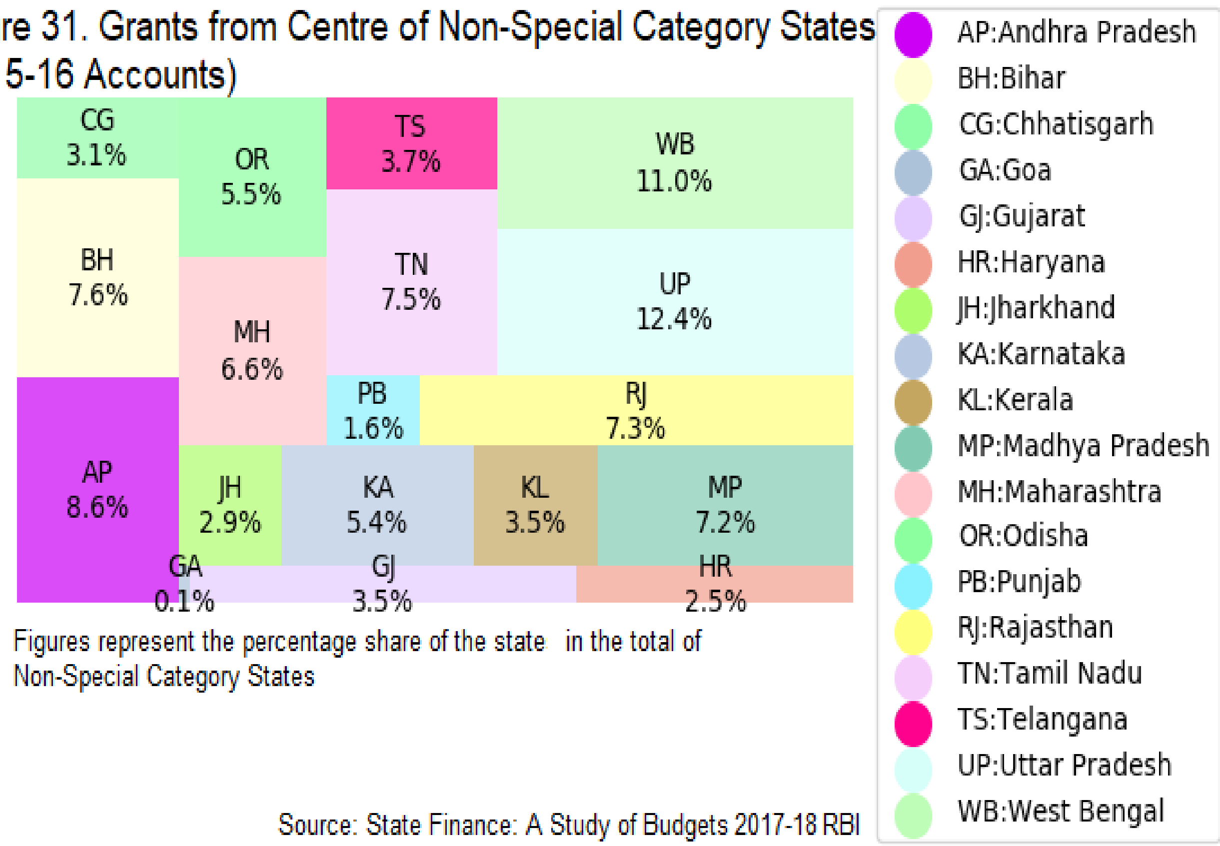
RE: Revised Estimates
BE: Budget Estimates

Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Figure 31 displays the percentage share of 'Grants from Centre' of the state in the total grants from centre of Non-Special Category States (General Category States). The values correspond to 2015-16 accounts data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Uttar Pradesh and West Bengal have the highest share of 'Grants from Centre' at 12.4% and 11.0% respectively. Andhra Pradesh's share (8.6%) is more than double of Telangana (3.7%).

Figure 31. Grants from Centre of Non-Special Category States (2015-16 Accounts)



Figures represent the percentage share of the state in the total of Non-Special Category States

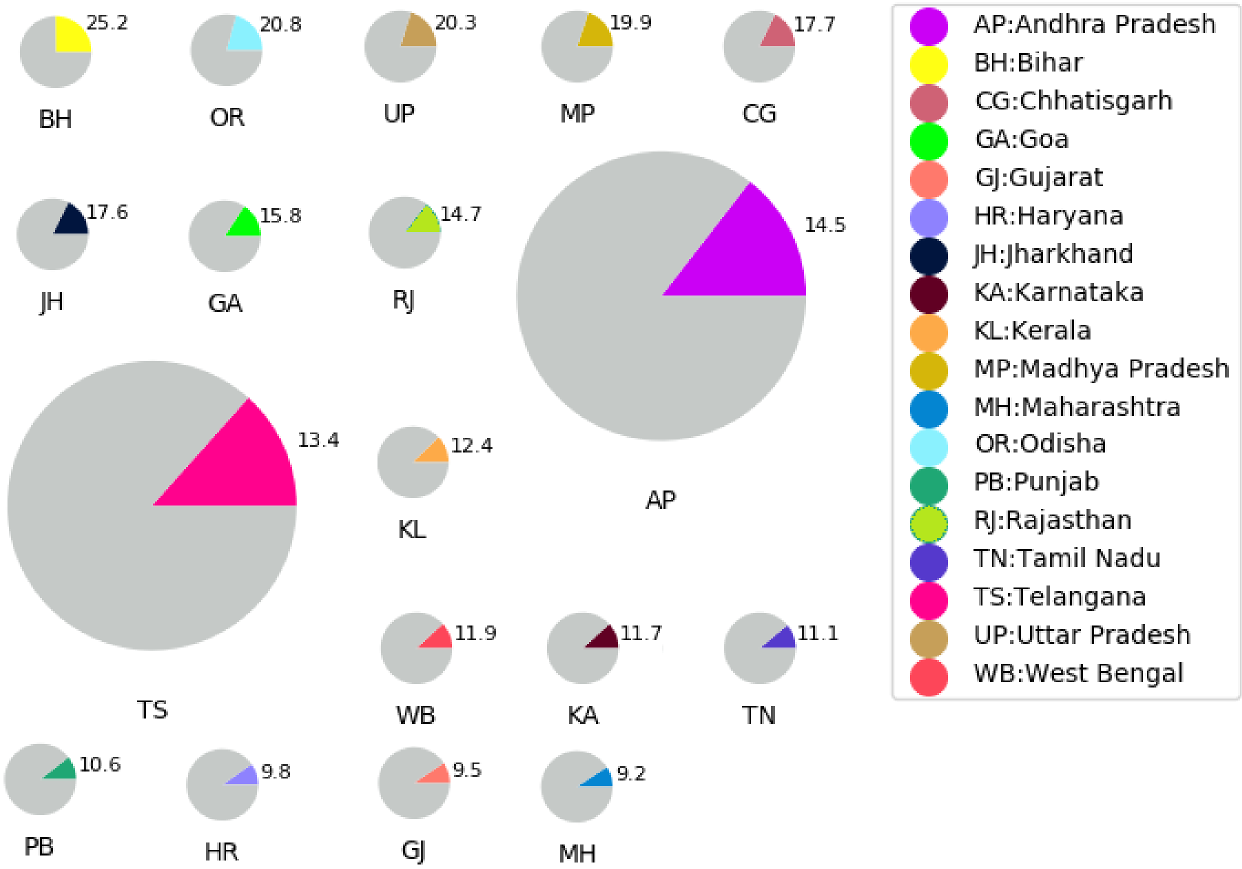
Source: State Finance: A Study of Budgets 2017-18 RBI

1.1.3.3. Revenue Receipts relative to GSDP

Figure 32 displays the ratio of Revenue Receipts of the state to GSDP of Non-Special Category States (General Category States). The values correspond to 2015-16 accounts data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Bihar and Odisha have the highest share of revenue receipts relative to GSDP at 25.2% and 20.8% respectively. Andhra Pradesh's share (14.5%) is slightly higher than Telangana (13.4%).

Figure 32. Ratio of Revenue Reciepts to GSDP of Non-Special Category States (in %) (2015-16 Accounts)



Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI

1.2. REVENUE EXPENDITURE

Revenue expenditure could be understood as all expenditure that goes towards operation and maintenance, committed salary expenditure and does not create any asset.

Generally, expenditure incurred on normal running of the government departments and maintenance of services is treated as revenue expenditure. Examples of revenue expenditure are salaries of government employees, interest payment on loans taken by the government, pensions, subsidies, grants, rural development, education and health services, etc. It is recurring in nature.

Revenue Expenditure includes expenses by the government under the following major heads:

a) Developmental Expenditure

b) Non-Developmental Expenditure

c) Grants-in-Aid and Contributions

In this section, an attempt has been made to analyse various trends in the components of revenue expenditure and the revenue gap in the State's financial statement.

Table 6 and Figure 33 shows various components of revenue expenditure, whereas Figure 34 shows year wise growth rate of revenue expenditure depicting that revenue expenditure has been growing at 30.11% on average, over the past years.

Government of Telangana spends highest for developmental purposes and then on non-developmental purposes and least in the form of grants.

Developmental Expenditure which includes 'social services' and 'economic services', has seen a tremendous growth of 112% from 2014-15 to 2017-18.

Non-Developmental Expenditure which includes expenses on general services like organs of state, interest payments and servicing of debt, administrative services, pensions and miscellaneous general services, has also seen monumental growth of 120% from 2014-15 to 2017-18.

'Grants-in-Aid and contributions' plummeted by 59% from 2014-2018.

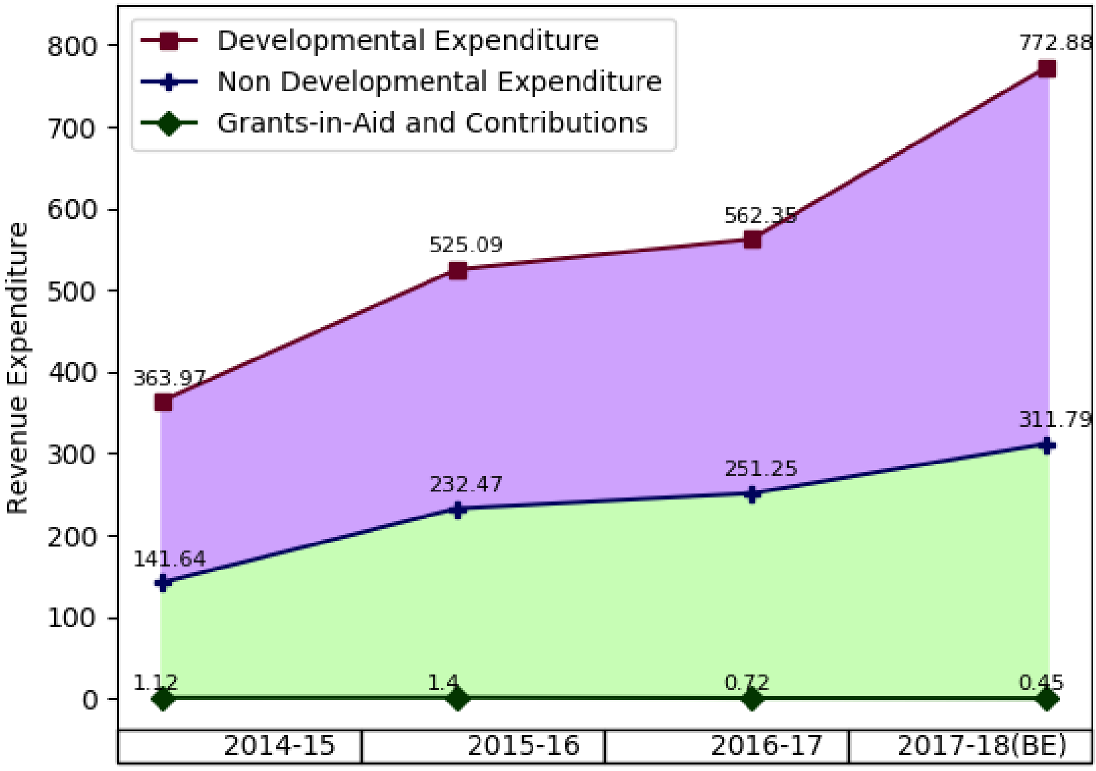
Table 6. Revenue Expenditure (in Bn INR)

Years	2014-15	2015-16	2016-17	2017-18(BE)
1.Developmental Expenditure	363.97	525.09	562.35	772.88
2.Non Developmental Expenditure	141.64	232.47	251.25	311.79
3.Grants-in-Aid and Contributions	1.12	1.4	0.72	0.45
4.Total Expenditure	506.73	758.96	814.32	1085.12

- BE: Budget Estimates
- For 2016-17, actuals have been taken form CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18). RBI
Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

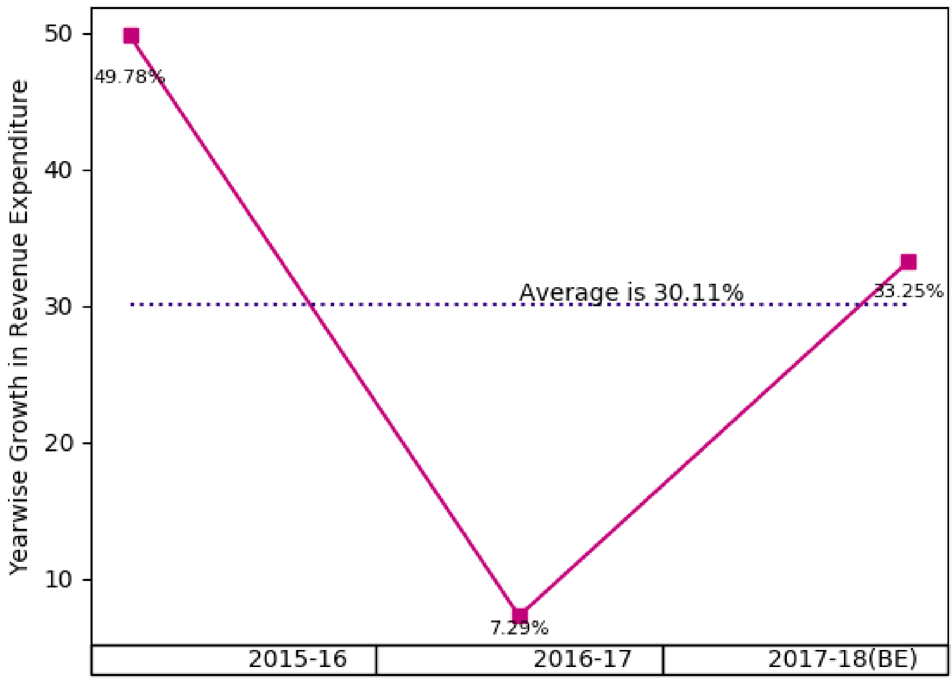
Figure 33. Revenue Expenditure (in Bn INR)



- BE: Budget Estimates
- For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18). RBI
Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

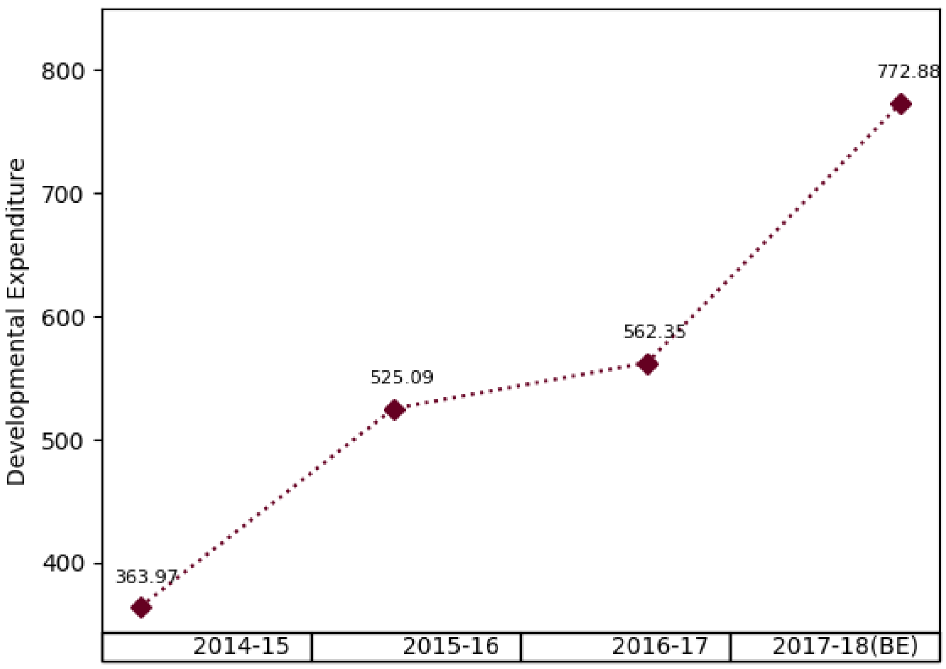
Figure 34. Yearwise Growth in Revenue Expenditure (in %)



- BE: Budget Estimates
- For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI
Report of Comptroller Auditor General of India on State Finances
for the year ended 31 March, 2017

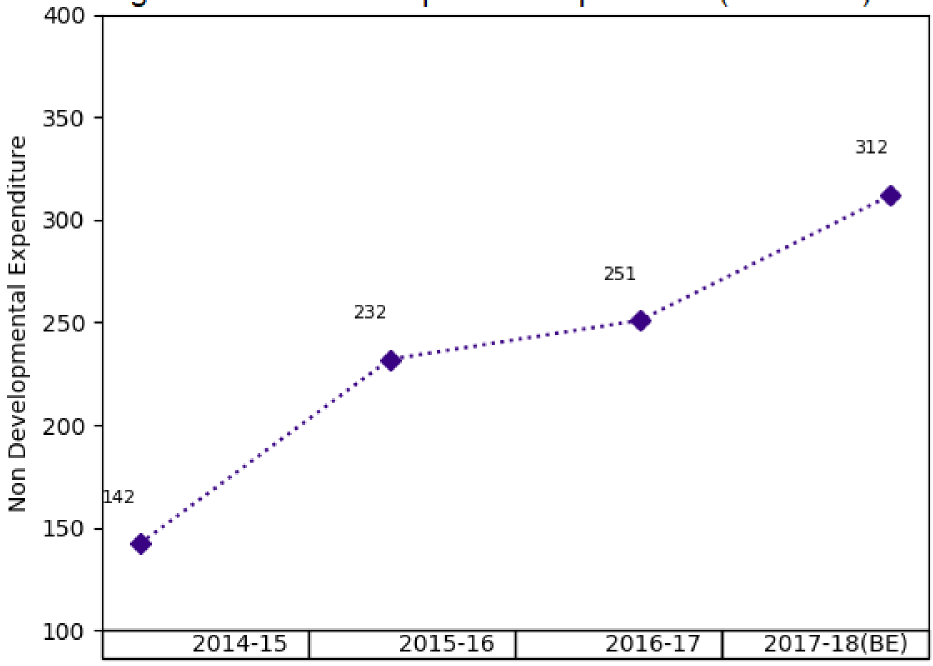
Figure 35. Developmental Expenditure (in Bn INR)



- BE: Budget Estimates
- For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI;
Report of Comptroller Auditor General of India on State Finances
for the year ended 31 March, 2017

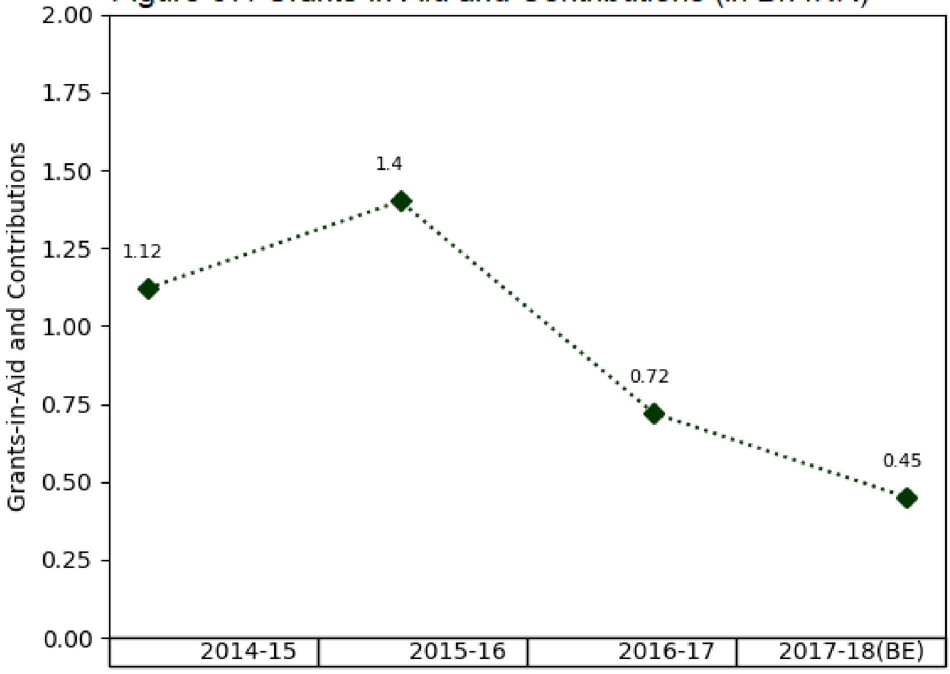
Figure 36. Non-Developmental Expenditure (in Bn INR)



• BE: Budget Estimates
• For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI; Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

Figure 37. Grants-in-Aid and Contributions (in Bn INR)

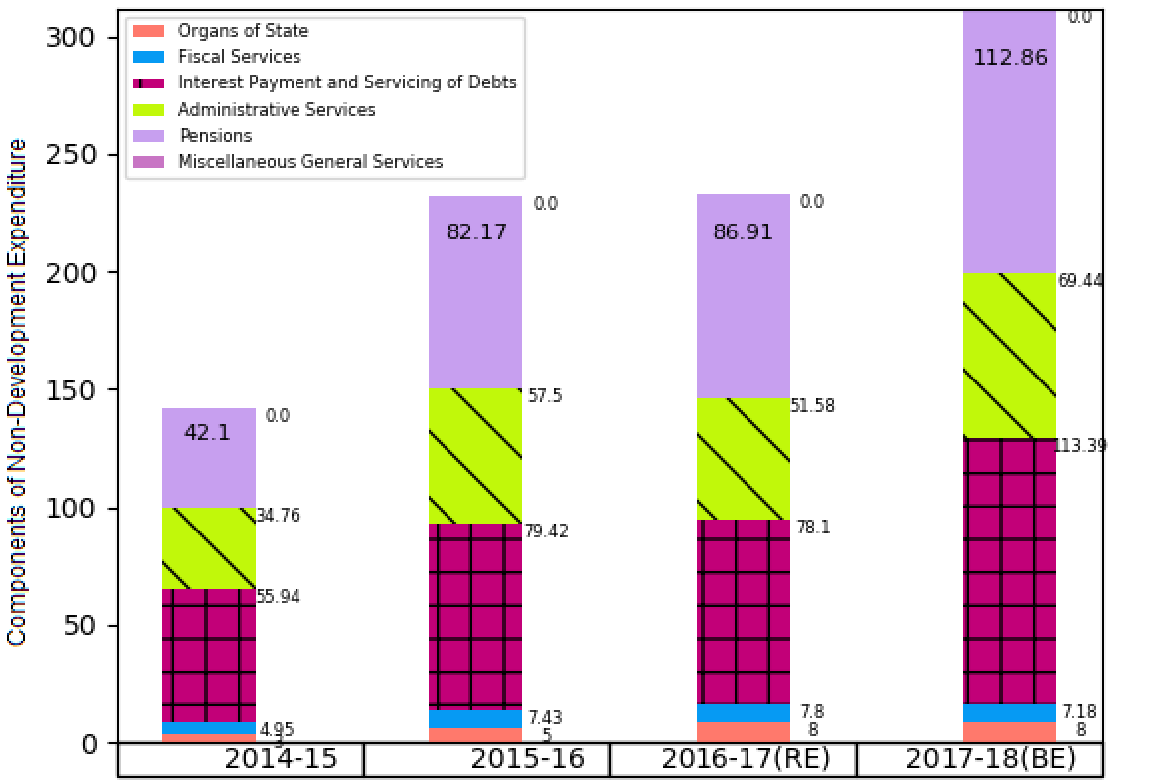


• BE: Budget Estimates
• For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI; Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

As explained in above paragraph a large amount of Non-Development Expenditure can be attributed to the Salaries, Pensions, Interest Payments etc. Following Figure 38 showing the money being expensed on various components of Non-Developmental Expenditure, unveils huge amount of money being shelled out for ‘interest payments and servicing of debt’, ‘Pensions’ and ‘Administrative Services’.

Figure 38 . Components of Non-Development Expenditure (in Bn INR)



RE: Revised Estimates
BE: Budget Estimates

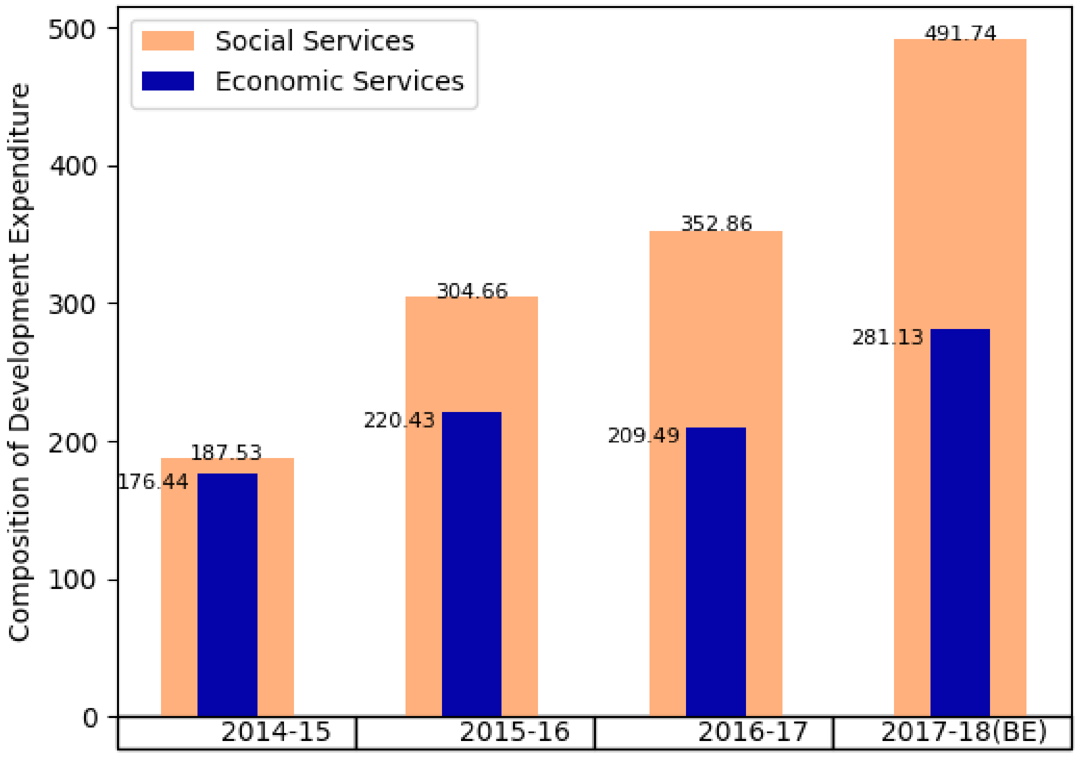
Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

In the Non-Development Expenditure, Pensions and interest payments alone comprise 71.9% of the total.

This explains a low expenditure on key revenue developmental expenditure areas under the revenue head. Out of Total Revenue Expenditure, the share of Health Expenditure being 3.70%, 1.09% Water Supply and Sanitation, 3.5% Urban Development, 11% Education, Sports, Art & Culture.

Figure 39 exhibits the components of Development Expenditure namely, ‘Social Services’ and ‘Economic Services’ and their movement over the years 2014-2018. It clearly shows more expenditure incurred on ‘Social Services’ than ‘Economic Services’.

Figure 39. Components of Development Expenditure (in Bn INR)



- BE: Budget Estimates
- For 2016-17, actuals have been taken from CAG

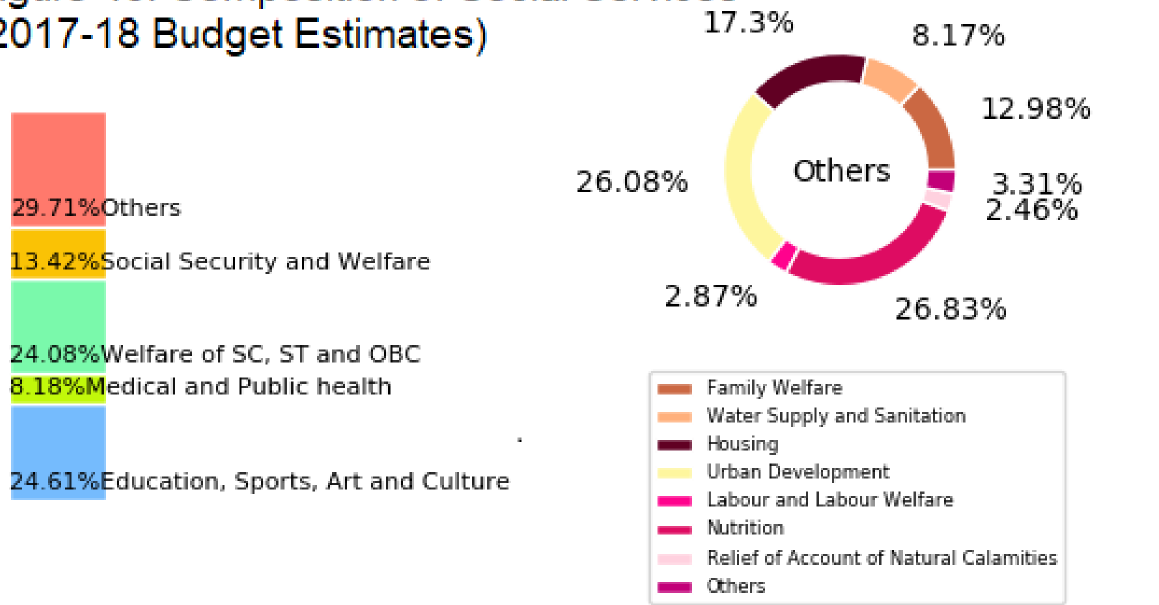
Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI; Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

Following Figures 40 and 41, show two major constituents of 'Developmental Expenditure' namely, 'social services' and 'economic services' and displays the percentage share of their sub-heads.

It can be seen that more is being spent on 'education, sports, art & culture' and 'welfare of SC, ST & OBC' and less is being spent on 'medical and public health', 'water supply and sanitation', 'urban development' 'labour welfare', out of social services.

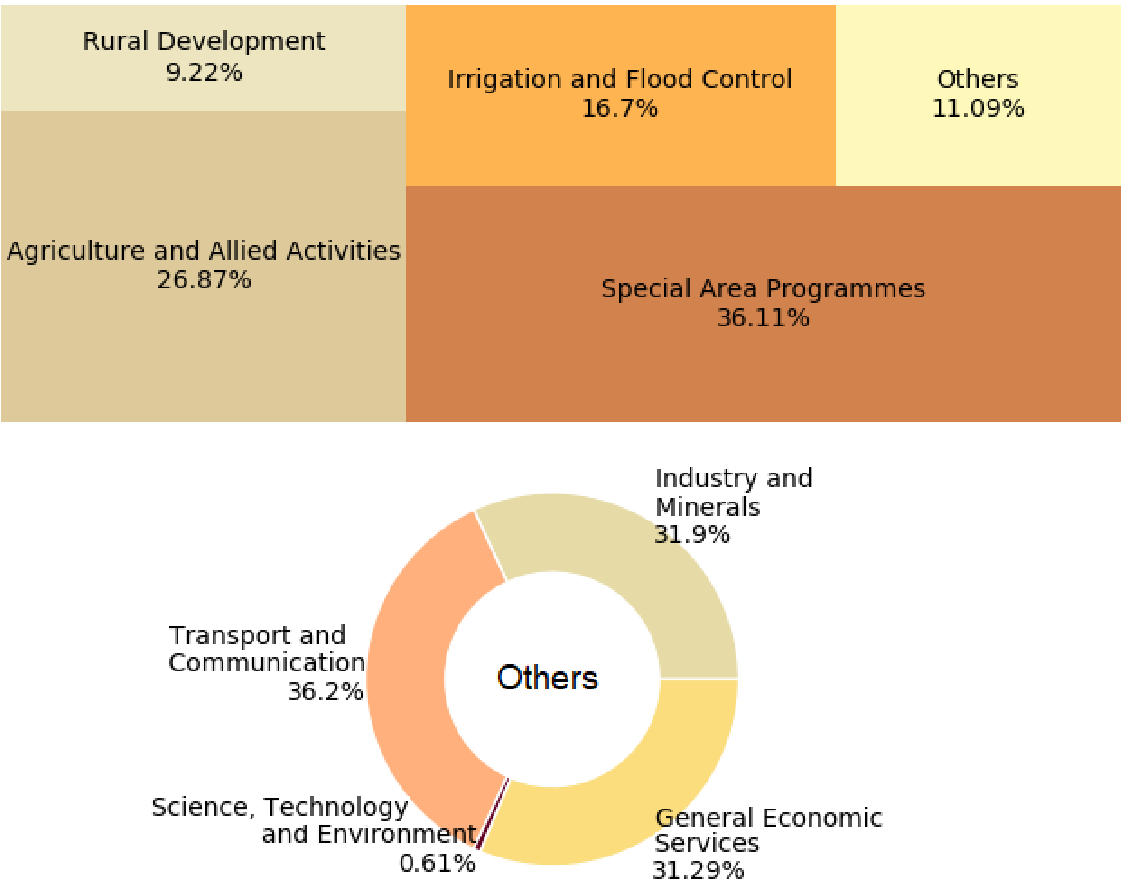
In Economic Services, more is being spent on 'special area programs', 'agriculture and allied sector' and 'irrigation and flood control'.

Figure 40. Composition of Social Services
(2017-18 Budget Estimates)



Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Figure 41. Composition of Economic Services
(2017-18 Budget Estimates)



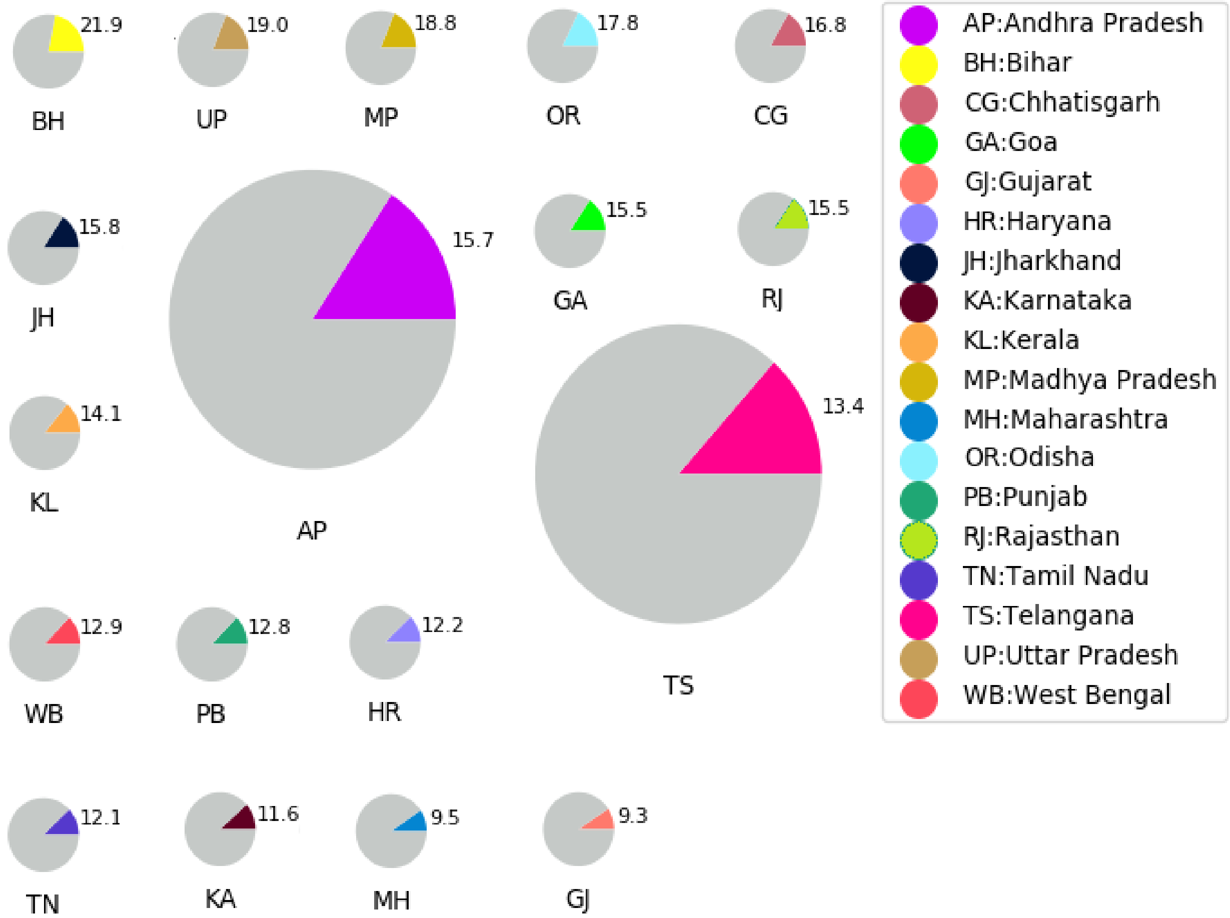
Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

1.2.1. Comparison with Andhra Pradesh & General Category States

Figure 42 displays the ratio of revenue expenditure of the state to GSDP of Non-Special Category States (General Category States). The values correspond to 2015-16 accounts data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Bihar and Uttar Pradesh have the highest share of revenue expenditure relative to GSDP at 21.9% and 19.0% respectively. Andhra Pradesh's share (15.7%) is higher than Telangana (13.4%).

Figure 42. Ratio of Revenue Expenditure to GSDP of Non-Special Category States (in %) (2015-16 Accounts)

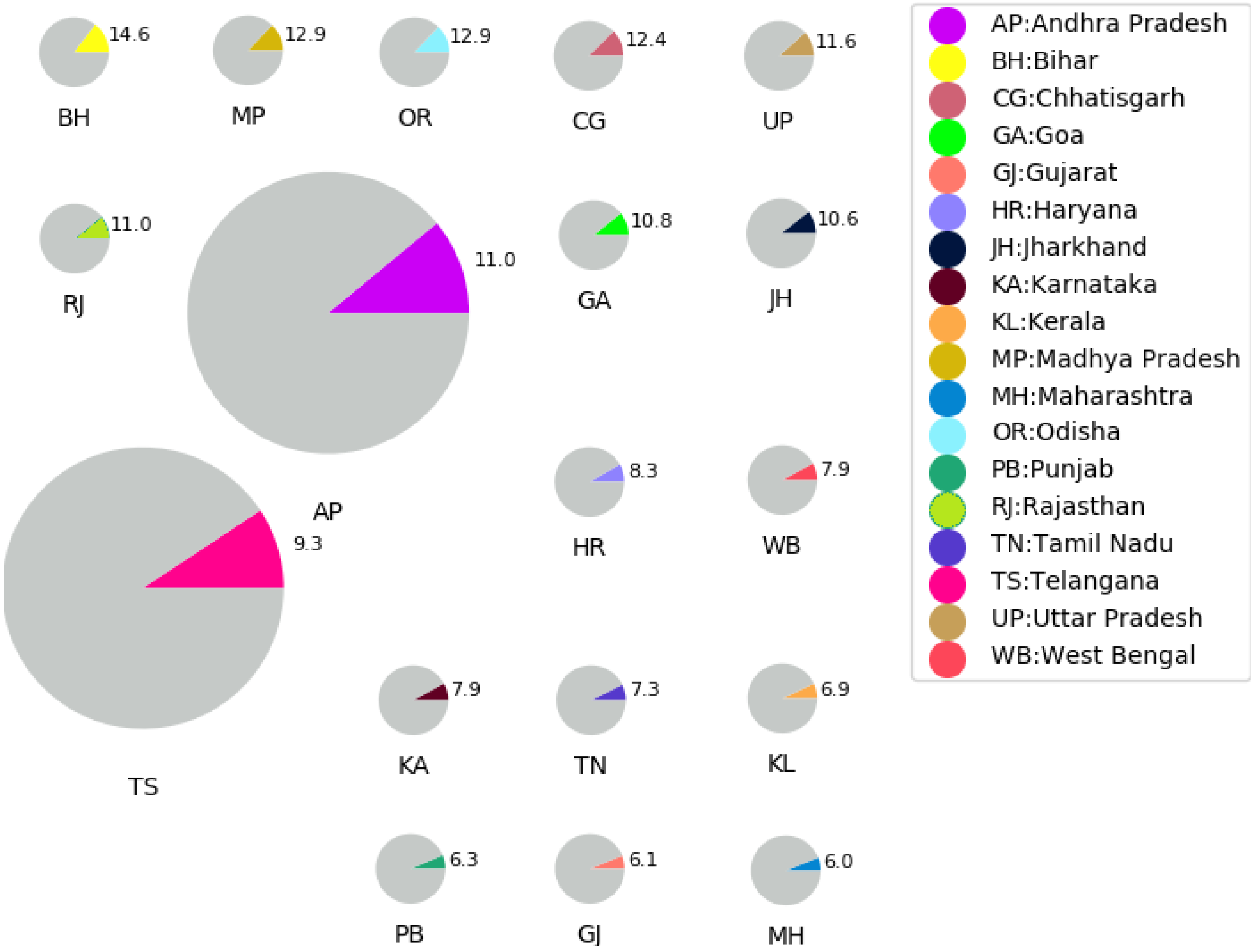


Source: State Finance: A Study of Budgets 2017-18,RBI

Figure 43 displays the ratio of Developmental Revenue Expenditure to GSDP of Non-Special Category States (General Category States). The values correspond to 2015-16 accounts data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Bihar and Madhya Pradesh have the highest share of developmental revenue expenditure relative to GSDP at 14.6% and 12.9% respectively. Andhra Pradesh's share (11%) is slightly higher than Telangana (9.3%).

Figure 43. Ratio of Development Revenue Expenditure to GSDP of Non-Special Category States (in %) (2015-16 Accounts)

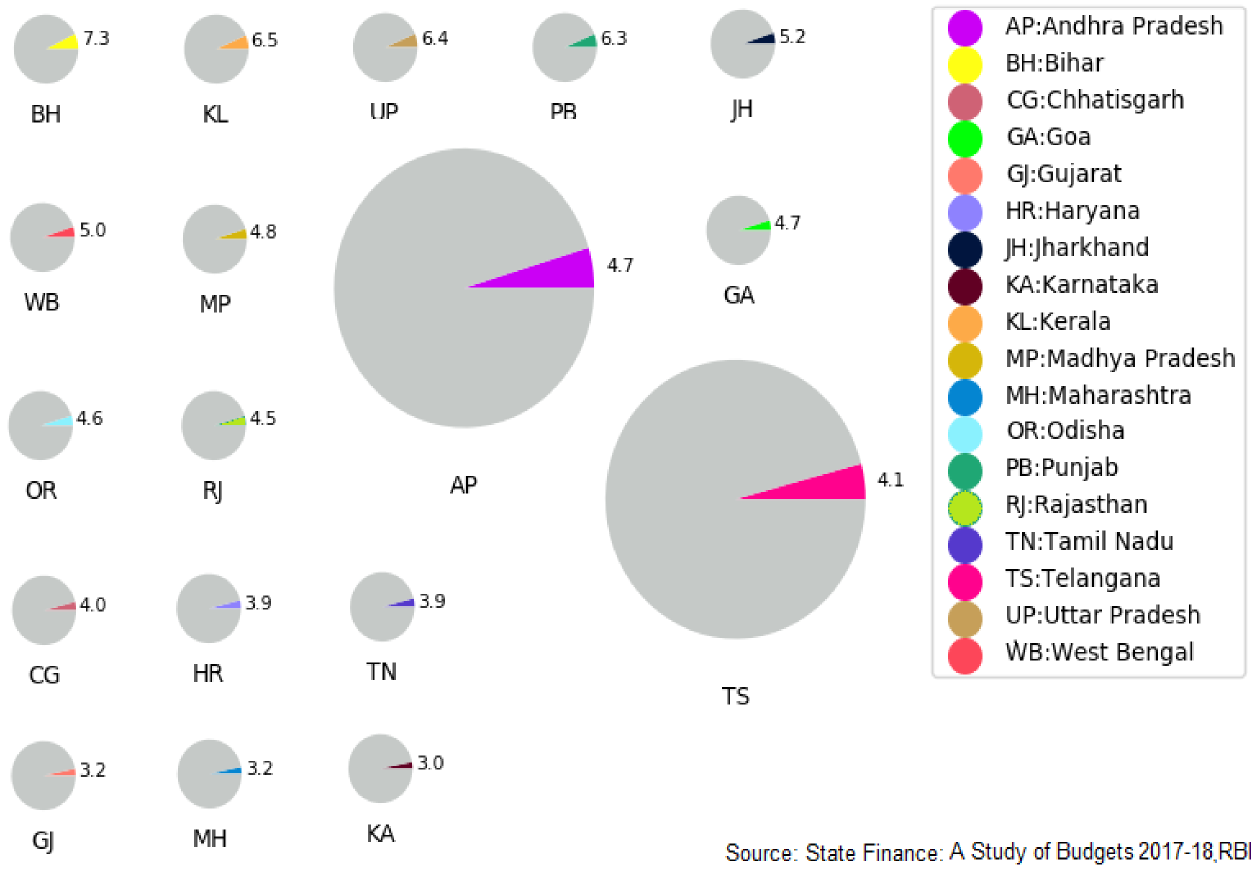


Source: State Finance: A Study of Budgets 2017-18, RBI

Figure 44 displays the ratio of Non-Development Revenue Expenditure to GSDP of Non-Special Category States (General Category States). The values correspond to 2015-16 accounts data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Bihar and Kerala have the highest share of non-development revenue expenditure relative to GSDP at 7.3% and 6.5% respectively. Andhra Pradesh's share (4.7%) is slightly higher than Telangana (4.1%).

Figure 44. Ratio of Non-Development Revenue Expenditure to GSDP of Non-Special Category States (in %) (2015-16 Accounts)



Source: State Finance: A Study of Budgets 2017-18,RBI

1.2.2. Budget Estimates vis-à-vis Actuals

The budget of a State government provides description of projections and estimations of revenue and expenditure over an ensuing fiscal year.

A comparison of budget estimates of the Revenue Expenditure of Telangana with respect to the actual expenditure over the period of last few years reflects that estimation in the budget process has not been very close.

Table 7 below shows the budget estimates of revenue expenditure vis-à-vis actuals. For the year 2016-17, Revised Estimates have been taken as Actuals for the analysis, due to unavailability of actual figures. It can be inferred that Telangana government has been successful in spending less than the planned estimates (Figure 45) and has been trying hard to adhere to the FRBM norms of fiscal prudence.

However, the percentage difference between Budget Estimates and Actuals is declining as shown in Figure 46, from 36.49% in 2014-15 to 16.23% in 2016-17.

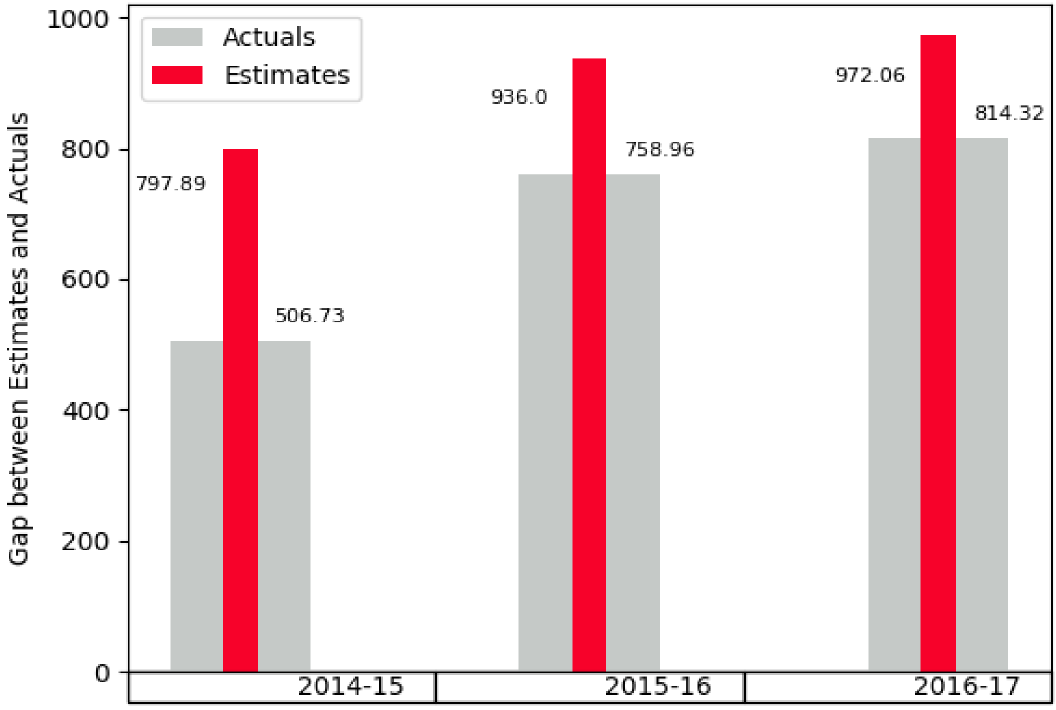
Table 7. Revenue Expenditure : Budget Estimates vis-a-vis Actuals

Years	2014-15	2015-16	2016-17
1.Actuals(A) (in Bn INR)	506.73	758.96	814.32
2.Budget Estimates(B) (in Bn INR)	797.89	936.0	972.06
3.(A-B) (in Bn INR)	-291.16	-177.04	-157.74
4.(A-B)/B (in %)	-36.49	-18.91	-16.23

For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18). RBI Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

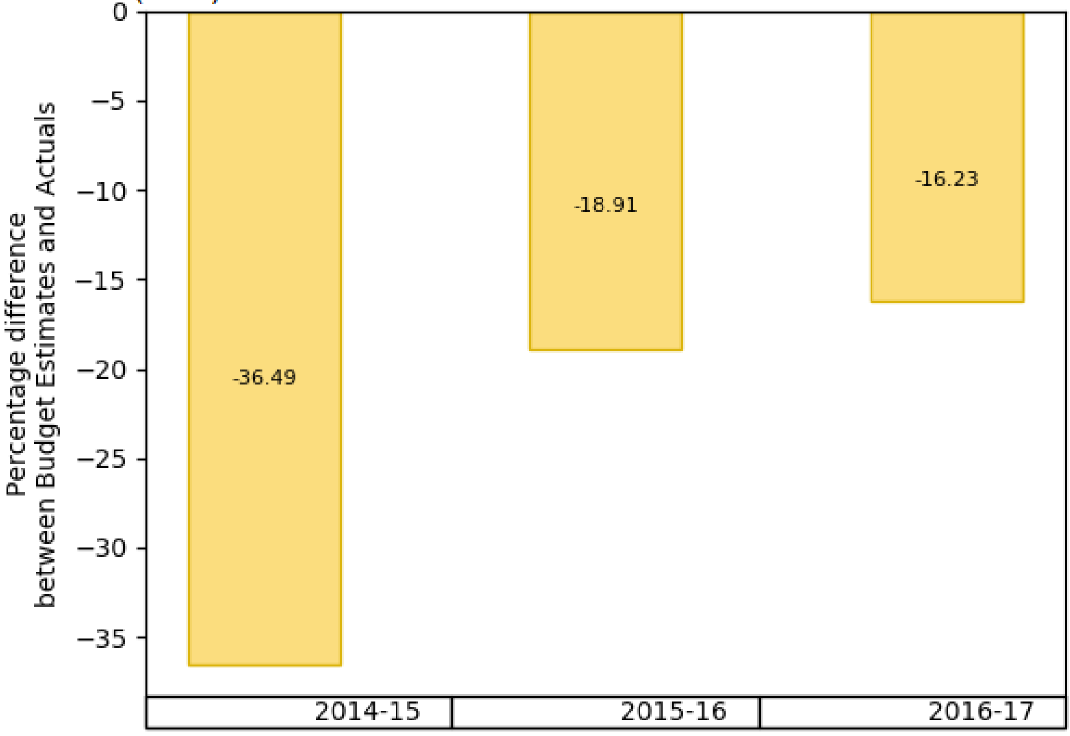
Figure 45. Revenue Expenditure : Gap between Estimates and Actuals (in Bn INR)



For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI; Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

Figure 46. Percentage difference between Estimates and Actuals (in %)



For 2016-17, actuals have been taken from CAG
%difference=100*(Actuals-Estimates)/Estimates

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI; Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

1.3. REVENUE RECEIPTS AND EXPENDITURE: Comparative Analysis

Sound and prudent fiscal management requires states to spend according to the income earned, by ensuring receipts being more than expenditure. Figure 47 portrays the year wise growth rate of Revenue Receipts and Revenue Expenditure. It clearly exhibits revenue receipts growing faster than Revenue Expenditure in the later years.

However, this picture could possibly be delusionary as corroborated by audit findings of CAG in the state finances report for the year ended March 2017[4]. According to the revelations by CAG, during the year 2016-17, there was a Revenue surplus of Rs. 1,386 crores. Fiscal deficit (Rs. 35,281 crore) constituted 5.46 per cent of GSDP. Primary deficit stood at Rs. 26,672 crores. However, the revenue surplus is overstated by Rs. 6,778 crore and fiscal deficit understated by Rs. 2,500 crores on account of the following:

- Government borrowed Rs. 8,931.51 crores through UDAY bonds during the year. Out of this, an amount of only Rs. 7,500 crores were released to DISCOMs to end of the year. It was stipulated in the MoU that, DISCOMs debt had to be taken over in the form of grant Rs. 4,462 crores (50 per cent), loan Rs. 2,230 crores (25 per cent) and equity Rs. 2,231 crores (25 per cent). An amount of Rs. 3,750 crores (50 per cent of Rs. 7,500 crores released to DISCOMs) was booked as equity instead of grant, against the MoU under UDAY scheme.

- Borrowed funds of Rs. 1,500 crores of Hyderabad Metropolitan Water Supply & Sewerage Board were taken into government account as a remittance as per instructions of the government, thus overstating Revenue Receipts to that extent.

- A similar remittance of Rs. 1,000 crores from Telangana State Housing Corporation Limited (borrowed from HUDCO) was taken into account as Revenue Receipts.

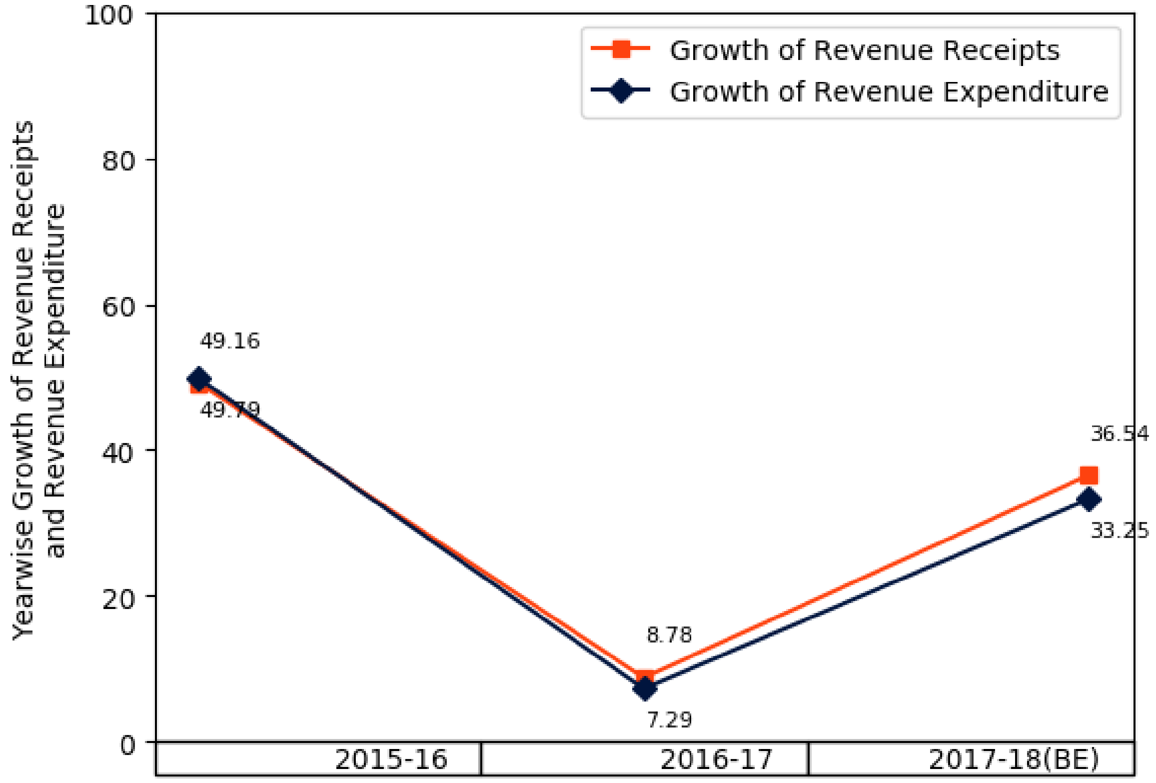
- A sum of Rs. 528 crores of Revenue Expenditure were adjusted into Loan Account in respect of Health, Medical and Family Welfare Department by DTO (Urban),

[4] Source: Report of the Comptroller and Auditor General of India on State Finances for the year ended March 2017
https://cag.gov.in/sites/default/files/audit_report_files/Report_No_2_of_2018__State_Finances_Government_of_Telangana.pdf

Hyderabad as per the instructions of Government, resulting in understatement of Revenue Expenditure to that extent.

The issues highlighted by CAG are serious, reflecting irregular accounting and precarious fiscal position of the state.

Figure 47. Yearwise Growth in Revenue Receipts and Revenue Expenditure (in %)



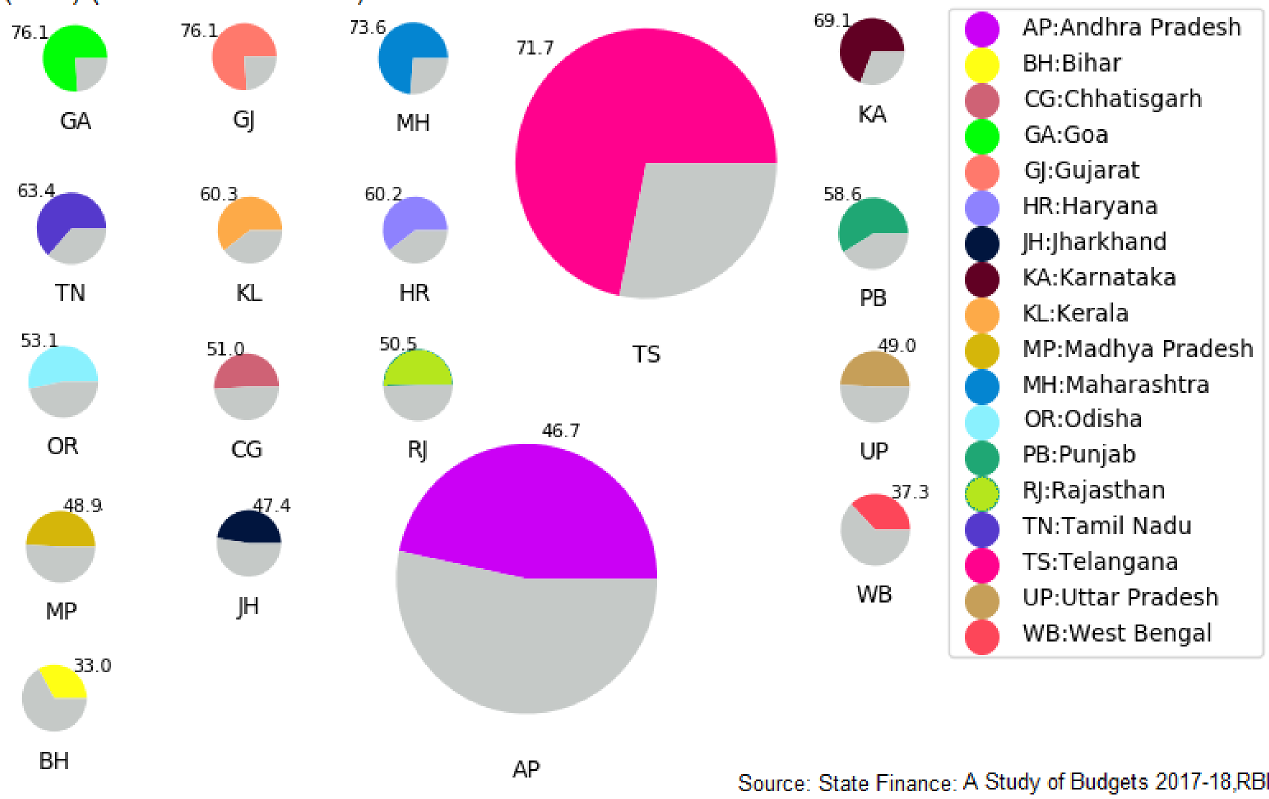
BE: Budget Estimates
For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI;
Report of Comptroller Auditor General of India on State Finances
for the year ended 31 March, 2017

Comparison of Revenue Receipts with Revenue Expenditure depicts the fiscal strength of the state. High own revenue relative to revenue expenditure shows that the state does not have to rely much on central transfers and can carry the burden of administration efficiently. Figure 48 displays the ratio of Own Revenue to Revenue Expenditure of Non-Special Category States (General Category States). The values correspond to 2015-16 accounts data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Both Goa and Gujarat have the highest share of developmental revenue expenditure relative to GSDP at 76.1%. Telangana's share (71.7%) is enormously higher than Andhra Pradesh's share (46.7%). It depicts that Telangana has been able to generate much of revenue for expenditure.

Figure 48. Ratio of Own Revenue to Revenue Expenditure of Non-Special Category States (in %) (2015-16 Accounts)



Source: State Finance: A Study of Budgets 2017-18,RBI

1.4. CAPITAL RECEIPTS

Capital Receipts are those receipts of the government which either: (a) reduce assets of the government (e.g. sale of share, disinvestment); or (b) create liabilities (e.g. government borrowings).

Capital Receipts includes funds received through 'Internal Debt', 'Loans and Advances from the Centre', 'Recovery of loans and advances', 'Inter-state settlement', 'State Provident Funds', Reserve Funds', 'Deposits and Advances', 'Suspense and Miscellaneous' and 'Remittances'

Table 8 and Figures 49, 50, 51 and 52, show the components of capital receipts over the years. It can be observed that major component is 'Suspense and Miscellaneous' with an amount of Rs. 1100.62 Billion in 2014-15 and Rs. 935.33 Billion in 2015-2016. 'Suspense and Miscellaneous' includes suspense (used when account for a particular transaction at the time when transaction was recorded, could not be found), cash balance investment accounts, deposits with RBI, and others. Only revised and budget estimates are available for the year 2016-17 and 2017-18 and government of Telangana has estimated zero contribution from above explained head for these years.

Table 8. Capital Receipts (in Bn INR)

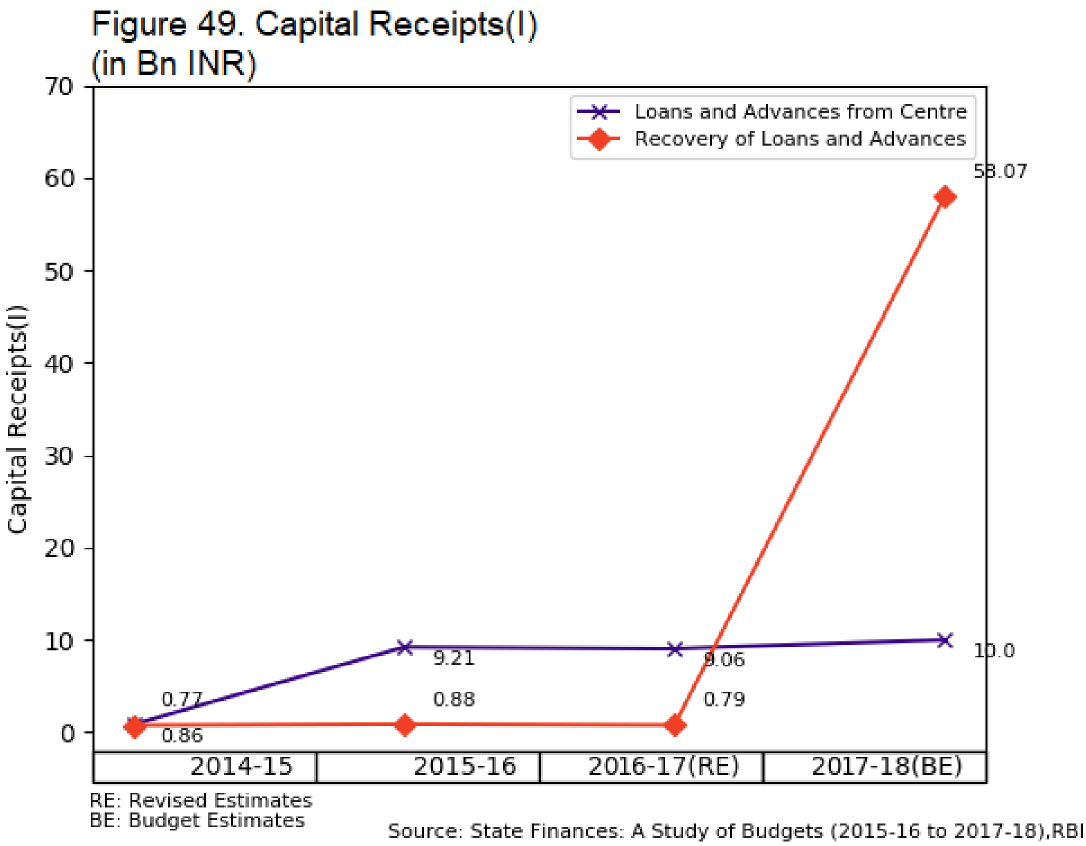
Years	2014-15	2015-16	2016-17(RE)	2017-18(BE)
1.Internal Debt	94.94	165.77	235.59	283.8
2.Loans and Advances from Centre	0.86	9.21	9.06	10.0
3.Recovery of Loans and Advances	0.77	0.88	0.79	58.07
4.State Provident Funds	13.19	21.01	22.3	12.33
5.Reserve Funds	11.21	18.56	14.57	20.79
6.Deposits and Advances	236.15	398.4	291.02	430.0
7.Suspense and Miscellaneous	1100.62	935.33	0.0	0.0
8.Remittances	90.28	161.98	0.0	0.0

BE: Budget Estimates
RE: Revised Estimates

Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Second major constituent is 'Deposits and Advances' with an amount of Rs. 236.15 Billion in 2014-2015 and Rs. 430 Billion in 2017-18. 'Deposits and Advances' includes civil deposits, deposits of local funds, civil advances and others.

The table also reveals that internal debt (which includes market loans, loans from LIC, loans from banks, loans from NABARD, loans from NCDC, WMA from RBI, NSSF securities and others) has escalated in the last few years; from Rs. 94.94 Bn in 2014-15 to Rs. 283.8 Bn in 2017-18; a 198% increase which will worsen the debt profile of the state.



'Loans and Advances from Centre' refers to monetary help received from centre for state plan schemes, central plan schemes, centrally sponsored schemes, non-plan aid in case of calamities, WMA from centre and loans for special schemes. 'Loans and Advances from Centre' amounts to Rs. 10 Billion in the year 2017-18, which is quite less compared to other components.

It can be clearly inferred from Table 8 that the government of Telangana raises more funds via internal debt than the funds it receives from centre.

Another observation is that the 'Recovery of Loans and Advances' is quite low, amounting just Rs. 0.79 Billion according to available revised estimates for the year 2016-17. However, according to available Budget estimates for the year 2017-18, it upsurges to Rs. 58.07 Billion which looks fanciful and arduous.

Figure 50 shows an increase in the 'Reserve Funds' (Rs. 20.79 Bn) according to 2017-18 budget estimates, though in 2016-17 (Revised Estimates) 'Reserve Funds' dipped to Rs.14.57 Billion. 'State Provident Funds' increased in the years 2014-15 and 2015-16, Budget estimates of 2017-18 show a downfall in the same.

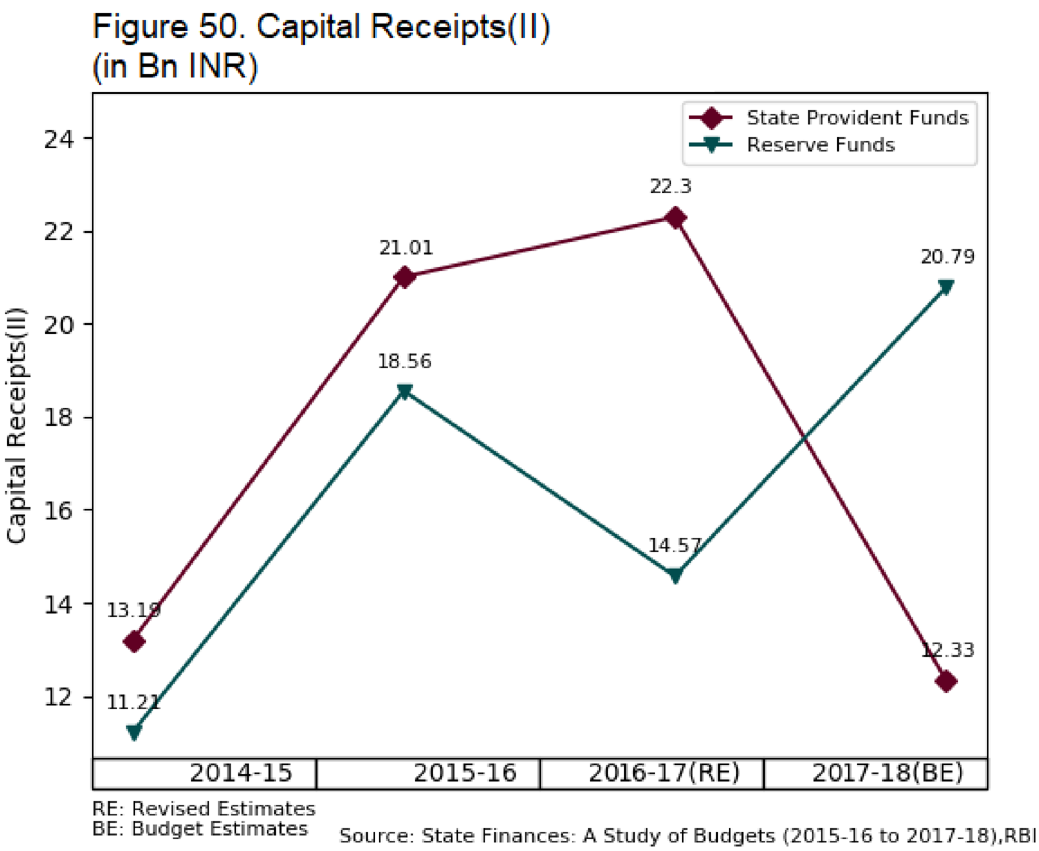


Figure 50. Capital Receipts(II)
(in Bn INR)
State Provident Funds
Reserve Funds
Capital Receipts(II)
24
22
20
18
16
14
12
22.3
21.01
20.79
18.56
14.57
13.19
12.33
11.21
2014-15
2015-16
2016-17(RE)
2017-18(BE)
RE: Revised Estimates
BE: Budget Estimates
Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

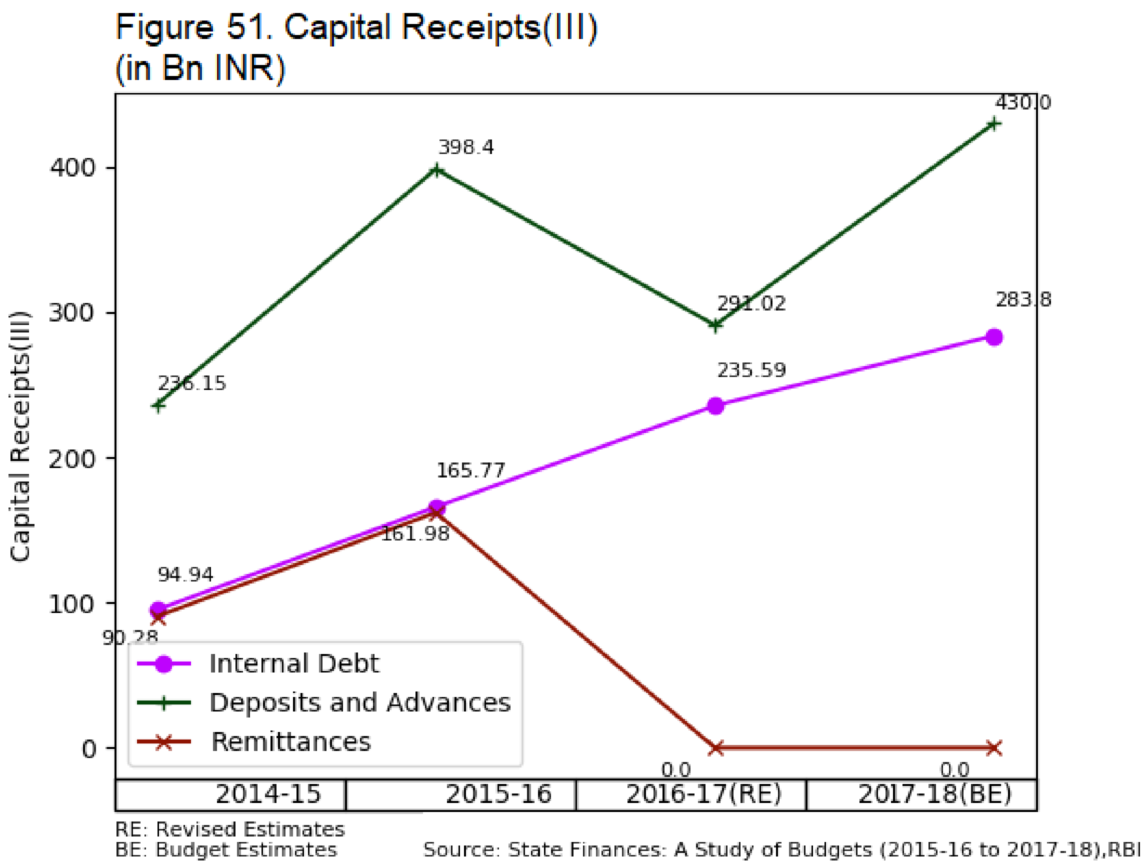


Figure 51. Capital Receipts(III)
(in Bn INR)
Capital Receipts(III)
400
300
200
100
0
430.0
398.4
291.02
283.8
236.15
235.59
165.77
161.98
94.94
90.28
0.0
0.0
Internal Debt
Deposits and Advances
Remittances
2014-15
2015-16
2016-17(RE)
2017-18(BE)
RE: Revised Estimates
BE: Budget Estimates
Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Figure 52. Capital Receipts(IV): Suspense and Miscellaneous (in Bn INR)

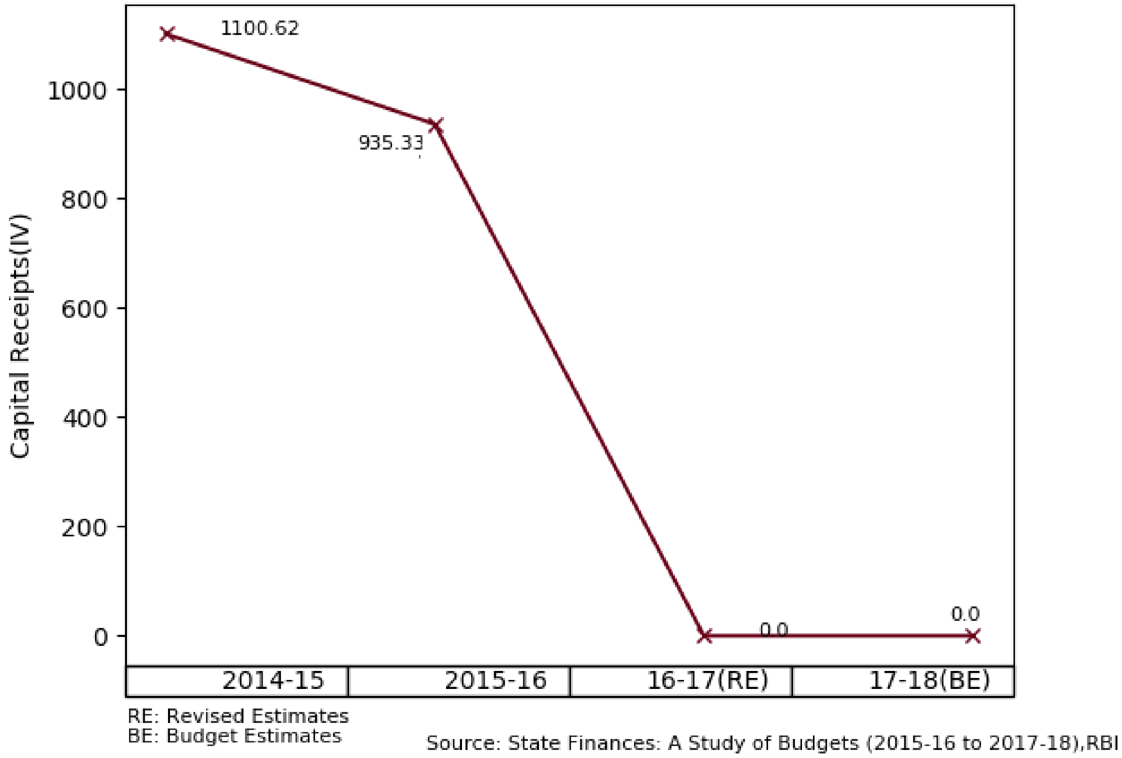


Figure 53. Yearwise Growth in Capital Receipts (in %)

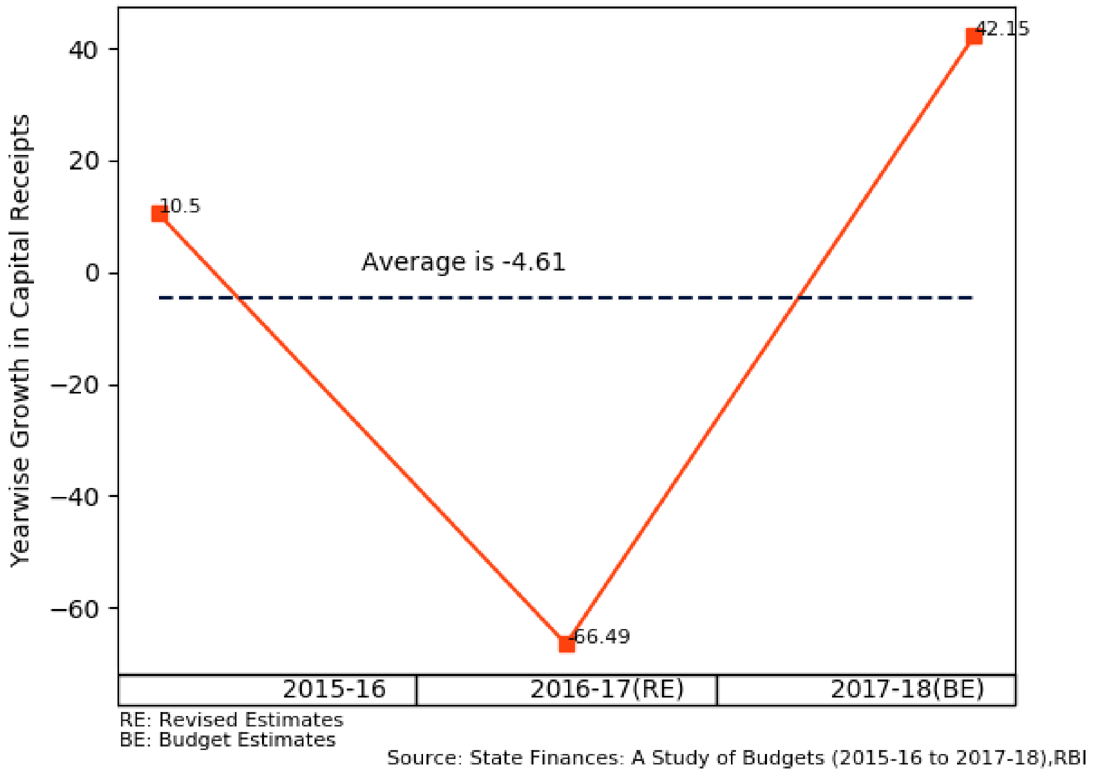


Figure 53 shows the year wise growth of capital receipts, showing sharp decline to -66.49% according 2016-17 revised estimates, and then upsurge to 42.15% in 2017-18(BE).

1.4.1. Internal Debt

Internal debt composes of market loans, loans from LIC, loans from banks, loans from NABARD, loans from NCDC, ways and means advances from RBI, NSSF securities and others.

Table 9 exhibits the amount (in Rs. Bn) of items mentioned above for the period from 2014-15 to 2017-18(BE) and it can be understood that 'Market Loans' has been a major constituent with an amount of Rs. 82.01 Bn in 2014-15 to Rs. 264 Bn in 2017-18, with more than 200% increase. 'Loans from NABARD' have been second major constituent with an amount of Rs. 4.98 Bn in 2014-15 and Rs. 10 Bn in 2017-18. Telangana government has implemented a number of schemes to save debt ridden farmers, although a report released by NABARD claims that 79% of farmers in Telangana are struggling to repay loans on time.

Table 9. Internal Debt (in Bn INR)

Years	2014-15	2015-16	2016-17(RE)	2017-18(BE)
1.Market Loans	82.01	138.48	224.61	264.0
2.Loans from LIC	0.0	0.0	0.0	0.0
3.Loans from Banks	0.0	0.0	0.0	0.0
4.Loans from NABARD	4.98	10.41	8.96	10.0
5.Loans from NCDC	0.1	0.03	1.02	8.8
6.WMA from RBI	0.0	1.12	1.0	1.0
7.NSSF Securities	7.84	10.62	0.0	0.0
8.Others	0.01	5.11	0.0	0.0

RE: Revised Estimates
BE: Budget Estimates

Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

1.4.2. Recovery of Loans and Advances

Table 10 exhibits 'Recovery of Loans and Advances' by the government of Telangana. It displays a poor performance by the state in recovering loans, adding more to debt burden. Power sector which gets maximum share of loans and subsidies has miniscule share in paying loans back, given for power projects, at just Rs. 4.01 Bn in 2017-18. There is noticeable amount being recovered back for loans meant for urban development at Rs. 38.0 Bn.

Telangana state which spends lavishly on various developmental welfare schemes has not been able to recover back loans, which raises concern about allocative efficiency.

Table 10. Components of 'Recovery of Loans and Advances' (in Bn INR)

Years	2014-15	2015-16	2016-17(RE)	2017-18(BE)
1.Urban Development	0.0	0.0	0.0	38.0
2.Food Storage and Warehousing	0.0	0.0	0.0	0.0
3.Minor Irrigation	0.0	0.0	0.0	0.0
4.Power Projects	0.49	0.34	0.0	4.01
5.Village and Small Industries	0.0	0.0	0.0	0.02
6.Road Transport	0.0	0.0	0.0	0.0
7.Government Servants	0.25	0.5	0.71	0.36
8.Others	0.0	0.0	0.0	0.13

RE: Revised Estimates
BE: Budget Estimates

Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

1.4.3. Remittances

Remittances can be classified into:

Inward remittances: It represents household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies.

Outward remittances: It refer to the process of sending money in foreign locations from the home country. In India, outward remittances are made mainly through banks and are regulated. This helps state governments in maintaining surplus in remittances.

Remittances is important source of external finance and can help in financing the growth of receiving states.

Figure 51 depicts remittances of government of Telangana from 2014-15 to 2017-18(BE). It shows high increase in the year 2015-16 at Rs. 161.98 Bn. Although the revised and budget estimates for the year 2016-17 and 2017-18 do not show anything.

1.4.4. Budget Estimates vis-à-vis Actuals

A comparison between budget estimates and Actuals show the robustness in fiscal and budget planning.

Following Table 11 and Figure 54 shows the gap between the budget estimates and Actuals of Capital Receipts. Table shows huge difference between budget estimates and Actuals in the year 2014-15 and 2015-16, reveals flawed planning of the state. Due to unavailability of data revised estimates have been compared with budget estimates in year 2016-17, showing budget estimates being more than Actuals (Revised Estimates).

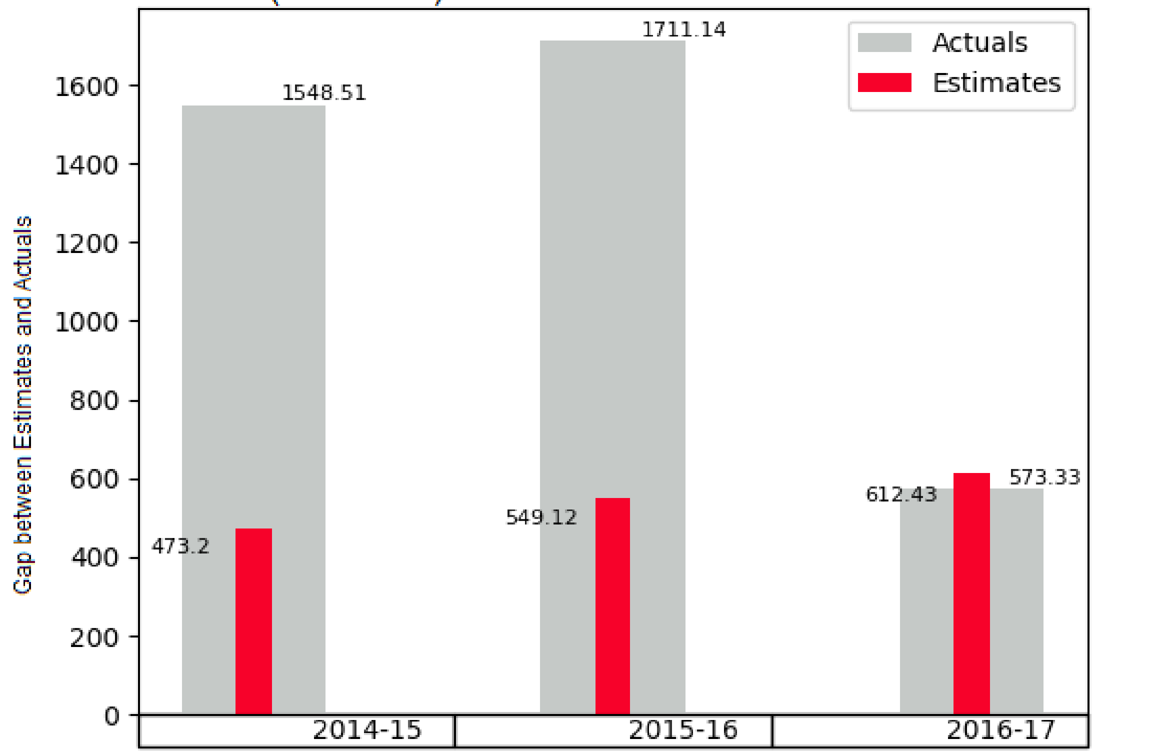
Table 11. Capital Receipts : Budget Estimates vis-a-vis Actuals

Years	2014-15	2015-16	2016-17
1.Actuals(A) (in Bn INR)	1548.51	1711.14	573.33
2.Budget Estimates(B) (in Bn INR)	473.2	549.12	612.43
3. (A-B) (in Bn INR)	1075.31	1162.02	-39.1
4. (A-B)/B (in %)	227.24	211.61	-6.38

Revised Estimates used in place of Actuals for 2016-17

Source: State Finances: A Study of Budgets (15-16 to 17-18),RBI

Figure 54. Capital Receipts: Gap between Estimates and Actuals (in Bn INR)



Revised Estimates used in place of Actuals for 2016-17

Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

1.5. CAPITAL EXPENDITURE

Capital Expenditure is incurred for acquisition and creation of capital assets. It is non-recurring in nature and is a long period expenditure.

It includes the expenses on following which leads to creation of assets:

(a) expenditure on purchase of land, buildings, machinery,

(b) investment in shares, loans by Central government to state government, and

(c) acquisition of valuables.

Such expenditures are incurred on long period development programmes, real capital assets and financial assets. This type of expenditure adds to the capital stock of the economy and raises its capacity to produce more in future.

It also includes 'Repayment of loans; and 'Discharge of Internal Debt' which is also capital expenditure because it reduces liability. These expenditures are met out of capital receipts of the government including capital transfers from rest of the world.

The Table 12 depicts general trend of CAPEX (Capital Expenditure) from 2014-15 to 2017-18.

The key components of capital expenditure being analysed are Total Capital Outlay, Discharge of internal debt, Repayment of Loans to the Centre, Loans and Advances by the State government, Interstate Settlement, Contingency Funds, Small Savings and State Provident Funds, Reserve Funds, Deposits and Advances, Suspense and Miscellaneous, Appropriation to Contingency Fund and Remittances.

Figure 55 portrays components of Capital Expenditure over the years of study. Highest share is of 'Deposits and Advances' followed by 'Total Capital Outlay' which includes expenditure on capital asset creation for development and non-development purposes.

Third major spending out of capital receipts is on 'Loans and Advances by state government' for developmental and non-developmental purposes.

'Repayment of loans; and 'Discharge of Internal Debt' which reduces liability of the state government have increased over the years but still are quite low compared to other components.

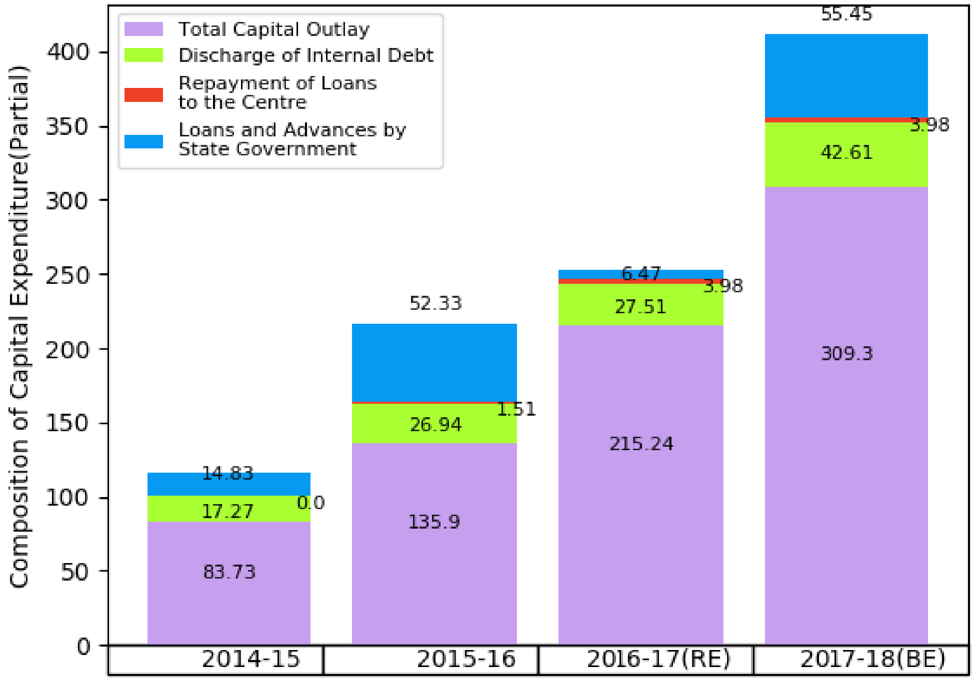
Table 12. Total Capital Disbursements (in Bn INR)

Years	2014-15	2015-16	2016-17(RE)	2017-18(BE)
1.Total Capital Outlay	83.73	135.9	215.24	309.3
2.Discharge of Internal Debt	17.27	26.94	27.51	42.61
3.Repayment of Loans to the Centre	0.0	1.51	3.98	3.98
4.Loans and Advances by State Government	14.83	52.33	6.47	55.45
5.Inter State Settlement	0.0	3.58	0.0	0.0
6.Contingency Funds	0.0	0.0	0.0	0.0
7.Small Savings and State Provident Funds	10.51	12.39	18.47	20.57
8.Reserve Funds	10.28	14.76	11.8	15.33
9.Deposits and Advances	214.56	376.19	287.23	416.72
10.Suspense and Miscellaneous	1098.63	927.61	0.0	0.0
11.Appropriation to Contingency Fund	0.5	0.0	0.0	0.0
12.Remittances	100.22	163.36	0.0	0.0

RE: Revised Estimates
BE: Budget Estimates

Source: State Finances: A Study of Budgets (15-16 to 17-18),RBI

Figure 55. Components of Capital Expenditure (Partial) (in Bn INR)

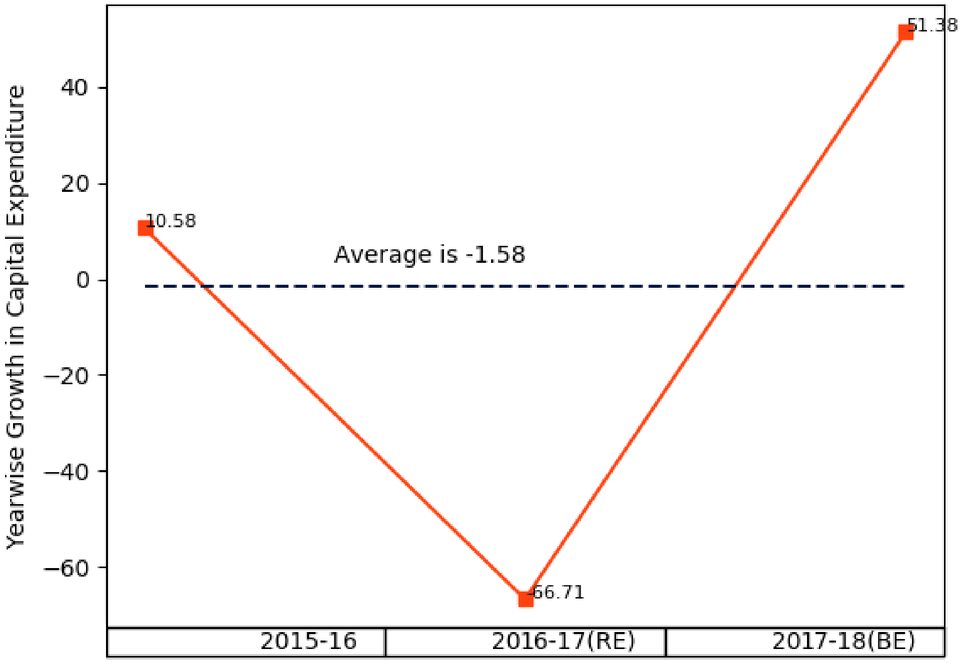


RE: Revised Estimates
BE: Budget Estimates

Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Figure 56 shows the year wise growth of Capital Expenditure and unveils that it has been growing at -1.58%, because of abnormal dip in growth in the year 2015-16 to 66.71%. This could be due to matching sharp decline in capital receipts in the same year.

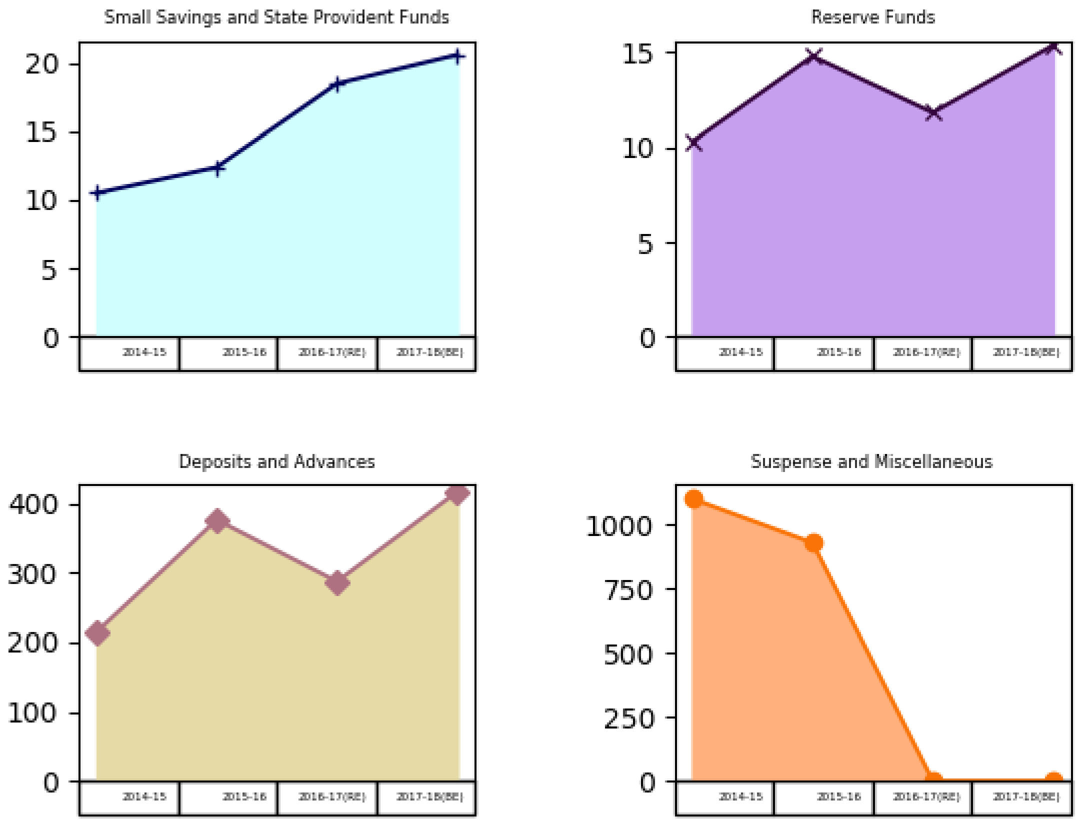
Figure 56. Yearwise Growth in Capital Expenditure (in %)



BE: Budget Estimates
RE: Revised Estimates

Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

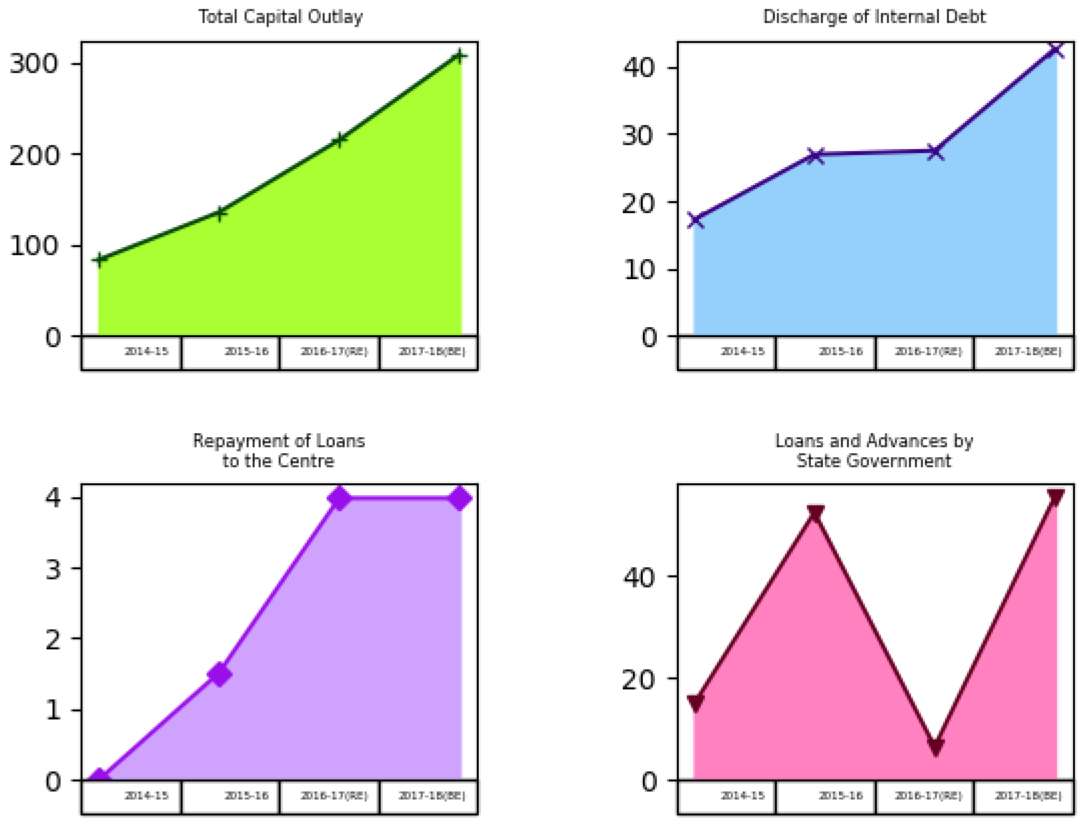
Figure 57. Trends in Components of Capital Expenditure (all values in Bn INR)



RE: Revised Estimates
BE: Budget Estimates

Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Figure 58. Trends in Components of Capital Expenditure (all values in Bn INR)



RE: Revised Estimates
BE: Budget Estimates

Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

1.5.1. Total Capital Outlay

Total capital outlay comprises of:

Development Expenditure (Social services and Economic Services) and

Non- Development Expenditure (General Services).

Under this head, the capital disbursement in terms of amount of money, has seen huge growth, in terms of percentage contribution to total capital expenditure, it has increased by 35%.

Considering critical subcomponents under this head, like Education, Medical and Public Health, Water Supply and sanitation, welfare of SC/ST and OBC, irrigation, industry and minerals, transport, science and technology and environment, the increasing trend is a good indicator vis-à-vis the overall progress of state but poses concern considering revenue capacity of the state.

Tables 13 and 14, show sub components of ‘Economic Services’ and ‘Social Services’ and their contribution to ‘Total Capital Outlay’ over the years of study.

Figure 59 shows percentage contribution of sub components of ‘Economic Services’ and ‘Social Services’. **Out of total money allocated for ‘Economic Services’, 63.97% has been spent on major and medium irrigation & flood control, and 18.57% on rural development.**

Out of total money allocated for ‘Social Services’, 53.94% is spent on water supply & sanitation followed by 31.09% on welfare of SC/ST & other backward classes. It can be observed that too less is spent on capital asset creation for medical & public health and education, art, sports & culture.

Table 13. Economic Services (in Bn INR)

Years	2014-15	2015-16	2016-17(RE)	2017-18(BE)
1.Agriculture and Allied Activities	0.35	1.51	2.58	4.76
2.Rural Development	0.51	3.5	0.0	43.12
3.Major and Medium Irrigation Flood Control	51.94	77.76	143.04	148.56
4.Industry and Minerals	0.09	0.01	0.06	2.06
5.Transport	11.45	17.38	21.72	20.5
6.General Economic Services	2.8	6.25	12.25	13.23

RE: Revised Estimates
BE: Budget Estimates

Source: State Finances: A Study of Budget(2015-16 to 2017-18)

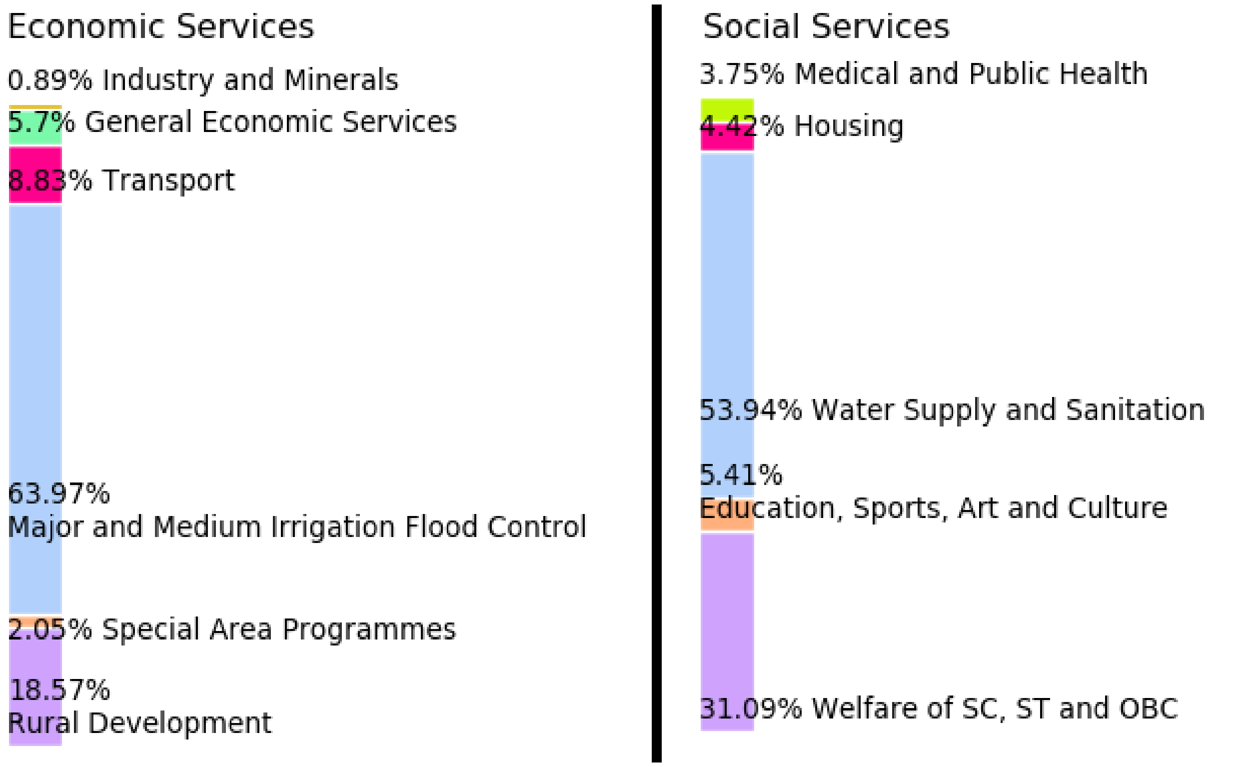
Table 14. Social Services (in Bn INR)

Years	2014-15	2015-16	2016-17(RE)	2017-18(BE)
1.Education, Sports, Art and Culture	1.89	1.34	2.53	3.23
2.Medical and Public Health	0.81	1.04	1.56	2.24
3.Water Supply and Sanitation	1.76	14.73	1.7	32.2
4.Housing	0.14	0.43	1.8	2.64
5.Welfare of SC, ST and OBC	4.18	3.46	17.11	18.56

RE: Revised Estimates
BE: Budget Estimates

Source: State Finances: A Study of Budgets (2015-16 to 2017-18)

Figure 59. Composition of Total Capital Outlay for Development Purposes (2017-18 Budget Estimates)

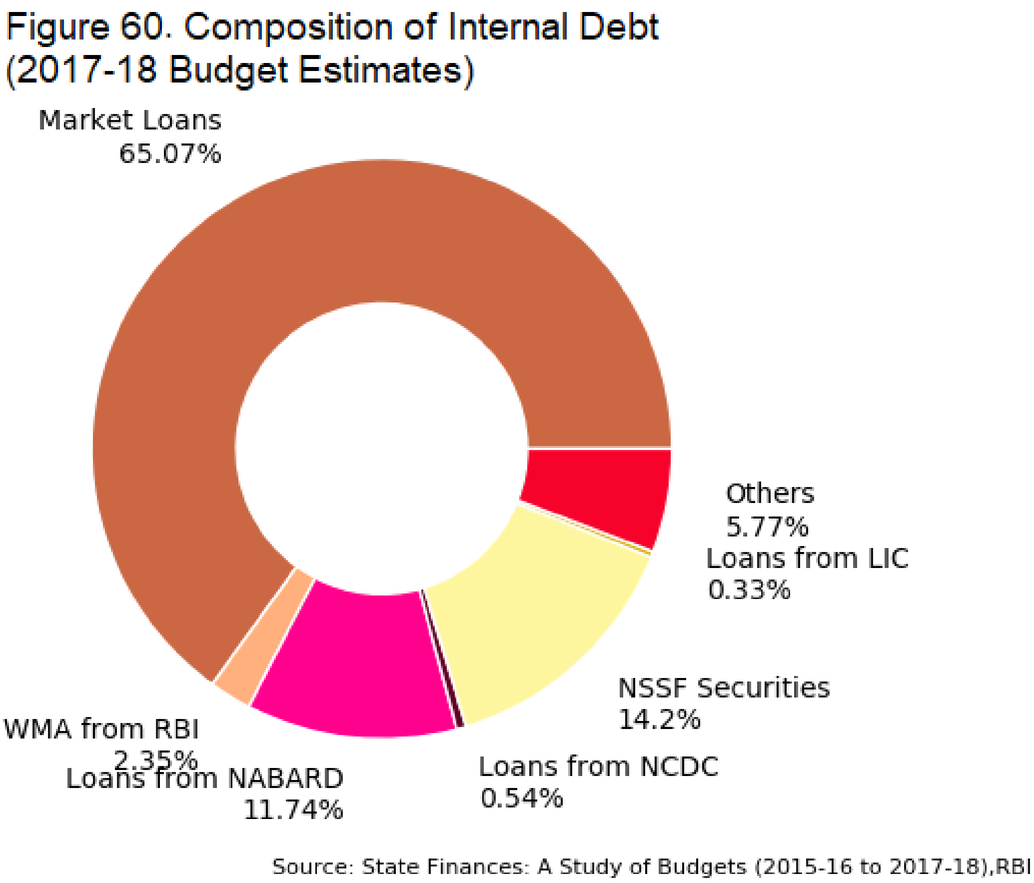


Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

1.5.2. Discharge of Internal Debt

Discharge of Internal Debt which is a kind of debt servicing has been increasing steadily over the years 2014-15 to 2017-18 from Rs. 17.27 Bn to Rs. 42.61 Bn (Table 12) respectively. It is important considering increasing debt burden of the state.

Since government of Telangana raises more funds through 'Market Loans', out of total funds from capital expenditure meant for debt servicing of internal debt, 65.07% goes for market loans. 11.74% funds are used for servicing of 'loans from NABARD' (Figure 60).



1.5.3. Loans and Advances by State Government

State governments spends in the form of loans and advances for development and non-development purposes. Government of Telangana provides almost 98% of loans under the head 'Loans and Advances by State Government' for Development purposes than Non-Development purposes.

Under the sub head 'Development Purposes', almost 77% is spent on social services than economic services.

Table 15 and 16 show contribution of components of subheads 'Social Services' and 'Economic Services'. Figure 61 displays the percentage contribution of components to their heads 'Social Services' and 'Economic Servicers'.

In social services, 55.7% is expensed on water supply & sanitation, whereas in economic services, 49.75% is spent on power projects. One fact to note is that in economic services, 42.59% is spent on 'others', of which detail is not available.

Table 15. Social Services (in Bn INR)

Years	2014-15	2015-16	2016-17(RE)	2017-18(BE)
1.Medical and Public Health	0.14	0.0	0.28	5.31
2.Water Supply and Sanitation	3.44	22.19	0.0	23.7
3.Housing	0.49	19.37	0.28	3.23
4.Housing for Govt. Servants	0.09	0.0	0.0	0.54
5.Others	7.63	6.24	1.35	9.77

RE: Revised Estimates
BE: Budget Estimates

Source: State Finances: A Study of Budgets (2015-16 to 2017-18)

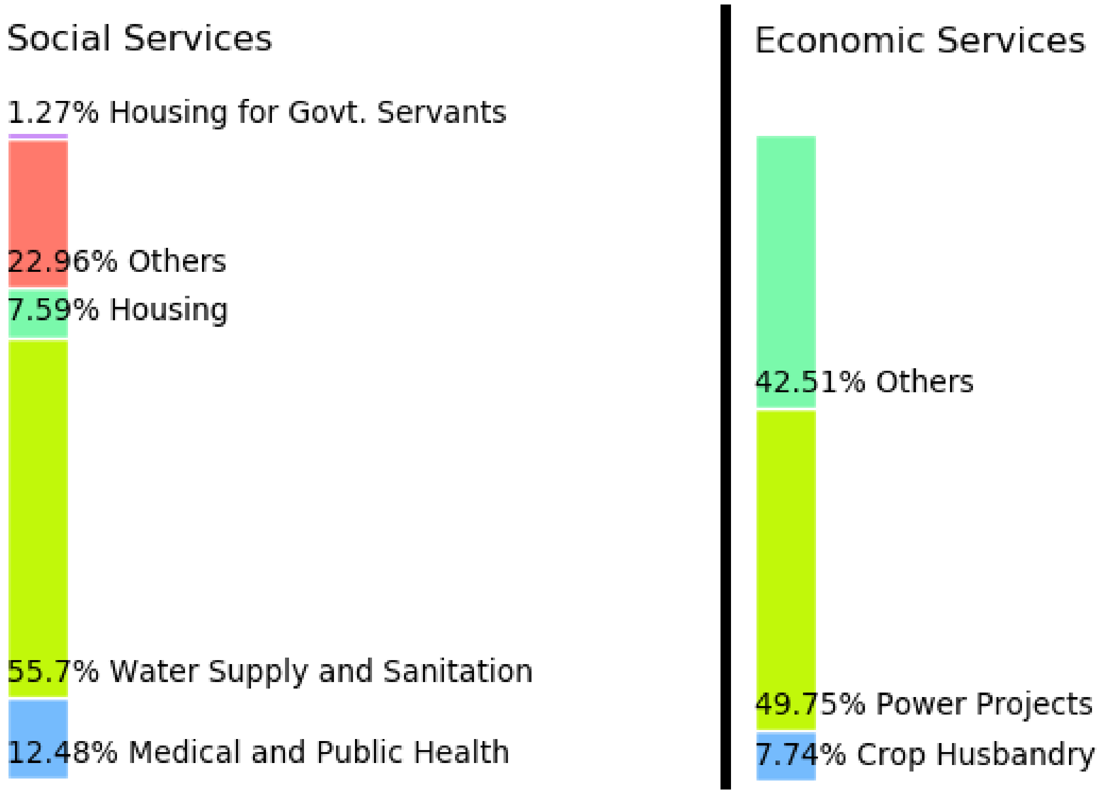
Table 16. Economic Services (in Bn INR)

Years	2014-15	2015-16	2016-17(RE)	2017-18(BE)
1.Crop Husbandry	0.0	0.0	0.0	0.93
2.Power Projects	0.0	2.74	1.9	5.98
3.Others	2.71	0.86	1.38	5.11

RE: Revised Estimates
BE: Budget Estimates

Source: State Finances: A Study of Budgets (2015-16 to 2017-18)

Figure 61. Composition of Loans and Advances by State Government (2017-18 Budget Estimates)



Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

1.5.4. Suspense and Miscellaneous

Disbursals through 'Suspense and Miscellaneous' includes such transaction whose account at the time when transaction was recorded, could not be found.

It is surprising that 54% of total capital disbursals were done via 'Suspense and Miscellaneous' according to 'Accounts' data available for year 2015-16.

1.5.5. Budget Estimates vis-à-vis Actuals

According to audit findings of CAG[5], Capital expenditure (Rs. 33,371 crore) was more than the Budget Estimates (Rs. 29,313 crore). Its ratio to total expenditure stood at 28.22 per cent which was higher than the combined average (19.70 per cent) of General Category States. The capital expenditure of the State excluding Rs. 7,500 crores transferred to DISCOMs under UDAY scheme was Rs. 25,871 crores.

Table 17 and Figure 62 show the gap between budget estimates and actuals of capital expenditure. Closer the values of budget estimates and actuals, sound the fiscal planning of a state is.

For the years 2014-15 and 2015-16, there is huge gap between budget estimates and actuals. Actuals being much more than budget estimates unveils overspending by the government and faulty planning.

Foe the year 2016-17, revised estimates have been considered as actuals because of unavailability of data. According to these estimates, actuals (RE) is less than budget estimates.

[5] Source: Report of the Comptroller and Auditor General of India on State Finances for the year ended March 2017
https://cag.gov.in/sites/default/files/audit_report_files/Report_No_2_of_2018__State_Finances_Government_of_Telangana.pdf

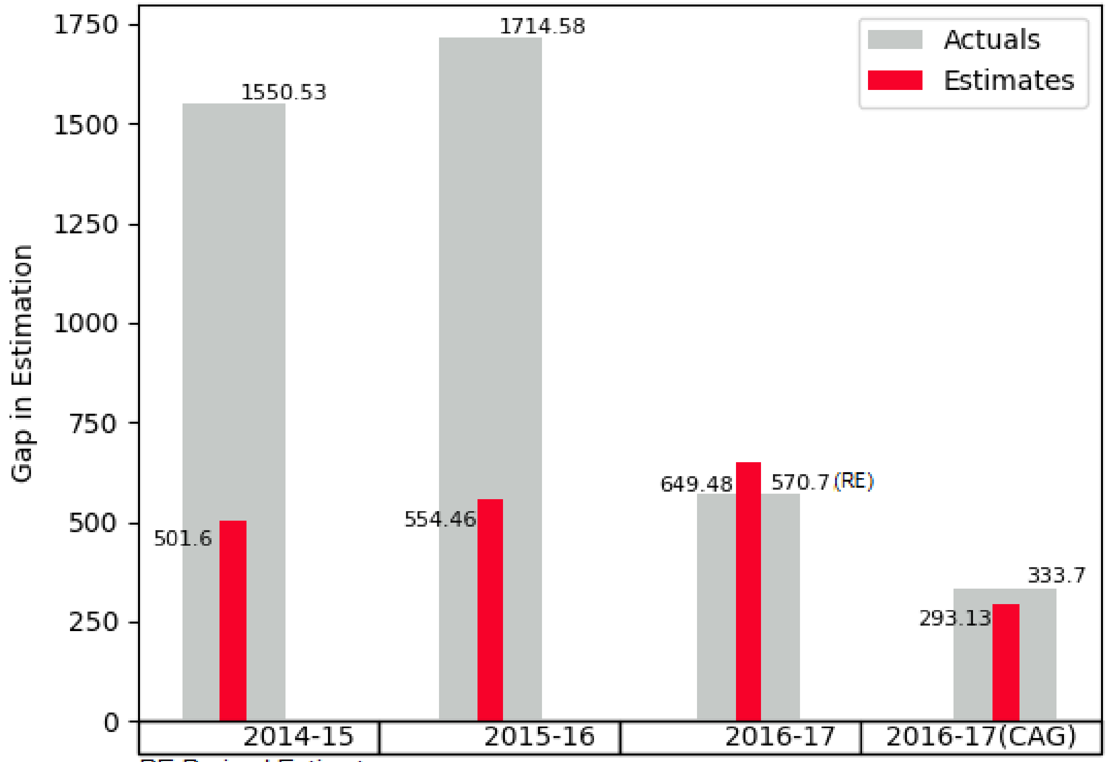
Table 17. Capital Expenditure: Budget Estimates vis-a-vis Actuals

Years	2014-15	2015-16	2016-17#	2016-17*
1.Actuals(A) (in Bn INR)	1550.53	1714.58	570.7	333.71
2.Budget Estimates(B) (in Bn INR)	501.6	554.46	649.48	293.13
3.(A-B) (in Bn INR)	1048.93	1160.12	-78.78	40.58
4.(A-B)/B (in %)	209.12	209.23	-12.13	13.84

#: Revised Estimates used in place of Actuals
*: Values have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI
Report of Comptroller&Auditor General of India on State Finances
for the year ended 31 March, 2017

Figure 62. Capital Expenditure: Gap between Estimates and Actuals (in Bn INR)



RE:Revised Estimates

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI;
Report of Comptroller Auditor General of India on State Finances
for the year ended 31 March, 2017

1.6. DEVELOPMENT & NON-DEVELOPMENT EXPENDITURE OF THE STATE

The expenditure which is incurred on activities directly related to economic development is called Developmental Expenditure, including expenditure incurred on education, health care, scientific research, infrastructure and so on. Development expenditures are broadly defined to include all items of expenditures that are designed directly to promote economic development and social welfare, it mainly includes spending on:

Economic services like agriculture, industry, energy, communication, transport, science, technology and environment and

Social services like education, health, employment, nutrition, housing and others.

Expenditure incurred on general essential services required for normal running of the government is termed as Non-Developmental Expenditure. Therefore, expenditure incurred on services relating to general administration, police, defence, judiciary etc. and the maintenance of the general organs of the government is Non-Developmental Expenditure.

Development and Non-Development Expenditure elucidated in this chapter comprise expenditure on Revenue and Capital Accounts and Loans and Advances extended by state of Telangana for development and non-development purposes.

Table 18 and Figure 63 shows the amount of funds spent by the means of Development and Non-Development Expenditure from year 2014-15 to 2017-18. We can infer that over these years, the proportion of development expenditure has increased in comparison to non-development expenditure; and there is sizeable gap between money spent on development and non-development purposes by the government of Telangana. **Out of Total Developmental and Non-Developmental Expenditures, the government spends almost 77% on developmental purposes.** The rise in Development Expenditure could be possibly due to the vision of 'inclusive development' reforms of the state, including welfare schemes like Vaddi Leni Runalu (interest free loans), Rythu Bandhu, Bhagiratha, 2 BHK Housing, KCR kit, Mission Kakatiya, Haritha Haram, Kalyan Lakshmi, Arogya Lakshmi etc.

Development Expenditure spending is 15.28% relative to GSDP whereas Non-Developmental Expenditure is 4.5% relative to GSDP.

Non-Developmental Expenditure, often meant for administrative expenses, increased by whooping 126% from 2014-15 to 2017-18(BE).

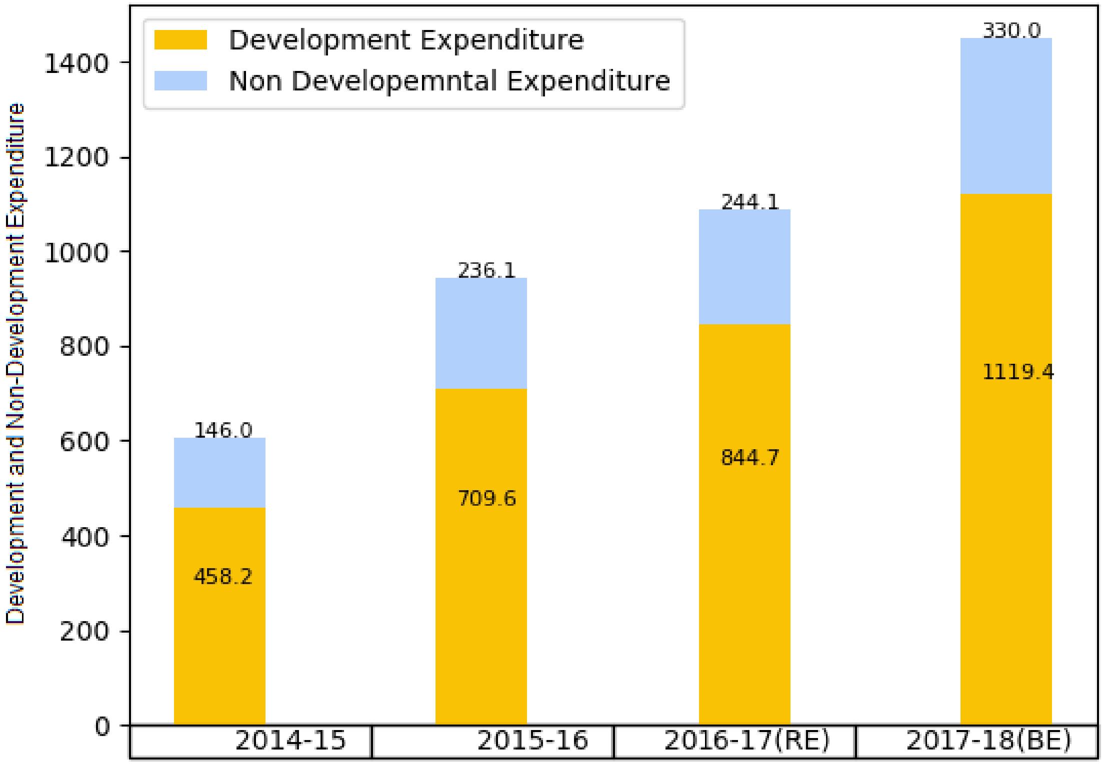
Table 18. Development and Non-Development Expenditure (relative to GSDP)

Years	2014-15	2015-16	2016-17(RE)	2017-18(BE)
1. Development Expenditure (in Bn INR)	458.2	709.6	844.7	1119.4
2. Non Development Expenditure (in Bn INR)	146.0	236.1	244.1	330.0
3. Gross State Domestic Product(in Bn INR)	5058.49	5633.56(SRE)	6419.85(FRE)	7326.57(AE)
4. Development Expenditure relative to GSDP(in %)	9.06	12.6	13.16	15.28
5. Non-Development Expenditure relative to GSDP(in %)	2.89	4.19	3.8	4.5

AE:Advance Estimates
FRE:First Revised Estimates
SRE:Second Revised Estimates
RE:Revised Estimates
BE:Budget Estimates

Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI
Directorate of Economics and Statistics, Telangana

Figure 63. Development and Non-Development Expenditure (in Bn INR)



RE: Revised Estimates
BE: Budget Estimates

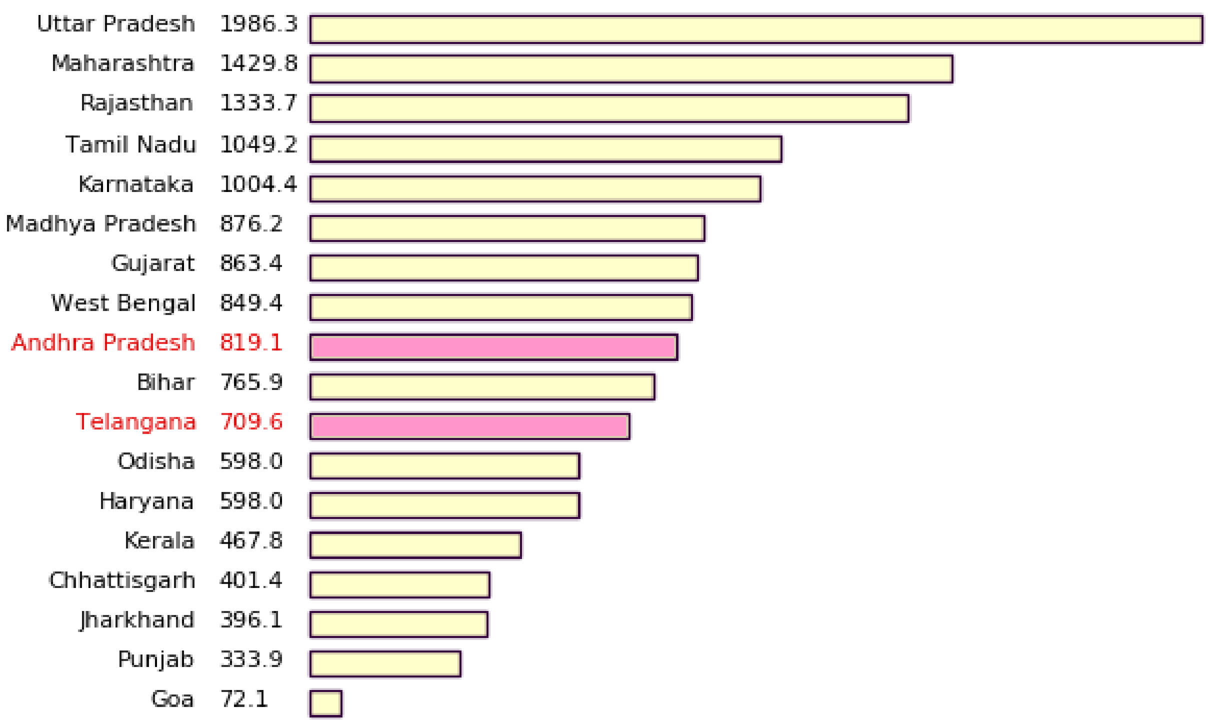
Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

1.6.1. Comparison with Andhra Pradesh and General Category States

Figure 64 displays the Development Expenditure of Non-Special Category States (General Category States). It includes the expenditure through revenue and capital accounts and loans & advances by the states for developmental purposes. The values correspond to 2015-16 accounts data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Uttar Pradesh and Maharashtra spend the highest on developmental purposes, at Rs. 1986.3 Bn and Rs. 1429.8 Bn respectively. Andhra Pradesh spends more than Telangana, at Rs. 819.1 Bn and Rs. 709.6 Bn.

Figure 64. Development Expenditure of Non-Special Category States (in Bn INR) (2015-16 Accounts)



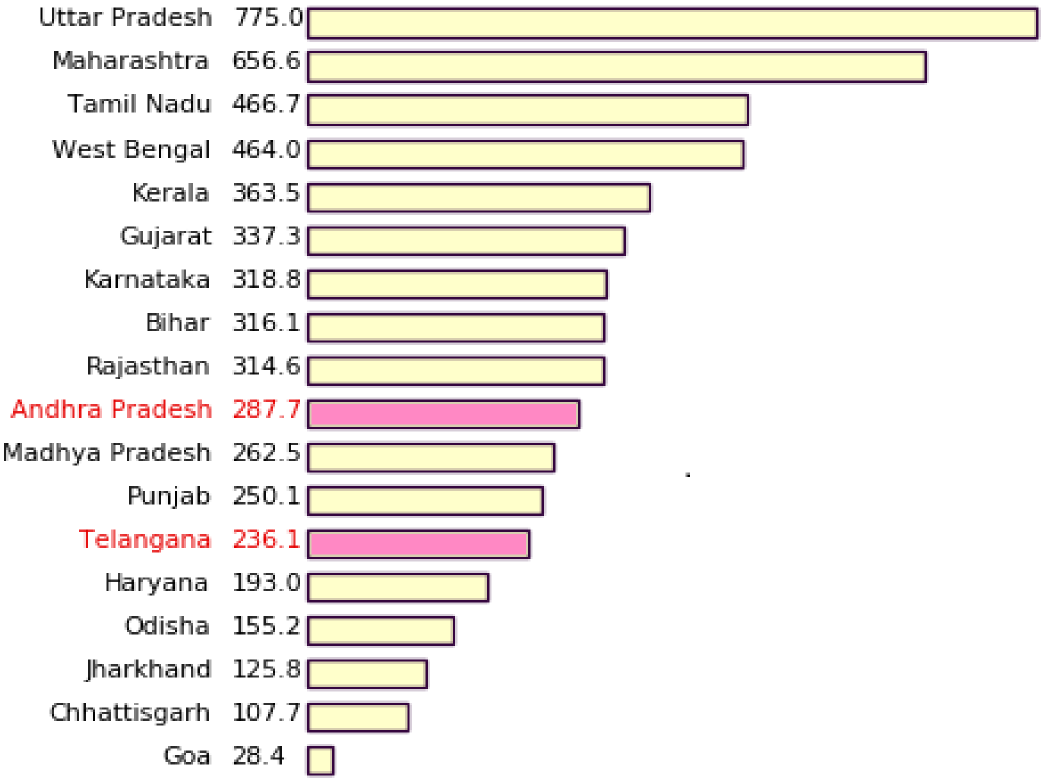
Values comprise of expenditure on Revenue and Capital Accounts and Loans and Advances extended by States for development purposes.

Source: State Finances: A Study of Budgets 2017-18, RBI

Figure 65 displays the Non-Development Expenditure of Non-Special Category States (General Category States). It includes the expenditure through revenue and capital accounts and loans & advances by the states for non-developmental purposes. The values correspond to 2015-16 accounts data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Uttar Pradesh and Maharashtra spend the highest on non-developmental purposes, at Rs. 775.0 Bn and Rs. 656.6 Bn respectively. Andhra Pradesh spends more than Telangana, at Rs. 287.7 Bn and Rs. 236.1 Bn.

Figure 65: Non-Development Expenditure of Non-Special Category States (in Bn INR) (2015-16 Accounts)



Values comprise expenditure on Revenue and Capital Accounts and Loans and Advances extended by States for Non-Development purposes

Source: State Finance : A Study of Budgets 2017-18, RBI

1.7. COMMITTED EXPENDITURE: GROWTH AND TRENDS

Comptroller and Auditor General of India defines Committed Expenditure as expenditure towards interest payments, subsidies, salaries and wages and pensions. [6]

Such expenditure is a mandatory obligation of the state and under no circumstance Government can escape from it.

Table 19 depicts the absolute composition of Committed expenditure of State of Telangana from the period 2014-15 to 2016-17. It could be clearly observed that **'Salaries and Wages' has the highest absolute share of committed expenditure** throughout the timeline of three consecutive years beginning from 2014-15 which stood at Rs. 122 Billion, Rs. 204.04 Billion in the year 2015-16 and Rs. 218.97 Billion in the year 2016-17.

It is alarming that Committed Expenditure grew by 63% in 2015-16 from 2014-15, in timeframe of just one year. It is quite worrisome considering the fiscal prudence of fiscal stability of the state. It grew by 9.9% in 2016-17 from 2015-16.

Table 19. Components of Committed Expenditure (in Bn INR)

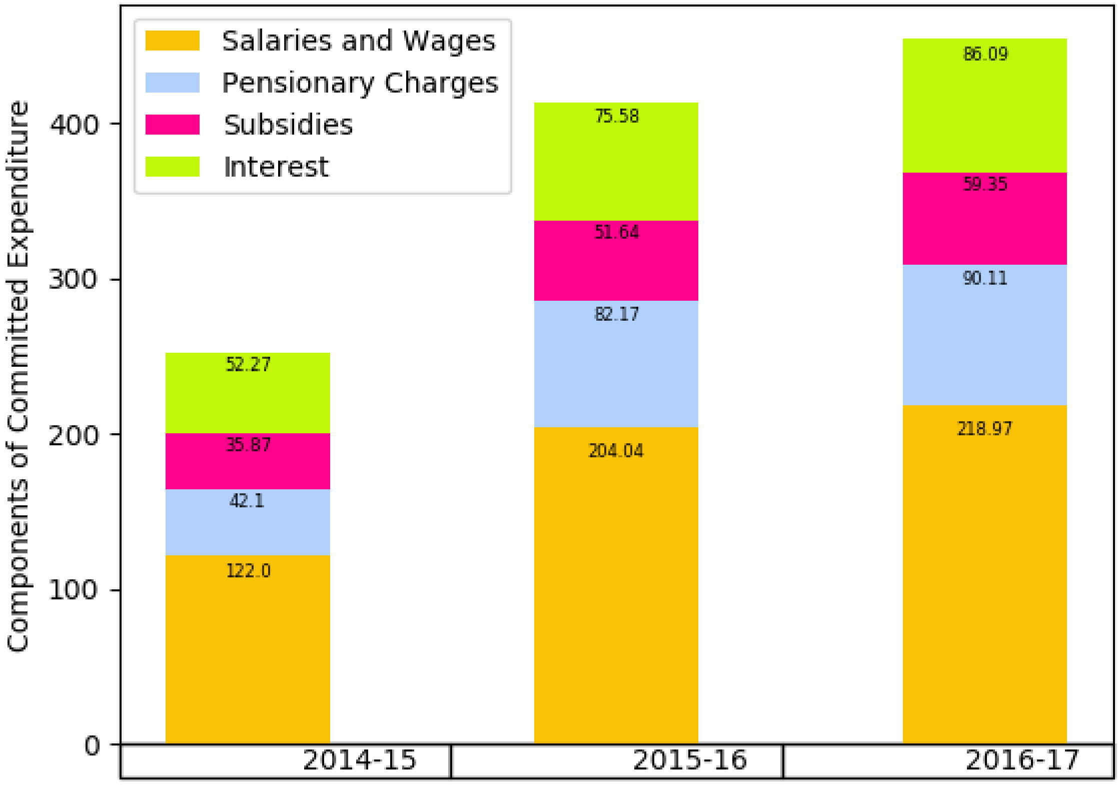
Years	2014-15	2015-16	2016-17
1.Salaries and Wages	122.0	204.04	218.97
2.Pensionary Charges	42.1	82.17	90.11
3.Subsidies	35.87	51.64	59.35
4.Interest	52.27	75.58	86.09
Total	252.24	413.43	454.52

Source: Report of CAG on State Finances for year ended March 2017, Telangana

Figure 66 displays the components of Committed Expenditure. The burden of all the four components have been increasing over the period of study, with 'salaries & wages' being the highest followed by 'pensionary charges', 'interests' and 'subsidies'. This depicts that the burden of inevitable committed expenditure is increasing.

[6] Source: https://data.gov.in/keywords/committed-expenditure

Figure 66. Components of Committed Expenditure (in Bn INR)



Source: Report of CAG on State Finances for year ended March 2017, Telangana

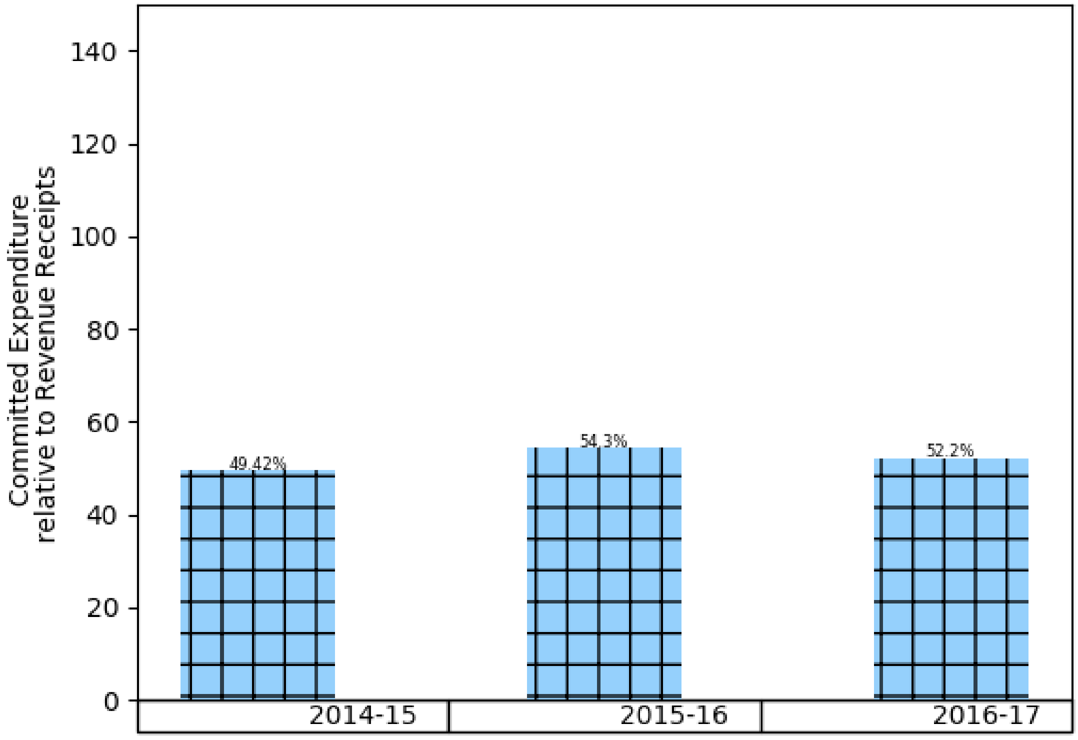
Table 20 and Figures 67, 68 depict the burden of committed expenditure over the receipts of the State. **It is observed that more than half of the revenue receipts and more than 30% of the total receipts are being absorbed by committed expenditure in the year 2016-17.** This indicates that State's considerable resources are being tied to unavoidable commitments leaving little scope for other expenditures.

Table 20. Committed Expenditure relative to Receipts

Years	2014-15	2015-16	2016-17
1. Committed Expenditure (CE) (in Bn INR)	252.24	413.43	454.52
2.Capital Receipts (CR) (in Bn INR)	1548.51	1711.14	573.33
3.Revenue Receipts (RR) (in Bn INR)	510.42	761.34	870.7
4.Committed Expenditure relative to Total Receipts: CE/(CR+RR)(in %)	12.25	16.72	31.48
5.Committed Expenditure relative to Revenue Receipts:(CE/RR)(in %)	49.42	54.3	52.2

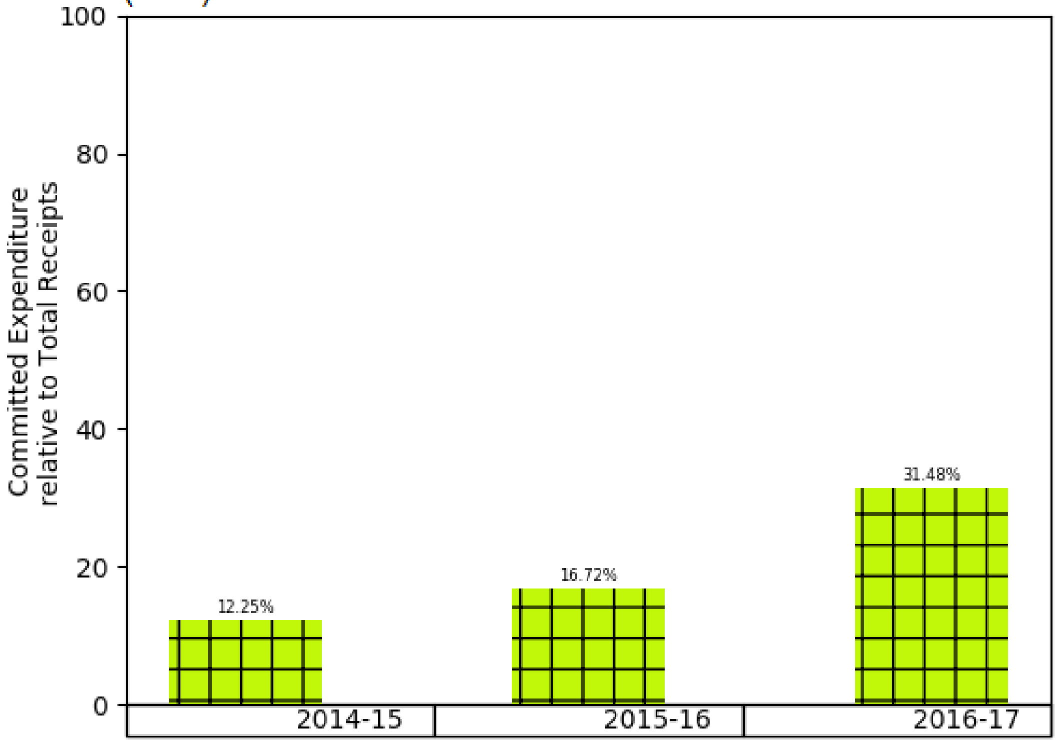
Source: Report of CAG on State Finances for year ended March 2017, Telangana

Figure 67. Committed Expenditure relative to Revenue Receipts (in %)



Source: Report of CAG on State Finances for year ended March 2017, Telangana
Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Figure 68. Committed Expenditure relative to Total Receipts (in %)



Source: Report of CAG on State Finances for year ended March 2017, Telangana
Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

1.8. TAX-GSDP RATIO

Tax Revenue is the predominant source of income for the state. Tax-GSDP ratio is an indicator of income generating capacity of the Government as taxes are one of the major sources of Government revenue.

High Tax-GSDP ratio is the reflection of richness of Government treasury and strong fiscal position of State government. On the contrary, low Tax-GSDP ratio incapacitates Government’s ability to spend on socio-economic development programmes, defence, salary and pensions etc.

With the roll out of GST from 1 July, 2017, a number of state taxes have been subsumed under GST. These are State VAT, central sales tax, purchase tax, luxury tax, entry tax (all forms), entertainment tax (not levied by local governments), tax on advertisements, taxes on lotteries, betting and gambling and state surcharges and cesses so far as they relate to supply of goods and services. What will be its impact on the own tax revenues of the state governments will depend on the revenue buoyancy of the GST. However, for the next five years the Union government has guaranteed all states governments a compensation equivalent to 14 per cent annual growth in revenues. The government should be able to raise enough revenue through taxation, to finance its expenditure.

Table 21 and figure 69 reflects the Tax to Gross State Domestic Product ratio at 7.41%, 9.29%, 9.86%, 10.87% from 2014-15 to 2017-18, crossing the double-digit mark in later years.

According to figures released by CAG for the financial years from June 2014 to May 2018, shows **the average growth rate in OTR in the state at 17.2 per cent, is the highest nationwide.** The state’s OTR growth rate during 2015-16 was 13.7 per cent, 21.1 per cent in 2016-17 and in 2017-18 16.8 per cent. The tax revenue growth rate slipped from 21.1 per cent in 2017-18 to 16.8 per cent in 2017-18, which can be attributed to demonetisation and GST.

The relative composition of tax revenue has implications for revenue growth and stability when it is considered that taxes are primarily mobilized to finance government expenditures. High revenue productivity is usually considered as one of the criteria of a good tax system. This productivity is traditionally measured by the concepts of tax buoyancy. A Tax is considered buoyant, if the tax revenue increases more than proportionately in response to a rise in state income or output. From the year 2014-15 to 2016-17, Tax revenue has seen an increase of 68.86% and GSDP an increase of 26.9%. **Tax Buoyancy in Telangana is high, at 2.55%.**

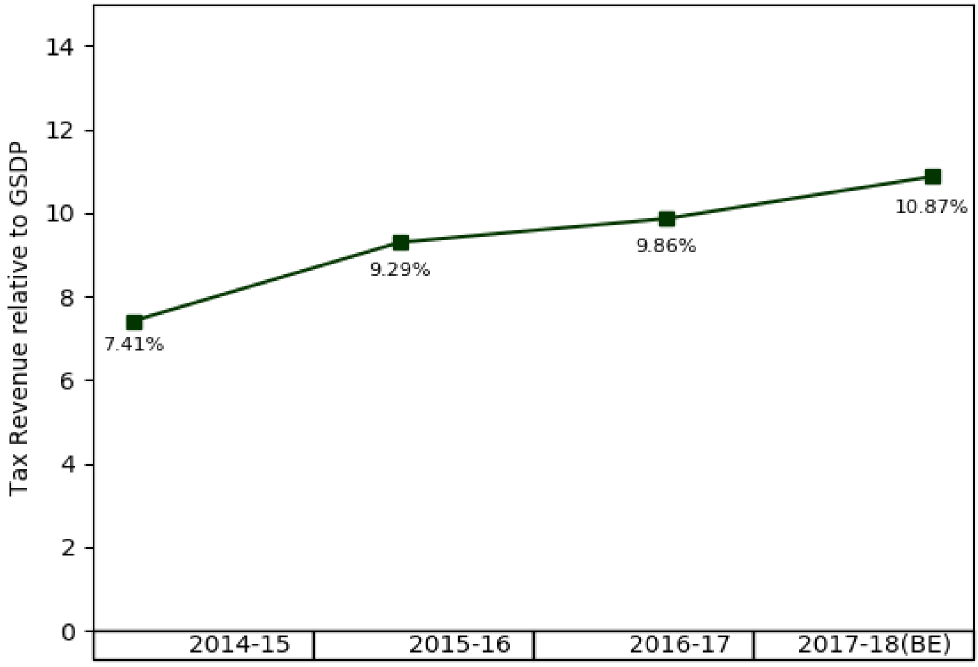
Table 21. Tax Revenue to GSDP Ratio

Years	2014-15	2015-16	2016-17	2017-18(BE)
1. Tax Revenue (in Bn INR)	374.77	523.25	632.84	796.24
2.GSDP(in Bn INR)	5058.49	5633.56(SRE)	6419.85(FRE)	7326.57(AE)
3. Tax to GSDP (in %)	7.41	9.29	9.86	10.87

SRE:Second Revised Estimates FRE:First Revised Estimates AE:Advance Estimates
BE:Budget Estimates
For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI
Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

Figure 69. Tax Revenue relative to GSDP (in %)



- BE:Budget Estimates
- For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI;
Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

1.8.1. Measures to improve Tax-GSDP Ratio and revenue productivity of the State

Prior to GST, the government could easily refine tax structure, but, post-GST, the system might possibly alter the government's ability to levy new taxes or restructure the same. However, the government of Telangana has adopted and implemented a lot of tax reforms and is one of the first states to implement State Goods & Services Tax Act.

The state has made good progress in tax reforms by mandating e-registration for value-added tax, central sales tax, and other such, and by allowing online payment and tax return filing. Introduction of E-way bills, abolition of check posts, computerisation of processes helped in ensuring success of the new system.

The government of Telangana can still increase tax revenue by improving tax administration, plugging leakages and by expanding tax base. **The good tax buoyancy of the state opens doors for a reformist fiscal policy that can lead to greater tax collection, lower tax rates, and greater, and more efficient, tax redistribution.**

1.8.2. Impact of GST on state finances

Prior to the implementation of GST, states had the autonomy to make decisions regarding the rates and manner in which certain taxes will be levied. While states may lose some flexibility in deciding the tax rates on goods and services as a consequence of GST, they will continue to have the power to decide the manner in which they will levy certain other indirect taxes.

Some of these taxes for which states can continue to decide the rates and the manner of levy include: (i) taxes on land and buildings, (ii) state excise duty on alcohol and narcotics, (iii) taxes on electricity, (iv) sales tax on alcohol and petroleum (till the GST Council decides to bring petroleum under GST), (v) taxes on the transport of goods and passengers, (vi) road tax, and (vii) tolls.

GST subsumes various taxes levied by states such as sales tax on goods (except alcohol and petroleum), and entertainment tax. Less than 33%[7] of the total revenue receipts of the state of Telangana (includes tax revenue, non-tax revenue, and central transfers to states) are expected to get subsumed under GST. This includes sales tax levied on alcohol, which is not subsumed. Therefore, the percentage of tax revenue subsumed under GST will be less than 33%.

In the medium to long term, GST is likely to increase the tax buoyancy. The macroeconomic impact of GST could turn out to be significant in the years ahead. Besides giving a major boost to tax revenue, the larger impact on the fiscal health would be from reduction in the administrative compliance cost.

[7] State of State Finances, Report by PRS Legislative Research, https://www.prsindia.org/sites/default/files/parliament_or_policy_pdfs/State%20of%20State%20Finances%202018.pdf

1.9. DEFICIT INDICATORS OF THE STATE

The deficit in the Government Account represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed, and the resources raised are important pointers to its fiscal health.

A **fiscal deficit** is the excess of government expenditure over its receipts, excluding money from borrowings. A high fiscal deficit of a government implies a higher borrowing requirement in a financial year.

Whereas, **Gross Fiscal Deficit** includes money from borrowings.

The excess of revenue expenditure over revenue receipts is defined as a **Revenue Deficit** while an excess of revenue receipts over revenue expenditure is defined as a **Revenue Surplus**. Both the deficits are usually financed by way of borrowings by the state.

Primary Deficit is gross fiscal deficit less interest payments.

Table 22 and Figure 70 show the Revenue Deficit and Gross Fiscal Deficit of Telangana for the years 2014-15 to 2017-18(BE). The data reveals revenue surplus over the period of study at Rs. 3.7 Bn, Rs. 2.3 Bn., Rs. 2.0, Rs. 45.7 Bn. for the years 2014-15, 2015-16, 2016-17(RE) and 2017-18(BE).

However, audit findings of CAG debunked the revenue surplus claim of the state, in the state finances report for the year ended March 2017[8]. According to the revelations by CAG, during the year 2016-17, there was a Revenue surplus of Rs. 13.86 Bn. Fiscal deficit (Rs. 352.81 Bn) constituted 5.46 per cent of GSDP. Primary deficit stood at Rs. 26,672 crores. However, the revenue surplus is overstated by Rs. 67.78 Bn and fiscal deficit understated by Rs. 25.00 Bn on account of UDAY bonds released to DISCOMs booked as equity (capital expenditure) instead of grant (revenue expenditure), and other funds inaccurately appropriated as remittances. This irregular accounting resulted in overstating of revenue receipts and understating of revenue expenditure. Table 22 shows these actuals of Revenue Deficit and Gross Fiscal Deficit by CAG for the year 2016-17. The gap between the revised estimates and actuals (CAG) for the same year reveals government's inefficiency in projections.

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[8] Source: Report of the Comptroller and Auditor General of India on State Finances for the year ended March 2017
https://cag.gov.in/sites/default/files/audit_report_files/Report_No_2_of_2018__State_Finances_Government_of_Telangana.pdf

Figure 70 also displays that the Government has incurred colossal Gross Fiscal Deficit over the years, which has an increasing trend. This is daunting since gross fiscal deficit includes money from borrowings, consequent to increasing borrowings of the state, for welfare schemes like Vaddi Leni Runalu (interest free loans), Rythu Bandhu, Bhagiratha, 2 BHK Housing, KCR kit, Mission Kakatiya, Haritha Haram, Kalyan Lakshmi, Arogya Lakshmi etc.

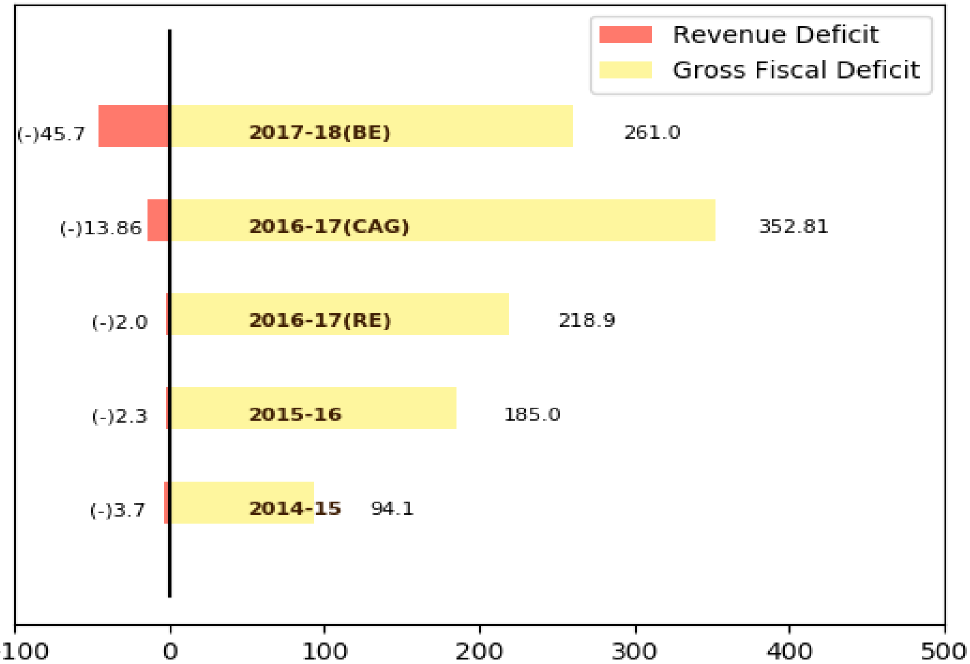
Table 22. Deficit Indicators (in Bn INR)

Years	2014-15	2015-16	2016-17(RE)	2016-17(CAG)	2017-18(BE)
1.Revenue Deficit	(-)3.7	(-)2.3	(-)2.0	(-)13.86	(-)45.7
2.Gross Fiscal Deficit	94.1	185.0	218.9	352.81	261.0

BE:Budget Estimate
RE:Revised Estimate
For 2016-17, actuals have been taken from CAG
Note:Negative sign indicates surplus

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI; Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

Figure 70. Deficit Indicators(in Bn INR)



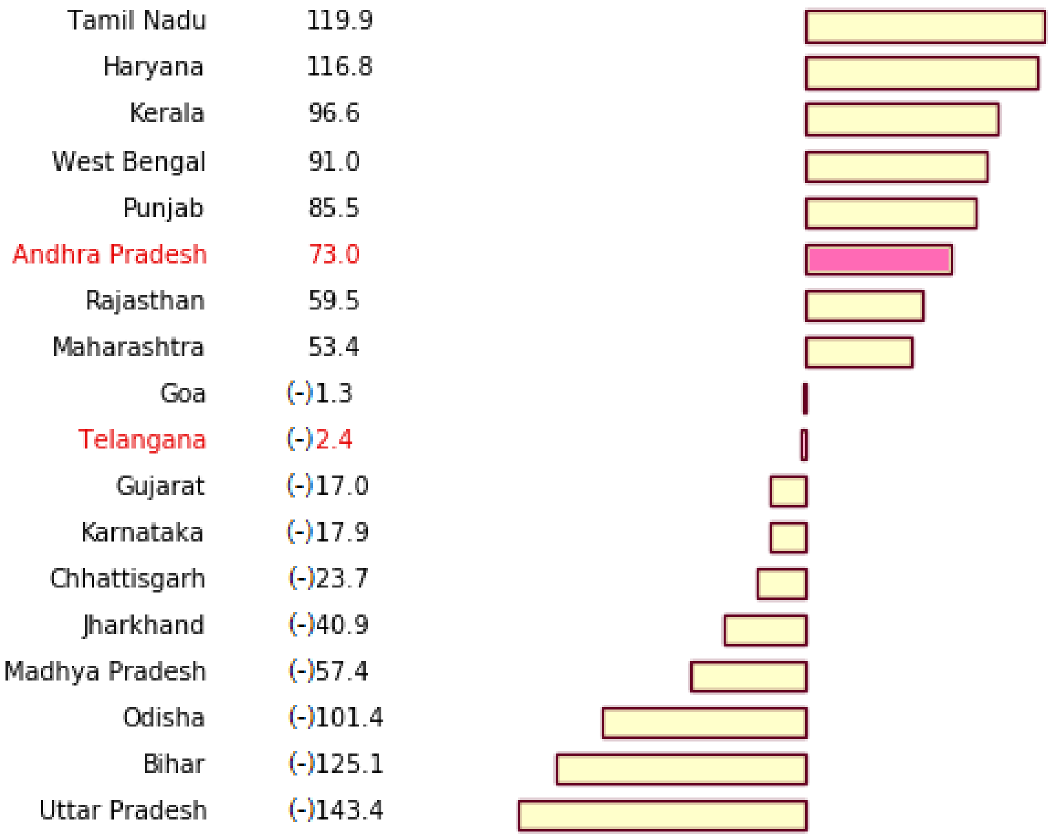
BE:Budget Estimate
RE:Revised Estimate
For 2016-17, actuals have been taken from CAG
Note:Negative sign indicates surplus

Source: State Finance: A Study of Budgets (2015-16 to 2017-18), RBI; Report of Comptroller Auditor General of India on State Finances for the year ended 31 March, 2017

Figure 71 and 72, show Revenue Deficit and Gross Fiscal Deficit of general category states. Andhra Pradesh has huge revenue deficit as well as gross fiscal deficit than the state of Telangana. Andhra Pradesh's Revenue deficit is Rs. 73 Bn, whereas the government of Telangana has revenue surplus amounting Rs. 2.4 Bn.

Both the states of Andhra Pradesh and Telangana have huge Gross Fiscal Deficit amounting Rs. 218.6 Bn and Rs. 185 Bn respectively. Andhra Pradesh has higher Gross Fiscal Deficit than Telangana. Among other General Category States, Tamil Nadu and Haryana has the highest Revenue Deficit. Rajasthan and Uttar Pradesh have the highest Gross Fiscal Deficit.

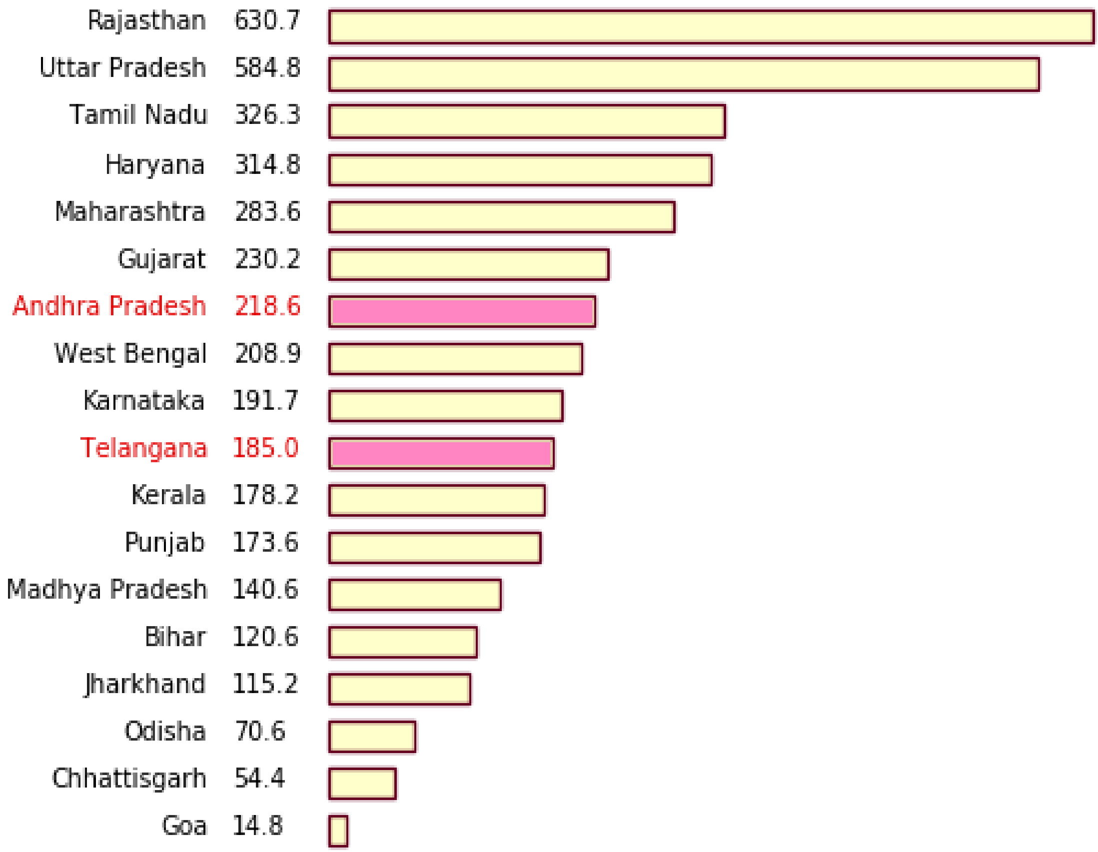
Figure 71. Revenue Deficit of Non-Special Category States (in Bn INR) (2015-16 Accounts)



Note:Negative sign indicates surplus

Source: State Finance: A Study of Budgets (2015-16 to 2017-18). RBI

Figure 72. Gross Fiscal Deficit of Non-Special Category States (in Bn INR) (2015-16 Accounts)



Source: State Finance: A Study of Budgets (2015-16 to 2017-18). RBI

Table 23 and Figure 73 exhibit key deficit indicators relative to GSDP, which depicts the fiscal strength of the state.

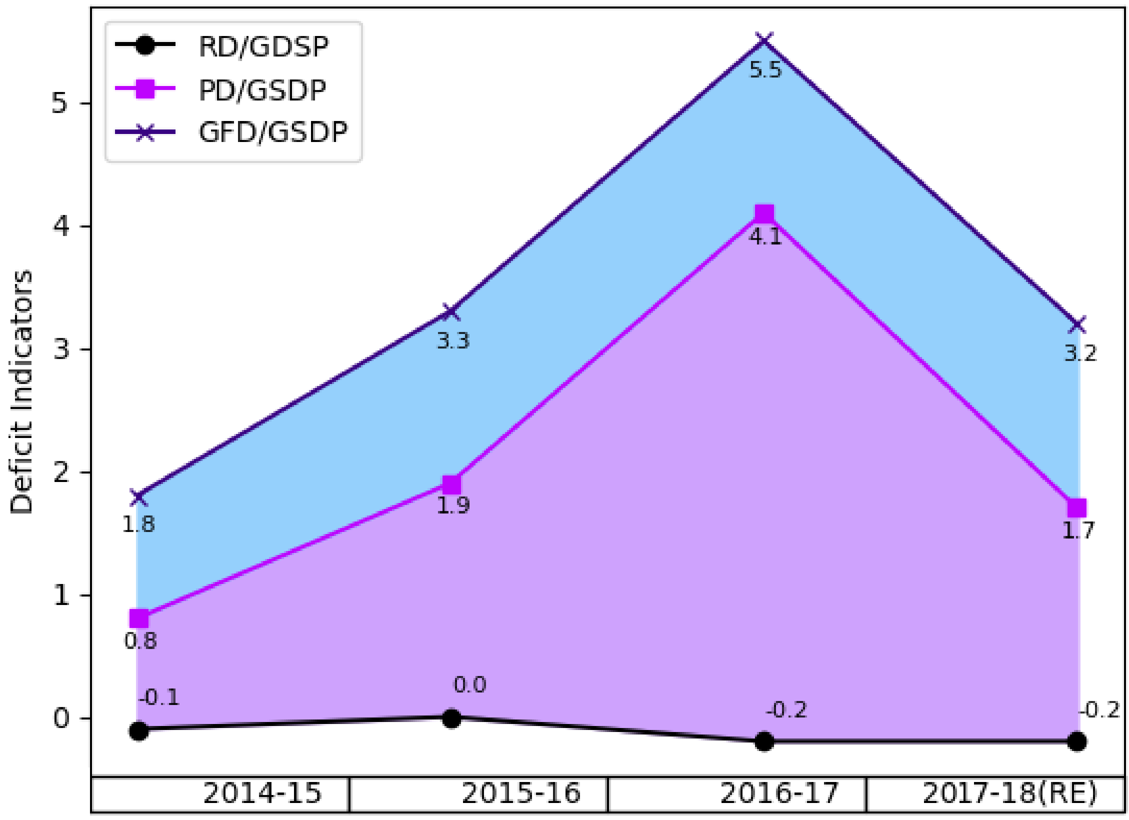
Table 23. Deficit Indicators relative to GSDP (in %)

Years	2014-15	2015-16	2016-17	2017-18(RE)
1.PD/GSDP	0.8	1.9	4.1	1.7
2.RD/GSDP	-0.1	0.0	-0.2	-0.2
3.GFD/GSDP	1.8	3.3	5.5	3.2

RE: Revised Estimates
Note: Negative sign indicates surplus

Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Figure 73. Deficit Indicators relative to GSDP (in %)



RE: Revised Estimates

Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

2. DEBT AND LIABILITY PROFILE OF THE STATE

2.1. OUTSTANDING LIABILITIES

The liabilities of the government which are yet to be paid, are the outstanding liabilities. When a government spends more than it earns, it incurs a fiscal deficit. To finance this deficit, governments typically borrow, and this debt represents the government's outstanding liability.

Unlike the centre, all liabilities of the states are internal and there are no external liabilities. The total outstanding liabilities of the states are composed of: internal debt, Loans and advances from centre and, other liabilities.

Table 24 below, shows the trend in components of outstanding liabilities, i.e. internal debt, Loans and advances from centre and, other liabilities; for the years 2014-15 to 2016-17.

Internal Debt which includes State Development Loans (SDLs), Power Bonds (UDAY), Compensation and Other Bonds, National Small Savings Fund (NSSF), Ways and Means Advances from RBI, Loans from LIC, Loans from GIC, Loans from NABARD, Loans from SBI and other banks, Loans from National Cooperative Development Corporation (NCDC), and Loans from other institutions; has been a major constituent amounting Rs. 699.7 Bn in 2014-15 and Rs. 1070.7 Bn in 2016-17; a more than 50% increase (Figure 57).

Other major component after internal debt is 'Other Liabilities', which includes Provident Funds, Reserve Funds, Deposit and Advances, and Contingency Fund. Figure 74 shows the amount of 'Other Liabilities' over the period from 2014-15 to 2016-2017.

Loans from centre though has increased over the period but remains a small constituent of Total Outstanding Liabilities.

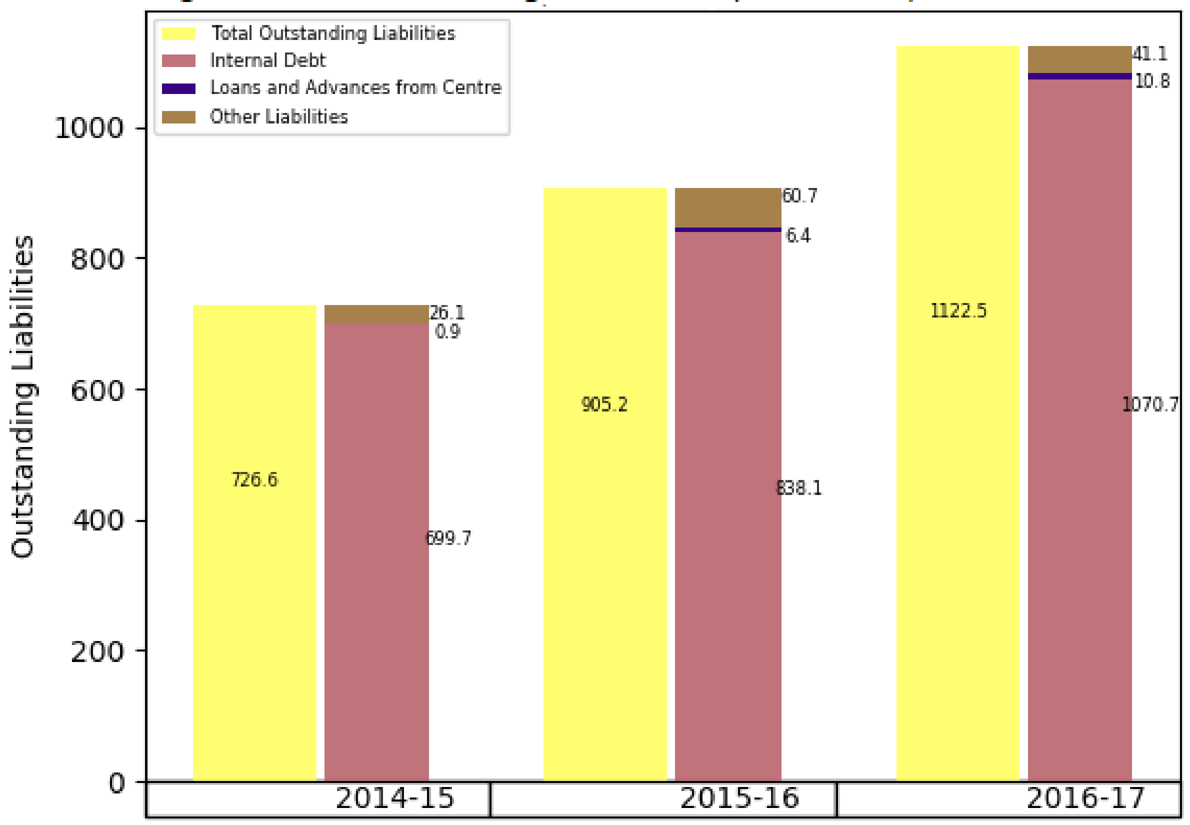
Table 24. Components of Outstanding Liabilities(in Bn INR)

Years	2014-15	2015-16	2016-17
1.Internal Debt	699.7	838.1	1070.7
2.Loans and Advances from Centre	0.9	6.4	10.8
3.Other Liabilities	26.1	60.7	41.1

Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Figure 74 shows the Total Outstanding Liabilities of Telangana along with its constituents over the years 2014-15 to 2017-18.

Figure 74. Outstanding Liabilities (in Bn INR)

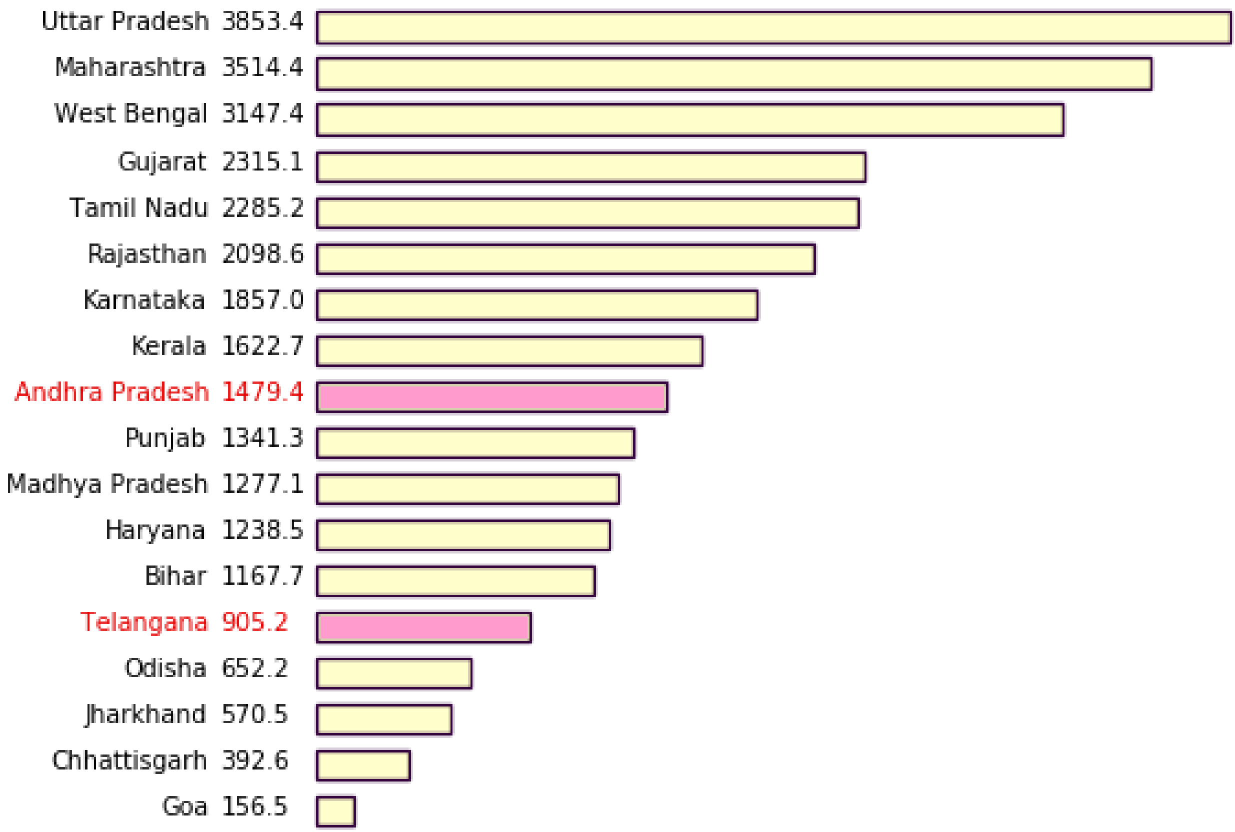


Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Figure 75 displays the Total Outstanding Liabilities of Non-Special Category States (General Category States). The values correspond to 2015-16 accounts data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Uttar Pradesh and Maharashtra have highest debt liabilities, at Rs. 3853.4 Bn and Rs. 3514.4 Bn respectively. Andhra Pradesh's liabilities are much more than Telangana, at Rs. 1479.4 Bn and Rs. 905.2 Bn.

Figure 75. Total Outstanding Liabilities of Non-Special Category States (in Bn INR) (2015-16 Accounts)

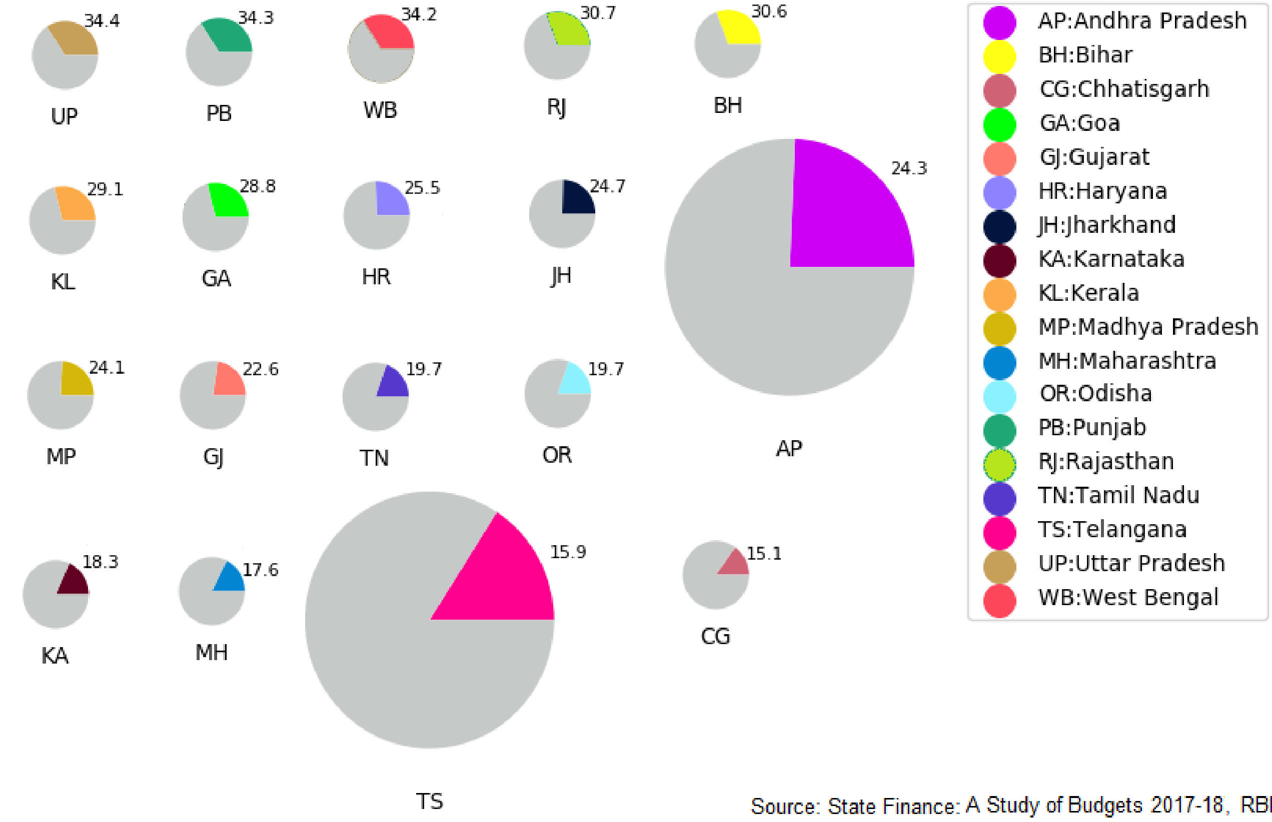


Source: State Finance: A Study of Budgets (2015-16 to 2017-18). RBI

Figure 76 displays the ratio of Total Outstanding Liabilities to GSDP of Non-Special Category States (General Category States). The values correspond to 2015-16 accounts data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Uttar Pradesh and Punjab have the highest share of liabilities relative to GSDP at 34.4% and 34.3% respectively. Andhra Pradesh’s share (24.3%) is higher than Telangana (15.9%).

Figure 76. Total Outstanding Liabilities relative to GSDP of Non-Special Category States (in %) (2015-16 Accounts)



Source: State Finance: A Study of Budgets 2017-18, RBI

2.2. DEBT-TO-GSDP RATIO

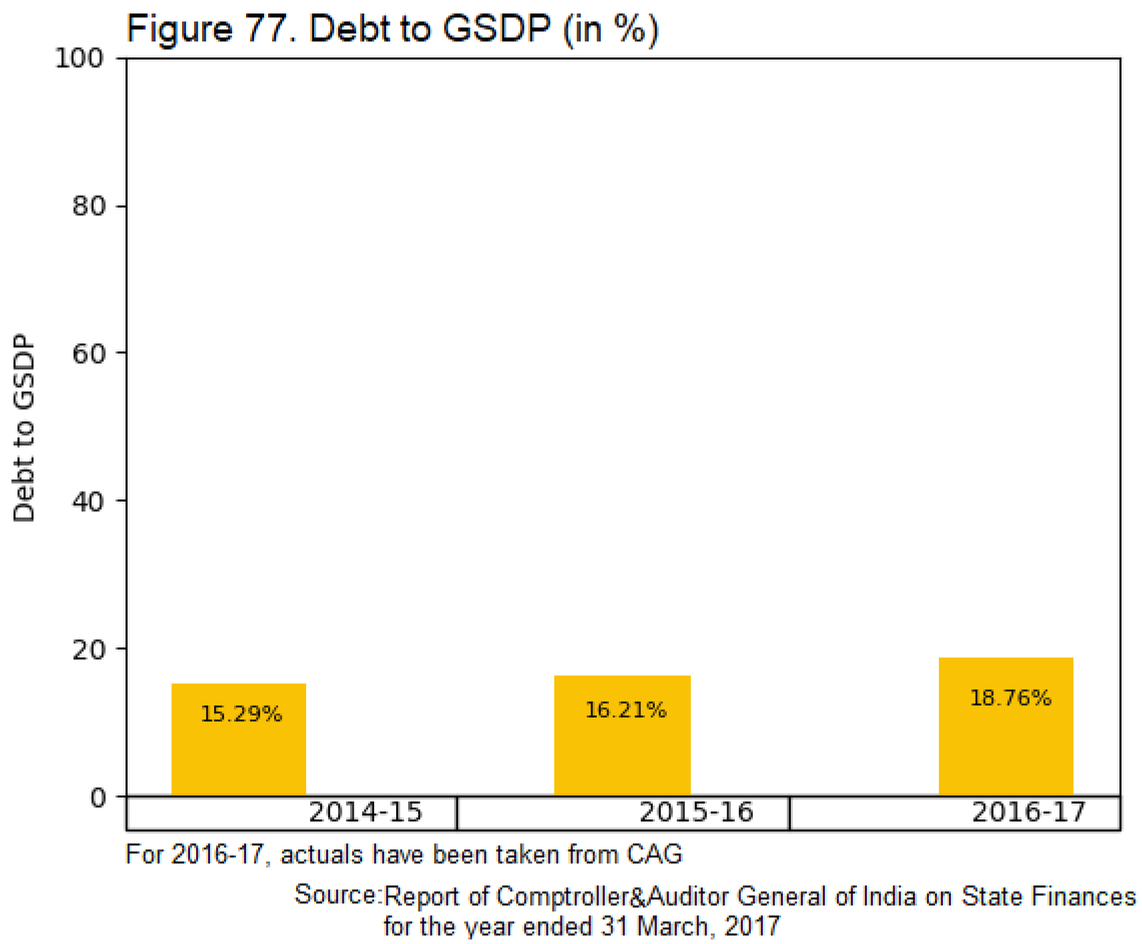
The Debt to GSDP Ratio is the ratio between state's debt (a cumulative amount) and its Gross State Domestic Product measured in years.

By comparing to what a state owes with what it produces, exhibits its ability to pay back its debts.

A low value of Debt to GSDP Ratio indicates that the state economy is vibrant to pay back debts without incurring further debt and Debt to GSDP ratio need not necessarily rise if fiscal discipline is adhered to.

Debt refers to liabilities of the state which includes internal debt, loans & advances from the centre and other liabilities.

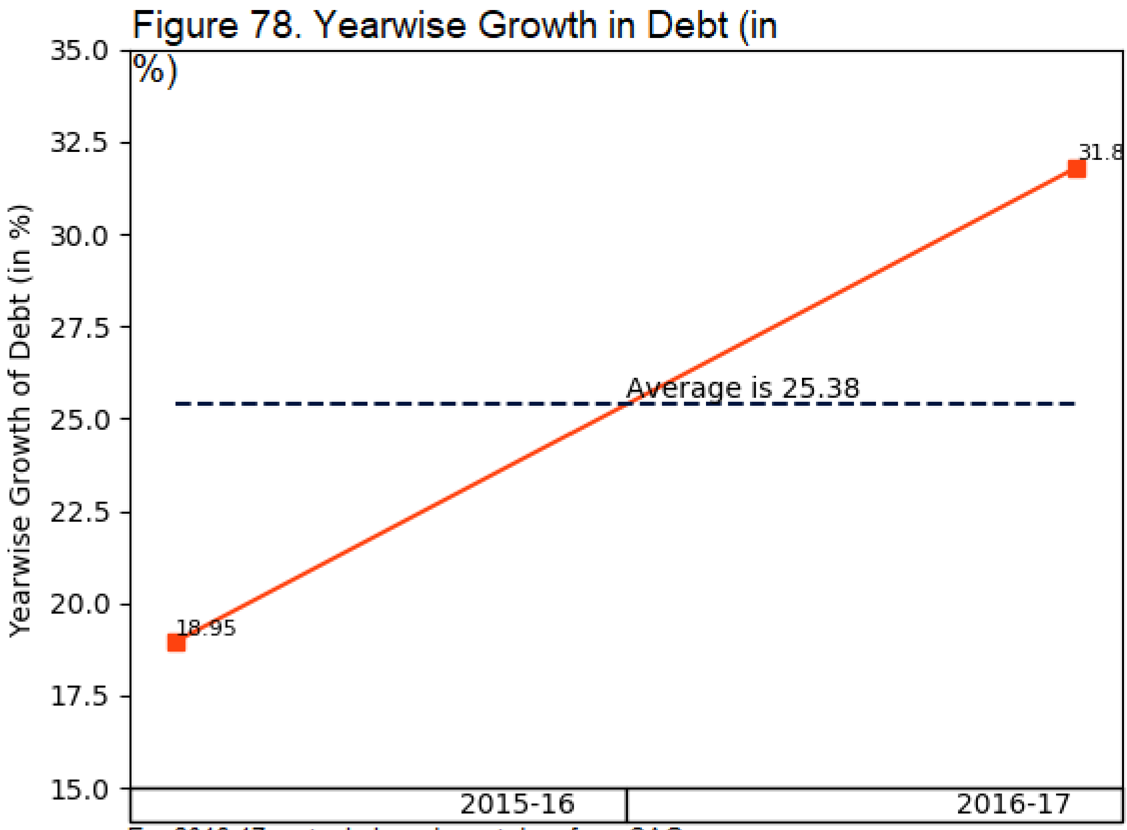
With Tax to GSDP ratio (Figure 77) at 18.76% (2016-17), the state government enters into a tough situation, from where recovery is an uphill task. The increased liability would weigh on the states' fiscal deficits.



2.3. DEBT GROWTH RATE

From the Figure 78, it can be observed that debt growth rate of government of Telangana has been quite high rather a double-digit growth (18.95%, 31.80% in 2015-16 and 2016-17) which violates the norms of fiscal prudence.

Comparing with all states average of debt growth 23.7%, Telangana's average 25.38% indicates that increasing debt GSDP ratio may increase the possibility of the state's worsening debt profile. On the bright side, Telangana has increased the share of development expenditure in total expenditure.



For 2016-17, actuals have been taken from CAG

Source: Report of Comptroller&Auditor General of India on State Finances for the year ended 31 March, 2017

2.4. LOANS FROM THE CENTRE

In order to serve the huge debt liability of the state and spend on development purposes, the government of Telangana resorts to various borrowing options.

Table 25 shows the trends in Loans from centre and next chapter throws light on market borrowing of Telangana government.

Figure 79 depicts the trends in Gross Loans and Net Loans from centre (Net loans are gross loans minus repayment of loans to the centre). It can be observed that repayments are increasing as borrowing from centre is increasing. In the year 2014-15, the amount of Net Loans and gross loans are same at Rs. 0.9 Billion. According to budget estimates of 2017-18, gross loans and net loans are at Rs. 10 Billion and Rs. 6 Billion respectively.

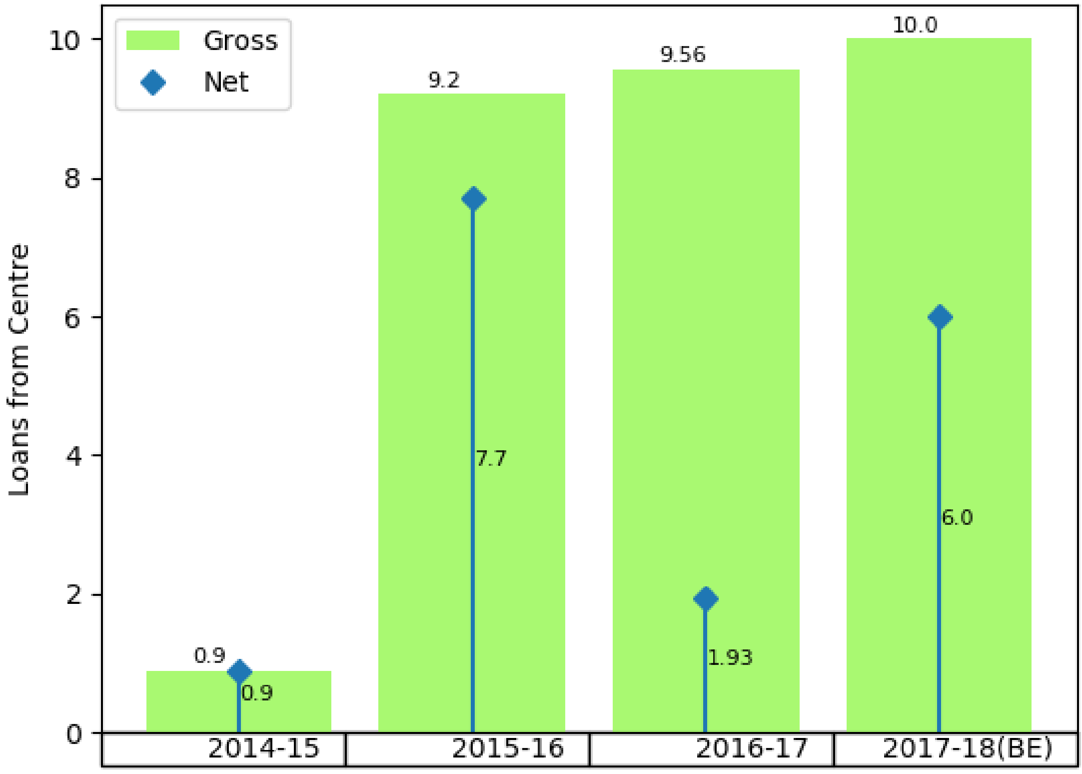
Table 25. Loans from the Centre (in Bn INR)

Years	2014-15	2015-16	2016-17	2017-18(BE)
1. Gross	0.9	9.2	9.56	10.0
2. Net	0.9	7.7	1.93	6.0

- BE: Budget Estimates
- For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18). RBI
Report of Comptroller Auditor General of India on State Finances
for the year ended 31 March, 2017

Figure 79. Loans from the Centre (in Bn INR)



- BE: Budget Estimates
- For 2016-17, actuals have been taken from CAG

Source: State Finance: A Study of Budgets (2015-16 to 2017-18). RBI
Report of Comptroller Auditor General of India on State Finances
for the year ended 31 March, 2017

2.5. MARKET BORROWINGS

State Governments resort to market borrowings to bridge fiscal deficit. Governments borrow from the market in the form loans raised by shares invested by insurance companies, T- bills, Financial Institutions, Cooperative Banks, primary dealers, Foreign Institutional Investors, and Mutual Funds.

Figure 80 exhibits the gross allocation and repayments. Gross allocation and repayments have seen an increasing trend from 2014-15 to 2017-18. **Gross allocation has seen a staggering growth of 200% from 2014-15 to 2017-18, as the state continues to rely on heavy borrowings to write growth story. (State growing at 10.1% as compared to national average of 7.1%).**

Growth in Repayments is quite low as compared to growth in Gross allocations.

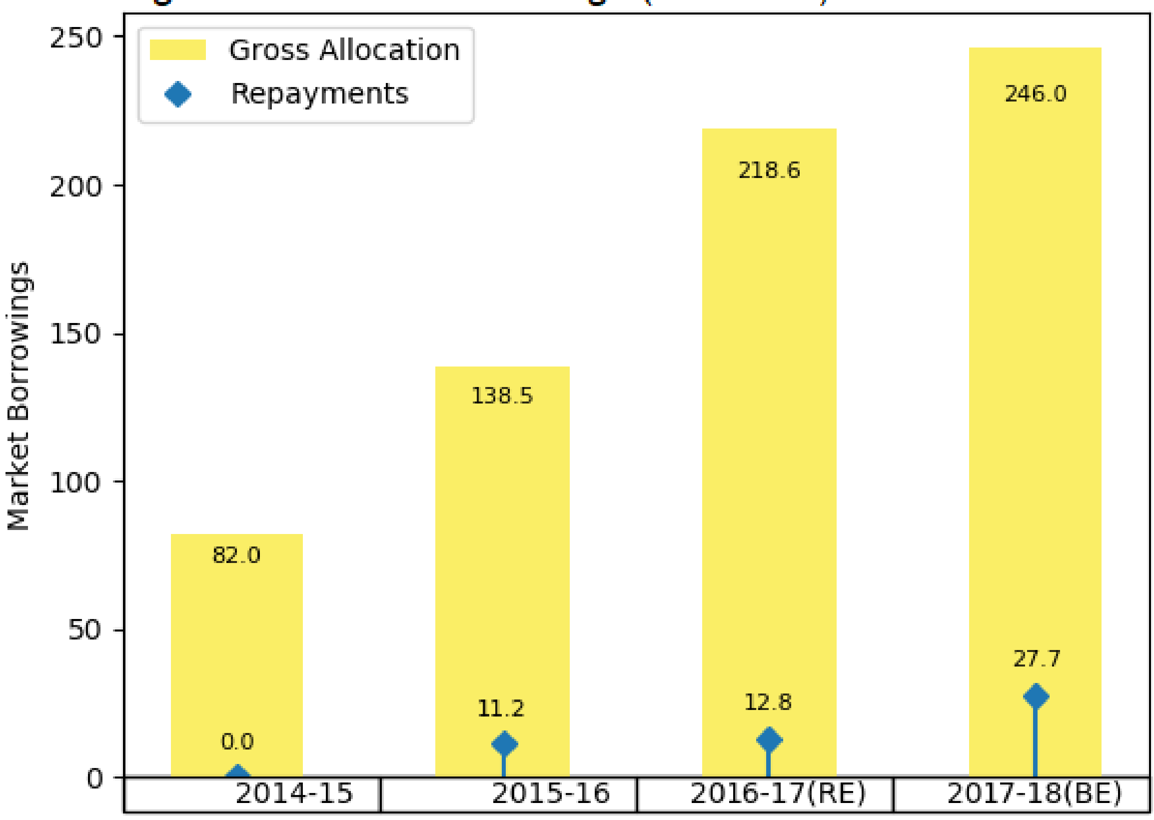
Table 26. Market Borrowings (in Bn INR)

Years	2014-15	2015-16	16-17(RE)	17-18(BE)
1. Repayments	0.0	11.2	12.8	27.7
2. Gross Allocation	82.0	138.5	218.6	246.0

RE: Revised Estimates
BE: Budget Estimates

Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Figure 80 . Market Borrowings (in Bn INR)



RE: Revised Estimates
BE: Budget Estimates

Source: State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

2.6. BORROWINGS FROM INTERNATIONAL BILATERAL & MULTILATERAL LENDING AGENCIES

Borrowings from International bilateral and Multilateral lending agencies form a crucial component of Central Loans to States. Largely these loans cater to infrastructure needs of the state. However, States are forbidden to directly access the foreign funds owing to 'foreign loans' being a matter within the exclusive legislative competence of the Central Government[9] and therefore a matter beholden in the executive power of the Union. In the event of such borrowings, the Central Government must take on the loan on behalf of the States and on-lend the funds to the States. Therefore, the Central Government is within its constitutional right to deny states that do not remain within their prescribed borrowing limits access to funding from external sources.

Such borrowings fall under 'Additional Central Assistance for Externally Aided Projects ('ACA for EAP')' of Article 293 (3) when applied to States. Article 293 (3) requires State Governments that are indebted to the Central Government to seek the consent of the Central Government before raising further borrowings.[10]

Table 27.Externally Aided Projects- State Sector
(Projects disbursing INR 100 crore or more in BE 2017-18)

1. Name of Project	P1	P2	P3
2. Funding Agency	IBRD(WB)	IBRD(WB)	IDA(WB)
3. Loan Amount	USD 300M	USD 264M	USD 75M
4. Agreement Date	22 January,2010	22 January,2010	27 January,2016
5. Disbursal upto 31.03.2016	USD 110M	USD 147.15M	-
6. Utilisation upto 31.03.2016	30%	53%	0%
7. Actuals 2015-16 (in Bn INR)	3.98	1.33	-
8. BE 2015-16 (in Bn INR)	4.92	2.8	-
9. RE 2016-17 (in Bn INR)	2	0.9	0.4
10. BE 2017-18 (in Bn INR)	3.9	2	1.5

P1: Andhra Pradesh and Telangana Municipal Development Project
P2: Andhra Telangana Road Sector Project
P3: Telangana Rural Inclusive Growth Project

BE:Budget Estimates
RE:Revised Budget

Source:https://www.indiabudget.gov.in/budget2017-2018/ub2017-18/eb/stat19.pdf

[9] Entry 37. List I, 7th Schedule to the Constitution.
[10] Research Report on Queries Raised by The Fourteenth Finance Commission, Centre for Legal Policy, 2014.

Table 27 shows the external aid received by the Government of Telangana via Central Government for different developmental projects. Some of the projects namely ‘Andhra Pradesh and Telangana Municipal Development Project’ and ‘Andhra Telangana Road Sector Project’ were sanctioned in 2010, when Telangana was a part of erstwhile Andhra Pradesh state and now these states work on these projects in collaboration.

2.7. DEBT MANAGEMENT & SUSTAINABILITY

2.7.1. Indicators of Debt Sustainability

Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period. It means that rise in fiscal deficit should match with the increase in the State’s capacity to service the incremental debt from additional revenues generated from the use of such debt in creating income generating capital assets.

Table 28 assesses the sustainability of debt of the State Government in terms of debt stabilization, sufficiency of non-debt receipts, net availability of borrowed funds, burden of interest payments (measured by ratio of interest payments to Revenue Receipts) and maturity profile of State Government securities.

The analyses of these debt sustainability indicators mentioned in Table 28 reveals that the net availability of borrowed funds was positive, indicating the availability of borrowed funds for purposes other than debt repayment. Debt/GSDP stood at 18.76 per cent during 2016-17 with an increase of 2.55 percentage points compared to previous year. Interest payments as a percentage of Revenue Receipts were 10.40 per cent, against the normative rate of 8.22 per cent prescribed by 14th Finance Commission.

The ratio of debt repayment to debt receipts during the year indicated that Government had utilized 34.74 per cent of borrowed funds for repayment of its existing debt which had increased by 18 percentage points over previous year.

The repayment of Debt as percentage of tax revenue increased from 7.12 during 2015-16 to 32.16 during 2016-17.

Table 28. Indicators of Debt Sustainability

Indicator	2014-15	2015-16	2016-17
1. Outstanding Debt (in Bn INR)#	773.33	919.85	1212.36
2. Rate of growth of outstanding debt (in %)	^	18.95	31.80
3. GSDP (in Bn INR)	5056.64	5675.88	6462.65
4. Rate of growth of GSDP (in %)	^	12.25	13.86
5. Debt relative to GSDP (in %)	15.29	16.21	18.76
6. Average interest rate of Outstanding Debt (in %)*	7.11	8.85	7.79
7. Interest Payments/Revenue Receipts (in %)	10.24	9.93	10.40
8. Debt Repayment/Tax Revenue (in %)	5.90	7.12	32.16
9. Debt Repayment/Debt Receipts (in %)	18.03	16.26	34.74
10. Net Debt Available to the State (in Bn INR)	28.94	79.57	217.10

includes Internal Debt of the State Government and Loans and Advances from the Central Government
^ Not Applicable since Telangana was formed with effect from June 2, 2014
* Average Interest Rate=100*(Interest Paid)/(Opening Balance of Public Debt + Closing Balance of Public Debt)/2

Source: Report of Comptroller&Auditor General of India on State Finances for the year ended 31 March, 2017

2.7.2. Debt Maturity Profile

Table 29 displays the maturity profile of Debt of the Telangana State. The maturity profile of Debt as on 31 March 2017 indicated that the State has to repay 48.93 per cent of debt amounting to Rs. 563.88 Bn within the next 7 years.

The table also reveals that the liability of the State to repay the debt would be Rs. 148.96 Bn during 2020-22 and Rs. 222.80 Bn during 2022-24. The State may have to borrow further to repay these loans. A well thought out debt repayment strategy would have to be worked out by the Government to obviate additional borrowings, in those critical years. Now, the government of Telangana is taking long-term loans from 2017-18 onwards.

Table 29. Maturity Profile of State Debt

Maturity Profile	Amount (in Bn INR)	Percentage of Total
0-1 year	44.73	3.88%
1-3 years	147.39	12.79%
3-5 years	148.96	12.93%
5-7 years	222.80	19.33%
>7 years	588.47	51.07%
Total	1152.35	100%

Source: Report of Comptroller&Auditor General of India on State Finances for the year ended 31 March, 2017

2.7.3. Off-Budget Borrowings

The borrowings of a State are governed by Article 293 of the Constitution of India. In addition to the liabilities, the State Government also guarantees loans availed by Government Companies/Corporations. These Companies/Corporations borrow funds from the market/financial institutions for implementation of various state plan schemes projected outside the State budget. Although, these programmes are planned to be met out of the budget of the Company or Corporation, but many such borrowings ultimately turn out to be the liabilities of the State Government and hence, constitute off-budget borrowings.

As on 31 March 2017, Telangana State Housing Corporation Limited (Housing Department) borrowed Rs. 33.68 Bn from HUDCO[11]

[11] Source: Report of the Comptroller and Auditor General of India on State Finances for the year ended March 2017.

3. FISCAL CONSOLIDATION AND MANAGEMENT

3.1. TELANGANA FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT ACT, 2005

In order to ensure fiscal stability and prudent management of states' resources, Telangana adopted "The Andhra Pradesh Fiscal Responsibility and Budget Management Act, 2005" as "The Telangana Fiscal Responsibility and Budget Management Act, 2005" along with the Rules made thereunder in accordance with Section 101 of the A.P. Re-organization Act, 2014.

The Medium-Term Fiscal Policy Statement, as required under sub-section (1) of section 7, of the Act shall include in Form F -2 via-a-vis following fiscal indicators: (a) revenue deficit as a percentage of TRR; (b) fiscal deficit as a percentage of GSDP; (c) outstanding total liabilities as a percentage of GSDP.

3.1.1. FRBM Targets and Actuals

According to the Medium-Term Fiscal Policy Statement, Statement of Fiscal policy was presented by the Telangana State Legislature in March 2016. The fiscal targets mentioned in the policy statement and those prescribed by esteemed authorities have been depicted in the Table 30, 31 and 32.

Table 30. Revenue Deficit(-)/Surplus(+) as percentage of total Revenue Receipts/Gross State Domestic Product

Years	Budget Estimates	Revised Estimates	FRBM Target	Actuals reported by RBI	Actuals reported by CAG	FFC Target
2014-15	0.38@	0.35@		0.1^	0.07^	
2015-16	0.56@			0.0^	0.04^	
2016-17				0.2^	0.21^	
2017-18				0.2^		
2018-19						
2019-20						

^:values calculated as percentage of Gross State Domestic Product
@:values calculated as percentage of total Revenue Receipts

Source: Statement of Fiscal Policy, Government of Telanaga, March 2015, Report of the Comptroller and Auditor General of India on State Finances for the year ended March 2017, State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Table 31. Fiscal Deficit as percentage of Gross State Domestic Product

Years	Budget Estimates	Revised Estimates	FRBM Target	Actuals reported by RBI	Actuals reported by CAG	FFC Target
2014-15	4.79	4.04	3		1.86	
2015-16	3.49				3.32	3*
2016-17					5.46	3*
2017-18						3*
2018-19						3*
2019-20						3*

*:Fourteenth Finance Commission recommended that the State will be eligible for flexibility of 0.25 percent over and above the limit of 3% for any given year for which their Debt/GSDP ratio is less than or equal to 25% in the preceding year. Moreover, extended relaxation of 0.25% of GSDP has also been recommended in the event of interest payments fall short of or equal to 10% of the revenue receipts in the previous year.

Source: Statement of Fiscal Policy, Government of Telanaga, March 2015, Report of the Comptroller and Auditor General of India on State Finances for the year ended March 2017, State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

Table 32. Total Outstanding Debt of Government as percentage of Gross State Domestic Product(in %)

Years	Budget Estimates	Revised Estimates	FRBM Target	Actuals reported by RBI	Actuals reported by CAG	FFC Target
2014-15						
2015-16					21.37	21.55#
2016-17					24.36	22.23#
2017-18						22.82#
2018-19						23.33#
2019-20						23.77#

#:Report of the Comptroller and Auditor General of India on State Finances for the year ended March 2017

Source: Statement of Fiscal Policy, Government of Telanaga, March 2015, Report of the Comptroller and Auditor General of India on State Finances for the year ended March 2017, State Finances: A Study of Budgets (2015-16 to 2017-18),RBI

The Telangana Fiscal Responsibility Budget Management Act, 2005 mandated the State Government to eliminate Revenue Deficit by 31st March 2009 by reducing it by 0.32 percentage points of GSDP every year. At the same time, fiscal deficit had to be brought down to 3% of GSDP by reducing it by 0.25 of GSDP points every year. The erstwhile State of Andhra Pradesh maintained revenue surplus every year. Nevertheless, Telangana being a new State is bound with huge expenditure commitments in sectors, such as, farm, power, drinking water, irrigation and roads sectors. Thus, expecting relaxation of FRBM limit of 3 percent of GSDP at least in the first year of the formation of the State, higher fiscal deficit was budgeted in 2014-15 (BE).

The values of the indicators fetched so far do not provide a substantial explanation of State's fiscal management and prudent practices. Not only the values are incomplete but the State per se has been newly formed, which has priority commitments of incurring varied expenditures to set the economy in motion in the initial years; which perhaps would deviate the state to achieve the set targets of fiscal indicators such as Fiscal deficit and proportion of Outstanding Liabilities to GSDP.

Telangana Government has taken various measures to responsibly manage its finances and tread on the path of fiscal management. Likewise, setting up of Comprehensive Financial Management System to streamline the financial transactions using modern technology, redirecting the expenditure from less productive schemes to investing in development schemes such as: Mission Kakatiya, Harith Haram, so forth and so on. However, one of the alarming situations observed is exorbitant debt of DISCOMs taken over by the state under UDAY Scheme which stood at sweeping amount of 7500 Crores[12]. Therefore, the State should adopt appropriate debt sustainability measures to negate the risk of rising liabilities.

Besides, the Act stipulated amount of annual incremental risk weighted guarantees to 90 per cent of the Total Revenue Receipts in the year preceding the current year. The outstanding guarantees (29,965 crore) to end of 2016-17 amounted to 39.36 per cent of total Revenue Receipts (76,134 crore) of the preceding year, which is within the ceiling of 90 per cent prescribed under FRBM legislation.

[12] Government borrowed `8,931.51 crore through UDAY bonds during the year. Out of this, an amount of `7,500 crore only was released to DISCOMs to end of the year.

4. TRANSFERS TO ULBs AND PRIs: An Analysis

4.1. TELANGANA PANCHAYATI RAJ ACT

Local governance brings administration closer to public. However, effective and efficient local administration would materialise when bagged with adequate amount of authority, responsibility and accountability from the upper levels of government. In order to empower the local bodies, Government of enacted the 73rd and 74th Amendments to the Constitution to empower the local self-governing institutions like the Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs). In order to provide financial autonomy to the local bodies, successive Finance Commissions also devolved funds to these bodies. The States on their part were also required to undertake decentralisation initiatives to make the local bodies independent and self- reliant.

The state of Telangana enacted **Telangana Panchayati Raj Act, 2018** to provide for the constitution of Gram Panchayats and matters related to it. The legislature confers various responsibilities on Gram Panchayats such as: maintenance of proper sanitation, upkeep of various plantations, ensure working of street lights and collection of revenue generated through taxes and non- taxes. Besides, Gram panchayats are duty bound to prepare a Gram Panchayat Development Plan to transform the village into ideal village.[13] In view of the same, State of Telangana issued guidelines to Panchayati Raj and Rural Development Department for the preparation of decentralized development plans along with launching of an exclusive program: **'Gram Jyoti' to empower gram panchayats**. **Seven Key areas viz: Drinking Water and Sanitation Sector, Health and Nutrition sector, Education, Infrastructure, Natural Resources Management, Agriculture, Social security and Poverty Reduction were identified as critical areas necessary for the holistic development of Gram Panchayat.** Various sources of outlay for these plans constitute funds from: Mahatma Gandhi National Rural Employment Guarantee Scheme, Central Finance Commission, State Finance Commission, Swatch Bharat Mission, Member of Parliament Local Area Development Scheme, Assembly Constituency Development Programme, Own Source Resources and Corporate Social Responsibility.[14]

[13] Source: www.telanganalegislature.org.in/bills
[14] Source: www.panchayat.gov.in/gpdp-guidelines-issued-by-states/-uts

Under PRI Act, Gram Panchayats are supposed to perform the duty of providing basic services at village level under 29 subjects namely: maintenance of roads, construction and maintenance of drains, cleaning streets, rural electricity, housing, drinking water, sanitation, agriculture, animal husbandry, fisheries, minor irrigation, watershed management, land reform measures including consolidation of holdings and cooperative management of community lands, social forestry, minor forest products, nonconventional energy, primary health, education – primary and secondary, family welfare, welfare of women, child, weaker sections – SC & STs, etc. In order to perform the numerous functions enlisted in the act, the extent of devolution should be adequate. In Telangana, out of the 29 subjects of PRIs, only 17 subjects have been transferred to PRIs by the State government. Out of that, six subjects (agriculture, drinking water supply, minor irrigation tanks, social forestry, primary and secondary education and khadi and village industries) are provided funds and only two subjects (drinking water supply and minor irrigation tanks) have functionaries. Still, there are many subjects along with either functions (12) or funds (23) or functionaries (27) yet to be transferred to PRIs in the State[15].

4.2. REECEIPTS & EXPENDITURE OF PRIs

Currently in Telangana, PRIs receive three kinds of revenues: (i) assigned revenues, (ii) grants-in aid, (iii) revenue sharing. Gram Panchayats (GPs) in the State have been assigned many local taxes, duties and fees and important of them are house tax, vehicles tax, land cess, surcharge on stamp duty, surcharge on seigniorage fees (fees on materials other than minerals and minor minerals quarried in the village). However, despite their larger tax base, GPs depend overwhelmingly on government grants - development and general grants from the State and Union Commissions and Backward Regional Grant Fund (BRGF)). Grants constitute more than half of the total income of the GPs in the State.

4.2.1. Source of Funds

Table 33 depicts receipts of PRI's generated out of different sources of funds. 'GOI Grants' have been the highest source of funding throughout the years ranging from 2014-15 to 2016-17. 'Own Revenue Receipts' comprise of 'Own Revenue' generated by collection of tax such as: property tax, advertisement fee & Non-Tax Revenue such as: water tax, rents from markets, shops and other properties, auction proceeds etc which stood at 26.29% of total receipts for the year 2015-16. 'Other Receipts' include: donations, interest on deposits etc. It could be observed

[15] Ch. Shankar Rao and D. Siva Kumar, 'Decentralisation and Participatory Planning by PRIs In Telangana: A Study of Grama Jyothi Programme', Journal of Rural Development, Vol. 36 No. (4) pp. 569-594

that 'GOI Grants' have been considerably reduced by 17.56% in 2016-17 with respect to 2014-15 which is further reflected in the drop of total Revenue Receipts by 16.72% from the year 2014-15 to 2016-17.

Table 33. Sources of Funds of PRIs (in Bn INR)

Receipts	2014-15	2015-16	2016-17
Own Revenue	0.17^	3.07^	-
Assigned Revenue	0.11	-	-
State Government Grants	0.2	0.56	0.49
GoI Grants	11.31	6.96	9.33
Other Receipts	-	1.08	-
Total	11.79	11.67	9.82

^: data pertains to only 4 ZPPs and GPs od Adilabad district

Assigned Revenue: Seigniorage fee and surcharge on stamp duty collected by Departments of Mines and Geology and Stamps and Registration are apportioned to the Local Bodies in the form of assigned revenue

Source: Report of the Comptroller & Auditor General of India on Local Bodies for the year ended 31st March, 2017

4.2.2. Application of Funds

Table 34 depicts the 'Revenue Expenditure' & 'Capital Expenditure' of PRIs. It could be observed that while Revenue Expenditure ballooned by 293.42%; Capital expenditure in 2016-17 became 35 times of the amount in 2014-15.

Table 34. Application of Funds by PRIs (in Bn INR)

Types of Expenditure	2014-15	2015-16	2016-17
Revenue Expenditure	1.34#	6.15	5.28
Capital Expenditure	0.32^	7.81	11.55
Total	1.66	13.96	16.83

#: data pertains to only 4 ZPPs and GPs of Adilabad district

*: data pertains to only 3 ZPPs and GPs of Adilabad district

Source: Report of the Comptroller & Auditor General of India on Local Bodies for the year ended 31st March, 2017

4.2.3. Assistance by State Finance Commission

Table 35 depicts the Financial Assistance to PRI's by State Government. It could be observed that the Actual Release in 2016-17 became 32 times of the amount in 2014-15. Simultaneously the expenditure has also jumped to an equivalent level. Furthermore, the amount released in the year 2016-17 is entirely expended by PRIs.

Table 35. Financial Assistance to PRIs by State Government (in Bn INR)

Years	2014-15	2015-16	2016-17
Budget	2.03	8.19	9.62
Actual Release	0.3	7.52	9.58
Expenditure	0.3	6.22	9.58

Source: Report of the Comptroller & Auditor General of India on Local Bodies for the year ended 31st March, 2017

4.2.4. Prevailing mechanism of auditing of PRIs

Eleventh Finance Commission recommended State Government to entrust (August 2004) CAG with the responsibility for providing Technical Guidance and Supervision (TGS) pertaining with the accounts and audit of Local Bodies under Section 20(1) of CAG's (DPC) Act.

Accordingly, a Technical Guidance and Supervision Note was prepared at the end of each financial year and forwarded to the DSA for improving the quality of their reports. The Audit process begins with assessment of risk based on the following parameters[16]:

i. Expenditure incurred

ii. Criticality/complexity of activities

iii. Priority accorded for the activity by the Government

iv. Level of the delegated financial powers

v. Assessment of internal controls

vi. Concerns of stakeholders.

Besides, audit findings of previous years were also considered in this process. Consequent to the risk assessment; frequency and extent of audit was decided, and an annual audit plan was formulated to conduct audit. For the Audit exercise of the year 2016-17, 38 PRIs (2 ZPPs, 17 MPPs and 19 GPs), falling under the department of Panchayat Raj and Rural Development, were covered.

[16] Report of Comptroller and Auditor General of India on Local Bodies for the year ending 31 March 2017, Government of Telangana.

4.3. RECEIPTS & EXPENDITURE OF URBAN LOCAL BODIES

4.3.1. Sources of Funds

Table 36 depicts receipts of Urban Local Bodies generated out of different sources of funds. 'Own Revenue Receipts' have been the highest revenue generating component throughout the years ranging from 2014-15 to 2016-17. 'Own Revenue Receipts' comprise of Own Revenue generated by collection of tax such as: property tax, advertisement fee & Non-Tax Revenue such as: water tax, rents from markets, shops and other properties, auction proceeds etc. 'Other Receipts' include: donations, interest on deposits etc. It could be observed that 'Own Revenue' has been considerably increased by 593.72% in 2016-17 with respect to 2014-15 which is further reflectd in the escalation of total Revenue Receipts by 942.21% from the year 2014-15 to 2016-17.

Table 36. Sources of Funds of ULBs (in Bn INR)

Types of Receipts	2014-15	2015-16	2016-17
Own Revenue	3.71	16.17	25.76
Assigned Revenue	0.66	4.18	2.55
State Government Grants	-	-	8.13
Government of India Grants*	-	-	8.07
Other Receipts^	0.20	2.03#	3.18

*: includes Scheme Funds and 14th Finance Commission

^: Other receipts include loans, acrued interest, penalties received, forfeited security deposits et cetera

#: Data pertains to only GHMC, as the information of the information of other ULBs was not furnished by DMA

Assigned Revenue: Seigniorage fee and surcharge on stamp duty collected by Departments of Mines and Geology and Stamps and Registration are apportioned to the Local Bodies in the form of assigned revenue

Source: Report of the Comptroller & Auditor General of India on Local Bodies for the year ended 31st March, 2017

The notable point to the observed here is that while ULB's have been more efficient in generating 'Own Revenue', PRIs on the contrary rely on Government Grants to meet their expenditure. This could be attributed to low level of decentralisation efforts made to strengthen the functional capacities of PRI's.

4.3.2. Application of Funds

Table 37 depicts the 'Revenue Expenditure' & 'Capital Expenditure' of ULBs. It could be observed that while Revenue Expenditure ballooned by 954.14%; Capital expenditure jumped by 695.92% from the year 2014-15 to 2016-17.

Table 37. Application of Funds by ULBs (in Bn INR)

Types of Expenditures	2014-15	2015-16	2016-17
Capital Expenditure	1.49	12.34	11.82
Revenue Expenditure	2.54	18.2	26.76
Total	4.02	30.53	38.58

Source: Report of the Comptroller & Auditor General of India on Local Bodies for the year ended 31st March, 2017

4.3.3. Financial Assistance by State Finance Commission

Table 38 depicts the Financial Assistance to ULB's by State Government by way of grants and loans. It could be observed that Actual Release in the year 2016-17 has become more than three times of the amount in the year 2014-15 while Budgeted became more than seven times for the same period.

Table 38. Financial Assistance to ULBs by State Government (in Bn INR)

Details	2014-15	2015-16	2016-17
Budget	2.87	5.47	21.78
Actual Release	2.5	0.12	8.57

Source: Report of the Comptroller & Auditor General of India on Local Bodies for the year ended 31st March, 2017

4.3.4. Prevailing Mechanism of Auditing of ULBs

Similar Audit mechanism like the one adopted by PRIs is being adopted by ULB's; such as that of Risk assessment based on the select parameters such as: expenditure incurred, criticality/complexity of activities, priority accorded for the activity by Government, level of delegated financial powers, assessment of internal controls and concerns of stakeholders. Also, previous year Audit findings were also referred to. During the Audit exercise of 2016-17, 6 ULBs falling under the department of Municipal Administration and Urban Development were covered.

4.4. 14th FINANCE COMMISSION: Assistance to PRIs & ULBs

In pursuance of the objective of providing financial autonomy to Local bodies, Fourteenth Finance Commission has recommended a Basic Grant (Table 39) of Rs. 4837.75 Crores to Rural Local Bodies and Rs. 2711.12 Crores to Urban Local Bodies to be released over a period of five years (2015-20). Such grant should be directed towards strengthening and supporting the primary functions of the local bodies to deliver basic services which would eventually increase the willingness of citizens to pay for services. The basic services intended to be covered under such grant are: water supply, sanitation including septic management, sewage and solid waste management, storm water drainage, maintenance of community assets, roads, footpaths, street-lighting, burial and cremation grounds.17

Further, the commission also recommended a Performance Grant (Table 40) Rs. 537.53 Crores to Rural Local bodies and Rs. 677.78 Crores to Urban Local Bodies to be released over a period of four years (2016-2020). In order to devolve financial accountability, Fourteenth Finance Commission observed that mere increasing the share of public money to local bodies; without dispensing responsibility and accountability of the shared money is neither conceivable nor desirable. Therefore, performance grants are designed to serve the objective of ensuring reliable data and audited accounts of the local bodies. The Fourteenth Finance Commission has recommended a detailed procedure and criteria to make the local bodies eligible for the Performance Grant.

Eligibility criteria for PRI’s:

Submission of Audited accounts pertaining to the year not before than two years preceding the year in which he PRI’s seek to claim the Performance Grant.

Depicting increase in their own revenue over the previous year as revealed by audited accounts.

Eligibility criteria for ULB’s:

Submission of Audited accounts pertaining to the year not before than two years preceding the year in which he ULB’s seek to claim the Performance Grant.

Depicting increase in their own revenue over the previous year as revealed by audited accounts excluding proceeds from octroi and entry tax.

Measuring and publishing Service Legal Bench Mark pertaining to basic urban services each year for the period of the award.

The proportion of grants for local bodies is fixed as:

For PRI’s: 90% of the grant will be the Basic Grant and 10% will be the Performance Grant.

For ULB’s: 80% of the grant will be the Basic Grant and 20% will be the Performance Grant.

[17] Ministry of Finance, Department of Expenditure, Government of India (No. 13(32) FFC/FCD/2015-16

Table 39. Basic Grants (in crores INR)

Years	2015-16	2016-17	2017-18	2018-19	2019-20
Rural Local Bodies	580.34	803.58	928.47	1074.07	1451.3
Urban Local Bodies	325.23	450.33	520.32	601.92	813.32

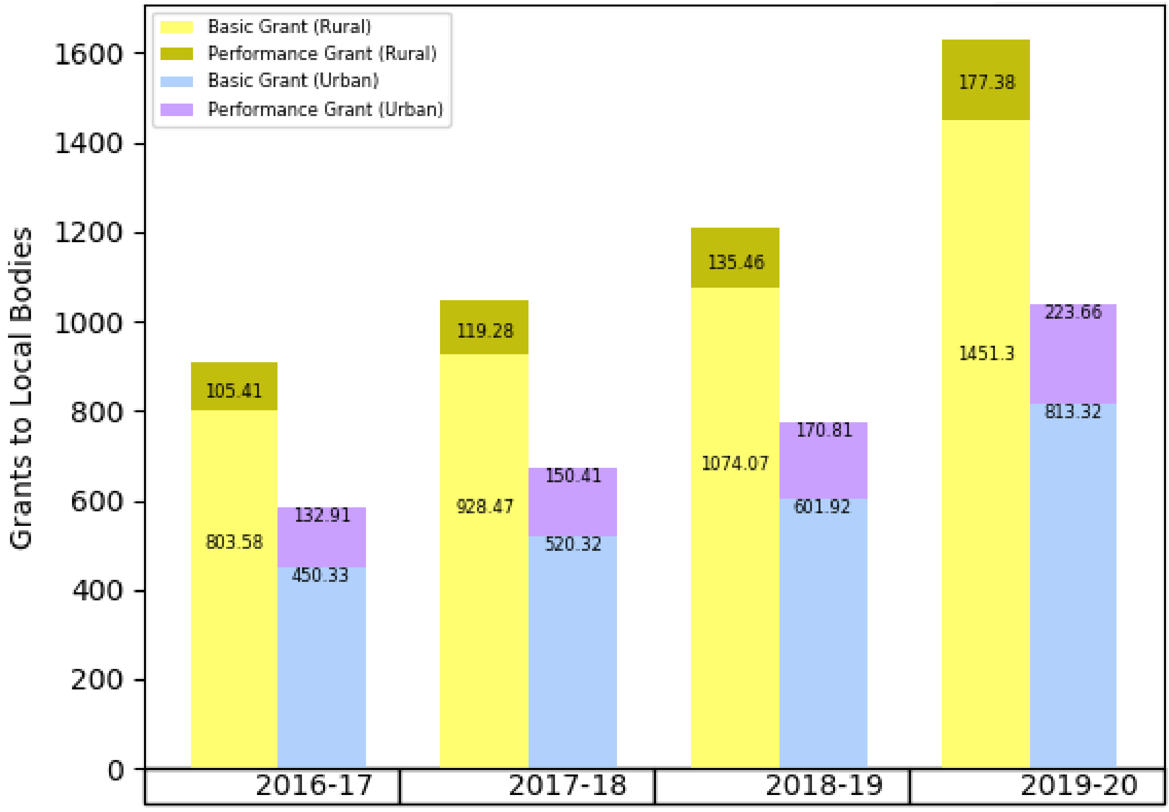
Source: Guidelines for Release and Utilization of Grant recommended by the Fourteenth Finance Commission for Rural Local Bodies and Urban Local Bodies

Table 40. Performance Grants (in crores INR)

Years	2016-17	2017-18	2018-19	2019-20
Rural Local Bodies	105.41	119.28	135.46	177.38
Urban Local Bodies	132.91	150.41	170.81	223.66

Source: Guidelines for Release and Utilization of Grant recommended by the Fourteenth Finance Commission for Rural Local Bodies and Urban Local Bodies

Figure 81. Grants to Local Bodies (in crores INR)



Source: Guidelines for Release and Utilization of Grant recommended by the Fourteenth Finance Commission for Rural Local Bodies and Urban Local Bodies

5. FISCAL POSITION OF STATE PUBLIC ENTERPRISES

5.1. INTRODUCTION

The predetermined objective of establishing State Public Sector Undertakings (PSUs) is to undertake activities of commercial nature in order to promote welfare of the subjects. They hold immense significance in driving economy of the State by creating forward and backward linkages. As on 31 March 2017, there were 69 PSUs in the State of Telangana; details of which are given in the Table 41:

Table 41. Total Number of PSUs as on 31 March 2017

Types of PSUs	Working PSUs	Non-Working PSUs	Total
1. Government Companies	40	0	40
2. Government Companies(under demerger*)/ Non-working Companies(under demerger)	4	22	26
3. Statutory Corporations	3	0	3
Total	47#	22	69

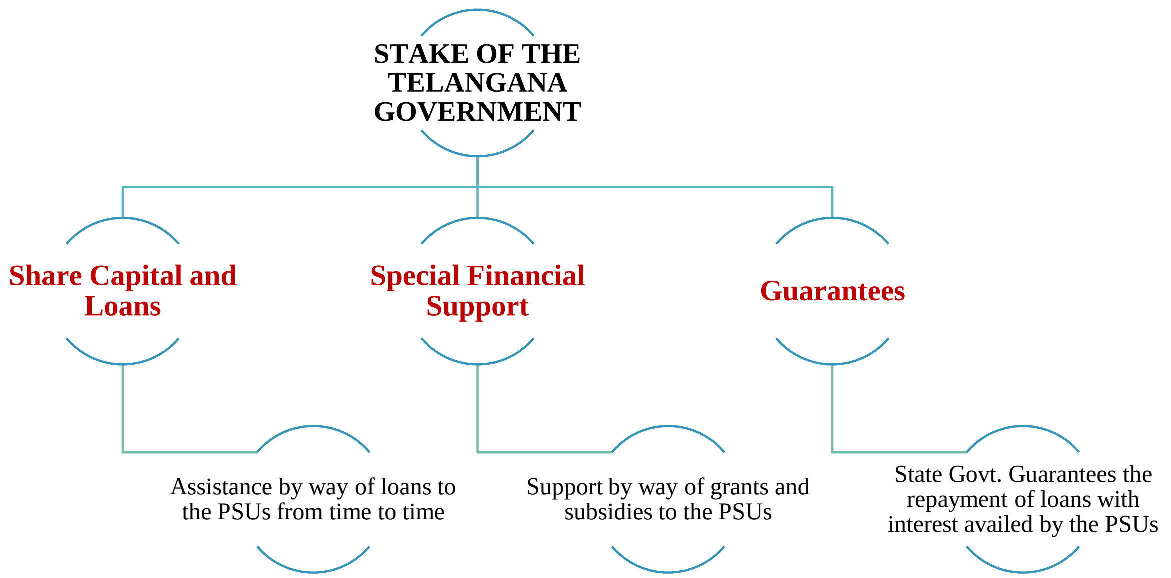
*: As per the AP Reorganisation Act, 2014, assets and liabilities of PSU's with interstate operations were to be apportioned between the two states based on location of operational units and population ratio of the headquarters. Resultantly, 33 such PSU's were identified in the Act, which were to be demerged.

#: Includes 15 PSU's exclusively to the State of Telangana and 28 PSU's formed after the bifurcation of the State.

Source: Report of CAG on PSUs for the year ended 31 March, 2017

5.1.1. Stake of The Government of Telangana

The State Government provides financial support to the PSUs and has substantial claims in these PSUs. This is majorly of three types as depicted in the figure below:



5.2. BUDGETARY SUPPORT TO PSUs

The financial health of PSUs is taken care of by the state government by way of providing loans, equity, grants/subsidies, interest waive off and writing off loans.

The table 42 shows the details of budgetary outgo towards State PSUs in Billion INR. It could be observed that for the year 2016-17, highest support to PSUs came from Guarantee Commitment which stood at 331.06 Billion Rupees.

Table 42. Details of Budgetary Outgo to PSUs (in Bn INR)

Particulars	2015-16(40)	2016-17(43)
1. Equity Capital outgo from Budget	5.31	20.72
2. Loans given from Budget	69.91	1.63
3. Grants/Subsidy from Budget	103.17	84.2
4. Total Outgo	178.39	106.55
5. Interest/Penal interest written off	0	0
6. Guarantees issued	6.46	235.14
7. Guarantee Committment	104.23	331.06
8. Total Outgo of 15 PSUs exclusive to Telangana	54.38	79.82

Values mentioned in parentheses indicate number of PSUs

Source: Report of CAG on PSUs for the year ended 31 March, 2017

5.3. PERFORMANCE OF PSUs

As per the latest finalised accounts of working PSUs (exclusive to Telangana State), Table 43 and Figure 82 provides the details of overall profit earned/loss incurred during the period 2012-13 to 2016-17. The table reveals that the working PSU's (exclusive to Telangana State) have surmounted even more net losses over the last four years reaching finally at Rs. (51.65) Billion in the year 2016-17. Reflecting the status quo financial result of the working PSU'S pertaining to October 2016 to September 2017, out of a total of 43 Working State PSU's; only 14 PSU's have finalised their accounts. While out of these fourteen, six PSU's have earned profits, other six have incurred losses and the remaining two have no profit/loss.[18]

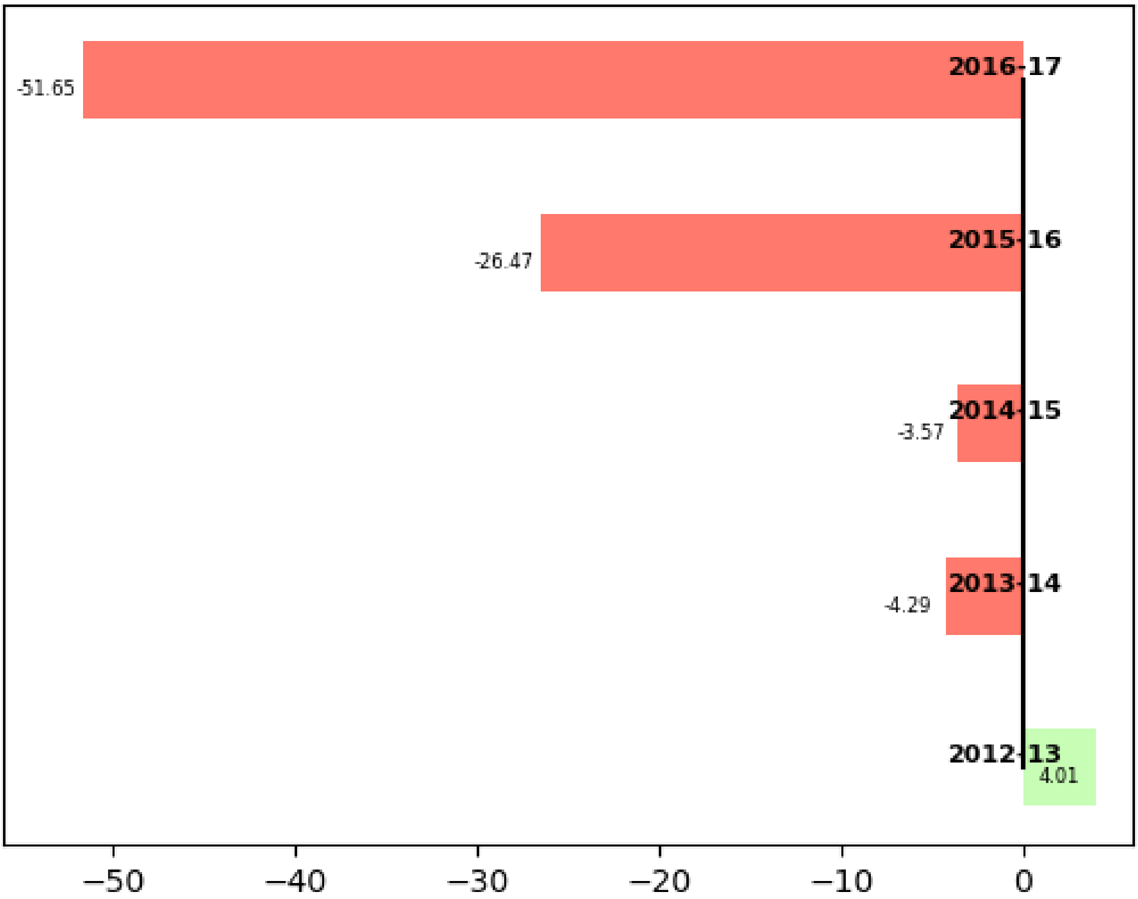
[18] Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings for the year ended March 2017.

Table 43. Profit/Loss of Working PSUs(exclusive to Telangana) (in Bn INR)

Years	2012-13	2013-14	2014-15	2015-16	2016-17
Profit(+)/Loss(-)	4.01	-4.29	-3.57	-26.47	-51.65

Source: Report of CAG on PSUs
for the year ended 31 March, 2017

Figure 82. Profit/Loss of Working PSUs exclusive to Telangana (in Bn INR)



Source: Report of CAG on PSUs
for the year ended 31 March, 2017

Other fundamental performance parameters of Working PSUs exclusive to State, PSUs formed due to demerger and PSUs yet under demerger are given in the Table 44. Table 44 and Figure 83 reveals that Working PSU's exclusive to State of Telangana have negative Return on Equity and negative Return on Capital Employed during the years 2015-16 and 2016-17, which is primarily due to persistent rise in losses of power distribution companies viz., southern Power Distribution Company of Telangana Limited and Northern Power Distribution Company of Telangana Limited. However, rest of the categories of working PSUs (PSUs formed under demerger and PSUs under demerger) have shown growth with respect to return on capital employed.

Table 44. Return on Equity and Return on Capital Employed(in %)

Working PSUs exclusive to State

Years	2015-16	2016-17
1. Return on Equity	-12	-16
2. Return on Capital Employed (%)	-16.28	-38.32

Working PSUs formed due to demerger(Including Statutory Corporations)

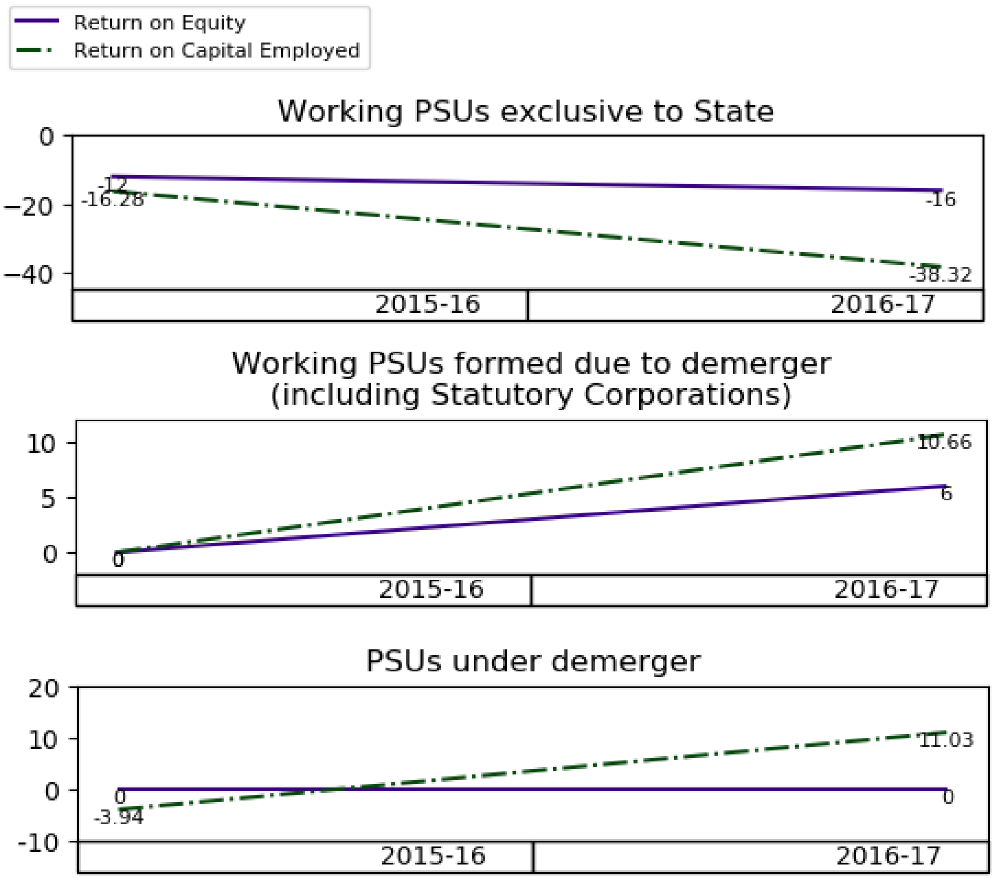
Years	2015-16	2016-17
1. Return on Equity	0	6
2. Return on Capital Employed	0	10.66

PSUs under demerger

Years	2015-16	2016-17
1. Return on Equity	0	0
2. Return on Capital Employed (%)	-3.94	11.03

Source: Report of CAG on PSUs for the year ended 31 March, 2017

Figure 83. Return on Equity and Return on Capital Employed (in %)



Source: Report of Comptroller and Auditor General of India on State Finances for the year ended 31 March, 2017

Evaluating the other parameters, while both working PSUs exclusive to State and PSUs under demerger have reduced their debt component from Rs. 151.55 Billion (Table 45 and Figure 84) in the year 2015-16 to Rs. 145.95 Billion in 2016-17, and Rs. 56 Crores from 2015-16 to Rs. 10 Lakhs in 2016-17 respectively. On the contrary, PSUs formed due to demerger have exorbitantly hiked their debt component from Rs. 0.04 Billion to Rs. 115.53 Billion. Measuring performance vis-à-vis turnover, both Working PSUs exclusive to State and PSUs formed due to demerger have succeeded in raising their turnovers, except PSUs under demerger whose turnover shrank to half, falling from Rs. 0.48 Billion in 2015-16 to Rs. 0.24 Billion in 2016-17. Resultantly, debt turnover ratio of Working PSUs exclusive to State and PSUs under demerger has been lowered in the year 2016-17 from the previous year 2015-16, while the same has been hiked for PSUs formed due to demerger. Such hike has been observed due to substantial jump in debt component of PSUs formed due to demerger. On accounting for interest payment obligations, all the categories of PSUs have increased their interest payment burden from the year 2015-16 to 2016-17, however the highest absolute increment of interest payment could be observed in case of PSUs formed due to demerger, rising from null to Rs. 15.76 Billion.

Table 45. Key Performance Parameters

Working PSUs exclusive to State

Years	2015-16	2016-17
1. Debt(in Bn INR)	151.55	145.95
2. Turnover(in Bn INR)	350.85	393.27
3. Debt to Turnover Ratio	0.43	0.37
4. Interest Payments(in Bn INR)	11.97	15.97

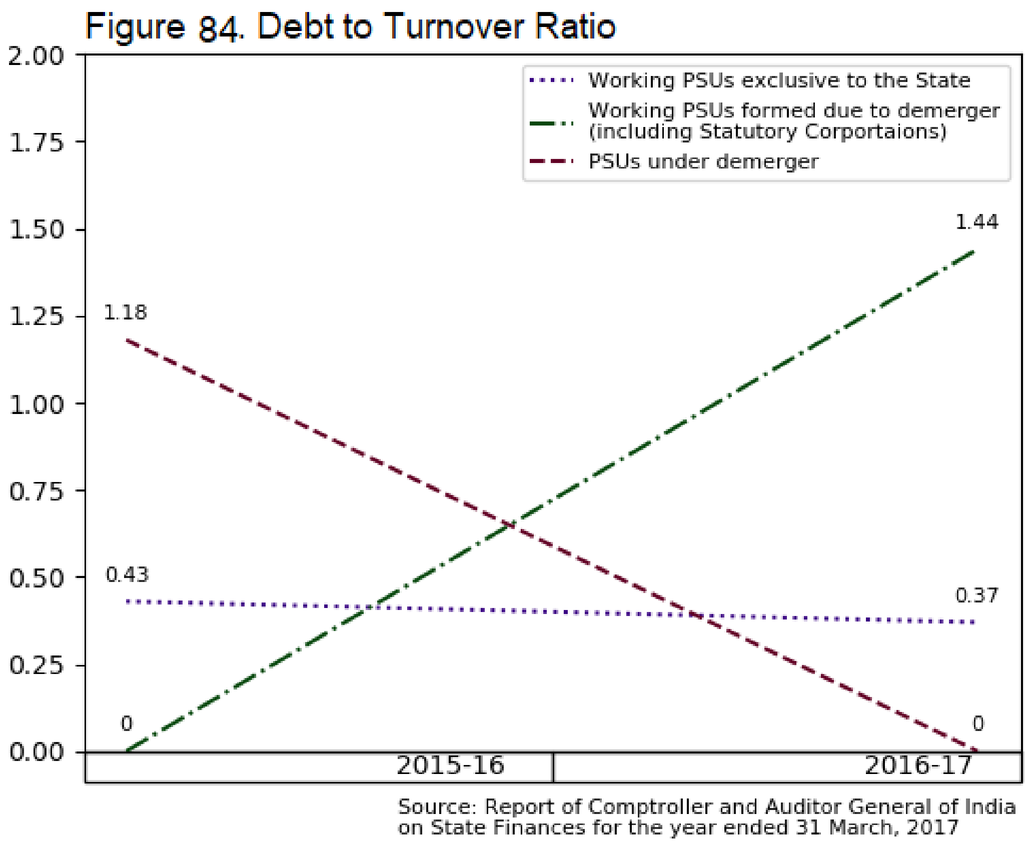
Working PSUs formed due to demerger(Including Statutory Corporations)

Years	2015-16	2016-17
1. Debt(in Bn INR)	0.04	115.53
2. Turnover(in Bn INR)	0	80.02
3. Debt to Turnover Ratio	0	1.44
4. Interest Payments(in Bn INR)	0	15.76

PSUs under demerger

Years	2015-16	2016-17
1. Debt(in Bn INR)	0.56	0
2. Turnover(in Bn INR)	0.48	0.24
3. Debt to Turnover Ratio	1.18	0
4. Interest Payments(in Bn INR)	0.07	0.16

Source: Report of CAG on PSUs for the year ended 31 March, 2017



5.4. DISSOLUTION & WINDING UP OF NON-WORKING PSUs

As on March 2017, twenty-two PSUs were non-working, out of which ten are being reported in the process of liquidation since decades. Besides, the Official liquidator was also appointed in respect of these companies as far as back as eleven to twenty-seven years. However, the process of voluntary winding up under the Companies Act is much speedier and the same should be practiced rigorously. The Telangana Government might consider winding up of rest of the non-working PSU's, since no decision has been taken regarding their operability so far.[19]

[19] Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings for the year ended March 2017.

6. POWER SECTOR REFORMS & SUBSIDIES: Impact on State's Fiscal Health

In order to ensure viability and promote development of the Power Sector of the State, Telangana government has had undertaken various reforms through its fiscal components such as subsidies, investments and debt management. The analysis and evaluation of power sector reforms with respect to aforesaid components is mentioned below:

6.1. POWER SUBSIDY

Table 46 and figure 85 depicts the State Expenditure on Power Subsidies. It could be clearly inferred that the power subsidy draws out a substantial amount from state exchequer, though slightly lowered in 2016-17 (Rs. 36.75 Billion) when compared with the previous year 2015-16 (Rs. 39.26 Billion).

However, Power Sector still has the highest share of subsidy from the State amounting to 61.92% Of the total Subsidies paid by the State of Telangana and 4.43% of the total Revenue Expenditure for the year 2016-17.[20]

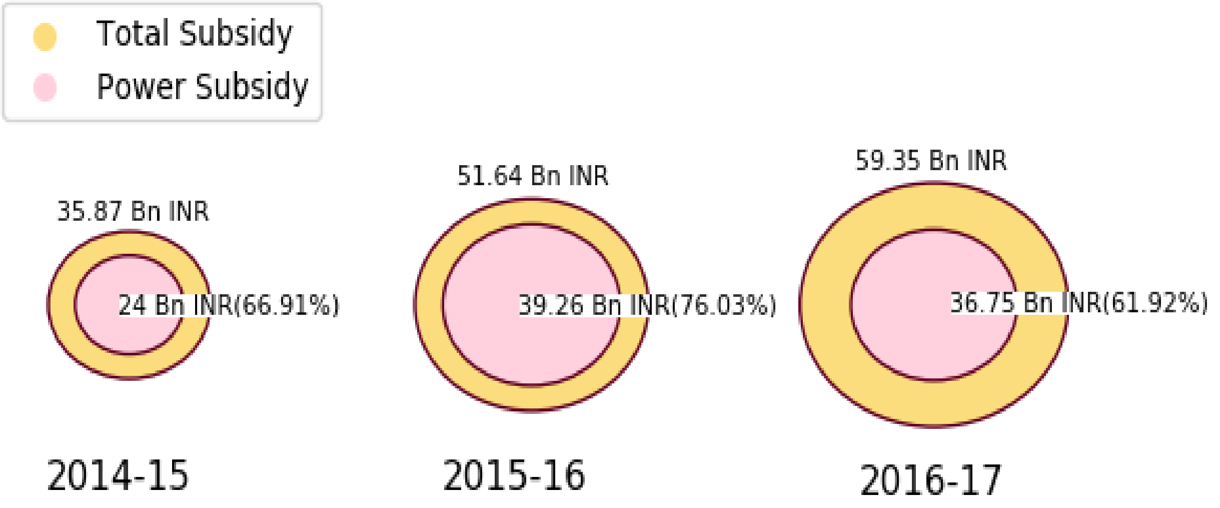
Table 46. Power Subsidy of the State

Years	2014-15	2015-16	2016-17
1. Amount of Power Subsidy(in Bn INR)	24	39.26	36.75
2. Total Revenue Expenditure(in Bn INR)	506.73	758.96	828.18
3. Power Subsidy as a percentage of Total Revenue Expenditure	4.73%	5.17%	4.43%
4. Power Subsidy relative to Total Subsidy(in %)	66.91	76.03	61.92

Source: Report of Comptroller and Auditor General of India on State Finances for the year ended 31 March, 2017

[20] Source: Report of the Comptroller and Auditor General of India on State Finances for the year ended March 2017.

Figure 85. Power Subsidy relative to Total Subsidy

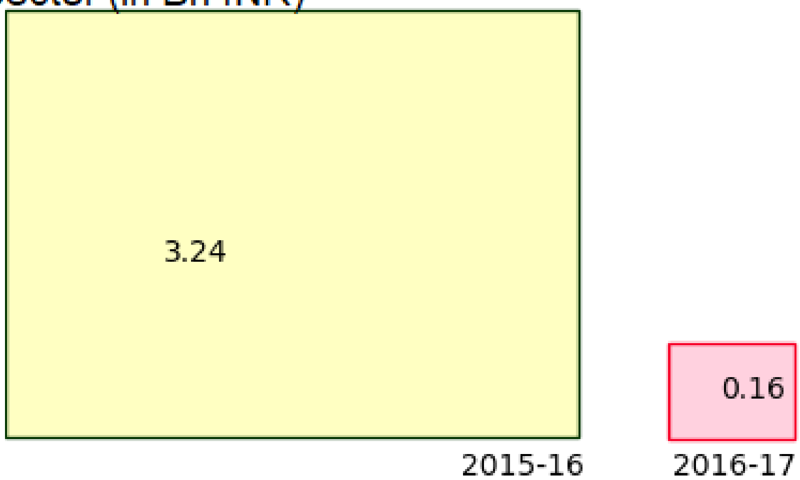


Source: Report of Comptroller and Auditor General of India on Public Undertakings for the year ended March 2017

6.2. BUDGETARY ASSISTANCE: GRANTS-IN-AID

In addition, budgetary assistance was provided in the form of Grants-in-aid for Power Sector in nature of subsidies. Details of these Grants-in-aid provided during 2015-16 and 2016-17 are given in Figure 86. Undoubtedly, Grants-in-Aid have drastically been reduced from Rs. 3.24 Billion in the year 2015-16 to Rs. 0.16 Billion in the year 2016-17.

Figure 86. Grants-in-Aid to the Power Sector (in Bn INR)



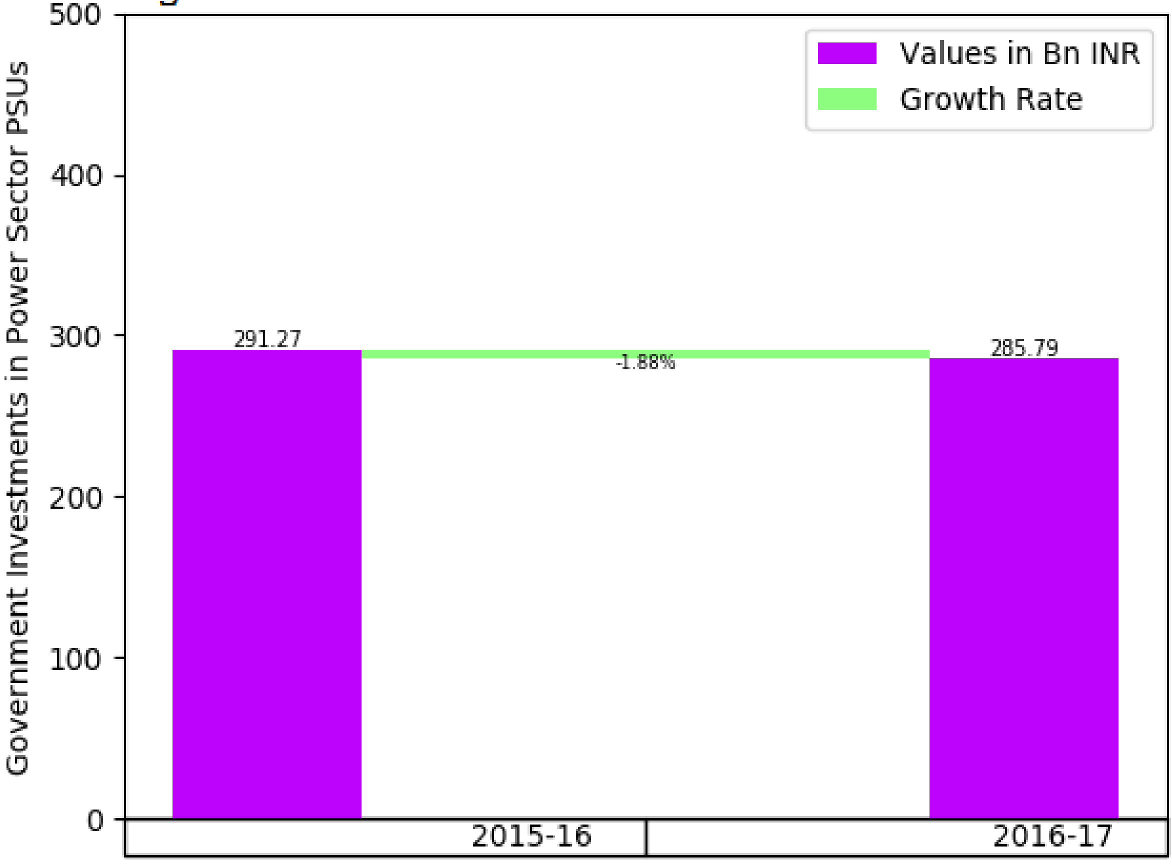
Source: Report of Comptroller and Auditor General of India on Public Undertakings for the year ended March 2017

Besides, the state government provides free power to the SC households whose expenditure for the year 2016-17 stood at 11.07 Crores.

6.3. STATE INVESTMENT IN POWER SECTOR PSU's

In order to improve the viability and performance of the Power Sector PSUs, Government of Telangana has made huge investment in the sector. Figure 87 depicts the Government investments in the Power Sector PSUs. It could be observed that there has been a slight reduction in the investment in the year 2016-17 (Rs. 285.79 Billion) from the year 2015-16 (Rs. 291.27 Billion). However, when compared with rest of the sectors, Power Sector stands highest in grabbing government investments. Nevertheless, the financial performance of Power Sector portrays a dismal picture since Power Distribution Companies (DISCOMs) incurred accumulated losses of 21,220.22 Crores for the period 2015-16 and 2016-17 and the entire sector accounted for 99.88% of the total losses incurred by working PSUs of Telangana. The huge losses of DISCOMs are primarily attributed to excessive expenditure on power purchase with respect to revenue realised, increased employee costs and other operational expenditure.

Figure 87. Government Investment in Power Sector PSUs



Source: Report of Comptroller and Auditor General of India on Public Undertakings for the year ended March 2017

6.4. FINANCIAL TURNAROUND of DISCOMs (UDAY Scheme): Debt Management & Progress

UDAY scheme was launched by Government of India in November 2015 for financial turnaround of Power Distribution Companies (DISCOMs). As per the MOU, the State Government shall take over 75 per cent of DISCOMs' debt outstanding as on 30 September 2015 over a period of two years; 50 per cent in 2015-16 and 25 per cent in 2016-17.

The Scheme was not implemented in Telangana during 2015-16. Total outstanding debt of DISCOMs at the end of September 2015 was Rs. 11,897 crores. Of this, Government had to take over 75 per cent, i.e., Rs. 8,923 crores as per the MoU (04 January 2017) under the scheme. However, government borrowed Rs. 8,931.51 crore through UDAY bonds during the year 2016-17. Out of this, an amount of Rs. 7,500 crores only were released to DISCOMs to end of the year. It was stipulated in the MoU that, DISCOMs debt had to be taken over in the form of grant; Rs. 4,462 crores (50 per cent); loan Rs. 2,230 crore (25 per cent) and equity Rs. 2,231 crores (25 per cent). As against this clause, entire amount transferred to DISCOMS as grants (50 per cent of Rs. 7,500 crores released to DISCOMs) had been directed to Capital Expenditure as equity. Such substitution resulted in overstatement of revenue surplus to that extent. Banks/Financial Institutions had not issued any new bonds as stipulated in the UDAY Scheme for the remaining balance loans of DISCOMs[21]

The overall analysis of the Power Sector reforms suggest that the government is striving its best to make the sector viable by making huge expenditure whether by way of subsidies/investment or by taking over the debt burden through UDAY scheme. However, until now the sector has been incurring losses especially the DISCOMs and the investments are not generating returns which is negatively impacting the fiscal health of the State finances. The possible solution to revive the sector could be by adequately measuring the consumption needs of agriculture and restructuring the subsidies. Besides, collection of dues from the customers should be monitored by introducing innovative techniques such as prepaid metering etc. in order to reduce the default in payment of dues.

[21] Report of the Comptroller and Auditor General of India on State Finances for the year ended March 2017

6.5. PERFORMANCE OF POWER DISTRIBUTION COMPANIES

Power generation companies sell energy to Transmission companies which is then distributed through Distribution Companies (DISCOMs) to consumers. The primary objective of the distribution sector is effective provision of reliable and quality energy at affordable rates.

Power Distribution in Telangana is undertaken by two Distribution Companies viz: Northern Power Distribution Company of Telangana Limited (TSNPDCL) and Southern Power Distribution of Telangana Limited (TSSPDCL).

6.5.1. Northern Power Distribution Company of Telangana Limited

The Northern Power Distribution Company of Telangana Limited carried out power distribution in five districts/circles of Telangana. The company functions under the administration of Department of Energy, Government of Telangana. Below we depict certain parameters of performance of Northern Power Distribution Company of Telangana Limited (TSNPDCL):

6.5.1.1. Operational Performance

Table 47 depicts the operation performance of the company while Table 48 reveals its distribution losses. The percentage of metered sales in the year 2015-16 stood at 51.95 % (Table 47) as against 49.73%[22] during the previous year. The increment is largely accounted for increase in domestic category sales by 372 MU (Metric Unit) which is 3.4% higher than the 2014-15 metered sales. Besides, the Company has fixed 3,168 meters for LV (Low Voltage) side of the Agricultural DTRs (Dynamic transformer Rating) as per the ISI (Indian Statistical Institute) methodology approved by the State Electricity Regulatory Commission. Furthermore, the company proposes reduction in distribution losses by implementing stringent restriction and control measures to ensure the assured number of hours of supply to agricultural sector; and endeavour to reduce both technical and commercial losses by actively conducting 11KV (kilo Volt) feeder wise energy audit of around 573 feeders in the company.

[22] NORTHERN POWER DISTRIBUTION COMPANY OF TELANGANA LIMITED (Distribution & Retail Supply Licensee) Filing of Aggregate Revenue Requirement (ARR) for Retails Supply Business for the FY 2017-18 November 2016.

Table 47. Operational Performance of Northern Power Distribution Company of Telangana Limited (in MU)

Particulars	2015-16 (Actuals)	2016-17 (RE)
Metered Sales	6893.73(51.95%)	7432.7(53.5%)
LT Agricultural Systems	4671.95(35.21%)	4942.4(35.6%)
Total Sales	11565.68(87.16%)	12375.1(89.1%)
ADD: Distribution Losses (inclusive of EHT sales)	1704.27(12.84%)	1518(10.9%)
Energy required at DISCOM level	13269.95(100%)	13893.1(100%)
Distribution Losses (excluding EHT sales)	1704.27(14.35%)	1518(12.30%)

Values in parentheses indicate %age of Energy required at DISCOM level

Source: Northern Power Distribution Company of Telangana Limited (Distribution and Retail Supply Licensee) Filing of Aggregate Revenue Requirement (ARR) for Retails Supply Business for the FY 2017-18

Table 48. Distribution Losses of Northern Power Distribution Company of Telangana Limited (in MU)

Particulars	2014-15	2015-16
Energy Purchased(A)	12811.53	13269.95
Energy Sold(B)	11104.80	11565.70
Energy Losses(A-B)	1706.73	1704.25

In the Tariff Order for 2015-16 different energy losses were adopted for supplies at different voltage. The energy loss units allowed as per SERC were adopted.

Source: Report of the Comptroller & Auditor General of India on Local Bodies for the year ended 31st March, 2016

6.5.1.2. Aggregate Revenue Requirement

DISCOMs propose Aggregate Revenue Requirement (ARR) to State Electricity Regulatory Commission (SERC) to meet the costs in a year and determine tariff rate borne by the customers.

Table 49 depicts the proposed ARR of Northern Power Distribution Company of Telangana Limited for the year 2016-17 and the ensuing year:

Table 49. Aggregate Revenue Requirement (ARR) of Northern Power Distribution Company of Telangana Limuted (in Bn INR)

Particulars	2016-17 (RE)	2017-18 (Projected)
Power Purchase Cost	66.02	73.26
Distribution Cost	13.90	16.33
Transmission Cost	4.32	4.73
SLDC Cost	0.12	0.13
PGCIL Cost	2.46	3.72
ULDC Cost	0.03	0.03
Network Cost	20.84	24.94
Interest on Consumer Security Deposits	0.42	0.47
Supply Margin	0.11	0.13
Other Expenses	0.05	0.05
CSD and Other Costs	0.58	0.65
Aggregate Revenue Requirement (ARR)	87.43	98.86

Source: Northern Power Distribution Company of Telangana Limited (Distribution and Retail Supply Licensee) Filing of Aggregate Revenue Requirement (ARR) for Retails Supply Business for the FY 2017-18

According to the projections of Sales and Losses, the company's power purchase requirements would be 14,700 MU for 2016-17 and 16,323 MU for 2017-18 and the cost of this energy would be Rs.66.02 Bn and Rs.73.264 Bn respectively. The company has adopted the Transmission capacity contracted and rate of Transmission charges per MW (Mega Watt) per month as per the order issued by Telangana Electricity Regulatory Commission for the 3rd control period. The expected Transmission charges for 2016-17 and 2017-18 are Rs. 4.32 Bn and Rs.4.73 Bn respectively. Besides, the company has accepted 6.75% p.a. as interest rate which is prevailing bank rate of RBI on security deposit for FY 2016-17 and FY 2017-18 in these filings. The interest on consumer security deposit for 2016-17 and 2017-18 is projected at Rs. 0.42 Bn and Rs.0.47 Bn respectively. The head 'Other Expenses' include proposed reactive power charges payable to southern grid, wheeling charges payable to other states and assets maintenance charges to SRPC (Southern Regional Power Committee) for both 2016-17 and 2017-18.

Table 50 gives out the tariff details of the company. Section 61 of the Electricity Act, 2003, pins down that tariff should progressively reflect the Cost of Supply of electricity and reduce cross subsidy in a manner specified by the appropriate commission. The National Tariff Policy (NTP) recommend that tariff for all categories should fall within the range of +/- 20 per cent of the Average Cost of Supply (ACS) by the year 2010-11. However, review of the tariff orders for the last five years showed that the tariff fixed for majority of the categories was beyond the limits.

Table 50. Details of Tariff fixed

Particulars	2014-15	2015-16
ACS (in paise)	551	619
Lower Limit (in paise)	441	495
Upper Limit (in paise)	661	743
Total categories in Tariff Order	86	87
Categories for which Tariff < Minimum	23	30
Categories for which Tariff > Minimum	22	12
Categories for which Tariff within limits	41	45

Source: Report of the Comptroller & Auditor General of India on Public Sector Undertakings for year ended 31st March, 2016

6.5.1.3. Financial Performance

Table 51 depicts 'Revenue' and 'Expenditure' heads of the Northern Power Distribution Company of Telangana Limited. It could be observed that 'Revenue from Tariff' accounts for 49.82% of total revenue followed closely by 'GOAP Subsidy' accounting for 48.78% of total revenue and lastly Non-tariff Income. On expenditure front, 'Power Purchase' holds the highest share amounting to 79.36% of Total Expenditure; followed by 'Distribution Cost' accounting for 13.93% of Total Expenditure. The financial result of the Company reveals a deficit of Rs. 9.58 Bn for the year 2015-16.

Table 51. Summary of Financial Performance of Northern Power Distribution Company of Telangana Limited (in Bn INR)

Particulars	2015-16 (Actuals)
Revenue from Tariff	36.08
Non Tariff Income	1
GOAP Subsidy	35.33
Total Revenue	72.42
Distribution Cost	11.44
Power Purchase	65.08
Transmission and SLDC Charges	3.54
PGCIL and ULDC Charges	1.38
Interest on Consumer Security Deposits	0.42
Supply Margin in RSB	0.09
Other Costs(if any)	0.06
Total Expenditure	81.99
Revenue Deficit	9.58

Source: Northern Power Distribution Company of Telangana Limited (Distribution and Retail Supply Licensee) Filing of Aggregate Revenue Requirement (ARR) for Retails Supply Business for the FY 2017-18

6.5.1.4. Billing and Collection Efficiency

The Company failed to submit the proposals under Multi Year Tariff which accounted for increased losses from Rs. 0.33 Bn (2013-14) to Rs. 13.48 Bn (2014-15) mainly due to adoption of tariff order of 2013-14 for 2014-15[23].

Arrears of revenue stood at Rs. 12.32 Bn (31 March 2016) containing Rs. 8.21 Bn outstanding from the Government Departments/ Local Bodies and Rs. 2.49 Bn outstanding from other live services.

The Company failed to collect subsidy for the years 2014-15 and 2015-16, though the Company had claimed subsidy of Rs. 59.32 Bn, it received only Rs. 52.38 Bn. The Company could neither collect the balance subsidy of Rs. 6.93 Bn nor implement the full cost recovery tariff.

[23] Report of the Comptroller and Auditor General of India on Public Sector Undertakings, Government of Telangana for the year ended March 2016.

Besides, unrealised amount on account of pilferage cases detected from the year 2011-12 to 2015-16 stood at Rs. 0.0943 Billion.

6.5.1.5. Metering

With an objective of ensuring billing on actual consumption and to reduce AT&C (Aggregate Technical & Commercial) losses, the scheme provided for installation of prepaid meters by 31 March 2013 for all Government consumers and large consumers (1 MW and above). However, it was observed that neither prepaid meters were installed, nor were targets fixed for conversion of unmetered connections.

6.5.2. Southern Power Distribution Company of Telangana Limited

Southern Power Distribution Company of Telangana Limited carries out power distribution in fourteen districts of Telangana State under ten circles. The Company is administered by Department of Energy, government of Telangana.

Below we depict certain parameters of performance of Southern Power Distribution Company of Telangana Limited (TSSPDCL):

6.5.2.1. Operational Performance

Table 52. Operational Performance of
Southern Power Distribution Company of Telangana Limited
(in MU)

Particulars	2015-16 (Actuals)	2016-17 (RE)
Metered Sales	22566.3(68.6%)	22838.5(68.3%)
LT Agricultural Sales	6517.7(19.81%)	7177.2(21.5%)
Total Sales	29083.9(88.41%)	30015.7(89.7%)
ADD: Distribution Losses (including EHT sales)	3814.08(11.59%)	3430.6(10.26%)
Energy required at Discom level	32898.02(100%)	33446.3(100%)
Distribution Losses (excluding EHT sales)	3814.08(12.56%)	3430.6(11.23%)

Values in parentheses indicate %age of Energy required at DISCOM level

Source: Southern Power Distribution Company of Telangana Limited (Distribution and Retail Supply of Electricity Licensee) Filing of ARR for Retail Supply Business for FY 2017-18

In 2015-16 the metered sales recorded was 22566 MU which is higher than FY2014- 15 actual metered sales by 1421 MU which comes to 6.7 % growth over previous year (Table 52). Table 52 also depicts that the actual losses for the FY 2015-16 is 11.59% which have been reduced when compared to previous year loss of 12.92%[24]. However, anticipation of further loss reduction, the company proposes to strictly implement number of hours of supply to agricultural sector; reduce both technical and commercial losses by vigorously conducting 11 kV feeder wise energy audits around 1764 Nos. feeders in the company. [25]

6.5.2.2. Aggregate Revenue Requirement

ARR is determined for the fixation of Tariff to be received from the end customers. Table 53 depicts that 'Power Purchase and Procurement Cost' holds the highest value in determining the ARR over the years followed by 'Distribution Costs' and subsequently the 'Transmission Costs'. While the 'Power Purchase and Procurement Cost' share in ARR declined from 79.5% in the year 2016-17 to 77.54% in the projected estimates for the year 2017-18, total ARR grew by 9.76% in the projections of 2017-18 vis-à-vis 2016-17.

Table 53. Aggregate Revenue Requirement (ARR) of Southern Power Distribution Company of Telangana Limited (in Bn INR)

Particulars	2015-16	2016-17	2017-18
Power Purchase and Procurement Cost	154.79	159.76	170.95
Transmission Cost	8.21	10.37	11.31
PGCIL and ULDC Cost	3.32	5.96	9.26
SLDC Charges	0.26	0.29	0.31
Distribution Cost	17.84	22.68	26.63
Interest on Consumer Security Deposits	1.68	1.58	1.74
Supply Margin	0.16	0.2	0.24
Aggregate Revenue Requirement (ARR)	186.26	200.84	220.45

Source: Southern Power Distribution Company of Telangana Limited (Distribution and Retail Supply of Electricity Licensee) Filing of ARR for Retail Supply Business for FY 2017-18

[24] SOUTHERN POWER DISTRIBUTION COMPANY OF TELANGANA LIMITED (Distribution and Retail Supply of Electricity Licensee) Filing of ARR for Retail Supply Business for FY 2017-18.
[25] SOUTHERN POWER DISTRIBUTION COMPANY OF TELANGANA LIMITED (Distribution and Retail Supply of Electricity Licensee) Filing of ARR for Retail Supply Business for FY 2017-18.

6.5.2.3. Financial Performance

Table 54 depicts 'Revenue' and 'Expenditure' heads of the Southern Power Distribution Company of Telangana Limited. It could be observed that 'Revenue at Current Tariffs' accounts for 98.89% of total revenue. Besides, Non-tariff income from Retail Supply Business is approximately double of Non-tariff Income from Distribution Business. Government subsidy accounts for 4.76% of Total Revenue. On expenditure front, 'Power Purchase' holds the highest share amounting to 84.96% of Total Expenditure. The financial result of the Company reveals a deficit of 26.59 Bn for the year 2015-16.

Table 54. Summary of Financial Performace (in Bn INR) of Southern Power Distribution Company of Telangana Limited (in Bn INR)

Particulars	2015-16 (Actuals)
Supply Margin	0.16
ROCE/Interest	4.45
Total Financing Cost	4.61
Power Purchase	154.79
Transmission charges	8.21
PGCIL/ULDC Charges	3.32
SLDC Charges	0.26
O&M (Gross)	12.03
Depreciation	3.06
Interest on consumer deposits	1.68
Special appropriation for safety measures	0
Less: Expenses capitalized	1.22
Other costs	0.05
Total Expenditure (inclusive Finance Cost)	182.18
Total Revenue	151.78
Non-Tariff Income (Distribution Business)	0.52
Non-Tariff Income (Retail Supply Business)	1.08
Revenue at Current Tariffs	150.10
Cross Subsidy Surcharge	0.06
Revenue from Wheeling	0.01
Regulatory Gap	35.01
Government Subsidy	7.24
Additional RLNG subsidy for FY 2013-14	1.18
Net Regulatory Gap	26.59

Source: Southern Power Distribution Company of Telangana Limited (Distribution and Retail Supply of Electricity Licensee) Filing of ARR for Retail Supply Business for FY 2017-18

Table 55. Losses incurred by Southern Power Distribution Company of Telangana Limited due to failure to restrict the distribution losses within limits allowed by SERC

Particulars	2014-15	2015-16	2016-17
Energy purchased (A) (in MU)	32245.42	32898.07	34799.70
Total Sales(B) (in MU)	28078.42	29083.93	30840.27
Energy Loss(A-B) (in MU)	4167.00	3814.14	3959.43
Energy losses (in %)	12.92%	11.59%	11.38%
Energy losses approved by SERC	11.44%	10.57%	9.79%
Excess losses (in %)	1.48%	1.02%	1.59%
Excess losses (in MU)	477.23	335.56	553.32
Average realization per unit (in INR)	4.66	5.20	5.07
Value of excess losses (in Bn INR)	2.22	1.74	2.81

Source: Report of the Comptroller & Auditor General of India on Public Sector Undertakings of Telangana for year ended 31st March, 2016

Table 55 reveals the Distribution Losses incurred by the Southern Power Distribution Company of Telangana Limited. The energy loss dipped by 4.98% in the year 2016-17 from the year 2014-15. However, the excess losses, over and above the threshold set by SERC have increased from 1.48% to 1.59% from the year 2014-15 to 2016-17.

6.5.2.4. Billing, Collection and Metering

The Company delayed its ARR submissions which resulted in loss of revenue of Rs. 3.24 Bn.

The company purchased short term power over and above SERC limits leading to extra cost of Rs. 58.21 Bn during 2012-17.

Without provisioning adequate funding in advance, the company was forced to meet an extra expenditure of Rs. 5.86 Bn from its own funds to ensure supply for nine hours to agriculture.

The company failed to claim subsidy from State Government over the years ranging from 2012-13 to 2016-17. While in the year 2016-17, the company succeeded to claim only Rs. 10.34 Bn as against the entitlement of 10.75 Bn. Besides, the unclaimed amount of subsidy from the year 2012-13 to 2015-16 stood at Rs. 2.67 Bn.

Arrears of Revenue of the company stood at Rs. 36.46 Bn as on March 2017 out of which 58% was attributed to Government Departments/Local Bodies.

The unrealised amount due to pilferage of energy from the year 2012-13 to 2016-17 stood at Rs. 0.37 Bn.

It is observed that the State government pays more subsidy every year on account of free supply of electricity for agricultural consumption which was unmetered. In November 2017, government accepted the fact that the meters fixed to DTRs were prone to defective due to which estimation of agricultural consumption couldn't be accurately done.

7. SUBSIDIES GIVEN BY THE STATE: An Evaluation

Subsidies hold an important responsible component for the State Government to incentivise economic growth and promote its welfare policies.

Government of Telangana has provided ample resources towards subsidies from the very year of inception of the state.

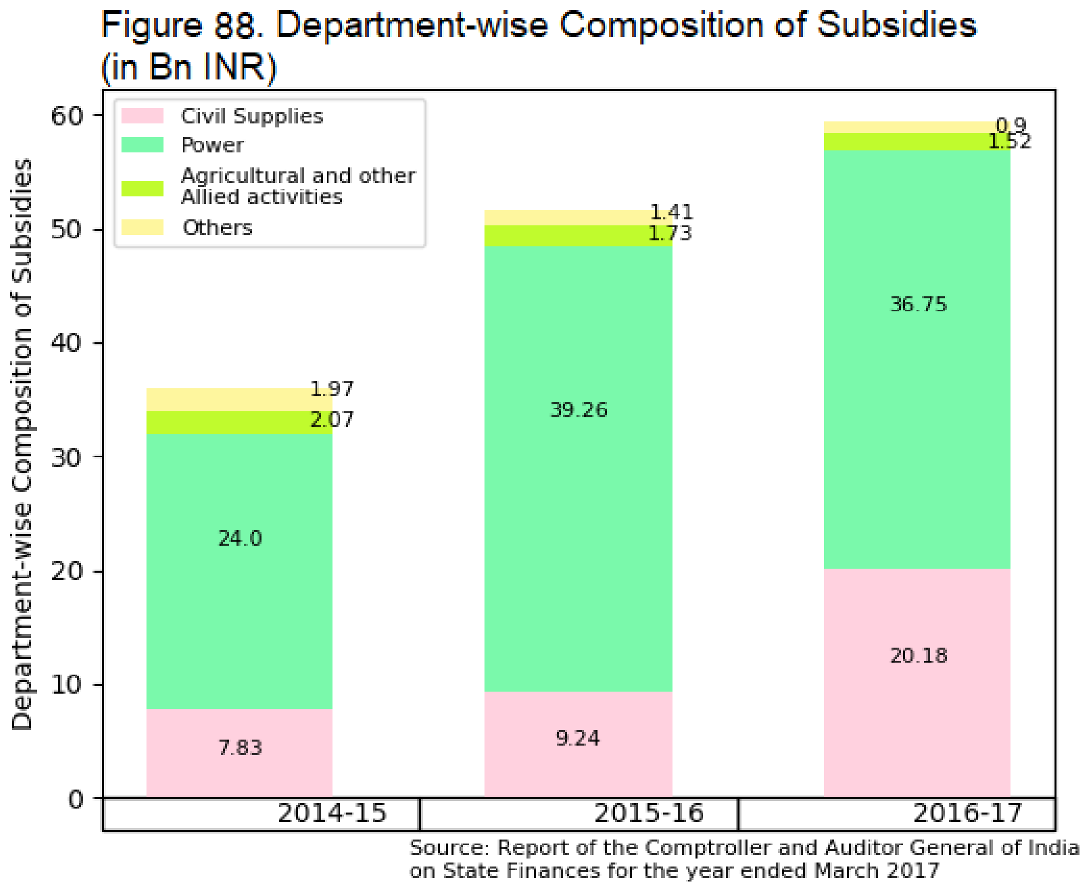
Table 56 gives the description of Department-wise subsidies from the year 2014-15 to 2016-17. It could be observed that Power Sector has received the highest subsidies throughout the timeline of three years beginning from 2014-15 when compared with rest of the sectors. Furthermore, subsidies account for about 7.17% of the revenue expenditure in the year 2016-17 which is more or less the same as that of past years (2014-15-7.08%; 2015-16-6.80%)[26].

Table 56. Department-wise Subsidies

Years	2014-15	2015-16	2016-17
1. Civil Supplies(in Bn INR)	7.83	9.24	20.18
2. Power(in Bn INR)	24	39.26	36.75
3. Agricultural and other Allied activities(in Bn INR)	2.07	1.73	1.52
4. Others(in Bn INR)	1.97	1.41	0.9
5. Total Subsidy(in Bn INR)	35.87	51.64	59.35
6. Revenue Expenditure(in Bn INR)	506.73	758.96	828.18
7. Subsidy relative to Revenue Expenditure(in %)	7.08	6.8	7.17

Source: Report of Comptroller and Auditor General of India on State Finances for the year ended 31 March, 2017

[26] Source: Report of the Comptroller and Auditor General of India on State Finances for the year ended March 2017



In addition, budgetary assistance was provided in the form of Grants-in-aid under "Detailed Head 310-312" instead of "330" for various socio-economic services which was in the nature of subsidies. Scheme-wise details of these Grants-in-aid provided during 2015-16 and 2016-17 are given in Table 57.

A total of Rs. 10.75 Bn was given as Grants-in-aid understated the expenditure towards subsidies in Government Accounts to that extent.

Table 57. Department/Organisation-wise Subsidies given as Grants-in-Aid (in Bn INR)

Department	Name of the Scheme	2015-16	2016-17
Revenue	Assistance to Municipalities/ Corporations as Interest Free Loans (Vaddileni Runalu)	0.66	1
Medical and Health Services	Assistance to NIMS for treatment of BPL families not covered under Aarogyasri	0.25	0.25
Agriculture	Assistance to Cooperative Sugar Factories towards reimbursement of Purchase Tax incentives	0.18	0.18
Agriculture	Assistance to Small and Marginal Farmers towards Premium for Crop Insurance Scheme	0.15	0.42
Agriculture	Crop Loans for Farmers(Pavalavaddi)	0.24	0.03
Agriculture	Supply of Seeds, Fertilisers and Agricultural Implements	2.33	7.02
Transport	Assistance to TSRTC towards reimbursement of concessions extended to various categories of citizens	1.03	0.28
Rural Development	Interest Free Loans to DWCRA Women (Vaddileni Runalu)	1.97	0.41
Rural Development	Interest Free Loans to Farmers (Vaddileni Runalu) and Crop Insurance	1.62	-
Industries	Extension of Pavalavaddi Scheme to all SSI and Food Processing units	1.04	0.5
Industries	Power Subsidy for Industries	3.24	0.16
Industries	Supply of Milch Animals under CM's package	0.04	-
Industries	Incentives for Industrial Promotion	0.99	0.35
Animal Husbandry	Incentives for Milk Production	0.46	0.03
Animal Husbandary	Fodder and Feed Development	0.03	0.12

Source: Report of the Comptroller Audit General of India on State Finances for the year ended 31st March, 2017

8. CONTINGENT LIABILITIES OF THE STATE

Reserve Bank of India defines Contingent liabilities as obligations engendered by an uncertain event that may or may not occur. [27]

They are of two types: Explicit Contingent Liabilities and Implicit Contingent Liabilities. Explicit Contingent Liabilities are legally recognized while Implicit Contingent Liabilities are not recognized until a failure occurs and mainly indicate public expectations. Explicit Contingent Liabilities of State include: guarantees on behalf of public enterprises and the private sector, and state insurance schemes. Implicit contingent liabilities of States include default of public entities on non-guaranteed debt or other obligations, liability clean up in entities being privatised, failures of inadequately funded pension funds and natural calamities. The major contingent liabilities of Indian States, however, consist of guarantees.[28]

Table 58 depicts the status of Guarantees (Explicit Contingent Liabilities) of Telangana from the period 2014-15 to 2016-17.

Table 58. Guarantees given by the Government of Telangana

Years	2014-15	2015-16	2016-17
1. Maximum amount guaranteed(in Bn INR)	212.4	280.94	318.71
2. Outstanding amount of guarantees(in Bn INR)	182.65	266.19	299.65
3. Total Revenue Receipts(in Bn INR)	510.42	761.34	828.18
4. Percentage of maximum amount guaranteed relative to Total Revenue Receipts(in %)	41.61	36.9	38.48
5. Percentage of outstanding guarantees relative to the total Revenue Receipts of preceeding year(in %)	-	52.15	39.36

Source: Report of Comptroller and Auditor General of India on State Finances for the year ended 31 March, 2017

The FRBM Act stipulates that annual incremental risk-weighted guarantees are to be limited to 90 per cent of total Revenue Receipts in the preceding year. The outstanding guarantees (Rs. 299.65 Billion) to end of 2016-17 amounted to 39.36 per cent of total Revenue Receipts (Rs. 761.34 Billion) of the preceding year, which is within the ceiling of 90 per cent prescribed under FRBM legislation.

The outstanding guarantees at the end of 2016-17 were majorly in respect of Telangana Drinking Water Supply Corporation Ltd., (11,124 crore), Corporation under Energy Sector

[27] Source: https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?ID=16
[28] Source: Paper for presentation in the World Bank Conference "Fiscal Policies to Accelerate Economic Growth", May 21-22, 2001, New Delhi; https://www.researchgate.net/publication/303806147_Contingent_Liabilities_at_the_State_Level_The_indian_Experience

(4,618 crore), Cooperatives (2,193 crore), Telangana State Road Transport Corporation (660 crore), State Financial Corporation (`418 crore) and Hyderabad Metropolitan Water Supply & Sewerage Board (3,525.27 crore).[29]

The rising amount of contingent liabilities is largely attributed to the rigorous implementation of State's ambitious programs such as 2 Bedroom Housing Scheme, Mission Bhagiratha and programs to promote horticulture and urban development. For the same, the government started various public-sector undertakings to carry the implementation work. While the public-sector undertakings borrow money to implement the programs, the government provides guarantees on such loans categorised under Contingent liabilities. However, rising guarantees add to the risk of State government in the event of failure to service the debt on account of scarce revenues generated out of such programmes.

[29] Source: Report of the Comptroller and Auditor General of India on State Finances for the year ended March 2017

9. TRANSPORT SECTOR OF TELANGANA: Performance Review

Post bifurcation of the State (June 2014), the erstwhile Andhra Pradesh State Road Transport Corporation (APSRTC) was split into APSRTC and Telangana State Road Transport Corporation. Following the bifurcation; separate records for TSRTC were maintained from 03 June 2015. The Corporation functions under the administrative control of Transport, Roads & Buildings Department, Government of Telangana. As of 31 March 2017, the Corporation provided transportation services to inter and intra state commuters through 10,390 buses (including 2153) hired buses. Table 59 depicts the financial performance of Telangana State Road Transport Undertakings.

Table 59. Financial Performance of Telangana State Road Transport Undertakings (in Bn INR)

Particulars	2014-15	2015-16
Traffic Revenue	32.98	32.96
Income from Advertisements (A)	0.12	0.14
Sale Proceeds from Scraps (B)	0.23	0.15
Receipts from Penalties/Fines (C)	0.05	0.06
Other Receipts (D)	1.25	2.35
Non-Traffic Revenue (A+B+C+D)	1.64	2.71
Subsidies	0	0
Other Subsidies	5.28	5.28
Total Revenue (E)	39.91	40.96
Total Cost (F)	43.92	47.97
Losses Incurred (F-E)	4.01	7.02

Source: Review of the Performance of State Road Transport Undertakings for April, 2015- March, 2016, Ministry of Road Transport and Highways

It could be clearly inferred from the table that Telangana State Road Transport Undertakings is incurring losses, more in the year 2015-16 amounting to Rs. 7.02 Billion against the previous year losses of Rs. 4.01 Billion. Besides, 'Traffic Revenue' accounts for the highest share in Total Revenue of the Undertakings, forming 80.46% of the total revenue, though slightly lowered from the previous year. The second highest component in total revenue is of 'Other Subsidies' accounting for 12.89% of the total revenue. Furthermore, the Ministry of Road Transport and Highways evidenced the Undertakings as third best performer amongst the Indian States with respect to select parameters like Average Fleet Held, Revenue Earning Kilometres, Staff Strength, Passenger Kilometres Offered, Passenger Kilometres Performed, Passengers carried per bus per day.

10.14TH FINANCE COMMISSION RECOMMENDATIONS & STATE FINANCES: Outcome Evaluation

The report of the Fourteenth Finance Commission, chaired by Y.V. Reddy, was tabled in the Parliament on February 24, 2015.

Outcome Evaluation of State Finances of the Government of Telangana as per Recommendations of the 14th Finance Commission is mentioned below:

1. Devolution of taxes to states:

14th Finance Commission recommended devolution of share of taxes from centre to states to be increased from 32% to 42%. This increase in devolution share has resulted in boosting State revenue from Central taxes with a substantial growth of 23.51% in 2015-16 and 48.76% in 2016-17 with respect to preceding years. The share in Central taxes of Telangana in the year 2014-15 stood at Rs. 81.89 Billion, post recommendation the figure went up to Rs. 148.76 Billion in the year 2016-17; showing growth of 81.89% within two years.

2. Fiscal Deficit:

The Fourteenth Finance Commission recommended that fiscal deficit of the states should be targeted at 3% of the GSDP during the period 2015-20. However, Telangana Government was eligible for relaxation of 0.25% over this limit on account of their Debt-GSDP ratio being less than or equal to 25% in the previous year. Besides, Telangana received a further relaxation of 0.25% of GSDP in the event of interest payments fall short of or equal to 10% of the revenue receipts in the previous year. Against the targets, Telangana exceeded the deficit limits as reported by CAG. The gross fiscal deficit of the state stood at 3.32% and 5.46% for the year 2015-16 and 2016-17 respectively.

3. Grants to Local governments of Telangana:

In pursuance of the objective of providing financial autonomy to Local bodies, Fourteenth Finance Commission has recommended a Basic Grant of Rs. 4837.75 Crores to Rural Local Bodies and Rs. 2711.12 Crores to Urban Local Bodies to be released over a period of five years (2015-20).

Further, the commission also recommended a Performance Grant of Rs. 537.53 Crores to Rural Local bodies and Rs. 677.78 Crores to Urban Local Bodies to be released over a period of four years (2016-2020). While the Basic Grant would cater to delivering of basic services, Performance Grant would develop a sense of accountability among the local bodies by ensuring their compliance with maintenance, audit and disclosure of books of accounts.[30]

For the year 2016-17 the cumulative grants (Basic & Performance) for rural local bodies stood at Rs. 908.99 Crores and for urban local bodies amounted to Rs. 583.24 Crores. Comparing the recommendations with actuals, the audit finding of CAG reveal that Grants were released under two recommended components, i.e., Basic grant and Performance grant in the ratio of 90:10. Government of India released Rs. 908.99 crore during 2016-17 to Rural Local Bodies. The entire amount was expended as of November 2017. With respect to Urban Local Bodies; Grants of Rs. 583.624 were released under two components, i.e., Basic grant and Performance grant in the ratio of 80:20. Recommendations were duly met for the year 2016-17 for both Rural & Urban Local Bodies.

[30] Source: www.panchayat.gov.in/documents/10198/349332/Guidelines.pdf

11.CONCLUDING REMARKS

Looking at the analysis of various components and parameters of State Finances it can be concluded that Government of Telangana has been efficiently generating revenue especially Own Tax Revenue; Revenue Receipts have been growing more than Revenue Expenditure. Telangana's average SOTR growth rate of 17.2%, is the highest nationwide for the past four financial years, which is 2014-15 to 2017-18. Considering high tax buoyancy of the state, it is suggested to frame a reformist fiscal policy that can lead to greater tax collection, lower tax rates, and greater, and more efficient, tax redistribution.

Comparing with Andhra Pradesh and Other general category states, Telangana's 'Total Outstanding Liabilities relative to GSDP' is 15.9% (Rank 17th) which is lower than Andhra Pradesh 24.3% (Rank 10th). Telangana's Debt to GSDP ratio is lower than 25%, enabling it to claim 0.25% relaxation in fiscal deficit target by the Finance Commission. Since, Government of Telangana spends hugely on development and welfare schemes; Development Expenditure is much higher than Non-Development Expenditure. It has been observed that the government has routed funds for certain welfare schemes by issuing guarantees on behalf of public-sector undertakings. Such schemes hold huge importance as they are drivers of development and growth; it is advised that the government should route funds through other channels in order to avoid any fiscal imbalance in future.

In the context of local governance, PRIs and ULBs are receiving regular grants both from the State and the Centre. It is suggested to devolve more powers to PRIs and involve all the related agencies from formulating development plans to their implementation.

PSUs and Transport Sector are running in losses adding burden by the way of rising Contingent Liabilities. Government should speed up the dissolution process of the loss-making units and implement turnaround policies or restructure such PSUs. Huge subsidies on power can possibly cripple the fiscal position of the state. The government should judiciously allocate the funds via UDAY scheme for financial turnaround of DISCOMs.

Although being a young state, the government has outperformed many other states in terms of various fiscal parameters. It has been able to smoothly implement the GST tax reforms and increase its revenue capacities. Considering the various parameters of fiscal prudence and accounting, an in-depth analysis of the Government of Telangana is hence recommended to secure vital changes in the State treasure systems and lead the state on a higher growth trajectory.

GLOSSARY OF TERMS USED IN THE REPORT

Term	Description
Buoyancy of a parameter	Rate of Growth of parameter/GSDP Growth Rate.
Buoyancy ratio	Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that Revenue Receipts tend to increase by 0.6 percentage points, if the GSDP increases by one per cent.
Committed expenditure	The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies on which the executive has limited control.
Consolidated fund of the State (CFS)	The fund constituted under Article 266 (1) of the Constitution of India, into which all receipts, revenue and loans flow. All expenditure from the CFS is by appropriation: voted or charged. It consists of two main divisions namely Revenue Account (Revenue Receipts and Revenue Expenditure) and Capital Account (Public Debt and Loans etc.).
Contingency fund	Legislative Assembly has by law established a contingency fund in the nature of an imprest into which such sums as may be determined by such law are paid from time to time and the said fund is placed at the disposal of the Governor to enable advances to be made by

	him out of it for the purpose of meeting unforeseen expenditure pending authorization of such expenditure by Legislative Assembly by law under Article 115 or Article 116 of the Constitution of India.
Contingent liability	Contingent liabilities may or may not be incurred by an entity depending on the outcome of a future event such as a court case.
Debt sustainability	The Debt sustainability is defined as the ability of the State to maintain a constant Debt-GSDP ratio over a period and embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt.
Debt stabilization	A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are either zero or positive. Given the rate spread (GSDP growth rate- interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would not rise. On the other

	hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.
Development Expenditure	The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.
Fiscal deficit	Revenue expenditure + Capital expenditure + Net loans and advances-Revenue receipts–Miscellaneous Capital receipts.
Fiscal liabilities	Internal debt (market loans, loans from NSSF and loans from other financial institutions), loans and advances from GOI, the liabilities arising from the transactions in the Public Account of the State.
GSDP	GSDP is defined as the total income of the State or the market value of goods and services produced using labour and all other factors of production at current prices.
Internal debt	Internal debt comprises of regular loans from the public in India, also termed ‘Debt raised in India’ and credited to the consolidated fund.

Merit goods	Merit goods are commodities that the public sector provides free of cost or at categorized rates because an individual or society should have them on the basis of some concept of need rather than the ability and willingness to pay for their costs. The examples of such goods include the provision of free or subsidized food for the poor to support nutrition, the delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.
Net availability of Borrowed funds	Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.
Overall losses	Net effect of accumulated profit/loss during the year for which accounts are finalised.
Primary deficit	Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the State during the course of the year. Fiscal deficit–interest payments
Primary expenditure	Primary expenditure of the State defined as the total expenditure net of the interest payments. It indicates the expenditure incurred on the transactions undertaken during the year.
Revenue Deficit	Revenue receipt – Revenue expenditure

Sinking fund	A fund for which the government sets aside money over time, in order to retire its debt.
State implementing Agency	Any organization/institution including non-governmental organization which is authorized by the State Government to receive the funds from the Government of India for implementing specific programmes in the State, e.g. State implementation society for Sarva Siksha Abhiyan and State Health Mission for National Rural Health Mission, etc.
Sufficiency of non-debt Receipts	Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.
Supplementary grants	If the amount authorized by any law made in accordance with the provisions of Article 114 of the Constitution of India to be expended for a service for the current financial year is found to be insufficient for the purpose or when a need has arisen during the current financial year for additional expenditure upon some 'new service' not contemplated in the original budget for that year, Government is to obtain supplementary grants or appropriations in accordance with the provision of Article 115 (1) of the Constitution of India.

Suspense and Miscellaneous	Items of receipts and payments which cannot at once be taken to a final head of receipt or charge owing to lack of information as to their nature or for any other reasons, may be held temporarily under the major head "8658-Suspense Account" in the sector "L–Suspense and Miscellaneous" of the Accounts. A service receipt of which full particulars are not given must not be taken to the head "Suspense Account" but should be credited to the minor head "Other Receipt" under the revenue major head to which it appears to belong pending eventual transfer to the credit of the correct head on receipt of detailed particulars.