

1.1 Profile of the State

Andhra Pradesh is the eighth largest State in the country in terms of geographical area (1,62,970 sq. kms). The State has a long coastline, spanning 974 kms. In terms of population, the State accounts for 4.10 *per cent* (4.93 crore) of the total population of the country, as per Census 2011. The per capita income of the State at current prices was ₹ 1,69,519 in 2019-20, which was higher than the all India average of ₹ 1,34,432. General and financial data relating to the State is given in *Appendix 1.1*.

1.1.1 Gross State Domestic Product of Andhra Pradesh

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time.

Trends in annual growth rate of Gross Domestic Product (GDP) of India and GSDP of the State at Current Prices (Base Year 2011-12) are given in **Table 1.1**.

Table 1.1: Trends in growth rate of GSDP vis-à-vis GDP

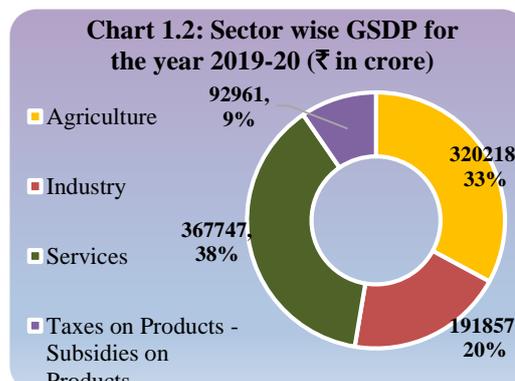
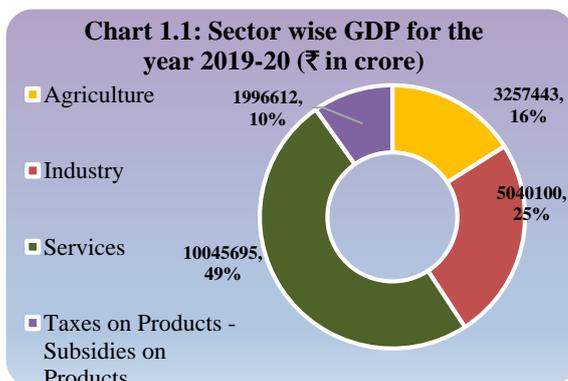
Year	2015-16	2016-17 (TRE)	2017-18 (SRE)	2018-19 (FRE)	2019-20 (PE)
India's GDP (₹ in crore)	1,37,71,874	1,53,91,669	1,70,98,304	1,89,71,237	2,03,39,849
Growth rate (<i>per cent</i>)	10.46	11.76	11.09	10.95	7.21
State's GSDP (₹ in crore)	6,04,229	6,84,416	7,93,186	8,62,957	9,72,782
Growth rate (<i>per cent</i>)	15.10	13.27	15.89	8.80	12.73

Source: Ministry of Statistics and Programme Implementation, Government of India (MoSPI); TRE: Third Revised Estimates; SRE: Second Revised Estimates; FRE: First Revised Estimates; PE: Provisional Estimates;

As can be seen from the table above, the GSDP of Andhra Pradesh grew at a higher rate during the period from 2015-16 to 2017-18 and in 2019-20 compared to the national growth rate.

The GDP and GSDP are generally classified in to primary, secondary and tertiary sectors, broadly corresponding to Agriculture, Industries and Services sectors respectively.

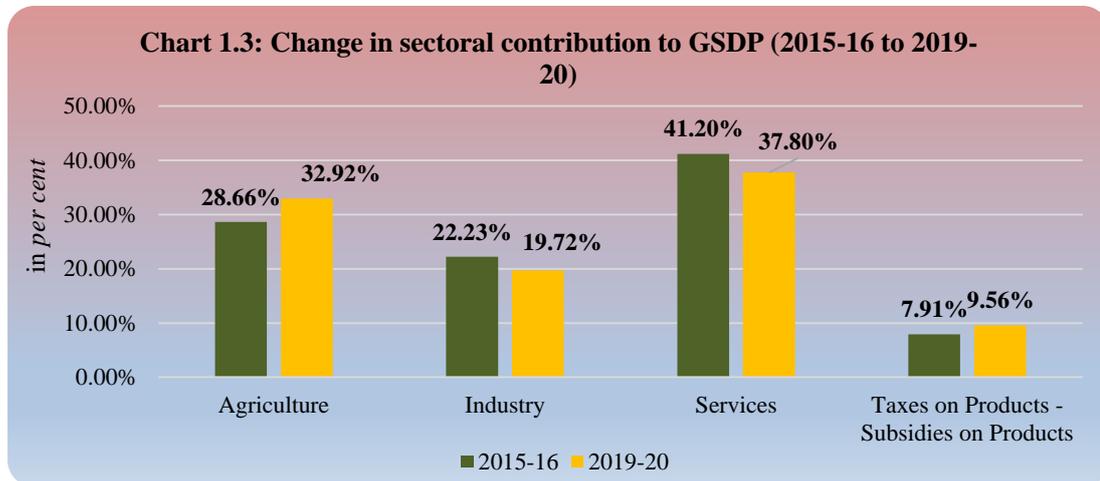
Sector wise GDP and GSDP for the year 2019-20 are depicted in *Charts 1.1* and *1.2* respectively.



Source: Ministry of Statistics and Programme Implementation (MoSPI)

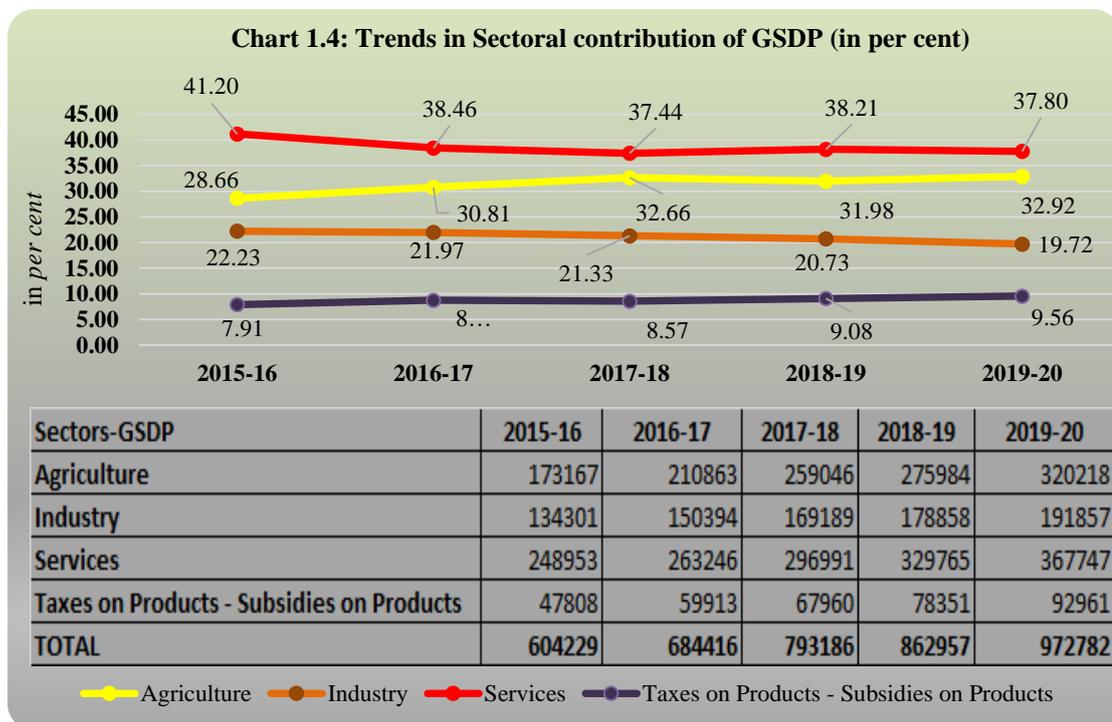
As can be seen from the above charts, Services sector was the major contributor to the GSDP of the State, as it is with the GDP of the country.

The contribution of various sectors to GSDP of the State during 2015-16 and 2019-20 is shown in **Chart 1.3**. While there has been an increase in the relative share of Agriculture in GSDP from 28.66 per cent in 2015-16 to 32.92 per cent in 2019-20, the contribution of Industry and Services sectors witnessed a decline during this period.



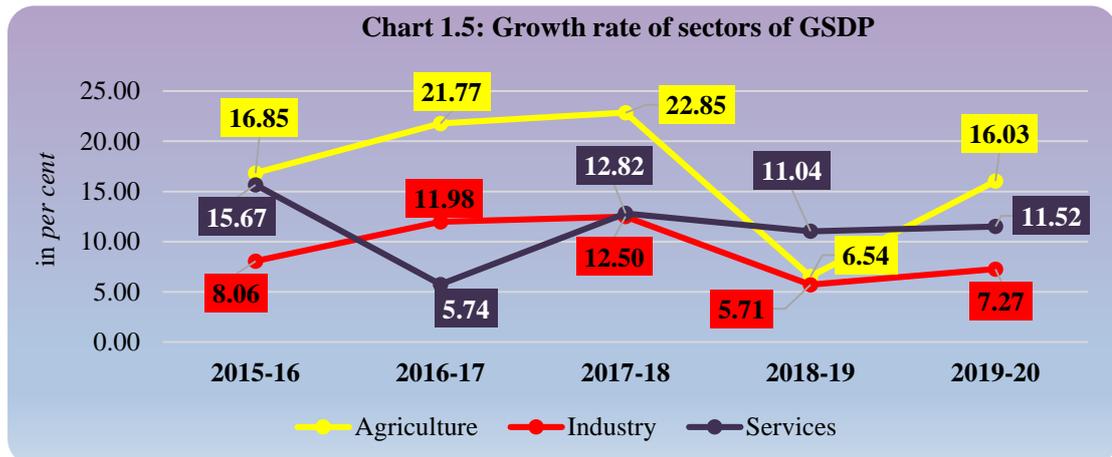
Source: Ministry of Statistics and Programme Implementation (MoSPI)

The annual change in the contribution of various sectors to the GSDP over the five-year period 2015-16 to 2019-20 is depicted in **Chart 1.4**.



Source: Ministry of Statistics and Programme Implementation (MoSPI)

The Sector wise growth rate of GSDP is depicted in **Chart 1.5** below.



Source: Ministry of Statistics and Programme Implementation (MoSPI)

Agricultural sector has registered a growth rate of 16.03 per cent during 2019-20 as compared to 2018-19 mainly due to increase in production of food grains from 149.56 lakh tonnes during 2018-19 to 171.37 lakh tonnes in 2019-20. Also, there was a commendable growth in horticulture, livestock and fishing sectors during 2019-20. However, the growth rate of the sector was lower than the growth registered during 2015-16, 2016-17 and 2017-18.

Although there was an increase in the share of Industry Sector in GSDP during 2019-20 compared to 2018-19, this growth has to be viewed in the light of the fact that the growth rate of this Sector in the State has slackened and registered a lower growth rate of 5.71 per cent during 2018-19 from a higher growth rate of 12.50 per cent during 2017-18.

The growth rate of Services sector witnessed a mixed trend during the period 2015-20 with a dip during 2016-17 to 5.74 per cent from the five year high of 15.67 per cent during 2015-16.

1.2 Basis and approach to State Finances Audit report

In terms of Article 151 (2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the Accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) is prepared and submitted under Article 151 (2) of the Constitution of India.

Principal Accountant General (Accounts & Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the compiled accounts and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the State Government, and the statements received from the Reserve Bank of India. These accounts are audited independently by the Accountant General (Audit) and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State constitute the core data for this report. Other sources include the following:

- Budget of the State: for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- Results of audit carried out by the Office of the Principal Accountant General (Audit);
- Other data (accounting as well as MIS) with Departmental Authorities and Treasuries; and
- GSDP data and other State related statistics from Ministry of Statistics, Programme and Implementation.

The analysis is also carried out in the context of recommendations of the XIV Finance Commission (FC), Andhra Pradesh Fiscal Responsibility and Budget Management (APFRBM) Act, 2012, best practices and guidelines of the Government of India. An entry conference was held in November 2020 with the Principal Secretary to Government of Andhra Pradesh, Finance Department, wherein the audit approach followed in the preparation of SFAR was explained. Draft audit findings were discussed with the Principal Secretary, Finance Department in April 2021 and the responses of the Government have been incorporated in the Report appropriately.

1.3 Report Structure

The SFAR is structured into the following four Chapters:

Chapter - I	Overview This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/ surplus.
Chapter - II	Finances of the State This chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2015-16 to 2019-20, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.
Chapter - III	Budgetary Management This chapter is based on the Appropriation Accounts of the State and reviews the appropriations, allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.
Chapter - IV	Quality of Accounts & Financial Reporting Practices This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.

1.4 Overview of Government Accounts structure

The Accounts of the Government are kept in three Parts:

1. Consolidated Fund of the State

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, etc.), Ways and Means advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (*e.g.*, salaries of Constitutional authorities, loan repayments *etc.*), constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

2. Contingency Fund of the State

This Fund is in the nature of an imprest which is established by the State Legislature by law, and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The Fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

3. Public Account of the State

Apart from the above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes items like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a statement of estimated receipts and expenditures of the Government in respect of every financial year. This 'Annual Financial Statement' constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

Revenue receipts consists of tax revenue, non-tax revenue, share of Union Taxes/Duties, and grants from Government of India.

Revenue expenditure consists of all the expenditure of the Government which does not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the Government departments and various services, interest payments on debt incurred by the Government, and grants given to various institutions

(even though some of the grants may be meant for creation of assets).

Capital receipts consist of:

Debt receipts: Market Loans, Bonds, Loans from financial institutions, Net transactions under Ways and Means Advances, Loans and Advances from Central Government, *etc.*;

Non-debt receipts: Proceeds from disinvestment, Recoveries of loans and advances;

Capital Expenditure includes expenditure on the acquisition of land, buildings, machinery, equipment, investment in shares, and loans and advances by the Government to Public Sector Undertakings (PSUs) and other parties.

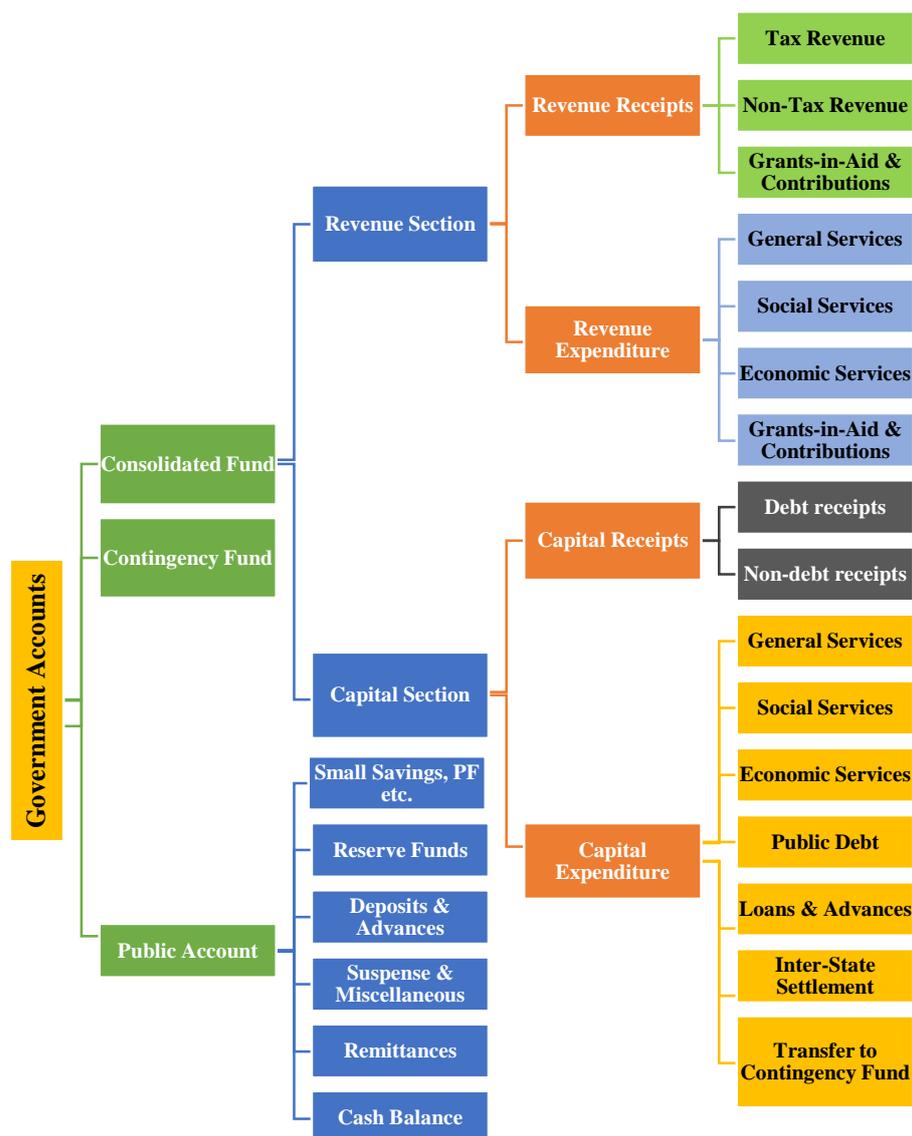
The accounts classification system in Government is both functional and economic as explained below.

	Attribute of transaction	Classification
Standardised in List of Major and Minor Heads of Account of Union and States by Controller General of Accounts	Function - Education, Health, <i>etc.</i> / Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub scheme	Detailed Head (2-digit)-
	Economic nature/Activity	Object Head- salary, minor works, <i>etc.</i> (2-digit)

Functional classification involves arranging the receipts and expenditure by economic categories, distinguishing the Government transactions into Sections like Revenue and Capital (including Public Debt, Loans and Advances), Sectors like Tax Revenue from other revenue and Grants-in-Aid, Sub-sectors like Taxes on Income and Expenditure, fiscal services, *etc.* On the expenditure side also, the transactions are classified into Sectors *viz.*, General Services, Economic Services, Social Services and Grants-in-Aid and contributions and sub-divided into Major Heads of account below these Sectors. Major Heads of account falling within the Consolidated Fund generally correspond to 'Functions' of Government, such as 'Education', while Minor Heads subordinate to them identify the 'Programme' undertaken to achieve the objectives of the function represented by the Major Head. A programme may consist of a number of schemes or activities and these generally correspond to 'Sub-heads' below the Minor head. 'Detailed head' below the Sub-head, is primarily meant for itemised control over expenditure and indicates the object or nature of expenditure on a scheme or activity in terms of inputs such as 'Salaries', 'Office Expenses', 'Grants-in-Aid', *etc.*

A pictorial depiction of the structure of Government Accounts is given in **Chart 1.6:**

Chart 1.6: Pictorial depiction of the structure of Government Accounts



1.5 Budgetary Process

In terms of Article 202 of the Constitution of India, the Governor of Andhra Pradesh caused to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State for the year 2019-20, in the form of an **Annual Financial Statement** as a part of Budgetary Process.

In terms of Article 203, the above was submitted to the State Legislature in the form of 40 Demands for Grants/Appropriations and after approval of these, the Appropriation Bill was passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund.

As mentioned in **Paragraph 1.2 ante**, the Finance Accounts and Appropriation Accounts encompass the core data for preparation of the SFAR. These Accounts are based on actual receipts and expenditure of the State during the year 2019-20, including various inter-governmental and other adjustments carried out by the Reserve Bank of

India (RBI). Considering that these receipts and expenditure are estimated in the budget and the expenditure has been approved by the State Legislature, it is important to study the budget of the State for 2019-20 closely and analyse the actual receipts and expenditure during the year with reference to the projections made in the budget.

1.6 Snapshot of Finances of the State

The following table provides the details of actual financial position *vis-à-vis* Budget Estimates for the year 2019-20 and actuals of 2018-19. The time series data of Finances of the State is given in *Appendix 1.2*.

Table 1.2: Snapshot of Finances of the State

(₹ in crore)					
Sl. No	Components	2018-19	2019-20		Percentage of Actual to GSDP (in per cent)
		Actual	BE	Actual (Percentage of Actual to B.E.)	
1	Tax Revenue	58,031	75,438	57,601 (76.36)	5.92
2	Non-Tax Revenue	4,396	7,355	3,315 (45.07)	0.34
3	Share of Union taxes/duties	32,787	34,833	28,242 (81.08)	2.90
4	Grants-in-aid from GoI	19,457	61,072	21,876 (35.82)	2.25
5	Revenue Receipts (1+2+3+4)	1,14,671	1,78,697	1,11,034 (62.14)	11.41
6	Recovery of Loans and Advances	277	600	4,355 (725.83)	0.45
7	Other Receipts	0	0	0	0.00
8	Borrowings and other Liabilities (a)	35,467	35,261	39,687 (12.55)	5.38
9	Capital Receipts (6+7+8)	35,744	35,861	44,042 (22.81)	5.82
10	Total Receipts (5+9)	1,50,415	2,14,558	1,55,076 (72.28)	15.94
11	Revenue Expenditure, of which	1,28,570	1,80,476	1,37,475 (76.17)	14.13
12	Interest payments	15,342	17,244	17,653 (102.37)	1.81
13	Grant in Aid for creation of capital assets	3,301	2,018	655 (32.46)	0.07
14	Capital Expenditure, of which	21,819	34,082	17,598 (51.63)	1.81
15	Capital outlay	19,976	32,293	12,242 (37.91)	1.26
16	Loans and advances	1,843	1,789	5,356 (299.39)	0.55
17	Inter State Settlement	26	0	3	0.00
18	Total Expenditure (11+14+17)	1,50,415	2,14,558	1,55,076 (72.28)	15.94
19	Revenue Deficit (5-11)	-13,899	-1,779	-26,441 (1486.28)	2.72
20	Effective Revenue Deficit / Surplus (19-13)	-10,598	239	-25,786 (11019.70)	2.65
21	Fiscal Deficit {18-(5+6+7)}	-35,467	-35,261	-39,687 (12.55)	4.08
22	Primary Deficit (21-12)	-20,125	-18,017	-22,034 (122.30)	2.27

(a) Borrowings and other Liabilities: Net (Receipts-Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts - Disbursements) of Public Account + Net of Opening and Closing Cash Balance.

(b) Expenditure on Capital Account includes Capital Expenditure and Loans and Advances disbursed

The increase in the Revenue, Fiscal and Primary deficits of the State as compared to budget estimates, despite the expenditure being lower than the estimates, was primarily due to decrease in receipt of grants-in-aid from GoI by 64.18 per cent than budgeted, as detailed in **Table 1.3**.

Table 1.3: Budget and Actual receipts from GoI for major schemes during 2019-20

(₹ in crore)			
Name of the Scheme/Grant	Budget Estimates	Actual Receipt	Difference
Polavaram Project	11,677.00	1,780.00	9,897.00
Sardar Patel Urban Housing Scheme	2,252.85	78.07	2,174.78
Externally Aided projects	9,766.06	1.29	9,764.77
Revenue Deficit grant for 2014-15	12,099.50	0	12,099.50
TOTAL	35,795.41	1,859.36	33,936.05

Source: Finance Accounts 2019-20 and Budget Estimates 2019-20

XIV FC has decided the amounts to be released as Revenue Deficit Grant in its report of 2014-15. Budgeting more than the amount already fixed by XIV Finance Commission, on the basis of data made available to the XIV FC by the State Government, shows lack of awareness on the part of the State Government. Similar is the case with all the other items listed in **Table 1.3**.

1.7 Snapshot of Assets and Liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from Public Account and Reserve Funds, and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

The Summarised position of Assets and Liabilities of the Government is given in **Table 1.4**:

Table 1.4: Summarised position of Assets and Liabilities of the State

Liabilities				Assets					
	2018-19 (₹ in crore)	2019-20 (₹ in crore)	Increase /Decrease (in per cent)		2018-19 (₹ in crore)	2019-20 (₹ in crore)	Increase /Decrease (in per cent)		
Consolidated Fund									
A	Internal Debt	1,83,274	2,15,617	17.65	a	Gross Capital Outlay	2,20,652	2,32,894	5.55
B	Loans and Advances from GoI	10,223	10,943	7.04	b	Loans and Advances	31,768	32,769	3.15
	Contingency Fund	50	50	0.00		Contingency Fund	0	0	0.00
Public Account									
A	Small Savings, Provident Fund etc.,	15,730	16,745	6.45	a	Advances	31	31	0.00
B	Deposits	45,600	54,570	19.67	b	Remittances	554	611	10.29
C	Reserve Funds	11,044	13,002	17.73	c	Suspense and Miscellaneous	268	236	-11.94

Liabilities					Assets			
		2018-19 (₹ in crore)	2019-20 (₹ in crore)	Increase /Decrease (in per cent)		2018-19 (₹ in crore)	2019-20 (₹ in crore)	Increase /Decrease (in per cent)
D	Remittances	0	0	--	Cash Balance (including investment in Earmarked Funds)	8,389	14,694	75.16
					Total	2,61,662	2,81,235	7.48
					Deficit in Revenue Account	4,259	30,702	620.87
	TOTAL	2,65,921	3,11,937	17.30	TOTAL	2,65,921	3,11,937	17.30

Source: Finance Accounts of respective years

1.8 Fiscal Balance: Achievement of Deficit and total debt targets

The State Government has passed Fiscal Responsibility and Budget Management Act (FRBM) in the year 2012 with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit and overall/ outstanding debt to acceptable level, establishing improved debt management and improving transparency in a medium term framework. In this context, the Act provides quantitative targets to be adhered to by the State with regard to deficit measures and debt level.

1.8.1 AP FRBM targets on key Fiscal Parameters

Government of Andhra Pradesh amended the State FRBM Act in December 2020 which was deemed to have come into force with effect from 30 August 2020. The projections on fiscal parameters were however, amended by Government of Andhra Pradesh retrospectively with effect from the financial years 2015-16 to 2019-20. Further, the targets prescribed in the amended FRBM Act were at variance with the projections made by XIV Finance Commission for fiscal balance.

State Government stated that the State's economy changed structurally due to bifurcation in 2014-15, which led to Andhra Pradesh becoming a revenue deficit state. It was further stated that the State could not meet the XIV FC targets for this reason and in the new circumstances post bifurcation, it was felt necessary to set targets that were appropriate to overcome the constraints.

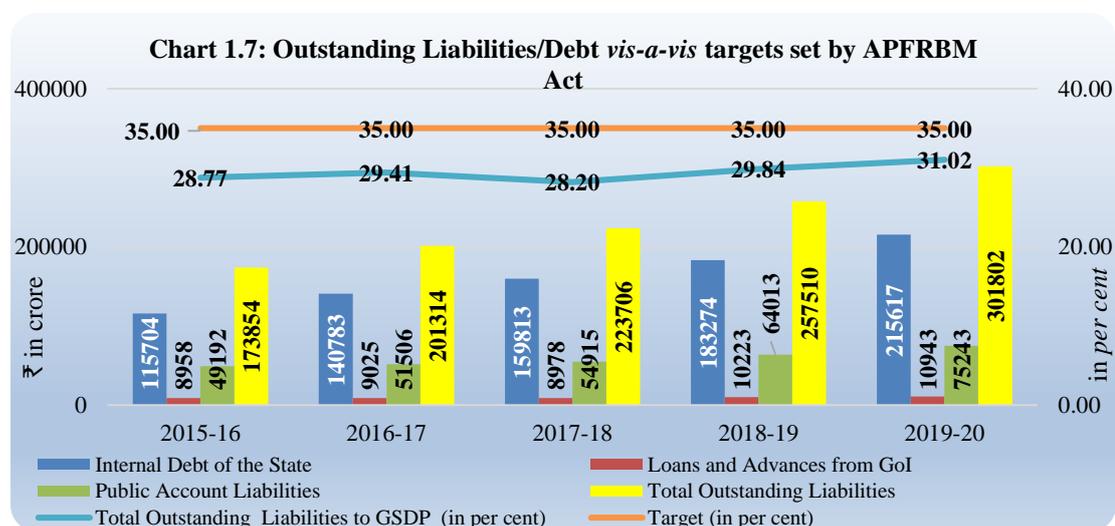
The response of the State Government is not acceptable, as the fiscal projections, by their very nature, are generally for future years. Clearly, the Government of Andhra Pradesh amended the FRBM Act relating to the targets for the five-year period 2015-16 to 2019-20 retrospectively, during December 2020 to showcase that the State managed to keep the vital fiscal parameters within the ceilings prescribed under APFRBM Act 2020 as can be seen from the details of compliance of key fiscal indicators with the targets set in the revised APFRBM Act, 2020 as shown in **Table 1.5**.

Table 1.5: Compliance with provisions of APFRBM Act

Fiscal Parameters	Fiscal projections as per XIV FC	Fiscal projections set in revised FRBM Act	Achievement (₹ in crore)				
			2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Deficit (-) / Surplus (+) (as percentage of GSDP)	Revenue Surplus	2.5 per cent of GSDP	-7,302 (-1.21)	-17,231 (-2.52)	-16,152 (-2.04)	-13,899 (-1.61)	-26,441 (-2.72)
			✓	✗	✓	✓	✗
Fiscal Deficit (-)/ Surplus (+) (as percentage of GSDP)	Three per cent of GSDP	Five per cent of GSDP	-22,057 (-3.65)	-30,908 (-4.52)	-32,381 (-4.08)	-35,467 (-4.11)	-39,687 (-4.08)
			✓	✓	✓	✓	✓
Ratio of total outstanding liabilities to GSDP (in per cent)	Less than 25.22 per cent of GSDP	35 per cent of GSDP	28.77	28.86	27.63	27.59	31.02
			✓	✓	✓	✓	✓

Revenue Deficit of the State during the years 2016-17 and 2019-20 was more than the targets envisaged in APFRBM Act, 2020 and the remaining fiscal parameters were within the targets set in FRBM Act 2020. The ratio of Fiscal Deficit to GSDP and Outstanding liabilities to GSDP were in compliance with the APFRBM targets only due to retrospective amendment of FRBM Act.

The details of outstanding liabilities and their ratio to GSDP *vis-à-vis* the revised APFRBM targets are depicted in *Chart 1.7*.



Source: Finance Accounts; XIV FC report (targets)

The outstanding debt of the State displayed an increasing trend during the five-year period 2015-20 with ₹ 1,73,854 crore during 2015-16 increasing to ₹ 3,01,802 crore during 2019-20 (an increase of 73.60 per cent).

Public Debt (Internal Debt and Loans and Advances from GoI) of the composite State of Andhra Pradesh was ₹ 1,66,522.32 crore as of 01 June 2014. Post bifurcation of the State with effect from 2 June 2014, the residual state of Andhra Pradesh was allocated a debt of ₹ 97,123.93 crore on population basis (58.32:41.68 ratio between AP and

Telangana). Consequently, as can be seen from the above chart, the Public Debt has increased and stood at ₹ 2,15,617 crore as of end of March 2020 (an increase of 122 per cent over that of 2014-15).

A comparison of the major fiscal variables of the State with the targets set under State's Medium Term Fiscal Policy Statement (MTFPS) is given in **Table 1.6**.

Table 1.6: Actuals vis-à-vis projection in MTFP for 2019-20

(₹ in crore)

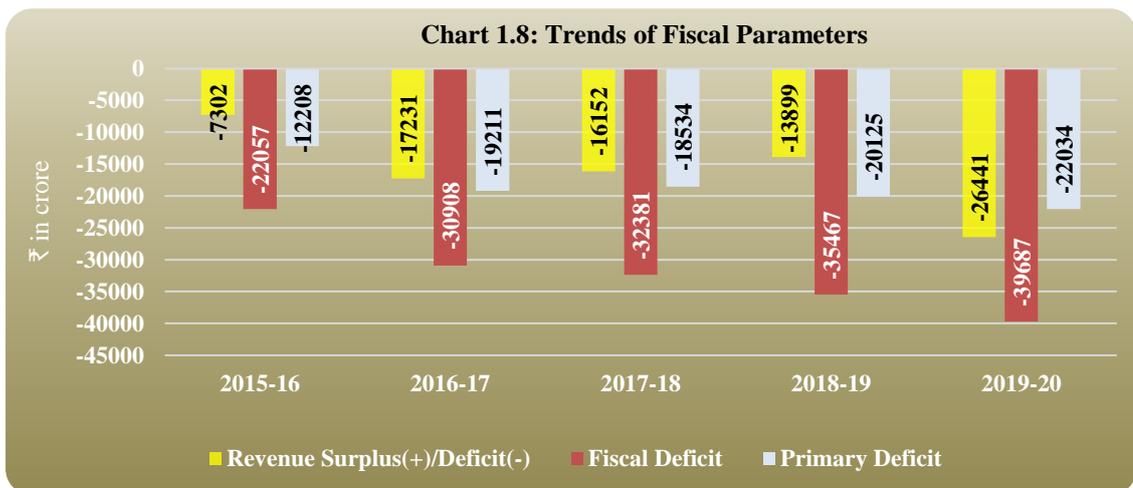
Sl. No.	Fiscal Variables	Projection as per MTFPS	Actuals (2019-20)	Variation (in per cent)
1	Own Tax Revenue	57,447	57,601	0.27
2	Non-Tax Revenue	3,324	3,315	-0.27
3	Share of Central Taxes	28,224	28,242	0.06
4	Grants -in-aid from GoI	21,876	21,876	0.00
5	Revenue Receipts (1+2+3+4)	1,10,871	1,11,034	0.15
6	Revenue Expenditure	1,37,518	1,37,475	-0.03
7	Revenue Deficit (-)/ Surplus (+) (5-6)	-26,647	-26,441	-0.77
8	Fiscal Deficit (-)/ Surplus (+)	-40,493	-39,867	-1.55
9	Debt-GSDP ratio (per cent)	25.22	31.02	23.00
10	GSDP growth rate at current prices (per cent)	12.73	12.73	0.00

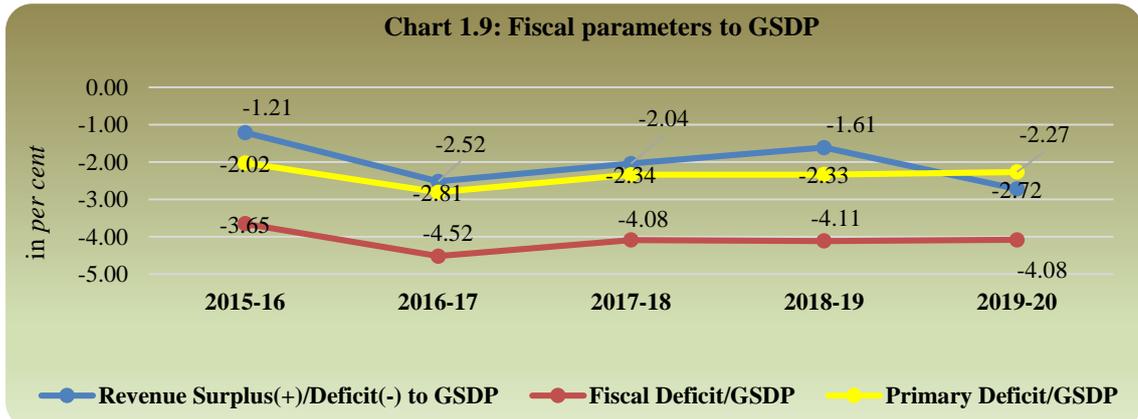
Source: Finance Accounts and MTFPS of the State of Andhra Pradesh 2019-20; *Note:* MTFPS for 2019-20 was placed in legislature during the budget session of 2020-21 based on the Revised Estimates of 2019-20.

The MTFPS was prepared during December 2020 based on the Revised Estimates of 2019-20. Therefore, the actuals of the above parameters were close to the projections made in the MTFPS. However, as shown in **Table 1.2**, there were huge variations in these parameters vis-à-vis Budget Estimates.

1.8.2 Trends of Deficit/Surplus

The trends of Deficit/Surplus and its percentage in GSDP of the State for the years 2015-16 to 2019-20 are shown in *Charts 1.8* and *1.9*.





Source: Finance Accounts of respective years; **Note:** Deficits for the year 2016-17 includes an amount of ₹ 8,256 crore expended towards implementation of UDAY scheme

There was a mixed trend in the Revenue, Fiscal and Primary Deficits during the last five years. The increase in Revenue Deficit during 2016-17 when compared to 2015-16 was mainly due to the expenditure incurred towards takeover of loans of DISCOMs as per the guidelines of Ujwal DISCOMs Assurance Yojana (UDAY) Scheme.

As a percentage to GSDP, the trends in deficits had witnessed a mixed trend during the period 2015-20 with highest recorded during 2016-17 and lowest in 2015-16. The ratio of Fiscal Deficit to GSDP during the year 2019-20 increased to 4.08 per cent from 3.80 per cent during 2018-19 although the GSDP has also increased, primarily due to huge increase in Revenue Deficit in 2019-20 to the tune of ₹ 12,542 crore (90.24 per cent) over 2018-19.

Audit observations with regard to the deficits indicated in **Chart 1.8** above are as follows:

1.8.2.1 Revenue Deficit

The XIV FC assessed the post-devolution Revenue Deficit and sanctioned ₹ 22,112 crore of Revenue Deficit grant for the period 2015-20 in order to eliminate the projected Revenue Deficit.

The details of post-devolution Revenue Deficit Grant (PDRDG) received and Revenue Deficit for the years 2015-16 to 2019-20 are given in **Table 1.7**.

Table 1.7: Revenue Deficit - Actuals vis-à-vis Targets for the years 2015-20

(₹ in crore)

Year	Projections of Revenue Deficit made in Macro Economic Framework Statement	Revenue Deficit projected by XIV FC	PDRDG received as per the recommendations of XIV FC	Revenue Deficit (After receipt of Post- devolution Grant)
2015-16	4,140	6,609	6,609	7,302
2016-17	4,598	4,930	4,930	17,231*
2017-18	4,018	4,430	4,430	16,152
2018-19	11,654	3,644	3,644	13,899
2019-20	26,647	2,499	2,499	26,441

Source: Finance Accounts of respective years, XIV FC report; Macro Economic Framework Statement (MEFS)

*Including an amount of ₹ 8,256 crore expended towards implementation of UDAY scheme during 2016-17;

The State failed to contain the Revenue Deficit during 2015-20 despite the receipt of post-devolution Revenue Deficit Grants from GoI as per the recommendations of XIV FC.

Revenue Deficit as a percentage of Total Revenue Receipts (TRR)¹ increased from 12.12 per cent in 2018-19 to 23.81 per cent during 2019-20. Further, it also increased by 90.24 per cent when compared to 2018-19. Revenue Deficit during 2019-20 (₹ 26,441 crore) was substantially higher than the Budget Estimates (₹ 1,779 crore) projected by the State Government due to the introduction of new schemes like “Amma Vodi (₹ 6,349.47 crore)” and “YSR Nine Hours free supply (₹ 4,919.84 crore)” during 2019-20 and a decrease in State’s Own Revenue (₹ 1,511 crore) over the previous year. Consequently, Revenue Deficit increased during 2019-20 over the previous year.

Thus, the State Government’s failure to assess its revenues realistically and not containing the Revenue Expenditure resulted in continued increase in Revenue Deficit, despite receipt of post-devolution Revenue Deficit grant from GoI.

1.8.3 Components of fiscal deficit and its financing pattern

The components and financing patterns of fiscal deficit are shown in **Table 1.8**.

Table 1.8: Components of fiscal deficit and its financing pattern

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20		
					Receipts	Disbursements	Net
Components of Fiscal Deficit (1 to 4)	(-)22,057	(-)30,908*	(-)32,381	(-)35,467	1,15,389	1,55,076	-39,687
Revenue deficit	(-)7302	(-)17,231*	(-)16,152	(-)13,899	1,11,034	1,37,475	-26,441
Net Capital Expenditure	(-)14,171	(-)15,143	(-)13,491	(-)19,976	0	12,242	-12,242
Net Loans and Advances	(-)389	1,465	(-)2,730	(-)1,566	4,355	5,356	-1,001
Net Inter-State settlement	(-)195	1	(-)8	(-)26	0	3	-3
Financing Pattern of Fiscal Deficit							
Net Public Debt[#]	15,236	25,146	18,982	24,706	1,12,428	79,366	33,062
Net Public Account	11,078	7,522	9,973	12,628	1,95,579	1,82,650	12,929
Small Savings, PF etc.	1,253	1,888	1,643	2,221	4,110	3,094	1,015
Reserve Funds	947	1,296	728	2,181	3,655	1,698	1,957
Deposits and Advances	8,570	4,597	4,608	10,160	97,490	88,520	8,970
Suspense and Misc.	(-) 128	(-) 98	337	(-)69	90,315	89,272	1,043
Remittances	436	(-) 161	2,657	(-)1,865	9	65	-57
Contingency Fund	0	0	0	0	9	9	0
Increase/Decrease in Cash Balance	(-) 4,259	(-) 1,760	3,426	(-)1,867	8,389	14,693	(-)6,304
Total (1 to 4)	22,057	30,908*	32,381	35,467	-	-	39,687

Source: Finance Accounts of respective years. [#] Includes borrowings from other Institutions and Ways and Means Advances. * Includes an amount of ₹8,256 crore expended towards implementation of UDAY scheme

Borrowed funds used for meeting revenue expenditure create liability for future years without creating any assets. It is evident that in 2019-20, 80 per cent of borrowings were

¹ Revenue Deficit to Total Revenue Receipts during 2019-20 = (26441/111034)*100 = 23.81 per cent
Revenue Deficit to Total Revenue Receipts during 2018-19 = (13899/114671)*100 = 12.12 per cent

used to finance the deficit on Revenue account, thereby, impeding asset creation in the State. Net receipts under Public Account during the year (₹ 12,929 crore) financed 32.58 per cent of the fiscal deficit when compared to 35.61 per cent during the previous year.

1.8.4 Deficits after examination in Audit

Misclassification of revenue expenditure as capital and off budget fiscal operations impact deficit figures. During the year 2019-20, the State Government misclassified minor works and grants-in-aid amounting to ₹ 1,007.74 crore and revenue expenditure amounting to ₹ 3,371.60 crore under capital section, leading to an overall understatement of Revenue Deficit by ₹ 4,379.34 crore as detailed below.

Table 1.9: Understatement of Revenue Deficit and Fiscal Deficit

Particulars	(₹ in crore)	
	Impact on Revenue Deficit (Understated (+) / overstated(-))	
Minor works and Grants-in-Aid budgeted/ booked under Capital Section instead of Revenue	(+)	1,007.74
Misclassification of revenue expenditure as capital expenditure	(+)	3,371.60
Total	(+)	4,379.34

Source: Finance Accounts;

Effectively, therefore, there was a Revenue Deficit of ₹ 30,820.11 crore (₹ 26,440.77 crore plus ₹ 4,379.34 crore). The effective Revenue Deficit was 3.17 per cent of GSDP instead of 2.72 per cent shown in the accounts.

1.8.5 Post audit – Total Public Debt

Various Government entities have obtained loans to the extent of ₹ 26,096.98 crore as of end of March 2020 on behalf of the State Government. These are in the nature of off-budget borrowings (OBB) by the Government and the latter has provided guarantees for these loans. Since these borrowings did not form part of the borrowings of the Government directly, these were not included in the Public Debt of the State Government in the Finance Accounts; nor did these figure in calculation of Fiscal Deficit of the State. To that extent, the Public Debt of the State and consequently, its Fiscal Deficit for the year stands understated.

Fiscal Deficit of the State would increase to ₹ 65,784 crore if the OBBs of ₹ 26,096.98 crore are taken in to consideration, and FD would constitute 6.76 per cent of GSDP. The details of OBBs are given in Paragraph 2.7.4 of Chapter 2 and in **Appendix 1.3**.

1.9 Conclusion

State Government amended the APFRBM Act in December 2020 which was deemed to have come into force with effect from 30 August 2020. The projections on fiscal parameters were however, amended by Government of Andhra Pradesh retrospectively with effect from the financial years 2015-16 to 2019-20. Further, the targets prescribed

in the amended FRBM Act were at variance with the projections made by XIV Finance Commission for fiscal balance.

The fiscal parameters of the State as reflected in its Revenue, Fiscal and Primary Deficits, were negative throughout the five-year period 2015-20. There were instances of misclassification of revenue transactions under capital section and non-accountal of other liabilities, which would have pushed up the Deficits to a further extent, as brought out in the Report, as well as in the State Finances Audit Report of the CAG over the last few years.

Although the outstanding liabilities were within the targets of the revised APFRBM Act, these would be way above the targets, if the liabilities of the State Government with regard to its extra-budgetary borrowings are taken in to account. The liabilities of the State have been increasing year-on-year and over 80 per cent of the borrowings during the year 2019-20 were utilised to balance Revenue Account of the State affecting the asset creation in the State.