

2.1 Introduction

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 five-year period 2016-17 to 2020-21, debt sustainability of the State and key Public Account transactions based on the Finance Accounts of the State.

2.2 Major changes in key fiscal aggregates during 2020-21 vis-à-vis 2019-20

This section gives a bird's eye view of the major changes in key fiscal aggregates of the State during the financial year in comparison to the previous year. Each of these indicators would be analysed in the succeeding paragraphs.

Table 2.1: Changes in key fiscal aggregates in 2020-21 compared to 2019-20

Revenue Receipts	<ul style="list-style-type: none"> ✓ Revenue receipts of the State increased by 5.50 per cent ✓ Own tax receipts of the State decreased by 0.33 per cent ✓ Own non-tax receipts increased by 2.41 per cent ✓ State's share of Union Taxes and Duties decreased by 13.39 per cent ✓ Grants-in-Aid from Government of India increased by 45.69 per cent
Revenue Expenditure	<ul style="list-style-type: none"> ✓ Revenue expenditure increased by 11.06 per cent ✓ Revenue expenditure on General Services increased by 8.33 per cent ✓ Revenue expenditure on Social Services decreased by 3.10 per cent ✓ Revenue expenditure on Economic Services increased by 56.11 per cent ✓ Expenditure on Grants-in-Aid increased by 25.00 per cent
Capital Expenditure	<ul style="list-style-type: none"> ✓ Capital expenditure increased by 55.00 per cent ✓ Capital expenditure on General Services increased by 73.19 per cent ✓ Capital expenditure on Social Services increased by 153.21 per cent ✓ Capital expenditure on Economic Services increased by 13.02 per cent
Loans and Advances	<ul style="list-style-type: none"> ✓ Disbursement of Loans and Advances decreased by 67.98 per cent ✓ Recoveries of Loans and Advances decreased by 75.59 per cent
Public Debt	<ul style="list-style-type: none"> ✓ Public Debt Receipts increased by 44.07 per cent ✓ Repayment of Public Debt increased by 49.02 per cent
Public Account	<ul style="list-style-type: none"> ✓ Public Account Receipts increased by 40.91 per cent ✓ Disbursement of Public Account increased by 46.91 per cent
Cash Balance	<ul style="list-style-type: none"> ✓ Cash balance decreased by ₹ 4,199 crore (28.60 per cent) during 2020-21 compared to the previous year

2.3 Sources and Application of Funds

Table 2.2 compares the sources and application of funds of the State during 2020-21 with 2019-20 figures.

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

(₹ in crore)

	Particulars	2019-20	2020-21	Increase/ Decrease (in per cent)
Sources	Opening Cash Balance with RBI	8,389	14,691*	75.12
	Revenue Receipts	1,11,034	1,17,136	5.50
	Recoveries of Loans and Advances	4,355	1,063	-75.59
	Public Debt Receipts (Net)	33,062	43,700	32.18
	Public Account Receipts (Net)	12,929	7,268	-43.79
	Total	1,69,769	1,83,858	8.30
Application	Revenue Expenditure	1,37,475	1,52,677	11.06
	Capital Expenditure	12,242	18,975	55.00
	Disbursement of Loans and Advances	5,356	1,715	-67.98
	Inter State Settlement	3	0	-100.00
	Closing Cash Balance with RBI	14,693	10,491	-28.60
	Total	1,69,769	1,83,858	8.30

Source: Finance Accounts 2020-21; *OB differs from CB due to Proforma correction of ₹ 2.90 crore

The components of sources and application of funds in terms of percentage are shown in **Charts 2.1** and **2.2**.

Chart 2.1: Sources of Funds

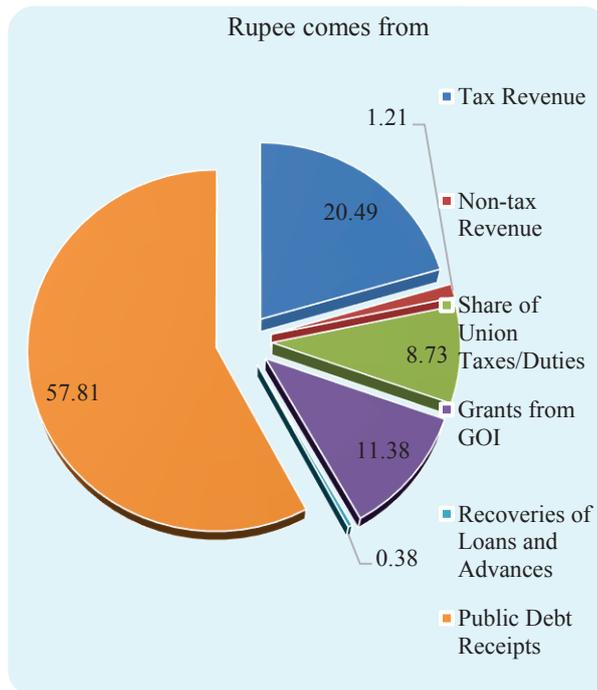
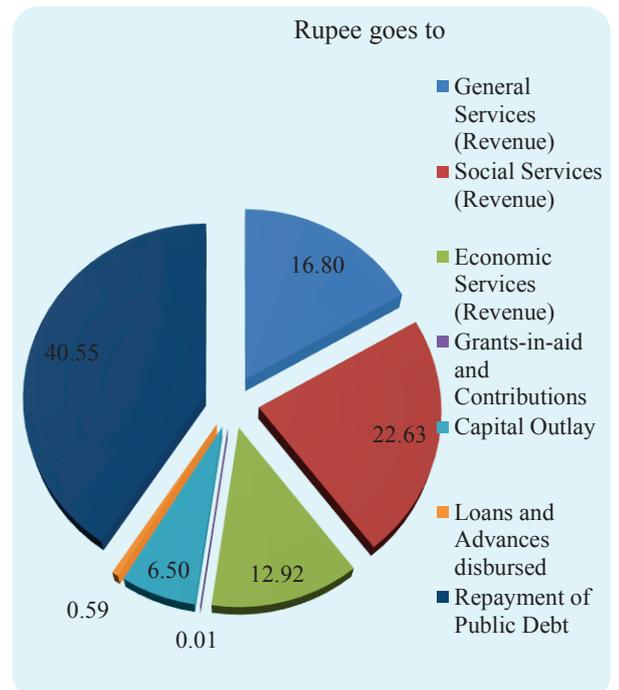


Chart 2.2: Application of Funds

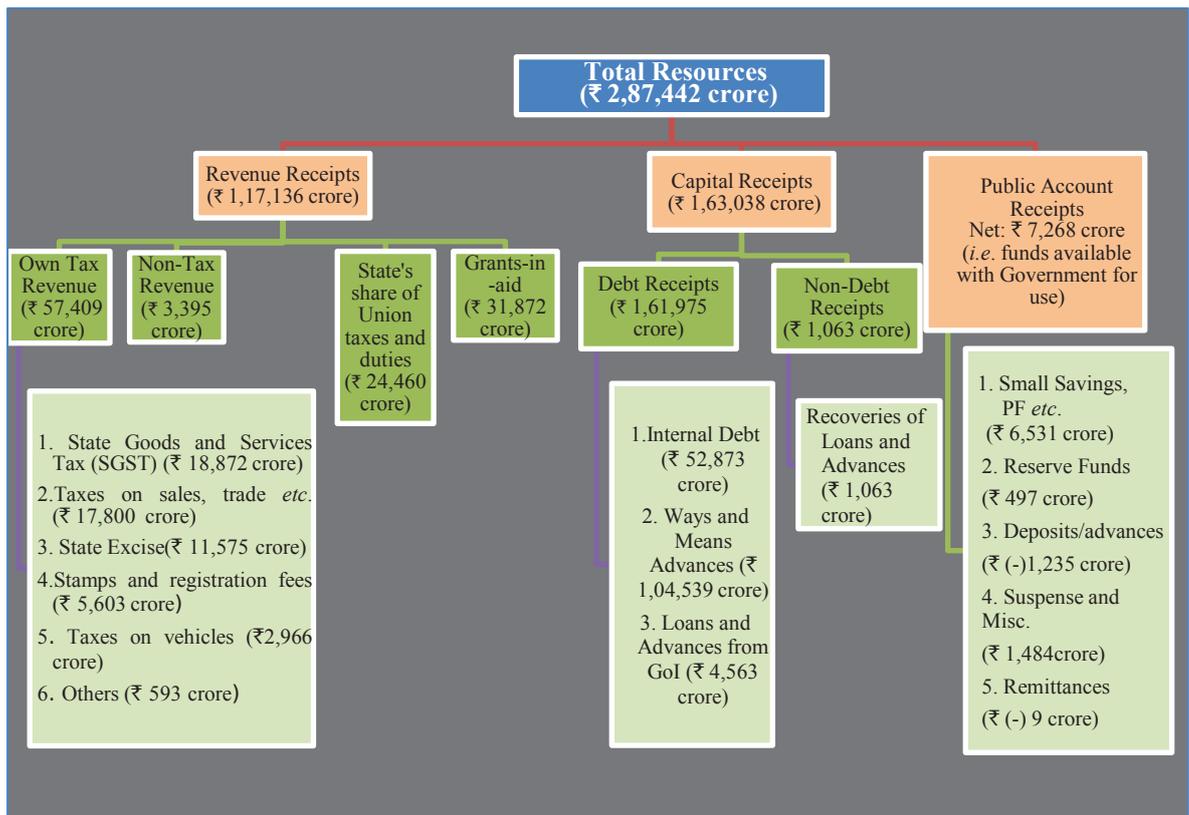


Source: Finance Accounts 2020-21

2.4 Resources of the State

The components and sub-components of resources of the State are given in **Chart 2.3**.

Chart 2.3: Composition of Resources in 2020-21



Source: Finance Accounts 2020-21

Note: Debt Receipts include an amount of ₹ 1,04,539 crore availed as Ways and Means Advances/Special Drawing Facility/Overdraft

Out of the total resources of ₹ 2,87,442 crore of the State Government during the year 2020-21, Revenue Receipts (₹ 1,17,136 crore) constituted 40.75 per cent. Capital Receipts (₹ 1,63,038 crore) and net Public Account Receipts (₹ 7,268 crore) constituted 56.72 per cent and 2.53 per cent of the total resources, respectively.

2.4.1 Revenue Receipts

Statement 14 of the Finance Accounts gives details of Revenue Receipts of the Government. Revenue Receipts (₹ 1,17,136 crore) of the State increased by ₹ 6,102 crore (5.50 per cent) over the previous year (₹ 1,11,034 crore) and constituted 11.87 per cent of GSDP (₹ 9,86,611 crore).

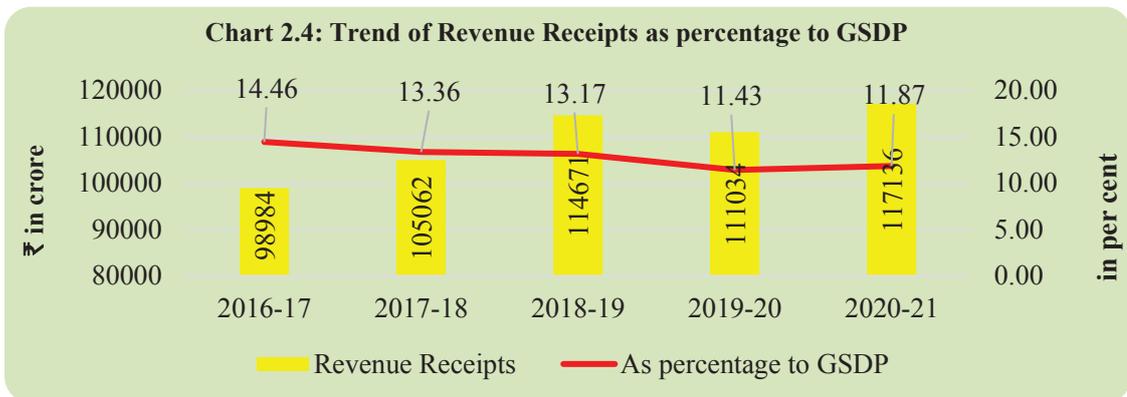
Table 2.3 provides the trends and growth of Revenue Receipts as well as revenue buoyancy with respect to GSDP over the five-year period 2016-21. Further, trends in Revenue Receipts relative to GSDP and composition of Revenue Receipts are given in **Charts 2.4** and **2.5** respectively.

Table 2.3: Trends in Revenue Receipts

Parameters	2016-17	2017-18	2018-19	2019-20	2020-21
Revenue Receipts (RR) (₹ in crore)	98,984	1,05,062	1,14,671	1,11,034	1,17,136
Rate of growth of RR (per cent)	11.66	6.14	9.15	-3.17	5.50
Own Tax Revenue	44,181	49,486	58,031	57,601	57,409

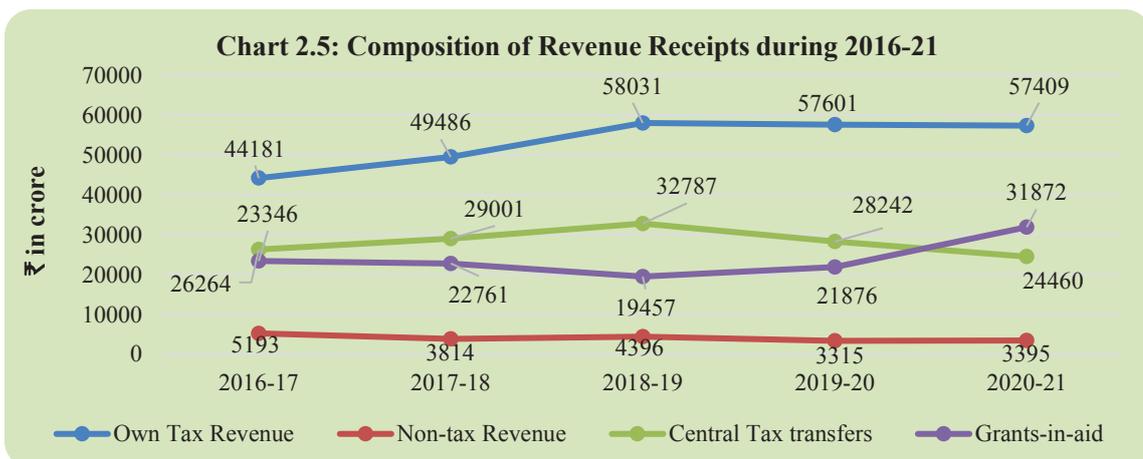
Parameters	2016-17	2017-18	2018-19	2019-20	2020-21
Non-Tax Revenue	5,193	3,814	4,396	3,315	3,395
Rate of growth of Own Revenue (Own Tax and Non-tax Revenue) (per cent)	10.14	7.95	17.12	-2.42	-0.18
Gross State Domestic Product (₹ in crore) (2011-12 Series)	6,84,416	7,86,135	8,70,849	9,71,224	9,86,611
Rate of growth of GSDP (per cent)	13.27	14.86	10.78	11.53	1.58
RR/GSDP (per cent)	14.46	13.36	13.17	11.43	11.87
Buoyancy Ratios⁴					
Revenue Buoyancy w.r.t GSDP	0.88	0.41	0.85	-0.27	3.48
State's Own Revenue Buoyancy w.r.t GSDP	0.76	0.53	1.59	-0.21	-0.11

Source: Finance Accounts of respective years



Source: Finance Accounts of respective years

During the period 2016-21, Revenue Receipts of the State Government displayed an increasing trend, although receipts decreased during 2019-20. In terms of percentage to GSDP, Revenue Receipts of the State was on decreasing trend except during the year 2020-21, where the receipts as percentage to GSDP has been increased marginally from 11.43 per cent during 2019-20 to 11.87 per cent in 2020-21.



Source: Finance Accounts of respective years

⁴ 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 with respect to GSDP at 1.85 implies that Revenue Receipts tend to increase by 1.85 percentage points, if the GSDP increases by one per cent.

General trends relating to Revenue Receipts of the State are as follows:

1. Revenue Receipts increased by 18.34 *per cent* from ₹ 98,984 crore in 2016-17 to ₹ 1,17,136 crore in 2020-21. Receipts under Revenue Account have increased by 5.50 *per cent* during 2020-21 over those of the previous year. Marginal decrease in Own Tax Revenue has been offset by increase in Non-Tax Revenue and Central transfers resulting in overall increase of Revenue Receipts.
2. The share of State's own tax revenue in Revenue Receipts has increased during the period 2016-21. State's own tax revenue was the major contributor to Revenue Receipts for the past five years, accounting for more than 40 *per cent* of receipts during the past two years.
3. There was a wide fluctuation in the revenue and own tax buoyancy of the State. There was positive buoyancy under Revenue Receipts during the years 2016-17 to 2018-19 and 2020-21 with the highest buoyancy during 2020-21 due to marginal growth in GSDP comparable to Revenue Receipts. The negative buoyancy in Own Tax Revenue during the years 2019-20 and 2020-21 was mainly due to decrease in State's Own Revenue.

Table 2.4 highlights the cases of significant increase or decrease in various Revenue Heads of Account during 2020-21 *vis-à-vis* the previous year.

Table 2.4: Revenue Receipts during 2020-21 compared to 2019-20

Major Heads of Accounts	2019-20 (₹ in crore)	2020-21	Increase (+)/ Decrease (-) (in <i>per cent</i>)
1601-Grants-in-Aid and contributions	21,875.96	31,871.91	45.69
0039-State Excise	6,914.75	11,575.07	67.40
0040-Taxes on Sales, Trade etc.	21,409.70	17,800.15	-16.86
0020-Corporation Tax	9,629.54	7,412.80	-23.02
0006-State Goods and Services Tax (SGST)	20,227.04	18,871.35	-6.70
0005-Central Goods and Services Tax (CGST)	8,014.29	7,223.87	-9.86
0037-Customs	1,790.19	1,269.78	-29.07
0038-Union Excise Duties	1,244.60	817.76	-34.30
0041-Taxes on Vehicles	3,278.75	2,966.01	-9.54
0202-Education, Sports, Art and Culture	147.33	18.73	-87.29

The huge increase under Major Head 1601 – Grants-in-Aid was due to increase in grants provided by Government of India mainly under Revenue Deficit Grant (increased by ₹ 3,398.04 crore), Grants to Rural Local Bodies (increased by ₹ 1,754.77), Grants to cover loss of revenue arising out of implementation of GST (increased by ₹ 1,686.65 crore) and State Disaster Response Fund (increased by ₹ 794.85 crore). The increase under Major Head – 0039 – State Excise was mainly due to increase in sales of foreign liquors and spirits by ₹ 4,249.52 crore and newly introduced Additional Retail Excise Tax (ARET)⁵ on sale of foreign liquor.

⁵ Additional Retail Excise Tax was introduced by the State Government vide G.O.No.422 dated 30.09.2019 and the rates were revised vide G.O. 273 dated 18-09-2020.

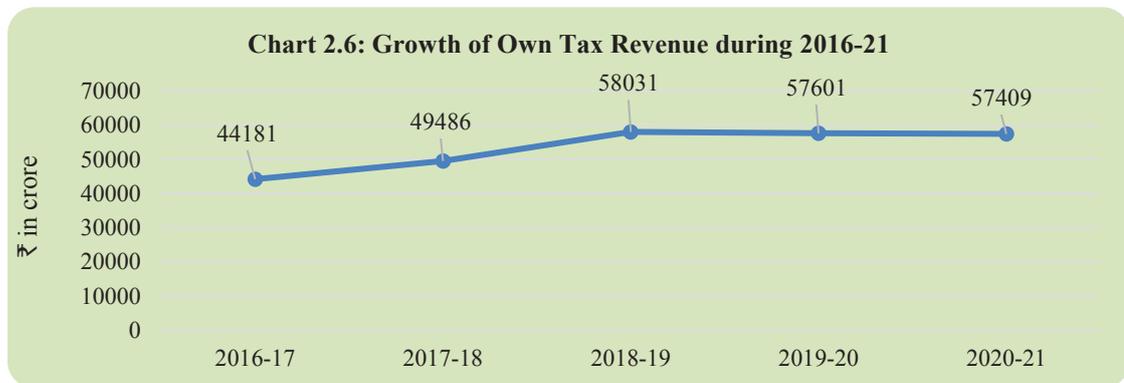
COVID-19 Pandemic resulted in the economic slowdown in the country that led to the decrease in receipts under tax and non-tax revenue when compared to previous year.

2.4.1.1 State's Own Resources

State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

A. Own Tax Revenue

Own tax revenues of the State consist of State GST, State excise, taxes on vehicles, stamp duty and registration fees, land revenue, taxes on goods and passengers, etc. Own tax revenue (OTR) during the year was ₹ 57,409 crore and constituted 49.01 per cent of the Revenue Receipts (₹ 1,17,136 crore). SGST was the major contributor to OTR with a share of 32.87 per cent. The trends of growth of OTR during 2016-21 is shown in **Chart 2.6** and the major taxes and duties which contributed to OTR during 2016-21 are given in **Table 2.5**.



Source: Finance Accounts of respective years

Table 2.5: Components of State's Own Tax Revenue

	(₹ in crore)					
	2016-17	2017-18	2018-19	2019-20	2020-21 (BE)	2020-21 (ACTUALS)
State Goods and Services Tax (SGST)	-	10,820	20,611	20,227	25,604	18,872
Taxes on Sales, trades etc.	32,484	25,335	21,914	21,410	25,743	17,800
State Excise	4,645	5,460	6,220	6,915	7,931	11,575
Taxes on Vehicles	2,467	3,039	3,341	3,279	4,463	2,966
Stamp duty and Registration fees	3,476	4,271	5,428	5,318	6,337	5,603
Land Revenue	167	107	57	21	32	143
Taxes on Goods and Passengers	12	5	26	36	41	25
Other Taxes ⁶	930	449	434	395	528	425
Total	44,181	49,486	58,031	57,601	70,679	57,409

Source: Finance Accounts of respective years;

During the period 2016-21, State Goods and Services Tax (SGST), Taxes on Sales, trades and State Excise were the major contributors to OTR of the State with more than 84 per cent share.

Own Tax revenue during the year 2020-21 has been marginally decreased by ₹192 crore

⁶ Other Taxes include Taxes on Immovable Property other than Agricultural Land, Taxes and Duties on Electricity and Agricultural Income

(0.33 per cent) over the previous year. The decrease was mainly under (a) State Goods and Services Tax (SGST) by ₹ 1,355 crore (6.70 per cent) and (b) Taxes on Sales, Trades etc. by ₹ 3,610 crore (16.86 per cent). The rise of 67.39 per cent (₹ 4,660 crore) in receipts under State Excise compensated the decrease which occurred under SGST and Taxes on sales, trade. The sudden increase in receipts under State Excise was mainly due to introduction of Additional Retail Excise Tax (ARET) by the State Government.

(i) Goods and Services Tax (GST)

State Government implemented Andhra Pradesh Goods and Services Tax (GST) Act with effect from 01 July 2017. The GST has four components viz., (i) GST receipts by the Centre (i.e., Central GST or CGST); (ii) GST receipts by the State (i.e., State GST or SGST); (iii) Integrated GST (IGST)⁷, a tax on inter-State supply of Goods or Services or both by the Central Government and (iv) GST Compensation Cess⁸. SGST is levied on intra-State supply of goods or services (except alcohol for human consumption and five specified petroleum products⁹).

Table 2.6: Components of State Goods and Services Tax (SGST)

(₹ in crore)				
State Goods and Services Tax (SGST)	2017-18	2018-19	2019-20	2020-21
Tax	5,035	8,187	9,482	7,965
Input Tax Credit	4,469	8,817	9,729	7,637
Apportionment of IGST – Transfer-in of Tax Component	692	964	1,514	1,648
Others¹⁰	2,008	2,643	(-) 498	1,621
TOTAL	10,820	20,611	20,227	18,871

Source: Finance Accounts of respective years

GST Compensation: According to GST (Compensation to the States) Act, 2017, the Central Government was to compensate the States for loss of revenue arising on account of implementation of GST for a period of five years. The compensation payable to the State is to be calculated for every financial year after the receipt of final revenue figures, as audited by the Comptroller and Auditor General of India. The protected revenue for any year of a State is to be calculated by applying the projected growth rate (14 per cent per annum) over the base year (2015-16) revenue of the State.

In the case of Andhra Pradesh, the revenue in the base year (2015-16) was ₹ 13,449.62 crore. Accordingly, Protected Revenue for the year 2020-21 was ₹ 25,896.09 crore¹¹.

The State received ₹ 18,871.35 crore as SGST during the year. Against this shortfall from protected revenue, an amount of ₹ 3,527.40 crore has been received as GST

⁷ in respect of inter-State supply of Goods and Services, Integrated GST (IGST) is levied and collected by Government of India (GoI). The IGST so collected is apportioned between the Centre and the State where the goods and services are consumed

⁸ as per GST Compensation Cess Act, GST Compensation Cess is paid by GoI for a period of five years to the State in case the share of a State falls short of the revenue earned in the pre-GST regime

⁹ Petroleum crude, High speed diesel, Motor spirit (Petrol), Natural gas and Aviation turbine fuel

¹⁰ Others include Receipts awaiting transfer to other Minor heads, Advance apportionment from IGST, Fees, Interest and penalty.

¹¹ Calculated at compounding increase of 14 per cent per annum for five years viz., 2016-21 from the base year revenue of ₹ 13,449.62 crore (i.e., ₹ 13,449.62 X 1.14 X 1.14 X 1.14 X 1.14 X 1.14 = ₹ 25,896.09 crore)

compensation from GoI during the year 2020-21. Apart from this, Government of India has provided ₹ 2,311 crore to Andhra Pradesh as ‘back-to-back loan in lieu of GST Compensation shortfall’, which would be serviced out of the GST Compensation Cess by GoI with no repayment obligation on the State resources.

B. Non-Tax Revenue

Non-tax revenue accounts for receipts from services rendered and supplies made by various Departments of Government and interest receipts. The non-tax revenue of ₹ 3,395 crore during the year constituted 2.90 *per cent* of the total revenue receipts (₹ 1,17,136 crore) of the year. The composition of non-tax revenue is detailed in **Table 2.7**.

Table 2.7: Composition of Non-Tax Revenue

						(₹ in crore)
Revenue Head	2016-17	2017-18	2018-19	2019-20	2020-21	Spark Line
Interest Receipts	113	96	50	37	24	
Dividends & Profits	4	1	1	4	0.02	
Other Non-Tax Receipts	5,076	3,717	4,345	3,274	3,371	
a) Major Irrigation	166	161	94	122	114	
b) Forestry and Wild life	234	342	426	36	31	
c) Non-Ferrous Mining & Metallurgical Industries	1,628	2,156	2,211	1,897	2,256	
Total	5,193	3,814	4,396	3,315	3,395	

Source: Finance Accounts of respective years

(i) Interest receipts

Against the budgeted estimates of ₹ 17 crore during 2020-21, actual interest receipts were ₹ 24 crore. Interest receipts included ₹ four crore received from investment of Cash Balance, ₹ 20 crore received from various sources *viz.*, State Public Sector Undertakings and Credit Cooperatives, *etc.*

(ii) Dividend Receipts

Against the budgeted estimates of ₹ six crore during 2020-21, actual receipts on account of dividends & profits were ₹ 0.02 crore.

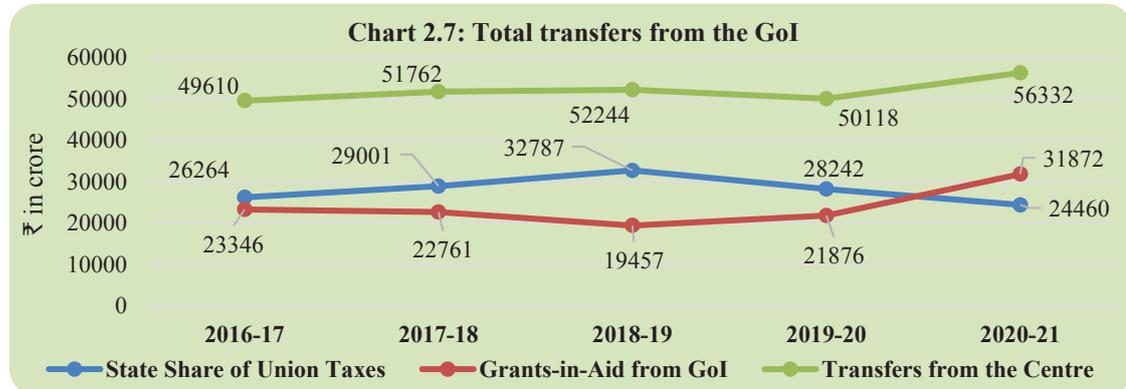
Government investments in Statutory Corporations, Government Companies and others were ₹ 9,533.64 crore as on 31 March 2021, out of which, un-apportioned investments were ₹ 8,401.21 crore, constituting 88.12 *per cent* of the total investments. Further, out of these un-apportioned investments, ₹ 49.11 crore was invested in 10 non-working Companies.

(iii) Other Non-Tax Receipts

Non-Ferrous Mining & Metallurgical Industries (₹ 2,256 crore – Mineral Concession Fee, Rents & Royalties, Mines Department *etc.*), Miscellaneous General Services (₹ 236 crore) and Police (₹ 206 crore) were the main contributors to Non-tax revenue.

2.4.1.2 Central Transfers

The trend of transfers from Government of India during the period 2016-17 to 2020-21 is given in **Chart 2.7**:



Source: Finance Accounts of respective years

A. State's share of Union taxes

The Fifteenth Finance Commission in its Report for the year 2020-21 chose to keep net proceeds of Union taxes to be devolved to the States (i.e., divisible pool) at the same level of 42 *per cent* as recommended by the Fourteenth Finance Commission. However, taking into account the re-organisation of erstwhile Jammu and Kashmir State into Union Territories of Ladakh and Jammu & Kashmir the Fifteenth Finance Commission recommended that the aggregate share of States be reduced by one *per cent* to 41 *per cent* of the divisible pool. It also took into account various other factors like population, area, forest and ecology, income distance criteria, demographic performance and tax efforts of the State.

Consequently, the Fifteenth Finance Commission allocated 4.111 *per cent* of the total divisible pool as *inter se* share of Andhra Pradesh. Based upon the projected tax revenue of the Union Government and the shares derived from the horizontal devolution formula, Fifteenth Finance Commission has derived the share of each State in absolute numbers. This has been used to derive the post-devolution revenue deficit/surplus for States. Accordingly, based on the total projected tax devolution of ₹ 8,55,176 crore Fifteenth Finance Commission projected that the Andhra Pradesh would have a pre-devolution Revenue Deficit of ₹ 41,054 crore and hence recommended a tax devolution of ₹ 35,156 crore (being 4.111 *per cent* of ₹ 8,55,176 crore) to Andhra Pradesh in 2020-21.

Actual Central tax transfers of ₹ 24,460 crore in 2020-21, while contributing 20.88 *per cent* to the State's total revenue receipts, decreased by ₹ 3,782 crore (13.39 *per cent*) when compared to previous year (₹ 28,242 crore).

Components of State's share of Union Taxes during 2016-21 are given in **Table 2.8**.

Table 2.8: Components of State's share of Union Taxes

Component of State's share of Union taxes	XIV FC award period				XV FC award period
	2016-17	2017-18	2018-19	2019-20	2020-21
Corporation Tax	8,414	8,880	11,401	9,630	7,413
Customs	3,619	2,926	2,324	1,790	1,270
Income Tax	5,848	7,498	8,397	7,545	7,603
Other Taxes and Duties on commodities and services	-	327	17	18	19
Service Tax	4,231	2,975	303	0	113
Wealth Tax	19	-	4	0	0
Union Excise Duties	4,133	3,059	1,544	1,245	818
CGST	NA	409	8,092	8,014	7,224
IGST	NA	2,927	646	0	0
Other Taxes on Income and Expenditure	-	-	59	0	0
Grand total	26,264	29,001	32,787	28,242	24,460
Devolution as percentage of Revenue Receipts of the State	26.53	27.60	28.59	25.44	20.88

Source: Finance Accounts of respective years; NA: Not Applicable due to implementation of GST Act w.e.f. 01.07.2017

The decrease in devolution was mainly under Corporation Tax (by ₹ 2,217 crore – 23.02 per cent), CGST (by ₹ 790 crore – 9.85 per cent).

B. Grants-in-Aid from Government of India

The details of Grants-in-Aid from GoI and their composition during 2016-21 are given in Table 2.9.

Table 2.9: Grants-in-Aid from Government of India

Particulars	(₹ in crore)				
	2016-17	2017-18	2018-19	2019-20	2020-21
Non-Plan Grants/Finance Commission Grants	10,839	6,975	5,548	5,881	11,576
Grants for State Plan Schemes*	12,507	0	327	1	0
Grants for Central Plan Schemes*	0	(-)200 [#]	0	0	0
Grants for Centrally Sponsored Schemes	0	15,482	12,510	13,562	14,836
Other Transfers/Grants to States	0	504	1,072	2,432	5,460
(i) Compensation for loss of revenue arising out of implementation of GST	0	382	0	1,841	3,528
(ii) Other Receipts ¹²	0	122	67	20	14
(iii) Transfer of States' portion of unapportioned IGST of previous years	0	0	0	0	1,261
(iv) National Disaster Response Fund	0	0	1,005	571	657
Total	23,346	22,761	19,457	21,876	31,872
Percentage of increase (+)/decrease(-) over previous year	6.47	(-)2.51	(-)14.52	12.43	45.69
Total grants as a percentage of Revenue Receipts	23.59	21.66	16.97	19.70	27.21

Source: Finance Accounts of respective years. [#]Minus figure due to clearing of outstanding amount under the head '8658-Suspense' pertaining to the year 2015-16 with reference to RBI's advice No.2334 dated 31 March 2016. This amount pertains to Grants towards Polavaram Project inadvertently given credit by the GoI in 2015-16 and also debited in the same year. AG (A&E), however, had given credit adjustment in 2015-16 and debit in 2017-18. * Grants under State and Central Plan Schemes were replaced by Centrally Sponsored Schemes from 2017-18 onwards.

¹² Additional Central Assistance for Left Wing Extremist (LWE) Districts and Compensation for loss of revenue on account of phasing out of Central Sales Tax (CST)

Out of the Grants of ₹ 14,836 crore for Centrally Sponsored Schemes during 2020-21, the major amounts were given to:

- Polavaram Project (₹ 2,234 crore-25.52 per cent increase over previous year)
- Mahatma Gandhi National Rural Employment Guarantee Scheme (₹ 2,594 crore- 4.40 per cent decrease over previous year),
- Sardar Patel Urban Housing Scheme (₹ 1,907 crore-2,341.95 per cent increase over previous year),
- National Health Mission (₹ 1,455 crore – 39.26 per cent increase over previous year).

(i) Finance Commission (FC) grants

The FC had recommended devolution of funds under only three types of grants-in-aid to States viz., Local Government, Disaster Management and Post-devolution Revenue Deficit. The details of amounts awarded, received and releases of State Government to Local Bodies during the period 2016-21 are shown in **Table 2.10**.

Table 2.10: Finance Commission Grants

Transfers	Recommendation of the XIV-FC 2015-20	2015-20		Recommendation of the XV-FC 2020-21	2020-21	
		Actual Release by GoI	Release by State Government		Actual Release by GoI	Release by State Government
Local Bodies						
(i) Grants to PRIs	8,654.09	6,955.87	6,644.41	2,625.00	3,793.00	3,080.49 ¹³
ii) Grants to ULBs	3,635.78	3,054.20	2,883.64	1,264.00	767.00	632.00
Total Local Bodies	12,289.87	10,010.07	9,528.05	3,889.00	4,560.00	3,712.49
Disaster Response						
State Disaster Response Fund*	2,430.00	2,430.00	2,430.00	1,491.00	1,491.00	1,491.00
Revenue Deficit Grant						
PDRDG	22,112.00	22,112.00	-	5,897.00	5,897.00	-
Grand Total	36,831.87	34,552.07	11,958.05	11,277.00	11,948.00	

*Source: Finance Accounts and XIV and XV Finance Commissions reports. * SDRF includes State's share also.*

State Government has not released ₹ 311.46 crore and ₹ 170.57 crore of Finance Commission grants received from the GoI to Panchayat Raj Institutions (PRI) and Urban Local Bodies (ULB) respectively over the period 2015-20 and had not released ₹ 712.51 crore and ₹ 135 crore to PRI and ULB during 2020-21.

State Government in its reply has stated that the whole of Finance Commission grants of both XIV and XV FC periods were released to the local bodies and UCs were submitted to GoI.

¹³ As against the amount ₹ 3,793.28 crore received as Finance commission Grants for Rural Local Bodies, only ₹ 61.48 crore has been booked under "Grants-in-Aid paid in cash – Central Assistance including CSS and CS".

However, the accounts of the State Government show that ₹ 1,329.54 crore is yet to be transferred to the local bodies.

2.4.2 Capital Receipts

Growth and composition of Capital Receipts of the State during 2016-21 are given in **Table 2.11**.

Table 2.11: Composition of Capital Receipts

Sources of State's Receipts	2016-17	2017-18	2018-19	2019-20	2020-21
	(₹ in crore)				
Capital Receipts (CR)*	61,952	74,114	98,257	1,16,783	1,63,038
Non-debt capital receipts	2,029	51	277	4,355	1,063
Miscellaneous Capital Receipts	0	0	0	0	0
Recovery of Loans and Advances	2,029	51	277	4,355	1,063
Public Debt Receipts*	59,923	74,063	97,980	1,12,428	1,61,975
Internal Debt	59,109	73,117	95,990	1,10,398	1,57,412
Growth rate	11.53	23.70	31.28	15.01	42.59
Loans and advances from GoI	814	946	1,990	2,030	4,563
Growth rate	18.83	16.22	110.36	2.01	124.78
Rate of growth of debt Capital Receipts	11.63	23.6	32.29	14.75	44.07
Rate of growth of non-debt capital receipts	611.93	-97.49	443.14	1,472.20	-75.59
Rate of growth of GSDP	13.27	14.86	10.78	11.53	1.58
Rate of growth of Capital Receipts (per cent)	14.80	19.63	32.58	18.85	39.61

Source: Finance Accounts of respective years. *Includes Ways and Means Advances and Overdraft facility availed by the Government. **Note:** Loans and advances from GoI includes an amount of ₹ 2,999 crore received towards back-to-back loan in lieu of GST compensation shortfall (₹ 2,311 crore) which is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources and Scheme for Special Assistance as loan to States for Capital Expenditure (₹ 688 crore)

During 2020-21, Capital Receipts (₹ 1,63,038 crore) constituted 56.72 per cent of the total receipts (₹ 2,87,442 crore) of the State. Out of the total Capital Receipts 99.35 per cent were borrowings of the State Government. State Government borrowed ₹ 52,873 crore from open market and other financial institutions and took loans of ₹ 4,563 crore from GoI. Apart from these borrowings, State Government availed an amount of ₹ 1,04,539 crore¹⁴ as Ways and Means Advances and Overdraft from the Reserve Bank of India.

2.4.3 State's performance in mobilisation of resources

State's performance in mobilization of resources is assessed in terms of its own resources comprising own-tax and non-tax sources. The XV FC projection of state resource mobilisation capacity, budget estimates *vis-à-vis* actuals during the year 2020-21 is given in **Table 2.12**.

¹⁴ Special Drawing Facility (₹ 19,007.75 crore), Ways and Means Advances (₹ 53,719.22 crore) and Overdraft (₹ 31,812.27 crore)

Table 2.12: Tax and Non-tax receipts vis-à-vis projections

	XV FC projections	Budget Estimates	Actuals	Percentage variation of actual over	
	₹ in crore)			FFC projections	Budget estimates
Own Tax revenue	77,398	70,679	57,409	-25.83	-18.78
Non-tax revenue	5,267	5,866	3,395	-35.54	-42.12

Source: Finance Accounts 2020-21; BE 2020-21; XV Finance Commission Report

It is evident from above that the actual revenue of the State was much less compared to its own budgetary estimates and XV FC projections for the year 2020-21.

State Government stated that COVID-19 pandemic affected the State revenue and hence there was a difference between estimated and actuals in own revenues during the year.

2.5 Application of resources

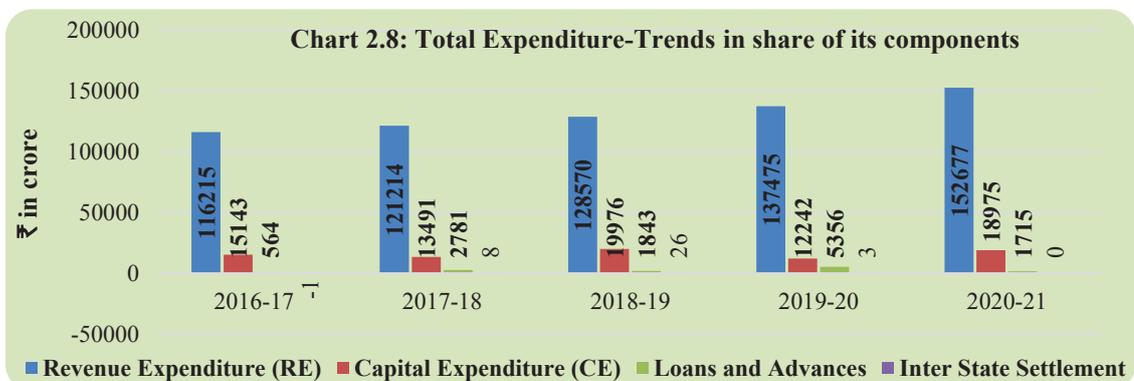
State Government is vested with the responsibility of incurring expenditure within the framework of fiscal responsibility legislations, while at the same time ensuring that the ongoing fiscal correction and consolidation process of the State is not at the cost of expenditure directed towards development of capital infrastructure and social sector.

2.5.1 Growth and composition of expenditure

The total expenditure in 2020-21 was ₹ 1,73,367 crore. **Chart 2.8** and **Table 2.13** presents the trends and composition of total expenditure during the years 2016 to 2021.

Table 2.13: Total Expenditure and its composition

Parameters	2016-17	2017-18	2018-19	2019-20	2020-21
	₹ in crore)				
Total Expenditure (TE)	1,31,921	1,37,494	1,50,415	1,55,076	1,73,367
Revenue Expenditure (RE)	1,16,215	1,21,214	1,28,570	1,37,475	1,52,677
Capital Expenditure (CE)	15,143	13,491	19,976	12,242	18,975
Loans and Advances	564	2,781	1,843	5,356	1,715
Inter State Settlement	(-1)	8	26	3	0
	As a percentage of GSDP				
TE/GSDP	19.27	17.49	17.27	15.97	17.57
RE/GSDP	16.98	15.42	14.76	14.15	15.47
CE/GSDP	2.21	1.72	2.29	1.26	1.92
Loans and Advances/GSDP	0.08	0.35	0.21	0.55	0.17



Source: Finance Accounts of respective years

Total expenditure over the past five years exhibited an increasing trend, mainly on account of increase in revenue expenditure. Total expenditure of the State has increased by ₹ 41,446 crore from 2016-17 to 2020-21, registering a rise of 31.41 per cent.

As is evident from the above chart, capital expenditure constituted less than 15 per cent of the total expenditure during the period 2016-21 though there was an increase in capital expenditure during 2020-21. The capital expenditure of the State was 11.48 per cent during 2016-17. This went down to the lowest during 2019-20. During 2020-21, expenditure on infrastructure and asset creation was 10.95 per cent of Total Expenditure of the State.

This reflects poorly on the State's commitment towards infrastructure creation.

In response, the State Government stated that, the challenges posed by the pandemic drew the Government's priority towards battling the pandemic compared to infrastructure creation during the year and also stated that significant asset creation and upgradation of infrastructure was being done through various corporations.

In terms of activities, total expenditure is composed of expenditure on General Services (including Interest Payments), Social services, Economic services and others. Relative share of these components in the total expenditure of ₹ 1,73,367 crore during 2020-21 is given in **Table 2.14**.

Table 2.14: Relative shares of various sectors of expenditure

Parameters	2016-17	2017-18	2018-19	2019-20	2020-21
General Services	25.08	28.64	27.30	31.58	32.58
Social Services	40.08	46.52	45.46	45.33	41.15
Economic Services	34.72	24.73	27.02	23.05	26.23
Others (Grants to Local Bodies, Inter State Settlement and Loans and Advances)	0.12	0.11	0.22	0.04	0.04

(in per cent)

Source: Finance Accounts of respective years

The expenditure of the State was mainly focused on Social Services, which includes Education, Health and welfare activities etc. The major areas under Social Services Sector where the expenditure was concentrated is given in **Table 2.15**.

Table 2.15: Major areas of Expenditure under Social Services sector

Area of Expenditure	2016-17	2017-18	2018-19	2019-20	2020-21
Education, Sports, Art and Culture	17,357	20,017	19,587	26,643	24,205
Welfare of SCs, STs and other BCs, Social Welfare and Nutrition	21,136	25,893	28,334	28,146	30,314
Health and Family Welfare	6,438	6,389	7,400	7,538	9,511

(₹ in crore)

Source: Finance Accounts of respective years

The above table indicates that in 2020-21, welfare activities constituted 17 per cent of total expenditure in the State and around 14 per cent was spent on Education, Sports, Art and Culture.

2.5.2 Revenue Expenditure

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

infrastructure and service network.

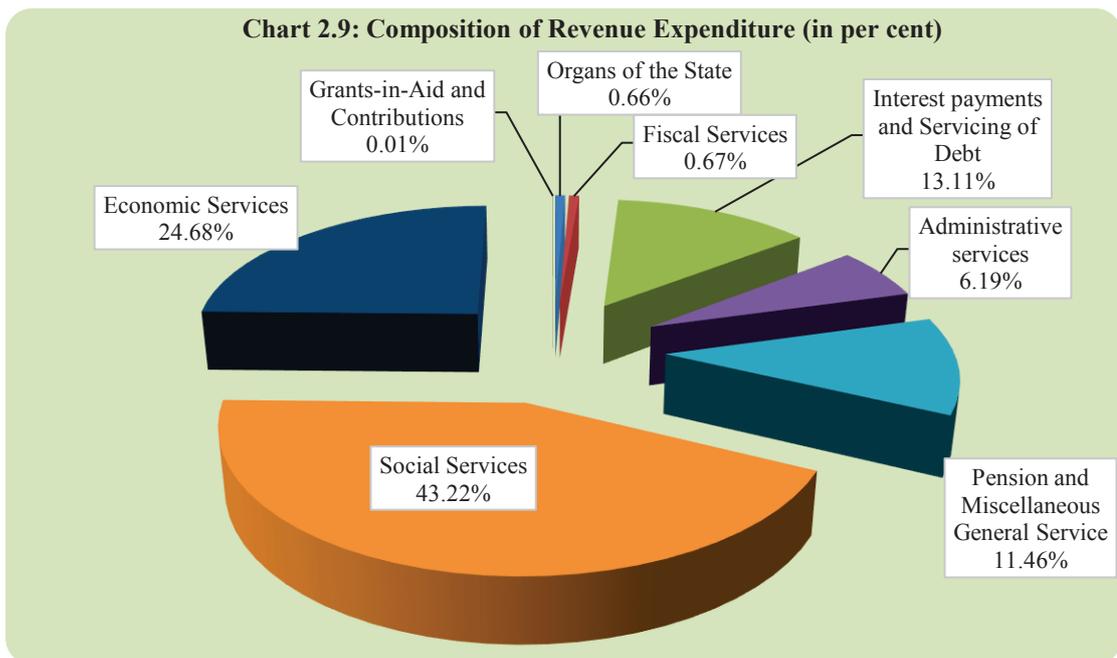
Revenue Expenditure (₹ 1,52,677 crore) was 15.47 *per cent* of GSDP and was within the budget provision (₹ 1,80,393 crore) made for the year 2020-21. It increased by 11.06 *per cent* during the year compared to 2019-20 (₹ 1,37,475 crore).

Table 2.16: Revenue Expenditure-Basic parameters

Parameters	2016-17	2017-18	2018-19	2019-20	2020-21
Total Expenditure (TE) (₹ in crore)	1,31,921	1,37,494	1,50,415	1,55,076	1,73,367
Revenue Expenditure (RE) (₹ in crore)	1,16,215	1,21,214	1,28,570	1,37,475	1,52,677
Rate of Growth of RE (in <i>per cent</i>)	21.12	4.30	6.07	6.93	11.06
Revenue Expenditure as percentage of TE	88.09	88.16	85.48	88.65	88.07
RE/GSDP (<i>per cent</i>)	16.98	15.42	14.76	14.15	15.47
RE as percentage of RR	117.41	115.37	112.12	123.81	130.34
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	1.59	0.29	0.56	0.60	7.00
Revenue Receipts (ratio)	1.81	0.70	0.66	-2.18	2.01

Source: Finance Accounts of respective years

The buoyancy of revenue expenditure w.r.t GSDP shows that the rise of one *per cent* of GSDP led to the rise of Seven *per cent* of Revenue Expenditure. The high buoyancy of revenue expenditure was due to reduction in growth rate of GSDP.



During the year 2020-21, Revenue Expenditure (₹ 1,52,677 crore) accounted for 88.07 *per cent* of the State's total expenditure (₹ 1,73,367 crore), which is in the nature of current consumption, leaving only 11.93 *per cent* for investment in infrastructure and asset creation. Further, 76.72 *per cent* of the Revenue Expenditure in 2020-21 was met from Revenue Receipts (₹ 1,17,136 crore). The remaining 23.28 *per cent* (₹ 35,541 crore) of Revenue Expenditure was, financed from borrowed funds.

Table 2.17 highlights the cases of significant increase or decrease in various Revenue Heads of Account during 2020-21 *vis-à-vis* the previous year.

Table 2.17: Revenue Expenditure during 2020-21 compared to 2019-20

Major Heads of Accounts	2019-20 (₹ in crore)	2020-21	Increase (+)/ Decrease (-) (in per cent)
2401 - Crop Husbandry	1,021.47	3,949.57	286.66
2515 - Other Rural Development Programmes	5,313.27	8,079.69	52.07
2505 - Rural Employment	2,021.78	4,526.08	123.87
2049 - Interest Payments	17,652.77	20,017.83	13.40
3055 - Road Transport	587.59	2,926.41	398.03
2245 - Relief on account of Natural Calamities	1,103.79	2,824.12	155.86
2211 - Family Welfare	2,074.66	3,415.87	64.65
2415 - Agricultural Research and Education	571.83	1,646.29	187.89
2052 - Secretariat - General Services	333.83	1,376.46	312.32
2225 - Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities	21,601.38	22,411.16	3.75
2851 - Village and Small Industries	142.59	947.91	564.74
2015 - Elections	328.76	132.37	-59.74
2250 - Other Social Services	319.20	89.91	-71.83
2215 - Water Supply and Sanitation	708.81	-92.08	-112.99
2801 - Power	6,840.24	6,017.11	-12.03
2202 - General Education	25,498.46	20,074.89	-21.27

The substantial decrease under Major Head 2202 was due to transfer of implementation of “Amma Vodi” scheme to AP State Development Corporation from 2020-21 which was hitherto implemented by School Education Department. Further, the decrease under Major head 2215 was due to lapsing of unspent balances to the tune of ₹ 827.78 crore during 2020-21. The decrease in expenditure under the Major Heads 2801 and 2250 was due to reduction in expenditure under “YSR Nine Hours Free Supply scheme” and reduction in “Assistance to AP Brahmin Welfare Corporation” respectively.

There was substantial increase across different major heads as shown in table above. The reasons are detailed below:

Table 2.18: Increase in Revenue Heads

Major Head	Reasons
2401	Increase in expenditure under the schemes “YS Fasal Bima Yojana” and “YSR interest free loans to farmers (vaddeleni runaalu)”
2515	Increase in expenditure under the schemes “Grama Sachivalayam” and “Village Volunteers”
2505	Increase in expenditure under “National Rural Employment Guarantee Scheme”
3055	The increase in expenditure was due to Absorption of Employees of AP State Road Transport Corporation into Government Service vide G.O.Ms.No.97 dated 27.12.2019.
2245	Increase in expenditure towards Disaster Management
2211	Increase in expenditure under National Health Mission
2415	Increase in expenditure under Grants towards Rythu Saadhikaara Samsta
2052	Increase in expenditure was due to transfer of Additional Retail Excise Tax Revenues to AP State Development Corporation as per G.O Ms. 90 dated 03.11.2020
2225	Increase in expenditure under the Scheme “YSR Pension Kaanuka”
2851	Increase in Incentives for Industrial Promotion for Micro, Small and Medium Enterprises (MSME)

2.5.2.1 Committed Expenditure

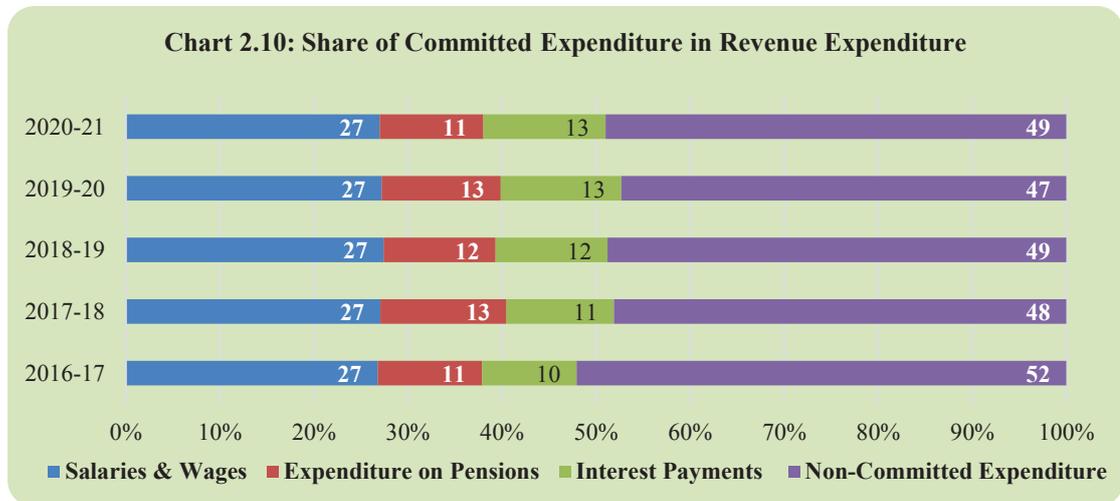
The committed expenditure of the State Government on revenue account consists of interest payments, expenditure on salaries and wages and pensions. Upward trend in committed expenditure leaves the Government with less flexibility for development sector. **Table 2.19** presents the expenditure on these components during 2016-21.

Table 2.19: Components of committed expenditure

(₹ in crore)					
Components of Committed Expenditure	2016-17	2017-18	2018-19	2019-20	2020-21
Salaries & Wages	31,125	32,816	35,240	36,934	40,582
Expenditure on Pensions	12,873	16,236	15,291	17,385	17,470
Interest Payments	11,697	13,847	15,342	17,653	20,018
Total	55,695	62,899	65,873	71,972	78,070
As a percentage of Revenue Receipts (RR)					
Salaries & Wages	31.44	31.23	30.73	33.26	34.65
Expenditure on Pensions	13.01	15.45	13.33	15.66	14.91
Interest Payments	11.82	13.18	13.38	15.9	17.09
Total	56.27	59.87	57.45	64.82	66.65
As a percentage of Revenue Expenditure (RE)					
Salaries & Wages	26.78	27.07	27.41	26.87	26.58
Expenditure on Pensions	11.08	13.39	11.89	12.65	11.44
Interest Payments	10.06	11.42	11.93	12.84	13.11
Total	47.92	51.89	51.24	52.35	51.13

Source: O/o PAG (A&E) Andhra Pradesh;

Note: Salaries and wages also includes the salaries paid out of grants-in-aid and work charged establishment.



Salaries and wages

Expenditure on salaries and wages (₹ 40,582 crore) increased by 9.88 per cent during 2020-21 over the previous year (₹ 36,934 crore) and constituted 27 per cent of revenue expenditure.

Interest payments

During 2020-21, interest payments were to the tune of ₹ 20,018 crore (17.09 per cent of revenue receipts of ₹ 1,17,136 crore). Interest on Market Borrowings (₹ 16,911 crore)

and Special Securities issued to National Small Savings Fund (NSSF) of Central Government (₹ 1,090 crore) continued to be the major components of interest payments.

The State Government budgeted and expended an amount of ₹ 2,288 crore during 2020-21 towards interest payments on Off-Budget borrowings obtained through PSUs/ SPVs etc. The total quantum of interest payments made by the State Government during 2020-21 was effectively ₹ 22,306 crore (₹ 20,018 crore booked under Major Head 2049 and ₹ 2,288 crore paid on off-budget borrowings) (Refer para 2.7.5 on off-budget borrowings). Interest payments constituted 19.04 per cent of revenue receipts of the State.

Pensions

The expenditure on pension and other retirement benefits to State Government pensioners during the year was ₹ 17,470 crore and constituted 14.91 per cent of revenue receipts. Superannuation and Retirement Allowances (₹ 8,677 crore) decreased by ₹ 114 crore from 2019-20, Family Pensions (₹ 3,067 crore) decreased by ₹ 18 crore over that in 2019-20 and Gratuity (₹ 1,461 crore) increased by ₹ 68 crore from 2019-20.

2.5.2.2 Subsidies

The details of department-wise subsidies during the five-year period 2016-17 to 2020-21 are given in **Table 2.20**.

Table 2.20: Department wise subsidies

Departments	2016-17	2017-18	2018-19	2019-20	2020-21
Civil Supplies	2,470	3,056	340	396	0.23
Energy	2,750	3,000	1,250	5,248	4,370
Agricultural and other Allied activities	652	838	408	381	214
Others ¹⁵	374	252	354	318	364
Total subsidy	6,246	7,146	2,352	6,343	4,948
Total Revenue Expenditure (RE)	1,16,215	1,21,214	1,28,570	1,37,475	1,52,677
Subsidy as a percentage of RE	5.37	5.9	1.83	4.61	3.24

Source: Finance Accounts of respective years

As seen from the table above, the total expenditure of ₹ 4,948 crore on subsidies during the year decreased by ₹ 1,395 crore (21.99 per cent) compared to previous year (₹ 6,343 crore). Out of the total subsidy released to Energy Department during 2020-21, ₹ 4,037 crore (81.59 per cent) was towards implementation of YSR nine hours free power supply scheme. Agriculture Department accounted for subsidies of ₹ 214 crore (4.32 per cent). The share of subsidies to revenue expenditure was 3.24 per cent in 2020-21.

2.5.2.3 Financial Assistance to local bodies and other institutions

The quantum of financial assistance provided by the State Government to Local Bodies and other institutions by way of grants during 2016-21 is given in **Table 2.21**.

¹⁵ Industries and Commerce, Minority Welfare, Information Technology & Communication, Panchayat Raj, Social Welfare, Women, Child and Disabled Welfare and Backward Classes Welfare Departments

Table 2.21: Financial assistance to Local Bodies and other institutions

	(₹ in crore)				
	2016-17	2017-18	2018-19	2019-20	2020-21
(A) Local Bodies	13,814	11,217	12,132	14,566	16,830
Municipal Corporations and Municipalities	4,462	2,976	3,775	4,157	3,552
Zilla Parishads and other PR Institutions	9,352	8,241	8,357	10,409	13,278
(B) Others	40,165	41,874	48,663	45,349	56,837
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	7,625	9,974	9,613	10,048	10,967
Hospitals and Other Charitable Institutions	2,106	2,556	3,411	3,224	4,293
Development Authorities	5	21	6	5	12
Co-operative Institutions	143	564	543	9,487	981
Others ¹⁶	30,286	28,759	35,090	22,585	40,854
Total*	53,979	53,091	60,795	59,915	73,667
Assistance as percentage of R.E	46.45	43.80	47.25	43.58	48.25

Source: Finance Accounts of respective years; * Includes Salaries paid out of Grants-in-Aid.

Financial assistance extended to local bodies and other institutions in 2020-21 constituted 48.25 per cent of revenue expenditure. The major schemes/recipients (above ₹ 1,000 crore) of grants during the year are given in **Table 2.22**.

Table 2.22: Major schemes/recipients (above ₹ 1,000 crore)

	(₹ in crore)
Scheme/Recipients	Amount
YSR Pension Kanuka to Backward Classes	8,165.73
Teaching Grants to Zilla Praja Parishads	5,845.35
Mahatma Gandhi National Employment Guarantee Act	4,516.21
YSR Pension Kanuka	4,390.34
YSR Rythu Bharosa	3,840.92
Finance Commission grants to PR Bodies	3,080.49
YSR Pension Kanuka to Economically Backward Classes	3,055.80
Cash Doles	2,179.45
National Health Mission (NHM)	1,987.51
Grama Sachivalayam	1,546.37
Samagra Shiksha	1,468.31
Village Volunteers	1,144.02
Rythu Sadhikara Samstha	1,133.00
YSR Interest Free Loans to Farmers	1,100.00
YSR Pension Kanuka to Kapus	1,099.46
Assistance to Andhra Pradesh Transmission Corporation Ltd. for servicing of Vidyut Bonds	1,053.09
YSR - PM Fasal Bima Yojana	1,028.69
Dr. Y.S.R Aarogyasri	1,024.70

Source: O/o PAG (A&E), Andhra Pradesh

2.5.2.4 National Pension System

State Government employees recruited on or after 01 September 2004 are covered under the National Pension System (NPS), which is a defined contributory pension scheme. It

¹⁶ Others includes Development Agencies, Autonomous Bodies, Public Sector Undertakings, Non-Governmental Institutions, Institutions receiving one time grant etc.

is mandatory for employees to contribute 10 *per cent* of basic pay and dearness allowance every month towards NPS, which is to be matched by the State Government. The Government must transfer these contribution amounts along with details to the National Securities Depository Limited (NSDL) and to the fund managers appointed by the NPS Trust.

Post bifurcation of the erstwhile composite State of Andhra Pradesh in 2014, there was an un-apportioned balance under NPS. After apportionments in the past years, the balance at the end of 2020-21 was ₹ 365.43 crore. There was no further apportionment during the year 2020-21.

Details of contributions by employees and Government and transfers to NSDL are shown in **Table 2.23**:

Table 2.23: Details of Contribution to NPS Deposit Account and transfer to NSDL

(₹ in crore)				
Opening Balance (A)	Employees' contribution (B)	Government Contribution (C)	Transfer to NSDL (D)	Closing Balance (A+B+C-D)
721.50	798.73	864.33	1,961.65	422.91

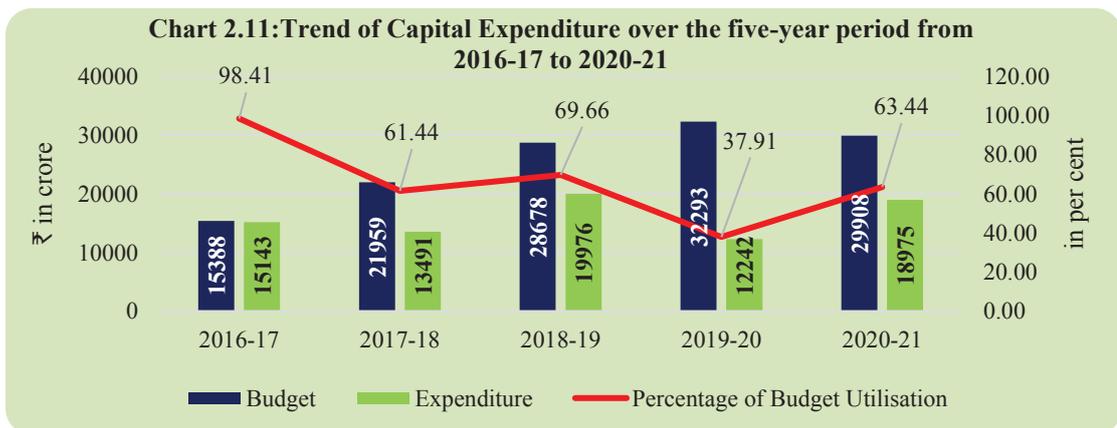
Source: Finance Accounts

The balance amount of ₹ 788.34 crore (which includes un-apportioned balance of ₹ 365.43 crore) is yet to be transferred to NSDL.

2.5.3 Capital Expenditure

Capital Expenditure (capex) is primarily expenditure on creation of fixed infrastructure assets such as roads, buildings, *etc.* and is met from budgetary support and extra budgetary resources/Off Budget Borrowings.

The trend of Capital Expenditure over the five-year period 2016-21 is shown in **Chart 2.11**.



Source: Finance Accounts and Budget in brief of respective years

Capital Expenditure (₹ 18,975 crore) constituted 10.94 *per cent* of total expenditure during 2020-21 and fell short of the Budget Estimates (₹ 29,908 crore) by 36.55 *per cent*. It accounted for 1.92 *per cent* of GSDP and increased by ₹ 6,733 crore (54.99 *per cent*) from the previous year. Out of the total Capital Expenditure, during 2020-21, 13.13 *per cent* (₹ 2,491.92 crore) was funded by the Government of India

(CSS/CS/GIA) and 3.6 *per cent* (₹ 688 crore) was funded by the GoI interest free loans under the scheme “Special Assistance to States for Capital Expenditure”. The loans were given to State Government to bridge the fiscal shortage to capital expenditure arising out of COVID-19 pandemic during the year 2020-21.

Misclassification of Revenue Expenditure as Capital Expenditure:

As per Government Accounting Rules, capital expenditure is incurred with the objective of increasing concrete assets of a material and permanent character and expenditure on a temporary asset or on grants-in-aid cannot ordinarily be considered as a capital expenditure. Ownership of assets is the key factor in determining whether the expenditure incurred on its acquisition can qualify to be classified as capital expenditure.

Government of AP planned to construct 25 lakh houses (14 lakh in rural areas including Urban Development Authorities and 11 lakh in urban areas) during the period 2019-20 to 2023-24 as part of “Navaratnalu”¹⁷ at an estimated project cost of ₹ 61,000 crore to provide pucca houses to all eligible beneficiaries. As part of this, Government has taken steps for acquiring land and proposed to distribute house site pattas to 25 lakh beneficiaries on 08 July 2020. An amount of ₹ 6,278.59 crore has been booked as Capital Expenditure in Accounts for 2020-21 under YSR Gruha Vasathi scheme for this purpose.

As per the Socio-Economic Survey Report of Government of AP for the year 2020-21, the Government has planned to provide house sites to all the poor and needy and also register the land along with the house in the name of women of the household, for the above scheme. As the land along with the house would be registered in the name of the beneficiary, the asset would belong to beneficiary, not the State Government and hence the expenditure was to be booked under Revenue expenditure Head.

State Government replied that, as per the existing guidelines for booking of the expenditure, the procurement of land is always booked under capital Sub Detailed Head of Account 532. For instance, the land procured for development of Relief & Rehabilitation, though handed over later to the beneficiaries, is booked under the Capital Head only. The same is the case historically for the Land purchase schemes implemented for the benefit of SC/STs etc. Hence, there is no misclassification of expenditure.

However, the reply of the Government was silent on the final ownership of the land and the authority for booking such expenditure under the Capital head.

Further, capital expenditure during the year 2020-21 was overstated to an extent of ₹ 155.01 crore due to incorrect booking of expenditure incurred towards Minor works and Grants-in-Aid, which was not in the nature of asset creation under Capital Heads.

¹⁷Nine welfare schemes promised during election and implemented by cross cutting nine themes covering Agriculture, Health, Education, Housing, Welfare and other sectors.

2.5.3.1 Major changes in Capital Expenditure

Table 2.24 highlights the cases of significant increase or decrease under various Heads of Account under capital expenditure during 2020-21 *vis-à-vis* the previous year.

Table 2.24: Capital expenditure during 2020-21 compared to 2019-20

Major Heads of Accounts	2019-20 (₹ in crore)	2020-21	Increase (+)/ Decrease (-) (in per cent)
4202 - Capital Outlay on Education, Sports, Art and Culture	339.94	3,416.54	905.04
4070 – Capital Outlay on other Administrative Services	3,414.32	6,304.20	84.64
4515- Capital Outlay on Other Rural Development Programmes	821.64	1,734.69	111.12
4210 – Capital Outlay on Medical and Public Health	119.74	449.85	275.68
5475 – Capital Outlay on other General Economic Services	-48.04	201.11	518.60
4055 – Capital Outlay on Police	289.17	149.94	-48.15
4217 - Capital Outlay on Urban Development	536.48	287.62	-46.39
4702 - Capital Outlay on Minor Irrigation	628.40	310.85	-50.53

The substantial increase in the Major Head 4202 and 4210 was due to the implementation of new scheme “Naadu-Nedu” for creation of infrastructure facilities in schools and construction of Medical Buildings respectively” and the increase in expenditure under the heads 4070 and 4515 was mainly due to increase in the expenditure under the schemes “YSR Gruha Vasathi” and “Construction of Panchayat Roads under PMGSY” respectively. Further, the increase in expenditure under the Major Head 5475 was due to implementing programmes like “Creation of Infrastructure for Andhra Pradesh Fiber Grid” and financial support for “Pulivendula Development Agency for infrastructure creation”.

The reduction of expenditure under the Major Heads 4055, 4217 and 4702 was due to reduced expenditure under the schemes “Modernisation of Police Force”, “AP Urban Water Supply and Septage Management Improvement Project” and “Neeru-Chettu” respectively.

2.5.4 Quality of Capital Expenditure

2.5.4.1 Investments and returns

As of 31 March 2021, the State Government had invested ₹ 9,533.64 crore in Statutory Corporations (₹ 207.57 crore), Rural Banks (₹ 26.96 crore), Government Companies (₹ 6,798.82 crore), Joint Stock Companies (₹ 57.70 crore) and Co-operatives (₹ 2,442.52 crore). Out of this investment, ₹ 1,132.43 crore was invested after 02 June 2014 by Government of Andhra Pradesh and ₹ 8,401.21 crore (88.12 per cent) was yet to be apportioned among the two successor States.

The status of return on the amount invested in these Corporations/Companies is given in Table 2.25.

Table 2.25: Return on Investment

Investment/Return/Cost of Borrowings	2016-17	2017-18	2018-19	2019-20	2020-21
Investment at the end of the year (₹ in crore)	8,975	9,472	9,501	9,501	9,534
Return in the form of Dividend (₹ in crore)	4	1	1	4	0.01
Rate of Return (<i>per cent</i>)	0.05	0.01	0.01	0.04	0.0001
Average rate of interest on Government borrowing (<i>in per cent</i>)	6.31	6.52	6.37	6.31	6.14
Difference between Rate of return and interest rate (<i>in per cent</i>)	(-) 6.26	(-) 6.51	(-) 6.36	(-) 6.27	(-)6.14
Difference between interest on Government borrowing and return on investment (₹ in crore)	11,693	13,846	15,341	17,649	20,018

Source: Finance Accounts of respective years

Government earned a return of ₹ 0.01 crore in the form of dividend in 2020-21 on its investments of ₹ 9,534 crore in various Corporations/Companies. The return on Government investment was also very negligible at 0.0001 *per cent* during 2020-21 as against the average rate of interest of 6.14 *per cent* paid by the Government on its borrowings during the same period and has proved to be a drag on the finances of the State.

2.5.4.2 Loans and Advances given by the State Government

In addition to investments in Co-operative Societies, Corporations and Companies, the State Government also provided loans and advances to institutions/organisations like PSUs, Universities/ Academic Institutions, PRIs, ULBs and Urban Development Authorities, *etc.* Table 2.26 presents the details of outstanding loans and advances during the last five years.

Table 2.26: Details of loans advanced by State Government

Quantum of Loans/Interest Receipts	2016-17	2017-18	2018-19	2019-20	2020-21
Opening Balance (₹ in crore)	28,938	27,472	30,202	31,768	32,769
Amount advanced during the year (₹ in crore)	564	2,781	1,843	5,356	1,715
Amount recovered during the year (₹ in crore)	2,029	51	277	4,355	1,063
Closing Balance (₹ in crore)	27,472	30,202	31,768	32,769	33,421
Net addition (₹ in crore)	(-)1,465	2,730	1,566	1,001	652
Interest Receipts on Loans and Advances (₹ in crore)	35	9	12	13	12
Interest receipts as percentage of outstanding loans and advances (<i>in Per cent</i>) (a)	0.13	0.03	0.04	0.04	0.04
Interest payments (₹ in crore)	11,697	13,847	15,342	17,653	20,018
Total Outstanding Liabilities (₹ in crore)	2,01,314	2,23,706	2,57,510	3,01,802	3,50,557
Interest payments as percentage to total Outstanding Liabilities of the State Government (b)	5.81	6.19	5.96	5.85	5.71
Difference between (a) and (b) (<i>in Per cent</i>)	(-) 5.68	(-) 6.16	(-) 5.92	(-) 5.81	(-) 5.67

Source: Finance Accounts of respective years;

Loans outstanding as of 31 March 2021 amounted to ₹ 33,421 crore which included ₹ 1,715 crore of loans disbursed during 2020-21. AP Beverages Corporation (₹ 1000 crore) and Industries (₹ 295.88 crore) were the major recipients of loans during the year. Out of the loans repaid (₹ 1,063 crore) to the State Government, ₹ 1,000 crore (94 per cent) was by AP Beverages Corporation.

During 2020-21, loans and advances of ₹ 683.84 crore were provided to seven¹⁸ entities without committing them to any terms and conditions like schedule of repayment, rate of interest, number of instalments, etc., and from whom repayments of earlier loans (₹ 12,152.70 crore) were overdue. The earliest period to which arrears related was 2002.

2.5.4.3 Capital locked in incomplete Projects

Blocking of funds on incomplete projects/works impinges negatively on the quality of expenditure and deprives the State of the intended benefits for prolonged periods. Further, the funds borrowed for implementation of these projects during the respective years leads to extra financial burden in terms of servicing of debt and interest liabilities.

Age-wise and department-wise details of ongoing projects are given in **Tables 2.27** and **2.28** respectively.

Year of commencement of Project / work	No of incomplete Projects / works	Estimated cost	Expenditure (as on 31 March 2021)
Up to 2013-14	9	2,599	464
2014-15	0	0	0
2015-16	13	2,438	1,436
2016-17	26	969	421
2017-18	51	2,222	766
2018-19	28	6,433	1,027
2019-20	7	807	94
2020-21	19	256	82
Details not available	10	2,579	340
Total	163	18,303	4,630

Department	No. of incomplete projects / works	Estimated cost	Expenditure
Roads	39	9,814	1,237
Bridges	19	112	27
Buildings	6	111	16
Irrigation	Not Available		
Water Supply Schemes and others	99	8,266	3,350
Total	163	18,303	4,630

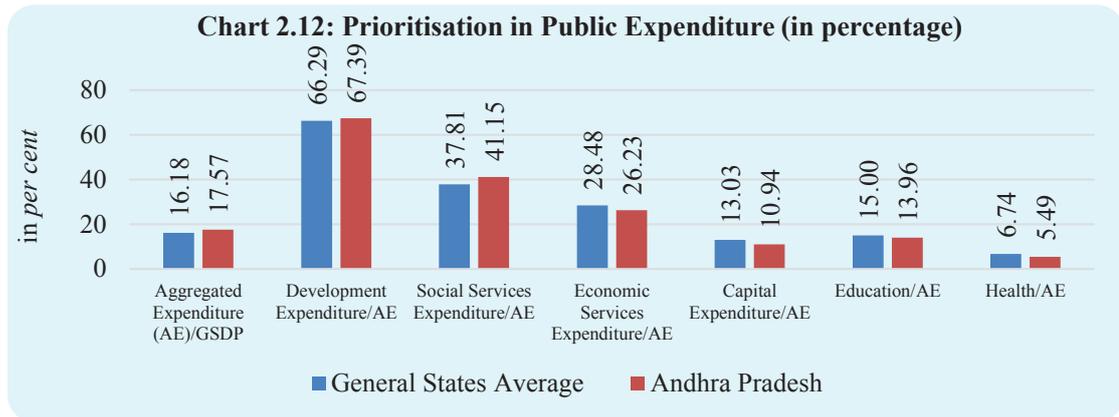
Source: Appendix IX of Finance Accounts 2020-21; **Note:** Details in respect of incomplete projects in respect of Irrigation Department were not provided by the State Government.

Non-completion of projects not only affects the quality of the expenditure adversely, but also deprives the State of intended benefits of economic growth. Further, the State Government did not disclose financial results of any of the irrigation projects. As a result, there was no assurance of returns from public investments on irrigation and flood control.

¹⁸ Loans for water supply and sanitation (₹ 2,581.62 crore was outstanding), Urban Development (₹ 5,297.66 crore), Dairy Development (₹ 131.87 crore), Co-operation (₹ 362.11 crore), Power Project (₹ 2,742.78 crore), Consumer Industries (₹ 644.77 crore) and Civil Aviation (₹ 391.88 crore)

2.5.5 Expenditure priorities

Enhancing human development levels require the State to step up its expenditure on key social services like education, health, *etc.* Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) for a particular sector can be inferred if the ratios fall way below the respective national averages. **Chart 2.12** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2020-21, *vis-à-vis* the average of the General States (GS).



Source: Finance Accounts of 2020-21 and data provided by Economic Advisor.

Audit observations in this regard are as follows:

- Development expenditure and expenditure on Social Services as a proportion of total expenditure were higher in the State compared to the GS average and the expenditure on Economic Services as a proportion of total expenditure was lower than GS average.
- The share of expenditure on Education and Health in the State as a proportion of total expenditure was lower than the corresponding GS average.
- The share of capital expenditure was lower in the State compared to the GS average affecting physical capital formation with a cascading impact on economic growth in the long run.

2.6 Public Account

Receipts and Disbursements in respect of certain transactions such as Small Savings, Provident Funds, Reserve Funds, Deposits, Suspense, Remittances *etc.*, which do not form part of the Consolidated Fund, are kept in Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State Legislature. The Government acts as a banker in respect of the Public Account. The balance after disbursements during the year is the fund available with the Government for use for various purposes.

2.6.1 Net Public Account Balances

Component-wise net balances in Public Account of the State as of end of March of the year during the five-year period 2016-17 to 2020-21 are as follows:

Table 2.29: Public Account Balances (As on 31 March of the year)

(₹ in crore)

Sector	Sub Sector	2016-17	2017-18	2018-19	2019-20	2020-21
I. Small Savings, Provident Funds, etc.	Small Savings, Provident Funds, etc.	-13,568	-13,509	-15,730	-16,745	-23,276
J. Reserve Funds	(a) Reserve Funds bearing Interest	-305	-32	-576	-1,863	-1,685
	(b) Reserve Funds not bearing Interest	-2,323	-1,455	-2,107	-2,065	-2,002
K. Deposits and Advances	(a) Deposits bearing Interest	-6,246	-7,058	-7,275	-7,662	-708
	(b) Deposits not bearing Interest	-29,064	-32,861	-38,325	-46,907	-52,626
	(c) Advances	30	30	31	31	31
L. Suspense and Miscellaneous	(b) Suspense	331	46	105	-938	-2,422
	(c) Other Accounts	3,863	166	166	5,298	912
	(d) Accounts with Governments of Foreign Countries	0	0	0	0	0
	(e) Miscellaneous	0	0	0	0	0
M. Remittances	(a) Money Orders, and other Remittances	84	-1,383	500	510	511
	(b) Inter Governmental Adjustment Account	1,263	71	53	100	108
TOTAL		-45,935	-55,985	-63,158	-70,241	-81,157

Source: Finance Accounts of 2020-21; Note: +ve denotes Debit Balances and -ve denotes credit balances;

2.6.1.1 Reserve Funds

Reserve Funds are created for specific and defined purposes under the Public Account of the State Government. These funds are met from contributions or grants from the Consolidated Fund of the State. Out of the gross accumulated balance of ₹ 13,499.02 crore lying in these Funds as on 31 March 2021, ₹ 9,811.53 crore was invested in the GoI Securities, leaving a net accumulated balance of ₹ 3,687.49 crore as on 31 March 2021. The transactions during the year 2020-21 under major reserve funds are detailed below:

Consolidated Sinking Fund

Sinking Fund was created in the year 1999-2000 for amortisation of State's liabilities. As per guidelines, the State Government may contribute annually to the Sinking Fund at 0.5 per cent of the outstanding liabilities at the end of the previous financial year. Accordingly, ₹ 1,509.01 crore was to be contributed in 2020-21 on the Outstanding Liabilities of ₹ 3,01,802 crore at the end of 2019-20. The State Government, however, did not make any contribution to the Fund during 2020-21.

Guarantee Redemption Fund

As per guidelines of Reserve Bank of India, post bifurcation, the Government of Andhra Pradesh constituted¹⁹ (April 2018) the Guarantee Redemption Fund (GRF) to meet its

¹⁹ G.O. Ms. No. 46, Finance (CM) Department, dated 17.04.2018

obligation pertaining to the guarantees given by it on loans raised by bodies such as Public Sector Undertakings, Special Purpose Vehicles, *etc.*, outside of the State budget. In case of default by the borrower, these guarantees become liabilities of the State Government. As such, guarantees, generally, are contingent liabilities. As per guidelines, the Fund shall be setup by the State Government with an initial contribution of minimum one *per cent* of outstanding guarantees at the end of previous year. Thereafter, a minimum of 0.5 *per cent* of outstanding guarantees was envisaged as annual contribution to raise the Fund to a minimum level of three *per cent* in next five years and eventually to a level of five *per cent*.

The outstanding Guarantees as on 01 April 2020 were ₹ 67,171 crore. Against this, the Fund balance to the end of the year was ₹ 874.37 crore which was 1.30 *per cent* of outstanding Guarantees. The State Government has not contributed to the Fund during 2020-21.

State Disaster Response Fund

Government of India (GoI) replaced the erstwhile Calamity Relief Fund with the State Disaster Response Fund (SDRF) with effect from 01 April 2010. In terms of the guidelines of the Fund, the Centre and States are required to contribute to the Fund in a certain proportion. The contributions are to be transferred to the Public Account to ‘Major Head – 8121 – General and other reserve funds’. Expenditure during the year is incurred by operating ‘Major Head – 2245 – Relief on account of Natural Calamities’.

The State Government is required to pay interest on a half-yearly basis to the SDRF at the rate applicable to overdrafts under Overdraft Regulation Guidelines of the RBI. The accretions to the SDRF together with the income earned on the investment of SDRF is to be invested in Central Government dated Securities, auctioned Treasury Bills and other interest earning deposits with Scheduled Commercial Banks.

The SDRF is to be used only for meeting the expenditure for providing immediate relief to the victims of a disaster and the provision for disaster preparedness, restoration, reconstruction and mitigation should not be a part of SDRF. Such expenditure must be provided from the normal budgetary heads/ State Plan Funds, *etc.*

The State Government released its share of ₹ 372 crore during 2020-21 in addition to the funds received from GoI of ₹ 1,119 crore. The total accumulated balance of ₹ 1,491 crore was fully expended as per Finance Accounts for relief on natural calamities²⁰ with no closing balance at the end of the year.

The details of expenditure charged to State Disaster Response Fund are given in **Table 2.30**.

²⁰ Gratuitous relief in drought affected areas, Repairs and restoration of damaged roads and bridges, Assistance to farmers for purchase of Agricultural inputs *etc.*

Table 2.30: Details of Expenditure charged to SDRF

(₹ in crore)

Major Head of Account	Minor Head of Account	Expenditure during 2019-20	Expenditure during 2020-21
2245- Relief on Account of Natural Calamities 01- Drought	101-Gratuitous Relief	1,108	1,375
	102-Drinking water Supply	120	101
	104-Supply of Fodder	11	4
	282-Public Health	161	147
	Sub Total	1,398	1,627
2245- Relief on Account of Natural Calamities 02- Floods, Cyclones etc.	101-Gratuitous Relief	105	1,055
	114-Assistance to Farmers for purchase of Agricultural inputs	30	0
	282-Public Health	14	219
	911- Deduct-Recoveries of Overpayments	-3	0
	Sub Total	146	1,274
2245- Relief on Account of Natural Calamities 80- General	001 Direction and Administration	2	2
	102-Management of Natural Disasters, Contingency Plans in disaster prone areas	7	6
	911- Deduct-Recoveries of Overpayments	-2	0
	Sub-Total	7	9
	Grand Total	1,552	2,909
2245-05-State Disaster Response Fund	901- Deduct - Amount met from State Disaster Response Fund	1,553	2,243

Source: Finance Accounts of 2020-21

During the year 2020-21, Government of Andhra Pradesh has received ₹ 2,148.03 crore towards SDRF (₹ 1,491 crore) and NDRF (₹ 657.03 crore) from Government of India.

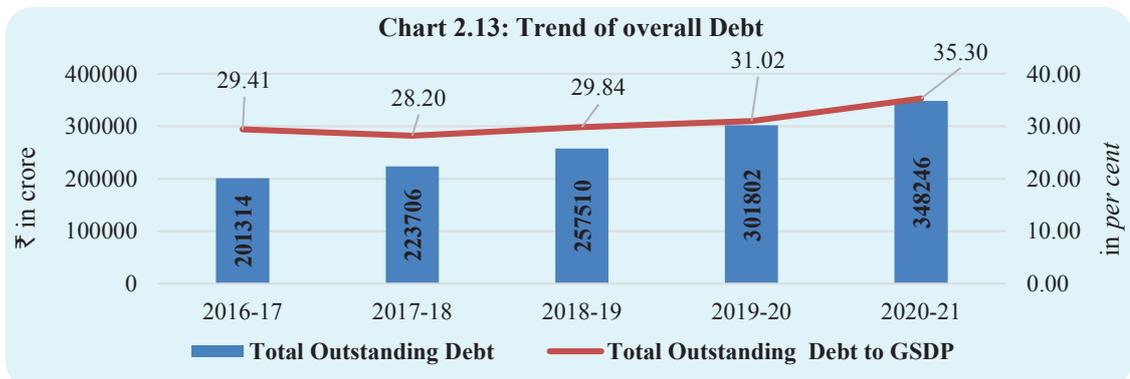
State Government during the year 2019-20 transferred ₹1,100 crore to Personal Deposit Account by showing expenditure under Major Head 2245 – Disaster Relief and Rehabilitation in violation of the Appropriation Act stating that these funds were demarcated for pandemic related expenditure and were utilised in the following financial year. The entire expenditure transferred to PD Account was adjusted from SDRF, by showing it as deduct expenditure under Minor Head 901. The said amount received from SDRF during 2019-20 was lying unutilised in the Personal Deposit Account to the end of the year March 2021.

The action of State Government in adjusting the unutilised funds provided for drought relief to a PD Account violated the SDRF accounting procedure.

2.7 Debt Management

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

The total outstanding debt of the State Government at the end of 2020-21 was ₹ 3,48,246²¹ crore. The trend of outstanding debt and ratio of debt to GSDP during the period 2016-21 is given in **Chart 2.13**.



Source: Finance Accounts of respective years; **Note:** Outstanding Debt excludes an amount of ₹ 2,311 crore received towards back-to-back loan in lieu of GST compensation as it is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources.

2.7.1 Debt profile

Total debt of the State Government consists of Internal debt of the State (market loans, Ways and Means Advances from RBI, Special securities issued to NSSF and loans from financial institutions etc.), loans and advances from the Central Government and Public Account liabilities of the State.

The details relating to total debt received, repaid, ratio of debt to GSDP and the actual quantum of debt available to the State during the five-year period 2016-21 are given in **Table 2.31** and in **Chart 2.14**.

Table 2.31: Component wise debt trends

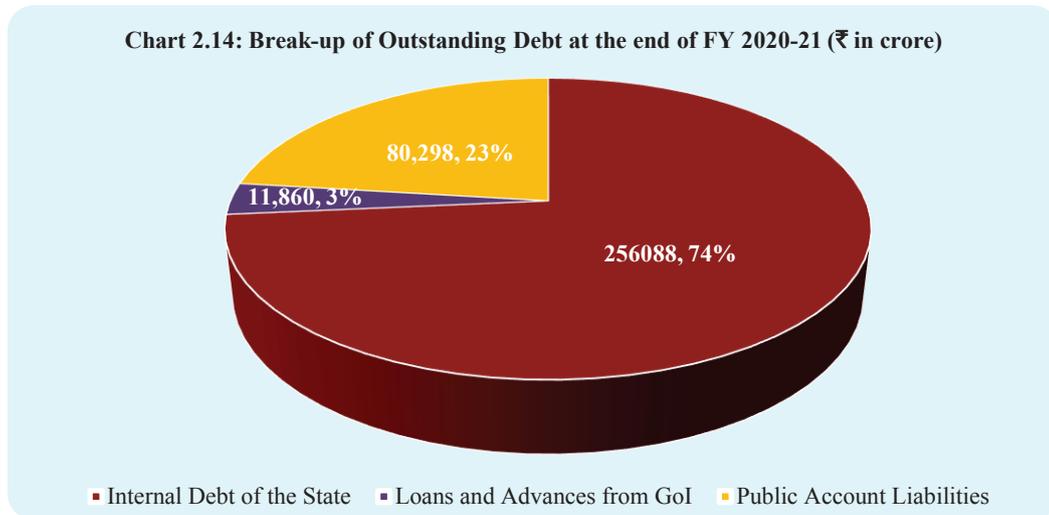
	2016-17	2017-18	2018-19	2019-20	2020-21
Outstanding Debt (₹ in crore)	2,01,314	2,23,706	2,57,510	3,01,802	3,48,246*
Public Debt (₹ in crore)					
Internal Debt	1,40,783	1,59,813	1,83,274	2,15,617	2,56,088
Loans from GoI	9,025	8,978	10,223	10,942	11,860
Public Account Liabilities (₹ in crore)	51,506	54,915	64,013	75,243	80,298
Rate of growth of outstanding debt (in per cent)	15.79	11.12	15.11	17.2	15.39
Gross State Domestic Product (GSDP)	6,84,416	7,86,135	8,70,849	9,71,224	9,86,611
Debt/GSDP (in per cent)	29.41	28.46	29.57	31.07	35.30
Total Debt Receipts (₹ in crore)	93,619	1,33,687	1,36,084	1,57,859	2,13,050
Total Debt Repayments (₹ in crore)	61,763	1,08,853	97,940	1,13,197	1,64,296
Total Debt Available (₹ in crore)	31,856	24,834	38,144	44,662	48,754
Debt Repayments/Debt Receipts (in per cent)	65.97	81.42	71.97	71.71	77.12

Source: Finance Accounts of respective years; * Outstanding Debt excludes an amount of ₹ 2,311 crore received towards back-to-back loan in lieu of GST compensation as it is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources

²¹ Outstanding Debt excludes an amount of ₹ 2,311 crore received towards back-to-back loan in lieu of GST compensation as it is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources

The outstanding Public Debt at the end of the year has increased by 72.99 per cent (₹ 1,46,932 crore) from 2016-17 to 2020-21.

Component-wise break-up of debt is shown below in **Chart 2.14**.

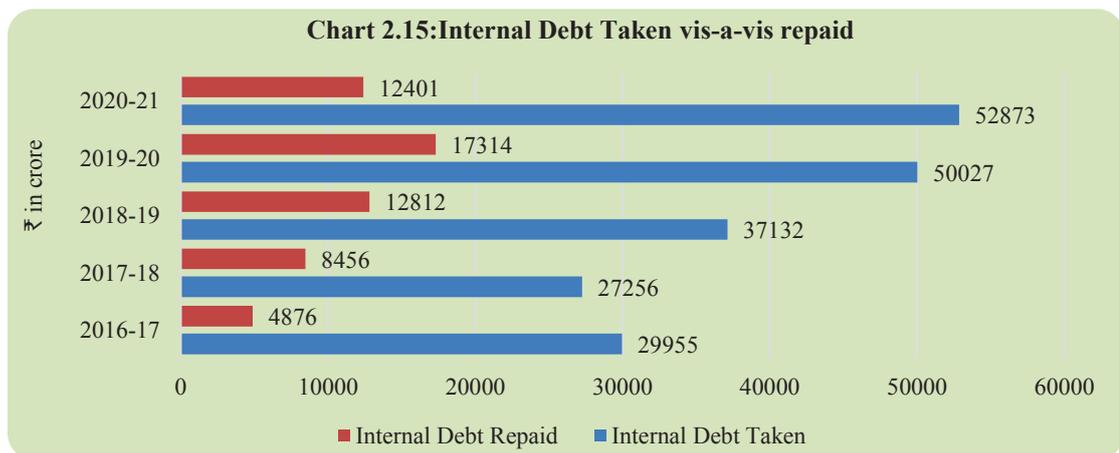


Source: Finance Accounts of 2020-21; **Note:** Outstanding Debt excludes an amount of ₹ 2,311 crore received towards back-to-back loan in lieu of GST compensation as it is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources

2.7.1.1 Internal Debt

Internal debt, which is primarily market borrowings through issue of State Development Loans (SDLs), loans from financial institutions and special securities issued to NSSF, accounts for 73 per cent of the total outstanding debt.

The details of receipt and repayment of internal debt during the years 2016-21 are given in **Chart 2.15**.



Source: Finance Accounts of respective years

As on 31 March 2021, market borrowings (₹ 2,29,318 crore) formed a major portion (89.55 per cent) of the outstanding internal debt (₹ 2,56,088 crore) of the State Government, with interest rates ranging from 5.00 to 13.99 per cent. State Government paid an interest of ₹ 18,416.99 crore on Internal Debt. From the year 2016-17 to 2020-21, the borrowings under Internal Debt have increased by 76.51 per cent.

2.7.1.2 Loans from GoI

Loans from GoI (₹ 14,171 crore) accounted for 4.04 *per cent* of the total outstanding debt. During the year State Government has availed of ₹ 4,562.74 crore from GoI and paid an interest of ₹ 421.81 crore at interest rates ranging from 7.00 to 13.99 *per cent*.

Out of the total loan availed, an amount of ₹ 2,311 crore has been provided by GoI for shortfall arising out of GST implementation through issue of debt under a Special Window coordinated by Ministry of Finance²². GoI has decided that GST compensation of ₹ 2,311 crore given to State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

An amount of ₹ 688 crore has been borrowed from GoI as “Special Assistance as loan to States for Capital Expenditure”.

2.7.2 Per-capita Liability

The per-capita liability of the State of Andhra Pradesh for the period 2016-21 is as below:

Table 2.32: Per-capita liability

	2016-17	2017-18	2018-19	2019-20	2020-21
Total outstanding liabilities (₹ in crore)	2,01,314	2,23,706	2,57,510	3,01,802	3,48,246
Population (in crore)	5.07	5.10	5.13	5.16	5.19
Per capita liability (in ₹)	39,673.08	43,828.81	50,156.89	58,441.22	67,484.88

Note: Outstanding liabilities excludes an amount of ₹ 2,311 crore received towards back-to-back loan in lieu of GST compensation as it is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources

As seen from the above table that, the per-capita liability of the State of Andhra Pradesh has been increased by 70 *per cent* over the period of five years.

2.7.3 Debt Maturity profile

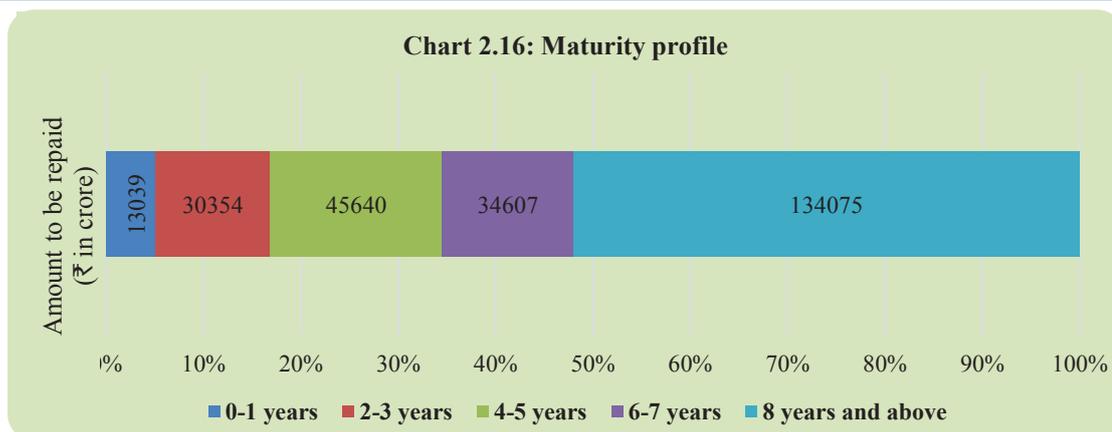
Debt maturity profile indicates commitment on the part of the Government for debt repayment or debt servicing in future years. The details of debt maturity profile are given in **Table 2.33** and **Chart 2.16**:

Table 2.33: Maturity Profile of State Debt

Period of repayment (Years)	Amount (₹ in crore)	Percentage (w.r.t. Public Debt)
0 – 1	13,039	4.82
2 – 3	30,354	11.23
4 – 5	45,640	16.88
6 – 7	34,607	12.8
8 years and above	1,34,075	49.6
Others ²³	12,597	4.66
Total	2,70,312	

²² GoI's letter No.F.No.40(1) PF-S/2021-22 dated 10-12-2021

²³ Payment schedule of this amount is not being maintained by the Accountant General (A&E) and reconciliation issues have been raised due to payments being accounted for under MH 6003 without credits (₹ 50 crore). It includes loans taken from GoI as special assistance for shortfall in GST for which State will not be required to service the debt or to repay it from any other source



Source: Finance Accounts 2020-21;

The maturity profile of debt as on 31 March 2021 indicated that State would have to repay 45.74 per cent of debt (₹ 1,23,640 crore) within the next seven years. State Government has to mobilise additional revenue resources and formulate a well thought out debt strategy to meet this debt burden. Unless there is a definite plan to meet this liability, the resources available for development will shrink further.

2.7.4 Debt Sustainability Analysis

Debt is considered sustainable if the borrower, in this case the State is in a position to service its debt now and in future. Debt sustainability indicators accordingly seek to assess the credit worthiness and the liquidity position of the borrower by examining their ability to service the debt through timely interest payments and repay debt out of current and regular sources of revenue.

This section assesses the sustainability of debt of the State Government in terms of debt/GSDP ratio, Fiscal Deficit, burden of interest payments (measured by ratio of interest payments to Revenue Receipts) and maturity profile of the State Government debt.

Table 2.34 shows the debt sustainability of the State according to these indicators for the five-year period beginning from 2016-17.

Table 2.34: Trends in Debt Sustainability Indicators

Debt Sustainability Indicators	2016-17	2017-18	2018-19	2019-20	2020-21
Outstanding Public Debt* (₹in crore)	2,01,314	2,23,706	2,57,510	3,01,802	3,48,246
Rate of Growth of Outstanding Public Debt (in per cent)	15.79	11.12	15.11	17.20	15.39
GSDP (₹in crore)	6,84,416	7,93,186	8,62,957	9,72,782	9,86,611
Rate of Growth of GSDP (in per cent)	13.27	15.89	8.80	12.73	1.58
Debt/GSDP (in per cent)	29.41	28.20	29.84	31.02	35.30
Average interest Rate of Outstanding Public Debt (in per cent)	6.31	6.52	6.37	6.31	6.16
Percentage of Interest payment to Revenue Receipt (in per cent)	11.82	13.18	13.38	15.90	17.09

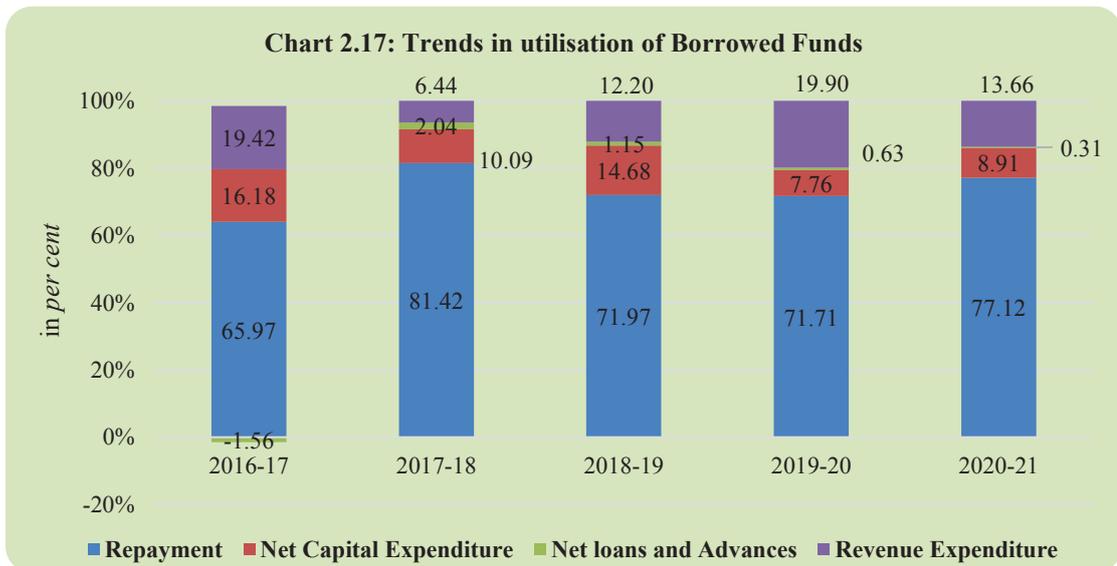
Debt Sustainability Indicators	2016-17	2017-18	2018-19	2019-20	2020-21
Percentage of Debt Repayment to Debt Receipt (in per cent)	65.97	81.42	71.97	71.71	77.12
Net Debt available to the State [#] (₹in crore)	20,159	10,987	22,802	27,009	28,736
Net Debt available as per cent to Debt Receipts (in per cent)	21.53	8.22	16.76	17.11	13.49

Source: Finance Accounts; *Outstanding Public Debt is the sum of outstanding balances under the heads 6003- Internal Debt and 6004- Loans and Advances from the Central Government; #Net debt available to the State Government is calculated as excess of Public debt receipts over Public debt repayment and interest payment on Public Debt; **Note:** Outstanding Debt excludes an amount of ₹2,311 crore received towards back-to-back loan in lieu of GST compensation as it is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources

The trends in utilisation of borrowed funds are depicted in **Table 2.35** and **Chart 2.17**.

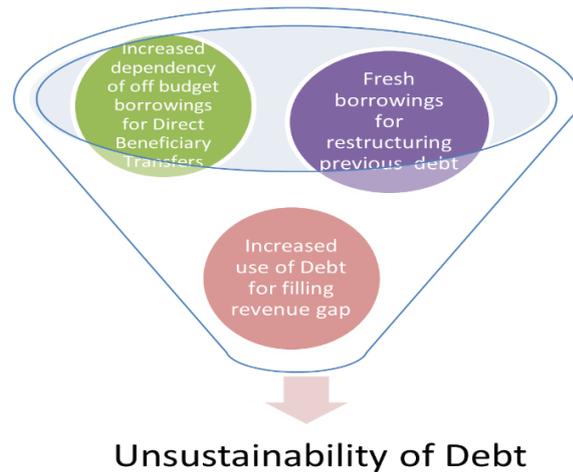
Table 2.35: Trends in utilisation of borrowed funds

Year		2016-17	2017-18	2018-19	2019-20	2020-21
Total Borrowings	2	93,619	1,33,687	1,36,084	1,57,859	2,13,050
Repayment of earlier borrowings (Principal) (per cent)	3	61,763 (65.97)	1,08,853 (81.42)	97,940 (71.97)	1,13,197 (71.71)	1,64,296 (77.12)
Net capital expenditure (Per cent)	4	15,143 (16.18)	13,491 (10.09)	19,976 (14.68)	12,242 (7.76)	18,975 (8.91)
Net loans and advances	5	(-)-1,465	2,730	1,566	1,001	652
Portion of Revenue expenditure met out of net available borrowings	6=2-3-4-5	18,178	8,613	16,602	31,419	29,127



Source: Finance Accounts of respective years

During the period 2016-21, the borrowed funds were mostly utilised for debt repayment and filling the gap of Revenue account, which reduces the productivity of the borrowed funds. In case, Off Budget Borrowings are taken into account, the debt sustainability is suspect.



- a. AP FRBM Act targeted the Outstanding Debt to be not more than 35 *per cent* of GSDP to the end of 2020-21. The State Government failed to adhere to the target, as the Outstanding Debt-GSDP ratio was 35.30 *per cent* as on 31 March 2021. Further, the Debt to GSDP ratio has been increasing rapidly (except during 2017-18), pointing to the probability of debt not being sustainable. Outstanding Debt to GSDP ratio will shoot up to 44.04 *per cent*, if off-budget borrowings are added to Outstanding Debt.
- b. Ratio of Interest payments to Revenue Receipts has also been increasing year-by-year, leaving less funds for priority areas. Predominant part of borrowed funds is utilised for interest payments, thereby curtailing the scope of utilising the borrowed funds for productive expenditure.
- c. Approximately 65 to 81 *per cent* of borrowed funds were used for repayment of debt during the period 2016-17 to 2020-21, indicating that the State is borrowing primarily for restructuring of previous debts rather than for infrastructure creation.

Borrowed funds should ideally be used to fund capital creation and developmental activities. Using borrowed funds for meeting current consumption and repayment of interest on outstanding debt is not sustainable. Along with the borrowings raised, the State Government has been establishing Corporations/PSUs/SPVs to raise the funds as off budgetary borrowings from the market outside the ambit of FRBM Act to implement the State policies/works. This further increases the interest burden of the State Government.

The State Government in its response stated that, the increase of debt during 2020-21 is mainly on the account of fall in state's own revenues and increase in expenditure to manage the COVID-19 pandemic.

2.7.5 Off-Budget Borrowings

Off-budget borrowings or off-budget financing generally refer to use of those financial resources by the Government for meeting expenditure requirements in a particular year or years, which are not reflected in the budget for that year/ those years for seeking grant/appropriation, hence remaining outside legislative control. These are financed

through Government owned or controlled public sector enterprises or departmental commercial undertakings, which raise the resources through market borrowings on behalf of the Government. However, the Government is to repay the debt and/or service the debt from its budget. Therefore, off-budget borrowings/financing involve (a) payment of interest on recurrent basis and (b) repayment of the borrowings from budget as and when it is due.

The FRBM Act provides debt management framework through containing revenue and fiscal deficits. Prudential borrowing norms suggest that borrowed funds should be deployed in such a manner that return from deployment of borrowed funds is more than borrowing cost of debt to be sustainable. It is, therefore, essential that there should be a policy framework for deployment of borrowed funds keeping in mind the cost of borrowing and potential of increase in income.

Government of Andhra Pradesh had not disclosed the quantum or source of proposed off-budget borrowings (OBB) in its budget. It was observed that State Government however budgeted funds to the tune of ₹ 3,062.09 crore under the Revenue Expenditure heads to provide assistance to Corporations to service the principal or interest for these borrowings which were to the tune of ₹ 2,167.11 crore during the year 2020-21. There was, however, no disclosure relating to these off-budget borrowings in Government's report under APFRBM Act.

State Government has resorted to such off-budgetary borrowings to the tune of ₹ 86,259.82 crore to the end of 31 March 2021 through the Corporations/PSUs as detailed in **Table 2.36**.

Table 2.36: Off-Budget Borrowings to the end of March 2021

(₹ in crore)							
Sl. No.	Institution	PSU /AB	Borrowings during 2020-21	Borrowings by institution as of March 2021	Guarantee provided by Government as of March 2021	Funds provided (in the form of grants) by Government for payment of interest / repayment of loan during 2020-21	Amount considered as OBB as of March 2021 (Column 5)
1	2	3	4	5	6	7	8
1	AP Water Resources Development Corporation	PSU	1,666.10	8,485.10	15,286.00	591.91	8,485.10
2	AP Power Finance Corporation	PSU	8,174.60	15,161.00	17,727.73	0.00	15,161.00
3	AP State Civil Supplies Corporation	PSU	9,000.00	30,181.60	32,000.00	0.00	30,181.60
4	AP State Development Corporation ²⁴	PSU	17,472.00	17,472.00	25,000.00	910.75	17,472.00

²⁴ Borrowings were made on the revenues escrowed to the corporation and the guarantee was yet to be invoked.

Sl. No.	Institution	PSU /AB	Borrowings during 2020-21	Borrowings by institution as of March 2021	Guarantee provided by Government as of March 2021	Funds provided (in the form of grants) by Government for payment of interest / repayment of loan during 2020-21	Amount considered as OBB as of March 2021 (Column 5)
5	AP Industrial Infrastructure Corporation	PSU	0.00	2,000.00	2,000.00	135.57	2,000.00
6	AP Township and Infrastructure Development Corporation	PSU	0.00	6,101.59	7,277.20	528.88	6,101.59
7	AP Road Development Corporation	PSU	2,000.00	6,858.53	6,858.53	120.40	6,858.53
	Total		38,312.70	86,259.82	1,06,149.46	2,287.51	86,259.82

Source: Information provided by respective PSUs

The overall liability of the State including these outstanding Off-Budget Borrowings as on 31 March 2021 was ₹ 4,34,506 crore (₹ 3,48,246²⁵ crore and ₹ 86,260 crore) and this constitute 44.04 per cent of GSDP.

Borrowings of these concerns ultimately are the liabilities of the State Government. These Off-Budget Borrowings are not taken into the disclosure statement in the budget documents, nor do they have legislative approval.

Moreover, these off-budget borrowings by the State Government have the effect of bypassing the Net Borrowing Ceiling (NBC) of the State by routing loans outside State budget through Government owned or controlled Companies/ statutory bodies despite being responsible for repayment of such loans. Such borrowings naturally impact the Revenue Deficit and Fiscal Deficit and thus have the effect of surpassing the targets set for fiscal indicators under 'AP FRBM Act 2021' (as amended from time to time). Creating such liabilities, without disclosing them in the budget, raise questions both of transparency and of inter-generational equity. If the State Government increasingly resorts to the off-budget route to finance revenue spending, the liabilities of the State may increase substantially over a period, without the Legislature even knowing that such liabilities are being created.

State Government replied that all the guarantees were extended with the approval of Council of Ministers & details are regularly placed before the legislature as the Statement of Fiscal Policy framework along with the budgetary documents vide Forms D4 & D5 of Fiscal Policy Statement.

The reply is not pertinent. The Audit observation pertains to disclosure of the debts relating to Off-Budget Borrowings through PSUs in the budget.

²⁵ Outstanding Liabilities excludes an amount of ₹ 2,311 crore received towards back-to-back loan in lieu of GST compensation as it is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources.

2.7.5.1 *AP State Development Corporation Limited*

Andhra Pradesh State Development Corporation Limited (APSDCL) was established (August 2020) with a mandate of planning, funding, and financing social and economic development projects and activities in the State of Andhra Pradesh.

Source of Revenue:

The main objective of APSDCL was raising loans for various socio-economic development projects in Andhra Pradesh.

Government was to identify and dedicate the requisite resources comprising of the existing and new revenue streams through the levy of new/additional taxes/cesses/fees, charges etc., and duly assign these revenues to the APSDC and deposit in escrow for the benefit of the APSDC.

State Government (November 2020) decided that, Loans raised by the corporation shall be serviced through Additional Retail Excise Tax revenues escrowed to the corporation and the State Government has also extended conditional Guarantee of ₹ 25,000 crore to raise rupee term loans on the following conditions:

1. Rollback of Additional Retail Excise Tax (ARET) and /or
2. Reduction of ARET rate by GoAP
3. Subsuming of ARET into GST
4. Prohibition on sale of Liquor in the State of AP
5. Debt Service Reserve Account (DSRA) not restored to the required level within 45 days after utilization.

During the year 2020-21, the State Government budgeted and assigned ₹ 910.75 crore as Grants-in-Aid to APSDCL for further transferring to escrow account.

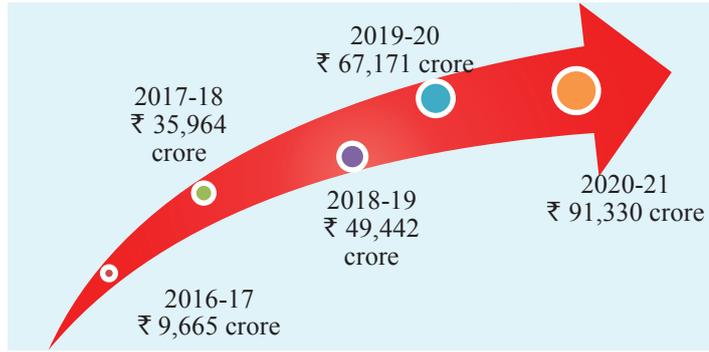
APSDCL raised ₹ 17,472 crore as Rupee term loans on pledging the funds in escrow account from different banks and spent ₹ 17,351.50 crore during 2020-21 for implementation of schemes such as “Amma Vodi”, “YSR Aasara” and “YSR Cheyutha”.

APSDCL has no revenue of its own and the State Government has to defray the debt obligations of APSDCL by transferring its own revenue resources on a regular basis through State budget as provided under APSDC Act. Merely because these repayment obligations are provided in the Act does not detract from the fact that the liabilities of APSDCL are a direct charge on the Government’s own revenue resources and are thus direct liability of the State Government.

2.8 Guarantees – Contingent Liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. The trends of outstanding Guarantees during the years 2016-17 to 2020-21 is given in **Chart 2.18**.

Chart 2.18: Outstanding amount of guarantees



The State Government, in its FRBM Act, had committed to limit the amount of annual incremental guarantees to 90 per cent of the total revenue receipts in the year preceding the current year.

Source: Finance Accounts of respective years

The outstanding guarantees (₹ 91,330 crore) were 82.25 per cent of revenue receipts of previous year (₹ 1,11,034 crore) which is within the prescribed limits.

Table 2.37: Ceiling vis-à-vis actual Guarantees

Guarantees	(₹ in crore)				
	2016-17	2017-18	2018-19	2019-20	2020-21
Ceiling applicable to the outstanding amount of guarantees (90 per cent of the total revenue receipts in the year preceding the current year)	79,783	89,086	94,556	1,03,204	99,931
Actual amount of outstanding guarantees	9,665	35,964	49,442	67,171	91,330

Source: Finance Accounts of respective years

The outstanding guarantees increased by ₹ 24,159 crore from 2019-20 mainly due to the new guarantees issued by the State Government to AP Markfed (₹ 1,700 crore), AP State Beverages Corporation Limited (₹ 1,400 crore), AP Seed Development Corporation (₹ 1,000 crore), AP Power Development Company Ltd (₹ 610 crore) and APUFIDC (₹ 154.92 crore). The State Government has also increased the guarantees to AP State Civil Supplies corporation (₹ 7,700 crore), AP Power Finance Corporation (₹ 5,417 crore), APWRDC (₹ 4,360.11 crore), AP TRANSCO and DISCOMS (₹ 3,217.82 crore) in 2020-21 compared to 2019-20.

The State Government has provided total guarantees to various institutions to the tune of ₹ 1,19,230 crore as on 31 March 2021. State Government has also extended a Guarantee of ₹ 25,000 crore to APSDC for raising rupee term loans from Scheduled Commercial Banks. However, the details of this Guarantee were not disclosed in the Budget documents for the year 2021-22 of the Government of Andhra Pradesh. Thus, the total Guarantees, as on 31st March 2021, amounted to ₹ 1,44,230 (₹ 1,19,230 + ₹ 25,000) crore.

The Government Order of 2003²⁶ stipulated that the guarantee shall cover only the principal portion of the loan and not the interest thereon. Guarantees were, however, extended by the Government for the interest portion also on the loan amounting to ₹ 22.80 crore in respect of one borrowing entity²⁷. No reasons were found on record or furnished to Audit for extending guarantees for the interest portion and aid to pay interest to the tune of ₹ 2,167.11 crore (Refer para 2.7.5 of the report).

²⁶G.O.Ms.No.446, dated 29 September 2003

²⁷ Director of Sugar and Cane Commissioner

Guarantee commission is to be charged at 0.5 *per cent* per annum or two *per cent* consolidated for the entire guarantee period. During the year 2020-21, State Government received ₹ 39.05²⁸ crore as Guarantee commission as against the receivable amount of ₹ 1,499.94 crore.

AP State Housing Corporation Limited (APSHCL) has remitted Guarantee Commission of ₹ 39.05 crore to State Government during 2020-21 from the PD Account²⁹ of the Corporation for the Guarantee given by the State Government. The amount was remitted by the APSHCL through the funds budgeted and paid out of Consolidated Fund of the State. The State Government has made payment of ₹ 39.05 crore to APSHCL to remit the Guarantee Commission into consolidated Fund of the State. These transactions inflated the Revenue Receipts and Revenue Expenditure of the State to that extent.

2.9 Management of Cash Balances

As per an agreement with the Reserve Bank of India, the State Government has to maintain a minimum daily cash balance of ₹ 1.94 crore with the Bank. If the balance falls below the agreed minimum on any day, the deficiency is made good by ordinary Ways and Means Advances (WMA)/ Special Ways and Means Advances (SWMA)/ Overdrafts (OD) from time to time. The limit for ordinary WMA to the State Government is revised by the RBI from time to time.

Table 2.38 depicts the cash balances and investments thereof by the State Government during the year.

Table 2.38: Cash Balances and their Investment

	(₹ in crore)	
	Opening balance on 01/04/2020	Closing Balance on 31/03/2021
(a) General Cash Balance		
Cash in Treasuries	--	--
Deposits with Reserve Bank	480.36	(-) 70.04
Deposits with other Banks	1.34	1.34
Remittances in transit - Local	2.9	--
Total	484.6	(-) 68.70
Investments held in Cash Balance investment account	5,132.71	745.82
Total (a)	5,617.31	677.12
(b) Other Cash Balances and Investments		
Cash with Departmental officers <i>viz.</i> , Public Works Department Officers, Forest Department Officers, District Collectors	0.9	1.03
Permanent advances for contingent expenditure with Departmental officers	1.64	1.64
Investment out of Earmarked Funds	9,073.71	9,811.53
Total (b)	9,076.25	9,814.20
Grand Total (a)+ (b)	14,693.56	10,491.32

Source: Finance Accounts 2020-21;

²⁸ APSHCL remitted ₹ 39.05 crore and ₹ 26,084 was received from various institutions.

²⁹ 8443-00-106-02-20-006-001

During the year 2020-21, the State Government maintained the minimum daily cash balance of ₹ 1.94 crore with the RBI for 34 days out of 365 days.

During the year 2020-21, the State Government had resorted to WMA, SDF and OD of ₹ 1,04,539.24 crore on 331 days to maintain its minimum cash balance (₹ 1.94 crore) with the RBI and repaid an amount of ₹ 1,04,539.24 crore along with an interest of ₹ 83.05 crore. State Government needs to strengthen its cash management system in a manner that would obviate the need to resort to WMA/SDF/OD frequently and reduce its interest expenditure.

Cash Balances of the State Government at the end of the current year decreased by ₹ 4,202.24 crore from ₹ 14,693.56 crore in 2019-20 to ₹ 10,491.32 crore in 2020-21.

State Government invests its surplus cash balance in short and long-term GoI Securities and Treasury Bills. The profits derived from such investments are credited as receipts under the Head '0049-Interest Receipts'. The State Government has earned an interest of four crore during 2020-21 from its investments in GoI Securities and Treasury Bills.

Out of the investment of ₹ 9,811.53 crore in earmarked funds, ₹ 8,931.89 crore was invested in Consolidated Sinking Fund and ₹ 874.37 crore in Guarantee Redemption Fund at the end of the year.

2.9.1 Cash balance Investment Account

The details of Cash Balance Investment Account for the period 2015-21 are given in Table 2.39.

Table 2.39: Cash Balance Investment Account (Major Head-8673)

(₹ in crore)

Year	Opening Balance	Closing Balance	Increase (+) / decrease (-)	Interest earned
2015-16	0	3,193.28	3,193.28	89.25
2016-17	3,193.28	3,697.92	504.64	66.18
2017-18	3,697.92	0	(-) 3,697.92	45.29
2018-19	0	0	0	15.30
2019-20	0	5,132.71	5,132.71	21.65
2020-21	5,132.71	745.82	(-) 4,386.89	3.61

Chart 2.19 shows the daily cash balance during 2020-21 of the State.

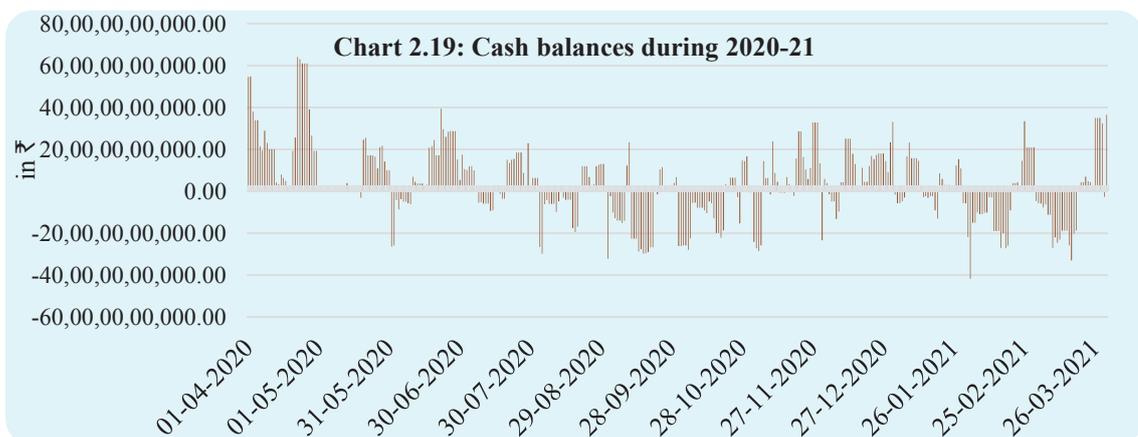
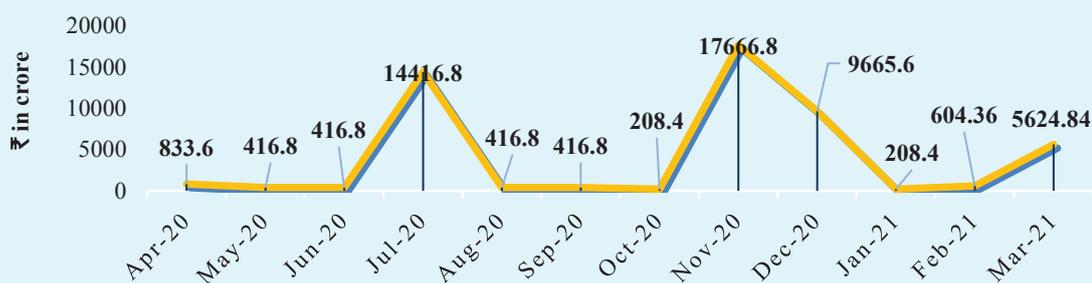


CHART 2.20: MONTHLY MOVEMENT OF MARKET BORROWINGS DURING 2020-21



Source: Data provided by O/o PAG (A&E)

The above charts indicate that the negative cash balances led the State Government to resort to market loans as shown in **Chart 2.20** on several occasions during the year ranging from ₹ 417 crore (May 2020) to ₹ 17,667 crore (November 2020) as well as WMA throughout the year.

2.10 Apportionment of balances between Andhra Pradesh and Telangana

As per the Andhra Pradesh State Reorganisation Act, 2014, the balances under Cumulative Capital Expenditure, Loans and Advances, Public Debt and the balances under Public Account are to be apportioned between Andhra Pradesh and Telangana States. The status of apportionment as on 31 March 2020 is as under (details are in **Appendix 2.1**):

- As of end of March 2020, an amount of ₹ 1,51,349.67 crore under Capital Heads, ₹ 28,099.69 crore under Loans and Advances, ₹ 4,474.04 crore under Deposits and Advances, ₹ 238 crore under Suspense and Miscellaneous and ₹ 310.24 crore under Remittances was yet to be apportioned between the two States even after more than five years of bifurcation/re-organisation of the State. The whopping amount under Capital Head pertains to Major Irrigation (₹ 87,707.44 crore) and Roads and Bridges (₹ 17,182.87 crore). Amount under Loans and Advances pertains primarily to loans for housing (₹ 13,182.17 crore).

The assets and liabilities of the State Government as depicted in the Finance Accounts are affected to that extent.

State Government has stated that it is regularly representing in various fora for the early bifurcation of Loans & Advances and the assets. It is also stated that state is being forced to borrow more at higher rate of interest to repay the debt obligations of EAP projects pertaining to State of Telangana.

It is pertinent to mention that the AP Reorganization Act has apportioned the debt of the combined state on the basis of population only.

2.11 Conclusion

The State witnessed an increase of 5.50 per cent in Revenue Receipts during the year 2020-21 as compared to the previous year due to increase in transfers from Government of India.

The State received compensation of ₹ 5,838 crore towards revenue loss due to GST implementation, partly as Grants (₹ 3,527 crore) and partly as back-to-back loans (₹ 2,311 crore) from GOI. The debt servicing of this loan would be done from the collection of cess in the GST compensation Fund and hence, repayment obligation will not be on the other resources of State.

Revenue Expenditure increased by 11.06 per cent during 2020-21. This resulted in increase of Revenue Deficit of the State by 34.42 per cent as compared to the previous year.

Committed expenditure on Interest payments, Pensions, Administrative expenses etc., was higher than the average for General States (GS) and quality of expenditure on physical infrastructure was lower than the average of GS.

Transfer of ₹ 1,100 crore funds relating to State Disaster Response Fund received during 2019-20 to Personal Deposit Account violated the extant Rules and accounting procedure.

Outstanding Public Debt at the end of the year has increased by 15.39 per cent (₹ 46,444 crore) over the previous year. State Government has also a liability for off-budget borrowings of ₹ 86,260 crore, which it has not disclosed appropriately as part of its budget documents. This has the impact of diluting public financial management and oversight role of the Legislature and placing major sources of funding of Government's crucial infrastructure projects beyond the control of the Legislature.

2.12 Recommendations

- 1. State Government needs to make stringent efforts to mobilise additional revenue resources to fund its various socio-economic developmental schemes rather than financing its revenue expenditure through debt.*
- 2. Capital expenditure needs to be increased significantly for infrastructure creation to provide stimulus for economic growth.*
- 3. State Government may place on record the debt servicing capacity of the institutions before providing guarantees / loans. Future guarantees / loans may be predicated on furnishing of the audited accounts of the concerned entities to whom guarantees are provided.*
- 4. State Government needs to disclose properly its off-budget borrowings by way of loans taken through Special Purpose Vehicles/ Public Sector Undertakings/ Autonomous Bodies for implementation of Government schemes, to ensure transparency and accountability with regard to fund management and compliance with FRBM norms.*