

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 2017-18 to 2021-22, 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 2021-22 vis-à-vis 2020-21

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 2021-22 compared to 2020-21

Revenue Receipts	<ul style="list-style-type: none"> ➤ Revenue receipts of the State increased by 28.53 per cent ➤ Own tax receipts of the State increased by 23.64 per cent ➤ Own non-tax receipts increased by 47.78 per cent ➤ State's share of Union Taxes and Duties increased by 44.67 per cent ➤ Grants-in-Aid from Government of India increased by 22.90 per cent
Revenue Expenditure	<ul style="list-style-type: none"> ➤ Revenue expenditure increased by 4.25 per cent ➤ Revenue expenditure on General Services increased by 14.56 per cent ➤ Revenue expenditure on Social Services increased by 4.93 per cent ➤ Revenue expenditure on Economic Services decreased by 10.36 per cent
Capital Expenditure	<ul style="list-style-type: none"> ➤ Capital expenditure decreased by 13.71 per cent ➤ Capital expenditure on General Services decreased by 69.39 per cent ➤ Capital expenditure on Social Services increased by 22.31 per cent ➤ Capital expenditure on Economic Services increased by 10.26 per cent
Loans and Advances	<ul style="list-style-type: none"> ➤ Disbursement of Loans and Advances increased by 24.66 per cent ➤ Recoveries of Loans and Advances increased by 98.49 per cent
Public Debt	<ul style="list-style-type: none"> ➤ Public Debt Receipts decreased by 1.46 per cent ➤ Repayment of Public Debt increased by 1.67 per cent
Public Account	<ul style="list-style-type: none"> ➤ Public Account Receipts decreased by 134.31 per cent ➤ Disbursements of Public Account decreased by 130.57 per cent
Cash Balance	<ul style="list-style-type: none"> ➤ Cash balance increased by ₹ 1,835 crore (17.49 per cent) during 2021-22 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 2021-22 with 2020-21 figures.

Table 2.2: Sources and Application of funds during 2020-21 and 2021-22

(₹ in crore)

	Particulars	2020-21	2021-22	Increase/ Decrease (in per cent)
Sources	Opening Cash Balance with RBI	14,691	10,491	(-) 28.59
	Revenue Receipts	1,17,136	1,50,552	28.53
	Capital Receipts	0	(-) 1	NA
	Recoveries of Loans and Advances	1,063	2,110	98.49
	Public Debt Receipts (Net)	43,700	39,364	(-) 9.92
	Public Account Receipts (Net)	7,268	(-) 12,515	(-) 272.19
	Total	1,83,858	1,90,001	3.34
Application	Revenue Expenditure	1,52,677	1,59,163	4.25
	Capital Expenditure	18,975	16,373	(-) 13.71
	Disbursement of Loans and Advances	1,715	2,138	24.66
	Inter State Settlement	0	0	0.00
	Contingency fund	0	1	NA
	Closing Cash Balance with RBI	10,491	12,326	17.49
	Total	1,83,858	1,90,001	3.34

Source: Finance Accounts 2021-22

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

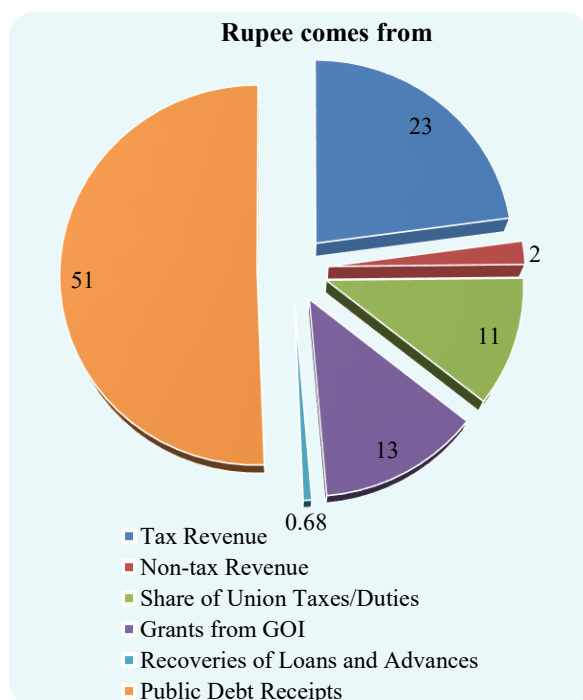
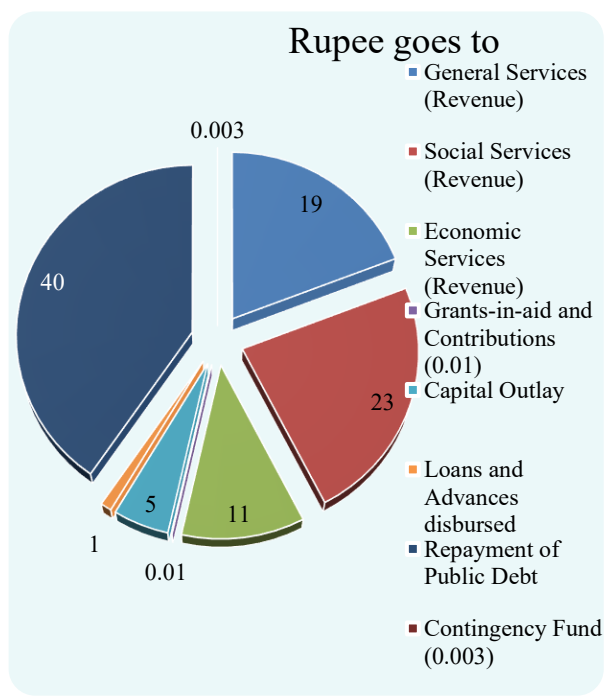


Chart 2.2: Application of Funds

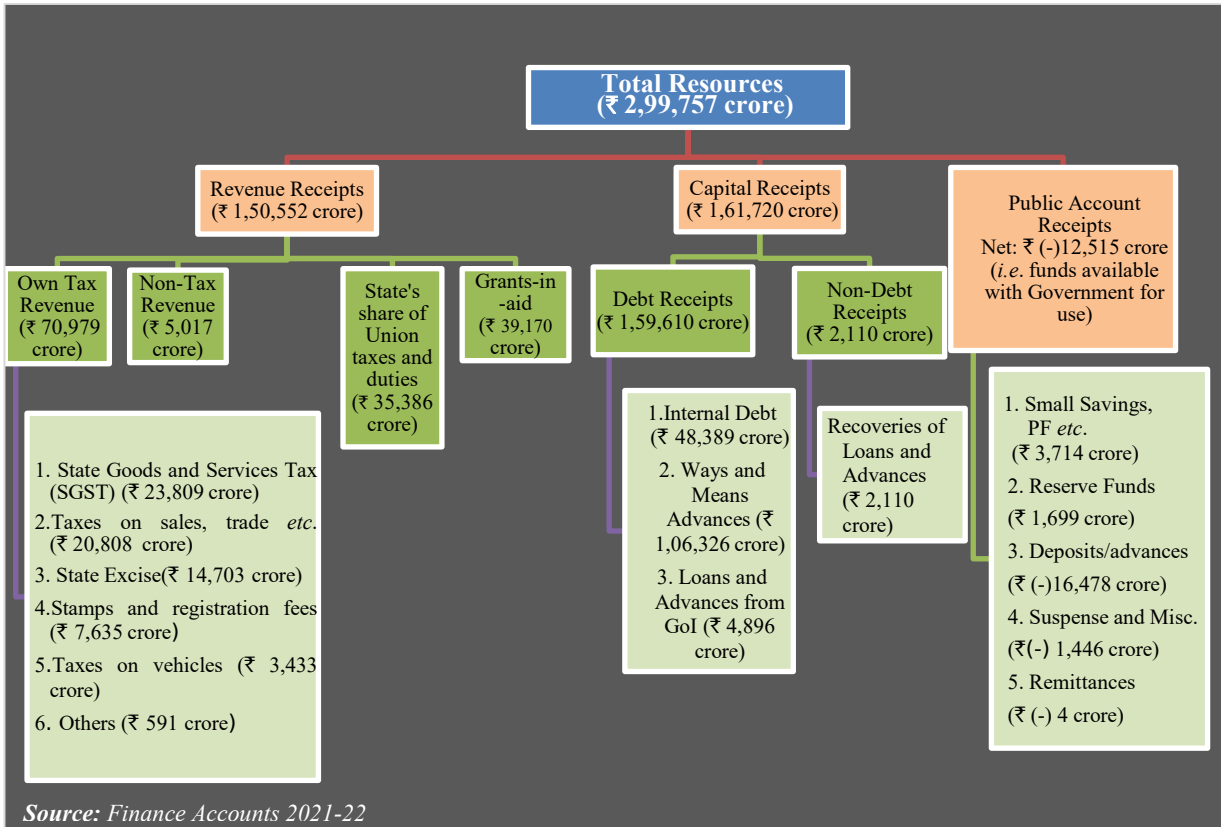


Source: Finance Accounts 2021-22

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 2021-22



During the year 2021-22, out of the total resources of ₹ 2,99,757 crore of the State Government, Revenue Receipts (₹ 1,50,552 crore) constituted 50.22 per cent, Capital Receipts (₹ 1,61,720 crore) constituted 53.95 per cent and net Public Account Receipts (₹ -12,515 crore) and (-) 4.17 per cent of the total resources.

2.4.1 Revenue receipts

The details of Revenue Receipts of the State Government were given in Statement 14 of the Finance Accounts. During 2021-22, the Revenue Receipts (₹ 1,50,552 crore) of the State increased by ₹ 33,416 crore (28.53 per cent) over the previous year (₹ 1,17,136 crore) and constituted 12.53 per cent of GSDP (₹ 12,01,736 crore).

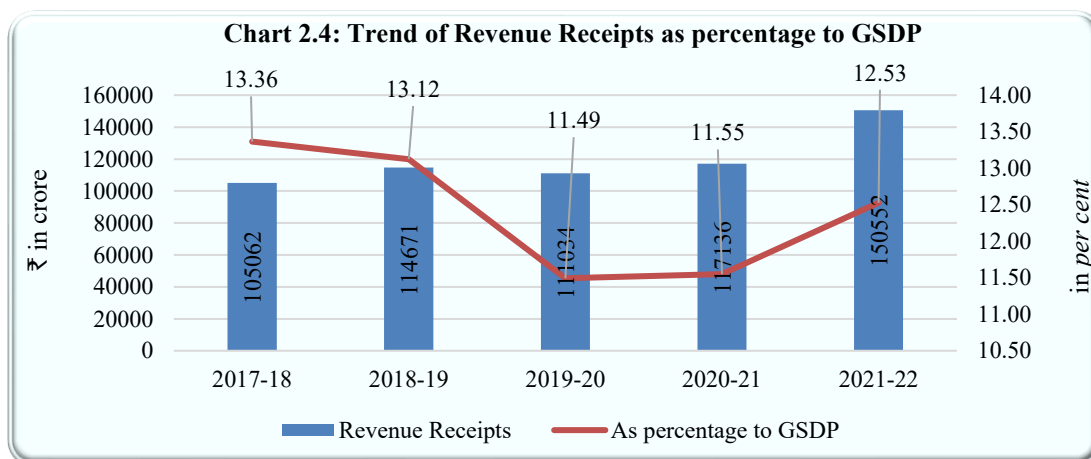
The trends and growth of Revenue Receipts as well as revenue buoyancy with respect to GSDP of the State over the five-year period 2017-22 are detailed in Table 2.3. Further, trends of Revenue Receipts vis-à-vis GSDP and the composition of revenue Receipts are depicted in *Charts 2.4* and *2.5* respectively.

Table 2.3: Trends in revenue receipts

Parameters	2017-18	2018-19	2019-20	2020-21	2021-22
Revenue Receipts (RR) (₹ in crore)	1,05,062	1,14,671	1,11,034	1,17,136	1,50,552
Rate of growth of RR (per cent)	6.14	9.15	-3.17	5.50	28.53
Own Tax Revenue	49,486	58,031	57,601	57,409	70,979
Non-Tax Revenue	3,814	4,396	3,315	3,395	5,017
Rate of growth of Own Revenue (Own Tax and Non-tax Revenue)	7.95	17.12	-2.42	-0.18	24.99

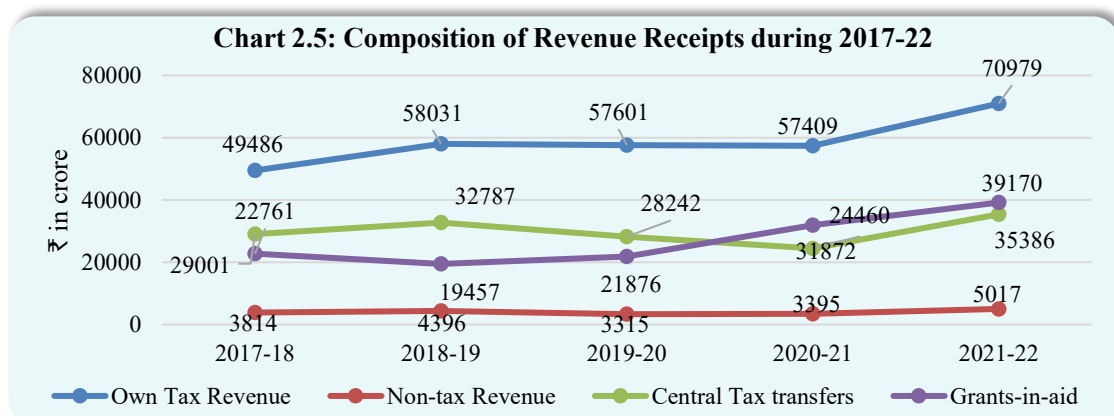
Parameters	2017-18	2018-19	2019-20	2020-21	2021-22
<i>(per cent)</i>					
Gross State Domestic Product (₹ in crore) (2011-12 Series)	7,86,135	8,73,721	9,66,099	10,14,374	12,01,736
Rate of growth of GSDP (per cent)	14.86	11.14	10.57	5.00	18.47
RR/GSDP (per cent)	13.36	13.12	11.49	11.55	12.53
Buoyancy Ratios⁴					
Revenue Buoyancy w.r.t GSDP	0.41	0.82	-0.30	1.10	1.54
State's Own Revenue Buoyancy w.r.t GSDP	0.53	1.54	-0.23	-0.04	1.35

Source: Finance Accounts of respective years



Source: Finance Accounts of respective years

During the period 2017-22, the Revenue Receipts of the State Government had shown steady growth during the period from 2017-18 to 2020-21 except during 2018-19; but registered a steep growth in 2021-22 when compared to the previous year 2020-21. However, when compared to GSDP, the Revenue Receipts of the State showed decreasing trend for the years 2017-18 to 2019-20 and increasing trend for the years 2020-21 and 2021-22.



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 example, 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. During the five-year period of 2017-18 to 2021-22, the Revenue Receipts of the State increased by 45,490 crore (increase of 43.30 *per cent*) from ₹ 1,05,062 crore in 2017-18 to ₹ 1,50,552 crore in 2021-22. The increase of revenue was due to increase in tax revenue and grants-in-aid from Government of India.
2. The State Government's Own Tax Revenue (OTR) contributed for more than 40 *per cent* of the Revenue Receipts during the five-year period 2017-22. However, the share of State's OTR in Revenue Receipts declined from 52 *per cent* in 2019-20 to 47 *per cent* in 2021-22.
3. There was positive buoyancy of Revenue Receipts during the years 2017-18 to 2018-19 and 2020-21 to 2021-22 with the highest buoyancy registered during 2021-22. There was negative buoyancy in OTR during the years 2019-20 and 2020-21 which was mainly due to decrease in State's Own Revenue. During the year 2021-22, the buoyancy of OTR with respect to GSDP was positive.

Table 2.4 highlights the cases of significant increase or decrease in various Revenue Heads of Account during 2021-22 *vis-à-vis* the previous year.

Table 2.4: Revenue Receipts during 2021-22 compared to 2020-21

Major Heads of Accounts	2020-21	2021-22	Increase (+)/ Decrease (-) (in <i>per cent</i>)
	(₹ in crore)		
1601 – Grants -in-Aid from GoI	31,871.91	39,169.65	22.90
0006 – State Goods and Services Tax (SGST)	18,871.35	23,809.43	26.17
0005 – Central Goods and Services Tax (CGST)	7,223.87	10,452.88	44.70
0039 – State Excise	11,575.07	14,702.86	27.02
0021 - Taxes on Income Other than Corporation Tax	7,603.75	10,665.89	40.27
0037 - Customs	1,269.78	2,763.52	117.64
0202 - Education, Sports, Art and Culture	18.73	420.06	2,142.71
0250 - Other Social Services	1.51	15.80	946.36
0700 – Major Irrigation	113.97	380.78	234.11
1051 - Ports and Light Houses	13.07	0.00	-100.00
0042 - Taxes on Goods and Passengers	25.06	0.61	-97.56
0029 – Land Revenue	143.38	49.97	-65.15

- a. During the year 2021-22, there was an increase in receipts under Major Head 1601 – Grants-in-Aid due to enhanced releases under Post Devolution Revenue Deficit Grant (increased over previous year by ₹ 11,360.07 crore), releases on account of Revenue Deficit grant for the year 2014-15 (₹ 1,638.39 crore), Grants to Health Sector (₹ 488.15 crore) and Grants to State Disaster Mitigation Fund (₹ 223.80 crore) by GoI.
- b. The receipts under State Excise under Major Head – 0039 – also increased by ₹ 3,011.90 crore due to growth in sale of foreign liquors, spirits and malt liquor and upward revision of Additional Retail Excise Tax (ARET) rates from September 2020 onwards.
- c. The increase under the Major Head – 0006 (Minor Head 500 – receipts awaiting transfer to other minor heads) was mainly due to non-clearance of intermediary head

amount of ₹ 7,097.89 crore during 2021-22.

d. There was an increase in Revenue Receipts on account of CGST (MH 0005), Taxes on income other than Corporation Tax (MH 0021) and Customs (MH 0037) in 2021-22 when compared to the previous year. The increase was due to an increase in tax receipts.

e. The receipts under the Major Irrigation (MH 0700) in 2021-22 increased compared to the previous year. The majority of these receipts include amounts received through encashment of bank guarantee(s) due to non-fulfillment of contractual obligations.

f. During the year 2021-22, receipts under the major heads Ports and Light Houses (MH 1051) and Taxes on Goods and Passengers (MH 0042) decreased compared to the previous year. This was due to lesser realization of Shipping dues and Tax on entry of goods in local areas.

g. During the year 2020-21, Power companies have paid lease charges to State Government for the land allotted to them which was booked under Land revenue (MH 0029). As there were no such transactions during 2021-22, there was a reduction in receipts under this head during the year 2021-22.

Overstatement of Revenue Receipts of the State Government

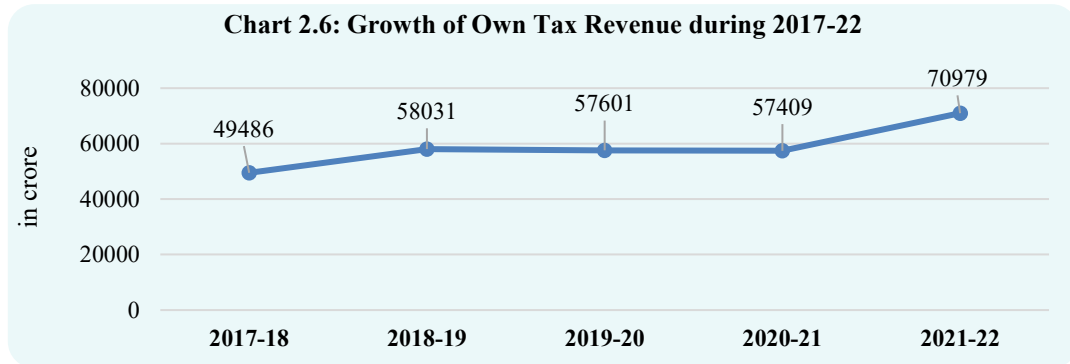
1. As per the provisions of List of Major and Minor Heads (LMMH), the amount released by the Government which remained unspent/undisbursed with the implementing agencies/ departments when remitted back, has to be taken as reduction of expenditure under respective Major head(s) where the expenditure was booked initially. During the year 2021-22, the Welfare Department remitted back an amount of ₹ 15.76 crore towards unspent/undisbursed amount of Scholarships to Backward Classes, Scheduled castes and Scheduled Tribes as receipts under the Major Head 0250 – other Social Services which resulted in overstatement of receipts under Consolidated Fund of the State to that extent.
2. Initially, the State Government expend towards teacher's salary under Samagra Siksha Abhiyan. Later, after the receipt of the amount from GoI, the amount will be depicted in the Government Account as a reduction of expenditure. During the year 2021-22, ₹ 303.26 crore was released by GoI towards reimbursement of teachers' salary under Samagra Siksha Abhiyan. This amount was remitted through challans by State Project Officer to revenue receipts under the Major Head 0202 instead of reduction of revenue expenditure under Major Head 2202. This has resulted in overstatement of revenue receipts.

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 SGST, State Excise, Taxes on vehicles, Stamp Duty and Registration Fees, Land revenue, Taxes on goods and passengers, *etc.* During the year 2021-22, Own Tax Revenue was ₹ 70,979 crore which constituted 47.15 *per cent* of Revenue Receipts (₹ 1,50,552 crore). SGST was the major contributor to Own Tax Revenue with a share of 33.54 *per cent*. The trends of growth of Own Tax Revenue during 2017-22 is detailed in **Chart 2.6** and the major taxes and duties which contributed to Own Tax Revenue during 2017-22 are given in **Table 2.5**.



Source: Finance Accounts of respective years

Table 2.5: Components of State's Own Tax Revenue

	2017-18	2018-19	2019-20	2020-21	2021-22 (BE)	2021-22 (ACTUALS)
State Goods and Services Tax (SGST)	10,820	20,611	20,227	18,872	31,000	23,809
Taxes on Sales, trades etc.	25,335	21,914	21,410	17,800	24,500	20,808
State Excise	5,460	6,220	6,915	11,575	15,000	14,703
Taxes on Vehicles	3,039	3,341	3,279	2,966	5,000	3,433
Stamp duty and Registration fees	4,271	5,428	5,318	5,603	8,000	7,635
Land Revenue	107	57	21	143	172	50
Taxes on Goods and Passengers	5	26	36	25	34	1
Other Taxes⁵	449	434	395	425	1,575	540
Total	49,486	58,031	57,601	57,409	85,281	70,979

Source: Finance Accounts of respective years;

During the period 2017-22, State Goods and Services Tax (SGST), Taxes on Sales, trades and State Excise were the major contributors to Own Tax Revenue of the State with more than 84 *per cent* share.

Own Tax revenue during the year 2021-22 has been increased by ₹ 13,570 crore (23.63 *per cent*) over the previous year. The increase was mainly under (a) SGST by ₹ 4,937 crore (26.16 *per cent*) (b) Taxes on Sales, Trades *etc.* by ₹ 3,008 crore (16.90 *per cent*) and (c) State Excise by ₹ 3,128 crore (27.02 *per cent*).

⁵ Other Taxes include Taxes on Immovable Property other than Agricultural Land, Taxes and Duties on Electricity and Agricultural Income

(i) Goods and Services Tax (GST)

State Government had enacted and implemented Andhra Pradesh Goods and Services Tax (APGST) Act with effect from 01 July 2017. The GST has four components viz., (i) receipts by the Central GST (CGST); (ii) receipts by the State GST (SGST); (iii) a tax on inter-State supply of Goods or Services or both by the Central Government - Integrated GST (IGST)⁶ and (iv) GST Compensation Cess⁷. SGST is levied on intra-State supply of goods or services (except alcohol for human consumption and five specified petroleum products⁸).

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

State Goods and Services Tax (SGST)	2017-18	2018-19	2019-20	2020-21	2021-22
Tax	5,035	8,187	9,482	7,965	2,921
Input Tax Credit	4,469	8,817	9,729	7,637	9,941
Apportionment of IGST – Transfer-in of Tax Component	692	964	1,514	1,648	2,724
Others⁹	2,008	2,643	(-) 498	1,622	8,223
TOTAL	10,820	20,611	20,227	18,872	23,809

(₹ in crore)

Source: Finance Accounts of respective years

The increase in other receipts under SGST was mainly due to pending transfer of Receipts (₹ 7,096 crore) to other Minor Heads which is under reconciliation.

GST Compensation: According to GST (Compensation to the States) Act, 2017, the Central Government has 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.

For the Andhra Pradesh State, the revenue on account of Sales Tax in the base year (2015-16) was ₹ 13,449.62 crore. Accordingly, the protected revenue for the year 2021-22 was ₹ 29,521.55 crore¹⁰.

During the year 2021-22, the State received an amount of ₹ 23,809.43 crore towards SGST. The GoI released ₹ 3,117.39 crore as GST compensation as against the shortfall in protected revenue. The GoI also released an amount of ₹ 3,272.19 crore

⁶ 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

⁷ 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

⁸ Petroleum crude, High speed diesel, Motor spirit (Petrol), Natural gas and Aviation turbine fuel

⁹ Others include Receipts awaiting transfer to other Minor heads, Advance apportionment from IGST, Fees, Interest and penalty.

¹⁰ Calculated at compounding increase of 14 per cent per annum for five years viz., 2016-22 from the base year revenue of ₹ 13,449.62 crore (i.e., ₹ 13,449.62 X 1.14⁶ = ₹ 29,521.55 crore)

during 2021-22 as ‘back-to-back loan in lieu of GST Compensation shortfall’ to the State, which would be serviced out of the GST Compensation Cess by GoI with no repayment obligation on the State resources.

B. State’s share of Union taxes

The Fifteenth Finance Commission (XV FC) in its Report for the year 2021-22 recommended to devolve 42 *per cent* of net proceeds of Union taxes to the States (i.e., divisible pool). However, due to the re-organisation of erstwhile Jammu and Kashmir State into Union Territories of Ladakh and Jammu & Kashmir the XV FC recommended that the aggregate share of States be reduced by one *per cent* to 41 *per cent* of the divisible pool and the remaining one *per cent* allocated to the above UTs. For devolution of net proceeds of taxes, other factors like population, area, forest and ecology, income distance criteria, demographic performance and tax efforts of the State were also considered.

Based upon the projected tax revenue of the Union Government and the shares derived from the horizontal devolution formula, XV FC derived the share of each State in absolute numbers. The XV FC projected tax devolution of ₹ 42,24,760 crore for the five year period 2021-26 to all States. Out of the projected tax devolution, the XV FC recommended a share of 4.047 *per cent* for Andhra Pradesh. Accordingly, Andhra Pradesh has been allocated an amount of ₹1,70,976 crore being 4.047 *per cent* of the total projected tax devolution during the five-year period 2021-26.

During 2021-22, the Central Tax transfers were ₹ 35,386 crore which constituted 23.50 *per cent* of the State Revenue receipts. Central Tax transfers increased from ₹ 24,461 crore during 2020-21 to ₹ 35,386 crore in 2021-22 and thus showed an increase of ₹ 10,925 crore.

Components of State’s share of Union Taxes during 2017-22 are given in **Table 2.7**.

Table 2.7: Components of State’s share of Union Taxes

Component of State’s share of Union taxes	XIV FC award period			XV FC award period	
	2017-18	2018-19	2019-20	2020-21	2021-22
Corporation Tax	8,880	11,401	9,630	7,413	9,437
Customs	2,926	2,324	1,790	1,270	2,764
Income Tax	7,498	8,397	7,545	7,603	10,666
Other Taxes and Duties on commodities and services	327	17	18	19	39
Service Tax	2,975	303	0	113	415
Wealth Tax	-	4	0	0	2
Union Excise Duties	3,059	1,544	1,245	818	1,610
CGST	409	8,092	8,014	7,224	10,453
IGST	2,927	646	0	0	0
Other Taxes on Income and Expenditure	-	59	0	0	0
Grand total	29,001	32,787	28,242	24,460	35,386
Devolution as percentage of Revenue Receipts of the State	27.60	28.59	25.44	20.88	23.50

Source: Finance Accounts of respective years;

The increase in devolution was mainly under CGST (by ₹ 3,229 crore – 44.57 per cent), Income Tax (by ₹ 3,063 crore – 40.29 per cent) and Corporation Tax (by ₹ 2,024 crore – 27.30 per cent).

C. Non-Tax Revenue

Non-tax revenue includes receipts from services rendered and supplies made by various Departments of Government and interest receipts. The non-tax revenue of ₹ 5,017 crore constituted 3.33 per cent of the total revenue receipts (₹ 1,50,552 crore) during the year 2021-22. The composition of non-tax revenue for 2021-22 is detailed in Table 2.8.

Table 2.8: Composition of Non-Tax Revenue

Revenue Head	2017-18	2018-19	2019-20	2020-21	2021-22	Spark Line
Interest Receipts	96	50	37	24	20	
Dividends & Profits	1	1	4	0.02	6	
Other Non-Tax Receipts	3,717	4,345	3,274	3,371	4,991	
a) Major Irrigation	161	94	122	114	381	
b) Forestry and Wild life	342	426	36	31	161	
c) Non-Ferrous Mining & Metallurgical Industries	2,156	2,211	1,897	2,256	2,983	
Total	3,814	4,396	3,315	3,395	5,017	

Source: Finance Accounts of respective years

(i) Interest receipts

During 2021-22, as against the budgeted estimates of ₹ 79 crore, an amount of ₹ 20 crore was received towards interest receipts which is lower than 75 per cent against projected amount. Out of ₹ 20 crore, miscellaneous interest receipts (₹ 15 crore) constituted 75 per cent of the receipts.

(ii) Dividend Receipts

During 2021-22, as against estimated amount of ₹ 9.69 crore towards dividend receipts, an amount of ₹ 5.73 crore was received towards dividends under MH 0050 which is lower than projected amount by 41 per cent.

(iii) Other Non-Tax Receipts

During the year 2021-22, Non-Ferrous Mining & Metallurgical Industries (₹ 2,983 crore – Mineral Concession Fee, Rents & Royalties, Mines Department etc.), Education, Sports, Art & Culture (₹ 420 crore), Major Irrigation (₹ 381 crore) and Medical & Public Health (₹ 216 crore) were the major contributors to Non-Tax revenue for the year 2021-22.

2.4.1.2 Grants-in-Aid from Government of India

The details of Grants-in-Aid from GoI and their composition during 2017-22 are given in Table 2.9.

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

Particulars	(₹ in crore)				
	2017-18	2018-19	2019-20	2020-21	2021-22
Non-Plan Grants/Finance Commission Grants	6,975	5,548	5,881	11,576	20,991
Grants for State Plan Schemes*	0	327	1	0	0
Grants for Central Plan Schemes*	(-)200 [#]	0	0	0	0
Grants for Centrally Sponsored Schemes	15,482	12,510	13,562	14,836	12,751
Other Transfers/Grants to States	504	1,072	2,432	5,460	5,428
(i) Compensation for loss of revenue arising out of implementation of GST	382	0	1,841	3,528	3,117
(ii) Other Receipts ¹¹	122	67	20	14	1,960
(iii) Transfer of States' portion of un-apportioned IGST of previous years	0	0	0	1,261	0
(iv) National Disaster Response Fund	0	1,005	571	657	351
Total	22,761	19,457	21,876	31,872	39,170
Percentage of increase (+)/decrease (-) over previous year	(-)2.51	(-)14.52	12.43	45.69	22.90
Total grants as a percentage of Revenue Receipts	21.66	16.97	19.70	27.21	26.02

*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.*

Out of the Grants of ₹ 12,751 crore for Centrally Sponsored Schemes during 2021-22, major amounts were given to:

- Mahatma Gandhi National Rural Employment Guarantee Scheme (₹ 3,199 crore- 23.35 per cent decrease over previous year),
- Sardar Patel Urban Housing Scheme (₹ 2,218 crore-16.33 per cent increase over previous year),
- Polavaram Project (₹ 1,898 crore-15.06 per cent decrease over previous year)
- National Health Mission (₹ 1,487 crore – 2.22 per cent increase over previous year).

(i) Finance Commission (FC) grants

The FC recommended devolution of funds under three types of grants-in-aid to States viz., Local Government, Disaster Management and Post-devolution Revenue Deficit. During the period 2020-21 to 2021-22, the details of amounts awarded, received and releases of State Government to Local Bodies during the XV FC are given vide **Table 2.10**.

¹¹ Additional Central Assistance for Left Wing Extremist (LWE) Districts, Compensation for loss of revenue on account of phasing out of Central Sales Tax (CST) and Revenue Deficit grant for the year 2014-15

Table 2.10: Finance Commission Grants

Transfers	Recommendation of the XV-FC 2020-21	Recommendation of the XV-FC 2021-26	2020-21		2021-22	
			Actual Release by GoI	Release by State Government	Actual Release by GoI	Release by State Government
			(₹ in crore)			
LOCAL BODIES						
(i) Grants to PRIs	2,625.00	10,231.00	3,793.00	3,080.49 ¹²	969.50	1,343.53
ii) Grants to ULBs	1,264.00	5,231.00	767.00	632.00	1,157.35	1,008.60
Total Local Bodies	3,889.00	15,462.00	4,560.00	3,712.49	2,126.85	2,352.13
DISASTER MANAGEMENT						
State Disaster Response Fund*	1,491.00	6,183.00	1,119.00	1,491.00	1,119.00	1,491.00
REVENUE DEFICIT GRANT						
PDRDG	5,897.00	30,497.00	5,897.00	-	17,257.00	-
Grand Total	11,277.00		11,576.00		20,502.85	

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

2.4.2 Capital Receipts

Growth and composition of Capital Receipts of the State during 2017-22 are given in Table 2.11.

Table 2.11: Composition of Capital Receipts

Sources of State's Receipts	2017-18	2018-19	2019-20	2020-21	2021-22
Capital Receipts (CR)*	74,114	98,257	1,16,783	1,63,038	1,61,719
Non-debt capital receipts	51	277	4,355	1,063	2,109
Miscellaneous Capital Receipts	0	0	0	0	(-)1
Recovery of Loans and Advances	51	277	4,355	1,063	2,110
Public Debt Receipts*	74,063	97,980	1,12,428	1,61,975	1,59,610
Internal Debt	73,117	95,990	1,10,398	1,57,412	1,54,714
Growth rate	23.70	31.28	15.01	42.59	(-)1.71
Loans and advances from GoI	946	1,990	2,030	4,563	4,896
Growth rate	16.22	110.36	2.01	124.78	7.30
Rate of growth of debt Capital Receipts	23.6	32.29	14.75	44.07	(-)1.46
Rate of growth of non-debt capital receipts	-97.49	443.14	1,472.20	(-)75.59	98.40
Rate of growth of GSDP	14.86	11.14	10.57	5.00	18.47
Rate of growth of Capital Receipts (per cent)	19.63	32.58	18.85	39.61	(-) 0.81

Source: Finance Accounts of respective years. *Includes Ways and Means Advances and Overdraft facility availed by the Government. Note: Loans and advances from GoI include ₹ 5,583.19 crore (2020-21: ₹ 2,311 crore and 2021-22: ₹ 3,272.19 crore) received as back-to-back loans under debt receipts from the total outstanding liabilities as it is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources.

During 2021-22, the State Government received an amount of ₹ 1,61,719 crore as Capital Receipts which constituted 53.95 per cent of the total receipts of ₹ 2,99,757

¹² 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".

crore of the State. Out of the total Capital Receipts, the quantum of borrowings (₹ 1,59,610 crore) of the State Government was 98.70 per cent during the year. During the year 2021-22, the State Government borrowed ₹ 46,443 crore from open market and other financial institutions and received an amount of ₹ 4,896 crore as loans and advances from GoI. In addition to these borrowings, State Government availed an amount of ₹ 1,06,326 crore¹³ 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 2021-22 is given in **Table 2.12**.

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	72,406	85,281	70,979	-1.97	-16.77
Non-tax revenue	5,539	7,050	5,017	-9.42	-28.84

Source: Finance Accounts 2021-22; BE 2021-22; XV Finance Commission Report

It is evident from Table 2.12 that there was significant variance of total Revenue Receipts *viz.*, Own Tax Revenue as well as Non-tax revenue of the State *vis-à-vis* the projections made in the Budget Estimates of State Government during the year 2021-22.

However, when compared to projections of XV FC, the actual receipts under non-tax revenue remained lower during the year 2021-22.

State Government replied that, the revenue projections made by Finance Commissions have always been higher in the past too. Further, it was also replied that, the Budget Estimates for Revenue Receipts in 2021-22 were made expecting higher growth rate based on the economic situation prevailing during February 2021. However, the severe second Covid-19 wave in first and second quarter of FY 2021-22 had disrupted the revenue sources of the state. Hence, there was deviation from the anticipated receipts. State Government also responded that, despite of above issues, the State has achieved a steep growth rate of 23.64 per cent in tax revenue receipts in 2021-22.

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.

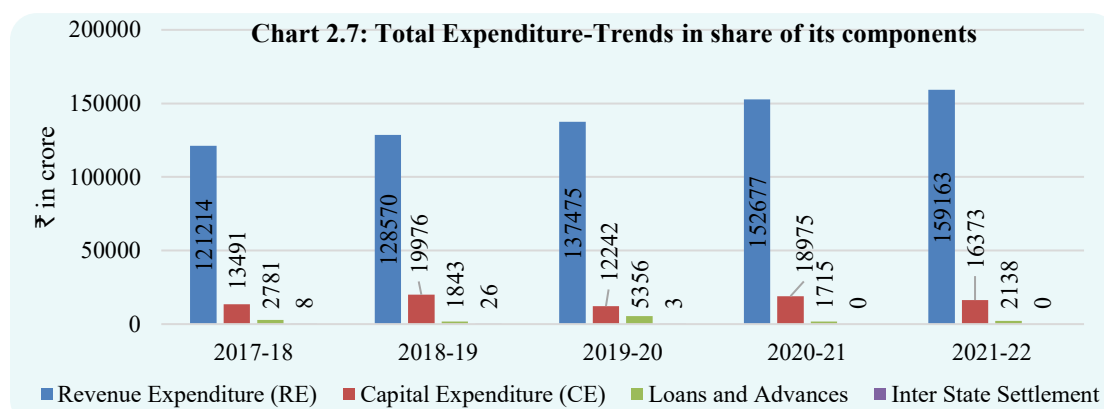
¹³ Special Drawing Facility (₹ 10,873.92 crore), Ways and Means Advances (₹ 48,596.31 crore) and Overdraft (₹ 46,855.37 crore)

2.5.1 Growth and composition of expenditure

The total expenditure in 2021-22 was ₹ 1,77,674 crore. **Chart 2.7** and **Table 2.13** presents the trends and composition of total expenditure during the years 2017 to 2022.

Table 2.13: Total Expenditure and its composition

Parameters	2017-18	2018-19	2019-20	2020-21	2021-22
	(₹ in crore)				
Total Expenditure (TE)	1,37,494	1,50,415	1,55,076	1,73,367	1,77,674
Revenue Expenditure (RE)	1,21,214	1,28,570	1,37,475	1,52,677	1,59,163
Capital Expenditure (CE)	13,491	19,976	12,242	18,975	16,373
Loans and Advances	2,781	1,843	5,356	1,715	2,138
Inter State Settlement	8	26	3	0	0
As a percentage of GSDP					
TE/GSDP	17.49	17.22	16.05	17.09	14.78
RE/GSDP	15.42	14.72	14.23	15.05	13.24
CE/GSDP	1.72	2.29	1.27	1.87	1.36
Loans and Advances/GSDP	0.35	0.21	0.55	0.17	0.18



Source: Finance Accounts of respective years

It can be seen from Table 2.13 and Chart 2.7 that during the five-year period 2017-18 to 2021-22 the total expenditure of the State increased by ₹ 40,180 crore from ₹ 1,37,494 crore to ₹ 1,77,674 crore and registered an increase of 29.22 per cent. Out of total expenditure of ₹ 7,94,026 crore during the five-year period 2017-22, revenue expenditure was ₹ 6,99,099 crore which was 88 per cent of total expenditure.

Similarly, it can also be seen that during the five-year period 2017-18 to 2021-22, the total Capital Expenditure was ₹ 81,057 crore and shown fluctuating trend, the highest expenditure being ₹ 19,976 crore in 2018-19 and the lowest expenditure was recorded during 2019-20 wherein only ₹ 12,242 crore was spent. When compared to Total Expenditure of ₹ 7,94,026 crore during the five-year period 2017-22, Capital Expenditure constituted only 10.21 per cent of the total expenditure which indicated that the State Governments' allocative priority for capital expenditure is very low.

During the five-year period 2017-18 to 2021-22, the Revenue Expenditure showed an increasing trend mainly on account of increase in expenditure on items viz., salaries, pensions, interest payments, Grants -in- Aid etc., which resulted in increase in expenditure from ₹ 1,21,214 crore to ₹ 1,59,163 crore.

When compared to 2020-21, the revenue expenditure increased by ₹ 6,486 crore from ₹ 1,52,677 crore to ₹ 1,59,163 crore and thereby registered an increase of 4.25 *per cent* during 2021-22.

During 2021-22 as against total expenditure of ₹ 1,77,674 crore, the capital expenditure of the State was ₹16,373 crore which constituted 9.21 *per cent*. However, when compared to 2020-21, the capital expenditure decreased by 14 *per cent* i.e., ₹ 2,602 crore during 2021-22.

Thus, increasing levels of revenue expenditure coupled with low level of Capital formation will have adverse impact on infrastructure development, industrial development, aggregate demand, employment generation, revenue generation *etc.*, of the State in the long run.

In terms of activities, the total expenditure of ₹ 1,77,674 crore of the State comprised of expenditure on General Services (including Interest Payments), Social services, Economic services and others. Relative shares of these components during 2021-22 are given in **Table 2.14**.

Table 2.14: Relative shares of various sectors of expenditure

Parameters	(in per cent)				
	2017-18	2018-19	2019-20	2020-21	2021-22
General Services	28.63	27.3	31.58	32.58	33.28
Social Services	45.13	44.64	45.24	41.15	42.65
Economic Services	24.15	26.79	19.71	26.23	24.05
Others (Grants to Local Bodies, Inter State Settlement and Loans and Advances)	2.09	1.27	3.47	0.04	0.02

Source: Finance Accounts of respective years

It can be seen from Table 2.14 that among sectoral allocations, Social Services was given major allocations during the five year period of 2017-18 to 2021-22 which includes Education, Health and Welfare activities *etc.* The major areas under Social Services Sector where substantial allocations and expenditure were observed are given in **Table 2.15**.

Table 2.15: Major areas of Expenditure under Social Services sector

Area of Expenditure	(₹ in crore)				
	2017-18	2018-19	2019-20	2020-21	2021-22
Education, Sports, Art and Culture	20,017	19,587	26,643	24,205	25,796
Welfare of SCs, STs and other BCs, Social Welfare and Nutrition	25,893	28,334	28,146	30,314	29,304
Health and Family Welfare	6,389	7,400	7,538	9,511	11,271

Source: Finance Accounts of respective years

The above table indicates that in 2021-22, welfare activities constituted 16 *per cent* of total expenditure in the State and around 15 *per cent* was spent on Education, Sports, Art and Culture.

2.5.2 Reduction of Expenditure during 2021-22

State Government provides grants/funds to implement Centrally Sponsored Schemes, State Plan Schemes and other programmes/works. Centrally Sponsored Schemes (CSS) will be implemented by the State through funds received from GoI as grants-in-

aid (which were booked under Major Head 1601) and matching state share¹⁴. The State plan schemes will be implemented from the funds of State Government.

In case of CSS, initially GoI will provide grants for each scheme will be booked as receipts into Consolidated Fund of the State under Major Head 1601 (Revenue Receipts). Later, as per scheme guidelines the State Government will add the state share corresponding to central share and transfer the funds to implementing agencies by booking expenditure under respective major heads (either revenue or capital).

The funds will be utilised by the implementing agencies for the year either by transferring them to Personal Deposit Account (as a book adjustment without any cash flow) or bank account (as per guidelines in respect of some schemes). The unutilised funds to the end of the year will be withdrawn by the Government by way of reduction of expenditure which is lapsing of funds.

During the year 2021-22, the State Government lapsed such unutilised amount of ₹ 26,379.81 crore (₹ 25,256.40 crore from Revenue Heads and ₹ 1,123.41 crore from Capital Heads).

The details of lapsing of funds are provided below:

	Amount (₹ in crore)
Finance Commission grants	488.15
Central component of Centrally Sponsored Schemes	6,356.01
State component of Centrally Sponsored Schemes	3,540.91
State Schemes	7,762.17
Others	8,232.57

Audit observations on the lapsing of funds are detailed hereunder:

2.5.2.1 Lapsing of Finance Commission grants

The XV Finance Commission had recommended Health Sector grants to all the States for the period 2021-26 to strengthen and plug the critical gaps in the health care system at the primary health care level. During the period 2021-26, an amount of ₹ 2,601 crore was recommended for Andhra Pradesh and for the year 2021-22 the recommended amount was ₹ 490 crore. Accordingly, GoI transferred an amount of ₹ 488.15 crore to the State of Andhra Pradesh for the year 2021-22.

GoI has instructed that:

- State Government should transfer these without any deductions to implementing agencies within ten days of receipt of grant and has to pay penalty equivalent to interest chargeable over market loans during last financial year for the period after 10 days.
- It was also instructed to open a dedicated bank account which should be linked to PFMS for implementation of the schemes for the entire award period as recommended by the Finance Commission. As Finance

¹⁴ percentage of matching share will be different for each scheme as per scheme guidelines

Commission Grants are pass through Grants, the authority of these funds rests with respective ULBs/RLBs only.

The State Government received the grants on 12 November 2021 from GoI which were booked under Major Head 1601 – Grants-in-Aid from GoI (Revenue Receipts). State has to transfer these grants to dedicated bank account of implementing agencies which will be in link to PFMS by 21 November 2021 and has to pay penal interest¹⁵ after that as per guidelines of GoI.

Instead, State Government transferred these grants to implementing agencies on 15 February 2022 with a delay of 84 days (from 22 November 2021 to 14 February 2022) without paying any interest for the delayed period.

Further, it was observed that subsequently the State Government withdrew the entire grant amount of ₹ 488.15 crore on 31 March 2022 to the Revenue Account as reduction of expenditure. Due to lapsing of funds of Finance Commission (Health Sector) Grants by the State Government, the Health Sector Institutions which are critical entities for Human Development at primary level have been deprived of the GoI grants. The release/ revalidation particulars of the above grant during the subsequent year 2022-23 are awaited (December 2022).

Thus, the expenditure and deficits of the State were also understated to an extent of ₹ 499.48 crore (₹ 488.15 crore of grants and ₹ 11.33 crore¹⁶ of penalty for not transferring the grants).

2.5.2.2 Lapsing of Central Share of Centrally Sponsored Schemes

State Government regularly resorted to lapsing of pass-through grants provided by GoI towards implementation of various Centrally Sponsored Schemes to the revenue account despite this being pointed out by Audit regularly. During the year 2021-22, an amount of ₹ 6,356.01 crore was lapsed instead of transferring those funds to Single Nodal Accounts. The details of the schemes where major amounts (more than ₹ 100 crore) were lapsed are given in *Appendix 2.1*.

State Government stated that, most of these lapsed amounts pertaining to the Centrally Sponsored Schemes which are required to be transferred were already transferred to the SNA Accounts after reconciliation (January 2023).

2.5.2.3 Non provision of matching State Share to Centrally Sponsored Schemes

During 2021-22, the State Government did not release an amount of ₹ 3,540.91 crore pertaining to the matching state share which results in tardy implementation of the scheme.

¹⁵ Rate equivalent to average interest on market loans

¹⁶ Calculated on ₹ 488.15 crore for 129 days (from 22 November 2021 to 31 March 2022) with an average interest rate of 6.57 per cent on market loans of previous year

The details of schemes where the non-release was more than ₹ 100 crore is given below:

Table 2.16: Schemes to which matching state share was not provided

Name of the Scheme	Amount lapsed (₹ in crore)
Swachh Bharat Mission - Gramin	573.21
Smart Cities	571.25
Sub Mission on Agriculture mechanisation	344.68
Rashtriya Krushi Vikasa Yojana (RKVY)	313.61
National Health Mission (NHM)	200.60
NHM-NRHM Flexi pool	121.21
National Mission for Sustainable Agriculture (NMSA)	112.63
Swachh Bharath Mission - Construction of Community toilets in all Nagarapanchayats, Municipalities/Corporations	109.51

2.5.2.4 Withdrawal of funds pertaining to State Schemes

During the year 2021-22, the State Government did not release an amount of ₹ 7,762.17 crore pertaining to the State Plan Schemes. Details of schemes where major amounts were withheld are shown in the table below.

Table 2.17: State Schemes where funds were lapsed

Name of the Scheme	Amount lapsed (₹ in crore)
Subsidy on Rice (Human Resources Development)	2,497.50
YSR Pension Kanuka to Backward Classes	1,215.00
YSR Pension Kanuka	622.42
Combating Covid-19	458.54
Centralized Purchase of Drugs and Medicines	390.78
Assistance to District Water Management Agencies	340.32
Price Stabilization Fund	300.15

2.5.3 Revenue Expenditure

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

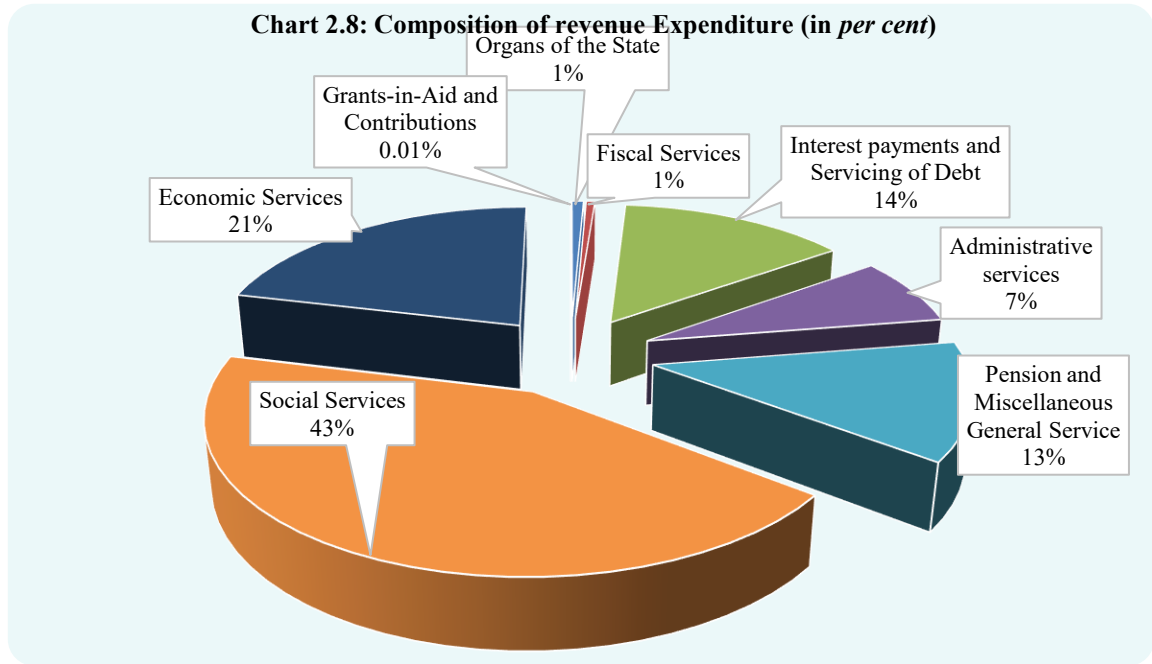
Revenue Expenditure (₹ 1,59,163 crore) was 15.47 per cent of GSDP and within the budget provision (₹ 1,82,197 crore) of 2021-22. It increased by 4.25 per cent during the year 2021-22 when compared to the revenue expenditure (₹ 1,52,677 crore) of previous year.

Table 2.18: Revenue Expenditure-Basic parameters

Parameters	2017-18	2018-19	2019-20	2020-21	2021-22
Total Expenditure (TE) (₹ in crore)	1,37,494	1,50,415	1,55,076	1,73,367	1,77,674
Revenue Expenditure (RE) (₹ in crore)	1,21,214	1,28,570	1,37,475	1,52,677	1,59,163
Rate of Growth of RE (in per cent)	4.30	6.07	6.93	11.06	4.25
Revenue Expenditure as percentage of TE	88.16	85.48	88.65	88.07	89.58
RE/GSDP (per cent)	15.42	14.72	14.23	15.05	13.24
RE as percentage of RR	115.37	112.12	123.81	130.34	105.72
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	0.29	0.54	0.66	2.21	0.23
Revenue Receipts (ratio)	0.70	0.66	-2.19	2.01	0.15

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 0.23 *per cent* of Revenue Expenditure.



During the year 2021-22, Revenue Expenditure (₹ 1,59,163 crore) accounted for 88.07 *per cent* of the State's total expenditure (₹ 1,77,674 crore), which is in the nature of current consumption, leaving only 10.42 *per cent* for investment in infrastructure and asset creation. Further, 94.58 *per cent* of the Revenue Expenditure in 2021-22 was met from Revenue Receipts (₹ 1,50,552 crore). The remaining 5.41 *per cent* (₹ 8,611 crore) of Revenue Expenditure was financed from borrowed funds.

Table 2.19 highlights the cases of significant increase or decrease in various Revenue Heads of Account during 2021-22 *vis-à-vis* the previous year.

Table 2.19: Revenue Expenditure during 2021-22 compared to 2020-21

Major Heads of Accounts	2020-21	2021-22	Variation (in per cent)	Reasons
	(₹ in crore)			
2801 – Power	6,017.11	10,850.73	80.33	Increase in Assistance to AP TRANSCO, AP DISCOMS and increase in expenditure towards implementation of YSR nine hours free power supply
2052-Secretariat General Services	1,376.46	3,598.28	161.42	Increase in expenditure was due to eventual transfers of Additional Retail Excise Tax (ARET) from Consolidated Fund to the PD Account of AP State Development Corporation (APSDC) for meeting the debt obligations of APSDC through escrowed revenues.
2210- Medical and Public Health	5,557.96	7,306.04	31.45	Increase in expenditure was due to increased assistance to AP Vaidya Vidhana Parishad, YSR Arogyasri Health Care Trust and increased assistance for Prevention and Control of disease
2216 -Housing	1,190.68	2,177.41	82.87	Increase in expenditure was due to increased assistance to APTIDCO under Pradhan Mantri Awas Yojana (Urban)
2700- Major Irrigation	596.97	990.56	65.93	The increase in expenditure was due to assistance given to AP Water Resources Development

Major Heads of Accounts	2020-21	2021-22	Variation (in per cent)	Reasons
	₹ in crore)			
				Corporation for repayment of borrowings made by the Corporation
2236- Nutrition	1,375.74	1,766.09	28.37	Increase in expenditure towards Subsidy on Rice and Door delivery of rice under Public Distribution System.
3456-Civil Supplies	85.17	219.81	158.08	Increase in expenditure was due to assistance given to AP State Civil Supplies Corporation for repayment of borrowings made by the Corporation.
2852- Industries	193.07	307.02	59.02	Increase in expenditure was due to expenditure on account of Incentives for industrial promotion.
2401- Crop Husbandry	3,949.57	1,755.29	(-) 55.56	Reduction of expenditure was due to decline in expenditure under Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) and due to decreased allocations under the schemes “YSR interest Free loans” and “Rashtriya Krishi Vikas Yojana (RKVY)”.
2515- Other Rural Development Programmes	8,079.69	6,332.85	(-) 21.62	Reduction of expenditure was due to decline in releases to Gram Panchayats.
2505- Rural Employment	4,526.09	2,927.62	(-) 35.32	Reduction of expenditure was due to reduction of expenditure under National Rural Employment Guarantee Scheme.
3451-Secretariat Economic Services	1,085.69	(-) 286.63	(-) 126.40	Reduction of expenditure was due to lapsing of unspent balances/loan proceeds of APWRDC.
2415- Agricultural research and Education	1,646.29	610.21	(-) 62.93	Reduction of expenditure was due to reduced assistance for “Rythu Saadhikaara Samstha”.
2245 – Relief on account of Natural Calamities	2,824.12	1,850.96	(-) 34.46	Reduction of expenditure was due to decrease in gratuitous relief under Drought.

2.5.3.1 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 reduces the flexibility for State Government in allocation of expenditure for other priority sectors such as industries, infrastructure, medical and public health *etc.* Table 2.20 presents the expenditure on these components during 2017-22.

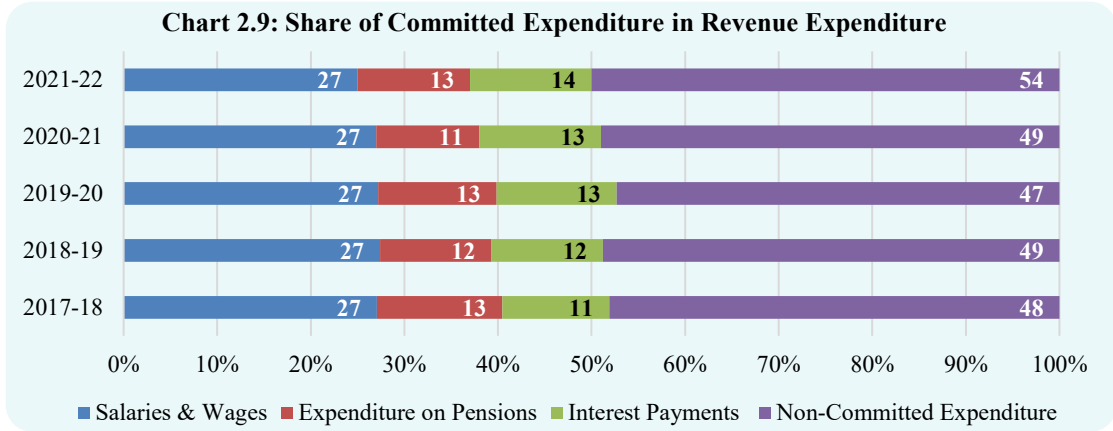
Table 2.20: Components of committed expenditure

(₹ in crore)					
Components of Committed Expenditure	2017-18	2018-19	2019-20	2020-21	2021-22
Salaries & Wages	32,816	35,240	36,934	40,582	42,738
Pensions	16,236	15,291	17,385	17,470	20,327
Interest Payments	13,847	15,342	17,653	20,018	22,165
Total	62,899	65,873	71,972	78,070	85,230
As a percentage of Revenue Receipts (RR)					
Salaries & Wages	31.23	30.73	33.26	34.65	28.39
Pensions	15.45	13.33	15.66	14.91	13.50
Interest Payments	13.18	13.38	15.9	17.09	14.72
Total	59.87	57.45	64.82	66.65	56.61

Components of Committed Expenditure	2017-18	2018-19	2019-20	2020-21	2021-22
As a percentage of Revenue Expenditure (RE)					
Salaries & Wages	27.07	27.41	26.87	26.58	26.85
Pensions	13.39	11.89	12.65	11.44	12.77
Interest Payments	11.42	11.93	12.84	13.11	13.93
Total	51.89	51.24	52.35	51.13	53.54

Source: Finance Accounts of respective years and information furnished by 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 (₹ 42,738 crore) increased by 5.31 per cent during 2021-22 over the previous year (₹ 40,582 crore) and constituted 27 per cent of revenue expenditure.

Interest payments

During 2021-22, interest payments were to the tune of ₹ 22,165 crore (13.50 per cent of revenue receipts of ₹ 1,50,552 crore). Interest on Market Borrowings (₹ 19,214 crore) and Special Securities issued to National Small Savings Fund (NSSF) of Central Government (₹ 976 crore) continued to be the major components of interest payments. There was an increase of ₹ 2,147 crore during 2021-22 when compared to the previous year.

Pensions

The expenditure on pension and other retirement benefits to State Government pensioners during the year was ₹ 20,327 crore and constituted 14.72 per cent of revenue receipts. When compared to the previous year, Superannuation and Retirement Allowances (₹ 10,975 crore), increased by ₹ 2,298 crore; Family Pensions (₹ 4,162 crore) increased by ₹ 1,095 crore and Gratuity (₹ 1,288 crore) decreased by ₹ 173 crore. Thus, there was an overall increase of ₹ 2,857 crore in expenditure on pensions during the year 2021-22.

2.5.3.2 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 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 of NPS/CPS subscribers 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 un-apportioned balance at the end of 2021-22 was ₹ 365.43 crore. There was no further apportionment during the year 2021-22.

Details of contributions by employees and Government and transfers to NSDL are shown in **Table 2.21**.

Table 2.21: 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)
422.91	961.13	1,018.46	2,052.06	350.44

Source: Finance Accounts

The State Government was yet to transfer the balance amount of ₹ 715.87 crore (which includes un-apportioned balance of ₹ 365.43 crore) to NSDL as of 31 March 2022.

2.5.3.3 Subsidies

The details of department-wise subsidies during the five-year period 2017-18 to 2021-22 are given in **Table 2.22**.

Table 2.22: Department wise subsidies

(₹ in crore)					
Departments	2017-18	2018-19	2019-20	2020-21	2021-22
Civil Supplies	3,056	340	396	0.23	503
Energy	3,000	1,250	5,248	4,370	8,504
Agricultural and other Allied activities	838	408	381	214	4,161
Others ¹⁷	252	354	318	364	1,521
Total subsidy	7,146	2,352	6,343	4,948	14,689
Total Revenue Expenditure (RE)	1,21,214	1,28,570	1,37,475	1,52,677	1,59,163
Subsidy as a percentage of RE	5.9	1.83	4.61	3.24	9.23

Source: Finance Accounts of respective years

As seen from the table above, the total expenditure of ₹ 14,689 crore on subsidies during the year increased by ₹ 9,741 crore (196.86 per cent) compared to previous year (₹ 4,948 crore). Out of the total subsidy released to Energy Department during 2021-22, ₹ 8,006 crore (54.50 per cent) was towards implementation of YSR nine hours free power supply scheme. Agriculture Department accounted for subsidies of ₹ 4,161 crore (28.32 per cent). The share of subsidies to revenue expenditure was 9.23 per cent in 2021-22.

¹⁷ Industries and Commerce, Minority Welfare, Information Technology & Communication, Panchayat Raj, Social Welfare, Women, Child and Disabled Welfare and Backward Classes Welfare Departments

2.5.3.4 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 2017-22 is given in **Table 2.23**.

Table 2.23: Financial assistance to Local Bodies and other institutions

	(₹ in crore)				
	2017-18	2018-19	2019-20	2020-21	2021-22
(A) Local Bodies	11,217	12,132	14,566	16,830	17,011
Municipal Corporations and Municipalities	2,976	3,775	4,157	3,552	4,996
Zilla Parishads and other PR Institutions	8,241	8,357	10,409	13,278	12,015
(B) Others	41,874	48,663	45,349	56,837	49,071
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	9,974	9,613	10,048	10,967	10,987
Hospitals and Other Charitable Institutions	2,556	3,411	3,224	4,293	5,894
Development Authorities	21	6	5	12	6
Co-operative Institutions	564	543	9,487	981	11
Others ¹⁸	28,759	35,090	22,585	40,854	32,173
Total*	53,091	60,795	59,915	73,667	66,082
Assistance as percentage of R.E	43.80	47.29	43.58	48.25	41.52

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

Financial assistance extended to local bodies and other institutions in 2021-22 constituted 41.52 per cent of revenue expenditure. The major schemes/recipients (above ₹ 1,000 crore) of grants during the year are given in **Table 2.24**.

Table 2.24: Major schemes/recipients (above ₹ 1,000 crore)

	(₹ in crore)
Scheme/Recipients	Amount
YSR Pension Kanuka to Backward Classes	6,881.37
Teaching Grants to Zilla Praja Parishads	6,199.29
YSR Pension Kanuka	3,794.63
Mahatma Gandhi National Employment Guarantee Act	3,246.33
Assignment of ARET revenue to APSDC Ltd	3,220.25
YSR Pension Kanuka to Economically Backward Classes	2,927.84
Pradhan Manthri Awas Yojana (Urban)	2,499.58
Samagra Shiksha	1,865.30
Dr. YSR Aarogyasri Health Care Trust	1,758.94
Grama Sachivalayam	1,555.85
Finance Commission grants to PR Bodies	1,343.53
Combating Covid-19	1,325.18
Assistance to APDISCOMS	1,215.77
Village Volunteers	1,144.71
YSR Pension Kanuka to Kapus	1,077.59
Finance Commission Grants to Urban Local Bodies	1,008.60
Assistance to Andhra Pradesh Water Resource Development Corporation (APWRDC)	1,000.89

Source: Finance Accounts 2021-22 and information furnished by O/o PAG (A&E), Andhra Pradesh.

Constitution of State Finance Commission (SFC)

As per Article 243-I of Constitution of India, a State Finance Commission shall be

¹⁸ Others includes Development Agencies, Autonomous Bodies, Public Sector Undertakings, Non-Governmental Institutions, Institutions receiving one time grant etc.

constituted to review the financial position of the Local Bodies and to make recommendations to the Governor as to the principles which should govern the distribution between the State and the Local Bodies of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under this Part and the allocation between the Local Bodies at all levels of their respective shares of such proceeds; the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Local Bodies; the grants in aid to the Local Bodies from the Consolidated Fund of the State; the measures needed to improve the financial position of the Local Bodies; any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Local Bodies.

Accordingly, three SFCs were constituted as detailed in **Table 2.25**.

Table 2.25: Constitution of State Finance Commission

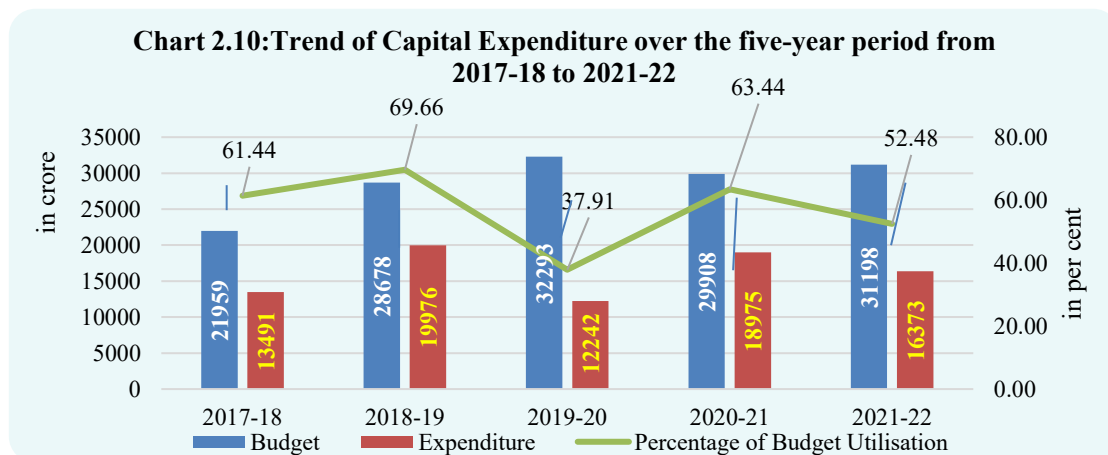
SFC	To be constituted	Actually Constituted	Delay	Date of Submission	Period Covered
First	By 31 March 1994	22 June 1994	03 months	Not Available	1997-98 to 1999-2000
Second	1999-2000	08 December 1998	-	Not Available	2000-01 to 2004-05
Third	2004-2005	29 December 2004	-	Not Available	2005-06 to 2009-10

The fourth SFC, to cover the period 2010-11 to 2015-16 which was constituted in May 2018 after the lapse of eight years instead of in 2009-10, had not submitted report to Governor as of September 2021. The dates of submission of SFC recommendations/report are not available with the Government/department.

2.5.4 Capital Expenditure

Capital Expenditure 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 during the five-year period 2017-22 is shown in **Chart 2.10**.



Source: Finance Accounts and Budget in brief of respective years

Capital Expenditure (₹ 16,373 crore) constituted 9.21 *per cent* of total expenditure (₹ 1,77,674 crore) and accounted for 1.36 *per cent* of GSDP during the year 2021-22. When compared with the projections made in the Budget Estimates (₹ 31,198 crore), the Capital expenditure constituted only 47.51 *per cent* of the Budget provisions. In all, there was a decrease of Capital expenditure by ₹ 2,602 crore (13.71 *per cent*) when compared to the previous year.

Out of the total Capital Expenditure of ₹ 16,373 crore of the State, an amount of ₹ 4,143.61 crore constituting 25.31 *per cent* was funded by the Government of India (CSS/CS/GIA) and 3.07 *per cent* (₹ 502 crore) was funded by the GoI as interest free loan under the scheme “Special Assistance to States for Capital Expenditure”. The loans were given to State Government to meet the capital expenditure during 2021-22.

Misclassification of Revenue Expenditure as Capital Expenditure:

As per Government Accounting Rule 30(1) read with note thereunder Capital expenditure shall broadly be defined as expenditure incurred with the object of either increasing concrete assets of a material and permanent and expenditure on a temporary asset or expenditure on Grants-in-aid to local bodies or institutions (for the purpose of creating assets which will belong to these local bodies or institutions) cannot ordinarily be classifiable as 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 Andhra Pradesh had 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”¹⁹ at an estimated project cost of ₹ 61,000 crore to provide pucca houses to all eligible beneficiaries. For implementing the scheme Government had issued orders on 08 July 2020 for acquisition of land and proposed to distribute house site pattas to 25 lakh beneficiaries. An amount of ₹ 138.45 crore has been booked as Capital Expenditure in Accounts for 2021-22 under YSR Gruha Vasathi scheme for this purpose.

As per the Socio-Economic Survey Report of Government of AP for the year 2021-22, 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.

Further, Capital Expenditure during the year 2021-22 was overstated by ₹ 688.80 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.

¹⁹Nine welfare schemes promised during election and implemented by cross cutting nine themes covering Agriculture, Health, Education, Housing, Welfare and other sectors.

2.5.4.1 Major changes in Capital Expenditure

Table 2.26 highlights the cases of significant increase or decrease under various Heads of Account under capital expenditure during 2021-22 *vis-à-vis* the previous year.

Table 2.26: Capital expenditure during 2021-22 compared to 2020-21

Major Heads of Accounts	2020-21	2021-22	Variation (in per cent)	Reasons
	(₹ in crore)			
4700-Capital Outlay on Major Irrigation	3,587.48	5,401.64	50.57	Increase in expenditure under Polavaram project by ₹ 1,747.87 crore
4215-Capital Outlay on Water Supply and Sanitation	420.47	1,274.78	203.18	Increase in expenditure under “National Rural Drinking Water Programme” by ₹ 764.44 crore
4210-Capital Outlay on Medical and Public Health	449.85	1,033.18	129.67	Increase in expenditure was due to upgradation of hospitals under AP Vaidya Vidhana Parishad, Establishment of new medical colleges, establishment of new multispecialty hospital at Palasa.
4425-Capital Outlay on Co-operatives	25.49	340.85	1,237.19	Increase was due to investment of ₹ 295.00 crore by the State Government in AP Co-operative Bank
4401-Capital Outlay on Crop Husbandry	-58.28	184.54	-416.64	Increase in expenditure under Externally Aided Projects and projects under Rural Infrastructure Development Fund such as “YSR Agri testing labs”, KFW Germany – Zero based natural Farming and AP Drought Mitigation Project.
5475-Capital Outlay on other General Economic Services	201.11	391.22	94.53	Increased expenditure under Pulivendula Area Development Agency (PADA) and AP Fiber Grid
5054-Capital Outlay on Roads and Bridges	738.09	419.31	-43.19	Decrease in expenditure under R&B works
4875-Capital Outlay on other industries	434.66	-122.68	-128.22	Lapsing of Unspent balances
4515-Capital Outlay on Rural Development	1,734.69	699.27	-59.69	Reduction in expenditure under Panchayat Roads
4070-Capital Outlay on Administrative Services	6,304.20	1,671.09	-73.49	Reduction of expenditure under land acquisition for YSR Gruha Vasati.

2.5.5 Quality of Capital Expenditure

2.5.5.1 Overstatement of Assets

State Government through various Government orders had transferred (August 2018-September 2021) assets (Bridges, Roads, Irrigation Projects *etc.*) valuing ₹ 3,736.51 crore to AP Road Development Corporation and AP Water Resources Development Corporation to mobilize resources using these assets for improvement of road infrastructure and irrigation projects in the State of Andhra Pradesh as shown in table below. As the assets are transferred to an entity outside Government Account, the progressive figures of Capital Expenditure were to be reduced to that extent in the Government Accounts. However, it was noticed that the progressive expenditure on Capital Works in the accounts of the State Government has not been reduced to that extent which resulted in double accounting *viz.*, both in the books of State

Government as well as the above entities and to that extent there is overstatement of assets in the State Government Accounts.

Table 2.27: Amount of assets transferred

Name of the corporation to which assets were transferred	Authority for transfer	Amount involved (in crore)
AP Road Development Corporation	G.O.Ms.No.46, Transport, Roads and Buildings (Roads)Department dated 30.09.2021	392.50
AP Water Resources Development Corporation	G.O.Ms.No.86, Water Resources (Project-III) Department dated 06-08-2018 and G.O.Ms.No.5 Water Resources (Project-III) Department dated 08-01-2019	3,344.01

State Government replied that, the asset registers of APRDC, APWRDC and the Government of Andhra Pradesh are under reconciliation. Necessary action will be taken to avoid double accounting, if any, after reconciliation.

2.5.5.2 Investments and returns

As of 31 March 2022, the State Government invested ₹ 11,369.08 crore in Statutory Corporations (₹ 207.57 crore), Rural Banks (₹ 26.96 crore), Government Companies (₹ 8,295.40 crore), Joint Stock Companies (₹ 57.70 crore) and Co-operatives (₹ 2,783.38 crore). Out of these investments, ₹ 2,963.94 crore was invested after 02 June 2014 by Government of Andhra Pradesh, an amount of ₹ 3.93 crore was the investment out of Earmarked funds and ₹ 8,401.21 crore (73.90 per cent) was yet to be apportioned among the two successor States of Andhra Pradesh and Telangana.

The status of return on the amount invested in these Corporations/Companies is given in Table 2.28.

Table 2.28: Return on Investment

Investment/Return/Cost of Borrowings	2017-18	2018-19	2019-20	2020-21	2021-22
Investment at the end of the year (₹ in crore)	9,472	9,501	9,501	9,534	11,369
Return in the form of Dividend (₹ in crore)	1	1	4	0.01	5.73
Rate of Return (per cent)	0.01	0.01	0.04	0.0001	0.05
Average rate of interest on Government borrowing (in per cent)	6.52	6.37	6.31	6.16	6.15
Difference between Rate of return and interest rate (in per cent)	(-) 6.51	(-) 6.36	(-) 6.27	(-)6.16	(-)6.10
Difference between interest on Government borrowing and return on investment (₹ in crore)	13,846	15,341	17,649	20,018	22,159

Source: Finance Accounts of respective years

Government earned a return of ₹ 5.73 crore in the form of dividend in 2021-22 on its investments of ₹ 11,369 crore in various Corporations/Companies. The return on Government investment was very low at 0.05 per cent during 2021-22 as against the average rate of interest of 6.15 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.

2.5.5.3 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 2.29** presents the details of outstanding loans and advances during the last five years.

Table 2.29: Details of loans advanced by State Government

	(₹ in crore)				
Quantum of Loans/Interest Receipts	2017-18	2018-19	2019-20	2020-21	2021-22
Opening Balance (₹ in crore)	27,472	30,202	31,768	32,769	33,421
Amount advanced during the year (₹ in crore)	2,781	1,843	5,356	1,715	2,138
Amount recovered during the year (₹ in crore)	51	277	4,355	1,063	2,110
Closing Balance (₹ in crore)	30,202	31,768	32,769	33,421	33,449
Net addition (₹ in crore)	2,730	1,566	1,001	652	28
Interest Receipts on Loans and Advances (₹ in crore)	9	12	13	12	6
Interest receipts as percentage of outstanding loans and advances (in Per cent) (a)	0.03	0.04	0.04	0.04	0.02
Interest payments (₹ in crore)	13,847	15,342	17,653	20,018	22,165
Total Outstanding Liabilities (₹ in crore)	2,23,706	2,57,510	3,01,802	3,48,246*	3,72,503*
Interest payments as percentage to total Outstanding Liabilities of the State Government (b)	6.19	5.96	5.85	5.75	5.95
Difference between (a) and (b) (in Per cent)	(-) 6.16	(-) 5.92	(-) 5.81	(-) 5.71	(-) 5.93

Source: Finance Accounts of respective years; * Outstanding Debt excludes an amount of ₹ 2,311 crore during 2020-21 and ₹ 3,272.19 crore during 2021-22 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

During the year 2021-22, an amount of ₹ 2,138 crore was disbursed towards loans and advances to various entities. Out of the loans disbursed by the State Government during the year 2021-22, AP State Beverages Corporation (₹ 1,000 crore) and APTRANSCO for 24X7 Power for all Project (₹ 485.16 crore) were the major recipients of loans.

In so far recovery of loans of ₹ 2,110 crore during 2021-22 was concerned, an amount of ₹ 2,056.38 crore was repaid by two entities viz., AP State Housing Corporation Limited (₹ 1,056.39 crore) and AP State Beverages Corporation Limited (₹ 1,000 crore) which constituted 97.46 per cent of recovery of loans during the year 2021-22.

Audit observed that, out of loan disbursals amounting to ₹ 2,138 crore, during 2021-22 an amount of ₹ 1,112.31 crore disbursed to seven²⁰ entities without prescribing any terms and conditions like rate of interest, number of instalments, etc., and from whom repayments of earlier loans (₹ 7,335.41 crore) were overdue.

Loans of ₹ 33,449 crore were outstanding as of 31 March 2022 from various entities. The earliest period to which arrears related was 2002.

²⁰ Loans for water supply and sanitation (₹ 2,732.98 crore was outstanding), Dairy Development (₹ 162.08 crore), Co-operation (₹ 391.06 crore), Power Project (₹ 3,415.71 crore), Civil Aviation (₹ 564.69 crore) and Other General Economic Services (₹ 68.87 crore)

2.5.5.4 Capital locked in incomplete projects

Blocking of funds on incomplete projects/works deprives the State of the intended benefits for prolonged periods. It may also result in increased outlays due to revision of the project costs due to changes in Standard Schedule of Rates (SSRs), factors of inflation *etc.* As majority of the irrigation projects are financed out of borrowed funds, the quantum of borrowings may also be increased and result in additional financial burden due to servicing of debt.

Age-wise and department-wise details of ongoing projects are given in **Tables 2.30** and **2.31** respectively.

Year of commencement of Project / work	No of incomplete Projects / works	Estimated cost	Expenditure (as on 31 March 2022)
Up to 2014-15	22	23,206	21,424
2015-16	5	2,513	1,015
2016-17	46	1,735	960
2017-18	45	4,265	1,634
2018-19	14	2,490	251
2019-20	4	266	5
2020-21	1	90	14
2021-22	1	123	855
Total	138	34,687	26,158

Department	No. of incomplete projects / works	Estimated cost	Expenditure
Roads	11	177	79
Bridges		Not Available	
Buildings		Not Available	
Irrigation	40	28,259	23,349
Water Supply Schemes and others	87	6,252	2,730
Total	138	34,687	26,158

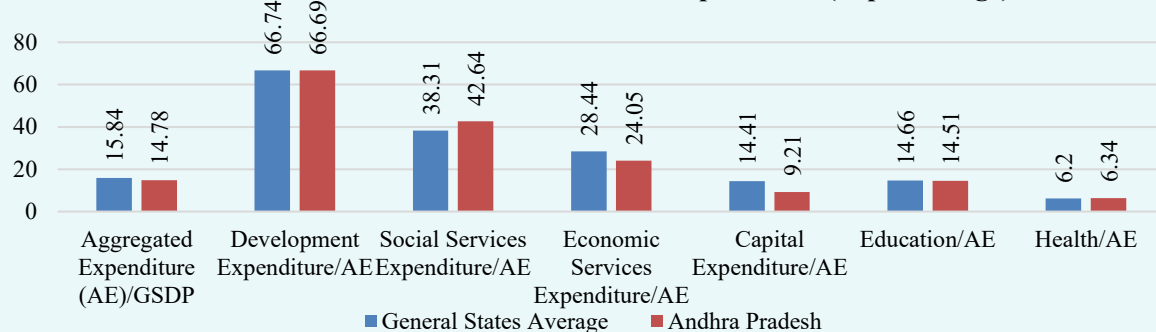
Source: Appendix IX of Finance Accounts 2021-22

Further, the State Government did not disclose financial results of any of the irrigation projects during the year 2021-22. As a result, there was no assurance of returns from public investments on irrigation and flood control.

2.5.6 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 below the respective national averages. **Chart 2.11** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2021-22, *vis-à-vis* the average of the General States (GS).

Chart 2.11: Prioritisation in Public Expenditure (in percentage)



Source: Finance Accounts of 2021-22 and data provided by Economic Advisor.

Audit observations in this regard are as follows:

- Development expenditure²¹ and expenditure on Social Services as a proportion of total expenditure were slightly 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 in the State as a proportion of total expenditure was lower and share of expenditure on Health was slightly higher 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.

State Government has replied that, it has been making every effort to increase the physical capital formation in various sectors like education, health, power, ports, roads etc.

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 2017-18 to 2021-22 are as follows:

²¹ Expenditure incurred on Social and Economic Services constitute Development Expenditure

Table 2.32: Public Account Balances (As on 31 March of the year)

(₹ in crore)

Sector	Sub Sector	2017-18	2018-19	2019-20	2020-21	2021-22
I. Small Savings, Provident Funds, etc.	Small Savings, Provident Funds, etc.	-13,509	-15,730	-16,745	-23,276	-26,990
J. Reserve Funds	(a) Reserve Funds bearing Interest	-32	-576	-1,863	-1,685	-2,629
	(b) Reserve Funds not bearing Interest	-1,455	-2,107	-2,065	-2,002	-1,988
K. Deposits and Advances	(a) Deposits bearing Interest	-7,058	-7,275	-7,662	-708	-622
	(b) Deposits not bearing Interest	-32,861	-38,325	-46,907	-52,626	-36,234
	(c) Advances	30	31	31	31	31
L. Suspense and Miscellaneous	(b) Suspense	46	105	-938	-2,422	-976
	(c) Other Accounts	166	166	5,298	912	1,939
	(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	-1,383	500	510	511	516
	(b) Inter Governmental Adjustment Account	71	53	100	108	107
TOTAL		-55,985	-63,158	-70,241	-81,157	-66,846

Source: Finance Accounts of 2021-22; Note: +ve denotes Debit Balances and -ve denotes credit balances;

2.6.1.1 Reserve Funds

Reserve Funds were created for specific and defined purposes under the Public Account of the State Government. These funds were met from contributions or grants from the Consolidated Fund of State. Out of the gross accumulated balance of ₹ 15,198.06 crore lying in these Funds as on 31 March 2022, ₹ 10,580.55 crore was invested in GoI Securities, leaving a net accumulated balance of ₹ 4,617.51 crore as on 31 March 2022. The transactions during the year 2021-22 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, ₹ 1,741.23 crore was to be contributed in 2021-22 on the outstanding liabilities of ₹ 3,48,246 crore at the end of 2020-21. The State Government, however, did not make any contribution to the Fund during 2021-22.

The total accumulation of the Fund was ₹ 9,687.52 crore as on 31 March 2022 out of which ₹ 9,630.89 crore was invested. (₹ 8,931.89 crore as on 31 March 2021).

Guarantee Redemption Fund

As per guidelines of Reserve Bank of India, post bifurcation, the Government of Andhra Pradesh constituted²² (April 2018) the Guarantee Redemption Fund (GRF) to meet its 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 2021 were ₹ 91,330 crore. Against this, the Fund balance to the end of the year was ₹ 944.39 crore which was 1.03 *per cent* of outstanding Guarantees. The State Government has not contributed to the Fund during 2021-22.

State Disaster Mitigation Fund

Government of India in accordance with the recommendations of XV Finance Commission constituted State Disaster Mitigation Fund (SDMF) under Reserve Funds (8121-00-130) for the purpose of mitigation projects in respect of disasters covered under the State Disaster Response Fund and National Disaster Response Fund. The fund will be used for those local level and community based interventions, which reduce the risks and promote environment friendly settlements and livelihood practices.

GoI will contribute 75 *per cent* funds to SDMF and the balance 25 *per cent* of funds will be contributed by the State Governments. Accordingly, during the year 2021-22, GoI contributed ₹ 223.80 crore and State Government contributed its share of ₹ 74.40 crore towards State Disaster Mitigation Fund (SDMF) and the total amount of ₹ 298.20 crore was credited to the Head of Account-8121-00-130-000. However, there was no expenditure from the fund during the Financial Year 2021-22.

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'.

²² G.O. Ms. No. 46, Finance (CM) Department, dated 17 April 2018

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. 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 ₹ 298.40 crore during 2021-22 in addition to the funds received from GoI of ₹ 895.20 crore. The total accumulated balance was ₹ 1,545.03 crore including amount received towards National Disaster Response Fund (₹ 351.43 crore). Out of the total amount, ₹ 883.17 crore was expended for relief on natural calamities²³ as per Finance Accounts leaving a balance of ₹ 960.06 crore to the end of 31 March 2022.

The details of expenditure charged to State Disaster Response Fund are given in **Table 2.33**.

Table 2.33: Details of Expenditure charged to SDRF

(₹ in crore)			
Major Head of Account	Minor Head of Account	Expenditure during 2020-21	Expenditure during 2021-22
2245- Relief on Account of Natural Calamities 01- Drought	101-Gratuitous Relief	1,375	0.52
	102-Drinking water Supply	101	0.55
	104-Supply of Fodder	4	6.02
	282-Public Health	147	74.57
	Sub Total	1,627	81.66
2245- Relief on Account of Natural Calamities 02- Floods, Cyclones etc.	101-Gratuitous Relief	1,055	672.65
	114-Assistance to Farmers for purchase of Agricultural inputs	0	0
	282-Public Health	219	212.94
	911- Deduct-Recoveries of Overpayments	0	-57.20
	Sub Total	1,274	828.39
2245- Relief on Account of Natural Calamities 80- General	001 Direction and Administration	2	2.07
	102-Management of Natural Disasters, Contingency Plans in disaster prone areas	6	6.03
	911- Deduct-Recoveries of Overpayments	0	0
	Sub-Total	9	8.10
	Grand Total	2,909	918.15
2245-05-State Disaster Response Fund	901- Deduct - Amount met from State Disaster Response Fund	2,243	883.17

Source: Finance Accounts of 2021-22

²³ Gratuitous relief in drought affected areas, Repairs and restoration of damaged roads and bridges, Assistance to farmers for purchase of Agricultural inputs *etc.*

During the year 2021-22, Government of Andhra Pradesh has received ₹ 1,843.23 crore towards SDRF (₹ 1,193.60 crore), SD MF (₹ 298.20 crore) and NDRF (₹ 351.43 crore) from Government of India.

State Government during the year 2019-20 transferred ₹1,100 crore to Personal Deposit Account of Directorate of Agriculture, Andhra Pradesh by showing expenditure under Major Head 2245 – Disaster Relief and Rehabilitation towards payment of Input Subsidy to farmers for Kharif as Gratuitous relief.

Later, State Government stated that these funds were demarcated for Covid pandemic related expenditure and would be utilised in the following financial year which is a violation of Appropriation Act.

Further, the guidelines²⁴ of State Disaster Response Fund allow adjustment of expenditure from the fund only for expenditure incurred on providing ‘immediate relief’. The State Government has however, transferred the funds from SDRF to Personal Deposit Account without spending for immediate relief and was lying unutilised in the Personal Deposit Account even till date (September 2022).

The action of State Government to transfer SDR Funds provided for immediate relief to drought hit farmers to PD Account and retaining those funds for more than two years was illegal. The glaring violation of established SDRF guidelines and procedures needs to be investigated and responsibility fixed on the concerned officials.

State Government in its reply (January 2023) stated that, these funds were transferred to SDRF during the financial year 2022-23 as per the directions of Honourable Supreme court.

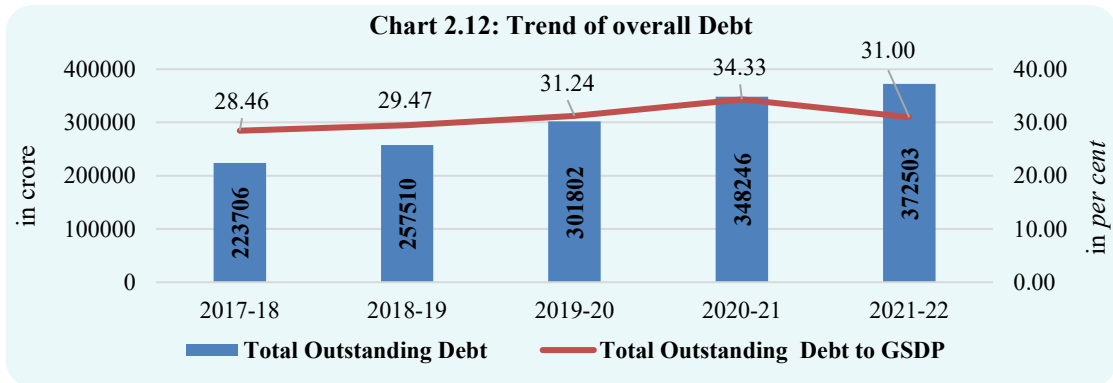
2.7 Debt Management

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 2021-22 was ₹ 3,72,503 crore²⁵. The trend of outstanding debt and ratio of debt to GSDP during the period 2017-22 is given in **Chart 2.12**.

²⁴ OM No. 33-5/2015-NDM-I, Disaster Management dated 30 July 2015

²⁵ Outstanding Debt excludes an amount of ₹ 2,311 crore during 2020-21 and ₹ 3,272.19 crore during 2021-22 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



Source: Finance Accounts of respective years; **Note:** Outstanding Debt during 2021-22 excludes an amount of ₹ 5,583 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 2017-22 are given in **Table 2.34** and in **Chart 2.13**.

Table 2.34: Component wise debt trends

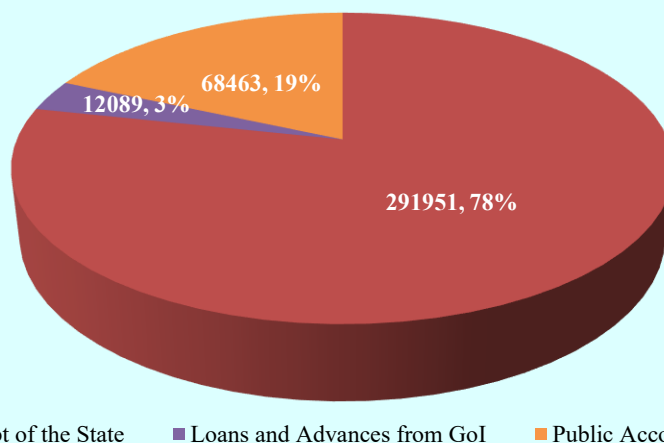
	2017-18	2018-19	2019-20	2020-21	2021-22	
Outstanding Debt (₹ in crore) (A)+(B)	2,23,706	2,57,510	3,01,802	3,48,246*	3,72,503*	
Public Debt (₹ in crore) (A)	<i>Internal Debt</i>	1,59,813	1,83,274	2,15,617	2,56,088	2,91,951
	<i>Loans from GoI</i>	8,978	10,223	10,942	11,860	12,089
Public Account Liabilities (₹ in crore) (B)	54,915	64,013	75,243	80,298	68,463	
Off-Budget Borrowings (OBB)	NA	NA	77,586	1,12,115	1,18,393	
Rate of growth of outstanding debt (in per cent)	11.12	15.11	17.20	15.39	6.97	
Gross State Domestic Product (GSDP)	7,86,135	8,73,721	9,66,099	10,14,374	12,01,736	
Debt/GSDP (in per cent)	28.46	29.47	31.24	34.33	31.00	
Debt/GSDP (in per cent) including OBB	NA	NA	39.27	45.38	40.85	
Total Debt Receipts (₹ in crore) (a)	1,33,687	1,36,084	1,57,859	2,13,050	1,65,877	
Total Debt Repayments (₹ in crore) (b)	1,08,853	97,940	1,13,197	1,64,296	1,38,347	
Total Debt Available (₹ in crore) (a-b)	24,834	38,144	44,662	48,754	27,530	
Debt Repayments/Debt Receipts (in per cent)	81.42	71.97	71.71	77.12	83.40	

Source: Finance Accounts of respective years; * Outstanding Debt excludes an amount of ₹ 2,311 crore during 2020-21 and ₹ 3,272.19 crore during 2021-22 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; NA: Not Available

The outstanding Public Debt at the end of the year has increased by 66.51 per cent (₹ 1,48,797 crore) from 2017-18 to 2021-22.

Component-wise break-up of debt is shown in **Chart 2.13**.

Chart 2.13: Break-up of Outstanding Debt at the end of FY 2021-22
(₹ in crore)

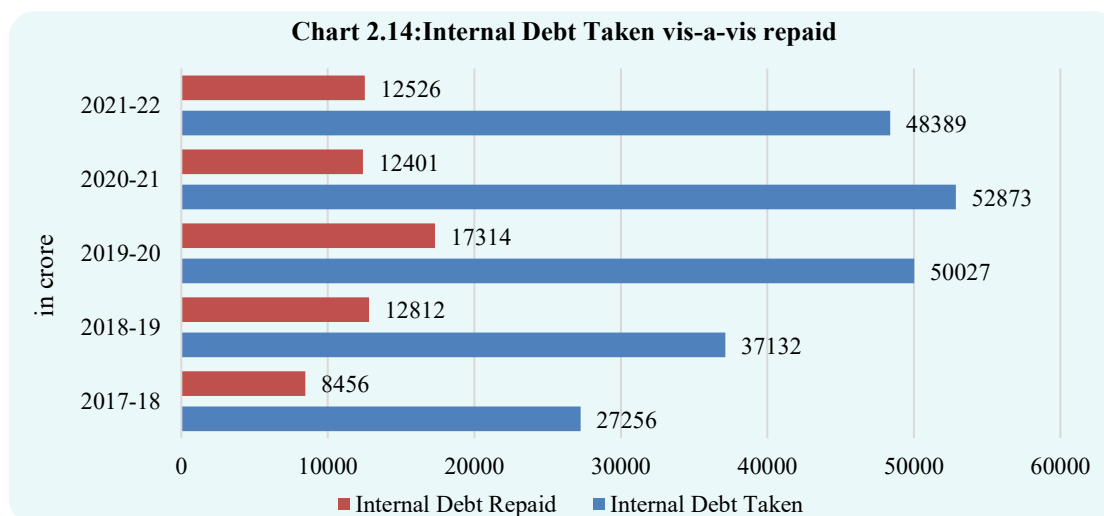


Source: Finance Accounts of 2021-22; **Note:** Outstanding Debt excludes an amount of ₹ 5,583.19 crore received towards back-to-back loan in lieu of GST compensation as it is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources.

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 78 per cent of the total outstanding debt.

The details of receipt and repayment of internal debt during the years 2017-22 are given in **Chart 2.14**.



Source: Finance Accounts of respective years

As on 31 March 2022, market borrowings (₹ 2,65,421 crore) formed a major portion (90.91 per cent) of the outstanding internal debt (₹ 2,91,951 crore) of the State Government, with interest rates ranging from 5.00 to 13.99 per cent. State Government paid an interest of ₹ 20,617.35 crore on Internal Debt. From the year 2017-18 to 2021-22, the borrowings under Internal Debt have increased by 77.54 per cent.

2.7.1.2 Loans from GoI

Loans from GoI (₹ 17,672 crore) accounted for 4.67 per cent of the total outstanding debt as on 31 March 2022. During the year 2021-22, State Government received an amount of ₹ 4,895.71 crore from GoI and paid an interest of ₹ 310.86 crore at interest rates ranging from 7.00 to 13.99 per cent.

Out of the total loan availed, an amount of ₹ 5,583.19 crore (₹ 2,311 crore for the year 2020-21 and ₹ 3,272.19 crore for the year 2021-22) has been released by GoI for shortfall arising out of GST implementation through issue of debt under a Special Window coordinated by Ministry of Finance²⁶. GoI decided that GST compensation of ₹ 5,583.19 crore given to the 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. During the year 2021-22, an amount of ₹ 501.79 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 2017-22 is as below:

Table 2.35: Per-capita liability

Sl.No	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
1	Total outstanding debt/liabilities (₹ in crore)	2,23,706	2,57,510	3,01,802	3,48,246	3,72,503
2	Off Budget Borrowings (OBB) (₹ in crore)	NA	NA	77,586	1,12,115	1,18,393
3	Population (in crore)	5.10	5.13	5.16	5.19	5.29
4	Per capita liability (in ₹)	43,829	50,157	58,441	67,485	70,416
5 = (1+2)/3	Per capital Liability after inclusion of OBB (in ₹)	NA	NA	73,525	88,702	92,797

Source: Finance Accounts of respective years, Data from Economic Advisor and information furnished by State Government in respect of Off-Budget borrowings; *Note:* Outstanding Debt excludes an amount of ₹ 2,311 crore during 2020-21 and ₹ 3,272.19 crore during 2021-22 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; NA: Not Available

As seen from the above table that the per-capita liability of the State of Andhra Pradesh has increased by 61 per cent over the period of five years. The per capita liability on the people of Andhra Pradesh will be more after considering off budget borrowings.

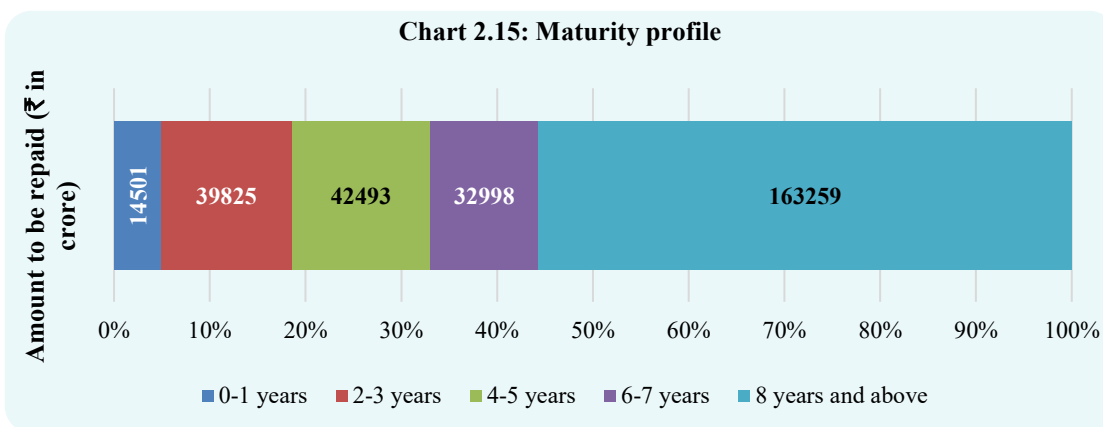
2.7.3 Debt Maturity profile

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 2.36** and **Chart 2.15**.

²⁶ GoI's letter No.F.No.40(1) PF-S/2021-22 dated 10 December 2021

Table 2.36: Maturity Profile of State Debt

Period of repayment (Years)	Amount (₹ in crore)	Percentage (w.r.t. Public Debt)
0 – 1	14,500.54	4.77
2 – 3	39,825.03	13.10
4 – 5	42,493.39	13.97
6 – 7	32,998.04	10.85
8 years and above	1,63,258.55	53.69
Others ²⁷	11,017.63	3.62
Total	3,04,093.18	



Source: Finance Accounts 2021-22;

The maturity profile of debt as on 31 March 2022 indicated that State would have to repay 42.69 *per cent* of debt (₹ 1,29,817 crore) within the next seven years. State Government has to augment its revenue resources keeping in view the increasing trend on reliance on borrowed funds for financing revenue/current expenditure and formulate a well thought debt management strategy. The issues on debt sustainability of the State are discussed in the subsequent paragraphs.

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 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 servicing of debt through 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 2.37 shows the debt sustainability of the State according to these indicators for the five-year period from 2017-18 to 2021-22.

²⁷Payment schedule of this amount is not being maintained by the Accountant General (A&E). 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

Table 2.37: Trends in Debt Sustainability Indicators

Debt Sustainability Indicators	2017-18	2018-19	2019-20	2020-21	2021-22
Total Outstanding Debt* (₹ in crore)	2,23,706	2,57,510	3,01,802	3,48,246	3,72,503
Rate of growth of Outstanding Debt (in per cent)	11.12	15.11	17.20	15.39	6.97
GSDP (₹ in crore)	7,86,135	8,73,721	9,66,099	10,14,374	12,01,736
Rate of growth of GSDP (in per cent)	14.86	11.14	10.57	5.00	18.47
Debt/GSDP (in per cent)	28.46	29.47	31.24	34.33	31.00
Average interest rate of Outstanding Debt (in per cent)	6.52	6.37	6.31	6.16	6.15
Percentage of interest payment to Revenue Receipt (in per cent)	13.18	13.38	15.90	17.09	14.72
Percentage of Debt Repayment to Debt Receipt (in per cent)	81.42	71.97	71.71	77.12	83.40
Net Debt available to the State# (₹ in crore)	10,987	22,802	27,009	28,736	5,364
Net Debt available as per cent to Debt Receipts (in per cent)	8.22	16.76	17.11	13.49	1.97

*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 during 2020-21 and ₹ 3,272.19 crore during 2021-22 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*

2.7.4.1 Repayment of Debt and Interest

The projection of cash outflows due to amortization (Principal and Interest) of Public Debt for the next 10 years commencing from 2021-22 onwards is given below. The liabilities on account of Public Debt represent the amounts outstanding under MH 6003 and MH 6004 to the end of 31 March 2022 and the interest was calculated considering the interest rate prevailed at the time of raising of the OMBs/rate of interest as fixed by lending institutions on remaining loans.

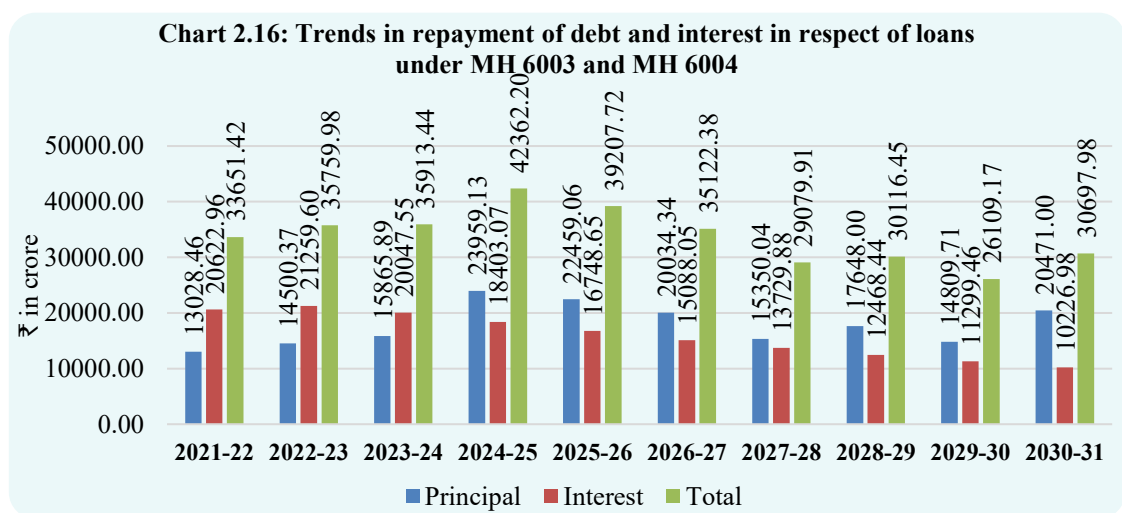
Table 2.38: Repayment of Debt and interest

Year	Repayment of Debt	Interest to be paid	Total
Repayment of principal from MH 6003 along with Interest			
2021-22	12,513.60	20,504.12	33,017.72
2022-23	13,985.53	21,219.33	35,204.86
2023-24	15,613.56	20,026.97	35,640.53
2024-25	23,854.57	18,393.58	42,248.15
2025-26	22,416.73	16,744.76	39,161.50
2026-27	20,010.09	15,085.82	35,095.90
2027-28	15,336.32	13,728.62	29,064.93
2028-29	17,642.44	12,467.94	30,110.39
2029-30	14,806.81	11,299.20	26,106.01
2030-31	20,470.55	10,226.94	30,697.49
TOTAL (MH 6003)	1,76,650.20	1,59,697.28	3,36,347.48
Repayment of principal from MH 6004 along with Interest			
2021-22	514.86	118.84	633.70
2022-23	514.84	40.27	555.12
2023-24	252.33	20.58	272.91
2024-25	104.56	9.49	114.05

Year	Repayment of Debt	Interest to be paid	Total
2025-26	42.33	3.89	46.22
2026-27	24.25	2.23	26.48
2027-28	13.72	1.26	14.98
2028-29	5.56	0.50	6.06
2029-30	2.90	0.26	3.16
2030-31	0.45	0.04	0.49
Back to Back loans	9,923.99	#	9,923.99
Total (MH 6004)	11,399.79	197.36	11,597.16
Grand Total	1,88,049.99	1,59,894.64	3,47,944.64

Source: Information furnished by O/o PAG (A&E); # Regarding the Back to Back loans repayments along with interest details are maintained by M/o Finance and subsequently, book adjustments are made in this office in the same month.

The trends in repayment of debt and interest are depicted in **Chart 2.16**.



It can be seen from the above chart that on the outstanding public debt to the end of 31 March 2022, the liability on account of public debt will attain its peak and an amount of ₹ 42,362.20 crore is to be provided during the year 2024-25 for meeting the debt servicing obligations. Though the trend of liability shown a gradual decline from 2026-27 onwards (except in 2028-29), it may not remain static and show increased trend due to States' continued dependence on OMBs year over year for financing its current expenditure instead of augmenting the revenues as well as probable receipts of Back-to-Back loans under MH 6004.

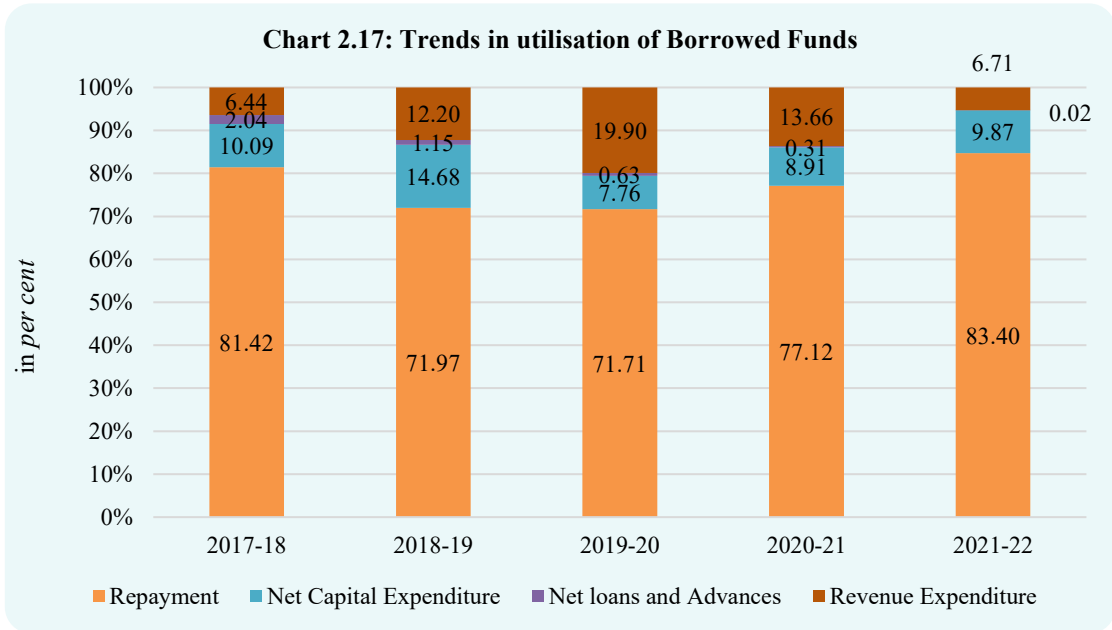
2.7.4.2 Application of borrowed funds

The trends in application of borrowed funds are depicted in **Table 2.39** and **Chart 2.17**.

Table 2.39: Trends in utilisation of borrowed funds

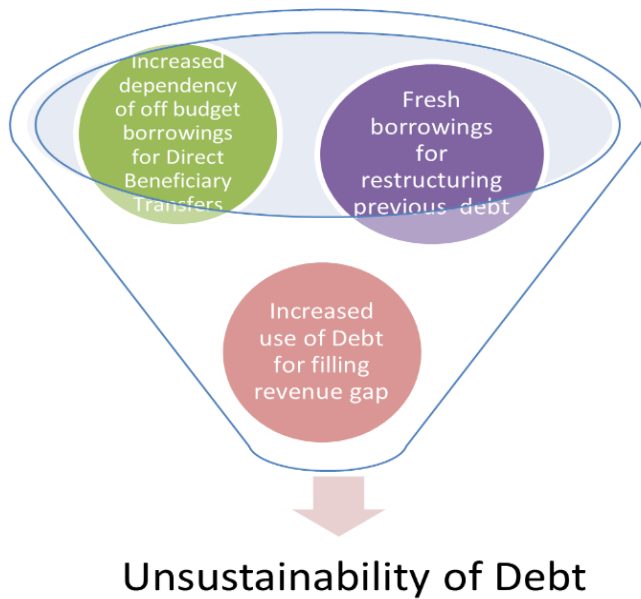
Year		2017-18	2018-19	2019-20	2020-21	2021-22
Total Borrowings	2	1,33,687	1,36,084	1,57,859	2,13,050	1,65,877
Repayment of earlier borrowings (Principal) (per cent)	3	1,08,853 (81.42)	97,940 (71.97)	1,13,197 (71.71)	1,64,296 (77.12)	1,38,347 (83.40)
Net capital expenditure (Per	4	13,491	19,976	12,242	18,975	16,373

Year		2017-18	2018-19	2019-20	2020-21	2021-22
cent)		(10.09)	(14.68)	(7.76)	(8.91)	(9.87)
Net loans and advances	5	2,730	1,566	1,001	652	28
Portion of Revenue expenditure met out of net available borrowings	6=2-3-4-5	8,613	16,602	31,419	29,127	11,129



Source: Finance Accounts of respective years

During the period 2017-22, 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 stress over the finances of the State for repayment of debt will be on an explosive path and may lead to unsustainability of debt in future years.



- a. As per the targets fixed by AP FRBM Act for the year 2021-22, the Outstanding Debt shall not be more than 35.60 per cent of GSDP. The Outstanding Debt-GSDP ratio of the State Government was within the target viz., 31.00 per cent as of 31 March 2022. But it should be read with the fact that, the FRBM target was

prescribed by excluding the guarantee given by the Government through which most of the loans were being raised.

- b. During the five-year period 2017-18 to 2021-22, the Debt to GSDP ratio has shown increasing trend (except during 2021-22). Audit observed that the State Government resorted to borrowings through PSUs *viz.*, Corporations/PSUs/SPVs. In majority of the cases, the debt servicing for these loans is being done through either budgetary support or escrowing of revenue receipts. The issues of off-budget borrowing are discussed in the paragraphs 2.7.5 and 2.7.5.1. If the off-budget borrowings (which are 9.85 *per cent* of GSDP) and other committed liabilities are also taken into account, the Debt/GSDP ratio is 42.33 *per cent* of GSDP which exceeded the targets fixed for the year 2021-22 by 6.73 *per cent*.
- c. Ratio of Interest payments to Revenue Receipts has shown increased trend from 2017-18 to 2020-21; and slightly reduced during 2021-22 due to increased revenue receipts. Predominant part of borrowed funds is utilised for interest payments, thereby curtailing the scope of utilising the borrowed funds for productive expenditure.
- d. During the period 2017-18 to 2021-22, approximately 65 to 83 *per cent* of borrowed funds were utilised for repayment of debt which indicated the State's increased dependence on borrowed funds primarily for discharging the debt servicing obligations rather than for capital assets creation. Unless the borrowed funds are utilised for revenue augmentation through creation of capital assets/capital formation, with increased pressure on exchequer due to debt servicing; the debt of the State Government may become unsustainable and in the long run chances of State Government falling into debt trap could not be ruled out.

Borrowed funds should ideally be used to fund capital creation and developmental activities. Using borrowed funds for meeting current expenditure 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.

State Government replied that, the economy of the State of Andhra Pradesh suffered structural deficit on account of unjust, unfair and unscientific state bifurcation. Andhra Pradesh lost assets to Telangana on geographical basis, but inherited liabilities on population basis. Andhra Pradesh also did not have the resources to meet the servicing of liabilities. GoAP has been ceaselessly pursuing with the Government of India regarding fulfilment of assurances given at the time of bifurcation such as award of Special Category Status, Revenue Deficit Grant for 2014-15, etc. The outbreak of Covid-19 pandemic further compounded the fiscal stress on the State. In this scenario, it would be inevitable that a part of borrowed funds would be used for meeting the debt servicing obligations.

2.7.5 Off-Budget Borrowings

The FRBM Act provides debt management framework through containing revenue and fiscal deficits. Prudential borrowing norms suggest that borrowed funds should be self-liquidating *viz.*, they should be deployed in such a manner that returns from borrowed funds are preferably able to meet cost of debt. It is, therefore, essential that there should be a policy framework for utilisation of borrowed funds considering the cost of borrowing as well as revenue augmentation.

Off-budget borrowings or off-budget financing refer to the 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 remain outside legislative control. The State Government resorted to borrowing through the State PSUs *viz.*, Government owned or controlled public sector enterprises or departmental commercial undertakings. The PSUs raise loans from Banks and other Financial Institutions such as HUDCO *etc.*, for which State Government provides unconditional and irrevocable guarantee for servicing of the debt (in majority of the cases). Thus, these liabilities constitute the liabilities of the State Government. The servicing of these OBBs is being done through (a) payment of interest on recurrent basis through budget (b) repayment of the borrowings by releasing funds to the PSU concerned either in the form of assistance/grants-in-aid or loan by the State Government. In recent years, two State PSUs raised loans through Banks for which repayments were made by way of escrowing of revenues and the issue is discussed in the paragraph 2.7.5.1.

During the year 2021-22, an amount of ₹ 11,331.83 crore was incurred for the debt servicing of these off-budget borrowings. The outstanding liability on account of OBBs of the State Government were ₹ 1,18,393.81 crore to the end of 31 March 2022 and the details are given in **Table 2.40**.

Table 2.40: Off-Budget Borrowings to the end of March 2022

(₹ in crore)					
	Institution	Borrowings by institution as of March 2022	Guarantee provided by Government as of March 2022	Funds provided (in the form of grants) by Government for payment of interest / repayment of loan during 2021-22	Amount considered as OBB as of March 2022
Loans raised through guarantees of the State Government and are being repaid through budgetary support in form of Grants-in-aid/Loans from the State Government					
1	AP State Ware Housing Corporation	36.07	308.30	0.00	36.07
2	Rythu Sadhikara Samstha	895.84	2,000.00	119.00	895.84
3	Markfed	1,778.34	5,500.00	0.00	1,778.34
4	AP State Seeds Development Corporation	652.64	1,000.00	0.00	652.64
5	AP State Civil Supplies Corporation	31,026.08	37,000.00	140.00	31,026.08

	Institution	Borrowings by institution as of March 2022	Guarantee provided by Government as of March 2022	Funds provided (in the form of grants) by Government for payment of interest / repayment of loan during 2021-22	Amount considered as OBB as of March 2022
Loans raised through guarantees of the State Government and are being repaid through budgetary support in form of Grants-in-aid/Loans from the State Government					
6	AP Transmission Corporation	0.00	350.00	43.31	0.00
7	AP DISCOMs	7,489.85	11,120.00	408.23	7,489.85
8	AP GENCO	1,788.02	5,437.43	0.00	1,788.02
9	AP Power Development Corporation	610.00	1,000.00	0.00	610.00
10	AP Power Finance Corporation	18,115.07	15,741.33	219.03	18,115.07
11	AP State Beverages Corporation	0.00	1,400.00	1,000.00	0.00
12	AP State Housing Corporation	3,881.55	4,133.21	0.00	3,881.55
13	Bhogapuram Airport	769.86	854.00	171.85	769.86
14	Orvakallu Dagadathi Airport	166.66	200.00	0.00	166.66
15	AP Fibernet	206.92	300.00	65.00	206.92
16	AP State Finance Corporation	197.20	1,199.00	0.00	197.20
17	Director of Sugar and Cane Commissioner	30.37	555.45	0.00	30.37
18	AP Industrial Infrastructure Corporation	1,961.84	2,000.00	79.80	1,961.84
19	Nellore Municipal Corporation	493.72	995.00	151.37	493.72
20	Municipal Corporation of Tirupati	22.35	100.00	0.00	22.35
21	AP Township Infrastructure Development Corporation	5,278.36	13,267.51	664.16	5,278.36
22	Vijayawada Municipal Corporation	85.67	100.00	0.00	85.67
23	AP Urban Finance and Infrastructure Development Corporation	363.81	632.97	0.00	363.81
24	AP Capital Region Development Authority	3,738.00	7,060.00	531.08	3,738.00
25	AP Drinking Water Corporation	640.00	5,330.00	0.00	640.00
26	AP SCs Finance Corporation	336.47	533.85	0.00	336.47
27	AP State Road Transport Corporation	1,991.17	2,500.00	2,947.90	1,991.17
28	AP Water Resources	8,579.13	19,677.00	1,029.12	8,579.13

	Institution	Borrowings by institution as of March 2022	Guarantee provided by Government as of March 2022	Funds provided (in the form of grants) by Government for payment of interest / repayment of loan during 2021-22	Amount considered as OBB as of March 2022
Loans raised through guarantees of the State Government and are being repaid through budgetary support in form of Grants-in-aid/Loans from the State Government					
	Development Corporation				
29	AP Road Development Corporation	4,055.62	4,158.53	120.04	4,055.62
Loans raised by escrowing future revenues of Consolidated Fund of the State					
29A	AP Road Development Corporation	699.20	2,000.00	421.68	699.20
30	AP State Development Corporation	22,504.00	25,000.00	3,220.25	22,504.00
	TOTAL	1,18,393.81	1,71,453.60	11,331.83	1,18,393.81

Source: Information provided by respective State PSUs CFMS vouchers data for the year 2021-22 and information furnished by Finance Department, GoAP (January 2023).

Government of Andhra Pradesh did not disclose the off-budget borrowings (OBB) in the budget documents. The overall liability of the State including these outstanding Off-Budget Borrowings as on 31 March 2022 was ₹ 4,90,897 crore (₹ 3,72,503²⁸ crore and ₹ 1,18,394 crore) and this constitute 40.85 per cent of GSDP.

The Off Budget Borrowings of State Government for the financial years 2019-20 and 2020-21, reported in the respective SFARs, were ₹ 26,097 crore and ₹ 86,260 crore respectively. However, State Government furnished (January 2023) the details of borrowings of 30 corporations for the financial years 2019-20 and 2020-21 as ₹ 77,585.73 Crore and ₹ 1,12,114.90 Crore (Details given vide *Appendix 2.2*). There was net increase in off budget borrowings of the State Government to the tune of ₹ 6,278.91 crore when compared to previous year (as per the information furnished by the State Government - ₹ 1,12,114.90 crore) through these 30 corporations.

The OBBs of the State Government will have the effect of bypassing the Net Borrowing Ceiling (NBC) of the State. Such borrowings would have impact on important fiscal indicators under APFRBM such as the Revenue Deficit and Fiscal Deficit and also have the effect of surpassing the targets set under AP FRBM Act as amended from time to time and also affect the inter-generational equity. Non-disclosure of such liabilities in budget documents renders the financial position of the State Government opaque. If the State Government increasingly resorts to the OBBs without legislative approval to finance its expenditure, the liabilities of the State may increase substantially over a period time and limits the State Government's capacity for allocation of funds for capital assets/infrastructure development programmes in the State.

²⁸ 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.

State Government in its reply stated that, as per the APFRBM Act revised in 2021, the outstanding liabilities excluding government guarantees should be within 35.60 per cent of GSDP. Further, as per the 15th FC recommendations, the debt-GSDP target for the States shall be 32.60 per cent. The State replied that the outstanding liabilities have been contained to 31 per cent and also stated that the FRBM Act has been complied with.

It was also stated that, the liabilities of GoAP are disclosed as per the provisions of APFRBM Act. The details of government guarantees extended along with their liabilities are being regularly placed before the Legislature as a Statement of Fiscal Policy Framework along with the Budgetary Documents vide Form D4 and Form D5 of Fiscal Policy Statement.

The reply of the State Government in complying with the APFRBM Act was not acceptable as the section 2(l) of APFRBM Act clearly defines total liabilities as “the liabilities under the Consolidated Fund of the State and the Public Account of the State and shall also include borrowings by the public sector undertakings and the special purpose vehicles and other equivalent instruments including guarantees where the principal and/ or interest are to be serviced out of the State budgets”. Further, GoI has informed²⁹ that Net Borrowing Ceiling should also include the off-budget borrowings and shall be considered as borrowings of the State under the article 293(3) of the constitution. Hence, the debt-GSDP ratio should be calculated by including the Off-budget borrowings which was more by 9.85 per cent than the targets prescribed by APFRBM Act.

2.7.5.1 Borrowings made by escrowing of revenues out of Consolidated Fund of the State

AP State Development Corporation

The State Government has established AP State Development Corporation (APSDC) with a mandate of planning, funding, and financing social and economic development projects and activities in Andhra Pradesh by identifying and dedicating the requisite resources comprising of existing and new revenue streams through the levy of Additional Retail Excise Tax (ARET) on consumable liquor and duly assign these revenues to the APSDC and deposit in escrow for raising loans for the benefit of the APSDC. The corporation is operating a PD Account wherein the loans raised by the Corporation are being credited and the loan funds are utilised for financing the Welfare Programmes of the State. Thus, the borrowed funds are applied for financing current expenditure. For meeting the debt repayment obligations, the ARET revenues are credited to the PD Account through provisioning budget in Expenditure Head-Revenue Account (HOA: 2052-00-090-11-31) and the amount was adjusted to the PD Account of the Corporation.

²⁹ GoI, Ministry of Finance Lr.No.40(2) PF-S/2022-23 dated 31 March 2022

AP Road Development Corporation

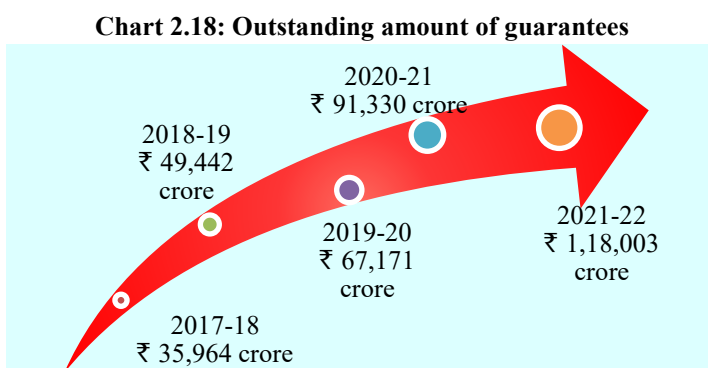
AP Road Development Corporation (APRDC) with the mandate of development and maintenance of roads in Andhra Pradesh raises loans on the back of sovereign guarantee given by the State Government. Further, State Government issued order³⁰ assigning the revenues realized through the ‘Road Development Cess’, collected at the point of first sale in the State at a rate of ₹ 1/- (one rupee only) per litre on Petrol and High-Speed Diesel to APRDC for raising and servicing new loans, servicing of the existing loans and maintenance & repair of damaged road stretches with paver patches. For meeting the debt repayment obligations, the road development cess collected was credited to escrow account of APRDC by provisioning budget in Expenditure Head-Revenue Account (HOA: 3054-04-105-00-35).

These two corporations have outstanding loan of ₹ 23,203.20 crore³¹ as of 31 March 2022 which are being financed through the revenues raised by the State and transferred to escrow accounts of these corporations for repayment of debt.

It is pertinent to mention that the above two corporations are not engaged in any revenue generation activities and are dependent on the State Government for financial support as well as to defray the debt obligations. Though the ARET Revenue/Road Cess form part of the revenue stream of the State Government, these resources are mainly used for financing the loans of the APSDC and APRDC. Hence, the outstanding liability or any new loans raised by these corporations are a direct charge on the Government’s revenue 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 2017-18 to 2021-22 is given in **Chart 2.18**.



The State Government, in its FRBM Act, had committed to limit the amount of annual incremental guarantees to 180 per cent of the total revenue receipts in the year preceding the current year.

Source: Finance Accounts of respective years

The outstanding guarantees (₹ 1,18,003 crore) were 100.74 per cent of revenue receipts of previous year (₹ 1,17,136 crore) which is within the prescribed limits.

³⁰ G.O.Rt 120 Finance (FMU-TR&B) department dated 25 January 2021

³¹ Outstanding loans as of 31 March 2022 of APSDC: ₹ 22,504.00 crore and APRDC: ₹ 699.20 crore

Table 2.41: Ceiling vis-à-vis actual Guarantees

	(₹ in crore)				
Guarantees	2017-18	2018-19	2019-20	2020-21	2021-22
Ceiling applicable to the outstanding amount of guarantees (90 per cent of the total revenue receipts in the year preceding the current year) up to the year 2020-21 and 180 per cent to the revenue receipts of the previous year for 2021-22	89,086	94,556	1,03,204	99,931	2,10,845
Actual amount of outstanding guarantees	35,964	49,442	67,171	91,330	1,18,003

Source: Finance Accounts of respective years

The outstanding guarantees increased by ₹ 26,673 crore from 2019-20 mainly due to guarantees issued to AP State Development Corporation (₹ 22,731.25 crore) and increase in guarantees for AP DISCOMs including AP Power Coordination Committee (by ₹ 4,804.49 crore).

The Government Order of 2003³² 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 ₹ 227.20 crore in respect of one borrowing entity³³. The State Government did not furnish specific reasons for extending guarantees for the interest also.

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 2021-22, State Government had realised ₹ 39.05³⁴ crore as Guarantee commission as against the receivable amount of ₹ 1,922.80 crore.

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

³²G.O.Ms.No.446, Finance (DMC) Department dated 29 September 2003

³³ Director of Sugar and Cane Commissioner

³⁴ APSHCL remitted ₹ 39.05 crore and ₹ 26,084 was received from various institutions.

Table 2.42: Cash Balances and their Investment

	(₹ in crore)	
	Opening balance on 01/04/2021	Closing Balance on 31/03/2022
(a) General Cash Balance		
Cash in Treasuries	--	--
Deposits with Reserve Bank	(-) 70.04	(-) 31.72
Deposits with other Banks	1.34	1.34
Remittances in transit – Local	--	--
Total	(-) 68.70	(-) 30.38
Investments held in Cash Balance investment account	745.82	1,773.12
Total (a)	677.12	1,742.74
(b) Other Cash Balances and Investments		
Cash with Departmental officers viz., Public Works Department Officers, Forest Department Officers, District Collectors	1.03	1.03
Permanent advances for contingent expenditure with Departmental officers	1.64	1.64
Investment out of Earmarked Funds	9,811.53	10,580.54
Total (b)	9,814.20	10,583.21
Grand Total (a)+ (b)	10,491.32	12,325.95

Source: Finance Accounts 2021-22;

During the year 2021-22, the State Government maintained the minimum daily cash balance of ₹ 1.94 crore with the RBI for 43 days out of 365 days.

During the year 2021-22, the State Government had resorted to WMA, SDF and OD of ₹ 1,06,325.66 crore on 322 days to maintain its minimum cash balance (₹ 1.94 crore) with the RBI and repaid an amount of ₹ 1,06,325.66 crore along with an interest of ₹ 111.72 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 increased by ₹ 1,834.63 crore from ₹ 10,491.32 crore in 2020-21 to ₹ 12,325.95 crore in 2021-22.

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 realised an interest of ₹ (-) 1.17 crore during 2021-22 from its investments in GoI Securities and Treasury Bills. The minus receipt was due to rediscounting of treasury bills in advance.

Out of the investment of ₹ 10,580.55 crore in earmarked funds, ₹ 9,630.90 crore was invested in Consolidated Sinking Fund and ₹ 944.50 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 five-year period 2017-22 are given in **Table 2.43**.

Table 2.43: Cash Balance Investment Account (Major Head-8673)

(₹ in crore)

Year	Opening Balance	Closing Balance	Increase (+) / decrease (-)	Interest earned
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
2021-22	745.82	1,773.11	1,027.22	(-) 1.17

Source: Finance Accounts 2021-22

Chart 2.19 shows the daily cash balance during 2021-22 of the State.

Chart 2.19: Cash Balances during 2021-22

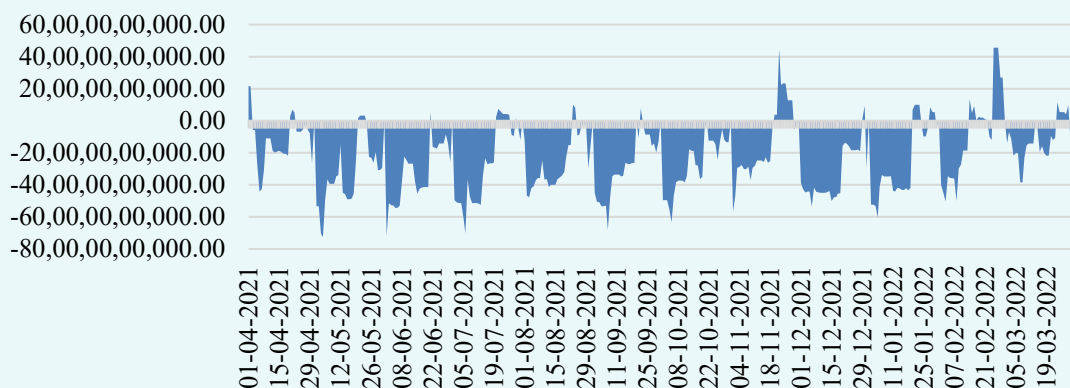
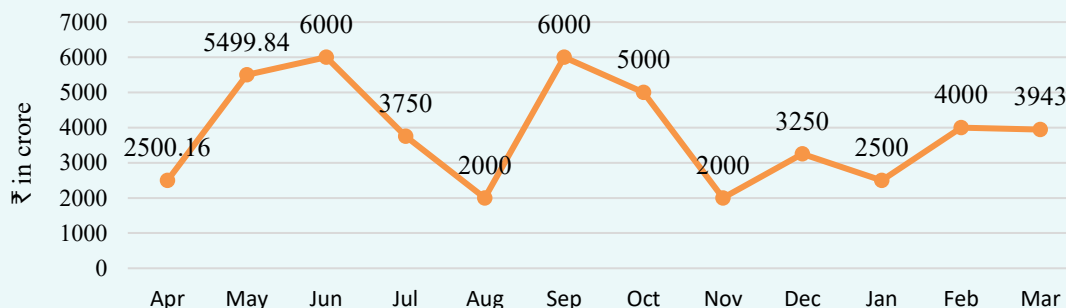


Chart 2.20: Monthly Movement of Market Borrowings during 2021-22



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 ₹ 2,000 crore (August 2021) to ₹ 6,000 crore (June and September 2021) 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 2022 is as under (details are in **Appendix 2.3**):

- As of 31 March 2022, 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 eight 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 stated that it was regularly representing in various fora for the early bifurcation of Loans & Advances and the assets. It is also stated that the State Government 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 28.53 per cent in Revenue Receipts during the year 2021-22 as compared to the previous year mainly due to increase in transfers from Government of India by 22.90 per cent.

State Government receipts were overstated to an extent of ₹ 319.02 crore due to misclassification of reduction of revenue expenditure as revenue receipts.

The State received compensation of ₹ 6,389 crore towards revenue loss due to GST implementation, partly as Grants (₹ 3,117 crore) and partly as back-to-back loans (₹ 3,272 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 4.25 per cent during 2021-22. State Government during 2021-22 lapsed unspent amount of ₹ 26,380 crore to Consolidated Fund of the State which resulted in reduction of Revenue Deficit and Fiscal Deficit when compared to previous year. State Government while lapsing the unspent balances has also lapsed the FC recommended health sector grants (₹ 488.15 crore) given by GoI. The action of State Government in lapsing these funds were in violation of GoI guidelines and also resulted in understatement of Revenue Expenditure and Revenue Deficit while creating an interest burden (₹ 11.33 crore for not transferring the funds) on Consolidated Fund of the State.

As against the GoI guidelines to transfer pass-through grants given for implementation of various centrally sponsored schemes to Single Nodal Account pertaining to those schemes, the State Government had lapsed the unutilised funds of ₹ 6,356 crore to the Consolidated Fund of the State as reduction of expenditure.

State Government has not reduced the assets in the books of Government Account in respect of assets transferred to AP Road Development Corporation and AP Water Resources Development Corporation which resulted in overstatement of Assets.

The share of capital expenditure (9.21 per cent of total expenditure) was lower in the State compared to General States average (14.41 per cent of total expenditure) affecting the physical capital formation with a cascading impact on economic growth in the long run.

The funds provided to State Disaster Response Fund (SDRF) were being kept idle from 2019-20 by transferring them to Personal deposit account illegally without being spent for drought relief as per sanctions was in violation of SDRF guidelines.

Outstanding Public Debt at the end of the year has increased by 6.97 per cent (₹ 24,257 crore) over the previous year. State Government has also a liability for off-budget borrowings of ₹ 1,18,394 crore and committed liability on account of pending payments of ₹ 17,804.20 crore to DISCOMs (towards electricity dues), pending payments towards irrigation projects and water supply schemes to the end of the year 2021-22 which it has not disclosed 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.*