

1.1 Profile of the State

Andhra Pradesh is the eighth largest State in the country in terms of geographical area (1,62,970 sq. kms). The State has a long coastline, spanning 974 kms. In terms of population, the State accounts for 4.10 *per cent* (4.93 crore) of the total population of the country, as per Census 2011. The per capita income of the State at current prices was ₹ 1,70,215 in 2020-21, which was higher than all India average of ₹ 1,28,829. General and financial data relating to the State is given in *Appendix 1.1*.

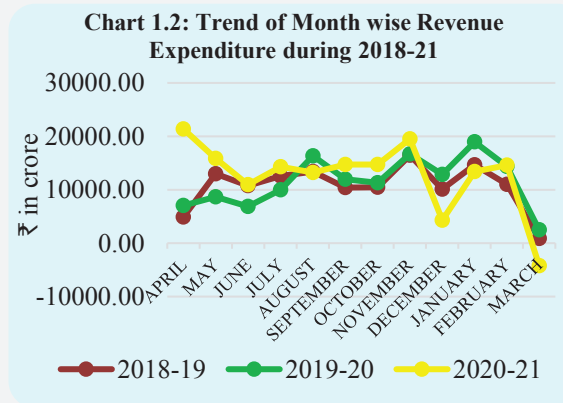
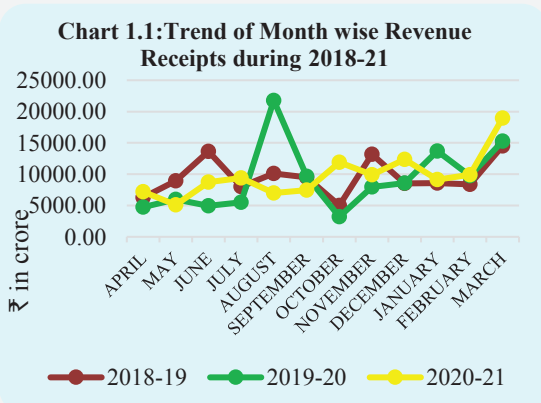
The year 2020-21 has witnessed unprecedented crisis throughout the world with almost all countries across the globe having been adversely affected by the Covid-19 pandemic. The impact of the pandemic on India has been largely disruptive in terms of economic activity as well as loss of human lives.

Wide fluctuations are noticed in the economic activities during first two quarters and the impact is conspicuous in the performance of various sectors. The impact of Covid-19 is evident on the State economy as well with almost all the activities coming to a halt during the lockdown period which caused an economic slowdown for the State along with the Nation.

Covid – 19 Pandemic and its impact on State Finances

Amidst the Covid-19 pandemic, the State of Andhra Pradesh has registered a GSDP of ₹ 9,86,611 crore during 2020-21. While the State was witnessing a growth of more than 10 *per cent* year by year, the pandemic caused the State to register a single digit growth rate of 1.58 *per cent* during 2020-21.

Except for Agricultural Sector, the remaining Sectors got hit by the economic turmoil caused by the pandemic. Month-wise impact of the pandemic on the State's revenue and expenditure vis-à-vis previous years is shown in *charts 1.1* and *1.2*.

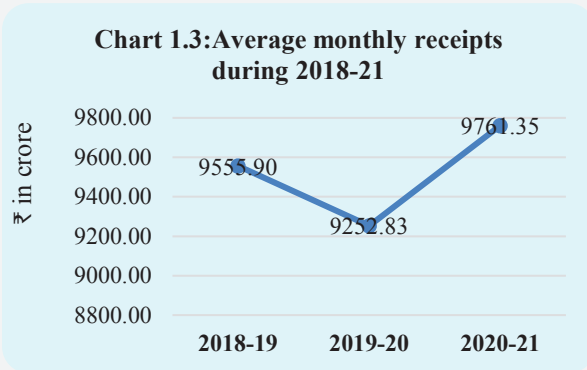


Note: The negative revenue expenditure during 2020-21 in the month of March was primarily due to lapsing of unspent balances.

Revenue Receipts

As seen from the above charts, it is evident that, in comparison to previous years, there is an increase in receipts during the month of April 2020 (52.09 *per cent*) and a dip in receipts

during May 2020 (by 14.11 per cent). The average monthly receipts of the State for these years are shown in **Chart 1.3**.



It is evident that the receipts have increased compared to previous years. Further, the comparative picture of receipts excluding Grants-in-Aid (MH 1601) for the years 2019-20 and 2020-21 is shown in Table below.

Table 1.1: Revenue Receipts excluding Grants-in-Aid from GoI for the years 2019-21

Month	2019-20	2020-21	Difference
	(₹ in crore)		(in per cent)
APRIL	3,344.70	3,124.02	-6.60
MAY	4,741.76	3,895.49	-17.85
JUNE	3,765.20	6,042.89	60.49
JULY	4,137.87	6,839.46	65.29
AUGUST	20,212.68	6,140.20	-69.62
SEPTEMBER	7,136.68	5,194.67	-27.21
OCTOBER	2,673.00	10,423.08	289.94
NOVEMBER	7,226.92	6,880.97	-4.79
DECEMBER	6,095.71	7,474.45	22.62
JANUARY	13,093.99	7,802.62	-40.41
FEBRUARY	6,568.42	7,881.65	19.99
MARCH	10,161.13	13,564.77	33.50

The table depicts that there was a decrease of receipts by 6.60 per cent and 17.85 per cent respectively during the months of April and May 2020 compared to the year 2019-20, when the lock down was imposed in the country due to pandemic. But, the receipts have increased during the months June and July where partial lockdown was in force. The increase in receipts during the month of October was mainly due to tax transfers from the Government of India.

Further, the State Government had received ₹ 580.25 crore from the Central Government for battling Covid-19 as Grants-in-Aid.

Revenue Expenditure

During the year, the State Government had incurred an expenditure of ₹ 337.25 crore on relief measures relating to COVID-19 pandemic under the major heads 2210 (Medical and Public Health), 2211 (Family Welfare) as per the Finance Accounts.

Further, an analysis of month wise revenue expenditure for the months April and May 2020 was done and the areas of expenditure (more than ₹1,000 crore) is given in **Table 1.2**.

Table 1.2: Areas of expenditure (₹ more than 1,000 crore) of the State during the months April and May 2020

Areas of expenditure	(₹ in crore) Amount
YSR Pension Kanuka	3,134.72
Mahatma Gandhi National Employment Guarantee Act	3,001.96
Interest on Andhra Pradesh State Development Loans	2,782.84
YSR Rythu Bharosa	2,728.95
Cash Doles	1,376.86
Service Pensions – Pension allocable between successor states of AP and Telangana in the ratio of 58.32:41.68	1,152.88
Teaching Grants to Mandal Praja Parishads	1,148.84
National Health Mission (NHM)	1,083.07

It is evident from the table above that, an amount of ₹ 1,083.07 crore was expended towards National Health Mission and ₹ 1,343.28 crore was expended from State Disaster Response Fund by way of cash doles, which also would have provided relief to beneficiaries during the COVID-19 pandemic.

Cash Management

The State resorted to more Ways and Means Advances (WMA) from RBI to bridge the gap between receipts and expenditure for day-to-day activities of the Government. The WMA increased by 73.16 *per cent* during 2020-21 (₹ 1,04,539 crore) as compared to 2019-20 (₹ 60,371 crore). Cash Balances of the State Government at the end of the current year decreased by ₹ 4,202.24 crore from ₹ 14,693.56 crore in 2019-20 to ₹ 10,491.32 crore in 2020-21.

1.1.1 Gross State Domestic Product of Andhra Pradesh

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

Trends in annual growth rate of Gross Domestic Product (GDP) of India and GSDP of the State at Current Prices (Base Year 2011-12) are given in **Table 1.3**.

Table 1.3: Trends in growth rate of GSDP vis-à-vis GDP

Year	2016-17	2017-18 (TRE)	2018-19 (SRE)	2019-20 (FRE)	2020-21 (PE)
GDP (₹ in crore)	1,53,91,669	1,70,90,042	1,88,86,957	2,03,51,013	1,97,45,670
Growth rate (per cent)	11.76	11.03	10.51	7.75	(-) 2.97
GSDP (₹ in crore)	6,84,416	7,86,135	8,70,849	9,71,224	9,86,611
Growth rate (per cent)	13.27	14.86	10.78	11.53	1.58

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

As can be seen from the table above, the GSDP of Andhra Pradesh grew at a higher rate during the period 2016-17 to 2020-21 compared to the national growth rate. The

reduction in the growth rate of GSDP when compared to 2019-20 was mainly due to economic turmoil caused by the global pandemic.

The GDP and GSDP are generally classified into primary, secondary and tertiary sectors, broadly corresponding to Agriculture, Industries and Services Sectors respectively. Sector wise GDP and GSDP for the year 2020-21 are depicted in **Charts 1.4** and **1.5** respectively.

Chart 1.4: Sector wise GDP for the year 2020-21

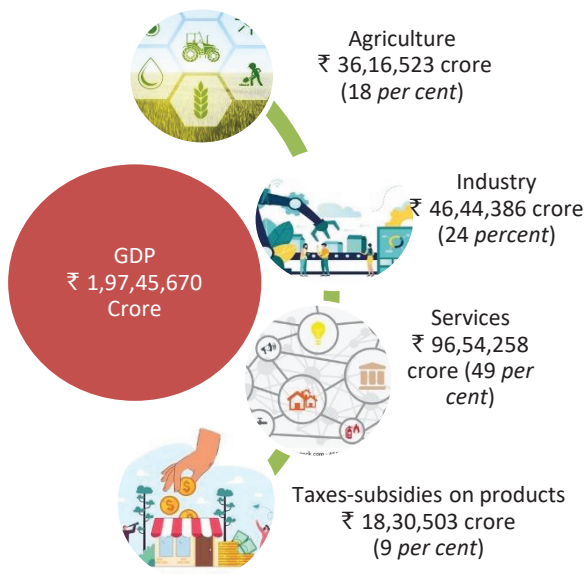
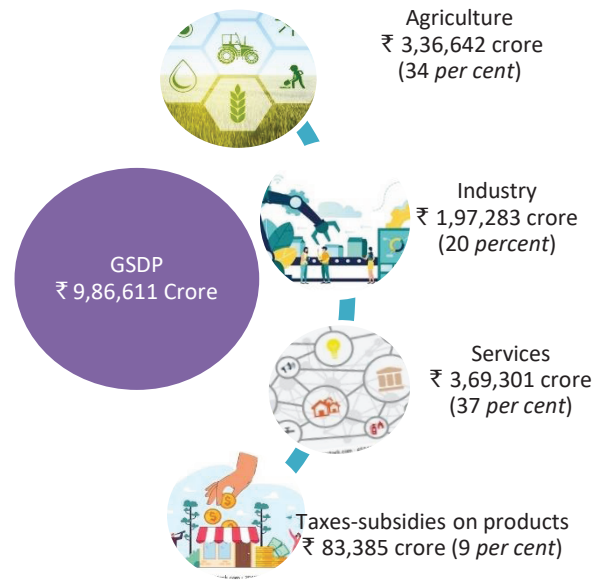


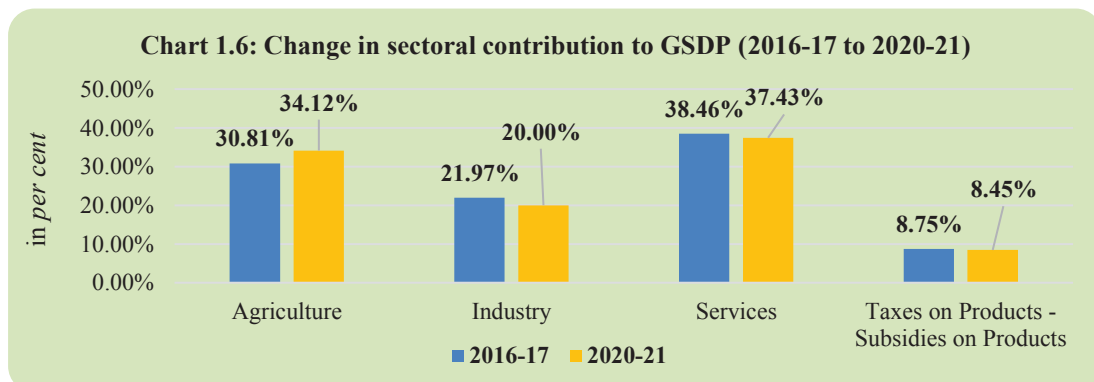
Chart 1.5: Sector wise GSDP for the year 2020-21



Source: Ministry of Statistics and Programme Implementation (MoSPI)

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

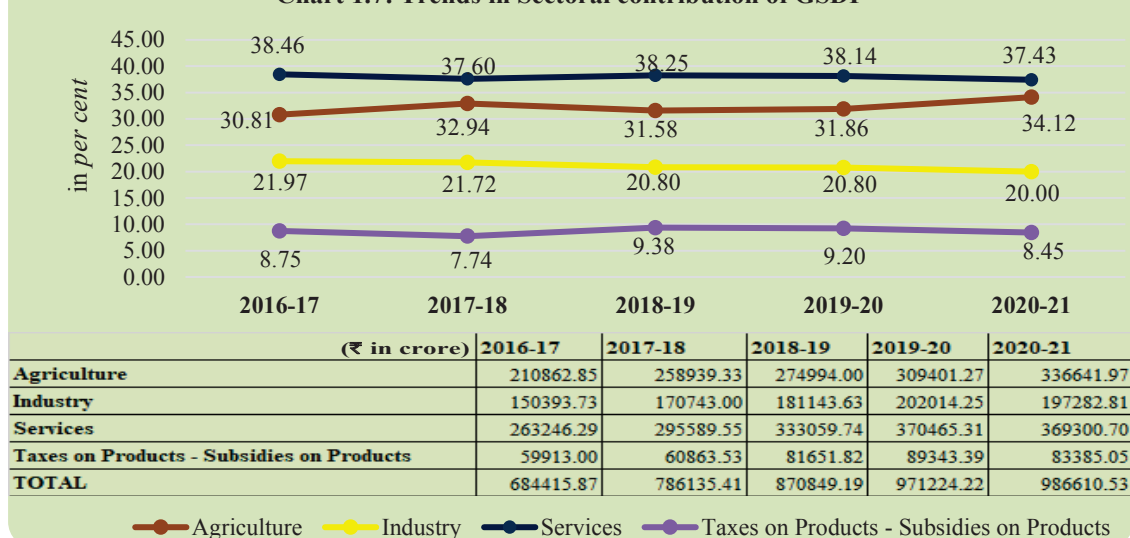
The contribution of various sectors to GSDP of the State during 2016-17 and 2020-21 is shown in **Chart 1.6**. While there has been an increase in the relative share of Agriculture in GSDP from 30.81 per cent in 2016-17 to 34.12 per cent in 2020-21, the contribution of Industry and Services Sectors witnessed a decline during this period.



Source: Ministry of Statistics and Programme Implementation (MoSPI)

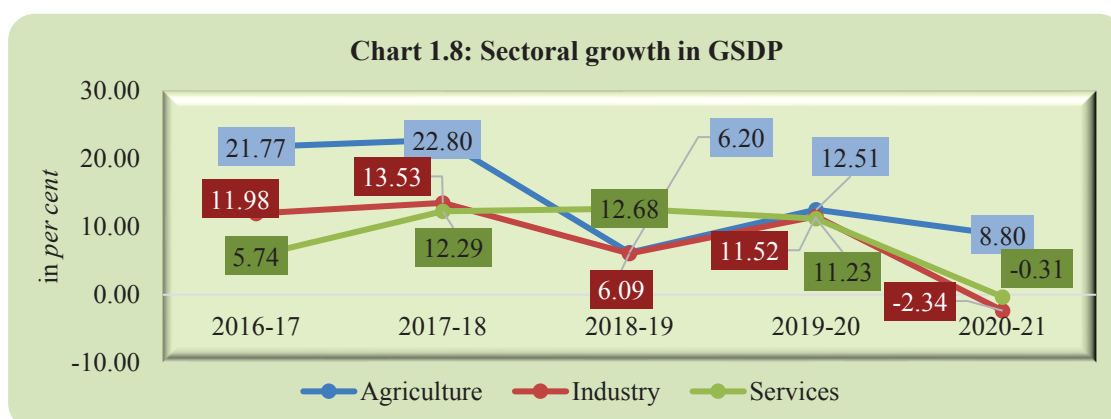
The annual change in the contribution of various sectors to the GSDP over the five-year period 2016-17 to 2020-21 is depicted in **Chart 1.7**.

Chart 1.7: Trends in Sectoral contribution of GSDP



Source: Ministry of Statistics and Programme Implementation (MoSPI)

The Sector wise growth rate of GSDP is depicted in **Chart 1.8** below:



Source: Ministry of Statistics and Programme Implementation (MoSPI)

During the year 2020-21, the GSDP increased by 1.58 per cent which was very low as compared to previous years. The slump in the growth rate was caused by the global economic turmoil caused by the pandemic which affected the growth under Industrial and Services Sectors. Only the Agricultural Sector registered an increase in GSDP by 8.80 per cent in 2020-21 due to increase in production of Horticulture crops. Further, there was a commendable growth in livestock and fishing sectors during 2020-21.

Industrial Sector, in GSDP when compared to 2019-20, had registered a negative growth of 2.34 per cent during 2020-21. The sudden dip in this Sector was mainly due to slowdown of activities under manufacturing and construction sector amid global pandemic though there was positive growth under Mining and Quarrying, Electricity, Gas, water supply and other utility services. The growth rate of Services Sector also witnessed a negative growth rate of 0.31 per cent during 2020-21. The negative growth under services sector was mainly due to decline in growth rate under Transport sector.

The growth rate of all the sectors except the Agricultural Sector was at a five year low during the year 2020-21.

1.2 Basis and approach to State Finances Audit report

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

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

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

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

The analysis is also carried out in the context of recommendations of the XIV and XV Finance Commissions (FC), Andhra Pradesh Fiscal Responsibility and Budget Management (APFRBM) Act, 2020, best practices and guidelines of the Government of India. An entry conference was held in October 2021 with the Principal Secretary to Government of Andhra Pradesh, Finance Department, wherein the audit approach followed in the preparation of SFAR was explained. Draft audit findings were discussed with the Principal Secretary, Finance Department in February 2022 and the responses of the Government have been incorporated in the Report appropriately.

1.3 Report Structure

The SFAR is structured into the following five chapters:

Chapter – I	Overview This chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficit/ surplus.
Chapter – II	Finances of the State This chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2016-17 to 2020-21, debt profile of the

	State and key Public Account transactions based on the Finance Accounts of the State.
Chapter - III	Budgetary Management This chapter is based on the Appropriation Accounts of the State and reviews the appropriations, allocative priorities of the State Government and reports on deviations from constitutional provisions relating to budgetary management.
Chapter - IV	Quality of Accounts & Financial Reporting Practices This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.
Chapter – V	Use of Special Bills by the State Government This chapter comments on accounting entries processed centrally at the Andhra Pradesh Centre for Financial Systems and Services through the back end of Comprehensive Financial Management System using “Special Bills”, which is not an authorised type of a bill in the Andhra Pradesh Treasury Code.
Chapter VI	General Purpose Financial Reporting of State Public Sector Undertakings This chapter discusses financial performance of Government Companies, Statutory Corporations and Government Controlled Other Companies as revealed from their accounts.

1.4 Overview of Government Accounts structure

The Accounts of the Government are kept in three parts:

1. Consolidated Fund of the State

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

2. Contingency Fund of the State

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

3. Public Account of the State

Apart from the above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes items like Small Savings and Provident

Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

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

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

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

Capital receipts consist of:

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

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

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

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

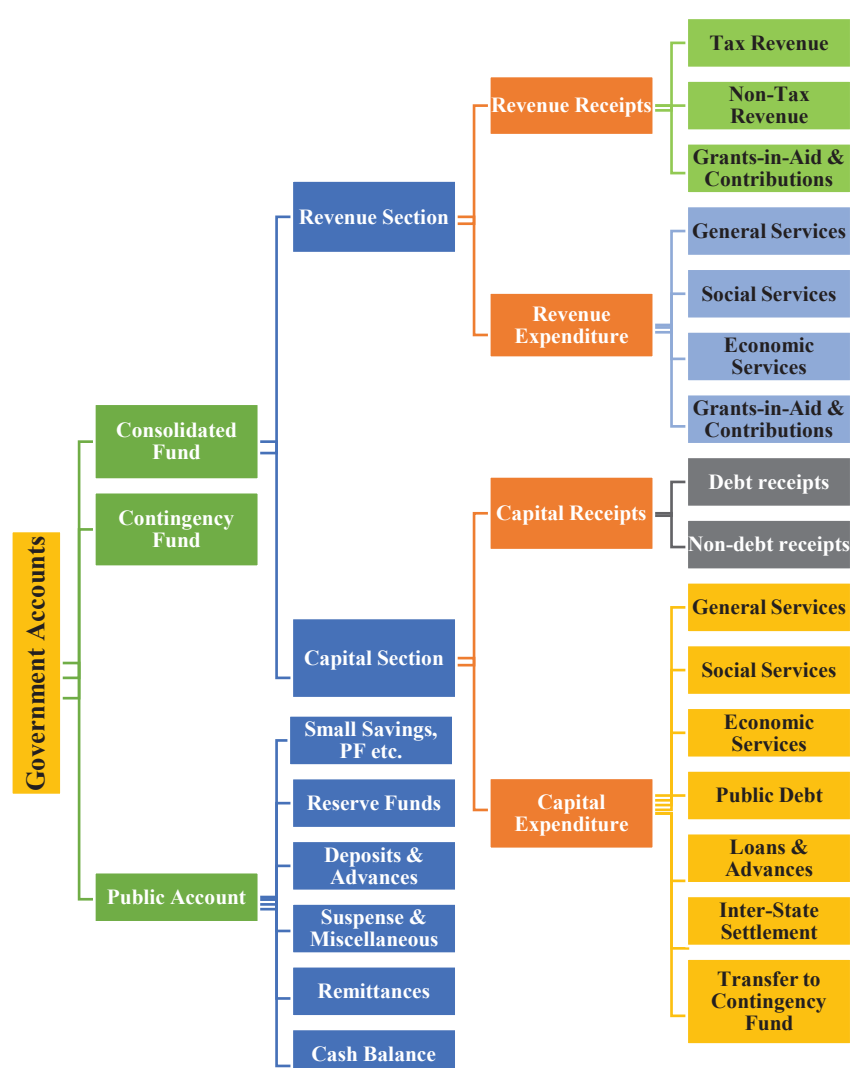
	Attribute of transaction	Classification
Standardised in List of Major and Minor Heads of Account of Union and States by Controller General of Accounts	Function - Education, Health, <i>etc.</i> / Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major head (2-digit)
	Programme	Minor Head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

Functional classification involves arranging the receipts and expenditure by economic categories, distinguishing the Government transactions into Sections like Revenue and Capital (including Public Debt, Loans and Advances), sectors like Tax Revenue from other revenue and Grants-in-Aid, sub-sectors like Taxes on Income and Expenditure, fiscal services, *etc.* On the expenditure side also the transactions are classified into

Sectors *viz.*, General Services, Economic Services, Social Services and Grants-in-Aid and contributions and sub-divided into Major Heads of Account below these Sectors. Major Heads of Account falling within the Consolidated Fund generally correspond to 'Functions' of Government, such as 'Education', while Minor Heads subordinate to them identify the 'Programme' undertaken to achieve the objectives of the function represented by the Major Head. A programme may consist of a number of schemes or activities and these generally correspond to 'Sub-heads' below the Minor head. 'Detailed head' below the Sub-head, is primarily meant for itemised control over expenditure and indicates the object or nature of expenditure on a scheme or activity in terms of inputs such as 'Salaries', 'Office Expenses', 'Grants-in-Aid' *etc.*

A pictorial depiction of the structure of Government Accounts is given in **Chart 1.9**:

Chart 1.9: Pictorial depiction of the structure of Government Accounts



1.5 Budgetary Process

In terms of Article 202 of the Constitution of India, the Governor of Andhra Pradesh caused to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State for the year 2020-21, in the form of an **Annual Financial Statement** as a part of Budgetary Process.

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

As mentioned in **Paragraph 1.2 ante**, the Finance Accounts and Appropriation Accounts encompass the core data for preparation of the SFAR. These Accounts are based on actual receipts and expenditure of the State during the year 2020-21, including various inter-governmental and other adjustments carried out by the Reserve Bank of India (RBI). Considering that these receipts and expenditure are estimated in the budget and the expenditure has been approved by the State Legislature, it is important to study the budget of the State for 2020-21 closely and analyse the actual receipts and expenditure during the year with reference to the projections made in the budget.

1.6 Snapshot of Finances of the State

The following table provides the details of actual financial position *vis-à-vis* Budget Estimates for the year 2020-21 and actuals of 2019-20. The time series data of Finances of the State is given in **Appendix 1.2**.

Table 1.4: Snapshot of Finances of the State

Sl. No	Components	2020-21			Percentage of Actual to GSDP (in per cent)
		2019-20 Actual	BE	Actual (Percentage of Actual to B.E.)	
1	Own Tax Revenue	57,601	70,679	57,409 (81.22)	5.82
2	Non-Tax Revenue	3,315	5,866	3,395 (57.88)	0.34
3	Share of Union taxes/duties	28,242	32,238	24,460 (75.87)	2.48
4	Grants-in-aid from GoI	21,876	53,175	31,872 (59.94)	3.23
5	Revenue Receipts (1+2+3+4)	1,11,034	1,61,958	1,17,136 (72.32)	11.87
6	Recovery of Loans and Advances	4,355	600	1,063 (177.17)	0.11
7	Other Receipts	0	0	0 (0.00)	0.00
8	Borrowings and other Liabilities (a)	39,687	48,296	55,171 ¹ (114.23)	5.59
9	Capital Receipts (6+7+8)	44,042	48,896	56,234(115.00)	5.70
10	Total Receipts (5+9)	1,55,076	2,10,855	1,73,370 (82.22)	17.57
11	Revenue Expenditure of which -	1,37,475	1,80,393	1,52,677 (84.64)	15.47
12	Interest payments	17,653	20,383	20,018 (98.21)	2.03
13	Capital Expenditure of which -	17,598	30,462	20,690 (67.92)	2.10
14	Capital outlay	12,242	29,908	18,975 (63.44)	1.92
15	Loans and advances	5,356	554	1,715 (309.57)	0.17
16	Inter State Settlement	3	0	0 (0.00)	0.00
17	Total Expenditure (11+13+16)	1,55,076	2,10,855	1,73,367 (82.22)	17.57
18	Revenue Deficit (5-11)	-26,441	-18,434	-35,541 (192.80)	-3.60
19	Fiscal Deficit {17-(5+6+7)}	-39,687	-48,296	-55,168 (114.23)	-5.59
20	Primary Deficit (19-12)	-22,034	-27,912	-35,150 (125.93)	-3.56

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

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

Note: The difference in total receipts (Sl.No.10) and total expenditure (Sl.No.17) was due to proforma correction of ₹2.90 crore done in Cash Balance.

¹ Includes an amount of ₹ 2,311 crore received towards back-to-back loan in lieu of GST compensation shortfall which is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources.

The increase in the Revenue, Fiscal and Primary deficits of the State as compared to budget estimates, despite the expenditure being lower than the estimates was primarily due to decrease in Revenue Receipts.

State Government attributed the decrease in Revenue Receipts to the Pandemic.

1.7 Snapshot of Assets and Liabilities of the Government

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

The summarised position of Assets and Liabilities of the Government is given in **Table 1.5:**

Table 1.5: Summarised position of Assets and Liabilities of the State

Liabilities				Assets					
	2019-20 (₹ in crore)	2020-21 (₹ in crore)	Increase /Decrease (in per cent)		2019-20 (₹ in crore)	2020-21 (₹ in crore)	Increase /Decrease (in per cent)		
Consolidated Fund									
A	Internal Debt	2,15,617	2,56,088	18.77	a	Gross Capital Outlay	2,32,894	2,51,869	8.15
B	Loans and Advances from GoI	10,943	14,171 ²	29.50	b	Loans and Advances	32,769	33,421	1.99
	Contingency Fund	50	50	0.00		Contingency Fund	0	0	0.00
Public Account									
A	Small Savings, Provident Fund etc.,	16,745	23,276	39.00	a	Advances	31	31	0.00
B	Deposits	54,570	53,334	-2.26	b	Remittances	611	619	1.31
C	Reserve Funds	13,002	13,499	3.82	c	Suspense and Miscellaneous	236	236	0.00
D	Suspense and Miscellaneous	1,010	2,495	147.03					
						Cash Balance (including investment in Earmarked Funds)	14,694	10,491	-28.60
						Total	2,81,235	2,96,667	5.49
						Deficit in Revenue Account	30,702	66,246	115.77
TOTAL	3,11,937	3,62,913	16.34	TOTAL	3,11,937	3,62,913	16.34		

Source: Finance Accounts of respective years

² Includes an amount of ₹ 2,311 crore received towards back-to-back loan in lieu of GST compensation shortfall which is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources

1.8 Fiscal Balance: Achievement of Deficit and total debt targets

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

1.8.1 AP FRBM targets on key Fiscal Parameters

Government of Andhra Pradesh amended the APFRBM Act in December 2020 which was deemed to have come into force with effect from 30 August 2020. The projections on fiscal parameters were, however, amended by Government of Andhra Pradesh retrospectively with effect from the financial years 2015-16 to 2020-21.

State Government stated (February 2022), that the delayed amendment of the Act was due to State's bifurcation and shifting of capital.

The response of the State Government in this regard is not acceptable, as the fiscal projections, by their very nature, are generally for future years and the APFRBM has to be amended based on the recommendations of each Finance Commission. The FRBM Act relating to the targets for the five-year period 2016-17 to 2020-21 was amended retrospectively, during December 2020. The compliance of major fiscal parameters prescribed under APFRBM Act 2020 are shown in **Table 1.6**.

Table 1.6: Compliance with provisions of APFRBM Act

Fiscal Parameters	Fiscal projections set in revised APFRBM Act	Achievement (₹ in crore)				
		2016-17 [^]	2017-18	2018-19	2019-20	2020-21
Revenue Deficit (-) / Surplus (+) (as percentage of GSDP)	2.5 per cent of GSDP from 2015-16 to 2019-20 and 4.5 per cent of GSDP for 2020-21	-17,231 (-2.52)	-16,152 (-2.05)	-13,899 (-1.60)	-26,441 (-2.72)	-35,541 (-3.60)
		X	✓	✓	X	✓
Fiscal Deficit (-)/ Surplus (+) (as percentage of GSDP)	Five per cent of GSDP*	-30,908 (-4.52)	-32,381 (-4.12)	-35,467 (-4.07)	-39,687 (-4.09)	-55,168 (-5.59)
		✓	✓	✓	✓	X
Ratio of total outstanding liabilities to GSDP (in per cent)	35 per cent of GSDP [#]	29.41	28.46	29.57	31.07	35.30
		✓	✓	✓	✓	X

* As per APFRBM (Amendment) Act, 2020 (23 December 2020) which came into effect from 1 January 2020, additional Fiscal Deficit of ₹ 2,435 crore was permitted including 5 per cent of the GSDP in accordance with Government of India decision (February 2020) to allow additional borrowings beyond the State's eligibility as a one-time special dispensation for the Financial Year 2019-20.

[#] As per AP FRBM Act, 2020, in addition to the normal borrowing limit of 3 per cent of GSDP, Andhra Pradesh was permitted to avail the additional borrowing limit up to 2 per cent of GSDP in the wake of Covid-19 pandemic by GoI vide letter dated 17 May 2020.

[^] Deficits for the year 2016-17 includes an amount of ₹ 8,256 crore expended towards implementation of UDAY scheme

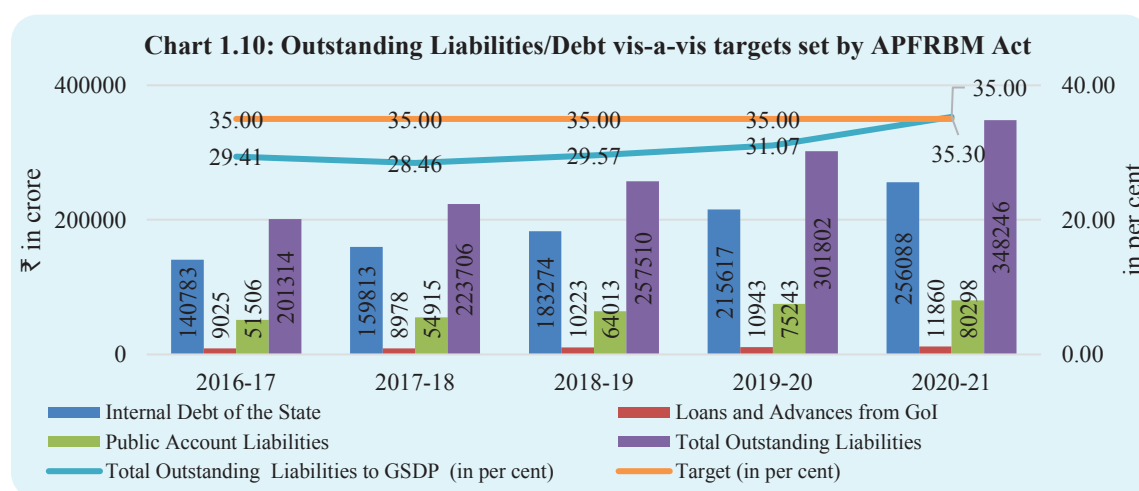
Note: Outstanding Liabilities excludes an amount of ₹ 2,311 crore received towards back-to-back loan in lieu of GST compensation as it is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources

The purpose of GST compensation is to compensate States for loss of revenue arising on account of implementation of GST. During the year 2020-21, the State Government has received GST compensation of ₹ 3,527.40 crore as GIA from the GoI. Besides, due to inadequate balance in GST Compensation fund, shortfall in GST compensation was provided to the State as back-to-back loan of ₹ 2,311 crore which is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources. The revenue deficit of ₹ 35,541 crore and fiscal deficit of ₹ 55,168 crore of the State Government as depicted in the Finance Accounts 2020-21 should therefore, be read in conjunction with receipt of GST compensation of ₹ 2,311 crore as back-to-back loan with no repayment obligation on the State resources. Accordingly, Revenue Deficit and fiscal deficit would work out as ₹ 33,230 crore and ₹ 52,857 crore respectively during the year 2020-21, keeping in view the debt receipt of ₹ 2,311 crore in lieu of shortfall in GST compensation.

Revenue Deficit of the State during the years 2016-17 and 2019-20 was more than the targets envisaged in the APFRBM Act, 2020 and the remaining fiscal parameters were within the targets set in the APFRBM Act 2020.

Fiscal Deficit, during 2020-21, was more than the targets envisaged in APFRBM Act, 2020 but were in compliance with the APFRBM targets during 2016-17 to 2019-20.

The details of outstanding liabilities and their ratio to GSDP *vis-à-vis* the revised APFRBM targets are depicted in **Chart 1.10**.



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

The outstanding debt of the State displayed an increasing trend during the five-year period 2016-21. It increased from ₹ 2,01,314 crore during 2016-17 to ₹ 3,48,246 crore during 2020-21 (an increase of 72.99 per cent).

Public Debt (Internal Debt and Loans and Advances from GoI) of the composite State of Andhra Pradesh was ₹ 1,66,522 crore as of 01 June 2014. Post bifurcation of the State with effect from 02 June 2014, the residual State of Andhra Pradesh was allocated a debt of ₹ 97,124 crore on population basis (58.32:41.68 ratio between AP and

Telangana). Consequently, as can be seen from the above chart, the Public Debt has increased and stood at ₹ 2,67,948 crore as of end of March 2021 (an increase of 176 *per cent* over that of 2014-15).

The total outstanding liabilities of the State to GSDP during the year 2020-21 was more than the target of 35 *per cent* which includes the additional borrowing limit of two per cent of GSDP provided by GoI for the year 2020-21. If we factor in the Off-budget liabilities of the Government, the outstanding debt will constitute 44.04 *per cent* of the GSDP.

State Government stated that, the liabilities of the State should be viewed in the context of State Bifurcation and COVID-19 pandemic which resulted in reduction of revenues and increased expenditure to tackle the pandemic in the State.

A comparison of the major fiscal variables of the State with the targets set under State's Medium Term Fiscal Policy Statement (MTFPS) is given in **Table 1.7**.

Table 1.7: Actuals vis-à-vis projection in MTFP for 2020-21

(₹ in crore)				
Sl. No.	Fiscal Variables	Projection as per MTFPS	Actuals (2020-21)	Variation (in per cent)
1	Own Tax Revenue	57,378	57,409	0.05
2	Non-Tax Revenue	3,310	3,395	2.50
3	Share of Central Taxes	24,441	24,460	0.08
4	Grants -in-aid from GoI	32,934	31,872	-3.33
5	Revenue Receipts (1+2+3+4)	1,18,063	1,17,136	-0.79
6	Revenue Expenditure	1,52,990	1,52,677	-0.21
7	Revenue Deficit (-)/ Surplus (+) (5-6)	-34,927	-35,541	1.73
8	Fiscal Deficit (-)/ Surplus (+)	-54,370	-55,168	1.45
9	Debt-GSDP ratio (<i>per cent</i>)	35.23	35.30*	0.06
10	GSDP growth rate at current prices (<i>per cent</i>)	1.58	1.58	0

Source: Finance Accounts and MTFPS of the State of Andhra Pradesh 2020-21;

*Note: MTFPS for 2020-21 was placed in legislature during the budget session of 2021-22 based on the Revised Estimates of 2020-21; * Arrived at after exclusion of GST Compensation of ₹ 2,311 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.*

The MTFPS was prepared based on the Revised Estimates of 2020-21. Therefore, the actuals of the above parameters were close to the projections made in the MTFPS. However, as shown in **Table 1.2**, there were huge variations in these parameters *vis-à-vis* Budget Estimates.

1.8.2 Trends of Surplus/Deficit

The trends of Surplus/Deficit and its percentage in GSDP of the State for the years 2016-17 to 2020-21 are shown in **Charts 1.11** and **1.12**.

Chart 1.11: Trends of Fiscal Parameters

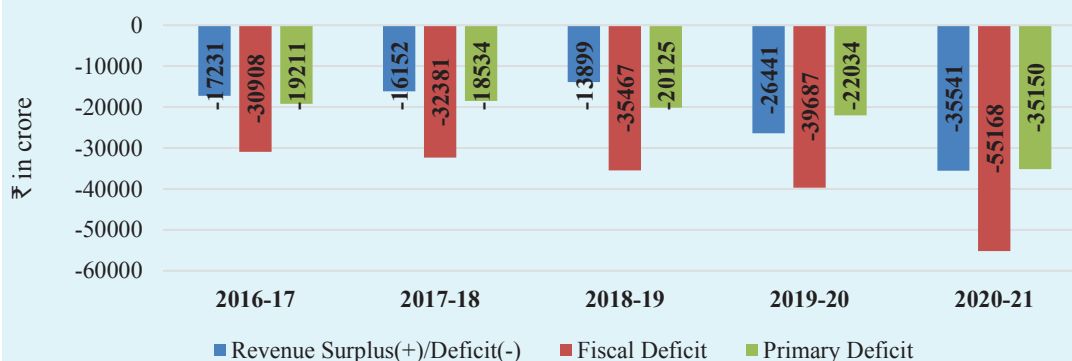
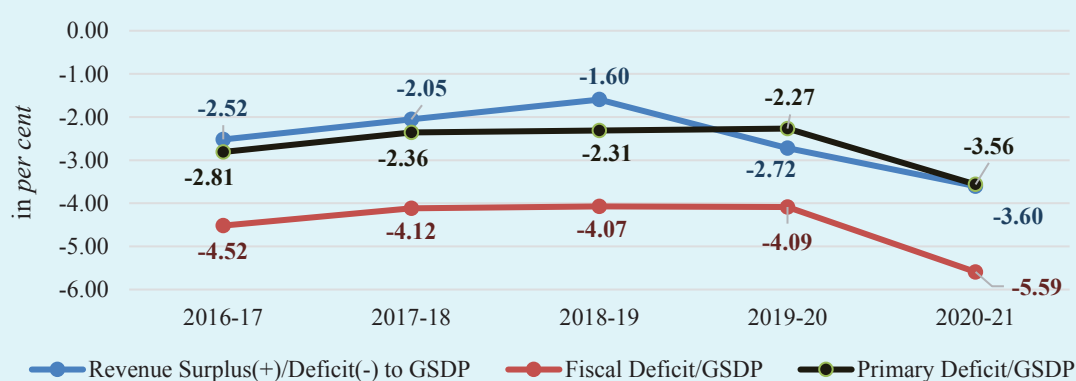


Chart 1.12: Fiscal parameters to GSDP



Source: Finance Accounts of respective years.

Note: Deficits for the year 2016-17 includes an amount of ₹8,256 crore expended towards implementation of UDAY scheme

The Revenue Deficit of the State has witnessed a mixed trend during the period 2016-21, registering a five year high of ₹ 35,541 crore during 2020-21. The increase when compared to 2019-20 was 34.42 per cent. The Revenue Deficit of the State has escalated by 106.26 per cent from 2016-17.

The Fiscal and Primary deficits of the State show an increasing trend during the period 2016-21. The Fiscal and Primary deficits also registered a five year high during the year 2020-21 with increase of 39.01 per cent and 59.53 per cent respectively from 2019-20.

As a percentage to GSDP, the deficits show a mixed trend during the period 2016-21 with highest recorded during 2020-21 and lowest in 2018-19. The ratio of Fiscal Deficit to GSDP during the year 2020-21 increased to 5.59 per cent from 4.09 per cent during 2019-20. The Fiscal Deficit during the year overshoot the target of five per cent fixed by APFRBM act 2020. This was primarily due to huge increase in Revenue Deficit in 2020-21 to the tune of ₹ 12,542 crore (34.42 per cent) and increase in Capital expenditure by ₹ 6,733 crore (55 per cent) over 2019-20.

Audit observations with regard to the deficits indicated in **Chart 1.11** above are as follows:

1.8.2.1 Revenue Deficit

Finance Commission assessed the Receipts and Expenditure of the State based on the

forecast (estimates) provided by the State for the years 2015-16 to 2020-21 and provided the Post Devolution Revenue Deficit grant taking into consideration the differences among the States in fiscal capacity and expenditure need, including cost disabilities.

The XIV FC assessed the post-devolution Revenue Deficit and sanctioned ₹ 22,112 crore of Revenue Deficit grant for the period 2015-20 and XV FC also sanctioned ₹ 30,497 crore of Revenue Deficit grant for the period 2021-26 in order to eliminate the projected Revenue Deficit.

The details of post-devolution Revenue Deficit Grant (PDRDG) received and Revenue Deficit for the years 2015-16 to 2020-21 are given in **Table 1.8**.

Table 1.8: Revenue Deficit - Actuals vis-à-vis Targets for the years 2015-21

(₹ in crore)

Year	Projections of Revenue Deficit made in Macro Economic Framework Statement	Revenue Deficit projected by XIV and XV FC	PDRDG received as per the recommendations of XIV and XV FC	Revenue Deficit (After receipt of Post-devolution Grant)
XIV FC PERIOD				
2015-16	4,140	6,609	6,609	7,302
2016-17	4,598	4,930	4,930	17,231*
2017-18	4,018	4,430	4,430	16,152
2018-19	11,654	3,644	3,644	13,899
2019-20	26,647	2,499	2,499	26,441
XV FC PERIOD				
2020-21	34,927	5,897	5,897	35,541

Source: Finance Accounts of respective years, XIV and XV FC reports; Macro Economic Framework Statement (MEFS) *Including an amount of ₹8,256 crore expended towards implementation of UDAY scheme during 2016-17;

The State failed to contain the Revenue Deficit during 2015-21 despite the receipt of post-devolution Revenue Deficit Grants from GoI as per the recommendations of XIV and XV Finance Commissions. XV FC estimated ₹ 5,897 crore as Post Devolution Revenue Deficit of the State for the year 2020-21 based on the forecast (estimates) provided by the State and sanctioned the same as Revenue Deficit grant for the year 2020-21. Though, the State has received ₹ 5,897 crore as PDRDG for the year 2020-21, the State was having a deficit of ₹ 35,541 crore.

Revenue Deficit as a percentage of Total Revenue Receipts (TRR)³ increased from 23.81 per cent in 2019-20 to 30.34 per cent during 2020-21. Revenue Deficit during 2020-21 (₹ 35,541 crore) was higher than the Budget Estimates (₹ 18,434 crore) projected by the State Government.

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

The State Government attributed persistent Revenue Deficit to higher estimation of revenues by the Finance Commission and shortfall in revenues due to pandemic during

³ Revenue Deficit to Total Revenue Receipts during 2019-20 = (26441/111034)*100 = 23.81 per cent
Revenue Deficit to Total Revenue Receipts during 2020-21 = (35541/117136)*100 = 30.34 per cent

the years 2019-20 and 2020-21. The reason put forth by the State Government on the higher estimation of Finance Commission is not acceptable by Audit since Finance Commissions assess the Revenues and Expenditure of the State based on the estimates provided by the State Government. The Revenue Deficit and Fiscal Deficit was more by 92.80 per cent and 14.23 per cent respectively than the Budget Estimates (BE) projected by the State Government. Thus, the State Government should endeavor to assess its revenues realistically and contain the Revenue Expenditure to minimise the revenue deficit.

1.8.3 Components of fiscal deficit and its financing pattern

The components and financing patterns of fiscal deficit are shown in **Table 1.9**.

Table 1.9: Components of fiscal deficit and its financing pattern

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21		
					Receipts	Disbursements	Net
Components of Fiscal Deficit (1 to 4)	(-30,908*	(-32,381	(-35,467	(-39,687	1,18,199	1,73,367	-55,168
1. Revenue deficit	(-17,231*	(-16,152	(-13,899	(-26,441	1,17,136	1,52,677	-35,541
2. Net Capital Expenditure	(-15,143	(-13,491	(-19,976	(-12,242	0	18,975	-18,975
3. Net Loans and Advances	1,465	(-2,730	(-1,566	(-1,001	1,063	1,715	-652
4. Net Inter-State settlement	1	(-8	(-26	(-3	0	0	0
Financing Pattern of Fiscal Deficit							
a. Net Public Debt[#]	25,146	18,982	24,706	33,062	1,61,975	1,18,274	43,700
b. Net Public Account	7,522	9,973	12,628	12,929	2,75,595	2,68,327	7,268
Small Savings, PF etc.	1,888	1,643	2,221	1,015	10,179	3,648	6,531
Reserve Funds	1,296	728	2,181	1,957	2,948	2,451	497
Deposits and Advances	4,597	4,608	10,160	8,970	1,42,208	1,43,443	-1,235
Suspense and Misc.	(- 98	337	(-69	1,043	1,20,252	1,18,768	1,484
Remittances	(- 161	2,657	(-1,865	(-57	8	17	-9
c. Contingency Fund	0	0	0	0	0	0	0
d. Increase(+)/Decrease (-) in Cash Balance	(- 1,760	3,426	(-1,867	(-6,304	14,691	10,491	4,200
Total (a to d)	30,908*	32,381	35,467	39,687	-	-	55,168

*Source: Finance Accounts of respective years. [#] Includes market borrowings and borrowings from LIC, GIC, NABARD, NCDC, NSSF and Ways and Means Advances. * Includes an amount of ₹8,256 crore expended towards implementation of UDAY scheme*

Borrowed funds used for meeting revenue expenditure create liability for future years without creating any assets. It is evident that in 2020-21, 81 per cent of borrowings were used to finance the deficit on Revenue account, thereby, impeding asset creation in the State. Net receipts under Public Account during the year (₹ 7,268 crore) financed 13.17 per cent of the fiscal deficit when compared to 32.58 per cent during the previous year.

State Government stated that unprecedented pandemic resulted in increase of borrowings and increased use of borrowings to provide necessary support to the public in addition to expenditure on health care as the focus of the State was to bring normalcy in the State rather than the asset creation during the year 2020-21.

The reply of the State Government needs to be viewed in conjunction with the fact that share of expenditure on Health in the State as a proportion of total expenditure (5.49 per cent) was lower than the corresponding General State average (6.74 per cent).

Further, it is pertinent to note that the State has been utilising the majority of borrowings to fund the Revenue Expenditure rather than the asset creation even before the pandemic, during the years 2016-17 to 2019-20, which affected the productivity of the borrowings of the State. This trend needs to be reversed in the ensuing years.

1.8.4 Deficits after examination in Audit

Misclassification of revenue expenditure as capital and off budget fiscal operations impact deficit figures. During the year 2020-21, the State Government misclassified revenue expenditure under capital section, did not make provision for interest payment and a part of borrowings availed from Banks by AP State Development Corporation credited into Consolidated Fund leading to an overall understatement of Revenue Deficit by ₹ 230.09 crore and understatement of Fiscal Deficit by ₹ 337.89 crore as detailed below.

Table 1.10: Understatement of Revenue Deficit and Fiscal Deficit

Particulars	(₹ in crore)	
	Impact on Revenue Deficit (Understated (+) / overstated (-))	Impact on Fiscal Deficit (Understated (+) / overstated (-))
Misclassification of revenue expenditure as capital expenditure	(+ 155.01	---
Unauthorised receipt of borrowings of AP State development corporation as reduction of capital expenditure	---	(+ 222.00
Non-payment of Interest	(+ 115.89	(+ 115.89
Total	(+) 230.09	(+) 337.89

Source: Finance Accounts;

Effectively, therefore, there was a Revenue Deficit of ₹ 35,770.54 crore (₹ 35,540.45 crore plus ₹ 230.09 crore) and Fiscal Deficit of ₹ 55,505.41 crore (₹ 55,167.52 crore plus ₹ 337.89 crore). The effective Revenue Deficit and Fiscal Deficit were 3.63 per cent and 5.63 per cent of GSDP respectively.

1.8.5 Post audit – Total Public Debt

Various Government entities have obtained loans to the extent of ₹ 86,259.82 crore as of end of March 2021 on behalf of the State Government. These are in the nature of off-budget borrowings (OBB) by the Government and the latter has provided guarantees for these loans. Since these borrowings did not form part of the borrowings of the Government directly, these were not included in the Public Debt of the State Government in the Finance Accounts; and therefore, did not figure in the calculation of Fiscal Deficit of the State. To that extent, the Public Debt of the State and consequently, its Fiscal Deficit for the year stands further understated (*The off-budget borrowings are detailed in para 2.7.5 of the report*).

1.9 Conclusion

During 2020-21, Andhra Pradesh registered lowest GSDP growth rate in the last five years.

State Government amended the APFRBM Act in December 2020 which was deemed to have come into force with effect from 30 August 2020. The projections on fiscal parameters were, however, amended by Government of Andhra Pradesh retrospectively with effect from the financial years 2015-16 to 2020-21. State Government had not adhered to the targets prescribed in APFRBM Act in respect of Fiscal Deficit and Outstanding Liabilities.

The fiscal parameters of the State as reflected in its Revenue, Fiscal and Primary Deficits were negative throughout the five-year period 2016-21. There were instances of misclassification of revenue transactions under capital section and non-accountal of other liabilities, which would have pushed up the Deficits to a further extent, as brought out in the Report as well as in the State Finances Audit Report of the CAG over the last few years.

The outstanding liabilities were above the targets prescribed in the revised APFRBM Act, these would be way more, if the liabilities of the State Government with regard to its extra-budgetary borrowings are taken into account. The liabilities of the State have been increasing year-on-year and majority of the borrowings during the year 2020-21 were utilised to balance Revenue Account of the State affecting asset creation in the State.