

## 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 2015-16 to 2019-20, 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 2019-20 vis-à-vis 2018-19

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

**Table 2.1: Changes in key fiscal aggregates in 2019-20 compared to 2018-19**

<b>Revenue Receipts</b>	<ul style="list-style-type: none"> <li>✓ Revenue receipts of the State decreased by 3.17 per cent</li> <li>✓ Own Tax receipts of the State decreased by 0.74 per cent</li> <li>✓ Own Non-tax receipts decreased by 24.59 per cent</li> <li>✓ State's Share of Union Taxes and Duties decreased by 13.86 per cent</li> <li>✓ Grants-in-Aid from Government of India increased by 12.43 per cent</li> </ul>
<b>Revenue Expenditure</b>	<ul style="list-style-type: none"> <li>✓ Revenue expenditure increased by 6.93 per cent</li> <li>✓ Revenue expenditure on General Services increased by 10.87 per cent</li> <li>✓ Revenue expenditure on Social Services increased by 5.94 per cent</li> <li>✓ Revenue expenditure on Economic Services increased by 2.89 per cent</li> <li>✓ Expenditure on Grants-in-Aid decreased by 60.89 per cent</li> </ul>
<b>Capital Expenditure</b>	<ul style="list-style-type: none"> <li>✓ Capital expenditure decreased by 38.72 per cent</li> <li>✓ Capital expenditure on General Services increased by 1264.36 per cent</li> <li>✓ Capital expenditure on Social Services decreased by 28.26 per cent</li> <li>✓ Capital expenditure on Economic Services decreased by 61.78 per cent</li> </ul>
<b>Loans and Advances</b>	<ul style="list-style-type: none"> <li>✓ Disbursement of Loans and Advances increased by 190.61 per cent</li> <li>✓ Recoveries of Loans and Advances increased by 1,472.20<sup>2</sup> per cent</li> </ul>
<b>Public Debt</b>	<ul style="list-style-type: none"> <li>✓ Public Debt Receipts increased by 14.75 per cent</li> <li>✓ Repayment of Public Debt increased by 8.31 per cent</li> </ul>
<b>Public Account</b>	<ul style="list-style-type: none"> <li>✓ Public Account Receipts increased by 96.16 per cent</li> <li>✓ Disbursement of Public Account increased by 109.76 per cent</li> </ul>
<b>Cash Balance</b>	<ul style="list-style-type: none"> <li>✓ Cash balance increased by ₹ 6,305 crore (75.16 per cent) during 2019-20 compared to the previous year</li> </ul>

## 2.3 Sources and Application of Funds

**Table 2.2** compares the sources and application of funds of the State during 2019-20 with 2018-19 figures.

<sup>2</sup> The high percentage of recoveries during the year 2019-20 as compared to 2018-19 was due to the base effect i.e. less recoveries of Loans and Advances during 2018-19 (₹ 51 crore only)

**Table 2.2: Sources and Application of funds during 2018-19 and 2019-20**

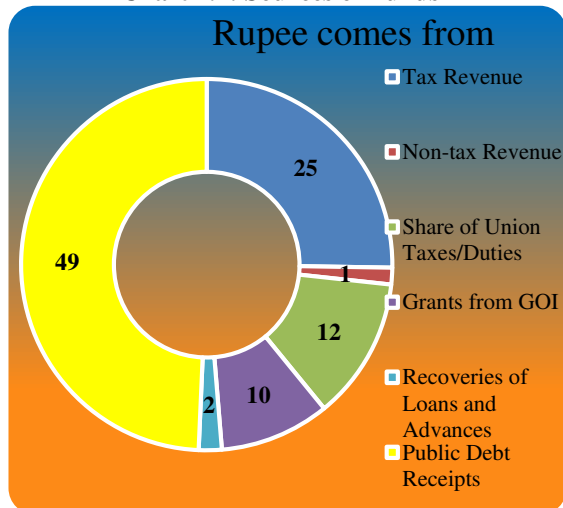
(₹ in crore)

	Particulars	2018-19	2019-20	Increase/ Decrease
<b>Sources</b>	Opening Cash Balance with RBI	6,522	8,389	28.63
	Revenue Receipts	1,14,671	1,11,034	-3.17
	Recoveries of Loans and Advances	277	4,355	1472.20
	Public Debt Receipts (Net)	24,706	33,062	33.82
	Public Account Receipts (Net)	12,628	12,929	2.38
	<b>Total</b>	<b>1,58,804</b>	<b>1,69,769</b>	6.90
<b>Application</b>	Revenue Expenditure	1,28,570	1,37,475	6.93
	Capital Expenditure	19,976	12,242	-38.72
	Disbursement of Loans and Advances	1,843	5,356	190.61
	Inter State Settlement	26	3	-88.46
	Closing Cash Balance with RBI	8,389	14,693	75.15
	<b>Total</b>	<b>1,58,804</b>	<b>1,69,769</b>	6.90

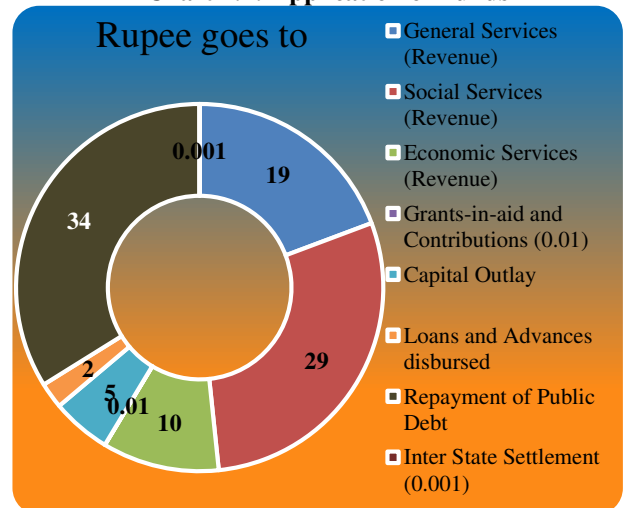
Source: Finance Accounts 2019-20

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**

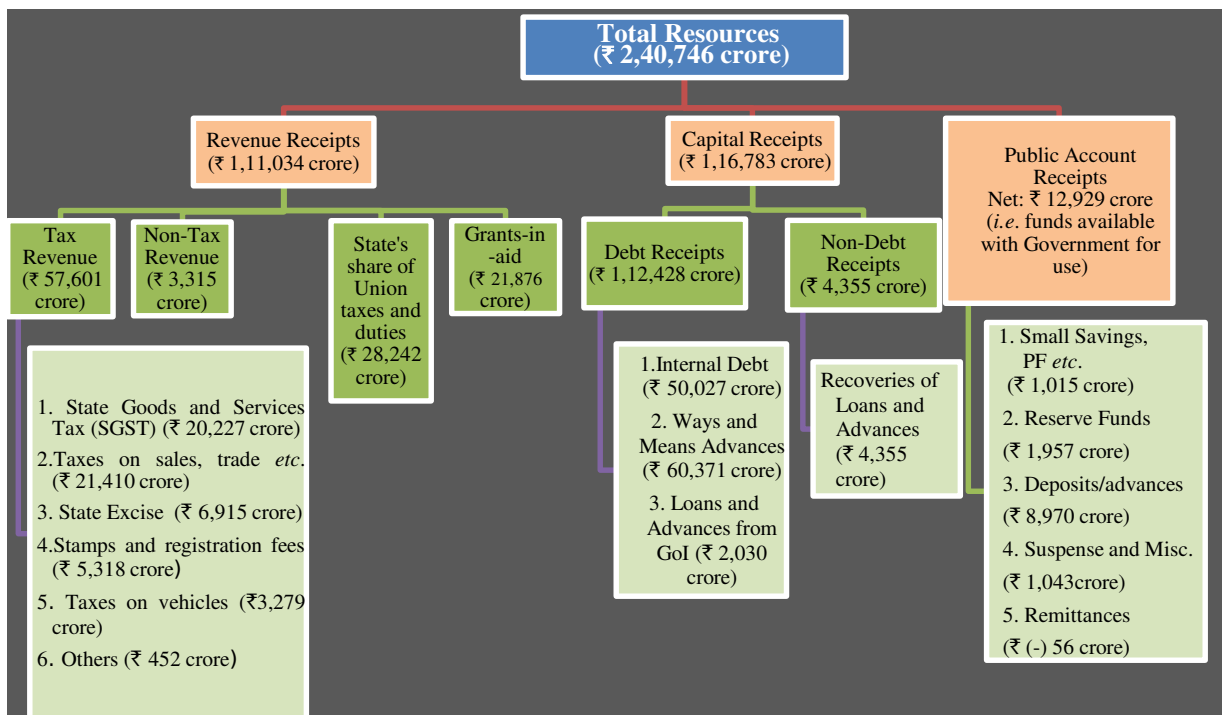


Source: Finance Accounts 2019-20

## 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 2019-20



Source: Finance Accounts 2019-20

NOTE: Debt Receipts include an amount of ₹ 60,371 crore availed as Ways and Means Advances/Special Drawing Facility/Overdraft

Out of the total resources of ₹ 2,40,746 crore of the State Government during the year 2019-20, Revenue Receipts (₹ 1,11,034 crore) constituted 46.12 per cent. Capital Receipts (₹ 1,16,783 crore) and net Public Account Receipts (₹ 12,929 crore) constituted 48.51 per cent and 5.37 per cent of the total resources, respectively.

### 2.4.1 Revenue Receipts

Statement 14 of the Finance Accounts gives details of Revenue Receipts of the Government. Revenue Receipts (₹ 1,11,034 crore) of the State decreased by ₹ 3,637 crore (3.17 per cent) over the previous year (₹ 1,14,671 crore) and constituted 11.41 per cent of GSDP (₹ 9,72,782 crore).

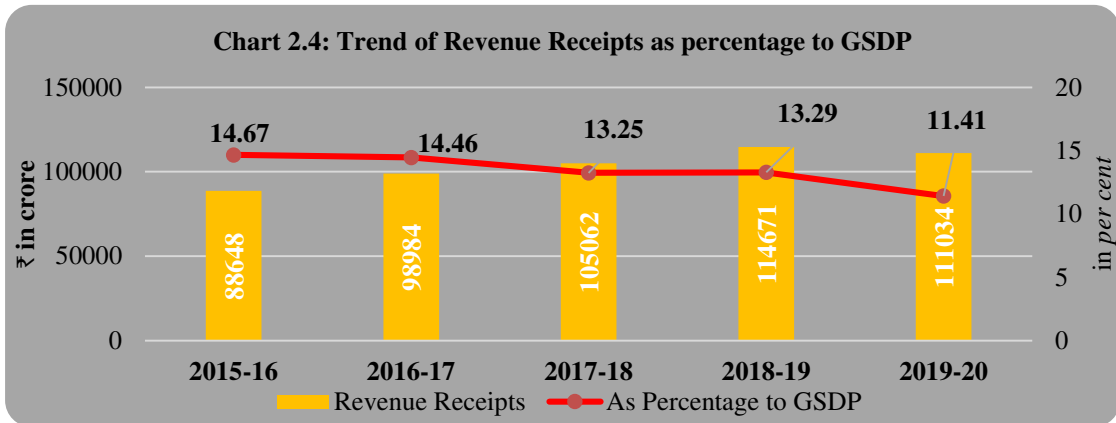
Table 2.3 provides the trends and growth of Revenue Receipts as well as revenue buoyancy with respect to GSDP over the five-year period 2015-20. Further, trends in Revenue Receipts relative to GSDP and composition of Revenue Receipts are given in Charts 2.4 and 2.5 respectively.

Table 2.3: Trends in Revenue Receipts

Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Receipts (RR) (₹ in crore)	88,648	98,984	1,05,062	1,14,671	1,11,034
Rate of growth of RR (per cent)	-2.23	11.66	6.14	9.15	-3.17
Own Tax Revenue	39,907	44,181	49,486	58,031	57,601
Non-Tax Revenue	4,920	5,193	3,814	4,396	3,315
Rate of growth of Own Revenue (Own Tax and Non-tax Revenue) (per cent)	-16.36	10.14	7.95	17.12	-2.42

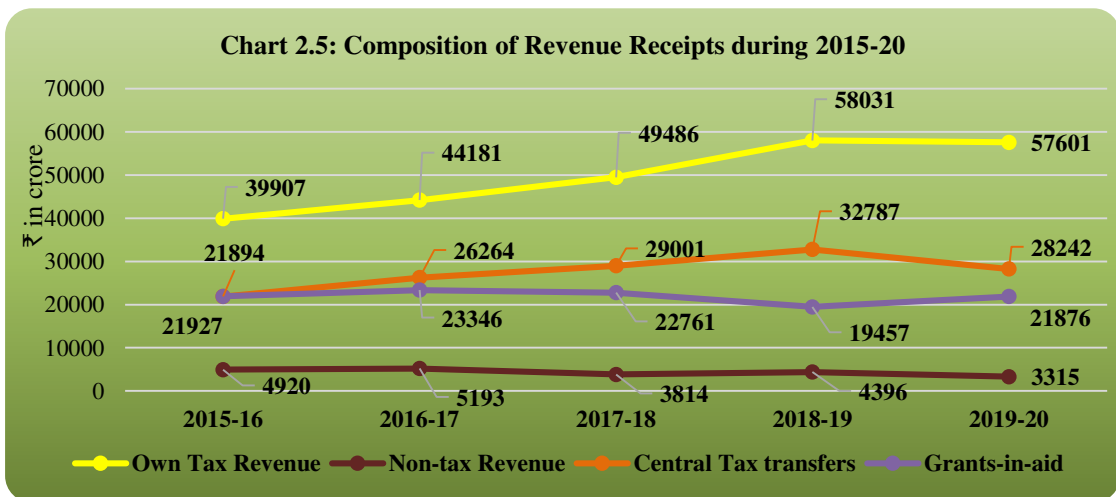
Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Gross State Domestic Product (₹ in crore) (2011-12 Series)	6,04,229	6,84,416	7,93,186	8,62,957	9,72,782
Rate of growth of GSDP (per cent)	15.10	13.27	15.89	8.80	12.73
RR/GSDP (per cent)	14.67	14.46	13.25	13.29	11.41
<b>Buoyancy Ratios<sup>3</sup></b>					
Revenue Buoyancy w.r.t GSDP	-0.15	0.88	0.39	1.04	-0.25
State's Own Revenue Buoyancy w.r.t GSDP	-1.08	0.76	0.50	1.95	-0.19

Source: Finance Accounts of respective years



Source: Finance Accounts of respective years

During the period 2015-19, Revenue Receipts of the State Government displayed an increasing trend, although there was a slump during 2019-20. Further, despite the increase in revenue receipts during four years out of the five-year period 2015-16 to 2019-20, as a percentage of GSDP, these displayed a decreasing trend with an exception during 2018-19 where the percentage was marginally high compared to the previous year.



Source: Finance Accounts of respective years

<sup>3</sup> Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy with respect to GSDP at 1.85 implies that Revenue Receipts tend to increase by 1.85 percentage points, if the GSDP increases by one per cent.

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

1. Revenue Receipts increased by 25.25 *per cent* from ₹ 88,648 crore in 2015-16 to ₹ 1,11,034 crore in 2019-20. However, receipts under Revenue Account have declined by 3.17 *per cent* during 2019-20 over those of the previous year. Receipts from State Own Tax Revenue, Non-tax revenue and State share of Union Taxes decreased from the previous year causing the dip in Revenue Receipts during 2019-20.
2. The share of State's Own tax revenue in Revenue Receipts has increased during the period 2015-20. State's own Tax revenue was the major contributor to Revenue Receipts for the past five years, accounting for more than 50 *per cent* of receipts during the past two years.
3. There was a wide fluctuation in the Revenue and Own Tax buoyancy of the State. While the negative buoyancy during the year 2015-16 was due to the bifurcation of the State during 2014-15, the negative buoyancy in 2019-20 was due to decrease of ₹ 1,511 crore in State's Own Revenue and State's share of Union Taxes over 2018-19.

State Government replied that the decrease in its own tax receipts was marginal considering the overall situation of the country's economy.

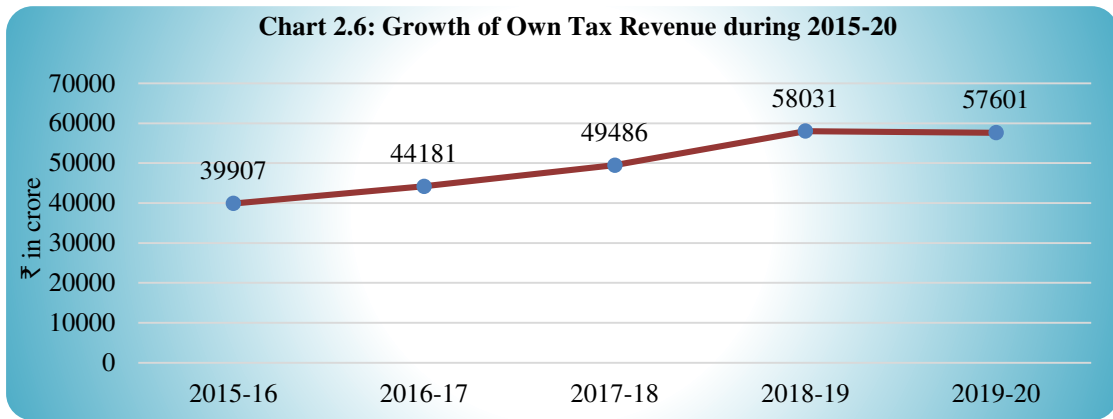
Justification offered by the State Government for decrease in its revenue receipts was not borne out by facts, since no such negative impact was noticed in similarly placed neighbouring States such as Telangana and Chhattisgarh, where there was an increase in own tax revenue by 4.5 *per cent* and 3.22 *per cent* respectively during 2019-20 over 2018-19.

#### **2.4.1.1 State's Own Resources**

State's share in Central taxes is determined on the basis of recommendations of the Finance Commission. Grants-in-aid from Central Government is determined by the quantum of collection of Central tax receipts and anticipated Central assistance for schemes. State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

##### **A. Own Tax Revenue**

Own tax revenues of the State consist of State GST, State excise, taxes on vehicles, Stamp duty and Registration fees, Land revenue, taxes on goods and passengers, *etc.* Own Tax Revenue (OTR) during the year was ₹ 57,601 crore and constituted 51.88 *per cent* of the Revenue Receipts (₹ 1,11,034 crore). Taxes on sales and trade contributed 37.17 *per cent* to OTR in 2019-20. The trends of growth of OTR during 2015-20 is shown in **Chart 2.6** and the major taxes and duties which contributed to OTR during 2015-20 are given in **Table 2.4**.



Source: Finance Accounts of respective years

**Table 2.4: Components of State's Own Tax Revenue**

	(₹ in crore)				
	2015-16	2016-17	2017-18	2018-19	2019-20 (ACTUALS)
State Goods and Services Tax (SGST)	-	-	10,820	20,611	20,227
Taxes on Sales, trades etc.	29,104	32,484	25,335	21,914	21,410
State Excise	4,386	4,645	5,460	6,220	6,915
Taxes on Vehicles	2,082	2,467	3,039	3,341	3,279
Stamp duty and Registration fees	3,527	3,476	4,271	5,428	5,318
Land Revenue	52	167	107	57	21
Taxes on Goods and Passengers	10	12	5	26	36
Other Taxes <sup>4</sup>	746	930	449	434	395
<b>Total</b>	<b>39,907</b>	<b>44,181</b>	<b>49,486</b>	<b>58,031</b>	<b>57,601</b>

Source: Finance Accounts of respective years;

During the period 2015-20, Taxes on Sales, Trades and State Goods and Services Tax (SGST) were the major contributors to OTR of the State with more than 70 per cent share. Although OTR decreased during 2019-20 compared to the previous year, it increased by 44.34 per cent from the year 2015-16 to 2019-20.

The decrease in tax revenue during the year 2019-20 was marginal by ₹ 430 crore (2.42 per cent) over the previous year 2018-19 and was mainly under (a) State Goods and Services Tax (SGST) by ₹ 384 crore (1.86 per cent) and (b) Taxes on Sales, Trades etc., by ₹ 504 crore (2.30 per cent).

State Government replied that, the State of Andhra Pradesh was mainly dependent on Agricultural sector; therefore the share of SGST in the receipts and its growth was comparatively low when compared to other neighbouring States, where Industry and Services are main drivers of growth.

Reasons stated by the State Government for lower receipts under SGST are not based on facts since GST is a consumption based tax i.e. tax accrues to the State where goods and / or services are finally consumed and the growth rate of GSDP of the State (12.73 per cent during 2019-20) was higher than that of the national rate of growth of

<sup>4</sup> Other Taxes include Taxes on Immovable Property other than Agricultural Land, Taxes and Duties on Electricity and Agricultural Income

GDP (7.21 per cent). Further, Services sector contributes the maximum to the GSDP of the State (38 per cent).

### (i) Goods and Services Tax (GST)

State Government implemented Andhra Pradesh Goods and Services Tax (GST) Act with effect from 01 July 2017. The GST has four components viz., (i) GST receipts by the Centre (i.e., Central GST or CGST); (ii) GST receipts by the State (i.e., State GST or SGST); (iii) Integrated GST (IGST)<sup>5</sup>, a tax on inter-State supply of Goods or Services or both by the Central Government and (iv) GST Compensation Cess<sup>6</sup>. SGST is levied on intra-State supply of goods or services (except alcohol for human consumption and five specified petroleum products<sup>7</sup>).

**Table 2.5: Components of State Goods and Services Tax (SGST)**

(₹ in crore)			
State Goods and Services Tax (SGST)	2017-18	2018-19	2019-20
<b>Tax</b>	5,035	8,187	9,482
<b>Input Tax Credit</b>	4,469	8,817	9,729
<b>Apportionment of IGST – Transfer-in of Tax Component</b>	692	964	1,514
<b>Others<sup>8</sup></b>	2,008	2,643	(-) 498
<b>TOTAL</b>	<b>10,820</b>	<b>20,611</b>	<b>20,227</b>

Source: Finance Accounts of respective years

**GST Compensation:** According to GST (Compensation to the States) Act, 2017, the Central Government will 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 projected revenue for any year of a State is to be calculated by applying the projected growth rate (14 per cent per annum) over the base year (2015-16) revenue of the State.

In the case of Andhra Pradesh, the revenue in the base year (2015-16) was ₹ 13,449.62 crore. Accordingly, Protected Revenue for the year 2019-20 was ₹ 22,715.87 crore<sup>9</sup>.

The State received ₹ 20,227.04 crore as SGST during the year. Against this shortfall from protected revenue, an amount of ₹ 1,840.76 crore has been received as GST compensation from GoI during the year 2019-20.

## B. Non-Tax Revenue

Non-tax revenue accounts for receipts from services rendered and supplies made by various Departments of Government and interest receipts. The Non-tax revenue of

<sup>5</sup> 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

<sup>6</sup> 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

<sup>7</sup> Petroleum crude, High speed diesel, Motor spirit (Petrol), Natural gas and Aviation turbine fuel

<sup>8</sup> Others include Receipts awaiting transfer to other Minor heads, Advance apportionment from IGST, Fees, Interest and penalty.

<sup>9</sup> Calculated at compounding increase of 14 per cent per annum for four years viz., 2016-20 from the base year revenue of ₹ 13,449.62 crore (i.e., ₹ 13,449.62 X 1.14 X 1.14 X 1.14 X 1.14 = ₹ 22,715.87 crore)

₹ 3,315 crore during the year constituted 2.99 *per cent* of the total revenue receipts (₹ 1,11,034 crore) of the year. The overall decrease of ₹ 1,081 crore in Non-Tax Revenue over the previous year was mainly under ‘other non-tax receipts’. The composition of non-tax revenue is detailed in **Table 2.6**.

**Table 2.6: Composition of Non-Tax Revenue**

						(₹ in crore)
Revenue Head	2015-16	2016-17	2017-18	2018-19	2019-20	Spark Line
<b>Interest Receipts</b>	133	113	96	50	37	
<b>Dividends &amp; Profits</b>	9	4	1	1	4	
<b>Other Non-Tax Receipts</b>	4,778	5,076	3,717	4,345	3,274	
a) Major Irrigation	145	166	161	94	122	
b) Forestry and Wild life	471	234	342	426	36	
c) Non-Ferrous Mining & Metallurgical Industries	1,523	1,628	2,156	2,211	1,897	
<b>Total</b>	<b>4,920</b>	<b>5,193</b>	<b>3,814</b>	<b>4,396</b>	<b>3,315</b>	

Source: Finance Accounts of respective years

**(i) Interest receipts**

Against the budgeted estimates of ₹ 150 crore during 2019-20, actual interest receipts were ₹ 37 crore. Interest receipts included ₹ 22 crore received from investment of Cash Balance, ₹ 15 crore received from various sources *viz.*, Andhra Pradesh Transmission Corporation (APTRANSCO) and Credit Cooperatives, *etc.*

**(ii) Dividend Receipts**

Against the budgeted estimates of ₹ five crore during 2019-20, actual receipts on account of Dividends & Profits was ₹ 4.46 crore.

Government investments in Statutory Corporations, Government Companies and others were ₹ 9,500.61 crore as on 31 March 2020, out of which, un-apportioned investments were ₹ 8,401.21 crore, constituting 88.43 *per cent* of the total investments. Further, out of these un-apportioned investments, ₹ 49.11 crore was invested in 10 non-working Companies.

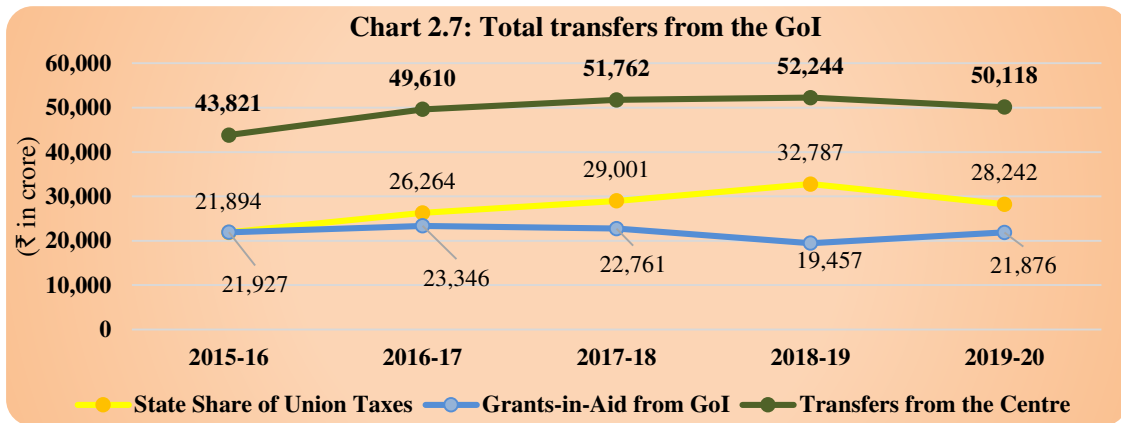
**(iii) Other Non-Tax Receipts**

Non-Ferrous Mining & Metallurgical Industries (₹ 1,897 crore – Mineral Concession Fee, Rents & Royalties, Mines Department *etc.*), Police (₹ 212 crore), Education, Sports, Art and Culture (₹ 147 crore) were the main contributors to Non-tax revenue.

**2.4.1.2 Central Transfers**

The trend of transfers from Government of India during the period 2015-16 to 2019-20 is given in **Chart 2.7**:





Source: Finance Accounts of respective years

### A. State's share of Union taxes

Central tax transfers of ₹ 28,242 crore in 2019-20, while contributing 25.44 per cent to the State's total revenue receipts, decreased by ₹ 4,545 crore (13.86 per cent) when compared to previous year (₹ 32,787 crore). Over the period 2015-20, the State's share of Union Taxes increased by 29 per cent from ₹ 21,894 core in 2015-16 to ₹ 28,242 crore in 2019-20.

Components of State's share of Union Taxes during 2015-20 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				
	2015-16	2016-17	2017-18	2018-19	2019-20
Corporation Tax	6,890	8,414	8,880	11,401	9,630
Customs	3,498	3,619	2,926	2,324	1,790
Income Tax	4,792	5,848	7,498	8,397	7,545
Other Taxes and Duties on commodities and services	15	-	327	17	18
Service Tax	3,788	4,231	2,975	303	0
Wealth Tax	2	19	-	4	0
Union Excise Duties	2,909	4,133	3,059	1,544	1,245
CGST	NA	NA	409	8,092	8,014
IGST	NA	NA	2,927	646	0
Other Taxes on Income and Expenditure	-	-	-	59	0
<b>Grand total</b>	<b>21,894</b>	<b>26,264</b>	<b>29,001</b>	<b>32,787</b>	<b>28,242</b>
<b>Devolution as percentage of Revenue Receipts of the State</b>	<b>24.70</b>	<b>26.53</b>	<b>27.60</b>	<b>28.59</b>	<b>25.44</b>

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

### B. Grants-in-Aid from Government of India

The details of Grants-in-Aid from GoI and their composition during 2015-20 are given in **Table 2.8**.

**Table 2.8: Grants-in-Aid from Government of India**

Particulars	(₹ in crore)				
	2015-16	2016-17	2017-18	2018-19	2019-20
Non-Plan Grants/Finance Commission Grants	9,944	10,839	6,975	5,548	5,881
Grants for State Plan Schemes*	10,325	12,507	0	327	1
Grants for Central Plan Schemes*	1,658	0	(-200) <sup>#</sup>	0	0
Grants for Centrally Sponsored Schemes	0	0	15,482	12,510	13,562
Other Transfers/Grants to States			504	1,072	2,432
(i) Compensation for loss of revenue arising out of implementation of GST			382	0	1,841
(ii) Other Receipts <sup>10</sup>			122	67	20
(iii) National Disaster Response Fund			0	1,005	571
<b>Total</b>	<b>21,927</b>	<b>23,346</b>	<b>22,761</b>	<b>19,457</b>	<b>21,876</b>
Percentage of increase (+)/decrease(-) over previous year	0.68	6.47	(-2.51)	(-14.52)	12.43
Total grants as a percentage of Revenue Receipts	24.73	23.59	21.66	16.97	19.70

**Source:** Finance Accounts of respective years. <sup>#</sup>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 ₹ 13,562 crore for Centrally Sponsored Schemes during 2019-20, the major amounts were given to:

- Mahatma Gandhi National Rural Employment Guarantee Scheme (₹ 2,713 crore- 24.96 per cent increase over previous year),
- Polavaram Project (₹ 1,780 crore-28.52 per cent increase over previous year),
- National Health Mission (₹ 1,044 crore – 7.30 per cent increase over previous year).

#### (i) XIV Finance Commission (FC) grants

The XIV FC had recommended devolution of funds under only three types of grants-in-aid to States viz., Local Government, Disaster Management and Post-devolution Revenue Deficit. The details of amounts awarded, received and releases of State Government to Local Bodies during the period 2015-20 are shown in **Table 2.9**.

**Table 2.9: XIV Finance Commission Grants**

Transfers	Recommendation of the XIV-FC 2015-20	Recommendations of XIV-FC		Actual Release by GoI			Release by State Government		
		2015-16 to 2018-19	2019-20	2015-16 to 2018-19	2019-20	Total	2015-16 to 2018-19	2019-20	Total
<b>Local Bodies</b>									
i) Grants to PRIs	8,654.09	6,031.96	2,622.13	4,917.35	2,038.52	6,955.87	4,605.89	2,038.52	6,644.41
ii) Grants to ULBs	3,635.78	2,523.26	1,112.52	2,034.95	1,019.26	3,054.20	1,864.38	1,019.26	2,883.64

<sup>10</sup> Additional Central Assistance for Left Wing Extremist (LWE) Districts and Compensation for loss of revenue on account of phasing out of Central Sales Tax (CST)

Transfers	Recommendation of the XIV-FC 2015-20	Recommendations of XIV-FC		Actual Release by GoI			Release by State Government		
		2015-16 to 2018-19	2019-20	2015-16 to 2018-19	2019-20	Total	2015-16 to 2018-19	2019-20	Total
<b>Total Local Bodies</b>	12,289.87	8,555.22	3,734.65	6,952.30	3,057.78	10,010.07	6,470.27	3,057.78	9,528.05
<b>State Disaster Response Fund</b>	2,430.00	1,896	534	1,896	534	2,430	1,896	534.00	2,430
<b>PDRDG</b>	22,112.00	19,613	2,499	19,613	2,499	22,112.00	-	-	-
<b>Grand Total</b>	36,831.87	30,064.22	6,767.65	11,347.30	6,090.78	34,552.07	8,366.27	3,591.78	11,958.05

Source: Finance Accounts and XIV Finance Commission report.

State Government has not released ₹ 311.46 crore and ₹ 170.57 crore of Finance Commission grants to Panchayat Raj Institutions and Urban Local Bodies respectively over the period 2015-20.

## 2.4.2 Capital Receipts

Growth and composition of Capital Receipts of the State during 2015-20 are given in Table 2.10.

**Table 2.10: Composition of Capital Receipts**

Sources of State's Receipts	₹ in crore				
	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Capital Receipts (CR)*</b>	53,966	61,952	74,114	98,257	1,16,783
<b>Non-debt capital receipts</b>	285	2,029	51	277	4,355
(i) <i>Miscellaneous Capital Receipts</i>	0	0	0	0	0
(ii) <i>Recovery of Loans and Advances</i>	285	2,029	51	277	4,355
<b>Public Debt Receipts*</b>	53,681	59,923	74,063	97,980	1,12,428
Internal Debt	52,996	59,109	73,117	95,990	1,10,398
Growth rate	64.03	11.53	23.70	31.28	15.01
Loans and advances from GoI	685	814	946	1,990	2,030
Growth rate	-1.72	18.83	16.22	110.36	2.01
Rate of growth of debt Capital Receipts	62.65	11.63	23.60	32.29	14.75
Rate of growth of non-debt capital receipts	-94.40	611.93	-97.49	443.14	1472.20
Rate of growth of GSDP	15.10	13.27	15.89	8.80	12.73
Rate of growth of Capital Receipts (per cent)	41.65	14.80	19.63	32.58	18.85

Source: Finance Accounts of respective years. \*Includes Ways and Means Advances and Overdraft facility availed by the Government.

During 2019-20, Capital Receipts (₹ 1,16,783 crore) constituted 48.50 per cent of the total receipts (₹ 2,40,746 crore) of the State. State Government borrowed ₹ 50,027 crore from open market and other financial institutions and took loans of ₹ 2,030 crore from GoI. Apart from these borrowings, State Government availed of ₹ 60,371 crore<sup>11</sup> as Ways and Means Advances and Overdraft from the Reserve Bank of India.

<sup>11</sup> Special Drawing Facility (₹ 16,055 crore) Ways and Means Advances (₹ 26,685 crore) and Overdraft (₹ 17,632 crore)

### 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 XIV FC projection of state resource mobilisation capacity, budget estimates *vis-à-vis* actuals during the year 2019-20 is given in **Table 2.11**.

**Table 2.11: Tax and Non-tax receipts *vis-à-vis* projections**

	XIV FC projections	Budget Estimates	Actuals	Percentage variation of actual over	
	(₹ in crore)			FFC projections	Budget estimates
<b>Own Tax revenue</b>	82,847	75,438	57,601	<b>(-) 30.47</b>	<b>(-) 23.64</b>
<b>Non-tax revenue</b>	17,946	7,355	3,315	<b>(-) 81.06</b>	<b>(-) 54.94</b>

Source: Finance Accounts 2019-20; BE 2019-20; XIV Finance Commission Report

It is evident from above that the actual revenue of the State was much less compared to its own budgetary estimates and XIV FC projections for the year 2019-20.

State Government replied that, it will try to achieve the targets set in budget estimates in coming years.

## 2.5 Application of resources

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

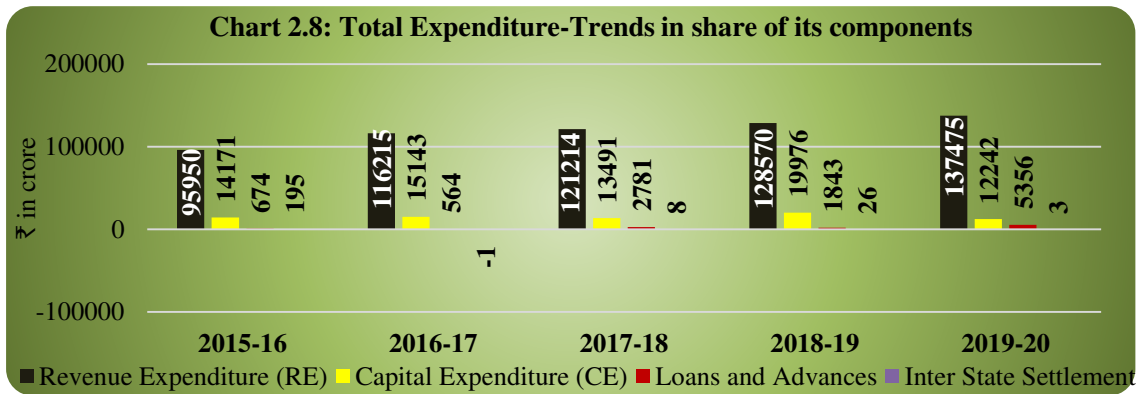
### 2.5.1 Growth and Composition of expenditure

The total expenditure in 2019-20 was ₹ 1,55,076 crore. **Chart 2.8** and **Table 2.12** presents the trends and composition of total expenditure during the years 2015 to 2020.

**Table 2.12: Total Expenditure and its composition**

Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
(₹ in crore)					
<b>Total Expenditure (TE)</b>	1,10,990	1,31,921	1,37,494	1,50,415	1,55,076
<b>Revenue Expenditure (RE)</b>	95,950	1,16,215	1,21,214	1,28,570	1,37,475
<b>Capital Expenditure (CE)</b>	14,171	15,143	13,491	19,976	12,242
<b>Loans and Advances</b>	674	564	2781	1843	5356
<b>Inter State Settlement</b>	195	(-1)	8	26	3
As a percentage of GSDP					
<b>TE/GSDP</b>	18.37	19.27	17.33	17.43	15.94
<b>RE/GSDP</b>	15.88	16.98	15.28	14.90	14.13
<b>CE/GSDP</b>	2.35	2.21	1.70	2.31	1.26
<b>Loans and Advances/GSDP</b>	0.11	0.08	0.35	0.21	0.55

crore)



Source: Finance Accounts of respective years

Total Expenditure over the past five years exhibited an increasing trend, mainly on account of increase in Revenue Expenditure. Total Expenditure of the State has increased by ₹ 44,086 crore from 2015-16 to 2019-20, registering a rise of 39.72 per cent.

As is evident from the above Chart, Capital Expenditure constituted less than 15 per cent of the Total Expenditure during the period 2015-20, decreasing from 12.77 per cent in 2015-16 to 7.89 per cent in 2019-20. This reflects poorly on the State's commitment towards infrastructure creation.

In terms of activities, Total Expenditure is composed of expenditure on General Services (including Interest Payments), Social Services, Economic Services and others. Relative share of these components in the Total Expenditure of ₹ 1,55,076 crore during 2019-20 is given in **Table 2.13**.

**Table 2.13: Relative shares of various sectors of expenditure**

Parameters	(in per cent)				
	2015-16	2016-17	2017-18	2018-19	2019-20
General Services	25.91	25.08	28.63	27.30	31.58
Social Services	44.02	39.92	45.13	44.64	45.24
Economic Services	29.18	34.51	24.15	26.79	19.71
Others (Grants to Local Bodies, Inter State Settlement and Loans and Advances)	0.89	0.50	2.09	1.27	3.47

Source: Finance Accounts of respective years

The expenditure of the State was mainly focused on Social Services, which includes Education, Health and welfare activities *etc.* The major areas under Social Services Sector where the expenditure was concentrated is given in **Table 2.14**.

**Table 2.14: Major areas of Expenditure under Social Services sector**

Area of Expenditure	(₹ in crore)				
	2015-16	2016-17	2017-18	2018-19	2019-20
Education, Sports, Art and Culture	16453	17357	20017	19587	26643
Welfare of SCs, STs and other BCs, Social Welfare and Nutrition	20560	21136	25893	28334	28146
Health and Family Welfare	5207	6438	6389	7400	7538

Source: Finance Accounts of respective years

The above table indicates that, in 2019-20, welfare activities constituted 18 per cent of Total Expenditure in the State and around 13 per cent was spent on Education, Sports, Art and Culture.

## 2.5.2 Revenue Expenditure

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

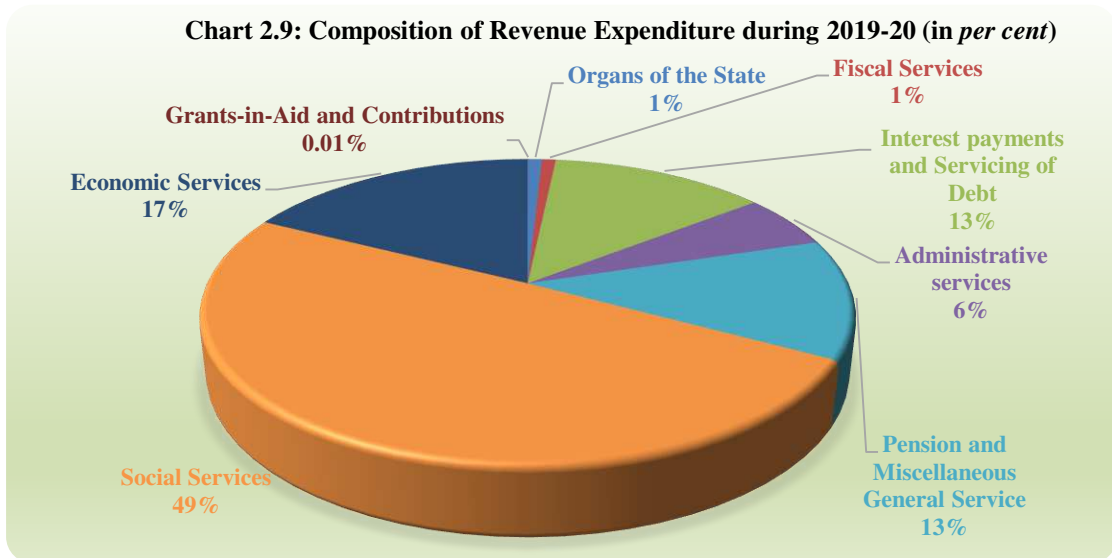
Revenue Expenditure (₹ 1,37,475 crore) was 14.13 *per cent* of GSDP and was within the budget provision (₹ 1,80,476 crore) made for the year 2019-20. It increased by 6.93 *per cent* during the year compared to 2018-19 (₹ 1,28,570 crore).

**Table 2.15: Revenue Expenditure-Basic parameters**

Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Total Expenditure (TE) (₹ in crore)	1,10,990	1,31,921	1,37,494	1,50,415	1,55,076
Revenue Expenditure (RE) (₹ in crore)	95,950	1,16,215	1,21,214	1,28,570	1,37,475
Rate of Growth of RE (in <i>per cent</i> )	-16.47	21.12	4.30	6.07	6.93
Revenue Expenditure as percentage of TE	86.45	88.09	88.16	85.48	88.65
RE/GSDP ( <i>per cent</i> )	15.88	16.98	15.28	14.90	14.13
RE as percentage of RR	108.24	117.41	115.37	112.12	123.81
<b>Buoyancy of Revenue Expenditure with</b>					
GSDP (ratio)	-1.09	1.59	0.27	0.69	0.54
Revenue Receipts (ratio)	7.39	1.81	0.70	0.66	-2.18

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 0.54 *per cent* of Revenue Expenditure. The negative buoyancy of Revenue Expenditure w.r.t Revenue Receipts was due to decrease in Revenue Receipts over the previous year.



During the year 2019-20, Revenue Expenditure (₹ 1,37,475 crore) accounted for 88.65 *per cent* of the State's total expenditure (₹ 1,55,706 crore), which is in the nature of current consumption, leaving only 11.35 *per cent* for investment in infrastructure and asset creation. Further, 80.77 *per cent* of the Revenue Expenditure in 2019-20 was met from Revenue Receipts (₹ 1,11,034 crore). The balance 19.23 *per cent* (₹ 26,441 crore) of Revenue Expenditure for day to day activities of Government was, however, financed from borrowed funds.

**Table 2.16** highlights the cases of significant increase or decrease in various Revenue Heads of Account during 2019-20 *vis-à-vis* the previous year.

**Table 2.16: Revenue Expenditure during 2019-20 compared to 2018-19**

Major Heads of Accounts	2018-19 (₹ in crore)	2019-20	Increase (+)/ Decrease (-) (in per cent)
2225 – Welfare of Scheduled Castes, Scheduled Tribes, Other Backward classes and Minorities.	5,446.98	21,601.38	296.57
2202 – General Education	18,779.33	25,498.46	35.78
2801 – Power	1,901.63	6,840.24	259.70
2435 – Other Agricultural Programmes	509.90	3,970.48	678.67
2515 – Other Rural Development Programmes	3,600.13	5,313.28	47.59
2505 – Rural Employment	3,608.87	2,021.79	-43.98
3451 – Secretariat – Economic Services	2,145.51	535.23	-75.05
2415 – Agricultural Research and Education	2,300.12	571.84	-75.14
2216 - Housing	3,466.99	941.09	-72.86
2401 – Crop Husbandry	4,046.51	1,021.47	-74.76
2235 – Social Security and Welfare	20,282.75	3,843.20	-81.05

Source: Finance Accounts;

The substantial increase and decrease of Revenue Expenditure under the Major Heads 2225 and 2235 respectively was due to transfer of expenditure from Major Heads 2235 to 2225 by way of Transfer Entries during the month of March 2020 by the State Government. The increase in expenditure during the year 2019-20 under the Major Heads 2202, 2801, 2435 was due to implementation of New Schemes “Amma Vodi”, “YSR Nine Hours free power supply” and “YSR Rythu Bharosa” by the State Government respectively. Further, the increase in expenditure under the Major Head 2515 was mainly due to introduction of system of Gram Sachivalayas and Village volunteers under Rural Development and increase in assistance to Panchayats under XIV Finance Commission grants.

The decrease in Revenue expenditure under the Major Head 2415 was due to discontinuation of the Scheme “Annadata Sukhibhava” which was being implemented as “YSR Rythu Bharosa” under Major Head 2435 during 2019-20. Further, the dip in the expenditure under the Major Heads 3451, 2401, 2505 and 2216 was mainly due to non – implementation of Special Development Packages, increased recoveries of unspent balances, reduction of expenditure under MNREGS and PMAY schemes respectively.

### 2.5.2.1 Committed Expenditure

The committed expenditure of the State Government on revenue account consists of interest payments; expenditure on salaries and wages; and pensions. Upward trend in committed expenditure leaves the Government with less flexibility for development sector. **Table 2.17** presents the expenditure on these components during 2015-20.

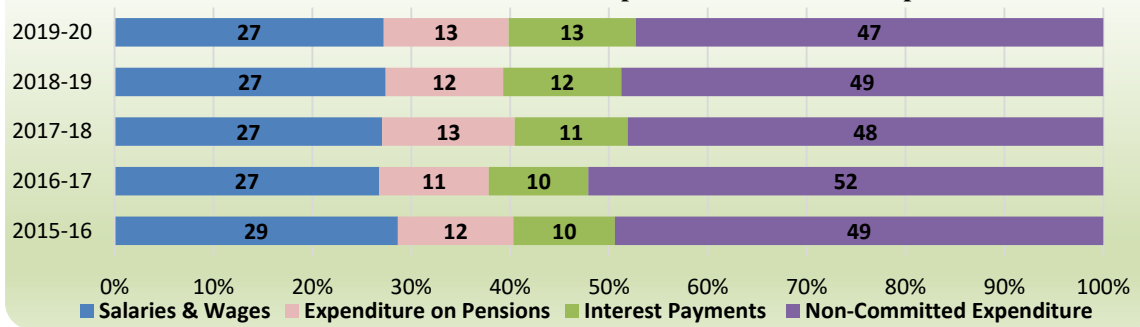
Table 2.17: Components of committed expenditure

(₹ in crore)

Components of Committed Expenditure	2015-16	2016-17	2017-18	2018-19	2019-20
Salaries & Wages	27,474	31,125	32,816	35,240	36,934
Expenditure on Pensions	11,238	12,873	16,236	15,291	17,385
Interest Payments	9,849	11,697	13,847	15,342	17,653
<b>Total</b>	<b>48,561</b>	<b>55,695</b>	<b>62,899</b>	<b>65,873</b>	<b>71,972</b>
<b>As a percentage of Revenue Receipts (RR)</b>					
Salaries & Wages	30.99	31.44	31.23	30.73	33.26
Expenditure on Pensions	12.68	13.01	15.45	13.33	15.66
Interest Payments	11.11	11.82	13.18	13.38	15.90
<b>Total</b>	<b>54.78</b>	<b>56.27</b>	<b>59.87</b>	<b>57.45</b>	<b>64.82</b>
<b>As a percentage of Revenue Expenditure (RE)</b>					
Salaries & Wages	28.63	26.78	27.07	27.41	26.87
Expenditure on Pensions	11.71	11.08	13.39	11.89	12.65
Interest Payments	10.26	10.06	11.42	11.93	12.84
<b>Total</b>	<b>50.61</b>	<b>47.92</b>	<b>51.89</b>	<b>51.24</b>	<b>52.35</b>

Source: O/o AG (A&E) Andhra Pradesh; Note: Salaries and wages also includes the salaries paid out of grants-in-aid and work charged establishment.

Chart 2.10: Share of Committed Expenditure in Revenue Expenditure



### Salaries and wages

Expenditure on salaries and wages (₹ 36,934 crore) increased by 4.81 per cent during 2019-20 over the previous year (₹ 35,240 crore) and constituted 27 per cent of revenue expenditure.

### Interest payments

During 2019-20, interest payments were to the tune of ₹ 17,653 crore (15.90 per cent of revenue receipts of ₹ 1,11,034 crore), and were higher than the target of 11.30 per cent set by the XIV FC, which was not a positive fiscal health indicator. Interest on Market Borrowings (₹ 14,154 crore) and Special Securities issued to National Small Savings Fund (NSSF) of Central Government (₹ 1,203 crore) continued to be the major components of interest payments.

The State Government budgeted and expended an amount of ₹ 1,078.39 crore during 2019-20 towards interest payments on Off-Budget borrowings obtained through PSUs/SPVs etc. The total quantum of interest payments made by the State Government during 2019-20 were effectively ₹ 18,731.39 crore (₹ 17,653 crore booked under Major Head 2049 and ₹ 1,078.39 crore paid on off-budget borrowings). Interest payments constituted 16.87 per cent of revenue receipts of the State.



## Pensions

The expenditure on pension and other retirement benefits to State Government pensioners during the year was ₹ 17,385 crore, and constituted 15.66 *per cent* of revenue receipts. Superannuation and Retirement Allowances (₹ 8,791 crore) increased by ₹ 1,099 crore from 2018-19, Family Pensions (₹ 3,085 crore) increased by ₹ 191 crore over that in 2018-19 and Gratuities (₹ 1,394 crore) increased by ₹ 93 crore from 2018-19.

### 2.5.2.2 Subsidies

Subsidies provided by the State Government constituted around six *per cent* of Revenue Expenditure every year during the period 2015-20, except during 2018-19, when it was reduced to two *per cent*. The details of department-wise subsidies during the five-year period 2015-16 to 2019-20 are given in **Table 2.18**.

**Table 2.18: Department wise Subsidies**

Departments	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Civil Supplies</b>	2,380	2,470	3,056	340	396
<b>Energy</b>	3,186	2,750	3,000	1,250	5,248
<b>Agricultural and other Allied activities</b>	633	652	838	408	381
<b>Others<sup>12</sup></b>	161	374	252	354	318
<b>Total subsidy</b>	<b>6,360</b>	<b>6,246</b>	<b>7,146</b>	<b>2,352</b>	<b>6,343</b>
<b>Total Revenue Expenditure (RE)</b>	95,950	1,16,215	1,21,214	1,28,570	1,37,475
<b>Subsidy as a percentage of RE</b>	6.63	5.37	5.90	1.83	4.61

*Source: Finance Accounts of respective years*

As seen from the table above, the total expenditure of ₹ 6,343 crore on subsidies during the year increased by ₹ 3,991 crore (169.69 *per cent*) compared to previous year (₹ 2,352 crore). Out of the total subsidy released to Energy Department during 2019-20, ₹ 4,032 crore (63.56 *per cent*) was towards implementation of YSR nine hours free power supply scheme; Civil Supplies Administration and Agriculture Department accounted for subsidies of ₹ 396 crore (6.24 *per cent*) and ₹ 381 crore (6.01 *per cent*) respectively. The share of subsidies to revenue expenditure was 4.61 *per cent* in 2019-20.

### 2.5.2.3 Financial Assistance to local bodies and other institutions

The quantum of financial assistance provided by the State Government to Local Bodies and other institutions by way of grants during 2015-20 is given in **Table 2.19**.

**Table 2.19: Financial assistance to Local Bodies and other institutions**

	2015-16	2016-17	2017-18	2018-19	2019-20
<b>(A) Local Bodies</b>	<b>6,474</b>	<b>13,814</b>	<b>11,217</b>	<b>12,132</b>	<b>14,566</b>
Municipal Corporations and Municipalities	2,750	4,462	2,976	3,775	4,157
Zilla Parishads and other PR Institutions	3,724	9,352	8,241	8,357	10,409
<b>(B) Others</b>	<b>33,220</b>	<b>40,165</b>	<b>41,874</b>	<b>48,663</b>	<b>45,349</b>
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	6,965	7,625	9,974	9,613	10,048
Hospitals and Other Charitable Institutions	1,888	2,106	2,556	3,411	3,224

<sup>12</sup> Industries and Commerce, Minority Welfare, Information Technology & Communication, Panchayat Raj, Social Welfare, Women, Child and Disabled Welfare and Backward Classes Welfare Departments

	2015-16	2016-17	2017-18	2018-19	2019-20
Development Authorities	13	5	21	6	5
Co-operative Institutions	146	143	564	543	9,487
Others <sup>13</sup>	24,208	30,286	28,759	35,090	22,585
<b>Total*</b>	<b>79,388</b>	<b>53,979</b>	<b>53,091</b>	<b>60,795</b>	<b>59,915</b>
<b>Assistance as percentage of R.E</b>	<b>41.37</b>	<b>46.45</b>	<b>43.80</b>	<b>47.25</b>	<b>43.58</b>

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

Financial assistance extended to local bodies and other institutions in 2019-20 constituted 43.58 per cent of revenue expenditure. The major schemes/recipients (above ₹ 1,000 crore) of grants during the year are given in **Table 2.20**.

**Table 2.20: Major schemes/recipients (above ₹ 1,000 crore)**

Scheme/Recipients	(₹ in crore)
Financial Assistance to Andhra Pradesh State Backward Classes Co-operative Finance Corporation	9,155.81
Teaching Grants to Zilla Praja Parishads	5,459.14
YSR Rythu Bharosa	3,615.60
Economic Support Schemes - APSCCF Ltd.	2,905.09
Finance Commission grants to PR Bodies	2,038.51
Mahatma Gandhi National Employment Guarantee Act	1,957.67
Welfare of Kapus	1,474.89
Jagananna Vidya Deevena Economically Backward Classes (EBC) Students	1,435.86
Financial Assistance to DWCRA (SHG) Groups	1,333.57
Finance Commission Grants ULBs	1,312.79
Dr. Y.S.R Aarogyasri	1,305.00
Samagra Shiksha	1,302.28
Assistance to Andhra Pradesh State Minorities Finance Corporation Ltd.,	1,296.65
Cash Doles under Calamity Relief	1,198.08
Smart Cities	1,123.00
Assistance to Andhra Pradesh Transmission Corporation ltd. for servicing of Vidyut Bonds	1,100.63

Source: VLC Data, O/o PAG (A&E)

#### 2.5.2.4 National Pension System

State Government employees recruited on or after 01 September 2004 are covered under the National Pension System (NPS), which is a defined contributory pension scheme. It 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 has to transfer these contribution amounts along with details to the National Securities Depository Limited (NSDL) and to the fund managers appointed by the NPS Trust.

Post bifurcation of the erstwhile composite State of Andhra Pradesh in 2014, there was an un-apportioned balance under NPS. After apportionments in the past years, the balance at the end of 2019-20 was ₹ 365.43 crore. There was no apportionment during the year 2019-20.

<sup>13</sup> Others includes Development Agencies, Autonomous Bodies, Public Sector Undertakings, Non-Governmental Institutions, Institutions receiving one time grant etc.

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)
663.63	782.05	969.93	1,694.11	721.50

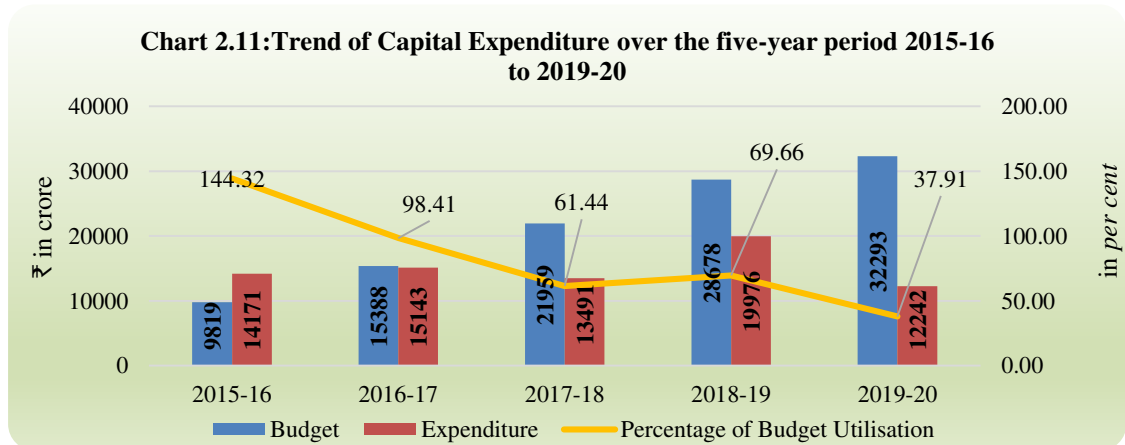
*Source: Finance Accounts*

As the Principal Accountant General (Accounts and Entitlements) does not maintain the accounts of individual employee's contribution, the correctness of recovery from the employee's salary bills cannot be verified. No reconciliation of the amounts transferred has been carried out with NSDL/ Trustee Bank.

### 2.5.3 Capital Expenditure

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

The trend of Capital Expenditure over the five-year period 2015-20 is shown in **Chart 2.11**.



*Source: Finance Accounts and Budget in brief of respective years*

Capital Expenditure (₹ 12,242 crore) constituted 7.89 per cent of total expenditure during 2019-20 and fell short of the Budget Estimates (₹ 32,293 crore) by 62.09 per cent. It accounted for 1.26 per cent of GSDP and decreased by ₹ 7,734 crore (38.72 per cent) from the previous year. Out of the total Capital Expenditure, during 2019-20, 14.96 per cent (₹ 1,830.93 crore) was funded by the Government of India (CSS/CS/GIA).

The decrease in capital expenditure in the State during 2019-20 points to a need to review the fiscal strategy and create the fiscal space for increased capital expenditure, which in turn, would help in promoting and accelerating equitable growth.

State Government replied that, considerable capital expenditure was being incurred through SPVs/Corporations (such as Andhra Pradesh Water Resources Development Corporation (APWRDC), Andhra Pradesh Road Development Corporation (APRDC), Amaravati Development Corporation Limited (ADCL) etc.,) outside the budget, which resulted in decrease in the capital expenditure in the accounts of State Government. However, details of such expenditure were not provided to Audit.

Further, capital expenditure during the year 2019-20 was overstated to an extent of ₹ 5,243.49 crore due to misclassifications and transferring to Public Account as detailed below:

**Mis-classification of Revenue Expenditure as Capital Expenditure:**

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

Government of AP planned to construct 25 lakh houses (14 lakh in rural areas including Urban Development Authorities and 11 lakh in urban areas) during the period 2019-20 to 2023-24 as part of “Navaratnalu”<sup>14</sup> at an estimated project cost of ₹ 61,000 crore to provide pucca houses to all eligible beneficiaries. As part of this, Government has taken steps for acquiring land and proposed to distribute house site pattas to 25 lakh beneficiaries on 08 July 2020. An amount of ₹ 3,371.60 crore has been booked as Capital Expenditure in Accounts for 2019-20 under YSR Gruha Vasathi scheme for this purpose.

As per the Socio-Economic Survey Report of Government of AP for the year 2019-20, 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, an expenditure of ₹ 1,007.74 crore incurred towards Minor works and Grants-in-Aid, which was not in the nature of asset creation, was also booked under Capital Heads.

**Unspent Capital Expenditure:**

During the year 2019-20, an amount of ₹ 938.85 crore was transferred to Personal Deposit Accounts from Capital Heads. Out of this amount, ₹ 864.18 crore (92.04 per cent of total transfers to PD Accounts from Capital Heads) was lying unspent as of end of March 2020. Clearly, funds were transferred to PD Accounts to avoid lapse of budget

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<sup>14</sup> Nine welfare schemes promised during election and implemented by cross cutting nine themes covering Agriculture, Health, Education, Housing, Welfare and other sectors.

during the year and capital expenditure was inflated to that extent.

Hence, the effective Capital Expenditure of the State during the year 2019-20 was ₹ 6,998.51 crore, which amounts to only 0.72 *per cent* of GSDP of the State.

### 2.5.3.1 Major changes in Capital Expenditure

Table 2.22 highlights the cases of significant increase or decrease under various Heads of Account under Capital Expenditure during 2019-20 *vis-à-vis* the previous year.

**Table 2.22: Capital Expenditure during 2019-20 compared to 2018-19**

Major Heads of Accounts	2018-19	2019-20	Increase
	(₹ in crore)		(+)/ Decrease (-) (in <i>per cent</i> )
4070 – Capital Outlay on other Administrative Services	50.22	3414.32	6699.06
4055 – Capital Outlay on Police	166.08	289.17	74.11
4202 - Capital Outlay on Education, Sports, Art and Culture	244.86	339.94	38.83
4211 - Capital Outlay on Family Welfare	6.17	84.67	1271.71
4217 - Capital Outlay on Urban Development	1227.93	536.48	-56.31
5475 – Capital Outlay on other General Economic Services	780.83	-48.04	-106.15
4702 - Capital Outlay on Minor Irrigation	2728.21	628.41	-76.97
4700 - Capital Outlay on Major Irrigation	10317.80	3629.62	-64.82

Source: Finance Accounts of respective years

The substantial increase of Capital Expenditure under Major Head 4070 – Other Administrative Services was due to implementation of New Scheme ‘YSR Gruha Vasathi’ under which an amount of ₹ 3,371.60 crore was expended for acquisition of land. The decrease of Capital expenditure under Major Head 4700- Major Irrigation was mainly due to lesser expenditure under ‘Handri Neeva Sujala Sravanthi’ (by 1,402 crore) and ‘Polavaram Project’ (by ₹ 1,865 crore). The negative expenditure under the Major Head 5475 – Other General Economic Services was due to lapsing of unspent balances from deposit accounts.

## 2.5.4 Quality of Capital Expenditure

### 2.5.4.1 Investments and returns

As of 31 March 2020, the State Government had invested ₹ 9,500.61 crore in Statutory Corporations (₹ 205.57 crore), Rural Banks (₹ 26.96 crore), Government Companies (₹ 6,793.35 crore), Joint Stock Companies (₹ 57.70 crore) and Co-operatives (₹ 2,417.03 crore). Out of this investment, ₹ 1,099.40 crore was invested after 02 June 2014 by Government of Andhra Pradesh and ₹ 8,401.21 crore (88.43 *per cent*) was yet to be apportioned among the two successor States.

The status of return on the amount invested in these Corporations/Companies is given in Table 2.23.

**Table 2.23: Return on Investment**

Investment/Return/Cost of Borrowings	2015-16	2016-17	2017-18	2018-19	2019-20
Investment at the end of the year (₹ in crore)	8,709	8,975	9,472	9,501	9,501
Return in the form of Dividend (₹ in crore)	9	4	1	1	4
Rate of Return ( <i>per cent</i> )	0.10	0.05	0.01	0.01	0.04
Average rate of interest on Government borrowing ( <i>in per cent</i> )	6.11	6.31	6.52	6.37	6.31
Difference between Rate of return and interest rate ( <i>in per cent</i> )	(-) 6.01	(-) 6.26	(-) 6.51	(-) 6.36	(-) 6.27
Difference between interest on Government borrowing and return on investment (₹ in crore)	9,840	11,693	13,846	15,341	17,649

Source: Finance Accounts of respective years

Government earned a return of ₹ four crore in the form of dividend in 2019-20 on its investments of ₹ 9,501 crore in various Corporations/Companies. The return on Government investment was also negligible at 0.04 *per cent* during the last five years as against the average rate of interest of 6.31 *per cent* paid by the Government on its borrowings during the same period and has proved to be a drag on the finances of the State.

#### 2.5.4.2 Loans and Advances given by the State Government

In addition to investments in Co-operative Societies, Corporations and Companies, the State Government also provided loans and advances to institutions/organisations like PSUs, Universities/ Academic Institutions, PRIs, ULBs and Urban Development Authorities, *etc.* Table 2.24 presents the details of outstanding loans and advances during the last five years.

**Table 2.24: Details of loans advanced by State Government**

Quantum of Loans/Interest Receipts	2015-16	2016-17	2017-18	2018-19	2019-20
Opening Balance (₹ in crore)	28,549	28,938	27,472	30,202	31,768
Amount advanced during the year (₹ in crore)	674	564	2,781	1,843	5,356
Amount recovered during the year (₹ in crore)	285	2,029	51	277	4,355
Closing Balance (₹ in crore)	28,938	27,472	30,202	31,768	32,769
Net addition (₹ in crore)	389	(-)1465	2,730	1,566	1,001
Interest Receipts on Loans and Advances (₹ in crore)	1	35	9	12	13
Interest receipts as percentage of outstanding loans and advances ( <i>in Per cent</i> ) (a)	0.003	0.13	0.03	0.04	0.04
Interest payments (₹ in crore)	9,849	11,697	13,847	15,342	17,653
Total Outstanding Liabilities (₹ in crore)	1,73,854	2,01,314	2,23,706	2,57,510	3,01,802
Interest payments as percentage to total Outstanding Liabilities of the State Government (b)	5.67	5.81	6.19	5.96	5.85
Difference between (a) and (b) ( <i>in Per cent</i> )	(-) 5.67	(-) 5.68	(-) 6.16	(-) 5.92	(-) 5.81

Source: Finance Accounts of respective years;

Loans outstanding as of 31 March 2020 amounted to ₹ 32,769 crore which included ₹ 5,356 crore of loans disbursed during 2019-20. Energy (₹ 4,812.99 crore) and Transport (₹ 337.50 crore) sectors were the major recipients of loans during the year. Out of the loans repaid (₹ 4,355 crore) to the State Government, ₹ 4,300 crore (99 per cent) was by the Energy Sector.

During 2019-20, loans and advances of ₹ 5,327 crore were provided to six<sup>15</sup> entities without committing them to any terms and conditions like schedule of repayment, rate of interest, number of instalments, etc., and from whom repayments of earlier loans (₹ 22,351 crore) were overdue. The earliest period to which arrears related was 2002.

State Government provided loans amounting to ₹ 1,200 crore and ₹ 300 crore to Andhra Pradesh Southern Power Distribution Company Limited (APSPDCL) and Andhra Pradesh Eastern Power Distribution Company Limited (APEPDCL) respectively through Andhra Pradesh Transmission Corporation (APTRANSCO) on 31 March 2020 and the said amount has been repaid to State Government on the same day. The loans and advances of ₹1500 crore provided by the State Government on the last day of the financial year and its repayment by the DISCOMs on the same day inflated the disbursement and repayment of loans to that extent.

Further, the repayment of remaining loan amount of ₹ 2,800 crore during the year 2019-20 was made by APTRANSCO from the loans taken from Power Finance Corporation. Department replied that due to cash flow deficit and to overcome the previous debt repayments of DISCOMs, the State Government has provided loans. It further stated that the loans given by State Government have been repaid after the receipt of fresh loan from Power Finance Corporation.

It is evident that loans and advances to the tune of ₹ 4,300 crore were provided to APTRANSCO on temporary basis to avoid cash flow deficit and for repayment of previous debts lying with DISCOMs. In view of the precarious financial position of the State Government, given the fact that the State resorted to Ways and Means advances for 221 days (₹ 60,371 crore in total) during the year, provision of loans amounting to ₹ 4,300 crore to the DISCOMs to service their previous loans was not prudent.

#### **2.5.4.3 Capital Locked in Incomplete Projects**

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

Age-wise and Department-wise details of ongoing projects are given in **Tables 2.25** and **2.26** respectively.

<sup>15</sup> Loans for water supply and sanitation (₹ 2,311.37 crore was outstanding), Housing (₹ 15,114.98 crore), Co-operative societies (₹ 326.44 crore), AP TRANSCO (₹ 2,149.60 crore), Civil Aviation (₹ 247.88 crore) and Road Transport (₹ 2,200.80 crore)

**Table 2.25: Age profile of ongoing projects as on 31 March 2020 (₹ in crore)**

Year of commencement of Project / work	No of incomplete Projects / works	Estimated cost	Expenditure (as on 31 March 2020)
up to 2013-14	62	16,702.61	20,796.33
2014-15	NIL	NIL	NIL
2015-16	10	2,537.40	1,363.31
2016-17	47	2,537.40	1,125.68
2017-18	49	2,017.21	483.05
2018-19	48	3,850.29	131.59
2019-20	13	6,780.78	108.23
<b>Total</b>	<b>229</b>	<b>32,281.84</b>	<b>24,008.19</b>

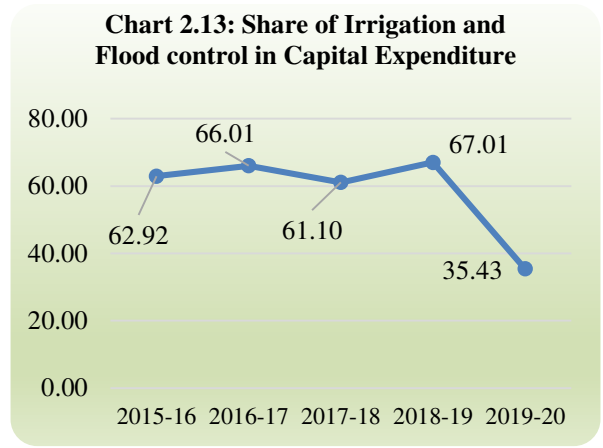
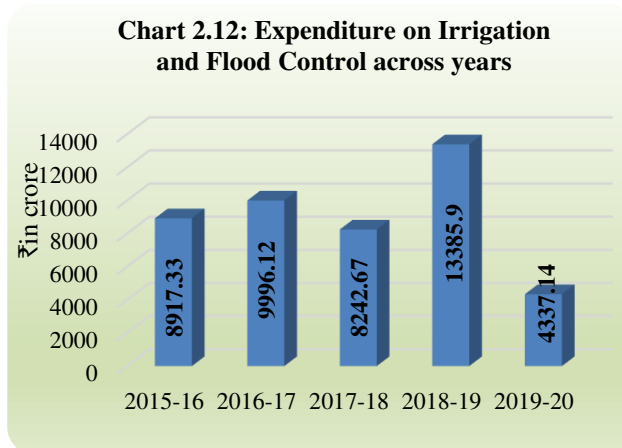
**Table 2.26: Department-wise profile of ongoing projects as on 31 March 2020 (₹ in crore)**

Department	No. of incomplete projects / works	Estimated cost	Expenditure
Roads	55	10,066.25	807.25
Bridges	12	145.69	11.99
Buildings	5	145.64	1.33
Irrigation	73	15,855.33	20,779.03
Water Supply Schemes and others	84	6,068.94	2,408.59
<b>Total</b>	<b>229</b>	<b>32,281.85</b>	<b>24,008.19</b>

Source: Finance Accounts

Capital Expenditure accounted for 35.43 per cent to 67.01 per cent of the Total Expenditure in the last five years. During the years 2015-20, an amount of ₹ 75,024.42 crore was spent on capital projects.

Within the capital projects, the major share of expenditure was on Irrigation and Flood Control. An amount of ₹ 44,879.16 crore was spent on Irrigation and Flood Control during the last five years. Capital outlay on Irrigation and Flood Control and its share in total Capital Expenditure of the Government are given in *Charts 2.12* and *Chart 2.13*.



Source: Finance Accounts

There were 73 irrigation projects which were taken up between 2003 and 2017 and were still ongoing as of March 2020. An expenditure of ₹ 20,779.03 crore was incurred on these projects as of date of audit (June 2020).

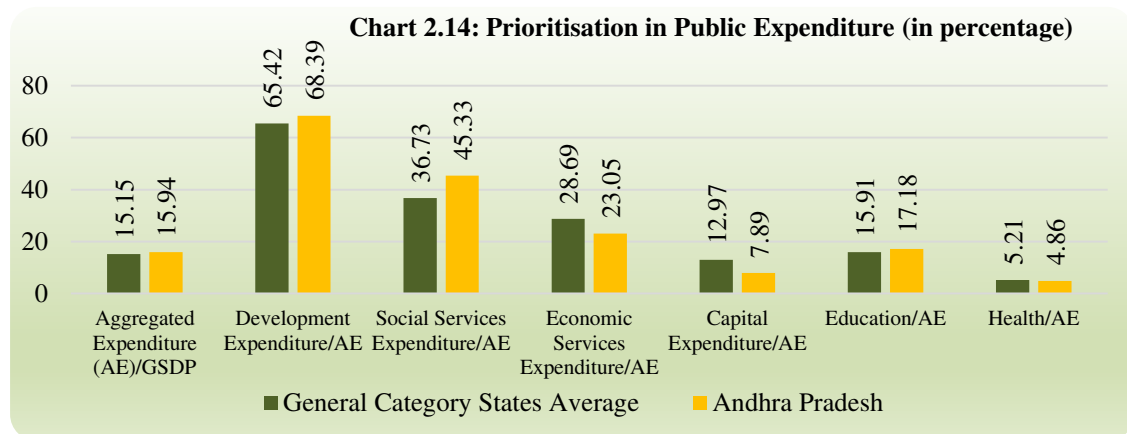
Irrigation projects are taken up and approved on the basis of data that supports an implicit assumption that the benefits of the project will outweigh the costs. Non-completion of projects not only affects the quality of the expenditure adversely, but also deprives the State of intended benefits of economic growth. Further, the State Government did not disclose financial results of any of the irrigation projects. As a



result, there was no assurance of returns from public investments on irrigation and flood control.

### 2.5.5 Expenditure Priorities

Enhancing human development levels require the State to step up its expenditure on key social services like education, health, *etc.* Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) for a particular sector can be inferred if the ratios fall way below the respective National averages. **Chart 2.14** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2019-20, *vis-à-vis* the average of the General Category States.



*Source: Finance Accounts of 2019-20;*

Audit observations in this regard are as follows:

- Development expenditure and expenditure on Social Services as a proportion of total expenditure were higher in the State compared to the GCS average and the expenditure on Economic Services as a proportion of Total Expenditure was lower than GCS average. The share of expenditure on education in the State as a proportion of total expenditure was higher than the corresponding GCS average while State's average in respect of expenditure on health was marginally lower than GCS average.
- The share of capital expenditure was lower in the State compared to the GCS average affecting physical capital formation, with a cascading impact on economic growth in the long run.

## 2.6 Public Account

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

## 2.6.1 Net Public Account Balances

Component-wise net balances in Public Account of the State as of end of March of the year during the five-year period 2015-16 to 2019-20 are as follows:

**Table 2.27: Public Account Balances (As on 31 March of the year)**

		(₹ in crore)				
Sector	Sub Sector	2015-16	2016-17	2017-18	2018-19	2019-20
I. Small Savings, Provident Funds, etc.	Small Savings, Provident Funds, etc.	-16,075	-13,568	-13,509	-15,730	-16,745
J. Reserve Funds	(a) Reserve Funds bearing Interest	-50	-305	-32	-576	-1863
	(b) Reserve Funds not bearing Interest	-2,353	-2,323	-1,455	-2,107	-2,065
K. Deposits and Advances	(a) Deposits bearing Interest	-5,326	-6,246	-7,058	-7,275	-7,662
	(b) Deposits not bearing Interest	-25,387	-29,064	-32,861	-38,325	-46,907
	(c) Advances	30	30	30	31	31
L. Suspense and Miscellaneous	(b) Suspense	174	331	46	105	938
	(c) Other Accounts	3,416	3,863	166	166	5,298
	(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	193	84	-1,383	500	510
	(b) Inter Governmental Adjustment Account	993	1263	71	53	100
<b>TOTAL</b>		<b>-44,385</b>	<b>-45,935</b>	<b>-55,985</b>	<b>-63,158</b>	<b>-70,241</b>

Note: +ve denotes Debit Balances and -ve denotes credit balances; Source: Finance Accounts of 2019-20

### 2.6.1.1 Reserve Funds

Reserve Funds are created for specific and defined purposes under the Public Account of the State Government. These funds are met from contributions or grants from the Consolidated Fund of the State. Out of the gross accumulated balance of ₹ 13,001.77 crore lying in these Funds as on 31 March 2020, ₹ 9,073.71 crore was invested in the GoI Securities, leaving a net accumulated balance of ₹ 3,928.07 crore as on 31 March 2020. The transactions during the year 2019-20 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, ₹ 1,265.44 crore was to be contributed in 2019-20 on the Outstanding

Liabilities of ₹ 2,53,087 crore<sup>16</sup> at the end of 2018-19. The State Government however, did not make any contribution to the Fund during 2019-20. However, the interest accrued out of the investment of Consolidated Sinking Fund balances, amounting to ₹ 667.78 crore was re-invested and as such reckoned as contribution by the State Government.

### ***Guarantee Redemption Fund***

As per guidelines of Reserve Bank of India, post bifurcation, the Government of Andhra Pradesh constituted<sup>17</sup> (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 2019 were ₹ 49,442.36 crore. Against this, the Fund balance to the end of the year was ₹ 808.29 crore which was 1.63 *per cent* of outstanding Guarantees. The State Government has not contributed to the Fund during 2019-20.

### ***State Disaster Response Fund***

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

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

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

<sup>16</sup> Excluding un-apportioned balance of ₹4422.59 crore

<sup>17</sup> G.O. Ms. No. 46, Finance (CM) Department, dated 17.04.2018

The State Government released its share of ₹ 209.85 crore during 2019-20 in addition to the funds received from GoI of ₹ 324.15 crore. The total accumulated balance of ₹ 534 crore was fully expended as per Finance Accounts for relief on natural calamities<sup>18</sup> with no closing balance at the end of the year.

The details of expenditure charged to State Disaster Response Fund are given in Table 2.28.

**Table 2.28: Details of Expenditure charged to SDRF**

(₹ in crore)

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

Source: Finance Accounts of 2019-20

During the year 2019-20, Government of Andhra Pradesh has received ₹ 1,104.91 crore towards SDRF (₹ 534 crore) and NDRF (₹ 570.91 crore) from Government of India. Out of this, an amount of ₹ 1,100 crore was transferred to Deposit Account<sup>19</sup> of Directorate of Agriculture, Andhra Pradesh towards payment of Input Subsidy to farmers for Kharif as Gratuitous relief by booking expenditure under Consolidated Fund of the State (2245-01-101). The entire amount of ₹1,100 crore was again transferred to Personal Deposit Account<sup>20</sup> of Commissioner, Directorate of Agriculture, Andhra Pradesh on 31 March 2020.

Audit observed that the State Government transferred ₹1,100 crore to Personal Deposit Account by showing expenditure under Major Head 2245 – Disaster Relief and Rehabilitation in violation of the Appropriation Act. Further, the entire expenditure transferred to PD Account was adjusted from SDRF, by showing it as deduct expenditure under Minor Head 901 in violation of SDRF accounting procedure. Thus,

<sup>18</sup> Gratuitous relief in drought affected areas, Repairs and restoration of damaged roads and bridges, Assistance to farmers for purchase of Agricultural inputs etc.

<sup>19</sup> 8443-00-111-15-27-009-002

<sup>20</sup> 8443-00-106-02-27-009-001

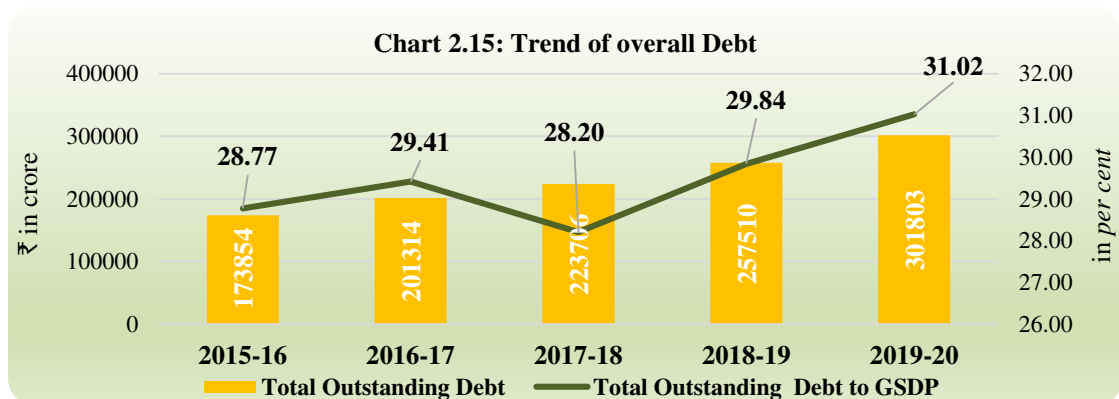
booking the expenditure without actually incurring it raises questions about the accuracy of expenditure figures of the State.

State Government stated that these funds were demarcated for pandemic related expenditure and were utilised in the following financial year. However, the guidelines<sup>21</sup> 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.

## 2.7 Debt Management

Debt management is the process of establishing and executing a strategy for managing the Government's debt in order 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 2019-20 was ₹ 3,01,803 crore. The trend of outstanding debt and ratio of debt to GSDP during the period 2015-20 is given in *Chart 2.15*.



Source: Finance Accounts of respective years

### 2.7.1 Debt profile

Total debt of the State Government constitutes 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 2015-20 are given in **Table 2.29** and also in *Chart 2.15*.

<sup>21</sup> OM No. 33-5/2015-NDM-I, Disaster Management dated 30 July 2015

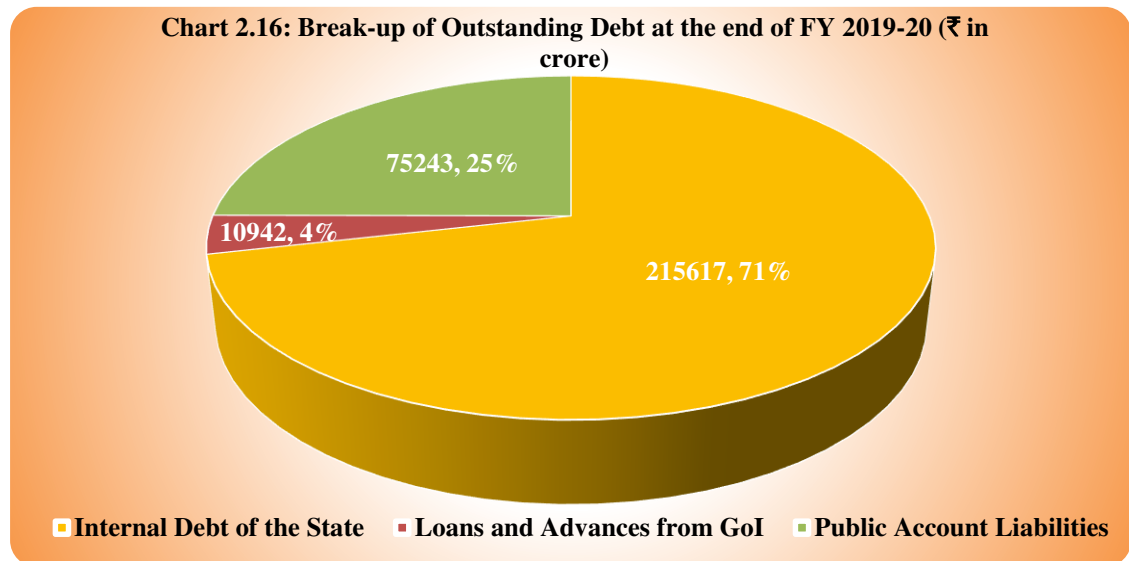
**Table 2.29: Component wise Debt trends**

	2015-16	2016-17	2017-18	2018-19	2019-20	
<b>Outstanding Debt (₹ in crore)</b>	1,73,854	2,01,314	2,23,706	2,57,510	3,01,802	
<b>Public Debt (₹ in crore)</b>	<i>Internal Debt</i>	1,15,704	1,40,783	1,59,813	1,83,274	2,15,617
	<i>Loans from GoI</i>	8,958	9,025	8,978	10,223	10,942
<b>Public Account Liabilities (₹ in crore)</b>	49,192	51,506	54,915	64,013	75,243	
<b>Rate of growth of outstanding debt (in per cent)</b>	16.88	15.79	11.12	15.11	17.20	
<b>Gross State Domestic Product (GSDP)</b>	6,04,229	6,84,416	7,93,186	8,62,957	9,72,782	
<b>Debt/GSDP (in per cent)</b>	28.77	29.41	28.20	29.84	31.02	
<b>Total Debt Receipts (₹ in crore)</b>	77,265	93,619	1,33,687	1,36,084	1,57,859	
<b>Total Debt Repayments (₹ in crore)</b>	50,859	61,763	1,08,853	97,940	1,13,197	
<b>Total Debt Available (₹ in crore)</b>	26,406	31,856	24,834	38,144	44,662	
<b>Debt Repayments/Debt Receipts (in per cent)</b>	65.82	65.97	81.42	71.97	71.71	

Source: Finance Accounts of respective years

The outstanding Public Debt at the end of the year has increased by 73.60 per cent (₹ 1,27,949 crore) from 2015-16 to 2019-20. Post bifurcation, the State has raised loans of ₹ 1,18,494 crore which was an increase of 122 per cent under Public Debt.

Component-wise break-up of debt is shown below in **Chart 2.16**.

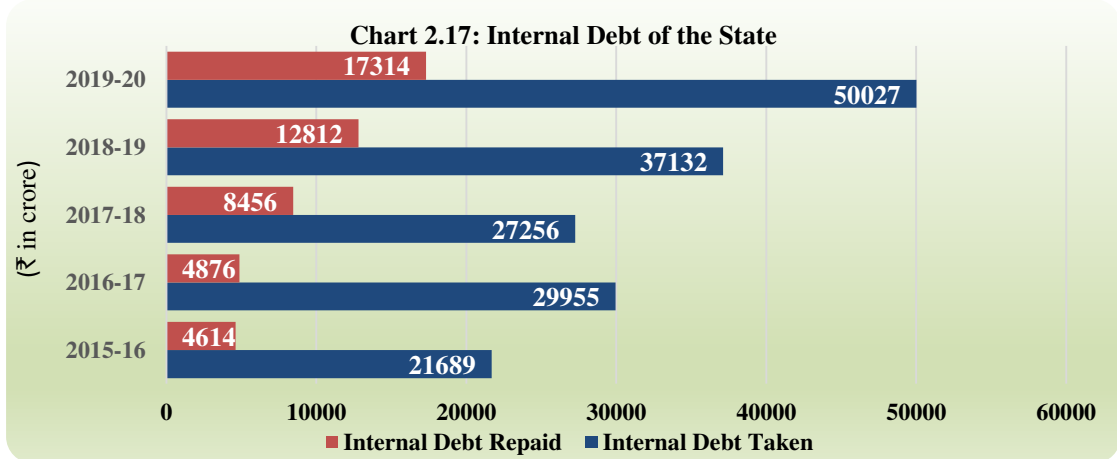


Source: Finance Accounts of 2019-20

### 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 71 per cent of the total outstanding debt.

The details of receipt and repayment of internal debt during the years 2015-20 are given in **Chart 2.17**.



Source: Finance Accounts of respective years

As on 31 March 2020, market borrowings (₹ 1,88,820 crore) formed a major portion (87.57 per cent) of the outstanding internal debt (₹ 2,15,617 crore) of the State Government, with interest rates ranging from 6.00 to 9.99 per cent. State Government paid an interest of ₹ 15,920.23 crore on Internal Debt. From the year 2015-16 to 2019-20, the borrowings under Internal Debt have increased by 130.66 per cent.

#### 2.7.1.2 Loans from GoI

Loans from GoI (₹ 10,942 crore) accounted for 3.63 per cent of the total outstanding debt. During the year State Government has availed of ₹ 2,030.42 crore from GoI and paid an interest of ₹ 541.39 crore at interest rates ranging from 7.00 to 13.99 per cent.

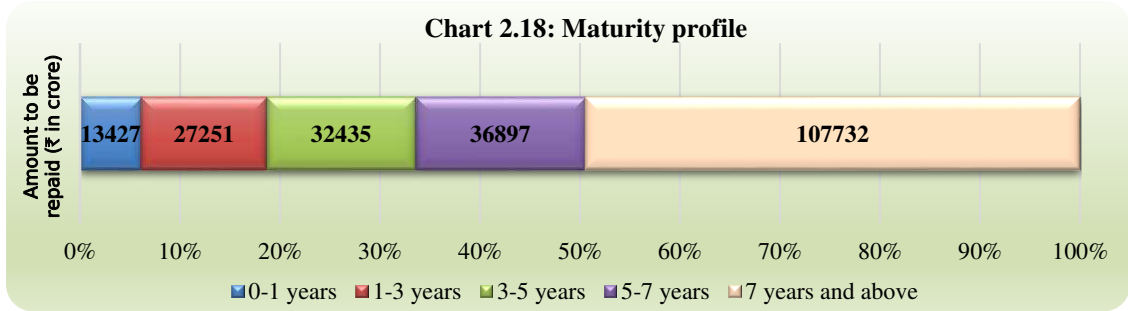
#### 2.7.2 Debt Maturity profile

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 2.30 and Chart 2.18:

**Table 2.30: Maturity Profile of State Debt**

Period of repayment (Years)	Amount (₹ in crore)	Percentage (w.r.t. Public debt)
0 – 1	13,427	5.93
1 – 3	27,251	12.03
3 – 5	32,435	14.31
5 – 7	36,897	16.28
7 years and above	1,07,732	47.54
Others <sup>22</sup>	8,818	3.89
Total	2,26,610	

<sup>22</sup> Payment schedule of this amount is not being maintained by the Accountant General (A&E) and reconciliation issues have been raised due to payments being accounted for under MH 6003 without credits (₹ 50 crore).



Source: Finance Accounts 2019-20;

The maturity profile of Debt as on 31 March 2020 indicated that State would have to repay 48.55 per cent of debt (₹ 1,10,010 crore) within the next seven years. State Government has to mobilise additional revenue resources and a well thought out debt strategy to meet this debt burden. Unless there is a definite plan to meet this liability, the resources available for development will shrink further.

### 2.7.3 Debt Sustainability Analysis

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

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

Table 2.31 shows the debt sustainability of the State according to these indicators for the five-year period beginning from 2015-16.

**Table 2.31: Trends in Debt Sustainability Indicators**

Debt Sustainability Indicators	2015-16	2016-17	2017-18	2018-19	2019-20
Outstanding Public Debt* (₹ in crore)	1,73,854	2,01,314	2,23,706	2,57,510	3,01,802
Rate of Growth of Outstanding Public Debt (in per cent)	16.88	15.79	11.12	15.11	17.20
GSDP (₹ in crore)	6,04,229	6,84,416	7,93,186	8,62,957	9,72,782
Rate of Growth of GSDP (in per cent)	15.10	13.27	15.89	8.80	12.73
Debt/GSDP (in per cent)	28.77	29.41	28.20	29.84	31.02
Average interest Rate of Outstanding Public Debt (in per cent)	6.11	6.31	6.52	6.37	6.31
Percentage of Interest payment to Revenue Receipt (in per cent)	11.11	11.82	13.18	13.38	15.90
Percentage of Debt Repayment to Debt Receipt (in per cent)	65.82	65.97	81.42	71.97	71.71
Net Debt available to the State# (₹ in crore)	16,557	20,159	10,987	22,802	27,009
Net Debt available as per cent to Debt Receipts (in per cent)	21.43	21.53	8.22	16.76	17.11

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



- Debt to GSDP ratio has been increasing rapidly (except during 2017-18), pointing to the probability of debt not being sustainable.
- Ratio of Interest payments to Revenue Receipts has also been increasing year-by-year, leaving less funds for priority areas. Predominant part of borrowed funds are utilised for interest payments, thereby curtailing the scope of utilising the borrowed funds for productive expenditure.
- Approximately 65 to 81 per cent of borrowed funds were used for repayment of debt during the period 2015-16 to 2019-20, indicating that the State is borrowing primarily for restructuring of previous debts rather than for infrastructure creation.

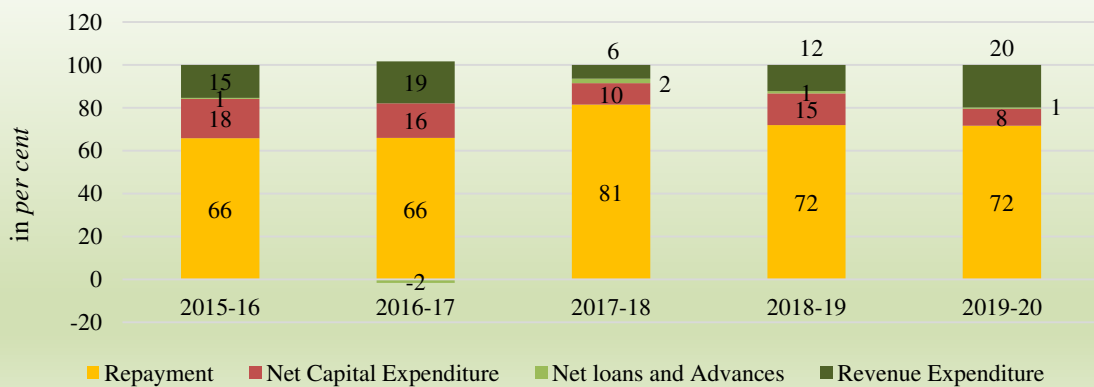
State Government attributed the increase in debt to its resource constraints pursuant to bifurcation of the State and inadequate assistance from GoI.

Borrowed funds should ideally be used to fund capital creation and developmental activities. Using borrowed funds for meeting current consumption and repayment of interest on outstanding loans is not sustainable. The trends in utilisation of borrowed funds are depicted in **Table 2.32** and **Chart 2.19**.

**Table 2.32: Trends in utilisation of borrowed funds**

		(₹ in crore)				
Year		2015-16	2016-17	2017-18	2018-19	2019-20
<b>Total Borrowings</b>	<b>2</b>	<b>77,265</b>	<b>93,619</b>	<b>1,33,687</b>	<b>1,36,084</b>	<b>1,57,859</b>
<b>Repayment of earlier borrowings (Principal) (per cent)</b>	<b>3</b>	50,859 (65.82)	61,763 (65.97)	1,08,853 (81.42)	97,940 (71.97)	1,13,197 (71.71)
<b>Net capital expenditure (Per cent)</b>	<b>4</b>	14171 (18.34)	15143 (16.18)	13491 (10.09)	19976 (14.68)	12242 (7.76)
<b>Net loans and advances</b>	<b>5</b>	389	(-)1465	2,730	1,566	1,001
<b>Portion of Revenue expenditure met out of net available borrowings</b>	<b>6=2-3-4-5</b>	11,846	18,178	8,613	16,602	31,419

**Chart 2.19: Trends in utilisation of Borrowed Funds**



Source Finance Accounts of respective years

During the period 2015-20, the borrowed funds were mostly utilised for Debt repayment and filling the gap of Revenue account, which reduces the productivity of the borrowed funds.

## 2.7.4 Off-Budget Borrowings

Off-budget borrowings or off-budget financing generally refer to use of those financial resources by the Government for meeting expenditure requirements in a particular year or years, which are not reflected in the budget for that year/ those years for seeking grant/appropriation, hence remaining outside legislative control. These are financed through Government owned or controlled public sector enterprises or departmental commercial undertakings, which raise the resources through market borrowings on behalf of the Government. However, the Government is to repay the debt and/or service the debt from its budget. Therefore, off-budget borrowings/financing involve (a) payment of interest on recurrent basis and (b) repayment of the borrowings from budget as and when it is due.

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

Government of Andhra Pradesh disclosed while tabling its Budget for 2019-20 in the Legislature that about ₹10,000 crore has been obtained through off-budget borrowings (OBB) to the end of 2018-19. However, the Government has not given the details of its OBB or the entities through which it has obtained these loans. It was observed that State Government also budgeted the funds under the Revenue Expenditure heads to provide as assistance to Corporations to service the principal or interest for these borrowings to the tune of ₹ 1,506.44 crore during the year 2019-20. There was however, no disclosure relating to these off-budget borrowings in Government's report under APFRBM Act.

State Government has resorted to such off-budgetary borrowings to the tune of ₹ 26,097 crore to the end of 31 March 2020 through the Corporations/PSUs/SPVs as detailed in **Table 2.33**.

**Table 2.33: Off-Budget Borrowings to the end of March 2020**

Name of the Institution	Borrowings of the Institution during 2019-20	Borrowings as of March 2020		Guarantees provided by the Government as on March 2020	Funds released by Government during 2019-20 to service OBB
		By Institution	By Institution on behalf of State Government (OBB)		
AP State Housing Corporation	1,274.28	12,643.15	3,138.67	3,778.63	0
AP Capital Region Development Authority	3,013.60	5,013.60	4,849.20	5,013.60	0
AP Industrial Infrastructure Corporation	0	2,000.00	2,000.00	2,000.00	336.00

Name of the Institution	Borrowings of the Institution during 2019-20	Borrowings as of March 2020 By Institution	Borrowings as of March 2020 By Institution on behalf of State Government (OBB)	Guarantees provided by the Government as on March 2020	Funds released by Government during 2019-20 to service OBB
AP Road Development Corporation	0	3,098.23	3,098.23	3,023.05	260.00
AP State Road Transport Corporation	1,660.95	4,770.87	1,860.00	1,828.75	0
AP State Ware Housing Corporation	11.40	135.17	87.15	87.15	0
AP Township and Infrastructure Development Corporation	1,450.00	5,282.87	4,083.73	3,997.65	430.39 <sup>23</sup>
AP Drinking Water Supply Corporation	0	980.00	980.00	980.00	0
AP Rythu Saadhikaara Samstha	0	2,000.00	2,000.00	2,000.00	120.05
AP Water Resources Development Corporation	2,819.00	6,819.00	4,000.00	4,000.00	360.00
<b>Total</b>	<b>10,229.23</b>	<b>42,742.89</b>	<b>26,096.98</b>	<b>26,708.83</b>	<b>1,506.44</b>

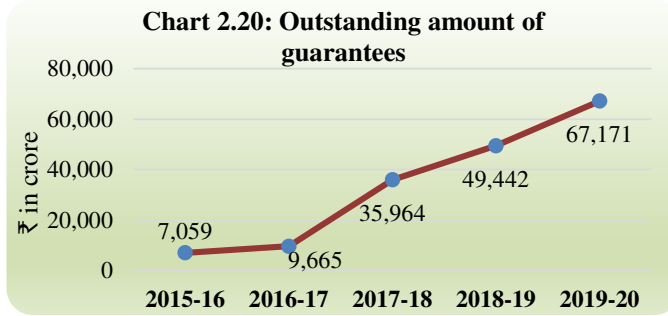
Government has not made available its policy, if any, with respect to either rate of return, creation of assets, potential of increase in income, socio-economic or regional disparities for deployment of borrowed funds. In the absence of any policy guidelines with regard to deployment of borrowed funds, there is a risk of utilising these funds in areas which do not generate enough returns to cover future debt servicing needs.

Being off-budget in nature, these borrowings do not find mention in the Finance Accounts nor are included as part of guarantees given by the Government. State Government has also not disclosed these borrowings appropriately as part of its budget documents. This has the impact of placing major sources of funding of Government's crucial infrastructure projects beyond the oversight and control of legislature.

## 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 2015-16 to 2019-20 is given in **Chart 2.20**.

<sup>23</sup> Includes an amount of ₹ 428.05 crore provided by the State Government for servicing Principal amount.



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

Source: Finance Accounts of respective years

The outstanding guarantees (₹ 67,171 crore) were 58.58 per cent of revenue receipts of previous year (₹ 1,14,671 crore) which is within the prescribed limits.

**Table 2.34: Ceiling vis-à-vis actual Guarantees**

Guarantees	(₹ in crore)				
	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Ceiling applicable to the outstanding amount of guarantees (90 per cent of the total revenue receipts in the year preceding the current year)</b>	81,605	79,783	89,086	94,556	1,03,204
<b>Actual amount of outstanding guarantees</b>	7,059	9,665	35,964	49,442	67,171

Source: Finance Accounts of respective years

The outstanding Guarantees increased by ₹ 17,729 crore from 2018-19 mainly due to the new guarantees issued by the State Government to AP Power Finance Corporation (₹ 7,418 crore), AP State Civil Supplies corporation (₹ 3,000 crore), AP TRANSCO (₹ 2,540 crore), etc.

State Government guaranteed an amount of ₹ 2,000 crore (2.98 per cent of total outstanding guarantees) to one entity<sup>24</sup> which does not have specific revenue source (100 per cent risk weighted guarantees), thus creating direct liability on State Government.

The Government Orders of 2003<sup>25</sup> 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 ₹ 18.18 crore in respect of one borrowing entity<sup>26</sup>. No reasons were found on record or furnished to Audit for extending guarantees for the interest portion.

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 2019-20, State Government received ₹ 39,000 only as guarantee fees as against the minimum receivable amount of ₹ 335.86 crore.

<sup>24</sup> Rythu Saadhikaara Samstha

<sup>25</sup> G.O.Ms.No.446, dated 29 September 2003

<sup>26</sup> Director of Sugar and Cane Commissioner

## 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 2.35** depicts the cash balances and investments thereof by the State Government during the year.

**Table 2.35: Cash Balances and their Investment**

	(₹ in crore)	
	Opening balance on 01/04/2019	Closing Balance on 31/03/2020
<b>(a) General Cash Balance</b>		
Cash in Treasuries	--	--
Deposits with Reserve Bank	20.90	480.36
Deposits with other Banks	1.34	1.34
Remittances in transit - Local	2.90	2.90
<b>Total</b>	<b>25.14</b>	<b>484.60</b>
Investments held in Cash Balance investment account	0	5,132.71
<b>Total (a)</b>	<b>25.14</b>	<b>5,617.31</b>
<b>(b) Other Cash Balances and Investments</b>		
Cash with Departmental officers viz., Public Works Department Officers, Forest Department Officers, District Collectors	0.90	0.90
Permanent advances for contingent expenditure with Departmental officers	1.62	1.62
Investment out of Earmarked Funds	8,361.59	9,073.71
<b>Total (b)</b>	<b>8,364.11</b>	<b>9,076.25</b>
<b>Grand Total (a)+ (b)</b>	<b>8,389.25</b>	<b>14,693.56</b>

Source: Finance Accounts 2019-20;

During the year 2019-20, the State Government maintained the minimum daily cash balance of ₹ 1.94 crore with the RBI for 145 days out of 365 days.

As on 01 April 2019, an amount of ₹ 369.73 crore was outstanding towards WMA drawn during 2018-19. During the year 2019-20, State Government had resorted to WMA, SDF and OD of ₹ 60,371.10 crore on 221 days to maintain its minimum cash balance (₹ 1.94 crore) with the RBI and repaid an amount of ₹ 60,740.83 crore along with an interest of ₹ 66.17 crore during the year 2019-20. 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 also reduce its interest expenditure.

Cash Balances of the State Government at the end of the current year increased significantly by ₹ 6,304.21 crore from ₹ 8,389.25 crore in 2018-19 to ₹ 14,693.56 crore in 2019-20. This was mainly due to investment in Treasury Bills by ₹ 5,132.71 crore during 2019-20.

State Government invests its surplus cash balance in short and long-term GoI Securities and Treasury Bills. The profits derived from such investments are credited as receipts under the Head '0049-Interest Receipts'. The State Government has earned an interest of ₹ 21.65 crore during 2019-20 from its investments in GoI Securities and Treasury Bills.

Out of the investment of ₹ 9,073.71 crore in earmarked funds, ₹ 8,260.16 crore was invested in Consolidated Sinking Fund and ₹ 808.29 crore in Guarantee Redemption Fund at the end of the year.

### 2.9.1 Cash balance Investment Account

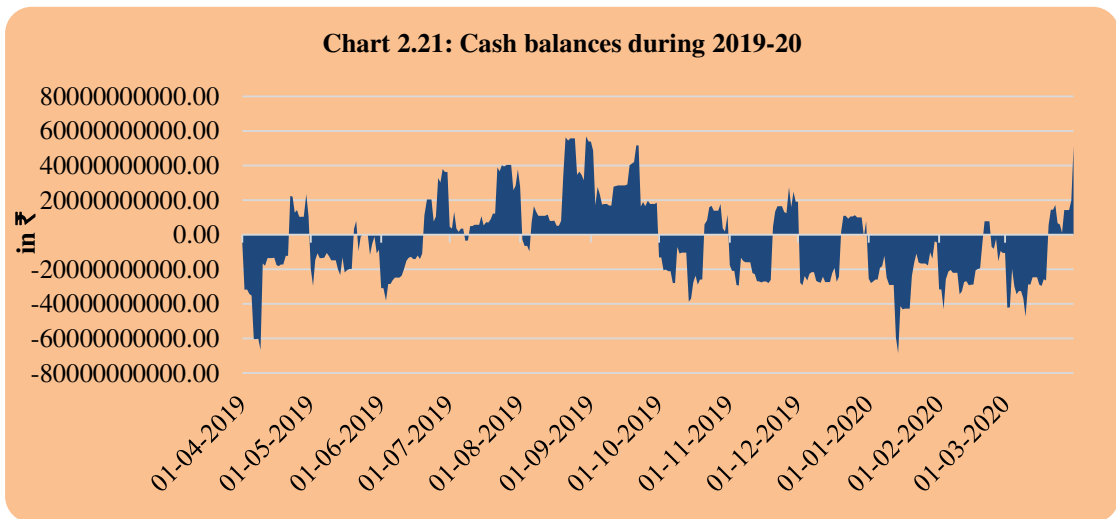
The details of Cash Balance Investment Account for the period 2015-20 are given in Table 2.36.

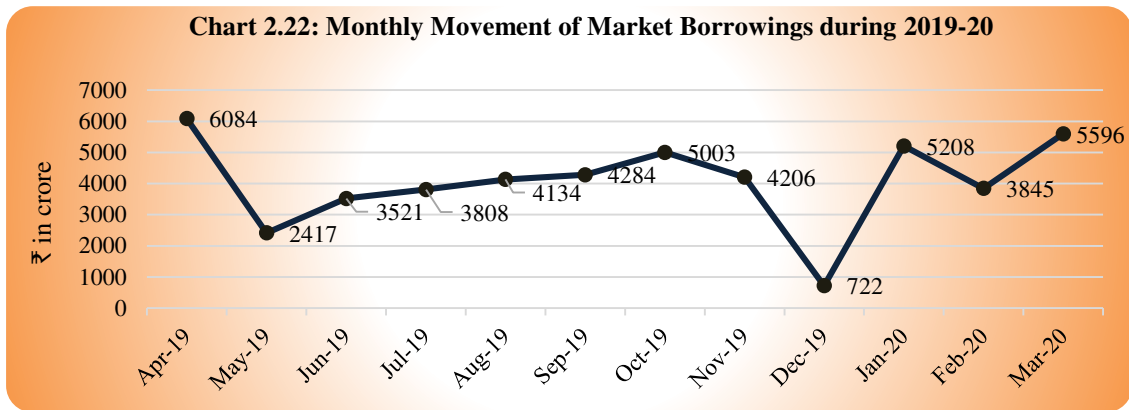
**Table 2.36: Cash Balance Investment Account (Major Head-8673)**

(₹ in crore)

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

Chart 2.21 shows the daily cash balance during 2019-20 of the State.





*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 2.22** on several occasions during the year ranging from ₹ 722 crore (December 2019) to ₹ 6,084 crore (April 2019) as well as WMA throughout the year.

## 2.10 Apportionment of balances between Andhra Pradesh and Telangana

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

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

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

## 2.11 Conclusion

*The State witnessed a decrease of 3.17 per cent in Revenue Receipts during the year 2019-20 as compared to the previous year, due primarily, to decrease in collection of Own Tax Revenue and tax transfers from Government of India.*

*Revenue Expenditure increased by 6.93 per cent during 2019-20, mainly due to implementation of new welfare schemes during the year. This resulted in increase of Revenue Deficit of the State by 90.24 per cent as compared to the previous year. Simultaneously, State Government has reduced the expenditure on asset creation by*

38.72 per cent over the previous year.

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

*Transfer of ₹ 1,100 crore funds relating to State Disaster Relief Fund to Personal Deposit Account violated the extant Rules and accounting procedure.*

*Outstanding Public Debt at the end of the year has increased by 17.20 per cent (₹ 32,373 crore) over the previous year. State Government has also a liability for off-budget borrowings of ₹ 26,096.98 crore, which it has not disclosed appropriately as part of its budget documents. This has the impact of diluting public financial management and oversight role of the Legislature and placing major sources of funding of Government's crucial infrastructure projects beyond the control of the Legislature.*

## **2.12 Recommendations**

- 1. State Government needs to make stringent efforts to mobilise additional revenue resources to fund its various socio-economic developmental schemes rather than through debt financing its revenue expenditure.*
- 2. Capital expenditure needs to be increased significantly for asset creation and 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.*