

## Chapter 1

## Finances of the State Government

This Chapter provides an audit perspective of the finances of the State Government during 2018-19 and analyses critical changes in the major fiscal aggregates relative to 2017-18 keeping in view overall trends during the preceding four years.

The analysis is based on the details contained in the Finance Accounts of the Government of Andhra Pradesh. A profile of the State with demographic and other details is in **Appendix 1.1**. The structure of the Government Accounts is explained in **Part A** and the layout of the Finance Accounts in **Part B** of **Appendix 1.2**.

The State of Andhra Pradesh was bifurcated into two States, *i.e.*, Andhra Pradesh and Telangana with effect from 02 June 2014. The receipts and expenditure for the year 2014-15 includes the particulars relating to composite State of Andhra Pradesh from 01 April 2014 to 01 June 2014.

### 1.1 Gross State Domestic Product (GSDP)

The Gross State Domestic Product (GSDP)<sup>1</sup> of Andhra Pradesh in 2018-19 at current prices was ₹ 9,33,402 crore. The trends in annual growth rate of Gross Domestic Product (GDP) of India and GSDP of the State at Current and Constant prices (Base Year 2011-12) are given in **Table 1.1**. Growth in Andhra Pradesh was higher than the All-India average at both current and constant prices.

**Table 1.1: Comparative statement of GSDP vis-à-vis GDP**

Year	2014-15	2015-16 (TRE)	2016-17 (SRE)	2017-18 (FRE)	2018-19 (AE)
<b>Current Prices</b>					
India's GDP (₹ in crore)	1,24,67,959	1,37,71,874	1,53,62,386	1,70,95,005	1,90,10,164
Growth rate ( <i>per cent</i> )	10.99	10.46	11.55	11.28	11.20
State's GSDP (₹ in crore)	5,24,976	6,04,229	6,97,508	8,09,547	9,33,402
Growth rate ( <i>per cent</i> )	13.08	15.10	15.44	16.06	15.30
<b>Constant Prices (Base year – 2011-12)</b>					
India's GDP (₹ in crore)	1,05,27,674	1,13,69,493	1,22,98,327	1,31,79,857	1,40,77,586
Growth rate ( <i>per cent</i> )	7.41	8.00	8.17	7.17	6.81
State's GSDP (₹ in crore)	4,44,564	4,98,606	5,50,468	6,12,794	6,80,332
Growth rate ( <i>per cent</i> )	9.20	12.16	10.40	11.32	11.02

**Source:** Ministry of Statistics and Programme Implementation, Government of India (MoSPI); Economic Survey of Andhra Pradesh 2018-19; TRE: Third Revised Estimates; SRE: Second Revised Estimates; FRE: First Revised Estimates; AE: Advanced Estimates; GSDP figures of State of Andhra Pradesh for the year 2014-15 pertain to the residual State of Andhra Pradesh.

### 1.2 Summary of fiscal transactions in 2018-19

Summary of the State Government's fiscal transactions during the current year (2018-19) *vis-à-vis* the previous year (2017-18) is given in **Table 1.2** and details of receipts and disbursements as well as overall fiscal position during the current year and previous year is provided in **Appendix 1.3**. Time series data of Government Finances for the years 2014-19 is in **Appendix 1.4**.

<sup>1</sup> Gross Domestic Product (GDP) and Gross State Domestic Product (GSDP) refers to the market value of all officially recognised final goods and services produced within the Country and the State respectively in a given period of time, accounted without duplication and are an important indicator of the Country and State's economy.

**Table 1.2: Summary of Receipts and Disbursements for the year 2018-19 vis-à-vis 2017-18**

(₹ in crore)

Receipts			Disbursements		
	2017-18	2018-19		2017-18	2018-19
<b>Section A – Revenue Account<sup>2</sup></b>					
<b>Revenue Receipts</b>	<b>1,05,062</b>	<b>1,14,671</b>	<b>Revenue Expenditure</b>	<b>1,21,214</b>	<b>1,28,570</b>
Tax Revenue	49,486	58,031	General Services	39,075	40,790
Non-tax Revenue	3,814	4,396	Social Services	59,159	64,280
Share of Union Taxes/Duties	29,001	32,787	Economic Services	22,894	23,459
Grants from GOI	22,761	19,457	Grants-in-Aid and Contributions	86	41
<b>Section B – Capital Account<sup>3</sup> &amp; Others</b>					
Misc. Capital Receipts	0	0	Capital Outlay	13,491	19,976
Recoveries of Loans and Advances	51	277	Loans and Advances disbursed	2,781	1,843
Public Debt Receipts <sup>4</sup>	74,063 <sup>#</sup>	97,980 <sup>@</sup>	Repayment of Public Debt	55,081 <sup>\$</sup>	73,274 <sup>^</sup>
Inter State Settlement <sup>5</sup>	0	0	Inter State Settlement	8	26
Contingency Fund	0	0	Contingency Fund	0	0
Public Account Receipts	1,56,918	99,704	Public Account Disbursements	1,46,945	87,076
Opening Cash Balance	9,948	6,522	Closing Cash Balance	6,522	8,389
<b>Total</b>	<b>3,46,042<sup>#</sup></b>	<b>3,19,154<sup>@</sup></b>	<b>Total</b>	<b>3,46,042<sup>\$</sup></b>	<b>3,19,154<sup>^</sup></b>

**Source:** Finance Accounts of respective years. <sup>#</sup> Includes Ways and Means Advances availed: ₹ 45,861 crore during 2017-18;

<sup>\$</sup>Includes Ways and Means Advances repaid: ₹ 45,630 crore during 2017-18; <sup>@</sup>Includes Ways and Means Advances availed: ₹ 59,868 crore during 2018-19; <sup>^</sup>Includes Ways and Means Advances repaid: ₹ 59,729 crore during 2018-19.

Composition of resources and application of funds of the Consolidated Fund of the State in the year 2018-19 is in **Appendix 1.5**.

## 1.3 Review of Fiscal situation

### 1.3.1 Fiscal Parameters

Three key fiscal parameters viz., (i) Revenue Surplus<sup>6</sup> / Deficit, (ii) Fiscal Deficit<sup>7</sup> and (iii) Primary Deficit<sup>8</sup> help in assessing the fiscal situation of the Government. The way these deficits are financed assist in assessing the fiscal health of the Government. Trends in fiscal parameters are indicated in **Chart 1.1** and **Chart 1.2**. Trends in Debt Sustainability (Ratio between debt and GSDP in *per cent*) is shown in **Chart 1.3**.

<sup>2</sup> Revenue Account is the account of the current income and expenditure of the State. The income is derived mainly from taxes and duties, fees for services rendered, fines and penalties, revenue from Government estates such as forests and other miscellaneous items

<sup>3</sup> Capital Account is the account of expenditure of a capital nature such as construction of buildings, laying of roads, irrigation and electricity projects. Such expenditure is met from sources other than current revenues, e.g. loans, surplus revenue of previous years, if any, and capital receipts. Capital Receipts include Miscellaneous Capital Receipts, Recoveries of Loans and Advances etc

<sup>4</sup> Comprises loans raised by Government such as market loans, loans from the Life Insurance Corporation of India, etc., and the borrowings from the Central Government

<sup>5</sup> Inter-State Settlement is intended to provide for the accounting of sums due by one State Government to another under the financial settlement, on the setting up of new States or under the States Reorganisation Acts as well as the financial settlement between the Central Government and foreign countries

<sup>6</sup> Revenue Surplus/Deficit = Revenue Receipts – Revenue Expenditure

<sup>7</sup> Fiscal Deficit = Revenue Expenditure + Capital Expenditure + Net Loans and Advances (–) Revenue Receipts (–) Miscellaneous Capital Receipts

<sup>8</sup> Primary Deficit = Fiscal Deficit – Interest Payments

Chart 1.1: Trends of Fiscal Parameters

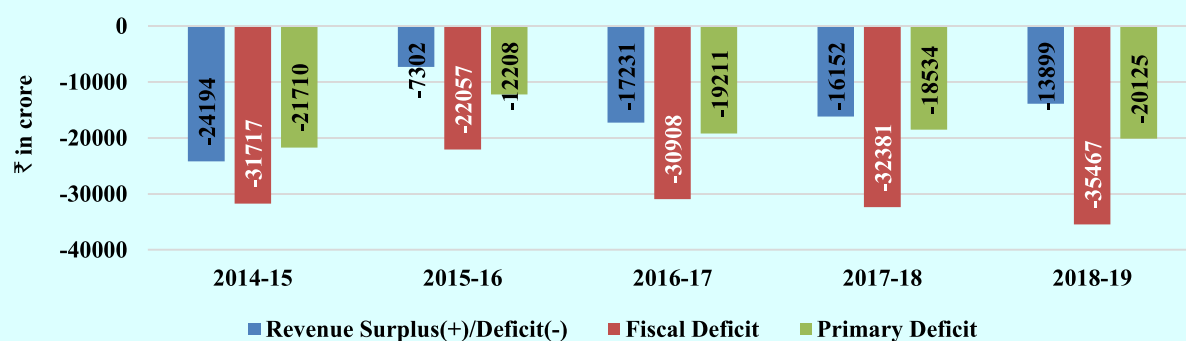
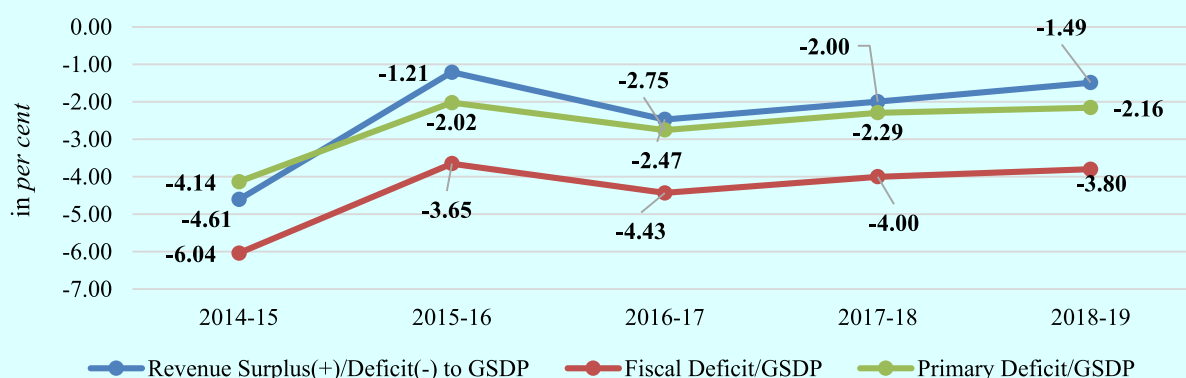
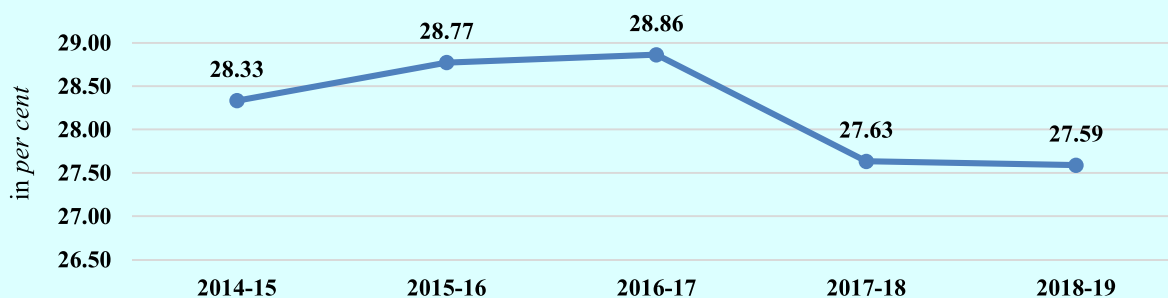


Chart 1.2: Fiscal parameters to GSDP



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

Chart 1.3: Outstanding Debt/GSDP



**Source:** Finance Accounts of respective years

The following are observed from the above charts with regard to the fiscal parameters:

### 1.3.1.1 Revenue Deficit

Fourteenth Finance Commission assessed the Post-Devolution Revenue Deficit and accordingly sanctioned ₹ 22,113 crore of Revenue Deficit grant for the period 2015-20 in order to eliminate the Revenue Deficit. As per the recommendations of 14<sup>th</sup> FC, the State was awarded post-devolution Revenue Deficit Grant during 2015-20.

The details of post-devolution Revenue Deficit Grant received and Revenue Deficit for the years from 2015-16 to 2018-19 are given in **Table 1.3**.

**Table 1.3: Revenue Deficit - Actuals vis-à-vis Targets for the years 2015-19**

(₹ in crore)

Year	Projections of Revenue Deficit made in MEFS	Post-devolution Revenue Deficit Grant received as per the recommendations of 14 <sup>th</sup> Finance Commission	Revenue Deficit (After receipt of Post-devolution Grant)
2015-16	4,140	6,609	7,302
2016-17	4,598	4,930	17,231*
2017-18	4,018	4,430	16,152
2018-19	11,654	3,644	13,899

**Source:** Finance Accounts of respective years, 14<sup>th</sup> FC report; Macro Economic Framework Statement (MEFS) \*Including an amount of ₹8,256 crore expended towards implementation of UDAY scheme during 2016-17;

The Revenue Deficit of the State during 2015-19 had not been contained despite the receipt of post-devolution Revenue Deficit Grants from GoI as per the recommendations of 14<sup>th</sup> FC.

The State Government replied (July 2020) that the bifurcation of Andhra Pradesh has severely dented the state's fiscal balance and added that the true impact of bifurcation was not adequately reflected in the projections of the 14<sup>th</sup> Finance Commission.

The Revenue Deficit as percentage of Total Revenue Receipts (TRR) decreased to 12.12 *per cent* during 2018-19 from 15.37 *per cent* in 2017-18. Further, Revenue Deficit to TRR was not meeting the target of 3.37 *per cent* set in Medium Term Fiscal Policy Statement (MTFPS) under the AP FRBM Act. The Revenue Deficit (₹ 13,899 crore) was more than the Budget Estimates (BE) projected by the State Government. Thus, the State Government's failure to assess its revenues realistically and not containing the Revenue Expenditure resulted in continued increase in Revenue Deficit, despite receipt of Post-devolution Revenue Deficit grant from GoI.

### 1.3.1.2 Fiscal Deficit

Fiscal Deficit is the excess of total expenditure over non-debt receipts<sup>9</sup>. The Fiscal Deficit for the year was ₹ 35,467 crore and stood at 3.80 *per cent* to GSDP. Fiscal deficit along with basic parameters for the 14<sup>th</sup> FC period is given in **Table 1.4**.

**Table 1.4: Fiscal Deficit-parameters for the years 2015-19**

(₹ in crore)

Year (1)	Non-Debt Receipts (2)	Total Expenditure (3)	Fiscal Deficit (4) = (2-3)	GSDP	Fiscal Deficit as <i>per cent</i> of GSDP		
					14 <sup>th</sup> FC ceiling	Targets of MTFPS	Actuals
2015-16	88,933	1,10,990	(-)22,057	6,04,229	3.00	3.00	3.65
2016-17	1,01,013	1,31,921	(-)30,908	6,97,508	3.00	3.00	4.43
2017-18	1,05,113	1,37,494	(-)32,381	8,09,547	3.00	3.00	4.00
2018-19	1,14,948	1,50,415	(-)35,467	9,33,402	3.00	3.00	3.80

**Source:** Finance Accounts of respective years, MoSPI data for revised GSDP figures, 14<sup>th</sup> FC report; Medium Term Fiscal Policy Statement (MTFPS) 2018-19

During the years from 2015-16 to 2018-19, the State Government had failed to contain the Fiscal Deficit within the ceiling prescribed by 14<sup>th</sup> FC and exceeded the target set in its own MTFPS.

<sup>9</sup> Non-Debt receipts constitute Revenue Receipts, Miscellaneous Capital receipts and Recovery of Loans and Advances during the year.



Increasing Fiscal Deficit led to corresponding increase in borrowings of the State and this trend needs to be arrested with sound fiscal management policy.

### 1.3.1.3 Understatement of Revenue and Fiscal Deficits

It was observed that the Revenue Deficit was understated by ₹ 1,544.78 crore and Fiscal Deficit was understated by ₹ 462.91 crore on account of (i) Misclassification, (ii) short contribution of Government matching share towards NPS and (iii) Non discharge of Interest liability on untransferred NPS opening Balance as detailed in **Table 1.5**.

**Table 1.5: Understatement of Revenue Deficit and Fiscal Deficit**

(₹ in crore)

Particulars	Impact on Revenue Deficit (Understated)	Impact on Fiscal Deficit (Understated)
<b>(i) Misclassification</b>		
Grants-in-Aid and Minor works booked under Capital section	1,081.87	---
<b>(ii) Short contribution of Government matching share towards NPS</b>	444.44	444.44
<b>(iii) Non discharge of Interest liability on untransferred NPS opening Balance</b>	18.47	18.47
<b>Total</b>	<b>1,544.78</b>	<b>462.91</b>

Source: Finance Accounts;

Effectively, therefore, there was a Revenue Deficit of ₹ 15,443.85 crore (₹ 13,899.07 crore plus ₹ 1,544.78 crore) and Fiscal Deficit of ₹ 35,930.37 crore (₹ 35,467.46 crore plus ₹ 462.91 crore). The effective Fiscal Deficit of ₹ 35,930.37 crore was 3.85 per cent of GSDP.

State Government replied (July 2020) that appropriate measures will be taken for a more accurate estimation of finances by avoiding such misclassifications.

### 1.3.1.4 Revenue Deficit to Fiscal Deficit

The percentage of Revenue Deficit (RD) to Fiscal Deficit (FD) indicates the extent to which borrowed funds were used for current consumption instead of asset creation in the State. The percentage of Revenue Deficit to Fiscal Deficit for the years 2015-16 to 2018-19 is shown in the **Table 1.6**.

**Table 1.6: Revenue Deficit as percentage of Fiscal Deficit for the years 2015-19**

Period	Revenue Deficit (RD)/Fiscal Deficit (FD) as per cent
2015-16	33.11
2016-17	55.75
2017-18	49.88
2018-19	39.19

Though the Revenue Deficit to Fiscal Deficit ratio was decreasing over the years 2016-17 to 2018-19, the borrowed funds are being utilised for current consumption instead of asset creation in the State, which is a matter of concern.

### 1.3.1.5 Components of fiscal deficit and its financing pattern

The decomposition and financing of fiscal deficit are shown in Table 1.7.

**Table 1.7: Components of fiscal deficit and their financing pattern**

Sl No	Particulars	2014-15	2015-16	2016-17	2017-18	(₹ in crore)		
						Receipts	Disbursements	Net
<b>A</b>	<b>Components of Fiscal Deficit (1 to 4)</b>	<b>(-)31,717</b>	<b>(-)22,057</b>	<b>(-)30,908*</b>	<b>(-)32,381</b>	<b>1,14,948</b>	<b>1,50,415</b>	<b>(-)35,467</b>
1	Revenue deficit	(-)24,194	(-)7302	(-)17,231*	(-)16,152	1,14,671	1,28,570	(-)13,899
2	Net Capital Expenditure	(-)11,405	(-)14,171	(-)15,143	(-)13,491	0	19,976	(-)19,976
3	Net Loans and Advances	3,882	(-)389	1,465	(-)2,730	277	1,843	(-)1,566
4	Net Inter-State settlement	0	(-)195	1	(-)8	0	26	(-)26
<b>Financing Pattern of Fiscal Deficit</b>								
<b>1</b>	<b>Net Borrowings</b>	<b>22,161</b>	<b>15,236</b>	<b>25,146</b>	<b>18,982</b>	<b>97,980</b>	<b>73,274</b>	<b>24,706</b>
a	Market Borrowings <sup>#</sup>	22,719	15,779	25,079	19,031	95,990	72,529	23,461
b	Loans from GoI	(-)588	(-)543	67	(-)49	1,990	745	1,245
<b>2</b>	<b>Net Public Account</b>	<b>5,348</b>	<b>11,078</b>	<b>7,522</b>	<b>9,973</b>	<b>99,704</b>	<b>87,076</b>	<b>12,628</b>
a	Small Savings, PF etc.	1,303	1,253	1,888	1,643	4,466	2,245	2,221
b	Reserve Funds	556	947	1,296	728	3,397	1,216	2,181
c	Deposits and Advances	5,348	8,570	4,597	4,608	89,849	79,689	10,160
d	Suspense and Misc.	(-) 499	(-) 128	(-) 98	337	1,985	2,054	(-)69
e	Remittances	(-) 1,360	436	(-) 161	2,657	7	1,872	(-)1,865
<b>3</b>	<b>Contingency Fund</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>4</b>	<b>Increase/Decrease in Cash Balance</b>	<b>3,659</b>	<b>(-) 4,259</b>	<b>(-) 1,760</b>	<b>3,426</b>	<b>6,522</b>	<b>8,389</b>	<b>(-)1,867</b>
	<b>Total (1 to 4)</b>	<b>31,717</b>	<b>22,057</b>	<b>30,908*</b>	<b>32,381</b>	<b>-</b>	<b>-</b>	<b>35,467</b>

Source: Finance Accounts of respective years. <sup>#</sup> Includes borrowings from other Institutions and Ways and Means Advances.

\* Includes an amount of ₹8,256 crore expended towards implementation of UDAY scheme

Borrowed funds used for meeting revenue expenditure create liability for future years without creating any assets. It is evident that, 37.23 per cent of borrowings were used to finance the deficit on Revenue account thereby impeding the asset creation in the State. Net receipts under Public Account during the year (₹ 12,628 crore) financed 35.61 per cent of the fiscal deficit when compared to 30.80 per cent during the previous year.

### 1.3.1.6 Quality of Deficit/Surplus

The bifurcation of Primary Deficit indicates the extent to which deficit has been on account of enhancement of Capital Expenditure, which may be desirable to improve productive capacity of the Government.

The primary deficit and its parameters for the last four years are indicated in Table 1.8.

**Table 1.8: Primary Deficit/Surplus – bifurcation of factors**

(₹ in crore)								
Year	Non-debt receipts	Primary Revenue Expenditure <sup>10</sup>	Capital Expenditure	Loans and Advances and Inter-State settlements	Primary Expenditure	Primary Revenue deficit (-) / Surplus (+) <sup>11</sup>	Primary deficit (-) / Surplus (+)	Primary Revenue Surplus / Capital Expenditure ( <i>per cent</i> )
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)	9
2015-16	88,933	86,101	14,171	869	1,01,141	2,832	(-)12,208	19.98
2016-17	1,01,013	1,04,518*	15,143	563	1,20,224	(-) 3,505	(-)19,211*	---
2017-18	1,05,113	1,07,367	13,491	2,789	1,23,647	(-) 2,254	(-)18,534	---
2018-19	1,14,948	1,13,228	19,976	1,869	1,35,073	1,720	(-)20,125	8.61

**Source:** Finance Accounts of respective years; \* Including an amount of ₹8,256 crore expended towards implementation of UDAY scheme

It is evident from above that in 2018-19, the Non-debt receipts were sufficient to meet Primary Revenue Expenditure. The Primary Revenue Surplus constituted 8.61 *per cent* of the Capital Expenditure (₹ 19,976 crore). However, the State had a Primary Deficit indicating that the non-debt receipts were insufficient to meet the Primary Expenditure. The Primary Deficit had increased by 8.58 *per cent* over the previous year from ₹ 18,534 crore to ₹ 20,125 crore.

Percentage of Primary Deficit to GSDP increased from 2.02 *per cent* in 2015-16 to 2.16 *per cent* in 2018-19.

### 1.3.1.7 Outstanding Debt to GSDP ratio

The outstanding Debt<sup>12</sup> to GSDP ratio (in *per cent*) stood at 27.59 *per cent* which was more than the 14<sup>th</sup> FC limit of 25.16 *per cent* for the year 2018-19.

During 2018-19, outstanding debt (₹ 2,57,510 crore) grew by 15.11 *per cent* over the previous year (₹ 2,23,706 crore).

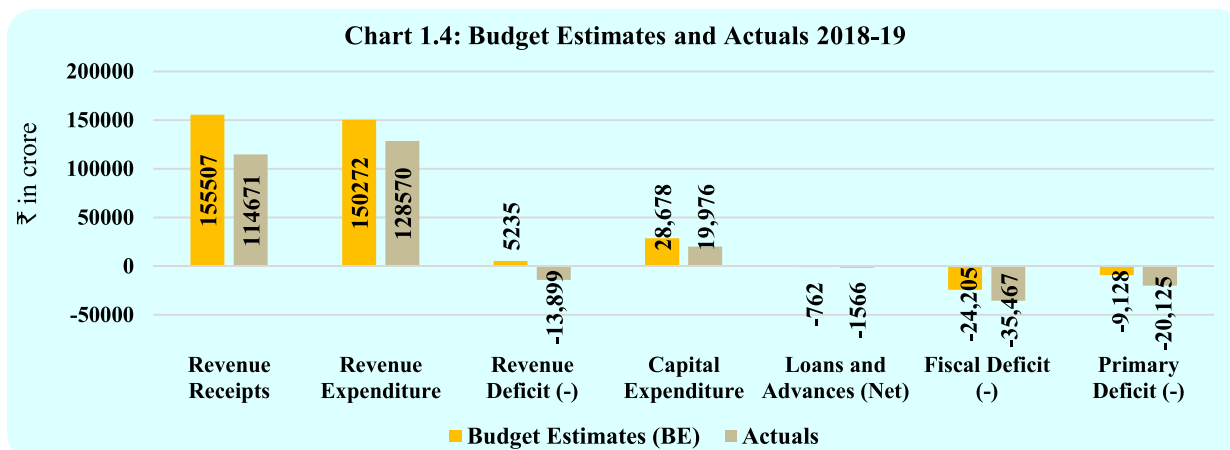
### 1.3.2 Budget estimates and actuals

Shortfall of actual receipts and expenditure against budget estimates, either due to unanticipated and unforeseen events or under/over estimation of expenditure or revenue at the stage of budget preparation, adversely impacts the desired fiscal objectives. Comparison of State's Budget Estimates vis-à-vis actuals for key fiscal parameters for the year 2018-19 is given in **Chart 1.4**.

<sup>10</sup>Primary Revenue Expenditure = Revenue Expenditure – Interest payments

<sup>11</sup>Primary Revenue deficit (-) / Surplus (+) = Non-Debt Receipts (Revenue Receipts + Miscellaneous Capital Receipts + Recovery of Loans and Advances) – Primary Revenue Expenditure

<sup>12</sup> Outstanding Debt includes Public Debt and Public Account Liabilities



Source: AP Budget in brief for 2018-19 and Finance Accounts 2018-19

Revenue Receipts (₹ 1,14,671 crore) fell short of the Budget Estimates by 26.26 *per cent*. The decrease in Revenue Receipts during 2018-19 when compared to budget estimates was mainly due to decrease in State's Own Tax Revenue by 11.45 *per cent*, Non-Tax Revenue by 17.78 *per cent* and decrease in Grants-in-Aid from Government of India (GoI) by 61.62 *per cent*.

Under State's Own Tax Revenue, major taxes where there was shortfall when compared to Budget Estimates were Taxes on Sales, Trade *etc.*, and GST by 7.43 *per cent* (₹ 3,414.27 crore), State Excise by 15.46 *per cent* (₹ 1,137.30 crore), Taxes on Vehicles by 9.40 *per cent* (₹ 346.68 crore) and Taxes and Duties on Electricity by 96.73 *per cent* (₹ 338.53 crore).

Under Non-Tax Revenue, the shortfall when compared to Budget Estimates were mainly under Non-ferrous mining & metallurgical industries by 11.58 *per cent* (₹ 289 crore), receipts under Police Department by 51.13 *per cent* (₹ 235.19 crore) and Interest receipts by 81.80 *per cent* (₹ 225 crore).

The Revenue Expenditure was less by ₹ 21,702.07 crore (14.44 *per cent*) from the budget estimates, mainly because of less expenditure under Welfare of Scheduled Castes, Scheduled Tribes, other Backward Classes and Minorities by ₹ 7,652.85 crore (58.42 *per cent*), General Education by ₹ 4,657.39 crore (19.87 *per cent*), Nutrition by ₹ 3,505.58 crore (78.61 *per cent*) and Urban Development by ₹ 2,661.45 crore (42.15 *per cent*), which was partly offset by excess expenditure mainly under Social Security and Welfare by ₹ 5,325.79 crore (35.61 *per cent*), Agricultural Research and Education by ₹ 1,708.90 crore (289.04 *per cent*) and Relief on Account of Natural Calamities by ₹ 941.61 crore (182.40 *per cent*).

Actual Revenue Deficit of ₹ 13,899 crore was more than the budgeted Revenue Surplus of ₹ 5,235 crore due to shortfall in Revenue Receipts by ₹ 40,836 crore from Budgeted receipts and over estimation of Grants-in-Aid from Government of India.

The actual Capital Expenditure was less by ₹ 8,702.15 crore (30.34 *per cent*) against the budget estimates of 2018-19. The decrease was mainly under Major Irrigation by ₹ 3,912.06 crore (27.49 *per cent*), Roads and Bridges by ₹ 1,829.26 crore (70.31 *per cent*) and Other Rural Development Programmes by ₹ 823.22 crore (48.47 *per cent*).

Fiscal deficit (₹ 35,467 crore) was more than the assessment made in the budget estimates

(₹ 24,205 crore) by 46.53 *per cent*, mainly due to decrease in revenue receipts by ₹ 40,836 crore, decrease in recovery of Loans and Advances by ₹ 223 crore and increase in disbursement of Loans and Advances by ₹ 581 crore from the budget estimates.

**Recommendation 1:** The Finance Department should rationalise the budget preparation exercise, so that the gaps between the budget estimates and actuals are bridged.

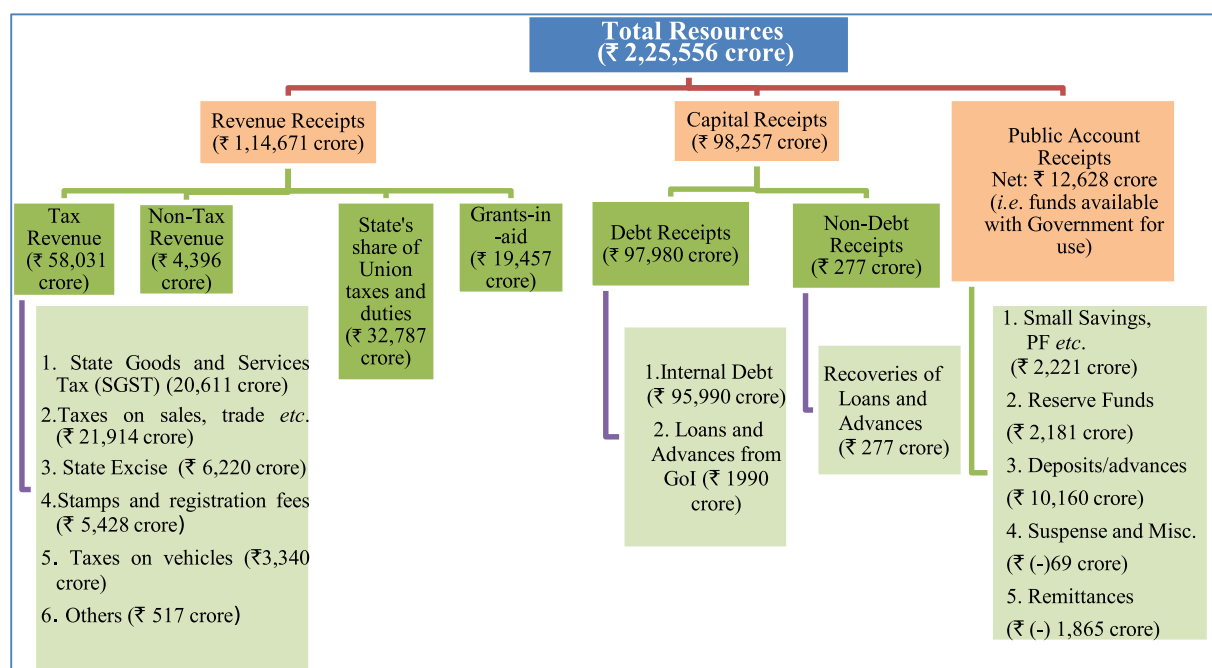
## 1.4 Financial Resources of the State

### 1.4.1 Resources of the State as per Annual Finance Accounts

Revenue and Capital are the two streams of receipts that constitute the resources of the State into the Consolidated Fund apart from the net receipts of Public Account. Revenue Receipts consist of Tax Revenue, Non-Tax Revenue, State's share of Union taxes & duties and Grants-in-Aid from the GoI. Capital Receipts comprise miscellaneous Capital Receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI. The net of Public Account comprises the balance after disbursements in small savings, provident funds, reserve funds deposits, suspense and remittances, *etc.* The balance, after disbursements in the Public Account is the fund available with the Government for use.

The components and sub-components of resources of the State are given in **Chart 1.5**.

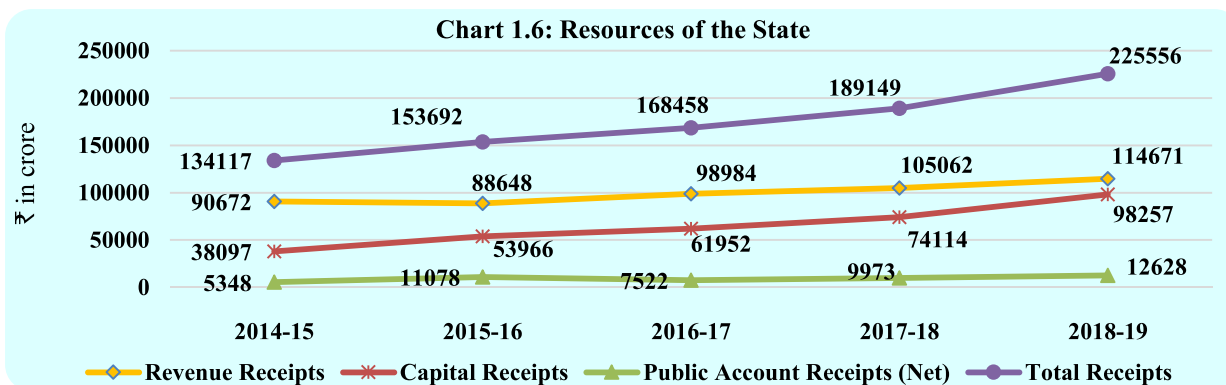
**Chart 1.5: Composition of Resources in 2018-19**



**Source:** Finance Accounts.

**NOTE:** Debt Receipts include an amount of ₹ 59,868 crore availed as Ways and Means Advances/Special Drawing Facility/Overdraft

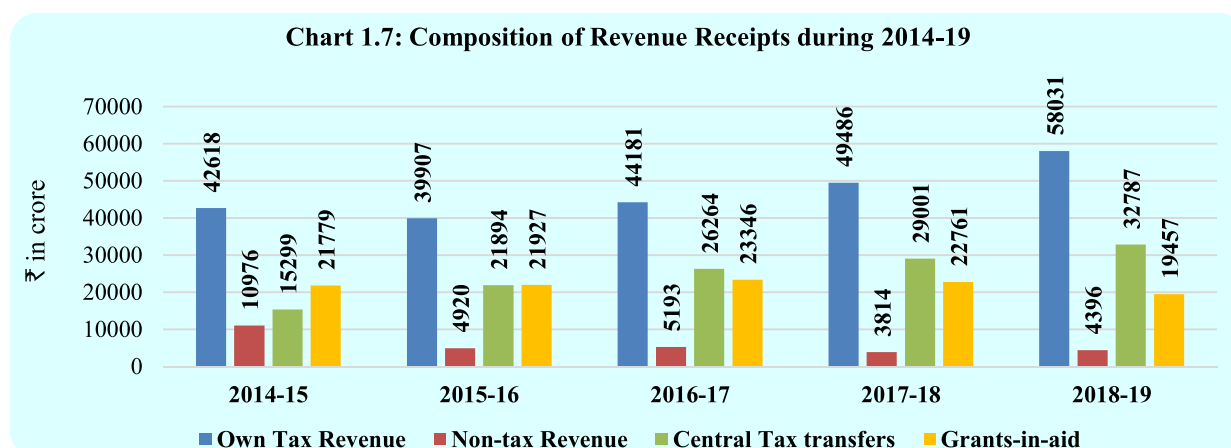
Out of the total resources of ₹ 2,25,556 crore of the State Government during the year 2018-19, Revenue Receipts (₹ 1,14,671 crore) constituted 50.84 *per cent*. Capital Receipts (₹ 98,257 crore) and net Public Account Receipts (₹ 12,628 crore) constituted 43.56 *per cent* and 5.60 *per cent* of the total resources, respectively. **Chart 1.6** depicts the details under various components of the total resources of the State during 2014-19.



Source: Finance Accounts of respective years.

## 1.4.2 Revenue Receipts

Statement 14 of the Finance Accounts gives details of Revenue Receipts of the Government. Revenue Receipts (₹ 1,14,671 crore) of the Government constituting 12.29 *per cent* of the Gross State Domestic Product (GSDP) (₹ 9,33,402 crore), increased by ₹ 9,609 crore (9.15 *per cent*) over the previous year (₹ 1,05,062 crore). The trends and composition of the Revenue Receipts during the years 2014-15 to 2018-19 are depicted in **Chart 1.7**.



Source: Finance Accounts

The State's share in Central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission and guidelines on Central assistance for plan schemes *etc.* As can be seen, the Own Tax revenue and Central tax transfers have been increasing since 2015-16. Non-Tax Revenue increased from last year while Grants-in-Aid in 2018-19 was lower than the previous year.

### 1.4.2.1 State's own resources

The State's performance in mobilisation of resources is assessed in terms of Tax Revenue and Non-Tax Revenue, not including the State's share in Central Taxes and Grant-in-Aid which is based on the recommendations of the Finance Commission.

#### Own Tax Revenue

Own Tax Revenue (OTR) during the year was ₹ 58,031 crore and constituted 50.61 *per cent* of the actual Revenue Receipts (₹ 1,14,671 crore). Taxes on sales and trade contributed 37.76 *per cent* to OTR in 2018-19. The major taxes and duties which contributed to OTR during



2014-19 are given in **Table 1.9**.

**Table 1.9: Components of State's Own Tax Revenue**

	2014-15	2015-16	2016-17	2017-18	2018-19
	(₹ in crore)				
State Goods and Services Tax (SGST)	-	-	-	10,820	20,611
Taxes on Sales, trades etc.	30,524	29,104	32,484	25,335	21,914
State Excise	4,352	4,386	4,645	5,460	6,220
Taxes on Vehicles	3,687	2,082	2,467	3,039	3,341
Stamp duty and Registration fees	3,249	3,527	3,476	4,271	5,428
Land Revenue	62	52	167	107	57
Taxes on Goods and Passengers	14	10	12	5	26
Other Taxes <sup>13</sup>	729	746	930	449	434
<b>Total</b>	<b>42,618</b>	<b>39,907</b>	<b>44,181</b>	<b>49,486</b>	<b>58,031</b>

Source: Finance Accounts of respective years;

The increase in tax revenue by ₹ 8,545 crore (17.27 per cent) over the previous year 2017-18 was mainly under (a) State Goods and Services Tax (SGST) by ₹ 9,791 crore (90.50 per cent), (b) Stamp Duty and Registration fees by ₹ 1,156 crore (27.02 per cent) on account of higher receipts towards duty on impressing of document fee for registering documents and other fees, (c) State Excise by ₹ 760 crore (13.92 per cent) due to increase in collection under “Malt Liquors, Foreign Liquors and Spirits”.

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

The 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>14</sup>, a tax on inter-State supply of Goods or Services or both by the Central Government and (iv) GST Compensation Cess<sup>15</sup>. SGST is levied on intra-State supply of goods or services (except alcohol for human consumption and five specified petroleum products<sup>16</sup>).

- CGST:** The State received ₹ 8,091.86 crore as share of net proceeds assigned to States under CGST during the year 2018-19.
- SGST:** The receipts of the State through SGST was ₹ 20,611.27 crore<sup>17</sup>.
- IGST:** Andhra Pradesh State received ₹ 64.58 crore as IGST for ten months in 2018-19 up to January 2019 totalling to ₹ 645.80 crore. IGST for the months of February 2019 and March 2019 was not received.
- 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 shall be calculated for every financial year after the receipt of final revenue figures, as audited

<sup>13</sup> Other Taxes include Taxes on Immovable Property other than Agricultural Land, Taxes and Duties on Electricity and Agricultural Income

<sup>14</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>15</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>16</sup> Petroleum crude, High speed diesel, Motor spirit (Petrol), Natural gas and Aviation turbine fuel

<sup>17</sup> Includes (i) ₹ 17,578.59 crore as SGST, (ii) ₹ 2,068.86 crore as advance apportionment of IGST and (iii) ₹ 963.82 crore as apportionment of IGST-Transfer-in of Tax Component to SGST

by the Comptroller and Auditor General of India. The projected revenue for any year of a State shall be calculated by applying the projected growth rate of (14 *per cent* per annum) over the base year (2015-16) revenue of the State.

In case of Andhra Pradesh, the revenue in the base year (2015-16) was ₹ 13,449.62 crore. Accordingly, Protected Revenue for the year 2018-19 was ₹ 19,926.20 crore<sup>18</sup>.

The State received ₹ 20,611.27 crore as SGST during the year. As the collection of the State under SGST were more than the protected revenues for the year 2018-19, no GST Compensation was to be received.

With automation of collection of GST having taken place, it is essential for Audit to transition from sample checks to a comprehensive check of all transactions, to fulfil the CAG's constitutional mandate of certifying the Accounts. The required access to data is yet to be provided. Not having access to the data pertaining to all GST transactions has come in the way of comprehensively auditing the GST receipts. The accounts for the year 2018-19 are, therefore, certified on the basis of test audit, as was done when records were manually maintained, as a one-time exception.

## (ii) Efficiency in Tax collection

The gross collection of taxes on motor vehicles, taxes on sales, trade *etc.*, stamp and registration fees and state excise, expenditure incurred on their collections and its percentage to gross collections during the period 2014-19 are indicated in the **Table 1.10**.

**Table 1.10: Cost of collection of Tax Revenue**

		(₹ in crore)				
		2014-15	2015-16	2016-17	2017-18	2018-19
<b>Taxes on Sales, Trade etc., and SGST</b>	Gross Revenue collection	30,524	29,104	32,484	36,155	42,525
	Cost of Collection	273.73	269.84	277.50	327.90	321.69
	Percentage to Gross collection	0.90	0.93	0.85	0.91	0.76
<b>State Excise</b>	Gross Revenue collection	4,352	4,386	4,645	5,460	6,220
	Cost of Collection	485.57	278.03	306.58	333.54	340.20
	Percentage to Gross collection	11.16	6.34	6.60	6.11	5.47
<b>Taxes on Vehicles</b>	Gross Revenue collection	3,687	2,082	2,467	3,039	3,341
	Cost of Collection	106.32	111.12	123.18	150.94	107.17
	Percentage to Gross collection	2.88	5.34	4.99	4.97	3.21
<b>Stamps and Registration fees</b>	Gross Revenue collection	3,250	3,527	3,476	4,271	5,427
	Cost of Collection	112.69	129.07	129.17	139.23	126.93
	Percentage to Gross collection	3.47	3.66	3.72	3.26	2.34

Source: Finance Accounts of respective years

In 2018-19, State Government expended ₹ 340.20 crore (5.47 *per cent* of gross collection) in collecting State Excise of ₹ 6,220 crore. This was higher than the expenditure incurred (₹ 321.69 crore) in collecting taxes of ₹ 42,525 crore under Taxes of Sales, trade and GST *etc.*, which was only 0.76 *per cent* of gross collection.

<sup>18</sup> Calculated at compounding increase of 14 *per cent* per annum for three years viz., 2016-17, 2017-18 and 2018-19 from the base year revenue of ₹ 13,449.62 crore (*i.e.*, ₹ 13,449.62 X 1.14 X 1.14 X 1.14 = ₹ 19,926.20 crore)

## 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 ₹ 4,396 crore during the year constituted 3.83 *per cent* of the total revenue receipts (₹ 1,14,671 crore) of the year. The overall increase of ₹ 582 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 1.11**.

**Table 1.11: Composition of Non-Tax Revenue**

(₹ in crore)

Revenue Head	2014-15	2015-16	2016-17	2017-18	2018-19	Variation in 2018-19 over previous year (in <i>per cent</i> )
Interest Receipts	4,796	133	113	96	50	(-)47.92
Dividends & Profits	8	9	4	1	1	0.00
Other Non-Tax Receipts	6,172	4,778	5,076	3,717	4,345	16.90
<b>Total</b>	<b>10,976</b>	<b>4,920</b>	<b>5,193</b>	<b>3,814</b>	<b>4,396</b>	<b>15.26</b>

Source: Finance Accounts of respective years

### (i) Interest receipts

Against the budgeted estimates of ₹ 275.30 crore during 2018-19, actual interest receipts was ₹ 50 crore. Interest receipts included ₹ 15 crore received from investment of Cash Balance, ₹ 7 crore was received from various sources *viz.*, Andhra Pradesh Transmission Corporation (APTRANSCO) and Credit Cooperatives *etc.* The remaining amount of ₹ 28 crore was booked under omnibus Minor Head-800 Other Receipts, which had no details on the source of the receipts.

The sharp decline of Interest Receipts in 2015-16 and onwards as compared to the years 2014-15 was due to dispensing of the practice of charging notional interest on cumulative Capital Outlay on Irrigation/ Power Projects by the Government on being duly highlighted by Audit in its reports.

### (ii) Dividend Receipts

Against the budgeted estimates of ₹ 17 crore during 2018-19, actual receipts on account of Dividends & Profits was ₹ one crore.

Government investments in Statutory Corporations, Government Companies and others were ₹ 9,500.51 crore as on 31 March 2019, out of which un-apportioned investments was ₹ 8,401.21 crore, constituting 88.43 *per cent* of the total investments. Further, out of un-apportioned investments of ₹ 8,401.21 crore, an amount of ₹ 49.11 crore, were lying in 10 non-working Companies.

### (iii) Other Non-Tax Receipts

Non-Ferrous Mining & Metallurgical Industries (₹ 2,211 crore – Mineral Concession Fee, Rents & Royalties, Mines Department *etc.*), other Administrative Services (₹ 275 crore), Forestry and Wild Life (₹ 426 crore-Sale of Timber and other forest produce) were the main contributors to Non-tax revenue.

### 1.4.2.2 State's share of Union taxes and Grants-in-Aid

#### State's share of Union taxes

Central tax transfers of ₹ 32,787 crore in 2018-19, while contributing 28.59 *per cent* to the State's total revenue receipts increased by ₹ 3,786 crore (13.05 *per cent*) when compared to previous year (₹ 29,001 crore).

Major components of central tax transfers were Corporation Tax (₹ 11,401 crore), Taxes on Income other than Corporation Tax (₹ 8,397 crore), Central Goods and Services Tax (₹ 8,092 crore), Customs Duty (₹ 2,324 crore) and Union Excise Duties (₹ 1,544 crore).

Different components of State's share of Union Taxes during four years of 14<sup>th</sup> FC is given in Table 1.12.

**Table 1.12: Different components of State's share of Union Taxes**

Component of State's share of Union taxes	14 <sup>th</sup> FC award period			
	2015-16	2016-17	2017-18	2018-19
Corporation Tax	6,890	8,414	8,880	11,401
Customs	3,498	3,619	2,926	2,324
Income Tax	4,792	5,848	7,498	8,397
Other Taxes and Duties on commodities and services	15	-	327	17
Service Tax	3,788	4,231	2,975	303
Wealth Tax	2	19	-	4
Union Excise Duties	2,909	4,133	3,059	1,544
CGST	NA	NA	409	8,092
IGST	NA	NA	2,927	646
Other Taxes on Income and Expenditure	-	-	-	59
<b>Grand total</b>	<b>21,894</b>	<b>26,264</b>	<b>29,001</b>	<b>32,787</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>

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

As can be seen from the above, the State's share of Union Taxes as a percentage of Revenue Receipts of the State has been increasing over the past four years.

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

The details of Grants-in-Aid from GoI and its composition during 2014-19 are given in Table 1.13.

**Table 1.13: Grants-in-Aid from Government of India**

(₹ in crore)					
Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Non-Plan Grants/Finance Commission Grants	4,676	9,944	10,839	6,975	5,548
Grants for State Plan Schemes*	16,533	10,325	12,507	0	327
Grants for Central Plan Schemes*	55	1,658	0	(-)200 <sup>#</sup>	0
Grants for Centrally Sponsored Schemes	515	0	0	15,482	12,510
Other Transfers/Grants to States				<b>504</b>	<b>1,072</b>
(i) Compensation for loss of revenue arising out of implementation of GST				382	0
(ii) Other Receipts <sup>19</sup>				122	67
(iii) National Disaster Response Fund				0	1,005
<b>Total</b>	<b>21,779</b>	<b>21,927</b>	<b>23,346</b>	<b>22,761</b>	<b>19,457</b>
Percentage of increase (+)/decrease(-) over previous year	142.23	0.68	6.47	(-)2.51	(-)14.52
Total grants as a percentage of Revenue Receipts	24.02	24.73	23.59	21.66	16.97

**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 ₹ 12,510 crore for Centrally Sponsored Schemes, the major amounts were given to Mahatma Gandhi National Rural Employment Guarantee Act (₹ 2,171 crore- 11.16 *per cent*), Polavaram Project (₹ 1,385 crore-7.12 *per cent*), National Health Mission (₹ 973 crore – 5.00 *per cent*), Integrated Child Development Service (ICDS) (₹ 802 crore – 4.12 *per cent*) and Swachh Bharat Mission – Gramin (₹ 616 crore - 3.17 *per cent*). Further, the State Government received an amount of ₹ 5,548 crore as Finance Commission Grants (detailed in **Table 1.14**) during the year 2018-19.

#### **1.4.2.3 Transfer of funds directly to implementing agencies without routing through Consolidated Fund of the State**

The Government of Andhra Pradesh had stated (November 2014) that the system of releasing funds directly to Implementing Agencies by the GoI has been discontinued from the year 2014-15. Despite this, GoI has, however been transferring sizeable quantum of funds directly to the State implementing agencies for implementation of various schemes/programmes<sup>20</sup> in social and economic sectors. During the year 2018-19, GoI transferred ₹ 6,589 crore directly to State Implementing Agencies concerning various Central Schemes/Programmes, without routing these funds through the State budget. Out of the total transferred amount, 68.95 *per cent* (₹ 4,542.57 crore) was transferred to State Civil Supplies Corporation Limited for implementation of Food Subsidy.

#### **1.4.2.4 14<sup>th</sup> Finance Commission (FC) grants**

The 14<sup>th</sup> 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. For the year 2018-19, the State received a total amount of ₹ 5,548.16 crore under these three types.

<sup>19</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)

<sup>20</sup> Food Subsidy, Pradhan Mantri Matru Vandana Yojana, Swadesh Darshan-Integrated Development of theme based Tourism Circuits, Sugar Subsidy, National Aids and STD Control Programme (NACO) *etc.*,

The details of amounts awarded, received and shortfall for the year 2018-19 are shown in **Table 1.14**.

**Table 1.14: 14<sup>th</sup> Finance Commission Grants**

(₹ in crore)					
Sl. No.	Purpose of Grant	Total Amount recommended for the award period (2015-20)	Amount recommended by 14 <sup>th</sup> FC during 2018-19	Actual Releases	Shortfall
<b>1</b>	<b>Local Bodies</b>	<b>12,289.89</b>	<b>2,776.34</b>	<b>1,446.06</b>	<b>1,330.28</b>
	Panchayat Raj Institutions (PRI)	8,654.09	1,947.32	859.00	1,088.32
	Urban Local Bodies (ULB)	3,635.80	829.02	587.06	241.96
<b>2</b>	<b>Disaster Management</b>	<b>2,429.00</b>	<b>458.10</b>	<b>458.10</b>	<b>0</b>
<b>3</b>	<b>Post-devolution Revenue Deficit Grant</b>	<b>22,113.00</b>	<b>3,644.00</b>	<b>3,644.00</b>	<b>0</b>
	<b>Total</b>	<b>36,831.89</b>	<b>6,878.44</b>	<b>5,548.16</b>	<b>1,330.28</b>

Source: Finance Accounts 2018-19 and 14<sup>th</sup> Finance Commission report.

State Government replied that GoI had not released funds to ULBs and PRIs where elections were not conducted due to Court orders, resulting in short release of ₹ 1,330.28 crore to Local Bodies.

### 1.4.3 Buoyancy Ratio

Buoyancy Ratios indicate 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 1.25 implies that Revenue Receipts tend to increase by 1.25 percentage points, if the GSDP increases by one percent. The value more than one indicates high degree of responsiveness of the fiscal variable to the base variable. As GSDP grows, the ability of Government to mobilise revenue should also increase. The Buoyancy Ratios of Revenue Receipts and State's Own Tax Revenue are given in **Table 1.15**.

**Table.1.15: Buoyancy of Revenue Receipts and Own Tax Revenue w.r.t GSDP**

(₹ in crore)					
Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
<b>GSDP at Current prices (₹ in Crore)</b>	5,24,976	6,04,229	6,97,508	8,09,547	9,33,402
Rate of Growth of GSDP (in per cent)	13.08	15.10	15.44	16.06	15.30
<b>Revenue Receipts (RR)</b>					
RR during the year (₹ in crore)	90,672	88,648	98,984	1,05,062	1,14,671
Rate of growth of RR (in per cent)	N.C	N.C	11.65	6.14	9.15
Buoyancy of RR with GSDP	N.C	N.C	0.75	0.38	0.60
<b>State's Own Tax Revenue (SOTR)</b>					
SOTR during the year (₹ in crore)	42,618	39,907	44,181	49,486	58,031
Rate of growth of SOTR (in per cent)	N.C	N.C	10.71	12.01	17.27
Buoyancy of SOTR with GSDP	N.C	N.C	0.69	0.75	1.13

As can be seen from table above, the Revenue Receipts during the years 2016-19 could not keep pace with the growth rate of GSDP. While the State's Own tax Revenue was less buoyant during the years 2016-18, the growth rate was higher than that of the growth of GSDP during 2018-19.

### 1.4.4 Receipts under the Capital Section

Growth and composition of Capital Receipts of the State during 2014-19 are given in **Table 1.16**.



**Table.1.16: Composition of Capital Receipts**

(₹ in crore)					
Sources of State's Receipts	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Capital Receipts (CR)*</b>	<b>38,097</b>	<b>53,966</b>	<b>61,952</b>	<b>74,114</b>	<b>98,257</b>
Non-debt capital receipts	5,092	285	2,029	51	277
(i) <i>Miscellaneous Capital Receipts</i>	0	0	0	0	0
(ii) <i>Recovery of Loans and Advances</i>	5,092	285	2,029	51	277
Public Debt Receipts*	33,005	53,681	59,923	74,063	97,980

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

During 2018-19, Capital Receipts (₹ 98,257 crore) constituted 43.56 *per cent* of the total receipts (₹ 2,25,556 crore) of the State. The State Government borrowed ₹ 36,122 crore from open market and other financial institutions and took loans of ₹ 1,990 crore from GoI. Apart from these borrowings State Government availed ₹ 59,868 crore<sup>21</sup> as Ways and Means Advances and Overdraft from the Reserve Bank of India.

#### 1.4.5 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as small savings, Provident Fund, reserve funds, deposits, suspense, remittances *etc.*, which do not form part of the Consolidated fund, are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State Legislature. Here, the Government acts as a banker. The balance, after disbursements, is the fund available with the Government for use. The composition of Public Account receipts and disbursements from 2014-19 is given in **Table 1.17**.

**Table 1.17: Composition of Public Account receipts and disbursements during 2014-19**

(₹ in crore)					
Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
<b>A. Public Account Receipts</b>					
Small Savings, Provident Fund <i>etc.</i>	2,881	2,543	3,541	3,785	4,466
Reserve Funds	1,842	2,151	2,548	1,784	3,397
Deposits and Advances	48,388	50,137	56,571	99,726	89,849
Suspense and Miscellaneous	2,37,671	21,293	19,710	22,971	1,985
Remittances	10,847	14,788	16,411	28,652	7
<b>Total (A)</b>	<b>3,01,629</b>	<b>90,912</b>	<b>98,781</b>	<b>1,56,918</b>	<b>99,704</b>
<b>B. Public Account Disbursements</b>					
Small Savings, Provident Fund <i>etc.</i>	1,578	1,290	1,653	2,142	2,245
Reserve Funds	1,286	1,204	1,252	1,056	1,216
Deposits and Advances	43,040	41,566	51,974	95,118	79,689
Suspense and Miscellaneous	2,38,170	21,421	19,808	22,634	2,054
Remittances	12,207	14,352	16,572	25,995	1,872
<b>Total (B)</b>	<b>2,96,281</b>	<b>79,833</b>	<b>91,259</b>	<b>1,46,945</b>	<b>87,076</b>
<b>Public Account Net (A)-(B)</b>	<b>5,348</b>	<b>11,078</b>	<b>7,522</b>	<b>9,973</b>	<b>12,628</b>

**Source:** Finance Accounts of respective years

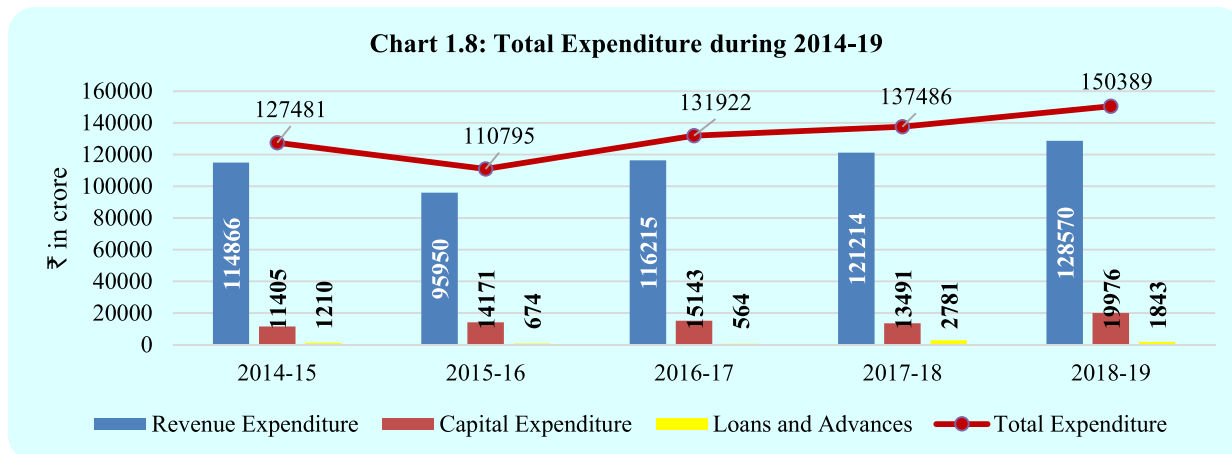
During the year 2018-19, net Public Account receipts (₹ 12,628 crore) contributed 5.60 *per cent* of the total resources (₹ 2,25,556 crore) of the State. The net Public Account receipts increased by ₹ 2,655 crore (26.62 *per cent*) over the previous year (2017-18) mainly due to increase in Deposits and Advances (Net) by ₹ 5,552 crore over previous year.

<sup>21</sup> Special Drawing Facility (₹ 11,096 crore) Ways and Means Advances (₹ 29,117 crore) and Overdraft (₹ 19,655 crore)

## 1.5 Application of resources

### 1.5.1 Growth and Composition of expenditure

The total expenditure in 2018-19 was ₹ 1,50,389 crore. **Chart 1.8** presents the trends and composition of total expenditure during 2014 to 2019.

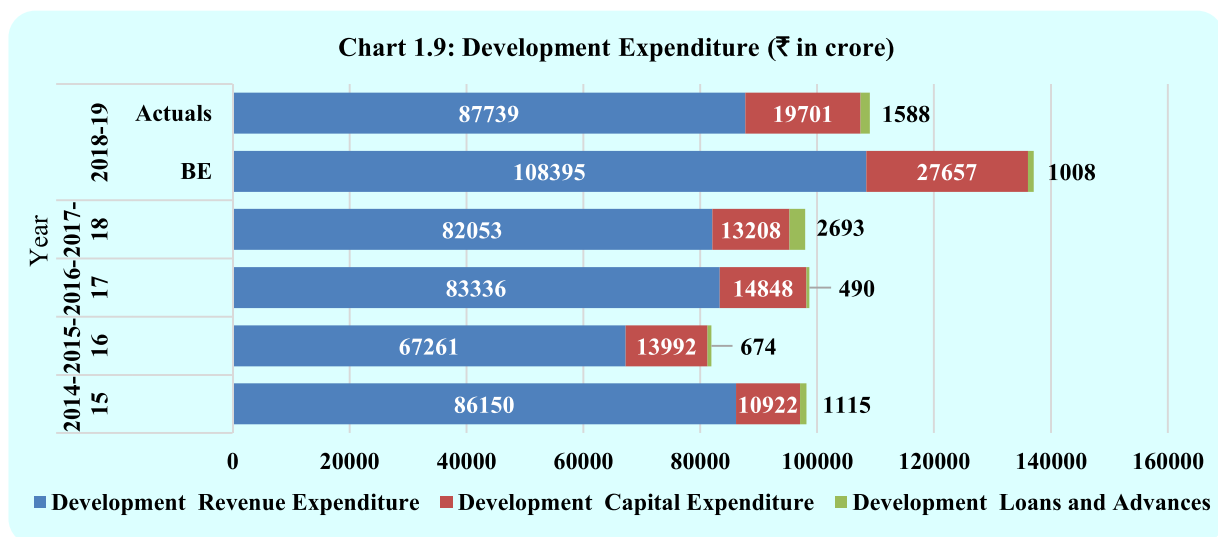


**Source:** Finance Accounts of respective years; **Note:** Total expenditure excludes Inter-State Settlement.

Total Expenditure (₹ 1,50,389 crore) has increased by ₹12,903 crore (9.38 per cent) in 2018-19 over the previous year (₹ 1,37,486 crore) due to increase in Revenue and Capital expenditure to an extent of ₹ 7,356 crore and ₹ 6,485 crore respectively.

#### 1.5.1.1 Development Expenditure of the State

Development expenditure of the State is the expenditure incurred on Social and Economic Services under Revenue, Capital and Loans and Advances sections. The details are given in **Chart 1.9**.



**Source:** Finance Accounts of respective years

During 2018-19, the total development expenditure (₹ 1,09,028 crore) was 72.50 per cent of the total expenditure and 11.68 per cent of the GSDP. During the year, developmental revenue expenditure (₹ 87,739 crore) and development capital expenditure (₹ 19,701 crore) constituted 58.34 per cent and 13.10 per cent of total expenditure (₹ 1,50,389 crore) respectively, while the

development loans and advances constituted 1.06 per cent of total expenditure.

The share of social services (₹ 68,383 crore) and economic services (₹ 40,645 crore) constituted 45.47 per cent and 27.03 per cent of the total expenditure, respectively. The details of sector-wise revenue expenditure and capital expenditure incurred by the State are indicated in **Appendix 1.3**.

## 1.5.2 Revenue Expenditure

Revenue Expenditure (₹ 1,28,570 crore) was 13.77 per cent to GSDP and was within the budget provision (₹ 1,50,272 crore) made for the year 2018-19. The Revenue Expenditure during the year was increased by 6.07 per cent as compared to 2017-18 (₹ 1,21,214 crore)

In 2018-19, 89.19 per cent of the Revenue Expenditure was met from Revenue Receipts (₹ 1,14,671 crore). The balance 10.81 per cent (₹ 13,899 crore) of revenue expenditure for day to day activities of Government was, however, financed from borrowed funds. During the year 2018-19, Revenue Expenditure (₹ 1,28,570 crore) accounted for 85.49 per cent of the State's total expenditure (₹ 1,50,389 crore), which is in the nature of current consumption, leaving only 14.51 per cent for investment in infrastructure and asset creation.

### 1.5.2.1 Committed Expenditure

Committed expenditure of Government on revenue account consisted mainly of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.18** presents the expenditure on these components during 2014-19.

**Table 1.18: Components of committed expenditure**

Components of Committed Expenditure	2014-15	2015-16	2016-17	2017-18	(₹ in crore)		
					Budget estimates (BE)	Actuals	Percentage variation to BE
Salaries *& Wages	27,686(24)	27,474(29)	31,125(27)	32,816(27)	39,598	35,240 (27)	(-) 11.01
Interest payments	10,007(9)	9,849(10)	11,697(10)	13,847(12)	15,077	15,342 (12)	1.76
Pensions	9,971(9)	11,238(12)	12,873(11)	16,236(13)	15,221	15,291 (12)	0.46
Subsidies	14,037(12)	6,360(7)	6,246(5)	7,146(6)	7,387	2,352 (2)	(-) 68.16
<b>Total</b>	<b>61,701(54)</b>	<b>54,921(58)</b>	<b>61,941(53)</b>	<b>70,045(58)</b>	<b>77,283</b>	<b>68,225 (53)</b>	<b>(-) 11.72</b>

**Source:** O/o AG (A&E) Andhra Pradesh; **Note:** Figures in parenthesis indicate percentage to Revenue Expenditure rounded off to higher value. \*It also includes the salaries paid out of grants-in-aid and work charged establishment.

### Salaries and wages

Expenditure on salaries and wages (₹ 35,240 crore) during the current year increased by 7.39 per cent over the previous year (₹ 32,816 crore). During 2018-19, expenditure on Salaries and wages constituted 27 per cent of revenue expenditure which was same as the previous year.

### Interest payments

During 2018-19, interest payments was to the tune of ₹ 15,342 crore, which was 13.38 per cent of the revenue receipts (₹ 1,14,671 crore), which was higher than the target of 11.64 per cent set by the 14<sup>th</sup> FC and was not a positive fiscal health indicator. Interest on Market Borrowings (₹ 12,013 crore) and Special Securities issued to National Small Savings Fund (NSSF) of Central Government (₹ 1,315 crore) continued to be the major contributors to interest payments.

## Pensions

The expenditure on pension and other retirement benefits to State Government pensioners during the year was ₹ 15,291 crore, and constituted 13.33 *per cent* of revenue receipts. Superannuation and Retirement Allowances (₹ 7,692 crore, decreased by 392 crore from 2017-18), Family Pensions (₹ 2,894 crore, increased by ₹ 99 crore from 2017-18) and Gratuities (₹ 1,301 crore, decreased by ₹ 250 crore from 2017-18) were the major areas of expenditure under this head.

## Subsidies

The total expenditure of ₹ 2,352 crore on subsidies during the year was less than the projections (₹ 7,387 crore) made in the Budget by 68.16 *per cent*, and decreased by ₹ 4,794 crore (67.09 *per cent*) compared to previous year (₹ 7,146 crore). Andhra Pradesh Transmission Corporation received ₹ 1,250 crore (53.14 *per cent*) of subsidy payment towards implementation of free power supply for Agriculture, Department of Agriculture and Civil Supplies Department accounted of subsidies of ₹ 398 crore (16.93 *per cent*) and ₹ 340 crore (14.46 *per cent*) respectively. The percentage of subsidies to revenue expenditure was 1.83 *per cent*. Department-wise subsidies are given in **Table 1.19**.

**Table 1.19: Department wise Subsidies**

(₹ in crore)					
Departments	2014-15	2015-16	2016-17	2017-18	2018-19
Civil Supplies	2,118	2,380	2,470	3,056	340
Power	10,092	3,186	2,750	3,000	1,250
Agricultural and other Allied activities	522	633	652	838	408
Others <sup>22</sup>	1,305	161	374	252	354
<b>Total subsidy</b>	<b>14,037</b>	<b>6,360</b>	<b>6,246</b>	<b>7,146</b>	<b>2,352</b>
Total Revenue Expenditure (RE)	1,14,866	95,950	1,16,215	1,21,214	1,28,570
Subsidy as a percentage of RE	12.22	6.63	5.37	5.90	1.83

Source: Finance Accounts of respective years

### 1.5.2.2 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 2014-19 is given in **Table 1.20**.

**Table 1.20: Financial assistance to Local Bodies and other institutions**

(₹ in crore)					
	2014-15	2015-16	2016-17	2017-18	2018-19
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	8,054	6,965	7,625	9,974	9,613
Municipal Corporations and Municipalities	4,275	2,750	4,462	2,976	3,775
Zilla Parishads and other PR Institutions	8,679	3,724	9,352	8,241	8,357
Hospitals and Other Charitable Institutions	1,416	1,888	2,106	2,556	3,411
Co-operative Institutions	79	146	143	564	543
Others <sup>23</sup>	34,623	24,221	30,291	28,780	35,096
<b>Total*</b>	<b>57,126</b>	<b>39,694</b>	<b>53,979</b>	<b>53,091</b>	<b>60,795</b>
<b>Assistance as percentage of R.E</b>	<b>49.73</b>	<b>41.37</b>	<b>46.45</b>	<b>43.80</b>	<b>47.25</b>

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

<sup>22</sup> Industries and Commerce, Minority Welfare, Information Technology & Communication, Panchayat Raj, Social Welfare, Women, Child and Disabled Welfare and Backward Classes Welfare Departments

<sup>23</sup> Others includes Development Agencies, Autonomous Bodies, Public Sector Undertakings, Non-Governmental Institutions, Institutions receiving one time grant etc.

Financial assistance extended to local bodies and other institutions in 2018-19 constituted 47.25 *per cent* of revenue expenditure. The major schemes/recipients of grants during the year were teaching grants to Zilla Praja Parishads (₹ 5,327.59 crore; ₹ 4,902.98 crore in 2017-18), NTR Pension to old age persons and widows (₹ 6,803.41 crore; ₹ 4,904.19 crore in 2017-18), and Capital infusion to DWACRA<sup>24</sup> Women Groups (₹ 8,905.53 crore; ₹ 2,417.27 crore in 2017-18).

### 1.5.2.3 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. The State Government has to make equal contribution. 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, respectively.

On the bifurcation of the erstwhile combined State of Andhra Pradesh in 2014, a balance of ₹ 730.64 crore was available in the NPS Deposit Account of the combined Andhra Pradesh State, pending transfer to NSDL. This amount was to be apportioned between the States of Andhra Pradesh and Telangana. Of this amount, ₹ 365.21 crore was apportioned in 2018-19, with Andhra Pradesh State being allocated ₹ 230.61 crore, leaving an amount of ₹ 365.43 crore pending apportionment.

Details of contributions by employees and Government and transfers to NSDL are shown below in **Table 1.21**:

**Table 1.21: Details of Contribution to NPS Deposit Account and transfer to NSDL**

Opening Balance (A)	Apportionment carried out in 2018-19		Employees' contribution (C)	Government Contribution (D)	Transfer to NSDL (E)	(₹ in crore)
	Andhra Pradesh (B)	Telangana				Closing Balance (A+B+C+D-E)
<b>0.30</b>	230.61	134.60	765.02	320.58	652.89	663.63

Source: Finance Accounts;

As on 01 April 2018, the NPS Account had an opening balance of ₹ 230.91 crore. Receipts to the NPS Account during the year were Employee contribution (₹ 765.02 crore), the Government contribution (₹ 320.58 crore). Of the total receipts of ₹ 1,316.21 crore (inclusive of all receipts, apportionment amount and opening balance) the Government transferred an amount of ₹ 652.89 crore to NSDL, leaving a closing balance of ₹ 663.63 crore in the NPS Account.

The interest liability on the opening balance of ₹ 230.91 crore was ₹ 18.47 crore (calculated at a rate of eight *per cent*<sup>25</sup>), for which the Government did not make any provision. Further, interest will also be due on the amount to be apportioned to Andhra Pradesh out of the ₹ 365.43 crore which is pending apportionment.

As the Principal Accountant General (Accounts and Entitlements) does not maintain the accounts

<sup>24</sup> Self Help Groups maintained for Development of Women and Children in Rural Areas.

<sup>25</sup> Interest rate on General Provident Fund (State Government)

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.

As per provisions of the NPS, the Government has to match the contribution of the Employees. As seen from the table above, Employees contributed an amount of ₹ 765.02 crore to the NPS Deposit Account, while the Government contributed an amount of ₹ 320.58 crore to the NPS Deposit Account, resulting in an overall short contribution of ₹ 444.44 crore by the Government. Thus, the current liability stands deferred to future years.

Further, the State Government has created an interest liability on the amount of ₹ 663.63 crore, incorrectly used the funds that belong to its employees and created uncertainty in respect of benefits due to the employees affected / avoidable financial liability to Government in future, and, thus leading to possible failure of the scheme itself.

### 1.5.3 Capital Expenditure

Capital expenditure (₹ 19,976 crore) during 2018-19 constituted 13.27 *per cent* of total expenditure and fell short of the Budget Estimates (₹ 28,678 crore) by 30.34 *per cent*. Capital expenditure accounted for 2.14 *per cent* of GSDP and increased by ₹ 6,485 crore (48.07 *per cent*) from the previous year.

The major areas under Capital section in which State Government invested were Irrigation and Flood Control (₹ 13,386 crore), Water Supply & Sanitation (₹ 1,742 crore) and Rural Development (₹ 875 crore) *etc.*

### 1.5.4 Quality of Expenditure

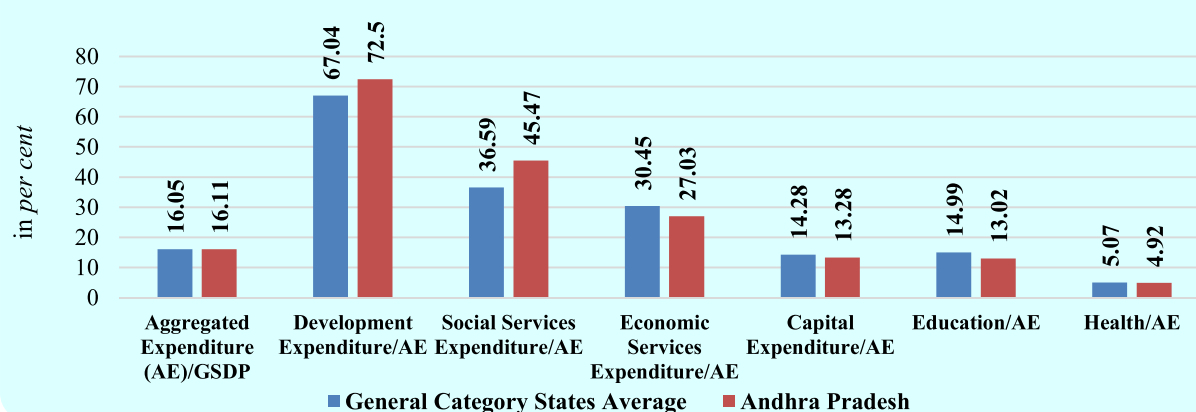
Quality of expenditure basically involves three aspects, *viz.*, adequacy of the expenditure (*i.e.* adequate provisions for providing public services), efficiency of expenditure use and effectiveness (assessment of outlay - outcome relationships for services).

#### 1.5.4.1 Adequacy of public expenditure

Enhancing human development levels require the States to step up their 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 1.10** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2018-19, vis-à-vis the average of the General Category States.



Chart 1.10: Prioritisation in Public Expenditure (in percentage)



Source: Finance Accounts of 2018-19;

Findings are as follows:

- Development expenditure and expenditure on Social Services as a proportion of total expenditure was 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 lower than the corresponding GCS average while State's average in respect of expenditure on health was marginally lower than GCS average. Lower expenditure on Education Sector affects human capital formation and indicates it as a low priority area.
- The share of capital expenditure was lower in the State than the GCS average affecting physical capital formation which affects economic growth in the long run.

#### 1.5.4.2 Per capita expenditure in some major socio economic sectors

The per capita expenditure for 2018-19 of Andhra Pradesh in some major socio economic sectors and its comparison with the previous year 2017-18 is given in **Table 1.22**.

**Table 1.22: Per capita spending of the State towards major socio economic sectors**

Sector	2017-18 (Population: 5.19 crore)		2018-19 (Population: 5.22 crore)		Percentage increase /decrease
	Expenditure (₹ in crore)	Per capita expenditure (in Rupees)	Expenditure (₹ in crore)	Per capita expenditure (in Rupees)	
Health and Family Welfare	6,389	1,231	7,400	1,418	15.16
Education, Sports, Arts & Culture	20,017	3,857	19,587	3,752	-2.71
Agriculture	7,616	1,467	8,802	1,686	14.91
Rural Development	8,859	1,707	8,335	1,597	-6.46
Transport	2,328	449	2,005	384	-14.37

Source: Expenditure figures from Finance Accounts and population figures from National Commission on Population 2019.

From the above table the following can be observed:

- The per capita expenditure in Health and Family Welfare increased by 15.16 *per cent* over the previous year. There was a considerable increase (14.91 *per cent*) in the per capita expenditure on Agriculture also over the previous year.

- The Per Capita expenditure saw a considerable dip in respect of Transport (14.37 *per cent*), Rural Development (6.46 *per cent*) and Education, Sports, Arts and Culture (2.71 *per cent*).

### 1.5.4.3 Efficiency of expenditure use

Details of Capital and Revenue Expenditure on maintenance of social and economic services are in **Table 1.23** below:

**Table 1.23: Efficiency of expenditure use in selected Social and Economic Services**

(in per cent)						
Social/Economic Infrastructure	2017-18			2018-19		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S&W	O&M		S&W	O&M
Social Services (SS)						
Education	1.81	80.41	0.05	1.25	87.79	0.02
Health and Family Welfare	3.15	45.07	0.20	2.36	40.83	0.07
Water supply, Sanitation, Housing & Urban Development	12.45	14.05	1.98	16.67	13.18	0.47
Total (SS)	4.66	36.39	0.52	4.27	35.35	0.15
Economic Services (ES)						
Agriculture & Allied Activities	3.21	20.80	1.22	3.17	18.92	0.35
Irrigation and Flood Control	92.86	45.80	18.18	95.70	53.29	13.88
Power & Energy	0.67	0.60	0.13	0.11	1.29	0.17
Transport	23.50	2.45	56.89	42.58	3.43	32.46
Total (ES)	31.07	15.34	4.60	41.78	16.06	2.09
Total (SS+ES)	13.86	30.52	1.66	18.34	30.19	0.67

*Source: Finance Accounts of respective years; RE: Revenue Expenditure; CE: Capital Expenditure; TE: Total Expenditure; S&W: Salaries and Wages; O&M: Operation and Maintenance*

The ratio of Capital Expenditure to Total Expenditure in all major areas under Social and Economic Services decreased over the previous year with the exception of Water Supply, Sanitation, Housing and Urban Development, Irrigation and Flood Control and Transport.

In respect of Revenue Expenditure, the share of salaries and wages in respect of Education under Social Services; and Irrigation and Flood control under Economic Services has grown considerably over preceding year.

## 1.6 Composition of Assets and Liabilities

Government accounts reflect the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.6** gives an abstract of such liabilities and the assets as on 31 March 2019, compared with the corresponding position as on 31 March 2018. While liabilities consist mainly of internal borrowings, loans and advances from GoI, balances in the Public Account; assets mainly comprise of capital outlay and loans and advances given by the State Government and cash balances.

### 1.6.1 Government Assets

Government Assets mainly comprise of Capital Outlay, Investments, Loans and Advances given by the State Government, Cash Balances and Investments in Reserve Funds.

### 1.6.1.1 Capital outlays

During past four years, Irrigation and Flood control constituted 60 *per cent* of Capital Expenditure. An amount of ₹ 13,386 crore (67.01 *per cent* of total Capital Expenditure) was spent on Irrigation and Flood control during 2018-19.

The financial results for the years up to 1985-86 in respect of irrigation works costing more than one crore each had been included in the Finance Accounts of 1990-91. State Government has not disclosed financial results<sup>26</sup> of any of its irrigation projects for the years since 1986-87. As a result there was no assurance of return on the heavy public investments in the sector.

### 1.6.1.2 Investment and Return

As of 31 March 2019, the State Government had invested ₹ 9,500.51 crore in Statutory Corporations (₹ 205.57 crore), Rural Banks (₹ 26.96 crore), Government Companies (₹ 6,793.25 crore), Joint Stock Companies (₹ 57.70 crore) and Co-operatives (₹ 2,417.03 crore). Out of ₹ 9,500.51 crore, Investments of ₹ 1,099.30 crore were made after 02 June 2014 by Government of Andhra Pradesh and ₹ 8,401.21 crore were yet to be apportioned among two successor States which were 88.43 *per cent* of the total investments.

The status of return on the amount invested in these Corporations/Companies is given in **Table 1.24**.

**Table 1.24: Return on Investment**

Investment/Return/Cost of Borrowings	2014-15	2015-16	2016-17	2017-18	2018-19
Investment at the end of the year (₹ in crore)	8,455	8,709	8,975	9,472	9,501
Return in the form of Dividend (₹ in crore)	8	9	4	1	1
Rate of Return ( <i>per cent</i> )	0.09	0.10	0.05	0.01	0.01
Average rate of interest on Government borrowing (in <i>per cent</i> )	5.91	6.11	6.31	6.52	6.37
Difference between Rate of return and interest rate (in <i>per cent</i> )	(-) 5.82	(-) 6.01	(-) 6.26	(-) 6.51	(-) 6.36

*Source: Finance Accounts of respective years*

The Government earned a meagre return of ₹ one crore in 2018-19 on its investments of ₹ 9,501 crore in various Corporations/Companies. The return on investment was negligible at 0.01 *per cent* during 2018-19, far lower than the average rate of interest, the Government paid on its borrowings.

### 1.6.1.3 Loans and Advances by 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 Universities/Academic Institutions, PRIs, ULBs and Urban Development Authorities *etc.* **Table 1.25** presents the details of outstanding loans and advances during the last five years.

<sup>26</sup> Remission of Revenue, Total Revenue during the year, Direct and Indirect Working Expenses and Maintenance during the year, Net Revenue excluding the interest, Net profit or loss after meeting interest *etc.*

**Table 1.25: Details of loans advanced by State Government**

(₹ in crore)

Quantum of Loans/Interest Receipts	2014-15	2015-16	2016-17	2017-18	2018-19
Opening Balance (₹ in crore)	32,430	28,549	28,938	27,472	30,202
Amount advanced during the year (₹ in crore)	1,210	674	564	2,781	1,843
Amount recovered during the year (₹ in crore)	5,092	285	2,029	51	277
Closing Balance (₹ in crore)	28,548	28,938	27,472	30,202	31,768
Net addition (₹ in crore)	(-)3,882	389	(-)1465	2,730	1,566
Interest Receipts on Loans and Advances (₹ in crore)	54	1	35	9	12
Interest receipts as percentage of outstanding loans and advances (in <i>Per cent</i> )	0.19	0.003	0.13	0.03	0.04
Interest payments (₹ in crore)	10,007	9,849	11,697	13,847	15,342
Total Outstanding Liabilities (₹ in crore)	1,48,743	1,73,854	2,01,314	2,23,706	2,57,510
Interest payments as percentage to total Outstanding Liabilities of the State Government	6.73	5.67	5.81	6.19	5.96
Difference between interest receipts and interest payments (in <i>Per cent</i> )	(-) 6.54	(-) 5.67	(-) 5.68	(-) 6.16	(-) 5.92

*Source: Finance Accounts of respective years;*

Loans outstanding as of 31 March 2019 amounted to ₹ 31,768 crore. Housing (₹ 1,078.78 crore), and Energy (₹ 300.33 crore) were the major recipients of loans during the year.

The current level of recovery of loans was low. In the Budget estimates, an amount ₹ 500 crore was estimated to be recovered in 2018-19. The actual recovery (₹ 277 crore), however, was 55.40 *per cent* of the estimated recovery. Out of the loans repaid (₹ 277 crore) to the State Government ₹ 265.38 crore (95.81 *per cent*) were repaid by the Government Servants to whom loans were disbursed.

Out of the loans disbursed (₹ 1,843 crore) during 2018-19, fresh loans and advances of ₹ 1,587.64 crore were made to the entities from whom repayments of earlier loans (₹ 23,653.51 crore) were overdue; among them Housing Department (₹ 14,040.67 crore) was the major entity to whom the Government had disbursed an amount of ₹ 1,078.78 crore during 2018-19. The earliest period to which arrears were related was from the year 2002.

State Government extended loan of ₹ 1,588 crore to eleven entities in 2018-19 without committing them to any terms and Conditions like schedule of repayment, rate of interest, number of installments, *etc.*. Further, for an amount of ₹ 25,232 crore of outstanding loan amount to the end of March 2019, the terms and conditions are yet to be settled.

#### **1.6.1.4 Cash balances and investment of Cash balances**

**Table 1.26** depicts the cash balances and investments thereof made by the State Government during the year.

Table 1.26: Cash Balances and their Investment

(₹ in crore)

	Opening balance on 01/04/2018	Closing Balance on 31/03/2019
<b>(a) General Cash Balance</b>		
Cash in Treasuries	--	--
Deposits with Reserve Bank	(-)859.70	20.90
Deposits with other Banks	1.34	1.34
Remittances in transit - Local	2.90	2.90
<b>Total</b>	(-)855.46	25.14
Investments held in Cash Balance investment account	0	0
<b>Total (a)</b>	<b>(-)855.46</b>	<b>25.14</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	7,375.49	8,361.59
<b>Total (b)</b>	<b>7,378.01</b>	<b>8,364.11</b>
<b>Grand Total (a)+ (b)</b>	<b>6,522.55</b>	<b>8,389.25</b>

Source: Finance Accounts 2018-19;

**Investments out of Earmarked Funds**

At the beginning of the year 2018-19, the State Government had an investment of ₹ 7,375.49 crore out of Earmarked Funds in GoI securities which earned ₹ 670.23 crore as interest, finally holding a balance of ₹ 8,361.59 crore at the end of the year.

**Maintenance of daily cash balance with the RBI**

As per an agreement with the RBI, 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 taking ordinary Ways and Means Advances (WMA)/Special Drawing Facility (SDF – nomenclature changed from Special Ways and Means Advances)/Overdrafts (OD) from time to time. During the year 2018-19, the State Government maintained the minimum daily cash balance with the Bank for 115 days out of 365 days.

As on 01 April 2018, an amount of ₹ 230.46 crore was outstanding towards WMA. During the year 2018-19, State had resorted to WMA, SDF and OD from the Reserve Bank of India on 250 occasions amounting to ₹ 59,868.28 crore (an increase of 30.54 per cent over 2017-18) for various purposes and to maintain its minimum cash balance (₹ 1.94 crore) with the RBI. State Government repaid an amount of ₹ 59,729.01 crore along with an interest of ₹ 64.43 crore leaving a balance of ₹ 369.73 crore. In view of this, the State Government may consider strengthening their cash management system in a manner that would obviate the need to resort to WMA/SDF/OD frequently and also reduce their interest expenditure.

**1.6.2 Liabilities**

The total liabilities of the State represent the liabilities under the Consolidated Fund of the State which consists Internal Debt of the State and Loans and advances from GoI and balances in the Public Account of the State.

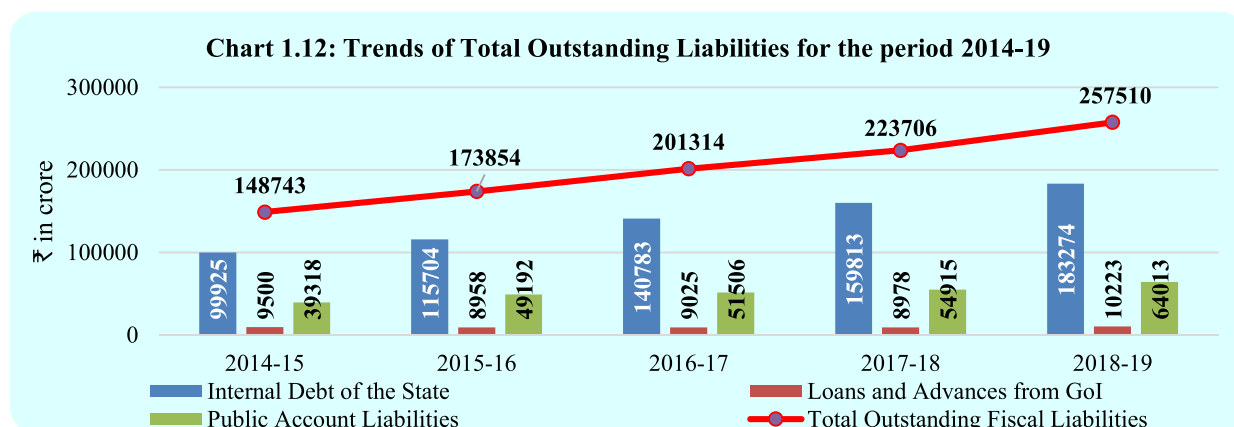
### 1.6.2.1 Outstanding Liabilities

The components of Outstanding Liabilities are given in **Chart 1.11**.

**Chart 1.11: Components of Outstanding Liabilities of the State Government**

Total Liabilities (₹2,57,510 crore)		
<b>Internal Debt from Market, financial institutions, etc. (₹1,83,274 crore)</b>	<b>Loans and Advances from Government of India (₹10,223 crore)</b>	<b>Public Account Liabilities where Government acts as a banker (₹64,013 crore)</b>
Market Loans (₹1,55,376 crore)	Loans for Central Plan Schemes (₹4 crore)	Small Savings, Provident Fund, etc. (₹15,730 crore)
Bonds (₹9,756 crore)	Loans for State Plan Schemes (₹7,249 crore)	Reserve Fund bearing interest (₹576 crore)
Loans from Financial Institutions (₹5,320 crore)	Non Plan Loans (₹25 crore)	Reserve Fund not bearing interest (₹2,107 crore)
Special Securities issued to NSSF (₹12,504 crore)	other loans (₹2,765 crore)	Deposits bearing interest (₹7,275 crore)
Other Loans (₹318 crore)		Deposits not bearing interest (₹38,325 crore)

The trends of Outstanding Liabilities during the last five years are presented in **Chart 1.12**.



Source: Finance Accounts of respective years

The total Outstanding Liabilities of the State at the end of 2018-19 were ₹ 2,57,510 crore and stood at 2.25 times of revenue receipts and 27.59 *per cent* of GSDP which exceeded the target of 25.09 *per cent* made in Medium Term Fiscal Policy Statement (MTFPS) of the State Government. The Outstanding Liabilities grew by 15.11 *per cent* over previous year and the liabilities are on an ascending trend since 2014-15.

### 1.6.2.2 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 India or State. Out of the gross accumulated balance of ₹ 11,044.29 crore lying in these Funds as on 31 March 2019, ₹ 8,361.58 crore was invested in the GoI Securities, leaving the total net accumulated balance ₹ 2,682.71 crore as on 31 March 2019. The transactions during the year 2018-19 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 annual contributions to the Sinking Fund at 0.5 *per cent* of the outstanding liabilities at the end of the previous financial year. Accordingly, ₹ 1,118.53 crore was to be contributed in 2018-19 on the Outstanding Liabilities of ₹ 2,23,706 crore at the end of 2017-18. Against the requirement of ₹ 1,118.53 crore, the State Government contributed ₹ 350 crore to the Fund and earned an interest of 606.78 crore. Thus the total addition to CSF was ₹ 956.78 crore.

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

As per guidelines of Reserve Bank of India, post bifurcation of the State Government of Andhra Pradesh constituted <sup>27</sup>(April 2018) the Guarantee Redemption Fund (GRF) to meet its obligation pertaining to the Guarantees given by the Government 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 the latest 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*. Therefore, as per the latest guidelines the fund balances to the end of the year 31 March 2019 should be 1.5 *per cent* of Outstanding Guarantees of previous year.

The outstanding Guarantees as on 01 April 2018 were ₹ 35,964.06 crore. Against this, the Fund balance to the end of the year was ₹ 741.77 crore. Thus the fund balance was 2.06 *per cent* of outstanding Guarantees, which was more than the limit of fund for that year.

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

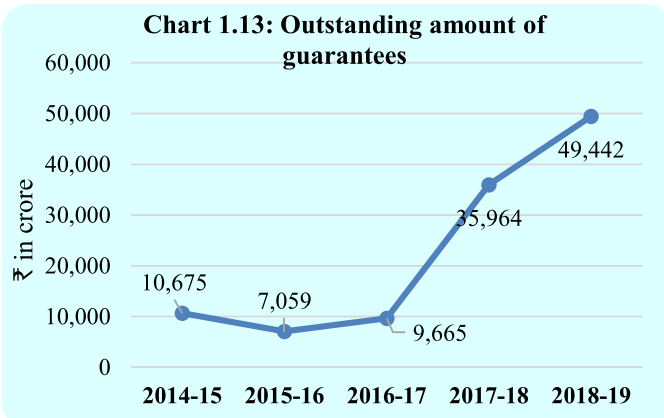
The State Government during 2018-19 released their share of ₹ 50.90 crore in addition to the funds received from GoI of ₹ 458.10 crore. The total accumulated balance of ₹ 509 crore was fully expended for relief on natural calamities<sup>28</sup> with no closing balance at the end of the year.

#### ***1.6.2.3 Guarantees***

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 for the years 2014-15 to 2018-19 was given in **Chart 1.13**.

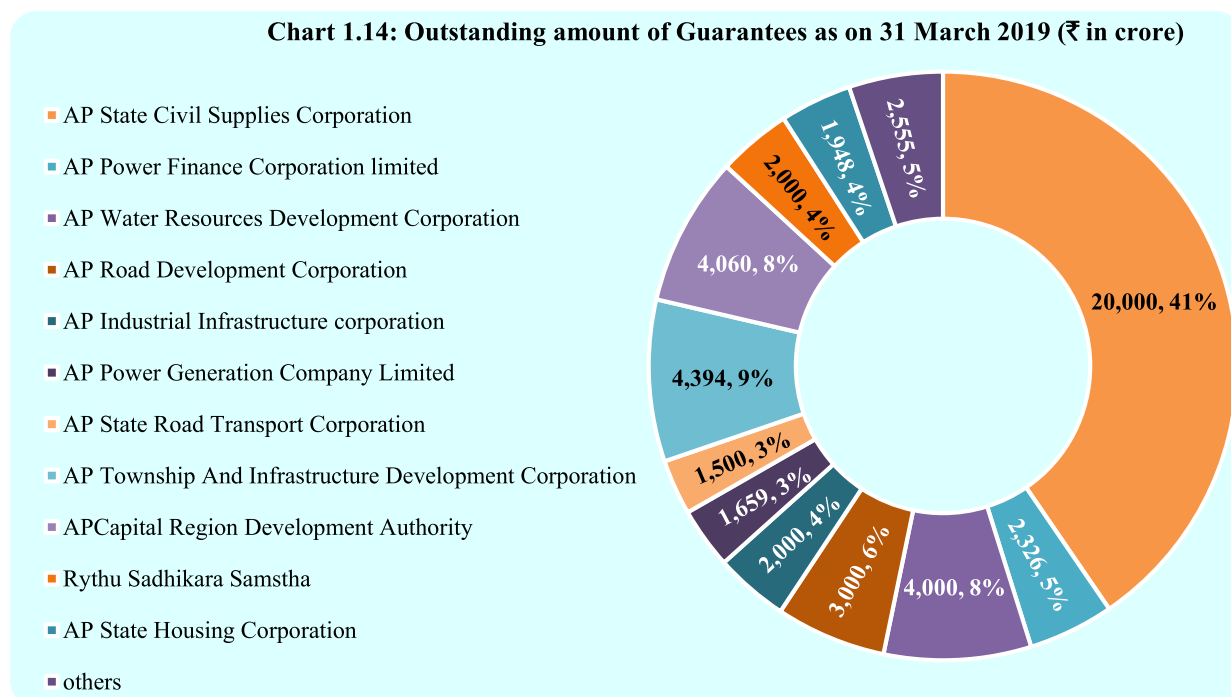
<sup>27</sup> G.O. Ms. No. 46, Finance (CM) Department, dated 17.04.2018

<sup>28</sup> Gratuitous relief in drought affected areas, Repairs and restoration of damaged roads and bridges, Assistance to farmers for purchase of Agricultural inputs *etc.*



*Source: Finance Accounts of respective years*

The Institutions for which the State Government stood guarantee as on 31 March 2019 are shown in **Chart 1.14**.



The outstanding Guarantees increased by ₹ 13,478 crore from 2017-18 mainly due to the new guarantees issued by the State Government to AP State Civil Supplies corporation (₹ 7,500 crore), AP Town Ship and Infrastructure Development Corporation (₹ 3,494 crore) and AP Capital region Development Authority (₹ 4,060 crore) *etc.*

The Government Orders of 2003<sup>29</sup> stipulated that the guarantee shall cover only the principal portion of the loan and not the interest thereon. In case, interest was also to be guaranteed, the reason for the same shall be detailed by the borrowing entity, and the same shall be examined by the Government. Guarantees were, however, extended by the Government for the interest portion also on the loan amounting to ₹ 21.42 crore in respect of two borrowing entities<sup>30</sup>. No reasons

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

<sup>30</sup> AP Township and Infrastructure Development Corporation (₹ 19.42 crore) and AP SC Co-operative Finance Corporation Limited (₹ 2.00 crore)

were found on record or furnished to audit for extending guarantees for the interest portion.

Guarantee commission shall be charged at 0.5 *per cent* per annum or two *per cent* consolidated for the entire guarantee period. During the year 2018-19, State Government received ₹ 53,000 only as Guarantee Fees as against minimum receivable of ₹ 67.39 crore.

#### 1.6.2.4 Debt Management

Outstanding Debt of the State Government (Comprising Internal Debt, Loans & Advances from GoI and Public Account Liabilities) as on 31 March 2019 is ₹ 2,57,510 crore. The Outstanding debt increased by 15.11 *per cent* over the preceding year.

#### Net availability of borrowed funds

Net availability of borrowed funds is defined as the ratio of the debt redemption (Debt Repayments + Interest payments) to the total Debt Receipts and indicates the extent to which the Debt Receipts are used for redemption of old debt.

The Net availability (₹ 22,802 crore) of borrowed<sup>31</sup> funds (₹ 1,36,084 crore) after providing for interest payments (₹ 15,342 crore; 11.27 *per cent*) and repayment of borrowings (₹ 97,940 crore; 71.97 *per cent*) was positive (16.76 *per cent*). The net availability of borrowed funds was higher in 2018-19 in comparison to 2017-18, when it was ₹10,987 crore.

#### Public Debt Sustainability

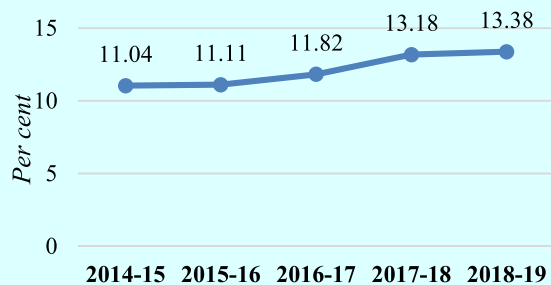
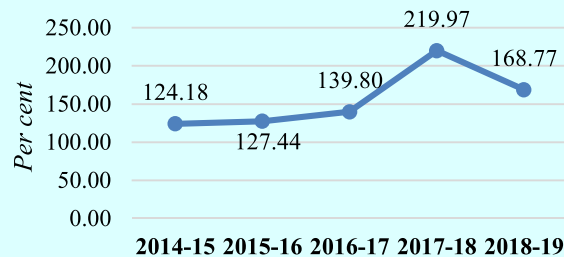
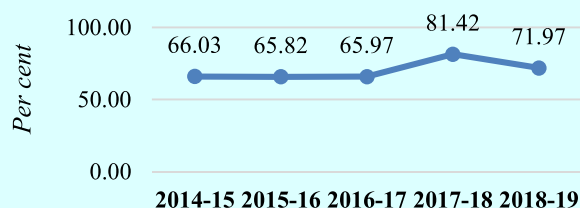
The Public debt sustainability is defined as the ability of the State to service its debt in future. **Table 1.27 and Charts 1.15, 1.16 and 1.17** analyses the debt sustainability of the State during the five-year period 2014-19.

**Table 1.27: Debt sustainability: Indicators during 2014-19**

Indicators of Public Debt* Sustainability	2014-15	2015-16	2016-17	2017-18	2018-19
Outstanding Debt (₹ in crore)	1,48,743	1,73,854	2,01,314	2,23,706	2,57,510
Rate of growth of Outstanding Debt (in <i>per cent</i> )	N.C	16.88	15.79	11.12	15.11
GSDP (₹ in crore)	5,24,976	6,04,229	6,97,508	8,09,547	9,33,402
Debt/GSDP ratio (in <i>per cent</i> )	28.33	28.77	28.86	27.63	27.59
Debt Receipts <sup>&amp;</sup> (₹ in crore)	80,146	77,265	93,619	1,33,687	1,36,084
Debt repayments <sup>&amp;</sup> (₹ in crore)	52,922	50,859	61,763	1,08,853	97,940
Interest payment	10,007	9,849	11,697	13,847	15,342
Net Availability of Debt (₹ in crore)	17,217	16,557	20,159	10,987	22,802
(in <i>per cent</i> )	(21.48)	(21.43)	(21.53)	(8.22)	(16.76)
Tax Revenue (₹ in crore)	42,618	39,907	44,181	49,486	58,031

**Source:** Finance Accounts of respective years; <sup>&</sup> Excludes Ways and Means Advances availed and repaid by the State Government; \*Internal Debt and Loans from GoI; N.C: Not Comparable due to bifurcation of the State

<sup>31</sup>Excluding Ways and Means advances

**Chart 1.15: Interest Payment as a per cent of Revenue Receipts****Chart 1.16: Trend of Debt Repayment versus Tax Revenue (in per cent)****Chart 1.17: Trend of Debt Repayment to Debt Receipts (in Per cent)**

The interest payments relative to Revenue Receipts were much higher at 13.38 *per cent* as compared to the target of 11.64 *per cent* fixed by 14<sup>th</sup> Finance Commission.

The Debt Repayment as a percentage of Tax revenue decreased from 219.97 *per cent* during 2017-18 to 168.77 *per cent* in 2018-19.

**Source:** Finance Accounts of respective years; **Note:** Excludes Ways and Means Advances availed and repaid by the State Government;

Debt repayment as a percentage of Debt Receipts decreased from 81.42 *per cent* in 2017-18 to 71.97 *per cent* during the year 2018-19 indicating decrease in utilisation of Debt Receipts for repayment of earlier Debt.

### **Domar Model of Debt Sustainability**

Fiscal Deficit of the State as a proportion of GSDP ranged from 3.65 *per cent* in 2015-16 to 3.80 *per cent* in 2018-19. The Fiscal Deficit to GSDP ratio was 4.43 *per cent* in 2016-17 and 4.00 *per cent* in 2017-18. The State registered Revenue and Primary Deficits during 2015-16 to 2018-19.

There are various approaches at assessing the debt sustainability. One such approach is Domar model<sup>32</sup>.

An analysis on debt sustainability was carried out using this approach. The details are as follows:

<b>g-r (g: real economic growth rate; r : real interest rate)</b>	<b>s&lt;0 (primary deficit) (s: Primary Balance)</b>	<b>s&gt;0 (primary surplus) (s: Primary Balance)</b>
$g-r > 0$ (strong economic growth)	public debt will converge to a stable level greater than zero	public debt will converge to a stable level less than zero leading to public savings
$g-r < 0$ (slow economic growth)	public debt will increase indefinitely, without converging to a stable level	undefined situation

The results of applying the analysis to Andhra Pradesh are shown in **Table 1.28** below:

<sup>32</sup> E.D. Domar, 1914-1997

**Table 1.28: Debt Sustainability as per Domar model**

Year	Real Growth rate (g)	Real Interest rate ( r )	g-r	Primary Deficit / Surplus (s) (₹ in crore)
2015-16	12.16	1.00	11.16	(-) 12,208
2016-17	10.40	3.23	7.17	(-) 19,211
2017-18	11.32	5.29	6.03	(-) 18,534
2018-19	11.02	5.26	5.76	(-) 20,125

Source: Finance Accounts

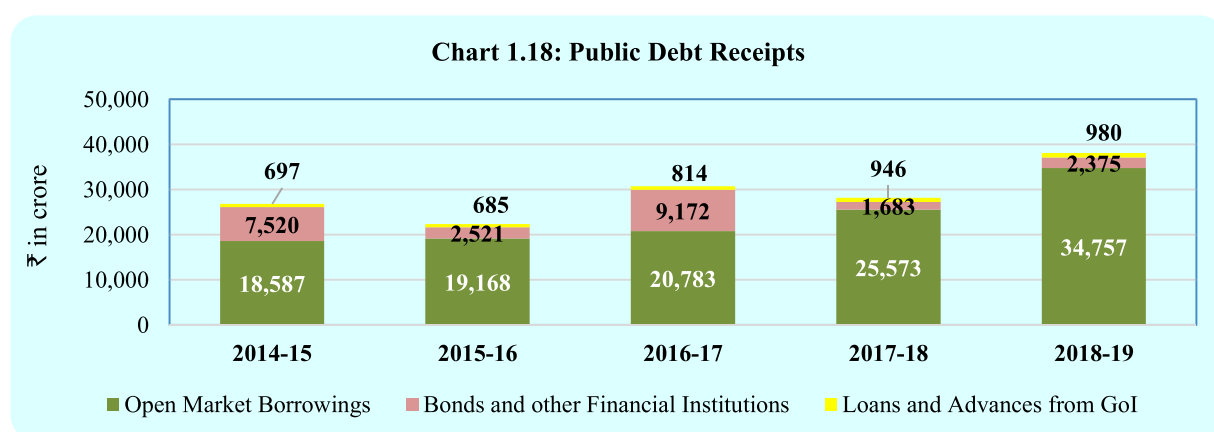
Further, Debt to GSDP ratio stood at 27.59 *per cent* and the Fiscal Deficit to GSDP ratio at 3.80 *per cent* in 2018-19. As per the Medium Term Fiscal Policy Statement (MTFPS) of Andhra Pradesh, Fiscal target of Debt limit was 25.09 *per cent*, and Fiscal Deficit ceiling was 3.00 *per cent* of GSDP. Fiscal target of Debt limit as per XIV FC was 25.16 *per cent* and Fiscal Deficit ceiling was 3.00 *per cent* of GSDP.

During 2014-15 to 2018-19, the State has registered primary deficit. However, it is seen that the Domar gap (g-r) is positive during the entire period from 2015-16 to 2018-19. Therefore, as per the Domar model, the public debt is expected to converge at a stable level. Moreover, other factors such as public account liabilities and force majeure events<sup>33</sup> and/or any other un-inventoried losses of revenue also have to be reckoned in assessing the debt sustainability/stability of the State<sup>34</sup>.

### Internal Debt of the State

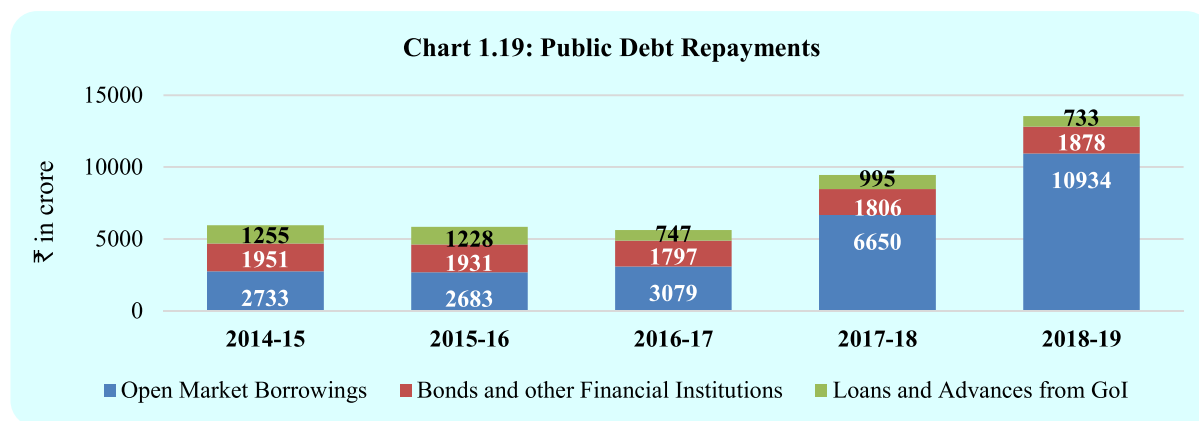
During 2018-19, Market borrowings (₹ 1,55,376 crore) formed a major portion (80.30 *per cent*) of the Outstanding Public debt (₹ 1,93,497 crore) of the State Government, with interest rates ranging from 5.00 to 13.99 *per cent*. Loans from GoI (₹ 10,223 crore) was 5.28 *per cent* of total Outstanding Public debt to the end of March 2019 with interest rates ranging from 7.00 to 13.99 *per cent*.

The details of Receipts and Repayments of Public Debt for the years 2014-19 is given in **Charts 1.18** and **1.19**.



<sup>33</sup> Like current Coronavirus crisis & its effect on GSDP.

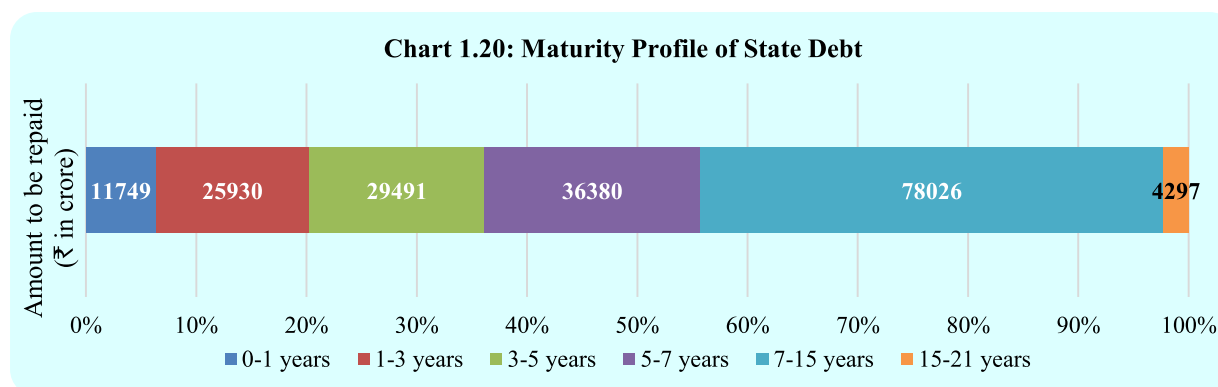
<sup>34</sup> As these cannot be anticipated or determined statistically, these have not been factored in the analysis



**Source:** Finance Accounts of respective years

### Debt Repayment Schedule

Debt maturity profile (**Chart 1.20**) indicates commitment on the part of the Government for debt repayment or debt servicing in the coming years.



**Source:** Finance Accounts 2018-19; **Note:** The total of ₹ 1,85,873 crore above varies with total outstanding debt of ₹ 1,93,497 crore due to (i) non-availability of maturity details for debt servicing for ₹ 7,664 crore in the Finance Accounts and (ii) bifurcation of Andhra Pradesh and Telangana (₹ 40 crore)

The maturity profile of Debt as on 31 March 2019 indicated that State would have to repay more than 53.51 *per cent* of debt (₹ 1,03,550 crore) within the next seven years. State Government has to ensure 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 may shrink further.

## 1.7 Fiscal Reform Path

The State Government in compliance with the recommendations of the Twelfth Finance Commission (TFC), enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 (amended in 2011). Important targets relating to fiscal variables are to be amended from time to time in accordance with the Central Finance Commissions' recommendations.

Government of Andhra Pradesh, however, is yet to amend its FRBM Act in accordance with the recommendations of the 14<sup>th</sup> Finance Commission, especially on fiscal imbalances of the State Government *viz.*, Revenue Deficit, Fiscal Deficit and Primary Deficit.



### 1.7.1 Disclosures not made

Fiscal Responsibility and Budget Management (FRBM) Act, 2005 places an onus on the State Government to monitor and control the fiscal deficit. It also requires the State Government to make disclosures and statements under Section 10 of FRBM Act, 2005 together with Rule 6 of Fiscal Responsibility and Budget Management Rules, 2006.

The State Government, however, did not make the following four out of 10 disclosures required to be made:

- Statement of Assets;
- Claims and commitments made by the Government on revenue demands raised but not realised;
- Liability in respect of major works and contracts, committed liabilities in respect of land acquisition charges and claims on State Government in respect of unpaid bills on works and supplies;
- Details of number of employees in Government, public sector and aided institutions and related salaries and pensions in the forms prescribed under FRBM legislation.

The State Government replied that specific instructions would be issued to adhere to the provisions of the Act from 2020-21 onwards duly explaining the importance of these disclosures. Regarding amendment to FRBM Act, the State Government assured that appropriate action would be initiated including amendments to the existing FRBM considering post-bifurcation financial position of the State Finances.

### 1.7.2 14<sup>th</sup> Finance Commission Ceiling and achievements

Achievement of Government in key indicators in terms of targets prescribed by the 14<sup>th</sup> Finance Commission with regards to fiscal reform path is as below:

**Table 1.29: Targets of 14<sup>th</sup> FC vis-à-vis achievements**

Parameter	Projections made by 14 <sup>th</sup> FC	Actuals
Total Outstanding Debt to GSDP (in <i>per cent</i> )	25.16	27.59
Interest Payments/Revenue Receipts (in <i>per cent</i> )	11.64	13.38
Fiscal Deficit/GSDP (in <i>per cent</i> )	3.00	3.80

The State Government did not maintain the Fiscal Deficit/GSDP and IP/RR ratios within the limits prescribed by the 14<sup>th</sup> FC.

### 1.7.3 Crediting the loan amounts raised by the corporations in PD Accounts for maintaining Ways and Means of the State Government

State Government issued instructions to remit the loan amounts raised by following Corporations to their PD Accounts to maintain Ways and Means position of the State Government are detailed in **Table 1.30**.

**Table 1.30: Details of Loans raised corporations**

Sl. No.	Name of the Corporation	PD Account No.	Year	Loan Amount raised (₹ in crore)	Amount credited to the PD Account (₹ in crore)
1	AP Drinking Water Supply Corporation	8449-00-120-00-34-000-000	2018-19	980	979.00*
2	AP State Civil Supplies Corporation Limited	8449-00-120-00-53-000-000	2017-18 and 2018-19 <sup>35</sup>	20,500	9,701.44
3	AP Industrial Infrastructure Corporation	8449-00-120-00-19-000-000	2017-18	2,000	1,480.00
4	AP Rythu Saadhikara Samstha (RySS)	8449-00-120-00-43-000-000	2017-18	2,000	800.00
<b>Total</b>				<b>25,480</b>	<b>12,960.44</b>

\* The balance at the end of the year in the PD Account was ₹ 943.02 Crore.

The diversion of loans raised by the Corporations into Government Accounts (PD Accounts) resulted in understatement of the borrowings of the State Government. Effectively, the borrowings (₹ 2,57,510 crore) after inclusion of above loans will be 28.98 per cent of GSDP.

## 1.8 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 Accounts are to be apportioned between Andhra Pradesh and Telangana States. The status of apportionment as on 31 March 2019 is as under (details are at *Appendix 1.7*):

- Out of the outstanding un-apportioned balance of ₹ 17,082.77 crore available under Deposits and Advances, an amount of ₹ 4,478.89 crore was apportioned to Telangana and ₹ 8,129.83 crore was apportioned to Andhra Pradesh in 2018-19 leaving un-apportioned balance of ₹ 4,474.04 crore.
- 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 even after more than five years of State Re-organisation. Major amounts under Capital Head pertain to Major Irrigation (₹ 87,707.44 crore) and Roads and Bridges (₹ 17,182.87 crore). Major amount under Loans and Advances pertain to Loans for Housing (₹ 13,182.17 crore).

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

<sup>35</sup>2017-18: ₹ 3,501.44 crore; 2018-19: ₹ 6,200 crore