

1.1 Profile of the State

Andhra Pradesh is the eighth largest State in the country in terms of geographical area (1,62,968 sq. kms). The State has a long coastline, spanning 974 kms. In terms of population, the State accounts for 4.09 *per cent* (4.93 crore) of the total population of the country, as per Census 2011. The per capita income of the State at current prices was ₹ 2,07,771 in 2021-22, which was higher than all India average of ₹ 1,49,848. General and financial data relating to the State is given in *Appendix 1.1*.

1.1.1 Gross State Domestic Product of Andhra Pradesh

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

Trends in annual growth rate of Gross Domestic Product (GDP) of India and GSDP of the State at Current Prices (Base Year 2011-12) are given in **Table 1.1**

Table 1.1: Trends in growth rate of GSDP vis-à-vis GDP

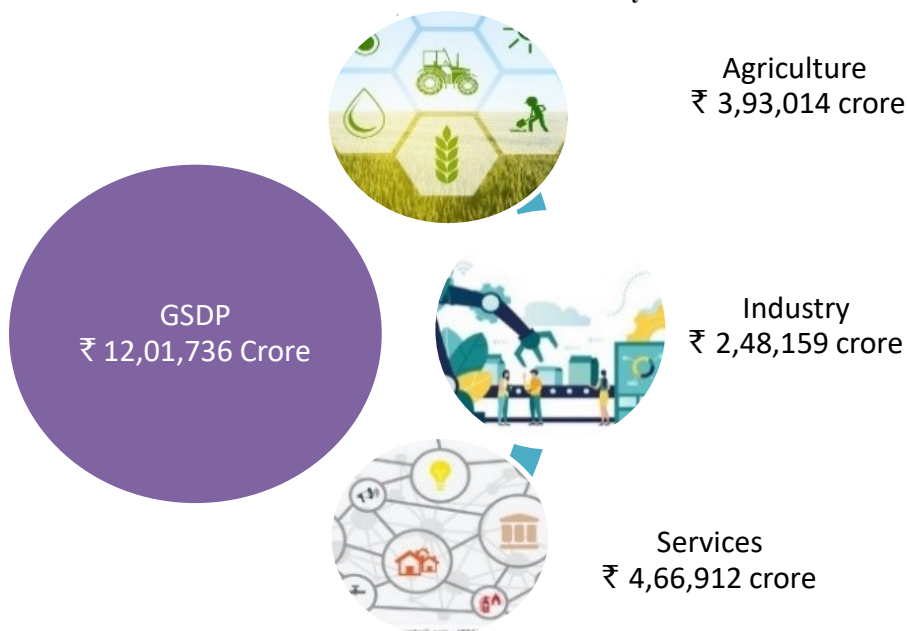
Year	2017-18	2018-19 (TRE)	2019-20 (SRE)	2020-21 (FRE)	2021-22 (PE)
GDP (₹ in crore)	1,70,90,042	1,88,99,668	2,00,74,856	1,98,00,914	2,36,64,637
Growth rate (<i>per cent</i>)	11.03	10.59	6.22	-1.36	19.51
GSDP (₹ in crore)	7,86,135	8,73,721	9,66,099	10,14,374	12,01,736
Growth rate (<i>per cent</i>)	14.86	11.14	10.57	5.00	18.47

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

As can be seen from the Table 1.1, the GSDP of Andhra Pradesh registered higher growth rate during the period 2017-18 to 2020-21 and reduced during the current year (2021-22) compared to the national growth rate. The reduction in the growth rate of GSDP of the State during 2020-21 was mainly due to economic turmoil caused by the global pandemic (Covid-19).

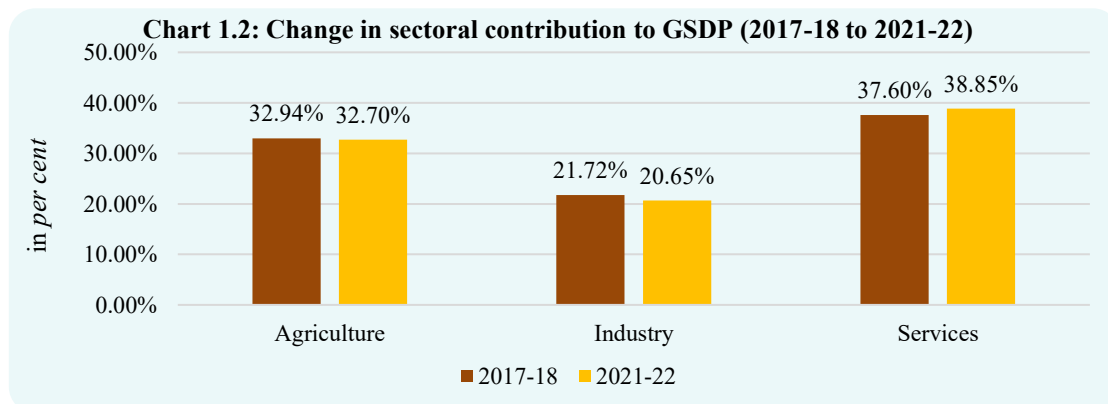
The GDP and GSDP are generally classified into primary, secondary and tertiary sectors, broadly corresponding to Agriculture, Industries and Services Sectors respectively. Sector wise GSDP for the year 2021-22 is depicted in *Chart 1.1*.

Chart 1.1: Sector wise GSDP for the year 2021-22



Source: Ministry of Statistics and Programme Implementation (MoSPI) ; Note: The contribution of Agriculture; Industry and Service sectors are only indicated in the Sector wise GSDP contributions chart and Taxes-subsidies on products were excluded

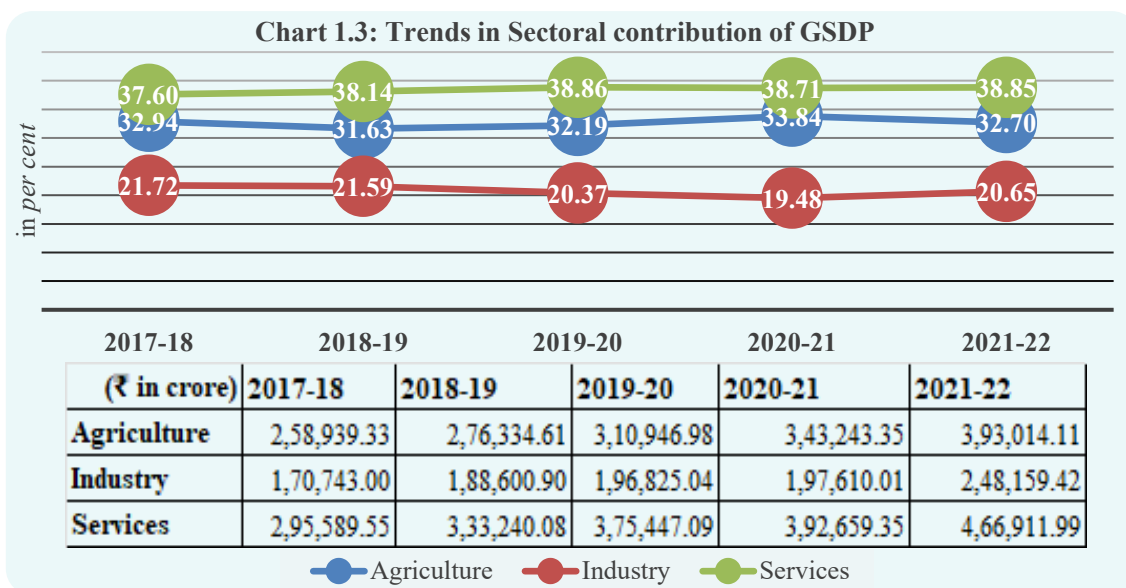
The contribution of various sectors to GSDP of the State during 2017-18 and 2021-22 is shown in **Chart 1.2**.



Source: Information obtained from website of Ministry of Statistics and Programme Implementation (MoSPI)

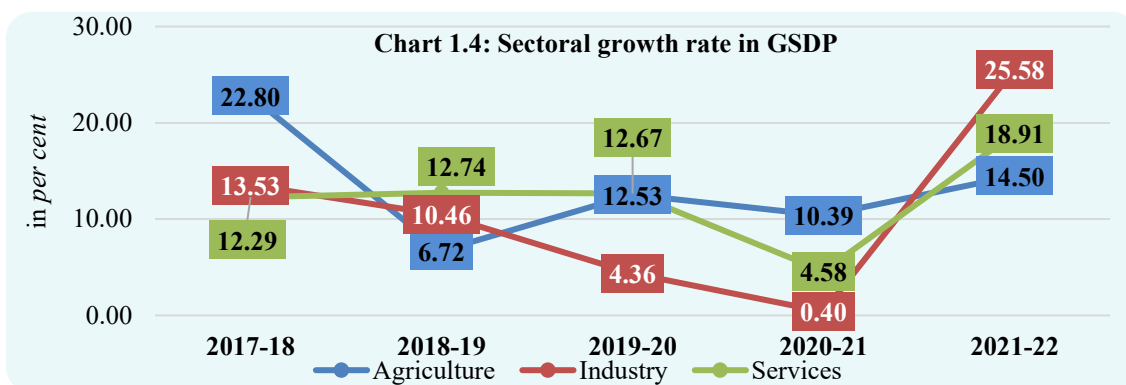
The Services sector was the major contributor to the State GSDP during 2021-22. However, the sectoral contribution of Agriculture and Industrial Sectors to GSDP slightly declined from 2017-18 to 2021-22.

The annual change in the contribution of Agriculture, Industrial and Service sectors to the GSDP over the five-year period 2017-18 to 2021-22 is depicted in **Chart 1.3**.



Source: Ministry of Statistics and Programme Implementation (MoSPI)

The Sector wise growth rate of GSDP is depicted in **Chart 1.4** below:



Source: Ministry of Statistics and Programme Implementation (MoSPI)

The State of Andhra Pradesh witnessed highest five-year GSDP growth rate of 18.47 per cent. During 2021-22, the overall growth in the sectors mentioned above led to increase in GSDP.

Industrial Sector which registered lowest growth during 2020-21 has recovered and grew by 25.58 per cent during 2021-22 when compared to previous year. The increase was mainly due to recovery of Construction sector (increased by 27 per cent) and Manufacturing sector (increased by 25 per cent) after Covid pandemic. The growth rate in Agricultural sector was attributed to increase in activities mainly under fishing, aquaculture (increased by 26 per cent) and crops & livestock (increased by 11 per cent).

Similarly, the increase in Services sector was mainly due to increased activities under trade, repairs, hotels & restaurants (increased by 23 per cent), transport, storage, communication & services related to broadcasting (increased by 21 per cent) and real estate (increased by 15 per cent) compared to previous year.

1.2 Basis and approach to State Finances Audit report

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

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

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

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

The analysis is also carried out in the context of recommendations of the XIV and XV Finance Commissions (FC), Andhra Pradesh Fiscal Responsibility and Budget Management (APFRBM) Act, as amended from time to time and best practices and guidelines of the Government of India. An entry conference was held in September 2022 with the Special Chief Secretary to Government of Andhra Pradesh, Finance Department, wherein the audit approach followed in the preparation of SFAR was explained. Draft audit findings were discussed with the Special Chief Secretary to Government of Andhra Pradesh, Finance Department in January 2023 and the responses of the Government have been incorporated in the Report appropriately.

1.3 Report Structure

The SFAR is structured into the following five chapters:

Chapter – I	Overview This chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficit/ surplus.
Chapter – II	Finances of the State This chapter provides a broad perspective of the finances of the State, analyses

	the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2017-18 to 2021-22, debt profile of the State and key Public Account transactions based on the Finance Accounts of the State.
Chapter - III	Budgetary Management This chapter is based on the Appropriation Accounts of the State and reviews the appropriations, allocative priorities of the State Government and reports on deviations from constitutional provisions relating to budgetary management.
Chapter - IV	Quality of Accounts & Financial Reporting Practices This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.
Chapter - V	General Purpose Financial Reporting of State Public Sector Undertakings This chapter discusses financial performance of Government Companies, Statutory Corporations and Government Controlled Other Companies as revealed from their accounts.

1.4 Overview of Government Accounts structure

The Accounts of the Government are kept in three parts:

1. Consolidated Fund of the State

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

2. Contingency Fund of the State

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

3. Public Account of the State

Apart from the above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes items like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of

which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

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

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

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

Capital receipts consist of:

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

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

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

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

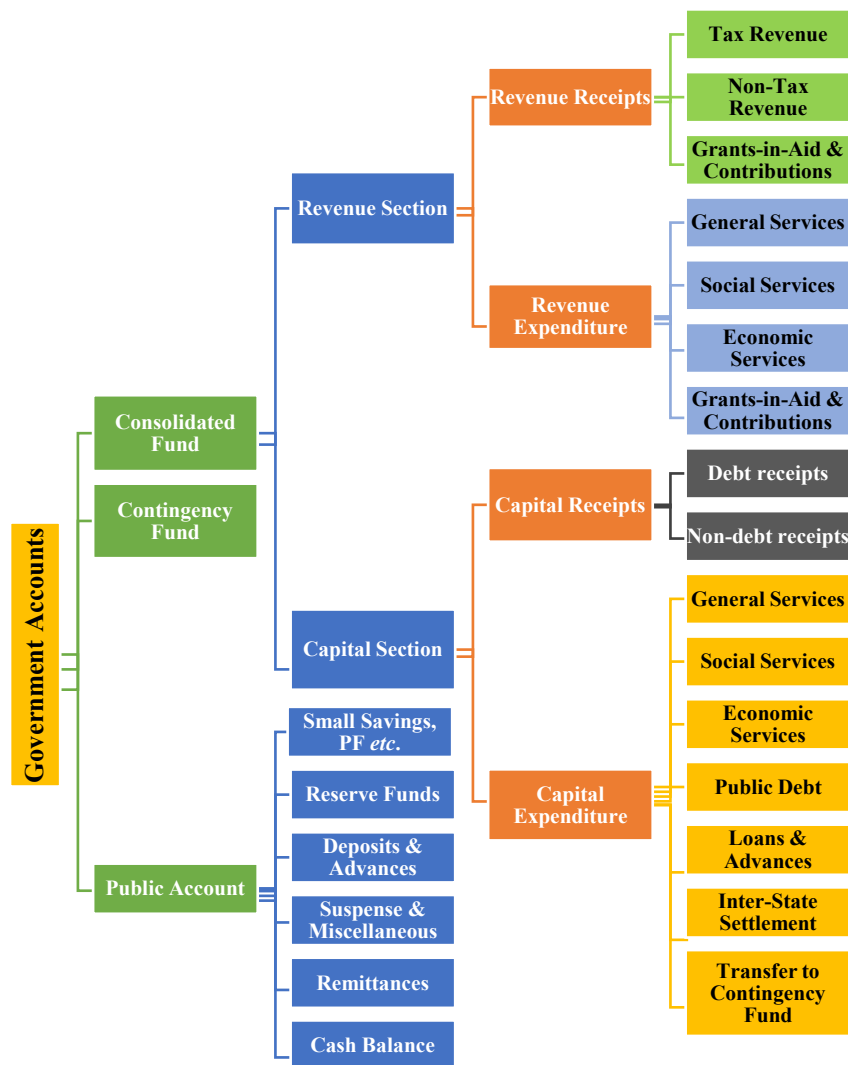
	Attribute of transaction	Classification
Standardised in List of Major and Minor Heads of Account of Union and States by Controller General of Accounts	Function - Education, Health, <i>etc.</i> / Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major head (2-digit)
	Programme	Minor Head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

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

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

A pictorial depiction of the structure of Government Accounts is given in **Chart 1.5:**

Chart 1.5: Pictorial depiction of the structure of Government Accounts



1.5 Budgetary Process

In terms of Article 202 of the Constitution of India, the Governor of Andhra Pradesh caused to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State for the year 2021-22, in the form of an **Annual Financial Statement (AFS)** as a part of Budgetary Process.

In terms of Article 203, the AFS was submitted (March 2021) to the State Legislature in the form of 40 Demands for Grants/Appropriations and after approval of these, the Appropriation Bill was passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund.

As mentioned in **Paragraph 1.2 ante**, the Finance Accounts and Appropriation Accounts encompass the core data for preparation of the SFAR. These Accounts are based on actual receipts and expenditure of the State during the year 2021-22, including various inter-governmental and other adjustments carried out by the Reserve Bank of India (RBI). Considering that these receipts and expenditure are estimated in the budget and the expenditure has been approved by the State Legislature, it is important to study the budget of the State for 2021-22 closely and analyse the actual receipts and expenditure during the year with reference to the projections made in the budget.

1.6 Snapshot of Finances of the State

The following table provides the details of actual financial position *vis-à-vis* Budget Estimates for the year 2021-22 and actuals of 2020-21. The time series data of Finances of the State is given in *Appendix 1.2*.

Table 1.2: Snapshot of Finances of the State

Sl. No	Components	2020-21			2021-22		Percentage of Actual to GSDP (in per cent)
		Actual	BE	Actual (Percentage of Actual to B.E.)	Actual	BE	
1	Tax Revenue	81,869	1,12,216	1,06,365(94.79)		8.85	
	a. Own Tax Revenue	57,409	85,281	70,979 (83.23)		5.91	
	b. Share of Union taxes/duties	24,460	26,935	35,386 (131.38)		2.94	
2	Non-Tax Revenue	3,395	7,050	5,017 (71.16)		0.42	
3	Grants-in-aid from GoI	31,872	57,931	39,170 (67.61)		3.26	
4	Revenue Receipts (1+2+3)	1,17,136	1,77,197	1,50,552 (84.96)		12.53	
5	Recovery of Loans and Advances	1,063	50	2,110 (4,220)		0.18	
6	Other Receipts	0	0	(-1 (---))		0.00	
7	Borrowings and other Liabilities (a)	55,171	36,148	25,013 (69.20)		2.08	
8	Capital Receipts (5+6+7)	56,234	36,198	27,122 (74.93)		2.26	
9	Total Receipts (4+8)	1,73,370	2,13,395	1,77,674 (83.26)		14.78	
10	Revenue Expenditure of which -	1,52,677	1,82,197	1,59,163 (87.36)		13.24	
11	Interest payments	20,018	22,740	22,165 (97.47)		1.84	
12	Capital Expenditure of which -	20,690	31,198	18,511 (59.33)		1.54	
13	Capital outlay	18,975	30,316	16,373 (54.01)		1.36	
14	Loans and advances	1,715	882	2,138 (242.40)		0.18	
15	Inter State Settlement	0	0	0 (0.00)		0.00	
16	Total Expenditure (10+12+15)	1,73,367	2,13,395	1,77,674 (83.26)		14.78	
17	Revenue Deficit (10-4)	35,541	5,000	8,611 (172.22)		0.72	
18	Fiscal Deficit {16-(4+5+6)}	55,168	36,148	25,013 (69.20)		2.08	
19	Primary Deficit (18-11)	35,150	13,408	2,848 (21.24)		0.24	

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

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

Note: The difference in total receipts (Sl.No.10) and total expenditure (Sl.No.17) during 2020-21 was due to proforma correction of ₹ 2.90 crore done in Cash Balance.

1.7 Snapshot of Assets and Liabilities of the Government

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

The summarised position of Assets and Liabilities of the Government is given in **Table 1.3:**

Table 1.3: Summarised position of Assets and Liabilities of the State

Liabilities					Assets				
	2020-21 (₹ in crore)	2021-22 (₹ in crore)	Increase /Decrease (in per cent)		2020-21 (₹ in crore)	2021-22 (₹ in crore)	Increase /Decrease (in per cent)		
Consolidated Fund									
A	Internal Debt	2,56,088	2,91,951	14.00	a	Gross Capital Outlay	2,51,869	2,68,242	6.50
B	Loans and Advances from GoI ¹	14,171	17,672	24.71	b	Loans and Advances	33,421	33,449	0.08
	Contingency Fund	50	49	-2.00		Contingency Fund	0	0	0.00
Public Account									
A	Small Savings, Provident Fund etc.,	23,276	26,990	15.96	a	Advances	31	31	0.00
B	Deposits	53,334	36,856	(-) 30.90	b	Remittances	619	623	0.65
C	Reserve Funds	13,499	15,198	12.59	c	Suspense and Miscellaneous	236	236	0.00
D	Suspense and Miscellaneous	2,495	1,048	(-) 58.00					
						Cash Balance (including investment in Earmarked Funds)	10,491	12,326	17.49
						Total	2,96,667	3,14,907	6.15
						Deficit in Revenue Account	66,246	74,857	13.00
TOTAL	3,62,913	3,89,764	7.40	TOTAL	3,62,913	3,89,764	7.40		

Source: Finance Accounts of respective years

1.8 Fiscal Balance: Achievement of Deficit and total debt targets

Andhra Pradesh Fiscal Responsibility and Budget Management Act (APFRBM) was passed with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit and overall/ outstanding debt to acceptable

¹ Includes an amount of ₹ 5,583.19 crore (2020-21: ₹ 2,311 crore and 2021-22: ₹ 3,272.19 crore) received towards back-to-back loan in lieu of GST compensation shortfall which is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources.

level, establishing improved debt management and improving transparency in a medium-term framework. In this context, the Act provides quantitative targets to be adhered to by the State with regard to deficit measures and debt level.

1.8.1 Amendment of AP FRBM Act

Government of Andhra Pradesh enacted FRBM Act in October 2005. The FRBM Act was amended, and the targets of fiscal parameters were revised from time to time. The State Government amended the FRBM Act in December 2021.

As per the Section 9(2)(d) of AP FRBM Act 2005, the State Government should limit the amount of annual incremental risk weighted guarantees to 90 per cent of the TRR in the year preceding the current year.

Through the amendment of December 2021, the State Government revised the fiscal targets/projections for the years 2021-22 to 2025-26 and also increased the limit of annual incremental risk weighted guarantees which was 90 *per cent* of the Total Revenue Receipts (TRR) in the year preceding the current year to 180 *per cent*.

Though widening of limit of annual incremental risk weighted guarantees by two-fold may create some fiscal space to the State Government in the short run, in the long run it may create burden on the exchequer by way of debt servicing if the State resorts to borrow funds by using the increased limits.

1.8.2 AP FRBM targets on key Fiscal Parameters

The compliance of major fiscal parameters prescribed under APFRBM Act 2021 are shown in Table 1.4.

Table 1.4: Compliance with provisions of APFRBM Act

Fiscal Parameters	Fiscal projections set in revised APFRBM Act	Achievement (₹ in crore)				
		2017-18	2018-19	2019-20	2020-21	2021-22
Revenue Deficit (-) / Surplus (+) (as <i>percentage of GSDP</i>)	2.5 <i>per cent</i> of GSDP from 2015-16 to 2019-20 and 4.5 <i>per cent</i> of GSDP for 2020-21; 3.6 <i>per cent</i> for the year 2021-22	-16,152 (-2.05)	-13,899 (-1.59)	-26,441 (-2.74)	-35,541 (-3.50)	-8,611 (-0.72)
		✓	✓	X	✓	✓
Fiscal Deficit (-)/ Surplus (+) (as <i>percentage of GSDP</i>)	Five <i>per cent</i> of GSDP	-32,381 (-4.12)	-35,467 (-4.06)	-39,687 (-4.11)	-55,168 (-5.44)	-25,013 (-2.08)
		✓	✓	✓	X	✓
Ratio of total outstanding liabilities to GSDP (in <i>per cent</i>)	35 <i>per cent</i> of GSDP for the years 2015-16 to 2020-21 and 35.6 <i>per cent</i> of GSDP for the year 2021-22	28.46	29.47	31.24	34.33	31.00
		✓	✓	✓	✓	✓
Ratio of total outstanding liabilities to GSDP (in <i>per cent</i>) after taking into account the off – Budget borrowings		NA	NA	39.27	45.38	40.85

Source: Finance Accounts, Information provided by State Government; APFRBM Act 2021; *Note:* Outstanding Liabilities excludes an amount of ₹ 5,583.19 crore (2020-21: ₹ 2,311 crore and 2021-22: ₹ 3,272.19 crore) received towards back-to-back loan in lieu of GST compensation as it is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources; NA; Not Available.

The purpose of GST compensation is to compensate States for loss of revenue arising on account of implementation of GST. During the year 2021-22, the State

Government has received GST compensation of ₹ 3,117.39 crore as Grants-in-Aid (GIA) from the GoI. Due to inadequate balance in GST Compensation fund, the GoI released an amount of ₹ 3,272.19 crore as back-to-back loan in lieu of shortfall in GST compensation which is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources. The revenue deficit of ₹ 8,611 crore and fiscal deficit of ₹ 25,013 crore of the State Government as depicted in the Finance Accounts 2021-22 should therefore, be read in conjunction with receipt of GST compensation of ₹ 3,272.19 crore as back-to-back loan with no repayment obligation on the State resources. Accordingly, Revenue Deficit and Fiscal Deficit would work out to ₹ 5,338.81 crore and ₹ 21,740.81 crore respectively during the year 2021-22, considering the debt receipt of ₹ 3,272.19 crore in lieu of shortfall in GST compensation.

A comparison of the major fiscal variables of the State with the targets set under State's Medium Term Fiscal Policy Statement (MTFPS) is given in **Table 1.5**.

Table 1.5: Actuals vis-à-vis projection in MTFP for 2021-22

(₹ in crore)				
Sl. No.	Fiscal Variables	Projection as per MTFPS	Actuals (2021-22)	Variation (in per cent)
1	Own Tax Revenue	73,690	70,979	-3.68
2	Non-Tax Revenue	5,451	5,017	-7.96
3	Share of Central Taxes	31,499	35,386	12.34
4	Grants -in-aid from GoI	43,632	39,170	-10.23
5	Revenue Receipts (1+2+3+4)	1,54,272	1,50,552	-2.41
6	Revenue Expenditure	1,73,818	1,59,163	-8.43
7	Revenue Deficit (-)/ Surplus (+) (5-6)	-19,546	-8,611	-55.94
8	Fiscal Deficit (-)/ Surplus (+)	-38,224	-25,013	-34.56
9	Debt-GSDP ratio (per cent)	32.51	31.00	-4.64
10	GSDP growth rate at current prices (per cent)	18.47	18.47	0.00

Source: Finance Accounts and MTFPS of the State of Andhra Pradesh 2021-22; **Note:** MTFPS for 2021-22 was placed in legislature during the budget session of 2022-23 based on the Revised Estimates of 2021-22; * Arrived at after exclusion of GST Compensation of ₹ 5,583.19 crore (2020-21: ₹ 2,311 crore and 2021-22: ₹ 3,272.19 crore) received as back-to-back loans under debt receipts from the total outstanding liabilities as it is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources.

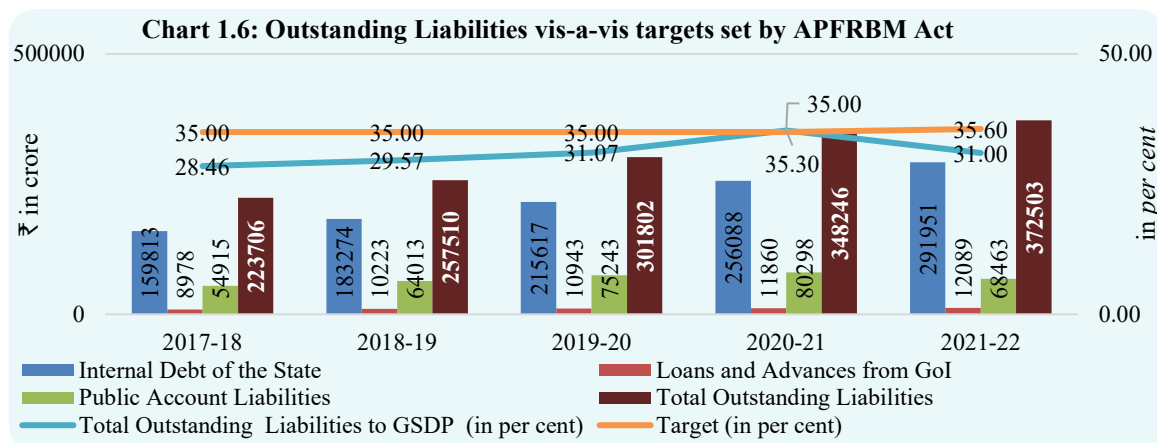
The MTFPS was prepared based on the Revised Estimates of 2021-22. Therefore, the actuals of the above parameters were close to the projections made in the MTFPS. However, as shown in **Table 1.2**, there were huge variations between actuals vis-à-vis Budget Estimates.

State Government replied that, the State faced multiple shocks – State bifurcation and Covid -19 disruptions. The Covid-19 pandemic had affected deficit indicators for GoI and other states which resulted in deficit indicators being negative over the past five-year period.

The State Government also replied that, sustained efforts were made to curtail the revenue and fiscal deficits and comply with the APFRBM targets. State Government stated that the revenue receipts had increased by 28.53 per cent during 2021-22 which resulted in substantial improvement in revenue and fiscal deficits for the year 2021-22.

1.8.2.1 Outstanding liabilities of State Government

The details of outstanding liabilities and their ratio to GSDP vis-à-vis the revised APFRBM targets are depicted in **Chart 1.6**.



Source: Finance Accounts; **Note:** Outstanding Liabilities excludes an amount of ₹ 5,583.19 crore (2020-21: ₹ 2,311 crore and 2021-22: ₹ 3,272.19 crore) received towards back-to-back loan from GoI in lieu of GST compensation as it is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources

The outstanding liabilities of the State showed an increasing trend during the five-year period 2017-22. It increased from ₹ 2,23,706 crore during 2017-18 to ₹ 3,72,503 crore during 2021-22 (an increase of 66.51 per cent).

Public Debt (Internal Debt and Loans and Advances from GoI) of the composite State of Andhra Pradesh was ₹ 1,66,522 crore as of 01 June 2014. Post bifurcation of the State with effect from 02 June 2014, the residual State of Andhra Pradesh was allocated a debt of ₹ 97,124 crore on population basis (58.32:41.68 ratio between AP and Telangana). As can be seen from the **chart 1.6**, the Public Debt has increased and stood at ₹ 3,04,040 crore as of end of March 2022 (an increase of 213 per cent over that of 2014-15).

The total outstanding liabilities of the State to GSDP during the year 2021-22 was within the target of 35.60 per cent. After considering the Off Budget Borrowings of the State (₹ 1,18,393.81 crore), the liabilities of the State will be 40.85 per cent of GSDP which is more than the target prescribed in APFRBM Act.

Understatement of Outstanding liabilities of the State Government

The State Government fixed the target of the total outstanding liabilities as a percentage of GSDP to 35.60 for the year ended 31 March 2022. However, while calculating the total outstanding liabilities to GSDP ratio the State Government excluded the liabilities on account of Guarantees.

As per FRBM Act, 2005 the term 'liabilities' also include the liabilities of PSUs/SPVs serviced out of State Budgets. The outstanding liabilities on account of the borrowings of the State Government PSUs/SPVs to the end of March 2022 was ₹ 1,18,393.81 crore (9.85 per cent of GSDP). These borrowings were not disclosed in Finance Accounts of the State Government.

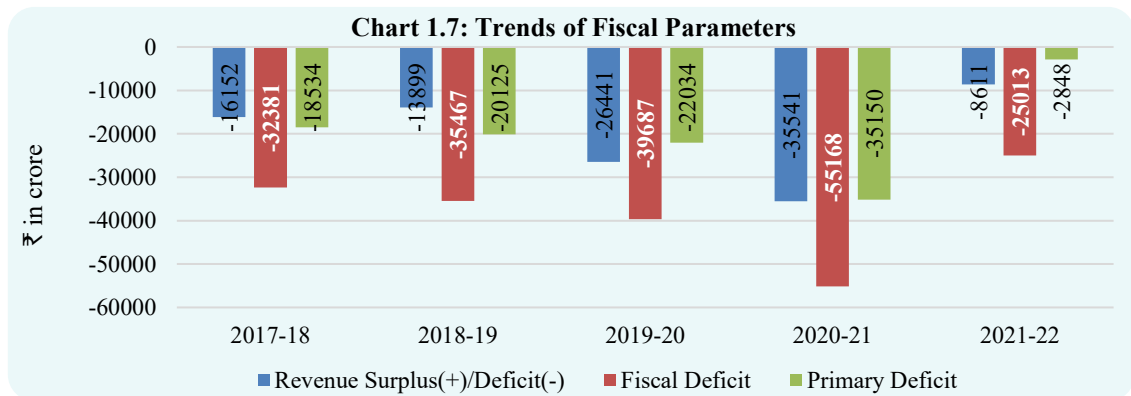
As per Section 6(i) of AP FRBM Rules 2006 the liabilities in respect of major works and contracts, committed liabilities in respect of land acquisition charges and claims on the State Government in respect of unpaid bills on works and supplies *etc.*, are to be disclosed in the Budget. Audit observed that, State Government did not disclose the committed liabilities on account of pending payments of ₹ 17,804.20 crore to DISCOMs (towards electricity dues), pending payments towards irrigation projects and water supply schemes to the end of the year 2021-22. (*Refer para 4.3 of this Report*).

The State Government replied that, it has been following the cash accounting system, as per the prescribed rules on par with the other State Governments and the GoI due to which the bills payable as well as the bills receivable are not normally considered. Thus, Government stated that, the pending liabilities such as subsidies payable to the DISCOMs, contractor/suppliers' bills payable, etc. are not included as liabilities in statement no. 6 of the Finance Accounts and the same system is followed for the financial year 2022-23 & earlier as well.

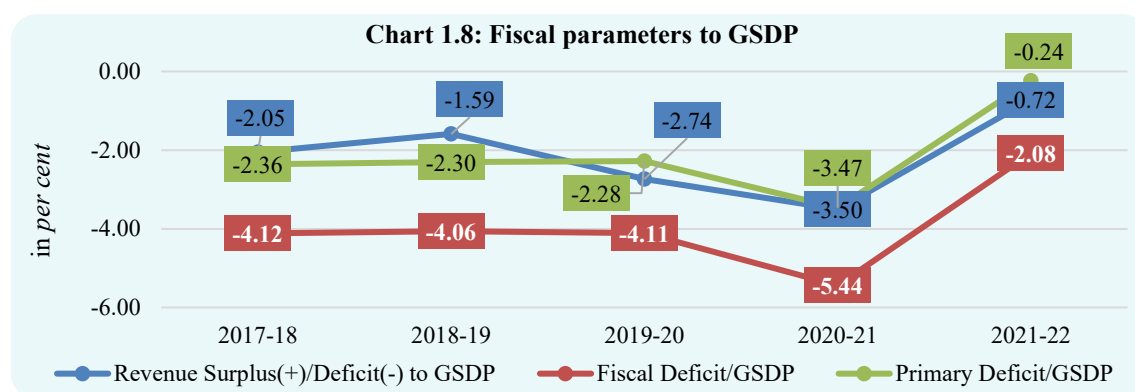
The reply of the Government is not acceptable due to the fact that as per the AP FRBM Rules² (June 2006) the State Government should disclose liability in respect of major works and contracts, committed liabilities in respect of land acquisition charges and claims on the State Government in respect of unpaid bills on works and supplies in Form D-9. This disclosure is not dependent on the basis of the accounting system used. Further, as per appendix XII of the Finance Accounts, the details of committed liabilities of the State Government should also be disclosed.

1.8.3 Trends of Surplus/Deficit

The trends of Surplus/Deficit and its percentage in GSDP of the State for the years 2017-18 to 2021-22 are shown in **Charts 1.7** and **1.8**.



² G.O.Ms.No.186, Finance (BG.I) Department dated 30 June 2006



Source: Finance Accounts of respective years.

The Revenue Deficit of the State showed fluctuating trend during the period 2017-22 and registered a five year high of ₹ 35,541 crore during 2020-21. During the year 2021-22, the revenue deficit of the State was ₹ 8,611 crore. The deficit was declined by 75.77 per cent when compared to 2020-21.

The Fiscal and Primary deficits were also declined during the year 2021-22 by 54.66 per cent and 91.89 per cent respectively when compared to the previous year.

As a percentage to GSDP, the deficits shown mixed trend during the period 2017-22 with lowest recorded during 2021-22 and highest in 2020-21.

Audit observations with regard to the deficits indicated in **Chart 1.7** above are as follows:

1.8.3.1 Revenue Deficit

Finance Commission (FC) assessed the Receipts and Expenditure of the State based on the forecast (estimates) made by the State and accorded the Post Devolution Revenue Deficit Grant (PDRDG) taking into consideration the differences among the States in fiscal capacity and expenditure need, including cost disabilities.

The XIV FC assessed the post-devolution Revenue Deficit and sanctioned ₹ 22,112 crore of Revenue Deficit grant for the period 2015-20.

XV FC also sanctioned ₹ 5,897 crore for the year 2020-21 and ₹ 30,497 crore of Revenue Deficit grant for the period 2021-26 in order to eliminate the projected Revenue Deficit.

The details of PDRDG received and Revenue Deficit for the years 2015-16 to 2021-22 are given in **Table 1.6**.

Table 1.6: Revenue Deficit - Actuals vis-à-vis Targets for the years 2015-22

(₹ in crore)				
Year	Projections of Revenue Deficit made in Macro Economic Framework Statement	Revenue Deficit projected by XIV and XV FC	PDRDG received as per the recommendations of XIV and XV FC	Revenue Deficit (After receipt of Post- devolution Grant)
XIV FC PERIOD				
2015-16	4,140	6,609	6,609	7,302
2016-17	4,598	4,930	4,930	17,231*
2017-18	4,018	4,430	4,430	16,152

Year	Projections of Revenue Deficit made in Macro Economic Framework Statement	Revenue Deficit projected by XIV and XV FC	PDRDG received as per the recommendations of XIV and XV FC	Revenue Deficit (After receipt of Post- devolution Grant)
2018-19	11,654	3,644	3,644	13,899
2019-20	26,647	2,499	2,499	26,441
XV FC PERIOD				
2020-21	34,927	5,897	5,897	35,541
2021-22	19,546	17,257	17,257	8,611

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

The State Government could not contain the Revenue Deficit during 2015-22 despite receipt of PDRDG from GoI as per the recommendations of XIV and XV Finance Commissions. XV FC estimated ₹ 17,257 crore as Post Devolution Revenue Deficit of the State for the year 2021-22 based on the forecast (estimates) of the State and sanctioned the same as Revenue Deficit grant for the year 2021-22. Though, the State received ₹ 17,257 crore as PDRDG for the year 2021-22, the State was having a revenue deficit of ₹ 8,611 crore.

Revenue Deficit as a percentage of Total Revenue Receipts (TRR)³ decreased from 30.34 *per cent* in 2020-21 to 5.72 *per cent* during 2021-22. However, the revenue deficit of the State was higher when compared to Budget Estimates (₹ 5,000 crore) of the State Government during the year 2021-22.

During 2021-22 the revenue expenditure was decreased due to lapsing of unspent balances, recoveries of overpayments *etc.*, to the tune of ₹ 26,379.81 crore during March 2022. When compared to previous year, there was an overall decrease of revenue deficit by 75 *per cent* during the year 2021-22. The detailed analysis and audit observations on lapsing of funds was shown at *para 2.5.2* of Chapter 2 of this report.

1.8.4 Components of fiscal deficit and its financing pattern

The components and financing patterns of fiscal deficit are shown in **Table 1.7**.

Table 1.7: Components of fiscal deficit and its financing pattern

(₹ in crore)

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22		
					Receipts	Disbursements	Net
Components of Fiscal Deficit (1 to 4)	(-)32,381	(-)35,467	(-)39,687	(-)55,168	1,52,661	1,77,674	(-)25,013
1. Revenue deficit	(-)16,152	(-)13,899	(-)26,441	-35,541	1,50,552	1,59,163	(-)8,611
2. Net Capital Expenditure	(-)13,491	(-)19,976	(-)12,242	-18,975	-1	16,373	(-)16,374
3. Net Loans and Advances	(-)2,730	(-)1,566	(-)1,001	-652	2,110	2,138	(-)28

³ Revenue Deficit to Total Revenue Receipts during 2020-21 = (₹35541 crore/₹117136 crore)*100 = 30.34 *per cent*

Revenue Deficit to Total Revenue Receipts during 2021-22 = (₹ 8611 crore /₹ 150552 crore)*100 = 5.72 *per cent*

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22		
					Receipts	Disbursements	Net
4. Net Inter-State settlement	(-8)	(-)26	(-)3	0	0	0	0
Financing Pattern of Fiscal Deficit							
a.Net Public Debt[#]	18,982	24,706	33,062	43,700	1,59,610	1,20,246	39,364
b.Net Public Account	9,973	12,628	12,929	7,268	-94,544	-82,028	(-)12,515
Small Savings, PF etc.	1,643	2,221	1,015	6,531	7907	4192	3714
Reserve Funds	728	2,181	1,957	497	2830	1131	1699
Deposits and Advances	4,608	10,160	8,970	-1,235	101496	117975	(-) 16478
Suspense and Misc.	337	(-)69	1,043	1,484	(-) 206788	(-) 205341	(-) 1446
Remittances	2,657	(-)1,865	(-)57	-9	11	15	(-) 4
c. Contingency Fund	0	0	0	0	0	1	(-)1
d. Increase (+)/Decrease (-) in Cash Balance	3,426	(-)1,867	(-)6,304	4,200	10,491	12,326	(-)1,835
Total (a to d)	32,381	35,467	39,687	55,168	-	-	25,013

Source: Finance Accounts of respective years. [#] Includes market borrowings and borrowings from LIC, GIC, NABARD, NCDC, NSSF and Ways and Means Advances.

Borrowed funds financed for meeting revenue expenditure create a liability for future years without creating any assets. In the year 2021-22, more than half of borrowed funds were applied to finance deficit on revenue account and clearing of public account liabilities to an extent of 22 per cent and 32 per cent respectively.

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

1.8.5 Impact on Revenue and Fiscal deficits due to misclassifications and other factors

Misclassification of revenue expenditure as capital and off budget fiscal operations impact Revenue and Fiscal deficits of State. During the year 2021-22, due to misclassification of revenue expenditure under capital section, non-provisioning for interest payment and lapsing of a portion of borrowings of AP Water Resources Development Corporation (APWRDC) to Consolidated Fund led to an overall understatement of Revenue Deficit by ₹ 2,192.05 crore and understatement of Fiscal Deficit by ₹ 1,503.25 crore as detailed below.

Table 1.8: Understatement of Revenue Deficit and Fiscal Deficit

Particulars	(₹ in crore)	
	Impact on Revenue Deficit (Understated (+) / overstated (-))	Impact on Fiscal Deficit (Understated (+) / overstated (-))
Classification of Revenue expenditure as capital	(+) 688.80	---
Non provision of interest under Reserve Funds and Deposits	(+) 85.32	(+) 85.32
Lapsing of loan amount raised by the APWRDC into consolidated fund.	(+) 752.91	(+) 752.91
Non - release of pass-through Health sector Finance Commission grants	(+) 488.15	(+) 488.15
Non provision/payment of interest over Non - release of pass-through FC grants	(+) 11.33	(+) 11.33
Short release of Road Development Cess to AP Road Development Corporation (APRDC)	(+) 165.54	(+) 165.54
Total	(+) 2,192.05	(+) 1,503.25

Source: Finance Accounts;

After taking into account the above understatements, Revenue Deficit and Fiscal Deficits works out to ₹ 10,803.04 crore (₹ 8,610.99 crore plus ₹ 2,192.05 crore) and ₹ 26,515.99 crore (₹ 25,012.74 crore plus ₹ 1,503.25 crore) respectively. The Revenue Deficit and Fiscal Deficits as a percentage of GSDP were also increased to 0.90 per cent from 0.72 per cent and 2.21 per cent from 2.08 per cent.

1.9 Conclusion

During 2021-22, Andhra Pradesh registered GSDP growth rate of 18.47 per cent.

State Government amended the APFRBM Act in December 2021. While enacting the targets/ceiling of fiscal parameters of the State for the years 2021-22 to 2025-26, the Government guarantees were excluded while calculating the targets/ceiling with reference to Outstanding total liabilities of the State to GSDP. The limit of annual incremental risk weighted guarantees which was 90 per cent of the Total Revenue Receipts (TRR) in the year preceding the current year was enhanced to 180 per cent to increase the fiscal space.

The fiscal parameters of the State as reflected in its Revenue, Fiscal and Primary Deficits were negative throughout the five-year period 2017-22.

There were instances of misclassification of revenue transactions under capital section and non-accountal of other liabilities, which would have pushed up the Deficits to a further extent, as brought out in this Report as well as in the State Finances Audit Report of the CAG over the last few years.

Though, the outstanding liabilities were ostensibly below the targets prescribed in the revised APFRBM Act, these would be way more, if the liabilities of the State Government with regard to its extra-budgetary borrowings are taken into account. The liabilities of the State have been increasing year-on-year and majority of the borrowings during the year 2021-22 were utilised to balance Revenue Account of the State affecting asset creation in the State.