

# Executive Summary

---

## *About the Report*

*This Report of the CAG of India is on the State Finances for the year 2022-23. It provides an overview of the finances, budgetary management and quality of accounts, financial reporting practices and other matters relevant to State Finances.*

*This executive summary highlights the contents of this report and through snapshots of the important figures and aspects, provides insight into fiscal sustainability, performance against the budget intent, revenue and expenditure projection, the reasons for variations and its impact.*

---

Gross State Domestic Product (GSDP) (at current prices) grew at an average annual growth rate of 11.01 *per cent* from ₹ 8,73,721 crore in 2018-19 to ₹ 13,17,728 crore in 2022-23.

There was 16.22 *per cent* growth in GSDP over 2021-22. The revenue receipts grew at 4.79 *percent* and the percentage of revenue receipts over GSDP decreased from 13.28 *per cent* in 2021-22 to 11.97 *per cent* in 2022-23. The tax revenue increased by 9.25 *per cent* during the period and the State's own tax revenue increased by 9.93 *per cent*. The total expenditure (revenue expenditure, capital expenditure and loans and advances) of the State of Andhra Pradesh increased from ₹ 1,77,674 crore in 2021-22 to ₹ 2,10,272 crore increasing by 18.35 *per cent*. Of this, revenue expenditure showed 26.45 *per cent* increase from 2021-22. Revenue deficit increased from ₹ 8,611 crore to ₹ 43,487 crore registering 405.02 *per cent* increase over 2021-22. The increase was mainly due to increase in committed expenditure by ₹ 15,451 crore, financial assistance to local bodies and other institutions by ₹ 14,208 crore and subsidies by ₹ 8,315 crore when compared to previous year. Fiscal deficit increased from ₹ 25,013 crore in 2021-22 to ₹ 52,508 crore in 2022-23 increasing by 109.92 *per cent*.

## *Receipt-Expenditure Mismatch*

The continuous mismatch between receipts and expenditure indicates rising fiscal stress. The State has different sources of receipts such as State Own Tax Revenue, Non-tax Revenue, Devolution of States' share in Union taxes, Grants in aid and transfers from the Union Government and non-debt capital receipts. The State Government's expenditure includes expenditure on revenue account as well as capital expenditure (assets creation, loans and advances, investments, *etc.*).

From 2018-19 to 2022-23, revenue receipts grew from ₹ 1,14,671 crore to ₹ 1,57,768 crore, with an average annual growth rate of 8.91 *per cent*. Capital receipts also increased from ₹ 98,257 crore to ₹ 1,86,020 crore during this period. State Own Revenue (Tax and Non-Tax) was the major contributor to Revenue Receipts from the year 2018-19 to 2022-23 with more than 50 *per cent* share. The share of Grants-in-aid in revenue receipts rose from 16.97 *per cent* in 2018-19 to 22.91 *per cent* in 2022-23. The State Government received ₹ 18,037 crore as Central share for the Centrally

Sponsored Schemes (CSSs) in the year.

Revenue expenditure is incurred to maintain the current level of services and payment for the past obligation. As such, it does not result in any addition to the State's infrastructure and service network. Between 2018-19 and 2022-23, revenue expenditure increased from ₹ 1,28,570 crore (14.72 *per cent* of GSDP) to ₹ 2,01,255 crore (15.27 *per cent* of GSDP). It consistently made up a significant portion (85 to 95 *per cent*) of the total expenditure during this period, growing at an average annual rate of 12.17 *per cent*.

### ***Result of expenditure beyond means***

The gap between the revenue receipt and revenue expenditure results in revenue deficit. The revenue deficit of the State increased to ₹ 43,487 crore (3.30 *per cent* of GSDP) in the current year from ₹ 13,899 crore (1.59 *per cent* of GSDP) in the year 2018-19.

The State Government spent ₹ 7,244 crore only on capital account. This was 3.45 *per cent* of the total expenditure in the year 2022-23. Capital expenditure was just 4.43 *per cent* of the total borrowings. Thus, the borrowed funds were being used mainly for meeting current consumption and repayment of borrowings instead of capital creation/development activities.

The gap between the total expenditure and total non-debt receipt of the State results in fiscal deficit. The fiscal deficit of the State increased to ₹ 52,508 crore (3.98 *per cent* of GSDP) in 2022-23 from ₹ 35,467 crore (4.06 *per cent* of GSDP) in 2018-19.

Under the revenue expenditure, the quantum of committed expenditure constitutes the largest share. Committed expenditure has the first charge on the resources and consists of interest payments, expenditure on salaries and wages and pensions. Committed expenditure on interest payments, salaries and pensions constituted 51-54 *per cent* of revenue expenditure during 2018-19 (51 *per cent*) and 2022-23 (51 *per cent*). The Committed expenditure increased at an average annual rate of 11.60 *per cent* i.e. from ₹ 65,873 crore in 2018-19 to ₹ 1,01,943 crore in 2022-23 {an increase of 17.86 *per cent* over 2021-22 (₹ 86,492 crore)}.

Inflexible expenditure decreased from 6.11 *per cent* to 4.37 *per cent* of revenue expenditure during 2018-19 to 2022-23, indicating a declining trend. The inflexible expenditure increased from ₹ 8,332 crore in 2021-22 to ₹ 8,798 crore in 2022-23 registering an increase of 5.59 *per cent*. The average annual increase rate of inflexible expenditure during the period from 2018-19 (₹ 7,860 crore) to 2022-23 (₹ 8,798 crore) was 3.70 *per cent*.

Taken together, the committed and inflexible expenditure in 2022-23 was ₹ 1,10,741 crore; 55 *per cent* of the revenue expenditure. Upward trend on committed expenditure leaves the Government with lesser flexibility for other priority sectors and capital creation.

### ***Subsidies constitute major portion of the non-committed expenditure***

Within the non-committed expenditure, there is an increasing trend of subsidies, which increased from ₹ 2,352 crore in 2018-19 to ₹ 23,004 crore in 2022-23 i.e., from 1.83

per cent of the total revenue expenditure in 2018-19 to 11.43 per cent in 2022-23. Power subsidies constituted a significant portion, ranging from 43 per cent to 88 per cent of the total subsidies during this period. Apart from this, the State Government also spent ₹ 3.31 crore on implicit subsidies during the year 2022-23.

### ***Capital Expenditure***

Capital Expenditure of the State Government constituted 3.45 per cent of total expenditure. As a proportion of GSDP, the Capital Expenditure was at five - year low during 2022-23 (0.55 per cent). When compared with the Budget Estimates (₹ 30,680 crore) of 2022-23, the actual capital expenditure was only 23.61 per cent of the projected amount. The Capital expenditure decreased by 55.76 per cent when compared to previous year and reduced by 63.74 per cent from 2018-19 to 2022-23.

Government of India released an amount of ₹ 6,105.56 crore in the form of interest free loan with a condition to utilise the funds on or before 31 March 2023 for the approved projects. However, due to non-furnishing of utilisation particulars by the State Government, Audit could not vouchsafe the expenditure or ensure the utilisation of funds for intended purposes.

The share of capital expenditure (3.45 per cent of total expenditure) was significantly lower in the State when compared to General States average (13.48 per cent of total expenditure) despite the receipt of substantial amounts from GoI towards Capital Expenditure. This affects the physical capital formation with a cascading impact on economic growth in the long run.

### ***Off-budget borrowings***

As on 31 March 2023, the State Government, through Public Sector Undertakings and para-statal, raised ₹ 1,28,048 crore as off-budget borrowings, which did not flow into the Consolidated Fund of the State but are required to be repaid and serviced through budget. In 2022-23, the State Government provided assistance / grants in aid of ₹ 15,499 crore for repayment and servicing of the off-budget borrowings. This was in addition of the repayment and interests paid on the borrowings by the Government.

### ***Contingent Liabilities on account of Guarantees***

In 2022-23, the Government provided guarantees against borrowings of ₹ 20,872 crore. State Government did not receive any guarantee commission against the receivable amount of ₹ 2,015 crore for the year 2022-23.

### ***Funds to Single Nodal Agency***

The Government of India and the State Government have introduced system of Single Nodal Agency (SNA) for implementation and fund flow for each Centrally Sponsored Scheme (CSS). The share of the Government of India and the State Government is transferred to the Bank Account of the SNA lying outside the Government Account. As per information available on the PFMS portal, ₹ 21,003.24 crore (₹ 14,755.53 crore share of the Government of India and ₹ 6,247.71 crore share of the State Government) was transferred to the SNAs during 2022-23. As per data available on PFMS Portal,

₹ 2,040.63 crore was lying unspent in the bank accounts of SNAs as on 31 March 2023. Detailed vouchers and supporting documents of actual expenditure were not received by the office of Accountant General (A&E) Andhra Pradesh from the SNAs.

### ***Fiscal sustainability***

Fiscal sustainability is examined in terms of macro-fiscal parameters such as deficits, level of debt and liabilities, commitments on account of off-budget borrowings, guarantees, subsidies, *etc.* So far as revenue and expenditure mismatch is concerned, one of the important constraints is committed and inflexible expenditure, which includes salaries and wages, pension payments, interests, *etc.* and also other inflexible expenditure such as those arising out of commitment for centrally sponsored schemes, transfer to reserve funds, transfer to local bodies, *etc.*

### ***FRBM requirements and compliance with fiscal parameters***

The FRBM Act / Rules prescribe certain limits within which, revenue deficit, fiscal deficit, debt as a percentage of the Gross State Domestic Product (GSDP) should be, and similarly for guarantees as a percentage of revenue receipts of the previous year. (this may require change based on the parameter). In 2022-23, revenue deficit in GSDP was 3.30 *per cent* as against the limit of 3.30 *per cent*; fiscal deficit was 3.98 *per cent* as against the limit of 4.50 *per cent*; liability of the State was 32.17 *per cent* as against limit of 36.30 *per cent* and guarantees given were 92.24 *per cent* as against the prescribed limit of 180 *per cent*.

Further, if the quantum of the off-budget borrowings is included as part of debt, the overall liability (Includes Public Debt and Public Account Liabilities) of the Government was 41.89 *per cent* of the GSDP. Going by the fiscal trends, the State finances are heavily stressed.

As per the debt stabilisation analysis, the public debt of the Government of Andhra Pradesh has been increasing on an average at a rate of 16.52 *per cent* annually during the period 2018-19 to 2022-23. Public debt-GSDP ratio of Andhra Pradesh has increased from 22.15 *per cent* in 2018-19 to 27.05 *per cent* in 2022-23, which indicates that debt stabilisation may not be possible in near future.

Domar gap (g-r) was negative during covid years (2019-20 and 2020-21). However, in post covid years, the Domar gap turned positive due to high growth in GSDP. Positive Domar gap due to high growth rate in post covid years may also be seen with reference to low base for comparison in previous year due to covid. Further, during 2022-23, Domar gap showed contraction over previous year from 9.11 to 7.81.

Further, the primary deficit also registered increasing trend from 2018-19 to 2020-21. During 2021-22, the primary deficit remained lower but increased drastically during 2022-23. Therefore, the trends of strong economic growth (expressed as  $g-r > 0$ ) by only observing the Domar gap in 2021-22 and 2022-23 cannot be conclusively generalized. Further, substantial proportion of public debt receipts was being used for repayment for borrowings, which ranged between 68.51 *per cent* and 83.40 *per cent* during the period 2018-2023. Thus, it becomes evident that depending solely on economic growth

(expressed as  $g-r > 0$  from 2021-2023) would not suffice to cover the debt obligations of the State.

*Going by the analysis and results as discussed above, the finances of the State of Andhra Pradesh is marked by increasing trend of liabilities (debt, guarantees, off-budget borrowings, etc.) which pose risk to target of debt stabilisation and debt sustainability.*

### **Budget performance**

#### **Aggregate expenditure outturn**

Budget performance in terms of budgetary intent and budget implementation is examined to assess extent to which the aggregate expenditure outturn reflects the amount originally approved both in terms of excess and saving. In Revenue section, deviation in outturn compared with BE was (-) 3.67 per cent. This was due to deviation between 0 and  $\pm 25$  per cent in 26 grants, between  $\pm 25$  per cent to  $\pm 50$  per cent in seven grants, between  $\pm 50$  per cent to  $\pm 100$  per cent in six grants and equal to or more than 100 per cent in one grant.

In Capital section, deviation in outturn compared with BE was (-) 69.87 per cent. This was due to deviation between 0 and  $\pm 25$  per cent in two grants, between  $\pm 25$  per cent to  $\pm 50$  per cent in three grants, between  $\pm 50$  per cent to  $\pm 100$  per cent in 23 grants and equal to or more than 100 per cent in six grants. No Provision was, however, made in respect of one grant of the Capital section.

#### **Expenditure composition outturn**

Budget performance also looks at the extent to which the re-allocation between the main budget categories during the execution have contributed to variance in expenditure composition. This measure indicates the extent of variation between the final budget and the actual expenditure. In Revenue section, deviation in outturn compared with RE was (-) 3.76 per cent. This was due to deviation between 0 and  $\pm 25$  per cent in 31 grants, between  $\pm 25$  per cent to  $\pm 50$  per cent in six grants, between  $\pm 50$  per cent to  $\pm 100$  per cent in one grant and equal to or more than 100 per cent in two grants.

In Capital section, deviation in outturn compared with RE was (-) 74.38 per cent. This was due to deviation between 0 and  $\pm 25$  per cent in 14 grants, between  $\pm 25$  per cent to  $\pm 50$  per cent in seven grants, between  $\pm 50$  per cent to  $\pm 100$  per cent in eight grants and equal to or more than 100 per cent in three grants.

It was noticed that supplementary provisions of ₹ 18,198.66 crore during the year 2022-23 in 48 cases (more than ₹ one crore in each case) proved unnecessary, as the expenditure did not come up even to the level of original provisions.

#### **Savings**

There were huge savings during 2022-23, with 46 out of 97 Grants/ Appropriations showing utilisation of less than or equal to 50 per cent of the budget allocation mainly due to meeting the expenditure of the State through the State Corporations.

*Overall Budget reliability assessment indicates that though the deviations between the actual expenditure and original budget as well as between the actual expenditure and*

*the final budget were 12 percent and 25 per cent respectively, there were deviations up to 50 per cent and even 100 per cent in different grants. Moreover, it was also noticed that in several cases, there were supplementary grants where expenditure was not even up to the original grant. A reliable budget practice should need to deal with such deviations.*

#### ***Misclassification in accounts***

It was noticed that an amount of ₹ 713.14 crore under seven schemes was made under the wrong head of account.

#### ***Regularisation of Excess over Grants/ Appropriations***

The State Government has to get excesses over grants/appropriations regularised by the State Legislature as per article 204 and 205 (1) (b) of the constitution. It was observed that in 2022-23 there was excess expenditure of ₹ 4,027.42 crore under three grants which required regularization. Further, excess disbursements of ₹ 3,55,554.43 crore pertaining to 2004-05 and 2021-22 were yet to be regularized.

#### ***Quality of Accounts and Financial Reporting***

Quality of accounts and financial reporting covers items, transactions and events which relate to gaps in compliance, regularity weaknesses and issues relating to delay in receipt of those accounting records or adjustment records which evidence the actual expenditure. It also highlights issues pertaining to the accounts and financial reporting such as parking of funds outside the Government accounts, non- or short – discharging of liabilities and misclassification of transactions and data gaps.

#### ***Compliance with IGAS***

As against the requirements of the Indian Government Accounting Standards (IGAS), the State Government did not make compliance with all IGAS: Guarantees, Classification of Grants-in-Aid, Loans and Advances made by the Government.

#### ***Utilisation Certificates against conditional grants***

The status of outstanding UCs to the end of March 2023 could not be ascertained due to non-receipt of the relevant GOs/ sanctions from the State Government for which UCs are to be watched by Accountant General.

#### ***DC bills against AC bills***

Similarly, despite the requirement of submitting Detailed Contingency (DC) Bills against the advance money withdrawn through Abstract Contingency (AC) Bills, 887 AC bills of ₹ 1,313.91 crore were pending for submission of DC bills as on 31<sup>st</sup> March 2023, out of which 539 AC Bills amounting to ₹ 1,135.83 crore pertained to the period upto 2021-22.

#### ***Non-Provision of interest on accounts of Zilla Parishad Provident Funds***

The liability towards interest on accounts of ZPPFs was not being discharged by the Government on periodical basis or otherwise by making suitable provisions in the Budget Estimates, there is an understatement of revenue expenditure/revenue deficit as

well as accumulation of committed liability in future years.

*Compliance with prevailing rules and codal provisions are meant to ensure control and accountability in accounting and financial reporting. Non-compliance and deviations impact the quality of accounting and financial reporting adversely. Non-timely submission of UCs against conditional grants; non-submission of DC bills against AC bills; non-compliance with IGAS; funds remaining outside Government accounts; and non-supply of details of expenditure from SNAs have impacted the quality of accounts adversely.*

### ***Working of State Public Sector Undertakings***

As on 31 March 2023, there were 124 State Public Sector Enterprises (SPSEs) in Andhra Pradesh, including three Statutory Corporations and 118 Government Companies (including 21 inactive Government Companies) and three Government Controlled Other Companies under the audit jurisdiction of the Comptroller and Auditor General of India (CAG). Audit noticed that the prescribed timelines regarding submission of Financial Statements were not adhered to by 90 SPSEs out of 103 working SPSEs whose 342 accounts were in arrears. Out of the total profit of ₹ 2,786.83 crore earned by 14 working SPSEs, 97.66 per cent was contributed by Seven SPSEs. Out of total loss of ₹ 1,251.63 crore incurred by five working SPSEs, loss of ₹ 1,227.55 crore was incurred by one SPSE. The financial impact of CAG's comments issued during October 2022 to September 2023 on financial statements of SPSEs was ₹ 139.32 crore on profitability and ₹ 1,207.66 crore on the financial position.

*The State Government may impress upon the managements of SPSEs to ensure timely submission of their financial statements. In the absence of finalised accounts, Government investments in such SPSEs remain outside the oversight of the State Legislature. The State Government may also analyse the reasons of losses in loss making SPSEs and initiate steps to make their operations efficient and profitable.*

\*\*\*