

Evaluation of Andhra Pradesh State Finances

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<i>Preface & Acknowledgements</i>	ii
<i>List of Tables and Figures</i>	iii
<i>Abbreviations</i>	vi
<i>Executive Summary</i>	viii

TABLE OF CONTENTS

1. INTRODUCTION	2
2. MACRO-ECONOMIC PERFORMANCE OF ANDHRAPRADESH STATE	6
3. TRENDS IN REVENUE RECEIPTS	23
4. TRENDS IN EXPENDITURE	42
5. TRANSFERS FROM THE CENTRE	59
6. GROWTH OF PUBLIC DEBT AND ITS COMPOSITION	64
7. IMPLEMENTATION OF FRBM ACT	82
8. ANALYSIS OF CONTINGENT LIABILITIES (GUARANTEES) OF THE STATE	90
9. STATE SUBSIDIES	101
10. PERFORMANCE OF PUBLIC SECTOR UNDERTAKINGS IN ANDHRA PRADESH	117
11. ANALYSIS OF THE STATE'S TRANSFERS TO URBAN AND RURAL LOCAL BODIES IN THE STATE: MAJOR DECENTRALIZATION INITIATIVES IN AP STATE	142
12. EMERGING ISSUES IN ANDHRA PRADESH STATE FINANCES	183
13. WAY FORWARD	188
References	192

Preface

The present State of Andhra Pradesh has been carved out of undivided state of Andhra Pradesh in 2014 with 13 districts. Subsequently the districts have been reorganised into 26 districts. The state's performance in terms of own tax and non-tax revenues has been below in comparison with the Southern states. Buoyancy of tax revenues is a concern.

The overall fiscal performance of the AP State has been poor as analysed in the report, the reasons for such poor performance are - the state has lost out in revenue share and its growth due to bifurcation in 2014 which resulted in lower own taxes; second and most important, the indiscriminate subsidies and ill-targeted welfare schemes financed by diverting funds from other sources since 2019-20. The report suggested the need for good fiscal management, rationalisation of expenditure, augmenting revenue resources by enhancing duties, taxes and user charges. It suggested that finances of the State be brought to sustainable levels for which action needs to be initiated on multiple fronts and strict adherence to FRBM targets.

All the issues incorporated in the ToR of the Sixteenth Finance Commission for the study have been analysed in the report in detail scientifically and inferences arrived. I hope the report would serve the purpose for which the study has been sponsored by Sixteenth Finance Commission, Government of India.

We are grateful to the Sixteenth Finance commission for giving Centre for Economic and Social Studies (CESS) the opportunity to undertake the study on 'Evaluation of Andhra Pradesh State Finances'. The Report has been prepared by Dr GR Reddy (lead researcher) and Dr N Sreedevi, Dr M Venkatanarayana, Prof C Ravi and Prof M Gopinath Reddy. I thank the team profusely for their contributions to the Report. Special thanks are due to Dr GR Reddy, Founder Member, CESS and expert in Public Finance for completing the onerous task diligently. Sri J Ramanjaneyulu has processed the required data for the report. Smt Panchakshari and Research Associates at CESS helped in collection and compilation of data. Smt P Rajyalakshmi has rendered secretarial support in preparation of the report. I acknowledge with thanks the support received from them in preparation of this report.

E Revathi
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LIST OF TABLES AND FIGURES

TABLES

2.1	Decadal average growth rate of sectoral GVA and aggregate GDP	15
2.2	State wise decadal average PCGSDP, average growth rates & and their rankings	17
2.3	GSDP growth rate in pandemic year	18
2.4	Loss due to pandemic and growth in recovery phase	20
3.1	Composition of total Revenue receipts	24
3.2	Percentage of composition of revenue receipts of AP vis-à-vis southern states	26
3.3	Total Revenue Receipts as Percentage of GSDP	27
3.4	Revenue Receipts of Southern States (as percentage of GSDP)	28
3.5	Composition of own tax revenue in percentage	29
3.6	SGST including GST compensation	30
3.7	Tax buoyancy of own tax revenue	33
3.8	Composition of own non-tax revenue (percentage share)	34
3.9	Annual growth rates of non-tax revenue (percentage)	34
3.10	Own non-tax revenue tax buoyancy	35
3.11	Major contributors to non-tax revenues under different heads (percentage share)	35
3.12	Non-tax revenue under various services as percentage of revenue expenditure	36
4.1	Andhra Pradesh composition of total expenditure (percentage)	43
4.2	Andhra Pradesh composition of expenditure as percentage to GSDP	44
4.3	Andhra Pradesh expenditure growth (%)	44
4.4	Andhra Pradesh total revenue expenditure composition	45
4.5	Percentage composition of revenue expenditure (developmental)	46
4.6	Percentage composition of revenue expenditure (non-developmental)	47
4.7	Composition of capital outlay (percentage)	49
4.8	Committed expenditure of AP	50
4.9	Committed expenditure of AP as percentage of own revenue receipts	51
4.10	Committed expenditure of AP as percentage of total revenue receipts	51
4.11	Committed expenditure of AP as percentage of total revenue expenditure	52
4.12	Per capita revenue expenditure of Southern States	52
4.13	Per capita capital expenditure of Southern States	53
5.1	Central transfers to Andhra Pradesh	60
5.2	Central transfers to Andhra Pradesh as % to GSDP	61
5.3	Central transfers to Southern States as % to Revenue Receipts	63
5.4	Per capita central transfers to Southern States	63
6.1	Andhra Pradesh total outstanding liabilities	67
6.2	Gross and net debt raised – Andhra Pradesh	70
6.2a	Public Debt: Gross and Net (as % of GSDP)	71
6.3	Composition of fiscal deficit (percentage)	72
6.4	Total outstanding liabilities and off-budget borrowings (as at end-March)	73
6.5	Composition of total outstanding liabilities (broad details)	75
6.6	Composition of outstanding internal debt	76
6.7	Composition of outstanding public account and other liabilities	76
6.8	Composition of outstanding liabilities	77
6.9	Maturity profile of Outstanding State Government Securities as on March 31, 2024 - Andhra Pradesh	78

6.10	Apportionment of Outstanding Loans among the Successor States	79
7.1	Revised fiscal indicators as percentage of GSDP	83
7.2	Compliance/ implementation of FRBM Act – targets and achievements	84
8.1	Outstanding amount of guarantees as at end – March	91
8.2	Outstanding amount of guarantees as at end- March	92
8.2a	Outstanding amount of guarantees as at end- March	94
8.3	Outstanding risk weighted guarantees	95
8.4	Outstanding risk weighted guarantees	97
8.5	Ceiling vis-à-vis actual guarantees	98
9.1	Subsidies in Andhra Pradesh	102
9.2	Expenditure on subsidies as percentage of own tax revenue, own revenue receipts, total revenue receipts and revenue expenditure	103
9.3	Subsidies in southern states	104
9.4	Expenditure on subsidies in southern states as percentage of their own tax revenue, own revenue receipts, total revenue receipts and revenue expenditure	104
9.5	Expenditure on transfers	105
9.6	Expenditure on welfare transfers as percentage of own tax revenue, own revenue receipts, total revenue receipts and revenue expenditure	107
	Annexure (9.1) to AP State Schemes	102
10.1	Number of State Level Public Sector undertakings in AP	118
10.2	Turnover of the State Level PSUs in AP	120
10.3	State Government Loans and Advances investment and grants-in-aid provided to PSUs in AP	121
10.4	CAG report on State Government grants and subsidies and guarantees to PSUs in AP	122
10.5	Total investment and State Government equity investment in State Level PSUs in AP	124
10.6	Performance of State Level PSUs in AP	128
10.7	Performance of State Level PSUs in AP	129
10.8	AP Power Sector: Installed capacity power generated, purchased, sold, consumed and transmission and distribution – losses	133
10.9	Per capita power consumption in AP and India	134
10.9a	T & D losses in AP and India	135
10.10	AT & C losses of discounts in AP and India	136
10.11	Financial performance of the State Power Sector, PSUs in AP	138
10.12	Financial Performance of State DISCOMs in AP	139
10.13	Budget support and guarantees to Power Sector in AP	140
10.14	Outstanding Debt and Interest Costs of DisComs in AP	140
11.1	Overview of Administrative Divisions (or) PRI's in Andhra Pradesh	144
11.2	Revenue released and transfers to Rural Local Bodies in the State	145
11.3	Gap in the resources of rural local bodies	146
11.4	PRI wise releases and expenditure	147
11.5	Data on Transfers to RLBs	151
11.6	Revenue receipts of village panchayats as given in the RBI report on PRI finances	152
11.7	Revenue expenditure of village panchayats	153
11.8	Basic details ULBs- AP	154
11.9	Revenue released by the ULBs in the State	155

11.10	Details of revenues of Urban Local Bodies in the State during the period of 2016-21	156
11.11	Municipal Corporations/ Municipalities/ Towns or Nagar Panchayats	156
11.12	Details of allocations and release of basic and performance grants by GoI as per FC recommendations	160
11.13	Allocations and releases by GoI	161
11.14	Details of the State Finance Commissions in AP	165
12.1	Sub-indices and weights assigned	186
12.2	Performance of Andhra Pradesh	186

FIGURES

2.1	Annual growth rates of GSDP of AP and all India	7
2.2	Per capita all India GDP and per capita GSDP of AP	8
2.3	Sectoral composition of State GVSA	9
2.4	Composition of Agriculture by its Sub-Sectors	10
2.5	Annual growth rates of GVA by sectors – AP	11
2.6	Share of top 10 States to Agriculture GVA of India	13
2.7	Share of top 10 States to Industry GVA of India	13
2.8	Share of top 10 States to Services GVA of India	14
2.9	Share of top 10 States to GDP of India	14
3.1	Trends in revenue receipts by components	25
3.2	Revenue receipts as percentage of GSDP 2022-23	26
4.1	Andhra Pradesh composition of expenditure	43
4.2	Composition of total revenue expenditure	45
4.3	Committed expenditure of Andhra Pradesh	50
5.1	State wise share of Central transfers in total revenue receipts (2022-23)	62
6.1	Total outstanding liabilities	68
6.2	Public debt raised, repaid and net debt	70
6.3	Share of outstanding liabilities and off-budget borrowings	74
6.4	Composition of public debt and other liabilities	75
7.1	Revenue deficit/ surplus as percent of total revenue receipts: MTFP rolling targets and achievements	87
7.2	Fiscal deficit as per cent of GSDP: MTFP targets and achievements	87
7.3	Total outstanding liabilities as percentage of GSDP: MTFP targets and achievements	88
8.1	Outstanding amount of guarantees as at end March	91
8.1a	Outstanding guarantees-trends	91
8.2	Outstanding risk – weighted guarantees	96
8.3	Ceiling versus actual outstanding guarantees	98

Annexures

1.1	Sectoral Contribution to GSVA at Constant Prices- (% shares)	4
3.1	State-wise Average Annual growth of SGST including IGST Settlement	38
3.2	Percentage share of Andhra Pradesh and Telangana in Combined Own Tax Revenue and Own Revenue Receipts and Combined Gross State Value Added	39
3.3	Interest Receipts, Dividends and Profits - Andhra Pradesh	40
4.1	Grants-in-aid assistance given by the State Government	54
4.2	Note on Pay Revisions in Andhra Pradesh since Reorganization	56
9.1	AP State Guaranteed Pension Scheme	109
11.1	Action Taken Report on the Financial Recommendations of the State Finance Commission	169
11.2	Revenue Receipts and Expenditure of Village Panchayats in Four Southern Indian States	179

Abbreviations

AP	Andhra Pradesh
ARET	Additional Retail Excise Tax
AED	Additional Excise Duty
APGPS	Andhra Pradesh Guaranteed Pension System
APCSC	Andhra Pradesh Civil Supplies Corporation
APSHC	Andhra Pradesh Housing Corporation
APSSDC	Andhra Pradesh Skill Development Corporation
APRSS	Andhra Pradesh Rythu Sadhikara Samstha
APMASS	Andhra Pradesh Mahila Sadhikara Samstha
APUFIDCL	Andhra Pradesh Urban Finance Infrastructure and Development Corporation
APMMCL	Andhra Pradesh Mineral Development Corporation
APTIDCL	Andhra Pradesh Town Ship and Infrastructure Development Corporation
BE	Budget Estimates
C& AG	Comptroller and Auditor General of India
CEO	Chief Executive Officer
CEA	Central Electricity Authority
CSS	Centrally Sponsored Schemes
DCU	Departmental Commercial Undertakings
DISCOMs	Distribution Companies
EBIT	Earnings Before Interest and Taxes
FC	Finance Commission
FRBM	Fiscal Responsibility and Budget Management
GoI	Government of India
GVA	Gross Value Added
GSDP	Gross State Domestic Product
GDP	Gross Domestic Product
GFD	Gross Fiscal Deficit
GoAP	Government of Andhra Pradesh
GPs	Gram Panchayats
HODs	Head of Departments
HDI	Human Development Index

IMF	International Monetary Fund
LSGIs	Local Self Government Institutions
MA & UD	Municipal Administration and Urban Development
MPPS	Mandal Praja Parishads
MPDOs	Mandal Parishad Development Officers
MoU	Memorandum of Understanding
MoPR	Ministry of Panchayat Raj
MOP	Ministry of Power
MTFPS	Medium Term Fiscal Policy Statement
MSME	Micro, Small and Medium Enterprises
NSSF	National Small Savings Funds
NPS	National Pension System
OBP	Off Budget Borrowings
PLFS	Periodic Labour Force Survey
PCGSDP	Per Capita Gross State Domestic Product
PRIs	Panchayat Raj Institutions
PIB	Press Information Bureau
PFC	Power Finance Corporation
PAG	Principal Accountant General
PESA	Panchayat Extension to Scheduled Areas
PAC	Public Accounts Committee
PD	Primary Deficit
PDRDG	Post Devolution Revenue Deficit Grants
PSU	Public Sector Undertaking
RET	Retail Excise Tax
RD	Revenue Deficit
RE	Revised Estimates
RoCE	Return on Capital Employed
RLB	Rural Local Bodies
R & D	Research and Development
RBI	Reserve Bank of India
RoE	Return on Equity
RoRR	Rate of Real Return
SGST	State Goods and Services Tax
STEM	Science, Technology, Engineering and Mathematics
SFC	State Finance Commission
SLPEs	State Level Public Enterprise (SLPEs)
SPV	Special Purpose Vehicle
SONTR	State's Own Non-Tax Revenue (SONTR)
SOTR	State Own Tax Revenue (SOTR)
TRR	Total Revenue Receipts
UDAY	Ujjwal DISCOM Assurance Yojana
ULB	Urban Local Bodies
VAT	Value Added Tax
ZPPs	Zilla Praja Parishads

EXECUTIVE SUMMARY

Fiscal situation of Andhra Pradesh has been witnessing deterioration since 2014-15 coinciding with its reorganization in June, 2014. The Revenue account has slipped into a deficit. The increase in ill-targeted subsidies and committed expenditure from 2019-20 onwards resulted in further deterioration in fiscal situation.

Macroeconomic Performance

2. The State's macroeconomic performance was impressive in the first four years of its reorganisation, with an average growth of nearly 10 per cent per annum. However, the subsequent years witnessed a slow-down in the economy mostly due to the poor performance of agriculture sector in 2018-19 and contraction in the industry sector in 2019-20. The poor performance of the crop sector within the agriculture sector and the global economic crisis caused by the pandemic affected the growth of the industry and services sectors.

3. In the pandemic year 2020-21, the State GSDP grew at 1.5% while the GSDP of several States as well as the national GDP experienced contraction of varying degrees. AP is one of the three States that did not experience negative growth in its GSDP (the other two were Assam with a growth rate of 3.0% and Tamil Nādu with nearly zero growth). The economic growth of the State is primarily driven by the Agriculture and Allied sectors, and it helped the State to compensate for the low growth in other sectors. The industry sector which experienced negative growth in the previous year rebounded with a high 18% growth in the pandemic year mostly due to the performance of manufacturing sector.

4. The per capita income in the State has remained consistently higher than the national average for the past decade and the gap between the two has been increasing. The real per capita GSDP of the State rose from about Rs 0.89 lakh in 2014-15 to about Rs. 1.54 lakh in 2023-24, while the national average rose from Rs.0.83 lakh to Rs.1.25 lakh during the same period. The gap between State and all India expressed as a percentage of all India per capita income increased from 5% to 24% in the decade.

5. The State economy continues to depend predominantly on agriculture and allied sectors which generate 28 to 32% of the aggregate value added. For all India, the share of agriculture and allied sectors in aggregate GVA fluctuated in the range of 15-16%. In terms of dominance of agriculture and allied sector in the State income, AP ranks second only after Madhya Pradesh where about 33% of total GVA is from agriculture. The share of Industry sector fluctuated around 28 to 30% without any secular trend during 2014-24.

Manufacturing accounted for nearly half of the value added in the industry sector. The share of services sector, which was around 45% in the initial years declined to 43% by 2016-17 and remained stable at that level only to take a further dip to 39% in the pandemic year 2020-21. Thereafter, it remained at 40% without much improvement.

6. Among the top ten States contributing more than three-fourths of the GVA in agriculture and allied sectors of India, Andhra Pradesh stands at second position with a share of 8.9 per cent. In case of industry and services sectors, the performance of the State is not as impressive as in the case of agriculture sector. Almost 70% of the GVA of industry is contributed by the top 10 States and the contribution of AP is ninth lowest at 4%, marginally higher than its population share. In case of services sector, the contribution of AP is tenth lowest at 3.5% almost same as its population share.

Trends in Revenue Receipts

7. Among the components of revenue receipts, own tax revenue contributes a predominant share in Andhra Pradesh in the range of 45 to 50 per cent. Its share in total revenue witnessed a marginal increase during the period 2015-16 to 2022-23. The higher share in 2018-19 and 2019-20 was mainly on account of a decline in the share of Central transfers. The share of non-tax revenues in total revenue receipts exhibited a declining trend from 5.5 per cent in 2015-16 to 3.43 per cent in 2022-23. The share of tax devolution too declined from the award period of the Fourteenth Finance Commission (FC-XIV) to the award period of the Fifteenth Finance Commission (FC-XV). The share of tax devolution in revenue receipts too declined from 24.70 per cent 2015-16 to 23.50 per cent in 2021-22 on account of reduction inter se share of AP from 4.305 in the award period of FC-XIV to 4.047 percent in the award period of FC-XV. The share of grants-in-aid improved on account of revenue deficit grants from 24.74 per cent of revenue receipts in 2015-16 to 26.2 per cent in 2021-22. Southern States have performed much better than AP in terms of own tax and non-tax revenues.

8. The relative performance of Andhra Pradesh more or less matches the performance of southern States in own-tax GSDP ratio with the exception of Telangana. In respect of non-tax revenue-GSDP ratio, the performance of Kerala and Telangana is much better than that of Andhra Pradesh. Tax devolution and grants ratios to GSDP are higher in Andhra Pradesh. Buoyancy was higher in 2015-16 across all major own taxes on account of lower base of 10 months in the preceding year. With the exception of SGST, excise duties and stamps and registration in a few years, the buoyancy of tax revenue is concerning, particularly in respect of taxes on sales.

9. Performance of Andhra Pradesh in revenue generation has been mixed. Though the revenue receipts to GSDP ratio is higher, it is mainly on account of higher tax devolution and grants-in-aid. Its performance in own-tax revenue and non-tax revenue has been below par. This is despite the fact that there have been too frequent revisions in the property valuations for the purpose of registration of sales and purchases of land and properties and excise duties. The growth in revenue from SGST and VAT on sales has not kept pace with other States. This can be partly explained by low level of urbanisation in the State as compared with the neighboring States. Levying of new duties on excise and assigning them to a corporation specially created to fund government welfare programmes goes against established norms. There is an urgent need to streamline the tax administration and identify new avenues for resources and to levy user charges and align them with the cost of providing them.

Trends in Expenditure

10. Revenue expenditure is the predominant component of total expenditure with its share ranging from 79 per cent to 89 per cent. Within revenue expenditure, the share of interest payments has been increasing more sharply on account of increase in outstanding debt. The share of interest payments increased from 7.9 per cent in 2014-15 to 11.3 per cent in 2022-23. The share of capital outlay in total expenditure ranged between 7 and 11 per cent but plummeted to just 3.2 in 2022-23. Capital outlay was mostly incurred on irrigation projects. The share of capital disbursements consisting of repayment of loans has recorded a sharp increase from 4.5 per cent in 2014-15 to 10.7 per cent in 2019-20 and thereafter moderated to around 7 per cent.

11. There have been year to year variations in the growth rates of both revenue expenditure and capital expenditure. Between 2016-17 and 2022-23, capital expenditure witnessed significant declines in four out of seven years. Among the southern States, there has been an increasing trend in per capita revenue expenditure in Andhra Pradesh. This is on account of introduction of new subsidy schemes almost every year. However, in most of the years it remained lower than in other States.

12. Social services account for bulk of the revenue expenditure followed by general services and economic services at the aggregate level. The shares of General and Social Services in total revenue expenditure increased significantly between 2014-15 and 2022-23 (General Services from 24.9 per cent to 31.7 percent and Social Services from 36.8 per cent to 44.0 per cent). In contrast, the share of Economic Services declined from 38.2 per cent to 24.2 per cent in the same period.

13. It is matter of great concern that committed expenditure consisting of salaries, pensions, interest payments and explicit subsidies registered an average annual growth of 12.6 per cent during the period 2016-23. The share of interest payments and subsidies in the total own revenues of the State increased significantly. While the share of interest payment increased from 20.8 per cent in 2014-15 to 30.6 per cent in 2022-23, the share of subsidies more than doubled from 11.1 per cent to 27.6per cent in the same period. The shares of salaries and pensions also increased substantially because of the revisions of pay scales every five years and sanctioning fitments beyond those recommended by the Pay Revision Commissions. In 2022-23, committed expenditure exceed own revenue receipts of the State by 44 per cent.

Transfers from the Centre

14. Finance Commission transfers are the predominant component of Central transfers contributing on an average 24.5 per cent of the total revenue receipts of the State. Of the Finance Commission transfers, tax devolution is the pre-dominant source. The higher share of tax devolution in revenue receipts from 2015-16 was on account of increase in the States' share in tax devolution. Reduction in the share of tax devolution from 2020-21 was on account of the reduction in the share of Andhra Pradesh in tax devolution as well as the fall in Central revenues due to disruptions in economic activities on account of covid pandemic. The FC-XIV did not recommend any sector and State-specific grants following its recommendation to increase tax devolution from 32 to per cent of the divisible pool of Central taxes. Though the FC-XV recommended these grants, these were not accepted by the Centre. However, the grant component of Finance Commission transfers remained higher as compared with 2014-15 because of the post-devolution revenue deficit grants recommended by the FC-XIV and FC-XV Commissions.

15. Among other grants, grants under CSS are the most predominant component contributing on an average 11.6 per cent of the total revenue receipts of the States. Thus, CSS grants exceed statutory grants recommended by the Finance Commissions. This is the case with other States too. On an average, percentage contribution of tax devolution and grants from the Centre to total revenue receipts of the State remained more or less the same, though the contribution of tax devolution was found to be lower in the covid affected years.

16. Among the southern States, per capita Central transfers are the highest in Andhra Pradesh primarily driven by tax devolution and post-devolution revenue deficit grants. Dependence of Andhra Pradesh on Central transfers than most of its counterparts is relatively higher. Among the general category States, dependence of Andhra Pradesh is

higher than 11 States. This is a matter of serious concern. To maintain its fiscal sustainability, Andhra Pradesh should reduce its revenue deficit in a phased manner. This requires sustained efforts at revenue mobilization and more particularly expenditure rationalization.

Growth of Public Debt

17. Total outstanding liabilities increased by more than three times between end March 2015 and 2023 from Rs.1,22,606 crore to Rs.4,28,716 crore. As per cent of GSDP, outstanding liabilities of the State increased from 20.7 per cent to 32.5 per cent in the same period. Total Outstanding Liabilities, barring 2018, showed a gradual and consistent upsurge during the study period. It also registered double digit growth rate barring the years 2018 and 2022.

18. In 2015-16, of the total public debt raised, over 26 percent was utilised for repayments and 44 per cent towards interest payments on outstanding debt. Thus, out of the total debt raised, 70 percent was used to repay the old debt and interest payments, leaving too little net debt (merely 30 percent). It remained less than 30 percent throughout the study period (barring the period 2017-18 to 2019-20).

19. In addition to the increasing budgetary borrowings, off-budgetary borrowings have increased substantially in recent years.

Implementation of FRBM Act

20. The FRBM Act in Andhra Pradesh was amended in 2021 disregarding the fiscal correction path laid down by the Fifteenth Finance Commission (FC-XV). The targets of revenue and fiscal deficits as stipulated the Act are much higher than those recommended by FC-XV. In addition, the amendment raised the limit of an annual incremental risk weighted guarantees from 90 per cent of the Total Revenue Receipts (TRR) in the year preceding the current year to 180 per cent.

21. Andhra Pradesh failed to adhere to the targets of revenue and fiscal deficits and outstanding liabilities in any single year after its reorganisation. The realised indicators are significantly higher than those stipulated by the Finance Commissions. This is gross fiscal mismanagement. The performance significantly falls short of the rolling targets set in the Annual Medium Term Fiscal Policy Statements.

Contingent Liabilities

22. Amounts borrowed by corporations and special purpose vehicles against government guarantees are contingent liabilities on the Consolidated Fund of the State in case of default by the entity to which the guarantee has been extended. There has been an unprecedented

increase in outstanding guarantees from Rs.10, 675 crore at the end of March, 2015 to Rs. 1,38,875 crore at the end of March, 2023, an increase of over 1200 per cent. Bulk of the guarantees are accounted for by civil supplies and energy sectors.

23. Till 2018-19, the Government did not categorise the outstanding guarantees by risk. In 2018-19, the risk assigned to outstanding guarantees was 55.8 per cent and in 2021-22, the risk weighted guarantees stood at 46.3 per cent.

24. A two-fold increase in the limit of annual incremental risk weighted guarantees resulted in a substantial increase in government guarantees and contingent liabilities. Some of the guarantees were even extended to corporations which have no cash flows.

State Subsidies

25. In Andhra Pradesh, there was a steep increase in subsidies from Rs. 6,360 crore in 2015-16 to Rs. 23,004 crore in 2022-23, nearly four-fold increase in a span of eight years. In the first four years of the reorganisation of the State, nearly three-fourth of the expenditure on subsidies was incurred on assistance to A.P. Transmission Corporation and supply of subsidised rice. Agriculture and allied sectors accounted for about 10 per cent of the expenditure on subsidies, particularly on supply of seeds, farm mechanisation, micro irrigation and promotion of horticulture crops.

26. There is a distinct shift in the composition of subsidies since 2019-20. Expenditure on subsidies ballooned from Rs. 6,343 crore in 2019-20 to Rs.23,004 crore in 2022-23. This is entirely on account of two decisions taken by the Government to provide 9-hour free electricity to farm sector and launching of 'YSR Rythu Bharosa.' Under the Rythu Bharosa scheme implemented from October 15, 2019, assistance of Rs.13,500 per annum is being provided to each farmer family including tenant farmer family.

27. In 2021-22 and 2022-23, expenditure on subsidies rose to an alarming level. In 2021-22 and 2022-23, subsidies consumed 20.7 per cent and 29.5 percent of own tax revenues, respectively. In 2022-23, subsidies represented 14.6 per cent and 11.4 per cent of total revenue receipts and total revenue expenditure, respectively. The unprecedented increase in subsidies was on account of the new schemes introduced almost every year since 2019-20.

28. At the aggregate level, subsidies in the remaining four southern States as a percentage of all types of revenue receipts and revenue expenditure are at a higher level than in Andhra Pradesh.

29. Income transfers other than subsidies have been exhibiting an increasing trend from Rs. 68 crore in 2014-15 to Rs. 17,853 crore in 2022-23. The expenditure on transfers constituted as much as 21.4 per cent of own revenue receipts and 8.9 per cent of total

expenditure in 2022-23. This expenditure and subsidies pre-empted 49 per cent of own revenue receipts in 2022-23.

30. Recently, the Government of Andhra Pradesh has taken a decision to enhance the pensions to the aged, widows, weavers, toddy tappers, fishermen, single women, traditional cobblers, transgender, persons with HIV, Dappu artists and artists from Rs.3,000 per month to Rs.4,000 per month. For the disabled and leprosy patients, the pension has been enhanced from Rs.3,000 to Rs.6000 per month. For the totally disabled, the increase in the monthly pension is from Rs.5000 to Rs.15,000 per month. For persons with chronic ailments, the increase in the monthly pension is from Rs.5,000 to Rs.10,000.

31. It is imperative that subsidies and transfers are rationalised and properly targeted. Otherwise, the fiscal situation will further worsen and may become unsustainable.

Performance of Public Sector Undertakings

32. The number of State-level public sector undertakings (PSUs) in Andhra Pradesh has increased from 70 at the time of State bifurcation in 2014 to 118 in 2022. While the number of non-working or inactive PSUs in the State has remained more or less the same, the number of working/active PSUs in the State has increased from 48 to 97 during this period. About 52 working PSUs in residual Andhra Pradesh have been established or incorporated since the State bifurcation in 2014.

33. Of the total PSUs in the State, eleven Government Companies are engaged in the businesses and commercial activities of the State power sector (including one in generation and another in transmission, along with three DISCOMs). The remaining 80 working PSUs are in the non-power sector. CAG has broadly classified non-power sector PSUs into three categories, based on their competitive functioning: those functioning as instruments of the State governments to provide such social services (public goods, the private sector has not ventured to do so; those in proper business segment, functioning in a competitive environment alongside the private sector; and other PSUs which do not fit into above categories but function on behalf of the State Government and other PSUs which do not fit into above categories but function on behalf of the State Government.

34. The power sector PSUs account for two-thirds of the total turnover of all the PSUs in the State. The share capital contribution, loans and advances and grants to PSUs at the end of 2022-23 amounted to Rs.1,736 crore, Rs.3,277 crore and Rs.24,030 crore, respectively. The percentage shares of PSUs in share capital, loans and grants were 59 per cent, 46 percent and 30 per cent, respectively in 2022-23.

35. The total investment in the State-level PSUs reported and audited has increased from Rs. 42,292 crore in 2014-15 to Rs. 1,18,108 crore in 2021-22. According to the C&AG audit report of FY 2021-22, out of 76 PSUs considered for the net worth analysis, 41 have accumulated losses (Rs.57,357 crore), 29 have accumulated surplus/profit (Rs.7,513 crore), and six others have neither loss nor profit. Due to high accumulated losses, the net worth of 76 PSUs at aggregate level is negative (Rs.49,844 crore). Further, erosion of the shareholders' equity is observed for 25 PSUs (Rs.54,409 crore). Among the 25 PSUs with erosion of net worth, power sector PSUs, especially three DISCOMS (APEPDCL, APSPDCL, and APSPDCL), lost their net worth the most. For the year 2020-21, of the 47 PSUs audited, 29 have accumulated losses of Rs.,420 crore, while 15 had a surplus of Rs. 5,172 crore, and the remaining three had neither losses nor surplus. As a result, the accumulated losses at aggregate level for 47 PSUs is Rs. 33,247 crore, and all their net worth together was negative at Rs. 24,678 crore. Again, of 29 PSUs audited, as many as 18 had a net worth of either zero or negative; their shareholders' funds had been completely eroded due to such accumulated losses. The PSUs with the most accumulated losses, and eroded net worth and shareholders' fund, were the two state DISCOMS (APEPDCL and APSPDCL) and one transport sector PSU (APSRTC).

36. The performance of PSUs is a matter of great concern. In the power sector, tariffs are not in sync with operating costs. Some of the PSUs which have outlived their utility can be considered for privatisation or closure.

Transfers to Urban and Rural Local Bodies

37. Revenue base of the PRIs is very weak. The Gram Panchayats are authorised to levy house tax, advertisement tax in addition to a number of fees. Besides own revenue, state government assigns certain revenues to the PRIs such as surcharge on stamp duty, entertainment tax, professional tax, seigniorage fee, etc. The basic and performance grants recommended by the Central Finance Commissions are being drawn every year by duly fulfilling the conditions prescribed.

38. The PRIs are expected to function as institutions of self-government, which is the core aim of the Constitutional amendment. But due to weak financial base of these institutions, there is a wide resource gap to attend to mandatory functions. The requirement for taking up activities is estimated at Rs.32,839.65 crore for the five-year period, 2020-25. The resources likely to be available to PR bodies are estimated at Rs.4,457.11 crore leaving a gap of Rs.28,382.54 crore.

39. The total funds released across all PRIs in Andhra Pradesh have seen a sharp increase from Rs.2,929.53 crore in 2018-19 to Rs.8,410.02 crore in 2022-23. Similarly, total expenditure has risen from Rs.2,421.41 crore to Rs.5,461.17 crore, though at a slower pace. The proportion of expenditure to releases has declined significantly from around 83 per cent in 2018-19 to approximately 65 per cent in 2022-23—indicating that while more funds are being allocated, the efficiency in utilizing them has room for improvement. This trend reflects a broader challenge in fund absorption across all levels of PRIs, where larger releases have not been fully translated into corresponding expenditures, especially at the grassroots level.

40. ULBs were earlier entrusted with 13 functions out of 18 functions listed in the 12th Schedule to the Constitution. Recently, four more functions, viz., planning for development, urban forestry and welfare of weaker sections and promotion of cultural and educational aspects were transferred to ULBs. The fiscal transfers from Government in the form of grants constituted on an average 30 per cent of total revenue. Own and assigned revenue constituted major portion of revenue (59 per cent own revenue and 11 per cent assigned revenue) of ULBs in the State during the period 2016-17 to 2020-21.

41. The total releases across all categories of ULBs has shown a consistent increase from Rs.6,683.3 crore in 2018-19 to Rs.11,335.54 crore in 2022-23. This indicates a rising trend in financial allocations towards urban development, possibly reflecting the growing focus on urbanization, infrastructure development, and local governance reforms.

42. While releases have been increasing, the expenditure figures indicate some gaps in utilization. The total expenditure across all ULBs increased from ₹4,019.4 crore in 2018-19 to ₹6,165.34 crore in 2022-23. This shows an increase, but the growth in expenditure is not proportional to the increase in releases, suggesting that a significant portion of the allocated funds is not being utilized in the year of release.

43. There have been undue delays in the constitution of State Finance Commissions (SFCs), submission of their Reports and placing the Action Take Reports in the State Legislature. In the case of the First State Finance Commission of Andhra Pradesh, out of 84 recommendations made, 24 recommendations were not accepted and 5 recommendations were accepted with modifications. The second SFC made 82 recommendations, both financial and non-financial. But the government accepted only 46 recommendations (56 per cent) while keeping 14 recommendations under consideration.

The Third Finance Commission made 63 recommendations out of which 44 recommendations pertain to Rural Local Bodies (RLBs) while the remaining 19 recommendations relate to Urban Local Bodies (ULBs). Of the 44 recommendations pertaining to RLBs, 17 were financial recommendations, the remaining 27 being non-financial recommendations. It is a matter of concern that the government has accepted 3 recommendations only out of the 17 financial recommendations (17 per cent). With regard to the 27 non-financial recommendations, the government has unconditionally accepted 19 recommendations. The rest are either not accepted or kept pending for detailed examination. It is pertinent to note that about 8 non-financial recommendations were not implemented even though they were accepted. The Fourth State Finance Commission is currently in office.

44. With regard to the Urban Local Bodies, the Third Finance Commission made 19 recommendations of which 10 were financial recommendations and only one recommendation was accepted. Of the total non-financial recommendations, 8 recommendations were accepted.

45. Regarding devolution of funds, the government accepted an amount of Rs. 434.42 crores per annum out of the recommended devolution of Rs.979.16 as recommended by the First State Finance Commission. As against the Finance Commission grants for three years during 1996-97 to 1998-99, grants for two years only were released. Similar is the case with the recommendations of the Second State Finance Commission. The total amount recommended for devolution was Rs.1793.94 crores (Rs.1167.33 crores for PRIs and Rs.626.61 crores for Municipalities) and the amount accepted for devolution was Rs.300 crores (Rs.200 crores for PRIs and Rs.100 crores to Municipalities and Corporations) accounting for 17 per cent only.

46. The Third State Finance Commission has recommended a total amount of Rs.1274.34 crores to RLBs and Rs.489.38 crores per annum to ULBs for the period 2005-2010. But out of the total devolution recommended for RLBs only Rs.113.64 crores per annum has been accepted by the government. This constitutes only 8.9 per cent of the total financial resources recommended by the Commission. With regard to ULBs, the government has accepted Rs 123.12 crores only out of the total devolution constituting 25.15 per cent.

Emerging Issues in State Finances

47. State finances have been worsening over the years. All the indicators of fiscal performance are pointing towards consistent deterioration despite own-tax revenue-GSDP ratio in Andhra Pradesh matches with those in other southern States with the exception of Telangana. Revenue receipts to GSDP ratio is comparable to other southern States because of higher grants from the Centre. However, its overall fiscal performance compares poorly. One of the reasons often mentioned is that AP lost out in revenue share and its growth following the State's bifurcation in 2014. Added to this, indiscriminate introduction of ill-targeted welfare schemes year after year since 2019-20 has mainly contributed to fiscal deterioration in the State.

48. In the total population of the pre-bifurcated States, the shares of Andhra Pradesh and Telangana are 58 per cent and 42 per cent, respectively. In the first year of reorganisation, share of Andhra Pradesh in the combined total revenues of AP and Telangana was 51.5 per cent, which was lower than the former's share in population. Thereafter, the share of AP hovered around 46 per cent till 2020-21. Its share was 43.4 per cent in 2022-23. Thus, State's bifurcation resulted in lower own revenues.

49. The State failed in adhering to targets set for revenue deficit, fiscal deficit and outstanding liabilities in any single year. Apart from the revenue loss on account of bifurcation, the main reason for the fiscal deterioration was due to indiscriminate introduction of subsidies/welfare schemes, more particularly after 2018-19. There were a number of irregularities in funding subsidies. The most important one, among these, is the diversion of Additional Retail Excised Duty (ARET) levied on liquor to Andhra Pradesh State Development Corporation (APSDC), a dedicated entity specially created by an Act of the State Legislature to fund welfare programmes.

50. As per the White Paper on State Finances released by the Government in July, 2024, fixed deposits and funds of corporations, societies and Universities were diverted into the account of AP State Financial Services Ltd. The total amount thus diverted was Rs.4,738 crore. These were in turn lent to APSDC. Government owned properties and lands were mortgaged to banks to raise debts. There are a number of other financial irregularities.

51. In 2023-24, the government availed of special drawing facility on 322 days and ways and means advances on 290 days. It was in overdraft for a period of 115 days in the same year. AP stood at the fourth place in terms of availing of these facilities.

Way Forward

52. The fiscal management in Andhra Pradesh, more particularly over the last five years, is characterised by indiscriminate introduction of new schemes and deferment of present commitments to future without any concern for their impact on State finances. Such fiscal management has had a disastrous impact on fiscal sustainability and the sustainability of economic growth. Such a crisis will not get resolved by half-hearted and easy measures. These will only touch the fringe of the deepening crisis. What is required is major structural reforms on multiple fronts.

53. As the present crisis is the result of unrestrained growth in expenditure, the first step in the process of reforms should be rationalisation of expenditure. A rupee saved is a rupee earned. In the rationalisation of expenditure, there is an imperative to subject all on-going schemes to a thorough review. Schemes which have outlived their utility should be weeded out. Welfare schemes and freebies need major reforms and proper targeting.

54. Deferment of government liabilities to a future date should be avoided to the extent possible. For instance, the age of retirement of government employees in the State was increased from 58 years to 60 years in 2014 and then to 62 years in 2022. This has resulted in huge pensionary liabilities starting from 2024. Similarly, there are huge pending bills amounting to Rs.1.35 lakh crore payable to contractors, resulting in litigations in the High Court. The number of cases pending is 24,988, which include contempt cases and writ petitions. The restraint on revenue expenditure through rationalisation of welfare schemes will address the problem of dwindling capital expenditure and pending bills involving huge amounts.

55. Though the fiscal situation warranted augmenting revenue resources, no such effort has been made. There are several low hanging fruits which could have been utilised. Such fruits include electricity duty, increasing the coverage of profession tax, increasing the tax base by plugging loopholes, etc. The domestic consumers of electricity pay just 6 paise per unit as electricity duty, which was fixed way back in 1993. Even doubling this duty from the present level will not impose burden on the consumers. Most of the establishments in the private sectors are not covered under the profession tax.

56. Another area that needs focus is user charges. Most of the user charges do not even cover a small proportion of the cost of the services. The cost of providing services has been increasing with the increase in wages and salaries. The five-yearly revision of pay and

allowances of government employees is imposing a heavy burden. Most of the States are revising the pay scales at an interval of every 10 years following Central government's practice. A consensus needs to be built on the periodicity of pay revisions.

57. Apart from not adhering to FRBM targets, AP has amended the FRBM Act mandating higher targets which are way above those recommended by the Finance Commissions and the relaxations allowed by the Centre. This practice needs to be curbed. For bringing back finances to sustainable levels, action needs to be initiated on multiple fronts. Making the State adhere to FC targets should be accorded the highest priority.

CHAPTER - 1

Introduction

Fiscal situation of Andhra Pradesh has been witnessing deterioration since 2014-15, coinciding with its reorganization in June, 2014. Andhra Pradesh had slipped into a deficit in its revenue account. This has adversely impacted other fiscal indicators. For the first ten months of 2014-15, in the combined own revenue receipts of Andhra Pradesh and Telangana, the former's share was 51.6 per cent. This was lower than its share of 58 per cent in combined population. Since then, the share of Andhra Pradesh has been declining and reached 39.7 per cent in 2022-23. Further details are presented in Chapter-3.

Causes for Reduction in Revenue Share

1.2 With the reorganization of the State, there has been a significant shift in the composition of GSDP. In 2014-15, the shares of primary, secondary and tertiary sectors at constant prices were 30 per cent, 30 per cent and 40 per cent in Gross Value Added (GSVA), respectively in Andhra Pradesh. In contrast, the shares of these sectors were 17 per cent, 20 per cent and 63 per cent, respectively in Telangana (Annexure- 1.1). The predominance of primary sector in Andhra Pradesh is one of the reasons for lower tax base. In non-tax revenues, AP lagged behind because of lower collections under mines and minerals, water supply and sanitation and housing. Furthermore, absence of a major city comparable to Hyderabad also reduced the revenue base of AP. There were issues relating to division of assets between the two States.

Increase in Committed Expenditure

1.3 There was substantial increase in committed expenditure from 122.5 per cent of own revenue receipts in 2015-16 to 144.4 per cent in 2022-23. Increase in subsidies and welfare expenditure contributed to such a high level of committed expenditure.

Terms of Reference and Chapter Plan

1.4 The terms of reference for the Study of AP Finances as prescribed by the Sixteenth Finance Commission (FC-XVI) are very comprehensive and cover all the aspects relating to the fiscal situation in the State. In accordance with these ToR, the analysis on State finances is presented in the following 11 chapters.

1. Introduction
2. Macroeconomic Performance of Andhra Pradesh State
3. Trends in Revenue Receipts
4. Trends in Expenditure
5. Transfers from the Centre
6. Growth of Public Debt and its composition
7. Implementation of FRBM Act
8. Analysis of Contingent Liabilities (Guarantees) of the State
9. State Subsidies
10. Performance of Public Sector Undertakings in Andhra Pradesh
11. Analysis of the State's Transfers to Urban and Rural Local Bodies in the State: Major Decentralization Initiatives in AP State
12. Emerging issues in Andhra Pradesh State Finances
13. Way Forward

Data Sources

1.5 The data required for the analysis have been mostly sourced from the Annual Finance Accounts of States compiled by the Comptroller and Auditor General of India (C&AG), State Finances-A study of Budgets, an annual publication of the Reserve Bank of India, Annual State Budget documents of Andhra Pradesh. In addition, relevant studies carried out by reputed institutions and scholars also were used.

Sectoral Contribution to GSVa at Constant Prices- (% shares)

Andhra Pradesh				
Year	Primary	Industry	Tertiary	GSVA
2014-15	27.6	27.5	45.0	100
2015-16	27.0	27.5	45.5	100
2016-17	28.6	28.6	42.8	100
2017-18	30.7	27.4	41.9	100
2018-19	30.6	27.2	42.2	100
2019-20	31.5	25.7	42.8	100
2020-21	31.6	30.1	38.2	100
2021-22	31.7	29.7	38.7	100
2022-23	30.7	29.6	39.6	100
2023-24 (AE)	29.8	30.5	39.7	100

Telangana				
Year	Agriculture	Secondary	Tertiary	GSVA
2014-15	17.9	20.4	61.7	100
2015-16	15.5	22.4	62.1	100
2016-17	15.8	20.7	63.6	100
2017-18	16.1	21.2	62.7	100
2018-19	16.4	22.0	61.7	100
2019-20	18.1	20.6	61.3	100
2020-21	19.0	22.1	58.9	100
2021-22	17.7	21.2	61.1	100
2022-23	17.9	19.8	62.4	100
2023-24 (AE)	16.8	20.3	62.9	100

Sources: 1. Government of Andhra Pradesh, Directorate of Economics and Statistics, 2. Government of Telangana, Planning Department, Socio Economic Outlook 2024

CHAPTER - 2

Macro-Economic Performance of Andhra Pradesh State

Introduction

The new State of Andhra Pradesh (AP) came into existence on 2nd June 2014, as a residual State after bifurcation of the combined State of Andhra Pradesh. The State comprises of three broad agro-climatic regions, with adverse social and economic settings. Two regions, located along the 975 km long sea coast, the North Coastal and the South Coastal, have been among the early adopters of the green revolution and played a key role in agricultural development of the State. The third, a semi-arid region of Rayalaseema is relatively less developed but rich in mineral resources. About seventy per cent of the State's population lives in the rural areas where agriculture continues to be the main source of livelihood for the majority. According to PLFS (2023-24), nearly half of the workforce (45%) aged 15-59 years depends on agriculture sector which contributes about one-third of the state's GSDP. Andhra Pradesh is the eighth largest economy and the tenth most populous among the major States of India.

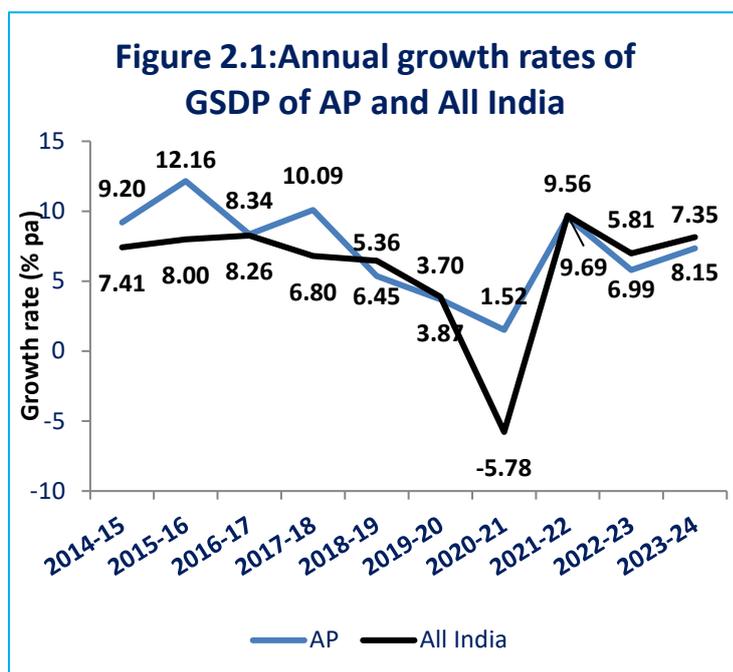
2.2 This section provides an overview of the recent growth experience of Andhra Pradesh. An attempt is also made to assess the relative performance of the State compared to other major States as well as to the national aggregates. The analysis is based on the estimates of 2011-12 series of Gross State Domestic Product (GSDP) at market prices and Gross Value Added (GVA) at basic prices for sub-sectors of the economy. All the data have been compiled from <https://www.mospi.gov.in/download-reports>. Although the state of AP was created in June 2014, the estimates of GDP/GVA are available from 2011-12. The estimates prior to bifurcation have been estimated following the same methodology used for 2011-12 series.

A Macro overview of the State economy:

2.3 The Growth performance of the State is examined in terms of aggregate GSDP and that of its three major components, viz., agriculture, industry and services have been analysed in terms GVA. The period considered is from 2014-15 to 2023-24. It may be noted that 2014-15 refers to the entire accounting year. All the estimates are at 2011-12 prices.

Aggregate Growth

2.4 Andhra Pradesh began with an impressive 8-12% annual growth of GSDP during



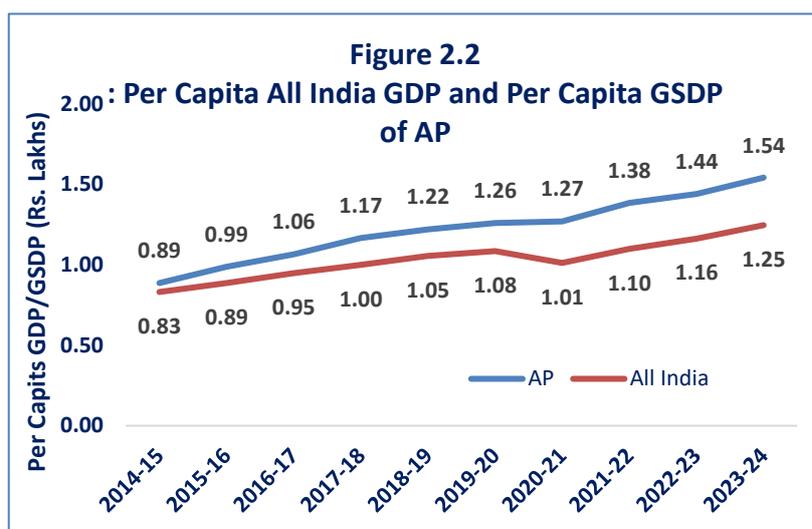
the first four years after its formation with an average of nearly 10% per annum (Figure 2.1). However, the subsequent years witnessed a slow-down in the economy mostly due to the poor performance of agriculture sector in 2018-19 and contraction in the industry sector in 2019-20. The poor performance of the crop sector within the agriculture sector and the global economic crisis caused by the pandemic affected the growth of the Industrial and Services sectors (Socio-Economic Survey, 2023-24). The growth rate of GSDP fell from 10.1% in 2017-

18 to 5.4% in 2018-19 and further to 3.70% in 2019-20. Overall, during the first six years of its formation, 2014-2020, State growth averaged nearly 8.0%, which can be considered quite impressive. Throughout this period the State growth rates were higher than at the national average. In the pandemic year, 2020-21, the State GSDP grew at 1.5% while the GSDP of several states as well as the national GDP experienced contraction of varying degrees. AP is one of the three States that did not experience negative growth in its GSDP (the other two were Assam with a growth rate of 3.0% and Tamil Nādu with nearly zero growth). The economic growth of the State is primarily driven by the Agriculture and Allied sectors, and it helped the state to compensate for the low growth in other sectors. In the case of the industry sector which experienced negative growth in the previous year it rebounded with a high 18% growth in the pandemic year mostly due to the performance of manufacturing sector. The State could withstand the crisis and took up relief measures, such as transportation facilities for the migrants and a restart package to support MSMEs to boost economic activity (Socio-Economic Survey, 2023-24).

2.5 The GDP of India registered a negative growth of 5.8% in 2020-21. In the recovery phase, the growth performance of the State was mixed. Initially the growth rate was an impressive 9.6% in 2021-22 but it dipped to 5.8% in 2022-23 to rebound to 7.3% in 2023-24. During this period, the growth performance of AP closely followed the national averages. Overall, during the three years of 2021-24 the average growth rate of AP was 7.6%, lower than all India growth rate of 8.3%. The economies of both the country and State are yet to recover from the impact of COVID 19.

Per Capita GSDP

2.6 The per capita income in the State has remained consistently higher than the national average for the past decade and the gap between the two has been increasing. The real per capita GSDP of the State rose from about Rs 0.89 lakh in 2014-15 to about Rs. 1.54 lakh in 2023-24, while the national average rose from Rs.0.83 lakh to Rs.1.25 lakh during the same period (Figure 2.2). The gap between State and all India expressed as a percentage of all



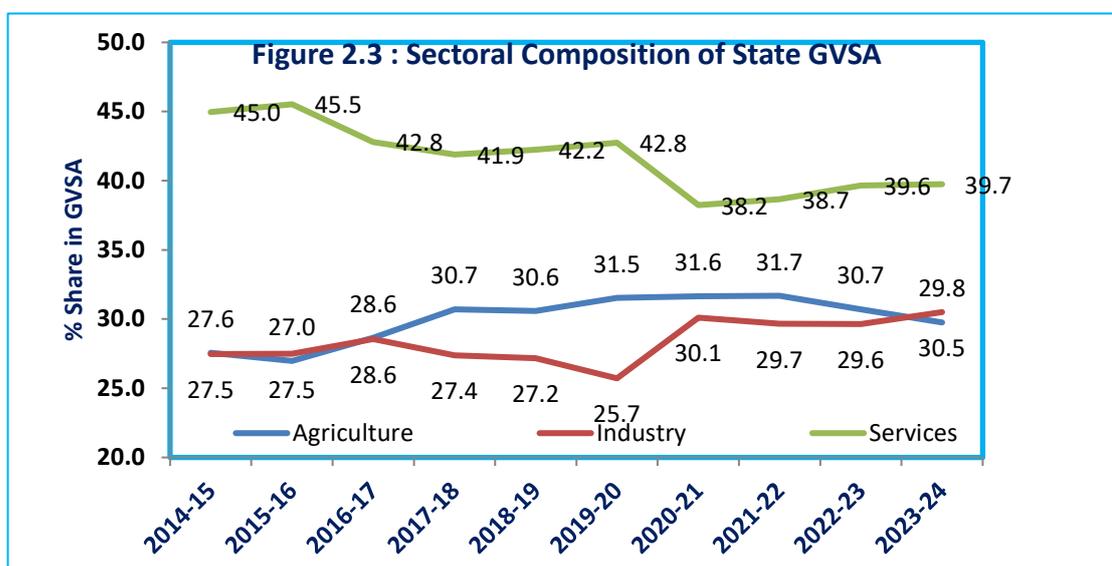
India per capita income increased from 5% to 24% in the decade. The average growth rate of State per capita GSDP during six years prior to pandemic was 7.3% per annum, which was almost 2 percentage points higher than that of the national

average. During the pandemic, the all-India average GDP shrunk by 5.78%, while AP experienced a growth of nearly 1.52%. However, in post pandemic period, 2021-24, the all-India average growth rate (7.2% pa) overtook the State average growth (6.7% pa). It may be noted that the improvement in the performance of AP in relation to the all-India average is not only due to the acceleration in the aggregate GSDP growth but also due to lower growth in the population compared to all India.

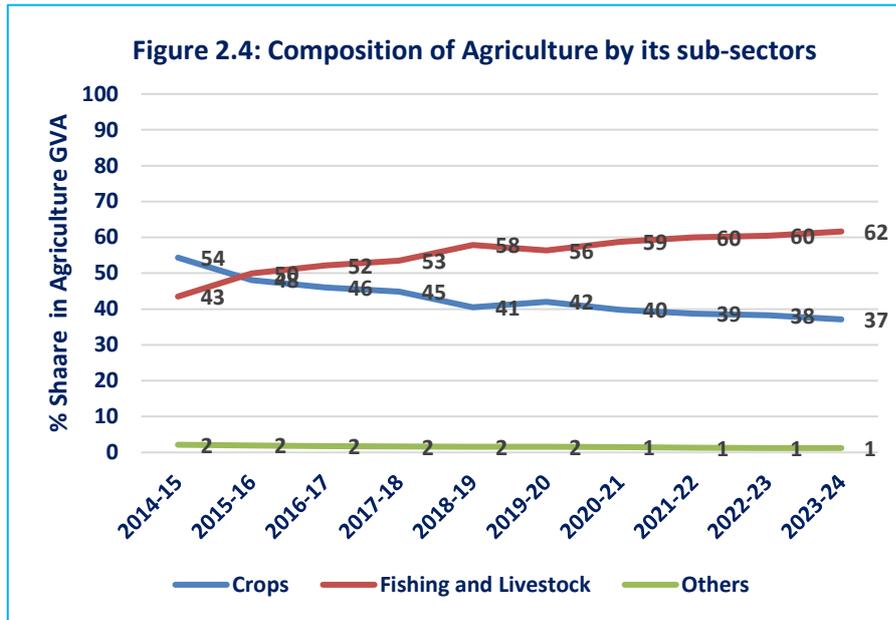
Structure of the Economy

2.7 In the 2011-12 series of national accounts, Gross Domestic Product is not separately available by economic activity. Therefore, the structure of the economy is examined using the sectoral estimate of Gross Value Added. Figure 2.3 presents the trends in the percentage contribution of Agriculture, Industry and Services to aggregate GVA over the past one decade. These trends reflect important features of the structure of the State economy. The State economy continues to be predominantly agriculture which generates 28 to 32% of the aggregate value added. For all India, the share of agriculture in aggregate GVA fluctuated

in the range of 15-16%. In terms of dominance of agriculture sector in the State income, AP ranks second only after Madhya Pradesh where about 33% of total GVA is from agriculture. The higher share of agriculture implies that higher exposure of the State economy to the vagaries of weather. The share of Industry sector fluctuated around 28 to 30% without any secular trend during 2014-24. Manufacturing accounted for nearly half of the value added in the industry sector. The share of services sector, which was around 45% in the initial years declined to 43% by 2016-17 and remained stable at that level only to take a further dip to 39% in the pandemic year 2020-21. Thereafter, it remained at 40% without much improvement.



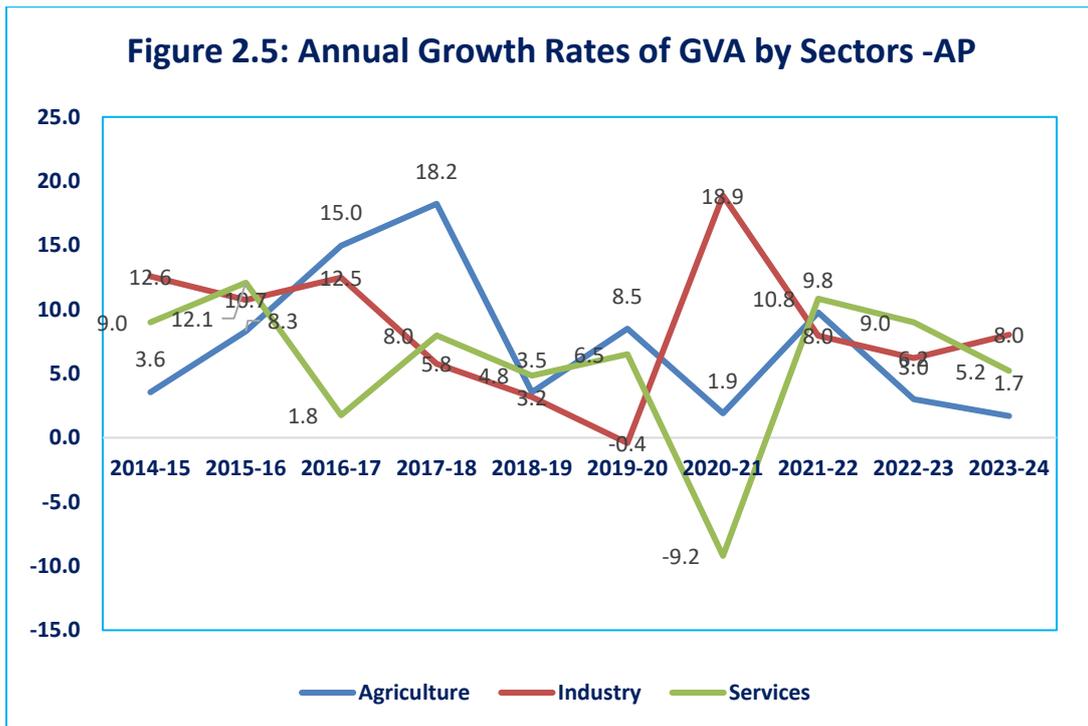
2.8 Within agriculture, the share of Fisheries and Livestock sector has been gradually increasing from about 43% in 2014-15 to 62% in 2023-24, while the share of crop sector declined from 54% to 37% in the same period (Figure 2.4). With long coast line and rich inland water resources, Fisheries sector gradually is emerging as a major player in agriculture sector. During the past decade it registered a high 17% average growth as against 7% of crop sector. Its share in total GVA increased rapidly from a mere 3% in 2014-15 to 10% in 2023-24. The state government has introduced programs such as the “Fishermen Welfare Scheme,” which provides financial aid to those affected by natural disasters and other challenges. The “Deep Sea Fishing Policy” also aims to boost fisheries development and income. The establishment of fisheries cooperatives has also been beneficial, allowing fishermen to sell their catch at competitive prices (Socio-Economic Survey, 2023-24). Structural changes in similar directions have occurred at the national level too, though industry and services account for a larger share at the national level with shrinking share of agriculture.



Sectoral Growth

2.9 Andhra Pradesh is one of the few States which did not experience negative growth in GVA from agriculture any year during the past decade. Agriculture growth in AP showed a steady acceleration from mere 3.6% in 2014-15 to 18.2% in 2017-18 and thereafter fluctuated between 2 and 10%, averaging about 7.8% during the decade 2014-24. Among all the major States of India, AP registered the highest average growth (7.8%) in agriculture sector during this decade. It is clear that with a share of one third in total GVA and with an impressive growth performance, agriculture sector has become an important determinant of the growth of State economy¹.

¹The correlation coefficient between growth rates of agricultural GVA and GSDP is about 0.50



2.10 After the formation of the State, Industry sector began with an impressive double-digit growth for the first three consecutive years and decelerated gradually over next three years and fell to nearly zero (-0.4%) in 2019-20. Even with low base in 2019-20, Industry sector registered a high growth rate of 18.9% during the pandemic year 2020-21. Post-bifurcation, the State has invested significantly in promoting its industrial strengths. There has been growth in labour productivity and exports. However, the state has to compete with leading industrialised neighbours, and there are regional differences in the performance. In fact, among the major states, AP ranked number one in terms of industry growth during the pandemic year. The credible performance of industry sector of AP is mostly due to the manufacturing sub-sector which accounted for almost 50% of GVA of Industry and could register an average growth rate of 12% pa during the last decade. Manufacture of computer, electronic and optical products, tobacco, coke and refined petroleum products exhibited higher growth in the index of industrial production between 2022-23 and 2023-24(Socio-Economic Survey, 2023-24).

2.11 The Services sector in AP exhibited greater volatility than agriculture and industry and registered lower growth rate of 5.4% pa during the decade. The growth rate of this sector was impressive at 9% and 10% in first two years of the State formation (2014-16) but slipped significantly to 1.8 in 2016-17 and fluctuated in the range of 4% to 6% during 2017-20 Trade and financial sectors appear to drive the growth in service sector of AP. In the pandemic year, the services sector contracted by 10% with an average growth rate of 8.3% during the next three years. The growth of the services sector has been affected by the performance of specific sub-sectors, such as trade, hotels, transport, and communication. For example, in 2017-18, the growth of the services sector happened mainly due to the growth of the trade, hotel, transport, and storage categories. The growth of these sectors fluctuated severely during 2021-23.

Interstate Comparison

2.12 The following analysis focuses on the economic performance of Andhra Pradesh relative to other major States of India. This is examined in three ways.

Contribution to Indian Economy

2.13 First, we examine the contribution of each State to all India sectoral GVA as well as to all India GDP. It may be noted that the contribution of a State in any sector's GVA depends not only on its relative performance in that sector but also in per capita terms. Therefore, it would be instructive to examine the contribution of a state to GVA of a sector (or aggregate GDP) along with its contribution in per capita terms ². For each sector, only the top 10 States are considered in terms of their contribution to the Indian economy.

2.14 More than three-fourths of the GVA in agriculture of India is contributed by the top ten States (Figure 2.6). All these States except Maharashtra and Uttar Pradesh, have higher shares in GVA than their population shares, indicating that their per capita GVA is higher than that of all India average. Contributing 8.9%, Andhra Pradesh is second top most contributor to agriculture. In case of industry and services sectors, the performance of the State is not as impressive as in the case of agriculture sector. Almost 70% of the GVA of industry is contributed by the top 10 States (Figure 2.7) and the contribution of AP is ninth lowest at 4%, marginally higher than its population share. In case of services sector, the contribution of AP is tenth lowest at 3.5% almost same as its population share, implying that the performance of the State is on par with the national average in per capita terms.

² If S and P are shares of a State in GVA (aggregate GDP) and population of India respectively and if $S > P$, then per capita GVA (aggregate GDP) of the State is $>$ national per capita GVA (aggregate GDP).

Figure 2.6: Share of top 10 States to Agriculture GVA of India

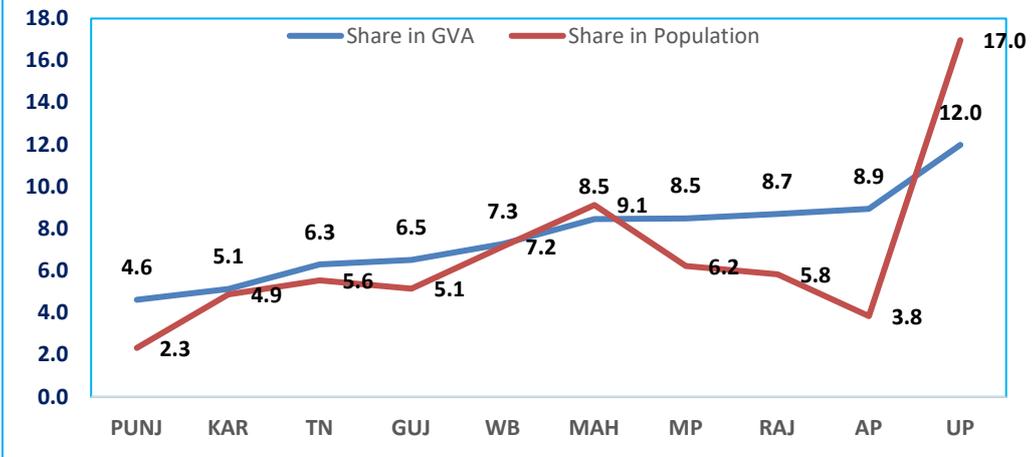
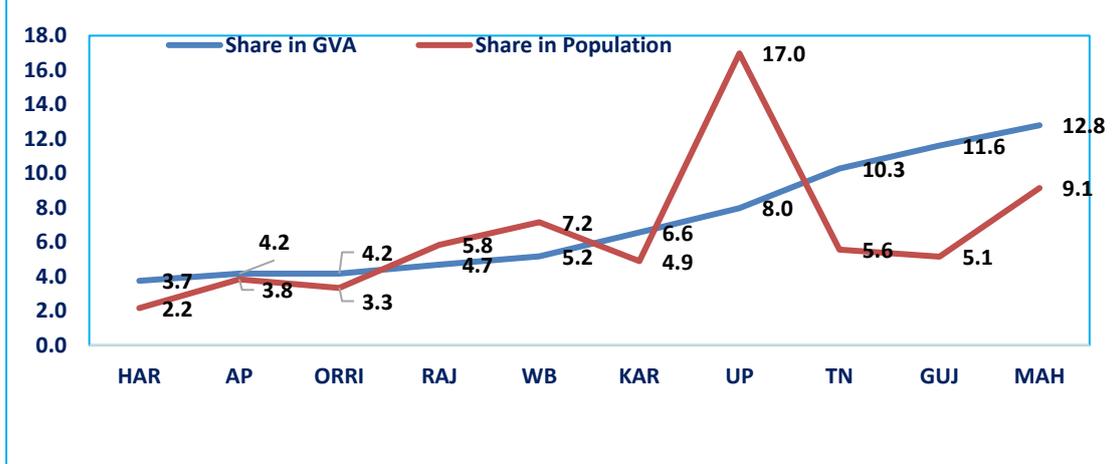
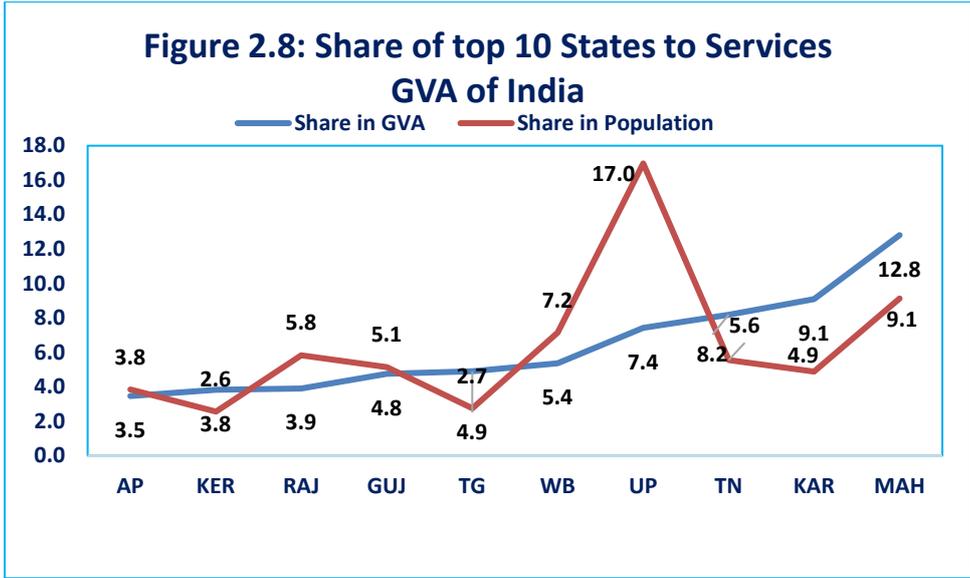
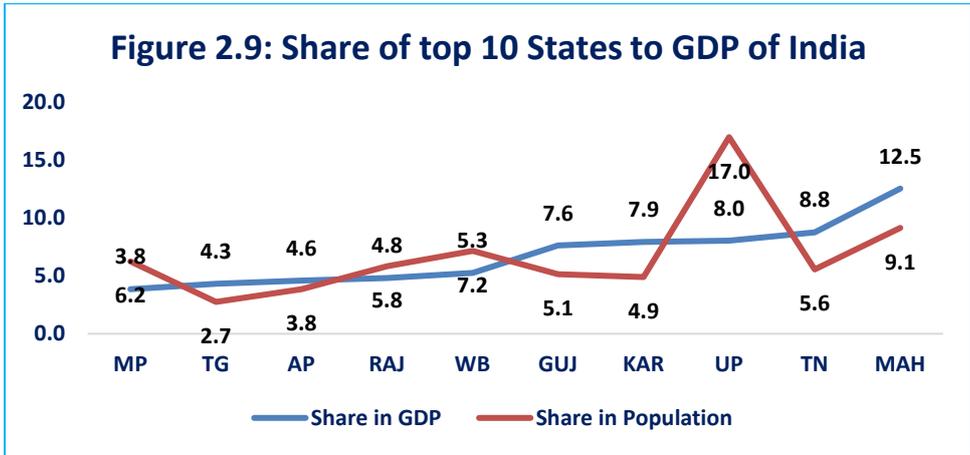


Figure 2.7: Share of top 10 States to Industry GVA of India





2.15 However, thanks to the impressive performance of agriculture, the share of AP in the national GDP is 4.6%, is higher than its population share. In other words, the State has higher per capita GDP than the national per capita GDP.



Inter-State Comparison of Growth

2.16 Table 2.1 presents the average growth rates of GSDP by sectors over the decade of 2014-24 for major States of India. Large interstate variations in the economic performance across the States of India can be seen from the Table. It is clear from the trends in the Table that no State could achieve an average double-digit growth. The State-wise year-to-year growth rates show that four of these States did not experience double digit growth even for one year during the decade of 2014-24, while seven States had double digit growth only once and six States had it twice. Gujarat is the only State that could achieve this feat four times. While Gujarat registered an average growth range of 7.8% pa – highest for any State, Jharkhand averaged lowest at 4% pa. The other nine States among the top ten had growth

rates in a narrow range of 6.3-7.6% pa. Noteworthy among them are Karnataka, Telangana, Andhra Pradesh and Tamil Nadu in that order. Eastern States, Assam and Odisha have also recorded impressive growth rate of over 7% pa. In fact, Assam, with an impressive 11% industry growth- highest for any State- registered second highest GSDP growth rate of 7.6%. The State of AP, with a growth rate of 7.1% ranks 6th in terms of growth. The GSDP growth of all other States ranged between 4.4 and 6.2%. In case of AP, the decadal growth is mostly driven by agriculture sector supported by industry sector, both of which had an average growth rate of nearly 8% pa. Among the States with over 7% aggregate GSDP growth rate, Assam, Gujarat and Odisha, experienced impressive growth in industry sector- 11%, 8% and 9%, respectively. In case of Karnataka and Telangana, the overall GSDP growth appears to be driven by services sector, which grew at 8-9%. In case of Bihar, the aggregate growth is driven by services sector, which grew at 7% pa, while in Chhattisgarh, it is industry sector with a growth rate of nearly 8%. In Madhya Pradesh, agriculture sector with a growth rate of 6.6% pa (second highest growth in agriculture sector) and services sector are the major contributors of growth³.

Table 2.1: Decadal average growth rate of Sectoral GVA and aggregate GDP.

STATE	Decadal Growth rate (% pa)			
	Agriculture	Industry	Services	GDP
AP	7.77	8.09	5.44	7.10
ASS	4.56	11.78	5.16	7.64
BIH	4.87	5.66	7.24	6.06
CHATT	4.82	7.76	5.13	6.38
GUJ	4.50	7.73	6.81	7.83
HAR	4.12	6.64	6.41	6.34
HP	2.79	6.11	5.38	5.45
JHK	1.49	4.32	6.00	4.44
JK	5.47	7.40	5.26	6.14
KAR	5.64	6.61	7.92	7.48
KER	-0.12	4.91	4.87	5.09

³The interpretation of these growth trends has been subject to debate due to the shift in the base period for GDP estimation from 2004-05 to 2011-12. The new National Accounts Statistics (NSA) series, with 2011-12 as the base year, has been criticised for reporting GDP growth rates different from the older series and showing different trends with other available macroeconomic aggregates. However, the CSO argues that it uses new, large data sources and incorporates methodological changes based on the UN System of National Accounts (SNA). The revised base year calculations caused the GDP to increase from 4.2 % to 6.8% for 2013-14 and the growth of the manufacturing sector from -0.75% to 5.3% (Nagaraja R and Srinivasan, 2017). India's former Chief Economic Advisor, Arvind Subramanian, said GDP growth between 2011-12 and 2016-17 is 4.5% compared to the official figure of 7% (EPW, 2019). However, Goldar (2015) argued in favour of the revision in the base year and presented the updated growth rates of the manufacturing sector, which received criticism from Nagaraj (2015) and Mazumdar (2015). The latter has pointed out that the ASI data contradicts Goldar's claims of manufacturing growth. Some experts justified the higher GDP and cautioned against the higher growth of the industry sector (Goyal, 2015).

MAH	5.34	3.15	6.31	4.96
MP	6.55	6.30	6.28	6.31
ODISH	4.62	9.05	4.98	7.25
PUNJ	2.64	5.73	5.60	5.25
RAJ	4.92	4.63	6.06	5.53
TG	6.54	6.90	7.22	7.16
TN	5.05	7.54	5.57	6.51
UP	5.45	8.37	5.95	6.21
UTT	1.09	4.41	6.51	4.91
WB	2.53	8.04	5.46	5.30
AI	4.12	5.61	6.25	5.83

Inter-State Comparison of Per Capita GSDP

2.17 Table 2.2 presents average per capita GSDP (PCGSDP) in 2011-12 prices for major States for the decade 2014-23, excluding the pandemic year 2020-21, along with their rankings and average growth rates. The trends in the Table do not exhibit any association between the levels of PCGSDP and growth rates. For example, Rajasthan, Chhattisgarh and Jharkhand have similar growth rates but vary in their PCGSDP. Similarly, Madhya Pradesh, Maharashtra and Himachal Pradesh have nearly same growth rates with different PCGSDP. This would imply that if the States maintain the current growth rates, there would be no major churning in the inter-state rankings. With an average PCGSDP of Rs 1.21 lakhs, Andhra Pradesh ranked 11 among 21 major States, but is the fourth fastest growing State. Among the ten States which are ahead of AP in PCGSDP, three States, viz., Gujarat, Karnataka and Telangana also are ahead in their average growth rates. While Gujarat, Telangana are one percentage point ahead in their growth, Karnataka is ahead by about 0.4 percentage points. Business as usual scenario would imply that these States will maintain their relative ranking in future and continue ahead of AP. Also States like Haryana, Himachal Pradesh, Kerala and Tamil Nadu, which have 30 to 50% higher PCGSDP than AP are less than one percentage point behind AP in their growth rate.

Table 2.2: State-wise decadal average PCGSDP, average growth rates and their Rankings

State	PCGSDP	Rank	Average Growth Rate	Rank of average Growth rate
AP	121650	11	7.2	4
ASS	69281	17	6.9	5
BIH	30228	21	5.6	15
CHATT	84981	13	5.2	18
GUJ	168620	2	8.0	2
HAR	178060	1	6.6	7
HP	157539	7	6.1	10
JHK	58197	19	5.1	19
JK	83347	15	5.3	17
KAR	164465	3	7.6	3
KER	150699	9	6.2	9
MAH	156152	8	5.9	11
MP	63981	18	5.9	12
ODI	84860	14	6.9	6
PUNJ	128376	10	4.5	21
RAJ	86119	12	5.1	20
TG	158097	6	8.1	1
TN	159064	5	6.5	8
UP	49248	20	5.7	14
UTT	160837	4	5.6	16
WB	74919	16	5.8	13
AI	103434		6.1	

Note: Average over the decade 2014-24 excluding pandemic year 2020-21

Impact of Pandemic

2.18 With the outbreak of COVID 19 in early 2020, India faced an unprecedented crisis in almost every facet of its society across the length and breadth of the country. Initially, the infections were reported in few metro-cities. Soon the rate of spread of infection increased from less than one hundred per day in first week March of 2020 to over one thousand per day during early April. Thereafter the pandemic spread to all the States. The daily cases reached ten thousand per day in May and reached peak by mid –September before starting to recede. India was one of the few countries to react to the outbreak to contain its spread by several measures like imposing total lockdown in the entire country. Restrictions were imposed nearly on all economic activities. All economic activities in the State were under lockdown period for over two months. Even after staggered lifting of the lockdown, the

activity levels have not returned to normal levels. The pandemic left a trail of devastating effects on the economy over the entire nation. The distress that COVID-19 pandemic caused to the economy across the length and breadth of country can be gauged from Table 2.3.

Table 2.3: GSDP Growth rate in pandemic year

State	Agriculture	Industry	Services	GDP
AP	1.9	18.9	-9.2	1.5
ASS	-1.6	-7.0	4.2	3.0
BIH	8.1	-1.7	-12.7	-7.4
CHATT	4.8	3.8	-4.6	-0.1
GUJ	0.6	-2.4	-4.7	-1.9
HAR	-1.5	-7.4	-10.5	-9.0
HP	-6.2	-4.2	-3.3	-4.3
JHK	6.3	-4.6	-9.1	-5.3
JK	-1.6	3.0	-7.2	-1.3
KAR	14.3	-0.5	-4.8	-2.3
KER	1.6	-1.1	-15.2	-8.5
MAH	11.6	-5.2	-13.4	-9.5
MP	5.3	-6.6	-9.9	-4.7
ODI	7.3	5.9	-11.4	-2.1
PUNJ	1.1	3.3	-4.8	-1.5
RAJ	6.4	2.7	-10.4	-1.9
TG	2.9	-1.7	-9.3	-6.0
TN	4.5	-1.0	-0.4	0.1
UP	1.7	-1.8	-7.3	-4.3
UTT	1.5	-12.8	-10.5	-12.1
WB	1.7	-2.1	-12.7	-7.6
All India	4.0	-0.4	-8.4	-5.8

2.19 Apart from the two states, Tamil Nadu and Chhattisgarh which experienced near 'zero' growth and two other States of Andhra Pradesh, Assam, which had positive growth, the rest of the 17 States experienced contraction in their GSDP to various degrees. The extent of contraction varies from 12% for Uttaranchal to 1.3% for Jammu and Kashmir. While the all India GDP contracted by 5.8%, the GSDP of Bihar, Haryana, Kerala and Maharashtra contracted by 7-9% and that of Himachal Pradesh, Madhya Pradesh, Telangana and Uttar Pradesh by 4-6%. In 17 out of 21 States the impact of pandemic would have been worst had it not been for the positive growth experienced by the agriculture sector. At national level, the agriculture GDP registered 4% growth in the pandemic year 2020-21. States like Karnataka and Maharashtra had double digit growth in agriculture sector during pandemic. Other States experiencing growth rate over 5% were Bihar, Chhattisgarh,

Jharkhand, Madhya Pradesh, Orissa and Rajasthan. Six states also experienced positive growth in industry sector of which noteworthy is Andhra Pradesh which had as high as 19% growth. Part of this high growth rate was possible due to recovery from the deceleration that the industry sector experienced during 2017-20 including a negative growth in 2019-20 as mentioned above. The other factors contributing to industrial growth are that Andhra Pradesh has consistently been at the forefront of industrial development. After bifurcation, the State has made significant efforts to build on this industrial legacy. As a result of these efforts, the State attracted the largest FDI in India in the automobile sector and mobile phone assembly plants and initiated three industrial corridors. The State has digitalized the industrial approval and tracking process. The momentum created since 2014 continues to yield results, and the implementation of infrastructure plans during the last decade supports industrial growth (Andhra Pradesh Industrial Development Policy 4.0 2024-29, Industry and Commerce Department, Govt, of Andhra Pradesh). The other States are Chhattisgarh, Jharkhand, Odisha, Punjab and Rajasthan. The national GDP from industry sector registered a contraction by 0.4%. With a series of lockdowns, mandatory and self-imposed social distancing, services sector suffered the most during pandemic. Almost the entire contraction in Indias' GDP is due to the severe blow to service sector economy received during pandemic. The services sector for all-India declined significantly by 8.4%. Except Assam, all the other 20 States had negative growth rate in services sector. The size of services sector economy shrunk by 10% or more in as many as 9 States. Another seven States experienced a contraction by 7-9%, of which Andhra Pradesh is one.

Loss due to Pandemic and Recovery

2.20 In order to assess the loss due to the shock of Pandemic for any state, the level of GSDP it attained in Pandemic year is compared with a potential level GSDP that it should have achieved had it experienced the same growth rate as the average of preceding five years (column 2 of table 2.4). The difference between the potential level of GSDP and actual level is expressed as percentage to the potential GSDP to indicate percentage loss (column 4 of table 2.4). The extent of recovery is assessed by comparing the actual growth rate achieved 3 years immediately after pandemic (column 5 of table 2.4) with a growth rate that is required (column 6 of table 2.4) to off-set the loss in 2020-21 so that the average growth rate during 2020-24 (including the pandemic year) would be the same as column 2.

2.21 All the States, including those who did not experience any contraction in GSDP, suffered loss. The extent of loss is somewhat related to the amount of contraction experienced in pandemic. In general, States that have experienced positive growth and those experiencing 0-2% contraction have faced 4-7% loss. States which have experienced 2-6% contraction suffered loss of around 9-10%, while those States which faced negative growth of above 7% had more than 14% loss.

2.22 Except for three States, Chhattisgarh, Jharkhand and Rajasthan, the growth rate achieved during the three years after pandemic is not sufficient to bring them to the growth trajectory that was achieved during the pre-pandemic five-year period. This includes Andhra Pradesh and Assam which had positive growth rate during pandemic. From the data it would appear that most of the States, including AP, would have to accelerate to overcome the setback of pandemic and restore their potential growth path.

Table 2.4: Loss due to Pandemic and Growth in Recovery Phase

State	Growth Rate (%pa)		Loss	Average Growth Rate for 3 Years post Pandemic	Required Growth rate
	Average of Five-year preceding Pandemic	Pandemic Year			
(1)	(2)	(3)	(4)	(5)	(6)
AP	7.93	1.52	-5.94	7.57	10.2
ASS	7.90	2.95	-4.58	8.77	9.6
BIH	7.37	-7.43	-13.78	9.55	12.8
CHATT	6.33	-0.14	-6.09	8.65	8.6
GUJ	9.30	-1.91	-10.26	9.04	13.3
HAR	8.09	-9.00	-15.80	8.52	14.5
HP	6.37	-4.35	-10.07	7.19	10.2
JHK	4.64	-5.30	-9.49	8.82	8.2
JK	6.88	-1.33	-7.68	7.39	9.8
KAR	9.03	-2.30	-10.39	8.16	13.1
KER	5.93	-8.49	-13.61	9.78	11.2
MAH	5.40	-7.30	-12.05	9.82	10.0
MP	8.17	-4.67	-11.87	6.87	12.8
ODS	8.07	-2.11	-9.42	9.00	11.7
PUNJ	5.78	-1.46	-6.84	6.60	8.3
RAJ	5.41	-1.88	-6.92	8.19	8.0
TG	9.03	-6.01	-13.80	8.44	14.6
TN	6.85	0.07	-6.35	8.11	9.2
UP	6.51	-4.28	-10.13	9.21	10.4
UTT	6.12	-12.10	-17.17	8.57	13.0
WB	5.82	-7.58	-12.66	8.72	10.7

All India	6.67	-5.78	-11.67	8.28	11.2
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Conclusion

2.23 Andhra Pradesh State witnessed a high growth after bifurcation for the first four years. Agriculture and services sectors were the major contributors to the growth rate. The growth rate of the economy fell subsequently mainly due to fall in the growth rate of agriculture sector. Contribution of crop sector to agriculture GVA has shrunk, while fisheries has shown a high potential. Surprisingly, the decadal average growth rate for industries sector is high for the State. Andhra Pradesh stands among the top 10 States in contribution to GDP of the country and the State also contributes higher than its population share. The State with a growth rate of 7.1% ranks 6th in terms of growth. The State ranked 11th among the 21 states in per capita GSDP. Rate of growth of the State economy has not been much impacted during the Covid period. But, post-covid recovery was slower for the entire period 2021-24. The growth in agriculture could be tapped from fisheries sector which has a growth potential. Manufacturing sector also holds a good potential for growth. The climate and soil conditions make the state the best in producing fruits, spices, rice, chilly, oilseeds, cotton, and pulses. The State stands among the top five performing States in the production of eggs, milk, and meat, and it has emerged as the leader of India's fishing and aquaculture sector, accounting for 41 % of the total share. The State is blessed with diversified water resources, 974 km of coastline, and a potential of 1.74 lakh hectares of brackish water area and about 8 lakh hectares of freshwater. Andhra Pradesh has a strong manufacturing foundation. The state is developing three industrial corridors linked to all the major infrastructure. It is a power surplus state developing significant renewable energy capacity that can help reduce the cost of power supply while decarbonising the economy. It has a strong foundation in Science, Technology, Engineering, and Mathematics (STEM) education. The state is home to many global and national pharma players. Andhra Pradesh also boasts of having 20 operational SEZs spread across diversified sectors, which include textiles and apparel, food processing, footwear and leather products, multi-product, pharma, IT SEZs, etc. (Andhra Pradesh Industrial Development Policy 4.0 2024-29, Industry and Commerce Department, Govt, of Andhra Pradesh).

CHAPTER – 3

Trends in Revenue Receipts

Revenue receipts are a significant component of a State's total receipts. Unlike other resources, revenue receipts do not create any liability and are recurring in nature. Revenue receipts comprise proceeds from tax and non-taxes. Tax revenue consists of States' own tax revenue and share in Central taxes. Non-tax revenues include States' own non-tax sources and grants from the Centre. At the aggregate level, States' revenue receipts, post-tax devolution and Central grants, constitute over 60 per cent of the combined revenue receipts. Though, India is emerging as one of the fastest growing economies in the world, it lags behind a number of countries in the provision of health care and educational facilities. In terms of Human Development Index (HDI), India is positioned at 134 out of 193 countries. Skill levels in the country are also at a low level putting it at a disadvantage. To address these deficiencies, there is an imperative to invest in human capital for which revenue resources are critical.

3.2 The golden rule in public finance stipulates that the government should borrow only to invest and not to fund current spending. The rationale for focusing on balancing the current budget is to protect investment spending and maintain fiscal sustainability and growth. It is for these reasons that augmentation of revenue matters.

Trends in Revenue Receipts

3.3 In the following sections, revenue performance of Andhra Pradesh State is analysed. The analysis first covers trends in aggregate revenue receipts followed by analysis of individual components. Trends in the percentage shares of different components in total revenue receipts are presented in Table-3.1.

Table 3.1: Andhra Pradesh-Composition of total revenue receipts (% Share)

Year	State's Own Tax Revenue	Share in Central Taxes	Non-Tax Revenue	Grants-in-aid	Revenue Receipts	Revenue Receipts as % of GSDP
2011-12	51.1	19.7	12.4	14.3	100	13.88
2012-13	51.7	20.2	15.3	9.1	100	14.20
2013-14	52.0	20.7	13.9	10.0	100	13.42
2014-15	45.4	17.4	12.5	24.7	100	12.51
2015-16	45.02	24.70	5.55	24.74	100	14.67
2016-17	44.63	26.53	5.25	23.59	100	14.46
2017-18	47.10	27.60	3.63	21.66	100	13.36
2018-19	50.61	28.59	3.83	16.97	100	13.12
2019-20	51.88	25.44	2.99	19.70	100	11.99
2020-21	49.01	20.88	2.90	27.21	100	11.97
2021-22	47.15	23.50	3.33	26.02	100	13.11
2022-23	49.46	24.20	3.43	22.91	100	12.10
2023-24 (RE)	48.68	22.70	5.34	23.29	100	13.66
General Category States 2022-23	50.54	26.28	7.93	15.26	100	14.70

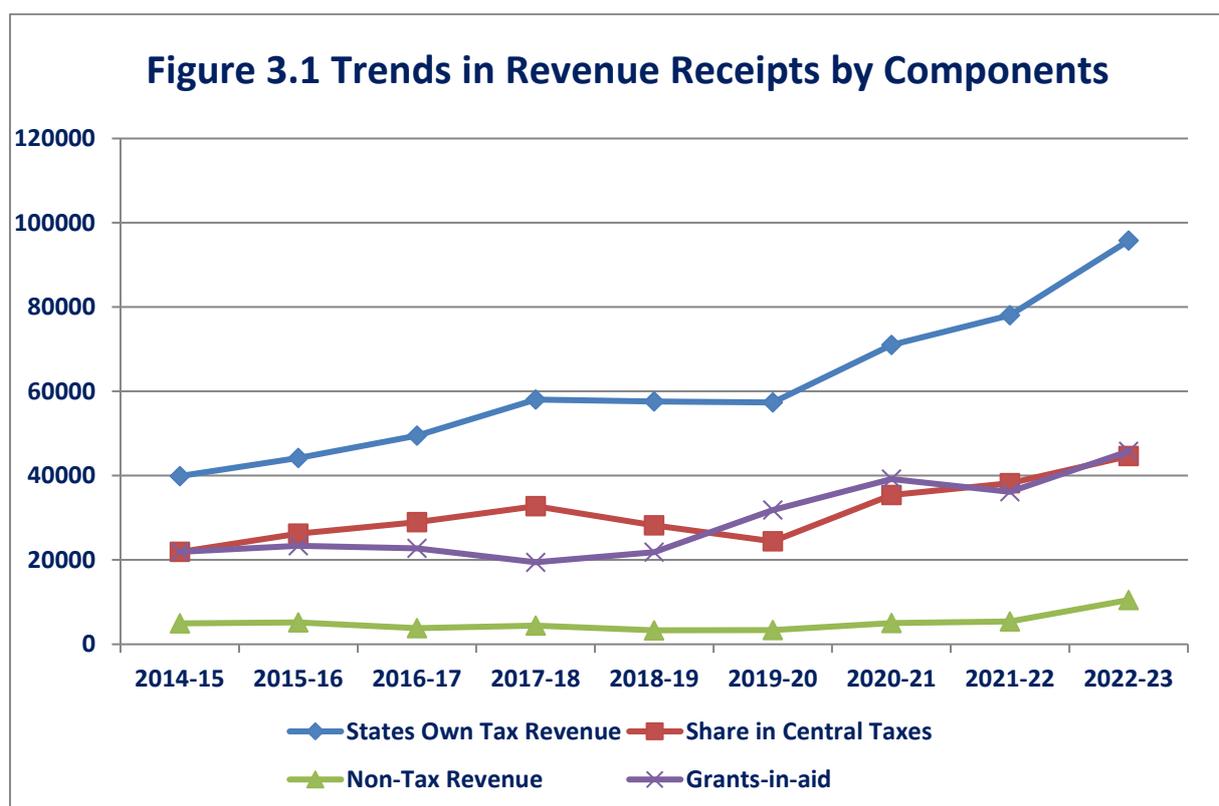
Source: C&AG: Finance Accounts-Various Years

Notes: For the years 2011-12 to 2013-14, figures have been estimated by using the respective proportions of AP and Telangana in the combined revenue under various components based on the ten months actuals of 2014-15.

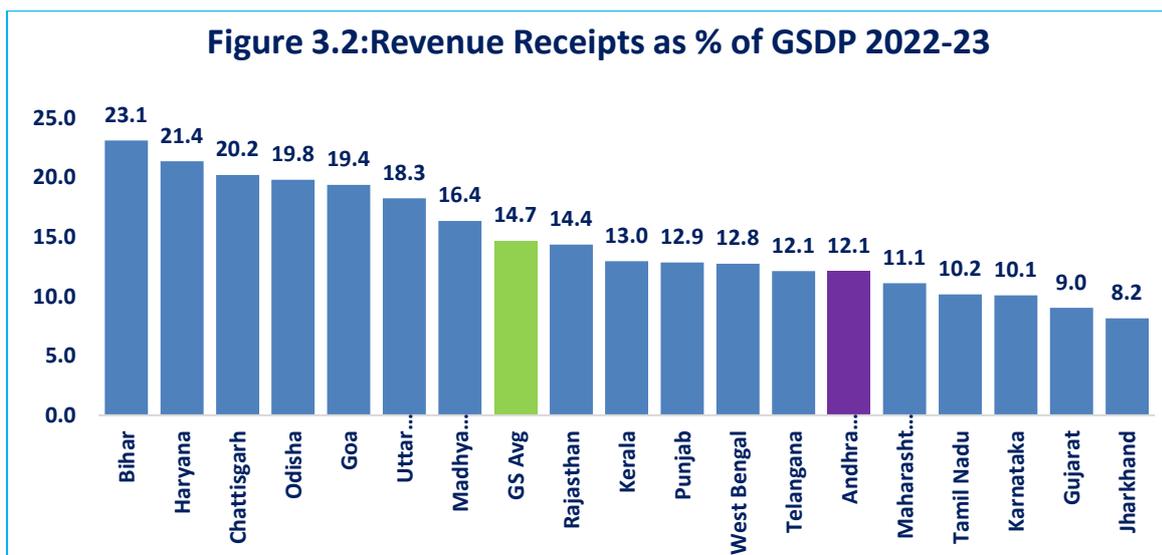
3.4 The share of the own tax revenues in total revenue receipts witnessed a marginal increase during the period 2015-16 to 2022-23. The higher share in 2018-19 and 2019-20 was mainly on account of a decline in the share of Central transfers. The share of non-tax revenues exhibited a declining trend. The share of tax devolution too declined from the award period of Fourteenth Finance Commission (FC-XIV) to the award period of Fifteenth Finance Commission (FC-XV). The share of Andhra Pradesh in tax devolution declined from 4.305 per cent to 4.047 percent in the periods covered by these Commissions. Grants-in-aid emerged as a major component of revenue receipts after the bifurcation of the erstwhile combined State of Andhra Pradesh into successor States of Andhra Pradesh and Telangana on June 2, 2014. In the assessments of both FC-XIV and FC-XV, Andhra Pradesh was assessed to be having post-devolution revenue deficits. Following this, Andhra

Pradesh was recommended post-devolution revenue deficit grants amounting to Rs.22,113 crore by FC-XIV and Rs.30,497 crore by FC-XV.

3.5 Taking periods covered by the Eight Finance Commissions onwards, the undivided State of Andhra Pradesh was assessed to be having post-devolution revenue deficit only in the years 1995-96 and 1996-97 amounting to Rs.686.45 crore. Trends in the growth of revenue receipts by components are presented in Figure 3.1.



3.6 Figure-3.2 presents the ratios of revenue receipts to GSDP in the General Category States for the year 2022-23. As compared to general category States, the percentage of revenue receipts to GSDP is much lower in Andhra Pradesh. The State stands at 13th place among the 18 general category States. The percentage of revenue receipts to GSDP is much higher in States like Bihar, Chhattisgarh, Uttar Pradesh, Madhya Pradesh and Rajasthan mainly because of higher share in tax devolution and grants (Figure 3.2).



3.7 As compared with the southern States, the shares of own-tax revenues and non-tax revenues in total revenue receipts have been much lower in Andhra Pradesh. In contrast, the shares of tax devolution and grants have been higher (Table 3. 2).

Table 3.2: Percentage composition of Revenue Receipts of Andhra Pradesh vis-à-vis Southern States

Year	AP				Southern States			
	States Own Tax Revenue	Share in Central Taxes	Non-Tax Revenue	Grants-in-aid	States Own Tax Revenue	Share in Central Taxes	Non-Tax Revenue	Grants-in-aid
2014-15	47.00	16.87	12.11	24.02	63.58	14.18	7.98	14.26
2015-16	45.02	24.70	5.55	24.74	59.80	17.65	9.44	13.11
2016-17	44.63	26.53	5.25	23.59	60.08	19.31	8.15	12.46
2017-18	49.89	24.82	3.63	21.66	63.02	17.80	7.80	11.37
2018-19	51.17	28.03	3.83	16.97	59.99	19.15	8.02	12.84
2019-20	51.88	25.44	2.99	19.70	60.39	16.53	7.41	15.68
2020-21	51.70	22.03	3.06	28.70	59.99	13.39	6.00	20.63
2021-22	47.15	23.50	3.33	26.02	60.74	16.57	6.68	16.01
2022-23	49.46	24.20	3.43	22.91	61.82	14.55	8.58	15.06
2023-24	49.75	20.07	7.47	22.71	65.81	14.15	8.44	11.61

Source: Accounts at a glance C&AG

Note: Southern States include Karnataka, Kerala, Tamil Nadu and Telangana

Composition of Revenue Receipts as Percentage of GSDP

3.8 Own tax revenue to GSDP ratio has almost remained flat at about 6.60 per cent from 2015-16 to 2022-23. The ratio witnessed only a marginal decline during the covid years 2019-20 and 2020-21. There has been a marginal decline in the ratio of share in Central taxes-GSDP from 2020-21 because of the decline in the share of the State in tax devolution. Non-tax revenues of the State were less than 0.50 per cent of GSDP except in the initial years of 2015-16 and 2016-17.

3.9 Grants to GSDP ratio broadly followed the pattern of post-devolution revenue deficit grants. Under the dispensation of FC-XIV, there was phased reduction in these grants from Rs.6,609 crore in 2015-16 to R.2,499 in 2019-20. The FC-XV recommended post-devolution revenue deficit grants only for the first three years from 2021-22 to 2023-24. The phased reduction of the grant was from Rs.17,257 crore in 2021-22 to Rs.2,691 in 2023-24. Total revenue receipts to GSDP ratio ranged between 12 per cent and 14 per cent and the annual variations broadly followed the pattern in own tax revenues and tax devolution. Details are given in Table 3.3.

Table 3.3: Total Revenue Receipts as % of GSDP

Year	States Own Tax Revenue	Share in Central Taxes	Non-Tax Revenue	Grants-in-aid	Revenue Receipts
2014-15	5.69	2.18	1.56	3.09	12.51
2015-16	6.60	3.62	0.81	3.63	14.67
2016-17	6.46	3.84	0.76	3.41	14.46
2017-18	6.29	3.69	0.49	2.90	13.36
2018-19	6.64	3.75	0.50	2.23	13.12
2019-20	6.22	3.05	0.36	2.36	11.99
2020-21	5.87	2.50	0.35	3.26	11.97
2021-22	6.18	3.08	0.44	3.41	13.11
2022-23	5.99	2.93	0.42	2.77	12.10
2023-24 RE	6.65	3.10	0.73	3.18	13.66

Source: Accounts at a glance C&AG

3.10 The relative performance of Andhra Pradesh more or less matches the performance of southern States in own-tax GSDP ratio with the exception of Telangana. In respect of non-tax revenue-GSDP ratio, the performance of Kerala and Telangana is much better than that of Andhra Pradesh. Tax devolution and grants ratios to GSDP are higher in Andhra Pradesh (Table 3.4).

Table 3.4: Revenue Receipts of Southern States (as % of GSDP)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
States Own Tax Revenue										
Andhra Pradesh	5.7	6.6	6.5	6.3	6.6	6.2	5.9	6.2	6.0	6.7
Karnataka	7.7	7.2	6.9	6.8	6.6	6.3	5.9	6.1	6.3	6.9
Kerala	6.9	6.9	6.6	6.9	6.5	6.2	6.2	6.3	7.0	7.1
Tamil Nadu	7.3	6.8	6.6	6.6	6.5	6.2	5.9	5.9	6.3	6.7
Telangana	5.8	6.9	7.4	7.8	7.6	7.1	7.1	8.1	8.2	8.7
Share in Central Taxes										
Andhra Pradesh	2.2	3.6	3.8	3.7	3.7	3.1	2.5	3.1	2.9	3.1
Karnataka	1.6	2.3	2.4	2.1	2.4	1.9	1.3	1.7	1.5	1.5
Kerala	1.5	2.3	2.4	2.2	2.4	2.0	1.5	1.9	1.8	1.9
Tamil Nadu	1.6	1.7	1.9	1.7	1.8	1.5	1.4	1.8	1.6	1.5
Telangana	1.6	2.1	2.3	2.0	2.1	1.7	1.3	1.7	1.5	1.4
Non-Tax Revenue										
Andhra Pradesh	1.6	0.8	0.8	0.5	0.5	0.4	0.3	0.4	0.4	0.7
Karnataka	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.5
Kerala	1.4	1.5	1.5	1.6	1.5	1.5	0.9	1.1	1.5	1.5
Tamil Nadu	0.8	0.8	0.8	0.7	0.9	0.7	0.6	0.6	0.7	0.7
Telangana	1.3	2.5	1.5	1.0	1.2	0.8	0.6	0.8	1.5	1.5
Grants-in-aid										
Andhra Pradesh	3.1	3.6	3.4	2.9	2.2	2.4	3.3	3.4	2.8	3.2
Karnataka	1.6	1.3	1.3	1.6	1.7	2.1	1.8	1.5	1.6	0.6
Kerala	1.5	1.6	1.3	1.2	1.4	1.4	4.0	3.2	2.7	1.4
Tamil Nadu	1.7	1.6	1.5	1.0	1.4	1.6	1.8	1.7	1.6	1.0
Telangana	1.4	1.6	1.5	1.1	1.0	1.2	1.6	0.8	1.0	2.7
Revenue Receipts										
Andhra Pradesh	12.5	14.7	14.5	13.4	13.1	12.0	12.0	13.1	12.1	13.7
Karnataka	11.4	11.4	11.0	11.0	11.2	10.9	9.5	9.9	10.1	9.5
Kerala	11.3	12.3	11.9	11.8	11.8	11.1	12.6	12.6	13.0	11.8
Tamil Nadu	11.4	11.0	10.8	10.0	10.7	10.0	9.7	10.0	10.2	9.9
Telangana	10.1	13.2	12.6	11.8	11.8	10.8	10.7	11.3	12.1	14.4

Source: RBI State Finances: A Study of State Budgets

Own Tax Revenues of Andhra Pradesh

a) Composition

Table 3.5: Composition of Own tax revenue in percentage

Year	State Goods and Services Tax (SGST)	Taxes on Sales, Trade etc.	State Excise	Stamps and Registration Fee	Taxes on Vehicles and Goods & Passengers	Other Taxes on Income and Expenditure	Taxes and Duties on Electricity	Land Revenue	Taxes on Immovable properties other than Agricultural Land	Other Taxes	Total Own Taxes
2014-15	0.0	72.6	12.2	8.6	4.8	0.6	0.4	0.1	0.0	0.7	100.0
2015-16	0.0	72.9	11.0	8.8	5.2	0.6	0.4	0.1	0.5	0.3	100.0
2016-17	0.0	73.5	10.5	7.9	5.6	0.6	0.8	0.4	0.4	0.3	100.0
2017-18	21.9	51.2	11.0	8.6	6.2	0.5	0.0	0.2	0.3	0.1	100.0
2018-19	35.5	37.8	10.7	9.4	5.8	0.4	0.0	0.1	0.3	0.0	100.0
2019-20	35.1	37.2	12.0	9.2	5.8	0.4	0.0	0.0	0.2	0.0	100.0
2020-21	32.9	31.0	20.2	9.8	5.2	0.5	0.0	0.2	0.2	0.0	100.0
2021-22	33.5	29.3	20.7	10.8	4.8	0.4	0.0	0.1	0.4	0.0	100.0
2022-23	35.9	23.1	19.0	10.3	5.6	0.4	5.4	0.1	0.3	0.0	100.0
2023-24 RE	35.0	24.6	17.9	11.5	6.3	1.4	2.1	0.2	1.0	0.1	100.0

Source: C & AG Finance Accounts of various years

3.11 Important components of own-tax revenue in Andhra Pradesh are taxes on sales, State Goods and Services tax (SGST), stamps and registration and tax on motor vehicles. This is in line with the pattern prevailing in other major States. Till the rollout of GST in the country from July 1, 2017, taxes on sales was the predominant component contributing nearly three-fourths of own-tax revenues. After the introduction of GST, the share of taxes on sales has been witnessing a declining trend with a corresponding increase in the share of SGST. In 2020-21, GST has overtaken taxes on sales contributing 35.9 per cent of total own-tax revenue and taxes on sales contributing 23.1 per cent. The combined share of SGST and taxes on sales in own-tax revenues was found to be much lower at 59 per cent than what it was in 2018-19 (73.3 per cent).

3.12 The SGST collections as reported in the Finance Accounts of Comptroller and Auditor General of India (C&AG) do not include GST compensation cess. With the inclusion of compensation cess, the share of SGST in own tax revenues in 2022-23 goes up from 35.5 per cent to 41.72 per cent (Table 3.6). The combined share of SGST (including compensation) and taxes on sales at 64.82 percent in total own tax revenue in 2022-23 still falls short of the 73.5 percent share of taxes on sales in 2016-17. The average annual growth of revenue from SGST, inclusive of IGST settlement but exclusive of compensation cess in AP was 8.8 per cent during the period 2017-18 to 2022-23. In the same period, the annual growth in general category States, special category States and all States was 10.6 per cent, 8.8 per cent and 10.5 per cent, respectively (Annexure- 3.1). This clearly indicates the poor

performance of AP in SGST collections. With the termination of GST compensation cess, the State will have a difficult task in managing its finances.

Table 3.6: SGST including GST Compensation

(Rs. Crore)

Year	SGST	GST Compensation	Total SGST	Total Own Taxes	Total SGST as % of Total Own Taxes
2017-18	10820	382	11202	49487	22.64
2018-19	20611	0	20611	58031	35.52
2019-20	20227	1841	22068	57601	38.31
2020-21	18871	3527	22398	57409	39.02
2021-22	23809	3117	26926	70979	37.94
2022-23	27981	4570	32551	78026	41.72

Source: C& AG Finance Accounts of various years

3.13 Petroleum products account for major share of taxes on sales. Petrol attracts 31 per cent ad valorem duty in addition to the specific VAT of Rs.4 per litre and Re.1 per litre of road development cess. Diesel is charged an ad valorem VAT of Rs.22.25 per cent, specific VAT of Rs.4 per litre and Re.1 per litre as Road Development cess. Revenue from petroleum products in Andhra Pradesh has been witnessing an increasing trend from Rs. 7,806 crore in 2015-16 to Rs.16,688 crore in 2023-24 (prov).It is noteworthy that the consumption of motor spirit in Andhra Pradesh in 2023-24 at 1571.4 kilo litres was lower than the consumption in Telangana (1675.1 kilo litres). The Consumption of high speed diesel was also found to be marginally lower in AP (3639.5 kilo litres) as compared with consumption of 3668.2 kilo litres in Telangana in the same year. It may be mentioned in this context that VAT rates are relatively higher in Telangana as compared with Andhra Pradesh (35.2% ad valorem VAT on petrol and 27% ad valorem VAT on diesel). However, imposition of specific duties in AP made up for the lower consumption of petroleum products, though not fully.

3.14 Excise duties on liquor for human consumptions are the second largest contributor to the State's own tax revenue. Until 2019-20, the share of excise duties in own tax revenues ranged between 10 and 12 per cent. In November 2019, the Government of Andhra Pradesh introduced major changes in excise duty structure. On November 22, 2019, a new levy called Additional Retail Excise Tax (ARET) as a percentage of retail price was introduced. On Indian made foreign liquor (IMFL), ARET ranged from Rs.30 per 60/90 ml bottle to

Rs.750 on 2000 ml bottles. On foreign liquor, it was levied from Rs.30 per 50/60ml to Rs.750 per 100/2000ml. On beer AERT ranged from Rs.30 per 330ml to Rs.6,000 per 50,000 ml.

3.15 In quick succession, for the license period January 2020 to December 2020, non-refundable registration charges and annual license fees for bars were substantially increased. While non-refundable registration charges per annum ranged from Rs.20 lakh per bar to Rs.45 lakh per bar depending on the population of the municipality, the annual license fees per bar was fixed at Rs.5 lakh irrespective of the size of the municipality. As a result of these increases, the share of excise revenue in own taxes nearly doubled to 20 per cent in 2020-21.

3.16 Another major change in excise duty structure took place in November 2023. The AERT which was levied as a specific duty was converted into ad valorem duty. The AERT on IMFL was levied at 250 per cent on a basic price up to Rs.2,500 and 150 per cent on a basic price above Rs.2,500. The ad valorem AERT rates on beer, wine and ready to drink beverages were imposed at 225 percent, 200 percent and 50percent of basic prices, respectively. Along with this, an Additional Excise Duty (AED) of 10 percent of the basic price was being levied for the first time on all types of liquor. What is noteworthy is that for the first time a special uniform margin of 110 per cent of basic prices was levied on all types of liquor. The proceeds of this special margin are meant for the AP Beverages Corporation to enable it to meet expenditure towards implementation of various welfare programmes statutorily mandated.

3.17 It is noteworthy that the State Government established a corporation by the name “Andhra Pradesh State Development Corporation Limited” in August 2020 as a Public Limited Company. The main objective of the Corporation is to raise funds from various sources and providing financial support for the achievement of key economic and social development goals across multiple domains. The order establishing the Corporation indicated that the Government shall identify requisite resources comprising of existing revenue source and new revenue sources through levy of cesses, fees, charges etc., and assign them to the Corporation. The Corporation has been assigned six new schemes namely, (a) School Infrastructure upgradation through Mana Badi Nadu-Nedu; (b) Hospital infrastructure upgradation through Nadu-Nedu Health; (c) YSR Cheyutha; (d) YSR Asara;

(e) Jagananna Ammavodi; and (f) YSR Rythu Bharosa. In the first instance, the Government assigned to the Corporation the revenue from ARET.

3.18 The Corporation was provided with statutory status by an act of the State Legislature in December, 2020. In accordance with the provisions of this Act, the Corporation is mandated to fund and raise finances for the implementation of entrusted schemes by escrowing the assigned revenues. The Act enables the Corporation to raise money from capital markets, international and domestic money markets.

3.19 Assigning money raised through taxes straight to a corporation without first being deposited in the Consolidated Fund of the State is irregular and contrary to the Provisions of General Financial Rules.

3.20 The State Government replaced the existing excise policy by a new policy effective from October 12, 2024. This policy abolished the sale of liquor through outlets of State Beverages Corporation and allowed private retailers to sell liquor. Under the revamped policy, a total of 3,736 retail outlets will be allowed to sell liquor. The margin for retailers has been set at 20 per cent. The allotment of shops has been finalised through a policy of inviting applications with a non-refundable fee of Rs. 2 lakh each. The policy also prescribed Retail Excise Tax (RET) slabs for the license period starting from Rs.50 lakh to Rs.85 lakh, depending on the size of the population. The license is valid from October 12, 2024 to September 30, 2026. The RET will be revised by 10 percent in 2025-26.

3.21 The share of stamps and registration in own tax revenues started increasing because of the revisions of the market values. Land values in both urban and rural areas for the purpose of registration were revised by 10 per cent each in three consecutive years, 2015-16, 2016-17 and 2017-18. In 2018-19, urban land values were revised by 10 per cent. Again in 2019-20, land values in both urban and rural areas were revised by 5 per cent. These were followed by revision of values in newly constituted district headquarters in 2022-23. Again in 2023-24, there was a special revision of land values in both urban and rural areas. Thus, during the period 2014-15 to 2023-24, land values were revised in all the years with the exception of two years, 2020-21 and 2021-22.

3.22 The share of taxes on motor vehicles has been fluctuating from year to year and remained range bound between 4.8 per cent and 5.6 per cent. The share of duties on

electricity has improved substantially to 5.4 per cent in 2022-23 on account of steep increase in the rates. In April, 2022, the Government of AP levied electricity duty of Re.1 per unit of electricity supplied to commercial and industrial consumers. For domestic consumers electricity duty continues to remain at the level of 6 paise per unit.

3.23 It may be relevant to compare the performance of ORR and OTR and GSVA of Andhra Pradesh and Telangana in terms of trends in their respective shares in the combined revenues of the two States and GSVA. Details are resented in Annexure-3.2. While the share of AP in own tax revenues had declined from 50.5 per cent in 2014-15 to 43.9 per cent in 2023-24, its share in own revenues declined from 51.6 per cent to 43.4 per cent in the same period. The share of AP in combined GSVA remained within the range 51 per cent to 52 per cent.

a) Buoyancy of Own Tax Revenues

3.24 Tax buoyancy was higher in 2015-16 across all major own taxes on account of lower base of 10 months in the preceding year. With the exception of SGST, excise duties and stamps and registration in a few years, the buoyancy of tax revenue is concerning, particularly in respect of taxes on sales. Though the buoyancies are found to be higher across the board in 2023-24, they are suspect as they are based on revised estimates. Table 3.7 presents tax wise buoyancies from 2015-16 to 2023-24.

Table 3.7: Tax Buoyancy of Own Tax Revenue

Year	State Goods and Services Tax (SGST)	Taxes on Sales, Trade etc.	State Excise	Stamps and Registration Fee	Taxes on Vehicles and Goods & Passengers	Other Taxes on Income and Expenditure	Taxes and Duties on Electricity	Land Revenue	Taxes on Immovable properties other than Agricultural Land	Other Taxes	Total Own Taxes
2015-16	0	2.3	1.4	2.5	3.0	2.4	3.2	5.9	0.0	-2.9	2.2
2016-17	0	0.9	0.4	-0.1	1.4	0.1	6.7	16.5	-0.2	1.8	0.8
2017-18	0	-1.5	1.2	1.5	1.5	-0.2	-6.4	-2.4	-2.1	-4.3	0.8
2018-19	8.1	-1.2	1.2	2.4	1.0	0.3	-2.5	-4.2	1.8	-7.4	1.5
2019-20	-0.3	-0.4	1.9	-0.3	-0.3	-0.4	-0.3	-10.5	-2.9	-7.4	-0.1
2020-21	-1.2	-3.0	11.8	0.9	-1.7	1.7	1.9	100.6	1.2	-14.6	-0.1
2021-22	1.5	1.0	1.6	2.1	0.9	0.0	-0.4	-3.8	4.7	-0.5	1.4
2022-23	1.3	-1.0	0.0	0.4	1.9	0.7	2687.7	8.9	-0.6	2.7	0.7
2023-24 RE	1.9	3.0	1.5	3.6	3.7	32.3	-5.0	3.7	31.3	446.8	2.2

Source: C&AG Finance Accounts of various years

Note: Duty on Electricity was increased in April, 2022 to Re.1 per unit of electricity supplied to commercial and industrial consumers. The duty on domestic consumers was retained at 6 paise per unit. This along with the collection of arrears from DISCOMs resulted in increase in collections from Rs. 12 crore in 2021-22 to Rs.4,243 crore in 2022-23. This explains the abnormally higher buoyancy in 2022-23.

b) Own Non-tax Revenues

3.25 State's own non-tax revenue is an insignificant component of total revenues of the State. Its contribution varied between 3 and 6 per cent in the period 2015-16 to 2022-23. The important components of non-tax revenues are collections from general, social and economic services. Of these, economic services on an average contribute to nearly three-fourths of the own non-tax revenue. The composition of own non-tax revenues is presented in Table 3.8.

Table 3.8: Composition of Own Non-Tax Revenue (% Share)

Year	Interest Receipts, Dividends and Profits	General Services	Social Services	Economic Services	Total Non-Tax
2015-16	2.9	9.6	30.8	56.8	100
2016-17	2.2	10.9	31.2	55.7	100
2017-18	2.5	26.3	-14.9	86.0	100
2018-19	1.2	15.6	14.2	69.1	100
2019-20	1.2	19.3	10.5	68.9	100
2020-21	0.7	17.7	6.9	74.8	100
2021-22	0.5	12.9	13.6	73.0	100
2022-23	0.2	14.3	4.8	80.7	100
2023-24 (RE)	4.1	10.4	4.0	81.5	100

Source: C&AG Finance Accounts of various years and AP Budget Documents

3.26 The annual growth in non-tax revenues were found to be very high in 2015-16 as the collections in 2014-15 related to only 10 months of the fiscal year. Even after the exclusion of this year, the annual growth rates were found to be fluctuating from year to year and found to be significantly negative in most of the years except for the revenue from economic services (Table 3.9)

Table 3.9: Annual Growth Rates of Non-Tax Revenue (%)

Year	Interest Receipts, Dividends and Profits	General Services	Social Services	Economic Services	Total Non-Tax
2015-16	-96.9	65.5	7.7	47.7	-39.9
2016-17	-17.9	20.9	6.9	3.4	5.5
2017-18	-16.9	76.9	-135.2	13.6	-26.6
2018-19	-47.0	-31.8	-209.3	-7.5	15.3
2019-20	-20.8	-6.6	-44.0	-24.8	-24.6
2020-21	-41.5	-6.3	-33.2	11.1	2.4
2021-22	9.9	7.8	193.1	44.3	47.8

2022-23	-59.2	19.5	-62.1	19.4	7.9
2023-24 (RE)	3898.7	41.5	64.1	95.6	93.9

Source: C&AG Finance Accounts of various years and AP Budget Documents

3.27 As the trends in growth in tax revenue indicate, the buoyancies of these revenues are mostly negative except in the case of economic services in a few years (Table 3.10).

Table 3.10: Own Non-Tax Revenue Tax Buoyancy

Year	Interest Receipts, Dividends and Profits	General Services	Social Services	Economic Services	Total Non-Tax
2015-16	-6.4	4.3	0.5	3.2	-2.6
2016-17	-1.4	1.6	0.5	0.3	0.4
2017-18	-1.1	5.2	-9.1	0.9	-1.8
2018-19	-4.2	-2.9	-18.8	-0.7	1.4
2019-20	-3.5	-1.1	-7.4	-4.2	-4.1
2020-21	-7.3	-1.1	-5.8	1.9	0.4
2021-22	0.6	0.5	11.1	2.6	2.8
2022-23	-4.4	1.4	-4.6	1.4	0.6
2023-24 RE	373.3	4.0	6.1	9.2	9.0

Source: C&AG Finance Accounts of various years

3.28 It will be of interest to analyse the major source of non-tax revenues under various heads. In respect of interest receipts and dividends, interest receipts account for a lion's share (Annexure 3.3). Under general services, receipts under police are a predominant source followed by other services. Receipts under police are mainly from fines. The major sources of non-tax revenues under general services are education and medical services. In respect of economic services, the major source is mines and minerals. The receipts under major irrigation are negligible as no user charges are being levied. The insignificant contribution of non-tax revenues except under mines and minerals is indicative of the potential to impose user charges and revise them to match the increasing cost of providing services (Table 3.11).

Table 3.11: Major Contributors to Non-Tax Revenues under Different Heads (% share)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 RE
i) Interest Receipts, Dividends and Profits (of which)										
a) Interest Receipts	99.96	93.41	96.38	98.97	97.43	89.06	99.92	78.13	85.14	5.24
b) Dividends and Profits	0.04	6.59	3.62	1.03	2.57	10.94	0.08	21.87	14.86	94.76
ii) General Services (of which)										
1) Police	47.99	40.13	47.38	25.66	32.82	33.08	34.32	29.41	31.14	30
2) Other Administrative Services	33.59	45.59	18.86	42.16	40.14	37.03	17.66	35.17	20.41	54
iii) Social Services (of which)										
1) Education, Sports & Culture	77.34	56.56	35.66	-18.17	4.97	42.21	8.03	61.50	13.15	31.45

2) Medical & Public Health	5.14	4.65	5.15	-30.13	35.64	46.21	79.52	31.65	68.21	57.44
3) Family Welfare	0.01	0.32	0.00	-0.01	0.00	0.01	0.62	0.00	0.00	0.26
4) Urban Development	0.09	0.11	55.70	156.39	35.01	0.20	0.32	0.12	0.27	0.08
5) Social Security & Welfare	15.44	36.30	0.68	-0.29	18.82	0.34	0.12	0.04	0.41	1.46
iv) Economic Services (of which)										
1) Forestry & Wild life	21.86	16.85	8.08	10.41	14.02	1.60	1.23	4.39	4.83	31.45
2) Other Rural Development Programmes	12.62	12.15	19.35	8.46	0.03	0.10	0.03	0.01	0.02	57.44
3) Non Ferrous Mining & Metallurgical Industries	42.88	54.52	56.34	65.70	72.79	83.02	88.90	81.47	69.16	0.26
4) Major Irrigation	7.34	5.18	5.73	4.89	3.08	5.36	4.49	10.40	0.83	0.08

Source: RBI State Finances – A Study of Budgets

3.29 The non-tax revenue collected under different services do not cover even a fraction of the revenue expenditure incurred under the service (Table 3.12). At present, there is no system to review the levy of fees, fines and user charges at regular intervals. The beneficiaries of these services do not feel burdened if there is a periodic revision of user charges. Several Finance Commissions in the past had emphasised that user charges should at least cover maintenance charges. As the resources of the State are strained on account of committed liabilities, maintenance expenditure takes the major cut as the impact is not felt immediately. Lack of maintenance reduces the life span of an asset and its productivity. There is an imperative to protect maintenance expenditure from any cuts as a Rupee spent on maintenance is more productive than spreading resources too thinly across a number of works.

Table 3.12: Non Tax Revenue under various services as Percentage of Revenue Expenditure

Year	General Services		Social Services		Economic Services	
	Receipt (Rs crore)	% to Revenue Expenditure	Receipt (Rs crore)	% to Revenue Expenditure	Receipt (Rs crore)	% to Revenue Expenditure
2014-15	284	0.36	1406	1.77	1892	2.38
2015-16	470	0.49	1514	1.58	2794	2.91
2016-17	568	0.49	1618	1.39	2890	2.49
2017-18	1005	0.83	-570	-0.47	3282	2.71
2018-19	685	0.53	623	0.48	3037	2.36
2019-20	640	0.47	349	0.25	2285	1.66
2020-21	600	0.39	233	0.15	2538	1.66
2021-22	647	0.41	683	0.43	3662	2.30
2022-23	773	0.38	259	0.13	4373	2.17
2023-24 RE	1094	0.48	425	0.19	8553	3.75

Source: C&AG Accounts at a Glance

Concluding Remarks

3.30 Performance of Andhra Pradesh in revenue generation has been mixed. Though the revenue receipts to GSDP ratio is higher, it is mainly on account of higher tax devolution and grants-in-aid. Its performance in own-tax revenue and non-tax revenue has been below par. This is despite the fact that there have been too frequent revisions in the property valuations for the purpose of registration of sales and purchases and excise duties. The growth in revenue from SGST and VAT on sales has not kept pace with other States. This can be partly explained by low level of urbanisation in the State as compared with the neighbouring States. Levying of new duties on excise and assigning them to a corporation specially created to fund government welfare programmes goes against established norms. There is an urgent need to streamline the tax administration and identify new avenues for resources and to levy user charges and align them with the cost of providing them.

State-wise Average Annual growth of SGST including IGST Settlement

Sl. No.	State	2018-19	2019-20	2020-21	2021-22	2022-23	AAGR
I. General Category States							
1	Andhra Pradesh	90.5	-1.9	-6.7	26.2	17.5	25.1
2	Bihar	126.6	3.4	1.6	20.0	20.7	34.4
3	Chhattisgarh	87.0	-3.8	0.4	19.7	19.1	24.5
4	Goa	72.8	-3.6	-18.6	38.9	28.2	23.6
5	Gujarat	64.2	-2.2	-13.6	47.6	19.9	23.2
6	Haryana	71.8	1.4	-3.4	25.7	24.7	24.0
7	Jharkhand	98.9	2.6	-5.8	20.5	19.0	27.0
8	Karnataka	73.5	21.4	-25.9	32.4	23.0	24.9
9	Kerala	75.0	-2.7	-2.0	20.7	22.1	22.6
10	Madhya Pradesh	112.8	10.5	-15.6	27.6	6.2	28.3
11	Maharashtra	64.5	0.3	-15.3	39.1	24.6	22.6
12	Odisha	80.7	10.6	-1.2	25.7	13.5	25.8
13	Punjab	68.0	-3.9	-7.3	31.5	16.6	21.0
14	Rajasthan	89.0	-4.3	-5.5	32.5	22.9	26.9
15	Tamil Nadu	56.7	-0.4	-1.1	19.3	18.9	18.7
16	Telangana	82.4	-1.4	-5.6	30.3	25.4	26.2
17	Uttar Pradesh	81.7	2.4	-9.3	27.4	17.5	24.0
18	West Bengal	80.9	0.9	-4.7	20.2	21.4	23.7
	Total GCS Average	75.9	2.3	-10.0	29.6	20.6	23.7
II. Special Category States							
19	Arunachal Pradesh	168.6	33.4	7.2	31.6	42.1	56.6
20	Assam	105.8	4.3	-2.4	23.8	18.8	30.1
21	Himachal Pradesh	82.3	6.2	-2.4	29.3	17.3	26.6
23	Manipur	130.4	22.7	1.6	29.9	26.7	42.3
24	Meghalaya	114.4	12.9	-9.6	35.9	32.1	37.1
25	Mizoram	167.9	17.0	-14.0	38.1	43.0	50.4
26	Nagaland	150.4	30.6	8.2	25.1	15.5	46.0
27	Sikkim	136.7	12.1	1.8	41.6	22.7	43.0
28	Tripura	103.8	5.0	2.9	21.5	13.7	29.4
29	Uttarakhand	143.5	2.7	2.5	18.2	22.9	38.0
	Total SCS Average	110.3	14.1	-25.2	24.9	21.5	29.1
	All States Average	77.4	3.0	-10.9	29.3	20.7	23.9

Note: Compiled from the data extracted from C&AG Finance Accounts of States. As GST was introduced from July 1, 2017, the growth rates in 2018-19 are found to be higher over the collections for nine months.

Percentage share of Andhra Pradesh and Telangana in Combined Own Tax Revenue and Own Revenue Receipts

Year	Own Tax Revenue		Own Revenue Receipts	
	Andhra Pradesh	Telangana	Andhra Pradesh	Telangana
2014-15	50.5	49.5	51.6	48.4
2015-16	50.0	50.0	45.2	54.8
2016-17	47.7	52.3	45.9	54.1
2017-18	46.0	54.0	44.7	55.3
2018-19	47.2	52.8	45.4	54.6
2019-20	46.0	54.0	44.8	55.2
2020-21	46.3	53.7	45.5	54.5
2021-22	43.7	56.3	43.1	56.9
2022-23	42.2	57.8	39.7	60.3
2023-24 RE	43.9	56.1	43.4	56.6

Source: C & AG Accounts At a Glance

Percentage share of Andhra Pradesh and Telangana in Combined Gross State Value Added

Year	AP	TG	Combined GSVA
2014-15	51.51	48.49	100
2015-16	51.52	48.48	100
2016-17	51.49	48.51	100
2017-18	51.79	48.21	100
2018-19	50.63	49.37	100
2019-20	50.39	49.61	100
2020-21	52.23	47.77	100
2021-22	51.94	48.06	100
2022-23	51.81	48.19	100
2023-24 RE	51.36	48.64	100

Source: Directorate of Economics and Statistics Department of Andhra Pradesh and Telangana

Interest Receipts, Dividends and Profits - Andhra Pradesh								(Rs.in crores)	
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
I. Interest Receipts									
Interest from Departmental Commercial Undertakings	4340.61	3.20	0.46	26.18	0.00			0.140	0.001
Interest realised on investment of Cash balances	210.72	89.25	66.18	45.29	15.30	21.65	3.61	-1.166	-0.113
Interest on Loans to Government Servants	0.00	0.00	0.00	0.00	0.00				
Interest from Public Sector and other Undertakings	36.64	15.97	29.10	3.16	5.73	5.69	5.60	1.349	
Interest from Local Bodies	0.03	0.00	0.00						
Interest from Co-operative Societies	1.19	4.95	2.37	2.06	1.40	3.64	2.87	1.285	2.913
Other Receipts	7.94	20.67	14.34	19.36	27.68	5.31	11.75	18.860	6.303
Deduct-Refunds	-0.001	-1.13	0.10	0.03		-0.004		-0.001	
Total I	4597	133	113	96	50	36	24	20	9
II. Dividends and Profits									
Dividends from Public Undertakings	0.08	5.09	0.32	0.58	0.94	3.63	0.00	5.639	1.591
Dividends from other investments	1.71	4.29	3.91	0.43	0.38	0.84	0.02	0.087	0.001
Total -II	1.78	9.38	4.23	1.00	1.32	4.46	0.02	5.73	1.59
Total I+II	4599	142	117	97	51	41	24	26	11

CHAPTER - 4

Trends in Expenditure

Fiscal sustainability can be maintained either by raising revenue or rationalizing expenditure, or a combination of both. As the revenue-GSDP ratio cannot be improved in the short term, optimum allocation of expenditure across sectors and using the resources more productively hold the key to promoting economic growth and sustaining it. This chapter analyses the trends in both revenue and capital expenditure of Andhra Pradesh covering the period from 2015-16 to 2022-23. Section-1 of the chapter presents broad trends in the total expenditure of the State by revenue and capital. Sections-2, 3 and 4 present analysis of revenue expenditure and capital expenditures by sectors and committed liabilities.

Trends in Total Expenditure

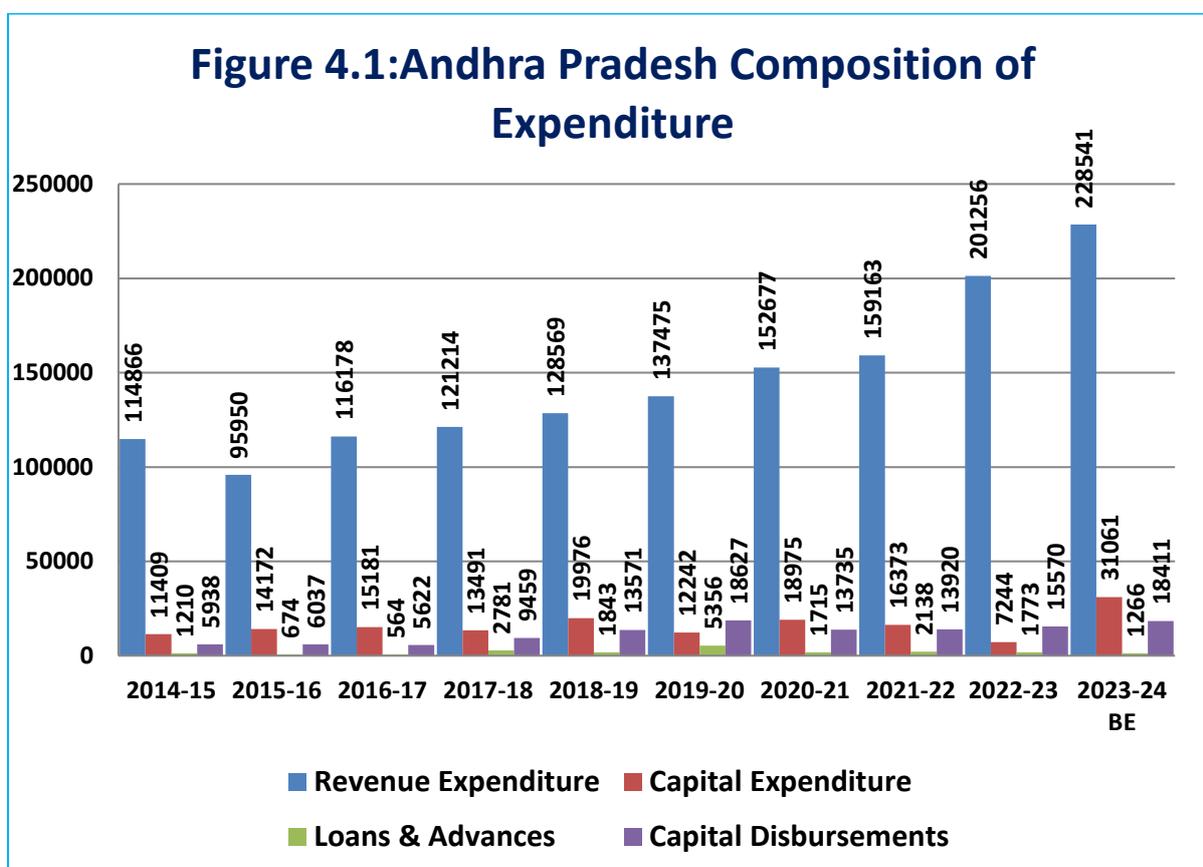
4.2 Revenue expenditure is the predominant component of total expenditure with over 80 per cent share. Within revenue expenditure, the share of interest payments has been increasing more sharply on account of increase in outstanding debt. This will be analysed in more detail in the chapter on debt and its servicing. Much of the capital expenditure is incurred on irrigation projects and the decline in its share is mainly on account of variation in expenditure on these projects. Of the irrigation projects, Polavaram project, which was declared a national project and being funded by the Centre as part of the AP Reorganisation Act, 2024, accounts for a major share.

4.3 The share of capital disbursements had increased from 5.2 per cent in 2015-16 to 7.3 per cent in 2020-21 mainly on account of higher public debt repayments. The share of loan repayments to the Centre has been declining as the practice of on-lending to States was dispensed with from 2005-06 following the recommendation of the Twelfth Finance Commission. Repayment of loans taken from NABARD, HUDCO, LIC, and other financial institutions are included under the category of 'other loans' (Table 4.1 and Figure 4.1).

Table 4.1: Andhra Pradesh Composition of Total Expenditure (%)

		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 BE
I	Revenue Expenditure	86.1	82.1	84.5	82.5	78.4	79.1	81.6	83.1	89.1	81.8
	Of which Interest Payments	7.9	8.4	8.5	9.4	9.4	10.2	10.7	11.6	11.3	10.3
II	Capital Expenditure	8.6	12.1	11.0	9.2	12.2	7.0	10.1	8.5	3.2	11.1
III	Loans & Advances	0.9	0.6	0.4	1.9	1.1	3.1	0.9	1.1	0.8	0.5
IV	Capital Disbursements	4.5	5.2	4.1	6.4	8.3	10.7	7.3	7.3	6.9	6.6
	of which i) Public Debt Repayment	2.0	2.3	2.2	4.5	6.7	8.9	5.6	5.4	5.2	4.7
	ii)Loans from GOI	0.9	1.1	0.5	0.7	0.5	0.8	0.7	0.7	0.7	0.5
	iii)Other Loans	1.5	1.7	1.3	1.2	1.1	1.1	1.1	1.1	1.0	1.4
	Total Expenditure (I+II+III+IV)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: RBI State Finances: A Study of State Budgets



4.4 Revenue expenditure as percentage of GSDP after recording an increase in 2016-17 started decelerating thereafter. Interest payment to GSDP ratio has been exhibiting an increasing trend. Capital expenditure too has been declining. Capital disbursements-GSDP ratio has been on an increasing trend following the maturity pattern of State government securities. The repayment of government securities more than doubled from Rs. 3,080 crore in 2016-17 to Rs.6,650 crore in 2017-18 and further to Rs.15,380 crore in 2019-20. After increasing from 0.5 per cent in 2014-15 to 1.7 per cent of GSDP in 2019-20, the public debt

repayment to GSDP ratio has stabilized at around 1.2 per cent of GSDP thereafter. Details are presented in Table 4.2.

Table 4.2: Andhra Pradesh Composition of Expenditure as % of GSDP

		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 BE
I	Revenue Expenditure	21.9	15.9	17.0	15.4	14.7	14.8	15.6	13.9	15.4	15.9
	Of which Interest Payments	2.0	1.6	1.7	1.8	1.8	1.9	2.0	1.9	2.0	2.0
II	Capital Expenditure	2.2	2.3	2.2	1.7	2.3	1.3	1.9	1.4	0.6	2.2
II I	Loans & Advances	0.2	0.1	0.1	0.4	0.2	0.6	0.2	0.2	0.1	0.1
I V	Capital Disbursements	1.1	1.0	0.8	1.2	1.6	2.0	1.4	1.2	1.2	1.3
	of which i) Public Debt Repayment	0.5	0.4	0.4	0.8	1.3	1.7	1.1	0.9	0.9	0.9
	ii)Loans from GOI	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	iii)Other Loans	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3
	Total Expenditure (I+II+III+IV)	25.4	19.3	20.1	18.7	18.8	18.8	19.1	16.7	17.3	19.4

Source: RBI State Finances: A Study of State Budgets .Figures for 2014-15 are for 10 months and for others, they relate to the full fiscal year.

Note: capital disbursements exclude ways and means advances.

4.5 There have been year to year variations in the growth rates of both revenue expenditure and capital expenditure. Between 2016-17 and 2022-23, capital expenditure witnessed significant declines in four out of seven years.

Table 4.3: Andhra Pradesh Expenditure Growth (%)

		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 BE
I	Revenue Expenditure	21.1	4.3	6.1	6.9	11.1	4.2	26.4	13.6
	Of which Interest Payments	18.8	18.4	10.8	15.1	13.4	10.7	15.0	12.5
II	Capital Expenditure	7.1	-11.1	48.1	-38.7	55.0	-13.7	-55.8	328.8
II I	Loans & Advances	-16.3	393.2	-33.7	190.6	-68.0	24.7	-17.1	-28.6
I V	Capital Disbursements	-6.9	68.3	43.5	37.3	-26.3	1.3	11.9	18.2
	of which i) Public Debt Repayment	14.8	116.0	64.4	40.7	-32.4	-0.6	12.8	12.2
	ii)Loans from GOI	-39.2	33.2	-25.1	75.9	1.8	4.5	12.9	-6.7
	iii)Other Loans	-7.0	0.5	3.3	3.5	3.7	9.2	6.6	65.2
	Total Expenditure (I+II+III+IV)	17.7	6.8	11.6	5.9	7.7	2.4	17.9	23.7

Source: RBI State Finances: A Study of State Budgets

Note: 2015-16 had not been included in the analysis as the growth would tend to be higher over a base of 10 months in 2014-15.

Revenue Expenditure by Functional Categories

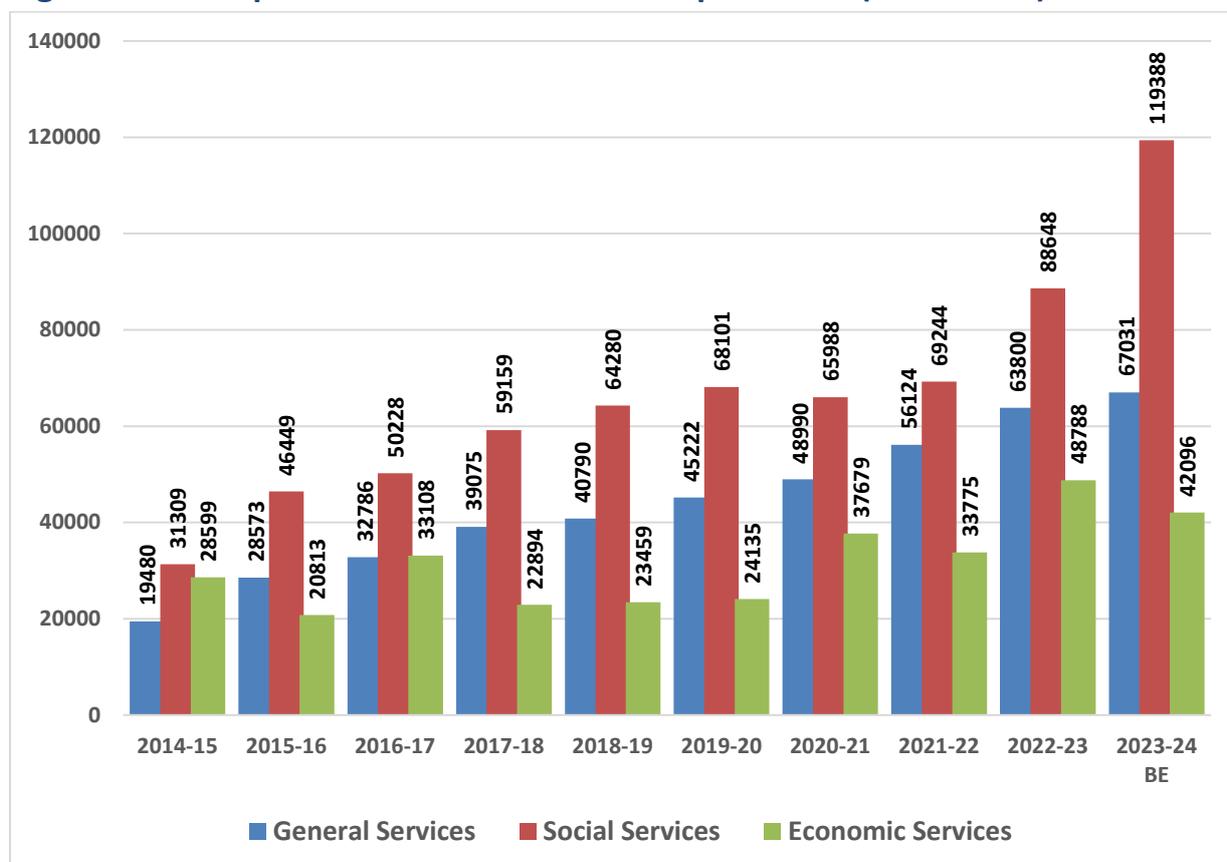
4.6 Social services account for bulk of the revenue expenditure followed by general services and economic services at the aggregate level (Table 4.4 and Figure 4.2).

Table 4.4: Andhra Pradesh Total Revenue Expenditure Composition

Year	General Services	Social Services	Economic Services	Revenue Expenditure
2014-15	24.9	36.8	38.2	100.0
2015-16	29.8	48.4	21.7	100.0
2016-17	28.2	43.2	28.5	100.0
2017-18	32.2	48.8	18.9	100.0
2018-19	31.7	50.0	18.2	100.0
2019-20	32.9	49.5	17.6	100.0
2020-21	32.1	43.2	24.7	100.0
2021-22	35.3	43.5	21.2	100.0
2022-23	31.7	44.0	24.2	100.0
2023-24 BE	29.3	52.2	18.4	100.0

Source: RBI State Finances: A Study of State Budgets

Figure 4.2: Composition of Total Revenue Expenditure (Rs.in crore)



4.7 Developmental expenditure constitutes nearly 70 per cent of total revenue expenditure. Of this, bulk of the developmental expenditure is accounted for by social services (ranging from 37 to 50 percent). Within the social services, the important services with the descending order of their share are education, social security and welfare, welfare of SCs, STs, BCs and minorities and medical and public health. The sudden jump in the share of welfare of SCs, STs, BCs and minorities is on account of steep increase in the assistance to public sector undertaking from Rs.525.65 crore in 2018-19 to Rs.11,209.78 crore. Year to year variations in the assistance to PSUs is the main reason for the ups and downs in the share of this service. The assistance to PSUs is for the purpose of meeting the subsidy component of livelihood/economic support schemes of SCs, STs and BCs. (Annexure-4.1). The steep increase in the share of social security and welfare in 2018-19 is on account of increase in the allocation under women welfare from Rs.2709.84 crore in 2017-18 to Rs.7815.98. The amount of Rs.875.00 crore incurred on farm loan waiver in 2018-19 also contributed to the higher share of social welfare and security (Table 4.5).

Table 4.5: Percentage Composition of Revenue Expenditure (Developmental)

Item	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 BE
TOTAL EXPENDITURE	100	100	100	100	100	100	100	100	100	100
I. DEVELOPMENTAL EXPENDITURE (A + B)	75.00	70.10	71.70	67.69	68.24	67.09	67.90	64.73	68.29	70.66
A. Social Services (1 to 8)	36.79	48.41	43.23	48.81	50.00	49.54	43.22	43.51	44.05	52.24
1. Education, Sports, Art and Culture	14.19	17.30	14.82	16.21	15.04	19.13	13.62	14.21	12.97	12.33
2. Medical and Public Health & Family Welfare	4.18	5.15	5.20	5.10	5.62	5.33	5.88	6.37	5.45	5.86
3. Urban Development	2.44	2.64	3.71	2.39	2.84	2.93	2.85	2.77	2.90	3.22
4. Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	4.93	5.84	6.84	8.04	4.24	15.71	14.68	13.93	11.24	22.40
5. Social Security and Welfare	5.33	10.33	6.88	8.27	15.78	2.80	2.30	2.10	1.50	1.53
6. Nutrition	2.45	2.94	2.90	2.83	0.74	1.03	0.90	1.11	4.53	2.33
7. Relief on account of Natural Calamities	0.93	1.09	1.04	1.59	1.13	0.80	1.85	1.16	0.63	0.91
8. Others	2.34	3.11	1.84	4.37	4.60	1.79	1.14	1.85	4.84	3.67
B. Economic Services (1 to 7)	38.21	21.69	28.47	18.89	18.25	17.56	24.68	21.22	24.24	18.42

1. Agriculture and Allied Activities	8.79	5.13	6.81	6.04	6.60	4.88	7.41	4.67	5.55	5.76
2. Rural Development	8.33	8.60	8.44	6.59	5.80	5.46	8.33	5.79	5.45	6.25
3. Irrigation and Flood Control	4.33	0.65	0.51	0.52	0.47	0.43	0.45	0.70	0.36	0.33
4. Energy	10.81	3.97	9.88	2.82	1.48	4.98	3.94	6.82	8.95	2.43
5. Industry and Minerals	2.14	0.61	0.75	1.27	0.78	0.28	0.86	0.57	0.12	0.61
6. Transport and Communications	2.90	1.26	1.02	1.22	0.89	1.05	2.82	2.64	2.29	2.07
7. General Economic Services (including science and Technology)	0.93	1.47	1.06	0.43	2.22	0.48	0.86	0.04	1.52	0.97

Source: RBI State Finances: A Study of State Budgets

4.8 Non-developmental expenditure on the revenue account constitutes around 30 per cent of the total revenue expenditure. The major components of non-developmental expenditure are interest payments, pensions and administrative services. The share of interest payment has increased from 10.26 per cent in 2015-16 to 13.93 per cent in 2021-22. This has resulted in an increase in the share of non-developmental expenditure from 29.78 per cent to 35.26 per cent in the same period (Table 4.6).

Table 4.6: Percentage Composition of Revenue Expenditure (Non-Developmental)

Item	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 BE
TOTAL EXPENDITURE	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
II. NON-DEVELOPMENTAL EXPENDITURE (General Services) (A to F)	24.89	29.78	28.22	32.24	31.73	32.90	32.09	35.26	31.70	29.33
A. Organs of State	0.97	0.64	0.43	0.67	0.92	0.84	0.66	0.70	0.51	0.57
B. Fiscal Services	0.99	0.94	0.79	0.85	0.78	0.83	0.67	0.53	0.49	0.58
C. Interest Payments and Servicing of Debt (1 + 2)	9.16	10.80	10.58	11.71	12.21	12.84	13.11	13.93	12.67	12.87
1. Appropriation for Reduction or Avoidance of Debt	0.45	0.53	0.51	0.28	0.27	0.00	0.00	0.00	0.00	0.33
2. Interest Payments (i to iii)	8.71	10.26	10.07	11.42	11.93	12.84	13.11	13.93	12.67	12.55
i) Interest on Loans from the Centre	0.69	0.21	0.37	0.36	0.34	0.39	0.28	0.20	0.25	0.39
ii) Interest on Internal Debt	7.36	9.31	8.92	10.30	10.80	11.61	12.06	12.95	11.76	11.44
iii) Interest on Small Savings, Provident Funds, etc.	0.66	0.75	0.77	0.76	0.79	0.84	0.77	0.78	0.66	0.72
D. Administrative Services (i to ii)	5.27	5.68	5.34	5.61	5.91	5.74	6.19	7.35	6.81	6.05
i) Police	3.55	3.76	3.59	3.72	3.95	3.91	3.82	3.56	3.34	3.24
ii) Others	1.72	1.92	1.75	1.89	1.96	1.83	2.37	3.79	3.47	2.81

E. Pensions	8.68	11.72	11.08	13.39	11.89	12.65	11.44	12.77	11.22	9.26
F. Miscellaneous General Services	-0.19	-0.01	0.00	0.00	0.01	0.00	0.02	-0.02	0.01	0.00

Source: RBI State Finances: A Study of State Budgets

Trends in Capital Expenditure

4.9 Expenditure on developmental sectors constitutes over 98 percent of capital outlay except in the years 2019-20 to 2021-22 (Table 4.7). Capital outlay on developmental sectors plummeted to 69.35 per cent, 65.76 per cent and 87.86 per cent in the years 2019-20, 2020-21 and 2021-22, respectively. This is entirely on account of higher capital outlay on general services in these years. Bulk of the capital outlay is on economic services followed by social services. Within the economic services there are large year to year variations. These variations are mostly observed in respect of the capital outlay on irrigation projects. Among the major projects, outlay on Polavaram, Handriniva, Chintalapudi and Neeru-Chettu amounted to Rs. 8,333.49 crore in 2018-19 and Rs. 2,213.27. In the subsequent years, no expenditure was incurred on these projects. The increase in the share of rural development in the total capital outlay in the years 2019-20, 2020-21 and 2022-23 is due to relatively higher allocations on rural roads.

4.10 The increase in the share of capital outlay on general services is on account of expenditure amounting to Rs.153.58 crore on modernisation of police and Rs.3,371.60 crore on YSR Gruha Vasati in 2019-20. No expenditure was incurred on Gruha Vasati in the preceding year. In 2020-21, an amount of 6,278.58 crore was spent on YSR Gruhavasati scheme. The main reasons for increase in the share of general services in total capital outlay in 2021-22 were share capital contribution of Rs.600 crore to AP Financial Services Corporation Limited and assistance of Rs. 894.58 crore to AP State Development Corporation. As indicated in the previous chapter, the State Government constituted Andhra Pradesh State Development Corporation Limited in August 2020 as a Public Limited Company. The main objective of the Corporation is to raise funds from various sources and providing financial support for six welfare schemes of the Government. This Corporation funded direct benefit schemes like YSR Aasara, Amma Vodi and YSR Cheyuta amounting to Rs.16,899 crore in 2020-21.

Table 4.7: Composition of Capital Outlay (%)

Item	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 (BE)
I. Total Capital Outlay (1 + 2)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1. Development (a + b)	98.73	98.06	97.90	98.62	69.35	65.76	87.86	98.77	96.16
(a) Social Services (1 to 6)	17.04	16.01	21.43	14.35	16.80	27.43	38.88	6.18	35.34
1. Education, Sports, Art and Culture	2.64	0.95	2.69	1.23	2.78	18.01	19.40	0.88	14.44
2. Medical and Public Health & Family Welfare	1.85	2.59	1.49	0.88	1.67	2.83	6.90	7.12	9.08
3. Urban Development	6.41	2.84	3.93	6.15	4.38	1.52	2.48	4.81	5.25
4. Welfare of SCs, STs and OBCs.	3.88	3.49	5.02	0.72	1.33	0.89	0.93	2.71	0.33
5. Social Security and Welfare	0.74	0.54	0.66	0.25	0.15	0.11	0.13	0.23	1.08
6. Others	1.52	5.60	7.64	5.13	6.49	4.08	9.04	-9.58	5.16
(b) Economic Services (1 to 7)	81.69	82.04	76.48	84.28	52.56	38.32	48.97	92.59	60.81
1. Agriculture and Allied Activities	0.62	1.01	1.80	1.39	1.55	0.29	3.67	1.53	2.59
2. Rural Development	0.00	0.00	6.44	4.38	6.71	9.14	4.27	16.81	6.04
3. Irrigation and Flood Control	62.92	65.85	61.10	67.01	35.43	21.21	36.14	59.80	32.88
4. Energy	0.15	0.02	0.17	0.01	0.16	0.01	0.00	0.00	0.02
5. Industry and Minerals	0.02	0.00	0.74	3.27	3.64	2.53	-0.75	1.45	3.79
6. Transport	17.26	13.81	3.36	4.24	5.40	4.04	2.78	6.60	12.70
7. General Economic Services	0.72	1.35	2.87	3.97	-0.34	1.11	2.86	6.39	2.80
2. Non-Development (General Services)	1.27	1.94	2.10	1.38	30.65	34.24	12.14	1.23	3.84

Source: RBI State Finances: A Study of State Budgets

Committed Expenditure

4.11 Details regarding the growth of committed expenditure are presented in Table 4.8 and Figure 4.3. The committed expenditure comprising interest payments, salaries, pensions and explicit subsidies registered an average annual growth of 12.6 per cent during the period 2016-23. There are large year to year fluctuations in the growth of committed expenditure mainly on account of explicit subsidies. Introduction of new subsidy schemes

almost every year from 2019-20 onwards had resulted in a sharp jump in explicit subsidies from Rs.6,360 crore in 2015-16 to Rs.22,999 crore in 2022-23. The sharp increase in subsidies in 2019-20 was on account 9-hour free electricity (Rs.4,920 crore), assistance to AP TRANSCO (Rs.328 crore), and free power to SC households (Rs.212 crore). The increase in subsidies by 196.6 per cent in 2021-22 was due to YSR Rythu Bharosa (Rs.3,826 crore), YSR interest free loans (Rs.244 crore), increase in the 9-hour free power subsidy to Rs.6,970 crore, interest free loans to DWACRA (Rs.855 crore), and subsidy on rice (Rs.427.5 crore).

Table 4.8: Committed Expenditure of AP (Rs.in crore)

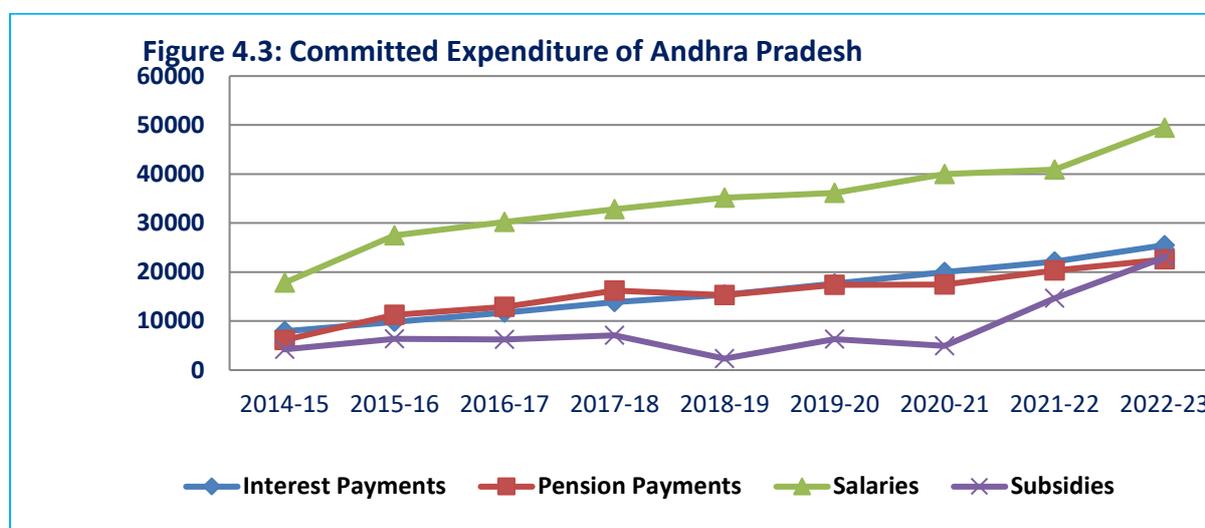
Year	Interest Payments	Salaries	Pension Payments	Explicit Subsidies	Total Committed Expenditure
2014-15	7916	17840	6138	4241	36135
2015-16	9848	27473	11248	6360	54929
2016-17	11697 (18.8)	30225 (10.0)	12872 (14.4)	6229 (-2.1)	61023 (11.1)
2017-18	13847 (18.4)	32816 (8.6)	16236 (26.1)	7108 (14.1)	70007 (14.7)
2018-19	15342 (10.8)	35197 (7.3)	15291 (-5.8)	2341 (-67.1)	68171 (-2.6)
2019-20	17653 (15.1)	36179 (2.8)	17385 (13.7)	6343 (171.0)	77560 (13.8)
2020-21	20018 (13.4)	39993 (10.5)	17470 (0.5)	4948 (-22.0)	82429 (6.3)
2021-22	22165 (10.7)	40909 (2.3)	20327 (16.4)	14677 (196.6)	98078 (19.0)
2022-23	25492 (15.0)	49421 (20.8)	22584 (11.1)	22999 (56.7)	120496 (22.9)
Average Growth	14.6	8.9	10.9	49.6	12.2

Source: C&AG Accounts of Various Years

Note: Figures in brackets indicate percentage growth over the previous year.

Note: i) Salary component includes Salaries, Wages, Overtime Allowance, Work charged establishment & Grants-in-Aid towards salaries.

ii) The Expenditure of 2014-15 is for the period 02 June 2014 to 31 March 2015.



4.12 It is a matter of great concern that committed expenditure constituted over 144 per cent of the own revenue receipts of the State. Growth of expenditure on interest payments, salaries and explicit subsidies is the main contributory factor for this disturbing trend (Table-4.9). Pay revisions at an interval of every five years and fixing the salaries at higher levels than those recommended by the Pay Revision Commissions at times have contributed to the share of salaries in total committed expenditure increasing from 46.9 per cent in 2014-15 to 59.2 per cent in 2022-23. A note on pay revisions and changes in NPS is at Annexure-4.2.

Table 4.9: Committed Expenditure of AP as percentage of Own Revenue Receipts

Year	Interest Payments	Pension Payments	Salaries	Subsidies	Total
2014-15	20.8	16.1	46.9	11.1	95.0
2015-16	22.0	25.1	61.3	14.2	122.5
2016-17	23.7	26.1	61.2	12.6	123.6
2017-18	26.0	30.5	61.6	13.3	131.3
2018-19	24.6	24.5	56.4	3.7	109.2
2019-20	29.0	28.5	59.4	10.4	127.3
2020-21	32.9	28.7	65.8	8.1	135.6
2021-22	29.2	26.7	53.8	19.3	129.1
2022-23	30.6	27.1	59.2	27.6	144.4

Source: RBI State Finances: A Study of State Budgets

4.13 Even as a percentage of total revenue receipts, committed expenditure at 76.4 per cent warrants a serious consideration of the issues. With such a development, there is little maneuverability available to the State to spend on economic and social development (Table 4.10).

Table 4.10: Committed Expenditure of AP as percentage of Total Revenue Receipts

Year	Interest Payments	Pension Payments	Salaries	Subsidies	Total Committed Expenditure
2014-15	12.0	9.3	27.2	6.5	55.0
2015-16	11.1	12.7	31.0	7.2	62.0
2016-17	11.8	13.0	30.5	6.3	61.6
2017-18	13.2	15.5	31.2	6.8	66.6
2018-19	13.4	13.3	30.7	2.0	59.4
2019-20	15.9	15.7	32.6	5.7	69.9
2020-21	17.1	14.9	34.1	4.2	70.4
2021-22	14.7	13.5	27.2	9.7	65.1

2022-23	16.2	14.3	31.3	14.6	76.4
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Source: RBI State Finances: A Study of State Budgets

4.14 Committed expenditure as percentage of revenue expenditure had been exhibiting an increasing trend. Its share in revenue expenditure increased from 57 per cent to over 60 per cent. Because of the continuous deficits on the revenue account, the percentage of committed expenditure to revenue expenditure is found to be lower than its percentage to revenue receipts (Table-4.11).

Table 4.11: Committed Expenditure of AP as percentage of Revenue Expenditure

Year	Interest Payments	Pension Payments	Salaries	Subsidies	Total Committed Expenditure
2014-15	10.0	7.7	22.4	5.3	45.5
2015-16	10.3	11.7	28.6	6.6	57.2
2016-17	10.1	11.1	26.0	5.4	52.5
2017-18	11.4	13.4	27.1	5.9	57.8
2018-19	11.9	11.9	27.4	1.8	53.0
2019-20	12.8	12.6	26.3	4.6	56.4
2020-21	13.1	11.4	26.2	3.2	54.0
2021-22	13.9	12.8	25.7	9.2	61.6
2022-23	12.7	11.2	24.6	11.4	59.9

Source: RBI State Finances: A Study of State Budgets

Inter-State Comparison

a) Revenue Expenditure

4.15 Among the southern States, there has been an increasing trend in per capita revenue expenditure in Andhra Pradesh. This is on account of introduction of new subsidy schemes almost every year. However, in most of the years it remained lower than in other States. The year 2022-23 is an outlier, as the per capita revenue expenditure in Andhra Pradesh was higher than in Karnataka and Tamil Nadu (Table-4.12)

Table- 4.12: Per Capita Revenue Expenditure of Southern States

State	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24BE
Andhra Pradesh	23169	19354	23434	24450	25933	27729	30796	32104	40595	46098
Karnataka	16960	19155	21593	23321	26893	28522	28816	34279	35287	41073
Kerala	21477	23555	27269	29919	33023	31348	36953	43758	42493	47704
Tamil Nadu	17856	19542	21234	23268	27333	29167	32767	35210	38805	42698
Telangana	14476	21682	23264	24387	27735	31082	35200	39082	43826	60475

Source: RBI State Finances: A Study of State Budgets

b) Capital Expenditure

4.16 With the exception of first two years of the reorganisation of the State, by and large in most of the years, the per capita capital expenditure has been much lower in Andhra Pradesh. The difference between AP and other States has been widening sharply over the years. The difference between Telangana, the highest per capita expenditure State and the lowest per capita income State of AP had widened from Rs.6,653 in 2021-22 to Rs.9,644 in 2022-23 (Table 4.13).

Table 4-13: Per Capita Capital Expenditure of Southern States

State	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24BE
Andhra Pradesh	3742	4173	4310	5188	7133	7307	6944	6541	4959	10234
Karnataka	4094	4171	6139	7206	8221	8097	9672	10812	11780	12573
Kerala	2452	3717	4808	5115	5464	5523	7368	9002	11083	11301
Tamil Nadu	3962	3867	7613	4945	6350	6585	7364	8370	9385	14012
Telangana	3309	6158	11500	9902	10924	9728	9807	13194	14603	22458

Source: RBI State Finances: A Study of State Budgets

Concluding Remarks

4.17 There are a number of disturbing trends in the expenditure pattern of the State. There are wide variations in the share of economic services under revenue heads. Similar trend is noticed in capital expenditure on economic services. The most alarming trend is the creation of a dedicated corporation and assigning it a portion of revenue from excise duties for funding welfare schemes. Committed liabilities consuming 144 per cent of own revenue receipts and 76 per cent of total revenue receipts remains a major concern. The way out of this situation is to rationalise public expenditure by weeding out a few freebies which do not promote welfare and rationalise other subsidies.

Annexure 4.1

GRANTS-IN-AID/ASSISTANCE GIVEN BY THE STATE GOVERNMENT (INSTITUTION-WISE AND SCHEME-WISE)

Recipients	Scheme	N/S/ T(*)	2023 - 24			Of the Total amount released, amount sanctioned for creation of assets	2022 - 23			Of the Total amount released, amount sanctioned for creation of assets
			State Fund Expenditure	Central Assistance (Including CSS and CS)	Total		State Fund Expenditure	Central Assistance (Including CSS and CS)	Total	
										(₹ in Lakh)
APSCCF	Assistance to Nodal Agency for Implementing Scheduled Caste Sub Plan - APSCCF Ltd.	N	768.13	...	768.13	...	...	...	...	...
APSDC	Assignment of ARET revenue to APSDC Ltd	N	3,86,253.17	...	3,86,253.17	...	...	...	...	...
APTIDCO	Assistance to Andhra Pradesh Township & Infrastructure Development Corporation Ltd., (APTIDCO)	N	1,03,503.65	...	1,03,503.65	...	1,36,187.00	...	1,36,187.00	50,000.00
APWRDC	Assistance to Andhra Pradesh Water Resource Development Corporation (APWRDC)	N	1,52,138.72	...	1,52,138.72	...	1,17,708.58	...	1,17,708.58	...
Andhra Pradesh Differently Abled Co-operative Corporation	Assistance to Andhra Pradesh Differently Abled Co-operative Corporation	N	27.61	...	27.61	...	...	...	...	...
	Managerial Subsidy to Andhra Pradesh Differently abled Co-operative Corporation	N	1,012.63	...	1,012.63	...	...	...	...	...
	Assistance to Andhra Pradesh Differently Abled Co-operative Corporation	N	...	...	...	...	69.50	...	69.50	...
Andhra Pradesh Drinking Water Supply Corporation	Assistance to Andhra Pradesh Drinking Water Supply Corporation	N	3,825.00	...	3,825.00	...	...	...	...	...

GRANTS-IN-AID/ASSISTANCE GIVEN BY THE STATE GOVERNMENT (INSTITUTION-WISE AND SCHEME-WISE)

Recipients	Scheme	N/S/ T(*)	2023 - 24			Of the Total amount released, amount sanctioned for creation of assets	2022 - 23			Of the Total amount released, amount sanctioned for creation of assets
			State Fund Expenditure	Central Assistance (Including CSS and CS)	Total		State Fund Expenditure	Central Assistance (Including CSS and CS)	Total	
										(₹ in Lakh)
Andhra Pradesh State Christian Finance Corporation	Andhra Pradesh State Christian Finance Corporation	N	...	...	...	...	7,422.36	...	7,422.36	...
Andhra Pradesh State Minorities Finance Corporation Ltd.,	Andhra Pradesh State Minorities Finance Corporation	N	...	...	...	...	44,719.73	...	44,719.73	...
Andhra Pradesh Trade Promotion Corporation	Assistance to Andhra Pradesh Trade Promotion Corporation	N	44.75	...	44.75	...	...	...	...	...
Andhra Pradesh Transmission Corporation Ltd.	Assistance to Andhra Pradesh Transmission Corporation Ltd. for servicing of Vidyt Bonds	N	96,835.32	...	96,835.32	...	...	...	...	...
BC-A Corporations (*)	SU - BC-A Corporations	N	2,84,758.59	...	2,84,758.59	...	...	...	...	...
BC-B Corporations (*)	SU - BC-B Corporations	N	2,41,846.42	...	2,41,846.42	...	...	...	...	...
BC-D Corporations (*)	SU - BC-D Corporations	N	2,73,737.00	...	2,73,737.00	...	...	...	...	...
BC-E Corporations (*)	SU - BC-E Corporations	N	68,926.95	...	68,926.95	...	...	...	...	...
Andhra Pradesh Arya Vysya Welfare and Development Corporation (*)	Andhra Pradesh Arya Vysya Welfare and Development Corporation	N	62,180.65	...	62,180.65	...	...	...	...	...

(*) Majority of Grants-in-Aid given to corporations is towards DBT Grants-in-Aid Disbursement.

GRANTS-IN-AID/ASSISTANCE GIVEN BY THE STATE GOVERNMENT (INSTITUTION-WISE AND SCHEME-WISE)

Recipients	Scheme	N/S/ T(*)	2023 - 24			Of the Total amount released, amount sanctioned for creation of assets	2022 - 23			Of the Total amount released, amount sanctioned for creation of assets
			State Fund Expenditure	Central Assistance (Including CSS and CS)	Total		State Fund Expenditure	Central Assistance (Including CSS and CS)	Total	
										(₹ in Lakh)
Andhra Pradesh Brahmin Welfare and Development Corporation (*)	Andhra Pradesh Brahmin Welfare and Development Corporation	N	28,347.87	...	28,347.87	...	...	...	...	...
Andhra Pradesh EBC Welfare and Development Corporation (*)	Andhra Pradesh EBC Welfare and Development Corporation	N	73,794.82	...	73,794.82	...	...	...	...	...
Andhra Pradesh Kamma Welfare and Development Corporation (*)	Andhra Pradesh Kamma Welfare and Development Corporation	N	1,65,522.66	...	1,65,522.66	...	...	...	...	...
Andhra Pradesh Kapu Welfare and Development Corporation (*)	Andhra Pradesh Kapu Welfare and Development Corporation	N	4,46,050.52	...	4,46,050.52	...	...	...	...	...
Andhra Pradesh Kshatriya Welfare and Development Corporation (*)	Andhra Pradesh Kshatriya Welfare and Development Corporation	N	27,423.75	...	27,423.75	...	...	...	...	...
Andhra Pradesh Reddy Welfare and Development Corporation (*)	Andhra Pradesh Reddy Welfare and Development Corporation	N	2,13,447.52	...	2,13,447.52	...	...	...	...	...
Andhra Pradesh Scheduled Castes Corporations (*)	Andhra Pradesh Scheduled Castes Corporations	N	2,87,668.05	...	2,87,668.05	...	...	...	...	...
Andhra Pradesh State Christian Finance Corporation (*)	Andhra Pradesh State Christian Finance Corporation	N	9,689.66	...	9,689.66	...	...	...	...	...
Andhra Pradesh State Minorities Finance Corporation (*)	Andhra Pradesh State Minorities Finance Corporation	N	44,686.82	...	44,686.82	...	...	...	...	...
INCAP	Infrastructure Corporation of Andhra Pradesh Limited	N	160.00	...	160.00	...	...	...	...	...
Meat Development Corporation	Assistance to Meat Development Corporation of Andhra Pradesh Limited (MDCAP)	N	122.06	...	122.06	...	...	...	...	...

(*) Majority of Grants-in-Aid given to corporations is towards DBT Grants-in-Aid Disbursement.

Source: C & AG Andhra Pradesh Finance Accounts 2023-24

Annexure-4.2

Note on Pay Revisions in Andhra Pradesh since Reorganization

In the undivided State of Andhra Pradesh, the practice of revising pay and allowance of government employees at an interval of every five years was being followed. This practice is being continued even after reorganization by the successor States. The erstwhile Government of Andhra Pradesh appointed the Tenth Pay Revision Commission in February, 2013. The report of the Commission was submitted in May, 2014.

2. The Commission recommended merger of Dearness Allowance (DA) of 63.34 per cent applicable on July 01, 2013, i.e., 63.344% with the basic salary and a fitment benefit of 29 per cent in basic salary. The Government went beyond the recommendation and decided to increase fitment benefit to 43 per cent of the basic pay for fixing the pay in the Revised Scales of Pay 2015, as against 29 per cent recommended by the Tenth Pay Revision Commission. The Dearness Allowance of 63.344 per cent as on 01.07.2013 was merged in the pay as recommended by the Pay Revision Commission; The Revised Scales of Pay were implemented notionally from 01.07.2013 with monetary benefit from 02.06.2014. The benefit of the Revised Scales of Pay, 2015 was paid in cash starting from the salary for the month of April 2015.

3. The Eleventh Pay Revision Commission was constituted in May, 2018 and its Report was submitted in October, 2020. The main recommendations of the Commission are as follows. The Commission estimated that the additional financial requirement on account of these recommendations would be Rs. Rs.3,181 crore per annum.

- a) The existing Basic Pay in the pre-revised scales may be taken into account.
- b) Dearness Allowance admissible as on 01.07.2018 (as per AICPIN) may be calculated @ 30.392 per cent on (a) above;
- c) A fitment benefit of 27 per cent of (a) above may be arrived at;
- d) The revised basic pay in the new pay-scale applicable to the post shall be fixed at the stage next above the figure arrived at after adding (a), (b) and (c) above or alternatively, by multiplying the figure at (a) above by a fitment factor of 1.57392.

4. Pending the decision on 11thPRC recommendations, the Government took a decision to sanction Interim Relief of 27 per cent of basic salary effective from 1stJuly, 2019. After considering the PRC recommendations, the Government decided in January, 2022 to allow a fitment benefit of 23 per cent of the basic pay and the merger of 30.392 per cent of DA as on 1st July, 2018 with the basic pay. It was decided that the Interim Relief shall not be included as pay for the purpose of fixation. It was decided that the revised pay scales would be implemented notionally from 1stJuly, 2018 with monetary benefit from 1st April, 2020 and that the benefit of revised pay scales would be paid in cash from the salary starting from 1st January, 2022. The Government later took a decision (11thMay, 2022) not to recover IR for the period from 1st July, 2019 to March, 2020.

5. The Twelfth PRC was constituted by the Government in July, 2023. The Commission resigned after the change in the Government in 2024. New PRC Commissioner is yet to be appointed.

Current System of Pension Payments in Andhra Pradesh

The Government of Andhra Pradesh adopted the New Pension System (NPS) from September 2004. With a view to ensuring guaranteed pensions to its employees, the Government enacted 'The AP Guaranteed Pension System (APGPS) Act' in 2023. The benefits under the guaranteed scheme are as follows:

- a) Top-up amount to ensure a monthly guaranteed pension at the rate of 50 per cent of the last basic pay drawn, in case of shortfall in the annuity amount received by a retired APGPS subscriber.
- b) Top-up amount to ensure a monthly spouse pension at the rate of 60 per cent of the guaranteed pension in case of a shortfall in the annuity.
- c) Cost of living adjustment on the last basic pay drawn as per inflation adjusted DA.
- d) Top-up amount to ensure a minimum monthly APGPS of Rs.10,000 per month in case of shortfall in annuity.

CHAPTER – 5

Transfers from the Centre

The chapter on Revenue Receipts has covered the broad trends including the Central transfers to Andhra Pradesh. This Chapter presents detailed analysis of Central Transfers. Central Transfers are an important component of any State's revenue receipts. Central transfers, more particularly the transfers recommended by the Finance Commission address vertical imbalances in resource endowment and expenditure responsibilities between the Union and the States and horizontal imbalances across States. With the seventy-third and seventy-fourth amendments to the Constitution, the Finance Commission is entrusted with an additional mandate of recommending measures needed to supplement the resources of panchayats and municipalities in the State on the basis of the recommendations made by the Finance Commission of the State. In addition to Constitutionally mandated Finance Commission transfers, with the setting up of the Planning Commission, another important channel of plan transfers had emerged in Indian fiscal federalism. However, following the recommendations of FC-XIV increasing the tax devolution from 32 to 42 per cent of the divisible pool of Central taxes and replacement of Planning Commission with NITI Aayog, plan transfers had been terminated effective from 2015-16. Furthermore, over a period of time, a number of Centrally Sponsored Schemes (CSS) have been introduced by the Centre. These schemes have been introduced to address critical gaps in public services mostly in areas under the State List. These are sponsored by the Union Ministries but implemented by the States. The expenditure sharing between the Centre and the States is different for each scheme.

Finance Commission Transfers

5.2 Finance Commission transfers are the predominant component of Central transfers contributing on an average 24.5 per cent of the total revenue receipts of States. Of the Finance Commission transfers, tax devolution is the pre-dominant source. The higher share of tax devolution in revenue receipts from 2015-16 was on account of increase in the States' share in tax devolution. Reduction in the share of tax devolution from 2020-21 was on account of the reduction in the share of Andhra Pradesh in tax devolution as well as the fall in Central revenues due to disruptions in economic activities on account of covid pandemic. The FC-XIV did not recommend any sector and State-specific grants following its recommendation to increase tax devolution from 32 to per cent to 42 per cent of the divisible

pool of Central taxes. Though the FC-XV recommended these grants, these were not accepted by the Centre. However, the grant component of Finance Commission transfers remained higher as compared with 2014-15 because of the post-devolution revenue deficit grants recommended by the FC-XIV and FC-XV Commissions (Table 5.1).

Table 5.1: Transfers of Resources from the Centre (Rs. In crore)

Year	Tax Devolution	Finance Commission	Other Transfers			Grant-in-aid Transfers (3 to 6)	Total Transfers (2 +7)
			Centrally Sponsored Schemes	Other Schemes	GST Compensation		
1	2	3	4	5	6	7	8
2014-15	11446 (17.4)	3022 (4.6)	0	13189 (20.1)	0	16211 (24.7)	27657 (42.1)
2015-16	21894 (24.7)	8199 (9.2)	0	13729 (15.5)	0	21928 (24.7)	43822 (49.4)
2016-17	26264 (26.5)	9319 (9.4)	0	14027 (14.2)	0	23346 (23.6)	49610 (50.1)
2017-18	29001 (27.6)	6975 (6.6)	15150 (14.4)	254 (0.2)	382 (0.4)	22761 (21.7)	51762 (49.3)
2018-19	32787 (28.6)	5548 (4.8)	12509 (10.9)	1399 (1.2)	0	19457 (17.0)	52244 (45.6)
2019-20	28242 (25.4)	5881 (5.3)	13562 (12.2)	592 (0.5)	1841 (1.7)	21876 (19.7)	50118 (45.1)
2020-21	24461 (20.9)	11576 (9.9)	14836 (12.7)	1932 (1.6)	3527 (3.0)	31872 (27.2)	56332 (48.1)
2021-22	35386 (23.5)	20991 (13.9)	12751 (8.5)	2311 (1.5)	3117 (2.1)	39170 (26.0)	74555 (49.5)
2022-23	38177 (24.2)	13174 (8.4)	18037 (11.4)	367 (0.2)	4570 (2.9)	36148 (22.9)	74325 (47.1)
Average Transfers	27158 (24.5)	9409 (8.4)	9650 (8.6)	5311 (4.7)	1493 (1.3)	25863 (23.1)	53381 (47.6)

Source: C&AG: state Finance Accounts

Note: 1) Figures in brackets are percentage shares in the total revenue receipts of the State.

2) For the first three years, CSS grants have not been shown in the Finance Accounts

Other Transfers

5.3 Among other grants, grants under CSS are the most predominant contributing on an average 11.6 per cent of the total revenue receipts of the States. Thus, CSS grants exceed statutory grants recommended by the Finance Commissions. This is the case with other States too. On an average, percentage contribution of tax devolution and grants from the Centre to total revenue receipts of the State remained more or less the same, though the contribution of tax devolution was found to be lower in the covid affected years.

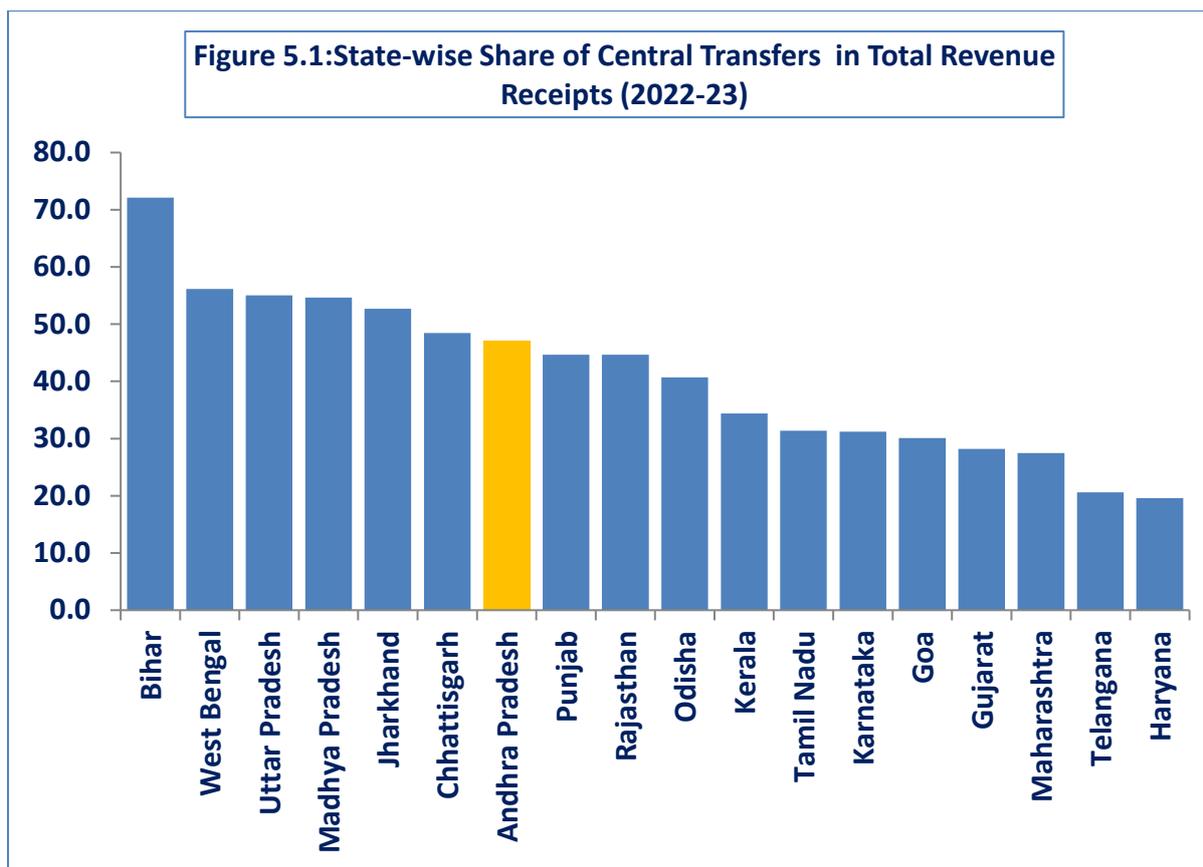
5.4 Details regarding the trends in Central transfers to Andhra Pradesh by components as percentages to GSDP are presented in Table 5.2. These trends are broadly in line with the percentage shares of various components of Central transfers in total revenue receipts of the State.

Table 5.2: Central transfers to Andhra Pradesh % of GSDP

Year	Tax Devolution	Finance Commission Grants	Other Transfers			Grant-in-aid Transfers (3 to 6)	Total Transfers (2+7)
			Centrally Sponsored Schemes	Other Schemes	GST Compensation		
1	2	3	4	5	6	7	8
2015-16	3.6	1.4	1.7	0.60	0.00	3.6	7.3
2016-17	3.8	1.1	1.8	0.57	0.00	3.4	7.2
2017-18	3.7	0.9	2.0	0.02	0.05	2.9	6.6
2018-19	3.8	0.6	1.4	0.16	0.00	2.2	6.0
2019-20	3.1	0.6	1.5	0.06	0.20	2.4	5.4
2020-21	2.5	1.2	1.5	0.20	0.36	3.3	5.8
2021-22	3.1	1.8	1.1	0.20	0.27	3.4	6.5
2022-23	2.9	1.0	1.4	0.03	0.35	2.8	5.7

Central Transfers to Andhra Pradesh Vis-a-Vis General Category States

5.5 A comparison of share of Central transfers in total revenue receipts of 18 general category States reveals that the Andhra Pradesh occupies middle position in 2022-23, the latest year for which audited accounts are available. In six States, namely, Bihar, West Bengal, Uttar Pradesh, Madhya Pradesh, Jharkhand and Chhattisgarh, Central transfers are higher as a proportion of revenue receipts than Andhra Pradesh (Figure 5.1)



Central Transfers to Other Southern States

5.6 The total Central transfers including tax devolution as proportion of total revenue receipts are much higher as compared with other southern States (table 5.3). However, in so far as CSS transfers, Finance Commission grants and GST compensation are concerned, their share in revenue receipts is higher as compared with Andhra Pradesh. With the exception of Andhra Pradesh and Kerala, other States did not get any post-tax devolution revenue deficit grants during the period 2015-20. In 2020-21, with the exception of Telangana, the remaining southern States received gap grants. During the period 2021-26, two States of Andhra Pradesh and Kerala were recommended to receive these grants in the first three years and Karnataka and Tamil Nadu only in the first year. The higher transfers to Andhra Pradesh is mainly on account of tax devolution. Among the southern States, Karnataka had the highest share in tax devolution at 4.713 per cent followed closely by Andhra Pradesh (4.305 per cent) during the award period of FC-XIV. Andhra Pradesh retained its second position with a share of 4.047 per cent in tax devolution as compared with a marginally higher share of Tami Nadu (4.079 per cent) during the period 2021-26.

Table 5.3: Central transfers to Southern States as % to Revenue Receipts

Year	Tax Devolution	Finance Commission	Centrally Sponsored Schemes	Other Schemes	GST Compensation	Grant-in-aid Transfers	Total Transfers
2017-18	19.8	1.9	6.9	0.66	1.91	11.4	30.0
2018-19	19.5	2.0	6.5	1.24	3.15	12.8	32.4
2019-20	16.5	3.0	6.2	0.74	5.76	15.7	32.2
2020-21	13.4	6.7	6.3	1.19	6.46	20.6	34.0
2021-22	16.6	6.1	5.9	0.55	3.41	16.0	32.6
2022-23	14.5	3.7	4.8	0.33	6.25	15.1	29.6

Source: RBI State Finances: A Study of State Budgets, C & AG Finance Accounts

5.7 Among the southern States, per capita Central transfers are the highest in Andhra Pradesh primarily driven by tax devolution and post-devolution revenue deficit grants (Table 5.4).

Table 5.4: Per Capita Central Transfers to Southern States (in Rs)

Year	Andhra Pradesh	Karnataka	Kerala	Tamil Nadu	Telangana
2015-16	8839	6205	6470	5491	6212
2016-17	10007	7278	7105	6151	7036
2017-18	10481	8739	5991	5791	6993
2018-19	10538	10046	9108	7486	7639
2019-20	10109	10704	8273	7509	7881
2020-21	11363	8474	12761	7970	8045
2021-22	15038	10352	14320	10050	7811
2022-23	14992	11697	13662	10599	9384

Source: RBI State Finances: A Study of State Budgets, C & AG Finance Accounts

Concluding Remarks

5.8 Dependence of Andhra Pradesh on Central transfers than most of its counterparts is relatively higher. Among the general category States, dependence of Andhra Pradesh is higher than 11 States. This is a matter of serious concern. To maintain its fiscal sustainability, Andhra Pradesh should reduce its revenue deficit in a phased manner. This requires sustained efforts at revenue mobilisation and more particularly expenditure rationalisation.

CHAPTER – 6

Growth of Public Debt and its Composition

The fiscal performance of both the Union and State Governments is measured in terms of fiscal indicators particularly, deficit and debt indicators, viz., Revenue Deficit (RD), Gross Fiscal Deficit (GFD) and Primary Deficit (PD), Debt-GSDP ratio, etc. Public debt is usually raised for asset creation or developmental purposes i.e., capital expenditure and to certain extent net lending- two of the three constituents of Fiscal Deficit. Revenue Account of the State Budget is supposed to be either balanced or in surplus to support the developmental activities. In the absence of a balanced revenue account, part of the borrowings have to be diverted to meet the revenue expenditure, as is the case in Andhra Pradesh (AP).

6.2 The impact of Andhra Pradesh Reorganisation Act, 2014, drove AP State towards an opening balance of Rs.-76 crores in 2014-15. The revenue account and overall budget were negative. With the revenue deficits, public debt raised had to fill the revenue gap too. That means, public debt raised was to meet the requirements of all the components of Fiscal Deficit- revenue deficit, capital expenditure and net lending.

6.3 The total liabilities of the AP State, as defined in the Fiscal Responsibility and Budget Management (FRBM) Act (2005), represent (1) the liabilities under the Consolidated Fund of the State and (2) the Public Account of the State. Besides this, there are contingent liabilities in the form of Guarantees given by the State Government where the principal and/or interest are to be serviced out of the State budgets.

6.4 In addition to the above, there is another concept called 'Off-Budget Borrowings' (OBBs). The State Government's another window to borrow funds is via Government owned or controlled institutions viz., Public Sector Undertakings (PSUs) / Departmental Commercial Undertakings (DCUs). These institutions borrow from Banks and other Financial Institutions for which State Government, generally, backs unconditional and irrevocable guarantee for servicing of the debt. Hence, some of these borrowings are likely to become the liabilities of the State Government. The servicing of these obligations is made through (a) payment of interest on recurrent basis through budget (b) repayment of the borrowings by releasing funds to the PSU concerned either in the form of assistance/grants-in-aid or loan by the State Government.

6.5 This chapter analyses trends in public debt/liabilities (including off-budget borrowings). The main data sources, besides the State budget documents, are RBI's State Finances: A Study of Budgets (various years) and CAG Accounts and Audit reports (various years). For GSDP at Current Prices, data source is Socio Economic Survey 2022-23, Government of Andhra Pradesh. The study period covers 11 years period from 2014-15 (10 months – 2nd June 2014 – end of March 2015) to 2024-25 (BE). RBI gives data for only 10 years (2014-15 to 2023-24BE). Data regarding GSDP at current prices is available up to 2022-23, i.e for 9 years. Including introduction section, this chapter is divided into 4 sections.

Section 2: discusses the level of debt-GSDP ratio and the use of debt (i.e., whether it is used for capital expenditure or otherwise);

Section 3: focuses on Composition of the State's debt in terms of market borrowing, Central government debt, liabilities in public account (small savings, provident funds, etc) and borrowings from agencies such as NABARD, LIC etc.

Section 4: Summing Up.

Level of Debt-GSDP Ratio and the Use of Debt

6.6 As has been already mentioned, State's total liabilities comprise of (A) the liabilities under the Consolidated Fund of the State viz., Public Debt and (B) the Public Account of the State.

Liabilities under the Consolidated Fund of the State / Public Debt include

(A) (i) Internal debt of the State: It consists of Market Loans, Ways and Means Advances from RBI, Special securities issued to NSSF and Loans from Financial Institutions *etc.* and

(ii) Loans and Advances from the Central Government;

(B) Public Account: It remains outside of Consolidated Fund of the State. It 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

balance after disbursements (net balances in Public Account) during the year is the fund available with the Government for use for various purposes.

This section discusses (1) Level of debt-GSDP ratio and

(2) Use of debt (i.e., whether used for capital expenditure or otherwise);

A mention of availability of funds under Public Account is also made.

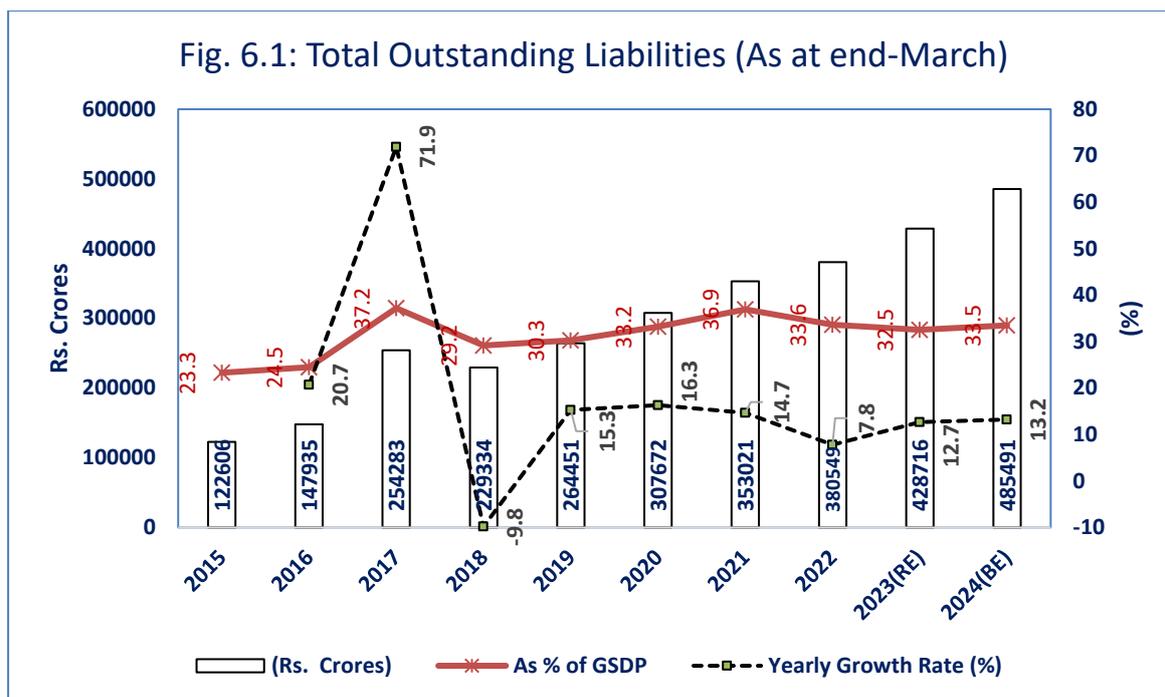
Level of Debt-GSDP Ratio

6.7 Total Outstanding Liabilities at the end of March 2015 was Rs.122605.8 crore which doubled by March 2017. Total Outstanding Liabilities, barring 2018, showed a gradual and consistent upsurge during the study period. It also showed double digit growth rate barring the years 2018 and 2022 (Table 6.1; Fig.6.1).

Table 6.1: Total Outstanding liabilities (as at end-March)

	Year	(Rs. Crore)	As % of GSDP	Yearly Growth Rate (%)
1	2015	122605.8	23.3	
2	2016	147935.2	24.5	20.7
3	2017	254283.0	37.2	71.9
4	2018	229333.8	29.2	-9.8
5	2019	264451.0	30.3	15.3
6	2020	307671.5	33.2	16.3
7	2021	353021.0	36.9	14.7
8	2022	380548.5	33.6	7.8
9	2023(RE)	428715.7	32.5	12.7
10	2024(BE)	485490.8	33.5	13.2
# Total Outstanding Liabilities include: Internal Debt, Loans from Centre and Public Account and other liabilities.				

Source: Statement No.19: Total Outstanding Liabilities RBI (Dec 2023) : State Finances : a Study of Budgets of 2023-24



Source: as in table 1

6.8 The proportion of Total Outstanding Liabilities in GDP was nearly or above one-fourth in the initial years. Gradually it reached 30 percent and one-third of GDP across the study period (Table 1). In 2017 and 2021 this ratio was around 37 percent. With an effect of Issuance of UDAY⁴, in November 2015, the proportion of Debt in GDP increased by 12.7 percentage points during 2017 and by 3.7 percentage points in 2021.

6.9 Yearly growth rate of Total Outstanding Liabilities of the state government have registered a double-digit growth except 2018 and 2022. Huge growth rate at 71.9 percent in 2017 was mainly because of (1) Issuance of UDAY, (2) farm loan waivers, and (3) persistent revenue deficit and fiscal deficit situation. Mounting debt stock accumulated over a period

⁴The Ministry of Power, Government of India launched a new Scheme “UDAY” (Ujwal DISCOM Assurance Yojana) in November 2015 with an objective of improving operational and financial efficiency of DISCOMs. Under this scheme, the State Government shall take over 75 per cent of DISCOM debt as on 30 September 2015 over two years – 50 per cent shall be taken over in 2015-16 and 25 per cent in 2016-17. The remaining 25 per cent of debt of DISCOMs should be converted by the banks/Financial Institutions into State guaranteed DISCOM bonds at the prevailing market rates which shall be equal to or less than bank base rate plus 0.1 per cent. The total loans of AP DISCOMs as on 30 September 2015 were Rs. 14,720.40 crore (Capital Expenditure loan – Rs. 3,712.49 crore, Working capital loan – Rs. 8,461.76 crore and Balance of Financial Restructuring Programme bonds – Rs. 2,546.15 crore). However, the State Government entered into tripartite MoU with Ministry of Power (GoI) and DISCOMs on 24 June 2016 to take over 75% of the working capital loan (Rs. 6,346.32 crore) and 100% of FRP bonds (Rs. 2,546.15 crore). This constituted only 60.45 per cent of total loans of AP DISCOMs (Rs. 14,720.40 crore) as against 75 per cent stipulated under UDAY scheme. State Government released an amount of Rs. 8,256.01 crore for taking over the liability under the UDAY scheme leaving the balance loans to the tune of Rs. 6,464.39 crore. Bank/Financial Institutions had not issued any new bonds as stipulated in the UDAYScheme for the remaining balance loans of DISCOMs. (GOAP: Report No. 2 of the year 2018, CAG Audit Report on State Finances for the year ended March 2017)

have an effect on the currently strained state fiscal situation and a repayment burden in the future.

Use of Public Debt⁵: Direction of Public Debt Spent

6.10 Total public debt raised in 2015-16 was Rs. 53681.8 crores. It showed an uptrend and has strikingly increased to Rs. 112428.2 crores in 2019-20 and further increased to Rs.186023.9 crores in 2022-23. Amid 2015-16 and 2022-23, public debt increased by nearly 3.5 times (Table 6.2).

6.11 In 2015-16, of the total public debt raised, nearly 72 percent and 18 percent (together 90 percent) was used to repay the old debt and interest payments respectively – leaving too little amount (merely 10 percent) for fiscal deficit. Public debt at the disposal of the state government, net of debt repayment, was only 28.38 percent in 2015-16 and remained less than 30 percent throughout the study period (barring 2014-15 and 2016-17). Net public debt (net of debt repayment and interest payment) was less than 15 percent (excepting 2014-15 and 2016-17).

6.12 In 2015-16 and 2016-17, the proportion of Public debt in GSDP was nearly 9 percent of which repayment obligations were 6.36 - 5.08 percent in those years. Though, there found double digit increase in Public debt raised / GSDP ratio since 2018-19, Public debt/GSDP, net of debt repayment, was less than 5 percent. Net public debt/GSDP (net of debt repayment and interest payment) was less than 3 percent – leaving too small amount (merely 10 percent) for fiscal deficit (Table 6.2; Fig. 6.2 and Fig.6.2a). As net debt was inadequate to meet the fiscal debt, dependence on net Public account resources was inevitable.

⁵ Public Debt include Borrowings under the Consolidated Fund of the State:(i) Internal Debt and (ii) Loans from Centre.

Table 6.2: Direction of Public Debt* Spent - Andhra Pradesh (Rs. Crores)

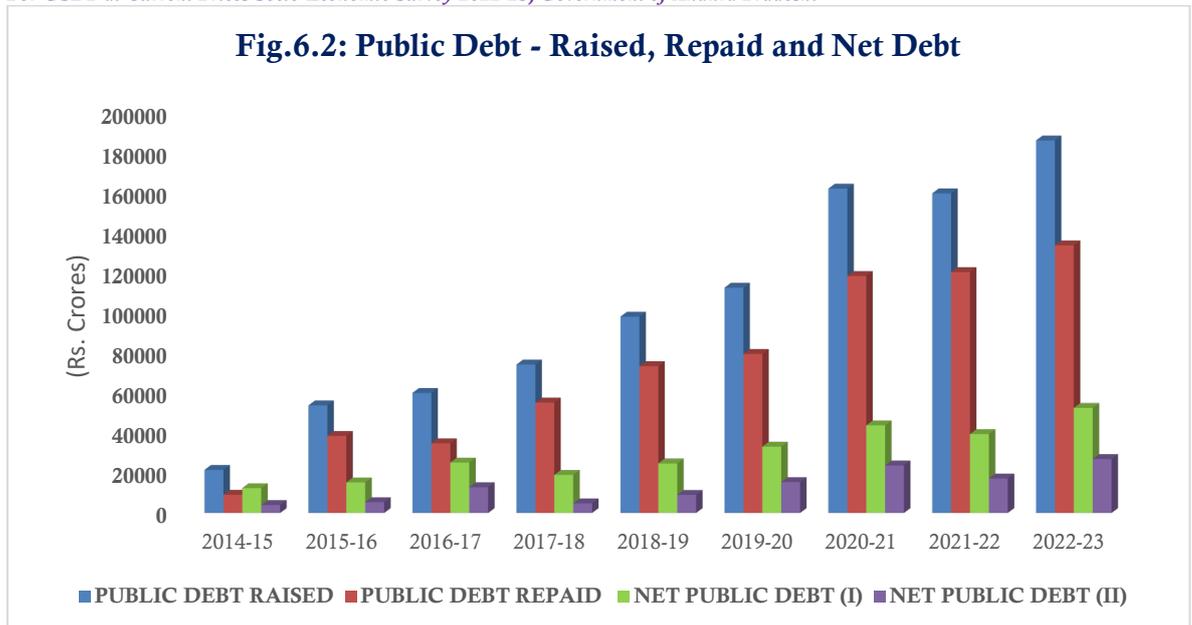
Year	Public Debt Raised	Repayment of		Net Public Debt (I)= Col (2)- Col (3)	Net Public Debt (II)= Col2-(Col3+Col 4)	Col (5) as % of Col (2)	Col (6) as % of Col (2)
		Public Debt	Interest Payments				
1	2	3	4	5	6	7	8
2014-15	21480.8	9098.8	8429.3	12382.0	3952.7	57.64	18.40
2015-16	53681.8	38444.5	9848.5	15237.3	5388.8	28.38	10.04
2016-17	59922.7	34776.5	12292.4	25146.1	12853.8	41.96	21.45
2017-18	74063.5	55081.0	14191.9	18982.5	4790.6	25.63	6.47
2018-19	97980.0	73273.7	15692.0	24706.3	9014.3	25.22	9.20
2019-20	112428.2	79366.2	17653.0	33062.1	15409.1	29.41	13.71
2020-21	161974.7	118274.3	20017.8	43700.4	23682.5	26.98	14.62
2021-22	159609.9	120246.1	22165.2	39363.8	17198.6	24.66	10.78
2022-23	186023.9	133609.2	25492.3	52414.6	26922.4	28.18	14.47
As % of GSDP							
2014-15	4.09	1.73	1.61	2.36	0.75	--	--
2015-16	8.88	6.36	1.63	2.52	0.89	--	--
2016-17	8.76	5.08	1.80	3.67	1.88	--	--
2017-18	9.42	7.01	1.81	2.41	0.61	--	--
2018-19	11.21	8.39	1.80	2.83	1.03	--	--
2019-20	12.14	8.57	1.91	3.57	1.66	--	--
2020-21	16.93	12.36	2.09	4.57	2.48	--	--
2021-22	14.08	10.61	1.95	3.47	1.52	--	--
2022-23	14.12	10.14	1.93	3.98	2.04	--	--

Note: * debt under Consolidated Fund of the State

Data for 2014-15 related to 10 months (from 2nd June 2014 to end of March 2015)

Source: CAG Volume I, Finance Accounts (Various years);

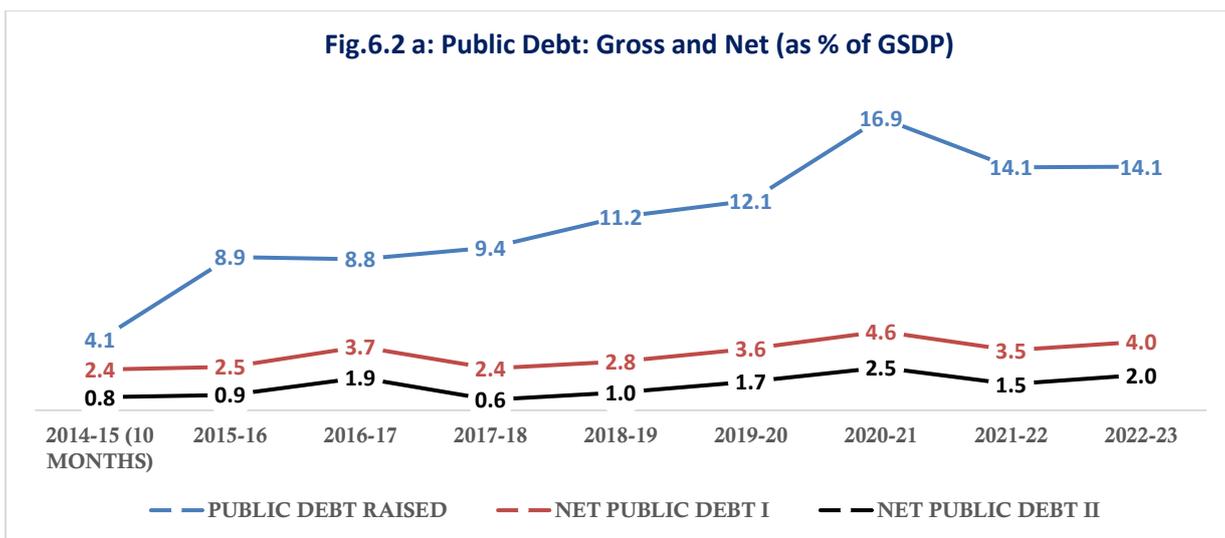
For GSDP at Current Prices Socio-Economic Survey 2022-23, Government of Andhra Pradesh.



Note: NET PUBLIC DEBT I=Public Debt Raised –Public Debt Repaid;

NET PUBLIC DEBT II=Public Debt Raised - (Public Debt Repaid + Interest Payments)

Source: as in table 6.2



*Note: NET PUBLIC DEBT I=Public Debt Raised –Public Debt Repaid;
NET PUBLIC DEBT II=Public Debt Raised - (Public Debt Repaid + Interest Payments)
Source: as in table 2*

6.13 Gradual increase in net public debt, in later years, is the effect of higher borrowings. Generally, debt raised is meant for asset creation in the State through capital expenditure / developmental activities. Persistent revenue deficits absorb a major portion of debt raised leaving a reduced portion for capital expenditure /developmental activities.

6.14 Revenue Account surplus situation would support the developmental activities and also allow the entire net debt raised and also public account resources towards capital expenditure, i.e., developmental activities. But bifurcated state of Andhra Pradesh started with revenue deficit situation.

6.15 The composition of Fiscal Deficit (Table 6.3) shows that revenue deficit constitutes more than 50 percent of Fiscal deficit (except in 2015-16, 2018-19, 2021-22 and 2024-25 BE) – leaving little space for capital expenditure and net lending. During 2016-17 and 2017-18 the revenue deficit/ fiscal deficit ratio was 56 % and 50 % respectively. In the remaining years, revenue deficit/ fiscal deficit ranged 64% (2020-21) to 83% (2022-23). In the years of COVID-19 pandemic (2019-20 and 2020-21), revenue deficit/ fiscal deficit ratio was 67% and 64% respectively.

6.16 Compositional shift in borrowings, implementation of UDAY Scheme, COVID-19 pandemic situation, implementation of new welfare schemes and bifurcation of the State of AP affected the fiscal position. Utilization of borrowings to meet revenue expenditure not only impedes asset creation in the State but also create liability for future years. Persistence of this situation would be detrimental to the state exchequer.

Table.6.3: Composition of Fiscal Deficit (%)

Year	Deficit Situation (Rs. Crore)				Composition of Fiscal Deficit (%)			
	Revenue Deficit	Capital Exp	Net Lending	Fiscal Deficit	Revenue Deficit	Capital Exp	Net Lending	Fiscal Deficit
2014-15	13776	6520	449	20745.0	66	31	2	100
2015-16	7301.9	14171.5	389.2	21862.6	33	65	2	100
2016-17	17193.7	15180.8	-1465.7	30908.8	56	49	5	100
2017-18	16151.7	13490.7	2730.2	32372.6	50	42	8	100
2018-19	13898.6	19976.3	1565.9	35440.9	39	56	4	100
2019-20	26440.5	12242.1	1001.1	39683.7	67	31	3	100
2020-21	35540.5	18975.0	652.0	55167.5	64	34	1	100
2021-22	8610.8	16372.7	27.9	25011.4	34	65	0	100
2022-23	43487.5	7244.1	1776.7	52508.3	83	14	3	100
2023-24	38682.55	23330.48	1310.5	62719.59	66	31	2	100
RE								
2024-25	34743.38	32712.84	529.1	68742.65	33	65	2	100
BE								

Note: Data for 2014-15 related to 10 months (from 2nd June 2014 to end of March 2015)

Source: Volume VI, Andhra Pradesh Budget in Brief, various years; For 2014-15, Finance Accounts, Volume I, 2014-15, (02 June 2014 to 31 March 2015)

Composition of the state's debt⁶

6.17 It is also mentioned that, besides the sources of debt under Consolidated Fund⁷ of the state and Public Account, state government raises resources that remain outside the budget – Off-Budget Borrowings. These Off-Budget Borrowings constituted 20 to 24 percent of the total outstanding liabilities during 2020-22 which was less 4 or 5 percent earlier (Table 6.4 and Fig.6.3). Off-Budget Borrowings/financing involve (a) payment of interest on recurrent basis and (b) repayment of the borrowings from budget as and when it is due. Thus, these liabilities form the obligations of the State Government.

⁶Composition of state debt includes in terms of market borrowing, Off-budget borrowings, Central government debt (including those from bilateral / multilateral lending agencies routed through the central government), liabilities in public account (small savings, provident funds etc.) and borrowings from agencies such as NABARD, LIC etc.

⁷The composition of borrowings has undergone compositional shift much before the present study period i. e., since 1999. The composition of borrowings shows that loans from the Centre which constituted a major portion started declining since 1999 with the modification in accounting procedures by shifting the loans to states against small savings collections from the Consolidated Fund of India (i.e., from the budget) to National Small Savings Fund (NSSF) i.e., outside the budget. During 2002-05, the share of central loans again declined due to Debt Swap Scheme. Central loans further declined in the later years with the Centre's relinquishment of plan loans to states from 2005-06 onwards as per the recommendations of the Twelfth Finance Commission. As a result, loans from NSSF (2002-07) and market borrowings (since 2007-12) comprised major share in financing the deficit while other sources are thinly distributed.

**Table 6.4: Total Outstanding Liabilities and Off-Budget Borrowings
(As at end-March) (Rs. Crores)**

Year ending March	Total Outstanding Liabilities	Off-Budget Borrowings	Grand Total (2+3)	Col 2 as % of col 4	Col 3 as % of col 4	Col (2) as % of GSDP	Col (4) as % of GSDP
1	2	3	4	5	6	7	8
2015	122605.8	5,403	128,009	95.8	4.2	23.3	24.4
2016	147935.2	NA	147,935	100.0	0.0	24.5	24.5
2017	254283.0	NA	254,283	100.0	0.0	37.2	37.2
2018	229333.8	NA	229,334	100.0	0.0	29.2	29.2
2019	264451.0	10,000.00	274,451	96.4	3.6	30.3	31.4
2020	307671.5	77,585.73	385,257	79.9	20.1	33.2	41.6
2021	353021.0	112114.90	465,136	75.9	24.1	36.9	48.6
2022	380548.5	118393.81	498,942	76.3	23.7	33.6	44.0
2023(RE)	428715.7	NA	428,716	100.0	0.0	32.5	32.5
2024(BE)	485490.8	NA	485490.8	100.0	0.0	33.5	33.5

Source: (1) RBI (Dec 2023): Statement 18, State Finances: A Study of Budgets of 2023-24

(2) For Off-Budget borrowings CAG State Finances Audit Report (for various years), Andhra Pradesh State Government furnished the details of Off-Budget Borrowings of 30 corporations for the financial years 2019-20, 2020-21 and 2021-22 (as on March 2020, 2021 and 2022) as Rs.77,585.73 crore, Rs. 1,12,114.90 crore and Rs.1,18,393.81 respectively⁸. There is a significant increase in 2019-20 (about Rs.67585.73 by 676 percentage points) over 2018-19.

6.18 Of the 30 corporations, (i) AP State Civil Supplies Corporation, (ii) AP Power Finance Corporation and (iii) AP State Development Corporation have raised Off-Budget borrowings in significant amounts in all the three years of 2019-20, 2020-21 and 2021-22 (as on March 2020, 2021, and 2022):

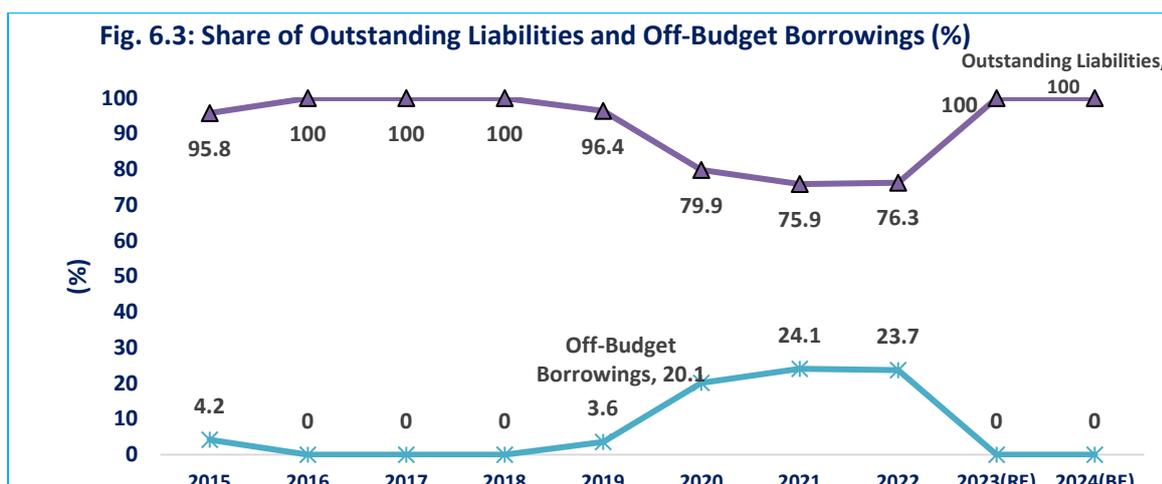
(i) Outstanding borrowings of the AP State Civil Supplies Corporation amounted to Rs. 25,000 crores, Rs. 32,327 crore and Rs. 31,026 crore, respectively at the end of March 2020, 2021 and 2022. respectively.

(ii) AP State Development Corporation raised Rs. 18,500 crores and Rs. 22504 crores (as on March 2021 and 2022) respectively.

(iii) AP Power Finance Corporation raised Rs. 13174 crores,(as on March 2020, Rs 16185 crores (as on March 2021) Rs 18115 crores (as on March 2022).

Other Corporations accessed remaining amount of the Off-Budget Borrowings in these years.

⁸Appendix 2.2 Off-Budget borrowings of the State, State Finances Audit Report for the year ended 31 March 2022



Source: as in table 5

Total Outstanding Liabilities: Broad Composition

6.19 The relative share of internal debt in total Outstanding Liabilities constituted 70 – 80 percent in the study period. Though it showed a declining trend initially, later on showed an uptrend. Conversely, the shares of special securities issued to National Small Saving Funds (NSSF), loans from banks and financial institutions and public accounts have witnessed a steady decline (Table 6.5 and Fig. 6.4).

6.20 Share of Loans from the Centre in total Outstanding Liabilities constituted a small portion mainly because of discontinuation of plan loans to States from the Centre since 2005-06 following the recommendations of Twelfth Finance Commission (XII FC). Fall in the shares of special securities issued to NSSF is based on the recommendation of the Fourteenth Finance Commission (FC-XIV) to exclude States from the National Small Savings Fund (NSSF) financing facility⁹.

6.21 Within debt profile, gradual decline in share of ‘loans from banks and financial institutions’, ‘NSSF’, ‘Loans from the Centre’ and ‘Net Public Account’ were getting replaced by SDLs / market loans. Share of outstanding market loans (SDLs) in total outstanding liabilities has been on a rising trend. In recent years, there has been an increase in the borrowings from the Centre because of GST compensation loans.

⁹(barring Delhi, Madhya Pradesh, Kerala and Arunachal Pradesh) Source: State Finances: RBI, A Study of Budgets of 2023-24, p. 21.

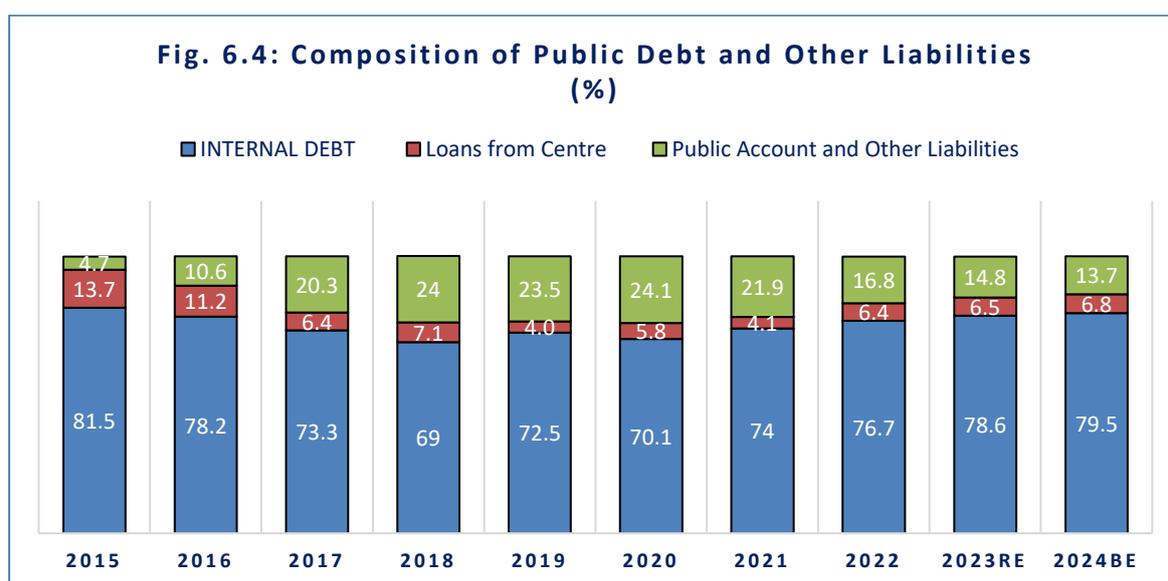
Table 6.5: Composition of Total Outstanding Liabilities: Broad Details (as at end-March)(%)

	Total Outstanding Liabilities	2015	2016	2017	2018	2019	2020	2021	2022	2023RE	2024BE
1	Internal Debt	81.5	78.2	73.3	69.0	72.5	70.1	74.0	76.7	78.6	79.5
	Of which										
	SDLs	65.2	64.2	62.3	56.7	61.4	61.4	66.3	69.7	72.6	74.4
	NSSF	12.3	10.7	5.8	6.0	4.9	3.7	2.9	2.4	1.8	1.4
	Loans from banks & FIs	2.8	2.3	1.4	2.0	2.1	1.9	2.0	2.1	2.0	1.7
2	Loans from Centre	13.7	11.2	6.4	7.1	4.0	5.8	4.1	6.4	6.5	6.8
3	Public Account & Other Liabilities	4.7	10.6	20.3	24.0	23.5	24.1	21.9	16.8	14.8	13.7
	Total (1 to3)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: State Finances: A Study of Budgets, RBI (various issues)

For the year 2019, CAG Accounts at a Glance 2018-19 Vol II P. 352-359, Andhra Pradesh

For the year 2021, CAG Accounts at a Glance 2020-21 VOL II P. 379-385, Andhra Pradesh



Source: as in table 5.

6.22 The share of outstanding market loans (SDLs) in internal debt and also total debt has been on a rising path in the post-COVID period. The proportion of outstanding market loans in total internal debt which was 80 percent by end-March 2015 (Table 6.6) rose up to 90 percent by end-March 2022. Its share is estimated to increase further up to 92 percent and nearly 94 percent in the revised and budget estimates of 2022-23RE and 2023-24BE respectively.

Table 6.6: Composition of Outstanding Internal Debt (%)

1	YEAR	2015	2016	2017	2018	2019	2020	2021	2022	2023(RE)	2024(BE)
2	SDLs	80.0	82.0	84.9	82.1	84.7	87.6	89.5	90.9	92.3	93.6
3	Power Bonds	0.1	0.0	4.4	5.2	0.0	3.8	0.0	2.8	2.4	2.1
4	Compensation & other bonds	0.0	1.3	0.8	0.9	5.3	0.7	3.8	0.5	0.4	0.4
5	NSSF	15.1	13.7	7.9	8.6	6.8	5.3	4.0	3.1	2.3	1.7
6	WMA from RBI	1.3	0.0	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0
7	Loans From										
7	LIC	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
8	GIC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9	NABARD	2.9	2.7	1.8	2.8	2.8	2.6	2.7	2.7	2.5	2.5
10	SBI & Other Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	NCDC	0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0
12	other institutions	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4
13	banks and FIs 7 to 12	3.5	3.0	1.9	2.9	2.9	2.6	2.7	2.7	2.5	2.1
14	INTERNAL DEBT (2 to 6)+13	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: calculated from the data RBI Source: State Finances: A Study of Budgets, (various issues)

For the year 2019, CAG Accounts at a Glance 2018-19 Vol II P. 352-359, Andhra Pradesh

For the year 2021, CAG Accounts at a Glance 2020-21 VOL II P. 379-385, Andhra Pradesh

6.23 Within the Public Account and Other Liabilities, the shares of Provident Fund and Deposits and Advances are predominant high followed by Reserve Fund. While the share of Provident Fund is increasing, that of Deposits and Advances is in reverse direction (Table. 6.7).

Table 6.7: Composition of Outstanding Public Account & Other Liabilities (As at end-March) (%)

	YEAR	2015	2016	2017	2018	2019	2020	2021	2022	2023 (RE)	2024 (BE)
1	Provident Fund	12.7	12.7	26.3	24.6	26.4	22.5	30.7	42.2	45.2	48.4
2	Reserve Fund	-0.2	0.3	5.1	2.7	4.5	4.0	4.9	7.2	6.9	9.1
3	Deposits and Advances	86.6	86.7	68.5	72.6	69.1	73.4	64.4	50.5	47.8	42.5
4	Contingency Fund	0.9	0.3	0.1	0.1	0.0	0.1	0.0	0.1	0.1	0.1
5	Public Account & Other Liabilities	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	total	5810	15690	51556	54935	59509	74292	75794	64008	63468	66632

Source: calculated from the data RBI Source: State Finances: A Study of Budgets, (various issues)

For the year 2019, CAG Accounts at a Glance 2018-19 Vol II P. 352-359, Andhra Pradesh

For the year 2021, CAG Accounts at a Glance 2020-21 VOL II P. 379-385, Andhra Pradesh

Total Outstanding Liabilities: Detailed Composition

6.24 Compositional shift in the borrowings since 1999, impact of state bifurcation, persistent revenue/ fiscal deficit, escalating revenue expenditure and adverse effect on economy during COVID-19 (see foot notes 4) pushed the state in to debt trap.

6.25 The relative share of outstanding market loans in Total outstanding debt, though high in initial years of the study period, declined thereafter as the share of Public Account and Other Liabilities increased. With the impact of COVID-19, it has increased absolutely and relatively since the end of March 2021. The share of SDLs / market loans estimated to be nearly 74 percent by end of March 2024 BE (Table. 6.8). Similarly, loans from the Centre have also moved higher due to back-to-back loans given to States *in lieu* of GST Compensation. (50-Year Interest-Free Loans distributed under the Scheme for Special Assistance to The States for Capital Investment was not given to Andhra Pradesh). On the other hand, the shares of special securities issued to NSSF¹⁰, loans from banks and financial institutions and public accounts have witnessed a steady decline.

Table 6.8: Composition of Outstanding Liabilities (As at end-March) (%)

1	YEAR	2015	2016	2017	2018	2019	2020	2021	2022	2023 (RE)	2024 (BE)
2	SDLs	65.2	64.2	62.3	56.7	61.4	61.4	66.3	69.7	72.6	74.4
3	Power Bonds	0.1		3.2	3.6	0.0	2.7	0.0	2.2	1.9	1.7
4	Compensation & other bonds		1.0	0.6	0.7	3.9	0.5	2.8	0.4	0.3	0.3
5	NSSF	12.3	10.7	5.8	6.0	4.9	3.7	2.9	2.4	1.8	1.4
6	WMA from RBI	1.1			0.1	0.1		0.0	0.0		
	LOANS FROM	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7	LIC	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8	GIC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9	NABARD	2.4	2.1	1.3	1.9	2.0	1.8	2.0	2.0	2.0	2.0
10	SBI & Other Banks					0.0			0.0		
11	NCDC	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
12	other institutions	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3
13	banks and FIs 7 to 12	2.8	2.3	1.4	2.0	2.1	1.9	2.0	2.1	2.0	1.7
14	INTERNAL DEBT (2 to 6)+13	81.5	78.2	73.3	69.0	72.5	70.1	74.0	76.7	78.6	79.5
15	Loans from Centre	13.7	11.2	6.4	7.1	4.0	5.8	4.1	6.4	6.5	6.8
16	Provident Fund	0.6	1.4	5.3	5.9	6.2	5.4	6.7	7.1	6.7	6.6
17	Reserve Fund	0.0	0.0	1.0	0.6	1.1	1.0	1.1	1.2	1.0	1.2
18	Deposits and Advances	4.1	9.2	13.9	17.4	16.2	17.7	14.1	8.5	7.1	5.8
19	Contingency Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
20	Public Account & Other Liabilities (16 to 19)	4.7	10.6	20.3	24.0	23.5	24.1	21.9	16.8	14.8	13.7
21	Outstanding Liabilities (14+20)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: RBI State Finances (various issues) For the year 2019, CAG Accounts at a Glance 2018-19 Vol II P.352-359, Andhra Pradesh For the year 2021, CAG Accounts at a Glance 2020-21 Vol II P.379-385, Andhra Pradesh

¹⁰The trend appeared following the recommendation of the Fourteenth Finance Commission (FC-XIV) to exclude States from the National Small Savings Fund (NSSF) financing facility (barring Delhi, Madhya Pradesh, Kerala and Arunachal Pradesh).

6.26 One redeeming feature is the maturity pattern of outstanding State Government Securities as on March 31, 2024. The maturity is more or less evenly spread across all the years starting from 2014-15 to 2038-39. There is no bunching of repayments in any year. The following Table 6.9 presents year-wise maturity of SDLs.

Table-6.9: Maturity profile of Outstanding State Government Securities as on March 31, 2024 - Andhra Pradesh			
Sl. No.	Year	Amount (Rs.in crores)	As percentage of total
1	2024-25	21,082	5.6
2	2025-26	20,050	5.3
3	2026-27	18,109	4.8
4	2027-28	15,229	4.0
5	2028-29	20,467	5.4
6	2029-30	20,128	5.3
7	2030-31	22,423	6.0
8	2031-32	22,733	6.0
9	2032-33	22,512	6.0
10	2033-34	19,753	5.2
11	2034-35	17,086	4.5
12	2035-36	19,250	5.1
13	2036-37	17,964	4.8
14	2037-38	19,890	5.3
15	2038-39	22,350	5.9
16	2039-2064	77,293	20.5
	Total	376,320	100

Source: Statement No. 23, RBI: Study of State Finances, 2024-25,

Note: Compensation Bonds, Loans not bearing interest and Special Bonds (excluding UDAY) are not included.

6.27 At the time of reorganization, the amount of outstanding public debt to be allocated between the successor States was Rs. 1,66,522 crore (Rs,1,48,951 crore of internal debt and Central Government loans of Rs.17,667 crore) as per C&AG Finance Accounts of AP for the year 2014-15. The apportionment of these outstanding internal debt provisionally on the basis of population. The basis of division of net Public Account also on provisional basis is not specified in the Finance Accounts. Details are furnished in Table-6.10.

Table-6.10 Apportionment of Outstanding Loans among the Successor States (Rs. in crore)

Type of Liabilities Outstanding as on 1 st June,2014	Total Amount Outstanding	Andhra Pradesh	Telangana	Amount Apportioned to AP as of 31 st March 2023	Amount Apportioned to Telangana as of 31 st March 2023
I. Public Debt	1,66,522	97,124	68,479	97,124	69,479
1. Internal Debt	1,48,856	86,829	62,122	86,829	62,122
2. Loans from the Centre	17,666	10,295	7,357	10,295	7,357
II. Public Account	27,046	3,501*	2,540	14,033	9,087
III. Total	1,93,568	1,00,625	71,019	1,11,157	78,566

Source: C&AG: Finance Accounts of AP and Telangana for the year 2022-23.

*Balances apportioned relate to only Sinking Funds, Development and Welfare Funds and Cash Balance Investment Account and do not include Deposits. Unapportioned balances are distributed between the two States in subsequent years.

Summing Up

6.28 Total outstanding liabilities, barring 2018, showed a gradual and consistent increase during the study period, registering double digit growth rate barring 2018 and 2022. High growth rate of total outstanding liabilities in 2017 was mainly due to takeover of DISCOM loans besides persistent revenue deficit and fiscal deficit situation. It also showed double digit growth rate barring the years 2018 and 2022. Consistent increase in debt stock over a period lays further burden on the state finances.

6.29 Bifurcated state of Andhra Pradesh started with revenue deficit. Utilisation of debt during the study period shows that a major portion of the public debt raised was spent towards the settlement of previous debt and portion to meet the revenue deficit and other components of Fiscal Deficit. High revenue deficit in most of the years narrowed the fund flow to capital expenditure and loans and advances.

6.30 Off-budget budget borrowings, another avenue to AP government, constituted 20 to 24 percent of the total outstanding liabilities during 2020-22, which was only 4 or 5 percent in earlier years.

6.31 The relative share of internal debt in total Outstanding Liabilities constituted 70 – 80 percent in the study period. Though it showed a declining trend initially, later on has increased. Increase in the share of outstanding market loans (SDLs) in Total Outstanding

Liabilities (absolutely and relatively) is mainly because of stoppage of Plan loans from the Centre in line with the recommendations of Twelfth Finance Commission and relative decline in the shares of special securities issued to NSSF as a result of the recommendation of the Fourteenth Finance Commission. SDLs has been on a rising path in the post-COVID period while borrowings from the Centre increased with the effect of GST compensation in the form of back-to-back loans from the Centre.

6.32 Impact of state bifurcation on the economy, implementation of UDAY Scheme, adverse effect of COVID-19 on the economy, and persistent revenue and fiscal deficits and introduction of a number of welfare schemes had a cascading effect on borrowings and thereby debt stock.

CHAPTER-7

Implementation of FRBM Act and Analysis of MTFP

In accordance with the recommendations of Twelfth Finance Commission (TFC), AP Government enacted Fiscal Responsibility and Budget Management Act (APFRBM) in October 2005. APFRBM was enacted with the objective of maintaining prudent fiscal management by reducing revenue deficit in a phased manner and maintaining revenue surplus thereafter, lowering fiscal deficit and borrowings thereby bringing down outstanding debt to a sustainable level. Prudent fiscal management and ensuring transparency are sought to be achieved through the presentation of Fiscal Policy Strategy Statement and Medium-Term Fiscal Policy Statement (MTFPS) along with the Annual Budget

7.2 The analysis presented in this chapter is based on Statement of Fiscal Policy, MTFPS, Central Finance Commission Reports and CAG audit reports (various years). The study period covers the period 2014-15 (10 months – 2nd June 2014 – end of March 2015) to 2022-23 / 2023-24 RE. Including introduction, there are 3 sections. Section 2 discusses Implementation/ commitment towards FRBM targets and macro view of MTFP. Section 3 present a brief summary of the analysis.

Implementation of FRBM Act, Commitment towards Targets: Macro Level Analysis of MTFP

7.3 Key fiscal targets are amended from time to time in accordance with the Central Finance Commission's recommendations¹¹. Accordingly, The APFRBM Act was amended in December 2020, and the targets of fiscal parameters were revised.

¹¹The FC-XIV recommended for all States, the fiscal deficit targets and annual borrowing limits were anchored to an annual limit of 3 per cent of GSDP. However, States could get flexibility on this on the primary condition that

- there is no revenue deficit in the year in which borrowing limits are to be fixed and in the immediately preceding year. Once this condition is met,
- a 0.25 per cent flexibility over and above the 3 per cent ceiling was allowed if the debt-GSDP ratio was less than or equal to 25 per cent in the preceding year.
- Another 0.25 per cent flexibility was allowed on fulfilling the condition that the interest payments are less than or equal to 10 per cent of the revenue receipts in the preceding year.
- Moreover, if a State was not able to fully utilize its sanctioned borrowing limit of 3 per cent of GSDP in any particular year, this un-utilised borrowing amount (calculated in rupees) could be availed only in the following year but within the award period.

XV FC recommended normal net borrowing limit of State Governments for the year

- (i) at 4 per cent of GSDP for 2021-22
- (ii) at 3.5 per cent of GSDP. 2022-23
- (iii) at 3 per cent of GSDP for the three-year period of 2023-24 to 2025-26 .

7.4 Amendment of the AP FRBM Act in December 2020 was supposed to come into force with effect from 30 August 2020. But the projections on fiscal parameters were, however, amended retrospectively with effect from the financial years 2015-16 to 2020-21¹². The State government justified this retrospective revision of fiscal parameters on the grounds of economic and fiscal resource deprivation following State bifurcation.

7.5 In the Fiscal Policy Statement presented along with the annual Budget, the targets of revenue and fiscal deficit are projected at much higher levels than the targets prescribed under the Finance Commissions' fiscal correction roadmaps. The amended APFRBM Act allowed AP to avail additional borrowings up to 2 percent of GSDP in addition to the normal borrowing limit of 3 per cent of GSDP in the year following Covid-19 pandemic. This was in accordance with the additional borrowing limit allowed by the Government of India. But the targets prescribed in the amended Act for the fiscal deficit, revenue deficit, outstanding debt are much higher as indicated in the following Table-7.1.

Table-7.1: Revised Fiscal Indicators (As Percent of GSDP)

Year	Revenue Deficit		Fiscal Deficit		Outstanding Total Liabilities	
	Amended Act	FC	Amended Act	FC	Amended Act	FC
2021-22	3.6	-0.5	5.0	4.0	35.6	32.6
2022-23	3.3	-0.8	4.5	3.5	36.3	33.3
2023-24	3.0	-1.2	4.0	3.0	36.1	33.1
2024-25	2.7	-1.7	4.0	3.0	35.8	32.8
2025-26	2.4	-2.5	3.5	3.0	35.5	32.5

Source: AP FRBM Act as amended in 2021

7.6 Furthermore, 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 Total Revenue Receipts (TRR) in the year preceding the current year. The amendments to the Act raised this limit to 180 per cent – a two-fold increase.

7.7 Doubling the limit of annual incremental risk weighted guarantees facilitated the State entities to borrow more against government guarantees. This raised the risk of some of these additional borrowings becoming contingent liabilities with the State servicing them.

¹²State Finances Audit Report for the year ended 31 March 2021

7.8 The adherence of the State Government to the limits laid down by the Finance Commissions are presented in in Table 7.2.

Table 7.2: Compliance /Implementation of FRBM Act: Targets and Achievement

Fiscal Parameter s	Fiscal projections set in revised FRBM Act	2014-15 (10months data)	2015-16	2016-17*	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 RE
Revenue Deficit (+) / Surplus (-) (as % of GSDP)	Actual Deficit (Rs.in crore)	13776	7302	17231	16152	13899	26441	35541	8611	43488	38683
	FC Targets	0.0	-1.1	-1.3	-1.6	-1.8	-1.9	0.1	-0.5	-0.8	-1.2
	Achievem ent	2.62	1.21	2.51	2.05	1.59	2.86	3.63	0.75	3.34	2.69
Fiscal Deficit (+) (as % of GSDP)	(Rs. crore)	20745	22059	30909	32380	35467	39684	55168	25011	52508	62720
	FC Target	3.00	2.8	2.8	2.8	2.8	3.0	4.5	4.0	3.5	3.0
	Achievem ent	4.00	3.65	4.52	4.12	4.06	4.29	5.64	2.18	4.03	4.36
Total Outstanding Liabilities (as % of GSDP)	(Rs. crore)	122606	147935	254283	229334	264451	307672	353021	380549	431989	494197
	FC Target #	23.88	21.90	22.06	25.09	25.16	25.22	33.1	32.6	33.3	33.1
	Achievem ent	23.4	24.5	37.2	29.2	30.3	33.2	36.1	33.1	33.1	34.3

Notes: (1) revised targets of FRBM (2021) since 2015-16.

(2) Outstanding Liabilities exclude an amount of Rs. 2,311 crore received towards back-to-back loan in lieu of GST compensation as it is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources (State Finances Audit Report for the year ended 31 March 2021)

(3)*Deficits for the year 2016-17 include loans of DISCOMS taken over by the State amounting to Rs. 8,256 crore e under UDAY scheme

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

Sources: CAG Accounts and Audit reports (various years).

Fiscal Policy to be laid on the table of the A.P. State Legislature (various years)

Revenue Deficit of the State

7.9 The limit prescribed by the Finance Commissions for revenue deficit/GSDP ratios ranged between 1.1 % and 1.9% of GSDP from 2015-16 to 2019-20; 0.1 % of GSDP in 2020-21, 0.5 % in 2021-22. In 2022-23 and 2023-24 these limits were 0.8% and 1.2% respectively.

7.10 In 2014-15, as per the FRBM Act, the proportion of Revenue Deficit, Fiscal Deficit and Outstanding Debt to GSDP should be within the limits of 2.5%, 3%, and 27.60% respectively. With the impact of State bifurcation, AP could not maintain/contain deficit and debt ratios within the prescribed limits of FRBM.

7.11 In 2019-20 Revenue Deficit as % of GSDP is higher than the set revised target mainly because of higher revenue expenditure than before due to COVID-19 Pandemic. Despite Post-Devolution Revenue Deficit Grants (PDRDG) from Government of India, as per the recommendations of XIV and XV Finance Commissions, the State Government could not control the Revenue Deficit during 2015-22. In all the years with the exception of 2018-19, the revenue deficit exceeded the targets laid down by the Finance Commission by a wide margin.

7.12 Besides COVID-19 Pandemic, other important reasons for revenue deficit were increasing trend of Revenue Expenditure, particularly committed expenditure mainly on account of salaries, pensions, interest payments, Grants -in- Aid etc. Consequently, it led to low level of Capital formation which in turn shows an adverse impact on developmental activities such as infrastructure development and industrial development¹³. The recommendations of 12th Pay Revision Commissions, appointed by AP, would be an additional burden on the exchequer of AP State.

7.13 The increase in expenditure was also on account of numerous welfare schemes introduced by the State. The additional expenditure commitments on account of these schemes have been discussed in the chapter on subsidies.

Fiscal Deficit of the State

7.14 Higher fiscal deficit is mainly because of higher revenue deficit. Fiscal deficit to GSDP exceeded in all the years as compared with the targets set by the Finance Commissions. Higher deficit in 2016-17 was on account of taking over of DISCOM loans. In 2021-22, the Centre gave non-repayable loans amounting to Rs.3,272 crore in view of the shortfall in the GST compensation Fund.

Outstanding Debt-GSDP ratio

7.15 Throughout the study period, except 2014-15, the Outstanding Debt-GSDP ratio of the State Government exceeds the targets laid down by the Finance Commissions. It is a poor consolation that they were within the limits set forth in the amended FRBM Act.

¹³State Finances Audit Report for the year ended 31 March 2022

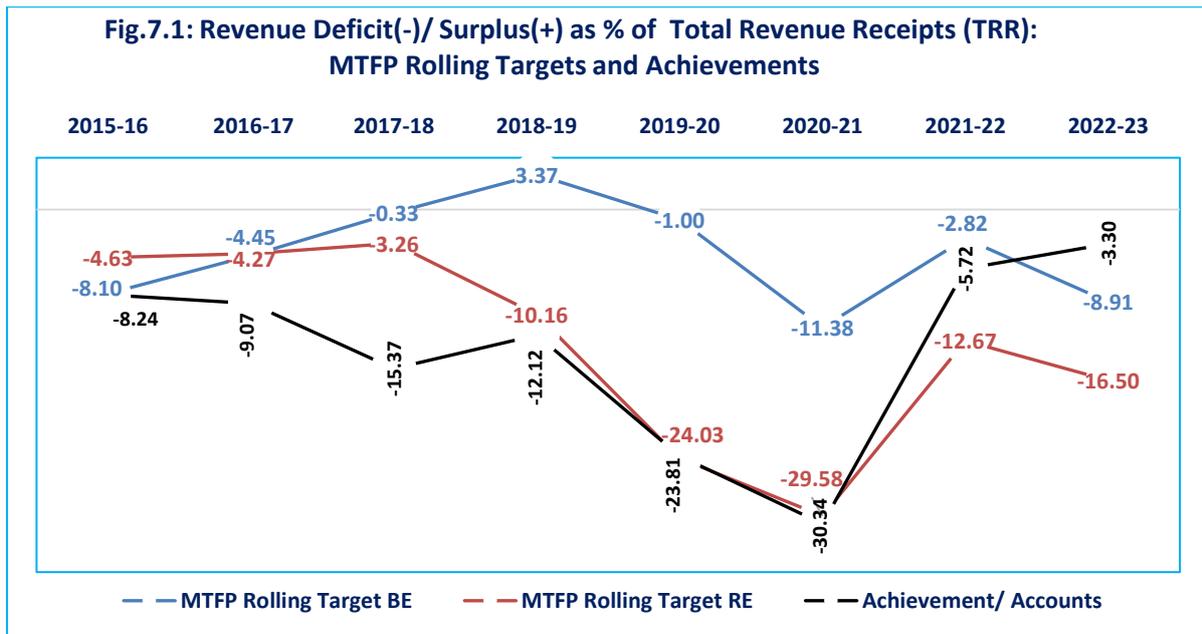
Another point to be noted is that the FRBM target was prescribed excluding the guarantee given by the Government, some of which may become contingent liabilities.

7.16 The purpose of FRBM Act is to promote fiscal discipline, transparency, and accountability in government spending, while the Medium Term Fiscal Policy (MTFP) Statement sets out 3-year rolling fiscal targets. It includes features such as revenue deficit/GSDP ratio, fiscal deficit/GSDP ratio and outstanding debt/GSDP ratio at the end of the year.

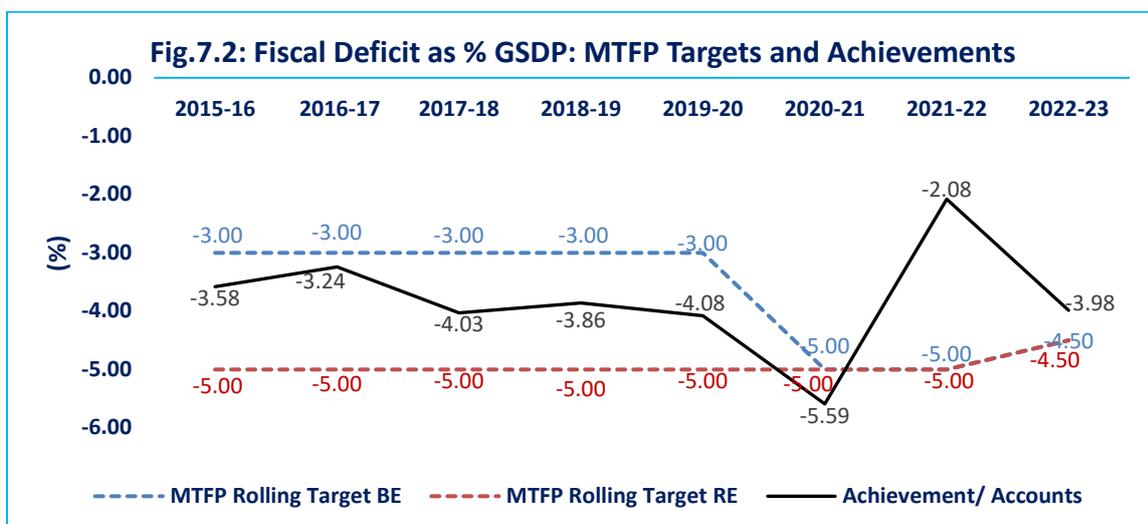
7.17 As per Form F-2, of APFRBM Rules, 2006 (Medium Term Fiscal Policy Statement) - Fiscal Indicators - Rolling Targets and Achievements - are required to be presented. Rolling targets such as BE and RE (Budget Estimates and Revised Estimates) and Achievements (Accounts) with respect to (i) Revenue Deficit (-)/ Surplus (+) as % of Total Revenue Receipts (TRR), (ii) Fiscal Deficit as percentage of GSDP and (iii) Total Outstanding Liabilities as percentage of GSDP are given in Fig. 1, Fig. 2 and Fig.3. This is to illustrate to what extent AP State government has reached the set targets.

7.18 Fig.7.1 shows that in the initial years of State bifurcation, particularly in 2016-17 and 2017-18 Revenue Deficit as % of Total Revenue Receipts were far away from rolling targets of either BE or RE. In subsequent three years (2018-21) they were closer to the rolling targets of Revised Estimates but not Budget Estimates.

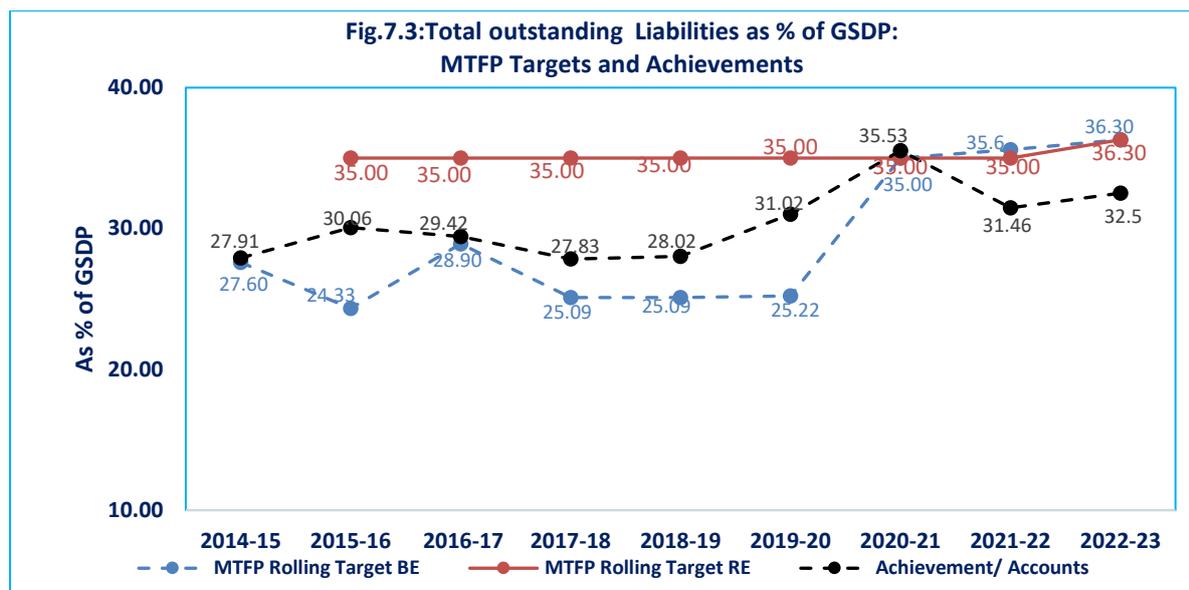
7.19 Though the proportion of Revenue Deficit in Total Revenue Receipts declined to 12.12 per cent in 2018-19 from 15.37 per cent in 2017-18, it has not met the target of 3.37 per cent (BE) set in MTFP statement under AP FRBM Act. Actual Revenue Deficit/ Total Revenue Receipts ratio was higher than the Rolling Targets of Budget Estimates (BE). In 2022-23, Actual Revenue Deficit/ Total Revenue Receipts ratio was far lower than Rolling Targets of Budget Estimates (BE) and Revised Estimates (RE). Variation between Actuals, BE and RE in this year is very abnormal.



7.20 Fig. 7.2 shows that till 2019-20 proportions of Fiscal Deficit in GSDP were far away from the earlier rolling targets (BE) at 3 percent Amendment of FRBM Act, furthermore with the retrospective revision of Fiscal Deficit/ GSDP targets at 5 percent (an increase by 2 percentage points), turned the State from ‘inability to reach the fiscal targets’ into ‘a dubious fiscal performer’. Following the higher targets set in the amended Act, the actuals of Fiscal Deficit/ GSDP ratios were not only within the limits but also showing a much better position – far below to norms. In 2020-21 it was marginally higher than the rolling targets of revised rolling targets RE. While Fiscal Deficit/ GSDP ratios in 2021-22 and 2022-23 were within the norms.



7.21 Fig. 7.3 shows that till 2019-20, barring 2016-17, proportions of Outstanding Liabilities in GSDP were much higher than the earlier rolling targets (BE). In other words, AP state government could not achieve the set targets of FRBM because of the state bifurcation, persistent revenue account imbalances, implementation of UDAY Scheme, its consequences, COVID-19 Pandemic which compelled the state into debt-trap. Because of amendment of FRBM Act, moreover, with the retrospective revision of Outstanding Liabilities / GSDP targets at 35 percent, the State was able to adhere by the targets.



Summing Up

7.22 The State's failure to adhere to targets laid down by the Finance Commissions is a major cause of concern. The amendments to the State FRBM Act raised the annual limits of fiscal indicators substantially, which were highly arbitrary.

7.23 Doubling the limit of annual incremental risk weighted guarantees facilitated the State Government with an additional fiscal space instantly in the short run. But in the long run, it imposes burden on the exchequer by way of debt servicing.

7.24 To conclude, the State is in a serious fiscal imbalance situation. Apart from bifurcation, indiscriminate introduction of welfare schemes has largely contributed to such a situation. Amendment to the FRBM Act without any regard for Finance Commissions' fiscal roadmap is a serious issue.

CHAPTER - 8

Analysis of Contingent Liabilities (Guarantees) of the State

Introduction

The total liabilities of the State, as defined under the FRBM Act of the State, represent (1) the liabilities under the Consolidated Fund of the State and (2) the Public Account of the State. Besides the above, there exists contingent liabilities in the form of Guarantees given by the State Government where the principal and/or interest are to be serviced out of the State budgets.

8.2 The main data sources are mainly CAG's State Finances Audit Report for the year ended March,31 (various years), Statement of Fiscal Policy to be laid on the table of the A.P. State Legislature (various years) and RBI State Finances: A Study of Budgets of 2023-24 and Andhra Pradesh Socio Economic Survey 2022-23. Including introduction, this study consists of 3 sections. Section 2 analyses Contingent Liabilities / Guarantees. Section 3 gives sum up.

Outstanding Amount of Guarantees

8.3 In the FRBM Act that was enacted by Government of Andhra Pradesh in 2005, the targets of fiscal parameters were also set. It was amended in December 2021. Before amendment, 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 Total Revenue Receipts (TRR) in the year preceding the current year. An Amendment of the FRBM Act raised this limit to 180 per cent– a two-fold increase in the limit and also revised the fiscal targets/projections for the years 2021-22 to 2025-26.

8.4 Expanding the scope of limit of annual incremental risk weighted guarantees, however create some fiscal space to the State Government immediately/ in the short run, but there would be an additional burden on the exchequer in the form of debt servicing in the long run.

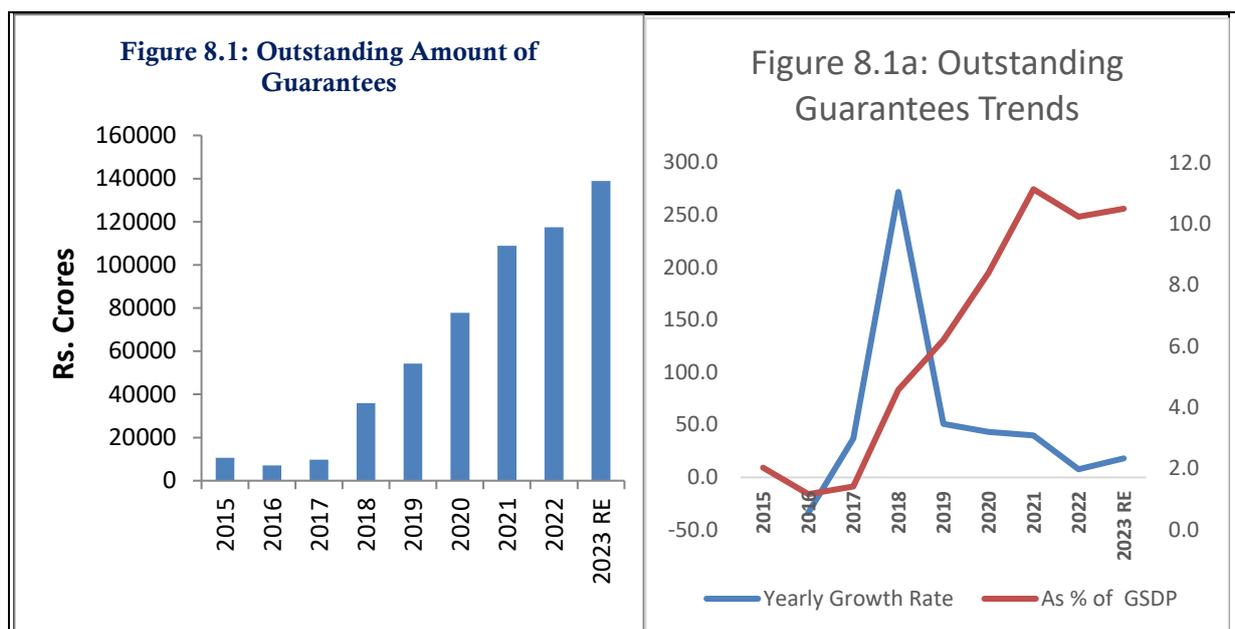
8.5 As has been already mentioned, Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. Table 8.1 shows Outstanding amount of guarantees as at end-March

i.e., by the end of each financial year. Data reveals as at end of March 2015, Outstanding amount of Guarantees stood at Rs. 10,675.0 crore which has rocketed to Rs. 1,38,874.8 crores – an increase by 13 times and by 1201% between 2015 to 2023RE (Table 8.1).

Table 8.1: Outstanding amount of Guarantees as at end-March (Rs. Crore)

year	Outstanding amount of Guarantees (Rs. Crore)	Yearly Growth Rate (%)	As % of GSDP
2015	10,675.0		2.0
2016	7,059.0	-33.9	1.2
2017	9,665.0	36.9	1.4
2018	35,964.0	272.1	4.6
2019	54,253.0	50.9	6.2
2020	77,783.0	43.4	8.4
2021	108,936.0	40.1	11.4
2022	117,503.1	7.9	10.4
2023(RE)	138,874.8	18.2	10.5

Source: Statement 28, Outstanding Guarantees of State Governments RBI State Finances: A Study of Budgets of 2023-24



Source: as per Table 8.1.

8.6 A substantial increase in outstanding amount of Guarantees from Rs. 9664.94 crore in 2016-17 to Rs. 35964.06 crore in 2017-18 – an increase of Rs. 26299.12 crore i.e., 272.11% (Table 8.1, Fig.8.1 and Fig.8.1a). Barring last two years 2022 to 2023 RE, yearly growth rate ranged between 40 and 51 percent. The proportion of outstanding

amount of Guarantees (as at end-March) in GSDP started increasing since 2018 and reached double digit during last three years (2020 to 2023 RE).

8.7 An enormous increase of outstanding amount of Guarantees in 2017-18 over earlier year was (Tables 8.2 and 8.2a) mainly due to

- (i) new guarantees issued by the state government to Municipal and urban development (Rs. 6199.33 crore), Industries, I&I (Rs. 2296.8 crores) total Rs. 8496.13 crore;
- Guarantees under Energy sector increased from Rs. 5344.35 crores in 2016-17 to Rs. 8683.01 crore in 2017-18 – an increase by Rs. 3338.66 crore (**62.47%**).
 - Guarantees to agriculture increased from Rs. 308 crore in 2016-17 to Rs. 13808 crore in 2017-18 – an increase by Rs. 13500 crore (**an increase by 4283.12%**) or 44.83 times over previous year.
 - Guarantees to Cooperatives increased from Rs.137.72 crore to Rs. 356.22crore - an increase by Rs.218.5crores (**158.66% over previous year**).
- (ii) There were no guarantees in sectors such as Housing and other institutions in 2017-18 unlike previous years (2014-17).

Table 8.2: Outstanding amount of Guarantees as at end-March

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Agriculture	119.5	0.0	308.0	13808.0	2087.2	2830.7	3794.7	2020.9	5340.5
Food & Civil Supplies	0.0	0.0	0.0	0.0	20000.0	27000.0	30700.0	30402.4	29900.0
Energy/Power	8585.8	5669.3	5344.4	8683.0	7138.3	15708.7	23390.1	27217.4	38472.9
Co-Operatives	298.6	87.7	137.7	356.2	0.0	0.0	0.0	0.0	0.0
Roads & Transport	371.3	287.9	1243.1	4620.7	0.0	0.0	0.0	0.0	0.0
Excise	0.0	0.0	0.0	0.0	0.0	1400.0	1400.0	1400.0	9589.8
Finance*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22731.3	21840.0
Housing	291.6	174.2	1139.1	0.0	1656.6	3134.1	3045.2	3910.0	3781.5
Industries, I&I	0.0	0.0	0.0	2296.8	3970.4	4041.0	3962.5	3425.0	2848.0
MAUD/ Urban Development	574.2	11.3	0.0	6199.3	10092.5	9816.8	10654.7	11014.5	10713.7
PR & RD	0.0	0.0	0.0	0.0	0.0	980.0	980.0	640.0	640.0
Social Welfare	0.0	0.0	0.0	0.0	815.7	525.7	525.7	329.0	294.2
TR & B#	0.0	0.0	0.0	0.0	4491.8	4763.7	4517.3	5802.5	6926.8
Water Resources	0.0	0.0	0.0	0.0	4000.0	7582.1	8360.1	8610.3	8527.4
Other Institutions	434.2	828.2	1492.7	0.0	0.0	0.0	0.0	0.0	0.0
Total	10675.3	7058.5	9664.9	35964.1	54252.5	77782.8	91330.4	117503.1	138874.8
Composition Outstanding Guarantees as at end-March (%)									
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23

Agriculture	1.1	0.0	3.2	38.4	3.8	3.6	4.2	1.7	3.8
Food & Civil Supplies	0.0	0.0	0.0	0.0	36.9	34.7	33.6	25.9	21.5
Energy-Power	80.4	80.3	55.3	24.1	13.2	20.2	25.6	23.2	27.7
Co-Operatives	2.8	1.2	1.4	1.0	0.0	0.0	0.0	0.0	0.0
Roads & Transport	3.5	4.1	12.9	12.8	0.0	0.0	0.0	0.0	0.0
Excise	0.0	0.0	0.0	0.0	0.0	1.8	1.5	1.2	6.9
Finance*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	19.3	15.7
Housing	2.7	2.5	11.8	0.0	3.1	4.0	3.3	3.3	2.7
Industries, I&I	0.0	0.0	0.0	6.4	7.3	5.2	4.3	2.9	2.1
MAUD/ Urban Development	5.4	0.2	0.0	17.2	18.6	12.6	11.7	9.4	7.7
PR &RD	0.0	0.0	0.0	0.0	0.0	1.3	1.1	0.5	0.5
Social Welfare	0.0	0.0	0.0	0.0	1.5	0.7	0.6	0.3	0.2
TR &B#	0.0	0.0	0.0	0.0	8.3	6.1	4.9	4.9	5.0
Water Resources	0.0	0.0	0.0	0.0	7.4	9.7	9.2	7.3	6.1
Other Institutions	4.1	11.7	15.4	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<p>* for 2021-22 Guarantees given Finance Department pertains to conditional guarantees extended to APS Development Corporation and the guarantees is not in force till date</p> <p># for 2022-23 includes Rs. 2000 crores conditional govt guarantees extended to APRDC for which the govt guarantee not come into force till date & Calculated from the absolute data</p>									

Source: Statement of Fiscal Policy to be laid on the table of the A.P. State Legislature (various years)

8.8 Since 2018-19, there was a stoppage of guarantees to the Departments of (a) Co-Operatives, (b) Roads & Transport and (c) Other Institutions. This was, counterbalanced (though not exactly equalized) by the issuance of new guarantees, in the same year, to the Departments of (i) Food and Civil Supplies, (ii) Social Welfare, (iii) Transport, Roads and Buildings (iv) Water Resources; and issuance of new guarantees to Excise Department and PR &RD started since 2019-20.

Overall, there was an increase in outstanding guarantees year after year (Table 8.2a).

Table 8.2a : Outstanding amount of guarantees As at end-March (Year on Year Growth Rate) (%)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Agriculture	-100.0	0.0	4383.1	-84.9	35.6	34.1	-46.7	164.3
Food and civil supplies	0.0	0.0	0.0	0.0	35.0	13.7	-1.0	-1.7
Energy-power	-34.0	-5.7	62.5	-17.8	120.1	48.9	16.4	41.4
Cooperatives	-70.6	57.1	158.7	-100.0	0.0	0.0	0.0	0.0
Roads & Transport	-22.5	331.8	271.7	-100.0	0.0	0.0	0.0	0.0
Excise	0.0	0.0	0.0	0.0	0.0	0.0	0.0	585.0
Finance*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-3.9
Housing	-40.3	554.0	-100.0	0.0	89.2	-2.8	28.4	-3.3
Industries, I&I	0.0	0.0	0.0	72.9	1.8	-1.9	-13.6	-16.8
MAUD/ urban development	-98.0	-100.0	0.0	62.8	-2.7	8.5	3.4	-2.7
PR & RD	0.0	0.0	0.0	0.0	0.0	0.0	-34.7	0.0
Social welfare	0.0	0.0	0.0	0.0	-35.6	0.0	-37.4	-10.6
TR & B#	0.0	0.0	0.0	0.0	6.1	-5.2	28.4	19.4
Water resources	0.0	0.0	0.0	0.0	89.6	10.3	3.0	-1.0
Other institutions	90.7	80.2	-100.0	0.0	0.0	0.0	0.0	0.0
Total	-33.9	36.9	272.1	50.9	43.4	17.4	28.7	18.2

Source: as per Table 8.2

8.9 The Outstanding Guarantees increased in 2020-21 mainly due to the new guarantees issued by the State Government to AP Markfed (Rs. 1,700 crore), AP State Beverages Corporation Limited (Rs. 1,400 crore), AP Seed Development Corporation (Rs. 1,000 crore), AP Power Development Company Ltd (Rs. 610 crore) and APUFIDC (Rs. 154.92 crore). The State Government has also issued higher guarantees to AP State Civil Supplies corporation (Rs. 7,700 crore), AP Power Finance Corporation (Rs. 5,417 crore), APWRDC (Rs. 4,360.11 crore), AP TRANSCO and DISCOMS (Rs. 3,217.82 crore) in 2020-21 compared to 2019-20. State Government has also extended a Guarantee of Rs. 25,000 crore to APSDC for raising rupee term loans from Scheduled Commercial Banks. However, the

details of this Guarantee were not disclosed in the Budget documents for the year 2021-22 of the Government of Andhra Pradesh¹⁴.

Outstanding Risk - Weighted Guarantees

8.10 While these guarantees help the State to undertake capital expenditure through the State Public Sector Enterprises (SPSEs), they impact State's debt position if there are poor recovery of costs. The risk of repayment burden of these outstanding guarantees are categorized on the basis of weights such as – (1) 100 % (Direct Liabilities), (2) 75% (High Risk), (3) 50% (Medium Risk), (4) 25% (Low Risk) and (5) 5% (Very Low Risk).

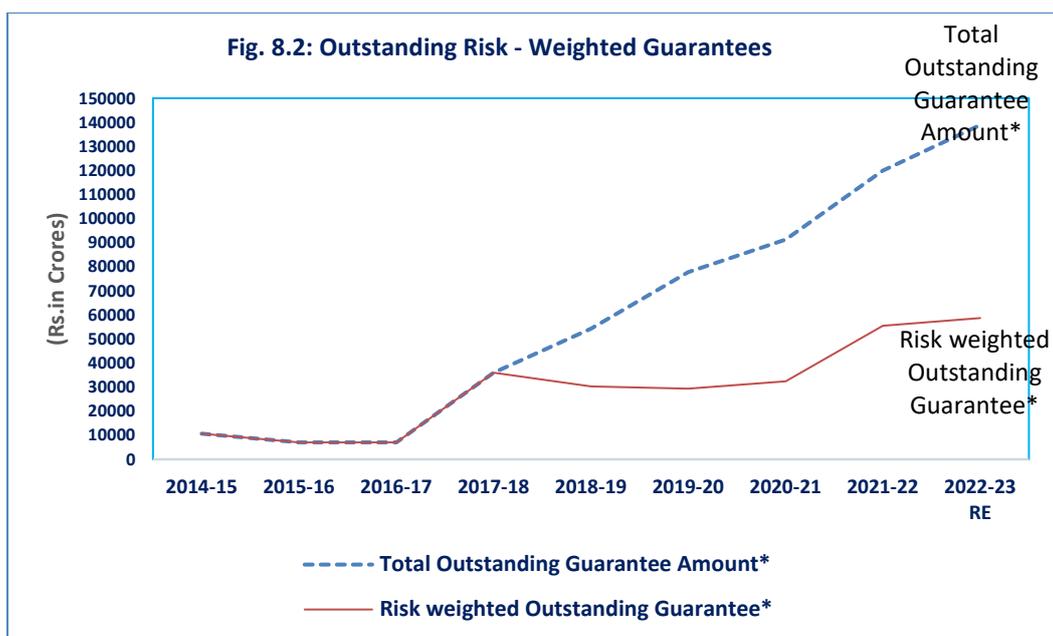
8.11 Table 8.3 and Fig. 8.2 shows proportion of aggregate (sum of all risk weights) Risk weighted outstanding guarantees in Total Outstanding guaranteed Amount. The proportion of Risk weighted Outstanding Guarantee in Total Outstanding Guarantee Amount was 100% in the initial four years (2014-15 to 2017-18) there after it ranged between 36 % (2020-21) and 56% (2018-19).

Table 8.3: Outstanding Risk- weighted Guarantees (Rs. in crores)

year	Total Outstanding Guarantee Amount*	Risk weighted Outstanding Guarantee*	Col 3 as % of Col 2
1	2	3	4
2014-15	10675.3	10675.3	100.0
2015-16	7058.53	7058.53	100.0
2016-17	7058.53	7058.53	100.0
2017-18	35964.1	35964.1	100.0
2018-19	54252.5	30298.0	55.8
2019-20	77782.8	29415.7	37.8
2020-21	91330.4	32442.9	35.5
2021-22	119936.0	55563.6	46.3
2022-23 RE	138874.7	58697.7	42.3
Note: *It is the sum of Direct Liabilities (100%), High Risk (75%), Medium Risk (50%), Low Risk (25%) & Very Low Risk (5%)			

Source: Statement of Fiscal Policy to be laid on the table of the A.P. State Legislature (various years)

¹⁴CAG(2022): State Finances Audit Report for the year ended 31 March 2021, Andhra Pradesh



Source: as per Table 8.3

8.12 Table 8.4 shows year-wise outstanding amount of guarantees and risk of repayment with corresponding weights. In 2014-15, 68 percent of the outstanding amount of Guarantee was under 100% risk of repayment while remaining 32 percent was under risk weight of repayment of 5%. In 2016-17, Risk weighted Outstanding Guarantee at 100% was very high at 80 percent and remaining 20 percent was under very low risk at 5%. Till 2017-18 only these two weights - 100% (*Direct Liabilities*) and 5% (*Very Low Risk*) were being used. In 2017-18, there was only 29 percent of the Risk weighted Outstanding Guarantees under 100% (*Direct Liabilities*); on the other hand 71 percent of Risk weighted Outstanding Guarantees was under *Very Low Risk* at 5% risk weight. Thereafter changes in the relative shares are mainly because of the spread of Risk weighted Outstanding Guarantees across all weights mentioned above.

Table-8.4 Outstanding risk – weighted guarantees

	2014-15		2015-16		2016-17		2017-18		2018-19		2019-20		2020-21		2021-22		2022-23 RE	
RISK WEIGHTS (%)	Outstanding Amount	Risk weighted Outstanding Guarantee	Outstanding Amount	Risk weighted Outstanding Guarantee	Outstanding Amount	Risk weighted Outstanding Guarantee	Outstanding Amount	Risk weighted Outstanding Guarantee	Outstanding Amount	Risk weighted Outstanding Guarantee	Outstanding Amount	Risk weighted Outstanding Guarantee	Outstanding Amount	Risk weighted Outstanding Guarantee	Outstanding Amount	Risk weighted Outstanding Guarantee	Outstanding Amount	Risk weighted Outstanding Guarantee
	(Rs. Crores)																	
100	7274	7274	3246	3246	5669	5669	10356	10356	2744	2744	610	610	610	610	27967	27967	28249	28249
75	0	0	0	0	0	0	0	0	21795	16346	22675	17007	25006	18755	20205	15153	23404	17553
50	0	0	0	0	0	0	0	0	21242	10621	7392	3696	7314	3657	5659	2830	5585	2793
25	0	0	0	0	0	0	0	0	816	204	28738	7185	32507	8127	31542	7885	30107	7527
5	3401	3401	3813	3813	1389	1389	25608	25608	7656	383	18367	918	25894	1295	34564	1728	51529	2576
Total	10675	10675	7059	7059	7059	7059	35964	35964	54252	30298	77783	29416	91330	32443	119936	55564	138875	58698
	Relative Shares (%)																	
100	68	68	46	46	80	80	29	29	5	9	1	2	1	2	23	50	20	48
75	0	0	0	0	0	0	0	0	40	54	29	58	27	58	17	27	17	30
50	0	0	0	0	0	0	0	0	39	35	10	13	8	11	5	5	4	5
25	0	0	0	0	0	0	0	0	2	1	37	24	36	25	26	14	22	13
5	32	32	54	54	20	20	71	71	14	1	24	3	28	4	29	3	37	4
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Note: RISK WEIGHTS (%) : - (100%) DIRECT LIABILITIES; (75%) HIGH RISK; (50%) MEDIUM RISK; (25%) LOW RISK; (5%)VERY LOW RISK																		

Source: Statement of Fiscal Policy to be laid on the table of the A.P. State Legislature (various years)

8.13 Table 8.4 shows that during 2018-19 – 2020-21, a shift from *Direct Liabilities* (100% weight) to *High Risk*(75%), *medium Risk* (50%) and *Low Risk* (25%), made the proportion of *Direct Liabilities* (100% Risk weight) very meagre ranging between 2% (2019-20 and 2020-21) and 9% (2018-19) in total outstanding amount of guarantees. In the last two years of 2021-22 and 2022-23 RE, the proportion of Direct Liabilities was 50 percent and 48 percent respectively.

8.14 Until the year 2020-21, the Government of Andhra Pradesh, in its FRBM Act, had committed to limit the amount of annual incremental guarantees to 90 per cent of the total revenue receipts in the year preceding the current year. Thereafter this ceiling was revised to 180 per cent of the total revenue receipts in the year previous to the current year. Table 8.5

shows that the outstanding guarantees as *per cent* of prescribed limit of revenue receipts of previous year (either 90 percent or 180 percent) remained within the limits.

Ceiling vis-à-vis actual Guarantees

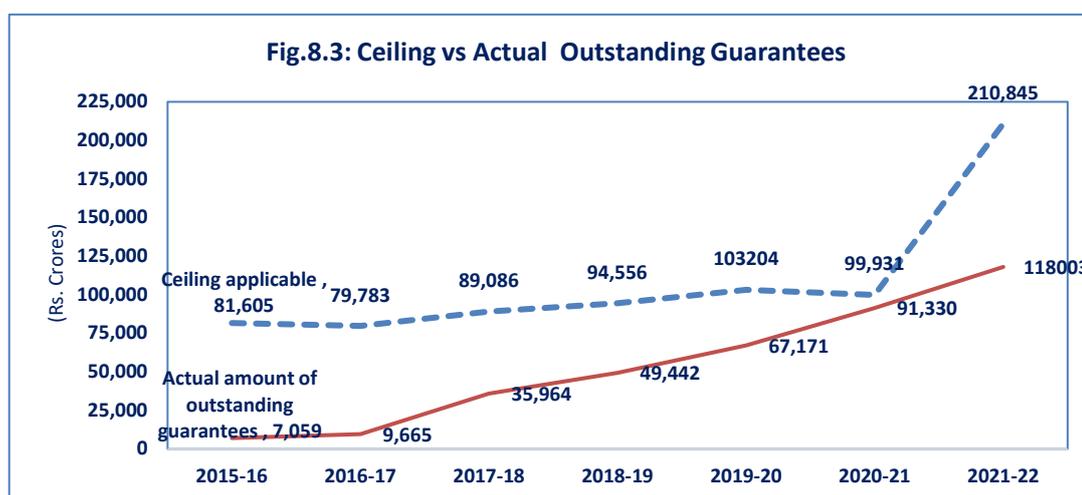
8.15 Increasing the limit of annual incremental risk weighted guarantees by two-fold may provide an additional fiscal space to the State Government immediately or in the short run. But in the long run, the additional burden of debt servicing on the state exchequer is inevitable. Table 8.5 and Fig.8.3 shows ceiling applicability/ Actual Guarantees during 2015-16 to 2021-22. It is evident that there is a continuous and considerable increase in the proportion of Actual Guarantee to applicable ceiling. In 2020-21 the proportion of Actual Guarantees in applicable ceiling is 91.4 percent and in 2021-22 its proportion was 56 percent- within the limits of the ceiling.

Table 8.5: Ceiling vis-à-vis actual Guarantees (Rs. Crores)

Ceiling applicability/ Actual Guarantees		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
1	(1) to the outstanding amount of guarantees (90 per cent of the total revenue receipts in the year preceding the current year) up to the year 2020-21 (2) and 180 per cent to the revenue receipts of the previous year for 2021-22	81,605	79,783	89,086	94,556	103,204	99,931	210,845
2	Actual amount of outstanding guarantees	7,059	9,665	35,964	49,442	67,171	91,330	118,003
3	Actual Guarantee as% of Ceiling (2 as% of 1)	8.7	12.1	40.4	52.3	65.1	91.4	56.0

Note: for 2014-15 cannot be calculated as the data of the year before that (2013-14) was related to undivided Andhra Pradesh. Data regarding guarantees after 2021-22 not available

Source: CAG Andhra Pradesh: State Finances Audit Report for the year ended 31 (various years)



Source: as per SSource Table 8.5

Summing Up

8.16 The amendment of AP FRBM Act (2005) in 2020 widened the scope of amount of annual incremental risk weighted guarantees to 180 percent of TRR in the year preceding the current year from earlier 90 percent.

8.17 The study reveals that Outstanding number of Guarantees showed an increase by 13 times and by 1201% between 2015 and 2023RE. There was a significant increase in outstanding amount of Guarantees in 2017-18 over earlier year. Issuance of new Guarantees to Excise Department and PR & RD started since 2019-20. Net result of stoppage, initiation and continuation Guarantees to the departments led to an increase in Outstanding amount of Guarantees year after year. It also reflected in the composition (relative shares) of the outstanding Guarantees.

8.18 Increase in the limit of guarantees from 90 per cent of previous year's revenue receipts to 180 per cent is discretionary and goes against the principles of sound fiscal management.

8.19 A shift from Direct Liabilities (100% weight) to High, medium and Low Risk liabilities brought down the proportion of Direct Liabilities (100% Risk weight) in total outstanding amount of guarantees to very meagre - ranging between 2% (2019-21) to 9% (2018-19). In the last two years the proportion of Direct Liabilities was 50 percent and 48 percent respectively.

8.20 The amount of annual incremental risk-weighted guarantees to RR in the year preceding the current year was within the prescribed limits of earlier or revised FRBM Act.

8.21 Two-fold increase in the limit of annual incremental Risk Weighted Guarantees created substantial fiscal space to the State Government immediately or in the short run. In the long run, it denotes severe stress on the exchequer by way of debt servicing if the State opts to have access to funds by using the increased limits.

CHAPTER – 9

State Subsidies

Introduction

State subsidies can have a major impact on promoting the welfare of the poor, provided they are properly targeted, designed and implemented. If these conditions are not met, subsidies end up being costly and impose an additional burden on the tax payers without serving any useful purpose. In reality, most of the subsidies at the State level suffer from inclusion and exclusion errors, the former being more common than the latter. The Discussion Paper on Subsidies by the Government of India (1997) described the subsidy regime in India as unduly large, non-transparent, largely input-based and poorly targeted, generally regressive, and inducing waste and misallocation of resources.

9.2 Subsidies are generally categorised into two categories, namely merit and non-merit. The distinction between the two is normally made on the basis of extent of externalities associated with a subsidy. Determining the degree of subsidisation depends on the elasticities of social and private demand, the extent of externalities, the associated cost and supply functions and the relative preference of the society to the distributional objectives (NIPFP, 2003). In addition, there are cash transfers to individuals which are income supplements. Normally, in a budgetary context, unrecovered costs of public provision of goods are taken as subsidies. The analysis presented in this chapter is based on the expenditure on subsidies collected from the Finance Accounts of the State of Andhra Pradesh.

Trends in Subsidies

9.3 In Andhra Pradesh, there was a steep increase in subsidies from Rs. 6,360 crore in 2015-16 to Rs. 23,004 crore in 2022-23, nearly four-fold increase in a span of eight years. In the first four years of the reorganisation of the State, nearly three-fourth of the expenditure on subsidies was incurred on assistance to A.P. Transmission Corporation and supply of subsidised rice. Agriculture and allied sectors accounted for about 10 per cent of the expenditure on subsidies, particularly on supply of seeds, farm mechanisation, micro irrigation and promotion of horticulture crops (Table 9.1).

9.4 There is a distinct shift in the composition of subsidies since 2019-20. Expenditure on subsidies ballooned from Rs. 6,343 crore in 2019-20 to Rs.23,004 crore in 2022-23. This is entirely on account of two decisions taken by the Government to provide 9-hour free electricity to farm sector and launching of 'YSR Rythu Bharosa.' Under the Rythu Bharosa scheme implemented from October 15, 2019, an assistance of Rs.13,500 per annum is being provided to each farmer family including tenant farmer family.

Table 9.1: Subsidies in Andhra Pradesh (Rs. in crores)

Items	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Municipal Administration and Urban Development	0	0	0	0	0	0	0	236	234
Y.S.R Interest free loans to urban Self Help Groups	0	0	0	0	0	0	0	236	234
Social Welfare	51	67	181	138	128	232	256	251	295
of which Providing free power to SC Households.	35	38	131	138	103	212	236	241	292
Tribal Welfare	16	14	24	41	26	39	56	12	35
of which Reimbursement of Electricity Charges	0	14	24	41	26	39	56	10	33
Agriculture	453	633	652	838	398	366	181	4109	4274
of which: Supply of Seeds to Farmers	102	179	160	252	80	187	181	0	1
Integrated Nutrient Management	39	83	41	59	60	0	0	0	0
Farm Mechanization	106	137	132	146	114	170	0	0	5
Promotion of Horticulture Activities	2	100	74	97	128	0	0	14	3
Andhra Pradesh Micro Irrigation Project (NABARD)	0	75	200	200	0	0	0	0	0
Y.S.R Interest free Loans to Farmers	0	0	0	0	0	0	0	244	276
YSR Rythu Bharosa	0	0	0	0	0	0	0	3826	3989
Energy	2188	3186	2750	3000	1250	5248	4370	8504	9966
of which: Assistance to Transmission Corporation of Andhra Pradesh Ltd. for Agricultural and allied Subsidy	2188	3186	2750	3000	1250	0	0	0	0
Y.S.R Nine Hours Free Power Supply	0	0	0	0	0	4920	4038	8006	9351
Assistance to AP TRANSCO Ltd. For providing subsidy to Aquaculture Farmers	0	0	0	0	0	328	332	498	615
Civil Supplies Administration	1506	2380	2470	3056	340	396	0	503	7404
of which: Subsidy on Rice	1458	2300	2352	2706	200	146	0	503	7398
Other subsidies for Other Departments	26	80	168	73	209	62	85	1074	797
Total	4241	6360	6246	7146	2352	6343	4948	14689	23004

Source: C& AG Finance Accounts

Indicators of Subsidy Burden

9.5 Expenditure on subsidies as a percentage of own tax revenue, own revenue receipts, to total revenue receipts and revenue expenditure was at an elevated level in the first four years of the formation of the State. In 2018-19, expenditure on subsidies as a percentage of own tax revenue and own revenue receipts declined by over 10 percentage points. Expenditure on subsidies picked up substantially in the election year of 2019-20. In the last two years of 2021-22 and 2022-23 for which audited accounts are available, expenditure on subsidies rose to an alarming level. In 2021-22 and 2022-23, subsidies consumed 20.7 per cent and 29.5 percent of own tax revenues, respectively. In 2022-23, subsidies represented 14.6 per cent and 11.4 per cent of total revenue receipts and total revenue expenditure, respectively. The unprecedented increase in subsidies was on account of the new schemes introduced as explained in the previous paragraph (Table 9.2).

Table 9.2: Expenditure on subsidies as a percentage of Own Tax Revenue, Own Revenue Receipts, total Revenue Receipts and Revenue Expenditure

Year	Own Tax Revenue	Own Revenue Receipts	Total Revenue Receipts	Revenue Expenditure
2014-15	14.2	11.1	6.5	5.3
2015-16	15.9	14.2	7.2	6.6
2016-17	14.1	12.7	6.3	5.4
2017-18	14.4	13.4	6.8	5.9
2018-19	4.1	3.8	2.1	1.8
2019-20	11.0	10.4	5.7	4.6
2020-21	8.6	8.1	4.2	3.2
2021-22	20.7	19.3	9.8	9.2
2022-23	29.5	27.6	14.6	11.4

Source: C& AG Finance Accounts

Subsidies in Southern States

9.6 Details of expenditure on subsidies in southern States are presented in Table 9.3. In absolute terms expenditure on subsidies is higher in the States of Karnataka and Tamil Nadu as compared with Andhra Pradesh. The subsidies are at a lower level in all the years from 2018-19 to 2021-22 in Kerala and Telangana. As the data for the years 2022-23 and 2023-

24 are revised and budget estimates, respectively, these years are not considered for the purpose of comparison.

**Table 9.3: Subsidies in Southern States
(Rs.in crore)**

State	2018-19	2019-20	2020-21	2021-22	2022-23 (RE)	2023-24 (BE)
Karnataka	15400	17534	18432	28219	22754	45402
Kerala	1652	1378	6300	4154	1847	2190
Tamil Nadu	18922	20144	107005	115982	118841	122088
Telangana	6304	6839	12023	13187	14823	16199
Total	50207	54011	151093	169368	166847	185879

Source: C& AG Finance Accounts

9.7 At the aggregate level, subsidies in the remaining four southern States as a percentage of all types of revenue receipts and revenue expenditure are at a higher level than in Andhra Pradesh (Table 9.4).

Table 9.4: Expenditure on Subsidies in Southern States as Percentage of their Own Tax Revenue, Own Revenue Receipts, Total Revenue Receipts and Revenue Expenditure

Year	Own Tax Revenue	Own Revenue Receipts	Total Revenue Receipts	Revenue Expenditure
2018-19	15.7	13.9	9.4	8.8
2019-20	16.5	14.7	10.0	9.0
2020-21	47.6	43.3	27.8	22.9
2021-22 (RE)	43.1	38.8	26.2	22.7
2022-23 (BE)	35.3	31.0	21.8	21.1

Source: C& AG Finance Accounts

Issues in Quantification of Subsidies

9.8 The data relating to subsidies published in the Finance Accounts relate to expenditure booked under the Sub-Minor Head, 315 (subsidies). These data do not capture information relating to a number of welfare schemes, such as, provision of housing to the poor, scholarships to students, mid-day meals, supplementary nutrition, pensions to the old

and disabled, interest free loans, etc. Pensions and scholarships are basically in the nature of direct transfers and are distinct from subsidies. Transfers to an individual will supplement his/her income and there are no restrictions on the end use. In the following section, an attempt is made to quantify the transfer payment so as to get a complete picture of expenditure on subsidies and transfers.

Income Transfers

9.9 Details regarding transfers other than subsidies are presented in Annexure 9.1. A summarised version of transfers is presented in Table 9.5. These transfers have been exhibiting an increasing trend from Rs. 68 crore in 2014-15 to Rs. 17,853 crore in 2022-23. Some of the welfare schemes had been renamed in 2019-20. For instance, NTR Aarogya Seva was renamed as YSR Aarogya Sri and NTR Pensions had been renamed as YSR pensions. The fiscal burden of these transfers along with the subsidies is very substantial.

Table – 9.5: Expenditure on Transfers (Rs. in crore)

S.N	Scheme	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
1	Aadarana					280	121			
2	Anna Canteens			28	109	200	100			
3	Assignment of ARET revenue to APSDC Ltd								3220	3741
4	Assistance to A.P.S.R.T.C. towards Reimbursement of concessions extended to various categories of citizens			125	151	290	97			
5	Assistance to Andhra Pradesh Road Development Corporation (APRDC)	164	212			240	251			
6	Assistance to Andhra Pradesh State Minorities Finance Corporation Ltd.,			75	75	12	1297			
7	Assistance to SHG/DWACRA Women Groups for payment of interest		999							
8	Distribution of L.P.G Connection to women in rural areas/municipal areas			117	350					
9	Dr. NTR Arogya Seva			1302	1000					
10	Dr. Y.S.R Aarogyasri	0	0	0	0	0	1305	1225	266	445
11	Economic Support Schemes	303	448	0	847	307	3908	0	0	0
12	Educational Institutions	65	132							
13	Farm Mechanization	106	137							

14	Incentives to Industries	158	253	462	1211	0	83	841	280	191
15	Incentives for providing Nutrition to Mothers and School Children	0	0	104	61	159	6703	354	542	468
16	Jagananna Fee Reimbursement Programme	0	0	0	0	0	2075	366	0	293
17	NTR Pension Scheme	-300	5253	4711	5890	0	0	0	0	0
18	Scholarship and Fee Reimbursement Programme	-481	2305	935	3321	0	0	0	0	0
19	Providing free power to SC Households.			131	138	103	212	236	241	292
20	Scheme for relief and welfare of Fishermen belonging to Scheduled Castes			34	59					
21	Subsidy for Bank Linked Income Generated Schemes			78	100	72				
22	Subsidy on Rice (Human Resources Development)			2352	2706	200	146		503	7398
23	Supply of Eggs to 1st to 10th Class Students					150	192			
24	Weaker Section Housing	53	249	174	366	125	486	46	0	0
25	Welfare of Kapus			1000	739	32	1475	829		
26	YSR Bima									93
27	YSR GruhaVasathi						3372	6279	138	100
28	YSR Kalyana Kanuka						102			
29	YSR Pension	0	0	0	0	0	0	16711	10676	3812
30	YSR Sampoorna Poshana	0	0	0	0	0	0	647	750	1019
	Total	68	9988	11628	17123	2171	21922	27534	16617	17853

Source: C&AG Accounts of Various Years

Note: 1) Subsidy for Bank Linked Income Generated Schemes for Various dept for the year 2017-18 stood at 100 crores.

2) Subsidy for Bank Linked Income Generated Schemes for minority welfare dept for the year 2018-19 stood at 72 crores.

9.10 The expenditure on transfers constituted as much as 21.4 per cent of own revenue receipts and 8.9 per cent of total expenditure in 2022-23 (Table 9.6). This expenditure and subsidies pre-empted 49 per cent of own revenue receipts in 2022-23.

Table 9.6: Expenditure on welfare transfers as percentage of Own Tax Revenue, Own Revenue Receipts, Total Revenue Receipts and Revenue Expenditure.

Year	Own Tax Revenue	Own Revenue Receipts	Total Revenue Receipts	Revenue Expenditure
2014-15	0.2	0.2	0.1	0.1
2015-16	25.0	22.3	11.3	10.4
2016-17	26.3	23.6	11.7	10.0

2017-18	34.6	32.1	16.3	14.1
2018-19	3.9	3.7	2.0	1.8
2019-20	38.1	36.0	19.7	15.9
2020-21	48.0	45.3	23.5	18.0
2021-22	23.4	21.9	11.0	10.4
2022-23	22.9	21.4	11.3	8.9

Source: C & AG Accounts of Various Years

9.11 It may be relevant to mention here that the Government of Andhra Pradesh enacted ‘The Andhra Pradesh Guaranteed Pension Act in 2023. Under the Act, the Government will provide top-up amount to ensure a monthly guaranteed pension at the rate of 50 per cent of the last basic pay drawn, in case of a shortfall in the annuity received by the retired employee under the New Pension Scheme.

9.12 Recently, the Government of Andhra Pradesh has taken a decision to enhance the pensions to the aged, widows, weavers, toddy tappers, fishermen, single women, traditional cobblers, transgender, persons with HIV, Dappu artists and artists from Rs.3,000 per month to Rs.4,000 per month. For the disabled and leprosy patients, the pension has been enhanced from Rs.3,000 to Rs.6000 per month. For the totally disabled, the increase in the monthly pension is from Rs.5000 to Rs.15,000 per month. For persons with chronic ailments, the increase in the monthly pension is from Rs.5,000 to Rs.10,000.

9.13 The enhanced pension to aged, widows and single women and fishermen is payable from April, 2024 and for other categories, the enhanced rates are applicable from July, 2024. The election manifesto of the TDP Party which formed the Government in June, 2024 has promised ‘Super Six’. These include provision of 20 lakh jobs to the youth, an unemployment allowance of Rs.3,000 per month, Rs.15,000 per annum to all school going children, Rs.1,500 per month to all women in the age group of 15-59, three gas cylinders per household every year and free travel for women in Road Transport Corporation buses. These will add to the subsidy burden of the State Government.

Summing Up

9.14 The extent of subsidies and transfer payment is a matter of serious concern given the deficit on the revenue account and precarious fiscal situation. To start with, subsidies and

transfers, more particularly pensions should be rationalised and properly targeted. Over the next few years, some of the subsidies and freebies which are not welfare enhancing should be weeded out. The Finance Commission may examine the serious implication of the growing subsidies and even recommend a cap on subsidies as a percentage of total expenditure. Such a restriction can even become part of the fiscal responsibility and budget management framework. Consensus building needs to be attempted as to what sort of transfers are in the nature of freebies. This may act as a deterrent on the growing culture of subsidies and freebies.

Annexure 9.1.

S.N	AP STATE SCHEME	Expenditure Rs. In Crores								
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
1	Aadarana	0	0	0	0	280	121	0	0	0
2	Andhra Pradesh Rural Inclusive Growth Project (APRIGP)	0	0	97	190	115	0	0	0	0
3	Andhra Pradesh Emergency Response Services - 108 Ambulance Services	0	0	0	0	0	96	137	0	0
4	Anna Canteens	0	0	28	109	200	100	0	0	0
	A.P. Municipal Development Project	0	292	0	0	0	0	0	0	0
5	Aqua Produce Processing (Fish & Shrimp)	0	0	0	0	0	0	0	8	50
6	Area Project / Indian Population Project.VI	0	0	0	0	0	0	0	12	15
7	Assignment of ARET revenue to APSDC Ltd	0	0	0	0	0	0	0	3220	3741
8	Assistance to A.P.S.R.T.C. towards Reimbursement of concessions extended to various categories of citizens	0	0	125	151	290	97	0	0	0
9	Assistance to Andhra Pradesh Road Development Corporation (APRDC)	164	212	0	0	240	251	0	0	0
10	Assistance to Andhra Pradesh State Minorities Finance Corporation Ltd.,	0	0	75	75	12	1297	0	0	0
11	Assistance to Andhra Pradesh Mahila Sadhikara Samstha (APMSS)	0	0	410	402	0	0	0	0	0
12	Assistance to Andhra Pradesh Township & Infrastructure Development Corporation Ltd., (APTIDCO)	0	0	0	0	678	457	0	840	1362
13	Assistance to Andhra Pradesh Transmission Corporation Ltd. For servicing of Vidyut Bonds	0	0	375	261	588	1101	1053	0	0
14	Assistance to AP Transmission Corporation Ltd for Compensating the losses as per the UDAY Scheme	0	0	0	0	0	430	0	0	0
15	Assistance to Society for Elimination of Rural Poverty (SERP)	322	214	0	0	0	271	482	442	428
16	Assistance to the Andhra Pradesh Residential Educational Institutions Society	0	0	0	0	117	120	0	0	0
17	Assistance to Andhra Pradesh Vaidya Vidhana Parishad	0	0	474	400	0	0	0	0	0
18	Assistance to Farmers for Purchase of Agricultural Inputs	0	0	6	70	0	0	0	0	0

19	Assistance to Panchayat Raj Bodies for maintenance of Comprehensive Piped Water Supply Schemes	0	0	4	149	0	0	0	0	0
20	Assistance to Panchayat Raj Bodies towards maintenance of Satya Sai CPWS Schemes in Anantapur	0	0	0	63	0	0	0	0	0
21	Assistance for Unanimously Elected Grama Panchayats	0	128	0	0	0	0	0	0	0
22	Assistance to SHG/DWACRA Women Groups for payment of interest	0	999	0	0	0	0	0	0	0
23	Assistance to Society for Employment Generation and Enterprise Development in AP (SEEDAP)	0	0	51	65	0	0	0	0	0
24	Assistance to Transmission Corporation of Andhra Pradesh Ltd. for Agricultural and allied Subsidy	0	0	2750	3000	0	0	0	0	0
25	BC Abhyudaya Yojana	0	0	233	66	0	0	0	0	0
26	Bore Wells under YSR Rythu Bharosa	0	0	0	0	0	0	0	74	49
27	Buildings	136	188	0	0	0	0	0	0	0
28	Capital Region Social Security Fund	0	0	0	0	0	41	65	0	0
29	Capital Infusion to DWACRA Women Groups	0	2660	2106	2471	0	0	0	0	0
30	Centralized Purchase of Drugs and Medicines	0	0	0	0	0	180	400	15	234
31	Chintalapudi Lift Irrigation Scheme	23	292	0	0	0	0	0	0	0
32	CM Call Center	0	0	0	0	0	0	0	50	62
33	combating Covid-19	0	0	0	0	0	0	228	0	0
34	Comprehensive Financial Management System (CFMS)	0	0	0	0	47	117	121	0	0
35	Construction and Restoration of Minor Irrigation Sources	112	127	0	0	134	114	0	0	0
36	Construction and Development of Road Works under RIDF	132	210	0	0	0	0	0	0	0
37	Construction of (IHHL) individual House Hold Lavatories under Swachh Bharath in all Nagarapanchayats, Municipalities/Corporation	60	124	0	0	0	0	0	0	0
38	Construction of Buildings for Residential School Complex	178	143	0	0	0	0	0	0	0
39	Construction of Medical Buildings	132	221	0	0	0	0	0	0	0
40	Cost sharing with Railways for construction of New Railway Lines	0	302	0	0	0	0	0	0	0
41	Convergence Schemes under Mahatma Gandhi	0	0	0	0	0	64	100	0	0

	National Employment Guarantee Act									
42	Core network roads under Andhra Pradesh Road Development Corporation	240	370	92	389	1	113	179	0	0
43	Corridor Development Program - APTRANSCO Component Residential Schools for Tribals	0	0	0	0	0	216	0	0	0
44	Crop Loans for Farmers (Pavala Vaddi)	0	0	0	0	0	1	52	0	0
45	Development of Other Sources of Energy (NEDCAP)	0	0	2	69	0	0	0	0	0
46	Distribution of L.P.G Connection to women in rural areas/municipal areas	0	0	117	350	0	0	0	0	0
47	Dr. Nandamuri Taraka Ramarao Arogya Seva	0	0	1302	1000	0	0	0	0	0
48	Dulhan	0	0	49	60	0	0	0	0	0
49	Door Delivery of Rice	0	0	0	0	0	0	0	48	200
50	Dr YSR Arogya Aasara - POP	0	0	0	0	0	0	200	266	445
51	Dr. Y.S.R Aarogyasri	0	0	0	0	0	1305	1025	0	0
52	Economic Support Schemes	303	448	0	0	47	1003	0	0	0
53	Economic Support Schemes - APSCCF Ltd.	0	0	0	847	260	2905	0	0	0
54	Educational Institutions	65	132	0	0	0	0	0	0	0
55	Embankments	180	166	0	0	0	0	0	0	0
56	e-Pragati	0	0	0	0	0	0	0	47	16
57	e-Governance Authority, Electronics & IT Agency, Innovation Society	0	0	0	137	0	0	0	0	0
58	Family Welfare Centres	110	166	0	0	216	230	233	237	279
59	Farm Mechanization	106	137	0	0	0	0	0	0	0
60	Financial Assistance to Andhra Pradesh Corporation for Welfare and Development of Most Backward Classes	0	0	0	60	0	0	0	0	0
61	Financial Assistance to Andhra Pradesh State Backward Classes Co-operative Finance Corporation	0	0	9	315	0	0	0	0	0
62	Financial Assistance to DWCRA (SHG) Groups	0	0	0	0	0	1334	0	0	0
63	Financial Support to Agrigold Victims	0	0	0	0	0	264	0	0	0
64	GadapaGadapaku Mana PrabhutvamProgramme	0	0	0	0	0	0	0	0	70
65	Grama Sachivalayam	0	0	0	0	0	953	0	0	0
66	Godavari Delta System	149	161	0	0	0	0	0	0	0
67	Handri Niva Sujala Sravanthi	441	640	0	0	0	0	0	0	0
68	Honorarium to Asha Workers	0	0	0	0	0	350	313	337	326
69	Incentives for Industrial Promotion	131	117	317	846	0	0	0	268	55
70	Incentives for Industrial Promotion for Micro Small	0	0	0	0	0	0	673	0	0

	and Medium Enterprises (MSMEs)									
71	Incentives to Food Processing Industries	0	0	100	250	0	0	0	0	76
72	Incentives to Imams and Mouzans	0	0	0	0	0	0	0	79	89
73	Incentives to IT & Electronics Industries/ Organizations	0	0	0	0	0	0	0	12	60
74	Incentives to the S.C. Entrepreneurs for Industrial Promotion	0	0	45	116	0	83	168	0	0
75	Infrastructure facilities in ULBs under CIIP	0	0	0	0	0	100	88	0	0
76	Information Technology, Electronics & Communications Department	28	136	0	0	0	0	0	0	0
77	Integrated Child Development Service (ICDS)	0	0	0	0	0	682	674	0	0
78	Interest Free Loans to DWACRA Women (VaddileniRunalu)	0	0	110	687	0	0	975	0	0
79	Insurance/Pension Scheme to DWACRA Women (Anna Abhaya Hastam)	0	0	104	61	0	0	0	0	0
80	Interest free Loans to Farmers (Vaddi Leni Runalu) & Crop Insurance	0	0	172	172	0	0	0	0	0
81	Interest on Loans taken over of FRP bonds from Discoms	0	0	0	83	0	0	0	0	0
82	Interest on Loans taken over under UDAY Scheme	0	0	0	331	0	0	0	0	0
83	Investments in Andhra Pradesh Backward Classes Co-operative Finance Corporation	30	160	176	300	0	0	0	0	0
84	Investments in Andhra Pradesh Urban Development Fund	0	0	0	100	0	0	0	0	0
85	Jagananna Amma Vodi - Incentives to Mothers of School going children	0	0	0	0	0	6349	0	0	0
86	Jagananna Gorumudda - Mid- Day Meal Additional Menu	0	0	0	0	0	0	203	455	408
87	JaganannaGorumudda - Nutritious Meals Programme (MDM)	0	0	0	0	0	0	90	0	0
88	Jagananna Gorumudda - Nutritious Meals Programme (PM-Poshan) - Cook-Cum-Helpers	0	0	0	0	0	0	0	0	163
89	Jagananna Vidya Deevana (RTF) to Backward Classes Studendts	0	0	0	0	0	380	0	0	0
90	Jagananna Vidya Deevana (RTF) to SC Students	0	0	0	0	0	108	0	0	0
91	Jagananna Vidya Deevana Economically Backward Classes (EBC) Students	0	0	0	0	0	1587	0	0	0
92	Jagananna Vidya Kanuka	0	0	0	0	0	0	0	0	293

93	Jagananna Vidya Kanuka - Samagra Shiksha - Student Kit	0	0	0	0	0	0	366	0	0
94	Jagananna Gorumudda - Nutritious Meals Programme for IX and X Class	0	0	0	0	99	139	61	87	60
95	Kadapa Annuity Projects	103	128	0	0	0	0	72	13	11
96	Krishna Delta System	138	310	0	0	0	0	0	0	0
97	Land Pooling for New State Capital	144	258	0	0	0	187	190	195	207
98	Lift Irrigation Works	178	225	0	0	0	125	61	0	0
99	Live Stock Loss Compensation	0	0	0	0	0	0	50	0	0
100	Major District Roads	467	680	0	0	0	0	0	0	0
101	Mission for Elimination of Poverty in Municipal Areas (Velugu) – Urban	0	0	0	0	0	10	53	48	66
102	Mobile Medical Units (104 Services)	0	0	0	0	0	0	120	119	109
103	Model Schools	0	0	0	0	0	224	236	251	327
104	Model Town Projects	0	0	0	0	0	0	0	0	97
105	Nagarjunasagar Project	157	676	0	0	0	0	0	0	0
106	NAADU NEEDU - Infrastructure facilities for Hospitals	0	0	0	0	0	0	1969	155	56
107	Neeru - Chettu	0	0	1232	977	2215	161	0	0	0
108	NTR Pensions to Disabled Persons	-88	817	762	986	0	0	0	0	0
109	NTR Pensions to old age persons & widows	-213	4436	3948	4904	0	0	0	0	0
110	Nutrition Programme	0	0	268	352	0	0	0	0	0
111	New Tourism Projects	0	0	0	0	0	0	0	66	47
112	Panchayat Raj Roads	0	0	0	0	0	143	332	0	0
113	Panchayat Raj Roads under RIDF Programme	0	0	0	0	127	106	0	0	0
114	Polavaram Barrage (Indira Sagar Project)	349	3046	0	0	0	0	0	0	0
115	Poola Subbaiah Valigonda Project	202	315	0	0	0	0	0	0	0
116	Post-Matriculation Scholarships (MTF)	-157	270	302	452	0	0	0	0	0
117	Post-Matriculation Scholarships (RTF)	-38	126	0	1745	0	0	0	0	0
118	Pradhana Mantri Krishi Sinchayi Yojana (PMKSY)	0	0	0	0	0	63	126	0	0
119	Price Stabilization Fund	0	0	0	0	0	357	525	0	0
120	Primary Health Centres	0	0	0	0	680	730	0	0	0
121	Providing free power to SC Households.	0	0	131	138	103	212	236	241	292
122	Providing infrastructure facilities in Schedule Caste localities of ULBSs	0	0	202	257	0	0	0	0	0
123	Providing infrastructure facilities in Schedule Tribes localities of ULBSs	0	0	2	6	0	0	0	0	0
124	Public Health Schemes	0	0	0	0	0	161	0	0	0
125	Pulivendula Area Development Agency	0	0	0	0	0	10	69	0	0
126	Reimbursement of Tuition Fee to Economically	0	0	632	1124	0	0	0	0	0

	Backward Classes (EBC) Students									
127	Restoration of Rural Roads and Cyclone Shelters (P.R Dept.) under APDRP	0	0	0	65	0	0	0	0	0
128	Rajahmundry Airport	0	267	0	0	0	0	0	0	0
129	Rehabilitation and Supply of Prosthetic Aids to Differently Abled	0	0	0	0	0	0	0	8	14
130	Reimbursement of Electricity Charges	0	0	0	0	0	0	0	10	33
131	Reimbursement of Tuition Fee	-193	900	0	0	0	0	0	0	0
132	Reimbursement of Tuition Fee to Economically Backward Classes (EBC) Students	-100	574	0	0	0	0	0	0	0
133	Restoration of Minor Irrigation Tanks	71	533	0	0	0	0	0	11	15
134	Rural Water Supply Schemes	0	0	0	0	0	44	144	0	0
135	Rythu Bharosa Kendralu	0	0	0	0	0	0	0	13	15
136	RythuSadhikaraSamstha	0	0	0	0	0	120	0	0	0
137	Scheme for relief and welfare of Fishermen belonging to Scheduled Castes	0	0	34	59	0	0	0	0	0
138	Skill Development Training Programmes	0	400	300	259	0	78	53	27	40
139	Smart Cities	0	0	0	0	16	570	0	0	0
140	Somasila Project	82	260	0	0	0	0	0	0	0
141	Special Development Fund for welfare and development activities	350	350	173	232	0	0	0	125	96
142	Special Nutrition for Malnourished Children and Mothers	0	0	0	0	60	214	0	0	0
143	Sri Krishna DevarayaGaleru Nagari Sujala Sravanti	56	543	0	0	0	0	0	0	0
144	Streenidhi	0	0	0	0	0	58	50	0	0
145	Subsidy for Bank Linked Income Generated Schemes	0	0	78	100	0	0	0	0	0
146	Subsidy on Rice (Human Resources Development)	0	0	2352	2706	200	146	0	503	7398
147	Subvention From Central Road Fund	73	177	0	0	0	350	322	0	0
148	Supply of Eggs to 1st to 10th Class Students	0	0	0	0	150	192	0	0	0
149	Supply of Seeds to Farmers	0	0	160	252	80	187	0	0	0
150	Supply of Seeds, Fertilisers and Agricultural Implements	0	0	524	1842	0	0	0	0	0
151	Teaching Grants to Zilla Praja Parishads	0	0	0	0	5328	5459	0	0	0
152	Teaching Hospitals	0	0	0	0	625	670	0	0	0
153	Telugu Ganga Project	156	173	0	0	0	0	0	0	0
154	Tuition Fee	-88	289	0	0	0	0	0	0	0
155	Tuition Fee Reimbursement to Minority Students	94	147	0	0	0	0	0	0	0
156	Tribal Community Health Programme	0	0	0	0	0	0	0	11	13

157	Upgradation of Andhra Pradesh Vaidya Vidhana Parishad Hospitals	0	0	122	88	0	0	0	0	0
158	Upgradation of NREGP works	0	0	0	0	0	0	0	181	31
159	Urban Water Supply Scheme	0	0	0	0	0	0	0	111	35
160	Visakhapatnam-Chennai Industrial	0	0	0	0	153	222	0	0	0
161	Weaker Section Housing Programme	0	0	131	110	125	133	0	0	0
162	Weaker Section Housing under YSR/NTR Housing Programme	53	249	43	256	0	353	46	0	0
163	Welfare of Kapus	0	0	1000	739	217	1475	829	0	0
164	Y.S.R Interest free loans to urban Self Help Groups	0	0	0	0	0	126	390	236	234
165	Y.S.R Nine Hours Free Power Supply	0	0	0	0	0	4920	4038	8006	9351
166	YSR - PM Fasal Bima Yojana	0	0	0	0	0	114	1029	1709	2848
167	YSR - School Maintenance Grant	0	0	0	0	0	100	0	0	0
168	YSR Amrutha Hastham	0	0	0	0	0	150	0	0	0
169	YSR Bima	0	0	0	0	0	0	0	0	93
170	YSR GruhaVasathi	0	0	0	0	0	3372	6279	138	100
171	YSR Kalyana Kanuka	0	0	0	0	0	102	0	0	0
172	YSR Pension Kanuka	0	0	0	0	0	0	4390	3795	1821
173	YSR Pension Kanuka to Backward Classes	0	0	0	0	0	0	8166	6881	1961
174	YSR Pension Kanuka to Christians	0	0	0	0	0	0	0	0	30
175	YSR Pension Kanuka to Economically Backward Classes	0	0	0	0	0	0	3056	0	0
176	YSR Pension Kanuka to Kapus	0	0	0	0	0	0	1099	0	0
177	YSR Rythu Bharosa	0	0	0	0	0	3616	3841	3826	3989
178	YSR Sampoorna Poshana	0	0	0	0	0	0	590	625	821
179	YSR Sampoorna Poshana & Plus	0	0	0	0	0	0	57	126	197
	Total	4840	24893	21727	31293	13400	48215	46301	33927	38832

Source: C&AG Accounts of Various Years

CHAPTER-10

Performance of Public Sector Undertakings in Andhra Pradesh

Introduction

The State-level public sector undertakings (PSUs), while carrying-out certain commercial business activities vital for the State economy, have a key role in the economic development of the respective states. However, the financial position and performance of the State-level PSUs have become a cause of concern especially in matters of State finances.

10.2 As defined in the Companies Act 2013 of India, PSUs are established by governments (provincial or federal) to carry out business activities of a commercial nature for economic development as well as to cater to the needs and welfare of the people. There are three categories of PSUs: Government Company, Statutory Corporation and the Government Controlled Other Company. In a *Government Company*, at least 51% of its paid-up capital is held by Governments¹⁵ (either provincial or federal, or both) or it can be a subsidiary of another Government Company. A *Statutory Corporation* is established mostly by the State government and governed by their respective legislation. The *Government Controlled Other Company* is similar to the Government Company.

10.3 This chapter analyses the status and performance of the State-level PSUs in Andhra Pradesh and their impact on state finances. The analysis is based on different secondary sources of information, largely relying on the reports of the Principal Accountant General (PAG) of Andhra Pradesh and State-level PSUs' annual audit reports of the Comptroller and Auditor General (CAG) of India along with the Central Electricity Authority (CEA) and Power Finance Corporation (PFC) of India reports.

10.4 The Companies Act 2013 empowers the Comptroller and Auditor General (CAG) of India to appoint Chartered Accountants as Statutory Auditors for each of the State-level PSUs, Government Companies and government controlled ones, while stipulating the manner accounts have to be audited. Besides, CAG has the right to conduct supplementary audit and comment. The information available in the CAG reports and the State's Principal Accountant General are found to be more reliable in assessing the financial performance of

¹⁵ As defined in Section 2(45) of the Companies Act, 2015 of India.

the State-level PSUs. The dependence on CAG audit reports is because of the non-availability of their audited accounts and annual reports in a timely manner. Audits of State PSUs are pending. Hence, the CAG audit reports and the analysis based on such reports are limited to the number of PSUs reporting the audited accounts.

PSUs in Andhra Pradesh

10.5 The number of State-level public sector undertakings (PSUs) in Andhra Pradesh has increased from 70 at the time of State bifurcation in 2014 to 118 in 2022. While the number of non-working or inactive PSUs in the State has remained more or less the same, the number of working/active PSUs in the State has increased from 48 to 97 during this period (Table-10.1). About 52 working PSUs in residual Andhra Pradesh have been established or incorporated since the state bifurcation in 2014.

Table-10.1: Number of State-Level Public Sector Undertakings (PSUs) in Andhra Pradesh (Rs. in crore)

Status and Category	2015	2016	2017	2018	2019	2020	2021	2022	2023
<i>I</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>
Working									
Government Companies (GCs)	15	49	57	63	70	75	88	91	-
GCs under Demerger or Other GCs	30	5	4	2	0	2	2	3	-
Statutory Companies (SCs)	3	3	3	3	3	3	3	3	-
<i>Total</i>	<i>48</i>	<i>57</i>	<i>64</i>	<i>68</i>	<i>73</i>	<i>89</i>	<i>93</i>	<i>97</i>	<i>-</i>
Non-Working									
Government Companies	0	0	0	20	20	20	19	21	-
GCs under Demerger or Other GCs	22	22	22	0	0	0	0	0	-
Statutory Companies	0	0	0	0	0	0	0	0	-
All									
Government Companies	15	49	57	83	90	95	107	112	-
GCs under Demerger or Other GCs	52	27	26	2	0	2	2	3	-
Statutory Companies	3	3	3	3	3	3	3	3	-
<i>Total</i>	<i>70</i>	<i>79</i>	<i>86</i>	<i>88</i>	<i>93</i>	<i>100</i>	<i>112</i>	<i>118</i>	<i>-</i>

Note: GCs – Government Companies.

Source: Comptroller and Auditor General (CAG) of India Reports

10.6 With the bifurcation of united-Andhra Pradesh, forming a separate Telangana state in 2014, PSUs' demerger issue lasted for a couple years but was settled. About 33 working PSUs (30 GCs& 3 SCs) of united Andhra Pradesh had inter-state operations after the state

bifurcation (AP and Telangana), and they were to be demerged¹⁶ following the provisions of the Andhra Pradesh Reorganisation Act 2014. Functional/operational bifurcation of 28 PSUs (25 GCs and 3 SCs) came into effect immediately, pending their assets and liabilities bifurcation, which was settled later. Also, demerger of 22 non-working PSUs was settled subsequently.

10.7 Among the working PSUs in the residual Andhra Pradesh, three are statutory corporations¹⁷ that were incorporated during the late-1950s in united Andhra Pradesh and demerged with the State bifurcation in 2014, another three are Government Controlled Other Companies¹⁸, and they are among the 52 PSUs incorporated after 2014, and the rest 91 PSUs are the Government Companies. Of the total PSUs in the State, eleven Government Companies are engaged in the businesses and commercial activities of the State power sector (including one in generation and another in transmission, along with three DISCOMs). The remaining 80 working PSUs are in the non-power sector. CAG has broadly classified non-power sector PSUs into three categories, based on their competitive functioning: those functioning as instruments of the State governments to provide such social services (public goods) the private sector has not ventured to do so; those in proper business segment, functioning in a competitive environment alongside the private sector; and other PSUs which do not fit into above categories but function on behalf of the State Government. According to CAG audit report, there were 80 PSUs in the non-power sector in 2017-18, of which 33 active and 3 inactive PSUs were in the social services sector, 22 active and 17 inactive ones were in the competitive environment, and 5 were classified as others. More than half (55%) of the active PSUs are in the social services. Most of the currently non-working or inactive PSUs are in the competitive environment category.

¹⁶Demerger was based on the criterion that a) the operational units of the undertaking shall be apportioned between the two successor States on a location basis; and b) The headquarters of the undertaking shall be apportioned between the two successor States based on the population ratio.

¹⁷ The three statutory corporations are: 1) Andhra Pradesh State Road Transport Corporation (APSRTC), Est. 1958; 2) Andhra Pradesh State Financial Corporation (APSFC), Est. 1956; and 3) Andhra Pradesh State Warehousing Corporation (APSWC), Est. in 1959. These three were incorporated in united-Andhra Pradesh soon after the State Reorganisation in 1956. They were demerged with the state bifurcation and continued with the same name in residual Andhra Pradesh.

¹⁸ They are: 1) Kakinada Smart City Corporation Limited, Est. 2021; 2) Greater Visakhapatnam Smart City Corporation Limited, Est. 2016; and 3) Amaravati Smart and Sustainable City Corporation Limited, Est. 2017. All three were incorporated after state bifurcation in 2014.

10.8 The significance of the PSUs in the state economy can be observed by their turnover as a percentage of State GSDP, which is in the range of 6-10% (Table-10.2). Among all the PSUs, the sales turnover of power sector PSUs is the highest and even higher than the total of all the other PSUs in the State. The power sector accounts for two-thirds of the total turnover of all the PSUs in the State.

Table-10.2: Turnover of the State-Level PSUs in Andhra Pradesh (Rs. in crore)

Sl. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
1	2	3	4	5	6	7	8	9	10	11
Number of state-level PSUs for which Information is available										
1	Power Sector	7	7	7	8	9	8	8	8	
2	All Others	24	33	39	40	42	32	34	34	
Turnover of stat-level PSUs (in Rs. Cr)										
3	Power Sector	29,655	32,457	47,174	37,795	42,801	57,073	50,306	57,652	
4	All Others	11,208	15,678	20,211	8,755	17,436	12,598	21,842	28,450	
5	Total	40,863	48,135	67,385	46,550	60,237	69,672	72,149	86,101	
6	GSDP (Rs. in Cr)	5,24,976	6,04,229	6,97,508	8,09,547	9,33,402	9,66,099	10,14,374	12,01,736	
7	% of Turnover in GSDP	7.8	8.0	9.7	5.7	6.5	7.2	7.1	7.2	

Note: Turnover values are based on those PSUs for which information is available.

Source: Comptroller and Auditor General (CAG) of India Reports.

10.9 Among all the PSUs, the power sector ones have a larger stake in state finances or its budgetary resources. Among the state-level PSUs of the non-power sector, three statutory corporations (APSRTC, APSFC and APSWC) have major stakes in state government finances, especially its grants-in-aid.

III PSUs' Stakes in State Government Budgetary Resources

10.10 The State-level PSUs have considerable impact on the State government's finances, especially regarding budgetary resources. State government contributes to *share capital or equity* investment in the State-level PSUs. Also, the State government provides financial assistance from time to time through *loans and advances* to state-level PSUs. Providing *grants-in-aid and subsidies* as required is another way for the State government to support its PSUs financially. Moreover, the State government *guarantees* the repayments with interest of loans that PSUs avail from different financial institutions. All these provisions flow from the State government's budgetary resources.

Table-10.3: State Government Loans and Advances, Investment and Grants-in-Aid provided to Public Sector Undertaking (PSUs) in Andhra Pradesh (Rs. In crore)

Item	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
1	2	3	4	5	6	7	8	9	10
State Government investment in the Share Capital									
PSUs	6,773.8	246.0	270.8	208.1	236.1	236.2	243.6	1,738.2	1,736.2
Total	8,454.6	304.0	569.9	1,071.1	1,099.3	1,099.4	1,132.4	2,967.9	2,967.9
% Share of PSUs	80.1	80.9	47.5	19.4	21.5	21.5	21.5	58.6	58.5
Loans and Advances									
PSUs	-10.7	114.7	74.2	795.0	1,106.3	1,956.8	638.9	1,531.4	3,277.3
Total	449.0	838.2	-627.5	2,102.7	3,668.6	4,669.7	5,321.7	5,349.6	7,126.3
% Share of PSUs	-2.4	13.7	-11.8	37.8	30.2	41.9	12.0	28.6	46.0
Grants-in-Aid									
PSUs	506.4	693.2	89,32.2	874.3	2,909.2	5,391.2	3,937.0	5,783.8	24,029.7
Total	37,648.2	39,693.9	53,978.5	53,090.5	60,794.7	59,915.2	73,667.2	66,081.9	80,289.6
% Share of PSUs	1.3	1.7	16.5	1.6	4.8	9.0	5.3	8.8	29.9
Total Assistance									
PSUs	7,269.5	1,053.8	9,277.2	1,877.5	4,251.5	7,584.2	4,819.5	9,053.4	29,043.2
Outstanding Principal and Interest of the State Government Guaranteed Loans									
PSUs: Power	8,585.8	5,669.3	5,344.4	8,683.0	3,990.0	13,901.6	23,395.3	27,217.4	38,472.9
PSUs: All	-	-	-	-	-	-	-	-	-
Total: GSG	1,0675.3	7,059.0	9,665.0	35,964.0	49,442.0	67,171.0	91,330.0	1,18,003.0	1,38,875.0
No. of PSUs	52	54	57	59	59	60	61	62	62

Notes: 1. Information relates to number of PSUs for which information is available with the Principal Accountant General, Andhra Pradesh; 2.

Total: GSG – Total Guarantees include guarantees given for the loans raised by PSUs and other autonomous bodies and departments.

Source: Finance Accounts Reports, Principal Accountant General (A&E), Andhra Pradesh.

10.11 Thus, a considerable amount of budgetary resources of the State government of Andhra Pradesh is allocated to State-level PSUs in the form of investment in share capital or equity, loans and advances, and grants-in-aid (Table-10.3). In the residual Andhra Pradesh, the State government's total existing paid-up share capital/equity in PSUs was worth Rs. 6773.8 cores till bifurcation in 2014. Further, the State government's annual additional paid-up share-capital/equity investment through budgetary resources in the state-level PSUs has recently increased from Rs. 246 crores to Rs. 1736 crores. Such an investment in its PSUs in the recent past accounted for nearly 59% of the total State government's share-capital/equity investments, including entities other than PSUs.

10.12 Loans and advances to PSUs have increased from Rs. 114.7 crore to Rs.3277.3 crore in the recent past, and State-level PSUs account for about 46% of total loans and advances provided in the State budget. There is a continuous rise in the grants-in-aid provided to the State-level PSUs in Andhra Pradesh from Rs. 506/- crore to Rs. 24029.7 crore (Table-10.3). Three statutory corporations in the State have larger share in total grants-in-aid provided to PSUs. Nearly 95% of grants-in-aid allocated to state-level PSUs have gone only to three statutory corporations (APSRTC, APSFC and APSWC), and such assistance to other PSUs (non-statutory corporations) is very meagre.

10.13 The CAG audit reports present under a combining head the *grants and subsidies* provided to State-level PSUs in Andhra Pradesh (Table-10.4). The CAG audit reports are based on the records of the State-level PSUs while figures presented in Table-10.3 are based on the Finance Accounts of the Government of Andhra Pradesh. The CAG reports have pointed out discrepancies and differences in selected items of the PSU records and the Finance Accounts. Power sector units, especially the state DISCOMS along with Civil Supply Corporation (APCSC) and Housing Corporation (APSHC), are among the non-power sector units that availed a large part of subsidies provided to PSUs in the State budget. Apart from the statutory corporations, the government companies availing considerable amounts of grants from the State government are: Mahila Sadhikara Samstha (APMASS), Rythu Sadhikara Samstha (APRSS), Urban Finance Infrastructure and Development Corporation (APUFIDCL), Housing Corporation (APSHC) and Skill Development Corporation (APSSDC). According to the CAG audit report, a drastic cut-down in grants to these PSUs since 2018-19 has remarkably reduced the total grants to PSUs in the State (Table-10.4).

Table-10.4: CAG Report on State Government Grants and Subsidies and Guarantees to Public Sector Undertaking (PSUs) in Andhra Pradesh (Rs. in crore)

Item	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
<i>I</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>
Grants and Subsidies of the State Government to PSUs									
Power	-	3,190	11,700	3,117	2,117	1,473	737	2,646	-
Other	-	3,552	8,400	12,297	1,616	1,990	3,435	2,109	-
Total	-	6,742	19,100	25,414	3,733	3,463	4,172	4,755	-
No of PSUs			30	30	47	51	51	51	-
Guarantees Issued									
Power	0	0	0	0	51	0	2,982	1,459	-
Other	0	0	1,200	1,420	9,902	15,741	1,000	3,168	-
Total	0	0	1,200	1,420	9,953	15,741	3,982	4,627	-
Guarantees Committed									
Power	-	76	2,126	1,723	1,679	1,545	2,919	4,272	-
Other	-	1,267	8,518	5,524	29,477	6,741	15,726	11,477	-
Total	-	1,243	10,644	7,247	31,156	7,286	18,635	15,749	-
No of PSUs			8	8	10	3	10	9	

Notes: 1. Figures Rs. in Crores; No of PSUs are those for which information is available with the Comptroller and Auditor General (CAG) of India; 2. '-' Not yet available.

Source: Comptroller and Auditor General (CAG) of India Audit Reports.

10.14 The cumulative outstanding guarantees given by the State government to loans raised by public sector entities (including autonomous bodies and PSUs) has increased multi-fold from Rs.7000crore in 2015-16 to Rs.1,38,875 crores in 2022-23 (Table-10.3). According to the Finance Accounts of the Government of Andhra Pradesh, more than one-

quarter (25%) of the total outstanding State government guarantees relate to power sector PSUs.

10.15 Thus, Outstanding state government guarantees are higher for non-power sector PSUs than power sector ones (Table-10.4).

10.16 According to the Andhra Pradesh Fiscal Responsibility and Budget Management (FRBM) Act, 2005 and its amendment in 2021, the State Government, within certain limits, may give guarantees on the security of the Consolidated Fund of the State. The annual incremental risk-weighted guarantees of the State government shall be limited to 180% of the total revenue receipts of the preceding year. According to the CAG audit reports, the net amount guaranteed by the State Government of Andhra Pradesh in a year and the cumulative amount of guarantees so far are within the limits prescribed. The State government charges a minimum of 0.5% per annum or 2% consolidated over the guaranteed amount. However, according to the Principal Accountant General (PAG) of Andhra Pradesh audit report for the FY 2022-23, the State Government did not receive any amount towards the *guarantee commission*. As per the budget estimate for 2023-24, an amount of Rs.2,015.5 crore is towards the guarantee commission from different entities. But, it was not realised.

10.17 Overall, the State-level PSUs in Andhra Pradesh have considerable impact on State finances, especially its budgetary resources, and such stakes are increasing over the period as the number of PSUs in the State and the financial support provided to them has increased. The amount of equity investment infused into state-level PSUs has remained more or less the same till 2019-20 but has grown during the last two years. Similarly the loans and advances extended to PSUs have doubled in 2021-22 over the previous year. Also, a substantial rise was observed in grants-in-aid provided to PSUs in the State.

IV Financial Position and Performance of the State-level PSUs in Andhra Pradesh

10.18 The financial performance of the enterprises, private or public, is critical for their survival and development. However, the financial performance of PSUs in general and state-level PSUs in particular is often a cause of concern. The tables below present financial performance indicators and their aggregate values of state-level PSUs in Andhra Pradesh, along with their ratios for the purpose of assessment.

10.19 One must, however, be cautious in reading the numbers or values presented in the Table-5 and Table-6 below. It is so because the numbers and values provided in the tables represent only the number of PSUs covered in the audit reports, which, in fact, varied from year to year. It depended on the number of PSUs that have provided their accounts to the C&AG. As the C&AG reports time and again commented, a considerable number of the state-level PSUs in Andhra Pradesh have yet to comply with the timely annual audit and presenting their accounts to the C&AG. Analysis in the CAG audit reports is based on the number of PSUs for which their financial position and performance information are available for audit. Therefore, one cannot strictly analyse any trend, but the ratios or percentages would provide a basis for comparison.

Investment

10.20 The total investment in the State-level PSUs reported and audited has increased from Rs. 42,292 crore in 2014-15 to Rs. 1,18,108 crore in the recent past; it almost trebled (Table-10.5). Long-term loans have accounted for a larger share of the total investment. The share-capital/equity investment has grown at a slower pace. The share of long-term loans has increased from 85% to 92% during the 8-year period from 2014-15 to 2021-22. It indicates the *heavy dependency of state-level PSUs on borrowings for their investments*.

Table 10.5: Total investment and State Government equity in State-level PSUs in Andhra Pradesh (Rs. In crore)

Item Details	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>
No of PSUs	42	42	42	42	47	52	54	54	-
Total Investment in the State-level PSUs: Contribution of Equity and Debt									
Equity	6,299	6,216	6,517	6,436	6,332	6,865	7,817	8,504	-
LT-Loan	35,993	39,246	53,731	54,565	65,730	89,405	1,01,245	1,09,604	-
Total	42,292	45,462	60,248	61,001	72,062	96,270	1,09,062	1,18,108	-
% Share of Debt	85.1	86.3	89.2	89.4	91.2	92.9	92.8	92.8	-
Total Investment (Equity&Debt) in the State-level PSUs: Contribution of State Government and Others									
State Govt.	11,574	8,154	16,653	15,110	5,316	4,927	4,960	5,848	-

Others	30,718	37,308	43,595	45,892	66,746	91,343	1,04,102	1,12,260	-
Total	42,292	45,462	60,248	61,001	72,062	96,270	1,09,062	1,18,108	-
% Share of State Govt.	27.4	17.9	27.6	24.8	7.4	5.1	4.5	5.0	-
Total Investment (Equity&Debt) in the State-level PSUs: Power and other Sectors									
Power	33,646	36,556	49,574	47,740	56,538	69,5288*	77,539*	82,244*	-
Others	8,646	8,906	10,675	13,262	15,524	26,743*	31.523*	35,864*	-
Total	42,292	45,462	60,248	61,001	72,062	96,270	1,09,062	1,18,108	-
% Share of Power Sector	79.6	80.4	82.3	78.3	78.5	72.6	73.5	69.6	-
Total Equity Investment in the state-level PSUs: Contribution of State Government and Others									
State Govt.	4,121	4,141	4,191	4,122	4,212	4,317	4,367	4,966	-
Other	2,178	2,075	2,326	2,314	2,120	2,548	3,450	3,538	-
Total	6,299	6,216	6,517	6,436	6,332	6,865	7,817	8,504	-
% State Govt	65.4	66.6	64.3	64.0	66.5	62.9	55.9	58.4	-
State Government's total Investment (Equity&Debt) in its state-level PSUs: Power and Other Sectors									
Power	4,463	4,331	4,003	4,353	4,371	3,538	3,522	3,772	-
Others	7,111	3,824	12,650	10,757	3,028	1,389	1,438	2,077	-
Total	11,574	8,154	16,653	15,110	7,399	4,927	4,960	5,848	-
% Power	38.6	53.1	24.0	28.8	59.1	71.8	71.0	64.5	-
State Government Equity Investment in PSUs: Power and Other Sector									
Power	3,142	3,142	3,142	3,142	3,142	3,142	3,142	3,142	-
Others	979	1,000	1,049	980	1,070	1,175	1,225	1,825	-
Total	4,121	4,141	4,191	4,122	4,212	4,317	4,367	4,966	-
% Power	76.2	75.9	75.0	76.2	74.6	72.8	71.9	63.8	-
<i>Note: Figures Rs. in Crores; * figures are CESS estimates as actuals are not available from CAG audit reports.</i>									

*Note: Figures Rs. in Crores; * figures are CESS estimates as actuals are not available from CAG audit reports.*

Source: Comptroller and Auditor General (CAG) of India Reports.

10.21 Though at a slower, there has been an increase in the equity investment of State government. The State government's long-term loans provided to the PSUs have been fluctuating highly; hence, there is an unsteady trend in the total investment. The State government's share in the total investment in the PSUs has declined: it was 27% but drastically declined after 2017-18 and hovering around 5% now (Table-5). In terms of total equity investment, the State government share has declined to 55% from 65% during the eight-years period. However, most noticeable is the drastic cut-down since 2017-18 in the State government's long-term loans extended to PSUs. The State government contribution to all the long-term loans availed by the declined to a very low proportion, initially at 20%, but reduced to <1% in the recent past (last three years). A large part (85%) of the total State government investment is now in the equity of its PSUs.

10.22 Total State government investment, including equity and long-term loans, was very high in the first four-years as compared to the last four; it was because of a considerably higher amount of long-term loans extended to the non-power sector PSUs (Table-10.5). However, such long-term loans are concentrated in only a few such PSUs. For instance, out of the Rs. 10,757 crores total state-government investment infused into the non-power sector, Rs. 8,500crore investment was a long-term loan to only one PSU of the state, Andhra Pradesh State Housing Corporation (APSHC) Limited.

10.23 Among the PSUs in Andhra Pradesh, the distribution of total State investment has been tilted from non-power sector PSUs towards to the power-sector since 2017-18 (Table-10.5). The power sector PSUs are small in number (11 of 97 total PSUs in the state) but hold a major stake now in the *total investment (equity and debt)* of all the institutions (State government and others). One generating company (APGenCo) and its subsidiary (APPDCL) and one transmission company (APTransCo) along with three DISCOMS (APSPDCL, APEPDCL and SPCPDCL) hold most of the investment in all the 11 PSUs of power sector in the State. Power sector PSUs in the State hold a major share all through in the total equity investment of the State government. However, the value of equity investment of the state government in the power sector PSUs of the State has remained more or less the same all through since 2014, while it has shown an increasing trend in other (non-power sector) PSUs in the state.

10.24 Among the non-power sector PSUs, Finance and Infrastructure are the major ones and account for next highest share of State-government equity-investment. New infrastructure companies, along with the loans raised by the existing ones, have led to an increase in the total investment in infrastructure PSUs. There are about six new PSUs that have been established since 2014 which are related to infrastructure. Similarly, among the finance sector-related PSUs, Andhra Pradesh State Financial Services Corporation Limited (APSFSC), incorporated in 2020, alone is holding Rs. 602 crore of the State government equity; it is one of those seven PSUs holding 85% of the total State government equity investment in PSUs.

10.25 Less than 10 PSUs hold most of the total equity investment of the State government. For instance, in 2021-22, of the State government's total equity investment at ₹4,966crore, nearly 85% (₹4,198 crore) is accounted for by seven PSUs¹⁹ (five in the power sector and two in finance). These are the only seven state-level PSUs in Andhra Pradesh holding the *state government equity investment* of more than ₹100/- crores each. Further, about ₹2107 crores of equity investment of the state government is held in only one PSU: APGenCo, a power sector PSU.

¹⁹ They are: APGenCo (₹2,107 cr), APTransCo (₹454 cr), two DisComs (APEPDCL and APSPDCL, together ₹480 cr) and a Power Finance Corporation (APPFC) in energy/power sector along with the two in finance, the State Financial Corporation (APSFSC, ₹206 cr) and Financial Services Corporation (APSFSC, ₹602 cr).

Financial Performance

10.26 The PSUs' *outstanding loans* (debt) in Andhra Pradesh have increased from ₹35,993 crore in 2014-15 to ₹1,09,604 crore in 2021-22. Correspondingly, the *interest charges* have also increased from ₹2,373/- crore to ₹7,800/- crore during the same period. These have almost trebled during the period.

10.27 The total *capital employed*²⁰ in state-level PSUs of Andhra Pradesh has increased from ₹29851 crore in 2014-15 to ₹72700/- crore in the recent past (Table-10.6). Of the total capital employed in all the PSUs in the State, more than ₹50,000/- crores (comprising nearly 70% of the total) in 2021-22 is concentrated in a few power sector PSUs (APGenCo, APPDCL, APTransCo and the two DISCOMS; APSPDCL and APEPDCL). APGenCo and its subsidiary (APPDCL) hold around half of the total capital employed in all the PSUs in Andhra Pradesh. The major non-power PSU in terms of total capital employed is the Township and Infrastructure Development Corporation (APTIDCL) followed by the Mineral Development Corporation (APMDCL) and Financial Corporation (APSFC) of Andhra Pradesh.

10.28 Corresponding with the capital employed, *turnover* of the state-level PSUs increased from ₹40,863/- crores to ₹86,101 crores during the period, wherein power sector PSUs account for a major (70%) contribution (Tables-10.2 and 10.6). The *earnings before interest and taxes* (EBIT) of the PSUs in Andhra Pradesh were observed to be positive in five out of eight years covered in this analysis (Table-10.6). But the net earnings (profit/loss) have always been negative except for 2020-21. The accumulated losses are eight times higher than the accumulated profits of the state-level PSUs in Andhra Pradesh. The net worth of PSUs in aggregate is always negative because of the predominance of accumulated losses of loss-making units.

10.29 According to the C&AG audit report of FY 2021-22, out of 76 PSUs considered for the net worth analysis, 41 have accumulated losses (₹-57,357 crore), 29 have accumulated surplus/profit (₹7,513/- crore), and six others have neither loss nor profit. Due to high

²⁰It is derived as, Capital Employed = Paid up share capital + free reserves and surplus + long term loans – accumulated losses - deferred revenue expenditure

accumulated losses, the net worth of 76 PSUs at aggregate level is negative (₹-49,844 crore). Further, erosion of the shareholder's equity is observed for 25 PSUs in the PSUs (₹-54,409 crore). Among the 25 PSUs with erosion of net worth, power sector PSUs, especially three DISCOMS (APEPDCL, APSPDCL, and APSPDCL), lost their net worth the most. For the year 2020-21, of the 47 PSUs audited, 29 have accumulated losses of ₹38,420 crore, while 15 had a surplus of ₹5,172 crore, and the remaining three had neither losses nor surplus. As a result, the accumulated losses at aggregate for 47 PSUs is ₹33,247 crore, and all their net worth together was negative at ₹24,678 crore. Again, of 29 PSUs audited, as many as 18 had a net worth of either zero or negative; their shareholders' funds had been completely eroded due to such accumulated losses. The PSUs with the most accumulated losses, and eroded net worth and shareholders' fund, were the two state DISCOMS (APEPDCL and APSPDCL) and one transport sector PSU (APSRTC).

Table: 10.6: Performance of State-level PSUs in Andhra Pradesh (Rs. In crore)

Item Details	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>
No of PSUs						32	34	34	
Capital Employed, Earnings and Net worth									
Capital Employed	29,851	30,911	39,203	42,191	41,112	68,407	62,831	72,700	-
Turnover	40,863	48,134	67,385	46,550	65,334	69,672	72,149	86,101	-
EBIT	-1,060	-240	3,402	4,280	-5,357	8,074	9,098	6,945	-
Net Profit/loss	-3,101	-4,556	-2,153	-1,074	-13,836	-416	352	-2,240	-
Equity					6,332	6,279	6,324	7,011	
Accumulated Surplus and Loss									
Surplus	2,338	2,748	4,333	4,177	5,024	-	5,172	7,513	-
Loss	-12,407	-15,168	-22,054	-23,726	-37,565	-	-38,420	-57,357	-
Net Worth	-3,979	-6,171	-11,716	-11,692	-25,956	-	-24678	-49,844	-
Outstanding Amount of Loans (Debt) and Interest									
Debt	35,993	39,246	53,731	54,565	63,155	89,405	1,01,245	1,09,604	-
Interest	2,372	4,207	5,805	4,949	5,265	8,472	7,534	7,800	-
Assets	-	-	-	-	-	-	2,02,076	2,19,196	-
EBIT	-	-	-	-	-	7,172	8,288	5,552	-
Present Value of Investment									
Rate of Interest(%)	5.9	6.1	6.3	6.5	6.4	6.3	6.2	6.7	-
Free Reserves	404	410	113	1,749	429		1,776	3,639	-
PV of Investment	6,022	6,553	6,460	6,534	7,000	7,900	8,431	9,090	-

Notes: Rs. in crore; EBIT – Earnings before Interest and Taxes.

Source: Comptroller and Auditor General (CAG) of India Reports

10.30 Further, one may assess and evaluate the financial performance of the PSUs in Andhra Pradesh based on financial ratios, as presented below. The debt-asset ratio (DAR) determines whether a PSU can be solvent. At the aggregated level, the total asset value of PSUs is found to be higher than the outstanding debt (Table-10.6). But an assessment based on the said measure at the individual PSU level is important. Further, the interest coverage

ratio²¹ (ICR) indicates the ability of a company to pay interest on outstanding debt. Though aggregated level ICR is one or above, but a few companies have ICR<1 which means their incomes (EBIT) are insufficient to meet their interest payments on their outstanding loans.

10.31 The *return on capital employed* (RoCE) is a ratio of *earnings before interest and tax* (EBIT) to the *capital employed*; it measures the profitability and efficiency of the capital employed. RoCE of the state-level PSUs at the aggregate level in most of the time points considered for the analysis is positive (Table-10.7). The *return on equity* (RoE), measured by dividing net income (net profit after tax) by the shareholders' fund, is a measure of financial performance to assess the effective management of assets to create profits. RoE of the PSUs at the aggregate level in most of the time points considered for the analysis is negative (Table-10.7). Dividing the profit after tax (PAT) by the sum of all the investments counted on a historical cost basis measures the *rate of real return* (RoRR) on investment; it is an indicator for measuring the profitability and efficiency of equity and other non-interest-bearing capital employed after adjusting for their time value. The present value of such investment is derived using the average rate of interest.

Table 10.7: Performance of State-level PSUs in Andhra Pradesh

Table-7: Performance of State-Level PSUs in Andhra Pradesh									
Item Details	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
1	2	3	4	5	6	7	8	9	10
DAR					+	+	+	+	-
ICR					<1	>1	>1	>1	-
#PSUs with ICR<1					4	5	4	3	-
RoCE					-13.1	11.8	14.5	9.6	-
RoE					-218.5	-6.6	5.6	-32.0	-
RoRR			38.9	18.5	-183.6	-11.5	2.6	-20.1	-

Note: DAR – Debt-Asset Ratio; ICR – Interest Coverage Ratio.

Source: Comptroller and Auditor General (C&AG) of India Reports

10.32 As per the guidelines in the undivided-Andhra Pradesh issued in 2002, except on profits after discounting the depreciation no dividend is to be declared and paid by any PSU in the State. It means only the profit-making companies have the provision to declare or pay the dividend. However, among the profit-making PSUs dividends (though smaller in amount of less than a crore Rupees) was paid by only a two of them: the State Financial

²¹ It is derived by dividing earnings before interest and taxes (EBIT) by interest expenses. At the aggregate level, it is to be calculated for those PSUs having outstanding loans and obliged interest; it shall not be for all. The resulting ratio indicates the performance wherein the lower the ratio lesser the ability to pay interest on debt. All PSUs with an ICR below one mean that they are not generating sufficient revenues to meet their expenses on interest.

Corporation (APSFC) and the Seed Development Corporation (APSSDC). These are the only two, consistently listed in C&AG reports as dividend paying PSUs.

10.33 In all, the financial performance of the state-level PSUs has been a cause of concern. Although some of the performance indicators at the aggregate level appear to be encouraging, at the firm-level a considerable number of PSUs have reported poor financial performance. An increase in accumulated losses of loss-making PSUs is a concern. Among the non-power sector PSUs in the social services category, the Housing Corporation (APSHC) is the one that incurs continuous losses, and its accumulated losses are considerable. Of the non-power sector PSUs, the statutory Road Transport Corporation (APSRTC) witnessed considerable accumulated losses.

Power Sector in Andhra Pradesh

10.34 The power sector in Andhra Pradesh, including generation, transmission and distribution, along with trading, is one of the largest in India. As CESS estimates based on ASI 2021-22 have shown, the state power sector, with a fixed capital of Rs.52,107 crore, is the third largest across states in India. Within the State, power sector holds one-quarter of the total fixed capital of all the registered manufacturing units located in the State (Rs. 2,21,119.6 crore). It indicates the primacy of the power sector in the State industry and the State power sector in the country. The public sector is the major player in the power sector. Private players²² (15 entities) are engaged in power generation. There are three cooperative entities in the field of power distribution in the State, but their size and catchments are very tiny. However, the transmission and distribution of electricity in the State is largely under the public sector. Altogether, there are 11 entities of PSUs connected with the power sector in the State. Seven of them were existing entities inherited by residual Andhra Pradesh in the bifurcation demerger process, and the other four, including one DISCOM, were established after the bifurcation of the state in 2014. Analysis in the previous section has observed that the turnover of power sector PSUs in the State is around 5% of its GSDP. Power sector units hold a major share of the total turnover of all the PSUs in AP.

²² Including those in steam-based thermal power (Hinduja, Simhapuri, Minakshi, Sembco and others), gas-based (Gautami, GVK, GMR, Lanco and others) and renewable energy ones.

10.35 The united-Andhra Pradesh was the forerunner in implementing electricity sector reforms²³ introduced in India during late-1990s. In 1999, the Andhra Pradesh Electricity Reforms Act 1998 came into force. It was enacted to restructure and rationalise the power sector single entity²⁴, the APSEB. It was also to facilitating the private sector participation in the field. Under the reforms and the Act, Andhra Pradesh Power Sector Reforms Transfer (APPSRT) Scheme 2000 is implemented to unbundle the APSEB. Also, the Andhra Pradesh Electricity Regulatory Commission (APERC), as a corporate body, evolved to regulate the power sector. Under the APPSRT Scheme 2000, APSEB was unbundled into two separate operational units for generation and, transmission and distribution. Accordingly, it incorporated under the Companies Act 1956 of India two corporate bodies in the State in 1998: the Power Generation Corporation of AP Limited (APGenCo) for generation and the Transmission Corporation of AP Limited (APTransCo) for transmission and distribution²⁵.

10.36 Further, APTransCo was unbundled, keeping with it only the business of procurement and transmission operations. Four distribution companies (DISCOMS) came into operation in 2000 for the business of electricity distribution to consumers. With the bifurcation of united-Andhra Pradesh and forming Telangana as a separate State, the residual-Andhra Pradesh has inherited the demerged parts of APGenCo and APTransCo along with two DISCOMS operating in the region (APEPDCL and APSPDCL). There are three DISCOMS in operation now, and the third one (APCPDCL) was incorporated in 2019. APERC, a regulatory body, sets the prices for procurement and distribution through power purchase agreements between parties involved in generation, transmission and distribution.

10.37 Altogether, there are six PSUs (APGenCo, APPDCL, APTransCo, APEPDCL, APCPDCL and APSPDCL) in the core business operations of the power sector: generation, transmission and distribution. While the State sector entities' share in generation is limited to less than 50%, the entire business of transmission and distribution is concentrated in State

²³ Following the Government of India's liberalisation policy implementing economic reforms in the early-1990s. The Government of Andhra Pradesh had introduced electricity sector reforms based on a High-Level Committee set-up for to address the adverse financial condition of the AP State Electricity Board (APSEB).

²⁴ APSEB was a single entity (a monopoly) managing the entire spectrum of all three operations: generation, transmission and distribution.

²⁵ The principal objective of APTransCo was to engage in the business of procurement, transmission and supply of electricity energy.

sector. It rests with its transmission and distribution companies. There are three state-level PSUs in the state sector power development and/or generation²⁶. All three PSUs together hold 8500 Mwh installed capacity, accounting for nearly one-third (30%) of the total in the State. Of which the AP GenCo, with an installed capacity of 6100 Mwh (4200 thermal, 1500 Hydel²⁷ and 400 solar), is the largest single entity in the power sector, holding little above one-fifth (21%) of the total installed capacity in Andhra Pradesh.

10.38 APPDCL, a joint venture of AP GenCo and DisComs, was set-up in 2006 as a special purpose vehicle (SPV) in the undivided-Andhra Pradesh for the purpose of power development in the state. It has, in fact, developed in Andhra Pradesh three units each of 800 Mwh under the Sri Damodaram Sanjeevaiah Thermal Power Station (SDSTPS). All three are commissioned (two in 2014-15 and the third one in 2023), holding 8.5% of the total installed capacity in the state. APEPDCL is one of the DisComs in the state; it has taken-over the GVK's Jegurupadu Gas-based power plant with a capacity of 235 Mwh. The installed capacity under APEPDCL is negligible.

10.39 Besides the above six, there are five²⁸ more state-level PSUs in Andhra Pradesh that are connected with the power sector. Three of these are related to renewable energy (NREDCAP), tribal area power development (APTPDCL), and rural agriculture power supply (APRAPSCo). All three are intended to engage in business activities of generation, collection and distribution. Although NREDCAP does not have any of its own power plants and installed capacity, it has been promoting renewable energy in the public and private sectors while implementing Central sector schemes and policies related to renewable energy. APRAPSCo is a DISCOM to meet the entire power supply required for agriculture, gradually relieving the other three DISCOMS (APEPDCL, APCPDCL and APSPDCL)) from such distribution. The other two (APSEEDCL and APEU) are engaged in research and development. In fact, the State government's equity in NREDCAP, APTPDCL,

²⁶ They are: 1). AP Power Generation Corporation (APGenCo); 2). AP Power Development Company Limited (APPDCL); and 3). Eastern Power Distribution Company Limited of AP (APEPDCL).

²⁷ The Lower Sileru project installed capacity of 460 Mwh is shown under the APGenCo, but it was transferred to Telangana state GenCo.

²⁸ They are: 1). New and Renewable Energy Development Corporation of Andhra Pradesh Limited (NREDCAP), as renamed in 1986, was formerly the Non-conventional Energy Development Corporation of Andhra Pradesh Limited (NEDCAP) incorporated in 1969; 2) Andhra Pradesh Tribal Power Development Company Limited (APTPDCL) established in 2002; 3) Andhra Pradesh Rural Agriculture Power Supply Company Limited (APRAPSCo) which is a renamed entity, formerly of Andhra Pradesh Green Energy Corporation Ltd (APGECL) established in 2020; 4) Andhra Pradesh State Energy Efficiency Development Corporation Limited (APSEEDCL) incorporated in 2016; and 5) Energy University of Andhra Pradesh (APEU) established in 2016.

APSEEDCL and APEU is less than Rs. one crore. The six power sector core PSU entities that are engaged in generation and development (APGenCo and APPDCL), transmission (APTransCo) and distribution (APEPDCL, APCPDCL and APSPDCL) consume more of the state financial resources in terms of its investment, loans, grants and guarantees.

Installed Capacity and Power Generation

10.40 The installed capacity in power generation has increased from around 15,750 Mwh in 2014-15 to 28,850 Mwh in 2023-24; it has almost doubled in the State during the decade since its bifurcation in 2014. A remarkable growth in State's installed capacity for power generation is largely due to such a growth in the private sector's installed capacity; 7260 Mwh to 18210 Mwh during the decade period. While the installed capacity in the private sector has increased by 2.5 times during the period, it is less than 1.35 times in the public sector, including the state and central sectors' installed capacity. The private sector, as of now, holds around 63% of the total installed capacity in the State. While the central sector holds another 7%, the rest is held by the State sector.

Table-10.8: Andhra Pradesh Power Sector: Installed Capacity, Power Generated, Purchased, Sold, Consumed and Transmission and Distribution (T&D) Losses

Details	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
<i>I</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>	<i>11</i>
Installed Capacity (Mwh)										
State	6373	6373	6423	7092	6975	6975	6975	6975	7776	8513
Centre	2113	2113	2113	2113	2113	2113	2113	2113	2113	2113
Private	7260	10853	15457	15707	15024	15117	15721	15964	16111	18210
<i>Total</i>	<i>15746</i>	<i>19339</i>	<i>23994</i>	<i>24912</i>	<i>24112</i>	<i>24206</i>	<i>24810</i>	<i>25053</i>	<i>26001</i>	<i>28836</i>
%Private	46.1	56.1	64.4	63.0	62.3	62.5	63.4	63.7	62.0	63.2
Power Generated (MU)										
State	23599	25591	29720	25165	26812	28645	22266	28159	30696	-
Centre	-	-	-	-	-	-	-	-	-	-
Private	11309	21714	27393	35711	37174	37518	35836	34365	38179	-
<i>Total</i>	<i>34909</i>	<i>47305</i>	<i>57113</i>	<i>60876</i>	<i>63986</i>	<i>66163</i>	<i>58102</i>	<i>62524</i>	<i>68875</i>	<i>-</i>
%Private	32.4	45.9	48.0	58.7	58.1	56.7	61.7	55.0	55.4	-
Gross/Net Input Energy and Gross/Net Energy Sold (in MU) of DisComs										
Gross Input	45,000	49,355	52,168	58,303	63,597	68,404	68,564	76,122	78,424	-
Gross Sold	40,748	43,896	47,178	49,992	54,567	60,808	62,493	69,745	71,463	-
Gap	4,259	5,459	4,990	8,311	9,030	7,596	6,071	6,377	6,961	-
Net Input	44,703	47,456	50,918	53,838	59,117	60,549	59,106	65,250	68,799	-
Net Sold	40,675	43,896	47,178	49,992	54,567	55,935	54,597	60,313	63,825	-
Gap	4,028	3,560	3,740	3,846	4,550	4,614	4,509	4,937	4,974	-
% (Gap/Net Input)	9.0	7.5	7.3	7.1	7.7	7.6	7.6	7.6	7.2	-

Notes: Generated is power generated of all the sectors; Purchased means power purchased by APTRANSCO, Sale means power sold by APTRANSCO; Consumed means power consumed by ultimate consumers; 2. '-' is part of the state sector; Gross Input Energy and Gross Energy Sold is of DISCOMS. Sources: Central Electricity Authority (CEA), Ministry of Power, Government of India; 2. Power Finance Corporation

10.41 Power generation in the State has witnessed remarkable growth. It has increased twice from around 35,000 MU in 2014-15 to 69,000 MU in 2023-24. More than half of the

total power generated in Andhra Pradesh comes from its private-sector power-plants. In fact, the share of the private sector in power generation is less than that of its installed capacity. Perhaps higher market prices and offer prices in the power sale agreements (PSA) of the private sector could have held back the AP TransCo and its DISCOMS purchasing from the private sector to meet the electricity consumption-demand gap after exhaustively using the relatively lower priced power being supplied by the public sector (State sector APGenCo and the Central sector). The demand for private sector power is short of its potential supply; hence, its potential capacity is being under-utilised. Further, the technologies of power generation in the private sector varied widely: steam, mini-hydro, solar, gas, and others. Accordingly, their plant load factors (PLF) would vary depending on the input resources along with the demand factor.

Gross Input and Energy Sold and Consumed

10.42 The gross input energy into distribution companies in the State has increased from 45,000 MU in 2014-15 to 78,420 MU in 2022-23, whereas the gross energy sold in the State through these distribution companies has increased from 40,750 MU to 71,460 MU during the same period (Table-10.8). The gross input energy and the gross energy sold in the state have increased by 1.75 times during the period. The state's net input energy²⁹ has increased from 44,700 MU to 68,800 MU, whereas its net energy sold has increased from 40,675 MU to 63.825 MU during the same period; both have increased by 1.5 times.

Table 10.9: Per capita Power Consumption (Kwh) in Andhra Pradesh and India

State	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
AP	1040	1230	1319	1388	1480	1507	1434	1567	1634
India	1010	1075	1122	1149	1181	1208	1161	1255	1331
%AP	103	114	118	121	125	125	124	125	125

Source: Central Electricity Authority (CEA) of India

10.43 The per capita power consumption in Andhra Pradesh has been 25% higher than the national average over the last five years. It was almost similar to the national average in 2014-15 but increased faster in the State as compared to the consumption at the national level. One of the reasons for a faster increase in per capita consumption of energy in the

²⁹ Net input energy is derived after adjusting the gross input energy for transmission losses and inter-state trading. Net energy sold is derived after adjusting the gross energy sold for inter-state trading.

could be the availability/supply of electricity owing to rapid growth in the installed capacity, power generated and the availability of power/energy for sales.

Transmission and Distribution (T&D) Losses

10.44 The united-Andhra Pradesh had a legacy of higher transmission and distribution (T&D) losses. But the power sector reforms and unbundling of the business and commercial activities of generation, transmission and regional distribution into different entities seem to have improved the efficiency of the sector, especially the reduction in T&D losses. T&D losses in the Andhra Pradesh power sector are, on an average, four percentage-points lower than that of India (Table-10.9a). Among 36 states and UTs of India, Andhra Pradesh stands at 12th position in terms of the lower T&D losses. However, all the southern States, including Telangana, are performing better than Andhra Pradesh in keeping their T&D losses lower.

Table-10.9a: T&D Loses in Andhra Pradesh and India

Table-9: T&D Loses in Andhra Pradesh and India									
State	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
AP	17.9	16.2	16.2	16.1	17.6	17.0	16.0	15.4	14.2
India	22.8	21.8	21.4	21.0	20.7	20.5	20.7	19.3	17.7

Source: Central Electricity Authority (CEA) of India.

10.45 T&D losses are the loss in the transmission and distribution of energy generated while reaching out to the ultimate consumption point. T&D losses are due to either technical³⁰ or commercial³¹ reasons or both. While the conventional T&D loss parameter measures the loss of unbilled energy units as a ratio of gross energy input into the system³², the alternative and considered to be a more efficient measure is aggregate technical and commercial (AT&C) losses, which along with T&C losses accounts for collection inefficiency in terms non-recovery of the amount on billed energy units³³.

³⁰ Technical losses are inherent in the system and they are due to energy dissipated in the conductors, transformers and other equipment used for transmission, transformation, sub-transmission and distribution of energy/power. These technical losses can be reduced to a certain level by improving the technical efficiency of energy transmission and distribution.

³¹ Commercial losses are due to unauthorised connections and pilferage by hooking, bypassing meters, defective meters, errors in meter reading and in estimating un-metered supply of energy. Further, non-recovery of the amount on billed units is collection efficiency, which is another commercial loss.

³² That is T&D Losses = [1- (total energy billed/total energy input into the system)] * 100.

³³ That is: AT&C Losses = [1-(Billing efficiency * Collection Efficiency)] * 100; wherein Billing Efficiency = Unbilled Energy Units/Total Input Energy Units; whereas Collection Efficiency = Revenue Collected/Total Amount on Billed Units

The central Power Finance Corporation uses the AT&C losses parameter in assessing the energy sector, while the Central Electricity Authority (CEA), Ministry of Finance, Government of India, continue to rely on the conventional parameter (T&D loss). There seems to be a *built-in instability in the AT&C losses parameter*, and

Table-10.10: AT&C Losses of DISCOMS in Andhra Pradesh and India

State/PSU	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>
India	25.7	24.0	23.5	21.5	21.6	20.8	21.9	16.2	15.4
AP	10.6	10.4	13.8	14.3	25.7	11.2	20.4	10.6	8.0
APEPDCL	7.7	7.1	7.5	11.2	18.3	6.6	20.9	7.8	5.9
APSPDCL	12.0	12.0	17.0	16.0	29.8	13.8	18.7	13.6	8.1
APCPDCL	-	-	-	-	-	-	22.7	10.0	11.5

Note: APCPDCL is established and came into operation in 2020

Source: Central Electricity Authority (CEA) of India; 2. Power Finance Corporation (PFC).

10.46 As regards reducing the AT&C losses, it is more important for the DISCOMS as they are more affected by it. The AT&C losses of DISCOMS in Andhra Pradesh are far lower than that of the national average, except in the year 2018-19 (Table-10.10). While the eastern distribution company (APEPDCL) appears to be a little efficient as its AT&C losses are far lower than India and the state average, the southern distribution company has such losses lower than the national average but higher than the state average. The same is the case of APCPDCL, which came into operation in 2020.

Ujwal DISCOMS Assurance Yojana (UDAY)

10.47 UDAY, launched in 2015, is a Centrally sponsored scheme (CSS) meant to relieve the State-level power distribution companies (DISCOMS) from the long-term loan debt-burden. DISCOMS, in general, across States, have a legacy of operational losses which are being funded by debt that trapped them into a vicious cycle of new borrowings to pay interest charges of earlier debt along with meeting continuing operational losses. Further, financially stressed DISCOMS have the potential to default on bank loans, eventually posing a potential risk to the banking sector and the State finances. Quality of life, along with economic growth and development, would be hampered by financially stressed DISCOMS especially if they are not able to supply adequate power at affordable prices. Also, the performance of DISCOMS is critical given the larger national-level priorities of universal electrification (villages and households) and 24x7 power supply along with clean energy. The objective of UDAY is to ensure operational and financial turnaround and revival of the state-level DISCOMS in the country. In this scheme, State governments are

that instability is associated with the collection efficiency because dues pending in one year would be collected in subsequent year(s). It is possible with both the individual consumers' bills as well as that of tariff subsidies billed to state governments and collected. The AT&C parameter value would shoot-up in the year due pending, and it goes down in the year(s) dues collected.

required to take-over in a phased manner during 2015-16 and 2016-17, the three-quarters (75%) of outstanding debt of their DISCOMS and ensure to provide grants for future losses. For the operational and financial turnaround of DISCOMS under UDAY, participating States have to undertake certain measures and comply with the targets³⁴ of the scheme.

10.48 The Government of India, the State Government of Andhra Pradesh, and the state DISCOMS (APEPDCL and APSPDCL) signed a memorandum of understanding (MoU) for the implementation of UDAY. The outstanding debt of State DISCOMS in 2015-16 was Rs. 14,720.50/- crores. The State took over loans to the extent of f Rs. 8,256.01 crore in 2016-17 with a commitment to take over the balance. in the subsequent year. It was to reduce the interest burden of Rs. 330 crore a year. Andhra Pradesh performed moderately in implementing UDAY, especially in achieving the scheme in taking measures envisaged under the MoU and meeting the targets. The state DISCOMS, while implementing the robust power supply monitoring mechanism, have reduced their AT&C losses but still finding it difficult to meet the scheme targets. According to the C&AG audit report FY 2017-18, although the achievement of the State in feeder metering, feeder segregation and distribution of LEDs is reasonably higher, it is very low in metering the distribution transformers in rural areas. The scheme targets of reducing AT&C losses of its DISCOMS, APEPDCL, to below 5.5% and that APSPDCL to below 10.9% have not been met so far (Table-10.10).

VI Financial Performance of Power Sector PSUs in AP

10.49 It is observed from the previous sections that power sector PSUs have major stakes in the state finances in Andhra Pradesh. The power sector PSUs hold a larger share in total investment and equity of all the PSUs in Andhra Pradesh. Among all the loss-making PSUs, power sector is the main culprit. The power sector units are among those PSUs that have completely lost their net worth and shareholders' funds. Further, there has not been any

³⁴ Measures to undertake for operational turnaround are: compulsory feeder and distribution transformer (DT) metering, consumer indexing and GIS mapping of losses, upgrading or changing transformers and meters, smart metering of all consumers consuming above 200 units per month along with demand side management (DSM) covering energy-efficient equipment, quarterly revision of the tariff, comprehensive International Electrotechnical Commission(IEC) campaign to check theft of power etc. Also assuring increased power supply in areas where the AT&C losses have been reduced for improving the operational efficiencies. The timeline for the targets have to be followed. Achievements are measured in terms of the ability to track losses at feeder and DT level, identification of loss-making areas, reduce technical losses and minimize outages, reduce power theft and enhance public participation for reducing the theft, reduce peak load and energy consumption *etc.* For the financial turnaround of state DisComs, respective state governments have to take-over three-quarters of their outstanding debt.

disinvestment, restructuring or privatisation in the power sector PSUs since the Andhra Pradesh bifurcation in 2014.

10.50 While the AP GenCo and the AP TransCo are able to realise, the DisComs in Andhra Pradesh have not been able to realise their revenues on the energy units sold at least equivalent to the cost of supply on the same (Table-10.11). As a result, every year, they incur losses, and the accumulated losses of the DISCOMS have been eroding their net worth. A company's net worth consists of its equity investment, reserves and accumulated profits or losses. Adding the T&D losses of DISCOMS, losses will be even more. The year 2022-23 is the only one when the DISCOMS have earned considerable profits. The net worth of the APGenCo and the TransCo is more or less stable, and their accumulated profits are positive all through, whereas the position of DISCOMS is the opposite with negative accumulated profits.

Table-10.11: Financial Performance of the State Power Sector PSUs in Andhra Pradesh

State	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
1	2	3	4	5	6	7	8	9	10
APGenCo									
ACS	-	-	4.4	5.4	5.3	5.1	5.5	4.8	5.4
ARR	-	-	4.6	4.6	5.4	5.1	5.5	4.7	5.5
Gap	-	-	0.2	-0.8	0.1	0.0	0.0	-0.1	0.1
PAT	-	-	640	-	-119	114	16	-207	258
Acc Profit	-	-	1,851	2,035	2,275	2,285	2,414	2,198	2,456
Net Worth	-	-	3,958	4,142	4,184	4,195	4,219	4,239	4,273
APTransCo									
ACS	-	-	0.2	0.4	0.3	0.4	0.4	0.4	0.3
ARR	-	-	0.2	0.3	0.3	0.3	0.4	0.4	0.5
Gap	-	-	0.0	-0.1	0.0	0.1	0.0	0.0	0.2
PAT	-	-	94	-592	65	-221	173	318	619
Acc Profit	-	-	1,138	1,153	1,428	1,419	1,629	1,866	2,477
Net Worth	-	-	2,985	3,095	3,453	3,776	4,143	4,157	4,005
DisComs									
ACS	-	6.3	5.9	6.2	8.7	6.9	7.1	6.9	8.1
ARR	-	5.4	5.3	6.1	5.7	6.7	6.0	6.5	8.3
Gap	-	-0.9	-0.6	-0.1	-3.1	-0.2	-1.1	-0.4	0.2
PAT	-	-3,899	-2,282	-2	-11,934	-151	44	-2,458	1,736
Acc Profit	-	-	16,819	-16,822	-29,147	-29,143	-28,707	-31,195	-29,218
Net Worth	-	-	7,617	-7,507	-19,794	-19,810	-19,331	-21,169	-19,386

Notes: ACS – Average Cost of Supply per unit of energy (Rs. /kwh); ARR – Average Revenue Realised per unit of energy (Rs. /kwh); Gap is the difference between ARR and ACS, negative means revenue per unit is less than cost per unit, it is a loss; PAT – Profits after Taxes and in Rs. Crores; 2. ACS and ARR for DisComs are Energy Sold basis. Source: Power Finance Corporation (PFC) of India.

10.51 Each of the three DISCOMS has a legacy of losses except in the recent year (Table-10.12). The accumulated losses have grown year to year, and thereby, their net worth is

completely eroded, and it is highly negative. Among the three, accumulated losses of the Southern DISCOM (APSPDCL) are the highest and the least for the Eastern DISCOM (APEPDCL). Though the Central DISCOM has come into operation recently, its accumulated losses during the last three years are the second highest. The net worth of the Southern DISCOM has eroded the most among the three.

10.52 Nearly two-thirds of the total gross input energy in the State was handled earlier by the Southern DISCOM (APSPDCL), and the remaining one-third was handled by the Eastern one (APEPDCL). The Central DISCOM (APCPDCL) was created, bifurcating the energy supply jurisdiction of the APSPDCL. Now, the Central DISCOM is handling around one-fifth (21%) of the gross input energy in the State; the rest 46% remains with the Southern one. Therefore, the huge accumulated losses of APSPDCL have been drastically reduced after 2019-20 due to the creation of APCPDCL.

Table 10.12: Financial Performance of the State DISCOMs in Andhra Pradesh

State	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
I	2	3	4	5	6	7	8	9	10
APEPDCL									
PAT	-	-	-	-	-5,142	266	-2,251	141	853
Acc Profit	-	-	-	-	-7,974	-7,971	-7,539	-7,172	-6,911
Net Worth	-	-	-	-	-4,280	-4,297	-3,839	-3,326	-2,801
APSPDCL									
PAT	-	-	-	-	11,689	837	-3,424	-1,858	2,170
Acc Profit	-	-	-	-	-21,173	-21,172	11,761	-13,815	-
Net Worth	-	-	-	-	-15,514	-15,513	-8,595	-10,649	-9,416
APCPDCL									
PAT	-	-	-	-	-	-	-1,219	-878	650
Acc Profit	-	-	-	-	-	-	-9,407	-10,208	-9,726
Net Worth	-	-	-	-	-	-	-6,897	-7,654	-7,169

Notes: ACS – Average Cost of Supply per unit of energy (Rs./kwh); ARR – Average Revenue Realised per unit of energy (Rs./kwh); Gap is the difference between ARR and ACS, negative means revenue per unit is less than cost per unit, it is a loss; PAT – Profits after Taxes and in Crores; 2. ACS and ARR for DISCOMs are Energy Sold basis.

Source: Power Finance Corporation (PFC) of India.

10.53 According to the CAG audit report FY 2021-22, 98% of total losses were incurred by only five among all the 17 PSUs; each of their incurred losses were above Rs.25 crores during the year. Again, of the five, while the APSPDCL from the power sector accounted for 55% of the total losses of the PSUs in the State, the central APCPDCL accounted for another 22%. Along with these two DISCOMs, the other two power sector PSUs (APGenCo and its subsidiary APPDCL) involved in generation have contributed to another 18%. Together, the power sector has accounted for more than 95% of the total losses of

PSUs in the State incurred during the year. The CAG audit report (FY 2021-22) also noted that among 25 PSUs whose shareholders' fund had been completely eroded during the year, three DISCOMS of the state power sector are the most prominent among all.

10.54 Further, it is noted that the outstanding dues from these three DISCOMS to the State and Central sector power-generating PSUs have been increasing. The dues increased from Rs.4,252 crore in 2019-20 to Rs. 10,252 crore in 2021-22.

Table 10.13: Budget Support and Guarantees to Power Sector in Andhra Pradesh

State		2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
<i>1</i>			<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>
Budget Support	Rs. Cr	3617.3	2,138.2	11,592.0	6,110.8	11,518.7	18,237.7	14,867.2	8,155.3
Govt. Guarantees	Rs. Cr	7,186.6	7,138.3	15,708.7	26,418.5	27,217.4	38,472.9	48,638.6	-

Source: State Budget

10.55 With a legacy of operational losses and meeting the same with borrowings, the outstanding debt of the three DisComs has increased to Rs. 51852/- crores in 2022-23 (Table-14). The interest cost on such outstanding debt of all the three DisComs has increased to Rs. 3,589/- crores.

Table-10.14: Outstanding Debt and Interest Costs of DisComs in AP

DisCom	Outstanding Debt (Rs. Cr)			Interest Cost (Rs. Cr)		
	2020-21	2021-22	2022-23	2020-21	2021-22	2022-23
APCPDCL	8,083	9,183	11,384	665	874	938
APEPDCL	8,127	9,108	12,144	628	944	1,124
APSPDCL	15,164	18,137	28,325	962	920	1,527
All DisComs	31,375	36,428	51,852	2,255	2,738	3,589

Source: Power Finance Corporation (PFC) of India

10.56 The Ministry of Power, Government of India Report that 12th edition of Annual Ratings and Rankings of Power Distribution Utilities in India³⁵, mentioned that Andhra Pradesh is one of the five states that contributed to 89% of increase in the total outstanding debt of power distribution utilities in India. Further, AP DisComs have been rated B or C category of utilities based on various performance indicators.

³⁵ See at

https://www.pfcindia.com/DocumentRepository/ckfinder/files/GOI_INITIATIVE/Annual_Integrated_Ratings_of_State_DISCOMs/12%20Annual%20Integrated%20Report_Print%20versionRajbhasha.pdf

10.57 In all, the financial performance of power sector PSUs, especially the DISCOMS, is a cause for concern. They are not able to at least recover the cost of supply on energy sold, keeping aside the cost of T&D losses. Power sector PSUs, especially the DISCOMS along with APPDCL, which is involved in generation, account for most of the total losses of the PSUs in Andhra Pradesh. The State government budgetary support and the guarantees on loans to the power sector have been increasing.

VII Concluding Remarks

10.58 Business and commercial activities of the PSUs are critical for the State economy and meeting the needs and welfare of the people. However, their financial position and performance are causes for concern. The contribution of the PSUs in Andhra Pradesh in terms of their turnover is significant. However, the adverse financial position and performance of some of the PSUs have been burdening the State finances. Of 97 working PSUs in the State, less than ten have held a larger share in total investment (equity and loan) or capital employed and, thereby, the turnover in all the PSUs. Again, a few PSUs, particularly those in the power sector are causing a dent to the State finances in terms of grants and subsidies along with loans and guarantees.

CHAPTER – 11

Analysis of the State's Transfers to Urban and Rural Local Bodies in the State: Major Decentralization Initiatives in AP State

Introduction

It is now three decades and more that 73rd and 74th CA Acts were passed in the Parliament. But the progress of decentralization in various states is varied and mixed. The local government institutions (LSGIs) – both rural and urban bodies have not become fully decentralized in terms of functional and financial devolution. Although, as compared to pre CA situation, the present LSGIs are better now, however, it is far from satisfactory. As LSGIs are in the domain of state government purview, the progress of LSGIs heavily depends on the respective state governments' resolve to strengthen them. It is observed in the literature that LSGIs have still not become institutions of local governments but agents for the implementation of central and state government schemes and programmes. Largely, the LSGIs depend on Central Finance Commission Grants / Funds and State Government assigned revenues. The local governments capacity to generate own source revenues is still found very meagre.

11.2 State Legislatures have endowed Panchayats with such powers and authority as may be necessary to enable the Panchayats to become institutions of self-government at the grassroot level. Responsibility is given to them to prepare plans for economic development and social justice. Schemes of economic development and social justice with regard to 29 important matters mentioned in XI schedule such as agriculture, primary and secondary education, health and sanitation, drinking water, rural housing, the welfare of weaker sections, social forestry and so forth may be made by them.

11.3 As per article 243-G of the Constitution 73rd Amendment Act, "the legislature of a State may, by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of Self-Government and such law may contain provisions for the devolution of powers and responsibilities upon panchayats, at the appropriate level. Accordingly, Government of Andhra Pradesh have enacted APPR Act 1994 (Act 13 of 1994), reflecting the spirit of the Constitutional mandate. The Act came into force w.e.f. 30-05-1994.

Devolution of Funds to PRIs and ULBs[♦]

11.4 Andhra Pradesh was the second state in India to constitute PRIs through a legislative act in 1959. Following the 73rd amendment to the Constitution, the Andhra Pradesh Panchayat Raj Act was enacted in 1994. This Act provided for territorial constituencies for each tier. As provided for in this Act, State Election Commission was set up for the conduct of elections to PRIs. The 4th elections to Gram Panchayats and Mandal Parishads/Zilla Parishads were conducted in July, 2013 and July, 2014 respectively. Government of Andhra Pradesh devolved powers to PRIs in respect of ten subjects listed in Schedule XI of the constitution. These include agriculture, animal husbandry, rural development, fisheries, drinking water, school education, women and child development, review of activities of primary health centres and hospital, social welfare and welfare of backward classes. A significant feature of this devolution is that PRIs are associated with the preparation and approval of action plans in respect of schemes relating to subjects devolved on them.

Table 11.1: Overview of Administrative Divisions (or) PRI's in Andhra Pradesh

	Districts	Blocks/ Mandal's	Revenue Villages	Gram Panchayats (<i>Village Councils</i>)	Municipal Areas	Municipal Wards	Habitations
Andhra Pradesh	26	679	17,621	12,918	122	3,879	47,861

Source: Panchayat Development Index (PDI), GoI; <https://codes.ap.gov.in>

Overview of Administrative Divisions in Andhra Pradesh

11.5 The snapshot of the key administrative units across Andhra Pradesh, including the number of districts, blocks (or) mandals, revenue villages, gram panchayats (village councils), municipal areas, municipal wards, and habitations. This information highlights the scale and distribution of governance units crucial for local administration and development initiatives.

Key Observations:

Districts and Blocks:

Andhra Pradesh, with 26 districts and 679 mandals, reflects a structure well-aligned with India's national administrative division, particularly after the state's reorganization.

[♦]This section largely depends on the material found in the IV State Finance Commission Report of Andhra Pradesh submitted to AP Government.

Revenue Villages and Gram Panchayats in AP:

Andhra Pradesh accounts for 17,621 revenue villages and 12,918 gram panchayats, with each panchayat overseeing one or more villages. This structure facilitates grassroots-level governance, allowing rural development programs to reach even the smallest administrative units.

Urban Local Bodies – Municipal Areas and Wards in AP:

11.6 Andhra Pradesh's urban governance structure includes 122 municipal areas and 3,879 municipal wards, indicative of its rapidly urbanizing population and the need for robust municipal services to meet urban challenges.

Devolution of funds to PRIs During 2012-13 to 2016-17

11.7 Revenue base of the PRIs is very weak. The Gram Panchayats are authorised to levy house tax, advertisement tax in addition to a number of fees. Besides own revenue, state government assigns certain revenues to the PRIs such as surcharge on stamp duty, entertainment tax, professional tax, seigniorage fee etc. The basic and performance grants recommended by 14th FC are being drawn every year by duly fulfilling the conditions prescribed. Revenue realised by the PRIs in AP is presented below.

Table 11.2 Revenue Released to the Rural Local Bodies in the State

(Rs. Crore)

I. Gram Panchayats		Year			
Source of Revenue	2012-13	2013-14	2014-15	2015-16	2016-17
Own Tax Revenue	149.14	157.96	186.33	257.95	299.6
Non-Tax Revenue	108.17	125.79	134.97	124.63	140.69
Assigned Revenue & Devolution	88.96	98.94	109.61	95.51	105.66
Grant from State Govt.	50.16	79.41	76.99	121.5	77.04
Transfer from Central Govt.	0	1115.16	1223.76	928.41	1285.44
Others	0	0	0	0	0
Total	396.3	1577.3	1731.7	1528	1908.4
II. Mandal Parishads (Block Panchayat)		Year			
Source of Revenue	2012-13	2013-14	2014-15	2015-16	2016-17
Own Tax Revenue	0	0	0	0	0
Source of Income	2012-13	2013-14	2014-15	2015-16	2016-17
Non-Tax Revenue	16.98	8.07	6.85	39.32	21.30
Assigned Revenue & Devolution	61.95	41.38	40.96	62.84	57.00

Grant from State Govt.	121.50	126.49	159.95	192.17	396.46
Transfer from Central Govt.	0	313.60	347.08	0	0
Others	0	0	0	0	0
Total	200.43	489.54	554.84	294.33	474.76
III. Zilla Parishads (District Panchayats)	Year				
Source of Revenue	2012-13	2013-14	2014-15	2015-16	2016-17
Own Tax Revenue	0	0	0	0	0
Non-Tax Revenue	21.18	5.19	11.39	10.57	8.79
Assigned Revenue & Devolution	82.58	59.65	70.76	142.53	131.01
Grant from State Govt.	41.83	37.72	31.38	41.82	108.46
Transfer from Central Govt.	0	156.80	173.54	0	0
Others	45.12	43.82	50.63	51.93	143.20
Total	190.71	303.18	337.70	246.85	391.46

Source: Memorandum to the 15th Finance Commission, Finance Department, Government of Andhra Pradesh, October 2018.

Estimated Resource Gap for PRIs

11.8 The PRIs are expected to function as institutions of self-government, which is the core ostensible aim of the constitutional amendment. But due to weak financial base of these institutions, there is wide resource gap to attend to mandatory functions. The requirement for taking up the activities mentioned above is estimated at Rs.32,839.65 crore for the five-year period, 2020-25. The resources likely to be available to PR bodies are estimated at Rs.4457.11 crore leaving a balance of Rs.28382.54 crore.

Table 11.3: Gap in the Resources of Rural Local Bodies

(Rs. In crores)

Name of the PRI	15 th FC		
	Required Amounts	Available Amounts	Gap in Resources
I. Gram Panchayats	23418.43	2183.91	21234.52
Maintenance of CPWs Schemes & Hand Pumps	2810.50	0	0
Maintenance of Sanitation	9100.00	0	0
Formation and maintenance of internal roads	9000.00	0	0
Construction and Maintenance of GP buildings	459.00	0	0
Construction of New GP Buildings	0	0	0
Solar Energy for GP Buildings	140.93	0	0
Other Amenities (street lights, parks & playgrounds, creating barrier)	111.40	0	0
Free Approaches to Differently Aabled Persons	38.40	0	0
e-Panchayats	751.20	0	0

Name of the PRI	15 th FC		
	Required Amounts	Available Amounts	Gap in Resources
II. Mandal Praja Parishads	1422.77	370.20	1052.57
Maintenance of Hand Pumps	200.00	0	0
Maintenance of Roads and Buildings	1000.00	0	0
Maintenance of Mandal Parishad Buildings	64.10	0	0
Solar Energy for MP Parishad Buildings	60.72	0	0
Mandal Resource Centres	0	0	0
Hiring of Vehicles	97.95	0	0
e-Panchayats	0	0	0
III. Zilla Praja Parishads	7998.45	1903.00	6095.45
Maintenance of CPWs Schemes	5491.73	0	0
District Rural Road Maintenance	2500.00	0	0
Maintenance of Zilla Parishad Buildings	6.72	0	0
Provision of Crucial Balancing Fund for 9 Non – BRGF Districts	0	0	0
e-Panchayats	0	0	0
Grand Total (I+II+III)	32,839.65	4457.11	28382.54

Source: Memorandum to the 15th Finance Commission, Finance Department, Government of Andhra Pradesh, October 2018.

11.9 The earlier Central Finance Commissions have awarded grants to all the three tiers of local bodies. Fourteenth FC awarded grants to only Gram Panchayats and did not award grants to other two tiers i.e., to Mandal Praja Parishads and Zilla Praja Parishads. These two tiers are also essential to take care of the rural population.

Table 11.4: PRI's wise Release & Expenditure (Andhra Pradesh)

Rs. Cr

PRI's	Total No. of PRI's	2018-19		2019-20		2020-21		2021-22		2022-23	
		Release	Expendi-ture								
Zillah Panchayat	26	527.38	290.22	161.24	131.08	575.69	285.97	707.98	394.91	847.18	553.51
Block / Mandal Panchayat	679	336.91	328.27	397.85	289.61	603.68	581.84	727.81	483.74	980.15	633.34

Village Panchayat	12918	2065.24	1802.92	4584.82	1625.94	5636.12	2927.81	6959.61	3543.54	6582.69	4274.32
Total	13623	2929.53	2421.41	5143.91	2046.63	6815.49	3795.62	8395.4	4422.19	8410.02	5461.17

Source: e-GramSwaraj, e-Panchayat MMP of Ministry of Panchayati Raj (MoPR)

PRI-wise Release & Expenditure in Andhra Pradesh (2018-2023)

11.10 The data in table provides a breakdown of the financial releases and expenditures for Panchayati Raj Institutions (PRIs) in Andhra Pradesh across different levels—Zillah Panchayat, Block/Mandal Panchayat, and Village Panchayat over a five-year period from 2018-19 to 2022-23. This analysis explores the trends in fund allocation and utilization at each level and identifies key observations for local governance.

1. Zillah Panchayat (District Level):

11.11 The Zillah Panchayats have seen a significant increase in both fund releases and expenditure over the past five years. Releases rose from ₹527.38 Cr in 2018-19 to ₹847.18 Cr in 2022-23, while expenditure increased from ₹290.22 Cr to ₹553.51 Cr. Despite the higher financial allocations, the proportion of expenditure relative to the releases has shown a consistent improvement. In 2018-19, expenditure was 55% of the releases, and by 2022-23, this had improved to around 65%, suggesting more efficient fund utilization at the district level.

2. Block / Mandal Panchayat (Sub-District Level):

11.12 Block/Mandal Panchayats have experienced significant growth in both releases and expenditures. From ₹336.91 Cr in releases and ₹328.27 Cr in expenditure in 2018-19, releases grew substantially to ₹980.15 Cr, with expenditure rising to ₹633.34 Cr by 2022-23. The expenditure as a percentage of release also improved from 97% in 2018-19 to around 65% in 2022-23. This indicates better fund absorption and management at the block level, though the expenditure still lags behind the growth in releases.

11.13 The Block/Mandal Panchayats seem to have a relatively more balanced approach to fund utilization, suggesting effective local governance mechanisms and a more capable administrative structure compared to the higher and lower levels.

3. Village Panchayat (Grassroots Level):

11.14 Village Panchayats have seen an extraordinary increase in releases, from ₹2,065.24 Cr in 2018-19 to ₹6,582.69 Cr in 2022-23. Expenditure has also risen significantly, from ₹1,802.92 Cr to ₹4,274.32 Cr during the same period. However, despite the significant increase in allocations, the expenditure growth has been slower than the growth in releases. In 2018-19, expenditure was approximately 87% of the release, but by 2022-23, it accounted for only around 65% of the total released funds.

11.15 This suggests that while funds have been allocated to the grassroots level, the capacity to utilize them efficiently remains a concern. Potential reasons for this discrepancy could include administrative delays, lack of local capacity, or challenges in implementing large-scale projects at the village level.

4. Total PRI-wise Data (All Levels Combined):

11.16 The total funds released across all PRIs in Andhra Pradesh have seen a sharp increase from ₹2,929.53 Cr in 2018-19 to ₹8,410.02 Cr in 2022-23. Similarly, total expenditure has risen from ₹2,421.41 Cr to ₹5,461.17 Cr, though at a slower pace. The proportion of expenditure to releases has decreased slightly—from around 83% in 2018-19 to approximately 65% in 2022-23—indicating that while more funds are being allocated, the efficiency in utilizing them has room for improvement.

11.17 This trend reflects a broader challenge in fund absorption across all levels of PRIs, where larger releases have not been fully translated into corresponding expenditures, especially at the grassroots level.

Key Observations and Insights

Increasing Allocations, Slower Utilization:

11.18 While there has been a significant increase in financial allocations to PRIs in Andhra Pradesh, the rate of expenditure growth has not kept up with the rate of fund releases. This pattern is evident at all levels—Zillah, Block/Mandal, and Village Panchayats—indicating that while resources are available, the local bodies might face challenges in utilizing them efficiently.

Improvements at the Zillah Panchayat Level:

11.19 The Zillah Panchayat has demonstrated the best improvement in terms of expenditure absorption. The percentage of expenditure relative to the release has improved

from 55% to 65% between 2018-19 and 2022-23, suggesting that district-level governance structures are becoming more adept at managing and implementing projects.

Better Utilization at the Block/Mandal Level:

11.20 The Block/Mandal Panchayat level has shown a relatively better utilization of funds, with the expenditure growing in tandem with the release, although it still lags behind the increase in fund releases. This suggests that the intermediate level of governance is relatively more efficient compared to the village level but still faces challenges in fully utilizing allocated funds.

Village Panchayat Discrepancy:

11.21 The Village Panchayats, despite receiving the highest share of the total allocations, show a concerning gap between fund releases and actual expenditure. The growth in expenditure has not kept pace with the growth in releases, and the percentage of funds utilized has decreased from 87% to 65%. This indicates a significant challenge at the grassroots level in terms of fund absorption and effective project implementation. Factors like limited administrative capacity, lack of trained personnel, or delays in project execution may be contributing to this issue.

Need for Capacity Building:

11.22 The data points to an urgent need for strengthening the capacity of local governance structures, particularly at the Village Panchayat level. Providing training in financial management, project planning, and execution, as well as enhancing the technical and administrative capabilities of local officials, could help improve the efficiency of fund utilization.

11.23 There is another source (File No. PRR02-23/2024-H-Commissioner PRRD, AP Government) which provided the data regarding rural local bodies (scheme-wise) for five-year period (2019-20 to 2023-24) on releases (amount transferred) and amount spent which is furnished below:

Table 11.5: Data on transfer to RLBs (Amount in Crore)

Sl. No	Type of Scheme	2019-20		2020-21		2021-22		2022-23		2023-24		Grand Total	
		Amount Transferred	Amount Spent										
1	CFC	2460.55	137.86	2935.02	2718.5	1629.60	2386.21	972.34	1915.55	2651.70	2018.34	10649.21	9176.46
2	SFC	0.00	0	0.00	0	0.00	0	0.00	0	0.00		0.00	
3	Grants from State Government (Per Capita, Seigniorage, Profession Tax)	149.44		149.88		281.12		285.06		285.06		1150.56	
4	Assigned Revenue & Devolution	879.69	407.56	649.74	1216.07	379.99	1553.2	659.39	1701.93	262.67		2831.48	
5	Tax & Non-Ta Revenue	514.85		617.58		725.88		772.33		769.07		3399.71	
		4004.53	545.42	4352.22	3934.57	3016.58	3939.4	2689.12	3617.5	3968.51	3802.3	18030.96	15839.21

11.24 In the data referred above, one sees that there are no SFC grants for all the five years (2019-20 to 2023-24). Regarding CFC grants (releases and amount spent) there is large scale variation. In the year 2019-20 amount under CFC head released was 2460.55 crores and the amount spent was only 137.86 crores. In other years such as 2021-22 and 2022-23 the amount spent was more than amount released. The same in the case with grants from state governments, assigned revenue devolution and tax and non-tax revenue. Mis match between amount releases and spent.

In the following table, the details – per panchayat, as furnished by the RBI report recently on Gram Panchayats is shown as well as the expenditure (per panchayat).

Table 11.6: Revenue Receipts of Village Panchayats as given in RBI Report on PRI Finance

(₹ per Panchayat)

Item	ANDHRA PRADESH		
	2020-21	2021-22	2022-23
1	2	3	4
Total Revenue Receipts (I+II+III)	4,65,628	5,56,773	2,69,540
I. Own Tax Revenue (1 – 8)	2,47,816	2,83,786	1,52,382
1. Taxes on Profession, Trades, etc.	1,635	1,276	1,233
2. Land Revenue	4	7	17
3. Stamps and Registration Fees	42,690	55,423	37,042
4. Taxes on Property other than Agriculture Land	2,02,653	2,25,899	1,13,189
5. Taxes on Vehicles	-	-	-
6. Taxes on Goods and Passengers	48	45	52
7. Service Tax	142	182	344
8. Taxes on Duties and Commodities	644	954	504
II. Own Non-Tax Revenue (1 – 15)	1,66,996	2,27,546	98,301
1. Interest Receipts	-	-	-
2. Maintenance of Community Assets	1,131	917	583
3. Education	-	-	-
4. Market and Fairs	1,426	1,336	475
5. Health and Family Welfare	-	-	-
6. Water Supply and Sanitation	8,815	9,617	5,225
7. Rural Housing	252	280	69
8. Animal Husbandry, Dairying, Poultry and Fuel and Fodder	-	-	-
	8,711	8,251	6,731
9. Fisheries	0	2	2
10. Forestry	-	-	-
11. Agriculture including Agriculture Extension	1,46,450	2,06,919	85,049
12. Panchayati Raj Programmes	-	-	-
13. Minor Irrigation	211	225	168
14. Rural Electrification	-	-	-
15. Village and Small-Scale Industries	-	-	-
III. Grants-in-aid (1-3)	50,815	45,441	18,857
1. Grants from Central Government	37,389	15,368	5,465
2. Grants from other Institutions	1,003	441	314
3. Grants from State Government	12,423	29,632	13,078

Note: Data are not available.

Source: Estimates based on eGramSwaraj data as given in the RBI Report on "Finances of Panchayati Raj Institutions", Reserve Bank of India, January 2024.

This data clearly shows for all the three years (2020-2021, 2021-22 and 2022-23) the expenditure was in excess of the receipts which was cause of concern.

Table 11.7 : Revenue Expenditure of Village Panchayats
(₹ per Panchayat)

Item	ANDHRA PRADESH		
	2020-21	2021-22	2022-23
1	2	3	4
Total Revenue Receipts (1 - 26)	10,30,354	7,38,938	3,60,550
1. Agriculture including Agriculture Extension	-	-	-
2. Animal Husbandry, Dairying, Poultry and Fuel and Fodder	-	-	-
3. Art, Culture and Libraries	90	64	68
4. Education	-	-	-
5. Fisheries	-	-	-
6. Forestry	-	-	-
7. Health and Family Welfare	5	10	24
8. Interest Payments	-	-	-
9. Maintenance of Community Assets	2,030	894	795
10. Market and Fairs	-	-	-
11. Minor Irrigation	-	-	-
12. Non-Conventional Sources of Energy	-	-	-
13. Panchayati Raj Programmes (i-iv)	7,04,843	5,37,208	2,46,049
(i) District Panchayat Programmes	2,308	1,803	885
(ii) Gram Panchayat Programmes	6,94,573	5,26,477	2,36,358
(iii) Other Expenditure	7,866	8,881	8,588
(iv) Panchayat Samiti Programmes	95	48	218
14. Pension and Other Retirement Benefits	-	-	-
15. Poverty Alleviation Programme	-	-	-
16. Pubic Distribution System	-	-	-
17. Rural Electrification	53,838	21,010	10,628
18. Rural Housing	-	-	-
19. Social Security and Welfare	-	-	-
20. Soil and Water Conservation	-	-	-
21. Technical Training and Vocational Education	-	-	-
22. Transportation	5,443	4,033	2,495
23. Village and Small Scale Industries	-	-	-
24. Water Supply and Sanitation (i-vi)	2,64,105	1,75,718	1,00,492
(i) Maintenance and Repair of Tube-wells	12,270	5,973	3,358
(ii) Maintenance of Water Supply line	77,785	44,590	25,530
(iii) Other Expenditure	26,978	19,012	10,977
(iv) Sewage and Solid Waste Management	-	-	-
(v) Sewerage and Sanitation	1,47,073	1,06,144	60,627
(vi) Storm water drainage	-	-	-
25. Welfare of Scheduled Castes, Scheduled Tribes and Other Weaker Section	-	-	-
26. Women and Child Welfare	-	-	-

Note: - Data are not available.

Source: Estimates based on eGramSwaraj data as given in the RBI Report on "Finances of Panchayati Raj Institutions", Reserve Bank of India, January 2024.

Sum-up

11.25 The data for Andhra Pradesh reveals a positive trend in the increase of funds allocated to PRIs over the past five years. However, the slower pace of expenditure growth compared to the release of funds suggests that local governance bodies, especially at the village level, face challenges in utilizing resources effectively. Strengthening administrative capacity, enhancing transparency, and improving project implementation processes at all levels of the PRI system will be crucial to ensuring that allocated funds are fully utilized for local development. Focused efforts in capacity building and better management practices could significantly improve the impact of these financial allocations on the ground. This data on Gram Panchayat (per Panchayat) revenue and expenditure provided by the RBI report for AP shows that expenditure was in excess of the revenue receipts which was cause of concern (see Appendix-II for a comparison of AP situation against all the South Indian States such as Telangana, Kerala, Tamil Nadu and Karnataka).

Urban Local Bodies

11.26 Andhra Pradesh had a well-established Municipal Administration even before the enactment of Constitution 74th Amendment Act.

Table 11.8: Basic details of ULBs - AP

Indicator	Unit	State statistics
Urban population	Crore	1.46
Male	Lakh	72.92
Female	Lakh	73.18
Urban sex ratio	Females per 1000 Males	1004
Urban literacy rate	Percentage	79.17
Municipal Corporations	Number	14
Municipalities	Number	73
Nagar Panchayats	Number	23

Source: Information furnished by Commissioner and Director of Municipal Administration (CDMA) and Andhra Pradesh at a Glance (2016-17) published by Directorate of Economics and Statistics, Government of Andhra Pradesh

11.27 It can be seen that there are 14 Municipal Corporations, 73 Municipalities and 23 Nagara Panchayats in Andhra Pradesh as on 2016-17. The urban population in Andhra Pradesh was 1.46 crores, according to 2011 census. Urban sex ratio was 1004 females per 1000 males. The urban literacy rate was 79.17 percent.

Devolution of Funds to ULBs

11.28 Sustainable financing is paramount to ensure discharge of any function. The devolved functions can be carried out effectively by ULBs only when they are supported with sufficient financial resources. Such financial resources could take the form of predictable fiscal transfers or access to own revenue streams that are buoyant and commensurate with the expenditure obligations, accompanied by appropriate expenditure powers. Predictable fiscal transfers to ULBs need to be ensured through a robust State Finance Commission mechanism and compliance with State and Central Finance Commission recommendations. Access to own sources of revenue would include both the power to levy and collect from specific revenue streams. Expenditure powers refer to reasonable delegation limits that allow the ULB to utilise their financial resources.

11.29 ULBs were earlier entrusted with 13 functions out of 18 functions listed in the 12th schedule to the Constitution. Recently, four more functions viz. planning for development, urban forestry and welfare of weaker sections and promotion of cultural and educational aspects were transferred to ULBs. Own Resources raised and Transfer of Resources to ULBs during the period 2010–11 to 2020–21 are presented below.

Table 11.9: Revenue Released by the ULBs in the State (Rs. Crore)

Year	Sources of Revenue						Total
	Own Revenue			Transfers from Central Govt/13 th FC/14 th FC*	Assigned + Devolution	Grant-in-Aid from State Government	
	Tax Revenue		Non-Tax (Incl. user charges)				
Immovable Property Tax	Other Taxes						
2010-11	401.03	202.15	417.80	94.64	201.78	109.95	1427.35
2011-12	523.12	196.63	426.36	59.14	254.31	118.18	1577.73
2012-13	649.93	234.85	474.35	-	252.76	172.25	1784.14
2013-14	643.95	235.97	538.40	-	224.59	275.74	1918.66
2014-15	711.36	284.63	640.38	633.15	346.16	295.30	2910.98
2015-16	812.94	362.81	657.68	331.47	352.60	400.59	2918.10
2016-17	856.38	437.91	940.87	611.47	324.67	429.94	3601.23
2017-18	945.07	429.60	1064.84	504.94	349.41	367.43	3661.29
Total	5543.78	2384.56	5160.66	2234.81	2306.27	2169.38	19799.48

**The performance grants recommended by the 14th FC are being drawn every year by duly fulfilling the conditions prescribed.*

Table 11.10: Details of revenues of Urban Local Bodies in the State during the period 2016-21

(₹ in crore)

Year	Grants	Own Revenue	Assigned Revenue	Total Revenue/ financial resources	Percentage of own revenue to Total revenue / financial resources	Percentage of fiscal transfers to Total revenue/ finance resources.
2016-17	1,030.75	1,931.85	345.01	3,307.61	58	31
2017-18	1,086.43	1,996.87	337.62	3,420.92	58	32
2018-19	1,330.71	2,123.88	374.53	3829.12	55	35
2019-20	1,049.14	1,398.58	283.96	2,731.68	51	38
2020-21	854.34	2,171.10	476.23	3501.67	62	24
Total	5,351.37	9,622.28	1,817.35	16,791.00	57	32

Source: Information furnished by CDMA for all ULBs in the State

11.30 Funds were received by the ULBs by means of transfer by Central and State Governments in the form of grants. As can be seen from the table, the fiscal transfers from Government in the form of grants constituted 30 per cent on average of total revenue. Own and assigned revenue constituted major portion of revenue (59 per cent own revenue and 11 per cent assigned revenue) of ULBs in the State during the period 2016-17 to 2020-21.

Table 11.11: Municipal Corporations (17 ULBs) / Municipalities (77 ULBs) / Town (or) Nagar Panchayats (29 ULBs)

(Rs. Cr)

Urban local body	2018-19		2019-20		2020-21		2021-22		2022-23	
	Release	Expenditure	Release	Expenditure	Release	Expenditure	Release	Expenditure	Release	Expenditure
Municipal corporations	1120.3	352.14 (31.43)	1345.45	326.25 (24.25)	1354.75	634.38 (46.83)	1568.32	874.25 (55.74)	2147.63	1347.68 (62.75)
Municipalities	2875.36	1731.62 (60.22)	2513.42	1403.24 (55.83)	3908.89	2560.12 (65.49)	3812.34	1988.74 (52.17)	4023.53	2301.42 (57.20)
Town / Nagar panchayats	2,687.64	1,935.64 (72.02)	3624.58	1632.34 (45.04)	3147.58	1865.61 (59.27)	4236.78	2164.31 (51.08)	5164.38	2516.24 (48.72)
Total	6683.3	4019.4 (60.14)	7483.45	3361.83 (44.92)	8411.22	5060.11 (60.16)	9617.44	5027.3 (52.27)	11335.54	6165.34 (54.39)

Source: Directorate of Municipal Administration (DMA), <https://www.finance.ap.gov.in/>, (budget volume) <https://www.apurban.gov.in/>

Note: Figures in brackets are the percentages of the expenditure against the releases.

Analysis of the Data on Release and Expenditure for Urban Local Bodies (2018-23)

11.31 The data presented covers the releases and expenditures for three categories of urban local bodies (ULBs) in Andhra Pradesh: Municipal Corporations (17 ULBs), Municipalities (77 ULBs), and Town/Nagar Panchayats (29 ULBs) over the period 2018-2023. These figures provide insight into how resources were allocated and utilized for urban governance and development in the state.

Key Observations:

1. Overall Increase in Releases:

- The total release across all categories of ULBs has shown a consistent increase from ₹6,683.3 crore in 2018-19 to ₹11,335.54 crore in 2022-23. This indicates a rising trend in financial allocations towards urban development, possibly reflecting the growing focus on urbanization, infrastructure development, and local governance reforms.

2. Expenditure Patterns:

- While releases have been increasing, the expenditure figures indicate some gaps in utilization. The total expenditure across all ULBs increased from ₹4,019.4 crore in 2018-19 to ₹6,165.34 crore in 2022-23. This shows an increase, but the growth in expenditure is not proportional to the increase in releases, suggesting that a significant portion of the allocated funds is not being utilized in the year of release.

3. Municipal Corporations:

- Releases for Municipal Corporations increased significantly from ₹1,120.3 crore in 2018-19 to ₹2,147.63 crore in 2022-23, marking a substantial growth in funding for urban development in cities.
- However, the expenditure has not kept pace with releases, with only ₹352.14 crore spent in 2018-19 and ₹1,347.68 crore spent in 2022-23. This disparity between releases and expenditures indicates a significant underutilization of funds, which could be due to administrative delays, project implementation challenges, or inefficient planning.

4. Municipalities:

- Releases for Municipalities also increased from ₹2,875.36 crore in 2018-19 to ₹4,023.53 crore in 2022-23.
- Expenditure in Municipalities has increased more proportionally, from ₹1,731.62 crore in 2018-19 to ₹2,301.42 crore in 2022-23. However, the expenditure is still lower than the release amount, indicating that the funds are not being fully utilized within the respective fiscal years.

5. Town / Nagar Panchayats:

- The releases for Town/Nagar Panchayats showed a considerable increase from ₹2,687.64 crore in 2018-19 to ₹5,164.38 crore in 2022-23.
- The expenditure also increased but at a relatively lower rate, from ₹1,935.64 crore in 2018-19 to ₹2,516.24 crore in 2022-23. This indicates a potential issue in the speed of project execution or utilization of allocated funds for smaller ULBs.

6. Discrepancy Between Release and Expenditure:

- A significant gap exists between the release and expenditure figures across all three categories, but this gap is most prominent in Municipal Corporations, where expenditure is much lower than the release amount, indicating poor fund utilization.
- Municipalities and Town/Nagar Panchayats also show some gap between release and expenditure, although it is comparatively smaller.

Findings:

- **Underutilization of Funds:** A major finding from the data is the underutilization of released funds, especially in Municipal Corporations. This underutilization could result from delays in project implementation, inefficient financial management, or slow-moving processes at the local government level.
- **Lack of Adequate Planning or Implementation:** The significant differences between the release and expenditure figures suggest that ULBs are either not equipped to handle large-scale projects or face systemic barriers (e.g., administrative delays, legal hurdles, or lack of technical expertise) that prevent the full utilization of allocated funds.

- **Inconsistent Expenditure Trends:** Expenditure growth does not match the pace of fund releases, indicating that while allocations have been increased year on year, the capacity to spend or the effectiveness of spending may be limited. In particular, the trend for Municipal Corporations raises concerns about the management and execution of funds.

Recommendations:

1. **Improve Project Execution Timelines:** Strengthening the capacity of ULBs to implement projects on time is critical. This could involve training municipal staff, increasing technical expertise, and improving project management systems.
2. **Enhance Financial Monitoring:** Better tracking and monitoring of fund utilization across different ULBs would help ensure that allocated funds are spent efficiently. This could include regular audits, reviews, and accountability measures to ensure that funds are being used for their intended purposes.
3. **Strengthen Planning and Budgeting:** Municipal Corporations and other ULBs should improve their financial planning processes. They could benefit from more realistic budgeting, factoring in the capacity to spend, and aligning release amounts with actual project timelines.
4. **Capacity Building for Smaller ULBs:** Municipalities and Town/Nagar Panchayats should receive more support in terms of training, infrastructure development, and capacity-building to help them manage and utilize larger releases effectively.
5. **Reassess the Release-Expenditure Pattern:** The state government could consider releasing funds in tranches based on progress reports and expenditure patterns. This would encourage better fund utilization and reduce underutilization or mismanagement of funds.
6. **Streamline Project Approvals and Clearances:** Reducing bureaucratic delays and improving inter-departmental coordination could help speed up the approval and execution process for municipal projects.

11.32 The data indicates that while there has been an increase in financial allocations to Urban Local Bodies in Andhra Pradesh, the utilization of these funds has not been optimal. The gap between release and expenditure, especially in Municipal Corporations, suggests that systemic issues related to planning, execution, and monitoring need to be addressed. A

concerted effort to improve project management, strengthen financial systems, and build capacity in local bodies can help bridge these gaps, ensuring that funds are used effectively for urban development in the state.

11.33 The pace of urbanization is growing in AP as revealed in a study which says that in the year 2011 the percent of urban population to total population was 28.77 against 23.36 in 2001. This steep increase is due to the expansion of urban agglomerations and outgrowth especially in the districts of Vishakapatnam, East Godavari and Krishna (K. Venkatesham,2023).

15th Finance Commission and ULBs

15th FC divided the ULBs into two categories –

1. Million-Plus cities (Visakhapatnam & Vijayawada) &
2. Non-Million-Plus cities & towns (121 ULBs).

Table 11.12: Details of the allocation and release of Basic and Performance Grants by GoI as per FFC recommendations

Period	Basic Grants			Performance Grants		
	Allocation	Released by GoI	Short Released	Allocation	Released by GoI	Short Released
2015-16	348.92	331.47	17.45	-	-	-
2016-17	483.14	483.14	0.00	142.59	128.33	14.26
2017-18	558.23	504.94	53.29	161.36	146.69	14.67
2018-19	645.77	587.06	58.71	183.25	0.00	183.25
2019-20	872.57	872.57	0.00	239.95	0.00	239.95
Total	2,908.63	2,779.18	129.45	727.15	275.02	452.13

11.34 As per guidelines for implementation of recommendations of FFC issued (October 2015) by Ministry of Finance, GoI grants shall be released to State Government for the duly constituted 104 ULBs in two instalments *i.e.* 50 *per cent* of Basic Grants in June and remaining portion of Basic Grants and full Performance Grants in October every year. Release of second and subsequent instalments of grants (both Basic and Performance) will be facilitated on receipt of utilisation certificate for the previous instalment.

11.35 From the year 2020-21 onwards Central Finance Grants to the ULBs are in the loom of Million-plus (population) cities and Non-million-plus cities which was presented in the following table.

Table 11.13: Allocations & Releases by GoI – (Rs. In Crores)

Sl. No	Year	Type of grant	Allocated by GoI	Released by GoI	To be released by GoI
1		Million-Plus Cities	270.00	270.00	0.00
2	2020-21	Non-Million-Plus Cities	994.00	994.00	0.00
		A) Sub-Total	1,264.00	1,264.00	0.00
3		Million-Plus Cities	204.00	202.10*	0.00
4	2021-22	Non-Million-Plus Cities	752.00	752.00	0.00
		B) Sub-Total	956.00	954.10	0.00
5		Million-Plus Cities	211.00	193.50*	0.00
6	2022-23	Non-Million-Plus Cities	779.00	779.00	0.00
		C) Sub-Total	990.00	972.50	0.00
7		Million-Plus Cities	223.00	149.00	74.00
8	2023-24	Non-Million-Plus Cities	823.00	305.50	517.50
		D) Sub-Total	1,046.00	454.05	591.50
9		Non-Million-Plus Cities	237.00	0.00	237.00
10	2024-25	Non-Million-Plus Cities	872.00	0.00	872.00
		E) Sub-Total	1,109.00	0.00	1,109.00
		Grand Total (A+B+C+D+E)	5,365.00	3,644.65	1,700.50

Governance Reforms at the Grassroots Level in Andhra Pradesh

11.36 Since the AP state was bifurcated into Residuary AP and Telangana State in the year 2014, the AP state has embarked upon ushering a lot of governance reforms at the grassroots level which has implications for the transparency and accountability mechanisms. Devolution Report prepared by TISS in the year 2014-15 and MoPR (Ministry of Panchayati Raj, Govt. of India) 2015 mentions about accountability in PRIs shows that for All India, the overall index of accountability is 66.27% in GPs, 62.39% in Block Panchayats and 69.11% in District Panchayats and overall percentage across the tiers of PRIs stands at 65.92%. According to the same report, Kerala, Haryana, Madhya Pradesh, Himachal Pradesh and Maharashtra are at the top. The poor performers are Jammu & Kashmir, Manipur, Arunachal Pradesh, Uttarakhand and Andhra Pradesh.

11.35 The indicators taken into consideration under Accountability system are i) number of panchayats audited ii) number of panchayats with financial data base online and iii) number of panchayats with at least one trained person to handle accounts. Under transparency the number of indicators considered are i) number of panchayats with budget documents online, ii) number of panchayats with account statements online, iii) number of

panchayats with audited accounts online, and iv) system of social audit and v) number of panchayats annual performance reports online (Devolution Report, 2014-15, TISS and MoPR, 2015). As per the assessment of transparency systems across the tiers shows that, once again, Kerala, Karnataka and to some extent Tamil Nadu are well performing states while AP is poorly performing state with the overall transparency system is 24.17% across all the tiers.

The Smart Village – Smart Ward Initiative

11.37 The Government of Andhra Pradesh has envisaged a comprehensive and integrated local development approach under CB Naidu regime during 2014-19 (Post State Bifurcation) that harnesses the social capital and predevelopment environment generated by the existing efforts of the State and Central Governments. These emissions, campaigns, grids, programmes and schemes, with the Janmabhoomi Maa Vooru (JBMV) programme, would renew the people's sense of ownership and responsibility towards their janmabhoomi, i.e., their village or ward. This initiative, named 'Smart Village-Smart Ward– Towards Smart Andhra Pradesh', focuses on both rural and urban areas of the state.(Smart APFoundation,2016).

11.38 The Smart Village-Smart Ward initiative was envisioned for implementing a comprehensive and integrated local-development programme where people, partners, departments and other stakeholders participated wholeheartedly, catalysing community action.

11.39 These governance reforms at the grassroots level during TDP regime under Chief Minister N Chandra Babu Naidu during his first stint (2014-19) after the state bifurcation did not cut much ice with the citizens as no meaningful outcomes have happened.

Institution of Village/Ward Secretariat System:

11.40 In an era of globalisation, decentralisation is the principal countervailing trend which can ensure that the growth process is pro-poor, pro-women, pro-nature and pro-jobs. Towards this endeavor, government has made specific plans to decentralize the governance bringing administration to the doorsteps of the household – both at the Village as well as at

the ward level. Accordingly, the government has rolled out Village Secretariat, Village Volunteer, Ward Secretariat and Ward Volunteer Schemes. The Government with an intention to make the villages self-sufficient by meeting the basic needs of the people and to assure that the benefits of scheme reach poorest of the poor has introduced the flagship programme 'Village Volunteers System' for taking governance to the doorsteps of the people.

11.41 Due to lack of infrastructure and manpower at Gram Panchayat/ ward level, the intended objectives to establish a more meaningful local government could not be achieved. Thus, government decided to revamp delivery systems in the State with an aim to improve living standards of the people through the concept of NAVARATHNALU as core theme of governance.

11.42 The government of Andhra Pradesh with an aim to provide a robust delivery system, has introduced the Village/Ward Secretariat system on 2nd October (Mahatma Gandhi's Jayanti), 2019 for strengthening service delivery at grassroots level and ensuring transparent, accountable and corruption free services to citizens. Village/Ward Secretary System is first of its kind in the decentralised grassroots governance in the country.

11.43 15004 Village and Ward Secretariats have been established across the State. A Village Secretariat was established for every 2000 population and a Ward Secretariat (in Urban areas) for every 4000 population. The Secretariat system will play a vital role in providing efficient delivery of public services to the needy people through a committed cadre of village level government functionaries.

11.44 In order to equip the Village/Ward Secretariat with efficient functionaries, the government has so far selected and positioned 110520 functionaries in Village and Ward Secretariats. Each Village/Ward Secretariat was provided with 11/10 Departmental functionaries. The functionaries positioned in Village Secretariats extend their services for effective implementation of NAVARATHNALU - the commitments made by Government to citizens to improve their living standards. The Village Secretariat also serves as common service centre through which the people can directly access about 544 Services relating to 28 departments including ration cards, pension cards, arogyashri cards, etc. The Government has equipped all secretariats with necessary infrastructure facilities to

transform the Gram Panchayats into vibrant institutions of Local Governance. To ensure corruption free and transparent services and make the functionaries accountable to the people, 1902 Call Centres have been established to receive feedback from the citizens.

11.45 The Village Secretariats with the help of Village Volunteers are expected to ensure transparent and corruption free delivery of citizen services and help in redressing the public grievances within 72 hours through 'Spandana Program'.

Village /Ward Volunteer System:

11.46 The 'Village/Ward Volunteer System' was expected to ensure corruption free and leak proof delivery of government services and "NAVARATNALU", the flagship program of government at the door step of all eligible households irrespective of their caste, creed, religion, gender, and political affiliation. The new administrative structures at the village/ward levels through establishment of Village/Ward Secretariats is expected to revolutionize the systems and help ensure an accountable, transparent and corruption-free governance through a seamless service delivery.

11.47 From January 26th (The Republic Day of India), 2020, AP Government brought 545 Public Services delivered to its citizens under the Gram/Ward secretariat system. Until now (May 30th, 2021) out of the 2, 38, 72, 357 petitions made by the citizens across the state, 2, 32, 99, 642 petitions were resolved by the staff of the village secretariat. (Reddy & Aruna Kumar, 2021).

11.48 Although village volunteers earned good name in reaching out the last man in the service delivery mechanism, they seem to be not accountable to the democratically elected local bodies, in particular to the sarpanches of the village or chairmen of the urban local bodies. There was clear cut cleavage between the staff of the government and the elected bodies and their chiefs at the grassroots level. Added to this disconnect between the village/ward volunteers and the local bodies, higher level peoples' representatives such as MLAs were also mostly bypassed by the village volunteer system. This created further strain on the governance at the grassroots level. These reforms although proved sound in terms of service delivery functions but yet the wide gap and no synergies were established between

the village secretariat system and peoples' representatives. This was cited as one of the chief reason for the down fall of YSR Jagan Mohan Reddy government in 2024 elections.

Review of Previous State Finance Commissions in Andhra Pradesh

11.49 So far three State Finance Commissions have submitted their Reports in Andhra Pradesh. The following Table shows the details of these Commissions.

Table 11.14: Details of State Finance Commissions in Andhra Pradesh

SFC	Date of Constitution	Date of Submission	Name of the Chairman	Award Period	Number of Recommendations Accepted
I	22-06-1994	30-05-1997	Sri Lakshmana Swamy	1997-1998 to 1999-2000	55out of84
II	08-12-1998	19-08-2002	Prof.D.L.Narayana	2000-2001 to 2004-2005	46out of82
III	29-12-2004	29-01-2008	Prof. B Satyanarayana	2005-2006 to 2009-2010	44out of63
IV	05-02-2018	30-10-2019	Prof. G. Nanchariah	2020-21 to 2025-26	See Annexure – I

Source: Reports of Successive State Finance Commissions, GoAP

Note: Government of Andhra Pradesh first constituted the Third State Finance Commission on 16-1-2003 and reconstituted the same in 2004 due to unavoidable reasons.

Recommendations of Successive State Finance Commissions

11.50 The recommendations made by the Central Finance Commissions were being accepted by the Government of India with a few exceptions though the Constitution does not provide that all the recommendations of the Finance Commission should be accepted by the Government. When the First generation of State Finance Commissions was constituted, it was expected that the State governments would follow the tradition established by the Union Government. It is pertinent to note that no State government has accepted all the recommendations of all the Commissions to the utter disappointment of the Local Bodies. In the case of the First State Finance Commission of Andhra Pradesh, out of 84 recommendations made, 24 recommendations were not accepted and 5 recommendations were accepted with modifications. In other words, about 70 per cent of the recommendations were accepted and some of the recommendations which were accepted were not implemented. It is interesting to note that some of the non-financial recommendations were also not accepted.

11.51 Moreover, in several cases, the reasons for non-acceptance of the recommendations were not stated by the Government in the Action Taken Report. In fact, this is the situation, more or less in several states. For instance, 82 recommendations, financial and non-financial, were made by the Second State Finance Commission. But the government accepted only 46 recommendations (56 per cent) while keeping 14 recommendations under consideration. The Third Finance Commission made 63 recommendations out of which 44 recommendations pertain to Rural Local Bodies (RLBs) while the remaining 19 recommendations relate to Urban Local Bodies (ULBs). Of the 44 recommendations pertaining to RLBs, 17 were financial recommendations the remaining 27 being non-financial recommendations. It is quite disgusting to note that the government has accepted 3 recommendations only out of the 17 financial recommendations (17 per cent). With regard to the 27 non-financial recommendations, the government has unconditionally accepted 19 recommendations. The rest are either not accepted or kept pending for detailed examination. It is pertinent to note that about 8 non-financial recommendations were not implemented even though they were accepted. The Fourth State Finance Commission feels that the State government needs to take necessary initiatives to implement the recommendations it has accepted in the interest of augmenting of resources and improving the efficiency of local governance.

11.52 With regard to the Urban Local Bodies, the Third Finance Commission made 19 recommendations of which 10 were financial recommendations and only one recommendation was accepted. Of the total non-financial recommendations, 8 recommendations were accepted.

Financial Devolution

11.53 Regarding devolution of funds, the government accepted an amount of Rs. 434.42 crores per annum out of the recommended devolution of Rs. 979.16 as recommended by the First State Finance Commission. This constitutes 44.37 per cent only and also did not follow the 70:30 ratio for distributing the funds between Rural and Urban Local Bodies. Government also resorted to cut the approved budget allocation meant for the Panchayats. For instance, as against the Finance Commission grants for three years during 1996-97 to 1998-99, grants for two years only were released. An amount of Rs. 100 crores due for the year 1997-98 has not

been budgeted for release to the local bodies badly affecting the maintenance and governance activities of the Panchayats. It is highly deplorable that in some cases, the Government has not released the grants of State Finance Commission to the concerned activity and/or institutions. For instance, the government have accepted devolution to the extent of Rs.70.47 crores per annum to the Urban Bodies. Though provision was made in the Budgets, the amounts were not actually released causing a fiscal disadvantage to the concerned local bodies.

11.54 Similar is the case with the recommendations of the Second State Finance Commission. The total amount recommended for devolution was Rs.1793.94 crores (Rs.1167.33 crores for PRIs and Rs.626.61 crores for Municipalities) and the amount accepted for devolution was Rs.300 crores (Rs.200 crores for PRIs and Rs.100 crores to Municipalities and Corporations) accounting for 17 percent only.

11.55 But the total amount of devolution released by the Government as per the recommendations of the Second State Finance Commission for the Gram Panchayats was Rs.191.40 crores. Even if the entire amount of Rs.135 crores is taken for utilization for this purpose, there will be a shortage of Rs.56.40 crores (Rs.191.40 (-) Rs.135 = Rs.56.40) per annum. This means that the government has not released the amount it has accepted resulting in a shortage of about Rs.56.40 crores. Similarly, in the case of Zilla Parishads and Mandal Parishads also, the Government have released an amount of Rs.154.70 crores out of the total amount it has accepted. Further, it is to be noted that the government either diverted or utilized for other purposes the amount released on the recommendation of the Finance Commission to Gram Panchayats. For instance, during the year 2005-06, of the total amount of Rs.200 crores released, Rs.100 crores was diverted and paid to the A.P. Transco towards the outstanding current charges. Similarly, in the year 2006- 07, out of Rs 169.45 crores released, an amount of Rs.91 crores was diverted for individual sanitary latrines.

11.56 The Third State Finance Commission has recommended a total amount of Rs.1274.34 crores to RLBs and Rs.489.38 crores per annum to ULBs for the period 2005- 2010. But out of the total devolution recommended for RLBs only Rs.113.64 crores per annum has been accepted by the government. This constitutes about 8.9 per cent only of the total financial resources recommended by the Commission. With

regard to ULBs, the government has accepted Rs 123.12 crores only out of the total devolution constituting 25.15 per cent. This shows that the government is not according much importance to the recommendations, especially to the financial recommendations of the State Finance Commissions. This may be due to two important reasons. Firstly, the government feels that the State Finance Commissions are not making accurate and comprehensive assessment of both physical and financial requirements of the local bodies. Secondly, the State government is not considering the grants made by the Union Finance Commission as an additionality. For instance, applying the recommendations of the Third Finance Commission to the 13th Finance Commission period of 2010-15, the government felt that there was no need for further devolution of funds to local bodies as they were already got the Thirteenth Finance Commission funds. The government felt “post XIII Finance Commission Report the total devolution to the local bodies amounting to Rs.1597.04 crores for Panchayat Raj Institutions and Rs.515.24 crores for Urban Local Bodies is exceeding the amount recommended by the Third State Finance Commission. Thus, it was held that the constitutional and legal requirement of devolution was fulfilled” (ATR of TSFC, GoAP). This shows a nominal role played by the State Finance Commission as far as the devolution of funds are concerned. Besides, several non- financial recommendations were also not implemented.

Action Taken Report on the Financial Recommendations of the Fourth State Finance Commission of AP was implemented by AP Government in February, 2024. The main summary of the IV SFC recommendations was given below both for Rural Local Bodies and Urban Rural Local Bodies.

Recommendation No: 1

The Commission arrives at an estimate resource gap of Rs.26,975/- crores for the 5 year Award period i.e., from 2020-21 to 2024-25 for the PRIs. This recommendation was primarily rejected by the AP Government to allocate this amount of money.

Recommendation No: 2

The commission recommends for a total devolution of 6.50 per cent of the State's Own Tax Revenue projected for the award period, to meet this expected resource gap of PRIs.

The Commission recommends for the specification of amount of transfer to be devolved to PRIs for each year of the award period, at least one year in advance so that they can prepare their development plans.

Decision of the Government

Not accepted.

Recommendation No.4

In addition to the transfer of resources to the tune of Rs.26,975 crore, the Commission recommends for an annual share of 6.50 per cent of the State's Own Tax Revenue to PRIs for the financial years 2018-19 and 2019-20 also. The Commission estimated that at 2018-19 (RE) level a 6.50 % share of State's Own Tax Revenue – of Rs.58,125 crore, would be Rs.3,778 crore. Similarly, a 6.50% share of State's Own Tax Revenue at 2019-20 (BE) level – of Rs.75438 crore-would be Rs.4,903 crore. Keeping in view the fiscal problems of PRIs, the Commission recommends that the total tax share of Rs.8,681 crore (Rs.3,778 crore + Rs.4,903 crore) should be released in 10 installments during the award period of 5 years, w.e.f. April, 2020.

Decision of the Government

Not accepted.

Recommendation No.9

It was noticed by the Commission that 1719 Gram panchayats with less than and up to 1000 population (2011 census) were not having adequate resources even to pay the current consumption charges. Hence, the Commission considering the inadequate revenue resources and geographical area-costs involved in the delivery of basic civic amenities recommends that the Government may provide a special gap fund of Rs.52 crore per annum at the rate of Rs.3 lakhs to each of 1719 Gram Panchayats.

The special gap fund recommended works out to Rs.260 crore for the 5 years period and should be distributed based on the criteria and weights determined by the Commission.

Decision of the Government

The Gram Panchayats with less than 1000 population should be supported with electricity charges by the government as per the actual.

Recommendation No.10

In view of the growing expenditure on provision of basic services, the Commission recommends that Per capita Grant of Gram panchayats may be enhanced from Rs.8/- to Rs.25/-; that of Mandal Praja Parishads from Rs.16/- to Rs.50/- and that of Zilla Praja Parishads from Rs.8/- to Rs.25/- and be released based on 2011 population. It is in view of a four-fold increase in expenditure during the past 15 years, an increase in Per capita Grant is justified. The additional commitment to the Government works out to Rs.172.40 crore per annum and Rs.862 crore for 5 year period. The enhanced Per capita Grant may be released from April, 2020 onwards for PRIs.

Decision of the Government

Accepted.

Recommendation No.17

The Commission recommends for transfer of profession tax compensation to Gram Panchayats regularly. It was noticed that Rs.35.0 crore was allocated in the 2019-20 budget

towards the compensation of profession tax and this allocation needs upward revision to meet the 100% compensation to Gram Panchayats.

Decision of the Government

Accepted with prospective effect

Recommendation No.21

Though it was informed to this Commission that seigniorage fee was transferred to PRIs, the Commission observed that PRIs did not receive any amount towards seigniorage fee. In the light of this observation, the Commission recommends to transfer the seigniorage fee in stipulated proportions to PRIs for the award period.

Decision of the Government

If it is in the limits of RLB, it can be accepted. The PR&RD Department may examine the matter and take necessary action.

Recommendation No.24

PRIs should prepare an action plan for identifying the parking places, road and street margins suitable for parking vehicles and levy parking fees. Different rates of taxes may be fixed for different kinds of vehicles that are to be parked at these identified parking places. Particularly the places adjacent to famous temples, weekly shandies, tourist places, historical monuments, marriage halls etc., assume much importance for levy of parking fee. The revenue so mobilized should be shared with PRIs on 60:40 ratio, of which 40% be transferred to PRIs.

Decision of the Government

Accepted

Recommendation No.27

2nd and 3rd State Finance Commissions have recommended a levy of 5% surcharge on the income of Marketing Committees and passed on to the local bodies. However, the Government did not accept it by leaving the issue to be examined in consultation with Marketing Department.

Many of the elected representatives of PRIs have represented this issue to the Commission and the present Commission also strongly recommends that a 5% of the income of the Market Committees should be apportioned and distributed to local bodies. The statistics indicate that market committees have collected a fee of Rs.492.39 crore during 2018-19 and the 5% of this fee would be Rs.25 crore, which would be Rs.125 crore for the award period. Of this Rs.125 crore, 80% must be distributed to Pris in the ratio of 80:10:10 for Gram Panchayats, Mandal Praja Parishads and Zilla Praja Parishads respectively.

Decision of the Government

Accepted for levy of 10% surcharge on the Market Committees and distribution / apportion of the income among various RLBs for the use of Maintenance of Asset around the Market Yard.

Recommendation No.36

The Commission observed that Rs.6.5 crore each were allocated in the budgets for the years 2018-19 and 2019-20 for assisting the 'Best Gram panchayats'. This allocated amount may be increased to Rs.9 crore per annum in the successive budgets for encouraging the 'Good Performers' among the Pris, considering the demand-collection ratio of more than 90% in each ZPP (non-tax revenue), MPP (non-tax revenue) and GP (tax and non-tax revenue) in each year.

Decision of the Government

Accepted

Recommendation No.38

The commission recommends for a 5% user fee at a percentage of property tax to meet the payment of honorarium to green ambassadors, operations and maintenance expenditure of Solid Waste Management projects. This user fee should be levied and collected along with property tax by the Gram Panchayats.

Decision of the Government

Accepted. Levy may be subsumed into relevant category for sanitation in the Property tax.

Financial Recommendations of the Fourth State Finance Commission as Accepted by Government for the Urban Local Bodies (ULBs) in AP by the Government of AP in its Action Taken Report (ATR) February, 2024.

Recommendation No.41

The Commission arrives at an estimated resource gap of Rs.13,568 crore for 5 year award period. i.e., from 2020-21 to 2024-25 for ULBs.

Decision of the Government

Not Accepted.

Recommendation No.42

The Commission recommends a total devolution of 3.26 per cent of the State's Own Tax Revenue projected for the award period, to meet this expected resource gap of ULBs.

Decision of the Government

Not Accepted.

Recommendation No.43

The Commission suggest the specified amount of transfer to be devolved to each ULB for each year of the award period, at least one year in advance so that they can prepare their development plans.

Decision of the Government

Accepted.

Recommendations No.44

The Commission recommends that to ensure certain degree of fiscal equity, 90% of the total tax shares of ULBs in each year are provided to all ULBs on population basis (2011 Census till such time 2021 Census figures are made available). The remaining 10% should be provided only to Municipal Councils and Nagar Panchayats on the basis of population.

Decision of the Government

Accepted.

Recommendations No.45

The Commission recommends that each ULB receiving the tax share should be allowed to spend no more than 50% should be used for investment in core infrastructure areas, in line with the priorities indicated by the Government. In other words, this is a development grant.

Decision of the Government

Accepted.

Recommendations No.46

In addition to the transfer of resources to the tune of Rs.13568 crore, the Commission recommends

For an annual share of 3.26 per cent of the State's Own Tax Revenue to ULBs for the financial years 2018-19 and 2019-20 also. The Commission estimated that at 2018-19 (RE) level a 3.26% share of State's Own Tax Revenue, of Rs.58,125 crore, would be Rs.1895 crore. Similarly, a 3.26% share of State's Own Tax Revenue at 2019-20 (BE) level, would be Rs.2,459 crore. Keeping in view the fiscal problems of ULBs, the Commission recommends that the total tax share of Rs.4,354 crore (Rs.1895 crore + Rs.2459 crore) should be released in 10 installments during the award period of 5 years.

Decision of the Government

Not Accepted.

Recommendations No.47

The Commission is of the view that XV Finance Commission grants should be treated as a separate transfer to ULBs, over and above the devolution recommendation by the present State Finance Commission and be used primarily for creating new facilities.

Decision of the Government

Accepted.

Recommendations No.59

The State Government should share the revenue from GST on entertainment with ULBs or compensate for loss in this tax revenue as it was represented by the ULBs that they were foregoing on average of revenue of Rs.130 crore per annum.

Decision of the Government

Acceptable. CDMA is directed to examine and submit proposals for taking necessary action at Government level.

Recommendations No.60

The revenue from Profession Tax collected by the Commercial Tax Department should be entirely transferred to ULBs after deducting the cost of collection.

Decision of the Government

Accepted. Collection of Profession Tax shall be transferred to ULBs. CDMA is requested to submit proposals regarding entrustment of collection of Professional Tax to ULBs.

Recommendations No.62

It was brought to the notice of Commission by some of the Nagar Panchayats in particular that Government had not transferred the Seigniorage share to them though seigniorage fee collected was credited to the consolidated fund of the State. Hence, the Commission recommends that the Government should take immediate steps to transfer the respective share of this fee to Nagar Panchayats.

Decision of the Government

If it is in the limits of Nagar Panchayat, it can be accepted.

CDMA is requested to examine and submit proposals for taking necessary action at Government level.

Recommendations No.70

2nd and 3rd State Finance Commissions have recommended a levy of 5% surcharge on the income of Marketing Committees and passed on to the local bodies. However, the Government did not accept it by leaving the issue to be examined in consultation with

Marketing Department. Many of the elected representatives of PRIs have represented this issue to the Commission and the present Commission also strongly recommends that a 5% of the income of the Market Committees should be apportioned and distributed to local bodies. The statistics indicate that market committees have collected a fee of Rs.492.39 crore during 2018-19 and the 5% of this fee would be Rs.25 crore, which would be Rs.125 crore for the award period. Of this Rs.125 crore, 20% must be distributed to ULBs, by transferring 90 per cent to all ULBs in general and the remaining 10% to Municipalities and Nagar Panchayats in particular for the award period.

Decision of the Government

Accepted for levy of 10% surcharge on the Market Committees and distribution / apportion of the income among various ULBs for the use of Maintenance of Asset around the Market Yard.

CDMA is requested to examine and submit proposals for taking necessary action at Government level.

Recommendations No.80

The feasibility of developing solar power plants for the reduction of power bills may be examined. Government should examine this issue which includes an investment of Rs.40 Crore and 50 acres of land to setup a 10 MW solar power plant. Besides it is recommended to encourage the roof top solar power generation, as was done in YSR Kadapa district.

Decision of the Government

Accepted. However, separate orders will be issued by the Government in consultation with the Energy Department.

Recommendations No.81

It was noticed that the outsourced staff appointed in ULBs are paid a monthly salary Rs.12,000/- to Rs.15,000/- and most of the municipalities were found burdened with excess outsourced workers. It is therefore imperative that the Government should review the issue of outsourced staff for hiring their services with appropriate number of workers, taking into account the total revenue and other connected liabilities of the ULBs.

Decision of the Government

Accepted.

Recommendation No.83

The Commission recommends that the municipalities with less than one lakh population including Nagar Panchayats should be provided a separate grant on line with AMRUT scheme.

Decision of the Government

Not Accepted.

Recommendation No.84

Per capita Grant for ULBs should be enhanced to Rs.50/- from the existing Per capita grant from April 2020 onwards, which amounts to Rs.73 crore per annum and Rs.365 crore for the award period of 5 years. The additional commitment in this regard should be released to Municipal Corporations, Municipalities and Nagar Panchayats based on population of 2011 census. The amount of Per capita grant to be released may be revised according to 2021 census figures of population whenever they are made available.

Decision of the Government

Accepted with prospective effect.

Recommendation No.85

The Commission recommends an annual grant of Rs.250/- crore to ULBs to meet the maintenance cost (including cost of replacement) of different types of infrastructure and assets created. The maintenance grant for the period of 2021-21 to 2024-25 works out to Rs.1384 crore, considering 2011 population figures. It is also recommended that this annual grant may be increased by 5% every year starting from second year of the award period, to account for rising cost of maintenance.

Decision of the Government

Not Accepted.

Recommendation No.87

The GoAP has been granting a specific-purpose grant to ULBs of an average of Rs.441 crore per annum. This grant is used for development activities as well as maintenance. The Commission recommends that the Government should appropriately enhance this grant keeping in view the resource gap of Rs.8,887 crore, as projected by the Commission.

Decision of the Government

Not Accepted.

Recommendation No.88

It is noticed that of the 13 districts, 9 districts were highly vulnerable to cyclones and the remaining 4 districts are drought-prone in Andhra Pradesh, according to the reports of the National Disaster Management Authority of India. The Commission strongly appeals to the XV Finance Commission for allocation of sufficient funds, on 2011 population basis, to State Disaster Relief Fund, which would be helpful for urban areas in coastal and Rayalaseema region, in which Andhra Pradesh has to release a 10% matching grant to meet the expenditure to be incurred for cyclone and drought relief activities in the State.

Decision of the Government

Rejected, since the Time to appeal to FC is over as the recommendations of 15th FC are being implemented.

Annexure 11.2:

Revenue Receipts and Expenditure of Village Panchayats in Four Southern Indian States

(₹ per Panchayat)

Item	TAMIL NADU			TELANGANA		
	2020-21	2021-22	2022-23	2020-21	2021-22	2022-23
1	2	3	4	2	3	4
Total Revenue Receipts (I+II+III)	46,22,772	39,56,451	33,21,014	20,36,072	15,98,570	11,52,065
I. Own Tax Revenue (1 – 8)	1,17,782	1,21,360	1,27,783	81,867	94,653	72,257
1. Taxes on Profession, Trades, etc.	29,855	28,962	29,861	2,879	2,699	1,500
2. Land Revenue	1,040	1,104	2,037	-	-	-
3. Stamps and Registration Fees	27	38	61	340	377	361
4. Taxes on Property other than Agriculture Land	84,009	88,311	93,180	77,974	90,835	69,811
5. Taxes on Vehicles	-	-	-	-	-	-
6. Taxes on Goods and Passengers	269	215	256	2	4	0
7. Service Tax	434	582	379	215	288	265
8. Taxes on Duties and Commodities	2,149	2,148	2,010	456	450	321
II. Own Non-Tax Revenue (1 – 15)	2,14,543	1,96,133	2,51,507	83,939	82,822	63,187
1. Interest Receipts	59,302	50,113	56,272	14	18	11
2. Maintenance of Community Assets	54	95	32	4	4	3
3. Education	-	-	-	-	-	-
4. Market and Fairs	65	105	137	167	234	186
5. Health and Family Welfare	-	-	-	-	-	-
6. Water Supply and Sanitation	18,648	13,853	14,000	3,613	3,771	1,804
7. Rural Housing	914	953	1,230	1,926	2,363	1,734
8. Animal Husbandry, Dairying, Poultry and Fuel and Fodder	-	-	-	-	-	-
9. Fisheries	465	409	354	72	63	43
10. Forestry	1	1	1	-	-	-
11. Agriculture including Agriculture Extension	31	4	20	-	-	-
12. Panchayati Raj Programmes	-	-	-	-	-	-
13. Minor Irrigation	1,35,063	1,30,600	1,79,462	77,830	76,073	59,142
14. Rural Electrification	-	-	-	-	-	-
15. Village and Small-Scale Industries	-	-	-	313	295	264
III. Grants-in-aid (1-3)	42,90,448	36,38,959	29,41,725	18,70,267	14,21,096	10,16,621
1. Grants from Central Government	-	-	-	-	-	-
2. Grants from other Institutions	18,42,792	20,61,416	11,40,384	5,01,242	3,32,099	1,83,361
3. Grants from State Government	47,099	33,008	35,168	8,460	7,084	4,188
	24,00,557	15,44,535	17,66,173	13,60,565	10,81,913	8,29,073

Note: Data are not available.

Source: Estimates based on eGramSwaraj data as given in the RBI Report on "Finances of Panchayati Raj Institutions", Reserve Bank of India, January 2024.

Annexure 11.2– Revenue Expenditure of Village Panchayats (Contd.)

(₹ per Panchayat)

Item	TAMIL NADU			TELANGANA		
	2020-21	2021-22	2022-23	2020-21	2021-22	2022-23
1	2	3	4	2	3	4
Total Revenue Receipts (1 - 26)	23,42,809	22,45,771	26,50,203	16,50,931	16,31,687	11,00,079
1. Agriculture including Agriculture Extension	-	-	-	-	-	-
2. Animal Husbandry, Dairying, Poultry and Fuel and Fodder	-	-	-	-	-	-
3. Art, Culture and Libraries	151	193	199	-	-	-
4. Education	-	-	-	-	-	-
5. Fisheries	1	2	4	-	-	-
6. Forestry	-	-	-	166	74	18
7. Health and Family Welfare	7,782	8,162	5,871	-	-	-
8. Interest Payments	2,465	769	588	0	1	1
9. Maintenance of Community Assets	3,749	4,795	4,371	580	755	263
	1	1	3	-	-	-
10. Market and Fairs	-	-	-	-	-	-
11. Minor Irrigation	-	-	-	-	-	-
12. Non-Conventional Sources of Energy	-	-	-	-	-	-
13. Panchayati Raj Programmes (i-iv)	15,14,017	13,43,733	15,69,214	12,99,075	12,87,735	8,61,701
(i) District Panchayata Programmes	7,448	2,737	2,401	2,465	3,273	1,381
(ii) Gram Panchayat Programmes	14,10,465	12,56,855	14,40,297	12,87,562	12,69,956	8,52,894
(iii) Other Expenditure	47,111	40,399	79,027	4,874	7,546	4,901
(iv) Panchayat Samiti Programmes	48,992	43,743	47,489	4,174	6,959	2,526
14. Pension and Other Retirement Benefits	-	-	-	-	-	-
15. Poverty Alleviation Programme	-	-	-	-	-	-
16. Pubic Distribution System	3,68,057	3,34,609	3,26,785	1,15,542	95,009	72,511
17. Rural Electrification	791	1,226	1,483	-	-	-
18. Rural Housing	34	71	50	-	-	-
19. Social Security and Welfare	903	606	518	-	-	-
20. Soil and Water Conservation	-	-	-	-	-	-
21. Technical Training and Vocational Education	-	-	-	24	72	3
	8,837	13,575	18,258	26,876	28,635	16,557
	-	-	-	-	-	-
22. Transportation	4,36,021	5,38,028	7,22,858	2,08,667	2,19,405	1,49,025
23. Village and Small-Scale Industries	73,552	77,254	84,469	1,005	701	734
	2,91,178	3,65,660	4,74,693	12,236	8,732	7,747
24. Water Supply and Sanitation (i-vi)	32,151	46,214	80,050	14,475	10,352	10,976
	6	25	18	-	-	-
(i) Maintenance and Repair of Tube-wells	39,002	48,716	83,409	1,80,951	1,99,620	1,29,568
	132	158	219	-	-	-
(ii) Maintenance of Water Supply line	-	-	-	-	-	-
(iii) Other Expenditure	-	-	-	-	-	-
(iv) Sewage and Solid Waste Management	-	-	-	-	-	-
(v) Sewerage and Sanitation	-	-	-	-	-	-
(vi) Storm water drainage	-	-	-	-	-	-
25. Welfare of Scheduled Castes, Scheduled Tribes and Other Weaker Section	-	-	-	-	-	-
26. Women and Child Welfare	-	-	-	-	-	-

Note: - Data are not available.

Source: Estimates based on eGramSwaraj data as given in the RBI Report on "Finances of Panchayati Raj Institutions", Reserve Bank of India, January 2024.

Annexure 11.2: Revenue Receipts of Village Panchayats (Contd.)

(₹ per Panchayat)

Item	KARNATAKA			KERALA		
	2020-21	2021-22	2022-23	2020-21	2021-22	2022-23
1	2	3	4	2	3	4
Total Revenue Receipts (I+II+III)	34,61,736	35,63,266	41,91,999	-	59,71,296	60,69,941
I. Own Tax Revenue (1 – 8)	-	-	-	-	-	-
1. Taxes on Profession, Trades, etc.	-	-	-	-	-	-
2. Land Revenue	-	-	-	-	-	-
3. Stamps and Registration Fees	-	-	-	-	-	-
4. Taxes on Property other than Agriculture Land	-	-	-	-	-	-
5. Taxes on Vehicles	-	-	-	-	-	-
6. Taxes on Goods and Passengers	-	-	-	-	-	-
7. Service Tax	-	-	-	-	-	-
8. Taxes on Duties and Commodities	-	-	-	-	-	-
II. Own Non-Tax Revenue (1 – 15)	6,063	3,813	4,156	-	41,435	1,19,126
1. Interest Receipts	6,063	3813	4,156	-	41,435	1,19,126
2. Maintenance of Community Assets	-	-	-	--	-	-
3. Education	-	-	-	-	-	-
4. Market and Fairs	-	-	-	-	-	-
5. Health and Family Welfare	-	-	-	-	-	-
6. Water Supply and Sanitation	-	-	-	-	-	-
7. Rural Housing	-	-	-	-	-	--
8. Animal Husbandry, Dairying, Poultry and Fuel and Fodder	-	-	----	-	-	-
9. Fisheries	-	-	-	-	-	-
10. Forestry	-	-	-	-	-	-
11. Agriculture including Agriculture Extension	-	-	-	-	-	-
12. Panchayati Raj Programmes	-	-	-	--	-	-
13. Minor Irrigation	-	-	-	-	-	-
14. Rural Electrification	-	-	-	-	-	-
15. Village and Small-Scale Industries	-	-	-	-	-	-
III. Grants-in-aid (1-3)	34,55,673	35,59,453	41,87,453	-	59,29,861	59,50,815
1. Grants from Central Government	-	-	-	-	-	-
2. Grants from other Institutions	34,55,673	35,59,453	41,87,843	-	59,29,861	59,50,815
3. Grants from State Government	-	-	-	-	-	-

Note: Data are not available.

Source: Estimates based on eGramSwaraj data as given in the RBI Report on "Finances of Panchayati Raj Institutions", Reserve Bank of India, January 2024.

Annexure 11.2 – Revenue Expenditure of Village Panchayats (Contd.)

(₹ per Panchayat)

Item	KARNATAKA			KERALA		
	2020-21	2021-22	2022-23	2020-21	2021-22	2022-23
1	2	3	4	2	3	4
Total Revenue Receipts (1 - 26)	30,86,419	27,52,610	25,54,440	-	25,72,143	33,58,816
1. Agriculture including Agriculture Extension	-	-	-	-	-	-
2. Animal Husbandry, Dairying, Poultry and Fuel and Fodder	-	-	-	-	1,201	1,031
3. Art, Culture and Libraries	-	-	-	-	407	647
4. Education	-	-	-	-	12,501	13,217
5. Fisheries	-	-	-	-	-	-
6. Forestry	-	-	-	-	-	-
7. Health and Family Welfare	5,674	-	-	-	-	-
8. Interest Payments	-	4,362	1,344	-	354	1,675
9. Maintenance of Community Assets	-	-	-	-	1,08,477	99,906
10. Market and Fairs	-	-	-	-	3,084	4,460
11. Minor Irrigation	-	-	-	-	496	475
12. Non-Conventional Sources of Energy	-	-	-	-	-	-
13. Panchayati Raj Programmes (i-iv)	23,25,727	11,95,472	7,59,274	-	1,66,564	1,87,951
(i) District Panchayata Programmes	6,763	6,736	4,662	-	-	-
(ii) Gram Panchayat Programmes	23,18,001	11,87,507	7,53,525	-	1,55,865	1,82,763
(iii) Other Expenditure	-	-	-	-	-	-
(iv) Panchayat Samiti Programmes	963	1,230	1,086	-	10,699	5,188
14. Pension and Other Retirement Benefits	-	-	-	-	-	-
15. Poverty Alleviation Programme	-	-	-	-	-	-
16. Pubic Distribution System	-	-	-	-	1,92,968	1,64,925
17. Rural Electrification	-	-	-	-	-	-
18. Rural Housing	-	-	-	-	113	53
19. Social Security and Welfare	-	-	-	-	-	-
20. Soil and Water Conservation	-	-	-	-	-	-
21. Technical Training and Vocational Education	-	-	-	-	4,78,919	5,15,125
22. Transportation	-	-	-	-	-	-
23. Village and Small-Scale Industries	-	-	-	-	1	-
24. Water Supply and Sanitation (i-vi)	7,55,019	15,52,775	17,93,822	-	5,89,660	23,53,454
(i) Maintenance and Repair of Tube-wells	17,409	25,229	25,524	-	51,572	64,052
(ii) Maintenance of Water Supply line	1,43,886	1,81,936	1,47,941	-	3,86,577	5,28,400
(iii) Other Expenditure	5,76,000	13,12,958	15,88,938	-	4,38,623	7,52,558
(iv) Sewage and Solid Waste Management	5,286	7,291	8,879	-	4,00,162	5,85,701
(v) Sewerage and Sanitation	10,295	23,169	19,889	-	2,31,696	3,40,484
(vi) Storm water drainage	2,143	2,193	2,652	-	81,029	82,259
25. Welfare of Scheduled Castes, Scheduled Tribes and Other Weaker Section	-	-	-	-	-	-
26. Women and Child Welfare	-	-	-	-	-	-

Note: - Data are not available.

Source: Estimates based on eGramSwaraj data as given in the RBI Report on "Finances of Panchayati Raj Institutions", Reserve Bank of India, January 2024.

CHAPTER-12

Emerging Issues in Andhra Pradesh State Finances

State finances have been worsening over the years. All the indicators of fiscal performance are pointing towards consistent deterioration. Own-tax revenue-GSDP ratio in Andhra Pradesh matches with those in other southern States with the exception of Telangana. The non-tax revenue-GDSP ratio is lower than that in Telangana and Kerala. Revenue receipts to GSDP ratio is comparable to other southern States because of higher grants from the Centre. However, its overall fiscal performance compares poorly. One of the reasons often mentioned is that AP lost out in revenue share and its growth following the State's bifurcation in 2014.

12.2 In the total population of the pre-bifurcated States, the shares of Andhra Pradesh and Telangana are 58 per cent and 42 per cent, respectively. In the first year of reorganisation, share of Andhra Pradesh in the combined total revenues of AP and Telangana was 51.5 per cent, which was lower than the former's share in population. Thereafter, the share of AP hovered around 46 per cent till 2020-21. Its share was 43.4 per cent in 2022-23. Thus, State's bifurcation resulted in lower own revenues.

12.3 The State failed in adhering to targets set for revenue deficit, fiscal deficit and outstanding liabilities in any single year. Apart from the revenue loss on account of bifurcation, the main reason for the fiscal deterioration was due to indiscriminate introduction of subsidies/welfare schemes, more particularly after 2018-19. There were a number of irregularities in funding subsidies. The most important one, among these, is the diversion of Additional Retail Excised Duty (ARET) levied on liquor to Andhra Pradesh State Development Corporation (APSDC), a dedicated entity specially created by an Act of the State Legislature to fund welfare programmes. Apart from the proceeds of ARET, the corporation is also empowered to raise loans from financial institutions. An amount of Rs.14,275 crore was escrowed for the repayment of loans raised by APSDC.

12.4 As per the White Paper on State Finances released by the Government in July, 2024, fixed deposits and funds of corporations, societies and Universities were diverted into the account of AP State Financial Services Ltd. The total amount thus diverted was Rs.4,738 crore. These were in turn lent to APSDC. Government owned properties and lands in

Visakhapatnam were mortgaged to banks to raise debts. There are a number of financial irregularities. A few of them are mentioned below.

12.5 The grants to local bodies received from the Centre in March 2024 amounting to Rs.1,435 crore along with amount of Rs. 1,689 crore in the PD accounts of local bodies was diverted to meet pending electricity charges of Rs.2,166 crore to DISCOMS. Pension and PF Funds of APGENCO, APTRANSCO and DISCOMS to the extent of Rs.5,243 crore was invested in APSBCL bonds at lower interest rates and utilized for other purposes.

12.6 As a result of indiscriminate expenditure decisions, the gap between total revenue receipts and total revenue expenditure was more than 30 per cent. The revenue deficit-GSDP ratio exceeded 2 per cent in most of the years.

12.7 Another matter of concern is the huge deferred payments mostly in the form of pending bills. As of June 18, 2024, outstanding dues to vendors and contractors amounted to Rs.1,13,244 crore. In addition, there are dues to government employees amounting to Rs.21,980 crore. An amount of Rs.1,196 crore was not remitted to the Sinking Fund.

12.8 With the rising deficit on the revenue account, the fiscal space for capital expenditure got substantially reduced. Growth of capital expenditure declined in most years and as percentage of GSDP, it was less than 2 per cent.

12.9 The policies taken by the government have been governed by short-run consideration to the utter dis-regard for their medium to long term consequences on the fiscal sustainability of State finances. Amendments to FRBM Act raising the limits of deficits and outstanding borrowings disregarding the fiscal paths laid down by the Finance Commissions defies any explanation.

12.10 A recent paper (Govind Bhattacharjee, 2024) has worked out an index of efficiency of public financial management by Indian States. The period covered for Andhra Pradesh and Telangana is 2015-16 to 2021-22. For other States, the period covered is 2011-12 to 2021-22. The authors have worked out six sub-indices with the following weights (Table-12.1).

Table 12.1: Sub- Indices and Weights Assigned to Them

Sl.No.	Name of the Index	Weight Assigned
1.	Resource management index	1
2	Expenditure management index	1
3	Deficit management index	1
4	Debt management index	1.5
5	Contingency liability index	0.5
6	Profligacy index	1

12.11 The above indices have been combined into single composite index of fiscal performance by 18 general category States following the weight assigned to each one of the six indices. The performance of Andhra Pradesh measured by these indices is presented below (Table 12.2).

Table 12.2: Performance of Andhra Pradesh

	Indices	Index Value	Rank
1.	Resource management index	0.544	14
2	Expenditure management index	0.256	17
3	Deficit management index	0.277	17
4	Debt management index	0.316	14
5	Contingency liability index	0.066	18
6	Profligacy index	0.627	7
7	Composite Index	0.369	17

Note: The higher value of index indicates better performance

12.12 With the exception of one index, in respect of all other performance indices, Andhra Pradesh ranks at the bottom among the 18 major States. It is not surprising that in profligacy index, which is meant to serve as a proxy for overspending and populist expenditure, Andhra Pradesh is among the top profligate States.

12.13 The number of days AP government availed special drawings, ways and means advances and the number of days it was in overdraft indicates the fiscal crisis being faced by the States. In 20223-24, the government availed of special drawing facility on 322 days and ways and means advances on 290 days in 2023-24. It was in overdraft for a period of 115 days in the same year. AP stood at the fourth in terms of availing of these facilities. During September 2024, the State availed of special drawing facility for 30 days and availed ways and means advances for 19 days. It was in overdraft for 4 days.

12.14 Thus, there are far too many issues which need to be addressed on war footing. The way forward is presented in the concluding chapter.

CHAPTER -13

Way Forward

The fiscal management in Andhra Pradesh, more particularly over the last five years, is characterised by adhocism, indiscriminate introduction of new schemes without any concern for their impact on State finances and deferment of present commitments to future. Such fiscal management has had a disastrous impact on fiscal sustainability and the sustainability of economic growth. All the fiscal indicators have worsened. Such a crisis will not get resolved by half-hearted and easy measures. These will only touch the fringe of the deepening crisis. What is required is major structural reforms on multiple fronts.

Expenditure Reforms

13.1 As the present crisis is the result of unrestrained growth in expenditure, the first step in the process of reforms should be rationalisation of expenditure. A rupee saved is a rupee earned. In the rationalisation of expenditure, there is an imperative to subject all on-going schemes to a thorough review. Schemes which have outlived their utility should be weeded out. Welfare schemes and freebies need major reforms and proper targeting. At present most of these schemes suffer from significant inclusion errors. All the corporations which have been created to fund welfare schemes by borrowings against government guarantees should be wound up after their liabilities to the financial institutions are fully discharged.

13.2 Deferment of government liabilities to a future date should be avoided to the extent possible. For instance, the age of retirement of government employees in the State was increased from 58 years to 60 years in 2014 and then to 62 years in 2022. This has resulted in huge pensionary liabilities starting from 2024. Similarly, there are huge pending bills amounting to Rs.1.35 lakh crore payable to contractors, resulting in litigations in the High Court. The number of cases pending is 24,988, which include contempt cases and writ petitions. The restraint on revenue expenditure through rationalisation of welfare schemes will address the problem of dwindling capital expenditure and pending bills involving huge amounts. Some of these problems have been discussed in detail in the previous chapters.

13.3 It is a matter of grave concern that despite the fiscal crisis, the government has recently abolished the land tilling tax, enhanced social security pensions and reopened Anna Canteens to provide food at a very nominal rate of Rs.5. The Government resumed free

supply of sand. The free supply of sand is regressive particularly when the State is under severe fiscal crisis. The neighbouring State of Telangana realised an amount of Rs.598 crore from the sale of sand in 2023-24.

13.4 There is enormous scope for rationalising the government offices, particularly the offices of the heads of departments (HoDs) under each Secretariat Department. Under the General Administration Department, there are as many as 16 HoDs, some of them with overlapping functions. For instance, there are two organisations dealing with vigilance, namely, Vigilance and Enforcement Director General and Andhra Pradesh Vigilance Commission. Similarly, HoDs like Government Text Book Press under the Education Department and Insurance Directorate under the Finance Department can be wound up. At present, there is no printing of text books and the work is being outsourced, as this found to be cost effective. But there is sunken cost in the form of pay and allowances to the staff. There is a Directorate of Printing, Stationery and Stores Purchase under the Home Department, with a sanctioned staff strength of 611. The machinery is outdated and much of the government printing work is outsourced. These are only a few instances. There are several redundant HoDs and staff. A thorough review of all the departments may be taken up with a view to rationalising the staffing pattern and redeployment of employees where there is a need.

13.5 The International Monetary Fund (IMF) in a paper titled, 'Unproductive Public Expenditures-A Pragmatic Approach To Policy Analysis' has indicated that, '*For a single program, unproductive expenditure may be defined as the difference between the actual public spending on the program and the reduced spending that would yield the same social benefit with maximum cost-effectiveness*'. There are problems in measuring unproductive expenditures. But in Andhra Pradesh, the problem is not so difficult as most of the schemes result in little social benefits because of their poor targeting and populist nature. Government expenditure has grown much faster than the revenues because of the asymmetries in the political costs and benefits associated with taxing and spending.

Resource Mobilisation

13.6 Though the fiscal situation warranted augmenting revenue resources, no such effort has been made. There are several low hanging fruits which could have been utilised. Such

fruits include electricity duty, increasing the coverage of profession tax, increasing the tax base by plugging loopholes, etc. The domestic consumers of electricity pay just 6 paise per unit of electricity. Even doubling this duty from the present level will not impose burden on the consumers. Most of the establishments in the private sectors are not covered under the profession tax.

13.7 Another area that needs focus is user charges. Most of the user charges do not even cover a small proportion of the cost of the services. The cost of providing services has been increasing with the increase in wages and salaries.

13.8 The five-yearly revision of pay and allowances of government employees is imposing a heavy burden. Most of the States are revising the pay scales at an interval of every 10 years following Central government's practice. A consensus needs to be built on the periodicity of pay revisions.

Adherence to FRBM

13.9 Apart from not adhering to FRBM targets, AP has amended the FRBM Act mandating higher targets which are way above those recommended by the Finance Commissions and the relaxations allowed by the Centre. This practice needs to be curbed.

Summing Up

13.10 For bringing back finances to sustainable levels, action needs to be initiated on multiple fronts. Making the State adhere to FC targets should be accorded the highest priority.

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