

## Chapter 1

### Finances of the State Government

#### *Profile of Andhra Pradesh*

Andhra Pradesh (AP) is situated in the eastern side of South India along Bay of Bengal with a coast line of about 974 km. AP is the fourth largest state in India in terms of geographical area of 2.75 lakh sq. km with a population of 8.40 crore. The Gross State Domestic Product (GSDP) of the state has been growing at a compound annual growth rate (CAGR) of 12.50 *per cent*, marginally below than that of other general category states (12.54 *per cent*) during the past decade. The population of the state, however, is growing at a lower rate than that of other general category states. Andhra Pradesh has lower poverty levels, lower infant mortality rate and high life expectancy when compared to the all India average indicators. However the literacy rate in the state is alarmingly low at 60.47 per cent compare to all India average of 64.80 per cent (*Appendix 1.1*).

#### 1.1 Introductory

This chapter provides a broad perspective of the finances of the Government of Andhra Pradesh during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. The analysis has been made based on State Finance Accounts and the information obtained from State Government. The structure of Government Accounts and the layout of Finance Accounts are shown in *Appendix 1.9*. The State Government, in compliance with the recommendations of Twelfth Finance Commission (TFC) enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 and developed its own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators with target dates of implementation during the period 2004-10. A summary of FRBM Act 2005 and outcome indicators of State's own FCP are given in *Appendix 1.10* and *Appendix 1.2* respectively.

#### 1.2 Summary of current year's fiscal transactions

**Table 1.1** presents the summary of State Government's fiscal transactions during the current year (2009-10) vis-à-vis the previous year while *Appendix 1.4* provides details of receipts and disbursements as well as overall fiscal position during the current year.

**Table 1.1: Summary of fiscal operations**

(Rupees in crore)

Receipts			Disbursements				
	2008-09	2009-10		2008-09	2009-10		
Section A	Total	Total	Section A	Total	Non Plan	Plan	Total
<b>Revenue receipts</b>	<b>62858</b>	<b>64678</b>	<b>Revenue expenditure</b>	<b>61854</b>	<b>48006</b>	<b>15442</b>	<b>63448</b>
<i>Tax revenue</i>	33358	35176	<i>General services</i>	18730	21211	181	21392
<i>Non-tax revenue</i>	9683	7803	<i>Social services</i>	25004	15058	10699	25757
<i>Share of Union Taxes/Duties</i>	11802	12141	<i>Economic services</i>	17807	11651	4562	16213
<i>Grants from GOI</i>	8015	9558	<i>Grants-in-aid and Contributions</i>	313	86	---	86
<b>Section B</b>			<b>Section B</b>				
<b>Misc. Capital receipts</b>	---	---	<b>Capital Outlay</b>	<b>10367</b>	<b>(-)162</b>	<b>13955</b>	<b>13793</b>
<b>Recoveries of Loans and Advances</b>	<b>370</b>	<b>143</b>	<b>Loans and Advances disbursed</b>	<b>3414</b>	<b>769</b>	<b>1514</b>	<b>1590</b>
<b>Public Debt Receipts<sup>1</sup></b>	<b>15353</b>	<b>19753</b>	<b>Repayment of Public Debt</b>	<b>4833</b>	---	---	<b>6277</b>
<b>Contingency Fund</b>	<b>1</b>	<b>7</b>	<b>Contingency Fund</b>	<b>7</b>	---	---	---
<b>Public Account Receipts</b>	<b>72503</b>	<b>71780</b>	<b>Public Account disbursements</b>	<b>74149</b>	---	---	<b>70243</b>
<i>Opening Cash Balance</i>	<i>8512</i>	<i>4973</i>	<i>Closing Cash Balance</i>	<i>4973</i>	---	---	<i>5983</i>
<b>Total</b>	<b>159597</b>	<b>161334</b>	<b>Total</b>	<b>159597</b>	---	---	<b>161334</b>

Following are the significant changes during 2009-10 over the previous year:

**Revenue receipts** grew by ₹ 1820 crore (2.90 per cent) over the previous year. The increase was the net effect of increase in Own Tax Revenue (₹ 1818 crore), share of Union Taxes and Duties (₹ 339 crore) and Grants-in-aid (₹ 1543 crore) and decrease in Non-tax Revenue (₹ 1880 crore).

**Revenue Expenditure** increased by ₹ 1594 crore (2.58 per cent) over the previous year. The increase was the net effect of increase in Non-plan expenditure (₹ 5145 crore) and decrease in Plan expenditure (₹ 3551 crore). The revenue expenditure under General Services and Social Services increased by ₹ 2662 crore and ₹ 753 crore respectively while expenditure under Economic Services and Grants-in-aid decreased by ₹ 1594 crore and ₹ 227 crore respectively.

**Capital expenditure** increased by ₹ 3426 crore (33 per cent) over previous year. The increase was on account of increase under General Services (₹ 33 crore), Social Services (₹ 315 crore) and Economic Services (₹ 3078 crore).

<sup>1</sup> excluding net transactions under Ways and Means Advances and Overdraft

**Recoveries and disbursements of Loans and Advances** decreased by ₹ 227 crore and ₹ 1824 crore respectively, resulting in net decrease of disbursements by ₹ 1597 crore.

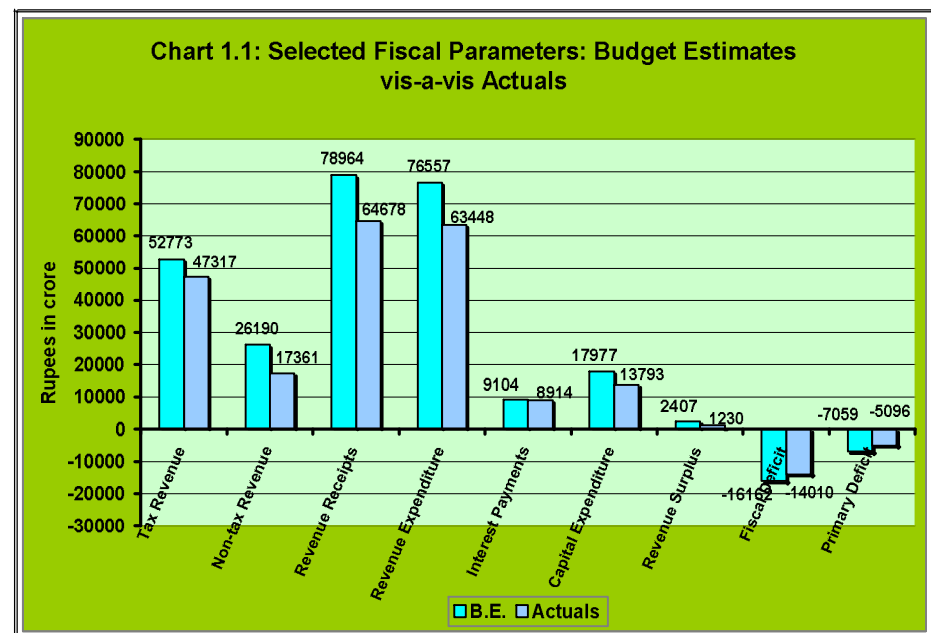
While the receipts and disbursements under **Public Debt** increased by ₹ 4400 crore and ₹ 1444 crore, those under Public Account decreased by ₹ 723 crore and ₹ 3906 crore respectively.

**Closing cash balance** increased by ₹ 1010 crore over previous year.

The State Government achieved revenue surplus for the fourth consecutive year and it increased from ₹ 1004 crore in 2008-09 to ₹ 1230 crore in the current year. The fiscal deficit (₹ 14010 crore) was 3.41 *per cent* of GSDP during the current year as against 3.29 *per cent* in 2008-09 but less than the ceiling of 4.0 *per cent* as relaxed by the Government of India in view of the economic slow down.

### 1.3 Budget estimates and actuals

The budget estimates and actuals for some important fiscal parameters are given in **Chart 1.1** and *Appendix 1.6*.



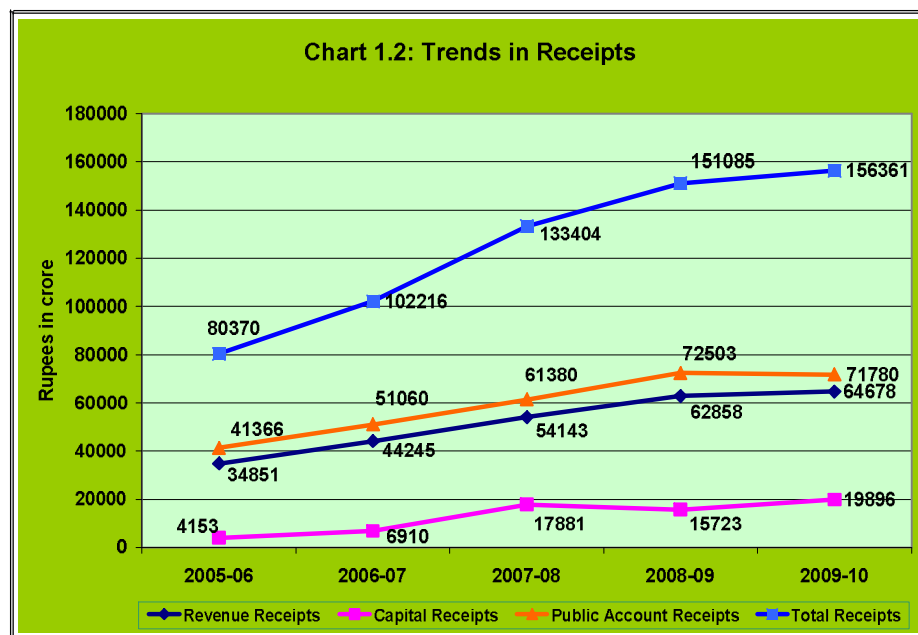
As may be seen from **Chart 1.1** (also see *Appendix 1.6*) there were considerable variations between budget estimates and actuals in case of several parameters. The revenue receipts decreased by 18.09 *per cent* and revenue expenditure also decreased by 17.12 *per cent* resulting in decrease of revenue surplus by ₹ 1177 crore (49 *per cent*) over the budget estimates. However, fiscal and primary deficits decreased by ₹ 2152 crore and ₹ 1963 crore respectively over budget estimates. Reduction in revenue

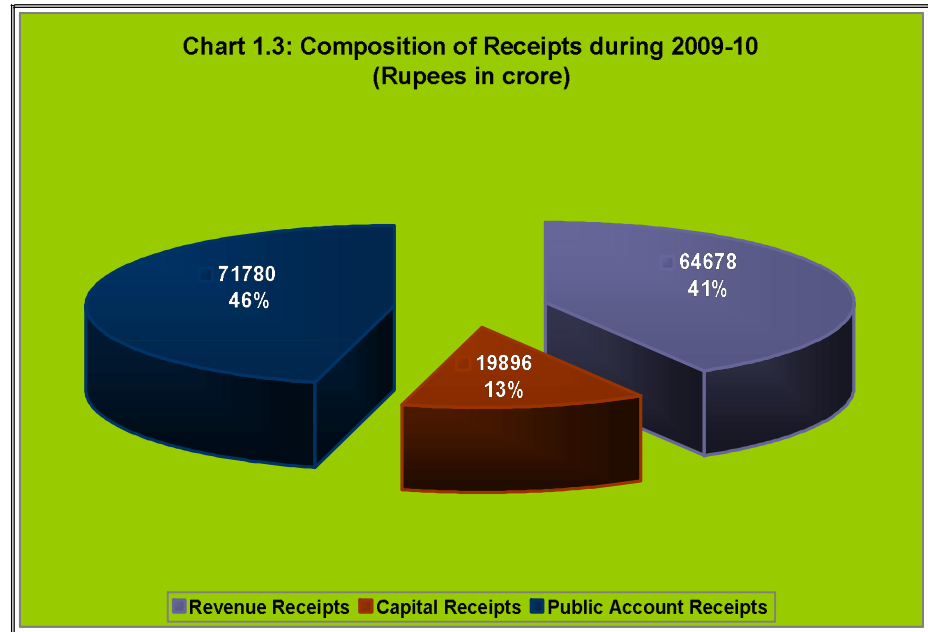
expenditure over the budget estimates was mainly under General Education (₹ 2597 crore), Water Supply and Sanitation (₹ 2067 crore) and power subsidy (₹ 2910 crore).

## 1.4 Resources of the State

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

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from public account. **Table-1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts, while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2005-10, and **Chart 1.3** depicts the composition of resources of the State during the current year.





Total receipts of the State increased from ₹ 80370 crore in 2005-06 to ₹ 156361 crore in 2009-10. The share of revenue receipts in total receipts ranged between 41 and 43 *per cent* during 2005-10. The share of capital receipts fluctuated during the last five years and it was 13 *per cent* in the current year. Receipts under Public Account constituted 46 to 51 *per cent* of total receipts during the last five years.

#### ***1.4.2 Funds transferred to State implementing agencies outside the State budget***

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies<sup>2</sup> for the implementation of various schemes/programmes in social and economic sectors recognised as critical. As these funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated. To present a holistic picture on the availability of aggregate resources, funds directly transferred to State Implementing Agencies are presented in **Table 1.2**

<sup>2</sup> State Implementing Agencies include any Organization/Institution including Non-Governmental Organization which is authorized by the State Government to receive the funds from the Government of India for implementing specific programmes in the State, such as State Implementation Society for SSA and State Health Mission for NRHM etc.

**Table-1.2: Funds transferred directly to State implementing agencies**

(Rupees in crore)

Sl. No.	Name of the Scheme	Implementing Agency	Amount released during 2009-10
1.	Development and strengthening of infrastructure facilities for production and distribution of quality seeds	APSSDCL	28.54
2.	Micro Irrigation	APMIP	92.30
3.	National Horticulture Mission	APSHM	95.67
4.	National Food Security Mission	APSAM&ETI	123.82
5.	Special package for 31 suicide prone districts	APLSDA	30.98
6.	National project for cattle and buffalo breeding	APLSDA	10.00
7.	Assistance to States for Developing Export Infrastructure and allied activities (ASIDE)	APIDCL	10.20
8.	National River Conservation plan (NRCP)	HMWS&SB	36.89
9.	National Rural Health Mission (NRHM)	SH&FWS, STBCS & SBSCS	499.48
10.	National Aids Control Programme including STD control	APSACS	39.01
11.	Crime and Criminal Tracking Network and System	APS e - COPS	10.80
12.	Swarna Jayanthi Shahari Rozgar Yojana (SJSRY)	Commissioner and Director of Municipal Administration	33.91
13.	Sarva Siksha Abhiyan (SSA)	RVMA	385.70
14.	Adult Education and Skill Development Scheme	Director of Adult Education	69.40
15.	Rashtriya Madhyamik Siksha Abhiyan	RMSA (APSES)	12.75
16.	National Rural Employment Guarantee Scheme	APSREGS	3367.65
17.	Rural Housing-IAY	DRDAs	856.29
18.	Pradhan Manthri Gram Sadak Yojana (PMGSY)	APSRDA	728.93
19.	Integrated Watershed Management Programme (IWMP)	DRDAs	41.47
20.	Accelerated Rural Water Supply Scheme	SWSM	402.44
21.	Central Rural Sanitation Scheme	DWSM	33.57
22.	Biotech Facilities	OU	10.46
23.	MPs Local Area Development Scheme (MPLADS)	District Collector Hyderabad	16.00
24.	Educational Complexes in Low Literacy Pockets	APTWRES	17.39
25.	Panchayat Yuva Krida and Khel Abhiyan (PYKKA)	SAAP	10.33
<b>Total</b>			<b>6963.98*</b>

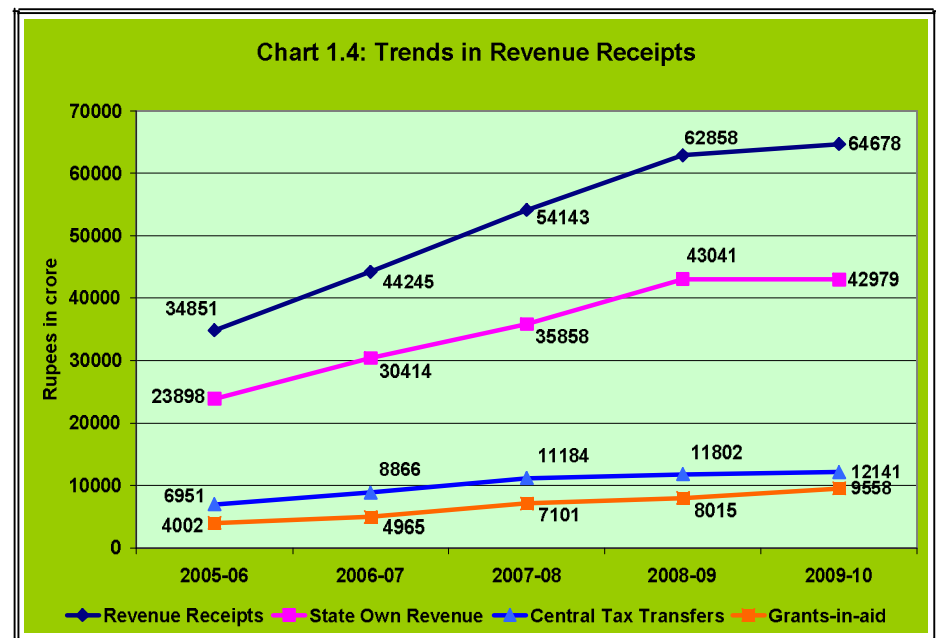
Source: Central Plan Scheme Monitoring system of CGA portal

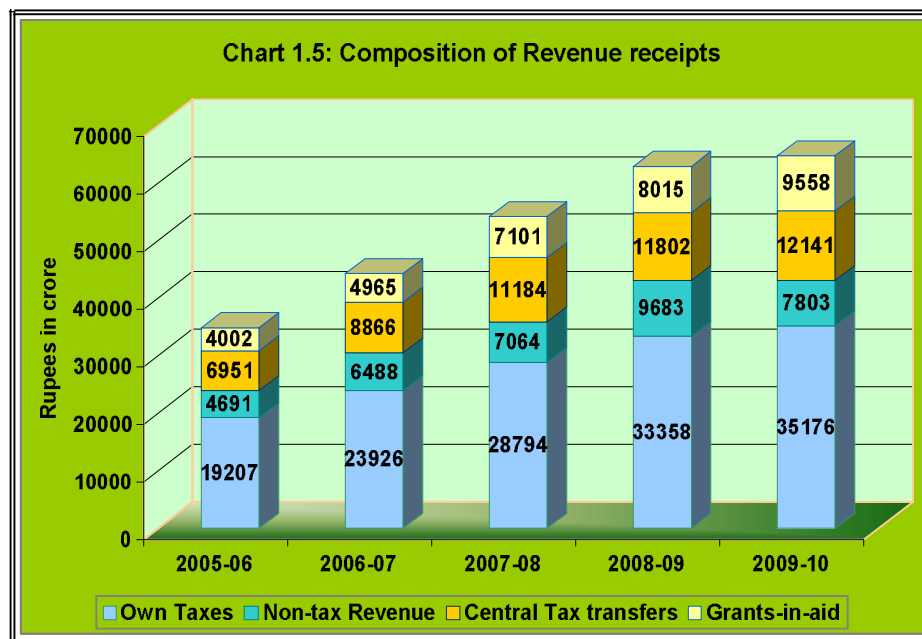
\* Exclude an amount of ₹ 1067.48 crore released to Central Bodies located in the State as well as various other organizations outside the purview of the Government of Andhra Pradesh.

During the current year, Government of India transferred ₹ 6964 crore directly to the State implementing agencies for implementation of various Central Schemes/programmes without routing through the State budget. Funds flowing directly to the implementing agencies through off-budget route inhibit Fiscal Responsibility Legislation (FRL) requirements of transparency and therefore escape accountability. There is no single agency monitoring its use and no data is readily available on the amount spent in any particular year on major flagship and other important schemes. A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Principal Accountant General (A&E).

## 1.5 Revenue receipts

Statement 11 of the Finance Accounts deals the revenue receipts of the Government. The revenue receipts consist of own- tax and non-tax revenue, central tax transfers and grants-in-aids from GOI. The trends and compositions of revenue receipts over the period 2005-10 are presented in *Appendix 1.3* and also depicted in **Charts 1.4 and 1.5** respectively.





Revenue receipts have shown a progressive increase over five year period 2005-10 at an average growth rate of 17.91 *per cent*. However the growth rate during the current year was much less than the average growth rate at 2.90 *per cent*. State's own-tax and non-tax revenue (₹ 42979 crore) during the current year decreased by ₹ 62 crore over the previous year but exceeded the TFC projections (₹ 40856 crore) by ₹ 2123 crore.

The trends in revenue receipts relative to Gross State Domestic Product (GSDP) are presented in **Table 1.3** below:

**Table 1.3: Trends in revenue receipts relative to GSDP**

	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Revenue Receipts (RR) (₹ in crore)</b>	34851	44245	54143	62858	64678
Rate of growth of RR <sup>3</sup> ( <i>Per cent</i> )	21.22	26.95	22.37	16.10	2.90
RR/GSDP ( <i>Per cent</i> )	14.54	15.96	16.58	16.66	15.72
<b>Buoyancy Ratios<sup>4</sup></b>					
Revenue Buoyancy w.r.t. GSDP	1.61	1.72	1.26	1.03	0.32
State's Own Tax Buoyancy w.r.t. GSDP	1.38	1.57	1.15	1.02	0.60

While the growth rate of revenue receipts and own tax revenue were higher than the growth rate of GSDP from 2005-06 to 2008-09 the same was lower during the current year.

### 1.5.1 State's own resources

As the state's share in central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of central tax receipts and central assistance for plan schemes etc, the state's

<sup>3</sup> see glossary at page 98

<sup>4</sup> see glossary at page 98



performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax resources.

### ***Own Tax revenue***

The growth rate of own-tax revenue (OTR) during 2006-10 showed a decreasing trend from a high of 24.57 *per cent* during 2006-07 to a low of 5.45 *per cent* during the current year. During the current year, the lion's share of tax revenue was contributed by Sales Tax (67.20 *per cent*) on account of revision of rate of tax on the residuary entries under Schedule V of APVAT Act 2005 from 12.50 *per cent* to 14.50 *per cent* and on Aviation Turbine Fuel from 4 *per cent* to 16 *per cent*. The share of State Excise was constant at 14 *per cent* during 2005-08, but increased to 17 *per cent* during 2008-10 indicating unhealthy trend of increasing dependence on State Excise. State's own tax revenue (₹ 35176 crore) during the current year was more than the projections of TFC (₹ 32090 crore) and the FCP under FRBM Act (₹ 34818 crore).

### ***Non tax revenue***

The non-tax revenue, which constituted 12 to 15 *per cent* of total revenue receipts during the last five years, decreased by ₹ 1880 crore during the current year recording a decrease of 19.42 *per cent* over the previous year. The decrease was mainly due to withdrawal of debt waiver (₹ 703 crore) granted during 2008-09 by Government of India. During the current year non-tax revenue (₹ 7803 crore) was mainly contributed by interest receipts (₹ 4852 crore), non-ferrous mining and metallurgical industries (₹ 1887 crore) and other rural development programmes (₹ 563 crore). The interest receipts during the year include ₹ 4529 crore arising out of book adjustment from irrigation projects which is of notional in nature. Non-tax revenue was, however, more than the projections of TFC and FCP under FRBM Act during last five years and increased by ₹ 1765 crore (29.23 *per cent*) over the projections of FCP (₹ 6038 crore) for 2009-10. The non tax revenue under select services was very low as compared to non plan revenue expenditure as detailed in **Table 1.4** below:

**Table 1.4: Ratio of non-tax revenue to non-plan revenue expenditure**

*(Rupees in crore)*

Sl. No.	Service	NTR during 2009-10	NPRE during 2009-10	Ratio of NTR to NPRE
1.	Education, Sports and Culture	55.09	7110.78	0.008
2.	Medical and Public Health	70.58	1829.42	0.039
3.	Major and Medium Irrigation	81.88	4803.35	0.017
4.	Power	26.12	3233.37	0.008
5.	Roads and Bridges	45.01	1059.31	0.042

### 1.5.2 Debt Consolidation and Relief Facility (DCRF)

Subject to certain conditionalities, including the enactment of FRBM Act and reduction of Revenue Deficit and Fiscal Deficit as per certain norms, Andhra Pradesh was entitled to a debt waiver under the DCRF Scheme recommended by the TFC and accepted by the Union Government. As assessed by the TFC, in the case of Andhra Pradesh the annual repayment due was ₹ 766.86 crore and the amount of debt relief due for the period 2005-10 was ₹ 3834.30 crore, of this GOI sanctioned ₹ 1889.39 crore as debt relief for the State as detailed in **Table 1.5**:

**Table 1.5: Debt relief due and sanctioned**

*(Rupees in crore)*

Year	Debt relief due as per TFC recommendations	Debt relief sanctioned by the Central Government
2005-06	766.86	---
2006-07	766.86	1186.31
2007-08	766.86	703.08
2008-09	766.86	---
2009-10	766.86	---
<b>Total</b>	<b>3834.30</b>	<b>1889.39</b>

The shortfall of ₹ 1944.91 crore was due to non satisfaction of certain conditionalities. The debt relief of ₹ 1406.16 crore sanctioned to the State for 2008-10 was withdrawn by the GOI on the recommendation of Central Monitoring Committee (CMC).

### 1.5.3 Revenue arrears

The arrears of revenue as reported by the departments concerned as on 31 March 2010 in respect of some principal heads of revenue are presented in the **Table 1.6**.

**Table 1.6: Arrears of revenue as on 31 March 2010**

*(Rupees in crore)*

Sl. No.	Head of Revenue	Arrears as on 31 March 2010	Arrears outstanding for more than 5 years
1.	Commercial Taxes	5858.99	4132.00
2.	Chief Electrical Inspector	1965.87	113.50
3.	Transport	2391.51	992.95
4.	Mines and Geology	42.85	0
5.	Sugar and Cane Commissioner	292.71	292.71
6.	Stamps and Registration	187.32	0
7.	Forest	37.18	21.37
8.	Civil Supplies	22.21	0
9.	Land Revenue	1355.14	345.98
	<b>Total</b>	<b>12153.78</b>	<b>5898.51</b>

The arrears increased by ₹ 5646 crore during the current year (₹ 12154 crore) over previous year (₹ 6508 crore) affecting the fiscal position of the State to that extent. The arrears at the end of March 2010 include arrears of ₹ 5899 crore outstanding for more than five years. The arrears were stated to be on account of (i) stay orders, deferment, process under RR Act etc of Commercial Taxes (₹ 5859 crore); (ii) pending court cases, merger of Rural Electric Cooperative Society, pending process for waiver etc., of Electricity Duty (₹ 1966 crore); (iii) non-payment of arrears by APSRTC under Transport (₹ 2379 crore) and (iv) weak financial position of Cooperative Sugar Factories (₹ 293 crore). No specific reasons were furnished for the remaining (₹ 1657 crore) arrears including Land Revenue of ₹ 1355 crore.

#### 1.5.4 Loss of revenue due to evasion of taxes, write off, refunds etc.

During the current year there was a loss of revenue of ₹ 522.64 crore as reported by the Revenue departments due to write off (₹ 23.95 crore) evasion (₹ 303.12 crore) and refunds (₹ 195.57 crore).

#### 1.5.5 Cost of collection

The gross collection of major own tax revenue, expenditure on collection and the percentage of such expenditure to gross collection vis-à-vis all India average percentage during 2007-10 are as follows:

*(Rupees in crore)*

Head of revenue	Year	Gross collection	Expenditure on collection	% of cost of collection to gross collection	All India average %
Taxes on sales, trade etc,	2007-08	19026.49	175.73	0.92	0.83
	2008-09	21851.66	190.79	0.87	0.88
	2009-10	23640.21	215.88	0.91	NA
State Excise	2007-08	4040.69	162.24	4.02	3.27
	2008-09	5752.61	183.78	3.19	3.66
	2009-10	5848.59	200.62	3.43	NA
Taxes on Vehicles	2007-08	1603.80	62.46	3.89	2.58
	2008-09	1800.63	57.89	3.21	2.93
	2009-10	1995.30	64.99	3.26	NA
Stamp Duty and Registration fee	2007-08	3086.06	62.54	2.03	2.09
	2008-09	2930.99	73.58	2.51	2.77
	2009-10	2638.63	87.75	3.33	NA

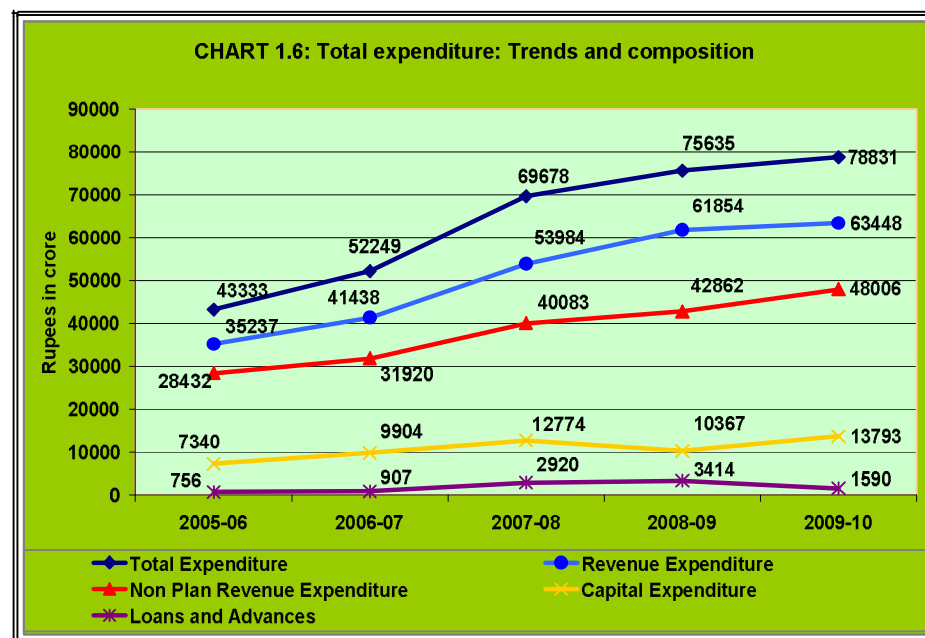
In case of Andhra Pradesh the cost of collection of Sales Tax and State Excise was more than that of all India average during 2007-08 but less during 2008-09. While the cost of collection of taxes on vehicles was more, the same on Stamp Duty and Registration fee was less than the all India average during 2007-09. The cost of collection of major taxes in the State during the current year increased over previous year and could not be compared as all India average figures are not available for 2009-10.

## 1.6 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. Analysis of the effect of ongoing fiscal correction and consolidation process at the state level on expenditure directed towards development and social sectors is given in succeeding paragraphs.

### 1.6.1 Growth and composition of expenditure

**Chart 1.6** presents the trends in total expenditure over a period of five years (2005-10) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.7 and 1.8** respectively.

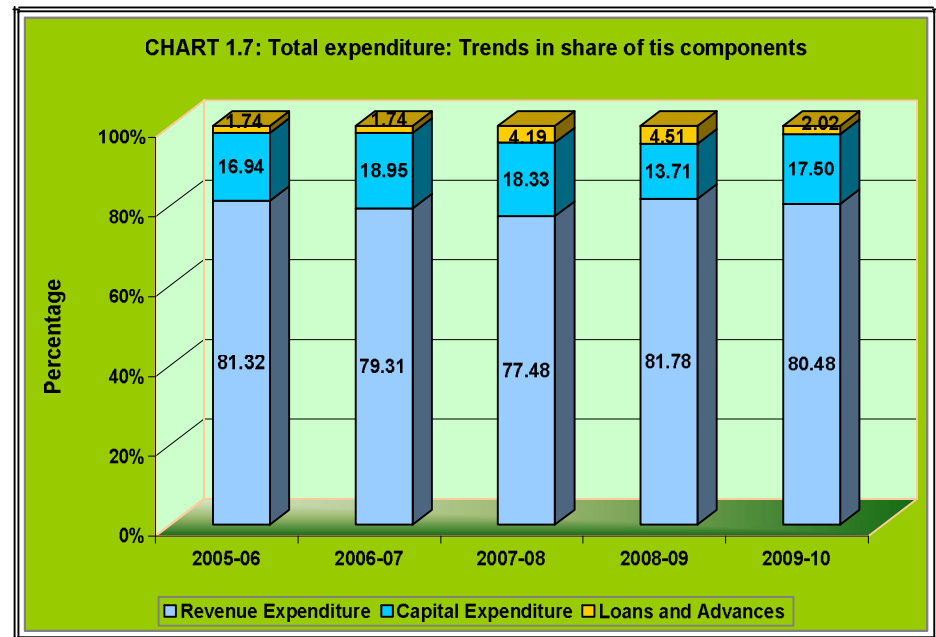


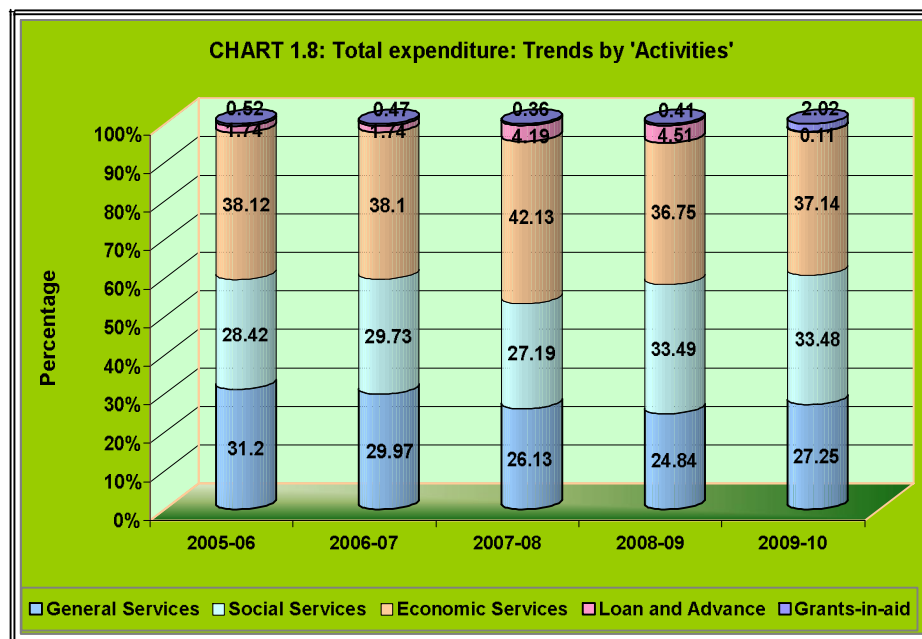
The total expenditure in 2009-10 (₹ 78831 crore) increased by ₹ 3196 crore (4 per cent) over previous year (₹ 75635 crore) mainly due to increase in capital expenditure (₹ 3426 crore) and revenue expenditure (₹ 1594 crore) partly offset by decrease in loans and advances (₹ 1824 crore). During the current year 82 per cent of total expenditure

was met from revenue receipts and the balance from capital receipts and borrowed funds.

**Revenue expenditure** constituted 80 per cent of the total expenditure in 2009-10. It increased by ₹ 9786 crore over the projections of State's own FCP (₹ 53662 crore) and constituted 15.42 per cent of GSDP as against the 15.46 per cent projected. There was significant increase in revenue expenditure under (i) interest payments and servicing of debt (₹ 894 crore) due to more expenditure under interest on market loans; (ii) Education, Sports, Art and Culture (₹ 1288 crore) mainly due to increase in assistance to local bodies for Secondary Education and to Universities for Technical Education; (iii) Social Security and Welfare (₹ 1222 crore) mainly due to disbursement of Gratuitous Relief under drought and assistance to Local Bodies/Institutions under Floods and Cyclones and (iv) Irrigation and Flood Control (₹ 1407 crore) due to more expenditure on Major Irrigation. The non plan revenue expenditure (NPRE) component constituted 76 per cent of revenue expenditure. It exceeded significantly both the normative projections of TFC (₹ 38068 crore) and State's projections in its FCP (₹ 40140 crore) for 2009-10.

**Capital expenditure** during 2009-10 (₹ 13793 crore) constituted 17.50 per cent of total expenditure. It increased by ₹ 3426 crore over the previous year (₹ 10367 crore). The increase was mainly on Major and Medium Irrigation (₹ 2412 crore), Roads and Bridges (₹ 381 crore) and Minor Irrigation (₹ 182 crore). Capital expenditure was more than the projections of FCP (₹ 9310 crore) at 3.35 per cent of GSDP, but less than the projections (₹ 17500 crore) made in Macro Economic Framework Statement (MEFS) for 2009-10.





### 1.6.2 Committed expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.7** and **Chart 1.9** present the trends in the expenditure on these components during 2007-10.

**Table-1.7: Components of committed expenditure**

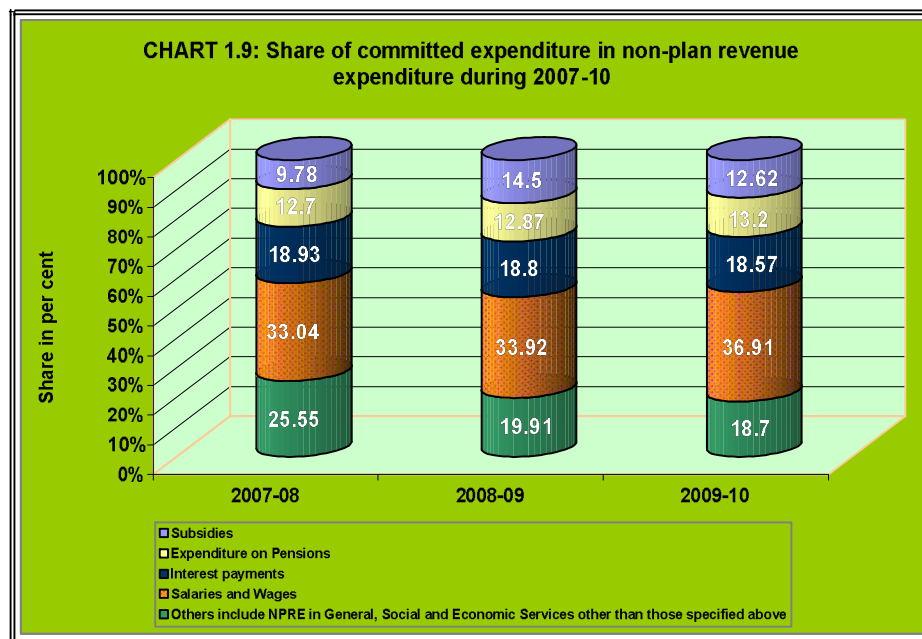
*(Rupees in crore)*

Components of Committed expenditure	2007-08	2008-09	2009-10		
			BE	Actuals	Percentage variation
Salaries* & Wages , <i>Of which</i>	13243(24)	14539(23)	16292(21)	17721(27)	(+)8.77
Non-Plan Head	12171	12883	15270(-)	15706(-)	(+)2.86
Plan Head**	1072	1656	1022(-)	2015(-)	(+)97.16
Interest Payments	7589(14)	8057(13)	9104(12)	8914(14)	(-)2.09
Pensions	5092(9)	5518(9)	6743(9)	6339(10)	(-)5.99
Subsidies	3918(7)	6213(10)	10023(13)	6056(9)	(-)39.58
<b>Total</b>	<b>29842(54)</b>	<b>34327(55)</b>	<b>42162(53)</b>	<b>39030(60)</b>	<b>(-)7.43</b>

Figures in the brackets indicate percentage to revenue receipts

\* It also includes the salaries paid out of grants-in-aid and work charged establishment

\*\* Plan head also includes the salaries and wages paid under CSS



### ***Salaries and Wages***

Expenditure on salaries and wages during current year was increased by 21.89 *per cent* and 8.77 *per cent* over previous year and budget estimates 2009-10 respectively. While the increase over budget estimates was mainly under plan heads (97 *per cent*), the increase over previous year was equal at 22 *per cent* under both plan and non-plan heads. The expenditure constituted 23 to 27 *per cent* of revenue receipts and 33 to 37 *per cent* of non-plan revenue expenditure during the last three years. *During the current year the salary expenditure was 37 per cent of revenue expenditure net of interest and pension payment as against the TFC recommendations of 35 per cent.* In real terms, while the salary expenditure (₹ 17721 crore) increased over the projections of FCP under FRBM Act (₹ 10483 crore) it was almost equal to the MEFS projections (₹ 17424 crore) for the year 2009-10.

### ***Interest payments***

The share of interest payments in revenue expenditure, which showed a declining trend over the last five years, increased to 14.05 *per cent* during the current year mainly due to increase in interest on market loans. The major source of borrowings was market loans (₹ 15383 crore) at interest rates ranging from 7.11 to 8.48 *per cent*. *The interest payment during the current year (₹ 8914 crore) increased by ₹ 857 crore (11 per cent) over previous year (₹ 8057 crore) but remained lower than the projections made in FCP (₹ 10356 crore) and MEFS (₹ 9104 crore).* Interest payments relative to revenue receipts in 2009-10 (14 *per cent*) were less than the TFC projections (15 *per cent*). The increase (₹ 857 crore) in interest payments over previous year was the net effect of increase in interest on Internal Debt

(₹ 832 crore) and Small Savings and Provident Funds (₹ 84 crore) and decrease on Loans and Advances from GOI (₹ 59 crore).

### ***Pensions***

The expenditure on pensions which was 9 *per cent* of the revenue receipts during the last two years, increased to 10 *per cent* during the current year. The pension payments during 2009-10 (₹ 6339 crore) exceeded the projections of TFC (₹ 4946 crore) and FCP under FRBM Act (₹ 5103 crore). The State Government did not estimate yearly pension liabilities on actuarial basis for the ensuing years as stipulated in the FRBM Act. The State Government introduced a contributory pension scheme for employees recruited on or after 1 September 2004 to mitigate the impact of rising pension liabilities in the long term.

### ***Subsidies***

The total subsidy during the current year was ₹ 6056 crore of which power subsidy was ₹ 3212 crore, rice subsidy was ₹ 2350 crore and other subsidies were ₹ 494 crore. The subsidies decreased by ₹ 157 crore (2.53 *per cent*) over previous year and by ₹ 3967 crore (40 *per cent*) over budget provision. While there was increase in subsidies on rice (₹ 149 Crore), supply of seeds to farmers (₹ 103 crore) and distribution of LPG connections to women in rural/municipal areas (₹ 47 crore), the subsidy on Power (₹ 173 crore) and interest subsidy on loans taken by Development of Women And Children in Rural Areas (DWACRA) groups (₹ 57 crore) decreased. *The State Government in its Fiscal Policy Strategy Statement (FPSS<sup>5</sup>) viewed that the subsidies are the need of the hour to provide food, shelter and wage employment to all poor and vulnerable sections in the society and projected rice and power subsidies at ₹ 1935 crore and ₹ 1599 crore in its FCP and at ₹ 3500 crore and ₹ 6040 crore in FPSS respectively.* However, the actual expenditure in 2009-10 on rice subsidy (₹ 2350 crore) and power subsidy (₹ 3212 crore) was more than FCP projections and less than FPSS projections.

The committed expenditure on salaries and wages, pensions, interest payments and subsidies during 2009-10 constituted 81 *per cent* of NPRES.

### ***1.6.3 Financial assistance by State Government to local bodies and other institutions***

The quantum of assistance provided by way of grants and loans to local bodies and other institutions during the current year relative to the previous four years is presented in **Table 1.8**

---

<sup>5</sup> presented to State Legislature in August 2009



**Table 1.8: Financial assistance to Local Bodies etc.**

*(Rupees in crore)*

	2005-06	2006-07	2007-08	2008-09	2009-10
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	1503.97	1766.50	1875.99	1820.16	1994.23
Municipal Corporations and Municipalities	464.95	233.43	2699.27	4104.94	3142.28
Zilla Parishads and other PR Institutions	842.19	1309.82	920.81	2503.43	1866.77
Development Agencies	2549.76	1747.02	3715.48	11791.26	7481.35
Hospitals and Other Charitable Institutions	238.98	387.44	599.55	1151.43	1392.99
Other Institutions <sup>6</sup>	4102.16	5321.88	8850.95	3436.06	3964.75
<b>Total</b>	<b>9702.01</b>	<b>10766.09</b>	<b>18642.03</b>	<b>24807.28</b>	<b>19842.37</b>
Assistance as percentage of RE	27.53	26.00	34.53	40.11	31.27

The financial assistance including grants and loans extended to local bodies and other institutions in 2009-10 (₹ 19842 crore) decreased by ₹ 4965 crore (20 per cent) over previous year (₹ 24807 crore). The plan and non-plan grants given to local bodies and other institutions in 2009-10 were ₹ 11257 crore and ₹ 7079 crore respectively. The major receivers of the grants in 2009-10 were APTRANSCO for agriculture and allied subsidy (₹ 3212 crore), welfare pensions (₹ 639 crore) and Backward Region development grant (₹ 318 crore). The grants-in-aid include ₹ 1772 crore towards salaries. The financial assistance during 2005-10 constituted 26 to 40 per cent of revenue expenditure with inter-year variations.

## 1.7 Quality of expenditure

The availability of better social and physical infrastructure in the state generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects viz., adequacy of the expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

### 1.7.1 Adequacy of public expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like education and health etc. The fiscal priority (ratio of expenditure category to aggregate expenditure) accorded to a

<sup>6</sup> Other institutions include those institutions who received ad-hoc or one time grants during the year

particular sector is considered to be low if it is below the general category states average. **Table 1.9** presents the fiscal priority given to different categories of expenditure by the State in 2005-06 (the first year of award period of the TFC and the current year 2009-10 (terminal year of TFC award period).

**Table-1.9: Fiscal Priority of the State in 2005-06 and 2009-10**

(in per cent)						
Fiscal Priority by the State	AE/GSDP	DE <sup>#</sup> /AE	SSE/AE	CE/AE	Education/ AE	Health/ AE
General Category States* Average (Ratio) 2005-06	17.75	61.76	30.76	13.97	14.95	4.05
Andhra Pradesh State's Average (Ratio) 2005-06	18.08	68.15	29.70	16.94	12.40	3.89
General Category States Average (Ratio) 2009-10	18.24	66.05	35.76	14.85	16.21	4.28
Andhra Pradesh State's Average (Ratio) 2009-10	19.16	72.53	35.28	17.50	10.76	4.33
AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure, CE: Capital Expenditure # Development Expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances Disbursed. Source: GSDP data collected from the State's Directorate of Economics and Statistics. *Andhra Pradesh, Bihar, Chattisgarh, Delhi, Goa, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, MP, Maharashtra, Orissa, Punjab, Rajasthan, Tamilnadu, UP and WB.						

An analysis of the data (**Table 1.9**) of AP in comparison with general category states reveals the following:

- State Government, in 2005-06 and 2009-10 spent more as a proportion of GSDP (18.08 and 19.16 *per cent*) compared to general category state's average of 17.75 and 18.24 *per cent* respectively.
- State Government gave adequate fiscal priority to DE and CE since ratios of DE/AE and CE/AE in the case of Andhra Pradesh were higher than the average of general category states both in 2005-06 and 2009-10.
- The priority given to Social Sector was, however not adequate as the ratio of SSE/AE for AP was lower than the average ratio of general category states in 2005-06 and 2009-10.
- Though the literacy in AP is low at 60.47 *per cent* against the all India average of 64.80 *per cent*, State Government did not give adequate priority to Education as evident from that the ratio of expenditure on Education in AE (12.40 and 10.76 *per cent*) which was less than that of the general category states (14.95 and 16.21 *per cent*) during 2005-06 and 2009-10.
- Priority to health, however, improved since the ratio of expenditure on health in AE increased from 3.89 *per cent* in 2005-06 to 4.33 *per cent* in 2009-10 and was also more than that of general category states (4.28 *per cent*).

### 1.7.2 Efficiency of expenditure use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is considered important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods<sup>7</sup>. Apart from improving the allocation towards development expenditure<sup>8</sup>, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. **Table 1.10** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis budgeted and the previous years.

**Table-1.10: Development Expenditure**

*(Rupees in crore)*

Components of Development Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
<b>Development Expenditure (a to c)</b>	29531(68)	36272(69)	51127(73)	56440(75)	72148(75)	57181(72)
a. Development Revenue Expenditure	21520(50)	25879(49)	35564(51)	42811(57)	53479(56)	41970(53)
b. Development Capital Expenditure	7314(16)	9560(18)	12738(18)	10308(14)	17936(18)	13702(17)
c. Development Loans and Advances	697(2)	833(2)	2825(4)	3321(4)	856(1)	1509(2)
Figures in the parentheses indicate the percentage to aggregate expenditure						

During 2005-10 the total development expenditure constituted 68 to 75 per cent of the aggregate expenditure. It increased in the current year by ₹ 741 crore (1.31 per cent) over the previous year. Development revenue expenditure constituted 49 to 57 per cent of aggregate expenditure during 2005-10. During the current year, while the development capital expenditure increased by ₹ 3394 crore (33 per cent), development loans and advances and development revenue expenditure decreased by ₹ 1812 crore (55 per cent) and ₹ 841 crore (2 per cent) respectively over the previous year.

<sup>7</sup> see glossary at page 98

<sup>8</sup> see glossary at page 98

The share of non-plan expenditure in revenue expenditure ranged between 69 and 81 *per cent* during the last five years. In the current year non-plan revenue expenditure (₹ 48006 crore) increased over the projections of TFC (₹ 38068 crore) by 26 *per cent* and the FCP under FRBM Act (₹ 40140 crore) by 20 *per cent*. The share of plan revenue expenditure ranged between 19 and 31 *per cent* during the last five years. Plan revenue expenditure (₹ 15442 crore) in 2009-10 was more by 14 *per cent* than the projections of FCP (₹ 13521 crore).

The share of General Services including interest payments in total expenditure has continuously decreased during the last four years while it increased to 27.25 *per cent* in the current year. During 2009-10, the share of Social Services and Economic Services constituted 34 and 37 *per cent* of total expenditure respectively. The share of General Services in revenue expenditure constituted 34 *per cent* while the Development Expenditure consisting Social and Economic Services constituted 66 *per cent* in 2009-10.

**Table 1.11** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected Social and Economic Services.

**Table 1.11: Efficiency of expenditure use in selected Social and Economic Services**

*(In per cent)*

Social/Economic Infrastructure	2008-09			2009-10		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S&W	O&M		S&W	O&M
<b>Social Services (SS)</b>						
General Education	1.10	65.11	0.28	0.50	86.56	0.33
Health and Family Welfare	1.03	46.06	0.97	1.22	58.91	0.41
WS, S, H&UD	0.33	2.26	0.25	7.49	13.58	0.66
<b>Total (SS)</b>	<b>1.28</b>	<b>27.21</b>	<b>0.47</b>	<b>2.42</b>	<b>41.85</b>	<b>0.05</b>
<b>Economic Services (ES)</b>						
Agriculture & Allied Activities	0.52	17.18	0.09	0.03	27.39	0.17
Irrigation and Flood Control	67.96	5.39	6.46	67.37	7.95	7.09
Power & Energy	0.01	0.21	---	0.31	0.92	---
Transport	37.11	0.95	52.35	51.54	7.31	66.19
<b>Total (ES)</b>	<b>35.92</b>	<b>8.12</b>	<b>8.34</b>	<b>44.62</b>	<b>15.09</b>	<b>7.66</b>
<b>Total (SS+ES)</b>	<b>19.41</b>	<b>19.27</b>	<b>3.74</b>	<b>24.61</b>	<b>31.51</b>	<b>2.99</b>
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operation & Maintenance of respective sector.						

Although no specific norms were laid down for prioritization of capital expenditure in State's FRBM Act, the continuous increase in capital expenditure since 2005-06 except in 2008-09 indicate the fact that impetus was being given to asset formation of the state. *The Operation and Maintenance expenditure (₹ 1348 crore) in 2009-10 constituted*

2.08 per cent of revenue receipts and 2.12 per cent of revenue expenditure and it was more than the TFC projection of ₹ 1247 crore.

### 1.7.3 Major Policy Initiatives

The State Government, while presenting the Budget for 2009-10, committed to continue the ongoing process of fiscal correction while striving to provide higher allocations for improving economic and social infrastructure and announced a number of policy initiatives aimed at augmenting revenues and directing expenditure towards the priority areas. The Government continued the scheme of providing scholarships to aid children who are economically backward irrespective of their caste/religion/sect and provided ₹ 350 crore to the Education Department for the scheme. With a view to promoting industrialization, government made a provision of ₹ 278.64 crore towards incentives for industrial promotion. With the intention to provide basic amenities to the people living in urban areas, government has taken proactive steps to access the flagship programme of Government of India, Jawaharlal Nehru National Urban Renewal Mission (JNNURM). Government also made a provision of ₹ 37 crore to improve the quality of water supply in slum areas of twin cities of Hyderabad and Secunderabad. The major policy initiatives of the Government and budget provision vis-à-vis actual expenditure on these schemes during 2009-10 are given in **Table 1.12**.

**Table 1.12: Major policy initiatives, budget provision and expenditure**

(Rupees in crore)

Sl. No.	Name of the Scheme	Budget provision during 2009-10	Expenditure during 2009-10	Percentage of expenditure to provision
1	Abhaya Hastham	62.50	153.55	245.68
2	Tuition fee reimbursement to Economically Backward Classes	350.00	187.92	53.69
3	Housing (Indiramma, IAY, RAY etc.,)	1750.00	1371.72	78.38
4	Incentives for Industrial Promotion	278.64	187.93	67.44
5	AP Road Sector Project	200.00	149.97	74.99
6	Water supply in slum areas of Twin cities	37.00	29.86	80.70
7	<b>JNNURM</b>	<b>1909.75</b>	<b>1545.77</b>	<b>80.94</b>
(i)	Urban Infrastructure and Governance	664.94	394.13	59.27
(ii)	Basic Services for urban poor	325.66	320.17	98.31
(iii)	Urban Infrastructure Development Scheme for small and medium towns	755.95	699.28	92.50
(iv)	Integrated Housing and slum Development Programme	163.20	132.19	81.00

A major policy initiative of the Government was to complete 38.22 lakh houses sanctioned up to 2008-09 and 71251 houses sanctioned in 2009-10 under “Indiramma” scheme to create a hut-free state. However, Government spent ₹ 1372 crore (78 per cent) out of the budget provision of ₹ 1750 crore and completed 7.52 lakh houses. Out of the balance 31.41 lakh houses, 15.70 lakh were not started at all and 15.71 lakh were at various stages of construction.

Government spent ₹ 188 crore (67 per cent) out of the provision of ₹ 279 crore under incentives for industrial promotion. Under Integrated Housing and Slum Development Programme under JNNURM, only 6421 houses (37 per cent) were completed against the target of 17554 houses. The Government surrendered the total provision of ₹ 350 crore under Higher Education for post matric scholarships, tuition fee reimbursement to economically backward class students. Government, however spent ₹ 187.92 crore out of savings in BC Welfare grant and covered only 1.75 lakh out of 2.80 lakh eligible applicants. Out of the provision (₹ 37 crore) made to improve the quality of water supply in slum areas of twin cities, an expenditure of ₹ 30 crore (81 per cent) was incurred. Of the target of extending water supply lines to 86 km, lines were extended up to 51 km only.

## 1.8 Financial analysis of Government expenditure and investments

In the post-FRL framework, the State is expected to keep its fiscal deficit (and borrowing) not only at low levels but also to meet its capital expenditure/ investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government is expected to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis previous years.

### 1.8.1 Incomplete Projects

Blocking of funds on incomplete works impinge negatively on the quality of expenditure. The department wise position of incomplete projects, each costing above rupees one crore and due for completion are detailed in **Table 1.13**. The details of major and medium irrigation projects are given in **Appendix 1.7**

**Table 1.13: Department-wise profile of incomplete projects/works**

*(Rupees in crore)*

Nature of works	No. of incomplete Projects	Original cost	Revised total cost of projects	Cost over run	Cumulative Expenditure as on 31-03-2010
<b>Irrigation and Command Area Development Department</b>					
Irrigation Projects	46	41847.64	63506.52 (34 projects)	27140.46 (34 projects)	35886.93
<b>Roads and Bridges Department</b>					
Roads and Bridges	117	351.14	222.05 (18 projects)	91.84 (18 projects)	238.15
<b>Panchayati Raj and Rural Development Department</b>					
Roads	41	103.15	8.53 (4 projects)	2.73 (4 projects)	38.73
Buildings	2	3.00	--	--	1.01
<b>Total</b>	<b>206</b>	<b>42304.93</b>	<b>63737</b> <b>(56 projects)</b>	<b>27235.03</b> <b>(56 projects)</b>	<b>36164.82</b>

As per the information provided by the Government 206 projects/works on which an expenditure of ₹ 36164.82 crore was incurred, were not completed as at the end of March 2010 though the stipulated period of completion was over. Further, of the 206 incomplete projects/works, the original cost of 56 projects/works was revised by the Government which amounted to ₹ 27235.03 crore. Non-completion of these projects/works within the stipulated period not only resulted in increase in cost etc, but also deprived the state of intended benefits for a long time.

### 1.8.2 Investment and returns

As of 31 March 2010, Government had invested ₹ 6003.31 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives (Table 1.14). The average return on this investment was 0.50 per cent in the last five years while the Government paid average interest rate<sup>9</sup> of 8.37 per cent on its borrowings during 2005-10.

**Table-1.14: Return on investment**

Investment/Return/ Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year (Rupees in crore)	5715.89	5776.17	5931.42	5978.90	6003.31
Return (Rupees in crore)	45.88	47.40	11.95	18.78	22.77
Return ( <i>per cent</i> )	0.80	0.82	0.20	0.31	0.38
Average rate of interest on Government borrowing ( <i>per cent</i> )	9.11	8.76	8.25	7.88	7.86
Difference between interest rate and return ( <i>per cent</i> )	8.31	7.94	8.05	7.57	7.48

<sup>9</sup> see glossary at page 98

The investment of State Government as at the end of March 2010 included ₹ 3685 crore in 52 Government Companies, ₹ 1246 crore in 74 Cooperative Banks and Societies, ₹ 985 crore in four Statutory Corporations, ₹ 59 crore in 37 Joint Stock Companies and ₹ 28 crore in two Rural Banks. During 2009-10, Government invested ₹ 29.27 crore in Government Companies and Cooperative Institutions and disinvested ₹ 4.86 crore in Cooperative Institutions. On the investments made, Government earned a return of ₹ 22.77 crore in 2009-10 which is more than that of 2008-09 by ₹ 3.99 crore. The return on investment was very low at less than one *per cent* during 2005-10 while the average rate of interest paid during the period was 8.37 *per cent*. *The difference between average interest rate and return was 7.48 per cent resulting in a notional loss of ₹ 449 crore in 2009-10.*

### **1.8.3 Departmental Commercial Undertakings**

Activities of quasi-commercial nature are also performed by the departmental undertakings of certain Government departments. The department-wise position of the investment made by the Government up to the year for which pro forma accounts are finalised, net profit/loss as well as return on capital invested in these undertakings is given in **Appendix 1.8**. The following are the observations:

- An amount of ₹ 4.19 crore had been invested by the State Government in three undertakings at the end of financial year up to which their accounts were finalised.
- Of the total nine undertakings, one undertaking i.e., Ice-cum-Cold Storage Plant, Tungabhadra (TB) Dam earned net profit amounting to ₹ 0.12 crore on ₹ 0.12 crore invested.

In spite of constant pursuance by the Accountant General (C&RA), Government neither initiated action against defaulting management nor took effective steps to improve the position. Thus the accountability of the managements and Government in respect of public funds invested and spent by these undertakings could not be ensured.

In view of the heavy losses of most of the undertakings, Government should improve their working so as to make them self-sustainable in the medium to long term.

### **1.8.4 Loans and advances by State Government**

In addition to investments in Co-operative Societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. **Table 1.15** presents the outstanding loans and advances as on 31 March 2010, interest receipts vis-à-vis interest payments during the last three years.



**Table-1.15: Average interest received on loans advanced by the State Government**

*(Rupees in crore)*

Quantum of Loans/Interest Receipts/Cost of Borrowings	2007-08	2008-09	2009-10	
			BE	Actual
Opening Balance	10648	13378	-	16421
Amount advanced during the year	2921	3413	856	1590
Amount repaid during the year	191	370	275	143
<b>Closing Balance</b>	<b>13378</b>	<b>16421</b>		<b>17868</b>
<i>Of which</i> Outstanding balance for which terms and conditions have been settled	NA	NA		NA
Net addition	2730	3043	581	1447
Interest Receipts	44	21	97	32
Interest receipts as <i>per cent</i> to outstanding Loans and Advances	0.33	0.13	-	0.18
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	7.79	7.54	-	7.44
Difference between interest receipts and interest payments ( <i>per cent</i> )	(-7.46)	(-7.41)	-	(-7.26)

Loans advanced during the current year (₹ 1590 crore) decreased by ₹ 1823 crore (53.41 *per cent*) over the previous year (₹ 3413 crore), while the loans repaid decreased by ₹ 227 crore (61.35 *per cent*). Loans outstanding at the end of the year (₹ 17868 crore) increased by ₹ 1447 crore over the previous year. Urban Development Authorities (₹ 572 crore) and State Housing Corporation (₹ 537 crore) were the major recipients of the loans during the current year. At the end of 2009-10 recovery of ₹ 23882 crore (Principal: ₹ 15154 crore and Interest: ₹ 8728 crore) was due from Municipalities, Local Bodies, Panchayat Raj institutions etc., the details of which are kept by the Principal Accountant General (A&E). Of these, recovery of ₹ 16191 crore (Principal: ₹ 8153 crore and Interest: ₹ 8038 crore) was outstanding for more than three years. Out of the total loans of ₹ 2201 crore outstanding against Andhra Pradesh State Electricity Board at the end of January 1999, loans amounting to ₹ 561 crore are overdue.

### 1.8.5 Cash balances and investment of Cash balances

**Table 1.16** depicts the cash balances and investments made by the State Government out of cash balances during the year.

**Table-1.16: Cash balances and investment of cash balances**

*(Rupees in crore)*

Particulars	As on 1 <sup>st</sup> April 2009	As on 31 <sup>st</sup> March 2010	Increase/ Decrease
Cash Balances	4972.95	5982.85	1009.90
Investments from Cash Balances (a to d)	2283.93	2274.10	(-)9.83
a. GOI Treasury Bills	2283.93	2274.10	(-)9.83
b. GOI Securities	---	---	---
c. Other Securities	---	---	---
d. Other Investments	---	---	---
Fund-wise break-up of Investment from Earmarked balances (a to c)	2972.67	3674.23	701.56
a. Sinking Fund	2419.58	3063.36	643.78
b. Guarantee Redemption Fund	539.34	597.12	57.78
c. Other Funds	13.75	13.75	---
Interest realized	346.32	377.27	30.95

The closing cash balance (CB) at the end of the current year (₹ 5982.85 crore) increased by ₹ 1009.90 crore over previous year (₹ 4972.95 crore). The CB was invested in GOI Treasury Bills (₹ 2274.10 crore) and Earmarked funds (₹ 3674.23 crore) on which interest of ₹ 127.84 crore and ₹ 249.43 crore respectively was earned during the year. The rates of interest earned on these investments worked out to 5.61 per cent and 7.51 per cent respectively against the average market borrowing rate of 7.86 per cent.

The State Government maintained the minimum cash balance of ₹ 3.32 crore with RBI on 364 days and resorted to Ways and Means Advance of ₹ 33 crore on one day.

## 1.9 Assets and Liabilities

### 1.9.1 Growth and composition of assets and liabilities

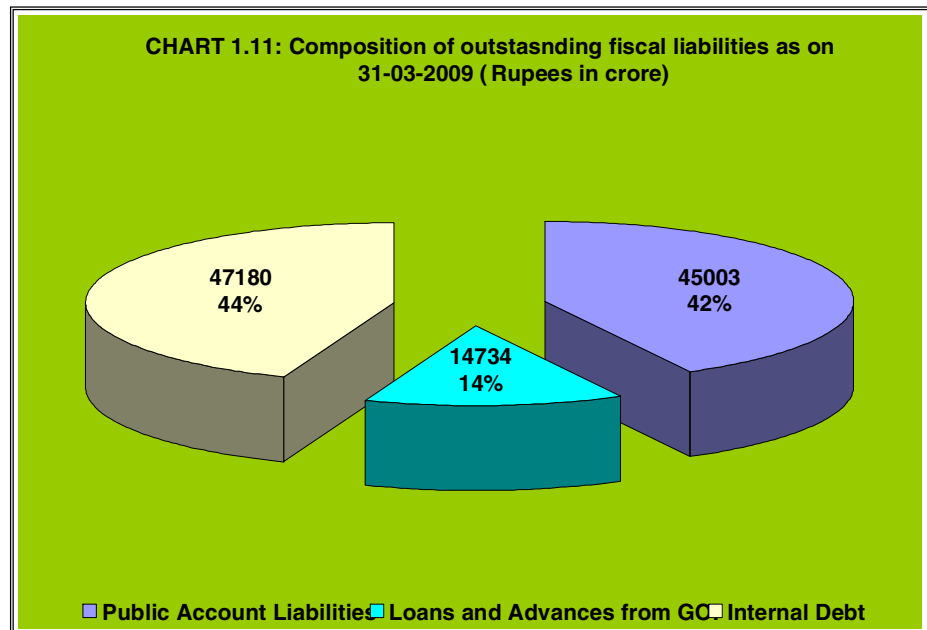
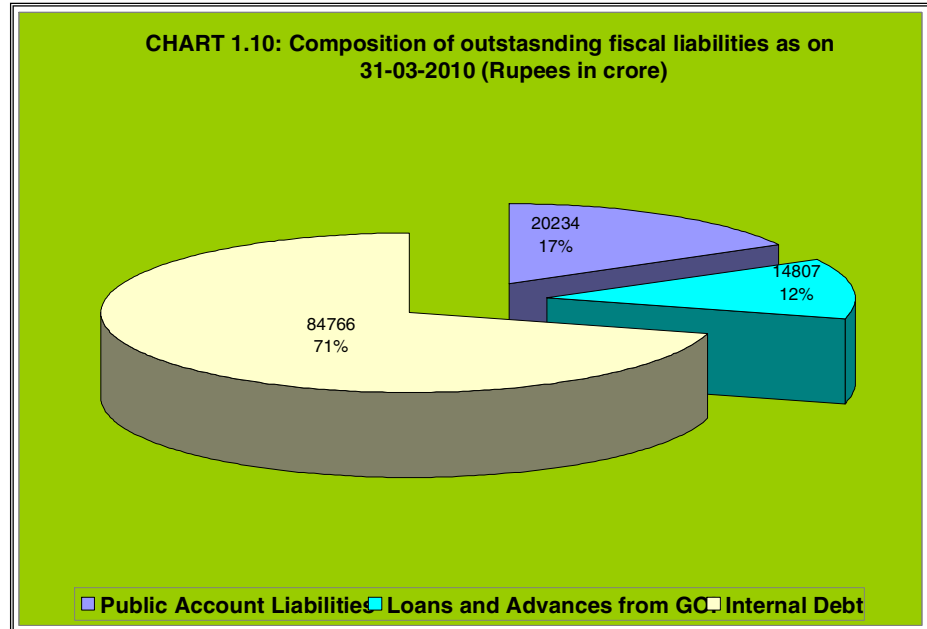
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.5** gives an abstract of such liabilities and the assets as on 31 March 2010, compared with the corresponding position on 31 March 2009. While the liabilities consist mainly of internal borrowings, loans and advances from GOI, receipts from Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

The total liabilities of the State as defined under the FRBM Act of the State means the “liabilities under the Consolidated Fund of the State and the Public Account of the State and shall also include borrowings by the public sector undertakings and the special purpose vehicles and other equivalent

instruments including guarantees where the principal and/or interest are to be serviced out of the State budgets”.

### 1.9.2 Fiscal liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.3**. The composition of fiscal liabilities during the current year vis-à-vis the previous year is presented in **Charts 1.10** and **1.11**.



The total fiscal liabilities of the State increased by ₹ 45519 crore (61 per cent) over a period of five years from ₹ 74288 crore at the end of 2004-05

to ₹ 119807 crore in 2009-10. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liabilities (₹ 99573 crore) comprised of market loans (₹ 51623 crore), Loans from NSSF (₹ 25198 crore), Loans and advances from GOI (₹ 14807 crore) and other loans (₹ 7945 crore). The Public Account liabilities (₹ 20234 crore) comprised of Small Savings and Provident Fund (₹ 8433 crore) and other obligations (₹ 11801 crore). The fiscal liabilities at the end of 2009-10 (₹ 119807 crore) increased by ₹ 12890 crore (12 per cent) over previous year (₹ 106917 crore) and stood at 1.85 times of revenue receipts.

*Total fiscal liabilities as defined in FRBM Act work out to ₹ 123863 crore<sup>10</sup> at the end of the current year and stood at 30.11 per cent of GSDP against a ceiling of 35 per cent prescribed in FRBM Act. However, since the 13<sup>th</sup> Finance Commission has recommended that all States should bring down their fiscal liability to 25 per cent of GSDP by 2014-15, the State Government may adopt a suitable strategy to achieve this target. In line with the TFC recommendations and FRBM Act, the State Government established Sinking Fund for reduction or avoidance of debt and Guarantee Redemption Fund and has been contributing for these funds at the rates prescribed by the RBI and maintained a closing balance of ₹ 3151 crore and ₹ 597 crore respectively.*

### **1.9.3 Status of guarantees – contingent liabilities**

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. Under Article 293(1) of the Constitution of India, the State Government during September 2003 fixed an explicit ceiling on giving guarantees upon the security of Consolidated Fund of the State that the total outstanding guarantees as on 1<sup>st</sup> day of April of any year shall not exceed 90 per cent of revenue receipts of second preceding year. State Government in its FRBM Act has committed to limit the amount of annual incremental risk weighted guarantees to 90 per cent of the total revenue receipts in the year preceding the current year. State Government has constituted (January 2002) Guarantee Redemption Fund for discharge of guarantees invoked. An amount of ₹ 58.88 crore (contribution: ₹ 16.57 crore and interest on investment: ₹ 42.31 crore) had been credited to the fund during 2009-10 and the entire balance of ₹ 597.12 crore was invested.

As per Statement No. 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table 1.17**.

---

<sup>10</sup> Consolidated Fund and Public Account liabilities (₹ 119807 crore), outstanding guarantees to be serviced out of state budget (₹ 2719 crore) and outstanding off budget borrowings (₹ 1337 crore)

**Table-1.17: Guarantees given by the Government of Andhra Pradesh**

*(Rupees in crore)*

Guarantees	2007-08	2008-09	2009-10	
			BE	Actuals
Maximum amount guaranteed	18798	29990	29689	20324
Outstanding amount of guarantees	14502	15239	13751	13135
Percentage of maximum amount guaranteed to total revenue receipts	34.72	47.71	17.41	31.42
Criteria as per FRBM Act (The annual incremental risk weighted guarantees is to be limited at 90% of the revenue receipts in the year preceding the current year)	(-) 10362	11192(21)	--	(-)9666

The maximum amount guaranteed at the end of 2009-10 (₹ 20324 crore) decreased by ₹ 9666 crore over previous year (₹ 29990 crore). The decrease was mainly under AP TRANSCO (₹ 8058 crore) and Cooperative Banks and Societies (₹ 1831 crore). In the current year Government received ₹ 2.44 crore as guarantee commission.

#### 1.9.4 Off-budget borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the liabilities shown in **Table 1.16**, the State Government guaranteed loans availed of by Government companies/corporations. These companies/corporations borrowed funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Although the State Government projects that funds for these programmes would be met out of the resources mobilised by these companies/corporations outside the State budget, in reality the borrowings of many of these concerns ultimately turn out to be the liabilities of the State Government and hence basically constitute off-budget borrowings

Out of the off-budget borrowings of ₹ 2230.59 crore raised by the APTRANSCO through Adjustment Bonds, private placement and Banks during 2001-09, Government repaid ₹ 893.59 crore up to 2008-09 leaving a balance of ₹ 1337 crore. Government neither raised nor repaid off-budget borrowings during the current year. However, Government paid interest of ₹ 115.07 crore during 2009-10. Government also paid arrangers fee of ₹ 90.68 lakh to the financial institutions for mobilizing subscriptions to the bonds worth ₹ 975 crore raised during 2005-08.

The total liabilities of the State comprising fiscal liabilities (₹ 119807 crore), off-budget borrowings (₹ 1337 crore) and outstanding guarantees including interest at the end of March 2010 (₹ 13135 crore) were ₹ 134279 crore which as a ratio of GSDP stood at 32.64 *per cent*, less than the ceiling of 35 *per cent* prescribed in FRBM Act.

## 1.10 Debt sustainability

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability<sup>11</sup> of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation<sup>12</sup>; sufficiency of non-debt receipts<sup>13</sup>; net availability of borrowed funds<sup>14</sup>; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.18** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2005-06.

**Table 1.18: Debt sustainability: Indicators and trends**

Indicators of Debt Sustainability	2005-06	2006-07	2007-08	2008-09	2009-10
Debt Stabilisation (Quantum Spread + Primary Deficit) (Rupees in crore)	4301	7149	10024	9363	6474
Sufficiency of Non-debt Receipts (Resource Gap) (Rupees in crore)	(-) 108	(+) 2657	(-) 3143	(-) 3710	(-) 1603
Net Availability of Borrowed Funds (Ratio)	(-) 0.07	(-) 0.01	0.13	0.03	0.07
Burden of Interest Payments (IP/RR Ratio)	0.21	0.17	0.14	0.13	0.14

The quantum spread together with primary deficit has been positive for the last five years resulting in decline in Debt/GSDP ratio from 0.33 in 2005-06 to 0.29 in 2009-10. These trends indicate the tendency towards debt stabilisation which would eventually improve the debt sustainability of the State. However, the resource gap has been negative in four years out of the five year period indicating that the incremental non-debt receipts were not sufficient to meet the incremental primary expenditure and interest burden. Thus the State needs to step up its resource mobilisation as well as prune unproductive expenditure to maintain debt stability. The ratio of the debt redemption (principal + interest payments) to total debt receipts was negative during 2005-07 and turned positive during 2007-10 indicating the availability of the borrowed funds for purposes other than debt repayment. The ratio of the interest payments to revenue receipts was also on declining trend during 2005-09 mainly due to lower rate of borrowing and the debt relief being extended by Government of India under FRBM Act. However, it increased during 2009-10 as the debt relief extended during 2008-09 was withdrawn during the current year by Government of India. The maturity profile of State debt is given in **Table 1.19**.

<sup>11</sup> see glossary at page 98

<sup>12</sup> see glossary at page 98

<sup>13</sup> see glossary at page 98

<sup>14</sup> see glossary at page 98

**Table 1.19: Maturity Profile of State Debt***(Rupees in crore)*

Maturity profile	Amount	Percentage
0 – 1	3808.01	4.52
1 – 3	10604.72	12.59
3 – 5	10049.64	11.94
5 – 7	9026.70	10.72
7 and above	50723.07	60.23
<b>Total</b>	<b>84212.14</b>	<b>100.00</b>

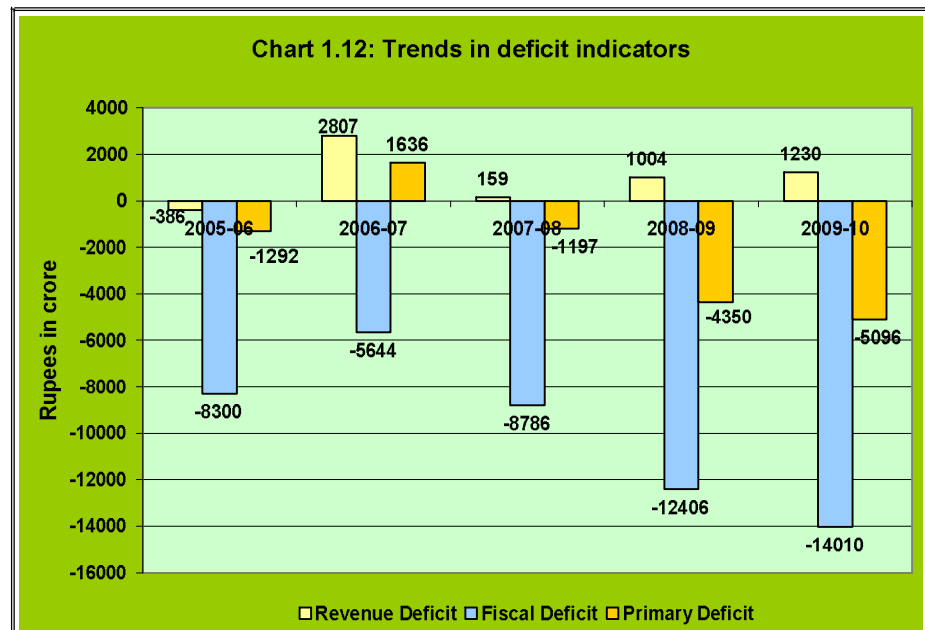
In none of the last five years there was fiscal surplus. To discharge the expenditure obligations the Government will have to borrow further unless there is adequate fiscal surplus.

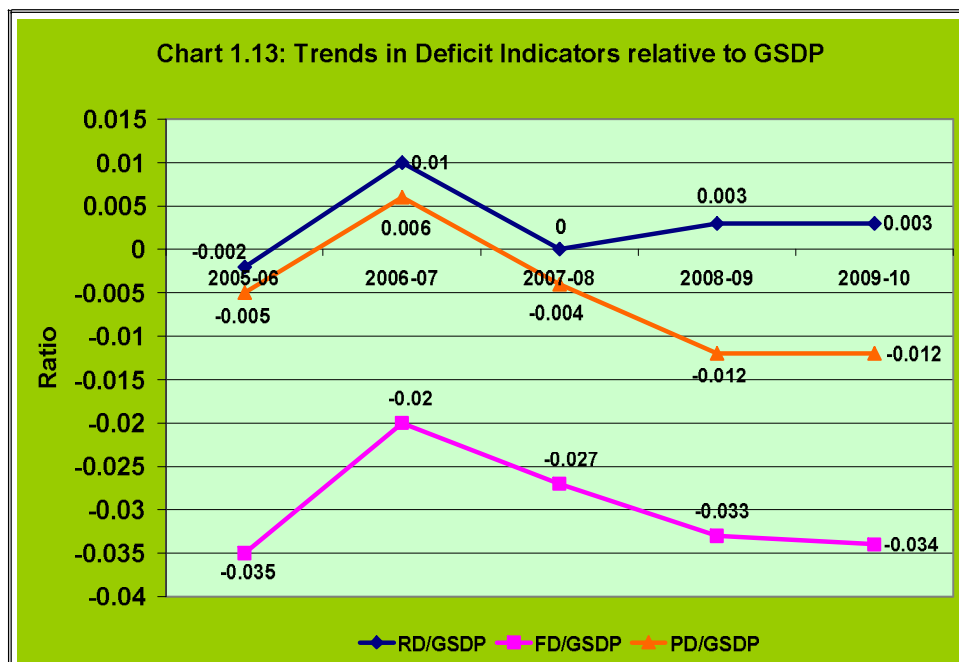
### 1.11 Fiscal imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2009-10.

#### 1.11.1 Trends in deficits

Charts 1.12 and 1.13 present the trends in deficit indicators over the period 2005-10.





There was revenue surplus for the fourth consecutive year from 2006-07 to 2009-10. During the current year surplus (₹ 1230 crore) increased by ₹ 226 crore over previous year (₹ 1004 crore). Fiscal deficit with inter-year variations increased to ₹ 14010 crore in 2009-10 from ₹ 12407 crore in 2008-09 registering an increase of ₹ 1603 crore (13 per cent). Primary deficit increased for the third consecutive year and was ₹ 746 crore (17 per cent) more than that of the previous year. TFC recommended that the revenue deficit relative to GSDP should be brought down to zero by 2008-09 and the fiscal deficit should be maintained at 3 per cent of GSDP. As against these targets there was revenue surplus from 2006-07 onwards. The fiscal deficit during the current year was 3.41 per cent of GSDP as against 3.29 per cent during 2008-09. However the fiscal deficit was within the relaxed limit of 4.0 per cent for 2009-10.

Though there was increase in capital expenditure (₹ 3426 crore) and revenue expenditure (₹ 1594 crore), disbursement of loans and advances decreased (₹ 1824 crore) resulting in fiscal deficit of 3.41 per cent of GSDP. While the revenue surplus increased by ₹ 730 crore, the fiscal deficit increased by ₹ 5910 crore over the projections of FRBM Act.

### 1.11.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1. 20**.



**Table 1.20: Components of fiscal deficit and its financing pattern**

*(Rupees in crore)*

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Decomposition of Fiscal Deficit</b>					
Revenue Deficit/Surplus	(-)386	(+)2807	(+)159	(+)1004	(+)1230
Net Capital Expenditure	(-)7340	(-)8015	(-)6216	(-)10367	(-)13793
Net Loans and Advances	(-)574	(-)436	(-)2729	(-)3044	(-)1447
<b>Financing Pattern of Fiscal Deficit</b>					
Market Borrowings	(-)1239	(+)1173	(+)6182	(+)10911	(+)13403
Loans from GOI	(-)85	(-)875	(-)43	(-)391	(+)73
Small Savings, PF etc (Cr)	(+)5338	(+)4716	(+)940	(+)570	(+)961
Reserve Funds (Cr)	(+)33	(+)19	(+)252	(+)271	(-)113
Deposits and Advances (Cr)	(+)1223	(+)2042	(+)3416	(-)1812	(-)1437
Suspense and Misc. (Dr)	(+)2422	(-)1590	(-)2828	(+)4405	(-)1
Remittances (Cr)	(+)234	(-)34	(+)943	(-)1621	(+)1435
Others (Contingency Fund)	(-)1	(+)1	(-)1	(-)6	(+)7
Overall Surplus/Deficit	(+)375	(+)192	(-)75	(+)80	(-)318

During the last four years the fiscal deficit increased mainly due to increased net capital expenditure and disbursement of loans. The fiscal deficit in these years was mainly met by market borrowings and surplus from public account.

### 1.11.3 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit<sup>15</sup> and capital expenditure (including loans and advances) would indicate the quality of deficits in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistent high ratio of revenue deficit to fiscal deficit would indicate that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit (**Table 1.21**) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

<sup>15</sup> see glossary at page 98

**Table 1.21: Primary deficit/surplus – bifurcation of factors**

(Rupees in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure <sup>16</sup>	Primary revenue deficit(-)/surplus(+)	Primary deficit(-)/surplus(+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2005-06	35033	28229	7640	756	36325	(+)6804	(-)1292
2006-07	46606	34159	9904	907	44970	(+)12447	(+)1636
2007-08	60891	46394	12774	2920	62088	(+)14497	(-)1197
2008-09	63228	53797	10367	3414	67578	(+)9431	(-)4350
2009-10	64821	54534	13793	1590	69917	(+)10287	(-)5096

The ratio of revenue deficit to fiscal deficit which declined in 2005-06 turned into surplus in the next four successive years. This trend shows a continuous improvement in the quality of the deficit during the period 2005-10. The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2005-10 reveals (**Table 1.21**) that throughout this period, the primary deficit was on account of expenditure incurred under capital account and loans and advances disbursed by the State Government. In other words, the non-debt receipts of the State were not only adequate to meet the primary revenue expenditure, but also met whole/part of the capital expenditure. But the surplus non-debt receipts were not enough to meet the entire capital expenditure and loans and advances resulting in primary deficit in all the years during 2005-10 except in 2006-07. This indicates the extent to which enhancement in capital expenditure resulted in primary deficit.

### 1.12 Conclusions and Recommendations

**Fiscal position of the State** viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficits – indicated deterioration in 2009-10 relative to the previous year. Though the revenue surplus has improved during 2009-10 by ₹ 226 crore, fiscal and primary deficits have increased by ₹ 1603 crore and ₹ 746 crore respectively over previous year. The revenue account resulted in surplus in line with the TFC recommendations and the projections in FRBM Act. The ratio of fiscal deficit to GSDP was 3.41 per cent as against 3 per cent recommended by TFC, but it is within the target of 4 per cent fixed by the GOI for 2009-10 (Para 1.11.1).

**Own tax and non-tax revenue** during the current year (₹ 42979 crore) decreased marginally by ₹ 62 crore over previous year (₹ 43041 crore) but was higher than the normative assessment of TFC (₹ 38355 crore) as well as the targets set in its FCP (₹ 40856 crore) for the year. There was a shortfall of ₹ 1944.91 crore during 2005-10 in the receipts under debt waiver scheme than the assessment made by the TFC as the State Government could not satisfy all the conditions for sanction of debt relief. Revenue arrears increased significantly to ₹ 12154 crore from ₹ 6508 crore up to the previous year (Para 1.5).

<sup>16</sup> see glossary at page 98

The **expenditure pattern** of the State reveals that the revenue expenditure as a percentage of total expenditure though indicated a declining trend up to 2007-08, increased to 82 *per cent* in 2008-09 and declined marginally to 80 *per cent* of total expenditure during the current year. The NPRE component at ₹ 48006 crore exceeded significantly both the normative projections of the TFC for the State (₹ 38068 crore) and State's projections in its FCP (₹ 40140 crore) for 2009-10. The committed expenditure on salaries and wages, pensions, interest payments and subsidies constituted 81 *per cent* of NPRE during 2009-10. These trends in expenditure indicate the need for changing allocative priorities (Para 1.6).

The **capital expenditure** in 2009-10 increased by ₹ 3426 crore over previous year and constituted 17.5 *per cent* of total expenditure. It was more than the projections of FCP at 3.35 *per cent* of GSDP but less than the projections (₹ 17500 crore) made in Macro Economic Fiscal Statement for 2009-10 (Para 1.6). The progressive capital expenditure at the end of March 2010 includes ₹ 36165 crore (39 *per cent*) blocked on incomplete/partially completed projects (Para 1.8.1). Government gave adequate priority to capital expenditure since the ratio of capital expenditure to aggregate expenditure in the State was better than the average of general category States.

Total **fiscal liabilities** at the end of the current year work out to ₹ 123863 crore and stood at 30.11 *per cent* of GSDP against the ceiling of 35 *per cent* prescribed in FRBM Act. However, since the 13<sup>th</sup> Finance Commission has recommended that all States should bring down their fiscal liability to 25 *per cent* of GSDP by 2014-15, the State Government may adopt a suitable strategy to achieve this target (Para 1.9.2). The resource gap has been negative in four years out of the five year period indicating that the incremental non-debt receipts were not sufficient to meet the incremental primary expenditure and interest burden (Para 1.10).

The negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances is a cause for concern (Para 1.8.2).

The closing cash balance significantly increased at the end of 2009-10. Holding large cash balance investment of ₹ 5948 crore which earned interest at 6.34 *per cent* against the average interest rate of 7.86 *per cent* on market borrowings was not a prudent cash management (Para 1.8.5).

During 2009-10, GOI directly transferred ₹ 6964 crore to the State implementing agencies without routing through the budget. There is no single agency monitoring the expenditure out of these funds (Para 1.4.2).

The inordinate delays in completion of 46 major and medium irrigation projects leading to cost escalation of ₹ 27140 crore is also a major area of concern for the State Government (Para 1.8.1).

***Recommendations:***

- *Government should initiate suitable measures to reduce the non-plan revenue expenditure, so that more funds are available for asset creation.*
- *Government may prepare an action plan to complete all irrigation projects in a time frame so that people derive envisaged benefits in time.*
- *The State Government should identify Projects which are justified on account of low financial but high socio-economic return and prioritized with full justification for the high-cost borrowings.*
- *Government needs to further reduce the fiscal liabilities by a better debt management. Proper debt management through advanced planning could also minimize the need to hold large cash surpluses. Ways and Means facility of RBI can also be judiciously resorted to as long as the State does not avail of overdraft facility.*
- *A system has to be put in place to ensure proper accounting of funds transferred directly by the GOI and the updated information should be validated by the State Government as well as the Principal Accountant General (A&E).*