

Profile of Andhra Pradesh

Andhra Pradesh is the fourth largest State in India in terms of geographical area of 2.75 lakh sq. km. with a population of 8.47 crore as per the 2011 census. The State has shown marginally higher economic growth in the past decade, as the compound annual growth rate of its Gross State Domestic Product (GSDP) for the period 2002-03 to 2011-12 has been 16.71 *per cent*, as compared to 14.46 *per cent* in General Category States¹. During this period, its population also grew by 9.72 *per cent* against 13.90 *per cent* in General Category States. Consequently, the compound annual growth rate of per capita income of the State (15.52 *per cent*) has been higher than that of the General Category States (13.09 *per cent*) in the current decade. Key socio-economic parameters of the State viz., population Below Poverty Line (15.8 *per cent*), Infant Mortality Rate (46 per 1000 live births) and Life Expectancy at birth (64.4 *years*) are better than the All India average. Also, inequality of income distribution, as reflected through the Gini² co-efficient was marginally lower in the State in rural areas (0.29) than the national average, but approximately the same in urban areas (0.37) as the All India position (*Appendix 1.1*). Over half of the State's GSDP accrues from the Services Sector.

1.1 Introduction

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. This analysis was made based on the Finance Accounts and the information obtained from the State Government. The structure of Government Accounts and the layout of Finance Accounts are given in *Appendix 1.2*.

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 (2011-12) *vis-à-vis* the previous year, while *Appendix 1.3* provides the details of receipts and disbursements as well as overall fiscal position during the current year.

¹ States other than the 11 states termed as Special Category States (Arunachal Pradesh, Assam, Jammu & Kashmir, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttarakhand)

² It is a measure of inequality of income distribution where zero refers to perfect equality and one refers to perfect inequality

Table 1.1 Summary of balances

(₹ in crore)

Receipts			Disbursements				
	2010-11	2011-12		2010-11	2011-12		
	Total	Total		Total	Non-Plan	Plan	Total
Section A - Revenue							
Revenue Receipts	80,996	93,554	Revenue Expenditure	78,534	66,751	23,664	90,415
Tax Revenue	45,139	53,284	General Services	26,708	29,722	152	29,874
Non-tax Revenue	10,720	11,694	Social Services	32,314	21,287	16,730	38,017
Share of Union Taxes/Duties	15,237	17,751	Economic Services	19,346	15,527	6,782	22,309
Grants from GOI	9,900	10,825	Grants-in-aid and Contributions	166	215	---	215
Section B – Capital & Others							
Misc. Capital Receipts	---	---	Capital Outlay	11,123	35	13,687	13,722
Recoveries of Loans and Advances	173	164*	Loans and Advances disbursed	3,315	222	4,761	4,983
Public Debt Receipts	18,722	19,450	Repayment of Public Debt	7,881	---	6,761	6,761
Contingency Fund	---	2	Contingency Fund	2	---	---	---
Public Account Receipts	76,218	86,051	Public Account Disbursements	72,407	---	82,848	82,848
Opening Cash Balance	5,983	8,830	Closing Cash balance	8,830	---	9,322	9,322
Total	1,82,092	2,08,051	Total	1,82,092	67,008	1,41,043	2,08,051

Source: Finance Accounts; * ₹ 164.92 crore rounded-off to ₹ 164 crore for balancing purpose

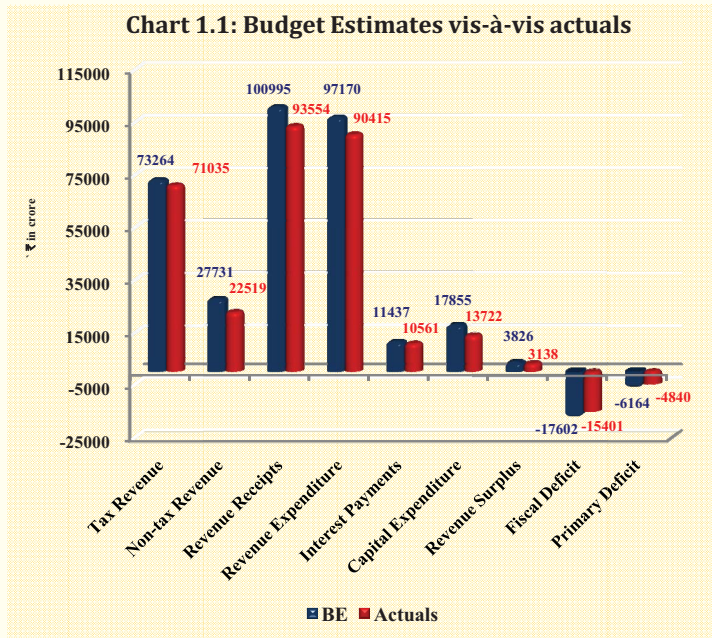
Significant changes in the fiscal position of the State during 2011-12 over the previous year are given below:

Revenue Receipts	<ul style="list-style-type: none"> Increased by 15.50 per cent Own tax revenue increased by 18.04 per cent
Revenue Expenditure	<ul style="list-style-type: none"> Increased by 15.13 per cent Plan expenditure increased by 20.12 per cent Non-plan expenditure increased by 13.46 per cent
Capital Expenditure	<ul style="list-style-type: none"> Increased by 23.37 per cent
Loans & Advances	<ul style="list-style-type: none"> Recoveries decreased by 5.20 per cent Disbursements increased by 50.32 per cent
Public Debt	<ul style="list-style-type: none"> Receipts increased by 3.88 per cent Repayment decreased by 14.21 per cent
Cash Balance	<ul style="list-style-type: none"> Increased by 5.57 per cent

State Government revenue achieved surplus for the sixth consecutive year during 2011-12. Although fiscal deficit was higher at 2.27 per cent of GSDP during the current year compared to 2.08 per cent during 2010-11, it was well within the ceiling of 3 per cent fixed by FRBM Act and the Thirteenth Finance Commission.

1.3 Budget estimates and actuals

Budget estimates and actuals for key fiscal parameters are given in *Chart 1.1* and *Appendix 1.4*.



There were considerable variations between budget estimates and actuals in almost all the parameters. Although both tax and non-tax revenue have registered an increase during the year, these have not met the estimated quantum. Revenue receipts and expenditure decreased by 7.37 per cent and 6.95 per cent respectively, resulting in decrease in revenue surplus by 17.98 per cent over the budget estimates.

Source: Budget in Brief and Finance Accounts 2011-12

Revenue expenditure was less than the budget estimates (6.95 per cent) mainly in respect of Water Supply and Sanitation (46.02 per cent), District Administration (33.33 per cent), Urban Development (28.52 per cent), Irrigation and Flood Control (19.04 per cent) and Interest payments (7.66 per cent). Though there was a saving in provision for interest payments, in real terms, there was an increase in interest payments over the previous year by ₹ 886 crore. Capital expenditure had increased during 2011-12 compared to the previous year, but was less than the budget estimates (23.15 per cent). Fiscal and primary deficits were also less by 12.50 per cent and 21.46 per cent respectively, over the budget estimates.

1.4 Fiscal reform path

State Government, in compliance with the recommendations of the Twelfth Finance Commission (TFC), enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 (amended in 2011), limiting its total outstanding liabilities to 29.6 per cent of GSDP for the year 2011-12. A Summary of FRBM Act, 2005 as amended in 2011 is given in *Appendix 1.5*. Due to the change in the base year for calculation of GSDP from 1999-2000 to 2004-2005 based on new series of National Accounts Statistics introduced by the Central Statistics Office, New Delhi, the calculation of and comments on GSDP at current prices have undergone a change over the five year period 2007-12.

1.5 Resources of the State

1.5.1 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 revenue, non-tax revenue, 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.

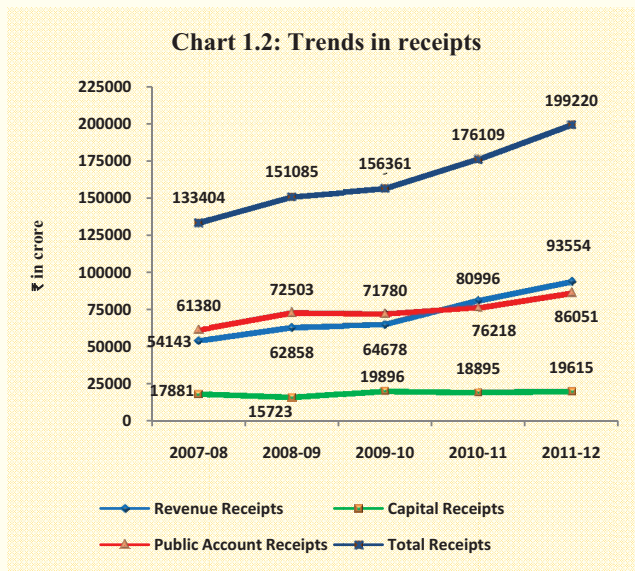
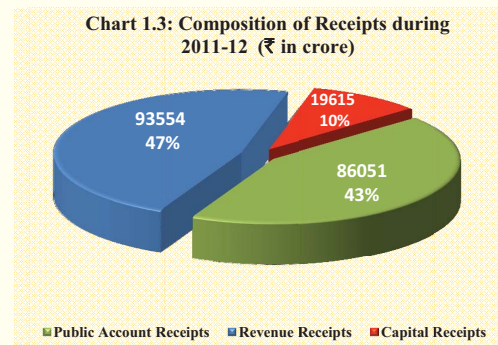


Table 1.1 represents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts, while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2011-12. As can be seen from Chart 1.2, the total receipts of the State increased from ₹ 1,33,404 crore in 2007-08 to ₹ 1,99,220 crore in 2011-12. **Chart 1.3** depicts the composition of resources of the State during the current year.

Source: Finance Accounts

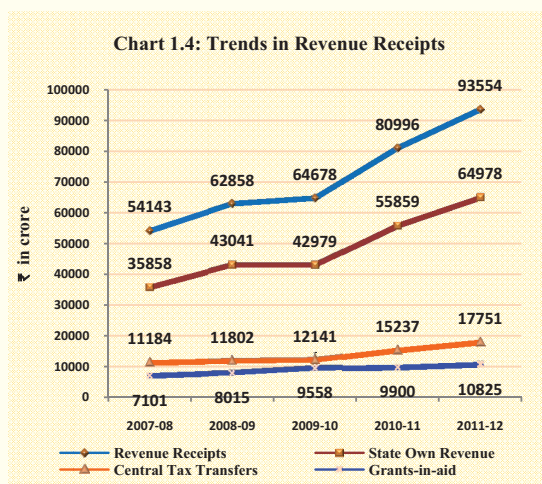
The share of revenue receipts in total receipts ranged between 41 and 47 per cent during 2007-2012. The share of capital receipts fluctuated during the last five years and accounted for 10 per cent of the total receipts in the current year. Receipts under Public Account decreased from 48 per cent to 43 per cent of the total receipts during the last five years.



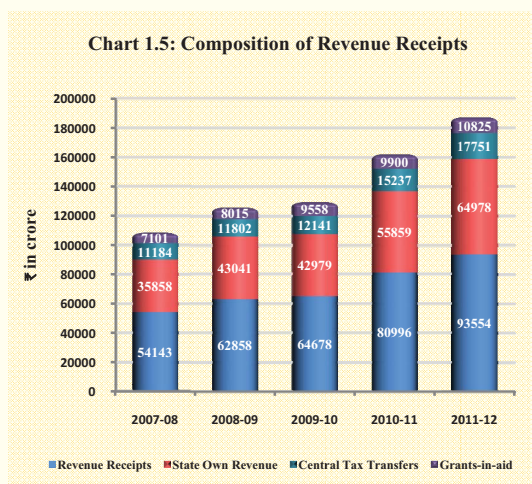
Source: Finance Accounts 2011-12

1.6 Revenue receipts

The trends and composition of revenue receipts over the five year period 2007-12 are presented in **Appendix 1.6** and also depicted in **Charts 1.4** and **1.5** below:



Source: Finance Accounts



Source: Finance Accounts

The rate of growth of revenue receipts has been fluctuating during the last five years as can be seen from **Table 1.3**, although own tax revenue has been increasing in real terms over the last five years, except during 2009-10.

The growth rate of revenue (15.50 *per cent*) during the current year was significantly lower than the growth rate during 2010-11. There was also a shortfall of ₹ 3,640 crore (3.75 *per cent*) in revenue (₹ 93,554 crore) realized during the year over the projection (₹ 97,194 crore) made in Macro Economic Framework Statement (MEFS). The State's own tax and non tax revenue (₹ 64,978 crore) during the current year increased by ₹ 9,119 crore over the previous year, but was lower than the projection made in MEFS by ₹ 652 crore. The actual receipts under State's tax and non tax revenue vis-à-vis assessments made by 13th Finance Commission and the State Government during 2011-12 are given in **Table 1.2** below:

Table 1.2: Revenue receipts vis-à-vis assessment

	Assessment by 13 th Finance Commission	Projections by State Government in MEFS	Actuals
Tax Revenue	52,505	53,399	53,284
Non-Tax Revenue	7,239	12,231	11,694

Source: 13th Finance Commission recommendations; Finance Accounts 2011-12 and MEFS tabled in Legislature during 2011-12

Actual realization of tax and non tax revenue, though lower than the projection made by Government, was higher than the assessment made by the 13th Finance Commission. The share of Interest receipts in non tax revenue in the current year was ₹ 6,279 crore, including ₹ 5,726 crore from irrigation projects, which is only a notional revenue, since it has arisen out of book adjustment.

The trends in revenue receipts relative to GSDP are presented in **Table 1.3**.

Table 1.3: Trends in revenue receipts relative to GSDP

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts (RR) (₹ in crore)	54,143	62,858	64,678	80,996	93,554
Rate of growth ³ of RR (<i>per cent</i>)	22.37	16.10	2.90	25.23	15.50
GSDP ⁴ (₹ in crore)	364813	415832	475267(R)	567636(Q)	675798(UA)
Rate of GSDP growth (<i>per cent</i>)	21.18	13.99	14.29	19.44	19.05
RR/GSDP (<i>per cent</i>)	14.84	15.12	13.61	14.27	13.84
Buoyancy Ratios⁵					
Revenue Buoyancy w.r.t. GSDP	1.06	1.15	0.20	1.30	0.81
State's Own Tax Buoyancy w.r.t. GSDP	0.96	1.13	0.38	1.46	0.94

Source: Finance Accounts

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

1.6.1.1 Own tax revenue

Own tax revenue (OTR) registered a growth rate of 18.04 *per cent* over the previous year due to increase in state excise (16.31 *per cent*), taxes on sales and trade (19.78 *per cent*) and taxes on vehicles (13.69 *per cent*).

1.6.1.2 Non tax revenue

Non tax revenue (NTR), which constituted 12 to 15 *per cent* of the total revenue receipts during the five year (2007-12) period, increased by ₹ 974 crore in the current year, over the previous year mainly due to collection of interest from Departmental Commercial Undertakings (₹ 505 crore).

³ see glossary at page 100

⁴The GSDP data has been obtained from Directorate of Economics and Statistics, Govt. of Andhra Pradesh

R: Revised, Q: Quick and UA: Updated Advanced Estimates

⁵ see glossary at page 100

1.6.2 Cost of Collection

The cost of collection of major State tax revenue is given below in **Table 1.4**

Table 1.4: Cost of collection of revenue

(₹ in crore)					
Head of revenue	Year	Gross collection	Expenditure on collection	Cost of collection (%)	All India Average (%)
Taxes on sales, trade etc,	2009-10	23,640	216	0.91	0.96
	2010-11	29,145	262	0.90	0.75
	2011-12*	34,910	283	0.81	--
State Excise	2009-10	5,848	201	3.43	3.64
	2010-11	8,265	234	2.83	3.05
	2011-12	9,612	264	2.75	--
Taxes on Vehicles	2009-10	1,995	65	3.26	3.07
	2010-11	2,626	85	3.24	3.71
	2011-12	2,986	100	3.35	--
Stamp Duty and Registration fee	2009-10	2,639	88	3.33	2.47
	2010-11	3,834	95	2.48	1.60
	2011-12	4,385	102	2.33	--

Source: Finance Accounts

*NOTE: All India Average for the year 2011-12 is not yet available

The cost of collection has been fluctuating over the last three years. As compared to previous year, the *percentage* of expenditure on collection of taxes gradually decreased in all heads of revenue, except taxes on vehicles.

1.6.3 Central tax transfers

There was an increase in Central tax transfers by 16.49 *per cent* from ₹ 15,237 crore in 2010-11 to ₹ 17,751 crore in 2011-12. The increase was mainly on account of share of net proceeds under customs (15.52 *per cent*) and service tax (39.45 *per cent*).

1.6.4 Funds transferred to State Implementing Agencies outside the State budget

GoI has been transferring sizeable quantum of funds directly to the State implementing agencies for the implementation of various schemes/programmes in social and economic sectors recognized as critical. As these funds are not routed through the State budget/State treasury System, the 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 about the availability of aggregate resources, the extent of funds directly transferred by the GoI to State implementing agencies⁶ of cases more than ₹ 10 crore is given in *Appendix 1.7*.

⁶ State Implementing Agencies include any Organization/Institution including Non-Governmental Organization, which is authorized by the State Government to receive funds from the GoI for implementing specific programmes in the State, such as State Implementation Society for SSA and State Health Mission for NRHM etc.

During the current year, GoI transferred ₹ 9,807 crore directly to the State implementing agencies concerning various Central Schemes/programmes, without routing through the State budget. Funds flowing directly to the implementing agencies through off-budget route run the risk of poor oversight and inhibit Fiscal Responsibility Legislation (FRL) requirements of transparency and escape accountability.

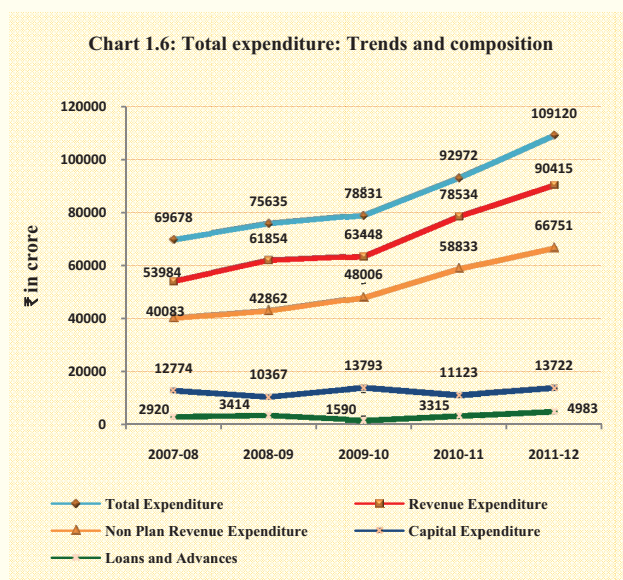
There is no single agency monitoring the use of these funds and no data is readily available on the amount spent in any particular year on major flagship and other important schemes. Unless uniform accounting practices are followed by all these agencies and proper documentation is maintained with timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers. The State Government has to put in place an appropriate mechanism to ensure proper accounting for these funds.

1.7 Application of resources

We have analysed the allocation of expenditure for developmental activities, especially social sector, to see the effect of ongoing fiscal correction and consolidation process at the State level on this expenditure. Our findings are given below:

1.7.1 Growth and composition of expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2007-12). The composition of total expenditure both in terms of ‘economic classification’ and ‘expenditure by activities’ is depicted in **Charts 1.7** and **1.8** respectively.

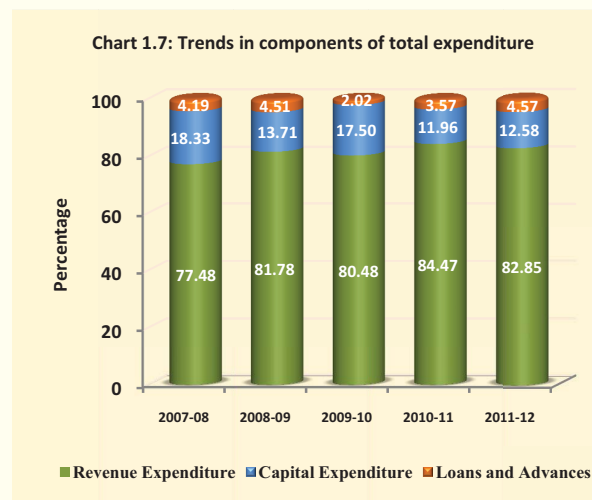


Total expenditure (₹ 1,09,120 crore) increased in 2011-12 by ₹ 16,148 crore (17.37 per cent) over the previous year (₹ 92,972 crore) mainly due to increase in loans and advances (₹ 1,668 crore), revenue expenditure (₹ 11,881 crore) and capital expenditure (₹ 2,599 crore). During the current year, 86 per cent of the total expenditure was met from revenue receipts and the balance from borrowed funds. The total expenditure was less than that projected in the budget (₹ 1,15,025 crore).

Source: Finance Accounts

Revenue expenditure increased by ₹ 11,881 crore over the previous year and constituted 13.37 per cent of GSDP. There was significant increase in revenue expenditure under Education, Sports, Art and culture (₹ 2,332 crore), Welfare of SCs and STs and other BCs (₹ 1,046 crore), Crop Husbandry (₹ 949 crore), interest payment and servicing of debt (₹ 886 crore), Social Security and Welfare (₹ 690 crore) and Power (₹ 659 crore).

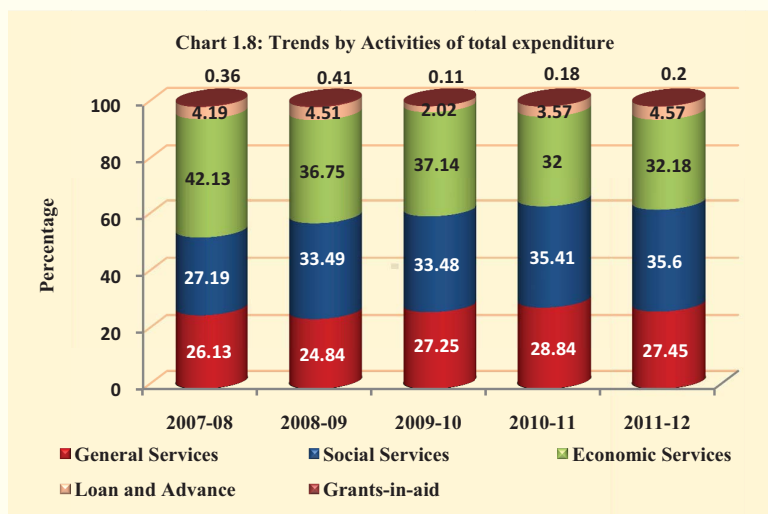
In the context of State finances, the quality of expenditure has always been an important issue. Currently, revenue expenditure accounts for around 83 *per cent* of the State's aggregate expenditure, which is in the nature of current consumption, leaving little scope for investment in infrastructure and asset creation. Since this impedes growth prospects of the State, there is a need to identify unwarranted items of revenue expenditure, which have low growth and welfare implications.



Source: Finance Accounts

Capital expenditure (₹ 13,722 crore) during 2011-12 increased by ₹ 2,599 crore over the previous year (₹ 11,123 crore) and constituted 12.58 *per cent* of total expenditure. The increase was mainly on major and medium irrigation (₹ 1,147 crore) and minor irrigation (₹ 480 crore). Capital expenditure at 2.03 *per cent* of GSDP was less than the projection (₹18,798 crore) made in MEFS for 2011-12.

Loans and advances disbursed during the current year increased by 50.31 *per cent* over the previous year and constituted 4.57 *per cent* of the total expenditure. The share of disbursement of loans and advances in total expenditure was between 2 to 5 *per cent* during the five year period 2007-12.



Trends by Activities:

The share of general services in total expenditure decreased by 1.39 *per cent* during 2011-12 over the previous year. There was an increase in the share of social services and economic services in total expenditure by 0.19 *per cent* and 0.18 *per cent* respectively.

Source: Finance Accounts

1.7.2 Committed Expenditure

Committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.5** and **Chart 1.9** present the trends in the expenditure on these components during 2007-12.

Table 1.5: Components of committed expenditure

(₹ in crore)

Components of committed expenditure	2007-08	2008-09	2009-10	2010-11	2011-12		
					Budget estimates	Actuals	Percentage variation
Salaries* & Wages, of which	13,243(24)	14,539(23)	17,721(27)	23,844(29)	27,237(28)	26,823(30)	-1.52
(i) Non-Plan	12,171	12,883	15,706	21,128	24,155	23,828	-1.35
(ii) Plan**	1,072	1,656	2,015	2,716	3,082	2,995	-2.82
Interest payments	7,589	8,057	8,914	9,675	11,437	10,561	7.66
Pensions	5,092	5,518	6,339	9,609	9,693	11,110	14.62
Subsidies	3,918	6,213	6,056	6,543	7,313	7,313	0.00
Total	29,842(54)	34,327(55)	39,030	49,671(61)	55,680(57)	55,807(62)	0.23

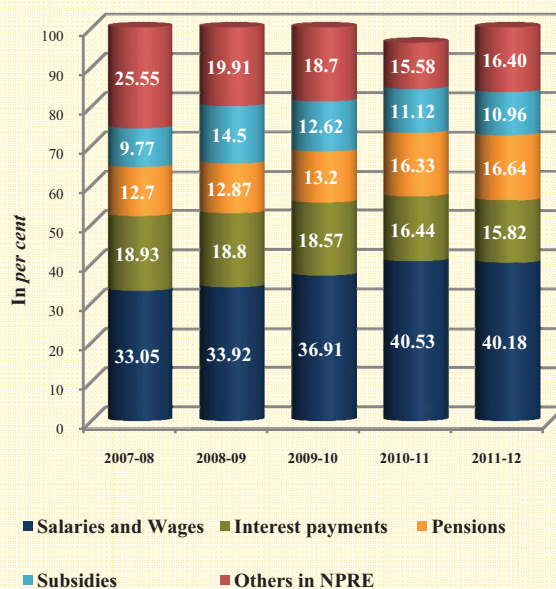
Source: Finance Accounts Figures in parenthesis indicate percentage of Revenue Expenditure.* It also includes the salaries paid out of grants-in-aid and work charged establishment. **Plan head also includes the salaries and wages paid under CSS.

Committed expenditure on salaries and wages, pensions, interest payments and subsidies constituted 84 per cent of NPRE during 2011-12.

1.7.2.1 Salaries and wages

Expenditure on salaries and wages during the current year increased by 12.49 per cent over the previous year. It was, however, less than the budget estimates by 1.52 per cent; more than the projections made in MEFS of State Government (₹ 26,573 crore); and more than the assessments made in 13th Finance Commission (₹ 15,735 crore). During the current year, expenditure on salary was 40 per cent of revenue expenditure, net of interest and pension payment, which was above the ceiling of 35 per cent recommended by the Twelfth Finance Commission.

Chart 1.9: Share of committed expenditure in NPRE during 2007-12



Source: Finance Accounts

1.7.2.2 Interest payments

Although the share of interest payments in revenue expenditure was steady at 12 per cent during the current year, there was an increase in interest payments by ₹ 886 crore (9 per cent) over the previous year mainly in interest on Internal debt (₹ 885 crore). It was,

however, lower than the projection made in MEFS (₹ 10,790 crore) and was also lower than the assessment made in the 13th Finance Commission (₹ 11,025 crore). The major source of borrowings during the year was market loans (₹ 15,500 crore) at interest rates ranging from 8.47 to 9.25 *per cent*.

1.7.2.3 Pensions

The expenditure on pension and other retirement benefits to State Government pensioners during the year was ₹ 11,110 crore, and constituted 12 *per cent* of revenue receipts. During this year, it increased by ₹ 1,501 crore over the previous year (₹ 9,609 crore) and was more than the budget estimates (₹ 9,693 crore) and assessment made in the 13th Finance Commission (₹ 8,527 crore). **The Government had not estimated the yearly pension liabilities on actuarial basis for the ensuing years, as stipulated in the FRBM Act.**

Contributory Pension Scheme

State Government introduced a Contributory Pension Scheme for employees recruited on or after 01 September 2004. As per the guidelines, it is mandatory for every employee to contribute monthly 10 *per cent* of basic pay and dearness allowance from his/her salary and equal contribution will be made by the Government. The contribution details and corresponding amounts shall be transferred to the central record keeping agency i.e. National Securities Depository Limited (NSDL) and to the fund managers appointed by New Pension Scheme (NPS) Trust, respectively. Government entered into agreements with NSDL on 21 November 2008 and NPS Trust on 15 September 2009. During the current year, employees contribution to the scheme was ₹ 226.64 crore and Government contribution was ₹ 126.84 crore. The State Government's progressive liability in this regard, as per Finance Accounts as on 31 March 2012 was ₹ 894 crore (including ₹ 226.64 crore). Government is yet to transfer this amount to the fund manager.

As per 13th Finance Commission's recommendation, the Government is required to provide interest on contributions on par with the interest rate being paid for General Provident Fund contributions until the transfer of accumulated balances to the designated fund manager. Government replied (November 2012) that the interest would be calculated and transferred to the individual accounts. **Non-transferring of contributions to designated fund manager till date deprives the intended benefits envisaged in the scheme guidelines.**

1.7.2.4 Subsidies

The total expenditure on subsidies during the current year was ₹ 7,313 crore, of which, subsidy on rice was ₹ 2,280 crore (31 *per cent*), subsidy on power was ₹ 4,300 crore (59 *per cent*) and other subsidies were ₹ 733 crore (10 *per cent*). While subsidies increased by ₹ 770 crore (12 *per cent*) over the previous year, the amount was lower than the projections made in the MEFS (₹ 10,724 crore).

1.7.3 Financial Assistance to local bodies and other institutions

1.7.3.1 Introduction to Local Bodies and other Institutions

GoI enacted the 73rd and 74th Amendments to the Constitution, to empower the local self governing institutions like the Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) to ensure a more participative governance structure in the country. The GoI further entrusted the implementation of key socio-economic developmental programmes to the PRIs and ULBs and devolved funds through successive Finance Commissions. The States, in turn, were required to entrust these local bodies with such powers, functions and responsibilities as to enable them to function as institutions of self-government and implement schemes for economic development and social justice including those enumerated in the Eleventh and Twelfth Schedules to the Constitution.

State Government enacted the Andhra Pradesh Panchayat Raj (APPR) Act in 1994 and established a three-tier governance system at Village, Mandal and District levels. Further, the Andhra Pradesh Municipal Corporations Act, 1994 was enacted to set up Municipal Corporations in the State. The Municipalities are, however, governed by the Andhra Pradesh Municipalities Act, 1965.

All the above mentioned Acts provided for conducting elections to the Local Bodies once every five years. Elections to the PRIs and ULBs in the State were last conducted during July-August 2006 and September 2005 respectively. Consequently, although GoI sanctioned ₹ 1,044 crore towards basic and performance grants to local bodies, only ₹ 420 crore was released to the State.

1.7.3.2 Devolution of funds, functions and functionaries

The Eleventh Schedule of the 73rd Constitutional Amendment Act, 1992 listed 29 subjects for devolution to strengthen the PRIs. During 2007-08, the State Government devolved ten⁷ functions to PRIs.

The 74th Constitutional Amendment Act identified 18 functions for ULBs as incorporated in Twelfth Schedule of the Constitution. All the functions mentioned in this Schedule, except Fire Services, were devolved to the ULBs in the State.

1.7.3.3 Accounting Arrangement

The PRIs maintain accounts on cash basis. The Model accounting system was prescribed by the GoI in consultation with the Comptroller and Auditor General of India. As per the latest information furnished (February 2011) by the Commissioner of Panchayat Raj and Rural Employment, the State Government issued (September 2010) orders for adopting the format using PRIASoft (Panchayat Raj Institution Accounting Software) developed

⁷ (i) Agriculture and Agricultural extension (ii) Animal Husbandry, Dairy and Poultry (iii) Fisheries (iv) Rural Development (v) Drinking water and Sanitation (RWS) (vi) Primary, Secondary and Adult Education (vii) Health, Sanitation, PHC, Dispensaries, Family welfare (viii) Social Welfare, (ix) Backward classes welfare, (x) Women and Child Development.

by NIC. It was planned to implement it initially in Zilla Praja Parishads and subsequently in Mandals and 475 Gram Panchayats, which are notified as e-panchayats.

Ministry of Urban Development and Poverty Alleviation, GoI and CAG had formulated (December 2004) National Municipal Accounts Manual (NMAM) with double entry system for greater transparency and control over finances and requested (May 2005) the States to adopt the same with appropriate modifications to meet the State's specific requirements. Accordingly, a Steering Committee was constituted (May 2005) by State Government, and the Andhra Pradesh Municipal Accounts Manual (APMAM) was developed during 2006-07. The State Government issued orders in August 2007 for adoption of APMAM in all the ULBs in the State. Similarly, the other manuals viz., Andhra Pradesh Municipal Budget Manual and Andhra Pradesh Municipal Asset Manual, as approved by CAG were also accepted by the State for implementation (August 2007) by the ULBs.

1.7.3.4 Audit of PRIs and ULBs

The Director, State Audit (DSA) is the statutory auditor for PRIs and ULBs under the Andhra Pradesh State Audit Act, 1989 and is required to conduct audit of all the 22,927 PRIs and 124 ULBs annually. As per Section 11(2) of the Act, the Director is required to prepare the Consolidated State Audit and Review Report and present it to the State Legislature. The State Audit Department functions under the administrative control of the Finance Secretary to Government of Andhra Pradesh. It has six Regional Offices, 22 District Offices, 156 Sub-offices and several resident offices.

1.7.3.5 Financial Assistance

The quantum of financial assistance provided by the State Government to local bodies and other institutions by way of grants and loans during the current year, relative to the previous four years, is presented in **Table 1.6**.

Table 1.6: Financial assistance to Local Bodies etc.

	(₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	1,876	1,820	1,994	2,876	7,178
Municipal Corporations and Municipalities	2,699	4,105	3,142	3,671	3,361
Zilla Parishads and other PR Institutions	921	2,503	1,867	1,745	3,023
Development Agencies	3,715	11,791	7,481	8,363	11,341
Hospitals and Other Charitable Institutions	600	1,152	1,393	1,721	1,192
Autonomous Bodies	--	--	--	--	1,473
Co-operative Institutions	--	--	--	--	52
Other Institutions ⁸	8,851	3,436	3,965	4,538	5390
Total	18,662	24,807	19,842	22,914	33,010
Assistance as percentage of RE	34.57	40.11	31.27	29.18	36.50

Source: Finance Accounts

⁸ Other institutions include institutions that received ad-hoc or one time grants during the year

Financial assistance, including grants and loans, extended to local bodies and other institutions in 2011-12 (₹ 33,010 crore) increased by ₹ 10,096 crore, which is 44.06 per cent increase over the previous year (₹ 22,914 crore) and constituted 37 per cent of revenue expenditure. As can be seen from the above table, there was a quantum jump in the financial assistance provided to PRIs, educational institutions and development agencies. The plan, non-plan grants and loans given to local bodies and other institutions in 2011-12 were ₹ 13,190 crore, ₹ 15,058 crore and ₹ 4,762 crore respectively. The major schemes/recipients of grants during the year were *INDIRAMMA* pensions to old age persons and widows (₹ 1,105 crore); interest subsidy on loans taken by *DWCRA* groups (₹ 710 crore); *NRHM* (₹ 494 crore); Rajiv Vidya Mission (₹ 974 crore); Government Residential Schools (₹ 400 crore); *JNNURM* (₹ 1,045 crore); Mid-day meals (₹ 697 crore) and Post Matric Scholarships (₹ 277 crore).

1.8 Quality of Expenditure

1.8.1 Adequacy of public expenditure

The expenditure responsibilities relating to social sector and economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.7** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2011-12.

Table 1.7: Fiscal Priority of the State in 2008-09 and 2011-12

(In per cent)

Fiscal Priority by the State	AE/GSDP	DE [#] /AE	SSE/ AE	CE/AE	Education/ AE	Health/AE
[@] General Category States Average (Ratio) 2008-09	17.00	67.09	34.28	16.47	15.41	3.97
Andhra Pradesh's Average (Ratio) 2008-09	18.19	74.62	33.49	13.71	9.58	3.87
[@] General Category States Average (Ratio) 2011-12	16.09	66.44	36.57	13.25	17.18	4.30
Andhra Pradesh's Average (Ratio) 2011-12	16.15	70.39	35.60	12.58	13.80	4.67

[@] Averages (ratios) has been calculated on the basis of data of 16 (out of 19) General Category States excluding three states i.e. Delhi, Goa and Puducherry;
 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: Finance Accounts; For GSDP, the information was collected from the State's Directorate of Economics and Statistics

An analysis of the data of the State in comparison with the General Category States (GCS) revealed the following:

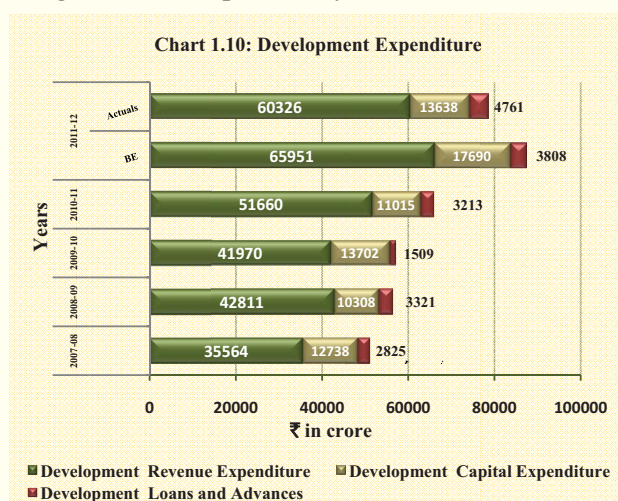
- Development expenditure as a proportion of aggregate expenditure has been higher in the State compared to the GCS average during 2008-09 and 2011-12.

- Expenditure of the State on Social Sector (33.49 *per cent*), especially health (3.87 *per cent*) and education (9.58 *per cent*), was lower than the GCS in 2008-09. While it compared more favourably with the GCS during 2011-12 with increased expenditure on Social Sector (35.60 *per cent*), in particular on health (4.67 *per cent*), the expenditure on education (13.80 *per cent*) was way below the GCS (17.18 *per cent*).
- The share (13.71 *per cent*) of capital expenditure has been lower in the State as compared to the GCS (16.47 *per cent*) during 2008-09 and reduced during the current year (12.58 *per cent*).

Greater fiscal priority needs to be accorded to education and health sectors. Besides, capital expenditure needs to be increased to create adequate asset back up for increasing liabilities.

1.8.2 Efficiency of expenditure use

In view of the emphasis on public expenditure on socio-economic developmental works in successive plans, it is important that the State Government takes appropriate expenditure rationalisation measures and focus on provision of core public and merit goods⁹. Apart from improvising the allocation towards development expenditure¹⁰, the efficiency of expenditure use is also reflected in 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. **Chart 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.



During 2011-12, the total development expenditure increased by ₹ 12,837 crore (19.48 *per cent*) over the previous year and constituted 71 to 75 *per cent* of aggregate expenditure. Development revenue expenditure increased by ₹ 8,666 crore over the previous year, with all components of social services and economic services registering an increase, and constituted 51 to 57 *per cent* of aggregate expenditure.

Source: Finance Accounts

During the current year, while the development capital expenditure increased by ₹ 2,623 crore (24 *per cent*), development loans and advances increased by ₹ 1,548 crore (48 *per*

⁹ See glossary at page 100

¹⁰ See glossary at page 100

cent) over the previous year. The increase in developmental capital expenditure was essentially in economic services (₹ 2,403 crore) under irrigation and flood control (₹ 1,708 crore). During 2011-12, the share of social services and economic services constituted 36 and 32 per cent of total expenditure respectively.

Table 1.8 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table 1.8: Efficiency of expenditure use in selected social and economic services

(In per cent)

Social/Economic Infrastructure	2010-11			2011-12		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S&W	O&M		S&W	O&M
Social Services (SS)						
General Education	0.40	68.26	0.14	0.80	73.86	0.10
Health and Family Welfare	0.43	49.12	0.56	1.45	44.76	0.39
Water supply, Sanitation, Housing & Urban Development	6.22	17.12	3.00	4.45	22.29	0.39
Total (SS)	1.85	38.02	0.46	2.13	39.59	0.16
Economic Services (ES)						
Agriculture & Allied Activities	1.02	31.62	0.60	1.81	24.37	1.99
Irrigation and Flood Control	58.16	4.86	9.46	61.00	5.87	11.41
Power & Energy	0.57	0.30	0.11	0.74	0.35	0.12
Transport	50.77	2.67	66.54	42.37	7.00	74.31
Total (ES)	34.97	12.60	6.81	36.47	12.19	10.21
Total (SS+ES)	12.28	18.75	1.87	18.43	29.46	3.88
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operation & Maintenance of respective sector.						

Source: Finance Accounts

Although no specific norms were laid down for prioritization of capital expenditure in the State's FRBM Act, increase in capital expenditure during 2011-12 indicated impetus to asset formation in the State. The percentage of expenditure in social sector under General Education, Health and Family Welfare, Water supply, Sanitation constitutes 2.13 per cent only. Funds earmarked for specific social sector activities were not always released on time/ not released at all, thereby negating the objective of allocating these funds as discussed in Chapter-2. The operation and maintenance expenditure (₹ 2,495 crore) in 2011-12 constituted 2.76 per cent of revenue expenditure.

1.9 Financial analysis of Government expenditure and investments

In the post-Fiscal Responsibility Legislation (FRL) framework, the State is expected to keep its fiscal deficit (and borrowing) not only at low levels but also 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. 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.

1.9.1 Incomplete Projects

Blocking of funds on incomplete projects/works impinge negatively on the quality of expenditure. As per the information provided by the Government, 228 projects/works which were due for completion by 31 March 2012, were not completed. **The total amount of funds expended on these projects/works as of 31 March 2012 was ₹ 49,516 crore (previous year ₹ 46,330 crore) in respect of 228 projects/works (previous year 188 projects/works).** Further, of the 228 incomplete projects/works, the original cost of 54 projects/works was revised upwards by the Government to ₹ 87,559 crore. Non-completion of these projects/works within the stipulated period not only resulted in increase in cost, but also deprived the State of the intended benefits for prolonged periods.

The department-wise position of incomplete projects, each costing above ₹ one crore and due for completion are detailed in **Table 1.9**. The details of major and medium irrigation projects are given in *Appendix 1.8*.

Table 1.9: Department-wise profile of incomplete projects/works

(₹ in crore)

Nature of works	No. of incomplete Projects	Original cost	Revised total cost of projects	Cost over run	Cumulative Expenditure as on 31-03-2012
<i>Irrigation and Command Area Development Department[#]</i>					
Irrigation Projects	72	57,670	86,512	20,142 (16 projects)	48,156
<i>Roads and Bridges Department[#]</i>					
Roads and Bridges	42	645	751	59 (8 works)	441
<i>Panchayat Raj and Rural Development Department*</i>					
Roads	99	252	296	---	101
<i>Rural Water Supply and Sanitation Department*</i>					
Water Supply & Sanitation	15	1,387	---	---	818
Total	228	59,954	87,559	20,201	49,516

Source: [#]Departmental information; *Finance Accounts 2011-12

Test check of some of these projects in audit revealed that due to the prolonged processes involved in land acquisition, finalizing the designs and drawings, approvals, tendering etc. The projects took enormous time for completion and due to non-adherence to fixed timelines in many cases, funds allocated for many capital works remained unspent during the year.

1.9.2 Investment and return

As of 31 March 2012, the State Government invested ₹ 6,093 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives. The status of return on the amount invested in these corporations/companies is given in **Table 1.10**.

Table 1.10: Return on investment

Investment/Return/Cost of Borrowings	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year (₹ in crore)	5,931	5,979	6,003	6,046	6,093
Return (₹ in crore)	12	19	23	39	52
Return (<i>per cent</i>)	0.20	0.32	0.38	0.65	0.85
Average rate of interest on Government borrowing (<i>per cent</i>)	8.25	7.88	7.86	7.60	7.40
Difference between interest rate and return (<i>per cent</i>)	8.05	7.57	7.48	6.95	6.55

Source: Finance Accounts

Government earned a return of ₹ 52 crore in 2011-12 on its investment of ₹ 6,093 crore in various corporations/companies. The **average rate of return on investment was 0.48 per cent during 2007-12, while the average rate of interest paid by the Government during the period was 7.8 per cent.**

As of March 2012, there were 50 working Companies/Corporations (47 Government Companies and 3 Statutory Corporations). Upto the year of accounts finalized, 11¹¹ Companies/Corporations had suffered a loss of ₹ 957 crore and an accumulated loss of ₹ 5,979 crore. Out of these, AP State Housing Corporation Limited (₹ 3,554 crore) and APSRTC (₹ 1,984 crore) were major loss making organizations. Seven Companies/Corporations had a negative net worth of ₹ 3,805 crore. Further, the overall net profit of ₹ 280 crore of all 50 Companies/Corporations to the end of the year upto which accounts were finalised (2008-09 to 2011-12) would be transformed into an overall net loss of ₹ 323 crore, if the impact of CAG and Statutory Auditor's comments are taken into account.

Government of Andhra Pradesh invested an amount of ₹ 8.28 crore in Godavari Fertilizers and Chemicals Limited, Secunderabad by purchasing 82.80 lakh equity shares of ₹ 10 each to end of 1986-87¹². While the Government divested its entire equity holding in this company in 2002-03, the sale proceeds of disinvestment were not yet remitted (September 2012) into Government account, leading to overstatement of Investments by ₹ 8.28 crore.

¹¹ 1. A.P. Gas Distribution Corporation Limited, 2. Fab City (India) Pvt. Limited, 3. Infrastructure Corporation of A.P. Ltd., 4. Damodhara Minerals Pvt. Limited, 5. Leather Industries Development Corporation of A.P. Ltd., 6. The Nizam Sugars Ltd., 7. Vizag Apparel Park for Export, 8. A.P.State Road Transport Corporation, 9. A.P. State Housing Corporation Limited, 10. Overseas Manpower Corporation of A.P. Ltd., 11. A.P. Urban Finance & Infrastructure Development Corporation Ltd.

¹² As per item no. IV(36) of Statement 14 of Finance Accounts.

The massive investment in State level public enterprises in the form of equity capital raised legitimate expectations of significant contributions by these enterprises to the State exchequer. On the contrary, they have proved to be a drag on the finances of the State Government with the average returns on investments continuing to be low.

1.9.3 Loans and advances by State Government

In addition to investments in Co-operative Societies, Corporations and Companies, the State Government has also been providing loans and advances to many of these institutions/organisations. **Table 1.11** presents the outstanding loans and advances as of 31 March 2012, along with the status during the last four years.

Table 1.11: Average interest received on loans advanced by State Government

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actual
Opening Balance	10,648	13,378	16,421	17,868	--	21,011
Amount advanced during the year	2,921	3,413	1,590	3,315	3,808	4,983
Amount repaid during the year	191	370	143	172	235	165
Closing Balance	13,378	16,421	17,868	21,011	4,043	25,829
<i>Of which</i> , outstanding balance for which terms and conditions have been settled	NA	NA	NA	NA	NA	NA
Net addition	2,730	3,043	1,447	3,142	3,573	4,818
Interest Receipts	44	21	32	60	--	95
Interest receipts as percentage of outstanding Loans and Advances	0.33	0.13	0.18	0.29	--	0.37
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	7.79	7.54	7.44	7.17	--	7.02
Difference between interest receipts and interest payments (<i>per cent</i>)	(-)7.46	(-)7.41	(-)7.26	(-)6.88	--	6.65

Source: Finance Accounts

Urban Development Authorities (₹ 1,201 crore) and State Housing Corporation (₹ 1,111 crore) were the major recipients of loans during the current year. At the end of 2011-12 recovery of ₹ 22,905 crore (₹ 17,557 crore (Principal) and ₹ 5,348 crore (Interest)) was due from Municipalities, Local bodies, Panchayati Raj Institutions etc. Of these, the recovery of ₹ 15,037 crore (Principal ₹ 10,372 crore and Interest ₹ 4,665 crore) was outstanding for more than 3 years. Out of ₹ 2,201 crore outstanding against AP State Electricity Board on the eve of its bifurcation in January 1999, loans amounting to ₹ 561 crore were overdue. The Government is yet to bifurcate the assets and liabilities between the two companies. Therefore, it is not clear as to how the Government proposes to recover the amount advanced to APSEB.

Despite constant pursuance by PAG (A&E), Government departments have not furnished the complete details relating to investments and outstanding loans in their records as of 31

March 2012. Consequently, this data was obtained from the limited information available with the office of PAG (A&E). In fact, **State Government is yet to obtain confirmation with regard to balances of loans advanced to the tune of ₹ 17,337 crore to various departments/organisations.** The earliest loan for which confirmation of balances was awaited relates to 1984-85. Housing (₹ 10,662 crore) and Loans to public sector and other undertakings (₹ 981 crore) are the major departments yet to convey acceptance of the balances as of 31 March 2012.

1.9.4 Cash balances and investment of Cash balances

During the current year, the State Government invested ₹ 3,486 crore in GoI Treasury Bills as against ₹ 4,534 crore in the previous year. **Table 1.12** depicts the cash balances and investments made by the State Government out of these during the year.

Table 1.12: Cash balances and their investment

(₹ in crore)

Particulars	As on 1 st April 2011	As on 31 st March 2012	Increase/Decrease
Cash Balances	8,830	9,322	492
Investments from Cash Balances (a to d)	4,534	3,486	-1,048
a. GoI Treasury Bills	4,534	3,486	-1,048
b. GoI Securities	--	--	--
c. Other Securities	--	--	--
d. Other Investments	--	--	--
Fund-wise break-up of Investment from Earmarked balances (a to c)	4,525	5,426	901
a. Sinking Fund	3,843	4,697	854
b. Guarantee Redemption Fund	668	715	47
c. Other Funds	14	14	--
Interest realized	451	578	127

Source: Finance Accounts 2011-12

The rate of interest earned on the investments from cash balances and investments from earmarked balances worked out to 5.40 *per cent* and 7.18 *per cent* respectively during the year 2011-12, against the average market borrowing rate of 7.40 *per cent*.

The State Government maintained the minimum daily cash balance of ₹ 3.32 crore with RBI during the year without obtaining any advances. The cash balance of the State increased by ₹ 492 crore (6 *per cent*) at the end of 2011-12 over the previous year. During the current year, the Government has not resorted to ways and means advances or overdrafts.

1.10 Assets and Liabilities

1.10.1 Growth and composition of assets and liabilities

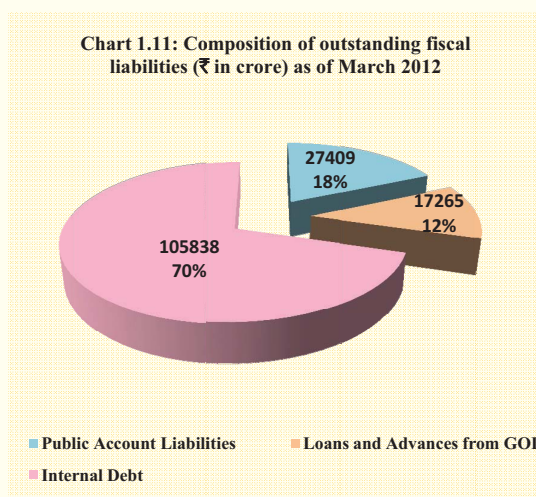
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, Government

accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.9** gives an abstract of such liabilities and the assets as on 31 March 2012, compared with the corresponding position as on 31 March 2011. While liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from Public account and Reserve Funds, assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

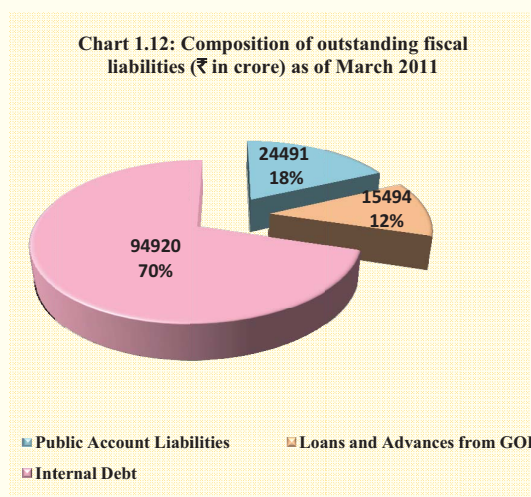
The total liabilities of the state as defined under the FRBM Act of the State means the “liabilities under the consolidated Fund of the State and the Public Account of the State and shall also include borrowings by the public sector undertakings and the special purpose vehicles and other equivalent instruments including guarantees where the principal and/or interest are to be serviced out of the State budgets”.

1.10.2 Fiscal liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.6**. The composition of fiscal liabilities during the current year vis-à-vis the previous year is presented in **Charts 1.11 and 1.12**.



Source: Finance Accounts 2011-12



Source: Finance Accounts 2010-11

The total fiscal liabilities of the State at the end of 2011-12 (₹ 1,50,512 crore) increased by ₹ 15,608 crore (12 per cent) over the previous year (₹ 1,34,905 crore) and stood at 1.61 times of revenue receipts.

Total fiscal liabilities as defined in FRBM Act worked out to ₹ 1,53,849 crore¹³ and stood at 22.27 per cent of GSDP at the end of current year, against a ceiling of 29.60 per cent prescribed in FRBM Act for the year 2011-12. In line with the FRBM Act, the State Government established Sinking Fund for reduction or avoidance of debt and Guarantee Redemption Fund and has been contributing to these funds at the rates prescribed by the RBI.

¹³ Consolidated Fund and Public Account Liabilities (₹ 1,50,512 crore), outstanding guarantees to be serviced out of State budget (₹ 2,050 crore) and outstanding off budget borrowings (₹ 1,287 crore).

1.10.3 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. State Government in its FRBM Act, 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, and constituted (January 2002) Guarantee Redemption Fund for discharging the guarantees invoked. During the current year, ₹ 70 crore was contributed to the Fund and the entire closing balance (₹ 715 crore) as on 31 March 2012 was invested in Government securities.

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 five years are given in **Table 1.13**.

Table 1.13: Guarantees given by the Government of Andhra Pradesh

(₹ in crore)

Guarantees	2007-08	2008-09	2009-10	2010-11	2011-12
Maximum amount guaranteed	18,798	29,990	20,324	29,554	23,543
Outstanding amount of guarantees	14,502	15,239	13,135	12,290	12,286
Percentage of maximum amount guaranteed to total revenue receipts	34.72	47.71	31.42	36.49	25.17

Source: Finance Accounts

The maximum amount guaranteed during the year (₹ 23,543 crore) to 37 entities is within the norm prescribed by the FRBM Act., i.e. 90 *per cent* of the total revenue receipts (₹ 72,896 crore) of the preceding year. The decrease in the maximum amount guaranteed at the end of 2011-12 by ₹ 6,011 crore over the previous year was mainly in respect of Power (₹ 448 crore), Urban Development and Housing (₹ 231 crore) and Co-operatives (₹ 289 crore).

During the current year, the Government received ₹ 0.90 crore on account of guarantee commission from Cooperatives and an amount of ₹ 14 crore is due from various other organisations as guarantee commission.

1.10.4 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 **Appendix 1.9**, the State Government guaranteed loans availed 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 State budget, in reality, the borrowings of many of these concerns ultimately turn out to be the liabilities of the State Government and hence, constitute off-budget borrowings.

Out of the off-budget borrowings of ₹ 2,231 crore raised by APTRANSCO through adjustment bonds, private placement and banks during the period 2001-09, the

Government repaid ₹ 937 crore up to 2010-11. During the current year, Government has not resorted to any off-budget borrowing but repaid ₹ 7 crore towards principal and ₹ 111 crore as interest of earlier years.

The total liabilities of State comprising fiscal liabilities (₹ 1,50,512 crore), off-budget borrowings (₹ 1,287 crore) and outstanding guarantees including interest at the end of March 2012 (₹ 12,286 crore) were ₹ 1,64,085 crore, which, as a ratio of GSDP, stood at 24.28 *per cent* i.e. **less than the ceiling of 29.60 *per cent* prescribed in FRBM Act for the year 2011-12.**

1.10.5 Adverse Balances

Adverse balances appearing in Finance Accounts distort the position of accounts balances. Adverse balance (Minus balances) under Loan head indicates that the repayment was more than the loans advanced by the Government. The adverse balances appearing under the Loan account were mainly under 6003 (109-Loans from other Institutions). Government departments that directly avail of institutional loans, have been classifying such loan amounts as their receipts, while in respect of SPVs and companies/corporations, these amounts do not enter Government accounts at all. Loan repayments, however, are booked as debit under MH-6003-Internal debt in Government accounts. This has resulted in adverse balance of ₹ 3,732 crore during 2011-12. These balances were in respect of the departments of Agriculture and Cooperation, AP Road Development Corporation, AP Power Finance Corporation Limited, and AP Transco Bonds. Government of Andhra Pradesh has been wrongly booking the repayment of principal on discharged bonds under 6003-Internal Debt. In respect of Special Purpose Vehicles (SPV), such repayment by Government on their behalf amounts to assistance to these undertakings and should have therefore, been classified under revenue expenditure. Hence, the cumulative adverse balances in respect of loan repayments on behalf of SPVs represent a cumulative understatement of revenue expenditure.

Government accepted the audit finding and stated (November 2012) that it is a legacy issue which is being addressed.

1.11 Debt sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability¹⁴ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation¹⁵, sufficiency of non-debt receipts¹⁶, net availability of borrowed funds¹⁷, burden of interest payments (measured by ratio of interest payments to revenue receipts) and maturity profile of State Government securities. **Table 1.14** analyses the debt sustainability of the State according to these indicators during the five year period 2007-12.

¹⁴ See glossary at page 100

¹⁵ See glossary at page 100

¹⁶ See glossary at page 100

¹⁷ See glossary at page 100

Table 1.14: Debt sustainability: Indicators and trends

Indicators of Debt Sustainability	2007-08	2008-09	2009-10	2010-11	2011-12
Debt Stabilisation (Quantum Spread + Primary Deficit) (₹ in crore)	13,796	10,861	12,800	18,101	22,375
Debt-GSDP ratio	0.27	0.26	0.25	0.24	0.22
Sufficiency of Non-debt Receipts (Resource Gap) (₹ in crore)	(-) 3,143	(-) 3,710	(-) 1,603	(+) 2,207	(-) 3,598
Net Availability of Borrowed Funds (₹ in crore)	(-) 510	3,033	5,523	2,769	3,348
Debt Redemption (Principal+Interest)/Total Debt Receipts	1.130	0.840	0.850	0.915	0.853
Burden of Interest Payments (IP/RR Ratio)	0.14	0.13	0.14	0.12	0.11

Source: Finance Accounts

The quantum spread together with primary deficit has been positive for the last five years, resulting in decline in Debt/GSDP ratio from 0.27 in 2007-08 to 0.22 in 2011-12. These trends indicate the tendency towards debt stabilization, which would eventually improve the debt sustainability of the State. The resource gap has been negative in four 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 net availability of borrowed funds was positive during the last five years, indicating the availability of borrowed funds for purposes other than debt repayment. The maturity profile of State debt is shown in **Table 1.15**.

Table 1.15: Maturity Profile of State Debt

(₹ in crore)

Maturity profile	Amount	Percentage
0 – 1 years	6,056	5.71
1 – 3 years	10,615	10.02
3 – 5 years	9,953	9.39
5 – 7 years	21,577	20.36
7 years and above	57,785	54.52
Total	1,05,986	100.00

To discharge its expenditure obligations, the Government has to borrow further, since fiscal surplus was not available in any of the last five years. The significant increase in market borrowings (₹ 42,883 crore) of the State Government in 2009-10, 2010-11 and 2011-12 could lead to large repayment obligation from the year 2018-19 onwards. The maturity profile of outstanding stock of State Development Loans (SDLs) as on 31 March 2012 shows that 55 *per cent* of SDLs are in the maturity bucket of 7 years and above.

Source: Finance Accounts 2011-12

It further indicates that the liability of the State to repay the debt would be ₹ 9,953 crore during 2015-17 and ₹ 21,577 crore during 2017-19, which would put a strain on the Government budget during that period. The State may have to borrow further to repay these loans. A well thought out debt repayment strategy will have to be worked out by the

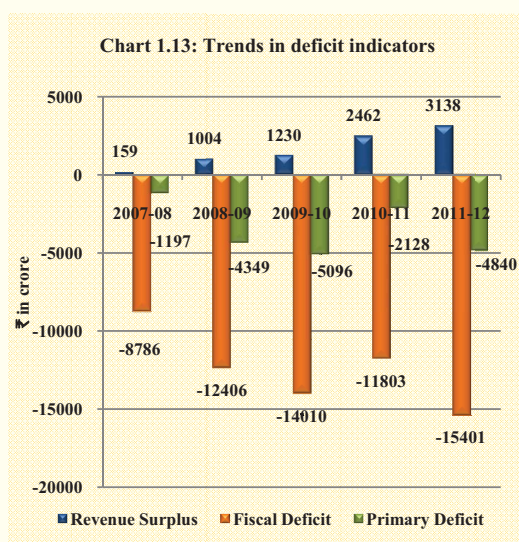
Government to ensure that no additional borrowings, which mature in these critical years, are made.

1.12 Fiscal Imbalances

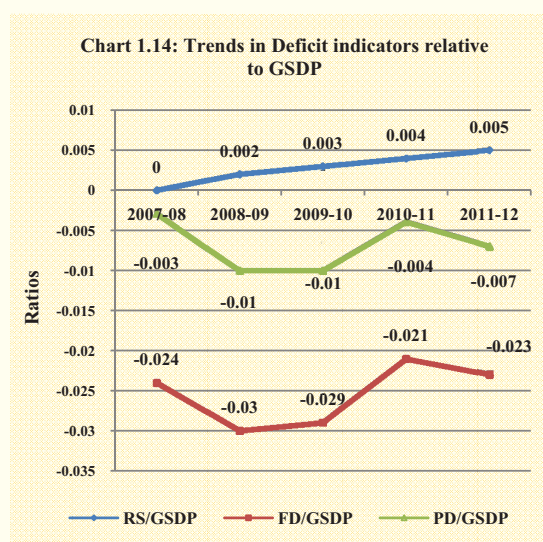
Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. Deficit in Government accounts represents the gap between its receipts and expenditure and the nature of deficit is an indicator of the prudence of the Government in fiscal management. 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 assesses the actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2011-12.

1.12.1 Trends in deficits

Charts 1.13 and 1.14 present the trends in deficit indicators over the five year period 2007-12.



Source: Finance Accounts



Source: Finance Accounts

There was revenue surplus for the sixth consecutive year during 2011-12. At ₹ 3,138 crore, revenue surplus increased by ₹ 676 crore over the previous year (₹ 2,462 crore). Fiscal deficit with inter year variations increased to ₹ 15,401 crore in 2011-12 (30 per cent) from ₹ 11,803 crore in 2010-11. Primary deficit increased to ₹ 4,840 crore (127 per cent) from ₹ 2,128 crore in 2010-11.

1.12.2 Components of fiscal deficit and its financing pattern

The financing pattern of fiscal deficit has undergone a compositional shift as reflected in Table 1.16.

Table 1.16: Components of fiscal deficit and their financing pattern

(₹ in crore)

Sl.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12		
						Receipts	Disbursements	Net
A	Decomposition of Fiscal Deficit (1 to 3)	(-) 8,786	(-) 12,407	(-) 14,010	(-) 11,803	93,719	1,09,120	(-) 15,401
	1. Revenue Deficit/Surplus	159	1,004	1,230	2,462	93,553	90,415	3,138
	2. Net Capital Expenditure	(-) 6,216	(-) 10,367	(-) 13,793	(-) 11,123	0	13,722	(-) 13,722
	3. Net Loans and Advances	(-) 2,729	(-) 3,044	(-) 1,447	(-) 3,142	165	4,983	(-) 4,818
B	Financing Pattern of Fiscal Deficit							
	Market Borrowings	6,182	10,911	13,403	10,154	16,731*	5,813	10,918
	Loans from GoI	(-) 43	(-) 391	73	687	2,719	948	1,771
	Small Savings, PF etc (Cr)	940	570	961	1,603	3,376	2,156	1,220
	Reserve Funds (Cr)	252	271	(-) 113	945	3,272	2,921	351
	Deposits and Advances (Cr)	3,416	(-) 1,812	(-) 1,437	1,703	42,963	41,617	1,346
	Suspense and Misc. (Dr)	(-) 2,828	4,405	(-) 1	(-) 2,200	1,23,420	1,23,083	337
	Remittances (Cr)	943	(-) 1,621	1,435	(-) 1,351	17,524	17,427	97
	Others (Contingency Fund)	(-) 1	(-) 6	7	(-) 1	1.54	0.40	1 [#]
	Overall Surplus/Deficit	(-)75	80	(-) 318	263	--	--	(-) 638

Source: Finance Accounts. *Includes borrowings from other institutions; [#]Difference is due to rounding off

There was an increase of fiscal deficit in the current year by ₹ 3,598 crore over the previous year. At ₹ 15,500 crore during 2011-12, market borrowings were the main source of financing fiscal deficit.

1.12.3 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit¹⁸ and capital expenditure (including loans and advances) would indicate the quality of deficit in the State 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 the borrowings (fiscal liabilities) are not backed by assets. The bifurcation of primary deficit (**Table 1.17**) 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.

¹⁸ See glossary at page 100

Table 1.17: Primary deficit/surplus – bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure ¹⁹	Primary revenue deficit(-)/surplus(+)	Primary deficit(-)/surplus(+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2007-08	60,891	46,394	12,774	2,920	62,088	(+)14,497	(-)1,197
2008-09	63,228	53,797	10,367	3,414	67,578	(+)9,431	(-)4,350
2009-10	64,821	54,534	13,793	1,590	69,917	(+)10,287	(-)5,096
2010-11	81,169	68,859	11,123	3,315	83,297	(+)12,310	(-)2,128
2011-12	93,719	79,854	13,722	4,983	98,559	(+)13,865	(-)4,840

Source: Finance Accounts

The bifurcation of factors resulting in primary deficit /surplus of the State during the period 2007-12 reveals that throughout this period, 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. However, the surplus non-debt receipts were not enough to meet the entire primary expenditure and loans and advances, resulting in primary deficit in all the years during 2007-12.

1.13 Conclusion

State Government has been achieving the fiscal reform targets every year in post FRBM legislation period. The State registered revenue surplus for the 6th consecutive year during 2011-12 and the fiscal deficit was well within the ceiling prescribed by the FRBM Act. The State has done well to bring down the fiscal liabilities to 22.27 per cent of the GSDP against a ceiling of 29.60 per cent as prescribed in FRBM Act for the year 2011-12.

Revenue Receipts registered a growth of over 15.50 per cent during the current year over the previous year, due to growth in its own tax and non tax revenue. While capital expenditure increased by about 23 per cent and its ratio to total expenditure has also increased significantly to 18.43 per cent from 12.28 per cent during previous year. Capital works/projects in irrigation and road sectors were not completed on time, which resulted in pushing up the cost of these projects without achieving the envisaged benefits. Further, although the State Government accorded adequate fiscal priority to development expenditure during 2011-12, it did not ensure that the allocated funds were fully utilized for the intended purpose.

¹⁹ See glossary at page 100

Return on investment in Companies/Statutory Corporations continued to be poor and the rate of return on investment was 0.85 per cent during 2011-12, while the rate of interest paid by the Government during the year was 7.40 per cent. The accounts of several of these companies/corporations have been in arrears and up to the year of accounts finalized, the accumulated losses of eleven entities alone amounted to ₹5,979 crore, with AP State Housing Corporation (₹3,554 crore) and APSRTC (₹1,984 crore) leading the list.

The current level of recovery of loan is abysmal with the gap between disbursement (₹4,983 crore) and recovery (₹164 crore) widening. In fact, confirmation of balances on loan amount of ₹17,337 crore was yet to be received from the entities, which were the recipients of these loans.

Existence of adverse balances under loan head (₹3,732 crore) understated the revenue expenditure position of the State in Finance accounts and affected the State fiscal indicators.