

### Profile of Andhra Pradesh

Andhra Pradesh occupies eighth place in terms of geographical area among all States in India with 1.63 lakh sq. km. With a population of 4.95 crore as per 2011 census, the State stood at tenth and accounts for 4.10 *per cent* of country's total population. *Appendix 1.1* shows the socio-economic indicators related to the State of Andhra Pradesh.

#### Gross State Domestic Product (GSDP)

GSDP is the market value of all officially recognised final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important economic indicator of the State economy. The annual growth of India's GDP and State's GSDP at current prices are given in **Table 1.1**:

**Table 1.1: Comparative statement of GDP *vis-à-vis* GSDP**

Year	2012-13	2013-14	2014-15	2015-16	2016-17
India's GDP (₹ in crore)	99,44,013	1,12,33,522	1,24,45,128	1,36,82,035	1,51,83,709
Growth rate of GDP ( <i>per cent</i> )	13.82	12.97	10.79	9.94	10.98
State's GSDP (₹ in crore)	4,11,404	4,64,272	5,26,468	6,09,934	6,99,307
Growth rate of GSDP ( <i>per cent</i> )	8.43	12.85	13.40	15.85	14.65

*Source: Directorate of Economics & Statistics of Andhra Pradesh and Central Statistical Office; GDP & GSDP Estimates are in the new series with base year 2011-12*

### 1.1 Introduction

This Chapter provides a broad perspective of the finances of the Government of Andhra Pradesh for the year 2016-17 and analyses critical changes in the major fiscal aggregates relative to the previous year. This analysis is based on the Finance Accounts and the information obtained from State Government. The structure of Government Accounts and layout of the Finance Accounts are given in *Appendix 1.2*.

The State of Andhra Pradesh was bifurcated into two states i.e. Andhra Pradesh and Telangana with effect from 02 June 2014. The receipts and expenditure upto 2013-14 pertained to the composite state of Andhra Pradesh and those of 2014-15 included the particulars relating to composite state of Andhra Pradesh from 01 April 2014 to 01 June 2014. As the trend analysis for five years could not be done in this scenario, audit has restricted its comments by comparing with the previous financial year (2015-16) only.

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

**Table 1.2** presents the summary of the State Government's fiscal transactions during the current year *vis-à-vis* the previous year, while *Appendix 1.3* provides the details of receipts and disbursements as well as overall fiscal position during 2016-17:

**Table 1.2: Summary of Receipts and Disbursements for the year 2016-17**

(₹ in crore)

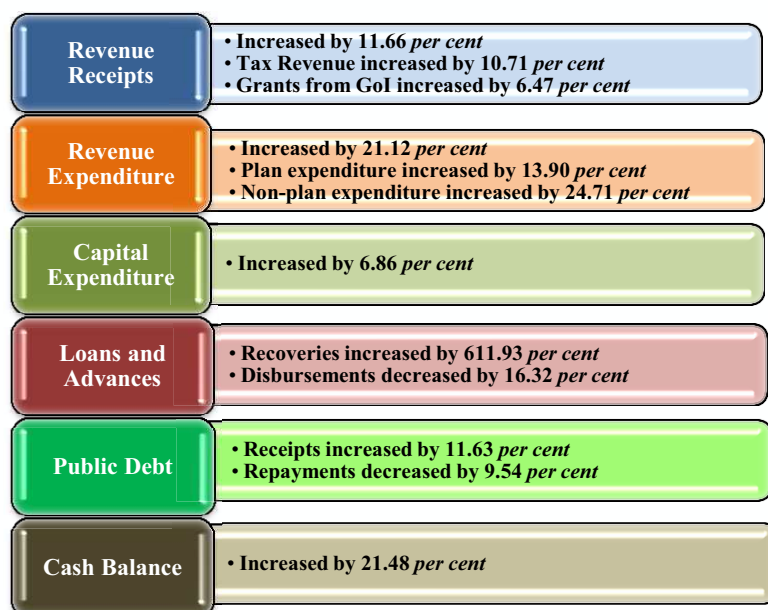
Receipts			Disbursements				
	2015-16	2016-17		2015-16	2016-17		
	Total	Total		Total	Non-Plan	Plan	Total
<b>Section A – Revenue</b>							
<b>Revenue Receipts</b>	<b>88,648</b>	<b>98,984</b>	<b>Revenue Expenditure</b>	<b>95,950</b>	<b>79,793</b>	<b>36,422</b>	<b>1,16,215</b>
<i>Tax Revenue</i>	<i>39,907</i>	<i>44,181</i>	<i>General Services</i>	<i>28,573</i>	<i>32,682</i>	<i>104</i>	<i>32,786</i>
<i>Non-tax Revenue</i>	<i>4,920</i>	<i>5,193</i>	<i>Social Services</i>	<i>46,449</i>	<i>25,149</i>	<i>25,079</i>	<i>50,228</i>
<i>Share of Union Taxes/Duties</i>	<i>21,894</i>	<i>26,264</i>	<i>Economic Services</i>	<i>20,812</i>	<i>21,869</i>	<i>11,239</i>	<i>33,108</i>
<i>Grants from GOI</i>	<i>21,927</i>	<i>23,346</i>	<i>Grants-in-aid and Contributions</i>	<i>116</i>	<i>93</i>	<i>0</i>	<i>93</i>
<b>Section B – Capital &amp; Others</b>							
<b>Misc. Capital Receipts</b>	<b>0</b>	<b>0</b>	<b>Capital Outlay</b>	<b>14,171</b>	<b>29</b>	<b>15,114</b>	<b>15,143</b>
<b>Recoveries of Loans and Advances</b>	<b>285</b>	<b>2,029</b>	<b>Loans and Advances disbursed</b>	<b>674</b>	<b>69</b>	<b>495</b>	<b>564</b>
<b>Public Debt Receipts</b>	<b>53,681</b>	<b>59,923<sup>#</sup></b>	<b>Repayment of Public Debt</b>	<b>38,445</b>	<b>*</b>	<b>*</b>	<b>34,777<sup>#</sup></b>
<b>Inter State Settlement</b>	<b>0</b>	<b>0</b>	<b>Inter State Settlement</b>	<b>195</b>	<b>*</b>	<b>*</b>	<b>-1</b>
<b>Contingency Fund</b>	<b>0</b>	<b>0</b>	<b>Contingency Fund</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Public Account Receipts</b>	<b>90,912</b>	<b>98,781</b>	<b>Public Account Disbursements</b>	<b>79,833</b>	<b>*</b>	<b>*</b>	<b>91,259</b>
<b>Opening Cash Balance</b>	<b>3,934</b>	<b>8,192</b>	<b>Closing Cash Balance</b>	<b>8,192</b>	<b>*</b>	<b>*</b>	<b>9,952</b>
<b>Total<sup>#</sup></b>	<b>2,37,460</b>	<b>2,67,909</b>	<b>Total<sup>#</sup></b>	<b>2,37,460</b>			<b>2,67,909</b>

Source: Finance Accounts.

<sup>#</sup> Includes Ways and Means Advances of ₹ 29,154 crore

\*Finance Accounts do not contain these figures

Progressive incline/decline observed in various areas from previous financial year was as under:

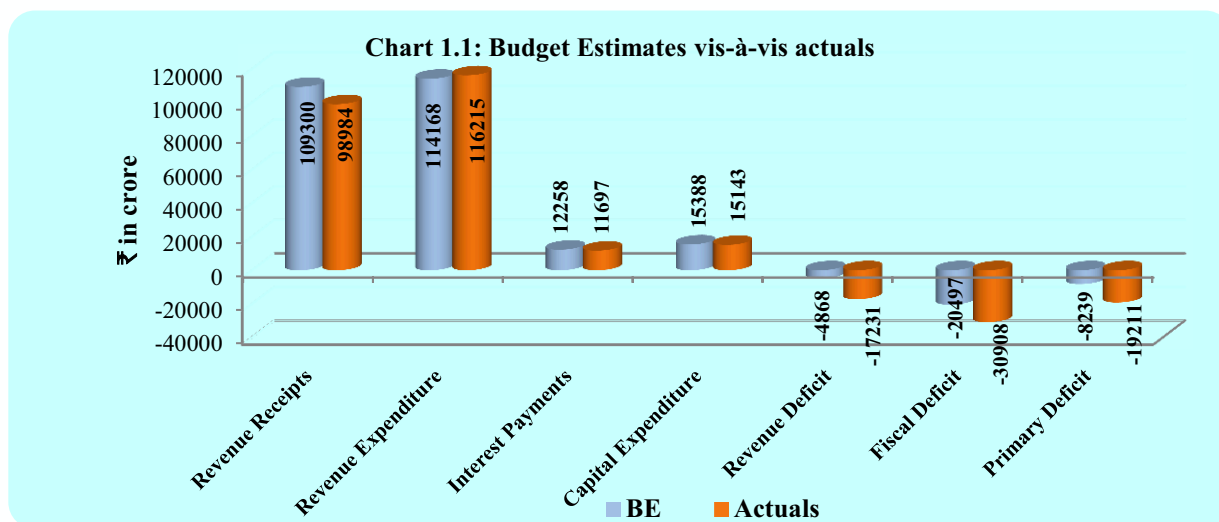


*The revenue deficit of Government of Andhra Pradesh for the year 2016-17 was ₹ 17,231<sup>1</sup> crore. The fiscal deficit (₹ 30,908<sup>1</sup> crore) stood at 4.42 per cent of GSDP during the year, which was more than the ceiling of 3.25 per cent prescribed by the 14<sup>th</sup> Finance Commission.*

<sup>1</sup> Includes an amount of ₹ 8,256 crore under Ujjwal DISCOMS Assurance Yojana (UDAY) scheme

### 1.3 Budget estimates and actuals

Budget Estimates (BE) and actuals for key fiscal parameters are given in *Chart 1.1* and *Appendix 1.4*:



Source: Budget Estimates and Finance Accounts 2016-17

Revenue expenditure (₹ 1,16,215 crore) exceeded budget estimates (₹ 1,14,168 crore) by 1.79 per cent. Expenditure in excess of BE was the highest in Power Sector (210.97 per cent) including UDAY scheme. Capital expenditure (₹ 15,143 crore) was less than the budget estimates (₹ 15,388 crore) by 1.59 per cent.

### 1.4 Fiscal Reform Path

The 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). A summary of FRBM Act, 2005 as amended in 2011 is given in *Appendix 1.5*.

Important targets relating to fiscal variables are indicated in **Table 1.3**:

**Table 1.3: Targets/Projections for Fiscal variables**

Fiscal variables	2016-17				
	14 <sup>th</sup> FC targets for the State	Targets prescribed in FRBM Act	Targets proposed in Budget	Projections made in MEFS	Actuals
Revenue Deficit (₹ in crore)	0	*	4,868	4,598	17,231 <sup>#</sup>
Fiscal Deficit/ GSDP (in per cent)	3.25	*	N.A.	3.00	4.42 <sup>#</sup>
Total outstanding debt to GSDP (in per cent)	24.74	*	N.A.	N.A.	21.42

N.A.: Not available \* yet to be amended; # Includes an amount of ₹ 8,256 crore under UDAY scheme

Important targets relating to fiscal variables are to be amended from time to time in accordance with the Central Finance Commissions' recommendations. However, Government of Andhra Pradesh is yet to amend its FRBM Act in accordance with the 14th Finance Commission's recommendations, especially on fiscal targets viz., revenue deficit, fiscal deficit and outstanding liabilities to GSDP ratio.

Government replied that the ratio of Fiscal Deficit was 3.24 per cent to GSDP which increased to 4.42 per cent due to inclusion of ₹ 8,256 crore expended towards UDAY scheme (Para 1.14.2 may be referred).

#### **1.4.1 Non-disclosure of prescribed information under FRBM Act**

As per Rule 6 of FRBM rules, the Government shall, at the time of presenting the budget, make disclosures as required under section 10 of the FRBM Act. Out of 10 disclosures prescribed, the following disclosures were not presented along with the budget:

- (i) the statement of assets in **Form D-7**,
- (ii) statement on claims and commitments made by the State Government on revenue demands raised but not realized in **Form D-8** and
- (iii) the statement on liabilities in respect of major works and contracts, committed liabilities in respect of land acquisition charges and claims on the State Government in respect of unpaid bills on works and supplies in **Form D-9**.

Further, the Government has not estimated the yearly pension liabilities on actuarial basis for the ensuing years, as stipulated in provision 7(2)(iii) of FRBM Act, 2005.

Non-disclosure of prescribed information compromised the objective of ensuring greater transparency in projecting the actual assets and liabilities as envisaged in the FRBM Act.

State Government replied that specific instructions would be issued to adhere to the provisions of the Act from 2018-19 onwards duly explaining the importance of these disclosures.

#### **1.4.2 Establishment of Committees**

The Government of Andhra Pradesh established two committees namely (i) Fiscal Management Committee<sup>2</sup> to design a framework to improve operational efficiency of expenditure through focus on utilization and (ii) Financial and Economic Analysis Division<sup>3</sup> (FEAD) to coordinate economic planning from the year 2016-17. An amount of ₹ 21.60 lakh was expended on these committees during the year. However, no reports were submitted by these Committees, thus defeating the purpose of formation of these committees.

### **1.5 Resources of the State**

#### **1.5.1 Resources of the State as per Annual Finance Accounts**

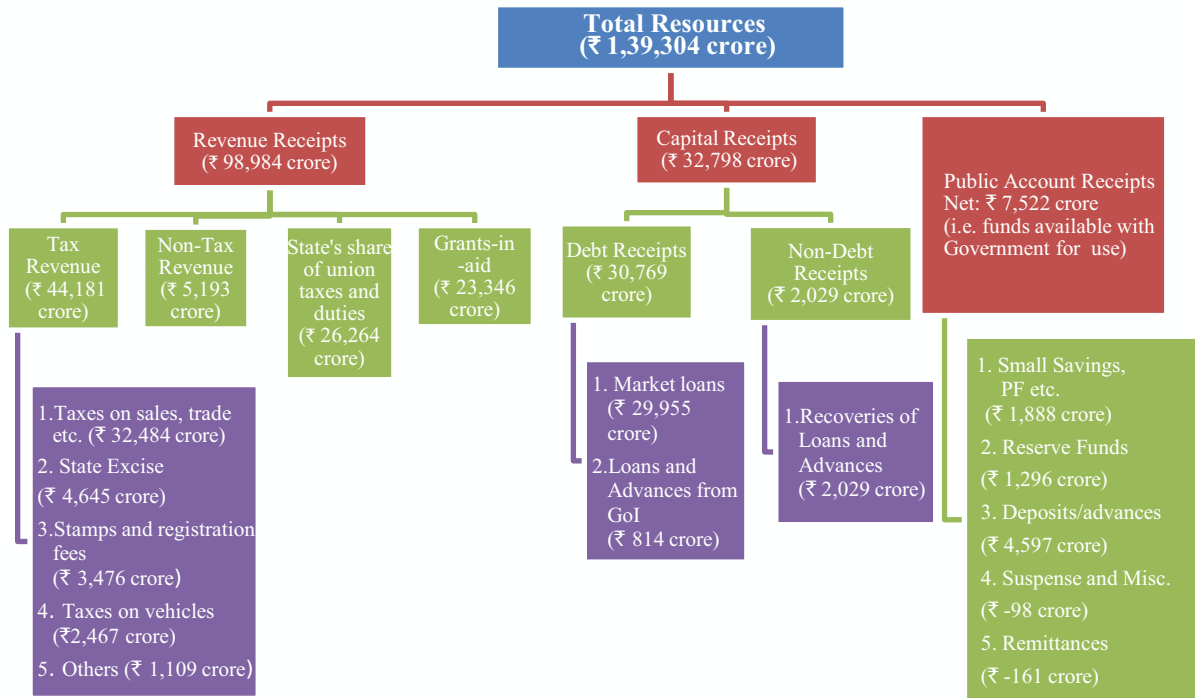
Revenue and Capital are the two streams of receipts that constitute the resources of the State apart from the net receipts of Public Account. Revenue receipts consist of tax revenue, non-tax revenue, State's share of Union taxes & duties and grants-in-aid from the GoI. Capital receipts comprise miscellaneous 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. The net of Public Account comprises the balance after disbursements in small savings, provident funds, reserve funds deposits, suspense and remittances, etc. The balance, after disbursements is the fund

<sup>2</sup> Established vide G.O. Ms. No.1 dated 02 January 2016

<sup>3</sup> Established vide G.O. RT. No.2780 dated 13 November 2015

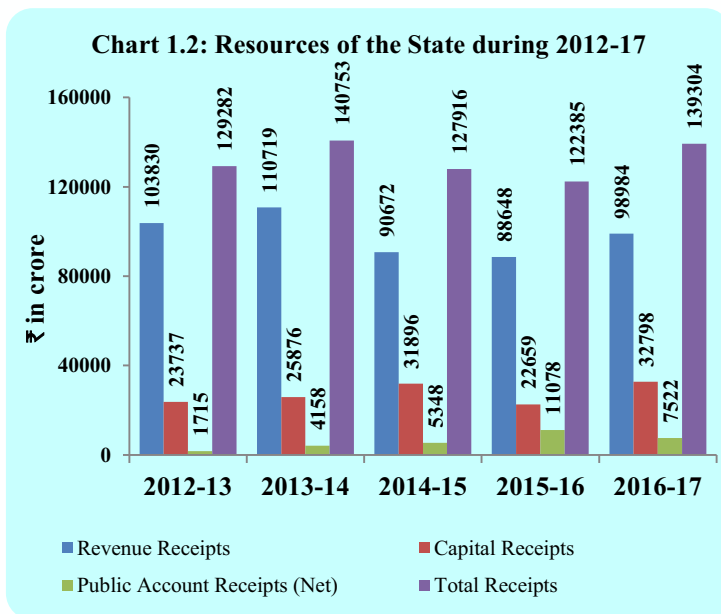
available with the Government for use.

The following flowchart depicts the components and sub-components of resources of the State.

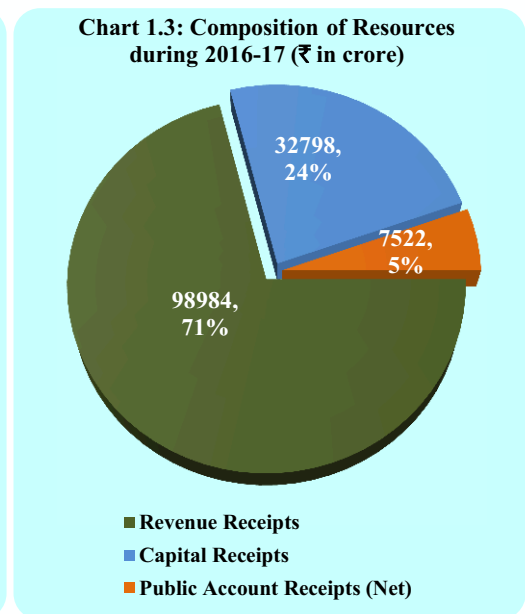


NOTE: Capital Receipts do not include an amount of ₹ 29,154 crore availed as Ways and Means Advances/Special Drawing Facility/Over Draft

Out of the total resources of ₹ 1,39,304 crore of the State Government during the year 2016-17, Revenue Receipts (₹ 98,984 crore) constituted 71.06 per cent of total resources. Capital Receipts (₹ 32,798 crore) and net Public Account Receipts (₹ 7,522 crore) constituted 23.54 per cent and 5.40 per cent of the total resources, respectively. **Chart 1.2** depicts the details under various components of the total resources of the State during 2012-17. **Chart 1.3** depicts the composition of total resources of the State during the current year 2016-17.



Source: Finance Accounts

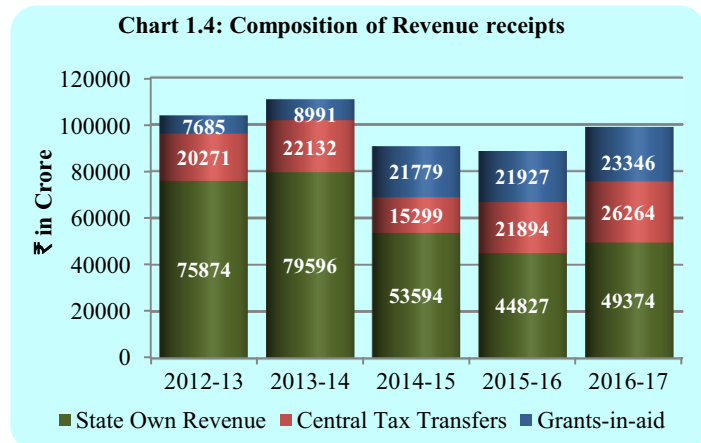


Source: Finance Accounts 2016-17

## 1.6 Revenue Receipts

The details and composition of revenue receipts over the five year period 2012-17 are presented in *Appendix 1.6* and also depicted in **Chart 1.4**.

The actual receipts under State's tax and non-tax revenue *vis-à-vis* estimates of the State Government during 2016-17 are given in **Table 1.4** below:



Source: Finance Accounts

**Table 1.4: Revenue receipts *vis-à-vis* assessment**

	Budget	Actuals	Percentage Variation
<b>Tax Revenue</b>	52,318	44,181	-15.55
<b>Non-Tax Revenue</b>	5,495	5,193	-5.50
<b>Share of Central Taxes/duties</b>	24,637	26,264	6.60
<b>Grants-in-aid from GoI</b>	26,850	23,346	-13.05
<b>Total</b>	<b>1,09,300</b>	<b>98,984</b>	<b>-9.44</b>

(₹ in crore)

Source: Budget in Brief and Finance Accounts 2016-17

The actual realization of Revenue receipts were lower than the projections made in the Budget by ₹ 10,316 crore (9.44 per cent).

Revenue receipts constituted 14.15 per cent of GSDP in 2016-17 as shown in **Table 1.5**:

**Table 1.5: Revenue receipts relative to GSDP during 2012-17**

	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Revenue Receipts (RR) (₹ in crore)</b>	1,03,830	1,10,719	90,672	88,648	98,984
<b>Rate of Growth<sup>4</sup> of RR (per cent)</b>	10.98	6.63	N.C.	N.C.	11.65
<b>RR/GSDP (per cent)</b>	13.92	12.95	17.44	14.69	14.15
<b>Buoyancy Ratios<sup>5</sup></b>					
<b>Revenue Buoyancy w.r.t. GSDP</b>	0.79	0.50	N.C.	N.C.	0.80
<b>State's Own Tax Buoyancy w.r.t. GSDP</b>	0.89	0.53	N.C.	N.C.	0.73

Source: Finance Accounts, N.C.: Not comparable as the State of A.P. after bifurcation w.e.f. 02 June 2014 is a different entity.

<sup>4</sup> See Glossary

<sup>5</sup> See Glossary

## 1.6.1 State's own resources

The State's share in Central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission and guidelines on Central assistance for plan schemes etc. The State's performance in mobilization of 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

Taxes on sales and trade contributed 73.52 per cent to Own Tax Revenue (OTR) in 2016-17. The major taxes which contributed to OTR are given in **Table 1.6**:

**Table 1.6: Components of State's Own Tax revenue**

	2012-13	2013-14	2014-15	2015-16	2016-17	(₹ in crore) % increase over previous year
<b>Taxes on Sales, trades etc.</b>	40,715	48,737	30,524	29,104	32,484	11.61
<b>State Excise</b>	9,129	6,250	4,352	4,386	4,645	5.91
<b>Taxes on Vehicles</b>	3,357	3,335	3,687	2,082	2,467	18.49
<b>Stamp duty and Registration fees</b>	5,115	4,393	3,249	3,527	3,476	-1.45
<b>Land Revenue</b>	62	74	62	52	167	221.15
<b>Taxes on Goods and Passengers</b>	12	16	14	10	12	20.00
<b>Other Taxes<sup>6</sup></b>	1,485	1,318	729	746	930	24.66
<b>Total</b>	<b>59,875</b>	<b>64,123</b>	<b>42,618</b>	<b>39,907</b>	<b>44,181</b>	<b>10.71</b>

Source: Finance Accounts

Increase in Land revenue to the tune of ₹ 115 crore (221.15 per cent increase compared to previous year) was on account of Sale proceeds of Waste Lands and redemption of Land Tax in connection with Survey and Settlement operations. Increase of ₹ 3,380 crore in respect of Taxes on sales, trades etc was mainly attributable to increase in receipts under Central Sales Tax and State Sales Tax.

### 1.6.1.2 Non-Tax Revenue

Non-tax revenue accounts for receipts from services rendered and supplies made by various Departments of Government and interest receipts. The Non-tax revenue, constituted 5.25 per cent of the total revenue receipts of the year. The overall increase of ₹ 273 crore over the previous year was mainly from other non-tax receipts. The composition of non-tax revenue is detailed in **Table 1.7**:

<sup>6</sup>Other Taxes include Taxes on Immovable Property other than Agricultural Land, Taxes and Duties on Electricity and Agricultural Income



**Table 1.7: Composition of Non-Tax Revenue**

(₹ in crore)						
Revenue Head	2012-13	2013-14	2014-15	2015-16	2016-17	% increase over previous year
Interest Receipts	9,626	8,646	4,796	133	113	-15.04
Dividends & Profits	64	61	8	9	4	-55.56
Other Non-Tax Receipts	6,309	6,766	6,172	4,778	5,076	6.24
<b>Total</b>	<b>15,999</b>	<b>15,473</b>	<b>10,976</b>	<b>4,920</b>	<b>5,193</b>	<b>5.55</b>

Source: Finance Accounts

### Interest receipts

Interest receipts (₹ 113 crore) included ₹ 66 crore received from investment of Cash Balance, ₹ 33 crore was received from various sources viz., Andhra Pradesh Transmission Corporation (APTRANSCO) and Credit Cooperatives etc. The remaining amount of ₹ 14 crore was booked under omnibus Minor Head-800 Other Receipts, which had no details on the source of the receipts.

### Dividend Receipts

The receipts of ₹ 4 crore were booked under Major Head 0050 – Dividends & Profits. However, the details of institutions from which the dividend received were not made available for ₹ 3.88 crore. Further, income from dividends declined to ₹ 4 crore from ₹ 9 crore during the previous year.

### Other Non-Tax Receipts

Non-Ferrous Mining & Metallurgical Industries (₹ 1,628 crore – Mineral Concession Fee, Rents & Royalties), Urban Development (₹ 901 crore – Other Receipts), Education, Sports, Art and Culture (₹ 577 crore – General Education) and Rural Development Programmes (₹ 559 crore – Panchayat Raj) were the main contributors to non-tax revenue.

The above receipts relating to Education Department included ₹ 517 crore under Major Head 0202 (Education, Sports, Art and Culture) – 01 (General Education) – 101 (Elementary Education). As this head was related to reimbursement of teachers' salary, these amounts were required to be reduced from expenditure instead of remitting to Consolidated Fund thereby resulting in overstatement of the State's revenues by an identical amount.

## 1.6.2 State's share of Union taxes and Grants-in-aid

### 1.6.2.1 State's share of Union taxes

The 14<sup>th</sup> FC had recommended that the States' share of central taxes be increased to 42 per cent from 32 per cent from 2015-16 onwards. Consequently, the State's share in the net proceeds of Central Taxes (excluding Service Tax) and net proceeds of Service Tax has been fixed at 4.31 and 4.40 per cent, respectively.

While contributing 24.70 per cent to the State's total revenue receipts, central tax transfers of ₹ 26,264 crore in 2016-17 was less by ₹ 1,627 crore (6.60 per cent) from the budget estimates.



However, Central tax transfers were higher by ₹ 4,370 crore (19.96 *per cent*) compared to previous year.

Major components of central tax transfers were Corporation Tax (₹8,414 crore), Taxes on Income other than Corporation Tax (₹5,848 crore), Service Tax (₹4,231 crore), Customs Duty (₹3,619 crore) and Union Excise Duties (₹4,133 crore).

### 1.6.2.2 Grants-in-aid from Government of India

The details of Grants-in-aid from GoI and its composition during 2012-17 are given in **Table 1.8:**

**Table 1.8: Grants-in-aid from Government of India**

Particulars	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Non-Plan Grants	784	3,433	4,676	9,944	10,839
Grants for State Plan Schemes	3,223	2,758	16,533	10,325	12,507
Grants for Central Plan Schemes	219	260	55	1,658	0
Grants for Centrally Sponsored Schemes	3,459	2,540	515	0	0
<b>Total</b>	<b>7,685</b>	<b>8,991</b>	<b>21,779</b>	<b>21,927</b>	<b>23,346</b>
Total grants as a percentage of Revenue Receipts	7.40	8.12	24.02	24.73	23.59

Source: Finance Accounts

Out of the Grants of ₹ 12,507 crore for State Plan Schemes, the major amount (₹ 12,120 crore – 97.71 *per cent*) was related to Centrally Assisted State Plan (CASP) schemes. The major recipient of CASP schemes was Mahatma Gandhi National Rural Employment Guarantee Act (₹3,752 crore), Accelerated Irrigation Benefit Programme (₹2282 Crore), Integrated Child Development Scheme (₹ 628 crore) and Sarva Shiksha Abhiyan (₹ 633 crore).

### 1.6.3 Funds transferred to State Implementing Agencies outside the State Budget

The Government of India discontinued the release of funds directly to Implementing Agencies from the year 2014-15. However, GoI has been transferring sizeable quantum of funds directly to the State implementing agencies for implementation of various schemes/programmes<sup>7</sup> in social and economic sectors recognized as critical.

During the year 2016-17, GoI transferred ₹ 1,033.19 crore directly to State Implementing Agencies (₹ 752.09 crore to implementing agencies, ₹ 180.96 crore to Local Bodies and ₹ 100.14 crore to other agencies) concerning various Central Schemes/Programmes, without routing these funds through the State budget. The amount transferred directly during the year 2016-17 increased by ₹ 488.54 crore compared to previous year 2015-16 (₹ 544.65 crore).

<sup>7</sup> National Highways Authority of India from Central Road Fund, Support to DISCOMs for purchase of gas based power, National Aids and STD control programme (NACO), Top Class Education scheme for SC etc.,

## 1.6.4 Optimization of Finance Commission (FC) grants

### 1.6.4.1 13th Finance Commission Grants

The award period for 13th Finance Commission grants was from 2010-11 to 2014-15. As per the guidelines, the time for utilization of funds was up to 31 March 2016 i.e. up to the end of the next financial year, which was further extended by the State Government up to December 2016. Scrutiny of various records revealed the following:

#### Non-release of funds

As seen from the Deposit Accounts<sup>8</sup>, an amount of ₹1051.42 crore of 13<sup>th</sup> FC grants was available as on 01 April 2016. During the year 2016-17, an amount of ₹21.57 crore was released and credited to this account, indicating that amounts were kept without actual release to the departments concerned. Apart from the above, against the funds of ₹1072.99 crore available, an amount of ₹363.30 crore only was expended during the year 2016-17 thereby leaving the huge balance of ₹709.69 crore in Public Account defeating the purpose for which these available funds could have been spent.

#### Incorrect release of funds in advance of receipt from GoI

Government of India indicated an allocation of ₹818.36 crore to the Andhra Pradesh for the financial year 2014-15 after bifurcation as part of the 13<sup>th</sup> FC grants to the ULBs. In anticipation of grants from GoI, the state Government released entire amount in advance to all ULBs. However, there was a short fall in receipt from GoI to an extent of ₹185.21 crore than the anticipated amount. Hence the State Government issued orders to utilize 77.5 per cent of the released amounts as FC grants and allowed the ULBs to use the balance 22.5 per cent funds for works relating to *Godavari pushkarams* and to clear the pending bills. Release of anticipated amounts from State own funds in advance of actual receipt from GoI affects the budgetary process by enforcing postponement/stoppage of other schemes/works proposed in estimates.

*Government replied that grants could not be utilised within the award period as GOI had released the amount in 2014-15 (after a gap of three years) only. Government further stated that extension was given for utilisation of funds.*

### 1.6.4.2 14th Finance Commission Grants

#### Shortfall in receipt of 14<sup>th</sup> Finance Commission Grants

Audit of the records pertaining to the grants given by GoI on the recommendations of the 14<sup>th</sup> FC was conducted in the Finance Department.

The details of recommended grants, releases and shortfall for the year are given in **Table 1.9**:

<sup>8</sup> 8448-00-102-03-003 (Municipal General Funds) – ₹ 243.88 crore, 8448-00-102-06-003 (Municipal Corporation Funds) – ₹ 401.83 crore, 8448-00-109-01-005 (Village Panchayat Funds) – ₹ 405.71 crore.

**Table 1.9: 14th Finance Commission Grants**

(₹ in crore)					
Sl No	Purpose of Grant	Total Amount recommended for the award period	Amount recommended by 14 <sup>th</sup> FC during 2016-17	Actual Releases	Shortfall
<b>1</b>	<b>Local Bodies</b>	<b>12,289.89</b>	<b>2,089.18</b>	<b>2,065.53</b>	<b>23.65</b>
	Panchayat Raj Institutions	8,654.09	1,463.45	1,454.06	9.39
	Urban Local Bodies	3,635.80	625.73	611.47	14.26
<b>2</b>	<b>Disaster Relief</b>	<b>2,429.00</b>	<b>462.00</b>	<b>462.00</b>	<b>0</b>
	<b>Total</b>	<b>14,718.89</b>	<b>2,551.18</b>	<b>2,527.53</b>	<b>23.65</b>

Source: Departmental information

State Government replied that GoI had not released the funds to ULBs & PRIs where elections were yet to be conducted (85 out of 12902 PRIs and 11 out of 110 ULBs). It was further stated that, elections were being delayed due to court litigations etc.

### Non-incurring of expenditure

As seen from Ledger accounts<sup>9</sup>, an amount of ₹ 1025.86 crore towards 14th FC grants was available as on 31 March 2016 in the PD accounts of Panchayats/Municipalities. Further, an amount of ₹ 1921.13 crore was deposited against the actual expenditure of ₹ 977.86 crore during the financial year 2016-17 leaving a balance of ₹ 1969.13 crore in the accounts at the end of March 2017. This shows that the funds were being kept idle (66.82 per cent) without actual utilization.

## 1.7 Capital Receipts

The details of Capital Receipts and their composition during 2012-17 are given in **Table 1.10:**

**Table.1.10: Composition of Capital Receipts**

(₹ in crore)					
Sources of State's Receipts	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Capital Receipts (CR)</b>	<b>23,737</b>	<b>25,876</b>	<b>31,896*</b>	<b>22,659*</b>	<b>32,798*</b>
Miscellaneous Capital Receipts	0	9	0	0	0
Recovery of Loans and Advances	426	575	5,092	285	2,029
Public Debt Receipts	23,311	25,292	26,804	22,374	30,769
Rate of growth of debt capital receipts(per cent)	19.85	8.50	N.C.	N.C.	37.52
Rate of growth of non-debt capital receipts(per cent)	158.18	37.09	N.C.	N.C.	611.93
Rate of growth of GSDP(per cent)	13.86	13.31	N.C.	N.C.	14.65
Rate of growth of CR (per cent)	21.01	9.01	N.C.	N.C.	44.75

Source: Finance Accounts. N.C.: Not Comparable as the State of AP after bifurcation is a different entity. \*Excludes Ways and Means Advances and Overdraft facility availed by the Government.

During 2016-17, Capital Receipts (₹ 32,798 crore) constituted 23.54 per cent of the total

<sup>9</sup> 8448-00-102-03-003 (Municipal General Funds) – ₹ 163.25 crore, 8448-00-102-06-003 (Municipal Corporation Funds) – ₹ 155.76 crore, 8448-00-109-01-005 (Village Panchayat Funds) – ₹ 706.85 crore.

receipts (₹ 1,39,304 crore) of the State. Government borrowed ₹ 29,955 crore from open market and other financial institutions. Loans from GoI were ₹ 814 crore. Apart from these borrowings State Government availed ₹ 29,154<sup>10</sup> crore as Ways and Means Advances and Overdraft from the Reserve Bank of India.

On excluding Ways and Means Advances/Overdraft which was used for avoiding temporary mismatches in receipts and payments, Public Debt receipts increased by 37.52 per cent (₹ 8,395 crore) and total Capital Receipts by 44.75 per cent (₹ 10,139 crore) during the year compared to previous year. Increase in public debt affects the liability of State Government in future years and limits the capacity in creating capital assets.

Out of the total recoveries of loans and advances of ₹ 2,029 crore, an amount of ₹ 1,677.44 crore was received from Rural Housing.

## 1.8 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as small savings, Provident Fund, reserve funds, deposits, suspense, remittances etc., which do not form part of the Consolidated fund, are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State Legislature. Here, the Government acts as a banker. The balance, after disbursements, is the fund available with the Government for use. The composition of Public Account receipts and disbursements from 2012 to 2017 is given in **Table 1.11:**

**Table 1.11: Composition of Public Account receipts and disbursements during 2012 to 2017**

Particulars	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
<b>A. Public Account Receipts</b>					
Small Savings, Provident Fund etc.	3,580	3,673	2,881	2,543	3,541
Reserve Funds	2,243	3,446	1,842	2,151	2,548
Deposits and Advances	48,722	52,992	48,388	50,137	56,571
Suspense and Miscellaneous	22,333	23,590	2,37,671	21,293	19,710
Remittances	18,039	17,651	10,847	14,788	16,411
<b>Total (A)</b>	<b>94,917</b>	<b>1,01,352</b>	<b>3,01,629</b>	<b>90,912</b>	<b>98,781</b>
<b>B. Public Account Disbursements</b>					
Small Savings, Provident Fund etc.	2,390	2,601	1,578	1,290	1,653
Reserve Funds	2,436	1,895	1,286	1,204	1,252
Deposits and Advances	47,056	51,798	43,040	41,566	51,974
Suspense and Miscellaneous	22,599	23,302	2,38,170	21,421	19,808
Remittances	18,720	17,599	12,207	14,352	16,572
<b>Total (B)</b>	<b>93,201</b>	<b>97,195</b>	<b>2,96,281</b>	<b>79,833</b>	<b>91,259</b>
<b>Public Account Net (A)-(B)</b>	<b>1,716</b>	<b>4,157</b>	<b>5,348</b>	<b>11,078</b>	<b>7,522</b>

Source: Finance Accounts

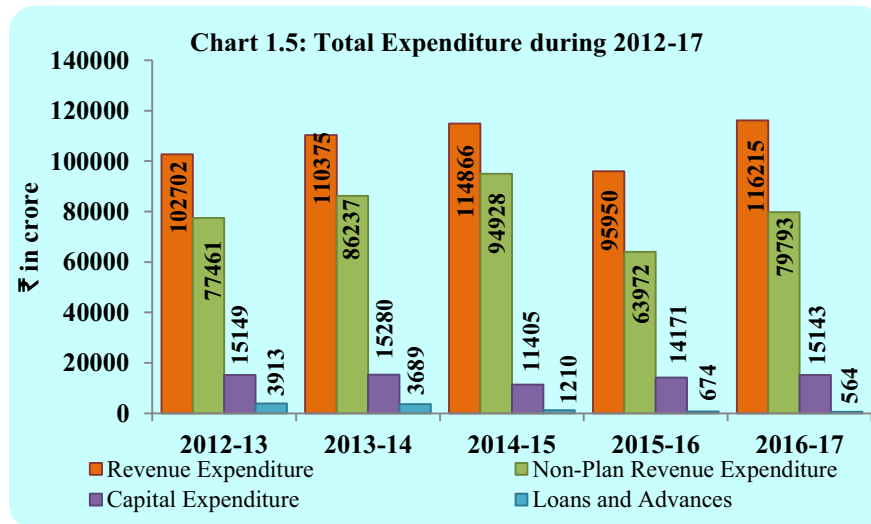
During the year 2016-17, net Public Account receipts (₹ 7,522 crore) contributed 5.40 per cent of the total resources (₹ 1,39,304 crore) of the State.

<sup>10</sup> Ways and Means Advances (₹ 27,858.93 crore) and Overdraft (₹ 1,295 crore)

## 1.9 Application of resources

### 1.9.1 Composition of expenditure

Chart 1.5 presents the composition of total expenditure over a period of five years (2012-17). The composition of total and sectorial expenditure is depicted in Charts 1.6 and 1.7 respectively.



Total Expenditure (₹ 1,31,921 crore) had increased by ₹ 20,931 crore (19 per cent) in 2016-17 over the previous year (₹ 1,10,990 crore) due to increase in Revenue expenditure to an extent of ₹ 20,265 crore and Capital Expenditure by ₹ 972 crore.

Source: Finance Accounts

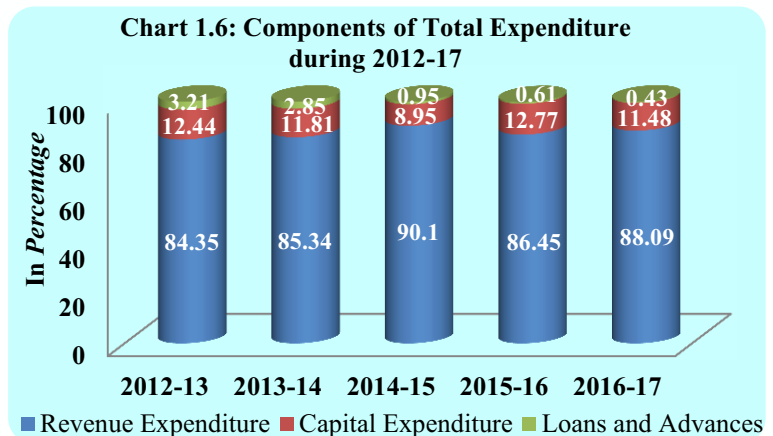
Note: Total expenditure excludes repayment of public debt amounting to ₹ 34,777 crore

During the current year, 75 per cent of the total expenditure was met from revenue receipts and the rest from borrowings. The total expenditure exceeded the budget estimates (₹ 1,30,135 crore) by ₹ 1,786 crore.

Revenue expenditure (₹ 1,16,215 crore) constituting 16.62 per cent to GSDP, increased by ₹ 20,265 crore (21.12 per cent) compared to previous year and was more than the budget estimates (₹ 1,14,168 crore) for the year 2016-17 by ₹ 2,047 crore.

Borrowed funds used for meeting revenue expenditure create liability for future years without creating any assets. During the current year, 85 per cent of the revenue expenditure was met from revenue receipts. However, the balance 15 per cent (₹ 17,231 crore) of revenue expenditure for day to day activities of Government was financed from borrowed funds. The revenue expenditure incurred by various departments is indicated in *Appendix 1.3*.

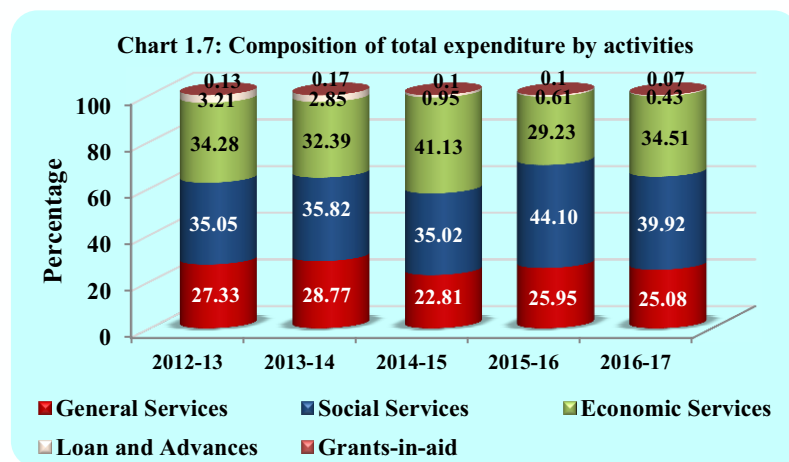
In the context of State finances, the quality of expenditure is always an important issue. During the year 2016-17, revenue expenditure accounted for 88 per cent of the State's aggregate expenditure (₹ 1,31,921 crore), which is in the nature of current consumption, leaving only 12 per cent for investment in infrastructure and asset creation.



Source: Finance Accounts

Capital expenditure (₹ 15,143 crore) during 2016-17 constituted 11 per cent of total expenditure and accounted for 2.16 per cent of GSDP, increased by ₹ 972 crore over the previous year. The expenditure was mainly on Irrigation and Flood Control (₹ 9,996 crore) and Transport (₹ 2,097 crore).

Loans and Advances disbursed (₹ 564 crore) were less than the estimates (₹ 579 crore) made in the Budget for 2016-17 and constituted 0.43 per cent of the total expenditure.



Source: Finance Accounts

The share of expenditure on General and Social services in total expenditure had reduced by 0.87 per cent and 4.18 per cent respectively during the year 2016-17 over the previous year. Meanwhile, there was an increase of 5.28 per cent in expenditure in respect of Economic Services during the year 2016-17 compared to the previous year.

## 1.9.2 Committed Expenditure

Committed expenditure of Government on revenue account consisted mainly of interest payments, expenditure on salaries and wages, pensions and subsidies. During 2016-17, committed expenditure constituted 53 per cent and 78 per cent of revenue expenditure (₹ 1,16,215 crore) and non-plan revenue expenditure (NPRE) (₹ 79,793 crore), respectively. **Table 1.12** and **Chart 1.8** present the expenditure on these components during 2012-17.

**Table 1.12: Components of committed expenditure**

Components of Committed Expenditure	2012-13	2013-14	2014-15	2015-16	2016-17		
					Budget estimates	Actuals	Percentage variation
Salaries *& Wages, of which	30,071(29)	32,858(38)	27,686(24)	27,474(29)	34,910	31,125	-10.84
(i) Non-Plan	28,071	30,568	25,914(23)	25,847(27)	33,777	29,333	-13.16
(ii) Plan**	2,000	2,290	1,772(2)	1,627(2)	1,133	1,792	58.16
Interest payments	11,662	12,911	10,007(9)	9,849(10)	12,258	11,697	-4.58
Pensions	12,089	13,682	9,971(9)	11,238(12)	16,140	12,873	-20.24
Subsidies	10,658	10,420	14,037(12)	6,360(7)	6,239	6,246	0.11
<b>Total</b>	<b>64,480(63)</b>	<b>69,871(63)</b>	<b>61,701(54)</b>	<b>54,921(57)</b>	<b>69,547</b>	<b>61,941</b>	<b>-10.94</b>

Source: Voucher Level Computerisation (VLC) data of O/o Pr.AG (A&E) Andhra Pradesh

Note: Figures in paranthesis indicate percentage to 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 Centrally Sponsored Schemes.

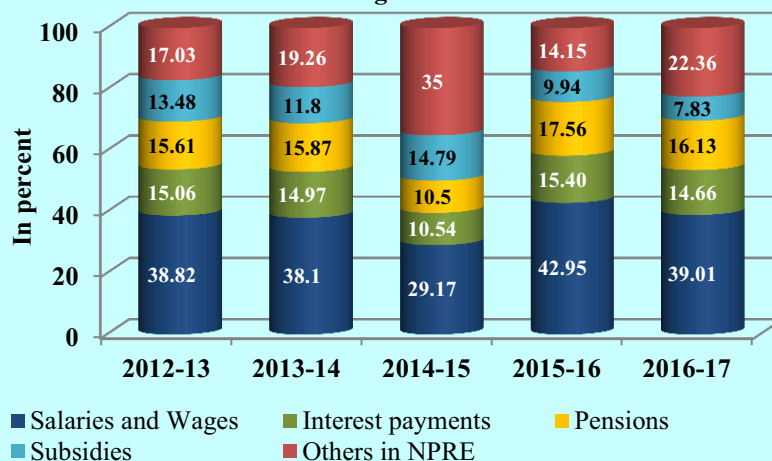


### 1.9.2.1 Salaries and wages

Expenditure on salaries and wages during the current year was less than the budget estimates by 11 per cent and increased by 13 per cent over the previous year.

During 2016-17, expenditure on salary constituted 27 per cent of revenue expenditure.

Chart 1.8: Share of committed expenditure in NPRE during 2012-17



Source: Finance Accounts

### 1.9.2.2 Interest payments

Although, the share of interest payments (₹ 11,697 crore) in revenue expenditure was 10.06 per cent during the current year, there was an increase of ₹ 1,848 crore (18.76 per cent) over the previous year (₹ 9,849 crore). During 2016-17, interest payments as a percentage of total revenue receipts stood at 11.81 per cent, which was less than the projection (12.03 per cent) made by the 14<sup>th</sup> FC. Interest on Market Borrowings (₹ 8,555 crore) and Special Securities issued to National Small Savings Fund (NSSF) of Central Government (₹ 1,534 crore) were the major contributors to interest payments.

### 1.9.2.3 Pensions

The expenditure on pension and other retirement benefits to State Government pensioners during the year was ₹ 12,873 crore, and constituted 13.01 per cent of revenue receipts. During the year 2016-17, the expenditure on pensionary benefits had increased by ₹ 1,635 crore (14.54 per cent) over the previous year (₹ 11,238 crore). Superannuation and Retirement Allowances (₹ 6,534.82 crore) and Family Pensions (₹ 2,332.34 crore) were the major expenditure under this head.

### 1.9.2.4 Subsidies

The total expenditure of ₹ 6,246 crore on subsidies during the year was higher than the projections made in the Budget by 0.11 per cent, while it was less by ₹ 114 crore (1.79 per cent) compared to previous year (2015-16). The major portion of subsidies was given to APTRANSCO towards Agricultural and Allied activities of ₹ 2,750 crore (44.03 per cent) and Civil supplies i.e. subsidy on rice of ₹ 2,352 crore (37.66 per cent). The percentage of subsidies to revenue expenditure was 5.37 per cent. Department-wise subsidies are listed in **Table 1.13**:



**Table 1.13: Department wise Subsidies**

Departments	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Civil Supplies	2,692	3,190	2,118	2,380	2,470
Power	6,178	6,582	10,092	3,186	2,750
Agricultural and other Allied activities	1,528	340	522	633	652
Others <sup>11</sup>	260	308	1,305	161	374
<b>Total subsidy</b>	<b>10,658</b>	<b>10,420</b>	<b>14,037</b>	<b>6,360</b>	<b>6,246</b>
Total Revenue Expenditure	1,02,702	1,10,375	1,14,866	95,950	1,16,215
Subsidy as a % of RE.	10.38	9.44	12.22	6.63	5.37

Source: Finance Accounts

### 1.9.3 Financial Assistance to local bodies and other institutions

The quantum of financial assistance provided by the State Government to Local Bodies and other institutions by way of grants/loans during 2012 to 2017 is given in **Table 1.14**:

**Table 1.14: Financial assistance to Local Bodies etc.**

	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	7,169	7,863	8,054	6,965	7,625
Municipal Corporations and Municipalities	3,468	2,256	4,275	749	4,462
Zilla Parishads and other PR Institutions	2,677	3,862	8,679	3,724	9,352
Development Agencies	12,262	6,484	23,767	14,512	16,042
Hospitals and Other Charitable Institutions	1,195	1,385	1,416	472	2,106
Autonomous Bodies	2,180	2,160	2,493	1,741	2,632
Co-operative Institutions	117	82	79	146	143
Other Institutions <sup>12</sup>	5,752	6,465	8,363	11,385	11,617
<b>Total</b>	<b>34,820</b>	<b>30,557</b>	<b>57,126</b>	<b>39,694</b>	<b>53,979</b>
<b>Assistance as percentage of R.E</b>	<b>33.90</b>	<b>27.68</b>	<b>49.73</b>	<b>41.37</b>	<b>46.45</b>

Source: Finance Accounts

Financial assistance extended to local bodies and other institutions in 2016-17 constituted 46.45 *per cent* of revenue expenditure. The major schemes/recipients of grants during the year were DISCOMS for taking over the liability under UDAY scheme (₹ 8,256.01 crore), Mahatma Gandhi National Rural Employment Guarantee Act (₹ 4,793.68 crore), teaching grants to Zilla Praja Parishads (₹ 4679.78 crore), NTR Pension to old age persons and widows (₹ 3,948.40 crore), Capital infusion to DWACRA Women Groups (₹ 2,105.62 crore) etc.

<sup>11</sup> Industries and Commerce, Minority Welfare, Information Technology & Communication, Panchayat Raj, Social Welfare, Women, Child and Disabled Welfare and Backward Classes Welfare Departments

<sup>12</sup> Other institutions include institutions that received ad-hoc or one time grants during the year

## 1.10 Quality of Expenditure

### 1.10.1 Adequacy of public expenditure

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) for a particular sector, can be inferred if the ratios fall way below the respective National averages. **Table 1.15** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2016-17:

**Table 1.15: Fiscal Priority of the State in 2016-17**

Fiscal Priority by the State	(In per cent)					
	AE/GSDP	DE <sup>#</sup> /AE	SSE/AE	CE/AE	Education/AE	Health/AE
General Category States Average	16.70	70.90	32.20	19.70	15.20	4.80
Andhra Pradesh	18.86	74.80	40.08	11.48	13.16	4.88

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

A comparison of the data related to Andhra Pradesh with that of the General Category States (GCS) in respect of 2016-17 showed the following:

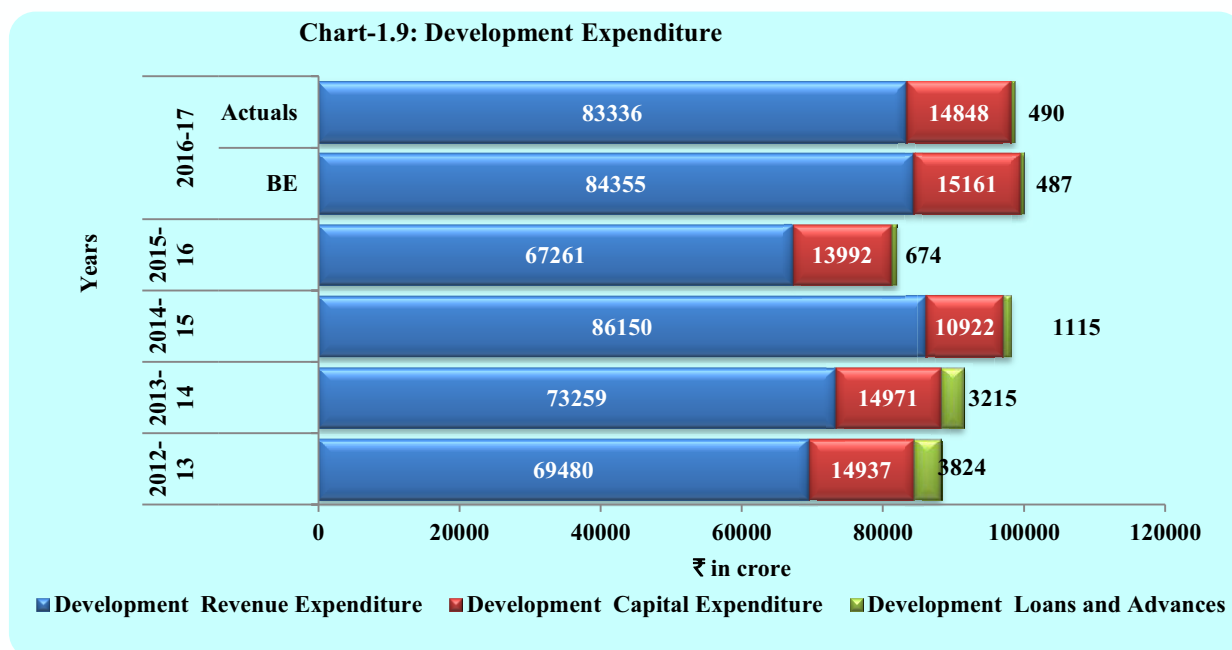
- Development expenditure and expenditure on Social Services as a proportion of aggregate expenditure was higher in the State compared to the GCS average. The share of expenditure on education in the State as a proportion of aggregate expenditure was lower than the corresponding GCS average, while that in respect of health was marginally higher. Thus, the education sector was treated a low priority area affecting human capital formation affecting all other sectors.
- The share of capital expenditure was much lower in the State than the GCS average affecting physical capital formation which affects economic growth in the long run.

### 1.10.2 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 focuses on provisioning of core public and merit goods<sup>13</sup>. Apart from improving the allocation towards development expenditure<sup>14</sup>, 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 incurred on the actual 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 1.9** presents the details of development expenditure:

<sup>13</sup> See glossary

<sup>14</sup> See glossary



Source: Finance Accounts

During 2016-17, the share of social services (₹ 52,659 crore) and economic services (₹ 45,525 crore) constituted 39.92 and 34.51 per cent of total expenditure, respectively. **Table 1.16** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected Social and Economic Services:

**Table 1.16: Efficiency of expenditure use in selected social and economic services**

*(In per cent)*

Social/Economic Infrastructure	2015-16			2016-17		
	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>						
Education	2.27	80.97	0.07	0.83	85.72	0.02
Health and Family Welfare	5.03	50.39	0.22	6.12	45.65	0.10
Water supply, Sanitation, Housing & Urban Development	16.22	18.71	1.45	14.11	18.32	0.08
<b>Total (SS)</b>	<b>4.94</b>	<b>50.96</b>	<b>0.29</b>	<b>4.62</b>	<b>53.54</b>	<b>0.08</b>
<b>Economic Services (ES)</b>						
Agriculture & Allied Activities	1.76	19.42	4.18	1.44	18.38	0.55
Irrigation and Flood Control	93.47	40.67	87.96	94.37	46.79	62.92
Power & Energy	0.55	0.55	0.18	0.03	0.24	0.10
Transport	66.63	2.85	62.05	63.97	3.21	48.77
<b>Total (ES)</b>	<b>35.69</b>	<b>14.76</b>	<b>8.26</b>	<b>27.28</b>	<b>11.56</b>	<b>3.44</b>
<b>Total (SS+ES)</b>	<b>17.19</b>	<b>39.76</b>	<b>2.76</b>	<b>15.12</b>	<b>36.87</b>	<b>1.41</b>

TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operation & Maintenance of respective sector.

Source: Finance Accounts

The percentage of capital expenditure in Social Sector under Education, Health and Family Welfare, Water supply and Sanitation etc., constituted 4.62 *per cent* of the total expenditure. The percentage of capital expenditure in Economic Services constituted 27.28 *per cent* of total expenditure under Agriculture & Allied Activities, Irrigation and Flood Control, Power & Energy and Transport etc. Thus, lesser funds were provided for Social Sector activities.

## 1.11 Financial analysis of Government expenditure and investments

In the post-Fiscal Responsibility Legislation (FRL) framework, the State is expected to keep its fiscal deficit under control. In addition, the State Government is expected to initiate measures to ensure adequate returns on its investments and higher recovery of its loans and advances. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year.

### 1.11.1 Implementation of Ujjwal DISCOM Assurance Yojana (UDAY)

The Ministry of Power, Government of India launched a new Scheme “UDAY” (Ujjwal DISCOM Assurance Yojana) in November 2015 with an objective of improving operational and financial efficiency of DISCOMs. Under this scheme, the State Government shall take over 75 *per cent* of DISCOM debt as on 30 September 2015 over two years – 50 *per cent* shall be taken over in 2015-16 and 25 *per cent* in 2016-17. The remaining 25 *per cent* of debt of DISCOMs should be converted by the banks/Financial Institutions into State guaranteed DISCOM bonds at the prevailing market rates which shall be equal to or less than bank base rate plus 0.1 *per cent*.

The total loans of AP DISCOMS<sup>15</sup> as on 30 September 2015 were ₹ 14,720.40 crore (CAPEX<sup>16</sup> loan – ₹ 3,712.49 crore, Working capital loan – ₹ 8,461.76 crore and Balance of FRP<sup>17</sup> bonds – ₹ 2,546.15 crore)

However, the State Government entered into tripartite MoU with Ministry of Power (GoI) and DISCOMs on 24 June 2016 to take over 75% of the working capital loan (₹ 6,346.32 crore) and 100% of FRP bonds (₹ 2,546.15 crore). This constituted only 60.45 *per cent* of total loans of AP DISCOMs (₹ 14,720.40 crore) as against 75 *per cent* stipulated under UDAY scheme.

State Government released an amount of ₹ 8,256.01 crore for taking over the liability under the UDAY scheme leaving the balance loans to the tune of ₹ 6,464.39<sup>18</sup> crore. Bank/Financial Institutions had not issued any new bonds as stipulated in the UDAY Scheme for the remaining balance loans of DISCOMs.

The debt taken over by the State resulted in increase of Revenue and Fiscal Deficit by ₹ 8,256.01 crore.

<sup>15</sup> APSPDCL – Andhra Pradesh Southern Power Distribution Company Limited and APEPDCL - Andhra Pradesh Eastern Power Distribution Company Limited

<sup>16</sup> Capital Expenditure

<sup>17</sup> Financial Restructuring Programme

<sup>18</sup> ₹ 14,720.40 crore-₹ 8,256.01 crore

### 1.11.2 Comprehensive Financial Management System (CFMS)

Government of Andhra Pradesh had initiated to establish 'Comprehensive Financial Management System (CFMS)' in August 2008 with an objective to:

- (i) improve financial management and discipline;
- (ii) establish an efficient and integrated financial management System;
- (iii) Create a seamless interface with institutional stakeholders and
- (iv) provide efficient and transparent service.

The expected outcomes of CFMS included (i) Streamlined transaction flow; (ii) Single Source of truth; (iii) Smooth interface and (iv) Standardized process.

Work on this project commenced in February 2013. The original target date for launching of CFMS was 15 October 2014. A total amount of ₹ 109.27 crore<sup>19</sup> was incurred on this project to the end of March 2017. However, all the seven modules planned, are still under development (August 2017). Thus, the expected outcomes of CFMS did not materialise as the launching of the programme itself was abnormally delayed.

*Government replied that all the modules (7) proposed under CFMS will be completed as early as possible so as to launch them by March 2018.*

### 1.11.3 Financial Results of Irrigation Projects

The financial results for the years upto 1985-86 in respect of irrigation works costing more than one crore each had been included in the Finance Accounts of 1990-91. State Government has not disclosed<sup>20</sup> financial results of any of its irrigation projects since 1986-87, despite the State having some of the largest Irrigation Projects in the country.

### 1.11.4 Incomplete Projects

Blocking of funds on incomplete projects impinge negatively on the quality of expenditure. As per information provided by the Government, none of the 271 projects which were due for completion by 31 March 2017 had been completed as on that date. The total amount of funds expended on these projects as of 31 March 2017 was ₹ 54,602.30 crore. Further, the original costs of the projects were revised upwards by ₹ 28,036.16 crore (52.06 per cent). Non-completion of these projects within the stipulated period resulted in cost overrun.

The Department-wise position of incomplete projects, each costing above rupees one crore and due for completion as on 31 March 2017 are detailed in **Table 1.17**. The details of major and medium irrigation projects pending completion are given in **Appendix 1.7**.

<sup>19</sup>Expenditure upto previous year (2015-16) - ₹ 48.82crore ; GoAP Investments – ₹ 4.90 crore; Expenditure during 2016-17: ₹ 45.55 crore; and Interest Free Loan – ₹ 10.00 crore

<sup>20</sup>Appendix-VIII (Financial results of Irrigation Schemes) of Finance Accounts

**Table 1.17: Department-wise profile of incomplete projects**

(₹ in crore)

Nature of works	No. of Incomplete Projects	Original cost	Revised cost	Cost overrun	Cumulative Expenditure as on 31-03-2017
<b><i>Irrigation and Command Area Development Department</i></b>					
Major & Medium Irrigation	44	49,107.78	76,511.52	27,403.74	51,568.21
Minor Irrigation	17	95.31	158.59	63.28	86.43
<b><i>Roads and Buildings Department</i></b>					
Roads and Bridges	106	1,570.59	1,788.10	217.51	503.25
<b><i>Others</i></b>					
Andhra Pradesh State Housing Corporation Limited	6	104.02	132.74	28.72	82.31
Public Health and Municipal Engineering Department	8	344.25	358.30	14.05	150.86
Andhra Pradesh Urban Finance and Infrastructure Development Corporation	17	2,429.60	2,725.92	296.32	2,094.17
Andhra Pradesh Medical Services Infrastructure Development Corporation	28	124.83	137.37	12.54	79.84
Andhra Pradesh Education and Welfare Infrastructure Development Corporation	45	76.63	76.63	0	37.23
<b>Grand Total</b>	<b>271</b>	<b>53,853.01</b>	<b>81,889.17</b>	<b>28,036.16</b>	<b>54,602.30</b>

Source: Departmental information

The majority of incomplete works were related to the Irrigation Sector. The reasons for delay as stated by the Departments were mainly i) Land acquisition problems, ii) court cases, iii) sites not handed over by various Depts., iv) change in designs, v) Government's ban on certain works etc.

Government replied that necessary action would be taken.

### 1.11.5 Investment and Return

Government made investments in entities like Government companies, Statutory Corporations, other Joint Stock Companies and Cooperative Banks/Societies etc. As of 31 March 2017, the State Government had invested ₹ 8,975<sup>21</sup> crore in Statutory Corporations (₹ 205.57 crore), Rural Banks (₹ 26.96 crore), Government Companies (₹ 6,623.25 crore), Joint Stock Companies

<sup>21</sup> Out of ₹ 8,975 crore, Investments of ₹ 569.84 crore were made after 02 June 2014 by Government of Andhra Pradesh and ₹ 8,405.14 crore were yet to be apportioned among two successor States.

(₹ 57.70 crore) and Co-operatives (₹ 2,061.50 crore). The status of return on the amount invested in these Corporations/Companies is given in **Table 1.18:**

**Table 1.18: Return on investment**

Investment/Return/Cost of Borrowings	2012-13	2013-14	2014-15	2015-16	2016-17
Investment at the end of the year (₹ in crore)	6,210	6,385	8,455	8,709	8,975
Return (₹ in crore)	64	60	8	9	4
Return ( <i>per cent</i> )	1.03	0.94	0.09	0.10	0.05
Average rate of interest on Government borrowing ( <i>per cent</i> )	7.30	7.20	5.91	6.11	6.31
Difference between interest rate and return ( <i>per cent</i> )	6.27	6.26	5.82	6.01	6.26

Source: Finance Accounts

The Government earned a meagre return of ₹ 4 crore in 2016-17 on its investment of ₹ 8,975 crore in various Corporations/Companies. The average rate of return on investment was negligible at 0.05 *per cent* during 2016-17, far lower than the average rate of interest, the Government paid on its borrowings.

#### **Non-disclosure of Investments:**

Three entities<sup>22</sup> paid dividend to the Government of Andhra Pradesh in 2014-15 and 2015-16 to a tune of ₹ 5.57 crore. However, the corresponding investment particulars in these institutions were not furnished by the Government for those years. Further, the details regarding dividend receipts to an extent of ₹ 3.88 crore for the year 2016-17 were not provided by the State Government. In the absence of these details, audit could not verify the investments and dividend receipts.

*Government replied that the matter would be taken up with the concerned Department (Public Enterprise department).*

### **1.11.6 Loans and Advances by State Government**

In addition to investments in Co-operative Societies, Corporations and Companies, the State Government also provide loans and advances to institutions/organizations like Universities/Academic Institutions, PRIs, ULBs and Urban Development Authorities etc. **Table 1.19** presents the details of outstanding loans and advances during the last five years:

<sup>22</sup> M/s. Streenidhi Credit Co-operative Federation Limited, M/s. Mahindra & Mahindra, M/s. A.P. Oil Seeds Growers Federation Limited



**Table 1.19: Average interest received on loans advanced by State Government**

	(₹ in crore)				
Quantum of Loans/Interest Receipts	2012-13	2013-14	2014-15	2015-16	2016-17
Opening Balance	25,829	29,316	32,430	28,549	<b>28,938</b>
Amount advanced during the year	3,913	3,689	1,210	674	<b>564</b>
Amount recovered during the year	426	575	5,092	285	<b>2,029</b>
Closing Balance	29,316	32,430	28,548	28,938	<b>27,472</b>
<i>Of which, outstanding balance for which terms and conditions have been settled</i>	NA	NA	NA	NA	<b>26,972</b>
Net addition	3,487	3,114	-3,882	389	<b>-1465</b>
Interest Receipts	131	158	54	133	<b>113</b>
Interest receipts as percentage of outstanding loans and advances	0.45	0.49	0.19	0.47	<b>0.41</b>
Interest payments as percentage to outstanding fiscal liabilities of the State Government.	6.90	6.80	6.40	5.67	<b>5.81</b>

Source: Finance Accounts; NA: Not Available

Loans outstanding as of 31 March 2017 amounted to ₹27,472 crore. Water supply, Sanitation, Housing & Urban Development (₹207.18 crore), Transport (₹161.14 crore) and Energy (₹116.43) were the major recipients of loans during the year. Rural Housing (₹1,677.44 crore) and Energy (₹314.86 crore) were the main contributors to the repayment of loans (₹2,029 crore).

Out of the loans disbursed (₹564 crore) during 2016-17, fresh loans and advances of ₹499.74 crore were made to the entities from whom repayments of earlier loans (₹27,910.92 crore) were overdue; among them Housing Department (₹16,650.48 crore) was the major entity to whom the Government had disbursed an amount of ₹132.17 crore during 2016-17. The earliest period to which arrears related was 2002.

At the end of 2016-17, recovery of ₹36,135.42 crore (Principal: ₹26,604.97 crore and Interest: ₹9,530.45 crore) was due from borrowers. As of 31 March 2017, confirmation of balances of loans advanced to the tune of ₹27,069.48 crore was awaited. The earliest loan for which confirmation of balances awaited was related to 1984-85. Housing and Urban Development are the major entities from whom such confirmation of acceptances was awaited as of 31 March 2017 (total outstanding dues ₹17,427.49 crore).

Government had not maintained essential copies related to agreements, moratorium period, rate of interest on loans and confirmation of outstanding dues of loans given to various entities. Further, test check of vouchers relating to loans to APSRTC revealed that a loan of ₹75.00 crore was disbursed by Government during 2016-17 for purchasing buses without defining the terms and conditions viz., period of loan, mode of payment, rate of interest, mode of recovery of both principal and interest, authority to watch the recovery etc. Absence of terms and conditions, agreements etc. indicated lax Government control over the recovery of such loan amounts along with interest.

### 1.11.7 Cash balances and investment of Cash balances

**Table 1.20** depicts the cash balances and investments thereof made by the State Government during the year:

**Table 1.20: Cash Balances and their Investment**

	(₹ in crore)	
	Opening balance on 1/4/2016	Closing balance on 31/3/2017
<b>(a) General Cash Balance</b>		
Cash in Treasuries	---	--
Deposits with Reserve Bank	-419.09	-235.82
Deposits with other Banks	1.34	1.34
Remittances in transit - Local	2.90	2.90
<b>Total</b>	-414.85	-231.58
Investments held in Cash Balance investment account	3,193.28	3,697.92
<b>Total (a)</b>	<b>2,778.43</b>	<b>3,466.34</b>
<b>(b) Other Cash Balances and Investments</b>		
Cash with Departmental officers viz., Public Works Department Officers, Forest Department Officers, District Collectors	0.90	0.90
Permanent advances for contingent expenditure with Departmental officers	1.61	1.62
Investment of Earmarked Funds	5,411.44	6,483.14
<b>Total (b)</b>	<b>5,413.95</b>	<b>6,485.66</b>
<b>Grand total (a)+ (b)</b>	<b>8,192.38</b>	<b>9,952.00</b>

Source: Finance Accounts 2016-17

#### 1.11.7.1 Investment of cash balances in GoI Treasury Bills

While maintaining cash balances, during the year, State Government invested ₹ 43,228.33 crore in GoI Treasury Bills. Bills for an amount of ₹ 43,228.33 crore were purchased and sold to an extent of ₹ 42,723.69 crore, leaving a balance of ₹ 3,697.92 crore at the end of the year and earned ₹ 66.18 crore as interest.

#### 1.11.7.2 Investments out of Earmarked Funds

At the beginning of the year 2016-17, the State Government had an investment of ₹ 5,411.44 crore out of earmarked funds in GoI securities which earned ₹ 510.28 crore as interest, finally holding a balance of ₹ 6,483.14 crore at the end of the year.

#### 1.11.7.3 Maintenance of daily cash balance with RBI

As per an agreement with the RBI, State Government has to maintain a minimum daily cash balance of ₹ 1.94 crore with the Bank. If the balance falls below the agreed minimum on any day, the deficiency is made good by taking ordinary Ways and Means Advances (WMA)/Special Ways and Means Advances (SWMA)/OverDrafts (OD) from time to time. During the year 2016-17, the State Government maintained the minimum daily cash balance with the Bank for 106 days out of 365 days.

Further, as per RBI guidelines, WMA/Special Drawing Facility can be taken by State/Central Government to tide over temporary mismatches in the cash flow of receipts and payments. During the year 2016-17, Government had resorted to WMA, SWMA and OD from the Reserve

Bank of India to the tune of ₹29,154.16 crore for various purposes and to maintain its minimum cash balance (₹1.94 crore) with the RBI on 259 days. Government repaid the entire amount of ₹29,154.16 crore along with an interest of ₹27 crore.

### **1.11.8 Reserve Funds**

Reserve Funds are created for specific and defined purposes under the Public Account of the State Government. These funds are met from contributions or grants from the Consolidated Fund of India or State or from outside agencies. The net accumulated balance in these Funds was ₹2,627.70 crore as on 31 March 2017.

#### **1.11.8.1 Consolidated Sinking Fund**

On the recommendations of the Twelfth Finance Commission, the State Government had revised the guidelines pertaining to the existing Sinking Fund (created in 1999-2000 for amortization of open market loans) with effect from January 2010. Under these revised guidelines, the State Government was required to make annual contributions to the Fund at 0.5 *per cent* of the outstanding liabilities at the end of the previous financial year. In terms of guidelines of the Reserve Bank of India (RBI), which administers the Fund, outstanding liabilities are defined as Internal Debt and Public Account liabilities of the State Government. As on 31 March 2016, the outstanding liabilities apportioned to the Government of Andhra Pradesh were ₹1,73,854 crore. Against the requirement of ₹869.27 crore, the State Government contributed ₹595 crore to the Fund resulting in short contribution to the tune of ₹294.27 crore, during 2016-17.

Government stated that the total contribution during the year 2016-17 was ₹1,054.29 crore which included ₹595 crore through budgetary support and interest of ₹459.29 crore accrued on investments (₹4,820.26 crore) made through Sinking Fund Investment Account.

However, there were no specific provisions regulating Sinking Fund to include the accrued interest to the contribution made. Thus, there was a shortfall in contribution.

#### **1.11.8.2 Guarantee Redemption Fund**

The State Government, in its FRBM Act, had committed to limit the amount of annual incremental guarantees to 90 *per cent* of the total revenue receipts in the year preceding the current year. It constituted (2002-03) the Guarantee Redemption Fund for discharging the guarantees invoked, if any. The outstanding Guarantees as on 01 April 2016 were ₹7,058.53 crore. Against this, the Fund balance to the end of the year was ₹628.42 crore. Government had not contributed any amount to the fund during the year 2016-17.

#### **1.11.8.3 AP Rural Development Fund**

As per Section 7 of AP Rural Development Act, 1996, the Rural Development cess collected in the preceding year should be transferred to AP Rural Development Fund in current financial year by making suitable provision under Major Head 2515. Though an amount of ₹322.36 crore was collected in 2015-16, ₹228.27 crore only was transferred to the fund in 2016-17 resulting in shortfall in transfer of amount to the fund to the extent of ₹94.09 crore. Reasons for shortfall in transfer of funds were not recorded. The balance accumulated in the fund at the end of 31 March 2017 was ₹2,067.56 crore.

#### 1.11.8.4 State Disaster Response Fund

During the year 2016-17, the State Government released their share of ₹ 115.50 crore in addition to the funds received from GoI of ₹ 1,049.22 crore. Against the total available funds, an amount of ₹ 911.33 crore was utilized during the year and the balance amount of ₹ 287.01 crore was kept in Deposits account. However, an amount of ₹ 73.25 crore towards input subsidy relating to drought<sup>23</sup> was not paid till date (March 2017) despite the availability of funds in SDRF.

### 1.12 Assets and Liabilities

#### 1.12.1 Growth and composition of assets and liabilities

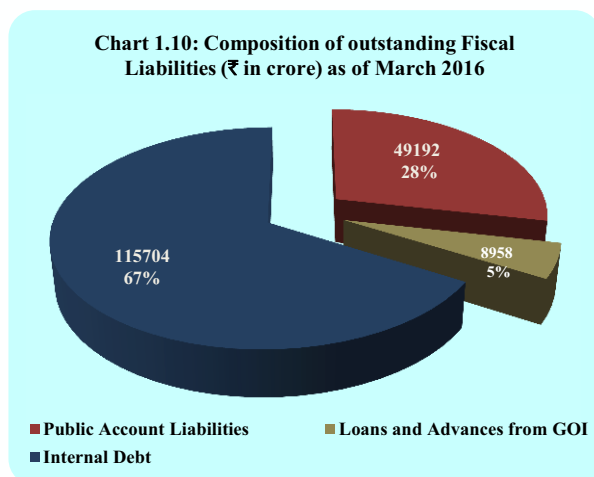
Government accounts reflect the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.8* gives an abstract of such liabilities and the assets as on 31 March 2017, compared with the corresponding position as on 31 March 2016. While liabilities consist mainly of internal borrowings, loans and advances from GoI, balances in the Public Account; assets comprise mainly 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, represent the liabilities under the Consolidated Fund of the State and the Public Account of the State. Besides, there are contingent liabilities in the form of guarantees given by the State Government where the principal and/or interest are to be serviced out of the State budgets.

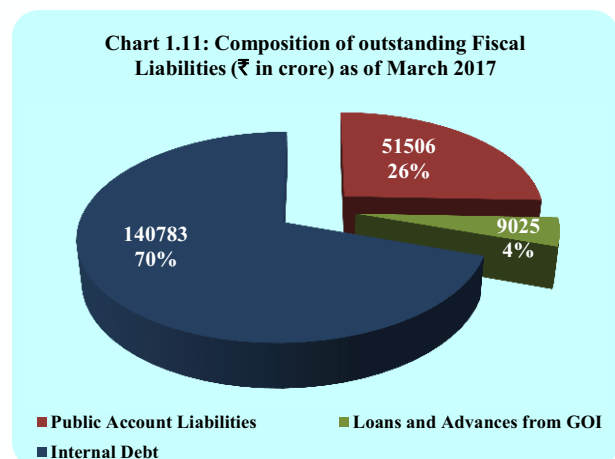
#### 1.12.2 Fiscal liabilities

The trends in outstanding fiscal liabilities of the State are presented in *Appendix 1.6 (part D)*. The total fiscal liabilities of the State at the end of 2016-17 were ₹ 2,01,314 crore and stood at 2.03 times of revenue receipts and 28.79 per cent of GSDP.

The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Charts 1.10 and 1.11**:



Source: Finance Accounts 2015-16



Source: Finance Accounts 2016-17

- **Internal Debt:** During the year the Government borrowed ₹ 59,109 crore from Market Loans, Financial Institutions and Ways and Means Advances/Overdraft from

<sup>23</sup> Kharif 2014

RBI and repaid ₹ 34,030 crore leaving a balance of ₹ 1,40,783 crore.

- **Loans and Advances from GoI:** Government had taken loans and advances to the tune of ₹ 814 crore from GoI during the year 2016-17 and repaid ₹ 747 crore, leaving a balance of ₹ 9,025 crore.
- **Public Account Liabilities:** In addition to the Public Debt, the balances under Small Savings, Provident Funds, Reserve Funds, Deposits also form part of liabilities of the Government. During the year, Government utilized ₹ 62,851 crore from these balances and repaid ₹ 56,140 crore, leaving a balance of ₹ 51,506 crore.

### 1.12.3 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. The maximum amount for which guarantees were given by the State and outstanding guarantees for the last five years are given in **Table 1.21**.

**Table 1.21: Guarantees given by the Government of Andhra Pradesh**

Guarantees	₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Maximum amount guaranteed	38,084	55,536	11,323	10,623	16,576
Outstanding amount of guarantees	14,857	31,153	10,675	7,059	9,665
Percentage of maximum amount guaranteed to total revenue receipts	36.68	50.16	12.49	11.98	<b>16.75</b>

Source: Finance Accounts

The outstanding guarantees at the beginning of the year 2016-17 totalled ₹ 7,058.53 crore, which increased to ₹ 9,664.94 crore by the end of the year.

As per guidelines<sup>24</sup> issued by State Government, guarantees can be given after evaluating the fiscal risk on Consolidated Fund, i.e., after ensuring the capacity of the Commercial Undertakings/Entities etc. for repayment of loans/bonds etc. Guarantee commission shall be charged at ½ per cent per annum or 2 per cent consolidated for the entire guarantee period.

Test check of records relating to guarantees given by the State Government revealed that conditions on rate at which the Guarantee Commission was payable, type of guarantee extended, time period etc., were not fixed on guarantees of ₹ 2,658.30 crore given to five<sup>25</sup> entities during 2016-17. In the absence of terms and conditions, the Government lost the revenue of ₹ 13.29 crore (minimum value) due to non-realisation of Guarantee Commission from the entities. Further, these guarantees were not revealed by the Government in the Budget document for 2017-18.

### 1.12.4 Off-Budget Borrowings

In addition to the liabilities shown in **Appendix 1.8**, the State Government extended guarantees in respect of loans availed of by Government Companies/Corporations. These

<sup>24</sup> GO Ms No.446 of Finance (DMC) Department dated 29 September 2003.

<sup>25</sup> AP State Ware Housing Corporation – ₹ 308.30 crore; AP Backward Classes Finance and Development Corporation – ₹ 150.00 crore; AP Industrial Infrastructure Development Corporation (APIIC) – ₹ 2,000.00 crore and Visakhapatnam Municipal Corporation and Tirupathi Municipal Corporation – ₹ 200 crore.

Companies/Corporations borrowed funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. The State Government projected that funds for these programmes would be met out of the Company or the Corporation's budget. However, in reality, the borrowings of many of these concerns ultimately turned out to be liabilities of the State Government and hence, constituted off-budget borrowings.

As of 31 March 2017, the total outstanding off-budget borrowings of the State were ₹5,403 crore (APPFC: ₹5,053 crore, APTRANSCO: ₹350 crore), raised by Government Companies/Corporations.

### **Under Statement of liabilities**

As per clause (3) of Rule 10 of FRBM Act 2005 as amended from time to time, whenever the State Government undertakes to repay the principal and interest amounts unconditionally and substantially through budgetary support, it has to reflect such liability as the borrowings of the State. The State Government agreed to pay the amount of ₹4,859.31 crore towards loans taken by four entities<sup>26</sup> through budgetary support during the year 2016-17, the same was not reflected as liabilities of State Government. Therefore, the liabilities of the State Government were understated. Instead, ₹1,054 crore only was shown as guarantees given by the Government.

The total liabilities of the State comprising fiscal liabilities (₹2,01,314 crore), off-budget borrowings (₹11,867 crore) and outstanding guarantees (₹9,665 crore) at the end of March 2017 were ₹2,22,845 crore. The total liabilities, as a ratio of GSDP, stood at 31.87 per cent, for the year 2016-17.

*Government replied that the borrowings made by Corporations would not be counted as the liabilities of the State to arrive at the ratio of liabilities to GSDP. Reply is not acceptable in view of clear provisions stated under FRBM Act.*

## **1.13 Debt Management**

### **1.13.1 Debt Sustainability**

The debt sustainability is defined as the ability of the State to service its debt in future. Sustainability of debt therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt.

Apart from the magnitude of the debt of the Government, it is important to analyse the various indicators that determine the debt Sustainability<sup>27</sup> of the State. This section assesses (i) the sustainability of debt of the State Government in terms of net debt available<sup>28</sup>, (ii) burden of interest payments on public debt<sup>29</sup> and (iii) maturity profile of State Government securities.

<sup>26</sup> 1. Bhogapuram International AirPort ₹854 crore; 2. Dagadarthi and Orvakallu Air Port: ₹200 crore; 3. APTSIDCO ₹1801.60 crore and 4. AP Housing Corporation Limited 2003.71 crore.

<sup>27</sup> See glossary

<sup>28</sup> See glossary

<sup>29</sup> Measured by the ratio of interest payments on public debt to Revenue Receipts



**Table 1.22** analyses the debt sustainability of the State during the five-year period 2012-17:

**Table 1.22: Debt sustainability: Indicators during 2012-17**

Indicators of Debt* Sustainability	2012-13	2013-14	2014-15	2015-16	2016-17
Outstanding Debt (₹ in crore)	1,38,737	1,56,743	1,09,425	1,24,662	1,49,808
Rate of growth of Outstanding Debt	12.70	12.98	(-30.19)	13.92	20.17
GSDP (₹ in crore)	4,11,404	4,64,272	5,26,468	6,09,934	6,99,307
Rate of growth of GSDP	8.43	12.85	13.40	15.85	14.65
Debt/GSDP ratio	33.72	33.76	20.78	20.43	21.42
Average interest rate of outstanding debt	8.91	8.74	7.52	8.41	8.52
Interest Payment <sup>#</sup> /Revenue Receipts	0.11	0.12	0.11	0.11	0.12
Debt Repayment/Tax Revenue	0.13	0.11	0.14	0.15	0.13
Debt Repayment/Debt Receipts	0.33	0.29	0.33	0.72	0.58
Net Debt available to State <sup>^</sup> (₹ in crore)	15,634	18,006	22,161	15,236	25,146

Source: Finance Accounts

\*Debt Indicates Public Debt (Internal Debt and Loans from GoI)

# Interest indicates interest paid by the State on Public Debt

<sup>^</sup> Excess of Public Debt receipt and Loans & Advances receipt over Public Debt repayment, Loans & Advances disbursement and Interest payment on Public Debt

The net debt available to the State was positive, indicating the availability of borrowed funds for purposes other than debt repayment.

Net increase in Public debt from previous year was ₹ 25,146 crore (20.17 per cent). During the year 2016-17, Government borrowed ₹ 20,783 crore through Market Loans; ₹ 29,154 crore towards Ways and Mean Advances from RBI; ₹ 915 crore from Financial Institutions; and ₹ 814 crore from GoI. Apart from these loans, Government had taken over the liabilities of DISCOMs under UDAY through issuing Bonds to an extent of ₹ 8,256 crore.

Loans to an extent of ₹ 5,623 crore<sup>30</sup> only were repaid during the year 2016-17, against the outstanding debt of ₹ 1,24,662 crore as on 01 April 2016, which is lower than the amount repaid during the previous year 2015-16 (₹ 6,838 crore<sup>31</sup>). No balance was kept pending towards Ways and Means Advances by the end of 2016-17.

While the rate of growth of GSDP (14.65 per cent) during the year 2016-17 showed downturn from previous year (15.85 per cent), the rate of growth of outstanding debt increased by 6.25 per cent. Outstanding debt GSDP ratio increased to 21.42 from previous year (20.43) due to higher receipts and lower repayment of public debt. Debt repayment as a percentage of Debt Receipt showed a decreasing trend during the year 2016-17. The ratio of Debt Repayment to Tax revenue declined marginally from 0.15 in 2015-16 to 0.13 in 2016-17 owing to less repayment of debt during the year. All these indicators are showing that the Government is highly depending on debt receipts rather than own resources of revenue.

Hence, the State Government needs to boost the resource mobilization efforts to ensure prudent financial position instead of depending on debt receipts.

<sup>30</sup> Excluding ₹ 29,154 crore towards Ways and Means Advances

<sup>31</sup> Excluding ₹ 32,603 crore towards Ways and Means Advances



### 1.13.2 Debt Profile

As per Annexure to Statement 17 of the Finance Accounts for the year 2016-17, the maturity profile of the State debt is as indicated in **Table 1.23**:

**Table 1.23: Maturity Profile of State Debt**  
(₹ in crore)

Maturity profile	Amount	Percentage
0 – 1 year	6,161	4.10
1 – 3 years	20,097	13.38
3 – 5 years	22,232	14.80
5 – 7 years	28,398	18.90
7 years and above	73,333	48.82
<b>Total</b>	<b>1,50,221</b>	<b>100.00</b>

Source: Finance Accounts 2016-17

The maturity profile of Debt as on 31 March 2017 indicated that State had to repay more than 50 *per cent* of debt within the next 7 years. It further indicated that the liability of the State to repay the debt would be ₹ 21,120 crore during 2019-21 and ₹ 26,192 crore during 2021-23, which might put a strain on the Government budgets during that period. A well thought out debt repayment strategy would have to be worked out by the Government to obviate additional borrowings in these critical years.

### 1.14 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 fiscal health. This section presents the 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 2016-17.

#### 1.14.1 Indicators of fiscal imbalances

The revenue and fiscal deficits for the year 2016-17 was ₹ 17,231 crore and ₹ 30,908 crore, respectively. The Primary Deficit was ₹ 19,211 crore.

- **Revenue Deficit:** Revenue Deficit represents the difference between revenue receipts and revenue expenditure. The Revenue Deficit for the year 2016-17 was ₹ 17,231 crore and stood at 2.46 *per cent* to GSDP.
- **Fiscal Deficit:** Fiscal Deficit is the excess of actual expenditure over non-debt receipts. The Fiscal Deficit for the year was ₹ 30,908 crore and stood at 4.42 *per cent* to GSDP.
- **Primary Deficit:** Primary Deficit is measured by subtracting the Interest Payments from the Fiscal Deficit. It is a measure of the current year's fiscal operation after excluding the liability of Interest Payment created due to borrowings undertaken in the past. The Primary Deficit for the year was ₹ 19,211 crore and stood at 2.75 *per cent* to GSDP.

### 1.14.2 Components of fiscal deficit and its financing pattern

The decomposition and financing of fiscal deficit are shown in **Table 1.24**:

**Table 1.24: Components of fiscal deficit and their financing pattern**

(₹ in crore)

Sl.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17		
						Receipts	Disbursements	Net
A	<b>Components of Fiscal Deficit (1 to 4)</b>	<b>-17,508</b>	<b>-18,041</b>	<b>-31,717</b>	<b>-22,057</b>	<b>1,01,014</b>	<b>1,31,922</b>	<b>-30,908*</b>
1	Revenue deficit	1,128	344	-24,194	-7302	98,984	1,16,215	-17,231*
2	Capital Expenditure	-15,149	-15,271	-11,405	-14,171	0	15,143	-15,143
3	Net Loans and Advances	-3,487	-3,114	3,882	-389	2,029	564	1,465
4	Net Inter-state settlement	0	0	0	-195	1	0	1
B	<b>Financing Pattern of Fiscal Deficit</b>							
1	<b>Net Borrowings from Consolidated Fund</b>	<b>15,635</b>	<b>18,006</b>	<b>22,161</b>	<b>15,236</b>	<b>59,923</b>	<b>34,777</b>	<b>25,146</b>
a	Market Borrowings <sup>#</sup>	15,598	17,892	22,719	15,779	59,109	34,030	25,079
b	Loans from GoI	37	114	-588	-543	814	747	67
2	<b>Net Public Account</b>	<b>910</b>	<b>505</b>	<b>9,007</b>	<b>6,988</b>	<b>1,41,736</b>	<b>1,35,790</b>	<b>5,945</b>
a	Small Savings, PF etc.	1,190	1,072	1,304	1,253	3,541	1,653	1,888
b	Reserve Funds	82	379	-296	49	2,779	2,555	224
c	Deposits and Advances	1,666	1,195	5,348	8,572	56,571	51,974	4,597
d	Suspense and Misc.	-1,347	-2,193	4,011	-3,322	62,433	63,036	-603
e	Remittances	-681	52	-1,360	436	16,411	16,572	-161
3	<b>Contingency Fund</b>	<b>-2</b>	<b>-1</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
4	<b>Accretion to Cash Balance</b>	<b>965</b>	<b>-469</b>	<b>546</b>	<b>-166</b>	<b>-415</b>	<b>-232</b>	<b>-183</b>

Source: Finance Accounts. \*Includes borrowings from other Institutions and Ways and Means Advances. \* Includes an amount of ₹ 8,256 crore expended towards implementation of UDAY scheme

During the year 2016-17, Fiscal Deficit increased by ₹ 8,851<sup>32</sup> crore compared to previous year and the Revenue Deficit increased by ₹ 9,929<sup>32</sup> crore over the previous year. This showed that the expenditure of the State Government increased on day to day activities rather than on creation of Capital Assets.

It was also noticed that, there was increase in revenue expenditure instead of Capital Expenditure though the transfers on the basis of recommendations of the 14<sup>th</sup> Finance Commission increased to the tune of ₹ 4,370 crore during 2016-17.

Fiscal Deficit accounted for 48.99 per cent of Capital Expenditure, 26.71 per cent towards implementation of UDAY scheme and 29.04 per cent of Revenue Expenditure. While market borrowings financed 81.14 per cent of the fiscal deficit.

For the year 2016-17, the fiscal deficit of ₹ 30,908 crore included an amount of ₹ 8,256 crore expended towards implementation of UDAY scheme and stood at 4.42 per cent to GSDP.

Audit observed that as per the orders of Finance Department, a loan of ₹ 1,670 crore was repaid by AP Housing Corporation on the last day of the financial year 2016-17 from their PD account. This brought the Fiscal Deficit of ₹ 22,652<sup>33</sup> crore (excluding expenditure towards UDAY scheme) for the year 2016-17 at 3.24 per cent to GSDP and within the limit prescribed (3.25 per cent) by the 14<sup>th</sup> Finance Commission. However, the same amount was credited back to the

<sup>32</sup> Including an amount of ₹ 8,256 crore expended towards implementation of UDAY scheme

<sup>33</sup> ₹ 30,908 crore (Fiscal Deficit) - ₹ 8,256 crore (UDAY Scheme)

account of Corporation immediately (on 18 April 2017) by the Government of Andhra Pradesh indicating unsound financial management.

### 1.14.3 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit<sup>34</sup> and capital outlay (including loans and advances) indicate the quality of deficit in the State finances. The bifurcation of primary deficit (**Table 1.25**) into primary revenue deficit and capital outlay indicates the extent to which the deficit has been applied to augment asset creation in the State.

**Table 1.25: Primary deficit/surplus – bifurcation of factors**

Year	Primary revenue deficit(-)/surplus(+)	Capital Outlay	Loans and Advances	Primary deficit(-)/surplus(+)	(₹ in crore)
					Primary revenue surplus/Capital Outlay (%)
2012-13	13,216	15,149	3,913	(-)5,846	86.65
2013-14	13,830	15,280	3,689	(-)5,130	90.51
2014-15	(-)9,095	11,405	1,210	(-)21,710	(-)79.75
2015-16	2,832	14,171	674	(-)12,208	19.98
2016-17	(-)3,505	15,143	564	(-)19,211	(-)23.15

Source: Finance Accounts

During the year 2016-17, the non-debt receipts of the State (₹ 1,01,013 crore) were not adequate even to meet the primary revenue expenditure (₹ 1,04,518 crore) of the year, resulting in Primary Revenue Deficit of ₹ 3,505 crore. Hence, the state Government could not allocate any revenue receipts for Capital Outlay.

### 1.15 Apportionment of balances between Andhra Pradesh and Telangana

As per Andhra Pradesh State Re-organization Act, 2014, the balances under Cumulative Capital expenditure, Loans and Advances, Public Debt and the balances under Public Account are to be apportioned between Andhra Pradesh and Telangana States. The balances apportioned and un-apportioned as on 31 March 2017 are given in **Appendix 1.9**.

### 1.16 Significant Findings

*Capital expenditure (₹ 15,143 crore) was less than the Budget estimates (₹ 15,388 crore). Its ratio to total expenditure stood at 11.48 per cent which was much lower than the combined average (19.70 per cent) of General Category States.*

*Devolution to the State was enhanced to the tune of ₹ 4,370 crore during 2016-17 on the basis of 14<sup>th</sup> Finance Commission recommendations. Audit noted that additional devolution led to increase in Revenue expenditure and not on Capital formation.*

*The Government earned a meagre return of ₹ 4 crore in 2016-17 on its investment of ₹ 8,975 crore in various Corporations/Companies. The average rate of return on investment was negligible at 0.05 per cent during 2016-17.*

<sup>34</sup> See Glossary

*The maturity profile of Debt as on 31 March 2017 indicated that State would have to repay more than 50 per cent of debt amounting to ₹ 76,888 crore within the next seven years which might put strain on the Government budgets during that period.*

*The ratio of Debt Repayment to Tax revenue declined marginally from 0.15 in 2015-16 to 0.13 in 2016-17.*

*State Government released an amount of ₹ 8,256.01 crore for taking over the liability under the UDAY scheme leaving the balance loans to the tune of ₹ 6,464.39 crore. Bank/Financial Institutions had not issued any new bonds as stipulated in the UDAY Scheme for the remaining balance loans of DISCOMs.*

*State Government in its Macro Economic Framework Statement (MEFS) targeted to reduce Fiscal Deficit to 3 per cent of Gross State Domestic Product (GSDP) as against 3.25 per cent, as applicable to certain states, recommended by the 14<sup>th</sup> FC. However, the fiscal deficit (₹ 30,908 crore) at 4.42 per cent of GSDP was still more than the prescribed limit.*

*During the year 2016-17, a loan of ₹ 1,670 crore was repaid by AP Housing Corporation to the State Government on the last day of the financial year. This brought the fiscal deficit to GSDP ratio within the limit prescribed (3.25 per cent) by the 14<sup>th</sup> Finance Commission at the end of the year i.e., on 31 March 2017. However, the same amount was credited back to the account of Corporation immediately (on 18 April 2017) by the Government of Andhra Pradesh.*

*Revenue expenditure (₹ 1,16,215 crore) at 16.62 per cent of Gross State Domestic Product (GSDP) was more than the Budget estimates (₹ 1,14,168 crore). During the year 2016-17, 85.17 per cent of the revenue expenditure was met from revenue receipts and the balance was financed from borrowed funds, thus registering a revenue deficit of ₹ 17,231 crore. This is fraught with the risk of progressive weakening of State finances over a period of time.*

*The State of Andhra Pradesh is yet to amend its Fiscal Responsibility and Budgetary Management (FRBM) Act, 2005 as per the recommendations of 14<sup>th</sup> Finance Commission (FC) for the period 2015-20.*