

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

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1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (*Appendix 1.1-Part A*). The Finance Accounts of the Government of Andhra Pradesh are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State of Andhra Pradesh. The lay out of the Finance Accounts is depicted in *Appendix 1.1-Part B*.

1.1.1 Summary of Receipts and Disbursements

Table-1.1 summarizes the finances of the Government of Andhra Pradesh for the year 2006-07 covering revenue receipts and expenditure, capital receipts and expenditure and Public Account receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table 1.1: SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2006-07

(Rupees in crore)

2005-06	Receipts	2006-07	2005-06	Disbursements	2006-07		
Section-A: Revenue					Non-Plan	Plan	Total
34851.19	I. Revenue Receipts	44245.47	35237.03	I. Revenue Expenditure	31919.69	9518.71	41438.40
19207.40	Tax revenue	23926.20	13492.04	General Services	15197.17	116.80	15313.97
4691.37	Non-tax revenue	6487.83	12158.79	Social Services	9208.45	6160.88	15369.33
6950.86	Share of Union Taxes/ Duties	8866.00	9360.80	Economic Services	7269.24	3241.03	10510.27
4001.56	Grants from Government of India	4965.44	225.40	Grants-in-aid / Contributions	244.83	---	244.83
Section-B: Capital							
-	II. Miscellaneous Capital Receipts	1889.32	7339.95	II. Capital Outlay	(-) 4.89	9908.89	9904.00
182.43	III. Recoveries of Loans and Advances	471.33	756.49	III. Loans and Advances disbursed	723.14	183.55	906.69
3970.72	IV. Public Debt receipts*	4550.22	5294.74	IV. Repayment of Public Debt			4252.72
0.03	V. Contingency Fund	0.85	0.79	V. Contingency Fund			0.33
41365.80	VI. Public Account receipts	51059.57	31421.49	VI. Public Account disbursements			44215.88
3087.93	Opening Cash Balance	3407.61	3407.61	Closing Cash Balance			4906.35
83458.10	Total	105624.37	83458.10	Total			105624.37

*Excluding Ways and Means Advances and Overdraft

Following are the significant changes during 2006-07 over the previous year:

- Revenue receipts grew by Rs 9394 crore over the previous year. The increase was mainly contributed by tax revenue (Rs 4719 crore), Non-tax revenue (Rs 1796 crore), and State's share of Union Taxes and Duties (Rs 1915 crore).
- Revenue expenditure and Capital expenditure increased by Rs 6201 crore and Rs 2564 crore respectively over the previous year.

- Receipts of Rs 1889 crore on account of sale of land and buildings were classified under Miscellaneous capital receipts instead of under revenue receipts as per the accounting norms, as a result of which revenue receipts and in turn revenue surplus were understated to that extent.
- Sharp increase in recovery of loans and advances were reported during current year (Rs 471 crore) compared to the previous year (Rs 182 crore). This was mainly due to recovery of Rs 316 crore from Housing partly offset by fall in recovery of loans (Rs 41 crore) from Power projects.
- Public Debt receipts increased by Rs 579 crore over previous year mainly due to increase in Market Loans by Rs 769 crore. However, borrowings from Central Government decreased by Rs 208 crore.
- Public Account disbursements increased by Rs 12795 crore over previous year.
- Cash balance of the State increased by Rs 1499 crore over previous year.

1.1.2 State Fiscal Position by Key Indicators

The fiscal position of the State Government as reflected by the key fiscal indicators during the current year as compared to the previous year is given in Table 1.2.

Table 1.2

(Rupees in crore)

2005-06	S. No.	Major Aggregates	2006-07
34851	1.	Revenue Receipts (2+3+4)	44245
19207	2.	Tax Revenue (Net)	23926
4691	3.	Non-Tax Revenue	6488
10953	4.	Other Receipts	13831
182	5.	Non-Debt Capital Receipts	2361
182	6.	<i>Of Which</i> Recovery of Loans	471
35033	7.	Total Receipts (1+5)	46606
28830	8.	Non-Plan Expenditure (9+11+12)	32638
28432	9.	On Revenue Account	31920
7008	10.	<i>Of which</i> Interest Payments	7280
(-) 38	11.	On Capital Account	(-) 5
436	12.	On Loans disbursed	723
14503	13.	Plan Expenditure (14+15+16)	19611
6805	14.	On Revenue Account	9519
7378	15.	On Capital Account	9909
320	16.	On Loans disbursed	183
43333	17.	Total Expenditure (13+8)	52249
386	18.	Revenue Deficit (-)/ Surplus (+) (9+14-1)	(+) 2807
8300	19.	Fiscal Deficit(-)/ Surplus (+) (1+5-17)	(-) 5644
1292	20.	Primary Deficit (-)/ Surplus (+) {(1+5) – (17+10)}	(+) 1636

During the current year revenue receipts increased by 27 per cent, revenue expenditure increased by 18 per cent over the previous year. The capital expenditure increased by 35 per cent and fiscal deficit decreased by Rs 2656 crore over previous year. The State finances have shown revenue surplus and primary surplus during the current year indicating a reversal of the trend of past several years.

1.2 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts were analyzed wherever necessary over a period of last five years and observations have been made on their behavior. In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact the Fiscal Responsibility Act (FR Act) and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of the State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their FR Acts and in other Statements required to be laid in the Legislature under the Act were used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP)¹ is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc, with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates have also been affected by factors other than GSDP. The new GSDP series 1993-94 as base (Table 1.3) as published by the Directorate of Economics and Statistics of the State Government have been used in estimating these percentages and buoyancy ratios.

The key fiscal aggregates for the purpose have been grouped under four major heads: (i) Resources by Volume and Sources, (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of Deficits (*Appendix 1.2 to 1.6*). The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in *Appendix 1.1 Part C*.

Table - 1.3: Trends in Growth and Composition of GSDP

Estimates	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Gross State Domestic Product (GSDP)	157149	168143	190881	208149	232331	260734
Rates of Growth of GSDP (<i>per cent</i>)	8.31	7.00	13.52	9.05	11.62	12.23

Source: Directorate of Economics and Statistics, Government of Andhra Pradesh

¹ GSDP is defined as the total income of the State or the market value of goods and services produced using labour and all other factors of production

1.2.1 The Fiscal Responsibility and Budget Management (FRBM) Act, 2005

The State Government has enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 to ensure prudence in fiscal management and to maintain fiscal stability in the State. To improve the fiscal position and to bring fiscal stability, the Act envisages progressive elimination of revenue deficit, reduction in fiscal deficit and prudent debt management consistent with fiscal sustainability. To ensure fiscal prudence, the Act also provides for greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and matters connected therewith or thereto. To give effect to the fiscal management principles as laid down in the Act, and/or the rules framed thereunder prescribed the following fiscal targets for the State Government:

- reduce revenue deficit by an amount equivalent to at least 0.32 percentage point of Gross State Domestic Product (GSDP) in each financial year, beginning from 1st day of April 2005, so as to eliminate it by 31st March 2009 and generate revenue surplus thereafter
- reduce fiscal deficit by an amount equivalent to at least 0.25 percentage point of GSDP in each financial year beginning from 1st day of April 2005 so as to bring it down to not more than 3 *per cent* by the year ending March 2009
- ensure within a period of five years, beginning from the initial financial year on the 1st day of April 2005 and ending on the 31st day of March 2010 that the outstanding total liabilities do not exceed 35 *per cent* of the estimated GSDP for that year
- limit the amount of annual incremental risk weighted guarantees to 90 *per cent* of the total revenue receipt in the year preceding the current year.

It was also stated that revenue deficit and fiscal deficit may exceed the limits specified in the Act due to ground(s) of unforeseen demands on the finances of the State Government arising out of internal disturbances or natural calamities or such other exceptional grounds as the State Government may specify.

1.2.1.1 Fiscal Policy Statement(s) 2006-07

As prescribed in the Act, the State Government has laid the following statement(s) of fiscal policy along with the budget, before the legislature during 2006-07:

- Macro Economic Framework Statement giving an overview of State economy.
- Medium Term Fiscal Policy Statement prescribing fiscal targets and assumptions for achieving them.
- Fiscal Policy of the State for the ensuing year relating to taxation, expenditure, borrowings etc.

- Statement on the number of employees in Government, Public Sector Undertakings and Aided institutions and expenditure of State Government towards salaries and pensions.

1.2.1.2 Roadmap to Achieve the Fiscal Targets as laid down in FRBM Act/Rules

The State Government has developed its own Fiscal Correction Path indicating the milestones of outcome indicators with target dates of implementation during the period from 2004-05 to 2009-10 (*Appendix I.2*) keeping in view the fiscal targets laid down in the FRBM Act and/or the rules made thereunder and the anticipated annual rate of reduction of fiscal deficit of the States worked out by the Government of India for the Twelfth Finance Commission (TFC) award.

The State achieved Fiscal target laid down in the Act two years ahead, with the current year ending in Revenue surplus of Rs 2807 crore. Fiscal deficit of Rs 5644 crore was 2.16 *per cent* of GSDP. The guarantees given were well within the limit prescribed in the Act. As a result the State Government received debt relief of Rs 1186.31 crore from Government of India under Debt Consolidation and Relief Facility².

1.2.1.3 Mid-Term Review of Fiscal Situation

As per the half yearly review report placed before State Legislature in compliance with Sec 11(1) of AP Fiscal Responsibility and Budget Management Act, 2005, the Revenue collection to end of September 2006 was below the target while the revenue and capital expenditure were kept within the targeted levels. However due to constant efforts made to correct fiscal imbalance, the revenues realised to end of March 2007 exceeded the targets projected in the Fiscal Correction Path and also Budgeted amount. The revenue expenditure exceeded the targets projected in Fiscal correction path but was well within the Budget estimates.

1.3 Trends and Composition of Aggregate Receipts

The aggregate receipts of State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as

² In pursuance of the recommendations of the Twelfth Finance Commission (TFC) for fiscal consolidation and elimination of revenue deficit of the States, Government of India formulated a scheme “**The States’ Debt Consolidation and Relief Facility (DCRF) (2005-06 to 2009-10)**” under which general debt relief is provided by consolidating and rescheduling at substantially reduced rates of interest the Central loans granted to States on enacting the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficits of States

accruals from Public Account. Table-1.4 shows that the total receipts of the State Government for the year 2006-07 were Rs102217 crore. Of these, the revenue receipts were Rs 44245 crore, constituting 43 *per cent* of total receipts. The balance came from capital receipts, borrowings, receipts from Contingency Fund and Public Account (*Appendix 1.6*).

Table 1.4: Trends in Growth and Composition of Aggregate Receipts

(Rupees in crore)

Sources of State's Receipts	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
I Revenue Receipts	21845	23003	26869	28750	34851	44245
II Capital Receipts	8287	8262	11883	11206	4153	6911
Recovery of Loans and Advances	947	460	1256	1373	182	472*
Public Debt Receipts	7340	7802	10627	9833	3971	4550
Miscellaneous Capital Receipts	--	--	--	--	--	1889
III Contingency Fund	1	3	--	23	--	1
IV Public Account Receipts	21777	25646	30495	39439	41366	51060
a. Small Savings, Provident Fund, etc.	2224	4264	3473	7560	5952	5934
b. Reserve Fund	420	602	857	728	823	1023
c. Deposits and Advances	9409	9514	11823	14071	17067	22824
d. Suspense and Miscellaneous	5240	6186	9134	10458	8554	9594
e. Remittances	4484	5080	5208	6622	8970	11685
Total Receipts	51910	56914	69247	79418	80370	102217

*higher rounding adopted

The revenue and capital receipts constituted 43 and 57 *per cent* of total receipts respectively. An amount of Rs 1889.32 crore realized on sale of land and property was misclassified under capital receipt. This had the effect of increasing capital receipt and decreasing revenue receipt and consequently revenue surplus to that effect. The total receipts of the State increased from Rs 51910 crore in 2001-02 to Rs 102217 crore in 2006-07. The Debt capital receipts which create future repayment obligation decreased from Rs 7340 crore in 2001-02 to Rs 4550 crore in 2006-07. The recovery of loans and advances has improved by Rs 290 crore over previous year.

1.3.1 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. Overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and its buoyancy are indicated in Table-1.5.

Table-1.5: Revenue Receipts - Basic Parameters

(Value in crore of Rupees)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Receipts (RR)	21845	23003	26869	28750	34851	44245
Own Taxes (<i>per cent</i>)	11551 (52.9)	12618 (54.9)	13806 (51.4)	16254 (56.5)	19207 (55.1)	23926 (54.1)
Non-Tax Revenue (<i>per cent</i>)	2918 (13.4)	3529 (15.3)	3605 (13.4)	3756 (13.1)	4691 (13.5)	6488 (14.7)
Central tax Transfers (<i>per cent</i>)	4061 (18.6)	4316 (18.8)	5069 (18.9)	6059 (21.1)	6951 (19.9)	8866 (20.0)
Grants-in-aid (<i>per cent</i>)	3315 (15.2)	2540 (11.0)	4389 (16.3)	2681 (9.3)	4002 (11.5)	4965 (11.2)
Rate of Growth of RR (<i>per cent</i>)	12.2	5.3	16.8	7.0	21	27
Revenue Receipt/GSDP (<i>per cent</i>)	13.90	13.68	14.08	13.81	15.00	16.97
Revenue Buoyancy (ratio) ³	1.468	0.757	1.243	0.773	1.826	2.204
State's own taxes Buoyancy (ratio)	1.136	1.320	0.697	1.959	1.563	2.009
Revenue Buoyancy with reference to State's own taxes (ratio)	1.292	0.574	1.785	0.395	1.169	1.097
GSDP Growth (<i>per cent</i>)	8.31	7.00	13.52	9.05	11.62	12.23

General Trends

The revenue receipts have shown a progressive increase over the period 2001-07 with only marginal changes in its composition, i.e. the share of Own taxes, Non-tax revenue and Central tax transfers almost remained same. The sharp increase of 27 *per cent* during 2006-07 was mainly on account of increase in state's own taxes (24.6 *per cent*), non-tax revenue (38 *per cent*) and in central tax transfers (27.5 *per cent*).

The actual Revenue receipts vis-à-vis assessments made by TFC and State Government are given below:

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in Fiscal Correction Path	Actuals
	(1)	(2)	(3)
Tax Revenue	22123	23440	23926
Non-Tax Revenue	3897	4801	6488

The Tax Revenue increased by 8.15 *per cent*, the Non Tax revenue by 66.49 *per cent* over the assessments made by Twelfth Finance Commission. The actual realization also exceeded the assessments made by the State Government. For the first time after 1993-94, revenue receipts were more than revenue expenditure resulting in Revenue Surplus.

Tax Revenue: The Tax Revenue has increased by 24.57 *per cent* during the current year (Rs 23926 crore) over previous year (Rs 19207 crore). The revenue from Sales Taxes not only contributed major share of tax revenue (65 *per cent*) but also increased by 23 *per cent* over the previous year. The sharp increase in sales tax revenue during the last two years has been on account of implementation of VAT by the State. State Excise, Stamps and Registration fees on account of

³ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance revenue buoyancy at 2.2 during 2006-07 implies that revenue receipts tend to increase by 2.2 percentage points if the GSDP increases by one *per cent*.

duty on impressing of documents, sale of stamps and fees for registering documents, taxes on vehicles remained other major contributors in the State's tax revenue. Table 1.6 below shows the trend of Tax Revenue during 2001-07.

Table1.6: Tax Revenue

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Land Revenue	19.72	86.17	34.51	33.59	68.75	113.50
Stamps and Registration	804.89	999.65	1111.75	1387.91	2013.45	2865.38
State Excise	1651.90	1856.46	1914.98	2092.67	2684.57	3436.63
Sales Tax	7740.89	8322.20	9186.93	11040.59	12541.61	15467.08
Taxes on Vehicles	9391.18	929.47	1067.76	1168.64	1355.74	1364.74
Other Taxes *	394.02	423.62	490.00	531.09	543.29	678.87
Total	11550.60	12617.57	13805.93	16254.49	19207.41	23926.20

* Other Taxes: includes taxes on income and expenditure, taxes on immovable property other than agricultural land, taxes on goods and passengers, taxes on duties and electricity, other taxes on duties and commodities and services.

Non Tax Revenue: The non tax revenue which constituted 14.7 *per cent* of total revenue receipts increased by Rs 1796 crore recording a growth rate of 38 *per cent* over previous year. The debt relief (Rs 1186.31 crore) given by Government of India under DCRF booked under the head 'Miscellaneous General Services' led to a sharp increase in non tax revenue of the State. The other areas where substantial increases were observed include elementary education (Rs 80.76 crore), mineral concession fees, rent and royalties (Rs 207.31 crore) and other receipts under rural development programme (Rs 43.04 crore). Of Rs 58.85 crore realised from Civil Supplies Department, Rs 52.53 crore were on account of sale of coupons to below poverty line (BPL) beneficiaries under Public Distribution System. The amount of Rs 2013.92 crore realised towards interest from Departmental Commercial Undertakings included Rs 1890.84 crore which is notional in nature arising out of book adjustment from Irrigation Project.

Central Tax Transfers: The Central Tax transfers increased by Rs 1915.14 crore over the previous year and constituted 20 *per cent* of revenue receipts. The increase was mainly under corporation tax (Rs 847.96 crore), customs duties (Rs 374.17 crore) and service tax (Rs 338.02 crore).

Grants-in-aid: The Grants-in aid from Government of India (GOI) increased from Rs 4002 crore in 2005-06 to Rs 4965 crore in the current year. The increase was mainly under State plan scheme (Rs 924 crore) and Centrally Sponsored Schemes (Rs 111 crore) partly offset by decrease in Central Plan Schemes (Rs 72 crore). As per the recommendations of Twelfth Finance Commission (TFC), the GOI released during the current year Rs 338 crore under non-plan for specific purposes viz. roads and bridges (Rs 123 crore), maintenance of buildings (Rs 61 crore), maintenance of forests (Rs 19 crore), heritage conservation (Rs 10 crore) and drinking water supply to fluoride effected areas and improving socio economic condition of the people living in remote areas (Rs 125 crore). However, grants-in-aid to local bodies and schemes for modernization of police force were reduced by Rs 276 crore and Rs 36 crore respectively. Details of Grants-in-aid from GOI are given in Table 1.7.

Table No 1.7: Grants-in-aid from GOI

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Grants for State plan schemes	1843	1172	2356	1260	1449	2372
Non Plan grants	627	592	1045	533	1183	1183
Grants for Central Plan Schemes	90	148	136	70	172	100
Grants for Centrally Sponsored Plan Schemes	755	628	852	818	1198	1310
Total	3315	2540	4389	2681	4002	4965
Percentage of increase/decrease over previous year	50.61	(-) 23.38	72.80	(-) 38.92	49.26	24.06

1.4 Application of Resources

1.4.1 Growth of Expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs 29515 crore in 2001-02 to Rs 52249 crore in 2006-07. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in Table – 1.8.

Table-1.8: Total Expenditure - Basic Parameters
(Value in Rupees crore and others in *per cent*)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Total Expenditure (TE)*	29515	31088	35575	38315	43333	52249
Rate of Growth	8.6	5.3	14.4	7.70	13.1	20.6
TE/GSDP Ratio	18.78	18.49	18.64	18.41	18.65	20.04
Revenue Receipts/TE Ratio	74.0	74.0	75.5	75.04	80.43	84.68
Buoyancy of Total Expenditure with						
GSDP (ratio)	1.035	0.757	1.065	0.851	1.127	1.682
Revenue Receipts (ratio)	0.705	1.005	0.859	1.1	0.642	0.763

*Total expenditure includes revenue expenditure, capital expenditure and loans & advances

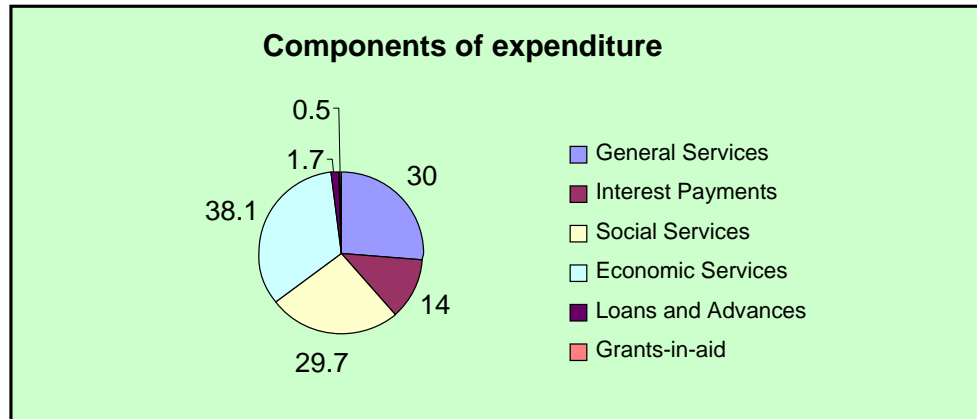
The total expenditure during the current year has increased by Rs 8916 crore over the previous year of which revenue expenditure shared Rs 6201 crore, capital expenditure contributed Rs 2564 crore and Rs 151 crore by repayment of loans and advances. During the current year, 85 percent of total expenditure was met from revenue receipts and the remaining from capital receipts and borrowed funds. The buoyancy of total expenditure to GSDP stood at 1.7 in 2006-07 indicating tendency to spend more than the increase in income and higher elasticity of total expenditure with respect to GSDP.

Trends in Total Expenditure by Activities: In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in Table-1.9.

Table 1.9: Components of Expenditure – Relative Share

(in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
General Services	31.7	35.6	34.3	34.5	31.2	30.0
Interest Payments	15.5	19.7	19.3	18.5	16.2	14.0
Social Services	29.5	30.3	30.5	29.4	28.4	29.7
Economic Services	32.1	29.2	30.2	31.3	38.1	38.1
Loans and Advances	5.8	4.0	4.2	4.2	1.8	1.7
Grants-in-aid	1.0	0.8	0.8	0.6	0.5	0.5



Although the share of total expenditure on Economic Services remained at 38 per cent during the last two years, its capital expenditure component has sharply increased during 2005-07 indicating the impetus now being given to economic growth. Payment of loans and advances decreased from 5.8 per cent in 2001-02 to 1.7 per cent in 2006-07 of total expenditure. The share of expenditure on General services, Social Services was maintained at the level of 2001-02.

1.4.2 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payments for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in Table -1.10.

Table 1.10 :- Revenue Expenditure - Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure (RE) Of which	25488	26925	30640	32137	35237	41438
Non-Plan Revenue Expenditure (NPRE)	19575	21077	23295	24908	28432	31919
Plan Revenue Expenditure (PRE)	5913	5848	7345	7229	6805	9519
Rate of Growth and Ratios (per cent)						
Rate of Growth of NPRE	2.17	7.67	10.52	6.92	14.15	12.26
Rate of Growth of PRE	28.68	(-) 0.01	25.59	(-) 1.57	(-) 5.86	39.88
NPRE/GSDP (per cent)	12.46	12.54	12.20	11.97	12.24	12.24
NPRE as per cent of TE	66.32	67.79	65.48	65.00	65.61	61.09
NPRE as per cent of RR	89.60	91.62	86.69	86.63	81.58	72.14
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	0.951	0.800	1.021	0.541	0.826	1.439
Revenue Receipts (ratio)	0.648	1.064	0.821	0.700	0.455	0.653

The revenue expenditure increased by 63 per cent from Rs 25488 crore in 2001-02 to Rs 41438 crore in 2006-07. The NPRE has shown a consistent increase at an average rate of nine per cent over the period and continued to share the dominant proportion varying in the narrow range of 75-80 per cent of the revenue expenditure. The plan expenditure on the other hand has reflected wild fluctuations varying from a decline of six per cent in 2005-06 to an increase of 40 per cent during the current year. The increase in NPRE during the current year was mainly due to increase in pension (Rs 954 crore), salaries (Rs 1562 crore), assistance to Zilla Parishads (Rs 55 crore), Mandal Parishads (Rs 22 crore), Gram Panchayats (Rs 151 crore). The increase in PRE by Rs 2714 crore over previous year was mainly due to increase in Rural Development (Rs 509 crore), and Welfare of SCs (Rs 46 Crore), Welfare of STs (Rs 19 crore) and Welfare of BCs (Rs 76 crore) especially focusing on the improvement of their educational status during the year.

The actual Non-plan revenue expenditure vis-à-vis assessments made by TFC and State government are given below:

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in Fiscal Correction Path	Actual NPRE
	(1)	(2)	(3)
Non-plan revenue expenditure	27192	31891	31919

NPRE during current year is almost at par with the assessment made by State Government, however it exceeded the normative assessment made by TFC by Rs 4727 crore.

1.4.3 Committed expenditure

1.4.3.1 Expenditure on Salaries and Wages

The trends in expenditure on salaries both under plan and non-plan heads are presented in Table 1.11.

Table 1.11: Expenditure on salaries

(Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on salaries* & wages of which	8017	8367	8975	9078	10455	12155
Non-Plan Head	-	-	-	-	9343	10906
Plan Head**	-	-	-	-	1112	1249
As a percentage of GSDP	5.1	4.9	4.7	4.4	4.5	4.7
As a percentage of Revenue Receipts	36.7	36.4	33.4	31.58	30	27

*expenditure under 010- salaries, 020wages, 030 overtime allowance, 273 work charged establishment and 311 grants in aid towards salaries under revenue and capital sections of both non plan and plan

**Plan head also includes the salaries and wages paid under Centrally Sponsored Schemes

Expenditure on salaries under Non-plan and Plan during the current year is Rs 10906 crore and Rs 1249 crore respectively recording a growth rate of 17 per cent and 12 per cent respectively. The Macro Economic Frame Work projected the Non plan salary expenditure during current year at Rs 11155 crore and the Fiscal correction path assessed it at Rs 9878 crore. The Salary expenditure is 41 per cent of revenue expenditure net of interest and pension payments which is marginally higher than the norm of 35 per cent recommended by the TFC. The increase in expenditure under salaries (both Non plan and Plan) was stated to be due to implementation of the recommendation of the Commission appointed by the State Government for resolution of certain further demands following the implementation of Revised Pay Scales in 2005.

1.4.3.2 Pension Payments

Table 1.12: Expenditure on Pensions

(Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Pensions	2321	2364	2425	3017	3197	4150
Rate of growth	(-) 2.4	1.9	2.6	24.4	6.0	30.0
As per cent of GSDP	1.48	1.41	1.27	1.45	1.38	1.59
As per cent of RR	10.62	10.28	9.02	10.49	9.17	9.38
As per cent of RE	9.10	8.77	7.91	9.38	9.07	10.02

The Pension payments during current year have increased by Rs 953 crore recording a growth rate of 30 per cent over the previous year. The increase in expenditure under pensions was stated to be due to implementation of the recommendation of the Commission appointed by the State Government for resolution of certain further demands following the implementation of Revised Pay Scales 2005 and also increase in number of pensioners by 18730 over previous year. The State Government did not estimate yearly pension liabilities worked on actuarial basis. However, as informed by the Finance department of State Government, a study conducted by M/s Darasha & Company estimated the expenditure on pension payment to go up from Rs 2682 crore in 2003-04 to Rs 5263 crore by 2009-10. It estimated expenditure on pension for 2006-07 at Rs 3666 crore while actual expenditure on pensions exceeded the estimate by 584 crore. The comparative analysis of actual pension payments and the assessment/projections made by TFC and the State Government (Table 1.13)

reveals that actual pension payments exceeded the projections made by TFC and the State Government. It is likely that the actual pension payments may exceed the projections made by M/s Darasha & Company in ensuing years.

Table 1.13: Actual Pension Payments vis-à-vis Projections

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in Fiscal Correction Path	Assessments made by State Government in FPS	Actual Exp on pensions
	(1)	(2)	(3)	(4)
Pension payments	3716	3834	3934	4150

The Government therefore needs to work out the pension liabilities on actuarial basis as prescribed in APFRBM Act. The Government also introduced a Contributory Pension Scheme for employees recruited on or after 1 September 2004 to mitigate the impact of raising pension liabilities in future.

1.4.3.3 Interest payments

Table 1.14: Interest Payments

Year	Total Revenue Receipts	Total Revenue Expenditure	Interest payments	Percentage of interest payment with reference to	
	(Rupees in crore)			Revenue Receipts	Revenue Expenditure
2001-02	21845	25488	4584	20.98	17.98
2002-03	23003	26925	6131	26.65	22.77
2003-04	26869	30640	6856	25.52	22.38
2004-05	28750	32137	7091	24.66	22.06
2005-06	34851	35237	7008	20.11	19.89
2006-07	44245	41438	7280	16.45	17.57

The major source of borrowings is Market loans at the interest rates varying from 6 *per cent* to 14 *per cent*. The increase in interest payments was mainly due to payment of interest on special securities issued to the Reserve Bank of India which was partly off-set by decrease in payment of interest in State plan schemes. Although a marginal increase was observed in interest payments during 2006-07 over the previous year but it remained lower than the projections made in Macro Economic Framework (Rs 7983 crore), Fiscal correction path (Rs 7752 crore) and TFC (Rs 8573 crore) for the year 2006-07.

1.4.3.4 Subsidies

The trends in the subsidies given by the State Government are given in Table 1.15. Though the subsidies are a drain on State finances, the Government is extending subsidies keeping in view the welfare of farmers and population of below poverty line. Subsidy on Rice distributed through fair price shops increased from Rs 454 crore in 2001-02 to Rs 704 crore in 2006-07 while subsidy on power decreased from Rs 2095 crore in 2001-02 to Rs 1367 crore in 2006-07. The Subsidy is still being provided to Andhra Pradesh Transmission Corporation (APTRANSCO) after unbundling of the State Electricity Board to meet the cost in supplying free power to farmers.

Table 1.15: Subsidies

(Rupees in crore)

S. No.	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1.	APTRANSCO(Energy Sector)	2095	1554	1552	1816	1696	1367
2.	Subsidy on Rice	454	242	341	500	541	704
3.	Others	20	40	58	106	220	255
	Total	2569	1836	1951	2422	2457	2326
	Percentage of increase (+)/ decrease (-) over previous year	(-) 17.3	(-) 19.5	(+) 6.3	(+) 24.1	(+) 1.44	(-) 5.33
	Percentage of subsidy in total expenditure*	9.2	6.2	5.7	6.6	5.8	4.5

* Total expenditure excludes Loans and Advances

1.5 Expenditure by Allocative Priorities

1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP better the quality of expenditure. Table 1.16 gives these ratios during 2001-07.

Table 1.16 – Indicators of Quality of Expenditure

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Expenditure	2329	2928	3441	4585	7340	9904
Revenue Expenditure	25488	26925	30640	32137	35239	41438
<i>Of which</i> Social and Economic Services with	15922	15659	18226	18709	13096	25880
(i) Salary & Wage Component	---	---	---	---	---	9251
(ii) Non Salary & Wage component	---	---	---	---	---	16629
As per cent of total expenditure (excluding loans and advances)						
Capital expenditure	7.89	9.42	9.67	11.97	16.94	19.29
Revenue expenditure	86.35	86.60	86.12	83.87	81.31	80.71
As per cent of GSDP						
Capital expenditure	1.48	1.74	1.80	2.20	3.16	3.80
Revenue expenditure	16.22	16.01	16.05	15.44	15.17	15.89

Though no specific norms were laid down for prioritization of capital expenditure, the progressive increase in capital expenditure upto 2004-05 and substantial increase during the last two years indicate the improvement in the quality of expenditure and the impetus being given to asset formation. Irrigation, Flood Control and Transport were beneficiary sectors where capital expenditure was absorbed. The non-salary and wage component constituted 64 per cent of revenue expenditure under Social and Economic Services.

1.5.2 Expenditure on Social Services

Given the fact that human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient

provision of these services in the State. Table 1.17 summarizes the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2001-07.

Table 1.17: Expenditure on Social Services

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Education	3871.04	4027.17	4667.84	4598.55	5370.49	6113.50
Revenue Expenditure of which	3794.20	4025.73	4665.77	4592.76	5337.53	6035.62
(a) Salary & wage Component	3412.08	3557.42	3859.63	3883.83	4518.11	5250.56
(b) Non-Salary & Wage Component	382.12	468.31	806.14	708.93	819.42	785.06
Capital Expenditure	76.84	1.44	2.07	5.79	32.96	77.88
Health and Family Welfare	1367.56	1378.08	1484.31	1502.28	1622.25	1860.69
Revenue Expenditure of which	1314.25	1344.60	1476.08	1487.07	1616.47	1853.92
(a) Salary & wage Component	847.35	869.98	946.15	954.20	1073.06	1278.51
(b) Non-Salary & Wage Component	466.90	474.62	529.93	532.87	543.41	575.41
Capital Expenditure	53.31	33.48	8.23	15.21	5.78	6.77
Water Supply, Sanitation, Housing and Urban Development	992.86	1394.22	1448.76	1814.81	1959.16	2640.42
Revenue Expenditure of which	677.15	776.07	1098.82	1297.91	1953.31	2637.41
(a) Salary & wage Component	60.71	99.14	107.87	93.90	140.40	171.36
(b) Non-Salary & Wage Component	616.44	676.93	990.95	1204.01	1812.91	2466.05
Capital Expenditure	315.71	618.15	349.94	516.90	6.25	3.01
Other Social Services	2476.55	2622.38	3257.62	3341.33	3361.18	4918.54
Revenue Expenditure of which	2424.97	2439.35	3026.60	3102.11	3250.27	4842.37
(a) Salary & wage Component	457.42	464.34	504.92	520.85	593.99	704.11
(b) Non-Salary & Wage Component	1967.55	1975.01	2521.68	2581.26	2656.28	4138.26
Capital Expenditure	51.58	183.03	231.02	239.22	110.90	76.17
Total (Social Services)	8708.01	9421.85	10858.53	11256.97	12313.08	15533.15(30)*
Revenue Expenditure of which	8210.57	8585.75	10267.27	10479.85	12157.58	15369.32
(a) Salary & wage Component	4777.56	4990.88	5418.57	5452.78	6325.56	7404.54(48)®
(b) Non-Salary & Wage Component	3433.01	3594.87	4848.70	5027.07	5832.02	7964.78
Capital Expenditure	497.45	836.10	591.26	777.12	155.89	163.83

*The Salary expenditure include grants-in-aid towards salaries

®The figure in bracket against Total indicate the percentage of expenditure on social service to Total expenditure

The allocation to social sector increased from Rs 8708 crore in 2001-02 to Rs 15533 crore in 2006-07 indicating the Government's commitment to improve social well being of the society. Expenditure on Social Sector during current year (Rs 15533 crore) accounted for 30 per cent of total expenditure and 44 per cent of developmental expenditure⁴. Expenditure on Education is increased by Rs 743 crore over previous year mainly due to increased assistance to Local Bodies for improvement of Primary and Secondary education while the expenditure on health and family welfare has shown an increase of only Rs 238 crore over previous year. Recognizing the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education and health and family welfare should increase only by five to six per cent while non-salary expenditure under non-plan heads should increase by 30 per cent per annum during the award period. However, trends in expenditure (taking expenditure under both plan and non plan heads) reveal that the salary and wage component under education sector increased by 16 per cent over 2005-06 while non-salary and wage component decreased by four per cent. Similarly under Health and Family Welfare sector, the salary and wage component increased by 19 per cent while Non-salary and wage

⁴ Development expenditure is defined as the total expenditure made on social and economic services

component increased by six *per cent*. The expenditure pattern both in education and health services has not been as per the norms of the TFC which needs correction in the ensuing years.

1.5.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditure as to promote directly or indirectly, productive capacity within the States' economy. The expenditure on Economic Services (Rs19906 crore) accounted for 38 *per cent* of the total expenditure and 56 *per cent* of developmental expenditure (Table 1.18). Irrigation and flood Control consumed 57 *per cent* Economic Services expenditure indicating the Government's commitment to complete on going projects.

Table 1.18: Expenditure on Economic Services

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Agriculture, Allied Activities	779.46	886.74	1110.39	1419.29	1207.04	1456.22
Revenue Expenditure of which	761.00	871.14	1083.69	1196.11	1199.82	1438.12
(a) Salary & wage Component	480.20	486.21	516.07	534.09	594.43	686.91
(b) Non-Salary & Wage Component	280.80	384.93	567.62	662.02	605.39	751.21
Capital Expenditure	18.46	15.60	26.70	223.18	7.22	18.10
Rural Development	1653.73	1322.04	1836.90	1801.05	2011.79	2445.95
Revenue Expenditure of which	1201.04	1043.84	1595.72	1620.85	1691.26	2445.95
(a) Salary & wage Component	283.64	435.63	442.69	438.83	485.69	558.49
(b) Non-Salary & Wage Component	917.40	608.21	1153.03	1182.02	1205.57	1887.46
Capital Expenditure	452.69	278.20	241.18	180.20	320.53	0.00
Irrigation and Flood Control	2727.29	3116.84	3413.37	5224.43	8778.16	11394.26
Revenue Expenditure of which	1584.37	1762.41	1875.34	1921.37	2620.41	3176.56
(a) Salary & wage Component	114.91	209.26	219.68	227.65	323.64	326.23
(b) Non-Salary & Wage Component	1469.46	1553.15	1655.66	1693.72	2296.77	2850.33
Capital Expenditure	1143.42	1354.43	1538.03	3303.06	6157.75	8217.70
Power & Energy	2328.45	1669.28	2484.05	1925.99	1801.41	1617.12
Revenue Expenditure of which	2306.32	1645.11	1644.42	1896.08	1801.40	1601.12
(a) Salary & wage Component	114.51	3.44	3.28	4.96	11.63	23.46
(b) Non-Salary & Wage Component	2191.81	1641.67	1641.14	1891.12	1789.77	1577.66
Capital Expenditure	22.13	24.17	839.63	29.91	0.01	16.00
Industry and Minerals	212.91	217.63	333.31	255.57	299.03	265.33
Revenue Expenditure of which	162.04	189.65	207.91	181.80	254.31	232.10
(a) Salary & wage Component	58.01	57.41	53.11	60.41	70.79	78.85
(b) Non-Salary & Wage Component	104.03	132.24	154.80	121.39	183.52	153.25
Capital Expenditure	50.87	27.98	125.40	73.77	44.72	33.23
Transport	1342.31	1478.39	1115.24	1117.43	1879.93	2023.95
Revenue Expenditure of which	583.03	591.99	561.21	570.19	1040.78	1134.25
(a) Salary & wage Component	13.58	50.83	53.80	52.84	60.78	67.60
(b) Non-Salary & Wage Component	569.45	541.16	507.41	517.35	980.00	1066.65
Capital Expenditure	759.28	886.41	554.03	547.24	839.14	889.70
Science, Technology and Environment	5.24	1.01	1.21	4.34	2.79	7.23
Revenue Expenditure of which	5.24	1.01	1.21	4.34	2.79	7.23
(a) Salary & wage Component	0.31	0.33	0.32	0.49	0.60	1.25
(b) Non-Salary & Wage Component	4.93	0.68	0.89	3.85	2.19	5.98
Capital Expenditure	0.00	0.00	0.00	0.00	0.00	0.00
Secretariat Economic Services	421.82	390.69	456.37	269.23	540.09	696.17
Revenue Expenditure of which	346.83	295.89	382.64	269.36	429.49	474.93
(a) Salary & wage Component	73.87	77.17	77.52	80.90	98.61	103.49
(b) Non-Salary & Wage Component	272.96	218.72	305.12	188.46	330.88	371.44
Capital Expenditure	74.99	94.80	73.73	(-) 0.13	110.59	221.24
Total (Economic Services)	9471.21	9082.62	10750.84	12017.33	16520.24	19906.23(38)*
Revenue Expenditure of which	6949.87	6404.04	7352.14	7660.10	9040.26	10510.26
(a) Salary & wage Component	1139.03	1320.28	1366.47	1400.17	1646.17	1846.28(9)®
(b) Non-Salary & Wage Component	5810.84	5080.76	5985.67	6259.93	7394.09	8663.98
Capital Expenditure	2521.84	2681.59	3398.70	4357.23	7479.96	9395.97

*The figure in bracket against Total indicate the percentage of expenditure on Economic service to Total expenditure

®The Salary expenditure include grants-in-aid towards salaries

Out of total expenditure on Economic Services during 2006-07, 57 per cent on Irrigation Flood Control, 10 per cent on Transport, eight per cent on Power and Energy and seven per cent on Agriculture and allied activities was incurred. As compared to 2001-02, significant increases in 2006-07 were observed in Irrigation and Flood control (318 per cent), Agriculture and allied activities (87 per cent) and Transport services (51 per cent). The salary component in total expenditure on Economic Services ranged between 12 and nine per cent during the period. The non-salary component consistently increased from Rs 5081 crore in 2002-03 to Rs 8664 crore in 2006-07 at an average rate of growth of 14 per cent per annum.

The trends in revenue and capital expenditure on Economic Services indicate that capital expenditure consistently increased from Rs 2522 crore (27 per cent) in 2001-02 to Rs 9396 crore (47 per cent) in 2006-07, while revenue expenditure from Rs 6950 crore (73 per cent) in 2001-02 to Rs 10510 crore (53 per cent) in 2006-07. An increase of Rs 1470 crore (16 per cent) during 2006-07 over the previous year in revenue expenditure was mainly due to increase in Rural Development (Rs 434 crore) and Irrigation & Flood Control (Rs 556 crore) and Transport (Rs 144 crore). Of the revenue expenditure, salary component ranged from 16 per cent to 18 per cent during 2001-07. It increased from Rs 1139 crore (16 per cent) in 2001-02 to Rs 1846 crore (18 per cent) in 2006-07 whereas non- salary component increased from Rs 5811 crore (84 per cent) to Rs 8664 crore (82 per cent) indicating allocative priorities probably towards their maintenance and the better quality of services.

1.5.4 Financial Assistance by State Government to local bodies and other Institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the six year period 2001-07 is presented in Table 1.19.

Table – 1.19: Financial Assistance by Government to local bodies and other institutions

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	1272.93	1243.64	1217.48	1066.31	1503.97	1766.50
Municipal Corporations and Municipalities	388.54	509.31	298.06	643.97	464.95	233.43
Zilla Parishads and other PR Institutions	3259.35	2895.64	2895.25	2749.84	842.19	1309.82
Development Agencies	3478.37	2642.27	3420.65	2720.91	2549.76	1747.02
Hospital and Other Charitable Institutions	--	--	--	--	238.98	387.44
Other Institutions ⁵	2384.33	1967.89	3133.91	4031.87	4102.16	5321.88
Total	10783.52	9258.75	10965.35	11212.90	9702.01	10766.09
Assistance as percentage of Revenue Expenditure	42.30	34.40	35.80	34.90	27.5	26.00

⁵ Other institutions include those institutions who received ad-hoc or one time grants during the year

The grants and loans extended to local bodies and other institutions with inter year variations increased by 11 *per cent* to Rs 10766 crore during the current year over Rs 9702 crore in the previous year. The share of grants and loans in revenue expenditure indicated a declining trend which has decreased from 42 *per cent* in 2001-02 to 26 *per cent* during the current year. Another important trend emerging from the Table 1.19 is that share of other institutions has sharply increased by more than two and half times from Rs 1968 crore in 2002-03 to Rs 5322 crore in 2006-07 indicating the fact that huge amount of financial assistance is being given on ad hoc basis to various State Government institutions. During 2006-07, the major beneficiaries under this category being Labour and Employment (Rs 6.51 crore), Relief on account of Natural Calamities (Rs 576.93 crore) and Civil Aviation (Rs 3.62 crore).

1.5.5 Delay in furnishing utilization certificates

Of the 3007 utilization certificates (UCs) due in respect of grants aggregating Rs 602 crore paid upto 30 September 2005, 2899 UCs for an amount of Rs 600 crore were outstanding as of August 2007 from five departments⁶.

1.5.6 Non-submission/delay in submission of accounts

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Government/Heads of the Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions.

Submission of 1038 accounts from 360 Autonomous Bodies to the Accountant General which were due as of February 2007 have not been received even by end of July 2007. These accounts were to be submitted in order to examine if they attract audit under Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (Act).

Accounts of 21 Autonomous Bodies had not been submitted to Accountant General for audit under Sections 19(1), 19(2), 19(3) and 20(1) of the Act for periods ranging from one to seven years (one body for 7 years and four bodies for 5 years and more) as detailed in *Appendix 1.7*.

1.6 Misappropriations, losses, defalcations, etc.

State Government reported 484 cases of misappropriation, defalcations, etc. involving Government money amounting to Rs 34.53 crore upto the period June 2007 on which final action was pending. The department-wise break up of pending cases is given in *Appendix 1.8*.

⁶ Education (Rs 1.44 crore), Relief (Rs 473.66 crore), Tribal welfare (Rs 35.14 crore), Social welfare (Rs 4.86 crore), Panchayat Raj (Rs 61.39 crore) and (Municipal Administration & Urban Development (Rs 23.86 crore)

1.7 Assets and Liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.3* gives an abstract of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. While the liabilities consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. In real terms the assets grew by 11837 crore (22 per cent) and liabilities grew by Rs 7140 crore (nine per cent) over previous year reversing the trend of growth in liabilities over assets in earlier years. High priority on capital outlay and increased expenditure on developmental activities have very good impact on asset formation. Though during the current year the assets have increased substantially the ratio of liabilities to assets remained at 0.73. Thus 27 per cent of liabilities did not have an asset back up. The total liabilities as defined in APFRBM Act 2005 also did not conform the norm of 35 per cent of GSDP as envisaged in the Act. *Appendix 1.4* depicts the time series data on State Government finances for the period 2001-2007.

1.7.1 Financial Analysis of Government Investments

1.7.1.1 Departmental Commercial Undertakings

Activities of quasi-commercial nature are performed by departmental undertakings of certain Government departments. These undertakings are required to prepare annually *Proforma accounts* in prescribed format showing the results of financial operations so that Government can assess the results of their working. The department-wise position of arrears in preparation of *pro forma* accounts and the investment made by the Government are given in *Appendix 1.9*.

1.7.1.2 Government Investment and Returns

As of 31 March 2007, Government had invested Rs 5776 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.20**). The return on this investment was 0.1 per cent to 0.82 per cent during 2001-07 while the government paid interest at the average rate of 8.76 to 11.99 per cent on its borrowings during 2001-07.

Table 1.20: Return on Investment

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Investment (Rupees in crore)	3975.02	4334.74	5223.84	5673.70	5715.89	5776.17
Returns (Rupees in crore)	0.57	1.34	48.68	45.49	45.88	47.40
Percentage of returns	0.01	0.03	0.93	0.80	0.80	0.82
Average Interest Rate ⁷	10.41	11.99	11.49	10.21	9.11	8.76
Difference between interest rate and return (per cent)	10.40	11.96	10.56	9.41	8.31	7.94

⁷ Average interest rate is defined as the percentage of interest payment made to, average financial liabilities of the State during the year i.e. (Average of opening and closing balances of fiscal liabilities/2) x 100

The investment of State Government included Rs 3613 crore in 49 Government Companies, of which only four companies declared dividend aggregating to Rs 46 crore. The sectors/companies where major investments were made during 2006-07 were (i) Co-operative banks and Societies (Rs 14.48 crore), (ii) AP Backward Classes Co-operative Finance Corporation (Rs 3.64 crore), (iii) Transmission Corporation of Andhra Pradesh (Rs 16 crore), (iv) Leather Industries Development Corporation (Rs 1.67 crore) and (v) AP State Minorities Finance Corporation Ltd (Rs 14.10 crore).

1.7.1.3 Loans and Advances by State Government

In addition to investment in Co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organizations. Total outstanding loans and advances as on 31 March 2007 were Rs 10649 crore (Table 1.21). Interest received against these loans advanced was 1.1 per cent during 2006-07 as against 0.18 per cent in previous year.

Table 1.21: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Opening Balance	7654	8405	9180	9419*	9639	10213
Amount Advanced during the year	1698	1235	1494	1593	756	907
Amount repaid during the year	947	460	1256	1373	182	471
Closing Balance	8405	9180	9418	9639	10213	10649
Net Addition	751	775	238	220	574	436
Interest Received	341	282	422	68	18	114
Interest Received as per cent to Loans advanced	4.3	3.2	4.5	0.71	0.18	1.1
Average Interest Rate	10.4	12.0	11.5	10.2	9.11	8.8
Difference between interest paid and received (per cent)	6.2	8.8	7.0	9.5	8.93	7.7

*differs by Rs one crore (increased) due to lower rounding of CB in 2003-04

During the current year, major portion of loan was advanced to Housing department (Rs 547 crore) for construction of Police quarters, Sainik Aramgarh and for repayment of loans. Industrial sector received Rs 35 crore towards Margin Money to Cooperative Spinning Mills for restructuring of Cooperative Sugar factories and implementation of VRS. An amount of Rs 20 crore was advanced to APTRANSCO for power development and village Electrification Programme (Dalit Bastis).

1.7.2 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) – ordinary and special – from Reserve Bank of India has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by Reserve Bank of India from time to time depending on the holding of Government securities. The Government did not have to resort to WMA for the successive third year.

The State Government's cash balances at the end of the current year amounted to Rs 4906 crore. The major portion of which (Rs 3409.19 crore) is invested in 14 days Treasury Bills of the Government of India and earned an interest of Rs 57.35 crore during the year. Further an amount of Rs 1775.72 crore is invested in earmarked funds, i.e. Consolidated Sinking Fund (Rs 1378.20 crore), Guarantee Redemption Fund (Rs 383.76 crore) and other funds. The State Government as per Reserve Bank of India guidelines has been contributing one *per cent* of the outstanding open market loans at the end of previous year.

Ways and Means Advances and Overdrafts availed, the number of occasions it was availed and interest paid by the State during 2001-04 is detailed in Table 1.22.

Table 1.22: Ways and Means and overdrafts of the State and interest paid thereon

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Ways and Means Advances						
Taken in the year	5114.48	2189.40	5653.13	-	--	---
Outstanding	--	--	--	--	--	---
Interest paid	24.88	10.67	12.66	--	--	---
Number Of Days	164	137	181	--	--	---
Overdraft						
Taken in the year	5582.68	1925.40	1600.06	--	--	---
Outstanding	--	--	--	--	--	---
Interest paid	8.74	1.08	3.01*	--	--	---
Number Of Days	172	33	31	--	--	---

*includes interest of Rs 1.17 crore paid on overdraft availed during 2002-03

1.8 Undischarged Liabilities

According to AP Fiscal Responsibility and Budget Management Act 2005, the total liabilities 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 Budget.

1.8.1 Fiscal Liabilities – Public Debt and Guarantees

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. However, no law has been passed in the State to lay down any such limit. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits.

Table 1.23 gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table 1.23 Fiscal Liabilities - Basic Parameters

(Values in Rupees crore and ratios in *per cent*)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities ⁸	47439	54831	64545	74288	79549	86622
Rate of Growth	16.8	15.6	17.7	15.1	7.1	8.9
Ratio of Fiscal Liabilities to						
GSDP	30.19	32.61	33.81	35.69	34.24	33.22
Revenue Receipt	217.2	238.4	240.2	258.4	228.25	195.78
Own Resources	327.9	339.6	370.7	371.3	332.9	284.81
Buoyancy of Fiscal Liabilities with reference to						
GSDP	2.021	2.228	1.309	1.668	0.611	0.727
Revenue Receipt	1.384	2.939	1.054	2.157	0.333	0.330
Own resources	1.907	1.344	2.263	0.011	0.364	0.326

Overall fiscal liabilities of the State increased from Rs 47439 crore in 2001-02 to Rs 86622 crore in 2006-07. Fiscal Liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (Rs 45256 crore) comprised of market loan (Rs 23544 crore), loan from Government of India (15169 crore) and other loan (6543 crore). The Public Account liabilities (Rs 41366 crore) comprise of Small Saving, Provident Fund (Rs 30165 crore), interest bearing obligation (Rs 4678 crore) and non interest obligation like deposits and other earmarked funds (Rs 6523 crore). The growth rate of fiscal liability was 8.9 *percent* during 2006-07 over previous year. The ratio of fiscal liabilities to GSDP increased from 30 *per cent* in 2001-02 to 33 *per cent* in 2006-07. These liabilities stood at 1.95 times of revenue receipts and 2.85 times of the States own resources as at the end of 2006-07. The fiscal liabilities had grown faster than the State's GSDP. The buoyancy of these liabilities with respect to GSDP during the year was 0.727. The State Government set up a Sinking Fund during the financial year 1999-2000 for amortization of open market loans and has been contributing every year an amount equivalent to one *per cent* of the outstanding open market loan at the end of the previous year as per the guidelines of the Reserve Bank of India. As on 31st March 2007, the outstanding balance in Sinking Fund was Rs 1378.20 crore. It is however pertinent to mention in this context that the Scheme of Sinking Fund was revised in 2006 to incorporate the recommendations of TFC relating to all loans (not just market borrowings) and state also needs to revise its scheme and enhance its contribution accordingly.

1.8.2 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. As per Statement 6 of the Finance Accounts, the maximum amount for which

⁸ Includes internal debt (market loans Rs 23544 crore, other loans Rs 6543 crore and loans and advances Rs 15169 crore from GOI). Small saving, Provident fund Rs 1681 crore, interest bearing obligations such as - depreciation reserve funds of Government commercial Undertakings, etc. Rs 1.44 crore and other obligations Rs 1102 crore. Non-interest obligations e.g. deposits, other earmarked funds, etc. Rs 955 crore at the end of the year

guarantees were given by the State and outstanding guarantees at the end of year since 2001-02 is given in Table 1.24.

Table 1.24: Guarantees given by the Government of Andhra Pradesh

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Maximum amount guaranteed	18537	24810	29545	28165	30200	29160
Outstanding guarantees	10325	15317	17427	17893	17711	18018
Revenue receipts	21845	23003	26869	28750	34851	44245
Outstanding guarantees/ revenue receipt of the second preceding year (in <i>per cent</i>)	---	--	79.8	77.8	65.9	62.7

As per the APFRBM Act, 2005 the annual incremental risk weighted guarantees is to be limited at 90 *per cent* of revenue receipts in the year preceding the current year. The incremental guarantees given by the State Government are well within the prescribed ceiling limit.

The Government set up a Guarantee Redemption Fund during 2001-02 and as on 31-03-2007, Rs 383.76 crore is invested in the Fund which comprise guarantee fee, special contribution and return earned on the funds invested. In the current year the Government received Rs 26.61 crore as guarantee commission.

1.8.3 Off - Budget Borrowings

The borrowings of a State are governed under Article 293(1) of the Constitution of India. In addition to the liabilities shown in Table 1.23, the State guaranteed loans availed of by Government companies/corporation. These companies/corporations borrowed funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Although the estimates of the plan programmes of the State Government project that funds for these programmes would be met out of the resources of the companies/corporations outside the State budget, however, in reality the borrowings of many of these concerns ultimately turn out to be the liabilities of the State Government termed as 'off-budget borrowings'. Though off-budget borrowings are not permissible under Article 293(3), the State continues to undertake such off-budget borrowings as per the data furnished by the Finance Department. Table 1.25 captures the trends in the off-budget borrowings by the State during 2001-07.

Table 1.25: Off-Budget Borrowings

(Rupees in crore)

Year	Source through which borrowed	Amount borrowed	Amount outstanding as on 31 March 2007
2001-02	AP TRANSCO	876	7
2002-03	AP TRANSCO bonds	850	850
2003-04	AP TRANSCO bonds	380	380
	AP Water Resources Development Corporation (APWRDC)	568	568
2004-05	APWRDC	737	737
2005-06	APWRDC	455	455
2006-07	APWRDC	600	600
Total		4466	3597

The fiscal liabilities together with off-budget borrowings at the end of March 2007 worked out to Rs 90219 crore and increase the ratio of fiscal liabilities to GSDP to 34.60 *per cent*. The Government created Special Purpose Vehicle (SPV) “AP Water Resources Development Corporation” in January 1997 by an Act of Legislature for promotion and operation of Irrigation Project and other allied incidental activities. This SPV raised Rs 2360 crore during 2003-07. During the current year, the Government repaid Rs 869 crore out of Rs 876 crore raised by APTRANSCO during 2001-02 and also paid an interest of Rs 443 crore on these borrowings.

1.9 Debt Sustainability

The debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. 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. A prior condition for debt sustainability is the debt stabilization in terms of debt/GSDP ratio.

1.9.1 Debt Stabilization

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards debt stabilization are indicated in Table 1.26.

Table 1.26: Debt Sustainability- Interest Rate and GSDP Growth (in *per cent*)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Average Interest Rate	10.4	12.0	11.5	10.2	9.1	8.8
GSDP Growth	8.3	7.0	13.5	9.1	11.6	12.2
Interest spread	(-) 2.1	(-) 5.0	2.0	(-) 1.1	2.5	3.4
quantum spread (Rupees in crore)	(-) 853	(-) 2372	1097	(-) 710	1857	2705
Primary deficit (-)/Surplus (+)	(-) 2139	(-) 1494	(-) 594	(-) 1101	(-) 1292	(+) 1636

Table 1.26 reveals that quantum spread together with primary deficit has been consistently negative during 2001-03 and 2004-05 indicating rising debt-GSDP ratios during the period. Debt-GSDP has increased steadily from 30.19 *per cent* in 2001-02 to 35.69 *per cent* in 2004-05. It was only from 2005-06, the quantum spread together with primary deficit turned into positive resulting in decline in debt/GSDP ratio to 33.22 in 2006-07. The ratio of fiscal deficit to GSDP also moved almost on the similar trajectory indicating a significant

decline only after 2004-05. These trends indicate the State is moving towards the debt stabilization which in turn improve the debt sustainability position of the State.

1.9.2 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. Table 1.27 indicates the resource gap as defined for the period 2002-07.

Table 1.27: Incremental revenue receipts and Revenue Expenditure

(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2001-02	2915	1541	435	1976	(+) 939
2002-03	671	26	1547	1573	(-) 902
2003-04	4662	3762	725	4487	(+) 175
2004-05	1998	2505	235	2740	(-) 742
2005-06	4910	5101	(-) 83	5018	(-) 108
2006-07	11573	8644	272	8916	(+) 2657

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. During the period 2001-07, although three out of six years reflects the negative gaps but the last two are the pointers towards the increasing capacity of the State to sustain the debt in the medium to long run.

1.9.3 Net Availability of Borrowed Funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, i.e. they are (a) not being used for financing revenue expenditure; and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.

Table 1.28 gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last five years.

Table-1.28: Net Availability of Borrowed Funds

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Internal debt						
Receipt	14891	9479	14865	7992	3448	4236
Repayment (Principle + Interest)	14211	8506	13652	3059	9783	8632
Net Fund Available	680	973	1213	4933	(-) 6335	(-) 4396
Net Fund Available (<i>per cent</i>)	4.6	10.3	8.2	61.7	---	---
Loans and Advances from GOI						
Receipt	3717	2548	3118	1841	522	315
Repayment (Principle + Interest)	3243	4653	6054	6595	2046	2437
Net Fund Available	474	(-)2105	(-) 2936	(-)4754	(-) 1524	(-) 2122
Net Fund Available (<i>per cent</i>)	12.8	---	---	---	---	---
Other obligations						
Receipt	11838	14189	15823	22169	23685	29626
Repayment (Principle + Interest)	10739	11796	11241	15242	17572	23314
Net Fund Available	1099	2393	4582	6927	6113	6312
Net Fund Available (<i>per cent</i>)	9.3	16.9	29.0	31.2	25.8	21.3
Total liabilities						
Receipt	30446	26216	33806	32002	27655	34177
Repayment (Principle + Interest)	28193	24955	30947	24896	29401	34384
Net Fund Available	2253	1261	2859	7106	(-) 1746	(-) 207
Net Fund Available (<i>per cent</i>)	7.4	4.8	8.5	22.2	--	---

The net funds available on account of the internal debt and loans and advances from Government of India and other obligations after providing for the interest and repayments varied from minus during the last two years to 22 *per cent* during 2004-05. During the current year the Government repaid internal debt of Rs 3062.53 crore, Government of India loans of Rs 1190 crore and also discharged other obligations of Rs 22851 crore along with interest of Rs 7280 crore as a result of which no borrowed funds were available. During the last two years, in view of the large cash balances, the focus of the Government seems to be on discharging the past debt obligations both on account of principal and interest payments on loans raised from the market as well as from the Government of India.

1.10 Management of deficits

The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health.

1.10.1 Trends in Deficits

The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in Table 1.29.

Table-1.29: Fiscal Imbalances- Basic Parameters
(Values in Rupees crore and ratios in *per cent*)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Deficit (-) /Surplus (+)	(-) 3643	(-) 3922	(-) 3771	(-) 3387	(-) 386	(+) 2807
Fiscal Deficit (-) /Surplus (+)	(-) 6723	(-) 7625	(-) 7450	(-) 8192	(-) 8300	(-) 5644
Primary Deficit (-) /Surplus (+)	(-) 2139	(-) 1494	(-) 594	(-) 1101	(-) 1292	(+) 1636
RD/GSDP	2.32	2.33	1.98	1.63	0.17	-
FD/GSDP	4.28	4.53	3.90	3.94	3.57	2.16
PD/GSDP	1.36	0.89	0.31	0.53	0.56	-
RD/FD	54.2	51.4	50.6	41.3	4.65	-

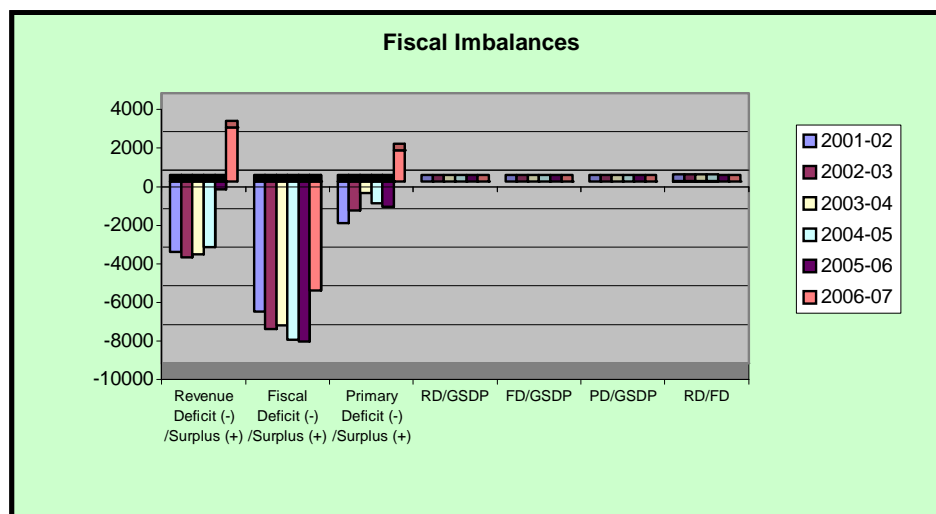


Table 1.29 reveals that the revenue account experienced a situation of huge deficit during the period 2001-05 which hovered around an average of Rs 3681 crore during these years. The deficit was reduced sharply to Rs 386 crore during 2005-06 and revenue account turned into a huge surplus of Rs 2807 crore during the current year. The turnaround situation in revenue account during the current year was mainly on account of an increase of Rs 9394 crore in revenue receipts (27 *per cent*) against the increase of Rs 6201 crore in revenue expenditure (17.6 *per cent*). The sharp increase in revenue receipts during 2006-07 was mainly on account of increase in state's own taxes (24.6 *per cent*), non-tax revenue (38 *per cent*) and in central tax transfers (27.5 *per cent*). On the other hand, despite a big push in plan revenue expenditure (40 *per cent*) Government could maintain the growth in revenue expenditure below the revenue receipts by containing the growth in NPRE (12 *per cent*). The revenue surplus was understated to the extent Rs 1889 crore on account of proceeds from the sale of land and buildings which were accounted for by the State Government under Miscellaneous Capital Receipts instead of under revenue receipts as per the established accounting norms.

The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, decreased from Rs 6723 crore in 2001-02 to Rs 5641 crore in 2006-07. Despite an increase of Rs 2564 crore in capital expenditure and a moderate increase of Rs 151 crore in loans and advances disbursed during the current year over the previous year, fiscal deficit was reduced by

Rs 2656 crore on account of the cushion of Rs 2807 crore available from the revenue account.

The primary deficit⁹ which persisted in the State budget till the previous year also took a turnaround and resulted into a primary surplus during the current year. A sharp decline of Rs 2656 crore in fiscal deficit together with a moderate increase of Rs 272 crore in interest payments resulted into a primary surplus of Rs 1636 crore during the current year indicating the fact that fiscal deficit in the State's budget was solely on account of payment obligations arising from the past fiscal operations of the Government.

1.10.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit¹⁰ and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The ratio of RD to FD which moderately declined during 2002-05 was reduced vary steeply during 2005-06 and RD was wiped out and turned into surplus during the current year. This trajectory shows a consistent improvement in the quality of the deficit and during 2006-07 all borrowings (fiscal liabilities) were used in activities resulting in expansion in the asset backup of the State.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2001-07 reveals (Table 1.30) that throughout this period, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure¹¹ requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.30: Primary deficit/surplus - Bifurcation of factors

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and Advances	Primary Expenditure	Primary deficit (-) / surplus (+) with reference to revenue expenditure	Primary deficit (-) / surplus (+) with reference to capital expenditure
1	2	3	4	5	6(3+4+5)	7 (2-3)	8 (2-6)
2001-02	22792	20904	2329	1698	24931	(+) 1888	(-) 2139
2002-03	23463	20794	2928	1235	24957	(+) 2669	(-) 1494
2003-04	28125	23784	3441	1494	28719	(+) 4341	(-) 594
2004-05	30123	25046	4585	1593	31224	(+) 5077	(-) 1101
2005-06	35033	28229	7340	756	36325	(+) 6804	(-) 1292
2006-07	46606	34159	9904	907	44970	(+) 12447	(+) 1636

⁹ Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the States during the course of the year

¹⁰ Primary revenue deficit defined as gap between non interest revenue expenditure of the state and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account

¹¹ Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year

1.11 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-31** below presents a summarized position of Government finances over 2001-2007, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

Table 31: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
I. Resource Mobilisation						
Revenue Receipt/ GSDP	13.9	13.7	14.1	13.8	15.0	17.0
Revenue Buoyancy	1.468	0.757	1.243	0.773	1.826	2.204
Own tax/GSDP	7.4	7.5	7.2	7.8	8.3	9.2
Own Taxes Buoyancy	1.136	1.320	0.697	1.959	1.563	2.009
II. Expenditure Management						
Total Expenditure/GSDP	18.8	18.5	18.6	18.4	18.7	20.0
Revenue Receipt/Total Expenditure	74.0	74.0	75.5	75.0	80.43	84.7
Revenue Expenditure/Total Expenditure	86.4	86.6	86.1	84.0	81.32	79.3
Plan Expenditure/Total Expenditure	27.9	27.7	30.3	30.9	32.73	37.2
Capital Expenditure /Total Expenditure	7.9	9.4	9.7	12.0	16.94	19.0
Development Expenditure/Total Expenditure	33.7	59.5	60.7	60.7	66.54	67.8
Buoyancy of TE with RR	0.70	1.01	0.86	1.10	0.642	0.763
Buoyancy of RE with RR	0.648	1.064	0.821	0.700	0.454	0.653
III. Management of Fiscal Imbalances						
Revenue deficit (Rs in crore)	3643	3922	3771	3387	386	---
Fiscal deficit (Rs in crore)	6723	7625	7450	8192	8300	5644
Primary Deficit (Rs in crore)	2139	1494	594	1101	1292	---
Revenue Deficit/Fiscal Deficit	54.2	51.4	50.6	41.3	4.65	---
IV. Management of Fiscal Liabilities (FL)						
Fiscal Liabilities/ GSDP	30.2	32.6	33.8	35.7	34.2	33.2
Fiscal Liabilities/RR	217.2	238.4	240.2	258.4	228.25	195.8
Buoyancy of FL with RR	1.384	2.939	1.054	2.156	0.615	0.330
Buoyancy of FL with own receipts	1.907	1.344	2.263	1.011	0.364	0.326
Interest spread	(-) 2.1	(-) 5.0	2.0	(-) 1.1	2.5	3.4
Net Funds Available	7.4	4.8	8.5	22.2	---	---
V. Other Fiscal Health Indicators						
Return on Investment	0.01	0.03	0.93	0.80	0.80	0.82
BCR (Rs in crore)	(-) 327	(-) 22	230	1694	3600	8330
Financial Assets/ Liabilities	0.65	0.62	0.62	0.68	0.65	0.73

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP during the current year was 17 *per cent*, an increase of two percentage points over the previous year. During 2001-07, the ratio of own taxes to GSDP showed continued improvement except in 2003-04 when it declined marginally.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilization efforts. The revenue expenditure as a percentage to total expenditure remained stable around 86 *per cent* till 2003-04 but indicates a declining trend thereafter. Though, the higher buoyancy ratio of total expenditure as compared to that of revenue expenditure with respect to revenue receipts indicates the propensity of the State Government to create assets by resorting to capital expenditure. Increasing reliance on revenue receipts to finance the

total expenditure which amounts to 85 *per cent* during 2006-07 indicates decreasing dependence on borrowed funds. This is also reflected by the decreasing ratio of financial liabilities to revenue receipts. Increasing proportion of plan expenditure and capital expenditure in the total expenditure also indicates improvement in both developmental and quality of expenditure.

Revenue surplus and significant decline in fiscal deficit during 2006-07 indicates an improvement in fiscal position of the State. The Balance from Current Revenue (BCR) (Rs 8330 crore) increased by 131 *per cent* over previous year indicating ample funds were available for creation of assets and to meet state plan schemes.

1.12 Conclusions

During 2006-07, Government succeeded in taking appropriate measures to eliminate revenue deficit and build up revenue surplus and also contain fiscal deficit to 3 *per cent* ahead of two years than stipulated in APFRBM act 2005. The Revenue surplus of Rs 2807 crore during current year was due to increase in revenue receipts by 27 *per cent* though revenue expenditure increased by 18 *per cent* over the previous year. However, the expenditure on salaries and pension increased by 16 *per cent* and 30 *per cent* respectively over the previous year. The misclassification of revenue receipts of Rs 1889 crore on account of sale of land and building as capital receipts reduced revenue surplus to that extent. The fiscal deficit decreased by Rs 2656 crore over previous year mainly due to increased receipts and better recovery of loans and advances. The decrease in fiscal deficit, also resulted in primary surplus of Rs 1636 crore. The developmental expenditure constituted 68 *per cent* of total expenditure. Capital expenditure of Rs 9904 crore recorded a growth rate of 35 *per cent* over previous year. The lion's share of capital expenditure was absorbed by Irrigation and Flood Control sector. During current year, assets grew by Rs 11837 crore and liabilities grew by Rs 7140 crore. Despite better asset formation during the year, 27 *per cent* of liabilities have no asset back up. Due to better management of cash balances, the Government did not resort to ways and means for successive third year.