

Chapter I

Finances of the State Government

Profile of Andhra Pradesh

Andhra Pradesh is the fourth largest State in India in terms of geographical area of 2.75 lakh sq. km with a population of 8.47 crore as per the 2011 census. The State has shown marginally higher economic growth in the past decade, as the compound annual growth rate of its Gross State Domestic Product for the period 2001-02 to 2010-11 has been 15.36 *per cent* as compared to 14.68 *per cent* in General Category States¹. During this period, its population also grew by 11.10 *per cent* against 17.56 *per cent* in General Category States. Consequently, the compound annual growth rate of per capita income in the State (12.55 *per cent*) has been higher than that of the General Category States (11.32 *per cent*) in the current decade.

Key socio-economic parameters of the State viz., population Below Poverty Line (15.8 *per cent*), Infant Mortality Rate (49 per 1000 live births) and Life Expectancy at birth (64.4 *years*) are better than the All India average. Also, inequality of income distribution, as reflected through the Gini² co-efficient was marginally lower in the State in rural areas (0.29) than the national average, but approximately the same in urban areas (0.37) as the All India position(*Appendix 1.1*).

1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Andhra Pradesh during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. This analysis was made based on the Finance Accounts and the information obtained from the State Government. The structure of Government Accounts and the layout of Finance Accounts are given in *Appendix 1.2*.

1.2 Summary of current year's fiscal transactions

Table 1.1 presents the summary of State Government's fiscal transactions during the current year (2010-11) vis-à-vis the previous year, while *Appendix 1.3* provides the details of receipts and disbursements as well as overall fiscal position during the current year.

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

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

Table 1.1 Summary of fiscal transactions

(₹ in crore)

Receipts			Disbursements				
Section A	2009-10	2010-11	Section A	2009-10	2010-11		
	Total	Total		Total	NonPlan	Plan	Total
Revenue receipts	64,678	80,996	Revenue expenditure	63,448	58,833	19,701	78,534
<i>Tax revenue</i>	<i>35,176</i>	<i>45,139</i>	<i>General services</i>	<i>21,392</i>	<i>26,577</i>	<i>131</i>	<i>26,708</i>
<i>Non-tax revenue</i>	<i>7,803</i>	<i>10,720</i>	<i>Social services</i>	<i>25,757</i>	<i>18,042</i>	<i>14,272</i>	<i>32,314</i>
<i>Share of Union Taxes/Duties</i>	<i>12,141</i>	<i>15,237</i>	<i>Economic services</i>	<i>16,213</i>	<i>14,048</i>	<i>5,298</i>	<i>19,346</i>
<i>Grants from GOI</i>	<i>9,558</i>	<i>9,900</i>	<i>Grants-in-aid and Contributions</i>	<i>86</i>	<i>166</i>	<i>---</i>	<i>166</i>
Section B			Section B				
Misc. Capital receipts	---	---	Capital Outlay	13,793	3	11,120	11,123
Recoveries of Loans and Advances	143	173	Loans and Advances disbursed	1,590	102	3,213	3,315
Public Debt Receipts³	19,753	18,722	Repayment of Public Debt	6,277	---	---	7,881
Contingency Fund	7	---	Contingency Fund	---	---	---	2
Public Account Receipts	71,780	76,218	Public Account disbursements	70,243	---	---	72,407
<i>Opening Cash Balance</i>	<i>4,973</i>	<i>5,983</i>	<i>Closing Cash Balance</i>	<i>5,983</i>	<i>---</i>	<i>---</i>	<i>8,830</i>
Total	1,61,334	1,82,092	Total	1,61,334	---	---	1,82,092

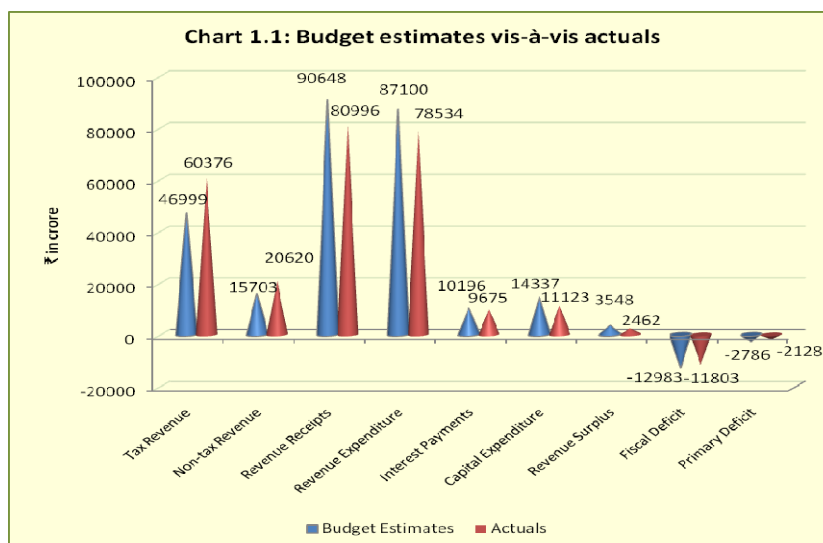
Significant changes in the fiscal position of the State during 2010-11 over the previous year are given below:

Revenue Receipts	- Increased by 25.23 per cent - Own tax revenue increased by 28.32 per cent	<p><i>The State Government achieved revenue surplus for the fifth consecutive year and the fiscal deficit (₹ 11,803 crore) was 2.08 per cent of GSDP during the current year, as against 2.95 per cent in 2009-10, i.e. well within the ceiling of 3 per cent fixed by FRBM Act and the Thirteenth Finance Commission.</i></p>
Revenue Expenditure	- Increased by 23.78 per cent - Plan expenditure increased by 27.58 per cent - Non-plan expenditure increased by 22.55 per cent	
Capital Expenditure	- Decreased by 19.30 per cent	
Loans and Advances	- Recoveries increased by 20.97 per cent - Disbursements increased by 108.49 per cent	
Public Debt	- Receipts decreased by 5.22 per cent - Repayment increased by 25.55 per cent	
Cash Balance	- Increased by 47.58 per cent	

³Excluding net transactions under Ways and Means Advances and Overdraft

1.3 Budget estimates and actuals

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



There were considerable variations between budget estimates and actuals in several parameters. Revenue receipts and expenditure decreased by 10.65 *per cent* and 9.83 *per cent* respectively, resulting in decrease in revenue surplus by 30.61 *per cent* over the budget estimates.

Revenue realization was less than the budget estimates mainly in respect of sale of land and property (99.48 *per cent*), Central sales tax (23.29 *per cent*) and State sales tax (7.52 *per cent*). Revenue expenditure was also less than the budget estimates (9.83 *per cent*) mainly in respect of irrigation and flood control (40.39 *per cent*), power (non-release of subsidy: 18.94 *per cent*), urban development (21.66 *per cent*), social welfare and nutrition (8.61 *per cent*) and interest payments (5.11 *per cent*). Fiscal and primary deficits were also less by 9.09 *per cent* and 23.62 *per cent* respectively over budget estimates.

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 duly amended in 2011, limiting its total outstanding liabilities to 30.3 *per cent* of Gross State Domestic Product (GSDP) for the year 2010-11 and 27.6 *per cent* of GSDP by 2014-15. A summary of FRBM Act 2005 as amended in 2011 is given in **Appendix 1.5**. The Government of Andhra Pradesh has not prepared the outcome indicators of Fiscal Correction Path during the period covered by Thirteenth Finance Commission. Due to change in the base year for calculation of GSDP from 1999-2000 to 2004-05 based on new series of National Accounts Statistics introduced by the Central Statistics Office, New Delhi, the calculation of and comments on GSDP at current prices have undergone a change over the five year period 2006-11.

1.5 Resources of the State

1.5.1 Resources of the State as per Annual Finance Accounts

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

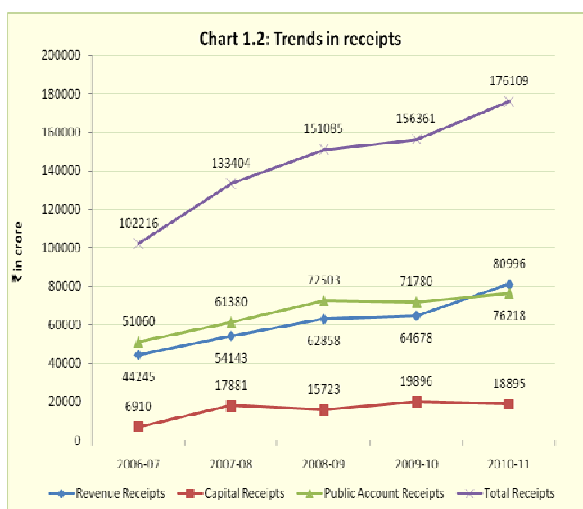
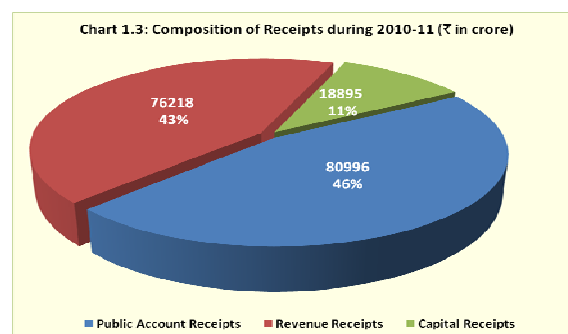


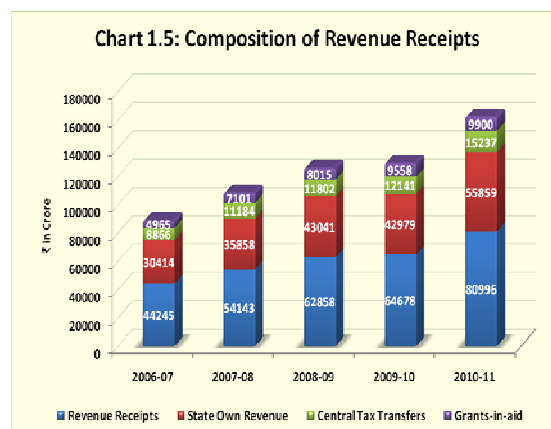
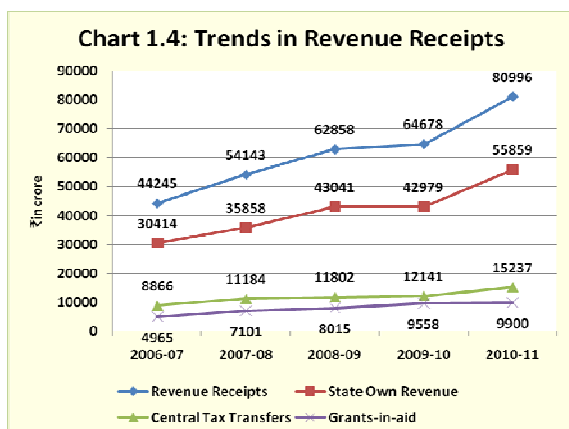
Table 1.1 presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts, while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2010-11. **Chart 1.3** depicts the composition of resources of the State during the current year. As can be seen from **Chart 1.2**, the total receipts of the State increased from ₹ 1,02,216 crore in 2006-07 to ₹ 1,76,109 crore in 2010-11.

The share of revenue receipts in total receipts ranged between 41 and 46 *per cent* during 2006-11. The share of capital receipts fluctuated during the last five years and accounted for 11 *per cent* in the current year. Receipts under Public Account constituted 43 to 50 *per cent* of the total receipts during the last five years.



1.6 Revenue receipts

Statement 11 of Finance Accounts deals with the revenue receipts of the Government. Revenue receipts consist of own- tax and non-tax revenue, central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2006-11 are presented in **Appendix 1.6** and also depicted in **Charts 1.4** and **1.5** below:



Revenue receipts have shown a progressive increase over the five year period 2006-11 at an average growth rate of 18.71 *per cent*. The growth rate (25.23 *per cent*) during the current year was higher than the average growth rate during the last five years. Revenue receipts (₹ 80,996 crore) realized during the current year fell short by ₹ 6,436 crore (7.36 *per cent*) over the projection (₹ 87,432 crore) made in Macro Economic Framework Statement (MEFS). The State's own-tax and non-tax revenue (₹ 55,859 crore) during the current year increased by ₹ 12,880 crore over the previous year but were less by (₹ 2,672 crore) than the projection made in MEFS. The actual receipts under State's tax revenue and non-tax revenue vis-à-vis assessments made by 13th Finance Commission and the State Government during 2010-11 are given in **Table 1.2** below:

Table 1.2: Revenue receipts vis-à-vis assessment

(₹ in crore)

	Assessments made by 13 th Finance Commission	Projections by State Government in MEFS	Actuals
Tax Revenue	46,074	47,421	45,139
Non-Tax Revenue	6,761	11,110	10,720

(Source: State Finance Accounts 2010-11 and statement laid before the legislature under FRBM Act during 2010-11 and 13th Finance Commission recommendations)

The growth rate of revenue receipts and own tax revenue has increased in four out of the past five years except in 2009-10. There was an appreciable growth in current year over the previous year in both the components.

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

Table 1.3: Trends in revenue receipts relative to GSDP

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Receipts (RR) (₹ in crore)	44,245	54,143	62,858	64,678	80,996
Rate of growth of RR ⁴ (Per cent)	26.95	22.37	16.10	2.90	25.23
RR/GSDP (Per cent) ⁵	14.70	14.84	15.12	13.61	14.27
Buoyancy Ratios ⁶					
Revenue Buoyancy w.r.t. GSDP	1.53	1.06	1.15	0.20	1.30
State's Own Tax Buoyancy w.r.t. GSDP	1.39	0.96	1.13	0.38	1.46

1.6.1 State's own resources

As the State's share in Central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts and Central assistance for plan schemes etc, the State's performance in mobilization of additional resources are assessed in terms of its own resources comprising revenue from its own tax and non-tax resources.

1.6.1.1 Own Tax revenue

Own-tax revenue (OTR) registered an impressive growth rate of 28.32 *per cent* over the previous year. During the current year, major share of tax revenue was contributed by sales tax (65 *per cent*) owing to revision of rates of VAT on goods taxable at standard rate under schedule V of APVAT Act, 2005 from 12.5 *per cent* to 14.5 *per cent*, and from 4 *per cent* to 16 *per cent* on aviation turbine fuel. The increased income on stamp duty and registration fee (45.28 *per cent*) was due to revision of market value of properties and withdrawal of exemption of stamp duty on flats with plinth area of less than 1,200 sqft. The increase in taxes on vehicles (31.63 *per cent*) was on account of growth in auto sector, bringing the construction equipment vehicles into lifetime tax fold and increase in life tax for four wheelers. This pushed up the own tax revenue of the State. The share of State excise in own tax revenue showed an increasing trend over the five year period, registering a high of 18 *per cent* during the current year, due to increase in taxes on foreign liquor and spirits.

1.6.1.2 Non tax revenue

Non-tax revenue (NTR), which constituted 12 to 15 *per cent* of the total revenue receipts during the five year (2006-11) period, increased by ₹ 2,917 crore in the current year, over the previous year. The increase was mainly on account of release of amount of debt waiver (₹ 703 crore) pertaining to 2009-10 during the current year by GOI, interest receipts of ₹922 crore and income from non-ferrous mining and metallurgical industries (₹ 178 crore).

⁴ see glossary at page 84

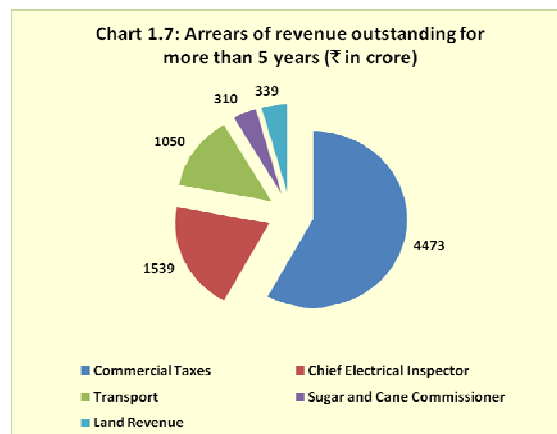
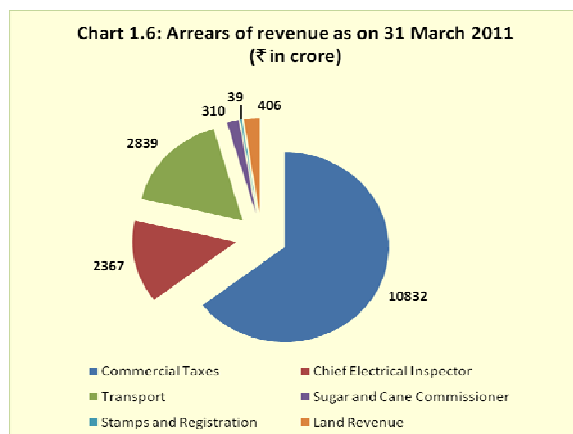
⁵ As per the GSDP figures communicated by Directorate of Economics and Statistics the GSDP of A.P. at Current Prices was revised for all the five years from 2006-07 to 2010-11 as depicted in **Appendix 1.6** due to adoption of revised base year 2004-05

⁶ see glossary at page 84

Interest receipts during the year included ₹ 5,379 crore on account of book adjustment of interest receipts from irrigation projects as against ₹ 4,529 crore adjusted in the previous year. The NTR (₹ 10,720 crore) was less than the projections made in budget estimates (₹ 15,703 crore) and MEFS (₹ 11,110 crore).

1.6.2 Revenue arrears

The arrears of revenue as reported by the departments concerned as on 31 March 2011 and outstanding for more than five years in respect of some of the principal heads of revenue are depicted in **Charts 1.6** and **1.7** below:



The arrears of revenue have increased by ₹ 4,639 crore during the current year (₹ 16,793 crore) over the previous year (₹ 12,154 crore). The arrears at the end of March 2011 include arrears of ₹ 7,710 crore (46 *per cent*) outstanding for more than five years. The State Government stated that the arrears were on account of pending court cases in respect of taxes and duties on electricity (₹ 2,367 crore), and non-payment of taxes on vehicles due from APSRTC (₹ 2,836 crore). No specific reasons were furnished for the remaining arrears (₹ 11,590 crore) including Commercial Taxes (₹ 10,832 crore) and Land Revenue (₹ 406 crore).

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

During the current year, there was loss of revenue of ₹ 559 crore as reported by the Commercial Tax Department, Forest Department, Civil Supplies Department and Transport Department due to write off (₹ 151 crore), evasion (₹ 317 crore) and refunds (₹ 91 crore).

1.6.4 Cost of collection

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

Table 1.4: Cost of collection of revenue

(₹ in crore)

Head of revenue	Year	Gross collection	Expenditure on collection	% of cost of collection to gross collection
Taxes on sales, trade etc,	2008-09	21,852	191	0.87
	2009-10	23,640	216	0.91
	2010-11	29,145	262	0.90
State Excise	2008-09	5,753	184	3.19
	2009-10	5,848	201	3.43
	2010-11	8,265	234	2.83
Taxes on Vehicles	2008-09	1,801	58	3.22
	2009-10	1,995	65	3.26
	2010-11	2,626	85	3.24
Stamp Duty and Registration fee	2008-09	2,931	74	2.52
	2009-10	2,639	88	3.33
	2010-11	3,834	95	2.48

The cost of collection has been fluctuating over the last three years. With reference to cost of collection at All India level available for 2008-09, the cost of collection in the State is below the national average in most of the taxes, except in respect of taxes on vehicles.

1.6.5 Central tax transfers

There was an increase in Central tax transfers during the current year by 25.50 *per cent* over previous year. The increase was mainly on account of taxes on immovable property other than agriculture (71.23 *per cent*), share of net proceeds under customs (56.80 *per cent*) Union excise duties (41.60 *per cent*) and service tax (18.51 *per cent*).

1.6.6 Grants from Government of India

There was an increase in grants from Government of India during the current year by 4 *per cent* (₹ 342 crore) over the previous year. In addition to the grants given to the State, the Central Government has been transferring a sizeable quantum of funds directly to the State implementing agencies⁷ for implementation of various schemes/programmes in social and economic sectors recognised as critical. As these funds are not routed through the State budget/State treasury system, the Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated. To present a holistic picture about the

⁷ State Implementing Agencies include any Organization/Institution including Non-Governmental Organization, which is authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State, such as State Implementation Society for SSA and State Health Mission for NRHM etc.

availability of aggregate resources, funds directly transferred by the GOI to State implementing agencies are presented in **Appendix 1.7**.

During the current year, GOI transferred ₹ 12,174 crore directly to the State implementing agencies concerning various Central Schemes/programmes, without routing through the State budget. Funds flowing directly to the implementing agencies through off-budget route inhibit Fiscal Responsibility Legislation (FRL) requirements of transparency and escape accountability. ***There is no single agency monitoring the use of these funds and no data is readily available on the amount spent in any particular year on major flagship and other important schemes. The State Government has to put in place an appropriate mechanism to ensure proper accounting of these funds.***

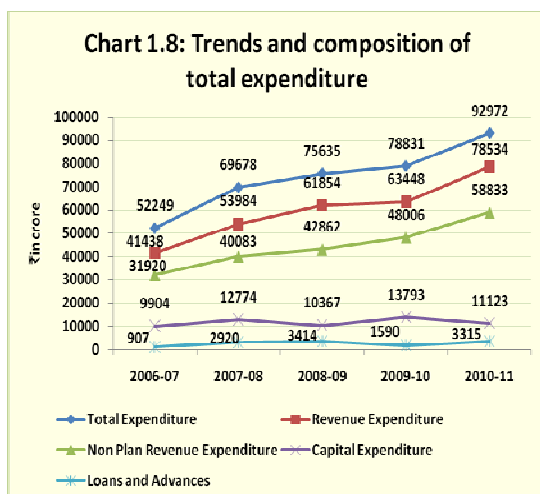
1.7 Application of resources

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

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

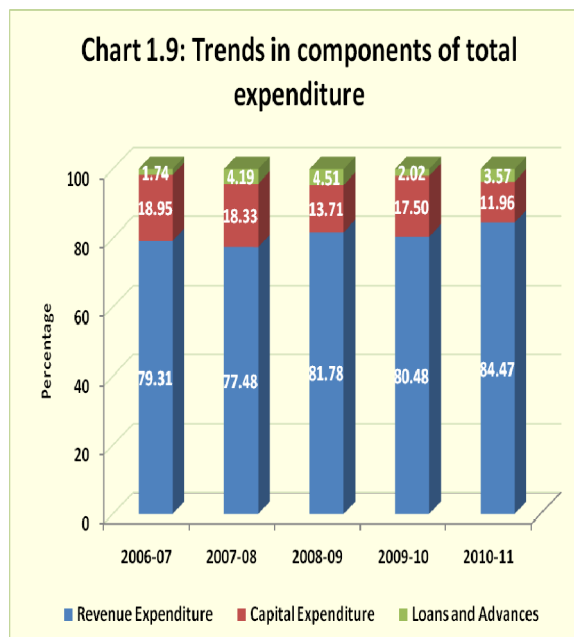
1.7.1 Growth and composition of expenditure

Chart 1.8 presents the trends in total expenditure over a period of five years (2006-11). The composition of total expenditure both in terms of ‘economic classification’ and ‘expenditure by activities’ is depicted in **Charts 1.9** and **1.10** respectively.



Total expenditure (₹ 92,972 crore) increased in 2010-11 by ₹ 14,141 crore (18 per cent) over the previous year (₹ 78,831 crore) mainly due to increase in loans and advances (₹ 1,725 crore) and revenue expenditure (₹ 15,086 crore), partly offset by decrease in capital expenditure (₹ 2,670 crore). During the current year, 87 per cent of the total expenditure was met from revenue receipts and the balance from borrowed funds. The total expenditure was less than that projected in the budget (₹ 1,01,324 crore).

Revenue expenditure (₹ 78,534 crore) increased during the current year, over the previous year but fell short by ₹ 8,358 crore (9.62 *per cent*) over the projection (₹ 86,892 crore) made in MEFS for the year 2010-11. In the context of State finances, the quality of expenditure has always been an important issue. Currently, revenue expenditure accounts for around 84 *per cent* of State's aggregate expenditure, which is in the nature of current consumption leaving little scope for investment in infrastructure and asset creation. This has implications for growth prospects of the State.



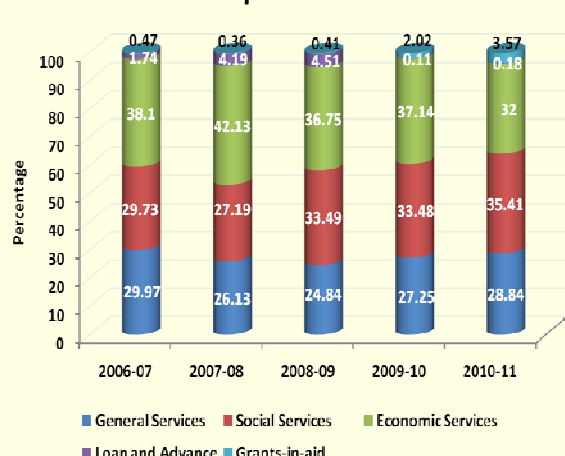
There is a need to identify unwarranted items of revenue expenditure, which have low growth and welfare implications.

Revenue expenditure increased by ₹ 15,086 crore over the previous year and constituted 13.84 *per cent* of GSDP. There was significant increase in revenue expenditure under (i) interest payments and servicing of debt (₹ 847 crore) (ii) education, sports, art and culture (₹ 4,094 crore) mainly due to increase in assistance to local bodies for Secondary Education and to Universities for technical education; (iii) social security and welfare (₹1,602 crore), mainly due to disbursements towards education under SC, BC welfare and economic development under BC welfare and (iv) irrigation and flood control (₹ 1,084 crore) due to increased expenditure on major irrigation. The non-plan revenue expenditure (NPPE) component during 2010-11 constituted 75 *per cent* of revenue expenditure against 76 *per cent* in 2009-10.

Capital expenditure (₹ 11,123 crore) during 2010-11 decreased by ₹ 2,670 crore over the previous year (₹ 13,793 crore) and constituted 11.96 *per cent* of total expenditure. The decrease was mainly on major and medium irrigation (₹ 2,164 crore) and roads and bridges (₹ 242 crore). Capital expenditure at 1.96 *per cent* of GSDP was less than the projection (₹ 14,432 crore) made in MEFS for 2010-11.

Loans and Advances disbursed during the current year increased by 108.49 *per cent* over the previous year. The share of disbursement of loans and advances in total expenditure was between 2 to 4 *per cent* during the five year period 2006-11.

Chart 1.10: Trends by Activities of total expenditure



Trends by Activities: The share of general services in total expenditure increased by 1.59 *per cent* over the previous year due to increase in interest payment by ₹ 761 crore in the current year. There was an increase in the share of social services also in total expenditure by 1.93 *per cent*. However, expenditure under capital head declined both on social and economic services by ₹ 30 crore and ₹ 2,656 crore respectively, indicating inadequate focus on asset creation.

1.7.2 Committed expenditure

Committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.5** and **Chart 1.11** present the trends in the expenditure on these components during 2008-11.

Table 1.5: Components of committed expenditure

(₹ in crore)

Components of committed expenditure	2008-09	2009-10	2010-11		
			Budget estimates	Actuals	Percentage variation
Salaries* & Wages, Of which	14,539(23)	17,721(27)	26,111(29)	23,844(29)	(-)8.68
Non-Plan head	12,883	15,706	23,281	21,128	(-)9.25
Plan head**	1,656	2,015	2,830	2,716	(-)4.03
Interest payments	8,057	8,914	10,196	9,675	(-)5.11
Pensions	5,518	6,339	8,428	9,609	14.01
Subsidies	6,213	6,056	7,204	6,543	(-)9.18
Total	34,327	39,030	51,939(57)	49,671(61)	(-)4.37

Figures in parenthesis indicate percentage.

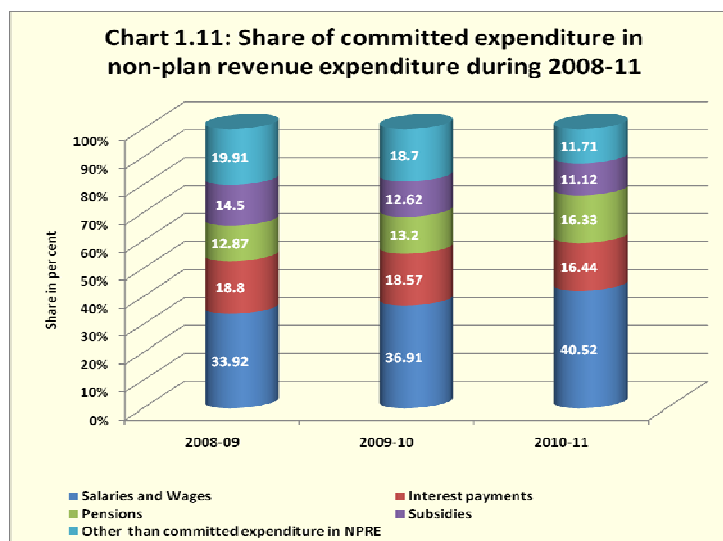
* It also includes the salaries paid out of grants-in-aid and work charged establishment

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

Committed expenditure on salaries and wages, pensions, interest payments and subsidies constituted 84 *per cent* of NPPE during 2010-11

1.7.2.1 Salaries and Wages

Expenditure on salaries and wages during the current year increased by 34.55 *per cent* over the previous year. It was, however, less than the budget estimates by 8.68 *per cent*. During the current year, expenditure on salary was 40 *per cent* of revenue expenditure net of interest and pension payment.



1.7.2.2 Interest payments

Although the share of interest payments in revenue expenditure has fallen to 12 *per cent* during the current year, there was an increase in interest payments by ₹ 761 crore (9 *per cent*) over the previous year. It was, however, less than the projection made in MEFS (₹10,196 crore) and was the net effect of increase in interest on internal debt (₹ 888 crore) and decrease in small savings and provident fund (₹ 111 crore) and on loans and advances from GOI (₹ 16 crore). The major source of borrowings during the year was market loans (₹ 12,000 crore) at interest rates ranging from 8.07 to 8.57 *per cent*. Interest payment (₹9,675 crore) was less than the assessment made in the 13th Finance Commission (₹9,863 crore).

1.7.2.3 Pensions

The expenditure on pensions, which was 9-10 *per cent* of the revenue receipts during the last two years, increased to 12 *per cent* during the current year. Pension payments (₹ 9,609 crore) during 2010-11 increased over the previous year (₹ 6,339 crore) by ₹ 3,270 crore (51.58 *per cent*) and was more than the budget estimates (₹ 8,528 crore) and assessment made in the 13th Finance Commission (₹ 7,751 crore). The State Government introduced a contributory pension scheme for employees recruited on or after 1 September 2004 to mitigate the impact of rising pension liabilities in the long term, but had not estimated the yearly pension liabilities on actuarial basis for the ensuing years as stipulated in the FRBM Act.

1.7.2.4 Subsidies

The total expenditure on subsidies during the current year was ₹ 6,543 crore, of which, subsidy on power was ₹ 3,647 crore (56 *per cent*), rice subsidy was ₹ 2,250 crore (34 *per cent*) and other subsidies were ₹ 646 crore (10 *per cent*). The subsidies increased by ₹ 487 crore (8.04 *per cent*) over the previous year although decreased by ₹ 661 crore (9.18 *per cent*) over the budget provision. Further, there was decrease in subsidies by 42.89 *per cent* over the projections made in the MEFS (₹ 11,456 crore). While there was an increase in subsidies on power (₹ 435 crore) and AP micro irrigation project (₹ 245 crore), there was a decrease in subsidy on rice (₹ 100 crore), distribution of LPG connections to women in rural/municipal areas (₹ 57 crore) and interest subsidy on loans taken by DWCRA groups (₹ 39 crore). Unlike in many other States, Andhra Pradesh follows a system of providing explicit subsidy to power utilities, which is a more transparent way of depicting the subsidies.

1.7.3 Financial assistance to local bodies and other institutions

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

Table 1.6: Financial assistance to Local Bodies etc.

	(₹ in crore)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	1,767	1,876	1,820	1,994	2,876
Municipal Corporations and Municipalities	233	2,699	4,105	3,142	3,671
Zilla Parishads and other PR Institutions	1,310	921	2,503	1,867	1,745
Development Agencies	1,747	3,715	11,791	7,481	8,363
Hospitals and Other Charitable Institutions	387	600	1,152	1,393	1,721
Other Institutions ⁸	5,322	8,851	3,436	3,965	4,538
Total	10,766	18,662	24,807	19,842	22,914
Assistance as percentage of RE	26.00	34.53	40.11	31.27	29.18

Financial assistance, including grants and loans, extended to local bodies and other institutions in 2010-11 (₹ 22,914 crore) increased by ₹ 3,072 crore (15 *per cent*) over the previous year (₹ 19,842 crore) and constituted 29.18 *per cent* of revenue expenditure. The plan and non-plan grants given to local bodies and other institutions in 2010-11 were ₹12,467 crore and ₹ 7,234 crore respectively. The major receivers of grants in 2010-11 were APTRANSCO for agriculture and allied subsidy (₹ 3,647 crore), INDIRAMMA pension to old age persons and widows (₹ 1,094 crore), interest subsidy on loans (3 *per cent*) taken by DWCRA groups (₹ 565 crore), JNNURM (₹ 544 crore) and Rajiv Vidya Mission (₹ 537 crore). Grants-in-aid included ₹ 2,810 crore towards salaries paid to staff

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

of grantee institutions, which constituted 12 *per cent* of the total grants-in-aid paid. In respect of other institutions, out of ₹ 4,538 crore, major amount of ₹ 2,300 crore was given to various grantee institutions towards disbursement of INDIRAMMA pension to disabled, old age pensions, *pavala vaddi*, insurance and pension to DWCRA groups.

1.8 Quality of expenditure

1.8.1 Adequacy of public expenditure

The expenditure responsibilities relating to social sector and economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.7** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2010-11.

Table 1.7: Fiscal Priority of the State in 2007-08 and 2010-11

(In *per cent*)

Fiscal Priority by the State*			AE/GSDP	DE [#] /AE	SSE/ AE	CE/AE	Education/ AE	Health /AE
General Category States	Average	(Ratio) 2007-08	16.85	64.28	32.54	16.14	14.64	3.98
Andhra Pradesh's	Average	(Ratio) 2007-08	19.10	73.38	30.78	18.33	9.67	3.71
General Category States	Average	(Ratio) 2010-11	16.65	64.42	36.75	13.27	17.42	4.35
Andhra Pradesh's	Average	(Ratio) 2010-11	16.38	70.87	38.15	11.96	13.54	4.60
* As <i>per cent</i> to GSDP 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.								

An analysis of the data (**Table 1.7**) of AP in comparison with General Category States reveals the following:

- *Development expenditure as a proportion of aggregate expenditure has been higher in Andhra Pradesh than the General Category States' average during 2007-08 and 2010-11.*
- *Expenditure of the State on social sector (30.78 per cent), especially, health (3.71 per cent) and education (9.67 per cent) was lower than the General Category States in 2007-08. While it compared more favourably with the General Category States during 2010-11 with increased expenditure on social sector (38.15 per*

cent), in particular, on health (4.60 per cent), expenditure on education (13.54 per cent) was way below the General Category States (17.42 per cent).

- The proportion of expenditure on capital has been higher (18.33 per cent), as compared to General Category States (16.14 per cent) during 2007-08 but reduced considerably (11.96 per cent) during the current year. It was also less than the General Category States (13.27 per cent).
- As per the latest Census (2011), the literacy rate in the State improved to 67.66 per cent from 60.47 per cent (2001 Census).
- In health sector, as per 2011 Census, the State had higher life expectancy at birth (64.4 years) as against the national average of 63.5 years. Infant mortality was less (49 per 1000 live births) than the national average of (50 per 1000 live births).

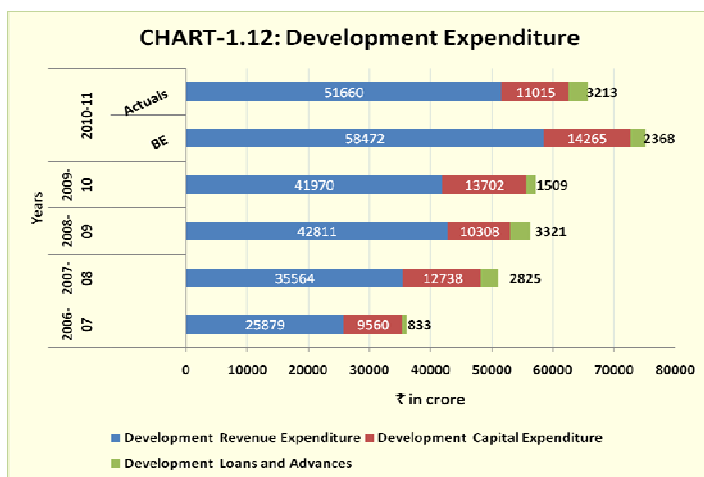
Greater fiscal priority needs to be accorded to education and health sectors. Besides, capital expenditure needs to be increased to create adequate asset back up for increasing liabilities.

1.8.2 Efficiency of expenditure use

In view of the emphasis on public expenditure on socio-economic developmental works in successive plans, it is important that the State Government takes appropriate expenditure rationalization measures and focus on provision of core public and merit goods⁹. Apart from improving the allocation towards development expenditure¹⁰, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. **Chart 1.12** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis budgeted and the previous years.

⁹ see glossary at page 84

¹⁰ see glossary at page 84



During 2010-11 the total development expenditure increased by ₹ 8,707 crore (15.23 *per cent*) over the previous year and constituted 69 to 75 *per cent* of aggregate expenditure during 2006-11. Development revenue expenditure constituted 49 to 57 *per cent* of aggregate expenditure during 2006-11.

There was an increase in development revenue expenditure by ₹ 9,690 crore over the previous year, with all components of social services and economic services registering an increase.

During the current year, while the development capital expenditure decreased by ₹ 2,687 crore (20 *per cent*) development loans and advances increased by ₹ 1,704 crore (113 *per cent*) over the previous year. The decrease in development capital expenditure was essentially in economic services (₹ 2,656 crore) under irrigation and flood control (₹ 2,165 crore) and transport (₹ 242 crore).

The share of general services including interest payments in total expenditure has been decreasing steadily during the last three out of five years but increased to 28.73 *per cent* in the current year. During 2010-11, the share of social services and economic services constituted 35 and 32 *per cent* of total expenditure respectively.

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

Table 1.8: Efficiency of expenditure use in selected social and economic services*(In per cent)*

Social/Economic Infrastructure	2009-10			2010-11		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S&W	O&M		S&W	O&M
Social Services (SS)						
General Education	0.50	86.56	0.33	0.40	68.26	0.14
Health and Family Welfare	1.22	58.91	0.41	0.43	49.12	0.56
Water supply, Sanitation, Housing & Urban Development	7.49	13.58	0.66	6.22	17.12	3.00
Total (SS)	2.42	41.85	0.05	1.85	38.02	0.46
Economic Services (ES)						
Agriculture & Allied Activities	0.03	27.39	0.17	1.02	31.62	0.60
Irrigation and Flood Control	67.37	7.95	7.09	58.16	4.86	9.46
Power & Energy	0.31	0.92	---	0.57	0.30	0.11
Transport	51.54	7.31	66.19	50.77	2.67	66.54
Total (ES)	44.62	15.09	7.66	34.97	12.60	6.81
Total (SS+ES)	24.61	31.51	2.99	12.28	18.75	1.87
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operation & Maintenance of respective sector.						

Although no specific norms were laid down for prioritization of capital expenditure in State's FRBM Act, decrease in capital expenditure during 2010-11 indicated that adequate impetus is not being given to asset formation in the State. This is especially so considering that the ratio of capital expenditure in respect of social services i.e. general education and health is less than one. Clearly the Government has not been focusing on infrastructure creation in these important sectors. While in economic services the performance of irrigation, flood control and transport is encouraging, capital formation in energy sector is far from satisfactory. The Government needs to initiate appropriate steps for creation of assets/infrastructure in energy sector. *The Operation and Maintenance expenditure (₹ 1,668 crore) in 2010-11 constituted 2.06 per cent and 2.12 per cent of revenue receipts and revenue expenditure respectively.*

1.9 Financial analysis of Government expenditure and investments

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

expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.9.1 Incomplete Projects

Blocking of funds on incomplete works impinge negatively on the quality of expenditure. As per the information provided by the Government, 188 projects/works which were due for completion by 31 March 2011, were not completed. The total amount of funds expended so far on these projects is ₹ 46,330 crore. Further, of the 188 incomplete projects/works, the original cost of 98 projects/works was revised upwards by the Government to ₹ 63,890 crore. Non-completion of these projects/works within the stipulated period not only resulted in increase in cost etc, but also deprived the State of intended benefits for prolonged periods.

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

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

(₹ in crore)

Nature of works	No. of incomplete Projects	Original cost	Revised total cost of projects	Cost over run	Cumulative Expenditure as on 31-03-2011
Irrigation and Command Area Development Department					
Irrigation Projects	49	42,436	63,716 (34 projects)	28,498 (33 projects)	46,182
Roads and Bridges Department					
Roads and Bridges	65	150	137 (61 projects)	4 (7 projects)	34
Panchayat Raj and Rural Development Department					
Roads	66	181	37 (3 projects)	3 (3 projects)	86
Buildings	8	34	--	--	28
Total	188	42,801	63,890 (98 projects)	28,505 (43 projects)	46,330

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

1.9.2 Investment and returns

As of 31 March 2011, the State Government invested ₹ 6,046 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives (**Table 1.10**).

Table-1.10: Return on investment

Investment/Return/ Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year (Rupees in crore)	5,776	5,931	5,979	6,003	6,046
Return (Rupees in crore)	47	12	19	23	39
Return (<i>per cent</i>)	0.81	0.20	0.32	0.38	0.65
Average rate of interest on Government borrowing (<i>per cent</i>)	8.76	8.25	7.88	7.86	7.60
Difference between interest rate and return (<i>per cent</i>)	7.94	8.05	7.57	7.48	6.95

The Government earned a return of ₹ 39 crore, in 2010-11 on its investments which is more by ₹ 16 crore over that of 2009-10. The average rate of return on investment was 0.47 *per cent* during 2006-11, while the average rate of interest paid during the same period was 7.60 *per cent*.

As on March 2011, there were 48 working Companies/Corporations (45 Govt. Companies and 3 Statutory Corporations). Upto the year of accounts finalized, nine¹¹ Companies/Corporations had suffered a loss of ₹ 684 crore and an accumulated loss of ₹5,282 crore. Among others, AP State Housing Corporation Limited (₹ 2,929 crore) and APSRTC (₹ 1,984 crore) were major loss making organizations. Seven Companies/Corporations had a negative net worth of ₹ (-) 3,129 crore and eight Companies/Corporations had a negative earning per share of ₹ (-) 14.01 lakh. Further, the overall net profit of ₹ 517.53 crore of all 48 Companies/Corporations to the end of the year upto which accounts were finalised (2008-09 to 2010-11) had transformed into overall net loss of ₹ 199.20 crore if the impact of CAG and Statutory Auditor's comments are taken into account.

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

¹¹ 1.AP Urban Finance and Infrastructure Development Corporation Ltd., 2.Fab City (India) Pvt Ltd., 3.Hyderabad Growth Corridor Limited, 4.Damodara Minerals Pvt Ltd., 5.AP State Agro Industries Development Corporation Ltd., 6. AP State Irrigation Development Corporation Ltd., 7.AP State Housing Corporation Ltd., 8.Leather Industries Development Corporation of AP Ltd., 9.The Nizam Sugars Ltd.,

1.9.3 Loans and advances by State Government

In addition to investing in co-operative societies, corporations and companies, the State Government has also been providing loans and advances to many of these institutions/organisations. **Table 1.11** presents the outstanding loans and advances as on 31 March 2011, along with the status during the last three years.

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

(₹ in crore)

Quantum of Loans/Interest Receipts/Cost of Borrowings	2008-09	2009-10	2010-11	
			BE	Actual
Opening Balance	13,378	16,421	---	17,868
Amount advanced during the year	3,413	1,590	2,490	3,315
Amount repaid during the year	370	143	296	172
Closing Balance	16,421	17,868	2,786	21,011
<i>Of which</i> , outstanding balance for which terms and conditions have been settled	NA	NA	NA	NA
Net addition	3,043	1,447	2,194	3,142
Interest Receipts	21	32	45	60
Interest receipts as percentage of outstanding Loans and Advances	0.13	0.18	---	0.29
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	7.54	7.44	---	7.17
Difference between interest receipts and interest payments (<i>per cent</i>)	(-)7.41	(-)7.26	---	(-)6.88

Urban Development Authorities (₹ 960 crore) and State Housing Corporation (₹ 902 crore) were the major recipients of loans during the current year. At the end of 2010-11, recovery of ₹ 23,047 crore (Principal: ₹ 18,053 crore and Interest: ₹ 4,994 crore) was due from Municipalities, Local Bodies, Panchayat Raj institutions etc. Of these, recovery of ₹ 15,405 crore (Principal: ₹ 11,083 crore and Interest: ₹ 4,322 crore) was outstanding for more than three years. Out of ₹ 2,201 crore outstanding against Andhra Pradesh State Electricity Board (APSEB) on the eve of its bifurcation in January 1999, loans amounting to ₹ 561 crore are overdue. The Government is yet to bifurcate the assets and liabilities between the two bifurcated companies. Therefore, it is not clear as to how the Government proposes to recover the amount advanced to APSEB.

As of 31 March 2011, confirmation of balances of loans advanced to the tune of ₹ 14,423 crore was awaited. The earliest loan for which confirmation of balances was awaited relates to 1984-85. Housing (₹ 9,398 crore) and Urban Development (₹ 1,613 crore) are the major departments from whom acceptance was awaited as of 31 March 2011.

1.9.4 Cash balances and investment of Cash balances

During the current year, the Government of Andhra Pradesh invested ₹ 4,534 crore in GOI Treasury Bills as against ₹ 2,274 crore in the previous year. **Table 1.12** depicts the cash balances and investments made by the State Government out of these during the year.

Table 1.12: Cash balances and their investment

(₹ in crore)			
Particulars	As on 1 st April 2010	As on 31 st March 2011	Increase/ Decrease
Cash Balances	5,983	8,830	2,847
Investments from Cash Balances	2,274	4,534	2,260
a. GOI Treasury Bills	2,274	4,534	2,260
b. GOI Securities	---	---	---
c. Other Securities	---	---	---
d. Other Investments	---	---	---
Fund-wise break-up of Investment from Earmarked balances	3,674	4,525	851
a. Sinking Fund	3,063	3,843	780
b. Guarantee Redemption Fund	597	668	71
c. Other Funds	14	14	0
Interest realized	377	451	74

The rates of interest earned on the investments from cash balances and investments from earmarked balances worked out to 2.73 *per cent* and 7.24 *per cent* respectively during the year 2010-11, against the average market borrowing rate of 7.60 *per cent*.

The State Government maintained the minimum daily cash balance of ₹ 3.32 crore with RBI on 362 days during the year 2010-11 and resorted to Ways and Means Advance of ₹ 218 crore only on three days.

1.10 Assets and Liabilities

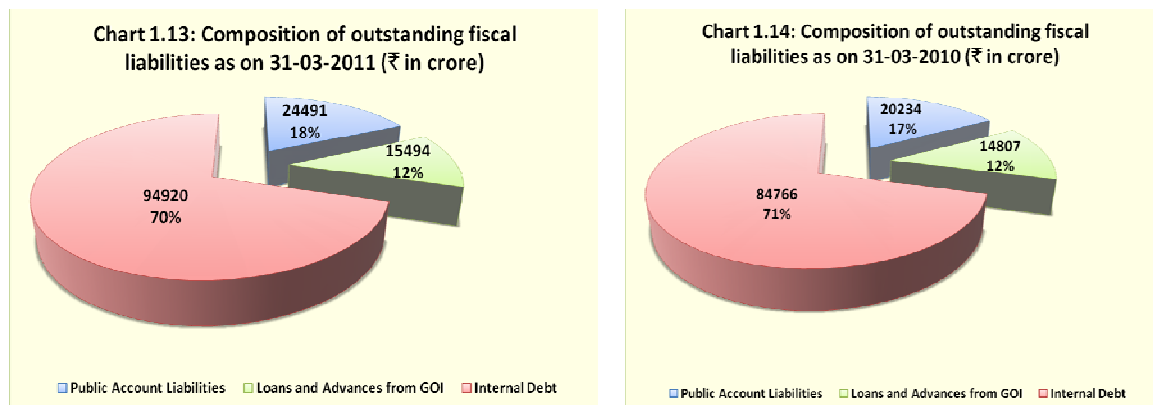
1.10.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.9** gives an abstract of such liabilities and the assets as on 31 March 2011, compared with the corresponding position on 31 March 2010. While liabilities consist mainly of internal borrowings, loans and advances from GOI, receipts from Public Account and Reserve Funds, assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

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

1.10.2 Fiscal liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.6**. The composition of fiscal liabilities during the current year vis-à-vis the previous year is presented in **Charts 1.13** and **1.14**.



The total fiscal liabilities of the State at the end of 2010-11 (₹ 1,34,905 crore) increased by ₹ 15,098 crore (13 *per cent*) over the previous year (₹ 1,19,807 crore) and stood at 1.67 times of revenue receipts.

Total fiscal liabilities as defined in FRBM Act worked out to ₹ 1,39,186 crore¹² at the end of the current year and stood at 24.52 *per cent* of GSDP against a ceiling of 30.3 *per cent* prescribed in FRBM Act. The State has also complied with 13th Finance Commission recommendation that all States should bring down their fiscal liabilities to 25 *per cent* of GSDP by 2014-15. In line with the TFC recommendations and FRBM Act, the State Government established Sinking Fund for reduction or avoidance of debt and Guarantee Redemption Fund and has been contributing to these funds at the rates prescribed by the RBI.

1.10.3 Status of guarantees – contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. State Government in its FRBM Act, committed to limit the amount of annual incremental risk weighted guarantees to 90 *per cent* of the total revenue receipts in the year preceding the current year, and constituted (January 2002) Guarantee Redemption Fund for discharging the guarantees invoked. During the current year, ₹ 78 crore was contributed to the Fund and the entire closing balance (₹ 668 crore) as on March 2011 was invested in Government securities.

As per Statement No. 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table 1.13**.

¹² Consolidated Fund and Public Account liabilities (₹ 1,34,905 crore), outstanding guarantees to be serviced out of State budget (₹ 2,987 crore) and outstanding off budget borrowings (₹ 1,294 crore)

Table 1.13: Guarantees given by the Government of Andhra Pradesh

(₹ in crore)

Guarantees	2008-09	2009-10	2010-11
Maximum amount guaranteed	29,990	20,324	29,554
Outstanding amount of guarantees	15,239	13,135	12,290
Percentage of maximum amount guaranteed to total revenue receipts	47.71	31.42	36.49

The maximum amount guaranteed (₹ 29,554 crore) is within the norm prescribed by the FRBM Act., i.e. 90 *per cent* of the total revenue receipts (₹ 58,210 crore) of the preceding year. The increase in the maximum amount guaranteed at the end of 2010-11 by ₹ 9,230 crore over the previous year was mainly in respect of AP TRANSCO (₹ 8,058 crore), APPFC (₹ 1,500 crore) under power sector and APSRTC (₹ 517 crore) under Roads and Transport sector. During the current year, the Government received ₹ 70 lakh on account of guarantee commission from cooperatives and an amount of ₹ 21.57 crore is due from various organizations as guarantee commission.

1.10.4 Off-budget borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the liabilities shown in **Table 1.13**, the State Government guaranteed loans availed of by Government companies/ corporations. These companies/corporations borrowed funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Although the State Government projects that funds for these programmes would be met out of the resources mobilised by these companies/corporations outside the State budget, in reality the borrowings of many of these concerns ultimately turn out to be the liabilities of the State Government and hence basically constitute off-budget borrowings.

Out of the off-budget borrowings of ₹ 2,231 crore raised by APTRANSCO through adjustment bonds, private placement and banks during 2001-09, the Government repaid ₹894 crore up to 2009-10 leaving a balance of ₹ 1,337 crore. During the current year, the Government has not raised any off-budget borrowing but re-paid ₹ 43 crore towards principle and ₹ 115 crore as interest of earlier years, leaving an amount of ₹ 1,294 crore outstanding.

The total liabilities of the State comprising fiscal liabilities (₹ 1,34,905 crore), off-budget borrowings (₹ 1,294 crore) and outstanding guarantees including interest at the end of March 2011 (₹ 12,290 crore) were ₹ 1,48,489 crore, which, as a ratio of GSDP, stood at 26.16 *per cent*, i.e. less than the ceiling of 30.3 *per cent* prescribed in FRBM Act.

1.11 Debt sustainability

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability¹³ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation¹⁴, sufficiency of non-debt receipts¹⁵; net availability of borrowed funds¹⁶; burden of interest payments (measured by ratio of interest payments to revenue receipts) and maturity profile of State Government securities. **Table 1.14** analyses the debt sustainability of the State according to these indicators during the five year period 2006-11.

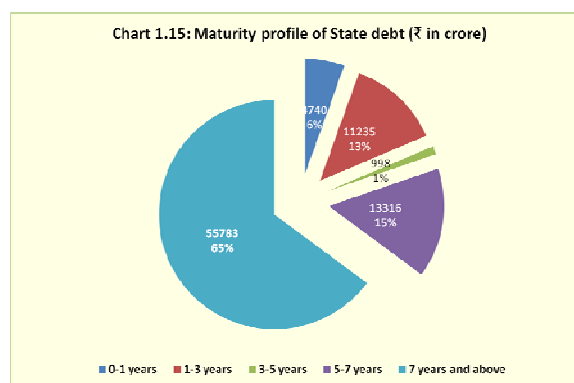
Table 1.14: Debt sustainability: Indicators and trends

Indicators of Debt Sustainability	2006-07	2007-08	2008-09	2009-10	2010-11
Debt Stabilisation (Quantum Spread + Primary Deficit) (₹ in crore)	9,311	13,796	10,861	12,800	18,101
Sufficiency of Non-debt Receipts (Resource Gap) (₹ in crore)	(+) 2,657	(-) 3,143	(-)3,710	(-) 1,603	(+)2,207
Net Availability of Borrowed Funds (Ratio)	(-) 0.01	0.13	0.03	0.07	0.08
Burden of Interest Payments (IP/RR Ratio)	0.16	0.14	0.13	0.14	0.12

The quantum spread together with primary deficit has been positive for the last five years resulting in decline in Debt/GSDP ratio from 0.29 in 2006-07 to 0.24 in 2010-11. These trends indicate the tendency towards debt stabilization, which would eventually improve the debt sustainability of the State. The resource gap has been negative in three out of the five year period. However, during the current year, the resource gap has been positive indicating that incremental non-debt receipts were sufficient to meet the incremental primary expenditure and interest burden. The ratio of debt redemption (principal + interest payments) to total debt receipts was negative during 2006-07 and turned positive during 2007-11 indicating the availability of borrowed funds for purposes other than debt repayment. The maturity profile of State debt is given in **Table 1.15** and **Chart 1.15**.

Table 1.15: Maturity Profile of State Debt

Maturity profile	Amount	Percentage
0 – 1 years	4,740	4.99
1 – 3 years	11,235	11.82
3 – 5 years	9,998	10.52
5 – 7 years	13,316	14.00
7 years and above	55,783	58.67
Total	95,072	100.00



¹³ see glossary at page 84

¹⁴ see glossary at page 84

¹⁵ see glossary at page 84

¹⁶ see glossary at page 84

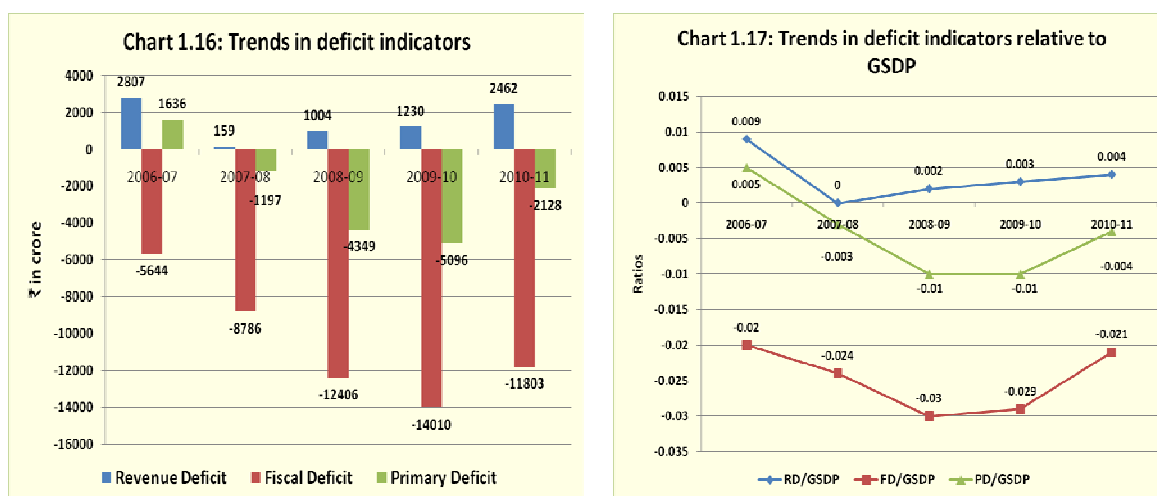
To discharge its expenditure obligations, the Government has to borrow further, since fiscal surplus was not available in any of the last five years. The significant increase in market borrowing (₹ 37,318 crore) of the State Government in 2008-09, 2009-10 and 2010-11 could lead to large repayment obligation from the year 2017-18 onwards. The maturity profile of outstanding stock of State Development Loans (SDLs) as on 31 March 2011 shows that 62 *per cent* of SDLs are in the maturity bucket of 7 years and above.

1.12 Fiscal imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. Deficit in Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of the Government in fiscal management. Further, the ways in which the deficit is financed and the resources raised are applied, are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also assesses the actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2010-11.

1.12.1 Trends in deficits

Charts 1.16 and 1.17 present the trends in deficit indicators over the period 2006-11.



There was revenue surplus for the fifth consecutive year during 2010-11. At ₹ 2,462 crore, revenue surplus increased by ₹ 1,232 crore over the previous year (₹ 1,230 crore). Fiscal deficit with inter-year variations decreased to ₹ 11,803 crore in 2010-11 (16 *per cent*) from ₹ 14,010 crore in 2009-10. Primary deficit decreased to ₹ 2,128 crore in 2010-11 (58 *per cent*) from ₹ 5,096 crore in 2009-10.

1.12.2 Components of Fiscal Deficit and its Financing Pattern

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

Table 1.16: Components of fiscal deficit and its financing pattern

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11		
					Receipts	Disbursements	Net
Decomposition of Fiscal Deficit	(-)5,644	(-)8,786	(-)12,407	(-)14,010			(-)11,803
Revenue Deficit/Surplus	2,807	159	1,004	1,230	80,996	78,534	2,462
Net Capital Expenditure	(-)8,015	(-)6,216	(-)10,367	(-)13,793	0	11,123	(-)11,123
Net Loans and Advances	(-)436	(-)2,729	(-)3,044	(-)1,447	173	3,315	(-)3,142
Financing Pattern of Fiscal Deficit							
Market Borrowings	1,173	6,182	10,911	13,403	16,478	6,324	10,154
Loans from GOI	(-)875	(-)43	(-)391	73	2,244	1,557	687
Small Savings, PF etc (Cr)	4,716	940	570	961	3,130	1,527	1,603
Reserve Funds (Cr)	19	252	271	(-)113	3,536	2,591	945
Deposits and Advances (Cr)	2,042	3,416	(-)1,812	(-)1,437	38,608	36,905	1,703
Suspense and Misc. (Dr)	(-)1,590	(-)2,828	4,405	(-)1	89,612	91,812	(-)2,200
Remittances (Cr)	(-)34	943	(-)1,621	1,435	15,030	16,381	(-)1,351
Others (Contingency Fund)	1	(-)1	(-)6	7	0.43	1.54	(-)1
Overall Surplus/Deficit	192	(-)75	80	(-)318	---	---	263

The State Government made credible progress towards fiscal consolidation and fiscal stability, which resulted in reduction of fiscal deficit in current year by ₹ 2,207 crore over the previous year. Further, it also resulted in arresting the trend of increase in fiscal deficit in four out of the last five years. The rate of growth of total expenditure in current year was less (18 per cent) than the growth of total revenue and non debt capital receipts (25 per cent) over the previous year. At ₹12,000 crore during 2010-11, market borrowings were the main source of financing fiscal deficit.

1.12.3 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit¹⁷ and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistent high ratio of revenue deficit to fiscal deficit would indicate that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) are not backed by assets. The bifurcation of primary deficit (Table 1.17) would

¹⁷ see glossary at page 84

indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.17: Primary deficit/surplus – bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure ¹⁸	Primary revenue deficit(-)/surplus(+)	Primary deficit(-)/surplus(+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2006-07	46,606	34,159	9,904	907	44,970	(+)12,447	(+)1,636
2007-08	60,891	46,394	12,774	2,920	62,088	(+)14,497	(-)1,197
2008-09	63,228	53,797	10,367	3,414	67,578	(+)9,431	(-)4,350
2009-10	64,821	54,534	13,793	1,590	69,917	(+)10,287	(-)5,096
2010-11	81,169	68,859	11,123	3,315	83,297	(+)12,310	(-)2,128

The bifurcation of the factors resulting in primary deficit/surplus of the State during the period 2006-11 reveals that throughout this period, the primary deficit was on account of expenditure incurred under capital account and loans and advances disbursed by the State Government. In other words, *the non-debt receipts of the State were not only adequate to meet the primary revenue expenditure, but also met whole/part of the capital expenditure.* However, the surplus non-debt receipts were not enough to meet the entire capital expenditure and loans and advances resulting in primary deficit in all the years during 2006-11 except in 2006-07.

1.13 Conclusion

The Government of Andhra Pradesh has largely been achieving the fiscal reform targets every year in post FRBM legislation period. The State registered revenue surplus for the 5th consecutive year during 2010-11 and the fiscal deficit was well within the ceiling prescribed by the FRBM Act. The State has done well to bring down the fiscal liabilities at the end of current year to 24.52 *per cent* of GSDP against a ceiling of 30.3 *per cent* prescribed under FRBM Act and 25 *per cent* recommended by the 13th Finance Commission by 2014-15.

Revenue receipts registered an impressive growth of over 25 *per cent* during the current year (₹ 16,318 crore) over the previous year due to growth in own tax and non tax revenue by ₹ 12,880 crore. Capital expenditure however, decreased by about 19 *per cent* (₹ 2,670 crore) and the ratio of capital expenditure to total expenditure fell significantly during the year. This was despite the commitment made by the Government in its budget speech, to keep the capital expenditure high, to ensure economic growth with equity. Capital works/projects in irrigation and roads sectors could not be completed on time, which resulted in pushing up the cost of these projects without achieving the envisaged benefits.

¹⁸ see glossary at page 84

Government needs to prepare an action plan to complete all the pending capital projects in a time bound manner and monitor its implementation closely.

Further, although the State Government accorded adequate fiscal priority to development expenditure during 2010-11, the expenditure on education was less than the average expenditure of General Category States and calls for appropriate measures from the Government.

The current level of recovery of loans advanced by the State was extremely poor (5.19 *per cent* of disbursement during the current year). The rate of return on Government investment in various statutory corporations, companies, cooperatives etc. was also negligible at 0.47 *per cent* during the last five years, as against the average rate of interest paid during the same period (7.60 *per cent*) and has proved to be a drag on the finances of the State.

The State Government needs to draw up a roadmap for closure of loss making PSUs in non-core sectors, in keeping with the recommendations of the Thirteenth Finance Commission.