

Profile of Composite State 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 2011 census. The economic growth of the State displayed a fluctuating trend during the last five years. The trends in the annual growth of the State's Gross State Domestic Product (GSDP) *vis-à-vis* the national Gross Domestic Product (GDP) at current prices are given in **Table 1.1**.

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

Year	2009-10	2010-11	2011-12	2012-13	2013-14
India's GDP ¹ (₹ in crore)	61,08,903	72,48,860	83,91,691	93,88,876	1,04,72,807
Growth rate of GDP (<i>per cent</i>)	15.18	18.66	15.77	11.88	11.54
State's GSDP (₹ in crore)	4,76,835	5,83,762	6,62,592	7,54,409	8,54,822
Growth rate of GSDP (<i>per cent</i>)	11.73	22.42	13.50	13.86	13.31

Appendix 1.1 shows the socio-economic indicators related to Andhra Pradesh. During the last 10 years (2004-2014), the population of the State grew by 9.11 *per cent* against 12.94 *per cent* in General Category States². The Compound Annual Growth Rate (CAGR) of per capita income of the State (14.88 *per cent*) has been equal to that of the General Category States (14.88 *per cent*) during this period. From **Appendix 1.1**, it can be seen that the key socio-economic parameters of the State *viz.*, population Below Poverty Line (9.20 *per cent*) and Infant Mortality Rate (39 per 1,000 live births) are better than the All India average. Also, inequality of income distribution, as reflected through the Gini co-efficient³ was marginally lower in the State in rural areas (0.28) than the national average, but was the same in urban areas (0.38) as the all-India position.

¹GDP data as per Central Statistics Office (August 2014)

²States 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)

³It is a measure of inequality of income distribution where zero refers to perfect equality and one refers to perfect inequality.

1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of composite state 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 of 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 1.2 presents the summary of State Government's fiscal transactions during the current year *vis-à-vis* the previous year, while *Appendix 1.3* provides the details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.2: Summary of balances

(₹ in crore)

Receipts			Disbursements				
	2012-13	2013-14		2012-13	2013-14		
	Total	Total		Total	Non-Plan	Plan	Total
Section A – Revenue							
Revenue Receipts	1,03,830	1,10,719	Revenue Expenditure	1,02,702	86,237	24,138	1,10,375
<i>Tax Revenue</i>	<i>59,875</i>	<i>64,123</i>	<i>General Services</i>	<i>33,064</i>	<i>36,833</i>	<i>66</i>	<i>36,899</i>
<i>Non-tax Revenue</i>	<i>15,999</i>	<i>15,473</i>	<i>Social Services</i>	<i>41,605</i>	<i>26,860</i>	<i>18,096</i>	<i>44,956</i>
<i>Share of Union Taxes/Duties</i>	<i>20,271</i>	<i>22,132</i>	<i>Economic Services</i>	<i>27,875</i>	<i>22,327</i>	<i>5,976</i>	<i>28,303</i>
<i>Grants from GOI</i>	<i>7,685</i>	<i>8,991</i>	<i>Grants-in-aid and Contributions</i>	<i>158</i>	<i>217</i>	<i>---</i>	<i>217</i>
Section B – Capital & Others							
Misc. Capital Receipts	---	9	Capital Outlay	15,149	---	15,280	15,280
Recoveries of Loans and Advances	426	575	Loans and Advances disbursed	3,913	921	2,768	3,689
Public Debt Receipts	23,311	25,292	Repayment of Public Debt	7,677	7,286	---	7,286*
Contingency Fund	---	2	Contingency Fund	2	3	---	3
Public Account Receipts	94,917	1,01,352	Public Account Disbursements	93,201	---	97,195	97,195
Opening Cash Balance	9,322	9,162	Closing Cash balance	9,162	---	13,283	13,283⁴
Total	2,31,806	2,47,111	Total	2,31,806	94,447	1,52,664	2,47,111

Source: Finance Accounts

*₹7,285.44 crore rounded off to ₹7,286 crore for balancing purpose

Significant changes in fiscal position of the State during 2013-14 over the previous year are given below.

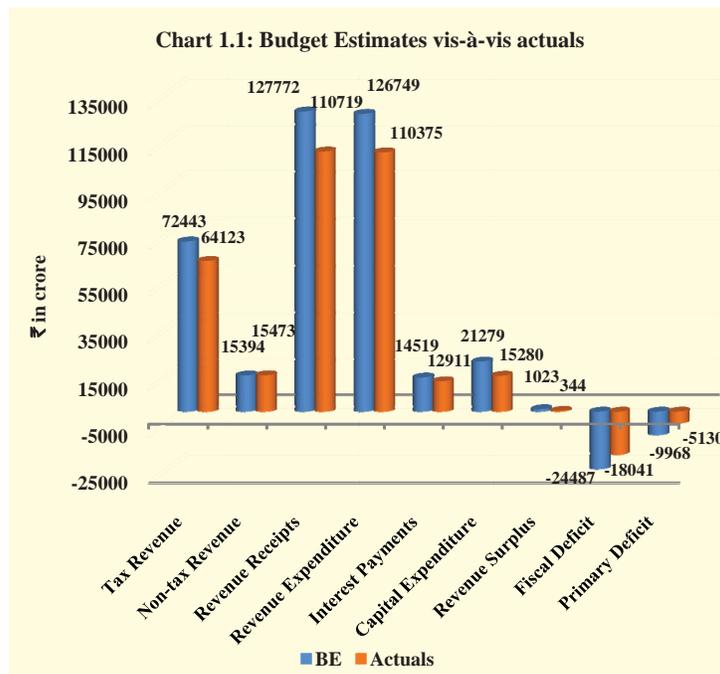
⁴Please see Para 1.11.5 and Table 1.22 for details. This includes balances in the cash balance investment account, other cash balances and investments as well, apart from cash balances held with RBI and other Banks.

Revenue Receipts	<ul style="list-style-type: none"> • Increased by 6.63 per cent • Own tax revenue increased by 7.09 per cent
Revenue Expenditure	<ul style="list-style-type: none"> • Increased by 7.47 per cent • Plan expenditure decreased by 4.37 per cent • Non-plan expenditure increased by 11.33 per cent
Capital Expenditure	<ul style="list-style-type: none"> • Increased by 0.86 per cent
Loans & Advances	<ul style="list-style-type: none"> • Recoveries increased by 34.98 per cent • Disbursements decreased by 5.72 per cent
Public Debt	<ul style="list-style-type: none"> • Receipts increased by 8.50 per cent • Repayment decreased by 5.09 per cent
Cash Balance	<ul style="list-style-type: none"> • Increased by 44.98 per cent

Government of Andhra Pradesh achieved revenue surplus for the eighth consecutive year during 2013-14. Fiscal deficit (₹ 18,041 crore) stood at 2.11 per cent of GSDP during the current year compared to 2.35 per cent during 2012-13. This is within the ceiling of three per cent prescribed by the FRBM Act and the 13th Finance Commission.

1.3 Budget estimates and actuals

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



There were considerable variations between budget estimates and actuals in respect of some items of expenditure. Expenditure in excess of BE by more than 10 per cent was noticed in Police (12.82 per cent) and Power (11.57 per cent) Departments while savings in excess of 25 per cent were noticed mainly under Urban Development (64.13 per cent), District Administration (30.13 per cent), Rural Development (29.02 per cent) and Welfare of SCs, STs and OBCs (25.73 per cent).

Source: Budget in Brief and Finance Accounts 2013-14

Overall, revenue expenditure was less than the budget estimates by 12.92 per cent while there were savings of 28.19 per cent in respect of capital expenditure. On the receipts side, revenue receipts fell short of BE by 13.35 per cent. Fiscal and primary deficits were lower than the BE by 26.32 per cent and 48.54 per cent respectively while revenue surplus fell short of BE by 66.37 per cent.

1.4 Fiscal Reform Path

State Government, in compliance with the recommendations of the Twelfth Finance Commission (TFC), enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 (amended in 2011), limiting its total outstanding liabilities to 28.20 *per cent* of GSDP for the year 2013-14. A Summary of FRBM Act, 2005 as amended in 2011 is given in **Appendix 1.5**. Important targets relating to fiscal variables are indicated in **Table 1.3**.

Table 1.3: Targets/Projections for Fiscal variables

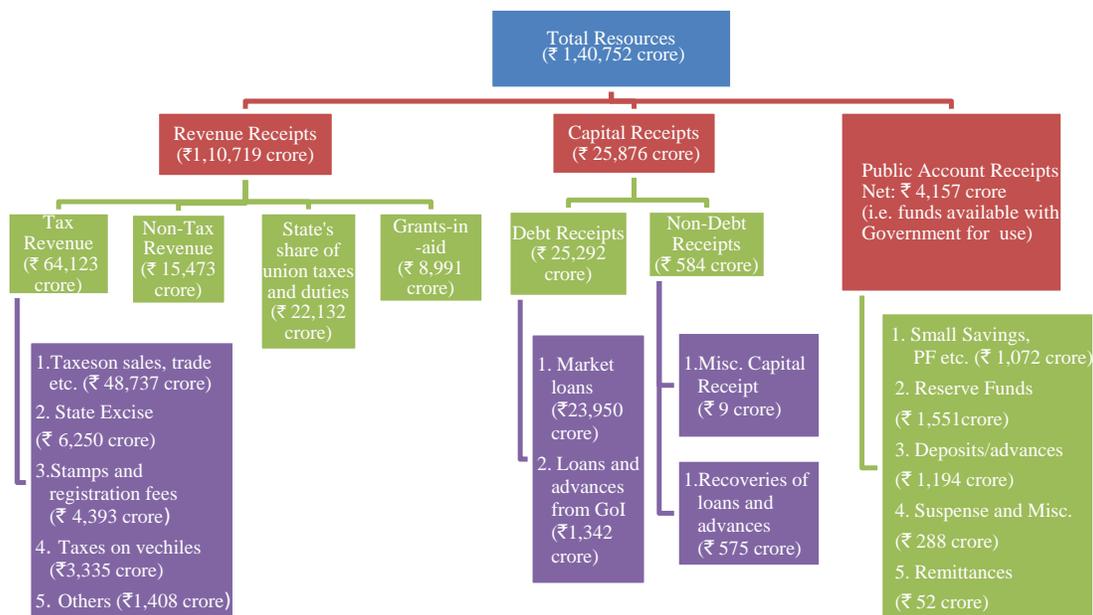
Fiscal variables	2013-14				
	13 th FC targets for the State	Targets prescribed in FRBM Act	Targets proposed in Budget	Projections made in MEFS	Actuals
Revenue Deficit (₹ in crore)	0	0	0	0	0
Fiscal Deficit/ GSDP (in <i>per cent</i>)	3.0	3.0	2.5	3.0	2.11
Ratio of total outstanding debt to GSDP (in <i>per cent</i>)	28.20	28.20	N.A.	28.20	26.67

1.5 Resources of the State

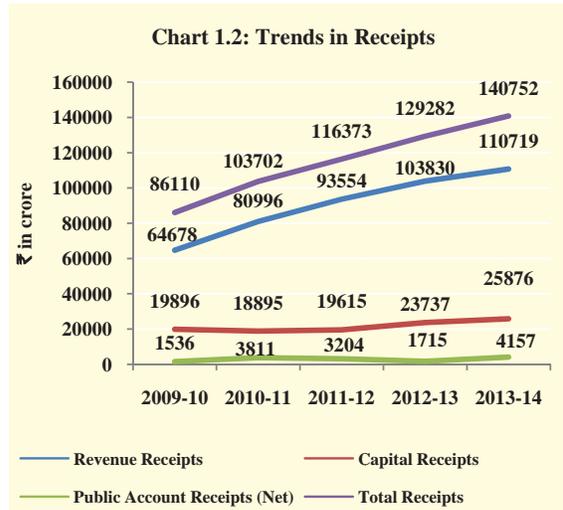
1.5.1 Resources of the State as per Annual Finance Accounts

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

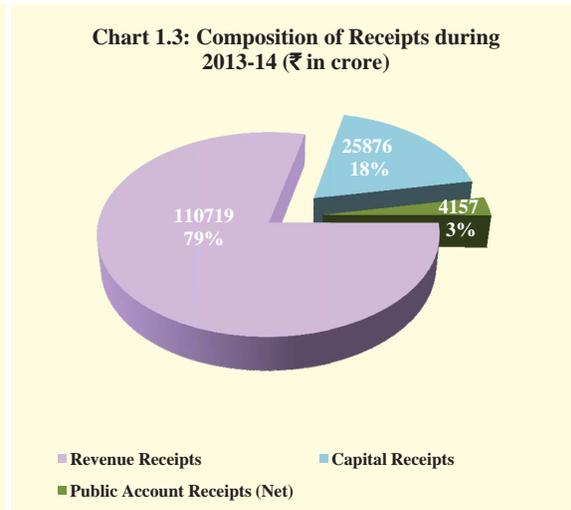
The following flowchart depicts the components and sub-components of resources of the State.



Out of the total resources of ₹1,40,752 crore of the State Government during the year 2013-14, revenue receipts were ₹1,10,719 crore constituting 78.66 per cent of total resources. Capital receipts (₹25,876 crore) and net Public Account receipts (₹4,157 crore) constituted 18.38 per cent and 2.95 per cent of the total resources, respectively. **Chart 1.2** depicts the trends in various components of the total receipts of the State during 2009-14. **Chart 1.3** depicts the composition of total receipts of the State during the current year.



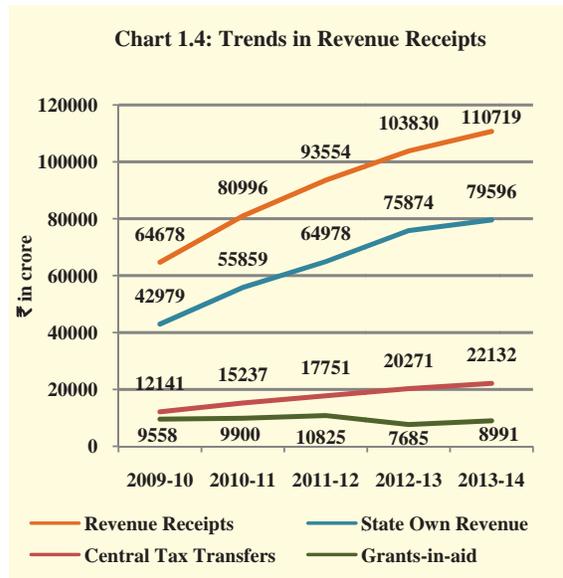
Source: Finance Accounts



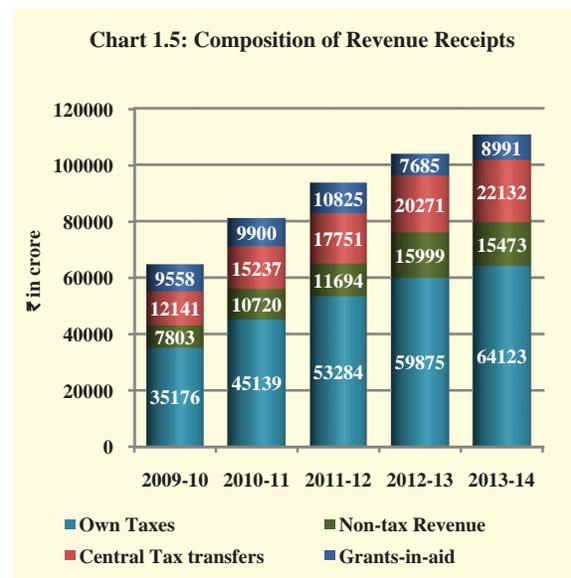
Source: Finance Accounts 2013-14

1.6 Revenue receipts

The trends and composition of revenue receipts over the five year period 2009-14 are presented in **Appendix 1.6** and also depicted in **Charts 1.4** and **1.5** below:



Source: Finance Accounts



Source: Finance Accounts

The rate of growth of revenue receipts has been fluctuating during the last five years as can be seen from **Table 1.5**. The growth rate of revenue (6.63 per cent) during the current year was significantly lower than the growth rate over previous year (10.98 per cent). There was

also a shortfall of ₹17,053 crore (13.35 per cent) in revenue (₹ 1,10,719 crore) realized during the year over the projection (₹ 1,27,772 crore) made in the Budget. The actual receipts under State's tax and non tax revenue *vis-à-vis* assessments made by 13th Finance Commission and the State Government during 2013-14 are given in **Table 1.4** below:

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

	Assessment by 13 th Finance Commission	Projections by State Government in MEFS	Actuals
Tax Revenue	68,835	72,443	64,123
Non-Tax Revenue	8,324	15,394	15,473

(₹ in crore)

Source: 13th Finance Commission recommendations; Finance Accounts 2013-14 and MEFS 2014

Actual realization of tax revenue was lower than the projection made by Government and the assessment made by the 13th Finance Commission. Non-tax revenue realized was higher than the assessment made by the 13th Finance Commission and the Government. The share of interest receipts in non-tax revenue in the current year was ₹ 8,646 crore, including ₹ 7,702 crore from irrigation projects, which was only a notional revenue, since it has arisen out of book adjustment.

Revenue receipts constituted 12.95 per cent of GSDP in 2013-14 as shown in **Table 1.5**.

Table 1.5: Trends in revenue receipts relative to GSDP

	2009-10	2010-11	2011-12	2012-13	2013-14
Revenue Receipts (RR) (₹ in crore)	64,678	80,996	93,554	1,03,830	1,10,719
Rate of Growth ⁵ of RR (<i>per cent</i>)	2.90	25.23	15.50	10.98	6.63
RR/GSDP (<i>per cent</i>)	13.56	14.19	14.28	13.92	12.95
Buoyancy Ratios⁶					
Revenue Buoyancy w.r.t. GSDP	0.25	1.28	1.05	0.79	0.50
State's Own Tax Buoyancy w.r.t. GSDP	0.46	1.43	1.22	0.89	0.53

Source: Finance Accounts

1.6.1 State's own resources

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

1.6.1.1 Own tax revenue

Own tax revenue (OTR) registered a growth rate of 7.09 per cent over the previous year due to increase in taxes on goods and passengers (33.33 per cent), taxes on sales and trade (19.70 per cent) and land revenue (19.35 per cent) and was partially offset by decrease under state excise (31.54 per cent) over the previous year. Details are given below.

⁵ See Glossary

⁶ See Glossary

Table 1.6: Components of State's Own Tax revenue

	(₹ in crore)					
	2009-10	2010-11	2011-12	2012-13	2013-14	% increase over previous year
Taxes on sales, trades etc.	23,640	29,145	34,910	40,715	48,737	19.70
State excise	5,849	8,265	9,612	9,129	6,250	-31.54
Taxes on vehicles	1,995	2,626	2,987	3,357	3,335	-0.66
Stamp duty and Registration fees	2,639	3,834	4,385	5,115	4,393	-14.12
Land revenue	222	171	141	62	74	19.35
Taxes on goods and passengers	10	9	12	12	16	33.33
Other taxes ⁷	821	1,089	1,237	1,485	1,318	-11.25
Total	35,176	45,139	53,284	59,875	64,123	7.09

Source: Finance Accounts

Increase in Taxes on sales, trades etc. and decrease in State excise is mainly due to enhancement of rate of VAT on Indian Made Foreign Liquor from 70 per cent to 170 per cent and transfer of VAT collections from Excise head to Sales Tax from 2012-13 onwards⁸. Decrease under Stamp Duty and Registration fees is mainly attributable to shortfall in number of registrations on account of the agitations in the wake of bifurcation of the State, as intimated by the State Government.

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 (2009-14) period, decreased by ₹ 526 crore in the current year (3.29 per cent), over the previous year mainly due to decrease in interest receipts from Departmental Commercial Undertakings and "Other receipts" under Medical and Public Health.

Table 1.7: Growth of Non-Tax Revenue

	(₹ in crore)					
Revenue Head	2009-10	2010-11	2011-12	2012-13	2013-14	% increase over previous year
Interest receipts	4,852	5,774	6,279	9,626	8,646	(-) 10.18
Dividends & Profits	23	39	52	64	61	(-) 4.69
Other non-tax receipts	2,929	4,906	5,363	6,309	6,766	7.24
Total	7,804	10,719	11,694	15,999	15,473	(-) 3.29

Source: Finance Accounts

Further, during the year ₹ 1,385.76 crore under Sarva Siksha Abhiyan (Rajiv Vidya Mission) and ₹ 228.32 crore under Rashtriya Madhyamika Siksha Abhiyaan released by GoI directly to State implementing agencies were remitted through challans by State Project Officer to revenue receipts. These are related to reimbursement of teachers' salary. This has resulted in overstatement of revenue receipts.

⁷Other Taxes include Taxes on Immovable Property other than Agricultural Land, Taxes and Duties on Electricity and Agricultural Income

⁸Government of Andhra Pradesh, Finance (B.G.-I) Dept., Memo No.35030-A/49/BG.I/A1/2013, dated 23-01-2013

1.6.2 Cost of Collection

The cost of collection of major State tax revenue is given below:

Table 1.8: Cost of collection of revenue

(₹ in crore)					
Head of revenue	Year	Gross collection	Expenditure on collection	Cost of collection (%)	All India Average (%)
Taxes on sales, trade etc.	2011-12	34,910	283	0.81	0.83
	2012-13	40,715	317	0.78	0.73
	2013-14*	48,737	316	0.65	--
State Excise	2011-12	9,612	264	2.75	2.98
	2012-13	9,129	288	3.15	2.96
	2013-14*	6,250	401	6.42	--
Taxes on Vehicles	2011-12	2,986	100	3.35	2.96
	2012-13	3,357	111	3.31	4.17
	2013-14*	3,335	124	3.72	--
Stamp Duty and Registration fee	2011-12	4,385	102	2.33	1.89
	2012-13	5,115	141	2.76	3.25
	2013-14*	4,393	128	2.91	--

Source: Finance Accounts

*Note: All India Averages for the year 2013-14 are not yet available

While the cost of collection has not changed very significantly over the last three years in respect of Taxes on Sales, trade etc., Taxes on Vehicles and Stamp Duty and Registration fee, in respect of State Excise, though the gross collection registered a 31.54 per cent decrease, the expenditure on cost of collection increased by 39 per cent over the previous year.

1.6.3 Central tax transfers

There was an increase in Central tax transfers by 9.18 per cent from ₹ 20,271 crore in 2012-13 to ₹ 22,132 crore in 2013-14. The increase was mainly on account of share of net proceeds under service tax (21.81 per cent) and taxes on income other than corporation tax (12.43 per cent).

1.6.3.1 Grants-in-aid from Government of India

The details of Grants-in-aid from GoI and its composition during 2009-14 are given below:

Table 1.9: Grants-in-aid from Government of India

(₹ in crore)					
Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Non-Plan Grants	3,275	4,183	3,499	784	3,433
Grants for State Plan Schemes	4,254	3,318	3,957	3,223	2,758
Grants for Central Plan Schemes	132	60	100	219	260
Grants for Centrally Sponsored Schemes	1,897	2,339	3,269	3,459	2,540
Grants for Special Plan Schemes	---	---	---	---	---
Total	9,558	9,900	10,825	7,685	8,991
Percentage of increase over previous year	19.24	3.58	9.34	-29	16.98
Total grants as a percentage of Revenue Receipts	14.78	12.22	11.57	7.40	8.12

Source: Finance Accounts

Grants-in-aid from GoI increased by ₹ 1,306 crore over the previous year mainly under Non-plan Grants (₹ 2,649 crore) and Grants for Central Plan Schemes (₹ 41 crore). Increase under Non-Plan Grants was mainly due to release of grants for Local Bodies (₹ 1,586 crore) and from National Disaster Response Fund (₹ 764 crore). However, there were decreases under Centrally Sponsored Schemes (₹ 919 crore) and State Plan Schemes (₹ 465 crore) due to decrease in releases to Social Security and Welfare (₹ 655 crore) and Block Grants (₹ 459 crore) respectively.

During the year, total grants-in-aid constituted 8.12 per cent of revenue receipts, as compared to 7.40 per cent in the previous year.

1.6.3.2 Optimisation of 13th Finance Commission grants

The details of Central transfers to the State on the basis of recommendations of the 13th FC are as follows.

Table 1.10: 13th Finance Commission Grants

(₹ in crore)					
Sl No	Transfers	Amount Recommended by FC	Actual release	Shortfall	Expenditure
1	Local Bodies				
	Grants to PRIs	781.49	548.60	232.89	N.A.
	General performance grants to PRIs	533.89	1,019.41	---	N.A.
	Grants to ULBs	286.91	Nil	286.91	N.A.
	General performance grants to ULBs	196.01	Nil	196.01	N.A.
	Special Area Grants	5.90	Nil	5.90	N.A.
	Special Area performance grants	5.90	17.56	---	N.A.
2	Disaster Relief	441.78	520.89	Nil	520.89
3	Improving outcome grants	83.96	8.95	75.01	N.A.
	a. Reduction in Infant Mortality rate	Nil	11.34	Nil	N.A.
4	Environment related grants	138.16	67.16	71	62.16
5	Elementary education	198.00	198.00	Nil	198.00
6	Roads and bridges	253.00	0.00	253.00	N.A.
7	Capacity Building	6	0	6	N.A.
8	State specific grants	312.50	81.28	231.22	34.05
Total		3,243.91	2,473.19	1,357.94	619.08

Source: Departmental information; N.A.: Not Applicable.

As per the recommendations of 13th FC, under Non-plan Grants, GoI allocated ₹ 3,243.91 crore for the year, but released only ₹ 2,473.19 crore during 2013-14 due to non-conducting of elections to urban local bodies (₹ 482.92 crore), non-submission of Utilisation Certificates for the Grants released for the years 2010-11 and 2011-12 (₹ 551.02 crore) and non-fulfillment of other conditionalities by the State (₹ 324 crore).

Finance Department replied (November 2014) that the departments are submitting Utilisation Certificates directly to the Government of India. The reply is not acceptable, as the state is losing out on central funds due to non-submission of Utilisation Certificates on time by the departments. Government needs to monitor the utilization of grants by the implementing departments closely and streamline the system of submission of Utilisation Certificates so as to ensure that grants from the GoI are fully claimed. Efforts should be made to expeditiously meet the prescribed conditionalities to be eligible for the performance grants.

1.6.4 Funds transferred to State Implementing Agencies outside the State budget

GoI has been transferring sizeable quantum of funds directly to the State implementing agencies for implementation of various schemes/programmes in social and economic sectors recognized as critical. As these funds are not routed through the State budget/State treasury System, Finance Accounts do not capture the flow of these funds. To present a holistic picture about the availability of aggregate resources, Audit has given the extent of funds directly transferred by the GoI to State implementing agencies⁹ in respect of cases involving more than ₹ 10 crore in **Appendix 1.7**.

During the current year, GoI transferred ₹ 12,770 crore directly to the State implementing agencies concerning various Central Schemes/programmes, without routing these funds through the State budget.

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 from out of these funds. Unless uniform accounting practices are followed by all these agencies and proper documentation is maintained with timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers.

Government replied (November 2014) that the system of releasing funds directly to implementing agencies by GoI has been discontinued from 2014-15 onwards and all funds are being routed through the Consolidated Fund of the State Government.

1.7 Capital Receipts

The details of Capital Receipts and their composition during 2009-14 are given below:

Table.1.11: Trends in growth and composition of Capital Receipts

Sources of State's Receipts	₹ in crore)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Capital Receipts (CR)	19,896	18,895	19,615	23,737	25,876
Miscellaneous Capital Receipts	0	0	0	0	9
Recovery of Loans and Advances	143	173	165	426	575
Public Debt Receipts	19,753	18,722	19,450	23,311	25,292
Rate of growth of debt capital receipts	28.66	-5.22	3.89	19.85	8.50
Rate of growth of non-debt capital receipts	-61.35	20.98	-4.62	158.18	37.09
Rate of growth of GSDP	11.73	22.42	13.50	13.86	13.31
Rate of growth of CR (<i>per cent</i>)	26.54	-5.03	3.81	21.01	9.01

Source: Finance Accounts

During 2013-14 Capital Receipts increased by 9.01 *per cent* over the previous year. This was mainly on account of increase in Recovery of Loans and Advances by ₹ 149 crore over the previous year and increases in Public Debt receipts by ₹ 1,981 crore (8.50 *per cent*).

⁹State Implementing Agencies include any Organization/Institution including Non-Governmental Organization, which is authorized by the State Government to receive funds from the GoI for implementing specific programmes in the State, such as State Implementation Society for SSA and State Health Mission for NRHM etc.

1.8 Public Account Receipts

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

Table 1.12: Trends in growth and composition of Public Account receipts and disbursements

(₹ in crore)					
Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
A. Public Account Receipts					
Small Savings, Provident Fund etc.	2,383	3,130	3,376	3,580	3,673
Reserve Fund	1,897	3,017	2,873	2,243	3,446
Deposits and Advances	35,484	38,608	42,963	48,722	52,992
Suspense and Miscellaneous	12,229	16,433	19,315	22,333	23,590
Remittances	19,787	15,030	17,524	18,039	17,651
Total (A)	71,780	76,218	86,051	94,917	1,01,352
B. Public Account Disbursements					
Small Savings, Provident Fund etc.	1,422	1,527	2,156	2,390	2,601
Reserve Fund	1,308	1,221	1,621	2,436	1,895
Deposits and Advances	36,921	36,905	41,618	47,056	51,798
Suspense and Miscellaneous	12,239	16,373	20,026	22,599	23,302
Remittances	18,353	16,381	17,427	18,720	17,599
Total (B)	70,243	72,407	82,848	93,201	97,195
Public Account Net (A)-(B)	1,537	3,811	3,203	1,716	4,157

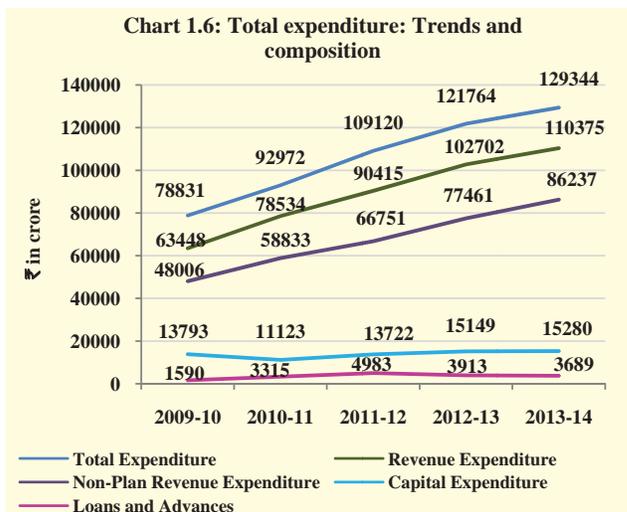
Source: Finance Accounts

Net public account receipts have decreased during the period 2010-11 to 2012-13 but increased by ₹ 2,441 crore (142.30 per cent) during the current year over the previous year.

1.9 Application of resources

1.9.1 Growth and composition of expenditure

Chart 1.6 presents the trends and composition of total expenditure over a period of five years (2009-14). The composition of total and sectorial expenditure are depicted in **Charts 1.7** and **1.8** respectively.



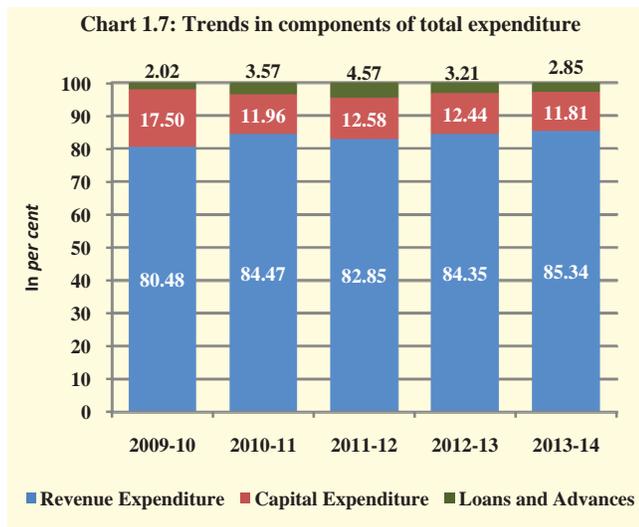
Source: Finance Accounts

Note: Total expenditure excludes repayment of public debt amounting to ₹7,286 crore.

Total expenditure (₹ 1,29,344 crore) increased in 2013-14 by ₹ 7,580 crore (6.23 per cent) over the previous year (₹ 1,21,764 crore) due to increase in revenue expenditure (₹ 7,673 crore) and capital expenditure (₹ 131 crore). During the current year, 85.60 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 (₹ 1,53,521 crore).

Revenue expenditure increased by ₹ 7,673 crore over the previous year and constituted 12.91 per cent of GSDP. There was significant increase in revenue expenditure over the previous year under General Education (₹ 2,087 crore), Pensions and other retirement benefits (₹ 1,593 crore), Interest Payments (₹ 1,249 crore), Other Rural Development Programmes (₹ 1,248 crore) and Power (₹ 1,119 crore).

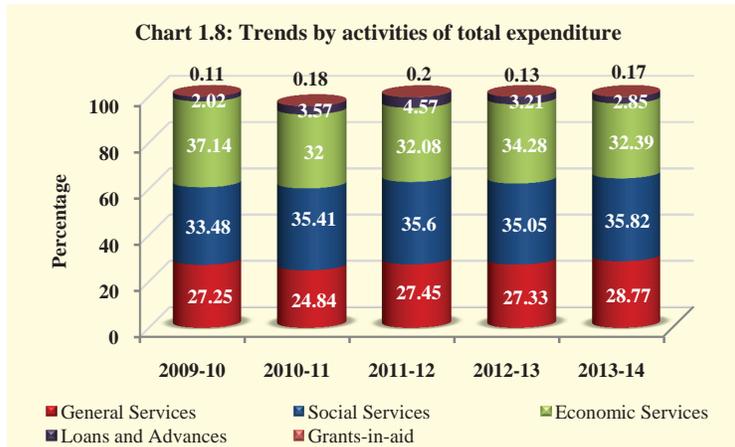
In the context of State finances, the quality of expenditure has always been an important issue. Currently, revenue expenditure accounts for around 85 per cent of the State's aggregate expenditure, which is in the nature of current consumption, leaving only 15 per cent for investment in infrastructure and asset creation. Since this impedes the growth prospects of the State, there is a need to curtail those items of revenue expenditure which are unproductive.



Source: Finance Accounts

Capital expenditure (₹ 15,280 crore) during 2013-14 increased by ₹ 131 crore over the previous year (₹ 15,149 crore) and constituted 11.81 per cent of total expenditure. The increase was mainly on Roads and Bridges (₹ 583 crore) and Minor Irrigation (₹216 crore) and was partly offset by decrease mainly under capital outlay on major irrigation by ₹ 943 crore. Capital expenditure at 1.79 per cent of GSDP was less than the projection (₹ 25,973 crore) made in MEFS for 2013-14.

Loans and advances disbursed during the current year decreased by 5.72 per cent over the previous year and constituted 2.85 per cent of the total expenditure. The share of disbursement of loans and advances in total expenditure was between two to five per cent during the period 2009-14.



The share of general services and social services in total expenditure increased by 1.44 per cent and 0.77 per cent respectively during 2013-14 over the previous year. There was decrease in the share of economic services in total expenditure by 1.89 per cent.

Source: Finance Accounts

1.9.2 Committed Expenditure

Committed expenditure of Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.13** and **Chart 1.9** present the trends in the expenditure on these components during 2009-14.

Table 1.13: Components of committed expenditure

(₹ in crore)

Components of committed expenditure	2009-10	2010-11	2011-12	2012-13	2013-14		
					Budget estimates	Actuals	Percentage variation
Salaries* & Wages, of which	17,721(27)	23,844(29)	26,823(30)	30,071(29)	32,152	32,858(38)	2.20
(i) Non-Plan	15,706	21,128	23,828	28,071	30,447	30,568	0.40
(ii) Plan**	2,015	2,716	2,995	2,000	1,705	2,290	34.31
Interest payments	8,914	9,675	10,561	11,662	14,098	12,911	(-)8.42
Pensions	6,339	9,609	11,110	12,089	13,677	13,682	0.04
Subsidies	6,056	6,543	7,313	10,658	10,145	10,420	2.71
Total	39,030(62)	49,671(61)	55,807(62)	64,480(63)	70,072	69,871(63)	(-)0.63

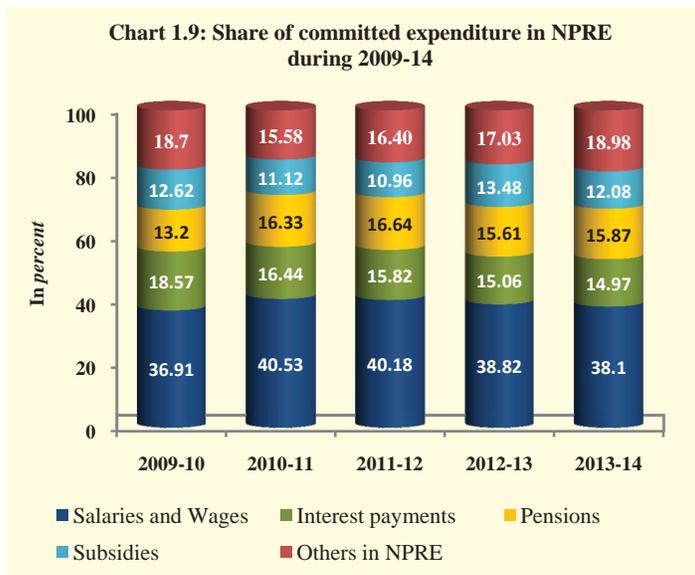
Source: Voucher Level Computerization (VLC) data of PAG (A&E) Andhra Pradesh

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

Committed expenditure on salaries and wages, pensions, interest payments and subsidies constituted 80.74 per cent of Non-Plan Revenue Expenditure (NPRE) during 2013-14.

1.9.2.1 Salaries and wages

Expenditure on salaries and wages during the current year increased by 9.27 per cent over the previous year. It was more than the budget estimates by 2.20 per cent and the assessment made by the 13th Finance Commission (₹ 17,644 crore). During the current year, expenditure on salary constituted 29.77 per cent of revenue expenditure and 38.10 per cent of non-plan revenue expenditure.



Source: Finance Accounts

1.9.2.2 Interest payments

Although the share of interest payments (₹ 12,911 crore) in revenue expenditure was 11.70 per cent during the current year, there was an increase in interest payments by ₹1,249 crore (10.71 per cent) over the previous year (₹ 11,662 crore) mainly under interest on Market Loans (₹ 1,321 crore) and interest on defined contribution scheme (₹ 84 crore). It was, however, lower than the projection made in the Budget (₹ 14,098 crore) and assessment made by the 13th Finance Commission (₹ 13,879 crore). During 2013-14, interest payments as a per cent of total revenue receipts stood at 11.66 per cent which was higher than the projection of 11.36 per cent made in the Medium Term Fiscal Policy (MTFP).

1.9.2.3 Pensions

The expenditure on pension and other retirement benefits to State Government pensioners during the year was ₹ 13,682 crore, and constituted 12.40 per cent of revenue receipts. During the year 2013-14, Pensionary benefits increased by ₹ 1,593 crore over the previous year 2012-13 (₹ 12,089 crore) and were higher than the budget estimates (₹ 11,677 crore) and the assessment of the 13th Finance Commission (₹ 10,317 crore). Government had not estimated the yearly pension liabilities on actuarial basis for the ensuing years, as stipulated in the FRBM Act.

Contributory Pension Scheme

State Government introduced a Contributory Pension Scheme for employees recruited on or after 1 September 2004. As per the guidelines, it is mandatory for every employee to contribute 10 per cent of basic pay and dearness allowance every month from salary and equal contribution is to be made by the Government. The contribution details and corresponding amounts are to be transferred to the National Securities Depository Limited (NSDL) and to the fund managers appointed by the New Pension Scheme (NPS) Trust respectively. Government entered into agreements with NSDL on 21 November 2008 and NPS Trust on 15 September 2009.

Due to delay in uploading the data and transfer of funds to the NSDL, the State Government¹⁰ ordered payment of simple interest at 8 *per cent* per annum (at par with the interest payable on General Provident Fund (GPF) contributions) on all employees' contributions and matching Government contribution from the inception of the scheme to the date of data migration from legacy system. During 2013-14 an amount of ₹ 83.98 crore was paid by the Government towards interest. The contributions payable by the employees and the State Government from the inception of the scheme and the accrued interest thereon¹¹ has not been estimated. Nor has it been possible to estimate the shortfall, if any, in the matching contribution of the State Government in 2013-14, and its impact, if any, on the Revenue Surplus in the absence of complete data. Unreconciled, unmatched and untransferred amounts with accrued interest, if any, represent outstanding liabilities of the Government, under the scheme.

Government replied (November 2014) that as of May 2014, the total contribution transferred to the Fund Manager from 2004-05 to 2013-14 was ₹ 2,138.21 crore, which includes the contribution of both the employees and the Government. Government also informed that an amount of ₹ 85.15 crore was transferred to subscribers account towards interest component on delayed subscription transfers and that ₹ 20.72 crore on legacy subscriptions is due to be transferred, for which provision would be made in Supplementary Estimates for the year 2014-15 to the extent possible and the balance in the coming years.

1.9.2.4 Subsidies

The total expenditure on subsidies during the current year was ₹ 10,420 crore, of which, power subsidy was ₹ 6,582 crore (63.17 *per cent*), subsidy on rice was ₹ 3,146 crore (30.19 *per cent*) and subsidy on supply of seeds to farmers was ₹ 205 crore (1.97 *per cent*). It was higher than the projections made in the Budget (₹ 10,145 crore).

Department wise subsidies are listed in **Table 1.14**.

Table 1.14: Department wise Subsidies

	(₹ in crore)				
Departments	2009-10	2010-11	2011-12	2012-13	2013-14
Civil Supplies	2,481	2,329	2,358	2,692	3,190
Power	3,212	3,646	4,300	6,178	6,582
Agricultural and other Allied activities	238	243	639	1,528	340
Others ¹²	125	325	16	260	308
Total subsidy	6,056	6,543	7,313	10,658	10,420
Total Revenue Expenditure	63,448	78,534	90,415	1,02,702	1,10,375
Subsidy as a % of Revenue Expenditure	9.54	8.33	8.09	10.38	9.44

Source: Finance Accounts

¹⁰G.O. Ms.No.226 Finance (Pension-I) Department, dated 29 September 2011 and G.O.Ms. 142 Finance (Pension-I) Department, dated 17 June 2013

¹¹Including interest payable in terms of G.O. Ms. 142 dated 17 June 2013

¹² Industries and Commerce, Rural Development, Minority Welfare, Information Technology & Communication, Panchayat Raj, Social Welfare, Women, Child and Disabled Welfare and Backward Classes Welfare Departments

During the year, the percentage of subsidies to revenue expenditure was 9.44 *per cent*. This includes an amount of ₹ 241 crore given in the form of Grants-in-Aid (power subsidy ₹ 131 crore for industries, subsidy for bank linked income generated scheme of ₹ 84.25 crore, interest subsidy of ₹ 14.25 crore and subsidy on purchase of raw material ₹ 11.26 crore). The decreases in Agricultural and other Allied activities (₹ 1,188 crore) were mainly due to discontinuation of input subsidy to other farmers (₹ 800 crore) and AP Micro Irrigation Project (₹ 345 crore).

In addition, budgetary assistance has been provided in the form of grants-in-aid for various socio-economic services which is in the nature of subsidies. Scheme wise details of these grants-in-aid provided during 2013-14 are given in **Table 1.15**.

Table 1.15: Department/Organization-wise subsidies given as grants-in-aid

(₹ in crore)			
Sector	Department	Name of the Scheme	Amount
General Services	Revenue	Assistance to Municipalities/Corporations as Interest Free Loans (<i>Vaddileni Runalu</i>)	75
		Supply of Seeds, Fertilizers and Agricultural Implements	1,632
Social Services	Medical and Health	Aarogyasri Health Care Trust	925
		Assistance to NIMS for treatment of BPL families not covered under <i>Aarogyasri</i>	5
	Social Welfare	Acquisition of house sites for weaker sections under INDIRAMMA Programme	35
	Women, Child and Disabled Welfare	<i>Bangaru Talli</i> - Girl child promotion scheme	79
Economic Services	Agriculture	Assistance to Small and Marginal Farmers towards Premium for Crop Insurance Scheme	251
	Transport	Assistance to A.P.S.R.T.C. towards reimbursement of concessions extended to various categories of citizens	200
	Rural Development	Interest Free Loans to DWCRA Women (<i>Vaddileni Runalu</i>)	650
		Interest free Loans to Farmers (<i>Vaddileni Runalu</i>) & Crop Insurance	439
	Industries	Extension of <i>Pavala Vaddi</i> Scheme to all SSI and Food Processing units	26
		Supply of Milch Animals under CMs Package	3
		Supply of Ice Boxes	1
		Crop Loans for Farmers (<i>Pavala Vaddi</i>)	24
	Energy	Assistance to AP TRANSCO/DISCOMS towards reimbursement under INDIRAMMA Scheme	64
Total			4,409

Source: Finance Accounts 2013-14

1.9.3 Financial Assistance to local bodies and other institutions

GoI enacted the 73rd and 74th Amendments to the Constitution to empower the local self governing institutions like the Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs) to ensure a more participative governance structure in the country. GoI further

entrusted the implementation of key socio-economic developmental programmes to PRIs and ULBs and devolved funds through successive Finance Commissions. The States, in turn, were required to entrust these local bodies with such powers, functions and responsibilities so as to help them function as institutions of self-government and implement schemes for economic development and social justice including those enumerated in the Eleventh and Twelfth Schedules to the Constitution.

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

Eleventh Schedule to 73rd Constitutional Amendment Act, 1992 listed 29 subjects for devolution to strengthen the PRIs. During 2007-08, State Government devolved 10¹³ functions to PRIs and thereafter no initiative was taken for devolving the remaining functions.

The 74th Constitutional Amendment Act, 1992 identified 18 functions for ULBs as incorporated in Twelfth Schedule to the Constitution. Except 'Fire Services', all the functions mentioned in this Schedule were devolved to ULBs in the State.

1.9.3.1 Financial Assistance to Local bodies

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

Table 1.16: Financial assistance to Local Bodies, etc.

	(₹ in crore)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	1,994	2,876	7,178	7,169	7,863
Municipal Corporations and Municipalities	3,142	3,671	3,361	3,468	2,256
Zilla Parishads and other PR Institutions	1,867	1,745	3,023	2,677	3,862
Development Agencies	7,481	8,363	11,341	12,262	6,484
Hospitals and Other Charitable Institutions	1,393	1,721	1,192	1,195	1,385
Autonomous Bodies	--	--	1,473	2,180	2,160
Co-operative Institutions	--	--	52	117	82
Other Institutions ¹⁴	3,965	4,538	5,390	5,752	6,465
Total	19,842	22,914	33,010	34,820	30,557
Assistance as percentage of RE	31.27	29.18	36.50	33.90	27.68

Source: Finance Accounts

¹³(i) Agriculture and Agricultural extension (ii) Animal Husbandry, Dairy and Poultry (iii) Fisheries (iv) Rural Development (v) Drinking Water and Sanitation (vi) Primary, Secondary and Adult Education (vii) Health, Sanitation, Primary Health Centres, Dispensaries and Family Welfare (viii) Social Welfare (ix) Backward Classes Welfare (x) Women and Child Development

¹⁴Other institutions include institutions that received ad-hoc or one time grants during the year

Financial assistance, including grants and loans, extended to local bodies and other institutions in 2013-14 decreased by ₹ 4,263 crore, which is 12.24 *per cent* decrease over the previous year and constituted 27.68 *per cent* of revenue expenditure. The major schemes/recipients of grants during the year were *INDIRAMMA* pensions (₹ 1,780 crore), interest free loans to *DWCRA* women (₹ 650 crore), Supply of seeds, fertilizers and agricultural implements (₹ 1,632 crore), Rajiv Vidya Mission (₹ 773 crore), *NRHM* (₹ 226 crore) and Weaker sections housing programme under *INDIRAMMA* (₹ 158 crore) etc.

1.10 Quality of Expenditure

1.10.1 Adequacy of public expenditure

Enhancing human development levels requires the States to step up their expenditure on key social services like education, health etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) can be said to be attached to a particular sector, if the ratios falls way below the respective national averages. **Table 1.17** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2013-14.

Table 1.17: Fiscal Priority of the State in 2010-11 and 2013-14

(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) 2010-11	15.78	65.09	36.88	13.49	17.48	4.37
Andhra Pradesh's Average (Ratio) 2010-11	16.38	70.87	38.15	11.96	13.54	4.60
General Category States Average (Ratio) 2013-14	15.92	66.45	37.56	13.62	17.20	4.51
Andhra Pradesh's Average (Ratio) 2013-14	15.13	70.70	37.90	11.81	14.47	4.65

AE: Aggregate Expenditure; DE: Development Expenditure; SSE: Social Sector Expenditure; CE: Capital Expenditure. # Development expenditure includes Development Revenue Expenditure, Development Capital expenditure and Loans and Advances disbursed.

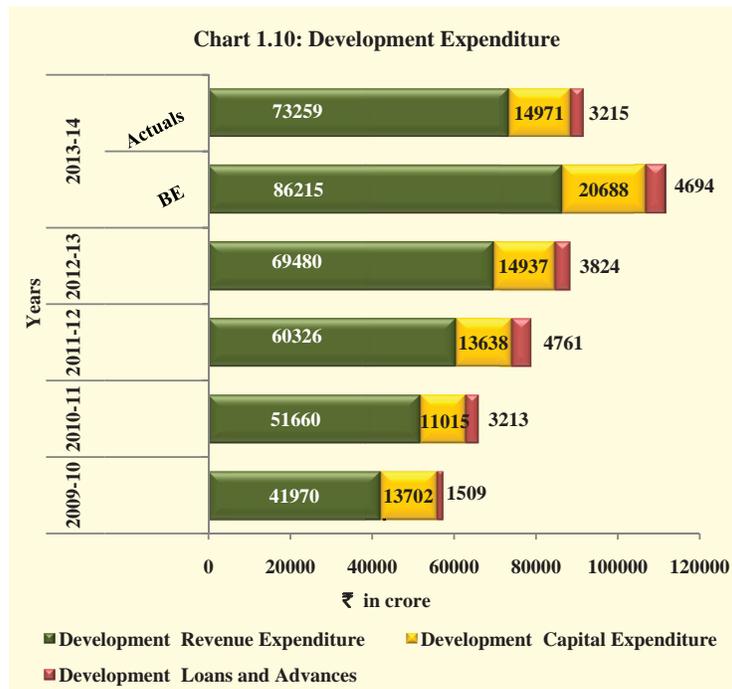
Source: Finance Accounts

A comparison of the data related to Andhra Pradesh with that of the General Category States (GCS) revealed the following:

- Development expenditure as a proportion of aggregate expenditure has been higher in the State compared to the GCS average both during 2010-11 and 2013-14.
- Expenditure on Social Sector as a proportion of aggregate expenditure was higher than the GCS average during 2010-11 and 2013-14. The share of expenditure on education as a proportion of aggregate expenditure was lower than the GCS averages in both the years, though it improved in 2013-14. The level of expenditure on health was, however, comparable in both the years.
- The share of capital expenditure was lower than the GCS average in both the years.

1.10.2 Efficiency of expenditure use

In view of the emphasis on public expenditure on socio-economic developmental works in successive Plans, it is important that the State Government takes appropriate expenditure rationalization measures and focus on provisioning of core public and merit goods¹⁵. Apart from improving the allocation towards development expenditure¹⁶, the efficiency of expenditure use is also reflected in the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. **Chart 1.10** presents the trends in development expenditure.



Source: Finance Accounts

During the current year, the developmental capital expenditure increased by ₹ 34 crore (0.23 per cent), while development loans and advances decreased by ₹ 609 crore (15.93 per cent) over the previous year. Although there is an increase in developmental capital expenditure, there was a decrease in core functions like Irrigation and Flood Control (₹ 1,065 crore) and Education, Sports, Art and Culture (₹ 51 crore).

During 2013-14, the share of social services and economic services constituted 38 and 33 per cent of total expenditure respectively.

Table 1.18 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected social and economic services.

¹⁵ See glossary

¹⁶ See glossary

Table 1.18: Efficiency of expenditure use in selected social and economic services

(In per cent)

Social/Economic Infrastructure	2012-13			2013-14		
	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	1.67	80.49	0.10	1.21	81.15	0.06
Health and Family Welfare	1.51	56.88	0.60	2.73	54.97	0.30
Water supply, Sanitation, Housing & Urban Development	6.69	26.31	0.53	8.53	36.20	0.61
Total (SS)	2.51	45.26	0.26	2.97	46.68	0.20
Economic Services (ES)						
Agriculture & Allied Activities	0.26	33.63	2.04	0.66	68.41	2.48
Irrigation and Flood Control	54.54	4.07	9.73	52.42	6.88	10.53
Power & Energy	1.43	0.37	0.08	0.63	0.50	0.06
Transport	49.50	1.53	64.90	58.22	6.65	56.53
Total (ES)	33.22	12.25	9.82	32.45	13.72	8.75
Total (SS+ES)	17.69	32.02	4.10	16.97	33.95	3.50
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operation & Maintenance of respective sector.						

Source: Finance Accounts

The ratio of CE/TE on Economic Services decreased by 0.77 per cent over the previous year, while there was a marginal increase under Social Services, indicating that capital expenditure has been given less priority in the developmental plan of the State. The percentage of capital expenditure in Social Sector under General Education, Health and Family Welfare, Water supply and Sanitation constituted 2.97 per cent of the total expenditure in the sector. Funds earmarked for specific social sector activities were not always released on time/ not released at all, thereby negating the objective of allocating these funds as discussed in **Chapter-2**. Operation and Maintenance expenditure in these sectors decreased to 0.60 per cent over the previous year.

1.11 Financial analysis of Government expenditure and investments

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

1.11.1 Financial Results of Irrigation Projects

The State Government has not disclosed¹⁷ financial results of any of its irrigation projects since 1986-87, despite the State having some of the largest irrigation projects in the country.

Government replied (November 2014) that the project wise information on Capital outlay, expenditure incurred and receipts would be collected from the Irrigation Department.

¹⁷Appendix-IX of Finance Accounts 2013-14

1.11.2 Incomplete Projects

Blocking of funds on incomplete projects/works impinge negatively on the quality of expenditure. As per the information provided by the Government, none of the 1,037 projects/works which were due for completion by 31 March 2014 has been completed as on that date. The total amount of funds expended on these projects/works as of 31 March 2014 was ₹ 82,665 crore (previous year ₹ 71,595 crore). Further, of the 1,037 incomplete projects/works, the original cost of 173 projects/works was revised upwards by ₹ 70,453 crore. Non-completion of these projects/works within the stipulated period not only resulted in increase in cost, but also deprived the State of the intended benefits for prolonged periods.

The department-wise position of incomplete projects, each costing above ₹ one crore and due for completion are detailed in **Table 1.19**. The details of major and medium irrigation projects pending completion are given in *Appendix 1.8*.

Table 1.19: 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 (No. of works/projects)	Cumulative Expenditure as on 31-03-2014
Irrigation and Command Area Development Department					
Jalayagnam Projects	69	1,10,330	1,79,329	68,999(38)	72,236
Minor Irrigation and APSIDC ¹⁸	123	967	1,265	299(60)	534
Roads and Bridges Department					
Roads and Bridges	13	432	518	86(4)	226
Others					
APMSIDC ¹⁹	117	381	476	96(11)	245
APEWIDC ²⁰	341	455	459	3(7)	233
APSHCL ²¹	58	264	271	8 (13)	202
HMWS & SB ²²	4	5,709	5,721	12(01)	3,561
PH&MED ²³	27	1,049	1,351	302(11)	519
APUFIDC (JNNURM) ²⁴	91	6,703	7,344	641(22)	4,641
Others ²⁵	194	506	513	7(6)	269
Total	1,037	1,26,795	1,97,248	70,453(173)	82,665

Source: Departmental information

¹⁸ Andhra Pradesh State Irrigation Development Corporation

¹⁹ Andhra Pradesh Medical Services Infrastructure Development Corporation

²⁰ Andhra Pradesh Education and Welfare Infrastructure Development Corporation

²¹ Andhra Pradesh State Housing Corporation Limited

²² Hyderabad Metropolitan Water Supply and Sewerage Board

²³ Public Health and Municipal Engineering Department

²⁴ Andhra Pradesh Urban Finance & Infrastructure Development Corporation, Jawaharlal Nehru National Urban Renewal Mission

²⁵(i) Andhra Pradesh Police Housing Corporation Limited, (ii) Tribal Welfare Engineering Department, (iii) Hyderabad Metropolitan Development Authority & (iv) Greater Hyderabad Municipal Corporation

1.11.3 Investment and return

As of 31 March 2014, the State Government invested ₹ 6,385 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives. The status of return on the amount invested in these corporations/companies is given in **Table 1.20**.

Table 1.20: Return on investment

Investment/Return/Cost of Borrowings	2009-10	2010-11	2011-12	2012-13	2013-14
Investment at the end of the year (₹ in crore)	6,003	6,046	6,093	6,210	6,385
Return (₹ in crore)	23	39	52	64	60
Return (<i>per cent</i>)	0.38	0.65	0.85	1.03	0.94
Average rate of interest on Government borrowing (<i>per cent</i>)	7.86	7.60	7.40	7.30	7.20
Difference between interest rate and return (<i>per cent</i>)	7.48	6.95	6.55	6.27	6.26

Source: Finance Accounts

Government earned a meager return of ₹ 60 crore in 2013-14 on its investment of ₹ 6,385 crore in various corporations/companies. Although, there was increase of ₹ 175 crore in investments during the year, the return on investments compared to previous year was less. The average rate of return on investment was a negligible 0.77 *per cent* during 2009-14.

Government replied (November 2014) that the investments made in a majority of the Corporations are on no profit and no loss basis. These corporations are acting on behalf of the Government to execute the works and hence the returns on investment were negligible. Government further informed that many of these Corporations are non operational at present, although accountancy issues remain.

1.11.4 Loans and advances by State Government

In addition to investments in Co-operative Societies, Corporations and Companies, the State Government has also been providing loans and advances to institutions/organizations like Universities/Academic Institutions, PRIs, ULBs and Urban Development Authorities etc. **Table 1.21** presents the details of outstanding loans and advances during the last five years.

Table 1.21: Average interest received on loans advanced by State Government

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2009-10	2010-11	2011-12	2012-13	2013-14	
					BE	Actual
Opening Balance	16,421	17,868	21,011	25,829	NA	29,316
Amount advanced during the year	1,590	3,315	4,983	3,913	4,694	3,689
Amount repaid during the year	143	172	165	426	463	575
Closing Balance	17,868	21,011	25,829	29,316	NA	32,430
<i>Of which, outstanding balance for which terms and conditions have been settled</i>	NA	NA	NA	NA	NA	NA
Net addition	1,447	3,142	4,818	3,487	4,231	3,114
Interest Receipts	32	60	95	131	NA	158
Interest receipts as percentage of outstanding loans and advances	0.18	0.29	0.37	0.45	NA	0.49

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2009-10	2010-11	2011-12	2012-13	2013-14	
					BE	Actual
Interest payments as percentage to outstanding fiscal liabilities of the State Government.	7.44	7.17	7.02	6.90	NA	6.80
Difference between interest receipts and interest payments (<i>per cent</i>)	(-)7.26	(-)6.88	6.65	(-)6.45	NA	6.31

Source: Finance Accounts; NA: Not applicable

It can be seen that the current level of recovery of loans is low with the gap between disbursement (₹ 3,689 crore) and recovery (₹ 575 crore) showing only a slight improvement over the previous year.

State Housing Corporation (₹ 813 crore), Statutory Corporations/Government Companies (₹ 1,085 crore) urban development authorities (₹ 794 crore) and Government servants (₹ 474 crore) were the major recipients of loans during the current year. At the end of 2013-14 recovery of ₹ 19,826 crore (₹ 14,402 crore (Principal) and ₹ 5,424 crore (Interest)) was due from A.P. State Housing Corporation, HMDA (Outer Ring Road), Hyderabad Metro Water Supply and Sewerage Board etc. and was outstanding for more than two years. Despite constant pursuance, Government departments have not furnished the complete details relating to investments and outstanding loans in their records as of 31 March 2014²⁶. State Government is yet to obtain confirmation with regard to balances of loans advanced, from various departments/organizations to the tune of ₹ 23,211 crore. The earliest loan for which confirmation of balances was awaited relates to 1984-85. Housing (₹ 13,328 crore) and Urban Development (₹ 4,926 crore) are the major departments yet to convey acceptance of balances as of 31 March 2014.

1.11.5 Cash balances and investment of Cash balances

During the current year, State Government invested ₹ 4,567 crore in GoI Treasury Bills as against ₹ 3,486 crore in the previous year. **Table 1.22** depicts the cash balances and investments made by the State Government out of these during the year.

Table 1.22: Cash balances and their investment

	(₹ in crore)	
	Opening balance on 1/4/2013	Closing balance on 31/3/2014
(a) General Cash Balance		
Cash in Treasuries	---	---
Deposits with Reserve Bank	-565.60	-97.30
Deposits with other Banks	1.34	1.34
Remittances in transit - Local	4.97	4.97
Total	-559.29	-90.99
Investments held in Cash Balance investment account	4,567.43	7,048.85
Total (a)	4,008.14	6,957.86

²⁶ Consequently, the data used in this paragraph was compiled from the limited information available

(b) Other Cash Balances and Investments		
Cash with departmental officers viz., Public Works Department Officers, Forest Department Officers, District Collectors	0.91	0.91
Permanent advances for contingent expenditure with departmental officers	1.42	1.42
Investment of earmarked funds	5,151.04	6,322.88
Total (b)	5,153.37	6,325.21
Grand total (a)+ (b)	9,161.51	13,283.07

Source: Finance Accounts 2013-14

The rate of interest earned on investments from cash balances and investments from earmarked balances worked out to 3.23 per cent and 6.93 per cent respectively during the year 2013-14, against the average market borrowing rate of 7.20 per cent.

State Government maintained the minimum daily cash balance of ₹ 3.32 crore with RBI during the year without the need to take recourse to Ways and Means Advances or overdrafts. Cash balance of the State increased by ₹ 4,122 crore (45 per cent) at the end of 2013-14 over the previous year.

1.11.6 Reserve Funds

Reserve Funds are created for specific and defined purposes and are funded by contributions/grants from the Consolidated Fund of India/State. Out of the gross accumulated balance of ₹ 9,010 crore lying in these Funds as on 31 March 2014, the State Government invested ₹ 6,322.88 crore (70 per cent). The total net accumulated balance as at the end of 31 March 2014 in these funds was ₹ 2,687.44 crore (₹ 2,428.84 crore in 28 active funds and ₹ 258.60 crore in 24 inoperative funds). The balances under inoperative funds are lying since 2001-02.

Government replied (November 2014) that action has been taken for closure of inoperative reserve funds during May 2014.

1.11.7 Consolidated Sinking Fund

On the recommendations of the Twelfth Finance Commission, the State Government revised the guidelines pertaining to the existing Sinking Fund (created in 1999-2000 for amortization of open market loans) with effect from January 2010. Under these revised guidelines, the State Government is required to make annual contributions to the Fund at 0.5 per cent of the outstanding liabilities at the end of the previous financial year. In terms of guidelines of the Reserve Bank of India (RBI), which administers the Fund, outstanding liabilities are defined as Internal Debt and Public Account liabilities of the State Government. As on 31 March 2013, the outstanding liabilities of the Government of Andhra Pradesh were ₹ 1,69,083.70 crore. Against the requirement of ₹ 845.42 crore, the State Government contributed ₹ 778.92 crore to the Fund, resulting in understatement of Revenue expenditure and overstatement of Revenue Surplus by ₹ 66.50 crore and understatement of Fiscal deficit to this extent.

Government replied (November 2014) that contributions to Sinking Fund would be made at 0.5 per cent of Internal debt, Small savings and Provident funds. Government's reply is not acceptable in view of RBI guidelines which state that 0.5 per cent of outstanding liabilities at the end of the previous financial year is to be contributed towards the Consolidated Sinking Fund and "Internal debt and public account liabilities" constitute the Outstanding liabilities of the Government.

1.12 Assets and Liabilities

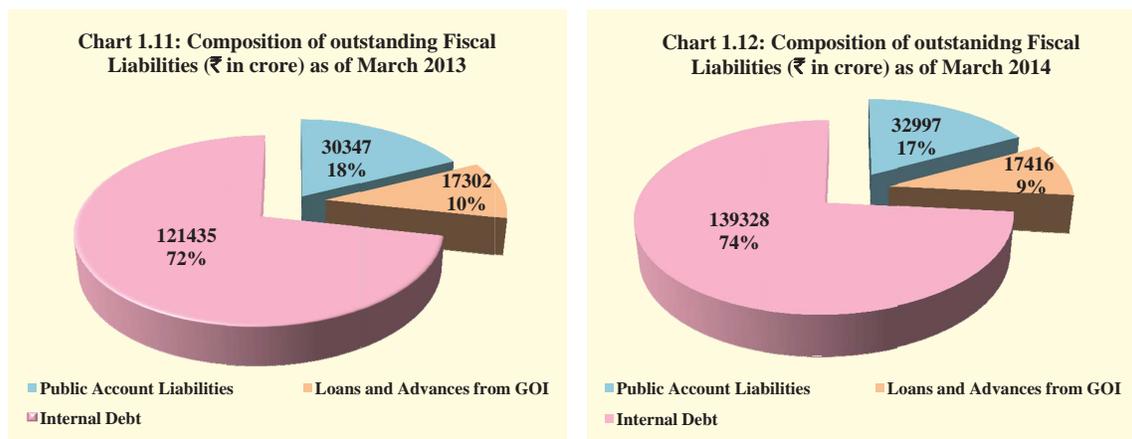
1.12.1 Growth and composition of assets and liabilities

Government accounts reflect the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.9* gives an abstract of such liabilities and the assets as on 31 March 2014, compared with the corresponding position as on 31 March 2013. While liabilities consist mainly of internal borrowings, loans and advances from GoI, balances in the Public Account, assets comprise mainly capital outlay and loans and advances given by the State Government and cash balances.

The total liabilities of the State as defined under the FRBM Act of the State 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”.

1.12.2 Fiscal liabilities

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



Source: Finance Accounts 2012-13

Source: Finance Accounts 2013-14

The total fiscal liabilities of the State at the end of 2013-14 (₹ 1,89,741 crore) increased by ₹ 20,657 crore (12 *per cent*) over the previous year (₹ 1,69,084 crore) and stood at 1.71 times of revenue receipts.

Total fiscal liabilities as defined in FRBM Act worked out to ₹ 1,89,741 crore and stood at 22.20 *per cent* of GSDP at the end of current year. The 13th FC has recommended that by the end of 2014-15, fiscal liabilities should be brought down to 25 *per cent* of GSDP. In line with the FRBM Act, the State Government established a Sinking Fund for reduction or avoidance of debt and a Guarantee Redemption Fund, and has been contributing to these funds at the rates prescribed by the RBI except in respect of Sinking Fund for the current year (refer to para 1.11.7).

1.12.3 Status of guarantees-contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. State Government in its FRBM Act, committed to limit the amount of annual incremental guarantees to 90 *per cent* of the total revenue receipts in the year preceding the current year, and constituted (2002-03) Guarantee Redemption Fund for discharging the guarantees invoked, if any. During the current year, ₹ 77 crore was contributed to the Fund and the entire balance (₹ 849 crore) as on 31 March 2014 was invested in Government securities.

As per Statement No.9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last five years are given in **Table 1.23**.

Table 1.23: Guarantees given by the Government of Andhra Pradesh

(₹ in crore)

Guarantees	2009-10	2010-11	2011-12	2012-13	2013-14
Maximum amount guaranteed	20,324	29,554	23,543	38,084	55,536
Outstanding amount of guarantees	13,135	12,290	12,286	14,857	31,153
Percentage of maximum amount guaranteed to total revenue receipts	31.42	36.49	25.17	36.68	50.16

Source: Finance Accounts

The maximum amount guaranteed during the year (₹ 55,536 crore) is below 90 *per cent* of the total revenue receipts (₹ 1,03,830 crore) of the preceding year as prescribed by the FRBM Act. The increase in the maximum amount guaranteed at the end of 2013-14 by ₹ 17,452 crore over the previous year was mainly in respect of Power (₹ 13,908 crore), Municipalities/ Local Bodies/ Universities (₹ 978 crore), Roads & Transport (₹ 705 crore), Cooperatives (₹ 598 crore), State Financial Corporation (₹ 208 crore), Agriculture (₹ 134 crore), Urban Development & Housing (₹ 113 crore) and other institutions (₹ 200 crore).

During the year, Government received nine crore rupees on account of guarantee commission (three crore rupees from Cooperatives and six crore rupees from State Financial Corporation) against the budget estimate of ₹ 8.82 crore.

1.12.4 Off-Budget Borrowings

The borrowings of a State are governed by Article 293 of the Constitution of India. In addition to the liabilities shown in **Appendix 1.9**, the State Government guarantees loans availed by Government Companies/Corporations. These Companies/Corporations borrow 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 Company or Corporation's budget, in reality, the borrowings of many of these concerns ultimately turn out to be the liabilities of the State Government and hence, constitute off-budget borrowings.

Out of the off-budget borrowings of ₹ 7,216 crore (APPFC: ₹ 5,929 crore, APTRANSCO: ₹ 1,287 crore) raised by various Government Companies/ Corporations through adjustment bonds and other sources during the period 2001-2013, State Government repaid ₹ 53.50 crore towards principal (APPFC: ₹ 34 crore, APTRANSCO: ₹ 19.50 crore) and ₹ 617.62 crore

(APPFC: ₹ 552.36 crore, APTRANSCO: ₹65.29 crore) towards interest. As of 31 March 2014 the total outstanding off-budget borrowings of the State was ₹ 7,162 crore (APPFC: ₹ 5,895 crore, APTRANSCO: ₹ 1,267 crore). The total liabilities of the State comprising fiscal liabilities (₹ 1,89,741 crore), off-budget borrowings (₹ 7,162 crore) and outstanding guarantees including interest at the end of March 2014 (₹31,153 crore) were ₹ 2,28,056 crore, which, as a ratio of GSDP, stood at 26.67 *per cent* i.e. less than the ceiling of 28.20 *per cent* prescribed by the FRBM Act for the year 2013-14.

Government replied (November 2014) that the amounts shown under off budget borrowings in respect of APTRANSCO and APPFC pertain to yester years and no off budget borrowings have been allowed by the State Government during 2013-14.

1.13 Debt sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability²⁷ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization²⁸, sufficiency of non-debt receipts²⁹, net availability of borrowed funds³⁰, burden of interest payments (measured by ratio of interest payments to revenue receipts) and maturity profile of State Government securities. **Table 1.24** analyses the debt sustainability of the State according to these indicators during the five-year period 2009-14.

Table 1.24: Debt sustainability: Indicators and trends

Indicators of Debt Sustainability	2009-10	2010-11	2011-12	2012-13	2013-14
Debt Stabilisation (Quantum Spread ³¹ + Primary Deficit) (₹ in crore)	12,800	18,101	22,375	16,887	16,723
Debt-GSDP ratio	0.25	0.24	0.22	0.23	0.22
Sufficiency of Non-debt Receipts (Resource Gap) (₹ in crore)	(-) 1,603	(+) 2,207	(-) 3,598	(-)2,107	(-)542
Net Availability of Borrowed Funds (₹ in crore)	5,523	2,769	3,348	5,162	6,168
Net Availability of Borrowed Funds as <i>percentage</i> to borrowings	24.95	12.67	14.67	19.20	21.29
Debt Redemption (Principal + Interest)/Total Debt Receipts	0.850	0.915	0.853	0.808	0.787
Burden of Interest Payments (IP/RR Ratio)	0.14	0.12	0.11	0.11	0.12

Source: Finance Accounts

The quantum spread together with primary deficit has been positive for the last five years, resulting in decline in Debt/GSDP ratio from 25 *per cent* in 2009-10 to 22 *per cent* in 2013-14. These trends point to debt stabilization. However, the resource gap has been negative in four out of the five year period indicating that the incremental non-debt receipts were not sufficient to meet the incremental primary expenditure and the additional interest

²⁷ See glossary

²⁸ See glossary

²⁹ See glossary

³⁰ See glossary

³¹ See glossary

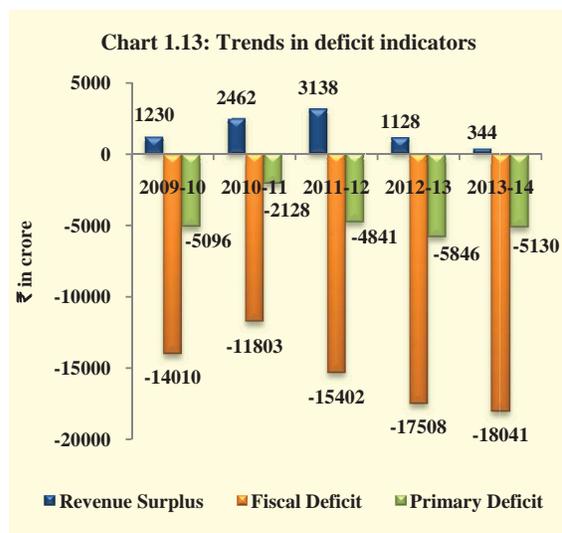
burden. Thus, the State needs to step up its resource mobilization besides pruning the unproductive expenditure to maintain debt stability. The net availability of borrowed funds was positive and increasing during the last five years, indicating the availability of borrowed funds for purposes other than debt repayment.

1.14 Fiscal Imbalances

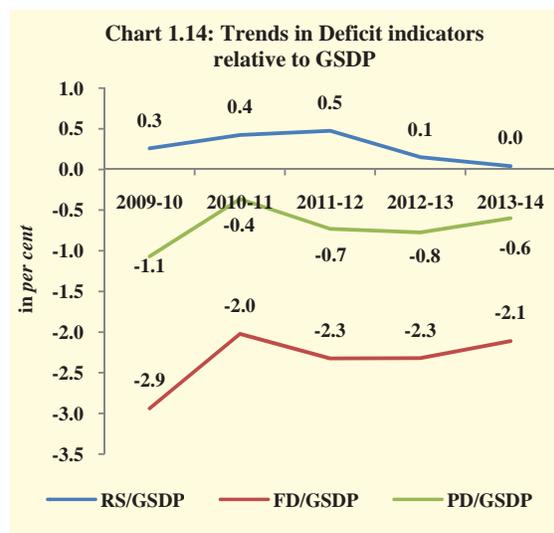
Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. Deficit in Government accounts represents the gap between its receipts and expenditure and the nature of deficit is an indicator of the prudence of the Government in fiscal management. Further, the ways in which the deficit is financed and the resources raised are applied, are important pointers to fiscal health. This section presents the 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 2013-14.

1.14.1 Trends in deficits

Charts 1.13 and 1.14 present the trends in deficit indicators over the five year period 2009-14.



Source: Finance Accounts



Source: Finance Accounts

There was revenue surplus for the eighth consecutive year during 2013-14. At ₹ 344 crore, revenue surplus decreased by ₹ 784 crore over the previous year (₹ 1,128 crore). Fiscal deficit increased to ₹ 18,041 crore in 2013-14 (2.11 per cent of GSDP) from ₹ 17,508 crore (2.35 per cent of GSDP) in 2012-13. Primary deficit decreased to ₹ 5,130 crore from ₹ 5,846 crore in 2012-13.

1.14.2 Components of fiscal deficit and its financing pattern

The decomposition and financing of fiscal deficit are shown in Table 1.25.

Table 1.25: Components of fiscal deficit and their financing pattern

(₹ in crore)

Sl.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14		
						Receipts	Disbursements	Net
A	Decomposition of Fiscal Deficit (1 to 3)	(-) 14,010	(-) 11,803	(-) 15,401	(-)17,508	1,11,303	1,29,344	-18,041
	1. Revenue Surplus	1,230	2,462	3,138	1,128	1,10,719	1,10,375	344
	2. Capital Outlay	(-) 13,793	(-) 11,123	(-) 13,722	(-)15,149	9	15,280	-15,271
	3. Net Loans and Advances	(-) 1,447	(-) 3,142	(-) 4,818	(-)3,487	575	3,689	-3,114
B	Financing Pattern of Fiscal Deficit							
	Net Borrowings from Consolidated Fund	13,476	10,841	12,689	15,635	25,292	7,286	18,006
	Market Borrowings*	13,403	10,154	10,918	15,598	23,949	6,057	17,892
	Loans from GoI	73	687	1,771	37	1,342	1,228	114
	Net Public Account	845	700	3,351	910	2,34,752	2,34,247	505
	Small Savings, PF etc.	961	1,603	1,220	1,190	3,673	2,601	1072
	Reserve Funds	(-) 113	945	351	82	3,898	3,519	379
	Deposits and Advances	(-) 1,437	1,703	1,346	1,666	52,993	51,798	1195
	Suspense and Misc.	(-) 1	(-) 2,200	337	(-)1,347	1,56,537	1,58,730	-2193
	Remittances	1,435	(-) 1,351	97	(-)681	17,651	17,599	52
C	Contingency Fund	7	(-) 1	1	(-)2	2	3	(-) 1
D	Accretion to Cash Balance	(-)318	263	(-)640	965	35	504	-469

Source: Finance Accounts. *Includes borrowings from other institutions

It can be seen that capital outlay mostly accounted for the fiscal deficit (84.65 per cent) while market borrowings financed 99.18 per cent of the fiscal deficit.

The maturity profile of State debt is shown in **Table 1.26**.

Table 1.26: Maturity Profile of State Debt

(₹ in crore)

Maturity profile	Amount	Percentage
0 – 1 years	6,352	4.18
1 – 3 years	12,455	8.20
3 – 5 years	24,252	15.98
5 – 7 years	32,902	21.68
7 years and above	75,836	49.96
Total	1,51,797	100.00

Source: Finance Accounts 2013-14

To discharge its expenditure obligations, the Government had to borrow further, since fiscal surplus was not available during any of the last five years. The State Government raised ₹ 85,295 crore from market borrowings and ₹ 9,057 crore from Central loans during the five year period 2009-10 to 2013-14 which could lead to large repayment obligations from the year 2019-20 onwards.

The maturity profile of outstanding stock of public debt as on 31 March 2014 shows that 49.96 per cent of the total outstanding debt is in the maturity bucket of seven years and above. It further indicates that the liability of the State to repay the debt would be ₹ 24,252 crore during 2017-19 and ₹ 32,902 crore during 2019-21, which would put a strain

on the Government budgets during that period. The State may have to borrow further to repay these loans. A well thought out debt repayment strategy would have to be worked out by the Government to obviate additional borrowings, which mature in these critical years.

Interest payments on market loans have shown an increasing trend from 4.73 *per cent* to seven *per cent* of revenue receipts, as can be seen from **Table 1.27** on account of increasing trend of both the quantum of borrowings and the interest rates.

Table 1.27: Interest payment as a percentage of revenue receipts

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Interest payment on market loans (₹ in crore)	3,397	4,287	5,219	6,433	7,754
Percentage of revenue receipts	4.73	5.29	5.58	6.20	7.00

Source: Finance Accounts

1.14.3 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit³² and capital outlay (including loans and advances) would indicate the quality of deficit in the State finances. The bifurcation of primary deficit (**Table 1.28**) into primary revenue deficit and capital outlay would indicate the extent to which the deficit has been applied to augment asset creation in the State. As stated earlier, the State did not have any revenue deficit during the last eight years.

Table 1.28: Primary deficit/surplus – bifurcation of factors

Year	Primary revenue surplus	Capital Outlay	Loans and Advances	₹ in crore)	
				Primary deficit(-)/ surplus(+)	Primary revenue surplus/ Capital Outlay (%)
2009-10	10,287	13,793	1,590	(-)5,096	74.58
2010-11	12,310	11,123	3,315	(-)2,128	110.67
2011-12	13,865	13,722	4,983	(-)4,840	101.04
2012-13	13,216	15,149	3,913	(-)5,846	86.65
2013-14	13,830	15,280	3,689	(-)5,130	90.51

Source: Finance Accounts

During the period 2009-14, the State generated primary revenue surplus which was applied towards meeting the requirement of capital outlay. As can be seen from **Table 1.28**, the primary revenue surplus met a substantial part of the capital outlay and even left surplus in two of these five years. In other words, the non-debt receipts of the State (₹ 1,11,303 crore during 2013-14) were not only adequate to meet the primary revenue expenditure, but also met whole/significant part of the capital expenditure.

³² See glossary

1.15 Conclusion

State Government has been achieving the fiscal reform targets every year in post FRBM legislation period. The State registered revenue surplus for the eighth consecutive year during 2013-14 and the fiscal deficit was within the ceiling prescribed in the FRBM Act. Total liabilities were brought down to 26.67 per cent of GSDP against a ceiling of 28.20 per cent prescribed in FRBM Act for the year 2013-14.

However, revenue surplus has to be viewed in the light of the fact that the Government is yet to work out its liability on account of its contribution (as also that of the employees) to the Contributory Pension Fund scheme from the inception of the scheme in September 2004. The interest payable on the amounts that have been lying in the Fund without transfer to NSDL/Trustee Bank has also not been estimated and accounted for.

Revenue receipts registered a growth of over 6.63 per cent (₹6,889 crore) during the current year over the previous year due to growth in own tax and non-tax revenues, the rate of growth being lower when compared to the previous three years. Revenue expenditure increased by 7.47 per cent (₹7,663 crore) over the previous year due to increase in non-plan expenditure.

While capital expenditure (₹15,280 crore) increased by only 0.86 per cent over the previous year, its ratio to total expenditure stood at 11.81 per cent. Capital works/ projects in irrigation and road sectors continued to languish and delays in their completion led to cost escalation on these projects. The investment blocked in such incomplete works/projects as of March 2014 was ₹82,665 crore (previous year: ₹71,595 crore).

Although the State Government accorded adequate fiscal priority to development expenditure during 2013-14, it did not ensure that the allocated funds were released fully for the intended purposes. State outlay on education (14.47 per cent) in particular, was behind that of the General Category States (17.20 per cent). Further, the share of capital expenditure to aggregate expenditure (11.81 per cent) was also lower in the State, compared to the other General Category States (13.62 per cent).

Return on investment in Companies/Statutory Corporations continued to be poor. The current level of recovery of loans is low. Finance Department did not maintain any centralized database of loans with entity wise information. Confirmation of balances on loan amount of ₹23,211 crore was yet to be received from the entities, which were the recipients of Government loans.