

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

Summary

In Andhra Pradesh the revenue deficit reduced drastically from Rs 3387 crore in 2004-05 to Rs 386 crore in 2005-06 (current year) mainly due to a growth in revenue receipts by 21 *per cent* against the 10 *per cent* increase in revenue expenditure. The fiscal deficit increased marginally from Rs 8192 crore in 2004-05 to Rs 8300 crore in the current year.

Revenue receipts of the State comprise mainly its own tax and non-tax revenue, Central tax transfers and grants-in-aid from Government of India (GOI). Overall revenue receipts increased from Rs 21845 crore in 2001-02 to Rs 34851 crore in 2005-06. During the current year 69 *per cent* of the revenue (Rs 23899 crore) came from the State's own resources. Compared to the previous year, there was increase in Central tax revenue (15 *per cent*) and substantial increase (49 *per cent*) in grants-in-aid from GOI.

Total expenditure of the State increased from Rs 29515 crore in 2001-02 to Rs 43333 crore in 2005-06. Expenditure on salaries increased by Rs. 1377 crore over previous year due to implementation of Revised Pay Scales, 2005. During 2005-06, total expenditure grew by 13 *per cent* over the previous year. Developmental expenditure (Rs 28834 crore) was 67 *per cent* of total expenditure. The capital expenditure increased by Rs. 2755 crore over previous year. The major share of capital expenditure was absorbed by the economic sector. Irrigation and flood control and Transport services were major beneficiaries of economic sector expenditure.

During 2005-06 the interest payments were Rs 7008 crore which was 20 *per cent* of the revenue receipts. The outstanding fiscal liabilities as of March 2006 were Rs 79549 crore, which were 35 *per cent* of the Gross State Domestic Product (GSDP). The average rate of interest paid on the borrowings of the State during 2005-06 was 9 *per cent*. During the year, the Government did not depend on ways and means advance or overdraft from the Reserve Bank of India for its day-to-day expenditure.

Thirty-five *per cent* of the State's liabilities had no asset backup.

1.1 Introduction

The Finance Accounts of the Government of Andhra Pradesh are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account. The layout of the Finance Accounts is depicted in the **Box 1.1**.

Box 1.1

Layout of Finance Accounts

Statement No. 1 presents the summary of transactions of the State Government – receipts and expenditure, revenue and capital, public debt receipts and disbursements, etc. in the Consolidated Fund, the Contingency Fund and the Public Account of the State.

Statement No. 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of current year.

Statement No. 3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.

Statement No. 4 indicates the summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.

Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.

Statement No. 6 gives the summary of guarantees given by the Government for repayment of loans, etc. raised by the statutory corporations, local bodies and other institutions.

Statement No. 7 gives the summary of cash balances and investments made out of such balances.

Statement No. 8 depicts the summary of balances under the Consolidated Fund, the Contingency Fund and the Public Account as on 31 March 2006.

Statement No. 9 shows the revenue and expenditure under different heads for the current year as a percentage of total revenue/expenditure.

Statement No. 10 indicates the distribution between the charged and voted expenditure incurred during the year.

Statement No. 11 indicates the detailed account of revenue receipts by minor heads.

Statement No. 12 provides accounts of revenue expenditure by minor heads under non-plan, State plan and Centrally sponsored schemes separately and capital expenditure major head wise.

Statement No. 13 depicts the detailed capital expenditure incurred during and to the end of the current year.

Statement No. 14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, cooperative banks and societies, etc. up to the end of the current year.

Statement No. 15 depicts the capital and other expenditure to the end of the current year and the principal sources from which the funds were provided for that expenditure.

Statement No. 16 gives the detailed account of receipts, disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.

Statement No. 17 presents the detailed account of Debt and other interest bearing obligations of the Government.

Statement No. 18 provides the detailed account of loans and advances given by the Government of Andhra Pradesh, the amount of loans repaid during the year, the balances at the end of the year and the amount of interest received during the year.

Statement No. 19 gives the details of balances of earmarked funds.

1.2 Trend of Finances with reference to the previous year

Finances of the State Government during the year 2005-06 compared to the previous year were as under:

(Rupees in crore)

2004-05	S. No	Major Aggregates	2005-06
287	1.	Revenue Receipts (2+3+4)	34851
162	2.	Tax Revenue	19207
37	3.	Non-Tax Revenue	4691
87	4.	Other Receipts	10953
13	5.	Non-Debt Capital Receipts	182
13	6.	Of which Recovery of Loans	182
301	7.	Total Receipts (1+5)	35033
258	8.	Non-Plan Expenditure (9+11+12)	28829
249	9.	On Revenue Account	28432
70	10.	Of which, Interest Payments	7008
(-)	11.	On Capital Account	(-) 38
9	12.	On Loans disbursed	435
124	13.	Plan Expenditure (14+15+16)	14504
72	14.	On Revenue Account	6805
45	15.	On Capital Account	7378
6	16.	On Loans disbursed	321
383	17.	Total Expenditure (8+13)	43333
81	18.	Fiscal Deficit (17-1-5)	8300
33	19.	Revenue Deficit (9+14-1)	386
11	20.	Primary Deficit (18-10)	1292

1.3 Summary of Receipts and Disbursements

Table 1 summarises the finances of the Government of Andhra Pradesh for the year 2005-06 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts and disbursements as emerging from Statement-1 of the Finance Accounts and other detailed statements (*Appendix I.2*).

During the year, the State Government incorrectly classified expenditure of Rs 321.73 crore, being grants-in-aid to local bodies under Capital outlay instead of Revenue (see Paragraph 1.6.1). This had the effect of overstatement of capital outlay and understatement of revenue expenditure and consequently

revenue deficit to the extent of Rs 321.73 crore. To provide a consistent and correct picture of the government finances comparable with the position of past years, expenditure figures under Revenue and Capital accounts have been suitably adjusted in the statements in this Chapter and all the indicators and ratios are worked out on that basis.

Table 1 : SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2005-06

(Rupees in crore)

2004-05	Receipts	2005-06	2004-05	Disbursements	2005-06		
Section-A: Revenue							
					Non-Plan	Plan	Total
28749.50	I. Revenue receipts	34851.19	32136.82	I. Revenue expenditure	28432.31	6804.72	35237.03
16254.50	Tax revenue	19207.40	13201.76	General Services	13409.48	82.56	13492.04
3755.56	Non-tax revenue	4691.37	10807.83	Social Services	8004.93	4153.86	12158.79
6058.51	Share of Union Taxes/ Duties	6950.86	7900.67	Economic Services	6792.50	2568.30	9360.80
2680.93	Grants from Government of India	4001.56	226.56	Grants-in-aid / Contributions	225.40	---	225.40
Section-B: Capital							
-	II. Miscellaneous Capital Receipts	--	4584.75	II. Capital Outlay	(-) 37.70	7377.65	7339.95
1372.98	III. Recoveries of Loans and Advances	182.43	1593.14	III. Loans and Advances disbursed	435.77	320.72	756.49
9832.76	IV. Public debt receipts	3970.72	7432.39	IV. Repayment of Public Debt[®]			5294.74
23.42	V. Contingency Fund	0.03	0.10	V. Contingency Fund[®]			0.79
39439.36	VI. Public account receipts	41365.80	32370.26	VI. Public account[®] disbursements			31421.49
1787.37	Opening cash balance	3087.93	3087.93	Closing cash balance			3407.61
81205.39	Total	83458.10	81205.39	Total			83458.10

[®] bifurcation of plan and non-plan not available

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure in the light of time series data. The key indicators adopted for the purpose are (i) Resources by volume and sources, (ii) Application of resources, (iii) Assets and Liabilities and (iv) Management of deficits. Audit observations also take into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The reporting parameters are depicted in the **Box 1.2**.

Box 1.2
Reporting Parameters
<p>Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current market prices. The GSDP data for 2001-02 to 2005-06 have been adopted from the Economic Survey for 2005-06 published by the Planning Department.</p> <p>For tax revenues, non-tax revenues, revenue expenditure, etc. buoyancy projections have been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.</p> <p>Some of the terms used here are explained in <i>Appendix 1.1</i>.</p>

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account, as defined in Box 1.3.

Box 1.3 - State Government Funds and the Public Account

Consolidated Fund	Contingency Fund	Public Account
All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled the Consolidated Fund of State established under Article 266(1) of the Constitution of India.	The Contingency Fund of State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.	Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursements are made from it.

1.5 State finances by key indicators

1.5.1 Resources by volume and sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from Government of India (GOI). Capital receipts comprise miscellaneous receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions and commercial banks) and loans and advances from GOI as well as accruals from the Public Account (*Appendix 1.3*).

The total receipts of the State Government for the year 2005-06 were Rs 80370 crore. Of these, the revenue receipts were Rs 34851 crore constituting 43 *per cent* of the total receipts. The balance came from borrowings (Rs 4153 crore) and the Public Account (Rs 41366 crore). Details are given in Table 2.

Table 2: State's resources

(Rupees in crore)

I.	Revenue Receipts		34851
II.	Capital Receipts		4153
	(a) Miscellaneous Capital Receipts	---	
	(b) Recovery of Loans and Advances	182	
	(c) Public Debt Receipts	3971	
III.	Contingency Fund Receipts		---
IV.	Public Account Receipts		41366
	(a) Small Savings, Provident Fund, etc.	5953	
	(b) Reserve Fund	823	
	(c) Deposits and Advances	17067	
	(d) Suspense and Miscellaneous	8554	
	(e) Remittances	8969	
	Total Receipts		80370

1.5.2 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the Gross State Domestic Product (GSDP) and its buoyancy is indicated in Table 3.

Table 3: Revenue Receipts - Basic Parameters
(Values in Rupees crore and others in *per cent*)

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Receipts	21845	23003	26869	28750	34851
Own Taxes	11551 (52.9)	12618 (54.9)	13806 (51.4)	16254 (56.5)	19207 (55.1)
Non-Tax Revenue	2918(13.4)	3529 (15.3)	3605 (13.4)	3756 (13.1)	4691 (13.5)
Central tax Transfers	4061 (18.6)	4316 (18.8)	5069 (18.9)	6059 (21.1)	6951 (19.9)
Grants-in-aid	3315 (15.2)	2540 (11.0)	4389 (16.3)	2681 (9.3)	4002 (11.5)
Rate of Growth	12.2	5.3	16.8	7.0	21
Revenue Receipt/GSDP	14.4	14.1	14.6	14.20	15.40
Revenue Buoyancy	1.504	0.862	1.579	0.693	1.843
GSDP Growth	8.10	8.18	12.55	9.81	11.51
Own taxes Buoyancy	0.921	1.608	0.686	1.478	1.688

The revenue receipts of the government increased from Rs 21845 crore in 2001-02 to Rs 34851 crore in 2005-06. It grew by 21 *per cent* over the previous year. During the five-year period 2001-06, the State had a buoyant economy with the annual GSDP growth ranging between 8 and 13 *per cent*; it was 12 *per cent* during 2005-06. Revenue growth rate exceeded GSDP growth rate during the five-year period, except in 2002-03 and 2004-05.

While 69 *per cent* of the revenue receipts during 2005-06 came from State's own resources (comprising of taxes and non-tax revenue), Central tax transfers

and grants-in-aid together contributed 31 *per cent*. Sales Tax was the major contributor (65 *per cent*) of the State's own tax revenue followed by State Excise (14 *per cent*), Stamps and Registration fees (11 *per cent*), taxes on vehicles (7 *per cent*). The State own tax revenue increased by 18 *per cent* over previous year mainly due to increase of duty on impressing of documents and fees for registering documents (Rs 626 crore), increase in receipts under State sales tax and turnover tax (Rs 1501 crore) and increase of taxes on foreign liquors and spirits (Rs 592 crore). Of the non-tax revenue sources, interest receipts of Rs 2040 crore (43 *per cent* of non-tax revenue) was realized from (a) departmental Commercial Undertakings (Rs 1937.64 crore), (b) investment of cash balance (Rs 71.26 crore), (c) Public Sector and other undertakings (Rs 9.18 crore), (d) Local bodies (Rs 0.05 crore), (e) Co-operative Societies (Rs 2.29 crore) and (d) others (Rs 19.10 crore). However, interest receipts of Rs 1871 crore from departmental Commercial Undertakings was only notional in nature arising out of book adjustments from Irrigation Projects. The other principal contributor to Non-tax revenue is Non-ferrous Mining and Metallurgical Industries (23 *per cent*).

Grants-in-aid from GOI increased from Rs 3315 crore in 2001-02 to Rs 4002 crore in 2005-06. It grew by 49.3 *per cent* (Rs 1321 crore) over previous year. Table 4 below gives details of Grants-in-aid from GOI.

Table 4: Grants-in-aid from GOI

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Grants for State plan schemes	1843	1172	2356	1260	1449
Non Plan grants	627	592	1045	533	1183
Grants for Central and Centrally Sponsored Schemes	845	776	988	888	1370
Total	3315	2540	4389	2681	4002
Percentage of increase/decrease over previous year	50.61	(-) 23.38	72.80	(-) 38.92	49.26

The increase in grants-in-aid in the current year over previous year was mainly due to increase in grants-in-aid under

Non-plan grant: (a) Proviso to Art 275(1) of the Constitution (Rs 245.20 crore), (b) VAT receipts (Rs 401.94 crore), and (c) Calamity Relief Fund (Rs 77.50 crore).

Grants for State Plan schemes: (a) State road (Rs 107.12 crore) and (b) Block grant (Rs 78.39 crore).

Grants of Central plan and Centrally sponsored schemes: (a) Social Security and Welfare (Rs 47.48 crore), (b) General Education (Rs 102.38 crore), (c) Water supply and sanitation (Rs. 63.38 crore), and (d) Social Security and Welfare (Rs 168.65 crore).

The sources of receipts under different heads as well as the GSDP during 2001-06 is indicated in Table 5.

Table 5 – Sources of Receipts: Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic Product
		Recovery of loans and advances	Public Debt Receipts	Accruals in Public Account		
2001-02	21845	947	7340	21777	51909	151482
2002-03	23003	460	7802	25646	56911	163385
2003-04	26869	1256	10627	30495	69247	184463
2004-05	28750	1373	9833	39439	79395	202576
2005-06	34851	182	3971	41366	80370	225892

1.6 Application of resources

1.6.1 Incorrect classification of expenditure

As per the Rules¹ made by the President of India in exercise of the powers conferred by Article 150 of the Constitution, expenditure on grants-in-aid to local bodies, even for the purpose of creating assets, and contributions to Reserve Fund/transfer to Deposit Account cannot be classified as capital expenditure. However, during the years 2000-05, Government provided for and booked expenditure of Rs 3822.42 crore, as grants-in-aid to local bodies (Rs 2899.56 crore) and contributions to Reserve Fund/transfer to Deposit Account (Rs 922.86 crore) under the Capital Section of Accounts. During the current year also, the Government booked Rs 321.73 crore being grants-in-aid to local bodies under Capital Section despite the misclassification being pointed out in earlier Audit Reports. The incorrect classification increased the capital outlay and reduced the revenue expenditure as well as revenue deficit in the Finance Accounts by Rs 321.73 crore.

1.6.2 Trend of growth of total expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State increased from Rs 29515 crore in 2001-02 to Rs 43333 crore in 2005-06.

Total expenditure, its annual growth rate, ratio of expenditure to the State's GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in Table 6 below:

¹ Note below Rule 30(1) of Government Accounting Rules, 1990

Table 6: Total Expenditure- Basic Parameters
(Value in Rupees crore and others in *per cent*)

	2001-02	2002-03	2003-04	2004-05	2005-06
Total Expenditure*	29515	31088	35575	38315	43333
Revenue expenditure	25488 (86)	26925(87)	3640(86)	32137(84)	35237(81)
Capital expenditure	2329(8)	2928(9)	3441(10)	4585(12)	7340(17)
Loans and advances	1698(6)	1235(4)	1494(4)	1593(4)	756(2)
Rate of Growth	8.6	5.3	14.4	7.70	13.1
TE/GSDP Ratio	19.4	19.3	19.3	18.9	19.2
Revenue Receipts/TE Ratio	74.0	74.0	75.5	75.04	80.43
Buoyancy of Total Expenditure with					
GSDP	1.060	0.647	1.147	0.785	1.184
Revenue Receipts	0.705	1.005	0.859	1.1	0.642

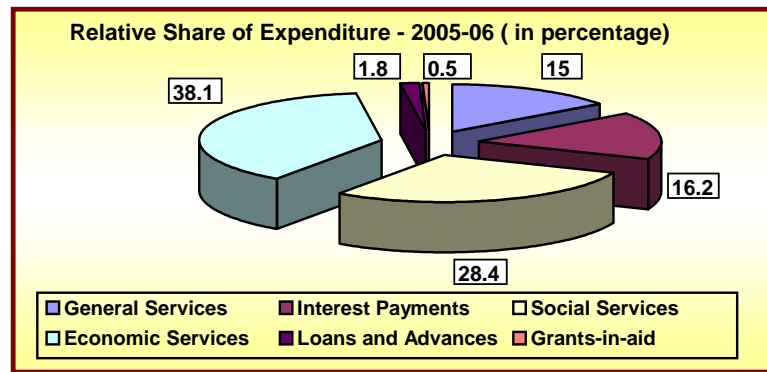
* includes revenue expenditure, capital expenditure and loans and advances

During the year 2004-05 the percentage of total expenditure to GSDP was 18.9 *per cent* and increased to 19.2 *per cent* in the current year. The total expenditure in 2005-06 has shown an increase of Rs 5018 crore over that of the previous year. This was due to increase in non-plan revenue expenditure by Rs 3524 crore, plan capital expenditure by Rs 2781 crore. However, the revenue plan expenditure and disbursement of loan decreased by Rs 424 crore and Rs 837 crore respectively.

In terms of the activities, total expenditure could be considered as being composed of expenditure on General services including interest payments, Social and Economic services, grants-in-aid and other contributions to institutions and loans and advances. Relative share of these components in total expenditure is indicated in Table 7.

Table 7: Components of Expenditure – Relative Share (in *per cent*)

	2001-02	2002-03	2003-04	2004-05	2005-06
General Services	16.2	15.9	15.0	16.0	15.0
Interest Payments	15.5	19.7	19.3	18.5	16.2
Social Services	29.5	30.3	30.5	29.4	28.4
Economic Services	32.1	29.2	30.2	31.3	38.1
Loans and Advances	5.8	4.0	4.2	4.2	1.8
Grants-in-aid	1.0	0.8	0.8	0.6	0.5



There were inter-year variations in various components. Of the total expenditure, the non-developmental expenditure during 2005-06 (General services including interest payments) accounted for 31 *per cent*, the development expenditure (Social Services and Economic Services) accounted for 67 *per cent* and loans and advances and grants-in-aid accounted for 2 *per cent*. The share of Economic Services increased by 6.8 *per cent* over previous year on account of major impetus given to irrigation.

The share of loans and advances in the total expenditure was constant at 4 *per cent* during 2002-05. In the current year the share declined to 2 *per cent* mainly due to non-release of funds by GOI under loans for power projects.

1.6.3 Incidence of revenue expenditure

Revenue expenditure incurred to maintain the current level of services and payment for the past obligations had the predominant share (81 *per cent*) in total expenditure. As such revenue expenditure does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in Table 8.

Table 8: Revenue Expenditure - Basic Parameters

	2001-02		2002-03		2003-04		2004-05		2005-06	
	Non-plan	Plan	Non-plan	Plan	Non-plan	Plan	Non-plan	Plan	Non-plan	Plan
Revenue Expenditure (Rupees in crore)	19575	5913	21077	5848	23295	7345	24908	7229	28432	6805
Rate of growth (<i>per cent</i>)	2.87	28.68	7.67	(-) 0.01	10.52	25.59	6.92	(-) 1.57	14.15	(-) 5.86
RE as a <i>per cent</i> of TE	66.32	20.03	67.79	18.81	65.48	20.64	65.00	18.87	65.61	15.70
RE as a <i>per cent</i> of RR	89.60	27.06	91.62	25.42	86.69	27.33	86.63	25.14	81.58	19.52
Buoyancy of Revenue Expenditure with										
GSDP	0.35	3.53	0.93	--	0.83	2.03	0.70	(-) 0.16	1.23	(-) 0.50
Revenue Receipts	0.18	1.80	1.44	--	0.62	1.52	0.98	(-) 0.22	0.67	(-) 0.24

The rate of growth of revenue expenditure during 2005-06 increased to 10 *per cent* as compared to 2004-05.

The Twelfth Finance Commission (TFC) assessed that the Non-Plan Revenue Expenditure (NPRE) of the State should be at the level of Rs 25113 crore for current year, while Fiscal Policy Strategy Statement (FPSS) of the State Government projected the NPRE at Rs 29296 crore. The actual NPRE in 2005-06 is less than the projections made in FPSS and comparable with the assessment made by TFC.

The buoyancy of revenue expenditure with GSDP increased and buoyancy of revenue expenditure with revenue receipts decreased sharply over previous year on account of augmentation of State's Revenue Receipts during the current year.

During 2005-06, the expenditure on salaries (Rs 10455 crore), interest payments (Rs 7008 crore), pensions (Rs 3197 crore) and subsidies (Rs 2457 crore) accounted for 66 *per cent* of revenue expenditure as well as revenue receipts. The expenditure on each component is discussed in the following.

1.6.4 High salary expenditure

Expenditure on salaries during 2005-06 recorded an increase of Rs 1377 crore over previous year. It was around 30 *per cent* of the revenue receipts and ranged between 4.5 and 5.3 *per cent* of GSDP during the period from 2001-02 to 2005-06 as indicated in Table 9.

As per the Macro Economic Framework Statement, expenditure on salaries was projected at Rs 10263 crore. The wage bill during 2005-06 (Rs 10455 crore) was 41.76 *per cent* of revenue expenditure net of interest payment and pension in comparison to recommendation of TFC to bring down the ratio to 35 *per cent* by 2009-10. The increase in expenditure was stated to be due to implementation of Revised Pay Scales, 2005.

Table 9

(Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06
Salary expenditure*	8017	8367	8975	9078	10455
As a percentage of GSDP	5.3	5.2	5.0	4.6	4.6
As a percentage of Revenue Receipts	36.7	36.4	33.4	31.58	30

* Expenditure under 010 - Salaries, 020-Wages, 030-Overtime allowance, 273-Work-charged establishment and 310-grants in aid towards salaries under revenue and capital sections of both non plan and plan

1.6.5 Huge expenditure on pension payments

The growth of expenditure on pension payments over the five-year period was as under:

Table 10

(Rupees in crore)

Year	Expenditure on pensions	Percentage to total revenue expenditure	Rate of growth
2001-02	2321	9.1	(-) 2.4
2002-03	2364	8.8	1.9
2003-04	2425	7.9	2.6
2004-05	3017	9.4	24.4
2005-06	3197	9.1	6

As on 31 March 2006 there were 4.39 lakh pensioners. With the increase in the number of pensioners, the pension liabilities are likely to increase further in future. Although projections of pension liabilities are not worked out on actuarial basis, the Government introduced a Contributory Pension Scheme for employees recruited on or after 1 September 2004 to mitigate the impact of raising pension liabilities in future.

1.6.6 Interest payments

The interest payments were between 20 and 27 *per cent* of revenue receipts as shown in Table 11. The interest payment during current year was Rs 7008 crore (20.1 *per cent* of Revenue receipts). The Macro Economic Framework Statement, prepared by State Government, projected interest payment of Rs 7058 crore for the year 2005-06.

Table 11

Year	Interest payments (Rupees in crore)	Percentage of interest payment with reference to	
		Revenue Receipts	Revenue Expenditure
2001-02	4584	21.0	18.0
2002-03	6131	26.7	22.8
2003-04	6856	25.5	22.4
2004-05	7091	24.7	22.1
2005-06	7008	20.1	19.8

Interest payments increased by 53 *per cent* during 2001-06 primarily due to increasing borrowings. However the interest payment during current year decreased by 1.17 *per cent* (Rs 83 crore) over previous year mainly due to consolidation of loans at 7.5 *per cent* released by Ministry of Finance up to 2003-04 and outstanding as on 1 April 2005. The interest payment during 2005-06 comprised payment on internal debt (Rs 5095 crore), loans received from Central Government (Rs 1440 crore), Small Savings, Provident Funds, etc. (Rs 472 crore) and Reserve Fund (Rs 1 crore).

1.6.7 Subsidies

Though the finances of the State Government are under strain, the Government has been paying subsidies for Food and Energy sectors. During the last five years, State Government paid the subsidies as under:

Table 12

(Rupees in crore)

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

^s Includes Agriculture (Rs 109 crore) Rural Development (Rs 48 crore) Industries and Commerce (Rs 54 crore)

* Total expenditure excludes Loans and Advances

During the current year subsidies constituted about six *per cent* of the total expenditure; 69 *per cent* of the subsidy was to APTRANSCO.

1.6.8 Incidence of capital expenditure

Capital expenditure is incurred for creation of assets of concrete and durable nature. The overall capital expenditure increased from Rs 2329 crore in 2001-02 to Rs 7340 crore in 2005-06 constituting 16.94 *per cent* of total expenditure. The share of capital expenditure in total expenditure in the current year registered a sharp increase (5 *per cent*) over previous year. This was due to construction of number of major and medium projects under 'Jalayagnam'. The increase in capital expenditure was absorbed mainly by medium irrigation.

The overall capital expenditure, its rate of growth, ratio of capital expenditure to GSDP and to total expenditure are indicated in Table 13.

Table 13: Capital expenditure – Basic parameters

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Capital Expenditure (Rupees in crore)	2329	2928	3441	4585	7340
Rate of Growth (<i>per cent</i>)	7.33	25.72	17.52	33.25	60.08
CE as percentage of GSDP	1.54	1.79	1.87	2.26	3.25
CE as percentage of TE	7.89	9.42	9.67	11.97	16.94

1.7 Expenditure by allocative priorities

1.7.1 The expenditure of the State in the nature of plan expenditure, capital expenditure and development expenditure reflects its quality. Higher the ratio of these components to total expenditure, the better is the quality of expenditure. Table 14 gives these ratios during 2001-06.

Table 14: Quality of Expenditure (*per cent* to total expenditure)

	2001-02	2002-03	2003-04	2004-05	2005-06
Plan Expenditure	27.9	27.7	30.3	30.9	32.7
Capital Expenditure	7.9	9.4	9.7	12.0	16.9
Development Expenditure	33.7	59.5	60.7	60.7	66.5

All the three components of quality of expenditure indicated inter year variations. In the current year, plan, capital and development expenditure were higher when compared to the previous year. Irrigation and Flood control and Transport were beneficiary sector where capital expenditure was absorbed. This indicated the shift in policy towards asset creation.

1.7.2 Expenditure on Social services (Rs 12314 crore) accounted for 43 *per cent* of the development expenditure. Expenditure on General Education, Health, Medical and Family Welfare, Water Supply, Sanitation, Housing and Urban Development constituted 70 *per cent* of the expenditure on Social services, as compared to 68 *per cent* in the previous year.

Table 15: Expenditure on Social Services

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
General Education	3871	4027	4292	4334	4992
Health, Medical and Family Welfare	1367	1378	1484	1502	1622
Water Supply, Sanitation, Housing and Urban Development	993	1394	1444	1815	1959
Total	6231	6799	7220	7651	8574
Total expenditure on social sector	8707	9422	10859	11257	12314
As a percentage of expenditure on Social sector	71.6	72.2	66.5	68.0	69.6

1.7.3 Similarly, the expenditure on Economic Services (Rs 16520 crore) accounted for 57 *per cent* of the development expenditure during the year. Of

this, Irrigation and Flood Control, Energy and Transport accounted for 75 per cent, as compared to 69 per cent in the previous year. During the current year also major impetus was given to Irrigation and Flood Control.

Of the total incremental expenditure on economic services (Rs 4502 crore), 79 per cent (Rs 3557 crore) was absorbed in Irrigation and Flood Control mainly under Godavari Water Utilisation Authority (Rs 1113 crore), Flood Flow Canal Project (Rs 65 crore), Polavaram Project (Rs 566 crore), Kalwakurthy Lift Irrigation Scheme (Rs 345 crore), Telugu Ganga Project (Rs 317 crore) and Galeru Nagari Sujala Sravanti Project (Rs 201 crore).

Table 16: Expenditure on Economic Services

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Irrigation and Flood Control	2727	3117	3413	5225	8778
Energy	2328	1669	2484	1926	1801
Transport	1342	1478	1115	1117	1880
Total	6397	6264	7012	8268	12459
Total expenditure on economic sector	9470	9083	10751	12018	16520
As a percentage of expenditure on Economic sector	67.5	69.0	65.2	68.8	75.4

Financial Assistance to local bodies and other institutions

1.7.4 Extent of assistance

The quantum of assistance provided by way of grants and loans to local bodies, autonomous bodies and other institutions during the five year period 2001-2006 was as follows:

Table 17

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Zilla Parishads and other Panchayat Raj institutions	3259.35	2895.64	2895.25	2749.84	842.19*
Municipal Corporations and Municipalities	388.54	509.31	298.06	643.97	464.95
Cooperative Societies	44.28	240.74	40.77	153.10	120.78
Universities and Educational institutions	1272.93	1243.64	1217.48	1066.31	1503.97
AP State Electricity Board (APGENCO and APTRANSCO)	3150.87	2138.01	2937.33	2073.28	1745.95
AP State Housing Corporation	283.22	263.52	442.55	494.53	683.03
Others	2384.33	1967.89	3133.91	4031.87	4341.14 [§]
Total	10783.52	9258.75	10965.35	11212.90	9702.01
Percentage of increase (+)/ decrease (-) over previous year	11.2	(-) 14.1	18.4	2.26	(-) 13.47
Assistance as a percentage of revenue expenditure	42.3	34.4	35.8	34.9	27.5

* With effect from 1 April 2005, the salaries to Panchayat Raj teachers were being paid through Treasuries by classifying the expenditure under regular detailed head 010-Salaries. Hence the sharp fall in assistance over the previous year.

§ includes assistance to relief on account of Natural Calamities (Rs 471.36 crore), Crop husbandry (Rs 157.77 crore), Agriculture (Rs 129.25 crore), Village and Small Industries (Rs 107.62 crore), Road Transport (Rs 368.50 crore), Rural Development (Rs 466.65 crore), Rural Employment (Rs 100.36 crore) and Fisheries (Rs 9.07 crore).

The assistance to local bodies and others during the year was 27.5 per cent of total revenue expenditure compared to 34.9 per cent in the previous year.

1.7.5 Delay in submission of accounts

Submission of 1492 accounts from 375 Autonomous Bodies to the Accountant General due as of February 2006 were not received even by end of August 2006. These accounts were to be submitted in order to examine if they attract audit under Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (Act).

Accounts of 22 autonomous bodies had not been submitted to Accountant General for audit under Sections 19(1), 19(2), 19(3) and 20(1) of the Act for periods ranging from one to 14 years (one body for 14 years and three bodies for 5 years and more) as detailed in *Appendix 1.4*.

1.7.6 Misappropriation and losses

Out of 495 cases of misappropriation amounting to Rs 33.45 crore reported by the State Government up to the end of March 2006, only 13 cases amounting to Rs 0.11 crore were disposed of and still 482 cases amounting to Rs 34.14 crore were outstanding at the end of June 2006. Of these, 451 cases related to the period 2001-02 and earlier years involving Rs 8.85 crore indicating ineffective monitoring of misappropriation cases due to poor and slow pace of settlement of cases. The year-wise details are given in *Appendix 1.5*.

1.8 Assets and liabilities

In the government accounting system, comprehensive accounting of fixed assets like land and buildings owned by Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.6* gives an abstract of such liabilities and the assets as on 31 March 2006, compared with the corresponding position as on 31 March 2005. The liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, Deposits, Reserve Funds and Small Savings, PF, etc. Similarly, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. *Appendix 1.6* shows that the liabilities and assets had increased by 8 and 12 *per cent* respectively over the previous year. In physical terms, while the assets grew by Rs 5752 crore the liabilities grew by Rs 6139 crore and the ratio of liabilities to assets remained at 0.65. Thus, 35 *per cent* of the liabilities did not have an asset back up. The liabilities depicted in the Finance Accounts, however, do not include the pension and other retirement benefits payable to serving/retired State employees. *Appendix 1.7* depicts the Time series data on State Government Finances for the period 2001-06.

1.8.1 Investments and returns

As of March 2006, the Government had invested Rs 5716 crore in its Statutory Corporations, Government Companies, Joint Stock Companies and Co-operative Societies. The Government's return on this investment was less

than one *per cent* in the last five years. The Government however, paid interest on its borrowings at the average interest rate between 9 and 12 *per cent* during 2001-06 which resulted in an implicit subsidy of Rs 475 crore.

Table 18: Return on Investment

	2001-02	2002-03	2003-04	2004-05	2005-06
Investment (Rs in crore)	3975.02	4334.74	5223.84	5673.70	5715.89
Returns (Rs in crore)	0.57	1.34	48.68	45.49	45.88
Percentage of returns	0.01	0.03	0.93	0.80	0.80
Weighted average interest rate paid by Government (<i>per cent</i>)	10.41	11.99	11.49	10.21	9.11
Difference between interest rate and return (<i>per cent</i>)	10.40	11.96	10.56	9.41	8.31

1.8.2 Loans and advances by Government

In addition to investments in Co-operatives, Corporations and Companies, Government has also been providing support in terms of loans and advances to many of these institutions. Total outstanding loans as on 31 March 2006 was Rs 10213 crore. Interest received on such loans varied from 0.18 *per cent* to 4.5 *per cent* during 2001-06 (Table 19). Recovery of loan during the current year (Rs 182 crore) substantially decreased over previous year by Rs 1191 crore and least during last five years due to poor recovery of loans from Power projects.

Table 19: Average Interest received on Loans Advanced by the State Government

(Rupees in crore)

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

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

1.8.3 Lack of accountability in the use of public funds in Departmental commercial undertakings

Activities of quasi-commercial nature are performed by the departmental undertakings of certain Government departments. These undertakings are required to prepare annually *pro forma* accounts in prescribed formats showing the results of operations. The Heads of Departments in Government are to ensure that the undertakings which are funded by budgetary releases, prepare the accounts in time and submit the same to the Accountant General for audit.

As of 31 March 2006 there were six departmentally managed commercial and quasi-commercial undertakings under the control of State Government besides three departmentally managed units of Tungabhadra project (a joint venture of the Government of Andhra Pradesh and the Government of Karnataka). Preparation of *pro forma* accounts up to 2005-06 for all these units was in arrears for periods up to 42 years (one unit for 42 years, two for more than 30 years, one for more than 22 years and five for less than 6 years). Out of 147 accounts or revised accounts due from nine units as of April 2005, only five accounts were received during 2005-06 (*Appendix 1.8*).

1.8.4 Management of cash balances

To take care of any temporary mismatch in the flow of resources and expenditure obligations, a mechanism of ways and means advances (WMA) and overdraft from Reserve Bank of India has been put in place. After many years Government did not have to resort to overdraft facility for the successive second year.

Undischarged liabilities

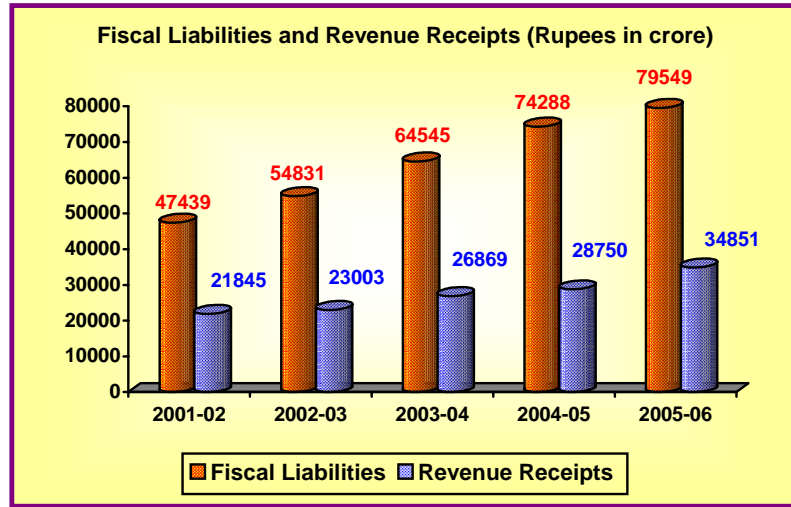
1.8.5 Fiscal liabilities – public debt and guarantees

The Constitution of India provides that a State may borrow, within the territory of India upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by the Act of its Legislature. However, no law has been passed in the State to lay down any such limit. Fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources, as also the buoyancy of the fiscal liabilities with respect to these parameters are given in the table below:

Table 20: Fiscal Liabilities- Basic Parameters
(Values in Rupees crore and ratios in *per cent*)

	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal Liabilities [§]	47439	54831	64545	74288	79549
Rate of Growth	16.8	15.6	17.7	15.1	7.1
Ratio of Fiscal Liabilities to					
GSDP	31.3	33.6	35.0	36.7	35.2
Revenue Receipt	217.2	238.4	240.2	258.4	228.25
Own Resources	327.9	339.6	370.7	371.3	332.9
Buoyancy of Fiscal Liabilities with reference to					
GSDP	2.071	1.907	1.410	1.539	0.615
Revenue Receipt	1.384	2.939	1.054	2.157	0.333
Own resources	1.907	1.344	2.263	0.011	0.364

[§] includes internal debt, loans and advances from GOI and other obligations at the end of the year



Overall fiscal liabilities of the State increased from Rs 47439 crore at the end of 2001-02 to Rs 79549 crore at the end of 2005-06. The growth rate was 7.1 per cent during 2005-06. The ratio of fiscal liabilities to GSDP also increased from 31.3 per cent in 2001-02 to 35.2 per cent in 2005-06. These liabilities stood at 2.28 times the revenue receipts and 3.32 times of State's own resources as at the end of 2005-06.

Though the fiscal liabilities had grown faster than the State's GSDP and revenue receipts during 2001-05 they were decreased during the current year.

Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. In Andhra Pradesh, weighted interest rate was more than the GSDP growth rate resulting in negative interest spread during 2001-02, 2002-03 and 2004-05. However, the trend, was positive during 2003-04 and in the current year.

Table 21: Debt Sustainability- Interest Rate and GSDP Growth (in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06
Weighted Interest Rate	10.4	12.0	11.5	10.2	9.1
GSDP Growth	8.1	8.1	12.5	9.8	11.5
Interest spread	(-) 2.3	(-) 3.9	1	(-) 0.4	2.4

Table 22 below gives the position of receipt and repayment of internal debt and other fiscal liabilities of the State over the last five years. The net availability of funds from the borrowings (public debt, loans and advances from GOI and other debt receipts) varied between 4.8 and 22.2 per cent during the period 2001-05. During 2005-06 repayments under internal debt increased by Rs 4505 crore over previous year.

Table 22: Net Availability of Borrowed Funds (Rs in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Internal debt					
Receipt	14891	9479	14865	7992	3448
Repayment (Principal + Interest)	14211	8506	13652	3059	9783
Net Fund Available	680	973	1213	4933	(-) 6335
Net Fund Available (<i>per cent</i>)	4.6	10.3	8.2	61.7	---
Loans and Advances from GOI					
Receipt	3717	2548	3118	1841	522
Repayment (Principal + Interest)	3243	4653	6054	6595	2046
Net Fund Available	474	(-)2105	(-) 2936	(-)4754	(-) 1524
Net Fund Available (<i>per cent</i>)	25.1	---	---	---	---
Other obligations					
Receipt	11838	14189	15823	22169	23685
Repayment (Principal + Interest)	10739	11796	11241	15242	17572
Total liabilities					
Receipt	30446	26216	33806	32002	27655
Payments	28193	24955	30947	24896	29401
Net receipts	2253	1261	2859	7106	(-) 1746
Net Funds Available (<i>per cent</i>)	7.4	4.8	8.5	22.2	--

The loans and advances from GOI outstanding as on 31 March 2006 were Rs 10213 crore.

1.8.6 Status of guarantees – a contingent liability

Guarantees constitute contingent liabilities on the Consolidated Fund of the State. In September 2003, Government fixed an explicit ceiling on giving guarantees upon the security of the Consolidated Fund of the State, according to which the total outstanding Government guarantees as on 1 April of any year shall not exceed 90 *per cent* of the revenue receipts of the second preceding year. Table 23 indicates the status of guarantees.

Table 23

(Rupees in crore)

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

The amount of outstanding guarantees as on 31 March 2006 has not exceeded the ceiling of 90 *per cent* of the revenue receipts of the second preceding year. However, the maximum amount guaranteed and the outstanding guarantees of the State increased from Rs 18537 crore and Rs 10325 crore in 2001-02 to Rs 30200 crore and Rs 17711 crore respectively in 2005-06. The outstanding guarantees to end of current year constitute 7.84 *per cent* of GSDP.

The increasing outstanding guarantees imply that contingent liability was on the rise.

1.8.7 Use of extra budgetary resources

The Constitution of India² provides for State Governments to borrow upon the security of the Consolidated Fund within the territory of India and within such limits as may be fixed from time to time by an Act of Legislature of the State. Such borrowings are generally projected in the Budget Estimates. Apart from such borrowings, sometimes, at the instance of Government, Government Companies and Corporations raise funds from the market or Financial Institutions for specific purposes which are deposited in Public Account under “Deposits of the Corporation”. The funds thus retained in Government account are not allowed to be used by the Corporation for the intended purpose but used by Government to maintain its Ways and Means position. As these borrowings are not projected in the budget, these are Extra Budgetary Borrowings or Off-Budget Borrowings. For repayment of the loans by the Corporation, Government gives necessary funds from its budget.

During the current year, AP Water Resources Development Corporation³ (APWRDC) raised an amount of Rs 455 crore by way of term loans from various Commercial banks for maintenance of existing irrigation projects and for execution of new irrigation schemes. The total off-budget borrowings of the State Government outstanding as on 31 March 2006 is Rs 3866 crore according to the following data supplied by the Finance Department.

Table 24: Details of off-budget borrowings raised during 2000-05

(Rupees in crore)

Year	Source through which borrowed	Amount borrowed	Amount outstanding as on 31 March 2006
2001-02	AP TRANSCO	876	876
2002-03	AP TRANSCO bonds	850	850
2003-04	AP TRANSCO bonds	380	380
	APWRDC	568	568
2004-05	APWRDC	737	737
2005-06	APWRDC	455	455
Total		3866	3866

The extra resources thus raised by Government were not included in the annual Budget Estimates and thus the borrowings did not have the approval of the Legislature.

The total off-budget borrowings at the end of the year, when added to fiscal liabilities, would increase the ratio of fiscal liabilities to GSDP by 1.7 per cent and Revenue Receipts by 11.09 per cent.

² Article 293(1) of the Constitution of India

³ The APWRDC was incorporated in January 1997 by an Act of Legislature for promotion and operation of Irrigation projects and other allied and incidental activities

1.9 Management of deficits

1.9.1 Fiscal imbalances

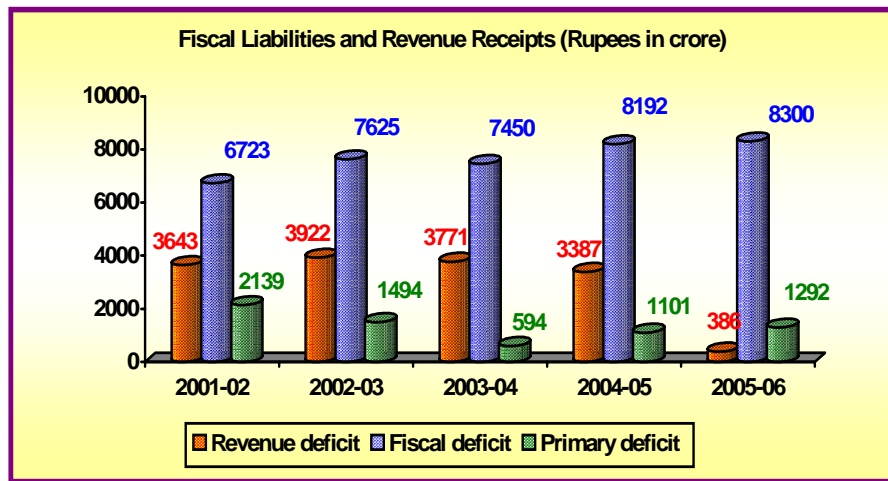
The deficit in Government account represents the gap between its receipts and expenditure. The nature of the deficit is an indicator of the prudence of fiscal management by the Government. Further, the ways in which the deficit is financed and the resources so raised and used are important pointers to the fiscal health of the Government. The revenue deficit of the State, which indicates the excess of its revenue expenditure over revenue receipts, significantly decreased from Rs 3643 crore in 2001-02 to Rs 386 crore in 2005-06 (Table 25).

The ratio of revenue deficit to fiscal deficit had decreased from 54 *per cent* in 2001-02 to 5 *per cent* in 2005-06 indicating that only 5 *per cent* of the borrowed funds were used for current consumption. This is due to increase in grants-in-aid and State's own resources over previous year by 49 and 19 *per cent* respectively. As proportion to the State's GSDP, the revenue deficit had reached 0.17 *per cent* and fiscal deficit 3.67 *per cent* in 2005-06.

A decrease in Revenue deficit was due to increase in Revenue receipts by 21 *per cent* and Revenue expenditure by 10 *per cent* over previous year. The increase in Capital expenditure and huge cash balance investment contributed for increase in fiscal deficit. The increase in primary deficit was mainly due to increase in salary expenditure due to implementation of revised pay scales 2005.

Table 25: Fiscal Imbalances- Basic Parameters
(Values in Rupees crore and ratios in *per cent*)

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Deficit	3643	3922	3771	3387	386
Fiscal Deficit	6723	7625	7450	8192	8300
Primary Deficit	2139	1494	594	1101	1292
RD/GSDP	2.4	2.4	2.0	1.7	0.17
FD/GSDP	4.4	4.7	4.03	4.0	3.67
PD/GSDP	1.4	0.9	0.3	0.5	0.57
RD/FD	54.2	51.4	50.6	41.3	4.65



1.10 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 26 below presents a summarised position of government finances over 2001-06, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications highlight areas of concern and capture its important facets.

Table 26: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06
I. Resource Mobilisation					
Revenue Receipt/ GSDP	14.4	14.1	14.6	14.2	15.43
Revenue Buoyancy	1.504	0.862	1.579	0.693	1.843
Own tax/GSDP	9.5	9.8	9.4	9.8	10.58
Own Taxes Buoyancy	0.921	1.608	0.686	1.478	1.688
II. Expenditure Management					
Total Expenditure/GSDP	19.4	19.3	19.3	18.9	19.2
Revenue Receipt/Total Expenditure	74.0	74.0	75.5	75.0	80.43
Revenue Expenditure/Total Expenditure	86.4	86.6	86.1	84.0	81.32
Plan Expenditure/Total Expenditure	27.9	27.7	30.3	30.9	32.73
Capital Expenditure /Total Expenditure	7.9	9.4	9.7	12.0	16.94
Development Expenditure/ Total Expenditure	33.7	59.5	60.7	60.7	66.54
Buoyancy of TE with RR	0.70	1.01	0.86	1.10	0.642
Buoyancy of RE with RR	0.648	1.064	0.821	0.700	0.454
III. Management of Fiscal Imbalances					
Revenue deficit (Rs in crore)	3643	3922	3771	3387	386
Fiscal deficit (Rs in crore)	6723	7625	7450	8192	8300
Primary Deficit (Rs in crore)	2139	1494	594	1101	1292
Revenue Deficit/Fiscal Deficit	54.2	51.4	50.6	41.3	4.65
IV. Management of Fiscal Liabilities (FL)					
Fiscal Liabilities/ GSDP	31.3	33.6	35.0	36.7	35.22
Fiscal Liabilities/RR	217.2	238.4	240.2	258.4	228.25
Buoyancy of FL with RR	1.384	2.939	1.054	2.156	0.615
Buoyancy of FL with own receipts	1.907	1.344	2.263	1.011	0.364
Interest spread	(-) 2.4	(-) 4.8	(-) 0.1	(-) 0.1	2.4
Net Funds Available	7.4	4.8	8.5	22.2	---
V. Other Fiscal Health Indicators					
Return on Investment	0.01	0.03	0.93	0.80	0.80
BCR (Rs in crore)	(-) 327	(-) 22	230	1694	3600
Financial Assets/ Liabilities	0.65	0.62	0.62	0.68	0.65

During 2001-06, the ratio of own taxes to GSDP had shown continuous improvement from 9.5 to 10.58 *per cent* except in 2003-04, when it declined marginally. The ratio of revenue receipts to GSDP also increased in current year to 15.43 *per cent*. Revenue expenditure was 81 *per cent* of total expenditure during the year as against 84 *per cent* in 2004-05 leaving very little for capital formation. The ratio of development expenditure to total expenditure increased to 66.54 *per cent*.

Revenue deficit and huge fiscal deficits indicate growing fiscal imbalances. The primary deficit, steadily falling upto 2003-04, increased during the previous and current years. The balance from current revenue (BCR) increased sharply over the previous year.

1.11 Implementation of recommendations of XII Finance Commission

As per the recommendations of the Twelfth Finance Commission, the Government enacted AP Fiscal Responsibility and Budget Management Act, 2005 (APFRBM Act) which came into force by 3 June 2005, constituted

Monitoring Committee headed by Chief Secretary to Government and also initiated steps to consolidate and reschedule the outstanding loan given by Ministry of Finance, Government of India.

As per the Act, Revenue deficit and Fiscal deficit are to be reduced by an amount equivalent to at least 0.32 percentage and 0.25 percentage by GSDP respectively. The percentage of reduction is indicated in the following table.

Table 27: Reduction in the percentage of Revenue and Fiscal Deficits vis-à-vis projections made under APFRBM Act

	Percentage of reduction over previous year as per APFRBM Act	Actual percentage of reduction
Revenue deficit	0.32	1.50
Fiscal deficit	0.25	0.33

The Fiscal liabilities were also maintained at 35 *per cent* of GSDP as targeted in the Act.

1.12 Conclusion

Government succeeded in reducing the revenue deficit consistently for third year. Reduction in revenue deficit during the current year was because of considerable improvement in mobilisation of State's own revenue and substantial increase in grant –in-aid from Government of India over previous year. The revenue deficit relative to GSDP was brought down to 0.17 *per cent* from 1.7 *per cent* during previous year. The fiscal deficit increased marginally over the previous year mainly due to increased expenditure on irrigation and flood control. Balance from current revenues continued to be positive during the current year. The development expenditure and capital expenditure in the total expenditure increased by 6 *per cent* and 13 *per cent* respectively over previous year. While liabilities increased by 8 *per cent* the assets increased by 12 *per cent* over the previous year. Government did not resort to ways and means advance during the year showing better management of cash balances. The lower buoyancy to debt with regard to revenue receipts indicates increased debt sustainability. Despite improvement in the ratio of assets to liabilities, 35 *per cent* of liabilities had no asset backup.