

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

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

1.1.1 Summary of Receipts and Disbursements

Table-1.1 summarizes the finances of the Government of Andhra Pradesh for the year 2007-08 covering revenue receipts and expenditure, capital receipts and expenditure and Public Account receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table 1.1: SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2007-08

(Rupees in crore)

2006-07	Receipts	2007-08	2006-07	Disbursements	2007-08		
Section-A: Revenue					Non-Plan	Plan	Total
44245.47	I. Revenue Receipts	54142.55	41438.40	I. Revenue Expenditure	40082.98	13900.59	53983.57
23926.20	Tax revenue	28794.05	15313.97	General Services	17112.37	1057.87	18170.24
6487.83	Non-tax revenue	7064.13	15369.33	Social Services	10619.32	8041.06	18660.38
8866.00	Share of Union Taxes/ Duties	11183.64	10510.27	Economic Services	12102.45	4801.66	16904.11
4965.44	Grants from Government of India	7100.73	244.83	Grants-in-aid / Contributions	248.84	---	248.84
Section-B: Capital							
1889.32	II. Miscellaneous Capital Receipts	6557.71	9904.00	II. Capital Outlay	(-) 91.73	12865.66	12773.93
471.33	III. Recoveries of Loans and Advances	190.95	906.69	III. Loans and Advances disbursed	699.54	2221.18	2920.72
4550.22	IV. Public Debt receipts*	11132.44	4252.72	IV. Repayment of Public Debt	---	---	4993.50
0.85	V. Contingency Fund	0.36	0.33	V. Contingency Fund	---	---	0.93
51059.57	VI. Public Account receipts	61380.37	44215.88	VI. Public Account disbursements	---	---	55126.09
3407.61	Opening Cash Balance	4906.35	4906.35	Closing Cash Balance	---	---	8511.99
105624.37	Total	138310.73	105624.37	Total			138310.73

*Excluding Ways and Means Advances and Overdraft

Following are the significant changes during 2007-08 over the previous year:

- Revenue receipts grew by Rs 9897 crore (22.37 per cent) over the previous year. The increase was mainly contributed by tax revenue (Rs 4868 crore), State's share of Union Taxes and Duties (Rs 2318 crore), Non-tax revenue (Rs 576 crore) and Grants-in-aid (Rs 2135 crore).
- Revenue expenditure increased by Rs 12545 crore (30.27 per cent) over the previous year of which Non-plan Revenue expenditure by Rs 8163 crore (25.57 per cent) and Plan Revenue expenditure by Rs 4382 crore (46.03 per cent).

- Capital expenditure increased significantly by Rs 2870 crore (28.97 per cent) over the previous year and the increase was mainly under Irrigation and Flood Control.
- Receipts of Rs 6558 crore on account of sale of land and buildings were classified under miscellaneous capital receipts instead of under revenue receipts as per the accounting norms, as a result of which revenue receipts and in turn revenue surplus were understated to that extent.
- The recovery of loans and advances (Rs 191 crore) decreased steeply by Rs 280 crore over previous year particularly from housing (Rs 309 crore) which was partly offset by increase in Consumer Industries (Rs 44 crore) and Power Project (Rs 21 crore).
- Due to increase in advance of loan to Housing by Rs 1801 crore, there was sharp increase in disbursement of loan by Rs 2014 crore over previous year.
- Public Debt receipts (Rs 11132 crore) recorded huge increase of Rs 6582 crore over previous year while Public Debt repayments increased by Rs 741 crore only. The net Public debt receipts increased by Rs 5841 crore over previous year.
- Public Account receipts increased by Rs 10321 crore as against the disbursements of Rs 10910 crore during 2007-08 over the previous year. The net Public Account Receipts as result decreased by Rs 589 crore over previous year.
- Cash balance of the State (Rs 8512 crore) increased by Rs 3606 crore over previous year as a result of the fiscal transactions listed above.

1.1.2 State Fiscal Position by Key Indicators

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

Table 1.2

(Rupees in crore)

2006-07	S. No.	Major Aggregates	2007-08
44245	1.	Revenue Receipts (2+3+4)	54143
23926	2.	Tax revenue	28794
6488	3.	Non-Tax revenue	7064
13831	4.	Other Receipts	18285
2361	5.	Non-Debt Capital Receipts	6749
471	6.	<i>Of Which</i> Recovery of Loans	191
46606	7.	Total Receipts (1+5)	60892
32638	8.	Non-Plan Expenditure (9+11+12)	40690
31920	9.	On Revenue Account	40083
7280	10.	<i>Of which</i> Interest Payments	7589
(-) 5	11.	On Capital Account	(-) 92
723	12.	On Loans disbursed	699*
19611	13.	Plan Expenditure (14+15+16)	28988
9519	14.	On Revenue Account	13901
9909	15.	On Capital Account	12866
183	16.	On Loans disbursed	2221
52249	17.	Total Expenditure (13+8)	69678
(+) 2807	18.	Revenue Deficit (-)/ Surplus (+) [1- (9+14)]	(+) 159
(-) 5644	19.	Fiscal Deficit(-)/ Surplus (+) (1+5-17)	(-) 8786
(+) 1636	20.	Primary Deficit (-)/ Surplus (+) {(1+5) - (17-10)}	(-) 1197

*lower rounding adopted

During the current year revenue receipts increased by Rs 9897 crore (22 per cent) while revenue expenditure increased by Rs 12545 crore (30 per cent) over the previous year resulting in steep decline in revenue surplus from Rs 2807 crore in 2006-07 to Rs 159 crore in 2007-08. Given the steep decline of Rs 2648 crore in revenue surplus in 2007-08 along with an increase of Rs 4388 crore in non-debt capital receipts; an increase of Rs 2870 crore and Rs 2014 crore in capital expenditure and disbursement of loans and advances respectively resulted in an increase of Rs 3142 crore in fiscal deficit in 2007-08 over the previous year. A sharp increase in fiscal deficit along with moderate increase of Rs 309 crore in interest payments turned the primary surplus of Rs 1636 crore in 2006-07 into primary deficit of Rs 1197 crore in 2007-08.

1.2 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts were analysed wherever necessary over a period of last six years (2002-08) and observations have been made on their behavior. In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact the Fiscal Responsibility Act (FR Act) and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of the State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their FR Acts and in other Statements required to be laid in the Legislature under the Act were used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP)¹ is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc, with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates have also been affected by factors other than GSDP. The new GSDP series 1999-2000 as base (Table 1.3) as published by the Directorate of Economics and Statistics of the State Government have been used in estimating these percentages and buoyancy ratios.

The key fiscal aggregates for the purpose have been grouped under four major heads: (i) Trends and Composition of Aggregate Receipts (ii) Application of Resources (iii) Assets and Liabilities and (iv) Management of Deficits (*Appendix 1.3 to 1.6*). The overall financial performance of the State Government

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

as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in *Appendix 1.1 Part C*.

Table 1.3: Trends in Growth and Composition of GSDP

Estimates	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Gross State Domestic Product (GSDP)	168143	190880	210449 (Revised)	236034 (Provisional)	269173 (Quick)	311752 (Advanced)
Rates of Growth of GSDP (<i>per cent</i>)	6.99	13.52	10.25	12.16	14.03	15.82

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

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

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

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

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

1.2.1.1 Fiscal Policy Statement(s) 2007-08

As prescribed in the Act, the State Government has laid the following statement(s) of fiscal policy along with the budget, before the legislature during 2007-08:

- Macro Economic Framework Statement giving an overview of State economy.
- Medium Term Fiscal Policy Statement indicated that the Revenue Surplus would be maintained at 0.80 percentage of total Revenue Receipts and Fiscal deficit at 2.96 percentage and the outstanding liabilities would be contained at 30.15 percent of GSDP.
- Fiscal Policy Strategy aimed at mobilising enough resources by improvement in tax administration, minimising transaction cost, rationalisation of tax structure and plugging revenue leakages. The Government strategy envisaged to control non-development expenditure mostly administrative services and debt services expenditure by cutting administrative costs so as to enhance investment in productive capital assets and social sectors in order to attain sustainable economic growth.
- Statement on the number of employees in Government, Public Sector Undertakings and Aided institutions and expenditure of State Government towards salaries and pensions.

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

The State Government has developed its own Fiscal Correction Path indicating the milestones of outcome indicators with target dates of implementation during the period from 2004-05 to 2009-10 (*Appendix 1.2*) keeping in view the fiscal targets laid down in the FRBM Act and/or the rules made there under and the anticipated annual rate of reduction of fiscal deficit of the States worked out by the Government of India for the Twelfth Finance Commission (TFC) award.

The State finances have shown Revenue surplus for the second consecutive year though it declined from Rs 2807 crore in 2006-07 to Rs 159 crore in the current year. The fiscal deficit during the current year is 2.82 *per cent* of GSDP as against 2.16 *per cent* of GSDP in 2006-07. Thus the Government was unable to maintain the reduction in fiscal deficit by an amount equivalent to at least 0.25 percentage point of GSDP in each financial year as enunciated in APFRBM Act 2005. State Government received debt relief of Rs 703.08 crore from Government of India based on its fiscal performance under Debt consolidation and Relief Facility² during the previous year.

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

1.2.1.3 Mid-Term Review of Fiscal Situation

As per the quarterly review report placed before State Legislature in compliance with Sec 11(1) of AP Fiscal Responsibility and Budget Management Act, 2005, the revenue collection to end of June 2007 was below the target while the revenue and capital expenditure were kept within the targeted levels. However due to constant efforts made to correct fiscal imbalance, the State own revenues realised to end of March 2008 exceeded the targets projected in the Fiscal Correction Path. The revenue expenditure exceeded the target projected in Fiscal correction path by Rs 10042 crore but was well within the Budget estimates.

1.3 Trends and Composition of Aggregate Receipts

The aggregate receipts of State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. Table-1.4 shows that the total receipts of the State Government for the year 2007-08 were Rs133404 crore. Of these, the revenue receipts were Rs 54143 crore, constituting 41 *per cent* of total receipts. The balance came from capital receipts, borrowings, and Public Account (*Appendix 1.6*).

Table 1.4: Trends in Growth and Composition of Aggregate Receipts

(Rupees in crore)

Sources of State's Receipts	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
I Revenue Receipts	23003	26869	28750	34851	44245	54143
II Capital Receipts	8262	11883	11206	4153	6911	17881
Recovery of Loans and Advances	460	1256	1373	182	472*	191
Public Debt Receipts	7802	10627	9833	3971	4550	11132
Miscellaneous Capital Receipts	--	--	--	--	1889	6558
III Contingency Fund	3	--	23	--	1	@
IV Public Account Receipts	25646	30495	39439	41366	51060	61380
a. Small Savings, Provident Fund, etc.	4264	3473	7560	5952	5934	2369
b. Reserve Fund	602	857	728	823	1023	1200
c. Deposits and Advances	9514	11823	14071	17067	22824	30053
d. Suspense and Miscellaneous	6186	9134	10458	8554	9594	10680
e. Remittances	5080	5208	6622	8970	11685	17078
Total Receipts	56914	69247	79418	80370	102217	133404

*higher rounding adopted @ Rs 0.36 crore

The revenue and capital receipts constituted 41 and 13 *per cent* of total receipts respectively. An amount of Rs 6558 crore realized on sale of land and property was misclassified under capital receipt. This had the effect of increasing capital receipt and decreasing revenue receipt and consequently revenue surplus to that effect. The total receipts of the State increased from Rs 56914 crore in 2002-03 to Rs 133404 crore in 2007-08. The debt capital receipts which create future repayment obligation increased enormously by Rs 6582 crore over previous year while recovery of loan decreased from Rs 472 crore in 2006-07 to Rs 191 crore in current year.

1.3.1 Revenue Receipts

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

Table 1.5: Revenue Receipts - Basic Parameters

(Value in crore of Rupees)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Receipts (RR)	23003	26869	28750	34851	44245	54143
Own Taxes (<i>per cent</i>)	12618 (54.9)	13806 (51.4)	16254 (56.5)	19207 (55.1)	23926 (54.1)	28794 (53.2)
Non-Tax revenue (<i>per cent</i>)	3529 (15.3)	3605 (13.4)	3756 (13.1)	4691 (13.5)	6488 (14.7)	7064 (13.0)
Central tax Transfers (<i>per cent</i>)	4316 (18.8)	5069 (18.9)	6059 (21.1)	6951 (19.9)	8866 (20.0)	11184 (20.7)
Grants-in-aid (<i>per cent</i>)	2540 (11.0)	4389 (16.3)	2681 (9.3)	4002 (11.5)	4965 (11.2)	7101 (13.1)
Rate of Growth of RR (<i>per cent</i>)	5.3	16.8	7.0	21	27	22
Revenue Receipt/GSDP (<i>per cent</i>)	13.68	14.08	13.66	14.77	16.44	17.37
Revenue Buoyancy (ratio) ³	0.757	1.243	0.773	1.826	2.204	1.414
State's own taxes Buoyancy (ratio)	1.320	0.697	1.959	1.563	2.009	1.286
Revenue Buoyancy with reference to State's own taxes (ratio)	0.574	1.785	0.395	1.169	1.097	1.099
GSDP Growth (<i>per cent</i>)	6.99	13.52	10.25	12.16	14.03	15.82

General Trends

The revenue receipts have shown a progressive increase over the period 2002-08. The revenue receipts during the current year increased by 22 *per cent* over previous year, while the average growth rate of revenue receipts during the Tenth Five Year Plan period (2002-07) was 15 *per cent*. The composition of revenue receipts viz., share of State's own taxes, non-tax revenue and central tax transfers almost remained same with marginal inter year variations. The increase of 22 *per cent* in revenue receipts during 2007-08 was mainly on account of increase in Grants-in-aid (43 *per cent*) and in central tax transfers (26 *per cent*).

³ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance revenue buoyancy at 1.4 during 2007-08 implies that revenue receipts tend to increase by 1.4 percentage points if the GSDP increases by one *per cent*

Tax revenue: The tax revenue has increased by 20.35 *per cent* during the current year (Rs 28794 crore) over previous year (Rs 23926 crore). The lion share of State tax revenue came from Sales tax (66 *per cent*) on account of implementation of VAT followed by State Excise (14 *per cent*), and Stamps and Registration (11 *per cent*) while taxes on vehicles contributed six *per cent*. Table 1.6 below shows the trend of Tax revenue during 2002-08.

Table 1.6: Tax revenue

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Land Revenue	86.17	34.51	33.59	68.75	113.50	144.39
Stamps and Registration	999.65	1111.75	1387.91	2013.45	2865.38	3086.06
State Excise	1856.46	1914.98	2092.67	2684.57	3436.63	4040.68
Sales Tax	8322.20	9186.93	11040.59	12541.61	15467.08	19026.49
Taxes on Vehicles	929.47	1067.76	1168.64	1355.74	1364.74	1603.80
Other Taxes*	423.62	490.00	531.09	543.29	678.87	892.63
Total	12617.57	13805.93	16254.49	19207.41	23926.20	28794.05

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

Non-tax revenue: The non-tax revenue which constituted 13.05 *per cent* of total revenue receipts increased by Rs 576 crore recording a growth rate of 8.88 *per cent* over previous year. The principal contributors to Non-tax revenue were (i) Non Ferrous Mining and Metallurgical Industries (Rs 1597.56 crore), (ii) Credit entry on account of debt relief given by Government of India under DCRF (Rs 703.08 crore), (iii) Rural Development (Rs 296.61 crore), (iv) Police (Rs 99.83 crore), (v) Medical and Public Health (Rs 67.31 crore) and (vi) Education (Rs 61.35 crore). The amount of Rs 2920.82 crore realised towards interest from Departmental Commercial Undertakings included Rs 2075.59 crore which is notional in nature arising out of book adjustment from Irrigation Project. After adjusting the notional receipts on account of interest receipts from irrigation project (Rs 2076 crore) and credit entry on account of debt relief given by Government of India under DCRF (Rs 703 crore), the net availability of funds on account of Non-Tax revenue was only Rs 4285 crore during 2007-08 against Rs 7064 crore depicted in Finance Accounts.

The actual revenue receipts vis-à-vis assessments made by TFC and State Government in its Fiscal Correction Path and Budget estimates for 2007-08 are given below:

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in Fiscal Correction Path	Budget Estimates 2007-08	Actual
	(1)	(2)	(3)	(4)
Tax revenue	25043	26738	31402	28794
Non-Tax revenue	4567	5158	6872	7064

The mobilization of tax revenue and non-tax revenue during 2007-08 was higher than the normative assessment of TFC as well as the estimates of the state government made in FCP and the MTFPS for the year.

Central Tax Transfers: The Central Tax transfers (Rs 11184 crore) increased by Rs 2318 crore over the previous year and constituted 20.66 *per cent* of revenue receipts. The increase was mainly under corporation tax (Rs 782.25 crore), income tax (Rs 701.95 crore), customs duties (Rs 384.65 crore) and service tax (Rs 266.16 crore).

Grants-in-aid: The Grants-in aid from Government of India (GOI) (Rs 7101 crore) increased by Rs 2136 crore over previous year. The increase was mainly for State plan schemes (Rs 1425.63 crore); Central Plan Schemes (Rs 23.34 crore) and Centrally Sponsored Schemes (Rs 701.79 crore) partly offset by decrease in non-plan grants (Rs 15 crore) and grants under proviso to Art 275 (1) of the Constitution of India (Rs 3.77 crore). The increase under Centrally Sponsored Schemes were in sectors of Social Security and Welfare (Rs 320.57 crore), Education (Rs 180.39 crore), Family Welfare (Rs 95.01 crore), Water Supply and Sanitation (Rs 63.39 crore), Agriculture (Rs 43.70 crore), Labour and Employment (Rs 24.12 crore), Village and Small Scale Industries (Rs 7.74 crore) and Forestry and Wild Life (Rs 2.23 crore) which was partly offset by decrease under Medical and Public Health, Animal Husbandry, Fisheries and other grants (Rs 35.36 crore). As per the recommendations of Twelfth Finance Commission (TFC), the GOI released during the current year Rs 805.98 crore under non-plan for specific purposes viz. roads and bridges (Rs 367.55 crore), maintenance of buildings (Rs 60.63 crore), maintenance of forests (Rs 13.00 crore), heritage conservation (Rs 10.00 crore), Rural Local Bodies (Rs 317.40 crore) and Urban Local Bodies (Rs 37.40 crore). Details of Grants-in-aid from GOI are given in Table 1.7.

Table 1.7: Grants-in-aid from GOI

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Non-Plan grants	592	1045	533	1183	1183	1168
Grants for State plan schemes	1172	2356	1260	1449	2372	3798
Grants for Central Plan Schemes	148	136	70	172	100	124
Grants for Centrally Sponsored Plan Schemes	628	852	818	1198	1310	2011
Total	2540	4389	2681	4002	4965	7101
Percentage of increase/decrease over previous year	(-) 23.38	72.80	(-) 38.92	49.26	24.06	43.02

1.4 Application of Resources

1.4.1 Growth of Expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service

obligations. The total expenditure of the State increased from Rs 31088 crore in 2002-03 to Rs 69678 crore in 2007-08. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in Table – 1.8.

Table 1.8: Total Expenditure - Basic Parameters

(Value in Rupees crore and others in *per cent*)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total Expenditure (TE)*	31088	35575	38315	43333	52249	69678
Rate of Growth	5.3	14.4	7.70	13.1	20.6	33.4
TE/GSDP Ratio	18.48	18.64	18.21	18.36	19.41	22.35
Revenue Receipts/TE Ratio	74.0	75.5	75.04	80.43	84.68	77.70
Buoyancy of Total Expenditure with						
GSDP (ratio)	0.758	1.065	0.751	1.077	1.466	2.108
Revenue Receipts (ratio)	1.005	0.859	1.1	0.642	0.763	1.491

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

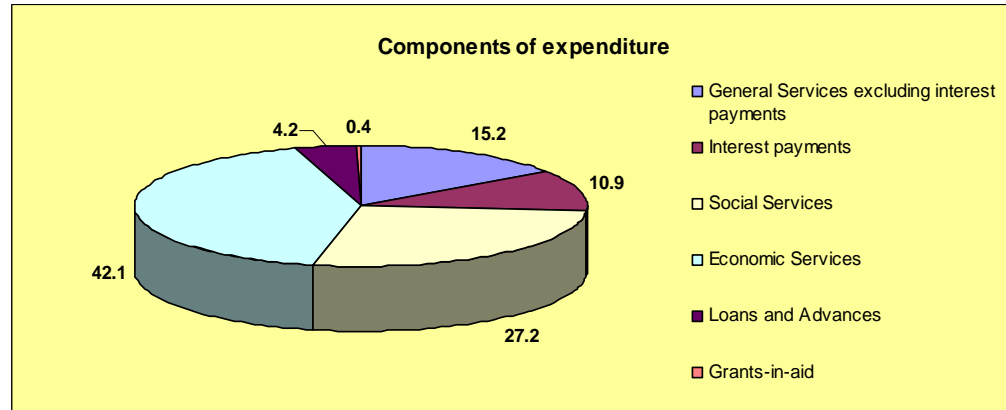
The total expenditure at Rs 69678 crore in 2007-08 increased by Rs 17429 crore (33.4 *per cent*) over previous year mainly due to increase in revenue expenditure (Rs 12545 crore); capital expenditure (Rs 2870 crore) and loans and advances (Rs 2014 crore). During the current year, 77.70 *per cent* of total expenditure was met from revenue receipts and the remaining from capital receipts and borrowed funds. The buoyancy of total expenditure to GSDP and revenue receipts although fluctuated widely during the period 2003-08 but it stood at all time high of 2.1 and 1.49 respectively in 2007-08 indicating tendency to spend more than the increase in income and receipts during the year.

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

Table 1.9: Components of Expenditure – Relative Share

(in *per cent*)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
General Services	35.6	34.3	34.5	31.2	30.0	26.1
Of which						
Interest Payments	19.7	19.3	18.5	16.2	14.0	10.9
Social Services	30.3	30.5	29.4	28.4	29.7	27.2
Economic Services	29.2	30.2	31.3	38.1	38.1	42.1
Loans and Advances	4.0	4.2	4.2	1.8	1.7	4.2
Grants-in-aid	0.8	0.8	0.6	0.5	0.5	0.4



During current year, the share of General and Social services in total expenditure decreased by 3.9 and 2.5 *percentage points* respectively over previous year while the share of economic expenditure increased by 4 *percentage points* due to increase in expenditure on various programmes/ projects under Irrigation and Flood control (Rs 4352 crore) and Energy (Rs 2992 crore) sectors. As the disbursement of loans and advances increased by Rs 2014 crore its share in total expenditure has gone up by three *percentage points* over previous year.

1.4.2 Incidence of Revenue expenditure

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

Table 1.10: Revenue Expenditure - Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Expenditure (RE) Of which	26925	30640	32137	35237	41438	53984
Non-Plan Revenue Expenditure (NPRE)	21077	23295	24908	28432	31919	40083
Plan Revenue Expenditure (PRE)	5848	7345	7229	6805	9519	13901
Rate of Growth and Ratios (<i>per cent</i>)						
Rate of Growth of NPRE	7.67	10.52	6.92	14.15	12.26	25.57
Rate of Growth of PRE	(-) 0.01	25.59	(-) 1.57	(-) 5.86	39.88	46.03
NPRE/GSDP (<i>per cent</i>)	12.54	12.20	11.84	12.05	11.86	12.86
NPRE as <i>per cent</i> of TE	67.79	65.48	65.00	65.61	61.09	57.52
NPRE as <i>per cent</i> of RR	91.62	86.69	86.63	81.58	72.14	74.03
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	0.801	1.021	0.478	0.789	1.254	1.913
Revenue Receipts (ratio)	1.064	0.821	0.700	0.455	0.653	1.353

The revenue expenditure during current year (Rs 53984 crore) increased two fold over revenue expenditure in 2002-03 (Rs 26925 crore). The NPRE has shown a consistent increase over the period 2002-08 and continued to share the dominant proportion in the revenue expenditure of the State during 2003-08. It increased by 25.57 *per cent* over previous year as against the average growth rate of 10.30 *per cent* during Tenth Five Year Plan period (2002-07). The increase in NPRE during the current year was mainly due to

increase in subsidy on rice (Rs 176 crore) and power (Rs 1058 crore), salaries (Rs 1088 crore), pension payments (Rs 942 crore), interest payment (Rs 309 crore), education (Rs 560 crore) on account of assistance to local bodies for primary and secondary education; assistance to universities and assistance to APTRANSCO towards committed liability for discharge of tax free special bonds (Power Bonds) under secuterisation scheme (Rs 2070.68 crore). The actual non-plan revenue expenditure vis-à-vis assessments made by TFC and State government are given below:

(Rupees in crore)

	Assessments made by TFC	Projection of State Government in FCP	BE 2007-08	Actual NPRE
	(1)	(2)	(3)	(4)
Non-plan revenue expenditure	32425	34330	39910	40083

NPRE during the current year at Rs 40083 crore has exceeded the assessment made by the State Government in FCP as well the normative assessment made by TFC by Rs 5753 crore and Rs 7658 crore respectively but it remained almost with the Budget estimates (Rs 39910 crore) for 2007-08.

The plan expenditure on the other hand has reflected wide fluctuations varying from a decline of six *per cent* in 2005-06 to an increase of 46 *per cent* during the current year. The increase in PRE by Rs 4382 crore over previous year was mainly due to increase in Medical and Public Health (Rs 167.54 crore) incurred on Primary Health Centers and Hospitals, Water Supply and Sanitation (Rs 179.73 crore) on account of Rural Water Supply Programme, Housing (Rs 368.73 crore on implementation of Weaker Section Housing programme, Urban Development (Rs 529.54 crore) towards assistance to Local Bodies, Corporations and Urban Development Authorities and Crop Husbandry (Rs 435.77 crore) on Horticulture vegetable crop and crop insurance scheme.

1.4.3 Committed expenditure

1.4.3.1 Expenditure on Salaries and Wages

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

Table 1.11: Expenditure on salaries

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on salaries* & wages of which	8367	8975	9078	10455	12155	13243
Non-Plan Head	-	-	-	9343	10906	12171
Plan Head**	-	-	-	1112	1249	1072
Rate of Growth and Ratio (<i>per cent</i>)						
Rate of Growth under Non-plan head	---	---	---	---	16.73	11.60
Rate of Growth under Plan head					12.32	(-) 14.17
As a percentage of GSDP	4.98	4.70	4.31	4.43	4.52	4.25
As a percentage of Revenue Receipts	36.4	33.4	31.58	30	27	24

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

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

Expenditure on salaries under non-plan and plan heads during the current year was Rs 12171 crore and Rs 1072 crore respectively recording a growth rate of 11.60 *per cent* and (-) 14.17 *per cent* respectively over previous year. The Non-Plan salary expenditure was almost equal to the projection made in the Macro Economic Frame Work statement (Rs 13266 crore) but it remained significantly higher than the assessment made in Fiscal Correction Path (Rs 10075 crore). The Non-Plan Salary expenditure is 29 *per cent* of revenue expenditure net of interest and pension payments which is lower than the norm of 35 *per cent* recommended by the TFC. The increase in expenditure under salaries (Non-plan) was stated to be due to increase in grants-in-aid towards salaries and dearness allowance sanctioned periodically.

1.4.3.2 Pension Payments

Table 1.12: Expenditure on Pensions

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Pensions	2364	2425	3017	3197	4150	5092
Rate of growth	1.9	2.6	24.4	6.0	30.0	22.7
As per cent of GSDP	1.41	1.27	1.43	1.35	1.54	1.63
As per cent of RR	10.28	9.02	10.49	9.17	9.38	9.40
As percent of RE	8.77	7.91	9.38	9.07	10.02	9.43

The Pension payments during current year have increased by Rs 942 crore recording a growth rate of 22.7 *per cent* over the previous year mainly on account of retirement of around 21000 employees every year, finalisation of pension revision cases and grant of dearness relief during the year. The State Government did not estimate yearly pension liabilities worked on actuarial basis. However, as informed by the Finance department of State Government, a study conducted by M/s Darasha & Company estimated the expenditure on pension payment to go up from Rs 2682 crore in 2003-04 to Rs 5263 crore by 2009-10. The expenditure on pension for 2007-08 was estimated at Rs 3980 crore while actual expenditure on pensions exceeded the estimate by Rs 1112 crore. The Government therefore needs to work out the pension liabilities on actuarial basis as prescribed in APFRBM Act. The comparative analysis of actual pension payments and the assessment/projection made by TFC and the State Government (Table 1.13) reveals that actual pension payments exceeded the projections made by TFC and the State Government. It is likely that the actual pension payments may exceed the projections made by M/s. Darasha & Company in ensuing years.

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

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in Fiscal Correction Path	Assessments made by State Government in FPS	Actual Exp on pensions
	(1)	(2)	(3)	(4)
Pension payments	4087	4217	4724	5092

The Government has however introduced a Contributory Pension Scheme for employees recruited on or after 1 September 2004 to mitigate the impact of raising pension liabilities in long run.

1.4.3.3 Interest payments

Table 1.14: Interest Payments

Year	Total Revenue Receipts	Total Revenue Expenditure	Interest payments	Percentage of interest payment with reference to	
	(Rupees in crore)			Revenue Receipts	Revenue Expenditure
2002-03	23003	26925	6131	26.65	22.77
2003-04	26869	30640	6856	25.52	22.38
2004-05	28750	32137	7091	24.66	22.06
2005-06	34851	35237	7008	20.11	19.89
2006-07	44245	41438	7280	16.45	17.57
2007-08	54143	53984	7589	14.02	14.06

The major source of borrowings turned out to be market loans at the interest rates varying from 6 per cent to 14 per cent. The interest payments during current year (Rs 7589 crore) increased moderately by 4.24 per cent over previous year (Rs 7280 crore) and remained lower than the projections made in Macro Economic Framework Statement (Rs 8629 crore), Fiscal correction path (Rs 8644 crore) and TFC (Rs 9216 crore) for the year 2007-08. The increase (Rs 309 crore) in interest payments was mainly due to increase in payment of interest on internal debt (Rs 371 crore); Small Savings and Provident Fund (Rs 160 crore) partly offset by decrease in payment of interest on Loans and Advances from Central Government (Rs 222 crore).

1.4.3.4 Subsidies

Though the subsidies are a drain on State finances, the Government is extending subsidies keeping in view the welfare of farmers and population living below poverty line in the State. The total subsidies during current year was Rs 3918 crore of which Rs 2425 crore was provided for power; Rs 880 crore as subsidy for rice distribution through Fair Price Shops besides Rs 613 crore for other sectors including Agriculture (Rs 240 crore), Women, Child and Disabled Welfare (Rs 105 crore), Rural Development (Rs 21 crore), Industries and Commerce (Rs 209 crore) and Rs 28.5 crore towards distribution of LPG connection to women in Rural/Municipal areas. Despite the fact that State Electricity Board is unbundled since February 1999, subsidy to the Board is being provided through Andhra Pradesh Transmission Corporation (APTRANSCO) to meet the cost of supplying free power to farmers. The subsidy through APTRANSCO for this purpose stood at Rs 2425 crore in the current year which exceeded the projection (Rs 1599 crore) made in Fiscal Correction Path for the year 2007-08 by Rs 826 crore. The trends in the subsidies given by the State Government are given in Table 1.15.

Table 1.15: Subsidies

(Rupees in crore)

S. No.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1.	APTRANSCO (Energy Sector)	1554	1552	1816	1696	1367	2425
2.	Subsidy on Rice	242	341	500	541	704	880
3.	Others	40	58	106	220	255	613
	Total	1836	1951	2422	2457	2326	3918
	Percentage of increase (+)/ decrease (-) over previous year	(-) 19.5	(+) 6.3	(+) 24.1	(+) 1.44	(-) 5.33	68.44
	Percentage of subsidy in total expenditure*	6.2	5.7	6.6	5.8	4.5	5.9

* Total expenditure excludes Loans and Advances

1.5 Expenditure by Allocative Priorities

1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP better the quality of expenditure. Table 1.16 gives these ratios during 2002-08.

Table 1.16: Indicators of Quality of Expenditure

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Capital Expenditure	2928	3441	4585	7340	9904	12774
Revenue Expenditure	26925	30640	32137	35239	41438	53984
<i>Of which</i> Social and Economic Services with	15659	18226	18709	13096	25880	35564
(i) Salary & Wage Component	---	---	---	---	9251	10154
(ii) Non-Salary & Wage component	---	---	---	---	16629	25410
As per cent of total expenditure (excluding loans and advances)						
Capital expenditure	9.42	9.67	11.97	16.94	19.29	19.13
Revenue expenditure	86.60	86.12	83.87	81.31	80.71	80.87
As per cent of GSDP						
Capital expenditure	1.74	1.80	2.20	3.16	3.80	4.10
Revenue expenditure	16.01	16.05	15.44	15.17	15.89	17.32

Although no specific norms were laid down for prioritization of capital expenditure in State's FRBM Act, the consistent increase in capital expenditure since 2002-03 indicate the fact that the impetus is being given to asset formation by the State. Irrigation and Flood Control (Rs 11087.22 crore) and Transport (Rs 866.48 crore) were the major beneficiary sectors where capital expenditure was absorbed during the current year. The non-salary and wage component constituted 51 *per cent* of revenue expenditure under Social and Economic Services net of subsidy payments. The increasing trends in capital expenditure as reflected by its increasing ratio with reference to total expenditure and GSDP as well as a significant proportion of Non-salary component of Revenue expenditure (net of subsidies) indicates an improvement in quality of expenditure during the period 2003-08.

1.5.2 Expenditure on Social Services

Given the fact that human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. Table 1.17 summarizes the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2002-08.

Table 1.17: Expenditure on Social Services

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Education Sports, Art and culture	4027.17	4667.84	4598.55	5370.49	6113.50	6731.07
Revenue Expenditure of which	4025.73	4665.77	4592.76	5337.53	6035.62	6604.83
(a) Salary & wage Component	3557.42	3859.63	3883.83	4518.11	5250.56	5623.98
(b) Non-Salary & Wage Component	468.31	806.14	708.93	819.42	785.06	980.85
Capital Expenditure	1.44	2.07	5.79	32.96	77.88	126.24
Health and Family Welfare	1378.08	1484.31	1502.28	1622.25	1860.69	2482.22
Revenue Expenditure of which	1344.60	1476.08	1487.07	1616.47	1853.92	2439.06
(a) Salary & wage Component	869.98	946.15	954.20	1073.06	1278.51	1437.00
(b) Non-Salary & Wage Component	474.62	529.93	532.87	543.41	575.41	1002.06
Capital Expenditure	33.48	8.23	15.21	5.78	6.77	43.16
Water Supply, Sanitation, Housing and Urban Development	1394.22	1448.76	1814.81	1959.16	2640.42	3817.33
Revenue Expenditure of which	776.07	1098.82	1297.91	1953.31	2637.41	3790.07
(a) Salary & wage Component	99.14	107.87	93.90	140.40	171.36	193.42
(b) Non-Salary & Wage Component	676.93	990.95	1204.01	1812.91	2466.05	3596.65
Capital Expenditure	618.15	349.94	516.90	6.25	3.01	27.26
Other Social Services	2622.38	3257.62	3341.33	3361.18	4918.54	5913.66
Revenue Expenditure of which	2439.35	3026.60	3102.11	3250.27	4842.37	5826.42
(a) Salary & wage Component	464.34	504.92	520.85	593.99	704.11	799.90
(b) Non-Salary & Wage Component	1975.01	2521.68	2581.26	2656.28	4138.26	5026.52
Capital Expenditure	183.03	231.02	239.22	110.90	76.17	87.24
Total (Social Services)	9421.85	10858.53	11256.97	12313.08	15533.15(30)	18944.28
Revenue Expenditure of which	8585.75	10267.27	10479.85	12157.58	15369.32	18660.38
(a) Salary & wage Component	4990.88	5418.57	5452.78	6325.56	7404.54	8054.30*
(b) Non-Salary & Wage Component	3594.87	4848.70	5027.07	5832.02	7964.78	10606.08
Capital Expenditure	836.10	591.26	777.12	155.89	163.83	283.90

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

The allocation to social sector increased from Rs 9422 crore in 2002-03 to Rs 18944 crore in 2007-08 indicating the Government's commitment to improve social well being of the society. Expenditure on Social Sector during current year accounted for 27 per cent of total expenditure and 39 per cent of developmental expenditure⁴. The sector wise analysis reveal that expenditure on Education increased by Rs 617.57 crore over previous year mainly due to increased assistance to Local Bodies for improvement of Primary and Secondary education, while the increase in expenditure on health and family welfare (Rs 621 crore) was allocated towards the improvement of Primary Health Centers and Hospitals and Allopathic Dispensaries. The increase in Water Supply and Sanitation by Rs 1177 crore was mainly on account of Rural Water Supply Programmes and Assistance to Gram Panchayats. Recognizing the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under general education and health and family welfare should increase only by five to six per cent while non-salary expenditure under non-plan heads should increase by 30 per cent per annum during the award period. However, trends in expenditure (taking expenditure under both plan and non-plan heads) reveal that the salary and wage component under education sector increased by 7 per cent over 2006-07 while non-salary and wage component by 25 per cent. Similarly under Health and Family Welfare sector, the salary and wage component increased by 12 per cent while Non-salary and wage component increased by 74 per cent. The expenditure

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

pattern in education and health services indicate towards containment of non-plan salary expenditure and requirement of keeping the pace of non-salary component under non-plan heads to at least 30 per cent to adhere to the TFC norms.

1.5.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditure as to promote directly or indirectly, productive capacity within the States' economy. The expenditure on Economic Services (Rs 29358 crore) accounted for 42 per cent of the total expenditure and 61 per cent of developmental expenditure (Table 1.18).

Table 1.18: Expenditure on Economic Services

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Agriculture, Allied Activities	886.74	1110.39	1419.29	1207.04	1456.22	2095.42
Revenue Expenditure of which	871.14	1083.69	1196.11	1199.82	1438.12	2074.68
(a) Salary & wage Component	486.21	516.07	534.09	594.43	686.91	738.80
(b) Non-Salary & Wage Component	384.93	567.62	662.02	605.39	751.21	1335.88
Capital Expenditure	15.60	26.70	223.18	7.22	18.10	20.74
Rural Development	1322.04	1836.90	1801.05	2011.79	2445.95	3000.54
Revenue Expenditure of which	1043.84	1595.72	1620.85	1691.26	2445.95	3000.54
(a) Salary & wage Component	435.63	442.69	438.83	485.69	558.49	544.74
(b) Non-Salary & Wage Component	608.21	1153.03	1182.02	1205.57	1887.46	2455.80
Capital Expenditure	278.20	241.18	180.20	320.53	0.00	0.00
Irrigation and Flood Control	3116.84	3413.37	5224.43	8778.16	11394.26	15745.86
Revenue Expenditure of which	1762.41	1875.34	1921.37	2620.41	3176.56	4658.64
(a) Salary & wage Component	209.26	219.68	227.65	323.64	326.23	343.45
(b) Non-Salary & Wage Component	1553.15	1655.66	1693.72	2296.77	2850.33	4315.19
Capital Expenditure	1354.43	1538.03	3303.06	6157.75	8217.70	11087.22
Power & Energy	1669.28	2484.05	1925.99	1801.41	1617.12	4608.74
Revenue Expenditure of which	1645.11	1644.42	1896.08	1801.40	1601.12	4598.74
(a) Salary & wage Component	3.44	3.28	4.96	11.63	23.46	196.66
(b) Non-Salary & Wage Component	1641.67	1641.14	1891.12	1789.77	1577.66	4402.08
Capital Expenditure	24.17	839.63	29.91	0.01	16.00	10.00
Industry and Minerals	217.63	333.31	255.57	299.03	265.33	641.43
Revenue Expenditure of which	189.65	207.91	181.80	254.31	232.10	523.36
(a) Salary & wage Component	57.41	53.11	60.41	70.79	78.85	86.44
(b) Non-Salary & Wage Component	132.24	154.80	121.39	183.52	153.25	436.92
Capital Expenditure	27.98	125.40	73.77	44.72	33.23	118.07
Transport	1478.39	1115.24	1117.43	1879.93	2023.95	2393.75
Revenue Expenditure of which	591.99	561.21	570.19	1040.78	1134.25	1527.27
(a) Salary & wage Component	50.83	53.80	52.84	60.78	67.60	73.08
(b) Non-Salary & Wage Component	541.16	507.41	517.35	980.00	1066.65	1454.19
Capital Expenditure	886.41	554.03	547.24	839.14	889.70	866.48
Science, Technology and Environment	1.01	1.21	4.34	2.79	7.23	9.42
Revenue Expenditure of which	1.01	1.21	4.34	2.79	7.23	9.42
(a) Salary & wage Component	0.33	0.32	0.49	0.60	1.25	1.39
(b) Non-Salary & Wage Component	0.68	0.89	3.85	2.19	5.98	8.03
Capital Expenditure	0.00	0.00	0.00	0.00	0.00	---
Secretariat Economic Services	390.69	456.37	269.23	540.09	696.17	863.21
Revenue Expenditure of which	295.89	382.64	269.36	429.49	474.93	511.46
(a) Salary & wage Component	77.17	77.52	80.90	98.61	103.49	115.39
(b) Non-Salary & Wage Component	218.72	305.12	188.46	330.88	371.44	396.07
Capital Expenditure	94.80	73.73	(-) 0.13	110.59	221.24	351.75
Total (Economic Services)	9082.62	10750.84	12017.33	16520.24	19906.23(38)*	29358.37
Revenue Expenditure of which	6404.04	7352.14	7660.10	9040.26	10510.26	16904.11
(a) Salary & wage Component	1320.28	1366.47	1400.17	1646.17	1846.28(9)®	2099.95
(b) Non-Salary & Wage Component	5080.76	5985.67	6259.93	7394.09	8663.98	14804.16
Capital Expenditure	2681.59	3398.70	4357.23	7479.96	9395.97	12454.26

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

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

Out of total expenditure of Rs 29358.34 crore on Economic Services during 2007-08, lion share was absorbed by Irrigation and Flood control (54 per cent) followed by Energy (16 per cent), Rural Development (10 per cent) Transport (8 per cent), Agriculture and Allied activities (7 per cent) Secretariat Economic Services (3 per cent) and Industry and Minerals (2 per cent). As compared to 2002-03, significant increases in 2007-08 were observed in Irrigation and Flood Control (405 per cent), Energy (176 per cent), Rural Development (127 per cent), Agriculture and Allied Activities (136 per cent) and Transport Services (62 per cent).

The trends in revenue and capital expenditure on Economic Services indicate that capital expenditure consistently increased from Rs 2682 crore in 2002-03 (29 per cent) to Rs 12454 crore in 2007-08 (42 per cent) while revenue expenditure from Rs 6404 crore (70.5 per cent) in 2002-03 to Rs 16904 crore (57.5 per cent) in 2007-08 indicating the increasing share of the former during the period 2003-08.

Of the Revenue expenditure (Rs 16904.11 crore) during 2007-08, the Energy sector consumed Rs 4598.74 crore (an increase of Rs 2997.62 crore over previous year) due to assistance to APTRANSCO towards committed liability for discharge of Tax Free Special Bonds (Power Bonds) under Securitisation Scheme (Rs 2070.68 crore). The other major areas where revenue expenditure was consumed was Irrigation and Flood control (Rs 4658.63 crore), Rural Development (Rs 3000.54 crore) on account of Integrated Rural Development Programme and Drought Prone Area Development Programme, Agriculture (Rs 2074.68 crore) on account of expenditure under Horticulture and Vegetable crops, seeds and crop insurance.

The salary component of revenue expenditure on Economic Services decreased from 20.62 per cent (2002-03) to 12.42 per cent in 2007-08. The non-salary component consistently increased from Rs 5081 crore in 2002-03 to Rs 14804 crore in 2007-08 at an average rate of growth of 19.33 per cent per annum indicating allocative priorities probably towards their maintenance and better quality of services.

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

The quantum of assistance provided by way of grants and loans to local bodies and others during the six year period 2002-08 is presented in Table 1.19.

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

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	1243.64	1217.48	1066.31	1503.97	1766.50	1875.99
Municipal Corporations and Municipalities	509.31	298.06	643.97	464.95	233.43	2699.27
Zilla Parishads and other PR Institutions	2895.64	2895.25	2749.84	842.19	1309.82	920.81
Development Agencies	2642.27	3420.65	2720.91	2549.76	1747.02	3715.48
Hospital and Other Charitable Institutions	--	--	--	238.98	387.44	599.55
Other Institutions ⁵	1967.89	3133.91	4031.87	4102.16	5321.88	8850.95
Total	9258.75	10965.35	11212.90	9702.01	10766.09	18642.03
Assistance as percentage of RE	34.40	35.80	34.90	27.5	26.00	34.43

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

The grants and loans extended to local bodies and other institutions with inter year variations increased by 73 per cent to Rs 18642 crore during current year over previous year (Rs 10766 crore). The increase in grants to Municipalities during current year by Rs 2465.84 crore over the previous year was mainly due to release of funds for Krishna water supply and implementation of Master Plan in twin cities (Rs 221.39 crore), prevention of pollution and conservation of Musi river (Rs 21.62 crore), remodeling of existing sewerage system and sewerage treatment work (Rs 63.00 crore), implementation of schemes under Jawaharlal Nehru Urban Renewal Mission Scheme (Rs 1088.35 crore), Urban basic services for poor (Rs 461.29 crore), implementation of Rajiv Nagarabata (Rs 14.54 crore). The huge increase in other institutions was because of release of loan of Rs 2348.42 crore to rural housing. The other major beneficiaries under this category were (i) Social Welfare (Rs 594.19 crore), (ii) Sainik Welfare (Rs 378.44 crore) (iii) Relief on account of Natural calamities (Rs 292.72 crore) (iv) Welfare of Minorities (Rs 36.14 crore). Back Ward Classes Welfare (Rs 32.66 crore)

1.5.5 Delay in furnishing utilization certificates

Of the 2989 utilization certificates (UCs) due in respect of grants aggregating Rs 600.35 crore paid up to 30 September 2006, 2944 UCs for an amount of Rs 560.72 crore were outstanding as of August 2008 from 8 departments⁶.

1.5.6 Non-submission/delay in submission of accounts

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

Submission of 964 accounts from 314 out of 360 Autonomous Bodies to the Accountant General which were due as of February 2008 have not been received even by end of July 2008. 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 44 Autonomous Bodies have not been submitted to Accountant General for audit under Sections 19(1), 19(2), 19(3) and 20(1) of the Act for periods ranging from one to seven years (one body for 7 years and four bodies for 5 years and more) as detailed in *Appendix 1.7*.

⁶ (i) School Education (2) Revenue, Registration and Relief (3) Tribal Welfare (4) Social Welfare (5) Panchayat Raj (6) Rural Development (7) Municipal Administration and Urban Development. (8) Animal Husbandry

1.6 Misappropriations, losses, defalcations, etc.

State Government reported 483 cases of misappropriation, defalcations, etc. involving Government money amounting to Rs 38.48 crore up to the period June 2008 on which final action was pending. The highest amount misappropriated was Rs 24.30 crore in Social Welfare (including Tribal Welfare department in 26 cases while the highest number of misappropriation cases (263 cases) involving Rs one crore, were pending in Revenue Department. The department-wise break up of pending cases is given in *Appendix 1.8*.

1.7 Assets and Liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.3* gives an abstract of such liabilities and the assets as on 31 March 2008, compared with the corresponding position on 31 March 2007. While the liabilities consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. As the assets grew by Rs 19109 crore (29 per cent) and liabilities grew by Rs 12392 crore (14 per cent) over previous year reversing the trend of growth in liabilities over assets in earlier years (up to 2005-06). High priority on capital outlay and increased expenditure on developmental activities resulted in asset formation. Though during the current year the assets have increased substantially, the ratio of liabilities to assets remained at 0.83 indicating that 17 per cent of liabilities still did not have an asset back up in 2007-08 *Appendix 1.4* depicts the time series data on State Government finances for the period 2001-2007.

1.7.1 Incomplete Projects

As per the information furnished by Irrigation and Command Area Development Department five major irrigation projects commenced between 1964 and 1997 were not completed even after incurring an expenditure of Rs 4931.76 crore to the end of March 2008. Similarly, 21 medium irrigation projects commenced between 1962 and 2004 were not completed even after incurring an expenditure of Rs 1396.18 crore to the end of March 2008. Besides, another 27 irrigation projects commenced between 1967 and 2004 have not been completed even after incurring an expenditure of Rs 24610.67 crore. The delay in completion of these projects escalated the cost by Rs 57205.94 crore. The total amount spent (Rs 30938.61 crore) so far, on these projects constituted 49.19 per cent of progressive capital outlay at the end of March 2008. Details of incomplete projects under Irrigation and Command Area Development sector are given in *Appendix 1.9*.

1.7.2 Financial Analysis of Government Investments

1.7.2.1 Departmental Commercial Undertakings

Activities of quasi-commercial nature are performed by departmental undertakings of certain Government departments. These undertakings are required to prepare annually *Proforma accounts* in prescribed format showing the results of financial operations so that Government can assess the results of their working. The department-wise position of arrears in preparation of *pro forma* accounts and the investment made by the Government are given in *Appendix 1.10*.

1.7.2.2 Government Investment and Returns

As of 31 March 2008, Government had invested Rs 5931.42 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.20**). The return on this investment was 1.34 *per cent* to 11.95 *per cent* during 2002-08 while the government paid interest at the average rate of 11.99 to 8.25 *per cent* on its borrowings during 2002-08.

Table 1.20: Return on Investment

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Investment (Rupees in crore)	4334.74	5223.84	5673.70	5715.89	5776.17	5931.42
Returns (Rupees in crore)	1.34	48.68	45.49	45.88	47.40	11.95
Percentage of returns	0.03	0.93	0.80	0.80	0.82	0.20
Average Interest Rate ⁷	11.99	11.49	10.21	9.11	8.76	8.25
Difference between interest rate and return (<i>per cent</i>)	11.96	10.56	9.41	8.31	7.94	8.05

The investment of State Government included Rs 3651 crore in 51 Government Companies, of which only two companies declared dividend aggregating to Rs 11.10 crore during 2007-08. The decrease in dividends during current year by Rs 35.45 crore over previous year was due to the fact that Singareni Collieries which had declared a dividend of Rs 44.28 crore in 2006-07 declared only Rs 10.63 crore during 2007-08 besides Mineral Development Corporation and Handicrafts Development Corporation which had declared dividend of Rs 1.01 crore and Rs 0.19 crore respectively during 2006-07 did not declare dividends during 2007-08. The sectors/companies where major investments were made during 2007-08 were (i) Krishna Patnam Development Board (Rs 9.75 crore), (ii) AP State Minorities Finance Corporation Ltd (Rs 10 crore), (iii) AP Power Development Company (Rs 10 crore), (iv) AP Dairy Development Corporation (Rs 16.52 crore) and (v) Cooperative Sugar Factories (Rs 78.79 crore).

1.7.2.3 Loans and Advances by State Government

In addition to investment in Co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these

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

institutions/organizations. Total outstanding loans and advances as on 31 March 2008 were Rs 13379 crore (Table 1.21). Interest received against these loans advanced was 0.37 per cent during 2007-08 as against 1.1 per cent in previous year.

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

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Opening Balance	8405	9180	9419*	9639	10213	10649
Amount Advanced during the year	1235	1494	1593	756	907	2920 ^S
Amount repaid during the year	460	1256	1373	182	471	191
Closing Balance	9180	9418	9639	10213	10649	13378
Net Addition	775	238	220	574	436	2730
Interest Received	282	422	68	18	114	44
Interest Received as per cent to Loans advanced	3.2	4.5	0.71	0.18	1.09	0.37
Average Interest Rate	12.0	11.5	10.2	9.11	8.8	8.2
Difference between interest paid and received (per cent)	8.8	7.0	9.5	8.93	7.7	7.9

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

^S lower rounding adopted to agree with the closing balance

During current year the loans and advances disbursed by the State government have increased by Rs 2014 crore over previous year. The major portion of loans in 2007-08 was advanced to AP Housing Corporation (Rs 2316 crore) for construction of houses for weaker sections under Indiramma Programme, Urban Health Service (Rs 66 crore); AP Medical and Health Housing Infrastructure Development (Rs 38 crore) and Urban Infrastructure Corporation (Rs 25 crore). During current year the recovery of loan decreased by Rs 280 crore over previous year mainly due to fall in recovery of loans under housing (Rs 309.06 crore), other Agricultural Programmes (Rs 39.48 crore) and from 'other' industries (Rs 22.71 crore) which was partly offset by increase in recovery of loans from consumer Industries (Rs 43.78 crore), Power Projects (Rs 21.10 crore). The interest on loans and advances during the period 2002-03 to 2007-08 showed wide fluctuations. The interest receipts were decreased by Rs 70 crore over previous year mainly due to less interest receipts on loans to Government servants.

1.7.3 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) – ordinary and special – from Reserve Bank of India has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by Reserve Bank of India from time to time depending on the holding of Government securities. The Government did not have to resort to WMA for the successive fourth year. Ways and Means Advances and Overdrafts availed, the number of occasions it has availed and interest paid by the State during 2002-04 is detailed in Table 1.22.

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

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Ways and Means Advances						
Taken in the year	2189.40	5653.13	--	--	--	--
Outstanding	--	--	--	--	--	--
Interest paid	10.67	12.66	--	--	--	--
Number Of Days	137	181	--	--	--	--
Overdraft						
Taken in the year	1925.40	1600.06	--	--	--	--
Outstanding	--	--	--	--	--	--
Interest paid	1.08	3.01*	--	--	--	--
Number Of Days	33	31	--	--	--	--

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

The State Government's cash balances at the end of the current year amounted to Rs 8511.99 crore. The major portion of which (Rs 6368.16 crore) is invested in 14 days Treasury Bills of the Government of India and earned an interest of Rs 132.67 crore during the year. Further an amount of Rs 2333.66 crore is invested in earmarked funds, i.e. Consolidated Sinking Fund (Rs 1866.68 crore), Guarantee Redemption Fund (Rs 466.98 crore) and other funds.

1.8 Undischarged Liabilities

According to AP Fiscal Responsibility and Budget Management Act 2005, the total liabilities means, the liabilities under the Consolidated Fund of the State and the Public Account of the State and shall also include borrowings by the Public Sector Undertakings and the Special Purpose Vehicles and other equivalent instruments including guarantees where the principal and/or interest are to be serviced out of the State Budget.

1.8.1 Fiscal Liabilities – Public Debt and Guarantees

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

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

Table 1.23: Fiscal Liabilities - Basic Parameters(Values in Rupees crore and ratios in *per cent*)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities	54831	64545	74288	79549	86622	97368
Rate of Growth	15.6	17.7	15.1	7.1	8.9	12.4
Ratio of Fiscal Liabilities to						
GSDP	32.61	33.81	35.30	33.70	32.18	31.23
Revenue Receipt	238.4	240.2	258.4	228.25	195.78	179.84
Own Resources	339.6	370.7	371.3	332.9	284.81	271.54
Buoyancy of Fiscal Liabilities with reference to						
GSDP	2.232	1.309	1.473	0.584	0.634	0.784
Revenue Receipt	2.939	1.054	2.157	0.333	0.330	0.554
Own resources	1.344	2.263	0.011	0.364	0.326	0.693

Overall fiscal liabilities of the State increased from Rs 54831 crore in 2002-03 to Rs 97368 crore in 2007-08. Fiscal Liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (Rs 51395 crore) comprised of market loan (Rs 29186 crore), loan from Government of India (15126 crore) and other loans (Rs 7083 crore). The Public Account liabilities (Rs 45973 crore) comprise of Small Saving, Provident Fund (Rs 31084 crore), interest bearing obligation (Rs 4071 crore) and non-interest obligation like deposits and other earmarked funds (Rs 10818 crore). The growth rate of fiscal liability was 12.4 *percent* during 2007-08 over previous year. The ratio of fiscal liabilities to GSDP decreased from 33 *per cent* in 2002-03 to 31 *per cent* in 2007-08. These liabilities stood at 1.8 times of revenue receipts and 2.7 times of the States own resources at the end of 2007-08. The buoyancy of these liabilities with respect to GSDP, revenue receipts and State own revenue remained less than unity indicating the fact that the marginal propensity of the State government to spend was less than the propensity of income earned and revenue receipts. The State Government set up a Sinking Fund during the financial year 1999-2000 for amortization of open market loans and has been contributing every year an amount equivalent to one *per cent* of the outstanding open market loan at the end of the previous year as per the guidelines of the Reserve Bank of India. As on 31st March 2008, the outstanding balance in Sinking Fund was Rs 1866.68 crore. It is however pertinent to mention in this context that the Scheme of Sinking Fund was revised in 2006 to incorporate the recommendations of TFC relating to all loans (not just market borrowings) and the State also needs to revise its scheme and enhance its contribution accordingly.

1.8.2 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2002-03 is given in Table 1.24.

Table 1.24: Guarantees given by the Government of Andhra Pradesh

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Maximum amount guaranteed	24810	29545	28165	30200	29160	18798
Outstanding guarantees	15317	17427	17893	17711	18018	14502
Revenue receipts	23003	26869	28750	34851	44245	54143
Outstanding guarantees/ revenue receipt of the second preceding year (in <i>per cent</i>)	--	79.8	77.8	65.9	62.7	42.1

As per the APFRBM Act, 2005 the annual incremental risk weighted guarantees is to be limited at 90 *per cent* of revenue receipts in the year preceding the current year. The incremental guarantees given by the State Government are well within the prescribed ceiling limit. The Government set up a Guarantee Redemption Fund during 2001-02 and as on 31-03-2008, Rs 466.98 crore is invested in the Fund which comprises guarantee fee, special contribution and return earned on the funds invested. In the current year the Government received Rs 4.47 crore as guarantee commission.

1.8.3 Off - Budget Borrowings

The borrowings of a State are governed under Article 293(1) of the Constitution of India. In addition to the fiscal liabilities shown in Table 1.23, the State guaranteed loans availed of by Government companies/corporations. These companies/corporations borrowed funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Although the estimates of the plan programmes of the State Government project that funds for these programmes would be met out of the resources of the companies/corporations outside the State budget, however, in reality the borrowings of many of these concerns ultimately turn out to be the liabilities of the State Government termed as 'off-budget borrowings'. Though off-budget borrowings are not permissible under Article 293(3), the State continues to undertake such off-budget borrowings as per the data furnished by the Finance Department. Table 1.25 captures the trends in the off-budget borrowings by the State during 2002-08.

Table 1.25: Off-Budget Borrowings

(Rupees in crore)

Year	Source through which borrowed	Amount borrowed	Amount outstanding as on 31 March 2008
2001-02	AP TRANSCO bonds	876	7
2002-03	AP TRANSCO bonds	850	Nil
2003-04	AP TRANSCO bonds	380	380
	AP Water Resources Development Corporation (APWRDC)	568	568
2004-05	APWRDC	737	590
2005-06	APWRDC	455	455
2006-07	APWRDC	600	600
	AP TRANSCO	500	500
	AP TRANSCO (PFC)	500	299
2007-08	AP TRANSCO	125	125
Total		5591	3524

During current year APTRANSCO raised Rs 125 crore by way of term loans from Commercial Bank(s). The Government created Special Purpose Vehicle (SPV) “AP Water Resources Development Corporation” in January 1997 by an Act of Legislature for promotion and operation of Irrigation Project and other allied incidental activities. This SPV raised Rs 2360 crore during 2004-07. During the current year, the Government repaid the entire amount of Rs 850 crore borrowed by APTRANSCO in 2002-03, Rs 147 crore out of Rs 737 crore borrowed by APWRC in 2004-05, Rs 201 crore out of Rs 500 crore borrowed by APTRANSCO (PFC) during 2006-07 and also paid an interest of Rs 321 crore on these borrowings.

The total liabilities of the state comprising fiscal liabilities (Rs 97368 crore); off-budget borrowings (Rs 3524 crore) and the amount guaranteed at the end of March 2008 (Rs 18798 crore) were Rs 119690 crore which as a ratio of GSDP stood at 38 *per cent* at the close of 2007-08.

1.9 Debt Sustainability

The debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt. A prior condition for debt sustainability is the debt stabilization in terms of debt/GSDP ratio.

1.9.1 Debt Stabilization

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

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

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Average Interest Rate	12.0	11.5	10.2	9.1	8.8	8.2
GSDP Growth	7.0	13.5	9.1	11.6	12.2	15.8
Interest spread	(-) 5.0	2.0	(-) 1.1	2.5	3.4	7.6
quantum spread (Rupees in crore)	(-) 2372	1097	(-) 710	1857	2705	6583
Primary deficit (-)/Surplus (+)	(-) 1494	(-) 594	(-) 1101	(-) 1292	(+) 1636	(-) 1197

Table 1.26 reveals that quantum spread together with primary deficit has been negative during 2002-03 and 2004-05 indicating rising debt-GSDP ratios during the period. Debt-GSDP ratio has increased steadily from 32.61 *per cent* in 2002-03 to 35.30 *per cent* in 2004-05. It was only from 2005-06, the quantum spread together with primary deficit turned into positive resulting in decline in debt/GSDP ratio to 31.23 in 2007-08. These trends indicate tendency towards the debt stabilization which would eventually improve the debt sustainability position of the State.

1.9.2 Sufficiency of Non-debt Receipts

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

Table 1.27: Incremental revenue receipts and Revenue Expenditure

(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2002-03	671	26	1547	1573	(-) 902
2003-04	4662	3762	725	4487	(+) 175
2004-05	1998	2505	235	2740	(-) 742
2005-06	4910	5101	(-) 83	5018	(-) 108
2006-07	11573	8644	272	8916	(+) 2657
2007-08	14285	17120	308	17428	(-) 3143

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. The resource gap oscillated between the cycle of minus and plus during the period 2003-08 and remained negative in four out of six year period. It is significant to note that during 2004-05, 2005-06 and 2007-08 the non-debt receipts were not even sufficient to meet the primary revenue expenditure of the State indicating the fact that state need to step up its resource mobilization efforts to ensure debt stability and in turn sustainability in the medium to short run.

1.9.3 Net Availability of Borrowed Funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, i.e. they are (a) not being used for financing revenue expenditure; and (b) being used

efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.

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

Table-1.28: Net Availability of Borrowed Funds

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Internal debt						
Receipt	9479	14865	7992	3448	4236	10224
Repayment (Principle + Interest)	8506	13652	3059	9783	8632	9981
Net Fund Available	973	1213	4933	(-) 6335	(-) 4396	243
Net Fund Available (<i>per cent</i>)	10.3	8.2	61.7	---	---	2.37
Loans and Advances from GOI						
Receipt	2548	3118	1841	522	315	909
Repayment (Principle + Interest)	4653	6054	6595	2046	2437	1978
Net Fund Available	(-)2105	(-) 2936	(-)4754	(-) 1524	(-) 2122	(-) 1069
Net Fund Available (<i>per cent</i>)	---	---	---	---	---	---
Other obligations						
Receipt	14189	15823	22169	23685	29626	33551
Repayment (Principle + Interest)	11796	11241	15242	17572	23314	27166
Net Fund Available	2393	4582	6927	6113	6312	6385
Net Fund Available (<i>per cent</i>)	16.9	29.0	31.2	25.8	21.3	19.3
Total liabilities						
Receipt	26216	33806	32002	27655	34177	44684
Repayment (Principle + Interest)	24955	30947	24896	29401	34384	39125
Net Fund Available	1261	2859	7106	(-) 1746	(-) 207	5559
Net Fund Available (<i>per cent</i>)	4.8	8.5	22.2	--	---	12.44

The debt redemption ratio which remained greater than unity during the last two years has become less than one in 2007-08 as it was prior to 2005-06. It implies that State government was using its own resources apart from its fresh debt receipts in 2005-06 and 2006-07 to discharge its past debt obligations. During 2007-08, however, government has kept around 12 per cent (Rs 5559 crore) of total debt receipts for the applications for other purposes.

1.10 Management of deficits

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

1.10.1 Trends in Deficits

The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in Table 1.29.

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

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Deficit (-) /Surplus (+)	(-) 3922	(-) 3771	(-) 3387	(-) 386	(+) 2807	(+) 159
Fiscal Deficit (-) /Surplus (+)	(-) 7625	(-) 7450	(-) 8192	(-) 8300	(-) 5644	(-) 8786
Primary Deficit (-) /Surplus (+)	(-) 1494	(-) 594	(-) 1101	(-) 1292	(+) 1636	(-) 1197
RD/GSDP	2.33	1.98	1.61	0.16	----	---
FD/GSDP	4.53	3.90	3.89	3.52	2.10	2.82
PD/GSDP	0.89	0.31	0.53	0.56	---	0.38
RD/FD	51.4	50.6	41.3	4.65	---	---

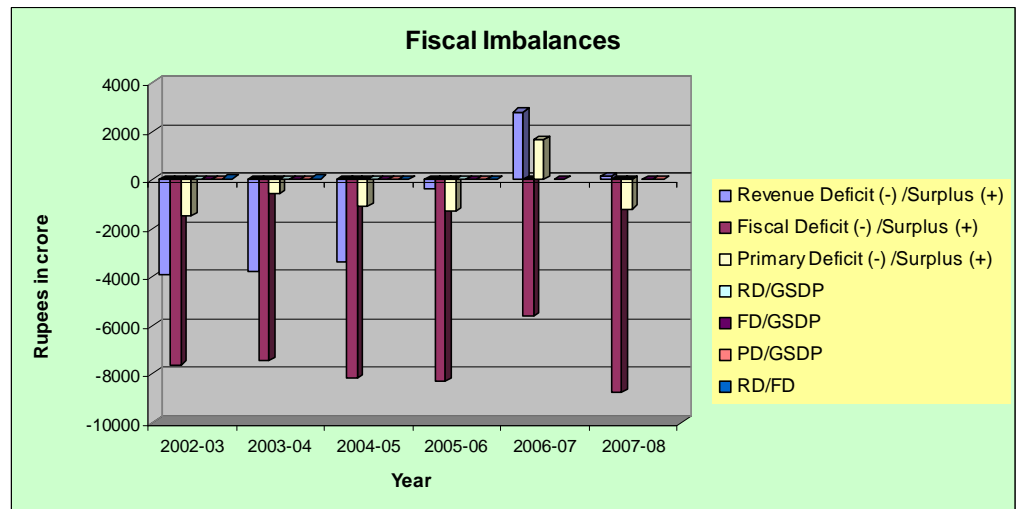


Table 1.29 reveals the declining trend in revenue deficit since 2002-03 and reduced sharply to Rs 386 crore during 2005-06. Revenue account turned into a huge surplus of Rs 2807 crore during 2006-07 which however declined sharply to Rs 159 crore mainly due to the fact that the revenue expenditure increased by Rs 12545 crore (30 *per cent*) in 2007-08 while revenue receipts grew by Rs 9897 crore (22 *per cent*) over previous year. This mismatch between Revenue expenditure and Revenue receipts was mainly on account of providing assistance of Rs 2070.68 crore to APTRANSCO towards discharge of committed liability of Special Tax Free Bonds in power sector under securitization scheme. The revenue surplus was however understated to the extent of Rs 6558 crore on account of the fact that the proceeds of sale of land and buildings were accounted for by the State Government under miscellaneous Capital receipts instead of under Revenue receipts as per the established accounting norms.

The fiscal deficit which indicating the declining trend since 2004-05 increased to Rs 8786 crore in the current year reaching the highest level during the period 2003-08. Despite an increase of Rs 4388 crore in Non-debt capital receipts in 2007-08, an increase of Rs 2870 crore in capital expenditure and Rs 2014 crore in disbursement of loans and advances accompanied with a steep fall in cushion from Revenue account, the fiscal deficit position of the State deteriorated sharply in 2007-08 over the previous year.

The primary deficit⁸ which took a turnaround and resulted into a primary surplus during previous year again relapsed to deficit showing a primary deficit of Rs 1197 crore during current year on account of a steep increase in fiscal deficit and only a moderate increase in interest payments.

1.10.2 Quality of Deficit/Surplus

The ratio of revenue deficit (RD) to fiscal deficit (FD) and the decomposition of Primary deficit into primary revenue deficit⁹ and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The ratio of RD to FD which moderately declined during 2002-03 and 2003-04 reduced very steeply during 2005-06 and thereafter RD was wiped out and turned into surplus for two successive years. This trajectory shows a consistent improvement in the quality of the deficit during the period 2003-08.

The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2002-08 reveals (Table 1.30) that throughout this period, the primary deficit was on account of expenditure incurred under capital account and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were not only adequate to meet the primary expenditure¹⁰ requirements in the revenue account, but also met whole/part of the expenditure under the capital account. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account and loans and advances resulting in primary deficit in all the years during 2003-08 except during the year 2006-07. This indicates the extent to which enhancement in capital expenditure resulted in primary deficit.

Table 1.30: Primary deficit/surplus - Bifurcation of factors

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and Advances	Primary Expenditure	Primary deficit (-) / surplus (+) with reference to revenue expenditure	Primary deficit (-) / surplus (+) with reference to capital expenditure
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2002-03	23463	20794	2928	1235	24957	(+) 2669	(-) 1494
2003-04	28125	23784	3441	1494	28719	(+) 4341	(-) 594
2004-05	30123	25046	4585	1593	31224	(+) 5077	(-) 1101
2005-06	35033	28229	7340	756	36325	(+) 6804	(-) 1292
2006-07	46606	34159	9904	907	44970	(+) 12447	(+) 1636
2007-08	60891	46394	12774	2920	62088	(+) 14497	(-) 1197

⁸ Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the States during the course of the year

⁹ Primary revenue deficit defined as gap between non interest revenue expenditure of the state and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account

¹⁰ Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year

1.11 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-1.31** below presents a summarized position of Government finances over 2002-2008, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications and also highlights areas of concern.

Table 1.31: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
I. Resource Mobilisation						
Revenue Receipt/ GSDP	13.7	14.1	13.7	14.8	16.4	17.4
Revenue Buoyancy	0.758	1.243	0.683	1.727	1.924	1.414
Own tax/GSDP	7.5	7.2	7.7	8.1	8.9	9.2
Own Taxes Buoyancy	1.320	0.697	1.730	1.493	1.751	1.286
II. Expenditure Management						
Total Expenditure/GSDP	18.5	18.6	18.2	18.3	19.4	22.4
Revenue Receipt/Total Expenditure	74.0	75.5	75.0	80.43	84.7	77.7
Revenue Expenditure/Total Expenditure	86.6	86.1	84.0	81.32	79.3	77.4
Plan Expenditure/Total Expenditure	27.7	30.3	30.9	32.73	37.2	38.4
Capital Expenditure /Total Expenditure	9.4	9.7	12.0	16.94	19.0	18.3
Development Expenditure/Total Expenditure	59.5	60.7	60.7	66.54	67.8	69.3
Buoyancy of TE with RR	1.01	0.86	1.10	0.642	0.763	1.49
Buoyancy of RE with RR	1.064	0.821	0.700	0.454	0.653	1.35
III. Management of Fiscal Imbalances						
Revenue deficit (Rs in crore)	3922	3771	3387	386	---	---
Fiscal deficit (Rs in crore)	7625	7450	8192	8300	5644	8786
Primary Deficit (Rs in crore)	1494	594	1101	1292	---	1197
Revenue Deficit/Fiscal Deficit	51.4	50.6	41.3	4.65	---	---
IV. Management of Fiscal Liabilities (FL)						
Fiscal Liabilities/ GSDP	32.6	33.8	35.7	34.2	33.2	31.2
Fiscal Liabilities/RR	238.4	240.2	258.4	228.25	195.8	179.8
Buoyancy of FL with RR	2.939	1.054	2.156	0.615	0.330	0.554
Buoyancy of FL with own receipts	1.344	2.263	1.011	0.364	0.326	0.693
Interest spread	(-) 5.0	2.0	(-) 1.1	2.5	3.4	7.6
Net Funds Available	4.8	8.5	22.2	---	---	12.44
V. Other Fiscal Health Indicators						
Return on Investment	0.03	0.93	0.80	0.80	0.82	0.20
BCR (Rs in crore)	(-) 22	230	1694	3600	8330	8503
Financial Assets/ Liabilities	0.62	0.62	0.68	0.65	0.73	0.83

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy and accessibility of the State to the financial resources. Revenue receipts comprise not only the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP during the current year was 17 per cent, an increase of one percentage point over the previous year. During 2002-08, the ratio of own taxes to GSDP showed continued improvement except in 2003-04 when it declined marginally.

Various ratios relating to the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilization efforts. The revenue expenditure as a percentage of total expenditure remained stable around 86 per cent till 2003-04 and exhibited the declining trend thereafter. The higher buoyancy ratio of total expenditure as compared to that of revenue expenditure with respect to revenue receipts indicates the propensity of the State Government to create assets by resorting to either incur expenditure under capital account or disbursement of loans and advances. Increasing reliance on revenue receipts to finance the total expenditure

which amounts to 78 *per cent* during 2007-08 indicates decreasing dependence on borrowed funds. This is also reflected by the decreasing ratio of financial liabilities to revenue receipts. Increasing proportion of plan expenditure and capital expenditure in the total expenditure also indicates improvement in quality of expenditure.

Despite a steep fall in revenue surplus and a sharp increase in fiscal deficit during the current year, an increase of two *per cent* in Balance from Current Revenue (BCR) (Rs 8503 crore) over previous year indicate that funds were available with the state government for creation of assets and to meet other development needs of the State.

1.12 Conclusions

The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit – indicted deterioration in 2007-08 relative to the previous year. Although revenue surplus has improved during 2006-07 by Rs 697 crore but fiscal deficit and primary surplus has indicated deterioration primarily on account of an increase of Rs 2870 crore and Rs 2014 crore respectively in capital expenditure and disbursement of loans and advances during the current year over the previous year. The revenue surplus declined steeply from Rs 2807 crore in 2006-07 to Rs 159 crore in 2007-08 mainly on account of the assistance of Rs 2071 crore provided to APTRANSCO towards discharge of committed liability of Special Power Bonds under securitization scheme resulting revenue expenditure to increase by Rs 12545 crore (30 *per cent*) against the increase of Rs 9897 crore (22 *per cent*) in revenue receipts of the State during the year. Given the steep fall in cushion from Revenue account, an increase of Rs 2870 crore in capital expenditure and Rs 2014 crore in disbursement of loans and advances fiscal deficit position of the State deteriorated sharply in 2007-08 over the previous year despite an increase of Rs 4388 crore in Non-debt capital receipts during the year. The expenditure pattern of the State reveals that the revenue expenditure as a *percentage* to total expenditure although indicated a declining trend but it still constitutes around 78 *per cent* of the total expenditure during 2007-08 and its NPRE component at Rs 40083 crore during 2007-08 although was within the BE for the year (Rs 40864 crore) but exceeded significantly both the normative projection of the TFC for the State (Rs 32425 crore) and State's projection in its FCP (Rs 34330 crore). Moreover, within the non-plan revenue expenditure, four components – salary expenditure, pension liabilities, interest payments and subsidies – constitute about 72 *per cent* of NPRE during 2007-08. These trends in expenditure indicate the need for changing allocative priorities. The increasing fiscal liabilities accompanied with negligible rate of return on government investments and inadequate interest cost recovery on loans and advances might lead to a situation of unsustainable debt situation in medium to long run unless a suitable measures are initiated to compress the non-plan revenue expenditure and to mobilize the additional resources both through the tax and non-tax sources in ensuing years Besides, the inordinate delays in completion of 5 major; 21 medium and 27 other irrigation projects in the state leading to the cost escalation of Rs 6173 crore of these projects and a steep increase of Rs 57206 crore at the close of the year, as revealed by the Report, is also a cause of concern for the State Government.