CHAPTER – I

An Overview of the Finances of the State Government

CHAPTER I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This Chapter discusses the financial position of the State Government, based on the analysis of the information contained in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of the State Government. In addition, the Chapter also contains a section on the financial performance of the government, based on certain ratios and indices developed on the basis of the information contained in the Finance Accounts and other information furnished by the State Government. Some of the terms used in this Chapter are described in *Appendix I*.

1.2 Financial position of the State

In the government accounting system, comprehensive accounting of the fixed assets like land and buildings etc, owned by Government is not done. However, the government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. *Exhibit I* gives an abstract of such liabilities and the assets as on 31 March 2002, compared with the corresponding position on 31 March 2001. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances.

During the year, the State Government incorrectly classified expenditure of Rs 761.59 crore being Grants-in-aid to Local Bodies under Capital outlay instead of Revenue (see paragraph 1.6). This had the effect of overstatement of capital outlay and understatement of revenue deficit to that extent. To provide a consistent and correct picture of the government finances comparable with the position of past years, expenditure figures under Revenue and Capital accounts have been suitably modified in the exhibits of the Chapter and all the indicators, ratios etc., are worked out on that basis.

EXHIBIT-I
SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF ANDHRA PRADESH AS ON 31 MARCH 2002

(Rupees in crore)

As on 31-03-2001		Liabilities	As on 31-03-2002	
12776.82		**Internal Debt -**		**15629.16**
	9105.49	Market loans bearing interest	11025.35	
	2.45	Market Loans not bearing interest	13.50	
	29.76*	Market Loans Suspense	-	
	431.48	Loans from LIC	407.44	
	121.26	Loans from GIC	129.37	
	942.67	Loans from NABARD	1324.16	
	1738.81	Loans from other Institutions	2729.34	
	404.90	Ways and Means and Advances	-	
....	**....**	**Overdraft from Reserve Bank of India**	-	
16509.66		**Loans and Advances from Central Government -**		**19032.89**
	741.48	Pre 1984-85 Loans	681.94	
	4462.13	Non-plan Loans	4325.67	
	11027.27	Loans for State Plan Schemes	13829.62	
	48.27	Loans for Central Plan Schemes	42.60	
	70.51	Loans for Centrally Sponsored Plan Schemes	73.06	
	160.00	Other Ways and Means Advances	80.00	
48.55		**Contingency Fund**		**46.50**
6364.59		**Small Savings, Provident Funds, etc.**		**7830.29**
4761.17		**Deposits**		**4686.68**
389.98		**Reserve Funds**		**570.41**
52.61		**Remittance Balances**		**78.61**
40903.38		**Total**		**47874.54**
As on 31.03.2001		**Assets**	**As on 31.03.2002**	
19591.28[$]		**Gross Capital Outlay on Fixed Assets -**		**21920.66[$]**
	3928.47	Investments in shares of Companies, Corporations, Cooperatives, etc.	3968.93	
	15662.81[$]	Other Capital Outlay	17951.73[$]	
7654.47		**Loans and Advances -**		**8405.35**
	4319.71	Loans for Power Projects	4958.88	
	3115.37	Other Development Loans	3213.29	
	219.39	Loans to Government servants and Miscellaneous loans	233.18	
12.69		**Advances**		**15.11**
	.....	**Remittance Balances**		**-**
123.03		**Suspense and Miscellaneous Balances**		**160.47**
237.88		**Cash -**		**446.06**
	(-) 2.13	Cash in Treasuries and Local Remittances	11.10	
	37.86	Deposits with Reserve Bank and other Banks	53.29	
	0.69	Departmental Cash Balance	1.40	
	0.79	Permanent Advances	0.80	
	--	Cash Balance Investments	69.18	
	200.67	Investment of earmarked funds	310.29	
13284.03		**Deficit on government account -**		**16926.89**
	9135.21	Accumulated deficit up to 31 March 2001	13284.03	
	4148.83[$]	Revenue Deficit of the Current Year	3642.87[$]	
	(-) 0.01	Amount closed to government account	(-) 0.01	
40903.38		**Total**		**47874.54**

* To accommodate subscription towards market loans pending receipt of rupee debt statement from RBI, Mumbai, for subsequent transfer to corresponding loan account.

$ Figures of Finance Accounts modified to adjust misclassification of grants-in-aid of Rs 553.71 crore to local bodies during 2000-01 and Rs 761.59 crore during 2001-02 (see paragraph 1.6).

EXHIBIT-II
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2001-02

(Rupees in crore)

Receipts					Disbursements						
2000-01			2001-02		2000-01			2001-02			
		Section-A: Revenue						**Non-Plan**	**Plan**	**Total**	
19475.24	**I**	**Revenue receipts**		**21845.05**	**23624.07**	**I**	**Revenue expenditure-**	**19574.79**	**5913.13**	**25487.92**	**25487.92***
10551.92		-Tax revenue	11550.59		8534.92		**General services**	**9201.20**	**85.14**	**9286.34**	
					8208.06		**Social Services-**	**6278.28**	**2241.19**	**8519.47**	
2742.91		-Non-tax revenue	2917.65		3738.80		-Education, Sports, Art and Culture	3409.95	384.25	3794.20	
					1286.09		-Health and Family Welfare	855.87	458.38	1314.25	
3979.31		-State's share of Union Taxes	4061.51		538.89		-Water Supply, Sanitation Housing and Urban Development,	298.81	687.24	986.05	
					60.15		-Information and Broadcasting	38.11	15.53	53.64	
340.90		-Non-Plan grants	627.48		980.44		-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	706.22	424.49	1130.71	
					68.64		-Labour and Labour Welfare	54.50	14.29	68.79	
1026.88		-Grants for State Plan Schemes	1842.89		1522.60		-Social Welfare and Nutrition	902.36	257.01	1159.37	
					12.45		-Others	12.46	---	12.46	
833.32		-Grants for Central and Centrally sponsored Plan Schemes	844.93								
					6716.80		**Economic Services-**	**3815.78**	**3586.80**	**7402.58**	
					841.56		-Agriculture and Allied Activities	544.50	216.51	761.01	
					1303.25		-Rural Development	775.61	878.12	1653.73	
					1492.24		-Irrigation and Flood control	1368.05	216.32	1584.37	
					2299.89		-Energy	387.94	1918.38	2306.32	
					108.73		-Industry and Minerals	70.93	91.11	162.04	
					451.07		-Transport	580.59	2.45	583.04	
					3.45		- Environment, Science, and Technology	0.53	4.71	5.24	
					216.61		-General Economic Services	87.63	259.20	346.83	
					164.29		**Grants-in-aid and Contributions**	**279.53**	---	**279.53**	
4148.83	**II**	**Revenue deficit carried over to Section B**		**3642.87**		**II**	**Revenue Surplus carried over to Section B**				-
		Section-B: Others									
431.91	**III**	**Opening Cash balance including Permanent Advances and Cash Balance Investment**		**237.88**		**III**	**Opening Overdraft from RBI**				-
-	**IV**	**Miscellaneous Capital receipts**		--	**2169.82**	**IV**	**Capital Outlay-**	**15.07**	**2314.30**	**2329.37**	**2329.37***
					50.58		**General Services-**	**0.28**	**71.41**	**71.69**	
					109.24		**Social Services-**	**0.06**	**188.48**	**188.54**	
					1.49		-Education, Sports, Art and Culture	---	76.84	76.84	
					47.94		-Health and Family Welfare	0.03	53.28	53.31	
					34.11		-Water Supply, Sanitation, Housing and Urban Development	---@	6.80	6.80	
					24.76		-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	---	49.38	49.38	
					0.97		-Social Welfare and Nutrition	---	1.83	1.83	
					(-)0.03		-Others	0.03	0.35	0.38	
					2010.00		**Economic Services-**	**14.73**	**2054.41**	**2069.14**	
					19.39		-Agriculture and Allied Activities	(-)2.64	21.10	18.46	

* Finance Accounts figures of Rs 24726.33 crore and Rs 3090.96 crore modified to adjust misclassification of grants-in-aid of Rs 761.59 crore to local bodies (see paragraph 1.6).
@ Rs 12,225 only

Receipts					Disbursements						
2000-01			**2001-02**		**2000-01**			**2001-02**			
					1097.58		-Irrigation and Flood Control	(-)0.16	1143.58	1143.42	
					45.29		-Energy	(-)0.05	22.19	22.14	
					66.19		-Industry and Minerals	(-)0.01	50.87	50.86	
					779.58		-Transport	5.16	754.12	759.28	
					1.97		-General Economic Services	12.43	62.55	74.98	
401.89	**V**	**Recoveries of Loans and Advances-**		**946.66**	**1389.09**	**V**	**Loans and Advances disbursed-**				**1697.54**
163.46		-From Power Projects	409.63		837.83		-For Power Projects			1048.79	
70.52		-From Government Servants	72.27		85.82		-To Government Servants			86.05	
167.91		-From others	464.76		465.44		-To Others			562.70	
	VI	**Revenue surplus brought down**		---	**4148.83**	**VI**	**Revenue deficit brought down**				**3642.87**
5260.79	**VII**	**Public debt receipts-**		**7339.99**	**936.42**	**VII**	**Repayment of Public Debt-**				**1964.43**
3282.81		-Internal debt other than Ways and Means Advances and Overdraft	3622.64		141.24		-Internal debt other than Ways and Means Advances and Overdraft			365.40	
88.49		- Net transactions of Ways and Means Advances including Overdraft	---		--		-Net transaction of Ways and Means Advances including Overdraft			404.90*	
1889.49		-Loans and Advances from Central Government	3717.35		795.18		-Repayment of Loans and Advances to Central Government			1194.13	
--	**VIII**	**Appropria-tion to Contingency Fund**		---	---	**VIII**	**Appropriation to Contingency Fund**				---
9.11	**IX**	**Amount recouped to Contingency Fund**		**1.45**	**1.45**	**IX**	**Expenditure from Contingency Fund**				**3.50**
22026.36	**X**	**Public Account receipts-**		**21777.24**	**19246.57**	**X**	**Public Account disbursements-**				**20219.45**
2952.25		-Small Savings and Provident Funds	2224.20		739.70		-Small Savings and Provident Funds			758.50	
314.73		-Reserve funds	419.46		264.66		-Reserve Funds			239.02	
5413.93		-Suspense and Miscella-neous	5240.13		5508.87		-Suspense and Miscellaneous			5277.58	
4125.24		-Remittances	4484.02		3985.51		-Remittances			4458.02	
9220.21		-Deposits and Advances	9409.43	---	8747.83		-Deposits and Advances			9486.33	
--	**XI**	**Closing Overdraft from Reserve Bank of India**		---	**237.88**	**XI**	**Closing Cash Balance -**				**446.06**
					(-)2.13		-Cash in Treasuries and Local Remittances			11.10	
					37.86		-Deposits with Reserve Bank and other banks			53.29	
					1.48		-Departmental Cash Balance including Permanent Advances			2.20	
					200.67		-Cash Balance Investment and investment of earmarked funds			379.47	
51754.13		**Total**		**55791.14**	**51754.13**		**Total**				**55791.14**

* Represents receipts: Rs 11268.20 crore and disbursements: Rs 11673.10 crore

EXHIBIT III
SOURCES AND APPLICATION OF FUNDS

(Rupees in crore)

Sources		
2000-01		**2001-02**
19475.24	1. Revenue receipts	21845.05
401.89	2. Recoveries of Loans and Advances	946.66
4324.37	3. Increase in Public debt	5375.56
	4. Net receipts from Public Account	
2212.55	Net effect of Small Savings	1465.70
472.38	Net effect of Deposits and Advances	(-)76.90
50.07	Net effect of Reserve Funds	180.44
(-) 94.94	Net effect of Suspense and Miscellaneous transactions	(-)37.45
139.73	Net effect of Remittance transactions	26.00
7.66	5. Net effect of Contingency Fund transactions	---
194.03	6. Decrease in closing cash balance	---
27182.98	**Total**	**29725.06**
Application		
2000-01		**2001-2002**
23624.07	1. Revenue expenditure	25487.92
1389.09	2. Lending for development and other purposes	1697.54
2169.82	3. Capital expenditure	2329.37
-	4. Net effect of Contingency Fund transactions	2.05
-	5. Increase in closing cash balance	208.18
27182.98	**Total**	**29725.06**

Explanatory Notes to Exhibits I, II and III:

1. The abridged accounts in the foregoing statements have to be read with comments and explanations in the Finance Accounts.
2. Government accounts being mainly on cash basis, the deficit on government account, as shown in Exhibit I, indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation or variation in stock figures etc., do not figure in the accounts.
3. Suspense and Miscellaneous balances include cheques issued but not paid, inter-departmental and inter-Government payments and others awaiting settlement.
4. The State Government incorrectly classified expenditure of Rs 761.59 crore being the Grants-in-aid to Local Bodies under capital outlay instead of revenue (see paragraph 1.6). All the Exhibits have been prepared by modifying the figures to adjust the misclassification so that the financial results and performance analysed in this Chapter project a correct and consistent picture of government finances.
5. There was a net difference of Rs 12.81 crore (debit) between the figures reflected in the accounts (Rs 51.94 crore – debit) and that intimated by the Reserve Bank of India (Rs 39.13 crore – credit) under the head deposits with Reserve Bank. The difference was under reconciliation.

EXHIBIT IV
TIME SERIES DATA ON STATE GOVERNMENT FINANCES

(Rupees in crore)

		1997-98	1998-99	1999-2000	2000-01	2001-02
Part A. Receipts						
1.	**Revenue Receipts**	**13841(77)**	**14260(72)**	**16805(75)**	**19475(77)**	**21845(73)**
	(i) Tax Revenue	*7113(51)*	*7962(56)*	*9009(54)*	*10552(54)*	*11551(53)*
	Taxes on Sales, Trade, etc.	4728(66)	5251(66)	6172(68)	7303(69)	7741(67)
	State Excise	887(13)	924(12)	1038(12)	1243(12)	1652(14)
	Taxes on Vehicles	637(9)	695(9)	734(8)	834(8)	939(8)
	Stamps and Registration fees	450(6)	494(6)	592(7)	671(6)	805(7)
	Land Revenue	73(1)	103(1)	112(1)	116(1)	20
	Other Taxes	338(5)	495(6)	361(4)	385(4)	394(4)
	(ii) Non Tax Revenue	*1788(13)*	*1847(13)*	*2442(14)*	*2743(14)*	*2918(13)*
	(iii) State's share in Union taxes and duties	*3411(25)*	*3008(21)*	*3343(20)*	*3979(21)*	*4061(19)*
	(iv) Grants in aid from GOI	*1529(11)*	*1443(10)*	*2011(12)*	*2201(11)*	*3315(15)*
2.	**Misc. Capital Receipts**	**Nil**	**Nil**	**Nil**	**Nil**	**---**
3.	**Total revenue and Non-debt capital receipts (1+2)**	**13841**	**14260**	**16805**	**19475**	**21845**
4.	**Recovery of loans and advances**	**959 (5)**	**396 (2)**	**196 (1)**	**402(2)**	**947(3)**
5.	**Public Debt Receipts**	**3251 (18)**	**5198 (26)**	**5505 (24)**	**5261(21)**	**7340(24)**
	Internal Debt (excluding Ways and Means Advances and Overdraft)	1197(37)	1956(38)	2220(40)	3283(62)	3623(49)
	Net transactions under Ways and Means Advances and Overdraft	--	220(4)	96(2)	89(2)	---
	Loans and Advances from Government of India#	2054(63)	3022(58)	3189(58)	1889(36)	3717(51)
6.	**Total receipts in the Consolidated Fund (3+4+5)**	**18051**	**19854**	**22506**	**25138**	**30132**
7.	**Contingency Fund receipts**	**12**	**--&**	**1**	**9**	**1**
8.	**Public Account receipts**	**12988**	**17025**	**17066**	**22026**	**21777**
9.	**Total receipts of Government (6+7+8)**	**31051**	**36879**	**39573**	**47173**	**51910**
	Part B. Expenditure/Disbursement					
10.	**Revenue Expenditure**	**14544(84)**	**16944(83)**	**18038(82)**	**23624(87)***	**25488(86)***
	Plan	*2349(16)*	*3569(21)*	*2614(14)*	*4595(19)*	*5913(23)*
	Non-plan	*12195(84)*	*13375(79)*	*15424(86)*	*19029(81)*	*19575(77)*
	General Services (including interest payments)	4741(33)	5620(33)	6754(37)	8535(36)	9286(36)
	Social Services	5464(37)	7058(42)	7318(41)	8208(35)	8519(34)
	Economic Services	4211(29)	4116(24)	3840(21)	6717(28)	7403(29)
	Grants-in-aid and contributions	128(1)	150(1)	126(1)	164(1)	280(1)
11.	**Capital Expenditure**	**1086(6)**	**1385(7)**	**1992(9)**	**2170(8)***	**2329(8)***
	Plan	*1079(99)*	*1378(100)*	*1982(99)*	*2130(98)*	*2314(99)*
	Non-plan	*7(1)*	*7(-)*	*10(1)*	*40(2)*	*15(1)*
	General Services	21(2)	25(2)	30(2)	51(2)	72(3)
	Social Services	72(7)	124(9)	199(10)	109(5)	188(8)
	Economic Services	993(91)	1236(89)	1763(88)	2010(93)	2069(89)
12.	**Disbursement of Loans and Advances**	**1598(10)**	**2032(10)**	**1947(9)**	**1389(5)**	**1698(6)**
13.	**Total (10+11+12)**	**17228**	**20361**	**21977**	**27183**	**29515**

Contd………

\# Includes Ways and Means Advances from Government of India

& Rupees 43,44,749 only

* The figures of Revenue and Capital expenditure have been adopted after adjustment of the misclassification mentioned under the relevant statements in Finance Accounts. (see paragraph 1.6).

		1997-98	1998-99	1999-2000	2000-01	2001-02
14.	**Repayment of Public debt**	**842**	**1596**	**790**	**936**	**1964**
	Internal Debt (excluding Ways and Means Advances and Overdraft)	38 (4)	456 (29)	216 (27)	141 (15)	365(18)
	Net transactions under Ways and Means Advances and Overdraft	326 (39)	--	--	--	405(21)
	Loans and Advances from Government of India#	478 (57)	1140 (71)	574 (73)	795 (85)	1194(61)
15.	**Appropriation to Contingency Fund**	--	--	--	--	-
16.	**Total disbursement out of Consolidated Fund (13+14+15)**	**18070**	**21957**	**22767**	**28119**	**31479**
17.	**Contingency Fund disbursements**	**--&**	**2**	**8**	**1**	**3**
18.	**Public Account disbursements**	**12347**	**15506**	**16426**	**19247**	**20219**
19.	**Total disbursements by the State (16+17+18)**	**30417**	**37465**	**39201**	**47367**	**51701**
	Part C. Deficits					
20.	**Revenue Deficit (10-1)**	**703**	**2684**	**1233**	**4149**	**3643**
21.	**Fiscal Deficit (1+2+4-13)**	**2428**	**5705**	**4976**	**7306**	**6723**
22.	**Primary Deficit (21-23)**	**274**	**3061**	**1875**	**3513**	**2139**
	Part D. Other data					
23.	**Interest Payments (included in revenue expenditure)**	**2153**	**2644**	**3101**	**3793**	**4584**
24.	**Arrears of Revenue (percentage of Tax & Non Tax Revenue receipts)**	**1302(15)**	**1756(18)**	**2265(20)**	**2666(20)**	**2231(15)**
25.	**Financial Assistance to local bodies etc.**	**7521**	**8681**	**7050**	**9698**	**10784**
26.	**Ways and Means Advances/ Overdraft availed (days)**	**201**	**220**	**291**	**295**	**336**
27.	**Interest on Ways and Means Advances/Overdraft**	**11**	**6**	**13**	**28**	**34**
28.	**Gross State Domestic Product (GSDP)***	**95918(P)**	**113091(P)**	**123719(P)**	**137602(Q)**	**155614***
29.	**Outstanding Debt (year end)**	**17786**	**21388**	**26103**	**29286**	**34662@**
30.	**Outstanding guarantees (year end)**	**6286**	**8935**	**12683**	**13160**	**10325**
31.	**Maximum amount guaranteed (year end)**	**10350**	**13287**	**21394**	**20076**	**18537**
32.	**Number of incomplete projects**	**NA**	**NA**	**NA**	**29**	**25^**
33.	**Capital blocked in incomplete projects**	**NA**	**NA**	**NA**	**7616**	**8104^**

Note: Figures in brackets represent percentages (rounded) to total of each sub heading

\# Includes Ways and Means Advances from Government of India

& Rupees 43,44,749 only

* Since the GSDP data for the year 2001-2002 have not been prepared by the State Government these have been computed by increasing the GSDP (Quick Estimates) figures for the year 2000-01 by 13.09 per cent being the average growth rate of GSDP during the previous four years.

P: Provisional; Q: Quick estimates

@ Total liabilities of the State government inclusive of other liabilities like Small Savings, Provident Funds, Deposits, etc. amount to Rs 47439 crore as detailed in paragraph 1.11.1

^ As per information furnished by Chief Engineers of Irrigation Department

1.3 Financial operations of the State Government

1.3.1 *Exhibit II* gives the details of the receipts and disbursements made by the State Government. The revenue expenditure (Rs 25488 crore) during the year exceeded the revenue receipts (Rs 21845 crore) resulting in a revenue deficit of Rs 3643 crore. The Revenue receipts comprised tax revenue (Rs 11551 crore), non-tax revenue (Rs 2918 crore), State's share of Union taxes and duties (Rs 4061 crore) and grants-in-aid from the Central Government (Rs 3315 crore). The main sources of tax revenue were sales tax (67 per cent), state excise (14 per cent), taxes on vehicles (8 per cent) and stamps and registration fees (7 per cent). Non-tax revenue came mainly from interest receipts (53 per cent) and economic services (33 per cent).

1.3.2 The capital receipts comprised of Rs 947 crore from recoveries of loans and advances and Rs 7340 crore from public debt. Against this, the expenditure was Rs 2329 crore on capital outlay, Rs 1698 crore on disbursement of loans and advances and Rs 1964 crore on repayment of public debt. The receipts in the Public Account amounted to Rs 21777 crore, against which disbursements of Rs 20219 crore were made. The net effect of the transactions in the Consolidated Fund, Contingency Fund and Public Account was an increase of Rs 208 crore in the cash balance at the end of the year.

1.3.3 The financial operations of the State Government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in *Exhibit II* and the time series data for the five-year period from 1997-98 to 2001-02 presented in *Exhibit IV*.

1.4 Sources and application of funds

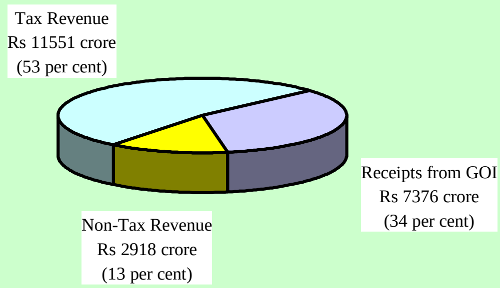
1.4.1 *Exhibit III* gives the position of sources and application of funds during the current and the preceding year. The main sources of funds include the revenue receipts of the Government, recoveries of the loans and advances, public debt and the receipts in the Public Account. These are applied mainly on revenue and capital expenditure and the lending for developmental purposes. It would be seen that the revenue receipts constitute the most significant source of funds for the State Government. While the relative shares of revenue receipts and net receipts from public debt in total receipt have gone up from 72 per cent and 16 per cent in 2000-01 to 73 per cent and 18 per cent during 2001-02, the share of net receipts from Public Account has declined to half i.e. from 10 per cent to 5 per cent.

1.4.2 The funds were applied for revenue and capital expenditure and lending for development and other purposes. During the year the share of the revenue expenditure, in the total disbursements decreased from 87 per cent in 2000-01 to 86 per cent and the capital expenditure remained stagnant at 8 per cent. However Government lending increased from 5 per cent in 2000-01 to 6 per cent of total disbursements in 2001-02. The revenue expenditure was more than the revenue receipts by Rs 3643 crore (17 per cent).

1.5 Revenue receipts

1.5.1 The revenue receipts consist mainly of tax and non-tax revenue and receipts from Government of India (GOI). Their relative shares are shown in Figure 1. The revenue receipts during the year increased by 12 per cent over the previous year whereas the average annual growth rate during 1997-98 to 2001-02 was 14 per cent.

Figure 1
Revenue Receipts 2001-02



1.5.2 Tax revenue

Exhibit IV shows that the tax revenue constitutes the major share of the revenue receipts and its share increased from 51 per cent in 1997-98 to 56 per cent in 1998-99 and continues to decrease thereafter from 54 per cent in 1999-2000 to 53 per cent in 2001-02. Though in absolute terms the receipts from sales tax has gone up by Rs 438 crore over previous year its share in revenue receipts had fallen by 2 per cent. The share of sales tax ranged from 66 to 69 per cent during the last five years. The share of State Excise has however increased by 2 per cent over previous year. While the share of taxes on vehicles remained stagnant at 8 per cent during the last three years, share of stamps and registration increased by 1 per cent in the current year. In the absence of any significant increase in collection of other taxes the State is mainly dependent on Sales tax, and State Excise for the revenue receipts apart from GOI transfers.

1.5.3 Non-tax revenue

The share of non-tax revenue in revenue receipts remained stagnant at 13 to 14 per cent during 1997-2002. However, in absolute terms it had increased from Rs 1788 crore in 1997-98 to Rs 2918 crore in 2001-02. The non-tax revenue came mainly from interest receipts (Rs 1539 crore - 53 per cent) of which Rs 1226 crore represented only book adjustments without any cash inflow, from Irrigation, Power, and Drainage projects.

1.5.4 State's share of Union taxes and duties and grants-in-aid from the Central Government

The State's share of Union taxes (Income Tax and Central Excise duties) and the grants-in-aid from GOI increased by 2 per cent and 51 per cent respectively over previous year. The increase in grants-in-aid from GOI (Rs 1114 crore) was under grants for State Plan schemes (Rs 816 crore) under Non-plan grants (Rs 287 crore) and Centrally sponsored Plan schemes (Rs 11 crore). As a percentage of revenue receipts, GOI transfers increased from 32 per cent in 2000-01 to 34 per cent in 2001-02.

1.6 Incorrect classification of expenditure

As per the Rules[1] made by the President of India in exercise of the powers conferred by Article 150 of the Constitution, expenditure on Grants-in-aid to local bodies even for the purpose of creating assets cannot be classified as capital expenditure. During the year 2000-01 the Government, however, provided for and booked an expenditure of Rs 553.71 crore as grants-in-aid to local bodies under Capital section of the Accounts. Though the misclassification was pointed out in the Audit Report of 2000-01 the Government continued the misclassification in the current year also and booked Rs 761.59 crore under the Capital section. The incorrect classification increased the capital outlay and reduced the revenue expenditure and revenue deficit in the Finance Accounts by Rs 761.59 crore. Further, subsidy of Rs 1807 crore to the energy sector was misclassified as Plan expenditure.

1.7 Revenue expenditure

1.7.1 The revenue expenditure accounted for 86 per cent of the total expenditure (item 13 of Exhibit IV) of the State Government and increased by 8 per cent over the previous year. This was largely due to increased interest payments, increase in expenditure under "Rural

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

Development" and "Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes". The non-Plan revenue expenditure increased by 3 per cent over the previous year. A major constituent of the non-Plan revenue expenditure during the year was the salaries of government employees which amounted to approximately Rs 3807 crore (19 per cent). Total subsidies, including subsidy on rice (Rs 454 crore) and other agricultural subsidies (Rs 17 crore) and the subsidy to energy sector (Rs 1807 crore) constituted 9 per cent of the total revenue expenditure.

1.7.2 Sector wise analysis shows that while the expenditure on General Services increased by 96 per cent, from Rs 4741 crore in 1997-98 to Rs 9286 crore in 2001-02, expenditure on Social Services increased by 56 per cent and on Economic Services by 76 per cent. As a proportion of the revenue expenditure, during the period from 1997-98 to 2001-02 the share of General Services ranged from 33 to 37 per cent, while the share of social services was between 34 per cent and 42 per cent and that of Economic Services between 21 and 29 per cent. The growth in expenditure during 2001-02, in absolute terms, over previous year was caused by increase in interest payments (Rs 791 crore) Modernisation of Police Force (Rs 55 crore), under General Services and on Housing (Rs 122 crore), Urban Development (Rs 239 crore) and Welfare of Scheduled Castes and Scheduled Tribes (Rs 150 crore) under Social Services. Under Economic Services there was increase in expenditure on Rural Development (Rs 163 crore) and on Road Transport (Rs 100 crore).

1.7.3 Interest payments

Interest payments at Rs 4584 crore during 2001-02 increased by 21 per cent over previous year (Rs 3793 crore) and by 113 per cent over 1997-98 (Rs 2153 crore). While 45 per cent (Rs 2049 crore) of the interest payments related to loans and advances from Central Government, 47 per cent (Rs 2172 crore) were on internal debt.

The interest payments grew at a faster pace (28 per cent average annual growth during 1997-2002) compared to the average growth of revenue receipts (14 per cent) as also the revenue expenditure (19 per cent). Unless revenue receipts are accelerated, borrowings and consequently interest payments will remain a significant drift on State resources.

1.7.4 Financial assistance to local bodies and other institutions

The quantum of assistance (Rs 10783.52 crore) provided by way of grants (Rs 9179.03 crore) and loans (Rs 1604.49 crore) to different local bodies etc., during the period of five years ending 2001-02 was as follows:

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-01	2001-02
Zilla Parishads and other Panchayati Raj institutions	1631.01	2263.44	1957.61	3165.92	3259.35
Municipalities	149.75	340.16	418.75	482.06	388.54
Cooperative Societies	7.84	105.34	99.59	37.95	44.28
Educational institutions	567.18	897.16	1127.31	1325.96	1272.93
AP State Electricity Board (APGENCO and APTRANSCO)	2117.41	1598.32	1548.42	3065.52	3150.87
AP State Housing Corporation	98.63	85.10	171.24	200.86	283.22
Others	2949.35	3391.13	1726.79	1419.95	2384.33[$]
Total	**7521.17**	**8680.65**	**7049.71**	**9698.22**	**10783.52**
Percentage of increase (+)/ decrease (-) over previous year	0.31	15.41	(-)18.79	37.57	11.19
Assistance as a percentage of revenue expenditure	51.71	51.23	39.08	41.05	42.31

[$] Includes assistance to AP Vaidya Vidhana Parishad (Rs 200.85 crore), Andhra Pradesh Urban Infrastructure Corporation (Rs 112.16 crore), AP State Road Transport Corporation (Rs 100 crore) and AP State Police Housing Corporation (Rs 50 crore)

While the total assistance at the end of 2001-02 had grown by 43 per cent over the level of 1997-98, it had increased by 11 per cent over the previous year as a result of increased assistance to Zilla Parishads and other Panchayati Raj institutions for education, community development and water supply. The assistance to local bodies as a percentage of total revenue expenditure had, however, decreased from the high of 52 in 1997-98 to 42 in 2001-02.

At the end of March 2002, 3234 utilisation certificates (UCs) relating to Rs 613.93 crore in respect of grants released up to September 2000 and due by March 2002 from 6 departments were outstanding as detailed in paragraph 7.2 of this Report.

1.7.5 Loans and Advances by State Government

The Government gives loans and advances to government companies, corporations, local bodies, autonomous bodies, co-operatives, non-government institutions, etc., for developmental and non-developmental activities. The position of such loans for the five years from 1997-98 to 2001-02 was as follows:

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-01	2001-02
Opening balance	2641	3280	4916	6667	7654
Amount advanced during the year	1598	2032	1947	1389	1698
Repayments received during the year	959	396	196	402	947
Closing balance	3280	4916	6667	7654	8405
Net addition	639	1636	1751	987	751
Interest received	26	187	353	295	341

It would be seen that while outstanding loans increased by 156 per cent during 1997-2002, the recoveries were almost at the same level as 1997-98. Of the total loans outstanding, 59 per cent was due from the APSEB and its successors APGENCO and APTRANSCO.

Out of outstanding loans of Rs 8405 crore, the detailed accounts of which are kept by the Accountant General (A&E), recovery of Rs 4423.71 crore (principal: Rs 3216.53 crore and interest: Rs 1207.18 crore) was in arrears for over 3 years as on 31 March 2002.

(a) It was noticed in audit that the Government in Industries and Commerce Department sanctioned and released a loan of Rs 17.22 crore to Allwyn Watches Limited, a Government company, during February, 1999 - August, 2000 without creating any charge on the assets of the company. The loan was meant for implementation of voluntary retirement scheme for the employees of the Company. Government (Labour Department) ordered closure of the company in January 2000; however the Principal Secretary, Industries and Commerce Department continued to release loan up to August 2000. The prospects of recovery of the loan (partly released after closure of the company) and interest thereon amounting to Rs 25.16 crore are not bright.

1.8 Capital expenditure

Capital expenditure leads to asset creation. In addition, financial assets arise from moneys invested in institutions or undertakings outside Government i.e., public sector undertakings (PSUs), corporations, etc. As can be seen from the *Exhibit IV*, though the capital expenditure had gone up by 114 per cent from Rs 1086 crore in 1997-98 to Rs 2329 crore in 2001-02, its share in the total expenditure was at an average of 8 per cent during the period. This evidently has adverse implications for the creation of assets. Of the total outlay of Rs 2329 crore during the year, the major constituents are Irrigation Projects (Rs 1143 crore) and Roads and Bridges (Rs 759 crore).

1.9 Quality of expenditure

1.9.1 Government spends money for different activities ranging from maintenance of law and order and regulatory functions to various developmental activities. Government expenditure is broadly classified into Plan and non-Plan and revenue and capital. While the Plan and capital expenditure are usually associated with development and asset creation, the non-Plan and revenue expenditure are identified with expenditure on establishment, maintenance and services.

1.9.2 Wasteful public expenditure and diversion of funds would also impinge negatively on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account after booking them as expenditure, can also be considered as a negative factor in judging the quality of expenditure. As the expenditure was not actually incurred in the concerned year, it should be excluded from the figures of expenditure for that year. Another possible indicator is the increase in the expenditure on General Services to the detriment of Economic and Social Services.

1.9.3 The following table lists out the trend in these indicators:

	1997-98	1998-99	1999-2000	2000-01	2001-02
1. Plan expenditure as a percentage of:					
- Revenue expenditure	16	21	14	19	23
- Capital expenditure	99	100	99	98	99
2. Capital expenditure (per cent)	6	7	9	8	8
3. Expenditure on General services (per cent)					
- Revenue	33	33	37	36	36
- Capital	2	2	2	2	3
4. Amount of wastages and diversion of funds etc. reported in Audit Report (Rs in crore)	688	1071	683	1295	522
5. Unspent balances under deposit heads, booked as expenditure (Rs in crore)	NA	45	113	56	68

The Plan expenditure during the year was significantly overstated due to classification of the subsidy (Rs 1807 crore) to energy sector as Plan expenditure.

Further, the share of capital expenditure to total expenditure had stagnated between 6 to 9 per cent. Increasing wastages, diversion of funds, transfer of amounts to the PD accounts without actually incurring the expenditure, etc point to the worsening quality of expenditure.

1.10 Financial management

The issue of financial management in Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent Chapters of this Report deal extensively with these issues especially as they relate to the expenditure management in the Government, based on the findings of the test audit. Some other parameters, which can be segregated from the accounts and other related financial information of the government, are discussed in this section.

1.10.1 Investments and returns

Investments are made out of the capital outlay by the Government to promote developmental, manufacturing, marketing and social activities. The sector-wise details of investments made and the number of concerns involved were as under:

(Rupees in crore)

Sector	Number of concerns	Amount invested		
		During 2001-02	At the end of 31.03.2002	Return (percentage)$
Statutory Corporations	4	--	1511.05	--
Government Companies	47	15.71	1607.95	0.10 (0.01)
Joint Stock Companies	36	--	34.07	--
Co-operative Institutions	75	24.84	821.95	0.24(0.03)
Total		**40.55**	**3975.02**	**0.57*(0.01)**

$ Figures in brackets represent percentages of return on total amount invested

* Includes dividend of Rs 0.23 crore on investments for which details are not available.

The details of investments and the returns realized during the last five years by way of dividend and interest were as follows:

(Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowings (percentage)
1997-98	3292.01	5.33	0.16	13.05 and 12.30
1998-99	3477.70	9.42	0.27	12.15 and 12.50
1999-2000	3832.34	2.91	0.08	11 to 12.25
2000-01	3934.58	2.02	0.05	10.50 to 12
2001-02	3975.02	0.57	0.01	8 to 10.52

Thus, while the Government was raising high cost borrowings from the market, its investments in government companies etc., fetched insignificant returns. As of 31 March 2002, the accumulated loss of 27 of the Government Companies/Corporations in which Government has invested Rs 3500.31 crore amounted, as per their latest available accounts, to Rs 1865.38 crore. The accounts of 45 (out of 52) Companies/Corporations were in arrears ranging from 1 year to 18 years.

1.10.2 Incomplete projects

As per the information furnished by the Irrigation and Command Area Development Department, there were 25 incomplete Major (14) and Medium Irrigation (11) Projects as of March 2002, involving Rs 8104 crore including those whose benefits have accrued partially. Details are given in *Appendix III.*

1.10.3 Arrears of revenue

The arrears of revenue pending collection decreased by 5 per cent during the year. The outstanding arrears gradually increased during the period 1997-98 to 2000-01 (Exhibit IV) but decreased during the current year. Of the arrears of Rs 2231 crore as of March 2002, Rs 1134 crore (51 per cent) were pending for more than 5 years. The arrears pertained mainly to Sales Tax

(Rs 1981 crore), State Excise (Rs 64 crore) and Taxes and Duties on Electricity (Rs 23 crore). The trend of arrears of revenue during the last 5 years is given below.

(Rupees in crore)

Year	Sales Tax	Taxes and duties on electricity	Others	Total
1997-98	853.65	372.83	75.89	1302.37
1998-99	1200.65	479.46	75.74	1755.85
1999-2000	1510.69	651.65	102.33	2264.67
2000-01	1737.91	640.18	288.37	2666.46
2001-02	1980.71	22.81	227.10	2230.62

1.10.4 Ways and means advances and overdraft

Under an agreement with the Reserve Bank of India, the State Government had to maintain with the Bank a minimum daily cash balance of Rs 3.32 crore. If the balance fell below the agreed minimum on any day, the deficiency had to be made good by taking ways and means advances (WMA)/overdraft (OD) from the Bank. In addition, special ways and means advances are also made by the Bank whenever necessary. Recourse to WMA/OD means a mismatch between the receipts and expenditure of the government, and hence reflects poorly on the financial management in Government.

During 2001-02, the Government obtained ways and means advances on 336 days amounting to Rs 11268 crore (as against Rs 9925 crore in 2000-01 for 295 days) in addition to opening balance of Rs 405 crore. Interest paid on this account during 2001-02 was Rs 34 crore.

Besides the ways and means advances and overdraft from Reserve Bank of India, Government obtained ways and means advances of Rs 329 crore during 2001-02 (as against Rs 75 crore in 2000-01) from Government of India in addition to opening balance of Rs 160 crore and repaid Rs 409 crore leaving a balance of Rs 80 crore.

1.10.5 Deficit

1.10.5.1 Deficits in government account represent gaps between the receipts and expenditure. The nature of deficit is an important indicator of the prudence of financial management. Further, the ways of financing the deficit and the application of the funds raised in this manner are important pointers of the fiscal prudence of the Government. The discussion in this section relates to three concepts viz., Revenue Deficit, Fiscal Deficit and Primary Deficit.

1.10.5.2 The Revenue Deficit is the excess of revenue expenditure over revenue receipts. The Fiscal Deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants-in-aid received) and certain non-debt capital receipts. Primary Deficit is fiscal deficit less interest payments. There was a decrease in the Revenue deficit and Fiscal deficit when compared to last year mainly due to increased receipts of grants-in-aid from Central Government (Rs 1114 crore), State Excise (Rs 409 crore) and Taxes on Sales, Trade etc., (Rs 438 crore). The decrease in subsidy on rice also contributed for reduction in deficit.

The following Exhibit gives a break-up of the deficit in government account:

(Rupees in crore)

CONSOLIDATED FUND (CF)					
Receipts	**Amount**			**Disbursements**	**Amount**
Revenue	21845	Revenue deficit: 3643		Revenue	25488
Misc. capital receipts	--			Capital	2329
Recovery of loans & advances	947			Loans & advances	1698
Sub Total	22792	Gross fiscal deficit: 6723		Sub Total	29515
Public debt	7340			Public debt repayment	1964
Total	**30132**	**A: Deficit in CF: 1347**		**Total**	**31479**
CONTINGENCY FUND					
Amount transferred to Contingency Fund	**1**	**B: Net effect of Contingency Fund: (-) 3**		Expenditure from Contingency Fund	**4**
PUBLIC ACCOUNT					
Small savings, PF etc.	2224			Small savings, PF etc.	758
Deposits & advances	9409			Deposits & advances	9486
Reserve funds	420			Reserve funds	239
Suspense & misc.	5240			Suspense & misc.	5278
Remittances	4484			Remittances	4458
Total Public Account	**21777**	**C: Deficit in A and B of 1350 financed by surplus in Public Account: 1558**			**20219**
Increase in cash balance (C-B-A) : 208*					

* Increase in cash balance: C: Public Account (Rs 1558 crore) - B: Contingency Fund (Rs 3 crore) – A: Consolidated Fund (Rs 1347 crore) = Rs 208 crore

Fiscal Deficit of Rs 6723 crore was financed by net proceeds of public debt (Rs 5376 crore), and partly (Rs 1347 crore) from the surplus in Public Account (Rs 1558 crore). The remaining surplus (Rs 211 crore) in Public Account is represented by increase in cash balance (Rs 208 crore) after meeting the Contingency Fund deficit of Rs 3 crore.

1.10.5.3 Application of the borrowed funds (Fiscal Deficit)

The Fiscal Deficit represents total net borrowings of the Government. These borrowings are applied for meeting the Revenue Deficit (RD), for meeting the Capital Expenditure (CE) and for giving loans to various bodies for developmental and other purposes. The relative proportions of these applications would indicate the financial prudence of the State Government and also the sustainability of its operations because continued borrowing for revenue expenditure would not be sustainable in the long run. The following table shows the position for the last five years:

Ratio	1997-98	1998-99	1999-2000	2000-01	2001-02
RD/FD	0.29	0.47	0.25	0.57	0.54
CE/FD	0.45	0.24	0.40	0.30	0.35
Net loans/ FD	0.26	0.29	0.35	0.13	0.11
Total	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**

It would be seen that 54 per cent of the borrowed funds were applied to meet revenue expenditure and this resulted in lesser expenditure on development and asset creation. The ratios are also to be read with paragraph 1.10.5.2 on deficit.

1.10.6 Guarantees given by State Government

(a) Guarantees are given by the State Government for due discharge of certain liabilities like repayment of loans, share capital, etc., raised by the statutory corporations, government companies, co-operative institutions etc., and payment of interest and dividend by them. They constitute contingent liability of the State. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limit within which Government may give guarantees on the security of the Consolidated Fund of the State.

Guarantees given by the Government to the end of March 2002 amounted to Rs 18537 crore (85 per cent of revenue receipts for 2001-02) out of which guarantees aggregating to Rs 10325 crore were outstanding as on that date. The outstanding guarantees at the end of March 2002 mainly pertained to Statutory Corporations and Boards (Rs 9.01 crore), Government Companies (Rs 7079 crore) and Cooperative Banks and Societies (Rs 2249 crore). *Exhibit IV* shows that not only the amount of guarantees given by the State Government increased by 79 per cent during the last 5 years but the outstanding guarantees also have increased from Rs 6286 crore in 1997-98 to Rs 10325 crore at the end of 2001-02 indicating significantly increased risk exposure for the finances of the State Government.

(b) During January 1981 Government issued guidelines for extending guarantees for loans raised by Government Companies, Corporations, Cooperative institutions etc. stipulating that while considering any case for extending guarantee the net worth of an organisation should be taken into account. A test check of the guarantees given by Government in Industries Department and Cooperation Department (May-June 2002) revealed that in violation of its own guidelines, Government extended (February 2002) unconditional guarantee to 8 Cooperative Sugar Factories (*Appendix IV*) for raising loans totalling to Rs 144.90 crore for their working capital requirements even though their net worth was negative. It was further noticed that Government stood guarantee (February 2002) for a loan of Rs 2.70 crore raised by one of the above mentioned eight sugar factories (NVR Cooperative Sugar Factory Limited, Jampani) whose net worth was negative, for a one time settlement package with financial institutions. It was also observed that 10 Cooperative Spinning Mills, one Cooperative Society and one Cooperative Sugar Factory (*Appendix IV*) in respect of whom the Government stood guarantee for a total sum of Rs 49.34 crore were already closed on various dates between 1989 and 2000 and the amount of guarantee outstanding as at the end of March 2002 in respect of these units was Rs 41.18 crore besides interest of Rs 58.18 crore. The Government was thus put to avoidable financial burden of Rs 99.36 crore.

Further, in fourteen cases (including seven closed units) (*Appendix IV*) the financial institutions like IDBI, IFCI and ICICI invoked the guarantees extended by the Government to the tune of Rs 39.36 crore. The Government/department did not furnish any reply (May 2002) regarding payment made, if any, against these invoked guarantees except that in two[2] cases the matter was pending before High Court in Bombay.

Extension of guarantees by Government without considering the financial viability of the Cooperative units is exposing Government to additional financial risk.

1.11 Public Debt

1.11.1 The Constitution of India provides that a State may borrow within the territory of India, upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the State. No law had been passed by the State Legislature laying down any such limit. The details of the total liabilities of the State Government as at the end of the last five years are given in the following table. During the five-year period, the total liabilities of the Government had grown by 104 per cent. This was on account of 173 per cent growth in internal debt, 58 per cent growth in loans and advances from Government of India and 131 per cent growth in other liabilities. During 2001-02, Government borrowed Rs 2078.82 crore from the open market at interest rates of 8 to 10.52 per cent per annum. As a result of

[2] Andhra Co-operative Spinning Mills, Guntakal and Satavahana Spinning Mills, Sattenapalli

increasing borrowings, the Debt to GSDP ratio which was only 0.24 in 1997-98 increased to 0.30 at the end of 2001-02.

(Rupees in crore)

Year	Internal debt	Loans and advances from Central Government	Total public debt	Other liabilities	Total liabilities	Ratio of debt to GSDP
1997-98	5726.54	12059.43	17785.97	5520.92	23306.89	0.24
1998-99	7446.37	13941.27	21387.64	6908.89	28296.53	0.25
1999-2000	9546.75	16556.43	26103.18	7526.72	33629.90	0.28
2000-01	12776.82	16509.67	29286.49	11315.07	40601.56	0.30
2001-02	15629.16	19032.89	34662.05	12777.10	47439.15	0.30

1.11.2 The amount of funds raised through Public debt, the repayment and net funds available are given in the following table:

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-01	2001-02
A. Internal Debt					
-Receipt	4178	6853	9976	13208	14891
-Repayment (principal+interest)	4007	5927	8956	11475	14211
-Net funds available (*per cent*)@	171(20)	926(43)	1020(44)	1733(51)	680(21)
B. Loans and advances from GOI					
- Receipt during the year	2054	3022	3189	1889	3717
-Repayment (principal+interest)	1703	2618	2292	2701	3243
- Net funds available (*per cent*)@	351(18)	404(17)	897(28)	(-)812	474(13)
C. Other liabilities					
- Receipt during the year	7892	10177	10178	12195	11838
- Repayment (incl. int.)	7467	9160	9863	9938	10739
- Net funds available (*per cent*)	430(5)	1017(10)	315(3)	2257(19)	1099(9)

@ Percentage of net funds available has been worked out based on the receipts excluding ways and means advances to the extent repaid during the year.

Considering that the outstanding debt has been increasing year after year, the net availability of funds through public borrowings is getting reduced considerably. This is evident from the fact that while fresh borrowings under Internal Debt had increased by Rs 1683 crore over the previous year the net availability of funds got eroded by Rs 1053 crore. Similarly in the case of loans and advances received by Government of India also, the net funds available were only Rs 474 crore whereas the receipts increased by Rs 1828 crore when compared to previous year. This is due to increased interest payments and repayments of loans from borrowed funds.

1.12 Indicators of the financial performance

1.12.1 A Government may either wish to maintain its existing level of activity or increase its level of activity. For maintaining its current level of activity it would be necessary to know how far the means of financing are sustainable. Similarly, if Government wishes to increase its level of activity it would be pertinent to examine the flexibility of the means of financing and finally, Government's increased vulnerability in the process. All the State governments continue to increase the level of their activity principally through Five Year Plans which translate into Annual development plans and are provided for in the State Budget. Broadly, it can be stated that non-Plan expenditure represents Government maintaining the existing level of activity[3], while Plan expenditure entails expansion of activity. Both these activities require resource mobilization increasing Government's vulnerability. In short, financial health of a Government can be described in terms of sustainability, flexibility and vulnerability. These terms are defined as follows:

(i) Sustainability

Sustainability is the degree to which a Government can maintain existing programmes and meet existing creditor requirements without increasing the debt burden.

(ii) Flexibility

Flexibility is the degree to which a Government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden.

(iii) Vulnerability

Vulnerability is the degree to which a Government becomes dependent on and therefore vulnerable to sources of funding outside its control or influence, both domestic and international.

(iv) Transparency

There is also the issue of financial information provided by the Government. This consists of Annual Financial Statement (Budget) and the Accounts. As regards the budget, the important parameters are timely presentation indicating the efficiency of budgetary process and the accuracy of the estimates. As regards accounts, timeliness in submission, for which milestones exist and completeness of accounts would be the principal criteria.

1.12.2 Information available in Finance Accounts can be used to flesh out Sustainability, Flexibility, and Vulnerability that can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in *Appendix I*. *Exhibit V* indicates the behaviour of these indices/ratios over the period from 1997-98 to 2001-02.

[3] There are exceptions to this, notably transfer of Plan to the non-Plan at the end of Plan period.

EXHIBIT V
FINANCIAL INDICATORS FOR GOVERNMENT OF ANDHRA PRADESH

	1997-98	1998-99	1999-2000	2000-01	2001-02
Sustainability					
BCR (Rs in crore)	422	(-)400	(-) 23	(-)1414	(-) 418
Primary Deficit (PD) (Rs in crore)	274	3061	1875	3513	2139
Interest Ratio	0.10	0.11	0.11	0.13	0.15
Capital outlay/Capital receipts	0.38	0.46	0.50	0.34	0.30
Total Tax receipts/GSDP	0.11	0.10	0.10	0.11	0.10
State Tax Receipts/GSDP	0.07	0.07	0.07	0.08	0.07
Return on Investment ratio	0.002	0.003	0.001	0.001	0.0001
Flexibility					
BCR (Rs in crore)	422	(-)400	(-) 23	(-)1414	(-) 418
Capital repayments/Capital borrowings	0.14	0.22	0.15	0.16	0.16
State tax receipts/GSDP	0.07	0.07	0.07	0.08	0.07
Debt/GSDP	0.24	0.25	0.27	0.30	0.30
Vulnerability					
Revenue Deficit (RD) (Rs in crore)	703	2684	1233	4149	3643
Fiscal Deficit (FD) (Rs in crore)	2428	5705	4976	7306	6723
Primary Deficit (PD) (Rs in crore)	275	3061	1875	3513	2139
PD/FD	0.11	0.54	0.38	0.48	0.32
RD/FD	0.29	0.47	0.25	0.57	0.54
Outstanding Guarantees/revenue receipts	0.52	0.71	0.80	0.72	0.52
Assets/Liabilities	0.78	0.72	0.73	0.68	0.65

Note:

1. Fiscal deficit has been calculated as : Revenue expenditure + Capital expenditure + Net loans and advances – Revenue receipts – Non-loan capital receipts.
2. In the ratio Capital outlay vs. Capital receipts, the denominator has been taken as aggregate of internal loans, Loans and Advances from Government of India, net receipts from small savings, PF etc., and recoveries of loans and advances by State Government.
3. Since the GSDP data for the year 2001-2002 have not been prepared by the State Government these have been computed by increasing the GSDP (Quick Estimates) figures for the year 2000-01 prepared by Government by 13.09 per cent being the average growth rate of GSDP during the previous 4 years.
4. Change in the figure Debt/GSDP ratio is due to adoption of latest available provisional GSDP Figures for 1999-2000.

The implications of these indices/ratios for the state of the financial health of the State Government are discussed in the following paragraphs:

(i) Balance from current revenues (BCR)

BCR is defined as revenue receipts minus Plan assistance grants minus non-Plan revenue expenditure. A positive BCR shows that the State Government has surplus from its revenues for meeting Plan expenditure. The table shows that the State Government had negative BCRs consecutively for the last four years, indicating that the Government was to depend only on borrowings for meeting its Plan expenditure.

(ii) Primary Deficit

Primary deficit is the fiscal deficit minus interest payments. In the case of Andhra Pradesh, the primary deficit was erratic in these five years. During the year, the deficit came down steeply to Rs 2139 crore from Rs 3513 crore of previous year due to significant increase in interest payment. This indicated reduced availability of borrowed funds for programme spending and the position is likely to worsen because of heavy borrowing during the year whose interest liability will fall only from subsequent year(s).

(iii) Interest ratio

Interest ratio is defined as

$$\frac{\text{Interest payments} - \text{Interest receipts}}{\text{Total revenue receipts - Interest receipts}}$$

A rising interest ratio has adverse implications for the sustainability since it points out to the rising interest burden, not only on the current year's revenue but also on future resources. The higher the ratio, the lesser the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts. In the case of Andhra Pradesh, the ratio has risen from 0.10 in 1997-98 to 0.15 in 2001-02 mainly due to the sharp increase in interest payments compared to the rate of growth of revenue receipts as explained in paragraph 1.7.3. In absolute terms, the interest payments in 2001-02 (Rs 4584 crore) had gone up by 113 per cent compared to 1997-98 (Rs 2153 crore).

(iv) Capital outlay/capital receipts

This ratio would indicate to what extent the capital receipts are applied for capital formation. A ratio of less than one would not be sustainable in the long term inasmuch as it indicates that a part of the capital receipts is being diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments are being made from revenue surplus as well. A rising trend would mean an improvement in the performance of the State Government.

In the case of Andhra Pradesh, the ratio has all along been less than one indicating that a substantial part of the capital receipts was not available for capital outlay. The ratio which registered a slight increase to 0.50 during 1999-2000 had started decreasing thereafter and is at 0.30 during 2001-02 indicating increased utilisation of capital receipts (borrowed funds) for revenue expenditure. This also is to be seen in the context that the share of capital expenditure in the total expenditure was stagnant as discussed in paragraph 1.8.

(v) Tax receipts vs Gross State Domestic Product (GSDP)

Tax receipts consist of State taxes and State's share of Central taxes. The latter can also be viewed as Central taxes paid by people living in the State. Tax receipts suggest sustainability. But the ratio of tax receipts to GSDP would have implications for the flexibility as well.

While a low ratio would imply that the Government can tax more, and hence its flexibility, a high ratio may not only point to the limits of this source of finance but also its inflexibility. In the case of AP, this ratio has been at 0.10 or 0.11 during the last five years. Similarly the ratio of State tax receipts to GSDP has also been stagnating at 0.07 and 0.08. Analysis of the composition of tax revenue in paragraph 1.5.2 shows that State Government heavily depended on sales tax and state excise with no significant improvement in other taxes.

(vi) Return on Investment (ROI)

The ROI is the ratio of the earnings to the capital employed. A high ROI suggests sustainability. Exhibit V shows that the ROI in case of Government of Andhra Pradesh has been negligible during the last five years reduced from 0.003 in 1998-99 to 0.0001 in 2001-02 due to the insignificant return on its investment in Government companies. This is a contra indicator to sustainability.

(vii) Capital repayments vs Capital borrowings

This ratio would indicate the extent to which the capital borrowings (Internal debt and loans and advances from Government of India) are available for investment, after repayment of capital. The lower the ratio, the higher would be the availability of capital for investment. During the last 3 years the ratio has been at 0.15 and 0.16 without any significant improvement.

(viii) Debt vs Gross State Domestic Product (GSDP)

The GSDP is the total internal resource base of the State Government, which can be used to service debt. An increasing ratio of Debt/GSDP would signify a reduction in the Government's ability to meet its debt obligations and therefore increasing risk for the lender. In the case of Andhra Pradesh, this ratio has increased significantly from 0.24 in 1997-98 to 0.30 in 2000-01 and remained at that level in 2001-02. The increased debt liability had adverse impact on the financial condition of the State due to increased interest and repayment liability thus affecting the flexibility of the government to respond to rising commitments.

(ix) Revenue deficit vs Fiscal deficit

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the revenue expenditure financed by borrowings etc. Evidently, higher the revenue deficit, the more vulnerable is the State. Since fiscal deficit represents the aggregate of all the borrowings, the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance non-productive revenue expenditure. Thus, higher the ratio the worse-off the State because that would indicate that the debt burden is increasing without adding to the repayment capacity of the State. During 2001-02, 54 per cent of the borrowings were applied to revenue expenditure compared to 29 per cent in 1997-98 indicating a marked deterioration in the quality of application of borrowed funds. This is mainly due to an increase of 61 per cent in non-Plan expenditure during the said period.

(x) Primary deficit vs Fiscal deficit

Primary deficit is the fiscal deficit minus interest payments. This means that less the value of the ratio, less the availability of funds for capital investment. In the case of Government of Andhra Pradesh, this ratio, which improved to 0.48 in 2000-01 had declined to 0.32 in 2001-02 mainly due to increased interest payments. Evidently, the risk of vulnerability is increasing.

(xi) Guarantees vs Revenue receipts

Outstanding guarantees, including the letters of comfort issued by the Government, indicate the risk exposure and should therefore be compared with the ability of the Government to pay *viz*., its revenue receipts. Thus, the ratio of the total outstanding guarantees to total revenue receipts of the Government would indicate the degree of vulnerability of the State Government. In the case of Andhra Pradesh this ratio after recording 72 per cent in 2000-01 decreased to 52 per cent in 2001-02 indicating some improvement in the contingent liabilities of State Government.

(xii) Assets vs Liabilities

This ratio indicates the solvency of the Government. A ratio of more than 1 would indicate that the State Government is solvent while a ratio of less than 1 would be a contra indicator. As stated in para 1.2, government accounts capture mainly the financial assets and liabilities of the Government. However, a trend analysis of the ratio of even these assets and liabilities would be an important indicator of the fiscal performance of the State Government. In case of Andhra Pradesh, this ratio has all along been less than 1 and has declined from 0.78 in 1997-98 to 0.65 in 2001-02, indicating a deterioration in the asset-liability management.

(xiii) Budget

There was no delay in submission of the budgets and their approval. The details are given in the following table:

Preparation	Month of submission	Month of approval
Budget	February 2001	March 2001
Supplementary	March 2002	March 2002

Chapter II of this Report carries a detailed analysis of variations in the budget estimates and the actual expenditure as also of the quality of budgetary procedures and control over expenditure. It indicates defective budgeting and inadequate control over expenditure, as evidenced by persistent resumption (surrenders) of significant amounts every year *vis-a-vis* the final modified grant. Significant variations (excess/saving) between the final modified grant and actual expenditure were also persistent.

(xiv) Accounts

(a) There was overstatement of capital expenditure and understatement of non-plan expenditure due to incorrect classification of grants-in-aid of Rs 761.59 crore as capital expenditure and the tariff subsidy of Rs 1807 crore to energy sector as Plan expenditure.

(b) As of June 2002, an amount of Rs 597.10 crore drawn during the period 1975-76 to 2001-02 on abstract contingent bills remained unadjusted in accounts for want of submission of detailed contingent bills by departmental officers. To this extent, the amount drawn from Consolidated Fund remained unaccounted for (Para 2.3.20 infra also refers).

(c) Further, in respect of Forest accounts 7 PAOs/APAOs rendered 10 monthly accounts with delays ranging from 30 to 64 days.

1.12.3 Conclusion

During 2001-02 there was a decline (Rs 506 crore) in revenue deficit mainly because of increase (Rs 1114 crore) in receipts under grants-in-aid from GOI. Fiscal deficit also showed improvement and inflows of loans and advances from GOI have doubled during the year. The gains of lower fiscal deficit were however negated by increased interest burden and negligible return on investment. 54 per cent of borrowed funds were utilised to meet revenue expenditure while share of capital outlay in total expenditure continued to be low at 8 per cent. Blockade of huge amount (Rs 8104 crore) in 25 incomplete projects is a matter of concern. Huge arrears (Rs 2231 crore) in collection of revenue and decline in tax to GSDP ratio indicate poor tax compliance in the State. Steps are needed to increase capital expenditure aimed at long term development by better tax effort and to decrease the dependence on borrowings.