

Chapter 1

Finances of the State Government

This chapter provides a broad perspective of the finances of the Government of Andhra Pradesh during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. The analysis has been made based on State Finance Accounts and the information obtained from State Government. The structure of Government Accounts and the layout of Finance Accounts are shown in **Box 1.1** (page 2).

1.1 Summary of current year's fiscal transactions

Table 1.1 presents the summary of State Government's fiscal transactions during the current year (2008-09) vis-à-vis the previous year while **Appendix 1.3** provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1: Summary of fiscal operations

(Rupees in crore)

Receipts			Disbursements				
	2007-08	2008-09		2007-08	2008-09		
Section A	Total	Total	Section A	Total	Non Plan	Plan	Total
Revenue receipts	54143	62858	Revenue expenditure	53984	42861	18993	61854
Tax revenue	28794	33358	General services	18170	18578	152	18730
Non-tax revenue	7064	9683	Social services	18661	12701	12303	25004
Share of Union Taxes/Duties	11184	11802	Economic services	16904	11269	6538	17807
Grants from GOI	7101	8015	Grants-in-aid and Contributions	249	313	---	313
Section B			Section B				
Misc. Capital receipts	6558	---	Capital outlay	12774	(-)244	10611	10367
Recoveries of Loans and Advances	191	370	Loans and Advances disbursed	2920	316	3098	3414
Public Debt receipts ¹	11132	15353	Repayment of Public Debt	4993	-	-	4833
Contingency Fund	---	1	Contingency Fund	1	-	-	7
Public Account receipts	61380	72503	Public Account disbursements	55126	-	-	74149
Opening Cash Balance	4906	8512	Closing Cash Balance	8512	-	-	4973
Total	138310	159597	Total	138310	-	-	159597

¹Excluding net transactions under Ways and Means Advances and Overdraft

Box 1.1

Structure of Government Accounts

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

Part I: Consolidated Fund: All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled 'The Consolidated Fund of State' established under Article 266(1) of the Constitution of India.

Part II: Contingency Fund: The Contingency Fund of the State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.

Part III: Public Account: Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances etc., which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State Legislature.

Layout of Finance Accounts

Statement No.	Layout
1	Summary of transactions of the state government - receipts and expenditure, revenue and capital, public debt receipts and disbursements, etc., in the Consolidated Fund, Contingency Fund and Public Account of the state.
2	Summarised statement of capital outlay showing progressive expenditure to the end of 2008-09.
3	Financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.
4	Summary of debt position of the state, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.
5	Summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.
6	Summary of guarantees given by the Government for repayment of loans, etc. raised by the statutory corporations, local bodies and other institutions.
7	Summary of cash balances and investments made out of such balances.
8	Summary of balances under the Consolidated Fund, the Contingency Fund and Public Account as on 31 March 2009.
9	Revenue and expenditure under different heads for the year 2008-09 as a percentage of total revenue/expenditure.
10	Distribution between the charged and voted expenditure incurred during the year.
11	Detailed account of revenue receipts by minor heads.
12	Accounts of revenue expenditure by minor heads under non-plan, plan and centrally sponsored schemes separately and capital expenditure by major head wise.
13	Detailed capital expenditure incurred during and to the end of 2008-09.
14	Details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, cooperative banks and societies, etc., up to the end of 2008-09.
15	Capital and other expenditure to the end of 2008 - 09 and the principal sources from which the funds were provided for that expenditure.
16	Detailed account of receipts, disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.
17	Detailed account of debt and other interest bearing obligations of the Government of Andhra Pradesh.
18	Detailed account of loans and advances given by the Government of Andhra Pradesh, the amount of loan repaid during the year, the balance as on 31 March 2009.
19	Details of balances of earmarked reserve funds.

Following are the significant changes during 2008-09 over the previous year:

- Revenue receipts grew by Rs 8715 crore (16 per cent) over the previous year. The increase was on account of State's own tax revenue (Rs 4564 crore), non-tax revenue (Rs 2619 crore), grants-in-aid from Government of India (GOI) (Rs 914 crore) and share of Union taxes and duties (Rs 618 crore). During 2007-08 an amount of Rs 6558 crore realised on sale of land and property was misclassified under capital receipts. *State's own revenue (Rs 43041 crore) during the current year exceeded the TFC projections (Rs 33695 crore) by 28 per cent and State's own targets (Rs 36052 crore) set in Fiscal Correction Path (FCP) by 19 per cent. The fiscal targets of the FRBM Act, 2005 of the State and outcome indicators of the State's own FCP are at **Box 1.2** (page 4) and **Appendix 1.1***
- Revenue expenditure increased by Rs 7870 crore (15 per cent) over the previous year; of which plan expenditure increased by Rs 5092 crore (37 per cent) and non-plan expenditure by Rs 2778 crore (7 per cent). The revenue expenditure under Social Services has increased by Rs 6343 crore, Economic Services by Rs 903 crore, General Services by Rs 560 crore and Grants-in-aid by Rs 64 crore. *While the revenue expenditure in 2008-09 (Rs 61854 crore) exceeded the FCP projections (Rs 48352 crore) by 28 per cent, it was less by 9 per cent than the assessment (Rs 67619 crore) made in the Macro Economic Framework Statement (MEFS) for 2008-09.*
- The capital expenditure decreased by Rs 2407 crore (19 per cent) over previous year. The decrease was under Economic Services (Rs 2470 crore) offset by increase under Social Services (Rs 40 crore) and General Services (Rs 23 crore). *While the capital expenditure during 2008-09 exceeded the FCP targets (Rs 8620 crore) by 20 per cent, it was less by 42 per cent than the projections of MEFS (Rs 17744 crore).*
- Recoveries and disbursements of loans and advances increased by Rs 179 crore and Rs 494 crore respectively resulting in net increase of disbursements by Rs 315 crore.
- State Government resorted to more borrowings (Rs 10520 crore) and withdrawal of investments (Rs 4405 crore) to meet the increased Fiscal Deficit (Rs 12407 crore).
- Closing cash balance decreased by Rs 3539 crore over previous year.

Box 1.2

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:

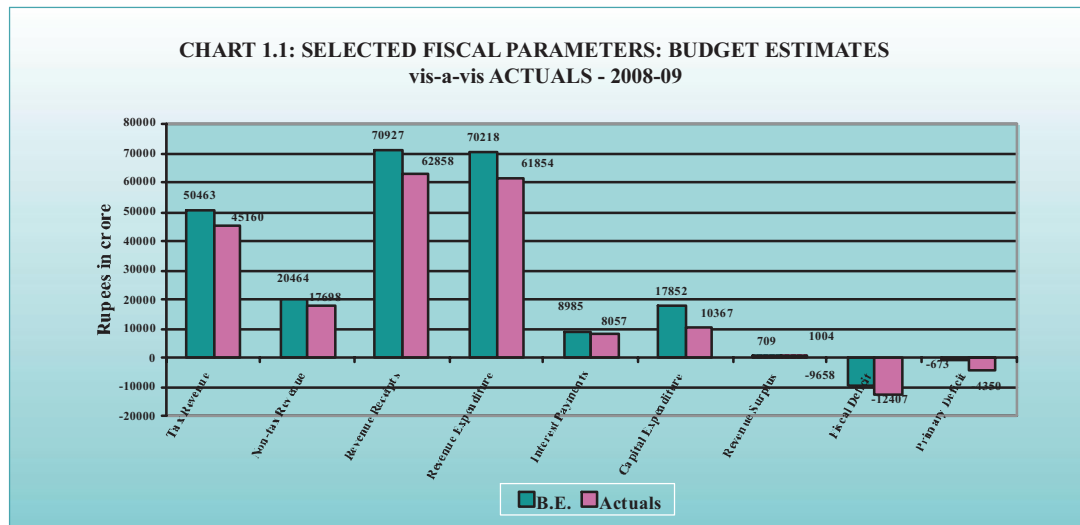
- ❖ reduce revenue deficit by an amount equivalent to at least 0.32 percentage point of Gross State Domestic Product (GSDP) in each financial year, beginning from 1st day of April 2005, so as to eliminate it by 31st March 2009 and generate revenue surplus thereafter
- ❖ reduce fiscal deficit by an amount 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.

The State Government has developed its own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators with target dates of implementation during the period from 2004-05 to 2009-10 keeping in view the fiscal targets laid down in the FRBM Act and/or the rules made thereunder. As per the APFRBM Act, the State Government shall in each financial year lay before the Legislature the Macro Economic Framework Statement (MEFS) which shall contain an overview of the State economy, an assessment related to State finances and future prospects.

Outcome indicators of the State's FCP are given in Appendix 1.1

The State Government achieved revenue surplus for the third consecutive year and it increased from Rs 159 crore in 2007-08 to Rs 1004 crore in the current year. The fiscal deficit was 3.34 per cent of GSDP during the current year as against 2.68 per cent in 2007-08 but less than the ceiling of 3.5 per cent as relaxed by the Government of India in view of the economic slow down.

The budget estimates and actuals for some important fiscal parameters are given in Chart 1.1 and **Appendix 1.5**.



As may be seen from **Chart 1.1** (also see **Appendix 1.5**) there were considerable variations between budget estimates and actuals in case of several parameters. Due to general economic slow down the revenue receipts decreased by 11.38 per cent and the revenue expenditure also decreased by 11.91 per cent resulting in increase of revenue surplus by Rs 295 crore (41.61 per cent). However, actual fiscal deficit² and primary deficit increased by Rs 2749 crore and Rs 3677 crore respectively over budget estimates. A provision of Rs 12000 crore was made incorrectly under capital receipts on sale of land and property, while the actual receipts of Rs 2147 crore were classified under miscellaneous general services in revenue account resulting in 100 per cent decrease in capital receipts and 264 per cent increase under miscellaneous general services in non-tax revenue over budget estimates.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from public account. **Table-1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts, while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2004-09, and **Chart 1.3** depicts the composition of resources of the State during the current year.

² see glossary at page 89

CHART 1.2 TRENDS IN RECEIPTS

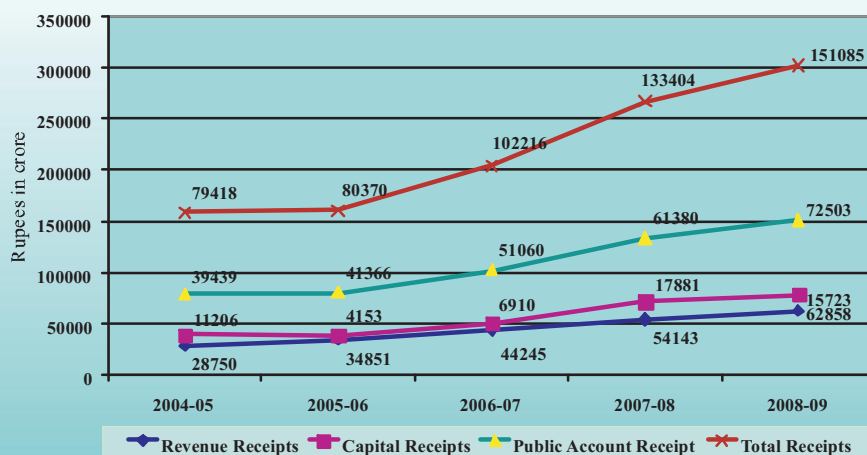
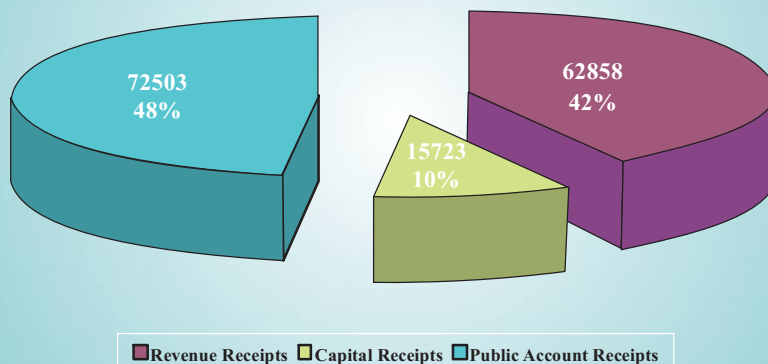


CHART 1.3: COMPOSITION OF RECEIPTS DURING 2008-09



Total receipts of the State increased from Rs 79418 crore in 2004-05 to Rs 151085 crore in 2008-09. The share of revenue receipts to total receipts ranged between 36 and 43 per cent during 2004-09. The share of capital receipts was erratic during the last five years and it was 10 per cent in the current year. During 2007-08 an amount of Rs 6558 crore realised on sale of land and property was misclassified under capital receipts thereby increasing the capital receipts to that extent. The receipts under Public Account constituted 46 to 52 per cent of the total receipts during the last five years

1.2.2 Funds transferred to State implementing agencies outside the State budget

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies³ for the implementation of various schemes/programmes in social and economic sectors recognised as critical. As these funds are not routed through the State Budget/State

³State Implementing Agencies include any Organization/Institution including Non-Governmental Organization which is authorized by the State Government to receive the funds from the Government of India for implementing specific programmes in the State, ex. State Implementation Society for SSA and State Health Mission for NRHM etc.

Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated. To present the holistic picture on availability of aggregate resources, funds directly transferred to State Implementing Agencies are presented in Table 1.2

Table-1.2: Funds transferred directly to State implementing agencies

(Rupees in crore)

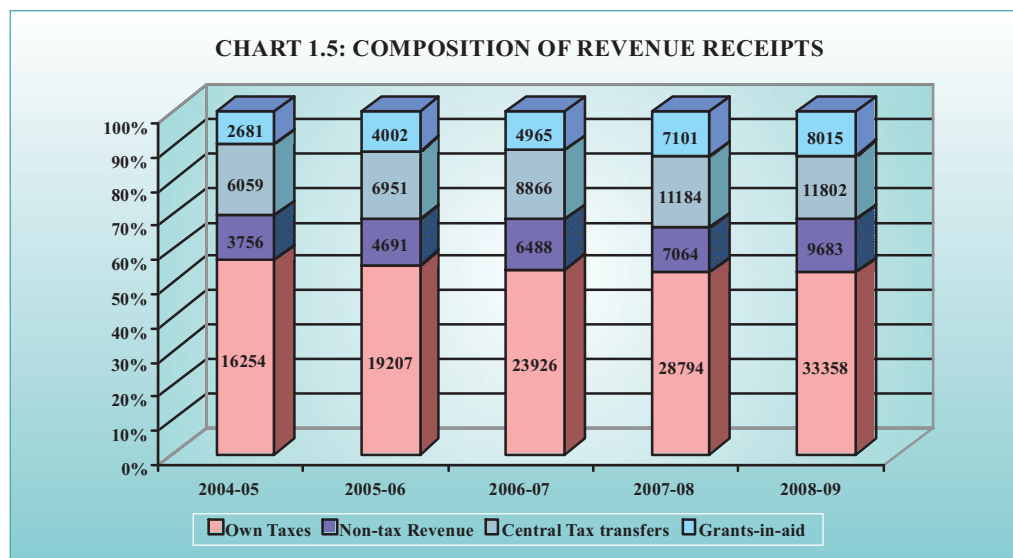
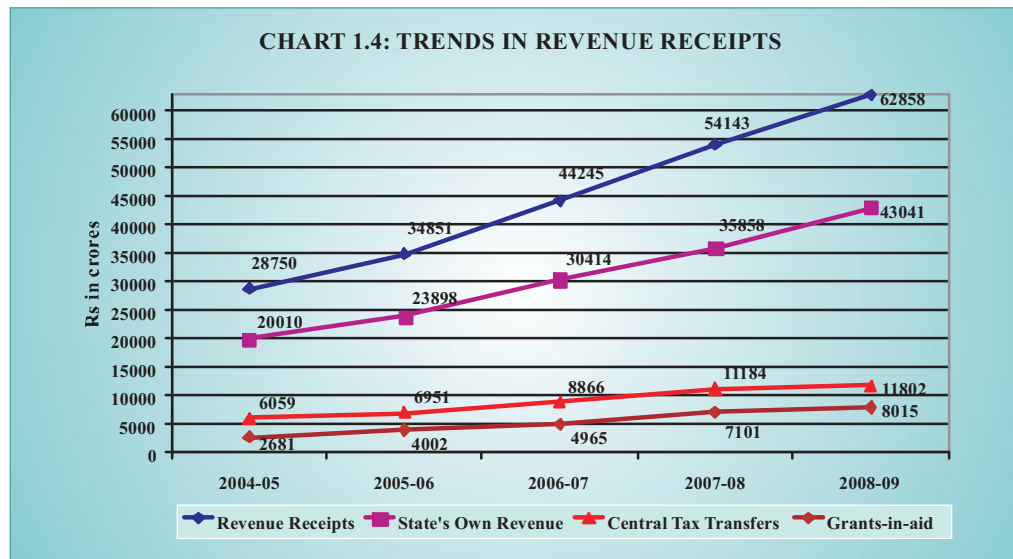
Sl. No.	Implementing Agency in the State	Amount released during 2008-09
1.	DRDAs	2153.40
2.	District Collectors	124.00
3.	State Corporations	1233.12
4.	Government Hospitals	15.63
5.	State Departments	170.38
6.	Central Institutes	345.65
7.	Universities	37.47
8.	Banks	47.75
9.	NGOs	552.37
10.	Private Companies	70.04
11.	Others	173.17
	Total	4922.98

Source: Controller General of Account's website

During the current year, Government of India transferred Rs 4923 crore directly to the State implementing agencies for implementation of various Central Schemes/programmes without routing through the State budget. Funds flowing directly to the implementing agencies through off-budget route inhibit Fiscal Responsibility Legislation (FRL) requirements of transparency and therefore escape accountability. There is no single agency monitoring its use and no data is readily available on the amount spent in any particular year on major flagship and other important schemes. A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Principal Accountant General (A&E).

1.3 Revenue receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2004-09 are presented in **Appendix 1.2** and also depicted in **Charts 1.4** and **1.5** respectively.



Revenue receipts have shown a progressive increase over the five year period 2004-09 at an average growth rate of 18.60 per cent. State's own tax and non-tax revenue (Rs 43041 crore) exceeded the TFC projections (Rs 33695 crore) by Rs 9346 crore for the current year. The share of components viz. State's own taxes, non-tax revenue, share of Union taxes and grants-in-aid from GOI in revenue receipts almost remained same with marginal inter year variations.

The trends in revenue receipts relative to Gross State Domestic Product (GSDP⁴) are presented in **Table 1.3** below:

⁴ see glossary at page 89

Table 1.3: Trends in revenue receipts relative to GSDP

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue Receipts (RR) (Rs in crore)	28750	34851	44245	54143	62858
Rate of growth of RR ⁵ (Per cent)	7.00	21.22	26.95	22.37	16.10
RR/GSDP (Per cent)	13.57	14.54	15.96	16.49	16.93
Buoyancy Ratios⁶					
Revenue Buoyancy w.r.t. GSDP	0.61	1.60	1.72	1.21	1.23
State's Own Tax Buoyancy w.r.t. GSDP	1.55	1.35	1.57	1.10	1.22
Revenue Buoyancy w.r.t. State's own taxes	0.39	1.16	1.10	1.10	1.02

The growth rates of revenue receipts and own tax revenue were higher than the growth rate of GSDP from 2005-06 onwards.

1.3.1 State's own resources

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

Own Tax revenue

State's own tax revenue during the period from 2004-05 to 2007-08 grew by 17.73, 18.17, 24.57, 20.35 *per cent* over respective previous years and was lowest at 15.85 *per cent* during the current year. During the current year the lion's share of tax revenue was contributed by Sales tax (65.51 *per cent*) on account of implementation of VAT, followed by State Excise (17.25 *per cent*), Stamps and Registration (8.79 *per cent*) and taxes on vehicles (5.40 *per cent*). State's own tax revenue during the current year was more than the projection of TFC (Rs 28348 crore) and the FCP under APFRBM Act (Rs 30507 crore).

Non tax revenue

The non-tax revenue which constituted 13 to 15 *per cent* of total revenue receipts during the last five years increased by Rs 2619 crore recording a growth rate of 37.08 *per cent* over the previous year. During the current year, the non tax revenue (Rs 9683 crore) was contributed by Interest receipts (Rs 3487 crore), sale of land and property (Rs 2147 crore), Non Ferrous Mining and Metallurgical Industries (Rs 1685 crore) and debt relief given by GOI under Debt Consolidation and Relief Facility⁷ (DCRF) (Rs 703 crore). The interest receipts during the year includes Rs 3195 crore arising out of book adjustment from Irrigation Projects which is of notional in nature. *Non-tax revenue was more*

⁵ see glossary at page 89

⁶ see glossary at page 89

⁷ see glossary at page 89

than the projections of TFC and the FCP under APFRBM Act during last four years and increased by Rs 4138 crore (74.63 per cent) over the projections of Fiscal Correction Path (Rs 5545 crore) for 2008-09. The non-tax revenue under select services was very low as compared to non-plan revenue expenditure as detailed in **Table 1.4** below:

Table 1.4: Ratio of non-tax revenue to non-plan revenue expenditure

(Rupees in crore)

Sl. No.	Service	NTR during 2008-09	NPRE during 2008-09	Ratio of NTR to NPRE
1.	Education, Sports and Culture	111.68	5784.83	0.019
2.	Medical and Public Health	48.43	1770.17	0.027
3.	Major and Medium Irrigation	38.33	3462.26	0.011
4.	Power	15.77	3648.23	0.004
5.	Roads and Bridges	30.26	1563.88	0.019

1.3.2 Revenue arrears

The arrears of revenue as reported by the departments concerned as on 31 March 2009 in respect of some principal heads of revenue are presented in the **Table 1.5**.

Table 1.5: Arrears of revenue as on 31 March 2009

(Rupees in crore)

Sl. No.	Head of Revenue	Arrears as on 31 March 2009	Arrears outstanding for more than 5 years
1.	Taxes on vehicles	1982.86	675.88
2.	Land Revenue (Water Tax)	328.95	18.72
3.	Receipts under sugarcane (regulation of supply and purchase tax) Act	276.19	276.19
4.	Sales Tax	3552.34	2056.01
5.	State Excise	57.62	56.03
6.	Forestry and Wildlife	94.25	4.15
7.	Taxes and duties on Electricity	154.09	70.13
8.	Taxes on immovable properties other than agricultural lands (NALA)	61.40	---
	Total	6507.70	3157.11

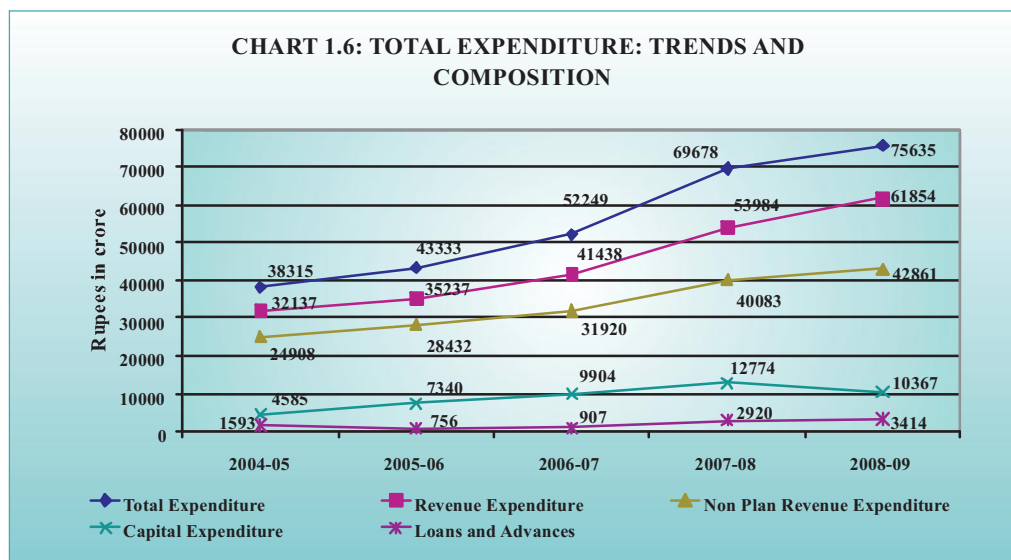
The arrears increased by Rs 4095 crore during the current year (Rs 6508 crore) over previous year (Rs 2413 crore) affecting the fiscal position of the State to that extent. The arrears at the end of March 2009 include arrears of Rs 3157 crore outstanding for more than five years. The arrears were stated to be on account of (i) dues from APSRTC (Rs 1974.93 crore), (ii) severe drought/cyclone conditions (Rs 390.35 crore), (iii) weak financial position of Cooperative Sugar Factories (Rs 144.78 crore), (iv) recovery certificates (Rs 38.75 crore), (v) proceedings under RR Act (Rs 12.91 crore) and (vi) litigations in courts (Rs 10.91 crore). No specific reasons were furnished for the remaining (Rs 3735.25 crore) arrears.

1.4 Application of resources

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

1.4.1 Growth and composition of expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2004-09) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.7 and 1.8** respectively.



The total expenditure in 2008-09 (Rs 75635 crore) increased by Rs 5957 crore (8.55 per cent) over previous year (Rs 69678 crore) mainly due to increase in revenue expenditure (Rs 7870 crore) and loans and advances (Rs 494 crore) partly offset by decrease in capital expenditure (Rs 2407 crore). During the current year 83 per cent of total expenditure was met from revenue receipts and the balance from capital receipts and borrowed funds.

Revenue expenditure constituted 82 per cent of the total expenditure in 2008-09. It increased by Rs 13502 crore over the projection of State's own FCP (Rs 48352 crore) and constituted 16.66 per cent of GSDP as against the 15.46 per cent projected. There was significant increase in revenue expenditure under (i) Nutrition (Rs 1587 crore) due to reduction of the rate of subsidised rice, (ii) Crop Husbandry (Rs 1525 crore) due to payment of incentives to the farmers not covered by debt waiver scheme and (iii) Social Security and Welfare (Rs 971 crore) due to increase of old age pensions. The non plan revenue expenditure (NPRE) component constituted 69 per cent of revenue expenditure. It exceeded significantly both the normative projections of TFC (Rs 35103 crore) and State's projection in its FCP (Rs 37085 crore) for 2008-09.

Capital expenditure during 2008-09 constituted 13.71 per cent of total expenditure. It decreased by Rs 2407 crore over the previous year. The decrease was mainly on Major and Medium Irrigation (Rs 2448 crore). However, capital expenditure was more than the projections of FCP (Rs 8620 crore) at 2.79 per cent of GSDP, but less than the projections (Rs 17744 crore) made in Macro Economic Framework Statement (MEFS) for 2008-09.

CHART 1.7: TOTAL EXPENDITURE: TRENDS IN SHARE OF ITS COMPONENTS

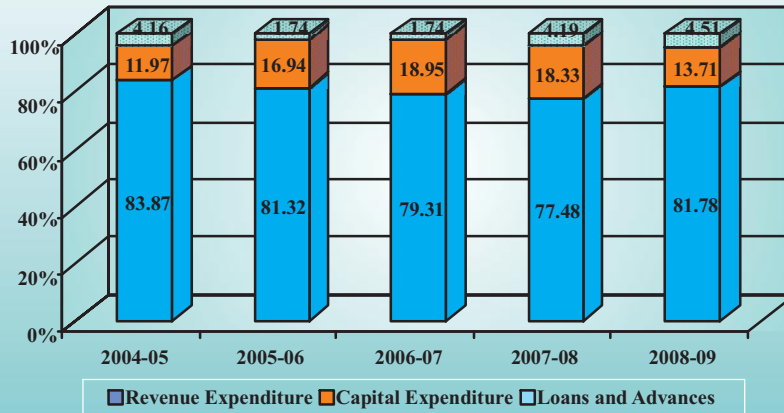
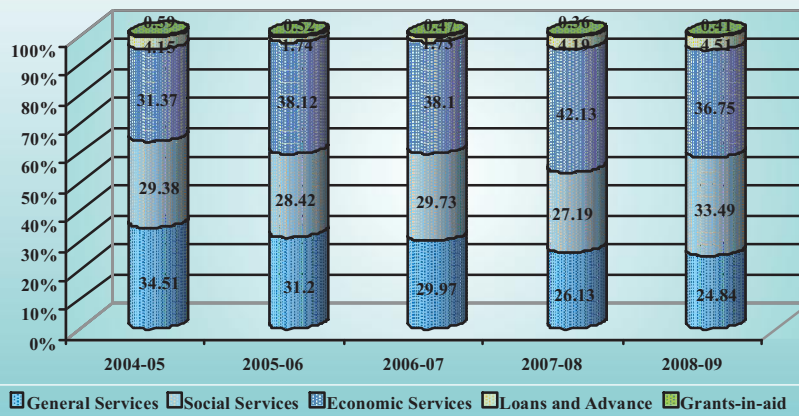


CHART 1.8: TOTAL EXPENDITURE: TRENDS BY 'ACTIVITIES'



1.4.2 Committed expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.6** and **Chart 1.9** present the trends in the expenditure on these components during 2006-09.

Table-1.6: Components of committed expenditure

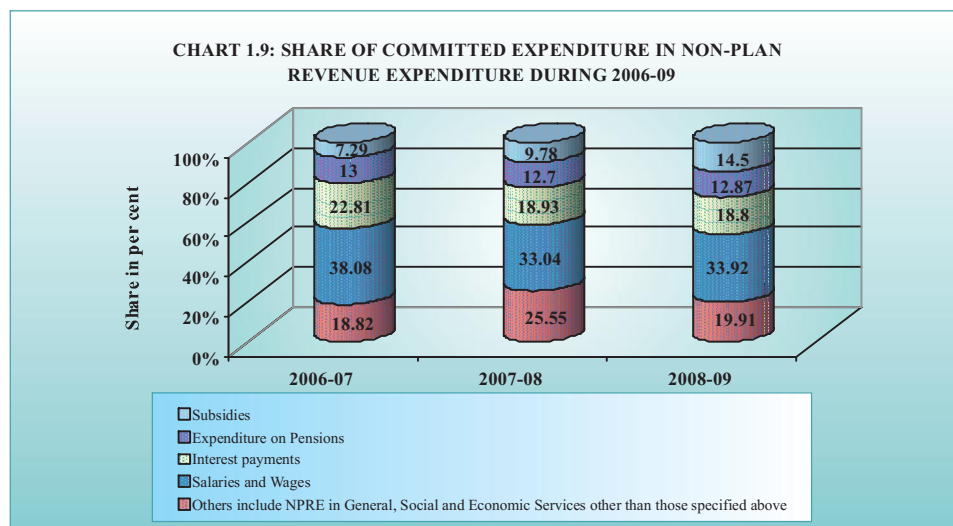
(Rupees in crore)

Components of Committed expenditure	2006-07	2007-08	2008-09		
			BE	Actuals	Percentage variation
Salaries* & Wages , Of which	12155(27)	13243(24)	24137	14539(23)	(-)-39.76
Non-Plan Head	10906	12171	22293	12883	(-)-42.29
Plan Head**	1249	1072	1844	1656	(-)-10.20
Interest Payments	7280(16)	7589(14)	8985	8057(13)	(-)-10.33
Pensions	4150(9)	5092(9)	5203	5518(9)	(+)-6.05
Subsidies	2326(5)	3918(7)	3096	6213(10)	(+)-100.68
Total	25911(57)	29842(54)	41421	34327(55)	(-)-17.13

Figures in the brackets indicate percentage to revenue receipts

* It also includes the salaries paid out of grants-in-aid

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



Salaries and Wages

Expenditure on salaries and wages constituted 23 to 27 per cent of revenue receipts and 33 to 38 per cent of non-plan revenue expenditure during the last three years. During the current year the salary expenditure was 30 per cent of revenue expenditure net of interest and pension payment as against the TFC recommendations of 35 per cent. In real terms, while the salary expenditure (Rs 14539 crore) increased over the projections of FCP under APFRBM Act (Rs 10277 crore) it was almost equal to the MEFS projections (Rs 14567 crore) for the year 2008-09. Salary expenditure under non-plan head constituted 89 to 92 per cent and plan head 8 to 11 per cent during the last three years.

Interest payments

The share of interest payments in revenue expenditure showed a declining trend over the last five years and constituted 13 per cent in 2008-09 mainly due to the debt relief being extended by GOI under FRBM Act for achieving the various targets fixed by the TFC. The major source of borrowings was market loans at the interest rates ranging from 5.80 to 9.89 per cent. The interest payment during the current year (Rs 8057 crore) increased by 6 per cent over previous year (Rs 7589 crore) and

remained lower than the projections made in FCP (Rs 9501 crore) and MEFS (Rs 8385 crore). Interest payments relative to revenue receipts in 2008-09 (13 per cent) were less than the TFC projections (28 per cent). The increase (Rs 468 crore) in interest payments over previous year was on Internal Debt (Rs 269 crore), Loans and Advances from GOI (Rs 122 crore) and Small Savings and Provident Funds (Rs 77 crore).

Pensions

The expenditure on pensions was 9 per cent of the revenue receipts for the last three years. However, the pension payments during 2008-09 (Rs 5518 crore) exceeded the projections of TFC (Rs 4496 crore) and FCP under FRBM Act (Rs 4639 crore). The State Government did not estimate yearly pension liabilities on actuarial basis for the ensuing years as stipulated in the FRBM Act. The State Government introduced a contributory pension scheme for employees recruited on or after 1 September 2004 to mitigate the impact of rising pension liabilities in the long term.

Subsidies

The total subsidy during the current year was Rs 6213 crore of which power subsidy was Rs 3385 crore, rice subsidy was Rs 2340 crore and other subsidies were Rs 488 crore. The actual subsidies increased by Rs 3117 crore (101 per cent) over budget provision and increased by Rs 2295 crore (59 per cent) over previous year, of which rice subsidy increased by Rs 1460 crore due to reduction of selling price of subsidised rice and enhancement of quantity of rice supplied; power subsidy by Rs 960 crore due to supply of more free power to farmers and partly offset by decrease of Rs 125 crore under other subsidies. The State Government in its Fiscal Policy Strategy Statement (FPSS⁸) viewed that the subsidies are the need of the hour to provide food, shelter and wage employment to all poor and vulnerable sections in the society and projected rice and power subsidies at Rs 1843 crore and Rs 1599 crore in its FCP and at Rs 1980 crore and Rs 2385 crore in FPSS respectively. However, the actual expenditure in 2008-09 on rice subsidy (Rs 2343 crore) and power subsidy (Rs 3385 crore) increased over FCP and FPSS projections.

The committed expenditure on salaries and wages, pensions, interest payments and subsidies during 2008-09 constituted 80 per cent of NPPE.

1.4.3 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 other institutions during the current year relative to the previous four years is presented in **Table 1.7**

⁸ presented to State Legislature in March 2008

Table 1.7: Financial assistance to Local Bodies etc*(Rupees in crore)*

	2004-05	2005-06	2006-07	2007-08	2008-09
Educational Institutions (Aided Schools, Aided Colleges, Universities. etc.)	1066.31	1503.97	1766.50	1875.99	1820.16
Municipal Corporations and Municipalities	643.97	464.95	233.43	2699.27	4104.94
Zilla Parishads and other PR Institutions	2749.84	842.19	1309.82	920.81	2503.43
Development Agencies	2720.91	2549.76	1747.02	3715.48	11791.26
Hospitals and Other Charitable Institutions	--	238.98	387.44	599.55	1151.43
Other Institutions ⁹	4031.87	4102.16	5321.88	8850.95	3436.06
Total	11212.90	9702.01	10766.09	18642.03	24807.28
Assistance as percentage of RE	34.89	27.53	26.00	34.53	40.11

The financial assistance including grants and loans extended to local bodies and other institutions in 2008-09 (Rs 24807 crore) increased by Rs 6165 crore (33 per cent) over previous year (Rs 18642 crore). The plan and non-plan grants given to local bodies and other institutions in 2008-09 were Rs 14194 crore and Rs 7292 crore respectively. The major receivers of the grants in 2008-09 were APTRANSCO for agriculture and allied subsidy (Rs 3385 crore), incentives to the farmers not covered by the debt waiver scheme (Rs 1776 crore), urban development under JNNURM¹⁰ (Rs 1411 crore), weaker section housing programme (Rs 1063 crore), welfare pensions (Rs 1043 crore), and APUFIDC¹¹ for constitution of revolving fund for future development (Rs 824 crore). The huge increase in assistance to development agencies was due to loan assistance of Rs 2782 crore to AP Housing Corporation for repayment of loans to financial institutions and for construction of houses for weaker sections. The financial assistance in 2008-09 included TFC grants of Rs 934 crore and SFC grants of Rs 275 crore. The financial assistance during 2004-09 constituted 26 to 40 per cent of revenue expenditure with inter year variations.

1.5 Quality of expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects viz., adequacy of the expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

⁹ Other Institutions include those institutions who received ad-hoc or one time grants during the year

¹⁰ Jawaharlal Nehru National Urban Renewal Mission

¹¹ Andhra Pradesh Urban Finance and Infrastructure Development Corporation

1.5.1 Adequacy of public expenditure

The expenditure responsibilities relating to social sectors and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like education and health etc. The low level of spending on any sector in a particular State may be either due to low fiscal priority attached by the State Government or on account of the low fiscal capacity of the State Government or due to both working together. The fiscal priority (ratio of expenditure category to aggregate expenditure) accorded to a particular sector is considered to be low if it is below the national average. The fiscal capacity would be considered low if the State's per capita expenditure is below the national average even after having a fiscal priority that is more than or equal to the national average. **Table 1.8** analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

Table-1.8: Fiscal Priority and Fiscal capacity of the State in 2005-06 and 2008-09

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All States/National Average* (Ratio) 2005-06	19.50	61.44	30.41	14.13
Andhra Pradesh's Average (Ratio) 2005-06	16.93	68.29	28.42	16.94
All States/National Average* (Ratio) 2008-09	19.16	67.68	33.90	16.87
Andhra Pradesh Average (Ratio)* 2008-09	20.37	74.62	33.49	13.71
Fiscal Capacity of the State	DE#	SSE	CE	
All States Average Per capita Expenditure 2005-06	3010	1490	692	
Andhra Pradesh's per Capita expenditure (Amount in Rs) in 2005-06	3685	1533	914	
Adjusted per Capita** Expenditure (Amount in Rs) in 2005-06	NR	1890	NR	
All States' Average per capita expenditure 2008-09	5030	2520	1254	
Andhra Pradesh's Per Capita Expenditure (Amount in Rs) in 2008-09	6825	3063	1254	
Adjusted Per Capita** Expenditure (Amount in Rs) in 2008-09	NR	3101	1543	

* As per cent to GSDP

** Calculated as per the methodology explained in the Box 1.3

AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure
CE: Capital Expenditure.

Population of Andhra Pradesh 8.03 crore in 2005-06 and 8.27 crore in 2008-09

Development expenditure includes Development Revenue Expenditure. Development Capital expenditure and Loans and Advances disbursed.

Source : (1) For GSDP, the information was collected from the State's Directorate of Economics and Statistics (2) Population figures were taken from Projection 2001-2026 of the Registrar General & Census Commissioner, India

(Website: <http://www.censusindia.gov.in>) Population = Average of Projected population for 2005 and 2006.

NR = No adjustment required since the state is giving adequate fiscal priority.

Data for Arunachal Pradesh has not been included in All States average.

In Table 1.8, we are comparing the fiscal priority given to different categories of expenditure and fiscal capacity of Andhra Pradesh in 2005-06 (the first year of the Award Period of the Twelfth Finance Commission) and the current year 2008-09. In 2005-06 the Andhra Pradesh Government spent less as a proportion of GSDP (16.93 *per cent*) compared to the All States average of 19.50 *per cent*. In 2008-09 however, the AE/GSDP ratio for Andhra Pradesh was higher than the All States average.

In 2005-06, Andhra Pradesh Government gave adequate fiscal priority to Development Expenditure (DE) and Capital Expenditure (CE) since DE/AE and CE/AE in the case of Andhra Pradesh was higher than the national average. The priority given to Social Sector Expenditure (SSE) in Andhra Pradesh was, however, not adequate as the ratio of SSE/AE (28.42 *per cent*) for Andhra Pradesh was lower than the All State's average of 30.41 *per cent*. Similarly in 2008-09, adequate priority was given to DE since the ratio of DE/AE was higher than the All States average. However, adequate priority was not given to SSE and CE since the ratios of SSE/AE and CE/AE were less than the national averages.

Despite the Government spending a smaller proportion of GSDP, in 2005-06 the per capita expenditure of DE, SSE and CE was higher than the national average (Rs 3685, Rs 1533 and Rs 914 as against the national per capita expenditure in these categories of Rs 3010, Rs 1490 and Rs 692 respectively). This means that the absorptive capacity¹² in Andhra Pradesh is relatively high and that effective systems are in place to benefit the people. Had the Government spent as much on SSE as the national average, then the adjusted per capita expenditure on SSE (calculated as per methodology given in **Box 1.3**) would have been even higher at Rs 1890. In 2008-09 also, the per capita expenditure of DE and SSE was higher than the national average and just equal in case of CE. Had the Government spent as much on SSE and CE as the national average, then the adjusted per capita expenditure on SSE and CE would have been higher at Rs 3101 and Rs 1543 respectively. Re-prioritisation of outlays in favour of SSE and CE may be advisable.

Box 1.3

Methodology for Estimating the Fiscal Capacity:

For working out the fiscal capacity of the State Governments, the following methodology given in Twelfth Finance Commission report has been adopted.

Step 1: Calculate the national average of AE-GSDP and CE/DE/SSE-AE.

Step 2: Based on the national average of AE-GSDP ratio, derive the aggregate expenditure so that no State is having a ratio AE/GSDP less than the national average, i.e. if

$$\begin{aligned} \text{AE/GSDP} &= x \\ \text{AE} &= x * \text{GSDP} \dots\dots\dots (1) \end{aligned}$$

Where 'x' is the national average of AE-GSDP ratio.

Where the States are having AE -GSDP ratio higher than national average, no adjustments were made. Wherever this ratio was less than average, it was made equal to the national average.

Step 3: Based on the national average of DE-AE, SSE-AE and CE-AE, derive the respective DE, SSE and CE, so that no State is having these ratios less than national average, i.e., if

$$\begin{aligned} \text{DE/AE} &= y \\ \text{DE} &= y * \text{AE} \dots\dots\dots (2) \end{aligned}$$

where 'y' is the national average of DE-AE ratio.

Substituting (1) in (2), we get

$$\text{DE} = y * x * \text{GSDP} \dots\dots\dots(3)$$

Wherever the States are having DE -AE, SSE-AE and CE-AE ratio higher than national average, no adjustments have been made. Wherever these ratios were less than average, it was made equal to the national average.

Step 4: Based on the derived DE, SSE and CE as per equation (3), respective per capita expenditure was calculated, i.e.,

$$\text{PCDE} = \text{DE/P} \dots\dots\dots(4)$$

where PCDE is the per capita development expenditure and P is the population.

Substituting (3) in (4), we get

$$\text{PCDE} = (y * x * \text{GSDP})/P \dots\dots\dots(5)$$

Equation (5) provides the adjusted per capita expenditure. If the adjusted per capita expenditure is less than the national average of per capita expenditure, then the States' low level of spending is due to the low fiscal capacity. This gives a picture of actual level of expenditure when all the State Governments are attaching fiscal priority to these sectors equivalent to the national average.

¹² see glossary at page 89

1.5.2 Efficiency of expenditure use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is considered important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods¹³. Apart from improving the allocation towards development expenditure¹⁴, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. **Table 1.9** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis budgeted and the previous years.

Table-1.9: Development Expenditure

(Rupees in crore)

Components of Development Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Development Expenditure (a to c)	24812(65)	29604(68)	36272(69)	51127(73)	72015(77)	56440(75)
a. Development Revenue Expenditure	18709(49)	21520(50)	25879(49)	35564(51)	49624(53)	42811(57)
b. Development Capital Expenditure	4566(12)	7314(16)	9560(18)	12738(18)	17642(19)	10308(14)
c. Development Loans and Advances	1537(4)	770(2)	833(2)	2825(4)	4749(5)	3321(4)

Figures in the parentheses indicate the percentage to aggregate expenditure

During 2004-09 the total development expenditure constituted 65 to 75 per cent of the aggregate expenditure. It increased in the current year by Rs 5313 crore (10 per cent) over the previous year. Development revenue expenditure constituted 49 to 57 per cent of aggregate expenditure during 2004-09. While the development revenue expenditure in current year increased by Rs 7247 crore (20 per cent), development capital expenditure decreased by Rs 2430 crore (19 per cent) over the previous year.

The share of non-plan expenditure in revenue expenditure ranged between 69 and 81 per cent during the last five years. In the current year non-plan revenue expenditure (Rs 42862 crore) increased over the projection of TFC (Rs 35103 crore) by 22 per cent and the FCP under FRBM Act (Rs 37085 crore) by 16 per cent. The share of plan revenue expenditure ranged between 19 and 31 per cent during the last five years. Plan revenue expenditure (Rs 18992 crore) in 2008-09 was more by 69 per cent than the projections of FCP (Rs 11267 crore).

The share of General Services in total expenditure has constantly decreased during the last five years and constituted 24.84 per cent in the current year. During 2008-09, while the share of Social Services increased by 6 percentage points from 27 per cent, the share of Economic Services decreased by 5 percentage points from 42 per cent over the previous year.

The share of General Services including interest payments in revenue expenditure constituted 30 per cent while the Development Expenditure consisting Social and Economic Services constituted 69 per cent in 2008-09. **Table 1.10** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected Social and Economic Services.

¹³ see glossary at page 89

¹⁴ see glossary at page 89

Table 1.10: Efficiency of expenditure use in selected social and economic services*(in per cent)*

Social/Economic Infrastructure	2007-08			2008-09		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S &W	O&M		S&W	O &M
Social Services (SS)						
General Education	1.88	62.99	0.64	1.10	65.11	0.28
Health and Family Welfare	1.74	48.77	1.66	1.03	46.06	0.97
WS, S, H&UD	0.71	3.10	0.47	0.33	2.26	0.25
Total (SS)	1.50	32.57	0.56	1.28	27.21	0.47
Economic Services (ES)						
Agri & Allied Activities	0.99	28.75	0.16	0.52	17.18	0.09
Irrigation and Flood Control	70.41	4.26	5.92	67.96	5.39	6.46
Power & Energy	0.22	0.16	---	0.01	0.21	---
Transport	36.20	1.11	64.69	37.11	0.95	52.35
Total (ES)	42.42	7.85	7.50	35.92	8.12	8.34
Total (SS+ES)	26.37	20.82	3.86	19.41	19.27	3.74
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operation & Maintenance of respective sector.						

Although no specific norms were laid down for prioritization of capital expenditure in State's FRBM Act, the constant increase in capital expenditure since 2004-05 except in 2008-09 indicate the fact that impetus was being given to asset formation of the State. *The Operation and Maintenance expenditure (Rs 1600 crore) in 2008-09 constituted 2.55 per cent of revenue receipts and 2.59 per cent of revenue expenditure and it was more than the TFC projection of Rs 1198 crore.*

1.5.3 Major Policy Initiatives

The State Government, while presenting the Budget for 2008-09, committed to continue the ongoing process of fiscal correction while striving to provide higher allocations for improving economic and social infrastructure and announced a number of policy initiatives aimed at augmenting revenues and directing expenditure towards the priority areas. On the revenue side, the State Government targeted tax revenue of Rs 37866 crore during 2008-09 by strengthening the revenue earning departments. Towards achieving the targeted four *per cent* growth in agriculture and allied sectors, the Government decided to implement Pavala Vaddi¹⁵ scheme for crop loans and Rashtriya Krishi Vikas Yojna scheme with additional Central assistance. The Government also planned to establish a world class Centre for Advanced Research on Livestock at Pulivendula, Kadapa District and to implement Pasukranthi scheme aimed at providing milch animals and fodder at 50 *per cent* subsidy to rural poor. While enhancing the allocations for Irrigation sector, the Government decided to take up a mega project "Pranahita-Chevella" to provide irrigation facilities to 12.20 lakh acres. With a view to promoting self-employment, the Government decided to extend financial assistance to establish small scale units under Rajiv Yuvashakthi Programme with a provision of Rs 87.50 crore during 2008-09 and to extend Rural Employment Guarantee Scheme to three more Districts under phase-III. A major policy initiative of the Government was to complete all the houses sanctioned under phase-I & II of "Indiramma" scheme and to start phase-III to cover the balance areas during 2008-09 to create a hut-free state. The Government introduced a novel scheme of providing scholarships to aid children who are economically backward irrespective of

¹⁵ Twenty five paisa interest (three *per cent* per annum)

their caste/religion/sect. Similarly a new scheme "Scheme for Universal Access and Quality at Secondary Stage"(SUCCESS) was introduced for providing full-fledged infrastructure including class rooms, laboratories, computers and libraries etc., in selected High Schools and decided to implement a programme for imparting computer education to all students in 5000 selected Schools. The major policy initiatives of the Government and budget provision vis-à-vis actual expenditure on these schemes during 2008-09 are given in **Table 1.11**.

Table 1.11: Major policy initiatives, budget provision and expenditure

(Rupees in crore)

Sl. No.	Name of the Scheme	Budget provision during 2008-09	Expenditure during 2008-09	Percentage of expenditure to provision
1	Crop loans to farmers (Pavala Vaddi)	310.00	1.38	0.45
2	Rashtriya Krishi Vikas Yojna	400.00	132.56	33.14
3	Assistance for establishment of Indira Gandhi Centre for Advanced Research on livestock (CARL) at Pulivendula	100.00	75.00	75.00
4	Pasukranthi (CM's Special Package) Scheme	200.00	72.48	36.24
5	Pranahita-Chevella Project	260.00	231.04	88.86
6	Rajiv Yuvashakthi Programme	87.50	43.46	49.67
7	National Rural Employment Guarantee Mission (NREGM)	1500.00	282.90	18.86
8	Weaker Section Housing Programme under "INDIRAMMA"	5075.02	2323.13	45.78
9	Scholarship to economically backward children irrespective of their caste/region/sect	25.00	24.91	99.64
10	Scheme for Universal Access and Quality at Secondary Stage (SUCCESS)	1000.00	Nil	Nil
11	Programme for imparting computer education to all students in 5000 selected Schools	100.00	65.15	65.15

Though the State's own tax revenue during 2008-09 (Rs 33358 crore) increased over the previous year (Rs 28794 crore), it could not achieve the targeted tax revenue of Rs 37866 crore. The Government incurred less than half *per cent* of the provision on its flagship programme of 'Pavala vaddi', while 33 *per cent* provision was spent on Rashtriya Krishi Vikas Yojna scheme under Agriculture. On the major policy initiatives of establishing a Centre for Advanced Research on Livestock and Pasukranthi scheme, Rs 75 crore out of Rs 100 crore and Rs 72.49 crore out of Rs 200 crore provision respectively was spent under Animal Husbandry. On Pranahita-Chevella, a major irrigation project taken up during 2008-09 under 'Jalayagnam', Rs 231 crore was spent out of the provision of Rs 260 crore. Only Rs 283 crore (18.86 per cent) out of the huge provision of Rs 1500 crore was spent on NREGM. Another major policy initiative of Government, the SUCCESS Scheme under Education for which huge provision of Rs 1000 crore was made in the budget remained a non starter during 2008-09.

1.6 Financial analysis of Government expenditure and investments

In the post-FRL framework, the State is expected to keep its fiscal deficit (and borrowing) not only at low levels but also to meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the

State Government is expected to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.6.1 Incomplete Projects

Irrigation projects basically consist of three components viz. (i) land acquisition, (ii) statutory clearances and (iii) execution of civil works. Activities (i) and (ii) are of uncertain nature where as activity (iii) can be executed in a time bound manner provided (i) and (ii) are completed prior to execution of component (iii). There was no proper sequencing in execution of the three activities. Starting of activity (iii) without prior completion/reaching advanced stage of completion of components (i) and (ii) has led to large amount of money being blocked in incomplete projects.

As per the information provided by Irrigation and Command Area Development Department, 14 Major and 16 Medium Irrigation Projects on which an expenditure of Rs 16629.34 crore and Rs 3262.70 crore respectively was incurred, were not completed as at the end of March 2009 though the stipulated period of completion was over. Of these, seven Major Irrigation Projects commenced between 1963 and 2003, on which Rs 12233.69 crore was incurred and two Medium Irrigation Projects commenced between 1977 and 2001, on which Rs 171.37 crore was incurred, remained incomplete. The delay in completion of these projects escalated the cost by Rs 12505.57 crore. The total amount spent (Rs 19892.04 crore) on these projects constituted 25.70 per cent of progressive capital outlay at the end of March 2009. Details of incomplete projects are given in **Appendix 1.7**. A mention of incomplete irrigation projects covered under Accelerated Irrigation Benefit Programme (AIBP) was also made in Para 1.4.4.3 of Audit Report (Civil) 2008-09.

1.6.2 Investment and returns

As of 31 March 2009, Government had invested Rs 5978.90 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives (Table 1.12). The average return on this investment was 0.59 per cent in the last five years while the Government paid average interest rate¹⁶ of 8.85 per cent on its borrowings during 2004-09.

Table-1.12: Return on investment

Investment/Return/ Cost of Borrowings	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Investment at the end of the year (Rupees in crore)	5373.70	5715.89	5776.17	5931.42	NA	5978.90
Return (Rupees in crore)	45.49	45.88	47.40	11.95	73.40	18.78
Return (<i>per cent</i>)	0.80	0.80	0.82	0.20	NA	0.31
Average rate of interest on Government borrowing (<i>per cent</i>)	10.21	9.11	8.76	8.25	NA	7.88
Difference between interest rate and return (<i>per cent</i>)	9.41	8.31	7.94	8.05	NA	7.57

¹⁶ see glossary at page 89

The investment of State Government as at the end of March 2009 included Rs 3658 crore in 52 Government Companies, Rs 1277 crore in 75 Cooperative Banks and Societies, Rs 985 crore in four Statutory Corporations and Rs 59 crore in 37 Joint Stock Companies. During the current year, Government invested Rs 48 crore in Cooperative Banks and Societies (Rs 26 crore), Joint Stock Companies (Rs 15 crore) and Government Companies (Rs 7 crore). On the investments made, Government earned a return of Rs 18.78 crore in 2008-09 which is more than that of 2007-08 by Rs 6.83 crore. The return on investment was very low at less than one *per cent* during 2004-09 while the average rate of interest paid during the period was 8.85 *per cent*. *The difference between average interest rate and return was 8.26 per cent amounting to Rs 494 crore in 2008-09.*

1.6.3 Departmental Commercial Undertakings

Activities of quasi-commercial nature are also performed by the departmental undertakings of certain Government departments. The department-wise position of the investment made by the Government up to the year for which pro forma accounts are finalised, net profit/loss as well as return on capital invested in these undertakings are given in **Appendix 1.6**. The following observations are made.

- An amount of Rs 4.19 crore had been invested by the State Government in three undertakings at the end of financial year up to which their accounts were finalised.
- Of the total nine undertakings, one undertaking i.e., Ice-cum-Cold Storage Plant, Tungabhadra (TB) Dam earned net profit amounting to Rs 0.08 crore on Rs 0.12 crore invested.
- Of the loss making undertakings, Andhra Pradesh Government Text Book Press has been incurring losses continuously for more than five years.
- The accumulated loss of Fishnet making Plant, T B Dam was Rs 4.61 crore as against the total investment of Rs 3.02 crore.

In view of the heavy losses of most of the undertakings, Government should improve their working so as to make them self-sustainable in the medium to long term.

1.6.4 Loans and advances by State Government

In addition to investments in co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. **Table 1.13** presents the outstanding loans and advances as on 31 March 2009, interest receipts vis-à-vis interest payments during the last three years.

Table-1.13: Average interest received on loans advanced by the State Government

(Rupees in crore)

Quantum of Loans/Interest Receipts/Cost of Borrowings	2006-07	2007-08	2008-09	
			BE	Actual
Opening Balance	10213	10648	--	13378
Amount advanced during the year	906	2921	4871	3413
Amount repaid during the year	471	191	356	370
Closing Balance	10648	13378	--	16421
<i>Of which</i> Outstanding balance for which terms and conditions have been settled	NA	NA	--	NA
Net addition	435	2730	4515	3043
Interest Receipts	114	44	92	21
Interest receipts as <i>per cent</i> to outstanding Loans and advances	1.07	0.33	--	0.13
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	8.40	7.79	--	7.54
Difference between interest receipts and interest payments (<i>percent</i>)	(-)7.33	(-)7.46	--	(-)7.41

Loans advanced during the current year (Rs 3413 crore) increased by Rs 492 crore (16.84 per cent) over the previous year (Rs 2921 crore), while the loans repaid increased by Rs 179 crore (94 per cent) resulting in net increase of loans outstanding at the end of the year by Rs 3043 crore. AP Housing Corporation was the major recipient of the loans (Rs 2731 crore) during the current year for construction of houses for weaker sections under Indiramma Programme (Rs 2323 crore) and repayment of loans to Financial Institutions (Rs 408 crore). At the end of 2008-09 recovery of Rs 18513 crore (Principal: Rs 13891 crore and Interest: Rs 4622 crore) was due from Municipalities, Local Bodies, Panchayat Raj institutions etc., the details of which are kept by the Accountant General. Of these, recovery of Rs 11867 crore (Principal: Rs 8060 crore and Interest: Rs 3807 crore) was outstanding for more than three years.

1.6.5 Cash Balances and Investment of Cash balances

Table 1.14 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table-1.14: Cash balances and investment of cash balances

(Rupees in crore)

Particulars	As on 1 st April 2008	As on 31 st March 2009	Increase/ Decrease
Cash Balances	8511.99	4972.95	(-)3539.04
Investments from Cash Balances (a to d)	6368.16	2283.93	(-)4084.23
a. GOI Treasury Bills	6368.16	2283.93	(-)4084.23
b. GOI Securities	---	---	---
c. Other Securities	---	---	---
d. Other Investments	---	---	---
Fund-wise break-up of Investment from Earmarked balances (a to c)	2347.43	2972.67	625.24
a. Sinking Fund	1866.69	2419.58	552.89
b. Guarantee Redemption Fund	466.99	539.34	72.35
c. Other Funds	13.75	13.75	---
Interest realised	---	346.32	---

The closing cash balance (CB) at the end of the current year (Rs 4972.95 crore) decreased by Rs 3539.04 crore over previous year (Rs 8511.99 crore). The CB was invested in GOI Treasury Bills (Rs 2283.93 crore) and Earmarked funds (Rs 2972.67 crore) on which interest of Rs 148.37 crore and Rs 197.95 crore respectively was earned during the year. The rates of interest earned on these investments worked out to 3.43 per cent and 7.44 per cent respectively against the average market borrowing rate of 7.88 per cent.

The efficiency of handling the cash balances by the State can also be assessed by monitoring the trends in monthly daily average cash balances held by the State to meet its normal banking transactions. **Table 1.15** presents the trends in monthly average daily cash balances and the investments in Auction Treasury Bills for the last three years (2006-09).

Table-1.15: Trends in monthly average daily cash balances and the investments in auction treasury bills

(Rupees in crore)

Month	Investment in 14 days Treasury Bills		
	2006-07	2007-08	2008-09
April	244.79	4369.65	9242.07
May	3544.99	4820.25	7363.46
June	3286.09	6352.04	7836.30
July	2726.08	5761.45	6379.42
August	2757.26	6689.43	9314.27
September	2580.68	5582.90	6403.75
October	1509.64	3774.26	5787.14
November	3272.56	5155.46	4983.31
December	2865.94	6584.28	5183.55
January	2731.89	6610.25	6587.02
February	3423.72	7648.14	5078.73
March	6653.77	12411.36	6378.26

The State Government maintained the minimum cash balance of Rs 3.32 crore with RBI on all the days during the current year without resorting to ways and means advances and overdraft for the successive fifth year.

1.7 Assets and Liabilities

1.7.1 Growth and composition of assets and liabilities

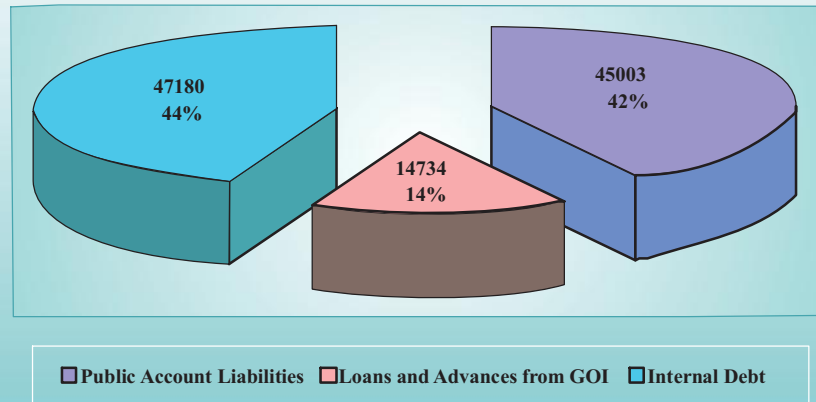
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and the assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. While the liabilities consist mainly of internal borrowings, loans and advances from GOI, receipts from Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

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

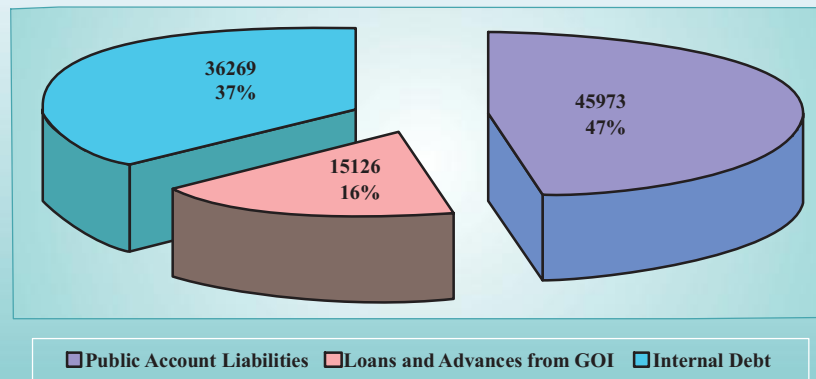
1.7.2 Fiscal liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.2**. The composition of fiscal liabilities during the current year vis-à-vis the previous year is presented in **Charts 1.10** and **1.11**.

**CHART 1.10: COMPOSITION OF OUTSTANDING FISCAL LIABILITIES
AS ON 31-03-2009 (Rs in crore)**



**CHART 1.11: COMPOSITION OF OUTSTANDING FISCAL LIABILITIES
AS ON 31.03.2008 (Rs in crore)**



The total fiscal liabilities of the State increased by Rs 42372 crore (66 per cent) over a period of five years from Rs 64545 crore at the end of 2003-04 to Rs 106917 crore in 2008-09. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liabilities (Rs 61914 crore) comprised of market loans (Rs 38337 crore), loans from GOI (Rs 14734 crore) and other loans (Rs 8843 crore). The Public Account liabilities (Rs 45003 crore) comprised of Small Savings and Provident Fund (Rs 31654 crore) and other obligations (Rs 13349 crore). The fiscal liabilities at the end of 2008-09 (Rs 106917 crore) increased by Rs 9549 crore (10 per cent) over previous year (Rs 97368 crore) and stood at 1.7 times of revenue receipts.

Total fiscal liabilities as defined in FRBM Act work out to Rs 124227¹⁷ crore at the end of the current year and stood at 33.47 per cent of GSDP against a ceiling of 35 per cent prescribed in FRBM Act. In line with the TFC recommendations and FRBM Act, the State Government established Sinking Fund for reduction or avoidance of debt and Guarantee Redemption Fund and has been contributing for these funds at the rates prescribed by the RBI and maintained a closing balance of Rs 2501 crore and Rs 539 crore respectively.

¹⁷ Consolidated Fund and Public Account liabilities (Rs 106917 crore), outstanding guarantees including interest (Rs 15973 crore) and outstanding off budget borrowings (Rs 1337 crore)

1.7.3 Status of guarantees contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. Under Article 293(1) of the Constitution of India, the State Government during September 2003 fixed an explicit ceiling on giving guarantees upon the security of Consolidated Fund of the State that the total outstanding guarantees as on 1st day of April of any year shall not exceed 90 per cent of revenue receipts of second preceding year. State Government in its FRBM Act has committed to limit the amount of annual incremental risk weighted guarantees to 90 per cent of the total revenue receipts in the year preceding the current year. State Government has constituted (January 2002) Guarantee Redemption Fund for discharge of guarantees invoked. An amount of Rs 75.06 crore (contribution: Rs 38.61 crore and interest on investment: Rs 36.45 crore) had been credited to the fund during 2008-09 and the entire balance of Rs 539.34 crore was invested.

As per Statement No. 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table 1.16**.

Table-1.16: Guarantees given by the Government of Andhra Pradesh

(Rupees in crore)

Guarantees	2006-07	2007-08	2008-09	
			BE	Actuals
Maximum amount guaranteed	29160	18798	30216	29990
Outstanding amount of guarantees	18018	14502	16860	15239
Percentage of maximum amount guaranteed to total revenue receipts	65.91	34.72	42.60	47.71
Criteria as per FRBM Act (The annual incremental risk weighted guarantees is to be limited at 90% of the revenue receipts in the year preceding the current year	(-) 1040	(-) 10362	---	11192(21)

The maximum amount guaranteed at the end of 2008-09 (Rs 29990 crore) increased by Rs 11192 crore over previous year (Rs 18798 crore) reversing the trend of decrease in the last two years. The increase was under Government Companies (Rs 9691 crore), Cooperative Banks and Societies (Rs 852 crore), Statutory Corporations and Boards (Rs 424 crore) and other Institutions (Rs 225 crore). In the current year Government received Rs 14.43 crore as guarantee commission.

1.7.4 Off-budget borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the liabilities shown in **Table 1.16**, the State Government guaranteed loans availed of by Government companies/corporations. These companies/corporations borrowed funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Although the State Government projects that funds for these programmes would be met out of the resources mobilised by these companies/corporations outside the State budget, in reality the borrowings of many of these concerns ultimately turn out to be the liabilities of the State Government and hence basically constitute off-budget borrowings. Such borrowings therefore violate the spirit of Article 293(3) of the Constitution. **Table 1.17** captures the status of off-budget borrowings by the State as on 31 March 2009.

Table-1.17: Off-budget borrowings

(Rupees in crore)

Sector	Name of SPV/ Company	Amounts outstanding as on 1 April 2008	Amount borrowed during 2008-09	Amount repaid during 2008-09		Amount outstanding as on 31 March 2009
				Principal	Interest	
Power	AP TRANSCO Bonds	1311	350	324	86.94	1337
Irrigation	APWRDC	2213	Nil	2213	168.21	Nil
Total		3524	350	2537	255.15	1337

During the current year APTRANSCO raised Rs 350 crore by way of private placement of APTRANSCO Vidyut Bonds for discharging the liability towards arrears of agriculture consumers waived by the State Government. Government had not created any fund to repay the loans but had given an unconditional and irrevocable guarantee and agreed that an amount equal to interest payment and/or principal instalments due in each year would be earmarked for disbursements out of annual budgetary provisions for APTRANSCO in the Government Budget. During the current year, the Government repaid Rs 25 crore of the Rs 380 crore borrowed by APTRANSCO in 2003-04; the entire amount of Rs 568 crore borrowed by AP Water Resources Development Corporation (APWRDC) in 2003-04; the remaining amount (Rs 590 crore) of Rs 737 crore borrowed by APWRDC in 2004-05; and the entire amount of Rs 455 crore borrowed by APWRDC in 2005-06.

The total liabilities of the State comprising fiscal liabilities (Rs 106917 crore), off budget borrowings (Rs 1337 crore) and outstanding guarantees including interest at the end of March 2009 (Rs 15973 crore) were Rs 124227 crore which as a ratio of GSDP stood at 33.47 per cent, less than the ceiling of 35 per cent prescribed in FRBM Act.

1.8 Debt sustainability

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability¹⁸ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation¹⁹; sufficiency of non-debt receipts²⁰; net availability of borrowed funds²¹; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.18** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2004-05.

Table 1.18: Debt sustainability: Indicators and trends

Indicators of Debt Sustainability	2004-05	2005-06	2006-07	2007-08	2008-09
Debt Stabilisation (Quantum Spread + Primary Deficit)	1901	4301	7149	10024	9363
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 742	(-) 108	(+) 2657	(-) 3143	(-) 3710
Net Availability of Borrowed Funds	0.23	(-) 0.07	(-) 0.01	0.13	0.03
Burden of Interest Payments (IP/RR Ratio)	0.25	0.21	0.17	0.14	0.13

¹⁸ see glossary at page 89¹⁹ see glossary at page 89²⁰ see glossary at page 89²¹ see glossary at page 89

The quantum spread together with primary deficit has been positive for the last five years resulting in decline in Debt/GSDP ratio from 0.35 in 2004-05 to 0.29 in 2008-09. These trends indicate the tendency towards debt stabilisation which would eventually improve the debt sustainability of the State. However, the resource gap has been negative in four years out of the five year period indicating that the incremental non-debt receipts were not sufficient to meet the incremental primary expenditure and interest burden. Thus the State needs to step up its resource mobilisation as well as prune unproductive expenditure to maintain debt stability. The ratio of the debt redemption (principal + interest payments) to total debt receipts was negative during 2005-07 and turned positive during 2007-09 indicating the availability of the borrowed funds for purposes other than debt repayment. The ratio of the interest payments to revenue receipts was also on declining trend from 2004-05 mainly due to lower rate of borrowing and the debt relief being extended by Government of India under FRBM Act. The maturity profile of State debt is given in **Table 1.19**.

Table 1.19: Maturity Profile of State Debt

(Rupees in crore)

Maturity profile	Amount	Percentage
0 – 1	4104.09	6.63
1 – 3	8358.55	13.50
3 – 5	9957.64	16.08
5 – 7	8450.90	13.65
7 and above	31043.24	50.14
Total	61914.42	100.00

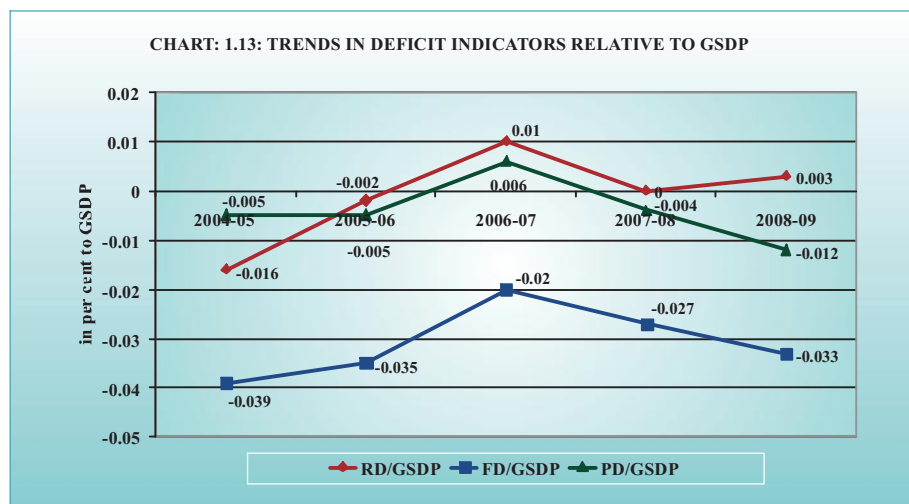
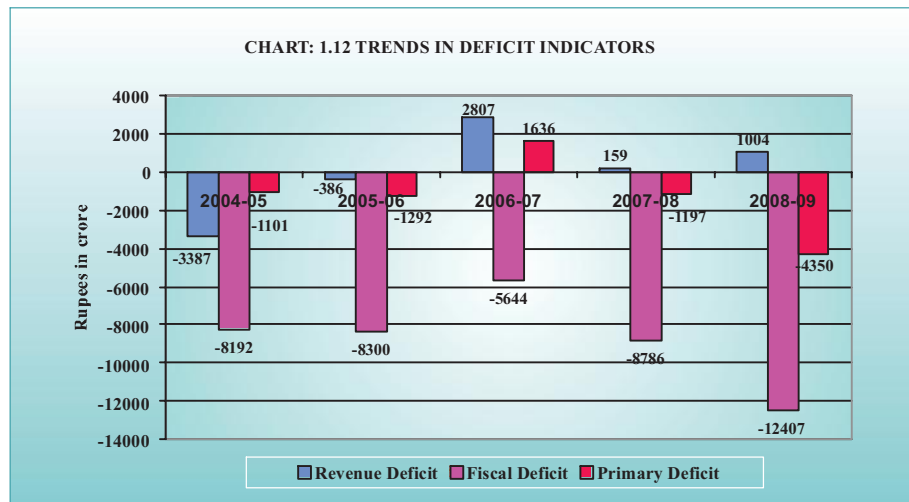
To discharge the expenditure obligations the Government will have to borrow further unless there is adequate fiscal surplus.

1.9 Fiscal imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. 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. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2008-09.

1.9.1 Trends in deficits

Charts 1.12 and 1.13 present the trends in deficit indicators over the period 2004-09.



Revenue deficit declined from Rs 3387 crore in 2004-05 to Rs 386 crore in 2005-06 and registered surplus thereafter. During the current year surplus (Rs 1004 crore) increased by Rs 845 crore over previous year (Rs 159 crore). Fiscal deficit with inter-year variations increased to Rs 12407 crore in 2008-09 from Rs 8786 crore in 2007-08 registering an increase of Rs 3621 crore (41 per cent). Primary deficit has also showed inter-year variation which sharply increased by Rs 3153 crore (263 per cent) over previous year on account of huge increase in fiscal deficit and only a moderate increase of Rs 468 crore in interest payments.

TFC recommended that the revenue deficit relative to GSDP should be brought down to zero by 2008-09 and the fiscal deficit should be maintained at 3 per cent of GSDP. As against these targets there was revenue surplus from 2006-07 onwards. The fiscal deficit remained at less than 3 per cent of GSDP during 2006-08 but became marginally higher (0.34 per cent) in 2008-09. However the fiscal deficit was less than the relaxed target of 3.5 per cent set by the GOI for 2008-09 for undertaking capital expenditure in view of economic slowdown.

Though there was revenue surplus of Rs 1004 crore in 2008-09, the capital expenditure was reduced by Rs 2407 crore resulting in fiscal deficit of 3.34 per cent of GSDP. While the revenue surplus increased by Rs 914 crore, the fiscal deficit also increased by Rs 4282 crore over the projection of FRBM Act. The State Government could not meet the targets set in its FPSS. While the ratio of revenue surplus to GSDP remained at 0.30 against the target of 0.56, the ratio of fiscal deficit was 3.34 of GSDP against the target of 2.81.

1.9.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.20**.

Table 1.20: Components of fiscal deficit and its financing pattern

(Rupees in crore)

	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Decomposition of Fiscal Deficit						
	Revenue Deficit/Surplus	(-)3387	(-)386	(+)2807	(+)159	(+)1004
	Net Capital Expenditure	(-)4585	(-)7340	(-)8015	(-)6216	(-)10367
	Net Loans and Advances	(-)220	(-)574	(-)436	(-)2729	(-)3044
Financing Pattern of Fiscal Deficit						
	Market Borrowings	(+)4977	(-)1239	(+)1173	(+)6182	(+)10911
	Loans from GOI	(-)2577	(-)85	(-)875	(-)43	(-)391
	Small Savings, PF etc (Cr)	(+)5223	(+)5338	(+)4716	(+)940	(+)570
	Reserve Funds (Cr)	(+)20	(+)33	(+)19	(+)252	(+)271
	Deposits and Advances (Cr)	(+)2096	(+)1223	(+)2042	(+)3416	(-)1812
	Suspense and Misc. (Dr)	(-)1617	(+)2422	(-)1590	(-)2828	(+)4405
	Remittances (Cr)	(+)504	(+)234	(-)34	(+)943	(-)1621
	Others (Contingency Fund)	(+)23	(-)1	(+)1	(-)1	(-)6
	Overall Surplus/Deficit	(-)457	(+)375	(+)192	(-)75	(+)80

During the last three years the fiscal deficit increased mainly due to increased net capital expenditure and loans and advances disbursements. The fiscal deficit in these years was mainly met by market borrowings and surplus from public account.

1.9.3 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit²² and capital expenditure (including loans and advances) would indicate the quality of deficits in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistent high ratio of revenue deficit to fiscal deficit would indicate that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit (**Table 1.21**) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

²²see glossary at page 89

Table 1.21: Primary deficit/surplus bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure ²³	Primary revenue deficit (-) /surplus (+)	Primary deficit (-) /surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2004-05	30123	25046	4585	1593	31224	(+)5077	(-)1101
2005-06	35033	28229	7640	756	36325	(+)6804	(-)1292
2006-07	46606	34159	9904	907	44970	(+)12447	(+)1636
2007-08	60891	46394	12774	2920	62088	(+)14497	(-)1197
2008-09	63228	53797	10367	3414	67578	(+)9431	(-)4350

The ratio of revenue deficit to fiscal deficit which declined up to 2005-06 turned into surplus in three successive years. This trend shows a continuous improvement in the quality of the deficit during the period 2004-09. The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2004-09 reveals (**Table 1.21**) that throughout this period, the primary deficit was on account of expenditure incurred under capital account and loans and advances disbursed by the State Government. In other words, the non-debt receipts of the State were not only adequate to meet the primary revenue expenditure, but also met whole/part of the capital expenditure. But the surplus non-debt receipts were not enough to meet the entire capital expenditure and loans and advances resulting in primary deficit in all the years during 2004-09 except in 2006-07. This indicates the extent to which enhancement in capital expenditure resulted in primary deficit.

1.9.4 State's own revenue and deficit correction

It is worthwhile to observe the extent to which the deficit correction is achieved by the State on account of improvement in its own resources which is an indicator of the durability of the correction in deficit indicators. **Table 1.22** presents the change in revenue receipts of the State and the correction of the deficit during the last three years.

Table 1.22: Change in revenue receipts and correction of deficit

(Rupees in crore)

Parameters	2006-07	2007-08	2008-09	
			BE	Actual
Revenue Receipts (a to d)	44245	54143	70927	62858
a. State's Own Tax Revenue	23926	28794	37866	33358
b. State's Own Non- tax Revenue	6488	7064	8873	9683
c. State's Share in Central Taxes and Duties	8866	11184	12597	11802
d. Grants-in-Aid	4965	7101	11591	8015
Revenue Expenditure	41438	53984	70218	61854
Revenue Deficit/Surplus	(+)2807	(+)159	(+)709	(+)1004
Fiscal Deficit/Surplus	(-)5644	(-)8786	(-)9658	(-)12407

Though the revenue expenditure increased continuously during the period 2006-09, the State Government achieved revenue surplus by increasing its own revenue receipts to that extent indicating the durability of the correction of the deficit during the last three years. *The fiscal deficit also remained at less than 3 per cent of GSDP during 2006-08 as recommended by the TFC and projected in FRBM Act, but it increased to 3.34 per cent in 2008-09.* However fiscal deficit ratio to GSDP for 2008-09 was relaxed to 3.5 per cent by the GOI due to economic slow down facilitating the State Government to borrow more funds from the market for capital expenditure.

²³see glossary at page 89

1.10 Conclusion

The fiscal position of the State viewed in terms of the key fiscal parameters revenue, fiscal and primary deficits indicated deterioration in 2008-09 relative to the previous year. Though the revenue surplus has improved during 2008-09 by Rs 845 crore, fiscal and primary deficits have increased by Rs 3621 crore and Rs 3153 crore respectively over previous year. While the revenue account resulted in surplus in line with the TFC recommendations and the projections in FRBM Act, the ratio of fiscal deficit to GSDP was 3.34 *per cent* as against 3 *per cent* recommended by TFC but less than the relaxed target of 3.5 *per cent* by the GOI for 2008-09.

Due to effective tax administration of the State Government, the mobilization of own tax and non-tax revenue during 2008-09 (Rs 43041 crore) was higher than the normative assessment of TFC (Rs 33695 crore) as well as the targets set in its FCP (Rs 36052 crore) for the year. Revenue arrears increased significantly to Rs 6508 crore from Rs 2413 crore up to the previous year.

The expenditure pattern of the State reveals that the revenue expenditure as a *percentage* to total expenditure though indicated a declining trend up to 2007-08, increased to 82 *per cent* of total expenditure during the current year and its NPPE component at Rs 42862 crore exceeded significantly both the normative projection of the TFC for the State (Rs 35103 crore) and State's projection in its FCP (Rs 37085 crore) for 2008-09. The committed expenditure on salaries and wages, pensions, interest payments and subsidies constituted 80 *per cent* of NPPE during 2008-09. These trends in expenditure indicate the need for changing allocative priorities.

The capital expenditure in 2008-09 decreased by Rs 2407 crore over previous year and constituted 14 *per cent* of total expenditure. However, it was more than the projection of FCP at 2.79 *per cent* of GSDP. During 2008-09, while the ratio of capital expenditure to aggregate expenditure for Andhra Pradesh was less than the All States average, the per capita capital expenditure was just equal to National average indicating the less priority given by the State for capital formation.

Total fiscal liabilities at the end of the current year stood at 33.47 *per cent* of GSDP against the ceiling of 35 *per cent* prescribed in FRBM Act. The resource gap has been negative in four years out of the five year period indicating that the incremental non-debt receipts were not sufficient to meet the incremental primary expenditure and interest burden. Thus the State needs to step up its resource mobilisation as well as prune unproductive expenditure to maintain debt stability.

The negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances is a cause for concern.

Though the closing cash balance significantly decreased at the end of 2008-09, the State still holding large cash balance investment of Rs 4973 crore which earned interest at 3.43 *per cent* only against the average market borrowing of 7.88 *per cent*.

During 2008-09, GOI directly transferred Rs 4923 crore to the implementing agencies without routing through the State budget. There is no single agency monitoring the expenditure out of these funds.

The inordinate delays in completion of 30 major and medium irrigation projects leading to cost escalation of Rs 12506 crore is also a major area of concern for the State Government.