# Evaluation of Andhra Pradesh State Finances

**(Fourteenth Finance Commission's Study on Evaluation of State Finances).**


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**CONTENTS**

**PREFACE**

The fiscal scenario of Indian national and subnational governments during 1980s and more particularly in the 1990s, reminded the need for reforms to overcome the situation of fiscal crisis. Andhra Pradesh which is one of the pioneering states to initiate economic and fiscal reforms seriously in mid 1990s achieved results at reasonable level. But to accelerate the reforms to address the herculean task of fiscal (im)balancing, the cooperation and coordination mainly from the apex organizations such as Reserve Bank of India, Finance Commissions and the Central Government has become essential and inevitable.

In the Andhra Pradesh state government, the reform process brought some discipline, of course at peripheral level, and improved the fiscal situation by uplifting the revenue account deficit to revenue surplus and by bringing fiscal deficit and debt indicators within the set limits of FRBM Act. The other two equally important objectives of the state government are social and economic development. Skewed distribution of resources between and also within the sub components of these two objectives a cause of concern. Keeping aside the non-plan plan conundrum, non-plan expenditure (also non-developmental expenditure), particularly interest payments burden, showed a definite downward trend during the study period which is commendable. However, the trends in plan expenditure (also developmental expenditure) are with yearly variations is not impressive but at the same time economically justifiable. The effect of economic slowdown was more on economic development oriented activities but not on the social sector. Within the social sector, enough focus has not been on the social development particularly education and health and thus lagging in the human development achievements.

Each one of these issues covered comprehensively in this study, as per the ToR of the Fourteenth Finance Commission.

I hope this report would serve the purpose for which the study has been sponsored by Fourteenth Finance Commission, Government of India.

DIRECTOR

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Meeting of the Fourteenth Finance Commission members at *Meeting with Economist Experts for Southern Region States at IIT, Chennai* is highly acknowledged.

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## ABBREVIATIONS

Andhra Pradesh Electricity Regulatory Commission (APERC)

Andhra Pradesh Electricity Reform Act (APER Act)

Andhra Pradesh Municipal Corporations Act (APMC Act)

A P Power Sector Restructuring Programme (APPSRP)

AP Economic Restructuring Project (APERP)

Balance from Current Revenues (BCR)

Basic Services to the Urban Poor (BSUP),

Centrally Sponsored Schemes (CSS)

Comptroller and Auditor General of India (CAG)

Debt Consolidation and Relief Facility (DCRF)

Debt Swap Scheme (DSS)

Departmental Commercial Enterprises (DEs)

Departmental Commercial Undertakings (DCUs)

Fiscal Responsibility and Budget Management Act (FRBM)

Girijan Cooperative Corporation (GCC)

Greater Hyderabad Municipal Corporation (GHMC)

Government of Andhra Pradesh (GoAP)

Government of India (GoI)

Goods and Services Tax (GST)

Gross Fiscal Deficit (GFD)

Gross State Domestic Product (GSDP)

Hyderabad Municipal Corporations Act, 1955 (HMC Act)

Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB)

Integrated Housing and Slum Development Programme (IHSDP).

Jawaharlal Nehru National Urban Renewal Mission (JnNURM)

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)

Macro Economic Framework Statement (MEFS)

Management Information Systems (MIS)

Medium Term Fiscal Framework (MTFF)

Memorandum of Understanding (MoU)

Miscellaneous Capital Receipts (MCR)

Motor Vehicle Tax (MVT)

National Council for Applied Economic Research (NCEAR)

Primary Deficit (PD)

Public Enterprises (PEs)

Public Expenditure and Financial Management (PEFM)

Reserve Bank of India (RBI)

Revenue Deficit (RD)

State Finance Commission (SFCs)

State Level Public Enterprise (SLPEs)

State Public Sector Undertakings (PSUs)

State Own Revenue (SOR)

State’s Own Non-Tax Revenue (SONTR)

Thirteen Finance Commission (TFC)

Urban Infrastructure Government (UIG),

Urban Infrastructure Development of Small and Medium Towns (UIDSSMT)

Value Added Tax (VAT)

# Executive Summary

## 1. General

- Andhra Pradesh Government had commenced a number of reform measures in mid 1990s and accelerated the process thereafter in collaboration with RBI and the central government.
- In the process, augmentation of tax and non-tax revenues has been given top priority.
- Fiscal discipline - oriented measures, for instance, the rule-based policy measures such as MTFF, FRBM Act which was a prerequisite for availing of benefits under DCRF and DSS were considered crucial for expenditure and debt managements.
- The study period 2002-12 is divided into two 2002-07 and 2007-12.
- The state government started experiencing the impact of reforms.

## 2. State Own Revenues: Trends

- **Tenth Plan Period (2002-07)**

  - Consistent increase in the proportion of revenue receipts in GSDP and in total budgetary receipts due to
    a. The higher growth rate of own tax revenue.
    b. The higher growth rates of own non-tax revenue.
    c. Higher economic growth rate.

  - Higher growth rate in the share in central taxes. Its ratio in GSDP showed an increase owing to higher economic growth and fiscal reforms at the national level.

- **Eleventh Plan Period (2007-12)**

  - Fall in the growth rate of own tax and non-tax revenue in the first three years of the eleventh plan period –in some cases it was negative as well. The growth rates of almost all sources of own tax revenue declined during 2008-10.
  - Fall in the growth rate of share in central taxes and Fluctuations in the growth rates of grants-in-aid in all the years.
  - Huge increase in debt and non-debt components of capital receipts in 2007-08.
  - Relatively lower economic growth rate.
- During the study period 2002-12, the revenue from state excise was more buoyant while revenue from sale tax and stamp duty and registration fee which are just on par with the changes in the state income. Conversely MVT was not buoyant.
- During the study period, own nontax revenues constituted less than 2 percent of GSDP, 19-20 percent of state own revenues and 14-15 percent of the State's total revenues
- Nearly 50 percent of the state’s own non tax revenues come from the interest receipts and dividends mainly through the SLPEs.

- The proportion of interest receipts in GSDP was less than 1 percent throughout the study period with a declining trend.
- The state government's investments, which are mostly borrowings, are receiving lower rate of returns than the interest rate paid on the borrowings.

- **Suggestions for revenue augmentation**
- A thorough study on the tax exemptions/ concessions/incentives given under each tax is needed to take appropriate measures for the augmentation of tax revenue.
- The RBI in its yearly publications, particularly on State Finances, repeatedly stressed for the fiscal marksmanship i.e., accuracy between the budget estimates and accounts regarding receipts and expenditure and stressed the need for the fiscal discipline – one of the notable lacunae in the fiscal system.
- CAG, in its yearly audit reports, points out (i) the number of cases and the amount involved in the irregularities in the implementation of state taxes and (ii) It also discusses the amount of uncollected revenue.
- Steps towards bringing out Dividend Policy, as suggested by CAG, in order to increase the returns through dividends from the profit making SLPEs.

**3. Expenditure - Trends and Patterns**

- **Tenth Plan Period (2002-07)**

- Bulk capital disbursements under DSS during 2002-05.
- Revenue expenditure covers a major proportion of either (i) plan or non-plan expenditure, (ii) either in developmental or non-developmental, (iii) in total budgetary expenditure or in GSDP. This is followed by capital account (under plan) and loans and advances (under non-plan) accounts.

- decrease in the revenue expenditure during (2004-07) was mainly due to
    - reduced interest payments burden since bulk debt repayments under DSS
    - The effect of reform measures particularly MTFF, DCRF and FRBM Act to reach the target of zero revenue deficit by 2008-09.
    - Combined effect of the DSS, DCRF, MTFF and FRBM Act contributed to consistent growth in capital expenditure but only by one percentage point.

- **Eleventh Plan Period (2007-12)**

- Revenue expenditure/GSDP ratio decreased from 14.8 percent (2007-08) to 13.4 percent (2011-12) mainly due to:

    - Lower growth rates of GSDP

- Continuous decline in interest payments,
- The influence of fluctuating growth rate of revenue receipts on revenue expenditure owing to the norms of FRBM.

- The capital expenditure came down by 2011-12 – less than the bench mark year 2002-03.

- The proportion of total expenditure in GSDP declined in 2002-12 with yearly variations due to
  - A relatively steady decline in non-plan expenditure & non-developmental expenditure except one or two years.
  - Plan expenditure and developmental expenditure have fluctuated mainly because of the plan developmental expenditure -inconsistencies - more so in the second half.
  - Of the developmental expenditure, in spite of the fluctuations, the trends in social services show an increase but economic services were affected.
  - Within the social services the inclination was for social welfare schemes rather than social infrastructure (education and health). As urban development and housing snatched away the priority water supply and sanitation is not the extent required.

  - The reduced share of revenue expenditure in state own revenue / total revenue / revenue expenditure /GSDP was possible with the cut in committed expenditure based on the policy measures under each one of these issues: (a) Salaries and wages, (b) Interest payments, (c) Administrative services.

  - Pension liabilities showed an increasing trend throughout.
  - Introduction of Contributory Pension Scheme (2004) – solution in the long run.

  - The share of subsidies in own revenue/total revenue/revenue expenditure and GSDP increased.
  - The state government is of the view that *"subsidies are not a drain on state finances as they are the need of the hour to provide food, shelter and wage employment to all poor and vulnerable sections of the society"* and claims that it is spending sufficient amount on both social subsidies like rice subsidy and economic subsidies like power, agriculture inputs, housing etc.

  - A lion's share is bagged by the power subsidy, though its proportion has declined from 7.4 per cent during the Tenth Plan Period to 7 per cent in the Eleventh Plan Period. This may be due to the power sector reforms to reduce transmission and distribution losses and also rationalisation of free power to farmers.

**4. Deficits and Public Debt**

- **Deficit Indicators**

**Tenth Plan Period (2002-07)**

- The proportions of the revenue and fiscal deficits in GSDP declined – achieving the objective of FRBM Act two years ahead of the set time limit. Thus an increase in the capital expenditure/GSDP ratio - an improvement in the quality of expenditure.
- The primary deficit has turned into primary surplus in 2006-07.
- The impact of the revenue surplus on the other components of fiscal deficit (meant for developmental activities) is glaring.

**Eleventh Plan Period (2007-12)**

- The situation of 2002-07 has not continued during 2007-12.
- The fiscal deficit / GSDP ratio has increased in 2007-09 and declined in 2010-12
- The revenue surplus /GSDP ratio declined in 2007-09 and an improvement in 2010-12.
- The primary surplus situation (2006-07) turned negative thereafter with a higher rate.
- In addition to the overall macroeconomic deceleration, the implementation of the Central/State(s) Pay Commissions recommendations (2008-10), State finances underwent a setback but need to revert to a fiscal consolidation path.
- Thus, the fiscal scenario of Andhra Pradesh varied during the study period.

**Plan Financing and Balance from Current Revenues (BCR)**

**Tenth Plan Period (2002-07)**

- The mobilization of resources for the Tenth Plan exceeded the initial estimates. The sole contributory to this improvement was State's own resources.
- Among the components, the resources from BCR and Miscellaneous Capital Receipts (MCR) exceeded the estimates. Hence reduced dependence on borrowings as a means of plan financing.

**Eleventh Plan Period (2007-12)**

- The pattern of Plan financing gives a different picture.
- The share of State's own revenue and MCR fell sharply.
- The growth rate of tax revenue declined in 2009-10 and that of non-tax revenues was negative in 2008-09.
- An element of over estimation in the projections of resources as they were based on the previous period's rosy fiscal picture.
- Consequently there was increased dependence on borrowings in the Eleventh Plan.

**Net Public Debt and Outstanding Debt**

**Tenth Plan Period**

- The direction of bulk of the public debt raised was towards the repayment of old debt because of DSS and the balance (net debt) was too little to meet the fiscal deficit and the dependence on the public account has increased further.
- With the effect debt repayment schemes, the outstanding debt/GSDP ratio of the state declined from 30 percent (2002-03) to 25 percent (2006-07).
- The stock of contingent liabilities/GSDP declined from 9.2 percent (2002-03) to 5.8 percent (2006-07).

**Eleventh Plan Period**

- The closure of the debt repayment schemes increased the net debt availability at the disposal of the state government supplemented by the revenue account surplus situation thus keeping the state government in a better fiscal position.

- 13$^{th}$ FC suggested steady reduction in augmented debt stock for the states to less than 25 per cent of GSDP by 2014-15.
- AP's debt/GSDP ratio is well within the set limits. The debt/GSDP ratio was within the limits of the both former and revised FRBM norms.
- The proportion of combined ratio of outstanding debt and contingent liabilities in GSDP are within the set targets of FRBM/Finance Commission.

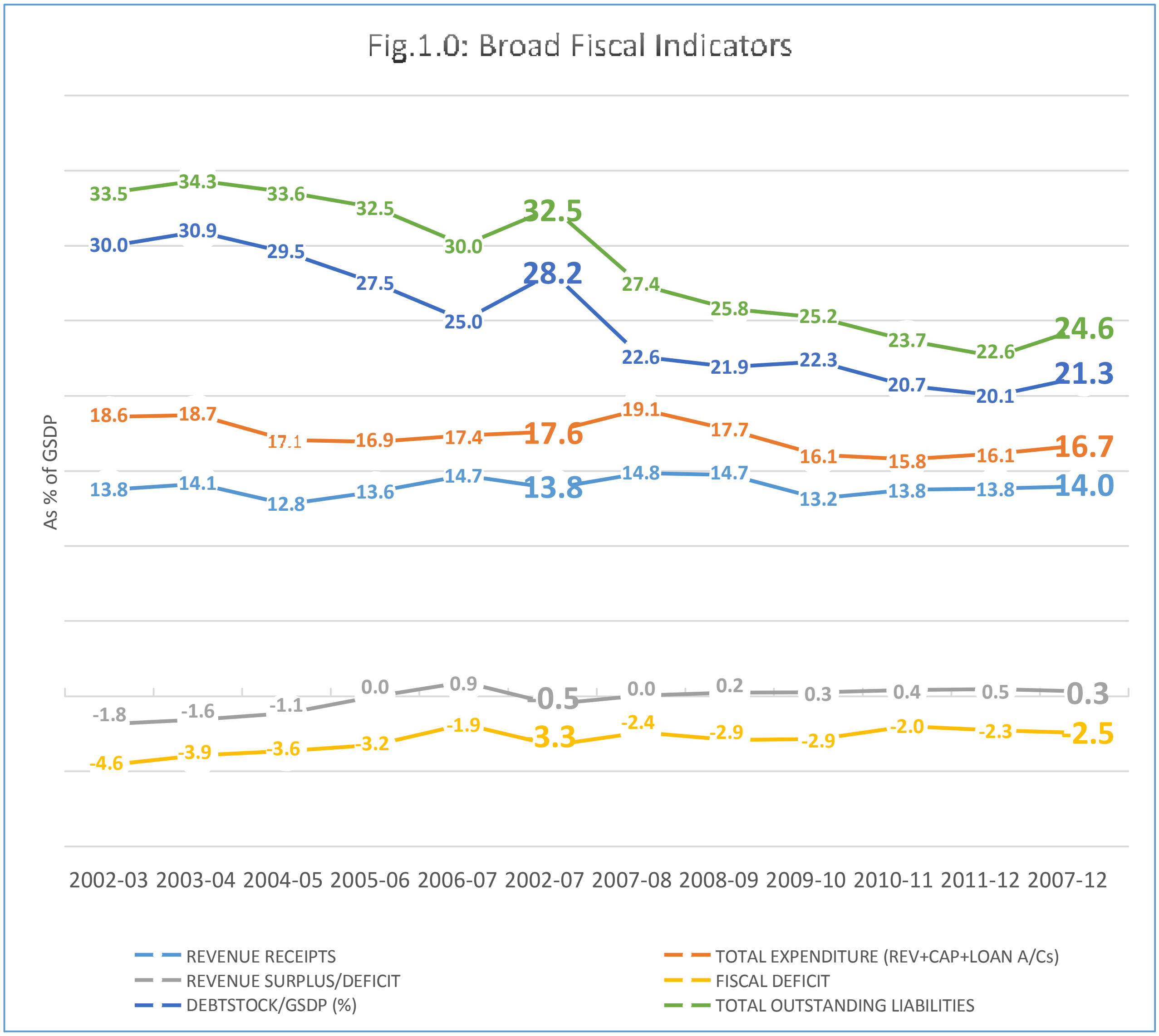
**Implementation of FRBM Act and Targets Achieved**

- The revenue and fiscal deficits were supposed to be reduced by 0.32 percent and 0.25 percent of GSDP. The government has reduced the same with varied percentages.
- However, on any year during 2007-12, the state government's deficits, outstanding debt or liabilities are within the FRBM limits – original or revised.

The summary of the results of the analysis is presented in Table 1 and depicted in Fig. 1.

Table 1.0 : Fiscal Scenario of Andhra Pradesh (As % of GSDP at Current Prices)

| Sl. No. | Particulars | X Plan Period 2002-07 | XI Plan Period 2007-12 | Total Period 2002-12 |
|---|---|---|---|---|
| **A** | **Total Receipts (1+2)** | **20.9** | **18.0** | **18.9** |
| **1** | **Revenue Receipts (a+b)** | ***13.8*** | ***14.0*** | ***13.9*** |
| **a** | **State Own Revenue** | **9.5** | **9.5** | **9.5** |
| **b** | **Central Transfers** | **4.4** | **4.5** | **4.4** |
| **2** | **Capital Receipts (a+b)** | **7.0** | **4.0** | **4.9** |
| **a** | **Loan Recoveries & Misc. Capital Receipts** | **0.5** | **0.3** | **0.4** |
| **b** | **Public Debt** | **6.6** | **3.7** | **4.6** |
| **B** | **Total Expenditure (a+b)** | **20.9** | **17.9** | **18.9** |
| **a** | **Capital Disbursements** | **3.3** | **1.2** | **1.9** |
| ***b*** | ***Total b (b1+b2+b3)*** | ***17.6*** | ***16.7*** | ***17.0*** |
| **b1** | **Revenue Expenditure** | **14.4** | **13.7** | **13.9** |
| **b2** | **Capital Expenditure** | **2.7** | **2.4** | **2.5** |
| **b3** | **Loans And Advances** | **0.5** | **0.6** | **0.6** |
| | ***Breakup of Total B(b)*** | | | |
| | ***Non Plan Expenditure*** | ***11.7*** | ***10.1*** | ***10.6*** |
| 1 | Revenue Expenditure | 11.3 | 10.1 | 10.5 |
| | *Of which Interest Payments* | ***3.0*** | ***1.8*** | ***2.1*** |
| 2 | Capital Expenditure | 0.1 | 0.0 | 0.0 |
| 3 | Loans And Advances | 0.3 | 0.1 | 0.1 |
| | ***Plan Expenditure*** | ***6.0*** | ***6.6*** | ***6.4*** |
| 1 | Revenue Account | 3.1 | 3.6 | 3.4 |
| 2 | Capital Account | 2.6 | 2.4 | 2.5 |
| 3 | Loans And Advances | 0.3 | 0.6 | 0.5 |
| | ***Deficit Indicators*** | | | |
| | ***Revenue Surplus/Deficit*** | ***-0.5*** | ***0.3*** | ***0.1*** |
| | ***Fiscal Deficit*** | ***-3.3*** | ***-2.5*** | ***-2.7*** |
| | ***Primary Deficit*** | ***-0.2*** | ***-0.7*** | ***-0.6*** |
| | ***Debt Indicators*** | | | |
| | **Debt Repaid as % of Gross Debt** | **78.1** | **36.4** | **51.6** |
| | **Outstanding Debt/Liabilities as % of GSDP** | | | |
| | **Debt stock/GSDP Ratio (%)** | **28.2** | **21.3** | **23.4** |
| | **Total Outstanding Liabilities** | ***32.5*** | ***24.6*** | ***27.0*** |
| | Total Internal Debt(1 To 12) | 18.8 | 16.4 | 17.1 |
| | Loans from the Centre | 7.6 | 3.0 | 4.4 |
| | GSDP at Current Prices | 100.0 | 100.0 | 100.0 |




**5. Impact of State Level Public Enterprises Finances on State Financial Health**

- The state government alone is the major stakeholder in the SLPEs.
- The reforms with respect to SLPEs were on a fast tract during first and second phase of reform period. The same tempo was not shown regarding winding up of certain identified nonworking companies.
- The capital share of government in SLPEs constitutes a huge amount (in proportion too).
- But the rate of return on the investment both in absolute terms as well as percentages is very nominal throughout the study period

- Besides this, the loans and advances constitute a considerable portion in the total flow of resources to the SLPEs from the budget.
- During every fiscal year, of the total budgetary outgo, nominal portion is towards equity capital while loans and grant/subsidy components take a major share. Of these two gradual shift is towards the latter.
- The revenue augmentation measures, both tax and non-tax, need to pay attention towards getting enough dividends on its investments particularly from working and profit making SLPEs.

**6. State Fiscal Transfers to Local Bodies– Andhra Pradesh Experience**

- AP remains one of the 'decentralization deficit' states in the country. On devolution index also AP is falling behind all the South Indian States.
- Income base of Village Panchayats in Andhra Pradesh is very scanty.
- The functions enshrined in the eleventh schedule of the Constitution are not fully delegated to PRIs to plan and execute schemes at the grassroots level.
- Most of the recommendations of the first and second SFC were not approved by the government.
- The strengthening of State Finance Commissions is essential to guarantee the allocation of resources to local bodies, keeping in view their developmental role for the purpose of inclusive growth.
- It is still long way to go in Andhra Pradesh to accomplish that PRIs are made genuine institutions local self govt. for efficient service delivery.
- However, regarding JNNURM, in spite of certain impediments with regard to land acquisition, encroachments, multiple utilities, court litigation etc which have either halted or slowed down the implementation of the projects, the procedures adopted for execution of the JNNURM Projects by the state as well as the Mission-Cities are well in order.

# Chapter 1

# Introduction

## 1.1. Introduction

The Andhra Pradesh state had experienced fiscal imbalances in 1980s and 1990s – the imbalance being more severe in the 1990s – similar to that of the situation both at the Centre and the other states. This has reflected in the abnormal rise in revenue and fiscal deficits subsequently the debt problem. Observing this, Andhra Pradesh Government had initiated a number of reform measures in mid 1990s - one of the pioneering States to earnestly initiate economic and fiscal reforms at the States' level in the country – and speeded up the process in collaboration with RBI and the central government. In the context of fiscal empowerment of the States, augmentation of tax (VAT) non-tax revenues (through appropriate user charges, cost recovery from social and economic services and reforming of State Public Sector Undertakings (PSUs)) have been given top priority. Debt Swap Scheme (DSS) Medium Term Fiscal Framework (MTFF) and Fiscal Responsibility and Budget Management Act (FRBM) considered crucial for expenditure and debt managements.

With the effect of reforms, the state government started experiencing the improvement in the fiscal state of affairs and transit to turn-around position. Fiscal scenario of Andhra Pradesh showed varying trends in the decade of 2000. The proportion of revenue receipts in total budgetary receipts (barring 2003-04) and also in GSDP (except in 2004-05) increased consistently due to higher growth rate of own tax revenue. The main reasons for the higher growth of own tax revenue were moderation in the rates of the stamp duty and registration fee, execution of VAT and strengthening the revenue earning departments (stamps and registration, state excise and sales tax) by providing infrastructure facilities. On the expenditure front, Medium Term Fiscal Framework (MTFF) impacted the first half of the present decade while the Fiscal Responsibility and Budget Management Act (FRBM) in the second half. With the buoyant own tax revenue complemented by the high devolution of central transfers based on the recommendations of the Twelfth Finance Commission and lower growth rates of revenue expenditure, total revenue of the state government could finance 88 percent of the revenue expenditure during

2002-03 and reached 99.8 percent in 2005-06 – nearer to revenue account balance. In 2006-07 the state reached the revenue surplus situation by nearly 7 percentage points for the first time in the present decade and after 13 years when the state government had revenue surplus situation only in 1993-94 in the entire decade of 1990s.

But this situation has not continued in subsequent years. The revenue surplus which was nearly 1 percent of GSDP in 2006-07 declined to 0.04 percent and 0.24 percent in subsequent years. The primary deficit that has reached primary surplus in 2006-07 again turned negative in the succeeding years with an increasing rate. The proportion of fiscal deficit in GSDP which was at 1.87 percent in 2006-07 has increased to 2.41 percent and 2.91 percent respectively in subsequent years. The state started experiencing turbulence in the fiscal situation which was mainly attributed to economic slowdown in 2008-09 which in turn ascribed to global slowdown. However, the accounts of 2010-11 and 2011-12 showed the proportion of revenue surplus in GSDP as 0.42 percent and 0.46 percent respectively and that of fiscal deficit was 2 percent 2.3 percent for the corresponding years. DSS and stoppage of plan loans from the centre have reduced the interest payment burden and changed the debt pattern. The declining trend in interest payments was also persisted mainly due to considerable relief to the States in terms of debt write-off and saving in interest payments on outstanding central loans under the Debt Consolidation and Relief Facility (DCRF) as recommended by the Twelfth Finance Commission.

### 1.2. The Present Context

At present fourteenth Finance Commission is constituted which is expected to submit the report, for the period 2015-2020, in the last quarter of the year 2014. The Commission has engaged the Centre to undertake a study on **Evaluation of State Finances: with Special Reference to Andhra Pradesh**.

Specifically, the study should include (and may not be restricted to) the following:

i. Estimation of revenue capacities of State and Measures to improve the tax-GSDP ratio during last five years. Suggestions for enhancing the revenue productivity of the tax system in the State.

ii. Analysis of the state's own non-tax revenues and suggestions to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.

iii. Expenditure pattern and trends separately for Non-Plan and Plan, Revenue and Capital, and major components of expenditure there under. Measures to enhance allocative and technical efficiency in expenditures during the last 5 years. Suggestions for improving efficiency in [public spending.

iv. Analysis of Deficits – Fiscal and Revenue along with Balance of Current Revenues for Plan financing.

v. The level of Debt: GSDP ratio and the use of debt (i.e whether it has been used for capital expenditure or otherwise). Composition of the state's debt in terms of market borrowing, Central government debt (including those from bilateral/multilateral lending agencies routed through the Central government), liabilities in public account (small savings, provident funds etc) and borrowings from agencies such as NABARD, LIC etc.

vi. Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various departments and aggregate.

vii. Analysis of the state's transfers to urban and rural local bodies in the state. Major decentralisation initiatives. Reforms undertaken under JNNURM conditionalities.

viii. Impact of State Public Enterprises finances on the States' financial health and measures taken to improve their performance and/or alternatives of closure, disinvestment etc.

ix. Public Expenditure and Financial Management (PEFM) Reforms implemented in the State.

x. Impact of Power Sector Reforms on States' fiscal health. In case reforms have not been implemented, the likely outcome on the States' fiscal health.

xi. Analysis of contingent liabilities of the state.

xii. Subsidies given by the States (Other than Central subsidies), its targeting and evaluation.

The evaluation study is expected to critically analyse the overall States' finances over the ten-year period with reference to above and the ToR of the 14th Finance Commission. Suggestions for improved financial performance may also be given.

### 1.3. Data Sources, Period of Study and Methodology

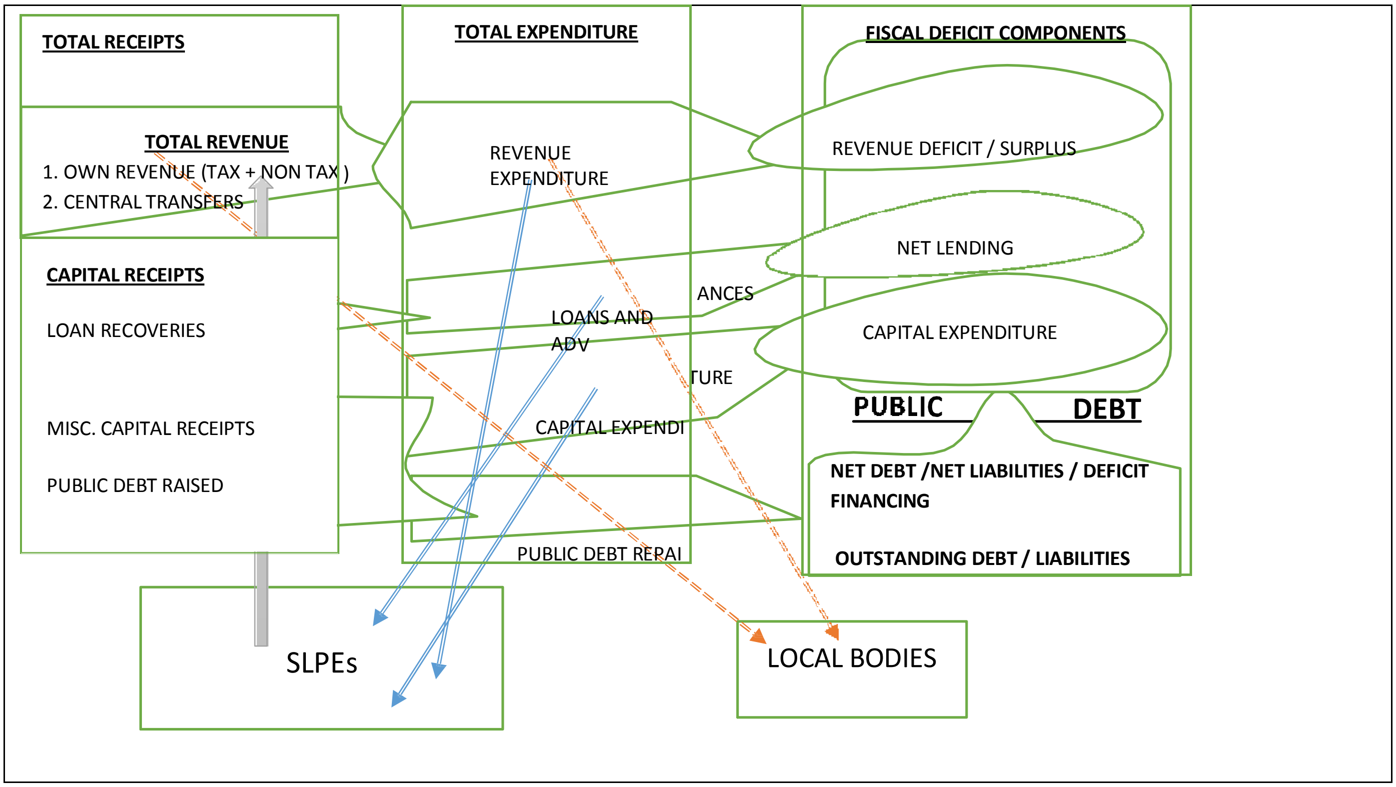
The main source of data is budget documents and related publication of the AP state government, Audit reports of the Comptroller and Auditor General, Hyderabad, RBI's State Finances - a Study of Budgets (various issues) etc (Table 1.1). As per the ToR , the study attempts to analysis the State Finances for a period of 10 years starting from 1st April, 2002, i.e., from 2002-03 to 2011-12 (accounts). As the data for the years 2012-13 and 2013-14 are revised and budget estimates respectively the present study has not taken these estimates. Since the study period coincides with the Tenth and Eleventh Plan Periods, it is divided into two 2002-07 and 2007-12 and analysis is done in a similar way as well as taking the entire period. A simple statistical tool such as percentages is used to arrive at the composition of tax revenue, expenditure or deficit or outstanding debt/ liabilities. Regression method is used to estimate tax buoyancy.

Table 1.1: Chapter-Wise Data Sources and Methodology

| Chapter No. | Chapter Title | Data Sources | Statistical Tools used | Indicators |
|---|---|---|---|---|
| 2 | State's Own Revenue: Tax and Non-Tax | 1.AP State Budget Documents<br>2.audit reports of CAG<br>3. CSO | 1. Percentages<br>2. Semi-log model for Trend Gr. Rates<br>3. Tax Buoyancies w.r.t. GSDP | 1. Tax / GSDP ratio<br>2. Relative Shares (Compositions)<br>3. year on year growth rates |
| 3 | Expenditure: Trends and Patterns | 1.AP State Budget Documents<br>2.audit reports of CAG<br>3. CSO | 1. Percentages | 1. Expenditure / GSDP ratio<br>2. Relative Shares (Compositions)<br>3. year on year growth rates |
| 4 | Deficits and Public Debt | 1.AP State Budget Documents<br>2.audit reports of CAG<br>3. CSO<br>4. Handbook of Statistics on State Government Finances 2010<br>5. RBI's State Finances: A Study of Budgets for various years<br>6. Statement of Fiscal Policy to be laid on the table of the AP State Legislature for the various years, Government of Andhra Pradesh | 1. Percentages | 1. deficit or debt / GSDP ratio<br>2. Relative Shares (Compositions) |
| 5 | Impact of State Level Public Enterprises Finances on State Finances | 1. Audit reports of CAG<br>2. AP legislature (2013): Report of the Andhra Pradesh legislative Council, Departmentally Related Standing Committee on Infrastructure Development – II, Department of Public Enterprises, Demand No.XL (2013-14), June.<br>3. Performance Report (2012) on Public Enterprises for the years 2008-09 and 2009-10, published by the Public Enterprises Department, Government of AP. | 1. Percentages | 1.State's share in SLPE's Paid up capital<br>2. Budgetary Outgo – share capital, loans and grants/subsidy to SLPEs |
| 6 | Fiscal Transfers to Local Bodies – Andhra Pradesh Experience | 1.AP State Budget in Brief<br>2.audit reports of CAG<br>3. The Ministry of Panchayat Raj, Govt of India (2006).<br>4. I.I.P.A.Survey (Alok and Chaubey, 2010).<br>5. RBI (2011): **State Finances : A Study of Budgets of 2010-11, March.**<br>6. Commissioner of Panchayati Raj, Govt. of AP. | 1. Percentages | 1. Overall Devolution Index<br>2. Financial Assistance As % of Revenue Expenditure |

## 1.4. Conceptual Framework

Fig.1.1: Conceptual Framework of the Study




## 1.5. Layout of the Study

The above mentioned twelve issues are grouped and discussed in five chapters apart from the introduction and summary and conclusion chapters. Chapters two and three highlight the major policy initiatives undertaken by the State government and their impact on the trends and patterns of state own revenues and expenditures. Chapter four appraises the consolidated budgetary position of the State governments by taking key deficit indicators (Revenue Deficit Fiscal Deficit and Primary Deficit), deficit financing, debt position and assessment of the outstanding liabilities, including contingent liabilities of the State government. The share of dividends and profits declined or remained very low indicating negligible returns from investment almost over this period. Hence the overview of reforms towards State Level Public Enterprise (SLPEs) and power sector, their finances and the budgetary outgo are given in chapter five. Chapter six analyses the state financial transfers to local bodies – the status of State Finance Commissions. Reforms undertaken under JNNURM conditionality also may be studied.

**Chapter 2**
**State Own Revenues**

**Summary of Findings**

- Andhra Pradesh Government had commenced a number of reform measures in mid 1990s and accelerated the process thereafter in collaboration with RBI and the central government.
- In the course of action, augmentation of tax and non-tax revenues has been given top priority. M*oderation of the rates of the stamp duty and registration fee, execution of VAT and strengthening the revenue earning departments (stamps and registration, state excise and sales tax) by providing infrastructure facilities have been done.*
- Fiscal discipline - oriented measures, the rule-based policy measures such as MTFF during the first half of the study period and FRBM Act in the second half which was a prerequisite for availing of benefits under DCRF, and DSS were considered crucial particularly for expenditure and debt managements.
- The study period 2002-12 is divided into two 2002-07 and 2007-12.

With the effect of reforms, the state government started experiencing the improvement in the fiscal state of affairs and transit to turn-around position.

**State Own Revenues: Trends**

- **Tenth Plan Period (2002-07)**

  - The proportion of revenue receipts in GSDP and also in total budgetary receipts increased consistently due to
    a. The higher growth rate of own tax and own non-tax revenue.
    b. Higher economic growth rate.

  - Higher growth rate of share in central taxes. Its ratio in GSDP showed an increase continuously till 2006-07 mainly because of the higher economic growth and fiscal reforms at the national level.

- **Eleventh Plan Period (2007-12)**

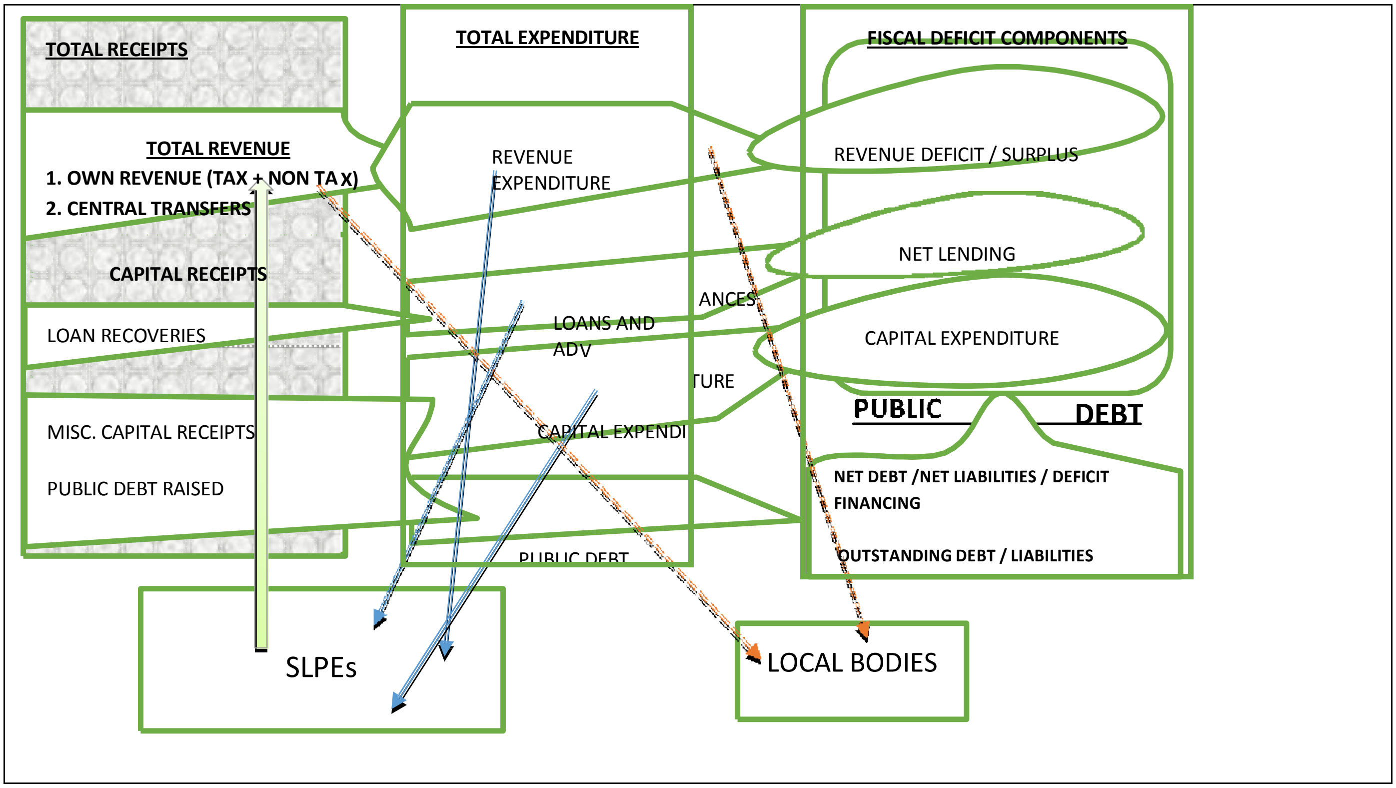
  - Fall in the growth rate of own tax revenue and also share in central taxes in the first three years of the eleventh plan period –in some cases it was negative as well.
  - Components of own tax revenue showed a declining growth rates during 2008-10.
  - Fluctuations in the growth rates of grants-in-aid in all the years.
  - Fluctuations in the growth rate of own non-tax revenue – either lower or negative.
  - Huge increase in debt and non-debt components of capital receipts in 2007-08.
  - Relatively lower economic growth rate.
- During 2002-12, the revenue from state excise was more buoyant while revenue from sale tax and stamp duty and registration fee which are just on par with the changes in the state income. Conversely MVT was not buoyant.

- **Suggestions for revenue augmentation**
- A thorough study on the tax exemptions/ concessions/incentives given under each tax is needed to take appropriate measures for the augmentation of tax revenue.
- Low and declining proportions of interest receipts in GSDP is really a cause of concern. The state government's investments, which are mostly borrowings, are receiving lower rate of returns than the interest rate paid on the borrowings.
- The RBI in its yearly publications, particularly on State Finances, repeatedly stressed for the fiscal marksmanship i.e., accuracy between the budget estimates and accounts regarding receipts and expenditure and stressed the need for the fiscal discipline – one of the notable lacunae in the fiscal system.
- CAG, in its yearly audit reports, points out (i) the number of cases and the amount involved in the irregularities in the implementation of state taxes and (ii) It also discusses the amount of uncollected revenue.

# Chapter 2

# State Own Revenues

Fig.2.0: Roadmap –State Own Revenue




## 2.1. Introduction

Revenue augmentation has assumed special importance in the context of the imperatives to reduce fiscal imbalances at the State Government level. These measures broadly aim at enhancement of the tax revenue receipts by changing the tax structure - revision of tax rates, broadening of tax base - and improving tax compliance. Other important initiatives relate to the preparatory work for introduction of Value Added Tax (VAT). Measures in the area of non-tax revenue include rationalization of fee or user charges. The reform process gathered momentum during this period under the aegis of the RBI and the central government. This chapter[1] focuses on the time trend analysis of own revenues (tax and non-tax) of the Andhra Pradesh State government.

**Data Sources, Methodology**

The main data sources are Andhra Pradesh State Government Budget Documents and Audit Report (State Finances), Audit Reports (Revenue Receipts) of CAG for various years. Gross State Domestic Product (GSDP) at current market prices is taken from the CSO's Data book for DCH; 5th December 2012. The study used simple percentages, ratios, trend growth rates using semi-log model and buoyancies of major taxes with respect of GSDP. Instead of focusing on the calculation of revenue capacity which is usually related to 'activity variables' such as income or the tax base[2], the study focused on the tax effort which refers to the various administrative efforts to expand the base, rationalization of the tax structure and reduction in the incidence of tax avoidance and evasion.

**Study Layout**

The rest of the study is divided into five sections. **Section two** gives the trends in the broad categories of (i) total receipts - revenue and capital, (ii) total revenue receipts – own revenue and central transfers. **Section three** focuses on the trend analysis of each of the major state own tax revenue sources and the measures to improve tax-GSDP ratio during last five years. **Section four** discusses about the trends in own non-tax revenue sources, profits from Departmental Commercial Enterprises (DEs) and dividends from non-departmental commercial enterprises. **Section five** provides the sum up and the policy suggestions.

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[1] The first two themes as listed in the FFC's 'Study *on Evaluation of State Finances' are*

i. Estimation of revenue capacities of the State and Measures to improve the tax-GSDP ratio during last five years. Suggestions for enhancing the revenue productivity of the tax system in the State.

ii. Analysis of the state's own non-tax revenues and suggestions to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.

[2] An increase in the level of activity variables would enhance tax capacity.

## 2.2. Trends in Receipts

The aggregate receipts of the State government, like in other governments, consist of two main components - revenue and capital receipts. The aggregate receipts, during the study period 2002-12, constituted nearly 19 percent of the GSDP of which nearly 14 percent is from revenue receipts and remaining 5 percent is from capital receipts. The proportion of revenue receipts in the total receipts is 74 percent (nearly three-fourth) and the remaining 26 percent is from capital receipts[3] (Table 1).

Revenue receipts consist of state's own revenue (own tax and non-tax) and central transfers (State's share in union taxes and duties and grants-in-aid from the Centre). Of the total revenue receipts, state's own revenue constituted nearly 68 percent (of which 55 percent is from own tax while remaining 13 percent is from own non-tax revenue) and the remaining 32 is from central transfers of which about 19 percent is from states' share in central taxes and rest is in the form of grants.

This section deals with the trends in the broad categories of (i) total receipts - revenue and capital, (ii) total revenue receipts – own revenue and central transfers with a breakup of the study period into Tenth (2002-07) and Eleventh (2007-12) Plan Periods because of the reasons mentioned earlier.

*Tenth Plan Period (2002-07)*

Of the total receipts, revenue component constituted nearly two-thirds while the capital receipts covered the remaining one-third (Table 2.1).Of the total revenue receipts, during the Tenth Plan Period, the state own revenue constituted 68 percent of which own tax revenue and own non-tax revenue comprised 54 percent and 14 percent respectively. Transfers from the centre constituted remaining 32 percent of which share in central taxes and grants-in-aid accounted for 20 percent and 12 percent respectively.

The impact of reforms executed during the Tenth Plan Period (2002-07) has shown the signs of step up in the fiscal position of the state government of which key factors are mentioned below.

[3]Capital receipts comprise miscellaneous capital receipts, recoveries of loans and advances, debt receipts from internal sources such as market loans, loans from financial institutions, government of India and accruals from public account).

1. The proportion of revenue receipts in terms of GSDP (except in 2004-05) and also in total budgetary receipts (barring 2003-04) increased consistently ( Table 2.2, Fig. 2.1(a) & 2.1(b)), due to

d. The higher growth rate of own tax revenue (Table 2.2, Fig. 2.2a&b).
e. The higher growth rates of own non-tax revenue (Table 2.2).
f. Higher economic growth rate (Table 2.2).

2. Higher growth rate of share in central taxes (Table 2.2, Fig. 2.2a&b) except in 2005-06. Its ratio in GSDP showed an increase continuously till 2006-07 mainly because of the higher economic growth and fiscal reforms at the national level.

*Eleventh Plan Period (2007-12)*

The reason for the decline in the fiscal situation during the Eleventh Plan Period is attributed to economic slowdown by most policy makers and observers of the Indian economy or state economy which in turn mainly because of the external factors such as global slowdown in 2008-09 which may be true to some extent. But AP state economy has been showing several causes of concern even before the external factors started pouring in. For instance, the year on year growth rate of registered manufacturing sector (at 2004-05 prices) which was at 22 percent in 2006-07 declined to 8 percent in 2007-08. Similarly the corresponding growth rates for the mining and quarrying sector declined from 49 percent in 2006-07 to 7 percent in 2007-08. Under the service sector, the income from trade, hotels and restaurants declined from year on year growth rate of 17 percent in 2006-07 to nearly 9 percent in 2007-08.[4] Overall, the growth rate of GSDP was marginal in 2007-08 (Table 2.2).

The impact of the above situation reflected on some of the revenue receipts of AP State government. During the Eleventh Plan Period (2007-12), the share of revenue receipts in the total receipts constituted about 78 percent which is higher than that of Tenth Plan Period ( i.e, 66 percent) mainly because of the reason that the revenue receipts (capital receipts) component reached higher (lower) plane in the last two years of the Tenth Plan Period and remained there during the Eleventh Plan Period

[4] AP Economic Survey 2011-12

too (Table 2.1 and Fig: 2.1(a)). But the year-wise breakup shows that in 2007-08 the relative share of revenue receipts in total receipts has declined to 72 percent i.e., almost by 7 percentage points and then increased with marginal inter-year variations between 76 and 79 percent in the remaining years of the Eleventh Plan Period. In terms of GSDP, the proportion of revenue receipts showed a negligible growth in the first two years of the Eleventh Plan Period and a sudden decline in 2009-10 and thereafter a marginal increase in the last two years i.e., 2010-11 and 2011-12 respectively (Fig. 2.1(b)). Capital Receipts / GSDP proportion was very high at 5.6 percent in 2007-08 and oscillated between 4.2 and 4.6 percent in the remaining years of the eleventh plan period. Either the fall or variations in the proportion of total revenue/total receipts during Eleventh Plan Period is mainly attributed to

1. Fall in the growth rate of own tax revenue and also share in central taxes in the first three years of the eleventh plan period (Table 2.2, Fig: 2.2a&b) – the year of economic slowdown (2008-09) and its previous (2007-08) and successive (2009-10) years. In short, yearly growth rate of major tax sources declined and in some cases it was negative as well. Almost all sources of own tax revenue showed a declining growth rates during 2008-09 and 2009-10.

2. Fluctuations in the growth rates of grants-in-aid in all the years (Table 2.2Fig: 2.2a&b).
3. Fluctuations in the growth rate of own non-tax revenue[5] (Table 2.2Fig: 2.2a&b) – either lower (2007-08 & 2011-12) or negative (2009-10).
4. Huge increase in debt and non-debt components of capital receipts in 2007-08.
5. Relatively lower economic growth rate.

In brief, the trends in the receipts of Andhra Pradesh state government showed varying trends in the study period – consistent upward movement in the revenue receipts and reaching the higher plane during the first half while fluctuations in the second half continuing in the higher plane.

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[5] Receipts of Rs 1889 crore, Rs 6558 crore in 2006-07 and 2007-08 respectively on account of sale of land and buildings were classified under *Miscellaneous Capital Receipts* instead of under revenue receipts as per the accounting norms. The same was shifted to revenue account under the head *Miscellaneous General Services*. see Audit Report (Civil) for the years ended 31 March 2007and 2008 and Audit Report (Revenue Receipts) for the year ended 31 March 2009

Table 2.1: Receipts of the Andhra Pradesh State Government –Tenth and Eleventh Plan Periods (%)

| Sl. No. | Receipts | As % of GSDP | | | Composition of Total Receipts | | | Sub-Component Shares (%) | | | Exponential Growth Rate* | | | Year on Year Growth rate (Average) (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Plan period | | | Plan period | | | Plan period | | | Plan period | | | Plan period | | |
| | | X | XI | Total | X | XI | Total | X | XI | Total | X | XI | Total | X | XI | Total |
| **I** | **Revenue Receipts** | **13.85** | **13.99** | **13.94** | **66.27** | **77.84** | **73.88** | **100.00** | **100.00** | **100.00** | *15.68* | *13.47* | *15.99* | 15.46 | 16.42 | 15.94 |
| 1 | Shared Taxes | 2.74 | 2.67 | 2.70 | 13.14 | 14.88 | 14.29 | 19.82 | 19.12 | 19.34 | *17.56* | *11.79* | *15.59* | 17.10 | 15.31 | 16.21 |
| 2 | Own Tax Revenue | 7.54 | 7.68 | 7.64 | 36.06 | 42.77 | 40.47 | 54.41 | 54.95 | 54.78 | *16.31* | *15.33* | *16.30* | 15.83 | 17.60 | 16.71 |
| 3 | Own Non Tax Revenue | 1.94 | 1.84 | 1.87 | 9.27 | 10.26 | 9.92 | 13.99 | 13.18 | 13.43 | *14.81* | *11.10* | *14.74* | 18.10 | 14.60 | 16.35 |
| 4 | Grants In Aid | 1.63 | 1.78 | 1.74 | 7.81 | 9.92 | 9.20 | 11.78 | 12.74 | 12.45 | *11.42* | *10.55* | *16.88* | 16.77 | 17.61 | 17.19 |
| **II** | **Capital Receipts** | **7.05** | **3.98** | **4.93** | **33.73** | **22.16** | **26.12** | - | - | - | - | - | - | -7.45 | 17.18 | 4.86 |
| **III** | **Total (I+II)** | **20.90** | **17.97** | **18.87** | **100.00** | **100.00** | **100.00** | - | - | - | - | - | - | 6.55 | 16.03 | 11.29 |

*Semi Log Trend Equation; X Plan Period = 2002-07 and XI plan Period = 2007-12

Source: Budget-in- Brief, Government of Andhra Pradesh (various years)

Table 2.2: Trends in the Receipts of the Andhra Pradesh State Government (%)

| **Sl. No.** | Receipts | **2002-03** | **2003-04** | **2004-05** | **2005-06** | **2006-07** | **2007-08** | ***2008-09*** | **2009-10** | **2010-11** | **2011-12** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **As Percentage of GSDP at Current Prices (%)** | | | | | | | | | |
| ***I*** | ***Revenue Receipts*** | ***13.8*** | ***14.1*** | ***12.8*** | ***13.6*** | ***14.7*** | ***14.8*** | ***14.7*** | ***13.2*** | ***13.8*** | ***13.8*** |
| 1 | Shared Taxes | 2.6 | 2.7 | 2.7 | 2.7 | 2.9 | 3.1 | 2.8 | 2.5 | 2.6 | 2.6 |
| 2 | Own Tax Revenue | 7.6 | 7.3 | 7.2 | 7.5 | 7.9 | 7.9 | 7.8 | 7.2 | 7.7 | 7.9 |
| 3 | Own Non Tax Revenue | 2.1 | 1.9 | 1.7 | 1.8 | 2.2 | 1.9 | 2.3 | 1.6 | 1.8 | 1.7 |
| 4 | Grants In Aid | 1.5 | 2.3 | 1.2 | 1.6 | 1.6 | 1.9 | 1.9 | 1.9 | 1.7 | 1.6 |
| ***II*** | ***Capital Receipts*** | ***9.2*** | ***11.6*** | ***7.8*** | ***5.2*** | ***4.0*** | ***5.6*** | ***4.1*** | ***4.2*** | ***3.3*** | ***3.4*** |
| ***III*** | ***Total Receipts (I+II)*** | ***23.0*** | ***25.7*** | ***20.6*** | ***18.9*** | ***18.7*** | ***20.5*** | ***18.8*** | ***17.4*** | ***17.1*** | ***17.2*** |
| | | **Total Receipts - Relative Share (%)** | | | | | | | | | |
| **I** | **Revenue Receipts** | **60.0** | **55.0** | **62.2** | **72.2** | **78.6** | **72.4** | **78.2** | **75.7** | **80.5** | **80.3** |
| 1 | Shared Taxes | 11.3 | 10.4 | 13.1 | 14.4 | 15.7 | 15.0 | 14.7 | 14.2 | 15.1 | 15.2 |
| 2 | Own Tax Revenue | 32.9 | 28.3 | 35.2 | 39.8 | 42.5 | 38.5 | 41.5 | 41.2 | 44.9 | 45.7 |
| 3 | Own Non Tax Revenue | 9.2 | 7.4 | 8.1 | 9.7 | 11.5 | 9.5 | 12.0 | 9.1 | 10.7 | 10.0 |
| 4 | Grants In Aid | 6.6 | 9.0 | 5.8 | 8.3 | 8.8 | 9.5 | 10.0 | 11.2 | 9.8 | 9.3 |
| ***II*** | ***Capital Receipts*** | ***40.0*** | ***45.0*** | ***37.8*** | ***27.8*** | ***21.4*** | ***27.6*** | ***21.8*** | ***24.3*** | ***19.5*** | ***19.7*** |
| ***III*** | ***Total Receipts (I+II)*** | ***100.0*** | ***100.0*** | ***100.0*** | ***100.0*** | ***100.0*** | ***100.0*** | ***100.0*** | ***100.0*** | ***100.0*** | ***100.0*** |
| | | **Composition of Receipts - Revenue Account (%)** | | | | | | | | | |
| **I** | **Revenue Receipts** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| 1 | Share In Central Taxes | 18.8 | 18.9 | 21.1 | 19.9 | 20.0 | 20.7 | 18.8 | 18.8 | 18.8 | 19.0 |
| 2 | Own Tax Revenue | 54.9 | 51.4 | 56.5 | 55.1 | 54.1 | 53.2 | 53.1 | 54.4 | 55.7 | 57.0 |
| 3 | Own Non Tax Revenue | 15.3 | 13.4 | 13.1 | 13.5 | 14.7 | 13.0 | 15.4 | 12.1 | 13.2 | 12.5 |
| 4 | Grants In Aid | 11.0 | 16.3 | 9.3 | 11.5 | 11.2 | 13.1 | 12.8 | 14.8 | 12.2 | 11.6 |
| | | Growth Rate Over Previous Year (%) | | | | | | | | | |
| **I** | **Revenue Receipts** | 5.3 | 16.8 | 7.0 | 21.2 | 27.0 | 22.4 | 16.1 | 2.9 | 25.2 | 15.5 |
| 1 | Shared Taxes | 6.3 | 17.4 | 19.5 | 14.7 | 27.6 | 26.1 | 5.5 | 2.9 | 25.5 | 16.5 |
| 2 | Own Tax Revenue | 9.2 | 9.4 | 17.7 | 18.2 | 24.6 | 20.3 | 15.9 | 5.4 | 28.3 | 18.0 |
| 3 | Own Non Tax Revenue | 21.0 | 2.1 | 4.2 | 24.9 | 38.3 | 8.9 | 37.1 | -19.4 | 37.4 | 9.1 |
| 4 | Grants In Aid | -23.4 | 72.8 | -38.9 | 49.3 | 24.1 | 43.0 | 12.9 | 19.2 | 3.6 | 9.3 |
| ***II*** | ***Capital Receipts*** | -26.6 | 43.2 | -20.6 | -23.2 | -10.0 | 70.8 | -14.9 | 18.4 | -5.6 | 17.2 |
| ***III*** | ***Total Receipts (I+II)*** | -10.3 | 27.4 | -5.4 | 4.4 | 16.7 | 32.7 | 7.5 | 6.3 | 17.8 | 15.8 |
| | | Growth Rate Over Previous Year (%) | | | | | | | | | |
| | GSDP at current prices | 6.6 | 13.7 | 18.3 | 13.9 | 17.6 | 21.2 | 17.0 | 14.9 | 20.1 | 14.8 |
| | GSDP at 2004-05 prices | 2.7 | 9.3 | 8.2 | 9.6 | 11.2 | 12.0 | 6.9 | 6.0 | 10.0 | 6.8 |

Source: As per Table 2.1

For GSDP growth rates CSO's Data book for DCH; 5th December 2012.

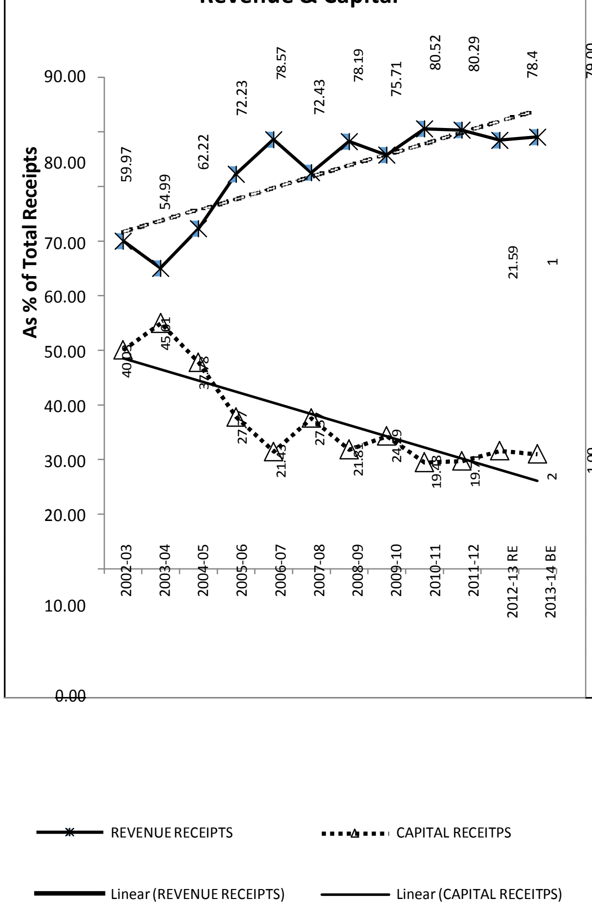



**Fig 2.1a: Composition of Receipts Revenue & Capital**

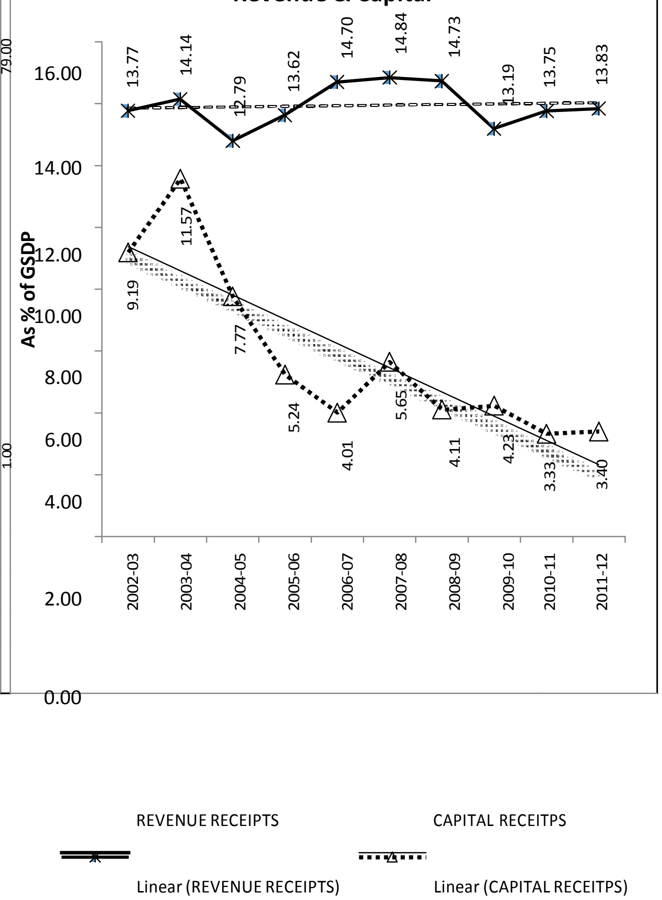



**Fig 2.1b: Trends in Receipts Revenue & Capital**

Source: As per Table 2.1

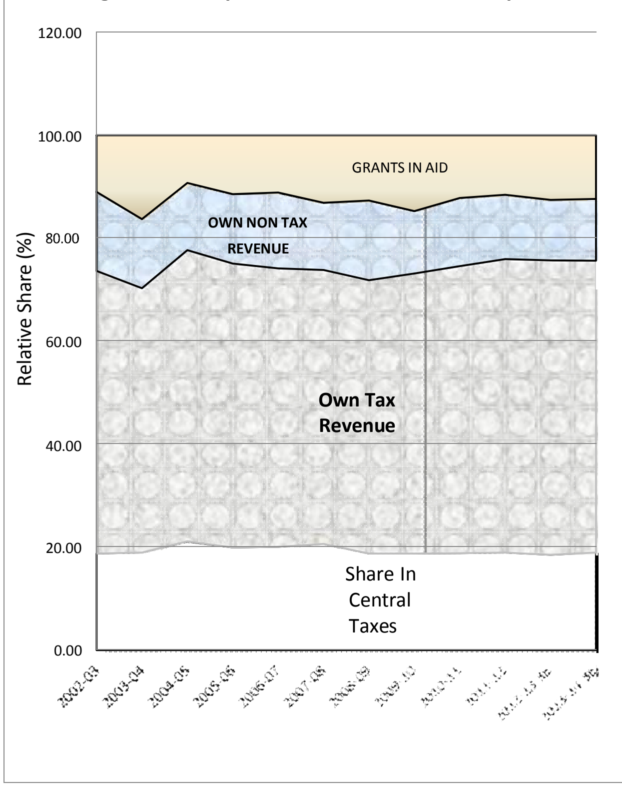



**Fig 2.2a: Composition of Revenue Receipts**

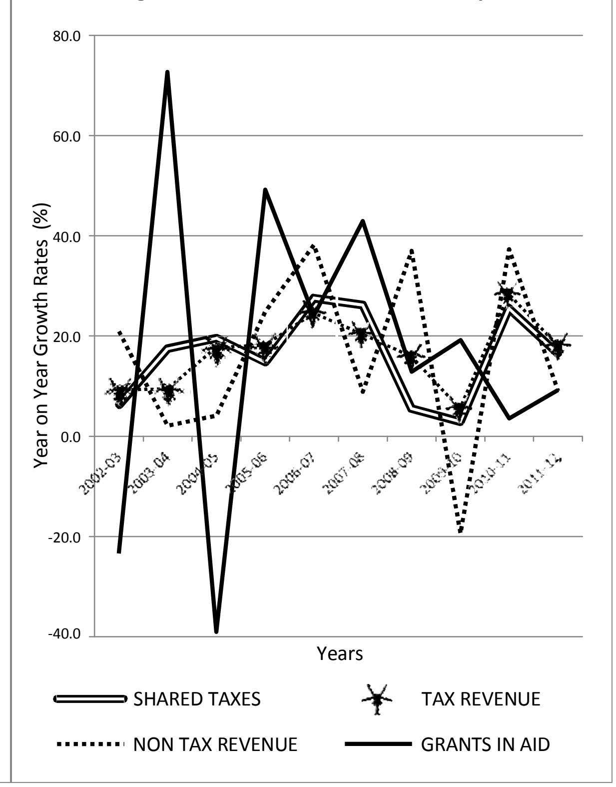



**Fig 2.2b: Trends in Revenue Receipts**

Source: As per Table 2.1

## 2.3. Major State Own Tax Revenue Sources

This section is divided into three parts (a) Trends in major state own tax revenue resources and (b) Measures taken up to improve tax-GSDP ratios ( c) suggestive measures for the revenue augmentation. The major state taxes are State Excise, Sales tax/Value Added Tax, Motor Vehicle Tax and Tax on Goods and Passengers, Stamp Duty and Registration Fee. Taxes on Professions, Trading and Callings and other taxes and duties such as Entertainment Tax, Luxury and Betting Tax, Tax on Electricity are other sources of tax revenue to the state government.

*(a)Trend in major state own tax revenue resources*

During the study period 2002-12, the revenue from state excise was more buoyant while revenue from sale tax and stamp duty and registration fee which are just on par with the changes in the state income. Conversely MVT was not buoyant (Table 2.3).

Table 2.3: Tax Buoyancies w.r.t. GSDP (2002-12)

| | Tax Revenue | TAX BUOYANCY W.R.T.GSDP |
|---|---|---|
| 1 | Stamps& Registration | 1.01 |
| 2 | **State Excise** | **1.25** |
| 3 | Sales Tax | 1.02 |
| 4 | Total MVT | 0.76 |
| 5 | State Own Tax Revenue (SOTR) | 1.03 |
| 6 | state own non-tax revenue | 0.93 |
| 7 | State Own Revenue (tax + nontax) | 1.01 |

Source: estimated using the data source as Table 2.1.

During the study period (2002-12), the major contributor of the own tax revenue of Andhra Pradesh state government is sales tax which constituted around 66 percent, followed by state excise (16 percent), stamp duty and registration fee (nearly 9 percent), motor vehicle tax (6 percent) and other taxes (3 percent) such as land revenue, tax on immovable property, profession tax, taxes and duties on electricity and entertainment tax etc. Similar order found in terms of State own revenue, total revenue and GSDP but not in yearly growth rates (Table 2.4).

The breakup of the study period shows that during the Tenth Plan Period (2002-07) the relative positions of the tax revenues in the state's own tax revenue, own revenue, total revenue and GSDP remained unchanged but not in yearly growth rates. In this period, revenue augmentation measures such as moderation of the rates of the stamp duty and registration fee, execution of VAT and strengthening the revenue earning departments (stamps and registration, state excise and sales tax) by providing infrastructure facilities have been done.

During the Eleventh Plan Period, the relative positions of components of state own tax revenue has not changed in terms of state own tax revenue, State own revenue, total revenue and GSDP. But there was a decline in the ratios of Stamp duty and registration fee mainly because of the huge decline in its average annual growth rate. Reverse was the situation regarding state excise. The proportion of MVT revenue declined in spite of its higher growth rate. The proportion of sales tax revenue in terms of state own tax revenue, total revenue declined while in State own revenue, and GSDP shown an increase because of the moderate average annual growth rate.

As mentioned earlier in the first half of the study period, most of the tax revenue sources show a consistent uptrend while experiencing inconsistencies with downtrend remaining at the higher level. The exponential growth rates of major /minor tax revenues of the state show that during the second half of the study period the major taxes such as stamp duty and registration fee, sales tax and taxes such as land revenue and tax on goods and passengers, tax on income and expenditure declined. However, the revenue from state excise and motor vehicles tax, electricity and other taxes shows a higher growth rate (Table 2.5).

Table 2.4: COMPONENTS OF STATE'S OWN TAX REVENUE OF ANDHRA PRADESH

| Period | Land Revenue | Stamps& Registration | Tax on immovable property other than agriculture land | State Excise | Sales Tax | MVT | Tax on goods &passengers | Total (6+7) | other taxes* |
|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| | As Percentage of State Own Tax Revenue (%) | | | | | | | | |
| 2002-07 | 0.39 | 9.72 | 0.05 | 13.90 | 66.07 | 6.83 | 0.26 | 7.09 | 2.83 |
| 2007-12 | 0.41 | 8.62 | 0.25 | 17.12 | 65.68 | 5.63 | 0.07 | 5.69 | 2.47 |
| 2002-12 | 0.41 | 8.96 | 0.19 | 16.14 | 65.80 | 5.99 | 0.12 | 6.12 | 2.58 |
| | As Percentage of Own Revenue (%) | | | | | | | | |
| 2002-07 | 0.31 | 7.74 | 0.04 | 11.07 | 52.61 | 5.44 | 0.21 | 5.64 | 2.25 |
| 2007-12 | 0.33 | 6.95 | 0.20 | 13.81 | 52.97 | 4.54 | 0.05 | 4.59 | 1.99 |
| 2002-12 | 0.33 | 7.19 | 0.15 | 12.96 | 52.86 | 4.81 | 0.10 | 4.91 | 2.07 |
| | As Percentage of Total Revenue (%) | | | | | | | | |
| 2002-07 | 0.21 | 5.31 | 0.03 | 7.60 | 36.12 | 3.73 | 0.14 | 3.87 | 1.55 |
| 2007-12 | 0.23 | 4.74 | 0.14 | 9.41 | 36.09 | 3.09 | 0.04 | 3.13 | 1.36 |
| 2002-12 | 0.22 | 4.91 | 0.10 | 8.85 | 36.10 | 3.29 | 0.07 | 3.36 | 1.42 |
| | As Percentage of GSDP | | | | | | | | |
| 2002-07 | 0.03 | 0.74 | 0.00 | 1.05 | 5.00 | 0.52 | 0.02 | 0.54 | 0.21 |
| 2007-12 | 0.03 | 0.66 | 0.02 | 1.32 | 5.05 | 0.43 | 0.01 | 0.44 | 0.19 |
| 2002-12 | 0.03 | 0.69 | 0.01 | 1.23 | 5.03 | 0.46 | 0.01 | 0.47 | 0.20 |
| | Year on Year Growth Rate (%) | | | | | | | | |
| 2002-07 | 88.84 | 29.53 | 129.77 | 16.22 | 14.96 | 7.99 | 82.78 | 8.51 | 10.79 |
| 2007-12 | 9.37 | 10.48 | 67.76 | 23.85 | 17.82 | 17.19 | -0.28 | 16.65 | 15.04 |
| 2002-12 | 49.11 | 20.00 | 98.77 | 20.03 | 16.39 | 12.59 | 41.25 | 12.58 | 12.91 |

* (incl. tax on electricity other taxes on income & expenditure other taxes and duties

Source: As per Table 2.1.

Table 2.5: State Own Tax Revenue - Exponential Growth Rates

| | Tax Revenue | 2002-07 | 2007-12 | 2002-12 |
|---|---|---|---|---|
| 1 | Land Revenue | 12.40 | 2.16 | 16.48 |
| *2* | *Stamps& Registration* | *27.00* | *9.71* | *15.99* |
| 3 | Tax on immovable property other than agricultural land | 29.24 | 14.03 | 48.68 |
| *4* | *State Excise* | *15.69* | *20.96* | *19.77* |
| *5* | *Sales Tax* | *15.83* | *15.02* | *16.10* |
| *6* | *MVT* | *10.07* | *16.21* | *12.42* |
| 7 | Tax on goods & passengers | 14.84 | -43.07 | -16.87 |
| *8* | *Total MVT (6+7)* | *10.18* | *15.26* | *11.97* |
| *9* | other taxes (incl. tax on electricity other taxes on income & expenditure other taxes and duties (9+10+11) | 10.20 | 10.59 | 12.85 |
| 10 | *State Own Tax Revenue (SOTR)* | *16.31* | *15.33* | *16.30* |
| 11 | *state own non-tax revenue* | *14.81* | *11.10* | *14.74* |
| 12 | *State Own Revenue (tax + non-tax)* | *16.00* | *14.50* | *16.00* |

Note: Exponential Growth Rate Semi Log Trend Equation

Source: As per Table 2.1.

*Revenue Trends- Tax–wise / year-wise*

Appendix Tables 2.1A and 2.2A provides the trends of each one of the own taxes of the state government.

**Revenue from Sales Tax /VAT**

Year wise breakup of sales tax revenue during the first half of the study period shows that its proportion in own tax revenue increased in 2003-04 and 2004-05 and declined in the following two years i.e., 2005-06 and 2006-07. However the relative share of one source of revenue varies with its own growth rate and also with the growth rates of other sources of revenue. In terms of GSDP it has increased in all the years of the Tenth Plan Period except in 2003-04. In 2003-04 and 2004-05 the year on year growth rate of sales tax revenue was high at 10 percent and 20 percent respectively. The growth rates in 2005-06 (due to hike in petrol prices) and 2006-07(due to implementation of VAT) though high, it fluctuated between 17-20 percent.

The proportion of sales tax revenue in own tax revenue of the state fluctuated throughout the Eleventh Plan Period and hence the average of 2007-12 is marginally lower than that of previous period. In terms of GSDP, it has declined to less than 5 percent in 2008-09, 2009-10 and 2010-11 and reached the point where it was in 2002-03 and 2003-04. However, in 2011-12 it was 5.16 percent but still lower than the initial year of Eleventh Plan Period i.e., 2007-08. But on the whole, the average proportion of sales tax in terms of GSDP is very negligibly / slightly higher than that of previous period. Year on year growth rates of sales tax revenue though fluctuated throughout the Eleventh Plan Period, its average remained higher than that of the previous period as it has reached the higher plane in the initial year of the Eleventh Plan Period.

**Revenue from State Excise Duties**

While there was a lower growth rate in this source of revenue during 2003-04 and 2004-05, it shows a consistent increase in the last three years of the Tenth Plan in terms of both own tax revenue and GSDP. Its yearly growth rates were high in 2005-06 and 2006-07 mainly due to increase in license fee, sales, issue of new licenses to bars and clubs.

The revenue from state excise duty in terms of GSDP and state own tax revenue reached a higher plane during the Eleventh Plan Period mainly because of its substantial growth rate (above 40 percent) in

2008-09 and 2010-11. Such a high growth is mainly due to the increase in receipts of taxes on foreign liquors and spirits. The growth rate of revenue from state excise declined in 2007-08 and 2009-10 when compared to the preceding years.

**Revenue from Stamp Duty and Registration Fee**

Stamp Duty and Registration Fee, another major source of tax revenue to the state government shows an increasing trend in all the five years of the Tenth Plan Period, particularly very high in the last two years. The increase in 2002-03 and 2003-04 was due to revision of market values and structure rates, payments made by AP Transco on bonds, stringent measures taken by the department and post facto inspections and reviews with departmental officers. In 2004-05 and 2005-06 the increase was attributed to increase in the number of transactions.

During the Eleventh Plan Period, the revenue from Stamp Duty and Registration Fee, in terms of both own tax revenue and GSDP was 10.7 and 0.8 percent respectively in 2007-08 but declined to less than 9 percent and less than 0.8 percent respectively in the remaining four years of the plan period mainly because of the economic slowdown impacted by global slowdown. The yearly growth rate of revenue from stamp duty and registration fee drastically declined from 42 percent in 2006-07 to nearly 8 percent in 2007-08 and recorded a negative growth rate at 5 percent and 10 percent in subsequent two years i.e., revenue from this source declined in absolute terms also. Thus the growth rates were lower (in 2007-08) and negative (in 2008-10) in the first three years of the Eleventh Plan Period. In 2010-11 its proportion has increased mainly because of the substantial growth in the revenue receipts due to the revision of market value of properties and withdrawal of exemptions of stamp duty on flats with plinth area of less than 1200 square feet.

**Revenue from Motor Vehicle Taxes**

Revenue from Motor Vehicle Taxes shows a declining trend in terms of GSDP during the entire Tenth Plan Period. In terms of state own tax revenue it was 7.4 and 7.7 percent in 2002-03 and 2003-04 respectively and then declined consistently mainly because of its heavy fluctuations in the year on year growth rates. The increase in 2003-04 was mainly due to the increase in the rate of taxes as well as buoyancy in the registration of vehicles while it was mainly due to an increase in the number of registrations in 2005-06.

The revenue from Motor Vehicle Taxes in terms of state own tax revenue and GSDP, during the Eleventh Plan Period, was around 5.7 percent and 0.44 percent respectively which are lower than the previous period, in spite of its higher average growth rate which in turn because of its abnormally high growth rate at 31 percent in 2010-11.The increase was on account of growth in auto sector; bringing the construction equipment vehicles into lifetime tax fold, increase in life tax for four wheelers and drive for collection of quarterly tax.

**Other Sources of Tax Revenue**

Other sources of tax revenue put together – Land Revenue, Tax on Immovable Property other than Agriculture Land, Tax and Duties on Electricity, Tax on Income and Expenditure and Other Taxes and Duties which include Profession Tax and Entertainment Tax etc - constitute a nominal portion in terms of GSDP around 3 percent in State own tax revenue with huge /lower / negative growth rates.

During the Eleventh Plan Period, receipts from Land Revenue and Tax on Immovable Property are either consistent or shows a nominal increase in terms of GSDP or state own tax revenue in spite of the decline in the yearly growth rates. Reverse was the case with tax on electricity or other taxes and duties which fluctuated with a down trend in spite of the increase in their growth rates.

*(b) Measures to improve tax-GSDP ratios*

Besides the above mentioned reasons for the higher growth rate of tax revenue, the important measures taken up by the state government during the study period and the results are listed in the table 2.6. This shows that most of the reform measures for the revenue augmentation were taken during 2002-07 and 2007-08 efforts which helped to withstand the crisis in 2008-09. Once again measures like emphasis on fiscal prudence and strive to augment tax revenues by systematically strengthening the revenue earning departments and by increasing their allocations, simplifying rules and procedures, improving staff management, training and other facilities initiated in 2011-12.

*Table 2.6: Measures to improve tax-GSDP ratios during2002-12*

| Year | Revenue Augmentation Measures |
|---|---|
| 2004-5 | o improving the administration and efficiency of the tax system by plugging the loopholes in the system to improve the tax compliance without burdening the people of the State with further tax liability<br>o To address the key issues of greater financial accountability at all levels. Transparency in Budget formulation and execution, simplified accounting and monitoring.<br>o To strengthen internal and external audit and improving the scrutiny of audit reports at the appropriate levels. Revitalize the State and District level Audit Review Committees to ensure better audit compliance. Simplified procedures for accounting and audit for local bodies will also be further strengthened. |
| 2005-06 | o Implementation of VAT<br>o Reduced registration charges to a uniform rate of 9.5 percent of the market value of the property.<br>o Fiscal Responsibility and Budget Management Act, (FRBM) 2005.<br>o Strengthening the infrastructure of the revenue earning departments such as Commercial Tax, Excise and Stamp Duty and Registration etc.<br>o Steps to strengthen internal audit and to rebuild assets registers at various levels. A comprehensive Hand Book on Financial Accountability has been compiled and training programme for Chief Controlling Officers and Drawing and Disbursing Officers will be conducted during 2005-06. The Municipal Administration department has prepared a manual for accounting standards for urban local bodies in tune with national accounting standards. |
| 2007-8 | No new taxes / hike in tax rates since 2004-05, Power tariff not hiked in these 4 years |
| 2011-12 | Continuous emphasis on fiscal prudence and strive to augment tax revenues by systematically strengthening the revenue earning departments and by increasing their allocations, simplifying rules and procedures, improving staff management, training and other facilities. |
| Year | **Results of the Revenue Augmentation Measures** |
| 2005-6 | o Administrative reforms in tax and introduction of VAT have resulted in revenue buoyancy. Better compliance in registration dept.<br>o Computerization and MIS (Management Information Systems) have been set up in all revenue earning departments and the infrastructure is being strengthened at the field level.<br>o Not resorted to any WMA during the past two years.<br>o Fiscal accountability has been strengthened w.r.t various accountability norms and timely preparation of accounts and quick response to audit. There is a substantial improvement in internal audit practices and external audit compliance. |
| 2006-7 | o Reached revenue surplus situation, decreased fiscal situation<br>o Not resorted to WMA from RBI for 3$^{rd}$ consecutive year.<br>o Non tax revenue has also increased mainly due to increase in revenue from Mines & Minerals.<br>o Substantial incentives from the Central Govt for acting in accordance with FRBM Act for the years 2004-05 and 2005-06. By achieving the targets as stipulated in FRBM Act. |
| 2007-8 | o Not resorted to WMA from RBI for 4$^{th}$ consecutive year.<br>o By achieving the set targets of FRBM Act, the State Govt is got twin benefits of debt relief and interest relief from GOI. Upto 2007-08, State Govt has received a debt relief of Rs.1,889 crores and interest relief of Rs.1,574 crores. In 2003-04, the interest burden was 22.98% of the Revenue Exp while by 2006-07, the interest burden has been reduced to17.57 % of Revenue Exp. |

Source: Budget Speeches of the Finance Minister, AP State Government (various years) *(c) Suggestive Revenue Augmentation Measures*

**(1) Tax Exemptions / Concessions**

A thorough study on the tax exemptions/ concessions/incentives given under each tax is needed to take appropriate measures for the augmentation of tax revenue. The presentation of the statement[6] showing the revenue foregone w.r.t. exemptions may also give an idea about the need for the rationalization and monitoring of these exemptions and its beneficiaries.

**(2) Fiscal Marksmanship - Accuracy between the Estimates and Accounts**

The RBI in its yearly publications, particularly on State Finances, repeatedly stressed for the fiscal marksmanship i.e., accuracy between the budget estimates and accounts regarding receipts and expenditure and stressed the need for the fiscal discipline – one of the notable lacunae in the fiscal system. The Finance Commissions used fiscal discipline as a criterion for tax devolution to provide an incentive to states managing their finances prudently. Is fiscal discipline not an essential measure to adopt to strengthen the achievements of the reforms implemented and withstand the economic slowdown –either global or local?

**(3) Blockage confiscation - a way to revenue augmentation[7]**

Although tax policy / tax laws create the potential for raising tax revenues, the tangible amount of taxes that flow into the government Treasury, to a large extent, depends on the competency and efficiency of the revenue management. Debility in revenue administration results in inadequate tax collections which in turn cause budget cuts that result in major inefficiencies in the public expenditure management. The objectives of a tax policy, the most important fiscal policy instrument, can be achieved only when the policy is effectively and efficiently administered.

At this juncture, it is essential to recollect the already existing but forgotten / ignored Indian Constitutional provisions which have become toothless over a period of time to control the public

[6] Presentation of this statement is along with the (a) The Macroeconomic Framework Statement (b) The Medium Term Fiscal Policy Statement (c) Fiscal Policy Strategy Statement along with the budget. According to the FRBM Act

[7] This section is an extract from the study by N. Sreedevi (2011): **Blockage confiscation - a way to revenue augmentation,** Centre for Economic and Social Studies, Hyderabad, **submitted to the Planning Department, Andhra Pradesh.**

finance. One among them is audit reports of the Comptroller and Auditor General of India (CAG)[8]. Though reform measures are essential, unless the checks already in place are implemented effectively, it would be difficult to achieve the goal of improving the fiscal health of the State(s) for that matter, any economy. CAG, in its yearly audit reports, points out (i) the number of cases and the amount involved in the irregularities in the implementation of state taxes and (ii) It also discusses the amount of uncollected revenue.

(a) Inspection Reports of CAG[9] – Level of Pendency

An annual report is sent by the office of the Accountant General to the secretary of the department in respect of pending Inspection Reports to facilitate monitoring of the Audit Observations in the pending Inspection Reports. The number of Inspection Reports pending settlement were nearly doubled, i.e., increased by 1.8 times over a decade with year on year fluctuations in growth rates. The outstanding Audit Observations also show similar trend. The amount of revenue involved was also quite high which has increased nearly by 18 times during the same period with significantly high rate during the first six years. With the implementation of tax reforms particularly moderation of certain tax rates, strengthening of the revenue departments to augment resources and implementation of Value Added Tax (VAT) with effect from April 1, 2005, its rate of growth might have declined during 2005 and 2006. However, the amount involved in the pending Inspection Reports and outstanding Audit Observations and respective growth rates again increased considerably during the last three years, in spite of the implementation of the above mentioned measures. This amount constitutes a considerable portion of

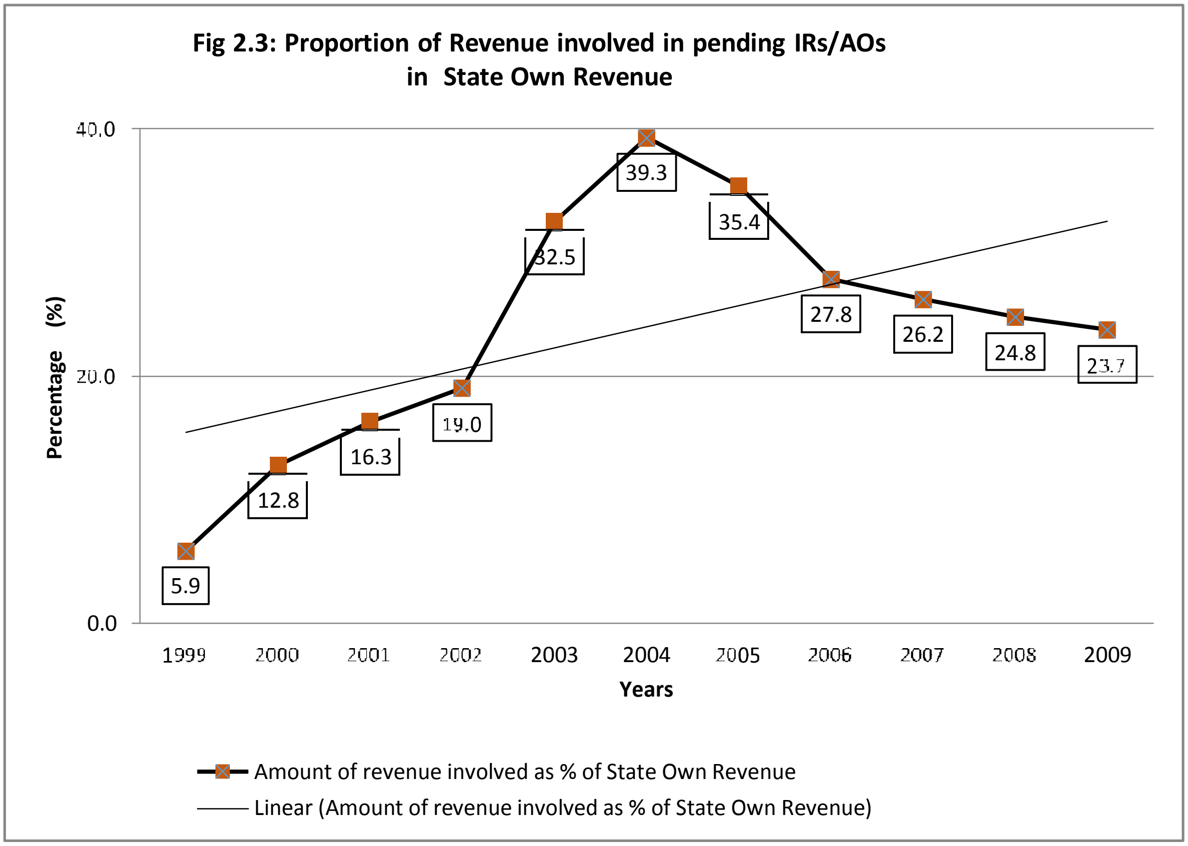
[8] The audit report has been prepared for submission to the Governor under Article 151(2) of the Constitution. The audit of revenue receipts of the State Government is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

[9] Accountant General (Audit)-II, Andhra Pradesh, arranges to conduct periodical inspection of the Government departments concerned with tax revenue of the State to test-check the transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. When important irregularities are detected during inspection and are not settled on the spot, Inspection Reports are issued to the Heads of offices inspected, with a copy to the next higher authorities. Handbook of instruction for speedy settlement of Audit Observations / Inspection Reports etc., issued by Government in Finance and Planning (Fin wing PAC) provide for prompt response by the executive to the Inspection Reports issued by the Accountant General to ensure remedial action according to rules and procedures and accountability for the deficiencies, lapses etc., noticed during the inspection. The heads of offices and respective next higher authorities are required to ensure compliance with the observations contained in the Inspection Reports and rectify the defects and omissions promptly and report their compliance to the Accountant General.

state own revenue (SOR) which showed a continuous increase during 1999-04, though declined after that because of the implementation of fiscal measures. But this constitutes a sizeable portion of the same (Fig: 2.3).

Amount involved in irregularity blocks the revenue flow to the exchequer and continuous increase in irregularities means continuous blockage to the state exchequer[10]. The Department-wise break up of Inspection Reports and Audit Observations as on 30 June 2009 shows that of the total amount of Rs. 10221 crores involved in pending Inspection Reports and Audit Observations, about 80 percent is from the departments of sales tax, land revenue, mines and minerals, motor vehicles etc (Fig: 2.4). The seriousness of the departments in responding to these Inspection Reports / Audit Observations is highly essential as the amount involved constitutes nearly one-fourth of the own revenue of the state government.

[10] Though the heads of offices and respective next higher authorities are required to ensure compliance with the observations contained in the Inspection Reports and rectify the defects and omissions promptly and report their compliance to the Accountant General, the fact remains that these departments keep them pending. Consequently, those who are responsible for the omissions and commissions remain unaffected. Over time, an attitude of ‘nothing happens’ has developed in the lower levels of the administration towards the audit observations.




Note: IRs: Inspection Reports; AOs: Audit Observations

Source: Report of the Comptroller and Auditor General of India (Revenue Receipts), Government of Andhra Pradesh. (for various years).

*(b) Audit Results – Impact of Irregularities on Revenue Resources*

Year after year, the scrutiny of the CAG, after conducting the test checks, highlights in its report, the nature of irregularities in the collection of tax and non-tax revenue by the executive government. These irregularities resulted in the blockage of revenue to the State Exchequer (table 2.7) particularly from major tax raising departments such as commercial, motor vehicles, land revenue which constitute a major share. It is the duty of the executive branch of the government (departments concerned) to carry out the policies by applying correctly the laws enacted by the Legislature; to determine the reasonable meaning of various code provisions in the light of the Legislative purpose in enacting them; and to perform this work in a fair and impartial manner.

**Fig 2.4: Percentage of Amount involved in pending IRs/AOs (as on 30 June 2009)**

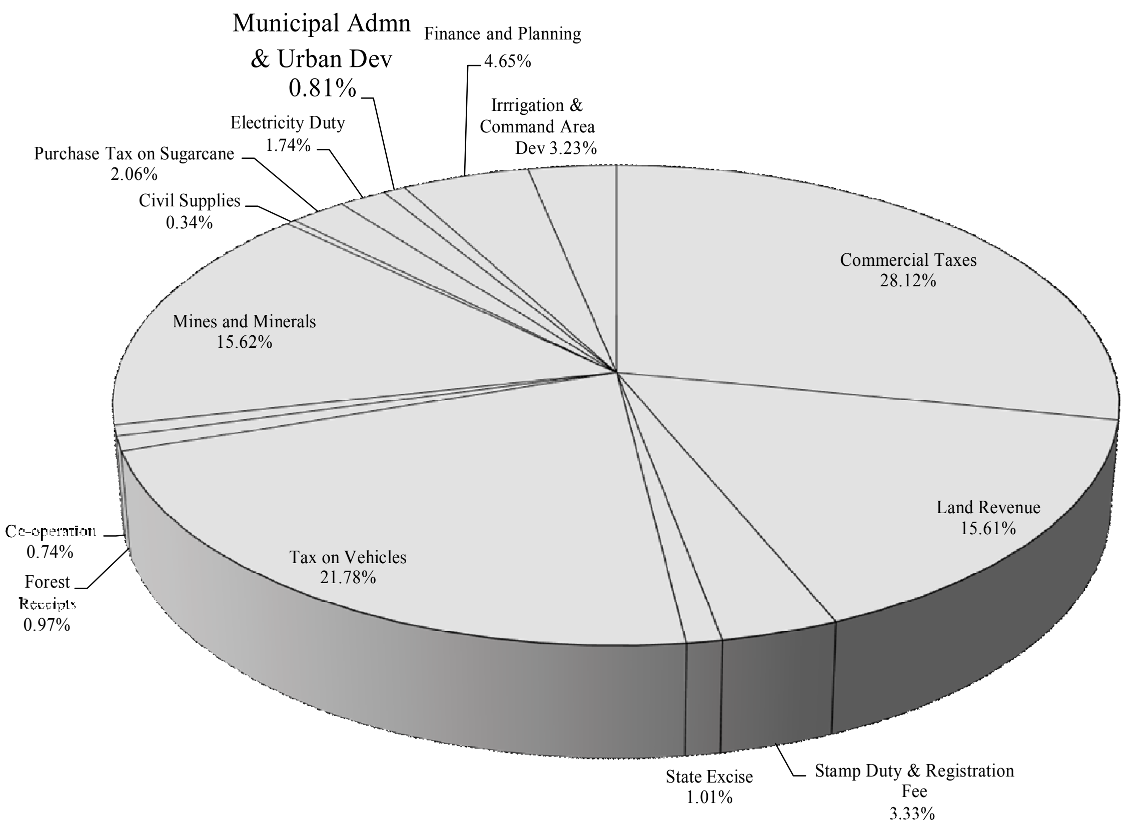



Table 2.7: Amount Involved in the Irregularities under Major Tax Revenues (Rs. Crores)

| Tax Resource | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|---|---|---|---|---|---|---|---|---|---|---|
| Grand Total | 367.9 | 202.5 | 369.7 | 1584.3 | 410.1 | 435.1 | 760.6 | 1132.7 | 1028.7 | 517.6 |
| **Relative Share (%)** | | | | | | | | | | |
| Grand Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Sales Tax | 31.8 | 33.6 | 53.2 | 70.3 | 57.4 | 31.2 | 27.6 | 34.4 | 19.1 | 51.8 |
| State Excise | 1.2 | 21.1 | 3.1 | 1.8 | 2.6 | 1.0 | 0.1 | 0.4 | 0.6 | 2.0 |
| Land Revenue | 44.3 | 22.2 | 35.1 | 2.3 | 20.1 | 9.4 | 3.7 | 1.2 | 71.1 | 21.3 |
| S& R Fee | 2.1 | 16.9 | 3.2 | 2.1 | 5.0 | 6.2 | 9.1 | 2.5 | 2.0 | 9.3 |
| Motor Vehicle Tax | 20.5 | 6.2 | 5.5 | 23.5 | 14.8 | 52.1 | 59.5 | 61.6 | 7.2 | 15.6 |

Source: Report of the Comptroller and Auditor General of India (Revenue Receipts), Government of Andhra Pradesh. (for various years).

*Irregularities in Revenue Collections: Sales Tax*

The main irregularities include incorrect grant of exemption, application of incorrect rate of tax, non/short levy of tax, non-levy of penalty and other irregularities. These irregularities though broadly similar, vary with the nature of tax revenue source. In the sphere of sales tax revenue, the repeated irregularities mentioned in the audit reports are (a) incorrect grant of exemption, (b) application of incorrect rate of tax, (c) non/short levy of tax and (d) non-levy of penalty while others are listed under the category of 'other irregularities' some of which are shown separately in between years of the study period.

The number of cases under *incorrect grant of exemption* given to business class or sales tax payers increased till 2005-06 and with the implementation of VAT the number of cases declined but not significantly. Instead the total number of cases under all categories of irregularities fluctuated with an increase or fall but their decline is not significant.

The amount involved in the incorrect grant of exemption which was less than Rs 3 crores in 2000-01 increased to nearly Rs. 109 crores by 2008-09 – more than 35 times. The amount involved in the all types of irregularities put together was Rs 68 crores in 2000-01 increased to nearly Rs. 268 crores by 2008-09 – increased by nearly 4times. In 2006-07 the incorrect grant of exemption accounted Rs.110.44 crores and total amount through all types of irregularities accounted Rs. 389 crores – highest amount in the study period and this is the year when the government has reached the revenue surplus situation. The component 'other irregularities also constituted significantly to the total number of cases as well as to the total amount.

*The above mentioned irregularities may be rectified at the earliest possible to augment the revenue to the state government. It is constrained to extend any other suggestion in the context of the discussion on the introduction of Goods and Services Tax (GST) in the near future.*

*Irregularities in Revenue Collections: State Excise*

The regular irregularity of the department in the state excise source of revenue is 'short levy of annual license fee or excise duty, non/ short levy of interest on arrears of excise revenue or belated payments etc'. The number of cases of irregularity though declined in 2005-06 and 2006-07, has increased significantly during the last two years of the study period. But the amount involved in these irregularities was nearly Rs.43 crores in 2000-01 and declined to Rs.1 crore in 2005-06 but started increasing consistently and only to reach Rs10 crores. Irrespective of the number of cases and the amount involved in each of these cases of irregularity, it is the responsibility of the executive government to look into these issues on the spot during the test checks or by answering the Inspection Reports and Audit Observations in the stipulated time.

*Irregularities in Revenue Collections: Land Revenue (water tax)*

This source of revenue is more sensitive to handle. The total number of cases under all types of irregularities declined tremendously during the study period. Number of cases under each type of irregularity also showed a decline during the same period. Non/short levy of road cess, Non/short levy of NALA, Non/short levy of water tax / land revenue Alienation of government lands - non recovery of market value are some of the repeated irregularities.

Contrary to the decline in the number of cases either in total or under each type of irregularity, the amount involved in these irregularities during the study period shows an increasing trend with fluctuations in between. Huge amount of revenue is involved in non-recovery of market value by Alienation of government lands particularly during the last two years of the study period – 2007-08 and 2008-09.

*Irregularities in Revenue Collections: Tax on Vehicles*

The total number of irregularities reported by CAG has increased consistently and steeply during 2000-05. Though the number of cases declined in 2005-06 and 2006-07 it has increased tremendously in the last two years of the study period. Non-collection of tax on goods vehicles / transport vehicles, Non-collection of compounding fee, Non-levy/collection of tax and penalty, short collection of tax due to non-conversion of fair weather routes into all-weather routes were major irregularities in most of the years of study period. Non-levy of life tax and penalty, non-levy of green tax, non-levy of onetime tax, short collection of penalty are the recent levies and also have major irregularities.

The amount involved in the irregularities of the department was Rs12.54 crores in 2000-01 which has increased consistently and steeply to Rs.697.53 crores in 2006-07. Though the number of irregularities increased in the last two years, the amount involved has declined significantly.

*Irregularities in Revenue Collections: Stamp Duty and Registration Fee*

Introduction of computerization in the registration of property transactions and other related services has not reduced the number of irregularities and shows a continuous increase barring 2006-07. Misclassification of documents, Adoption of incorrect rate of stamp duty, under-valuation of properties, incorrect exemption of duties, short levy of stamp duty & registration fee, arrears of deficit stamp duty noticed during inspection of public offices and loss due to incorrect adjustment of stamp duty were the major irregularities. However, the amount involved in these irregularities is very meager compared to the other taxes such as sales tax, land revenue and vehicle tax.

In brief, audit reports reveal that no department has avoided the irregularities in its activities and instead seems to have avoided answering the audit observations and inspection reports.

*(c) CAG Reports: Acceptance of the Government*

The government does not accept all the irregularities and the amount involved in these irregularities pointed out in the audit report. Though the proportion of amount accepted by the government in the total amount mentioned by the CAG is very small, it is also quite evident that its proportion has been increasing during 2001-02 to 2008-09, barring 2004-05 (Table 2.8). It is disgraceful that, of the total amount accepted, the proportion of amount recovered by the government is very meager – showing the level of indifference on the part of administrative.

Table 2.8: Amount Involved in Irregularities: Accepted and Recovered (Rs.Crores)

| | Amount involved in irregularities | Accepted by the government | Amount recovered by the government | Col (3) as % of Col (2) | Col (4) as % of Col (3) |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1999-00 | 503.32 | 25.65 | 0.87 | 5.10 | 3.39 |
| 2000-01 | 496.78 | 23.84 | 0.90 | 4.80 | 3.78 |
| 2001-02 | 489.14 | 109.36 | 64.80 | 22.36 | 59.25 |
| 2002-03 | 780.89 | 199.90 | 1.64 | 25.60 | 0.82 |
| 2003-04 | 267.37 | 71.57 | 4.24 | 26.77 | 5.92 |
| 2004-05 | 265.68 | 40.20 | 0.85 | 15.13 | 2.11 |
| 2005-06 | 189.69 | 49.60 | 4.39 | 26.15 | 8.85 |
| 2006-07 | 401.59 | 245.39 | 3.42 | 61.10 | 1.39 |
| 2007-08 | 443.46 | 177.31 | 4.36 | 39.98 | 2.46 |
| 2008-09 | 628.76 | 342.25 | 3.48 | 54.43 | 1.02 |

Source: As per Table 2.7.

In brief, first of all the executive government should maintain the transactions as per the accounting rules. When the deviations have occurred for one reason or the other and are traced out by the audit during the inspection, they should be settled either on the spot or reply to the inspection reports and audit observations in a stipulated time. This reciprocation strengthens the executive government in proving its accountability in the transactions as per the accounting rules which would minimize the number of cases and the amount involved in these irregularities.

Due to the prolonged and wide coverage of irregularities, the continual loss to the exchequer is two-way - one is blockage of revenue flow and the other is loss of interest on the amount blocked – and in turn affects badly the implantation of ongoing and also future plans.

*(d) Uncollected Revenue (Arrears)*

The cumulative uncollected tax revenue (arrears) and also the arrears pending more than five year old are given in the table 2.9. The total uncollected revenue as on March 2001 was Rs. 2666 crores constituting considerable portion of state own revenue (nearly 20 percent). By 2005, the corresponding proportion increased to 25 percent. In 2006 this proportion has fallen mainly because of the steps taken by the government in strengthening the revenue earning departments, also implementation of VAT with effect from 1st April 2005 and other fiscal measures because of which revenue collections were more and hence uncollected revenue during those years declined relatively. In 2007 the impact of these reforms were marginal indicating the decline in the proportion of uncollected revenue in state own revenue by 2.5 percentage points. The steep fall in the arrears in absolute terms and also in its proportion in 2008 is not because of the improvement in the situation but because of the non- submission of the required information to the CAG Audit wing by the commercial, excise and registration departments. In the year 2009, the proportion of uncollected revenue arrears constituted considerable proportion of state own revenue – causing loss to the exchequer, loss of interest amount on the principal sum of revenue that was not collected, not enabling the government in the allocation of resources to social, economic and general services and ultimately not meeting the public needs.

The tax-wise breakup of arrears (table 2.10 and fig. 5) shows that sales tax, an important source of revenue to the government, constituted a major portion of these arrears ranging between 65 and 89 percent during 2000-2004 and a decline thereafter made a moderate change in its relative position but remained more than 50 percent. This is shown by the slightly-falling trend line. The decline in the relative share of sales tax arrears may also be due to increasing share of other revenue components such as land revenue, motor vehicles tax and other taxes and duties. The tax-wise breakup of five year old arrears also show that significant portion of old arrears are from major taxes and is increasing over a period of time barring one or two years. However, the growth rate of these arrears is not showing any trend.

Table 2.9: The Proportion of Arrears in Receipts and Expenditure (%)

| year | Uncollected Revenue as on March (Arrears) (Rs.Crores) | >5 year old (Arrears) (Rs.Crores) | as % of State Own Revenue | |
|---|---|---|---|---|
| | | | Un-collected Revenue | >5year old |
| 1 | 2 | 3 | 5 | 6 |
| 2001 | 2666.4 | 1469.6 | 20.1 | 11.1 |
| 2002 | 2230.6 | 1134.3 | 15.4 | 7.8 |
| 2003 | 3020.8 | 1320.8 | 18.7 | 8.2 |
| 2004 | 3671.7 | 1494.8 | 21.1 | 8.6 |
| 2005 | 5027.7 | 1748.6 | 25.1 | 8.7 |
| 2006 | 5277.1 | 2151.4 | 21.7 | 8.9 |
| 2007 | 5842.1 | 2289.2 | 19.2 | 7.5 |
| 2008 | 2412.7 | 861.8 | 6.7 | 2.4 |
| 2009 | 6507.7 | 3157.1 | 15.1 | 7.3 |

Source: As per Table 2.7.

Table 2.10: Uncollected Revenue (Arrears) as % of Total Arrears (As On March)

| | Tax Resource | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Sales Tax | 68.4 | 66.7 | 65.2 | 88.8 | 79.3 | 68.4 | 63.9 | 61.2 | 58.1 | * | 54.6 |
| 2 | State Excise | 3.7 | 2.8 | 2.4 | 2.9 | 2.2 | 1.7 | 1.2 | 1.1 | 1.0 | * | 0.9 |
| 3 | Land Revenue | 0.0 | 0.0 | 6.8 | 0.0 | 0.0 | 8.1 | 5.4 | 5.1 | 4.9 | 11.8 | 5.1 |
| 4 | Tax on Vehicles | 0.4 | 0.4 | 0.3 | 0.2 | 13.0 | 12.2 | 21.6 | 21.7 | 23.0 | 68.7 | 30.5 |
| 5 | Stamp duty & Registration Fee | 0.2 | 1.3 | 1.3 | 1.6 | 1.2 | 1.1 | 2.3 | 2.6 | 2.6 | * | ** |
| 6 | Taxes & Duties on electricity | 27.3 | 28.8 | 24.0 | 1.0 | 0.3 | 0.3 | 0.2 | 0.2 | 2.8 | 6.4 | 2.4 |
| 7 | Other taxes & duties | - | - | - | 5.5 | 4.0 | 8.4 | 5.4 | 8.0 | 7.5 | 13.2 | 6.6 |
| 8 | Total Arrears (1 to 7) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Note: * The position of arrears of revenue at the end of 2007-08 in respect of Commercial Taxes, State Excise, Registration and other departments was not furnished (November 2008) by the Government despite being requested (May 2008) and reminded (August 2008).

** The position of the arrears of revenue at the end of 2008-09 in respect of the Registration and other Departments was not furnished (January 2010) by the Government despite being requested (April 2009) and reminded (June 2009).

'-' Nil or negligible

Source: As per Table 2.7.

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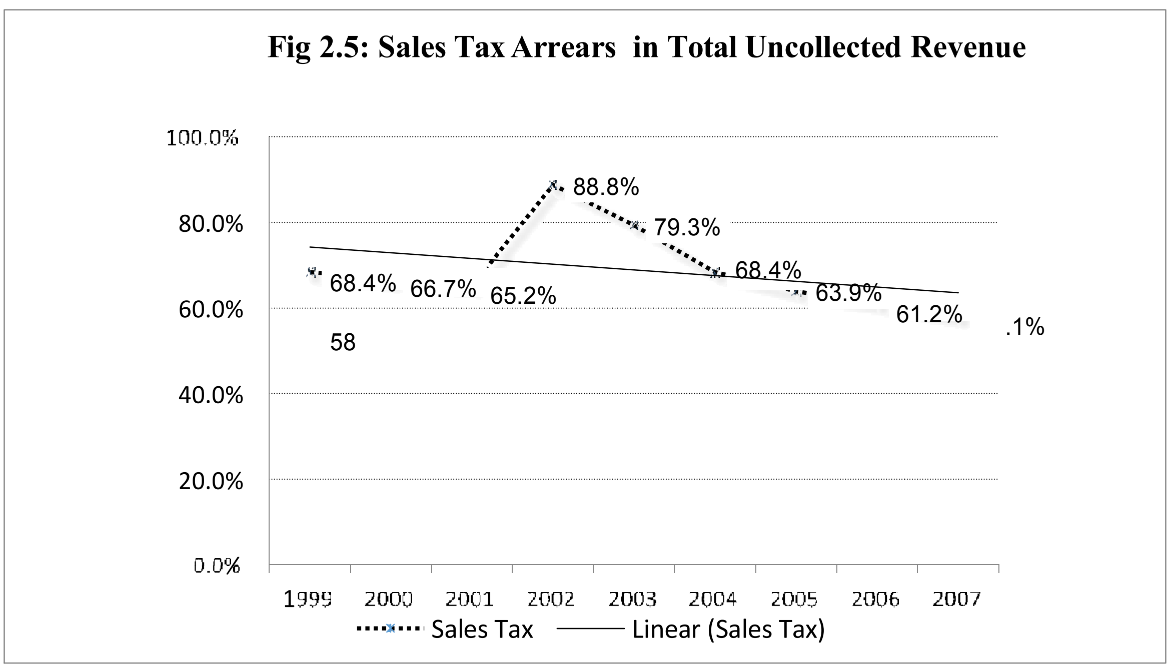

Further break up of sales tax arrears shows that during the period 2000-02, 22-24 percent of total uncollected sales tax revenue was blocked mostly by court stay orders. During 2005-07 though this proportion has declined to 15-17 percent of which government stay orders were more in 2005-06 and equally by both court and government in 2006-07. Settlement of these stay orders at the earliest surely confiscate the blockage to the extent possible. Hence persuasion of the government in this direction is very essential.

One point to be noted in this context is the Department did not furnish details of year wise break-up and stage wise pendency of these arrears despite being requested by the audit. Furnishing of these details useful for the government which in turn helps the government to take necessary steps to clear all the blockages and also execute the expenditure side of its activities. The departments should speed up the process of revenue recovery under collectable, recoverable and arrears due to other reasons. Regarding the arrear component of revenue under motor vehicle tax, it is mainly from APSRTC during 2003-09. Arrear component under RR Act or Court stay orders were high during 2000-02 but not afterwards.

As far as collection of stamp duty and registration is concerned, though the amount involved in irregularities is lower, uncollected revenue, i.e., arrears component, is on higher side. The government may speed up the process either under stay orders, recoverable or under other reasons or all together. Arrears are also under taxes and duties on electricity particularly from AP Gas Power Corporation in the recent years while in other years, the arrears may be due to stay orders or recoverable or other reasons.

The main reasons for these uncollected revenues (arrears) may be due to the fact that the cases are covered by stay orders (either court or government department or both) or revenue recovery act or other miscellaneous reasons. The main reasons for these irregularities may partly be applied to existing loopholes in the administration. The opening and closing balance of the sales tax assessment cases and cases finalized show that the proportion of pending cases in total cases ranged between 15 per cent (2001-02) and 30 per cent (2004-05) during 2000-01 to 2006-07. In 2008-09, it was 14 percent.

In brief, a thorough study on tax exemptions is needed. It is essential to address the existing irregularities (i) in the levy and collection of revenue receipts, (ii) non-acceptance of the irregularities pointed out by the CAG, (iii) non-collection of whatever amount is accepted by the government under these irregularities. The proportion of uncollected revenue arrears constituted considerable proportion of state own revenue – causing loss to the exchequer, loss of interest amount on the principal sum of revenue that was not collected, not enabling the government in the allocation of resources to social, economic and general services and ultimately not meeting the public needs. Lack of seriousness in furnishing the details of year wise break-up and stage wise pendency of these arrears, despite being requested by the audit, is a matter of concern. Furnishing of these details useful for the government which in turn helps the government to take necessary steps to clear all the blockages and also execute the expenditure side of its activities.

### 2.4. State Own Non-Tax Revenue (SONTR)

The States own non-tax revenues comprise of interest receipts, dividends and profits earned by the government through its investments in the State Level Public Enterprises (SLPEs)[11]. Another source of revenue is through the user charges for economic services, social services and other general services. On an average, during the study period, own nontax revenues constituted less than 2 percent of GSDP, 19-20 percent of state own revenues and 14-15 percent of the State's total revenues (Table 2.4). As the proportion of SONTR w.r.t. GSDP is less than 2 percent, the proportion of its components will be further low. Nearly half of the state's own non tax revenues come from the interest receipts and dividends mainly through the SLPEs. The other half of the state's own non-tax revenue comprises of the administrative receipts[12] from economic services (32 percent), general services (13 percent) and social services (5 percent) (Table 2.11).

If the study period (2002-12) is divided into Tenth (2002-07) and Eleventh (2007-12) Plan periods, higher growth rate of own nontax revenue in the Tenth plan period was due to various factors. Higher growth rate of own non tax revenue with 21 percent in 2002-03 was mainly due to interest receipts and Non-ferrous Mining and Metallurgical Industries, and 25% in 2005-06 was mainly due to receipts from

[11] Departmental Commercial Undertakings, Public Sector Undertakings (PSUs), Co-operative Societies etc

[12] The sources of non-tax revenue are fees, fines or penalties, Surplus from Public Enterprises, Non-tax revenues in the narrow sense are revenues received as payment for the use of state resources or property or as compensation for services provided by the state to legal or physical persons. It is a User fees collected in exchange for the use of many public services and facilities.

miscellaneous general services (15 % of own non tax revenue) and Non-ferrous Mining and Metallurgical Industries (23 % of own non tax revenue). It grew at 38 % in 2006-07 by the debt relief under DCRF, as suggested by the Twelfth Finance Commission, booked under 'Miscellaneous General Services' (18% of own non tax revenue).

Public sector units which run efficiently and commercially profitably they contribute to the State public exchequer in the form of interests and dividends. The relative share of interest receipts in total SONTR was nearly 44 percent in the first period and increased to 51 percent in the second period. Year-wise breakup also shows that it was less than 50 percent in the first period (barring 2003-04) while it was more than 50 percent in the latter period (barring 2008-09). The proportion of interest receipts in GSDP was less than 1 percent throughout the study period with a declining trend in the first period and nearly 1 percent in the last three years of the second period. But the state government's investments, which are mostly borrowings, are receiving lower rate of returns than the interest rate paid on the borrowings. These issues are discussed in chapter 5 - State Level Public Enterprises.

The major components of economic services that contributed to own non-tax revenue are forestry and wild life, other rural developmental programmes, mining etc which are more than 1 percent of GSDP. In the case of economic services the receipts constitute 0.6 to 0.7 percent of GSDP in the first period (on an average 0.66 percent) and declined in the second period ranging 0.54 to 0.64 percent (on an average it was 0.59 percent). The proportion of receipts from economic services in total SONTR though fluctuated throughout the study period; its fluctuations were moderate in the former period and relatively high in the latter period and resulted into a moderate decline in the second period.

One of the contributing factors in the economic services was receipts from forest and wild life. Higher proportion of receipts from forest and wild life in the first period than the latter period is mainly due to realization of royalty arrears of non-teak forest produce from Girijan Cooperative Corporation (GCC), sale of red sandal wood and other products (2003-04) and harvesting of matured teak and other plantations (2004-05). Higher proportion of revenue from economic services in the first period was also due to revision of royalty rates (2002-03 and 2004-05) in the mining sector (Table 2.12), their arrears

(2002-03), increase in the consumption of major and minor minerals, increase in the production of coal, crude oil and natural gas compared to previous years (2005-06)minor minerals and implementation of AP Mineral Bearing (APMB) Cess Act and transfer of auctions of sand from Panchayat Raj to Industries and Commerce department etc (2006-07), revision of rates in the mining sector. However, the revenue from forestry and wildlife, major and minor irrigation, mines and minerals, power as well as civil supplies, is negligible due to low cost recovery policies. In this context, it is to be remembered that the levy of royalty rates on major minerals vests with the central government and these rates are supposed to be revised every three years. In the interest of the augmentation of state revenues, these rates need to be revised without any delay[13].

Regarding social services, its proportion in SONTR shows a steep decline in the first three years of the first period while moderate increase in the last three years of the latter period – resulted in the relatively moderate growth in the second period. Among the social services, the proportions differ widely in education, sports, art and culture (> 2 percent), medical and public health, urban development (> 0.7 percent). Among the general services, general economic services constituted a major share while others ranged between 0.01 to 1.53 percent. Yearly growth rate during the study period show that there is an improvement in the interest receipts, social and economic services while general services shows a negative growth rate. In the case of social services it was around 0.1 percent GSDP throughout. The issue of user charges is more valid only when the good quality in the delivery of services is maintained.

Regarding receipts from general services, in the first period, its proportion in SONTR, increased consistently. Higher growth rate of own non tax revenue with 25% in 2005-06 was also due to receipts from miscellaneous general services (15 % of own non tax revenue). It grew at 38 % in 2006-07 by the Debt relief under DCRF, as suggested by the Twelfth Finance Commission, booked under 'Miscellaneous General Services' (18% of own non tax revenue). In the second period it fluctuated heavily and resulted into a declining share mainly because of the component of miscellaneous general services. While the

[13] G.R Reddy (2012): 'Plan Financing in Andhra Pradesh – Trends and Concerns', Working Paper No. 124, November, Centre for Economic and Social studies, Hyderabad – 16.

proportion of receipts from general services in GSDP was about 0.3 percent in the first period and declined to 0.2 percent in the second period and on an average it was 0.25percent for the entire period. This decline may be attributed to the fall in the last two years of the second period. The issue of user charges is more valid only when the good quality in the delivery of services is maintained

Table 2.11: Trends in State Own Nontax Revenue (%)

| | | As Percentage of GSDP | | | As % of Own Non-Tax Revenue | | | Year on Year Growth Rate (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | NON-TAX REVENUE | 2002-07 | 2007-12 | 2002-12 | 2002-07 | 2007-12 | 2002-12 | 2002-07 | 2007-12 | 2002-12 |
| **(1)** | **Interest Receipts** | **0.85** | **0.94** | **0.92** | **43.98** | **51.23** | **48.91** | **7.7** | **24.3** | **16.92** |
| **( 2)** | **Other Non-Tax Revenue** | **1.09** | **0.90** | **0.96** | **56.02** | **48.77** | **51.09** | **25.7** | **16.6** | **20.68** |
| | Of which | | | | | | | | | |
| (i) | General Services | 0.33 | 0.22 | 0.25 | 17.08 | 11.73 | 13.44 | 87.2 | -76.6 | -3.79 |
| (ii) | Social Services | 0.10 | 0.10 | 0.10 | 4.95 | 5.24 | 5.15 | 3.7 | 49.6 | 29.21 |
| (iii) | Economic Services | 0.66 | 0.59 | 0.61 | 33.99 | 31.79 | 32.50 | 10.6 | 14.7 | 12.91 |
| | **Total Non-Tax Revenue (1+2)** | **1.94** | **1.84** | **1.87** | **100.00** | **100.00** | **100.00** | **17.4** | **14.6** | **15.84** |

Source: calculated from the budget documents, Government of Andhra Pradesh (various years)

Table 2.12: Trends in State Own Nontax Revenue (%)

| | | COMPOSITION OF OWN NON-TAX REVENUE | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | NON-TAX REVENUE | 2002-3 | 2003-4 | 2004-5 | 2005-6 | 2006-7 | 2007-8 | 2008-9 | 2009-10 | 2010-11 | 2011-12 | 2012-13RE |
| **(1)** | **Interest Receipts** | **48.70** | **51.80** | **46.76** | **44.45** | **35.12** | **50.07** | **36.21** | **62.47** | **54.23** | **54.13** | **53.92** |
| | Interest Receipts | 48.66 | 50.45 | 45.54 | 43.47 | 34.39 | 49.90 | 36.01 | 62.17 | 53.87 | 53.69 | 53.50 |
| | Dividends and Profits | 0.04 | 1.35 | 1.21 | 0.98 | 0.73 | 0.17 | 0.19 | 0.29 | 0.37 | 0.44 | 0.42 |
| **( 2)** | **Other Non-Tax Revenue** | **51.30** | **48.20** | **53.24** | **55.55** | **64.88** | **49.93** | **63.79** | **37.53** | **45.77** | **45.87** | **46.08** |
| **(i)** | **General Services** | **5.02** | **7.61** | **11.61** | **17.99** | **31.40** | **13.98** | **32.36** | **-4.61** | **10.05** | **5.75** | **3.67** |
| | **Police** | **1.46** | **1.64** | **1.34** | **1.34** | **1.22** | **1.41** | **1.09** | **1.67** | **1.60** | **2.10** | **2.01** |
| | Public works | 0.18 | 0.20 | 0.16 | 0.15 | 0.11 | 0.11 | 0.08 | 0.10 | 0.09 | 0.06 | 0.09 |
| | **Other Admn Services** | **0.76** | **1.21** | **3.25** | **1.06** | **1.00** | **1.13** | **0.52** | **1.25** | **0.63** | **1.18** | **0.67** |
| | Contributions & Recoveries towards pensions & other retirement benefits | 0.27 | 0.25 | 0.30 | 0.23 | 0.25 | 0.24 | 0.16 | 0.19 | 0.14 | 0.15 | 0.15 |
| | **Miscellaneous General Services** | **2.29** | **4.26** | **6.48** | **15.00** | **28.76** | **11.02** | **30.40** | **-7.92** | **7.53** | **2.18** | **0.59** |
| **(ii)** | **Social Services** | **9.21** | **6.91** | **3.41** | **3.01** | **3.84** | **2.75** | **4.73** | **3.50** | **5.96** | **7.67** | **8.38** |
| | **Education, Sport, Art & Culture** | **4.18** | **1.98** | **1.84** | **1.48** | **2.15** | **0.87** | **1.15** | **0.71** | **2.22** | **5.77** | **6.83** |
| | Mdical and Public Health | 1.08 | 0.81 | 0.77 | 0.87 | 0.53 | 0.95 | 0.50 | 0.90 | 0.63 | 0.93 | 0.89 |
| | Family Welfare | 0.02 | 0.01 | 0.04 | 0.03 | 0.07 | 0.01 | 0.03 | -0.22 | 0.00 | 0.10 | 0.05 |
| | water Supply & Sanitation | 0.46 | 0.17 | 0.17 | 0.11 | 0.08 | 0.07 | 0.07 | 0.86 | 0.04 | 0.09 | 0.10 |
| | Housing | 0.68 | 2.73 | 0.04 | 0.03 | 0.02 | 0.02 | 2.10 | 0.03 | 0.02 | 0.02 | 0.02 |
| | Urban Development | 0.37 | 0.12 | 0.00 | 0.04 | 0.04 | 0.33 | 0.55 | 0.78 | 2.69 | 0.43 | 0.12 |
| | Labour & Employment | 0.39 | 0.36 | 0.41 | 0.34 | 0.32 | 0.32 | 0.25 | 0.31 | 0.25 | 0.26 | 0.24 |
| | Social Security and Welfare | 0.38 | 0.08 | 0.03 | 0.04 | 0.15 | 0.10 | 0.03 | 0.02 | 0.06 | 0.02 | 0.05 |
| | Other Social Services | 1.64 | 0.66 | 0.11 | 0.08 | 0.49 | 0.08 | 0.05 | 0.11 | 0.05 | 0.05 | 0.08 |
| **(iii)** | **Economic Services** | **37.08** | **33.67** | **38.22** | **34.55** | **29.64** | **33.20** | **26.70** | **38.65** | **29.76** | **32.45** | **34.03** |
| | **Forestry and Wild Life** | **2.01** | **2.58** | **3.24** | **2.94** | **1.34** | **1.29** | **0.96** | **1.32** | **1.30** | **1.28** | **1.22** |
| | Co-operation | 0.80 | 0.64 | 0.56 | 0.27 | 0.36 | 0.55 | 0.21 | 0.48 | 0.27 | 0.16 | 0.21 |
| | **Other Rural Dev Programs** | **6.43** | **3.97** | **4.95** | **4.00** | **3.56** | **4.20** | **5.75** | **7.22** | **4.99** | **6.13** | **5.85** |
| | Major and Medium Irrigation | 0.24 | 0.43 | 1.50 | 1.02 | 1.06 | 0.59 | 0.40 | 1.05 | 0.61 | 0.62 | 2.57 |
| | Minor Irrigation | 0.04 | 0.04 | 0.16 | 0.04 | 0.02 | 0.04 | 0.04 | 0.04 | 0.05 | 0.04 | 0.11 |
| | Power | 1.01 | 1.25 | 0.67 | 0.47 | 0.34 | 0.36 | 0.16 | 0.33 | 0.26 | 0.33 | 0.22 |
| | Village & Small Industries | 0.41 | 0.05 | 0.04 | 0.03 | 0.03 | 0.03 | 0.04 | 0.03 | 0.04 | 0.03 | 0.03 |
| | **Non-Ferrous Mining & Metallurgical Industries** | **22.09** | **21.40** | **23.26** | **22.65** | **20.37** | **22.62** | **17.40** | **24.19** | **19.26** | **19.98** | **21.25** |
| | Ports and Light Houses | 0.85 | 0.51 | 1.55 | 0.88 | 0.63 | 0.75 | 0.70 | 0.80 | 0.81 | 1.26 | 1.05 |
| | Roads and Bridges | 1.31 | 0.76 | 0.67 | 0.54 | 0.32 | 0.34 | 0.31 | 0.58 | 0.23 | 0.23 | 0.22 |
| | Tourism | 0.36 | 0.03 | 0.10 | 0.00 | 0.14 | 0.31 | 0.14 | 0.25 | 0.07 | 0.07 | 0.07 |
| | Civil Supplies | 0.82 | 1.06 | 0.84 | 0.66 | 0.91 | 0.71 | 0.17 | 0.50 | 0.36 | 0.66 | 0.61 |
| | **Other General Eco. Services** | **0.48** | **0.43** | **0.57** | **0.40** | **0.34** | **0.39** | **0.27** | **0.33** | **1.27** | **1.39** | **0.32** |

Source: calculated from the budget documents, Government of Andhra Pradesh (various years)

**Profits from Departmental Enterprises (DEs)**

The economic reforms which paved the way for private participation in the areas so far treated as exclusive area of the state, had raised the issue of the relevance of the public enterprises. Undertakings owned and controlled by the public authorities which are mainly engaged in furnishing the kind of goods and services, often produced by business establishments, but do not hold or manage financial assets and liabilities, apart from their working balances and business accounts. The essential characteristics distinguish the departmental commercial undertakings (DCUs) from government administrative departments are that the DCUs charge for the goods and services, provided by them and are thus able to meet most of their costs from sale proceeds. Table 2.13 shows that DEs experienced deficit till 2002-03 and then started gaining profits since 2003-4, though fluctuated, and shows an increasing trend.

Table 2.13: Net Surplus / Deficit of Departmental Enterprises (DEs) (Rs. Cr)

| Year | Gross Receipts* | Operating Expenses | Net Surplus/Deficit |
|---|---|---|---|
| 1 | 2 | 3 | 4 = (2-3) |
| 2000-01 | 1534.23 | 1730.48 | -196.25 |
| 2001-02 | 1604.61 | 2023.27 | -418.66 |
| 2002-03 | 1798.92 | 1974.24 | -175.32 |
| 2003-04 | 2108.97 | 2099.99 | 8.98 |
| 2004-05 | 2286.31 | 2237.48 | 48.83 |
| 2005-06 | 2753.48 | 2720.29 | 33.19 |
| 2006-07 | 3109.34 | 3078.16 | 31.18 |
| 2007-08 | 4455.17 | 4413.36 | 41.81 |
| 2008-09 RE | 6003.86 | 5937.78 | 66.08 |
| 2009-10 BE | 6467.27 | 6387.39 | 79.88 |

* includes imputed irrigation subsidy
Source: subsidiary/statistical tables, Economic-cum- functional Classification, Government of Andhra Pradesh (various years)

### 2.5. Sum up and Suggestions

The growth in the receipts of Andhra Pradesh state government show varying trends in the study period – consistent upward movement in the revenue receipts and reaching the higher plane during the first half while subjected to fluctuations in the second half while continuing at the higher plane. While the revenue from state excise was more buoyant while revenue from sale tax and stamp duty and registration fee which are just on par with the changes in the state income. On the other hand MVT was not buoyant. Continuous emphasis on fiscal prudence and strive to augment tax revenues by systematically strengthening the revenue earning departments and by increasing their allocations, simplifying rules and procedures, improving staff management, training and other facilities is highly needed. In the process of revenue augmentation (tax-wise) measures may be taken up to strengthen the administration and its functioning to reduce the volume of irregularities besides confiscating the existing blockages. A thorough study on tax exemptions/concessions is needed. The issue of user charges is more valid only when the good quality in the delivery of services is maintained. Low and declining proportions of interest receipts in GSDP is really a cause of concern. The state government's investments, which are mostly borrowings, are receiving lower rate of returns than the interest rate paid on the borrowings. Regular revision of royalty rates by the central government also enhances the revenue resources of the state government. As the varying trends of revenue receipts inflow have a bearing on the public expenditure which is discussed in the next chapter.

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# Chapter 3

## Expenditure - Trends and Patterns

**Summary of Findings**

Tenth Plan Period (2002-07)

- Substantial decline of capital disbursements in the last three years (2004-07) mainly because of the bulk repayments of high cost debt under DSS during 2002-05.
- Revenue expenditure covers a major proportion of either (i) plan or non-plan expenditure, (ii) either in developmental or non-developmental, (iii) in total budgetary expenditure or in GSDP. This is followed by capital account (under plan) and loans and advances (under non-plan) accounts.
- Moderate decrease in the revenue expenditure during (2004-07) was mainly due to
    - ➢ Reduction in the interest payments burden since bulk debt repayments under DSS
    - ➢ The effect of reform measures particularly MTFF, DCRF and FRBM Act to reach the target of zero revenue deficit by 2008-09.
    - ➢ Combined effect of the DSS, DCRF, MTFF and FRBM Act contributed to consistent growth in capital expenditure but only by one percentage point.

Eleventh Plan Period (2007-12)

- Revenue expenditure/GSDP ratio decreased from 14.8 percent (2007-08) to 13.4 percent (2011-12) mainly due to:
    - ➢ Lower growth rates of GSDP
    - ➢ Continuous decline in interest payments,
    - ➢ The influence of fluctuating growth rate of revenue receipts on revenue expenditure owing to the norms of FRBM.
- The capital expenditure came down from 3.5 percent (2007-08) to 2 percent (2011-12) – less than the bench mark year of 2002-03.
- The proportion of total expenditure in GSDP declined in 2002-12 with yearly variations due to
    - ➢ A relatively steady decline in non-plan expenditure & non-developmental expenditure except one or two years.
    - ➢ While plan expenditure and developmental expenditure have fluctuated mainly because of the plan developmental expenditure implying inconsistencies and directionless - more so in the second half.
    - ➢ Of the developmental expenditure, in spite of the fluctuations, the trends in social services show an increase but economic services were affected.
    - ➢ Within the social services the fondness was towards social welfare schemes rather than social infrastructure such as education and health. While urban development and housing snatched away the priority water supply and sanitation is not the extent required.

➢ The reduction in the proportion of revenue expenditure in state own revenue / total revenue / revenue expenditure / (barring administrative services) / GSDP was mainly because of the cut in committed expenditure based on the policy measures under each one of these issues: (a) Salaries and wages, (b) Interest payments, (c) Administrative services.

- ➢ The expenditure on pensions showed an increasing trend during Tenth Plan Period and Eleventh Plan Period.
- ➢ The introduction of Contributory Pension Scheme (2004) would solve the issue in the long run.

➢ The proportion of subsidies in terms of own revenue /total revenue / revenue expenditure and GSDP increased.

➢ The state government is of the view that "subsidies are not a drain on state finances as they are the need of the hour to provide food, shelter and wage employment to all poor and vulnerable sections of the society" and claims that it is spending sufficient amount on both social subsidies like rice subsidy and economic subsidies like power, agriculture inputs, housing etc

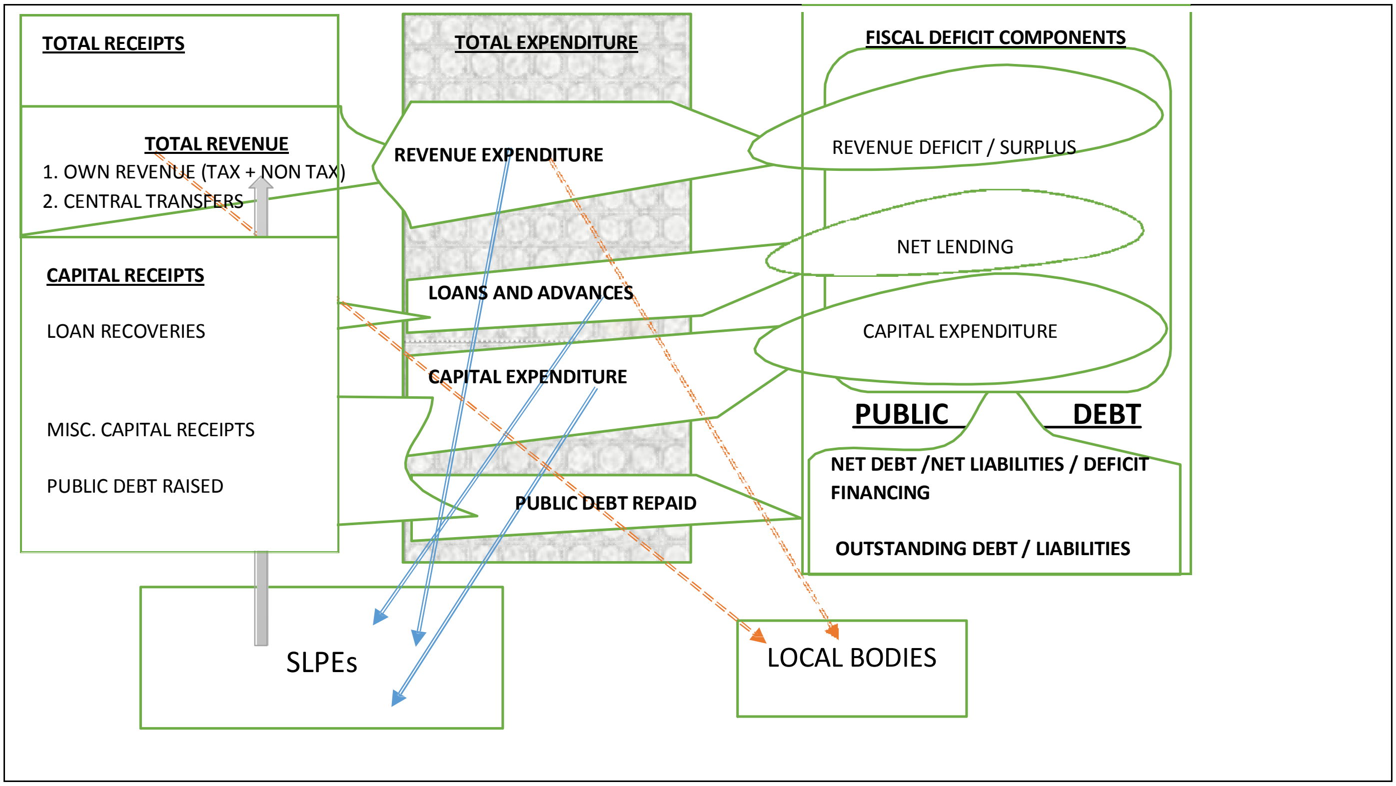
➢ A lion's share is bagged by the power subsidy, though its proportion has declined from 7.4 per cent during the Tenth Plan Period to 7 per cent in the Eleventh Plan Period. This may be due to the power sector reforms to reduce transmission and distribution losses and also rationalisation of free power to farmers.

➢ The state may have to address the variations in the developmental expenditure under both revenue and capital accounts and smoothen the same by providing the resource requirements for development and the need to undertake fiscal consolidation, States have to actively pursue reforms in terms of efficient allocation of expenditure.

# Chapter 3

## Expenditure - Trends and Patterns

Fig. 3.0: Roadmap - Expenditure - Trends and Patterns




### 3.1. Introduction

In the process of overcoming fiscal crisis, the state Government of Andhra Pradesh implemented major reforms both for revenue augmentation as well as expenditure management. The effect of reforms is very much reflected on both the fronts. Further the trends in the revenue receipts also influence the expenditures. In this context, the present chapter[14] discusses the expenditure trends and patterns –

[14] Fourteenth Finance Commission's Study on *Evaluation of State Finances: with Special Reference to Andhra Pradesh* which is mentioned below.

- Expenditure pattern and trends separately for Non-Plan and Plan, Revenue and Capital, and major components of expenditure there under. Measures to enhance allocative and technical efficiency in expenditures during the last 5 years. Suggestions for improving efficiency in public spending.
- Public Expenditure and Financial Management (PEFM) Reforms implemented in the State.

revenue and capital, plan and non-plan, developmental non-developmental - and Public Expenditure and Financial Management (PEFM) reforms implemented in the state.

**Data Sources, Methodology and Period of Study**

The main data sources are Andhra Pradesh State Government Budget Documents and audit reports of CAG regarding state finances and also Civil. Gross State Domestic Product (GSDP) at current market prices is taken from the CSO’s Data book for DCH; 5th December 2012. Simple statistical tools are used for the analysis of the study.

The analysis mainly focused on composition of total budgetary expenditure as it indicates not only the direction of expenditure but also the impact of the policy measures on one or more components. The trends in developmental expenditure – social and economic services - are also discussed to bring out the allocative efficiency of the government expenditure. The proportions of expenditure in GSDP are also analyzed to bring out the impact of economic growth on expenditures.

The study is divided into five sections. Section two gives a brief note on expenditure reforms FRBM Act and its amendment in Andhra Pradesh. Section three deals with the trends and patterns of expenditure – revenue, capital and loan accounts; Non-plan – plan classification and major components there under. Section four discusses the irregularities in the government spending highlighted by the Accountant General (AG) and Public Expenditure and Financial Management (PEFM) Reforms implemented in the State. The concluding section extracts the suggestions, based on the study, for improving efficiency in public spending.

## 3.2. Expenditure Reforms in Andhra Pradesh

The government of AP has taken various steps on the expenditure side to restore fiscal health. These include rationalization of subsidies, restructuring expenditure, improving expenditure management, inviting private sector participation in the infrastructure sector and framing growth-enhancing policies. Restructuring expenditure include improving the operations and maintenance (O&M) spending on education and health and increasing capital investment. Important measures regarding budgetary accounting and Zero-based budgeting were adopted to bring fiscal discipline in all the departments. The government compiled a list of performance indicators with inputs from departments. Some of the measures comprise the key issues of greater financial accountability at all levels, transparency in Budget formulation and execution. The Contributory Pension Scheme has also been introduced for those employees who are recruited on or after 1st September 2004 (see Appendix Table 3.1A).

In the backdrop of Eleventh Finance Commission's recommendation of '*Incentive Fund* based *Fiscal Reform Facility'* for the period 2000-05 to support the states which reduce their deficits, the state government of Andhra Pradesh drew up a Medium Term Fiscal Framework (MTFF)[15]by setting targets for broad fiscal indicators in the medium term covering various aspects such as fiscal consolidation, public sector enterprises reform, power sector reforms and fiscal transparency. Implementation of Debt Swap Scheme (DSS) during 2002-05and the FRBM Act (2005) which was a prerequisite for availing of benefits under Debt Consolidation and Relief Facility (DCRF)[16]as recommended by Twelfth Finance Commission for its award period 2005-10, were the major reform measures taken up during the study period.

According to the FRBM Act, the state government shall in each financial year lay before the house/houses of the legislature, (a) The Macroeconomic Framework Statement [17](b) The Medium Term Fiscal Policy Statement (c) Fiscal Policy Strategy Statement along with the budget.[18]

The Medium Term Fiscal Policy Statement shall include various assumptions behind the fiscal indicators and an assessment of sustainability relating to

[15]The Eleventh Finance Commission had recommended the establishment of an Incentive Fund for the purpose of encouraging fiscal reforms in the states on the basis of a fiscal reform program that could be monitored. In pursuance of this, the Government of India drew up a scheme called the 'States Fiscal Reforms Facility' (2000-01 to 2004-05). The release of this fund required a five percentage point reduction in the revenue deficit as a proportion to the states total revenue receipts in each year till 2004-05 (RBI, 2003).

[16] Twelfth Finance Commission's DCRF has a two-stage benefit scheme as incentives to the states. First, a general scheme of debt relief to the states which consolidates central loans till March 2004 and outstanding as on March 2005 for a fresh term of 20 years prospectively from the year in which they enact FRBMAs. Second, a debt write-off scheme linked to fiscal performance is regulated in a manner that incentivizes a self –laid down fiscal correction path on a year –on-year basis aiming to elimination of revenue deficit by 2008-09 and containing fiscal deficit.(Economic Survey, GOI, 2005-06)

[17]The macroeconomic framework statement shall contain an overview of the state economy, an analysis of growth and sectoral composition of GSDP, an assessment related to state government finances and future prospects.

[18] It contains the fiscal policies of the state for the ensuing year, strategic priorities, the key fiscal measures and the rationale for any major deviation in fiscal measures and an evaluation of the current policies of the state vis-à-vis the fiscal management principles set out, fiscal objectives set out in MTFP Statement and fiscal targets set out.

i. The balance between revenue receipts and revenue expenditure
ii. The use of capital receipts including borrowings for generating productive assets
iii. The estimated yearly pension liabilities worked out on actuarial basis for the next ten years.

As mandated in the FRBM Act (2005), the state government has to eliminate revenue deficit by 2008-09 by reducing 0.32 percentage points in GSDP every year and fiscal deficit has to be brought down to 3 percent of GSDP during the same period by reducing 0.25 percentage points every year. However, Central Government has enhanced the limit of fiscal deficit from 3 percent to 3.5 percent of the GSDP for the year 2008-09 and 4 percent for the year 2009-10.[19]

Regarding the outstanding total liabilities, according to the FRBM Act (2005), within a period of five years 2005-10, the initially set target was not to exceed 35 percent of estimated GSDP. The government of India, as per the recommendations of the Thirteenth Finance Commission, prescribed that this ratio should be further declined to 27.6 percent by 2014-15.

In this backdrop, the following clause was included in view of amendment of section 9, Act 34 of 2005 (FRBM Act, 2005.

*"(cc) ensure within the subsequent period of five years, beginning from the financial year on the 1st day of April 2010 and ending on the 31st day of March 2015, that the total outstanding liabilities do not exceed 27.6 per cent of the GSDP, as prescribed by the Govt. of India in pursuance of the recommendations of 13th Finance Commission, year wise as follows:*

| 13th FC set target | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| *Total Outstanding Liabilities* as % of GSDP | 30.3 | 29.6 | 28.9 | 28.2 | 27.6 |

The set limit for the amount of annual incremental risk weighted guarantees was 90 *per cent* of the total revenue receipts in the year preceding the current year.

Besides the above, reforms in the receipts front, particularly revenue receipts (discussed in the earlier chapter), changes in the economic growth rates also influenced the expenditure patterns and trends. By

[19] FRBM Act (2005), Amended in 2010.

the implementation of Contributory Pension Scheme, the state government of Andhra Pradesh controlled the growing pension burden on future state finances. Debt Swap Scheme has resulted in sizeable cut down in interest payment burden of the Government, caused by high-cost old debt, and thus reducing the one of the components of committed expenditure. Apart from the above, the state benefitted interest relief on account of consolidation of central loans and reduction in the rate of interest to 7.5%, consequent to the recommendations of Twelfth Finance Commission. The impact of DSS, MTFF for the period 2000-05 as per Eleventh Finance Commission and the effect of FRBM Act (2005) as per the Twelfth Finance Commission recommendations very much reflected in the disbursements/expenditure trends during the decade 2000s, particularly since 2002-03.

However, the State Government has not developed its own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators with target dates of implementation during the period from 2010-11 to 2014-15. 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.[20]

### 3.3. Budgetary Expenditure: Classification and Trends

The trends and patterns of the expenditure - the outcome of above mentioned measures – indicate the direction of expenditure and prioritization of expenditure policies of the government. This section discusses the broad classification of expenditure which includes (a) revenue expenditure (b) capital expenditure (c) loans and advances and (d) capital disbursements. It also discusses the changes in the composition of expenditure when only the first three components are taken into account. Further classification of expenditure – (a) Plan and non-plan and (b) developmental and non-developmental - is also discussed.

[20] Government of Andhra Pradesh (2012): Report of the Comptroller and Auditor General of India State Finances for the year ended March 2012, Report No. 1, November.

### 3.3.1. Budgetary Expenditure –Broad Classification

The average proportion of total budgetary expenditure[21]in GSDP constituted nearly 21 percent (Table 3.1) during the Tenth Five Year Plan period (2002-07) of which a major portion was constituted by revenue expenditure (14.4percent), followed by capital disbursements (3.3 percent), capital expenditure (2.7 percent) and loans and advances (0.5). Year-wise breakup shows a continuous decline in the total budgetary expenditure (barring 2003-04) from 23.1 percent in 2002-03 to 18.8 percent in 2006-07 (Fig: 1, Appendix Table. 2A) mainly due to changes in its components. That is

- Significant decline of capital disbursements in the last three years (2004-05 and 2006-07) mainly because of the bulk repayments of high cost debt done away under Debt Swap Scheme (DSS) during 2002-05, particularly in 2003-04.

- Moderate decrease in the revenue expenditure in the last three years (2004-05 to 2006-07) was mainly on account of

    - Reduction in the interest payments burden because of bulk debt repayments under DSS
    - The effect of reform measures particularly MTFF, DCRF and FRBM Act to reach the target of zero revenue deficit by 2008-09.

- Negligible decline of loans and advances from 0.7 percent in 2002-03 (though increased in 2003-04) to 0.3 percent in2005-07

During this period, combined effect of the DSS, DCRF, MTFF and FRBM Act contributed to consistent growth in capital expenditure but only by one percentage point from 2.3 percent in 2002-03 to 3.3 percent in 2006-07 more focused on irrigation projects.

All the components of expenditure, except disbursements, though increased in 2007-08 declined thereafter, contributing to the decline of total expenditure/GSDP ratios, on an average, by 3 percentage points during the Eleventh Plan Period (2007-12). This was mainly on account of decrease in capital disbursements (by 2 percentage points) and remaining 1 percent collectively by the other components with yearly varying trends (Table 3.1, Fig: 3.1, Appendix Table 3.2A). Year-wise breakup shows that:

[21]includes revenue expenditure, capital expenditure, loans and advances and capital disbursements

- Revenue expenditure/GSDP ratio decreased from 14.8 percent in 2007-08 to 13.4 percent in 2011-12 (with a decline in the years2008-10 – the year of economic slowdown and the following year - and a marginal increase in the last two years 2010-12) mainly because of :
    - Lower growth rates of GSDP
    - Continuous decline in interest payments,
    - Fluctuating growth rate of revenue receipts which has influenced the revenue expenditure owing to the norms of FRBM (Fig. 3.2).
- The capital expenditure came down from 3.5 percent in 2007-08 to 2 percent in 2011-12 – less than the bench mark year of 2002-03. This trend was not steady but with an alternate years of fall in 2008-09(the year of economic slowdown) and 2010-11(year of recovery period) and rise (2009-10) because of the increased expenditure towards irrigation projects).
- Nominal decline in loans and advances from 0.8 percent in 2007-08 to 0.7 with fluctuations in between.
- Decline in capital disbursements from 1.4 percent in 2007-08 to 1percent in2011-12.

*Composition of Budgetary Expenditure*

Obviously, the effect of the above mentioned reform measures were on the composition of total expenditure too (Table 3.1). During the period 2002-07, on an average, expenditure under revenue (68.6 percent), capital (13 percent) and loan (2.5 percent) accounts put together constituted about 84 percent of the total expenditure while capital disbursements covered the remaining 16 percent. Year-wise break up shows a decreasing trend of capital disbursements and loans and advances and an improvement in the capital expenditure which was similar in terms of GSDP also. But contrary to the declining trend of revenue expenditure / GSDP ratio, the relative share of revenue expenditure in total expenditure increased mainly because of the decreasing and minimal share of debt repayment obligations. In other words, the relative shares of revenue and capital expenditures (barring 2003-04) showed an increasing trend while the other two components declined- interchanging the relative positions of capital expenditure and capital disbursements (Fig: 3.3, Appendix Table 3.2A).

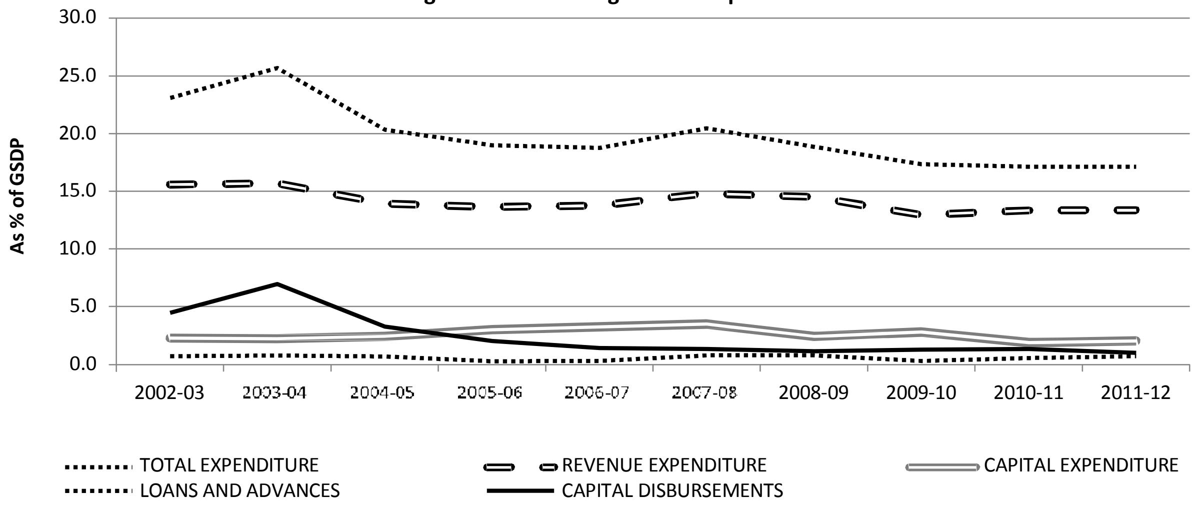
Table 3.1: Broader Classification of Expenditure

| | | X Plan Period 2002-07 | XI Plan Period 2007-12 | Total 2002-12 | X Plan Period 2002-07 | XI Plan Period 2007-12 | Total 2002-12 | X Plan Period 2002-07 | XI Plan Period 2007-12 | Total 2002-12 | X Plan Period 2002-07 | XI Plan Period 2007-12 | Total 2002-12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | (Rs. Crores) | | | As % of GSDP | | | As % of Total | | | As % of Total | | |
| | Total Expenditure (I+II+III+IV) | *238329.8* | *456982.0* | *695311.8* | *20.9* | *17.9* | *18.9* | *100.0* | *100.0* | *100.0* | -- | -- | -- |
| | total expenditure (I+II+III) | 200560.3 | 426236.0 | 626796.2 | 17.6 | 16.7 | 17.0 | *84.2* | *93.3* | *90.1* | *100.0* | *100.0* | *100.0* |
| I | *Revenue Account* | 163548.0 | 348235.3 | 511783.3 | 14.4 | 13.7 | 13.9 | *68.6* | *76.2* | *73.6* | *81.5* | *81.7* | *81.7* |
| II | *Capital Account* | 31026.9 | 61778.6 | 92805.5 | 2.7 | 2.4 | 2.5 | *13.0* | *13.5* | *13.3* | *15.5* | *14.5* | *14.8* |
| III | *Loan Account** | 5985.4 | 16222.0 | 22207.4 | 0.5 | 0.6 | 0.6 | *2.5* | *3.5* | *3.2* | *3.0* | *3.8* | *3.5* |
| IV | *Capital Disbursements*** | *37769.6* | *30746.0* | *68515.6* | *3.3* | *1.2* | *1.9* | *15.8* | *6.7* | *9.9* | -- | -- | -- |

* Loans and Advances; ** Repayment of Public Debt
Source: Andhra Pradesh Budget in Brief (various years); Andhra Pradesh Economic Survey (various years)
GSDP for the year 2011-12, Annual Fiscal Framework of Andhra Pradesh for 2011-12.

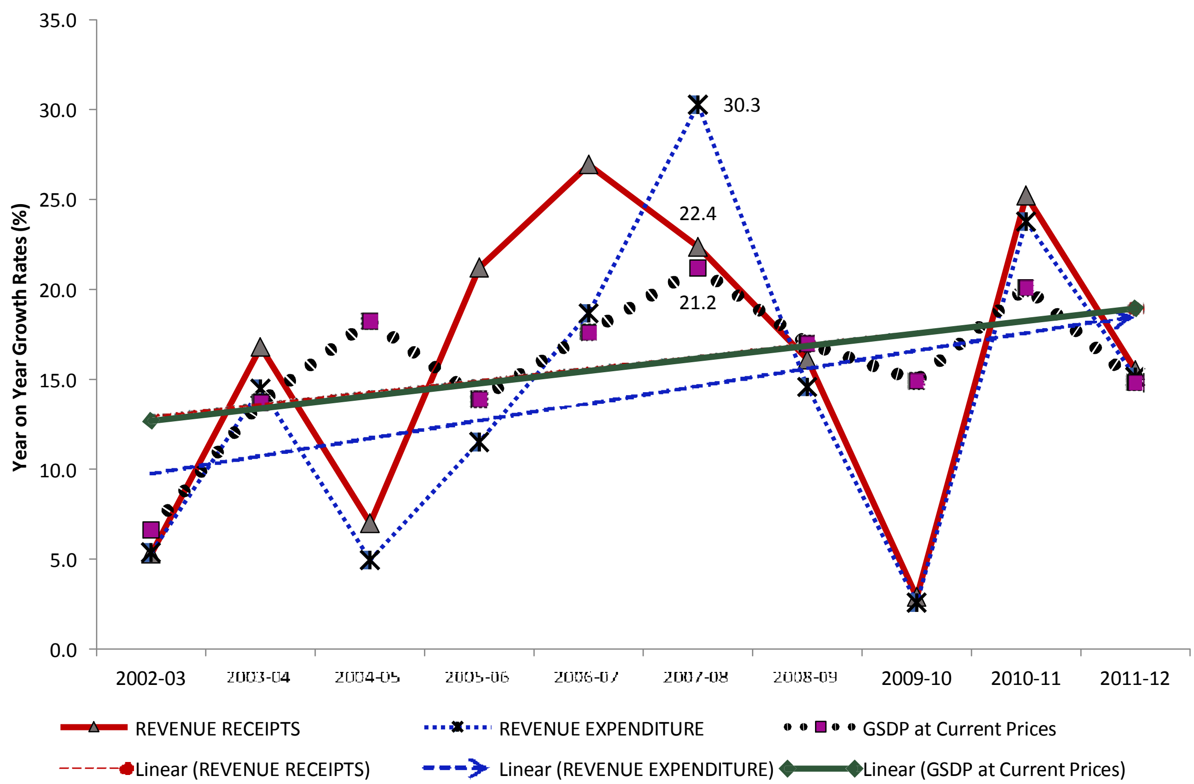
During the Eleventh Five Year Plan, the effect of DSS and DCRF continued which kept the component of capital disbursements at lower level while furthering the average proportion of revenue and capital expenditures (also loans and advances) in total expenditure. The revenue and capital expenditures which reached a higher plane in the last two years of the Tenth Plan period remained higher in the Eleventh Five Year Plan period in spite of the fluctuations in between (Fig:3.2, Appendix Table 3.3). The increasing trend of revenue and capital expenditure and lower proportions of capital disbursements show that most of the borrowings are channeled to the activities other than debt repayments.

**Fig. 3.1: Broad Categories of Expenditure**

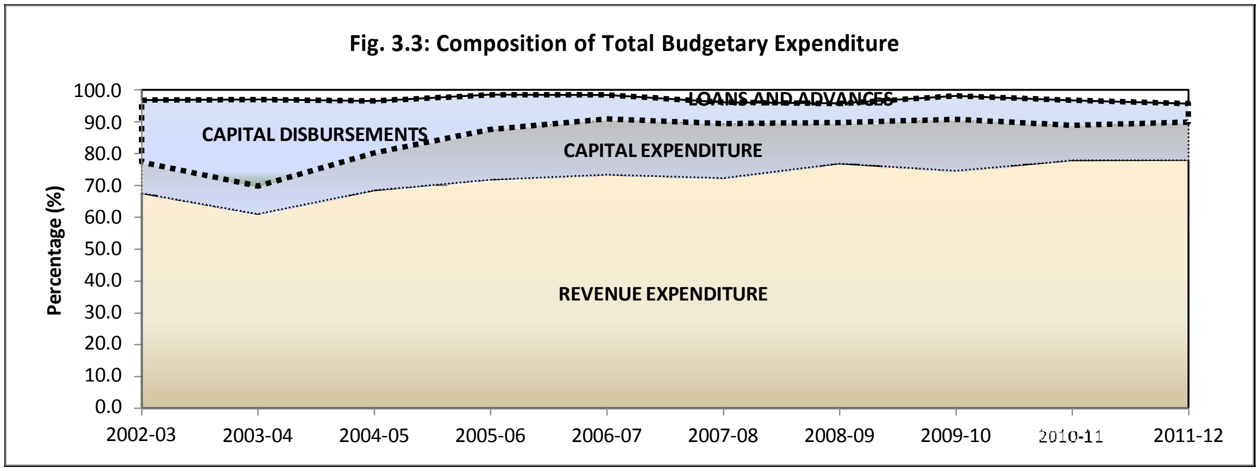



Source: As per Table 3.1.

**Fig. 3.2 : Trends in Revenue Receipts, Revenue Expenditure and GSDP**




Source: As per Table 3.1.




Source: As per Table 3.1.

The year-wise breakup of Eleventh Plan Period shows varying trends in all the components of total budgetary expenditure may be because of the irregular growth rates in the revenue receipts (effect of economic slowdown on the decline in the growth rates of state domestic product) that reflected in revenue expenditures so as to maintain the revenue surplus situation as per the pre-set norms of FRBM Act. The impact of the revenue account situation was on capital expenditure too. Nonetheless, higher relative share of the revenue expenditure - followed by capital expenditure, capital disbursements and loans and advances – indicates that major share of expenditure is in the nature of current consumption, leaving little scope for investment in infrastructure and asset creation.

However, if the component of capital disbursements is kept aside and consider the expenditure under revenue, capital and loan accounts as total expenditure, then their composition vary from that of previous classification where capital disbursements are also included (Table 3.1). On an average, between the two time periods, while there is a nominal increase in the case of revenue expenditure, a moderate increase (decrease) in the case of loans and advances (capital expenditure). Year-wise breakup of revenue and capital expenditures w.r.t. total expenditure[22] shows similar trends as that of their proportions in GSDP. In other words, the proportion of revenue expenditure (also loans and advances) in total expenditure declined in the last three years of the Tenth Plan Period and provided scope for an increase in the capital expenditure (Fig.3.4, Appendix Table3.2A). Trends in the broad classification of expenditure reveals that decreasing revenue expenditure has been leaving scope for

[22] Total expenditure includes revenue, capital and loans and advances only

capital expenditure that is meant for capital development – investment in infrastructure and asset formation. In other words it has increased the allocative efficiency of the public expenditure during those years which is a welcome feature with respect to the fiscal health of the state. During the eleventh plan period, the trends of these components reversed with yearly variations. It also indicates downward inflexibility of current consumption. Nevertheless, further decomposition of these expenditure components reveals some more outcomes. The following section discusses the trends of each one of these components - expenditures under revenue, capital and loan accounts - at aggregate and segregate level.

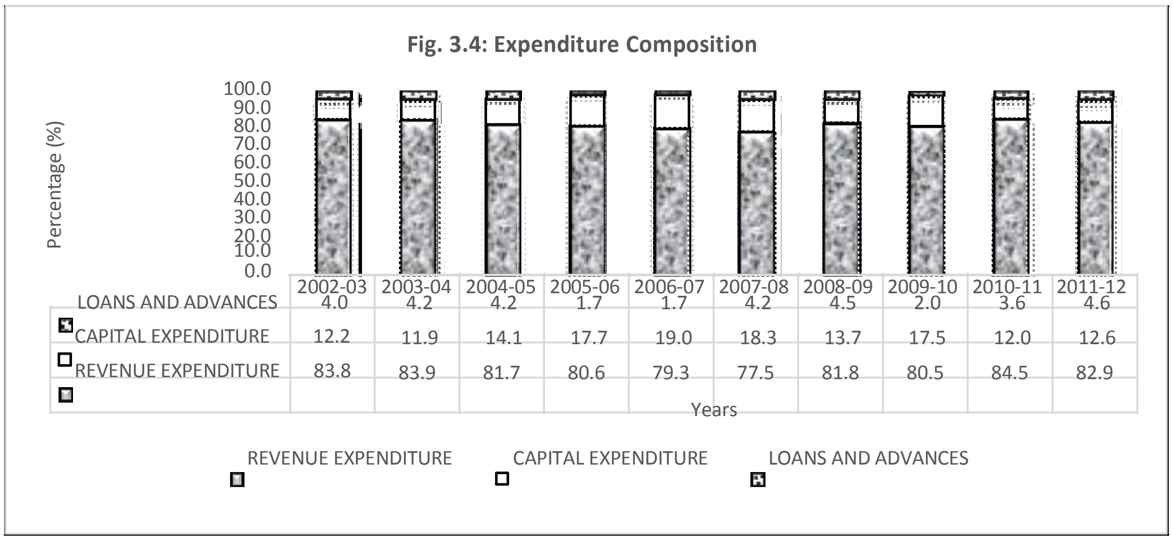


Fig. 3.4: Expenditure Composition

Source: As per Table 3.1.

### 3.3.2. Expenditure- Structure, Trends and Patterns

#### *A. Structure of the Expenditure Budget*

Budgetary expenditure is classified into functional heads to signify broadly the function of the government for which the expenditure has been incurred and the activity on which the expenditure has been incurred[23]. The functions under revenue, capital and loan accounts are classified as (a) General Services[24], (b) Social Services[25] and (c) Economic Services[26]. These three are again grouped as non-

[23]Government of India (2011): Report of the High Level Expert Committee on Efficient Management of Public Expenditure, Planning Commission, New Delhi.

[24]Organs of State , Fiscal Services, Interest Payment& Servicing of Debt, Administrative Services, Pensions &misc. General Services

developmental and developmental. While the non-developmental expenditure covers the heads of expenditure under general services, development component take in other two services. Further, the entire classification is divided into two – Plan[27] and Non-Plan[28] (Table 3.2).

Table 3.2: Budgetary Classification of Government Expenditure

| | Functional Classification | Non-plan (NP) | Plan (P) | Total |
|---|---|---|---|---|
| I | Revenue Expenditure (RE) *(A+B+C)* | NPRE | PRE | Total RE |
| *A* | *Non-Developmental (ND)* | NPNDRE | PNDRE | Total ND |
| i | General Services | | | |
| *B* | *Developmental (D) (i+ii)* | NPDRE | PDRE | Total D |
| i | Social Services | | | |
| ii | Economic Services | | | |
| *C* | *Compensation & Assignments To Local Bodies & P. R. Institutions* | NP | | |
| II | Capital Expenditure (CE)*(A+B)* | NPCE | PCE | Total CE |
| *A* | *Non-Developmental (ND)* | NPNDCE | PNDCE | Total ND |
| i | General Services | | | |
| *B* | *Developmental (D) (i+ii)* | NPDCE | PDCE | Total D |
| i | Social Services | | | |
| ii | Economic Services | | | |
| III | Loans and Advances (LA) (mostly D) | NP D | P D | Total D LA |
| | Grand Total (I+II+III) | Total Non-Plan | Total Plan | Total E |

In general, during the process of fiscal management, the strategy of the state governments' w.r.t. expenditure would be to moderate the non-developmental expenditure and provide resources for development activities.

[25]Education, Sports, Art and Culture, Health and Family Welfare, Water Supply, Sanitation, Housing and Urban Development, Information and Publicity, Welfare of SC ST and other BCs, Labour and Labour Welfare, Social Welfare and Nutrition and Others

[26]Agriculture and Allied Activities, Rural Development, Irrigation and Flood Control, Energy, Industry and Minerals, Transport, Science, Technology and Environment and General Economic Services

[27] Plan expenditure, generally, signifies expenditure taken up under developmental schemes during a particular five year plan some of which may be continued beyond the plan period. The expenditure liabilities arising out of plan expenditure are called committed liabilities which get shifted to non-plan expenditure category (Government of India, 2011).

[28]Non-plan expenditure is to provide for maintenance and functioning of the Government and hence recurring and also committed in nature. Salaries, pensions, operations and maintenance and interest payments etc come under this category. Over a period of time, the enormous growth of this component becomes a drain on the Government exchequer.

*Trends in Expenditure*

As mentioned earlier, in Andhra Pradesh, the percentage of total expenditure in GSDP for the period 2002-07 was on an average 17.6 percent contributed mainly by revenue account (14.4 percent) followed by capital account (2.7 percent) and loans and advances (0.5 percent). The declining trend of total expenditure from 18.6 percent in 2002-03 to 17.4 percent in 2006-07 was a net effect of a reduction in revenue expenditure and loans and advances and an improvement in capital expenditure (Table 3.3). During the eleventh plan period, on an average, the percentage of total expenditure in GSDP declined to 16.7 percent on account of revenue account (13.7 percent) followed by capital account (2.4 percent). The declining trend of total expenditure from 19 percent in 2007-08 to 16 percent in 2011-12 was a decline in all the three components – revenue, capital and loans and advances.

*The revenue expenditure/ GSDP* proportions declined during the Tenth Plan Period mainly because of the cut in non-plan revenue expenditure. Within non plan revenue expenditure, non-plan non developmental component witnessed a sharp decline by 1.4 percentage points of which the interest payments contributed 1.2 percentage points. Along with this, Non Plan Developmental revenue expenditure also declined at aggregate level marginally by 0.3 percentage points i.e., from 5.8 percent in 2002-03 to 5.5 percent in 2006-07 taking a major toll on social services (decline by 0.6 percentage points) particularly on education (decline by 0.3 percentage points) while economic services showed a nominal increase. Thus the decline in non-plan revenue expenditure was shared by both non-developmental and developmental expenditures more so the former (Appendix Tables 3.3A and 3.4A).

During 2007-12, the continuation of falling trend of the interest payments kept the non-plan non developmental revenue expenditure low in spite of the increase in other components such as pension liabilities and administrative services. Non plan developmental revenue expenditure also declined at aggregate level marginally by 0.7 percentage points i.e., from 6.2 percent in 2007-08 to 5.5 percent in 2011-12 slashing the economic services (decline by 1 percentage points) particularly on energy (decline by 0.6 percentage points) while social services showed a nominal increase.

Table 3.3: Expenditure Trends and Patterns *(As% of GSDP)*

| | | *Total* Expenditure | | | *Plan Expenditure* | | | Non-Plan Expenditure | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2002-07 | 2007-12 | 2002-12 | 2002-07 | 2007-12 | 2002-12 | 2002-07 | 2007-12 | 2002-12 |
| I | Revenue Account * | *14.4* | *13.7* | *13.9* | 3.1 | 3.6 | 3.4 | 11.3 | 10.1 | 10.5 |
| *A* | Non Developmental | *5.7* | *4.5* | *4.9* | 0.0 | 0.1 | 0.1 | 5.6 | 4.4 | 4.8 |
| | *Interest Payment& Servicing of Debt* | *3.1* | *1.9* | *2.2* | *0.0* | *0* | *2.2* | *3.1* | *1.9* | *2.2* |
| | *Administrative Services* | *0.9* | *0.9* | *0.9* | *0* | *0.1* | *0.1* | *0.9* | *0.9* | *0.9* |
| | *Pensions &misc General Services* | *1.3* | *1.5* | *1.4* | *0* | *0* | *0* | *1.3* | *1.5* | *1.4* |
| B | Developmental (I+II) | *8.6* | *9.1* | *9.0* | 3.0 | 3.5 | 3.4 | 5.6 | 5.6 | 5.6 |
| *B (I)* | *Social Services* | *5.0* | *5.5* | *5.3* | *1.7* | *2.4* | *2.2* | *3.3* | *3.1* | *3.1* |
| *B(II)* | *Economic Services* | *3.6* | *3.6* | *3.6* | *1.3* | *1.1* | *1.2* | *2.3* | *2.5* | *2.5* |
| II | Capital Account | 2.7 | 2.4 | 2.5 | 2.6 | 2.4 | 2.5 | 0.1 | 0.0 | 0.0 |
| A | Non Developmental | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| B | Developmental (I+II) | 2.6 | 2.4 | 2.5 | 2.6 | 2.4 | 2.5 | 0.0 | 0.0 | 0.0 |
| *B (I)* | *Social Services* | *0.2* | *0.1* | *0.1* | *0.2* | *0.1* | *0.1* | *0.0* | *0.0* | *0.0* |
| *B(II)* | *Economic Services* | *2.4* | *2.3* | *2.3* | *2.4* | *2.3* | *2.3* | *0.0* | *0.0* | *0.0* |
| III. B | Loan Account (BI+BII) | 0.5 | 0.6 | 0.6 | 0.3 | 0.6 | 0.5 | 0.3 | 0.1 | 0.1 |
| *B (I)* | *Social Services* | *0.3* | *0.5* | *0.4* | *0.1* | *0.5* | *0.3* | *0.2* | *0.0* | *0.1* |
| *B(II)* | *Economic Services* | *0.3* | *0.2* | *0.2* | *0.2* | *0.1* | *0.1* | *0.1* | *0.0* | *0.0* |
| | | | | | | | | | | |
| | TOTAL (I+II+III) | 17.6 | 16.7 | 17.0 | 6.0 | 6.6 | 6.4 | 11.7 | 10.1 | 10.6 |
| | Total (IA+IIA) | 5.8 | 4.5 | 4.9 | 0.1 | 0.1 | 0.1 | 5.7 | 4.4 | 4.8 |
| | Total (IB+IIB+III B) | 11.7 | 12.2 | 12.0 | 5.9 | 6.5 | 6.3 | 5.9 | 5.6 | 5.7 |
| | Social Services | *5.5* | *6.1* | *5.9* | *2.0* | *3.0* | *2.7* | *3.5* | *3.1* | *3.2* |
| | Economic Services | *6.3* | *6.1* | *6.1* | *3.9* | *3.5* | *3.6* | *2.4* | *2.6* | *2.5* |

*includes Compensation & Assignments to Local Bodies & Panchayat Raj Institutions;
** Revenue capital and loan components only.
Source: Explanatory Memorandum of Andhra Pradesh (for various years).

On the other hand the proportion of plan revenue expenditure in GSDP was 3.1 percent in 2002-07 with huge variation in between years which reflected in plan developmental revenue expenditure (Appendix Table 3.5A). This is mainly because of the almost consistent decline in economic services (particularly energy sector)and increase in social services with a mixed trend in its components - particularly under water supply, sanitation, housing and urban development and social security and welfare. During the Eleventh Plan Period (2007-12), the proportion of plan revenue expenditure in GSDP increased to 3.6

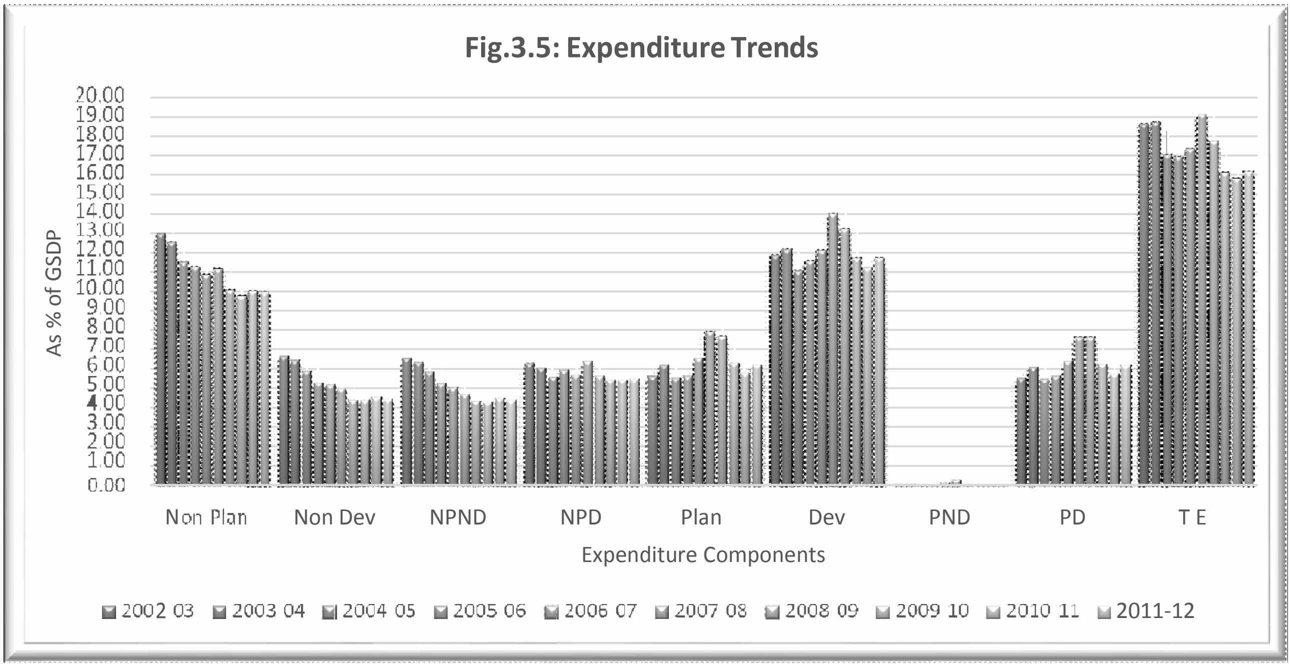
percent mainly because of the sudden increase in the plan developmental revenue expenditure in 2007-09 particularly to withstand the economic slowdown in 2008-09. There were marginal variations in the remaining years - on an average registering a higher proportion when compared with the previous plan period. Within the plan developmental expenditure, expenditure towards social services shows a mixed trend in its components markedly with an uptrend in *urban development* and *social security and welfare* in 2008-09 by implementing stimulus packages to withstand the economic slowdown while there was a cut in economic services.

In short, the declining trend of revenue expenditure is the result of declining interest payments throughout the period (2002-12) in spite of the increase in pension expenditure, plan revenue expenditure -the net result of either trade-off between social services and economic services in favour of the former during second half of the study period or fluctuations in between.

*Aggregate capital expenditure*/GSDP of the state increased during 2002-07, particularly from 2004-05 onwards following the reduction in the revenue expenditure leading to a better allocative efficiency of the public expenditure. However this trend was only for a short time which continued till the first year of the eleventh plan period i.e., 2007-08. The increasing trend of capital expenditure in terms of GSDP during 2002-07 was mainly due to increase in plan developmental expenditure under economic services more focused on irrigation sector. During 2007-12, its proportion has declined when compared to the previous period experiencing the economic slowdown (Appendix Tables 3.6Aand 3.7A) and consequently the allocative efficiency.

*Loans and advances* which are given for developmental activities have declined under both social and economic services during 2002-07 and increased in the first two years of the period 2007-12 mainly because of the increase in the housing sector under plan component.

*In a nutshell*, the proportion of total expenditure in GSDP declined during the study period with fluctuations in between which is a net effect of (a) total non-plan expenditure as well as non-developmental expenditure (obviously non-plan non developmental and non-plan developmental) show a more or less consistent decline in its trends during the entire period (2002-12) barring one or two years (b) while plan expenditure and developmental expenditure have fluctuated mainly because of the fluctuations in plan developmental expenditure (Fig. 3.5) indicating inconsistencies and directionless.




Note: Expenditure includes Revenue Expenditure, capital Expenditure and Loans and Advances;
NPND: Non-Plan Non-Developmental; NPD: Non-Plan Developmental; Dev: Developmental; PND: Plan Non-Developmental; PD: Plan Developmental; TE: Total Expenditure.
Source: As per Tables 3.1 and 3.3.

**B.** *Patterns of Expenditure: Non Developmental and Developmental, Non-Plan and Plan*

*Regarding the average* proportion of *Revenue Expenditure* in *Total Expenditure* during the Tenth Plan Period comprised81.5 percent (Table 3.4) with a declining trend from nearly 84 percent in 2002-03 to about 79 percent mainly because of the cut in non-plan revenue expenditure by 5.7 percentage points of which, interest payments, a component of non-plan non developmental revenue expenditure, witnessed a sharp decline by 5.6 percentage points (Appendix Table 3.9A to 3.11A).

Of the total revenue expenditure, the relative share of developmental expenditure increased consistently throughout the study period mainly on account of increase in plan revenue component of social services, which also shows a similar trend. At the same time economic services increased in the first period and declined in the second period especially with regard to plan revenue component. On the other hand the relative share of non-developmental expenditure decreased (Fig. 3.6(a) and 3.6(b)).

This kind of shift in prioritization will also enhance the allocative efficiency of the government expenditure.

In the study period 2002-12, the proportion of developmental expenditure in total expenditure[29] constituted nearly 71 percent of which social and economic services constituted nearly 35 percent and 36 percent respectively. The breakup of the period into 2002-07 and 2007-12 shows that there has been a significant increase at the aggregate level of development expenditure in the second period over previous period mainly because of the increase in the social services.

The proportion of developmental revenue expenditure in total expenditure shows a marginal increase on account of the mixed trend of expenditure in social and economic services. To elaborate, there was a marginal increase in the expenditure towards social services with an increase in plan and decline in non-plan revenue expenditures. Exactly reverse was on account of economic services. In other words, there was a marginal decline in the expenditure towards economic services which was a net result of fall in plan and rise in non-plan revenue expenditure.

In short, the decline in total revenue expenditure in terms of total expenditure was mainly due to non-plan non-developmental expenditure particularly interest payments. With this, the proportion of non-plan revenue expenditure[30] (net of interest payments) in the total budgetary expenditure form nearly 47 percent during the Tenth Plan Period and increased to 49 percent during Eleventh Plan Period (Table 3.4).

During 2007-12, the continuation of falling trend of the interest payments kept the non-plan non developmental revenue expenditure low in spite of the increase in other components such as pension liabilities and administrative services. There was an increase in the total developmental revenue expenditure mainly because of the decline in plan and non-plan components of economic services while there was an increase in social services under both (plan and non-plan). This could be mainly because of the attention given towards the social welfare by implementing stimulus packages to withstand the economic slowdown while there was a cut in economic services.

[29] Includes Revenue, capital and loan accounts only
[30] Obviously there is an increase in non-plan developmental rev exp.

In short, the declining trend of revenue expenditure is the result of declining interest payments throughout the period (2002-12) in spite of the increase in pension expenditure, plan revenue expenditure -the net result of either trade-off between social services and economic services in favour of the former during second half of the study period or fluctuations in between.

*Aggregate capital expenditure*/total expenditure proportion constitute 15.5 percent during 2002-07 with an increase particularly from 2004-05 onwards following the reduction in the revenue expenditure. However this trend was only for a short time which continued till the end of this plan period. The increase in the proportion of capital expenditure in terms of total expenditure was mainly on account of plan developmental expenditure under economic services more focused on irrigation sector. During 2007-12, though there was a negligible increase in its proportion when compared to the previous period, there was a substantial decline experiencing the economic slowdown and implementation of stimulus packages if any they are under the transport sector.

*Loans and advances* which are given for developmental activities have declined under both social and economic services during 2002-07 and increased in the first two years of the period 2007-12 mainly because of the increase in the housing sector under plan component.

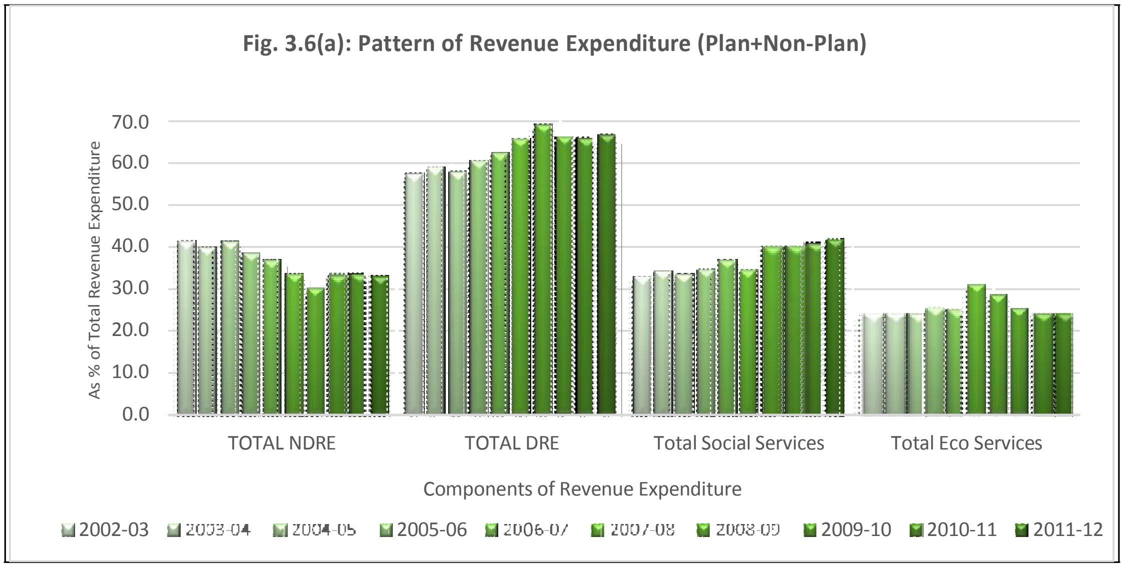
Succinctly, total non-plan expenditure as well as non-developmental expenditure (obviously non-plan non developmental and non-plan developmental) show a more or less consistent decline during the entire period (2002-12) barring one or two years while plan expenditure and developmental expenditure have fluctuated mainly because of the fluctuations in plan developmental expenditure.

Table 3.4: Patterns of Expenditure (as % of Total Expenditure)

| | | *Total* Expenditure | | | *Plan Expenditure* | | | Non-Plan Expenditure | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | *2002-07* | *2007-12* | *2002-12* | *2002-07* | *2007-12* | *2002-12* | *2002-07* | *2007-12* | *2002-12* |
| I | Revenue Account | 81.5 | 81.7 | 81.7 | 17.4 | 21.5 | 20.2 | 64.2 | 60.2 | 61.5 |
| A | Non Developmental | 32.2 | 27.0 | 28.6 | 0.2 | 0.4 | 0.3 | 31.9 | 26.6 | 28.3 |
| | Interest Payment& Servicing of Debt | 17.3 | 11.1 | 13.1 | 0.0 | 0.0 | 0.0 | 17.3 | 11.1 | 13.1 |
| | Administrative Services | 5.2 | 5.4 | 5.4 | 0.2 | 0.4 | 0.3 | 5.1 | 5.1 | 5.1 |
| | Pensions &Misc General Services | 7.6 | 8.8 | 8.4 | 0.0 | 0.0 | 0.0 | 7.6 | 8.8 | 8.4 |
| B | Developmental (I+II) | 48.8 | 54.5 | 52.7 | 17.1 | 21.1 | 19.8 | 31.7 | 33.4 | 32.9 |
| BI | Social Services | 28.4 | 32.8 | 31.4 | 9.6 | 14.6 | 13.0 | 18.7 | 18.2 | 18.4 |
| B(II) | Economic Services | 20.4 | 21.7 | 21.3 | 7.5 | 6.5 | 6.8 | 12.9 | 15.2 | 14.5 |
| C | Compensation & Assignments To Local Bodies & P. R. Institutions | 0.6 | 0.2 | 0.4 | 0.0 | 0.0 | 0.0 | 0.6 | 0.2 | 0.4 |
| II | Capital Account | 15.5 | 14.5 | 14.8 | 15.0 | 14.6 | 14.7 | 0.5 | -0.1 | 0.1 |
| A | Non Developmental | 0.6 | 0.1 | 0.2 | 0.3 | 0.1 | 0.1 | 0.3 | 0.0 | 0.1 |
| B | Developmental (I+II) | 14.9 | 14.4 | 14.6 | 14.7 | 14.5 | 14.6 | 0.1 | -0.1 | 0.0 |
| BI | Social Services | 1.3 | 0.6 | 0.8 | 1.2 | 0.6 | 0.8 | 0.1 | 0.0 | 0.0 |
| B(II) | Economic Services | 13.6 | 13.8 | 13.7 | 13.5 | 13.9 | 13.8 | 0.1 | -0.1 | 0.0 |
| III | LOAN ACCOUNT | 3.0 | 3.8 | 3.5 | 1.4 | 3.5 | 2.8 | 1.6 | 0.3 | 0.7 |
| | Social Services | 1.5 | 2.9 | 2.4 | 0.4 | 2.7 | 2.0 | 1.1 | 0.1 | 0.4 |
| | Economic Services | 1.5 | 0.9 | 1.1 | 1.0 | 0.7 | 0.8 | 0.5 | 0.2 | 0.3 |
| | | | | | | | | | | |
| | TOTAL (I+II+III) | 100.0 | 100.0 | 100.0 | 33.8 | 39.6 | 37.7 | 66.2 | 60.4 | 62.3 |
| | total non dev (IA+IIA) | 32.7 | 27.0 | 28.9 | 0.5 | 0.5 | 0.5 | 32.2 | 26.6 | 28.4 |
| | total dev (IB+IIB+III) | 66.6 | 72.7 | 70.8 | 33.3 | 39.1 | 37.2 | 33.4 | 33.6 | 33.5 |
| | Social Services | 31.1 | 36.3 | 34.6 | 11.3 | 17.9 | 15.8 | 19.8 | 18.4 | 18.8 |
| | Economic Services | 35.5 | 36.4 | 36.1 | 22.0 | 21.1 | 21.4 | 13.5 | 15.3 | 14.7 |

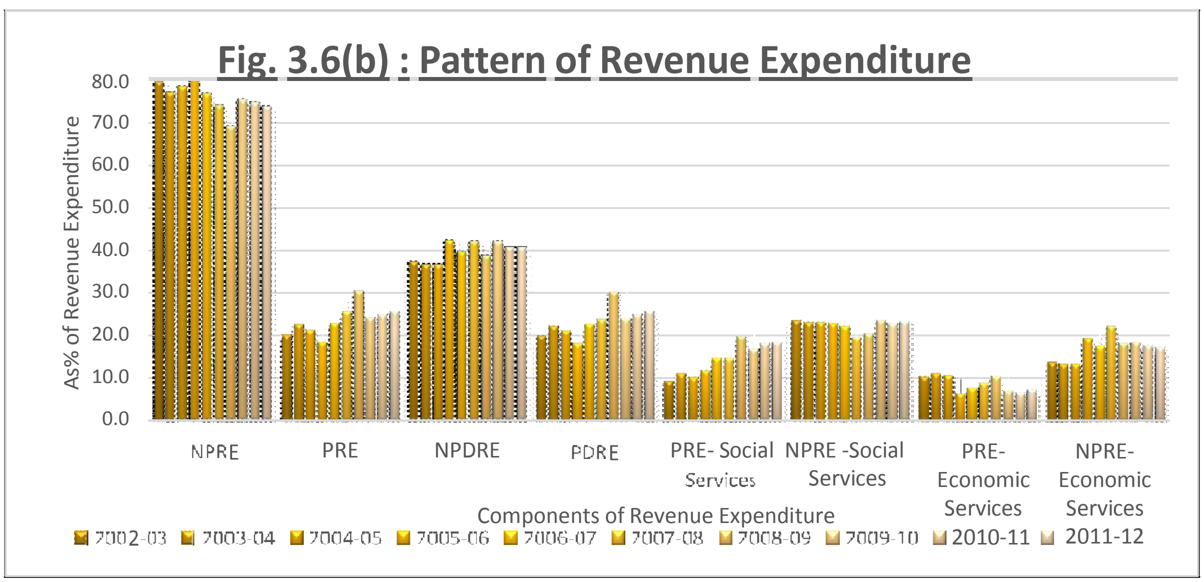
∗Compensation & Assignments to Local Bodies &Panchayat Raj Institutions; ** Revenue capital and loan components only.

Source: As per Tables 3.1 and 3.3.



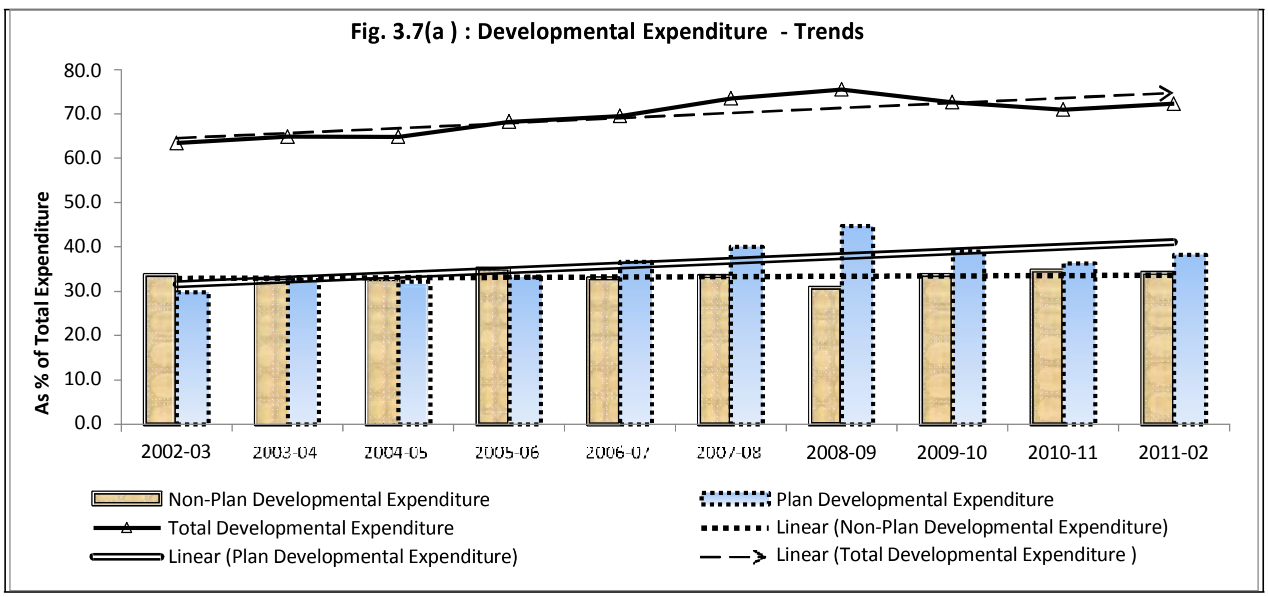

Source: As per Tables 3.1 and 3.3.

Source: As per Tables 3.1 and 3.3.



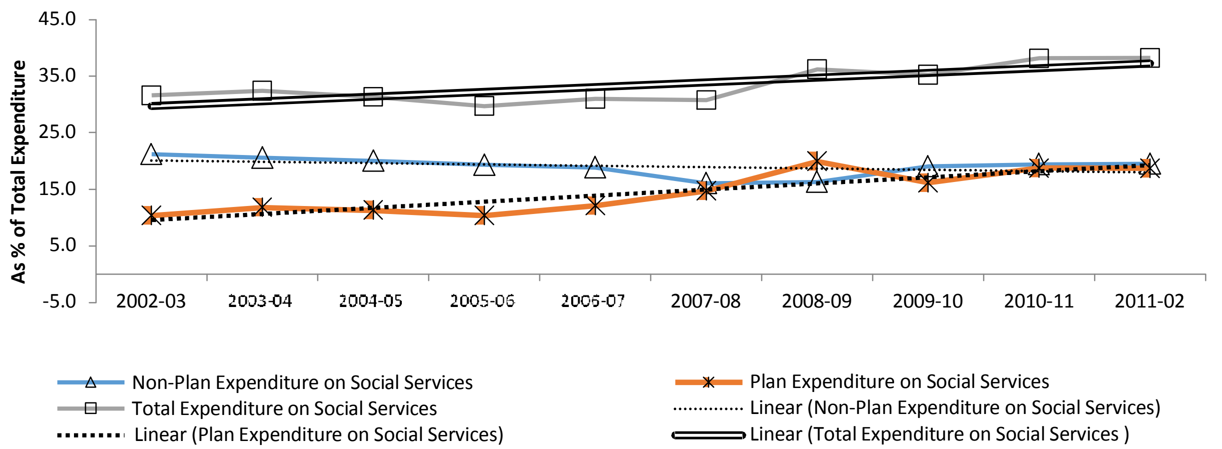

*C. Developmental Expenditure- Fiscal Priority of the State Government*

An analysis of the allocation pattern of state government expenditure for developmental activities, reveals the fiscal priority of the state government concerned – human development (social services) or economic development (economic services) or both. A Steady increase in the proportions of developmental expenditure in total expenditure, during the Tenth Plan Period, has reflected in the continual rise of social and economic services (Table 3.4, Fig: 3.7 (a), 3.7(b) and 3.7(c)). During the Eleventh Plan Period, on the whole the developmental expenditure has increased to more than two-third and also higher than the Tenth Plan Period as it has already reached the higher plane, but in the year-wise breakup it shows a declining trend, with fluctuations in between which has reflected in the down trend of economic services in 2007-08 – a year before the global economic slowdown, 2008-09 (an year of global economic slowdown) and also in 2009-10. As has already been mentioned in the introduction, the effect of economic slowdown is glaring on developmental expenditure, particularly economic services. However, the effect of economic slowdown on expenditure towards social services has been tamed off with the stimulus packages provided by the Government of India.



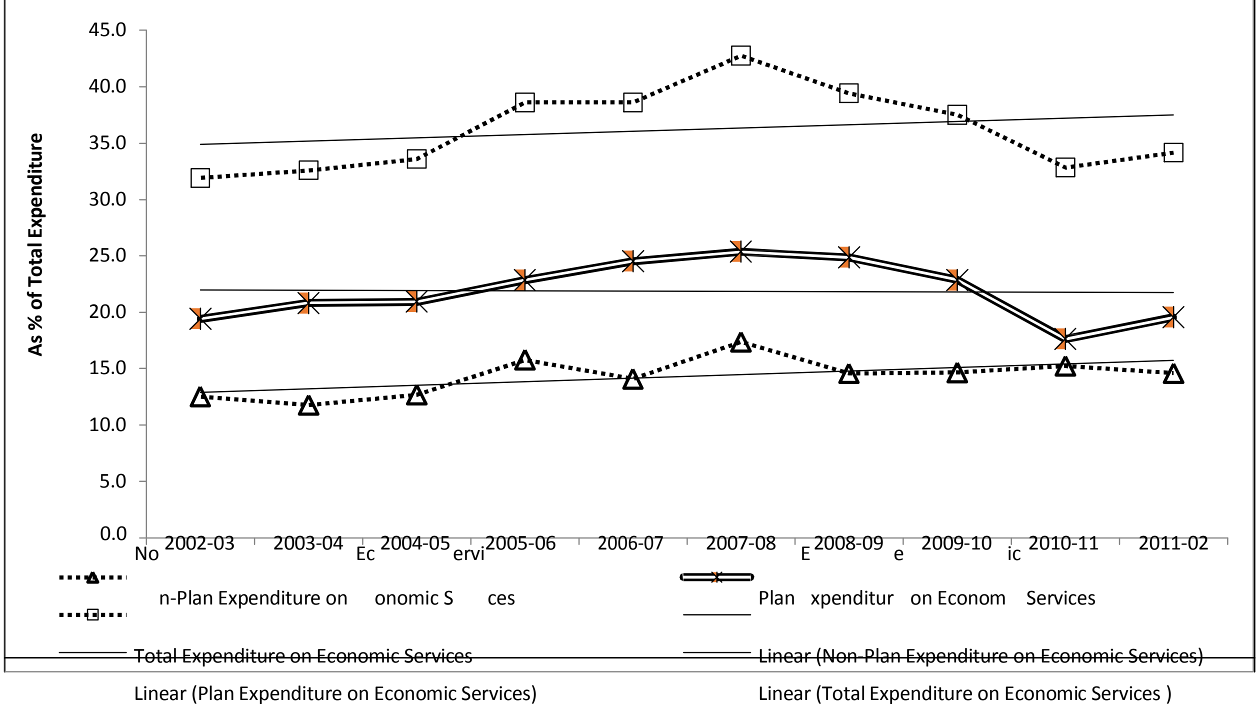

Source: As per Tables 3.1 and 3.3.

**Fig. 3.7(b) : Expenditure Trends - Social Services**




Source: As per Tables 3.1 and 3.3.

**Fig. 3.7(c) : Expenditure Trends - Economic Services**




Source: As per Tables 3.1 and 3.3.

**Developmental Expenditure: Social and Economic Services**

The sectoral and functional prioritization of the policies of the government has a bearing on the allocative efficiency of public expenditure. Further, the proportion of social and economic services in total expenditure and GSDP (Tables 3.5 and 3.6) gives the picture of expenditure trends / the allocative efficiency of the government expenditure.

The proportion of average developmental expenditure in total expenditure for the period 2002-07 was 66.6 percent of which the share of economic services was 35.5 percent and that of social services was 31.1 percent. The trend during this period in the case of economic services shows that the major portion of allocations were made in the irrigation sector which has consistently and significantly increased from 10 percent in 2002-03 to nearly 22 percent in 2006-07. In the case of social services, its proportion during 2002-07 remained around 31 percent with a gradual yearly decline in the education and health sectors while an increase in urban development, housing, water supply and sanitation, social welfare and nutrition.

During the Eleventh Plan Period, the proportion of average developmental expenditure in total expenditure for the period 2007-12 has increased by 6 percentage points over previous period to nearly 72.7 percent of which the share of economic services was about 36.4 percent (nearly one percent increase over previous period) and that of social services was 36.3 percent (an increase by 5 percentage points). The trend during this period in the case of economic services shows that though a major portion of allocations were made in the irrigation sector, it has declined significantly from nearly 23 percent in 2007-08 to nearly 16 percent in 2011-12 – about 6 percentage points. The share of other components of economic services also declined barring Agriculture and Allied Activities and general economic services. In the case of social services, its proportion during 2007-12has increased from nearly 31 percent in 2007-08 to 38 percent in 2011-12 with an gradual yearly increase in the education (still low on an average over previous period), health sectors and moderate to higher increase in other sectors such as urban development, housing, water supply and sanitation, social welfare and nutrition. However, it is to be noted that allocation of more resources to the social infrastructure such as education and health lead to higher levels of productive capacity.

One may reiterate the impact of expenditure management measures on the social sector particularly during 2004-05 to 2006-07 (also in 2007-08) in spite of the increasing trends in receipts and expenditure during this period and thus failing to cater the social sector. Similar are the trends under social services while expenditure towards rural development shows a declining trend ever since 2004-05 in between fluctuations remaining same.

In brief, the reform measures particularly of expenditure management affected the social services expenditures in terms of GSDP and also in total expenditure. It showed a decline in the case of rural development for the corresponding period. The net effect on the social sector expenditure is a negligible increase in the present decade. The claims of the government regarding social development need justification. Major heads of social sector expenditure such as education, health, water supply, housing , urban development, welfare of SC ST and BC Social security and welfare show that the share of education expenditure in GSDP was 2.59% in 2000-01 declined almost continuously throughout the decade.

The proportion of education, art and culture in total expenditure further declined to less than 10 percent in 2007-08 and 2008-09 and increased to nearly 11 percent in 2009-10.in 2011-12 it has increased to nearly 12.5 percent. Though the revised and budget estimates showed a further increase (in fact the proposals of the government), the accounts will be known only after a year or two. Similarly the trends of health and family welfare showed a consistent decline during first seven years of the decade i.e., during 2000-07 and then started increasing probably due to the introduction of Assistance to the Children suffering from Heart Diseases (2007-08) which was replaced by / transformed into *Arogyasri* Scheme (2008-09)[31]. The share of water supply and sanitation varied between 1 and 2 per cent with high yearly fluctuations though each component of social services is equally important for social development.

[31]Assistance to the Children suffering from Heart Diseases was Rs. 7.53 crores in 2007-08 which was replaced by Aarogya Sri Scheme by spending Rs.493 crores in 2008-09 and Rs. 818.647 crores in 2009-10 crores. The revised and budget estimates of 2010-11 and 2011-12 for this scheme is Rs. 925 crores.

Table 3.5: Trends in Developmental Expenditure* – X Plan and XI Plan Periods

(As % of Total Expenditure)

| | Developmental Exp* | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | *2002-07* | *2007-12* | *2002-12* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | Social Services | 31.6 | 32.4 | 31.3 | 29.7 | 31.0 | 30.8 | 37.4 | 35.3 | 38.1 | 38.2 | *31.1* | *36.3* | *34.6* |
| a | Education, Sports, Art and Culture | 13.0 | 13.2 | 12.3 | 12.4 | 11.7 | 9.7 | 9.6 | 10.8 | 13.5 | 13.8 | *12.4* | *11.8* | *12.0* |
| b | Health and Family Welfare | 4.4 | 4.2 | 4.0 | 3.9 | 3.7 | 3.7 | 4.1 | 4.3 | 4.6 | 4.7 | *4.0* | *4.3* | *4.2* |
| c | Water Supply, Sanitation, Housing and Urban Development | 5.7 | 5.7 | 6.2 | 5.6 | 6.2 | 8.9 | 11.2 | 6.8 | 6.7 | 5.7 | *5.9* | *7.6* | *7.1* |
| d | Informationa and Publicity | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.2 | 0.4 | 0.3 | 0.1 | 0.3 | *0.1* | *0.2* | *0.2* |
| e | Welfare of SC ST and other BCs | 3.7 | 4.5 | 4.0 | 3.3 | 3.8 | 3.8 | 4.5 | 4.3 | 5.4 | 5.7 | *3.8* | *4.8* | *4.5* |
| f | Labour and Labour Welfare | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | *0.2* | *0.2* | *0.2* |
| g | Social Welfare and Nutrition | 4.1 | 3.9 | 4.4 | 4.1 | 5.3 | 4.3 | 7.5 | 8.5 | 7.5 | 7.7 | *4.4* | *7.2* | *6.3* |
| h | Others | 0.4 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | *0.1* | *0.1* | *0.1* |
| | | | | | | | | | | | | | | |
| *B* | Economic Services | 31.9 | 32.6 | 33.6 | 38.6 | 38.6 | 42.7 | 37.3 | 37.4 | 32.8 | 34.1 | *35.5* | *36.4* | *36.1* |
| a | Agriculture and Allied Activities | 2.9 | 3.4 | 4.5 | 2.9 | 2.9 | 3.1 | 5.0 | 3.2 | 3.3 | 3.9 | *3.3* | *3.7* | *3.6* |
| b | Rural Development | 4.3 | 5.2 | 4.7 | 4.6 | 4.7 | 4.3 | 4.1 | 3.1 | 3.9 | 3.4 | *4.7* | *3.7* | *4.0* |
| d | Irrigation and Flood Control | 10.0 | 9.6 | 13.7 | 20.3 | 21.8 | 22.6 | 16.7 | 21.2 | 16.8 | 16.2 | *15.9* | *18.4* | *17.6* |
| e | Energy | 7.3 | 8.6 | 5.7 | 4.2 | 3.1 | 6.6 | 4.9 | 4.1 | 4.6 | 5.4 | *5.5* | *5.1* | *5.2* |
| f | Industry and Minerals | 1.1 | 1.1 | 1.0 | 0.8 | 0.6 | 1.0 | 0.6 | 0.5 | 0.6 | 0.5 | *0.9* | *0.6* | *0.7* |
| g | Transport | 4.8 | 3.2 | 3.2 | 4.4 | 4.0 | 3.8 | 4.0 | 3.3 | 2.4 | 2.9 | *3.9* | *3.2* | *3.4* |
| i | General Economic Services | 1.5 | 1.4 | 0.8 | 1.4 | 1.5 | 1.4 | 2.1 | 2.0 | 1.3 | 1.8 | *1.3* | *1.7* | *1.6* |
| | | | | | | | | | | | | | | |
| | Total (A+B) | 63.5 | 64.9 | 64.9 | 68.3 | 69.6 | 73.5 | 74.7 | 72.6 | 71.0 | 72.3 | *66.6* | *72.7* | *70.8* |
| | TOTAL EXP* | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | *100.0* | *100.0* | *100.0* |

* includes Revenue, Capital and Loan Accounts

Source: As per Tables 3.1 and 3.3.

The proportion of average developmental expenditure in GSDP for the period 2002-07 was 11.7 percent of which the share of economic services was 6.2 percent and that of social services was 5.5 percent. The trend during this period in the case of economic services shows that the major portion of allocations was made in the irrigation sector has been doubled. The allocation on irrigation has been increasing consistently and significantly from 1.9 percent in 2002-03 to nearly 3.8 percent in 2006-07 while expenditure towards energy sector has declined from 1.4 percent to 0.5 percent during the corresponding period. In the case of other heads of expenditure it remained more or less same / or has marginally declined. In the case of social services, its proportion during 2002-07 remained around 5.5 percent with a gradual yearly decline in education and health sectors (important indicators of human development) and with an increase in urban development, housing, water supply and sanitation, social welfare and nutrition.

During the Eleventh Plan Period, the proportion of average developmental expenditure in GSDP for the period 2007-12 has increased by 0.5 percentage points over previous period to nearly 12.2 percent of which the share of economic services was about 6.1 percent (marginally declined over previous period) and that of social services was 6.1 percent (an increase by 0.6 percentage points). The trend during this period in the case of economic services shows though a major portion of allocations were made in the irrigation sector, it has declined significantly from nearly 4.3 percent in 2007-08 to nearly 2.6 percent in 2011-12 – about 1.7 percentage points.

In the case of social services, its proportion during 2007-12 has increased from nearly 5.9 percent in 2007-08 to 6.2 percent in 2011-12. On an average the proportion of expenditure on education declined in the Eleventh Plan Period but showed a gradual yearly increase in the education (yet low on an average over previous period). While expenditure on health and family welfare remained same at 0.7 percent, there was an increase in other sectors such as urban development, housing, water supply and sanitation, social welfare and nutrition. While the decline in the proportion of expenditure on education which started since 2004-05 continued during the first three years of the Eleventh Plan Period and later on increased. The proportion of health expenditure was more or less remained around 0.7 in both the periods.

Table 3.6: Trends in Developmental Expenditure* (As%of GSDP)

| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2002-07 | 2007-12 | 2002-12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | A Social Services | | | | | | | | | | | | |
| a | Education, Sports, Art and Culture | 2.4 | 2.5 | 2.1 | 2.1 | 2.0 | 1.8 | 1.7 | 1.7 | 2.1 | 2.2 | 2.2 | 2.0 | 2.0 |
| b | Health and Family Welfare | 0.8 | 0.8 | 0.7 | 0.7 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.8 | 0.7 | 0.7 | 0.7 |
| c | Water Supply, Sanitation, Housing and Urban Development | 1.1 | 1.1 | 1.1 | 1.0 | 1.1 | 1.7 | 2.0 | 1.1 | 1.1 | 0.9 | 1.0 | 1.3 | 1.2 |
| d | Information and Publicity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| e | Welfare of SC ST and other BCs | 0.7 | 0.8 | 0.7 | 0.6 | 0.7 | 0.7 | 0.8 | 0.7 | 0.9 | 0.9 | 0.7 | 0.8 | 0.8 |
| f | Labour and Labour Welfare | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| g | Social Welfare and Nutrition | 0.8 | 0.7 | 0.7 | 0.7 | 0.9 | 0.8 | 1.3 | 1.4 | 1.2 | 1.2 | 0.8 | 1.2 | 1.1 |
| h | Others | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | | | | | | | | | | |
| | Total A | 5.9 | 6.1 | 5.3 | 5.0 | 5.4 | 5.9 | 6.6 | 5.7 | 6.0 | 6.2 | 5.5 | 6.1 | 5.9 |
| | | | B Economic Services | | | | | | | | | | | |
| a | Agriculture and Allied Activities | 0.5 | 0.6 | 0.8 | 0.5 | 0.5 | 0.6 | 0.9 | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 |
| b | Rural Development | 0.8 | 1.0 | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 | 0.5 | 0.6 | 0.5 | 0.8 | 0.6 | 0.7 |
| d | Irrigation and Flood Control | 1.9 | 1.8 | 2.3 | 3.4 | 3.8 | 4.3 | 3.0 | 3.4 | 2.6 | 2.6 | 2.8 | 3.1 | 3.0 |
| e | Energy | 1.4 | 1.6 | 1.0 | 0.7 | 0.5 | 1.3 | 0.9 | 0.7 | 0.7 | 0.9 | 1.0 | 0.9 | 0.9 |
| f | Industry& Minerals | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 |
| g | Transport | 0.9 | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.5 | 0.4 | 0.5 | 0.7 | 0.5 | 0.6 |
| i | General Economic Services | 0.3 | 0.3 | 0.1 | 0.2 | 0.3 | 0.3 | 0.4 | 0.3 | 0.2 | 0.3 | 0.2 | 0.3 | 0.3 |
| | | | | | | | | | | | | | | |
| | Total B | 5.9 | 6.1 | 5.7 | 6.5 | 6.7 | 8.2 | 6.6 | 6.0 | 5.2 | 5.5 | 6.3 | 6.1 | 6.1 |
| C | Total (A+B) | 11.8 | 12.2 | 11.1 | 11.6 | 12.1 | 14.0 | 13.2 | 11.7 | 11.2 | 11.7 | 11.7 | 12.2 | 12.0 |

* includes Revenue, Capital and Loan Accounts

Source: As per Tables 3.1 and 3.3.

**D. Committed Expenditure**

Committed expenditure of the state government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies (Table 3.7, Appendix Table 3.12A). The reduction in the proportion of revenue expenditure in terms of state own revenue / total revenue / revenue expenditure / (barring administrative services) / GSDP was mainly because of the cut in committed expenditure based on the policy measures under each one of these issues:

(a) Salaries and wages - may be attributed mainly to outsourcing of services

(b) Interest payments - may be attributed mainly to Debt Swap Scheme

(c) Administrative services - may be attributed mainly to Non-salary Budget ceilings under non-plan for most of the departments without allowing any further increase in expenditure to avoid unproductive expenditures.

However, the expenditure on pensions showed an increasing trend (barring 2004-05) during Tenth Plan Period and further increased in the Eleventh Plan Period (barring 2008-09) probably due to implementation of pay revision commission recommendations. With the increase in number of retirees, the pension liabilities are likely to increase in future. However, the state government introduced a Contributory Pension Scheme for the employees recruited on or after September 1, 2004 to mitigate the impact of rising pension liabilities in the long run. Hence the decrease in revenue expenditure was due to either salary component or committed expenditure (pension + interest payments + administrative services).

**Subsidies**

However there is an increase in the proportion of subsidies in terms of own revenue /total revenue / revenue expenditure and GSDP mainly because the state government is of the view that “subsidies are not a drain on state finances as they are the need of the hour to provide food, shelter and wage employment to all poor and vulnerable sections of the society” and claims that it is spending sufficient amount on both social subsidies like rice subsidy and economic subsidies like power, agriculture inputs, housing etc[32].

Expenditure on a variety of subsidies provided by the state government in India is one of the important reasons for the large volume and fast growth of non-plan non-developmental expenditure in the revenue account. Government of Andhra Pradesh has been providing various kinds of subsidies like rice subsidy, power subsidy, input subsidy and interest subsidy etc. There is no unanimity among the academics, researchers and administrators about the large scale giveaway of subsidies though the government perspective is always in favours of subsidies. The analysis is confined to the direct subsidies provided by the state government.

In order to examine the trends in the growth of subsidies in the State's Own Revenue, Total Revenue and Revenue Expenditure and GSDP has been calculated for the study period and separately for the Tenth and Eleventh Plan Periods. These percentages for the select fiscal and income variables are presented in table. A perusal of the table 3.7 shows that the total subsidy expenditure as per cent of state's own revenue has declined slightly from 11.4 per cent in 2002-03 to 11.3 per cent in 2011-12. The sub-period analysis reveals that the subsidy expenditure has increased from 10.2 per cent during the tenth five plan period (2002-07) to 12.4 per cent during the eleventh plan period (2007-12), the percentage for the entire study period being 11.7 percent with regard to the composition of subsidy expenditure, a lion's share is bagged by the power subsidy throughout the study period, though the proportion has declined from 7.4 per cent during the Tenth Plan Period to 7 per cent in the Eleventh Plan Period. This may be due to the reforms initiated in the power sector to reduce transmission and distribution losses and also rationalisation of free power to farmers. The rice subsidy expenditure in terms of own revenue have increased from 1.5 per cent in 2002-03 to 3.5 per cent in 2011-12, even though it was as high as 5-5.5 per cent in some years of the study period. The proportion has increased from 2.1 per cent during the Tenth Five Year Plan to 4.2 per cent during the Eleventh plan period, the overall per cent being 3.5 per cent which is more than double than what it was in the year 2002-03. The main reason for the increase in rice subsidy expenditure may be attributed to the effective implementation of wage employment schemes in the state.

[32] Government of Andhra Pradesh (2010): Statement of Fiscal Policy to be laid on the table of the AP Legislature in March 2012. (also for earlier years)

Another important reason for the increase in the percentage of subsidy expenditure in state own revenue is the liberal expansion of the existing schemes and introduction of new subsidy schemes like 'PavalaVaddi / zero vaddi loans to women. It may be noted that expenditure on subsidy on 'others' other than power and rice has increased from 0.2 per cent in 2002-03 to 1.1 per cent in 2011-12. Though there are fluctuations in the proportions over the study period, the percentage has been doubled from 0.6 per cent during 2002-07 to 1.2 per cent during 2007-12 mainly because of the growth in subsidy in expenditure on social welfare schemes. For instance the subsidy expenditure on women welfare has increased from about Rs. 100 crores in 2007-18 to Rs. 565 crores registering an increase of 5 times in 2011-12. The subsidy expenditure relating to horticulture also increased considerably form Rs. 180 crores in 2007-08 to Rs. 343 cores in 2011-12. This implies a tilt in the subsidy policy of the government giving thrust on social subsidies with a view to increase the women welfare.

More or less similar trends in the patterns and growth in subsidy expenditure is evident when an analysis is made in terms of other fiscal indicators like total revenue receipts and total revenue expenditure. As state above, subsidy expenditure is an important item of committed expenditure in the total revenue expenditure of the state. For instance, it has increased from 7 per cent in 2002-03 to 8.11 per cent in 2011-12. In fact, this was as high as 10 per cent in 2008-09. This sudden increase is caused due to a considerable increase in 'others' category besides power and rice subsidy. Further, the percentage of subsidy expenditure in total revenue expenditure has increased from 6.7 per cent during the Tenth Five Year Plan Period to 8.6 percent during the Eleventh Plan Period. It may be observed from the table that during the two periods, the percentage has been doubled in the case of rice subsidy and subsidies given to other categories, especially social subsidies, though the per cent of power subsidy registered a marginal increase. This clearly implies a compositional shift in the subsidy policy of the government of Andhra Pradesh in the latter period during which government initiated subsidy programmes related to women, students etc.

Similar kind of analysis has been made with regard to subsidy expenditure in terms of GSDP both for the total and sub-periods of the study. The total expenditure on subsidies as a percentage in GSDP was 1 .0 in 2002-03 which has increased to 1.20 per cent in 2011-12. It is to be noted that during the same years while the percentage of power subsidy has declined from 0.9 to 0.6, the subsidy on rice and 'others' categories recorded an increase. This is evident in the sub-period analysis also. For instance the power subsidy percentage in GSDP is same during the tenth and eleventh plan periods though it shows a declining trend over the study period. But the percentage of rice subsidy has been doubled while the percentage is constant with regard to subsidies on 'others'. In fact, the percentage of subsidies on others category was zero during the 2002-03 to 2004-05 which has increased to 0.1 percent by 2011-12. This shows the policy shift of the government with regard to subsidies of 'others' category.

Table 3.7: Committed Expenditure

| | Salaries & Wages | Pensions | Interest Payments | Administrative Services | Salaries+ Pensions | Salary+ Pension+ Interest Payment | Committed Expenditure | subsidies | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Pension+ Interest Payments + Administrative Services | power subsidy | rice subsidy | others | Total subsidies |
| | As % of State Own Revenue | | | | | | | | | | |
| 2002-07 | 44.2 | 14.0 | 31.7 | 9.7 | 58.2 | 89.9 | 55.4 | 7.4 | 2.1 | 0.6 | 10.2 |
| 2007-12 | 36.9 | 15.5 | 18.5 | 9.6 | 52.5 | 70.9 | 43.5 | 7.0 | 4.2 | 1.2 | 12.4 |
| 2002-12 | 39.2 | 15.0 | 22.6 | 9.6 | 54.2 | 76.8 | 47.2 | 7.1 | 3.5 | 1.0 | 11.7 |
| | As % of Total Revenue Receipts | | | | | | | | | | |
| 2002-07 | 30.3 | 9.6 | 21.8 | 6.7 | 39.9 | 61.7 | 38.1 | 5.1 | 1.5 | 0.4 | 7.0 |
| 2007-12 | 25.2 | 10.6 | 12.6 | 6.5 | 35.7 | 48.3 | 29.7 | 4.8 | 2.8 | 0.8 | 8.4 |
| 2002-12 | 26.8 | 10.3 | 15.4 | 6.6 | 37.0 | 52.4 | 32.2 | 4.9 | 2.4 | 0.7 | 8.0 |
| | As % of Total Revenue Expenditure | | | | | | | | | | |
| 2002-07 | 29.3 | 9.3 | 21.0 | 6.4 | 38.5 | 59.5 | 36.7 | 4.9 | 1.4 | 0.4 | 6.7 |
| 2007-12 | 25.7 | 10.8 | 12.9 | 6.7 | 36.6 | 49.4 | 30.3 | 4.9 | 2.9 | 0.9 | 8.6 |
| 2002-12 | 26.9 | 10.3 | 15.5 | 6.6 | 37.2 | 52.7 | 32.4 | 4.9 | 2.4 | 0.7 | 8.0 |
| | As % of GSDP | | | | | | | | | | |
| 2002-07 | 4.2 | 1.3 | 3.0 | 0.9 | 5.5 | 8.5 | 5.3 | 0.7 | 0.2 | 0.1 | 1.0 |
| 2007-12 | 3.5 | 1.5 | 1.8 | 0.9 | 5.0 | 6.8 | 4.1 | 0.7 | 0.4 | 0.1 | 1.2 |
| 2002-12 | 3.7 | 1.4 | 2.1 | 0.9 | 5.2 | 7.3 | 4.5 | 0.7 | 0.3 | 0.1 | 1.1 |

Source: as given in the appendix table

### E. Compensation & Assignments to Local Bodies & P. R. Institutions

The state government assigns the local bodies the revenue from Entertainment Tax, Surcharge on Stamp Duty, Profession Tax and other miscellaneous compensations and assignments under the head Compensation & Assignments to Local Bodies & P. R. Institutions within the revenue expenditure. This amount constitutes 1 percent of the revenue expenditure in 2002-03 and declined to 0.2 percent in

2011-12. Besides these transfers, local bodies receive grants from the state and central governments. These are dealt in a separate chapter.

### 3.4. Public Expenditure and Financial Management (PEFM)

Effective financial management ensures that decisions taken at the policy level are implemented at the administrative level without wastage or diversion of funds and with reasonable assurance relating to successful implementation of the policy at the ground level.[33]At different stages of the budget[34], there are three-fold controls over public finance – legislative, administrative and audit controls. Accountant General (Audit) II, Andhra Pradesh (AG), independent of the executive government, scrutinizes (ex-post facto) how actually the legislature approves financial policy of the government which has been implemented in line with the statutory provisions, the rules, regulations and orders made there under and submit their reports to the Governor.

Section two of this chapter and Appendix Table 1A gives the year-wise measures taken up by the government. But the financial irregularities which the audit reports of the Comptroller and Auditor General of India[35]repeatedly pointed out during the crisis period remained same during the reform period as well. Among several lacunae / irregularities in the budgetary process of the state government expenditure that are often pointed out by AG[36], some of them are mentioned below[37]:

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[33] Government of Andhra Pradesh (2011): Audit Report (State Finances) for the year ended 31 March 2011.

[34] (1) preparation of the budget, (2) legislative approval of the budget, (3) realization and utilization of funds according to the approved budget, (4) scrutiny of accounts and its audit reports by Accountant General (AG) on such accounts, and (5) legislative scrutiny of public finance through Public Accounts Committee (PAC)and Committee on Public Undertakings (CPU). PAC and CPU study the audit reports of the AG and make necessary recommendations and submit their reports to the state legislature. Besides this, Estimates Committee, another legislative body also scrutinizes the budget.

[35]After completion of audit of each unit, Inspection Report (IR) containing audit findings is issued to the head of the unit with a request to furnish replies within one month of receipt of the IR. As per the instructions issued by the Finance and Planning Department in November 1993, the administrative departments are required to submit Explanatory Notes on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Public Accounts Committee, duly indicating the action taken or proposed to be taken. However, as of January 2013, six departments have not submitted Explanatory Notes in respect of 13 paragraphs/reviews that featured in the Audit Reports for the years 2005-06 to 2010-11

[36] Government of Andhra Pradesh: Audit Report (State Finances or civil) for various years.

[37] Also see N. Sreedevi (2004), Control over Public Finances: A case of Andhra Pradesh, Indian Journal of Public Administration, Vol. L. No. 3, July-September 2004.

- *Appropriation vis-à-vis allocative priorities*: Deviations from the budget allocations raise the questions about the credibility of the budgeting process, budget monitoring process and the reliability of management information system.
- *Persistent savings* : unspent money largely due to postponement of works, failure to issue administrative sanctions etc. and partly offset by excess amount in certain amount
- *Pending/delay in regularization of excess expenditure over provision*
- Unnecessary / Excessive / Inadequate supplementary provision
- Excessive / Unnecessary / re-appropriation of funds
- Unexplained re-appropriations

Skewed distribution of expenditure in the financial year more specifically rush of expenditure in the last quarter of the financial year shows improper implementation of government plans, unreconciled expenditure, non-surrendering of anticipated savings and surrendering of savings on the last day of the month shows unaccountability of the departments resulting in the failure to achieve the policies and programs set in annual budget. Mere meeting the targets of FRBM at aggregate level might show a healthy picture as far as fiscal indicators are concerned, but definitely have an adverse impact on execution of many policy initiatives proclaimed by the Government[38]. Lack of action on audit IRs and paragraphs is fraught with the risk of perpetuating serious financial irregularities pointed out in these reports, dilution of internal controls in the process of governance, inefficient and ineffective delivery of public goods/ services, fraud, corruption and loss to public exchequer.[39]

It was however, noticed that though the audit reports were presented to the state legislature, certain departments have not submitted explanatory notes. The Committee on Public Accounts[40]which has submitted its report in 2001 expressed its distress to observe that non-receipt of the explanatory notes from the concerned departments and felt that failure of the departments has forced the committee to confine its discussions to audit reports more than five year old which do not evoke much contemporary interest. The committee further observed that with the passage of time it might even become difficult

[38]Audit Report (State Finances) for the year ended 31 March 2012

[39] Government of Andhra Pradesh (2013): Audit Report on 'General & Social Sector' for the year ended March 2012, report no. 4.

[40] Government of Andhra Pradesh (2000-01): Report of the Committee on Public Accounts (ninth report) on the Report of the Comptroller and Auditor General of India for the year ended 31 March 1994 (Civil). See also N. Sreedevi (2004),

for the administrative departments to furnish the comprehensive replies. The committee further opined that by the time the audit reports are taken up for discussion, the officials responsible for the irregularities might have retired from the service or even gained unwarranted promotions. Hence the accountability in this regard – right from preparation of budget estimates to the completion of application of resources to various activities taken up by the government - is highly essential to make the government expenditure more result oriented.

### 3.5. Summary and Suggestions

The study appraises the broader categories of budgetary expenditure under revenue, capital, loan accounts and capital disbursements. It also reviews the dimension of (a) plan and non-plan; and (b) developmental and non-developmental expenditure.

In the course of carrying away fiscal crisis, key measures reflected in the study are Medium Term Fiscal Framework for the period 2000-05 as per Eleventh Finance Commission and FRBM Act (2005) as recommended by Twelfth Finance Commission and Debt Swap Scheme. The government of Andhra Pradesh lessened interest payment burden and debt repayment burden with the result of Debt Swap Scheme, reduced its expenditure abiding FRBM norms and thus changed the relative shares / composition of total budgetary expenditure. Besides the above, reforms in the receipts front, particularly revenue receipts, variations in the economic growth rates also influenced the expenditure patterns and trends.

Revenue expenditure constitutes a major proportion of either plan or non-plan expenditure (either in developmental or non-developmental) in total budgetary expenditure or in GSDP followed by capital account (under plan) and loans and advances (under non-plan) accounts. During the entire Eleventh Five Year Plan, both revenue and capital expenditures shows an increasing trend over previous plan period, while Loans and advances and capital disbursements declined. This is mainly because the revenue and capital expenditures reached a higher plane in the last two years of the Tenth Plan Period and remained higher in the Eleventh Plan Period with fluctuations in between. Conversely the other two components remained on the lower plane. On the whole, the relative shares of components of total budgetary expenditure show consistency during the Tenth Plan Period and variations or fluctuations in the

Eleventh Plan Period. The inconsistency in the expenditure trends might act an obstacle either in framing or achieving the twelfth plan objectives. Besides this, the Twelfth Plan Period (2012-17) begins with the bulk repayment obligations which were raised at the time of Debt Swap Scheme would show an impact on revenue and capital expenditures, trends and patterns.

While non-plan expenditure / non-developmental expenditure shows more or less consistent decline, plan expenditure /development expenditure fluctuated throughout the study period more so in the second half. Of the developmental expenditure, in spite of the fluctuations, the trends in social services show an increase while economic services were affected. Within the social services the inclination was towards social welfare schemes rather than social infrastructure such as education and health. While urban development and housing snatched away the priority water supply and sanitation is not the extent required. Expenditure orientation towards social welfare schemes is not a new trend that is set in this study period, but rooted since 1980s when the objective of the Sixth Five Year Plan shifted from the economic development to social development and continued till date. Hence, showing the cause of stimulus packages towards social welfare schemes for the increased expenditure under social welfare schemes as to withstand the economic slowdown may be relevant for the moment. But it is necessary to focus the expenditure on the core sectors of social / human development.

The state may have to address the variations in the developmental expenditure under both revenue and capital accounts and smoothen the same by providing the resource requirements for development and the need to undertake fiscal consolidation, States have to actively pursue reforms in terms of efficient allocation of expenditure.

# Chapter 4

## Deficits and Public Debt

**Summary of Findings**

Deficit Indicators

Tenth Plan Period (2002-07)

- The proportions of the revenue and fiscal deficits in GSDP declined – achieving the objective of FRBM Act two years ahead of the set time limit. Thus an increase in the capital expenditure/GSDP ratio - an improvement in the quality of expenditure.
- The primary deficit has turned into primary surplus in 2006-07.
- *The impact of the revenue surplus on the other components of fiscal deficit (meant for developmental activities) is glaring.*

Eleventh Plan Period (2007-12)

- The situation of 2002-07 has not continued during 2007-12.
- The proportion of fiscal deficit in GSDP has increased in 2007-09 and however, declined in 2010-12
- The revenue surplus /GSDP ratio declined in 2007-09 and an improvement in 2010-12.
- The primary surplus situation in 2006-07 again turned negative in the succeeding years with an increasing rate.
- With the overall macroeconomic deceleration and the implementation of the Central/State(s) Pay Commissions recommendations during 2008-10, State finances underwent a setback but need to revert to a fiscal consolidation path.
- Thus, the fiscal scenario of Andhra Pradesh showed varying trends during the study period.

Plan Financing and Balance from Current Revenues (BCR)

Tenth Plan Period (2002-07)

- The actual mobilization of resources for the Tenth Plan in Andhra Pradesh exceeded the initial estimates. The sole contributory to this improvement was State's own resources.
- Among the components, the resources from BCR and Miscellaneous Capital Receipts (MCR) exceeded the estimates. Hence reduced dependence on borrowings as a means of plan financing.

Eleventh Plan Period (2007-12)

- The pattern of Plan financing gives a different picture.
- The share of State's own revenue fell harshly on account of the slow growth of own revenues as well as a decline in the MCR.
- In 2009-10, while the growth of tax revenue declined, non-tax revenues recorded a negative growth as compared with the growth of 37.08 per cent in 2008-09.
- As the projections of resources were made against the previous plan period and hence an element of over estimation.
- Consequently there was increased dependence on borrowings in the Eleventh Plan.

Outstanding Debt

Tenth Plan Period

- The direction of bulk of the public debt raised was towards the repayment of old debt because of DSS and the balance (net debt) was too little to meet the fiscal deficit and the dependence on the public account has increased further.
- With the effect debt repayment schemes, the outstanding debt/GSDP ratio of the state declined from 30 percent (2002-03) to 25 percent (2006-07).
- The stock of contingent liabilities/GSDP declined from 9.2 percent (2002-03) to 5.8 percent (2006-07).

**Eleventh Plan Period**

- The closure of the debt repayment schemes increased the net debt availability at the disposal of the state government supplemented by the revenue account surplus situation thus keeping the state government in a better fiscal position.

- This declining trend has continued during Eleventh Plan Period as well and finally reaching to 20 percent in 2011-12 averaging at 21 percent. 13th FC suggested steady reduction in augmented debt stock for the states to less than 25 per cent of GSDP by 2014-15.
- AP's debt/GSDP ratio is well within the set limits. The debt/GSDP ratio was within the limits of the both former and revised FRBM norms.

- The proportion of combined ratio of outstanding debt and contingent liabilities in GSDP are within the set targets of FRBM/Finance Commission.

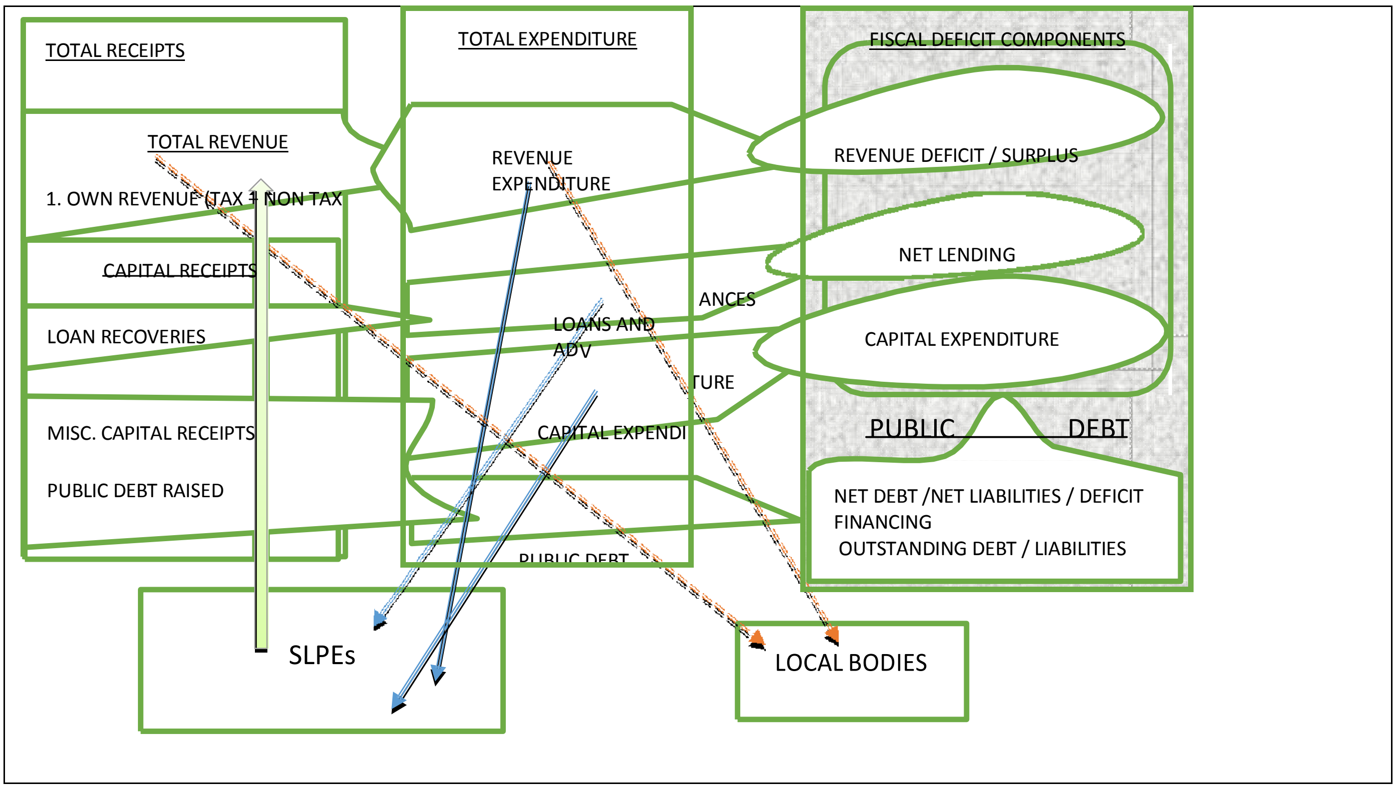
Implementation of FRBM Act and Targets Achieved

- The revenue and fiscal deficits were supposed to be reduced by 0.32 percent and 0.25 percent of GSDP.
- The government has reduced the same with varied percentages.
- However, on any year during 2007-12, the state government's deficits, outstanding debt or liabilities are within the FRBM limits – original or revised.

# Chapter 4

# Deficits and Public Debt

Fig. 4.0: Roadmap - Deficits and Public Debt




## 4.1. Introduction

The fiscal performance of the State Governments - the disparity in the growth rates of receipts and expenditure and their negative effects such as growing interest burden, increasing pension liabilities, large administrative expenditure, poor quality of expenditure etc - reflects in the key deficit indicators, *viz.,* revenue deficit (RD), gross fiscal deficit (GFD) and primary deficit (PD). This chapter discusses movements of these major deficit indicators, financing pattern of GFD, Pattern of Plan Financing (including BCR), outstanding public debt/liabilities and Implementation of FRBM Act and Targets Achieved.[41]

The main data sources, besides the state budget documents, FRBM Statements, are RBI's State Finances: A Study of Budgets for various years. This chapter is divided into 6 sections. Sections 2 analyses the major deficit indicators and deficit financing. Section 3 discusses pattern of plan financing. While section 4 discusses debt situation/ contingent liabilities section 5 verifies Implementation of FRBM Act and commitment towards targets. Section 6 gives the sum up.

## 4.2. Analysis of Deficits - Revenue and Fiscal

The fiscal deficit represents the total borrowing of the government and its total resource gap. While the deficit denotes the gap between the receipts and expenditure, the nature of deficit discloses the foresight of the government in fiscal management. During 2002-03 the fiscal deficit was Rs. 7625.3crores which has increased to Rs. 8300 crore in 2005-06. This increase in fiscal deficit was the net result of huge increase in capital expenditure (which has increased from Rs. 3796.1crores in 2002-03 to Rs. 7661.68 crores in 2005-06) on one hand and a decline of revenue deficit (from 3054crores in 2002-03 to just Rs. 64.11 crores in 2005-06) and net lending (from Rs. 775.3crores in 2002-03 to Rs. 574.1crores in 2005-06). The fiscal deficit declined to Rs.5643 crore in 2006-07 i.e., a decline by Rs. 2657 crore only on account of the revenue surplus of Rs. 2807 crore(Fig. 4.1), despite an increase of Rs.1353 crore in capital expenditure and a moderate increase of Rs. 139 crore in net lending over the previous year.(Table 4.1)

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[41] It covers the two topics as listed in the Fourteenth Finance Commission's Study on *Evaluation of State Finances: with Special Reference to Andhra Pradesh* which is mentioned below.

- *Analysis of Deficits – Fiscal and Revenue along with BCR for Plan financing.*
- *The level of debt-GSDP ratio and the use of debt (i.e., whether it has been used for capital expenditure or otherwise). Composition of the state's debt in terms of market borrowing. Central government debt (including those from bilateral / multilateral lending agencies routed through the central government), liabilities in public account (small savings, provident funds etc) and borrowings from agencies such as NABARD, LIC etc.*
- *Analysis of contingent liabilities of the State.*
- *Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various departments and aggregate.*

Table .4.1: DECOMPOSITION OF FISCAL DEFICIT (Rs. Cr)

| | | | | | As % of Fiscal Deficit | | | As % of GSDP | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Revenue Surplus/ Deficit | CE | N L | GFD | Revenue Surplus/ Deficit | CE | N L | Revenue Surplus/ Deficit | CE | N L | GFD | PD | PD as % of GFD |
| 2002-03 | 3054.0 | 3796.1 | -775.3 | 7625.3 | 40.05 | 49.78 | -10.17* | 1.83 | 2.27 | -0.46 | 4.56 | 1494.6 | 19.6 |
| 2003-04 | 2961.6 | 4250.9 | -238.0 | 7450.5 | 39.75 | 57.05 | -3.19 | 1.56 | 2.24 | -0.13 | 3.92 | 594.6 | 8.0 |
| 2004-05 | 2557.8 | 5414.2 | 220.2 | 8192.2 | 31.22 | 66.09 | 2.69 | 1.14 | 2.41 | 0.10 | 3.65 | 1100.8 | 13.4 |
| 2005-06 | 64.1 | 7661.7 | 574.1 | 8299.9 | 0.77 | 92.31 | 6.92 | 0.03 | 2.99 | 0.22 | 3.24 | 1291.7 | 15.6 |
| 2006-07 | -2807.1 | 8014.7 | 435.4 | 5643.0 | -49.74 | 142.03 | 7.72 | -0.93 | 2.66 | 0.14 | 1.87 | -1637.3 | -29.0 |
| 2007-08 | -159.0 | 6216.2 | 2729.8 | 8787.0 | -1.81 | 70.74 | 31.07 | -0.04 | 1.70 | 0.75 | 2.41 | 1198.3 | 13.6 |
| 2008-09 | -1004.2 | 10366.5 | 3043.6 | 12405.8 | -8.09 | 83.56 | 24.53 | -0.24 | 2.43 | 0.71 | 2.91 | 4348.7 | 35.1 |
| 2009-10 | -1230.4 | 13793.1 | 1446.9 | 14009.5 | -8.78 | 98.45 | 10.33 | -0.25 | 2.81 | 0.30 | 2.86 | 5095.9 | 36.4 |
| 2010-11 | -2462.0 | 11123.2 | 3142.3 | 11803.5 | -20.86 | 94.24 | 26.62 | -0.42 | 1.89 | 0.53 | 2.00 | 2128.5 | 18.0 |
| 2011-12 | -3138.3 | 13722.0 | 4818.3 | 15401.9 | -20.38 | 89.09 | 31.28 | -0.46 | 2.03 | 0.71 | 2.28 | 4841.2 | 31.4 |

Note: (1) CE= Capital Expenditure; NL= Net Lending; GFD= Gross Fiscal Deficit; PD=Primary Deficit

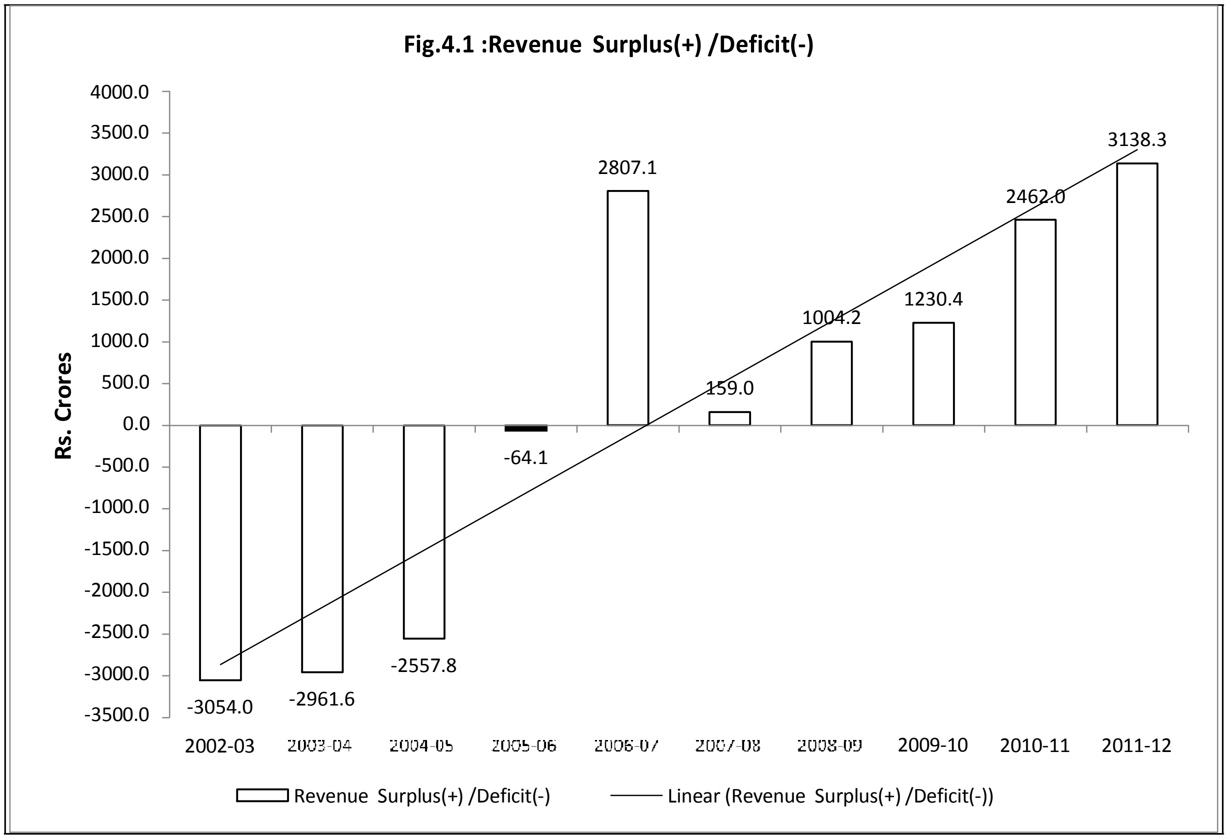
(2) For the years 2006-07 the gross capital expenditure is 9904 crores after deducting the other capital receipts from the sale of land 1889.32 cr the net cap exp is put in the column`

(3) For the years 2007-08 the gross capital expenditure is 12773.93 crores after deducting the other capital receipts from the sale of land 6557.71cr the net cap exp is put in the column

(4) '-'indicates surplus

* Loan recoveries are higher than the loans and advances

Source: Budget in Brief, Andhra Pradesh (various years)




Source: As per Table 4.1.

During 2002-07 the decomposition of fiscal deficit indicates that the ratio of revenue deficit to fiscal deficit declined consistently from 40 percent in 2002-03 to 31.22 percent in 2004-05, sharply declined to 0.77 percent during 2005-06 and turned into a revenue surplus during 2006-07 – not only reaching the target of FRBM Act two years ahead of the deadline but also financing almost 50 percent of the gross fiscal deficit. Similarly, the ratio of capital expenditure to fiscal deficit increased consistently during 2002-05 from 50 percent in 2002-03 to 66.09 percent in 2004-05, sharply increased to 92.31 percent during 2005-06 and reached 142.03 percent in 2006-07 – absorbing not only the entire amount of borrowings but also most of the revenue surplus. Net lending another component of fiscal deficit showed a declining trend in absolute terms as well as in terms of fiscal deficit during 2002-07. In 2006-07, this ratio has increased to 7.72 percent. As the entire borrowings are absorbed by the capital expenditure, a portion of revenue surplus was diverted to net lending. Thus the receipts from the revenue account, during 2006-07, not only financed the revenue expenditure but also met the entire net lending and nearly 30 percent of the capital expenditure.

The fiscal deficit/GSDP ratio started declining from 4.6 percent in 2002-03 to 1.9 percent in 2006-07 – achieving the objective of FRBM Act two years ahead of the set time limit. The split up of fiscal deficit shows that revenue deficit/GSDP ratio declined consistently from 1.8 percent in 2002-03 to 0.03 percent in 2005-06 and turned into surplus situation in 2006-07. The capital expenditure/GSDP ratio increased from 2.3 percent in 2002-03 to 3.3 percent in 2006-07 indicating the improvement in the quality of expenditure. The increase in capital expenditure was the net result of the decline in the revenue deficit and net lending along with the increase in the capital expenditure. The net lending/GSDP ratio declined from 0.5 percent in 2002-03 to 0.2 percent in 2005-06 and further declined to 0.1 percent during 2006-07. Thus the impact of the revenue surplus is seen on the other components of fiscal deficit which are mainly for developmental activities.

Primary deficit is also another angle for examining the nature of fiscal deficit. In 2002-03just 20% of the fiscal deficit was due to primary deficit and the balance 80% towards interest payments. But the situation was dreary in the subsequent year with the sharp decline of primary deficit component to merely 8 percent in 2003-04 and the corresponding increase of interest payments to 92 percent. This shows that heavy interest payments accounted for the bulk of the revenue deficit or fiscal deficit. Again from 2004-05 onwards the primary deficit component started increasing and reached 15.56 percent in 2005-06 mainly due to the *Debt Swap Scheme because of which the burden of interest payment lessened*. The primary deficit became primary surplus in 2006-07 because of the revenue surplus.

In brief, the effect of the reforms on the deficit indicators is very clear. The effect of MTFF, DSS and other fiscal measures played an important role in decreasing the revenue deficit situation during 2002-05 while the implementation of VAT and FRBM act further trimmed down the revenue deficit and brought the surplus situation under revenue account in the middle of the decade. While shrink of revenue deficit indicated the reducing of dependency of revenue expenditure on capital receipts meant for developmental activities, the revenue surplus situation indicate the diversion of surplus revenue to capital expenditure thus bring down the borrowings to that extent. It resulted into not only lowering of fiscal deficit, but also burden of debt and debt servicing charges. In short it is a shift from vicious circle of fiscal imbalance to virtuous circle sound finance.

In 2007-08, the initial year of the eleventh plan period, the fiscal deficit has increased to Rs. 8787crores– an increase by 3144 crores over previous year. This deterioration of fiscal deficit is mainly because of the net effect of (a) sudden decline in the revenue surplus from Rs. 2807 crores in 2006-07 to Rs. 159 crores in 2007-08 which in turn because of lower growth rates of revenue receipts, (b) increased capital expenditure from Rs.9904 crores in 2006-07 to Rs. 12774 crorres in the next year i.e., an increase of nearly 29 percent, (c) increased net lending from Rs.435 crores 2006-07 to Rs.2730 crores in 2007-08. Further deterioration of fiscal deficit in subsequent two years, in spite of the increase in the revenue surplus (revenue surplus has increased to Rs. 1004 crores and Rs. 1230 crores in 2008-09 and 2009-10 respectively) is mainly due to higher capital expenditure (2008-10) and net lending (2008-09). In 2010-11 there was a decline in the fiscal deficit – a net result of increased revenue surplus situation and a huge decline in the capital expenditure. For the year 2011-12, the state government has higher revenue surplus at Rs. 3138 crores, higher capital expenditure (Rs. 13722crores) and higher net lending (Rs. 4878 crores) and consequently higher fiscal deficit (Rs. 15402crores). As discussed in the previous sections, fluctuations in the receipts / expenditures impacted on the surpluses/ deficits.

During 2007-12 the segregation of fiscal deficit indicates that the ratio of revenue surplus to fiscal deficit suddenly declined from 49.7 percent in 2006-07 to 1.8 percent in 2007-08 – just upholding of revenue surplus situation as per the FRBM norms. It has increased to 8 percent and nearly 9 percent in subsequent two years and further increased to about 20 percent in 2010-12. The effect of decline in the revenue surplus on the capital expenditure is obvious. Similarly, the ratio of capital expenditure to fiscal deficit declined by 50 percentage points i.e., from 142 percent in 2006-07 to 71 in 2007-08 mainly due to (a) decline in the revenue surplus as explained earlier and also (b) increased net lending which is also for developmental purposes. In the subsequent years of the eleventh plan, all the component of fiscal deficit fluctuated.

The fiscal deficit/GSDP ratios, either at aggregate level or at component-wise fluctuated during the eleventh plan period. However, 13$^{th}$ Finance Commission suggests the fiscal deficit 3% of GSDP by 2013-14. AP state's Fiscal Deficit/GSDP ratio in2008-9 (actuals) was 2.9%. In 2011-12 the ratio is nearly 2.3%.

Primary deficit which turned surplus in the year 2006-07, turned negative in the eleventh plan period due to inconsistent trend in the receipts/expenditures. In 2007-08, merely 14 percent of the fiscal deficit was due to primary deficit and the balance 86% towards interest payments. In subsequent years primary deficit/fiscal deficit ratio has increased indicating the lowered burden of interest payments and increasing expenditure under revenue and capital expenditures and net lending. In brief, the outcome of the reforms regarding deficit indicators is very apparent.

**Financing fiscal deficit**

The financing pattern of GFD has undergone compositional shift during the study period (Table 4.2 and Appendix Table4.1). The composition of borrowings shows that loans from the Centre which constituted a major portion started declining since 1999 with the modification in accounting procedures by shifting the loans to states against small savings collections from the *Consolidated Fund of India* (i.e., from the budget) to *National Small Savings Fund (NSSF)* i.e., *outside the budget*. During 2002-05, the share of central loans again declined due to *Debt Swap Scheme*. Central loans further declined in the later years with the Centre's relinquishment of plan loans to states from 2005-06 onwards as per the recommendations of the Twelfth Finance Commission. As a result, loans from NSSF (2002-07) and market borrowings (since 2007-12) comprised major share in financing the deficit while other sources are thinly distributed.

Table 4.2: Financing fiscal deficit (%)

| Source of deficit financing | 2002-07 | 2007-12 | 2002-12 |
|---|---|---|---|
| Market Borrowings | 33.6 | 82.6 | 64.3 |
| Loans From The Centre | -3.3 | 3.4 | 0.9 |
| Spl. Securities Issued to NSSF | 46.5 | 3.9 | 19.8 |
| Loans from LIC NABARD, NCDC, SBI &Other Banks | 6.2 | 1.6 | 3.3 |
| Small Savings PF etc | 4.8 | 8.2 | 6.9 |
| Reserve Funds | 0.8 | 2.7 | 2.0 |
| Deposits & Advances | 16.7 | 5.1 | 9.4 |
| Suspense &Miscellaneous | -2.4 | -2.3 | -2.3 |
| Remittances | 2.1 | -0.8 | 0.3 |
| Others | -4.5 | -5.2 | -5.0 |
| Overall surplus (-)/Deficit (+) | -0.5 | 0.7 | 0.3 |
| Gross Fiscal Surplus (-)/Deficit (+) | 100.0 | 100.0 | 100.0 |

Source: Explanatory Memorandum of Andhra Pradesh (for various years).
AP FRBM Statements, RBI's State Finances: A Study of Budgets (for various years).

## 4.3. Pattern of Plan Financing in Andhra Pradesh

**Tenth Plan (2002-07)**

During the Tenth Plan Period, the state started experiencing the improvement in the fiscal state of affairs and transit to turn-around position. The proportion of revenue receipts in total budgetary receipts and also in terms of GSDP increased due to higher growth rate in state own revenue (tax and non-tax), higher economic growth and higher growth rate in the share of central taxes. On the expenditure front, Medium Term Fiscal Framework (MTFF) impacted the first half of the decade while the FRBM the second half. With the buoyant own tax revenue of the state government complemented by the high devolution of central transfers and lower growth rates of revenue expenditure, total revenue of the state government could finance higher proportions of revenue expenditure since 2002- 03 and in 2006-07 the state reached the revenue surplus situation by nearly 7 percentage points. This reflected in the improvement in the plan financing as well. The position with regard to plan financing in the State during the Tenth Plan period is presented below.

The actual mobilization of resources for the Tenth Plan in Andhra Pradesh exceeded the initial estimates by 27.22 per cent (Table 4.3). The sole contributory to this improvement was State's own resources, the contribution of which exceeded the initial estimates by nearly 256 per cent. Among the components, the resources from BCR and MCR exceeded the estimates. While the improvement in BCR was on account of better revenue performance, the improvement in MCR mainly came from the proceeds of sale of government lands. Despite less than estimated Central assistance and net borrowings, the better performance of BCR and MCR more than made up their shortfall. The redeeming feature of plan financing in the Tenth Plan was the reduced dependence on borrowings as a means of plan financing. Though net borrowings constituted only 17.78 of the total resources, the actual share of borrowings in total financing would be higher at about 33 per cent taking into account 70 per cent of normal Central assistance and assistance for EAP which was in the form of loans till 2004-05. The fall in the share of Central assistance in the last two years of the Plan was on account of the dispensation of the practice of on lending of 70 per cent of the normal plan assistance to States by the Centre from 2005-06 onwards. To the extent of this fall, there is a corresponding increase in the market borrowings of the State in the last two years of the Tenth Five-Year Plan.

Table 4.3: Patten of Plan Financing in Andhra Pradesh- Tenth Five Year Plan (2002-07) (Rs. Crore)

| Source of Financing | X Plan Projec-tion | Actual Realisation | | | | | | Actual Realisation as % of Projection |
|---|---|---|---|---|---|---|---|---|
| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | Total 2002-07 | |
| 1.State's Own Resources | 9837.45 | 2026.89 | 7356.74 | 6512.11 | 8043.83 | 11080.65 | 35020.22 | 355.99 |
| a)BCR | 9192.53 | 30.17 | 474.07 | 1860.92 | 3988.05 | 8517.90 | 14871.11 | 161.77 |
| b)MCR | -558.04 | 1701.24 | 6821.63 | 5101.26 | 3674.23 | 2216.32 | 19514.68 | 3497.00 |
| c)FC Grants | 986.41 | 58.65 | 62.40 | 7.15 | 6.50 | 154.60 | 161.00 | 16.32 |
| d)ARM | 152.45 | 152.45 | | | | | | |
| e)Opening balance | 64.1 | 236.83 | -1.36 | -457.22 | 375.05 | 191.93 | 345.23 | 538.58 |
| 2. Net Borrowing | 19570.33 | 2830.24 | -581.17 | 1706.93 | 3986.84 | 4759.44 | 10730.42 | 54.83 |
| 3. Central Assistance. | 18037.93 | 3540.67 | 4001.03 | 3247.52 | 1448.74 | 2372.37 | 14610.33 | 81.00 |
| a)Normal | 5764.12 | 1131.79 | 1148.48 | 1267.57 | 448.58 | 356.23 | 4352.65 | 75.51 |
| b)EAP | 7861.77 | 1905.69 | 1546.69 | 1305.83 | 294.92 | 310.68 | 5363.81 | 68.23 |
| c)Others | 4412.04 | 503.19 | 1305.86 | 674.12 | 705.24 | 1705.46 | 4893.87 | 110.92 |
| Net Total Resources | 47445.71 | 8397.80 | 10776.60 | 11466.56 | 13479.41 | 18212.46 | 60360.97 | 127.22 |
| As Percentage of Total Resources for the Plan | | | | | | | | |
| 1.State's Own Resources | 20.73 | 24.14 | 68.27 | 56.79 | 59.67 | 60.84 | 58.02 | |
| a)BCR | 19.37 | 0.36 | 4.40 | 16.23 | 29.59 | 46.77 | 24.64 | |
| b)MCR | -1.18 | 20.26 | 63.30 | 44.49 | 27.26 | 12.17 | 32.33 | |
| c)FC Grants | 2.08 | 0.70 | 0.58 | 0.06 | 0.05 | 0.85 | 0.27 | |
| d)ARM | 0.32 | | | | | | | |
| e)Opening balance | 0.14 | 2.82 | -0.01 | -3.99 | 2.78 | 1.05 | 0.57 | |
| 2. Net Borrowing | 41.25 | 33.70 | -5.39 | 14.89 | 29.58 | 26.13 | 17.78 | |
| 3. Central Assistance. | 38.02 | 42.16 | 37.13 | 28.32 | 10.75 | 13.03 | 24.20 | |
| a)Normal | 12.15 | 13.48 | 10.66 | 11.05 | 3.33 | 1.96 | 7.21 | |
| b)EAP | 16.57 | 22.69 | 14.35 | 11.39 | 2.19 | 1.71 | 8.89 | |
| c)Others | 9.30 | 5.99 | 12.12 | 5.88 | 5.23 | 9.36 | 8.11 | |
| Net Total Resources | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | |

BCR=Balance from Current Revenues MCR=Miscellaneous Capital Receipts , FC Grants= Finance Commission Grants. ARM= additional Resource Mobilisation, EAP= Externally Aided Projects.
Source: G.R Reddy (2012): 'Plan Financing in Andhra Pradesh – Trends and Concerns', Working Paper No. 124, November, Centre for Economic and Social studies, Hyderabad .

**Eleventh Plan (2007-12)**

The financial situation during the Eleventh Plan period was different from that of preceding period. The state government experienced

6. Fall in the growth rate of own tax revenue and also share in central taxes in the first three years of the eleventh plan period – the year of economic slowdown (2008-09) and its previous (2007-08) and successive (2009-10) years. In short, yearly growth rate of major tax sources declined and in some cases it was negative as well. Almost all sources of own tax revenue showed a declining growth rates during 2008-09 and 2009-10.
7. Fluctuations in the growth rates of grants-in-aid in all the years.
8. Fluctuations in the growth rate of own non-tax revenue – either lower (2007-08 & 2011-12) or negative (2009-10).
9. Huge increase in debt and non-debt components of capital receipts in 2007-08.
10. Relatively lower economic growth rate.

Hence the pattern of Plan financing during the Eleventh Plan period gives a different picture.

During the Eleventh Plan, the contribution of State's own revenue fell sharply to 54.21 per cent of the original estimate (Table 4.4). This is mainly on account of the deceleration in the growth of own revenues as well as a decline in the MCR. In 2009-10, while the growth of tax revenue declined to 5.45 per cent from over 25 per cent in the previous year, non-tax revenues recorded a negative growth as compared with the growth of 37.08 per cent in 2008-09. As the sale of government land was resorted to only in the first year of the Plan, the realization of MCR is much lower than the estimate. The actual realization of total resources in the entire five-year period is expected to be only 77.56 per cent of the estimate. As the projections of resources for the Eleventh Plan were made against the overall improvement in the State finances witnessed since 2003-04, there was an element of over estimation as compared with the estimates for the Tenth Plan. This also partly explains the underperformance of the BCR and MCR as compared with the estimates in the Eleventh Plan period. The shortfall in the realization of resources would have been much sharper but for the increase in the Central assistance and borrowings. There is also a substantial increase in the grants from the Finance Commission. Because of a significant shortfall in the share of BCR and MCR in plan financing as compared with the original estimates, there was increased dependence on borrowings in the Eleventh Plan as compared with the Tenth Plan. The dependence on borrowings is likely to be 39.46 per cent of the total resources in the Eleventh Plan as compared with 33 per cent in the Tenth Plan. But for the limits on borrowings following the enactment of FRBMA, higher Finance Commission transfers and higher than estimated Central assistance, the dependence on borrowings as a source of plan financing would have been much higher.

Table 4.4: Pattern of Plan Financing In Andhra Pradesh-Eleventh Five-year Plan(Rs.Crore)

| Source of Financing | XI-Plan Project-ion | Realisation | | | | | | Actual Realisation as % of Projection |
|---|---|---|---|---|---|---|---|---|
| | | 2007-08 (Accounts) | 2008-09 (Accounts) | 2009-10 (Accounts) | 2010-11 (Accounts) | 2011-12 (LE) | Total 2007-12 | |
| 1.State's Own Resources | 138397.44 | 16413.43 | 15564.05 | 10756.40 | 15870.36 | 16422.19 | 75026.43 | 54.21 |
| a)BCR | 108148.48 | 8401.92 | 13829.00 | 10750.79 | 16163.33 | 15953.16 | 65098.20 | 60.19 |
| b)MCR | 29508.96 | 7938.44 | 1463.33 | 124.63 | -855.74 | 2.67 | 8673.33 | 29.39 |
| c)FC Grants | 740.00 | 146.00 | 191.66 | 199.16 | 298.83 | 561.80 | 1397.45 | 188.84 |
| d)Opening Balance | | -74.93 | 80.06 | -318.18 | 263.94 | -95.44 | -144.55 | |
| 2. Net Borrowing | 50703.23 | 6987.28 | 11028.79 | 14394.47 | 12403.96 | 17924.00 | 62738.50 | 123.74 |
| 3. Central Assistance. | 15899.73 | 3792.42 | 4039.44 | 4254.38 | 3318.59 | 5825.33 | 21230.16 | 133.53 |
| a)Normal | 2605.85 | 368.07 | 512.48 | 496.57 | 439.57 | 620.76 | 2437.45 | 93.54 |
| b)EAP | 955.75 | 484.58 | 166.05 | 90.50 | 72.08 | 50.00 | 863.21 | 90.32 |
| c)Others | 12337.73 | 2939.77 | 3360.91 | 3667.31 | 2806.94 | 5154.57 | 17929.50 | 145.32 |
| Net Total Resources | 205000.00 | 27193.13 | 30632.28 | 29405.26 | 31592.91 | 40171.52 | 158995.10 | 77.56 |
| As Percentage of Total Resources | | | | | | | | |
| 1.State's Own Resources | 67.51 | 60.36 | 50.81 | 36.58 | 50.23 | 40.88 | 47.19 | |
| a)BCR | 52.76 | 30.90 | 45.15 | 36.56 | 51.16 | 39.71 | 40.94 | |
| b)MCR | 14.39 | 29.19 | 4.78 | 0.42 | -2.71 | 0.01 | 5.46 | |
| c)FC Grants | 0.36 | 0.54 | 0.63 | 0.68 | 0.95 | 1.40 | 0.88 | |
| d)Opening Balance | | -0.28 | 0.26 | -1.08 | 0.84 | -0.24 | -0.09 | |
| 2. Net Borrowing | 24.73 | 25.70 | 36.00 | 48.95 | 39.26 | 44.62 | 39.46 | |
| 3. Central Assistance. | 7.76 | 13.95 | 13.19 | 14.47 | 10.50 | 14.50 | 13.35 | |
| a)Normal | 1.27 | 1.35 | 1.67 | 1.69 | 1.39 | 1.55 | 1.53 | |
| b)EAP | 0.47 | 1.78 | 0.54 | 0.31 | 0.23 | 0.12 | 0.54 | |
| c)Others | 6.02 | 10.81 | 10.97 | 12.47 | 8.88 | 12.83 | 11.28 | |
| Net Total Resources | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | |

Note: BCR=Balance from Current Revenues MCR=Miscellaneous Capital Receipts; FC Grants= finance Commission Grants ARM= additional Resource Mobilization; EAP= Externally Aided Projects
Source: G.R Reddy (2012): 'Plan Financing in Andhra Pradesh – Trends and Concerns', Working Paper No. 124, November, Centre for Economic and Social studies, Hyderabad.

### *4.4. Public Debt*[42]

The compositional shift is seen in the outstanding debt as well because of the policy measures mainly DSS and relinquishment of central plan loans to the states as per the recommendations of the Twelfth Finance Commission etc.

It is interesting to look into the direction of debt spent during the study period. In all the years of the Tenth Plan Period, bulk of the public debt raised was spent towards the repayment of old debt because of DSS and the balance (net debt) was spent to fill the revenue deficit and finance the other developmental activities (Table 4.5). Net debt was too little to meet the fiscal deficit and the dependence on the public account has increased further. During the Eleventh Plan Period, the closure of the debt repayment schemes increased the net debt availability at the disposal of the state government which was enhanced by the revenue account surplus situation thus keeping the state government in a better fiscal position. During this period, the entire net debt was spent towards capital expenditure.

Table 4.5: Direction of Public Debt Spent (Rs. Cr)

| Year | Public Debt | | Net Public Debt (col 2-3) | Debt Repaid As % Of Debt Raised | As Percentage of Net Public Debt (col 4) | | | |
|---|---|---|---|---|---|---|---|---|
| | raised | repaid | | | Revenue Surplus/ Deficit | Capital Expenditure | Net Lending | Fiscal Deficit |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 2002-3 | 12026.73 | 7508.54 | 4518.19 | 62.43 | 67.6 | 84.0 | -17.2 | 168.8 |
| 2003-04 | 17983.03 | 13281.17 | 4701.86 | 73.85 | 63.0 | 90.4 | -5.1 | 158.5 |
| 2004-05 | 9832.76 | 7432.39 | 2400.37 | 75.59 | 106.6 | 225.6 | 9.2 | 341.3 |
| 2005-06 | 3970.72 | 5294.74 | -1324.02 | 133.34 | -4.8 | -578.7 | -43.4 | -626.9 |
| 2006-07 | 4550.22 | 4252.72 | 297.50 | 93.46 | -943.6 | 2694.0 | 146.3 | 1896.8 |
| 2007-8 | 11132.44 | 4993.49 | 6138.94 | 44.86 | -2.6 | 101.3 | 44.5 | 143.1 |
| 2008-09 | 15352.66 | 4833.12 | 10519.53 | 31.48 | -9.5 | 98.5 | 28.9 | 117.9 |
| 2009-10 | 19753.46 | 6276.99 | 13476.46 | 31.78 | -9.1 | 102.3 | 10.7 | 104.0 |
| 2010-11 | 18722.47 | 7881.41 | 10841.06 | 42.10 | -22.7 | 102.6 | 29.0 | 108.9 |
| 2011-12 | 19449.63 | 6761.01 | 12688.62 | 34.76 | -24.7 | 108.1 | 38.0 | 121.4 |

Source: As per Table 4.1.

[42]The loans from the Centre which constituted a major portion started declining since 1999 with the modification in accounting procedures (shift of loans *to states against small savings collections* from the *Consolidated Fund of India* to *NSSF)*. The share of central loans declined during 2002-05 due to *DSS* and further declined in the later years with the Centre's relinquishment of plan loans to states (w.e.f. 2005-06) as per the recommendations of the Twelfth Finance Commission. As a result, loans from the centre (2000-04), loans from NSSF (2004-08) and market borrowings (since 2007-08) comprised major share of total borrowings.

With the effect above mentioned policy measures, the outstanding debt/GSDP ratio of the state declined from 30 percent in 2002-03 to 25 percent in 2006-07 averaging at 28 percent (Table 4.6). This declining trend has continued during Eleventh Plan Period as well and finally reaching to 20 percent in 2011-12 averaging at 21 percent. 13th FC suggested steady reduction in augmented debt stock for the states to less than 25 per cent of GSDP by 2014-15 – AP's debt/GSDP ratio is well within the set limits. The debt/GSDP ratio was within the limits of the both former and revised FRBM norms.

The compositional shift in the deficit financing obviously reflects in the outstanding debt**.** Its composition has also changed in recent times particularly with the implementation of rule based fiscal consolidation, with the availability of market loans at lower rate of interest, transferring of the entire net small savings collections to the state governments (as against 75 percent earlier) to facilitate the state(s) for mandatory prepayment of their high cost liabilities to the Centre - in short DSS (2002-05) and Centre's relinquishment of plan loans to states from 2005-06 onwards. The share of central loans has declined and the relative shares of other components such as loans from the open market, special securities from the NSSF, deposits and advances have increased (Table 4.6).Another major component is loans from autonomous financial institutions.

Table 4.6: OUTSTANDING PUBLIC DEBT - TRENDS

| | Open Market Loans | Loans from the Centre | Loans from Autonomous Bodies | Spl. Securities (Small Savings) & PF etc | Total Outstanding Public Debt |
|---|---|---|---|---|---|
| | AS PERCENTAGE OF GSDP (%) | | | | |
| 2002-3 | 8.5 | 11.5 | 3.4 | 6.5 | 30.0 |
| 2003-04 | 9.0 | 9.8 | 4.3 | 7.8 | 30.9 |
| 2004-05 | 8.9 | 7.2 | 4.5 | 8.9 | 29.5 |
| 2005-06 | 8.3 | 6.3 | 3.0 | 9.9 | 27.5 |
| 2006-07 | 7.8 | 5.0 | 2.2 | 10.0 | 25.0 |
| 2007-8 | 8.0 | 4.1 | 1.9 | 8.5 | 22.6 |
| 2008-09 | 9.0 | 3.5 | 2.1 | 7.4 | 21.9 |
| 2009-10 | 10.5 | 3.0 | 1.9 | 6.9 | 22.3 |
| 2010-11 | 10.5 | 2.6 | 1.2 | 6.4 | 20.7 |
| 2011-12 | 11.1 | 2.6 | 0.8 | 5.6 | 20.1 |
| | | | | | |
| 2002-07 | 8.4 | 7.5 | 3.3 | 8.9 | 28.2 |
| 2007-12 | 10.1 | 3.0 | 1.5 | 6.7 | 21.3 |
| 2002-12 | 9.6 | 4.4 | 2.1 | 7.4 | 23.4 |
| | COMPOSITION OF OUTSTANDING PUBLIC DEBT (%) | | | | |
| 2002-3 | 28.5 | 38.5 | 11.2 | 21.8 | 100.0 |
| 2003-04 | 29.1 | 31.8 | 13.8 | 25.3 | 100.0 |
| 2004-05 | 30.1 | 24.3 | 15.3 | 30.3 | 100.0 |
| 2005-06 | 30.3 | 22.8 | 10.7 | 36.1 | 100.0 |
| 2006-07 | 31.2 | 20.1 | 8.7 | 40.0 | 100.0 |
| 2007-8 | 35.4 | 18.3 | 8.6 | 37.7 | 100.0 |
| 2008-09 | 41.0 | 15.7 | 9.5 | 33.8 | 100.0 |
| 2009-10 | 47.2 | 13.5 | 8.5 | 30.8 | 100.0 |
| 2010-11 | 50.9 | 12.7 | 5.6 | 30.8 | 100.0 |
| 2011-12 | 55.4 | 12.7 | 4.1 | 27.8 | 100.0 |
| | | | | | |
| 2002-07 | 30.0 | 26.6 | 11.8 | 31.6 | 100.0 |
| 2007-12 | 47.2 | 14.3 | 6.9 | 31.6 | 100.0 |
| 2002-12 | 40.8 | 18.8 | 8.8 | 31.6 | 100.0 |

Source: As per Table 4.1.

The stock of contingent liabilities in the form of guarantees given by the government during Tenth Plan Period was 7.5 percent of GSDP with a declining trend from 9.2 percent in 2002-03 to 5.8 percent in 2006-07 (Table 4.7, Appendix Table 4.2A). During Eleventh Plan Period the corresponding ratio on an average declined to 2.8 percent with a sliding down from 4.6 percent in 2007-08 to 1.5 percent in 2011-12. The proportion of combined ratio of outstanding debt and contingent liabilities in GSDP are within the set targets of FRBM/Finance Commission.

Table 4.7: Total Outstanding Liabilities

| | Total Outstanding Liabilities | Guarantees/ Contingent Liabilities | breakup of guarantees | | outstanding debt + guarantees |
|---|---|---|---|---|---|
| | | | power | others | |
| | As % of State Own Revenue | | | | |
| 2002-07 | 342.1 | 78.6 | 43.5 | 21.0 | 375.1 |
| 2007-12 | 258.0 | 29.1 | 17.6 | 11.5 | 252.7 |
| 2002-12 | 283.9 | 44.4 | 25.6 | 14.4 | 290.5 |
| | As % of Total Revenue Receipt | | | | |
| 2002-07 | 234.9 | 62.9 | 34.8 | 16.8 | 257.5 |
| 2007-12 | 175.8 | 23.0 | 13.9 | 9.1 | 172.2 |
| 2002-12 | 193.9 | 35.2 | 20.3 | 11.4 | 198.4 |
| | As % of GSDP | | | | |
| 2002-07 | 32.5 | 7.5 | 4.1 | 2.0 | 35.7 |
| 2007-12 | 24.6 | 2.8 | 1.7 | 1.1 | 24.1 |
| 2002-12 | 27.0 | 4.2 | 2.4 | 1.4 | 27.7 |

Source: Data source: prior to 2008-09, Handbook of Statistics on State Government Finances 2010 for 2009-10 onwards, RBI's State Finances: A Study of Budgets for the years 2011-12 and 2012-13 Annual Fiscal Framework of Andhra Pradesh for 2011-12 and earlier years.

### 4.5. Implementation of FRBM Act and Targets Achieved

As mandated in the FRBM Act (2005), the state government has to eliminate revenue deficit by 2008-09 by reducing 0.32 percentage points in GSDP every year and fiscal deficit has to be brought down to 3 percent of GSDP during the same period by reducing 0.25 percentage points every year. However, Central Government has enhanced the limit of fiscal deficit from 3 percent to 3.5 percent of the GSDP for the year 2008-09 and 4 percent for the year 2009-10.[43] Regarding the outstanding total liabilities, according to the FRBM Act (2005), within a period of five years 2005-10, the initially set target was not to exceed 35 percent of estimated GSDP. The government of India, as per the recommendations of the Thirteenth Finance Commission, prescribed that this ratio should be further declined to 27.6 percent by 2014-15. However, keeping in view the recent crisis, Thirteenth FC has outlined a fiscal roadmap (for both the Centre and the States) in the medium term. For State governments, the FC has employed a

[43] FRBM Act (2005), Amended in 2010.

differential method by prescribing different timelines for different groups of States based on their fiscal performance of States till 2007-08.

The government of Andhra Pradesh could reduce the revenue deficit but not as per the set annual targets. For instance the revenue deficit was supposed to reduce by 0.32 percent of GSDP but the government's achievement in reducing the revenue deficit varied from 0.03 percent in 2005-06. Similarly for the reduction in fiscal deficit/GSDP the norm was 0.25 percent while in actual practice it varied from 3.24 percent in 2005-06 to 1.87 percent and 2.41 percent in 2006-07 and 2007-08 respectively. However the set targets either for deficits, debt or for liabilities it is within the limits.

Table 4.8: FRBM Targets and Achievements (as % of GSDP)

| Year | Fiscal deficit | | Total outstanding liabilities | |
|---|---|---|---|---|
| | Target | Achievement | Target | Achievement |
| 2007-08 | -3.12 | -2.68 | 35.00 | 25.12 |
| 2008-09 | -3.50 | 3.29 | 35.00 | 24.80 |
| 2009-10 | -4.00 | -2.95 | 35.00 | 23.01 |
| 2010-11 | -3.00 | -2.00 | 30.30 | 20.67 |
| 2011-12 | -3.00 | -2.35 | 29.60 | 20.70 |

(As per the targets set by AP FRBM Act 2005 and the recommendations of Thirteenth Finance Commission)

Source: Statement of Fiscal Policy to be laid on the table of the AP State Legislature for the various years, Government of Andhra Pradesh

## 7.6. Summary and Suggestions

During 2002-07, the ratio of revenue deficit to fiscal deficit declined consistently from 40 percent in 2002-03 to a revenue surplus situation during 2006-07 – not only reaching the target of FRBM Act two years ahead of the deadline but also financing almost 50 percent of the gross fiscal deficit. Similarly, the ratio of capital expenditure to fiscal deficit increased consistently during 2002-05. Thus the receipts from the revenue account, during 2006-07, not only backed the revenue expenditure but also met the entire net lending and nearly 30 percent of the capital expenditure. Primary deficit situation was dreary when it accounted merely 8 percent in 2003-04 indicating that heavy interest payments (92 percent) account for the bulk of the revenue deficit or fiscal deficit. With a *lessened burden of interest payment* from 2004-05 onwards the primary deficit component started increasing. The primary deficit became primary surplus in 2006-07 because of the revenue surplus.

During 2007-12 the ratio of revenue surplus to fiscal deficit suddenly declined from 49.7 percent in 2006-07 to 1.8 percent in 2007-08 – just maintenance of revenue surplus situation as per the FRBM norms. However, its proportion has increased gradually in subsequent two years and significantly in 2010-12. The effect of decline in the revenue surplus on the capital expenditure is obvious. Similarly, the ratio of capital expenditure to fiscal deficit declined mainly due to (a) decline in the revenue surplus as explained earlier and also (b) increased net lending which is also for developmental purposes. In the subsequent years of the eleventh plan, all the component of fiscal deficit fluctuated. The fiscal deficit/GSDP ratios, either at aggregate level or at component-wise fluctuated during the eleventh plan period. However, 13$^{th}$ Finance Commission suggests the fiscal deficit 3% of GSDP by 2013-14. AP state's Fiscal Deficit/GSDP ratio in 2008-9 (actuals) was 2.9%. In 2011-12 the ratio is nearly 2.3%.

The outstanding liabilities/GSDP ratio of the state government, with the effect of reform measures and debt swap scheme, showed a declining trend throughout Tenth Plan Period (except in 2003-04) and Eleventh Plan Period. The Debt/GSDP ratio was within the limits of the both former and revised FRBM norms.

## Chapter 5

## Impact of State Public Enterprises Finances on State Financial Health

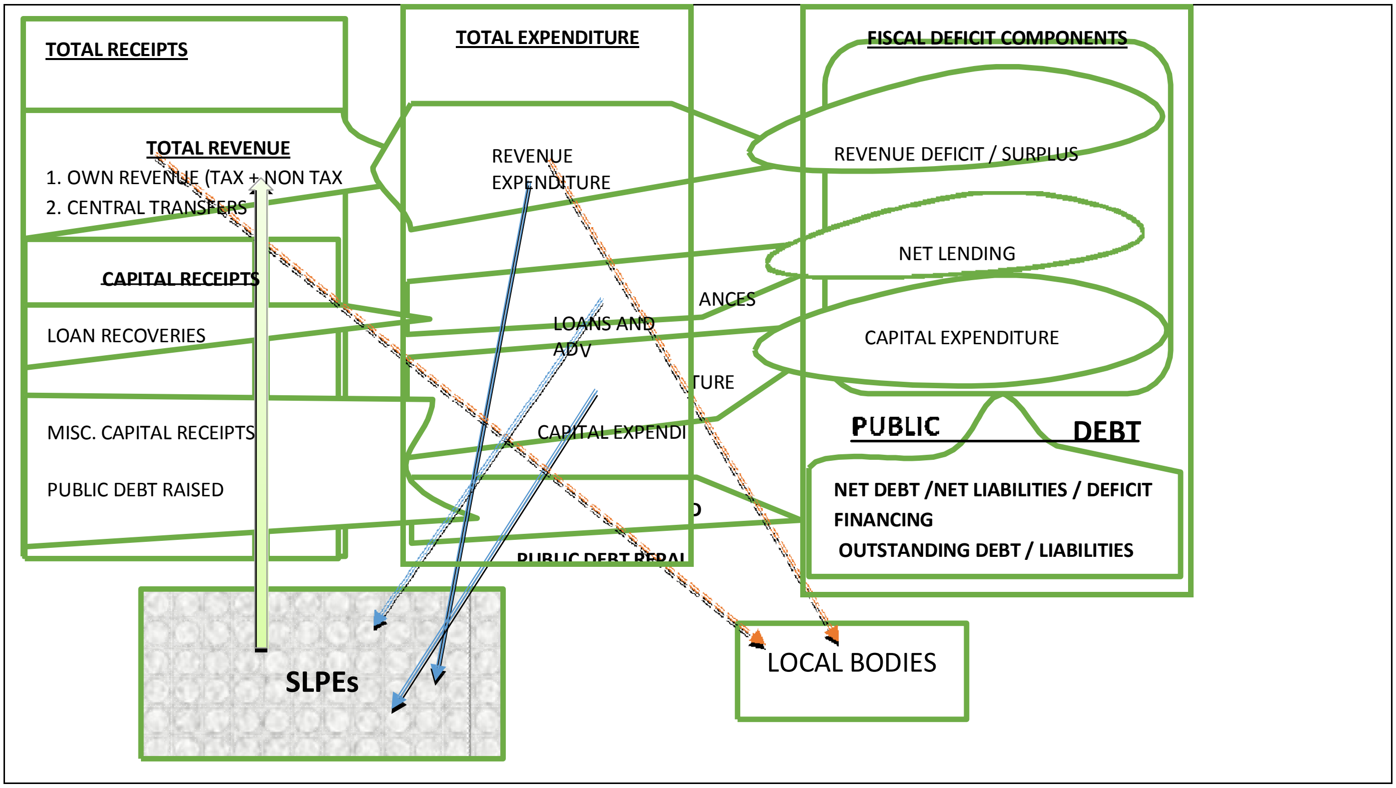
**Summary of Findings**

- The state government alone is the major stakeholder in the SLPEs.
- The reforms with respect to SLPEs were on a fast tract during first and second phase of reform period.
- The same tempo was not shown w.r.t. winding up of certain identified nonworking companies.
- The capital share of government in SLPEs constitutes a huge amount / share. But the rate of return on the investment both in absolute terms as well as percentages is very nominal on the other hand the government is paying considerable interest rate on its borrowings.
- Besides this, the loans and advances constitute a considerable portion in the total flow of resources to the SLPEs from the budget.
- The annual budgetary flow of resources to SLPEs indicate a shift in favour of grants and subsidies to certain Projects / Programs / Schemes & Other Subsidies.
- As the state government on one hand pursuing the revenue augmentation measures,

# Chapter 5

## Impact of State Level Public Enterprises Finances on State Financial Health

Fig. 5.0: Roadmap - Impact of SLPEs Finances on State Financial Health




### 5.1. Introduction

Historically, State Level Public Enterprises (SLPEs) have performed a main role in the economic development by carrying out the business-related activities while keeping in view the welfare of the people. But over a period of time, the performance of many SLPEs deteriorated and consequently showed a negative impact on state government's finances which has extended support to SLPEs in the form of equity capital, loans, grants/ subsidy besides acting as a guarantor for the SLPEs' borrowings. Andhra Pradesh too had a large number of SLPEs of which a good number of them were loss making laying a stress on the state's finances[44]. In this backdrop, this chapter discusses below mentioned two

[44] Andhra Pradesh had highest number of SLPEs in India with state-owned enterprises (including 60 cooperatives). See Rajni Khanna (2006): Public Enterprise Reform in Andhra Pradesh (1999-2005) – Issues and Challenges, poverty reduction and economic management (PREM), South Asia, the World Bank, May.

topics which are listed in the Fourteenth Finance Commission's Study on *Evaluation of State Finances: with Special Reference to Andhra Pradesh:*

- *Impact of SLPEs' finances on the state's financial health and measures taken to improve their performance and / or alternatives of closures, disinvestment etc.*
- *Impact of Power Sector Reforms on state's fiscal health. In case reforms have not been implemented, the likely outcome on the state's fiscal health.*

**Data Sources, Methodology and Period of Study**

The main data sources are Audit Reports ***– Civil as well as Commercial -*** of the Comptroller and Auditor General of India (CAG), Andhra Pradesh for various years. The reason for choosing this source, besides the simple reason of data availability, is that the accounts of the Government companies (as defined in section 617 of the Companies Act, 1956) are audited by the statutory Auditors who are appointed by the CAG as per the provisions of the Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit by the CAG as per provisions of Section 619 (4) of the Companies Act, 1956. Simple statistical tools are used wherever necessary for the analysis.

This chapter is divided into five sections. Section two intends to talk about the state government's objectives, implementation and achievement of phase-wise reforms with regard to SLPEs. Section three a brief note regarding SLPEs as given in the recent Performance Report (2012) on Public Enterprises for the years 2008-09 and 2009-10, published by the Public Enterprises Department, Government of Andhra Pradesh. Section four speaks of financial performance of the SLPEs for the years 2007-08 and 2011-12 and the ways of financial support given by the state government i.e., budgetary outgo for the period 2002-12 and returns of the state government in turn respectively. While Section five deals state government's financial flows to the power sector, section six gives the summary.

## 5.2. State Level Public Enterprises Reforms Implemented in Andhra Pradesh State

The Andhra Pradesh state embarked upon a SLPEs reform program in two phases with a combination of closure, privatization, restructure or disinvestment during 1999–2006 (Table 5.1).The government, under Phase I, identified19 enterprises to be closed or privatized between 1999 -2001 implementation of which made a substantial positive contribution to state government finances. *The Fiscal Impact Analysis Study of Enterprises Included in Phase I of PE Reforms Program of the Government of Andhra Pradesh* estimated that in the absence of phase one reforms, the accumulated losses / committed resources and outstanding guarantees would have increased and its impact on state finances would have been Rs. 2095 crores and the annual impact would have been Rs. 235 crores[45]. The phase II of public enterprise reform program (2002-07) consisted of 71 enterprises.[46]

Table 5.1: SLPEs Identified for Reforms and the Level of Achievement

| Sl.no. | Number / Type of Reform | Phase I (1999-2002) | Phase II (2002-2006) | Total (1999-2006) |
|---|---|---|---|---|
| 1 | No. of Units Identified | 19 | 68 | 87 |
| 2 | No. of Units Added Latter | 00 | 03 | 03 |
| 3 | Total 1+2 | 19 | 71 | 90 |
| *4* | *Enterprises for which reforms are identified but not taken up* | *00* | *09* | *09* |
| **5** | **Target Achieved (3 - 4)/ (a to d)** | **19** | **62** | **81** |
| | **Type of Reform** | | | |
| ***5(a)*** | ***Privatized*** | ***08*** | ***07*** | ***15*** |
| ***5(b)*** | ***Disinvested*** | ***00*** | ***07*** | ***07*** |
| ***5(c)*** | ***Closed*** | ***06*** | ***18*** | ***24*** |
| ***5(d)*** | ***Restructured*** | ***05*** | ***30*** | ***35*** |

Source: Andhra Pradesh legislature (2013): Report of the Andhra Pradesh legislative Council, Departmentally Related Standing Committee on Infrastructure Development – II, Department of Public Enterprises, Demand No.XL (2013-14), June.

Apart from the above, there are 24 PEs which are defunct or non-working. The companies which have taken the route of winding up by court order are under liquidation for a period ranging from 3 years to nearly two decades. The government may speed up the process of closing down the units for which closing orders are issued and the process not yet proceeded. During this period new companies have also been established (Appendix Table 5A[47]). At present there is no Reforms Policy.[48]

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[45]httpwww.ped.ap.gov.inimagesstoriesStudyReportsFiscal_impact_study_phaseI_enterprises.pdf

[46]Rajni Khanna (2006): Public Enterprise Reform in Andhra Pradesh (1999-2005): Issues and Challenges, 70927, Poverty Reduction and Economic Management (PREM), South Asia, The World Bank, May.

[47]For further details regarding the establishment of new companies see the Audit Reports ***(Commercial)*** of the Comptroller and Auditor General of India (CAG), Andhra Pradesh for various years.

[48]Andhra Pradesh legislature (2013): Report of the Andhra Pradesh legislative Council, Departmentally Related Standing Committee on Infrastructure Development – II, Department of Public Enterprises, Demand No.XL (2013-14), June.

In terms of the Thirteenth FC's recommendations, all States need to draw up a roadmap for closure of non-working State-level public enterprises (SLPEs) by March 2011. It is suggested that divestment and privatisation of SLPEs should be considered and actively pursued by the States. The lack of operational efficiency and commercial viability of SLPEs has been a major drag on State finances. As regards restructuring of SLPEs, the Thirteenth FC recommends that there is a need to ensure that all working SLPEs, except those in the welfare and utility sectors, become financially viable. [49]

Table 5.2: Winding up of non-working PSUs

| Sl. No. | Particulars | No. of non-working companies |
|---|---|---|
| 1 | Total number of non-working companies | 24 |
| | PSUs under winding up process | |
| (a) | Liquidation by court / voluntary winding up (liquidator appointed) | 11 |
| (b) | Winding up (liquidator not appointed) | 02 |
| (c) | Merger | 01 |
| (d) | Closure i.e closing orders / instructions issued but winding up process not yet started | 10 |

Source: Government of Andhra Pradesh: Comptroller and Auditor General of India, (CAG) *Audit Report (Commercial) Report no. 4 of 2010-11.*

[49] Reserve Bank of India ( 2011 ): **State Finances : A Study of Budgets of 2010-11, March.**

## 5.3. Performance of Public Enterprises in Andhra Pradesh (2005-2010)

As of 2010**,** there are 44 Public Enterprises (PEs) under the administrative control of 20 departments. Apart from this, there are 24 PEs which are defunct or non-working. The Administrative Department having the highest number of PEs under its control is Energy Department with 11 PEs followed by Industries and Commerce Department (7 PEs). Service category PEs account for highest number of PEs (23) among the different categories of PEs on the basis of activities pursued. A majority of the PEs are registered under the Companies Act, 1956. However, 4 PEs are registered under separate statutes and two are registered as Societies.

The data for the year 2008-09 and 2009-10 reveals the performance of 44 PEs, while the data from 2005-06 to 2007-08 studies the performance of 29 PEs. The present study thus analyses the performance of Public Enterprises in these two periods.

### 5.3.1. Performance of 44 Public Enterprises in 2008-09 to 2009-10

**Investment Pattern** (as on 31st March, 2010)

- The aggregate of Government investment in share capital of PEs constitutes around 87 percent of the total capital
- Bulk of equity investments appear to be in the public enterprises belonging to the service sector
- Public enterprises have been raising adequate resources from the state government on one hand by way of loan, a substantial portion from the financial institutions and Government of India on the other

**Capital Employed**

- Return on capital of the PEs in 2009-10 is 9.21% while it is 5.52 percent in 2008-09
- The PEs have been able to raise both share capital and loans from sources other than state government like central government, central PSUs, SIDBI/IDBI etc

**Working Results**

- Total turnover including other income made by 44 PEs is around Rs64,182 crore in 2009-10, in 2008-09 it was Rs 59,946 crores, total expenditure (exclusive of depreciation and interest) Rs. 57798 crores in 2009-10 and Rs 52,645 crores in 2008-09
- 31 PEs earned a profit of Rs 1562 crores in 2009-10 (33 PEs, Rs 2425 crores in previous year (PY)) while 9 public enterprises incurred a net loss of Rs 1226 crores (10 PEs, Rs 941 crores in PY)

- Working results of 40 enterprises resulted in a net profit of Rs337 crores (PY – a net profit of Rs1967 crores)

**Reserves and Net worth (2008-09 & 2009-10)**

- As of 31st March, there is a positive growth in net worth in 31 PEs whereas erosion is observed in 9 PEs. The overall coefficient is more than 1 at 1.37 (in 2009-10) (PY 1.38). Four companies, Andhra Pradesh Road Transport Corporation (APSRTC), Housing Corporation, Urban Finance, Infrastructure and Road Development Corporation – net worth already eroded by more than 100 percent

**Size of Manpower**

As on March 31, 2010, with respect to 44 PEs, around 94 percent of the employment comes from Singareni Collieries, APSRTC, TRANSCO, GENCO, Southern Power, Northern Power and Eastern Power. In the same period, the total liabilities of 41 PEs increased from Rs. 108092 cores in 2008-09 to Rs 122773 crores in 2009-10. In 2009-10, total assets are to the tune of Rs 122773 crores.

**Profitability, Turnover, Capital Employed of Public Enterprises**

- Top five in terms of profitability are – GENCO, Singareni, TRANSCO, APSFC, and Housing Board. In 2009-10, profits made by top 5 PEs is 82.8 percent, 2008-09 – 81.03
- Top five in terms of turnover – Beverages, Central Power, Singareni, GENCO, Southern Power – 65.71%
- Top 5 in terms of capital employed – Housing Corporation, GENCO, Central Power, Southern Power, TRANSCO – 61.50 percent

The sources of funds for 44 PEs during the two years (2008-09 and 2009-10) are Paid up Capital, Reserves and Term Loans. The funds utilized are fixed assets, current assets, miscellaneous assets and accumulated losses.

The pattern of investment can be better understood when we look at the flow of funds to the enterprises grouped into different categories as Promotion and Development, Trading and Marketing, Production and Manufacturing, Service Enterprises.

Further analysis of group-wise details of capital structure and nature of investment as of March, 2010 shows that out of total equity investment of Rs 7428 crores, nearly 6.7 percent had gone to Promotional and Development Enterprises, 0.08 percent to Trade and Marketing Enterprises, 25 percent to Production and Marketing Enterprises and a major chunk, 68 percent to Service Enterprises. Of the total loan of Rs 59215 crores, Promotional and Development Organisation account for a percentage share of 4 percent, Trading and Marketing (0.5 percent), Production and Manufacturing (1.4 percent) and Service Organisations (94 percent).

The capital structure shows that Service enterprises had the highest share of accumulated losses (98 percent), loans raised (94 percent), capital employed (88 percent), reserves (75 percent), paid up capital (68 percent) and net worth (55 percent) (Table 5.3)

Table 5.3: Capital Structure of Public Enterprises (31-3-2010)

| | Paid-up Capital | Reserves | Accumulated Losses | Net worth | Loans Raised | Capital employed |
|---|---|---|---|---|---|---|
| Promotional and Development | 6.69 | 7.59 | 1.39 | 11.05 | 4.03 | 5.06 |
| Trading & marketing | 0.08 | 2.23 | 0.00 | 2.14 | 0.53 | 0.76 |
| Production &Manufacturing | 24.75 | 15.11 | 0.60 | 31.81 | 1.40 | 5.84 |
| Services | 68.48 | 75.07 | 98.01 | 55.00 | 94.05 | 88.34 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 |

Out of the 41 PEs, only 12 PEs have been in a position to raise capital from source other than state government to the tune of Rs 964 crores. A majority of this is from the Government of India and term lending institutions. With respect to loans, from sources other than State Government, energy enterprises account for the largest share (70 percent) of total loans taken.

### 5.3.2. Performance of 29 Public Enterprises in the last five years (2005-06 to 2009-10)

The performance of 29 PEs during the period 2005-06 through 2009-10 is studied below by analyzing the trends with respect to share of investment, net worth in aggregate, capital employed and turnover, profitability and growth of manpower.

Table 5.4: Percentage share of Investment in relation to share capital and borrowing (2005-06 through 2009-10)

| | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|---|---|---|---|---|---|
| Share Capital | 29.00 | 19.31 | 21.81 | 12.82 | 11.15 |
| Borrowing | 71.00 | 80.69 | 78.19 | 87.18 | 88.85 |

The table clearly shows that share of investment of PEs in relation to borrowing have increased by almost 18 percentage points in 2009-10 as compared to 2005-06 (Table 5.4).

The profitability of PEs during the period 2005-06 through 2009-10 shows that the performance of the PEs in the services sector is a cause of concern as this sector accounted for negative profits (-Rs 409 crores) in 2009-10.

The net worth in aggregate of the 29 PEs increased by a little less than two times in 2009-10 as compared to 2005-06. The turnover in 29 PEs increased by a little less than three times while the capital employed increased by more than three times in 2009-10 compared to 2005-06. Gross profit doubled in 2009-10 when compared to 2005-06.

The pattern of investment of the Public Enterprises in aggregate on 31st March, 2010 shows that the trend during the five year period from 2005-06 to 2009-10 confirms a shift away from dependence of the PE structure on the budgetary support from the government.

The manpower recorded a continuous growth in the PEs belonging to the services sector during 2006-2010. The data clearly shows that the public enterprises in the services sector also accounted for the highest growth of manpower during the study period. This sector contributes nearly 65 percent of the workforce in the public enterprises. Though the PEs in the production and manufacturing enterprises accounted for nearly 38 percentage of total employment in March, 2006, it registered a decline of almost 10 percentage points in March, 2010 (Table 5.5).

Table 5.5: Growth of Manpower in Public Enterprises

| | March, 2006 | March, 2007 | March, 2008 | March, 2009 | March, 2010 |
|---|---|---|---|---|---|
| Promotional &Development | 1.43 | 1.48 | 1.53 | 1.52 | 1.48 |
| Trading & marketing | 0.80 | 0.72 | 0.66 | 0.54 | 0.54 |
| Production &Manufacturing | 38.06 | 37.92 | 36.48 | 30.17 | 29.46 |
| Services | 59.71 | 59.88 | 61.34 | 67.77 | 68.53 |

The above analysis clearly shows that it is the services sector which has received maximum government investments in the form of capital and loan (92.10 percent). But, when we compare the total capital raised with the Net worth, it is the PEs in the Trading and Marketing Sector which account for highest net worth. Profitability of the PEs in services sector is a major concern as the profits in this sector have registered a negative growth rate in 2009-10. However, this is the sector contributing highest to the growth of man power during the five year period. Further analysis of working results show that both total income and total expenses increased along with a gradual increase in gross profit. Nevertheless, provision of depreciation and interest has registered an increase thus resulting in aggregate net profit getting converted to net loss.

## 5.4. The State Government - a Finance Provider

The SLPEs – which are established to carry out activities of commercial nature while keeping in view the welfare of people -were mainly by the state government's[50] financial involvement through equity investments, loan provisions, grants, subsidies and as guarantor of enterprise borrowing.

[50] Some units were with the initiation of the central government as part of its promotional measures in building the nation

The aggregate of Government investment in share capital (paid-up capital) of PEs constitutes around 86 percent of the total capital of all working government companies (including statutory corporations) in 2007-08 and declined to 77 percent in 2011-12 while the share of state's outstanding loans in total have increased (table 5.6). In spite of this trend still the capital share of government in SLPEs constitutes a huge amount / share. But the rate of return on the investment[51] both in absolute terms as well as percentages is very nominal throughout the study period (Table 5.7) while a considerable interest rate is paid by Government on its borrowings.

Whatever the investment made by the state government is out of borrowings and the interest paid on these borrowings is higher than the rate of return on the investments thus saddling the state exchequer. In order to yield reasonable returns on the investment made in all the profit making companies, as pointed by the CAG, the state government should frame a specific Dividend Policy, which is so far not done, with which all PSUs are mandatorily to pay a minimum return on the paid up share capital contributed by the state government.[52]

Besides this, the loans and advances constitute a considerable portion in the total flow of resources to the SLPEs from the budget (Table 5.8). ***If annual flow of resources from the state budget to SLPEs is looked into (table 5.9) the shift has been towards grants and subsidies to certain*** Projects / Progrms / Schemes & Other Subsidies***.*** The difference between the interests received by the government is very nominal while its interest payment burden is considerable (Appendix Table 5.2A) and with the compositional shift of budgetary outgo towards increasing flow of grants and subsidies to SLPEs, the state may not expect from them the interest receipts and loan recoveries while the grants and subsidies are uni-directional – not only an impediment to state exchequer.

[51] In fact, the Eleventh Finance Commission had observed that the average rate of return on capital invested in the State Electricity Boards that account for the bulk of the States' investment in Public Sector Undertakings, has been persistently negative.

[52] Government of Andhra Pradesh (2013): Report No. 2 of 2013 (Public Sector Undertakings), CAG.

Table 5.6: Paid-Up Capital and Loans Outstanding as of March (%)

| | Category | 2007-08 | | | | 2011-12 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Paid-up Capital | | Outstanding Loans | | Paid-up Capital | | Outstanding Loans | |
| | | State's share | ***Total*** | Govt | Total | State's share | ***Total*** | Govt | Total |
| A | Working Government Companies | 81.4 | 94.0 | 21.5 | 90.2 | 72.8 | 94.9 | 28.1 | 87.8 |
| B | **Working Statutory Corporations** | 4.6 | 6.0 | 0.2 | 9.8 | 3.9 | 5.1 | 0.6 | 12.2 |
| | Total (A+B) | 86.1 | 100.0 | 21.6 | 100.0 | 76.7 | 100.0 | 28.7 | 100.0 |

Source: CAG Audit Report (Commercial) for the year ended 31 March 2008&31 March 2012, Andhra Pradesh

Table 5.7: Return on Investment (Rs. Cr)

| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Investment | 4334.7 | 5223.8 | 5673.7 | 5715.9 | 5776.2 | 5,931.0 | 5,979.0 | 6,003.0 | 6,046.0 | 6,093.0 |
| 2 | Returns | 1.3 | 48.7 | 45.5 | 45.9 | 47.4 | 12.0 | 19.0 | 23.0 | 39.0 | 52.0 |
| 3 | Percentage of returns (%) | 0.03 | 0.9 | 0.8 | 0.8 | 0.8 | 0.2 | 0.3 | 0.4 | 0.7 | 0.9 |
| 4 | Average interest rate paid by Government (%) | 12.0 | 11.5 | 10.2 | 9.1 | 8.8 | 8.3 | 7.9 | 7.9 | 7.6 | 7.4 |
| 5 | Difference between interest rates and return (%) | 11.96 | 10.56 | 9.41 | 8.31 | 7.94 | 8.05 | 7.57 | 7.48 | 6.95 | 6.55 |

Source: Audit Report (Civil) for the year ended 31 March 2003&31 March 2007

**Source:** *Audit Report (State Finances) for the year ended 31 March 2012*

Table 5.8: Budgetary Outgo - Working Government Companies & Statutory Corporations

(Rs. Cr)

| | Particulars | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total Out Go | 4626 | 5144 | 4957 | 4046 | 5346 | 5278 | 12466 | 8639 | 9071 | 10027 |
| 1 | Equity Capital | 19 | 45 | 192 | 27 | 14 | 131 | 5 | 2 | 27 | 47 |
| 2 | Loans | 2166 | 2006 | 1034 | 288 | 817 | 22 | 2732 | 649 | 1783 | 3035 |
| **3** | **Grants/Subsidy** | **2442** | **3093** | **3731** | **3730** | **4515** | **5125** | **9729** | **7988** | **7261** | **6946** |
| | Composition of budgetary outgo | | | | | | | | | | |
| | Total Out Go | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1 | Equity Capital | 0.4 | 0.9 | 3.9 | 0.7 | 0.3 | 2.5 | 0.0 | 0.0 | 0.3 | 0.5 |
| 2 | Loans | 46.8 | 39.0 | 20.9 | 7.1 | 15.3 | 0.4 | 21.9 | 7.5 | 19.7 | 30.3 |
| **3** | **Grants/Subsidy*** | 52.8 | 60.1 | 75.3 | 92.2 | 84.4 | 97.1 | 78.0 | 92.5 | 80.0 | 69.3 |
| | Guarantees Issued and Outstanding | | | | | | | | | | |
| | **Guarantees issued** | 8304 | 2648 | 2467 | 1183 | 1514 | 807 | 512 | 230 | 2638 | 4317 |
| | **Guarantee commitment** | 18694 | 18982 | 20565 | 19481 | 18279 | 16314 | 15301 | 13770 | 14275 | 15280 |

* Projects / Progrms / Schemes & Other Subsidy

**Source:** *Audit Report (Commercial) for various years*

## 5.5. Power Sector[53]:

### Status of Power Sector Reforms[54]

Andhra Pradesh Electricity Regulatory Commission (APERC) with three members, including a Chairman appointed by the State Government was formed in March 1999 under the provisions of the Andhra Pradesh Electricity Reform Act (APER Act) to act as a regulator of the electricity sector in the State and with the objective of rationalization of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licenses. The audit of accounts of the Commission has been entrusted to the CAG under Section 104 (2) of the Electricity Act, 2003. The Commission had finalised its accounts upto the year 2005-06. During 2010-11,APERC issued 36 orders on the issues other than tariff.

In pursuance of the decision taken at the Chief Ministers' conference on Power Sector Reforms, a Memorandum of Understanding (MoU) was signed on 09 March 2001 between the Ministry of Power, Government of India (GoI) and the Department of Energy, Government of Andhra Pradesh (GoAP) as a joint commitment for implementation of a reform programme in the power sector with identified milestones.

### Power Sector: A Major Absorber of State Flow of Funds

In 2007-08, while about 86 percent of total paid up capital of all working and statutory companies channeled through the state government source, of which about 63 was absorbed by power sector and distributed among the APGENCO, AP TRANSCO and Central Power Distribution companies to about 50

[53]The A P Power Sector Restructuring Programme (APPSRP) is being implemented parallel to the structural and fiscal reform programme: AP Economic Restructuring Project (APERP). Both the Bank and the Government of Andhra Pradesh (GoAP) considered the reform in the power sector as the single most important aspect of structural and fiscal reform in the state. Consequent to the enactment of the reform Act the AP Electricity Regulatory Commission was set up. Initially APSEB was bifurcated into power Generation Corporation (APGENCO) and Transmission Corporation (APTRANSCO). As a next step power distribution was separated from APTRANSCO and four distribution companies (DISCOM) were set up. For the present all these companies are under the government ownership.See M. Thimma Reddy (2000), 'Development in the Power Sector in Andhra Pradesh',paper presented on 'The Reform Process and Regulatory Commissions in the Electricity Sector: Developments in Different States of India - Event on the Power Sector Reforms' organized by Prayas and Focus on the Global South, December, Mumbai, India

[54] This is an extract from *Report No. 4 Of 2010-11 (Commercial), CAG, Government of Andhra Pradesh.*

percent. In 2011-12 the share of the government declined to 77 percent at aggregate level and consequently to power sector in spite of which its share remained high at 54 percent with more concentration on APGENCO followed by AP TRANSCO. Of the AP state's share in total paid up capital power sector absorbs nearly 74 percent and its share has come down to nearly 71 percent in 2011-12.While there was a decline in the government's share in paid up capital during in 2011-12, its share in the subsidies/ grants has increased from 58 percent in 2007-08 to 82 percent in 2011-12. However, its share is very high in both the periods. Most of the power corporations started getting net profits (also accumulated profits) and their rate of return on capital employed has increased from 6 percent in 2007-08 to 12 percent in 2011-12. Their turnover has doubled from Rs. 18289 crores in 2007-08 to Rs 37218 crores in 2011-12.

The main reason for this improvement in the power sector is the financial support solely by the state government in the form of paid up capital as well as subsidies and the reforms taken up in this sector. As the state government on one hand pursuing the revenue augmentation measures, both tax and non-tax, need to pay attention towards getting enough dividends on its investments particularly from working and profit making SLPEs.

**5.6. Sum Up and Suggestions**

The state government alone is the major stakeholder in the SLPEs. The reforms with respect to SLPEs were on a fast tract during first and second phase of reform period. The same tempo was not shown regarding winding up of certain identified nonworking companies. The nature of SLPEs are commercial as well as social welfare, the measures which balance the both are identified so that enough returns (because they are commercial in nature) are achieved and a portion of which in turn may be channelized for social wellbeing. This requires introduction of dividend policy, effective application of resources to gain enough returns and examine the commercial viability of State public enterprises.

## Chapter 6

## State Fiscal Transfers to Local Bodies– Andhra Pradesh Experience

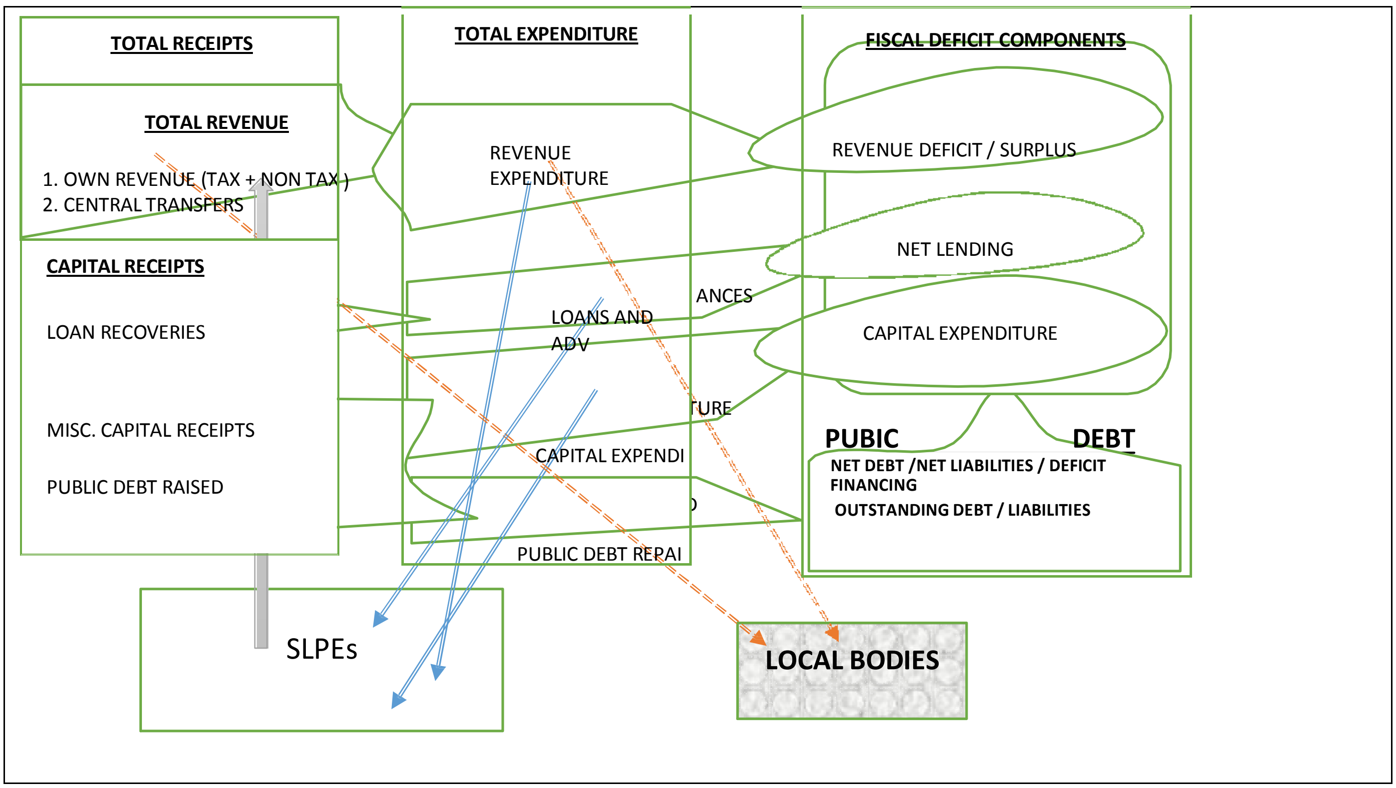
### Summary of Findings

- AP remains one of the 'decentralization deficit' states in the country.
- On devolution index also AP is falling behind all the South Indian States.
- The functions safeguarded in the eleventh schedule of the Constitution are not fully in the PRIs zone to plan and execute schemes at the grassroots level.
- Most of the recommendations of the first and second SFC were not approved by the government.
- The strengthening of State Finance Commissions is essential to guarantee the allocation of resources to local bodies, keeping in view their developmental role for the purpose of inclusive growth.
- It is still long way to go in Andhra Pradesh to accomplish that PRIs are made genuine institutions local self govt. for efficient service delivery.
- However, regarding JNNURM, in spite of certain impediments with regard to land acquisition, encroachments, multiple utilities, court litigation etc which have either halted or slowed down the implementation of the projects, the procedures adopted for execution of the JNNURM Projects by the state as well as the Mission-Cities are well in order.

# Chapter 6

## Fiscal Transfers to Local Bodies – Andhra Pradesh Experience

Fig. 6.0: Roadmap - Fiscal Transfers to Local Bodies




### 6.1. Introduction

With the enactment of 73rd and 74th amendments to the constitution, to empower the local self-governing institutions - Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs) - to ensure a more participative governance structure, the government of Andhra Pradesh enacted the AP Panchayat Raj (APPR) Act in 1994. AP Municipal Corporation act 1994 was enacted to set up municipal corporations in the state. The Municipalities are, however, governed by the Andhra Pradesh

Municipalities Act, 1965.[55] Further, the Eleventh Schedule of the 73rd Constitutional Amendment Act, 1992 and Twelfth Schedule of the 74th Constitutional Amendment Act listed 29 subjects and 18 subjects respectively for the devolution to strengthen respective local bodies. In Andhra Pradesh, while all the functions, except Fire Services, were devolved to the ULBs[56] in the state, the same has not happened in the case of PRIs.

In view of the importance of fiscal transfer to local bodies, the present paper attempts to understand the status of fiscal transfers to local bodies in the State of Andhra Pradesh. The paper is organized into five sections besides introduction and concluding sections. The section two gives a brief sketch and finances of both urban and rural bodies. Section three section discusses about the status of devolution funds, function and functionaries (3 Fs) in Andhra Pradesh. Section four focuses on PRIs and its role in Centrally Sponsored Schemes (CSS) in several and key flagship programmes in particular. Section five analyses status of local finances in Andhra Pradesh, in particular the constitution of State Finance Commission (SFCs) and their recommendations. A brief note on JnNURM is given in section six. Section seven deals with conclusions. The paper primarily based on secondary information besides some data on primary data is presented as well.

[55] In Andhra Pradesh, the urban local bodies, particularly, municipalities in the state are governed by the Andhra Pradesh Municipalities Act, 1965 (APM Act). Until the enactment of the Andhra Pradesh Municipalities Act in 1965, there was no uniform law governing municipalities in the state. There were two Acts governing the municipal administration namely, the Andhra Pradesh (Andhra Area) District Municipalities Act, 1920 and Andhra Pradesh (Telangana Region) District Municipalities Act, 1956. The historical factors that separated the two regions were basically responsible for this. The APM Act was amended several times during the last three decades. There are two Acts that govern the municipal corporations. The earlier one is the Hyderabad Municipal Corporations Act, 1955 (HMC Act) which governs the Hyderabad, Visakhapatnam and Vijayawada Corporations. In 1994, another Act i.e., Andhra Pradesh Municipal Corporations Act (APMC Act) was passed by the legislature which governs the rest of the municipal corporations in the state. This act came into effect in July 1994 and incorporates the provisions of the 74th Constitution Amendment Act 1992 and all the provisions in the HMC Act, 1955, were construed as forming part of this Act.

[56] Government of Andhra Pradesh (2012): Audit Report (State Finances) for the year ended 31 March 2012.

### 6.2. Financial Resources of Local Bodies: Aggregate Trends

The financial resources of the ULBs comprise of Own Tax Revenue[57], Non-tax Revenue[58], Assigned Revenues[59], Revenue Grants[60] and Reimbursements[61]. Similarly the revenue composition of PRIs includes own and assigned revenues, grants from the Centre and states etc. However, the income of these PRIs is so meagre and inadequate and not in a position to provide even basic minimum facilities, leave alone taking up developmental works[62].

The quantum of assistance provided to these local bodies by the state government by way of grants and loans. In 2002-03the assistance to rural local bodies was 11 percent of the revenue expenditure of the state government which declined to nearly 9 percent in 2004-05. However With effect from 1 April 2005, the salaries to P.R teachers were being paid through Treasuries by classifying the expenditure under regular detailed head *010 - salaries* hence the sharp fall in assistance over the previous year. As far as the transfers to ULBs are concerned the proportion of transfers increased only recently (Table 6.1).

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[57] Property tax i.e., tax on land and buildings, service charges from Central Government properties, tax on animals etc. The property tax includes a General Tax, Water Tax, Drainage Tax, Lighting Tax and Conservancy Tax.

[58] Fees and User Charges, Sale and Hire Charges lease of land and buildings and lease of rights

[59] 95 percent of Surcharge on stamp duty, 90 percent of entertainment tax, and 95 percent of profession tax etc.

[60]Grants from the state and central governments including plan non-plan and Finance Commission grants etc.

[61] This includes compensation in lieu of abolition of Octroi and toll tax, motor vehicles tax compensation, per capita grant and other miscellaneous items.

[62] N. Sreedevi (2007): Panchayat Raj Finances in Andhra Pradesh: A Macro View, The Icfai Journal of Public Administration, Vol.3, no.4, October, The Icfai University Press.

Table 6.1: Financial Assistance to Local Bodies (Rs. Cr)

| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Zilla Parishads and Other Panchayat Raj Institutions | 2895.6 | 2895.3 | 2749.8 | **842.2**# | 1309.8 | 920.8 | 2503.0 | 1867.0 | 1745.0 | 3023.0 |
| 2 | Municipal Corporations and Municipalities | 509.3 | 298.1 | 644.0 | 465.0 | 233.4 | 2699.3 | 4105.0 | 3142.0 | 3671.0 | 3361.0 |
| 3 | Total (1+2) | 3405.0 | 3193.3 | 3393.8 | 1307.1 | 1543.3 | 3620.1 | 6608.0 | 5009.0 | 5416.0 | 6384.0 |
| | **Of which Compensation & Assignments To Local Bodies & P.R.I *** | 262.4 | 279.9 | 226.6 | 225.4 | 244.8 | 248.8 | 312.7 | 86.4 | 165.6 | 215.0 |
| | Revenue Expenditure | 26056.9 | 29830.1 | 31307.3 | 34915.3 | 41438.4 | 53983.6 | 61854.2 | 63447.9 | 78534.3 | 90415.4 |
| | | As % of Revenue Expenditure | | | | | | | | | |
| 1 | Zilla Parishads and Other P.R.I.s | 11.1 | 9.7 | 8.8 | 2.4# | 3.2 | 1.7 | 4.0 | 2.9 | 2.2 | 3.3 |
| 2 | Municipal Corporations and Municipalities | 2.0 | 1.0 | 2.1 | 1.3 | 0.6 | 5.0 | 6.6 | 5.0 | 4.7 | 3.7 |
| 3 | Total (1+2) | 13.1 | 10.7 | 10.8 | 3.7 | 3.7 | 6.7 | 10.7 | 7.9 | 6.9 | 7.1 |
| | **Of which Compensation & Assignments To Local Bodies & P.R.I.s*** | 1.0 | 0.9 | 0.7 | 0.6 | 0.6 | 0.5 | 0.5 | 0.1 | 0.2 | 0.2 |
| | Revenue Expenditure | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Notes: # With effect from 1 April 2005, the salaries to P.R teachers were being paid through Treasuries by classifying the expenditure under regular detailed head 010: salaries hence the sharp fall in assistance over the previous year.

* Under revenue expenditure of the state government.

Source CAG Reports (CIVIL) various years

Source: for Revenue Expenditure and Compensation & Assignments to Local Bodies & P.R. Institutions, Budget in brief (for various years)

### 6.3. Status of Devolution of Funds, Functions and Functionaries: All India Scenario

It is realized that, decentralization to rural local governments is meaningful only when the panchayats have adequate untied funds to provide public services assigned to them. Assignment of adequate and appropriate revenue sources to rural local governments is extremely important in the Indian context.

The inability to assign potent revenue sources has led to local governments carrying on unfunded mandates and this has resulted in poor service delivery. Inadequate assignments combined with low levels of effort by the rural local governments have led to high levels of transfer dependence and low fiscal autonomy (Govind Rao and Vasanth Rao, 2004).

Article 243G of the Constitution empowers panchayats to function as institutions of self-government for the purposes of preparing plans and implementing schemes for economic development and social justice in their respective areas for various matters, including those listed in the 11th Schedule which is merely illustrative and indicative[63]. Unlike the division of powers and functions enumerated in the Union List and State List, no clear demarcation exists between the state and panchayats. It is for the State legislature to make laws regarding the devolution of powers and functions to the panchayats. Almost all states and union territories claim that they have transferred responsibilities in varying degrees to the panchayats, by enacting laws in conformity with the CAA. However, the functional domain of panchayats pertains only to traditional civic functions in several states.

Another challenge before the state government has been the allocation of activities to the appropriate tier of the panchayat system. Traditionally, the lowest-level panchayat—the village panchayat—has been the most active in almost all states. Generally, the village panchayats carry out major functions, including core functions, whereas intermediate and district panchayats in most states are allotted supervisory functions or act mainly as executing agents for the state government (Jha 2004).

[63] 11th Schedule lists 29 Functions (**Core functions:** Drinking Water; Roads, culverts, bridges, ferries, waterways, and other means of communication; Rural electrification, including distribution of electricity; Health and sanitation, including hospitals, primary health centres, and dispensaries; Maintenance of community assets. **Welfare functions:** Rural housing; Non-conventional energy sources; Poverty alleviation program; Education, including primary and secondary schools; Technical training and vocational education; Adult and informal education; Libraries; Cultural activities; Family welfare; Woman and child development; Social welfare, including welfare of the handicapped and mentally retarded; Welfare of the weaker sections, and in particular, of the Scheduled Castes and Scheduled Tribes; Public distribution system. **Agriculture and allied functions:** Agriculture, including agricultural extension; Land improvement, implementation of land reforms, land consolidation, and soil conservation; Minor irrigation, water management, and watershed development; Animal husbandry, dairying, and poultry; Fisheries; Social forestry and farm forestry; Minor forestry and farm forestry; Minor forest produce; Fuel and fodder; Markets and fairs. **Industries:** Small-scale industries, including food processing industries; Khadi, village, cottage industries) that PRIs are mandated to have control and commensurate resources need to be allocated to discharge these functions.

When the authority and power in respect of certain activity is transferred from the state to the panchayats, the latter should have the prerogative of making 'decisions', in respect of planning and implementation of such activity. In the sphere of devolution of responsibilities to lower levels of governance, some important principles should be kept in view. In the first place, the principle of 'subsidiarity' needs to be given adequate attention. The principle of subsidiarity postulates that any function which can be performed by a lower tier, should be handled by that tier alone and not by any higher tier of PRI. Second, the state government should not unilaterally withdraw responsibilities and power already granted to the panchayat without adequate justification and prior consultation with the latter. Third, responsibilities, authorities and powers granted to the panchayats should be extremely specific, clear and simple in order to be comprehended by the panchayats. Lastly, whenever, functions and responsibilities are transferred to the panchayats, it should be ensured that the necessary funds, functionaries and freedom in decision-making also accompany such transfer (Report of Tenth Five-Year Plan Working Group 2001).

Keeping above the frame work in mind of the Constitutional Amendment Act, the Status of devolution of Functions, Funds and Functionaries has been analysed across major states of India (Table 6.2)

**Table 6.2: Transfer of Subjects and Its Coverage- Activity Mapping in Few Major India States**

| State | Transfer of Subjects through Legislation | Subjects Covered under Activity Mapping |
|---|---|---|
| Andhra Pradesh[64] | 17 Subjects | 9 Subjects |
| Karnataka | 29 Subjects | 29 Subjects |
| Kerala | 26 Subjects | 26 Subjects |
| Bihar | 25 Subjects | 25 Subjects |
| Madhya Pradesh | 23 Subjects | 23 Subjects |

Source: The Ministry of Panchayat Raj, Govt of India (2006).

**Devolution Index for Major States**

Further, a recent survey by the Indian Institute of Public Administration (IIPA 2010) has updated Devolution Index regularly done by National Council for Applied Economic Research (NCEAR) for the years 2006-07, 2007-08 and 2008-09. IIPA's survey constructs an index[65] for all the 23 States including Andhra Pradesh. The four dimensional sub-indices and the composite devolution index for important states presented in Table 6.3 and Fig.6.1.

[64] Latest Position: A Task Force Constituted under the special Chief Secretary for Activity Mapping has prepared detailed formulations. Draft Government orders incorporating activity mapping in accordance with the recommendations of the committee are under the considerations of a Group of Ministers for finalization. After the completion of these discussions departments have been directed to finalise the Government orders for issue.

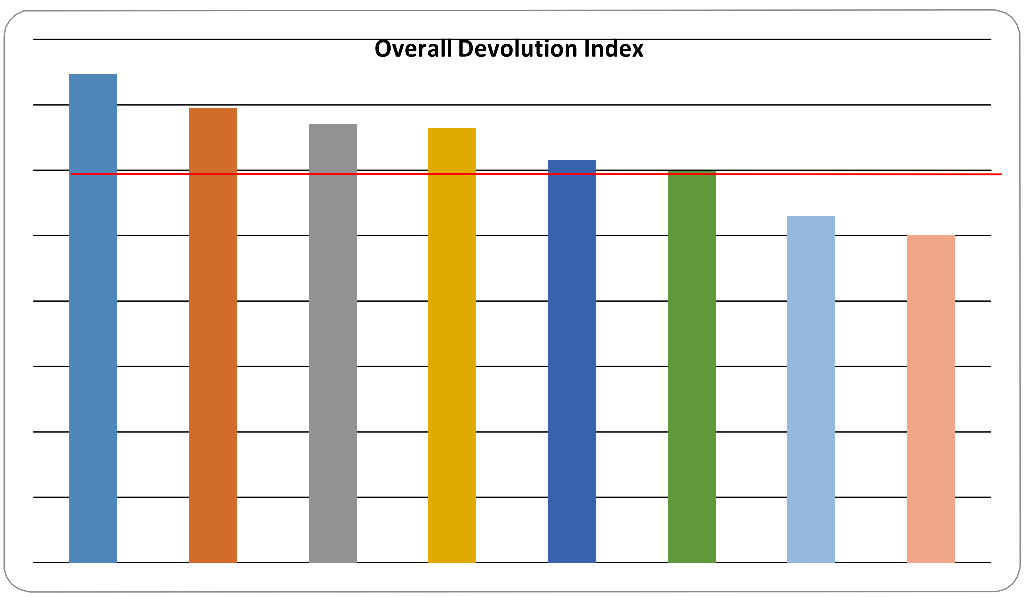
[65] The index covered parameters such as functions, (D2) finances (D3) and functionaries (D4) besides using 'framework' (D1) as the fourth dimension to the existing 3F structure. The 'framework' dimension looked at four mandatory provisions, viz., a) establishing the State Election Commission (SFCs), holding regular panchayat elections, establishing State Finance Commissions (SFCs) at regular intervals and getting up District Planning Committees (DPC) (Alok VN and PK Chaubey).

Table 6.3: Devolution Index (D) and Sub-indices

| Rank | States/UTs | $D_1$ | $D_2$ | $D_3$ | $D_4$ | D |
|---|---|---|---|---|---|---|
| 1 | Kerala | .59 | 80.76 | 69.62 | 61.25 | **74.73** |
| 2 | Karnataka | .74 | 77.95 | 56.11 | 64.08 | **69.45** |
| 3 | Tamil Nadu | .63 | 77.11 | 58.76 | 49.58 | **67.06** |
| 4 | West Bengal | .30 | 70.90 | 61.56 | 46.25 | **66.51** |
| 5 | Maharashtra | .52 | 65.52 | 62.78 | 44.17 | **61.49** |
| 6 | Madhya Pradesh | .44 | 63.52 | 53.50 | 54.17 | **59.78** |
| 7 | Gujarat | .44 | 59.78 | 51.56 | 44.58 | **53.07** |
| 8 | Andhra Pradesh | .74 | 45.01 | 53.77 | 35.83 | **50.10** |
| **National Average** | | **69.37** | **47.76** | **36.65** | **37.40** | **.04** |

Source: I.I.P.A.Survey (Alok and Chaubey, 2010).

Fig:6.1: Overall Devolution Index




It is clear from the above tables and graph, that Kerala is ranked first with value close to 75 followed by Karnataka (69.5), Tamil Nadu (68.9), West Bengal (66.5). The scores of Maharastra and Madhya Pradesh lower around 60 whereas Gujarat and **Andhra Pradesh scores are above 50.**

Dependence on fiscal transfers could reduce fiscal autonomy and if the transfers are conditional and purpose specific, it could reduce the autonomy of local governments to allocate resources according to their own priorities.

It is a general perception that panchayats are financially and technically under equipped to perform even the core functions, much less the welfare functions and other economic functions related to agriculture and industries. Hence, many of the core functions that traditionally belonged to panchayats—drinking water, rural roads, street lighting, sanitation, primary health, and so forth—have not been transferred fully in some states; they are being performed by the line departments of the state Government or the parallel parastatals. As a result, the per capita total expenditure of panchayats remains abysmally low in all states except Andhra Pradesh, Chhattisgarh, Goa, Gujarat, Karnataka, Kerala, Maharashtra, and Tamil Nadu.

The power of panchayats to impose taxes was considered imperative to enshrine in the constitution under article 243H, to impart certainty, continuity, and strength to panchayats.

Devolution of taxes to panchayats can easily be linked with the activities assigned to them, which vary from state to state. From various lists including the list of the 11th Schedule, certain basic functions could be said to be in the exclusive domain of panchayats. Even these essential services require huge funds. To this end, the devolution of taxes to the three tiers of the panchayats needs to be linked to the activity mapping for the devolution of functions and functionaries.

### 6.4. PRIs and Centrally Sponsored Schemes (CSS):

In the recent years centrally sponsored programmes have to come to dominate the panchayat resources in a majority of the states (Table 6.4). Even though they add to the financial resources of the panchayats, these are mostly tied funds and PRIs do not have much discretion over its spending.

The Union Government, through the state governments, provides a majority of panchayat finances in most States. These grant-based transfers from the Planning Commission or Union Ministries are made in the form of centrally sponsored schemes (CSSs). These schemes are quite large in number. Many pertain to the 29 subjects being implemented by different ministries and departments of the union government. The viability of many schemes has been questioned time and again.

Substantial tied funds are being transferred to the panchayats through the centrally sponsored schemes (CSSs) and additional central assistance (ACAs). for long, the CSS transfers were administered and utilized mainly by the line departments. In recent years, the panchayats are being increasingly recognised as implementing institutions for the plan schemes of line ministries. The most important of these is the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), where the panchayats at the district, intermediate and village levels have been given specific responsibilities as principal authorities for planning and implementation.

**Table 6.4: Allocation of Each Scheme that Entails a Role of the Panchayats:** ***(Rs. Crores)***

| Scheme | 2004-05 | | 2008-09 |
|---|---|---|---|
| National Rural Employment Guarantee Scheme/SGRY | 10000 | | 16000 |
| National Rural Health Mission | - | | 11974 |
| Mid Day Meal | 1507 | | 8000 |
| Sarva Shiksha Abhiyan (SSA) | 4754 | | 13000 |
| Pradhan Mantri Gram Sadak Yojana | 2468 | | 7530 |
| Accelerated Rural Drinking Water Supply Programme (ARDWSP) | 2900 | | 7300 |
| Integrated Child Development Scheme (ICDS) | 1934 | | 5665 |
| Indira Aawas Yojana (IAY) | 2500 | | 5400 |
| Swarnjayanti Gram Swarozgar Yojana (SGSY) | 1000 | | 2150 |
| Rajiv Gandhi Grameen Vidyutikaran Yojana | - | | 5055 |
| Backward Region Grant Fund (BRGF) | - | | 4670 |

Source: IIPA (2009) Draft Joint Memorandum on behalf of Panchayats to the 13th Finance Commission prepared by a Technical Committee of the Ministry of Panchayati Raj, (Chairman: V. Ramachandran)

Since 2004, the allocations to the programmes, entailing the involvement of the panchayats, have shown a substantial growth. It is a good augury that the institutional mechanisms tend to provide centrality to the panchayats in their planning and implementation.

The National Development Council's Empowered Committee on Panchayat Raj issues, comprising several state Ministers of Panchayat Raj and chaired by Mr. Mani Shanker Aiyar, the then Minister of Panchayat Raj, had in 2008 submitted their Report unanimously recommending a host of steps for promoting the centrality of PRIs, that is, inclusive governance for inclusive growth. Three years on, the Planning Commission is till to submit the Report for ratification to the National Development Council. (Mani Shanker Aiyar, ND). It is also mentioned by the Second Administrative Reforms Commission that the schemes taken up under CSS programmes also need to find place in the overall development plan of the panchayat body. While some of the schemes do give a crucial role to the PRIs in their implementation, some bypass them and create separate structures. Even the schemes which allow the participation of Panchayats, often do not give them enough flexibility in decision making. Such flexibility is essential to take care of the local specificities, which strait-jacketed schemes designed from above cannot accommodate. Further, Second ARC (Administrative Reforms Commission) mentions that Parallel bodies created by conditions of CSSs should be would up and merged with standing committees of the PRIs. Some of them may need to have organic linkage with the PRIs. (Second ARC Sixth Report, 2007).

### 6.5. Status of Local Finances: Andhra Pradesh Experience

The *general fund* budget or untied resources for the three tiers of local government derive from two sources: transfers from the state and local revenues. Transfers from the centre have generally been low, sparking demands to the Finance Commission to revise these transfers, with little result (Reddy and Sreedevi, 2004). This reluctance to increase the level of transfers to local governments is partially attributed to the poor revenue-raising of local bodies in AP, which in practice result in their bodies being under-funded. In recent years, partly because of fiscal constraints at the state level, Centrally Sponsored Schemes (CSSs) have come to dominate planned expenditures even in what are traditionally state services such as education, health, and water and sanitation (in 2002/03 58 percent of the planned spending on for elementary education came from the centre). CSSs are also an important source of funding for items that fall within the domain of PRIs (World Bank, 2006:67).

In addition, analysis suggests that tax collection remains low because of both design and implementation issues. Although Gram Panchayats (GPs) have the power to levy taxes on some items, the lack of rules prescribing the maximum and minimum tax rates means there are no incentives for GPs to raise taxes and risk losing voters' support (Sarumathy, nd), and thus prefer to lobby for increased transfers. Additionally, low income levels in villages result in low tax revenue collection, so GPs income is meagre (Reddy and Sreedevi, 2004). This same situation is generated at the Mandal Parishad (MP) and Zilla Parishad (ZP) levels, with the additional constraint that the numbers of items for which the MPs and ZPs can levy taxes is limited.

In practice, therefore, internal revenue mobilization at the Panchayat level is weak, and Panchayats are largely dependent on transfers from the state and central government and have limited discretion regarding expenditure in Andhra Pradesh.

**Establishment of SFCs and the Status of Its Reports:**

As already mentioned above, Panchayats rely more on fiscal transfers from the state governments in the form of shared taxes and grants. State taxes are shared according to the recommendations of the State Finance Commission (SFC). Constitution of the SFC at a regular interval of five years is a mandatory requirement for states. Besides tax sharing, the SFC is assigned the task of reviewing the financial position of panchayats and making recommendations on the assignment of various taxes, duties, tools, fees, and grants in-aid to be given to panchayats from the consolidates fund of the states (Alok, 2008).

The First State Finance Commission in AP was constituted in 1995, which recommended that 39.24 percent of the States revenue (both tax and non-tax) should be devolved to Local Bodies at the ratio of 70% to PRIs and 30% to ULBs, respectively. This report recommended that provisions related to percentage of devolution may be incorporated in the Andhra Pradesh Panchayati Raj Act. The SFC recommended categorization of Panchayats as advanced, ordinary, backward and tribal with weightage to be suggested by the Planning Department to measure the rate of development.

a) A Panchayat classified as backward gets 1.66 times the amount given to an 'ordinary' Panchayat.

b) A tribal Panchayat gets 2.66 times the amount given to ordinary Panchayat

c) An 'advanced Panchayat gets 0.66 times state amount given to an ordinary Panchayat

It is ascertained that the recommendations of the First SFC regarding sharing of taxes, Duties, Fees and grants to PRIs were not accepted. However, in compliance with the recommendations of the first SFC, the second State Finance Commission (SFC) was set up on 1998. Its recommendations were as follows:

The Second SFC recommended a total additional devolution of Rs.1793.94 crore, which amounted to 10.39 percent of the total tax and non-tax revenues of the State, including the share of Central taxes. Of this amount, 6.76 percent was recommended to go to Rural Bodies and 3.63 percent to Urban Bodies. Regarding the vertical sharing formula between the three levels of Panchayats, the second SFC recommended that Gram Panchayats be given 50 percent, Mandal Parishads 30 percent and Zilla Parishads 20 percent.

**Grants to Panchayats:**

The recommendations of Second SFC regarding grants to PRIs are as follows:

- The Eleventh Finance Commission grant of Rs.152.05 crores for providing Civic Amenities to Gram Panchayats and Municipal Bodies, Data Bank, Maintenance of Accounts etc., might be distributed as per the formula of the SFC.
- Construction of office building for 177 Mandals that did not have office buildings might be taken up and completed in a period of 3 years by allocating Rs.12 crores per annum.
- Provision ought to be made of Rs.2.41 and Rs.2.07 crores respectively per annum as grants for providing toilet and drinking water facilities in schools.
- An amount of Rs.6.50 crores ought to be provided per annum for special repairs to school buildings of PRIs.
- Rs.4.88 crores ought to be provided per annum for maintenance of office buildings of Mandal Parishads, Zilla Parishads and other buildings.
- A grant equivalent to 5 percent of salary ought to be provided to meet the additional expenditure due to pay and DA revision.

The Second SFC recommended that the revenue foregone by the Panchayati Raj Institutions due to abolition of land cess should be given to them as compensation and distributed on population basis. It recommended on the following distribution for transfer of Rs.200 crores to PRIs on account of different State revenues.

| Sl.No. | Name of the Local Body | Rs. in Crores |
|---|---|---:|
| 1 | Zilla Parishad | 40 |
| 2 | Mandal Parishad | 25 |
| 3 | Zilla Parishad | 135 |

There is no information as to whether these recommendations were accepted. According to the figures available on the transfer of funds to Panchayats, it does not seem as if they have been accepted.

**Constitution of Third SFC:**

As per the G.O. Ms.No. 13 (P.R & R.D Dept' Date:16-1-2003) Government of AP has constituted the Third State Finance Commission under the Chairmanship of Prof. D.L.Narayana with a condition that the commission shall make its report available by 15-7-2004 covering a period of five (5) years commencing from 1st April, 2005. The Commission could not submit their report for want of information from PRIs and Municipal Bodies and requested the Govt. for extension of one year period beyond 15-7-2004, but the Govt. have rejected the request of the Commission. As per the G.O.Ms.No:322 (P.R & R.D Dept' dated:8-10-2003), the Government have re-constituted the Third State Finance Commission under the Chairmanship of Prof. B. Satyanarayana with a period of 3 years from the date of commencement of the Commission i.e. up to 28-12-2007. The term of the re-constituted Commission has been extended up to 31-01-2008 as per the G.O.Ms.No:390 (P.R & R.D Dept' dated:23- 12-2009).

The functions of the Commission, among other things, are to suggest the ways and means and the resources to augment the financial position of Local Bodies namely Gram Panchayats, Mandal Praja Parishads, Zilla Praja Parishads, Municipal Councils, Notified Areas and Municipal Corporations in the State.

The report of the Third State Finance Commission covers Rural Local Bodies coming under the Panchayat Raj Department and Urban Local Bodies coming under the Municipal Administration Department.. The recommendations of the Third State Finance Commission have to be examined by a Committee constituted on this and to suggest on various measures to improve the financial position of Local Bodies keeping in view the ways and means of the Government.

As per the G.O.Rt.No:379 (P.R & R.D Dept' dated:10-3-2008), the Government is hereby constituted a Committee with the following Members to examine the report of the Third State Finance Commission and suggest to the Government the various steps to be taken on the recommendations of the Commission.

Minister ( PR) - Chairman; Minister (RD) – Member; Minister ( Home)- Member; Minister ( Revenue) – Member; Minister (Law) - Member; Prl. Secretary(RD) - Member; Minister ( MA & UD) - Member; Minister (Finance) - Member; Prl. Secretary (Finance) – Member; Prl. Secretary(RD) - Member; Prl. Secretary ( MA & UD) – Member; Spl. C.S. (PR) - Member-Convener.

The above Committee is requested to examine the report of the Third State Finance Commission in detail and suggest various steps to be taken by the Government on the recommendations of the Commission within 3 months. The latest information is that Committee Report is not made public as the Committee Constituted for the purpose is seized of the matter. The strengthening of State Finance Commissions is essential to ensure the allocation of resources to local bodies, keeping in view their developmental role for the purpose of inclusive growth.[66]

In Andhra Pradesh as compared to other Southern Indian States, the Gram Panchayats income is very meager (Table 6.5). District wise classification of gram panchayats as per income reveals that this dismal picture more glaringly. Out of 21,809 Gram panchayats in AP, a total of 13,455 (61.7 percent) GPs have annual income of between Rs.40,000/- and 1,000,000/-; 13.7 percent of GPs have income between Rs.1,00,000 and Rs.2,00,000; 6.2 percent have between Rs.2,00,000 and Rs.3,00,000; 5.8 percent have between Rs.3,00,000 and Rs.4,00,000; 3.7 percent have between Rs.4,00,000 and below Rs.5,00,000; 4.3 percent have between Rs.5,00,000 and below 10,00,000 and 1.3 percent of GPs have Rs.10,00,000 and below Rs.15,00,000 and lastly 1.7 percent of GPs have above Rs.15,00,000. The income of the GPs mentioned in the table includes income from all sources. One can imagine with such meager sources of income for a majority of the panchayats, what kind of developmental needs of the people can be meaningfully addressed. The income is not sufficient even to attend core functions of the panchayats leave alone large array of functions mentioned in the 11th schedule of the CAA. (See tables below).

[66] RBI (2011): **State Finances : A Study of Budgets of 2010-11, March.**

Table 6.5: District-wise Classification of Gram Panchayats as Per Income in Andhra Pradesh

| Sl.no. | Name of the District | Total Gram panchayats | Upto 40,000 | Above 40,000 below 1,00,000 | Above 1,00,000 below 2,00,000 | Above 2,00,000 below 3,00,000 | Above 3,00,000 below 4,00,000 | Above 4,00,000 below 5,00,000 | Above 5,00,000 below 10,00,000 | Above 10,00,000 below 15,00,000 | Above 15,00,000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *1* | *2* | *3* | *4* | *5* | *6* | *7* | *8* | *9* | *10* | *11* | *12* |
| **1** | Srikakulam | 1101 | 786 | 162 | 23 | 19 | 20 | 21 | 57 | 5 | 8 |
| **2** | Vizianagaram | 928 | 451 | 276 | 126 | 26 | 22 | 7 | 15 | 0 | 5 |
| **3** | Visakhapatnam | 944 | 215 | 88 | 126 | 220 | 170 | 71 | 14 | 22 | 18 |
| **4** | East Godavari | 1012 | 174 | 176 | 131 | 129 | 133 | 112 | 85 | 35 | 37 |
| **5** | West Godavari | 887 | 50 | 105 | 251 | 153 | 91 | 59 | 103 | 46 | 29 |
| **6** | Krishna | 972 | 38 | 165 | 239 | 114 | 97 | 74 | 179 | 25 | 41 |
| **7** | Guntur | 1022 | 71 | 129 | 260 | 203 | 173 | 94 | 68 | 11 | 13 |
| **8** | Prakasam | 1043 | 428 | 364 | 147 | 35 | 11 | 10 | 12 | 8 | 28 |
| **9** | Nellore | 961 | 383 | 371 | 133 | 24 | 11 | 10 | 16 | 7 | 6 |
| **10** | Kadapa | 808 | 345 | 79 | 208 | 76 | 56 | 15 | 11 | 11 | 7 |
| **11** | Kurnool | 898 | 379 | 306 | 77 | 42 | 32 | 13 | 20 | 11 | 18 |
| **12** | Ananthapur | 1001 | 717 | 195 | 18 | 20 | 10 | 8 | 24 | 4 | 5 |
| **13** | Chittoor | 1380 | 760 | 367 | 125 | 42 | 21 | 11 | 29 | 10 | 15 |
| **14** | Karimnagar | 1194 | 446 | 269 | 153 | 116 | 74 | 90 | 26 | 8 | 12 |
| **15** | Adilabad | 866 | 701 | 33 | 29 | 28 | 42 | 17 | 12 | 4 | 0 |
| **16** | Khammam | 770 | 172 | 157 | 184 | 108 | 59 | 40 | 36 | 5 | 9 |
| **17** | Warangal | 1014 | 88 | 255 | 249 | 120 | 100 | 52 | 96 | 18 | 36 |
| **18** | Mahabubnagar | 1348 | 1181 | 80 | 62 | 1 | 1 | 2 | 6 | 2 | 13 |
| **19** | Medak | 1059 | 631 | 284 | 73 | 17 | 11 | 5 | 10 | 6 | 22 |
| **20** | Ranga Reddy | 705 | 213 | 65 | 86 | 60 | 78 | 75 | 60 | 38 | 30 |
| **21** | Nalgonda | 1178 | 487 | 440 | 123 | 46 | 21 | 8 | 33 | 5 | 15 |
| **22** | Nizamabad | 718 | 124 | 249 | 168 | 71 | 51 | 15 | 28 | 8 | 4 |
| | **Total:** | **21809** | **8840** | **4615** | **2991** | **1670** | **1284** | **809** | **940** | **289** | **371** |

Source: Commissioner of Panchayati Raj, Government of Andhra Pradesh

We will illustrate below cases of few Panchayats in selected districts of Andhra Pradesh (Table 6.6).

**Table 6.6: Income Details of Two Gram Panchayats in Nalgonda and Ananthapur Districts:**

(*in Rupees*)

| Sl. No | Sources of Income | **Nalgonda District** | | **Ananthapur District** | |
|---|---|---|---|---|---|
| | | Name of the Panchayat: | | Name of the Panchayat: | |
| | | **Patelgudem** | **Tangutoor** | **Boginapally** | **M.Cherlopally** |
| 1 | Stamp duty | 32,000=00 | 50,000=00 | 36,782=00 | 23,400=00 |
| 2 | Population grant | 4,200=00 | 7,500=00 | 2,120=00 | 3,000=00 |
| 3 | President honorarium | 1,200=00 | 1,200=00 | 900=00 | 900=00 |
| 4 | Tax grant | 15,000=00 | 12,000=00 | 8,632=00 | 10,000=00 |
| 5 | Own source (House tax, Tap tax, and land revenue) | 56,000=00 | 39,000=00 | 10,521=00 | 15,000=00 |
| 6 | T.F.C grant | 50,900=00 | 45,900=00 | 42,250=00 | 35,600=00 |
| 7 | S.F.C grant | 16,900=00 | 13,646=00 | 6,911=00 | --- |
| | **Total:** | **1,76,200 =00** | **1,68,346 =00** | **1,08,116 =00** | **87,900 =00** |

It is evident from the above table this village Panchayats income base is extremely meager in Andhra Pradesh. In every panchayat 30 to 40 percent of the village panchayat income is coming from T.F.C (Thirteen Finance Commission) and SFC grants (State Finance Commission) The resources of the village panchayat constitute very less income. Unless the resource base is expanded there is hardly any chance for the development public provisions.

## 6.6. JNNURM - Status of Urban Reforms in Andhra Pradesh

### Implementation of JNNURM

JnNNURM is a unique and massive city-modernization Centrally Sponsored Scheme launched by the Government of India on 3 December 2005. The main objective of the program is to improve the quality of life and infrastructure in the cities. Andhra Pradesh is one of the major states having large coverage of JNNURM. For instance, out of the 124

Urban Local Bodies (ULBs) in the state, 95 are covered under various components of this scheme. The mission cities of Hyderabad, Visakhapatnam, Vijayawada and Tirupati have been covered with the four broad components of Urban Infrastructure Government (UIG), Basic Services to the Urban Poor (BSUP), Urban Infrastructure Development of Small and Medium Towns (UIDSSMT), Integrated Housing and Slum Development Programme (IHSDP).

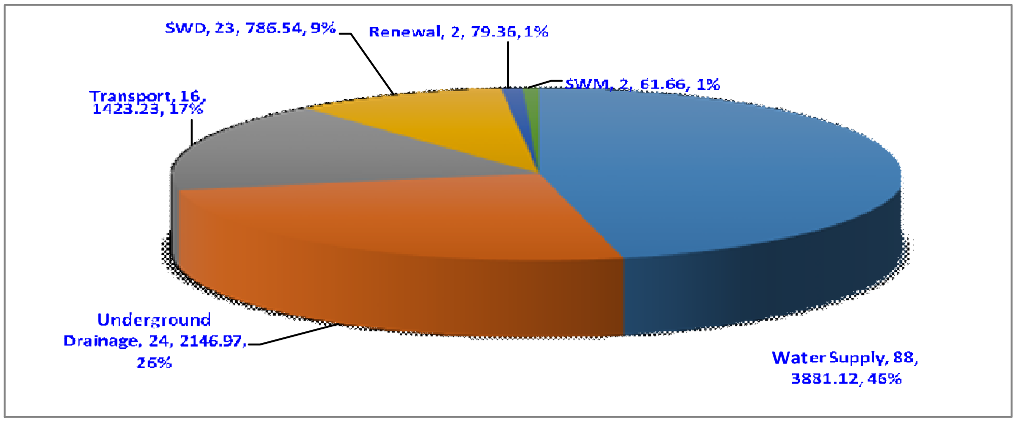
Andhra Pradesh is the second highest state having the sanction of 251 projects with an estimated cost of Rs.9042.98 crores. Though the majority of the projects have been completed under the four components both in the Mission-Cities and non- Mission-Cities quite a good number of the sanctioned projects are in the pipe line at various stages. Overall, the performance of Andhra Pradesh in the implementation of JNNURM Projects is well above the national average performance. In fact, it is not only one of the best among the major states with regard to UIG component but also has recorded higher than the national average progress. Similarly, Andhra Pradesh has exceeded the national average in both the allocation and utilization of the funds for the four components of JNNURM.

Both the Mission Cities and Non-Mission Cities have developed varied types of infrastructure facilities, to improve the living conditions of the people like laying of roads, construction of parks, flyovers and foot bridges, sanitation and drainage facilties, community halls, buses etc. The success in the clearance of the projects and allocation of funds have become feasible as the government was able to initiate the urban reforms successfully. The urban reforms, the prerequisite to get JNNURM in Andhra Pradesh are given below. The reforms are of two types – mandatory and optional. The urban reforms agenda which has to be undertaken at the state and city level are given below (Table 6.7).

Table 6.7: Urban Reforms Agenda' under JNNURM

| Mandatory reforms |
|---|
| e-Governance |
| Municipal Accounting |
| Property Tax |
| Provision of Basic Services to Urban Poor |
| User Charges |
| Internal Earmarking of Funds for Services to Urban Poor |
| Public Disclosure Law |
| Repeal of Urban Land Ceiling & Regulation Act (ULCRA) |
| Implementation of the 74th Constitutional Amendment and Integration of City Planning and Delivery Functions |
| Rent Control Reform |
| **Optional Reforms** |
| Introduction of Computerized Process of Registration of Land and Property |
| Administrative Reforms |
| Encouraging Public Private Partnership |
| Revision of Bye laws to Make Rainwater Harvesting Mandatory, Revision of building byelaws to streamline the approval process , Revision of building byelaws to make rainwater harvesting mandatory in all buildings to come up in future and for adoption of water conservation measures |
| Reuse of Waste water / recycled water |
| Structural Reforms |
| Revision of Building Bylaws to Streamline the Approval Process-Optional Reform |
| Implementation of The 74th Constitutional Amendment |
| Simplification of Legal and Procedural Framework for Conversion of Agricultural Land to Non-Agricultural Purposes |
| Land for Poor |
| Introduction of Land Title Certification System |
| Earmarking at least 20-25 per cent of developed land in all housing projects (both public and private agencies) for EWS / LIG category with a s system of cross subsidization |
| Introduction of property title certification system in ULBs |

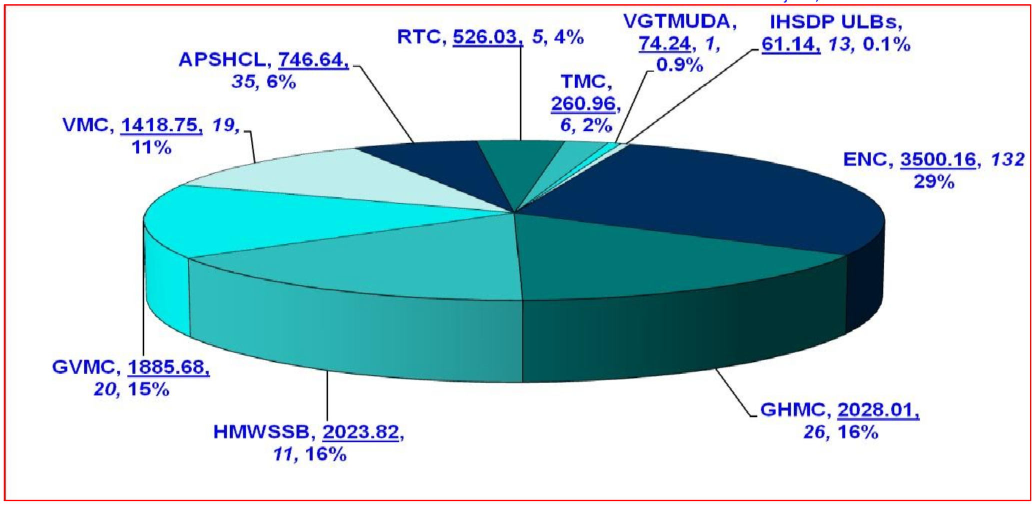
Fig. 6.2: Sector-wise Sanction: UI&G and UIDSSMT Rs. crore




81% of UI&G and UIDSSMT project sanction (Rs. 6313 crore) pertain to WS, UGD, and SWD sectors

*Fig. 6.3: Jn*NURM: Agency-wise Sanction **Rs. crore**

Agency, Project Cost, No. of Projects, Share of sanction



**Status of Reforms:**

**Reforms at State Level**

Out of 17 state reforms, 15 have been completed already. Another reform - rent control has been under legislative process. The implementation of mandatory state level reforms in Andhra Pradesh can be considered as above national average. With regard to the transfer of 18 functions listed under the XII Schedule of the Constitution, 17 have already been transferred. The other one being fire services is not transferred as it has rural and urban coverage. Some reforms at the state and UBL level are at different stages as presented below.

In respect of the four mission cities (Hyderabad, Visakhapatnam, Vijayawada and Tirupathi), where the Urban Development Authorities were set up, the Master Plan under Town Planning rests with the Urban Development Authorities and not with the ULBs. As this subject cannot be fully transferred as it stands, an amendment to the Andhra Pradesh Urban Areas Development Act and the Hyderabad Metropolitan Water Supply and Sewerage Act were passed in August 2007 associating elected ULBs with the functioning of UDAs and HMWSSB. However, in the six test checked water supply and sewerage projects with HMWSSB, there was no evidence of the ULB's active involvement in preparation of Master plan and its implementation. Similarly, though the functions have been transferred, the present status relating to some of these functions is given below:

| Function | Status |
|---|---|
| **Planning for economic and social development** | This involved constituting District Planning Committees (DPCs) in all the districts, and the constitution of a Metropolitan Planning Committee (MPC) for Hyderabad.<br>DPCs had been constituted in all the districts (except for Hyderabad). As regards the MPC for Hyderabad Metropolitan Area, Rules for formation of the MPC were issued only in January 2009. Further, the MPC for Hyderabad Metropolitan Area was yet to be constituted as of June 2012. |
| **Roads and bridges** | In the cities where UDAs are functioning, this function is being discharged by the UDAs as well as ULBs. |
| **Water supply for domes** | In respect of Hyderabad UA, this function is vested with HMWSSB and not GHMC |
| **Urban forestry** | In the cities where UDAs were functioning, this function is being discharged by both UDAs and ULBs |

With regard to the reforms in rent control, as against the timeline of 2007-08 stipulated in the tripartite MoA, the Andhra Pradesh Rent Control Bill, 2011 was passed by the State Legislature in December 2011. However, assent of the President of India is awaited since December 2012. As regards rationalisation of stamp duty, the State Government issued orders in July 2010, reducing the existing rates of stamp duty from 7 *per cent* to 5 *per cent* effective from 1August 2010.

The requisite information on issues like disclosure of Council resolutions, collection of taxes, defaulters' list, financial statements, list of welfare programmes under implementation, etc., was available on the respective ULB Websites. However, information relating to identification of beneficiaries under different subsidy programmes and welfare programmes, list of plan and non-plan grants received from the Government, and annual accounts were not available on the ULB websites. Regarding the constitution of Ward Committees and Area Sabhas an amendment was made in April 2008 to the Hyderabad Municipal Corporation Act. However, Rules for the Ward Committees were framed only in February 2010.

- In GHMC (Hyderabad), Ward Committees and Area Sabhas have been constituted.
- In Visakhapatnam (GVMC), although Ward Committees were constituted, Area Sabhas were yet to be constituted.
- In the other ULBs in the State, these Committees/Sabhas were yet to be constituted as of June 2012.

Government stated that Ward Committees/Area Sabhas could not be constituted in other ULBs, due to absence of elected bodies, since elections were not held.

Table 6.8: **Reforms at ULB Level**

Reforms Undertaken at ULB Level

| **Reform** | **Status of Implementation** |
|---|---|
| **E-Governance set up** | The modules for major service delivery items relating to registration of births and deaths, payment of property tax and other service taxes have been developed, facilitating public to access through outsourced agencies like e-Seva centres. |
| **Shift to Accrual based Double Entry Accounting** | The ULBs of four mission cities generally indicated to audit that accounts were being prepared on accrual based double entry system and that, the units as well as the SLNA had reported successful achievement of this reform to GoI. However, Audit scrutiny revealed that only GHMC had actually prepared accounts on accrual based double entry system. As seen from the latest accounts of the other test checked ULBs (GVMC, VMC and TMC), accrual based double entry system was not being followed. The reporting of successful achievement of this reform by the ULBs and the SLNA to GoI, was thus, incorrect.<br><br>The day-to-day transactions were being computerised in the new system. |
| **Preparation of GIS database by the ULB** | The ULBs committed to implement this reform within the first four years of the mission period. However, none of the test checked ULBs has so far succeeded in achieving this reform.<br><br>Preparation of the GIS survey/database was still under progress in Hyderabad, Visakhapatnam and Vijayawada, while in the case of Tirupati, work has not been initiated.<br><br>Preparation of GIS was completed in GVMC and confirmed that it was in progress in GHMC, VMC and TMC. |
| **Property Tax (85 % coverage and 90 % collection efficiency)** | All the ULBs reported that they had achieved coverage of property tax of more than 80 *per cent (GHMC 85 per cent; GVMC 90 per cent; VMC 89 per cent; TMC 100 per cent).* However, in the absence of a GIS database, correctness of the information could not be ensured.<br><br>Regarding property tax collections, except VMC (97 *per cent*), the other three ULBs could not succeed in collection efficiency of more than 90 *per cent* as per the Demand Collection Balance (DCB) Register. |
| **100 *per cent* cost recovery (Water supply & Solid Waste)** | Out of four mission cities, only GVMC had achieved the 100 *per cent* cost recovery towards water supply.<br><br>As regards cost recovery towards solid waste, none of the ULBs had achieved this reform. |
| **Internal Ear-marking of funds for Basic Services to Urban Poor** | all the mission cities had earmarked stipulated percentage (40 *per cent*) of funds in the budget towards services for urban poor |

In spite of certain impediments with regard to land acquisition, encroachments, multiple utilities, court litigation etc which have either halted or slowed down the implementation of the projects, the procedures adopted for execution of the JNNURM Projects by the state as well as the Mission-Cities are well in order. This may be the reason for the successful implementation of JNNURM Projects notwithstanding the high degree of centralization for their execution.

### 6.7. Sum Up and Suggestions

AP remains one of the 'decentralization deficit' states in the country. Although on devolution index it value is 50 but it is lagging behind all the South Indian States. Further, the picture is not encouraging when one observes field level situation. Genuine devolution of 3 Fs has still not taken place. Most of the recommendations of the first and second SFC were not accepted by the government. The strengthening of State Finance Commissions is essential to ensure the allocation of resources to local bodies, keeping in view their developmental role for the purpose of inclusive growth. Although DPC have been constituted, their functioning as agents for the preparation of comprehensive districts plans may be said to be poor and lack luster. Panchayats are continued to be bypassed by Community Based Organisations and line departments (Reddy, 2003). The functions enshrined in the eleventh schedule of the constitution are not fully entrusted to PRIs to plan and implement schemes at the grassroots level. As compared to other South Indian States the income base of Village Panchayats is very meager. Although Centrality of PRIs institutions in the implementation of CSS is recognized but in AP, still CSS are mostly implemented by line departments. This goes against the spirit of constitutional Amendment Act. Also, there should be a separate Panchayat line in the state budget. It is still long way to go in Andhra Pradesh to realize that PRIs are made genuine institutions local self govt. for efficient service delivery. However, regarding JNNURM, in spite of certain impediments with regard to land acquisition, encroachments, multiple utilities, court litigation etc which have either halted or slowed down the implementation of the projects, the procedures adopted for execution of the JNNURM Projects by the state as well as the Mission-Cities are well in order.

# Chapter 7

# Summary and Conclusions

## 7.1. Introduction

An encounter with fiscal imbalances in 1980s and 1990s, more severely in the 1990s, was not exclusive phenomenon of Andhra Pradesh but a challenge to the centre as well as the other states. Abnormal deterioration in revenue and fiscal deficits subsequently led to the debt conundrum. Observing this, though Andhra Pradesh Government had initiated a number of reform measures in mid 1990s - one of the pioneering States to earnestly initiate economic and fiscal reforms at the States' level in the country – speeded up the process in cooperation with RBI and the central government. In the course of action, augmentation of tax (execution of VAT and strengthening the revenue earning departments by providing infrastructure facilities) non-tax revenues (through appropriate user charges, cost recovery from social and economic services and reforming of State Level Public Enterprises (SLPEs)) has been given top priority. Fiscal discipline - oriented measures, for instance, the rule-based policy measures such as MTFF during the first half of the study period and FRBM Act in the second half, and DSS were considered crucial particularly for expenditure and debt managements.

With the effect of reforms, the state government started experiencing the improvement in the fiscal state of affairs and transit to turn-around position. The amount of revenue receipts, particularly own tax revenue, in total budgetary receipts and also in GSDP increased consistently. The buoyant own tax revenue was complemented by the high devolution of central transfers based on the recommendations of the Twelfth Finance Commission. On the other hand, expenditures were reduced. With the combined effect, the state achieved the revenue surplus situation in 2006-07 for the first time after 13 years when the state government had revenue surplus situation only in 1993-94 in the entire decade of 1990s. But this situation has not continued in subsequent years. With the overall macroeconomic deceleration and the implementation of the Central/State(s) Pay Commissions recommendations during 2008-09 and 2009-10, State finances suffered a setback but needed to revert to a fiscal consolidation path. Thus, the fiscal scenario of Andhra Pradesh showed varying trends during the study period.

### 7.2. Trends in Receipts

The growth in the receipts of Andhra Pradesh state government show varying trends in the study period – consistent upward movement in the revenue receipts and reaching the higher plane during the first half (Tenth Plan Period) while subjected to fluctuations in the second half (Eleventh Plan Period) even as continuing at the higher level. During the Tenth Plan Period, The proportion of revenue receipts in GSDP and also in total budgetary receipts increased consistently due to the higher growth rate in own tax, non-tax revenue, share in central taxes and the state income (GSDP).

The overall macroeconomic slowdown and the implementation of the Central Sixth /State(s) Pay Commissions during 2008-09 and 2009-10 acted as an impediment to the State finances during the Eleventh Plan Period. There was a fall in the growth rate of own tax revenue and also share in central taxes in the first three years of the Eleventh Plan Period (2007-10) – i.e., even before the year of economic slowdown. Almost all sources of own tax revenue showed a declining growth rates during 2008-10 and in some cases it was negative as well. Fluctuations in the growth rates of grants-in-aid as well as in own non-tax revenue. Huge increase in debt and non-debt components of capital receipts in 2007-08. Besides the above there was relatively lower economic growth rate.

During study period 2002-12, state excise was the only source of revenue that was more buoyant. While other tax revenue sources are just buoyant MVT is not buoyant.

Continuous emphasis on fiscal prudence, strive to augment tax revenues by systematically strengthening the revenue earning departments, simplifying rules and procedures, improving staff management, training and other facilities is highly needed. Measures in the direction of minimization of the irregularities that often pointed out by CAG strengthen the administration and it's functioning besides confiscating the existing blockages. A thorough study on tax exemptions/concessions is also needed. These measures may enhance revenue capacity of the state taxes. The issue of user charges is more valid only when the good quality in the delivery of services is maintained. However, the state government's investments in SLPEs, which are mostly borrowings, are receiving lower rate of returns than the interest rate paid on the borrowings. Regular revision of royalty rates by the central government also enhances the revenue resources of the state government.

### 7.3. Trends in Expenditures

In carrying out the fiscal crisis, the state government had lessened interest payment burden and debt repayment burden with the effect of DSS, reduced its expenditure abiding FRBM norms and thus changed the relative shares / composition of total budgetary expenditure. Besides the above, reforms in the receipts front, particularly revenue receipts, variations in the economic growth rates also influenced the expenditure patterns and trends.

Revenue expenditure constitutes a major proportion of either plan or non-plan expenditure (either in developmental or non-developmental) in total budgetary expenditure or in GSDP followed by capital account (under plan) and loans and advances (under non-plan) accounts. During the entire Eleventh Five Year Plan, both revenue and capital expenditures shows an increasing trend over previous plan period, while loans and advances and capital disbursements declined. On the whole, the relative shares of components of total budgetary expenditure show consistency during the Tenth Plan Period and variations in the Eleventh Plan Period remaining in the higher plane. The inconsistency in the expenditure trends might act as an obstacle either in framing or achieving the set objectives. Besides this, the Twelfth Plan Period begins with the bulk repayment obligations which were raised at the time of DSS would show an impact on the trends and patterns of revenue and capital expenditures.

Within the total expenditure, while non-plan expenditure / non-developmental expenditure shows more or less consistent decline, plan expenditure /development expenditure fluctuated throughout the study period more so in the second half. Of the developmental expenditure, in spite of the fluctuations, the trends in social services show an increase while economic services were affected. Within the social services the tendency was towards social welfare schemes rather than social infrastructure such as education and health. While urban development and housing snatched away the priority, water supply and sanitation is not the extent required. Expenditure orientation towards social welfare schemes is not a new trend, but rooted since 1980s when the objective of the Sixth Five Year Plan shifted from the economic to social development. Hence, the stimulus packages towards social welfare schemes in the crisis period to withstand the economic slowdown may be relevant for the moment. But it is necessary to focus the expenditure on the core sectors of social / human development.

### 7.4 Deficits and Debt

The fiscal performance of the State Governments reflects in the key deficit indicators, *viz.,* revenue deficit (RD), gross fiscal deficit (GFD) and primary deficit (PD). While the deficit denotes the gap between the receipts and expenditure, the nature of deficit discloses the foresight of the government in fiscal management.

The effect of the reforms on the deficit indicators is very clear. The effect of MTFF, DSS and other fiscal measures played an important role in overcoming the revenue deficit situation during 2002-05 while the implementation of VAT and FRBM act further cut down the revenue deficit and brought the surplus situation under revenue account in the middle of the decade. While shrink of revenue deficit indicated the reduced dependency of revenue expenditure on borrowings meant for developmental activities, the revenue surplus situation furthered the capital expenditure thus bring down the borrowings to that extent. It resulted into not only lowering of fiscal deficit, but also burden of debt and debt servicing charges. In short it is a shift from vicious circle of fiscal imbalance to virtuous circle sound finance. During the Eleventh Plan Period, although there was some deterioration in key fiscal indicators at the State level in 2007-10, the overall fiscal position of State remained under control.

The outstanding liabilities / GSDP ratio of the state government, with the effect of reform measures and debt swap scheme, showed a declining trend throughout Tenth Plan Period (except in 2003-04) and Eleventh Plan Period. The Debt/GSDP ratio was within the limits of the both former and revised FRBM norms.

**7.5 SLPEs**

The state government alone is the major stakeholder in the SLPEs. The reforms with respect to SLPEs were on a fast tract during first and second phase of reform period. The same tempo was not shown regarding winding up of certain identified nonworking companies. The nature of SLPEs are commercial as well as social welfare, the measures which balance the both are identified so that enough returns (because they are commercial in nature) are achieved and a portion of which in turn may be channelized to smoothen the fluctuations in developmental expenditure . This requires introduction of dividend policy, effective application of resources to gain enough returns. In terms of the Thirteenth FC's recommendations, all States need to draw up a roadmap for closure of non-working State-level public enterprises (SLPEs) by March 2011.

**7.6. Local Bodies**

Though Andhra Pradesh is one of the pioneering states in the reform front, it remains one of the 'decentralization deficit' states in the country. Although on devolution index it's value is 50 but it is lagging behind all the South Indian States. Further, the picture is not encouraging when one observes field level situation. Genuine devolution of 3 Fs has still not taken place. While the Union Finance Commission's recommendations are accepted by the Union government same is not with the case of State Finance Commission in AP as most of the recommendations of the first and second SFC were not accepted by the government. The State Finance Commissions are to be strengthened and ensure the allocation of resources to local bodies, keeping in view their developmental role for the purpose of inclusive growth.

The functions enshrined in the eleventh schedule of the constitution are not fully entrusted to PRIs to plan and implement schemes at the grassroots level. As compared to other South Indian States the income base of Village Panchayats is very meager. Although Centrality of PRIs institutions in the implementation of CSS is recognized but in AP, still CSS are mostly implemented by line departments. This goes against the spirit of constitutional Amendment Act. Also, there should be a separate Panchayat line in the state budget. It is still long way to go in Andhra Pradesh to realize that PRIs are made genuine institutions local self govt. for efficient service delivery.

However, regarding JNNURM, in spite of certain impediments with regard to land acquisition, encroachments, multiple utilities, court litigation etc which have either halted or slowed down the implementation of the projects, the procedures adopted for execution of the JNNURM Projects by the state as well as the Mission-Cities are well in order.

### 7.7. Sum up and Suggestions

In order to ensure sustainable progress towards fiscal consolidation, State needs to explore sources of both tax and non-tax revenues and ensure a pattern of expenditure with quality and efficiency that not only guarantees better growth but also improves public wellbeing by strengthening the administration of both revenue earning and spending departments.

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# Appendices

Table 2.1A: Trends in the Components of State's Own Revenue (%)

| | LR | S&R | Tax on immovable property other than agl land | SE | ST | Total MVT | Taxes & duties on Electri-city | Other Taxes & Duties | Other taxes on income & exp | SOTR | SONTR | SOR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| | As Percentage of GSDP | | | | | | | | | | | |
| 2002-03 | 0.1 | 0.6 | 0.0 | 1.1 | 4.98 | 0.57 | 0.07 | 0.08 | 0.09 | 7.55 | 2.11 | 9.66 |
| 2003-04 | 0.0 | 0.6 | 0.0 | 1.0 | 4.83 | 0.59 | 0.07 | 0.07 | 0.09 | 7.27 | 1.90 | 9.16 |
| 2004-05 | 0.0 | 0.6 | 0.0 | 0.9 | 4.91 | 0.55 | 0.06 | 0.06 | 0.08 | 7.23 | 1.67 | 8.90 |
| 2005-06 | 0.0 | 0.8 | 0.0 | 1.0 | 5.06 | 0.55 | 0.06 | 0.04 | 0.09 | 7.66 | 1.83 | 9.50 |
| 2006-07 | 0.0 | 1.0 | 0.0 | 1.1 | 5.14 | 0.47 | 0.05 | 0.05 | 0.10 | 7.95 | 2.16 | 10.10 |
| 2007-08 | 0.0 | 0.8 | 0.0 | 1.1 | 5.22 | 0.46 | 0.05 | 0.05 | 0.10 | 7.89 | 1.94 | 9.83 |
| 2008-09 | 0.0 | 0.7 | 0.0 | 1.3 | 5.12 | 0.43 | 0.05 | 0.05 | 0.09 | 7.82 | 2.27 | 10.09 |
| 2009-10 | 0.0 | 0.5 | 0.0 | 1.2 | 4.82 | 0.41 | 0.03 | 0.03 | 0.09 | 7.17 | 1.59 | 8.76 |
| 2010-11 | 0.0 | 0.7 | 0.0 | 1.4 | 4.95 | 0.45 | 0.05 | 0.04 | 0.08 | 7.66 | 1.82 | 9.48 |
| 2011-12 | 0.0 | 0.6 | 0.0 | 1.4 | 5.16 | 0.44 | 0.05 | 0.03 | 0.08 | 7.88 | 1.73 | 9.61 |
| | Composition of Own Revenue (%) | | | | | | | | | | | |
| 2002-03 | 0.5 | 6.2 | 0.0 | 11.5 | 51.5 | 5.9 | 0.7 | 0.8 | 1.0 | 78.1 | 21.9 | 100.0 |
| 2003-04 | 0.2 | 6.4 | 0.0 | 11.0 | 52.8 | 6.4 | 0.8 | 0.8 | 1.0 | 79.3 | 20.7 | 100.0 |
| 2004-05 | 0.2 | 6.9 | 0.0 | 10.5 | 55.2 | 6.2 | 0.7 | 0.7 | 0.9 | 81.2 | 18.8 | 100.0 |
| 2005-06 | 0.3 | 8.3 | 0.0 | 11.0 | 53.3 | 5.8 | 0.6 | 0.5 | 0.9 | 80.7 | 19.3 | 100.0 |
| 2006-07 | 0.4 | 9.4 | 0.1 | 11.3 | 50.9 | 4.6 | 0.5 | 0.5 | 1.0 | 78.7 | 21.3 | 100.0 |
| 2007-08 | 0.4 | 8.6 | 0.3 | 11.3 | 53.1 | 4.7 | 0.5 | 0.5 | 1.0 | 80.3 | 19.7 | 100.0 |
| 2008-09 | 0.3 | 6.8 | 0.2 | 13.4 | 50.8 | 4.2 | 0.5 | 0.5 | 0.9 | 77.5 | 22.5 | 100.0 |
| 2009-10 | 0.5 | 6.1 | 0.1 | 13.6 | 55.0 | 4.7 | 0.4 | 0.4 | 1.0 | 81.8 | 18.2 | 100.0 |
| 2010-11 | 0.3 | 6.9 | 0.2 | 14.8 | 52.2 | 4.7 | 0.5 | 0.4 | 0.9 | 80.8 | 19.2 | 100.0 |
| 2011-12 | 0.2 | 6.7 | 0.2 | 14.8 | 53.7 | 4.6 | 0.5 | 0.4 | 0.8 | 82.0 | 18.0 | 100.0 |
| | Year On Year Growth Rate (%) | | | | | | | | | | | |
| 2002-03 | 337.08 | 24.20 | 14.27 | 12.38 | 7.51 | 0.62 | 0.45 | -0.32 | 9.06 | 9.24 | 20.97 | 11.60 |
| 2003-04 | -59.95 | 11.21 | -51.72 | 3.15 | 10.39 | 17.04 | 25.72 | 5.88 | 6.35 | 9.42 | 2.13 | 7.83 |
| 2004-05 | -2.68 | 24.84 | -2.96 | 9.28 | 20.18 | 10.96 | -0.68 | 4.46 | 6.80 | 17.71 | 4.19 | 14.91 |
| 2005-06 | 104.66 | 45.07 | 13.21 | 28.28 | 17.26 | 13.93 | 10.45 | -21.89 | 26.29 | 20.68 | 24.92 | 21.47 |
| 2006-07 | 65.10 | 42.31 | 676.07 | 28.01 | 19.48 | -0.01 | -0.60 | 34.56 | 37.49 | 22.00 | 38.29 | 25.15 |
| 2007-08 | 27.21 | 7.70 | 253.65 | 17.58 | 23.01 | 19.78 | 29.34 | 14.89 | 13.94 | 20.35 | 8.88 | 17.90 |
| 2008-09 | -9.72 | -5.02 | -11.31 | 42.36 | 14.85 | 7.86 | 11.86 | 18.79 | 5.27 | 15.85 | 37.08 | 20.03 |
| 2009-10 | 69.98 | -9.97 | -21.94 | 1.67 | 8.18 | 10.41 | -27.13 | -16.80 | 14.93 | 5.45 | -19.42 | -0.15 |
| 2010-11 | -22.94 | 45.29 | 71.23 | 41.31 | 23.28 | 31.44 | 79.50 | 22.05 | 13.94 | 28.33 | 37.38 | 29.97 |
| 2011-12 | -17.68 | 14.39 | 47.15 | 16.31 | 19.78 | 13.74 | 6.67 | 13.66 | 10.11 | 18.04 | 9.09 | 16.32 |

Note:LR=Land Revenue, S&R= Stamps& Registration Tax on immovable property other than agl land, SE= State Excise, ST= Sales Tax, MVT= Total MVT includes goods & passengers, SOTR= State Own Tax Revenue, SONTR= State Own non-tax revenue, SOR= State Own Revenue (tax + nontax)

Source:

Table 2.2A: Trends in the Components of State's Own Revenue (%)

| | LR | S&R | Tax on immovable property other than agl land | SE | ST | Total MVT | Taxes & duties on Electri-city | Other Taxes & Duties | Other taxes on income & exp | SOTR | SONTR | SOR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| | As Percentage of Total Revenue (%) | | | | | | | | | | | |
| 2002-03 | 0.4 | 4.3 | 0.0 | 8.1 | 36.2 | 4.1 | 0.5 | 0.6 | 0.7 | 54.9 | 15.3 | 70.2 |
| 2003-04 | 0.1 | 4.1 | 0.0 | 7.1 | 34.2 | 4.1 | 0.5 | 0.5 | 0.6 | 51.4 | 13.4 | 64.8 |
| 2004-05 | 0.1 | 4.8 | 0.0 | 7.3 | 38.4 | 4.3 | 0.5 | 0.5 | 0.6 | 56.5 | 13.1 | 69.6 |
| 2005-06 | 0.2 | 5.8 | 0.0 | 7.7 | 37.1 | 4.0 | 0.4 | 0.3 | 0.7 | 56.3 | 13.5 | 69.7 |
| 2006-07 | 0.3 | 6.5 | 0.1 | 7.8 | 35.0 | 3.2 | 0.3 | 0.3 | 0.7 | 54.1 | 14.7 | 68.7 |
| 2007-08 | 0.3 | 5.7 | 0.2 | 7.5 | 35.1 | 3.1 | 0.4 | 0.3 | 0.7 | 53.2 | 13.0 | 66.2 |
| 2008-09 | 0.2 | 4.7 | 0.1 | 9.2 | 34.8 | 2.9 | 0.3 | 0.3 | 0.6 | 53.1 | 15.4 | 68.5 |
| 2009-10 | 0.3 | 4.1 | 0.1 | 9.0 | 36.6 | 3.1 | 0.2 | 0.3 | 0.7 | 54.4 | 12.1 | 66.5 |
| 2010-11 | 0.2 | 4.7 | 0.1 | 10.2 | 36.0 | 3.3 | 0.4 | 0.3 | 0.6 | 55.7 | 13.2 | 69.0 |
| 2011-12 | 0.2 | 4.7 | 0.2 | 10.3 | 37.3 | 3.2 | 0.3 | 0.3 | 0.6 | 57.0 | 12.5 | 69.5 |
| | As Percentage of State Own Tax Revenue (%) | | | | | | | | | | | |
| 2002-03 | 0.7 | 7.9 | 0.0 | 14.7 | 66.0 | 7.5 | 0.9 | 1.0 | 1.3 | 100.0 | | |
| 2003-04 | 0.2 | 8.1 | 0.0 | 13.9 | 66.5 | 8.1 | 1.0 | 1.0 | 1.2 | 100.0 | | |
| 2004-05 | 0.2 | 8.5 | 0.0 | 12.9 | 67.9 | 7.6 | 0.8 | 0.9 | 1.1 | 100.0 | | |
| 2005-06 | 0.4 | 10.3 | 0.0 | 13.7 | 66.0 | 7.2 | 0.8 | 0.6 | 1.2 | 100.0 | | |
| 2006-07 | 0.5 | 12.0 | 0.1 | 14.4 | 64.6 | 5.9 | 0.6 | 0.6 | 1.3 | 100.0 | | |
| 2007-08 | 0.5 | 10.7 | 0.3 | 14.0 | 66.1 | 5.8 | 0.7 | 0.6 | 1.2 | 100.0 | | |
| 2008-09 | 0.4 | 8.8 | 0.2 | 17.2 | 65.5 | 5.4 | 0.7 | 0.6 | 1.1 | 100.0 | | |
| 2009-10 | 0.6 | 7.5 | 0.2 | 16.6 | 67.2 | 5.7 | 0.5 | 0.5 | 1.2 | 100.0 | | |
| 2010-11 | 0.4 | 8.5 | 0.2 | 18.3 | 64.6 | 5.8 | 0.6 | 0.5 | 1.1 | 100.0 | | |
| 2011-12 | 0.3 | 8.2 | 0.3 | 18.0 | 65.5 | 5.6 | 0.6 | 0.4 | 1.0 | 100.0 | | |

Note: LR=Land Revenue, S&R= Stamps& Registration Tax on immovable property other than agl land, SE= State Excise, ST= Sales Tax, MVT= Total MVT includes goods & passengers, SOTR= State Own Tax Revenue, SONTR= State Own non-tax revenue, SOR= State Own Revenue (tax + nontax)

Appendix 3.1A: Fiscal Reforms in Andhra Pradesh during 2002-12

| Year | Fiscal Reforms | Results / Impact |
|---|---|---|
| 2002-03 | ○ Release Draft Budget proposal in the name of Annual Fiscal Framework (AFF) for open discussion and present the Budget for 2002-03 duly reflecting the critical priorities indicated by the people of Andhra Pradesh through their constructive and useful contributions. | ○ Based on the feedback received from within the Government and public at large, the former had modified allocations to several vital departments and also taken a few important policy decisions to give a thrust to agriculture as a growth engine. |
| 2003-04 | ○ As part of the draft performance budget exercise, the state government decided to split the 'draft Budget' for 2003-04 into two parts. The Annual Fiscal Framework 2003-04 focused mainly on the overall fiscal indicators and Sectoral allocations to reflect the developmental priorities of the state government. Then every department presented their own performance report for last year, achievements so far and targets for next year and sought public response to department's strategy, plans, priorities, schemes, programs and performance targets in a transparent budgeting exercise. All departments with similar activities were clubbed into eight groups for easy presentation and eliciting public participation.<br>○ Further the government has set up a Guarantee Redemption Fund with the Reserve Bank of India to which contributions are made on the basis of risk assessment. Guarantee fees collected from the enterprises are also deposited with the Fund.<br>○ The cabinet approved the decision to close/ privatize/ restructure 19 Phase-I enterprises. Seventeen of them have already been privatized/closed. Over 14000 employees have availed the option of Voluntary Retirement Scheme. Social safety net counseling and retraining of around 30 per cent of the employees who have taken VRS has been completed. We have also finalized the Phase II of the reform program and the detailed studies are underway. This enabled the government to finalize One-Time Settlements with the financial institutions, and thereby, reduced its outstanding guarantees.<br>○ We have also commissioned Centre for Good Governance to undertake a State Financial Accountability Assessment and suggest systemic improvements. We have taken up the designing and installation of an Integrated Financial Information System (IFIS) that will link all treasuries, banks, departments, Accountant General and the Reserve Bank with Finance Department. | |

| Year | Fiscal Reforms | Results / Impact |
|---|---|---|
| 2004-5 | ○ Non-salary Budget ceilings under non-plan for most departments without giving any growth to avoid unproductive expenditures.<br>○ improving the administration and efficiency of the tax system by plugging the loopholes in the system to improve the tax compliance without burdening the people of the State with further tax liability<br>○ To address the key issues of greater financial accountability at all levels. Transparency in Budget formulation and execution, simplified accounting and monitoring.<br>○ To strengthen internal and external audit and improving the scrutiny of audit reports at the appropriate levels. Revitalize the State and District level Audit Review Committees to ensure better audit compliance. Simplified procedures for accounting and audit for local bodies will also be further strengthened.<br>○ Introduction of the *Contributory Pension Scheme* for those employees who are recruited on or after 1st September 2004.<br>○ *Debt Swap Scheme* | ○ Decrease in revenue and fiscal deficit.<br>○ Not resorted to WMA from RBI.<br>○ This reduced the interest burden on WMA and overdraft.<br>○ Achieved this even after discharging huge liabilities towards reimbursement of handling charges and market fee for the rice stocks towards Food for Work Programme, DA arrears to Pensioners & interest subsidy to Cooperative agri. loans left unpaid by the earlier Government.<br>○ *Contributory Pension Scheme* controlled the growing pension burden on state finances.<br>○ *Debt Swap Measures* have resulted in sizeable savings in interest burden of the Government. |
| 2005-6 | ○ Implementation of VAT and Reduced registration charges to a uniform rate of 9.5 percent of the market value of the property.<br>○ Fiscal Responsibility and Budget Management Act, (FRBM) 2005. to ensure prudence in fiscal management and fiscal stability through progressive reduction in fiscal deficit and elimination of revenue deficit as well as the conduct of fiscal policy in a Medium Term Fiscal Framework (MTFF)<br>○ As part of the States' Debt Consolidation and Relief Facility (DCRF), the state Government developed its own Fiscal Correction Path for the TFC period i.e., 2005-06 to 2009-10 which entails reduction of fiscal deficit from 3.6% in 2005-06 to 2.6% in 2008-09 and reaching revenue surplus by that year.<br>○ Strengthening the infrastructure of the revenue earning departments such as Commercial Tax, Excise and Stamp Duty and Registration etc.<br>○ Steps to strengthen internal audit and to rebuild assets registers at various levels. Compilation of Comprehensive Hand Book on Financial Accountability and training programme for Chief Controlling Officers and Drawing and Disbursing Officers 2005-06. | ○ Administrative reforms in tax and introduction of VAT have resulted in revenue buoyancy. Better compliance in registration dept.<br>○ The state benefited to an extent of Rs.2683.74 crores as interest relief towards consolidation of central loans and reduction in the rate of interest to 7.5%, as per the recommendations of TFC<br>○ Computerization and MIS (Management Information Systems) have been set up in all revenue earning departments and the infrastructure is being strengthened at the field level.<br>○ Not resorted to any WMA |

| Year | Fiscal Reforms | Results / Impact |
|---|---|---|
| | | during the past two years.<br>○ Fiscal accountability has been strengthened w.r.t various accountability norms &timely preparation of accounts and quick response to audit. |
| 2006-7 | | ○ Reached revenue surplus situation, decreased fiscal situation<br>○ Not resorted to WMA from RBI for 3rd consecutive year.<br>○ Non tax revenue has also increased mainly due to increase in revenue from Mines & Minerals.<br>○ Substantial incentives from the Central Govt for acting in accordance with FRBM Act for the years 2004-05 and 2005-06. By achieving the targets as stipulated in FRBM Act., State Govt has got Rs.1,078crores interest relief and Rs.1,183 crores Debt relief from the Central Government. |
| 2007-8 | No new taxes / hike in tax rates since 2004-05.<br>Power tariff not hiked in these 4 years | ○ Not resorted to WMA from RBI for 4th consecutive year.<br>○ By achieving the set targets of FRBM Act, the State Govt is got twin benefits of debt relief and interest relief from GOI. Upto 2007-08, State Govt has received a debt relief of Rs.1,889crores and interest relief of Rs.1,574 crores. |
| 2008-9 | It is stipulated in FRBM Act to bring the Fiscal Deficit to 3% of the GSDP by 2008-09 and the total borrowings not exceeding 35% of the GSDP.<br><br>However, Central Government has enhanced the limit of fiscal deficit from 3% to 3.5% of the GSDP for the year 2008-09. | ○ Fiscal Deficit which was at 4.04% of the GSDP in 2003-04, was brought down to 2.13% by 2006-07.<br><br>○ The total debt as % of GSDP in 2006-07 is 28.54% against a ceiling of 35% as per FRBM Act.<br>○ Likely to be Sizeable shortfall in Revenue / Capital Receipts in 2008-09. |
| 2009-10 | The Central Government has decided to raise the Fiscal Deficit limit up to 4% of the GSDP, in order to make more funds available to the States for implementing some of the important Infrastructure Projects. | |
| 2010-11 | The three fiscal stimulus packages implemented by Central Government | |

| Year | Fiscal Reforms | Results / Impact |
|---|---|---|
| | as a quick response to the economic slowdown have gone a long way in reversing the trend. | |

Source: budget speeches by Minister of Finance, Government of Andhra Pradesh (Various years)

Table 3.2A: Broader Classification of Expenditure

| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | *2008-09* | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | As Percentage of GSDP at Current Prices (%) | | | | | | | | | |
| | *Total Expenditure(1 to 4)* | *23.1* | *25.7* | *20.4* | *19.0* | *18.8* | *20.5* | *18.9* | *17.4* | *17.1* | *17.1* |
| | *Total Expenditure(1 to3)* | 18.6 | 18.7 | 17.1 | 16.9 | 17.4 | 19.1 | 17.7 | 16.1 | 15.8 | 16.1 |
| *1* | *Revenue Expenditure* | *15.6* | *15.7* | *13.9* | *13.6* | *13.8* | *14.8* | *14.5* | *12.9* | *13.3* | *13.4* |
| *2* | *Capital Expenditure* | *2.3* | *2.2* | *2.4* | *3.0* | *3.3* | *3.5* | *2.4* | *2.8* | *1.9* | *2.0* |
| *3* | *Loans And Advances* | *0.7* | *0.8* | *0.7* | *0.3* | *0.3* | *0.8* | *0.8* | *0.3* | *0.6* | *0.7* |
| *4* | *Capital Disbursements* | *4.5* | *7.0* | *3.3* | *2.1* | *1.4* | *1.4* | *1.1* | *1.3* | *1.3* | *1.0* |
| | | As Percentage of Total Expenditure (%) | | | | | | | | | |
| | *Total Expenditure(1 to 4)* | *100.00* | *100.00* | *100.00* | *100.00* | *100.00* | *100.00* | *100.00* | *100.00* | *100.00* | *100.00* |
| *1* | *Revenue Expenditure* | *67.51* | *61.06* | *68.44* | *71.80* | *73.34* | *72.29* | *76.87* | *74.55* | *77.87* | *78.02* |
| *2* | *Capital Expenditure* | *9.84* | *8.70* | *11.84* | *15.76* | *17.53* | *17.11* | *12.88* | *16.21* | *11.03* | *11.84* |
| *3* | *Loans And Advances* | *3.20* | *3.06* | *3.48* | *1.56* | *1.60* | *3.91* | *4.24* | *1.87* | *3.29* | *4.30* |
| *4* | *Capital Disbursements* | *19.45* | *27.18* | *16.25* | *10.89* | *7.53* | *6.69* | *6.01* | *7.38* | *7.81* | *5.83* |
| | | As Percentage of Total Expenditure (%) | | | | | | | | | |
| | *Total Expenditure(1 to 3)* | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| *1* | *Revenue Expenditure* | 83.8 | 83.9 | 81.7 | 80.6 | 79.3 | 77.5 | 81.8 | 80.5 | 84.5 | 82.9 |
| *2* | *Capital Expenditure* | 12.2 | 11.9 | 14.1 | 17.7 | 19.0 | 18.3 | 13.7 | 17.5 | 12.0 | 12.6 |
| *3* | *Loans And Advances* | 4.0 | 4.2 | 4.2 | 1.7 | 1.7 | 4.2 | 4.5 | 2.0 | 3.6 | 4.6 |
| | | | | | | | | | | | |
| | *Total rev/rev+cap exp ratio (%)* | *77.1* | *78.8* | *78.3* | *81.9* | *86.2* | *81.1* | *87.0* | *83.7* | *90.3* | *89.8* |

Source: AP Explanatory Memorandum (for various years)

TABLE 3.3A: REVENUE EXPENDITURE – NON-DEVELOPMENTAL – DEVELOPMENTAL (PLAN + NON-PLAN) (As % of GSDP)

| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | *2002-07* | *2007-12* | *2002-12* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *A* | NON DEVELOPMENTAL EXPENDITURE | 6.5 | 6.3 | 5.8 | 5.3 | 5.1 | 5.0 | 4.4 | 4.4 | 4.5 | 4.4 | *5.7* | *4.5* | *4.9* |
| a | Organs of State | 0.1 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | *0.1* | *0.1* | *0.1* |
| b | Fiscal Services | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | *0.2* | *0.1* | *0.2* |
| | Interest Payment& Servicing of Debt | 3.7 | 3.6 | 3.2 | 2.8 | 2.5 | 2.2 | 2.0 | 1.9 | 1.7 | 1.7 | *3.1* | *1.9* | *2.2* |
| d | Administrative Services | 1.0 | 1.0 | 0.9 | 0.9 | 0.9 | 1.1 | 0.8 | 0.9 | 0.9 | 0.9 | *0.9* | *0.9* | *0.9* |
| | Pensions &misc General Services | 1.4 | 1.3 | 1.3 | 1.2 | 1.4 | 1.4 | 1.3 | 1.3 | 1.6 | 1.6 | *1.3* | *1.5* | *1.4* |
| B | DEVELOPMENTAL REVENUE EXPENDITURE (B (I) + B(II)) | 9.0 | 9.3 | 8.1 | 8.3 | 8.6 | 9.7 | 10.0 | 8.6 | 8.8 | 8.9 | *8.6* | *9.1* | *9.0* |
| B (I) | SOCIAL SERVICES | 5.1 | 5.4 | 4.7 | 4.8 | 5.1 | 5.1 | 5.9 | 5.3 | 5.5 | 5.6 | *5.0* | *5.5* | *5.3* |
| | Education, Sports, Art and Culture | 2.4 | 2.5 | 2.0 | 2.1 | 2.0 | 1.8 | 1.7 | 1.7 | 2.1 | 2.2 | *2.2* | *2.0* | *2.0* |
| | General Education | 2.3 | 2.3 | 1.9 | 1.9 | 1.9 | 1.7 | 1.6 | 1.6 | 2.0 | 2.1 | *2.0* | *1.8* | *1.9* |
| b | Health and Family Welfare | 0.8 | 0.8 | 0.7 | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | *0.7* | *0.7* | *0.7* |
| c | Water Supply, Sanitation, Housing and Urban Development | 0.5 | 0.6 | 0.6 | 0.8 | 0.9 | 1.0 | 1.3 | 0.8 | 0.6 | 0.5 | *0.7* | *0.8* | *0.8* |
| | Water Supply, Sanitation, | 0.1 | 0.1 | 0.1 | 0.4 | 0.3 | 0.4 | 0.3 | 0.1 | 0.1 | 0.1 | *0.2* | *0.2* | *0.2* |
| | Housing | 0.1 | 0.2 | 0.2 | 0.1 | 0.2 | 0.2 | 0.3 | 0.2 | 0.1 | 0.1 | *0.1* | *0.2* | *0.2* |
| | Urban Development | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 0.7 | 0.4 | 0.4 | 0.4 | *0.3* | *0.4* | *0.4* |
| | Welfare of SC ST and other BCs | 0.6 | 0.7 | 0.6 | 0.5 | 0.6 | 0.7 | 0.7 | 0.6 | 0.8 | 0.9 | *0.6* | *0.8* | *0.7* |
| f | Labour and Labour Welfare | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | *0.0* | *0.0* | *0.0* |
| | Social Welfare and Nutrition | 0.8 | 0.7 | 0.7 | 0.7 | 0.9 | 0.8 | 1.3 | 1.4 | 1.2 | 1.2 | *0.8* | *1.2* | *1.1* |
| | Social Security and Welfare | 0.3 | 0.3 | 0.2 | 0.2 | 0.4 | 0.4 | 0.6 | 0.6 | 0.6 | 0.6 | *0.3* | *0.6* | *0.5* |
| | Nutrition | 0.2 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 0.7 | 0.5 | 0.4 | 0.5 | *0.3* | *0.5* | *0.4* |
| | Relief on Account of Natural Calamities | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.3 | 0.2 | 0.2 | *0.2* | *0.2* | *0.2* |
| h | Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *0.0* | *0.0* | *0.0* |
| | ECONOMIC SERVICES | 3.8 | 3.9 | 3.4 | 3.5 | 3.5 | 4.6 | 4.2 | 3.3 | 3.3 | 3.3 | *3.6* | *3.6* | *3.6* |
| B(II) | Agriculture and Allied Activities | 0.5 | 0.6 | 0.5 | 0.5 | 0.5 | 0.6 | 0.9 | 0.5 | 0.5 | 0.6 | *0.5* | *0.6* | *0.6* |
| | Rural Development | 0.6 | 0.8 | 0.7 | 0.7 | 0.8 | 0.8 | 0.7 | 0.5 | 0.6 | 0.5 | *0.7* | *0.6* | *0.7* |
| b | Irrigation and Flood Control | 1.1 | 1.0 | 0.9 | 1.0 | 1.1 | 1.3 | 0.9 | 1.1 | 1.1 | 1.0 | *1.0* | *1.1* | *1.1* |
| e | Energy | 1.0 | 0.9 | 0.8 | 0.7 | 0.5 | 1.3 | 0.9 | 0.7 | 0.6 | 0.7 | *0.8* | *0.8* | *0.8* |
| f | Industry and Minerals | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | *0.1* | *0.1* | *0.1* |
| g | Transport | 0.4 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.2 | 0.2 | 0.2 | *0.3* | *0.3* | *0.3* |
| | Science, Technology and Environment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *0.0* | *0.0* | *0.0* |
| | General Economic Services | 0.2 | 0.2 | 0.1 | 0.2 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.1 | *0.2* | *0.2* | *0.2* |
| | Total rev exp (A+B) | 15.4 | 15.6 | 13.8 | 13.6 | 13.7 | 14.7 | 14.4 | 12.9 | 13.3 | 13.3 | *14.3* | *13.6* | *13.8* |
| C | COMPENSATION & ASSIGNMENTS TO LOCAL BODIES & PANCHAYAT RAJ INSTITUTIONS | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.02 | 0.03 | 0.03 | *0.1* | *0.04* | *0.1* |
| D | TOTAL REV EXP (A+B+C) | 15.6 | 15.7 | 13.9 | 13.6 | 13.8 | 14.8 | 14.5 | 12.9 | 13.3 | 13.4 | *14.4* | *13.7* | *13.9* |

Source: AP Explanatory Memorandum (for various years)

TABLE 3.4A: REVENUE ACCOUNT Non-Plan Expenditure as percentage of GSDP (%)

| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | *2002-07* | *2007-12* | *2002-12* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | REVENUE ACCOUNT (A+B+C) | 12.4 | 12.1 | 10.9 | 11.1 | 10.6 | 11.0 | 10.0 | 9.8 | 10.0 | 9.9 | 11.3 | 10.1 | 10.5 |
| | NON DEVELOPMENTAL | 6.4 | 6.2 | 5.7 | 5.2 | 5.0 | 4.7 | 4.4 | 4.3 | 4.5 | 4.4 | 5.6 | 4.4 | 4.8 |
| a | Organs of State | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| b | Fiscal Services | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.2 |
| c | Interest Payment& Servicing of Debt | 3.7 | 3.6 | 3.2 | 2.8 | 2.5 | 2.2 | 2.0 | 1.9 | 1.7 | 1.7 | 3.1 | 1.9 | 2.2 |
| d | Administrative Services | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| e | Pensions &misc General Services | 1.4 | 1.3 | 1.3 | 1.2 | 1.4 | 1.4 | 1.3 | 1.3 | 1.6 | 1.6 | 1.3 | 1.5 | 1.4 |
| B | DEVELOPMENTAL EXPENDITURE (I+II) | 5.8 | 5.8 | 5.1 | 5.8 | 5.5 | 6.2 | 5.6 | 5.4 | 5.4 | 5.5 | 5.6 | 5.6 | 5.6 |
| B (I) | SOCIAL SERVICES | 3.7 | 3.6 | 3.2 | 3.1 | 3.1 | 2.9 | 3.0 | 3.1 | 3.1 | 3.1 | 3.3 | 3.1 | 3.1 |
| a | Education, Sports, Art and Culture | 2.1 | 2.1 | 1.8 | 1.8 | 1.8 | 1.6 | 1.4 | 1.4 | 1.7 | 1.7 | 1.9 | 1.6 | 1.7 |
| b | Health &Family Welfare | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 | 0.4 | 0.4 |
| c | Water Supply, Sanitation, Housing and Urban Development | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.1 | 0.1 |
| | Urban Development | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| e | Welfare of SC ST & OBCs | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.3 | 0.2 |
| g | Social Welfare and Nutrition | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.7 | 0.8 | 0.6 | 0.6 | 0.5 | 0.6 | 0.6 |
| | Social Security and Welfare | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| | Nutrition | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.6 | 0.5 | 0.4 | 0.3 | 0.2 | 0.4 | 0.3 |
| | Relief on Account of Natural Calamities | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| B(II) | ECONOMIC SERVICES | 2.2 | 2.1 | 1.9 | 2.7 | 2.4 | 3.3 | 2.6 | 2.4 | 2.4 | 2.3 | 2.3 | 2.5 | 2.5 |
| a | Agriculture & Allied Activities | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 |
| b | Rural Development | 0.4 | 0.5 | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.4 | 0.3 | 0.4 | 0.3 | 0.4 |
| d | Irrigation and Flood Control | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 1.0 | 0.8 | 1.0 | 1.0 | 0.9 | 0.8 | 1.0 | 0.9 |
| | Major and Medium Irrigation | 0.9 | 0.8 | 0.7 | 0.8 | 0.7 | 0.9 | 0.8 | 1.0 | 1.0 | 0.9 | 0.8 | 0.9 | 0.9 |
| e | Energy | 0.0 | 0.0 | 0.0 | 0.7 | 0.5 | 1.3 | 0.9 | 0.7 | 0.6 | 0.7 | 0.3 | 0.8 | 0.6 |
| g | Transport | 0.4 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.2 | 0.1 | 0.2 | 0.3 | 0.2 | 0.3 |
| | Roads and Bridges | 0.3 | 0.2 | 0.2 | 0.3 | 0.3 | 0.4 | 0.4 | 0.2 | 0.1 | 0.2 | 0.3 | 0.2 | 0.2 |
| | Road Transport | 0.1 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| j | General Economic Services | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Total A+B | 12.3 | 12.0 | 10.8 | 11.0 | 10.5 | 10.9 | 10.0 | 9.8 | 10.0 | 9.9 | 11.2 | 10.0 | 10.4 |
| C | COMPENSATION & ASSIGNMENTS TO LOCAL BODIES &PANCHAYAT RAJ INSTITUTIONS | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.03 | 0.1 | 0.04 | 0.1 |

Source: AP Explanatory Memorandum (for various years)

Table 3.5A: Plan Expenditure as percentage of GSDP – REVENUE ACCOUNT

| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | *2002-07* | *2007-12* | *2002-12* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | REVENUE ACCOUNT (A+B) | 3.2 | 3.6 | 3.0 | 2.5 | 3.2 | 3.8 | 4.5 | 3.1 | 3.3 | 3.5 | 3.1 | 3.6 | 3.4 |
| *A* | NON DEVELOPMENTAL EXPENDITURE | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| d | Administrative Services | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| B | DEVELOPMENTAL EXPENDITURE (I+II) | 3.1 | 3.5 | 3.0 | 2.5 | 3.1 | 3.5 | 4.4 | 3.1 | 3.3 | 3.5 | 3.0 | 3.5 | 3.4 |
| B (I) | SOCIAL SERVICES | 1.5 | 1.8 | 1.4 | 1.6 | 2.0 | 2.2 | 2.9 | 2.2 | 2.4 | 2.5 | 1.7 | 2.4 | 2.2 |
| a | Education, Sports, Art and Culture | 0.3 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 | 0.3 | 0.4 | 0.5 | 0.3 | 0.4 | 0.3 |
| b | Health and Family Welfare | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 |
| | Water Supply, Sanitation, Housing and Urban Development | 0.3 | 0.4 | 0.4 | 0.6 | 0.8 | 0.9 | 1.2 | 0.7 | 0.5 | 0.3 | 0.5 | 0.7 | 0.6 |
| | Water Supply, Sanitation, | 0.1 | 0.1 | 0.0 | 0.3 | 0.3 | 0.3 | 0.3 | 0.1 | 0.0 | 0.0 | 0.2 | 0.1 | 0.1 |
| | Housing | 0.1 | 0.1 | 0.2 | 0.1 | 0.2 | 0.2 | 0.3 | 0.2 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 |
| | Urban Development | 0.1 | 0.1 | 0.2 | 0.2 | 0.3 | 0.4 | 0.6 | 0.3 | 0.3 | 0.2 | 0.2 | 0.4 | 0.3 |
| E | Welfare of SC ST and other BCs | 0.4 | 0.5 | 0.4 | 0.3 | 0.4 | 0.4 | 0.5 | 0.4 | 0.6 | 0.6 | 0.4 | 0.5 | 0.5 |
| G | Social Welfare and Nutrition | 0.2 | 0.2 | 0.2 | 0.2 | 0.4 | 0.4 | 0.6 | 0.6 | 0.6 | 0.7 | 0.3 | 0.6 | 0.5 |
| | Social Security and Welfare | 0.2 | 0.2 | 0.1 | 0.2 | 0.4 | 0.3 | 0.5 | 0.5 | 0.5 | 0.6 | 0.2 | 0.5 | 0.4 |
| | Nutrition | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| B(II) | ECONOMIC SERVICES | 1.7 | 1.8 | 1.5 | 0.9 | 1.1 | 1.3 | 1.5 | 0.9 | 0.9 | 1.0 | 1.3 | 1.1 | 1.2 |
| A | Agriculture and Allied Activities | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 | 0.7 | 0.3 | 0.3 | 0.5 | 0.2 | 0.4 | 0.4 |
| B | Rural Development | 0.2 | 0.3 | 0.2 | 0.3 | 0.4 | 0.5 | 0.4 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 |
| D | Irrigation and Flood Control | 0.1 | 0.1 | 0.1 | 0.2 | 0.3 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 |
| | Major and Medium Irrigation | 0.1 | 0.1 | 0.0 | 0.2 | 0.3 | 0.3 | 0.1 | 0.1 | 0.1 | 0.0 | 0.2 | 0.1 | 0.1 |
| E | Energy | 0.9 | 0.8 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 | 0.1 |
| F | Industry and Minerals | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 |
| G | Transport | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| J | General Economic Services | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |

Source: AP Explanatory Memorandum (for various years)

Table 3.6A: CAPITAL EXPENDITURE - NON-DEVELOPMENTAL – DEVELOPMENTAL (PLAN + NON-PLAN) (As % of GSDP)

| | CAPITAL ACCOUNT | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2002-07 | 2007-12 | 2002-12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total General Services | 0.2 | 0.1 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| d | Administrative Services | 0.2 | 0.1 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| | Total Social Services | 0.5 | 0.3 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 |
| c | Water Supply, Sanitation, Housing and Urban Development | 0.4 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 |
| | Water Supply, Sanitation, | 0.4 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 |
| | Welfare of SC ST & O BCs | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.1 |
| h | Others | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Total Economic Services | 1.6 | 1.8 | 1.9 | 2.9 | 3.1 | 3.4 | 2.3 | 2.7 | 1.8 | 1.9 | 2.4 | 2.3 | 2.3 |
| | Agriculture and Allied Activities | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| b | Rural Development | 0.2 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| d | Irrigation and Flood Control | 0.8 | 0.8 | 1.5 | 2.4 | 2.7 | 3.0 | 2.0 | 2.3 | 1.5 | 1.6 | 1.8 | 2.0 | 1.9 |
| e | Energy | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| | Power | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| f | Industry and Minerals | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| g | Transport | 0.5 | 0.3 | 0.2 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 | 0.2 | 0.3 |
| | Roads and Bridges | 0.5 | 0.3 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 |
| j | General Economic Services | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 0.1 |
| | | | | | | | | | | | | | | |
| | Total Developmental Expenditure | 2.1 | 2.1 | 2.3 | 3.0 | 3.2 | 3.5 | 2.4 | 2.8 | 1.9 | 2.0 | 2.6 | 2.4 | 2.5 |
| | TOTAL CAPITAL A/C | 2.3 | 2.2 | 2.4 | 3.0 | 3.3 | 3.5 | 2.4 | 2.8 | 1.9 | 2.0 | 2.7 | 2.4 | 2.5 |

Source: AP Explanatory Memorandum (for various years)

Table 3.7A: TOTAL CAPITAL ACCOUNT

| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | *2002-07* | *2007-12* | *2002-12* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Non-Plan Expenditure as percentage of GSDP (%) | | | | | | | | | | | | |
| | CAPITAL ACCOUNT | 0.3 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| | GENERAL SERVICES | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| d | Administrative Services | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| | Developmental | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Total Social Services | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| h | Others | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | ECONOMIC SERVICES | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Roads and Bridges | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | Plan Expenditure as percentage of GSDP – CAPITAL ACCOUNT | | | | | | | | | | | | |
| | CAPITAL ACCOUNT | 2.0 | 2.1 | 2.3 | 3.0 | 3.3 | 3.5 | 2.5 | 2.8 | 1.9 | 2.0 | 2.6 | 2.4 | 2.5 |
| | NON DEVELOPMENTAL | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| d | Administrative Services | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | DEVELOPMENTAL (I+II) | 1.9 | 2.1 | 2.3 | 3.0 | 3.2 | 3.5 | 2.5 | 2.8 | 1.9 | 2.0 | 2.6 | 2.4 | 2.5 |
| | SOCIAL SERVICES | 0.4 | 0.3 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 |
| | Water Supply, Sanitation, Housing &Urban Development | 0.4 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 |
| e | Welfare of SC ST & OBCs | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.1 |
| | ECONOMIC SERVICES | 1.5 | 1.8 | 1.9 | 2.9 | 3.1 | 3.4 | 2.4 | 2.7 | 1.8 | 1.9 | 2.4 | 2.3 | 2.3 |
| a | Agriculture&Allied Activities | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| b | Rural Development | 0.2 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| d | Irrigation and Flood Control | 0.8 | 0.8 | 1.5 | 2.4 | 2.7 | 3.0 | 2.0 | 2.3 | 1.5 | 1.6 | 1.8 | 2.0 | 1.9 |
| e | Energy | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| f | Industry and Minerals | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| g | Transport | 0.4 | 0.3 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 | 0.2 | 0.3 |
| | Roads and Bridges | 0.4 | 0.3 | 0.2 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 |
| j | General Economic Services | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 0.1 |

Source: AP Explanatory Memorandum (for various years)

Table 3.8A: EXPENDITURE FROM LOAN ACCOUNT – NON-DEVELOPMENTAL – DEVELOPMENTAL (As % of GSDP)

| | LOAN ACCOUNT | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2002-07 | 2007-12 | 2002-12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | (PLAN + NON-PLAN) | | | | | | | | | | | | |
| | SOCIAL SERVICES | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.7 | 0.7 | 0.3 | 0.4 | 0.4 | 0.3 | 0.5 | 0.4 |
| | Education, Sports, Art and Culture | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | General Education | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Water Supply, Sanitation, Housing and Urban Development | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.7 | 0.7 | 0.3 | 0.4 | 0.4 | 0.2 | 0.5 | 0.4 |
| | Housing | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.6 | 0.7 | 0.1 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 |
| | Urban Development | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | 0.2 | 0.0 | 0.1 | 0.1 |
| | ECONOMIC SERVICES | 0.5 | 0.4 | 0.4 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.3 | 0.3 | 0.2 | 0.2 |
| | Agriculture and Allied Activities | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Energy | 0.4 | 0.3 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 |
| | Industry and Minerals | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Transport | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| | General Economic Services | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | | | | | | | | | | |
| | TOTAL LOAN ACCOUNT | 0.7 | 0.8 | 0.7 | 0.3 | 0.3 | 0.8 | 0.8 | 0.3 | 0.6 | 0.7 | 0.5 | 0.6 | 0.6 |
| | | Non-Plan Expenditure | | | | | | | | | | | | |
| | TOTAL LOAN ACCOUNT | 0.3 | 0.3 | 0.4 | 0.2 | 0.2 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.3 | 0.1 | 0.1 |
| | SOCIAL SERVICES | 0.2 | 0.2 | 0.2 | 0.1 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.1 |
| | Health and Family Welfare | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Water Supply, Sanitation, Housing and Urban Development | 0.2 | 0.2 | 0.2 | 0.1 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.1 |
| | Housing | 0.2 | 0.2 | 0.2 | 0.1 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.1 |
| | ECONOMIC SERVICES | 0.1 | 0.1 | 0.2 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| | | Plan Expenditure | | | | | | | | | | | | |
| | TOTAL LOAN ACCOUNT | 0.5 | 0.5 | 0.3 | 0.1 | 0.1 | 0.6 | 0.7 | 0.3 | 0.5 | 0.7 | 0.3 | 0.6 | 0.5 |
| | Total Social Services | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 | 0.5 | 0.7 | 0.3 | 0.4 | 0.4 | 0.1 | 0.5 | 0.3 |
| a | Education, Sports, Art and Culture | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | General Education | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Housing and Urban Development | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 | 0.5 | 0.7 | 0.3 | 0.4 | 0.4 | 0.1 | 0.4 | 0.3 |
| | Water Supply, Sanitation, | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Housing | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 | 0.5 | 0.7 | 0.1 | 0.2 | 0.2 | 0.0 | 0.3 | 0.2 |
| | Urban Development | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | 0.2 | 0.0 | 0.1 | 0.1 |
| | | | | | | | | | | | | | | |
| | ECONOMIC SERVICES | 0.4 | 0.4 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 | 0.3 | 0.2 | 0.1 | 0.1 |
| e | Energy | 0.4 | 0.3 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 |
| f | Industry and Minerals | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| g | Transport | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |

Source: AP Explanatory Memorandum (for various years)

Table 3.9A: TOTAL EXPENDITURE COMPOSITION = REV+CAP+LOAN ACCOUNTS (contd)

| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2002-07 | 2007-12 | 2002-12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| I | REVENUE ACCOUNT | 83.8 | 83.9 | 81.7 | 80.6 | 79.3 | 77.5 | 81.8 | 80.5 | 84.5 | 82.9 | 81.5 | 81.7 | 81.7 |
| A | NON DEVELOPMENTAL | 34.8 | 33.5 | 33.8 | 31.1 | 29.3 | 26.1 | 24.8 | 27.1 | 28.7 | 27.4 | 32.2 | 27.0 | 28.6 |
| a | Organs of State | 0.8 | 0.9 | 0.9 | 0.7 | 0.7 | 0.5 | 0.6 | 0.9 | 0.8 | 0.7 | 0.8 | 0.7 | 0.7 |
| b | Fiscal Services | 1.2 | 1.3 | 1.3 | 1.2 | 1.2 | 0.9 | 0.9 | 0.9 | 0.9 | 0.8 | 1.2 | 0.9 | 1.0 |
| c | Interest Payment& Servicing of Debt | 19.7 | 19.3 | 18.5 | 16.6 | 14.3 | 11.4 | 11.2 | 11.9 | 11.0 | 10.2 | 17.3 | 11.1 | 13.1 |
| d | Administrative Services | 5.4 | 5.2 | 5.2 | 5.2 | 5.2 | 5.9 | 4.8 | 5.4 | 5.7 | 5.4 | 5.2 | 5.4 | 5.4 |
| e | Pensions &misc General Services | 7.6 | 6.8 | 7.9 | 7.4 | 7.9 | 7.3 | 7.3 | 8.0 | 10.3 | 10.2 | 7.6 | 8.8 | 8.4 |
| | TOTAL DEV B(I) + B(II) | 48.2 | 49.5 | 47.3 | 48.9 | 49.5 | 51.0 | 56.6 | 53.2 | 55.6 | 55.3 | 48.8 | 54.5 | 52.7 |
| B (I) | SOCIAL SERVICES | 27.6 | 28.9 | 27.4 | 28.1 | 29.4 | 26.8 | 33.1 | 32.7 | 34.8 | 34.8 | 28.4 | 32.8 | 31.4 |
| a | Edu.sports, Art & Culture | 12.9 | 13.1 | 12.0 | 12.3 | 11.6 | 9.5 | 9.5 | 10.7 | 13.5 | 13.7 | 12.3 | 11.7 | 11.9 |
| b | Health and Family Welfare | 4.3 | 4.1 | 3.9 | 3.7 | 3.5 | 3.5 | 3.8 | 4.1 | 4.4 | 4.6 | 3.9 | 4.2 | 4.1 |
| c | Water Supply, Sanitation, Housing and Urban Development | 2.5 | 3.1 | 3.4 | 4.5 | 5.0 | 5.4 | 7.4 | 4.8 | 3.9 | 3.0 | 3.9 | 4.7 | 4.5 |
| d | Information and Publicity | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.2 | 0.3 | 0.3 | 0.1 | 0.3 | 0.1 | 0.2 | 0.2 |
| e | Welfare of SC ST & OBCs | 3.4 | 3.9 | 3.3 | 3.1 | 3.6 | 3.6 | 4.2 | 3.9 | 5.1 | 5.3 | 3.5 | 4.5 | 4.2 |
| f | Labour&Labour Welfare | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| g | Social Welfare & Nutrition | 4.1 | 3.9 | 4.4 | 4.1 | 5.3 | 4.3 | 7.5 | 8.5 | 7.5 | 7.7 | 4.4 | 7.2 | 6.3 |
| h | Others | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| B(II) | ECONOMIC SERVICES | 20.6 | 20.7 | 20.0 | 20.9 | 20.1 | 24.3 | 23.5 | 20.6 | 20.8 | 20.4 | 20.4 | 21.7 | 21.3 |
| a | Ag.and Allied Activities | 2.8 | 3.0 | 3.1 | 2.8 | 2.8 | 3.0 | 5.0 | 3.2 | 3.2 | 3.8 | 2.9 | 3.6 | 3.4 |
| b | Rural Development | 3.4 | 4.5 | 4.2 | 3.9 | 4.7 | 4.3 | 4.1 | 3.1 | 3.9 | 3.4 | 4.2 | 3.7 | 3.9 |
| d | Irrigation and Flood Control | 5.7 | 5.3 | 5.0 | 6.0 | 6.1 | 6.7 | 5.3 | 6.9 | 7.0 | 6.3 | 5.7 | 6.5 | 6.2 |
| e | Energy | 5.3 | 4.6 | 4.9 | 4.2 | 3.1 | 6.6 | 4.9 | 4.1 | 4.0 | 4.0 | 4.3 | 4.6 | 4.5 |
| f | Industry and Minerals | 0.6 | 0.6 | 0.5 | 0.6 | 0.4 | 0.8 | 0.5 | 0.4 | 0.5 | 0.4 | 0.5 | 0.5 | 0.5 |
| g | Transport | 1.9 | 1.6 | 1.5 | 2.4 | 2.2 | 2.2 | 2.4 | 1.6 | 1.1 | 1.5 | 1.9 | 1.7 | 1.8 |
| j | General Economic Services | 1.0 | 1.1 | 0.7 | 1.0 | 0.9 | 0.7 | 1.3 | 1.3 | 1.0 | 0.9 | 0.9 | 1.0 | 1.0 |
| C | Compensation & Assignments To Local Bodies & P.R Institutions | 0.8 | 0.8 | 0.6 | 0.5 | 0.5 | 0.4 | 0.4 | 0.1 | 0.2 | 0.2 | 0.6 | 0.2 | 0.4 |
| II | CAPITAL ACCOUNT | 12.2 | 11.9 | 14.1 | 17.7 | 19.0 | 18.3 | 13.7 | 17.5 | 12.0 | 12.6 | 15.5 | 14.5 | 14.8 |
| | NON DEVELOPMENTAL | 0.9 | 0.7 | 0.7 | 0.1 | 0.7 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.6 | 0.1 | 0.2 |
| d | Administrative Services | 0.9 | 0.7 | 0.7 | 0.1 | 0.7 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.6 | 0.1 | 0.2 |
| | Developmental Expenditure | 11.3 | 11.2 | 13.4 | 17.6 | 18.3 | 18.3 | 13.6 | 17.4 | 11.8 | 12.5 | 14.9 | 14.4 | 14.6 |
| | SOCIAL SERVICES | 2.7 | 1.7 | 2.0 | 0.4 | 0.3 | 0.4 | 0.4 | 0.8 | 0.7 | 0.8 | 1.3 | 0.6 | 0.8 |
| a | Edu. Sports, Art and Culture | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| b | Health and Family Welfare | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |

| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | *2002-07* | *2007-12* | *2002-12* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| c | Water Supply, Sanitation, Housing and Urban Development | 2.0 | 1.0 | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 0.3 | 0.2 | *0.7* | *0.2* | *0.4* |
| e | Welfare of SC ST and OBCs | 0.3 | 0.6 | 0.6 | 0.2 | 0.1 | 0.1 | 0.2 | 0.3 | 0.3 | 0.4 | *0.4* | *0.3* | *0.3* |
| h | Others | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *0.1* | *0.0* | *0.0* |
| | ECONOMIC SERVICES | 8.6 | 9.6 | 11.4 | 17.3 | 18.0 | 17.9 | 13.2 | 16.6 | 11.2 | 11.7 | *13.6* | *13.8* | *13.7* |
| a | Agriculture &Allied Activities | 0.1 | 0.1 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | *0.1* | *0.0* | *0.1* |
| b | Rural Development | 0.9 | 0.7 | 0.5 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *0.5* | *0.0* | *0.2* |
| d | Irrigation and Flood Control | 4.4 | 4.3 | 8.6 | 14.2 | 15.7 | 15.9 | 11.3 | 14.3 | 9.8 | 9.9 | *10.3* | *11.9* | *11.4* |
| e | Energy | 0.1 | 2.4 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *0.5* | *0.0* | *0.2* |
| f | Industry and Minerals | 0.1 | 0.4 | 0.2 | 0.1 | 0.1 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | *0.2* | *0.0* | *0.1* |
| g | Transport | 2.9 | 1.6 | 1.4 | 1.9 | 1.7 | 1.2 | 1.4 | 1.6 | 1.1 | 1.1 | *1.9* | *1.3* | *1.5* |
| j | General Economic Services | 0.3 | 0.2 | 0.0 | 0.3 | 0.4 | 0.5 | 0.4 | 0.6 | 0.2 | 0.6 | *0.2* | *0.5* | *0.4* |
| III | LOAN ACCOUNT | 4.0 | 4.2 | 4.2 | 1.7 | 1.7 | 4.2 | 4.5 | 2.0 | 3.6 | 4.6 | *3.0* | *3.8* | *3.5* |
| | SOCIAL SERVICES | 1.3 | 1.8 | 1.9 | 1.3 | 1.2 | 3.6 | 4.0 | 1.8 | 2.7 | 2.6 | *1.5* | *2.9* | *2.4* |
| c | Water Supply, Sanitation Housing & Urban Development | 1.2 | 1.7 | 1.5 | 1.1 | 1.1 | 3.4 | 3.7 | 1.6 | 2.6 | 2.5 | *1.3* | *2.7* | *2.2* |
| | ECONOMIC SERVICES | 2.7 | 2.4 | 2.2 | 0.5 | 0.5 | 0.6 | 0.6 | 0.2 | 0.8 | 2.0 | *1.5* | *0.9* | *1.1* |
| a | Agriculture &Allied Activities | 0.0 | 0.3 | 0.8 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | *0.2* | *0.0* | *0.1* |
| e | Energy | 1.9 | 1.7 | 0.7 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | 1.4 | *0.7* | *0.5* | *0.6* |
| f | Industry and Minerals | 0.4 | 0.2 | 0.3 | 0.1 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.1 | *0.2* | *0.0* | *0.1* |
| g | Transport | 0.1 | 0.1 | 0.3 | 0.0 | 0.1 | 0.3 | 0.1 | 0.1 | 0.1 | 0.3 | *0.1* | *0.2* | *0.2* |
| j | General Economic Services | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 | 0.1 | 0.1 | 0.2 | *0.2* | *0.2* | *0.2* |
| | TOTAL(I+II+III) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | *100.0* | *100.0* | *100.0* |
| | total non dev | 35.7 | 34.3 | 34.5 | 31.2 | 30.0 | 26.1 | 24.8 | 27.3 | 28.8 | 27.5 | 32.7 | 27.0 | 28.9 |
| | total dev | 63.5 | 64.9 | 64.9 | 68.3 | 69.6 | 73.5 | 74.7 | 72.6 | 71.0 | 72.3 | 66.6 | 72.7 | 70.8 |
| | social services | 31.6 | 32.4 | 31.3 | 29.7 | 31.0 | 30.8 | 37.4 | 35.3 | 38.1 | 38.2 | 31.1 | 36.3 | 34.6 |
| | economic services | 31.9 | 32.6 | 33.6 | 38.6 | 38.6 | 42.7 | 37.3 | 37.4 | 32.8 | 34.1 | 35.5 | 36.4 | 36.1 |

Source: AP Explanatory Memorandum (for various years)

Table 3.10A: NON-PLANEXPENDITURE as % of TOTAL EXP = REV+CAP+LOAN ACCOUNTS (contd)

| | | 2002 -03 | 2003 -04 | 2004 -05 | 2005 -06 | 2006 -07 | 2007 -08 | 2008 -09 | 2009 -10 | 2010 -11 | 2011 -02 | 2002 -07 | 2007 -12 | 2002 -12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | REVENUE ACCOUNT | 66.8 | 64.7 | 64.1 | 65.6 | 61.1 | 57.5 | 56.7 | 60.9 | 63.3 | 61.3 | 64.2 | 60.2 | 61.5 |
| A | NON DEVELOPMENTAL | 34.5 | 33.2 | 33.5 | 30.9 | 29.1 | 24.6 | 24.6 | 26.9 | 28.6 | 27.2 | 31.9 | 26.6 | 28.3 |
| a | Organs of State | 0.8 | 0.9 | 0.9 | 0.6 | 0.7 | 0.5 | 0.6 | 0.8 | 0.8 | 0.7 | 0.8 | 0.7 | 0.7 |
| b | Fiscal Services | 1.2 | 1.3 | 1.2 | 1.2 | 1.1 | 0.9 | 0.8 | 0.9 | 0.9 | 0.8 | 1.2 | 0.9 | 1.0 |
| c | Interest Payment& Servicing of Debt | 19.7 | 19.3 | 18.5 | 16.6 | 14.3 | 11.4 | 11.2 | 11.9 | 11.0 | 10.2 | 17.3 | 11.1 | 13.1 |
| d | Administrative Services | 5.2 | 4.9 | 5.1 | 5.1 | 5.0 | 4.4 | 4.6 | 5.2 | 5.6 | 5.3 | 5.1 | 5.1 | 5.1 |
| e | Pensions &misc General Services | 7.6 | 6.8 | 7.9 | 7.4 | 7.9 | 7.3 | 7.3 | 8.0 | 10.3 | 10.2 | 7.6 | 8.8 | 8.4 |
| | TOTAL DEV = B(I) + B(II) | 31.4 | 30.7 | 30.0 | 34.1 | 31.5 | 32.6 | 31.7 | 33.9 | 34.5 | 33.9 | 31.7 | 33.4 | 32.9 |
| B (I) | SOCIAL SERVICES | 19.8 | 19.5 | 18.9 | 18.5 | 17.6 | 15.2 | 16.8 | 19.1 | 19.4 | 19.5 | 18.7 | 18.2 | 18.4 |
| a | Education, Sports, Art & Culture | 11.4 | 11.2 | 10.5 | 10.7 | 10.2 | 8.3 | 7.9 | 9.0 | 10.7 | 10.4 | 10.7 | 9.4 | 9.8 |
| b | Health & Family Welfare | 2.9 | 2.7 | 2.6 | 2.6 | 2.4 | 2.4 | 2.3 | 2.3 | 2.6 | 2.9 | 2.6 | 2.5 | 2.6 |
| c | Water Supply, Sanitation, Housing and Urban Development | 0.9 | 1.2 | 1.1 | 0.9 | 0.5 | 0.5 | 0.5 | 0.7 | 0.8 | 0.9 | 0.9 | 0.7 | 0.8 |
| | Water Supply, Sanitation, | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| | Urban Development | 0.7 | 1.0 | 0.8 | 0.7 | 0.4 | 0.2 | 0.3 | 0.5 | 0.6 | 0.7 | 0.7 | 0.5 | 0.6 |
| d | Information & Publicity | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.1 | 0.2 | 0.1 | 0.2 | 0.1 |
| e | Welfare of SC ST& OBCs | 1.4 | 1.3 | 1.2 | 1.1 | 1.3 | 1.6 | 1.6 | 1.6 | 1.4 | 1.5 | 1.2 | 1.5 | 1.4 |
| f | Labour&Labour Welfare | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.2 | 0.1 | 0.1 |
| g | Social Welfare & Nutrition | 2.8 | 2.5 | 3.2 | 2.8 | 2.9 | 2.2 | 4.1 | 5.0 | 3.6 | 3.4 | 2.9 | 3.7 | 3.4 |
| | Social Security & Welfare | 0.5 | 0.5 | 0.5 | 0.3 | 0.2 | 0.4 | 0.3 | 0.3 | 0.1 | 0.2 | 0.4 | 0.3 | 0.3 |
| | Nutrition | 0.8 | 1.0 | 1.3 | 1.3 | 1.4 | 1.3 | 3.2 | 3.0 | 2.4 | 2.1 | 1.2 | 2.4 | 2.0 |
| | Relief on Account of Natural Calamities | 1.5 | 1.1 | 1.3 | 1.3 | 1.4 | 0.5 | 0.6 | 1.7 | 1.1 | 1.2 | 1.3 | 1.0 | 1.1 |
| B(II) | ECONOMIC SERVICES | 11.7 | 11.3 | 11.1 | 15.7 | 13.9 | 17.4 | 14.9 | 14.8 | 15.1 | 14.4 | 12.9 | 15.2 | 14.5 |
| a | Agriculture & Allied Activities | 2.0 | 1.6 | 1.6 | 1.5 | 1.5 | 1.3 | 0.9 | 1.0 | 1.1 | 1.0 | 1.6 | 1.1 | 1.2 |
| b | Rural Development | 2.0 | 2.8 | 2.8 | 2.4 | 2.4 | 1.8 | 2.0 | 1.7 | 2.5 | 1.9 | 2.5 | 2.0 | 2.2 |
| d | Irrigation and Flood Control | 5.0 | 4.7 | 4.7 | 4.9 | 4.3 | 5.0 | 4.8 | 6.3 | 6.4 | 5.8 | 4.7 | 5.7 | 5.4 |
| e | Energy | 0.2 | 0.3 | 0.2 | 4.1 | 3.0 | 6.6 | 4.8 | 4.1 | 4.0 | 4.0 | 1.8 | 4.6 | 3.7 |
| f | Industry and Minerals | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 |

| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-02 | *2002-07* | *2007-12* | *2002-12* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| g | Transport | 1.9 | 1.6 | 1.5 | 2.4 | 2.2 | 2.2 | 2.1 | 1.4 | 0.7 | 1.2 | *1.9* | *1.4* | *1.6* |
| j | General Economic Services | 0.3 | 0.2 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | *0.3* | *0.2* | *0.2* |
| C | Compensation & Assignments to Local Bodies & P. R. I.s | 0.8 | 0.8 | 0.6 | 0.5 | 0.5 | 0.4 | 0.4 | 0.1 | 0.2 | 0.2 | *0.6* | *0.2* | *0.4* |
| | CAPITAL ACCOUNT | 1.5 | 0.6 | 0.8 | -0.1 | 0.0 | -0.1 | -0.3 | -0.2 | 0.0 | 0.0 | *0.5* | *-0.1* | *0.1* |
| | GENERAL SERVICES | 0.6 | 0.6 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *0.3* | *0.0* | *0.1* |
| d | Administrative Services | 0.6 | 0.6 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *0.3* | *0.0* | *0.1* |
| | Total Developmental | 0.8 | 0.1 | 0.2 | -0.1 | 0.0 | -0.1 | -0.3 | -0.2 | 0.0 | 0.0 | *0.1* | *-0.1* | *0.0* |
| | SOCIAL SERVICES | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *0.1* | *0.0* | *0.0* |
| h | Others | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *0.1* | *0.0* | *0.0* |
| | ECONOMIC SERVICES | 0.5 | 0.1 | 0.2 | -0.1 | 0.0 | -0.1 | -0.3 | -0.2 | 0.0 | 0.0 | *0.1* | *-0.1* | *0.0* |
| g | Transport | 0.5 | 0.1 | 0.2 | -0.1 | 0.0 | -0.1 | -0.3 | -0.2 | 0.0 | 0.0 | *0.1* | *-0.1* | *0.0* |
| | LOAN ACCOUNT | 1.4 | 1.5 | 2.5 | 1.0 | 1.4 | 1.0 | 0.4 | 0.1 | 0.1 | 0.2 | *1.6* | *0.3* | *0.7* |
| | SOCIAL SERVICES | 1.1 | 1.1 | 1.1 | 0.8 | 1.2 | 0.8 | 0.1 | 0.0 | 0.0 | 0.0 | *1.1* | *0.1* | *0.4* |
| b | Health and Family Welfare | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | *0.1* | *0.0* | *0.0* |
| c | Water Supply, Sanitation, Housing and Urban Development | 1.1 | 1.0 | 1.0 | 0.7 | 1.1 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | *1.0* | *0.1* | *0.4* |
| | Water Supply, Sanitation, | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *0.1* | *0.0* | *0.0* |
| | Housing | 1.0 | 0.9 | 0.9 | 0.6 | 1.0 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | *0.9* | *0.1* | *0.4* |
| | ECONOMIC SERVICES | 0.3 | 0.4 | 1.4 | 0.2 | 0.2 | 0.2 | 0.4 | 0.1 | 0.1 | 0.2 | *0.5* | *0.2* | *0.3* |
| a | Agriculture & Allied Activities | 0.0 | 0.3 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *0.2* | *0.0* | *0.1* |
| f | Industry and Minerals | 0.0 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *0.1* | *0.0* | *0.0* |
| g | Transport | 0.1 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *0.1* | *0.0* | *0.0* |
| j | General Economic Services | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 | 0.1 | 0.1 | 0.2 | *0.2* | *0.2* | *0.2* |
| | TOTAL (REV+CAP+LOAN A/C) | 69.7 | 66.8 | 67.5 | 66.5 | 62.5 | 58.4 | 56.8 | 60.8 | 63.4 | 61.5 | *66.2* | *60.4* | *62.3* |
| | total non dev | 35.2 | 33.7 | 34.2 | 30.9 | 29.1 | 24.6 | 24.6 | 26.9 | 28.6 | 27.2 | 32.2 | 26.6 | 28.4 |
| | total dev | 33.7 | 32.3 | 32.7 | 35.1 | 32.9 | 33.5 | 31.8 | 33.8 | 34.6 | 34.1 | 33.4 | 33.6 | 33.5 |
| | total social services | 21.2 | 20.6 | 20.0 | 19.3 | 18.8 | 16.1 | 16.8 | 19.1 | 19.4 | 19.5 | 19.8 | 18.4 | 18.8 |
| | total economic services | 12.5 | 11.8 | 12.7 | 15.8 | 14.1 | 17.4 | 14.9 | 14.7 | 15.2 | 14.6 | 13.5 | 15.3 | 14.7 |

Source: AP Explanatory Memorandum (for various years)

Table 3.11A: PLAN EXPENDITURE As % of TOTAL EXP = REV+CAP+LOAN ACCOUNTS

| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | *2002-07* | *2007-12* | *2002-12* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| I | REVENUE ACCOUNT | 17.0 | 19.2 | 17.6 | 15.0 | 18.2 | 19.9 | 25.1 | 19.6 | 21.2 | 21.6 | *17.4* | *21.5* | *20.2* |
| A | Non Developmental | 0.2 | 0.4 | 0.2 | 0.2 | 0.2 | 1.5 | 0.2 | 0.2 | 0.1 | 0.1 | *0.2* | *0.4* | *0.3* |
| | Total Dev B(I) + B(II) | 16.8 | 18.8 | 17.4 | 14.8 | 18.0 | 18.4 | 24.9 | 19.4 | 21.0 | 21.4 | *17.1* | *21.1* | *19.8* |
| B (I) | Social Services | 7.9 | 9.4 | 8.5 | 9.6 | 11.8 | 11.5 | 16.3 | 13.6 | 15.4 | 15.3 | *9.6* | *14.6* | *13.0* |
| a | Edu. Sports, Art & Culture | 1.6 | 2.0 | 1.5 | 1.6 | 1.3 | 1.2 | 1.6 | 1.7 | 2.8 | 3.3 | *1.6* | *2.2* | *2.0* |
| b | Health &Family Welfare | 1.4 | 1.4 | 1.3 | 1.2 | 1.1 | 1.1 | 1.5 | 1.8 | 1.9 | 1.7 | *1.3* | *1.6* | *1.5* |
| c | Water Supply, Sanitation, Housing and Urban Dev | 1.6 | 1.9 | 2.3 | 3.6 | 4.5 | 4.9 | 6.9 | 4.1 | 3.1 | 2.1 | *3.0* | *4.0* | *3.7* |
| | Water Supply, Sanitation, | 0.3 | 0.5 | 0.2 | 1.9 | 1.8 | 1.6 | 1.6 | 0.7 | 0.3 | 0.2 | *1.1* | *0.8* | *0.9* |
| | Housing | 0.5 | 0.8 | 1.1 | 0.6 | 1.0 | 1.3 | 1.8 | 1.3 | 0.8 | 0.5 | *0.8* | *1.1* | *1.0* |
| | Urban Development | 0.7 | 0.6 | 1.1 | 1.1 | 1.7 | 2.0 | 3.5 | 2.1 | 2.0 | 1.5 | *1.1* | *2.2* | *1.8* |
| e | Welfare of SC ST & OBCs | 2.0 | 2.6 | 2.1 | 1.9 | 2.3 | 2.0 | 2.6 | 2.3 | 3.7 | 3.8 | *2.2* | *3.0* | *2.7* |
| g | Social Welfare & Nutrition | 1.2 | 1.3 | 1.2 | 1.2 | 2.5 | 2.1 | 3.4 | 3.6 | 3.9 | 4.2 | *1.6* | *3.5* | *2.9* |
| | Social Security & Welfare | 0.9 | 0.9 | 0.8 | 1.1 | 2.1 | 1.7 | 2.9 | 3.2 | 3.5 | 3.5 | *1.2* | *3.1* | *2.5* |
| | Nutrition | 0.3 | 0.4 | 0.4 | 0.2 | 0.4 | 0.4 | 0.4 | 0.3 | 0.4 | 0.7 | *0.3* | *0.5* | *0.4* |
| B(II) | Economic Services | 8.9 | 9.4 | 8.9 | 5.2 | 6.2 | 6.9 | 8.6 | 5.8 | 5.7 | 6.1 | *7.5* | *6.5* | *6.8* |
| a | Ag. &Allied Activities | 0.8 | 1.5 | 1.5 | 1.3 | 1.2 | 1.7 | 4.0 | 2.1 | 2.1 | 2.8 | *1.3* | *2.6* | *2.2* |
| b | Rural Development | 1.3 | 1.7 | 1.5 | 1.5 | 2.2 | 2.5 | 2.1 | 1.4 | 1.4 | 1.4 | *1.7* | *1.7* | *1.7* |
| d | Irrigation & Flood Control | 0.6 | 0.6 | 0.4 | 1.2 | 1.8 | 1.6 | 0.6 | 0.6 | 0.7 | 0.6 | *1.0* | *0.8* | *0.8* |
| e | Energy | 5.0 | 4.4 | 4.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *2.5* | *0.0* | *0.8* |
| f | Industry and Minerals | 0.4 | 0.4 | 0.3 | 0.5 | 0.3 | 0.5 | 0.4 | 0.3 | 0.4 | 0.3 | *0.4* | *0.4* | *0.4* |
| g | Transport | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 0.2 | 0.4 | 0.3 | *0.0* | *0.3* | *0.2* |
| j | General Economic Services | 0.7 | 0.8 | 0.5 | 0.7 | 0.6 | 0.5 | 1.1 | 1.1 | 0.6 | 0.7 | *0.7* | *0.8* | *0.8* |
| II | Capital Account | 10.7 | 11.3 | 13.3 | 17.8 | 19.0 | 18.5 | 14.0 | 17.7 | 12.0 | 12.5 | *15.0* | *14.6* | *14.7* |

| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | *2002-07* | *2007-12* | *2002-12* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | General Services | 0.3 | 0.2 | 0.0 | 0.1 | 0.7 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | *0.3* | *0.1* | *0.1* |
| | Total Developmental | 10.5 | 11.2 | 13.2 | 17.7 | 18.3 | 18.4 | 14.0 | 17.6 | 11.8 | 12.5 | *14.7* | *14.5* | *14.6* |
| | Social Services | 2.4 | 1.7 | 2.0 | 0.4 | 0.3 | 0.4 | 0.4 | 0.8 | 0.7 | 0.8 | *1.2* | *0.6* | *0.8* |
| a | Edu. Sports, Art and Culture | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | *0.1* | *0.1* | *0.1* |
| | Water Supply, Sanitation, | 2.0 | 1.0 | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 0.2 | 0.1 | *0.7* | *0.2* | *0.3* |
| e | Welfare of SC ST & OBCs | 0.3 | 0.6 | 0.6 | 0.2 | 0.1 | 0.1 | 0.2 | 0.3 | 0.3 | 0.4 | *0.4* | *0.3* | *0.3* |
| | Economic Services | 8.1 | 9.5 | 11.2 | 17.3 | 18.0 | 18.0 | 13.5 | 16.8 | 11.2 | 11.7 | *13.5* | *13.9* | *13.8* |
| d | Irrigation & Flood Control | 4.4 | 4.3 | 8.6 | 14.2 | 15.7 | 15.9 | 11.3 | 14.3 | 9.8 | 9.9 | *10.3* | *11.9* | *11.4* |
| e | Energy | 0.1 | 2.4 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *0.5* | *0.0* | *0.2* |
| f | Industry and Minerals | 0.1 | 0.4 | 0.2 | 0.1 | 0.1 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | *0.2* | *0.0* | *0.1* |
| g | Transport | 2.3 | 1.5 | 1.3 | 2.0 | 1.7 | 1.4 | 1.8 | 1.9 | 1.1 | 1.1 | *1.8* | *1.4* | *1.5* |
| III | Loan Account | 2.5 | 2.7 | 1.6 | 0.7 | 0.4 | 3.2 | 4.1 | 1.9 | 3.5 | 4.4 | *1.4* | *3.5* | *2.8* |
| | Social Services | 0.2 | 0.8 | 0.8 | 0.4 | 0.0 | 2.8 | 3.9 | 1.8 | 2.7 | 2.6 | *0.4* | *2.7* | *2.0* |
| a | Edu. Sports, Art and Culture | 0.1 | 0.1 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *0.1* | *0.0* | *0.0* |
| | Housing | 0.0 | 0.5 | 0.5 | 0.4 | 0.0 | 2.7 | 3.7 | 0.5 | 1.0 | 1.2 | *0.3* | *1.7* | *1.2* |
| | Urban Development | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.7 | 1.0 | 1.1 | *0.0* | *0.6* | *0.4* |
| | Economic Services | 2.4 | 1.9 | 0.8 | 0.3 | 0.3 | 0.4 | 0.2 | 0.1 | 0.7 | 1.8 | *1.0* | *0.7* | *0.8* |
| e | Energy | 1.9 | 1.7 | 0.7 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | 1.4 | *0.7* | *0.5* | *0.6* |
| f | Industry and Minerals | 0.4 | 0.2 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | *0.2* | *0.0* | *0.1* |
| g | Transport | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.3 | 0.1 | 0.1 | 0.1 | 0.3 | *0.0* | *0.2* | *0.1* |
| | TOTAL EXP (I+II+III) | 30.3 | 33.2 | 32.5 | 33.5 | 37.5 | 41.6 | 43.2 | 39.2 | 36.6 | 38.5 | *33.8* | *39.6* | *37.7* |
| | total non dev | 0.5 | 0.5 | 0.3 | 0.2 | 0.9 | 1.6 | 0.3 | 0.3 | 0.3 | 0.2 | 0.5 | 0.5 | 0.5 |
| | total dev | 29.8 | 32.6 | 32.2 | 33.2 | 36.7 | 40.0 | 43.0 | 38.9 | 36.3 | 38.2 | 33.3 | 39.1 | 37.2 |
| | total social services | 10.4 | 11.8 | 11.3 | 10.4 | 12.1 | 14.7 | 20.6 | 16.2 | 18.7 | 18.7 | 11.3 | 17.9 | 15.8 |
| | total economic services | 19.4 | 20.8 | 20.9 | 22.8 | 24.5 | 25.3 | 22.4 | 22.7 | 17.6 | 19.5 | 22.0 | 21.1 | 21.4 |

Source: AP Explanatory Memorandum (for various years)

Table 3.12A: Trends in Committed Expenditure

( As % of Revenue Expenditure)

| | Salaries & Wages | Pensions | Interest Payments | Admn. Services | Salaries + Pensions | Salary + Pension + Int. Payment | Commited Expenses + Int. Pay + Admn Services |
|---|---|---|---|---|---|---|---|
| 2002-03 | 31.1 | 9.1 | 23.5 | 6.5 | 40.2 | 63.7 | 39.1 |
| 2003-04 | 29.2 | 8.1 | 23.0 | 6.2 | 37.4 | 60.3 | 37.4 |
| 2004-05 | 28.2 | 9.6 | 22.6 | 6.4 | 37.8 | 60.5 | 38.7 |
| 2005-06 | 29.4 | 9.2 | 20.1 | 6.5 | 38.6 | 58.6 | 35.7 |
| 2006-07 | 28.8 | 10.0 | 17.6 | 6.5 | 38.8 | 56.4 | 34.1 |
| 2007-08 | 24.1 | 9.4 | 14.1 | 7.6 | 33.5 | 47.6 | 31.1 |
| 2008-09 | 23.1 | 8.9 | 13.0 | 5.8 | 32.0 | 45.0 | 27.8 |
| 2009-10 | 27.4 | 10.0 | 14.0 | 6.8 | 37.4 | 51.5 | 30.8 |
| 2010-11 | 26.9 | 12.2 | 12.3 | 6.8 | 39.1 | 51.5 | 31.3 |
| 2011-12 | 26.4 | 12.3 | 11.7 | 6.5 | 38.6 | 50.3 | 30.5 |
| 2002-07 | 29.3 | 9.3 | 21.0 | 6.4 | 38.5 | 59.5 | 36.7 |
| 2007-12 | 25.7 | 10.8 | 12.9 | 6.7 | 36.6 | 49.4 | 30.3 |
| 2002-12 | 26.9 | 10.3 | 15.5 | 6.6 | 37.2 | 52.7 | 32.4 |

Source: Government of Andhra Pradesh: Comptroller and Auditor General of India, (CAG) *Audit Report (Civil) for various years.*

Table 3.13A: Trends in government subsidies

| | As % of State Own Revenue | | | | As % of Total Revenue Receipts | | | | As % of Total Revenue Expenditure | | | | As % of GSDP | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | power | rice | others | Total | power | rice | others | Total | power | rice | others | Total | power | rice | others | Total |
| 2002-03 | 9.6 | 1.5 | 0.2 | 11.4 | 6.8 | 1.1 | 0.2 | 8.0 | 6.0 | 0.9 | 0.2 | 7.0 | 0.9 | 0.1 | 0.0 | 1.1 |
| 2003-04 | 8.9 | 2.0 | 0.3 | 11.2 | 5.8 | 1.3 | 0.2 | 7.3 | 5.2 | 1.1 | 0.2 | 6.5 | 0.8 | 0.2 | 0.0 | 1.0 |
| 2004-05 | 9.1 | 2.5 | 0.5 | 12.1 | 6.3 | 1.7 | 0.4 | 8.4 | 5.8 | 1.6 | 0.3 | 7.7 | 0.8 | 0.2 | 0.0 | 1.1 |
| 2005-06 | 7.0 | 2.2 | 0.9 | 10.1 | 4.9 | 1.6 | 0.6 | 7.0 | 4.9 | 1.5 | 0.6 | 7.0 | 0.7 | 0.2 | 0.1 | 1.0 |
| 2006-07 | 4.5 | 2.3 | 0.8 | 7.6 | 3.1 | 1.6 | 0.6 | 5.3 | 3.3 | 1.7 | 0.6 | 5.6 | 0.5 | 0.2 | 0.1 | 0.8 |
| | | | | | | | | | | | | | | | | |
| 2002-07 | 7.4 | 2.1 | 0.6 | 10.2 | 5.1 | 1.5 | 0.4 | 7.0 | 4.9 | 1.4 | 0.4 | 6.7 | 0.7 | 0.2 | 0.1 | 1.0 |
| | | | | | | | | | | | | | | | | |
| 2007-08 | 6.8 | 2.5 | 1.7 | 10.9 | 4.5 | 1.6 | 1.1 | 7.2 | 4.5 | 1.6 | 1.1 | 7.3 | 0.7 | 0.2 | 0.2 | 1.1 |
| 2008-09 | 7.9 | 5.4 | 1.1 | 14.4 | 5.4 | 3.7 | 0.8 | 9.9 | 5.5 | 3.8 | 0.8 | 10.0 | 0.8 | 0.5 | 0.1 | 1.5 |
| 2009-10 | 7.5 | 5.5 | 1.1 | 14.1 | 5.0 | 3.6 | 0.8 | 9.4 | 5.1 | 3.7 | 0.8 | 9.5 | 0.7 | 0.5 | 0.1 | 1.2 |
| 2010-11 | 6.5 | 4.0 | 1.2 | 11.7 | 4.5 | 2.8 | 0.8 | 8.1 | 4.6 | 2.9 | 0.8 | 8.3 | 0.6 | 0.4 | 0.1 | 1.1 |
| 2011-12 | 6.6 | 3.5 | 1.1 | 11.3 | 4.6 | 2.4 | 0.8 | 7.8 | 4.8 | 2.5 | 0.8 | 8.1 | 0.6 | 0.3 | 0.1 | 1.1 |
| | | | | | | | | | | | | | | | | |
| 2007-12 | 7.0 | 4.2 | 1.2 | 12.4 | 4.8 | 2.8 | 0.8 | 8.4 | 4.9 | 2.9 | 0.9 | 8.6 | 0.7 | 0.4 | 0.1 | 1.2 |
| | | | | | | | | | | | | | | | | |
| 2002-12 | 7.1 | 3.5 | 1.0 | 11.7 | 4.9 | 2.4 | 0.7 | 8.0 | 4.9 | 2.4 | 0.7 | 8.0 | 0.7 | 0.3 | 0.1 | 1.1 |

Source: Government of Andhra Pradesh: Comptroller and Auditor General of India, (CAG) *Audit Report (Civil) for various years.*

Table 4.1A: Financing fiscal deficit

| | Market Borrowings | Loans From The Centre | Spl. Securities Issued To NSSF | Loans From LIC NABARD, NCDC, SBI & OTHER Banks | Small Savings PF Etc | Reserve Funds | Deposits & Advances | Suspense & Miscella-neous | Remit-tances | Others | Overall Surplus (-)/ Deficit (+) | Gross Fiscal Surplus (-)/ Deficit (+) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2002-3 | 42.2 | 3.4 | 34.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 19.5 | 0.0 | 100.0 |
| 2003-04 | 37.9 | 26.9 | 12.9 | -4.0 | 4.5 | 2.8 | 10.9 | -31.3 | 1.2 | 38.1 | 0.0 | 100.0 |
| 2004-05 | 35.2 | -31.0 | 59.0 | 15.7 | 3.2 | 0.2 | 25.6 | -13.4 | 6.2 | -12.5 | 11.9 | 100.0 |
| 2005-06 | 16.7 | -0.7 | 58.2 | 9.9 | 5.8 | 0.4 | 14.7 | 33.7 | 2.8 | -41.5 | 0.0 | 100.0 |
| 2006-07 | 38.9 | -15.5 | 70.8 | 9.1 | 12.4 | 0.3 | 36.5 | -4.5 | -0.6 | -27.2 | -20.3 | 100.0 |
| | | | | | | | | | | | | |
| 2002-07 | 33.6 | -3.3 | 46.5 | 6.2 | 4.8 | 0.8 | 16.7 | -2.4 | 2.1 | -4.5 | -0.5 | 100.0 |
| | | | | | | | | | | | | |
| 2007-8 | 64.2 | -0.5 | 2.1 | 5.9 | 8.6 | 2.9 | 38.9 | 1.5 | 10.7 | 0.2 | -34.5 | 100.0 |
| 2008-09 | 73.8 | -3.2 | -0.1 | 3.3 | 4.7 | 2.2 | -14.6 | 2.6 | -13.1 | 10.8 | 33.6 | 100.0 |
| 2009-10 | 94.9 | 0.5 | 7.3 | 1.3 | 6.9 | -0.8 | -10.3 | -0.1 | 10.2 | -7.7 | -2.1 | 100.0 |
| 2010-11 | 87.8 | 5.8 | 19.0 | -1.8 | 13.6 | 8.0 | 14.4 | -18.6 | -11.4 | -19.0 | 2.2 | 100.0 |
| 2011-12 | 85.1 | 11.5 | -6.5 | 0.8 | 7.9 | 2.3 | 8.7 | 2.2 | 0.6 | -8.4 | -4.1 | 100.0 |
| | | | | | | | | | | | | |
| 2007-12 | 82.6 | 3.4 | 3.9 | 1.6 | 8.2 | 2.7 | 5.1 | -2.3 | -0.8 | -5.2 | 0.7 | 100.0 |
| | | | | | | | | | | | | |
| 2002-12 | 64.3 | 0.9 | 19.8 | 3.3 | 6.9 | 2.0 | 9.4 | -2.3 | 0.3 | -5.0 | 0.3 | 100.0 |

Table 4.2A: Total Outstanding Public Debt/Liabilities

| | Total Outstanding Public Debt | Total Outstanding Liabilities | Guarantees/ Contingent Liabilities | breakup of guarantees | | outstanding debt + guarantee |
|---|---|---|---|---|---|---|
| | | | | power | others | |
| | As % of State Own Revenue | | | | | |
| 2002-03 | 310.2 | 347.0 | 94.9 | 0.0 | 0.0 | 405.0 |
| 2003-04 | 337.6 | 374.8 | 99.0 | 67.5 | 31.5 | 436.5 |
| 2004-05 | 331.9 | 377.0 | 88.5 | 60.1 | 28.4 | 420.4 |
| 2005-06 | 289.7 | 342.7 | 71.6 | 48.6 | 23.0 | 361.3 |
| 2006-07 | 247.9 | 297.4 | 57.4 | 37.8 | 19.6 | 305.3 |
| 2007-08 | 230.0 | 278.5 | 47.0 | 30.4 | 16.7 | 277.1 |
| 2008-09 | 217.4 | 255.7 | 38.9 | 25.8 | 13.1 | 256.3 |
| 2009-10 | 254.4 | 287.8 | 35.5 | 20.1 | 15.4 | 289.9 |
| 2010-11 | 217.9 | 249.8 | 20.8 | 10.0 | 10.9 | 238.8 |
| 2011-12 | 208.8 | 235.4 | 15.5 | 10.1 | 5.4 | 224.2 |
| | As % of Total Revenue Receipts | | | | | |
| 2002-03 | 217.7 | 243.6 | 70.1 | 0.0 | 0.0 | 284.3 |
| 2003-04 | 218.7 | 242.9 | 74.9 | 51.1 | 23.8 | 282.9 |
| 2004-05 | 231.0 | 262.4 | 65.9 | 44.8 | 21.1 | 292.6 |
| 2005-06 | 202.0 | 239.0 | 60.5 | 41.1 | 19.5 | 252.0 |
| 2006-07 | 170.4 | 204.4 | 50.1 | 33.0 | 17.1 | 209.9 |
| 2007-08 | 152.3 | 184.5 | 38.1 | 24.6 | 13.5 | 183.5 |
| 2008-09 | 148.9 | 175.1 | 30.9 | 20.5 | 10.4 | 175.5 |
| 2009-10 | 169.1 | 191.2 | 24.3 | 13.7 | 10.5 | 192.6 |
| 2010-11 | 150.3 | 172.3 | 18.0 | 8.6 | 9.4 | 164.7 |
| 2011-12 | 145.0 | 163.5 | 12.4 | 8.1 | 4.3 | 155.7 |
| | As % of GSDP | | | | | |
| 2002-03 | 30.0 | 33.5 | 9.2 | 0.0 | 0.0 | 39.1 |
| 2003-04 | 30.9 | 34.3 | 9.1 | 6.2 | 2.9 | 40.0 |
| 2004-05 | 29.5 | 33.6 | 7.9 | 5.4 | 2.5 | 37.4 |
| 2005-06 | 27.5 | 32.5 | 6.8 | 4.6 | 2.2 | 34.3 |
| 2006-07 | 25.0 | 30.0 | 5.8 | 3.8 | 2.0 | 30.8 |
| 2007-08 | 22.6 | 27.4 | 4.6 | 3.0 | 1.6 | 27.2 |
| 2008-09 | 21.9 | 25.8 | 3.9 | 2.6 | 1.3 | 25.9 |
| 2009-10 | 22.3 | 25.2 | 3.1 | 1.8 | 1.4 | 25.4 |
| 2010-11 | 20.7 | 23.7 | 2.0 | 0.9 | 1.0 | 22.6 |
| 2011-12 | 20.1 | 22.6 | 1.5 | 1.0 | 0.5 | 21.5 |

Source:

Table 4.3A: COMPOSITION OF OUTSTANDINGLIABILITIES (AS AT THE END OF MARCH)

| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12RE | X Plan 2002-07 | XI Plan 2007-11 | XI Plan 2011-12 RE | XI Plan 2007-12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | Total Internal Debt (1 To 6) | 47.4 | 54.1 | 59.8 | 61.5 | 62.3 | 60.7 | 65.0 | 68.5 | 68.1 | 69.1 | 57.9 | 65.9 | 69.1 | 66.7 |
| 1 | *State Development Loans (Open Market Loans)* | 25.4 | 26.2 | 26.5 | 25.6 | 26.0 | 29.2 | 34.8 | 41.7 | 44.4 | 49.1 | 26.0 | 38.3 | 49.1 | 40.9 |
| 2 | Power Bonds | 0.0 | 3.7 | 3.2 | 2.9 | 2.4 | 2.0 | 1.7 | 1.3 | 0.9 | 0.6 | 2.6 | 1.5 | 1.4 | 1.5 |
| 3 | Compensation& Other Bonds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 4 | *NSSF* | 12.0 | 15.5 | 19.9 | 23.9 | 26.6 | 24.3 | 22.0 | 20.4 | 19.7 | 17.3 | 20.5 | 21.4 | 17.3 | 20.4 |
| 5 | WMAfrom RBI | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 6 | Loans from Banks & FIIs | 9.9 | 8.7 | 10.3 | 9.1 | 7.2 | 5.3 | 6.5 | 5.1 | 3.1 | 2.1 | 8.9 | 4.8 | 2.1 | 4.2 |
| a | LIC | 0.9 | 0.7 | 3.0 | 2.9 | 2.3 | 1.8 | 1.3 | 0.9 | 0.5 | 0.4 | 2.1 | 1.0 | 0.4 | 0.9 |
| b | GIC | 0.0 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 |
| c | NABARD | 3.0 | 2.2 | 1.1 | 1.9 | 2.6 | 3.2 | 3.6 | 3.5 | 3.3 | 3.1 | 2.2 | 3.4 | 3.1 | 3.3 |
| d | SBI & Other Banks | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| e | NCDC | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| f | Other Institutions | 0.0 | 5.5 | 5.8 | 4.1 | 2.0 | 0.1 | 1.4 | 0.5 | -0.9 | -1.6 | 3.6 | 0.2 | -1.6 | -0.2 |
| g | Other Loans | 5.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.9 | 0.0 | 0.0 | 0.0 |
| | | | | | | | | | | | | | | | |
| B | Loans from the Centre | 36.5 | 28.5 | 21.4 | 19.1 | 16.6 | 15.1 | 13.4 | 11.9 | 11.1 | 11.2 | 23.2 | 12.7 | 11.2 | 12.3 |
| | | | | | | | | | | | | | | | |
| C | Provident Fund Etc | 7.4 | 7.3 | 6.8 | 6.7 | 6.8 | 6.9 | 6.8 | 6.8 | 7.2 | 7.3 | 7.0 | 6.9 | 7.3 | 7.0 |
| D | Reserve Funds | 0.6 | 1.9 | 2.1 | 2.3 | 2.5 | 3.1 | 3.6 | 2.9 | 4.6 | 3.9 | 2.0 | 3.6 | 3.9 | 3.7 |
| E | Deposits & Advances (Net Balances) | 8.0 | 8.1 | 9.8 | 10.4 | 11.8 | 14.1 | 11.2 | 9.9 | 9.0 | 8.4 | 9.9 | 10.8 | 8.4 | 10.2 |
| F | Contingency Funds | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| | | | | | | | | | | | | | | | |
| | Total Outstanding Liabilities (A To F) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Data source: prior to 2008-09, Handbook of Statistics on State Government Finances 2010 for 2009-10 onwards, RBI's State Finances: A Study of Budgets for the years 2011-12 and 2012-13

Table 4.4 A: Outstanding liabilities as % of GSDP

| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12RE |
|---|---|---|---|---|---|---|---|---|---|---|---|
| A | Total Internal Debt | *15.9* | *18.6* | *20.1* | *20.0* | *18.7* | *16.6* | *16.8* | *17.3* | *16.1* | *15.6* |
| B | Loans From The Centre | *12.2* | *9.8* | *7.2* | *6.2* | *5.0* | *4.1* | *3.5* | *3.0* | *2.6* | *2.5* |
| C | Provident Fund Etc | *2.5* | *2.5* | *2.3* | *2.2* | *2.0* | *1.9* | *1.7* | *1.7* | *1.7* | *1.7* |
| D | Reserve Funds | *0.2* | *0.6* | *0.7* | *0.8* | *0.8* | *0.9* | *0.9* | *0.7* | *1.1* | *0.9* |
| E | Deposits & Advances (Net Balances) | *2.7* | *2.8* | *3.3* | *3.4* | *3.5* | *3.9* | *2.9* | *2.5* | *2.1* | *1.9* |
| F | Contingency Funds | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* |
| | Total Outstanding Liabilities (A to F) | *33.5* | *34.3* | *33.6* | *32.5* | *30.0* | *27.4* | *25.8* | *25.2* | *23.7* | *22.6* |

Source: Data source: prior to 2008-09, Handbook of Statistics on State Government Finances 2010 for 2009-10 onwards, RBI's State Finances: A Study of Budgets for the years 2011-12 and 2012-13

Appendix Table 5.1A: Number of SLPEs during 2002-12

| Year | Working | Non-Working | Total | Statutory | Grand Total |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 (col 2+3) | 5 | 6 (col 4+5) |
| 2002-03 | 31 | 18 | 49 | 3 | 52 |
| 2003-04 | 31 | 17 | 48 | " | 51 |
| 2004-05 | 33 | 18 | 51 | " | 54 |
| 2005-06 | 35 | 18 | 53 | " | 56 |
| 2006-07 | 35 | 18 | 53 | " | 56 |
| 2007-08 | 38 | 18 | 56 | " | 59 |
| 2008-09 | 39 | 24 | 63 | " | 66 |
| 2009-10 | 41 | 24 | 65 | " | 68 |
| 2010-11 | 45 | 24 | 69 | " | 72 |
| 2011-12 | 47 | 24 | 71 | " | 74 |

Source: Government of Andhra Pradesh: Comptroller and Auditor General of India, (CAG) *Audit Report (Commercial) for various years.*

Appendix Table 5.2A: Average Interest Received on Loans Advanced[#] by the State Government (Rupees in crore)

| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 Actual |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance | 8405 | 9180 | 9419* | 9639 | 10213 | 10,648 | 13,378 | 16,421 | 17,868 | 21,011 |
| | Amount Advanced during the year | 1235 | 1494 | 1593 | 756 | 907 | 2,921 | 3,413 | 1,590 | 3,315 | 4,983 |
| | Amount repaid during the year | 460 | 1256 | 1373 | 182 | 471 | 191 | 370 | 143 | 172 | 165 |
| | Closing Balance | 9180 | 9418 | 9639 | 10213 | 10649 | 13,378 | 16,421 | 17,868 | 21,011 | 25,829 |
| | Net Addition | 775 | 238 | 220 | 574 | 436 | 2,730 | 3,043 | 1,447 | 3,142 | 4,818 |
| | Interest Received | 282 | 422 | 68 | 18 | 114 | 44 | 21 | 32 | 60 | 95 |
| | Interest Received as per cent to Loans advanced (%) | 3.21 | 4.5 | 0.71 | 0.18 | 1.1 | 0.33 | 0.13 | 0.18 | 0.29 | 0.37 |
| | Average interest paid by the State (%) | 11.99 | 11.5 | 10.2 | 9.11 | 8.8 | 7.79 | 7.54 | 7.44 | 7.17 | 7.02 |
| | Difference between interest paid and received (per cent) | 8.8 | 7.0 | 9.5 | 8.9 | 7.7 | (-)7.46 | (-)7.41 | (-)7.26 | (-)6.88 | 6.7 |

#Total loans and advances given by the government includes not only SLPEs but entire pool
Source: Audit Report (Civil) for the year ended 31 March 2003&31 March 2007
Source: *Audit Report (State Finances) for the year ended 31 March 2012*