Evaluation of Andhra Pradesh State Finances

(Fifteenth Finance Commission's Study on Evaluation of State Finances)

N. SREEDEVI

LEAD RESEARCHER

Centre for Economic and Social Studies (CESS)

N.O. Campus, Begumpet, Hyderabad – 500 016

Telangana, India

Ph: 040-23406789,23416780,Fax:040-23406808

Web:www.cess.ac.in,email:post@cess.ac.in

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TEAM MEMBERS

R. SUDARSANA RAO
M. GOPINATH REDDY
G. ALIVELU
S. GALAB

Centre for Economic and Social Studies (CESS)

N.O. Campus, Begumpet, Hyderabad – 500 016
Telangana, India
Ph: 040-23406789,23416780,Fax:040-23406808
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Abbreviations

ACS	Average Cost of Supply
AP	Andhra Pradesh
APSPDCL	Andhra Pradesh Southern Power Distribution Company Limited
ARR	Average Revenue Realized
C&AG / CAG	Comptroller and Auditor General of India
CEOs	Chief Executive Officers
DISCOMs	Power Distribution companies / State Power Distribution companies
EPDCAPL	Eastern Power Distribution Company of Andhra Pradesh Limited
FC	Finance Commission
FRBM	Fiscal Responsibility and Budget Management
GFD	Gross Fiscal Deficit
GOAP	Government of Andhra Pradesh
GOI	Government of India
GPs	Gram Panchayats
GSDP	State Domestic Product
GST	Goods and Services Tax
GVA	Gross Value Added
IMFL	Indian Made Foreign Liquor
MA & UD	Municipal Administration and Urban Development
MOP	Ministry of Power
MoPR	Ministry of Panchayat Raj
MOU	Memorandum of Understanding (MoU
MPDOs	Mandal Parishad Development Officers)
MPPs	Mandal Praja Parishads
PAC	Public Accounts Committee
PD	Primary Deficit
PESA	Panchayat Extention to Scheduled Areas
PIB	Press Information Bureau
PRIs	Panchayat Raj Institutions
PSUs	Public Sector Undertakings
R & D	Research and Development
RBI	Reserve Bank of India (RBI)
RD	Revenue Deficit
SFC	State Finance Commission
SGST	State Goods and Services Tax
SLPEs.	State Level Public Enterprise (SLPEs)
SONTR	State's Own Non-Tax Revenue (SONTR)
SOTR	State Own Tax Revenue (SOTR)
ToR	Terms of Reference
UDAY	*Ujwal* DISCOM Assurance Yojna
ULB	Urban Local Bodies
VAT	Value Added Tax
ZPPs	Zilla Praja Parishads

PREFACE

Andhra Pradesh Reorganisation Act, 2014 for bifurcation of Andhra Pradesh received the President's assent on 01 March 2014. The ''appointed day'' for the new States' formation was 02 June 2014. Andhra Pradesh state, which had 23 districts, at present consists of 13 districts. State reorganisation encumbrances the strings in altering the resources, expenditures, deficits and debts, in short, public finances of those states. This, in turn, depends on the location of economic activities, public or private, between the reorganised states.

The impact of bifurcation of the state is multifaceted. Sectoral change in the state economy; with seven backward districts (out of 13 districts), lack of sufficient urbanisation and metropolis and dispossession of wide-ranged, well-established Institutes of National Importance pressurises the state exchequer and thereby economic and social development. On the other hand, Andhra Pradesh state finances started facing deficit situation. Added to this, apprehension in the estimated Resource Gap for the year 2014-15 and anomalies in Andhra Pradesh Reorganisation Act particularly with regard to apportionment of tax arrears further burdens the state budget.

With the impact of UDAY scheme on interest payment burden, revenue and fiscal deficits and growing liabilities, it is aherculean task to improve the fiscal situation of the state and follow the fiscal consolidation path as well as the targets set by the FC-XIV.

Receipts, expenditures, deficits and debt - each one of these issues covered comprehensively in this study, as per the ToR of the Fifteenth Finance Commission.

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

DIRECTOR

ACKNOWLEDGEMENTS

At the outset we are grateful to Fifteenth Finance Commission for sponsoring the study on the theme **Evaluation of Andhra Pradesh State Finances** and thus giving us an opportunity to associate with the Commission. We are thankful to Prof. Galab, Director of our Centre for not only giving us the opportunity but also for his unstinting cooperation in every aspect and at every phase of this study.

We consider it a privilege to express our deep sense of gratitude to Sri. B.P.R.Vithal, member of the Tenth Finance Commission with whose valuable suggestions and inspiration we could take up this study. We thank him for the encouragement he has extended to us in this regard.

Sincere thanks are due to Prof. C. H. Hanumantha Rao, member of the Seventh and Eighth Finance Commissions.

We are also thankful to Prof. R. Radhakrishna, the Chairman of our Centre for his constant encouragement in completion of this study.

Special Thanks to Prof. E. Revathi for her support during the course this study.

We thank our colleagues and the administration at our Centre for facilitating us in various aspects during the study period. Support services of Smt. N.Gayathri in collecting and compiling the data and also secretarial assistance is duly acknowledge.

Executive Summary

- General

  - Andhra Pradesh Reorganisation Act, 2014, for bifurcation of Andhra Pradesh received the President's assent on 01 March 2014. The ''appointed day'' for the new States' formation was 02 June 2014. Andhra Pradesh state, which had 23 districts, at present consists of 13 districts.
  - The impact of bifurcation of the state has several fronts.
  - Andhra Pradesh (AP) economy turned into a state with sag service and industrial sectors and ascent agriculture sector which is reflected in its GVA when compared with All India.
  - Of the total 13 districts in the state, seven are backward districts.
  - Lack of sufficient urbanisation and metropolis.
  - State is deprived of wide-ranged, well-established Institutes of National Importance.
  - State finances started facing deficit situation.
  - Apprehension in the estimated Resource Gap for the year 2014-15; and
  - Anomalies in the Reorganisation Act mainly with regard to apportionment of tax arrears.

- Financial status of Andhra Pradesh in 2014-15

  - ➢ Receipts of the State Government

  - The state started with a opening balance of Rs.-76 crores. The revenue account and overall budget are negative.
  - Of the total receipts, 75 percent comes from revenue receipts and remaining 25 percent from capital receipts. Total receipts constituted 16.66 percent of GSDP of which the major segment is revenue receipts (12.51 percent) followed by capital receipts (4.15 percent).
  - Of the total revenue receipts, state's own revenue and central transfers constituted 58 percent and 42 percent respectively. The share of grants-in-aid is higher than the share in central taxes.
  - Similar is the proportion with respect to GSDP. This shows the financial dependency of the state particularly on central grants-in-aid.

- Of own tax revenue sources, revenue from sales tax, state excise, stamp duty and registration fee and motor vehicles tax including goods and passengers' tax are the four major sources. Similar pattern follows in terms of State own revenue and Total Revenue Receipts.
- Most of own non-tax revenue shows that most of the revenue is from interest receipts followed by other non-tax revenue which comprises of general services, social services and economic services.

  - **Expenditures of the State Government**

- Total expenditure is higher than total receipts by 9.6 percentage points. Total expenditure (including disbursements) is 18 percent of GSDP while net of disbursements is 16 percent.
- Composition of total expenditure (revenue, capital and loan accounts only) shows that developmental and non-developmental expenditure covers about 77 percent and 23 percent respectively. The proportion of corresponding expenditures in GSDP are 12.58 percent and 3.68 percent.
- The proportions of social and economic services either in GSDP or in total expenditure is more or less equal.

  - **Deficit and Debt Situation**

- Revenue expenditure is more than total revenue by 21 percentage points. The revenue deficit situation raised. Fiscal deficit /GSDP at 3.95 percent crossed the FRBM target.
- Revenue deficit is major contributor of the total fiscal deficit, followed by capital expenditure and net lending. Hence, two-thirds of the borrowings are spent to fill the revenue deficit and remaining one-third towards developmental activities – other two components of fiscal deficit.
- The 42.36 percent of the debt raised is spent towards debt repayments. Over and above the net debt (nearly 58 percent of the debt raised), the state depends on the borrowings from the public account.
- The total outstanding public debt is amounted to Rs. 148743.5 crores. More than 50 percent of the outstanding debt is constituted by open market operations. Debt/ GSDP is about 28.33 percent.

  - **Un-apportioned public debt**

- Since 2016-17, the un-apportioned outstanding public debt amounts to Rs. 23483.2.
- Un-apportioned Net public account alone constitutes 3.31 percent of GSDP.
- Pending apportionment of balances is a cause of concern particularly with regard to inadequate steward ship of assets, opportunity cost in utilizing the assets and loss of their time value.
- The issues which are with immediate effect and short or long run need to be addressed.

- **State Own Revenues**
  - **Total Receipts Scenario**
- The total receipts/ GSDP declined from 25 percent in 201516 to 24 percent in 2016-17 and further declined to 19 percent in 2017-18 RE declined mainly because of declining of capital receipts, particularly floating debt.
- The revenue receipts/ GSDP declined from 14.77 percent in 2015-16 to 14.23 percent in 2016-17 but showed an increase by one percent in 2017-18 RE mainly because of the higher revised estimations by way of grants-in-aid from the centre.
- The relative share of revenue receipts in total receipts showed an increase only in the revised and budget estimates of latest two years because of higher estimations from all the major components except own non-tax revenue.
- In the total revenue, the share of central transfers is higher than the own revenue, particularly because of grants-in-aid. This shows the increased dependency of the state for resources.
  - **State own tax revenue Receipts Scenario**
- The state own tax revenue / GSDP which was 6.65 percent in 2015-16 fluctuated in the subsequent years and never reached 2015-16 position.
- State own tax revenue and total revenue receipts have shown a higher growth rate while State own non-tax revenue, central transfers and most of the capital receipts and hence total receipts showed a +ve and –ve growth rates.
- The state own tax revenue / GSDP is lower than the projections of 14th Finance Commission.

- The growth rate of SOTR in 2016-17 over 2015-16 was 10 percent. But the estimates showed a consistent high growth rate in subsequent years. Accounts speak out factual situation.
- The outcome of GST may be assessed on the basis of accounts. Assessment of GST based on revised and budget estimates may not give realistic picture.
- In brief, the receipts of Andhra Pradesh state government showed variations in terms of GSDP, total revenue and growth rates. The data for the last two years belong to only estimates and not the accounts. Accounts will give a clear picture.
- The strategy of the state government for revenue augmentation is by improving tax administration, revenue buoyancy, minimizing of transaction costs and rationalizing the tax structure. Hence, the focus is on streamlining and strengthening existing tax and non-tax collection, mechanism and plugging of revenue leakages.
- Earnestness in fiscal marksmanship, minimising irregularities pointed out by CAG in revenue collections may strengthen the policy measures pronounced by the state government to augment own revenues.

- **Expenditure - Trends and Patterns**
  - **Expenditure Reforms in Andhra Pradesh**

- State Fiscal Policy strategy is to control revenue expenditure by cutting administrative costs with the use of available modern technology so as to enhance investment in productive capital assets and social sectors in order to attain sustainable and equitable economic growth.
- In 2017-18, a separate Outcome Budget is presented in Volume VII/1. The government intends to initiate **Operationalization of the Comprehensive Financial Management System (CFMS).** Andhra Pradesh Centre for Financial Systems and Services (APCFSS), the special purpose vehicle established under the administrative control of Finance Department.
- State government is yet to amend its FRBM Act as per the 14th Finance Commission's recommendations, especially on fiscal targets viz., revenue deficit, fiscal deficit and outstanding liabilities to GSDP ratio. Further, the Government has not provided yearly pension liabilities on actuarial basis for the ensuing years, as stipulated in provision 7(2)(iii) of FRBM Act, 2005.

- As per Rule 6 of FRBM rules, as required under section 10 of the FRBM Act. Out of 10 disclosures prescribed, the statement of assets in **Form D-7**, the statement on liabilities in respect of major works and contracts, committed liabilities in respect of land acquisition charges and claims on the State Government in respect of unpaid bills on works and supplies in **Form D-9** were not presented along with the budget 2018-19.

➢ **Budgetary Expenditure –Trends**

- Continuous decline in total budgetary expenditure 2015-18RE mainly due to
- Continuous decline of capital disbursements in all the years i.e., in 2015-16 to 2017-18RE.
- Revenue expenditure/GSDP increased from 15.98 percent (2015-16) to 16.70 percent (2016-17) mainly because of *UDAY scheme* and constant rise in interest payments/GSDP proportions
- In 2017-18 RE, fall in the growth rate of revenue expenditure maybe because of declined expenditure towards salaries, pensions and subsidies in short committed expenditure.
- Revenue expenditure exceeded total revenue by (9.17 percentage points). As the revenue deficit (revenue expenditure exceeded over revenue receipts is financed from the borrowings.
- The revenue expenditure / total expenditure declined in the last two years and provided scope for an increase in the capital expenditure. In other words it has increased the allocative efficiency of the public expenditure during those years.

➢ ***Trends in Expenditure (Revenue, Capital and Loan accounts)***

- The revenue expenditure/ GSDP proportions increased in 2016-17 mainly because of due to inclusion of Rs. 8,256 crore expended towards UDAY scheme. It has declined in 2017-18RE. This is mainly because of the combined effect of (i) increase in interest payments, (ii) moderate/marginal decrease in administrative services and pensions and miscellaneous general services and (iii) fluctuations in developmental revenue expenditure – both social and economic services. Thus the fluctuations in revenue expenditure/ GSDP proportions was shared by both non-developmental and developmental expenditures.

- There was an increase in the total developmental revenue expenditure mainly because of an increase (decline) in social services (economic services). This could be mainly because of the attention given towards the social welfare programmes to withstand the present socio-economic situation of the public.
- Reduction in the proportion of revenue expenditure in terms of state own revenue / total revenue was mainly because of the cut in committed expenditure (barring interest payments) since 2016-17.

- **Deficits and Public Debt**
  - **Deficits - Revenue and Fiscal**
- Fiscal deficit in 2015-16 was Rs. 21862.56 crores and deteriorated in 2016-17 by reaching Rs. 30908.82 crore. The worsened fiscal deficit was the net result of deteriorated revenue deficit, moderate increase in capital expenditure and consolation through loan recoveries.
- Higher revenue or fiscal deficit in 2016-17 is mainly attributed to UDAY Scheme. The revenue deficit net of UDAY scheme is about Rs.-8937.72 (-1.29 of GSDP). The fiscal deficit net of UDAY is about Rs. - 22652.82(-3.26 GSDP).
- The shrink of fiscal deficit in revised and budget estimates of 2017-18 and 2018-19 respectively is mainly because of estimated improvement in revenue deficit (2017-18RE) and revenue surplus (2018-19BE). The estimated revenue surplus situation in 2018-19BE is mainly because the government anticipated anticipating that Government of India would release all the dues as per the AP Reorganization Act, 2014 at least this year.
- With this anticipated improvement, the capital expenditure/GSDP increased indicating the improvement in the quality of expenditure. The net lending/GSDP ratio increased marginally from 0.06 percent in 2015-16 to 0.09 percent in 2017-18RE. Thus the impact of the revenue account situation is seen on the other components of fiscal deficit which are mainly for developmental activities.
- Primary deficit shows that in 2015-16 nearly 45 percent the fiscal deficit was because of interest payments and the balance 55 percent was due to primary deficit. Though the proportion of primary deficit moved up to 62.16 percent in the subsequent year,

it has declined in the revised and budget estimates indicating the increase in interest payments burden.

- **Pattern of Deficit Financing in Andhra Pradesh**

- As recommended by the Fourteenth Finance Commission, state government has lowered its dependence on the National Small Savings Fund (NSSF). Hence, market loans remained as a major source of deficit financing while other sources are thinly distributed.

- **Public Debt, Direction of Public Debt Spent, Outstanding Public Debt**

- In 2015-16, about 72 percent of the public debt raised was spent towards the repayment of old debt and the balance 28 percent (net debt) was too little to meet the fiscal deficit and the dependence on the public account was high at 43 percent.
- Since 2016-17, the net debt availability at the disposal of the state government was widened and in 2018-19BE, the estimated revenue account surplus may improve the fiscal situation..
- 14th FC suggested steady reduction in augmented debt stock for the states to less than 22.38 per cent of GSDP by 2019-20. AP's debt/GSDP declined from 29 percent in 2015-16 to 28 percent in 2017-18RE but much higher than the set limits.

- **FRBM Act and Targets Achieved / Amendments to FRBM Acts and New Legislation**

- The state government reduced its revenue deficit but not as per the set annual targets. This is mainly due to adverse impact of state bifurcation on state finances. While it is difficult to enhance resources, it much more difficult to manage the growing expenditure particularly in the initial years of bifurcation.
- Fourteenth Finance Commission recommend that the State Governments may amend their FRBM Acts to provide for the statutory flexible limits on fiscal deficit. The State Government probably must have started the processing the proposed amendment ing the APFRBM Act, 2005 keeping in view of the recommendations of 14th Finance Commission and repercussions of bifurcation of the State.

- **State Level Public Enterprises**

  - **Impact of bifurcating on State Level Public Enterprises**

- As on 31 March 2015, there were 70 PSUs - 15 state exclusive working PSUs, 33 PSUs under demerger (30 Govt. Companies 3 Statutory Corporations under demerger) and 22 non-working PSUs (yet to be bifurcated).
- Of the 48 working PSUs in 2015, around 31 percent are exclusive to AP, and 63 percent are government companies under demerger while around 6 percent are statutory corporations under demerger. In 2017, the percentage of government companies exclusive to AP increased to 89 percent because 28 PSUs (with interstate operations, which were to be demerged) were functionally bifurcated.
- New PSUs emerged during 2014-17.
- No change in Statutory Corporations under demerger / non-working PSUs.

➢ **State Government - a Finance Provider**

- The State Government has a significant financial stake in PSUs in the form of Share Capital / Loans/ Guarantees.
- Out of the total investments 99 percent is in state exclusive working PSUs / also formed due to demerger.
- This total investment consisted of 9.89 *per cent* in capital and 80.25 *per cent* in long-term loans.
- Sector wise investment shows that while the investment to power and infrastructure sectors registered an increase in 2016-17 as compared to 2015-16, the other sectors registered a decline in investment with the decline being highest for the services sector.

➢ **Performance of Public Sector Enterprises**

- The turnover of exclusive **State** PSUs increased in 2016-17 over 2015-16.
- Turnover of PSUs formed due to demerger raised in 2016-17 over 2015-16.
- Of the 64 working PSUs, 15 PSUs reported a profit of Rs 1164 crores and 20 PSUs incurred a loss.
- Return on capital for State exclusive PSUs / PSUs under demerger showed an increase in 2016-17. On the other hand, return on capital for the PSUs formed due to demerger registered a decline during the same period.

➢ **Reserves and Net worth**

- Of the 64 PSUs, in case of 9 PSUs, net worth declined and the accumulated loss was around Rs 25368 crores, while the paid up capital is to the tune of Rs. 626 crores. The erosion of net worth is the highest in two PSUs.

  - **Size of Manpower**

- As on 30 Sept, 2017, in state exclusive PSUs, nearly 96 percent of employment is in power sector.
- In PSUs under demerger, highest percentage of employment comes from working companies.
- In PSUs formed due to demerger, out of the total employment excluding corporations, major contribution came from power sector followed by infrastructure. APPGCL is the highest employment provider.

  - **Profitability, Turnover,**

- Highest contribution to profit came from PSUs such as APPGCL, APMDCL and APTransCo Limited.
- PSUs that earned substantial losses are SPDCAPL APSHCL EPDCAPL.
- For state exclusive PSUs and for PSUs formed due to demerger, turnover is highest for the power sector.
- Debt/ turnover less than 1 percent.

  - **Power sector**
    - AP Power Distribution companies (DISCOMS) have one of the lowest loss levels in the country and the AT&C losses have been following a steady downward trend. The Government of India, the State of Andhra Pradesh and the DISCOMs of APSPDCL and APEPDCAPL signed a MOU under the Scheme UDAY – "Ujwal DISCOM Assurance Yojana" for financial turnaround of the DISCOMs.
    - With UDAY coming into operation, areas of concern is critical state finances on account of growing liabilities due to takeover of 75 per cent of the existing debt of Discoms. "it is unlikely that states will be able to shrink their deficits, which puts pressure on the Centre to adjust more".

- **State Fiscal Transfers to Local Bodies– Andhra Pradesh Experience**
  - **Rural Local Bodies**

- A situational analysis of the status of PRIs in AP clearly indicates that AP is laggard state (see appendix) when compared to other South Indian States in terms of functional and financial devolution is concerned, as shown in the successive Devolution Index Reports and C&AG Reports.
- The picture regarding PESA, although appears little better in certain pockets, overall some more serious efforts are needed by the Government of AP to make Gram Sabha as the Central Institutions for taking all the important decisions regarding tribal development.
- There is also criticism levelled against the present government initiative of Smart Village and Small Ward Initiative that through Janmabhoomi Committees, this programme is being implemented by passing people's elected PRI institutions.

➢ **Urban Local Bodies**

- Regarding ULBs in AP, the proportion of non-tax revenue in the total Revenue of Municipal Corporations is relatively more than that of Municipalities implying that more efforts are to be made by municipalities to increase the non-tax revenue. This may also be due to the inclusion of Nagar Panchayats in Municipalities category whose non-tax revenue is meagre.
- 32 Urban Local Bodies is recognized as Amruth Cities besides the 3 Smart Cities. The Ministry of Urban Development, GoI have been giving conditional grants to these ULBs.
- It is pertinent to note the all the 32 Amrut ULBs were allow to use the 14th FC grants as matching contribution under Amrut Scheme. Such an arrangement will defeat that the finance commissions grants. Similarly, when additional resources are used for matching contribution only the objectives of Amrut Scheme will be realized. Therefore the future finance commission need to observe this aspect and make a suitable recommendation regarding the conditionalities of utilizing the grants awarded by it.
- The story regarding constitution of SFCs and implementation of their recommendations tells us that successive governments in AP since 1995 have not implemented SFC recommendations in right earnest, except minor budgetary allocations.

- The story regarding constitution of SFCs and implementation of their recommendations tells us that successive governments in AP since 1995 have not implemented SFC recommendations in right earnest, except minor budgetary allocations.

  - **State Finance Commissions**

- Though the State government is appointing the State Finance Commissions respecting the Constitutional 73rd Amendment, its attitude in not accepting all the recommendations of the State Finance Commission, not implementing all those recommendations that are accepted toto, is not giving the hint of progress towards the full-fledged fiscal decentralization.
- The reconstitution of Third SFC made the local bodies deprived of their Constitutional entitlement.
- This is repeated in the case of Fourth SFC which is the First SFC after state reorganization.
- However, Fourth SFC supposed to submit its final Report on or before 30th October 2019 covering a period of forthcoming five years commencing from 1April 2020

Chapter 1
Introduction

1.1. Introduction

Andhra Pradesh Reorganisation Act, 2014, for bifurcation of Andhra Pradesh received the President's assent on 01 March 2014. The ''appointed day'' for the new States' formation was 02 June 2014. Andhra Pradesh state, which had 23 districts, at present consists of 13 districts.

The impact of bifurcation of the state has several fronts. Andhra Pradesh (AP) economy turned into a state with sag service and industrial sectors and ascent agriculture sector which is reflected in its GVA when compared with All India; of the total 13 districts in the state, seven are backward districts; lack of sufficient urbanisation and metropolis; state is deprived of wide-ranged, well-established Institutes of National Importance; state finances started facing deficit situation; apprehension in the estimated Resource Gap for the year 2014-15; and anomalies in Andhra Pradesh Reorganisation Act particularly with regard to apportionment of tax arrears.

In this backdrop, a study on Evaluation of State Finances: with Special Reference to Andhra Pradesh is utmost important.

1.2. The Present Context

At present Fifteenth Finance Commission is constituted which is expected to submit the report, for the period 2020-2025, by 30th October, 2019. The Commission has engaged the Centre toundertake a study on Evaluation of State Finances: with Special Reference to Andhra Pradesh.

- **FOR THE STUDY:** "Outcome Evaluation of State Finances in the context of recommendations of the 14^{th} Finance Commission: Determination of a sustainable debt roadmap for 2020-25, taking into account impact of introduction of GST and other tax/non-tax trend forecasts".

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

XV FINANCE COMMISSION'S TOR

i. Estimation of revenue capacities of State and Measures to improve the tax-GDP 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 suggestion 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 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
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 decentralization initiatives.
viii. Impact of State Public Enterprises finances on the State's financial health and measures taken to improve their performance and/or alternatives of closure, disinvestment etc.
ix. Impact of Power Sector Reforms on States' fiscal health. In case reforms have not been implemented, the likely outcome on the States' fiscal health.
x. Analysis of contingent liabilities of the State.
xi. Subsidies given by the States (Other than Central subsidies), its targeting and evaluation.
xii. Outcome Evaluation of State Finances in the context of recommendations of the 14th Finance Commission.
xiii. Determination of a sustainable debt roadmap for 2020-25, taking into account impact of introduction of GST and other tax/non-tax trend forecasts.

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 15th 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) besides the studies of different Working Groups, GOI.

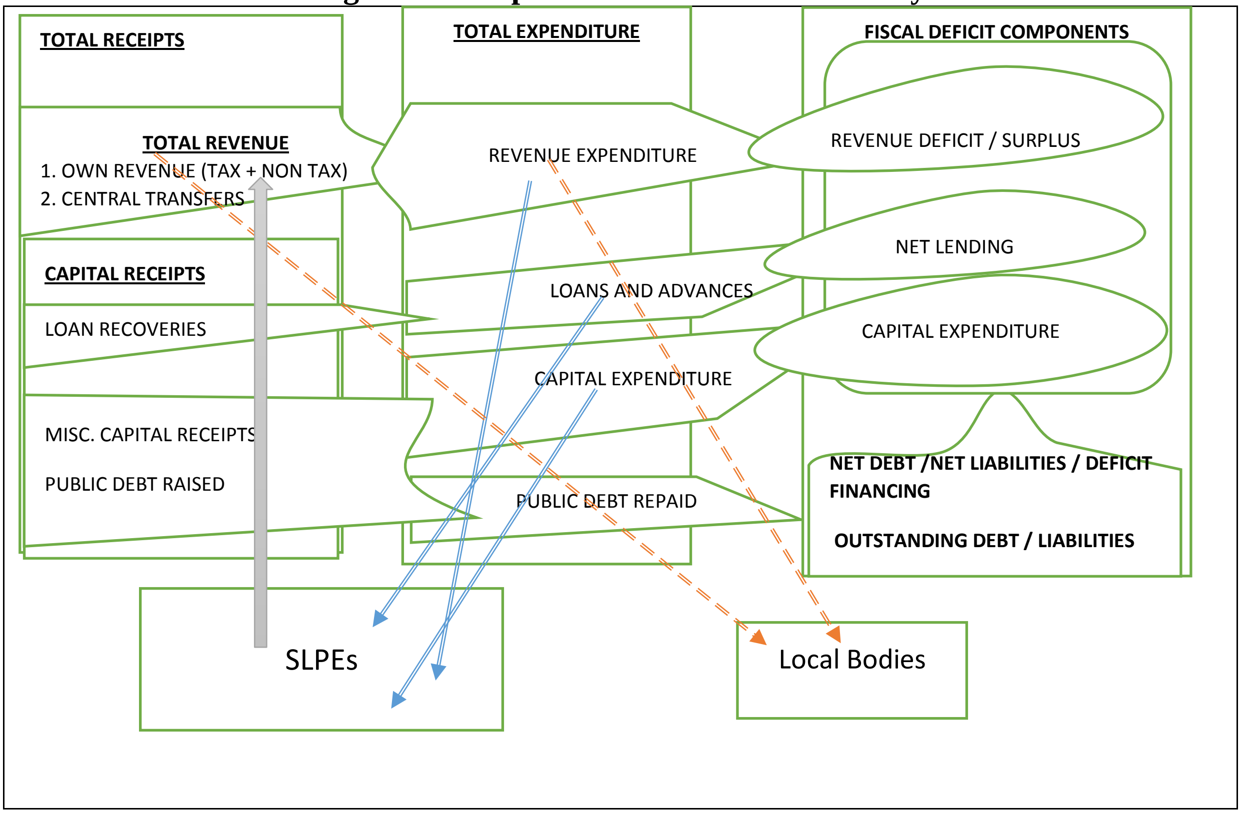
As per the ToR , the study attempts to analysis the State Finances Andhra Pradesh. As Andhra Pradesh state was reorganized on June 2, 2014, the budget data (accounts) are available for the years 2014-15 (10 months), 2015-16 and 2016-17. The available data for the years 2017-18 and 2018-19 are revised and budget estimates respectively. Hence the period of study covers only first four years including revised estimates for the financial year of 2017-18. This applies to all the issues mentioned in the schedule I. Because of the above mentioned reason, simple statistical tools will be used for the purpose of analysis.

Table 1.1: Chapter-Wise Data Sources and Methodology

Chapter No.	Chapter Title	Data Sources	Indicators
1	Fiscal status of Andhra Pradesh in 2014-15	1. PIB, GOI; 2. AP State Budget Documents 3. Finance Accounts of CAG 4. AP Reorgnisation Act, 2014	Fiscal Indicators
2	State's Own Revenue: Tax and Non-Tax	1.AP State Budget Documents 2.audit reports of CAG 3. Socio-Economic Survey, GOAP	1. Tax / GSDP ratio 2. Relative Shares (Compositions) 3. year on year growth rates
3	Expenditure: Trends and Patterns	1.AP State Budget Documents 2.audit reports of CAG 3. Socio-Economic Survey, GOAP	1. Expenditure / GSDP ratio 2.Relative Shares (Compositions) 3. year on year growth rates
4	Deficits and Public Debt	1.AP State Budget Documents 2.audit reports of CAG 3. Socio-Economic Survey, GOAP 4.RBI's State Finances: A Study of Budgets 5. Statement of Fiscal Policy, Government of AndhraPradesh	1. deficit or debt / GSDP ratio 2.Relative Shares (Compositions)
5	Impact of State Level Public Enterprises Finances on State Finances	1. : Report of the Comptroller and Auditor General of India on Public Sector Undertakings, Government of AP 2. PIB, GOI; 3. recindia.nic.in, downloaded on 14/06/2018 4. Power for All - A Joint Initiative of Government of India and Government of Andhra Pradesh, downloaded on 14/06/2018.	1.State's share in SLPE'sPaid up capital 2. Budgetary Outgo – sharecapital, loans andgrants/subsidy to SLPEs
6	Fiscal Transfers to Local Bodies – Andhra Pradesh Experience	1.audit reports of CAG 2. MoPR Govt of India (Created on 06-06-2014) 3.. Report on Measuring Devolution to Panchayats in India: A comparison across the states (2013-14), V.N.Alok, IIPA, New Delhi. 4.Devolution Report, 2014-15, TISS and MoPR, 2015. 5. 13thFinance Commission Report 6. 14thFinance Commission Report 7. Directorate of Municipal Administration and Urban Development, GoAP 8. Commissioner of Panchayati Raj, Govt. ofAP.	1. Overall Devolution Index 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 thirteen issues are grouped and discussed in five chapters (chapter 2 to chapter 6) apart from the introduction; bifurcation issues and fiscal situation in 2014-15; and summary and conclusion chapters. Chapters three and four 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 five 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 six. Chapter seven analyses the state financial transfers to local bodies – the status of State Finance Commissions.

Chapter 2
Fiscal Situation of Andhra Pradesh in 2014-15

Summary of Findings

The impact of bifurcation of the state on the economy of Andhra Pradesh state (comprising 13 districts) is multifaceted.

Fiscal Situation of Andhra Pradesh 2014-15

Receipts of the State Government

- The state started with a opening balance of Rs.-76 crores. The revenue account and overall budget are negative.
- Of the total receipts, 75 percent comes from revenue receipts and remaining 25 percent from capital receipts. Total receipts constituted 16.66 percent of GSDP of which the major segment is revenue receipts (12.51 percent) followed by capital receipts (4.15 percent).
- Of the total revenue receipts, state's own revenue and central transfers constituted 58 percent and 42 percent respectively. The share of grants-in-aid is higher than the share in central taxes.
- Similar is the proportion with respect to GSDP. This shows the financial dependency of the state particularly on central grants-in-aid.
- Of own tax revenue sources, revenue from sales tax, state excise, stamp duty and registration fee and motor vehicles tax including goods and passengers' tax are the four major sources. Similar pattern follows in terms of State own revenue and Total Revenue Receipts.
- Most of own non-tax revenue shows that most of the revenue is from interest receipts followed by other non-tax revenue which comprises of general services, social services and economic services.

Expenditures of the State Government

- Total expenditure is higher than total receipts by 9.6 percentage points. Total expenditure (including disbursements) is 18 percent of GSDP while net of disbursements is 16 percent.
- Composition of total expenditure (revenue, capital and loan accounts only) shows that developmental and non-developmental expenditure covers about 77 percent and 23 percent respectively. The proportion of corresponding expenditures in GSDP are 12.58 percent and 3.68 percent.
- The proportions of social and economic services either in GSDP or in total expenditure is more or less equal.

Deficit and Debt Situation

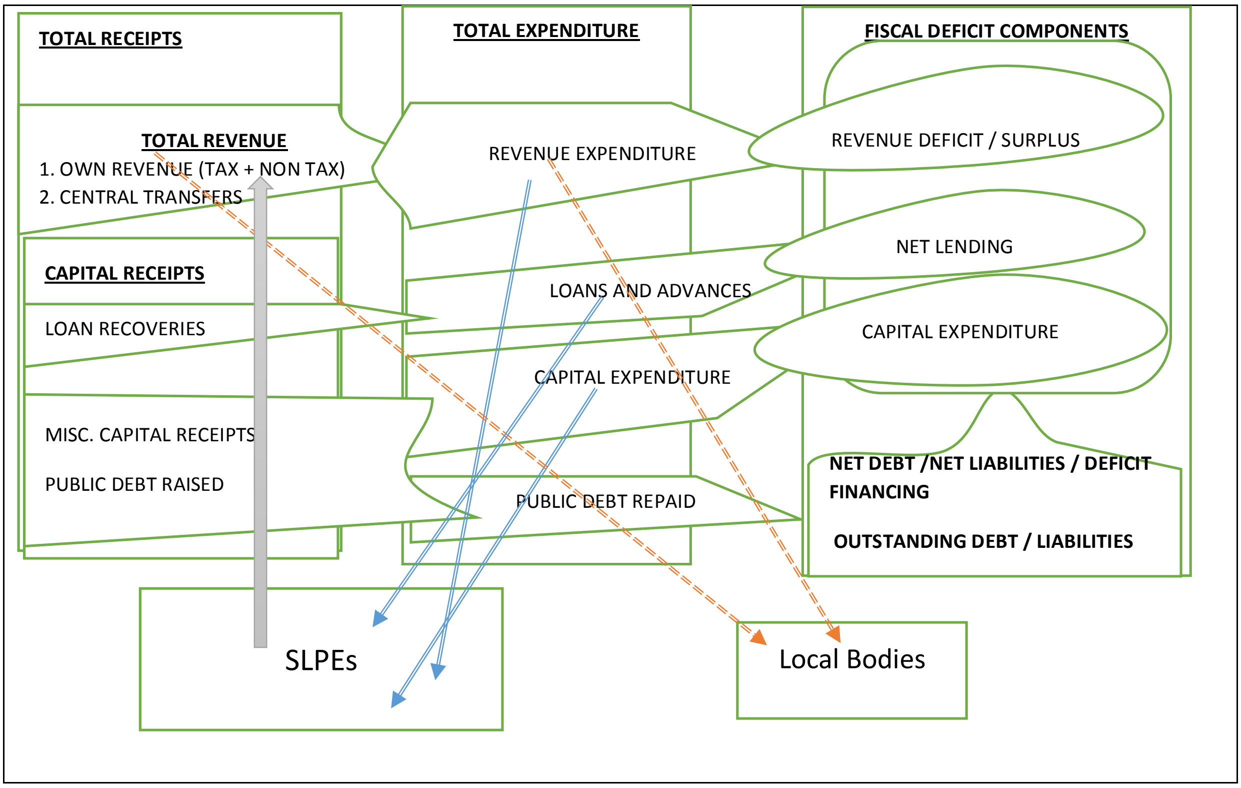
- Revenue expenditure is more than total revenue by 21 percentage points. The revenue deficit situation raised. Fiscal deficit /GSDP at 3.95 percent crossed the FRBM target.
- Revenue deficit is major contributor of the total fiscal deficit, followed by capital expenditure and net lending. Hence, two-thirds of the borrowings are spent to fill the revenue deficit and remaining one-third towards developmental activities – other two components of fiscal deficit.
- The 42.36 percent of the debt raised is spent towards debt repayments. Over and above the net debt (nearly 58 percent of the debt raised), the state depends on the borrowings from the public account.
- The total outstanding public debt is amounted to Rs. 148743.5 crores. More than 50 percent of the outstanding debt is constituted by open market operations. Debt/ GSDP is about 28.33 percent.

Un-apportioned public debt

- Since 2016-17, the un-apportioned outstanding public debt amounts to Rs. 23483.2.
- Un-apportioned Net public account alone constitutes 3.31 percent of GSDP.
- Pending apportionment of balances is a cause of concern particularly with regard to inadequate steward ship of assets, opportunity cost in utilizing the assets and loss of their time value.
- The issues which are with immediate effect and short or long run need to be addressed.

Chapter 2
Fiscal Situation of Andhra Pradesh in 2014-15

Fig.2.0: Fiscal Situation in 2014-15



2.1 Introduction

State reorganisation encumbrances the strings in altering the resources, expenditures, deficits and debts, in short, public finances of those states. This, in turn, depends on the location of economic activities, public or private, between the reorganised states. Andhra Pradesh Reorganisation Act, 2014 for bifurcation of Andhra Pradesh received the President's assent on 01 March 2014. The ''appointed day'' for the new States' formation was 02 June 2014. Andhra Pradesh state, which had 23 districts, at present consists of 13 districts.

In the present chapter/study, as proposed by the Fifteenth Finance Commission, analysing the status of Andhra Pradesh state finances considering the "Outcome Evaluation of State Finances in the context of recommendations of the 14th Finance Commission; Determination of a sustainable debt roadmap for 2020-25, and impact of introduction of GST and other tax/non-tax trend forecasts" may not be possible for the financial year 2014-15 as it comes under the last year of the Thirteenth Finance Commission Award period and also for the reason that it is a very first year of state bifurcation with the availability of ten months' data. As this financial year gives ten months picture of the financial situation of the state, this year cannot be connected/compared to the subsequent years. Hence, this chapter gives financial status of Andhra Pradesh for the year 2014-15 only.

This chapter is divided into 4 sections. Section 2 discusses the impact of bifurcation on Andhra Pradesh state. Section 3 deals with the fiscal situation of Andhra Pradesh in the financial year 2014-15. Section 4 summarizes the analysis.

2.2 Impact of Bifurcation on Andhra Pradesh State.

Promises and commitments to Successor State AP by the Union Government emanate from (1) Statement of the then Prime Minister before the Parliament on February 20, 2014 (Appendix 2.1) and (2) The provisions of the Andhra Pradesh Reorganisation Act, 2014, (Appendix 2.2).

The impact of bifurcation of the state has several immediate / short or long run[1] implications on the economy of Andhra Pradesh state (comprising 13 districts) of which few with immediate effect are mentioned below:

- Sectoral change in Andhra Pradesh economy: Andhra Pradesh economy turned into a state with sag service and industrial sectors and ascent agriculture sector which is reflected in its GVA when compared with All India.
- Of the total 13 districts, seven are backward districts[2]
- Lack of sufficient urbanisation and metropolis
- Deprived of wide-ranged, well-established Institutes of National Importance
- Andhra Pradesh state finances started facing deficit situation
- Apprehension in the estimated Resource Gap for the year 2014-15
- Anomalies in Andhra Pradesh Reorganisation Act particularly with regard to apportionment of tax arrears.

A brief mentioning of each one of the above is given below.

Sectoral Change in Andhra Pradesh Economy

Andhra Pradesh economy turned into a state with sag service and industrial sectors and ascent agriculture sector which is reflected in its Gross Value Added[3] of the economy. A comparison of sectoral contribution of Andhra Pradesh and *All India*

[1] Examples for short or long run implications are educational institutions of national importance and economic infrastructure such as ports, airports, rail and road connectivity, industrial corridors, capital city etc. some of which are mentioned in the APRA, 2014 (see Thirteenth Schedule section 93). As per act, the Central Government shall take all necessary measures as enumerated in the Thirteenth Schedule for the progress and sustainable development of the successor States within a period of ten years from the appointed day. Efforts have been made by the Union Government with regard to educational institutions of national importance, mentioned in the act. Yet these institutions are functioning in the temporary / transit campuses. Of the ten years, six years are at the disposal of the Union government. In addition, development of backward areas and tax incentives, which are not completely in vogue, will address the implications of bifurcation.

[2] Special development package for the backward regions of AP, in particular for the districts of Rayalaseema and North Coastal AP on the lines of the K-B-K Special Plan in Odisha and the Bundelkhand special package in Madhya Pradesh and Uttar Pradesh.(see **Statement of the then Prime Minister before the Parliament on February 20, 2014.(Appendix 2.1)**

[3] GVA + taxes on products - subsidies on products = GDP. As the total aggregates of taxes on products and subsidies on products are only available at whole economy level, Gross value added is used for measuring gross regional domestic product and other measures of the output of entities smaller than a whole economy.

shows that Andhra Pradesh is significantly lower than *All India* in industrial and service sectors (Table 2.1) and reverse is in the case of agriculture sector. The growth rate is not encouraging in non-agricultural sectors (Table 2.2).

Table 2.1: Sectoral Composition of GVA: AP vs All India (%)

Sectors	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17
GVA AT CURRENT PRICES						
ANDHRA PRADESH			**ALL INDIA**			
Agriculture	**30.39**	**31.26**	**32.75**	**18.20**	**17.71**	**17.95**
Industry	25.48	24.15	22.87	29.97	29.81	29.29
Service	44.13	44.59	44.38	51.83	52.48	52.76
GVA of All Sectors	100.00	100.00	100.00	100.00	100.00	100.00
GVA AT CONSTANT PRICES						
ANDHRA PRADESH			**ALL INDIA**			
Agriculture	**27.57**	**27.10**	**28.22**	**16.53**	**15.38**	**15.26**
Industry	27.48	27.47	26.74	31.11	31.59	31.50
Service	44.95	45.43	45.04	52.35	53.03	53.24
GVA of All Sectors	100.00	100.00	100.00	100.00	100.00	100.00

Note: GVA: Gross Value Added; SRE: Second Revised Estimates; FRE: First Revised Estimates; AE: Advanced Estimates

Source: Tables A.2.1.A.2.2, A2.4 and A2.5, A2.7 to A2.12, Socio Economic Survey 2017-18, Planning Department, Government of Andhra Pradesh

Table 2.2: Growth Rate of GVA at Current and Constant Prices (%)

	2015-16	2016-17	2017-18 (AE)
GVA AT CURRENT PRICES			
Agriculture sector	**16.42**	**20.49**	**21.63**
Industry sector	7.27	8.87	11.94
Service sector	14.36	14.46	13.73
GVA of All Sectors	13.18	14.99	15.91
GVA AT CONSTANT PRICES			
Agriculture sector	**7.78**	**14.91**	**17.76**
Industry sector	9.61	7.40	8.49
Service sector	10.78	9.41	9.11
GVA of All Sectors	9.63	10.35	11.39

Source: Socio-Economic Survey 2017-18, Government of Andhra Pradesh

Lack of Sufficient Urbanisation and Metropolis

Lack of sufficient urbanisation and absence of metropolis such as Bengaluru, Chennai, Hyderabad and others is responsible for the low contribution of service sector to GSDP of the state of Andhra Pradesh.[4]

Deprived of wide-ranged, well-established Institutes of National Importance

Andhra Pradesh has suffered due to loss of State Capital, public sector undertakings, major industries, educational and R & D institutions and also major clusters for IT & ITES, Life

[4] Detailed Note on Issues Related to AP Reorganization Act, 2014, Submitted to Hon'ble Prime Minister by Andhra Pradesh Government

Sciences and prominent institutions of national importance[5]. Educational institutions of national importance, mentioned in the act are functioning in the temporary / transit campuses but yet to be completed. The funds released so far, by the union government, towards these institutions are very meagre (Appendix 2.3).

Andhra Pradesh state finances started facing deficit situation

Andhra Pradesh state, which has achieved the revenue surplus situation in 2006-07 (two years ahead of the FRBM Target period and maintained all the targets of FRBM till 2013-14[6]), turned into a deficit state. The fiscal situation of the state for the year 2014-15 will be discussed in detail in subsequent sections.

Apprehension in the estimated Resource Gap for the year 2014-15

The Prime Minister explicitly stated in the Parliament on February 20, 2014 that "the resource gap that may arise in the very first year, especially during the period between the appointed day and the acceptance of the 14th Finance Commission recommendations by the Government of India, will be compensated in the Regular Union Budget for 2014-15."

Section 46. (1) para 2 of Andhra Pradesh Reorganisation Act, 2014 refers to the Fourteenth Finance Commission to take into account the resources available to the successor States and make separate awards to them. But the financial year 2014-15 do not fall in the Award period of Fourteenth Finance Commission.

Revenue Deficit furnished by the Accountant-General of Andhra Pradesh, after taking into account an *ad hoc* grant of ₹ 2,303 crores from GoI in 2014-15 to bridge the gap, is ₹. 13,775.76 crores for financial year 2014-15. Without these grants, total Resource gap comes to ₹ 16,078.76 crores.[7] But this estimation was not honoured by the Union Government.

The Union Government, instead, on the basis of standardised expenditure[8], arrived at Rs. 4117.89 crores as revenue gap grant by disqualifying / excluding the estimates in respect of few issues and pruning the estimates in some other. The Union government while estimating the revenue gap on the basis of standardised expenditure for that year has not taken into account the accruals of Pay Revision Commission Arrears[9] and deferred bills. The Union Government has disallowed Debt Redemption (the farmer loan waiver expenditure and assistance to Rythu Sadhikara Samstha) and pruned the old age pensions (Table 2.3).

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[5] GoAP (2014): Special Incentive Package for Rapid Industrial Development of Andhra Pradesh, letter with a detailed proposal to Finance Minister, GoI, by Chief Minister, Andhra Pradesh on 26/06/2014.

[6] N. Sreedevi (2013): Evaluation of Andhra Pradesh State Finances (Fourteenth Finance Commission's Study on Evaluation of State Finances).(Lead Researcher), October

[7] *Source: Detailed Note on Issues Related to AP Reorganization Act, 2014, Submitted to Hon'ble Prime Minister.*

[8] Government of India (PIB 8th September 2016) stated that "*Under the Andhra Pradesh Reorganization Act, the commitment for the resource gap for the year 2014-15 is being met on the basis of standardized expenditure for that year. The revenue gap has been tentatively quantified subject to further adjustment on account of figures relating to certain pension schemes. A part of the revenue gap compensation amounting to ₹3,979.5 crore has already been paid and the balance is being paid in annual instalments*".

[9] PRC arrears and Deferred bills were not part of CAG estimated revenue deficit (₹ 16078.76 crores) for the year 2014-15

Table 2.3: Estimated Resource Gap

	Item	Rs. Crores
1	Estimated Resource Gap	16078.76 @(13,775.76+2,303)
2	agreed by GoI (i+ii)	4,117.89
i	released	**3979.50**
ii	balance	138.50
3	**Amount disallowed by the Centre (1-2)**	**11960.87**
	BREAK-UP DETAILS OF ITEM 3 (i to iv)	
i	Agricultural redemption (farmer loan waivers)	3068.35
ii	Assistance to RythuSadhikaraSamstha	4001.32
iii	Financial assistance to DISCOMS	1500.00
iv	Old age pensions	^^3391.20
4	**Items under Accrual Accounting(i+ii)**	**6870.00**
i	PRC arrears	#3920.00
ii	Deferred bills	2950.00
5	**Total (3+4)**	**18830.87**

Note /Source: JFCC and other documents.
@ Andhra Pradesh government says that Revenue Deficit of ₹. 13,775.76 crores for 2014-15 FY furnished by the Accountant-General of Andhra Pradesh is after taking into account an *ad hoc* grant of ₹. 2,303 crores from GoI in 2014-15 to bridge the gap. Without these grants, total revenue deficit comes to ₹. 16,078.76 crores. *Source: Detailed Note on Issues Related to AP Reorganization Act, 2014, Submitted to Hon'ble Prime Minister.*
^ GoI liability for this matching amount is ₹. 946.9 crores, if only a maximum of ₹. 200 per month is allowed.Source: Foundation for Democratic Reforms.^^ if the State's enhanced amount of ₹1,000 per month per pensioner is taken
# PRC Arrears at the rate of 43%; Source: Foundation for Democratic Reforms.

Anomalies in Andhra Pradesh Reorganisation Act particularly with regard to apportionment of tax arrears.

APRA, 2014, Section 50, provides right to recover arrears of the tax or duty on property, including arrears of land revenue, shall belong to the successor State in which the property is situated, and the right to recover arrears of any other tax or duty shall belong to the successor State in whose territories the place of assessment of that tax or duty is included on the appointed day.

As the arrear component belongs to the undivided state, the rationality lies in the division of collected arrears between the two successor states. Because of this anomaly in the section 50 of the Act, it is estimated by **t**he Andhra Pradesh government that it is losing around ₹ 3,820 crore[10].

Contrary to section 50**, Section 56** of the Act summons that the liability of the existing state of AP to refund any tax or duty on property, including land revenue, shall be apportioned between the successors states on the basis of population ratio. **This is another anomaly.**

2.3 Fiscal Situation of Andhra Pradesh 2014-15

With the bifurcation backdrop discussed in brief in previous section, the present study analyses the fiscal situation of Andhra Pradesh for the year 2014-15 in the following sub-sections.

[10] Detailed Note on Issues Related to AP Reorganization Act, 2014, Submitted to Hon'ble Prime Minister by Andhra Pradesh Government

2.3.1 Budget 2014-15: Budget at a Glance

The state started with an opening balance of Rs. -76 crores. The revenue account and overall transactions are negative. The receipts and expenditure for the year 2014-15 are given table 2.4, fig. 2.1 and fig. 2.2).

Table 2.4: Budget at a Glance: 2014-15

	Particulars	**2014-15**(In ` Crore)
I	**Opening Balance**	**-76.00**
II	**Revenue Receipts**	**65695.40**
1	Share of Central Taxes	11446.29
2	Tax Revenue	29856.87
3	Non Tax Revenue	8181.35
4	Grants-in-aid	16210.89
III	**Capital Receipts**	**21776.86**
5	Open Market Loans	11586.70
6	Floating Debt (Gross)	6201.04
7	Loans from the GOI	445.91
8	Other Loans	2105.99
9	Deposits Transactions etc.(Net)	1141.26
10	Loans and Advances	296.07
11	Other Receipts	-0.11
12	Contingency Fund (Net)	0.00
IV	**Total Receipts (II+III)**	**87472.26**
V	**Revenue Expenditure**	**79471.16**
13	Of Which Interest payments	8429.32
VI	**Capital Expenditure**	**6520.27**
VII	**Loans and Advances**	**745.07**
VIII	**Capital Disbursements (14 to 18)**	**9098.82**
14	Floating Debt	4905.51
15	Public Debt Repayment	2880.10
16	Loans from GOI	1254.66
17	Other Loans	58.55
18	Interstate Settlement	0.00
IX	**Total Expenditure**	**95835.32**
X	**Overall Transactions (IV-IX)**	**-8363.06**
XI	**Closing Balance (I +X)**	**580.89**
XII	**Revenue Deficit/Surplus (II-V)**	**-13775.76**
XIII	**Fiscal Deficit (XII-VI-VII+10)**	**-20745.03**
XIV	**Primary Deficit (-) (XIII-13)**	**-12315.71**

Source: CAG (2016), Finance Accounts 2014-15 (02 June 2014-15 to 31 March 2015), Government of Andhra Pradesh

Fig. 2.1: Budget at a Glance: 2014-15

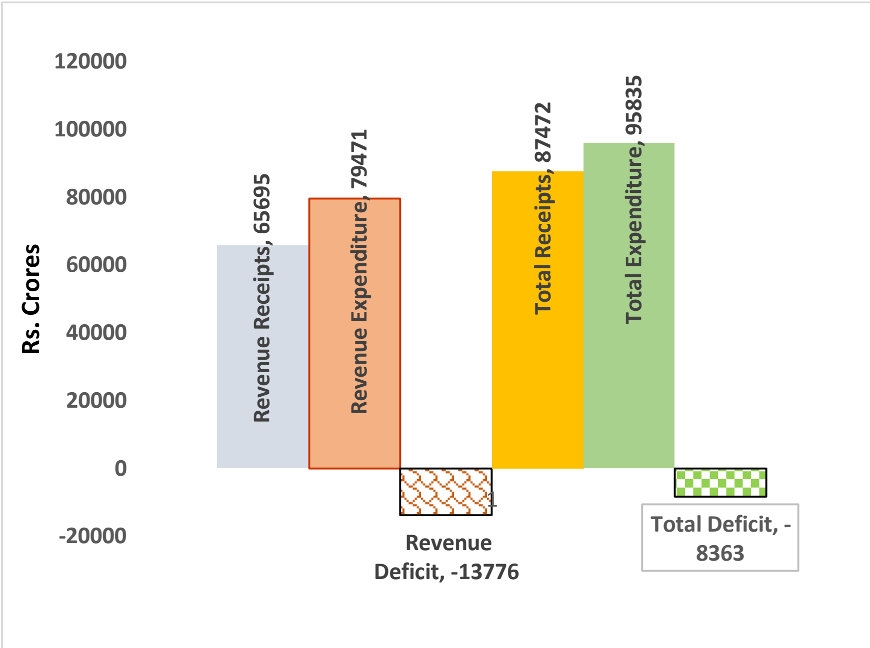
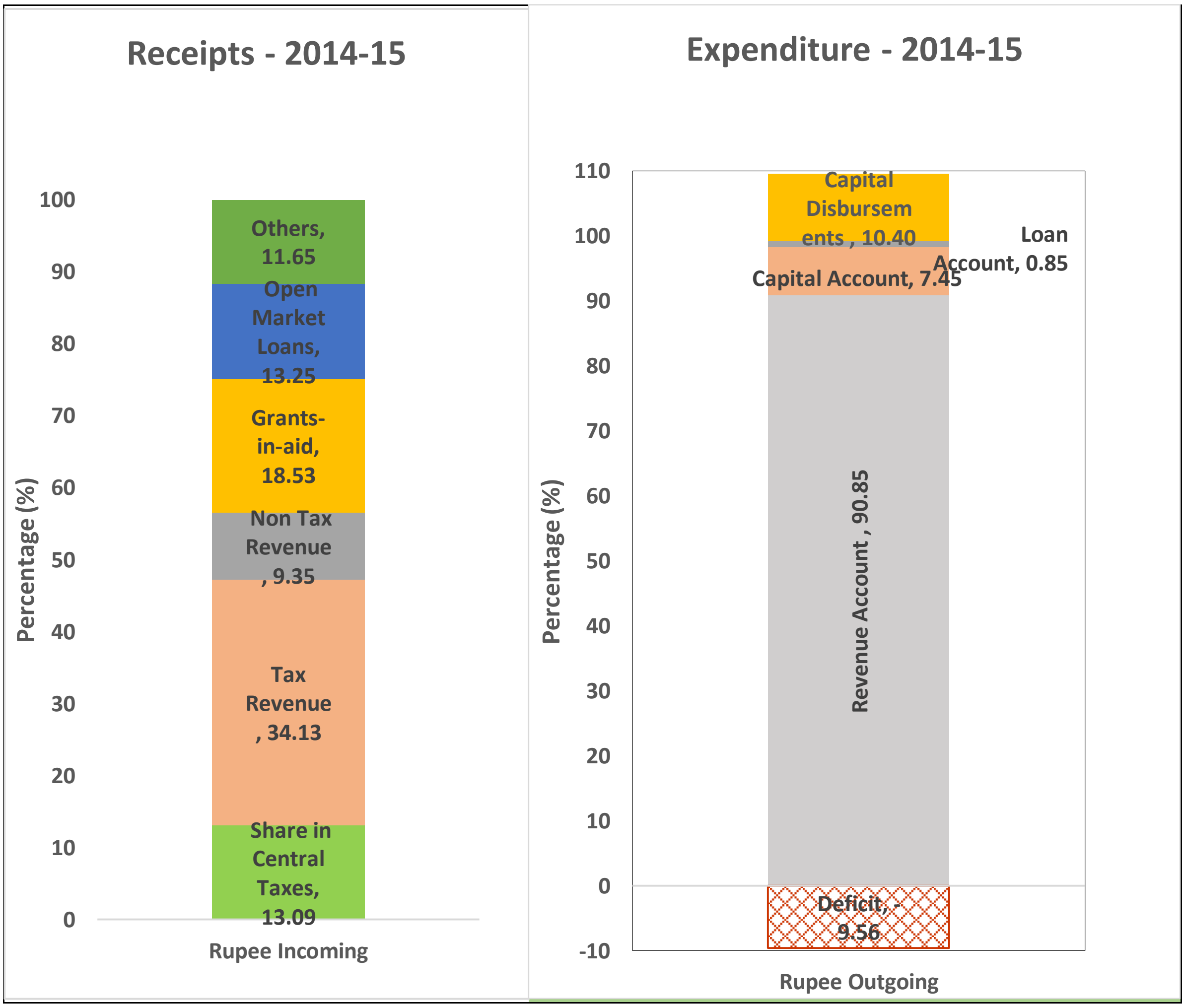


Fig. 2.2: Budget at a Glance: 2014-15



2.3.2 Total Receipts – Revenue and Capital

Total receipts for the 10 months of the financial year (2 June 2014 - 31 March 2015) amounted to Rs. 87472.26 crores of which Rs. 65695.40 (75 percent of the total receipts) comes from revenue receipts and remaining one-fourth from capital receipts which are mostly borrowings (Table 2.5 and Fig. 2.3). Total receipts constituted 16.66 percent of GSDP of which the major segment is revenue receipts (12.51 percent) followed by capital receipts (4.15 percent).

Of the total revenue receipts Rs. 65695.40 crores state's own revenue and central transfers constituted 57.90 percent and 42.10 percent respectively (Table 2.6 and Fig. 2.4). Further breakup of the total revenue shows that state's own tax revenue and own non-tax revenue constituted 45.45 percent and 12.45 percent respectively. The grants-in-aid, in total revenue, is higher than the share in central taxes. Similar is the proportion with respect to GSDP. This shows the financial dependency of the state particularly on central grants-in-aid.

Table 2.5: Receipts of the state government-2014-15

		As % of Total Receipts	As % of GSDP
A	**Revenue Receipts**	**75.10**	**12.51**
1	Share of Central Taxes	13.09	2.18
2	Tax Revenue	34.13	5.69
3	Non Tax Revenue	9.35	1.56
4	Grants-in-aid	18.53	3.09
B	**Capital Receipts**	**24.90**	**4.15**
5	Open Market Loans	13.25	2.21
6	Floating Debt (Gross)	7.09	1.18
7	Loans from the GOI	0.51	0.08
8	Other Loans	2.41	0.40
9	Deposits Transactions etc.(Net)	1.30	0.22
10	Loans and Advances	0.34	0.06
C	Total Receipts (A+B) (Rs. Cr)	100.00 (**87472.26**)	16.66
	GSDP at current prices (Rs. Cr)	--	**524976**

Fig. 2.3: Composition of Total Receipts - 2014-15

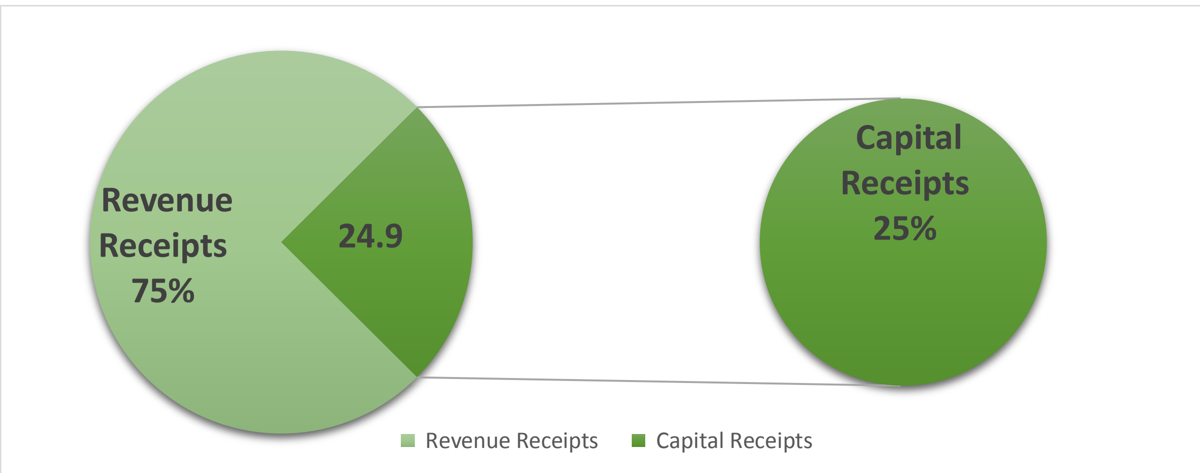


Fig. 2.4:Composition of Total Revenue

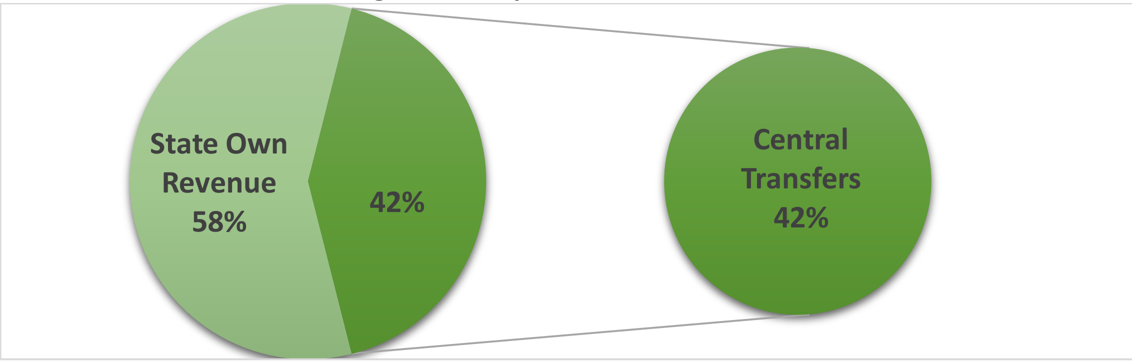


Table 2.6: Total Revenue Composition (%)

	Revenue Receipts	2014-15
A	**Tax Revenue**	**62.87**
1	Share of Central Taxes	17.42
2	Own Tax Revenue	45.45
B	**Non Tax Revenue**	**37.13**
3	Own Non Tax Revenue	12.45
4	Grants-in-aid	24.68
	State Own Revenue (A2+B3)	***57.90***
	Central Transfers (A1+B4)	***42.10***

The composition of state's own tax revenue (Table 2.7) shows that most of the revenue is from Taxes and Commodities and Services (90.27 percent) followed by Taxes on Property and Capital Transaction (9.11 percent) and Other Taxes on Income and Expenditure (0.62 percent). Among all tax revenue sources, revenue from sales tax (72.59 percent), state excise (12.20 percent), stamp duty and registration fee (8.58 percent) and motor vehicles tax including goods and passengers' tax (4.81 percent) are the four major sources. Similar pattern follows in terms of State own revenue (SOR) and Total Revenue Receipts (TRR).

Table 2.7: Pattern of Revenue Receipts 2014-15

		As % of		
		SOTR	**SOR**	**TRR**
	State Own Revenue		**100.00**	**57.90**
	State Own Tax Revenue	**100.00**	**78.49**	**45.45**
(a)	**Taxes on Income and Expenditure**	**0.62**	**0.49**	**0.28**
	Other Taxes on Income and Expenditure	0.62	0.49	0.28
(b)	**Taxes on Property and Capital Transaction**	**9.11**	**7.15**	**4.14**
	Land Revenue	0.09	0.07	0.04
	Stamps and Registration Fees	8.58	6.73	3.90
	Taxes on Immovable property other than Agricultural Land	0.44	0.34	0.20
(c)	**Taxes and Commodities and Services**	**90.27**	**70.86**	**41.03**
	State Excise	12.20	9.57	5.54
	Taxes on Sales, Trade etc.	72.59	56.97	32.99
	Taxes on Vehicles	4.77	3.74	2.17
	Taxes on Goods and Passengers	0.04	0.03	0.02
	Taxes and Duties on Electricity	0.40	0.31	0.18
	Other Taxes and Duties on Commodities and Services	0.28	0.22	0.13

The composition of own non-tax revenue (Tables 2.8 and 2.9) shows that most of the revenue is from interest receipts (56.21 percent) followed by other non-tax revenue (43.79 percent) which comprises of general services (3.48 percent), social services (17.18 percent) and economic services (23.13 percent). Of the other non-tax revenue, major contributions are from Education, Sports, Art and Culture (13.29 percent), Forestry and Wild Life (5.06 percent) and Non-Ferrous Mining and Metallurgical Industries (9.92 percent). The proportion of own non-tax revenue in GSDP is merely 1.56 percent.

Table 2.8: Patterns of non-tax revenue: 2014-15

	Non-Tax Revenue	as % of GSDP at Current Prices	As % of Own Non Tax Revenue
	Non-Tax Revenue	1.56	100.00
1	Interest Receipts	0.88	56.21
	Interest Receipts	0.88	56.19
	Dividends and Profits	0.00	0.02
2	Other Non-Tax Revenue	0.68	43.79
	(i) General Services	0.05	3.48
	(ii) Social Services	0.27	17.18
	(iii) Economic Services	0.36	23.13

Table 2.9: Composition of Own Non Tax Revenue (%)

Non-Tax Revenue	2014-15
B Non-Tax Revenue	**100**
(b) Interest Receipts	**56.21**
Interest Receipts	56.19
Dividends and Profits	0.02
(c) Other Non-Tax Revenue	**43.79**
(i) General Services	3.48
Police	1.67
Other Administrative Services	1.17
Others	0.65
(ii) Social Services	**17.18**
Education, Sports, Art and Culture	13.29
Social Security and Welfare	2.65
Medical and Public Health	0.88
Others	0.36
(iii) Economic Services	**23.13**
Non-Ferrous Mining and Metallurgical Industries	9.92
Forestry and Wild Life	5.06
Other Rural Development Programmes	2.92
Ports and Light Houses	1.73
Major Irrigation	1.7
Others	1.8

Expenditures of the State Government

Total expenditure for the 10 months of the financial year (2 June 2014 - 31 March 2015) amounted to Rs. 95835.32 crores – higher than the total receipts by Rs. 8363.06 crores. Total expenditure is higher than total receipts by 9.6 percentage points and higher than revenue receipts by 46 percentage points. The proportion of total expenditure (including disbursements) is 18.26 percent of GSDP while net of disbursements is 16.28 percent (Table 2.10).

Revenue expenditure is higher than total revenue receipts by 21 percentage points indicating the insufficient revenue receipts to meet the recurring revenue expenditure (Table 2.10). Its share is about 83 percent in total expenditure (includes disbursements) and 92 percent in total expenditure (excluding disbursements). Its proportion is 15 percent of GSDP.

While loans and advances is nominal, capital expenditure is less than 10 percent of total receipts, total revenue, total expenditure or total expenditure (excluding capital disbursements).

Further breakup of total expenditure (revenue, capital and loan accounts only) shows that developmental and non-developmental expenditure covers about 77 percent and 23 percent respectively (Table 2.11 and Fig. 2.5). The proportion of corresponding expenditures in GSDP are 12.58 percent and 3.68 percent. The proportions of social and economic services either in GSDP or in total expenditure is more or less equal.

Among the components of expenditure on social services, Education, Sports, Art and Culture engrosses a higher share in GSDP as well as total expenditure followed by Social Welfare and Nutrition, Water Supply, Sanitation, Housing and Urban Development and Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (Table 2.12).

Among the components of expenditure on economic services shows that most of the expenditure, in terms of GSDP and total expenditure, is towards Agriculture and Allied Activities followed by Rural Development, Irrigation and Flood Control and Energy (Table 2.12).

Table 2.10: Expenditure Patterns – 2014-15

Components of Expenditure	As % of Total Receipts	As % of Total Revenue	Expenditure Composition (%)	As % of Total Expenditure (Rev + Cap + L&A)	As % of GSDP
Revenue Expenditure	90.85	120.97	82.92	91.62	15.14
of which Interest payments	9.64	12.83	8.80	9.72	1.51
Capital Expenditure	7.45	9.93	6.80	7.52	1.24
Loans and Advances	0.85	1.13	0.78	0.86	0.14
Capital Disbursements	10.40	13.85	9.49		1.73
Total Expenditure	109.561	145.88	100.00	100.00	18.26

Table 2.11: Expenditure Patterns 2014-15

		AS % OF GSDP	AS % OF TOTAL EXPENDITURE
	GSDP at Current Prices	100.00	
I	Total Expenditure on Revenue Account	15.14	91.62
A	Non-Developmental	3.71	22.46
1	General Services	3.71	22.46
	Interest Payment And Servicing of Debt (Charged)*	1.61	9.72
	Administrative Services	0.71	4.29
	Pensions and Miscellaneous General Services	1.17	7.08
B	Developmental	11.24	69.07
	Social Services	5.96	36.10
	Economic Services	5.45	32.97
II	Capital Expenditure	1.24	7.52
A	Non-Developmental	0.02	0.15
	General Services	0.02	0.15
B	Developmental	1.22	7.37
	Social Services	0.30	1.83
	Economic Services	0.92	5.54
III	Loans and Advances	0.14	0.86
A	Non-Developmental	0.00	0.00
	General Services	0.00	0.00
B	Developmental	0.14	0.86
	Social Services	0.08	0.46
	Economic Services	0.06	0.40
	Total Expenditure (I+II+III)	16.28	100.00
	Total Non-Developmental (IA+IIA+IIIA)	3.68	22.61
	Total Developmental (IB+IIB+IIIB)	12.58	77.30
	Total Social Service	6.25	38.39
	Total Economic Services	6.33	38.91

Fig. 2.5: Composition of Expenditure

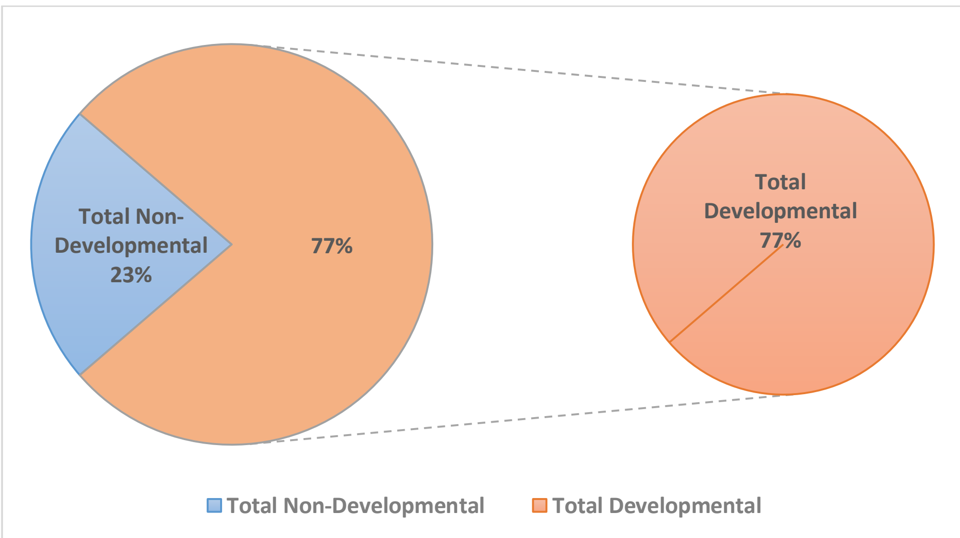


Table 2.12: Expenditure Patterns (rev +cap +loans and advances): 2014-15

		AS % OF GSDP	As % of Total Exp
	Total Expenditure (rev+cap+loans)	16.28	100.00
	Total Developmental Expenditure	12.58	77.30
	B Social Services	6.25	38.39
	(a)Education, Sports, Art and Culture	2.16	13.27
	(b)Health and Family Welfare	0.64	3.95
	(c) Water Supply, Sanitation, Housing and Urban Development	0.94	5.75
	(d) Information and Publicity	0.02	0.12
	(e) Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classed	0.89	5.45
	(f) Labour and Labour Welfare	0.03	0.17
	(g) Social Welfare and Nutrition	1.54	9.48
	(h) Others	0.03	0.20
	Total B Social Services	6.25	38.39
C	Economic Services	6.33	38.91
(a)	Agriculture and Allied Activities	1.74	10.70
(b)	Rural Development	1.10	6.76
(d)	Irrigation and Flood Control	1.49	9.14
(e)	Energy	0.86	5.29
(f)	Industry and Minerals	0.42	2.61
(g)	Transport	0.55	3.41
(i)	Science, Technology and Environment	0.00	0.03
(j)	General Economic Services	0.16	0.96
	Total C Economic Services	6.33	38.91

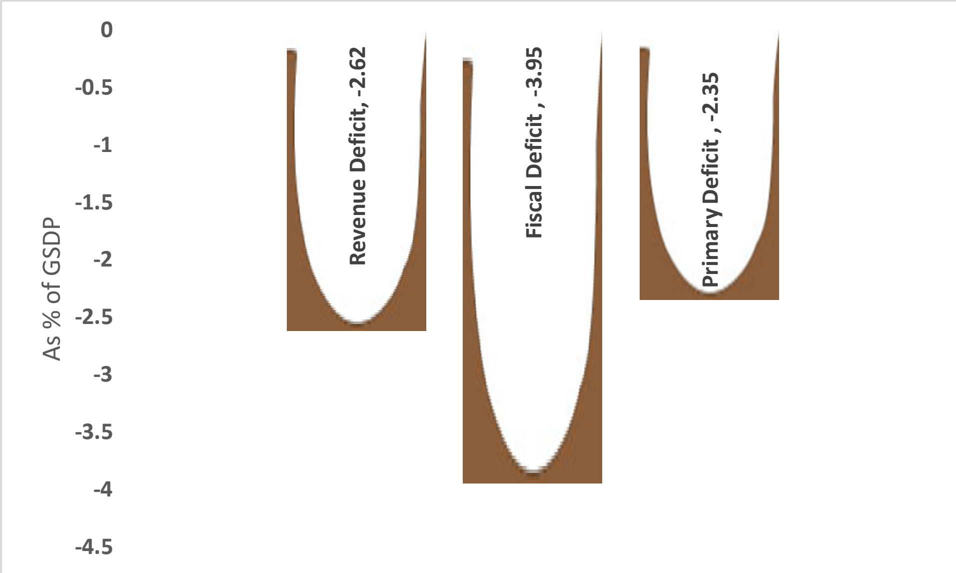
Deficit and Debt Situation

The net result of the receipts and expenditure gives the fiscal situation of Andhra Pradesh. As revenue expenditure exceeded the total revenue, the revenue deficit situation raised (Table 2.13 and Fig. 2.6). Fiscal deficit /GSDP at 3.95 percent crossed the FRBM target set by Fourteenth Finance Commission i.e., 3 percent.

Table 2.13: Deficit situation

AS PERCENTAGE OF GSDP (%)	2014-15
Revenue Deficit	-2.62
Fiscal Deficit	-3.95
Primary Deficit	-2.35

Fig. 2.6: Deficit Situation 2014-15

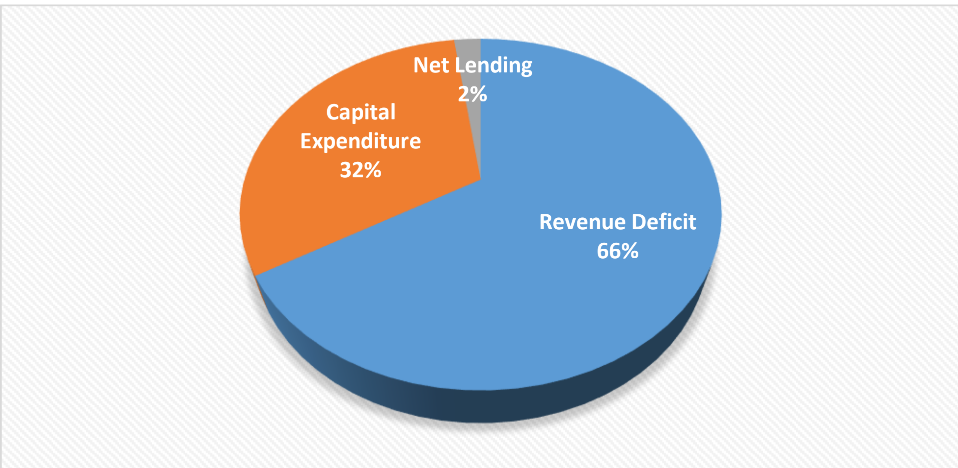


The decomposition of fiscal deficit (Table 2.14 and Fig.2.7) shows that revenue deficit is major contributor (66.41 percent) followed by capital expenditure (31.43 percent) and net lending (2.16 percent). In other words, two-thirds of the borrowings are spent to fill the revenue deficit and remaining one-third towards developmental activities i.e., remaining two components of fiscal deficit.

Table 2.14: Fiscal Deficit Composition 2014-15 (%)

Particulars	Rs. Cr	Relative Share (%)	As % of GSDP
Revenue Deficit	13775.76	66.41	2.62
Capital Expenditure	6520.27	31.43	1.24
Net Lending	449.00	2.16	0.09
Fiscal Deficit	20745.03	100.00	3.95

Fig. 2.7: Composition of Fiscal Deficit



The other way of examining at the borrowings is the direction of public debt spent. The public debt raised in 2014-15 is Rs. 21480.79 crores and repaid is Rs. 9098.82. Thus 42.36 percent of the debt raised is spent towards debt repayments (Table 2.15 and Fig.2.8). Hence the net debt is Rs. 12381.96 crores which is nearly 58 percent of the debt raised. Keeping aside the issue of financing developmental activities such as capital expenditure and net lending, this net debt is not adequate to fill at least the revenue deficit. To fill the remaining portion of the fiscal deficit, over and above the net debt, the state depends on the borrowings from the public account.

Table 2.15: Direction of Pubic Debt Spent (Rs. Cr)

	Public Debt Raised	Public Debt Repaid	Net Debt	Net debt as % of debt raised	As percentage of net debt (%)			
					Revenue Deficit	Capital Exp	Net Lending	Fiscal Deficit
2014-15	21480.79	9098.82	12381.96	57.64	111.26	52.66	3.63	167.54

Fig.2.8: Direction of Public Debt Spent (Rs. Crores)

The total outstanding public debt is amounted to Rs. 148743.5 crores. More than 50 percent of the outstanding debt is constituted by open market operations. Debt/ GSDP is about 28.33 percent (Table 2.16).

Table 2.16: Composition of Public Debt Outstanding - 2014-15

Year	**Open Market Loans**	**Loans From Central Govt.**	**Loans from Other Institutions**	**Small Savings**	**Provident Fund**	**Deposits and Reserve Funds**	**Total**
(Rs. Crores)	78440.87	9500.31	6316.87	15166.75	22142.47	17176.18	148743.50
Composition (%)	52.74	6.39	4.25	10.20	14.89	11.55	100.00
As % of GSDP	14.94	1.81	1.20	2.89	4.22	3.27	28.33

Source: Government of Andhra Pradesh (2018): Table– 9, Volume VI, Andhra Pradesh Budget in Brief 2018
For GSDP, Socio Economic Survey 2017-18, Planning Department, Government of Andhra Pradesh

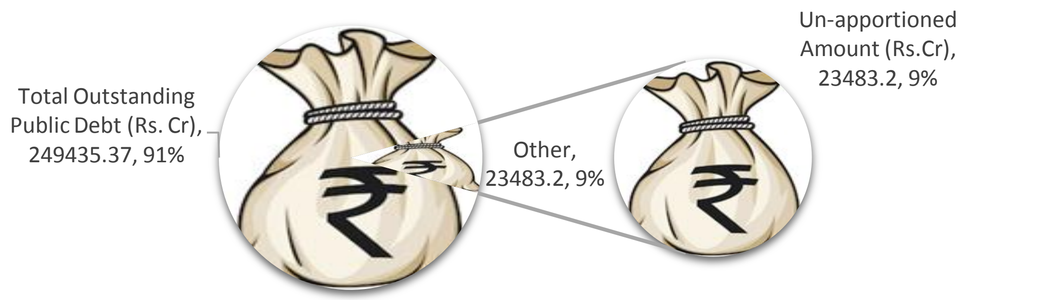
But, Volume VI, Andhra Pradesh Budget in Brief 2018 shows that since 2016-17, the un-apportioned outstanding public debt amounts to Rs. 23483.2 crores which is a substantial proportion in both total outstanding public debt and GSDP (Table 2.17 and Fig. 2.9).

Table 2.17: Total Outstanding Public Debt- Balance to be apportioned (Rs in Crores)

Year	Total Outstanding Public Debt	Un-apportioned Amount	Col (3) as % of col (2)	as % of GSDP
1	**2**	**3**	**4**	**5**
2016-17	201314.04	23483.2	11.66	3.38
2017-18 R.E.	225234.04	23483.2	10.43	2.92
2018-19 B.E.	249435.37	23483.2	9.41	

Source: Government of Andhra Pradesh (2018): Table– 9, Volume VI, Andhra Pradesh Budget in Brief 2018

Fig. 2.9: Total Outstanding Publid Debt vs Un-apportioned 2018-19BE



Un-apportioned public debt[11] as per CAG

CAG (2017) has given a detailed breakup of un-apportioned public debt and public accounts in its Finance Accounts 2016-17. Un-apportioned Net public account alone constitutes 3.31 percent of GSDP (Table 2.18).

[11] 54. (1) All liabilities on account of Public Debt and Public Account of the existing State of Andhra Pradesh outstanding immediately before the appointed day shall be apportioned on the basis of population ratio of the successor States unless a different mode of apportionment is provided under the provisions of this Act.
(2) The individual items of liabilities to be allocated to the successor States and the amount of contribution required to be made by one successor State to another shall be such as may be ordered by the Central Government on the advice of the Comptroller and Auditor- General of India:
Provided that till such orders are issued, the liabilities on account of Public Debt and Public Account of the existing State of Andhra Pradesh shall continue to be the liabilities of the Successor State of Andhra Pradesh.

Table 2.18: Balances Between / Among the States Has Not Been Finalised (RS. Cr)

	category	At the Time of Reorganisation	**Amount Allotted to AP**	**Has Not Been Finalised**
1	Capital Expenditure	151349.67	0	151349.67
2	**Public Debt**	**166522.32**	**97123.93**	**-81.09**
	Internal Debt	148855.66	86828.95	-95.17
	Loans From GOI	17666.66	10294.98	14.08
3	Loans and Advances	28099.69	0	28099.69
4	**Net Public Account**	**33139.27**	**5651.68**	**23054.29**
		as % of GSDP		
	Capital Expenditure	21.76	0.00	21.76
	Public Debt	23.94	13.96	-0.01
	Internal Debt	21.40	12.48	-0.01
	Loans From GOI	2.54	1.48	0.00
	Loans and Advances	4.04	0.00	4.04
	Net Public Account	4.76	0.81	3.31

Note: for further breakup details of above table see the source given below
Source: CAG (2017), Appendix XIII, Vol.II, Finance Accounts 2016-17, Govt of AP, Dec.

Pending apportionment of balances (on Capital Heads, Loans and Advances, Deposits and advances, Small savings, Provident Funds, and Reserve Funds) is a cause of concern particularly with regard to inadequate steward ship of assets, opportunity cost in utilizing the assets and loss of their time value. This delay may increase the interest payment burden too.

2.4. Summary and Suggestions

The implications of bifurcation on Andhra Pradesh is multifaceted. Structural composition of the economy has changed and its impacts the state finances. Andhra Pradesh, which was a revenue surplus state has turned into a deficit state. The apprehensions in the estimated resource gap and tax anomalies worsened fiscal situation of the state. The un-apportioned debt / deposits and other heads are the areas of concern. The issues which are with immediate effect and short or long run need to be addressed.

Chapter 3
State Own Revenues

Summary Findings
Total Receipts Scenario

- The total receipts/ GSDP declined from 25 percent in 201516 to 24 percent in 2016-17 and further declined to 19 percent in 2017-18 RE declined mainly because of declining of capital receipts, particularly floating debt.

- The revenue receipts/ GSDP declined from 14.77 percent in 2015-16 to 14.23 percent in 2016-17 but showed an increase by one percent in 2017-18 RE mainly because of the higher revised estimations by way of grants-in-aid from the centre.

- The relative share of revenue receipts in total receipts showed an increase only in the revised and budget estimates of latest two years because of higher estimations from all the major components except own non-tax revenue.

- In the total revenue, the share of central transfers is higher than the own revenue, particularly because of grants-in-aid. This shows the increased dependency of the state for resources.

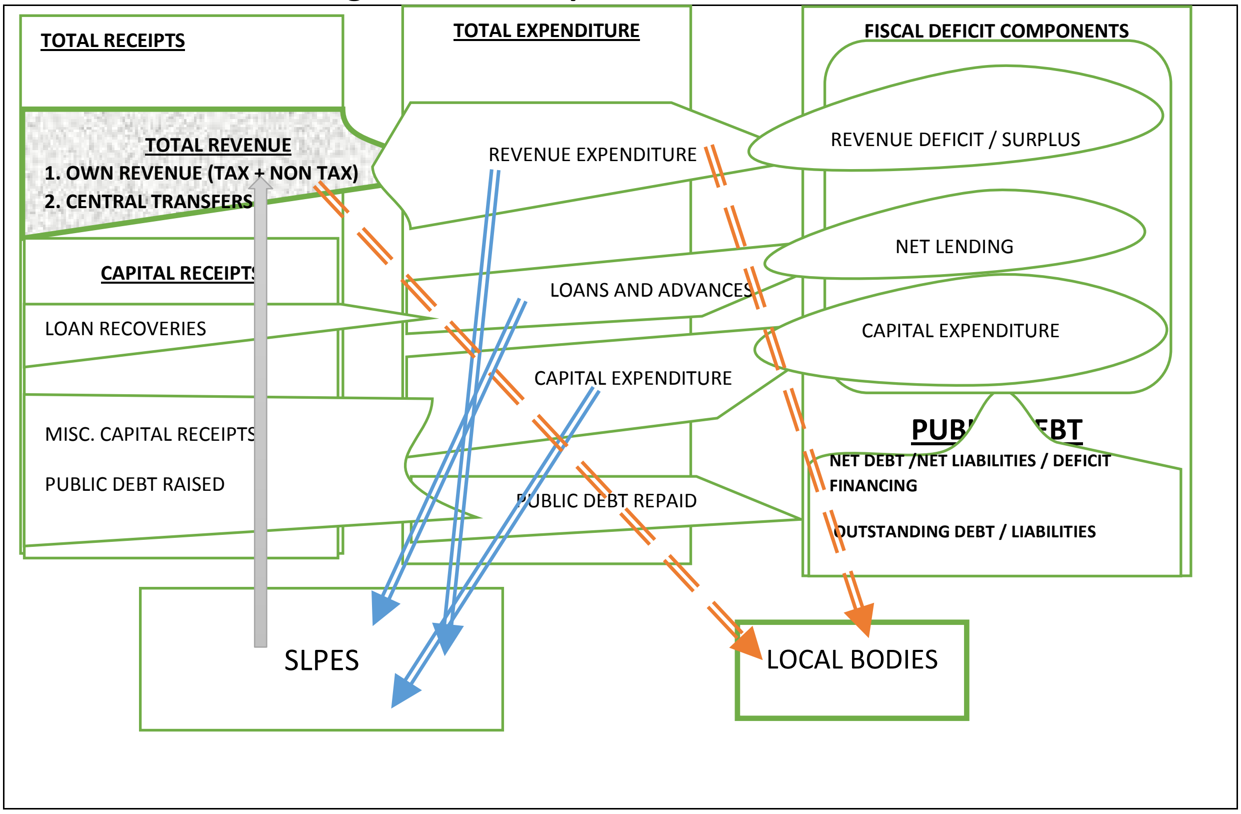
State own tax revenue Receipts Scenario

- The state own tax revenue / GSDP which was 6.65 percent in 2015-16 fluctuated in the subsequent years and never reached 2015-16 position.
- State own tax revenue and total revenue receipts have shown a higher growth rate while State own non-tax revenue, central transfers and most of the capital receipts and hence total receipts showed a +ve and –ve growth rates.
- The state own tax revenue / GSDP is lower than the projections of 14th Finance Commission.
- The growth rate of SOTR in 2016-17 over 2015-16 was 10 percent. But the estimates showed a consistent high growth rate in subsequent years. Accounts speak out factual situation.
- The outcome of GST may be assessed on the basis of accounts. Assessment of GST based on revised and budget estimates may not give realistic picture.
- In brief, the receipts of Andhra Pradesh state government showed variations in terms of GSDP, total revenue and growth rates. The data for the last two years belong to only estimates and not the accounts. Accounts will give a clear picture.

- The strategy of the state government for revenue augmentation is by improving tax administration, revenue buoyancy, minimizing of transaction costs and rationalizing the tax structure. Hence, the focus is on streamlining and strengthening existing tax and non-tax collection, mechanism and plugging of revenue leakages.
- Earnestness in fiscal marksmanship, minimising irregularities pointed out by CAG in revenue collections may strengthen the policy measures pronounced by the state government to augment own revenues.

Chapter 3
State Own Revenues

Fig.3.0: Roadmap –State Own Revenue



3.1. Introduction

Revenue augmentation has assumed special importance in the context of the imperatives to reduce fiscal imbalances at the national and sub-national 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 related are the preparatory work for introduction of Goods and Service Tax (GST). Measures in the area of non-tax revenue include rationalization of fee or user charges. But the issue of user charges is more valid only when the delivery of qualityservices is maintained.

This chapter focuses on the analysis of own revenues (tax and non-tax) of the Andhra Pradesh State government. 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.

Data Sources, Methodology

The main data sources are Andhra Pradesh State Government Budget Documents, RBI Study on State Finances, Audit Reports of CAGon State Finance and on Revenue sector. Gross State Domestic Product (GSDP) at current market prices is taken from Socio-Economic Survey, 2017-18, Government of Andhra Pradesh. The study period is very short i.e., 2015-19. While the data for the years 2015-16 and 2016-17 are accounts, 2017-18 and 2018-19 are revised and budget estimates respectively. Hence, the study used simple percentages and averages. instead of estimating revenue capacity, the study focused on the administrative efforts to augment the revenue resources.

The rest of the chapter, in this 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 analysis of each of the major state own tax revenue sources and the measures taken to improve tax-GSDP ratio after state bifurcation. Section four discusses about the own non-tax revenue sources. Section five provides the sum up and the policy suggestions.

3.2. Trends in Receipts

This section deals with the broad categories of (i) total receipts - revenue and capital, (ii) total revenue receipts – own revenue and central transfers with a time series data from 2015-16 to 2018-19BE and an average of three years 2015-18.

Total Receipts Scenario - Average of 2015-18RE

The aggregate receipts of the state government, like in other governments, consist of two main components - revenue and capital receipts. On an average, the aggregate receipts, during 2015-18,constituted nearly 23 percent of the GSDP of which nearly 15 percent is from revenue receipts and remaining 8 percent is from capital receipts (Table 3.1). The proportion of revenue receipts in the total receipts is 66 percent (nearly two-thirds) and the remaining 34 percent is from capital receipts[1] (Table 3.2).

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, 51 percent is from central transfers - about 25 percent is from states’ share in central taxes and rest 26 percent is in the form of grants - and remaining 49 percent is from state’s own revenue - 44 percent is from own tax and 5 percent from own non-tax revenue (Table 3.3).in other words state’s own revenue is lower than the centra transfers.

Total Receipts – Yearly Scenario

[1] 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).

The proportion of revenue receipts in GSDP showed a marginal decline in 2016-17 when compared to 2015-16 but an increase by one percentage point in 2017-18. Capital Receipts / GSDP proportion was very high at 10 percent in 2015-16 and declined considerably and consistently in subsequent two years (Table 3.1 and Fig.3.1). Segregation of total revenue /GSDP shows that the proportions of own revenue and central transfers are more or less same in 2015-16 and 2016-17 and also declined in this period. But in 2017-18RE the proportion of central transfers is higher than the other (Fig. 3.1a).

Table 3.1: Pattern of Total Receipts AS % of GSDP

	Particulars	2015-16	2016-17	2017-18 RE	2015-18 RE AVG
A	**Revenue Receipts**	**14.77**	**14.23**	**15.33**	14.81
1	Share of Central Taxes	3.64	3.78	3.61	3.67
2	Tax Revenue	**6.65**	**6.35**	**6.56**	6.52
3	Non Tax Revenue	0.82	0.75	0.50	0.67
4	Grants-in-aid	3.65	3.36	4.67	3.94
B	**Capital Receipts**	**10.15**	**9.76**	**4.09**	7.70
5	Open Market Loans	3.19	2.99	3.21	3.13
6	Floating Debt (Gross)	5.22	4.19	0.19	2.95
7	Loans from the GOI	0.11	0.12	0.19	0.14
8	Other Loans	0.42	1.32	0.21	0.64
9	Deposits Transactions etc. (Net)	1.16	0.85	0.24	0.71
10	Loans and Advances	0.05	0.29	0.05	0.13
C	**Total Receipts (A+B)**	**24.92**	**23.99**	**19.42**	**22.51**
	State Own Revenue (A2+A3)	**7.47**	**7.10**	**7.16**	**7.19**
	Central Transfers (A1+A4)	**7.29**	**7.14**	**8.287**	**7.61**
	Debt Capital Receipts (B5 to B9)	**10.10**	**9.47**	**4.04**	**7.57**
	Non-Debt Capital Receipts (B10)	**0.05**	**0.29**	**0.05**	**0.13**

Fig.3.1Total Receipts - Revenue and Capital

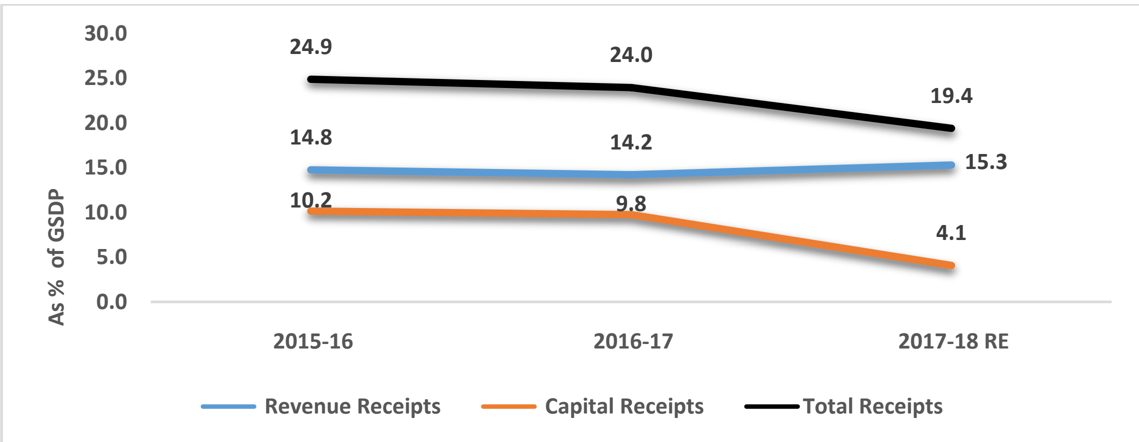
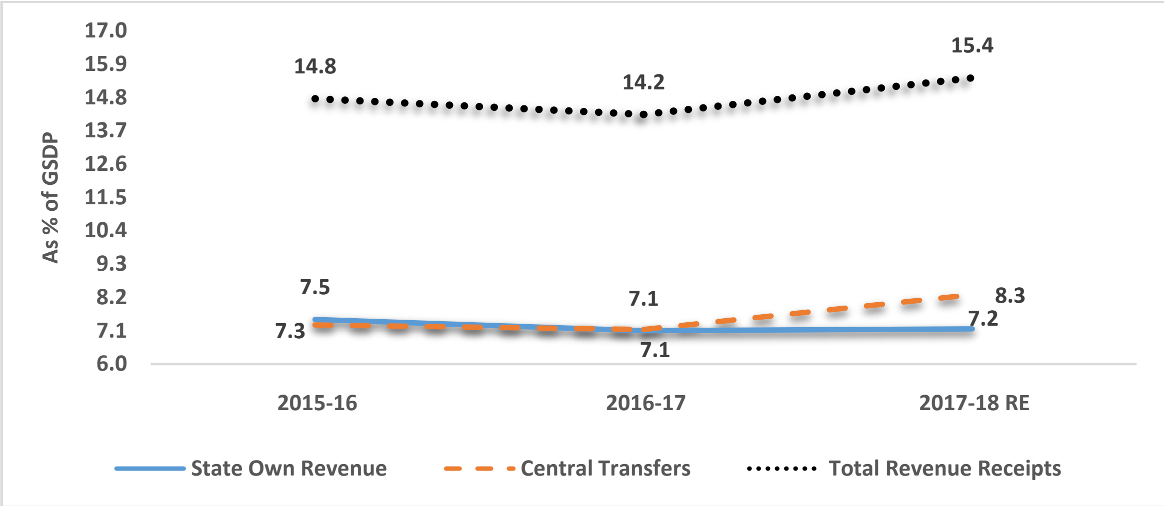
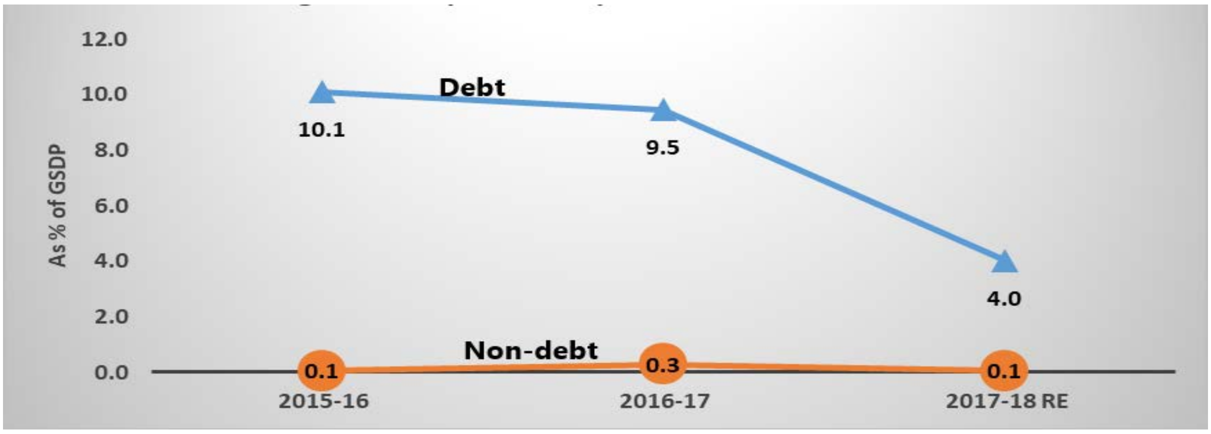


Fig.3.1a: Total Receipts: Own Revenue and Central Transfers



Segregation of capital receipts /GSDP shows that the proportions of non-debt is negligible (Fig. 3.1b) while debt which was high in 2015-16 declined in subsequent two years (drastically in the year 2017-18RE).

Fig. 3.1b: Capital Receipts – Debt and Non-debt



Composition of Total Receipts

Of the total receipts, in 2015-16, revenue component constituted about59 percent while the capital receipts covered the remaining 41 percent (Table 3.2 and Fig.3.2).Duringthe first two years (2015-16 and 2016-17) this composition has not changed while the revised and budget estimates of later two years showed a significant increase (decrease) in revenue receipts (capital receipts). The relative share of capital receipts in total receipts showed a decline in the last two years mainly because of two reasons- one is decline in its relative share because of increase in revenue receipts and other is absolute decline in capital receipts itself particularly due to decline in floating debt, deposits, transactions and other loans.

Table 3.2: Composition of Total Receipts (%)

	Particulars	2015-16	2016-17	2017-18 RE	2018-19 BE	3 Years Avg 2015-18RE
A	**Revenue Receipts**	**59.26**	**59.31**	**78.94**	**81.39**	**65.84**
1	Share of Central Taxes	14.62	15.74	18.57	17.76	16.31
2	Tax Revenue	26.69	26.47	33.76	34.30	28.97
3	Non Tax Revenue	3.29	3.11	2.55	2.80	2.99
4	Grants-in-aid	14.66	13.99	24.05	26.53	17.56
B	**Capital Receipts**	**40.74**	**40.69**	**21.06**	**18.61**	**34.16**
5	Open Market Loans	12.81	12.45	16.52	15.50	13.93
6	Floating Debt (Gross)	20.93	17.47	0.96	0.79	13.12
7	Loans from the GOI	0.46	0.49	0.96	0.52	0.64
8	Other Loans	1.69	5.50	1.09	0.71	2.76
9	Deposits Transactions etc.(Net)	4.67	3.56	1.25	0.83	3.16
10	Loans and Advances	0.19	1.22	0.28	0.26	0.56
C	**Total Receipts (A+B)**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Fig. 3.2: Composition to Total Receipts (%)

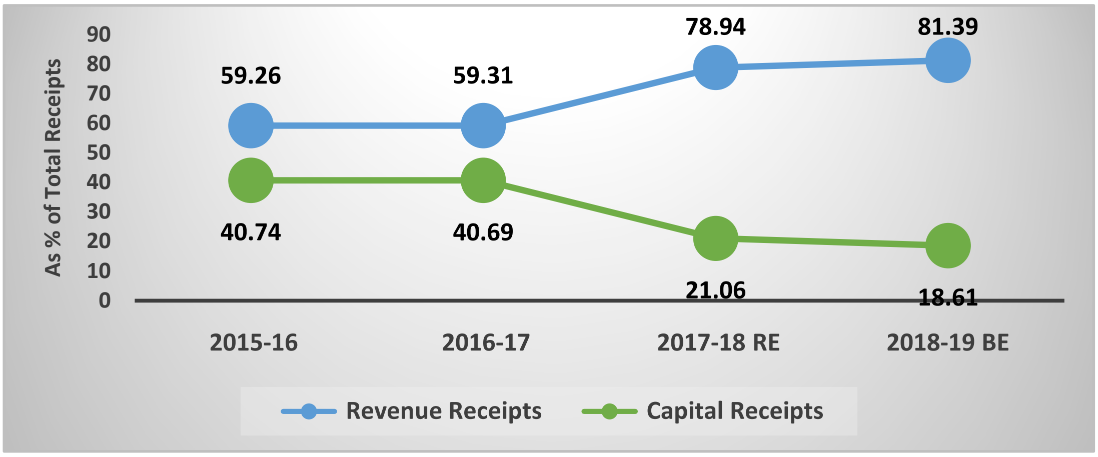
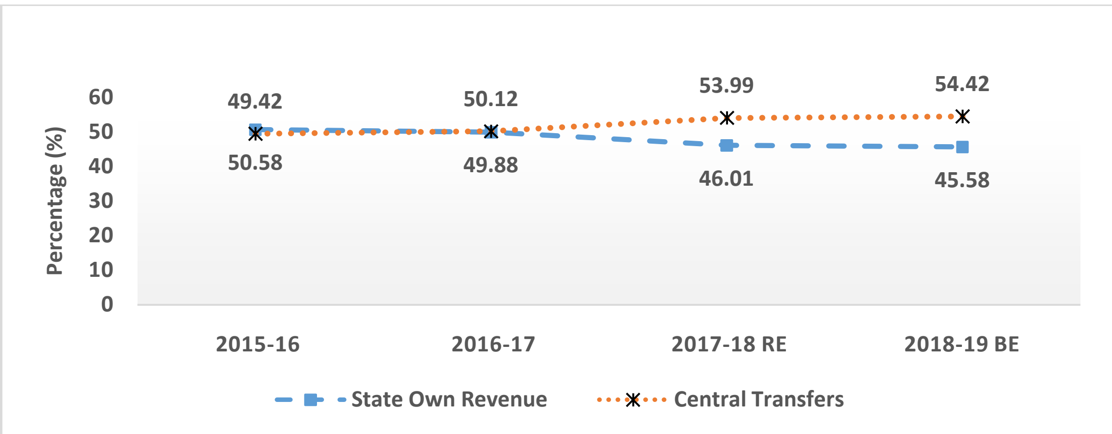


Fig. 3.3: Own Revenues vs Central Transfers



Composition of Total Revenue

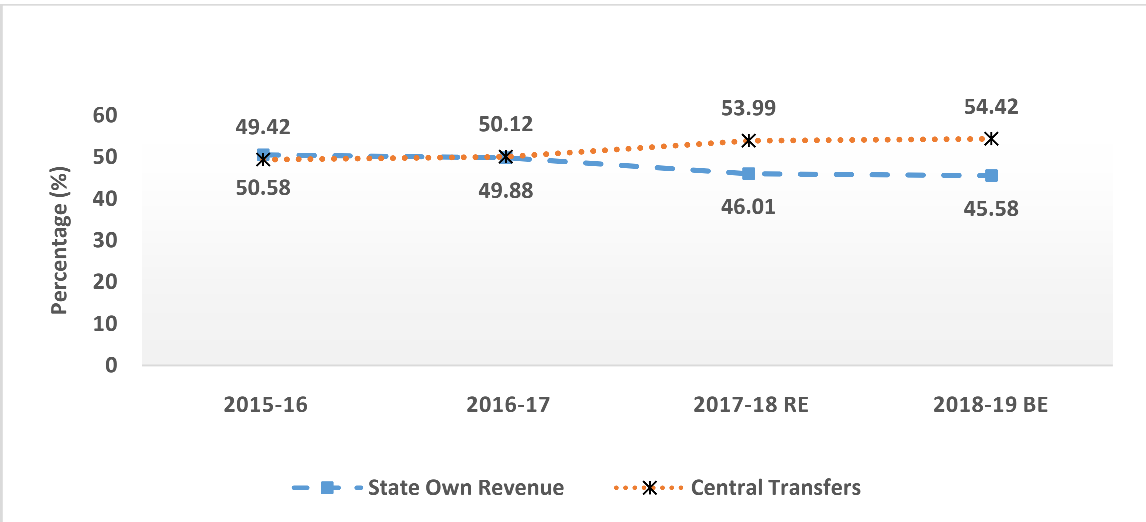
Within the total revenue receipts, the state own revenue in 2015-16 constituted nearly 51 percent (of which own tax revenue and own non-tax revenue comprised 45 percent and nearly 6 percent respectively) while transfers from the centre constituted remaining 49 percent (of which share in central taxes and grants-in-aid accounted for 24.68 percent and 24.74 percent respectively).In the subsequent years (Table 3.3, Fig. 3.3 and Fig. 3.3a), the relative share of state own revenue has declined (both tax and non-tax revenue) while overall central transfers increased (share in central taxes declined and that of grants-in-aid increased).

In the case of state own tax revenue, year-wise breakup shows that in 2015-16 and 2016-17 the relative share of tax revenue receipts in total revenue was around 45 percent and then a declined to 43 percent in 2017-18 RE and estimated to decline further to 42 percent 2018-19BE. Actuals/ accounts of these years need to be studied as these are only the estimates. The impact of GST, with effect from 1st July 2017[2], need to be studied in future.

Table 3.3: Composition of Total Revenue Receipts (%)

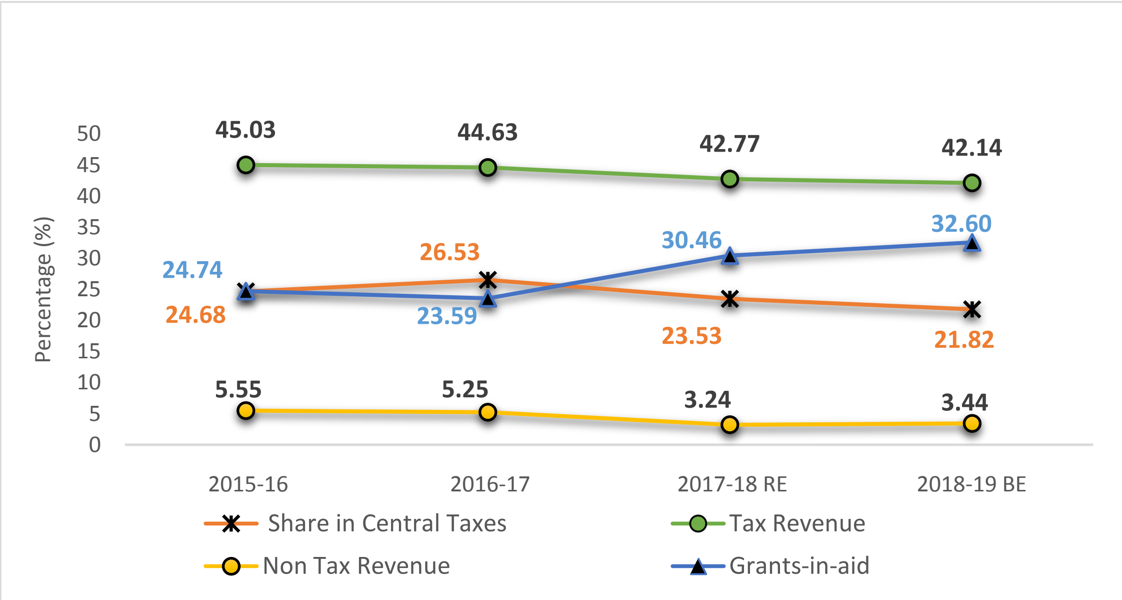
	Particulars	2015-16	2016-17	2017-18 RE	2018-19 BE	2015-18 RE AVG
	Revenue Receipts (1 to 4)	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
1	Share of Central Taxes	24.68	26.53	23.53	21.82	**24.91**
2	Tax Revenue	45.03	44.63	42.77	42.14	**44.15**
3	Non Tax Revenue	5.55	5.25	3.24	3.44	**4.68**
4	Grants-in-aid	24.74	23.59	30.46	32.60	**26.26**
	State Own Revenue (2+3)	**50.58**	**49.88**	**46.01**	**45.58**	**48.83**
	Central Transfers (1+4)	**49.42**	**50.12**	**53.99**	**54.42**	**51.17**

Fig. 3.3: Own Revenues vs Central Transfers



[2]GST was rolled out in the intervening night of 30 June and 1 July 2017.

Fig. 3.3a: Composition of Total Revenue (%)

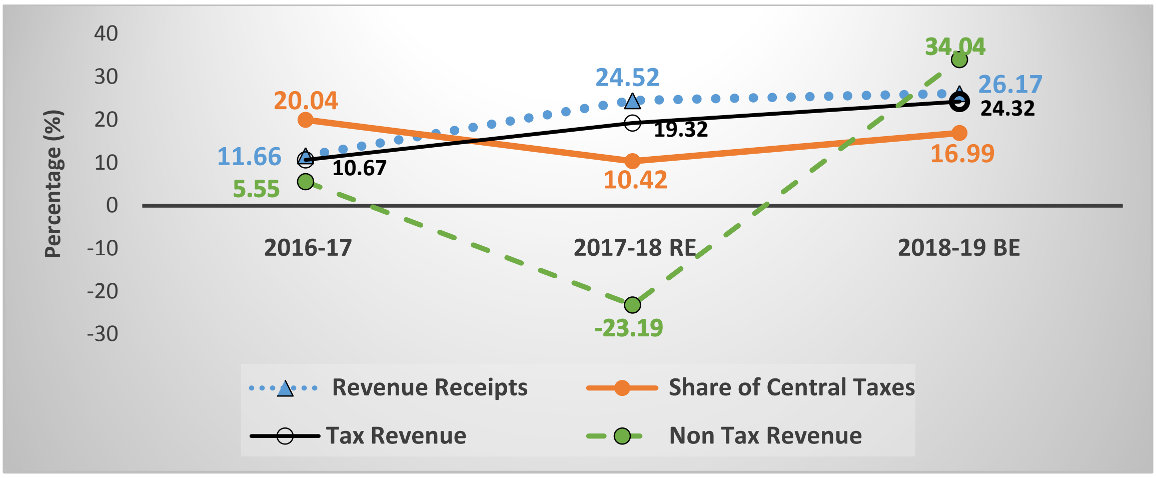


Year on year growth rates of total receipts and its components show that barring state own tax revenue, all components showed fluctuations and few of them showed a decline in absolute amounts indicating negative growth rate. (Table 3.4 and Fig. 3.4)

Table 3.4: Total Receipts - Year on Year Growth Rate(%)

		2016-17	2017-18 RE	2018-19 BE	2016-18 2 Years Avg
I	**Revenue Receipts**	**11.66**	**24.52**	**26.17**	**18.09**
1	Share of Central Taxes	20.04	10.42	16.99	15.23
2	Tax Revenue	10.67	19.32	24.32	14.99
3	Non Tax Revenue	5.55	-23.19	34.04	-8.82
4	Grants-in-aid	6.47	60.83	35.02	33.65
II	**Capital Receipts**	**11.39**	**-51.57**	**8.11**	**-20.09**
5	Open Market Loans	8.43	24.14	14.75	16.28
6	Floating Debt (Gross)	-6.88	-94.85	0.00	-50.87
7	Loans from the GOI	18.84	84.22	-33.33	51.53
8	Other Loans	263.72	-81.46	-20.24	91.13
9	Deposits Transactions etc.(Net)	-14.91	-67.27	-18.22	-41.09
10	Loans and Advances	613.03	-78.32	13.64	267.35
11	Contingency Fund (Net)	-17.24	-100.00		-58.62
III	**Total Receipts (I+II)**	**11.55**	**-6.44**	**22.36**	**2.56**

Fig. 3.4: Components of Revenue Receipts - Yearly Growth Rate (%)



State Own Tax Revenue: 14th Finance Commission's Projections and Accounts

The state own tax revenue / GSDP is much lower than the 14th Finance Commission's Projections (Table 3.4a).

Table 3.4a: Projected Tax - GSDP Ratio

		2015-16	*2016-17*	*2017-18*	*2018-19*	*2019-20*
ANDHRA PRADESH	*ACHIEVED*	***6.65***	***6.35***	***6.56***		
	PROJECTED BY 14TH FC	*7.98*	*8.26*	*8.31*	*8.36*	*8.41*

In short,

- The proportion of total receipts in GSDP declined from 25 percent in 2015-16 to 24 percent in 2016-17 and further declined to 19 percent in 2017-18 RE mainly because of declining of capital receipts, particularly floating debt.
- The proportion of revenue receipts in GSDP declined from 14.77 percent in 2015-16 to 14.23 percent in 2016-17 but showed a significant increase by one percent in 2017-18 RE mainly because of the higher revised estimations by way of grants-in-aid from the centre.
- The state own tax revenue / GSDP which was 6.65 percent in 2015-16 fluctuated in the subsequent years and never reached 2015-16 position.
- The state own tax revenue / GSDP is lower than the projections of 14th Finance Commission.
- The composition of total receipts show that the relative share of revenue receipts showed a significant increase only in the revised and budget estimates of last two years. These estimates may be high because of higherestimations from all the major components except own non-tax revenue.
- In the total revenue, the share of central transfers is higher than the own revenue, particularly because of grants-in-aid. This shows the increased dependency of the state for resources.

- Overall, state own tax revenue and total revenue receipts have shown a higher growth rate while State own non-tax revenue, central transfers and most of the capital receipts (and hence total receipts) showed a +ve and –ve growth rates.
- The growth rate of SOTR in 2016-17 over 2015-16 was 10 percent. But the estimates showed a consistent high growth rate in subsequent years. Accounts speak out factual situation.

3.3. State's Major 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/Goods and Service 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)Trends in major state own tax revenue resources

The major contributor of the state's own tax revenue during 2015-18, is sales tax which constituted around 73 percent(Table 3.5), followed by state excise (11 percent), stamp duty and registration fee (nearly 8 percent), motor vehicle tax (nearly 6 percent) and other taxes (2 percent) such as land revenue, tax on immovable property, profession tax, taxes and duties on electricity and entertainment tax etc. Similar order found in the proportions of these tax revenues w.r.t State own revenue, total revenue and GSDP(Tables 3.6 to 3.8). But yearly growth rates vary (Table 3.9).

Table 3.5: Composition ofState Own Tax Revenue (%)

		2015-16	2016-17	2017-18 RE	2018-19 BE	Avg 2015-18RE
	SOTR	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
(a)	**Taxes on Income and Expenditure**	**0.63**	**0.57**	**0.79**	**0.61**	**0.67**
	Other Taxes on Income and Expenditure	0.63	0.57	0.79	0.61	**0.67**
(b)	**Taxes on Property and Capital Transaction**	**9.46**	**8.68**	**8.76**	**8.39**	**8.94**
	Land Revenue	0.13	0.38	0.57	0.46	**0.38**
	Stamps and Registration Fees	8.84	7.87	7.59	7.45	**8.04**
	Taxes on Immovable property other than Agricultural Land	0.49	0.43	0.61	0.49	**0.52**
(c)	**Taxes and Commodities and Services**	**89.91**	**90.75**	**90.45**	**91.00**	**90.39**
	State Goods and Services Tax (SGST)	0.00	0.00	8.40	11.43	**3.23**
	Goods and Services Tax Compensation Cess	0.00	0.00	1.90	3.05	**0.73**
	State Excise	10.99	10.51	11.17	11.23	**10.90**
	Taxes on Sales, Trade etc.	72.90	73.52	62.40	58.67	**69.06**
	Taxes on Vehicles	5.22	5.58	5.60	5.63	**5.48**
	Taxes on Goods and Passengers	0.03	0.03	0.04	0.00	**0.03**
	Taxes and Duties on Electricity	0.44	0.75	0.66	0.53	**0.63**
	Other Taxes and Duties on Commodities and Services	0.34	0.34	0.29	0.46	**0.32**

Table 3.6: Composition of State Own Revenue (%)

	2015-16	2016-17	2017-18 RE	2018-19 BE	2015-18avg
State Own Revenue	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
SOTR	**89.03**	**89.48**	**92.97**	**92.46**	**90.66**
(a) Taxes on Income and Expenditure	**0.56**	**0.51**	**0.73**	**0.56**	**0.61**
Taxes on Agriculture Income	0.00	0.00	0.00	0.00	**0.00**
Hotel Receipts Tax	0.00	0.00	0.00	0.00	**0.00**
Other Taxes on Income and Expenditure	0.56	0.51	0.73	0.56	**0.61**
(b) Taxes on Property and Capital Transaction	**8.42**	**7.77**	**8.15**	**7.76**	**8.10**
Land Revenue	0.12	0.34	0.53	0.42	**0.34**
Stamps and Registration Fees	7.87	7.04	7.05	6.88	**7.29**
Estate Duty	0.00	0.00	0.00	0.00	**0.00**
Taxes on Immovable property other than Agricultural Land	0.44	0.39	0.56	0.45	**0.47**
(c) Taxes and Commodities and Services	**80.05**	**81.20**	**84.09**	**84.13**	**81.94**
State Goods and Services Tax (SGST)	0.00	0.00	7.81	10.57	**2.93**
Goods and Services Tax Compensation Cess	0.00	0.00	1.76	2.82	**0.66**
State Excise	9.78	9.41	10.38	10.38	**9.88**
Taxes on Sales, Trade etc.	64.90	65.79	58.01	54.24	**62.60**
Taxes on Vehicles	4.64	5.00	5.20	5.20	**4.97**
Taxes on Goods and Passengers	0.02	0.02	0.04	0.00	**0.03**
Taxes and Duties on Electricity	0.39	0.68	0.62	0.49	**0.57**
Other Taxes and Duties on Commodities and Services	0.30	0.31	0.27	0.42	**0.29**

Table 3.7: Composition of State TOTAL Revenue (%)

	2015-16	2016-17	2017-18 RE	2018-19 BE	2015-18avg
Total Revenue	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
State Own Revenue	**50.58**	**49.88**	**46.01**	**45.58**	**48.55**
SOTR	**45.03**	**44.63**	**42.77**	**42.14**	**44.01**
(a) Taxes on Income and Expenditure	**0.28**	**0.26**	**0.34**	**0.26**	**0.30**
Taxes on Agriculture Income	0.00	0.00	0.00	0.00	**0.00**
Hotel Receipts Tax	0.00	0.00	0.00	0.00	**0.00**
Other Taxes on Income and Expenditure	0.28	0.26	0.34	0.26	**0.30**
(b) Taxes on Property and Capital Transaction	**4.26**	**3.87**	**3.75**	**3.54**	**3.93**
Land Revenue	0.06	0.17	0.24	0.19	**0.17**
Stamps and Registration Fees	3.98	3.51	3.25	3.14	**3.54**
Estate Duty	0.00	0.00	0.00	0.00	**0.00**
Taxes on Immovable property other than Agricultural Land	0.22	0.19	0.26	0.21	**0.23**
(c) Taxes and Commodities and Services	**40.49**	**40.50**	**38.69**	**38.35**	**39.78**
State Goods and Services Tax (SGST)	0.00	0.00	3.59	4.82	**1.42**
Goods &Services Tax Compensation Cess	0.00	0.00	0.81	1.29	**0.32**
State Excise	4.95	4.69	4.78	4.73	**4.80**
Taxes on Sales, Trade etc.	32.83	32.82	26.69	24.72	**30.39**
Taxes on Vehicles	2.35	2.49	2.39	2.37	**2.41**
Taxes on Goods and Passengers	0.01	0.01	0.02	0.00	**0.01**
Taxes and Duties on Electricity	0.20	0.34	0.28	0.23	**0.28**
Other Taxes & Duties on Commodities & Services	0.15	0.15	0.12	0.19	**0.14**

Table 3.8: Trends in Revenue Receipts (as % of GSDP)

	2015-16	*2016-17*	*2017-18 RE*	*2015-18 avg*
Total Revenue	***14.77***	***14.23***	***15.33***	***14.78***
State Own Revenue	***7.47***	***7.10***	***7.05***	***7.21***
SOTR	***6.65***	***6.35***	***6.56***	***6.52***
(a) Taxes on Income and Expenditure	***0.04***	***0.04***	***0.05***	***0.04***
Taxes on Agriculture Income	*0.00*	*0.00*	*0.00*	*0.00*
Hotel Receipts Tax	*0.00*	*0.00*	*0.00*	*0.00*
Other Taxes on Income and Expenditure	*0.04*	*0.04*	*0.05*	*0.04*
(b) Taxes on Property and Capital Transaction	***0.63***	***0.55***	***0.57***	***0.59***
Land Revenue	*0.01*	*0.02*	*0.04*	*0.02*
Stamps and Registration Fees	*0.59*	*0.50*	*0.50*	*0.53*
Estate Duty	*0.00*	*0.00*	*0.00*	*0.00*
Taxes on Immovable property other than Agricultural Land	*0.03*	*0.03*	*0.04*	*0.03*
(c) Taxes and Commodities and Services	***5.98***	***5.76***	***5.93***	***5.89***
State Goods and Services Tax (SGST)	*0.00*	*0.00*	*0.55*	*0.18*
Goods & Services Tax Compensation Cess	*0.00*	*0.00*	*0.12*	*0.04*
State Excise	*0.73*	*0.67*	*0.73*	*0.71*
Taxes on Sales, Trade etc.	*4.85*	*4.67*	*4.09*	*4.54*
Taxes on Vehicles	*0.35*	*0.35*	*0.37*	*0.36*
Taxes on Goods and Passengers	*0.00*	*0.00*	*0.00*	*0.00*
Taxes and Duties on Electricity	*0.03*	*0.05*	*0.04*	*0.04*
Other Taxes and Duties on Commodities and Services	*0.02*	*0.02*	*0.02*	*0.02*

Table 3.9: Revenue Receipts* - Year on Year*Growth Rate (%)

	2016-17	*2017-18 RE*	*2018-19 BE*	*AVG 2016-18 RE*
GSDP AT CURRENT PRICES	***15.86***	***15.58***	***-100.00***	***15.72***
Total Revenue	***11.66***	***24.52***	***26.17***	***18.09***
State Own Revenue	***10.11***	***14.85***	***25.00***	***12.48***
SOTR	***10.67***	***19.32***	***24.32***	***14.99***
(a) Taxes on Income and Expenditure	***1.36***	***63.34***	***-3.54***	***32.35***
Other Taxes on Income and Expenditure	*1.36*	*63.34*	*-3.54*	*32.35*
(b) Taxes on Property and Capital Transaction	***1.57***	***20.47***	***19.05***	***11.02***
Land Revenue	*218.74*	*79.77*	*0.00*	*149.26*
Stamps and Registration Fees	*-1.45*	*15.08*	*22.00*	*6.81*
Taxes on Immovable property other than Agricultural Land	*-2.08*	*66.53*	*0.00*	*32.23*
(c) Taxes and Commodities and Services	***11.69***	***18.93***	***25.07***	***15.31***
State Goods and Services Tax (SGST)			*69.27*	
Goods & Services Tax Compensation Cess			*100.00*	
State Excise	*5.90*	*26.73*	*25.00*	*16.31*
Taxes on Sales, Trade etc.	*11.61*	*1.26*	*16.88*	*6.44*
Taxes on Vehicles	*18.47*	*19.57*	*25.00*	*19.02*
Taxes on Goods and Passengers	*19.07*	*76.28*	*-100.00*	*47.67*
Taxes and Duties on Electricity	*89.53*	*4.98*	*0.00*	*47.26*
Other Taxes & Duties on Commodities & Services	*10.48*	*1.69*	*95.32*	*6.09*

Revenue Trends- Tax–wise / year-wise

The strategy of the state government for revenue augmentation is by improving tax administration, revenue buoyancy, minimizing of transaction costs and rationalizing the tax structure. Hence, the focus is on streamlining and strengthening existing tax and non-tax collection, mechanism and plugging of revenue leakages[3]. In other words, it is to enhance revenue collection without levying additional taxes.

Revenue from Sales Tax /VAT

During 2015-16, the revenue from Taxes on Sales, Trade etc. constituted nearly 73 percent of own tax revenue. In 2016-17, there was a marginal increase of Rs. 3,380 crore in respect of Taxes on sales, trades etc. was mainly attributable to increase in receipts under Central Sales Tax and State Sales Tax.[4] In the revised estimates of 2017-18, revenue from sales tax including state GST and Goods and Services Tax Compensation Cess contributes nearly 73 percent of the own tax revenue which is more or less equal to 2015-16 status.

In terms of GSDP, it was high at 4.85 percent in 2015-16 and then declined in 2016-17. In the subsequent two years (the year of introduction of GST and the following year) the contribution of SGST in the state and the contribution of Goods & Services Tax Compensation Cess together with sales tax could not reach the level of 2015-16. The year on year growth rate of sales tax revenue fluctuated between the years and as the revenue from SGST or contribution of Goods & Services Tax Compensation Cess are only recent estimates for which growth rates cannot calculated.

Revenue from State Excise Duties

During 2015-16, after the revenue from Taxes on Sales, Trade etc, the next major source of revenue was state excise (nearly 11 percent). While there was a lower growth rate in this source of revenue during 2016-17 over 2015-16, it showed a consistent increase in the last two years. In terms of both own tax revenue and GSDP, it was around 11 percent and 0.7 percent respectively.

The Andhra Pradesh State Beverages Corporation Limited, a wholly owned A.P. Government company assists the Department in conducting the wholesale trade of IMFL & FL including export and import. The wholesale trade, import and export of IMFL & FL is being conducted by the Prohibition & Excise Department from 10.03.2015.

Excise policy measures w.e.f. 01.07.2017 rationalized the license fee structure in respect of shops and bars and a new duty in the form of additional excise duty is being levied on the landed cost of IMFL @36%. The retailers' margin has also been reduced to 10% on all varieties of liquor. With a view to provide succour to the poor tappers, tree tax on excise trees has been abolished and the distance restriction in respect of availability of trees from

[3]Government of Andhra Pradesh (2018), Statement of Fiscal Policy to be laid on the table of the A.P. State Legislature in March, 2018 (As required under section 5 of the Andhra Pradesh Fiscal Responsibility and Budget Management Act, 2005)
[4]Audit Report on State Finances for the year ended March 2017

the toddy shop has been increased to 100 KMs from the existing 50 KMs under the new toddy policy for 2017-22. The existing ex-gratia scheme has been replaced with *ChandrannaBhima* Scheme by enrolling all the tappers under the latter[5].

Revenue from Stamp Duty and Registration Fee

Another major source of revenue to the state exchequer is stamp duty and registration fee. The proportion of revenue from Stamp Duty and Registration Fee in SOTR which was 8.84 percent in 2015-16, shows adecreasing trend since 2016-17. Its proportion in GSDP also showed a similar trend. There was a negative growth rate in the revenue of 2016-17 over 2015-16 mainly because of the lower number of registrations. Though the growth rates of 2017-18 RE and 2018-19BE are 15 percent and 22 percent respectively, the actuals give a clear picture.

Revenue from Motor Vehicle Taxes

Revenue from Motor Vehicle Tax in terms of state own tax revenue showed an increasing trend from 5.24 percent in 2015-16 to 5.64 in 2017-18RE. Its proportion in GSDP also showed a similar trend. The year on year growth rates also showed a consistent increase during the study period.

Other Sources of Tax Revenue

Other sources of tax revenue put together (Land Revenue, Tax on Immovable Property other thanAgriculture Land, Tax and Duties on Electricity, Tax on Income and Expenditure and Other Taxes andDuties which include Profession Tax and Entertainment Tax etc) constitute a nominal portion in terms of GSDP, around 2 percent in State own tax revenue with huge /lower / negative growth rates.In 2016-17, an increase in Land revenue to the tune of Rs.115 crore (221.15 per cent increase compared to previous year) was on account of Sale proceeds of Waste Lands and redemption of Land Tax in connection with Survey and Settlement operations.[6]

(b) Measures to improve tax-GSDP ratio during 2015-19BE

Revenue augmentation measures, as claimed by the tate government (as given in the annual budget speeches) are given table 3.10.

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[5]Government of Andhra Pradesh (2018), Statement of Fiscal Policy to be laid on the table of the A.P. State Legislature in March, 2018 (As required under section 5 of the Andhra Pradesh Fiscal Responsibility and Budget Management Act, 2005)

[6]Audit Report on State Finances for the year ended March 2017

Table 3.10:Revenue Augmentation Measures

Year	Revenue Augmentation Measures
2015-16	• Reviewed all the existing schemes with reference to their efficacy, relevance and the need for redesigning them to suit the changed times and aspirations of the people. This is to aim at making the budget outcome based reflecting the needs and expected specific goals. • In the Commercial Taxes Department, e-tracking is introduced. • Comprehensive Finance Management System (CFMS), e- payments in Finance Department. • An integrated Information System of Departments viz., Revenue, Irrigation and Agriculture by name HARITA (Harmonised Information of Agriculture, Revenue and Irrigation for a Transformation Agenda) to provide a single source of data to the three departments and to the citizens. • Revenue Department has taken initiative to integrate the Revenue and Registration Records. It has ➢ Started issuing e-Pattadar pass books. A new software called 'Sarkar Bhoomi' has been launched for preparing an inventory of Government lands. ➢ For effective delivery of services to the citizens, the services of issuance of Encumbrance Certificate (EC) and Certified Copies are included in *Meeseva* through which citizens can obtain EC and Certified Copies without going to offices. ➢ Starting of the Comprehensive Financial Management System (CFMS) with a view to ensure transparent, efficient and real time management of public finances and human capital management. The modules relating to CFMS are Budget management, accounts management and human resource management system. The systems will interface with AG, RBI and other stakeholders for real time transactions.
2016-17	• It's a decentralised budget; • Every drawing and disbursing officer (DDO) in the state has prepared the budget proposals for the unit under his /her control. • Outcome-focused budget with unwavering focus on performance and outcomes rather than the traditional input based budget. • It is a demand driven budget based on the needs of the grassroots and the expectations of the people. • To improve VAT collection, measures like Invoice Tracking, Modernization of Check Posts, Deployment of Technology, Tax Analytics, etc. were instituted. • Application of technology solutions to make it easier for citizens to use the land registration services. • Measures like 'Anywhere Registration' and 'e-Stamping' is making Registration services easily accessible to the citizens. • Introduced a system of online applications and registration of vehicles. • Rationalise the Drawing and Disbursement Officers' (DDOs) system and

Year	Revenue Augmentation Measures
	ensure distribution of Budget to the last operational unit for the entire year in the first month of the financial year. • Harmonise the cash flow to the monthly expenditure requirements. • Operationalize the E-Nidhi application during the current year that would enable real-time financial monitoring, apart from data analytics and dynamic feedback to all stakeholders.
2017-18	**Commercial Taxes:** The efforts to enhance commercial tax collection by using information technology to widen the tax base and also by making it easy for assessment and payment of taxes by dealers. Almost all the internal processes like calculation of interest and penalty, refunds, audits, vehicle checks at the check posts/ on the road, calculations for unilateral assessments, calculating mismatches and issue of notices are now IT based. Vehicle checks are done only through tabs and the data is captured live and can be seen online. Transit pass vehicles passing through AP are photographed and monitored through GPS at entry and exit check posts. **Registration & Stamps:** Over the past year, the Government has substantially increased transparency level in land registration activity. Registration Data Base has been integrated with Revenue Data Base and Local Bodies Data Base for easy mutation of properties after registration. o to integrate Aadhar with the registration process o Citizens can verify property online through website of Registration Department. Anywhere registration has been introduced wherein any property within the State can be registered in any office of the State. o An Online and Offline system of payment of Stamp Duties has been initiated. This has brought transparency in paying duties and reduced the burden of usage of stamp papers and handling of large amounts of cash by the citizens and Sub-Registrars. **Prohibition & Excise:** eradication of illicit distillation was launched during February 2016 and so far 10 districts have been declared illicit distillation-free districts and the momentum is being sustained to make the entire State free from illicit distillation. o HPFS and IT enabled "Track and Trace System" is being implemented successfully covering the entire supply chain of liquor and beer in the State. o Amendments to the new Excise Policy are also being introduced in the House during the session.
2018-19	• Special drives are being conducted to ensure that no business activities with turnover above Rs. 20 lakh are left unregistered. Issuance of tax invoices to consumers has become very important under GST because it is a consumption based tax. If invoice is not recorded, the Government loses tax revenue on the entire value of those goods. • **Registration and Stamps:** Government has initiated many steps to safe guard the interests of property owners and improve transparency in registration services. In order to bring registration services closer to the

Year	Revenue Augmentation Measures
	citizens, online issuance of Encumbrance Certificate and Certified Copies free of cost has been started from 1st January, 2018. The provision of e-stamping through Stock Holding Corporation of India has been started, giving additional option to the citizens for payment of stamp duties. • Providing good infrastructure to the mandal revenue offices and revenue divisional offices. An amount of Rs. 50 crore for construction of buildings of Revenue department as against the existing provision of Rs. 10 crore. A similar provision for buildings of Excise Department.

Source: Budget Speech for the years 2015-16 to 2018-19, Government of Andhra Pradesh.

(c) Suggestive Revenue Augmentation Measures

(1) 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. Table 3.11 shows the extent of variation between budget estimates and the accounts with respect to own tax revenue of the state. 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?

Table 3.11: Extent of Variation between Budget Estimates and Accounts

	Head of Revenue	2015-16			2016-17		
		BE	Actuals	Actuals as % of BE	BE	Actuals	Actuals as % of BE
1	Taxes on Sales, Trade etc.	32,840	29,104	88.62	37,435	32,484	86.77
2	State Excise	4,680	4,386	93.72	5,756	4,645	80.70
3	Stamp Duty and Registration Fee	3,500	3,527	100.77	5,180	3,476	67.10
4	Taxes on Vehicles	1,977	2,082	105.31	2,412	2,467	102.28
5	Others	1,426	808	56.66	1,535	1,109	72.25
	TOTAL	44,423	39,907	89.83	52,318	44,181	84.45

(2) Blockage confiscation - a way to revenue augmentation

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 finance. One among them is audit reports of the Comptroller and Auditor General of India (CAG)[7].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 the number of cases and the amount involved in the irregularities in the implementation of state taxes and it also discusses the amount of uncollected revenue.

(a) Inspection Reports of CAG[8] – 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.

Inspection Reports (IRs) issued up to December 2016 disclosed that 17,274 paragraphs involving Rs. 3,079.14 crore relating to 4,942 IRs remained outstanding at the end of June 2017 (Table 3.12). There is a consistent increase in the pending IRs year after year and the amount involved Rs. 3,079.14 crores. It constituted about 3.23 percent of state own tax revenue by June 2015and increased to nearly 6 percent by June 2017.

Table 3.12: Details of pending Inspection Reportsand Amount of revenue involved

	Jun-15	Jun-16	Jun-17
Number of IRs pending settlement	4,197	4,436	4,942
Number of Paragraphs outstanding	11,681	14,336	17,274
Amount of revenue involved (Rs. in crore)	1,288.81	2,303.83	3,079.14
state own tax revenue (SOTR)(Rs. in crore)	39921.74	44181.46	52715.93
Amount of revenue involved AS % OF SOTR	3.23	5.21	5.84

Source: Report of the Comptroller and Auditor General of India on Revenue Sector, for the year ended 31 March 2017, Report No. 1 of 2018, Government of Andhra Pradesh

The Department-wise details of the IRs and audit paragraphs outstanding as on 30 June 2017 and the amounts involved are mentioned in the Table 3.13.

[7] 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.

[8] 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.

Table 3.13Department-wise details of IRs / audit paragraphs outstanding as on 30 June 2017(Rs. in crore)

	Department	Nature of receipts	Number of outstanding IRs	Number of outstanding Paragraphs	Money value involved
1	Revenue	Added Tax and Central Sales Tax	1,667	6,278	1,524.49
		State Excise Duty	238	633	47.73
		Land Revenue	950	3,064	229.85
		Stamp Duty and Registration Fee	1,538	4,879	251.75
2	Transport, Roads and Buildings	Taxes on Vehicles	233	1,159	131.97
3	Industries and Commerce	Mines and Minerals	274	1,187	187.53
4	Energy	Taxes and duties on Electricity	42	74	705.82
Total			4,942	17,274	3,079.14

Source: Report of the Comptroller and Auditor General of India on Revenue Sector, for the year ended 31 March 2017, Report No. 1 of 2018, Government of Andhra Pradesh

(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 3.14) particularly from major tax raising departments such as commercial, motor vehicles, land revenue which constitute a major share.

Table 3.14: Blockage of Revenue due to Irregularities in Tax Collections

			(` in crore)
S1.No.	Categories	No. of cases	Amount
1	Total **Value Added Tax and Central Sales Tax**	919	269.87
2	State Excise Duties	32	83.46
3	Stamp Duty And Registration Fees	392	8.88
4	Taxes On Vehicles	43	88.93
5	All Major Taxes (1 To 4)	1386	451.14
6	Other Tax And Non-Tax Receipts	120	149.12
7	Total (5+6)	1506	600.26
8	Land Revenue	35	7.25
9	Total (7+8)	1541	607.51

Source: Report of the Comptroller and Auditor General of India on Revenue Sector, for the year ended 31 March 2017, Report No. 1 of 2018, Government of Andhra Pradesh

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'.

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.

(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 disgraceful that, of the total amount accepted, the proportion of amount recovered by the government is very meagre – showing the level of indifference on the part of administrative.

Due to the irregularities, the 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.

While conducting the audit by CAG, during the year 2016-17, test-check of the records of 369 units of Commercial Taxes, Prohibition and Excise, Transport, Land Revenue, Registration and Stamps and other departmental offices showed under-assessment / short levy / loss of revenue totalling Rs. 607.51 crore in 1,541 cases. During the course of the year, the Departments accepted under-assessment and other deficiencies of Rs.103.12 crore in 589 cases, of which 316 cases involving Rs.20.08 crore were pointed out in earlier years. An amount of Rs.1.68 crore was realised in 215 cases during the year 2016-17. Of this, recovery of Rs. 0.94 crore in 173 cases relate to previous years[9].

Audit report (2018) contains 36 paragraphs selected from the audit findings detected during the local audits carried out in 2016-17 and in earlier years, which could not be included in previous reports. The financial effect of the paragraphs of this report is Rs.235.61 crore. The Departments / Government have accepted audit observations involving Rs. 81.80 crore out of which Rs.0.28 crore had been recovered. The replies in the paragraphs involving Rs65.65 crore have not been received (January 2018)[10].

In brief, 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– 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.

3.4. State Own Non-Tax Revenue (SONTR)

Earlier, the major component of state's own non-tax revenues was interest receipts, dividends and profits earned by the government through its investments in the State Level

[9]Report of the Comptroller and Auditor General of India on Revenue Sector, for the year ended 31 March 2017, Report No. 1 of 2018, Government of Andhra Pradesh

[10]Report of the Comptroller and Auditor General of India on Revenue Sector, for the year ended 31 March 2017, Report No. 1 of 2018, Government of Andhra Pradesh

Public Enterprises (SLPEs)[11] followed by the 'other non-tax revenue' which comprises user charges collected from economic, social and general services. Now reverse is the situation. This is mainly because of the reason that government has dispensed with the practice of charging of notional interest on cumulative Capital Outlay on Irrigation/Power Projects from the year 2015-16 which the Audit, in its earlier reports, has been highlighting this practice adopted by the Government[12].

Public sector units which run efficiently and commercially profitably contribute to the State public exchequer in the form of interests and dividends. But the relative share of interest receipts in total State own non-tax revenue has come down to less than 3 percent. 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.

Another source of revenue is through the user charges for economic services, social services and other general services. On an average, own non-tax revenue constituted less than 1 percent of GSDP, less than 10percent of state own revenues and 3-5.5 percent of the State's total revenue (Table 3.15). As the proportion of SONTR w.r.t. GSDP is less than 1 percent, the proportion of its components will be further low. About 97 percent of the state's own non tax revenues come from the other non-tax revenue which comprises of the administrative receipts[13] from economic services (65.15 percent), social services (22.16 percent) and general services (10.06 percent) (Table 3.16). Interest receipts and dividends are mainly through the SLPEs contributing less than 3 percent.

During the study period growth rate of own non tax revenue in 2016-17 over 2015-16 was only 5.5 percent. In 2017-18, the growth rate has dipped into negative as it has fallen in absolute values. In 2018-19, it growth rate has increased significantly at 34 percent.

The proportion of receipts from economic services in total SONTR was around 55 percent in 2015-16 and 2016-17 and the revised estimates of 2017-18 showed a significant increase to about 83 percent and the budget estimates of 2018-19 showed a decline to 72 percent. The major components of economic services that contributed to own non-tax revenue are forestry and wild life, other rural developmental programmes, non-ferrous mining and metallurgical industries etc. The rise in revised estimates or fall in the budget estimates is mainly due to the component non-ferrous mining and metallurgical industries.

Regarding social services, its proportion in SONTR during 2015-16 and 2016-17 accounted to around 31 percent and showed a steep decline in the revised and budget estimates of 2017-18 and 2018-19 respectively. (Budget estimates of 2017-18 also showed a very low proportion). Among the social services, the proportions differ widely in education, sports,

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

[12]Government of Andhra Pradesh (2017): Report No.3 of the year 2017, Report of the Comptroller and Auditor General of India on State Finances for the year ended March 2016

[13] 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.

art and culture, medical and public health, urban development and social security and welfare (Table 3.17).

In the years 2015-16 and 2016-17, an amount of Rs. 748 crores and Rs. 517 crores respectively were shown as receipts relating to Education in the Consolidated Fund of the State under Major Head 0202 (Education, Sports, Art and Culture) – 01 (General Education) – 101 (Elementary Education). As the above Head was related to reimbursement of teachers' salary, these amounts were required to be reduced from expenditure instead of remitting to Consolidated Fund thereby resulting in overstatement of the State's revenues.[14,15]

Among the general services, Police, other administrative services and miscellaneous general services constituted a major share while others were nominal. The issue of user charges is more valid only when the quality services are delivered to the public.

Table 3.15: Non-Tax Revenue AS % OF GSDP at Current Prices

		2015-16	2016-17	2017-18 RE	avg 2015-18RE
1	**Interest Receipts**	0.02	0.02	0.01	0.02
	Interest Receipts	0.02	0.02	0.01	0.02
	Dividends and Profits	0.00	0.00	0.00	0.00
2	**Other Non-Tax Revenue**	0.80	0.73	0.48	0.65
	(i) General Services	0.08	0.08	0.05	0.07
	(ii) Social Services	0.25	0.23	0.02	0.16
	(iii) Economic Services	0.47	0.42	0.41	0.43
	Total (1+2)	0.82	0.75	0.50	0.67

Table 3.16: Composition of State Own Non Tax Revenue (%)

MAJOR HEADS	2015-16	2016-17	2017-18 RE	2018-19 BE	AVG 2015-18RE
B Non-Tax Revenue	100.00	100.00	100.00	100.00	100.00
(b) Interest Receipts	2.89	2.25	2.77	5.46	2.64
Interest Receipts	2.70	2.17	2.57	5.15	2.48
Dividends and Profits	0.19	0.08	0.20	0.31	0.16
(c) Other Non-Tax Revenue	97.11	97.75	97.23	94.54	97.36
(i) General Services	9.55	10.93	9.69	13.96	10.06
(ii) Social Services	30.76	31.16	4.56	8.44	22.16
(iii) Economic Services	56.79	55.66	82.98	72.14	65.15

[14]Audit Report on State Finances for the year ended March 2016
[15]Audit Report on State Finances for the year ended March 2017

Table 3.17: Composition of Own Non Tax Revenue (%)

	2015-16	2016-17	2017-18 RE	2018-19 BE	AVG 2015-18RE
B Non-Tax Revenue	100.00	100.00	100.00	100.00	100.00
(b) Interest Receipts	2.89	2.25	2.77	5.46	2.64
Interest Receipts	2.70	2.17	2.57	5.15	2.48
Dividends and Profits	0.19	0.08	0.20	0.31	0.16
Total (b)	2.89	2.25	2.77	5.46	2.64
(c) Other Non-Tax Revenue	97.11	97.75	97.23	94.54	97.36
(i) General Services	9.55	10.93	9.69	13.96	10.06
Public Service Commission	0.04	0.84	0.12	0.15	0.34
Police	3.83	5.18	6.90	8.60	5.31
Jails	0.00	0.01	0.03	0.04	0.01
Stationery and Printing	0.00	0.00	0.01	0.01	0.01
Public Works	0.07	0.15	0.19	0.30	0.14
Other Administrative Services	4.36	2.06	0.88	1.70	2.43
Contributions and Recoveries Towards Pension and other Retirement Benefits	0.15	0.16	0.11	0.22	0.14
Miscellaneous General Services	1.09	2.52	1.46	2.92	1.69
Total (i)	9.55	10.93	9.69	13.96	10.06
(ii) Social Services	30.76	31.16	4.56	8.44	22.16
Education, Sports, Art and Culture	17.40	11.11	1.77	3.35	10.10
Medical and Public Health	1.43	1.61	1.62	3.06	1.55
Family Welfare	0.10	0.00	0.10	0.00	0.07
Water Supply and Sanitation	0.17	0.24	0.14	0.26	0.18
Housing	0.02	0.02	0.02	0.03	0.02
Urban Development	0.03	17.35	0.20	0.39	5.86
Information and Publicity	0.00	0.00	0.01	0.01	0.00
Labour and Employment	0.33	0.52	0.57	1.08	0.47
Social Security and Welfare	11.17	0.21	0.07	0.14	3.82
Other Social Services	0.10	0.10	0.07	0.13	0.09
Total (ii)	30.76	31.16	4.56	8.44	22.16
(iii) Economic Services	56.79	55.66	82.98	72.14	65.15
Crop Husbandry	0.04	0.04	0.06	0.11	0.05
Animal Husbandry	0.01	0.01	0.02	0.04	0.01
Dairy Development	0.00	0.00	0.00	0.00	0.00
Fisheries	0.05	0.05	0.02	0.08	0.04
Forestry and Wild Life	9.57	4.50	8.77	11.22	7.61
Agricultural Research and Education	0.00	0.00	0.00	0.00	0.00
Co-operation	0.35	0.21	0.27	0.53	0.27
Other Agricultural Programmes	0.00	0.00	0.00	0.00	0.00
Land Reforms	0.02	0.02	0.03	0.04	0.03
Other Rural Development Programmes	6.90	10.77	8.77	0.00	8.81
Major Irrigation	2.94	3.19	3.85	5.99	3.33
Medium Irrigation	0.06	0.08	0.06	0.11	0.07
Minor Irrigation	0.02	0.03	0.04	0.07	0.03
Power	0.25	0.22	0.49	0.56	0.32
Village and Small Industries	0.11	0.16	0.14	0.16	0.13

	2015-16	2016-17	2017-18 RE	2018-19 BE	AVG 2015-18RE
Industries	**0.00**	**0.00**	**0.01**	**0.02**	**0.00**
Non-Ferrous Mining and Metallurgical Industries	**30.96**	**31.35**	**55.15**	**46.76**	**39.16**
Other Industries	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Ports and Light Houses	**3.86**	**3.10**	**4.01**	**4.86**	**3.66**
Civil Aviation	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Roads and Bridges	**0.97**	**1.09**	**0.42**	**0.49**	**0.83**
Road Transport	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Inland Water Transport	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Tourism	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Civil Supplies	**0.11**	**0.10**	**0.14**	**0.18**	**0.12**
Other General Economic Services	**0.57**	**0.76**	**0.71**	**0.92**	**0.68**
Total (iii)	**56.79**	**55.66**	**82.98**	**72.14**	**65.15**
Total (c)	**97.11**	**97.75**	**97.23**	**94.54**	**97.36**
Total B Non-Tax Revenue	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

3.5. Summary and Suggestions

There found a consistent decline in the proportion of total receipts to GSDP mainly because of declining of capital receipts, particularly floating debt.

The proportion of revenue receipts in terms of GSDP, though declined from 14.77 percent in 2015-16 to 14.23 percent in 2016-17, showed an increase by one percent in 2017-18 RE mainly because of the higher revised estimations by way of grants-in-aid from the centre. The state own tax revenue / GSDP which was 6.65 percent in 2015-16 fluctuated in the subsequent years and never reached 2015-16 position.

In the total revenue, the share of central transfers is higher than the own revenue, particularly because of higher contribution of grants-in-aid from the centre. This shows the increased dependency of the state for resources. Yearly growth rates of above components, the proportion of revenue components in GSDP also unveils the same.

The growth rate of SOTR in 2016-17 over 2015-16 was 10 percent. But the estimates showed a consistent high growth rate in subsequent years. Accounts speak out factual situation. The outcome of GST may be assessed on the basis of accounts. Assessment of GST based on revised and budget estimates may not give realistic picture.

The relative share of revenue receipts in total receipts showed a significant increase only in the revised and budget estimates of last two years. Overall, state own tax revenue and total revenue receipts have shown a higher growth rate while State own non-tax revenue, central transfers and most of the capital receipts and hence total receipts showed a +ve and –ve growth rates.

In brief, the receipts of Andhra Pradesh state government showed variations in terms of GSDP, total revenue and growth rates. The data for the last two years belong to only estimates and not the accounts. Accounts will give a clear picture.

Earnestness in fiscal marksmanship, minimising irregularities pointed out by CAG in revenue collections may strengthen the policy measures pronounced by the state government to augment own revenues.

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Chapter 4
Expenditure - Trends and Patterns

Summary of Findings

Expenditure Reforms in Andhra Pradesh

State Fiscal Policy strategy is to control revenue expenditure by cutting administrative costs with the use of available modern technology so as to enhance investment in productive capital assets and social sectors in order to attain sustainable and equitable economic growth.

In 2017-18, a separate Outcome Budget is presented in Volume VII/1. The government intends to initiate **Operationalization of the Comprehensive Financial Management System (CFMS).** Andhra Pradesh Centre for Financial Systems and Services (APCFSS), the special purpose vehicle established under the administrative control of Finance Department.

State government is yet to amend its FRBM Act as per the 14th Finance Commission's recommendations, especially on fiscal targets viz., revenue deficit, fiscal deficit and outstanding liabilities to GSDP ratio. Further, the Government has not provided yearly pension liabilities on actuarial basis for the ensuing years, as stipulated in provision 7(2)(iii) of FRBM Act, 2005.

As per Rule 6 of FRBM rules, as required under section 10 of the FRBM Act. Out of 10 disclosures prescribed, the statement of assets in **Form D-7**, the statement on liabilities in respect of major works and contracts, committed liabilities in respect of land acquisition charges and claims on the State Government in respect of unpaid bills on works and supplies in **Form D-9** were not presented along with the budget 2018-19.

Budgetary Expenditure –Trends

Continuous decline in total budgetary expenditure 2015-18RE mainly due to

- Continuous decline of capital disbursements in all the years i.e., in 2015-16 to 2017-18RE.
- Revenue expenditure/GSDP increased from 15.98 percent (2015-16) to 16.70 percent (2016-17) mainly because of *UDAY scheme* andconstant rise in interest payments/GSDP proportions
- In 2017-18 RE, fall in the growth rate of revenue expenditure maybe because of declined expenditure towards salaries, pensions and subsidies in short committed expenditure.

Revenue expenditure exceeded total revenue by (9.17 percentage points). As the revenue deficit (revenue expenditure exceeded over revenue receipts is financed from the borrowings.

The revenue expenditure / total expenditure declined in the last two years and provided scope for an increase in the capital expenditure. In other words it has increased the allocative efficiency of the public expenditure during those years.

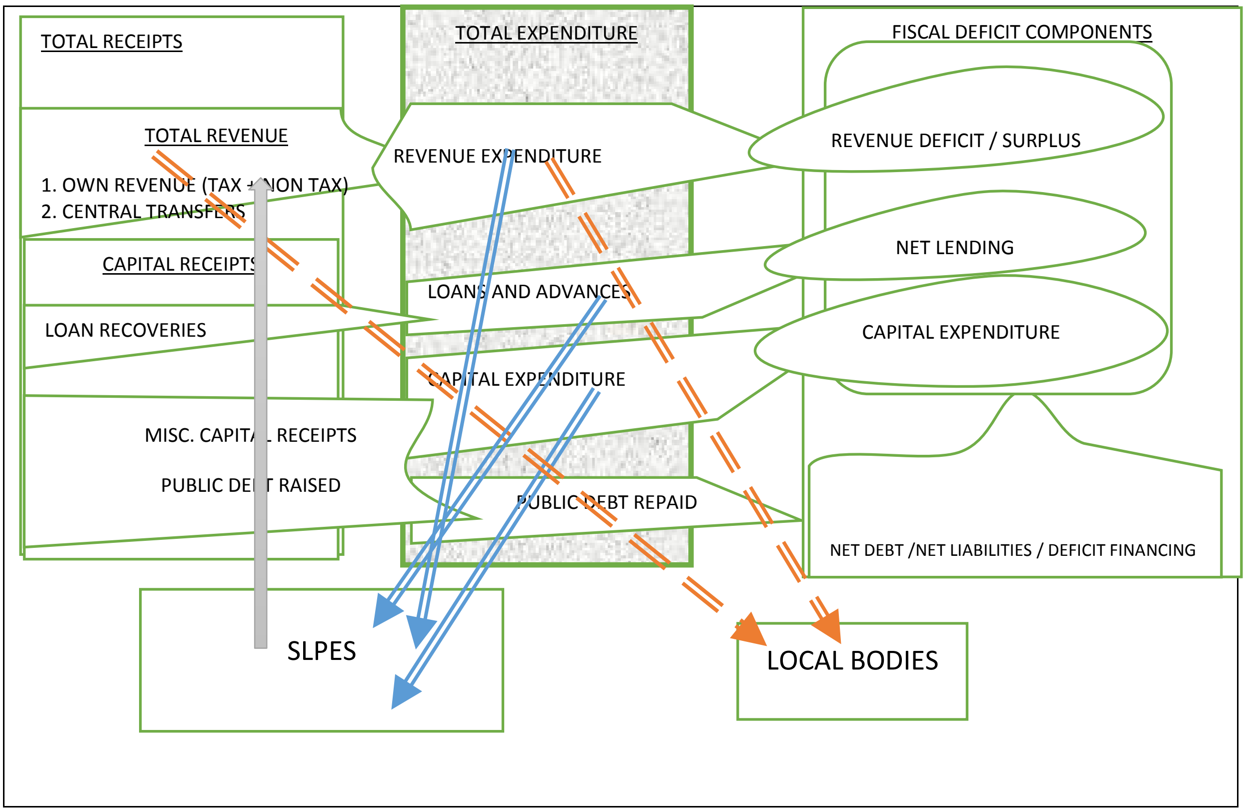
Trends in Expenditure (Revenue, Capital and Loan accounts)

The revenue expenditure/ GSDP proportions increased in 2016-17 mainly because of due to inclusion of Rs. 8,256 crore expended towards UDAY scheme. It has declined in 2017-18RE. This is mainly because of the combined effect of (i) increase in interest payments, (ii) moderate/marginal decrease in administrative services and pensions and miscellaneous general services and (iii) fluctuations in developmental revenue expenditure – both social and economic services. Thus the fluctuations in revenue expenditure/ GSDP proportions was shared by both non-developmental and developmental expenditures.

There was an increase in the total developmental revenue expenditure mainly because of an increase (decline) in social services (economic services). This could be mainly because of the attention given towards the social welfare programmes to withstand the present socio-economic situation of the public.

Reduction in the proportion of revenue expenditure in terms of state own revenue / total revenue was mainly because of the cut in committed expenditure (barring interest payments) since 2016-17.

Chapter 4
Expenditure - Trends and Patterns
Fig. 4.0: Roadmap - Expenditure - Trends and Patterns



4.1. Introduction

In the process of overcoming fiscal crisis, the state Government of Andhra Pradesh implemented reforms both for revenue augmentation as well as expenditure management. Further the trends in the revenue receipts also influence the expenditures. In this context, the present chapter, as per the TOR[1], discusses the expenditure trends and patterns – revenue and capital, developmental and non-developmental - and Measures to enhance allocative and technical efficiency in expenditures.

Data Sources, Methodology and Period of Study

The main data sources are Andhra Pradesh State Government Budget Documents, RBI's State Finances: A Study of Budgets of 2017-18 and 2018-19 (July 2018) and audit reports of CAG regarding state finances. Gross State Domestic Product (GSDP) at current market prices is taken from Socio Economic Survey, 2017-18, Government of Andhra Pradesh. Simple statistical tools are used for the analysis of the study. The study mainly focused on

[1] Fifteenth Finance Commission's TOR for the Study on Evaluation of State Finances: with Special Reference to Andhra Pradesh comprises expenditure pattern and trends separately for 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.

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 discussed to bring out the allocative efficiency of the government expenditure. The proportions of expenditure in GSDP are also analysed to bring out the impact of economic growth on expenditures.

The chapter is divided into five sections. Section two gives a brief note on expenditure reforms, FRBM Act in Andhra Pradesh. Section three deals with the trends and patterns of expenditure –revenue, capital and loan accounts; developmental non-developmental expenditure and major components there under. Section four discusses the irregularities in the government spending highlighted by the Accountant General (AG). The concluding section extracts the suggestions, based on the study, for improving efficiency in public spending.

4.2. Expenditure Reforms in Andhra Pradesh

The State Fiscal Policy strategy is to control revenue expenditure by cutting administrative costs with the use of available modern technology on the one hand and mobilize enough resources by improving tax administration on the other hand, so as to enhance investment in productive capital assets and social sectors in order to attain sustainable and equitable economic growth[2].

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[3] (b) The Medium Term Fiscal Policy Statement (c) Fiscal Policy Strategy Statement along with the budget.[4]

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

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.

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[2]Government of Andhra Pradesh (2018), Statement of Fiscal Policy to be laid on the table of the A.P. State Legislature in March, 2018 (As required under section 5 of the Andhra Pradesh Fiscal Responsibility and Budget Management Act, 2005)

[3]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.

[4]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.

The state government has to amend important targets relating to fiscal variables from time to time in accordance with the recommendations of Central Finance Commission. However, Government of Andhra Pradesh is yet to amend its FRBM Act in accordance with the 14th Finance Commission's recommendations, especially on fiscal targets viz., revenue deficit, fiscal deficit and outstanding liabilities to GSDP ratio.Further, the Government has not estimated the yearly pension liabilities on actuarial basis for the ensuing years, as stipulated in provision 7(2)(iii) of FRBM Act, 2005[5].

As per Rule 6 of FRBM rules, the Government shall, at the time of presenting the budget, make disclosures as required under section 10 of the FRBM Act. Out of 10 disclosures prescribed, the following disclosures were not presented along with the budget 2018-19:[6]

(i) the statement of assets in **Form D-7**,

(iii) the statement on liabilities in respect of major works and contracts, committed liabilities in respect of land acquisition charges and claims on the State Government in respect of unpaid bills on works and supplies in **Form D-9**.

In 2017-18, for the first time in the history of the State, a separate Outcome Budget is presented in Volume VII/1. This is to ensure clarity on goals, strategies as well as physical and financial targets. There is now a closer synchronisation between allocation, performance and outcome.

In 2018-19, the government intends to initiate **Operationalization of the Comprehensive Financial Management System (CFMS).** Andhra Pradesh Centre for Financial Systems and Services (APCFSS), the special purpose vehicle established under the administrative control of Finance Department, has successfully launched the Budget and Receipts modules of CFMS and are being used extensively. The Expenditure, Accounting and HR modules are also planned to be launched soon. I congratulate the team for the hard work and commitment in making this long cherished dream a reality. This paves way for all the financial operations to be carried out online from the first day of the financial year 2018-19 through CFMS and will provide the required transparency while enhancing efficiency.

The Government, in the same year, also intends to complete all the ongoing projects[7] thus creating a Mahasangamam, to ensure water security to the State of Andhra Pradesh.

4.3. Budgetary Expenditure: Classification and Trends

The trends and patterns of the expenditure 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

[5]Audit Report on State Finances for the year ended March 2017

[6]GoAP (2018): Statement of Fiscal Policy to be laid on the table of the A.P. State Legislature in March, 2018

[7]Mahendrathanaya, Vamsadhara, Thotapalli, Uttara Andhra SujalaSravanthi, Purushottapatnam Lift Irrigation Scheme, modernisation of Godavari Delta including Yeleru system, Chintalapudi Lift Irrigation Scheme, Krishna Delta modernisation, effective utilisation of Pattiseema, NagarjunaSagar modernisation, Veligonda project, Sangam barrage, Nellore barrage, Somasila project, SomasilaSwarnamukhi link canal, Telugu Ganga Project, GNSS and its components, HNSS and its components. Due importance would be given to complete all the on-going lift irrigation schemes being executed by APSIDC. The State also has a vision to connect all the five major rivers – Vamsadhara, Nagavalli, Godavari, Krishna and Penna – thus creating a Mahasangamam, to ensure water security to the State of Andhra Pradesh.

(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 –developmental and non-developmental – is also discussed.

4.3.1. Budgetary Expenditure –Broad Classification

During 2015-18, the average proportion of total budgetary expenditure[8]in GSDP constituted nearly 23 percent (Table4.1) of which a major portion was constituted by revenue expenditure (16.16percent), followed by capital disbursements (3.90 percent), capital expenditure (2.49 percent) and loans and advances (0.11). Year-wise breakup shows a continuous decline in the total budgetary expenditure from 24.89 percent in 2015-16 to 19.88 percent in 2017-18RE mainly due to

- Continuous decline of capital disbursements in all the three years i.e., in 2015-16, 2016-17 and 2017-18RE.
- Moderate oscillations in the revenue expenditure around 16 percent of GSDP in spite of continuous increase in the interest payments/GSDP proportions
- Capital expenditure and loans and advances, though declined in 2016-17 increased thereafter
- The capital expenditure / GSDP was not steady but with a rise/fall in alternate years.
- Nominal loans and advances

Year-wise breakup shows that:

- Revenue expenditure/GSDP ratio increased from 15.98 percent in 2015-16 to 16.70 percent in 2016-17 mainly because of DISCOMS[9]. In the following year (2017-18RE), growth rate of revenue expenditure declined significantly.
- Hence decline in revenue expenditure/GSDP ratio is probably because of
    - Fluctuating growth rate of revenue receipts which has influenced the revenue expenditure.
    - Decline in some of the sub-components of revenue expenditure.salaries, pensions and subsidies

Composition of Budgetary Expenditure

The relative share of revenue expenditure in total expenditure increased mainly because of the decreasing and minimal share of debt repayment obligations. The lower proportions of capital disbursements show that most of the borrowings are channelled to the activities other than debt repayments.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

[8]includes revenue expenditure, capital expenditure, loans and advances and capital disbursements
[9]Discussed in chapter 5

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 other three components (expenditure under revenue, capital and loan accounts) as total expenditure, then their composition vary from that of previous classification (Table 3.3). In 2016-17, while there is an increase in the relative share of revenue expenditure in total expenditure when compared to previous year, its share has declined moderately in the last two years. Year-wise breakup of loans and advances and capital expenditures w.r.t. total expenditure[10] shows similar trends as that of their proportions in GSDP. The proportion of revenue expenditure (also loans and advances) in total expenditure declined in the last two years and provided scope for an increase in the capital expenditure. 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.

Further details (Table 4.4) show that during the study period, on an average, total expenditure exceeded total revenue by 26.74 percentage points **-** revenue expenditure (9.17 percentage points), capital expenditure (16.80 percentage points) and loans and advances (0.77 percentage points). As the revenue deficit (revenue expenditure exceeded over revenue receipts (Fig. 4.1)is financed from the borrowings. To that extent borrowings are not spent on asset creation activities i.e., capital expenditure. Further, borrowed funds used for meeting revenue expenditure create liability for future years without creating any assets.

However, year-wise breakup details show a positive sign that, barring 2016-17, the proportion of revenue expenditure showed a declining trend while the other two started increasing. Interest payments, during the study period, shows that on an average constitutes nearly 12 percent of the total revenue receipts and 10.7 percent of revenue expenditure and 9.2 percent of total expenditure.

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.

Table 4.1: Expenditure Trends **(as % of GSDP)**

	Particulars	**2015-16**	**2016-17**	**2017-18 RE**	2015-18 RE AVG
	GSDP AT CURRENT PRICES	100.00	100.00	100.00	100.00
1	**Revenue Expenditure**	15.98	16.70	15.83	16.16
	Of Which Interest payments	1.64	1.68	1.84	1.73
2	**Capital Expenditure**	2.36	2.18	2.85	2.49
3	**Loans and Advances**	0.11	0.08	0.14	0.11
4	**Capital Disbursements**	6.44	5.00	1.06	3.90
5	**Total Expenditure (1 to 4)**	24.89	23.97	19.88	22.67

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

Table 4.1a: Expenditure - Year on Year Growth Rate (%)

	Particulars	2016-17	2017-18 RE	2018-19 BE	2016-18 2 Years Avg
	GSDP at current prices	**15.86**	**15.58**	**NA**	**15.72**
	Revenue Expenditure	**21.08**	**9.55**	**18.07**	**15.32**
	Of Which Interest payments	**18.77**	**26.15**	**2.17**	**22.46**
	Capital Expenditure	**7.12**	**50.69**	**25.37**	**28.90**
	Loans and Advances	**-16.32**	**103.96**	**9.74**	**43.82**
	Capital Disbursements	**-10.00**	**-75.49**	**27.29**	**-42.74**
	Total Expenditure	**11.55**	**-4.13**	**19.55**	**3.71**

Table 4.2: Expenditure Composition (As %of Total Expenditure)

	Particulars	2015-16	2016-17	2017-18 RE	2018-19 BE	2015-18RE Avg
V	**Revenue Expenditure**	**64.21**	**69.69**	**79.63**	**78.65**	**71.31**
13	**Of Which Interest payments**	**6.59**	**7.02**	**9.23**	**7.89**	**7.63**
VI	**Capital Expenditure**	**9.48**	**9.11**	**14.31**	**15.01**	**10.97**
VII	**Loans and Advances**	**0.45**	**0.34**	**0.72**	**0.66**	**0.50**
VIII	**Capital Disbursements**	**25.86**	**20.86**	**5.33**	**5.68**	**17.22**
IX	**Total Expenditure**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

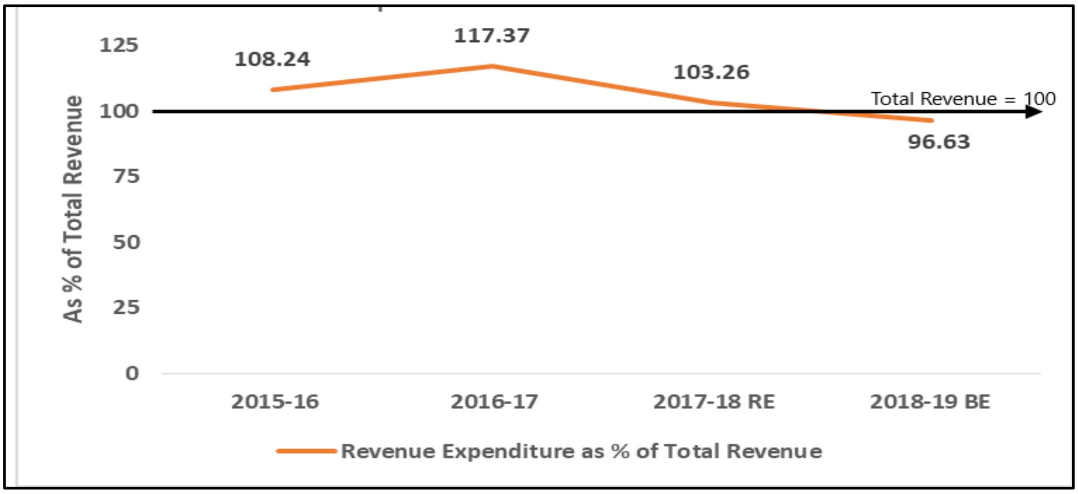
Table 4.3: EXPENDITURE COMPOSITION (AS PERCENTAGE OF TOTAL EXPENDITURE- REV+CAP+L&A)

	Particulars	2015-16	2016-17	2017-18 RE	2018-19 BE	3 Years Avg
	TOTAL EXP (REV+CAP+L&A)	**110794.99**	**131922.80**	**151297.29**	**180212.44**	**131338.36**
V	**Revenue Expenditure**	**86.60**	**88.07**	**84.12**	**83.39**	**86.14**
13	**Of Which Interest payments**	**8.89**	**8.87**	**9.75**	**8.37**	**9.21**
VI	**Capital Expenditure**	**12.79**	**11.51**	**15.12**	**15.91**	**13.26**
VII	**Loans and Advances**	**0.61**	**0.43**	**0.76**	**0.70**	**0.61**

Table 4.4: EXPENDITURE AS PERCENTAGE TOTAL REVENUE (%)

	Particulars	2015-16	2016-17	2017-18 RE	2018-19 BE	2015-18 RE AVG
1	**Revenue Expenditure**	**108.24**	**117.37**	**103.26**	**96.63**	**109.17**
	Of Which Interest payments	(12.18)11.11	(12.03)11.82	(11.84)11.97	(11.64)9.70	(11.30)11.68
2	Capital Expenditure	15.99	15.34	18.56	18.44	16.80
3	Loans and Advances	0.76	0.57	0.93	0.81	0.77
4	**Total (1+2+3)**	**124.99**	**133.28**	**122.75**	**115.88**	**126.74**

Fig.4.1: Proportion Revenue Expenditure in Total Revenue (%)



4.3.2. Expenditure- Structure, Trends and Patterns

A. Structure of the Expenditure Budget

Budgetary expenditure is classified into functional heads to signify broadly the functions of the government for which the expenditure has been incurred[11]. The functions as per budgetary classification under revenue and capital accounts (loan accountsunder major heads are by codes) are (a) General Services[12], (b) Social Services[13] and (c) Economic Services[14]. These three are again grouped as non- developmental and developmental. While the non-developmental expenditure covers the heads of expenditure under general services, developmental component comprises in other two services.

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.

Trends in Expenditure (Revenue, Capital and Loan accounts)

As mentioned earlier, in Andhra Pradesh, the percentage of total expenditure in GSDP for the period 2015-18 was on an average 18.77 percent of which predominant share set apart for revenue account (16.16 percent) followed by capital account (2.49 percent) and loans and advances (0.11 percent). The increase of total expenditure from 18.45 percent in 2015-16 to 18.96 percent in 2016-17 was a net effect of anincrease in revenue expenditure and decline in loans and advances and in capital expenditure. Contrary to this, the marginal decline in total expenditure is the net result of decline in revenue expenditure and rise in the other two (Table 4.5).

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

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

[13] 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

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

The revenue expenditure/ GSDP proportions increased in 2016-17 mainly because of *due to inclusion of* Rs. *8,256 crore expended towards UDAY scheme. It has* declined in 2017-18RE. This is mainly because of the combined effect of (i) increase in interest payments, (ii) moderate/marginal decrease in administrative services and pensions and miscellaneous general services (The State Fiscal Policy strategy is to control revenue expenditure by cutting administrative costs worked out positively)and (iii) fluctuations in developmental revenue expenditure – both social and economic services. Thus the fluctuations in *revenue expenditure/ GSDP* proportions was shared by both non-developmental and developmental expenditures (Table 4.5).

There was an increase in the total developmental revenue expenditure mainly because of an increase (decline) in social services (economic services). This could be mainly because of the attention given towards the social welfare programmes to withstand the present socio-economic situation of the public.

In short, the declining trend of revenue expenditure is the result of declining pension expenditure throughout the period in spite of the increase in interest payments expenditure, decline or increase in developmental revenue expenditure -the net result of either trade-off between social services and economic servicesor with year-on-year fluctuations. Similar is the case of capital expenditure/GSDP and Loans and Advances /GSDP proportions.

The proportion of developmental revenue expenditure in total expenditure shows an increase by 3 percentage points in 2016-17 over previous year on account of the mixed trend of expenditure in social and economic services. To elaborate, there was a decline in the expenditure towards social services by 3 percentage points. Exactly reverse was on account of economic services which has increased by 6 percentage points. The revised estimates of 2017-18 showed a decline by 5 percentage which is a net result ofincrease in social services (nearly 6 percentage points) and decline in economic services by nearly 11 percentage points. (Table 4.6). More or less similar pattern appears in the developmental expenditure under capital and loan accounts. The budget estimates of 2018-19 show a marginal increase in developmental expenditure under revenue and capital accounts.

In short, the declining trend of revenue expenditure is the result of declining pension expenditure throughout the period in spite of the increase in interest payments -the net result of trade-off between social services and economic services.

Following the reduction in the revenue expenditure, aggregate capital expenditure/total expenditure proportion constitute 13.26 percent during 2015-18 with an increase particularly in the revised and budget estimates of 2017-18 and 2018-19 respectively. The increase in the proportion of capital expenditure in terms of total expenditure was mainly on account of developmental expenditure under economic services.

Loans and advances which are given for developmental activities have declined under social services and fluctuated in economic services (barring 2016-17) of the study period.

Table 4.5: Expenditure Trends – Developmental and Non-developmental (as % ofGSDP)

		2015-16	2016-17	2017-18 RE	avg 2015-18RE
	GSDP at Current Prices	100.00	100.00	100.00	100.00
I	Grand Total Expenditure on Revenue Account	15.98	16.70	15.83	16.16
A	Non-Developmental	4.76	4.71	4.88	4.79
1	General Services	4.76	4.71	4.88	4.79
	Interest Payment And Servicing of Debt (Charged)	1.73	1.77	1.92	1.81
	Administrative Services	0.91	0.89	0.90	0.90
	Pensions and Miscellaneous General Services	1.87	1.85	1.79	1.83
B	Developmental	11.20	11.98	10.95	11.36
	B Social Services	7.74	7.22	8.23	7.75
	Economic Services	3.47	4.76	2.72	3.61
II	Capital Expenditure	2.36	2.18	2.85	2.49
A	Non-Developmental	0.03	0.04	0.06	0.04
	General Services	0.03	0.04	0.06	0.04
B	Developmental	2.33	2.14	2.79	2.44
	Social Services	0.40	0.35	0.53	0.43
	Economic Services	1.93	1.79	2.26	2.01
III	Loans and Advances	0.11	0.08	0.14	0.11
A	Non-Developmental	0.00	0.00	0.00	0.00
	General Services	0.00	0.00	0.00	0.00
B	Developmental	0.11	0.08	0.14	0.11
	Social Services	0.05	0.03	0.03	0.03
	Economic Services	0.06	0.05	0.11	0.08
	Total Expenditure (I+II+III)	18.46	18.97	18.82	18.77
	Total Non-Developmental (IA+IIA+IIIA)	4.79	4.76	4.94	4.84
	Total Developmental (IB+IIB+IIIB)	13.65	14.20	13.88	13.92
	Total Social Service	8.19	7.60	8.78	8.22
	Total Economic Services	5.45	6.59	5.09	5.69

* includes Appropriation for Reduction or Avoidance of Debt.

Fig. 4.2: Expenditure Trends – Developmental and Non-Developmental

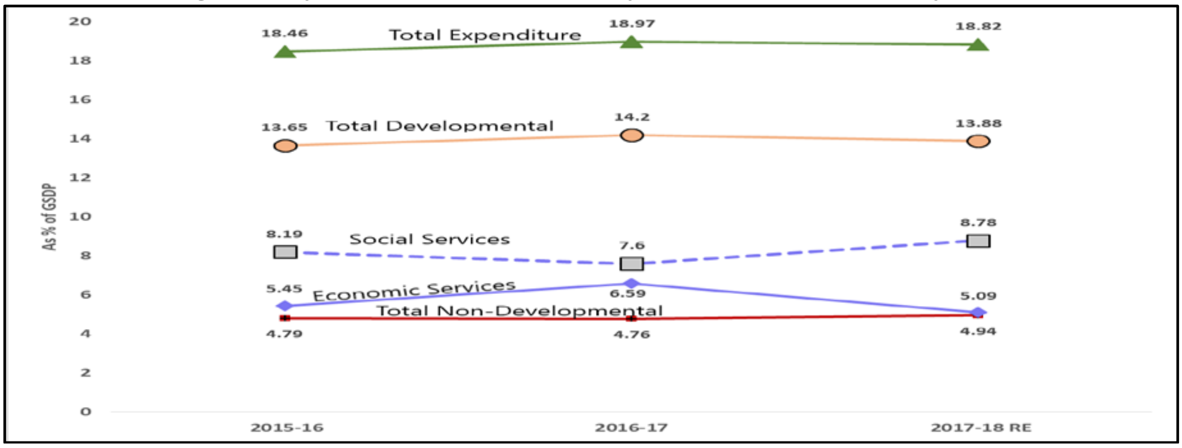
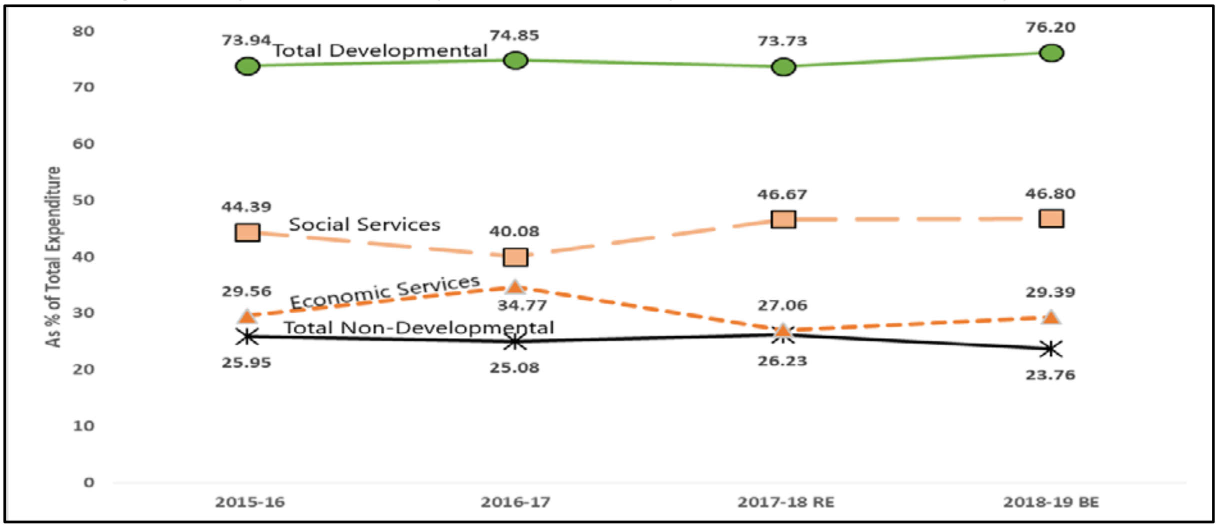


Table 4.6: Expenditure Trends – Developmental and Non-developmental

(as % of Total Expenditure)

		2015-16	2016-17	2017-18 RE	2018-19 BE	avg 2015-18RE
I	Total Expenditure on Revenue Account	86.60	88.07	84.12	83.39	86.14
A	Non-Developmental	25.79	24.85	25.92	23.20	25.52
1	General Services	25.79	24.85	25.92	23.20	25.52
	Interest Payment &Servicing of Debt (Charged)	9.35	9.32	10.21	8.76	9.67
	Administrative Services	4.92	4.70	4.80	4.73	4.80
	Pensions &Miscellaneous General Services	10.14	9.76	9.51	8.45	9.77
B	Developmental	60.71	63.14	58.16	60.15	60.54
1	Social Services	41.92	38.07	43.70	44.14	41.32
2	Economic Services	18.78	25.07	14.46	16.01	19.23
II	Capital Expenditure	12.79	11.51	15.12	15.91	13.26
A	Non-Developmental	0.16	0.22	0.29	0.57	0.23
1	General Services	0.16	0.22	0.29	0.57	0.23
B	Developmental	12.63	11.28	14.83	15.35	13.02
1	Social Services	2.18	1.84	2.83	2.62	2.32
2	Economic Services	10.45	9.44	12.00	12.73	10.71
III	Loans and Advances	0.61	0.43	0.76	0.70	0.61
A	Non-Developmental	0.00	0.01	0.02	0.00	0.01
1	General Services	0.00	0.01	0.02	0.00	0.01
B	Developmental	0.61	0.42	0.74	0.70	0.60
1	Social Services	0.29	0.16	0.13	0.04	0.19
2	Economic Services	0.32	0.26	0.61	0.66	0.41
	Total Expenditure (I+II+III)	***100.00***	***100.00***	***100.00***	***100.00***	***100.00***
	Total Non-Developmental (IA+IIA+IIIA)	***25.95***	***25.08***	***26.23***	***23.76***	***25.77***
	Total Developmental (IB+IIB+IIIB)	***73.94***	***74.85***	***73.73***	***76.20***	***74.16***
	Total Social Service	**44.39**	**40.08**	**46.67**	**46.80**	**43.82**
	Total Economic Services	**29.56**	**34.77**	**27.06**	**29.39**	**30.34**

Fig. 4.3: Expenditure Composition – Developmental and Non-Developmental



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. On the whole, the proportion of total expenditure (revenue + capital + loans and advances)in GSDP during 2015-18 is 18.77 percent of which 13.92 percent is towards development expenditure with a further breakup of 8.22 percent towards social services and 5.69 percent towards economic services. But in the year-wise breakup it shows fluctuations in between which has reflected in the uptrend(downtrend) of economic services (social services) in 2016-17 and in the reverse direction in 2017-18RE (Table 4.7 Fig. 4.2).

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 GSDP and total expenditure (Tables 4.7 and 4.8) gives the picture of expenditure trends / the allocative efficiency of the government expenditure.

The proportion of average developmental expenditure in GSDP for the period 2015-18 was 13.92 percent of which the share of economic services was 5.69 percent and that of social services was 8.22 percent (Table 4.7, Fig. 4.3 and 4.4). During this period, in the case of economic services, that the major portion of allocations was made in the irrigation sector and rural development followed by agriculture and energy. Year-wise details show that there is inconsistency in expenditure on all the above sectors. In the case of social services, major proportions of expenditure are towards *Education, Sports, Art and Culture* followed by *Social Welfare & Nutrition, Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes and Water Supply, Sanitation, Housing and Urban Development*. But its components (barring *Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes and to some extent Water Supply, Sanitation, Housing and Urban Development*) have experienced ups and downs.

The proportion of average developmental expenditure in total expenditure for the period 2015-18 was 74.16 percent of which the share of social services was 43.82 percent and that of economic services was 30.34 percent. During this period expenditure towards economic services shows that the major portion of allocations were made in the irrigation sector and rural development followed by agriculture and energy. Year-wise details show that there is inconsistency in expenditure on all the above sectors. In the case of social services, its proportion during 2015-18 remained around 43.82 percent. During this period, major proportions are towards *Education, Sports, Art and Culture* followed by *Social Welfare & Nutrition, Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes and Water Supply, Sanitation, Housing and Urban Development*. As in the case of economic services, social services and its components (barring Welfare of *Scheduled Castes, Scheduled Tribes and Other Backward Classes*) have experienced inconsistencies. The proportion of expenditure towards *Water Supply, Sanitation, Housing and Urban Development* declined in during 2016-17 and then increased in the revised and budget estimates of subsequent years.Inconsistency in the expenditure trends propose hardly any direction or path (Fig. 4.5 and 4.6).

In brief, 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. The expenditure management affected the social services expenditures in terms of GSDP and also in total expenditure. It showed inconsistency in the developmental expenditure in general and social and economic services in particular.

Fig. 4.4: Components of Social Services - Expenditure Trends

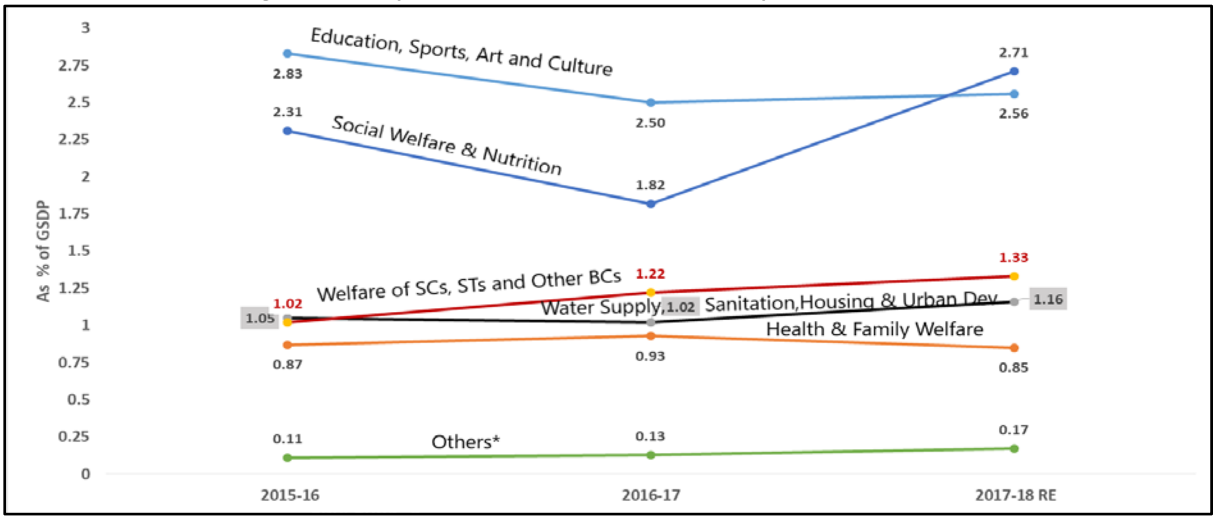


Fig. 4.5: Components of Economic Services - Expenditure Trends

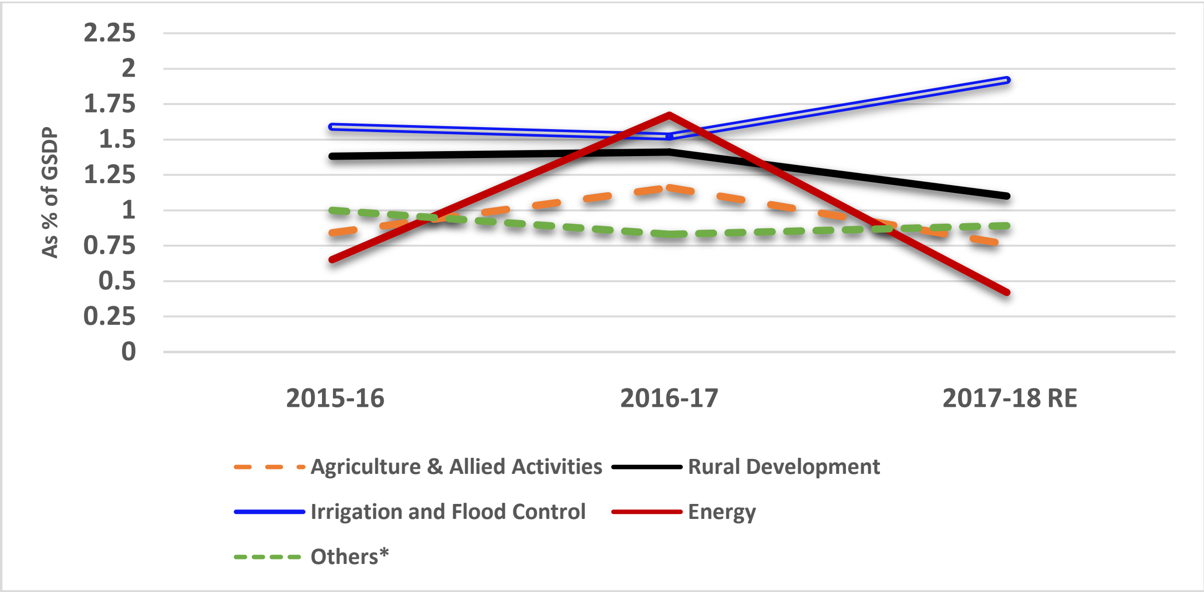


Fig. 4.6: Expenditure Components of Social Services - Trends

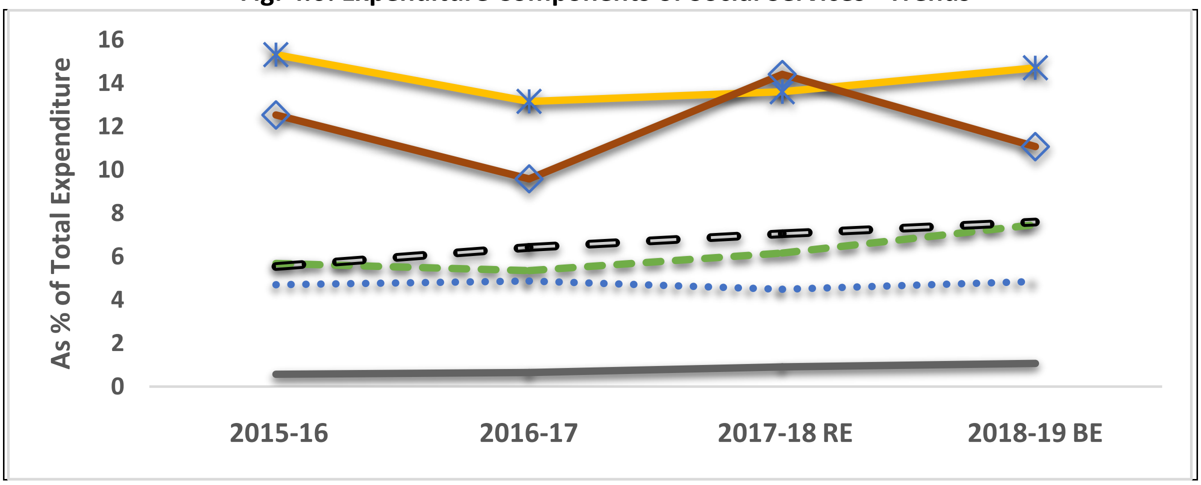


Fig. 4.7: Expenditure Components of Economic Services - Trends

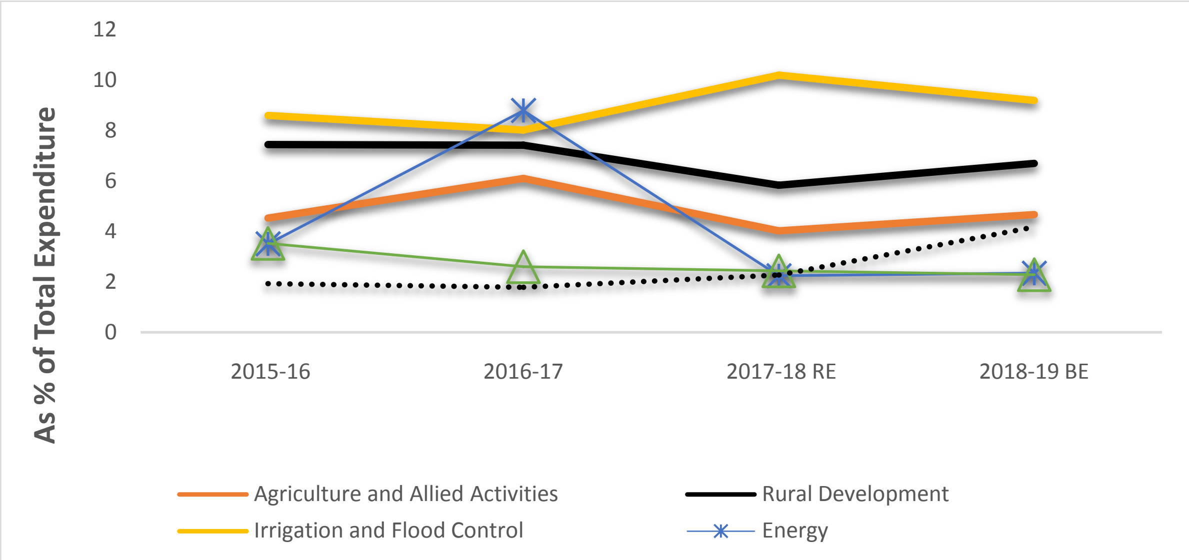


Table 4.7:Expenditure Trends- Components of Development

(as % of GSDP)

	MAJOR HEADS	2015-16	2016-17	2017-18 RE	avg 2015-18
	AS % OF GSDP	100.00	100.00	100.00	100.00
	Total Exp(rev+cap+loans)	18.46	18.97	18.82	18.77
	Total Developmental Expenditure	13.65	14.20	13.88	13.92
1	Social Services	8.19	7.60	8.78	8.22
(a)	Education, Sports, Art and Culture	2.83	2.50	2.56	2.62
(b)	Health and Family Welfare	0.87	0.93	0.85	0.88
(c)	Water Supply, Sanitation, Housing and Urban Development	1.05	1.02	1.16	1.08
(d)	Information and Publicity	0.03	0.02	0.02	0.02
(e)	Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classed	1.02	1.22	1.33	1.21
(f)	Labour and Labour Welfare	0.04	0.04	0.03	0.04
(g)	Social Welfare & Nutrition	2.31	1.82	2.71	2.30
(h)	Others	0.04	0.07	0.12	0.08
	Total Social Services	8.19	7.60	8.78	8.22
2	Economic Services	5.45	6.59	5.09	5.69
(a)	Agriculture & Allied Activities	0.84	1.16	0.76	0.91
(b)	Rural Development	1.38	1.41	1.10	1.28
(d)	Irrigation and Flood Control	1.59	1.52	1.92	1.69
(e)	Energy	0.65	1.67	0.42	0.90
(f)	Industry and Minerals	0.10	0.13	0.20	0.15
(g)	Transport	0.65	0.49	0.46	0.53
(i)	Science, Technology and Environment	0.00	0.00	0.00	0.00
(j)	General Economic Services	0.25	0.21	0.23	0.23
	Total Economic Services	5.45	6.59	5.09	5.69

Table 4.8: Composition of Total Expenditure (%)

	MAJOR HEADS	2014-15	2015-16	2016-17	2017-18 BE	2017-18 RE	2018-19 BE	avg 2015-18
	Total Expenditure*	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	Total Developmental Expenditure	77.30	73.94	74.85	73.44	73.73	76.20	74.16
1	**Social Services**	**38.39**	**44.39**	**40.08**	**44.01**	**46.67**	**46.80**	**43.82**
(a)	Education, Sports, Art and Culture	13.27	15.32	13.16	14.82	13.61	14.71	13.94
(b)	Health & Family Welfare	3.95	4.71	4.88	4.84	4.50	4.86	4.69
(c)	Water Supply, Sanitation, Housing and Urban Development	5.75	5.69	5.36	5.49	6.17	7.48	5.76
(d)	Information and Publicity	0.12	0.15	0.10	0.10	0.12	0.12	0.12
(e)	Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classed	5.45	5.55	6.43	7.61	7.06	7.60	6.43
(f)	Labour and Labour Welfare	0.17	0.23	0.21	0.18	0.18	0.24	0.20
(g)	Social Welfare and Nutrition	9.48	12.54	9.59	10.29	14.41	11.08	12.27
(h)	Others	0.20	0.20	0.35	0.69	0.62	0.72	0.41
2	**Economic Services**	**38.91**	**29.56**	**34.77**	**29.43**	**27.06**	**29.39**	**30.34**
(a)	Agriculture and Allied Activities	10.70	4.53	6.11	3.59	4.03	4.67	4.87
(b)	Rural Development	6.76	7.45	7.43	8.67	5.84	6.70	6.83
(d)	Irrigation and Flood Control	9.14	8.61	8.03	8.54	10.21	9.21	9.03
(e)	Energy	5.29	3.51	8.80	2.73	2.25	2.35	4.80
(f)	Industry and Minerals	2.61	0.54	0.66	1.48	1.04	1.60	0.77
(g)	Transport	3.41	3.53	2.61	2.56	2.44	2.29	2.80
(i)	Science, Technology and Environment	0.03	0.01	0.02	0.02	0.01	0.01	0.01
(j)	General Economic Services	0.96	1.38	1.11	1.83	1.23	2.57	1.23

***rev+ +cap loans and advances**

D. Committed Expenditure

Committed expenditure of the state government on revenue account mainly consists of interestpayments, expenditure on salaries and wages, pensions and subsidies[15] (Table 4.9).This study separately shows the expenditure on subsidies as this expenditure varies with the socio-economic condition of the state whereas interest payments and expenditure on salaries and wages is undeniable for any state government, in spite of the policies such as outsourcing and new pension policies.

[15]As per the audit reports of CAG.

The components of committed expenditure or their proportion in state own revenue / total revenue / revenue expenditure shows that salaries and wages constitute a major share followed by pensions and interest payments. However, the upshot of 10th Pay Revision Commission (PRC) arrears is visible on the revenue account particularly in two years i.e., in 2015-16 and 2016-17[16]. These PRC arrears are to be payable in accounting period of 2014-15 but not paid because of the resource crunch. Recent appointment / announcement of 11th PRC have an impact on the committed expenditure under revenue account in the subsequent years.

As has been already mentioned, the reduction in the proportion of revenue expenditure in terms of state own revenue / total revenue was mainly because of the cut in committed expenditure (barring interest payments) since 2016-17.

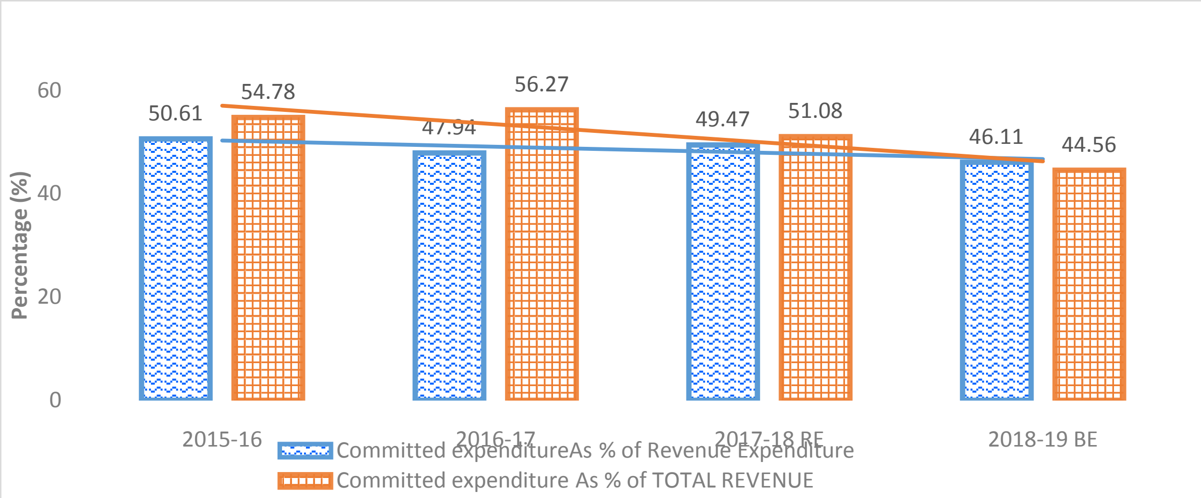
Table 4.9: COMMITTED EXPENDITURE

COMMITTED EXPENDITURE	2015-16	2016-17	2017-18 RE	2018-19 BE
Committed expenditure (Rs. Cr)	4,856,0.45	5,569,4.98	6,295,5.751	6,928,7.91
	COMPOSITION (%)			
SALARIES	56.58	55.88	53.71	56.27
PENSIONS	23.14	23.11	22.85	21.97
INTERST PAYMENTS(Charged)	20.28	21.00	23.44	21.76
Committed expenditure	100.00	100.00	100.00	100.00
	As % of Revenue Expenditure			
SALARIES	28.63	26.79	26.57	25.95
PENSIONS	11.71	11.08	11.30	10.13
INTERST PAYMENTS(Charged)	10.26	10.07	11.59	10.03
Committed expenditure	50.61	47.94	49.47	46.11
	As % of TOTAL REVENUE			
SALARIES	30.99	31.44	27.43	25.07
PENSIONS	12.68	13.00	11.67	9.79
INTERST PAYMENTS(Charged)	11.11	11.82	11.97	9.70
Committed expenditure	54.78	56.27	51.08	44.56
	As % of OWN REVENUE			
SALARIES	61.27	63.04	59.63	55.01
PENSIONS	25.06	26.07	25.37	21.47
INTERST PAYMENTS(Charged)	21.96	23.69	26.02	21.27
Committed expenditure	108.29	112.80	111.02	97.75

[16]The 10TH Pay Revision Commission submitted its report to the Government on May 29, 2014, The Government, after due consideration of the submissions of the Chairman and other office bearers of the Joint Action Committee of Employees, Teachers, Workers and Pensioners of Andhra Pradesh, and the Chairman and other office bearers of the Andhra Pradesh Secretariat Employees Co-Ordination Committee, and a view to promote the welfare of the employees and to reinforce their commitment to the development of the new State of Andhra Pradesh, has agreed for a grant of:
"A fitment of 43%of the Basic pay would be given for fixing the pay in the Revised Scales of Pay2015, as against 29% recommended by the Tenth Pay Revision Commission. The Dearness Allowance of 63.344%as on 01.07.2013would be merged in the pay as recommended by the Pay Revision Commission; The Revised Scales of Pay will be implemented notionally from 01.07.2013 with monetary benefit from 02.06.2014;The benefit of the Revised Scales of Pay,2015 would be paid in cash starting from the salary for the month of April2015. Government of Andhra Pradesh (2015): Revised Pay Scales 2015 {G.O.Ms.No.46, Finance (HRM.V-PC) Department, Dated:30-04-2015}

Note: for 2017-18RE and 2018-19BE Salaries and Wages are arrived by taking 010: Salaries; 020: Wages; 270: Work Charged; 273: Work Charged Establishment; 310: Grants-in-Aid under revenue account.
Source: for the first two years Audit Report on State Finances for the year ended March 2017. For 2017-18RE and 2018-19BE Volume VIII/2, Appendices to the Budget Estimates 2018-19, Government of Andhra Pradesh

Fig. 4.8: Committed Expenditure - Trends



Subsidies

In 2015-16, the major portion of subsidies was given to APTRANSCO towards Agricultural and Allied activities of Rs. 3186.00 crore (50 per cent) and Civil supplies i.e. subsidy on rice of Rs. 2,300crore (36 per cent). The relative position of these two sectors remained same in 2016-17 and altered in subsequent two years.

Table4.10: Department wise Subsidies (` in crore)

	2015-16	**2016-17**	**2017-18RE**	**2018-19BE**
Total Subsidies (Rs. Cr)	6360.06	6250.72	6931.98	7387.03
	Composition of Subsidies (%)			
Civil Supplies	79.61 (1.25)	117.97 (1.89)	350.00 (5.05)	140.00 (1.90)
Nutrition	2300.00 (36.16)	2352.32 (37.63)	2800.00 (40.39)	3000.00 (40.61)
Power	3186.00 (50.09)	2750.00 (43.99)	2700.00 (38.95)	2500.00 (33.84)
Crop Husbandry	633.01 (9.95)	652.10 (10.43)	704.23 (10.16)	881.62 (11.93)
Welfare of SCs, STs and OBCs	141.56 (2.23)	283.35 (4.53)	323.50 (4.67)	386.09 (5.23)
Others*	19.88(0.31)	94.99(1.52)	54.25(0.78)	479.32(6.49)
	Subsidies as % of			
State Own Revenue	14.18	12.66	12.22	10.42
Total Revenue	7.17	6.31	5.62	4.75
Revenue Expenditure	6.63	5.38	5.45	4.92

Note: * include Secretariat General Services, Social Security and Welfare, Fisheries, Food Storage and Ware Housing, Other Rural Development Programmes, Village and Small Industries and Secretariat Economic Services.
Source: Volume VIII/2, Appendices to the Budget Estimates for the years 2017-18 and 2018-19, Government of Andhra Pradesh

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 stated above, subsidy expenditure is an important item of committed expenditure in the total revenue expenditure of the state. During 2015-18, its share is more than 10 percent in own revenue, more than 5 percent in total revenue and revenue expenditure. The decrease in subsidies either in absolute terms or with respect to own revenue / total revenue / revenue expenditure is mainly because of the consistent decline in power subsidies (other subsidies except *others* show an increasing in absolute terms).

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 scenario has changed with the introduction of GST. The transfers to local bodies will be dealt in chapter7.

4.4. Measures to enhance - allocative and technical efficiency

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[17].At different stages of the budget[18], 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.

But the financial irregularities which the audit reports of the Comptroller and Auditor General of Indiarepeatedly pointed out several lacunae / irregularities in the budgetary process of the state government expenditure, some of them are mentioned below[19]:

- *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.
- *Pending/delay in regularization of excess expenditure over provision*
- Unnecessary / Excessive / Inadequate supplementary provision
- Excessive / Unnecessary / re-appropriation of funds
- Unexplained re-appropriations

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

[18] (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.

[19] 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.

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[20]. 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.

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[21]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 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.

4.5. Summary and Suggestions

State Fiscal Policy strategy is to control revenue expenditure by cutting administrative costs with the use of available modern technology so as to enhance investment in productive capital assets and social sectors in order to attain sustainable and equitable economic growth. In the reform path, in 2017-18, a separate Outcome Budget was presented in Volume VII/1. The government intends to initiate **Operationalization of the Comprehensive Financial Management System (CFMS).** Andhra Pradesh Centre for Financial Systems and Services (APCFSS), the special purpose vehicle established under the administrative control of Finance Department.

However, state government is yet to amend its FRBM Act as per the 14th Finance Commission's recommendations, especially on fiscal targets viz., revenue deficit, fiscal deficit and outstanding liabilities to GSDP ratio. Further, the Government has not provided yearly pension liabilities on actuarial basis for the ensuing years, as stipulated in provision 7(2)(iii) of FRBM Act, 2005.As per Rule 6 of FRBM rules, as required under section 10 of the FRBM Act. Out of 10 disclosures some are not disclosed.

Continuous decline in total budgetary expenditure 2015-18RE mainly due to Continuous decline of capital disbursements in all the years. Revenue expenditure/GSDP increased from 15.98 percent (2015-16) to 16.70 percent (2016-17) mainly because of *UDAY scheme* andconstant rise in interest payments/GSDP proportions. In 2017-18 RE, fall in the growth

[20]Audit Report (State Finances) for the year ended 31 March 2015, 2016 and 2017

[21] 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),

rate of revenue expenditure maybe because of declined expenditure towards salaries, pensions and subsidies in short committed expenditure.

Revenue expenditure exceeded total revenue by (9.17 percentage points). As the revenue deficit (revenue expenditure exceeded over revenue receipts is financed from the borrowings. Reduction in the proportion of revenue expenditure in terms of state own revenue / total revenue was mainly because of the cut in committed expenditure (barring interest payments) since 2016-17.

The revenue expenditure / total expenditure declined in the last two years and provided scope for an increase in the capital expenditure. In other words it has increased the allocative efficiency of the public expenditure during those years. The revenue expenditure/ GSDP proportions increased in 2016-17 mainly because of due to inclusion of Rs. 8,256 crore expended towards UDAY scheme. It has declined in 2017-18RE. This is mainly because of the combined effect of (i) increase in interest payments, (ii) moderate/marginal decrease in administrative services and pensions and miscellaneous general services and (iii) fluctuations in developmental revenue expenditure – both social and economic services. Thus the fluctuations in revenue expenditure/ GSDP proportions was shared by both non-developmental and developmental expenditures.

There was an increase in the total developmental revenue expenditure mainly because of an increase (decline) in social services (economic services). This could be mainly because of the attention given towards the social welfare programmes to withstand the present socio-economic situation of the public.

Chapter 5
Deficits and Public Debt

Summary of Findings

Deficits - Revenue and Fiscal

- Fiscal deficit in 2015-16 was Rs. 21862.56 crores and deteriorated in 2016-17 by reaching Rs. 30908.82 crore. The worsened fiscal deficit was the net result of deteriorated revenue deficit, moderate increase in capital expenditure and consolation through loan recoveries.
- Higher revenue or fiscal deficit in 2016-17 is mainly attributed to UDAY Scheme. The revenue deficit net of UDAY scheme is about Rs.-8937.72 (-1.29 of GSDP). The fiscal deficit net of UDAY is about Rs. - 22652.82(-3.26 GSDP).
- The shrink of fiscal deficit in revised and budget estimates of 2017-18 and 2018-19 respectively is mainly because of estimated improvement in revenue deficit (2017-18RE) and revenue surplus (2018-19BE). The estimated revenue surplus situation in 2018-19BE is mainly because the government anticipated anticipating that Government of India would release all the dues as per the AP Reorganization Act, 2014 at least this year.
- With this anticipated improvement, the capital expenditure/GSDP increased indicating the improvement in the quality of expenditure. The net lending/GSDP ratio increased marginally from 0.06 percent in 2015-16 to 0.09 percent in 2017-18RE. Thus the impact of the revenue account situation is seen on the other components of fiscal deficit which are mainly for developmental activities.
- Primary deficit shows that in 2015-16 nearly 45 percent the fiscal deficit was because of interest payments and the balance 55 percent was due to primary deficit. Though the proportion of primary deficit moved up to 62.16 percent in the subsequent year, it has declined in the revised and budget estimates indicating the increase in interest payments burden.

Pattern of Deficit Financing in Andhra Pradesh

- As recommended by the Fourteenth Finance Commission, state government has lowered its dependence on the National Small Savings Fund (NSSF). Hence, market loans remained as a major source of deficit financing while other sources are thinly distributed.

Public Debt,Direction of Public Debt Spent, Outstanding Public Debt

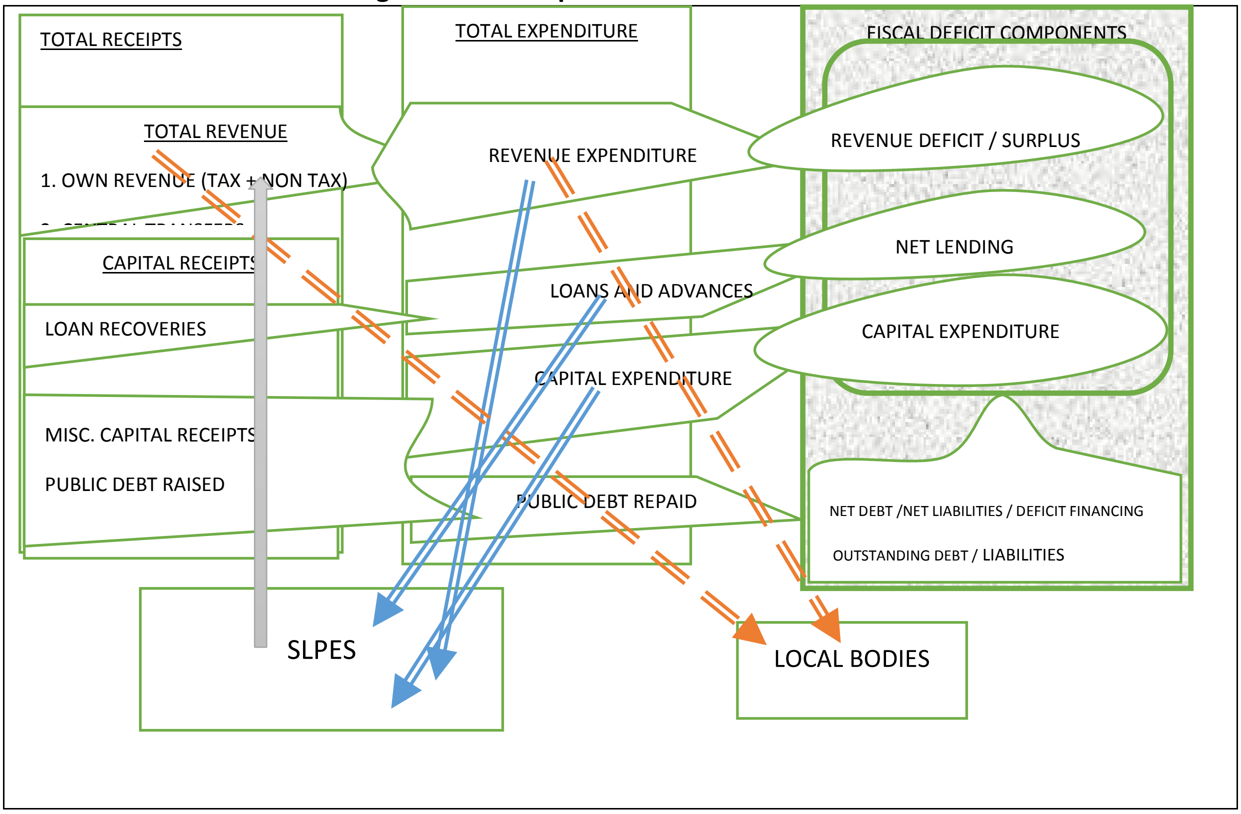
- In 2015-16, about 72 percent of the public debt raised was spent towards the repayment of old debt and the balance 28 percent (net debt) was too little to meet the fiscal deficit and the dependence on the public account was high at 43 percent.
- Since 2016-17, the net debt availability at the disposal of the state government was widened and in 2018-19BE, the estimated revenue account surplus may improve the fiscal situation..
- 14th FC suggested steady reduction in augmented debt stock for the states to less than 22.38 per cent of GSDP by 2019-20. AP's debt/GSDP declined from 29 percent in 2015-16 to 28 percent in 2017-18RE but much higher than the set limits.

FRBM Act and Targets Achieved / Amendments to FRBM Acts and New Legislation

- The state government reduced its revenue deficit but not as per the set annual targets. This is mainly due to adverse impact of state bifurcation on state finances. While it is difficult to enhance resources, it much more difficult to manage the growing expenditure particularly in the initial years of bifurcation.
- Fourteenth Finance Commission recommend that the State Governments may amend their FRBM Acts to provide for the statutory flexible limits on fiscal deficit. The State Government probably must have started the processing the proposed amendment ing the APFRBM Act, 2005 keeping in view of the recommendations of 14th Finance Commission and repercussions of bifurcation of the State.

Chapter 5
Deficits and Public Debt

Fig. 5.0: Roadmap - Deficits and Public Debt



5.1. Introduction

The fiscal performance of either the Union or State Governments reflects in the key deficit and debt indicators, viz., revenue deficit (RD), gross fiscal deficit (GFD) and primary deficit (PD), Debt-GSDP etc. This chapter discusses movements of these major indicators, financing pattern of GFD, outstanding public debt/liabilities and Implementation of FRBM Act and Targets Achieved[1].

The main data sources, besides the state budget documents, FRBM Statements, are RBI's State Finances: A Study of Budgets of 2017-18 and 2018-19 (July 2018). CAG accounts and audit reports. This chapter is divided into 5 sections. Section 2 analyses the major deficit indicators and deficit financing. Section 3 discusses debt situation/ contingent liabilities

[1] It covers the two topics as listed in the Fifteenth 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.
- 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.
- Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various departments and aggregate.

section 4 verifies Implementation of FRBM Act and commitment towards targets. Section 5 gives the sum up.

5.2. Analysis of Deficits - Revenue and Fiscal

While the fiscal deficit denotesthe gap between the total revenue receipts and total expenditure and the borrowings required to fill the gap, the nature of deficit discloses the prudence of the government in fiscal management. During 2015-16 the fiscal deficit was Rs. 21862.56 crores which has increased to Rs. 30908.82crore in 2016-17. This increase in fiscal deficit was the net result of a extended revenue deficit at Rs. 17193.72 crores, moderate increase in capital expenditure and consolation through loan recoveries (Rs.1465.67crores). Deteriorating revenue deficit situation is attributed largely to UjwalDiscom Assurance Yojana (UDAY) which is Rs. 8,256 crore. The fiscal deficit situation estimated to improve in 2017-18RE and 2018-19BE(Table 5.1and Fig. 5.1a and 5.1b).

The decomposition of fiscal deficit indicates that the proportion of revenue deficit to fiscaldeficit though increased from 33.40 percent in 2015-16 to 55.63 percent in 2016-17, it is estimated to decline to 14.56 percent in 2017.18RE and turn to revenue surplus situation in the budget estimates of 2018-19.The improvement in revenue account situation paved way for the consistent improvement in capital expenditure / fiscal deficit situation (barring 2016-17 because of UDAY Scheme) by absorbing most of the borrowings in 207-18RE and by 2018-19 utilising most of the revenue surplus as well. Only a portion of revenue surplus was diverted to net lending which is also for developmental expenditure. As this improved fiscal situation is based on revised and budget estimates, accounts give the actual situation.

Fig.5.1a: Revenue Deficit/Surplus Situation

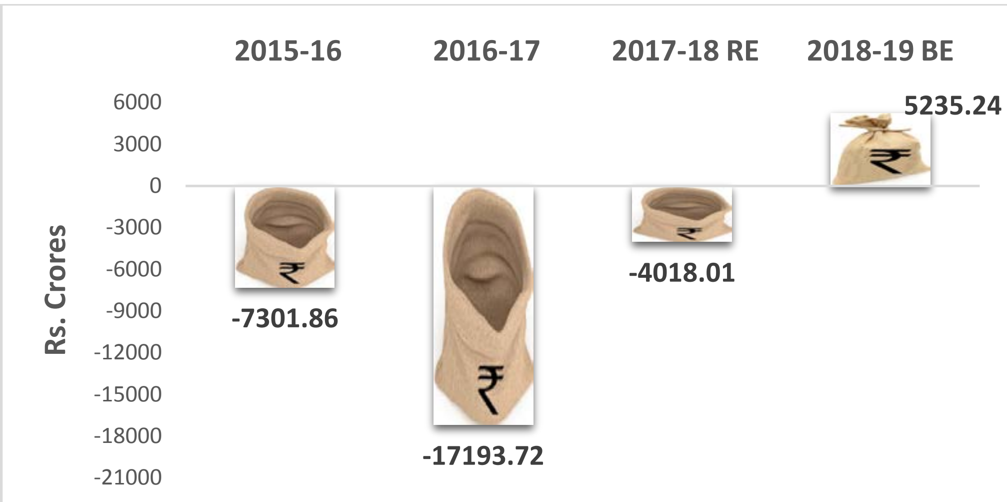


Fig.5.1b: Fiscal DeficitSituation

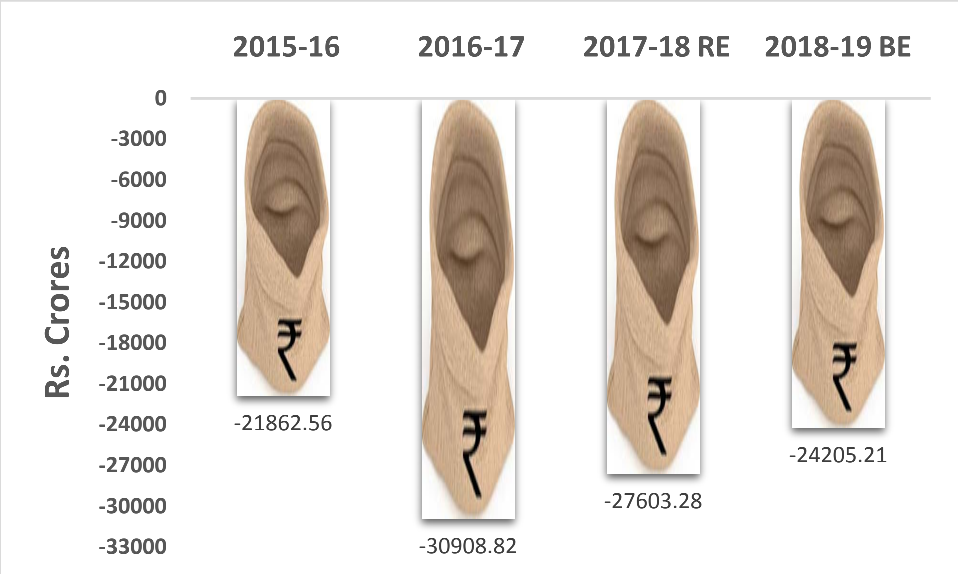


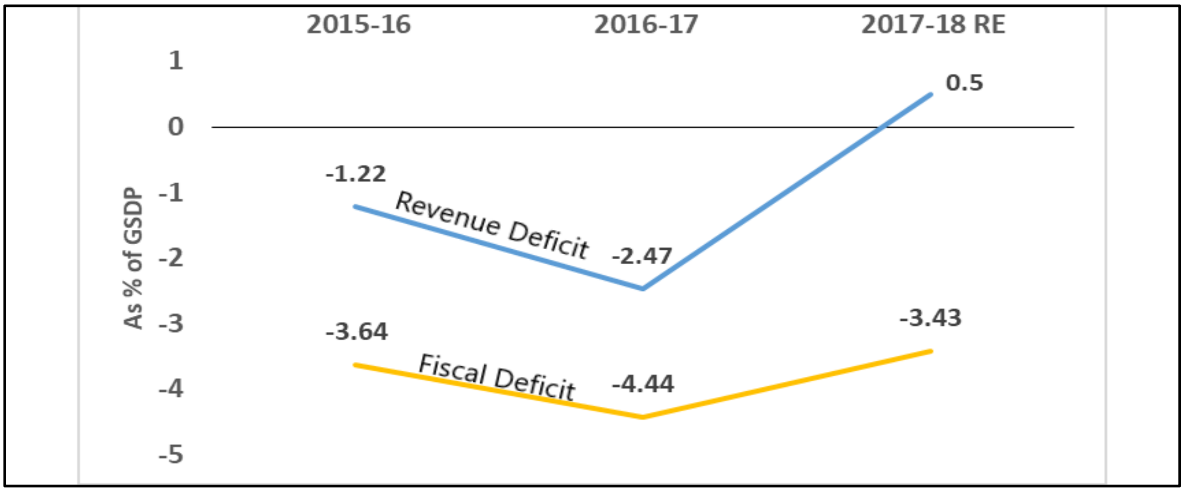
Table 5.1: Fiscal Deficit and its Components- Composition and Trends

Particulars	2015-16	2016-17	2017-18 RE	2018-19 BE
Revenue Deficit	7301.86	17193.72	4018.01	-5235.24*
Capital Expenditure	14171.52	15180.77	22875.29	28678.49
Net Lending	389.17	-1465.67**	709.98	761.96
Fiscal Deficit	**21862.56**	**30908.82**	**27603.28**	**24205.21**
Primary Deficit	12014.06	19211.46	12847.11	9128.37
	Fiscal Deficit Composition (%)			
Revenue Deficit	33.40	55.63	14.56	-21.63*
Capital Expenditure	64.82	49.11	82.87	118.48
Net Lending	1.78	-4.74**	2.57	3.15
Fiscal Deficit	**(3.25)100.00**	**(3.25)100.00**	**(3.25)100.00**	**(3.00)100.00**
	As % of GSDP			
Revenue Deficit	1.22	2.47	0.50	-0.60*
Capital Expenditure	2.36	2.18	2.85	--
Net Lending	0.06	-0.21**	0.09	--
Fiscal Deficit	**3.64**	**4.44**	**3.43**	2.78*
	Primary Deficit			
As % of Fiscal Deficit	54.95	62.16	46.54	37.71
As % of GSDP	**-2.00**	**-2.76**	**-1.60**	

* '-' Indicates Surplus; ** '-'Loan Recoveries are more than loans advanced.(Assessed by XIV FC)

The fiscal deficit/GSDP, barring 2016-17, declined from 3.64percent in 2015-16 to 3.43 percent in 207-18RE, yet to achieve the objective of FRBM Act. The split up of fiscal deficit shows that revenue deficit/GSDP ratio declined consistently, barring 2016-17, from 1.22 percent in 2016-17 to 0.50 percent in 2017-18 RE and estimated to turn into surplus situation in 2018-19BE(Table 5.1 and Fig. 5.2). Barring 2016-17, the capital expenditure/GSDP ratio increased from 2.36 percent in 2015-16 to 2.85 percent in 2017-18RE 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 increase in net lending along with the increase in the capital expenditure. The net lending/GSDP ratio increased marginally from 0.06 percent in 2015-16 to 0.09 percent in 2017-18RE. Thus the impact of the revenue account situation is seen on the other components of fiscal deficit which are mainly for developmental activities.

Fig.5.2: Revenue and Fiscal Deficit Trends



Primary deficit is also another angle for examining the nature of fiscal deficit. In 2015-16 nearly 45 percent the fiscal deficit was because of interest payments and the balance 55 percent was due to primary deficit. This shows that heavy interest payments accounted for the bulk of the revenue deficit or fiscal deficit. Though the proportion of primary deficit moved up to 62.16 percent in the subsequent year, it has declined in the revised and budget estimates when compared to previous years indicating the increase in interest payments burden.

Higher revenue or fiscal deficit in 2016-17 is mainly attributed to UDAY Scheme. The revenue deficit net of UDAY scheme is about Rs.-8937.72 (-1.29 of GSDP). The fiscal deficit net of UDAY is about Rs.- 22652.82(-3.26 GSDP).The shrink of fiscal deficit to -3.43 percent in 2017-18 RE is mainly because of estimated improvement in revenue deficit to -0.5 percent in that year - indicate the reduction of dependency on borrowings. The estimated revenue surplus situation in 2018-19BE is mainly because the government anticipated anticipating that Government of India would release all the dues as per the AP Reorganization Act, 2014 at least this year[2].

However, revenue surplus situation not only lowers of fiscal deficit, but also lowers the burden of debt and future debt servicing charges. But an indication of higher interest payment burden in the revised and budget estimates is the cause of concern. It impacts the financing of fiscal deficit. As fluctuations in the receipts / expenditures, obviously, impacts

[2]Government of Andhra Pradesh (2018): Budget Speech, 2018-19, 8th March, 2018

the surpluses/ deficits, state needs to improve its budgetary forecasting techniques, fiscal marksmanship and administrative efficiency in receipts and expenditure departments.

5.3. Pattern of Deficit Financing

Another important aspect of fiscal space is the capability of states to raise loans from the market[3]. As recommended by the Fourteenth Finance Commission, state government has lowered its dependence on the National Small Savings Fund (NSSF). Hence, market loans remained as a major source of deficit financing while other sources are thinly distributed (Table 5.2).

Table 5.2: DIFICIT FINANCING: ANDHRA PRADESH

	RS CRORES			RELATIVE SHARE (%)		
	2015-16	2016-17RE	2017-18BE	2015-16	2016-17RE	2017-18BE
Market Borrowings	16490	19730	22940	75.43	102.97	99.52
Loans from the Centre	-540	230	-750	-2.47	1.20	-3.25
Spl Securities Issued to NSSF	760	-900	-1210	3.48	-4.70	-5.25
Loans from LIC, NABARD, NCDC, SBI and other Banks	110	450	1070	0.50	2.35	4.64
Provident Fund etc	1250	1040	1150	5.72	5.43	4.99
Reserve Funds	50	-40	490	0.23	-0.21	2.13
Deposits and Advances	8570	-1330	-610	39.20	-6.94	-2.65
Suspence and Miscellaneous	-130	0	0	-0.59	0.00	0.00
Remittances	600	0	0	2.74	0.00	0.00
Others	-470	-60	-30	-2.15	-0.31	-0.13
Overall Surplus (-)/Deficit(+)	-4820	30	10	-22.05	0.16	0.04
Gross Surplus (-)/Deficit(+)	21860	19160	23050	100.00	100.00	100.00

5.4. Public Debt

Direction of Public Debt Spent

It is interesting to look into the direction of debt spent during the study period. In 2015-16, about 72 percent of the public debt raised was spent towards therepayment of old debt and the balance 28 percent (net debt) was to fill the revenue deficit and finance the other developmental activities (Table 5.3). Net debt was too little to meet the fiscal deficit and the dependence on the public account was high at 43 percent. Since 2016-17, the net debt availability at the disposal of the state government was widened and in 2018-19BE, the estimated revenue account surplus situation may support the developmental activities and also allow the entire net debt raised towards the same by increasing the capital expenditure.

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[3]The financing pattern of GFD has undergone compositional shift since 1999.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 5.3: Direction of Public Debt Spent

	public debt raised	public debt repaid	Net Debt	Net debt as % of debt raised	As percentage of net debt (%)			
					revenue deficit	capital exp	net lending	fiscal deficit
2015-16	53681.80	38444.50	15237.30	28.38	47.92	93.01	2.55	143.48
2016-17	59922.66	34776.54	25146.12	41.96	68.38	60.37	-5.83	122.92
2017-18RE	30500.00	8524.96	21975.04	72.05	18.28	104.10	3.23	125.61
2018-19BE	33461.06	10851.17	22609.89	67.57	-23.15	126.84	3.37	107.06

Outstanding Public Debt

The outstanding debt/GSDP ratio of the state declined from 29 percent in 2015-16 to 28 percent in 2017-18RE averaging around 28 percent (Table 5.4). 14th FC suggested steady reduction in augmented debt stock for the states to less than 22.38 per cent of GSDP by 2019-20. AP's debt/GSDP ratio is much higher than the set limits.

The compositional shift in the deficit financing obviously reflects in the outstanding public debt[4]**.** 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 5.4).Another major component is loans from autonomous financial institutions.

Table 5.4: Composition of Public Debt Outstanding (Rs. Cr)

Year	Open Market Loans	Loans From Central Govt.	Loans from Other Institutions	Small Savings	Provident Fund	Deposits And Reserve Funds	Total
2015-16	94925.71	8957.9	4854.56	15923.94	16075.13	33116.36	173853.6
2016-17	112630.20	9025.33	13360.58	14792.12	13567.72	37938.09	201314.04
2017-18 R.E.	134550.9	9283.21	14369.48	13579.68	14163.25	39287.52	225234.04
2018-19 B.E.	157779.19	9218.10	15028.63	12367.24	15272.06	39770.15	249435.37
	As % of GSDP						
2015-16	15.81	1.49	0.81	2.65	2.68	5.52	(24.33)28.96
2016-17	16.19	1.30	1.92	2.13	1.95	5.45	(24.74)28.95
2017-18 R.E.	16.74	1.15	1.79	1.69	1.76	4.89	(25.09)28.02
2018-19 B.E.	18.13	1.06	1.73	1.42	1.75	4.57	(25.16)28.66
	Composition (%)						
2015-16	**54.60**	**5.15**	**2.79**	**9.16**	**9.25**	**19.05**	**100.00**
2016-17	**55.95**	**4.48**	**6.64**	**7.35**	**6.74**	**18.85**	**100.00**
2017-18 R.E.	**59.74**	**4.12**	**6.38**	**6.03**	**6.29**	**17.44**	**100.00**
2018-19 B.E.	**63.25**	**3.70**	**6.03**	**4.96**	**6.12**	**15.94**	**100.00**
* Outstanding debt includes un-apportioned amount of Rs.23,483.20 crores Source: Government of Andhra Pradesh, Volume VI, Budget in Brief, 2018-19. (Assessed by XIV FC)							

[4] 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.

5.5 Contingent liabilities

Contingent Liabilities

Contingent Liabilities of the Government are like insurance obligations, which are contingent or conditional upon the occurrence of certain events, requiring payments by the Government, who had promised or agreed in the past to make good such liabilities, regardless of its financial health. It is a possible obligation and not a present obligation. It arises from some past events and its existence will be confirmed only by the occurrence of some future events. Its time of payment or the quantum of payment or both are uncertain.

Contingent liabilities arise mainly because of sovereign guarantees. However, it goes beyond that.

Types of Contingent Liabilities

A contingent liability may arise due to either explicit legal obligation or an implicit constructive obligation.

A *legal obligation* relates to specific government obligation defined by law or contract, e.g., guarantees given against third party, crop insurance, tax refunds under litigation, indemnities, etc.

A constructive or *implicit obligation* is an obligation that may arise when a government indicates to other parties that it accepts certain responsibilities and has created certain valid expectation on the part of those parties that it will discharge the responsibilities. eg. Letter of comfort issued by governments (Union and States), bailing out public sector insurance, banking and other entities, etc. This also represents a moral obligation or expected burden for the government not in the legal sense, but based on public expectations and political pressures. These liabilities arise out of the fact that Government is always perceived as the "last resort".

On the basis of the provisions made for meeting such contingent liabilities, it can be classified as either funded or unfunded liabilities. eg. the liability is funded in case of sovereign guarantees (guarantee is given in return for a fee and the collected fee is kept in a guarantee redemption fund). An unfunded Contingent Liability can arise due to some natural / manmade calamity say Bhopal Tragedy related payments, obligations on account of legislative changes with retrospective effect etc.

Need for Management of Contingent Liability

Report of the Internal Working Group on Debt Management (October 2008), chaired by Shri. Jahangir Aziz and the report of the Financial Sector Legislative Reforms Commission (FSLRC) (2013) which studied the issue of public debt management had highlighted the importance of managing contingent liabilities in India. This is because, there are close interconnections between contingent liabilities and debt issuance. For instance, the invoking of guarantees can have a substantial impact on the risk assessment of the public debt structure of the Central Government.

- Explicit contingent liabilities are a cost-effective manner for states to incentivise the private provision of public goods. However, proper pricing and valuation of these guarantees is very important for efficient risk management by the State. There could be significant negative fiscal repercussions for the State if contingent liabilities mature in large numbers at the same point in time.
- By their very nature, contingent liabilities are most likely to be called in during an economic downturn. These fiscal payments are counter-cyclical in nature. But, this is also the time when the state is least able to afford to fulfil such obligations due to reduced revenue collection. Hence, risk management of these liabilities would allow states to lessen the risk of default on these liabilities.
- Making the nature and volume of these liabilities public will increase both transparency and accountability in budgetary transactions.
- Further, guarantee-risk is conceptually the same as the risk taken in borrowing and on-lending funds, which is a risk that a debt management office will have to deal with on a day-to-day basis.

Hence the Aziz Committee had suggested the creation of a *"National Treasury Management Agency"* to deal with such contingency liability management issues.

Following up on these recommendations, the Financial Sector Legislative Reforms Commission (FSLRC) which submitted its report in 2013 suggested creating a Public Debt Management Agency(PDMA) and was of the view that PDMA must manage and execute implicit and explicit contingent liabilities of the Government. Further, PDMA must evaluate the potential risk of these contingent liabilities and advise the Central Government on charging appropriate fees. FSLRC advised that the Government should be required to seek the public debt management agency’s advice before issuing any fresh guarantees since this has implications for the overall stability of the public debt portfolio. Given this, FSLRC felt that the PDMA should advise the Central Government on making provisions for contingent credit lines with bilateral and multi-lateral agreements and establish similar credit lines with international agencies. FSLRC felt that the management of contingent liabilities is a specialised function that involves undertaking the risk assessment of clients. Therefore, it felt that the public debt management agency should be allowed to contract out in part or in entirety the management of contingent liabilities to outside agencies if it so chooses.

In short, Contingent liabilities management include:

- Assessing and pricing credit risk.
- Implementing policies and guidelines for the issue of Government guarantees and on-lending of borrowed funds.
- Advise on recapitalization of public sector enterprises given a risk management policy framework.
- Record and report government guarantees and other contingent liabilities.

The RBI Group to Assess Fiscal Risk of State Government Guarantees (2002) had also analysed fiscal exposure of States to guarantees and made similar recommendations regarding monitoring and pricing of guarantees.

Operational management of Contingent Liabilities in India

The FRBM Act 2003 mandates the Central Government to specify the annual target for assuming contingent liabilities which are in the form of guarantees. Accordingly, the FRBM Rules prescribe a cap of 0.5% of GDP in any financial year on the quantum of guarantees that the Central Government can assume in the particular financial year. In order to ensure greater transparency in its fiscal operation in public interest, the FRBM rules require the Central Government, at the time of presenting the annual financial statement and demand for grants, to make certain disclosure statements of receivables and payables as detailed below:

- Tax Revenues raised but not realised
- Arrears of Non Tax Revenue
- Guarantees given by the government

Guarantees given by the Government is given Table No.5.5

Table No.5.5 Sector wise details of **Guarantees**

Guarantees given by the Andhra Pradesh Government			
Sector -wise details for Guarantees		**Rs.in Crores**	
Sector(*)	Maximum Amount guaranteed	Outstanding at the beginning o the year 2016-17	Outstanding at the end of 2016-17
1	2	3	8
Power	8312.68	5669.3	5344.35
Co-operatives	410.98	87.67	13772
Agriculture	308	0	308
Transport	1538.23	257.91	1243.1
State Financial Corporation	1341	524.2	912.2
Water Supply, Sanitation, Housing & Urban Development	3791.58	185.44	1139.08
Communication	300	0	300
Industries	373.06	226.11	166.37
Other Institutions	200	77.9	114.12
Total	16575.53	16575.53	9664.94
Source: Finance Accounts of Andhra Pradesh, CAG,Andhra Pradesh			

liabilities(http://www.arthapedia.in/index.php?title=Contingent_Liabilities)

It has increased by 1.4 times from the begining of the fiscal year 2016-17 to the end of the same year.

5.6. Implementation of FRBM Act and Targets Achieved

The state government could reduce the revenue deficit but not as per the set annual targets. This is mainly due to adverse impact of state bifurcation on state finances. While it is difficult to enhance resources, it much more difficult to manage the growing expenditure particularly in the initial years of bifurcation. However the set targets either for deficits, debt or for liabilities are given in table 5.5. Outstanding Liabilities and Guarantees are given in table 5.6.

Table 5.6: Fiscal Indicators -Rolling Targets

		Previous Year(Y-2)	Current Year (Y-1)	Current Year (Y-1)	Ensuing Year (Y)	Targets for next Two Years	
		(Actuals) 2016-17	2017-18 (BE)	2017-18(RE)	2018-19(BE)	2019-20	2020-21
Revenue Deficit / Surplus as % of Total Revenue Receipts (TRR)		-9.07	-0.33	-3.26	3.37		
Fiscal Deficit as % of GSDP	Target	-3.00	-3.00	-3.00	-3.00	< -4.00	< -4.00
	Achievement	-3.24	-3.00	-3.48	-2.78		
Total outstanding Liabilities as % of GSDP	Target	24.74	25.09	25.09	25.16	30	30
	Achievement	29.42	28.11	28.06	28.66		

Note: The above indicators are excluding Uday Bonds.
Source:Statement of Fiscal Policy to be laid on the table of the A.P. State Legislature in March, 2018

Table 5.7: Outstanding Liabilities and Guarantees (Rs. Cr)

	2015-16	**2016-17**	**2017-18**	**2018-19**
GSDP At Current Prices	600298.00	695491.00	803873.00	870325.79
Total Outstanding Liabilities	147940.00	254300.00	227830.00	252030.00
Outstanding Guarantees	7060.00	9660.00	35960.00	
Power	5669.30	5344.35	8683.01	
Outstanding Liabilities & Guarantees	155000.00	263960.00	263790.00	252030.00
	As percentage of GSDP at current prices			
Total Outstanding Liabilities	24.64	36.56	28.34	28.96
Outstanding Guarantees	1.18	1.39	4.47	0.00
Power	0.94	0.77	1.08	
Outstanding Liabilities & Guarantees	25.82	37.95	32.81	28.96

Source: Fourteenth Finance Commission, in its report, enunciated the fiscal deficit targets and annual borrowing limits for the States during its award period[5]:

1. Fiscal deficit of all States will be anchored to an annual limit of 3 per cent of GSDP. The States will be eligible for flexibility of 0.25 per cent over and above this for any given year for which the borrowing limits are to be fixed if their debt-GSDP ratio is less than or equal to 25 per cent in the preceding year.

2. States will be further eligible for an additional borrowing limit of 0.25 per cent of GSDP in a given year for which the borrowing limits are to be fixed if the interest payments are less than or equal to 10 per cent of the revenue receipts in the preceding year.

[5]GOI (2014): 14th FC Report, Page 190.

Consolidated Fiscal Roadmap (2015-16 to 2019-20)as recommended by the Fourteenth Finance Commission and achievement of the state government are given in table 5.7.

Table 5.8: Consolidated Fiscal Roadmap (2015-16 to 2019-20)(Per cent of GDP)

	2015-16	2016-17	2017-18	2018-19	2019-20
Targets set by Fourteenth Finance Commission					
Revenue Deficit -States	-1.07	-1.32	-1.6	-1.84	-1.88
Fiscal Deficit -States	-2.76	-2.77	-2.77	-2.73	-2.74
Debt Stock - States	21.9	22.06	22.21	22.3	22.38
Outstanding Union Loan to States	0.97	0.81	0.66	0.54	0.44
As estimated in the present study					
Revenue Deficit	-1.22	-2.47 (-1.29)	-0.50	0.60*	
Fiscal Deficit	-3.64	4.44 (-3.26)	-3.43	-2.78*	
Debt Stock	28.96	28.95	28.02	28.66	
Outstanding Union Loan	1.49	1.30	1.15	1.06	

'-' indicates deficit; Figures in parenthesis are net of UDAY scheme; * source: Budget Speech 2018-19
Source: Table 14.1, 14th FC Report and our calculations

Amendments to FRBM Acts and New Legislation (Fourteenth Finance Commission Report)

Fourteenth Finance Commission recommend that the State Governments may amend their FRBM Acts to provide for the statutory flexible limits on fiscal deficit. The State Government Processing the proposed for amending the APFRBM Act, 2005 keeping in view of the recommendations of 14th Finance Commission and repercussions of bifurcation of the State[6].

5.7. Summary and Suggestions

Fiscal deficit in 2015-16 was Rs. 21862.56 crores and deteriorated in 2016-17 by reaching Rs. 30908.82 crore. The worsened fiscal deficit was the net result of deteriorated revenue deficit, moderate increase in capital expenditure and consolation through loan recoveries and also because of UDAY Scheme

The shrink of fiscal deficit in revised and budget estimates of 2017-18 and 2018-19 respectively is mainly because of estimated improvement in revenue deficit (2017-18RE) and revenue surplus (2018-19BE). The estimated revenue surplus situation in 2018-19BE is mainly because the government anticipated anticipating that Government of India would release all the dues as per the AP Reorganization Act, 2014 at least this year. With this anticipated improvement, the capital expenditure/GSDP increased indicating the improvement in the quality of expenditure. The net lending/GSDP ratio increased marginally from 0.06 percent in 2015-16 to 0.09 percent in 2017-18RE. Thus the impact of the revenue

[6]Government of Andhra Pradesh (2018), Statement of Fiscal Policy to be laid on the table of the A.P. State Legislature in March, 2018 (As required under section 5 of the Andhra Pradesh Fiscal Responsibility and Budget Management Act, 2005)

account situation is seen on the other components of fiscal deficit which are mainly for developmental activities.

Primary deficit shows that in 2015-16 nearly 45 percent the fiscal deficit was because of interest payments and the balance 55 percent was due to primary deficit. Though the proportion of primary deficit moved up to 62.16 percent in the subsequent year, it has declined in the revised and budget estimates indicating the increase in interest payments burden.

Though In 2015-16, net debt in hand was too little to meet the fiscal deficit and the dependence on the public account was high at 43 percent. Since 2016-17, the net debt availability at the disposal of the state government was widened and in 2018-19BE, the estimated revenue account surplus may improve the fiscal situation. 14th FC suggested steady reduction in augmented debt stock for the states to less than 22.38 per cent of GSDP by 2019-20. AP's debt/GSDP declined from 29 percent in 2015-16 to 28 percent in 2017-18RE but much higher than the set limits.

The state government reduced its revenue deficit but not as per the set annual targets. This is mainly due to adverse impact of state bifurcation on state finances. While it is difficult to enhance resources, it much more difficult to manage the growing expenditure particularly in the initial years of bifurcation. Fourteenth Finance Commission recommend that the State Governments may amend their FRBM Acts to provide for the statutory flexible limits on fiscal deficit. The State Government probably must have started the processing the proposed amendment ing the APFRBM Act, 2005 keeping in view of the recommendations of 14th Finance Commission and repercussions of bifurcation of the State.

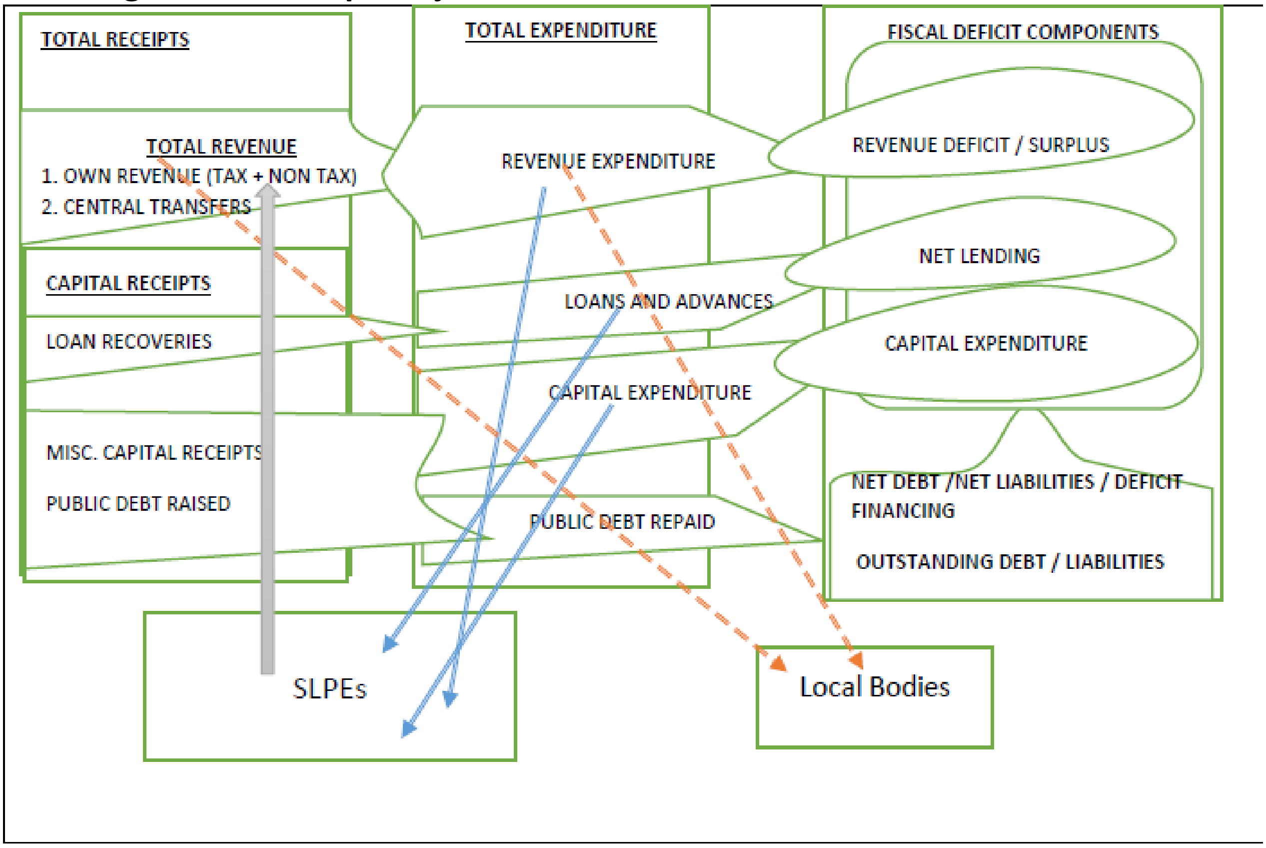
Chapter 6
Major Fiscal Indicators: Relative Position of AP

Summary of Findings

- The Own revenue/ Revenue Expenditure of Andhra Pradesh fluctuated around 47 per cent but its relative position deteriorated in the last two years.
- Andhra Pradesh is compared with General category states with respect to major fiscal indicators in 2015-16. It shows that the own revenue of Andhra Pradesh's is insufficient to meet its revenue expenditure when compared with its counterparts and also much below the *all states* average. An improvement is **estimated in the subsequent years**.
- The proportion of interest payments burden in the revenue receipts of AP has increased gradually in subsequent years. But its relative position is more or less same when compared with other states.
- The committed expenditure/ revenue expenditure shown an increased during 2015-16(Accounts) - 2017-18 (Budget estimates). Its relative position also declined or deteriorated among the general category states. But the burden of pension also higher than the *all states* average, though it has declined over a period of the time.
- Fiscal Components of Andhra Pradesh with respect to GSDP are benchmarked with other general category states.

Chapter 6

Fig 6.0: Roadmap- Major Fiscal Indicators: Relative Position of AP



6.1 Introduction

This chapter shows the relative position of major fiscal indicators of Andhra Pradesh among the general category of states.

6.2 Major fiscal indicators: Relative Position of AP

Andhra Pradesh is compared with General category states with respect to major fiscal indicators in 2015-16. It shows that Andhra Pradesh's own revenue of the state cannot meet its revenue expenditure. In this regard Andhra Pradesh is much below the *all states* average next only to Bihar and west Bengal. An improvement shown in the fixed year (2016-17 and 2017-18 (BE) respectively.

The interest burden of A.P in its revenue expenditure relatively lower than the all states average and fall in between the states in 2015-16 2016-17 but it is nearer to the all states average in the budget estimates of 2017-18

The proportion of interest payments in the revenue receipts of AP is 11.1 per cent 2015-16 and increased gradually in subsequent years. But its relative position is more or less same when compared with other states and relatively lower than the all state's average.

The proportion of committed expenditure in revenue expenditure incurred in 2015-16 is 27.7 per cent and increased to 28.71 percent in Budget estimates of 2017-18. Its relative position also declined or deteriorated among the non- special category states.

The burden of pension in Andhra Pradesh also higher than the *states* , though it has declined over a period of the time.

Table 6.1 : Major fiscal indicators: Relative Position of AP(%)

	fiscal indicators	2015-16	Rank	2016-17 (Accounts)	Rank	2017-18 (BE)	Rank
1	Own revenue/ Revenue Expenditure	46.7	3	42.9	6	46.7	6
2	Development Expenditure/ Aggregate Disbursement	70.2	10	70.9	9	70.3	11
3	Non-Development Expenditure/ Disbursement	24.7	9	26.0	12	25.5	8
4	Interest Payment / Revenue Expenditure	10.3	9	10.1	8	11.7	9
5	Interest Payment/ Revenue Receipts	11.1	9	12.4	9	11.8	9
6	Committed Expenditure/ Revenue Expenditure	27.7	6	39.68	8	28.7	10
7	Pension/Revenue Expenditure	11.7	14	11.8	11	11.0	11
	*The rankings are in ascending order. **This shows the relative position of the Andhra Pradesh among the non-special category.						

Andhra Pradesh is compared with non special category states with respect to major fiscal indicators in 2015-16. it shows that Andhra Pradesh's own revenue of the state cannot meet its revenue expenditure. In this regard Andhra Pradesh is much below Its counter parts next only to Bihar and west Bengal. An improvement shown in the (2016-17 and 2017-18(BE) respectively.

Table 6.2 : Major fiscal indicators

	State	Own revenue/ Revenue Expenditure	State	Own revenue/ Revenue Expenditure	State	Own revenue/ Revenue Expenditure
		2015-16 (Accounts)		**2016-17 Accounts**		**2017-18(BE)**
	Non-Special Category		Non-Special Category		Non-Special Category	
1	Bihar	33.0	Bihar	27.59	Bihar	28.4
2	West Bengal	37.3	West Bengal	36.15	UttarPradesh	33
3	**Andhra Pradesh**	**42.49**	Madhya Pradesh	44.57	West Bengal	40.7
4	Jharkhand	47.4	Odisha	47.50	Odisha	44.1
5	Madhya Pradesh	48.9	Rajasthan	44.04	Madhya Pradesh	46.1
6	UttarPradesh	49.0	**Andhra Pradesh**	**42.49**	**Andhra Pradesh**	**46.7**
7	Rajasthan	50.5	UttarPradesh	48.57	Rajasthan	48.1
8	Chhattisgarh	51.0	Jharkhand	41.36	Chhattisgarh	50.8
9	Odisha	53.1	Chhattisgarh	51.10	Jharkhand	53.8
10	Punjab	58.6	Kerala	56.95	Punjab	57.1
11	Haryana	60.2	Punjab	60.78	Kerala	59.7
12	Kerala	60.3	Tamil Nadu	62.57	Tamil Nadu	63.8
13	Tamil Nadu	63.4	Haryana	58.80	Telangana	63.8
14	Karnataka	69.1	Maharashtra	70.03	Haryana	66.8
15	Telangana	71.7	Telangana	71.46	Karnataka	66.9
16	Maharashtra	73.6	Karnataka	67.28	Maharashtra	69.9
17	Gujarat	76.1	Gujarat	74.87	Gujarat	75.7

Source: For the years 2015-16 and 2017-18(BE), RBI study on state finances for the years 2017-18 and 2018-19.

For the year 2016-17 accounts , accounts of the CAG for various states.

Table 6.2a : Major fiscal indicators

	State	Interest Payment / Revenue Expenditure	State	Interest Payment / Revenue Expenditure	State	Interest Payment / Revenue Expenditure
		2015-16 (Accounts)		**2016-17(accounts)**		**2017-18(BE)**
	Non-Special Category		Non-Special Category		Non-Special Category	
1	Chhattisgarh	4.9	Chhattisgarh	4.6	Chhattisgarh	5
2	Odisha	5.7	Odisha	6.4	Odisha	6.1
3	Madhya Pradesh	8.1	Bihar	7.1	Jharkhand	7.7
4	Bihar	8.5	Madhya Pradesh	8	Bihar	7.8
5	Jharkhand	9.1	Jharkhand	8.1	Madhya Pradesh	8.6
6	Karnataka	9.2	Telangana	8.9	Karnataka	9.8
7	Telangana	10	Karnataka	9.3	Telangana	10.3
8	UttarPradesh	10.1	**Andhra Pradesh**	**10.1**	UttarPradesh	10.8
9	**Andhra Pradesh**	**10.3**	UttarPradesh	11.2	**Andhra Pradesh**	**11.7**
10	Rajasthan	11.3	Maharashtra	12.3	Kerala	12.4
11	Tamil Nadu	12.3	Tamil Nadu	13	Maharashtra	12.5
13	Maharashtra	13.5	Kerala	13.1	Rajasthan	13.7
14	Haryana	14	Rajasthan	13.2	Haryana	14.1
15	Kerala	14.1	Haryana	13.3	Tamil Nadu	14.4
16	Gujarat	17	Gujarat	16.4	Gujarat	15.4
17	Punjab	19.5	West Bengal	18.5	West Bengal	18.1
18	West Bengal	19.5	Punjab	19.1	Punjab	19.9

The proportion of interest payments in the revenue receipts of AP is 11.1 per cent 2015-16 and increased gradually in subsequent years. But its relative position is more or less same when compared with other states.

Table 6.2b : Major fiscal indicators

	State	**Interest Payment/ Revenue Receipts**	**State**	**Interest Payment/ Revenue Receipts**	**State**	**Interest Payment/ Revenue Receipts**
		2015-16 (Accounts)		**2016-17(Accounts)**		**2017-18(BE)**
	Non-Special Category		Non-Special Category		Non-Special Category	
1	Chhattisgarh	4.7	Chhattisgarh	5.38	Chhattisgarh	4.6
2	Odisha	4.8	Odisha	5.43	Odisha	5.6
3	Bihar	7.4	Bihar	8.31	Jharkhand	6.8
4	Madhya Pradesh	7.7	Jharkhand	8.87	Bihar	7
5	Jharkhand	8.2	Madhya Pradesh	7.36	Madhya Pradesh	8.3
6	Karnataka	9	Telangana	10.40	Karnataka	9.8
7	UttarPradesh	9.4	Karnataka	9.03	Telangana	9.8
8	Telangana	9.9	UttarPradesh	14.68	UttarPradesh	10.4
9	**Andhra Pradesh**	**11.1**	**Andhra Pradesh**	**12.42**	**Andhra Pradesh**	**11.8**
10	Rajasthan	12	Maharashtra	15.21	Maharashtra	12.7
12	Tamil Nadu	13.5	Tamil Nadu	1491.69	Kerala	14.6
13	Maharashtra	13.9	Rajasthan	16.21	Gujarat	14.7
14	Kerala	16.1	Kerala	16.02	Rajasthan	15.1
15	Gujarat	16.7	Gujarat	16.20	Tamil Nadu	15.9
16	Haryana	17.4	Haryana	20.08	Haryana	16.4
17	West Bengal	21.1	West Bengal	22.11	West Bengal	18.1
18	Punjab	23.6	Punjab	24.26	Punjab	24.8

The proportion of committed expenditure in revenue expenditure incurred in 2015-16(Accounts) is 27.7 per cent and increased to 28.71 percent in Budget estimates of 2017-18. Its relative position also declined or deteriorated among the non- special category states.

Table 6.2c: Major fiscal indicators

	State	**Committed Expenditure/ Revenue Expenditure**	**State**	**Committed Expenditure/ Revenue Expenditure**	**State**	**Committed Expenditure / Revenue Expenditure**
		2015-16 (Accounts)		**2016-17(Accounts)**		**2017-18(BE)**
	Non-Special Category		Non-Special Category		Non-Special Category	
1	Chhattisgarh	20.5	Chhattisgarh	36.23	Chhattisgarh	20.9
2	Madhya Pradesh	21.9	Madhya Pradesh	31.64	Madhya Pradesh	23.7
3	Karnataka	23.7	Karnataka	25.10	Karnataka	24.2
4	Odisha	23.8	Telangana	40.56	Jharkhand	25.8
5	Rajasthan	26.5	Jharkhand	38.14	Telangana	27.1
6	**Andhra Pradesh**	**27.7**	Odisha	39.84	Rajasthan	28
7	UttarPradesh	28.3	Rajasthan	46.75	Odisha	28.1
8	Telangana	28.4	**Andhra Pradesh**	**39.68**	Haryana	28.6
9	Haryana	29.2	Haryana	47.53	**Andhra Pradesh**	**28.7**
10	Maharashtra	30.3	Bihar	39.07	Maharashtra	29.4
12	Tamil Nadu	30.4	Maharashtra	34.60	UttarPradesh	29.6
13	Bihar	30.6	UttarPradesh	44.09	Gujarat	31.1
14	Jharkhand	30.9	Tamil Nadu	1388.32	Bihar	31.4
15	Gujarat	32.3	Gujarat	36.20	Tamil Nadu	32.4
16	West Bengal	35.9	West Bengal	29.18	Kerala	34.3
17	Kerala	36	Kerala	82.31	West Bengal	34.9
18	Punjab	46.9	Punjab	68.89	Punjab	43.1

The burden of pension in Andhra Pradesh also higher than the many *states*, though it has declined over a period of the time.

Table 6.2d: Major fiscal indicators

	State	**Pension /Revenue Expenditure**	**State**	**Pension/Revenue Expenditure**	**State**	**Pension/Revenue Expenditure**
		2015-16 (Accounts)		**2016-17(Accounts)**		**2017-18(BE)**
	Non-Special Category		Non-Special Category		Non-Special Category	
1	Madhya Pradesh	7.8	Chhattisgarh	7.24	Maharashtra	8
2	Chhattisgarh	8.1	Maharashtra	7.91	Haryana	8.3
3	Maharashtra	8.1	Madhya Pradesh	7.36	Chhattisgarh	8.5
4	Haryana	9.1	Haryana	8.77	Karnataka	9.1
5	Karnataka	9.6	Jharkhand	9.17	Madhya Pradesh	9.2
6	Rajasthan	10.2	Karnataka	8.56	Rajasthan	9.9
7	Gujarat	10.4	Rajasthan	9.67	Jharkhand	10
8	Odisha	10.8	Telangana	11.07	Telangana	10.4
9	Telangana	10.8	Gujarat	10.88	Gujarat	10.7
10	West Bengal	10.8	**Andhra Pradesh**	**11.8**	**Andhra Pradesh**	**11**
12	Jharkhand	10.9	West Bengal	10.41	West Bengal	11.3
13	UttarPradesh	11.4	UttarPradesh	11.93	UttarPradesh	11.7
14	**Andhra Pradesh**	**11.7**	Tamil Nadu	12.32	Tamil Nadu	12.8
15	Tamil Nadu	12.9	Punjab	15.87	Punjab	13.6
16	Bihar	14.2	Odisha	10.52	Odisha	13.8
17	Punjab	15.6	Bihar	13.20	Bihar	16.2
18	Kerala	16.6	Kerala	38.32	Kerala	16.6
	Total	10.9	Total	10.6	Total	11.1

6.3 Comparative fiscal scenario of AP with other states(as %of GSDP)

The Study has benchmarked different components of Andhra Pradesh finances with respect to GSDP at Current prices and with corresponding figures of erstwhile general category states **(Tables 6.3a to 6.3f)**

Table 6.3a :Revenue Receipts of State Governments(Per cent)

		2015-16(Accounts)			2016-17(Accounts)			2017-18(BE)		
		Revenue Receipts / GSDP	OTR /GSDP	ONTR /GSDP	Revenue Receipts / GSDP	OTR /GSDP	ONTR /GSDP	Revenue Receipts / GSDP	OTR /GSDP	ONTR /GSDP
1	Andhra Pradesh	14.5	6.5	0.8	14.19	6.33	0.74	15.7	6.7	0.6
2	Bihar	25.2	6.7	0.6	24.79	5.57	0.56	28.1	6.6	0.6
3	Chhattisgarh	17.7	6.5	2	21.08	7.44	2.23	20.3	7.2	2.4
4	Gujarat	9.5	6.1	1	9.45	0.00	0.00	10.1	5.9	1.4
5	Haryana	9.8	6.4	1	9.59	5.54	1.15	11.3	7.1	1.7
6	Jharkhand	17.6	5.0	2.5	19.98	6.22	1.13	23.4	7.1	4
7	Karnataka	11.7	7.5	0.5	11.52	5.65	2.27	11.4	7.1	0.5
8	Kerala	12.4	7.0	1.5	12.16	7.18	0.50	13.8	7.9	1.8
9	Madhya Pradesh	19.9	7.6	1.6	19.00	6.78	1.56	19.7	7.1	1.7
10	Maharashtra	9.2	6.3	0.7	23.28	15.54	1.45	9.7	6.1	0.8
11	Odisha	20.8	6.8	2.6	23.28	1.01	0.36	21.4	6.4	2.3
12	Punjab	10.6	6.8	0.7	23.28	7.36	1.55	12.9	8.5	0.7
13	Rajasthan	14.7	6.2	1.6	23.28	10.33	2.70	15.5	6.5	1.7
14	Tamil Nadu	11.1	6.9	0.8	23.28	11.56	1.33	11.1	7	0.9
15	Telangana	13.4	7.0	2.5	23.28	3.81	0.77	15.5	8.6	0.9
16	UttarPradesh	20.3	7.2	2.1	23.28	13.03	4.39	23.8	6.2	1.4
17	West Bengal	11.9	4.6	0.2	23.28	3.64	0.24	11.8	4.6	0.2

Table 6.3b: Revenue Expenditure of the State Governments(Per cent)

		2015-16		2016-17 Accounts		2017-18 (BE)	
		RE/ GSDP	IP/ GSDP	RE/ GSDP	IP/ GSDP	RE/ GSDP	IP/ GSDP
1	Andhra Pradesh*	15.7	1.6	**16.66**	**1.76**	15.7	1.8
2	Bihar	21.9	1.9	**22.25**	**2.06**	25.1	2
3	Chhattisgarh	16.8	0.8	**18.91**	**1.13**	18.9	0.9
5	Gujarat	9.3	1.6	**8.94**	**1.53**	9.6	1.5
6	Haryana	12.2	1.7	**12.50**	**1.93**	13.2	1.9
7	Jharkhand	15.8	1.4	**19.14**	**1.77**	20.7	1.6
8	Karnataka	11.6	1.1	**11.41**	**1.04**	11.4	1.1
9	Kerala	14.1	2	**14.65**	**1.95**	16.2	2
10	Madhya Pradesh	18.8	1.5	**18.42**	**1.40**	19	1.6
11	Maharashtra	9.5	1.3	**24.25**	**3.54**	9.8	1.2
12	Odisha	17.8	1	**2.88**	**0.18**	19.8	1.2
13	Punjab	12.8	2.5	**14.66**	**3.09**	16.1	3.2
14	Rajasthan	15.5	1.8	**29.59**	**4.11**	17.1	2.3
15	Tamil Nadu	12.1	1.5	**20.60**	**281.29**	12.2	1.8
16	Telangana	13.4	1.3	**6.41**	**0.68**	14.9	1.5
17	UttarPradesh	19	1.9	**35.86**	**5.72**	22.9	2.5
18	West Bengal	12.9	2.5	**10.73**	**2.09**	11.8	2.1

Table 6.3c:-Development Expenditure: Select Indicators(Per cent)

		2015-16 Accounts	2016-17 Accounts	2017-18(BE)
		DEV/GSDP	DEV/GSDP	DEV/GSDP
1	Andhra Pradesh	13.4	**4.74**	13.6
2	Bihar	20.1	**7.68**	22.6
3	Chhattisgarh	15.4	**4.59**	18.3
5	Gujarat	8.4	**3.13**	8
6	Haryana	12.3	**4.02**	11
7	Jharkhand	17.1	**5.78**	19.9
8	Karnataka	9.9	**2.80**	10.4
9	Kerala	8.4	**6.66**	9.3
10	Madhya Pradesh	16.5	**4.41**	17.7
11	Maharashtra	7.1	**8.32**	7.5
12	Odisha	18.1	**0.76**	18.5
13	Punjab	8.5	**7.62**	9.7
14	Rajasthan	19.5	**9.23**	14.9
15	Tamil Nadu	9	**7.02**	9.1
16	Telangana	12.5	**2.02**	15.4
17	UttarPradesh	17.7	**14.26**	17.7
18	West Bengal	9.2	**4.08**	9

Table 6.3d:- Revenue Accounts Situation across the selected States

		2015-16 Accounts	2016-17Accounts
	I. Non-Special Category	**Rev.Surplus(-)/Deficit(+)/ GSDP**	**Rev.Surplus(-)/Deficit(+)/GSDP**
1	Andhra Pradesh	3.62	**-2.47**
2	Bihar	3.26	**2.54**
3	Chhattisgarh	2.39	**2.17**
5	Gujarat	2.24	**0.51**
6	Haryana	6.49	**-2.91**
7	Jharkhand	5.58	**0.83**
8	Karnataka	1.83	**0.11**
9	Kerala	3.17	**-2.49**
10	Madhya Pradesh	2.60	**0.58**
11	Maharashtra	1.43	**-0.97**
12	Odisha	2.13	**0.41**
13	Punjab	4.45	**-1.94**
14	Rajasthan	9.25	**-4.22**
15	Tamil Nadu	2.77	**-1.74**
16	Telangana	3.20	**0.11**
17	UttarPradesh	5.14	**3.07**
18	West Bengal	2.62	**-1.29**

Table 6.3e:- Gross Fiscal Deficit As Percentage of GSDP

		2015-16 Accounts	2016-17 Accounts
		Gross Fiscal Deficit	**Gross Fiscal Deficit**
	I. Non-Special Category		
1	Andhra Pradesh	3.62	4.43
2	Bihar	3.26	3.86
3	Chhattisgarh	2.39	1.52
5	Gujarat	2.24	2.75
6	Haryana	6.49	2.98
7	Jharkhand	5.58	4.30
8	Karnataka	1.83	11.56
9	Kerala	3.17	4.19
10	Madhya Pradesh	2.60	4.43
11	Maharashtra	1.43	4.27
12	Odisha	2.13	0.41
13	Punjab	4.45	39.83
14	Rajasthan	9.25	6.74
15	Tamil Nadu	2.77	7.51
16	Telangana	3.20	-2.76
17	UttarPradesh	5.14	8.47
18	West Bengal	2.62	2.03

Table 6.3f:- Outstanding Public Debt and other Liabilities(As at end-March 2017)

	As at end-March 2017	
	Outstanding Public Debt	**other Liabilities**
AP	**21.49**	**25.50**
Bihar	24.93	32.57
Chhattisgarh	11.93	17.05
Gujarat	17.15	20.92
Haryana	22.76	26.74
Jharkhand	21.58	28.37
Karnataka	12.66	18.26
Kerala	20.25	30.52
Madhya Pradesh	18.85	23.91
Maharashtra	34.33	45.03
Odisha	0.46	6.87
Punjab	40.77	48.39
Rajasthan	45.48	59.35
Tamil Nadu	33.89	38.11
Telangana	9.54	10.61
UttarPradesh	45.76	62.83
West Bengal	23.65	27.05

6.4 Sum Up

The Own revenue/ Revenue Expenditure of Andhra Pradesh fluctuated around 47 per cent but its relative position deteriorated in the last two years.

Andhra Pradesh is compared with General category states with respect to major fiscal indicators in 2015-16 and 2017-18(BE). It shows that the own revenue of Andhra Pradesh's is insufficient to meet its revenue expenditure when compared with its counterparts and also much below the *all states* average. An improvement is estimated in the subsequent years.

However, the interest burden of A.P in its revenue expenditure relatively lower in initial two years it has increased in the budget estimates of 2017-18.

The proportion of interest payments burden in the revenue receipts of AP has increased gradually in subsequent years. But its relative position is more or less same when compared with other states.

The committed expenditure/ revenue expenditure shown an increased during 2015-16(Accounts) - 2017-18 (Budget estimates). Its relative position also declined or deteriorated among the general category states, though it has declined over a period of the time.

The Study has benchmarked different components of Andhra Pradesh finances with respect to GSDP at Current prices and with corresponding figures of erstwhile general category states.

Chapter 7
State Level Public Enterprises

Summary of Findings

Impact of bifurcating on State Level Public Enterprises

- As on 31 March 2015, there were 70 PSUs - 15 state exclusive working PSUs, 33 PSUs under demerger (30 Govt. Companies 3 Statutory Corporations under demerger) and 22 non-working PSUs (yet to be bifurcated).
- Of the 48 working PSUs in 2015, around 31 percent are exclusive to AP, and 63 percent are government companies under demerger while around 6 percent are statutory corporations under demerger. In 2017, the percentage of government companies exclusive to AP increased to 89 percent because 28 PSUs (with interstate operations, which were to be demerged) were functionally bifurcated.
- New PSUs emerged during 2014-17.
- No change in Statutory Corporations under demerger / non-working PSUs.
- This chapter discuss es the losses incurred by the public sector undertakings such as RTC, and better performance in reducing AT&C losses.

State Government - a Finance Provider

The State Government has a significant financial stake in PSUs in the form of Share Capital / Loans/ Guarantees.

- Out of the total investments 99 percent is in state exclusive working PSUs / also formed due to demerger.
- This total investment consisted of 9.89 *per cent* in capital and 80.25 *per cent* in long-term loans.
- Sector wise investment shows that while the investment to power and infrastructure sectors registered an increase in 2016-17 as compared to 2015-16, the other sectors registered a decline in investment with the decline being highest for the services sector.

Performance of Public Sector Enterprises

- The turnover of exclusive **State** PSUs increased in 2016-17 over 2015-16.
- Turnover of PSUs formed due to demerger raised in 2016-17 over 2015-16.
- Of the 64 working PSUs, 15 PSUs reported a profit of Rs 1164 crores and 20 PSUs incurred a loss.
- Return on capital for State exclusive PSUs / PSUs under demerger showed an increase in 2016-17. On the other hand, return on capital for the PSUs formed due to demerger registered a decline during the same period.

Reserves and Net worth

- Of the 64 PSUs, in case of 9 PSUs, net worth declined and the accumulated loss was around Rs 25368 crores, while the paid up capital is to the tune of Rs. 626 crores. The erosion of net worth is the highest in two PSUs.

Size of Manpower

- As on 30 Sept, 2017, in state exclusive PSUs, nearly 96 percent of employment is in power sector.
- In PSUs under demerger, highest percentage of employment comes from working companies.
- In PSUs formed due to demerger, out of the total employment excluding corporations, major contribution came from power sector followed by infrastructure. APPGCLis the highest employment provider.

Profitability, Turnover,

- Highest contribution to profit came from PSUs such as APPGCL, APMDCL and APTransCo Limited.
- PSUs that earned substantial losses are SPDCAPL APSHCL EPDCAPL.
- For state exclusive PSUs and for PSUs formed due to demerger, turnover is highest for the power sector.
- Debt/ turnover less than 1 percent.

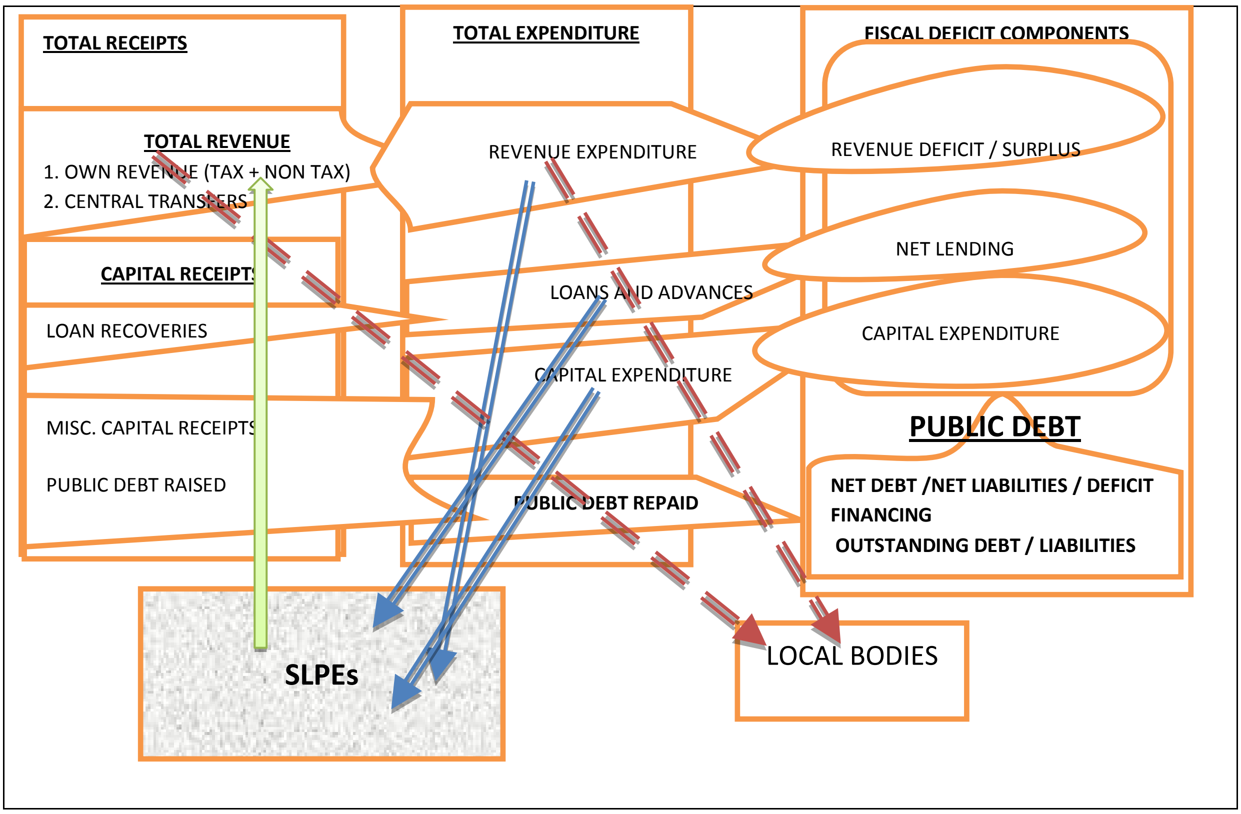
Power sector

APPower Distribution companies (DISCOMS) have one of the lowest loss levels in the country and the AT&C losses have been following a steady downward trend. The Government of India, the State of Andhra Pradesh and the DISCOMs of APSPDCL and APEPDCAPL signed a MOU under the Scheme UDAY – "Ujwal DISCOM Assurance Yojana" for financial turnaround of the DISCOMs.With UDAY coming into operation, areas of concern is critical state finances on account of growing liabilities due to takeover of 75 per cent of the existing debt of Discoms. "it is unlikely that states will be able to shrink their deficits, which puts pressure on the Centre to adjust more".

- APSRTC a statutory corporation is also discussed in this chapter.

Chapter 7
State Level Public Enterprises

Fig. 7.0: Roadmap - State Level Public Enterprises(SLPEs)



7.1. Introduction

By and large, State Level Public Enterprises (SLPEs) performed a key role in the economic development by carrying out the business-related activities while keeping in view the well-being of the society. They occupy a vital place in the State economy. Main source of information to this chapter is Report of the Comptroller and Auditor General of India on Public Sector Undertakings, Government of AP.

This chapter is divided into six sections. Section 2 speaks about Impact of bifurcating on State Level Public Enterprises while section 3discusses the role of the State Government as a Finance Provider. Section 4 discuses about the Performance of 86 Public Sector Enterprises Section 5 gives a brief sketch on power sector. Section 6 gives the sum up.

7.2. Impact of bifurcating on State Level Public Enterprises

The Andhra Pradesh Reorganisation Act, 2014 (AP Reorganisation Act) came into effect from 2 June, 2014, bifurcating the previous combined State of Andhra Pradesh and the residual Andhra Pradesh came into existence on that date. Under the AP Reorganisation Act, a PSU shall pass to that State where it is exclusively located in or its operations were to be apportioned between the two states as (i) the operational units on location basis (ii) assets and liabilities at headquarters on the basis of population ratio (Report of the CAG, India on PSUs, 2016).

Table 7.1: Number of Public Sector Undertakings (PSUs) as on 31 March

Type of PSUs	Working PSUs			Non-working PSUs			Total		
	2015	**2016**	**2017**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8 (Col2+5)**	**9 (Col 3+6)**	**10 (Col 4+7)**
Govt. Companies (exclusive AP)	15	49	57	0	0	0	15	49	57
Govt. Companies under demerger	30	05	04	22	22	22	52	27	26
Statutory Corporations under demerger	03	03	03	0	0	0	03	03	03
Total	**48**	**57**	**64**	**22**	**22**	**22**	**70**	**79**	**86**

Note: PSUs coming under Andhra Pradesh State are referred in this Report as exclusive AndhraPradesh PSUs; PSUs having interstate operations are referred in CAG Report as PSUs under demerger; Non-working Companies given above are also yet to be bifurcated and assets andliabilities are yet to be bifurcated between the two States.

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings, Government of AP (Various years)

As on 31 March 2015, there were 70 PSUs, falling under audit preview. Out of these, 15 working PSUs pertain exclusively to Andhra Pradesh and 33 PSUs (30 Govt. Companies under demerger and 3 are Statutory Corporations under demerger) are under demerger and remaining 22 are non-working PSUs[1] (yet to be bifurcated).

Out of the 48 working PSUs in 2015, around 31 percent were government companies which are exclusive to AP, government companies under demerger constituted nearly 63 percent while statutory corporations under demerger are around 6 percent. In 2017, the percentage of government companies exclusive to AP stood at 89 percent, while there is a steep decline in the percentage of government companies under demerger. This may be because of the reason that of the total 33 PSUs (with interstate operations, which were to be demerged) 28 PSUs2 were functionally bifurcated. However, the transfer of assets and liabilities of these demerged PSUs is yet to be finalized. With this, working PSUs which were 48 in 2015 has increased to 64 in 2017. The macro view of all types of PSUs shows that there were 70 PSUs in 2015, 79 in 2016 and 86 in 2018 (table 7.1).

[1]Out of these non-working PSUs, 10 were reported in the process of liquidation since decades. The official liquidator was appointed in respect of these companies as far back as 11 to 27 years. Audit enquired (May 2017 and August 2017) their status from the Public Enterprises Department of the State Government. The reply was awaited (December 2017). The process of voluntary winding up under the Companies Act is much faster and needs to be adopted/ pursued vigorously. The Government may like to consider winding-up of remaining non-working companies, where no decision about their continuation or otherwise had been taken after they became non-working.(see Government of Andhra Pradesh (2018): Report of the Comptroller and Auditor General of India on Public Sector Undertakings for the year ended March 2017, Report No.3 of 2018).

During the year 2014-15, three PSUs viz. Andhra Pradesh Solar Power Corporation Private Limited, Andhra Pradesh State Skill Development Corporation and Andhra Pradesh Mahila Sadhikara Samstha were incorporated. Five companies[2] were newly incorporated during the year 2016-17. Four companies[3] incorporated in 2015-16 but incorporation details were received after finalisation of Audit Report 2015-16.

On the other hand, in all the three years, there is no change in the status of Statutory Corporations under demerger and non-working PSUs.

7.3. 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 financial involvement through equity investments, loan provisions, grants, subsidies and as guarantor of enterprise borrowing.

The State Government has a significant financial stake in these PSUs in the form of **Share Capital and Loans, Special Financial Support and Guarantees**.

- **Share Capital and Loans**- In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees-** State Government also guarantees the repayment of loans with interest availed of by the PSUs from Financial Institutions.

Table 7.2: Investment Pattern- (as on 31 March, 2017) (Rs. Crores)

	Government Companies			Statutory Corporations			Grand Total
Type of PSUs	**Capital**	**Long Term Loans***	**Total**	**Capital**	**Long Term Loans***	**Total**	
60 (57+3) Working PSUs	6,068.50	49,229.64	55,298.14	337.08	5,244.43	5,581.51	**60,879.65**
4 Companies under demerger-(Working)	36.64	169.83	206.47	NA	NA	NA	**206.47**
22 Companies under Demerger (Nonworking)	74.66	184.53	259.19	NA	NA	NA	**259.19**
Total	**6,179.80**	**49,584.00**	**55,763.80**	**337.08**	**5,244.43**	**5,581.51**	**61,345.31**
	As % Of Grand Total						
60 (57+3) Working PSUs	**9.89**	**80.25**	**90.14**	**0.55**	**8.55**	**9.10**	**99.24**
4 Companies under demerger-(Working)	**0.06**	**0.28**	**0.34**				**0.34**
22 Companies under Demerger (Nonworking)	**0.12**	**0.30**	**0.42**				**0.42**
Total	**10.07**	**80.83**	**90.90**	**0.55**	**8.55**	**9.10**	**100.00**

[2] Andhra Pradesh Centre for Financial System & Services, Andhra Pradesh Medtech Zone Limited, Andhra Pradesh Township & Infrastructure Development Corporation Limited, AP Towers Limited, and Godavari Gas Private Limited.

[3] Amaravati Development Corporation Limited, Greater Visakhapatnam Smart City Corporation Limited, Andhra Pradesh State Kapu Welfare & Development Corporation Limited and Andhra Pradesh Brahmin Welfare Corporation Limited.

Out of the total investments in public enterprises (PEs), 99 percent is in working PSUs that are exclusive to state and also formed due to demerger and the remaining 0.8 percent is in companies which are under demerger (Table 7.2).This total investment consisted of 9.89 *per cent* in capital and 80.25 *per cent* in long-term loans.Total Investment (Capital and Long-term loans) in Exclusive Andhra Pradesh PSUs was Rs. 18,069.99 croresin 2014-15 and increased to Rs.27,796.52 crores in 2015-16 and to Rs.27,266.98 crores in 2016-17* **Table 7.2a)**.

Table 7.2a: Total Investment in PSUs (Exclusive Andhra Pradesh PSUs) (Rs. Crore)

2014-15	18,069.99
2015-16	27,796.52
2016-17	27,266.98

- Sector wise investment shows that while the investment to power and infrastructure sectors registered an increase in 2016-17 as compared to 2015-16, the other sectors like manufacturing, finance, services, agriculture and allied and miscellaneous sectors registered a decline in investment with the decline being highest for the services sector (36%) during the same period(Table 7.3).

Table 7.3: Sector-wise investment in PSUs (Rs. Crore)

	Government Investment		
Name of Sector	**2004-15**	**2015-16**	**2016-17**
Power	34,884.89	30,535.97	41,736.79
Manufacturing	407.09	339.72	268.92
Finance	8,390.35	4,782.54	4,556.84
Miscellaneous	8.2	13.96	12.18
Services	2,571.14	5,331.46	3,408.32
Infrastructure	13,890.65	590.67	10,894.61
Agriculture & Allied	556.45	528.79	467.65
Total	**60,708.77**	**42,123.11**	**61,345.31**
Composition (%)			
Power	57.46	72.49	68.04
Manufacturing	0.67	0.81	0.44
Finance	13.82	11.35	7.43
Miscellaneous	0.01	0.03	0.02
Services	4.24	12.66	5.56
Infrastructure	22.88	1.40	17.76
Agriculture & Allied	0.92	1.26	0.76
Total	**100.00**	**100.00**	**100.00**

- Increase in power sector loans is the result of the loans raised by the Southern Power Distribution Company of Andhra Pradesh Limited Company and Andhra Pradesh Power Development Company Limited.
- Formation of new infrastructure company along with loans raised by other infrastructure companies led to increase in investment in the infrastructure sector

Budgetary Support (2015-2017)

- With respect to 32 PSUs which are exclusive to Andhra Pradesh, the budgetary support increased significantly in 2015-16 and then showed a marginal decline by Rs 5 crores in 2016-17 as compared to the previous year(**Table 7.4)**

Table 7.4: Budgetary outgo (Equity, Loans and Grants/Subsidies) (32 PSUs exclusive to Andhra Pradesh)

	(Rs. in crore)
2014-15	**2,266.89**
2015-16	**3,596.53**
2016-17	**3,591.36**

7.4. Performance of Public Sector Enterprises

Working Results (2015-2017)

Table 7.5: Turnover of PSUs

	2015-16			**2016-17**		
	Working PSUs		**PSUs under demerger**	**Working PSUs**		**PSUs under demerger**
Particulars	**PSUs exclusive to State**	**Formed due to demerger**		**PSUs exclusive to State**	**Formed due to demerger**	
Turnover	20659	34281	47.60	25358	36590	24

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings, Government of AP (Various years)

- The turnover is highest in the **exclusive State**PSUs in 2016-17 as compared to 2015-16.
- Turnover of PSUs formed due to demerger increased during 2016-17 compared to 2015-16 while that of PSUs under demerger is almost halved.
- Out of the 64 working PSUs, fifteen working PSUs reported a profit of Rs 1164 crores and 20 PSUs incurred a loss of Rs 3240.49 crores after the finalisation of accounts

Table 7.6: Return on Capital Employed (Rs. in crore)

	2015-16			**2016-17**		
	Working PSUs		**PSUs under demerger**	**Working PSUs**		**PSUs under demerger**
Particulars	**PSUs exclusive to State**	**Formed due to demerger**		**PSUs exclusive to State**	**Formed due to demerger**	
Return on capital employed	(-)14.41	13.07	3.94	0.17	7.07	11.03

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings, Government of AP (Various years)

Return on capital for those PSUs exclusive to State and PSUs under demerger accounted for an increase in 2016-17 over 2015-16. On the other hand, return on capital for the PSUs formed due to demerger registered a decline in 2016-17 as compared to 2015-16

Reserves and Net worth (30 September, 2017)

- Paid up capital of PSUs stood were to the tune of Rs 6096 crores, while the accumulated losses are Rs. 24044 crores. Out of the 64 PSUs, in case of 9 PSUs, net worth declined and the accumulated loss of these 9 PSUs was around Rs 25368 crores, while the paid up capital is to the tune of Rs. 626 crores. The erosion of net worth is the highest in two PSUs (Rs 21358 crores), out of the 9 PSUs. The two PSUs are Andhra Pradesh State Housing Corporation Limited and Southern Power Distribution Company of Andhra Pradesh Limited

Size of Manpower

- As on 30 September, 2017, in case of PSUs exclusive to state, nearly 96 percent of employment comes from power sector, 1.4 percent comes from services, 1.2 from manufacturing sector and less than one percent employment from infrastructure. Within the power sector, Southern Power Distribution of Company of Andhra Pradesh contributes the highest to employment (68%), followed by Eastern Power Distribution Company of Andhra Pradesh Limited (32%)
- With regard to PSUs under demerger, highest percentage of employment comes from working companies (around 95%) while that of the contribution made by non-working companies is less. Within the working companies, Infrastructure Corporation of Andhra Pradesh Limited provides nearly 81 percent of employment
- For PSUs formed due to demerger, out of the total employment excluding corporations, major contribution came from power sector (69%) followed by infrastructure (15%). Andhra Pradesh Power Generation Corporation Limited is the highest provider of employment (72%) within the power sector

Profitability, Turnover, Capital Employed of Public Enterprises

- Highest contribution to profit came from PSUs such as Andhra Pradesh Power Generation Corporation Limited, Andhra Pradesh Mineral Development Corporation Limited and Transmission Corporation of Andhra Pradesh Limited (Rs. 1001 crores)
- PSUs that earned substantial losses are Southern Power Distribution Company of Andhra Pradesh Limited, Andhra Pradesh State Housing Corporation Limited, Eastern Power Distribution Company of Andhra Pradesh Limited (Rs. 3175 crores)
- For PSUs exclusive to State and for PSUs formed due to demerger, turnover is highest for the power sector. In PSUs exclusive to State, out of the total power sector turnover of Rs. 25191 crores, Rs 12731 crores comes from Southern Power Distribution Company of Andhra Pradesh Limited. In case of PSUs formed due to

demerger, out of the total turnover of Rs. 13805 crores, Rs. 12910 crores is from Andhra Pradesh Power Generation Corporation Limited

- Same stands true for the capital employed also. In case of PSUs exclusive to State, Southern Power Distribution Company of Andhra Pradesh Limited capital employed is Rs. 3784 crores out of the total capital employed (Rs. 19987 crores) of power sector. Similarly, in case of PSUs formed due to demerger, out of the total capital employed of the power sector which is to the tune of Rs. 26883 crores, Rs 22961 crores is by Andhra Pradesh Power Generation Corporation Limited

Table7.7: Return on Equity and Debt

Particulars	2015-16			2016-17		
	Working PSUs		PSUs under demerger	Working PSUs		PSUs under demerger
	PSUs exclusive to State	Formed due to demerger		PSUs exclusive to State	Formed due to demerger	
Return on Equity (percent)	(-) 50.8	(-) 3.8	(-) 29.0	(-) 152.5	(-) 7.5	(-) 37.3
Debt (Rs.crore)	20655	34281	47.6	25358	36590	23.9
Debt/Turnover ratio	0.98	0.96	1.2	0.87	1.3	0.004
Interest Payments (Rs.crore)	2117	6210	6.9	2389	4702	16.00

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings, Government of AP (Various years)

Debt turnover ratio decreased from around one percent in 2015-16 to 0.8 percent in 2016-17 in those PSUs which are exclusive to state. There is an increase in interest payments by nearly a little more than Rs 200 crores in 2016-17 as compared to 2015-16. Same holds good for return on equity too.

Table7.8: Paid up capital and outstanding loans (Up to 2017) (Rs. crore)

	Working PSUs		PSUs under demerger
	exclusive State PSUs	Formed due to demerger	
Paid up capital	2753	111	2891
Outstanding loans	22184	185	42186
Accumulated profit (+)/loss (-)	(-) 17133	(-) 406	(-)3681

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings, Government of AP (Various years)

Paid up capital and outstanding loans is the highest for the PSUs under demerger as compared to PSUs exclusive to state and the PSUs formed due to demerger. Paid up capital of PSUs under demerger is high by around Rs 150 crores compared to PSUs exclusive to state. Outstanding loans are almost twice for the PSUs under demerger as compared to PSUs exclusive to state. But the losses accrued to the PSUs exclusive to state are more than five times that of the PSUs under demerger.

7.5. Power Sector

Power sector is a significant infrastructure component required for the influential functioning of the economy. The availability of reliable, quality and affordable power helps in the sectoral and overall economic development of the state.

Due to legacy issues, DISCOMs are trapped in a vicious cycle with operational losses being funded by debt. State Power Distribution companies (DISCOMs) in the country have huge accumulated losses and outstanding debt. Financially stressed DISCOMs are not able to supply adequate power at affordable rates, which hampers quality of life and overall economic growth and development. Efforts towards 100% village electrification, 24X7 power supply and clean energy cannot be achieved without performing DISCOMs. Power outages also adversely affect national priorities like "Make in India" and "Digital India. In addition, default on bank loans by financially stressed DISCOMS has the potential to seriously impact the banking sector and the economy at large.[4]

APDISCOMS have one of the lowest loss levels in the country and the AT&C losses have been following a steady downward trend. MoP, GoI has set an ambitious loss reduction trajectory. APDISCOMS have to pay around Rs. 2,808 Crs.in the form of long term loans (50% of Short term loans converted to Long term loans) over the period of 5 years. The financial health of the APDISCOMS depends significantly on the ways it can bridge the deficit/losses of past period as well as the gap between Average Cost of Supply (ACS) and Average Revenue Realized (ARR) over the next 5 years. The ACS-ARR gap will be reduced by efficiency improvement of AP utilities, AT&C loss reduction, subsidy support from government and central financial assistance towards capital expenditure by AP utilities and other measures.[5]

The Union Cabinet given its approval to a new scheme moved by the Ministry of Power - Ujwal DISCOM Assurance Yojna or UDAY. UDAY provides for the financial turnaround and revival of Power Distribution companies (DISCOMs)[6],

UDAY" scheme in Andhra Pradesh[7]

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[4] recindia.nic.in,downloaded on 14/06/2018.

[5]Power for All - A Joint Initiative of Government of India and Government of Andhra Pradesh, downloaded on 14/06/2018.

[6]PIB, Government of India. Cabinet, 05-November-2015

[7] Government of India (2016): Andhra Pradesh joins "UDAY" scheme ; would derive an overall net benefit of Rs 4400 crore through "UDAY", Press Information Bureau, Ministry of Power, 24-June-2016

The Government of India, the State of Andhra Pradesh and the DISCOMs of Andhra Pradesh Southern Power Distribution Company of A.P. Ltd and Eastern Power Distribution Company of Andhra Pradesh Limited (APSPDCL and APEPDCL) signed a Memorandum of Understanding (MOU) under the Scheme UDAY – "Ujwal DISCOM Assurance Yojana" for financial turnaround of the DISCOMs.

Ujwal Discom Assurance Yojana(UDAY)Scheme:

The Government of India has launched the Ujwal Discom Assurance Yojana(UDAY)for financial turnaround of Power Discoms under article 293(3) of the Constitution of India by taking over the Debt (75%) in a phased manner during the financial years 2015-16 and 2016-17.

The Government of Andhra Pradesh issued a G.O 243 dated 19/12/2016 to avail the scheme to the tune of Rs. 8256.01crore in the year 2016-17. The expenditure for taking over the liability by the state Government was booked under MH 28019 Power-05 Transmission and Distribution duly crediting MH 6003-00-106-07. Taking over of DISCOMS liability under UDAY scheme.

The State of Andhra Pradesh has committed to take over DISCOMs' debt of Rs.11000 cr. during the current year, which would reduce the interest burden of the State by Rs.330 crore per annum.

Andhra Pradesh has emerged as the best performer under the Central government's Ujwal Discom Assurance Yojana (UDAY), meant to improve the financials of state-run electricity distribution entities. Thanks to its robust power supply monitoring mechanism, the state discoms' aggregate technical and commercial (AT&C) losses are now lower than the FY18 target set under UDAY.

The state's AT&C loss currently stands at 7.9%, way lower than the average 23.9% for the major states under the UDAY scheme. Andhra Pradesh's AT&C loss was 13.6% at the end of FY16. As per the UDAY memorandum of understanding, the state's AT&C loss should be 8.9% by FY18-end.

Disciplined AT&C loss reduction is a critical feature in improving the financial conditions of the discoms. The outstanding debt level of Andhra Pradesh discoms reached Rs 15,690 crore at the end of FY16

7.7 Power Sector – Details of AT&C and T&D losses over a period of time

Table 7.9: Performance on AT&C Loss Reduction

(from states which have submitted data) **Progress till Q3 of FY 2016-17**

State	Unit	Base year Data (31.03.2016)	Nine Months Target	Achievement
Andhra Pradesh	(In %)	9.28	9.28	12.59

Denotes that decrease in AT&C loss achieved compared to both Base Year & 9 Months targets

Source: **Information furnished by the Corporation**

The state has performed better in reducing AT&C Losses (Table-7.11)

Through compulsory Distribution Transformer metering, consumer indexing & GIS mapping of losses, upgrade/change transformers, meters etc., smart metering of high-end consumers, feeder audit etc. AT&C losses and transmission losses would be brought down, besides eliminating the gap between cost of supply of power and realisation. The reduction in AT&C losses of APEPDCL to 5.44% and that of APSPDCL to 10.89% and transmission losses of the State to 3.50% is likely to bring additional revenue of around Rs.214 crore during the period of turnaround.

While efforts will be made by the State Government and the DISCOMs to improve the operational efficiency of the DISCOM, and thereby reduce the cost of supply of power, the Central government would also provide incentives to the DISCOMs and the State Government for improving Power infrastructure in the State and for further lowering the cost of power. The Central schemes such as DDUGJY, IPDS, Power Sector Development Fund or such other schemes of MOP and MNRE are already providing funds for improving Power Infrastructure in the State and additional/priority funding would be considered under these schemes, if the State/DISCOMs meet the operational milestones outlined in the scheme. The State shall also be supported through additional coal at notified prices and in case of availability, through higher capacity utilization, low cost power from NTPC and other CPSUs. Other benefits such as coal swapping, coal rationalization, correction in coal grade slippage, availability of 100% washed coal would help the state to further reduce the cost of Power. The State would gain around Rs.2199 crore due to these coal reforms.

Demand Side interventions in UDAY such as usage of energy-efficient LED bulbs, agricultural pumps, fans & air-conditioners and efficient industrial equipment through PAT (Perform, Achieve, Trade) would help in reducing peak load, flatten load curve and thus help in reducing energy consumption in the State of Andhra Pradesh. The gain is expected to be around Rs.882 crore.

Improvement in operation efficiency would enable the DISCOMs to borrow at cheaper rates in future, for their infrastructure development and improvement of existing infrastructure.

An overall net benefit of approximately Rs.4400 crore would accrue to the State by opting to participate in UDAY, by way of cheaper funds, reduction in AT&C and transmission losses, interventions in energy efficiency, coal reforms etc. during the period of turnaround.

The ultimate benefit of signing the MOU would go to the people of Andhra Pradesh. Reduced levels of transmission and AT&C losses would mean lesser cost per unit of electricity to consumers. Further, financially and operationally healthy DISCOMs would be in a position to supply more power. Higher demand for power would mean higher PLF of Generating units and therefore, lesser cost per unit of electricity which would again mean lesser cost per unit of electricity to the consumers.

There are, however, some areas of concern regarding the impact of UDAY on state finances over the medium term. Although the effect may not be instantaneous, state finances may come under stress in the coming years on account of burgeoning liabilities due to takeover of 75 per cent of the existing debt of Discoms. This would considerably reduce the fiscal space of states which might lead to curtailment of capital expenditure with an adverse impact on growth. Furthermore, the interest burden of states would inflate with immediate effect, destabilizing fiscal outcomes and resulting in a deviation from the fiscal consolidation path as well as the targets set by the FC-XIV. With UDAY coming into operation, "it is unlikely that states will be able to shrink their deficits, which puts pressure on the Centre to adjust more"[8].

7.6 Andhra Pradesh State Road Transport Corporation

This section is an extract from the report of CAG on PSUs for the year ended March 2017.

Non-Operating Revenue in Andhra Pradesh State Road Transport Corporation

Introduction

The Andhra Pradesh State Road Transport Corporation (Corporation) is a Statutory Corporation established under The Road Transport Corporations Act, 1950. The Corporation had maintained separate records from 3 June 2015 after bifurcation of State. It is under the administrative control of Transport, Roads and Buildings Department of Government of Andhra Pradesh (GoAP).

It provides transportation services to commuters within and outside the State through 11,799 buses held as of 31 March 2017. The Corporation also has non-operating revenue, which mainly includes:

[8] Reserve Bank of India State Finances : A Study of Budgets of 2015-16 April 2016

- ***Rent***: From leasing out of stalls, shops, canteens, open spaces etc, in the bus stations;
- ***Adver tisements***: By sale of advertising rights for advertisements in the premises of bus stations, on/in buses;
- ***Others:*** By sale of scrap (vehicles and materials), interest on bank deposits, dividends, interest on advances to employees.

The non-operating revenue accounted for 3.28 *per cent* during 2016-17 and the average for last three years worked out to 2.84 *per cent* of the total revenue. Non-operating Revenue (NOR) showed a growth of 64.76 *per cent* over the three years 2014-17.

Organisational set up

The Management of the Corporation is vested with Board of Directors (Board) headed by a Vice-Chairman & Managing Director.

Methodology and sampling

Audit was conducted from 31 March 2017 to 31 May 2017. The objective was to seek an assurance that the policies and practices for maximizing the non-operating revenue from rent and advertisement were effective. The Corporation had 12 Regional Offices, out of which records at five Regional Offices and Head Office were reviewed.

Audit Findings

The deficiencies noticed in audit are as under:

Irregular allotment of stall in Krishna Region

As per the instructions issued (July 2012) by the Corporation, the tender committee should assess the prevailing market price before inviting tenders.

The Corporation allotted (August 2015) on nomination basis an open space admeasuring 4,356 sqft. in Pandit Nehru Bus Station (PNBS), Vijayawada, to an entrepreneur on lease for setting up of two mini digital theatres. The space was allotted at a license fee of Rs. 3,53,185 (@ Rs. 81.08 per sqft.) per month for a period of five years. The entrepreneur had requested (December 2015) for allotment of an additional space of 3,773sqft. in the same premises for setting up of food court and installing generator, bore etc. The Corporation had allotted the additional space at the same rate of license fee for a period of 15 years.

The Corporation had allotted (March and July 2014) another two open spaces for running bakery in the same premises through open tenders @Rs 246 and Rs 253/per sqft., which were much higher than that of allotment on nomination basis.

Thus, the allotment on nomination basis led to loss of revenue of Rs. 0.91 crore (upto September 2017) in respect of additional space of 2,640 sqft. allotted for use in food court. The Corporation had also to suffer loss of revenue for the remaining agreement period.

Government replied (October 2017) that for lesser areas of occupation, license fee will be more whereas for larger area the license fee will be less.

Reply of Government was not acceptable as the Corporation had not analysed the prevailing market rates as instructed in July 2012. However, the stall was allotted on nomination basis without inviting the tenders.

Cancellation of stalls at Tirupathi Bus Depot

With a view to developing an 'Elegant Corporate Structure' at Tirupathi Bus Depot, Corporation terminated (November/ December 2016) the agreements with licensees of eight allotted stalls in the Depot. Subsequently, Corporation re-allotted (October 2016) a total space of 32,280 sqft including the space of these eight stalls, to a new licensee for 25 years on nomination basis. The license fee fixed was Rs. 8.15 lakh per month. The Corporation, again cancelled this allotment (March 2017) within a short span of five months.

Audit observed that the Corporation had terminated the agreements without any firm planning for development of the depot. It cancelled the subsequent allotment also without any justification. Therefore, the eight stalls, which were already allotted, remained vacant from December 2016 to September 2017, due to premature termination of agreements and not taking up any developmental activity. Thus, due to lack of firm planning for development of the Depot caused loss of revenue of Rs. 22.65 lakh to the Corporation.

Government replied (October 2017) that the firm was awarded contract under Public Private Partnership for 25 years with an objective to realise more commercial revenues. It further, replied that subsequently the Corporation called for tenders for four shops and excluded the remaining four shops because they are obstructing the passenger entry to the Bus Station. Government's reply was not acceptable as the Corporation cancelled the existing licensees of eight stalls without having a proper plan in place for developing the area.

Non-recovery of dues from Build Operate and Transfer agencies

The Corporation had awarded contracts to two agencies for development of vacant lands at two locations under Build Operate and Transfer basis for a period of 33 years. However, the lease deed in respect of both the agencies was not registered with the concerned Government Authority. As per terms and conditions of the agreements, the agencies had to pay annual premium fee from the date of agreement and additional development premium (after three years from the date of agreement). In case of delay in payment, penalty @ 18 *per cent* per annum would be collected from the agencies.

Scrutiny of the details of amounts to be collected from the agencies revealed that an amount of Rs. 2.67 crore was outstanding from the agencies as on March 2017. The details are in Table No.7.9:

Table 7.10: Statement showing details of amounts collected from agencies

Sl.No	Agency	Dues Outstanding as on March 2017 (Rs)	Security Deposit collected from the agency(Rs.)	Dues outstanding over and above Security Deposit(Rs.)
1	**Agency -1**	**16237.190**	**1725000**	**9112190**
2	**Agency-2**	**10426.086**	**2001000**	**8425086**
Total		**26663276**	**9126000**	**17537276**

Source: Information furnished by the Corporation

Audit observed that Corporation accepted part payments from the agency on several occasions though the terms of agreement stipulated for payment of full license fee. Due to acceptance of part payments, the short payments accumulated to Rs.2.67 crore as on March 2017. Audit further observed that though Corporation issued termination notices to the agencies, it would not able to proceed legally to recover the dues due to non-registration of lease deeds.

Government replied (October 2017) that the action would be taken to terminate the contract of the Agency-II after forfeiting the SD and Bank Guarantee (BG). It further stated that for Agency-I, the Corporation had BG for Rs. 71.25 lakh. It also stated the Agency-II had had submitted the lease deed to concerned authority for registration.

Reply of Government was not acceptable as the Corporation was to collect the dues regularly but failed to do so. Further, it also had to get the lease deed registered by the agencies within four months of execution of agreement. The Corporation failed to get the lease deeds registered so far (October 2017). The Corporation had accepted part payments from the agencies, which resulted in accumulation of dues and interest of Rs 2.67 crore.

Non-collection of pro-rata license fee for the encroached area As per terms and conditions of the agreements entered into with the licensees in respect of stalls/open space allotted in bus stations, the licensees were to be levied a penalty of Rs. 1,000 for any breach of condition in the agreement. Test check revealed that the 74 licensees had encroached upon open space, measuring a total of 15,000 sqft. The encroachment was in excess of the area allotted. Corporation had collected an amount of Rs. 0.61 lakh from the licensees towards encroached area. In 49 cases, Corporation collected penalty of Rs. 1,000 from each licensee, in 2 cases proportionate license fee was levied and in remaining 23 cases no penalty was collected for the encroached area.

Audit observed that the agreements with the licensees had penal clause of Rs. 1,000 for each encroachment instead of collecting pro-rata license fee for the encroached area. The license fees for the encroachment works out to Rs. 2.15 crore on pro-rata basis for the period April 2013 to February 2015 whereas the penalty Rs. 0.61 lakh only was levied during the period. This had resulted in loss of revenue of Rs. 2.15 crore.

Government accepted the audit observation and replied (October 2017) that action would be taken to incorporate a suitable clause in the agreements for charging license fee on pro-rata basis for area encroached by the licensee.

Non-recovery of Service Tax from the licensees

Rental income from immovable property was taxable under Section 66B of Finance Act, 1994 as per the Government of India Notification No.30/2012 dated 20 June 2012 of Service Tax. However, after a delay of 21 months, the Corporation issued a 'circular' (April 2014) for mandatory collection of 'Service Tax' on the license fee, in respect of the agreements entered after April 2014.

Further, in respect of agreements entered before April 2014, the Corporation had considered the license fee received as inclusive of Service Tax. However, as per the agreements, the license fee was exclusive of taxes and the licensee had to pay all applicable taxes.

Audit observed that the circular (April 2014) for collection of Service Tax was issued two years later from issue of Notification (No.30, dated 20 June 2012) by the Government of India. Thus, the Corporation could not collect ST in respect of the licensees with whom Corporation entered into agreements between June 2012 and April 2014. The reasons for delay in issuance of circular were not available.

Thus the Corporation had to pay ST of Rs. 9.83 crore out of its own resources. The Corporation had paid of Rs. 7.46 crore to the tax authorities as of date (March 2017) and balance Rs. 2.37 crore was yet to be paid. Thus the payment of taxes out of its own resources was loss to the Corporation and undue benefit to the licensees.

Government replied (October 2017) that in all the existing contracts entered prior to the issuance of circular, ST clause was not included in the respective agreements and it would not be ethical on the part of the Corporation to levy ST on these contracts. It further stated the burden of ST was borne by the Corporation duly reducing the license fee.

The reply was not acceptable, as the license fee was exclusive of taxes and thus it was mandatory to pay Service Tax as per the Finance Act, 2012.

Non-allotment of advertisement rights

As per instructions issued by the Corporation, tenders were to be invited within three months before expiry of the existing agreements. In case the tenders were not invited for any reason, the existing contracts were to continue till fresh contracts were awarded.

In three Regions , Corporation had awarded contracts to advertisement agencies for display of advertisements on three types of buses. The contracts expired in September 2016.

Audit observed that the Corporation had neither awarded fresh contracts even after lapse of six months nor extended the existing contract to ensure continuous flow of advertisement revenue. As a result, Corporation lost revenue of Rs. 77.26 lakh (September 2016 to March 2017). The details are in Table No. 7.10:

Table 7.11: Statement showing details of buses not awarded after lapse of Contract

Name of the Region	No.of Buses	date of expiry of the agreement	Period lapsed from date of expiry (upto March 2017)	License fee per month (in Rs.)	Loss of revenue (Rs. In lakhs)
Krishna	763	September 2016	6 Months	916	41.93
Guntur	730	September 2016	6 Months	503	22.03
West Godavari	398	September 2016	6 Months	557	13.30
		Total			77.26

Source: Information furnished by the Corporation.

The Government replied (October 2017) that Corporation had not allotted fresh tenders after expiry of the existing contracts as it approached Information & Public Relations Department (I&PRD), GoAP to obtain Government related advertisements directly.

The reply of the Government was not acceptable as Corporation neither initiated action to invite tenders nor extended the existing contracts to ensure continuous flow of revenue.

Irregular refund of license fee of advertisement contract for display of advertisements on hired buses

The Corporation entered into 12 agreements (between August 2013 and June 2014) with three licensees for display of advertisements in and outside buses hired by it. The terms of agreements with both the owners of hired buses and advertisement agencies provided the right to the Corporation to utilise the hired buses for advertisements.

The advertisement licensees paid monthly license fee in respect of both owned and hired buses against their respective advertisement contracts till April 2014. Subsequently, one advertisement licensee (which had 9 out of 12 agreements) had not paid the license fee in respect of hired buses allotted to it for displaying advertisements. The licensee requested (April 2014) the Corporation to exclude the hired buses from the purview of advertisement contract, as the owners of hired buses did not permit advertisements on their buses. The licensee also requested the Corporation to refund the license fee already paid in respect of these hired buses. Accordingly, the Corporation excluded (December 2015) the hired buses

retrospectively (March 2014) from the purview of advertisement contract. Subsequently, based on similar
requests from other two licensees, the Corporation excluded the hired buses from the purview of advertisement contracts retrospectively. The Corporation adjusted license fee of Rs. 0.79 crore, already paid by the above three licensees against the license fee payable in respect of display of advertisement on its own buses for the subsequent period till March 2017.

Audit observed that the Corporation had not enforced the terms of agreement to insist the advertisement agencies for display of advertisement on hired buses though the Corporation had already entered into agreements with hired bus owners, which included advertisement rights. Thus, withdrawing the hired buses from the purview of advertisement contract on the request of the advertisement agencies and refunding the license fee was contrary to the terms of agreements with advertisement agencies**. This resulted in loss of revenue of** Rs. **5.27 crore for the period upto September 2017 (including** Rs. **0.79 crore)**.

The Government replied (October 2017) that most of the hired buses were new and the owners were worried about the appearance of the buses after defacing of advertisements. It also stated that to solve the problem amicably without penalizing the parties, it had excluded the hire buses retrospectively and license fee already paid was refunded.

The reply of Government was not acceptable as the hired bus owners had agreed to allow the Corporation to display advertisements on their buses as per the terms and conditions of agreements. Thus, the withdrawal of advertisement rights was contrary to the agreement terms and conditions.

Non-recovery of license fee from the advertisement agencies As per Clause 8 of agreement, if the advertisement agency (licensee) fails to pay the monthly license fee for three consecutive months or fails to pay monthly instalment within stipulated period thrice during the course of a calendar year, the Corporation shall have the right to terminate the contract. Corporation entered (September 2011) into agreement with a licensee for ‘display of advertisements on the buses under Krishna Region. The period of agreement was for five years from September 2011 to September 2016.

Corporation terminated (14 September 2016) the agreement as the licensee was not regular in payment of license fee as per the agreement. The Corporation terminated the agreement in September 2016 just one day before the normal expiry date of the agreement. The accumulated dues of license fee as on date of termination of agreement were Rs. 138.04 lakh.

Audit observed that Corporation accepted part payments from the agency on several occasions though clause 7 of the agreement with advertisement agencies stipulated for payment of full monthly license fee. Due to acceptance of part payments, the short payments accumulated during the agreement period. Audit further observed that Corporation had not initiated any action for recovery of outstanding dues. These outstanding dues exceeded the Security Deposit in June 2015. Corporation had forfeited Security Deposit of Rs. 47.33 lakh against the dues of Rs.138.04 lakh. Thus, Corporation had suffered a loss of Rs. 90.71 lakh due to non-pursuance of dues.

Government replied (October 2017) that a Civil Suit was filed (March 2017) to recover the outstanding license fee. Reply was not acceptable as the Corporation failed to recover the dues as per agreement.

In short, there is a loss to APSRTC. The overall loss is given below.

	Penalties to be collected(Rs)	**Penalties collected(Rs)**	**Penalties not collected(Rs)**
Grand Total	**21550824**	**60694**	**21490130**

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings for the year ended March 2017

Conclusion

The Corporation had not followed open tender and allotted open spaces at lower rates than the prevailing market rates. The Corporation allowed accumulation of license fees, lease premium over and above the available Security Deposit resulting non-safeguarding of its financial interest. The agreement with the licensee in respect of shops/open spaces did not include stipulation for collection of pro-rata license fee in respect of the encroached area in addition to the allotted space. The Corporation did not collect the Service Tax from the licensees, though the agreements provided for collection of all taxes, resulting in liability on the Corporation. The Corporation did not enforce the terms and conditions of hired bus/ advertisement agreements and excluded and refunded the license fee in respect of advertisement contract, thereby losing an opportunity to revenue. 124124 M/s.Shubakurthi Ads. 125 Pallevelugu buses, Express buses, City buses of above two years old and all buses purchased under JNNURM.

7.8 Details of Accounts (PSUs) in arrears

This section is an extract from the report of CAG on PSUs for the year ended March 2017.

1. Functioning of State Public Sector Undertakings

Out of 4 working PSUs under demerger, as of 30 September 2017, 3 PSUs had submitted the accounts for atleast one of the reporting period since their inception. The remaining 1 PSU had not submitted even the first accounts since its inception. The 3 PSUs registered a turnover of Rs. 23.88 crore as per their latest finalised accounts as of 30 September 2017. These companies incurred a net loss of Rs. 12.34 crore as per their latest finalised accounts. The Return on Equity and Return on Investment of these working PSUs were (-) 37.31 *per cent* and 11.09 *per cent* respectively as per their latest finalized accounts. The number of loss making PSUs was showing an increasing trend. A review of five years' data showed that some PSUs have been continuously incurring heavy losses. Some PSUs had not finalizing their accounts.

As on 31 March 2017, there were 22 non-working companies existing for over 21 years and having an investment of Rs. 259.19 crore. This is a critical area, as the investments in non-working companies do not contribute to the economic growth of the State. All these non-working companies are under demerger.

7.9 Summary and suggestions

This chapter discuss es the losses incurred by the public sector undertakings such as RTC, and better performance in reducing AT&C losses. The impact of bifurcating on State Level Public Enterprises is in the form of either delay in the bifurcation – either in the initiation or in the process.

The state government alone is the major stakeholder in the SLPEs. 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 effective application of resources to gain enough returns and examine the commercial viability of State public enterprises.

As on 31 March 2015, there were 70 PSUs - 15 state exclusive working PSUs, 33 PSUs under demerger (30 Govt. Companies 3 Statutory Corporations under demerger) and 22 non-working PSUs (yet to be bifurcated). In 2017, the percentage of government companies exclusive to AP increased to 89 percent because 28 PSUs (with interstate operations, which were to be demerged) were functionally bifurcated. New PSUs emerged during 2014-17. No change in Statutory Corporations under demerger / non-working PSUs.

The State Government has a significant financial stake in PSUs in the form of Share Capital / Loans/ Guarantees. Out of the total investments 99 percent is in state exclusive working PSUs / also formed due to demerger. This total investment consisted of 9.89 *per cent* in capital and 80.25 *per cent* in long-term loans. Sector wise investment shows that while the investment to power and infrastructure sectors registered an increase in 2016-17 as compared to 2015-16, the other sectors registered a decline in investment with the decline being highest for the services sector.

Performance of Public Sector Enterprises shows that The turnover of exclusive **State** PSUs increased in 2016-17 over 2015-16. Turnover of PSUs formed due to demerger raised in 2016-17 over 2015-16. Of the 64 working PSUs, 15 PSUs reported a profit of Rs 1164 crores and 20 PSUs incurred a loss. Return on capital for State exclusive PSUs / PSUs under demerger showed an increase in 2016-17. On the other hand, return on capital for the PSUs formed due to demerger registered a decline during the same period.

Reserves and Net worth shows that Of the 64 PSUs, in case of 9 PSUs, net worth declined and the accumulated loss was around Rs 25368 crores, while the paid up capital is to the tune of Rs. 626 crores. The erosion of net worth is the highest in two PSUs.

Profitability, Turnover, shows that Highest contribution to profit came from PSUs such as APPGCL, APMDCL and APTransCo Limited. PSUs that earned substantial losses are SPDCAPL APSHCL EPDCAPL. For state exclusive PSUs and for PSUs formed due to demerger, turnover is highest for the power sector. Debt/ turnover less than 1 percent.

AP Power Distribution companies (DISCOMS) have one of the lowest loss levels in the country and the AT&C losses have been following a steady downward trend. The Government of India, the State of Andhra Pradesh and the DISCOMs of APSPDCL and APEPDCAPL signed a MOU under the Scheme UDAY – “Ujwal DISCOM Assurance Yojana” for financial turnaround of the DISCOMs. With UDAY coming into operation, areas of concern is critical state finances on account of growing liabilities due to takeover of 75 per cent of the existing debt of Discoms. “it is unlikely that states will be able to shrink their deficits, which puts pressure on the Centre to adjust more”.

Chapter 8
Fiscal Transfers to Local Bodies– Andhra Pradesh Experience

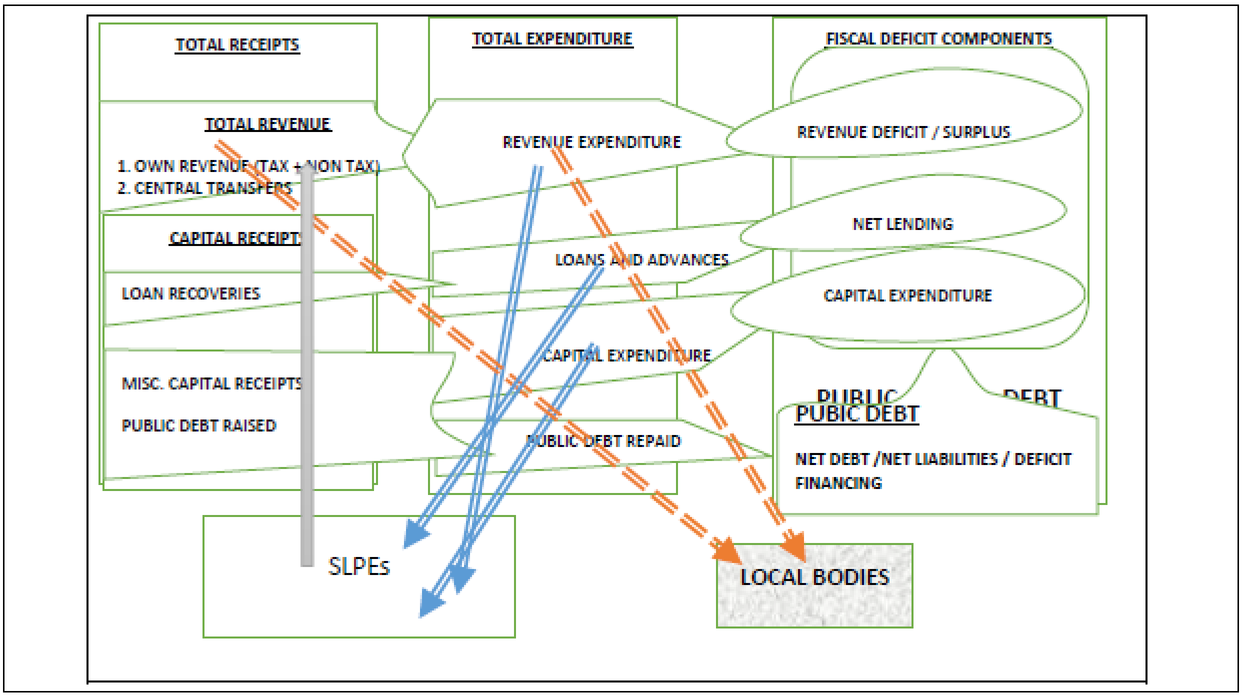
Summary of Findings

- A situational analysis of the status of PRIs in AP clearly indicates that AP is laggard state (see appendix) when compared to other South Indian States in terms of functional and financial devolution is concerned, as shown in the successive Devolution Index Reports and C&AG Reports.
- The story regarding constitution of SFCs and implementation of their recommendations tells us that successive governments in AP since 1995 have not implemented SFC recommendations in right earnest, except minor budgetary allocations.
- The picture regarding PESA, although appears little better in certain pockets, overall some more serious efforts are needed by the Government of AP to make Gram Sabha as the Central Institutions for taking all the important decisions regarding tribal development.
- There is also criticism levelled against the present government initiative of Smart Village and Small Ward Initiative that through Janmabhoomi Committees, this programme is being implemented by passing people's elected PRI institutions.
- Regarding ULBin AP, the proportion of non-tax revenue in the total Revenue of Municipal Corporations is relatively more than that of Municipalities implying that more efforts are to be made by municipalities to increase the non-tax revenue. This may also be due to the inclusion of Nagar Panchayats in Municipalities category whose non-tax revenue is meagre.
- 32 Urban Local Bodies is recognized as Amruth Cities besides the 3 Smart Cities. The Ministry of Urban Development, GoI have been giving conditional grants to these ULBs.
- It is pertinent to note the all the 32 Amrut ULBs were allow to use the 14th FC grants as matching contribution under Amrut Scheme. Such an arrangement will defeat that the finance commissions grants. Similarly, when additional resources are used for matching contribution only the objectives of Amrut Scheme will be realized. Therefore the future finance commission need to observe this aspect and make a suitable recommendation regarding the conditionalities of utilizing the grants awarded by it.
- Though the State government is appointing the State Finance Commissions respecting the Constitutional 73rd Amendment, it's attitude in not accepting all the recommendations of the State Finance Commission, not implementing all those recommendations that are accepted toto, is not giving the hint of progress towards the full-fledged fiscal decentralization.The reconstitution of Third SFC made the local bodies deprived of their Constitutional entitlement. This is repeated in the case of Fourth SFC which is the First SFC after state reorganization. However, Fourth SFC supposed to submit its final Report on or before 30th October 2019 covering a period of forthcoming five years commencing from 1April 2020

Chapter 8

Fiscal Transfers to Local Bodies – Andhra Pradesh Experience

Fig. 8.0: Roadmap - Fiscal Transfers to Local Bodies



8.1. 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. 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 ULBs56 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 chapter attempts to understand the status of fiscal transfers to local bodies in the State of Andhra Pradesh. This chapter is organized into three sections besides introduction and concluding sections. The section two discusses PRIs in AP (PRIs experience - decentralisation in last two and half decades w.r.t. financial, administrative and political decentralisation discussed in annexure

8.1 to this chapter). It covers Current Status of the PRIs, Taxation of Local Bodies (PRIs) in AP: Some Field Findings, The Smart Village – Smart Ward Initiative and the status of PESA (Panchayat Extention to Scheduled Areas). Section three focuses Finances of Urban Local Governments in Andhra Pradesh. Section four analyses status of local finances in Andhra Pradesh, in particular the constitution of State Finance Commission (SFCs) and their recommendations. The paper primarily based on secondary information besides some data on primary data is presented as well.

8.2. Finances of Panchayat Raj Institutions (PRIs) in Andhra Pradesh

PRIs experience - decentralisation in last two and half decades w.r.t. financial, administrative and political decentralisation is discussed in appendix to chapter 6, in this section, Current Status of the PRIs, Taxation of Local Bodies (PRIs) in AP: Some Field Findings, The Smart Village – Smart Ward Initiative and the status of PESA (Panchayat Extention to Scheduled Areas) in the state are discussed.

Current Status of the PRIs in AP

In the ensuing paragraphs the current status of PRIs interms of functional devolution and formation of various committees (Standing Committees and District Planning Committee) as well as financial status of PRIs in AP has been presented. The basic source of information for this section is drawn from the Report of the Comptroller and Auditor General of India (C&AG, Government of India) on Local Bodies for the year ended 31st March, 2016 submitted to Government of AP (Report No.1 of 2017).

Sources of funds:

Resource base of PRIs consists of own revenue generated by collection of tax[1] and non-tax[2] revenues, devolution at the instance of State and Central Finance Commissions, Central and State Government grants for maintenance and development purposes and other receipts[3]. The authorities responsible for reporting the use of funds in respect of Zilla Praja Parishads (ZPPs), Mandal Praja Parishads (MPPs) and Gram Panchayats (GPs) are the Chief Executive Officers (CEOs), Mandal Parishad Development Officers (MPDOs) and Panchayat Secretaries, respectively.

Summary of receipts of PRIs for the years 2011-16 is given table 8.1. Receipts for the period 2011-14 pertain to the composite State of Andhra Pradesh whereas the receipts from 2014-16 pertain to the State of Andhra Pradesh.

[1] Property tax, advertisement fee, etc.
[2] Water tax, rents from markets, shops and other properties, auction proceeds etc.
[3] Donations interest on deposits etc.

Table:8.1: Summary of receipts of PRIs for the years 2011-16

(Rs. In crore)

Sl.No.	Receipts	2011-12	2012-13	2013-14	2014-15	2015-16$
1	**Own Revenue**	1,009.24	976.50	736.50	306.31*	18.88@
2	**Assigned Revenue** [4]	344.02	154.36	457.24	1,137.12#	343.76@
3	**State Government Grants**	1,185.85	343.97	350.59	136.78	103.48@@
4	**GoI Grants**	2,342.19	1,201.03	1,330.86	21.86	376.36@@
5	**Other Receipts**	331.68	84.18	Nil	NA**	320.44^
	Total	**5,212.98**	**2,760.04**	**2,875.19**	**1,602.07**	**1,162.92**

Source: *Commissioner, Panachayat Raj*

* Data pertain to 12 ZPPs, MPPs of 9 districts and GPs of 13 districts

\# Data pertain to 11 ZPPs, MPPs of 8 districts, and GPs of 13 districts

** Data not made available

$ Data pertain to 10 districts

@ Eight ZPPs, five MPPs and one GP

@@ Seven ZPPs, four MPPs and one GP

^ Six ZPPs, four MPPs and one GP

Financial assistance to PRIs:

Financial assistance is provided by State Government to PRIs by way of grants and loans. Details of the financial assistance provided by the Government to PRIs for the years 2011-14 pertaining to the composite State and for 2014-16 pertaining to the State of Andhra Pradesh, are given in table 8.2.

Table 8.2: financial assistance provided by the Government to PRIs

(Rs. In crore)

	2011-12	2012-13	2013-14	2014-15	2015-16
Budget	302.75	329.27	328.89	214.68	128.45
Actual Release	151.31	158.10	164.57	106.39	128.45
Expenditure	96.87	98.20	114.85	116.04	NA

Source: *Commissioner, Panchayat Raj*

NA Data not made available to audit

[4] Seignorage fee and surcharge on stamp duty collected by Departments of Mines and Geology and Stamps and Registration are apportioned to Local Bodies in the form of assigned revenue.

Application of Funds

Summary of expenditure incurred by PRIs for the years 2011-14 pertain to the composite state of Andhra Pradesh and 2014-16 pertain to the residuary state of Andhra Pradesh (**Table 8.3)**

Table 8.3: Summary of expenditure incurred by PRIs

(Rs. In crore)

Type of Expenditure	2011-12	2012-13	2013-14	2014-15	2015-16**
Revenue	2,968.66	1,405.50	3,562.39	1,021.72*	3,000.03
Capital	1,464.15	1,033.47	1,756.98	700.27#	448.72
Total	4,432.81	2,438.97	5,319.37	1,721.99	3,448.75

* Data pertain to only 12 ZPPs, MPPs of 9 districts and GPs of Krishna district

\# Data pertain to only 11 ZPPws, MPPs of 7 districts and GPs of Krishna district

** Data pertain to ten districts

Recommendations of the Central Finance Commission (CFC)

Thirteenth Finance Commission

Based on the recommendations of Thirteenth Finance Commission, GoI had released funds to ZPPs, MPPs and GPs. The grant was released under two components (basic component and performance based component). A portion of basic as well as performance grant was allocated to special areas[5]. Allocation and releases for the years 2010-14 pertained to the composite state of Andhra Pradesh and for the yeras 2014-15 pertained to the residuary state of Andhra Pradesh as given in **Table 8.4.**

Table 8.4: Thirteenth Finance Commission recommendations - released funds to ZPPs, MPPs and GPs

(Rs. In crore)

13th CFC	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Allocation	486.64	834.77	1,179.62	1,357.06	828.10	4,686.19
Releases	486.64	307.65	0	1,585.57	1,744.40	4,124.26

Source: *Ministry of Rural Development, GoI*

[5] Schedule areas listed under Schedule-V of Constitution

Tax and Revenue Structure:

The 73rd Amendment Act (1992) of the Indian Constitution created a uniform three-tier system of rural government at the district, block and village levels, and provides for transfer of responsibilities and tax powers from the state government to these rural bodies. The responsibilities include preparation and implementation of plans for economic development and social justice relating to an indicative list of 29 subjects given in Eleventh Schedule of the Constitution. Under Article 243-G, the Constitution has given authority to state governments to endow panchayats with necessary powers to carry out their functions. States are empowered under Article 243-H to authorize panchayats to levy, collect and appropriate taxes, duties, tolls and fees apart from giving them grants-in-aid from the Consolidated Fund of the State. Article 243-I provides for the constitution of a State Finance Commission (SFC) every five years to review the financial position of panchayats and to recommend ways of implementing the provisions of Article 243-H in order to improve the financial position of the panchayats.

Gram Panchayat funds consist of Own Source Revenues (OSR) which are divided into tax and non-tax revenues, revenues collected by the state and assigned to the panchayats, and grants (central and state grants). Own revenues (OSR) are divided into mandatory taxes, optional taxes and non-tax revenues (fees and fines). All panchayats are required to collect house tax, tax on advertisements and special taxes on houses (drainage, lighting, and water). Optional taxes that may be levied by panchayats are vehicle tax, tax on agricultural land and vacant land tax. Non-tax revenues (fees and fines) that may be levied are mainly license fees (trades & business), encroachment fees, layout fees, permission fees for buildings, monthly fees on tap connections, fines, fishery rentals and ferry rents. Andhra Pradesh has listed 46 possible sources of local revenue. (Vani, 2017 and Rama Rao, 2017) A list of possible revenue sources follows:

Major tax powers

- Land tax (agricultural and non-agricultural)
- House building tax
- Vehicle tax
- Water, drainage and sanitation taxes
- Pilgrim tax
- Tax on profession, trade, and callings
- Tax on fairs and other entertainments
- Tax on advertisement
- Octroi on animals or goods or both brought for sale
- Lump sum levy of factories in lieu of taxes
- Special tax for construction and public works

Fees and Charges levied for provision of public facilities

- Water rate
- Lighting fee
- Street cleaning fee
- Conservancy fee
- Drainage fee
- Sanitary fee for public latrines; and pilgrimage fee (sanitation tax/fee) Fees for use of commoner sources
- Fee for the use of panchayat shelter
- User charges for hospitals and schools
- Fee for use of common resources like grazing land etc.
- Fee on markets and weekly bazaars
- Fee on animals sold etc.

Source: Bohra (1998, 2002), Rajaraman (2001) and Jha (2014).

Revenues assigned by the state to panchayats include profession tax and entertainment tax and tax supplements or revenue sharing (surcharge on stamp duty, seigniorage fees and water cess.)

Panchayats receive grants from both central and state governments. These grants are divided into untied and tied. Untied grants are utilised for general purposes. These grants include a per capita grant, incentive grants for tax collection and incentive grants for unanimous elections. In addition, panchayats may receive grants in aid, for instance, salary grant, honorarium & TA to non-officials, per capita grant, BRGF, Central /State Finance Commission grants, engineering grants, (Rural Water Supply, Rural Sanitation, Roads & Bridges and School buildings, etc.).

The 73rd Amendments in 1992 left important matters such as implementation, service delivery (including local capacity building) and transfer of responsibilities and powers to rural local bodies at the discretion of the state legislatures. Consequently, while expenditure responsibilities of local bodies are extensively enhanced, there is no law to ensure a corresponding assignment of funds to match the additional responsibilities. The decisions as to which taxes, duties, tolls and fees should be assigned to local governments and which should be shared by the State are made by the state legislatures.

States are required to constitute a State Finance Commission (SFC) every five years to recommend financial support from the state and principles for determination of taxes, tolls and fees that could be assigned to or appropriated by the local bodies. At present, not much fiscal power is vested in the hand of the panchayats. Their finances are drawn largely from tax assignment, tax sharing and grants-in-aid from the state and the centre while the share of own tax and non-tax revenue is very small. A national evaluation of the sources of income available to panchayats shows that they differ substantially across states.

14th Finance Commission and the Grants to Local Bodies

Deepening Federalism: Increased flow of funds to local governments

The 14th FC has given due consideration to the fiscal federalism framework in India by devolving a larger amount to local governments. In doing this, the 14th FC has deepened the decentralisation process that was initiated by the 73rd and 74th[3] constitutional amendments. Although as per its mandate, the FC does not directly deal with local governments, it is required to recommend "the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the state, on the basis of the recommendations made by the Finance Commission of the State." (Terms of Reference of FFC).

Trust-based approach

The 14th FC recognises the need to trust and have respect for local bodies as institutions of local self-governments. This is in sharp contrast to the treatment often meted out by state governments to local bodies. In most states, local governments have limited administrative and fiscal powers. The lack of capacity of local governments is often cited by the state governments as a reason to further curtail their fiscal powers. In many states, local governments have limited responsibilities, and the decentralisation process envisaged in the 73rd and 74th constitutional amendments has largely remained on paper.

Performance-related grants

The 14th FC has continued with the 13th FC recommendation of making these grants available to local bodies in two parts – a basic grant and a performance grant, in a ratio of 90:10 for PRIs and 80:20 for ULBs. The basic grant is an unconditional grant, intended to be used by local bodies to deliver basic services. In the words of 14th FC, "the purpose of basic grants is to provide a measure of unconditional support to the gram panchayats and municipalities for delivering the basic functions assigned to them".

The Fourteenth Finance Commission recommended grants-in-aid to gram panchayats (not to the two higher levels of the system) in two parts, a basic grant (**Table 8.5)** which is 90% of the total, and a performance grant of 10%. The performance grants (**Table 8.6)** are released subject to the submission of audited annual reports, which must also show an increase in own revenues of local bodies. The allocation by the Fourteenth Finance Commission for 2015-16 to Andhra Pradesh is Rs. 934.34 crores, of which Rs. 928.41 has been released; The releases scheduled up to 2020 are:

Table 8.5: Fourteenth Finance Commission Recommended Allocations: Basic Grants (Rs. In crores)

	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Andhra Pradesh	934.34	1293.75	1494.81	1729.23	2336.56

Table 8.6: Fourteenth Finance Commission Recommended Allocations: Performance Grants (Rs. In crores)

	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Andhra Pradesh	-	167.70	192.04	218.09	285.52

These grants are not tied to explicit projects, but the state issues guidelines that must be followed: water supply, sanitation and solid waste management, storm water drainage, maintenance of community assets, and maintenance of roads, footpaths, burial and cremation grounds and street lighting. The list purposely does not include new roads, for the state government fears that panchayats would devote an excess of the resources to roads (Interview 2017) Indira Rajaraman (2017) of the Thirteenth Finance Commission has expressed concerns about the review requirements regarding the use of funds and audited reports. She observes that review requirements generally result in delays in the release of funds while previous expenditures are reviewed to certify they fit the guidelines.

Taxation of Local Bodies (PRIs) in AP: Some Field Findings[6]

The panchayat tax rates in Andhra Pradesh and Telangana were established by the panchayats after the 1992 act within a permissible range established by the state government. These rates rise 5% automatically each year. Once established, the panchayats are allowed to raise but not lower their rate; virtually none have done so because sarpanches fear jeopardizing reelection. (Vani, 20). The foundation of the tax structure is the house tax, which is a percentage of the assessed valuation of the house. Maximum rates for lighting and drainage are fixed percentages of the house tax, 5-10 percent and 10-15 percent, respectively. For water supply there is a minimum rate of 20% which may be revised from time to time.

After the division of erstwhile Andhra Pradesh into Telangana and Andhra Pradesh in 2014, there have not yet been many changes in rural administration and panchayati raj in either of the new states. The largest difference now is that Telangana has not yet constituted a new State Finance Commission so its villages are still receiving only the amounts established by the earlier one.

In both states there is now much more emphasis on panchayat tax collection than earlier. In AP the state government started two years ago informing panchayats and sarpanches of the large number of possible non-tax sources of revenue that had been neglected. Panchayats are being asked to raise more of their own revenue because the state has less to give them. (Vani, 2017).
Andhra Pradesh plans to raise tax rates by changing the mode of assessing house valuation for new construction, but have postponed this move until after the next election. The raise will be 21%.

<u>Tax</u> <u>Collection:</u>

State level data on panchayat tax collections are not reliable. This is due to the pressures on villages to report 100% collection in order to qualify for performance grants, which are available from the 10% of the 14th Finance Commission funds that are withheld to reward panchayats for tax collection. Therefore a large number of villages report 100% collection. The DCB data (demand/collection/balance) reported below are from the field (Krishna District when nearly 50 panchayats were covered for the data collection). The data has been collected from direct interviews and village documents collected from the panchayat secretaries.

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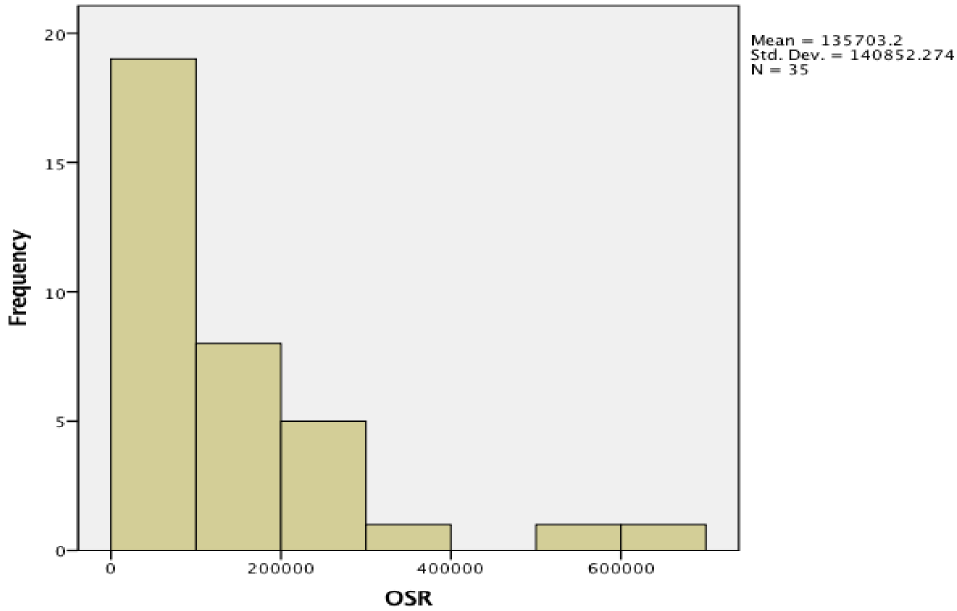
[6]Thissection is drawn from Dr. Carolyn Elliot study (with whom the author of this paper was associated with the study) on Taxation of Local Bodies in AP (Sponsored by NIRD&PR, Hyderabad).

The panchayats have multiple possible local sources of revenue, but utilize few. All panchayats levy taxes on houses and water connections. 60% reported taxing for fire protection and libraries, and 42% for electrical connections. Other non-tax sources of revenue include fisheries (13 panchayats), lake sand (4 panchayats) and shop licenses (13 panchayats.) The total amount of taxes and fees collected per village in the 2015-6 fiscal year ranges from Rs. 8260 to Rs. 612920, as shown below:



There is a large difference between tax collections in the more developed and less developed mandals (**Table 8.7)**.

Table 8.7: Taxes Collected

	More Developed	**Less developed**
Total OSR levied (Mean)		1,66,549
Total tax and fees collected (Rs.) (Mean)	3,16,045	81,523
% residents paid tax	94.4	37.7
Total reporting	23	26

More developed mandals collected taxes from 94% of their residents for a total of more than 3 lakhs/panchayat, while panchayats in the less developed mandals collected just Rs. 80,000/panchayat. in the more developed panchayats 82% of the households paid 80% of the tax levied. In the less developed panchayats 73% of the households paid less than 50% of the tax levied (**Table 8.8).**

Table 8.8: Percent of tax paid in last year

Type of mandal	Less than 50	50-80	Above 80	Total
More developed	0	4	19	23
	.0	17.4	82.6	100.0
Less developed	19	4	3	26
	73.1	15.4	11.5	100.0
Total	19	8	22	49
	38.8	16.3	44.9	100.0

Resident reports on tax levied per annum on their households show a mean of Rs. 327/year in the more developed mandals and 237/year in the less developed.

Table 8.9: tax levied per annum on their households (Mean Rs.)

	Mean Rs	**N**
More Developed	327	237
Less Developed	207.05	259
Total	264.37	496

Systems of Governance, Accountability and Transparency in the PRIs

As mentioned in the earlier part of the chapter that systems of accountability, transparency and governance enhance the credibility of the functioning of the PRIs which are discussed below. Table 6.10 brings forth the system of governance in place (indicators used shown below the table) indicates that the better performing states are Kerala, Sikkim, West Bengal, Assam and Himachal Pradesh. The poorer performing states are Jammu and Kashmir, Manipur, Arunachal Pradesh, Jharkhand, Andhra Pradesh and Uttar Pradesh.

Table 8.10 discusses the particulars of the accountability in the PRIs (indicators used are shown below the table) shows that the overall index of accountability is 66.27% in GPs, 62.39% in BPs and 69.11% in DPs and the overall percentage across the tiers of the PRIs stands at 65.92%. Once again, Kerala, Haryana, Madhya Pradesh, Himachal Pradesh and Maharashtra are at the top. The poorer performers are Jammu and Kashmir, Manipur, Arunachal Pradesh, Uttarakhand and Andhra Pradesh.

Table 8.10 Percentage – Systems for Accountability♦ by State across tiers of Panchayat

Sl No.	State	Gram Panchayat	Block Panchayat	District Panchayat	Overall
1	Andhra Pradesh	41.67	50.00	58.33	50.00
2	Karnataka	66.67	66.67	75.00	69.44
3	Kerala	100.00	100.00	100.00	100.00
4	Tamilnadu	100.00	75.00	50.00	75.00
5	Telangana	75.00	41.67	83.33	66.67

Source: Devolution Report, 2014-15, TISS and MoPR, 2015.

♦ The indicators taken into consideration under Accountability are i) number of panchayats Audited ii) number of panchayats with financial data base online and iii) number of panchayats with atleast one trained person to handle accounts.

The percentage systems of transparency (indicators used are shown below the table) shows that the overall coverage is 51.27% with which the figures for GPs, BPs and DPs respectively are 49.05%, 62.82% and 41.95% as can be seen from Table 8.10.

An Evaluation Report on the PEAIS (Panchayat Empowerment and Accountability Incentive Scheme) by the Centre for Rural Management in the five selected States of Chhattisgarh, Karnataka, Kerala, Punjab and Rajasthan reveals that the case studied and primary surveys done in these states reflected on the positive impact on the PEAIS award. The PEAIS award has made the Panchayati Raj Institutions more efficient and transparent in their functioning and has provided a momentum to the developmental activities of the Panchayats (Table 8.11). The justifies that the State Governments, its concerned departments and officials have now considered the award under PEAIS as an important recognition for their respective State in quality governance (Chathukulam, 2013).

Table 8.11Percentage systems for transparency♦ by State across tiers of Panchayat

Sl No.	State	Gram Panchayat	Block Panchayat	District Panchayat	Overall
1	Andhra Pradesh	40.00	12.50	20.00	24.17
11	Karnataka	70.00	87.50	70.00	75.83
12	Kerala	100.00	100.00	80.00	93.33
20	Tamilnadu	80.00	87.50	10.00	59.17
21	Telangana	10.00	50.00	20.00	26.67

Source: Devolution Report, 2014-15, TISS and MoPR, 2015.

♦ The number of indicators considered under transparency is: i) Number of Panchayats with budget documents online, ii) Number of Panchayats with account statement online, iii) Number of Panchayats with audited accounts online iv) System of social audit and v) Number of Panchayats annual performance reports online.

The Smart Village – Smart Ward Initiative

The Government of Andhra Pradesh has envisaged a comprehensive and integrated local development approach that harnesses the social capital and predevelopment environment generated by the existing efforts of the State and Central Governments. These missions, campaigns, grids, programmes and schemes, with the Janmabhoomi Maa Vooru (JBMV) programme, would renew the people's sense of ownership and responsibility towards their janmabhoomi, i.e., their village or ward. This initiative, named 'Smart Village-Smart Ward – Towards Smart Andhra Pradesh', focuses on both rural and urban areas of the state. (Smart AP Foundation, 2016).

The Smart Village-Smart Ward initiative was envisioned for implementing a comprehensive and integrated local-development programme where people, partners, departments and other stakeholders participated wholeheartedly, catalysing community action.

Collective Outcomes

The Smart Village-Smart Ward aimed at collective outcomes with the following guiding principles:

- Aim at participatory approach with partners for self-reliant development of the Gram Panchayat or Ward.
- Build partnerships with voluntary organisations, co-operatives, academic and research institutes.
- Engage with and mobilise community for participatory, local-level development.
- Support convergence of government schemes with private and voluntary initiatives in line with people's aspirations and help local potential to develop and flourish.
- Leverage leadership, capacity, commitment and energy of partners volunteering for this task.

The intervention areas are broadly categorised into (i) Rural and Urban Infrastructure, (ii) Skill Development and Livelihood and (iii) Awareness Generation. The 100 per cent achievement of 20 basic amenities, outcomes and services in a definite time frame years is a non-negotiable condition that would be monitored against the baseline and agreed milestones.

Learnings and Suggestions

The Government of Andhra Pradesh has given top priority to speeding up Baseline Surveys and Village Development Plans. In spite of this, little progress has been made in some mandals, villages and wards. As a result, partners and village officials have not been able to target activities. The reasons for this must be ascertained by senior administrative officials and work on this completed quickly. The understanding from such a study can be used to ensure that such delays do not occur in the remaining areas.

Lack of coordination between village heads and government officials is a big challenge for partners since they are stuck between the two. Partners also find that the panchayats often ignore partners and listen only to government officials. Improved monitoring and evaluation of partner activities would help both partners and administrative officials. The latter need to ensure the SVSW goals are met on time and

Some partners would like the panchayat implementation of projects. If it is hard to decide for lower-level officials, they can access their superiors for official communications or any other concerns, but not many partners know whom to turn to, when they face problems.

status of PESA (Panchayat Extention to Scheduled Areas) in the state

Implementation of PESA (Panchayats Extension to Scheduled Areas) in AP

Based on Bhuria Committee Report, the Panchayat Extension to Scheduled Areas Act (PESA), 1996, was passed by Parliament and came into effect on 24th December 1996. The Act extends to the scheduled areas of ten states, namely Andhra Pradesh, Jharkhand, Gujarat, Himachal Pradesh, Maharashtra, Madhya Pradesh, Odisha, Rajasthan and Chhattisgarh and Telangana. In the case of Andhra Pradesh, the State Government has been framed State PESA Rules in 2011 which shows a significant way of taking the implementation of the PESA Act in the state. Field experience shows that in many cases the enactment of the Act and implementation of the Rules has reinforced the functioning of Panchayats and promoting self-governance in the scheduled areas of the State. In these areas, promoting participation of tribals in the process of decision making and implementation has become an important aspect of making decentralised self-governing effective and such scenario has addressed the development issues of the tribals in many ways.

In tribal villages of Visakhapatnam district of Andhra Pradesh, the Gram Sabhas have taken up the issues of self-governance and development and these institutions with the support of NGOs have formed effective integration with the district administration and line departments for various issues. *Kamayapeta* is a village located in Visakhapatnam district where the Gram Sabha has taken proactive role on many issues. The Gram Sabhas have also forged effective integration with social institutions like schools, anganwadis, health centers and other public and private institutions located in their village and in many cases make them accountable for their works. In some villages, the traditional tribal institutions (village councils) have also declared their village as part of ‘self-rule’ under the PESA Act and have effectively managed the various issues.

8.3. Finances of Urban Local Governments in Andhra Pradesh

The urban local governments in Andhra Pradesh are governed by the Andhra Pradesh Municipalities Act 1965 as amended from time to time. The Municipal Corporations are governed by the Municipal Corporations Act of 1994, Government of Andhra Pradesh which incorporated all the provisions of the 74^{th} Constitution Amendment Act, 1992, Government of India. There are three types of urban local Bodies (ULBs) in Andhra Pradesh as mentioned below

Type of ULB	Total Number
Municipalities	97
Nagar Panchayats	
Municipal Corporations	13

Finances of ULBs

The urban local governments in Andhra Pradesh have the financial resources like Tax revenue, non-tax revenue, Assigned revenues and grants from the union and State governments. The own revenues of these ULBs comprises both own tax and non-tax revenues. What follows is a brief analysis of the finances of ULBs in Andhra Pradesh.

Tax Revenue

Important tax revenue sources are like Property Tax, Advertisement Tax Vacant Land Tax etc. The Property Tax includes a General Tax, Water Tax, Lighting Tax, Drainage Tax and Conservancy Tax. The Non-Tax Revenue includes Fees and User Charges, Sale and rental Charges of land and buildings for lease. Assigned Revenues are those receipts of taxes which the State government collects and shares with the Local governments the net revenue or a specified percentage of each tax collections net of cost of collection. Sharing of 95 per cent of Surcharge on Stamp duty, 90 per cent of Profession Tax and 95 per cent of Entertainment Tax etc. come under this category. Similarly the State and Central governments award grants like Per Capita Grant, Non-Plan grants, State Finance Commission Grants, Union Finance Commission Grants, compensatory grants and grants for specific purposes. Some of the Municipal bodies are mobilizing resources through borrowings besides the revenue resources. While this is the revenue position of ULBs, the fiscal frame work includes expenditure commitments both maintenance and capital works, especially rendering of core services to the people in their respective jurisdictions.

The following Table **8.12** shows the tax and non-tax revenues of the Municipalities and Municipal Corporations in Andhra Pradesh during 2014-15 to 2016-17.

Table-8.12: Tax Revenue and Non-Tax Revenue of Municipalities in Andhra Pradesh

A. Tax Revenue	2014-15	2015-16	2016-17
1.Property Tax	211.76	255.03	278.19
2.Vacant Land Tax	3.66	5.36	9.32
3.Advertisement Tax	2.32	2.39	2.86
4.Taxes on Animals	0.01	0.01	0.15
5.Taxes on Carriages & Carts	5.74	6.31	0.50
6.Others	0.00	0.00	0.00
Sub-Total A	**223.49**	**269.10**	**291.02**
B. Non-Tax Revenue			
1.Water Charges/Sale of Water	56.41	57.35	59.16
2.Shop rents/market fee	46.22	55.46	53.28
3.Building License fee	12.74	17.90	53.13
4.Trade License	6.65	7.85	8.18
5.Mutation Fee	3.09	3.79	3.86
6.Others	38.90	34.23	65.94
Sub-Total B	**164.01**	**176.58**	**243.55**
Grand Total A+B	**387.50**	**445.68**	**534.57**
Note: Including Nagar Panchayats			

Source: Directorate of Municipal Administration and Urban Development, GoAP

It may be observed from the Table that the total Revenue of Municipalities (Table-8.12) increased from Rs.388 crores in 2014-15 to Rs 535 crores in 2016-17 showing an increase of -------- per cent. Of the total revenue, the proportion of tax revenue is higher than non-tax revenue in all the three years, the percentage being in the three years respectively. Of all the sources of tax revenue, largest amount of revenue comes from Property Tax. Similarly Water charges, rents from shops and market fees and building Licence Fee are the important sources of non-tax revenue of municipalities in Andhra Pradesh. With regard to Municipal Corporations, the total revenue of all Municipal Corporations (Table-8**.13**) increased from Rs 1046 crores in 2014-15 to Rs. 1345 crores in 2016-17. The relative share of tax and non-tax revenues of Municipalities and Municipal Corporations are presented in Table-3. It may be observed from the Table that the proportion of non-tax revenue in the total Revenue of Municipal Corporations is relatively more than that of Municipalities implying that more efforts are to be made by municipalities to increase the non-tax revenue. This may also be due to the inclusion of Nagar Panchayats in Municipalities category whose non-tax revenue is meagre.

Table-8.13 : Tax Revenue and Non-Tax Revenue of Municipal Corporations in Andhra Pradesh

A. Tax Revenue	**2014-15**	**2015-16**	**2016-17**
1.Property Tax	495.62	545.52	509.52
2.Vacant Land Tax	20.08	27.64	31.63
3.Advertisement Tax	23.5	17.54	21.34
4.Taxes on Animals	0.01	0.02	0.10
5.Taxes on Carriages & Carts	0.00	0.00	0.10
6.Others	0.00	0.00	0.00
Sub-Total A	**539.21**	**590.72**	**562.69**
B. Non-Tax Revenue			
1.Water Charges/Sale of Water	203.24	225.86	294.49
2.Shop rents/market fee	43.50	54.64	52.64
3.Building Licence fee	30.80	40.43	32.92
4.Trade Licence	21.40	18.32	19.53
5.Mutation Fee	11.45	12.56	13.13
6.Others	195.90	180.30	339.73
Sub-Total B	**506.29**	**532.11**	**752.44**
Grand Total A+B	**1045.50**	**1122.83**	**1315.13**

Source: Directorate of Municipal Administration and Urban Development, GoAP

Table-8.14: Own Source Revenue of Municipalities and Municipal Corporations in Andhra Pradesh

Category	**2014-15**		**2015-16**		**2016-17**	
	Municipalities	**Corporations**	**Municipalities**	**Corporations**	**Municipalities**	**Corporations**
Own Source Revenue	**387**	**1046**	**446**	**1123**	**535**	**1315**
% of Tax Revenue	**58**	**52**	**60**	**53**	**54**	**43**
% of Property Tax Own Source Revenue	55	47	57	49	52	39
% of Property Tax Revenue	95	92	95	92	96	91
% of Non-Tax Revenue	**42**	**48**	**40**	**47**	**46**	**57**
% of Water Charges/Sale of Water Own Source Revenue	15	19	13	20	11	22
% of Water Charges/Sale of Water Non-Tax Revenue	34	40	32	42	24	39
% of Shop rents/market fee Own Source Revenue	12	4	12	5	10	4
% of Shop rents/market fee Non-Tax Revenue	28	9	31	10	22	7

Source: Directorate of Municipal Administration and Urban Development, GoAP

Expenditure

An analysis of expenditure of Municipalities and Municipal Corporations shows a higher proportion of revenue expenditure compare to the capital expenditure. In almost all municipalities and most of the municipal corporations find it difficult to meet the expenditure from their own revenue resources. The municipalities depend up on the per capita grants and other plan and non-plan grants from the state governments to meet their establishment expenditure not to speak of capital expenditure. A large part of the capital expenditure is met from the state and central assistance for the development schemes. The proportion of revenue and capital expenditure of municipalities and municipal corporations are shown in the following tables. The main reason for the shortage (deficit) of resources to meet the maintenance expenditure is due to under exploitation of both tax and non-tax revenues with a few exceptions.

Table-8.15: Revenue and Capital Expenditure of Municipal Corporations

Item	2014-15	2015-16	2016-17
Total Expenditure (TE)	6886141872.52	199093.12	248289.56
Capital	1735046216.32	57143.97	101101.77
C % inTE	25.20	28.70	40.72
Maintenance	5151095656.19	141949.14	147187.80
M % in TE	74.80	71.30	59.28

Table-8.16: Revenue and Capital Expenditure of Municipalities

Item	2014-15	2015-16	2016-17
Total Expenditure (TE)	63685.62	84008.45	174092.59
Capital	23485.02	31560.66	76275.55
C % inTE	36.88	37.57	43.81
Maintenance	40200.60	52447.79	97817.04
M % in TE	63.12	62.43	56.19

Therefore the municipalities and municipal corporations largely depend up on both plan and non-plan grants to finance developmental schemes as well as for providing basic amenities like drinking water, road and lighting facilities sewerage and solid waste management and maintenance of public assets. Successive Union Finance Commissions right 10th Finance Commission onwards and the State Finance Commissions have been recommending large amount of resources in the form of grants for maintenance of assets and also to provide some basic amenities. Similarly the central government through its ministries has been awarding grants for developmental purposes including the construction of new capital cities of Andhra Pradesh- Amaravathi. 32 Urban Local Bodies is recognized as Amruth Cities besides the 3 Smart Cities. The Ministry of Urban Development, GoI have been giving condition grants to these ULBs. In addition like in any other state the state of Andhra

Pradesh were awarded grants by the 14th Finance Commission covering the period 2014-15 to 2019-20.

14th Finance Commission Grants

The urban local bodies in Andhra Pradesh were given an amount of Rs. 3636 crores out of which the basic grants (unconditional) 2909 crores. The performance grant was provided from 2016-17 onwards. The ULBs in Andhra Pradesh have been utilizing these grants to execute schemes relating to water supply, sanitations, solid waste management, storm water drainage and maintenance of community assets. It is pertinent to note the all the 32 Amrut ULBs were allow to use the 14th FC grants as matching contribution under Amrut Scheme. Such an arrangement will defeat that the finance commissions grants. Similarly, when additional resources are used for matching contribution only the objectives of Amrut Scheme will be realized. Therefore the future finance commission need to observe this aspect and make a suitable recommendation regarding the conditionalities of utilizing the grants awarded by it.

8.4. SFC Transfers: Status of the SFC Recommendations – A Brief Review

The State Finance Commissions are entrusted with the work of recommending devolution of funds from the State government to the local bodies – rural and urban. The Commission takes into account the financial position of the state and also the local bodies in to account while recommending transfers from state to local bodies. The guiding factor to the Commission for making the transfers is the terms of reference given to them at the time of appointment of the Commission by the Governor (Art. 243(1) of the Constitution of India and sub section (1) of 235 of the APPR Act, 1994). So far four Commissions have been constituted of which the first two Commissions have submitted their reports. The Third State Finance Commission has been appointed twice of which the latter has submitted its report. This report is not in the public domain. Fourth Commission has been appointed twice.

The First State Finance Commission was constituted in July 1994 and the report was submitted in May 1997. According to the terms of reference, the commission had to make its recommendations for the period from 1996-97 to 1999-2000. The commission gave its report within the time prescribed. The recommendations of the first SFC were for three years from 1997-98 to 1999-2000. After accepting the devolutions to some extent, the government made provisions in the state budget for the year 1998-99 for release of the grants. The same provisions were repeated in the budget for 1999-2000 also. Thus as against grants for 3 years, grants for 2 years only were released. The First State Finance Commission made 84 recommendations both financial and non-financial. The government has accepted 55 recommendations, not accepted 24 and 5 recommendations were accepted with modifications. This is repeated in the case of Second State Finance Commission also.

Though the State government is appointing the State Finance Commissions respecting the Constitutional 73rd Amendment, it's attitude in not accepting all the recommendations of the State Finance Commission, not implementing all those recommendations that are accepted toto, is not giving the hint of progress towards the full-fledged fiscal decentralization[7].

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.

Re-Constitution of Third State Finance Commission

As per the G.O.Ms.No:322 (P.R & R.D Dept' dated:8-10-2003), theGovernment 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 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.

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[7] For the details of **Establishment of SFCs and the Status of Its Reports see** SreedeviN. (2013): Evaluation of Andhra Pradesh State Finances (Fourteenth Finance Commission's Study on Evaluation of State Finances).(Lead Researcher), October

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. Later on third SFC Report is not made public as the Committee Constituted for the purpose is seized of the matter.

Constitution of Fourth SFC (First SFC after state reorganization)

Government of Andhra Pradesh constituted the 4th State Finance Commission (SFC) on 5th January 2015, under the chairmanship of Prof. M.L.Kantha Rao. The Commission was mandated to make its report available by the 30th December 2016 covering a period of forth coming five years commencing on the 1st day of April 2015. The 4th State Finance Commission is the First SFC after reorganization of the Andhra Pradesh State. The chairman and all the members assumed charge of the commission on 08-01-2015. The commission consists of Chairman, two full time Members, one full time Member Secretary and one part time Member as shown below. Government have accorded the rank of Minister of State to the Chairman and status of Class I officer to the Members

S.no	Name	Designation
1	Prof. Kankanala Munirathna Naidu Professor of Economics & Dean (Retd) Sri Venkateswara University, Tirupati	Member Full time
2	Prof. Rokkam Sudarsana Rao Professor of Economics & Dean, (Retd) Andhra University, Visakhapatnam	Member Full time
3	Prof. Gudipadu Sandhya Rani Sri Padmavathi Mahila ViswaVidyalayam, Tirupati	Member Part time
4	Sri C. Venkateshwar Rao Additional Commissioner (Retd) O/o The Commissioner PR&RE AP	Member-Secretary Full time

The Panchayat Raj and Rural Development Department have provided office accommodation in Room No 503, 5th Floor Hermitage Office Complex, Hyderabad 500004 in June 2015 for the SFC, and the office of the Commission started functioning from 20.06.2015. In December 2015, Government sanctioned 24 posts to SFC. Action was initiated immediately to fill up the sanctioned postsand the SFC became fully operational only from January 2016. Terms of Reference (ToR) for the commission were issued in August 2015. Panchayat Raj Department GOAP through their letter No. 328/ Mdl1/ 2016-1 dated 03-03-2016 requested the SFC to examine the financial requirements of Mandal Parishad and Zilla Parishad as Additional ToR and furnish an Interim Report on or before 31st May 2016

The Commission submitted the Interim Report dated 30-05-2016 to His Excellency the Governor of AP for consideration of Government. The Commission did not recommend any additional amounts to PRIs in the Interim Report over and above what was already provided in the Budget 2016-17 owing to the prevailing fiscal scenario of the State and finalization of demands for grants for 2016-17

The report of the Commission could not be finalized by Dec 2016 due to non receipt of data from the local bodies in full shape. Therefore, the commission submitted proposals to Government to extend the time up to Dec 2017 to enable it to submit the Final Report. But Government on 7th March 2017 issued orders stating that the 4th SFC ceased to exists with immediate effect, and in pursuance of these orders the office of the Commission was wound up without submitting the Final Report

Re-Constitution of Fourth State Finance Commission

Government of Andhra Pradesh reconstituted the 4th State Finance Commission (SFC) under the chairmanship of Gummadi Nancharaih on 8-2-2018. Other members and Member-Secretary were also appointed. The Commission was asked to submit its final Report on or before 30th October 2019 covering a period of forthcoming five years commencing from 1April 2020

8.5. Summary and Suggestions

A situational analysis of the status of PRIs in AP clearly indicates that AP is laggard state when compared to other South Indian States interms of functional and financial devolution is concerned, as shown in the successive Devolution Index Reports and C&AG Reports. The story regarding constitution of SFCs and implementation of their recommendations tells us that successive governments in AP since 1995 have not implemented SFC recommendations in right earnest, except minor budgetary allocations. The picture regarding PESA, although appears little better in certain pockets, overall some more serious efforts are needed by the Government of AP to make Gram Sabha as the Central Institutions for taking all the important decisions regarding tribal development. There is also criticism levelled against the present government initiative of Smart Village and Small Ward Initiative that through Janmabhoomi Committees, this programme is being implemented by passing people's elected PRI institutions.

Regarding ULBin AP, the proportion of non-tax revenue in the total Revenue of Municipal Corporations is relatively more than that of Municipalities implying that more efforts are to be made by municipalities to increase the non-tax revenue. This may also be due to the inclusion of Nagar Panchayats in Municipalities category whose non-tax revenue is meagre.

32 Urban Local Bodies is recognized as Amruth Cities besides the 3 Smart Cities. The Ministry of Urban Development, GoI have been giving conditional grants to these ULBs.

14th Finance Commission Grants to the urban local bodies in Andhra Pradesh amount to Rs. 3636 crores out of which the basic grants (unconditional) 2909 crores. The performance grant was provided from 2016-17 onwards. It is pertinent to note the all the 32 Amrut ULBs were allow to use the 14th FC grants as matching contribution under Amrut Scheme. Such an arrangement will defeat that the finance commissions grants. Similarly, when additional resources are used for matching contribution only the objectives of Amrut Scheme will be realized. Therefore the future finance commission need to observe this aspect and make a suitable recommendation regarding the conditionalities of utilizing the grants awarded by it.

Though the State government is appointing the State Finance Commissions respecting the Constitutional 73rd Amendment, it's attitude in not accepting all the recommendations of the State Finance Commission, not implementing all those recommendations that are accepted toto, is not giving the hint of progress towards the full-fledged fiscal decentralization. The reconstitution of Third SFC made the local bodies deprived of their Constitutional entitlement. Constitution of Fourth SFC is the First SFC after state reorganization. This is repeated in the case of Fourth SFC.

Chapter 9
Summary and Conclusion

9.1. Introduction

State reorganisation encumbrances the strings in altering the resources, expenditures, deficits and debts, in short, public finances of those states. This, in turn, depends on the location of economic activities, public or private, between the reorganised states. Andhra Pradesh Reorganisation Act, 2014, for bifurcation of Andhra Pradesh received the President's assent on 01 March 2014. The ''appointed day'' for the new States' formation was 02 June 2014. Andhra Pradesh state, which had 23 districts, at present consists of 13 districts.

The impact of bifurcation of the state has several fronts. Andhra Pradesh (AP) economy turned into a state with sag service and industrial sectors and ascent agriculture sector which is reflected in its GVA when compared with All India; of the total 13 districts in the state, seven are backward districts; lack of sufficient urbanisation and metropolis; state is deprived of wide-ranged, well-established Institutes of National Importance; state finances started facing deficit situation; apprehension in the estimated Resource Gap for the year 2014-15; and anomalies in Andhra Pradesh Reorganisation Act particularly with regard to apportionment of tax arrears.

As proposed by the Fifteenth Finance Commission, analysing the status of Andhra Pradesh state finances considering the "Outcome Evaluation of State Finances in the context of recommendations of the 14th Finance Commission; Determination of a sustainable debt roadmap for 2020-25, and impact of introduction of GST and other tax/non-tax trend forecasts" may not be possible for the financial year 2014-15 as it comes under the last year of the Thirteenth Finance Commission Award period and also for the reason that it is a very first year of state bifurcation with the availability of ten months' data. As this financial year gives ten months picture of the financial situation of the state, this year cannot be connected/compared to the subsequent years.

9.2. Fiscal Situation of Andhra Pradesh 2014-15

The state started with a opening balance of Rs.-76 crores. The revenue account and overall budget are negative.

Of the total receipts, 75 percent comes from revenue receipts and remaining 25 percent from capital receipts. Total receipts constituted 16.66 percent of GSDP of which the major segment is revenue receipts (12.51 percent) followed by capital receipts (4.15 percent). Of the total revenue receipts, state's own revenue and central transfers constituted 58 percent and 42 percent respectively. The share of grants-in-aid is higher than the share in central taxes. Similar is the proportion with respect to GSDP. This shows the financial dependency of the state particularly on central grants-in-aid.

Of own tax revenue sources, revenue from sales tax, state excise, stamp duty and registration fee and motor vehicles tax including goods and passengers' tax are the four major sources. Similar pattern follows in terms of State own revenue and Total Revenue Receipts.Most of own non-tax revenue shows that most of the revenue is from interest receipts followed by other non-tax revenue which comprises of general services, social services and economic services.

Total expenditure is higher than total receipts by 9.6 percentage points. Total expenditure (including disbursements) is 18 percent of GSDP while net of disbursements is 16 percent. Composition of total expenditure (revenue, capital and loan accounts only) shows that developmental and non-developmental expenditure covers about 77 percent and 23 percent respectively. The proportion of corresponding expenditures in GSDP are 12.58 percent and 3.68 percent. The proportions of social and economic services either in GSDP or in total expenditure is more or less equal.

Revenue expenditure is more than total revenue by 21 percentage points. The revenue deficit situation raised. Fiscal deficit /GSDP at 3.95 percent crossed the FRBM target.

Revenue deficit is major contributor of the total fiscal deficit, followed by capital expenditure and net lending. Hence, two-thirds of the borrowings are spent to fill the revenue deficit and remaining one-third towards developmental activities – other two components of fiscal deficit.

Of the total debt raised, a major portion is spent towards debt repayments. Over and above the net debt (nearly 58 percent of the debt raised), the state depends on the borrowings from the public account.

The total outstanding public debt is amounted to Rs. 148743.5 crores. More than 50 percent of the outstanding debt is constituted by open market operations. Debt/ GSDP is about 28.33 percent.

Regarding un-apportioned public debt ,Since 2016-17, the un-apportioned outstanding public debt amounts to Rs. 23483.2.Un-apportioned Net public account alone constitutes 3.31 percent of GSDP. Pending apportionment of balances is a cause of concern particularly with regard to inadequate steward ship of assets, opportunity cost in utilizing the assets and loss of their time value.

9.3. State Own Revenues 2015-19

The total receipts/ GSDP declined from 25 percent in 201516 to 24 percent in 2016-17 and further declined to 19 percent in 2017-18 RE declined mainly because of declining of capital receipts, particularly floating debt.

The revenue receipts/ GSDP declined from 14.77 percent in 2015-16 to 14.23 percent in 2016-17 but showed an increase by one percent in 2017-18 RE mainly because of the higher revised estimations by way of grants-in-aid from the centre.

The relative share of revenue receipts in total receipts showed an increase only in the revised and budget estimates of latest two years because of higher estimations from all the major components except own non-tax revenue. In the total revenue, the share of central transfers is higher than the own revenue, particularly because of grants-in-aid. This shows the increased dependency of the state for resources.

The state own tax revenue / GSDP which was 6.65 percent in 2015-16 fluctuated in the subsequent years and never reached 2015-16 position. The state own tax revenue / GSDP is lower than the projections of 14^{th} Finance Commission.

The growth rate of SOTR in 2016-17 over 2015-16 was 10 percent. But the estimates showed a consistent high growth rate in subsequent years. Accounts speak out factual situation. The outcome of GST may be assessed on the basis of accounts. Assessment of GST based on revised and budget estimates may not give realistic picture. In brief, the receipts of Andhra Pradesh state government showed variations in terms of GSDP, total revenue and growth rates. The data for the last two years belong to only estimates and not the accounts. Accounts will give a clear picture.

The strategy of the state government for revenue augmentation is by improving tax administration, revenue buoyancy, minimizing of transaction costs and rationalizing the tax structure. Hence, the focus is on streamlining and strengthening existing tax and non-tax collection, mechanism and plugging of revenue leakages. Earnestness in fiscal marksmanship, minimising irregularities pointed out by CAG in revenue collections may strengthen the policy measures pronounced by the state government to augment own revenues.

9.4. Expenditure - Trends and Patterns

State Fiscal Policy strategy is to control revenue expenditure by cutting administrative costs with the use of available modern technology so as to enhance investment in productive capital assets and social sectors in order to attain sustainable and equitable economic growth. To achieve this, in 2017-18, a separate Outcome Budget is presented in Volume VII/1. The government intends to initiate Operationalization of the Comprehensive Financial Management System (CFMS). Andhra Pradesh Centre for Financial Systems and Services (APCFSS), the special purpose vehicle established under the administrative control of Finance Department.

State government is yet to amend its FRBM Act as per the 14th Finance Commission’s recommendations, especially on fiscal targets viz., revenue deficit, fiscal deficit and outstanding liabilities to GSDP ratio. Further, the Government has not provided yearly pension liabilities on actuarial basis for the ensuing years, as stipulated in provision 7(2)(iii) of FRBM Act, 2005.As per Rule 6 of FRBM rules, as required under section 10 of the FRBM Act. Out of 10 disclosures prescribed, the statement of assets in **Form D-7**, the statement on liabilities in respect of major works and contracts, committed liabilities in respect of land acquisition charges and claims on the State Government in respect of unpaid bills on works and supplies in **Form D-9** were not presented along with the budget 2018-19.

Continuous decline in total budgetary expenditure 2015-18RE mainly due to continuous decline of capital disbursements in all the years i.e., in 2015-16 to 2017-18RE; increased revenue expenditure/GSDP from 15.98 percent (2015-16) to 16.70 percent (2016-17) mainly because of *UDAY scheme* andconstant rise in interest payments/GSDP proportions;, fall in the growth rate of revenue expenditure, in 2017-18 RE, maybe because of declined expenditure towards salaries, pensions and subsidies, in short, committed expenditure.

Revenue expenditure exceeded total revenue by (9.17 percentage points). The revenue expenditure / total expenditure declined in the last two years and provided scope for an increase in the capital expenditure. In other words it has increased the allocative efficiency of the public expenditure during those years.

Trends in Expenditure (Revenue, Capital and Loan accounts)

The revenue expenditure/ GSDP proportions increased in 2016-17 mainly because of due to inclusion of Rs. 8,256 crore expended towards UDAY scheme. It has declined in 2017-18RE. This is mainly because of the combined effect of (i) increase in interest payments, (ii) moderate/marginal decrease in administrative services and pensions and miscellaneous general services and (iii) fluctuations in developmental revenue expenditure – both social and economic services. Thus the fluctuations in revenue expenditure/ GSDP proportions was shared by both non-developmental and developmental expenditures.

There was an increase in the total developmental revenue expenditure mainly because of an increase (decline) in social services (economic services). This could be mainly because of the attention given towards the social welfare programmes to withstand the present socio-economic situation of the public.

The revenue expenditure / total expenditure declined in the last two years and provided scope for an increase in the capital expenditure. In other words, it has increased the allocative efficiency of the public expenditure during those years. The revenue expenditure/ GSDP proportions increased in 2016-17 mainly because of due to inclusion of Rs. 8,256 crore expended towards UDAY scheme. It has declined in 2017-18RE. This is mainly because of the combined effect of (i) increase in interest payments, (ii) moderate/marginal decrease in administrative services and pensions and miscellaneous general services and (iii) fluctuations in developmental revenue expenditure – both social and economic services.

Thus the fluctuations in revenue expenditure/ GSDP proportions was shared by both non-developmental and developmental expenditures.

9.5. Deficits and Public Debt

The worsened fiscal deficit was the net result of deteriorated revenue deficit, moderate increase in capital expenditure and consolation through loan recoveries.

Higher revenue or fiscal deficit in 2016-17 is mainly attributed to UDAY Scheme. The revenue deficit net of UDAY scheme is about Rs.-8937.72 (-1.29 of GSDP). The fiscal deficit net of UDAY is about Rs. - 22652.82(-3.26 GSDP).

The shrink of fiscal deficit in revised and budget estimates of 2017-18 and 2018-19 respectively is mainly because of estimated improvement in revenue deficit (2017-18RE) and revenue surplus (2018-19BE). The estimated revenue surplus situation in 2018-19BE is mainly because the government anticipated anticipating that Government of India would release all the dues as per the AP Reorganization Act, 2014 at least in 2018-19.

With this anticipated improvement in revenue account, the capital expenditure/GSDP increased indicating the improvement in the quality of expenditure. Thus the impact of the revenue account situation is seen on the other components of fiscal deficit which are mainly for developmental activities.

Primary deficit shows that in 2015-16 nearly 45 percent the fiscal deficit was because of interest payments and the balance 55 percent was due to primary deficit. Though the proportion of primary deficit moved up to 62.16 percent in the subsequent year, it has declined in the revised and budget estimates indicating the increase in interest payments burden.

Pattern of Deficit Financing in Andhra Pradesh shows that as recommended by the Fourteenth Finance Commission, state government has lowered its dependence on the National Small Savings Fund (NSSF). Hence, market loans remained as a major source of deficit financing while other sources are thinly distributed.

Public Debt, Direction of Public Debt Spent, Outstanding Public Debt

In 2015-16, about 72 percent of the public debt raised was spent towards the repayment of old debt and the balance 28 percent (net debt) was too little to meet the fiscal deficit and the dependence on the public account was high at 43 percent.

Since 2016-17, the net debt availability at the disposal of the state government was widened and in 2018-19BE, the estimated revenue account surplus may improve the fiscal situation.

14th FC suggested steady reduction in augmented debt stock for the states to less than 22.38 per cent of GSDP by 2019-20. AP's debt/GSDP declined from 29 percent in 2015-16 to 28 percent in 2017-18RE but much higher than the set limits.

FRBM Act and Targets Achieved / Amendments to FRBM Acts and New Legislation

The state government reduced its revenue deficit but not as per the set annual targets. This is mainly due to adverse impact of state bifurcation on state finances. While it is difficult to enhance resources, it much more difficult to manage the growing expenditure particularly in the initial years of bifurcation.

Fourteenth Finance Commission recommend that the State Governments may amend their FRBM Acts to provide for the statutory flexible limits on fiscal deficit. The State Government probably must have started the processing the proposed amendment ing the APFRBM Act, 2005 keeping in view of the recommendations of 14th Finance Commission and repercussions of bifurcation of the State.

9.6. State Level Public Enterprises

During the year of bifurcation, As on 31 March 2015, there were 70 PSUs - 15 state exclusive working PSUs, 33 PSUs under demerger (30 Govt. Companies 3 Statutory Corporations under demerger) and 22 non-working PSUs (yet to be bifurcated).In 2017, the government companies exclusive to AP increased because 28 PSUs (with interstate operations, which were to be demerged) were functionally bifurcated. New PSUs emerged during 2014-17.

The State Government has a significant financial stake in PSUs in the form of Share Capital / Loans/ Guarantees. Out of the total investments 99 percent is in state exclusive working PSUs / also formed due to demerger.This total investment consisted of 9.89 *per cent* in capital and 80.25 *per cent* in long-term loans.Sector wise investment shows that while the investment to power and infrastructure sectors registered an increase in 2016-17 as compared to 2015-16, the other sectors registered a decline in investment with the decline being highest for the services sector.

The turnover of exclusive **State** PSUs increased in 2016-17 over 2015-16.Turnover of PSUs formed due to demerger raised in 2016-17 over 2015-16. Of the 64 working PSUs, 15 PSUs reported a profit of Rs 1164 crores and 20 PSUs incurred a loss. Return on capital for State exclusive PSUs / PSUs under demerger showed an increase in 2016-17. On the other hand, return on capital for the PSUs formed due to demerger registered a decline during the same period.

As on 30 Sept, 2017, in state exclusive PSUs, nearly 96 percent of employment is in power sector. In PSUs under demerger, highest percentage of employment comes from working companies. In PSUs formed due to demerger, out of the total employment excluding corporations, major contribution came from power sector followed by infrastructure. APPGCL is the highest employment provider.

Highest contribution to profit came from PSUs such as APPGCL, APMDCL and APTransCo Limited. PSUs that earned substantial losses are SPDCAPL APSHCL EPDCAPL. For state exclusive PSUs and for PSUs formed due to demerger, turnover is highest for the power sector. Debt/ turnover less than 1 percent.

Power sector

AP Power Distribution companies (DISCOMS) have one of the lowest loss levels in the country and the AT&C losses have been following a steady downward trend. The Government of India, the State of Andhra Pradesh and the DISCOMs of APSPDCL and APEPDCAPL signed a MOU under the Scheme UDAY – "Ujwal DISCOM Assurance Yojana" for financial turnaround of the DISCOMs. With UDAY coming into operation, areas of concern is critical state finances on account of growing liabilities due to takeover of 75 per cent of the existing debt of Discoms. It is doubtful that states will be able to minimize their deficits. Because of this critical fiscal situation states may pressurize the Centre to come to rescue.

9.7. State Fiscal Transfers to Local Bodies– Andhra Pradesh Experience

A situational analysis of the status of PRIs in AP clearly indicates that AP is laggard state when compared to other South Indian States in terms of functional and financial devolution is concerned, as shown in the successive Devolution Index Reports and C&AG Reports. The story regarding constitution of SFCs and implementation of their recommendations tells us that successive governments in AP since 1995 have not implemented SFC recommendations in right earnest, except minor budgetary allocations. The picture regarding PESA, although appears little better in certain pockets, overall some more serious efforts are needed by the Government of AP to make Gram Sabha as the Central Institutions for taking all the important decisions regarding tribal development. There is also criticism levelled against the present government initiative of Smart Village and Small Ward Initiative that through Janmabhoomi Committees, this programme is being implemented by passing people's elected PRI institutions.

Regarding ULBin AP, the proportion of non-tax revenue in the total Revenue of Municipal Corporations is relatively more than that of Municipalities implying that more efforts are to be made by municipalities to increase the non-tax revenue. This may also be due to the inclusion of Nagar Panchayats in Municipalities category whose non-tax revenue is meagre.32 Urban Local Bodies is recognized as Amruth Cities besides the 3 Smart Cities. The Ministry of Urban Development, GoI have been giving conditional grants to these ULBs.

14th Finance Commission Grants to the urban local bodies in Andhra Pradesh amount to Rs. 3636 crores out of which the basic grants (unconditional) 2909 crores. The performance grant was provided from 2016-17 onwards. It is pertinent to note the all the 32 Amrut ULBs were allow to use the 14^{th} FC grants as matching contribution under Amrut Scheme. Such an arrangement will defeat that the finance commissions grants. Similarly, when additional resources are used for matching contribution only the objectives of Amrut Scheme will be realized. Therefore the future finance commission need to observe this aspect and make a suitable recommendation regarding the conditionalities of utilizing the grants awarded by it.

Though the State government is appointing the State Finance Commissions respecting the Constitutional 73^{rd} Amendment, it's attitude in not accepting all the recommendations of the State Finance Commission, not implementing all those recommendations that are accepted toto, is not giving the hint of progress towards the full-fledged fiscal decentralization. **The reconstitution of Third SFC made the local bodies deprived of their Constitutional entitlement. This is repeated in the case of Fourth SFC which is the** First SFC after state reorganization.

9.8. Summary 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. As the impact of state bifurcation is severe, Andhra Pradesh is requires support from the central government in the improvement of fiscal situation.

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Appendix 2.1

Press Information Bureau

Government of India, Prime Minister's Office 20-February-2014

PM's statement on the Telangana Bill and a special package for the successor state of Andhra Pradesh

Following is the text of Prime Minister, Dr.Manmohan Singh’s statement on the Telangana Bill and a special package for the successor state of Andhra Pradesh:

“Mr. Chairman Sir:

I have listened very carefully to the views expressed by the Leader of Opposition and all the other members who have spoken, especially those from Andhra Pradesh. The Home Minister has already mentioned the specific steps our Government will take to address the concerns of all regions of the state, particularly of Seemandhra.

I would like to make a few further announcements in this regard.

First, for purposes of Central assistance, Special Category Status will be extended to the successor state of Andhra Pradesh comprising 13 districts, including the four districts of Rayalaseema and the three districts of north coastal Andhra for a period of five years. This will put the state's finances on a firmer footing.

Second, the Bill already stipulates that the Central Government shall take appropriate fiscal measures, including offer of tax incentives to the successor states in order to promote industrialization and economic growth in both the states. These incentives will be along the lines extended to some other states.

Third, the Bill already provides for a special development package for the backward regions of the successor state of Andhra Pradesh, in particular for the districts of Rayalaseema and North Coastal Andhra Pradesh. This development package will be on the lines of the K-B-K (Koraput-Bolangir-Kalahandi) Special Plan in Odisha and the Bundelkhand special package in Madhya Pradesh and Uttar Pradesh.

Fourth, I would like to reassure Honourable Members that if any further amendments are needed to facilitate smooth and full Rehabilitation & Resettlement(R&R) for the Polavaram project, they will be given effect to at the earliest. Our government will execute the Polavaram project--let there be no doubt about it.

Fifth, the appointed day for the formation of the new State will be so fixed in relation to the notified date so as to enable preparatory work relating to personnel, finance and distribution of assets and liabilities to be completed satisfactorily.

Sixth, the resource gap that may arise in the successor state of Andhra Pradesh in the very first year, especially during the period between the appointed day and the acceptance of the 14th Finance Commission recommendations by the Government of India, will be compensated in the Regular Union Budget for 2014-15.

Sir, I hope these additional announcements will demonstrate our steadfast commitment to not just the creation of Telangana but also to the continued prosperity and welfare of Seemandhra.”

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Appendix 2.2

The provisions of the Andhra Pradesh Reorganisation Act, 2014, (The Gazette of India, March 1, 2014).

The prominent commitments incorporated into the APRA 2014 are as follows.

46. (1) para 2 provides a reference to the Fourteenth Finance Commission to take into account the resources available to the successor States and make separate awards for each of the successor States.

46. (2) the Central Government may, having regard to the resources available to the successor State of Andhra Pradesh, make appropriate grants and also ensure that adequate benefits and incentives in the form of special development package are given to the backward areas of that State.

46. (3) The Central Government shall, while considering the special development package for the successor State of Andhra Pradesh, provide adequate incentives, in particular for Rayalaseema and north coastal regions of that State.

50. The right to recover arrears of the tax or duty on property, including arrears of land revenue, shall belong to the successor State in which the property is situated, and the right to recover arrears of any other tax or duty shall belong to the successor State in whose territories the place of assessment of that tax or duty is included on the appointed day.

56. (*1*) The liability of the existing State of Andhra Pradesh to refund any tax or duty on property, including land revenue, collected in excess shall be the liability of the successor State in whose territories the property is situated, and the liability of the existing State of Andhra Pradesh to refund any other tax or duty collected in excess shall be apportioned between the Successor States of Andhra Pradesh and Telangana on the basis of population ratio and the State discharging the liability shall be entitled to receive from the other State its share of the liability, if any.

(*2*) The liability of the existing State of Andhra Pradesh to refund any other tax or duty collected in excess on the appointed day shall be the liability of the successor State in whose territories the place of assessment of such tax or duty is included, and the liability of the existing State of Andhra Pradesh to refund any other tax or duty collected in excess shall be apportioned between the Successor States of Andhra Pradesh and Telangana on the basis of population ratio and the State discharging the liability shall be entitled to receive from the other State its share of the liability, if any.

75. (*1*) The Government of the State of Andhra Pradesh or the State of Telangana, as the case may be, shall, in respect of the institutions specified in the Tenth Schedule to this Act, located in that State, continue to provide facilities to the people of the other State which shall not, in any respect, be less favourable to such people than what were being provided to them before the appointed day, for such period and upon such terms and conditions as may be agreed upon between the two State Governments within a period of one year from the appointed day or, if no agreement is reached within the said period, as may be fixed by order of the Central Government.

90 declares the Polavaram Irrigation Project as a National Project.

93 The Central Government shall take all necessary measures as enumerated in the Thirteenth Schedule for the progress and sustainable development of the successor States within a period of ten years from the appointed day.

94. (1) The Central Government shall take appropriate fiscal measures, including offer of tax incentives, to the successor States, to promote industrialisation and economic growth in both the States.

(2) The Central Government shall support the programmes for the development of backward areas in the successor States, including expansion of physical and social infrastructure.

(3) The Central Government shall provide special financial support for the creation of essential facilities in the new capital of the successor State of Andhra Pradesh including the Raj Bhawan, High Court, Government Secretariat, Legislative Assembly, Legislative Council, and such other essential infrastructure.

(4) The Central Government shall facilitate the creation of a new capital for the successor State of Andhra Pradesh, if considered necessary, by denotifying degraded forest land.

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Appendix 2.3

Table A2.3(1): Central Grants to Establish Central University Andhra Pradesh (Rs. Cr)

Grants-in-aid	2014-15	2015-16			2016-17			2017-18		2018-19
	Actuals	BE	RE	Actuals	BE	RE	Actuals	BE	RE	BE
Total	0.0	1.0	0.1	0.0	1.0	1.0	0.0	10.0	0.0	10.0
General	0.0	0.4	0.0	0.0	0.4	0.4	0.0	2.0	0.0	2.0
Creation of Capital Assets	0.0	0.6	0.1	0.0	0.6	0.6	0.0	7.0	0.0	7.0
Salaries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	1.0

Source: Detailed Demand for Grants, MHRD, GOI (for the years 2016-17, 2017-18 AND 2018-19)

Table A2.3(2): Central Grants to Establish Andhra Pradesh and Telangana Tribal Universities (Rs. Cr)

Grants-in-aid	2014-15	2015-16			2016-17			2017-18	2017-18	2018-19
	Actuals	BE	RE	Actuals	BE	RE	Actuals	BE	RE	BE
Total	0.00	2.00	0.10	0.00	2.00	2.00	0.33	20.00	0.00	20.00
General	0.00	0.84	0.04	0.00	0.84	0.84	0.33	9.00	0.00	9.00
Creation of Capital Assets	0.00	1.16	0.07	0.00	1.16	1.16	0.00	10.00	0.00	10.00
Salaries	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	1.00

Source: Detailed Demand for Grants, MHRD, GOI (for the years 2016-17, 2017-18 AND 2018-19)

Table A2.3(3): Central Grants to Establish Technical Educational Institutions in AP (Rs. Cr)

Technical Education	2014-15	2015-16			2016-17			2017-18		2018-19
	Actuals	BE	RE	Actuals	BE	RE	Actuals	BE	RE	BE
Indian Institute of Technology	0.00	40.00	18.00	18.00	40.00	40.00	28.99	50.00	51.30	50.00
National Institute of Technology (NIT)	0.00	34.00	4.00	0.00	40.00	20.00	10.29	50.00	53.77	54.00
Indian Institute of Management(IIM)	0.00	34.00	11.85	13.00	30.00	30.00	17.97	40.00	41.00	42.00
Indian Institute of Science Education and Research(IISER)	0.00	40.00	5.00	5.00	40.00	40.00	36.00	50.00	50.00	49.00
Indian Institute of Information Technology(IIIT)	0.00	10.13	0.70	0.69	20.00	20.00	17.00	30.00	20.00	30.00

Source: Detailed Demand for Grants, MHRD, GOI (for the years 2016-17, 2017-18 AND 2018-19)

Table A2.3(4): Component-wise Central Grants-in-aid to Establish Technical Educational Institutions in *AP (Rs. Cr)*

Sl. No	*Central Grants-in-aid*	2014-15 Actuals	2015-16 Actuals	2016-17 Actuals	2017-18 BE	2017-18 RE	2018-19 BE	2014-15 to 2016-17	2014-15 to 2017-18
1	2	3	4	5	6	7	8	9=(3+4+5)	10=(3to 7)
1	***Central University***	**0.0**	**0.0**	**0.0**	**10.0**	**0.0**	**10.0**	**0.0**	**10.0**
a	*General*	0.0	0.0	0.0	2.0	0.0	2.0	0.0	2.0
b	*Creation of Capital Assets*	0.0	0.0	0.0	7.0	0.0	7.0	0.0	7.0
c	*Salaries*	0.0	0.0	0.0	1.0	0.0	1.0	0.0	1.0
2	***Andhra Pradesh and Telangana Tribal Universities***	**0.0**	**0.0**	**0.3**	**20.0**	**0.0**	**20.0**	**0.3**	**20.3**
a	*General*	0.0	0.0	0.3	9.0	0.0	9.0	0.3	9.3
b	*Creation of Capital Assets*	0.0	0.0	0.0	10.0	0.0	10.0	0.0	10.0
c	*Salaries*	0.0	0.0	0.0	1.0	0.0	1.0	0.0	1.0
3	**Indian Institute of Technology, AP**	**0.0**	**18.0**	**29.0**	**50.0**	**51.3**	**50.0**	**47.0**	**148.3**
a	*General*	0.0	9.0	9.0	11.0	7.0	11.0	18.0	36.0
b	*Creation of Capital Assets*	0.0	9.0	20.0	35.0	40.3	35.0	29.0	104.3
c	*Salaries*	0.0	0.0	0.0	4.0	4.0	4.0	0.0	8.0
4	***National Institute of Technology (NIT)***	**0.0**	**0.0**	**10.3**	**50.0**	**53.8**	**54.0**	**10.3**	**114.1**
a	*General*	0.0	0.0	5.0	7.0	7.0	7.0	5.0	19.0
b	*Creation of Capital Assets*	0.0	0.0	5.3	40.0	40.0	40.0	5.3	85.3
c	*Salaries*	0.0	0.0	0.0	3.0	6.8	7.0	0.0	9.8
5	**Indian Institute of Management(IIM)**	**0.0**	**13.0**	**18.0**	**40.0**	**41.0**	**42.0**	**31.0**	**112.0**
a	*General*	0.0	3.0	6.9	10.0	10.0	20.0	9.9	29.9
b	*Creation of Capital Assets*	0.0	10.0	6.7	28.0	28.0	18.0	16.7	72.7
c	*Salaries*	0.0	0.0	4.4	2.0	3.0	4.0	4.4	9.4
6	**Indian Institute of Science Education and Research(IISER)**	**0.0**	**5.0**	**36.0**	**50.0**	**50.0**	**49.0**	**41.0**	**141.0**
a	General	0.0	3.0	9.0	11.0	11.0	11.0	12.0	34.0
b	Creation of Capital Assets	0.0	2.0	23.0	32.0	32.0	31.0	25.0	89.0
c	Salaries	0.0	0.0	4.0	7.0	7.0	7.0	4.0	18.0
7	**Indian Institute of Information Technology(IIIT)**	**0.0**	**0.7**	**17.0**	**30.0**	**20.0**	**30.0**	**17.7**	**67.7**
a	General	0.0	0.2	2.7	10.0	9.0	10.0	2.9	21.9
b	Creation of Capital Assets	0.0	0.5	14.3	17.0	10.0	17.0	14.8	41.8
c	Salaries	0.0	0.0	0.0	3.0	1.0	3.0	0.0	4.0
	GRAND TOTAL (1-7)	**0.0**	**36.7**	**110.6**	**250.0**	**216.1**	**255.0**	**147.3**	**613.3**
a	General	0.0	15.2	32.9	60.0	44.0	70.0	48.2	152.2
b	Creation of Capital Assets	0.0	21.5	69.3	169.0	150.3	158.0	90.7	410.0
c	Salaries	0.0	0.0	8.4	21.0	21.8	27.0	8.4	51.2