Consolidated Fund of the State

Taxes
Duties etc.

Developmental Welfare activities
Legislative control over expenditure from the Consolidated Fund of the State

- Legislature has the authority over the Public Fund
- Government is the executive agency to give effect to the policy decisions of the Legislature on all money matters.
- Government prepares an Annual Financial Statement showing Receipts and Expenditure of the government for the ensuing year (Article 202 of the Constitution of India)
Annual Financial Statement - Budget

- For successful financial management, government needs advance planning and accurate estimation.
- Under Art. 202 of the Constitution of India, a statement of the estimated receipts and expenditure of the State for each financial year has to be laid before the Legislature.
- This statement is known as the “Annual Financial Statement” or popularly known as ‘Budget’.
- It has been derived from a French word “bougette” which means a leather bag or wallet.
Annual Financial Statement-Receipts of the Government

- Revenue Receipts
  - Tax Revenue
    - **GST** (earlier called share of Central taxes)
    - Taxes on Commodities and Transactions (Other than GST)
    - Taxes on Property and Capital Transactions (e.g. Stamp duty)
Annual Financial Statement-Receipts of the Government

• Revenue Receipts
  • Non-Tax Revenue
  ➢ Interest Receipts
  ➢ Receipts on Departmental Services
  ➢ Grants-in-aid from GOI
Annual Financial Statement-Receipts of the Government

- Borrowings
  - Internal Debt of the State Government from open market (State Developmental Loans), from RBI, from External Agencies
  - Loans and Advances from GOI
Annual Financial Statement- Expenditure of the Government

- Revenue Expenditure
  - **Salary Expenditure**
    - Pay and Allowances of the Government Employees, salaries of aided institutions
  - **Non-salary Expenditure**
    - Office and other expenditure which includes Printing charges, Stationery, Rent, Hiring Charges of vehicles, Electricity charges, Maintenance work etc.
    - Interest Payment
    - Subsidies
    - Grants in-aid to Local Bodies, Universities and other implementing agencies.
Annual Financial Statement- Expenditure of the Government

• **Capital Expenditure**
  - Expenditure of a capital nature such as construction of buildings, laying of roads, irrigation and electricity projects.
  - Repayment of Debt
  - Capital expenditure is generally met from sources other than current revenues, e.g. loans, surplus revenue of previous years, if any, and capital receipts.
Annual Financial Statement-sections

The annual financial statement is shown in three parts.
I. Consolidated Fund of the State
II. Contingency Fund of the State and
III. Public Account of the State
Annual Financial Statement- Consolidated Fund of the State

- The Consolidated fund of the State is formed out of all revenues received by the Government, all loans raised by that Government by the issue of treasury bills, loans / Ways and Means Advances and all moneys received by the Government in repayment of loans (Article 266 (I) of the Constitution of India).

- The amount can be spent from the Consolidated Fund if it is approved by the Parliament/ Legislature by way of Appropriation Act
Contingency Fund is in the nature of an imprest created by non-recurring contribution from the Consolidated Fund and intended to provide advances to meet unforeseen expenditure, not provided in the Budget. The Fund is recouped after each withdrawal as soon as the expenditure gets regularized by means of Supplementary Budget. (Art 205 and 206).

The present corpus of the Government of Andhra Pradesh is Rs 50 crore.
Annual Financial Statement-Public Account of the State

- Public Account of the State relates to all Public moneys received by or on behalf of the State Government which are not creditable to the Consolidated Fund of the State.
- It records transactions like Provident Funds, Deposits and Advances for which Government acts as a banker. It also includes certain adjusting heads (Suspense and Remittances) and Reserve Funds.
- Expenditure on paying back these amounts do not require the vote of the Legislature.
Annual Financial Statement-Voted and Charged Expenditure

- Voted expenditure is subject to the vote of the Legislature. (Example: Expenditure on a scheme ‘Anna Amrutha Hastham’ (AAH) of Women & Child Welfare Department).

- Charged Expenditure is not subject to the vote of the Legislature (Example: Interest payment on GPF)
Classification structure for Budget

- Considering the magnitude of Government expenditure, it is essential to know at a glance the purpose on which Government money has been spent.
- This has been achieved by adopting a 6-tier classification for accountal of each of the government transactions.
Classification structure for Budget

- Major head (4 digit code)- Functions of the Govt.
- Sub-Major head (2 digit code)- Sub- functions
- Minor Head (3 digit code) – Programme under each function/Sub-function
- Group sub-head (2 digit code)- Source of funding the scheme (State Development Scheme, Central Sector Scheme, Centrally Assisted Scheme, Externally Aided Scheme)
- **Sub-head (2 digit code)**- Scheme under each programme or minor head
  - Detailed Head (3 digit code)- nature or purpose of expenditure (e.g. Salary)
  - Sub-detailed head/ Object head (3 digit code)- object of expenditure (e.g. HRA)
Classification structure for Budget

• Classifications are further categorized under Sectors for grouping of the various functions of the Government.

• The Sectors are:
  A. General Services
  B. Social Services
  C. Economic Services
  D. Grants in aid and Contributions
Budget Preparation - Required Data

**Number Statement:** According to Para 13.2.1 of the A.P. Budget Manual, the HODs and the Other Estimating Officers have to submit Number Statements to the Finance Department giving -

- particulars of posts of Permanent, Temporary and Supernumerary establishment (both Gazetted and Non-Gazetted)
- the sanctioned monthly pay, the Special pay if any and the fixed allowances that will be drawn on the 1st April of the following year
- Number of Officers at the each rate of pay for whom provision will be made in the Departmental Estimates
Budget Preparation

• Required Data:
  • Actuals, RE and BE
    - Accounts or Actuals of a year denote amount of receipts and disbursements for the financial year for which accounts have been finally closed by the Accountant General (Budget year less two years)
    - Revised Estimates (RE) denotes preceding year’s probable receipts and disbursements, taking into account the transactions which have already taken place in the course of the year. Revised estimates is not an Appropriation but considered as the basis of the estimation for the budget year. (Budget Year less one year)
    - Budget Estimates (BE) is the detailed estimates of Receipts and Payments of the Budget year
Demand for Grants

- The estimates of expenditure from the Consolidated Fund which require Legislative approval are presented in the form of Demand for Grants.
- Demand for Grants are prepared Secretariat Department-wise and Head of the Department (HOD)-wise.
- No HOD to cross more than one Demand for Grants
- Presently, Government of AP has 40 Demand for Grants.
- For example [Grant No XX](#) relates to Labour and Employment Department
Approval of the Budget

- After the Demands are voted by the Assembly a Bill called ‘Appropriation Bill’ shall be introduced in the Legislative Assembly for authorization and then it has to be approved by the Governor.
- The Appropriation Bill then becomes the Appropriation Act which empowers the Government to draw money from the Consolidated Fund of the State.
Budget Documents

- Budget Speech
- Annual Financial Statement and Explanatory Memorandum on Budget - Volume I/1
- Statement of Demand for Grants - Volume I/2
- Detailed Estimates of Revenue Receipts - Volume II
- Department-wise Demand for Grants - Volume III/1 to 17
- Public Accounts - Volume IV
- Annexure to Budget (Telugu & English) - Volume V/1&2
- Andhra Pradesh Budget in Brief - Volume VI
- Outcome Budget - Volume VII/1 to 3
- Appendix A & B to the Budget - Volume VIII/1&2
- Analysis of the Demand for Grants by the Ministers - Volume IX
- Government Commercial Undertakings - Volume X
Comprehensive Budget Release Order (CBRO)

- CBRO system has been introduced to facilitate timely availability of Funds to the implementing agencies.
- The system enables the Departments to distribute the budget allotted to them in accordance with the annual work plan, programme priorities and specific monthly requirements of the Departments rather than distribution in equal quarterly instalments.
- Secretariat Departments and the Chief controlling Offices prepare the Budget distribution statement online for the entire approved budget provision for the year and submit to the Finance Department.
- Finance Department issue CBRO.
- In respect of Centrally Assisted State Development Schemes (Group Sub-head 12) and matching share of the State Government (Group Sub head 06), BROs are issued after receipt of the funds from the GOI.
Comprehensive Budget Distribution Order (CBDO)

- Based on the CBRO, the Chief Controlling Officers prepare Comprehensive Budget Distribution Orders duly distributing the approved budget amongst the Sub-ordinate Controlling Officers (SCO(s)) as well as the Drawing and Disbursing Officers (DDO(s)) for all four quarters of the financial year and release the same.
Re-appropriation

- As per 17.4 of AP Budget Manual, the HODs are authorized to re-appropriate funds from one unit of appropriation to another unit of appropriation under their control subject to the following restrictions:
  (i) From one Grant to another Grant.
  (ii) Between Revenue, Capital and Loans Sections
  (iii) Expenditure on New services / Projects/ Schemes for which there was no budget provision initially.
  (iv) From Charged provisions to Voted Provisions or vice versa.
  (v) Re-appropriation for accommodating Recoveries.
Re-appropriation

One general condition of re-appropriation is that it should not be rushed through at the fag end of the financial year to prevent the lapse of an appropriation.
Reconciliation

- All the DDOs are to prepare an expenditure Statement and also the Statement Receipts every month and reconcile the figures with Treasury before 4th of the succeeding month to which they relate.

- Chief Controlling Officer/ HOD is required to reconcile his department’s accounts with AG’s figures and issue monthly Reconciliation Certificates to AG every quarter.
Financial Management

- In our parliamentary set up, overall process of control over the financial administration in a state is threefold:
  (a) legislature control
  (b) executive (administrative) control
  (c) audit control.
Financial Management

**Legislature control:** Legislative control over the finances is exercised mainly in two stages.

- The first is at the time of policy making and the second in controlling the implementation of the policy.
- The legislature has the control of the purse and determines the manner of raising the resources and the quantum and how the money so raised shall be spent.
- The initial control is exercised at the time of presentation of the annual budget or the annual financial statements showing the estimated receipts and proposed expenditure.
Financial Management

- **Executive (Administrative) Control:**
  
  The administration is engaged in carrying out the policies accepted to the legislature. It is accountable to the legislature regarding the manner in which it has collected money as authorized by legislature and utilized them for implementation of the policies laid down by the legislature and on the specified objects.
Financial Management

• **Audit control:** -The scope of the state audit encompasses the following elements:
  
  • **Fiscal accountability:** -which includes fiscal integrity, full disclosure and compliance with applicable laws and regulations.
  
  • **Managerial accountability:** -which is concern with efficiency and economy in the use of public funds, property, personnel and other resources; and
  
  • **Programme accountability:** -which is concern with whether government programmes and activities are achieving the objectives established for them with due regards to both costs and results.
Some Definitions

- **Revenue Deficits** = Revenue Receipts - Revenue Expenditure

- **Fiscal Deficits** = Total Receipts (Revenue Receipts + Recoveries of Loans + Other capital Receipts) - Total Expenditure (Revenue Expenditure + Capital Expenditure + Disbursement of Loans)

- **Effective Revenue Deficits** = Revenue Deficits - Grants for creation of capital assets.
Fiscal Responsibility and Budget Management (FRBM) Act

- The FRBM Bill / Act provides rules for fiscal responsibility of the Central Government. The FRBM Act 2003 (as amended) became effective from July 5, 2004

- **Objectives of FRBM Act 2003**
  - To reduce fiscal deficit
  - To adopt prudent debt management.
  - To generate revenue surplus.

- The FRBM Act succeeded in disciplining the states, because the states cannot borrow without the permission of the Centre.
FRBM Act-Three Planks of Strategy

- Limits on government borrowing under a time bound programme to altogether eliminate revenue deficit and bring down fiscal deficit

- Bringing a medium term perspective in Budget planning through the introduction of certain statements to accompany the budget document.

- Improving transparency in the fiscal operations of the government in order to avoid any window dressing in meeting the deficit targets as well as improving fiscal discipline.
Features of the FRBM Act/Rules

- In Finance Act 2015, the target dates for achieving the prescribed rates of effective deficit and fiscal deficit were further extended. The effective revenue deficit which had to be eliminated by March 2015 will now need to be eliminated only after 3 years i.e., by March 2018.

- The 3% target of fiscal deficit to be achieved by 2016-17 has now been shifted by one more year to the end of 2017-18.
Andhra Pradesh FRBM Act/Rules

- The macro economic framework statement is mandatory under section 5 and 6 of the Andhra Pradesh Fiscal Responsibility and Budget Management (APFRBM) Act – 2005.
- The Strategy Statement shall include a policy overview and the outlook for the ensuing year on taxation, expenditure, borrowings, sinking and contingency fund.
Andhra Pradesh FRBM Act/Rules

- As mandated in the above Act:
  - to eliminate Revenue Deficit by 31st March, 2009 by reducing 0.32 percentage points in GSDP every year.
  - fiscal deficit had to be brought down to 3% of GSDP by reducing 0.25 percent points every year.
  - Composite state of AP maintained revenue surplus every year during the 13th FC period.
  - consequent on bifurcation the year 2014-15 resulted in revenue deficit
Andhra Pradesh FRBM Act/Rules

- As recommended by the 14th Finance Commission, the State Government has been declared as Revenue Deficit for the commission period i.e. from 2015-16 to 2019-20. However, Fiscal deficit to be below 3% of GSDP for the above period.

- In the present post bifurcation scenario, it is not possible to adhere the conditionalities prescribed in the APFRBM Act, 2005 and the State Government is also pursuing with Government of India for relaxation of FRBM targets.
### Fiscal Indicators- Government of Andhra Pradesh

(Rs in crore)

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<tr>
<th>Sl No</th>
<th>Item</th>
<th>Actuals 2015-16</th>
<th>RE 2016-17</th>
<th>BE 2017-18</th>
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<tbody>
<tr>
<td>1</td>
<td>Revenue Deficit</td>
<td>-7301.86</td>
<td>-4597.50</td>
<td>-415.80</td>
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<tr>
<td>2</td>
<td>Fiscal Deficit</td>
<td>-21862.56</td>
<td>-19163.07</td>
<td>-23054.44</td>
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### Fiscal Indicators - Government of Andhra Pradesh

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<th>RE 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gross Fiscal Deficit as percentage of GSDP</td>
<td>-3.58</td>
<td>-3.06</td>
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<tr>
<td>2</td>
<td>Revenue Deficit/Surplus as Percentage of GSDP</td>
<td>-1.20</td>
<td>-0.73</td>
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<tr>
<td>3</td>
<td>Total Liabilities - GSDP Ratio (%)</td>
<td>30.06</td>
<td>30.80</td>
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</tbody>
</table>
Thank You