



GOVERNMENT OF ANDHRA PRADESH
IV STATE FINANCE COMMISSION

REPORT
OF
IV STATE FINANCE COMMISSION
30TH OCTOBER, 2019

FOREWORD

His Excellency, Sri E.S.L. Narasimhan, the then Hon'ble Governor of Andhra Pradesh, re-constituted the Fourth State Finance Commission, appointing me as its Chairman, Professor V. J. Naidu (Retd.), Professor B. Nagaraja (Retd.) and Sri T. Bhaskar Rao as Members and Sri. I. Satyanarayana (Retd.) as Member-Secretary, vide G.O.Ms.No.20, Finance (CASP&FC) Department, dated 05-02-2018 for a period of three years (03) from the date of assumption of charge. Along with three members and member-secretary, I have assumed office on 22-02-2018. However, owing to non-availability of office accommodation, supporting staff and other necessary infrastructure, the Commission could not immediately become fully functional.

The Commission has visited 9 out of 13 districts of Andhra Pradesh for 5 months from October, 2018 to February, 2019 to interact with the functionaries of three tiers of PRIs and ULBs and with all institutions and their hierarchy. During the field visits, the Commission canvassed six types of questionnaires prepared for collection of data on their revenue, expenditure and debt dynamics to analyze their revenue mobilization capacity and expenditure-efficiency for two periods. i.e. for the years 2014-15 to 2018-19 (Reference period) and for the years 2020-21 to 2024-25 (Award period) and we are in the last year of the award period of 14th Finance Commission. As per ToR vide G.O.Ms.No.64, Finance (CASP&FC) Department, dated 15-05-2018, the Commission was expected to make the report available on or before 30th October, 2019 covering a period of forthcoming five years commencing on the 1st day of April, 2020.

The Commission is of the view that 3Fs - Functions, Funds and Functionaries are important for revitalizing the local governments so as to ensure a qualitative delivery of public services at local level.

The State of Andhra Pradesh which was bifurcated into Andhra Pradesh and Telangana through A.P. Reorganization Act-2014 w.e.f. June 2, 2014 has been facing a stress and is considered as 'fiscally strained state'. The structure of the economy was

shifted from predominantly services to enhanced agricultural share, which had a deep negative impact on revenue raising potential of the State. Consequently the State of Andhra Pradesh moved into revenue surplus to revenue deficit during the post-bifurcation period. The estimations of revenue deficit touched the figure of 25.9 per cent of the GSDP and the debt matrix shows the amount of Rs.2,76,537crore (as on 30th September,2019), which is saddled with 61.3% of open market loans.

With this background of fiscal distress, the Commission undertook the onus responsibility of recommending the necessary measures to augment the revenue resources and their efficient application, which reduces the fiscal dependency and promotes autonomy. This report aims at redefining the revenue-expenditure matrix by detailed studies, interactions, expert advice, surveys and analysis of secondary data and also studying the best practices in other states of our country. Being guided by these responsibilities, the Commission honored the methodologies adopted by the previous State Finance Commissions of Andhra Pradesh and also adopted new innovations and methodology for estimating the projected revenue and expenditure of local governments for the award period, considering 2019-20 as the base year and to arrive at normative estimations of revenue gap and funds to be devolved to local governments.

This Report is the result of 17 months of effort, based on the cooperative guidance of Government of Andhra Pradesh and the Finance Department, Government of AP. The Commission had useful discussions with some of the distinguished personalities, experts and officers, representatives of different associations and the public, specifically the academic experts of various universities, experts from institutions like CESS and Finance Commission wing in Finance Department in the A.P. Secretariat, Amaravati. Specially thankful to Sri M.Ravi Chandra, IAS., the then Secretary to Government, Finance Department, Sri S.S. Rawath, IAS., present Principal Secretary to Government, Finance Department, Sri K.S. Jawahar Reddy, IAS, the then Principal Secretary to Government, PR & RD Department and to Sri KarikalaVelavan, IAS, the then Principal Secretary to Government, MA & UD Department.

Further each and every officer in the Panchayat Raj and Rural Development and Municipal Administration helped us a lot to enrich the data base for the analysis. The primary sources of information for the completion of the report are former Sarpanches, Special Officers, MPTCs, ZPTCs, CEOs, DPOs, EOs and Regional Directors and the chief officers of all Municipalities and Nagar Panchayats, who have given us an opportunity to interact not only with functionaries but also with public, beneficiaries of local governments and provided valuable information for the preparation of this report. The Commission is highly thankful to all of these functionaries, officers of local governments for their immense cooperation.

The Commission is profusely grateful to Professor V. Jayasimhulu Naidu and Professor B. Nagaraja, Members of the Commission, who have conceptualized and relentlessly worked for the finalization of the report. Sri T. Bhaskar Rao, Member and Sri .I. Satyanarayana, Member-Secretary strived for providing excellent guidance in conducting the interaction sessions at the districts visited and getting valuable inputs for preparation of this report. I extend my heartfelt gratitude for their support and cooperation extended to the Commission. The Research Officer of this Commission, Dr. G. Jagadeesh, worked to the best of his capacities to motivate, train, collect, compile and process the necessary secondary and primary data and designing the meaningful tables, necessary for the analysis. I am thankful for his research contribution. The administrative staff appointed for this Commission i.e., Sri Bhaskara Babu Adari, Section Officer, Sri Achanta Satyanarayana, Accounts Officer, Sri Kakani NageswaraRao, Senior Accountant, Sri Kattepogu Suresh Kumar, PA to Chairman, Sri N. Dinesh and Smt. G. Emeema Shanthi Data Entry Operators and other supporting staff have extended their best efforts in the preparation of this Report. I am thankful to them.

I would like to thank all those who have directly and indirectly contributed and involved in giving the final shape to this Report.

The Commission trusts that the insights and the recommendations given would be highly useful to promote decentralization of local governments in the State of

Andhra Pradesh for being the first report of the State Finance Commission during the Post-Bifurcation period.

With a strong determination that inclusive growth, the primary objective of our planning, can be achieved only through inclusive local governance and that the key to this endeavour is an effective and well functioning system of Panchayat Raj Institutions and Urban Local Bodies. We feel privileged that we were given an opportunity to deal with this fiscal-assignment, I am glad to submit the report of the Fourth State Finance Commission to His Excellency Sri Biswa Bhushan Harichandan, the Governor of Andhra Pradesh.

Station : Tadepalli, Guntur District, (AP)
Date : 30 -10-2019

(Prof. G. Nancharaiah)
Chairman, IV SFC

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CHAPTER-I

Introduction

CHAPTER - I

INTRODUCTION

1.1 Constitution of IV State Finance Commission

The Governor of Andhra Pradesh constituted the Fourth State Finance Commission as envisaged under Article 243-I and Article 243-Y of the Constitution of India and as provided in Sec.235 of the Andhra Pradesh Panchayati Raj Act 1994, and Sec.132-A of Municipal Act 1994, vide notification dated 05-02-2018 with the following members for a period of 3 years from the date of assuming office.

1. Prof. Gummati Nancharaiiah, Chairman
Emeritus Professor,
School of Economics,
University of Hyderabad.
2. Prof. V. Jayasimhulu. Naidu, Member
Professor of Economics (Retd),
Sri Venkateswara University, Tirupati.
3. Prof. B. Nagaraja, Member
Professor of Economics (Retd),
Sri Venkateswara University, Tirupati.
4. Sri Thumula Bhaskar Rao, Member
Bobbili, Vizianagaram District.
5. Sri Inaganti Satyanarayana, Member Secretary
Director (Retd),
Planning Department,
Andhra Pradesh Secretariat.

1.2 Terms of Reference

1.2.1 The Finance Commission has been required to review the fiscal position of PRIs and ULBs in the State and make recommendations to the Governor as to:

- a) The principles which should govern:
 - i. The distribution between the State Government and PRIs, ULBs of the netproceeds of the taxes, tolls and fees liveable by the State, which may bedivided between them and the allocation between said bodies, at all levels, oftheir respective shares of such proceeds;
 - ii. The determination of the taxes, duties, tolls and fees which may be assigned to or apportioned by PRIs and Municipal bodies;
 - iii. The sharing of Grants-in-aid to the PRIs (Zilla Parishads, Mandal Parishads and Grama Panchayats) and Municipal Corporations, Municipal Councils and Nagar Panchayats from the Consolidated Fund of the State;
- b) The measures needed to improve the financial position of the said PRIs and Municipal bodies including measures for improving the management ofavailable resources;
- c) An assessment of the financial requirements of the PRIs and Municipal bodiesas well as ways and means to augment their resources;
- d) While making its recommendations, the SFC has been required to makeprojections of the finances of PRIs and ULBs for the period 2020-25, dulytaking into account:
 - i. The resources of the State Government and its committed liabilities;
 - ii. Scope for additional resource mobilization by PRIs and ULBs and
 - iii. Likely grants from State Government and Central Finance Commission.

1.2.2 A copy of the notification fixing the Terms of Reference is given in **Annex. Table-1.1**

1.2.3 The Commission has been required to submit its report by 30thOctober, 2019.

1.3 Establishment of Commission's Office

Though the members of the Commission assumed office on 22-02-2018, it took some time to organize the office of the Commission at Vijayawada and get the required staff appointed. The Commission requested the Government to sanction positions of 1 Senior Consultant, 2 Research Officers/ Statistical Officer / Consultant, 2 Research Associates. But only one position of Research Officer was sanctioned. The last person appointed took charge only in the month of December, 2018. Though the Commission is appointed for a period of 3 years, it has been required to submit its report by Oct 2019, i.e., within 18 months of appointment. Notwithstanding the time and staff constraints, the Commission did its best to undertake the task of studying the finances of PRIs, ULBs and GoAP to make appropriate recommendations in tune with the TOR.

1.4 Working of the Commission

1.4.1 The Commission held its first and second meetings on 26-07-2018 and 30-08-2018 in which key decisions relating to the approach and work of the Commission were finalized. Based on the decision taken, key Departments, Directorates /Commissionerate and Para-statal agencies connected with the tasks ahead of the Commission were identified and initial contacts were established. Most of the Departments / Directorates appointed nodal officers to interact with the Commission on a regular basis and to provide information.

1.4.2 Second, elaborate questionnaires were designed in-house to collect secondary information on functions, functionaries and finances from the Departments / Directorates / Agencies such as the office of the Commissioner of Panchayati Raj and Rural Development, Office of the Commissioner, Municipal Administration and Urban Development, Guntur Department of Public Health Engineering, Department of Mines and Geology, Ibrahimpatnam, Department of Commercial Taxes, Vijayawada. Based on the initial information collected, formats were also designed to collect information on the finances of PRIs and ULBs as well as the services provided by them during the period 2014-15 to 2019-20. In parallel, detailed information was also collected on state finances from the budget documents, as well as from the Finance Department, GoAP.

1.4.3 Third, detailed schedules / questionnaires / formats were also prepared to collect disaggregated data from 3-tiers of sample PRIs (Gram Panchayats, Mandal Parishads and Zilla Parishads) and 3 types of sample municipal bodies (Municipal Corporations, Municipal

Councils and Nagar Panchayats) across the State. These tools were then sent to the sample PRIs and ULBs for compilation. The Research Officer of the Commission guided the sample PRIs and ULBs in the compilation of information required by the Finance Commission.

1.4.4 After a quick perusal of basic information collected, the Commission then decided to undertake the following activities:

- Meeting with key officials of the relevant Departments / Commissionerate / Directorates related to local governments;
- Conduct of Commission sittings in Vizianagaram, Visakhapatnam, West Godavari, Krishna, Guntur, Prakasam, Nellore, Chittoor and Kadapa districts of the State;
- Entrust a study to CESS on Finances of PRIs and ULBs;
- Discussion with key public representatives and tax payers' associations.

1.5 Meeting with Key Officials

Members of the Commission had a one to one meeting with Principal Secretary, Panchayati Raj and Rural Development, Principal Secretary, Municipal Administration and Urban Development, Principal Secretary, Finance Department, Director / Additional Director of Commissionerate of Municipal Administration and Urban Development, Commissionerate of Rural Development, Directorate of Mines and Geology, Department of Public Health Engineering, Swatch Andhra Corporation, Vijayawada. The List of Officials met with is furnished in **Annex. Table-1.3**.

1.6 District Visits

1.6.1 To assess the field realities of PRIs and ULBs, the Commission visited different districts and conducted detailed interactions with the elected representatives (past and present), key officials and general public. The details are furnished in the **Annex. Table 1.2**.

1.6.2 These meetings, interactive sessions and visits enabled the Commission to understand the actual financial situation of the PRIs and ULBs and the adequacy and quality of services provided by them. The sittings of the Commission in the districts provided an opportunity to different stakeholders to represent their specific problems and grievances. Written representations were invited and received in these sittings. Issues relating to administration, financial management, human resources, tax and non-tax revenues, trends in

expenditure and transfers from the GoAP, CFC and GOI, range of civic and development services provided, were presented to the Commission.

1.6.3 These interactions enabled the Commission to have a clear picture of the fiscal and non-fiscal issues confronting the PRIs and ULBs. The feedback received from the districts acted as a major source of information to the Commission to assess the fiscal situation of the local bodies and make appropriate recommendations. Further, during the district visits, the staff of the Commission collected additional information on the sample PRIs and Municipal bodies, using the tools prepared and circulated earlier.

1.7 Entrustment of a Study to CESS

In addition to the sample data collected by the Commission, a study was entrusted to CESS, Hyderabad. The study was intended to provide certain additional information to the Commission on the Finances of GoAP, PRIs and ULBs in the State. The Study, however, was commissioned only in 08-04-2019, with the approval of the Government. CESS has submitted an interim report which was also reviewed.

1.8 Discussion with Key Stakeholders

The Commission also met with several public representatives and heard their views on different aspects of the TOR. These include former members of the State Finance Commission, representatives of Tax Payers' Association, retired officials of relevant departments, university faculty and others.

1.9 Discussion with Fifteenth Finance Commission

The SFC held brief discussions with the Chairman and Members of XV Central Finance Commission on 12th October, 2018 at AP Secretariat.

1.10 Key Issues

Based on visit to different districts and interaction with several key stakeholders as well as analysis of secondary and primary data, the Commission has identified several key issues that are affecting both the rural and urban local bodies.

1.11 Bifurcation of the State

The bifurcation of the erstwhile state of Andhra Pradesh has indirectly affected the fiscal position of the PRIs and ULBs. Prior to bifurcation, the State Government had surplus

on revenue account and a fiscal deficit within the stipulated norms. After bifurcation, the State has been experiencing large deficits on revenue account, affecting the ability of the state to support the PRIs and ULBs.

1.12 Increasing Fiscal Dependence

The second important issue that has been identified is the increasing reliance of PRIs and ULBs on transfers from Central Finance Commission, Centrally Sponsored Programme funds and GoAP Grants. A good proportion of these grants are conditional and specific purpose transfers affecting the autonomy of the PRIs and ULBs in decision making. As the funds transferred are to be used for specific purposes, some of the specific local needs remain unaddressed, as they do not fall under the Centrally Sponsored and State programmes.

1.13 GST related Constraints

The introduction of GST has resulted in the local bodies losing their advertisement and entertainment tax powers. The State Government which receives GST collection in lieu of these taxes do not compensate the local governments on the untenable ground that the Government is meeting the salaries of provincialized staff of the PRIs and ULBs.

1.14 Impounding Revenues from Certain Taxes

The State Government has not been releasing the legitimate share of ULBs and PRIs in profession tax, surcharge on stamp duty and seigniorage collections, again on the ground that it is meeting salaries of provincialized staff. This has also adversely affected the revenues of the local governments.

1.15 Delays in Releases

Several sample Municipal Bodies and PRIs reported that there were abnormal delays in release of grants, revenues from assigned taxes and such other payments by the GoAP. These delays have not only affected the pace of expenditures but also contributed to rush of expenditure towards the closure of the financial years. Rush of expenditure affects the quality of outcomes expected of the expenditures.

1.16 Conditions on Utilization of XIV Finance Commission Grants

Though not stipulated by the XIV Finance Commission, the GoAP has imposed certain conditions on the purposes for which the XIV FC grants could be used by the GPs and

ULBs. Though the imposition of conditions has promoted certain uniformity and economy in expenditures, the restrictions have limited the autonomy of the local bodies to use the grants to suit the local conditions and priorities.

1.17 XIV Finance Commission Grants

The XIV Finance Commission recommended grants only to GPs but not to the Mandal Parishads and Zilla Parishads whereas the earlier Finance Commissions recommended grants for all 3 tiers of PRIs. This has adversely affected the finances of Mandal Parishads and Zilla Parishads. The GoAP has not compensated these bodies with additional grants.

1.18 Low Own Revenue Effort

The PRIs and ULBs have not been mobilizing the full potential of their taxes and non-taxes. For example, there is a good deal of property tax potential that remains to be mobilized both in Panchayats and Municipal bodies. Arrears in tax collections have been on the increase. Lack of prompt initiatives on the part of local governments to collect the arrears has resulted in accumulation of arrears in respect of many taxes. The State Government on its part is not allowing the ULBs to revise their property tax rates at least once in 5 years. There are several user charges, rates and fees, which if exploited fully, can augment the revenues of the local governments. The State Government has not implemented the recommendation of the XIV Finance Commission to enhance the Professional Tax ceiling to Rs. 12,000/- per annum.

1.19 Increasing Revenue Expenditure

Despite the resource constraints, the PRIs and ULBs have been undertaking large revenue expenditure, particularly on administration / management, maintenance and sanitation. This has limited the resources available for investment in key civic infrastructure. The diversion of general fund for meeting expenditure on maintenance, outsourced sanitation workers, ad hoc staff and electricity charges were also reported across all sample PRIs and ULBs.

1.20 Delays in Capital Works

Across the sample, cost and time over-runs were observed in respect of most of infrastructure development activities, affecting the finances of the local bodies. As a result,

most of the PRIs and ULBs are not able to provide national minimum standard of services in core civic areas such as water supply, sanitation, drainage, waste management and more importantly on public health and environmental sanitation. On top of it, the State Government has been shifting certain non-core responsibilities to the local governments without providing adequate financial support. The local bodies are required to meet a part of the cost of Centrally Sponsored Programmes on their own, which is resulting in diversion of funds.

1.21 Human Resources

Several ULBs and PRIs reported that shortage of qualified staff in administration, accounts and engineering has been affecting the quality of services provided by them. Delays in recruitment and promotions were the important reasons attributed for the shortage. Further, the staff available required additional training and capacity building which do not happen at regular intervals. A direct consequence of staff shortage is the proliferation of adhoc and outsourced staff in almost every wing, adding to expenditure burden of the local governments.

1.22 Constraints Imposed by Government

Even when faced with severe fiscal constraints, the local bodies are not allowed to undertake periodic revision of taxes, fees, user charges and such other levies without the explicit approval of the government. For various reasons, the state government has been reluctant to approve tax / fees / rate changes by the PRIs in ULBs at regular intervals. Further the local governments are not empowered to initiate action under the Revenue Recovery Act for tax defaults. The local bodies are not permitted to sell the land owned by them or in some cases even lease out land for generating additional resources even for public good without the approval of the State Government.

1.23 Approach of the Commission

Notwithstanding the 73rd and 74th Constitutional Amendment Acts and the passage of enabling legislation by the State in 1994, and several steps taken to devolve functions, funds and functionaries, Andhra Pradesh continues to be a ‘devolution-deficit’ State. A study commissioned by MoPR, GOI and conducted by TISS in 2016 reveals that Andhra Pradesh lags behind all the southern states in terms of a composite devolution index used to measure the extent of actual devolution practised. Even 25 years after the passage of the enabling legislation, the PRIs and ULBs in Andhra Pradesh remain to attain the status of full-fledged

local governments. Despite several policy pronouncements, line departments and para-statal agencies continue to plan and implement several functions which fall within the functional domain of PRIs and ULBs. This is particularly the case in respect of Mandal Parishads and Zilla Parishads, in the name of which several line departments and para-statal agencies plan and implement several schemes which fall within their constitutional jurisdiction. The Commission earnestly hopes that the State Government would give the necessary functional and financial autonomy as well as administrative powers to the local governments to realize the actual intent of the Constitutional Amendment Acts and the enabling Panchayati Raj Act(1994) and Municipal Act (1994). In its approach, methodology and recommendations, the Commission is guided by the intent and spirit of the Constitutional Amendments and the enabling State Acts.

1.24 Vertical Tax Transfers

The Fourth State Finance Commission is of the opinion that tax transfers from the State Government to the PRIs and ULBs should play a greater balancing role in reducing the vertical fiscal imbalance, instead of grants-in-aid. There are several merits in giving pre-determined share to local governments in net State's own tax revenue (SOTR). First, a pre-determined share in SOTR would give autonomy to the local governments necessary to plan and implement development activities in line with their preferences. Second, a share in SOTR, being in the nature of general transfers, has substantial 'income effect' that enhances fiscal autonomy. Third, a share in State tax revenue confers the advantages associated with buoyant revenues. Whenever, SOTR increases, the local bodies would receive incremental amounts. Further, providing a share in 'net' tax revenues would enable the State to meet the cost of collection from the gross revenues. Fourth, in the context of GST replacing entertainment tax and advertisement tax, there is even greater justification for the State government sharing SoTR with local bodies. Besides, a share in tax revenues would enable the local governments to meet both revenue and capital expenditures, as required from time to time. Finally, the Commission is of the opinion that tax shares should be provided on the basis of current year budget estimates and variations if any adjusted in the following years.

1.25 Horizontal Tax Transfers

Horizontal distribution of tax transfers, based on uniform and objectively verifiable indicator such as population would eliminate the element of discretion in inter-governmental transfers. If each local government is aware of the envelope of resources that it is most likely

to get, it would enable advance planning and prioritization of development activities. However, the Commission is of the opinion that transfers based on population criterion have some inherent bias in favour of populous local bodies. Therefore, other parameters of ‘fiscal need’ would also be appropriate for making tax transfers.

1.26 Grants-in-Aid

1.26.1 The Commission expects the tax shares to play a larger role in fiscal role in meeting fiscal gap of PRIs and ULBs and the grants-in-aid from the consolidated fund of the State, a secondary role. But the grants-in-aid should not be arbitrary and discretionary in nature. While per capita grants are a traditional form of general purpose grants recommended by the SFCs, the Commission hold that certain specific purpose grants would be required to promote proper maintenance civic infrastructure built at huge cost.

1.26.2 However, the PRIs and the ULBs should be certain about the amount of grants that the government would make during each of the award years. In fact, the entire envelope of resources recommended by the SFC should be made available to the local governments in advance, such that they can plan their activities.

1.27 Union Finance Commission Grants

Further, the Commission is of the opinion that Central Finance Commission grants should be treated as a separate transfer to the Local Bodies, over and above the devolution recommended by the SFC, and the Central Finance Commission grants should be used primarily for creating new infrastructure.

1.28 Agency Functions

Over the years, the ULBs have undertaken several functions on behalf of the government such as implementation of Centrally Sponsored Programmes, pension schemes and other welfare schemes to the relative neglect of core civic functions such as water supply, sanitation, public health and environment protection. It is only appropriate that the government provides necessary funds (including matching contribution required for Centrally Sponsored Programmes) for implementing such schemes.

1.29 Own Resource Mobilization

The Commission is of the opinion that that the PRIs and ULBs should fully exercise their own tax and non-tax effort, in the true spirit of Constitutional Governments. During the

last 20 years, property taxes have not been revised. Arrears of taxes, user charges and fees had been mounting in local bodies. Therefore, the Gram Panchayats and ULBs would be expected to review the taxes, different fees, user charges and other rates at frequent intervals in order to meet the growing expenditure requirements. The Commission expects the State government to empower the local governments to undertake such effort.

1.30 Assessment of the Commission

Based on the information collected from multiple sources, the Commission assessed the fiscal situation of the GoAP, ULBs and PRIs during 2014-15 to 2019-20. Based on the trend growth in revenues and expenditures and on certain assumptions, the Commission then projected the fiscal situation of the GoAP, PRIs and ULBs for the award period 2020-25 and made its recommendations to bridge the likely resource gap of the local governments. The total funds recommended for devolution to PRIs and ULBs amounts to Rs. 40,543 Crores for the award period 2020-25. The total transfers recommended would constitute 9.76 % of the estimated own tax revenues of the State during 2020-25.

1.31 Outline of the Report

The report of the Commission is presented in 7 Chapters. Chapter-I deals with the constitution of the Commission, ToR and approach of the Commission in response to the ToR issued. The second chapter briefly describes the Powers and Functions of the PRIs and ULBs in A.P. and Devolution of the Finances from the State. Implications of the recommendations of 13th and 14th Central Finance Commissions with reference to A.P. are presented in the 3rd Chapter. This is followed by the Chapter on the Finances of GoAP. Finances of the PRIs including projections for the award period are presented in Chapter– V. Finances of ULBs are presented in Chapters VI. Summary of Recommendations are presented in the last chapter. The Annex Tables are placed at the end of the Report.

CHAPTER-II

**Powers and Functions of
PRIs & ULBs in A.P
and
Devolution of Finances
from the State**

CHAPTER – II

POWERS AND FUNCTIONS OF PRIs AND ULBs IN AP AND DEVOLUTION OF FINANCES FROM THE STATE

2.1 Devolution of Functions to PRIs

2.1.1 The issue of empowering PRIs by transferring the three Fs (functions, funds and functionaries) to them has been at the centre of discussion between the Centre and the States over the last 10 years. The Planning Commission and the Ministry of Rural Development have repeatedly impressed upon the state governments the need to transfer these three Fs in respect of 29 items listed in the Eleventh Schedule. In practice, however, while most states have transferred a large number of functions to the PRIs, this has not been accompanied by a transfer of funds and functionaries. Even in the states where funds and functionaries have been transferred to the panchayats, state government officials continue to exercise control on financial resources and the personnel transferred to the panchayats.

2.1.2 Effective devolution requires devolution of finances. The subjects earmarked for PRIs cover all the social and economic dimensions of rural life but the extent of financial devolution is not commensurate with the responsibilities. The sources of revenue that have been earmarked for panchayats are far from adequate. The power of taxation is vested only with the lowest tier of the PRI - the Gram Panchayat. The higher tiers – the Mandal Praja Parishads and Zilla Praja Parishads - do not have the power of taxation. The extent of devolution from the state level to the PRIs is also very limited. The only states where substantial resources are being transferred to panchayats are Kerala, Karnataka and Madhya Pradesh. In Kerala, 40 per cent of the state budget is placed at the disposal of the PRIs. A similar system has been introduced in Karnataka and Madhya Pradesh. The magnitude of the allocations, however, differs in Karnataka. Zilla panchayats receive higher amounts of allocations in Karnataka.

2.1.3 The basic particulars of rural areas of Andhra Pradesh and the PRIs are presented in Table 2.1

Table-2.1 Basic particulars of PRIs - AP

Indicator	Unit	State statistics
Area	Sq.km.	1,62,970
Mandal/ Tehsil	Number	660
Villages	Number	17366
Total population (Census 2011)	Crore	4.96
Rural population	Crore	3.5
Rural sex ratio	Females per 1000 Males	994
Density	Persons per Sq. Km	220
Rural literacy rate	Percentage	62.37
Male literacy rate	Percentage	70.48
Female literacy rate	Percentage	54.25
Scheduled Caste population	Percentage	17.08
Scheduled Tribe population	Percentage	5.53
Zilla Praja Parishads	Number	13
Mandal Praja Parishads	Number	660
Gram Panchayats	Number	12,918

Source: Information furnished (August 2017) by Commissioner, Panchayat Raj and Rural Development (CPR&RD) and Andhra Pradesh at a Glance published (2016-17) by Directorate of Economics and Statistics, Government of Andhra Pradesh.

2.1.4 In Andhra Pradesh 71% of the population live in rural areas having a literacy rate of 62.37% .The ST and SC population account for 22.61%. In the state of Andhra Pradesh, PRIs are structured as Gram Panchayat (12918), Mandal Praja Parishad (660) and Zilla Praja Parishad (13).

2.2 Review of Previous State Finance Commissions

So far three State Finance Commissions have submitted their Reports in Andhra Pradesh. The following Table shows the details of these Commissions.

Table 2.2. Details of State Finance Commissions in Andhra Pradesh

SFC	Date of Constitution	Date of Submission	Name of the Chairman	Award Period	Number of Recommendations Accepted
I	22-06-1994	30-05-1997	Sri Lakshmana Swamy	1997-1998 to 1999-2000	55 out of 84
II	08-12-1998	19-08-2002	Prof. D. L. Narayana	2000-2001 to 2004-2005	46 out of 82
III	29-12-2004	29-01-2008	Prof. B Satyanarayana	2005-2006 to 2009-2010	44 out of 63

Source: Reports of Successive State Finance Commissions, GoAP

Note: Government of Andhra Pradesh first constituted the Third State Finance Commission on 16-1-2003 and reconstituted the same in 2004 due to unavoidable reasons.

2.3 Recommendations of Successive State Finance Commissions

2.3.1 The recommendations made by the Central Finance Commissions were being accepted by the Government of India with a few exceptions though the Constitution does not provide that all the recommendations of the Finance Commission should be accepted by the Government. When the First generation of State Finance Commissions was constituted, it was expected that the State governments would follow the tradition established by the Union Government. It is pertinent to note that no State government has accepted all the recommendations of all the Commissions to the utter disappointment of the Local Bodies. In the case of the First State Finance Commission of Andhra Pradesh, out of 84 recommendations made, 24 recommendations were not accepted and 5 recommendations were accepted with modifications. In other words, about 70 per cent of the recommendations were accepted and some of the recommendations which were accepted were not implemented. It is interesting to note that some of the non- financial recommendations were also not accepted.

2.3.2 Moreover, in several cases, the reasons for non-acceptance of the recommendations were not stated by the Government in the Action Taken Report. In fact, this is the situation, more or less in several states. For instance, 82 recommendations, financial and non- financial, were made by the Second State Finance Commission. But the government accepted only 46 recommendations (56 per cent) while keeping 14 recommendations under consideration. The Third Finance Commission made 63 recommendations out of which 44 recommendations pertain to Rural Local Bodies (RLBs) while the remaining 19 recommendations relate to Urban Local Bodies (ULBs). Of the 44 recommendations pertaining to RLBs, 17 were financial recommendations the remaining 27 being non-financial recommendations. It is quite

disgusting to note that the government has accepted 3 recommendations only out of the 17 financial recommendations (17 per cent). With regard to the 27 non-financial recommendations, the government has unconditionally accepted 19 recommendations. The rest are either not accepted or kept pending for detailed examination. It is pertinent to note that about 8 non-financial recommendations were not implemented even though they were accepted. The Fourth State Finance Commission feels that the State government needs to take necessary initiatives to implement the recommendations it has accepted in the interest of augmenting of resources and improving the efficiency of local governance.

2.3.3 With regard to the Urban Local Bodies, the Third Finance Commission made 19 recommendations of which 10 were financial recommendations and only one recommendation was accepted. Of the total non-financial recommendations, 8 recommendations were accepted.

2.4 Financial Devolution

2.4.1 Regarding devolution of funds, the government accepted an amount of Rs. 434.42 crores per annum out of the recommended devolution of Rs.979.16 as recommended by the First State Finance Commission. This constitutes 44.37 per cent only and also did not follow the 70:30 ratio for distributing the funds between Rural and Urban Local Bodies. Government also resorted to cut the approved budget allocation meant for the Panchayats. For instance, as against the Finance Commission grants for three years during 1996-97 to 1998-99, grants for two years only were released. An amount of Rs.100 crores due for the year 1997-98 has not been budgeted for release to the local bodies badly affecting the maintenance and governance activities of the Panchayats. It is highly deplorable that in some cases, the Government has not released the grants of State Finance Commission to the concerned activity and/or institutions. For instance, the government have accepted devolution to the extent of Rs.70.47 crores per annum to the Urban Bodies. Though provision was made in the Budgets, the amounts were not actually released causing a fiscal disadvantage to the concerned local bodies.

2.4.2 Similar is the case with the recommendations of the Second State Finance Commission. The total amount recommended for devolution was Rs.1793.94 crores (Rs.1167.33 crores for PRIs and Rs.626.61 crores for Municipalities) and the amount accepted for devolution was Rs.300 crores (Rs.200 crores for PRIs and Rs.100 crores to Municipalities and Corporations) accounting for 17 percent only.

2.4.3 But the total amount of devolution released by the Government as per the recommendations of the Second State Finance Commission for the Gram Panchayats was Rs.191.40 crores. Even if the entire amount of Rs.135 crores is taken for utilization for this purpose, there will be a shortage of Rs.56.40 crores (Rs.191.40 (-) Rs.135 = Rs.56.40) per annum. This means that the government has not released the amount it has accepted resulting in a shortage of about Rs.56.40 crores. Similarly, in the case of Zilla Parishads and Mandal Parishads also, the Government have released an amount of Rs.154.70 crores out of the total amount it has accepted. Further, it is to be noted that the government either diverted or utilized for other purposes the amount released on the recommendation of the Finance Commission to Gram Panchayats. For instance, during the year 2005-06, of the total amount of Rs.200 crores released, Rs.100 crores was diverted and paid to the A.P. Transco towards the outstanding current charges. Similarly, in the year 2006- 07, out of Rs 169.45 crores released, an amount of Rs.91 crores was diverted for individual sanitary latrines.

2.4.4 The Third State Finance Commission has recommended a total amount of Rs.1274.34 crores to RLBs and Rs.489.38 crores per annum to ULBs for the period 2005-2010. But out of the total devolution recommended for RLBs only Rs.113.64 crores per annum has been accepted by the government. This constitutes about 8.9 per cent only of the total financial resources recommended by the Commission. With regard to ULBs, the government has accepted Rs 123.12 crores only out of the total devolution constituting 25.15 per cent. This shows that the government is not according much importance to the recommendations, especially to the financial recommendations of the State Finance Commissions. This may be due to two important reasons. Firstly, the government feels that the State Finance Commissions are not making accurate and comprehensive assessment of both physical and financial requirements of the local bodies. Secondly, the State government is not considering the grants made by the Union Finance Commission as an additionality. For instance, applying the recommendations of the Third Finance Commission to the 13th Finance Commission period of 2010-15, the government felt that there was no need for further devolution of funds to local bodies as they were already got the Thirteenth Finance Commission funds. The government felt “post XIII Finance Commission Report the total devolution to the local bodies amounting to Rs.1597.04 crores for Panchayat Raj Institutions and Rs.515.24 crores for Urban Local Bodies is exceeding the amount recommended by the Third State Finance Commission. Thus it was held that the constitutional and legal requirement of devolution was fulfilled” (ATR of TSFC, GoAP). This shows a nominal role

played by the State Finance Commission as far as the devolution of funds is concerned. Besides, several non- financial recommendations were also not implemented.

2.5 Powers and Responsibilities of Panchayats

2.5.1 State Legislatures have endowed Panchayats with such powers and authority as may be necessary to enable the Panchayats to become institutions of self-government at the grass-root level. Responsibility is given to them to prepare plans for economic development and social justice. Schemes of economic development and social justice with regard to 29 important matters mentioned in XI schedule such as agriculture, primary and secondary education, health and sanitation, drinking water, rural housing, the welfare of weaker sections, social forestry and so forth may be made by them.

2.5.2 As per article 243-G of the Constitution 73rd Amendment Act, “the legislature of a State may, by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of Self-Government and such law may contain provisions for the devolution of powers and responsibilities upon panchayats, at the appropriate level. Accordingly, Government of Andhra Pradesh have enacted APPR Act 1994 (Act 13 of 1994), reflecting the spirit of the Constitutional mandate. The Act came into force w.e.f. 30-05-1994.

2.5.3 The Ministry of Panchayat Raj, Government of India held Seven Round Table conferences to arrive at a blue print for effective devolution of powers to Panchayat Raj Institutions in respect of the subjects given below as per Eleventh Schedule (Article 243G).

1	Agriculture, including agricultural extension.
2	Land improvement, implementation of land reforms, land consolidation and soil conservation.
3	Minor irrigation, water management and watershed development.
4	Animal husbandry, dairying and poultry.
5	Fisheries.
6	Social forestry and farm forestry.
7	Minor forest produce.
8	Small scale industries, including food processing industries.
9	Khadi, village and cottage industries.
10	Rural housing.
11	Drinking water.
12	Fuel and fodder.

13	Roads, culverts, bridges, ferries, waterways and other means of communication.
14	Rural electrification, including distribution of electricity.
15	Non-conventional energy sources.
16	Poverty alleviation programme.
17	Education, including primary and secondary schools.
18	Technical training and vocational education.
19	Adult and non-formal education.
20	Libraries.
21	Cultural activities.
22	Markets and fairs.
23	Health and sanitation, including hospitals, primary health centres and dispensaries.
24	Family welfare.
25	Women and child development.
26	Social welfare, including welfare of the handicapped and mentally retarded.
27	Welfare of the weaker sections, and in particular, of the Scheduled Castes and the Scheduled Tribes.
28	Public distribution system.
29	Maintenance of community assets

2.6 Functions of ULBs under 74th Constitutional Amendment

The functions of a Municipal Corporation may be studied under two broad heads.

2.6.1 Compulsory Functions

- Supply of wholesome water.
- Construction and maintenance of water-works.
- Supply of electricity.
- Maintenance of road transport services.
- Construction, maintenance, naming and numbering of public places.
- Lighting, watering and cleaning of public streets and other public places.
- Removal and disposal of filth and garbage.
- Construction, maintenance and cleaning of drains and drainage works and of public latrines, urinals etc.
- Removal of dangerous buildings and obstructions in or upon streets and other public places.
- Establishment and maintenance of hospitals, maternity and child welfare centres.
- Measures for prevention and checking of contagious diseases through vaccination and inoculation, etc.

- Registration of births and deaths.
- Regulation of moratoriums, graveyards and cremation grounds and also provision of places for disposal of the dead.
- Maintenance of fire brigades.
- Provision of primary education.
- Publication of annual reports and returns on administration,
- Control and regulation of eating places and eatables.

2.6.2 **Optional Functions**

- Construction of Public Park, gardens, libraries, museums, theatres, and stadiums.
- Public housing.
- Planting of trees on road sides and elsewhere.
- Provision of relief to destitute and disabled persons.
- Destruction or detention of stray dogs, pigs and other animals causing nuisance.
- Playing of music for people.
- Civic mention of VIPs.
- Registration of marriages.
- Survey of buildings and lands.
- Organisation and management of fairs and exhibitions.

2.7 **Sources of Income**

2.7.1 The Sources of income for Municipal Corporations can be broadly grouped into two:

2.7.2 a) **Tax Revenue:** The major proportion of income of corporations flows from taxes. A corporation generally has the power to levy the following taxes:

- Property tax.
- Tax on vehicles and animals.
- Theatre tax.
- Tax on advertisements (other than newspapers)
- Profession tax.
- Education tax.
- Tax on consumption and sale of electricity.
- Betterment tax on increase in urban land values caused by the execution of any development or improvement work.

2.7.3 Tax on deeds of transfer of immovable property is collected by the State Government and the amount collected within the area under the jurisdiction of a corporation is transferred to it.

2.7.4 b) Non-Tax Revenue: The non-tax revenue includes fees and fines, grants and contributions from the government. Among its extraordinary sources may be listed loans, deposits, receipts on capital account, grants for capital works, etc.

Table 2.3 Basic details of ULBs - AP

Indicator	Unit	State statistics
Urban population	Crore	1.46
Male	Lakh	72.92
Female	Lakh	73.18
Urban sex ratio	Females per 1000 Males	1004
Urban literacy rate	Percentage	79.17
Municipal Corporations	Number	14
Municipalities	Number	73
Nagar Panchayats	Number	23

Source: Information furnished by Commissioner and Director of Municipal Administration (CDMA) and Andhra Pradesh at a Glance (2016-17) published by Directorate of Economics and Statistics, Government of Andhra Pradesh

2.7.5 It can be seen from table 2.3 that there are 14 Municipal Corporations, 73 Municipalities and 23 Nagara Panchayats in Andhra Pradesh as on 2016-17. The urban population in Andhra Pradesh was 1.46 crores, according to 2011 census. Urban sex ratio was 1004 females per 1000 males. The urban literacy rate was 79.17 percent.

2.8 Devolution of Funds to PRIs and ULBs

Andhra Pradesh was the second state in India to constitute PRIs through a legislative act in 1959. Following the 73rd amendment to the Constitution, the Andhra Pradesh Panchayat Raj Act was enacted in 1994. This Act provided for territorial constituencies for each tier. As provided for in this Act, State Election Commission was set up for the conduct of elections to PRIs. The 4th elections to Gram Panchayats and Mandal Parishads/Zilla Parishads were conducted in July, 2013 and July, 2014 respectively. Government of Andhra Pradesh devolved powers to PRIs in respect of ten subjects listed in Schedule XI of the constitution. These include agriculture, animal husbandry, rural development, fisheries, drinking water, school education, women and child development, review of activities of

primary health centres and hospital, social welfare and welfare of backward classes. A significant feature of this devolution is that PRIs are associated with the preparation and approval of action plans in respect of schemes relating to subjects devolved on them.

2.9 Devolution of funds to PRIs During 2012 – 13 to 2016 – 17

Revenue base of the PRIs is very weak. The Gram Panchayats are authorised to levy house tax, advertisement tax in addition to a number of fees. Besides own revenue, state government assigns certain revenues to the PRIs such as surcharge on stamp duty, entertainment tax, professional tax, seigniorage fee etc. The basic and performance grants recommended by 14th FC are being drawn every year by duly fulfilling the conditions prescribed. Revenue realised by the PRIs in AP is presented in Table 2.4.

Table 2.4 Revenue Realised by the Rural Local Bodies in the State
(Rs. Crore)

I. Gram Panchayats	Year				
	2012-13	2013-14	2014-15	2015-16	2016-17
Own Tax Revenue	149.14	157.96	186.33	257.95	299.6
Non-Tax Revenue	108.17	125.79	134.97	124.63	140.69
Assigned Revenue & Devolution	88.96	98.94	109.61	95.51	105.66
Grant from State Govt.	50.16	79.41	76.99	121.5	77.04
Transfer from Central Govt.	0	1115.16	1223.76	928.41	1285.44
Others	0	0	0	0	0
Total	396.3	1577.3	1731.7	1528	1908.4
II. Mandal Parishads (Block Panchayat)	Year				
	2012-13	2013-14	2014-15	2015-16	2016-17
Own Tax Revenue	0	0	0	0	0
Non-Tax Revenue	16.98	8.07	6.85	39.32	21.30
Assigned Revenue & Devolution	61.95	41.38	40.96	62.84	57.00
Grant from State Govt.	121.50	126.49	159.95	192.17	396.46
Transfer from Central Govt.	0	313.60	347.08	0	0
Others	0	0	0	0	0
Total	200.43	489.54	554.84	294.33	474.76

III. Zilla Parishads (District Panchayats)	Year				
	2012-13	2013-14	2014-15	2015-16	2016-17
Own Tax Revenue	0	0	0	0	0
Non-Tax Revenue	21.18	5.19	11.39	10.57	8.79
Assigned Revenue & Devolution	82.58	59.65	70.76	142.53	131.01
Grant from State Govt.	41.83	37.72	31.38	41.82	108.46
Transfer from Central Govt.	0	156.80	173.54	0	0
Others	45.12	43.82	50.63	51.93	143.20
Total	190.71	303.18	337.70	246.85	391.46

Source: Memorandum to the 15th Finance Commission, Finance Department, Government of Andhra Pradesh, October 2018.

2.10 Estimated Resource Gap for PRIs

2.10.1 The PRIs are expected to function as institutions of self-government, which is the core ostensible aim of the constitutional amendment. But due to weak financial base of these institutions, there is wide resource gap to attend to mandatory functions. The requirement for taking up the activities mentioned above is estimated at Rs.32,839.65 crore for the five year period, 2020-25. The resources likely to be available to PR bodies are estimated at Rs.4457.11 crore leaving a balance of Rs.28382.54 crore. Details are presented in the table 2.5.

Table 2.5 Gap in the Resources of Rural Local Bodies

(Rs. In crores)

Name of the PRI	15 th FC		
	Required Amounts	Available Amounts	Gap in Resources
I. Gram Panchayats	23418.43	2183.91	21234.52
Maintenance of CPWs Schemes & Hand Pumps	2810.50		
Maintenance of Sanitation	9100.00		
Formation and maintenance of internal roads	9000.00		
Construction and Maintenance of GP buildings	459.00		
Construction of New GP Buildings	0		
Solar Energy for GP Buildings	140.93		
Other Amenities (street lights, parks & playgrounds, creating barrier)	111.40		
Free Approaches to Differently Abled Persons	38.40		
e-Panchayats	751.20		

Name of the PRI	15 th FC		
	Required Amounts	Available Amounts	Gap in Resources
II. Mandal Praja Parishads	1422.77	370.20	1052.57
Maintenance of Hand Pumps	200.00		
Maintenance of Roads and Buildings	1000.00		
Maintenance of Mandal Parishad Buildings	64.10		
Solar Energy for MP Parishad Buildings	60.72		
Mandal Resource Centres	0		
Hiring of Vehicles	97.95		
e-Panchayats	0		
III. Zilla Praja Parishads	7998.45	1903.00	6095.45
Maintenance of CPWs Schemes	5491.73		
District Rural Road Maintenance	2500.00		
Maintenance of Zilla Parishad Buildings	6.72		
Provision of Crucial Balancing Fund for 9 Non – BRGF Districts	0		
e-Panchayats	0		
Grand Total (I+II+III)	32,839.65	4457.11	28382.54

Source: Memorandum to the 15th Finance Commission, Finance Department, Government of Andhra Pradesh, October 2018.

2.10.2 The earlier Central Finance Commissions have awarded grants to all the three tiers of local bodies. Fourteenth FC awarded grants to only Gram Panchayats and did not award grants to other two tiers i.e., to Mandal Praja Parishads and Zilla Praja Parishads. These two tiers are also essential to take care of the rural population.

2.11 Urban Local Bodies

2.11.1 Andhra Pradesh had a well-established Municipal Administration even before the enactment of Constitution 74th Amendment Act. The first municipal body was constituted for Bheemunipatnam town in Visakhapatnam District in the year 1851 (Presently this ULB is merged in GVMC) and Srikakulam ULB was constituted in 1856.

2.11.2 The level of Urbanisation in AP is 29.43 % as compared to the country's 31.16% as per 2011 Census. In absolute numbers, the State's Urban population is Rs.1.46 crore out of the total State Population of 4.94 crore. One of the significant features of the present census in AP is that, 2001-2011 is the first decade which recorded the highest increase in urban population compared to the previous census periods. In absolute terms, the urban population of the State has increased by 25, 18,512 (as per re-cast data) during 2001-2011.

2.11.3 At present, there are 110 ULBs in the State (statutory towns) of which 14 are Municipal Corporations, 73 are Municipalities and 23 are Nagar Panchayats. (See Table 2.3)

2.12 Devolution of Funds to ULBs

2.12.1 ULBs were earlier entrusted with 13 functions out of 18 functions listed in the 12th schedule to the Constitution. Recently, four more functions viz. planning for development, urban forestry and welfare of weaker sections and promotion of cultural and educational aspects were transferred to ULBs. Own Resources raised and Transfer of Resources to ULBs during the period 2010–11 to 2017–18 are presented in Table 2.6.

Table 2.6 Revenue Realised by the ULBs in the State (Rs. Crore)

Year	Sources of Revenue						
	Own Revenue			Transfers from Central Govt/ 13 th FC/ 14 th FC*	Assigned + Devolution	Grant -in - Aid from State Government	Total
	Tax Revenue		Non-Tax (Incl. user charges)				
	Immovable Property Tax	Other Taxes					
2010-11	401.03	202.15	417.80	94.64	201.78	109.95	1,427.35
2011-12	523.12	196.63	426.36	59.14	254.31	118.18	1,577.73
2012-13	649.93	234.85	474.35	-	252.76	172.25	1,784.14
2013-14	643.95	235.97	538.40	-	224.59	275.74	1,918.66
2014-15	711.36	284.63	640.38	633.15	346.16	295.30	2,910.98
2015-16	812.94	362.81	657.68	331.47	352.60	400.59	2,918.10
2016-17	856.38	437.91	940.87	611.47	324.67	429.94	3,601.23
2017-18	945.07	429.60	1,064.84	504.94	349.41	367.43	3,661.29
Total	5,543.78	2,384.56	5,160.66	2,234.81	2,306.27	2,169.38	19,799.48

*The performance grants recommended by the 14th FC are being drawn every year by duly fulfilling the conditions prescribed.

Source: Memorandum to the 15th Finance Commission, Finance Department, Government of Andhra Pradesh, October 2018.

The following three Assigned Revenues are being assigned from the Government:

1. Entertainment Tax (90% of the collections)
2. Surcharge on stamp duty (100% of the collections)
3. Professional tax compensation (95% of the collections)

2.12.2 The State government has put in place a system of releasing grants to ULBs within ten days of their receipt from Govt. of India. State Property Tax Board has been constituted. All the ULBs have been empowered to levy property tax. Double Entry Accrual Based Accounting System (DEABAS) has been implemented. The Govt. has streamlined the auditing of local body accounts. Technical Guidance and Supervision (TG&S) of audit has been entrusted to the C&AG.

2.13 Estimated Resource Gap for ULBs

2.13.1 Critical gaps in the provision of basic services continue to exist in all ULBs across the state. The High Powered Expert Committee (HPEC) for estimating the Investment Requirements for Urban Infrastructure Services under the chairpersonship of Dr. Isher Judge Ahluwalia in its report submitted in March, 2011 observed that India's economic growth momentum cannot be sustained if urbanisation is not actively facilitated. It has prepared detailed estimates of investment for eight sectors, i.e., water supply, sewerage, solid waste management, storm water drains, urban roads, urban transport, traffic support infrastructure and street lighting. Based on the estimates made by the Committee, the per capita investment required in AP for the next twenty years is estimated at Rs. 43,385/-. During the period 2020-25, the per capita investment required Rs. 10,846.25 and the total amount required is Rs. 15,185 crore. The estimates of the investment are presented below.

Table 2.7 Investment Requirement of ULBs in AP during 2020-25

Sector	Per-Capita Capital Investment for 20 years of HPEC (Rs. at 2009-10 prices)	Per-Capita Investment for 5 years (Rs.)	Requirement for 2020-25 (Rs. crore)
Water Supply	5,099	1,274.75	1,784.65
Sewerage	4,704	1,176	1,646.4
SWM	391	97.75	136.85
Urban Roads	22,974	5,743.5	8,040.9
Drains	3,526	881.5	1,234.1
Urban Transport	5,380	1,345	1,883
Traffic Support Infrastructure	945	236.25	330.75
Street Lightning	366	91.5	128.1
Total	Rs. 43,385	Rs. 10,846.25	Rs. 15,184.75

Source: Memorandum to the 15th Finance Commission, Finance Department, Government of Andhra Pradesh, October 2018.

2.13.2 In the year 2011, the High Powered Expert Committee (HPEC) constituted by the Ministry of Urban Development, Government of India, New Delhi submitted its report on Indian Urban Infrastructure and Services which includes estimates of investment for urban infrastructure. Based on the estimates of the Committee, the requirement of funds for Operations and Maintenance (O&M) in Andhra Pradesh works out to Rs. 12,635 crore for the five year period 2020-25. The estimates are presented below:

Table 2.8 Requirements of funds for O&M to the ULBs in AP during 2020-25

Sector	Annual Per-Capita O&M Cost (in Rs. at 2009-10 prices)	Per-Capita Investment for 5 years (in Rs.)	Requirement for 2020-25 (Rs. in crores)
Water Supply	501.00	2,505.00	3,507.00
Sewerage	286.00	1,430.00	2,002.00
SWM	155.00	775.00	1,085.00
Urban Roads	397.00	1,985.00	2,779.00
Drains	53.00	265.00	371.00
Urban Transport	371.00	1,855.00	2,597.00
Traffic Support Infrastructure	34.00	170.00	238.00
Street Lightning	8.00	40.00	56.00
Total	1,805.00	9,025.00	12,635.00

Source: Memorandum to the 15th Finance Commission, Finance Department, Government of Andhra Pradesh, October 2018.

Table 2.9 Abstract of Requirements for ULBs during 2020-2025

Capital Expenditure Requirement (Core Services)	Rs. 15,185 Crore
Revenue Expenditure Requirement (Core Services)	Rs. 12,635 Crore
Total	Rs. 27,820 Crore

Source: Memorandum to the 15th Finance Commission, Finance Department, Government of Andhra Pradesh, October 2018.

2.13.3 The requirement of funds is far in excess of the resources likely to be available with the ULBs including transfers from the State Government.

CHAPTER-III

**Implications of the
Recommendations of
13th and 14th Central Finance
Commissions
with reference to A.P**

CHAPTER – III

IMPLICATIONS OF THE RECOMMENDATIONS OF 13TH AND 14TH CENTRAL FINANCE COMMISSIONS WITH REFERENCE TO A.P

3.1 Introduction

In this chapter the IV State Finance Commission has made an attempt to review and analyse the approaches and grants recommended by the Central Finance Commissions for Local Bodies – Rural and Urban – in general and for Andhra Pradesh in particular. This chapter contains three sections. In section- I, the approaches, criteria and weights used and the grants recommended by the previous central finance commissions, were presented in brief. A comparison was presented with reference to Inter-se determination of shares by selecting 10 States, with particular reference to Andhra Pradesh. A brief review of utilization of grants recommended by 13th and 14th Finance Commission also forms the content of this section. Section-II, deals with the analysis of grants recommended by 13th and 14th Finance Commissions to the State of Andhra Pradesh and its utilization pattern. Special focus was laid on grants recommended and utilized by the 13 districts of Andhra Pradesh in this section, with a brief note on Post-Devolution Revenue Deficit recommended by 14th Finance Commission, and concludes that amount of revenue deficit granted was inadequate to meet the actual deficit.

SECTION-I

3.2 Finance Commissions and Devolution of Finances to Local Bodies

3.2.1 India, our country, is a Union of States with vertical and horizontal imbalances with reference to generation and distribution of financial resources and for addressing these imbalances an institutional mechanism – Finance Commission – was provided in the Constitution. The Finance Commissions adopt different formulae for balancing both these vertical and horizontal imbalances. Under the vertical tax devolution, the 12th Finance Commission (2005-10) had recommended a share of 30.5 per cent (an increase of 1.0 per cent) and the 13th Finance Commission (2010-15) recommended a share of 32.0 per cent (an increase of 1.5 per cent) in the Central Divisible Pool. However, there was a radical enhancement of the share for the States by the 14th Finance Commission, from 32.0 per cent

(13th Finance Commission) to 42.0 per cent, appreciated as the highest ever increase in vertical devolution.

3.2.2 Similarly for addressing the horizontal imbalances, the previous commissions have determined the inter-se share of the states to correct the differentials in revenue raising capacity and the expenditure needs.

3.3 Criteria and Weights Used by Previous Finance Commissions

3.3.1 A comparative illustration of criteria and weights used by 12th, 13th and 14th Finance Commissions for sharing the tax revenue is presented in Table 3.1

Table 3.1 Criteria and Weights Used by Previous Finance Commissions

Sl. No.	Criteria Adopted	Weights assigned by the Finance Commissions (%)		
		12 th	13 th	14 th
1	Population (1971)	25%	25%	17%
2	Demographic Change (2011)	--	--	10%
3	Area	10%	10%	15%
4	Fiscal Capacity/Income Distance	50%	47.5%	50%
5	Forest Cover	--	--	7.5%
6	Fiscal Discipline	7.5%	17.5%	--
7	Tax Effort	7.5%	--	--
Total Weight		100%	100%	100%

Source: Reports of the respective Finance Commissions.

3.3.2 The following inferences can be drawn from the data presented in Table. 3.1

1. Population (1971 Census) and Demographic Change (2011 Census) together were assigned a Weight of 27 percent by 14th Finance Commission and importance was given to “Demographic change” since 1971, fulfilled by 2011 Census data which has captured the migration and age structure of the population (10.0 % weight).
2. Recognizing the responsibility of States towards the management of environment and climate change, forest cover was assigned a weight of 7.5 percent as an indicator of ecological balance and sustainable development.
3. More weight, compared to 12th and 13th Finance Commissions, was given to “area” by the 14th Finance Commission (15 per cent) as an indicator of cost-

disability of a state with a larger area, which has to incur greater expenditure to provide comparable services to its people. The higher weightage for “area” was given due to the reason that the relationship between “area” and “cost” was found non-linear.

4. Income distance, which represents a measure of fiscal capacity of a State, three year average (2010-11 to 2012-13) of GSDP and population were considered. This criterion was given 50.0 per cent weight, higher than assigned by 12th Finance Commission (47.5%).

3.4 Approaches and Grants Recommended to Local Bodies

Keeping the administrative and financial philosophy of local level governments in India, the Central Finance Commissions have adopted their own novel and innovative approaches to deal with both the horizontal and vertical imbalances.

3.5 Approach of the 13th Finance Commission

3.5.1 The 13th Finance Commission has adopted an approach that aimed at “inclusive and green growth” for promoting fiscal federalism (para 3.7, p.22). This approach indicates the Vision of the 13th Finance Commission as the foundation for inter-governmental fiscal arrangements. The 13th Finance Commission has mentioned the importance of Millennium Development Goals, which makes a demonstrable difference to the lives of the poorest and most vulnerable citizens in any layer of the Government. It has also observed that inclusive growth should *“be accompanied by a concerted effort, by all levels of Government to invest in the delivery of public services, particularly those which promote progress in achievement of the MDGs”* (para 3.10, p.22).

3.5.2 It is to be admitted that “sustainable and inclusive growth” are the prerequisites for achieving the MDGs and the recent performance of economic development of our country reveal that resources were mobilized and deployed in such a manner that the high rates of development were maintained and even increased during the recent years to achieve the potential of MDGs. The 13th Finance Commission felt that for achieving a greener and more inclusive growth, there was a need for fiscally strong local bodies or the third tier of Government and a fiscal strategy, which is important for providing a more propitious environment for increasing both public and private investments and also for better handling of adverse economic shocks that arise due to the external developments. This approach of the

13th Finance Commission towards Green Growth involves rethinking of growth strategies with regard to their impact on environmental sustainability and the availability of environmental resources to poor and vulnerable groups. This Green Growth approach of the Commission attached necessary importance to the three tiers of Panchayat Raj Institutions (PRIs).

3.6 Grants Recommended by the 13th Finance Commission

3.6.1 The 13th Finance Commission has recommended a total grant of Rs. 3,18, 581 Crores as presented in Table 3.2

Table 3.2 Grants-in-aid Recommended to States (in Rs. Crore)

Sl. No.	Details of Grants-in-aid	Amount Allocated	Total Amount Recommended
I	Local Bodies		87519
II	Disaster Relief (incl. for capacity building)		26373
III	Post-Devolution Non-plan Revenue Deficit		51800
IV	Performance Incentive		1500
V	Elementary Education		24068
VI	Environment		15000
	a) Protection of Forests	5000	
	b) Renewable Energy	5000	
	c) Water Sector Management	5000	
VII	Improving Outcomes		14446
VIII	Maintenance of Roads and Bridges		19930
IX	State-specific		27945
X	Implementation of model GST		50000
Total			318581

Source: GOI: Report of the 13th Finance Commission, p.10.

3.6.2 The 13th Finance Commission has recommended grants-in-aid to local bodies as a percentage of the previous year's divisible pool of taxes, after converting this share to grants-in-aid under article 275 of the Constitution. The grants were recommended for both General Areas and Special Areas (para.10.148 of the 13th FC report). The grant to General Areas and Special Areas has two components- a basic grant component and a performance based component. The 13th Finance Commission made it clear that the grants for PRIs and ULBs and Special Areas were untied to expenditure conditions (para 10.172). The details of General Basic Grants and Performance Grants recommended to the States for the award period of 2010-2015 are presented in Table 3.3

Table 3.3 Grants Recommended to Local Bodies (2010-15)

Sl. No.	Grants Recommended as	Amount Recommended (in Rs. Crore)		
		PRIs	ULBs	Local Bodies
1	General Basic Grant	47207.1	15128.3	56335.4
2	General Performance Grant	21816.6	8009.5	29826.1
Total General Grant		63023.7	23137.8	86161.5

Source: GOI: Report of the 13th Finance Commission, Annexure 10.15 a & b

3.6.3 In addition to the basic and performance grants, the 13th Finance Commission has also recommended special area basic grant of Rs.798 crore and special area performance grant of Rs.559 crore. By adding the total special area grant to the total general grant, the total grant recommended to local bodies works out to Rs.87519 crore for the period of 2010-15.

3.6.4 No doubt, the FC-13 adopted a platform –based incentive approach and determined the volume of grants to local bodies for each state and Rs.87519.0 Crore were allocated towards aggregate grant to local bodies. It was observed by the FC-13 that Rs.1335.23 (7.42%) of the amount allocated to PRIs (Rs.18000 Crore) by the FC-12 have remained not drawn and Rs.475.46 crore (0.57%) of the amount allocated to ULGs (Rs.4500 crore) have remained not drawn by the end of the award period (2005-09). The following reasons were reported by the states for not able to draw down the grants allocated:

- non-submission of utilization certificates
- Slack attitude towards getting accounts audited.

3.6.5 Likewise, of the total amount allocated for the award period of 2010-2015 by the FC-13 commission, 12.0% of the total amount allocated was not drawn due to the reasons mentioned above (GOI, Ministry of PR). The statistics on allocation and release under FC-13 related to different components of grant show that the amount released accounts for 88.01% and higher proportion of Performance Grant was released and utilized by the states, as compared to Basic Grant.

3.7 Approach of the 14th Finance Commission

3.7.1 The 14th Finance Commission noticed that the approach towards achievement of green growth was necessary for the promotion of inclusivity and to promote labor-intensive sectors which have the potential for generating more employment opportunities and for improving the quality of life of the citizens. The 14th Finance Commission has appreciated

the strategic approach of the 13th Finance Commission and the implementation of inclusive growth approach towards PRIs and Urban Local Governments (ULGs) by transferring resources to the tune of Rs.15000 crore, including Rs.5000 crore each for the protection of forest, renewable energy and water sector management. (Table. 1.2, p.10). Thus, according to 14th Finance Commission, the 13th Finance Commission was successful due to its novel approach towards inclusive and green growth and made transfer of resources for inclusivity through green growth.

3.7.2 The 14th Finance Commission strongly thought that their recommendations should contribute to greater trust between the three tiers of Government-Union, State and Local – and promote cooperation and competition. To achieve this thinking, the 14th Finance Commission have proposed a new institutional arrangement embodying the principles of “Cooperative Federalism”, and believed that the cooperative and competitive federalism serves as a platform for integrating economic and environmental concerns in decision making. The Commission was sensitive to the needs of local bodies and their role in providing public services by their respective statutes. Hence, recognized the need to trust and to have respect for local bodies as institutions of self-governments a ‘Trust-based Approach’ was adopted by understanding that the local bodies would discharge their statutory functions with all due care. The Commission strongly believed that their recommendations enhance the flow of resources in an assured, objective and untied manner as they have proceeded with the assumption that *“all three layers of the Government were equally endowed with wisdom, knowledge, integrity and effectiveness appropriate for the tasks assigned to them in the constitutional framework (para 2.22,p.15.)*

3.7.3 The approach of the 14th Finance Commission towards overall division of resources clearly represents continuation of the past and followed the principles of cooperative federalism, the devolution of funds to local level governments, particularly for PRIs. A “trust-based approach” to empower the local bodies, was adopted by FC-14, ensuring a stable flow of resources at predictive intervals and recommended that State Governments should take care of needs of the other levels. The Commission has recognized that States have additional responsibility towards management of environment and climate change, while creating conditions for sustainable economic growth and development. It was also observed that the forest cover provides huge ecological benefits, but there is also an opportunity cost in terms of area not available for economic activities and this also serves as an important indicator of fiscal disability. To this effect, the 14th Finance Commission has proposed a new institutional

arrangement embodying the principles of cooperative federalism, serving as a platform for integrating economic and environmental concerns in decision making in view of their externalities.

3.8 Grants Recommended by 14th Finance Commission

3.8.1 The 14th Finance Commission has defined the devolution formula in such a way which mitigates the impact of the differences in fiscal capacity and cost disability among states. The Commission has used the criteria of population, demographic change, income distance, area and forest cover for Inter-se determination of shares of taxes to the States, with the weights of 17.5%, 10%, 50%, 15 %, and 7.5% respectively. A brief presentation of the grants recommended by 14th Finance Commission is presented in Table. 3.4.

Table 3.4 Grants Recommended by 14th Finance Commission-2015-20

Sl. No.	Local Bodies	Type of Grant Recommended (in Rs. Crore)		
		Basic Grant	Performance Grant	Total Grant
1	Rural Local Bodies	180262.98 (90.00)	20029.22 (10.00)	200292.20 (69.7%)
2	Urban Local Bodies	69715.04 (80.00)	17428.76 (20.00)	87143.80 (30.3%)
	All Local Bodies	249978.02(87%)	37457.98(13%)	287436.00 (100%)

Note: Figures in the brackets denote percentages.

Source: Report of the 14th Finance Commission, Annexure - 9.1, pp.464 & 465.

3.8.2 It is evident from the table. 3.4 that the total size of the grant was Rs. 2, 87,436 crore for the period of 2015-20. Of this total grant, Rural Local Bodies have received 69.7 per cent of the total grant and 30.3 per cent of the grants were recommended for Urban Local Bodies, which consists 87.0 per cent of Basic Grant and 13.0 per cent of Performance Grant.

3.8.3 In the case of Gram Panchayats, 90.0 per cent was the Basic Grant and 10.0 per cent was the Performance Grant. The Commission recommended the division between Basic and Performance Grant in the ratio of 80:20 for Urban Local Bodies. In addition to these grants, a total post-devolution revenue deficit grants of Rs.1,94,821 crore was recommended during the award period for eleven states. Rs.61,219 crore was recommended towards State Disaster Response Fund.

3.8.4 An attempt is made to present a comprehensive view of the shares assigned by Finance Commissions and in comparison to the shares recommended by 13th and 14th Finance Commissions. It is observed that 14th Finance Commission has assigned a low

percentage share for the southern states in particular. The shares provided by FC-13 and FC-14 and the previous commissions are presented in Table: 3.5

Table: 3.5 Inter-se Determination of the shares of selected States

Sl. No	State	State Wise Share in Total Transfers (Tax Devolution and Grants)			Deviation of Transfers by 14 th Finance Commission from Mean (%)
		Mean Share as Recommended by 1 st to 12 th Finance Commissions[%]	13 th Finance Commission [%]	14 th Finance Commission [%]	
1	Uttar Pradesh	15.35	19.677	17.959	+ 2.609
2	West Bengal	8.15	7.264	7.324	-0.826
3	Madhya Pradesh	6.94	7.120	7.548	+0.608
4	Maharashtra	8.02	5.199	5.521	-2.499
5	Bihar	10.27	10.917	9.665	-0.605
6	Andhra Pradesh	7.37	6.937	4.305	-3.065
7	Karnataka	4.72	4.328	4.713	-0.007
8	Kerala	3.66	2.341	2.500	-1.160
9	Tamilnadu	6.54	4.969	4.023	-2.517
10	Assam	3.92	3.628	3.311	-0.609

Note: Excluding share in Service tax

Source: 1) Report of FC-13, Volume:-I, p..428,429,

2) Report of FC-14, P.95

3.8.5 The mean of the shares assigned by 1st to 12th Union Finance Commissions and the shares assigned by FC-13 and FC-14 amply reveal that there is a remarkable deviation between the mean shares and the shares assigned by FC-14 and the FC-13.

3.8.6 It is evident that among the 10 selected states, six states-U.P, Bihar, Andhra Pradesh, Kerala, Tamilnadu and Assam have received higher percentage of total transfers as assigned by FC-13, compared to FC-14.

3.8.7 The FC-14 has awarded a higher percentage of shares to the states of West Bengal, Madhya Pradesh, Maharashtra and Karnataka, as compared to FC-13. Particularly for the state of Andhra Pradesh,(united) FC-13 has assigned a share of 6.937% and the FC-14 has assigned 4.305% for the residual state of Andhra Pradesh. Even if the share of Telangana was added (2.437%) it works out to only 6.742%, which is low compared to the share assigned by the FC-13(6.937%). Similarly a lower percentage of share was assigned by the 14th FC to Tamilnadu, (4.023%) as compared to FC-13(4.969%) and there was a marginal increase in the shares of Karnataka (4.713%) and Kerala (2.500%) as compared to the shares for these states (4.328% and 2.341% respectively) assigned by FC-13.

3.8.8 A careful analysis of the proportion of grants recommended for local bodies-PRI and ULGs- from the FC-X onwards show that the devolution of funds to local bodies is biased towards urban areas, with decreasing preference the PRIs in relative terms, though the amount of grants, in absolute terms, had increased continuously. A simple presentation of the relative shares of PRIs and ULGs as recommended by the previous Finance Commissions exhibits this shift towards urban areas, as presented in Table.3.6.

Table: 3.6 Provision of Grants for financing Local Governments

Finance Commission	Grants to Local Bodies (Rs in crores)		
	PRIs	ULGs	Total
X (1995-2000)	4389.93 (81.4)	1000.00 (18.6)	5380.93 (100.0)
XI (2000-2005)	8000.00 (80.0)	2000.00 (20.0)	10000.00(100.00)
XII (2005-2010)	20000.00 (80.0)	5000.00 (20.0)	25000.00 (100.00)
XIII(2010-2015)	64043.66 (73.2)	23475.44 (26.8)	87519.00 (100.00)
XIV(2015-2020)	200292.20 (69.7)	87143.80 (30.3)	287436.00 (100.00)

Note: Figures in Brackets indicate %

Sources: Reports of the Respective Commissions

3.8.9 The data presented in Table 3.6 indicate that the provision of grants for PRIs has decreased from 81.4 % to 69.7% between the award periods of 10th to 14th Finance Commissions. On the contrary, the proportion of grants provided for ULGs has increased from 18.6 % to 30.3 % during the award period of 14th Finance Commission. The absolute amount of grants to local bodies have increased remarkably from Rs.5381 crore (10th Finance Commission) to Rs.287436 crore during the period of FC-14, indicating a significant increase, over amount allocated by 10th Finance Commission. The FC-13 and FC-14 have recommended both Basic Grants to strengthen the delivery of basic services and Performance Grants to continue to keep themselves beyond the ambit of accountability and responsibility for the public money placed with them.

3.8.10 However, the total amount grants recommended was not fully utilized and 20.5 per cent of the grants recommended remained not drawn as shown in Table. 3.7.

**Table: 3.7 Utilization of Grants Recommended by 14th Finance Commission
(as on 10-09-2018)**

Sl. No.	Component of Grants	Amount (in Rs Crore)		
		Allocated	Released	Remained Unreleased/ Not Drawn
1	Post Devolution Revenue Deficit	160613.00	143320.54	17292.46 (10.8)
2	State Disaster Response Fund	36685.65	31872.63	4813.02 (13.1)
3	Grants to Urban Local Bodies (Basic and Performance Grants)	60478.53	36880.47	23598.06 (39.0)
4	Grants to Rural Local Bodies (Basic and Performance Grants)	139605.11	103707.33	35897.78 (25.7)
All Components (1 to 4)		397382.29	315780.97	81601.32 (20.5)

Note: Figures in the brackets denote percentage of amount remained unreleased as against the amount allocated.

Source: GOI, Department of Expenditure (Finance Commission Division) (Brief on Finance Commission Grants, calculated from Annexures I,II, III and IV)

3.8.11 The statistics presented in Table 3.7 indicate that during the award period of the 14th Finance Commission (2015-19), 20.5 per cent of the amount allocated was not drawn (released) indicating underutilization of funds allocated by FC-14. The amount remained unreleased was higher at 39 per cent with reference to the component of grants allocated to ULBs, and this amount was estimated as 25.7 per cent in the case of RLBs. The amounts unreleased remained at 13.1 % and 10.8% in the cases of State Disaster Response Fund and Post –Devolution Revenue Deficit respectively.

3.8.12 A thorough analysis of the data on different components of amounts allocated by FC-14 reveal that despite liberal approach adopted by the Commission, some states could not draw down the grants as on 31-3-2019. The conditionality imposed for release of funds might have ultimately handicapped the local bodies for which they were meant.

3.8.13 The details of amounts remained unutilized show that it was higher with reference to Performance Grants, compared to Basic Grants, and the statistics presented in Table 3.8 amply indicate this observation.

Table 3.8 Component-wise Utilization of Grants by Local Bodies (2015-19)
(as on 10-09-2018)

Sl. No	Components of Grants	Amount (in Rs. Crore)		
		Allocated	Released	Not Drawn
1	Basic Grant for Urban Local Bodies	48800.98	33640.50	15160.48(31.1)
2	Basic Grant for rural Local bodies	126185.22	99100.98	27084.24(21.5)
Total Basic Grants		174986.20	132741.48	42244.72(24.1)
3	Performance Grant for Urban Local Bodies	11677.55	3239.97	8437.58 (72.3)
4	Performance Grant for Rural Local Bodies	13419.89	4606.35	8813.54 (65.7)
Total Performance Grants		25097.44	7846.32	17251.12(68.7)
Total Grants to Local Bodies		200083.64	140587.80	59495.84(29.7)

Note: Figures in the brackets denote percentage of amount not drawn as against the amount allocated.

Source: GOI, Department of Expenditure (Finance Commission Division) (Brief on Finance Commission Grants, calculated from Annexures I,II, III and IV)

3.8.14 The amount of grants allocated by FC-14 to Gram Panchayats and Urban Local Bodies for the period of 2015-19 along with amounts actually released as detailed in Table 3.8 indicates that 24.1% of Basic Grants and 68.7% of the Performance Grants for local bodies were not drawn as on 10-09-2018. The utilization of grants reveals that the ULBs were not able to draw down the Basic Grants to the extent of 31.1% and the Gram panchayats to the extent of 21.5% of the eligible amount of allocated grants during the award period of 2015-19.

3.8.15 The data also exhibits another undesirable feature of utilization of Performance Grants allocated to local bodies. It is evident that 72.3% and 65.7% of the eligible allocations of Performance Grants to ULBs and Gram Panchayats respectively remained 'not drawn' during the award period. It is observed that the Gram Panchayats were economically efficient enough to draw and utilize higher amounts of Performance Grants, as compared to ULBs. Again, it is also observed that the ULBs were not so financially efficient to utilize the Basic Grants allocated, as 31.1% of the eligible allocated Basic Grants remained not drawn as the Gram Panchayats which have utilized more than 78.0% of the eligible amount of Basic Grants allocated to Rural Local Bodies.

3.8.16 It seems the conditionality imposed like grants should not be applied to establishment costs, matching contributions to utilize these grants and the stipulation that at

least 50% of these grants provided for ULBs should be earmarked for solid waste management through PPP are some of the conditionalities imposed which might have hindered the local bodies from the efficient use of the these grants.

SECTION-II

3.9 Devolution of Finances to Local Governments in Andhra Pradesh

3.9.1 The 13th Finance Commission has recommended grants-in-aid to local bodies as a percentage of the previous year's divisible pool of taxes, after converting this share to grants-in-aid under article 275 of the Constitution. The grants were recommended for both General Areas and Special Areas (para.10.148 of the 13th FC report). The grant to General Areas and Special Areas have two components- a basic grant component and a performance based component. The 13th Finance Commission made it clear that the grants for PRIs and ULBs and Special Areas are untied to expenditure conditions (Para10.172). The details of General Basic Grants and Performance Grants recommended to the State of Andhra Pradesh for the award period of 2010-15, as recommended by 13th Finance Commission is presented in Table. 3.9.

Table 3.9 Grants Recommended to the State of Andhra Pradesh (2010-15)

Sl. No.	Grants Recommended as	Amount Recommended (in Rs. Crore)		
		PRIs	ULBs	Local Bodies
1	General Basic Grant	3417.3	1254.6	4671.9 (65.4)
2	General Performance Grant	1809.3	664.2	2473.5 (34.6)
Total Grant		5226.6 (73.1)	1918.8 (26.9)	7145.4 (100.0)

Note:-Figures in Brackets indicate %

Source: GOI: Report of the 13th Finance Commission, Annexure 10.15 a & b

3.9.2 The 13th Finance Commission recommended a grant of Rs.5227 crore for Panchayat Raj Institutions and Rs.1919 crore for Urban Local Bodies, estimated as 73.1 per cent and 26.9 per cent of the total grant recommended to the State of Andhra Pradesh. Of this total grant, general basic grant worked out to Rs. 4671.9 crore and general performance grant Rs. 2473.5 crore.

3.9.3 In addition to the basic and performance grants, the 13th Finance Commission has also recommended the following grants- in –aid to the State of Andhra Pradesh, as presented in Table. 3.10.

Table 3.10 Special area and Other Grants- in – aid recommended to the State of Andhra Pradesh (2010-15)

Sl. No	Amount Recommended Towards	Amount Recommended (Rs. In Crore)
1	Special Area Basic Grant (@ Rs. 20 per capita per year for the award period)	29.30
2	Special Area Performance Grant (@Rs.10 per capita for 2011-12 and Rs.20 per capita thereafter)	20.50
3	State Disaster Relief Fund	2811.64
4	Grant for Capacity Building	30.00
5	Grants-in-aid for Elementary Education	942.00
6	Grants-in-aid for Forests	268.64
7	Incentive Grant for UID	126.10
8	Grants-in-aid for improving delivery of justice	270.71
9	Incentive Grants-in-aid for Water Sector (2011-12 to 2014-15) (in addition to the normal maintenance expenditure)	284.00
Total		4782.89

Source: GOI: Report of the 13th Finance Commission, Annexure 10.6 to 12.12

3.9.4 The 13th Finance Commission covering special areas, those covered by V and VI Schedules and the areas exempted from the purview of Parts IX and IXA of the Constitution, recommended basic and performance grants to the tune of Rs.49.8 crore, and recommended Rs..2811.64 crore for State Disaster Relief Fund. The 13th Finance Commission also recommended grants-in-aid for capacity building, elementary education, forests, improving delivery of justice and water sector for Andhra Pradesh. No doubt, the FC-13 admitted that they have adopted a platform –based incentive approach and determined the volume of grants to local bodies to be provided to each state and Rs.87519.0 crore were allocated towards aggregate grant to local bodies. It was observed by the FC-13 that Rs.1335.23(7.42%) of the amount allocated to PRIs (Rs.18000 crore) by the FC-12 have remained not drawn and Rs.475.46 crore (0.57%) of the amount allocated to ULGs (Rs.4500 crore) have remained not drawn by the end of the award period (2005-09).

3.10 Allocation of Grants to Andhra Pradesh by 14th Finance Commission

3.10.1 The FC-14 has believed strongly that the recommendations should contribute to greater trust between the three layers of Government--Union, State and Local—for the promotion of cooperation in particular, and was also “sensitive to the needs of local bodies and the role in providing public services” (p.15). Keeping this approach in view, 14th Finance Commission has recommended amount of grant to the State of Andhra Pradesh, as presented in Table. 3.11.

Table 3.11 Grants Recommended by the 14th FC to the State of Andhra Pradesh (2015-2020)

Sl. No.	Grants Recommended as	Amount Recommended (in Rs. Crore)		
		PRI's	ULBs	Local Bodies
1	Basic Grant	7788.68 (72.8)	2908.64 (27.2)	10697.32 (100)
2	Performance Grant	865.41 (54.3)	727.16 (45.7)	1592.57 (100)
Total Grant		8654.09(70.4)	3635.80(29.6)	12289.89 (100.0)

Note: -Figures in Brackets indicate %

Source: GOI: Report of the 14th Finance Commission, Annexure 10.15 a & b

3.10.2 It is evident from the table. 3.11 that a total grant of Rs.12,290 crore was recommended for Local Bodies to the State of Andhra Pradesh, consisting a Basic Grant of Rs.10697 crore (87.0 per cent) of Basic Grant and Rs.1593 crore of Performance Grant (13.0 per cent) for the award period of 2015-16 to 2019-20. Of this total grant the Panchayat Raj Institutions could receive an amount of Rs.8654 crore (70.4%) and Urban Local Bodies to the tune of Rs.3636 crore (29.6%).

3.10.3 In addition to the grants recommended as presented above, 14th Finance Commission has also recommended a total revenue deficit grant of Rs.22113 crore and State Disaster Relief Fund to the tune of Rs.2429 crore to the State of Andhra Pradesh.

3.11 Utilization of Grants Recommended by 14th Finance Commission in Andhra Pradesh

3.11.1 The State of Andhra Pradesh was bifurcated in 2014 under the Andhra Pradesh Reorganization Act 2014, comprising 13 districts representing three broad regions –Uttar Andhra, Coastal Andhra and Rayalaseema. The Uttar Andhra region is made up of the backward districts of Srikakulam and Vizianagaram as well as the industrial power house of

Visakhapatnam. Coastal Andhra consists the agriculturally prosperous districts of East and West Godavari, Krishna, Guntur, Prakasam and Nellore. These districts represent a mix of prosperous agriculture and large unproductive semi-arid areas with endemic poverty. The Rayalaseema is a semi-arid and developmentally backward region made up of drought-prone districts of Kurnool, Anantapuram, YSR Kadapa and Chittoor.

3.11.2 On 20-2-2014, it was stated before the Rajyasabha that Special Category Status would be extended to the residuary State of Andhra Pradesh for a period of five years and also to put the state's finances on a firmer footing. It was also promised that the resource gap for the year 2014-15 would be compensated by the Central Government. As Central Government understood that real and functional federal governance is the only vehicle to achieve a rapid and inclusive process of growth, they have whole heartedly accepted the recommendations of the FC-14 and moved away from rigid centralized planning forcing a "one size fits all" approach on states. The recommendations of FC-14 to increase the devolution of the divisible pool of resources by 10% (from 32 to 42%) to states was appreciated and accepted.

3.11.3 Besides, the FC-14 have recommended a total revenue deficit grant of Rs.1,94,821 crore during the award period to eleven states, among which Andhra Pradesh was one to receive this grant to the tune of Rs.22,113 crore.

3.11.4 The Department of Expenditure (Finance Commission Division) has presented an analysis of the allocations, amount released and amount remained not drawn to focus on the resource management of successor Andhra Pradesh state. The data for the years 2015-16 to 2018-19 (as on 10-09-2018) were processed to arrive at important observations as presented in Table 3.12.

Table 3.12 Utilization of Grants Recommended by 14th Finance Commission in Andhra Pradesh (as on 10-9-2018)

Sl. No	Components of Grants	Amount (In Rs. Crore)		
		Allocated	Released	Remained Not Drawn
1	Post Devolution of Revenue Deficit	19,613.00	17,791.02	1821.98 (9.3)
2	State Disaster Response Fund	1422.00	1269.30	152.70 (10.8)
3	Grants to Urban Local Bodies (Basic and Performance Grants)	2523.26	1741.41	781.85 (31.0)
4	Grants to Rural Local Bodies (Basic and Performance Grants)	6031.96	4917.34	1114.62 (18.5)
All Components		29590.22	25719.07	2871.15(13.1)

Note: Figures in the brackets denote percentage of amount remained not drawn to total amount allocated.

Source: GOI Department of Expenditure (Finance Commission Division) MOF.

3.11.5 The component –wise amounts allocated, released and remained not drawn (released) as presented in Table. 3.14 exhibit an opposite picture of utilization of resources in Andhra Pradesh when compared to macro-view of utilization in our country. The data indicate that 9.3 per cent and 10.8 per cent of the amounts allocated towards Post- Devolution Revenue Deficit and State Disaster Relief Fund have remained not released during the award period. It means the State of Andhra Pradesh could utilize around 90.0 per cent of the amounts allocated towards these two categories of grants.

3.11.6 However, in the case of Basic Grants and Performance Grants, the performance of the local bodies was not found satisfactory. 31.0 per cent and 18.5% of the Basic Grant and Performance Grant was not utilized by ULBs and RLBs respectively.

3.11.7 The overall picture of the utilization of grants devolved by 14th Finance Commission was found satisfactory, as 13.1 percent of all the grants devolved has remained unreleased (not drawn) in the succeeding State of Andhra Pradesh after its bifurcation..

3.12 Utilization of Basic and Performance Grants in Andhra Pradesh

3.12.1 The 14th Finance Commission divided the grants to local bodies into two categories – Basic and Performance Grants. Performance of local bodies with regard to these grants measure the level of efficiency in providing core civic services as well as the level of accountability, transparency and also the use of technology in delivering the services to the

people. An examination of utilization of these grants in Andhra Pradesh exhibits a different tendency as compared to the utilization of these grants at national level. Table 3.13 presents these details.

**Table 3.13 Component-wise Utilization of Grants by Local Bodies in Andhra Pradesh
(2015-16 to 2019-20)**

(as on 10-09-2018)

Sl. No.	Components of Grants	Amount (Rs. in Crore)		
		Allocated	Released	Not drawn (Not Released)
1	Basic Grant for Urban Local Bodies	2036.06	1613.08	422.98(20.8)
2	Basic Grant for Rural Local Bodies	5452.13	4558.12	897.01(16.4)
Total Basic Grants		7488.19	6171.20	1316.99 (17.6)
3	Performance Grant for Urban Local Bodies	487.20	128.33	358.87(73.7)
4	Performance Grant for Rural Local Bodies	579.83	359.42	220.41(38.0)
Total Performance Grant		1067.03	487.75	579.28(54.3)
Total Grants to Local Bodies		8555.22	6658.95	1896.27(22.2)

Note: Figures in the brackets denote percentage of amount remained not drawn to total amount allocated.

Source: GOI Department of Expenditure (Finance Commission Division) MOF.

3.12.2 The utilization pattern of Basic and Performance Grants as presented in Table. 3.13 reveals that the amount released as against the actual allocations was found high for Basic Grants (82.4%) and only 17.6 per cent of the allocations remained not drawn from the eligible amount of allocations. This Commission observes that 54.3 per cent of the allocated performance grant remained not drawn (as on 10-09-2018) in the State of Andhra Pradesh. It is evident that a high proportion of 73.7 per cent of the eligible performance grant remained not drawn in the case of Urban Local Bodies and could receive only 26.3 per cent of the eligible amount of performance grant.

3.12.3 Whereas in the case of Rural Local Bodies, this proportion was found less at 38.0 per cent and could receive Rs.359.42crore as on 10-09-2018, leaving an amount of Rs.220.42 crore not drawn as against the eligible amount.

3.12.4 It is also found that 22.2 per cent of the total eligible amount of both Basic and Performance Grants was not properly drawn by local bodies, as they have received a sum of Rs.6658.95 crore as against the allocated grants of Rs.8555.22 crore.

3.13 District-wise Utilization of Grants in Andhra Pradesh

3.13.1 The Fourth SFC analysed the trends in allocation and release of funds devolved by 14th FC to the State of Andhra Pradesh. The data was provided by the Commissioner, PR&RD, Government of Andhra Pradesh on release of grants under 14th Finance Commission for the years 2015-16 to 2018-19 devolved to 13 districts was presented in Table 3.14

Table 3.14 Allocation and Release of Grants in Andhra Pradesh (as on March, 2019)

(in Rs. Crore)

Year	Basic Grant		Performance Grant		Total Grant	
	Allocated	Released	Allocated	Released	Allocated	Released
2015-16	934.34	928.40	--	--	934.34	928.40
2016-17	1293.75	1285.63	169.70	168.62	1463.45	1454.25
2017-18	1494.81	1485.09	192.04	190.80	1686.85	1675.89
2018-19 *	1729.23	859.00	218.09	0	1947.32	859.00
Total	5452.13 (100.0)@	4558.12 (83.6)	579.83 (100.0)	359.42 (62.0)	6031.96 (100.0)	4917.54 (81.5)

Note: * 2nd instalment of the Basic Grant and the full amount of Performance Grant was not released @ Figures in the brackets denote percentages to total amounts.

Source: GOAP (2019) Office of the Commissioner, PR&RD, Tadepalli.

3.13.2 It is observed from Table 3.14 that 81.5 per cent of the total grants was only released during the years 2015-16 to 2018-19, with an unreleased Basic Grant of 16.4 per cent and Performance Grant of 38.0 per cent. The Commission was intimated that the conditionality of absence of the elected representatives to Local Bodies was acted as a hindrance to the release of grants and only first installment of Basic Grant for the year 2018-19 was released and the total amount of Performance Grant was not released for the year 2018-19.

3.13.3 This trend of grants released under 14th Finance Commission for the 13 districts of Andhra Pradesh is presented in Table. 3.15.

Table 3.15 District-wise release of Grants to Andhra Pradesh–2015-16 to 2018-19

Sl. No	District	Amount of Released - Basic and Performance Grants (in Rs. Crore)				
		2015-16	2016-17	2017-18	2018-19	Total
1	Anantapuram	77.09	120.75	133.25	71.32	402.41
2	Chittoor	81.25	127.27	141.42	75.18	425.12
3	YSR Kadapa	51.07	80.00	89.55	47.25	267.87
4	Kurnool	74.60	116.86	131.55	69.03	392.04
5	Srikakulam	61.08	95.68	108.09	56.51	321.36
6	Vizianagaram	49.57	77.65	87.79	45.87	260.88
7	Visakhapatnam	59.61	93.37	105.08	55.15	313.21
8	East Godavari	108.02	169.19	198.41	99.94	575.56
9	West Godavari	82.83	129.74	154.89	76.64	444.10
10	Guntur	82.80	129.70	149.44	76.61	438.55
11	Krishna	75.79	118.72	141.43	70.13	406.07
12	Prakasam	72.12	112.97	131.70	66.73	383.52
13	Nellore	52.57	82.35	103.29	48.64	286.85
All Districts		928.40	1454.25	1675.89	859.00	4917.54

Source: GOAP (2019) O/o Commissioner, PR&RD, Tadepalli

3.13.4 The data presented in Table.3.15 shows that the amount of grants released to five districts i.e. East Godavari, West Godavari, Guntur, Krishna and Chittoor districts were higher (46.6%) compared to the other 8 districts of Andhra Pradesh. Vizianagaram district has received the lowest grant of Rs.260.88 crore (5.3%) among the 13 districts. The region-wise analysis of release of grants indicates that 51.5 per cent of the total grants were received by 6 coastal districts, followed by 4 districts of Rayalaseema (30.3 per cent) and 3 Uttarandhra districts (18.2 per cent).

3.14 14th Finance Commission and Bringing the Revenue Deficit Down

3.14.1 In usual terms, the revenue deficit is the gap between the revenue expenditure and the current revenues of the Government. The revenue deficit indicates the extent to which the Government has to borrow to finance its current expenditure and pre-empt resources which

otherwise would be available for capital investments. Particularly for the newly bifurcated states, the revenue deficit and the resource gap assume much importance as one of the major fiscal instruments. The process of reorganization of Andhra Pradesh through A.P. Reorganization Act-2014 was quite unique and unprecedented when compared to any previous state bifurcation even in the history of Independent India. Consequently, the State of bifurcated Andhra Pradesh has been facing a massive fiscal stress and for the development during the Post-bifurcation period. The State of Andhra Pradesh essentially needs a special recognition as a separate category of fiscally strained states and special fiscal status is to be given by the Central Government. During the discussions on A.P. Reorganization Bill (20-02-2014) the then Hon'ble Prime Minister had assured that the resource gap that might 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 would be compensated in the regular budget for 2014-15. The Section 46 (2) of the A.P. Reorganization Act-2014 also ordained that *“the Central Government shall provide appropriate grants having regard to the resources available to the successor state of Andhra Pradesh for 2014-15”*. Rs. 2303 crore was released towards bridging resource gap for the financial year 2014-15 (from 02-06-2014) . The Comptroller and Audit General of India certified a revenue deficit of Rs.13775.76 crore and with this released amount of Rs.2303 crore, the amount of revenue deficit was estimated as Rs.16708.76 crore. In spite of these releases and certification, the Government of India has allowed only Rs.4117.89 crore to bridge the resource gap for the year 2014-15 and released Rs.3979.50 crore and the D.O. letter of the Union Finance Minister bearing No. 1 (2) PF1/2014 (Pt) dated 04-05-2017, stated that the balance of Rs. 138.39 crore would be provided by the Central Government, instead of Rs. 16078.76 crore. As the State of Andhra Pradesh was bifurcated during the last year of the award period of 13th Finance Commission, the successor state could not get adequate compensation towards the resource gap even during the first year of its bifurcation.

3.14.2 The attitude of the Union Government was not different during the post-bifurcation period particularly after 2014-15 onwards. The recommendations of the 14th Finance Commission have also put a heavy fiscal burden on the residuary Government of Andhra Pradesh during its award period – 2015-16 to 2019-20. It is a well known fact that the 14th Finance Commission departed significantly from previous Commissions by taking into consideration a State's entire revenue expenditure needs without making a distinction between plan and non-plan and came to a conclusion that grants for both sector-specific and

state-specific schemes were not necessary. The Commission has adopted a comprehensive approach to assess the expenditure needs and intended to cover the entire deficit by devolving the Post-Devolution Revenue Deficit and to correct the vertical imbalances as well as the assessed needs that were still to be met.

3.14.3 The 14th Finance Commission has recommended a total revenue deficit grant of Rs.1,94,820 crore for its award period for eleven states and Andhra Pradesh was one of these eleven states. An amount of Rs.22, 112 crore was recommended for Andhra Pradesh during the award period-2015-16 to 2019-20. as shown in Table. 3.16.

Table 3.16 Post- Revenue Deficit as Recommended by the 14th Finance Commission for Andhra Pradesh (2015-16 to 2019-20)

(in Rs. Crore)

Award Period	Grants Recommended by 14 th FC	Grants Received from the GOI	Revenue Deficit as per Accounts	Actual Revenue Deficit (Col.3+ Col.4)	Projected Amount of Post-Devolution Revenue Deficit by the GOAP.
(1)	(2)	(3)	(4)	(5)	(6)
2015-16	6,609(13.5)	6,609	7,302	13,911	29,029
2016-17	4,930(11.9)	4,930	17,231	22,161	33,808
2017-18	4,430(12.4)	4,430	16,152	20,582	38,703
2018-19	3,644(10.5)	NA	21,817(Est)	NA	44,559
2019-20	2,499(7.3)	NA	NA	NA	51,423
Total (2015-20)	22,112 (11.3)	--	--	--	1,97,522

Note: Figures in the brackets denote proportionate share of A.P. in 11 states received Post- Devolution Revenue Deficit Grants.

Source: Report of the 14th FC, Table.11.3, p.150; GOAP (2019) White Paper on State Finances; GOAP (2019) Memorandum Submitted to the 15th Finance Commission. P.21.

3.14.4 It is quite evident that even by the year 2019-20, the State of Andhra Pradesh remains as a 'Resource-scarce Deficit State' in the country. The award of Grants-in-aid towards revenue deficit estimated by the 14th Finance Commission worked out to Rs.22,112 crore for the award period, which works out to an average of Rs.4422 crore per annum is quite inadequate to finance the deficit as the revenue deficit worked out seems to be higher. The grants allocated to Andhra Pradesh towards revenue deficit works out to 47.5%, 22.2%

and 21.5% of the actual revenue deficit (col.5) and 22.8%, 14.6% and 11.4 % of the projections respectively as made by the Government of Andhra Pradesh (col.6) for the first three years of the award period.

3.14.5 An overview of these statistics reveal that the amount of grants estimated to meet the revenue deficit by the 14th Finance Commission is not at all adequate and accounts for 11.2% as against the projected amount of post devolution revenue deficit as estimated by the Government of Andhra Pradesh.

3.14.6 The IV SFC deeply feels that the State of Andhra Pradesh is in a structurally untenable fiscal position that is not of its own making and therefore it is necessary to have a realistic and a holistic view and approach towards financing the revenue deficit as well as determining the volume of the tax resources to be shared and grants to be devolved by the 15th Finance Commission for the award period of 2020-21 to 2024-25. Then only the comprehensive development strategy based on the strategic principles, outlined by the Expert Committee appointed by the Ministry of Home Affairs, Union of India becomes a reality.

CHAPTER-IV

**Finances of
Government of
Andhra Pradesh**

CHAPTER - IV

FINANCES OF GOVERNMENT OF ANDHRA PRADESH

4.1 Introduction

4.1.1 The Fourth State Finance Commission (SFC) has been required to make recommendations on: (i) the distribution between the state government and the Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) of the net proceeds of tax revenues imposed and collected by the State; (ii) determination of taxes, duties, tolls and fees which may be assigned to or apportioned by the PRIs and ULBs; (iii) determination of grants-in-aid from the State to the PRIs and ULBs; and (iv) measures needed to improve the fiscal situation, financial management, accountability and administration of the local bodies. In making the recommendations, the SFC is required to assess the resources of the State Government and its committed expenditures and liabilities including expenditure on civil administration, police, social and economic services and debt service obligations.

4.1.2 Assessing the present fiscal situation of the State as well as the emerging fiscal scenario, an essential pre-requisite for the Commission is to make its recommendations. An attempt is therefore made in this chapter to assess the fiscal situation of the GoAP. As the structure of state economy has important fiscal implications, it is briefly analyzed first, based on GSDP data. The budgetary transactions of the GoAP are analyzed in detail thereafter. The debt and other liabilities of the state and the burden of servicing are assessed in following section. This is followed by an analysis of the projected revenues and expenditures of GoAP for XV Finance Commission period. Summary and conclusions are presented at the end.

Structure of State Economy

4.2 Trends in GSDP

The size, sectoral composition and growth in State Domestic Product (SDP) have important implications for the size and composition of own revenues of the state and its ability to raise additional tax revenues. Bifurcation of the state has resulted in a significant change, in both the size and composition of GSDP of the state along with concomitant changes in the potential tax base. In terms of size, the GSDP at current prices declined from Rs.7,45,787 Crore in 2013-14 in the combined state to Rs.5,24,976 Crore in 2014-15, largely due to the loss of Hyderabad and its neighbourhood areas of Telangana, a major hub of

industrial and service activity. The contribution of the service sector which was 53% in the undivided state of Andhra Pradesh in 2013-14 had declined to 44.1% in the residual state of AP in 2014-15. Consequently, the share of primary sector which stood at 23% in 2013-14 in the combined state had risen to 30.4% in 2014-15. The share of industrial sector too has witnessed some changes after bifurcation. It may be noted that the share of industry and service sector in Andhra Pradesh was 22.09% and 43.55% in 2017-18 (AE) while in Telangana, the relative shares were 21.92% and 63.8%, respectively (Annex Table-4.1). Agriculture continues to be a significant contributor to GSDP, limiting the scope of additional revenue mobilization. Of the 13 districts, 7 are backward districts in AP with relatively low level of urbanization. The new State is deprived of Institutions of National importance. The structure of the state economy has had a significant impact on the state's own tax and non-tax revenue potential as well as their expenditure responsibilities.

4.3 Per Capita Income

The level of per capita income of a state is not only an important indicator of the average standard of living of the people, but also an important determinant of the potential tax revenues of the state. Despite the lopsided economic structure, the state has recorded a significant increase in per capita income during the last five years. The per capita income of the state increased from Rs.93,903/- in 2014-15 to Rs.1,64,025/- in 2018-19 (AE) at current prices, registering an average annual growth rate of 10.6%. Even in terms of constant prices (2011-12), the per capita income of the state rose from Rs.79,174/- to Rs.1,17,261/- (AE) during 2014-15 to 2018-19 (AE), growing at an average rate of 9.62% per annum. Notwithstanding the impressive growth, Andhra Pradesh continues to lag behind other southern states in per capita income (Tables-4.1 & 4.2 & Annex Tables -4.2 & 4.3). It may be noted that per capita income is relatively low due to lower degree of industrialization and urbanization. The extent of urbanization in Andhra Pradesh is only 29%, limiting the tax handles available to the government.

Table-4.1 GSDP of Andhra Pradesh: 2014-15 to 2018-19**(Current Prices; in Rs. Crore)**

Sl. No.	Sector/Item	2014-15	2015-16 TRE	2016-17 SRE	2017-18 FRE	2018-19 AE
1	Agriculture & Allied	30.4%	31.1%	32.9%	34.5%	33.6%
2	Industry	25.5%	24.1%	23.4%	22.8%	23.4%
3	Service	44.1%	44.7%	43.7%	42.7%	43.0%
4	Gross Value Added (GVA)	4,87,709 (100%)	5,56,421 (100%)	6,37,595 (100%)	7,41,588 (100%)	8,55,045 (100%)
5	GSDP	5,24,976	6,04,229	6,97,508	8,09,548	9,33,402
6	NSDP	4,70,934	5,44,827	6,31,249	7,34,659	8,47,056
7	Population (Est.) ('000)	50,151	50,446	50,743	51,041	51,642
8	Per Capita Income (Rs.)	93,903	1,08,002	1,24,401	1,43,935	1,64,025

Note: TRE – Third Revised Estimates; SRE – Second Revised Estimates; FRE – First Revised Estimates; AE – Advanced Estimates

Source: Furnished by Directorate of Economics and Statistics, GoAP

Table-4.2 Annual Growth Rate in GSDP of Andhra Pradesh:2014-15 to 2018-19**(Current Prices; Percentages)**

Sl. No.	Sector/Item	2014-15	2015-16 TRE	2016-17 SRE	2017-18 FRE	2018-19 AE
1	Agriculture & Allied	14.92	16.85	21.20	21.95	12.40
2	Industry	15.71	8.06	10.85	13.69	18.10
3	Service	13.07	15.67	12.01	13.46	16.15
4	GVA	14.29	14.09	14.59	16.31	15.30
5	GSDP	13.07	15.10	15.44	16.06	15.30
6	Per Capita Income	13.31	15.01	15.18	15.70	13.96

Note: TRE – Third Revised Estimates; SRE – Second Revised Estimates; FRE – First Revised Estimates; AE – Advanced Estimates

Source: Computed from Data furnished by Directorate of Economics and Statistics, GoAP.

**Table – 4.3 Per Capita Income (Per Capita NSDP) of Southern States and All India
(Current Prices: Rupees)**

Sl. No.	States	2014-15	2015-16	2016-17	2017-18
1	Andhra Pradesh	93,903	1,07,276	1,23,664	1,42,054
2	Telangana	1,24,104	1,40,840	1,59,856	1,81,094
3	Tamil Nadu	1,28,872	1,40,441	1,50,036	1,66,934
4	Karnataka	1,30,024	1,48,110	1,61,936	1,81,788
5	Kerala	1,35,537	1,47,568	1,62,750	1,80,518
	All India	86,647	94,731	1,08,870	1,12,835

Source: Memorandum Submitted by GoAP to XV Finance Commission, P.13.

4.4 Budgetary Transactions of GoAP

Overall Receipts, Expenditures and Fiscal Deficit

4.4.1 The total revenue receipts of the GoAP, including tax transfers and grants from the GoI increased from Rs.90,672 Crore in 2014-15 to Rs.1,78,697 Crore in 2019-20 (BE), registering an impressive overall growth of 97%. As proportion of GSDP, the total revenue receipts varied between 12.3% and 17% during this period (Table-4.4). This is an impressive revenue mobilization effort, for the residual state of AP, which has lost a significant revenue base due to bifurcation.

4.4.2 The total revenue expenditure increased at a significantly higher rate during the same period, forming about 13.5% to 22% of GSDP. The overall expenditure of the state too had risen significantly, constituting about 17.4% to 25% of the GSDP. The substantial increase in revenue as well as overall expenditure is partly attributable to the disproportionate recurring liabilities imposed on the state, following bifurcation and the rising revenue expenditures on welfare, salaries, pensions and interest payments in particular.

4.4.3 The rising expenditure and investments in infrastructure development in the residual state, coupled with meagre growth in non-debt capital receipts, the state had to borrow not only to meet capital expenditure but a significant part of revenue expenditures. This has resulted in the state exceeding the fiscal deficit target of 3% (of GSDP), a normative limit set by XIV Finance Commission for all years up to 2018-19.

4.4.4 The rising fiscal deficit, year after year, has created additional debt repayment and servicing obligations, pushing the state towards a debt-trap. A part of this appears to be due to the under estimation of the likely revenue deficit by XIV Finance Commission, while the

actual deficits were much higher. Further, the debt burden is aggravated by the change in state debt structure, caused by a sharp rise in relatively short-term market borrowings and the reduced period of repayment of loans from small saving collections.

Table – 4.4 Overall Budgetary Transactions of GoAP: 2014-15 to 2019-20

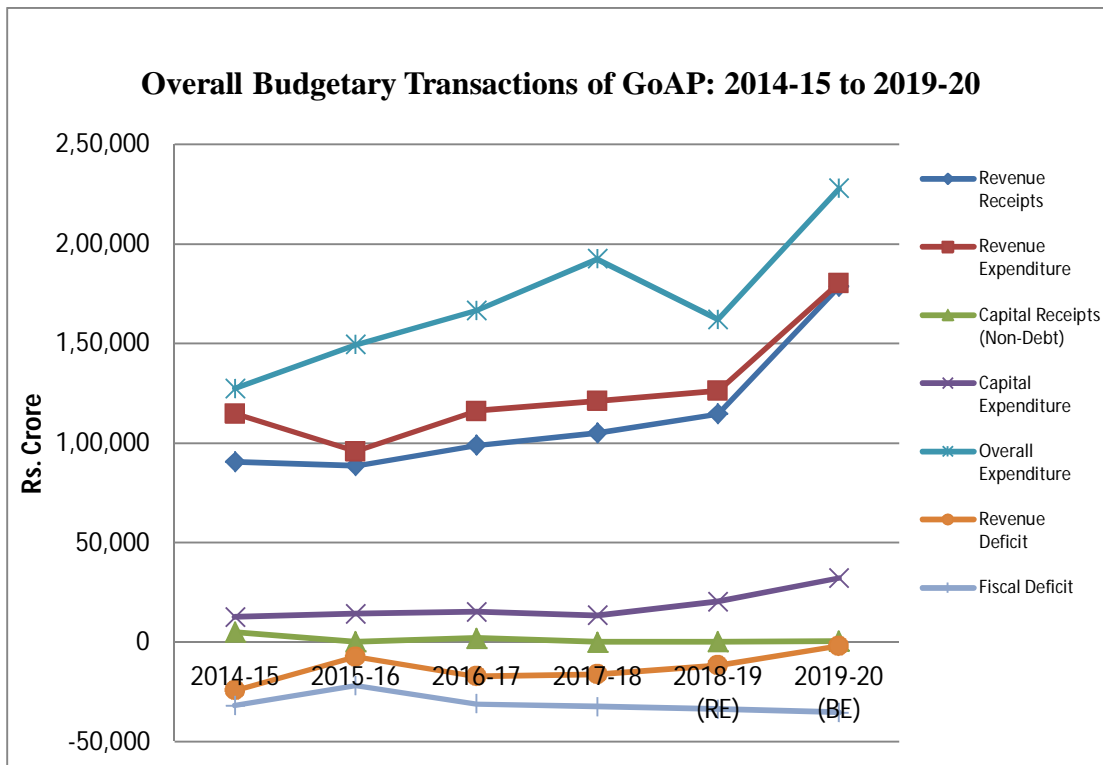
(in Rs. Crore)

Sl. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)	2019-20 (BE)
1	Revenue Receipts	90,672	88,648	98,984	1,05,062	1,14,684	1,78,697
2	Annual Growth Rate		-2.23	11.66	6.14	9.16	55.82
3	RR as % of GSDP	17.27	14.67	14.19	12.98	12.29	16.53
4	Revenue Expenditure	1,14,866	95,950	1,16,178	1,21,214	1,26,339	1,80,476
5	Annual Growth Rate		-16.47	21.08	4.33	4.23	42.85
6	RE as % of GSDP	21.88	15.88	16.66	14.97	13.54	16.70
7	Revenue Surplus / Deficit	-24,194	-7,302	-17,194	-16,152	-11655	-1779
8	Capital Receipts (Non-Debt)	5,092	285	2,029	50	277	600
9	Capital Expenditure	12,616	14,171	15,181	13,491	20,398	32,293
10	Annual Growth Rate		12.33	7.13	-11.13	33.86	58.31
11	CE as % of GSDP	2.40	2.35	2.18	1.67	2.19	2.98
12	Overall Expenditure	1,27,481	1,49,435	1,66,699	1,92,574	1,62,134	2,27,975
13	Annual Growth Rate		17.22	11.55	15.52	-18.77	40.61
14	OE as % of GSDP	24.28	24.73	23.90	23.79	17.37	21.09
15	Fiscal Deficit	-31,717	-21,863	-30,909	-32,373	-33,619	-35,261
16	Fiscal Deficit as % of GSDP	-6.04	-3.62	-4.43	-4.00	-3.60	-3.26
17	GSDP at Current Prices	5,24,976	6,04,229	697508	809548	9,33,402	10,80,656*
18	Annual Growth Rate (New Base 2011-12)		15.10	15.44	16.06	15.30	15.78*

Note: *GSDP estimates assumed by GoAP in budget 2019-20

Source: Computed from Budget Documents of GoAP (Various Years).

CHART – 4.1



Source: Chart based on data collected from GoAP, Annual Budgets (various years).

4.5 Composition of Revenue Receipts

4.5.1 The state receives its tax revenue from four sources viz., own taxes, own non-taxes, share in central taxes and grants from GoI. The state's own taxes include commercial taxes, state excise, motor vehicle taxes, stamp duty and registration fees and some minor taxes. With the implementation of GST from 01.07.2017, most of the commercial taxes are subsumed under GST (except those exempted such as commercial taxes on HSD, motor spirit, petroleum crude, aviation turbine fuel and natural gas). The taxes subsumed under GST include state value added tax, central sales tax (now IGST), state luxury tax, entry tax, entertainment tax, taxes on advertisement, purchase tax etc. Dividends from state public enterprises, interest receipts on loans, royalty on major and minor minerals etc., constitute the main sources of states' non-tax revenues.

4.5.2 The state's own tax revenue which accounted for 47% of the total revenue in 2014-15 has gradually declined and is projected to touch 42% during 2019-20 (BE). The relative decline could be attributed to the advent of GST and the consequent shrinkage in the tax handles available to the state. This could also be due to the predominantly agrarian economic structure and the relatively lower degree of urbanization in the state. Notwithstanding these

structural limitations, the state has mobilized 6.15% to 8.12% of GSDP through its own taxes. However, the declining trend observed up to 2017-18 needs to be arrested.

4.5.3 The non-tax revenue of the state has also declined in its importance, largely due to the transfer of many state level public enterprises (SLPEs) to Telangana state, on the basis of the principle of location of assets, while liabilities of the undivided state are distributed between the two states on the basis of relative populations.

4.5.4 The share in central taxes (individual income tax, company tax, union excise duties, custom duties etc.), based on the recommendations of XIV Finance Commission and the share in CGST and IGST based on the inter-state GST council recommendations, have contributed significantly to the state revenues (17% to 29% of the total revenues) (Table-4.5). The other important source of revenue is grants from the GoI, made on the recommendations of the Finance Commission as well as other specific purpose grants including grants for implementing centrally sponsored schemes.

4.5.5 On the whole, the share of state's own revenue in the total revenue shows a declining trend. This could be partly due to the introduction of GST. But the gradual decline appears to be a reflection of the state's economic structure and the absence of adequate tax handles to mobilize additional revenues. The declining non-tax revenue is partly due to the performance of SLPEs, not all of which are generating operational surpluses (electricity corporations, APSRTC and others).

4.5.6 The revenue receipts expressed as a proportion of GSDP also reveals similar trends. Own tax revenue and non-tax revenue of the state as proportions of GSDP exhibit a declining trend, while the share of central taxes, an increasing trend. Grants received by the state up to 2018-19 also reveal a declining trend. (Annex Table-4.4).

Table – 4.5 Composition of Revenue Receipts: 2014-15 to 2019-20

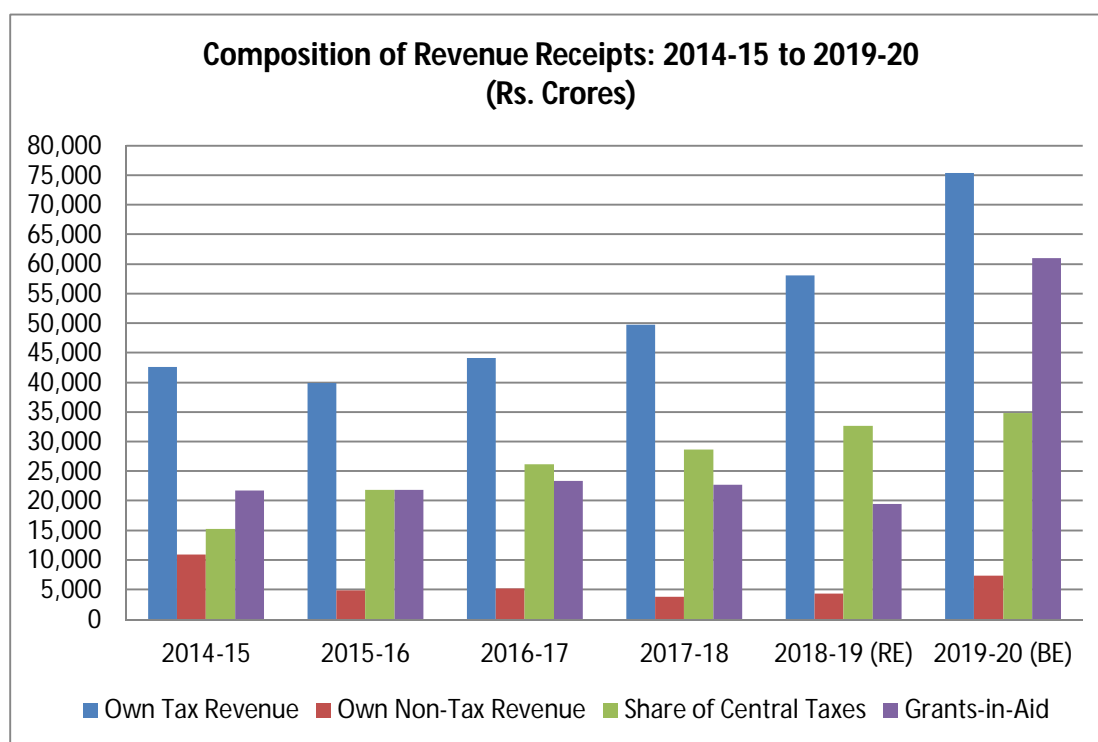
(in Rs. Crore)

Sl. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)	2019-20 (BE)
1	Own Tax Revenue	42,618 (47)	39,922 (45)	44,181 (45)	49,813 (47)	58,125 (51)	75,438 (42)
2	Own Non-Tax Revenue	10,975 (12)	4,920 (6)	5,193 (5)	3,813 (4)	4,391 (4)	7,355 (4)
3	Share of Central Taxes	15,299 (17)	21,879 (25)	26,264 (27)	28,675 (27)	32,710 (29)	34,833 (19)
4	Grants-in-Aid	21,779 (24)	21,927 (25)	23,346 (24)	22,761 (22)	19,457 (17)	61,072 (34)
	Total Revenue Receipts	90,671 (100)	88,648 (100)	98,984 (100)	1,05,062 (100)	1,14,683 (100)	1,78,698 (100)

Note: Figures in parentheses are percentages of the total revenue receipts

Source: Budget Documents of GoAP (Various issues).

CHART – 4.2



Source: GoAP, Budget Documents (Various issues).

4.6 Revenue Expenditure

4.6.1 The revenue expenditure of the state registered a rapid increase from Rs.1,14,865 Crore in 2014-15 to Rs.1,26,340 Crore in 2018-19 (RE). It is projected to increase to Rs.1,80,476 Crore during 2019-20 (BE) (Table-4.6). Expenditure on general services

comprising interest payments, pensions and retirement benefits and administrative and fiscal services account for a significant share in the total revenue expenditure, constituting more than a quarter of the total expenditure (25% to 32% up to 2017-18 and thereafter some decline). Interest payments, pensions and retirement benefits, salaries and other establishment costs have been rising rapidly. Expenditure on social services (education, medical and health, housing, water supply, sanitation, SC-ST Welfare etc.,) has also been rising rapidly both in absolute and relative terms. However, expenditure on economic services (agriculture, rural development, irrigation, industry, transport etc.,) has been on the decline.

Table – 4.6 Revenue Expenditure of GoAP: 2014-15 to 2018-19

(in Rs. Crore)

Sl. No.	Expenditure Category	2014-15	2015-16	2016-17	2017-18	2018-19 RE	2019-20 BE
1	General Services	28,593 (25)	28,573 (30)	32,786 (28)	39,075 (32)	39,770 (24)	43,806 (20)
1.1	Interest Payments	10,520 (9)	10,359 (11)	12,292 (11)	15,445 (13)	14,654 (9)	17,754 (8)
1.2	Pensions	9,757 (8)	11,238 (12)	12,873 (11)	14,385 (12)	15,307 (9)	14,385 (6)
1.3	Others	8,316 (7)	6,976 (7)	7,621 (7)	9,245 (8)	9,809 (6)	11,667 (5)
2	Social Services	42,259 (37)	46,449 (48)	50,228 (43)	59,159 (49)	64,189 (39)	93,093 (42)
3	Economic Services	43,890 (38)	20,813 (22)	33,071 (28)	22,894 (6)	22,340 (13)	43,542 (19)
4	Grants-in-aid/ Contributions	126 (0.2)	116 (0.1)	93 (0.08)	86 (0.07)	41 (0.02)	35 (0.01)
	Total Revenue Expenditure	1,14,868	95,931	1,16,178	1,21,214	1,26,340	1,80,476
	Rev. Exp. as Percentage of GSDP	21.88	15.88	16.66	14.97	17.80	20.75*

Note: Figures in parentheses are percentages to the total revenue expenditure;

* Based on GSDP as assumed by GoAP Budget FY 2019-20 (BE).

Source: GoAP, Budget Documents (various issues).

4.6.2 As a proportion of GSDP, revenue expenditure has declined after 2014-15. Revenue expenditure as proportion of GSDP varied between 15% and 22% during 2014-15 to 2019-20.

4.6.3 It may be noted that certain items of revenue expenditure are not easily amenable to control and some of them have an inherent tendency to increase. These include expenditures

on interest payments, pensions and retirement benefits, salaries and other establishment costs and expenditure on social and community services.

4.7 Capital Receipts

4.7.1 With a rapidly rising revenue account deficit, the state had to borrow increasing amounts of loans from multiple sources to meet not only the revenue deficit but also to finance capital expenditure and meet debt repayment obligations. The non-debt capital receipts of the state, accruing primarily from the recovery of loans and advances are not a significant source of financing capital expenditure. As a result, the state government had to borrow from the market, GoI and public account, subject to the limitations imposed by the Constitution (Article-293(3)) and the Finance Commission. Further, certain changes introduced by the GoI as well as the Finance Commission have not only limited the borrowing powers of the state but also aggravated its interest burden. First, the states do not have access to central loans now (except for the externally funded projects). Second, the GoI has reduced the period of repayment of NSSF loans from 25 years to 10 years. Third, the market loans carry higher rates of interest. Fourth and more important, the fiscal deficit ceiling of 3% to 3.5% imposed by the 14th Finance Commission under FRBM provisions has constrained the borrowing space available for the state.

4.7.2 Despite these limitations, the state has mobilized capital receipts from different sources as indicated in Table – 4.7 to meet revenue deficit and finance capital expenditure (capital outlay and loans and advances). The share of market loans has been on the increase, while the importance of other sources, notably floating debt has been on the decline. It may be noted that all capital receipts mobilized are not available for financing expenditure. The capital receipts indicated in Table – 4.7 are gross receipts (except deposit transactions) and only a portion of them are available to the state, after meeting repayment obligations (Annex Table -4. 5).

Table-4.7 Capital Receipts of GoAP: 2014-15 to 2018-19**(in Rs. Crore)**

Sl. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)	2019-20 (BE)
1	Open Market Loans	18,533 (71)	19,168 (31)	20,783 (31)	25,573 (62)	34,757 (72)	41,121 (83)
2	Floating Debt (Gross)	1,000 (4)	31,307 (51)	29,154 (43)	230 (0.5)	139 (0.29)	1,500 (3)
3	Loans from the GOI	978 (4)	685 (1)	814 (1)	947 (2)	1,990 (4)	2,500 (5)
4	Other Loans	2,994 (11)	2,521 (4)	9,171 (14)	1,683 (2)	1,359 (3)	1,800 (4)
5	Deposits Transactions etc. (Net)	862 (3)	6987 (11)	5,945 (9)	12,774 (4)	9,925 (20)	1,757 (4)
6	Loans and Advances	1,922 (7)	285 (0.47)	2029 (3)	51 (0.12)	277 (0.57)	600 (1.2)
	Total Capital Receipts	26,289 (100)	60,953 (100)	67,896 (100)	41,258 (100)	48448 (100)	49278 (100)
	Total Capital Receipts as % of GSDP	5.01	10.09	9.73	5.09	5.19	4.56*

Note: * Based on GSDP estimate assumed by the GoAP in Budget 2019-20.

Source: GoAP, Budget Documents (various issues).

4.8 Capital Expenditure

The total capital account transactions of the state include capital expenditure on general, social and economic services, loans and advances to third parties and capital disbursements. It may be noted that actual capital expenditure in 2015-16, 2016-17 and 2017-18 was less than 30% of the total capital account transactions (Table-4.8). During these years, capital disbursements (largely loan repayments) accounted for about 70% of the total transactions. This is a clear reflection of the growing loan repayment burden on the state, while the state is required to make huge investments for the development of critical infrastructure (irrigation, roads and communications, capital city development, infrastructure for industry etc.,).

Table – 4.8 Capital Account Transactions of GoAP: 2014-15 to 2019-20**(in Rs. Crore)**

Sl. No.	Expenditure Category	2014-15	2015-16	2016-17	2017-18	2018-19 RE	2019-20 BE
1	Total Capital Expenditure (1 to 4)	11,419 (63)	14,274 (27)	15,386 (30)	13,877 (53)	21,191 (58)	33,160 (69)
1.1	General Services	483 (2.68)	180 (0.3)	295 (0.5)	283 (1)	275 (1)	5,789 (12)
1.2	Social Services	2,382 (13)	2,415 (5)	2,431 (5)	2890 (11)	2864 (8)	8071 (17)
1.3	Economic Services	8,543 (47)	11,577 (22)	12,455 (25)	10,317 (40)	17,258 (48)	18,433 (38)
1.4	Others	11 (0.06)	102 (0.19)	205 (0.4)	387 (1.5)	794 (2.2)	867 (1.8)
2	Loans and Advances	853 (5)	674 (1)	564 (1)	2,781 (11)	1,843 (5)	1,789 (4)
3	Capital Disbursements	5,760 (32)	38,640 (72)	34,776 (69)	9,459 (36)	13,554 (26)	13,417 (21)
	Total Capital A/c Transactions	18,032 (100)	53,508 (100)	50,726 (100)	26,117 (100)	36,588 (100)	48,366 (100)
	Total Capital A/c Transactions as % of GSDP	3.43	8.87	7.27	3.22	3.92	4.39*

Notes: * Based on GSDP estimates assumed by the GoAP in budget 2019-20.

Source: GoAP, Budget Documents (various issues).

4.9 Budgetary Deficits

Budgetary resource gap is measured through multiple concepts. Revenue deficit denotes the difference between revenue receipts and revenue expenditures. Gross fiscal deficit is the difference between aggregate disbursements (net of debt repayments and recovery of loans) and revenue receipts and non-debt capital receipts. In other words, gross fiscal deficit is equal to revenue deficit plus capital outlay and net lending. Net fiscal deficit on the other hand, is the gross fiscal deficit minus net lending of the state government. Fiscal deficit is usually financed through borrowing from capital market by issuing different instruments like treasury bills and bonds as well as borrowings from the central bank. Further, gross primary deficit is defined as gross fiscal deficit minus interest payments, while net primary deficit is the difference between net fiscal deficit and net interest payments. In the context of the state fiscal situation, the concepts of fiscal deficit, revenue deficit and primary deficit expressed as proportion of GSDP are relevant. The size of these deficits both in absolute terms and as proportion of GSDP are furnished in the following Tables-4.9 &4.10.

Table – 4.9 Primary, Revenue and Fiscal Deficits of GoAP: 2014-15 to 2018-19**(in Rs. Crore)**

Sl. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)	2019-20 BE
1	Revenue Deficit/Surplus	-14,243	-7,302	-17,194	-16,152	-11,655	-1,779
2	Fiscal Deficit	-31,717	-21,863	-30,909	-32,373	-33,619	-35,261
3	Primary Deficit	-21,710	-12,014	-19,211	-18,526	-19,315	-18,017
4	GSDP at Current Prices	5,24,976	6,04,229	6,97,508	8,09,548	9,33,402	10,80,656*

Notes: * Estimate of GSDP as assumed in GoAP Budget 2019-20 (BE).

In the Memorandum submitted to XV Finance Commission, the revenue deficit for 2014-15 is indicated as Rs.10,417 Crore for April and May and Rs.13,776 Crore for June to March.

Source: GoAP, Budget Documents (various issues).

Table – 4.10 Deficit Indicators of GoAP: 2014-15 to 2018-19**(As Percent of GSDP at Current Prices)**

Sl. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)	2019-20 (BE)
1	Revenue Deficit/Surplus	2.36	1.05 (1.23)	2.12 (2.46)	1.73 (2.04)	1.24 (1.28)	0.16
2	Fiscal Deficit	3.36	3.13 (3.67)	3.82 (4.42)	3.47 (4.08)	3.78 (3.67)	3.26
3	Primary Deficit	1.76	1.72 (1.97)	2.37 (2.75)	1.98 (2.33)	2.07 (1.90)	1.66

Notes: 1. GSDP estimates for 2018-19 are advanced estimates, first revised estimates for 2017-18, second revised estimates for 2016-17 and third revised estimates for 2015-16. The deficit percentages might undergo some changes with actual data on deficits and final estimates of GSDP; 2. Figures in parentheses are gross fiscal deficit ratios as presented in, GoAP, White paper on State Finances, 10th July 2019 p. 27

Source: GoAP Budget Documents (various issues).

4.10 Factors Contributing to Deficits

4.10.1 The large deficits could be attributed to factors on both the receipts and expenditure sides of the budget. On the receipts side, the following factors appear to have affected the state revenues adversely:

- shrinkage in the tax base due to bifurcation of the state and the resulting economy with a relatively large agricultural sector;
- lack of adequate tax handles due to the relatively low industrial and service sector base;
- introduction of GST and the consequent loss of discretionary tax powers as well as loss due to inadequate compensation during the transition to GST;

- conservative estimates of ‘revenue deficit’ made by XIV Finance Commission, which were lower than the actual deficits;
- tax compliance related problems during the transitional period (transition from combined state tax administration to independent tax administration) etc;
- increasing reliance on high cost market loans, fall in receipts from floating debt, reduced repayment period of loans from NSSF and the bunching of repayments of market loans; and
- the tendency on the part of the center to keep cesses and surcharges as well as certain non-tax revenues (offshore royalties, spectrum auctions and dividends from PSUs) outside the divisible pool, reducing the quantum of effective tax devolution to the States.

4.10.2 On the expenditure side, the following factors appear to have contributed to the fiscal deficit:

- Allocation of debt liabilities to the state under AP Reorganization Act, based on population of the state (52%) (but assets on the principle of location) and the consequent rise in debt repayment and servicing obligations;
- Rapidly rising expenditure on administrative and fiscal services associated with establishing new administrative structures and institutions and implementation of revised scales of pay and allowances for government employees;
- Rising expenditure on community and social and economic services (water supply, sanitation, rural development, poverty alleviation, employment generation, disaster relief, and expenditure on restoration of infrastructure social security pensions, debt relief to farmers, capital infusion to SHGs, interest free loans to SHGs, irrigation infrastructure, construction of new capital city, industrial infrastructure required for attracting private investment);
- Increasing burden of several centrally sponsored programmes, consequent on the change in the matching contribution norms (from 70:30 to 60:40) ; and
- Implementation of the UDAY scheme and the resulting burden of absorbing the liabilities of electricity companies on the state government finances.

4.10.3 As a cumulative result of the factors mentioned above, the revenue deficit of the state exceeded the revenue deficit norm suggested by XIV Finance Commission for 2016-17 (-1.132) and 2017-18 (-1.60)¹. The XIV Finance Commission also recommended that the fiscal deficit of the state should be 3% of GSDP with effect from 2016-17. However, the fiscal deficit of the state exceeded this limit during 2016-17 and 2017-18. What is more, the RE figures for 2018-19 indicate the deficit as -3.60% of GSDP². Clearly, the rising deficits portend a situation of grave fiscal distress.

4.10.4 Unless the state government adopts measures to rationalize, prioritize and control expenditures and take steps to augment own revenues, it is likely to face severe fiscal stress. It is in this context that the GoAP has appealed to XV Finance Commission to treat the state differently from others and provide special dispensation in the form of: (i) revenue deficit grants; and (ii) grants for the construction of the capital city, development of backward districts, building of road connectivity to ports and airports and to meet critical gaps in health, education, water supply and social welfare. Further, the GoAP has appealed to the Commission to consider awarding 50% of the divisible pool (inclusive of cesses and surcharges) to the states. The state has also appealed to the Commission to take into account 1971 population, besides the area of state, non-agricultural income distance and GSDP growth performance in determining criteria for horizontal devolution of the divisible pool. There is certainly merit in these arguments.

4.11 Public Debt and Other Liabilities

4.11.1 Borrowing is an important source of financing public expenditure, particularly capital expenditure. But all borrowing entails repayment and servicing obligations. Therefore, public debt and other liabilities should be within the fiscal capacity of the state to meet the debt redemption obligations. Under Article 293(1), the state governments are empowered to borrow from within the country upon the security of the consolidated fund of the state. Under

¹ XIV Finance Commission, p.192

² XIV Finance Commission recommended an annual fiscal deficit limit of 3% of GSDP. The states, however, are eligible for flexibility of 0.25% over and above these limits for any given year for which debt GDP ratio less than are equal to 25% in the preceding year. The states are also eligible for an additional borrowing limit of 0.25% of GSDP in any given year for which interest payments are less than are equal to 10% of the revenue receipts in the preceding year. Thus, a state can have a maximum fiscal deficit –GSDP limit of 3.5% in any given year. But, the additional limit is available to a state only if there is a revenue deficit in the year in which borrowing limits are fixed and the immediately preceding year. Further, states are allowed to utilize their unutilized borrowing limits of the previous years in the following years of the award period. See Report of XIV Finance Commission, p.192

Article 293(2), the GoI can make loans to the states or give guarantees to the loans raised by the states. However, states cannot borrow without the consent of the GoI, if they have outstanding loans payable to the Centre. Further, FRBM Acts enacted by the Centre and the states have stipulated certain limits on the borrowings of the state in the interests of sound fiscal management³.

4.11.2 Subject to the Constitutional provisions and the FRBM stipulations, the GoAP has borrowed from four important sources viz., central government, market loans, loans from NSSF and PF and others (public account). These loans carry varied terms and conditions, including rates of interest, repayment period, and period of moratorium.

4.11.3 The composition of the outstanding debt of the State is furnished in the following Table-4.11⁴.

Table: 4.11 Public Debt Outstanding of GoAP

(As of March 31st each year)

(Rs. Crore)

Sl. No.	Item	2015-16	2016-17	2017-18	2018-19 (RE)	2019-20 BE
1	Open Market Loans	94,925 (56)	1,12,630 (58)	1,31,553 (59)	155376 (60)	186158 (64)
2	Loans from Central Govt.	8,957 (5)	9,025 (5)	8,977 (4)	9804 (4)	11039 (4)
3	Loans from Other Institutions	4,854 (3)	13,360 (7)	14,601 (6)	15192 (5)	15047 (5)
4	Small Savings	15,923 (9)	14,792 (8)	13,658 (6)	12446 (5)	11233 (4)
5	Provident Fund	11,679 (7)	9,484 (5)	13,508 (6)	14725 (6)	15709 (5)
6	Deposits and Reserve Funds	33,116 (20)	35,569 (18)	41,406 (19)	51383 (20)	52155 (18)
	Total	1,69,458 (100)	1,94,860 (100)	2,23,705 (100)	258928 (100)	291345 (100)
	Percentage of GSDP	27.78	27.87	28.18	28.18	26.96

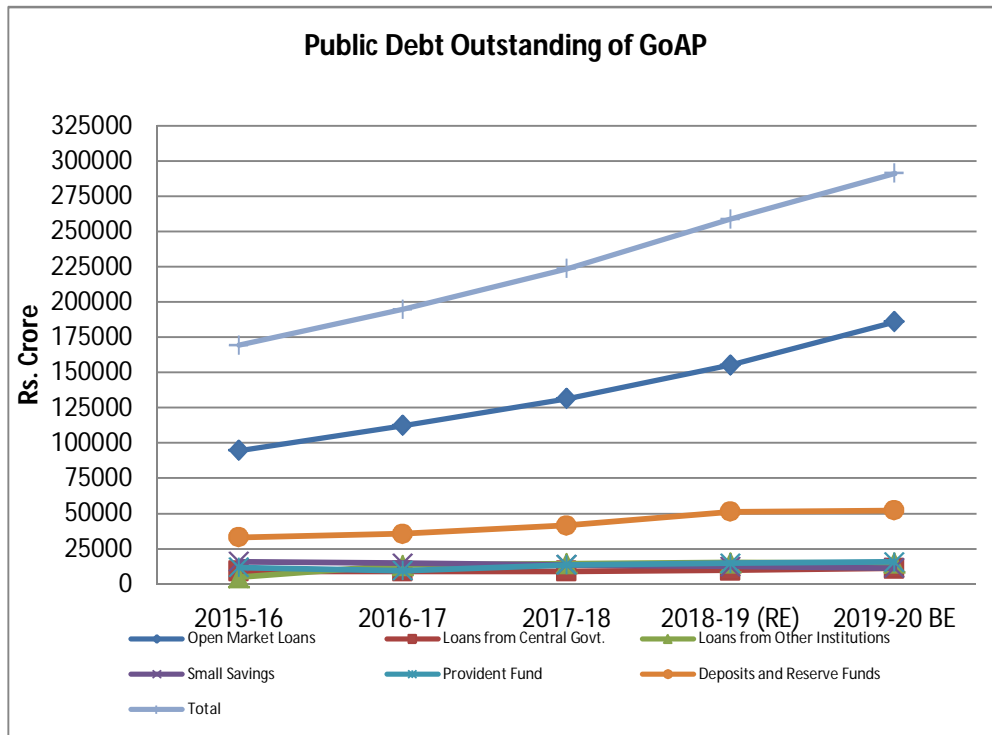
Note: Outstanding debt includes un-apportioned amount of Rs. 17,031 Crores for 2019-20 (BE)

Source: Budget documents of GOAP. (Various issues)

³ The XIV FC has advised all States to amend their FRBM provisions and make 10 disclosures.

⁴ Public Debt outstanding is not inclusive of guarantees given by the Government for different para-statal agencies, such as power corporations. The total government guarantees outstanding in March 2019 stood at Rs. 35,964 Crores. See for details GoAP Budget at a Glance 2019-20, P 17.

CHART – 4.3



4.12 Structural Changes in Public Debt

The debt outstanding of the state has been undergoing certain structural changes. The outstanding debt on account of central loans which once constituted 75% of the total debt has virtually become insignificant. Apart from certain specific loans such as loans for externally funded projects, the GoI does not advance loans to the states now. Market loans have therefore emerged as the single largest source of debt finance, followed by public account borrowings. Loans from out of net small savings collections have also dwindled over time. The floating debt has also become insignificant. The rising share of market loans with a relatively short maturity period signifies increasing interest payments. Further, it is understood that nearly 43% of the outstanding market loans of the state would be due for repayment during the next 5 to 6 years (2019-20 to 2025-26). Apart from the growing pressure to redeem the market loans in the medium term, the reduction in the repayment period of loans from small saving collections (NSSF) from 25 years to 10 years has aggravated the repayment burden. In fact, net loans from small saving collections have been negative since 2013-14, implying reverse flow (in terms of repayment) of resources from the GoAP to NSSF (Annex Table-4.8). The redemption and servicing burden of the central loans has virtually become a book-keeping exercise, with net loans from the center turning negative from 2014-15 onwards (Annex Table-4.9). As a result of these developments, the state has

come to rely very heavily on market loans as well as borrowings from the public account, for meeting both capital expenditure and revenue deficit.

4.13 Debt Sustainability

4.13.1 In order to promote prudent debt management policies, the Finance Commissions have been recommending states to adopt certain limits to their borrowings and the consequent debt liabilities created. These include: (i) debt-GSDP ratio; (ii) ratio of interest payments to revenue receipts; (iii) ratio of state tax revenue to GSDP; and (iv) ratio of interests payments to GSDP. In the combined state, the relatively high buoyancy rates in the revenue receipts led to improvement in various ratios prescribed by the Finance Commission for attaining sustainable debt level. However, bifurcation of the state has imposed a debt burden which is disproportionate to the resource base (tax and non-tax revenues). The growing revenue deficit and the fiscal deficit are visible manifestations of this underlying malady. The mounting debt burden, therefore, calls for a special dispensation to the state in the form of debt relief and higher debt ceiling to enable the new state to cope with the emerging fiscal challenges during the next 5 to 10 years.

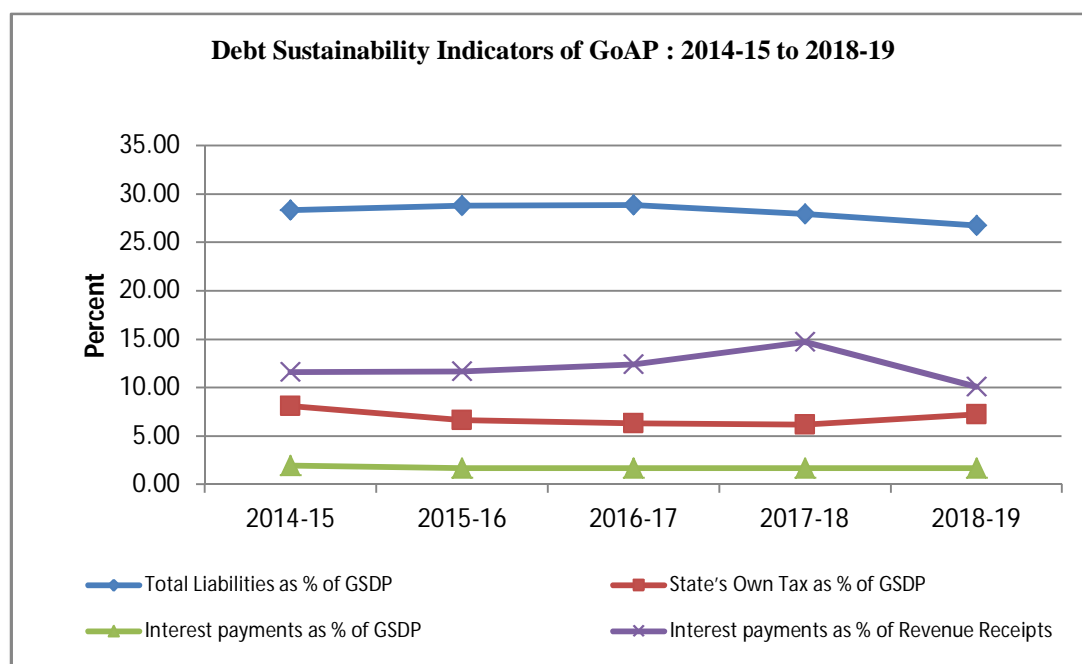
Table – 4.12 Debt Sustainability Indicators of GoAP: 2014-15 to 2018-19

(in Percentage)

Sl. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)
1	Growth in GSDP		15.10	15.44	16.06	15.30
2	Growth in Public Debt		13.92	20.17	12.72	13.39
3	Growth in Outstanding Public Account Borrowings		25.11	4.71	11.14	2.78
4	Growth in Total Liabilities		16.88	15.80	12.32	10.32
5	Growth in State Tax Revenue		-6.33	10.67	12.75	35.58
6	Growth in Interest Payments		-0.55	15.47	18.38	13.94
7	Total Liabilities as % of GSDP	28.33	28.78	28.87	28.18	28.18
8	State's Own Tax as % of GSDP	8.12	6.61	6.33	6.15	7.24
9	Interest payments as % of GSDP	1.94	1.68	1.68	1.71	1.69
10	Interest payments as % of Revenue Receipts	11.60	11.69	12.42	14.70	10.10

Source: Budget Documents of GoAP (various issues).

CHART – 4.4



4.13.2 It may be noted that the debt burden indicators furnished above are at variance with the projections/ stipulations of XIV Finance Commission (Table-4.13). It is important to note that the Finance Commission based its estimates on certain assumptions. As the division of Andhra Pradesh and Telangana took place during the tenure of XIV Finance Commission, the Commission did not have the benefit of any past data for basing its estimates. As such, the stipulations have some inherent limitations. The GSDP of the state actually increased at higher rate compared to the projections of XIV Finance Commission. Total outstanding liabilities as percent of GSDP exceeded the debt-GDP ratio stipulated by the Finance Commission. The own tax revenue as proportion of GSDP stipulated was higher than the actual ratio. This could be due to the introduction of GST from 2017 and the consequent changes in the computation of own tax revenues. Further, interest payments as percent of total revenue receipts exceeded the Finance Commission stipulations during 2016-17 and 2017-18 by about 1% to 3%.

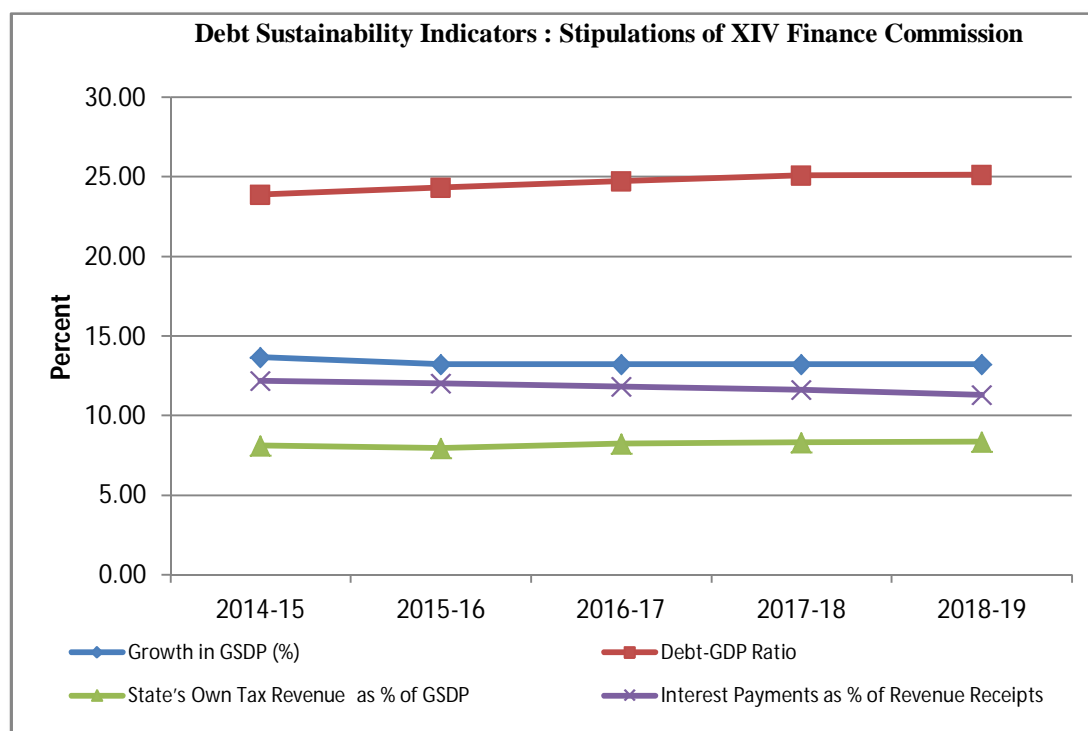
Table-4.13 Debt Sustainability Indicators: Stipulations of XIV Finance Commission

(in Percentage)

Sl. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)
1	Growth in GSDP (%)	13.67	13.24	13.24	13.24	13.24
2	Debt-GDP Ratio	23.88	24.33	24.74	25.09	25.16
3	State's Own Tax Revenue as % of GSDP	8.12	7.98	8.26	8.31	8.36
4	Interest Payments as % of Revenue Receipts	12.18	12.03	11.84	11.64	11.30

Source: Finance Commission, Report of XIV Finance Commission, p.48

CHART – 4.5



4.14 Projections of Revenue and Expenditures of GoAP

Given that the award period of the Fourth State Finance Commission is 2020-21 to 2024-25, it would be necessary to assess the finances of the state for this period, which is co-terminus with the award period of XV Finance Commission. The Commission has projected the revenues and expenditures of GoAP, for the period 2020-25. The projections are based on the trend growth rates in different components of revenue and expenditure for the period 2014-15 to 2018-19 and the budget estimates for 2019-20. The projected revenues and expenditures of GoAP are furnished in the following Table-4.14.

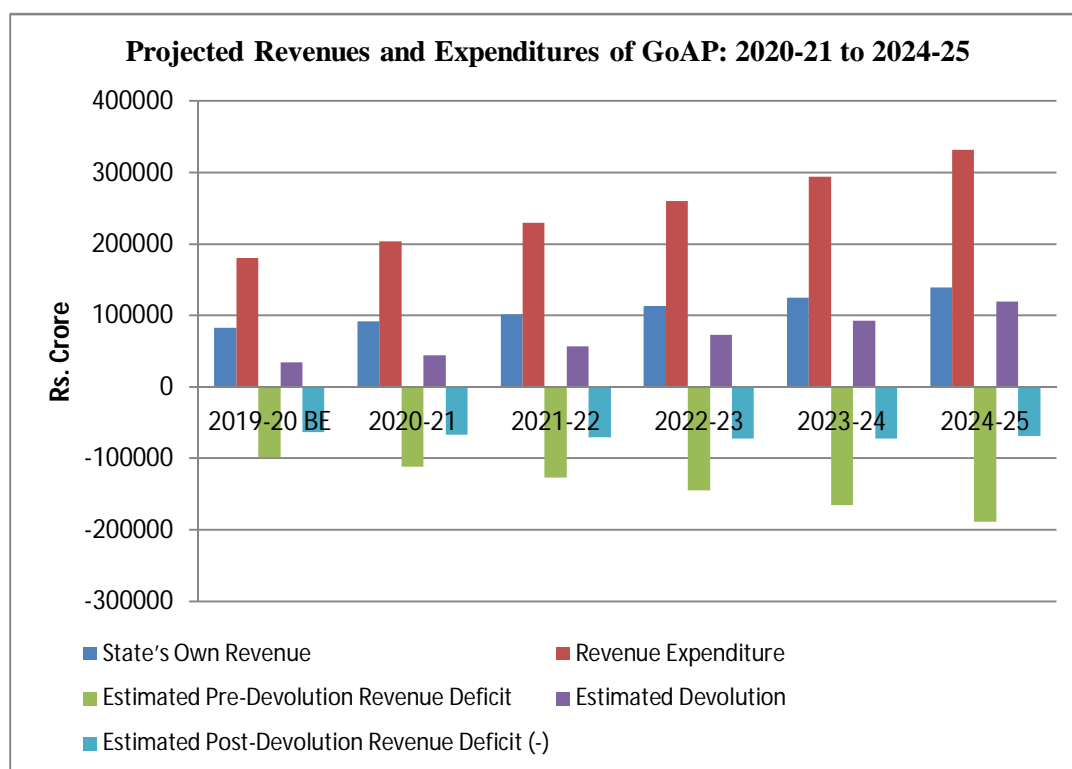
Table-4.14 Projected Revenues and Expenditures of GoAP: 2020-21 to 2024-25**(in Rs. Crore)**

Sl. No.	Item	2019-20 BE	2020-21	2021-22	2022-23	2023-24	2024-25	Total 2020-25	Assumed AAGR %
1	GSDP at Current Prices	108065 ^s	1251184	1448620	1677213	1941877	2248305	9647854	15.78*
2	State's Own Revenue	82793	91900	102009	113230	125686	139511	655129	11
2.1	State's Own Tax Revenue	75438	83736	92947	103171	114520	127117	596929	11
2.2	State's Own Non-Tax Revenue	7355	7796	8264	8760	9286	9843	51304	6
3	Revenue Expenditure	180476	203938	230450	260408	294261	332515	1502048	13
3.1	Interest Payments	17754	20240	23073	26303	29986	34184	151540	13
3.2	Pensions and Retirement Benefits	14385	16543	19024	21878	25159	28933	125922	15
3.3	Other Expenditure	148337	166137	186074	208403	233411	261420	1203782	13
4	Estimated Pre-Devolution Revenue Deficit	-97683	-111359	-126949	-144722	-164983	-188080	-833776	15
5	Estimated Devolution	34833	44509	56972	72924	93342	119478	422058	28**
6	Estimated Post-Devolution Revenue Deficit (-)	-62850	-66850	-69977	-71798	-71641	-68602	-411718	

Note: * GSDP growth rate assumed by GoAP in budget estimates 2019-20; \$ Derived from Tax-GSDP ratio assumed in budget estimates 2019-20; Other growth rates adopted are derived from the trend growth rates in revenues and expenditures during 2014-15 to 2019-20 (BE);

** 28% growth rate assumed in devolution is based on the recent growth trends in Central Taxes.

CHART – 4.6



4.15 Fiscal Challenges Ahead

The projected revenues, expenditures, devolution and deficits for XV FC award period present a bleak picture of the likely fiscal situation of the GoAP. If the assumptions behind the growth of GSDP, revenues and expenditures actually hold, the post-devolution deficit on the revenue account would be about 6.50% of the GSDP. If there is a short fall in revenues or devolution or if the expenditures exceed the estimates made, the deficit would be higher. The following factors appear to be responsible for the growing revenue deficits and other fiscal challenges.

4.16 Impact of Bifurcation

The bifurcation of the state has had its impact on the revenues and expenditures of the state and its assets and liabilities. First, as a result of bifurcation, the state has lost Hyderabad and its neighbourhood, a rapidly growing industrial and service sector hub and a huge potential tax base. With Hyderabad going to Telangana, and with 6 out of 13 districts inherited being relatively backward, the tax handles available to the state government are significantly reduced. Further, under the Bifurcation Act, refund of taxes has been shared between AP and Telangana on population basis (58.32: 41.68), where as deferred tax

collections have been allocated on location basis. It was estimated by GoAP that this has caused a huge loss of Rs.3,800 Crore to the new state. Second, development of new capital city with all infrastructure including Raj Bhavan, Secretariat, High Court, Legislative Assembly, Legislative Council, all Government Offices, residential houses for the council of ministers, judges, MLAs and officers require substantial resources. Creation of new institutions and systems for the new state is also expenditure-intensive. Third and most important, distribution of assets between the two states on the basis of location and liabilities on the basis of relative populations has created a larger debt burden on the state. As against an actual revenue deficit of Rs.16,000 Crore, the GoI has provided a grant-in-aid of Rs.5,700 Crore during 2014-15 and 2015-16. This appears to be due to the conservative estimate of the likely deficit by XIV Finance Commission. Further, the grants promised for development of the capital city and 9 backward districts by the GOI have not been fully honoured. On top of it, the Government of Telangana and some of its public enterprises have not transferred the properties as well as the funds due to the Government of Andhra Pradesh. Some of these issues are awaiting adjudication by the Courts / Tribunals. For example, APGENCO is waging a legal battle in the High Court and the National Company Law Tribunal (NCLT) for recovering its dues amounting to a whopping Rs.7,103 Crore (including interest charges) from Telangana Power Distribution companies. Several such issues that cropped up remain to be settled even 5 years after bifurcation.

4.17 Changes in the Structure of GSDP

With the bifurcation of the State, the structure of GSDP has undergone certain changes. The contribution of service sector to GSDP which is a key determinant of tax revenue has declined to 44.1% in 2014-15, which was 53% in 2013-14 in the undivided state. Similarly, the contribution of agriculture to GSDP which was 23% in 2013-14 in the combined state went up to 30% in 2014-15 in AP. The structural changes in the GSDP have reduced the potential tax base available to the state.

4.18 Expenditure on General Services

Expenditure on general services comprising salaries and other establishment costs, interest payments, pensions and other retirement benefits have been a rapidly growing item for several reasons and containing this expenditure poses a serious challenge to the State. Interest payments, pensions and other retirement benefits have also been rising rapidly. The total outgo on interest payments amounted to Rs.14,654 Crore in 2018-19 (RE) and is

expected to rise to Rs.17,754 Crore during 2019-20. With the proportion of market borrowings and public account borrowings rising rapidly, debt service charges are likely to increase rapidly. Similarly, expenditure on social services (education, health, water supply and sanitation, housing, welfare of the weaker sections, social security pensions, mid-day meals, relief on account of natural calamities etc.) has also been increasing at a very rapid rate. Expenditure on economic services (agriculture, animal husbandry, forestry, cooperation, rural employment, irrigation, power, roads and buildings etc) has also been growing, though not steadily (Annex Table-4.10).

4.19 Number of Employees and Salary and Pension Expenditure

4.19.1 The expenditure on government employees in terms of salaries and allowances as well as pensions/ family pensions for retired employees has been rapidly increasing. The number of employees as on 01.01.2018 was 4,54,222 accounting for an annual salary expenditure of Rs.20,842 Crore (Table-4.15). These expenditures are bound to increase with PRC implementation and grant of additional increments of dearness allowances. Besides, a large number of employees are due to retire from service during 2020-21 to 2024-25. Filling in of existing vacancies in the government may also add to the expenditures. The new Government have issued notification for recruitment of 1,26,728 Government employees for the proposed Village and Ward Secretariats. (<http://gramasachivalayam.ap.gov.in>). Besides, the Government is in the process of recruiting 4,33,126 volunteers at the Grama Panchayat level and 1,84,498 volunteers at the ULB Ward level to facilitate effective delivery of multiple public services (<http://gramavolunteer.ap.gov.in>). The payment of salaries for the new staff and volunteers would create additional expenditures. Further, there are payments to be made to outsourced workers at different levels of the government.

Table-4.15 Total Number of Employees and Expenditure: GoAP**(in Rs. Crore)**

Sl. No.	Sector	Total Employees as on 01.01.2018	Annual Salary Expenditure 2017-18
1	State Government	3,45,581	15,831.27
2	Judiciary	9,097	405.58
3	Aided Educational Institutions	47,652	2,328.28
4	Gram Panchayats	9,816	504.84
5	Municipal Corporations	27,018	1,231.54
6	Urban Development Authority	201	8.01
7	Agricultural Market Committees	1,350	65.9
8	Zilla Grandhalaya Samsthas	1,137	37.2
9	State Public Sector Undertakings	--	--
10	Universities	9,751	302.3
11	Co-operative Institutions & Other Govt. Bodies	1,700	84.29
12	Temples	919	42.84
	Total	4,54,222	20,842.05

Source: <https://fincomindia.nic.in/>

4.19.2 There were 3,51,681 pensioners drawing pension / family pension and other retirement benefits from the government as on 01.01.2018. In 2017-18 (RE), the total expenditure on pensions and related payments amounted to Rs.12,905 Crore, which was projected to increase to Rs.13,641 Crore during 2018-19 BE (Table-4.16). The amount on pensions and related payments is expected to rise with the retirement of employees. It is estimated that during 2019-20 and 2024-25, 82,473 employees would retire from service and become eligible for pensions (*Table-4.17*).

Table-4.16 Expenditure on Pensions: GoAP**(in Rs. Crore)**

Sl. No.	Year	No. of Pensioners	Expenditure Incurred			
			Pension	Other Retirement Benefits	Family Pension	Total
1	2014-15	341388	5930.82	8439.11	1689.51	16059.44
2	2015-16	341257	6491.63	7321.68	2017.03	15830.34
3	2016-17	345451	7233.04	1958.87	2325.88	11517.79
4	2017-18 (RE)	351681	7577.83	2673.57	2653.42	12904.82
5	2018-19 (BE)	NA	7765.90	3101.50	2774.14	13641.54

Source: Budget Documents of GoAP (various issues).

Table-4.17 Employees Scheduled for Retirement: 2019-20 to 2024-25

Sl. No.	Year	No. of Employees
1	2019-20	12940
2	2020-21	13120
3	2021-22	12875
4	2022-23	14497
5	2023-24	14207
6	2024-25	14834
	Total	82473

Source: <https://fincomindia.nic.in/>

4.20 Subsidies

There are 330 different types of subsidies provided by the government, including the subsidies under the Centrally Sponsored Schemes which accounted for a total amount of Rs.7,387 Crore in 2018-19 (BE)⁵.

4.21 Relief Expenditure

The State has a long coast line of 972 kms, prone to frequent cyclones and adverse weather events. Following adverse weather events, the State Government is required to spend large amounts on relief and rehabilitation of the people affected and on restoration of public assets. Similarly, the State has a large number of mandals frequently affected by droughts, requiring the state to spend large amounts on relief and rehabilitation. The central share of assistance under SDRF provided for calamity relief has frequently fallen short of required expenditure. Further, the State is required to contribute to its share to SDRF. Thus, the recurrent natural calamities and relief expenditure that follows are the other items that impose additional burden on the state finances.

4.22 Current Priorities of the Government

The current priority of the government is to implement a 9-point programme popularly known as 'Navaratnas' (9 gems). Important among them are: (i) provision of a working capital grant of Rs.15,000/- per annum to each farmer in the State, in addition to zero per cent interest loans, free bore wells, setting-up of a calamity relief fund with a corpus

⁵See for scheme-wise details <https://fincomindia.nic.in/>

of Rs.4,000 Crore and supply of 9 hours of free day-time electricity to farmers; (ii) fee reimbursement to all students at the rate of Rs.1.0 lakh to 1.5 lakh per student in addition to an allowance of Rs.20,000/-; (iii) reimbursement of all medical expenses exceeding Rs.1,000/- to all eligible households; (iv) completion of Polavaram and other irrigation projects; (v) implementation of a policy of prohibition in three stages; (vi) an incentive payment of Rs.15,000/- to each woman sending her children to school, besides interest free loans to women; (vii) provision of a support of Rs.75,000/- per woman aged over 45 years and belonging to the SC, the ST, the BC and the minority communities over a period of 4 years; (viii) construction of 25 lakh permanent houses for the poor over 5 years; and (ix) enhancement of old age pensions in a phased manner to Rs.3,000/- per month to each eligible senior citizen of 60 years of age and a monthly pension of Rs.3,000/- to all physically challenged persons. Redemption of these election promises would require substantial amount of resources for the government. Further, setting-up of village and ward level secretariats and appointment of volunteers for effective delivery of public services and benefits may also add to the expenditure of the state, as briefly indicated above. The government, as understood from the press reports, is also trying to explore additional sources of revenue, besides reprioritizing, economizing and rationalizing expenditures.

4.23 Scope for Mobilizing Additional Revenues

4.23.1 If there is a shortfall in State's own tax revenue and non-tax revenue effort, the revenue deficit could increase. The three important taxes available to the government for additional resource mobilization are sales taxes on commodities outside GST, stamp duty and registration fee, state excise and taxes on motor vehicles. The current rates of these taxes are fairly high and the additional potential available is relatively limited. The state level public enterprises, notably APSRTC and electricity generation and distribution companies, may not be able to reduce their dependence on the State Government. It is reported that in 2018-19 (BE), the APSRTC incurred a loss of Rs.478.00 Crore. For XV Finance Commission Award period, the anticipated gross loss of APSRTC is estimated at Rs.3,614 Crore, while the anticipated subsidy from the government is Rs.3,900 Crore⁶. (Annex Table-4.11). It is in this context that the Government have appointed two Committees to study and come up with suggestions for possible merger of APSRTC. Since Government have merged the APSRTC

⁶See for details data furnished by GoAP to XV Finance Commission <https://fincomindia.nic.in/>

with the Government, the expenditure on salaries, as well pension benefits, might increase. In respect of power utilities, the expenditure burden on the State Government is likely to increase consequent on the implementation of the centrally sponsored UDAY scheme as well as the subsidies provided by the Government. The State Level Public Enterprises thus do not hold much promise for mobilizing additional revenues.

4.23.2 Besides, given the structure of GSDP being skewed towards primary sector, the tax handles available for the state government to garner additional resources are relatively limited. This is particularly so after the introduction of GST. This is not to argue that there is no scope for additional resource mobilization from own sources or economizing on expenditures. But given the high rates of state excise duties, motor vehicle taxes and some sales taxes on specific goods, the degrees of freedom available to the state to mop up additional revenues are limited, unless the GSDP grows at a rate higher than the predicted average annual growth rate of 15.78%. However, there is still some scope for improving tax collection by reducing tax arrears, tax evasion and other leakages. There is some scope for increasing revenues from forest (including auctioning of red sander logs), Seigniorage collections from minor minerals, notably sand, rationalization and minimization of exemptions in respect of motor vehicle taxes.

4.23.3 Similarly, there is a case for reducing the dependence of SLEPs such as APSRTC and electricity corporations on state subsidies. Further, there may be some scope for reducing expenditures on subsidies and other welfare and development programmes through rationalization, promotion of transparency in expenditure decisions, reprioritization and better targeting.

4.24 Way Forward

4.24.1 Even with best efforts, state government may find it difficult to manage the fiscal situation, unless XV Finance Commission makes a generous provision of revenue deficit grants to the State beyond 2019-20, besides extending special assistance / dispensation grants to create necessary infrastructure in the bifurcated State (development of capital city and other essential infrastructure). Further, the GOI, it is hoped, would honour other assurances given to the State at the time of bifurcation and accord Special Category State status to AP, which would enable the state to get larger Central Assistance as grants (90%) for implementing Centrally Sponsored Programmes. Given the difficult fiscal scenario, the state government's ability to meet the projected gap in the finances of PRIs and ULBs as well as

their infrastructure requirements would be relatively limited, even within the existing framework of decentralization and devolution. However, in the true spirit of democratic decentralization as envisaged under the 73rd and 74th Constitutional Amendment Acts, the state government has an obligation to strengthen the local bodies with appropriate devolution of funds, functions and functionaries.

4.24.2 The State Government has already indicated its commitment to strengthening PRIs and ULBs by deciding to establish 11,158 Gram Sachivalayas (Secretariats) and 3,786 urban ward level sachivalayas (Secretariats) and initiating steps to recruit 1,26,728 frontline functionaries to run these Secretariats. In addition, the government has also initiated to hire the services of 4,33,126 village level volunteers and 1,84,498 Urban Ward level volunteers to ensure effective delivery of multiple public services to all households. These are steps in the direction of genuine decentralization. With an unprecedented number of frontline functionaries in position, it is hoped that the government would also transfer necessary funds to the PRIs and ULBs to meet the cost of the frontline functionaries and volunteers and other services as envisaged under the 93rd and 94th Amendments to the Constitution of India.

4.25 Summary and Conclusion

4.25.1 While making its recommendations for the period 2020-21 to 2024-25, the SFC has been required to take into account the resources of the State Government and its committed expenditure and liabilities as well as the fiscal position of the PRIs and ULBs. Accordingly, an effort was made in this chapter to assess the fiscal situation of the GoAP to provide financial support to the PRIs and ULBs.

4.25.2 The reorganization of the State has not only reduced the size of GSDP but also altered its sectoral distribution, affecting the tax revenues. The loss of Hyderabad and its neighbourhood, a major industrial and service sector hub, has reduced the magnitude and buoyancy of tax revenues. In terms of per capita income and degree of urbanization, two important determinant of taxable capacity, Andhra Pradesh continues to lag behind other southern states. On the other hand, the distribution of assets on the basis of location and liabilities on the basis of population between the two states has imposed additional fiscal burden on the reorganized State of Andhra Pradesh.

4.25.3 Notwithstanding the fiscal disadvantages of bifurcation, the reorganized state recorded a steep increase in its total revenues from Rs.90,672 Crore in 2014-15 to Rs.1,78,697 Crore in 2019-20 (BE) – an overall growth of 97% over 5 years. As proportion

of GSDP, the total revenue receipts formed about 15% to 22%. But the overall expenditure of the state had risen at a higher rate, largely due to the increasing expenditure on salaries, pensions, interest payments and welfare expenditure, resulting in the state exceeding the fiscal deficit target of 3% of GSDP, set by XIV Finance Commission. The rising fiscal deficit necessitated additional market loans and borrowing from public account, year after year, pushing the state towards a debt-trap. After the introduction of GST, the state is left with a very few taxes such as stamp duties and registration fees, certain specific sales taxes, state excise duties on alcoholic liquors and motor vehicle taxes, which do not afford adequate tax handles to the government. The prospects of mobilizing additional non-tax revenues from public enterprises such as electricity corporations, Road Transport Corporation etc., as well as non-debt capital receipts, are not encouraging either.

4.25.4 The scope for reducing revenue expenditure also appears to be limited in view of the rising expenditure on interest payments, pensions and retirement benefits, administrative services and social and community services. Besides, the state is required to meet the rising debt repayment obligations (market loans, loans from NSSF and public account). On the other hand, the reorganized state is required to invest in irrigation and industrial infrastructure, roads and communications, development of state capital with minimum facilities and creation of new administrative structures and systems. The growing gap between overall expenditures of the state and the total revenue (including central transfers) and non-debt capital receipts has resulted in slippage of fiscal deficit targets.

4.25.5 The rising deficits portend a situation of severe fiscal distress, which if unchecked, could render the state finances inflexible. The debt sustainability indicators of the state (debt-GSDP ratio, interest charges as proportion of revenue receipts, and ratio of state tax revenues to GSDP) are gradually turning adverse. It is in this context that the new government that has assumed office is attempting to rationalize, reprioritize and control expenditure and augment own revenues. It is in this background that the government is also appealing to the XV Finance Commission to treat the state differently from others and provide special dispensation in the form of revenue deficit grants and grants for the construction of state capital, development of backward areas and other critical gaps in socio-economic infrastructure.

4.25.6 Our projections of GoAP's revenue and expenditure on the basis of recent trends reveal a huge pre-devolution revenue deficit of Rs.8,33,775 Crore for XV Finance Commission award period. Even assuming an elastic devolution of Rs.4,22,057/- Crore, the estimated post-devolution would be Rs.4,11,718 Crore or 4.28% of project GSDP for the award period.

4.25.7 The PRIs and ULBs in the State have also been experiencing deterioration in their fiscal situation. But for the transfers from the Central Finance Commission, the fiscal situation of the PRIs and ULBs would have deteriorated further. The gap between projected expenditures and revenues of PRIs would be quite substantial, even within the existing framework of functional and financial devolution. The resource gap estimated by the GoAP for PRIs during XV Finance Commission award period is a whopping amount of Rs.32,839.65 Crore while for the ULBs, the resource gap is estimated at Rs.16,795 Crore. The normal resource gap estimated by the present Commission for the ULBs is Rs.13,568 Crore, while for the PRIs it is Rs.28,382.54 Crore. These estimates are in addition to resource requirements for meeting critical infrastructure gaps. For the ULBs, it is estimated that, Rs.74,725 Crore would be required to meet gaps in sanitation, water supply, and drainage including underground drainage. Much larger amounts would be required for meeting infrastructure gaps in PRIs to ensure provision of minimum level of services.

4.25.8 Fiscal space available to GoAP to augment transfers to local bodies is not unlimited. However, given the constitutional mandate, the State Government should enable the PRIs and ULBs to meet their responsibilities by making adequate amount of financial transfers, based on the recommendations of the SFC and on its own. In view of the difficult fiscal situation of the State, XV Finance Commission has an equally important role to play in strengthening the PRIs and ULBs. On their part, the PRIs and ULBs would do well to optimize their own revenues from tax and non-tax sources and economize on expenditures by opting for cost effective models of service delivery.

4.25.9 The Government have already indicated its firm commitment to strengthening PRIs and ULBs and accordingly established 11,158 Gram Sachivalayas (Secretariats) and 3,786 urban ward level sachivalayas (Secretariats) and taken steps to recruit 1,26,728 frontline functionaries to run these Secretariats. In addition, the Government have also initiated steps to hire the services of 4,33,126 village level and 1,84,498 Urban Ward level volunteers to ensure effective delivery of multiple public services to all households. These are the steps in

the direction of genuine decentralization. With an unprecedented number of frontline functionaries in position, it is hoped that the Government would also transfer necessary funds to the PRIs and ULBs to meet the cost of the frontline functionaries and volunteers and other services as envisaged under the 73rd and 74th Amendments to the Constitution of India.

CHAPTER-V

Finances of P.R. Institutions in Andhra Pradesh

CHAPTER – V

FINANCES OF PANCHAYAT RAJ INSTITUTIONS

IN ANDHRA PRADESH

(2014-15 TO 2018-19 AND 2020-21 TO 2024-25)

5.1 Introduction

5.1.1 The IV SFC is required to evaluate and analyse the revenue and expenditure pattern of the Panchayat Raj Institutions and its three tiers – Gram Panchayats (GPs), Mandal Praja Parishads (MPPs) and Zilla Praja Parishads (ZPPs). It is also required to assess the resource gap and make recommendations to strengthen their revenue base on one side and efficient management of expenditure on the other. In this chapter an attempt is made to evaluate revenue and expenditure of PRIs for two time periods, keeping in view the ToR provided to the Commission. The first period represents 5 years i.e from 2014-15 to 2018-19 and the second period represents 5 years i.e. from 2020-21 to 2024-25. The Commission exclusively relied upon the secondary data on revenue and expenditure of PRIs for these two periods provided by the Commissioner, PR&RD, Government of Andhra Pradesh.

5.1.2 The analysis of fiscal performance of PRIs is presented in 4 sections in this chapter. An overview of the trends in the size and composition of revenues and expenditures of all PRIs during 2014-15 to 2018-19 is presented in section-I. The analysis of the projected receipts and expenditures of PRIs for the period of 2020-21 to 2024-25 is presented in Section–II. Section-III is devoted to the estimation of resource gap for PRIs, - tier-wise. A comparative analysis of resource gap estimated by the Government of Andhra Pradesh and the present State Finance Commission is presented in this section. Section IV deals with the brief review of recommendations of the previous State Finance Commissions of Andhra Pradesh and the devolution of finances to PRIs, distribution of resources among PRIs for the award period 2020-21 to 2024-25 and specific recommendations for improving the revenue base of the PRIs.

SECTION-I

5.2 Analysis of Own Sources of Revenue of PRIs (2014-15 to 2018-19)

5.2.1 It is a known fact that devolution of functions to PRIs without finance causes them to deliver low quality of services and sometimes absence of delivery of services to the people.

In these modern days of administration, large expenditures are inevitable to carry out responsibilities. The functional efficiency of PRIs significantly depends up on the quantum of own revenue resources that they can generate within their jurisdiction.

5.2.2 In Andhra Pradesh, Gram Panchayats are bestowed with taxation powers to meet their expenditure needs and the major revenue sources of Gram Panchayats comprise tax and non-tax revenues and Grants from both Central and State Governments, besides the revenues assigned by the State Government.

5.2.3 As a part of discussion on revenue receipts of Gram Panchayats, an analysis of the composition of Own Sources of Revenue (OSR) is presented in the following paragraphs.

5.3 Own Sources of Revenue of Gram Panchayats

Tax and Non-Tax Revenues are the own sources of revenue for Gram Panchayats. Property tax, Profession tax, Entertainment tax (now subsumed under GST), Entry tax and other taxes. Major items of Non-Tax Revenue include water charges, user charges/fees, rents from shopping complexes, buildings, fish tanks etc.,

5.4 Composition of Tax Revenues of Gram Panchayats

5.4.1 An attempt is made to present the composition of tax revenues for the period 2014-15 to 2018-19. The details are presented in Table. 5.1.

**Table 5.1 Source-wise Average Tax Revenue of Gram Panchayats
(2014-15 to 2018-19)**

Sl. No.	Sources	Average Tax Revenue (in Rupees.)	
		Per Gram Panchayat	Per Gram Panchayat per annum
1	Property Tax	7,11,341 (89.4)	1,42,268
2	Profession Tax	61,628 (7.8)	12,325
3	Entertainment Tax	4,095 (0.5)	819
4	Entry Tax/Octroi	1,417 (0.2)	284
5	Other Taxes	17,100 (2.1)	3420
All Sources		7,95,581(100.0)	1,59,116

Note: Figures in the brackets denote share of each source in percentages.

Source: Calculated from Schedule 5A (VP) O/o PR & RD, Government of Andhra Pradesh.

5.4.2 The source-wise tax revenue mobilization, as presented in Table. 5.1 reveals that Property Tax and Profession Tax are the two major sources of revenue for Gram Panchayats in Andhra Pradesh accounting for 97.2 per cent of the tax revenues. Each Gram Panchayat

could mobilize Rs.7.96 lakh for the period of 5 years (i.e from 2014-15 to 2018-19), of which Rs. 7.1 lakh was the property tax and the rest was profession tax and other taxes.

5.4.3 The calculations of tax revenues during this period indicate that each Gram Panchayat has mobilized Rs. 1.59 lakh on an average per annum. The data shows that entertainment tax (0.5 per cent), entry tax (0.2 per cent) do not appear impressive and other taxes constituted about 2.1 per cent of the tax revenues.

5.5 Composition of Non-Tax Revenue of Gram Panchayats

5.5.1 Gram Panchayats levy different non-taxes to collect revenue like water charges, fees, user charges, and irrigation charges and receive rents from buildings, shopping complexes, interest on deposits and auctions. An overview of source-wise non-tax revenue realized by the Gram Panchayats for the period of 5 years i.e. from 2014-15 to 2018-19 is presented in Table. 5.2.

**Table 5.2 Source-wise Average Non-Tax Revenue of Gram Panchayats
2014-15 to 2018-19**

(In Rs.)

Sl. No	Sources	Average Non-Tax Revenue	
		Per Gram Panchayat 2014-15 to 2018-19	Per Gram Panchayat Per annum
1	Water Charges	1,04,669 (21.1)	20,940
2	Fees/User Charges	42328 (8.5)	8,465
3	Irrigation Charges	2,075 (0.4)	415
4	Rents and Others (Fish tanks, shops, auctions, etc.,)	3,47,894 (70.0)	69,579
All Non-Taxes		4,96,996 (100.0)	99,399

Note: Figures in the brackets denote proportionate share of each tax in percentage.

Source: Calculated from Schedule-5A (GP) O/o PR & RD, Government of Andhra Pradesh.

5.5.2 As could be seen from Table. 5.2, the amount of non-tax revenue for each Gram Panchayat during the period 2014-15 to 2018-19 accounted for Rs.4.97 lakhs and on an average collection of non-tax revenue was Rs.99,399/- for each Gram Panchayat per annum during this period.

5.5.3 Among different sources of non-tax revenue, rents and other taxes were the major sources which have yielded an amount of Rs. 3.48 lakhs (70.0%), followed by water charges (21.1%) and fees/user charges (8.5%). The revenue from irrigation charges was the minor source of revenue which yielded 0.4% of the total non-tax revenue during this period.

5.6 Year-wise Tax and Non-Tax Revenue of Gram Panchayats

5.6.1 One of the indicators for measuring the fiscal autonomy of Gram Panchayats is to estimate the proportions of Tax and Non-Tax Revenue in the Total Tax Revenue during the reference period, which reveals the revenue-raising capacity of Gram Panchayats. These proportions are presented in Table. 5.3.

Table 5.3 Average Tax and Non-Tax Revenue of Gram Panchayats

Reference Period	Average Tax Revenue Receipts Per Gram Panchayat (in Rupees)				
	Tax Revenue			Non-Tax Revenue	Total Own Revenue
	Property Tax	Other Taxes	Tax Revenue		
2014-15	1,28,433	15,807	1,44,240	1,04,482	2,48,722
2015-16	1,83,906	15,777	1,99,683	96,485	2,96,168
2016-17	1,91,206	17,495	2,08,701	1,08,918	3,17,619
2017-18	1,01,362	17,155	1,18,517	91,276	2,09,793
2018-19	1,06,433	18,006	1,24,439	95,835	2,20,274
Total	7,11,340	84,240	7,95,581	4,96,996	12,92,557
Average Per annum	1,42,268 (55.0)	16,848 (6.5)	1,59,116 (61.5)	99,399 (38.5)	2,58,515 (100.0)

Note: Figures in the brackets denote proportionate share of tax and non-tax revenue to total tax revenue for each year.

Source: Calculated from Schedule-5A (GP) O/o PR & RD, Government of Andhra Pradesh.

5.6.2 The details presented in Table. 5.3 shows that of the total own revenue, tax revenue was estimated as 61.5 % and non-tax revenue at 38.5 %. It means the property and other taxes are the major sources of tax revenue and through non-tax sources, each Gram Panchayat could get Rs.99,373/- (37.8%) during the period- 2014-15 to 2018-19. Though the tax revenue was dominant and impressive up to 2016-17, then onwards registered a decline accounting for 44.3 per cent. The estimations show that non-tax revenue has increased during the years 2014-15 and 2016-17, then onwards declined to Rs.95,835/- during the year 2018-19 and it was Rs.91,276/- Crore in 2017-18.

5.6.3 The data shows that on an average, each Gram Panchayat could mobilize Rs.12.93 lakh of total own revenue during the period of 5 years. Viewed from individual taxes, each Gram Panchayat could yield Rs.7.11 lakh of property tax and Rs. 0.84 lakh of other tax revenue during this period. The average total own revenue per annum was estimated as Rs. 1.59 lakh of tax revenue and Rs.0.99 lakh of revenue from other taxes per annum, which amounted to Rs.2.59 Crore on an average per annum.

5.7 Assigned Revenues and Grants for Gram Panchayats

5.7.1 Besides Tax and Non-Tax revenue, transfers from Central and State Governments (including assigned revenues, per capita grant etc.), transfer of Grants from Central and State Finance Commissions and other transfers are the other sources of revenue for the Gram Panchayats in Andhra Pradesh. Revenue transferred through these sources during the period 2014-15 to 2018-19 is presented in Table. 5.4

**Table 5.4 Transfers, Grants and Assigned Revenues for Gram Panchayats
2014-15 to 2018-19**

(in Rs.)

Sl. No.	Sources	Average Amount of Revenue	
		Per Gram Panchayat 2014-15 to 2018-19	Per Gram Panchayat (Per annum)
1	Transfers from Central Government	1,22,829 (1.9)	24,566
2	Central Finance Commission Grants (13 th & 14 th Finance Commissions)	56,50,364 (88.6)	11,30,073
3	Collections from Assigned Revenues	3,11,673 (4.9)	62,334
4	Grants-in-aid from State Government	2,90,184 (4.6)	58,037
5	Others	0	0
All Sources		63,75,050 (100.0)	12,75,010

Note: Figures in the brackets denote percentage to all sources of grants and transfers.

Source: Calculated from Schedule 4-A (GP), O/o PR&RD, Government of Andhra Pradesh.

5.7.2 The composition of Grants, Transfers and Assigned Revenues as presented in Table. 5.4 show that on an average, each Gram Panchayat received Rs.64 lakhs, accounting for Rs.13 lakhs per annum during the period 2014-15 to 2018-19.

5.7.3 Among the sources presented, the transfers from Central Finance Commission accounted for the major proportion of 88.6 % (Rs.11.3 lakh per Gram Panchayat per annum). The other sources of transfers were the Grants-in-aid from the State Government and Assigned Revenues, on an average, accounted for Rs.3.12 lakhs and Rs.2.9 lakhs per Gram Panchayat respectively.

5.8 Analysis of Revenue Receipts of Mandal Praja Parishads

5.8.1 Mandal Praja Parishads are the middle tier of Panchayat Raj structure, which have some non-tax sources of revenue like market fees, income from commercial complexes, rents from staff quarters and income from ferries etc., They depend on the transfers from Central

Government and Grants-in-aid from the State Government heavily for their revenue. The PR & RD Department has included the amount of resources received for implementing the CSS programs in the budget accounts of MPPs under the head ‘expenditure’ over which MPPs have no direct control, but approve several State and Central Government sponsored schemes to be implemented in the mandal. Table 5.5 presents the source-wise details of total revenue receipts of Mandal Praja Parishads (MPPs).

**Table 5.5 Source-wise Revenue Receipts of Mandal Praja Parishads
(2014-15 to 2018-19)**

(Rs. in lakhs)

Sl. No.	Sources of Revenue	Average Revenue Receipts per MPP 2014-15 to 2018-19	%	Average Revenue Receipts per MPP per annum
1	Tax Revenue	0		0
2	Non-Tax Revenue	15.56	0.63	3.11
A. Own Revenue		15.56	0.63	3.11
3	Transfers from Central Government	2132.07	85.65	426.42
4	Transfers from 13 th Central Finance Commission	127.67	5.13	25.53
5	Collection from Assigned Revenues	37.57	1.50	7.51
6	Grants-in-aid from State Government	176.50	7.09	35.30
7	Other sources	0		0
B. Grants and Transfers		2473.81	99.37	494.76
Total Revenue Receipts (A& B)		2489.37	100.0	497.87

Source: *Ibid*

5.8.2 It is evident from the data presented in Table. 5.5 that MPPs are depending heavily on Grants and Transfers for their revenue, rather than on their own revenue, which accounted for a small fraction of 0.63% of the total revenue receipts. The major source of revenue was transfers from Central Government (86.0 per cent), over which the MPPs have no direct control and participate in the execution of works as an agent of the State Government. If the transfers from Central Government are excluded from the total revenue receipts (Rs.2132.07 lakh), the average revenue receipts works out to only Rs.357.3 lakh per MPP during the reference period.

5.9 Analysis of Revenue Receipts of Zilla Praja Parishads

5.9.1 The upper tier of Panchayat Raj system-Zilla Praja Parishads, also face the same fiscal situation as of MPPs, though they are the District Apex Panchayats. The total revenue receipts from all sources are presented in Table. 5.6.

Table 5.6 Revenue Receipts of Zilla Praja Parishads in Andhra Pradesh

(Rs. In lakhs)

Sl. No	Sources of Revenue	Average Revenue Per ZPP (2014-15 to 2018-19)	Average Revenue Per ZPP per annum
1	Tax Revenue	0	0
2	Non-Tax Revenue	308.77 (0.8)	61.75
A.	Own Tax Revenue	308.77 (0.8)	61.75
3	Transfers from Central Government	13684.08 (35.76)	2736.82
4	Central Finance Commission (13 th)	4506.46 (11.78)	901.29
5	Collections from Assigned Revenues	4085.46 (10.68)	817.09
6	Grants-in-aid from State Government	15680.15 (40.98)	3136.03
7	Other sources	0	0
B.	Grants and Transfers	37956.15 (99.2)	7591.23
Total Revenue Receipts (A&B)		38264.92 (100.0)	7652.98

Note: Figures in the brackets denote proportionate share of each source.

Source: Calculated from Schedule 4-A (GP), O/o PR&RD, Government of Andhra Pradesh

5.9.2 As seen from the data presented in Table. 5.6 that the ZPPs are very much dependent on Grants-in-aid from the State Government (41%), apart from the transfers from the Central Government (36.0 %) . The proportion of own tax revenue accounted for only 0.8 %, and the collections of non-tax revenue was the singular source of revenue. The proportion of assigned revenues was 10.7 % representing one of the major sources of revenue and each ZPP could receive an amount of Rs.4506.46 lakh (11.8 per cent) from the Central Finance Commissions, as the another source of revenue.

5.9.3 The data also shows that on an average each ZPP could receive a total revenue receipts of Rs.383 crore during the period- 2014-15 to 2018-19, including the transfers from the Central Government (Rs.136.8 crore). The average revenue receipts were estimated as Rs.76.5 crore per ZPP per annum.

5.10 Structure and Components of Expenditure of Panchayat Raj Institutions

The IV SFC has collected the data on categories of expenditures for the period 2014-15 to 2018-19. The consolidated information on different categories of expenditure, comprising both revenue and capital expenditure, for 13 districts of Andhra Pradesh was collected from the Commissioner, PR & RD, Government of Andhra Pradesh to analyze the trends of expenditure incurred during the period 2014-15 to 2018-19. The analysis is presented to arrive at a comparative picture of expenditure incurred by the three tiers of Panchayat Raj Institutions.

5.11 Expenditure of Gram Panchayats

5.11.1 The total expenditure of Gram Panchayats has increased from Rs.406 crore in 2014-15 to Rs.578 crore during the year 2018-19, as shown in Table. 5.7.

Table 5.7 Total Expenditure of Gram Panchayats (2014-15 to 2018-19)

(in Rs. Crore)

Reference Period	Revenue Expenditure					Capital Expenditure	Total Expenditure
	Establishment	Maintenance	Welfare	Others	Total Revenue Expenditure		
2014-15	96	180	20	4	300	106	406
2015-16	117	207	24	4	352	174	526
2016-17	126	216	26	4	372	193	564
2017-18	124	212	24	4	364	186	550
2018-19	130	223	25	5	383	195	578
Total	593	1038	119	21	1771	854	2624
Average per annum	119 (22.7)	207 (39.4)	24 (4.6)	4 (0.7)	354 (67.4)	171 (32.6)	525 (100.0)
Average per G.P.	4.59	8.04	0.92	0.16	13.71	6.61	20.32

Note: Figures in the brackets denote percentage of each head of expenditure to total expenditure.

Source: Calculated from the Consolidated Schedule S6-A(VP), O/o PR&RD, GOAP.

5.11.2 The expenditure of Gram Panchayats as presented in Table. 5.7 indicate that the total expenditure of Gram Panchayats has increased from Rs.406 crore in 2014-15 to Rs.578 crore in 2018-19 indicating an increase of 42.4 %. It is estimated that on an average all the 12918 Gram Panchayats were found spending an amount of Rs.525 crore per annum and for each Gram Panchayat it was estimated as Rs.20.3 crore for this period.

5.11.3 Among the different components of expenditure, expenditure incurred on Maintenance of Gram Panchayat infrastructure accounted for a highest proportion (39.4%) followed by Capital expenditure of Rs.171 crore per annum (32.6% of the total expenditure).

5.11.4 The expenditure on Establishment worked out to Rs.4.6 crore for each Gram Panchayat on an average, as all the 12,918 Gram Panchayats were found spending Rs.119 crore per annum during this period.

5.11.5 It is observed that welfare expenditure which includes expenditure on education (other than teachers' salary), pensions for citizens, health and other expenditure constituted 4.6% of the total expenditure.

5.12 Expenditure of Mandal Praja Parishads

5.12.1 The analysis of the expenditure of Mandal Praja Parishads show that the total expenditure was Rs.3436 crore in 2014-15 and increased to Rs.6818 crore in 2018-19 as shown in Table. 5.8.

Table 5.8 Total Expenditure of Mandal Praja Parishads

(in Rs. Crore)

Reference Period	Head-wise expenditure						
	Establishment	Maintenance	Welfare	Others	Total Revenue Expenditure	Capital Expenditure	Total Expenditure
2014-15	547	190	2161	191	3089	347	3436
2015-16	624	235	4063	265	5187	479	5666
2016-17	761	338	3879	342	5320	586	5906
2017-18	913	292	4313	376	5894	602	6496
2018-19	958	304	4528	395	6185	633	6818
Total	3803 (13.4)	1359 (4.8)	18944 (66.9)	1569 (5.6)	25675 (90.7)	2647 (9.3)	28322 (100.0)
Average Per annum	760	272	3789	314	5135	529	5664
Average per MPP	6	2	29	2	39	4	43

Note: Figures in the brackets denote percentage of each head of expenditure to total expenditure

Source: Calculated from the Consolidated Schedule S6-A (BP), O/o PR&RD, GOAP.

5.12.2 The expenditure of MPPs, as presented in Table. 5.8. exhibits that the welfare expenditure was the major head of expenditure, accounting for 66.9 % of the total expenditure. The MPPs have spent a total amount of Rs.3803 crore (13.4 %) towards ‘establishment’ during the period 2014-15 to 2018-19, which was estimated as Rs. 6 crore per MPP on an average. The capital expenditure was estimated as Rs.2,647 crore (9.3%) for this period, which accounted for Rs.4 crore for each MPP.

5.13 Expenditure of Zilla Praja Parishads

5.13.1 Contrary to the other two tiers of PRIs – Gram Panchayats and Mandal Praja Parishads – the expenditure of Zilla Praja Parishads has declined during the period – 2014-15 to 2018-19 as presented in Table. 5.9.

Table 5.9 Expenditure of Zilla Praja Parishads in Andhra Pradesh

(in Rs. Crore)

Reference Period	Head-wise expenditure						Total Expenditure
	Establishment	Maintenance	Welfare	Others	Total Revenue Expenditure	Capital Expenditure	
2014-15	165	153	3	38	359	153	512
2015-16	189	169	2	5	365	74	439
2016-17	193	115	7	21	335	84	419
2017-18	194	115	5	11	325	67	392
2018-19	204	121	5	12	342	70	412
Total	945 (43.5)	673 (31.0)	22 (1.0)	87 (4.0)	1726 (79.4)	448 (20.6)	2174 (100.0)
Average per annum	189	134	4	18	345	90	435
Average per ZPP	73	52	2	6	133	34	167

Note: Figures in the brackets denote percentage of each head of expenditure to total expenditure

Source: Calculated from the Consolidated Schedule S6-A(DP), O/o PR&RD, GOAP.

5.13.2 The data presented in Table. 5.9 shows that the total expenditure of ZPPs has declined from Rs.512 crore in 2014-15 to Rs.412 crore in 2018-19, indicating a decline of 20.0 per cent, during this period. As a result of decline in capital expenditure from Rs.153 crore in 2014-15 to Rs.70 crore in 2018-19, the total expenditure has been declined to Rs.412 crore. It might also be due to the decline in the expenditure to the extent of 21.0 per cent under the head ‘maintenance’ during this period.

5.13.3 The data makes us to infer that expenditure under the heads i.e., maintenance (31.0 per cent) and establishment (43.5 per cent) together accounted for a lion's share (74.5 per cent) of the total expenditure. The capital expenditure was estimated at Rs. 34 crore per annum per ZPP and Rs.90 crore per ZPP per annum, which accounted for 20.6 per cent of the total expenditure.

5.14 Components of Total Expenditure of PRIs

5.14.1 We have made an assessment of the proportions of Revenue and Capital expenditure in the total expenditure incurred by PRIs. Table. 5.10 presents this assessment.

Table 5.10 Components of Total Expenditure of PRIs (2014-15 to 2018-19)

Sl. No	Panchayat Raj Institutions	Components of Total Expenditure				Total Expenditure	
		Revenue Expenditure		Capital Expenditure		Rs. Crore	%
		Rs.Crore	%	Rs.Crore	%		
1	Gram Panchayats	1770	67.5	854	32.5	2624	100.0
2	Mandal Praja Parishads	25675	90.7	2647	9.3	28322	100.0
3	Zilla Praja Parishads	1726	79.4	448	20.6	2174	100.0
All Institutions		29171	88.0	3949	12.0	33120	100.0

Source: Calculated from Schedule-Consolidated S6-A (GP, BP, and DP), O/o PR& RD, GOAP

5.14.2 It is evident that all PRIs were found spending 88.0 per cent of their expenditure to meet revenue expenditure, comprising establishment, maintenance, welfare and other expenditure. (Table.5.10). A small proportion of 12.0 per cent of total expenditure was only spared to meet the capital expenditure requirements.

5.14.3 The tier-wise analysis facilitates to infer that MPPs were found spending a highest percentage of 90.7 per cent (Rs.25675 crore) towards revenue expenditure followed by ZPPs (79.4 per cent). The spending towards revenue expenditure was lowest at 67.5 per cent for Gram Panchayats. This means that Gram Panchayats could allocate 32.5 per cent of their total expenditure to meet the requirements of capital expenditure which is productive whereas MPPs have spent only 9.3 per cent of their total expenditure to meet capital requirements.

SECTION-II

5.15 Revenue Receipts and Expenditures: Projections for the Period of 2020-21 to 2024-25.

The ToR issued for IV SFC directs that the Commission has to estimate the projected receipts and expenditures of PRIs of the State of Andhra Pradesh for the forthcoming five years commencing from the 1st day of April, 2020. Accordingly an exercise was made by the IV SFC to project and analyze the revenues and expenditures of PRIs, tier-wise, for the period of 2020-21 to 2024-25. Assuming that revenues of PRIs increase by 5% on an average per annum, over and above the projections based on CAGR, the total tax revenues was projected considering the year 2019-20 as the base year. Similar exercise was also adopted to estimate the total expenditure of PRIs for the 5 year projected period of 2020-21 to 2024-25.

5.16 Projected Total Own Revenue of Gram Panchayats

5.16.1 The IV SFC, based on projected data for the 5 year period, estimated the total own revenue and the forecasts for the Gram Panchayats are presented in Table. 5.11.

Table 5.11 Projected Total Tax Revenue of Gram Panchayats in Andhra Pradesh

Reference Period	Total Own Revenue (in Rs. Crore)			Average Own Revenue Per Gram Panchayat (in Rs.Lakhs)		
	Tax Revenue	Non-Tax Revenue	Total Own Revenue	Tax Revenue	Non-Tax Revenue	Total Own Revenue
2020-21	177	275	452	1.4	2.1	3.5
2021-22	186	288	474	1.5	2.2	3.7
2022-23	195	303	498	1.5	2.4	3.9
2023-24	205	318	523	1.6	2.5	4.1
2024-25	215	334	549	1.6	2.6	4.2
Total	978 (39.0)	1518 (61.0)	2496 (100.0)	7.6	11.8	19.4
Average per annum	196	304	500	1.5	2.4	3.9

Note: Figures in the brackets denote percentages

Source: Calculated from Consolidated Schedule 5A (VP). O/o PR & RD, GOAP,

5.16.2 The projections presented in Table. 5.11 reveal that both tax and non-tax revenue of Gram Panchayats would increase by 21.5 per cent in 2024-25 over 2020-21. According to these projections, the total tax revenues would increase from Rs.452 crore to Rs.549.0 crore by the year 2024-25.

5.16.3 These projections indicate that the total tax revenues for each Gram Panchayat would be of Rs.19.4 lakhs for the 5 year projected period, comprising Rs.7.6 lakhs of tax revenue and Rs.11.8 lakhs of non-tax revenue.

5.16.4 The Commission forecasts that on an average, Gram Panchayats would receive a tax revenue of Rs.196 crore and Rs.304 crore of non-tax revenue per annum during the projected period from 2020-21 to 2024-25.

5.16.5 These estimates reveal that on an average, each Gram Panchayat is expected to receive a tax revenue of Rs.1.5 lakhs and a non-tax revenue of Rs.2.4 lakhs, which works out to Rs. 3.9 lakhs of total tax revenue receipts per annum.

5.17 Projected Expenditure of Gram Panchayats

5.17.1 Similar forecasts were made by the Commission with regard to possible increase in expenditure and its trends during the projected period of 5 years. The summary of projected expenditure of Gram Panchayats is presented in Table. 5.12.

Table 5.12 Projected Total Expenditure of Gram Panchayats

(in Rs. Crore)

Projected Period	Revenue Expenditure under the head					Capital Expenditure	Total Expenditure
	Establishment	Maintenance	Welfare	Others	Total		
2020-21	143	246	27	5	421	215	636
2021-22	150	258	29	5	442	226	668
2022-23	158	271	30	6	465	237	702
2023-24	165	285	32	6	488	249	737
2024-25	174	299	33	6	512	261	773
Total	790 (22.5)	1359 (38.6)	151 (4.3)	28 (0.8)	2328 (66.2)	1188 (33.8)	3516 (100.0)
Average Per annum	158	272	30	6	466	238	704
Average Per Gram Panchayat (in Rs. Lakhs)	6.12	10.52	1.17	0.26	18.02	9.20	27.22

Note: Figures in the brackets denote percentages to Total Expenditure

Source: Calculated from Consolidated Schedule 6A (VP), O/o PR & RD, GOAP.

5.17.2 The estimations of total expenditure of Gram Panchayats under all heads made the Commission (Table 5.12) to infer that revenue and capital expenditure would increase by 27.6 per cent in 2024-25 over the year 2020-21. It is projected that total expenditure would increase from Rs.636 crore in 2020-21 to Rs.773.0 crore by 2024-25.

5.17.3 The Commission worked out the average expenditure that would be incurred by the Gram Panchayats during the projected period of 5 years. It was projected that revenue expenditure would be Rs.466 crore per annum, comprising the capital expenditure of Rs. 238.0 crore. On an average, each Gram Panchayat would be spending an amount of Rs.27.22 lakhs, which includes the capital expenditure of 9.20 lakhs.

5.17.4 These projections indicate that expenditure under the head ‘maintenance’ would be the major head accounting for 38.6 per cent of the total expenditure, followed by the capital expenditure to the tune of 33.8 per cent. It is projected that revenue expenditure accounts for 66.2 per cent and the capital expenditure for 33.8 per cent of the total expenditure to be made during the period 2020-21 to 2024-25.

5.18 Projected Total Own Revenue of Mandal Praja Parishads

5.18.1 The Commission has also made an attempt to project the revenue receipts of Mandal Praja Parishads. An overview of both total tax and non-tax revenues is presented in Table. 5.13.

Table 5.13 Projected Own Revenue of Mandal Praja Parishads in Andhra Pradesh

Projected Period	Projected Total Own Revenue (in Rs. Lakh)			Average Own Revenue Per MPP (in Rs. Lakh)		
	Tax Revenue	Non-Tax Revenue	Total Own Revenue	Tax Revenue	Non-Tax Revenue	Total Own Revenue
2020-21	0	1989	1989	0	3.01	3.01
2021-22	0	2088	2088	0	3.17	3.17
2022-23	0	2192	2192	0	3.32	3.32
2023-24	0	2302	2302	0	3.49	3.49
2024-25	0	2417	2417	0	3.66	3.66
Total	0	10988	10988	0	16.65	16.65
Average Per annum	0	2198 (100.0)	2198 (100.0)	0	3.33	3.33

Note: Figures in the brackets denote percentages to total

Source: Calculated from Consolidated Schedule 6A (BP), O/o/ PR &RD, GOAP, Tadepalli

5.18.2 It is quite evident from the Table. 5.13 that non-tax revenue is the only source available to MPPs for mobilization of revenue, which is expected to increase by 21.5 % by the year 2024-25 during the projected period from Rs.20 crore to Rs.24.2 crore, with an average total tax revenue of Rs.22 crore per annum.

5.18.3 It is estimated that on an average, each MPP would be mobilizing a sum of Rs. 3.33 lakhs per annum during the projected period of 5 years.

5.19 Projected Expenditure of Mandal Praja Parishads

5.19.1 Similar forecasts were estimated by the Commission with regard to possible increase in expenditure and its trends during the projected period of 5 years. The summary of projected expenditure of Mandal Praja Parishads is presented in Table. 5.14.

Table 5.14 Projected Expenditure of Mandal Praja Parishads

(in Rs. Crore)

Projected Period	Projected Revenue Expenditure					Projected Capital Expenditure	Projected Total Expenditure
	Establishment	Maintenance	Welfare	Others	Total		
2020-21	634	201	2996	261	4092	418	4510
2021-22	666	211	3145	274	4296	439	4735
2022-23	699	221	3303	288	4511	461	4972
2023-24	734	232	3468	303	4737	484	5221
2024-25	770	244	3641	318	4973	509	5482
Total	3503 (14.1)	1109 (4.4)	16553 (66.4)	1444 (5.8)	22609 (90.7)	2311 (9.3)	24920 (100.0)
Average Per annum	700	222	3311	289	4522	462	4984
Average per MPP	5.31	1.68	25.08	2.19	34.26	3.53	37.76

Note: Figures in the brackets denote percentages to total expenditure.

Source: Calculated from Consolidated Schedule 6A (BP). O/o PR & RD, GOAP, Tadepalli.

5.19.2 The projected data on total expenditure of MPPs (Table. 5.14) show that the expenditure is estimated to increase by 21.5 per cent which is calculated as Rs.4,510 crore in 2020-21 would increase to Rs.5,482.0 crore by the end of 2024-25.

5.19.3 The projected trends of head-wise expenditure for the period-2020-21 to 2024-25, reveal that expenditure under the head 'welfare' would account for 66.4% of the total expenditure followed by expenditure under the head 'establishment' (14.1%).

5.19.4 The welfare expenditure comprises pensions for citizens, education (excluding teachers' salary), health and other welfare expenditure. It is to be noted that the welfare expenditure indicates the expenditure to be incurred by the line departments and notionally approved by the MPPs. The expenditure under the head 'establishment' comprises salaries and wages for employees, pensions etc., for employees and wages/ salaries for outsourcing employees.

5.19.5 The projected data exhibits that the revenue expenditure would account for 90.7 per cent and capital expenditure would account for 9.3% during the period 2019-20 to 2024-25.

5.20 Projected Total Own Revenue of Zilla Praja Parishads

5.20.1 The Commission has attempted to estimate the revenue receipts of Zilla Praja Parishads for the projected period of 2020-21 to 2024-25. The projections are presented in Table. 5.15.

Table 5.15 Projected Own Revenue of Zilla Praja Parishads

Projected Period	Projected Total Own Revenue (in Rs.Crore)			Average Own Revenue Per ZPP (in Rs. Crore)		
	Tax Revenue	Non-Tax Revenue	Total Own Revenue	Tax Revenue	Non-Tax Revenue	Total Own Revenue
2020-21	0	5.30	5.30	0	0.41	0.41
2021-22	0	5.56	5.56	0	0.43	0.43
2022-23	0	5.84	5.84	0	0.45	0.45
2023-24	0	6.13	6.13	0	0.47	0.47
2024-25	0	6.44	6.44	0	0.49	0.49
Total	0	29.27	29.27	0	2.25	2.25
Average per annum	0	5.85	5.85	0	0.45	0.45

Note: Figures in the brackets denote percentages to total

Source: Calculated from Consolidated Schedule 6A (DP), O/o PR& RD, GOAP.

5.20.2 As estimated by the Commission, the total tax revenue of ZPPs would be Rs. 29.27 crore for the 5 years of projected period, which works out to Rs.5.85 crore per annum. The estimations for the projected period show that, on average, each ZPP would be receiving an amount 0.45 crore per annum towards their own revenue.

5.21 Projected Expenditure of Zilla Praja Parishads

5.21.1 The Commission made an attempt to forecast the possible increase in expenditure and its trends during the projected period of 5 years. The summary of projected expenditure of Zilla Praja Parishads is presented in Table. 5.16

Table 5.16 Projected Expenditure of Zilla Praja Parishads

(in Rs. Crore)

Projected Period	Projected Revenue Expenditure					Projecte d Capital Expendi -ture	Projecte d Total Expendi -ture
	Establish -ment	Mainte -nance	Welfare	Other s	Total Revenue Expenditure		
2020-21	112	133	6	13	264	77	341
2021-22	118	140	6	14	278	81	359
2022-23	124	146	7	15	292	85	377
2023-24	130	154	7	15	306	89	395
2024-25	136	162	7	16	321	94	415
Total	620 (32.8)	735 (39.0)	33 (1.8)	73 (3.9)	1461 (77.5)	426 (22.5)	1887 (100.0)
Average Per annum	124	147	7	15	293	85	378
Average per ZPP	47	56	3	6	112	33	145

Note: Figures in the brackets denote percentages to total

Source: Calculated from Consolidated Schedule 6A (DP), O/o PR& RD, GOAP.

5.21.2 The data presented in Table. 5.16 show that the ZPPs would be incurring the total expenditure of Rs.1887 crore during the period 2020-21 to 2024-25, comprising the projected capital expenditure of Rs. 426 crore and the revenue expenditure of Rs.1461 crore. These components constitute 77.5% of revenue expenditure and 22.5% capital expenditure for ZPPs during this period.

5.21.3 Among the heads of expenditure, expenditure under 'maintenance' would be the major head representing 39% followed by the expenditure under 'establishment' accounting for 32.8% of the total expenditure and the capital expenditure of 22.5 %.

5.21.4 The projected expenditure reveal that on an average the ZPPs (13) are estimated to be incurring the total expenditure of Rs.378 crore per annum during the projected period of 5 years, which is estimated as Rs.145 on an average per ZPP per annum.

5.22 Summary of Projected Total Own Revenue and Expenditure of PRIs

5.22.1 The Commission made an attempt to estimate the resource-gap i.e. between the revenue mobilized through own resources and the total expenditure, including capital expenditure. To facilitate these forecasts, an attempt is made to present a comparative statement of own tax revenues to be mobilized and total expenditure to be incurred by the three tiers of PRIs is summarized in Table. 5.17.

Table 5.17 Projections of Total Own Revenue and Expenditure of PRIs

Projected Period	Projected Total Own Revenue (Tax and Non-Tax Revenue in Rs. crore)				Projected Total Revenue and Capital Expenditure (in Rs. Crore)			
	GPs	MPPs	ZPPs	PRIs	GPs	MPPs	ZPPs	PRIs
2020-21	452	20	5	477	636	4510	341	5487
2021-22	474	21	6	501	668	4735	359	5762
2022-23	498	22	6	526	702	4972	377	6051
2023-24	523	23	6	552	737	5221	395	6353
2024-25	549	24	6	579	773	5482	415	6670
Total	2496	110	29	2635	3516	24920	1887	30323
Average per annum	499	22	6	527	3	4984	378	6065

Source: Calculated from the Consolidated Schedules, PR&RD, GOAP, Tadepalli.

5.22.2 The Commission arrives at the following inferences from the comparative fiscal variables of PRIs presented in Table. 5.17.

- The expenditures of PRIs (Rs.30323 crore) exceed their revenue (Rs.2635 crore) to be mobilized during the projected period -2020-21 to 2024-25, in absolute terms.
- Comparatively the MPPs would be having weak revenue-base, as against their amounts of expenditure, though major portion of expenditure would be spent through line departments, over which direct control is absent.
- The proportion of total tax and non-tax revenue to the total expenditure estimated (projected total tax and non-tax revenue/ projected total expenditure) is comparatively low for MPPs (0.44 %), and ZPPs (1.5 %) as against for Gram Panchayats (69.0%).

SECTION-III

5.23 Analysis of Resource Gap of Panchayat Raj Institutions

The Commission has attempted to provide a consolidated picture of Revenue Surplus (+)/ Deficit (-) tier-wise for PRIs to assess the resource-gap to be bridged towards which the relative fiscal status is presented for three tiers of Rural Local Governments in Andhra Pradesh. An insight into this analysis provides the Central Finance Commission, as well as for the Government of Andhra Pradesh to have a macro-fiscal situation for providing grants to the State of Andhra Pradesh in general and the Rural Local Governments in particular. The Commission has adopted two methods of assessment of Projected revenue gap of these three tiers using the projections of total own revenue and expenditure for the period of 2020-21 to 2024-25, based on the projections made by Government of Andhra Pradesh and submitted to the 15th Finance Commission . As a second method, the Commission has made projections of total own revenue and expenditure for the period of 2020-21 to 2024-25 using the long term trends of revenue and expenditure of Gram Panchayats, Mandal Praja Parishads and Zilla Praja Parishads. These estimations of revenue-gap is not inclusive of additional investments required to bridge the service gaps in the provision of core civic services. Besides, adopting this methodology, the Commission has also made an attempt to estimate the resources to be mobilized for satisfying the capital expenditure needs of PRIs, as estimated and forecasted by Government of Andhra Pradesh.

5.24 Revenue Resource Gap as Projected by the Government of Andhra Pradesh

The analysis of resource gap was estimated by the Government of Andhra Pradesh and submitted in its memorandum to 15th Finance Commission. However, the methodology adopted for assessing the resources gap as estimated by different departments of PRIs is not available and these projections exhibit a growing gap between the total expenditures and own revenue receipts for the period of projections. The GOAP, in their “Memorandum to the 15th Finance Commission” has estimated a wide resource gap for PRIs to attend the mandatory functions which was projected as Rs.32,840 crore for the period of 2020-21 to 2024-25 (See Table 5.24 for Tier-wise details).

5.25 Projected Resource Gap of PRIs

5.25.1 The details of the resource gap of PRIs as projected by the Government of Andhra Pradesh are presented in Table. 5.18.

Table 5.18 Resource Gap of PRIs as Projected by Government of Andhra Pradesh

Projected Period	Total Own Revenue* (in Rs. Crore)	Total Expenditure@ (in Rs. Crore)	Resource Gap (-) (in Rs. Crore)	Projected Resource Gap Per capita (in Rupees)		
				Total Own Revenue	Total Expenditure	Resource Gap (-)
2020-21	477.19	6800.01	-6322.62	137	1945	-1808
2021-22	500.44	7160.02	-6659.58	144	2047	-1903
2022-23	525.77	7497.03	-6971.26	150	2145	-1995
2023-24	552.15	7871.87	-7319.72	159	2252	-2093
2024-25	579.61	8265.45	-7685.84	166	2363	-2197
Total	2635.16	37594.38	-34959.02	756	10752	-9996

Note:* includes both tax and non-tax revenue@ denotes both revenue and capital expenditure

Source: Calculated from Tables. 5.11 to 5.17

5.25.2 The analysis of resource gap estimated for PRIs reveals the following trends:

- The own revenue and the total expenditure would be increasing for the projected period from Rs.477 crore to 580 crore and from 6800 crore to Rs.8265 crore for PRIs, resulting into the estimated resource gap of Rs.34959 crore.
- These trends reveal that on an average, there would be a resource gap of Rs. 6992 crore per annum during this period.
- Consequent to the continuous increase in expenditure, the per capita total resource gap would be of Rs.9996/- for the period of 5 years. The year-wise resource gap also increases from Rs.1808 crore to Rs.2197 crore, indicating an average resource gap of Rs.1999 per capita per annum for the period of 5 years.

5.26 Tier-wise Resource Gap as estimated by Government of Andhra Pradesh

5.26.1 The projected resource gap according to the estimates of Government of Andhra Pradesh for the period of 2020-21 to 2024-25 is presented in Table. 5.19.

Table 5.19 Tier-wise Projections of Resource Gap –GOAP Estimates

Sl. No.	Rural Local Governments	Total Own Revenue (in Rs. Crore)	Total Expenditure (in Rs. Crore)	Expected Resource Gap (in Rs. Crore)	Projected Resource Gap Per capita (in Rs.)
1	Gram Panchayats	2496.00	3515.95	-1019.95	-292
2	Mandal Praja Parishads	109.89	32191.17	-32081.28	-9174
3	Zilla Praja Parishads	29.27	1887.26	-1857.99	-530
All tiers		2635.16	37594.38	-34959.22	-9996
Average per annum		527	7519	-6992	-1999

Source: *Ibid.*

5.26.2 The data presented in Table. 5.19 amply exhibit the following observations:

- Though the total own revenue is high for Gram Panchayats, among the three tiers of PRIs, the resource gap is estimated at Rs.1020 crore, indicating a per capita resource gap of Rs.292.
- The resource gap is estimated high for Mandal Praja Parishads due to their heavy expenditure, particularly on welfare activities carried out through line departments, over which they have no direct control. A high resource gap is projected accounting for Rs.32081 crore, which has resulted into a high per capita resource gap of Rs.-9174.
- The projected total expenditure would be low for ZPPs accounting for Rs.1887 crore, which would result into the per capita revenue gap of Rs. 530 for the period 2020-21 to 2024-25.
- Consequent to the trends in high expenditures, the resource gap is projected to be Rs.34,959 for PRIs, which would result into the resource gap of Rs.9996 per capita for the award period of 5 years.

5.27 Projections of Resource Gap: IV SFC Estimates

5.27.1 In addition to the projections made by the Government of Andhra Pradesh, the present IV State Finance Commission has also projected the total tax and non-tax revenue and revenue and capital expenditure to be incurred for the award period of 5 years i.e. from 2020-21 to 2024-25.

5.27.2 The Government of Andhra Pradesh have projected the revenue and expenditure of PRI by adopting the 5% growth rate annually from 2014-15 to 2024-25. However, this

Commission has adopted the method of Compound Annual Growth Rate (CAGR) for projecting the revenue and expenditure of PRIs with the basic formula shown below:

Growth Rate Analysis:

The Commission adopted the following CAGR formula for measuring the growth rate of revenues and expenditures for the award period. The formula for estimating the compound growth rate is explained below

$$Y_t = Y_o(1 + r)^t \quad (1)$$

Taking log of both sides, we get the equation (1) as:

$$\text{Log } Y_t = \text{log}Y_o + t \text{ log } (1+r) \quad (2)$$

Again, taking the term $\text{log } (1 + r)$ as ' β ' and $\text{log } Y_o$ as K we can write the equation (2) as:

$$\text{Log } Y_t = K + \beta t \quad (3)$$

Where Y is the concerned variable for which the growth rate is being calculated and „ r “, „ t “ and ' β ' represent compound growth rate time and exponential growth rate respectively. Thus the exponential growth includes the compound growth rate plus one.

Therefore, we need to figure out the compound growth rate from the exponential growth rate by using the following formula : $r = (\text{antilog } \beta - 1) * 100$.

5.27.3 The IV SFC has considered the financial year 2014-15 as the beginning year and the financial year 2018-19 as ending year for the projections of revenue and expenditure for the period of 2020-21 to 2024-25. The Commission felt that the total expenditure would increase by at least 10% due to inflation, increasing costs for provision of basic services, Operations and maintenance charges etc.,

5.27.4 The Commission has estimated the total own revenue and expenditure for the award period based on the projections of own revenue and expenditure for the year 2019-20 and extended the calculations to the IV SFC award period – 2020-21 to 2024-25 for each tier of PRIs. The Commission has considered only own tax and non-tax revenues and it is to be accepted here that the revenues and expenditures might be influenced by a number of unforeseen factors, particularly the policy decisions of the State as well as Central Governments towards the transfer of funds and grants to rural local governments. Keeping the impact of unforeseen factors, it is to be considered that the projections made by the IV SFC are approximations and should be applied with necessary caution.

5.28 IV SFC Projections of Resource Gap

5.28.1 The Commission has made an attempt to project the total own revenue and expenditure and the resultant resource gap by adopting the methodology mentioned above for the award period of 2020-21 to 2024-25 and presented in Table. 5.20.

Table 5.20 Projections of Resource Gap of PRIs made by IV SFC

Projected Period	Total Own Revenue (in Rs.crore)	Total Expenditure (in Rs. Crore)	Projected Resource Gap (-) (in Rs. Crore)	Projected Resource Gap (-) per capita (in Rupees)		
				Total Own Revenue	Total Expenditure	Projected Resource Gap
2020-21	334.93	5543.70	5208.77	95	1586	1491
2021-22	349.97	5846.76	5496.79	100	1672	1572
2022-23	366.05	6170.56	5804.51	106	1765	1659
2023-24	383.22	6513.56	6130.34	110	1862	1752
2024-25	401.64	6880.37	6478.83	115	1968	1853
Total	1835.81	30954.95	29119.14	526	8853	8327

Source: Calculated from the Consolidated Schedules for GPs, MPPs and ZPPs, PR&RD, GOAP

5.28.2 The projections of resource gap as estimated by IVSFC reveal that:

- There would be a resource gap of Rs. 29,119 crore for all the tiers of PRIs during the award period of 5 years i.e. from 2020-21 to 2024-25.
- The average total own revenue per annum is projected as Rs.367 crore as against the total expenditure of Rs.6191 for projected period, which would result into a resource gap of Rs.5824 crore per annum for the projected period.
- The per capita resource gap is estimated at Rs. 8327 for the award period, as the expenditure (Rs.8853) exceeds the own revenue per capita (Rs.526), which leads to a resource gap of Rs.8327 for 5 year period.
- PRIs would be receiving the own revenue of Rs.105 per capita per annum as against the per capita per annum expenditure of Rs.1770, and the consequent resource gap would be Rs. 1665 per annum for the award period.

5.29 Tier-wise Projections of Resource Gap Estimated by IV SFC

5.29.1 The IV SFC made an attempt to project the resource gap for each tier of PRIs during the award period and the results are presented in Table. 5.21.

Table 5.21 Tier-wise Projections of Resource Gap as Estimated by the SFC

Sl. No.	Rural Local Governments	Total Own Revenue (in Rs. Crore)	Total Expenditure (in Rs. Crore)	Projected Resource Gap (in Rs. Crore)	Projected Resource Gap Per capita (in Rupees)
1	Gram Panchayats	1618.36	4404.63	-2786.27	-797
2	Mandal Praja Parishads	173.76	24921.80	-24748.04	-7077
3	Zilla Praja Parishads	43.69	1628.52	-1584.83	-453
All Tiers		1835.81	30954.95	-29119.14	-8327

Source: Calculated from the Consolidated Schedules for GPs, MPPs and ZPPs, PR&RD, GOAP.

5.29.2 The Commission arrives at the following projections by going through the data presented in Table. 5.21.

- The resource gap would be high for MPPs, due to their high expenditure, particularly on welfare programmes to be implemented as an agent of the Government of Andhra Pradesh, towards which they do not have any direct control.
- Consequently, the resource gap is projected to be Rs.29119. Crore for the award period, as the expenditure is projected at Rs.30955 crore as against the revenue to be mobilized to the tune of Rs. 1836 crore.
- The per capita projected resource gap would be high for MPPs (Rs.7077), followed by Gram Panchayats (Rs.797) and the Zilla Praja Parishads (Rs. 453).

5.30 Projected Resource Gap: A Comparative Analysis

5.30.1 The Commission has made an attempt to present a comparative picture of the projected resource gap estimated by the Government of Andhra Pradesh and the IV SFC for a meaningful understanding of the amount of resource gap that would result during the award period. This comparative analysis facilitates to arrive at justifiable amount of devolution to the rural local bodies for the award period. The comparative analysis is present for the period of 2020-21 to 2024-25 and also for the three tiers of Panchayat Raj Institutions to infer meaningful conclusions. Year-wise projections of resource gap for PRIs are presented in Table. 5.22.

Table 5.22 Projected Resource Gap: A Comparative Presentation

Projected Period	Projected Resource Gap Estimated by GOAP (in Rs. Crore)	Projected Resource Gap Estimated by IV SFC (in Rs. Crore)	Per capita Resource Gap- GOAP (in Rupees)	Per capita Resource Gap- IV SFC (in Rupees)
2020-21	6322.62	5208.77	1808	1491
2021-22	6659.58	5496.79	1903	1572
2022-23	6971.26	5804.51	1995	1659
2023-24	7319.72	6130.34	2093	1752
2024-25	7685.84	6478.83	2197	1853
Total	34959.02	29119.14	9996	8327
Average Per annum	6992	5824	1999	1665

Source: Calculated from the Consolidated Schedules for GPs, MPPs and ZPPs, PR&RD, GOAP, Tadepalli.

5.30.2 The Government of Andhra Pradesh has estimated that the resource gap would be of Rs.34959 crore for the award period and these estimations were worked out to be Rs. 29119 crore by the IV SFC. Similarly the per capita resource gap is estimated at Rs.9996 by the GOAP and it was estimated at Rs. 8327 by the IVSFC.

5.31 Tier-wise Resource Gap: A Comparative Statement

5.31.1 The Commission made an attempt to present the comparative assessment of the resource gap estimated by the Government of Andhra Pradesh and the IV SFC. The details are presented in Table. 5.23.

Table 5.23 Tier-wise Projected Resource Gap-A Comparative Presentation

Sl. No	Rural Local Governments	Projected Resource Gap Estimated by GOAP (in Rs. Crore)	Projected Resource Gap Estimated by IV SFC (in Rs. Crore)	Per capita Resource Gap GOAP (in Rupees)	Per capita Resource Gap- IV SFC (in Rupees)
1	Gram Panchayats	1019.95 (204)	2786.27 (557)	291	797
2	Mandal Praja Parishads	32081.28 (6416)	24748.04 (4950)	9174	7077
3	Zilla Praja Parishads	1857.99 (372)	1584.83 (317)	531	453
All Tiers		34959.22 (6992)	29119.14 (5824)	9996	8327

Note: Figures in the brackets denote average amount per annum in Rs. Crores.

Source: Calculated from the Consolidated Schedules for GPs, MPPs and ZPPs, PR&RD, GOAP.

5.31.2 The resource gap as projected by the GOAP would account for Rs.34,959 and estimates of IVSFC were worked out to be Rs.29,119 crore. The average resource gap per annum thus would be Rs.6992 crore (estimates of GOAP) and Rs.5824 (IV SFC) for the award period. For all the three tiers the per capita resource gap is projected to be Rs.9996 by the GOAP and it would be Rs.8327 according to the estimates of IV SFC.

5.32 Capital Expenditure Requirements as Reported to the IV SFC

5.32.1 Besides this exercise of estimated projections of revenue deficits, enhancing the per capita grants, the Commission has collected information for the estimations of capital expenditure needs and requirements of PRIs, particularly related to core functions in its field visits to the districts. The Government of Andhra Pradesh submitted a memorandum to the 15th Finance Commission presenting the requirement for taking up activities mentioned above is estimated at Rs.28382.54 crore for the three tiers of Panchayat Raj Institutions. The Government felt that due to weak financial base of these institutions, there is a wide resource gap even to attend mandatory functions. The detail of requirement of funds to meet these mandatory functions is presented in Table. 5.24.

Table 5.24 Details of Funds Required for PRIs as Estimated by the Government of Andhra Pradesh-2020-21 to 2024-25

(in Rs. crore)

Sl. No.	Panchayat Raj Institutions	Amount Required	Amount Available	Amount of Funds Required
I	Gram Panchayats	23418.43	2183.91	21234.52
	Maintenance of CPW Schemes and Hand Pumps	2810.50		
	Maintenance of Sanitation	9100.00		
	Formation and Maintenance of Internal Roads	9000.00		
	Construction and maintenance of G.P. Buildings	459.00		
	Solar energy for G.P. Building	140.93		
	Other amenities (Street lights, parks and play grounds, creating barriers	1118.40		
	Free approaches to differently abled persons	38.40		
	e-panchayats	751.20		

Sl. No.	Panchayat Raj Institutions	Amount Required	Amount Available	Amount of Funds Required
II	Mandal Praja Parishads	1422.77	370.22	1052.57
	Maintenance of hand pumps	200.00		
	Maintenance of Roads and Buildings	1000.00		
	Maintenance of Mandal Praja Parishad Buildings	64.10		
	Solar Energy for Mandal Praja Parishad Buildings	60.72		
	Hiring of Vehicles	97.95		
III	Zilla Praja Parishads	7998.46	1903.00	6095.45
	Maintenance of CPW schemes	5491.73		
	Maintenance of District Rural Roads	2500.00		
	Maintenance of ZPP Buildings	6.73		
	All Panchayat Raj Institutions	32,839.65	4457.11	28382.54

Source: GOAP (2019) Memorandum to the 15th Finance Commission, p.65.

5.32.2 According to the memorandum submitted to 15th Finance Commission, the PRIs need resources to the extent of Rs.32,839.65 crore, of which Rs.4457.11 crore is likely to be available with PRIs and the remaining resource gap of Rs.28382.54 is required to attend the mandatory functions to be discharged by PRIs for the period of 2020-21 to 2024-25.

5.33 Estimation of Total Projected Resource Gap

5.33.1 The IV SFFC made an attempt to project the total resource gap in addition to the resource gap arrived at the analysis of projected revenue and expenditure for the award period. The details of total resource gap estimated are presented in Table. 5.25.

Table 5.25 Estimates of Projected Total Resource Gap for the Award Period

Sl. No.	Details of Projected Total Resource Gap	Amount Recommended for Devolution to PRIs (in Rs. Crore)
1	Projected Revenue/Resource gap estimated by the IV SFC for the Award Period-2020-21 to 2024-25	29,119.14
2	Capital expenditure to be incurred by PRIs for the needs reported for the period of 2020-21 to 2024-25	28,382.54
	Total Estimated Resource Gap	57,501.68

5.33.2 The 14th Finance Commission has estimated the revenue deficit in two ways—pre-devolution revenue deficit and post- devolution revenue deficit for recommending the grants-in-aid to local bodies. Keeping in view the amount of post-devolution revenue deficit, the 14th Finance Commission has awarded revenue deficit grant to 11 states, among which Andhra Pradesh was one. The Commission has recommended grants-in-aid in two parts namely- a Basic Grant and a Performance Grant, in the ratio of 90:10 for Panchayats. According to the recommendations, these grants serve as assured transfers to Gram Panchayats for planning and delivering of basic services smoothly and effectively within the functions assigned to them. The grants provided were intended to be used to support and strengthen the delivery of water supply, sanitation including septic management, sewage and solid waste management, storm water drainage, maintenance of community assets, roads, footpaths, street-lighting, burial and cremation grounds and any other basic services within the functions assigned to them under relevant legislations.

5.33.3 The grants-in-aid transferred by the Central Finance Commission and the transfer of grants under Centrally Sponsored Schemes (CSS) could be used to meet a significant part of the expenditure to be incurred for the development of infrastructure during the period 2020-21 to 2024-25.

5.33.4 The 13th Finance Commission (2010-15) has recommended an amount of Rs.5,227 crore and an amount of Rs.8,654 crore (2015-2020) was recommended by the 14th Finance Commission to Panchayat Raj Institutions in Andhra Pradesh, indicating an increase of 65.6% over the recommended amount by 13th Finance Commission. Similarly, the data provided by the Commissioner PR&RD show that Rs.12,147 crore were transferred to the State of Andhra Pradesh under the Centrally Sponsored Schemes for the period of 2014-15 to 2017-18 to Panchayat Raj Institutions as presented in Table. 5.26.

Table 5.26 Transfer of Resources Under Centrally Sponsored Schemes

(in Rs. Crore)

Year	Panchayat Raj Institutions			
	GPs	MPPs	ZPPs	PRIs
2014-15	36	1900	144	2080
2015-16	30	2544	268	2842
2016-17	35	3212	417	3664
2017-18	28	3130	403	3561
Total	129	10786	1232	12147
Average per annum	32	2697	308	3037

Source: GOAP (2019) Commissioner, PR&RD, calculated from consolidated schedule - 4A

5.33.5 Keeping these two important transfer of grants, it is assumed that there would be a 70% increase in the grants-in-aid to be devolved by the 15th Finance Commission, over and above the grants-in-aid recommended by the 14th Finance Commission, it is expected that the State of Andhra Pradesh would receive grants-in-aid to the tune of Rs.14,712 crore. Likewise, the transfer of funds under the Centrally Sponsored Schemes is expected to be Rs.15,815 crore (the average transfer of resources per annum of Rs. 3037 x 5 = Rs.15,815 crore) for Andhra Pradesh.

5.33.6 Even after these assumed amounts are transferred, there would be a substantial resource gap as shown in Table.5.27.

Table 5.27 Expected Resource Gap of PRIs for 2020-21 to 2024-25

(in Rs. crore)

Sl. No.	Details of Resource Gap	Estimated Amounts
1	Projected Total Resource Gap	57501.68
2	Estimated 15 th Finance Commission transfers to PRIs for the award period- 2020-21 to 2024-25.	14712.00
3	Estimated Grants towards Centrally Sponsored Schemes during 2020-21 to 2024-25	15,815.00
4	Expected Resource Gap of PRIs for the period 2020-21 to 2024-25	26974.68

*Note : * the expected resource gap is calculated based on the above assumptions to arrive at an approximate resource gap and there is a possibility of increase in the resource gap, if the assumptions are proved wrong.*

5.33.7 It is in this context that in addition to the grants to be recommended by the 15th Finance Commission and transfer of resources under Centrally Sponsored Schemes, transfers from the Government of Andhra Pradesh, based on the recommendations of State Finance Commission should play a vital role in the meeting the expected resource gap for the period of 2020-21 to 2024-25.

5.33.8 It is to be mentioned here that though not covered by any State Finance Commission award, the Government of Andhra Pradesh has transferred Rs.6616 crore during the period 2014-15 to 2017-18 (including the recommend amounts by 13th Finance Commission). The data provided by the Commissioner, PR&RD show that grants-in-aid from the State Government were transferred to the tune of Rs.2793 crore (Rs. 698 crore per annum) and under assigned revenues to the tune of Rs. 955 crore (Rs. 239 crore per annum) during this period.

5.33.9 In addition to these grants and transfers, the Government of Andhra Pradesh have been meeting the expenditure on salaries under the Head '010' w.e.f 1st April, 2009 to all PRIs. The expenditure from 2014-15 to 2019-20 is presented in Table.5.28.

Table 5.28 Salaries of PRI staff directly paid by the Government of Andhra Pradesh
(in Rs.crore)

Year	Panchayat Raj Institutions			
	GPs	MPPs	ZPPs	PRIs
2014-15 (RE)	327.47	431.03	62.74	821.24
2015-16 (BE)	348.82	352.66	60.93	762.41
2016-17 (RE)	454.00	459.00	79.26	992.26
2017-18 (Accts)	372.72	34.63	72.33	479.68
2018-19 (RE)	404.41	33.03	81.29	518.73
2019-20 (BE)	533.51	20.00	95.46	648.97

Source: GOAP: Budget Estimates for the reference years.

5.33.10 It is evident that though the allocations for expenditure on salaries under the Head 010 to all PRIs have increased from Rs. 821.24 crore in 2014-15 to Rs. 992.26 crore in 2016-17. There onwards the amounts have been declined to Rs.479.68 crore with a marginal increase in subsequent years.

SECTION-IV

5.34 Summary of Observations and Recommendations

Before entering into the exercise of presenting empirical observations that facilitate the presentation of the specific recommendations to augmenting the revenue mobilization as well as for achieving the efficient use of resources available, it would be apt to review all the recommendations made by the 3rd State Finance Commission whose recommendations are partly accepted by the Government of Andhra Pradesh.

5.35 A Brief Review of Recommendations of Previous State Finance Commissions of Andhra Pradesh

5.35.1 During the last 25 years, 4 State Finance Commissions were appointed by the Government of Andhra Pradesh. First, Second and Third Finance Commissions have submitted their Reports covering the award period of 15 years up to 2010. The 4th SFC also submitted its Interim Report. This is the reconstituted 4th Finance Commission assumed charge on 22-02-2018 and is expected to submit its Final Report by the end of October, 2019

according to the ToR issued to the Commission covering the award period of 2015-2020 and also the Commission is expected to submit its recommendations for the forth coming 5 years i.e from 2020-21 to 2024-25.

5.35.2 The 1st Finance Commission submitted its Report with 84 recommendations recommending an amount of Rs.979.16 crore (Rs.818.84 crore to PRIs and Rs.160.32 for ULBs) towards devolution. The GOAP have accepted to devolve an amount of Rs.434.42 crore (Rs.363.95 crore for PRIs and Rs.70.47 crore for Municipalities) which accounted for 44.4 per cent of the total amount recommended by the SFC.

5.35.3 The 2nd SFC submitted its Report with 82 recommendations and recommended for the devolution of Rs.1793.94 crore (Rs.1167.33 crore for PRIs and Rs.626.61 crore for Municipalities). The Government of Andhra Pradesh have accepted to devolve Rs.300 crore comprising Rs.200 crore for PRIs and Rs.100 crore for Municipalities and Corporations.

5.35.4 The 3rd SFC has submitted its Report with 63 recommendations involving Rs.1,763.72 crore (Rs.1,274.34 crore for PRIs and Rs.489.38 crore for ULBs) for the period of 5 years i.e from 2005-2010. The total devolution recommended by the 3rd State Finance Commission worked out to 6.77 percent of the total Tax and Non-Tax Revenue of the State including the share of Central taxes for the year 2004-05 i.e., 4.89 per cent for Rural Local Governments and 1.88 per cent to Urban Local Governments.(para 10.41p.138)

5.35.5 Since there was no parallel SFC in Andhra Pradesh for the period of 2010-11 to 2014-15, the recommendations of the 3rd SFC were applied for the period from 2010 to 2015 also.

5.35.6 It is quite disappointing to note that the rate of acceptance of recommendations made by the SFCs has been continuously declining for the last 20 years. The Government of Andhra Pradesh accepted 60 recommendations out of 84 recommendations made by the 1st SFC, which represents an acceptance rate of 71.4 per cent. Of the total 82 recommendations made by the 2nd SFC, the Government of Andhra Pradesh have accepted 46 recommendations with an acceptance rate of 56.1 per cent. The acceptance rate has disappointingly declined to 29.0 per cent, as out of 63 recommendations made by the 3rd SFC, only 24 recommendations were accepted.

5.35.7 There is another disheartening dimension of the acceptance of the recommendations made by the SFCs in Andhra Pradesh. The proportion of financial recommendations has

been declining at an alarming rate, particularly related to the PRIs, as it is evident from the Report of the 3rd SFC. The Report has submitted 17 financial recommendations, out of which only 3 recommendations (13, 54 and 57) were accepted, 9 were treated as fulfilled, 1 was considered for examination and 4 recommendations were not accepted. On the other side, 21 non-financial recommendations were accepted by the Government of Andhra Pradesh.

5.35.8 A list of financial recommendations made by the 3rd SFC and accepted by the Government of Andhra Pradesh is presented for a clear understanding in Table. 5.29

Table 5.29 List of Financial Recommendations accepted by the Government of Andhra Pradesh

Recommendation No.	Recommendation made	Decision of the Government
13	The per capita grant of Gram Panchayats may be enhanced from Rs.4/- to Rs.8/-, that of MPPs from Rs.8/- to Rs.16/- and of the ZPPs from Rs.4/- to Rs.8/- from the year 2005-06 onwards (para 5.37)	Accepted
54	An amount of Rs.15 crore per annum may be sanctioned for the repairs to the school buildings and released to PRIs (para 10.22)	Accepted
57	An amount of Rs. 18 crore per annum may be sanctioned for the maintenance of Mandal office buildings. (para 10.28)	Accepted to provide an amount of Rs.10 crore per annum

Source: GOAP (2014) Action Taken Report on the Recommendations of the 3rd State Finance Commission, PR&RD (Mdl.I) Department, A.P. Secretariat, Hyderabad.

5.35.9 Keeping these facts in view, the Commission makes an attempt to present its approach towards devolution of resources, methodology to be adopted to distribute the resources among the three tiers of rural local bodies and the specific recommendations that are to be implemented for strengthening the rural local bodies functionally and financially.

5.36 Devolution of Resources to PRIs

The Terms of Reference to the Commission specifically suggests the assessment of the financial requirements to the PRIs as well as the ways and means to augment their resources with further sustainable financial base to improve the quality of delivery of core civic amenities. This process of recommending the financial requirements and the augmentation of resources is a complex exercise, as the requirements of PRIs are to be worked out keeping in view the functions entrusted to PRIs. Besides, there are functions yet to be entrusted though orders were issued for transferring the functions. It was mentioned in

the consolidated schedule 3-A provided by the Commissioner, PR&RD, GOAP, amounts were allocated to 7 departments as on 2017-18 towards the expenditure. It is quite clear that the devolution of powers under 73rd (Amendment) Act for the 29 subjects to PRIs is not yet done.

5.37 Projected Devolution of Resources

5.37.1 The Commission recommends a share of 6.50 % of the State's Own Tax Revenue for the award period-2020-21 to 2024-25 to meet the total resource gap estimated as shown in Table. 5.30.

Table 5.30 Projected Devolution of Resources to PRIs

(Rs. In Crores)

Award Period	Projected State's Gross Own Tax Revenue	6.50 % of the State's Gross Own Tax Revenue
2020-21	66,903.41	4331.00
2021-22	74,262.79	4808.00
2022-23	82,431.69	5337.00
2023-24	91,499.18	5924.00
2024-25	101,564.09	6575.00
Total	416,661.16	26975.00

Source: Calculated from the Projections to 15th Finance Commission, Memorandum submitted by GOAP to the 15th Finance Commission, p. 62

5.37.2 It is estimated that a transfer of 6.5% of projected State's Own Tax Revenue for the award period amounts to Rs. 26975 crore, is necessary to meet the resource gap for the award period of 2020-21 to 2024-25 as based on the projections of Government of Andhra Pradesh in their memorandum submitted to 15th Finance Commission (p.64) The estimated resource gap of Rs.26975 crore (see Table. 5.28) for PRIs is to be met to a large extent from the transfer of resources to be apportioned from the State's Own Tax Revenue.

5.38 Inter Se Distribution

We have studied the criteria and weights adopted by the State Finance Commissions of Southern and some of the Northern states for the distribution of divisible amount among PRIs at district level. There are 13 Zilla Praja Parishads, 660 Mandal Praja Parishads and 12918 Gram Panchayats in Andhra Pradesh. The recent statistics on number of Gram Panchayats classified according to the population (2011 Census) revealed that there are 1719 Gram Panchayats with less than 1000 population in Andhra Pradesh. Keeping in view the

reported opinions, requests, suggestions and representations submitted to the Commission in its field visits and considering the ‘geographical area-cost’ involved in the delivery of basic civic amenities, the Commission arrives at the following distribution criteria and weights to be considered for the inter-district transfer of resources to PRIs, based on 2011 Census (till such time 2021 Census are made available).

Table 5.31 Criteria and Weights to be Considered for Distribution of Resources

Sl. No.	Criteria to be adopted	Weights to be given (%)	Weights to be given for Gram Panchayats with less than 1000 population
1	Population (2011 Census)	60	30
2	Geographical area	20	50
3	SC population (2011 Census)	10	10
4	ST population (2011 Census)	10	10
Total		100	100

5.39 Distribution of Resources among PRIs

5.39.1 We are recommending the distribution of resources to all the three tiers of PRIs- Gram Panchayats, Mandal Praja Parishads and Zilla Praja Parishads. The resources should be distributed in the ratio of 80:10:10 for Gram Panchayats, Mandal Praja Parishads and Zilla Praja Parishads respectively for the award period of 5 years w.e.f the 1st April, 2020 and onwards. We feel strongly that for ensuring certain fiscal autonomy and equity among the three tiers of PRIs, distribution of resources for all three tiers is necessary.

5.39.2 We urge that 90% of the recommended amount should be distributed to each tier and should be released for discharging the basic and development functions, incessantly without any freezing of resources at the end of the financial year and 10% for the audit performance of PRIs by maintaining the accounts, submitting records for auditing in time and use of IT for ensuring transparency in administration.

5.40 Recommendations to improve the Revenue-base

5.40.1 Besides the above discussed recommendations, the Commission presents the following specific recommendations for improving the revenues of PRIs. The Commission feels that own revenue mobilization is a function of tax base and tax effort. With due considerations to the views expressed and reported in the interaction session of the Commission with functionaries of PRIs, the following recommendations are made to increase the tax base and to improve the tax effort of PRIs. There is a necessity of making the tax and

non-tax revenues more productive and elastic through rationalizing the tax rates and more importantly the tax-administration along with greater autonomy and empowerment to the PRIs.

a) Share in State's Own Tax Revenue

5.40.2 The Commission recommends an annual share of 6.50 per cent of State's Own Tax Revenue to PRIs for two years. i.e. 2018-19 and 2019-20. At 2019-20 (BE) level, a 6.50 % share (of Rs. 75438 crore) amounts to Rs.4903 crore (and for 2 year period this would amount to Rs.9806 Crore). Similarly at 2018-19 (RE) level of State's Own Tax Revenue(of Rs. 58,125 crore) a 6.50% share would amount to Rs.3778 crore (and for a 2 year award period it works out to Rs.7,556 crore). These amounts of Rs.17,362 crore for these two years (Rs.9,806 crore + Rs.7,556 crore) should be released to PRIs for the 2 year award period w.e.f. April, 2020 at the rate of Rs.8681 crore per annum in the ratio of 80:10:10 for Gram Panchayats, Mandal Praja Parishads and Zilla Praja Parishads respectively.

5.40.3 The transfer of Rs. 17,362 crore is justified on the grounds that advertisement tax and entertainment tax were subsumed under GST and they were not compensated. Similarly compensation to profession tax and seigniorage were not transferred to PRIs regularly. Another point of merit is that motor vehicle tax remains unshared with PRIs though it was shared with PRIs in many states.

5.40.4 The Commission, in view of loss of all the above revenues, finds a strong justification and urges the Government to transfer this portion of its Own Tax Revenue to PRIs during the award period. The Commission considers that it is appropriate to transfer this amount as PRIs need to spend not only on the provision of basic services but also require support for administrative infrastructure and capacity building.

b) Enhancement of Per capita Grant to PRIs

5.40.5 Under section 74 and the rules issued there under and under sections 172 and 198 of the APPR Act-1994, per capita grants are being sanctioned by the Government at Rs.4/- ,Rs.8/- and Rs.4/- to Gram Panchayats, Mandal Praja Parishads and Zilla Praja Parishads respectively. This grant is meant for general purposes and can be spent as per the felt needs of the Gram Panchayats, as it is well known that expenditure on development works and the provision of civic amenities are to be met out of their own resources. The salary grant is

given by the Government. However, among the three tiers, all the expenditure of the MPPs and ZPPs is borne by the Government by way of grants and assignments.

5.40.6 The 1st SFC has recommended to fix the per capita grant of Rs.4/-, Rs.8/-, and Rs.4/- to GPs, MPPs and ZPPs, respectively, according to 1991 Census population of 5.19 crore (23 districts). Accordingly the GPs were provided an amount of Rs.20.76 crore and as per 2001 Census Rs.22.16 crore were provided. The then Government has adjusted this amount towards 50.0 per cent of the maintenance charges of bore wells, and towards the payment of current consumption charges. The remaining amount over and above these adjustments and recoveries, was paid to GPs, which is almost negligible, even to discharge the core functions.

5.40.7 Hence, keeping the attitude of the Government and the negligible per capita amount provided to GPs, the 3rd SFC (2005-06 to 2009-10) has recommended to enhance the per capita grant of Rs.4/-, Rs.8/- and Rs.4/- to Rs.8/-, Rs.16/- and Rs.8/- for GPs, MPPs and ZPPs respectively from the year 2005-06 onwards (para 5.37 of the Report). This recommendation was accepted by the Government and the per capita grant was enhanced as recommended from the year 2005-06 onwards, based on 2001 Census. According to this recommendation, the per capita grant was enhanced to Rs.177.28 crore for the then existing grant of Rs.88.64 crore and the Government has accepted to release the additional commitment of Rs.88.64 crore to PRIs.

5.40.8 The IV SFC in its field visits and interactions with the Chairpersons, Chairmen, Vice-Chairmen, MPTC Members, Sarpanches, E.Os (GPs) and the general public, has received a no. of representations, requesting to enhance the per capita grant from the existing rates, which serves as sources of revenue to PRIs.

5.40.9 In the light of the on-field observations and based on the representations submitted by the PRI functionaries, the IV SFC recommends that the per capita grant of 8/-, Rs.16/- and Rs.8/- may be enhanced to Rs.25/-, Rs.50. and Rs.25/- for GPs, MPPs, and ZPPs respectively for the award period of 5 years from 1st April, 2020 onwards. The additional commitment to the Government on this account is estimated as Rs.172.40 crore for the year 2020-21 and Rs.862 crore for the award period, which may be released to PRIs and during consecutive years of award period and the details are presented in Table. 5.32.

Table 5.32 Enhancement of Per capita Grant and the Additional Commitment to Government

Panchayat Raj Institutions	Per capita Grant (Rs.)		Estimations of Per capita Grant per annum (in Rs.crore)		Additional Commitment per annum (in Rs. crore)
	Existing	Proposed	Existing	Proposed	
1.Gram Panchayats	8/-	25/-	44.32	87.42	43.10
2.Mandal Praja Parishads	16/-	50/-	88.64	174.84	86.20
3.Zilla Praja Parishads	8/-	25/-	44.32	87.42	43.10
All Institutions	32/-	100/-	177.28	349.68	172.40
For the Award Period of 5 years (2020-21-2024-25)	160/-	500/-	886.40	1748.40*	862.00*

Note: Per capita grant was calculated considering the Rural Population of 3,49,66,693 according to 2011 Census.

** it may increase after getting the 2021 Census figures.*

c) Rationalization of Property Tax

5.40.10 Property tax on land and buildings is the major source of tax revenue for Gram Panchayats in Andhra Pradesh accounting for 89% of the tax revenue. However, the relative contribution of property tax was found declining during the past 5 years, due to a variety of reasons.

- The Commission also understood that a balance to the extent of 88% to 95% exists as against the demand in the case of property tax for the previous 4 years according to the D-C-B reports of Gram Panchayats. The reasons reported and observed reveal that a large number of properties/houses/commercial establishments remained un-assessed, due to lack of sufficient number of employees to identify, assess and collect taxes from the un-assessed properties, political intervention to reduce the taxes levied are acting as pull-factors which reduce the tax effort of the PRIs
- The IV SFC recommends to rationalize the process of levying property tax, assessment of properties and collection of tax revenue. A comprehensive survey is to be conducted to collect information on area, type of roof, type of use, type of flooring, no. of floors and location of the properties to rationalize the levy of property tax.
- Based on the information collected, the property tax should be periodically assessed, levied, revised and collected keeping the balance against the demand at minimum level.

- The property tax is to be levied and revised based on the annual rental value of the property.
- One-time tax payers should be provided with permissible rebates in the amount of taxes and the rebates provided should be publicized.
- Necessary measures are to be initiated to assess 100% of properties and should be brought under tax-net and no property should remain un-assessed.
- Appointment of adequate number of employees in the revenue departments of PRIs is a dire necessity and the Commission expects that necessary efforts should be put forth by the village volunteers and assistants to be appointed in near future.
- The appointed revenue staff should not be converted into agents of the Government compromising their ability and motivation to collect taxes.

d) Compensation to Profession Tax

5.40.11 Profession tax at present is administered by the commercial tax department and the GPs are prevented from levying the tax. Instead, majority of the Gram Panchayats have reported that compensation to the profession tax was not transferred and subsequently the amount of own revenue has declined.

- The Commission observed from the Budget document of 2019-20 that Rs.48.32 crore, Rs.35.0 crore and Rs.35.0 crore were allocated towards the compensation of profession tax for the past three years. However, it was noticed by the Commission that compensation was not transferred to Gram Panchayats.
- The Commission recommends transferring the compensation of profession tax after deducting the cost of collection.

e) Collection of Vacant Land Tax

5.40.12 The Commission noticed that majority of the Gram Panchayats are not levying vacant land tax, on the lands not used for agriculture and left vacant, due to resistance from the local people as well as from political leaders. In some place, the vacant lands cause environmental pollution, impacting the healthy living of the people. The Government is urged to issue necessary orders permitting the Gram Panchayats to levy and collect the tax.

f) Surcharge on Stamp Duty

5.40.13 It is a source of assigned tax revenue levied as surcharge on the stamp duty imposed on transfer of property. Surcharge on Stamp Duty is collected during the transfer of property from one person to another. The state government collects the amount and is governed under the Indian Stamp Act 1922. The payment of surcharge on stamp duty includes stamp duty, transfer duty fee, and AP land registration charges. It is calculated on the market value of the property. It is levied and collected by the Registration Department. The details of the stamp duty collected and transferred, as provided by the Registrar of Stamps and Registration, reveal that during the years from 2014-15 to 2018-19, a total stamp duty of Rs. 1508 crore was collected and Rs.1298 crore were transferred from these collections to Gram Panchayats. Instead the Report on D-C-B and Adjustments of GPs Resources presents a very meager amount was adjusted to the Gram Panchayats.

5.40.14 In view of the sub-optimal transfer of the surcharge on stamp duty, the Commission impels the Government to transfer the prescribed proportion of surcharge on stamp duty to Gram Panchayats during the award period.

g) Seigniorage Fee

5.40.15 The surcharge on seigniorage minor minerals is collected and credited to the State Fund by the Director of Mines and Geology and should be apportioned among PRIs in the proportion of 37.5:37.5:25 for Gram Panchayats, Mandal Praja Parishads and Zilla Praja Parishads respectively according to the G.O. Ms. No.335, Panchyat Raj, Rural Development and Relief (Pts.III) Department dated 06-08-1986.

- The Budget documents of GOAP indicate that allocations were made to transfer the seigniorage fee to PRIs as shown in Table. 5.33.

Table 5.33 Allocations towards Seigniorage Fee

Budget for the Year	Panchayat Raj Institutions (allocations in Rs. Crore)			
	Gram Panchayats	Mandal Praja Parishads	Zilla Praja Parishads	All Tiers
2017-18 (Accounts)	16.54	28.92	17.62	63.08
2018-19 (RE)	12.51	25.47	17.62	55.60
2019-20 (BE)	14.97	29.37	17.62	61.96
Total	44.02	83.76	52.86	180.64

Source: GOAP (2019) Budget Estimates-2019-20

- Though it was informed to the Commission that the seigniorage fee was transferred to PRIs, the Commission noticed that they did not receive any amount towards seigniorage fee. In the light of this observation, the Commission recommends to transfer the seigniorage fee in the stipulated proportions to the PRIs.

h) **Rent from Shopping Complexes**

5.40.16 PRIs construct the shopping complexes and are leased out or let for rent, which serves as one of the major source of non-tax revenue. Construction of shopping complexes is capital intensive in nature and the PRIs expects to receive a fair revenue from this expenditure. However, the D-C-B reports reveal that the rents received for these shopping complexes are very negligible accounting for less than 24% of their demand as shown in Table. 5.34.

Table 5.34 Rents collected from shopping complexes

(Rs. in Crore)

Year (as on Dec.)	Demand	Collections	% of Collections
2015	8.42	0.88	10.45
2016	12.01	3.82	31.8
2017	3.80	0.83	21.84
2018	1.03	6.01	583.5

Source: GOAP: Digital Panchayat Citizen Services, Report on DCB for referred years.

- It was noticed by the Commission that the shops let for rent was occupied as by the influential people and their relatives, intervention of local rich people in the tenders for leasing-in the shops were the major contributors for the low collections as against demand for rents.
- Therefore the Commission urges the Governments to regulate the rents for shopping complexes by adopting necessary assessment methods and collect rents regularly.

i) **Collection of Parking Fees**

5.40.17 The Commission feels that levy of parking fees for the places used for parking the vehicles with the partnership of private agencies, so that a fixed amount of parking fees can be mobilized for PRIs. Efforts are to be made for identifying the parking places particularly in vicinity of temples, tourism destinations, weekly shandies, public halting places etc.,

Andhra Pradesh is a tourism-paradise and the tourism destinations, particularly the temples, if properly utilized, can become one of the major sources for parking fees. The PRIs may levy different rates for different types of vehicles that are parked at the places identified for augmenting their revenue.

j) Collection of License Fee

5.40.18 License, under sections 119 and 120 of APPR Act-1994 is necessary for installation of any machinery or manufacturing plant driven by steam, water, mechanical or electric power in any premises. Shops, Business enterprises and other establishments should possess license for their operation. The fee is charged and collected for the license granted under rule (1) for a period up to three years. It is a potential source of non-tax revenue for Gram Panchayats, instead, the collections are very negligible as against its demand as shown in Table. 5.35

Table 5.35 Collection of License Fee

(in Rs. Crore)

Year (as on Dec.)	Demand	Collections	% of Collections
2015	5.86	0.24	0.04
2016	7.84	1.12	14.29
2017	1.18	0.40	0.34
2018	0.24	0.10	41.67
Total	15.12	1.86	12.30

Source: GOAP: Digital Panchayat Citizen Services, Report on DCB for referred years

5.40.19 The Commission noticed the poor collections of license fee for the past 4 years and it may also be due to the periodicity of issue of licenses and collection of fee. Hence, it is recommended that keeping in view the statistics made available by the Economic Census, a thorough checking of issue of licenses is to be made for identifying the un-licensed establishments and should be brought under ‘fee-net’ for augmenting the revenue from license fee.

k) Revenue from Market Fee

5.40.20 Market committees were constituted under A.P. Agricultural Produce and Livestock Markets Act-1966. Market committees undertake various activities like regulation of trade in market yards, management of markets, facilitation for procurement operations under Minimum Support Price, providing loans to the farmers under Rythyubandhu Pathakam,

Management of Rythu Bazaars etc. The State has 191 agricultural market committees managing 324 market yards including sub-yards. The market committees levy and collect market fee at the rate of 1% Ad-Valorem on sale and purchase of notified agricultural produce payable by purchase of produce and market fee is the only source of income for marketing committees. The annual income (market fee collections) accounted for Rs.492.39 crore for the year 2018-19 and the collections of market fee has been increasing significantly from 2014-15 as shown in Table. 5.36

Table 5.36 District-wise collection of Market Fee

Sl. No.	District	Market Fee Collections (in Rs. crore)				
		2014-15	2015-16	2016-17	2017-18	2018-19
1	Srikakulam	18.27	21.98	21.33	19.07	10.26
2	Vizianagaram	11.53	9.55	14.38	17.88	13.45
3	Visakhapatnam	11.39	9.62	11.82	13.93	15.64
4	amine this iss52.16	52.16	67.91	58.07	71.41	75.21
5	West Godavari	58.47	70.96	77.40	79.98	72.10
6	Krishna	48.66	50.22	53.16	51.87	53.58
7	Guntur	107.56	112.17	112.86	104.88	118.99
8	Prakasam	27.40	20.92	21.17	18.77	19.71
9	SPS Nellore	16.39	19.26	24.03	23.22	24.15
10	YSR	13.41	12.59	14.06	13.45	14.59
11	Kurnool	43.93	41.88	35.15	37.19	38.19
12	Anantapuramu	11.94	14.17	10.21	13.30	14.35
13	Chittoor	16.41	18.83	23.20	23.10	22.17
Total		437.52	470.06	476.84	488.05	492.39

Source: Commissioner and Director of Marketing, Andhra Pradesh, Guntur

5.40.21 It is evident from the data presented in Table. 5.36 that the collections of marketing fee has been steadily increasing from 2014-15 to 2018-19. The collections of market fee is impressive in market committees located in Guntur, west and East Godavari districts.

5.40.22 The elected representatives of PRIs have represented the Commission for a share in income of the market committees, with a contention that farmers use roads of the villages laid by PRIs while transporting their produce to market yards and therefore, they should be entitled for a share of market cess. It was intimated to the Commission that though Government issued orders to the extent that 20% of the annual income of the market committees may be utilized for providing link roads from villages to market yards, these orders were not effectively implemented.

5.40.23 The 2nd State Finance Commission examined this issue and recommended to levy a surcharge of 5% on the market cess and passed on to the local bodies to utilize the income to maintain roads leading to the market committee. This recommendation was put to further examination, partially accepting the recommendation in respect of ULBs.

5.40.24 The 3rd State Finance Commission also recommended to pay 5% of income of the market committees to local bodies instead of levying 5% extra surcharge. However, the Government has decided to examine this recommendation in consultation with marketing department and remained not accepted.

5.40.25 The present 4th State Finance Commission considers the apportionment of 5% of income of the market committees and recommends to transfer a 5% of the collections of market fee. The income of the marketing committees for the year works out to Rs. 492.39 crore, of which a 5% would be Rs. 25 crore and for a period of 5 years it would be Rs. 125 crore. Rs. 125 crore is to be distributed between PRIs and ULBs on the ratio of 80:20 respectively.

5.41 Recommendations for Management of the Expenditure

5.41.1 Besides, augmenting the revenue, the rural local governments should simultaneously adopt necessary measures to manage the expenditures to be made for the provision of basic civic amenities. Expenditure in the hands of PRIs acts as a powerful tool to bring the desired results in rural economy and should take the form of socially desirable investment and facilitate better allocation of resources. Hence, it is to be managed efficiently to bring the desired results and be used productively. Keeping the effects of the expenditure on the rural economy, the Commission recommends the following 'efficiency-improving' measures to be adopted by the PRIs.

a) Payment of Electricity Charges

5.41.2 The Commission has noticed that a good number of Gram Panchayats and the offices of the MPPs and ZPPs are unable to pay the electricity charges due to imposition commercial rates per unit which ranges from Rs. 6 to Rs. 9 per unit. Electric power is used by PRIs in the provision of core civic amenities like supply of drinking water, street lighting, office use etc., The Commission has also received many requests appended with large amounts of electricity bills, which they are unable to pay. It is to be accepted that PRIs are not commercial establishments usuriously working for high profits. The Budget document for

the year 2019-20 shows a negligible amount of allocations (Rs. 0.01 lakh) towards the assistance to Gram Panchayats for current consumption charges.

- The Commission feels the necessity of a thorough revision of this allocation and it should be a minimum of Rs.10 crore per annum to be transferred towards the payment of electricity charges through the budgets during the award period of 5 years.
- The Government should instruct the Electricity Department not to levy commercial tariffs for consumption of electricity by the offices of PRIs. Imposition of penal interest and levy of surcharges on overdue amounts of electricity bills should be abolished / waived.

b) Grants to A.P. Grama Sachivalayam

5.41.3 The present Government has taken the responsibility of transferring the functionaries to Grama Sachivalayam to supplement administrative efforts of PRIs for the delivery of variety of civic services to people at their doorsteps. An amount of Rs. 1420 crore was allocated in the budget for 2019-20 (MJH-2515, MH-198, SH- (53)) towards the payment of salaries to these functionaries.

- The Commission recommends that the employees appointed for Grama Sachivalayam may be made a part of the PRIs and the entire expenditure to be incurred for these functionaries should be transferred to PRIs as grant and be made accountable to PRIs.
- Similarly, all the outsourced employees who are working in PRIs should be brought under the account head 010 (Salaries), The PRIs are paying the wages/salaries from their general funds, which has become a burden for them.

c) Enhancement of Maintenance Grants

5.41.4 The Commission has received a number of representations from the functionaries of PRIs to allocate some amounts for the maintenance of office buildings, ICDS offices, vegetable markets and shandies, slaughter houses, primary health centres, school buildings, overhead tanks supplying drinking water etc., as the maintenance cost has been increasing at a rapid rate. It was noticed by the Commission that some of the Gram Panchayats are unable to pay the wages to the outsourced employees, who are appointed to clean the water tanks regularly.

5.41.5 It is noticed that the GOAP has allocated Rs.2.31 crore, Rs.0.95 crore and Rs.1.31 crore in the budgets for the year 2017-18,18-19 and 19-20 respectively for the maintenance of PR buildings (MJH-2515-MH-800,SH (15), which is grossly inadequate.

- Based on these observations, the Commission recommends to allocate Rs.100 crore @ Rs.20 crore per annum during the award period for maintenance of assets of PRIs and for the payment of wages to outsourced persons appointed to clean the water tanks.

d) Abolition of Matching Grants to CS Schemes

5.41.6 At present the PRIs are executing the Centrally Sponsored Schemes (CSS) under the category of Core Schemes. These schemes are funded by the Centre and states government on the basis of different ratios of 90:10; 70:30; 60:40 and 50:50. The contribution towards this matching grant became a heavy burden particularly for Gram Panchayats with low own revenue and the GOAP has appealed to the 15th Finance Commission to abolish this policy of ‘Matching Grants’, or to reduce the number of centrally sponsored schemes, so that the funds released towards matching grants might be available to the State that could be utilized for development as well as welfare programmes.

5.41.7 The IV State Finance Commission (reconstituted) recommends the Government to accept the above recommendations and devolve adequate resources to revitalize and strengthen the Panchayat Raj Institutions.

CHAPTER-VI

Finances of ULBs in A.P

CHAPTER - VI

FINANCES OF ULBs IN AP

(FISCAL PERFORMANCE OF ULBs, PROJECTED REVENUES, EXPENDITURE AND RESOURCE REQUIREMENT AND RESOURCE GAP AND SFC RECOMMENDATIONS)

6.1 Introduction

The Commission is required to review the fiscal position of the ULBs, assess their likely resource gap and make recommendations to strengthen their fiscal position. Accordingly, finances of Urban Local Bodies (ULBs) and their fiscal performance are examined in this chapter. First, the powers and functions of ULBs are briefly examined. This is followed by an overview of the receipts and expenditures of all ULBs during 2014-15 to 2018-19. The review is based on the data collected from the Commissionerate of Municipal Administration. Trends in the size and composition of revenues and expenditures of Municipal Corporations (MCs), Municipalities (MPs) and Nagara Panchayats (NPs) and their fiscal performance are presented in Annex. Tables 6.1 & 6.2.

6.2 Powers and Functions of ULBs

Constitutional Mandate and Actual Devolution of Functions and Funds

6.2.1 Government of India (GoI) enacted the 74th Amendment of the Constitution in 1992 to empower Urban Local Bodies (ULBs) in the country as genuine local self governing institutions implementing various socio-economic development schemes, including those enumerated in XII Schedule of the Constitution. Accordingly, the GoAP enacted Andhra Pradesh Municipal Corporations Act, 1994 to set up Municipal Corporations in the state. Following the enactment, the provisions of Hyderabad Municipal Corporation Act, 1955 were extended to all other Municipal Corporations in the state of Andhra Pradesh. Further, Municipalities and Nagar Panchayats are governed by the Andhra Pradesh Municipalities Act, 1965. There are at present (April 2019) 14 Municipal Corporations (MCs), 73 Municipalities (MPs) and 23 Nagar Panchayats (NPs), covering about 1.36 Crore urban population (2011 Census)⁷.

⁷As some Gram Panchayats have been upgraded as Nagar Panchayats, the urban population has since increased.

Table – 6.1 List of ULBs with Wards, Grades and Population

Sl. No.	Name of the ULB	No. of ULBs	No. of Wards	Population As per 2011 Census
1	Municipal Corporations	14	752	71,71,493
2	Municipalities			
	Selection Grade	6	229	8,95,593
	Special Grade	7	277	10,72,002
	First Grade	12	399	10,59,194
	Second Grade	26	762	15,08,118
	Third Grade	22	534	11,05,214
3	Nagar Panchayats	23	460	8,21,724
	Total	110	3,413	136,33,338

Source: GoAP, Directorate of Municipal Administration.

6.2.2 The 74th Constitution Amendment Act 1992 identified 18 functions for ULBs .All the functions listed in this Schedule have been devolved to ULBs in the state, except fire services. The list of functions devolved is furnished in Annex. Table 6.3.

6.3 Sources of Revenue

6.3.1 Tax Sources

Article 243 X of the Constitution of India empowers the State Legislature to authorize a Municipal government to levy and collect taxes and non-taxes in their jurisdiction in accordance with the procedures and limits prescribed and appropriate for discharging the functions entrusted. The following taxes are levied by the Municipalities in Andhra Pradesh under this provision.

- Property tax (including a general tax, a water tax, a drainage tax, a lighting tax and a conservancy tax) on buildings and lands (not less than 15% and not more than 30% of the rateable value / annual rental value of the property) including levy of penalty on unauthorized constructions⁸;
- Property tax on lands not used for agricultural purposes based on capital value;
- Tax on carriages and carts;
- Tax on animals;

⁸In lieu of property tax on state government properties, the state government pays compensation to the ULBs and adjusts against salaries directly paid by the government to the provincialised staff.

- Advertisement tax / fee (now subsumed under GST);
- Profession tax (now levied and collected by Commercial Taxes Department except in respect of Vijayawada and Visakhapatnam Corporations up to 31.03.2019⁹);
- Octroi (stands abolished); and
- Entertainment tax (now subsumed under GST).

6.3.2 Non-Tax Sources

The Municipalities are also empowered to collect the following non-tax revenues:

- Fees from markets and slaughter houses, trade license fee, encroachment fees, parking fees and service charges;
- User charges including water charges;
- Town planning charges including building permit fee, conversion charges, fees for approval of layout, betterment charges, development charges etc;
- Rents from municipal properties including auction of shop rooms;
- Interest on delayed payment of property tax; and
- Penalties.

6.3.3 Assigned Revenues

Further, the Constitution empowers the State Government to assign to a municipality to collect such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits prescribed by the State Government. The following taxes are assigned to be shared/expected with the Municipalities.

- Seigniorage fee collected by Department of Mines and Geology and partly assigned to / expected to be assigned to local bodies; and
- Surcharge on stamp duty levied and collected by Department of Stamps and Registration and transferred to local bodies (see (i) under tax sources)¹⁰.

⁹Vijayawada and Greater Visakhapatnam Municipal Corporations were permitted to levy profession tax up to 31.03.2019 and were required to meet the salaries of all staff from general funds. However, from 01.04.2019, the provincialized staffs of these corporations also receive salaries from state government directly (under 010 head). Consequently, the state government may not pay any compensation on account of profession tax and entertainment tax shares.

¹⁰95% of the surcharge collected is transferred to the municipalities based on the principle of origin

6.3.4 Grants-in-Aid by GoAP

The Constitution also empowers the State Government to provide Grants-in-Aid to municipalities from the Consolidated Fund of the State for specified purposes. The following types of grants were made by the Government to the Municipalities up to the second SFC award period.

- Grants made on the recommendation of SFC;
- Per Capita grant made on the recommendation of SFC;
- Grants under MLALADS;
- Grants for construction of school buildings, Anganwadis, etc; and
- Other grants¹¹.

6.3.5 Grants from GoI / Central Finance Commission

The following grants are being made CFC and GoI:

- XIV Finance Commission grants;
- MPLADS;
- SC sub-plan grants;
- ST sub-plan grants; and
- AMRUT, Smart City and Swachh Bharat Mission grants.

6.3.6 Non-Tax Receipts

Municipalities are empowered to collect various non-taxes in the form of fees, user charges, rents from municipal properties etc. A tax is a compulsory exaction of money by a public authority for public purpose, enforceable by law and is not payment for services rendered. A fee, on the other hand, is a charge for special services rendered to individuals by the government agency or public authority. The major items of non-taxes levied by the municipalities are:

- Water charges;
- Fees from markets and slaughter houses;

¹¹ Other Grants include grants provided under In-charge Minister quota fund, adverse seasonal conditions grant, grants for providing basic facilities in Municipal schools, Janmabhoomi grants, grants for non-plan purposes, parks and play grounds development, plan grants, Swachh Andhra grants, state disaster response grant etc.

- Rents from municipal buildings like shop rooms, office complexes etc;
- Lease of immovable properties;
- Building permission fees and other town planning related fees/charges;
- Trade licence fees;
- Encroachment fees;
- Parking fees;
- Miscellaneous items; and
- Service charges on Central Government properties.

6.3.7 Borrowings by / on behalf of ULBs

The Municipal Corporations may borrow from the Central Government / State Government or any financial institution or body on the security of any immovable property of the municipality or of the municipal fund, but only with the prior sanction of the government. However, funds can be borrowed only for undertaking construction / building of assets. The Corporation is liable to repay the borrowed amounts along with the interest in instalments. If necessary, by making sinking fund arrangement. Corporations may also take advances from banks and grant mortgages with the prior approval of the government. Corporations also have power to borrow from banks against government promissory notes or securities. The State Government may also borrow on behalf of the municipalities for building infrastructure from national and international financial institutions. The government may attach municipal fund for recovery of money borrowed from government or borrowed by the government on behalf of the municipalities.

6.4 Key Functions and Services Provided by ULBs

The AP Municipal Act requires the ULBs to provide the following essential services in their jurisdiction and incur expenditure on both revenue and capital accounts:

- Water supply;
- Construction and Maintenance of Roads including lighting of streets;
- Construction and maintenance of drainage system;
- Sanitation including public toilets, scavenging and cleaning of streets;
- Enforcing norms for construction of buildings and development of buildings;
- Regulation of water bodies in public interest;

- Regulation of Factories and Trades through licensing;
- Promotion of public health; and
- Maintenance of vital statistics.

6.5 Overall Fiscal Performance of ULBs

Overall Tax and Non-Tax Performance of ULBs

6.5.1 The trends in overall tax and non-tax receipts of 110 ULBs presented in Table-6.2 reveals that the non-tax receipts had grown at a higher rate compared to the tax receipts during 2014-15 to 2018-19¹². The proportion of tax receipts of 110 ULBs in the total receipts registered a decline from 58% in 2014-15 to 51% in 2018-19. There is a corresponding increase in the share of non-tax receipts during the same period.

6.5.2 Similar trends could be observed in respect of the tax and non-tax receipts of 14 MCs. The total receipts of MCs increased from Rs.2,354 Crore to Rs.3,777 Crore during the same period, growing at a CAGR of 5.1%. However, non-tax receipts grew at a higher rate compared to the tax receipts. This could be due to the transfers from the CFC and borrowings by some MCs.

6.5.3 In respect of Municipalities, the tax revenues increased at a slightly higher rate compared to the non-tax receipts. In absolute terms, the total receipts had increased from Rs.849 Crore to Rs.1,266 Crore during 2014-15 to 2018-19. In the relative composition of tax and non-tax receipts, there were inter-year fluctuations. On the whole, non-tax receipts constituted more than 50% during 2016-17 and 2017-18. This appears to be due to CFC transfers and transfers for centrally sponsored schemes. The relative decline in the share of tax revenues from 2016-17 could be due to the inadequate tax effort, particularly, property tax effort of the Municipalities.

6.5.4 In the case of 23 Nagar Panchayats, the situation is different with non-tax receipts consistently exceeding the tax receipts. The Nagar Panchayats, which were formerly GPs with a relatively low tax effort, find it difficult to mobilize additional tax revenues, particularly property tax due to legacy factors.

¹²A review of Finance of UBL during 2010-11 to 2017-18 is presented in Annex 28.

Table – 6.2 Total Receipts of MCs, MPs and NPs in AP: 2014-15 to 2018-19

(110 ULBs; Rs. In Crores)

Sl. No.	ULB	2014-15	2015-16	2016-17	2017-18	2018-19	AAGR %	CAGR %
1	MCs (14)							
1.1	Tax Revenues	1434 (61)	1547 (53)	1860 (45)	1959 (53)	1923 (51)	8.5	3.7
1.2	Non-Tax Receipts	920 (39)	1377 (47)	2303 (55)	1771 (47)	1855 (49)	25.4	4.5
1.3	Total Receipts	2354 (100)	2924 (100)	4163 (100)	3730 (100)	3778 (100)	15.1	5.1
2	MPs (73)							
2.1	Tax Revenues	436 (51)	494 (62)	589 (48)	639 (47)	670 (53)	13.4	2.9
2.2	Non-Tax Receipts	412 (49)	299 (38)	649 (52)	722 (53)	596 (47)	11.2	2.7
2.3	Total Receipts	848 (100)	793 (100)	1238 (100)	1361 (100)	1266 (100)	12.3	3.5
3	NPs (23)							
3.1	Tax Revenues	39 (38)	45 (34)	66 (40)	73 (38)	77 (46)	24.4	1.5
3.2	Non-Tax Receipts	63 (62)	86 (66)	100 (60)	118 (62)	90 (54)	10.7	1.3
3.3	Total Receipts	102 (100)	131 (100)	166 (100)	191 (100)	167 (100)	16.3	1.9
4	Total (1+2+3) (110)							
4.1	Tax Revenues	1909 (58)	2086 (54)	2515 (45)	2670 (51)	2670 (51)	10.0	4.3
4.2	Non-Tax Receipts	1395 (42)	1762 (46)	3051 (55)	2611 (49)	2541 (49)	20.5	4.8
	Total	3304 (100)	3848 (100)	5566 (100)	5281 (100)	5211 (100)	14.4	5.6

Note: MCs – Municipal Corporations; MPs – Municipal Councils; NPs – Nagar Panchayats Non-Tax Receipts includes borrowings; Figures in parentheses are percentages.

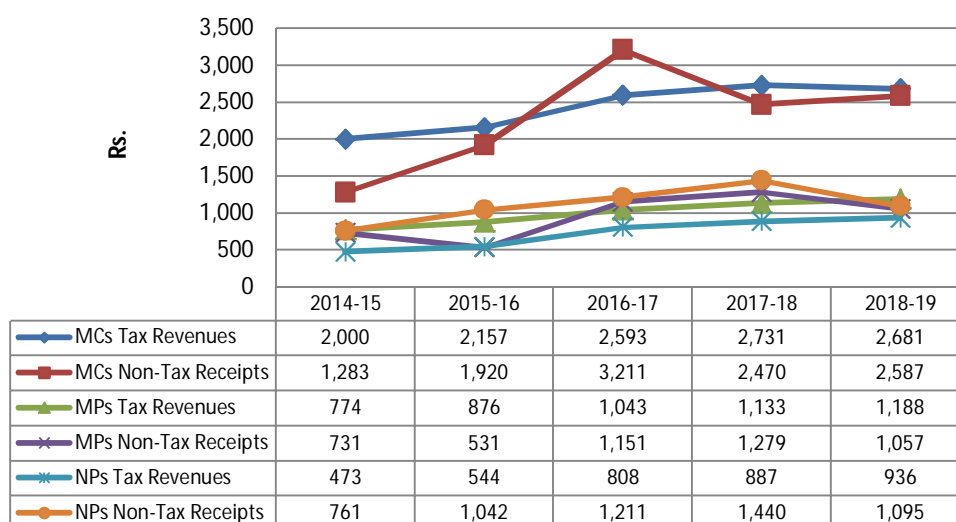
Source: GoAP, Directorate of Municipal Administration.

6.5.5 As the number and size of different municipalities vary, Per capita receipts (based on 2011 population) are compared across the three classes of ULBs (Chart–6.1). The per capita tax and non-tax receipts in respect of MCs are substantially higher compared to the per capita

tax and non-tax receipts of MPs and NPs. This clearly reflects the relatively better resource position of the MCs. Increase in per capita non-tax receipts is particularly sharper in respect of both MPs and NPs. This could be due to the CFC transfers as well as transfers for the centrally sponsored schemes. The low per capita receipts may be indicative of relatively low effort to mobilize tax revenues by the MPs and NPs. Further, it may be noted that there were wide inter-ULB variations in tax and non-tax receipts during the five year period.

CHART – 6.1

Per Capita Total Receipts of MCs, MPs and NPs in AP: 2014-15 to 2018-19 (In Rs.)



6.6 Composition of Overall Tax Revenue of ULBs

6.6.1 Property tax levied on residential and non-residential properties is the principal source of revenue to the ULBs. Its relative importance varied between 35% and 44% of the total tax receipts during 2014-15 to 2018-19. Water charges, the other important source of own revenue stagnated around 14% of the total own tax receipts. These appear to be largely due to the substantial gap between demand and collection of property tax and water charges (Table-6.3). There appeared to be other issues in the collection of property tax such as ceiling on tax rates, delays in approval of rate revisions by the government, prolonged litigations, unauthorized constructions and lack of effective real-time monitoring of the growth of urban properties. The demand-collection ratio had particularly turned adverse during 2017-18 and 2018-19. Similar reasons could be attributed to the gap between demand and collection of water charges, particularly in MPs and NPs. Apart from property taxes and water charges,

ULBs derive their revenues from town planning fee and charges (17% to 21%) and mutation fees etc (9% to 14%).

6.6.2 Receipts from surcharge on stamp duty, an important source of assigned revenue, are the next important source of contributing 11% and 17%. The entertainment tax, earlier collected by the Commercial Taxes Department, now stands subsumed under GST. This is true of advertisement tax as well. However, the State Government is not specifically compensating the ULBs for the loss of these two sources of tax revenue. Profession tax, another local tax, has been levied and collected by the Commercial Taxes Department for administrative convenience in all municipalities except the municipalities of Vijayawada and GVMC (up to 31.03.2019). The proceeds of the profession tax are appropriated by the state government stated to be in lieu of direct payment of salaries of provincialized staff (010 payments) of ULBs.

**Table – 6.3 Composition of Total Tax Revenues of All ULBs in AP
2014-15 to 2018-19**

(110 ULBs; Rs. in Crores)

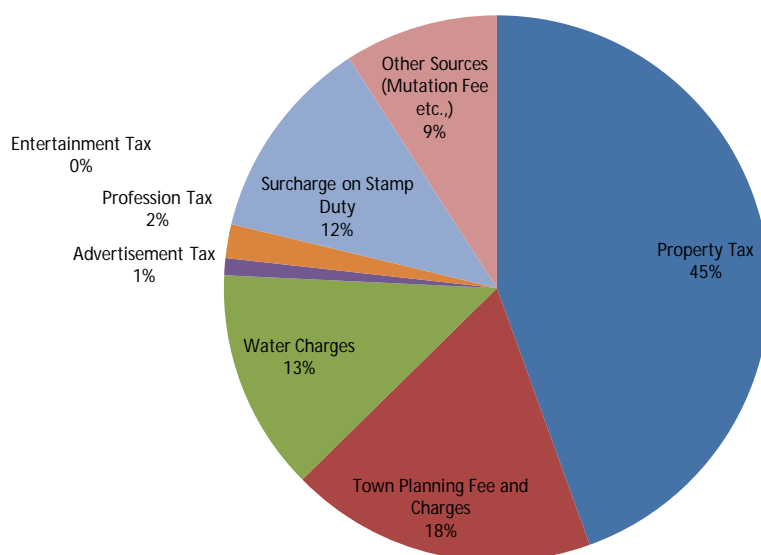
Sl. No.	Tax	2014-15	2015-16	2016-17	2017-18	2018-19
1	Property Tax	672 (35)	826 (40)	924 (37)	1025 (38)	1186 (44)
2	Town Planning Fee and Charges	323 (17)	363 (17)	520 (21)	573 (21)	479 (18)
3	Water Charges	258 (14)	283 (14)	356 (14)	373 (14)	348 (13)
4	Advertisement Tax	27 (1)	20 (1)	27 (1)	39 (1)	39 (1)
5	Entertainment Tax	36 (2)	43 (2)	49 (2)	50 (2)	8 (0)
6	Profession Tax	11 (1)	0	12 (0)	41 (2)	47 (2)
7	Surcharge on Stamp Duty	317 (17)	333 (16)	289 (11)	301 (11)	326 (12)
8	Other Sources (Mutation Fee etc.,)	265 (14)	218 (10)	338 (13)	268 (10)	236 (9)
9	Total Tax Revenues	1,909 (100)	2,086 (100)	2,515 (100)	2,670 (100)	2,679 (100)

Note: Figures in parentheses are percentages.

Source: GoAP, Directorate of Municipal Administration.

CHART – 6.2

Composition of Tax Receipts of 110 ULBs in 2018-19



6.7 Composition of Overall Non-Tax Revenue of ULBs

Grants from CFC and GoI have emerged as the principal sources of non-tax receipts of the ULBs, contributing 30% to 45% of the total non-tax receipts. The CFC grants, both basic grants and performance grants, along with grants for implementing the centrally sponsored SBM, AMRUT and Smart City Mission programmes have contributed to the buoyancy of the ULB receipts. Grants provided under SFC have virtually paled into insignificance. Borrowings made on behalf of a few ULBs for infrastructure development has also risen during this period. Income from remunerative enterprises has virtually stagnated around 5% of the total non-tax receipts (Tabl-6.4).

Table – 6.4 Composition of Total Non-Tax Revenues of 110 ULBs: 2014-15 to 2018-19

(Rs. In Crores)

Sl. No.	Non-Tax Receipts	2014-15	2015-16	2016-17	2017-18	2018-19
1	Income from Remunerative Enterprises	74 (5)	89 (5)	103 (3)	134 (5)	118 (5)
2	Other own miscellaneous receipts	394 (28)	610 (35)	557 (18)	528 (20)	512 (20)
3	SFC Grants	122 (9)	177 (10)	169 (6)	74 (3)	140 (6)
4	GoAP Grants	112 (8)	121 (7)	465 (15)	331 (13)	269 (11)
5	CFC Grants	498 (36)	330 (19)	608 (20)	502 (19)	292 (11)
6	GoI Grants Under JNNURM	111 (8)	8 (0)	61 (2)	4 (0)	23 (1)
7	Other GoI Grants (SBM, AMRUT, Smart City etc.,)	60 (4)	387 (22)	564 (19)	286 (11)	341 (13)
8	SC-ST Sub-Plan Grants	0	11 (1)	208 (7)	296 (11)	397 (16)
9	MP LADS/ MLA LADS	23 (2)	9 (1)	20 (1)	10 (0)	15 (1)
10	Borrowings	0	20 (1)	296 (10)	446 (17)	434 (17)
Total Non-Tax Receipts		1395 (100)	1762 (100)	3051 (100)	2611 (100)	2541 (100)

Note: Figures in parentheses are percentages.

Source: GoAP, Directorate of Municipal Administration.

CHART – 6.3

Composition of Total Non-Tax Receipts of 110 ULBs

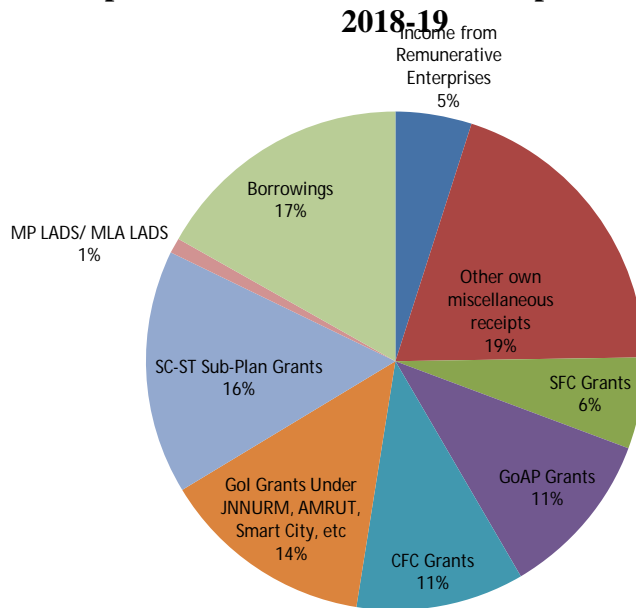
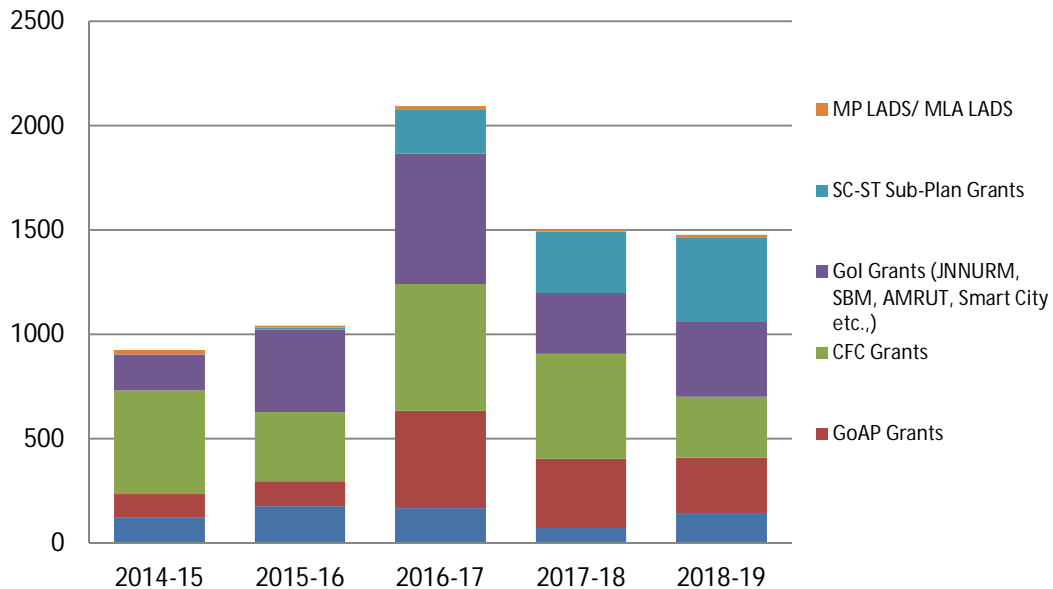


CHART – 6.4

Composition of Transfers to 110 ULBs (In Rs. Crore)



6.8 Revenue and Capital Expenditure of ULBs

6.8.1 ULBs incur expenditure on both revenue and capital accounts. On the revenue account, the expenditure consists of establishment/management cost, repair and maintenance of roads, maintenance of school buildings, public health and maintenance of remunerative assets/municipal assets. Management cost includes salary of non-provincialized staff, travelling allowance of staff, honorarium of elected representatives, electricity charges, etc. All items of management cost have been increasing rapidly. A vast majority of sanitary workers in all ULBs are outsourced and their number has increased rapidly over the years, adding to the expenditures. Maintenance expenditure on roads is another rising item of expenditure. Electricity charges have been rising rapidly due to the levy of commercial rates of tariff. Management cost and the cost of maintaining outsourced sanitation staff together account for 45% to 50% of the revenue expenditure of the ULBs which increased from Rs.1,401 Crore to Rs.2,362 Crore during 2014-15 to 2018-19 (Table-6.5). Repair of roads and buildings including the cost of maintaining contract staff is another rapidly growing item making municipal finances inflexible. Thus, management cost, cost of contract staff in administration, maintenance of roads and buildings and sanitation absorb 50% to 75% of the total revenue expenditure.

Table – 6.5 Revenue Expenditure of All ULBs in AP: 2014-15 to 2018-19

(110 ULBs; Rs. In Crores)

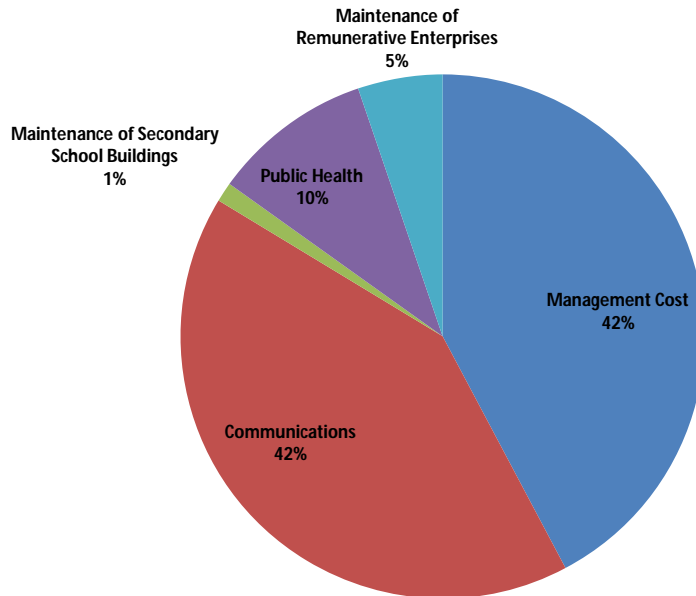
Sl. No.	Revenue Expenditure	2014-15	2015-16	2016-17	2017-18	2018-19	CAGR %
1	Management Cost	421 (30)	495 (30)	530 (27)	575 (27)	632 (27)	2.8
1.1	Honorarium of Contract Staff in Administration	63 (5)	83 (5)	105 (5)	126 (6)	129 (5)	1.9
1.2	Other Expenditure	235 (17)	259 (16)	268 (14)	297 (14)	303 (13)	1.9
2	Communications*	289 (21)	370 (22)	487 (25)	555 (26)	621 (26)	3.3
3	Maintenance of Secondary School Buildings	5	7	7	15 (1)	18 (1)	0.9
4	Public Health	73 (5)	88 (5)	103 (5)	115 (5)	148 (6)	1.9
4.1	Salary of Outsourced Sanitation Staff	256 (18)	293 (18)	382 (20)	381 (18)	432 (18)	2.6
5	Maintenance of Remunerative Enterprises	58 (4)	62 (4)	74 (4)	79 (4)	79 (3)	1.1
	Total RE	1400 (100)	1657 (100)	1956 (100)	2143 (100)	2362 (100)	4.6

Notes: Figures in parentheses are percentages; * Repair of Roads and Buildings including Contract Staff

Source: GoAP, Directorate of Municipal Administration.

CHART – 6.5

Revenue Expenditure of All ULBs in AP : 2018-19



6.8.2 Capital expenditure of ULBs also registered a significant increase from Rs.1,841 Crore to Rs.2,962 Crore (Table–6.6) during the 5 year period under examination. The two important sources of capital expenditure are works taken up under SBM, AMRUT and Smart City programmes sponsored by the GoI, followed by construction of roads and management cost (office buildings etc).

Table – 6.6 Capital Expenditure of All ULBs in AP

2014-15 to 2018-19

(110 ULBs; Rs. In Crores)

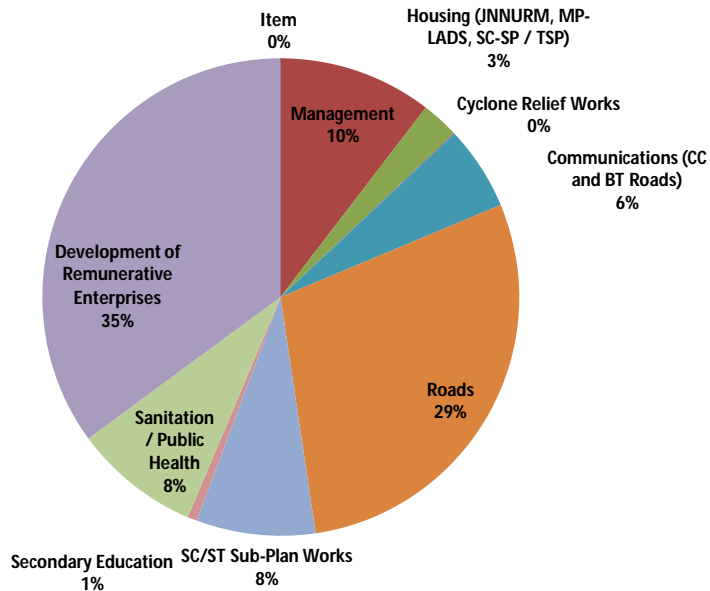
Sl. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19	CAGR %
1	Management (Office buildings, furniture etc.)	215 (12)	347 (14)	258 (9)	303 (11)	308 (10)	2.1
1.1	Housing (JNNURM, MP-LADS, SC-SP / TSP)	12 (1)	10 (0)	10 (0)	20 (1)	76 (3)	1.8
1.2	Cyclone Relief Works	9 (1)	10	6	2	1	
2	Communications (CC and BT Roads)	65 (4)	79 (3)	130 (4)	156 (6)	168 (6)	2.2
2.1	Roads	682 (37)	972 (40)	1007 (35)	956 (34)	859 (29)	2.6
2.2	SC/ST Sub-Plan Works including Roads and Buildings, Compound Walls, Burial Grounds etc	19 (1)	34 (1)	181 (6)	179 (6)	239 (8)	2.9
3	Secondary Education - School Buildings and Libraries	8	9	11	12	18 (1)	0.8
4	Sanitation/ Public Health - Toilets and Urinals	201 (11)	267 (11)	304 (10)	320 (11)	253 (9)	1.7
5	Development of Remunerative Enterprises - Development of roads in the markets, parks etc.	629 (34)	716 (29)	1007 (35)	894 (31)	1040 (35)	3.5
6	Total Capital Expenditure	1840 (100)	2444 (100)	2914 (100)	2842 (100)	2962 (100)	4.8

Note: Figures in parentheses are percentages.

Source: GoAP, Directorate of Municipal Administration.

CHART 6.6

Capital Expenditure of All ULBs in AP : 2018-19



6.8.3 In Per Capita terms, both revenue and capital expenditures in Municipal Corporations are substantially higher than the expenditures in municipalities, followed by Nagar Panchayats. Further, the growth of per capita expenditure in Municipal Corporations has been higher compared to the growth in per capita expenditures of MPs and NPs. The per capita total expenditure in MCs rose from Rs.3,704 to Rs.5,717, while in MPs, the expenditure increased from Rs.923 to Rs.1,936 (Table-6.7). It may also be noted that the level of per capita capital expenditure in MCs is much higher, compared to the other ULBs, clearly indicating the built-in bias of MCs (District Head quarters and relatively big towns and cities) in favour of capital intensive works, particularly those taken up under the centrally sponsored programmes.

**Table -6.7 Per Capita Expenditures of MCs, MPs and NPs in AP
2014-15 to 2018-19**

(Rs.)

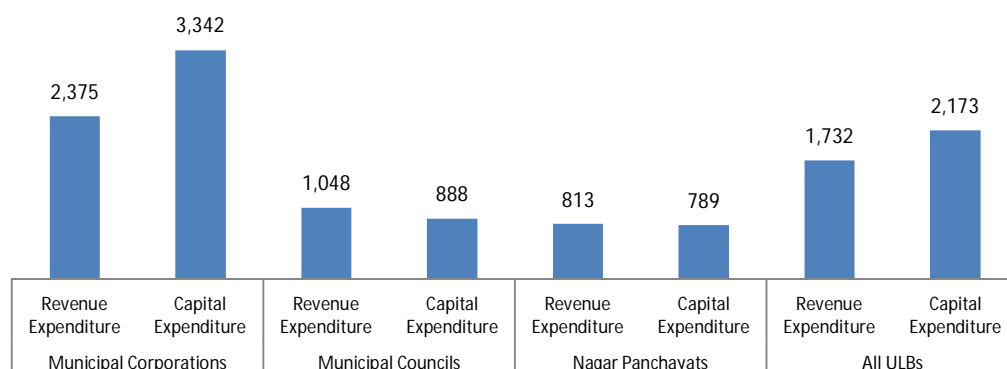
Sl. No	ULB	2014-15	2015-16	2016-17	2017-18	2018-19	CAGR %
1	MCs (14)						
	Revenue Expenditure	1,402	1,627	1,992	2,167	2,375	4.6
	Capital Expenditure	2,302	2,987	3,461	3,337	3,342	4.7
	Total	3,704	4,614	5,453	5,504	5,717	5.7
2	MPs (73)						
	Revenue Expenditure	630	782	835	942	1,048	3.5
	Capital Expenditure	293	485	675	703	888	3.9
	Total	923	1,267	1,510	1,645	1,936	4.6
3	NPs (23)						
	Revenue Expenditure	481	601	685	715	813	3.3
	Capital Expenditure	303	327	626	645	789	3.7
	Total	784	928	1,311	1,360	1,602	4.3
4	All ULB Total (1+2+3)						
	Revenue Expenditure	1,027	1,215	1,434	1,573	1,732	4.2
	Capital Expenditure	1,351	1,792	2,138	2,085	2,173	4.4
	Total	2,378	3,007	3,572	3,658	3,905	5.3

Note: MCs – Municipal Corporations; MPs – Municipal Councils; NPs – Nagar Panchayats Non-Tax Receipts includes borrowings; Per Capita based on 2011 Population Census.

Source: GoAP, Directorate of Municipal Administration.

CHART- 6.7

**Per Capita Expenditures of MCs, MPs and NPs: 2018-19
(Rs.)**



6.9 Trends in Revenue Gap and Overall Resource Gap

6.9.1 A disturbing development observed across all the ULBs during the 5 year period is the growing resource gap between own receipts and overall expenditure. Though there is a positive revenue gap (gap between own revenues and total revenue expenditure), the overall resource gap (gap between total revenue and overall expenditure) has been on the increase, over the years, enhancing the dependency of the ULBs on grants from GOAP, CFC and GOI (Table 6.8). A part of the gap could be attributed to the causality between CFC, GOAP and GOI transfers and capital expenditures. A good deal of capital expenditure is financed from these transfers.

**Table - 6.8 Revenue Gap and Overall Resource Gap of ULBs
2014-15 to 2018-19**

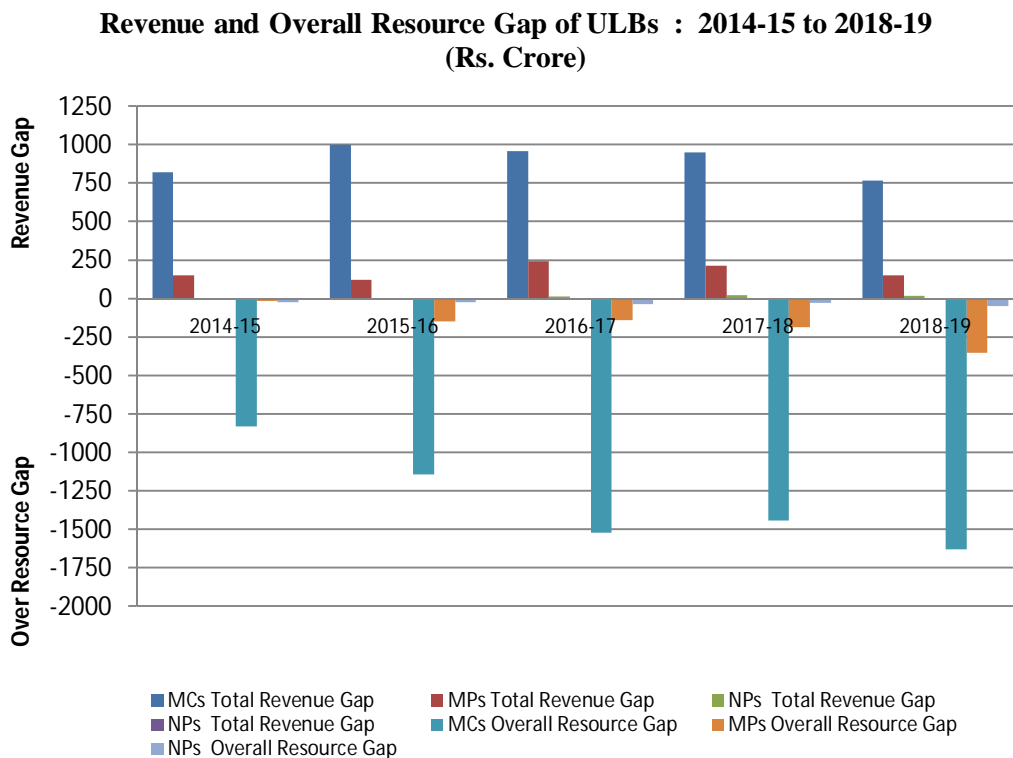
(Rs. Crore)

ULB	Item	2014-15	2015-16	2016-17	2017-18	2018-19
MCs (14)	Total Revenue Gap	821	1,000	961	951	768
	Overall Resource Gap	-830	-1,142	-1,521	-1,442	-1,629
MPs (73)	Total Revenue Gap	152	124	244	213	152
	Overall Resource Gap	-13	-149	-137	-184	-349
NPs (23)	Total Revenue Gap	3	4	16	25	19
	Overall Resource Gap	-22	-23	-35	-28	-46
All ULBs (110)	Total Revenue Gap	976	1,128	1,221	1,189	939
	Overall Resource Gap	-865	-1,314	-1,693	-1,654	-2,024

6.9.2 The growing overall resource gap across the ULBs, points to the need for additional tax and non-tax effort as well as expenditure economy. There is a good deal of scope for ULBs to mop up additional revenues from property tax, urban vacant land tax, water charges, fees from different types of trade licenses, rents from properties and such other sources. Further, there is scope for seeking compensation due to loss of revenue from advertisement and entertainment taxes consequent on their merger with GST. Further, the ULBs can economize on their expenditures on electricity charges, payment of salaries for outsourced staff and sanitation workers, maintenance of water supply lines and such other establishment expenditures. Additional resources mobilized or expenditure economy achieved could enable

the ULBs to undertake investment in critical infrastructure gaps in water supply, development of drainage/ UDS, roads, solid and liquid waste management and sanitation.

CHART – 6.8



6.10 Summary and Conclusion

6.10.1 The State have 14 MCs, 73 MPs and 23 NPs with a total population of 1.36 Crore (2011 Census), which are entrusted with all functions incorporated in XII Schedule to the Constitution, except fire services. All ULBs, except a very few, are governed by elected bodies (including Ward Committees) as per the relevant Municipal Acts. The ULBs have independent revenue raising as well as borrowing powers subject to the overall approval of and ceilings imposed by the government. The property tax, vacant land tax, advertisement tax, profession tax and entertainment tax are the important taxes assigned to the ULBs. With the introduction of GST, the ULBs have lost their power to levy and collect advertisement tax and entertainment tax. For the ease of administration, Profession tax has been entrusted to Commercial Taxes Department. In addition to own taxes, the municipalities also receive revenue from surcharge on stamp duty.

6.10.2 Among the non-tax sources, several types of fees (markets, slaughter houses, trade licenses, parking fees etc.) and user charges including water charges, town planning charges,

rents from municipal properties and fines and penalties are important. The GoAP provides different types of grants to the municipalities to implement state plan programmes as well as for maintenance of assets created. Besides, the provincialized staff of ULBs receive their salaries directly from GoAP, in lieu of which the government appropriates revenues from profession tax, market cess, entertainment tax and advertisement tax (the last two are now subsumed under GST). The Municipalities also receive grants on the recommendation of the SFC, CFC, MP LADS, SC&ST Sub-Plan and centrally sponsored programmes such as AMRUT, SBM and Smart City Mission.

6.10.3 The key services provided by ULBs include supply of water through public taps and private connections, construction and maintenance of public roads, lighting of streets, construction and maintenance of drainage including underground and storm water drainage, household sanitation, scavenging and cleansing of streets, regulation of construction of buildings, trades and factories, prevention of infectious and communicable diseases and maintenance of vital statistics.

6.11 Overall Fiscal Performance of ULBs

Overall fiscal performance of 110 ULBs during 2014-15 to 2018-19 reveals the following:

- The total receipts of all ULBs increased from Rs.3,304 Crore in 2014-15 to Rs.5,211 Crore in 2018-19;
- The proportion of tax receipts had declined from 58% to 51%, with a corresponding increase in the share of non-tax receipts, largely due to the transfers from CFC and grants under centrally sponsored schemes;
- Per capita total receipts of all ULBs had increased from Rs.2424 to Rs.3822 during the five- year period;
- Property tax is the principal source of tax revenue to the ULBs accounting for 35% to 44% of the total receipts, followed by town planning fee and charges (17% to 21%), water charges (14%) and mutation fee (9% to 14%);
- Surcharge on stamp duty contributes 11% to 17% of the total revenues, while advertisement tax and entertainment tax have been subsumed under GST and there is no direct compensation to the ULBs on account of this merger;

- Grants from CFC and GoI (SBM, AMRUT, Smart City etc..) contributed 30% to 45% of the total non-tax receipts, followed by income from remunerative enterprises (5%);
- Though there was no SFC award during this period, the government did make some grants under SFC, but the amounts were not significant.
- Borrowings made on behalf of ULBs for infrastructure development had also increased during this period, but direct borrowing was permitted only in the case of GVMC;
- The total expenditure of 110 ULBs increased from Rs.3,242 Crore to Rs.5,324 Crore during 2014-15 to 2018-19;
- The relative size of revenue expenditure remained around 43% to 44% of the overall expenditure during this period, with capital expenditure accounting for the rest;
- Within the revenue expenditure category, management cost accounted for about 30%, followed by road maintenance (21% to 26%) and salary of outsourced sanitation staff (18% to 20%);
- Among items of capital expenditure, construction of roads and communication (35% to 41%), public toilets (9% to 11%) and related infrastructure and development of remunerative enterprises (29% to 35%) accounted for most of the expenditure;
- In per capita terms, the total expenditure of all ULBs had risen from Rs.2,378 to Rs.3,905 during 2014-15 to 2018-19. But, total revenue and capital expenditures were much higher in MCs (Rs.3,704 to Rs.5,717) compared to MPs (Rs.923 to Rs.1936) and NPs (Rs.784 to Rs.1602);

SECTION-I

Fiscal Performance of Municipal Corporations, Municipalities and Nagara Palikas

6.12 Fiscal Performance of Municipal Corporations

Tax Receipts of MCs

Among the own sources, property tax contributes more than one-third of the total tax revenues among MCs (33% to 42%), followed by town planning fee and charges (20% to 24%) and water charges (14% to 16%). Advertisement tax and entertainment tax have become insignificant after GST and the proceeds of profession tax are not transferred to the MCs (except in respect of Vijayawada and GVMC which were permitted to levy and appropriate profession tax up to March 2019. Surcharge on stamp duty is the only assigned revenue that produces 10% to 16% of the total tax revenues. Other miscellaneous sources such as mutation fee generate 7% to 13% of the total tax receipts (Table 6.9). Property tax and water charges have substantial potential that can be productively exploited by minimizing the difference between demand and collection as well as by plugging loopholes in the system of collecting these levies. Close monitoring of unauthorized layouts and constructions as well as use pattern of properties, assessing all properties without delay and checking other deficiencies can promote collection of property tax and water charges.

**Table – 6.9 Composition of Tax Revenues in Municipal Corporations in AP
2014-15 to 2018-19**

(14 MCs; Rs. In Crores)

Sl. No.	Tax	2014-15	2015-16	2016-17	2017-18	2018-19	CAGR %
1	Property Tax	471 (33)	571 (37)	629 (34)	706 (36)	811 (42)	3.3
2	Town Planning Fee and Charges	287 (20)	313 (20)	423 (23)	464 (24)	376 (20)	2.1
3	Water Charges	204 (14)	228 (15)	296 (16)	305 (16)	282 (15)	2.0
4	Advertisement Tax	24 (2)	18 (1)	24 (1)	36 (2)	31 (2)	0.6
5	Entertainment Tax	26 (2)	34 (2)	37 (2)	42 (2)	8	0
6	Profession Tax	11 (1)	0	12 (1)	41 (2)	47 (2)	1.4
7	Surcharge on Stamp Duty	221 (15)	244 (16)	192 (10)	202 (10)	235 (12)	0.9
8	Other Sources (Mutation Fee etc.,)	190 (13)	139 (9)	248 (13)	162 (8)	134 (7)	1.8
9	Total Tax Revenues	1,434 (100)	1,547 (100)	1,861 (100)	1,958 (100)	1,924 (100)	3.7
10	Per Capita Tax Revenues in Rs.	2,000	2,157	2,593	2,731	2,681	4.1

Note: Figures in parentheses are percentages.

Source: GoAP, Directorate of Municipal Administration.

6.13 Composition of Non-Tax Receipts

CFC grants and grants from GoAP for implementing centrally Sponsored Schemes (SBM, AMRUT, Smart City etc.,) constitute the principal sources of non-tax receipts. The SFC grants are very meagre and GoAP grants to account for a small proportion of total non-tax receipts in the 14 MCs. The other miscellaneous sources of receipts include income from building penalization scheme (BPS), Mutation fee, D&O Business licence fees, birth and death certification fee, fines and penalties. Borrowings also constitute 13% to 25% of the total non-tax receipts during the last three years (Table 6.10). Clearly, there is scope for augmenting revenues from own non-tax sources such as remunerative enterprises and other miscellaneous items. Further, SFC grants can play a much greater role in the finances of the MCs.

**Table – 6.10 Compositions of Total Non-Tax Receipts in MCs in AP
2014-15 to 2018-19**

(14 MCs; Rs. In Crores)

Sl. No.	Non-Tax Receipts	2014-15	2015-16	2016-17	2017-18	2018-19
1	Income from Remunerative Enterprises	49 (5)	60 (4)	62 (3)	98 (6)	87 (5)
2	SFC Grants	67 (7)	92 (7)	102 (4)	4 (0)	59 (3)
3	GoAP Grants	34 (4)	86 (6)	390 (17)	130 (7)	209 (11)
4	CFC Grants	254 (28)	167 (12)	304 (13)	249 (14)	145 (8)
5	GoI Grants Under JNNURM	111 (12)	8 (1)	61 (3)	4 (0)	22 (1)
6	Other GoI Grants (SBM, AMRUT, Smart City etc.,)	47 (5)	370 (27)	493 (21)	240 (14)	308 (17)
7	SC-ST Sub-Plan Grants	0	8 (1)	111 (5)	147 (8)	154 (8)
8	MP LADS/ MLA LADS	13 (1)	6 (0)	17 (1)	5 (0)	9 (1)
9	Other Miscellaneous Items	344 (37)	560 (41)	467 (20)	448 (25)	461 (25)
10	Borrowings	0	20 (1)	296 (13)	446 (25)	401 (22)
Total Non-Tax Receipts		929 (100)	1377 (100)	2303 (100)	1771 (100)	1855 (100)
Per Capita Non-Tax Receipts in Rs.		1,283	1,920	3,211	2,470	2,587

Note: Figures in parentheses are percentages.

Source: GoAP, Directorate of Municipal Administration.

6.14 Revenue and Capital Expenditure of MCs

6.14.1 As in the case of all ULBs (110) examined above, cost of management, contract staff in administration, sanitation staff and other contract staff engaged for roads and buildings absorbed more than 50% of the total revenue expenditure. In per capita terms, the revenue expenditure increased from Rs.1,402 in 2014-15 increased to Rs.2,375 in 2018-19, clearly reflecting the rising cost of managing the corporations and its services.

6.14.2 In respect of capital expenditure, roads and development of remunerative enterprises (markets, parks etc) accounted for more than 70% of the total expenditure. It may be noted that a lot of capital expenditure is financed through centrally sponsored programmes and borrowings. In per capita terms, the capital expenditure increased from Rs.2,302 to Rs.3,342 during 2014-18, a steep increase indeed. But, it may be noted that loan financing of some projects have repayment obligations, which may affect the long-term fiscal situation of the corporations.

6.15 Fiscal Performance of Municipalities

Tax and Non-Tax Receipts of Municipalities

6.15.1 The 73 Municipalities which account for 52.6 % urban population (2011) registered a moderate increase in own tax receipts, the principal components of which are property tax (43% to 50%), water charges (9% to 11%) and town planning fee and charges (7% to 15%). Advertisement tax and entertainment tax are no longer relevant as they are subsumed under GST. The profession tax collections are not transferred to the municipalities in lieu of the state government taking over the salaries of provincialized staff of Municipalities. The only other source of revenue is the surcharge on stamp duty that is assigned to the municipalities, which has been declining in relative importance (20% to 12%). The miscellaneous sources account for the rest (14% to 16%). There is not only scope but also need for the municipal authorities to augment their own tax revenues from property tax, water charges, building fee and other license fees

Table -6.11 Composition of Tax Revenues of Municipalities

2014-15 to 2018-19

(73 MPs; Rs. In Crores)

Sl. No.	Tax	2014-15	2015-16	2016-17	2017-18	2018-19
1	Property Tax	188 (43)	240 (48)	265 (45)	285 (45)	336 (50)
2	Town Planning Fee and Charges	32 (7)	44 (9)	88 (15)	97 (15)	89 (13)
3	Water Charges	49 (11)	51 (10)	55 (9)	62 (10)	60 (9)
4	Advertisement Tax	3 (1)	2 (0)	3 (1)	2 (0)	8 (1)
5	Entertainment Tax	10 (2)	9 (2)	12 (2)	6 (1)	0
6	Profession Tax	0	0	0	0	0
7	Surcharge on Stamp Duty	87 (20)	78 (16)	85 (14)	89 (14)	82 (12)
8	Other Sources (Mutation Fee, Miscellaneous etc.,)	69 (16)	72 (14)	81 (14)	98 (15)	95 (14)
Total Tax Revenues		438	496	589	639	670
		(100)	(100)	(100)	(100)	(100)
Per Capita Tax Revenues (in Rs.)		774	876	1,043	1,133	1,188

Note: Figures in parentheses are percentages.

Source: GoAP, Directorate of Municipal Administration.

6.15.2 Among the non-tax receipts of MPs, CFC grants (21% to 52%) have gained in importance during the 14th FC award period, followed by GoAP grants (8% to 26%) and SFC grants (6% to 12%). SC-ST sub-plan grants have also become an important source of receipts during the last three years. In per capita terms, however, the growth in non-tax receipts is meagre.

Table – 6.12 Total Non-Tax Receipts of Municipalities 2014-15 to 2018-19

(73 MPs; Rs. In Crores)

Sl. No.	Non-Tax Receipts	2014-15	2015-16	2016-17	2017-18	2018-19
1.	Income from Remunerative Enterprises	23 (6)	28 (9)	40 (6)	35 (5)	29 (5)
2.	SFC Grants	48 (12)	36 (12)	48 (7)	41 (6)	65 (11)
3.	GoAP Grants	66 (16)	34 (11)	67 (10)	190 (26)	50 (8)
4.	CFC Grants	213 (52)	139 (46)	259 (40)	214 (30)	123 (21)
5.	GOI Grants Under JNNURM	0	0	0	0	1
6.	Other GoI Grants (SBM, AMRUT, Smart City etc.,)	11 (3)	15 (5)	67 (10)	36 (5)	31 (5)
7.	SC-ST Sub-Plan Grants	0	2 (1)	80 (12)	130 (18)	215 (36)
8.	MP LADS/MLA LADS	2	3 (1)	3	5 (1)	6 (1)
9.	Other Miscellaneous Items	49 (12)	43 (14)	86 (13)	70 (10)	44 (7)
10.	Borrowings	0	0	0	0	33 (6)
Total Non-Tax Receipts		412 (100)	300 (100)	650 (100)	721 (100)	597 (100)
Per Capita Non-Tax Revenues (in Rs.)		731	531	1,151	1,279	1,057

Note: Figures in parentheses are percentages.

Source: GoAP, Directorate of Municipal Administration.

6.16 Revenue and Capital Expenditure of Municipalities

6.16.1 Management cost and honorarium of outsourced administrative and sanitation staff, besides expenditure on repair of roads and buildings absorbed much of the revenue expenditure. In per capita terms, the revenue expenditure has increased from Rs.630 to Rs.1,048 during 2014-18. In view of the paramount need to invest in additional infrastructure,

it would be important for the MPs to control revenue expenditure particularly on outsourced staff, by rationalizing the staff requirements.

Table - 6.13 Revenue Expenditure of Municipalities 2014-15 to 2018-19

(73 MPs; Rs. In Crores)

Sl. No.	Expenditure Item	2014-15	2015-16	2016-17	2017-18	2018-19
1	Management Cost	51 (14)	57 (13)	55 (12)	71 (13)	71 (12)
1.1	Honorarium of Contract Staff in Administration	18 (5)	22 (5)	23 (5)	30 (6)	33 (6)
1.2	Other Expenditure	85 (24)	97 (22)	105 (22)	110 (21)	115 (19)
2	Communications (Repair of Roads and Buildings including Contract Staff)	65 (18)	95 (22)	96 (20)	109 (21)	132 (22)
3	Maintenance of Secondary School Buildings	3 (1)	3 (1)	4 (1)	9 (2)	9 (1)
4	Public Health	27 (8)	34 (8)	31 (7)	38 (2)	53 (1)
4.1	Salary of Outsourced Sanitation Staff	99 (28)	119 (27)	144 (31)	151 (28)	163 (28)
5	Maintenance of Remunerative Enterprises	8 (2)	12 (3)	12 (3)	13 (2)	15 (3)
Total		356 (100)	439 (100)	470 (100)	531 (100)	591 (100)
Per Capita RE in Rs.		630	782	835	942	1,048

Note: Figures in parentheses are percentages.

Source: GoAP, Directorate of Municipal Administration.

6.16.2 An examination of the capital expenditure of MPs reveals that development of roads and communications absorb 50% to 69% followed by management, sanitation and public health and remunerative enterprises. While development of roads and communications are essential, the tendency to duplicate road works needs to be avoided. This is true of development of remunerative enterprises, some of which do not generate any significant amount of revenues to the municipalities.

Table – 6.14 Capital Expenditure of Municipalities: 2014-15 to 2018-19**(73 MPs; Rs. In Crores)**

Sl. No.	Expenditure Item	2014-15	2015-16	2016-17	2017-18	2018-19
1	Management Cost	12 (7)	26 (10)	35 (9)	45 (11)	51 (10)
1.1	Housing	0	1	1	5 (1)	12 (2)
1.2	Cyclone Relief Works	1 (1)	1	2 (1)	2	1
2	Communications	10 (6)	17 (6)	18 (5)	26 (7)	33 (7)
2.1	Roads	98 (59)	155 (57)	179 (47)	185 (47)	213 (43)
2.2	SC/ST Sub-Plan Works including Roads and Buildings	8 (5)	21 (8)	77 (20)	69 (17)	121 (24)
3	Secondary Education	2 (1)	2 (1)	4 (1)	5 (1)	7 (1)
4	Sanitation/ Public Health	10 (6)	33 (12)	30 (8)	27 (7)	30 (6)
5	Development of Remunerative Enterprises	24 (14)	17 (6)	34 (9)	34 (9)	34 (7)
Total Capital Expenditure		165 (100)	273 (100)	380 (100)	398 (100)	502 (100)
Per Capita CE in Rs.		293	485	675	703	888

Note: Figures in parentheses are percentages.

Source: GoAP, Directorate of Municipal Administration.

6.17 Fiscal Performance of Nagar Panchayats

Tax and Non-Tax Receipts of NPs

The fiscal situation of NPs also presents a similar picture as MPs. Property tax, town planning fee and charges, water charges and other miscellaneous sources generate about 75% of the total revenues. While assigned revenue from surcharge on stamp duty contributes about 12% to 25% of the tax receipts (Table-6.15). Having been GPs for a long time, there appears to be a lot of resistance to increase property tax and water tax rates in NPs. Apart from collecting tax arrears, the NPs would be required to bring all properties under the tax net, revised rates and prevent unauthorized layouts and constructions. The CFC grants, SFC

grants and some GoAP grants are the important non-tax revenues, besides SC-ST sub-plan grants (Table 6.16).

Table – 6.15 Total Tax Revenues of Nagar Panchayats in AP: 2014-15 to 2018-19

(23 NPs; Rs. In Crores)

Sl. No.	Tax	2014-15	2015-16	2016-17	2017-18	2018-19
1	Property Tax	13 (33)	16 (35)	30 (46)	34 (47)	40 (51)
2	Town Planning Fee and Charges	4 (11)	6 (14)	9 (14)	13 (17)	14 (19)
3	Water Charges	4 (12)	4 (9)	6 (9)	6 (8)	6 (8)
4	Advertisement Tax	0	0	0	0	0
5	Entertainment Tax	0	0	0	1 (1)	0
6	Profession Tax	0	0	0	0	0
7	Surcharge on Stamp Duty	10 (25)	11 (25)	12 (18)	11 (15)	9 (12)
8	Other Sources (Mutation Fee, Miscellaneous etc.,)	7 (18)	8 (17)	8 (12)	9 (12)	8 (10)
Total Tax Revenues		38 (100)	45 (100)	65 (100)	74 (100)	77 (100)
Per Capita Tax Rev. (in Rs.)		473	544	808	887	936

Note: Figures in parentheses are percentages.

Source: GoAP, Directorate of Municipal Administration.

**Table - 6.16 Total Non-Tax Receipts of Nagar Panchayats in
AP (Including Grants and Borrowings): 2014-15 to 2018-19**

(23 NPs; Rs. In Crores)

Sl. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19
1	Income from Remunerative Enterprises	2 (3)	1 (2)	1 (1)	1 (1)	2 (2)
2	SFC Grants	7 (11)	49 (58)	19 (19)	28 (24)	16 (18)
3	GoAP Grants	12 (19)	1 (1)	7 (8)	11 (9)	10 (11)
4	CFC Grants	31 (49)	24 (28)	45 (45)	39 (33)	24 (27)
5	GOI Grants Under JNNURM	0	0	0	0	0
6	Other GoI Grants (SBM, AMRUT, Smart City etc.,)	3 (4)	2 (2)	5 (5)	9 (8)	3 (4)
7	SC-ST Sub-Plan Grants	0	0	17 (17)	19 (16)	27 (30)
8	MP LADS/MLA LADS	8 (13)	0	0	0	0
9	Other Miscellaneous Items	1 (2)	7 (8)	5 (5)	10 (9)	7 (8)
10	Borrowings	0	0	0	0	0
Total Non-Tax Receipts		64 (100)	84 (100)	99 (100)	117 (100)	89 (100)
Per Capita Non-Tax Receipts(in Rs.)		761	1,042	1,211	1,440	1,095

Note: Figures in parentheses are percentages.

Source: GoAP, Directorate of Municipal Administration.

6.18 Revenue and Capital Expenditure

6.18.1 Management cost and cost of hiring different types of contract staff absorb more than 50% of the total revenue expenditure, while roads and buildings account for 10% to 21% of the total revenue expenditure (Table 6.17)..

Table - 6.17 Revenue Expenditure of Nagar Panchayats: 2014-15 to 2018-19

(23 NPs; Rs. In Crores)

Sl. No.	Expenditure Item	2014-15	2015-16	2016-17	2017-18	2018-19
1	Management Cost	8 (20)	14 (29)	7 (12)	9 (16)	8 (11)
1.1	Honorarium of Contract Staff in Administration	2 (5)	3 (5)	4 (6)	4 (6)	4 (6)
1.2	Other Expenditure	7 (18)	7 (15)	8 (14)	9 (17)	11 (16)
2	Communications (Repair of Roads and Buildings including Contract Staff)	6 (15)	5 (10)	11 (20)	11 (18)	14 (21)
3	Maintenance of Secondary School Buildings	0	0	0	0	0
4	Public Health	3 (7)	2 (5)	4 (7)	4 (7)	5 (7)
4.1	Salary of Outsourced Sanitation Staff	12 (30)	15 (29)	19 (34)	19 (33)	23 (34)
5	Maintenance of Remunerative Enterprises	2 (4)	3 (7)	4 (6)	3 (5)	3 (4)
Total (R.E.)		49 (100)	49 (100)	57 (100)	68 (100)	67 (100)
Per Capita RE (in Rs.)		481	601	685	715	813

Note: Figures in parentheses are percentages.

Source: GoAP, Directorate of Municipal Administration.

6.18.2 As could be expected on a priori grounds, roads account for 51% to 77% of the capital expenditure of NPs, which had been major panchayats earlier. After transition, the NPs are required to spend substantial amounts on roads and buildings (Table 6.18).

Table – 6.18 Capital Expenditure of Nagar Panchayats in AP: 2014-15 to 2018-19

(23 NPs; Rs. In Crores)

Sl. No.	Expenditure Item	2014-15	2015-16	2016-17	2017-18	2018-19
1	Management Cost	1 (4)	1 (5)	4 (7)	3 (5)	1 (2)
1.1	Housing	0	0	0	0	0
1.2	Cyclone Relief Works	0	0	0	0	0
2	Communications	1 (4)	0	1 (2)	1 (3)	2 (2)
2.1	Roads	19 (77)	17 (64)	26 (51)	35 (66)	40 (62)
2.2	SC-ST Sub-Plan Works including Roads and Buildings	1 (4)	4 (16)	13 (25)	11 (21)	19 (29)
3	Secondary Education	0	0	1 (1)	0	0
4	Sanitation/ Public Health	1 (3)	2 (7)	2 (4)	1 (2)	2 (2)
5	Development of Remunerative Enterprises	2 (8)	2 (7)	4 (8)	2 (3)	1 (2)
6	Total Capital Expenditure	25 (100)	26 (100)	51 (100)	53 (100)	65 (100)
7	Per Capita CE(in Rs.)	303	327	626	645	789

Note: Figures in parentheses are percentages.

Source: GoAP, Directorate of Municipal Administration.

6.19 Summary

6.19.1 Municipal Corporations

- Total tax revenue of 14 MCs increased from Rs.1,434 Crore to Rs.1,923 Crore during 2014-15 to 2018-19, recording a CAGR of 3.7%. In per capita terms, the increase was from Rs.2,000/- to Rs.2,681/- (growing at a CAGR of 4.1%). Property taxes, town planning fee and charges and water charges together accounted for 67% to 80% of the total tax revenue. Surcharge on stamp duty provided 10% to 16% on tax revenues. In respect of property tax and water

charges, there was a substantial gap between demand and collection, the reduction of which could enhance tax revenues. Similarly, close monitoring of unauthorized layouts and constructions can bring in additional revenues.

- Non-tax receipts, more than doubled during this period (Rs.920 Crore to Rs.1855 Crore). In per capita terms too, the non-tax receipts jumped from Rs.1283 to Rs.2587. However, the principal contributors to the non-tax receipts are the CFC grants, GoI grants and other miscellaneous items. However, the contribution of SFC grants is very insignificant.
- Establishment cost, payments made for contract staff in administration, roads and buildings and outsourced sanitation staff absorbed more than 50% of the total revenue expenditure, virtually rendering the corporation finances inflexible. In respect of capital expenditure, roads and development of remunerative enterprises such as markets and parks accounted for more than 70%. Some of these projects are loan financed which entail repayment obligations.

6.19.2 Municipalities

- The 73 Municipalities registered a moderate increase in tax revenues from Rs.436 Crore to Rs.670 Crore during the last five years (from Rs.774/- per capita to Rs.1,188/- per capita), with property tax contributing 43% to 50% followed by water charges 9% to 11% and town planning fee and charges 7% to 15%. Surcharge on stamp duty contributed 12% to 20% of the total tax revenue.
- The non-tax receipts increased steadily from Rs.412 Crore in 2014-15 to Rs.720 Crore in 2017-18 but declined to Rs.596 Crore in 2018-19 (in per capita terms Rs.731 to Rs.1279 and thereafter to Rs.1057). The principal sources of non-tax receipts were CFC grants (21% to 52%), GoAP grants 8% to 26% and grants in the name of SFC 6% to 12%.
- Among the important items of revenue expenditure are the management cost 12% to 14%, outsourced sanitation staff 27% to 28%, other contract staff 5% to 6% and maintenance of roads 18% to 21%. Under capital account,

construction of roads absorbed 43% to 59% of the capital expenditure followed by remunerative enterprises, management and public health.

6.19.3 Nagar Panchayats

The 23 NPs had relatively small tax revenue which increased from Rs.39 Crore to Rs.79 Crore during the 5 years. (Rs.473 to Rs.936 per capita). Property tax contributed 33% to 51% of the tax revenue, followed by surcharge on stamp duty 12% to 25%, town planning fee and charges 11% to 19%), water charges 8% to 12% and miscellaneous items 10% to 18%. CFC grants, followed by SFC grants are the two principal sources of non-tax revenue to the NPs, some of which had been Panchayats in the recent past. Management cost, salary of outsourced sanitation staff, repair of roads and buildings absorbed much of the revenue expenditure during the last five years. While in respect of capital expenditure, construction of roads accounted for 51% to 77% of the total capital expenditure followed by development of remunerative enterprises.

SECTION-II

Mobilization of Additional Resources by ULBs

6.20 Introduction

The Commission has been required to assess the ways and means for the ULBs to augment their own resources including identification of new sources to minimize their dependence on the State Government. From this perspective, the Commission has made an attempt to identify the potential own tax and non-tax revenues that ULBs can exploit to augment revenues. In this context, an effort is also made to examine the impact of subsuming advertisement tax and entertainment tax under GST. An effort is also made to examine the fiscal implications of the state government collecting and appropriating profession tax in lieu of salaries being paid to provincialized ULB staff. 'As a rupee saved is a rupee earned', the Commission has also examined certain expenditure related issues that were brought to its notice during its sittings in the districts.

6.21 Own Taxes

As per the provisions of AP Municipal Act, ULBs can levy property tax, professional tax, advertisement tax, entertainment tax, etc and collect cesses and charges on Sanitation, Water supply, Street lighting and drainage. Besides, ULBs are empowered to levy

trade license fee, building permit fee, registration fee, fines and rent etc. However, ULBs have not been exploiting their full potential from their own taxes and non-taxes. The State Government too has not enabled the ULBs to revise various tax and non-tax items, as discussed in the following:

6.22 Property Tax

Property tax on land and buildings is the single most important own source of revenue to the ULBs. In the context of rapid urbanization, it is a potentially elastic source of tax revenue. It is levied on both residential and commercial property located in the municipality, including government property, based on assessed annual rateable value/ rental value which in turn depends on the location of the property, type and age of building and use pattern etc., after allowing for depreciation. The properties are now assessed for each year but tax can be remitted in two half-yearly instalments. Those paying the tax in one annual instalment, now get a remission of 5% of the tax. With the implementation of e-governance initiatives, the tax has registered a steep increase in all municipalities. However, there is a good deal of potential that can be exploited further as briefly indicated below.

6.23 Collection of Arrears

Notwithstanding the improvement in tax collections, there has been a persistent gap between demand and collection of property tax in all ULBs as indicated in the following Table-6.19. In respect of corporations, collection as a percentage of demand has gradually declined from 92% in 2014-15 to 41% in 2018-19. A decline could also be observed in respect of Municipalities and Nagar Panchayats. The declining percentage of collections appears to be due to several factors such as rising number of appeals and litigations against assessments, and delays in reassessments. In terms of absolute amount, the arrears are a source of concern to all MCs, particularly to GVMC and Vijayawada. It would therefore be important for the ULBs to examine and analyze the reasons for declining ratio of collection to demand and take expeditious steps to minimize the gap between demand and collection. Specific steps to improve collections would include proper categorization of properties and determination of rateable values, timely support for quick disposal of appeals, continuous updating of database of assessable properties, timely assessment, assessment of new properties and close monitoring of changes made to existing properties.

Table – 6.19 Property Tax of ULBs in AP : 2014-15 to 2018-19**(Rs. In Crores)**

Sl. No.	ULBs	2014-15		2015-16		2016-17		2017-18		2018-19	
		D	C	D	C	D	C	D	C	D	C
1	MCs (14)	511	471 (92)	697	571 (82)	899	629 (70)	1707	706 (41)	1992	811 (41)
2	MPs (73)	205	188 (92)	328	240 (73)	426	265 (62)	492	285 (58)	571	336 (59)
3	NPs (23)	14	13 (95)	24	16 (67)	43	30 (71)	51	34 (66)	63	40 (63)

Note: D – Demand; C – Collection; MCs – Municipal Corporations; MPs – Municipal Councils; NPs – Nagar Panchayats; Figures in parentheses are percentages.

Source: Collected from GoAP, Directorate of Municipal Administration.

6.24 Revision of Property Tax

6.24.1 Property tax rates in the state have not been revised at regular intervals, although the Municipal Act empowers the ULBs to revise property tax assessment once in 5 years or even earlier, if necessary, subject to the provisions of AP Municipal Act (Section 81, Section 85, 85(H) & 85(I), Section 87 of AP Municipal Act). However, the ULBs can undertake revision of property tax only with the permission of GoAP. During the last 25 years, property tax rates were revised only twice. In 1993, the government approved property tax revision in respect of both residential and non-residential property. Thereafter in 2002, the government approved revision of property tax on both residential and non-residential property subject to certain ceilings on their rates. It was stipulated that in respect of residential property, the increase should be less than 75% of the pre-existing rate, while on non-residential property the increase should be less than 150% of the pre-existing rate. In 2007, the government permitted revision of property tax on non-residential property only by imposing a cap on the incremental rates.

6.24.2 However, following the recommendation of XIII Finance Commission, all hindrances/ restrictions on the powers of ULBs to levy property tax have been removed (G.O.Ms.No.88 and 89 of MA & UD and G.O.Ms.No.201 dated 10.05.2012 of MA & UD) and the ULBs are now empowered to undertake complete revision of assessment books once in five years or even earlier if necessary, but subject to the approval and overall policy of the government. In 2018, a GIS-based survey was conducted to identify the assessable properties in terms of their dimension, location, quality, use pattern, deviations and such other features

as a prelude to revision of property tax. Though the survey was completed, the municipal bodies have not been permitted to revise the property tax rates. All ULBs visited by the Commission represented that they should be permitted to revise property tax rates at least once in 5 years, if not earlier.

6.24.3 Now that the Government has constituted AP State Property Tax Board to provide assistance and technical guidance to all ULBs for proper assessment and revision of property tax (Act No.6 of 2012 of the AP State Legislature and G.O.Ms.No.387 dated 10.10.2012 of MA & UD department), it is imperative that the GoAP permits the municipal bodies to undertake revision of property tax rates without further delay. The state property tax board may examine the desirability of allowing the ULBs to undertake property tax revisions on an annual / bi-annual incremental basis, subject to some ceilings such that property tax becomes a buoyant source of revenue to the municipal bodies. In view of the growing expenditure burden of the ULBs, they may be permitted to enhance their property tax rates by at least 2.5% once in two years.

6.25 Database of Assessable Properties

Creation and constant updating of database of assessable properties in the jurisdiction of each municipality is an essential pre-requisite for the levy and collection of property tax. The CAGI, in its report on local bodies in AP (Report No.6 of 2018) pointed out that there was no database on assessable properties in the sample municipalities that it examined for the year ending 31.03.2017. The CAGI also observed that there were no GIS maps of properties. As a GIS-based survey was conducted during 2018 in all Municipal areas, it is imperative that a comprehensive database is created and placed in the public domain. Such database needs to be constantly updated in each municipality by drawing information from (i) town planning and BPS wing; and (ii) trade license wing. Wherever necessary, the municipalities may also collect information from electricity distribution companies, commercial taxes departments and such other sources to strengthen the database on properties and their use pattern.

6.26 Timely Assessment

The CAGI has pointed out that there was a good deal of delay in bringing the completed buildings under the tax net. Timely assessment of new buildings, additions and changes made to existing structures as well as their use pattern needs to be constantly monitored. This in turn requires strengthening of the detection wing in each municipality.

6.27 Collection of Taxes and Penalties

The Commission understood in the course of its interactions with the sample municipalities that there were delays in issuance of property tax notices. Early notices and close follow-up of tax payments, if necessary by conducting campaigns and special drives, before taking coercive steps / legal action could reduce property tax arrears. An important factor that can contribute to tax revenues is collection of penalties from owners of unauthorized constructions at specified rates rather than taking a lenient view. Further, undertaking reassessment of properties at the time of mutations and levy of retrospective tax on excluded properties could enhance property tax revenues.

6.28 Delays in Disposal of Appeals

One of the reasons for the rising arrears in property tax collections is the appellate channel – Commissioner to Regional Director to Director and then the Court. At each stage, there is bound to be some delay, particularly if the appellant prefers to seek legal remedies. The Government may examine the feasibility of setting-up a Tribunal to adjudicate property tax matters.

6.29 Publicizing Incentives and Disincentives

Finally, the incentive and disincentive features of tax system need to be publicized more vigorously to improve tax collections. The 5% remission on one-time payment of annual property tax and the 2% simple interest levy on delayed payments and the other legal features need to be publicized more effectively.

6.30 Service Charges on Central Government Properties

6.30.1 The Central government properties (other than Central government undertakings) are exempted from payment of property tax. However, ULBs can levy and collect service charges from the Central government properties on the basis of services utilized at the following rates.

- Where properties of the central government are provided with all services/ facilities on par with others - 75% of property tax
- Where central government properties are provided with some of the services/ facilities - 50% of property tax
- Where central government properties do not avail any of the services provided by the municipalities - 33.3% of property tax

6.30.2 But levy of service charges requires the municipal body to assess the Central government property for property tax first and then fix the service charge and agree with the concerned Central Government department on the quantum of service charge and method adopted for computation. In the event of disagreement, a three member committee constituted by the State Government (with one representative drawn from the Central Government) is expected to resolve the issue. The municipal bodies cannot take any cohesive steps, if the Central Government departments do not pay the service charges. Visit of the Commission to several municipalities revealed that service charges were either not levied, where levied not fully collected from Central Government departments.

6.31 Vacant Land Tax

The ULBs are empowered to levy and collect a tax on vacant lands not used for agriculture within their jurisdiction. The tax rate which was 0.5% of the market value of the property as determined by the Registration Department, was brought down to 0.20% of the market value per annum. However, the Commission understands that not all municipalities are levying and collecting this tax. On the directions of CDMA, a drive was conducted by all Municipalities during Nov.2017 to Jan.2018 to prepare a database of the vacant land properties, their current market value and their present owners. All property owners are required to pay this tax which is a pre-condition for approval of house plan and grant of any loan on the property. This is a source with a good potential that all ULBs can exploit productively.

6.32 Certain Specific Issues Relating to Property Tax¹³

The visit of the Commission to certain municipalities brought out the following issues related to property tax collection.

- All municipalities visited by the Commission observed that they have not been permitted to revise property tax rates for a long time and that the government is placing ceilings on the revenues;
- The Vizianagaram MC complained that it is not able to impose property taxes on a large number of properties donated by the erstwhile royal families;

¹³ The Commission visited several Municipal Corporations / Municipalities / Nagar Panchayats in Vizianagaram, Visakhapatnam, West Godavari, Krishna, Guntur, Nellore, Chittoor, Kadapa and Prakasam districts and held detailed discussions with Chair-Persons, Ward Members and officials as well as the citizens.

- Parvathipuram Municipal Councillors pointed out that houses demolished due to road expansion should be exempted from property tax payment;
- Vice-Chairman of Parvathipuram Municipality pointed out that 6 colonies developed for weaker sections are not paying property tax imposed as many of the assesses are not actually staying in the allotted houses, the actual residents (tenants) refuse to pay the taxes;
- The Tirupati Municipal Commissioner opined that property tax rates should be frequently revised particularly in areas of experiencing rapid development due to road widening, drainage development and location of business establishments. When roads and other facilities are provided, property values appreciate resulting in hidden capital gains to the owners of the property. In respect of such properties additional taxes should be levied;
- It was pointed out by Proddutur Municipality that there has been a rapid increase in peri-urban areas outside the Municipality which impose lower property taxes and water rates, but residents of these areas make use of other municipal services (roads, schools, medical services etc). The Municipality demanded that such peri-urban areas should be merged with the Municipality;
- Rayachoti Municipality stated that 50% of population under its jurisdiction lives in slums and as such taxpaying capacity is very low, resulting in arrears; and Rajampet, a NP is not able to increase property taxes even after becoming a NP due to the opposition from the residents, a legacy of erstwhile GPs. Further, railways and postal department have not been paying service charges (except BSNL).

6.33 Loss of Advertisement Tax Revenue

6.33.1 Entry 55 of the State List under Schedule (7) of the Constitution of India empowers the state governments to levy a tax on advertisements, other than advertisements made in the newspapers. This power was delegating to Municipal bodies under Section 114 of AP Municipalities Act 1965 as well as Section 14 of AP Municipal Corporations Act 1994 in so far as it relates to Clause (F) of Sub-Section (1) of Section 197 of the Municipal Corporations Act, 1955. The Municipal Bodies were levying and collecting this tax up to June 2017. The advertisement tax demand for the years 2015-16 to 2017-18 furnished in the following **Table-6.20** indicates that it is one of the good sources of revenue with potentially elastic features.

Table – 6.20 Advertisement Tax Demand in AP

(In Rs. Crores)

Sl. No.	Year	Demand
1	2015-16	31.89
2	2016-17	36.43
3	2017-18 (Up to Jun.17)	27.76

6.33.2 However, the provisions of advertisement tax have been repealed with the commencement of AP GST Act 2017 with effect from 01.07.2017 under Section 173 (i) and (ii) of the same Act and the Municipal Bodies cannot levy tax on advertisements from that date. Thus, the ULBs are losing revenue of around Rs.40.00 Crore per annum on account of the abolition of the advertisement tax, with a potentially elastic base due to urbanization and growing advertisements. The Municipalities, however, can collect permission fee in case the land used for advertisements belongs to Municipalities. They can also lease out identified places owned and controlled by Municipality for erecting hoardings. However, advertisement tax is the major source of revenue foregone due to the introduction of GST. As the state government receives its share of GST and IGST on advertisements taxed at the rate of 18% (in the place of erstwhile advertisement tax), it is only imperative that State Government compensates the Municipal Bodies for the loss of advertisement tax revenues by providing an appropriate share in the own revenues of the State to the ULBs.

6.34 Entertainment Tax

6.34.1 Entry 62 in List II of Schedule (7) to the Constitution of India originally empowered the state governments to levy taxes on luxuries, including taxes on entertainment, amusements, betting and gambling. Up to June 2017, the Government of AP was levying this tax and sharing 90% of the proceeds with ULBs and PRIs (based on the principal of location) and 7% with Film Development Chamber and retaining the remaining 3% as collection charges.

6.34.2 With the introduction of GST, the entertainment tax has been replaced by taxes on entertainment and amusement to the extent to be levied and collected by local governments (Panchayats, Municipality, Region Council / District Council). Further, the Andhra Pradesh

Entertainment Act, 1939 was repealed under Section 174 (2) of APGST Act 2017 with effect from 01.07.2017. Thus, entertainment tax imposed and collected by GoAP has been replaced by GST and the government has been receiving its share in GST collections, including compensation during the transition period as per the provisions of the Goods and Services Tax (Compensation to States) Act, 2017.

6.34.3 During 2014-15 to 2017-18 (up to June 2017) the ULBs had been receiving an amount of Rs.130.00 Crore to Rs.160.00 Crore per annum from the entertainment tax. The Municipal Bodies are deprived of this source of revenue w.e.f. 01.07.2017 and the state is not providing any direct compensation to the ULBs.

6.34.4 It is understood that the GST has only taken away the power of State Government to levy entertainment tax but not of Local Bodies. The Government of Tamil Nadu imposed a 30% entertainment tax apart from GST after 01.07.2017 resulting in an agitation from the cinema industry and cine goers. It may be noted that under GST, a tax of 18% is imposed on ticket fares into entertainment houses priced below Rs.100/- and 28% on tickets priced above Rs.100/-. The Government of West Bengal on the contrary gave a rebate of 7% out of the 9% GST share of the state. The State had also announced a 12% rebate on tickets which attract 28% GST. Though the local bodies continue to have powers to levy and collect taxes on entertainment and amusement, it would not be in the interest of one nation-one tax concept on which the GST is based. Therefore, the State Government should share the revenues from the GST on entertainments with the municipalities and other local bodies or compensate for the loss in entertainment tax revenue as is being done by Government of Kerala. In fact, Government of Kerala have also decided to pay an additional 15% of what the municipalities used to mobilize as entertainment tax. Since estimating the loss in Entertainment tax revenue to the ULBs is difficult, the government should compensate by providing a share to ULBs in the own revenues.

6.35 Profession Tax

6.35.1 Article 276 of the Constitution of India empowers the state governments to levy and collect profession tax of up to Rs.2,500/- per annum. Consequently, the first schedule of the AP Tax on Professions 1987 was amended by Act 29 of 1996 revising the Profession Tax from Rs.250/- to Rs.2,400/- per annum with effect from 01.08.1996 on a graduated basis. As per the provisions of AP Tax on professions, Trades Callings and Employments Act, 1997, the Commercial Taxes Department is the nodal agency for administering the Tax and the

Municipalities are prevented from levying the tax. Up to 25.02.2009, the Commercial Tax Department made compensation to the ULBs on a per capita basis in lieu of Profession Tax.

6.35.2 However, government has taken a stand that since it is directly making payment of salaries to provincialized staff of ULBs, with effect from 25.02.2009, the Profession Tax compensation is not paid to ULBs except GVMC and VMC which are paying salaries to their employees from their own funds. It is learnt from CDMA that with effect from 01.04.2019, the government is also paying salaries of provincialized staff working in VMC and GVMC and the government may not release the Profession Tax proceeds to these corporations from that date as per Section 35 of AP Tax on Professions, Trade Callings and Employment Act 1987, as amended through Act No.10/2010 dated 26.04.2010. However, there is no data on the actual expenditure incurred on provincialized staff and the tax collections from profession tax impounded. The recommendation made by the Central Finance Commission to enhance profession tax from Rs.2,500/- per annum to Rs.12,000/- per annum remains to be implemented by the Government.

6.35.3 Profession Tax, like Property tax, is a legitimate source of revenue assigned to the local governments in all federal states. Therefore, the revenue from this tax should be entirely transferred by the Commercial Tax Department to the ULBs after deducting cost of collection.

6.36 Adjusting Certain Tax Revenues against 010 Salaries

6.36.1 Setting-off or adjusting profession tax revenue against salaries of provincialized staff of ULBs directly paid by the government treasury appears to go against the spirit of federalism. The demand for direct payment of salaries by the Treasury to the provincialized staff of ULBs has a different justification.

6.36.2 Not all ULBs have adequate own revenues to meet the expenditure on salaries of staff, whose scales of pay are determined at the state level on a uniform basis for different categories, while all ULBs are required to provide certain basic services, irrespective of their resource position. Further, there has been a tendency to centralize revenues and revenue raising powers over the years. For example, property tax rates cannot be revised without the explicit approval of the State Government. Advertisement tax and entertainment tax have been subsumed under GST. Several recommendations made by the three preceding SFCs for devolution of general revenues and certain specific tax revenues were not accepted by the state government. The recommendations made by the first two State Finance Commissions

for devolution of certain proportion of total state tax revenues to the ULBs and PRIs were not accepted. The recommendations made for devolution of a small proportion of state excise and motor vehicle taxes were also not accepted by the government. The enhancement of per capita grant recommended by the III FC to the ULBs (from Rs.8/- to Rs.12/-) was also not accepted by the government on the ground that it is meeting the salaries of provincialized staff with effect from 2009. There has been a meagre or no increase in the other grants made by the state government to ULBs. On the expenditure side, the ULBs were required to meet the matching contribution in respect of certain centrally sponsored programmes (e.g. JNNURM Housing). The ULBs, being frontline government units facing the direct wrath of the public, are required to provide core services such as water, solid and liquid waste management, sanitation, roads, lighting etc., the cost of which is rising.

6.37 Assigned Taxes

Surcharge on Stamp Duty

A duty on transfer of property is levied in the form of a surcharge on the basic duty imposed under the Indian Stamp Act 1899, on certain instruments on transfer of property. These include sale and purchase deed, sale agreements with and without possession, agreements for development / construction, mortgage with and without possession, gift deeds, settlements in favour of family members, others and charitable trusts, exchange of property, release of property, lease deeds, power of attorney for sale or construction or development as well as other purposes and special power of attorney. The surcharge or transfer duty is 5% of the value of the instrument in most cases, except in mortgages without possessions (3%), settlements in favour of family members and religious trusts (3%), lease deeds (3%) etc. The surcharge is levied and collected by the Registration Department and the proceeds are being assigned to ULBs on a quarterly basis. The major problem with this source of revenue to the local bodies is the under-valuation of property and the consequent decline in tax revenues. Further, to ensure transparency, the Registration Department should place quantum of collection of basic duty and transfer duty from each jurisdiction on its website such that the ULBs can check the actual quantum of collection and transfers made.

6.38 Seigniorage

Seigniorage fee collected on minor minerals (e.g., sand) is to be apportioned among the local bodies i.e., GPs, MPs and ZPs in the ratio of 50:25:25. As minor minerals are by-and-large quarried in GPs,(some of which are Nagar Panchayats now) the seigniorage

collected is to be assigned to the PR bodies. Some Nagar Panchayats which were GPs earlier complained that the government had not transferred the seigniorage share to them. The Office of the Director of Mines and Geology informed the Commission that the following amounts of seigniorage collected was credited to the state fund and no information was available with him on the transfers made to the local bodies.

Table-6.21 Amount of Seigniorage Collected: 2014-15 to 2018-19

(Rs. In Crore)

Sl.No.	Year	Amount of Seigniorage Collected
1	2014-15	277.85
2	2015-16	543.59
3	2016-17	615.97
4	2017-18	651.14
5	2018-19	726.25

6.39 Non-Tax Receipts

Water Charges

6.39.1 Water charges are the second important source of own receipts for the ULBs. However, water charges imposed are not collected in full (Table-6.22). In Corporations, the demand-collection ratio is relatively better with 74% to 81% of demand being collected. However in MPs, the collection ratio is lower (45% to 63%). While in respect of NPs, the collection ratio is the lowest. It is estimated that ULBs are realizing only 40% of the O&M cost from the water charges collected. There is an urgent need to not only reduce the demand-collection balance, but also to suitably enhance water charges such that ULBs meet their O&M cost such as salaries of water works staff, electricity consumption charges, cost of cleaning agents, cost of replacement of pipelines and motors and repairs to pump sets and electrical installations.

Table – 6.22 Water Charges of All ULBs in AP: 2014-15 to 2018-19

(Rs. In Crores)

Sl. No.	ULBs	2014-15		2015-16		2016-17		2017-18		2018-19	
		D	C	D	C	D	C	D	C	D	C
1	MCs (14)	250	193 (77)	294	217 (74)	354	285 (81)	373	293 (79)	366	270 (79)
2	MPs (73)	82	52 (63)	96	54 (56)	108	57 (53)	127	65 (51)	141	64 (45)
3	NPs (23)	8	5 (57)	9	4 (46)	11	6 (52)	13	6 (42)	14	6 (42)

Note: D – Demand; C – Collection; MCs – Municipal Corporations; MPs – Municipal Councils; NPs – Nagara Panchayats; Figures in parentheses are percentages.

Source: Data collected from GoAP, Directorate of Municipal Administration.

6.39.2 Since water is a basic necessity, Municipalities across the state charge relatively lower rates for water supplied through tap connections. While full cost-pricing is not feasible, the water rates in different municipalities should in some measure be related to cost of supply, usage, quantum of water supplied/the size of the pipe etc. An examination of the range of rates charged for different users across the municipalities in the state do not indicate any significant variation, except in respect of Vijayawada Municipal Corporation, where a slab system is adopted (Table –6.23). It may also be noted that the users are required to pay certain amount of donations to meet the initial cost of providing the tap connection. The amount of donations fixed by Municipalities for different users also varies across the Municipalities. While full-cost pricing is neither feasible nor desirable, there is certainly scope for augmenting revenue from water charges by suitably rationalizing water charges, taking into account the source of water and potential use as well as duration of assured water supply. Similarly, there is also scope for mobilizing additional donations / non-refundable deposits to meet the cost of providing private connections. There is also scope for checking unauthorized tap connections and illicit tapping of water lines. An annual or a six monthly survey may be conducted to all municipalities to identify unauthorized connections and regularizing them by collecting some penal fee. Wherever possible, water meters may be installed by the municipalities for bulk supply of water.

Table – 6.23 District-wise Water Charges Collected: ULBs

Sl. No	District	No. of MPs	Principal Sources	Monthly Charges (in Rs.)						
				Res	Non - Res.	Commercial	BPL	Building	Domestic	Others*
1	Anantapur	24	GW/SW	50-150	--	100-995	150	100	--	--
2	Chittoor	35	GW/SW / Swarna-mukhi River / Telugu Ganga	80-100	150-250	75-300	100	100	75-100	100
3	East Godavari	25	GW/SW	60-180	--	60-225	100	--	--	100
4	Guntur	104	GW/SW / Krishna River / NS Canal / Well/ Pipe Lines	40-1500	--	80-350	65	--	45-100	80-100
5	Krishna	27	GW/SW / Krishna River	60-100	60	90-200	98	--	--	60-561
6	Kurnool	38	GW/SW/ Gajula Dinne Project	50-125	50-150	50-120	--	--	80	80
7	Prakasam	12	GW/SW	20-100	--	100-1500	--	--	--	--
8	Nellore	23	GW/SW/ Bore Well / Penna River / Pipeline	45-200	--	100-1500	--	--	--	60-75
9	Srikakulam	11	GW from River / SW	60-100	--	750	--	--	70	--
10	Visakhapatnam	7	GW/SW	75-100	--	100	--	--	--	--
11	Vizianagaram	9	GW/SW	60-100	--	--	--	--	80	--
12	West Godavari	24	GW/SW	45-135	--	120	--	--	--	60-120
13	YSR Kadapa	61	GW/SW	60-1200	--	120-750	100	--	--	100-500
	Total	400								

Note: MPs – Municipalities; GW – Ground Water; SW – Surface Water; All Connections are Non-Metered; * Others – Ordinary; Own Your Tap; Slum; Ground; Industrial; Non-Metered; Non-Metered Penalty; NSDP; Residential Apts; Residential NSDP; PT Slab Rates; Greater than 5000; House Connections; Church etc.

Source: Information collected from GoAP, Directorate of Municipal Administration.

6.40 Trade License Fees

6.40.1 The MCs/MPs/NPs are competent to make byelaws for all matters relating to trade licenses including levy of fees, duly following the procedure as per law. The municipal authorities can also prosecute traders conducting business without proper license. Valid licenses from municipal authorities are required for all types of trades and services. Licenses are required for individuals, Hindu Undivided Families, partnerships, companies and other associations and trusts. The licenses need to be renewed on payment of prescribed fee. The fee is related to the nature and type of trade undertaken and the area of the trade premises. The rates vary across the municipalities. Broadly, the following trade licenses are issued by the municipal bodies:

- Eating establishments;
- Medical establishments;
- Non-eating and non-medical establishments;
- Flammable establishments;
- Veterinary trades;
- Small scale industries;
- Trading establishments; and
- Service centres etc.

6.40.2 As of 15.02.2019, the ULBs in the state had 44,914 licensed traders. The trade license fee collected varied from Rs.100/- (Tea Stall) to Rs.30,000/- (Bar & Restaurant) in Anantapur district. In Krishna, the fee varied between Rs.100/- (Laundry) and Rs.47322/- (Bar & Restaurant). Similar variability could be found across different districts. It is understood that there is scope for increasing revenue from trade license fees in all municipal areas by ensuring that all traders obtain proper licenses and their trades are properly categorized and fee levied as per norms. The purpose of issuing trade licenses would be served only if the municipal officers concerned make frequent inspections to the trade premises and ensure that surroundings of the premises are kept clean.

6.41 Fees from Markets and Slaughter Houses

Municipalities maintain public markets and slaughter houses for the convenience of the public and levy fees for their use. Municipalities generally lease out the right to collect fixed fee to a third party through public auction. The municipal councils are competent to

determine and revise the rates. The fee is for using or occupying the space in the market and or for slaughtering animals in the slaughter house. A common observation made by different stakeholders during the visit of the Commission was that the fee rates are relatively low and need to be revised with reference to rents or charges prevailing in the neighbourhood for similar purposes. As the auctions are conducted once in three years, the municipal bodies need to ensure that public auctions are conducted in a fair and transparent manner to prevent collusion among the potential bidders.

6.42 Parking Fees

The Municipal bodies are empowered to lease out road margins and street margins for the purpose of parking of vehicles on payment of a fee. The parking lots are leased out through public auction and the rates of fee are fixed by the Municipal Councils taking into account the type of vehicle and the duration of parking. Where there is collusion among the bidders, the municipal body may invite sealed tenders. Municipal Corporations may also provide parking places, public landing places and halting places for the vehicles and levy fees for their use. The common complaint is that the potential bidders form into a coalition to reduce the auction amount and then share the contract period through private arrangements. In some cases, upset prices are fixed at lower levels. It is also reported that the some successful bidders leave mid way and resort to litigation. A better way would be to invite sealed tenders and insist on appropriate security deposits and solvency certificates.

6.43 Rent from Shop Rooms and Buildings

Municipal Councils are empowered to collect rents from shop rooms, godowns, land and other buildings or terraces of buildings by means of public auction. The ultimate selection of the lessee of the property is vested with the municipal council or an authorized officer. It has been brought to the notice of the Commission that in some Municipalities upset prices for lease of immovable properties (first time or renewal) are fixed at rates lower than the comparable market rates. Therefore, the Municipal Bodies are advised to fix the upset price / rent at 10% of the current market value of the property per annum (including value of land and building as fixed by the Registration Department) or comparable rent of similar properties in the neighbourhood. In respect of renewal of lease, the upset price should be either 10% of the market value of the property or an incremental rent of 33.33% of the earlier rent, whichever is higher. It is observed that not all Municipal bodies are strictly adhering to these rules.

6.44 Building Permit Fees

Municipal Bodies are empowered to levy building permission fee for construction of different categories of buildings at rates determined by the council or by any authority to which such powers are delegated. The main types of fees and charges include land use conversion charges, approval of layouts, betterment charges, external betterment charges, impact fee, city level infrastructure impact fee and development charges. There is a great degree of variation across the municipalities in the fees charged by the municipalities for different purposes. The Commission understands that the fees and charges are not revised by the Municipal authorities once in three years. In view of the increasing cost of civic amenities, it is imperative that the municipalities revise the rates at least once in three years and enforce collection by checking illegal / unauthorized constructions. Further, the rates of fees should reflect the dimension and height of the building, its potential use and the neighbourhood, after giving suitable exemptions / remissions to low income localities / slums. An important cardinal principle that should be adhered to by all municipalities is to use the building fee collections for development of infrastructure and provision of civic amenities.

6.45 Encroachment Fees

The Municipal bodies are also competent to impose and collect encroachment fee for various encroachments of temporary nature. The encroachments which are not in the nature of permanent objectionable structures are generally required to pay the prescribed fee within the stipulated time. The Commission understand that the encroachments are not always taken seriously and fees collected / encroachments moved due to public resentment. However, steps should be taken by all municipalities to protect all roads and pathways from encroachments.

6.46 Borrowings

As per Section 131 of AP Municipalities Act, Municipal Councils can borrow from the financial institutions with the prior approval of the government and with its guarantee. As per Section 149 of AP Corporations Act, Corporations may, with the prior sanction of the government, borrow from the banks in accordance with the conditions laid down in the section. It is understood that GVMC and VMC were permitted to issue bonds and raise funds. It may be noted that AP has 32 AMRUT cities, out of which, 3 are smart cities. APUFIDC Limited, the nodal agency for AMRUT and smart city Missions has got all the 32 cities / towns credit rated in 2016-17. Out of the 32, 13 towns have investment grade credit rating. It

is also understood from the CDMA that only 10 ULBs among the 29 AMRUT group qualified for investment grading and the transaction advisor will have to conduct feasibility study for these ULBs to raise funds through issuance of Municipal bonds for various infrastructure projects on the basis of their financial viability and bankability. The other 19 ULBs will have to improve their investment grade rating. However, even the 10 ULBs have not been permitted to float municipal bonds. Only GVMC has borrowed from financial institutions to meet 30% ULB share under JNNURM. The GVMC has borrowed an amount of Rs.290 Crores from HUDCO and ICICI bank during 2011-18, of which, an amount of Rs.211 Crore was outstanding in Dec 2018. As recommended by the GOI (Vide Lr. No. 13(32) FFC/FC/FCD 2015-16, dated 8th Oct 2015), the state may allow larger municipal corporations to directly approach the market, but the proceeds of borrowing should be utilized only for the intended purposes.

6.47 Expenditure Issues

Control of municipal expenditure is as important as mobilization of additional revenues. Undertaking expenditures without observing the canons of efficiency, economy and productivity would only result in ineffective use of resources mobilized through tax and non-tax sources. As a first step, the municipal authorities need to ensure that realistic budget proposals are prepared for approval by the Municipal Councils. The tendency to overestimate or exaggerate the expenditures could eventually result in wastage or surrender of funds. Sometimes, it may result infructuous or wasteful or avoidable or unfruitful expenditure. The CAGI, in several of its reports relating to local bodies, pointed out that the municipal bodies have a tendency to over-estimate not only expenditures but also their ability to incur fruitful expenditure. A rupee saved is a rupee earned. Therefore, all municipal bodies would do well to present realistic budgets to their councils. Second, once the budget is approved, the executive wing is required to ensure that expenditure is incurred in accordance with the sanctions and value is obtained for the money spent. This implies that if an item of expenditure calls for 'X' amount of resources, the municipality should not incur more than 'X' amount. For each rupee spent, the intended benefit or asset must result. Interaction with accounts and audit officials of select municipalities as well as a perusal of CAGI and state audit reports indicate that there is a good deal of scope for economizing on resources and improving productivity of expenditures. This calls for more effective internal controls and monitoring.

6.48 Specific Expenditure Issues

The State Finance Commission visited several municipalities in Chittoor, Kadapa, Nellore, Krishna, West Godavari, Visakhapatnam and Vizianagaram districts. Many issues pertaining to the expenditures of the municipalities were brought to the notice of the Commission. Some of these issues are briefly discussed in the following.

6.49 Electricity Charges

An important item of municipal expenditure which is rendering municipal finances somewhat inflexible is the rising electricity charges, largely due to the slab-based commercial tariff rates adopted. For example, in GVMC, electricity charges are reportedly collected at the rate of Rs.11/- per unit on par with commercial entities. The representatives of Narsipatnam, Parvathipuram, Bobbili and Vizianagaram municipalities also stated that electricity consumption charges are a rapidly rising item of revenue expenditure, minimizing their expenditure handles. The Commissioner of Kadapa Municipal Corporation stated that the Corporation was paying Rs.7/- per unit on LT connections and Rs.9/- per unit on HT connections, though municipal units are not commercial enterprises. Therefore, all the sample municipalities that the commission interacted with Kadapa district viz., Pulivendula, Badvel, Rayachoti and Rajampet pleaded that their power consumption be charged at lower rates as they are engaged in providing basic / merit goods such as water and street lighting which largely benefit the poor. Similar demands were made by Chair-Persons of Venkatagiri, Atmakur, Naidupeta, Sulurpeta, Gudur, Kavali Municipalities and Commissioner of Nellore Municipal Corporation. There is merit in the demands of the municipalities and the government may advise the electricity distribution companies to charge reasonable rate for the electricity consumed by them. The municipalities on their part may adopt power saving methods such as switching over to LED bulbs and regulating street lighting duration. Further, there is demand from several municipalities to the effect that the penal interest, surcharge etc., on overdue tariff should be waived in view of the difficult revenue situation. The power companies may be advised to drop penal interest and surcharges as a one-time measure for at least Nagar Panchayats.

6.50 Charges Collected by Electricity Corporations

The other important point raised by several municipalities and Nagar Panchayats relate to charges collected by the electricity distribution companies for shifting of electricity poles, transformers and such other installations for promoting public safety and convenience.

Nellore Municipal Commissioner also stated that the electricity distribution companies have erected transformers in a haphazard manner without prior approval of the municipality, but for shifting such transformers and poles charges are being levied and collected from the municipality. A similar point was raised by the Commissioner of Srikalahasti. Commissioner of Rayachoti Municipality in Kadapa district pointed out that power distribution company charged them for providing new lines, while the new lines invariably enhance the sale of electricity. Some representatives went to the extent of stating that the electricity distribution companies which make use of municipal property and without prior approval should be charged as these companies are collecting commercial tariff. The government may examine the feasibility of waving the pole and transformer shifting charges being collected from the Municipalities. Further, as electricity distribution companies enhance revenue from sale of electricity through laying new lines, the municipalities may be charged concessional rates.

6.51 Solar Power as Supplementary Source

As electricity charges are a rapidly rising item of expenditure, the corporations and municipalities may examine the feasibility of developing solar power plants which can reduce power bills in the long run. The NEDCAP representative indicated that the Kadapa Municipal Corporation can partner with a private enterprise to set up 10 MW solar power plants at an estimated cost of Rs.40.00 Crore. It is understood that land is available and if permission is granted, private parties can establish a solar power plant. The power generated through the solar source can be supplied to the grid and the corporation can minimize the electricity charges in the long run. A 10 MW plant requires about 50 acres of land. Government may examine the suggestion and provide land to the Municipalities which can take up proposals. Further, municipalities can also encourage roof-top 10 KW solar power generation, as is being promoted in Pulivendula municipality of Kadapa district.

6.52 Expenditure on Outsourced Staff / Staff Not Covered Under 010 (Head of Account)

One of the important factors contributing to the rapid growth of revenue expenditure of the municipalities is the expenditure on salaries of non-provincialized staff and particularly on those outsourced. The municipalities have not been undertaking replacement appointments to all vacancies caused by retiring permanent staff, particularly after provincialization of permanent municipal staff in 2009. Besides, the rapid expansion in the jurisdiction of the municipalities and range of services provided by them, have necessitated appointment of

workers/staff on an outsourcing basis. A very large number of sanitary workers, water tank washers, park gardeners, watermen, attenders, pipeline helpers, sanitation mastries/supervisors, drivers, computer operators etc., have been appointed on an outsourcing basis. It is also understood that several municipalities have excess outsourced workers than the required number. The outsourced staff frequently went on agitation / strike demanding higher wages. Most of the outsourced workers are now being paid a monthly salary of Rs.12,000/- to Rs.15,000/-. As a result of the mounting expenditure burden, the CDMA issued circulars directing the municipalities not to take additional outsourced workers in Municipalities which cannot absorb any additional expenditure on outsourced workers. It is therefore imperative that the government reviews the whole issue and determine norms for hiring services of appropriate number of outsourced workers for each Municipality, taking into account total revenue and other committed liabilities of the Municipality. A decision may also be taken with regard to permanent vacancies for which appointments are to be made through APPSC or through internal promotions.

6.53 Expenditure on Water Supply and Maintenance

The third important source of expenditure growth for the municipalities is supply of water to all localities including low income areas and slums. There are three types of expenditures in respect of water supply viz., (i) cost of sourcing water from surface sources or sub-surface sources; (ii) pumping water through pipelines and their maintenance / replacement; and (iii) cost of construction and maintenance of overhead tanks / storage tanks. Several municipalities complained to the Commission that they were not able to provide drinking water to all areas and all households as per norms, particularly during summer months due to drying up or partial drying-up of sources, shortage of summer storage tanks, shortage of pipelines and leakages in pipelines including leakages caused due to illegal tapping of water. While some municipalities were provided specific grants (including grants from externally aided projects) for augmenting water supply, a majority of the municipalities were not able to finance all water works. An important source of rising expenditure on water supply is the cost of replacement of pipelines to prevent leakages. Maintenance of tanks, including summer storage tanks, is another source of expenditure as in the case of several municipalities of Kadapa, Chittoor, Nellore and Vizianagaram districts. In Venkatagiri municipality of Nellore district, substantial resources were reported to have been spent on supplying water through private tankers. In Parvathipuram of Vizianagaram district, the municipality is not able to provide clean water as water sourced from sub-surface structure of

Nagavali River had become muddy after the construction of Thotapalli reservoir. In view of the moderate to chronic shortage of water in a majority of the municipalities, the government may appoint a study team to assess the water supply situation in all municipalities and suggest least-cost methods of augmenting water supply as per national norms.

6.54 Summary and Recommendations

Own Taxes

Property Tax

Property Tax on land and buildings is the single most important own source of revenue to the ULBs with a good deal of potential. The Commission recommends the following measures to enhance the revenue from this important source.

- Expeditious steps may be taken to reduce the gap between the demand and collection of property tax. The steps may include rational categorization of properties and determination of rateable values, timely support for quick disposal of appeals, continuous updating of database of assessable properties, timely assessment, assessment of new properties and close monitoring of changes made to existing properties.
- Property tax rates have been revised only thrice during the last 25 years (1993, 2002 and partially in 2007). Property Taxes are ideally reassessed and revised at least once in 5 years. As a GIS-based survey was completed in 2018 and database of assessable properties created, the Commission recommends to the government to permit the ULBs to undertake complete revision of property tax without further delay.
- In view of the growing expenditure responsibilities of the ULBs, the government / Property Tax Board may examine the feasibility and desirability of permitting the ULBs to enhance their property tax rates by at least 2.5% once in 2-years such that the tax payers will not feel the burden of the tax.
- The Commission also recommends that the State Property Tax Board be fully reconstituted with experts drawn from different fields as per the recommendations of the Central Finance Commission. The Commission also recommends that a separate cell / Secretariat be created to enable Property Tax

Board to provide necessary technical assistance to the ULBs in all matters relating to Property Tax.

- The database created through the GIS-based survey needs to be constantly updated by drawing information on taxable properties from Town Planning and BPS wings, Trade License Wing, Electricity companies, Commercial Tax Departments and such other agencies.
- It was brought to the notice of the Commission in several municipalities of the abnormal delays in issuance of property tax notices, particularly in respect of new as well as unauthorized constructions. The ULBs should be required to issue early notices and undertake close follow-up of tax payments by conducting campaigns and special drives before resorting to coercive steps and legal action.
- As the appellate route is time consuming (Commissioner to Regional Director to Director and then to the Court), the government may examine the feasibility of setting-up a separate Tribunal to adjudicate municipal property tax matters speedily.
- In view of the complex process involved in assessing Central Government properties for levy of service charges, the government or the Property Tax Board may provide necessary technical advice to the ULBs.
- Though ULBs are empowered to levy and collect a tax on non-agricultural vacant lands at 0.2% of the market value of the property per annum, not all ULBs are levying this potentially elastic source of revenue. A database of taxable properties needs to be created by all ULBs with information collected from Registration Department before imposing the tax. The Government may direct all ULBs to impose the tax on non-agricultural vacant lands in their jurisdictions.

6.55 Advertisement Tax Revenue

The Commission recommends that the ULBs are fully compensated for the loss of advertisement tax revenue sustained by them by providing adequate compensation or by means of giving a share in the own tax revenues of the State to the ULBs. (See para 6.33) .

6.56 Entertainment Tax Revenue

AT 2016-17 rates, the ULBs have been foregoing an amount of Rs.130 Crore to Rs.160 Crore per annum on account of merger of entertainment tax with GST. The Commission recommends that the government fully compensate the ULBs for the loss in entertainment tax revenue through an appropriate share in own tax revenues. (See para 6.34)

6.57 Profession Tax

The Commission also recommends transfer of profession tax receipts collected by the Commercial Taxes Department to the ULBs, as it is their legitimate source of revenue. Further, the Commission opines that impounding profession tax collections or other tax revenues in lieu of direct payment of salaries to the provincialized staff by the government is not a tenable argument. There are several quasi-governmental agencies or autonomous bodies in respect of which the government is meeting the salary expenditure of provincialized staff. The ULBs, being important frontline service delivery arms of the government, there is every justification for the government to meet the salaries of provincialized staff.

6.58 Assigned Taxes

Surcharge on Stamp Duty

The proceeds from surcharge levied on stamp duty are being transferred to ULBs on a quarterly basis. However, the ULBs demand that the details of collection of basic duty and surcharge should be placed on the website of the Registration Department such that they can compare the quantum of collection and transfer made. The Commission sees merit in this argument as it promotes transparency. Further, checking of under-valuation of property by the Registration Department would contribute to the revenues of ULBs. This in turn requires appropriate revisions to the property values on which stamp duty and surcharge are levied at 3 year intervals. (See para 6.35).

6.59 Non-Tax Receipts

Water Charges

A six-monthly survey may be conducted by all the municipalities to check unauthorized connections and misuse of water. Water meters may be explored for bulk users such as apartments and commercial users at least in all Corporations and relatively big municipalities. (See para 6.39)

6.60 Trade License and Other Fees

The Trade License Fee rates across the state exhibit a great degree of diversity. While uniformity in rates is not possible, certain amount of rationalization is desirable to enhance revenues. Ensuring that all traders have proper licenses could also promote revenues. Similarly, the fees charged for markets and slaughter houses are reported to be low and could be increased through more frequent auctions conducted in a fair and transparent manner. Parking fee is another source that can be exploited to generate additional revenues. The method of sealed tenders may be adopted to generate more revenues from parking fees. The practice of collusion among potential bidders should be eliminated through wide publicity of the system of open auctions and online tenders (which exists in most municipalities now). (See para 6.40).

6.61 Rents

Municipal shop rooms and other properties have a good deal of potential which can be exploited. Rents from shop rooms and buildings could be increased by the ULBs by fixing the upset price / annual rent at least 10% of the current market value of the property.

6.62 Building Permit Fees

More frequent revision of land use conversion charges, fees for approval of layouts, betterment charges, encroachment fee, impact fees and development charges could bring in more revenue. The fee rates should be revised at least once in three years. There is also a strong case for checking illegal and unauthorized constructions and change in use pattern from the approved ones. The rate of penalty being levied on unauthorized layouts could be enhanced from 14% to 20% of the property value / government determined market value. However, revenues collected from building and other fees should be used for development of infrastructure and civic amenities. (See para 6.43).

6.63 Expenditure Issues

Electricity Charges

As ULBs are not commercial entities and the services provided by them are in the nature of 'merit' goods, the GoAP may direct the electricity distribution companies to adopt a 'fair' tariff rate instead of commercial rate of tariff. Further, the government may direct the

power distribution companies to desist from levying heavy penal interest and surcharges on overdue payments. (See para 6.49).

6.64 Charges Collected by Electricity Corporations

The electricity companies have been collecting hefty charges for shifting of electricity poles, transformers and such other installations undertaken in the interests of public safety and convenience. The government may direct the companies to waive such charges as the shifting is often made necessary due to haphazard manner in which poles and transformers are erected by the electricity corporations without prior approval of the ULBs. (See para 6.50).

6.65 Solar Power as Supplementary Source

As electricity charges are a rapidly rising item of expenditure, the ULBs may be encouraged by the government to set up small solar power units by making available appropriate land, besides promoting Private Public Partnerships (PPPs) for electricity generation. (See para 6.51)

6.66 Expenditure on Outsourced Staff / Staff Not Covered Under Budget Head 010

One of the important factors contributing to the rapid growth of revenue expenditure of the municipalities is the expenditure on salaries of non-provincialized staff and outsourced sanitary and other workers, whose number has been proliferating rapidly. The Commission recommends that the Government determine norms for hiring services of outsourced workers, taking into account total revenue and other committed liabilities of the ULBs. . (See para 6.52)

6.67 Expenditure on Water Supply and Maintenance

The third important source of expenditure growth for the municipalities is the cost of sourcing, pumping and supplying water to all localities including low income areas and slums throughout the year. A related rapidly growing item of expenditure is maintenance / replacement of pipelines to prevent leakages and wastages and arrest illicit tapping. Besides, municipalities in drought affected districts spend substantial resources on water supply through private tankers. In view of the moderate to chronic shortage of water in a majority of the municipalities, the Commission recommends appointment of a study team by the

government to assess the water supply situation in all municipalities and suggest least cost methods of augmenting water supply and maintaining water infrastructure. . (See para 6.53)

6.68 Borrowings

Though 10 Corporations have qualified for investment grading, feasibility study remains to be conducted by the transaction adviser to issue municipal bonds for infrastructure projects. However, GVMC, which is rated 'AA' has borrowed an amount of Rs.290 Crores from HUDCO and ICICI bank during 2011-18, of which, an amount of Rs.211 Crores was outstanding at the end of Dec. 2018. Some other ULBs may also qualify for 'AA' rating and the government may allow to issue municipal bonds on a case by case basis. But the funds raised through issuance of bonds should be spent only on specific infrastructure projects that would result in better services.

6.69 Proliferation of Para-Statal Agencies

The GOAP has set up a few Corporations in the recent past to promote Urban infrastructure and services. These include Swatch Andhra Corporation, A.P. Urban Greenery and Beautification Corporation, AP Urban Finance and Infrastructure Development Corporation, Capital Region Development Authority, AP Township and Infrastructure Corporation, and A.P. Urban Asset Management Corporation. Whatever be the objectives, these Corporations tend to take away the functions of the ULBs and require substantial resources for their management. In addition, they create recurring liabilities on the Government. The Government may examine the rationale behind each Corporation and try to minimize their number. As far as possible, their responsibilities may be entrusted to the ULBs along with necessary financial support.

SECTION-III

ULB Resource Gap and SFC Recommendations

6.70 Introduction

The Fourth SFC is required to assess the resource gap of the ULBs for the period 2020-21 to 2024-25 and make recommendations based on such estimated resource gap. Accordingly, the Commission projected revenues and expenditures of MCs, MPs and NPs for the five year period, based on the long-term trends of own revenues (without considering, SFC, GoAP grants, CFC and GoI grants) and expenditures of ULBs. The trend growth in

expenditure and revenue as projected by the GoAP and submitted to XV Finance Commission are first used for assessing the resource gap for XV Finance Commission Award period. The SFC's own assessment of revenues and expenditures of ULBs and the resulting resource gap is then examined. But, the resource gap estimated is not inclusive of additional investments required to bridge the service gaps in core areas of water supply, sanitation, drainage, roads and waste management. Therefore, an attempt is also made to assess the service gaps on the basis of certain norms and estimate the additional investment requirements. Based on the total resource gap estimates, the Commission has made its recommendations.

6.71 Resource Gap of ULBs: GoAP's Projections

6.71.1 The projected resource gap as assessed by GoAP, on the basis of long-term trend growth rates in revenues and expenditures (for the period 2020-21 to 2024-25), is presented in Table – 6.24. The estimation procedure adopted by different departments of GoAP is, however, not available. Apparently, these estimates do not capture the additional investment requirements for meeting the critical service gaps in core Municipal functional areas. The projections indicate a growing gap between the total expenditures and own revenue receipts of the municipal bodies, excluding transfers from the state government, SFC, CFC and GoI. The resource gap projected by GoAP for XV Finance Commission Award period is about Rs.11,424 Crore and the GoAP expects much of it to come from CFC grants and grants for centrally sponsored programmes. The Union budget 2019-20 (BE) indicates that several centrally sponsored schemes including AMRUT and Smart City Mission Programmes would be continued. The State Government however has not indicated in the Memorandum submitted to XV Finance Commission, the amount of grants that it is likely to make available during the period 2020-21 to 2024-25. The State Government budget for 2019-20 (BE), however provides for several programmes that seek to improve the urban services such as water supply, underground drainage, solid and liquid waste management, etc. If the expected budgetary transfers from the GOI, CFC and the GOAP, do not meet the resource gap, then the ULBs would have to compromise on certain essential expenditures, particularly on the capital account. Shortage of resources generally affects capital expenditure, as revenue expenditures do not easily lend themselves for reversal / reduction. (e.g., establishment cost etc.). Acute resource crunch may also affect O&M expenditures.

**Table – 6.24 Resource Gap of All ULBs as Projected by GoAP
2020-21 to 2024-25**

(in Rs. Crore)

Sl. No.	Item	2020-21	2021-22	2022-23	2023-24	2024-25	Total
1	Expenditure of All ULBs	5209	5783	6257	7077	7561	31887
2	Total Own Receipts	3409	3709	4052	4430	4863	20463
3	Resource Gap	1800	2074	2205	2647	2698	11424

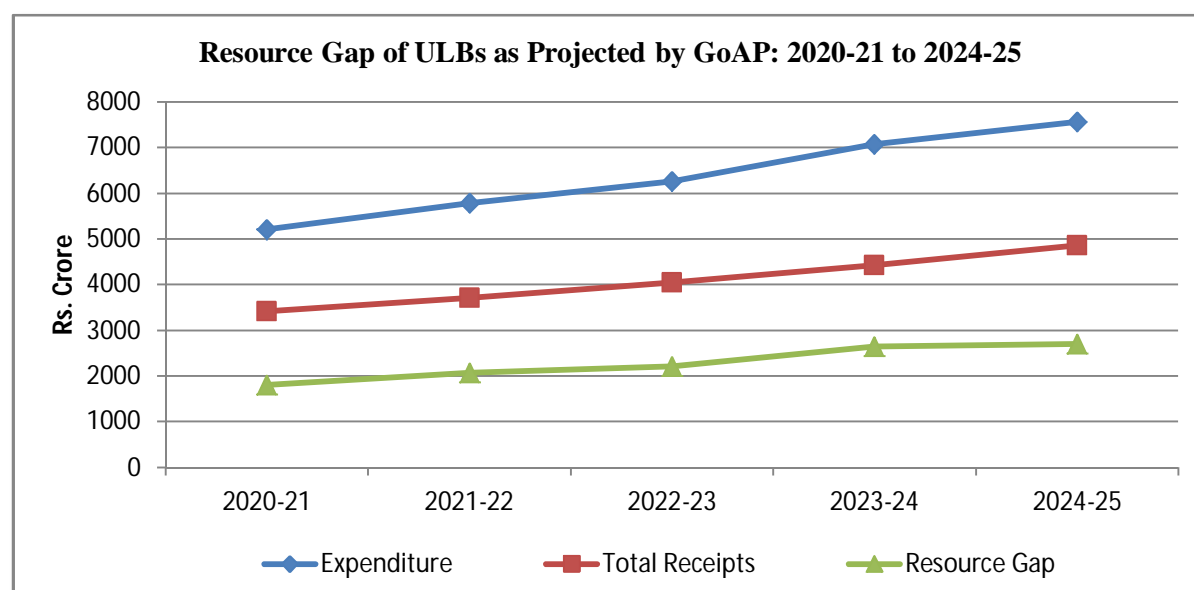
Note:

1. Projections of own receipts do not include assigned tax revenues (except surcharge on stamp duty), GoAP, SFC and XV CFC grants and grants under centrally sponsored programmes.

2. Projected expenditures of ULBs do not include additional investment requirements to provide all core urban services as per national norms or as per the norms of Ahluwalia Committee.

Source: Data furnished by GoAP to XV Finance Commission and Data Collected from CDMA, GoAP.

CHART -6.9



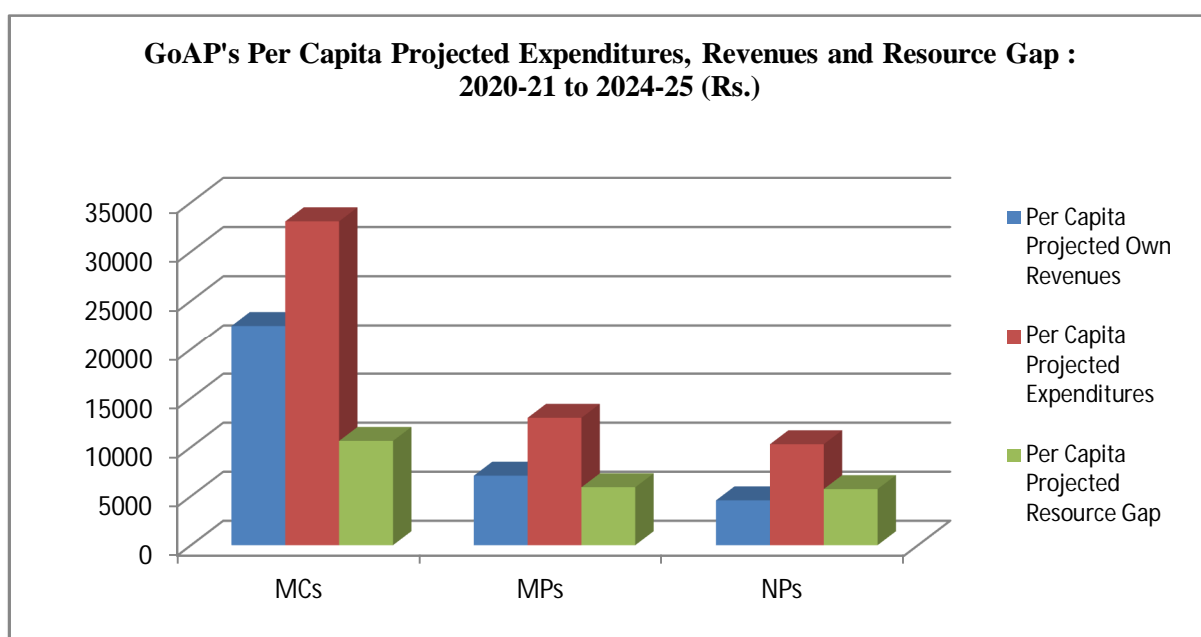
6.71.2 It may be observed from Table-6.25 that the resource gap projected is the highest in per capita terms in the MCs followed by MPs and NPs. However, it may be noted that the per capita expenditure and revenue for the five year period are substantially higher for MCs at Rs.33,072 compared to MPs and NPs. The gap between MCs, MPs and NPs in respect of both revenue and expenditure reflects disparities in the own revenue base as well as their expenditures / service levels, in per capita terms. Ideally, the gap should be progressively reduced.

Table - 6.25 GoAP's Resource Gap Projections at MC, MP and NP Levels

2020-21 to 2024-25

Sl.No.	Item	MCs	MPs	NPs
1	Projected Own Revenues (Rs. Crores)	16093	3993	375
2	Projected Expenditures (Rs. Crores)	23718	7324	846
3	Projected Resource Gap (Rs. Crores)	7625	3331	471
4	Per Capita Projected Own Revenues (Rs.)	22439	7082	4572
5	Per Capita Projected Expenditures (Rs.)	33072	12986	10290
6	Per Capita Projected Resource Gap (Rs.)	10633	5904	5718

CHART –6.10



6.72 Resource Implications of Urban Service Gaps

Basic Urban Services

6.72.1 The ULBs are required to improve infrastructure and service delivery in respect of the followings sectors:

- Water Supply – Supply of adequate water of good quality to all households;
- Sewerage and Septage Management – Providing waste water treatment and disposal covering all households;
- Storm Water Drainage – Providing storm water drainage network;
- Roads – Providing pucca road network comprising BT and CC roads;

- Sanitation – Providing individual household toilets to all households and public toilets and conveniences;
- Solid Waste Management – Providing solid waste management through door-to-door collection of solid waste;
- Urban Greenery – Providing parks and green spaces as well as avenue plantation;
- Smart LED Street Lighting – Conversion of street lamps into LED lights; and
- Housing – Providing pucca houses to all eligible urban poor using low cost shear wall technology.

6.72.2 The ULBs, aided and supported by the GoAP and GoI’s centrally sponsored programmes of SBM, AMRUT and Smart City Mission, have been implementing several programmes to improve infrastructure and augment service delivery. A state level Swachh Andhra Corporation was constituted for promoting scientific waste management and disposal activities. Uniform operational guidelines were issued as part of state policy to promote solid waste management (G.O.Ms.No.279 dated 31.12.2015). A state level Greening and Beautification Corporation was set up for promotion of greenery in the state. Besides, funds have been allotted under Critical Infrastructure Investment Plan (CIIP) as well as SC and ST sub-plans for development of urban green space. Steps have been taken to promote school buildings, toilets, drinking water and school furniture including introduction of smart classrooms. Funds were also mobilized from external sources such as the World Bank, ADB and AIIB (water supply) for improving urban infrastructure (AP Municipal Development Project). Several projects are in the pipeline with financial support from AMRUT, Smart City Mission (sponsored and funded by GoI and GoAP-GVMC, Kakinada, Tirupati, Amaravati, Srikakulam, Eluru, Ongole, Nellore, Kurnool and Anantapur), development of sewerage in Guntur and storm water drainage in Vijayawada, housing and urban development through assistance from HUDCO (Nellore) and other towns. ULBs have also been using 14th Finance Commission funds as well as GoAP grants for developing urban infrastructure.

6.73 Infrastructure Gaps

Notwithstanding the efforts made by the GoAP with its own resources and with the funding support of the centrally sponsored programmes, there are several service gaps in key areas which require substantial investments to attain national minimum service standards. There are several on-going projects under AMRUT, Smart City Mission, OTSFA, HUDCO,

Urban Housing, Urban Greening, SAM, AIIB, ADB, CIIP, SWM, SDS and SC-ST sub-plans which would require continued financial support for completion. A ‘white paper’ issued by the Department of Municipal Administration and Urban Development in December 2018 has indicated the following key gaps in infrastructure (as of December 2018).

Table – 6.26 Infrastructure Gaps in Key Service Areas of 110 ULBs

(As on Dec. 2018)

Sl. No.	Infrastructure Area	Total Capacity Required	Capacity in Dec.’18	Capacity of On-going Projects*	Additional Capacity Required
1	Water Supply (in MLDs)	1448	422.3	819	206.7
2	Sewerage (in Kms)	23955	4389	1662	17904
3	Storm Water Drains (in Kms)	36720	23588	3915	9217
4	Roads (in Kms)	23965	18483	3594	1888

*Note:** - It is understood that most of these projects are at a very initial stage and may require substantial resources to complete over the next 5 to 10 years.

Source: Department of MA & UD, A White Paper, December 2018.

6.74 Service Gaps and Funds Required for Total Sanitation

Providing total sanitation in all urban areas is an important goal of the GoAP and Swachh Bharat Mission. The concept of total sanitation requires that all households need to be provided functional toilets, besides providing common and public toilets. Total sanitation implies that all ULBs should be declared Open Defecation Free (ODF). Further, all ULBs should have dedicated solid waste management processing and disposal sites. Moreover, all ULBs are required to have waste processing capacity of 6140 tonnes per day. However, the data furnished by CDMA, SAC and PH & ME Dept indicates substantial gaps in the services and the related infrastructure, as furnished in Table-6.27. It is also learnt from the CDMA and PH & ME that only 9 projects converting ‘waste to energy’ were operational, besides 9 ‘waste to bio-gas’ projects. However, there were 38 compost projects in as many ULBs. Thus, there are key infrastructure gaps that persist in the urban sanitation sector.

Table – 6.27 Sanitation Service Gaps in 110 ULBs : As on Jun.'19

Sl. No.	Basic Services	Total	Covered		Uncovered		Funds Required / Estimated (in Rs. Crore)
			Number	%	Number	%	
1	HHs with toilets / sanction (in lakhs)	257138	243160	95	13978	5	98.25 ¹
2	ULBs which are ODF	110	110	100	0		17.39 ²
3	Solid Waste Management (SBM) - ULBs with processing and disposal sites.	110	36	33	74	67	800.00 ³
4	Municipal waste processed by ULBs	6140 tons per day	2400 tons per day	40	3740	60	40.00 ⁴
	Total						1112.20

Note: (1) New applications are being received every year and hence funds are required.

(2) Towards additional CTs/PTs/STs.

(3) Towards SWM activities for balance 85 ULBs i.e., providing infrastructure to processing units

(4) Towards tipping fee for compost production.

Source: Collected from GoAP, CDMA, Swachh Andhra Corporation and Public Health and Municipal Engineering Department.

6.75 Gaps in Drinking Water Supply

6.75.1 Data furnished by PH & ME of Department of GoAP indicates prevalence of critical gaps in the supply of water, an important service to be provided by ULBs. The information furnished in Table-6.28 reveals that out of 110 ULBs, only 14 were able to provide 135 LPCD of water to 80% of the population. In respect of 96 ULBs, uncovered gap in water supply is indicated as 80% of the target. Meeting the gaps would require an estimated amount of Rs.16,000 Crores as per the current estimates of PH & ME. With regard to piped water supply, the 14 Corporations have covered up to 70% of the target households, leaving an uncovered gap of 30%. In 67 Municipalities, the uncovered gap is 40% of the potential target. In the remaining ULBs (NPs and NPs which have been upgraded as MPs recently), the gap is even higher at 60%. The PH & ME Department estimated that about Rs.19,000 Crores would be required to attain the national minimum service standards, the achievement of which is reiterated in the Union Budget 2019-20.

Table – 6.28 Assessment of Gaps and Requirements of Funds for Water Supply in ULBs**(As on Jun.'19)**

Sl. No.	Basic Service	Total	Covered		Uncovered or Gap		Funds Required / Estimated (in Rs. Crore)
			Number	%	Number	%	
1	Drinking water supply with >135 LPCD by ULBs	110	14	80	96	80	16000
2	Piped water supply						
2.1	MCs	14	14	70	14	30	6000
2.2	MPs	67	67	60	67	40	8000
2.3	NPs	29	29	40	29	60	5000
	Total	110	110		110		35000

Source: Public Health and Municipal Engineering Department, GoAP

6.75.2 Provision of underground drainage (UGD) facility is one of the key component objectives of AMRUT and Swachh Bharat Mission. However, provision of UGD network in all ULBs is resource intensive as well as time consuming. There is a substantial gap in the provision UGD network in all ULBs. Equally important services to be provided by all ULBs are up-gradation of urban roads and development of drainage system with adequate storm water drainage capacity. The PH & ME Department has estimated that an additional amount of Rs.28,613 Crores would be required for these two key infrastructural services.

**Table – 6.29 Assessment of Gaps and Requirements of Funds for UGD
and Roads in ULBs**

(As on Jun.'19)

Sl. No.	Basic Service	Total	Covered		Uncovered or Gap		Funds Required / Estimated (in Rs. Crore)
			Number	%	Number	%	
1	No.of ULBs with UGD network						
1.1	MCs	14	5	36	9	64	14
1.2	MPs	67	3	5	64	95	96
1.3	NPs	29	1	4	28	96	42
2	Up-gradation of urban roads in kms (asphalt, concrete & WBM)	110	110	80	110	20	7140
3	Urban drainage - Storm Water Drains covered with concrete / stone lining	110	110	40	110	60	21321
	Total						28613

Source: Public Health and Municipal Engineering Department, GoAP

6.76 Resources Required as per Ahluwalia Committee Norms

Based on the normative estimates made by Ahluwalia Committee on Investment Requirements for Urban Infrastructure services (2011), the GoAP have also estimated a per capita investment requirement of Rs.10,846/- during 2020-25. This amounts to Rs.15,185 Crore for XV Finance Commission Award period. In addition, O&M requirements are estimated at Rs.12,635 Crore for the award period. Thus, based on the norms suggested by the Ahluwalia Committee, the ULBs in the state would require a total amount of Rs.27,820 Crore to provide all critical services as per the norms suggested (Table -6.30).

Table – 6.30 Additional Requirements for Core Services in ULBs during 2020-25

(in Rs.in Crore)

Sl.No.	Item	Amount
1	Capital Expenditure Requirement (Core Services)	15,185
2	Revenue Expenditure Requirement (Core Services)	12,635
	Total	27,820

Source: Data furnished by GoAP to XV Finance Commission.

6.77 Fourth SFC's Estimate of Resource Gap

The SFC has also made an attempt to forecast the own revenues and revenue expenditures of ULBs to assess the resource gap on the revenue and the capital accounts of ULBs during the 15th Finance Commission award period. Several methods are widely used in revenue and expenditure forecasting¹⁴. Choice of the method depends on what is being forecast and the time horizon of the forecast. All revenue and expenditure forecasting assumes that the past combines with the current discretionary policy interventions, to predict the future. The forecasting model adopted is briefly explained below:

6.78 Forecasting Model Adopted

6.78.1 Let R_i be the i^{th} category of revenue and E_j be the j^{th} category of expenditure, dx, t be rate of change of revenue or expenditure from ' $t-1$ ' to ' t ', and DP_t be the average result of ULB's discretionary policy changes in year ' t '. Then, the general budget forecast equation is:

$$R_{it} = (1 + d_{x,t}) R_{it-1} + DP_{it} \quad \text{for } i^{\text{th}} \text{ category of revenue}$$

$$E_{jt} = (1 + d_{x,t}) E_{jt-1} + DP_{jt} \quad \text{for } i^{\text{th}} \text{ category of expenditure}$$

6.78.2 Estimating the equations require data on dx, t, DP_{it} and DP_{jt} . For dx, t , we have used CAGR as a proxy, which is obtained from observed data for each revenue and expenditure variable, for the years 2014-15 to 2018-19 as follows:

$$\text{CAGR of } R_{it} = [(R_{it_n} - R_{it_0})^{1/n} - 1] \times 100$$

$$\text{CAGR of } E_{jt} = [(E_{jt_n} - E_{jt_0})^{1/n} - 1] \times 100$$

Where,

R_i is the i^{th} revenue category

E_j is the j^{th} expenditure category

t_n is FY 2018-19; t_0 is FY 2014-15

' n ' is the number of years for which CAGR is computed i.e., 5 years

14 Classic references are: (i) Bowerman B.L. and O'Connell R.T. (1993), *Forecasting and Time Series: An Applied Approach*, 3rd ed. Pacific Grove, CA, Duxbury.
Box, G.E.P and Jenkins, G.M. (1976), *Time Series Analysis, Forecasting, and Control*. San Francisco: Holden Day.
Brockwell, P.J. and Davis, R.A. (2002), *Introduction to Time Series and Forecasting*. New York: Springer.
Chatfield, C. (2004). *The Analysis of Time Series*, 6th ed. Boca Raton, FL: Chapman & Hall/CRC.
Hamilton, J. D. (1994), *Time Series Analysis*, Princeton, NJ: Princeton University Press.

6.78.3 Further, DP_{it} / DP_{jt} is the change in revenue or expenditure variable due to discretionary policy measures such as changes in rates of taxes, bases, exemptions, exclusions and deductions as well as changes in expenditure caused by inflation, cost of outsourced staff, O&M expenditure and other maintenance. Based on past trends, the Commission has assumed that additional revenue of at least 5% of the previous year's revenue value (*i.e.*, R_{t-1}) would be generated in the current year due to discretionary measures.

$$\text{i.e., } DP_{it} = (R_{t-1}) \times 0.05$$

6.78.4 It may be noted that 5% is an assessment based on past trends given the limited degrees of freedom available to the ULBs to introduce changes in tax and expenditure regimes. An examination of the long term data also reveals that the discretionary changes produced about 5% of the revenue, although clear attribution of change in revenue to automatic and discretionary changes is not possible.

6.78.5 In respect of expenditure, the Commission has assumed that each year, overall expenditure would increase by at least 10% due to inflation, rising cost of services, O&M and outsourced staff, in addition to the implicit trend growth (based on CAGR). The Commission assumes that additional investment expenditure for meeting service gaps and improving service quality would be met from the CFC, GoAP (Centrally sponsored schemes) and specific development grants by GoAP including grants under SC and ST sub-plans. Therefore, no effort is made to estimate the likely CFC GOI (Centrally sponsored programmes) and specific development grants of the GoAP for the award period. It is assumed that these important central transfers as well as development grants from the GoAP would be used for creating additional infrastructure and improving the quality of services. Eventually, when all transfers from the CFC, GOI and GoAP accrue to the ULBs, the total expenditures on both revenue and capital accounts could be much higher.

6.78.6 Using the estimating equations, each item of tax and non-tax revenue and revenue and capital expenditure are projected first for 2019-20 and thereafter for the SFC Award period *i.e.*, 2020-21 to 2024-25 for each category of ULBs *viz.*, MCs, MPs and NPs. While projecting revenues, the Commission has taken into account only own tax and non-tax revenues and not other sources. As SFC is primarily concerned with the resource gap of the ULBs, an effort is made to assess the resource gap, ignoring artificial distinction between revenue gap and capital gap.

6.78.7 It may be noted that the predicted values of revenues and expenditures are sensitive to the underlying CAGR and DP_{it} / DP_{jt} assumed. There could be many unforeseen factors that could affect the revenues and expenditures of the ULBs such as the policy decisions of the state government including its transfers to local bodies, transfers from GoI as well as the Central Finance Commission. Therefore, the projections made by the SFC may be considered as approximations and with due caution.

6.79 Projected Resource Gap: SFC Estimates

Using the methodology outlined above, the SFC estimated the expenditures and own revenues of MCs, MPs and NPs, both in absolute terms and per capita terms and the summary projections are presented in the following. (Table 6.31).

Table – 6.31 Own Tax and Non-Tax Revenues of ULBs as Projected by SFC

2020-21 to 2024-25

(Rs in Crore)

ULB	2020-21	2021-22	2022-23	2023-24	2024-25	Total
MCs	4496	4905	5352	5839	6370	26962
MPs	1471	1586	1710	1844	1987	8598
NPs	189	201	214	228	242	1074
Total	6156	6692	7276	7911	8599	36634

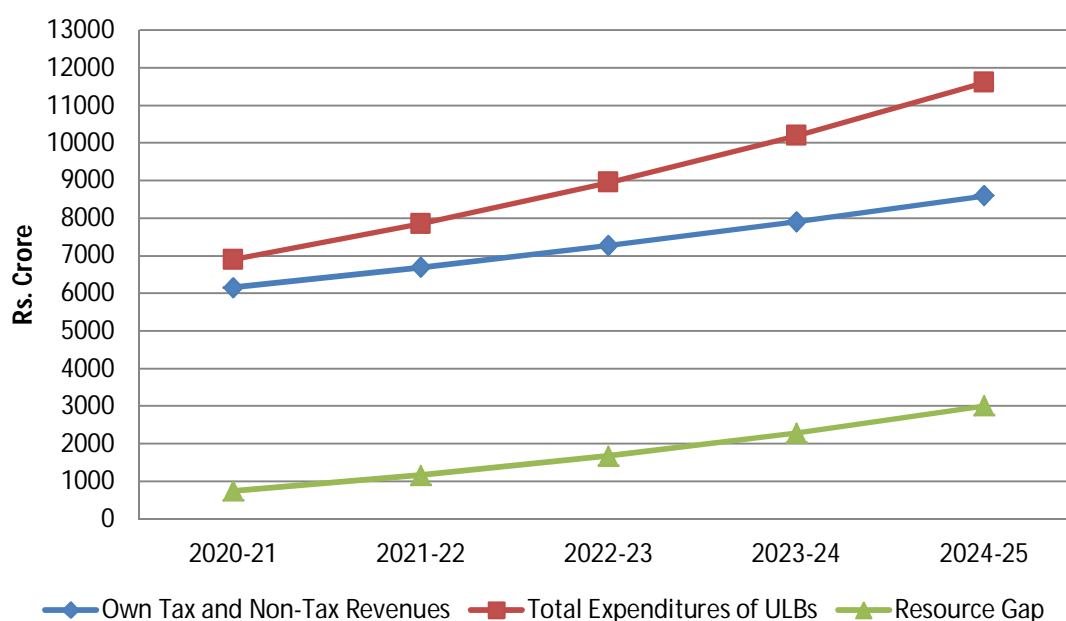
Table – 6.32 Total Expenditures of ULBs as Projected by SFC 2020-21 to 2024-25

(Rs. In Crore)

ULB	2020-21	2021-22	2022-23	2023-24	2024-25	Total
MCs	5343	6100	6963	7949	9075	35430
MPs	1396	1579	1786	2019	2284	9064
NPs	164	182	203	226	252	1027
Total	6903	7861	8952	10194	11611	45521

CHART – 6.11

Resource Gap of ULBs as Projected by SFC : 2020-21 to 2024-25



Note: Resource gap is the difference between projected expenditures and own revenues. The expenditure does not include additional investment requirements for meeting critical service gaps in water supply, sanitation, underground drainage, roads, waste management, etc. Further, the expenditure growth projected is based on trend growth during 2014-15 to 2018-19 and assuming that an additional expenditure of 10% would be incurred each year due to maintenance, inflation and such other factors.

**Table – 6.33 Per Capita Own Tax and Non-Tax Revenues of ULBs as Projected by SFC
2020-21 to 2024-25**

(in Rs.)

ULB	2020-21	2021-22	2022-23	2023-24	2024-25	Total
MCs	6321	6925	7586	8310	9104	38246
MPs	2636	2856	3095	3354	3634	15575
NPs	2388	2590	2808	3045	3302	14133
Total	11345	12371	13489	14709	16040	67954

**Table – 6.34 Per Capita Total Expenditures of ULBs as Projected by SFC
2020-21 to 2024-25**

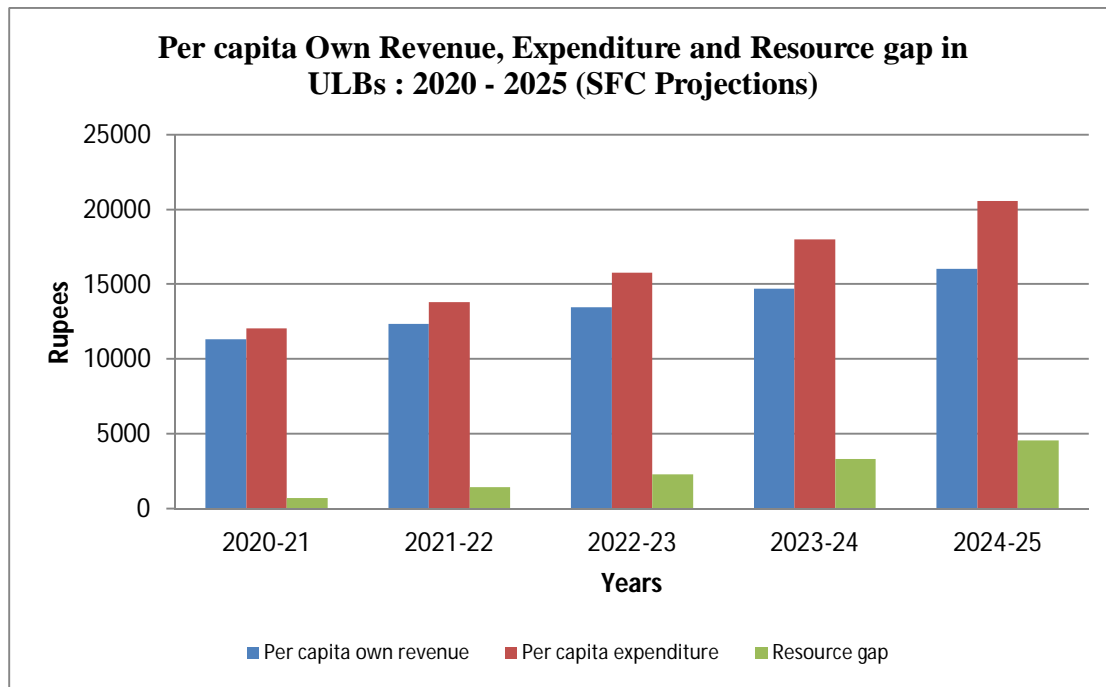
(in Rs.)

ULB	2020-21	2021-22	2022-23	2023-24	2024-25	Total
MCs	7516	8618	9881	11329	12990	50334
MPs	2502	2844	3234	3676	4179	16435
NPs	2064	2342	2658	3017	3424	13505
Total	12082	13804	15773	18022	20593	80274

Table – 6.35 Per capita Expenditure, per capita Revenues and Per capita Resource Gap

	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Per Capita Expenditures	12082	13804	15773	18022	20593	80274
Per Capita Revenues	11345	12371	13489	14709	16040	67954
Resource Gap	737	1433	2284	3313	4553	12320

CHART – 6.12



6.80 GoAP and SFC Estimates

6.80.1 The GoAP estimates indicate a larger resource gap of Rs.11,424 Crore, while the conservative SFC estimate show a resource gap of Rs.8,887 Crore for XV Finance Commission Award period (exclusive of investment requirements). The gap projected by SFC is based on projected changes in own tax and non-tax revenue as well as revenue and capital expenditure. The annual expenditure increment (Dpt) is assumed as 10% of the expenditure in the preceding year, while the annual increment in own revenues is assumed as 5% of the own revenue in the preceding year.

Table – 6.36 Projected Resource Gap of All ULBs: 2020-21 to 2024-25**(in Rs. Crore)**

Sl. No.	Year	GoAP Projection			SFC Projection		
		Own Revenue	Total Expenditure	Gap	Own Revenue	Total Expenditure	Gap
1	2020-21	3,409	5,209	1,800	6,156	6,903	747
2	2021-22	3,709	5,783	2,074	6,692	7,861	1,169
3	2022-23	4,052	6,257	2,205	7,911	8,952	1,676
4	2023-24	4,430	7,077	2,647	7,910	10,194	2,283
5	2024-25	4,863	7,561	2,698	8,599	11,611	3,012
	Total	20,463	31,887	11,424	36,634	45,521	8,887

Note: Expenditures include both revenue and capital expenditures.

6.80.2 Thus, the resource gap of Rs.8,887 Crore is a conservative estimate and could go up if the own revenues turn out to be less elastic or if the expenditures rise faster than assumed due to factors beyond the control of ULBs.

6.81 Total Resource Gap

6.81.1 It is important to note that both the GoAP and SFC projections do not account for the cost of providing additional basic services in core areas as per national norms. The CMDA and Public Health Engineering Departments have provided estimates of resources required for meeting the infrastructure gaps in sanitation, water supply, roads and drainage. But these estimates are not available exclusively for the award period i.e., 2020-25. However, the GoAP in its memorandum to XV Finance Commission estimated the capital expenditure requirement for core services as Rs. 15,195 Crore for ULBs for the period 2020-25. If these costs are added, the gap would be substantially higher.

Table - 6.37 Total Resource Requirements of ULBs for 2020-25**(Rs. in Crores)**

Sl. No.	Item	Amount
1	Resource gap of ULBs as estimated by SFC	8887
2	Additional Capital expenditure required in core area (as estimated by GoAP)	15,185
3	Total Assumed Resource Gap	24,072

6.81.2 It is expected that the grants from XV Finance Commission grants and grants under the Centrally Sponsored Programmes could be used to meet a significant part of the additional infrastructure during 2020-25. In fact, the successive Central Finance Commissions have emphasized that their grants should be used for delivering the basic functions assigned to the ULBs. The XIV Finance Commission while recommending basic grants to ULBs stated that “the grant provided is intended to be used to improve the status of basic services including water supply, sanitation including septage management, sewerage and solid waste management, storm water drainage, maintenance of community assets, ..”¹⁵. In addition to the CFC, the ULBs could also use grants received under the centrally sponsored programmes such as AMRUT, Swachh Bharat and Smart City Mission for investing in infrastructure. However, the CFC and CSS grants may not increase to such a level to meet the entire capital investment required during 2020-25.

6.81.3 The CFC transfers to ULBs amounted to Rs.2,230 Crore, while the grants for Centrally sponsored programmes amounted to Rs.1,847 Crore during 2014-15 to 2018-19. (Table 6.38). XIV FC recommended a total grant of Rs.3636 Cr to the ULBs for the period 2015-20 (80% basic grant and 20% performance grant). Even assuming a 100% increase in the transfers of CFC (XIV CFC increased grants to ULBs by 77% over XIII CFC Grants) and a 75% increase in the grants for Centrally Sponsored Programmes, the ULBs would still have a substantial resource gap as indicated below:

Total Estimated Resource Gap of ULBs for 2020-25	:	Rs.24,072 Cr
Estimated XV FC transfers to ULBs for 2020-25	:	Rs.(-) 7,272 Cr
Estimated Grants for Centrally Sponsored Programmes	:	Rs.(-) 3,232 Cr
Expected Gap of ULBs for 2020-25 ¹⁶	:	Rs.13,568 Cr

¹⁵Report of XIV Finance Commission, P. 112.

¹⁶The expected gap would go up if the XV FC transfers and grants under Centrally Sponsored programmes, the ULBs fall short of the assumptions and vice-versa. The assumptions are made only to arrive a rough approximation of the likely resource gap.

Table - 6.38 Transfers from GOI to ULBs: 2014-15 to 2018-19**(in Rs. Crore)**

Type of Grants	MCs	MPs	NPs	Total	Average Per Annum
CFC	1119	948	163	2230	446
GoI (Central Sponsored Programmes)	1664	161	22	1847	369
Total	2783	1109	185	4077	815

Source: Commissioner MA&UD Dept, GoAP

6.81.4 Therefore, in addition to the CFC and GOI transfers, transfers from GoAP particularly those made on the recommendation of SFC should play an important role in meeting the resource gap of the ULBs during 2020-25. This calls for a very significant jump in resources transferred by GoAP/SFC to ULBs during 2020-25.

6.81.5 GoAP provided different types of grants to the ULBs amounting to Rs.2,888 Crore during 2014-15 to 2018-19. Though not covered by any SFC award, the GoAP transferred Rs.681 Crore to ULBs under the head 'SFC Grants' during this period. Grants under SC and ST sub-plans amounting to Rs.910 Crore were also provided to the ULBs during this period. On an average, this worked out to Rs.578 Crore per annum. Given the assumed total resource gap of Rs.13,568 Crore, there should be a quantum jump in transfers from GoAP to ULBs. Further, such transfers are ideally made on the recommendation of the SFC and based on objective criteria.

Table - 6.39 Resources Transferred by GoAP to ULBs : 2014-15 to 2018-19**(in Rs. Crores)**

Type of Grants	MCs	MPs	NPs	Total for 5 years	Average Per Annum
GoAP	849	407	41	1297	259
SFC	324	238	119	681	137
SC-ST Sub Plan	420	427	63	910	182
Total	1593	1072	223	2888	578

Source : Commissioner, MA & UD, GoAP

6.82 Direct Absorption of Expenditure on Salaries and Pensions by GoAP

In addition to the above transfers, the GoAP is meeting the expenditure on salaries of provincialized staff of ULBs. The total salary expenditure as well as expenditure on pensions and retirement benefits of provincialized staff has been paid by the state government directly

through Treasuries under detailed heads of account ‘010-Salaries’ and ‘2071-Pensions’ with effect from 01.04.2009 in all PRIs and Municipal Corporations except in respect of Greater Visakhapatnam Municipal Corporation and Vijayawada Municipal Corporation. This is in lieu of statutory and non-statutory grants to be released to the ULBs. Necessary amendments have also been made to the AP Municipalities Act, AP Tax on Professions Act and AP Stamps and Registration Act to facilitate payment of salaries directly by the government (Vide G.O.Ms.No.179 dated 25.02.2009 of Municipal Administration and Urban Development (G1 Department)) (Table – 6.40).

Table – 6.40 Salaries of ULB Staff Directly Paid by GoAP: 2014-15 to 2018-19

(Rs. In Crore)

Sl. No.	Head	2014-15	2015-16 Accts	2016-17 Accts	2017-18 RE	2018-19 BE
1.	Municipal Corporations, Municipalities and Nagara Panchayats	506.37	608.05	684.84	886.36	952.56

Source: GoAP Budget Estimates (Various Years).

6.83 Mandate of the Commission

As per the ToR, the Commission is required to make recommendations regarding: (a) Distribution between the State Government and the PRIs and the ULBs of the net proceeds of taxes, leviable by the State; (b) Determine taxes which may be assigned to or apportioned by PRIs and ULBs; and (c) Determine grants-in-aid to be made to PRIs and ULBs from the consolidated fund of the State. While making the recommendations, the Commission is required to take in to account the financial requirements of PRIs and ULBs, as well as the fiscal position of the State Government. The financial requirements of the ULBs are quite substantial. Apart from the normal resource gap, the ULBs would require substantial resources for investment to improve infrastructure and service standards. The normative resource gap estimated therefore, is only a part of the total resource gap for the limited purpose of determining transfers based on SFC recommendations.

6.84 Recommendations of the Earlier State Finance Commissions

6.84.1 Before formulating its recommendations, IV SFC examined the recommendations made by the three earlier SFC Commissions and the actual recommendations accepted and implemented by the Government. The Commission has also examined several suggestions

made by different stakeholders including tax payers' associations, representatives of ULBs and experts.

6.84.2 A review of the recommendations of the first three SFCs reveals that several recommendations made by them were either not accepted by the Government or implemented partially. The First SFC recommended a share of 39.24% of the net own revenues of the State to the local bodies of which, 30% was to be provided to the ULBs and 70% to the PRIs. The First SFC made 84 recommendations of which 60 were accepted fully and 5 were accepted with modifications. As against an amount of Rs.979.16 Crore recommended for the devolution, the government accepted an amount of Rs.434.42 Crore (Rs.363.95 Crores for PRIs and Rs.70.47 Crores for ULBs). Some of the recommendations, which did not involve any financial transfers, were also not accepted and no reasons were furnished for such non-acceptance.

6.84.3 The Second SFC recommended 40.92% of the State's net revenue to the local bodies (18.5% to ULBs and 81.5% to PRIs). Out of the 82 recommendations made, the government accepted only 46% of the recommendations, involving a devolution of Rs. 300 Crore (Rs. 200 Crore for PRIs and 100 Crore per ULBs) per annum. Within the ULB share, corporations were avoided Rs.20 Crore per annum, while other municipalities Rs. 80 Crore per annum. It may be noted that the government permitted PRIs and ULBs to utilize the grants for maintenance (25% to 50%) and the rest for capital works and civic amenities. It was also observed that even the grants accepted were not fully released.

6.84.4 The Third SFC, however did not recommend any devolution to the PRIs and ULBs from State's own revenues for the award period 2005-10. Instead, the Commission recommended an additional devolution of Rs.1274.34 Crore to PRIs and Rs.489.34 Crore to ULBs during the award period, under different heads and for different purposes, which together worked out to 6.77% of the State total Tax and Non-tax revenues including the share in Central Taxes during the year 2004-05. The Commission stated that the annual devolution to the urban and rural local bodies was Rs. 6,354 Crore, and with the recommended additional devolution of Rs. 1763.72 Crore, the total devolution would amount to Rs. 8,117.12 Crore.

6.84.5 As the IV SFC was not appointed on time, a cabinet sub-committee that was appointed to determine transfers to the local bodies for the period 2010-15, recommended an amount of Rs.515.24 Crore for ULBs and Rs.1595.04 Crore for PRIs. However, the

committee opined that “Post-XIII FC Commission report, total devolution to the local bodies, amounting to Rs.1597 Crore to PRIs and Rs.515 Cr to ULBs is exceeding the amount recommended by III SFC. Thus, it is held that the constitutional and legal requirement of devolution is fulfilled”. (G.O.MS.No.512, Dt.31.12.2013). The government finally considered SFC report on 3.12.2013 and 9 out of 10 recommendations with financial implications were not accepted or treated as redundant in view of the government meeting salaries of provincialized staff. Even the recommendation relating to enhancement of per capita grant from Rs. 8 to Rs.12 to ULBs was not accepted.

6.85 Approach of the Commission

The ULBs have been exercising a large number of administrative, civic, welfare and development functions. There has been a steep increase in the expenditures of the ULBs, along with some positive outcomes. However, the ULBs have been facing serious fiscal problems and constraints. The Commission seeks to strengthen the urban local governance and aims at transforming the ULBs in to full-fledged local governments with assured own resources as well as transfers from higher governments. The Commission aims at strengthening local governments for delivering essential public services that meet the national standards. With this overarching objective, the Commission has adopted the following norms while recommending devolution of resources from GoAP:

- the Commission is of the opinion that the ULBs should get their rightful share in State’s own revenue for undertaking provision of multiple, civic, welfare and development services;
- the Commission is also of the opinion that the transfers from the GoAP should be by and large non-discretionary and based on objectively verifiable criteria such that the ULBs can plan and undertake development and maintenance activities in core functional areas;
- the transfers made should not however, promote fiscal dependency and discourage own tax and non-tax afford as well as economy in expenditure;
- the transfers made should not only promote investment in key areas, but also maintenance of assets created at huge cost;
- the transfers should have built-in progressive features that will progressively reduce fiscal disparities among ULBs;

- the transfer mechanism must have built-in elasticity to meet the growing expenditure needs of the ULBs during the award period;
- the Commission is of the opinion that awarding ULBs a predetermined share in net State's own tax revenue is a rational method of fiscal transfer, with grants-in-aid playing a secondary role. Further, the proceeds of such transfer should be used both for meeting revenue gap and capital gap of the ULBs.
- the Commission opines that Central Finance Commission grants should be treated as a separate transfer to the ULBs, over and above the devolution recommended by the SFC and used primarily for creating new infrastructure;
- based on the recommendations of the SFC, the Government should indicate the potential resource entitlement/envelop of each ULB for each year (tax devolution and grants) such that they can plan their development activities independently;
- Over the years, the ULBs have undertaken several functions on behalf of the government for implementation of Centrally Sponsored programmes, pension schemes and other welfare schemes to the relative neglect of core civic functions such as water supply, sanitation, public health and environment protection. The Commission would therefore encourage the ULBs to focus on the core functions;
- The commission also seeks to emphasise the need for encouraging the ULBs to revise their taxes, fees and other user charges. The State government would do well to remove all constraints in this process. It is also hoped that the government would enhance professional tax limit from Rs. 2500 per annum to Rs. 12,000/- by making necessary amendments relevant Acts;
- Further, it is understood that State Government require the ULBs to meet a part of the cost of implementing certain Centrally Sponsored Programmes. The Commission is of the opinion such that matching contribution should be met by the Government.

6.86 Recommendations

In order to meet the minimum resource gap of Rs. 13,568 Crore over the 5 year Award period (2020-21 to 2024-25), the Commission recommends the following:

1. **Share in State's Own Tax Revenue**

a) **Share in net own tax revenues of the State**

The Commission recommends an annual share of 3.26% of State's Own Tax revenue to the 110 ULBs. At 2019-20 (BE) level, a 3.26% share of state's own tax revenue (of Rs.75,438 Cr) would amount to Rs.2,459 Crore. At 2018-19 (RE) level of State's own tax revenue (of Rs.58,125 Cr), a 3.26% share would amount to Rs.1,895 Crore per year. Further, the Commission recommends that the tax share recommended of Rs.4354 Crore should be released to the ULBs in 10 monthly instalments each year.

b) **Justification for Tax Shares to ULBs**

- Modern local governments are required to undertake a wide range of public services, which are in the nature of merit goods. These include water supply, roads, lighting, sanitation, drainage, solid and liquid waste management, environment promotion and public health. However, the local governments do not enjoy elastic sources of revenue. Therefore, all federal constitutions have provided for sharing of tax revenue by higher level governments to local governments, such that they undertake functions assigned to them effectively. The 74th Amendment Act to the Constitution also envisages such transfers. The tax sharing arrangements have other advantages. They are general purpose transfers and as such they promote autonomy in expenditure decisions. Further, as they are generally formula-based, the local bodies are assured of the revenues.
- There are other important justifications in the current context of ULB finances.
- First, with effect from July 2017, two important municipal taxes viz., Advertisement Tax and Entertainment Tax have been subsumed under GST, resulting in a substantial loss of revenue to the ULBs. The GoAP is not compensating the ULBs, although it has been receiving share in GST collections. Second, Profession Tax, another important local tax, is being levied and collected for administrative convenience by the Commercial Taxes Department, is not being transferred to the local bodies regularly.

Third, income from market cess collected by the Marketing Department (through the market committees) is not being shared with the local bodies as in the past. Fourth, the GoAP has not been sharing the Seigniorage collections from minor minerals with the local bodies. Fifth, the local bodies provide several facilities for the owners of different motor vehicles in their jurisdiction. The motor vehicles make use of the roads provided by the urban local bodies, but do not get any share in the revenues from motor vehicle taxation. The proceeds from Motor vehicle taxation are shared with the local bodies in several States. Sixth, the urban local bodies license and regulate sale of alcoholic liquors in their jurisdiction and contribute to revenues from state Excise duties. The Commission, therefore, finds a strong justification for the State Government to share a portion of its net own tax revenue with the ULBs.

- The argument that the government is not providing compensation to local bodies in lieu of entertainment tax, advertisement tax, etc., on the ground that it is meeting the salary bill of provincialized staff of ULBs is not justified. The argument of the government is not tenable as the ULBs are front line arms of the government delivering multiple services, some of which are not within their functional remit.

c) Purpose of Utilization

Each ULB receiving the tax-share should be allowed to spend no more than 50% of the total tax transfer received for meeting resource gap. In effect, 50% of the total transfer is a general purpose grant. The other 50% should be used for investment in core infrastructure areas, in line with the priorities indicated by the government. In other words, this is a development grant.

d) Inter se Distribution

Among the 110 ULBs, 14 are Municipal Corporations accounting for 52% of the total urban population of the State (2011 Census). The 73 Municipal Councils account for an urban population of 42%. The 23 Nagar Panchayats account for 6% of urban population. Ideally, the transfers from the State are made on per capita basis, which is a good indicator of 'fiscal need'. However, the per capita revenues and expenditures of municipal corporations are

significantly higher compared to municipal councils and Nagar Panchayats. Therefore, in order to ensure certain degree of fiscal equity, the Commission recommends that 90% of the total tax shares of ULBs in each year are provided to all ULBs on population basis (2011 census till such time 2021 census figures are made available). The remaining 10% should be provided only to Municipal Councils and Nagar Panchayats on the basis of population.

e) **Total Expected Tax Transfers**

6.86.1.e.1 A transfer of 3.26% of projected State’s own tax revenue for the award period would amount to Rs.13,568 Crore. If the actual tax revenue increases at a higher rate (as assumed in 2019-20 BE), the actual transfer could be much higher. Thus, the projected resource gap of ULBs can be met to a large extent from the distribution of tax-shares.

Table: 6.41 Total Expected Tax Shares to ULBs: 2020-2025

(Rs. in Crores)

Sl. No	Item	2020-21	2021-22	2022-23	2023-24	2024-25	Total 2020-25
1	State’s Own Tax Revenue (Projected)	66903	74263	82432	91499	101564	416661
2	3.26% of SOTR	2179	2418	2484	2980	3307	13568

Note: SOTR projected to increase at 11% annual rate.

6.86.1.e.2 Ideally, transfers in a given year should be related only to net tax revenues of the same year. That is transfers in year t’ should be related to net tax revenue estimated in a year t’. (and not t-1 or t-2). If budget estimates of own tax revenues in current year eventually prove to be over estimates, adjustments can be made from future transfers. However the Commission expects the government to specify the amount of transfer to be devolved to each ULB for each year of the award period, at least one year in advance such that the ULBs can prepare their development plans.

2. Assigned Taxes

Surcharge on stamp duty and Seigniorage fee have been assigned to / expected to be shared with the ULBs. However, Seigniorage fee collected on minor minerals is by and large relevant to the GPs and Nagar Panchayats (formerly GPs). However, it is understood that

Seigniorage collected by the Government, through Department of Mines and Geology is not being transferred or shared with the local bodies. But, 95% of the surcharge collected on stamp duty is being transferred to ULBs based on the principle of origin. The ULBs can get larger revenues from surcharge if the urban property value on which the Stamp duty is levied is regularly revised and evasion checked effectively.

3. Per Capita Grant

In view of the rapidly increasing urbanization and growing expenditure on municipal services, the Commission recommends that a per capita general purpose annual grant of Rs.50/- be provided to each ULB. The Third SFC recommended a per capita grant of Rs.12/- for the period 2005-10. As expenditures of ULBs have increased four-fold during the last 15 years, a four-fold increase in per capita grant is justified. This would amount to about Rs.68.00 Crore per annum if 2011 urban population of 1.36 Crore is taken into account. If the current estimated ULB population of 1.57 Crore is taken into account, the total amount of per capita grant would be Rs.78.50 Crore per annum. For the 5 year award period, this would amount to Rs.393 Crore (at the current estimated urban population of 1.57 Crore).

4. Maintenance Grants

The Municipal infrastructure and assets / enterprises have been increasing fairly rapidly. However, due to fiscal stress, the ULBs have not been able to meet the maintenance cost of roads, pathways, drains, underground drainage, commercial enterprises and other community assets, including school buildings, anganwadi centres and health centres/hospitals. This is equally true of overhead tanks, water supply lines, summer tanks / reservoirs, garbage dumps, etc. Inadequate provisions for maintenance and replacements, as well as up-gradations have resulted in deterioration in the quality of infrastructure and services. The SFC therefore recommends that an annual grant of Rs.250 Crore be provided to the ULBs to meet the maintenance cost (including cost of replacement) of different types of infrastructure and assets created. Further, to account for the rising cost of maintenance year after year, the annual grant may be increased by 5% every year starting from the second year of the award period. In the absence of any other objective measure of need for maintenance for each Municipality, the SFC recommends population of the ULB as the basis for distribution. The year wise grant recommended for maintenance of ULB assets including roads would be as follows:

Table – 6.42 Maintenance Grant for ULBs: 2020 – 25**(Rs. In Crore)**

2020-21	2021-22	2022-23	2023-24	2024-25	Total
250	263	276	290	305	1384

5 Grants for Meeting cost of ULB Ward Secretariats

The Government of Andhra Pradesh has initiated steps to set up GP and ULB ward level secretariats to improve public service delivery. The Government have also initiated the process of recruiting 1,26,728 functionaries (13 different categories) for the GP and Ward Secretariats(6 different categories)¹⁷. In addition, 4,33,126 village level volunteers and 1,84,498 urban ward level volunteers are also being appointed for ensuring effective delivery of multiple public services. The SFC believes that these functionaries and volunteers would be made part of the PRIs and ULBs and be accountable to them in the true spirit of decentralization. The SFC also recommends that the entire salary, travel and other allowances payable to these functionaries and volunteers be provided as grants to the PRIs and ULBs. This will result in not only functions, but functionaries and funds being transferred to the local bodies.

6. GoAP Grants

GoAP has been providing specific-purpose grants to ULBs including grants under SC-ST sub-plan, grants from out of externally funded AP Municipal Development Project, grants in lieu of profession tax to GVMC and GMC etc., all of which amounted to Rs.2,207 Crores or about 32% of total transfers received by ULBs during 2014-15 to 2018-19. This works out to an average grant of Rs.441 Crore per year. As most of these grants are for development activities as well as maintenance, it is hoped that GoAP would appropriately enhance this grant in tune with the growing demand for resources and keeping in view of the minimum resource gap of Rs.13,568 Crore estimated by the SFC for the award period 2020-25.

¹⁷http://gramasachivalayam.ap.gov.in/apgs_notifications.jsp

CHAPTER-VII

Summary of Recommendations

CHAPTER VII

SUMMARY OF RECOMMENDATIONS

The IV State Finance Commission (Reconstituted) fully convinced that own tax and non-tax resources of Panchayat Raj Institutions (PRIs)/ULBs particularly Municipalities and Nagar Panchayats are insufficient to meet their expenditure obligations to the satisfaction of their citizens. The Commission noticed that fiscal autonomy was very low and revenue dependency was high particularly for Mandal Praja Parishads and Zilla Praja Parishads, Municipalities and Nagar Panchayats. As per the guidelines provided by ToR, the Commission is required to project the availability of revenue from own sources on normative basis for the award period of 5 years i.e. from 2020-21 to 2024-25. However, due to non-availability of qualitative data on fiscal capacity and resource potential of local bodies, the Commission has adopted its own methodology to project the availability of resources as well as expenditure to be incurred for delivery of basic civic amenities by local bodies only on trend basis taking into past trends i.e from 2014-15 to 2018-19. The estimations made by the Government of Andhra Pradesh, in its memorandum submitted to XV Finance Commission, was also taken into consideration for assessing the revenue gap for the award period. The CAGR was used to project the revenue and expenditure and the resultant resource gap for award period by the Commission.

The Commission has worked out the total size of the devolution to be Rs. 40,543 crore for the award period of 5 years i.e. from 2020-21 to 2024-25 constituting an assistance of Rs.1636/- per capita per annum at an aggregate level. It works out to 9.76 per cent (3.26% for ULBs and 6.50% for PRIs) of the projected State's Own Tax Revenue for this period at aggregate level. Of this, the grant recommended to PRIs is Rs.26,975 crore (6.50 %) and that to ULBs is Rs.13,568 crore(3.26%). To arrive at this projected resource gap, the possible resource transfers from XV Finance Commission as well as the transfers towards CSS for the award period were also projected and taken into consideration.

The Commission recommends distribution of grants to local bodies using 2011 population data with weight of 90 per cent and area with 10 per cent. The grant to PRIs and ULBs should be distributed on the basis of rural and urban population using the data of Census-2011.

Since it has become difficult to get the data on State's Net Own Tax Revenue for the year 2019-20 and for the previous years, the Commission has resorted to the projections of State's Own Total Tax Revenue (SOTR) for award period to project the resources for devolution. (Refer the Memorandum submitted to XV Finance Commission by the GOAP, p.26.).

The Commission urges the Government that the grants to be devolved to meet the resource gap by XV Finance Commission should be treated as additional devolution to the amount to be devolved as recommended by this Commission. We recommend that the local bodies should spend the amount of devolution to be transferred only on basic services within the functions assigned under relevant legislations. It is recommended that the amount determined as devolution to local bodies should be released in two installments each year - June and October- and no further conditions or directions other than those indicated by this Finance Commission should be imposed by the State Government or the related departments for release of funds.

In the light of the empirical analysis, field observations and the summary of innumerable representations submitted to the Commission in its interaction sessions by the public, NGOs and different associations, the Commission arrived at the following recommendations:

I. Recommendations for PRIs

1. The Commission arrives at an estimated resource gap of Rs. 26975 crore for the 5 year award period. i.e from 2020-21 to 2024-25 for PRIs (See Table 5.27) (**Para 5.33.6**)
2. The Commission recommends for a total devolution of 6.50 per cent of the State's Own Tax Revenue projected for the award period, to meet this expected resource gap of PRIs, as indicated in Table 5.30 and in **Para 5.37.1**

The Commission recommends for the specification of amount of transfer to be devolved to PRIs for each year of the award period, at least one year in advance so that they can prepare their development plans.

3. The Commission recommends that PRIs receiving the tax share should be allowed to spend not more than 50% of the total tax transfer received for meeting the resource gap. The other 50% should be used for investment in core infrastructure areas, in

line with the priorities indicated by the Government. In other words, this is a development grant. (*Field Observation*)

4. In addition to the transfer of resources to the tune of Rs.26975 crore, the Commission recommends for an annual share of 6.50 per cent of the State's Own Tax Revenue to PRIs for the financial years 2018-19 and 2019-20 also.

The Commission estimated that at 2018-19 (RE) level a 6.50 % share of State's Own Tax Revenue - of Rs.58125 crore - , would be Rs.3778 crore. Similarly, a 6.50 % share of State's Own Tax Revenue at 2019-20 (BE) level – of Rs.75438 crore - would be Rs 4903 crore.

Keeping in view the fiscal problems of PRIs, the Commission recommends that the total tax share of Rs.8,681 crore (Rs.3,778 crore + Rs.4,903 crore) should be released in 10 instalments during the award period of 5 years, w.e.f April,2020 (*Para 5.40.2*)

5. The Commission is of the opinion to ensure certain fiscal autonomy and equity among PRIs and came to a conclusion to transfer resources for all the three tiers of PRIs. The amount recommended for devolution should be distributed in the ratio of 80:10:10 to Gram Panchayats, Mandal Praja Parishads and Zilla Praja Parishads respectively for the award period of 5 years w.e.f April, 2020. (*Para 5.14.1, 2 &3*)
6. The Commission suggests to adopt criteria and weights determined in Table. 5.31 for the disbursal of the grants to be devolved to PRIs. (*Para 5.38*)
7. The Commission recommends that 90% of the funds to be devolved should be distributed as Development Fund to meet the expenditure on basic civic amenities for each tier of PRIs. The remaining 10% is to be released for improving the accountability and updating the books of accounts containing the revenues on account of own taxes, non-taxes, Central transfers, transfer of funds to meet the expenditure on CSS, revenue assigned by the State Government and from other sources and getting them audited in the stipulated time. (*Field Observation*)
8. Similarly a systematic categorization of expenditure on different heads should be designed and maintained by PRIs, so that reliable data related to all the tiers are made available and be published. (*Field Observation*)

9. It was noticed by the Commission that 1719 Gram Panchayats with less than and up to 1000 population (2011 census) were not having adequate resources even to pay the current consumption charges. Hence, the Commission considering the inadequate revenue resources and geographical area-costs involved in the delivery of basic civic amenities recommends that the Government may provide a special gap fund of Rs. 52 crore per annum at the rate of Rs. 3 lakhs to each of 1719 Gram Panchayats. ***(Field Observation)***

The special gap fund recommended works out to Rs.260 crore for the 5 years period and should be distributed based on the criteria and weights determined by the Commission as presented in Table. 5.31. ***(Para 5.38)***

10. In view of the growing expenditure on provision of basic services, the Commission recommends that Per capita Grant of Gram Panchayats may be enhanced from Rs.8/- to Rs.25/-; that of Mandal Praja Parishads from Rs.16/- to Rs.50/- and that of Zilla Praja Parishads from Rs.8/- to Rs.25/- and be released based on 2011 population. It is in view of a four-fold increase in expenditure during the past 15 years, an increase in Per capita Grant is justified. The additional commitment to the Government works out to Rs.172.40 crore per annum and Rs.862 crore for 5 year period. The enhanced Per capita Grant may be released from April, 2020 onwards for PRIs. ***(Para 5.40.9)***
11. Property tax is a major source of revenue to Gram Panchayats. However, the Commission noticed that it was not fully tapped. Lack of adequate staff to collect revenue was reported as one of the pull factors, which resulted in to sub-optimal collection of tax revenue. The Commission therefore recommends the possibility of use of the recently recruited village secretaries to this work.
12. Rationalization of levy of property tax is highly essential. A comprehensive survey is to be conducted to collect information on area, type of roof, type of flooring, number of floors, and location of property as the measure of tax assessment. ***(Para 5.40.10)***
13. The list of taxable properties, based on use of property should be prepared and updated, so that all properties might be brought into tax-net to raise much more revenue even at the existing rates of tax. Propagation of ‘Tax-Payment Literacy’ favourably improves the revenue of Panchayats. ***(Para 5.40.10)***

14. The Commission urges the Government to ensure property tax reforms including objective determination of the base and its regular revision for every 3 years to adjust for inflation. *(Para 5.40.10)*
15. Permissible rebates in the amount of property tax may be provided for one-time annual tax payers and the rebates to be offered must be publicized for getting the property taxes paid in time. *(Para 5.40.10)*
16. The Commission firmly believes that the staff appointed for identifying, assessing, levying and collecting property taxes should not be converted into agents of the Government compromising their ability and motivation to collect taxes. *(Field Observation)*
17. The Commission recommends for transfer of profession tax compensation to Gram Panchayats regularly. It was noticed that Rs.35.0 crore was allocated in the 2019-20 budget towards the compensation of profession tax and this allocation needs upward revision to meet the 100% compensation to Gram Panchayats. *(Para 5.40.11)*
18. Vacant lands within the limits of Gram Panchayats are also taxable properties. Instead, it is not fully tapped due to non-availability of extent of vacant lands and particulars of owners of such lands with it. It was observed that Gram Panchayats do not have a systematic approach for listing vacant lands and consequently such lands go untaxed, becoming one of the sources of environmental pollution. Necessary orders must be issued to include the owners of vacant lands whenever the betterment charges are levied, by a suitable amendment to the provision in the Act. *(Para 5.40.12)*
19. Though XI and XIII Finance Commissions recommended that Government properties of Union as well as State should be subject to levy of user charges, the present Commission noticed that PRIs did receive a meager amount towards user charges and many Government properties were not habituated to pay user charges. *(Para 5.40.10)*

Hence, the Commission recommends that the Central as well as State Governments should examine in depth the issue of properly compensating user charges to PRIs for the civic services provided by them to these properties and take necessary action.

20. In view of sub-optimal transfer of surcharge on stamp duty, the Commission impels the Government to transfer the prescribed proportion of surcharge on stamp duty to Gram Panchayats for the award period of 5 years w.e.f. April, 2020. *(Para 5.40.13)*
21. Though it was informed to this Commission that seigniorage fee was transferred to PRIs, the Commission observed that PRIs did not receive any amount towards seigniorage fee. In the light of this observation, the Commission recommends to transfer the seigniorage fee in stipulated proportions to PRIs for the award period. *(Para 5.40.15)*
22. The share of seigniorage fee to be transferred to MPPs and ZPPs should be spent on laying and maintenance of roads leading to Gram Panchayats from where minor minerals are transported to other places, instead of spending it on some other activities. Issue of relevant orders to this effect is necessary. *(Para 5.40.15)*
23. The Commission recommends the Government to permit PRIs to fix the rents for shops in the shopping complexes constructed in their respective jurisdictions, at 10% of the market value of the property and in the case of leasing-out the shops, the rent should be increased by 1/3rd of the rent of the previous year. *(Para 5.40.16)*
24. PRIs should prepare an action plan for identifying the parking places, road and street margins suitable for parking vehicles and levy parking fees. Different rates of taxes may be fixed for different kinds of vehicles that are to be parked at these identified parking places. Particularly the places adjacent to famous temples, weekly shandies, tourist places, historical monuments, marriage halls etc., assume much importance for levy of parking fee. The revenue so mobilized should be shared with PRIs on 60:40 ratio, of which 40% be transferred to PRIs. *(Para 5.40.17)*
25. Trade License Fee can be made an important source of non-tax revenue to PRIs. Efforts should be initiated to list out the trades based on nature and type of trade undertaken, check the issue of licenses and all trades should be brought under “fee-net” for augmenting revenue from license fee. *(Para 5.40.18)*
26. The Commission is of the view that weekly shandies and slaughter houses can be made another important source of non-tax revenue. It was noticed that shandies and slaughter houses were leased-out at a very low rates, which need a thorough upward

revision and the leasing-out auctions should be conducted once in two years to get increased revenue from these sources. *(Para 5.40.16)*

27. 2nd and 3rd State Finance Commissions have recommended a levy of 5% surcharge on the income of Marketing Committees and passed on to the local bodies. However, the Government did not accept it by leaving the issue to be examined in consultation with Marketing Department. *(Para 5.40.23 & 24)*

Many of the elected representatives of PRIs have represented this issue to the Commission and the present Commission also strongly recommends that a 5% of the income of the Market Committees should be apportioned and distributed to local bodies. The statistics indicate that market committees have collected a fee of Rs. 492.39 crore during 2018-19 and the 5% of this fee would be Rs.25 crore, which would be Rs. 125 crore for the award period. Of this Rs.125 crore, 80% must be distributed to PRIs in the ratio of 80:10:10 for Gram Panchayats, Mandal Praja Parishads and Zilla Praja Parishads respectively. *(Para 5.40.25)*

28. The Government should instruct the electricity distribution companies not to levy commercial rates to the offices of PRIs as well as to abolish/waive the imposition of penal interest and surcharges on the overdue amount of electricity bills. *(Para 5.41.2)*

29. The Commission recommends for an increased allocations from 2019-20 budget of Rs. 0.01 lakhs (MJH-2515, MH- 198, SH-(46)-310 other grants-in-aid) towards current consumption charges to a minimum of Rs 10 crore per annum to meet current consumption charges for PRIs and release the amount at the beginning of the every financial year during the award period. *(Para 5.41.2)*

30. According to the budget estimates for the year 2019-20, a total amount of Rs.1420 crore were allocated for village volunteers and 95088 village secretaries appointed in 11158 Grama Sachivalayams for providing multiple Government services at the door step of common man. *(Para 5.41.3)*

The Commission suggests the Government that all these functionaries along with funds should be transferred and be made a part of the administration of Gram Panchayats for achieving the true spirit of decentralization. They should be

controlled administratively and financially by a single authority, instead of multiple authorities. *(Para 5.41.2)*

31. The Commission recommends to take necessary action to bring the outsourced staff working in PRIs under the head “010” (salaries) which lessens the financial burden of PRIs.
32. The Commission observed that the budget allocations towards the maintenance of PR buildings was grossly inadequate and recommends to allocate Rs.20 crore per annum , which amount to Rs.100 crore for 5 years and suggest to release the amount for every financial year during the award period. *(Para 5.41.5)*
33. Since the matching grant to CSS became a financial burden, particularly for small panchayats, the Commission suggests the Government to make an appeal to 15th Finance Commission to fix 10% of the total expenditure as a matching grant for the State. *(Para 5.41.6)*
34. It was repeatedly recommended by 1st, 2nd and 3rd State Finance Commissions to establish a separate SFC Data Cell to maintain continuity in correspondence, take advance action for obtaining statistics for local bodies and make available the relevant records to subsequent Finance Commissions. Though these repeated recommendations were accepted by the Government (Recommendation no. 2 of 3rd SFC) no step was taken to establish the data cell. *(Field Observation)*

The present Commission also reiterates this recommendation and suggests the Government to establish a permanent “SFC Data Cell” in the Department of PR & RD.

35. The Government is suggested to recommend and forward a request to XV Finance Commission that Rs. 50 crore per annum may be included in its devolution for creating the database related to finances of three tiers of PRIs, which would be highly helpful for the forthcoming State Finance Commissions. *(Field Observation)*
36. The Commission observed that Rs.6.5 crore each were allocated in the budgets for the years 2018-19 and 2019-20 for assisting the ‘Best Gram Panchayats’. This allocated amount may be increased to Rs.9 crore per annum in the successive budgets for encouraging the ‘Good Performers’ among the PRIs, considering the demand-collection ratio of more than 90% in each ZPP (non-tax revenue), MPP

(non-tax revenue) and GP (tax and non-tax revenue) in each year. (*Field Observation*)

37. It is noticed that of the 13 districts, 9 districts were highly vulnerable to cyclones and the remaining 4 districts are drought-prone in Andhra Pradesh, according to the reports of the National Disaster Management Authority of India. The Commission strongly appeals to the XV Finance Commission for allocation of sufficient funds to State Disaster Relief Fund, on 2011 population basis, which would be helpful for villages in coastal and Rayalaseema region, in which Andhra Pradesh has to release a 10% matching grant to meet the expenditure to be incurred for cyclone and drought relief activities in the State. (*Field Observation*)

38. The Commission recommends for a 5% user fee at a percentage of property tax to meet the payment of honorarium to green ambassadors, operations and maintenance expenditure of Solid Waste Management projects. This user fee should be levied and collected along with property tax by the Gram Panchayats. (*Para 5.32.1*)

39. It was noticed that there was no effective mechanism available in PRIs to protect land and avoid encroachments, which is causing not only loss of property but also loss of revenue to PRIs. The reason observed was that the PRIs did not maintain Asset Register, despite specific orders of the Government.

The Commission recommends to update / maintain the Asset Register to check encroachments and to have an effective monitoring mechanism for safeguarding the properties and to check the evasion of penalties for encroachments. (*Para 5.40.12*)

40. Capacity building for the staff working with PRIs is highly essential to improve the qualitative delivery of basic services. The Commission recommends that all functionaries and public representatives should invariably be provided training at each PRI level, towards which it is appealed to the XV Finance Commission to provide an amount of Rs.25 crore per annum and may be transferred to Andhra Pradesh. (*Field Observation*)

II Recommendations for Urban Local Bodies

The Urban Local Bodies (ULBs) are exercising a large number of administrative, civic, welfare and development functions. As a result there is a steep increase in expenditures putting ULBs in a serious fiscal problem. In this context, the

Commission seeks to strengthen ULBs by transforming them into full fledged urban local governments with assured own resources as well as transfers from higher governments, so that they are enabled to deliver essential public services in an efficient manner. The Commission is of the view that awarding ULBs a predetermined share in the State's Net Own Tax Revenue is a national method of fiscal transfers, with grants-in-aid playing a secondary role. The Commission strongly feels the need for providing encouragement to ULBs to revise their taxes, fees and other user charges. The State has to play an active and positive role in this regard to remove fiscal as well as administrative constraints so that ULBs can focus their attention for effective delivery of core functions assigned to them. Being guided by this approach as well as in the light of inputs received from interaction sessions organized at the districts of the State, the IV State Finance Commission makes the following recommendations for strengthening ULBs in the State of Andhra Pradesh.

41. The Commission arrives at an estimated resource gap of Rs.13568 crore for 5 year award period. i.e from 2020-21 to 2024-25 for ULBs. (*Para 6.81.3*)
42. The Commission recommends a total devolution of 3.26 per cent of the State's Own Tax Revenue projected for the award period, to meet this expected resource gap of ULBs. (*Para 6.86.1.e.1*)
43. The Commission suggest the specified amount of transfer to be devolved to each ULB for each year of the award period, at least one year in advance so that they can prepare their development plans. (*Para 4.86.1.e.2*)
44. The Commission recommends that to ensure certain degree of fiscal equity, 90% of the total tax shares of ULBs in each year are provided to all ULBs on population basis (2011 Census till such time 2021 Census figures are made available.). The remaining 10% should be provided only to Municipal Councils and Nagar Panchayats on the basis of population. (*Para 6.86.d*)
45. The Commission recommends that each ULB receiving the tax share should be allowed to spend no more than 50% of the total tax transfer received for meeting the resource gap. The other 50% should be used for investment in core infrastructure areas, in line with the priorities indicated by the Government. In other words, this is a development grant. (*Para 6.86.c*)

46. In addition to the transfer of resources to the tune of Rs.13568 crore, the Commission recommends for an annual share of 3.26 per cent of the State's Own Tax Revenue to ULBs for the financial years 2018-19 and 2019-20 also.

The Commission estimated that at 2018-19 (RE) level a 3.26% share of State's Own Tax Revenue, of Rs.58,125 crore, would be Rs.1895 crore. Similarly, a 3.26% share of State's Own Tax Revenue at 2019-20 (BE) level, would be Rs.2,459. Keeping in view the fiscal problems of ULBs, the Commission recommends that the total tax share of Rs.4,354 crore (Rs.1895 crore + Rs.2459 crore) should be released in 10 installments during the award period of 5 years. *(Para 6.86.a)*

47. The Commission is of the view that XV Finance Commission grants should be treated as a separate transfer to ULBs, over and above the devolution recommended by the present State Finance Commission and be used primarily for creating new facilities. *(Field Observation)*

48. In view of the declining ratio of Tax collection to demand, the ULBs must take the following steps to minimize the gap between demand and collection:

1. Proper categorisation of Properties and determination of rateable values.
2. Continuous updating of database of accessible properties.
3. Timely assessment and assessment of new / uncovered properties.
4. Close monitoring of changes made in existing properties.
5. Timely support for quick disposal of appeals. *(Para 6.54)*

49. Property tax should become a buoyant source of revenue. The Government and the State Property Tax Board have to examine the desirability of allowing the ULBs to undertake property taxrevisions on annual / biannual incremental basis. ULBs must be permitted to enhance the property tax rates by at least 2.5% once in two years. *(Para 6.54)*

50. The Commission recommends the creation of a comprehensive database and be constantly updated in each Urban Local Body. The database so created must be placed in public domain. In this process, it is recommended that ULBs must take the cooperation of Town Planning and BPS wing, Trade Licence Wing, Electricity Distribution Companies, Department of Commercial Taxes and other sources to strengthen the database on properties and their use pattern. *(Para 6.54)*

51. A separate “Detection Wing” is to be created in each ULB for identifying new buildings constructed, additions made to the existing structures as well their use pattern for constant monitoring of updating the assessments of properties.
52. The Commission recommends for the collection of penalties from owners of unauthorised constructions at specified rates rather than taking a lenient view. (*Para 6.54*)
53. It was noticed that GIS based survey was completed in 2018 and data base of assessable properties was created and available with the ULBs. In this context, the Commission recommends for an immediate action by the Government permitting the ULBs to undertake complete revision of the property tax. (*Para 6.24 & 6.54*)
54. The Commission recommends for undertaking reassessment of properties at the time of mutations and levy of retrospective tax on excluded properties for enhancing therevenue from property tax. (*Para 6.54*)
55. The Commission recommends for the setting-up of a tribunal to adjudicate the property tax issues. (*Para 6.54*)
56. ULBs must collect service charges from the Central Government properties on the basis of services utilized at the following rates:
 1. Provision of all Services on par with others = 75% of Property Tax
 2. Provision of some of the Services = 50% of Property Tax
 3. No provision of Services = 33.3% of Property Tax

(Para 6.54)
57. Preparation of a database of the vacant land properties along with their market value and their present owners is necessary. Payment of vacant land tax must be made mandatory for the approval of house plans and grant of any loan on the property. (*Para 6.31*)
58. The ULBs must collect the permission fee in the case of the land used for advertisements belonging to ULBs. It should be made clear that they can also lease-out identified places owned and controlled by ULBs for erecting hoardings. ULBs should be fully compensated for the loss of advertisement tax revenue and the

revenue so transferred should be distributed among ULBs based on population of 2011 census. *(Para 6.33 & 6.55)*

59. The State Government should share the revenue from GST on entertainment with ULBs or compensate for loss in this tax revenue as it was represented by the ULBs that they were foregoing on average of revenue of Rs.130 crore per annum. *(Para 6.34.4 & 6.56)*
60. The revenue from Profession Tax collected by the Commercial tax Department should be entirely transferred to ULBs after deducting the cost of collection. *(Para 6.35.3 & 6.57)*
61. The under valuation of property at the time of assessment of surcharge on stamp duty is resulting into decline in tax revenues. To ensure transparency the Registration department should place quantum of collection of basic duty and transfer duty from each jurisdiction on its website so that the ULBs can check the Quantum of collection of transfers made. *(Para 6.37)*
62. It was brought to the notice of Commission by some of the Nagar Panchayats in particular that Government had not transferred the Seigniorage share to them though seigniorage fee collected was credited to the consolidated fund of the State. Hence, the Commission recommends that the Government should take immediate steps to transfer the respective share of this fee to Nagar Panchayats. *(Para 6.38)*
63. It was noticed by the Commission that there is a wide gap between demand and collection of water charges in ULBs. The Commission feels that there is an urgent need to reduce the demand–collection gap and ULBs must pay adequate attention to improve tax collection efficiency. *(Para 6.39.2)*
64. There is an urgent need to suitably enhance water charges for meeting the operations and maintenance appropriate rate–structure and levy of water charges based on the pattern of consumptions. The Commission noticed that there is scope for augmenting revenue from water charges by suitably rationalizing the structure of water charges. *(Para 6.39.2)*
65. The ULBs have to implement suitable measures to mobilize additional donations / non – refundable deposits to meet the cost of providing private water tap connections. *(Para 6.39.2)*

66. An annual or six-monthly survey is to be conducted in all ULBs to identify unauthorised water tap connections and regularizing them by collecting some penal fee. *(Para 6.39.2)*
67. Wherever possible, water metres should be installed by the ULBs for bulk supply of water and collect charges for the quantity of water consumed. *(Para 6.39.2)*
68. There is a necessity to rationalize Trade Licence Fee structure and rates under the jurisdiction of ULBs for augmentation of revenue. *(Para 6.40.2)*
69. It is observed by the Commission that the fees from markets and slaughter houses are relatively low and need to be revised with reference to rents or charges prevailing in the neighbourhood for similar purposes.

Public auctions are to be conducted for every two years to lease-out / let for rent the markets and slaughter houses for enhancing the revenue from these sources. *(Para 6.41)*

70. 2nd and 3rd State Finance Commissions have recommended a levy of 5% surcharge on the income of Marketing Committees and passed on to the local bodies. However, the Government did not accept it by leaving the issue to be examined in consultation with Marketing Department. Many of the elected representatives of PRIs have represented this issue to the Commission and the present Commission also strongly recommends that a 5% of the income of the Market Committees should be apportioned and distributed to local bodies. The statistics indicate that market committees have collected a fee of Rs. 492.39 crore during 2018-19 and the 5% of this fee would be Rs.25 crore, which would be Rs. 125 crore for the award period. Of this Rs.125 crore, 20% must be distributed to ULBs, by transferring 90 per cent to all ULBs in general and the remaining 10% to Municipalities and Nagar Panchayats in particular for the award period. *(Para 5.40.25)*
71. The ULBs have to identify the road margins, street margins and places suitable for providing places to park the vehicles. By conducting public auctions, the places and margins should be leased out to mobilize revenue. For curtailing the coalition of bidders, the ULBs should invite sealed tenders and insist an appropriate security deposits and solvency certificates. *(Para 6.42)*

72. It was noticed by the Commission that in some municipalities, upset price for lease of immovable properties are fixed at rates lower than the comparable market rates. In this context, it is recommended to fix the upset price / rent at 10% of the current market value of the property per annum (including value of land and building as fixed by the Registration Department) or comparable rent of similar properties in the neighbourhood. **(Para 6.43)**
73. The Commission recommends that in respect of renewal of lease of shops and buildings, the upset price should be either 10% of the market value of the property or an incremental rent of 33.33 % of the earlier rent, whichever is higher. **(Para 6.43)**
74. The Commission understood that the Building Permit Fee and charges are not revised by ULBs once in three years. It is recommended that in view of the increasing cost of civic amenities, the rates should be revised once in three years and enforce collection by checking illegal and unauthorised constructions. **(Para 6.44)**
75. The revenue collected through the Building Permit Fees should be used for the development of infrastructure and provision of civic amenities. It is recommended that ULBs should adhere to this important cardinal principle. **(Para 6.44)**
76. The Commission understood that the encroachments were not always taken seriously, though ULBs are competent to impose and collect encroachment fee. It is recommended that steps should be taken by all municipalities and corporations to protect all roads and pathways from encroachments and finding out the opportunities of levying penalties on these encroachments after proper eviction. **(Para 6.45)**
77. The Commission noted that ULBs are paying the large amounts of electricity charges due to slab based commercial tariff rates adopted, ranging from Rs. 7/- to Rs.11/- per unit. The Commission recommends that the Government should advice the electricity distribution companies to charge reasonable rates for the electricity consumed by ULBs. The Commission recommends that the penal interest, surcharge etc., an overdue tariff should be waived in view of the difficult revenue situation of ULBs. The power companies should be advised to drop penal interest and surcharges as one time measure for ULBs. **(Para 6.50)**
78. The Commission noticed that the power distribution companies are levying and collecting charges for shifting the transformers and poles, from the ULBs which

make use of their property without prior approval or permission. It is recommended that the Government should examine the feasibility of waiving the pole and transformer shifting charges being collected from ULBs. (*Para 6.50*)

79. The electricity distribution companies which enhance their revenue from sale of electricity through laying new lines, it is recommended that the ULBs may be charged at concessional rates. (*Para 6.50 & 6.64*)
80. The feasibility of developing solar power plants for the reduction of power bills may be examined. Government should examine this issue which includes an investment of Rs. 40 Crore and 50 acres of land to setup a 10 MW solar power plant. Besides it is recommended to encourage the roof top solar power generation, as was done in YSR Kadapa district. (*Para 6.81 & 6.63*)
81. It was noticed that the outsourced staff appointed in ULBs are paid a monthly salary Rs. 12,000 /- to Rs. 15,000/- and most of the municipalities were found burdened with excess outsourced workers. It is therefore imperative that the Government should review the issue of outsourced staff for hiring their services with appropriate number of workers, taking into account the total revenue and other connected liabilities of the ULBs. (*Para 6.52 & 6.66*)
82. It was noticed by the Commission that majority of the municipalities were not able to provide drinking water to all areas and all households as per norms, particularly during summer season. In this context, the Commission recommends for the appointment of a study team to assess the water supply situation in all municipalities and to suggest least-cost methods of augmenting water supply as per prescribed norms. (*Para 6.53 & 6.67*)
83. The Commission recommends that the municipalities with less than one lakh population including Nagar Panchayats should be provided a separate grant on line with AMRUT scheme. (*Field Observation*)
84. Per capita Grant for ULBs should be enhanced to Rs.50/- from the existing Per capita grant from April 2020 onwards, which amounts to Rs.73 crore per annum and Rs. 365 crore for the award period of 5 years. The additional commitment in this regard should be released to Municipal Corporations, Municipalities and Nagar Panchayats based on population of 2011 census. The amount of Per capita grant to

be released may be revised according to 2021 census figures of population whenever they are made available. **(Para 6.86.3)**

85. The Commission recommends an annual grant of Rs.250/- crore to ULBs to meet the maintenance cost (including cost of replacement) of different types of infrastructure and assets created. The maintenance grant for the period of 2020-21 to 2024-25 works out to Rs.1384 crore, considering 2011 population figures. It is also recommended that this annual grant may be increased by 5% every year starting from second year of the award period, to account for rising cost of maintenance. **(Para 6.86.4)**

86. The Commission urges that the functionaries appointed as ULB Ward Secretaries would be made part of ULBs and be accountable to them in true spirit of decentralisation, controlled / supervised by a single authority instead of multiple authorities. **(Para 6.86.5)**

It is also recommended that the entire salary, travel and other allowances payable to these functionaries be provided as grants to ULBs for ensuring effective delivery of multiple public services to all households. **(Para 6.86.5)**

87. The GoAP has been granting a specific-purpose grant to ULBs of an average of Rs.441 crore per annum. This grant is used for development activities as well as maintenance. The Commission recommends that the Government should appropriately enhance this grant keeping in view the resource gap of Rs.8887 crore, as projected by the Commission. **(Para 6.86.6)**

88. It is noticed that of the 13 districts, 9 districts were highly vulnerable to cyclones and the remaining 4 districts are drought-prone in Andhra Pradesh, according to the reports of the National Disaster Management Authority of India. The Commission strongly appeals to the XV Finance Commission for allocation of sufficient funds, on 2011 population basis, to State Disaster Relief Fund, which would be helpful for urban areas in coastal and Rayalaseema region, in which Andhra Pradesh has to release a 10% matching grant to meet the expenditure to be incurred for cyclone and drought relief activities in the State. **(Field Observation)**

89. The Commission recommends for a 5% user fee at a percentage of property tax to meet the payment of honorarium to green ambassadors, operations and maintenance

expenditure of Solid Waste Management projects. This user fee should be levied and collected along with property tax by the ULBs. (*Field Observation*)

- 90.** The Commission noted that the ULBs have levied and collected the Library Cess and Education Tax as a surcharge from 2014-15 to 2018-19 at the rate of 1.52 per cent and 2.08 per cent of property tax respectively and they have failed to remit the amount promptly to Zilla Grandhalaya Samstha and to the Government account. This non-remittance resulted in the sub-optimal provision of better library facilities as well as provision of educational infrastructural facilities in the schools maintained by ULBs.
- 91.** The Commission urges the Government to examine this issue and issue necessary orders for prompt payment of Library Cess and Education Tax to their respective accounts.

(Prof. G.Nancharaiah)
Chairman

(Prof. V.J. Naidu)
Member
Not available w.e.f. 01-09-2019
due to ill-health

(Prof. B.Nagaraja)
Member

(Sri T.Bhaskar Rao)
Member

(Sri I.Satyanarayana)
Member Secretary

ACRONYMS AND ABBREVIATIONS

AAGR	Annual Average Growth Rate
ADB	Asian Development Bank
AE	Advance Estimates
AIIB	Asian Infrastructure Investment Bank
AMRUT	Atal Mission for Rejuvenation and Urban Transformation
AP GENCO	Andhra Pradesh Power Generation Corporation
APPR	Andhra Pradesh Panchayat Raj
APSFC	Andhra Pradesh State Finance Commission
APUFIDC	A.P. Urban Finance and Infrastructure Development Corporation
BE	Budget Estimate
BPS	Building Penalization Scheme
BRGF	Backward Region Grant Fund
CAG	Comptroller and Auditor General
CAGR	Compound Annual Growth Rate
CDMA	Commissioner and Director of Municipal Administration
CEO	Chief Executive Officer
CESS	Centre for Economic and Social Studies
CFC	Central Finance Commission
CGST	Central Goods & Services Tax
CIIP	Critical Infrastructure Inherent Plan
CPWS	Comprehensive Protected water supply
CSS	Centrally Sponsored Scheme
DCB	Demand, Collection and Balance
DEABAS	Double Entry Accrued Based Accounting System

FRBM	Fiscal Responsibility and Budget Management
FRE	First Revised Estimates
FSFC	First State Finance Commission
GDP	Gross Domestic Product
GoAP	Government of Andhra Pradesh
GoI	Government of India
GP	Gram Panchayat
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
GVMC	Greater Visakhapatnam Municipal Corporation
HPEC	High Powered Expert Committee
HT	High Tension
HUDCO	Housing Urban Development Corporation
ICDS	Integrated Child Development Scheme
IGST	Inter – State Goods & Services Tax
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
LED	Light Emitting Diode / Device
LPCD	Litre Per Capita per Day
LT	Low Tension
MA & UD	Municipal Administration & Urban Development
MCs	Municipal Corporations
MDGs	Millennium Development Goals
MLALADS	Member of Legislative Assembly Local Area Development Scheme

MOPR	Ministry of Panchayat Raj
MPLADS	Member of Parliament Local Area Development Scheme
MPP	Mandal Praja Parishad
MPs	Municipal Councils
MPTC	Mandal Parishad Territorial Candidate
NCLT	National Company Law Tribunal
NEDCAP	Non – Conventional Energy Development Corporation of Andhra Pradesh
NPs	Nagar Panchayats
NRDWP	National Rural Drinking water Programme
NSDP	Net State Domestic Product
NSSF	National Small Savings Fund
O & M	Operation and Maintenance
ODF	Open Defecation Free
OSR	Our sources of Revenue
PESA	Provisions of Panchayats (Extension to Scheduled Areas)Act
PF	Provident Fund
PH & ME	Public Health and Municipal Engineering
PMGSY	Prime Minister Gram Swaraj Yojana
PPPs	Private Public Partnerships
PRC	Pay Revision Commission
PRIs	Panchayati Raj Institutions
PSUs	Public Sector Undertakings
RD	Rural Development
RE	Revised Estimate
RIADF	Remote and Interior Area Development Fund

SAM	Swatch Andhra Mission
SBM	Swatch Bharat Mission
SC	Scheduled Caste
SDP	State Domestic Product
SDRF	State Disaster Relief Fund
SDS	State Development Scheme
SFC	State Finance Commission
SHGs	Self-Help Groups
SLPES	State Level Public Enterprises
SONTR	State Own Non-Tax Revenue
SOR	State Own Revenue
SOTR	State Own Tax Revenue
SRE	Second Revised Estimates
ST	Scheduled Tribe
SWM	Solid Waste Management
TG & S	Technical Guidance and Supervision of Audit
TISS	Tata Institute of Social Sciences
TOR	Terms of References
TRE	Third Revised Estimates
UDAY	Ujwal DISCOM { Distribution Companies of India} Assurance Yojana
UDS	Under Drainage System
UGD	Under Ground Drainage
ULBs	Urban Local Bodies
ULGs	Urban Local Governments
ZPP	Zilla Praja Parishad
ZPTC	Zilla Parishad Territorial Candidate

Annex. Table 1.1

GOVERNMENT OF ANDHRA PRADESH ABSTRACT

Fourth State Finance Commission – Fixing the terms of reference (functions) - Orders – Issued.

FINANCE (CASP&FC) DEPARTMENT

G.O. MS. No. 64

Dated: 15-05-2018

Read the following:

ORDER:

The following notification shall be published in the extraordinary issue of the Andhra Pradesh Gazette.

NOTIFICATION

In pursuance of the provisions of the Article 243-I and section 235 of Andhra Pradesh Panchayat Raj Act, 1994 the Fourth State Finance Commission under the Chairmanship of Prof. Gummadi Nancharaiyah has been constituted vide Notification dt.8.2.2018.

2. Now, the Governor of Andhra Pradesh is pleased to decide the following detailed terms of reference of the Fourth State Finance Commission, namely-

1. The State Finance Commission shall review the financial position of the Gram Panchayats, Mandal Parishads, Zilla Parishads and of the Nagar Panchayats, Municipal Councils and Municipal Corporations in the State and make recommendations to the Governor as to:-

(a) The principles which should govern:-

(i) The distribution between the State Government and the Gram Panchayats, Mandal Parishads, Zilla Parishads, Nagar Panchayats, Municipal Councils and Municipal Corporations of the net proceeds of the taxes, duties, tolls and fees livable by the State, which may be divided between them and the allocation between the said bodies at all levels of their respective shares of such proceeds;

(ii) The determination of the taxes, duties, tolls and fees which may be assigned to or apportioned by the said Panchayats, Mandal Parishads, Zilla Parishads, Nagar Panchayats, Municipal Councils, and Municipal Corporations;

(iii) The sharing of grants-in-aid to the said Gram Panchayats, Mandal Parishads, Zilla Parishads, Nagar Panchayats, Municipal Councils and Municipal Corporations from the Consolidated Fund of the State;

(b) The measures needed to improve the financial position of the said Gram Panchayats, Mandal Parishads, Zilla Parishads, Nagar Panchayats, Municipal Councils, and Municipal Corporations including measures for improving the management of available resources;

2. The Commission shall assess the financial requirements of the Panchayats and Municipalities as well as the ways and means to augment their resources to minimize

dependence on additional financial support from the State Government in order to achieve swift and impartial fiscal consolidation with further sustainable financial base as to improve the civic services.

3. The Commission shall also recommendations on any other matter that may be referred to it, by the Governor, in the interest of sound finances of Panchayat Raj and Municipal Bodies referred to above.
4. In making its recommendations, the Commission shall have regard among other considerations, to:-
 - i. Based on the level of taxation and non-tax revenue resources including their ability to raise additional taxes, devolutions, grants from State Government and grants from 14th Finance Commission make projections for the forthcoming years from April 2020;
 - ii. Analyze the outstanding debt position of the Panchayats and Municipalities in detail and offer recommendations to establish sound equilibrium between their receipts and expenditures aiming to build up surplus capital savings;
 - iii. Decrease the debt liabilities of Panchayats and Municipalities, keeping in view their resource capacity and simultaneously widen their resources aiming to reduce the projected gap between their revenue receipts and expenditures;
 - iv. Appraise tax and non-tax efforts of the Panchayats and Municipalities as against their targets, if any, and explore additional potential resources in order to uplift their tax and non-tax revenues, making their accounts credible and more self dependent keeping in view the suggestions made by the 14th Finance Commission;
 - v. Scrutinize the timely needs for possible commercialization of public services like drinking water supply system, sanitation, street light etc. by way of imposing user charges, updating rates of levies, taxes, fees etc. as well as privatization of public transport system. This should be done in a way that both public and private agencies are benefited and the people do get adequate services with affordable charges;
 - vi. Suggest measures for improving accountability of Local Bodies in discharging their functions.
 - vii. The requirements of the Panchayat Raj Institutions, and Municipal Bodies for meeting the non-plan revenue expenditure on staff and administration etc ;
 - viii. The requirements of the bodies for capital expenditure for creating assets like, water Supply Schemes, Roads, Bridges, Buildings, Minor irrigation Sources;
 - ix. The maintenance and upkeep of capital assets like Buildings, Roads, Water Supply Schemes, Minor irrigation sources by the Panchayat Raj Institutions, Municipal Bodies, Municipal Corporations and the norms on the basis on which specified amounts are recommended for the maintenance of assets;
 - x. The Provisions required for emoluments and terminal benefits of employees;
 - xi. The status and improvement for computerization of accounts; and
 - xii. The incentives which may be provided for better realization of taxes and non-taxes.

5. In making the recommendations, the Commission shall have regard to the resources of the State Government and its burden of committed expenditure and liabilities thereon, in particular, on account of expenditure on civil administration, police social economic services and non-plan revenue expenditure and debt servicing, including the debit serving on behalf of local bodies.
6. The Commission shall also have regard to-
 - (i) Evaluate the revenue receipts and expenditures of the Panchayats and Municipalities on a common scale keeping in view their population and its socio-economic backwardness, geographic location etc. in the process of devolution of funds by means of taxes, duties, tolls, fees and grant-in-aid to the Panchayats and Municipalities;
 - (ii) Assess the debt liabilities of the Panchayats and Municipalities as on 31st March, 2020 and resolve necessary steps to sustain appropriate debt level;
 - (iii) Impart quality and cost effective Civic services that bear express installation and render more comforts to the people by using modern technologies. Also after incentives like encouragements to the Panchayats and Municipalities for better utilization of their resources adhering to their financial restrictions;
 - (iv) Undergo and examine the reforms considered and suggested by the previous State Finance Commissions, endorse and ensure their implementation in the best way that the principles behind them can be attained at optimum level.
 - (v) Keeping in view the recommendations of 14th Finance Commission, examine the functions assigned to the Zilla Praja Parishads and suggest measures for strengthening their financial base to meet their essential requirements.
7. The Commission shall provide its conclusions along with the basis of their findings as well as the Panchayat and Municipality wise projected estimates of receipts and expenditure.
8. The Commission shall consider the recommendations of the 14th Finance Commission while preparing its report and use the templates devised by the 13th Finance Commission and other guidelines to be issued by Government of India from time to time.
9. The Commission shall make its report available on or before 30th October 2019 covering a period of forthcoming five years commencing on the 1st day of April 2020.

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF ANDHRA PRADESH)
MUDDADA RAVI CHANDRA
PRINCIPAL FINANCE SECRETARY TO GOVERNMENT (FAC)

To

The Commissioner, PS&SP(Printing Wing)Dept., Printing Press, Mutyalampadu, Vijayawada.

The Chairman, Members and Member Secretary of Fourth State Finance Commission. The Principal Secretary to Government, PR&RD Department, AP. Secretariat Velagapudi. The Principal Secretary to Government, MA&UD Department.

The Commissioner, Panchayat Raj & Rural Employment Department, Andhra Pradesh, Vijayawada.

The Commissioner, Rural Development, Andhra Pradesh, Vijayawada. The Commissioner and Director, Municipal Administration, Guntur. The Commissioner, AMR-APARD, Rajendranagar, Hyderabad.

The Engineer-in-Chief, Panchayat Raj, Andhra Pradesh, Vijayawada.

The Engineer-in-Chief, Rural Water Supply & Sanitation Department, Andhara Pradesh, Vijayawada.

The Engineer-in-Chief, PH, Guntur. All the District Collectors.

All the Chief Executive officers of Zilla Parishads in the State.

All the Commissioners of Municipal Corporations and Municipalities in the State. All the District Panchayat Officers in the State.

Copy to:-

The Accountant General, AP, Hyderabad.

The Director of State Audit, AP, Ibrahimpatnam Vijayawada. The Finance(FMU-PR&RD&MA&UD)Dept.,

The Pay & Accounts officer, AP, Ibrahimpatnam, Vijayawada. The Secretary to GOI, Min. of RD/MA, New Delhi.

The PS to Chief Minister, AP.

The PS to Minister (Finance) Minister (PR)/Minister(RD)/Minister(MA), AP. The PS to Chief Secretary to Government, AP.

All Departments of the A.P. Secretariat, Velagapudi. All Heads of Departments.

All Officers and all Sections in Finance Department.

//FORWARDED:: BY ORDER//

SECTION OFFICER

Annex. Table 1.2

District Wise details of Visits and Interactive Sessions

Sl. No.	Date of Sitting / Visit	District	ULBs	PRI s	Key Participants
1	18/08/2018 (Morning)	Guntur	—	Interactive Session with 30 selected GPs Officials and Non-Officials at ZPP Meeting Hall, Guntur.	DPO & CEO,ZPP(I/c), Dy.CEO, MPDOs, EO (PR & RDs), Special Officers of Selected GPs,Panchayat Secretaries and Ex-Sarpanches.
2	18/08/2018 (Evening)	Guntur	—	0	MPDOs, Special Officers of GPs, Panchayat Secretaries, Ex-Sarpanches, MPTC, Ward Members and Villagers of concened GPs
3	19/08/2018	Guntur	—	Interactive Session with Putlagudem GP (Achampet Mandal), Tadvoy GP (Achampet Mandal), Jaggadiguntapalem GP(Tenali Mandal) and Telaprolu GP (Tenali Mandal) Officials and Non-Officials.	MPDOs, Special Officers of GPs, Panchayat Secretaries, Ex-Sarpanches, MPTCs, Ward Members and Villagers of concened GPs
4	20/08/2018 (Morning)	Guntur	Interactive Session with Commissioner, GMC, Municipal Commissioners in the district, Officials and Non-Officials at Corporation Council Hall, Guntur		RDMA, Guntur, Commissioner, GMC, Municipal Chair Persons and Municipal Commissioners in the District.

Sl. No.	Date of Sitting / Visit	District	ULBs	PRIs	Key Participants
5	20/08/2018 (Evening)	Guntur	Interactive Session with Municipal Commissioner, Tadepalli Municipality and other Officials and Non-Officials.		Municipal Chair Person, Municipal Vice-Chairman, RDMA, Guntur, Municipal Commissioner, Tadepalli Municipality.
6	12/11/2018 (Morning)	Vizianagaram	—	Interactive Session with 30 selected GPs Officials and Non-Officials at ZPP Meeting Hall, Vizianagaram	CEO, ZPP, DPO, DLPOs, MPDOs, EO (PR & RDs), Special Officers of Selected GPs and Ex-Sarpanches.
7	12/11/2018 (Morning)	Vizianagaram	Interactive Session with Commissioner, VMC, Municipal Commissioners in the district, Officials and Non-Officials at Corporation Council Hall, Vizianagaram.		Commissioner, VMC and Municipal Commissioners in the District
8	12/11/2018 (Evening)	Vizianagaram	—	Interactive Session with Cheepurupalli GP (Cheepurupalli Mandal) and Bondapalli GP (Garividi Mandal) Officials and Non-Officials.	MPDOs, Tahalsidar, Special Officers of GPs, Panchayat Secretaries, Ex-Sarpanches and villagers of GPs.
9	13/11/2018 (Morning)	Vizianagaram	Interactive Session with Municipal Commissioner, Parvathipuram Municipality and other Officials and Non-Officials.	—	Commissioner, Parvathipuram Municipality and ward Members

Sl. No.	Date of Sitting / Visit	District	ULBs	PRIs	Key Participants
10	13/11/2018 (Morning)	Vizianagaram	—	Interactive Session with Gummalakshnipuram GP (Gummalakshnipuram Mandal) Officials and Non-Officials.	MPDO, Special Officer of GP, Panchayat Secretary, Ex-Sarpanch and villagers of GP.
11	13/11/2018 (Evening)	Vizianagaram	—	—	ITDA, Parvathipuram, Project officer and Staff of ITDA
12	14/11/2018 (Morning)	Vizianagaram	Interactive Session with Municipal Commissioner, Bobbili Municipality and other Officials and Non-Officials.	—	Chair Person, Municipal Commissioner and Ward Counsellors.
13	14/11/2018 (Evening)	Visakhapatnam	—	Interactive Session with 30 selected GPs Officials and Non-Officials at ZPP Meeting Hall, Visakhapatnam	CEO, ZPP, DPO, DLPOs, MPDOs, EO (PR & RDs), Special Officers of Selected GPs and Ex-Sarpanches.
14	15/11/2018	Visakhapatnam	—	Interactive Session with Rampuram GP (Pendurthi Mandal), Madugula GP (V. Madugula Mandal), Chintalaveedhi GP (Paderu Mandal) and Minumuluru GP (Paderu Mandal) Officials and Non-Officials.	DLPO, MPDOs, EO (PR & RDs), Special Officers of concerned GP's, Panchayat Secretaries, Ex-Sarpanches, Ward Members and Villagers of GPs.
15	16/11/2018	Visakhapatnam	Interactive Session with Commissioner, GVMC, Municipal Commissioners in the district, Officials and Non-officials at corporation Council Hall, Visakhapatnam.	—	RDMA, Visakhapatnam, Commissioner, GVMC and Municipal Commissioners of Visakhapatnam District.

Sl. No.	Date of Sitting / Visit	District	ULBs	PRIs	Key Participants
16	10/12/2018 (Morning)	Chittoor	—	Interactive Session with CEO, ZPP, Officials and Non-Officials at ZPP Meeting Hall, Chittoor	Chair Person, ZPP, CEO,ZPP, DPO and ZPTCs.
17	10/12/2018 (Morning)	Chittoor	—	Interactive Session with 30 selected GPs, Officials and Non-Officials at DRDA Meeting Hall, Chittoor.	CEO,ZPP, DPO, DLPOs, MPDOs, EO (PR & RDs), Special Officers of selected GPs, Panchayat Secretaries and Ex-Sarpanches.
18	10/12/2018 (Evening)	Chittoor	—	Interactive Session with MPDO, Mandal Praja Parishad, Chittoor, Officials and Non-Officials.	DPO, EO(PR&RD) (I/c), Vice MPP, MPTCs, Panchayat secretaries.
19	10/12/2018 (Evening)	Chittoor	—	Interactive Session with Cherlopalli GP (Chittoor Mandal) Officials and Non-Officials.	MPDO, Special Officer, Panchyat Secretary, Ex-Sarpanch and villagers of GP.
20	11/12/2018 (Morning)	Chittoor	—	Interactive Session with MPDO, Mandal Praja Parishad, Renigunta, Officials and Non-Officials.	DPO, MPDO, Tahalsidar, MPTCs and Panchayat Secretaries.
21	11/12/2018 (Morning)	Chittoor	Interactive Session with Commissioner, TMC, Municipal Commissioners in the district, Officials and Non-Officials at Corporation Council Hall, Tirupati.	—	Commissioner, TMC and Municipal Commissioners of Chittoor District.
22	11/12/2018 (Evening)	Chittoor	—	Interactive Session with Karakambadi GP (Renigunta Mandal) Officials and Non-Officials.	MPDO, Special Officer of concerned GP, Panchayat Secretary, Ex-Sarpanch and villagers of GP.

Sl. No.	Date of Sitting / Visit	District	ULBs	PRIs	Key Participants
23	11/12/2018 (Evening)	Chittoor	Interactive Session with Municipal Commissioner, Srikalahasthi Municipality and other Officials and Non-Officials.	—	Municipal Commissioner, Srikalahasthi Municipality
24	12/12/2018 (Morning)	YSR Kadapa	—	Interactive Session with 30 selected GPs Officials and Non-Officials at ZPP Meeting Hall, YSR Kadapa.	Chairman, ZPP, Vice-Chairman, ZPP, CEO,ZPP, DPO, DLPOs, MPDOs, EO (PR & RDs), Special Officers of selected GPs, Panchayat Secretaries and Ex-Sarpanches.
25	12/12/2018 (Morning)	YSR Kadapa	—	Interactive Session with CEO,ZPP and other Officials and Non-Officials at ZPP Meeting Hall, YSR Kadapa.	Chairman, ZPP, Vice-Chairman, ZPP, CEO,ZPP, DPO, DLPOs, MPDOs, EO (PR & RDs) and ZPTCs.
26	12/12/2018 (Evening)	YSR Kadapa	Interactive Session with Commissioner, KMC, Municipal Commissioners in the district, Officials and Non-Officials at Corporation Council Hall, Kadapa.	—	Commissioner, KMC and Municipal Commissioners of YSR Kadapa District.

Sl. No.	Date of Sitting / Visit	District	ULBs	PRIs	Key Participants
27	13/12/2018 (Morning)	YSR Kadapa	—	Interactive Session with MPDO, Mandal Praja Parishad, Vontimitta and other Officials and Non-Officials.	DPO, MPDO, Tahalsidar, MPP, EO (PR & RD) , Panchayat Secretaries, Ex-Sarpanches.
28	13/12/2018 (Evening)	YSR Kadapa	Interactive Session with Municipal Commissioner, Rajampeta Municipality and other Officials and Non-Officials.	—	Municipal Commissioner, Rajampeta Municipality and municipal stff.
29	21/01/2019 (Morning)	Krishna	—	Interactive Session with 30 selected GPs Officials and Non-Officials at ZPP Meeting Hall, Machilipatnam.	CEO,ZPP, DPO, MPDOs, EO (PR & RDs), Special Officers of selected GPs, Panchayat Secretaries and Ex-Sarpanches.
30	21/01/2019 (Morning)	Krishna	—	Interactive Session with CEO, ZPP and other Officials and Non-Officials at ZPP Meeting Hall, Machilipatnam.	CEO,ZPP, DPO, MPDOs, EO (PR & RD), ZPTCs
31	21/01/2019 (Evening)	Krishna	—	Interactive Session with MPDO, Mandal Praja Parishad, Machilipatnam, other Officials and Non-Officials.	DPO, MPDO, MPP, Machilipatnam, EO (PR & RD) and Panchayat Secretaries.
32	22/01/2019 (Morning)	Krishna	—	Interactive Session with Poranki GP (Penamaluru Mandal) Officials and Non-Officials.	MLA, Penamaluru Constituency, MPDO, ZPTC, MPTC, Panchayat Secretary, Ex-Sarpanch, Ward Members and Villagers of GP.

Sl. No.	Date of Sitting / Visit	District	ULBs	PRIs	Key Participants
33	22/01/2019 (Morning)	Krishna	Interactive Session with Commissioner, VMC, Municipal Commissioners in the district, Officials and Non-Officials at Corporation Council Hall, Vijayawada.	—	Commissioner, VMC, Additional Commissioner, VMC and Municipal Commissioners of Krishna District.
34	22/01/2019 (Evening)	Krishna	Interactive Session with Municipal Commissioner, Nuziveedu Municipality and other Officials and Non-Officials.	—	Municipal Commissioner, Nuziveedu Municipality and Municipal Counsellors.
35	23/01/2019 (Morning)	West Godavari	—	Interactive Session with 30 selected GPs Officials and Non-Officials at ZPP Meeting Hall, Eluru.	CEO,ZPP, DPO, MPDOs, EO (PR & RDs), Special Officers of selected GPs and Panchayat Secretaries.
36	23/01/2019 (Morning)	West Godavari	—	Interactive Session with CEO, ZPP and other Officials and Non-Officials at ZPP Meeting Hall, Eluru.	CEO,ZPP, DPO, MPDOs, EO (PR & RD) and ZPTCs.
37	23/01/2019 (Evening)	West Godavari	—	Interactive Session with MPDO, Mandal Praja Parishad, Bhimadole, other Officials and Non-Officials.	Dy.CEO, ZPP, MPDO, DLPO, Kovvur, ZPTC, MPP, Panchayat Secretaries.
38	24/01/2019 (Morning)	West Godavari	—	Interactive Session with Sathrampadu GP (Eluru Mandal) Officials and Non-Officials.	CEO, ZPP & DPO(I/c), MPDO, Panchayat Secretary, Ex-Sarpanch and villagers of GP.

Sl. No.	Date of Sitting / Visit	District	ULBs	PRIs	Key Participants
39	24/01/2019 (Morning)	West Godavari	Interactive Session with Commissioner, EMC, Municipal Commissioners in the district, Officials and Non-Officials at Gokul Kalyana Mandapam, Eluru.	—	Commissioner, EMC and Municipal Commissioners of West Godavari District.
40	24/01/2019 (Evening)	West Godavari	Interactive Session with Municipal Commissioner, Tadepalligudem Municipality and other Officials and Non-Officials.	—	Municipal Vice-Chairman, Municipal Commissioner, Tadepalligudem Municipality and Municipal counsellors.
41	25/01/2019	West Godavari	Interactive Session with Municipal Commissioner, Jangaeddygudem Municipality, other Officials and Non-Officials.	—	Municipal Chairman, Municipal Commissioner, Jangaeddygudem Municipality.
42	12/2/2019 (Morning)	Prakasam	—	Interactive Session with 30 selected GPs Officials and Non-Officials at ZPP Meeting Hall, Ongole.	CEO, ZPP, DPO, DLPOs, MPDOs, Special Officers of selected GPs, Panchayat Secretaries and Ex-Sarpanches.
43	12/2/2019 (Morning)	Prakasam	—	Interactive Session with CEO, ZPP and other Officials and Non-Officials at ZPP Meeting Hall, Ongole	CEO, ZPP, Dy.CEO, ZPP, DPO, DLPOs, MPDOs,
44	12/2/2019 (Evening)	Prakasam	—	Interactive Session with Ulavapadu GP (Ulavapadu Mandal) Officials and Non-Officials.	DPO, DLPO, EO(PR & RD), Panchayat Secretary and villagers of GP.

Sl. No.	Date of Sitting / Visit	District	ULBs	PRIs	Key Participants
45	12/2/2019 (Evening)	Prakasam	—	Interactive Session with MPDO, Mandal Praja Parishad, Singarayakonda, other Officials and Non-Officials.	DPO, MPDO, MPP, , EO (PR & RD) and Panchayat Secretaries.
46	13/02/2019	Prakasam	Interactive Session with Asst. Commissioner, OMC, Municipal Commissioners in the district, Officials and Non-Officials at Corporation Council Hall, Ongole.		Asst. Commissioner, OMC and Municipal Commissioners of Prakasam District
47	13/02/2019	Prakasam	Interactive Session with Municipal Commissioner, Chimakurthy Municipality and other Officials and Non-Officials.		Municipal Chairman, Municipal Vice-Chairman, Municipal Commissioner, Chimakurthy Municipality.
48	14/02/2019	SPSR Nellore		Interactive Session with GP's Officials and Non-Officials at ZPP Meeting Hall, Nellore.	Chairman, ZPP, CEO, ZPP, DPO, DLPOs, MPDOs, EO (PR & RDs), Special Officers of selected GPs, Panchayat Secretaries and Ex-Sarpanches.
49	14/02/2019	SPSR Nellore		Interactive Session with Zilla Praja Parishad Officials and Non-Officials at ZPP Meeting Hall, Nellore.	Chairman, ZPP, CEO, ZPTCs.
50	14/02/2019	SPSR Nellore		Interactive Session with MPDO, Mandal Praja Parishad, Kovur and other Officials and Non-Officials.	MPDO, EO (PR & RD), MPTCs and Panchayat Secretaries.

Sl. No.	Date of Sitting / Visit	District	ULBs	PRIs	Key Participants
51	15/02/2019	SPSR Nellore	Interactive Session with Commissioner, NMC, Municipal Commissioners in the District, Officials and Non-Officials at Corporation Council Hall, Nellore.		Commissioner, NMC, Municipal Chair Persons and Municipal Commissioners of SPSR Nellore District.

Annex. Table 1.3

List of Officials met by the Commission

Date : 18-08-2018 to 20-08-2018 :: District: Guntur

<u>S.No.</u>	<u>Name of the Official</u>	<u>Designation</u>
	Shri / Smt	
1	R. Sreelatha	DRO, Guntur
2	Dr. J. Aruna	DPO & CEO, ZPP (I/c)
3	V. Vasantha Lakshmi	Dy. CEO, Zilla Praja Parishad
4	K. Rama Prasanna	MPDO, Pedakakani Mandal
5	K.Srinivasa Rao	Panchayat Secretary, Takkellapadu GP
6	G.Veeranjaneyulu	MPDO, Mangalagiri Mandal
7	P. Ravi Kumar	EO (PR & RD) & GP Special Officer, Chinakakani
8	G. Sree Rama Murthy	Panchayat Secretary, Chinakakani GP
9	D. Anuradha	MPDO, Achampet Mandal
10	S. Kamala	Panchayat Secretary, Putlagudem GP
11	S. Prasad Babu	EO (PR & RD), Achampet Mandal
12	V. Raja Sekhar	Special Officer, Taduvoi GP
13	V. Vijayalakshmi	MPDO, Tenali Mandal
14	S. Niranjana Rao	Panchayat Secretary, Telaprolu GP
15	Sriresh Balajirao Latkar, I.A.S	Commissioner, Guntur Municipal Corporation
16	G. Srinivasa Rao	Regional Director of Municipal Admn., Guntur
17	B. Siva Reddy	Municipal Commissioner, Tadepalli Municipality

Date : 12-11-2018 to 14-11-2018 :: District: Vizianagaram

	Shri / Smt	
1	T. Venkateswara Rao	CEO, Zilla Praja Parishad
2	B. Satyanarayana	District Panchayat Officer
3	S.S. Varma	Regional Dir. of Municipal Admn, Visakhapatnam
4	T. Venu Gopal	Commissioner, Vizianagaram Municipal Corpn.
5	N.V. Venu Gopal	EO (PR & RD), Cheepurupalli Mandal and Special Officer of Cheepurupalli GP
6	BVVP Nageswari	Panchayat Secretary, Bondapalli GP
7	S. Srinivasa Rao	Municipal Commissioner, Parvathipuram Municipality
8	K. Vijaya Lakshmi	MPDO, Gumma LakshmiPuram Mandal
9	G. S. Satyanarayana Murthy	Tahalsidar, Gumma LakshmiPuram Mandal
10	P. Suribabu	Panchayat Secretary, Gumma LakshmiPuram GP
11	G. Lakshmi, IAS	Project Officer, ITDA, Parvathipuram
12	Tumula Achyutavalli	Chair Person, Bobbili Municipality
13	H. Sankara Rao	Municipal Commissioner, Bobbili Municipality

Date : 14-11-2018 to 16-11-2018 :: District: Visakhapatnam

Shri / Smt		
1	D.V. Ramana Murthy	CEO, Zilla Praja Parishad
2	Krishna Kumari	District Panchayat Officer
3	Shaik Rafi	EO (PR &RD), Pendurthi Mandal
4	Sambasiva Rao	Special officer, Rampuram GP
5	S. David Raju	MPDO, Madugula Mandal
6	K. Appa Rao	EO (PR & RD), Madugula
7	U. Madhu Mohan Kumar	MPDO, Paderu Mandal
8	S. Satyanarayana	DLPO
9	G.Raja Sekhara babu	EO (PR & RD), Paderu Mandal
10	Suresh	Panchayat Secretary, Chintalaveedhi GP
11	D.Ramaiah	Panchayat Secretary, Minumuluru GP
12	Manohar	Addl. Commissioner, Greater Visakha Municipal Corporation

Date : 10-12-2018 to 11-12-2018 :: District: Chittoor

Shri / Smt		
1	Girvani Chandra Prakash	Chair Person, Zilla Praja Parishad
2	Ravi Kumar Naidu	CEO, Zilla Praja Parishad
3	Suresh Naidu	District Panchayat Officer
4	Vijaya Rama Raju, IAS	Commissioner, Tirupati Municipal Corporation
5	Sudhakara Rao	MPDO, Renigunta Mandal
6	Narasimhulu Naidu	Tahalsidar, Renigunta Mandal
7	Swathi	MPP, Renigunta
8	Ramesh	Municipal Commissioner, Srikalahasthi Municipality

Date : 12-12-2018 to 13-12-2018 :: District: YSR Kadapa

Shri / Smt		
1	Guduru Ravi	Chairman, Zilla Praja Parishad
2	Iragamreddy Subba Reddy	Vice-Chairman, Zilla Praja Parishad
3	A. Venkatesu	CEO, Zilla Praja Parishad
4	A. Mohana Rao	District Panchayat Officer
5	S. Ravindra Babu	Regional Director, Municipal Administration, Anantapuramu
6	S. Lavanna	Commissioner, Kadapa Municipal Corporation
7	Venkata Prasad	MPDO, Vontimitta Mandal
8	Sirisha	Tahalsidar, Vontimitta Mandal
9	Ram Prasad	Municipal Commissioner, Rajampeta Municipality
10	Mahesh	Panchayat Secretary, Puthanavaripalle GP

Date : 21-01-2019 to 22-01-2019 :: District: Krishna

Shri / Smt		
1	Shaik Salaam	CEO, Zilla Praja Parishad
2	R. Victor	District Panchayat Officer
3	G.V. Suryanarayana	MPDO , Machilipatnam Mandal
4	Bode Prasad	MLA, Penamaluru Constituency
5	Smt. Umadevi	MPDO, Penamaluru Mandal
6	G. Uma Devi	CDPO & Special Officer, Poranki GP
7	J. Nivas, IAS	Commissioner, Vijayawada Municipal Corporation
8	D. Chandra Sekhar	Addl. Commissioner, Vijayawada Municipal Corporation
9	N. Vasubabu	Municipal Commissioner, Nuziveedu Municipality

Date : 23-01-2019 to 25-01-2019 :: District: West Godavari

Shri / Smt		
1	V.Nagarjuna Sagar	CEO, ZPP & DPO (I/c)
2	Kannama Naidu	Dy. CEO, Zilla Praja Parishad
3	A.V.V.Vijaya Lakshmi	MPDO, Bhimadole Mandal
4	B. Satyanarayana Murthy	DLPO, Kovvur
5	A. Mohan Rao	Commissioner, Eluru Municipal Corporation
6	B. Bala Swamy	Municipal Commissioner, Tadepalligudem Municipality
7	Marisetty Subba Rao	Vice-Chairman, Tadepalligudem Municipality
8	Bangaru Siva Lakshmi	Chair Person, Jangareddygudem Municipality
9	A J Mathews	Municipal Commissioner, Jangareddygudem Municipality
10	N V Nageswara Rao	Deputy Commissioner, Eluru Municipal Corporation

Date : 12-02-2019 to 13-02-2019 :: District: Prakasam

Shri / Smt		
1	Kaislash Giriswar	CEO, Zilla Praja Parishad
2	NSSV Prasad	District Panchayat Officer
3	Bhaskara Reddy	DLPO
4	Raja Chandra Sekhar	Panchayat Secretary, Ulavapadu GP
5	T. Brahmaiah	Asst. Commissioner, Ongole Municipal Corporation
6	K. Raghava Rao	Chairman, Chimakurthy Municipality
7	K. Gangadhara Rao	Vice-Chairman, Chimakurthy Municipality
8	B. Srinivasulu	Municipal Commissioner, Chimakurthy Municipality

Date : 14-02-2019 to 15-02-2019 :: District: SPSR Nellore

Shri / Smt

- | | | |
|---|----------------------|--|
| 1 | B. Raghavendra Reddy | Chairman, Zilla Praja Parishad |
| 2 | Bapi Reddy | CEO, ZPP (I/c) |
| 3 | D. Vasumathi | District Panchayat Officer (I/c) |
| 4 | B. Srinivasulu | EO (PR & RD), Kovur |
| 5 | Aleem Basha | Commissioner, Nellore Municipal Corporation |
| 6 | D. Sarada | Municipal Chair Person, Venkatagiri Municipality |

Annex. Table-4.1

Sectoral Composition of Southern State Economies: 2017-18

Sl. No.	State	Agriculture	Industry	Services
1	Andhra Pradesh	34	22	44
2	Telangana	14	22	64
3	Tamil Nadu	13	34	53
4	Karnataka	11	23	66
5	India	17	29	54

Source: Memorandum Submitted by GoAP to XV Finance Commission, P.12

Annex. Table-4.2

Growth in GSDP of Andhra Pradesh: 2014-15 to 2018-19

(At 2011-12 Prices)

Sl. No.	Sector/Item	Unit	2014-15	2015-16 TRE	2016-17 SRE	2017-18 FRE	2018-19 AE
1	Agriculture & Allied	%	27.5	27.0	28.0	29.5	29.5
2	Industry	%	27.5	27.5	27.6	27.0	26.9
3	Service	%	45.0	45.5	44.4	43.5	43.6
4	GVA	Rs. Crore	4,07,011 (100%)	4,50,453 (100%)	4,97,982 (100%)	5,54,896 (100%)	6,14,665 (100%)
5	GSDP	Rs. Crore	4,44,564	4,98,607	5,50,467	6,12,793	6,80,332
6	NSDP	Rs. Crore	3,97,064	4,46,997	4,92,644	5,45,445	6,05,561
7	Population (Est.)	'000	50,151	50,445	50,743	51,041	51,642
8	Per Capita Income	Rs.	79,174	88,609	97,086	1,06,864	1,17,261

Note: TRE – Third Revised Estimates; SRE – Second Revised Estimates; FRE – First Revised Estimates; AE – Advanced Estimates

Source: Computed from Data furnished by Directorate of Economics and Statistics, GoAP.

Annex. Table-4.3

Annual Growth Rate in GSDP of Andhra Pradesh: 2014-15 to 2018-19 (At 2011-12 Prices; Percentage)

Sl. No.	Sector/Item	2014-15	2015-16 TRE	2016-17 SRE	2017-18 FRE	2018-19 AE	Average Growth Rate
1	Agriculture & Allied	3.55	8.31	14.71	17.25	10.78	203.66
2	Industry	12.58	10.74	11.04	9.10	10.24	- 18.60
3	Service	8.98	12.08	7.79	9.20	11.09	23.50
4	GVA	8.37	10.67	10.55	11.43	10.77	28.67
5	GSDP	9.20	12.16	10.40	11.32	11.02	19.78
6	Per Capita Income	9.58	11.92	9.57	10.07	9.73	1.57

Note: TRE – Third Revised Estimates; SRE – Second Revised Estimates; FRE – First Revised Estimates; AE – Advanced Estimates

Source: Computed from Data furnished by Directorate of Economics and Statistics, GoAP.

Annex. Table-4.4

Revenue Receipts of GoAP as Percent of GSDP: 2014-15 to 2018-19 (in Percentage)

Sl. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)
1	GSDP at Current Prices (Rs. Crore)	5,24,976	6,04,229	697508	809548	933402
2	Own Tax Revenue	8.12	6.61	6.33	6.15	7.19
3	Own Non-Tax Revenue	2.09	0.81	0.74	0.47	0.57
4	State's Own Tax Revenue	10.21	7.42	7.08	6.62	7.77
5	Share of Central Taxes	2.91	3.62	3.77	3.54	3.56
6	Grants-in-Aid	4.15	3.63	3.35	2.81	5.43
7	Total Transfers from GoI	7.06	7.25	7.11	6.35	8.99
	Total Revenue Receipts (4 +7)	17.27	14.67	14.19	12.97	16.79

Source: GoAP Budget Documents

Annex. Table-4.5

Revenue Expenditure as Proportion of GSDP: 2014-15 to 2018-19

(in Percentage)

Sl. No.	Expenditure Category	2014-15	2015-16	2016-17	2017-18	2018-19 RE
1	General Services	5.44	4.72	4.70	4.83	4.82
1.1	Interest Payments	2.00	1.71	1.76	1.91	1.69
1.2	Pensions	1.86	1.86	1.85	1.78	1.63
1.3	Others	1.58	1.15	1.09	1.14	1.50
2	Social Services	8.05	7.69	7.20	7.31	9.08
3	Economic Services	8.36	3.44	4.74	0.90	0.88
4	Grants-in-aid/Contribution	0.02	0.02	0.01	0.01	0.00
5	Total Revenue Expenditure	21.87	15.87	16.65	13.05	14.78
6	GSDP at Current Prices (Rs. Crore)	5,24,976 (100)	6,04,229 (100)	6,97,508 (100)	8,09,548 (100)	9,33,402 (100)

Source: Budget Documents of GoAP (various issues).

Annex. Table-4.6

Capital Receipts of GoAP as Percent of GSDP: 2014-15 to 2018-19

(in Percentage)

Sl. No.	Item	2014-15*	2015-16	2016-17	2017-18	2018-19 (RE)
1	GSDP at Current Prices (Rs. Crore)	5,24,976	6,04,229	6,97,508	8,09,548	9,33,402
2	Open Market Loans	3.53	3.17	2.98	3.16	3.53
3	Floating Debt (Gross)	0.19	5.18	4.18	5.67	0.16
4	Loans from the GOI	0.19	0.11	0.12	0.12	0.19
5	Other Loans	0.57	0.42	1.31	0.21	0.11
6	Deposits Transactions etc.(Net)	0.16	1.16	0.85	1.58	0.17
7	Loans and Advances	0.37	0.05	0.29	0.01	0.05
	Total Capital Receipts	5.01	10.09	9.73	10.75	4.21

Source: Budget Documents of GoAP (various issues).

Annex. Table-4.7

Capital Receipts of GoAP as Percent of GSDP: 2014-15 to 2018-19

(in Percentage)

Sl. No.	Item	2014-15*	2015-16	2016-17	2017-18	2018-19 (RE)
	GSDP at Constant Prices (Rs. Crore)	444564	498607	550467	612793	680332
1	Open Market Loans	4.17	3.84	3.78	4.17	4.85
2	Floating Debt (Gross)	0.22	6.28	5.30	7.48	0.22
3	Loans from the GOI	0.22	0.14	0.15	0.15	0.26
4	Other Loans	0.67	0.51	1.67	0.27	0.15
5	Deposits Transactions etc.(Net)	0.19	1.40	1.08	2.08	0.23
6	Loans and Advances	0.43	0.06	0.37	0.01	0.07
	Total Capital Receipts	5.90	12.23	12.35	14.16	5.78

Note: * From June 2014 to March 2015

Annex. Table-4.8

Servicing Burden of Loans from NSSF: 2014-15 to 2018-19

(in Rs. Crore)

Sl. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)
1	Receipts during the year	1,167.59	1,639.10	0	0	0
2	Repayment during the year	844.57	881.90	1,131.82	1,133.46	1,212.44
3	Interest Payments	1,255.42	1,464.15	1,534.12	1,472.37	1,231.46
4	Total Out go (2+3)	2,099.99	2,346.05	2,665.94	2,605.83	2,443.90
5	Net Loans (1-4)	- 932.40	- 706.95	- 2,665.94	- 2,605.83	-2,443.90

Source: Budget Documents of GoAP (various issues).

Annex. Table-4.9

Servicing Burden of Central Loans to State: 2014-15 to 2018-19

(in Rs. Crore)

Sl. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)
1	Loans from the Centre*	697	685	814	969	1000
2	Repayment of Central Loans	1,255	1,228	717	855	1,065
3	Interest on Central Loans	793	484	433	438	362
4	Total Outgo (2+3)	2,048	1,712	1,179	1,294	1,427
5	Net Loans from Centre (1-4)	1,351	-1,027	-365	-325	-427

*Note: * Prior to bifurcation of the state.*

Source: Budget Documents of GoAP (various issues).

Annex. Table-4.10

Composition of Total Expenditure: 2014-15 to 2018-19

(Rs. In Crore)

Sl. No.	Item	2014-15	2015-16 Accts	2016-17 Accts	2017-18 Accts	2018-19 (RE)
1	Revenue Expenditure	98389	96232	116178	121214	147429
A	General Services of which	30456	28854	32786	39075	33534
A.1	Interest Payments	10186	10130	11697	13847	15777
A.2	Pensions	9778	11249	12872	16236	17453
A.3	Others	10492	7475	8217	8992	304
B	Social Services	35390	46449	50228	59159	84768
C	Economic Services	32447	20813	33071	22894	29091
D	Grants-in-Aid and Contributions	96	116	93	86	36
2	Capital Expenditure	7147	14172	15181	13491	25021
3	Capital Disbursements	5760	7138	5623	9468	10942
4	Total Expenditure	111296	117542	136982	144173	183392

Source: Budget Documents of GoAP (various issues).

Annex. Table-4.11

Expected Performance of APSRTC during the Forecast Period

(in Rs. Crores)

Sl. No.	Description	2020-21	2021-22	2022-23	2023-24	2024-25
1	State Govt's expected investment in SRTC					
A	Loans	Nil	Nil	Nil	Nil	Nil
B	Equity	Nil	Nil	Nil	Nil	Nil
2	Expected Rate of Return on these investments (%)	Nil	Nil	Nil	Nil	Nil
3	Anticipated Gross Profit/Loss	-573.82	-698.76	--707.30	-797.04	-836.59
4	Anticipated Interest Payments	327.86	364.49	407.67	457.57	512.76
5	Anticipated Subsidy	706.02.	741.33	778.39	817.31	858.18
6	No. of Buses likely to be on Road	12372	12572	12772	12972	13172
7	Anticipated % Utilization	99.63	99.63	99.63	99.63	99.63
8	Passenger Km. (in lakhs)	16512,	16779	17046	17312	17579
9	Dead Kms. (in lakhs)	0	0	0	0	0
10	Gross Kms (in lakhs)	16512	16779	17046	17312	17579

Source: Data collected from <https://fincomindia.nic.in/>

Annex. Table -6.1

Revenue Expenditure of Municipal Corporations in AP: 2014-15 to 2018-19 (14 MCs; Rs. In Crores)

Sl. No.	Revenue Expenditure	2014-15	2015-16	2016-17	2017-18	2018-19
1	Management Cost	363 (36)	424 (36)	468 (33)	495 (32)	554 (33)
1.1	Honorarium of Contract Staff in Administration	43 (4)	59 (5)	78 (5)	92 (6)	92 (5)
1.2	Other Expenditure	143 (14)	155 (13)	155 (11)	178 (11)	177 (10)
2	Communications (Repair of Roads and Buildings including Contract Staff)	218 (22)	270 (23)	380 (27)	435 (28)	475 (28)
3	Maintenance of Secondary School Buildings	3	3	3	6	9 (1)
4	Public Health	44 (4)	52 (4)	68 (5)	74 (5)	89 (5)
4.1	Salary of Outsourced Sanitation Staff	145 (14)	159 (14)	219 (15)	211 (14)	247 (14)
5	Maintenance of Remunerative Enterprises	48 (5)	46 (4)	58 (4)	63 (4)	61 (4)
Total		1,007 (100)	1,167 (100)	1,429 (100)	1,554 (100)	1,704 (100)
Per Capita RE (in Rs.)		1,402	1,627	1,992	2,167	2,375

Note: Figures in parentheses are percentages.

Source: GoAP, Directorate of Municipal Administration.

Annex. Table-6. 2

Capital Expenditure of Municipal Corporations in AP: 2014-15 to 2018-19 (14 MCs; Rs. In Crores)

Sl. No	Item	2014-15	2015-16	2016-17	2017-18	2018-19
1	Management (Office buildings, furniture etc.)	201 (12)	319 (15)	220 (9)	256 (11)	256 (11)
1.1	Housing (JNNURM, MP-LADS, SC-SP / TSP)	12 (1)	9	9	15 (1)	64 (3)
1.2	Cyclone Relief Works	8 (1)	10	4	0	0
2	Communications (CC and BT Roads)	54 (3)	62 (3)	111 (4)	129 (5)	134 (6)
2.1	Roads	566 (34)	800 (37)	801 (32)	736 (31)	606 (25)
2.2	SC/ST Sub-Plan Works including Roads and Buildings, Compound Walls, Burial Grounds etc	10 (1)	9	91 (4)	100 (4)	99 (4)
3	Secondary Education - School Buildings and Libraries	6	6	7	7	11
4	Sanitation/ Public Health - Toilets and Urinals	190 (12)	232 (11)	272 (11)	292 (12)	221 (9)
5	Development of Remunerative Enterprises - Development of roads in the markets, parks etc.	603 (37)	696 (33)	968 (39)	859 (36)	1004 (42)
Total Capital Expenditure		1,650 (100)	2,143 (100)	2,483 (100)	2,394 (100)	2,395 (100)
Per Capita CE (in Rs.)		2,302	2,987	3,461	3,337	3,342

Note: Figures in parentheses are percentages.

Source: GoAP, Directorate of Municipal Administration.

Annex. Table-6.3

Functions Transferred to all 110 ULBs and Expenditure thereon in FY 2017-18
(Rs. Lakhs)

Sl. No	Name of function / service	Total Expenditure on the function/service in the year 2017-18
1	Urban planning including town planning.	4577
2	Regulation of land-use and construction of buildings.	7887
3	Planning for economic and social development.	182
4	Roads and bridges.	86246
5	Water supply for domestic, industrial and commercial purposes.	104078
6	Public health, sanitation conservancy and solid waste management.	36815
7	Urban forestry, protection of the environment and promotion of ecological aspects.	54
8	Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.	656
9	Slum improvement and upgradation.	21673
10	Urban poverty alleviation.	20741
11	Provision of urban amenities and facilities such as parks, gardens, playgrounds.	33325
12	Promotion of cultural, educational and aesthetic aspects.	1079
13	Burials and burial grounds; cremations, cremation grounds; and electric crematoriums.	946
14	Cattle pounds; prevention of cruelty to animals.	168
15	Vital statistics including registration of births and deaths.	110
16	Public amenities including street lighting, parking lots, bus stops and public conveniences.	44366
17	Regulation of slaughter houses and tanneries.	98
18	Fire Service (Not Devolved)	0

Note: Despite devolution, poverty alleviation and Welfare of weaker sections, are implemented by MEPMA and social welfare line agencies.

Annex. Table-6.4

**Demand and Collection of Property Tax in MCs in
AP: 2014-15 to 2018-19 – District-wise**

(Rs. In Crores)

Sl. No.	Corporation	2014-15		2015-16		2016-17		2017-18		2018-19	
		D	C	D	C	D	C	D	C	D	C
1	Srikakulam	7	6	9	8	16	9	19	12	24	13
2	GVMC	179	169	199	194	229	218	781	245	931	306
3	Rajamahendra varam	26	24	48	33	54	36	78	39	89	49
4	Kakinada	21	20	32	27	53	30	75	31	84	36
5	Eluru	12	11	24	19	33	17	38	17	38	19
6	Vijayawada	83	76	99	86	116	85	210	105	241	101
7	Guntur	55	48	58	53	85	62	150	74	169	69
8	Ongole	13	11	21	15	30	17	34	17	43	22
9	Nellore	23	21	58	28	66	34	76	39	93	48
10	Ananthapuramu	15	14	26	18	28	19	31	19	41	24
11	Kurnool	25	23	41	31	44	33	52	35	60	36
12	Kadapa	15	14	26	19	41	20	45	20	46	25
13	Chittoor	6	6	17	10	25	12	27	12	30	17
14	Tirupati	30	29	40	32	80	37	91	41	103	46
Total MCs (14)		510	472	696	573	900	629	1707	706	1992	811

Note: D – Demand; C – Collection; MCs – Municipal Corporations.

Source: GoAP, Directorate of Municipal Administration.

Annex. Table-6.5

**Demand and Collection of Water Charges in MCs in
AP : 2014-15 to 2018-19 :: District-wise**

(Rs. In Crores)

Sl. No.	Corporation	2014-15		2015-16		2016-17		2017-18		2018-19	
		D	C	D	C	D	C	D	C	D	C
1	Srikakulam	2	1	2	1	2	1	2	1	2	1
2	GVMC	140	129	173	145	219	202	225	209	202	194
3	Rajamahendra varam	3	3	6	4	7	4	7	4	14	6
4	Kakinada	17	4	15	6	13	10	14	6	19	8
5	Eluru	12	2	14	3	14	2	15	3	15	3
6	Vijayawada	25	19	28	22	30	22	34	24	37	19
7	Guntur	15	10	16	10	17	11	19	11	17	8
8	Ongole	4	2	4	2	4	2	4	2	7	3
9	Nellore	7	6	10	7	12	8	15	7	9	8
10	Ananthapuramu	5	3	6	4	8	4	9	4	9	4
11	Kurnool	7	6	7	6	7	7	7	7	8	5
12	Kadapa	8	5	8	5	10	9	12	9	13	6
13	Chittoor	2	1	2	2	7	1	6	2	8	2
14	Tirupati	3	2	3	2	4	3	5	4	5	4
Total MCs (14)		250	193	294	219	354	286	374	293	365	271

Note: D – Demand; C – Collection; MCs – Municipal Corporations; WC – Water Charges

Source: GoAP, Directorate of Municipal Administration.

Annex. Table-6.6

**Demand and Collection of Property Tax in MPs in
AP : 2014-15 to 2018-19 :: District-wise**

(Rs. in Crores)

Sl. No.	District	No. of MPs	2014-15		2015-16		2016-17		2017-18		2018-19	
			D	C	D	C	D	C	D	C	D	C
1	Srikakulam	3	4	4	8	5	8	6	11	6	12	7
2	Vizianagaram	4	18	16	38	24	52	25	56	27	62	33
3	Visakhapatnam	2	2	2	4	3	8	7	9	7	10	7
4	East Godavari	7	15	14	23	17	28	17	35	20	40	23
5	West Godavari	7	29	27	41	32	47	32	59	38	66	42
6	Krishna	5	14	13	24	19	32	18	36	18	41	22
7	Guntur	12	37	35	54	44	73	47	86	49	98	59
8	Prakasam	3	11	10	15	11	18	13	20	14	24	15
9	Nellore	6	10	9	18	11	27	16	32	17	39	20
10	Ananthapuramu	8	18	17	32	22	40	25	46	26	56	30
11	Kurnool	5	15	14	27	19	34	22	36	23	44	28
12	Kadapa	5	16	15	21	15	31	19	33	21	41	26
13	Chittoor	6	15	13	25	17	31	19	34	20	40	25
	Total MPs	73	204	189	330	239	429	266	493	286	573	367

Note: D – Demand; C – Collection; MPs - Municipalities

Source: GoAP, Directorate of Municipal Administration.

Annex. Table-6.7

**Demand and Collection of Water Charges in MPs in
AP: 2014-15 to 2018-19 :: District-wise**

(Rs. In Crores)

Sl. No.	District	No. of MPs	2014-15		2015-16		2016-17		2017-18		2018-19	
			D	C	D	C	D	C	D	C	D	C
1	Srikakulam	3	1	0	1	0	1	1	1	0	1	1
2	Vizianagaram	4	6	3	6	2	7	2	8	3	9	3
3	Visakhapatnam	2	0	0	0	0	1	0	1	0	1	0
4	East Godavari	7	5	4	7	4	7	4	8	5	10	5
5	West Godavari	7	9	5	10	7	9	5	9	7	10	8
6	Krishna	5	7	5	8	5	9	5	11	6	12	5
7	Guntur	12	10	7	11	8	13	9	15	9	17	9
8	Prakasam	3	2	1	3	2	4	2	4	2	4	2
9	Nellore	6	4	1	4	1	4	2	5	2	5	2
10	Ananthapuramu	8	17	11	21	11	24	13	28	14	31	13
11	Kurnool	5	7	6	8	6	10	6	15	6	18	7
12	Kadapa	5	9	5	9	4	10	4	13	7	12	6
13	Chittoor	6	7	3	9	4	10	4	10	4	11	5
	Total MPs	73	84	51	97	54	108	57	128	65	141	66

Note: D – Demand; C – Collection; WC – Water Charges

Source: GoAP, Directorate of Municipal Administration.

Annex. Table-6.8

**Demand and Collection of Property Tax in NPs in
AP: 2014-15 to 2018-19 :: District-wise**

(Rs. In Crores)

Sl. No.	District	No. of NPs	2014-15		2015-16		2016-17		2017-18		2018-19	
			D	C	D	C	D	C	D	C	D	C
1	Srikakulam	2	1	1	1	1	2	2	3	2	3	2
2	Vizianagaram	1	0	0	2	1	1	1	3	1	3	1
3	Visakhapatnam	0	--	--	--	--	--	--	--	--	--	--
4	East Godavari	3	1	1	2	1	3	2	3	2	3	2
5	West Godavari	1	1	1	1	1	3	3	4	3	6	4
6	Krishna	3	3	3	4	3	7	5	8	6	10	7
7	Guntur	0	--	--	--	--	--	--	--	--	--	--
8	Prakasam	4	3	3	6	3	12	9	13	10	15	11
9	Nellore	0	--	--	--	--	--	--	--	--	--	--
10	Ananthapuramu	3	1	1	3	1	6	3	7	3	9	3
11	Kurnool	3	1	1	2	1	5	3	6	4	7	5
12	Kadapa	3	3	3	4	4	5	4	6	4	7	5
13	Chittoor	0	--	--	--	--	--	--	--	--	--	--
	Total NPs	23	14	14	25	16	44	30	53	35	63	40

Note: D = Demand; C – Collections; NPs – Nagar Panchayats.

Source: GoAP, Directorate of Municipal Administration.

Annex. Table-6.9

**Demand and Collection of Water Charges in NPs in
AP : 2014-15 to 2018-19 :: District-wise**

(Rs. In Crores)

Sl. No.	District	No. of NPs	2014-15		2015-16		2016-17		2017-18		2018-19	
			D	C	D	C	D	C	D	C	D	C
1	Srikakulam	2	0.3	0.2	0.4	0.2	0.9	0.7	1.0	0.9	1.3	0.7
2	Vizianagaram	1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
3	Visakhapatnam	0	--	--	--	--	--	--	--	--	--	--
4	East Godavari	3	0.4	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.2
5	West Godavari	1	1.0	0.4	1.2	0.4	1.0	0.3	1.3	0.1	1.2	0.4
6	Krishna	3	0.7	0.3	1.4	0.6	1.9	0.8	2.4	0.8	2.4	1.0
7	Guntur	0	--	--	--	--	--	--	--	--	--	--
8	Prakasam	4	1.4	0.7	1.5	0.5	1.6	0.7	1.8	0.6	3.1	0.6
9	Nellore	0	--	--	--	--	--	--	--	--	--	--
10	Ananthapuramu	3	0.7	0.2	0.7	0.2	0.7	0.3	0.9	0.3	1.2	0.3
11	Kurnool	3	0.5	0.5	1.0	0.4	0.6	0.6	0.8	0.4	0.7	0.4
12	Kadapa	3	2.7	1.8	1.9	1.4	4.0	2.0	4.7	2.1	3.7	2.2
13	Chittoor	0	--	--	--	--	--	--	--	--	--	--
	Total NPs	23	7.8	4.4	8.5	3.4	11.1	5.8	13.3	5.6	14.0	5.8

Note: D = Demand; C – Collections; NPs – Nagar Panchayats

Source: GoAP, Directorate of Municipal Administration.

DISTRICT WISE INTERACTIVE SESSIONS AND FIELD VISITS :: PHOTOS



Interactive Session held on 18-09-2018 in ZPP Council Hall, Guntur District with 30 selected Gram Panchayats



Interactive Session held on 12-11-2018 in ZPP Meeting Hall Vizianagaram District with Officials and Ex-Sarpanches of Mandals, Gram Panchayats of Vizianagaram District



Filed visit by the Commission on 12-11-2018 to Bondapalli Gram Panchayat, Garividi Mandal, Vizianagaram District



Interactive Session held on 13-11-2018 in ITDA Parvathipuram, Vizianagaram District with the officials and un-officials of ITDA



Field visit by the Commission on 15-11-2018 to Chintala Veedhi Gram Panchayat, Paderu Mandal, Visakhapatnam District



Filed visit by the Commission on 15-11-2018 to Minumuluru Gram Panchyat, Paderu Mandal, Visakhapatnam District



**Interactive Session held on 10-12-2018 in DRDA MEETING HALL,
CHITTOOR with 30 selected Gram Panchayats**



**Gathering in an Interactive Session by the Commission held
on 10-12-2018 in DRDA Meeting Hall, Chittoor District**



Field Visit by the Commission on 10-12-2018 in Chittoor District:: Explaining about 'CHETTHA NUNDI SAMPADHA CONCEPT' to the Commission



Filed Visit to Vermi-compost Unit by the Commission on 11-12-2018 in Karakambadi Gram Panchat, Renigunta Mandal



Field visit by the Commission on 12-12-2018 to Puthanavaripalle Gram Panchayat, Pullampet Mandal in YSR Kadapa District.



Interactive Session with ULBs held on 12-12-2018 in YSR Kadapa District



Public gathering in a Field Visit of the Commission on 12-12-2018 in Puthanavaripalle Gram Panchayat, Pullampet Mandal in Kadapa District.



Interactive Session held on 12-12-2018 in ZP Meeting Hall, Kadapa with officials and un-officials of GPs, MPPs and ZPs



Field visit by the Commission on 13-12-2018 to Vontimitta MPP, YSR Kadapa District



Group Photo after Interactive Session held on 21-01-2019 in ZP Meeting Hall, Machilipatnam with Panchayat Raj Institutions



**Group Photo after Interactive Session held on 24-01-2019 in Eluru,
West Godavari District with Municipal Commissioners of the District**



**Interactive Session held on 12-02-2019 in ZP Meeting Hall,
Ongole, Prakasham District**



**Field Visit by the Commission 12-02-2019 in Ulavapadu Gram Panchayat,
Ulavapadu Mandal, Prakasham District**



**Gathering in an Interactive Session held on 12-02-2019 in ZP Meeting Hall,
Ongole, Prakasham District**



Interactive Session by the Commission on 13-02-2019 with the officials and un-officials ULBs



Gathering in Interactive Session held 14-02-2019 in ZPP Meeting Hall, Nellore



**Interactive Session held 14-02-2019 in Kovuru Mandal Praja Parishad,
S.P.S.R.Nellore District**



**Interactive Session held on 12-11-2018 in ZPP Meeting Hall Vizianagaram District with
Officials and Ex-Sarpanches of Mandals, Gram Panchayats of Vizianagaram District**