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THE ANDHRA PRADESH GAZETTE

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ANDHRA PRADESH ACTS, ORDINANCE AND REGULATIONS Etc.

The following Act of the Andhra Pradesh Legislative Assembly received the assent of the Governor on the 25th October, 2005 and the said assent is hereby first published on the 27th October, 2005 in the Andhra Pradesh Gazette for general information:-

ACT No. 34 OF 2005

AN ACT TO PROVIDE FOR THE RESPONSIBILITY OF THE STATE GOVERNMENT TO ENSURE PRUDENCE IN FISCAL MANAGEMENT AND FISCAL STABILITY BY PROGRESSIVE ELIMINATION OF REVENUE DEFICIT, REDUCTION IN FISCAL DEFICIT, PRUDENT DEBT MANAGEMENT CONSISTENT WITH FISCAL SUSTAINABILITY, GREATER TRANSPARENCY IN FISCAL OPERATIONS OF THE GOVERNMENT AND CONDUCT OF FISCAL POLICY IN A MEDIUM TERM PRAMEWORK AND MATTERS CONNECTED THEREWITH OR INCIDENTAL THERETO.

Be it enacted by the Legislative Assembly of the State of Andhra Pradesh in the Fifty - sixth Year of the Republic of India as follows:-

Short Title and Commencement

1. (1) This Act may be called the Andhra Pradesh Fiscal Responsibility and Budget Management Act, 2005.
- (2) It shall be deemed to have come into force with effect on and from the 3rd June, 2005..

Definitions

2. In this Act, unless the context otherwise requires-
 - (a) " budget" means the annual financial statement laid before the House or Houses of the State Legislature under Article 202 of the Constitution;
 - (b) "current year" means the financial year preceding the ensuing year;
 - (c) "ensuing year" means the financial year for which the budget is being presented;

- (d) "financial year" means the year beginning on the 1st April and ending on 31st March next following;
- (e) GSDP means Gross State Domestic Product at current market prices.
- (f) "fiscal deficit" is the excess of aggregate disbursements (net of debt repayments) over revenue receipts, recovery of loans and non-debt capital receipts;
- (g) "fiscal indicators" are such indicators as may be prescribed for evaluation of the fiscal position of the State Government;
- (h) "fiscal targets" are the numerical ceilings and proportions to total revenue receipts (TRR) or GSDP for the fiscal indicators;
- (i) "prescribed" means prescribed by the rules made under this Act;
- (j) "previous year" means the year preceding the current year;
- (k) "revenue deficit" means the difference between revenue expenditure and total revenue receipts (TRR);

Explanation: 'Total revenue receipts' (TRR) includes State's own revenue receipts (both tax and non-tax) and current transfers from the Centre (comprising grants and State's share of Central taxes).

(l) "total liabilities" means the liabilities under the Consolidated Fund of the State and the Public Account of the State and shall also include borrowings by the public sector undertakings and the special purpose vehicles and other equivalent instruments including guarantees where the principal and/ or interest are to be serviced out of the State budgets.

Fiscal Management Objectives

3. The State Government shall;-
- (a) take appropriate measures to eliminate the revenue deficit and thereafter build up adequate revenue surplus and contain the fiscal deficit at a sustainable level, and utilize such surplus for discharging the liabilities in excess of the assets or for funding capital expenditure;
 - (b) pursue policies to raise non-tax revenue with due regard to cost recovery and equity; and
 - (c) lay down norms for prioritisation of capital expenditure, and pursue expenditure policies that would provide impetus for economic growth, poverty reduction and improvement in human welfare.

Fiscal Management Principles

4. The State Government shall be guided by the following fiscal management principles, namely;-
- (a) transparency in setting the fiscal policy objectives, the implementation of public policy and the publication of fiscal information so as to enable the public to scrutinise

- the conduct of fiscal policy and the state of public finances;
- (b) stability and predictability in fiscal policy making process and in the way fiscal policy impacts the economy;
- (c) responsibility in the management of public finances, including integrity in budget formulation;
- (d) fairness to ensure that policy decisions of the State Government have due regard to their financial implications on future generations; and
- (e) efficiency in the design and implementation of the fiscal policy and in managing the assets and liabilities of the public sector balance sheet.

*Fiscal Policy
Statements to be laid
before the Legislature*

5. The State Government shall in each financial year lay before the House/Houses of the Legislature, the following statements¹ of fiscal policy along with the budget, namely:-

- (a) the Macroeconomic Framework Statement;
- (b) the Medium Term Fiscal Policy Statement; and
- (c) the Fiscal Policy Strategy Statement.

*Macroeconomic
Framework Statement*

6. The Macroeconomic Framework Statement, in such form as may be prescribed, shall contain an overview of the State economy, an analysis of growth and sectoral composition of GSDP, an assessment related to State Government finances and future prospects.

*Medium Term Fiscal
Policy Statement*

7. (1) The Medium Term Fiscal Policy Statement shall set forth in such form as may be prescribed the fiscal management objectives of the State Government and three- year rolling targets for the prescribed fiscal indicators with clear enunciation of the underlying assumptions .

(2) In particular and without prejudice to the provisions contained in sub-section (1), the Medium Term Fiscal Policy Statement shall include the various assumptions behind the fiscal indicators and an assessment of sustainability relating to:-

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

Provided that in case it is not possible to calculate the pension liabilities on actuarial basis during the period of first three years after the coming into force of this Act, the State Government may, during that period, estimate the pension liabilities by making forecasts on the basis of trend growth rates.

*Fiscal Policy
Strategy Statement*

8. The Fiscal Policy Strategy Statement shall be in such form as may be prescribed and shall contain, inter alia,

- (i) the fiscal policies of the State Government for the ensuing year relating to taxation, expenditure, borrowings and other liabilities (including borrowings by Public Sector Undertakings and Special Purpose Vehicle and other equivalent instruments where liability for repayment is on the State Government), lending, investments, other contingent liabilities, user charges on public goods/utilities and description of other activities, such as guarantees and activities of Public Sector Undertakings which have potential budgetary implications;
- (ii) the strategic priorities of the State Government in the fiscal area for the ensuing year;
- (iii) the key fiscal measures and the rationale for any major deviation in fiscal measures pertaining to taxation, subsidy, expenditure, borrowings and user charges on public goods/utilities; and
- (iv) an evaluation of the current policies of the State Government *vis-à-vis* the fiscal management principles set out in Section 4, the fiscal objectives set out in the Medium-Term Fiscal Policy Statement in sub - section (1) of section 7 and fiscal targets set out in section 9.

Fiscal Targets

9. (1) The State Government may prescribe such targets as may be deemed necessary for giving effect to the fiscal management objectives.

(2) In particular, and without prejudice to the generality of the foregoing provisions, the State Government shall -

- (a) reduce revenue deficit by an amount equivalent to at least 0.32 percentage point of G.S.D.P. in each financial year, beginning from the 1st day of April 2005, so as to eliminate it by 31st March 2009 and generate revenue surplus thereafter;
- (b) reduce fiscal deficit by an amount equivalent to at least 0.25 percentage point of GSDP in each financial year beginning from the 1st day of April, 2005, so as to bring it down to not more than 3 per cent by the year ending March 2010.
- (c) ensure within a period of five years, beginning from the initial financial year on the 1st day of April 2005, and ending on the 31st day of March 2010, that the outstanding total liabilities do not exceed 35 per cent of the estimated GSDP for that year;
- (d) limit the amount of annual incremental risk weighted guarantees to 90 per cent of the TRR in the year preceding the current year:

Provided that revenue deficit and fiscal deficit may exceed the limits specified under this section due to ground or grounds of unforeseen demands on the finances of the State Government arising out of internal disturbance or natural calamity or such other exceptional grounds as the State Government may specify:

Provided further that a statement in respect of the ground or grounds specified in the first proviso shall be placed before the House or Houses of the Legislature, as soon as may be, after such deficit amount exceeds the aforesaid targets.

*Measures for Fiscal
Transparency*

10. (1) The State Government shall take suitable measures to ensure greater transparency in its fiscal operations in the public interest and minimise as far as practicable, secrecy in the preparation of the budget.

(2) In particular, and without prejudice to the generality of the foregoing provisions, the State Government shall, at the time of presentation of the budget, make disclosures on the following, along with detailed information in such forms as may be prescribed:-

- (a) the significant changes in the accounting standards, policies and practices affecting or likely to affect the computation of fiscal indicators;
- (b) details of borrowings by way of Ways and Means Advances/Overdraft availed of from the Reserve Bank of India.

(3) Whenever the State Government undertakes to unconditionally and substantially repay the principal amount and/or pay the interest of any separate legal entity, it has to reflect such liability as the borrowings of the State.

*Measures to Enforce
Compliance*

11. (1) The Minister-in-Charge of the Department of Finance (hereinafter referred to as Minister of Finance) shall review, every quarter, the trends in receipts and expenditure in relation to the budget estimates and place before the House or Houses of the Legislature, the outcome of such reviews.

(2) Whenever there is either shortfall in revenue or excess of expenditure over the intra-year targets mentioned in the Fiscal Policy Strategy Statement or the rules made under this Act, the State Government shall take appropriate measures for increasing revenue and/or for reducing the expenditure, including curtailment of the sums authorised to be paid and applied from out of the Consolidated Fund of the State.

Provided that nothing in this sub-section shall apply to the expenditure charged on the Consolidated Fund of the State under clause (3) of Article 202 of the Constitution or any other expenditure, which is required to be incurred under any agreement or contract, which cannot be postponed or curtailed.

(3) (a) Except as provided under this Act, no deviation in meeting the obligations cast on the State Government under this Act shall be permissible without approval of Legislature.

(b) Where owing to unforeseen circumstances, any deviation is made in meeting the obligations cast on the State Government under this Act, the Minister of Finance shall make a statement in the House or Houses of Legislature explaining;-

- (i) any deviation in meeting the obligations cast on the State Government under this Act;
- (ii) whether such deviation is substantial and relates to the actual or the potential budgetary outcomes; and
- (iii) the remedial measures the State Government proposes to take.

(4) Any measure proposed in the course of the financial year, which may lead to an increase in revenue deficit, either through increased expenditure or loss of revenue, shall be accompanied by a statement of remedial measures, proposed to neutralise such increase or loss and such statement shall be placed before the House/Houses of Legislature.

(5) The State Government may set up an agency independent of the State Government to review periodically the compliance of the provisions of this Act and table such reviews in the House or Houses of the State Legislature.

Protection of action taken in good faith

12. No suit, prosecution or other legal proceedings shall lie against the Government or any officer, authority or person empowered to exercise the powers and perform the functions by or under this Act for anything which is in good faith done or intended to be done under this Act or the rules or orders made thereunder.

Application of other laws not barred

13. Save as otherwise provided the provisions of this Act shall be in addition to and not in derogation of any other law for the time being in force, except to the extent the provisions of other laws are inconsistent with any provisions of this Act.

Power to remove difficulties

14. If any doubt or difficulty arises in giving effect to the provisions of this Act, the Government may, by order make such provisions or give such directions not inconsistent with the provisions of this Act as may appear to it to be necessary or expedient for removal of doubt or difficulty:

Provided that no order shall be made under this section after the expiry of two years from the commencement of this Act.

Power to Make Rules

15. (1) The State Government may, by notification in the Official Gazette, make rules for carrying out the provisions of this Act.

(2) In particular, and without prejudice to the generality of the foregoing power, such rules may provide for all or any of the following matters, namely,-

- (a) the form of the Macroeconomic Framework Statement under section 6;

- (b) the form of Medium-Term Fiscal Policy Statement, including the targets for the fiscal indicators, under section 7;
- (c) the form of Fiscal Policy Strategy Statement under section 8;
- (d) the forms for disclosure under sub-section (2) of section 10;
- (e) measures to enforce compliance;
- (f) the manner of review of compliance of the provisions of this Act by the independent agency under section 11; and
- (g) any other matter which is required to be, or may be, prescribed.

(3) Every rule made under this Act shall be laid, as soon as may be after it is made, before the House or Houses of the Legislature, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, the House/Houses agree in making any modification in the rule or the House/Houses agree that the rule should not be made, the rule shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.

Repeal of Ordinance No.9 of 2005. 16. The Andhra Pradesh Fiscal Responsibility and Budget Management Ordinance, 2005 is hereby repealed.

T. MADHAN MOHAN REDDY,
Secretary to Government,
Legislative Affairs & Justice,
Law Department.