



# **KERALA PUBLIC EXPENDITURE REVIEW COMMITTEE**

**Third Committee  
First Report (2010-11)**

**GOVERNMENT OF KERALA  
DECEMBER 2012**

# KERALA PUBLIC EXPENDITURE REVIEW COMMITTEE

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## THIRD COMMITTEE

[Constituted as per Gazette Notification GO(P) No 239/12/Fin dated 25.4.2012 (S.R.O. No. 293/2012) as prescribed Under Section 6 of the Kerala Fiscal Responsibility Act, 2003 (29 of 2003)]

FIRST REPORT (2010-11)

December 2012

# Foreword

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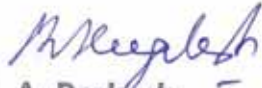
This is the first report of the Third Public Expenditure Review Committee constituted under section 6 of the Kerala Fiscal Responsibility Act of 2003 (Act 29 of 2003). Though the Committee was constituted on 26 April 2012, it was not able to conduct the activities on a regular basis due to lack of an office, infrastructure and supporting staff till October. The report pertaining to the year 2010-11 was due when the present committee was constituted. And the Committee has taken up the responsibility as well.

Besides the items discussed in the previous reports, the committee attempted a review of the plan expenditure of the Government Departments for the year 2010-2011. The Planning and Economic Affairs (CPMU) Department has provided the required data for the purpose. We have conducted a case study of the Departments coming under the category of Agriculture and Rural Development by using two questionnaires. The Committee had detailed discussions with officials of the Departments viz. Agriculture, Animal Husbandry, Suchitwa Mission, Kerala Land Development Corporation, Matsyafed, Harbour Engineering Department, Soil Survey and Soil Conservation, KILA, State Horticulture Mission, Rural Development, Forest Department, Fisheries, Information Kerala Mission and Kerala Agricultural University. We are thankful for them for their co-operation. However the Committee expresses its displeasure at sending lower level officers for such discussions.

The Committee met several times at Thiruvananthapuram before finalising this report. In this report the committee has examined a number of issues on revenue mobilization, reduction of revenue expenditure, improving the quality of plan expenditure, debt management and implication of the 13<sup>th</sup> Finance Commission the recommendations on Kerala.

The committee would like to place on record its appreciation of the support and co-operation extended by Dr V.P. Joy, Principal Secretary (Finance) for its

functioning. The Committee also thanks for Sri. M. Chandra Dhas, Secretary to the Committee and Additional Secretary to Government for the excellent services rendered. We place on record our appreciation to the service provided by Sri. S. Abhilash, Senior Grade Assistant for the timely processing of the report.



**Dr. B .A. Prakash**  
**Chairman**



**Dr. K. Pushpangadan**  
**Member**



**Dr. K.V. Joseph**  
**Member**



**Dr. Mary George**  
**Member**



**Dr. V. Nagarajan Naidu**  
**Member**

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# 1

## Introduction

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1.1 The Kerala Fiscal Responsibility Act, 2003 requires the submission of a Review report in December every year on the financial performance of the state during the previous year. The report should contain revenue receipts with break-up of State's own tax revenue, non-tax revenue, and resources from the centre. In addition it should cover revenue expenditure with break-up of interest, salaries, pensions, subsidies, operations and maintenance, devolution to local self-governments, administrative expenditure and other revenue expenditure. It should also report three deficits (revenue, fiscal and primary), capital receipts and expenditure, and the various categories of debt and dimensions. Analysis of these indicators is distributed in different chapters in the report.

1.2 The Act contains the major principles of fiscal management for reducing revenue deficit. Specific principles are: improved budgeting processes, adopting medium term framework for budget planning, linking policy priorities of government with budgeting, devolution of more services to local self-government institutions, improving efficiency in expenditure, reduction of non-productive expenditure, reduction in supplementary grants, effective realisation of sales tax, cost recovery of services to cover at least part of the current expenses and rationalisation of non-tax revenue with equity concern. Obviously systematic coverage of all the above principles in any one report involves substantial research effort which is beyond the limited resource availability of the Committee. The feasible solution in the present situation is to distribute these studies in the forthcoming reports subject to resource availability of the Committee. Within this constraint the report has examined selected principles in various chapters.

1.3 The outline of the chapters in the report as follows. The report has eight chapters. Chapter 2 contains an overview of the state finance. Chapter 3 examines the fiscal profile and fiscal mobilisation incorporating fiscal indicators included in the purview of the committee. In chapter 4, detailed analysis is undertaken on expenditure profile of the state. This chapter has undertaken an in depth analysis of salary, pension and interest payments in the state and its policy implication for reducing the fiscal deficit. It also undertakes a case study of financial problems

faced by Kerala Agricultural the university and suggests ways of overhauling the university finance. Chapter 5, a detailed analysis is undertaken for the first time on the outlay and expenditure, quality of expenditure and factors affecting the poor implementation of projects. More specifically the causes of the bunching effect in the spending pattern especially towards the end of the fiscal year are thoroughly examined. In Chapter 6 is concerned with debt- management with efficiency not only in market borrowing but also in refinancing from the borrowed funds. Chapter 7 is mostly concerned with prediction of the fiscal indicators and their sustainability. The last chapter summarises the report followed by major recommendations for the consideration of the state government.

# 2

## Overview of State Finances

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### Introduction

2.1 The budget is the financial transactions of a government in an year presented to the legislature for its approval. It contains inter alia the all kinds of receipts including taxes, non-tax receipts and borrowings of the government and expenditure incurred for developmental and non-developmental activities in a year. In a federal country like India, the revenue of the state includes not only its own tax and non-tax revenue but also the transfer of revenue by the central government. Revenue deficit arises when the revenue expenditure exceeds the revenue receipts of the state. Fiscal deficit on the other hand is the revenue deficit plus the borrowings for incurring capital expenditure. Since the government is the largest stake holder in the society budgetary transactions and deficits have deeper implications on the economy and well-being of the society at large.

2.2 Budgetary transactions of any state are conditioned by the performance of the economy. In the globalized world, wherein all the countries are interrelated to each other, global changes would have repercussions on the economy of any state. State policies and financial transactions would have to be modified and adjusted to cope up with the global scenario. Since the State finances are conditioned by the performance of the economy, the Gross State Domestic Product, the most popular measure of the stamina of an economy is usually adopted for evaluating the performance of various parameters of State finances. Thus the level of tax, pattern of expenditure, borrowing limit are expressed as a quotient to GSDP. If the quotient exceeds certain percentage, the finances would be surpassing the 'Luxmanrekha'

2.3 Kerala, the south western corner of the Indian sub-continent is a state covering only 1.2 per cent of the land area of India. On the other hand, the population of the state is well over 2.75 per cent of the country. Apparently, the state supports proportionately more number of people against less area of land. The Gross State Domestic Product of Kerala has been Rs 276997crore in 2010-11. It accounted for 3.9 per cent of the GDP of the country as a whole. The per capita income of the state has been higher than that of the country as a whole



since 1994-95. The consumption inequality in the state is highest according to NSS estimates. Kerala has the feature of remittance economy without much investment activities in commodity producing sectors.

2.4 The Chapter proceeds with (i) an overview of the fiscal performance of the State since 2004-05, (ii) a comparison of the performance of the various parameters of the state finance with those of other states and (iii) the limitation of GSDP for the evaluation of fiscal parameters.

#### AN OVERVIEW OF THE FISCAL PERFORMANCE

2.5 Tables 2.1, 2.2 and 2.3 give the growth rate of various parameters of state finance since 2004-05. As can be seen from the Tables, the revenue receipts of the state went up from Rs 13500 crore in 2004-05 to Rs30931 crore in 2010-11. Similarly own tax revenue and non-tax revenue also recorded substantial increase i.e. from Rs 8964 crore to Rs 21722 and from Rs 819 to Rs 1931 respectively. While the revenue receipts recorded an increase of 129 percent, state's own tax revenue and non-tax revenue recorded 142.43 per cent and 135.7 per cent respectively. The transfers from central government went up from Rs 3718crore in 2004-2005 to Rs7338 crore in 2010-11. In percentage terms, the increase was only 94.12. The central transfers have declined in 2009-10. Capital receipts, went up from Rs 4680 crore to Rs 7807 crore during the period, recording a moderate increase.

2.6 On the expenditure side the non -plan component went up from Rs 14094crore to Rs 31510crore and the plan component from Rs 3953 crore to Rs 7281 crore. Thus the total expenditure increased to Rs 38790 crore in 2010-11from Rs18048 crore in 2004-05. The revenue part of the expenditure increased from Rs 17169 crore in 2004-05 to Rs 34665 crore in 2010-11. The capital expenditure went up from Rs 878crore to Rs 3364crore during the same period. The increase in the expenditure was113.03 percent with 101.4 per cent in the case of revenue component and 283.14 per cent in the case of capital component respectively. As a result of the increased tempo of expenditure both the revenue and fiscal deficits have recorded an upward trend. However both the revenue deficit and fiscal deficit could exhibit better picture in 2010-11 compared to the situation in 2009-10. These two parameters were showing improvement till 2006-07. They began to raise with the fiscal stimulus measures adopted to tide over the adverse impact of the worldwide recession which surfaced during 2008-09 . The liberal public expenditure resorted to tide over the impact of

**TABLE 2.1 PROFILE OF STATE FINANCES (RS IN CRORE)**

Items	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Accounts	Accounts	Accounts	Accounts	Accounts	Accounts	Accounts
1	2	3	4	5	6	7	8
A. Revenue Receipts	13500	15295	18187	21107	24512	26109	30991
1. State Tax Revenue	8964	9779	11942	13669	15990	17625	21722
2. State Non-Tax Revenue	819	937	938	1210	1559	1852	1931
3. Central Govt. Transfers	3718	4579	5307	6228	6963	6632	7338
i). Share of Central Taxes	2405	2518	3212	4052	4276	4399	5142
ii). Grant-in- Aid	1313	2061	2095	2177	2687	2233	2197
B. Capital Receipts	4680	4383	4033	6154	6232	8000	7807
1. Recoveries of Loans	95	52	66	45	36	38	44
2. Other Receipts	0	0	2	8	9	49	25
3. Borrowings and Other Liabilities	4584	4332	3965	6102	6187	7912	7739
a. Public Debt (Net)	4038	4001	4253	4211	5271	4850	5214
b. Public Account (Net)	546	331	-288	1891	916	3062	2525
C.Total Receipts (A+B)	18180	19678	22220	27261	30744	34109	38798
D. Non Plan Expenditure	14094	15227	18632	22711	25441	27283	31510
1. On Revenue Account	14063	15201	18516	22614	25012	26953	30469
a. Of which Interest Payments	3613	3799	4190	4330	4660	5292	5690
2. On Capital Account	25	-1	17	23	25	157	598
3. On Loan Disbursements	6	27	99	73	404	172	442
E. Plan Expenditure (including CSS)	3953	4301	3445	4549	5462	6785	7281
1. On Revenue Account	3106	3223	2308	2277	3212	4179	4196
2. On Capital Account	847	818	886	1452	1671	1902	2766
3. On Loan Disbursements		260	250	820	579	704	319
F.Total Expenditure (D+E)	18048	19528	22077	27259	30903	34068	38790
1. Revenue Expenditure	17169	18424	20825	24892	28224	31132	34665
2. Capital Expenditure	878	817	903	1475	1696	2059	3364
3. On Loan Disbursements	-3669	287	349	893	984	877	762
G. Revenue surplus/deficit (A-F(1))	-3669	-3129	-2638	-3785	-3712	-5023	-3674
H. Fiscal Deficit (A+B(1)+B(2))-F	-4452	-4182	-3822	-6100	-6346	-7872	-7730
I. Primary Deficit (H)-D(1a)	-839	-382	368	-1771	-1687	-2579	-2041
J. Total Debt	41878	45929	49875	55410	63270	70969	78673

**TABLE 2.2 GROWTH RATE OF FISCAL VARIABLES SINCE 2004-05 (%)**

Items/Parameters	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Index of increase in 2010-11 with 2004-05 base
Total Revenue	14.26	13.3	18.91	16.06	16.13	6.52	18.78	129.56
Own tax		9.09	22.1	14.46	16.98	10.22	23.24	142.43
Non-tax		14.4	0.1	28.99	28.84	18.79	4.26	135.7
Central transfers	27.37	23.15	15.89	17.35	11.8	-4.76	10.64	94.12
Capital receipts		6.35	7.99	52.59	1.26	28.36	2.42	66.81
Total receipts		8.2	11.29	22.68	12.71	10.9	13.74	113.41
Non-plan Expenditure		8.03	22.36	21.89	12	7.2	15.49	123.5
Interest	8.5	8.7	6.6	3.34	7.62	13.56	7.52	57.48
Plan Expenditure		8.8	-19.09	32	20.07	24.22	7.35	84.18
Total Expenditure	10.62	7.7	12.92	21.34	13.47	6	19.84	113.03
Revenue Expenditure	10.8	7.31	13.03	19.53	13.39	10.3	11.35	101.4
Capital Expenditure	6.5	7.75	10.52	63.32	14.98	21.14	63.38	283.14
Revenue deficit		14.78	-26.5	43.59	-1.97	35.31	-26.86	-0.3
Fiscal Deficit		-6.07	-8.61	59.6	-73	366	-1.91	73.62
Primary deficit		-54.47	-3.77	321.56	258.32	-53.72	-30.87	143.26
Total debt	11.74	9.67	8.59	11.09	14.05	12.16	10.85	87.86

**TABLE 2.3 FISCAL INDICATORS AS PERCENTAGE GSDP**

Sl No	Item	2004-'05	2005-'06	2006-'07	2007-'08	2008-'09	2009-'10	2010-'11
1	Total Revenue	11.32	11.18	11.83	12.05	12.09	11.24	11.19
2	Own Revenue	8.20	7.83	8.37	8.50	8.65	8.38	8.54
3	From Centre	3.12	3.35	3.45	3.56	3.43	2.85	2.65
4	Total Expenditure	14.97	14.06	14.13	15.05	14.75	13.65	13.73
5	Revenue	14.40	13.46	13.54	14.21	13.92	13.40	12.51
6	Capital	0.57	0.60	0.59	0.84	0.84	0.26	1.21
7	Revenue Deficit	3.08	2.29	1.72	2.16	1.83	2.16	1.33
8	Fiscal Deficit	3.73	3.06	2.49	3.48	3.13	3.39	2.79
9	Interest payments	3.03	2.87	2.72	2.47	2.30	2.45	2.05
10	Primary Deficit	0.70	0.28	0.24	1.01	0.83	1.11	0.74
11	Total Debt	35.11	33.56	32.43	31.64	31.20	30.54	28.40

recession was instrumental for widening the deficit. With the ensuing recovery of the economy both revenue deficit and fiscal deficit have begun to fall in 2010-11. The state could bring down both the revenue and fiscal deficits within the limits prescribed by the Thirteenth Finance Commission. The state is also bound to

reduce debt GSDP ratio to 32.8 per cent by 2010-11. As a matter of fact it could bring it to 28.4 per cent by 2010-11. Nevertheless the total debt burden recorded an increase of 87.86 per cent during the period. In turn, the government is bound to pay interest charges on an increasing scale, the amount being Rs 5690 crore in 2010-11. Similarly the increase in revenue receipts did not keep pace with the GSDP. While the GSDP went up by 132 per cent during the period 2004-05 to 2010-11, the increase of revenue receipt was only 129 per cent. Though improvement has taken place during 2010-11 in comparison with the conditions of 2009-10, the overall financial position still remains bleak with growing debt and revenue expenditure with very little resource left for capital formation. .

2.7 There was a fairly impressive increase in the volume of capital expenditure including loan disbursement: ie from Rs 2946 crore in 2009-10 to Rs 4126 crore in 2010-11. In percentage terms, the increase was from 9.95 in 2009-10 to 40.59 in 2010-11. The capital expenditure alone recording 63.38 percent. However the actual volume was not substantial by any standard. It formed only 8.67 percent of the total expenditure. In this connection it is worth quoting the observation of C&A.G in the Audit Report of the Finances of Kerala for the year ended 31 March 2011. "The proportion of expenditure spend on capital has been much lower as compared to General Category States. The government may consider enhancing the proportion of expenditure on economic and capital sectors in order to create the much needed assets to stimulate growth"[ 1] .

2.8 Though the percentage of capital expenditure at 1.21 of the GSDP is very low, the Government of Kerala had invested till March 2011 a sum of Rs 3087.52 crore in various categories of public sector undertakings numbering 141. However, as the C& AG has pointed out the average rate of return on these investments has been only 1.3 per cent in the last five years, against the payment of interest rate ranging from 7.3 to 8.4 per cent on its borrowing during this period. As a remedial measure it is suggested that the "working of State Public Sector Undertakings which are incurring huge losses should be reviewed and a revival strategy should be worked out for those undertakings which can be viable"[2]. As a ratio to the GSDP revenue receipts revolved around 11 percent. However it declined to 9.43 percent in 2009-10 from 12.09 of the previous year. It went up to 11.19 percent in 2010-11. The fluctuations could be due to the unsteady growth of GSDP than to any fall in tax revenue as revenue was maintaining steady growth in absolute terms.

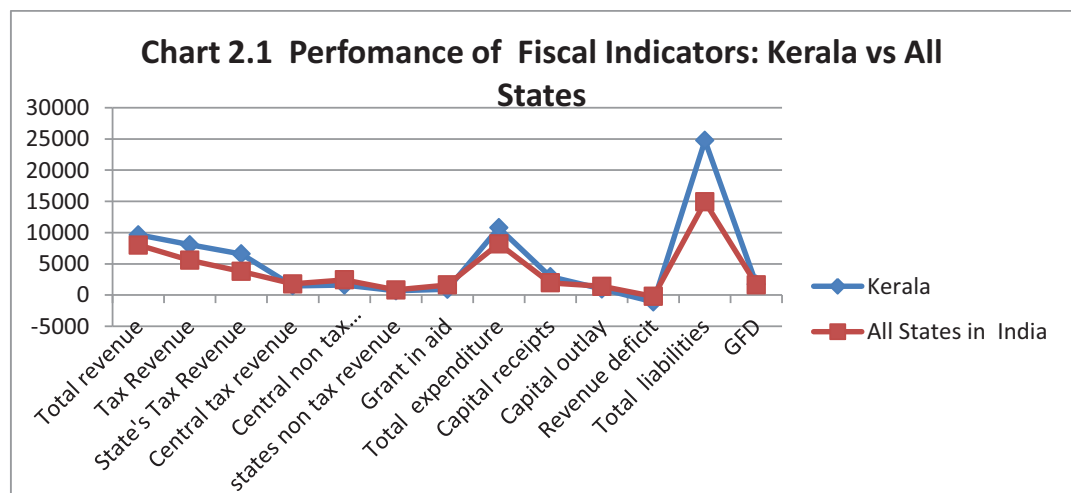
### **FISCAL PERFORMANCE: A COMPARISON WITH OTHER STATES**

2.9 Being a constituent state unit within the Indian Union, finances of Kerala are conditioned by the policies of the central govt, and the guidelines of the Reserve Bank of India subject to the economic conditions prevailing within India. Though the states are given a fair amount of autonomy, central government is in a position to

impose its policies by stipulating conditions for the award of central aid to states. By and large the central government is guided by the desire to maintain financial stability in the country as a whole by striving to maintain certain amount of uniformity in the financial performances of all the states. Nevertheless, there will be wide variations in the financial performances from state to state depending on the size, structure of the regional economy and the policies pursued by each state. Tables 2.4 and 2.5 give the comparative picture of the performance of different states in 2010-11. Among the states, the performance of Kerala during 2010-11 has been comparatively better .In state's own tax revenue it has been ahead of all states except Tamil Nadu and Haryana. However, in respect of non-tax collection, Kerala has been far behind in comparison with many other states. The per capita collection of non-tax revenue of Kerala has been only Rs 671 against Rs 807, being the average of all states. Only three states viz: West Bengal, Tamil Nadu and Karnataka were behind Kerala. On a per capita basis Kerala was getting only Rs 1431 as a share from central taxes and Rs 921as grant- in -aid .Most of the states were getting higher amount of share as grant in aid and share of central taxes on a per capita basis. In fact Kerala's share of grant in aid was the lowest among all the states except Uttar Pradesh.

**TABLE 2.4 PERFORMANCE OF FISCAL INDICATORS : KERALA VS ALL STATES**

State	Kerala	All States in India
Total revenue	9647	7999
Tax Revenue	8054	5561
State's Tax Revenue	6583	3784
Central tax revenue	1471	1777
Central non tax revenue	1592	2434
states non tax revenue	671	807
Grant in aid	921	1625
Total expenditure	10769	8207
Capital receipts	2950	1955
Capital outlay	959	1408
Revenue deficit	-1119	-208
Total liabilities	24748	14915
GFD	1702	1648



2.10 Kerala's position is far behind the all India level in so far as capital outlay is concerned. The per capita capital outlay of Kerala has been only Rs 959 against all states average of Rs 1408. Only West Bengal with a per capita outlay of Rs 392 has been behind Kerala. Kerala's revenue deficit has been higher than that of most other states. While the average of all the states was only Rs 208, per capita deficit of Kerala has been Rs 1119. Total liability of Kerala has been higher than that of many other states. With a per capita liability of Rs 24748, the incidence of liability was higher than any other state in 2010-11 except Himachal Pradesh, Jammu and Kashmir and the Punjab.

2.11 Table 2.6 gives the ratio of important indicators of state finance for the year 2010-11 as a percentage to the GSDP. State's own tax revenue forms the most important parameter in the fiscal performance of the state. The average tax revenue of all the states formed 6.48 percent of the GSDP in 2010-11. In the case of Kerala it is 7.91 percent of the GSDP. The ratios of all the states except the three Southern states Viz: Karnataka, Tamil Nadu and Andhra Pradesh were lower than that of Kerala. The average non tax rate of all states amounted to 1.36 per cent of GSDP. With a ratio of 0.80 percent the position of Kerala has been very low in this regard. The quotient of only two states i.e Bihar and West Bengal was lower than that of Kerala. This suggests that there is scope for improving the collection of non-tax revenue. All the states except West Bengal were having a higher percentage in respect of capital outlay. As already mentioned, this is an area which calls for further improvement. The total liability of Kerala accounted for 29.82 per cent of the GSDP. It was higher than that of most of the other states. Needless to say such a high percentage of liability cannot be treated as a positive signal.

#### LIMITATIONS OF GSDP FOR THE EVALUATION OF FISCAL PARAMETERS

2.12 One limitation of the GSDP measure is the use of three estimates viz. quick, provisional and final for a given year. Furthermore, the revision of GSDP in every five years with a new base changes the magnitude of GSDP. For example, when the revision was made with 2004-05 as base there was a jump of 11 percent with GSDP as compared to the estimate with the previous base (Table 2.7) It may be noted that the reduction in the deficit and debt in 2010-11 within the limits prescribed by 13<sup>th</sup> FC may be largely attributed to the shift in the base of GSDP.

2.13 The sustainable growth in the state is adversely affected by low capital expenditure. As a result state compelled to incur a higher level of debt which cannot be maintained and sustained in the future within the present pattern of

**TABLE 2.5 INTERSTATE COMPARISON**

State	Total revenue	Tax Revenue	State's Tax Revenue	Central tax revenue	Central non tax revenue	states non tax revenue	Grant in aid	Total expenditure	Capital receipts	Capital outlay	Revenue deficit	total liabilities	GFD
Andhra Pradesh	10327	7392	5220	1970	2935	1312	1622	10263	2454	1072	62.32	16065	1907
Assam	6381	4452	1896	2557	4058	1138	3710	10669	1264	1042	-1568	8770	3486
Bihar	4464	3220	1013	2182	1243	121.32	1122	4137	742	993.6	231	6350	356
Chattisgarh	8805	5293	3266	2027	3511	1568	1942.6	8383	2114.9	1595	421	6703	1004
Gujarat	8687	6867	5741	1126	2246	996	1250	9608	3343	1666	-921	22952	2032
Haryana	10886	7752	6844	9078	3133	1496	1637	12645	3443	1467	-1758	18512	1417
Himachal Pradesh	18171	7532	5009	2522	10639	2566	8073	18398	4090	2605	-225	36554	2324
Jammu Kashmir	18917	5217.9	2898	2315.9	13701	1174	12525	14409	5284		4515	26826	1755
Jharkhand	6112	3159	1183	1926	2369	951	1417	6152	1202	1298	-42.71	8892	1283
Karnataka	9457	7751	6227	1523	1706	576	1130	9196	1476	1961	260	14761	1389
Kerala	9647	8054	6583	1471	1592	671	921	10769	2950	959	-1119	24748	1702
Madhya Pradesh	7243	4860	2807	2053	2373	826	1547	6583	1276	1315	651	7383	886.6
Maharashtra	9536	7556	6440	1016	1979	800	1179	9317	2721	1765	-506	19982	2363
Odissa	7759	4914	2529	2385	2844	790	2053	7835	1368	1062	-76	11514	1431
Punjab	11001	7438	6280	1157	3563	2371	1192	12339	3456	1327	-1337	26722	3487
Rajasthan	6701	4702	2629	1873	1999	844	1154	6831	1613	993	-129	14452	1227
Tamil Nadu	10039	8444	6810	1629	1598	654	944	10473	2333	1882	-433	15781	1639
Uttarakhand	13195	6712	4279	2433	6482	1102	5380	12633	2744	2176	562	20890	2048
Uttar Pradesh	5647	4102	2038	2063	1566	689	875	5594	1354	1211	73	11224	1167
West Bengal	5486	4078	2331	1746	1411	318	1089	7366	2667	392	-1879	21174	2516
All States in India	7999	5561	3784	1777	2434	807	1625	8207	1955	1408	-208	14915	1648

Source (1) RBI State Finances: Study of Budgets 2011-12 (2) total liabilities from RBI Bulletin June 2012 They include debt+ reserve funds +deposits and advances and contingent fund . note the figures relate to the revised budget estimates of each state

**TABLE 2.6 PERCENTAGE OF IMPORTANT PARAMETERS OF STATE FINANCES TO GSDP**

Name of the State	Total Revenue	Tax Revenue	States own Tax Revenue	Non Tax Revenue	State's Non Tax Revenue	Total Expenditure	capital outlay	Revenue Deficit	Total Liabilities
Andhra Pradesh	14.84	10.62	8	4.21	1.88	14.65	2.1	0.09	23.09
Assam	26.9	13.34	5.68	13.56	2.44	31.96	3.21	-5.05	27.05
Bihar	21.27	15.34	4.85	5.96	0.57	20.17	4.75	1.1	29.54
Chattishgarh	19.09	11.47	7	7.61	3.39	18.16	3.1	0.91	14.54
Gujarat	10.22	8.08	6.75	2.14	0.99	11.3	1.96	-1.08	27
Haryana	9.71	6.91	6.1	2.79	1.33	11.28	1.3	-1.56	16.5
Himachal Pradesh	22.62	9.38	6.23	13.24	3.65	22.91	3.24	-0.28	45.85
Jammu & Kashmir	43.41	11.97	6.65	31.43	2.69	28.75	12.71	10.32	61.46
Jharkhand	18.8	11.51	5.59	7.29	2.92	19.87	3.99	-0.13	27.41
Karnataka	14.22	11.68	9.39	2.57	0.86	13.83	2.95	0.39	22.27
Kerala	11.59	9.68	7.91	1.91	0.8	12.94	1.13	-1.34	29.82
Madhya Pradesh	20.2	13.57	7.84	6.62	2.3	18.37	3.68	1.81	28.4
Maharastra	10.4	8.24	7.13	2.15	0.87	10.95	1.88	-0.54	21.86
Odissa	16.6	10.56	5.43	6.11	1.7	16.85	2.28	-0.16	24.76
Punjab	13.29	8.98	7.5	3.36	2.86	14.9	1.75	-1.61	32.28
Rajasthan	15.15	10.63	6.4	4.52	1.91	15.45	2.24	-0.29	32.69
Tamil Nadu	13.23	11.12	8.97	2.1	0.86	13.8	2.32	-0.57	20.8
Uttarakhand	17.67	8.99	6.26	8.68	1.47	16.92	2.91	0.42	26.17
Uttar Pradesh	19	13.75	6.93	5.25	2.31	18.76	3.78	0.24	37.6
West Bengal	10.57	7.86	4.49	2.71	0.61	14.19	-0.71	-3.62	39.6
Total of all states	13.52	9.4	6.48	4.11	1.36	13.87	2.38	-0.35	25.21

growth. The unsustainability in growth rate can be found in the composition of GSDP which is dominated by service sector. Presently the service sector catering the need of remittance induced consumerism at the expense of stagnancy in the productive sectors. Unless the productive sectors are strengthened the fiscal position of the state will be very weak in the future.

2.14 The foregoing overview of the state finance indicates a mixture of positive and negative signals. While the state's own revenue receipts goes up in tandem to the growth of GSDP, the non-tax revenue, though improving, remains very meagre. On the expenditure side, the revenue expenditure exceeds receipts resulting on the one hand with very little resources for capital expenditure and on the other with growing deficit which in turn results in the accumulation of heavy debt. Though the overall fiscal management seems to be in conformity with the roadmap prescribed by the Thirteenth



Finance Commission, the growing deficit and debt burden hangs like the Damocles' sword over the state finances. At the same time the inflated GSDP growth rate remains as a question mark on the credibility of the seemingly sound fiscal indicators. Furthermore, the vulnerability of the economic base on which the state finance relies for its sustenance remains as the 'Achilles heel' in the entire set up.

**TABLE 2.7: COMPONENTS OF THE GROSS STATE DOMESTIC PRODUCT AND THEIR GROWTH SINCE 2004-05**

Industry of origin	GSDP 2004-05 old base	GSDP 2004-05 base	Rise in GDP with new base (%)	Percentage of each industry 2008-09	Share of each industry 2009-10	2010-11	GSDP in 2010-11	GSDP Increase (%)
Agriculture	14813.6	16980.51	14.62	12.29	11.05	11.17	30926	82
Others of Primary	3284.38	4321.02	31.56	3.7	3.79	3.77	4385	101.05
<b>Primary Sector</b>	<b>18097.98</b>	<b>21301.53</b>	<b>18.13</b>	<b>15.99</b>	<b>14.84</b>	<b>14.94</b>	<b>41378.81</b>	<b>94.25</b>
Industry	9125.23	10220.58	12.8	8.56	8.84	8.78	24331.43	138.4
Construction	11841.14	14487.64	22.35	11.45	11.91	11.26	31190.52	115.28
Others of Secondary	2164.98	2192.9	0.82	1.21	1.12	1.02	2873.32	131.62
<b>Secondary Sector</b>	<b>23131.35</b>	<b>26891.12</b>	<b>16.25</b>	<b>21.22</b>	<b>21.87</b>	<b>21.08</b>	<b>58395.27</b>	<b>117.15</b>
Transport	11739.61	11833.77	0.8	9.66	9.92	9.76	27030.08	128
Trade etc	22415.56	23870.56	6.49	21.05	21.05	21.44	59380.74	148.76
Banking	6032.76	6060.49	0.45	5.05	4.89	4.98	13807.53	127.02
Real Estate	10681.5	13019.11	21.88	12.89	13.39	13.55	37533.18	188.06
Pub.Admin	5743.45	4979.21	-13.31	4.43	4.57	4.62	12785.82	156.78
Other services	9211.46	11308.21	22.76	9.71	9.51	9.63	26685.27	135.91
<b>Total services</b>	<b>65824.34</b>	<b>71071.35</b>	<b>7.97</b>	<b>62.79</b>	<b>63.29</b>	<b>63.98</b>	<b>177222.62</b>	<b>149.35</b>
Total GSDP	107053.67	119264	11.14	100	100	100	276996.7	132

Source: Economic Review 2007,2010 & 2011

# 3

## Revenue Profile and Mobilization

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3.1. For any national or sub-national economy, revenue mobilization is the key to economic development. In the state economy of Kerala, revenue mobilization has a few lofty objectives like.

- a) Maintaining the social sector achievements already made
- b) Attaining sustainable and rapid economic growth, and
- c) Reaching fiscal balance as mandated by the amended Fiscal Responsibility and Budget Management Act, 2003.

This chapter analyses the structure of revenue receipts in the state, more specifically the components of revenue and their growth rate. Further, it also examines the relative cost of revenue collection and the issues involved in tax evasion, low tax compliance, inordinate delay in settling cases and the growing lethargy in collection of arrears. It also suggests measures for bridling corruption and improving tax collection.

### REVENUE RECEIPTS

3.2 Though Kerala economy recorded appreciable growth in GSDP in the decade 2000, it was not accompanied by commensurate growth in revenue realization. Table 3.1 explains the revenue profile of the State. Revenue receipts recorded a decline in growth rate in 2005-06 over 2004-05 from 14.3% to 13.3%, which is mainly due to the introduction of the value added tax in 2005-06. However, the situation improved from 2006-07 onwards as a result of the introduction of the better tax administration measures by the Government. It introduced a series of measures to augment revenue mobilization such as 'Check-post take overs', introduction of E-governance in the check posts, Computerisation drive in taxation department, etc. The compensation made by the Centre for the loss of revenue incurred as a result of the introduction of VAT also helped to improve Revenue Receipts. States own taxes as percentage of total revenue receipts improved from 66.40% to 70.09% by 2010-11. Though there was an improvement in the rate of growth in 2006-07 over the previous period, a trend of fluctuation is observed thereafter. The same trend is depicted in the total revenue

receipts GSDP ratio as well. Own tax buoyancy<sup>1</sup> has declined after 2008-09 and regained later.

**TABLE 3.1 REVENUE RECEIPT (RS IN CRORE)**

Items	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Total Revenue Receipts (TRR)</b>	13500	15295	18187	21107	24512	26109	30991
Growth rate	14.3	13.30	18.91	16.06	16.13	6.52	18.70
TRR/GSDP	11.32	11.18	11.83	12.05	12.09	11.24	11.19
Buoyancy	1.02	0.90	1.53	1.16	1.02	0.45	0.97
<b>State's Own Taxes</b>	8964	9779	11942	13669	15990	17625	21722
Growth Rate	10.8	9.09	22.12	14.46	16.98	10.23	23.24
SOT as a percent of TRR	66.40	63.94	65.66	64.76	65.23	67.51	70.09
Own taxes/GSDP	7.52	7.15	7.77	7.80	7.89	7.58	7.84
Buoyancy	0.77	0.62	1.79	1.04	1.08	0.70	1.21
<b>State's Non Tax Revenue (NTR)</b>	819	937	938	1210	1559	1852	1931
Growth Rate	1.5	14.41	0.11	29.00	28.84	18.81	4.24
NTR as a percent of TRR	6.07	6.13	5.16	5.73	6.36	7.09	6.23
Own Non tax/GSDP	0.69	0.68	0.61	0.69	0.77	0.80	0.70
Buoyancy	0.11	0.98	0.01	2.09	1.83	1.29	0.22
<b>Central Transfers (CT)</b>	3718	4579	5307	6229	6963	6632	7338
Growth Rate	27.3	23.16	15.90	17.37	11.78	-4.75	10.65
CT as a percent of TRR	27.54	29.94	29.18	29.51	28.41	25.40	23.68
Buoyancy	1.95	1.57	1.28	1.25	0.75	-0.33	0.55
CT as a percent of GSDP	3.12	3.35	3.45	3.56	3.43	2.85	2.65
<b>GSDP (at current prices)</b>	119264	136842	153785	175141	202783	232381	276997
Growth rate	14	14.74	12.38	13.89	15.78	14.60	19.20

<sup>1</sup> Buoyancy is the elasticity or degree of responsiveness of fiscal variables with respect to a given change in the base variable. For instance, for 2010-11 total revenue buoyancy of 0.97 implies that revenue receipts tend to increase by 0.97 percentage points, if the GSDP increase by one percent.

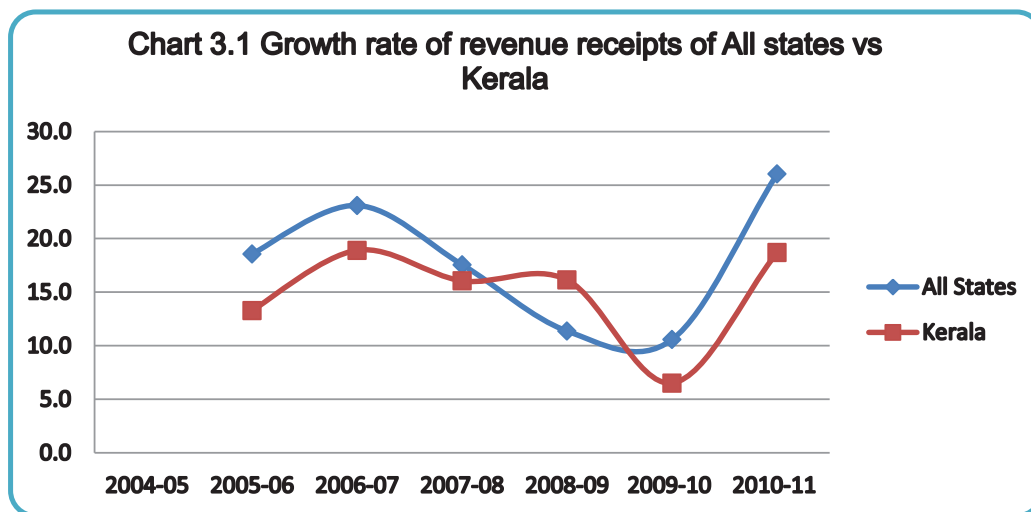
3.3 As per table 3.1, the states own-tax revenue increased by 23.2% in 2010-11 as compared to the previous year. Though state's own revenue as percentage of total revenue receipts records an unsteady trend, it has increased to 70.09% in 2010-11 from 67.51 percent in the previous year. Similarly, in 2010-11 both state's own taxes GSDP ratio and buoyancy recorded improvement. The contributions of non-tax revenues (Interest receipts, fees, user charges, rates, etc. or receipts from general services, social services and economic services) have been low and falling. In 2004-05 Non tax Revenue was 0.61% as percentage of GSDP. It continued to be below 1% of GSDP until 2010-11 while maintaining a zigzag pattern. Augmenting non-tax revenues is an important means for improving Kerala's state finances. When own non-tax revenue as percentage of total revenue receipts is examined, it is observed that it always remained below 8%. This is abysmal when compared to many developing countries. Table 3.1 also elucidates the declining trend of growth of Central Transfers. Central transfers as percentage of total revenue receipts declined from 27.3% in 2004-05 to 23.68 per cent in 2010-11. Though there was an improvement in shared taxes as per the recommendation of the 12<sup>th</sup> Finance Commission, grants-in-aid has drastically declined. Similarly the percentage share of divisible pool of the central taxes assigned to Kerala was the lowest under the 13<sup>th</sup> Finance Commission (2.34%). It is mainly these two factors which contributed to the declining share of Central Transfers. Buoyancy which was greater than one until 2007-08, become negative in 2009-10 and less than one in 2010-11

#### REVENUE RECEIPTS-KERALA VS ALL STATES

3.4 In the comparison of the rate of growth of revenue receipts of Kerala with all states average (Table 3.2), it is found that the growth of Kerala is lower except in 2008-09. At the same time, here, difference in tax revenue growth is not as glaring as the difference in total revenue receipts. Hence, this may be accounted for by very poor growth rate of non-tax revenue of Kerala as compared with all states average. Chart 3.1 clearly indicates that growth rate of revenue receipts of all states was above that of Kerala except in 2008-09. This may be attributable to increased remittance effect and consumer state effect.

**TABLE 3.2 REVENUE RECEIPTS: ALL STATES VS KERALA (RS IN CRORE)**

		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
All States	Revenue Receipts	363512	431021	530556	623748	694657	768140	968070
	Growth Rate		18.6	23.1	17.6	11.4	10.6	26.0
	Tax Revenue	182027	212307	252548	286546	482983	528070	673420
	Growth Rate		16.6	19.0	13.5	68.6	9.3	27.5
	Non Tax Revenue	102935	124689	157714	185799	211675	240060	294650
	Growth Rate		21.1	26.5	17.8	13.9	13.4	22.7
	Capital Receipts	1174172	1711653	2417603	2310075	196634	239500	236600
	Growth Rate		45.8	41.2	-4.4	-91.5	21.8	-1.2
Kerala	Revenue Receipts	13500	15294	18186	21107	24512	26109	30991
	Growth Rate		13.3	18.9	16.1	16.1	6.5	18.7
	Tax Revenue	11369	12297	15154	17721	20266	22024	26864
	Growth Rate		8.2	23.2	16.9	14.4	8.7	22.0
	Non Tax Revenue	2132	2998	3033	3386	4246	4086	4127
	Growth Rate		40.6	1.2	11.7	25.4	-3.8	1.0
	Capital Receipts	50379	53718	58727	66612	83198	121053	77947
	Growth Rate		6.6	9.3	13.4	24.9	45.5	-35.6



**STRUCTURE AND GROWTH OF OWN TAX REVENUE**

3.5 Next the major sources of revenue are examined in detail. Table 3.3 elucidates a fluctuating trend of growth of own tax sources of revenue. While 2009-10 was an year of poor performance of almost all taxes 2010-11 recorded a better picture. It may be noted that while sales tax, excise duty, and stamps and registration realized substantial growth in 2010-11 over 2009-10, motor vehicles tax, electricity duty and 'others' recorded a decline.

**TABLE 3.3: STRUCTURE AND GROWTH RATE OF OWN TAX REVENUE (RS.IN CRORE)**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Sales Tax/VAT	6701	7038	8563	9372	11377	12771	15833
Growth Rate	11.85	5.03	21.67	9.45	21.39	12.25	23.98
Buoyancy	0.85	0.34	1.75	0.68	1.36	0.84	1.25
Excise Duty	746	841	953	1169	1398	1515	1700
Growth Rate	13.72	12.73	13.32	22.67	19.59	8.37	12.18
Buoyancy	0.98	0.86	1.08	1.63	1.24	0.57	0.63
Motor Vehicle Tax	610	629	708	853	937	1131	1331
Growth Rate	4.1	3.11	12.56	20.48	9.85	20.70	17.72
Buoyancy	0.29	0.21	1.01	1.47	0.62	1.42	0.92
Stamp Duty & Regn.	775	1101	1520	2028	2003	1896	2552
Growth Rate	4.91	42.06	38.06	33.42	-1.23	-5.34	34.63
Buoyancy	0.35	2.85	3.07	2.41	-0.08	-0.37	1.80
Electricity Duty	10	32	32	39	56	25	21
Growth Rate	-94.74	220.00	0.00	21.88	43.59	-55.36	-17.16
Buoyancy	-6.76	14.93	0.00	1.58	2.76	-3.79	-0.89
Others	121	139	166	208	219	287	285
Growth Rate	4.31	14.88	19.42	25.30	5.29	31.05	-0.77
Buoyancy	0.31	1.01	1.57	1.82	0.34	2.13	-0.04
Total	8964	9779	11942	13669	15990	17625	21722
<b>Percentage to Total</b>							
Sales Tax	74.75	71.97	71.70	68.56	71.15	72.46	72.89
Excise Duty	8.32	8.60	7.98	8.55	8.74	8.60	7.82
Motor Vehicle Tax	6.80	6.43	5.93	6.24	5.86	6.42	6.13
Stamp Duty&Regn	8.65	11.26	12.73	14.84	12.53	10.76	11.75
Electricity Duty	0.11	0.33	0.27	0.29	0.35	0.14	0.10
Others	1.35	1.42	1.39	1.52	1.37	1.63	1.31
Total	100	100	100	100	100	100	100
Growth of Own Taxes(%)	10.82	9.09	22.12	14.46	16.98	-2.59	23.25
Own Tax to GSDP Ratio	7.52	7.15	7.77	7.80	7.89	7.58	7.84
Yearly buoyancy of Taxes	0.77	0.62	1.79	1.04	1.08	-0.18	1.21
GSDP	119264	136842	153785	175141	202783	232381	276997
Growth rate of GSDP	14.02	14.74	12.38	13.89	15.78	14.60	19.20

Total Own Tax buoyancy also recorded marked improvement in 2010-11 over the previous year. While the share of sales tax continues to be above 70 percent of the own

tax revenue, variation in many other categories are alarming. Own tax GSDP ratio has never grown above 8 per cent in the period under consideration.

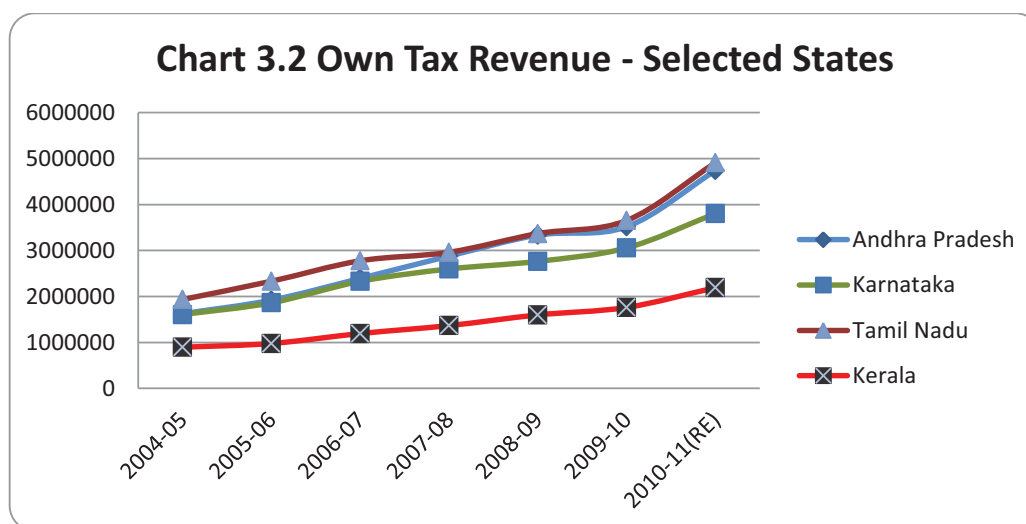
OWN TAX REVENUE: KERALA AND SELECTED STATES

3.6 When own tax revenue growth of Kerala is compared with other southern States, it is found that Kerala lags very much behind others all throughout. Table 3.4 explains this.

**TABLE 3.4 OWN TAX REVENUE – SELECTED STATES (RS IN CRORE)**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (RE)
Andhra Pradesh	16255	19207	23926	28794	33358	35176	47421
Growth Rate		18.17	24.57	20.35	15.85	5.45	34.81
Buoyancy		1.31	1.39	0.96	0.93	0.37	1.73
Karnataka	16072	18632	23301	25987	27646	30579	38049
Growth Rate		15.92	25.06	11.53	6.38	10.61	24.43
Buoyancy		0.91	1.57	0.60	0.44	1.21	1.33
Tamil Nadu	19357	23326	27771	29619	33684	36547	49125
Growth Rate		20.50	19.06	6.65	13.73	8.50	34.42
Buoyancy		1.16	0.93	0.51	0.95	0.44	1.90
Kerala	8964	9779	11942	13669	15990	17625	21922
Growth Rate		9.09	22.12	14.46	16.98	10.22	24.38
Buoyancy		0.62	1.79	1.04	1.08	0.70	1.27

This indicates untapped tax revenue potential of the state and the higher level of tax evasion in Kerala as compared to other states. Chart 3.2 indicates a widening gap of own tax revenue growth between Kerala and other southern states.



## STRUCTURE AND GROWTH OF SALES TAX REVENUE

3.7 A broad consumption tax is expected to minimize distortions and unnecessary costs of taxation. In Kerala, though cost of taxation and distortion are high, base is broad and around 90 to 95 % of the sales-tax revenue comes from sales tax/VAT. After the introduction of VAT in 2005-06, there has been substantial improvement in sales tax revenue collection. This is clear from Table 3.5 The credit for this improvement in sales tax revenue during the post VAT period may be shared equally by both VAT and better tax administration.

3.8 The above measures have given a new impetus to the mobilisation of tax revenue in general and sales tax revenue in particular. The average share of sales tax to total sales tax revenue has increased from 91.16% during 2000-01 to 2004-05 to 94 percent during 2005-06 to 2010-11. At the same time the average rate of growth during post VAT period was 22.73 percent as compared 20.03% States sales tax.

3.9 As evident from Table 3.5, the share of Central sales tax in total sales tax declined from 8.22 percent in 2000-01 to 1.96% in 2010-11.. This is due to introduction of VAT, in which the rate of CST reduced to half. After the introduction of VAT, sales tax is collected under two statutes- one with regard to the State sales tax Act and the other with regard to the trade tax/VAT Act. Liquor, petrol, diesel and aviation turbine fuel continue to remain outside the VAT net which fetch more than 40% of the total sales tax/VAT revenue in the State. The rest is collected under VAT.

3.10 Table 3.6 shows , differences in revenue buoyancy before and after the introduction of VAT. Though post-VAT revenue buoyancy is 1.65 under trade tax; this is less than 1 under state sales tax and negative under Central sales tax. Overall sales tax buoyancy is marginally higher than 1. This situation would definitely change when the State switches over to GST. Under GST many of the services would be taxed by the State. Since Kerala being a service sector dominated economy, the revenue buoyancy would be higher under GST. This low revenue buoyancy may mainly be attributed to widespread tax evasion/avoidance practices. A study by CDS (2003) found that tax evasion is at the rate of 35% of the potential. This means, without evasion, if tax collection was possible in 2010-11, total sales tax revenue would have been 35% higher at Rs.21,374.66 crore instead of Rs.15833.11 crore which means a revenue loss of 5541.55 crore to the exchequer because of tax evasion.

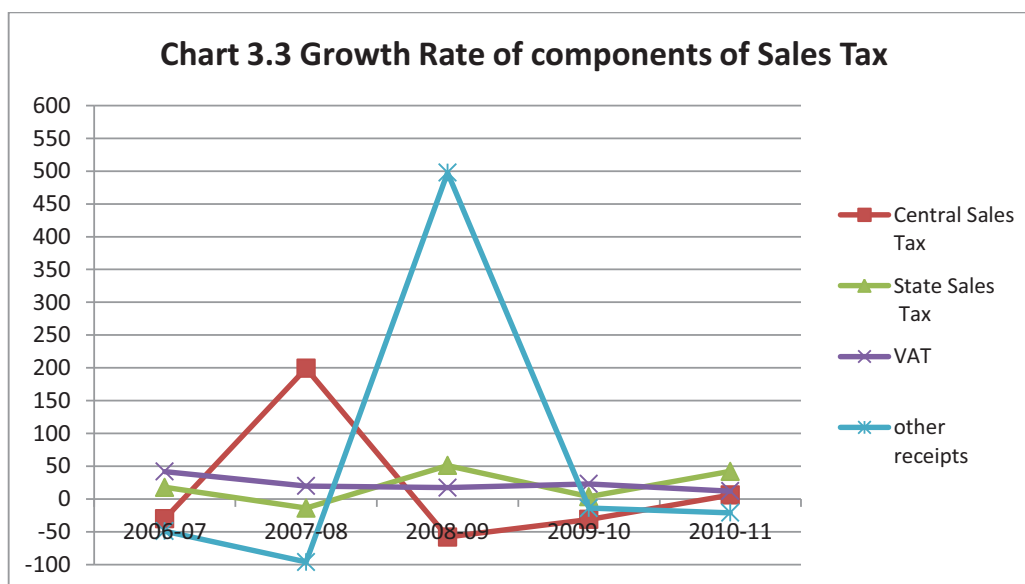


TABLE 3.5. TOTAL SALES TAX REVENUE OF KERALA-STRUCTURE, GROWTH AND BUOYANCY (RS IN CRORE)

Year	Sales Tax				
	Total	Central sales tax	State sales tax	Trade tax/ VAT	Other receipts
2000-01	4344.33	356.95	3971.43		15.95
2001-02	4440.85	260.98	4164.57		15.31
2002-03	5343.15	355.88	4917.14		70.13
2003-04	5991.43	700.36	5213.83		77.24
2004-05	6701.05	361.24	6182.69		157.11
2005-06	7037.97	486.36	3297.26	2955.81	298.54
2006-07	8563.31	339.66	3882.04	4189.58	152.03
2007-08	9371.76	1016.21	3334.96	5014.8	5.79
2008-09	11377.13	425.38	5035.19	5881.97	34.6
2009-10	12770.89	292.94	5212.92	7235.26	29.77
2010-11	15833.11	310.42	7402.07	8097.15	23.46
2000-01 to 2004-05	26820.81	2035.41	24449.66		335.74
2005-06 to 2010-11	64954.17	2870.97	28164.44	33374.57	544.19
<b>Structure: Percentage Shares</b>					
2000-01	100	8.22	91.42		0.37
2001-02	100	5.88	93.78		0.34
2002-03	100	6.66	92.03		1.31
2003-04	100	11.69	87.02		1.29
2004-05	100	5.39	92.26		2.34
2005-06	100	6.91	46.85	42	4.24
2006-07	100	3.97	45.33	48.92	1.78
2007-08	100	10.84	35.59	53.51	0.06
2008-09	100	3.74	44.26	51.7	0.3
2009-10	100	2.29	40.82	56.65	0.23
2010-11	100	1.96	46.75	51.14	0.15
2000-01 to 2004-05	100	7.59	91.16		1.25
2005-06 to 2010-11	100	4.42	43.36	51.38	0.84
<b>Annual Growth Rate: Percent per Annum</b>					
2000-01	12.74	24.24	11.73		37.39
2001-02	2.22	-26.89	4.86		-4.05
2002-03	20.32	36.37	18.07		358.13
2003-04	12.13	96.79	6.03		10.15
2004-05	11.84	-48.42	18.58		103.4
2005-06	5.03	34.64	-46.67		90.01
2006-07	21.67	-30.16	17.74	41.74	-49.07
2007-08	9.44	199.19	-14.09	19.7	-96.19
2008-09	21.4	-58.14	50.98	17.29	497.69
2009-10	12.25	-31.13	3.53	23.01	-13.97
2010-11	23.98	5.96	41.99	11.91	-21.17
2000-01 to 2004-05	11.85	16.42	11.85		101.00
2005-06 to 2010-11	15.63	20.06	8.91	18.94	67.88

Table 3.6: Tax Buoyancy by categories based on Table 3.5

Year	Sales Tax	Central Sales Tax	State Sales tax	Trade Tax/ VAT	Other Receipts
2000-01	2.52	4.80	2.32		7.41
2001-02	0.31	-3.71	0.67		-0.56
2002-03	1.77	3.16	1.57		31.11
2003-04	1.08	8.58	0.53		0.90
2004-05	0.84	-3.45	1.32		7.37
2005-06	0.34	2.35	-3.17		6.11
2006-07	1.75	-2.44	1.43	3.37	-3.96
2007-08	0.68	14.34	-1.01	1.42	-6.93
2008-09	1.36	-3.68	3.23	1.10	31.53
2009-10	0.84	-2.13	0.24	1.58	-0.96
2010-11	1.25	0.31	2.19	0.62	-1.10



3.11 Chart 3.3 gives a graphic representation of the component-wise rate of growth of tax revenue. When central sales tax drastically declined after the introduction of VAT in 2005-06, State sales tax and VAT recorded unsteady but higher rates of growth. Item 'others' leaped from negative growth in 2007-08 to 497.67% in 2008-09 and again nose-dived to -13.97 in 2008-09 and further declined to -21.17 in 2010-11. This jump, the committee found on enquiry that it was accounted for by wrong booking of an amount of 10.12 crore under 0040-00-800 account, even after the stoppage of entry tax collection in 2006-07 by an order of supreme court. Similar misclassification is seen occurred in the previous years also. In such cases, reconciliation should be done on time

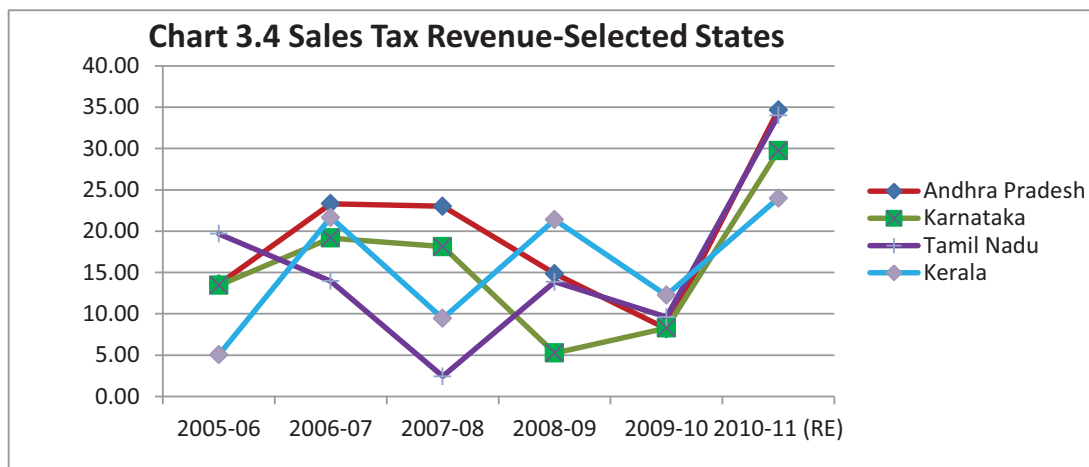
and taxes department should see that taxes are collected and recorded under proper head of account.

SALES TAX REVENUE-SELECTED STATES:

3.12 Comparatively higher growth rate of sales tax revenue is recorded by Andhra Pradesh followed by Karnataka. Kerala which, while engages 2.75% of the population of India, accounts for 10 to 15% of the national consumption is supposed to record a higher rate of growth of sales tax revenue. Rakhe (2003) identified 35% sales tax leakage from the States Sales tax potential. Tax avoidance, evasion, poor compliance, poor tax administration etc are all contributing to this high leakage. It is in this situation that the former Government launched an 'Operation Palakkad gap' in 2006. It was started by 'Valayar check post take over operation' on 21.09.2006 and ended on 24.09.2006. When the revenue collection of the three previous days of 'operation take over' was only 45.15 lakhs, that of the three 'operation take over' days was 129.85 lakhs which showed 187.59% increase. 'Take over' was not restricted to check posts alone. All the neighboring interior routes were also blocked. This takeover effort was continued for some time by providing sufficient staff and other required facilities. Thanks to Take over operation, revenue from penalty which was mere Rs.8.5 lakhs in August 2006 rose to Rs.24.75 lakhs in August 2007 (191.2% increase).

TABLE 3.7 SALES TAX REVENUE-SELECTED STATES RS IN CRORE

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (RE)
Andhra Pradesh	11041	12542	15467	19026	21852	23640	31838
Growth Rate		13.60	23.33	23.01	14.85	8.18	34.68
Buoyancy		0.98	1.32	1.09	0.87	0.55	1.73
Karnataka	8700	9869	11762	13894	14623	15833	20540
Growth Rate		13.44	19.17	18.13	5.25	8.27	29.73
Buoyancy		0.77	1.20	0.95	0.36	0.94	1.62
Tamil Nadu	12996	15555	17727	18156	20675	22661	30371
Growth Rate		19.69	13.97	2.42	13.87	9.61	34.02
Buoyancy		1.11	0.68	0.19	0.96	0.49	1.88
Kerala	6701	7038	8563	9372	11377	12771	15836
Growth Rate		5.03	21.67	9.44	21.40	12.25	24.00
Buoyancy		0.34	1.75	0.68	1.36	0.84	1.25



3.13 Chart 3.4 reflects unsteady nature of rate of growth of sales tax revenue of Kerala and selected states. While Andhra Pradesh and Tamil Nadu fetches higher rate of growth Kerala and Karnataka lag behind towards the end of the period. Per capita sales tax revenue seems to be a better tool to compare tax potential and tax realized. That attempt is presented in table 3.8

**TABLE 3.8 PERCAPITA SALES TAX-SELECTED STATES(Rs)**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (RE)
Andhra Pradesh	1389	1561	1904	2319	2637	2826	3771
Karnataka	5218	5038	5176	5134	4712	4691	5143
Tamil Nadu	2018	2395	2709	2754	3114	3391	4515
Kerala	2038	2123	2562	2781	3350	3732	4595

3.14 As per chart 3.5, in per-capita sales tax, Karnataka tops. Kerala with slightly higher level than Tamilnadu comes next while Andhra comes to lowest position.

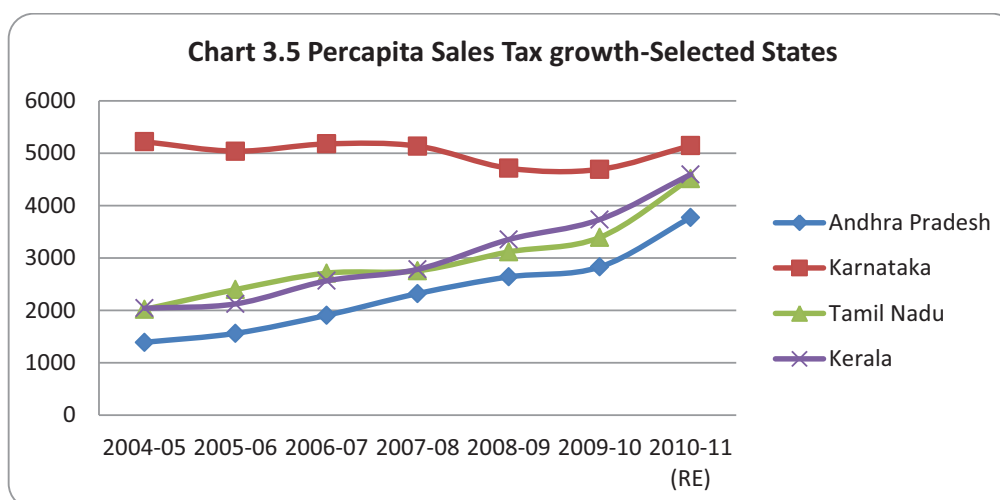


Chart also shows the increase in sales/VAT revenue in the case of all states. In spite of Kerala being a consumer state with a booming remittance sector, per capita sales tax lags behind that of Karnataka. Reasons behind this may be probed.

#### COMMODITY WISE TAX COLLECTION

3.15 As per tables 3.9 and 3.10, construction sector registered an average annual growth rate of 13.74%. Among the 8 items related to the construction sector, Tiles with 40.47% average rate of growth, Timber with 22.61% and paint with 18.98% outweighs other items. Fascinatingly, Sanitary ware recorded -1.57% average rate of growth. When tax buoyancy with respect to construction related goods (Table 3.8) is examined, all goods other than sanitary ware recorded buoyancy greater than unity. 'Sanitary ware' sector performs worse with negative tax buoyancy. Negative buoyancy of sanitary ware points to huge trade diversion to the neighboring States like Pondicherry (Mahe), Karnataka and Tamilnadu. Sanitary/Electrical etc goods are bought from these markets and brought in through rail/roadways. Low buoyancy of timber and furniture sectors may point to illegal felling of trees and the related timber theft and tax evasion with or without the involvement of the corrupt officials, substitution of timber by other construction materials, etc. Fast declining forest revenue (non-tax) may also be read with this low buoyancy.

3.16 While twenty items were examined, conspicuous variation in the rate of growth over the period and across items was found (Table3.9). Indian made foreign liquor maintained a tempo of growth all throughout and it claimed rank one in tax contribution in 2010-11 as was in the previous year. Petroleum products claimed second rank. While medicines improved its position from 8 in 2009-10 to 7 in 2010-11 showing an increase in tax contribution, sanitary ware retains its 20th position. Similarly, Jewelry, while enjoying very steep appreciation in prices doesn't show a corresponding increase in tax revenue contribution and retains the position 6 in 2010-11 as in the previous year.

**TABLE 3.9 COMMODITY WISE TAX COLLECTION (RS IN CRORE)**

Name of Commodity	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Rank in 2010-11
Petroleum products	1918.15	2028.88	2337.87	2341.29	2670.01	2903.2	3550.52	2
IMFL	1197.77	1427.59	1681.3	1997.61	2503.77	2984.9	3775.04	1
Motor Vehicles	387.97	560.07	792.13	816.47	712.94	829.56	1602.16	3
Rubber	317.97	182.9	223.74	201.52	162.47	195.68	297.81	5
Medicines	95.87	89.65	95.02	130.15	142.22	155.39	199.33	7
Jewellery	51.43	21.2	97.9	120.93	143.51	163.04	225.4	6
Television	48.92	50.64	45.11	58.66	73.02	133.92	181.5	8
Cosmetics	23.32	11.24	55.85	48.64	52.68	64.29	70.29	15
Foot Wear	23.09	10.5	15.42	18.22	21.64	27.22	37.68	18
Grocery	19.8	22.61	29.68	44.06	40.57	52.95	66.07	16
Tyre & Tubes	16.41	25.13	59.28	21.09	38.3	67.09	80.12	14
Cooked Food	12.45	17.43	26.36	31.61	38.48	36.35	48.15	17
Cement	234.02	239.35	308.41	365.56	471.62	502.36	506.87	4
Iron and Steel	82.47	75.89	94.92	118.35	133.1	156.21	170.28	9
Paint	64.44	52.89	98.12	90.41	109.54	148.62	144.64	11
Electrical Goods	46.35	49.96	72.66	83.45	95.39	110.49	92.61	12
Timber	29.03	39.5	53.63	74.57	58.43	64.78	87.8	13
Tiles	24.69	35.47	73.56	96.41	116.99	126.81	166.1	10
Sanitary ware	21.46	21.57	25.2	24.41	16.38	22.92	15.89	20
Furniture	19.28	18.65	14.26	17.49	24.3	25.75	31.86	19
Total of 20 items	4634.89	4981.12	6200.42	6700.9	7625.36	8771.53	11350.12	
As % of total ST/ VAT collection	69.17	70.77	72.41	71.5	67.02	68.68	71.69	
Total ST/ VAT collection	6701	7038	8563	9372	11377	12771	15833	
<b>GSDP in Construction Sector</b>								
GSDP in Construction (Base 2004-05)	14488	17449	19978	21740	23212	27666	31191	

**TABLE 3.10 GROWTH IN CONSTRUCTION SECTOR GDP AND CONSTRUCTION SECTOR-RELATED GOODS**

Year	GSDP in Construction Sector	Cement	Iron	Paint	Electrical Goods	Timber	Tiles	Sanitary Ware	Furniture
2005-06	20.44	2.28	-7.98	17.92	7.79	36.07	43.66	0.51	-3.27
2006-07	14.49	28.85	25.08	85.52	45.44	35.77	107.39	16.83	-23.54
2007-08	8.82	18.53	24.68	-7.86	14.85	39.05	31.06	-3.13	22.65
2008-09	6.77	29.01	12.46	21.16	14.31	-21.64	21.35	-32.90	38.94
2009-10	19.19	6.52	17.36	35.68	15.83	10.87	8.39	39.93	5.97
2010-11	12.74	0.90	9.01	-2.68	-16.18	35.54	30.98	-30.67	23.73
Average	13.74	14.35	13.44	18.98	13.67	22.61	40.47	-1.57	10.75

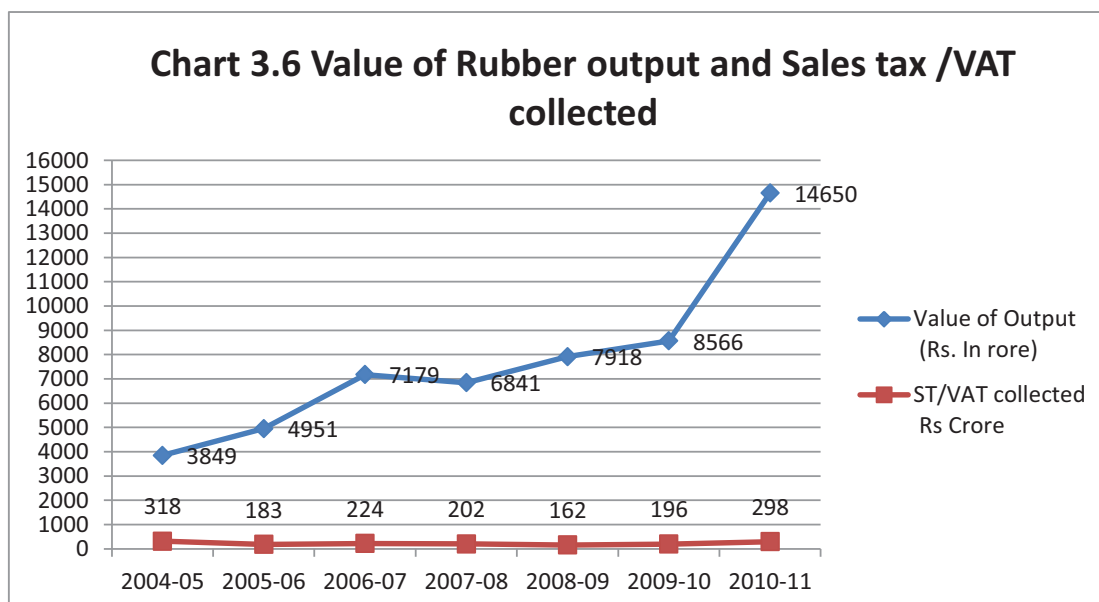
**TABLE 3.11 TAX BUOYANCY WITH RESPECT TO CONSTRUCTION SECTOR RELATED GOODS**

	Cement	Iron	Paint	Electrical Goods	Timber	Tiles	Sanitary Ware	Furniture
2005-06	0.11	-0.39	-0.88	0.38	1.76	2.14	0.03	-0.16
2006-07	1.99	1.73	5.90	3.14	2.47	7.41	1.16	-1.62
2007-08	2.10	2.80	-0.89	1.68	4.43	3.52	-0.36	2.57
2008-09	4.29	1.84	3.13	2.11	-3.20	3.15	-4.86	5.75
2009-10	0.34	0.90	1.86	0.82	0.57	0.44	2.08	0.31
2010-11	0.07	0.71	-0.21	-1.27	2.79	2.43	-2.41	1.86
Average	1.48	1.27	1.48	1.14	1.47	3.18	-0.73	1.45

3.17 Rubber ,crop booms in its performance in area, production and productivity. Similarly prices realised by rubber is the highest among agricultural commodities. However tax revenue contributed by rubber sector seems to be dismal. Table 3.12 and chart 3.6 explains the tax revenue realized from rubber. Rubber recorded sustained, sometimes steep increases in its price all throughout. At the same time sales tax/VAT revenue realized from rubber declined drastically and continuously. Accelerated increase in the value of output is not reflected in the tax collected as indicated in chart 3.6.

TABLE 3.12: VALUE OF RUBBER OUTPUT AND VAT

Year	Area(lack h ha)	Production (Lakh tonnes)	Value of Output (Rs. In crore)	Price (Rs per Tonne)	ST/VAT collected Rs Crore	As % of value of output
2004-05	4.81	6.91	3848.87	55,700	318	8.26
2005-06	4.94	7.39	4950.561	66990	183	3.70
2006-07	5.02	7.8	7179.12	92040	224	3.12
2007-08	5.12	7.53	6841.005	90850	202	2.95
2008-09	5.17	7.83	7917.696	101120	162	2.05
2009-10	5.25	7.45	8566.01	114980	196	2.29
2010-11	5.34	7.71	14650	190030	297.81	2.03



3.18 It is reported that this steep fall in tax revenue from rubber was primarily due to the of rate cut of VAT from 12.5% to 4% in 2005-06. Hence the tax collection which was 8.26% of the total value of rubber produced in the state in 2004-05 declined to 3.70% in 2005-06. When total value realized from rubber output became Rs 14650 crore in 2010-11 from 8566.01 crore in 2009-10, tax revenue realized declined to 2.03 % of value of output from 2.29% in 2009-10.

#### Structure and Growth of own-non-tax revenue

3.19 Non-tax revenue includes payments made to the government that are compulsory and required or voluntary whether required or not. In the globalization context, the rationale of raising more non-tax revenue is accepted.



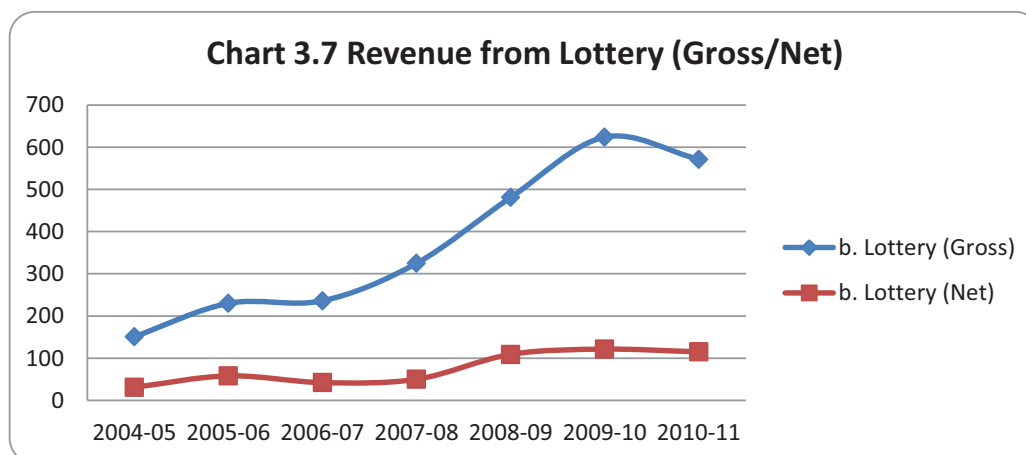
**TABLE 3.13 STRUCTURE OF OWN NON-TAX REVENUES (RS. CRORE)**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	
a. Forests	200	190	175	154	224	273	274	
b. Lottery (Gross)	151	230	236	325	481	624	571	
b. Lottery (Net)	31	58	42	50	109	121	115	
c. Interest Receipts	41	46	45	70	84	152	171	
d. Education.,Sports,Art & Culture	86	82	100	101	130	131	151	
e. Other Admn Services	79	55	54	62	88	99	134	
f. Contriбn towards pension etc	17	18	29	30	31	33	34	
g. Medical & Public Health	28	30	33	37	39	34	63	
h. Cooperation	29	36	36	37	42	49	59	
i. Non-ferrous mining & inds.	21	25	28	33	40	39	46	
j. Roads & Bridges	15	20	15	20	33	46	30	
k. Other Genl. Eco. Services	13	12	18	19	24	21	24	
Total	680	744	769	888	1216	1502	1558	
l. Others	139	193	169	322	343	350	373	
Total Own Non-Tax	819	937	938	1210	1559	1852	1931	
<b>Percentage to Total</b>								
a. Forests	24.42	20.28	18.66	12.73	14.37	14.74	14.20	
b. Lottery (Gross)	18.44	24.55	25.16	26.86	30.85	33.70	29.60	
b. Lottery (Net)	3.79	6.19	4.48	4.13	6.99	6.55	5.95	
c. Interest Receipts	5.01	4.91	4.80	5.79	5.39	8.23	8.88	
d. Education., Sports, Art &	10.50	8.75	10.66	8.35	8.34	7.07	7.81	
e. Other Admn Services	9.65	5.87	5.76	5.12	5.64	5.35	6.92	
f. Contriбn towards pension	2.08	1.92	3.09	2.48	1.99	1.78	1.78	
g. Medical & Public Health	3.42	3.20	3.52	3.06	2.50	1.84	3.29	
h. Cooperation	3.54	3.84	3.84	3.06	2.69	2.65	3.06	
i. Non-ferrous mining & inds.	2.56	2.67	2.99	2.73	2.57	2.11	2.37	
j. Roads & Bridges	1.83	2.13	1.60	1.65	2.12	2.48	1.54	
k. Other Genl. co. Services	1.59	1.28	1.92	1.57	1.54	1.13	1.22	
l. Others	16.97	20.60	18.02	26.61	22.00	18.92	19.33	
Total Own Non-Tax	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
Growth Rate	1.5	14.41	0.11	29.00	28.84	18.79	4.25	
Own Non-Tax to GSDP ratio	0.69	0.68	0.61	0.69	0.77	0.80	0.70	

3.20 When the Table 3.13 is examined, it is evident that the contribution made by most of the sectors is negligible. 'Forests' was the single largest contributor in the beginning. But its share declined drastically from 24.42% to 14% in a short span of time. This decline may be attributed to negligence and faulty forest policy pursued. Lease rent should be substantially revised. Substantial arrears of lease (185 crores as per CAG Report 2011) may be collected through launching a special drive. Royalty on minor minerals which are fixed way back may be hiked substantially to raise more revenue and to ensure conserved use of such resources with a view to assuring sustainable development. Interest receipts ought to bring a higher share of non-tax revenue. But its contribution has always been less than 9%. CAG 2010-11 points out the loss of revenue

in interest receipts as against interest due. The loss of revenue due to evasion of taxes, write off (waiver and refunds) etc is identified as Rs.4783.23 crores. As the Table 3.13 depicts, when the share of forests declined, that of lottery improved. Gross lottery revenue recorded a growth from 18.4% of non-tax revenue to around 30% of it. However, lottery administration absorbs major share of the collection and hence net revenue from lottery remains to be around 6% of the non-tax revenue.

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
b. Lottery (Gross)	151	230	236	325	481	624	571
b. Lottery (Net)	31	58	42	50	109	121	115
Lottery Expenditure	120	172	194	275	372	503	457



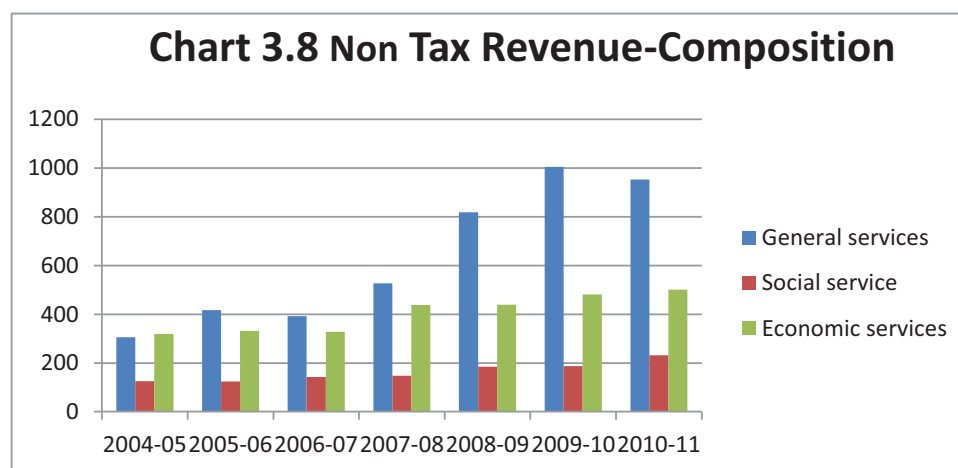
3.21 This anomaly is brought out by the Table on gross and net revenue from lottery (Table 3.14 and graph3.7). Accordingly when gross revenue from lottery is Rs 571 crore in 2010-11 net revenue is only Rs 115 crore. Though the ripple effect created by lottery through creation of employment is very important from the societal point of view, rationalisation of lottery costs is need of the hour from the fiscal point of view.

#### NON-TAX REVENUE- CATEGORY WISE

3.22 When general services of governmental machinery to the people can fetch much revenue to the exchequer, as the services are many and varied in nature, including police and administration, it brings much less as many a services are free and others are charged very less. Political compulsions stand in the way of raising these revenues. However non-tax revenue collected 49.3% (1930.79 Crore) emerges from general services in 2010-11

**TABLE 3.15 NON TAX REVENUE COMPARISON OF GENERAL, SOCIAL AND ECONOMIC SERVICES (RS IN CRORE)**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Non tax revenue	819.08	936.78	937.57	1209.55	1559.29	1852.22	1930.79
Growth Rate		14.37	0.08	29.01	28.91	18.79	4.24
Buoyancy		0.97	0.01	2.09	1.83	1.29	0.22
<b>General services</b>	<b>305.1</b>	<b>416.62</b>	<b>391.96</b>	<b>526.09</b>	<b>817.74</b>	<b>1003.89</b>	<b>952.33</b>
Growth Rate		36.55	-5.92	34.22	55.44	22.76	-5.14
Buoyancy		2.48	-0.48	2.46	3.51	1.56	-0.27
Police	21.4	28.62	24.81	37.11	57.99	35.71	24.38
Other Administrative services	78.79	54.77	53.85	61.85	88.22	99.46	133.66
Miscellaneous general services	178.11	299.98	271.45	383.33	628.01	817.27	741.74
Others	26.8	33.25	41.85	43.8	43.52	51.45	52.55
<b>Social service</b>	<b>125.25</b>	<b>124.57</b>	<b>142.47</b>	<b>147.79</b>	<b>184.99</b>	<b>187.47</b>	<b>231.22</b>
Growth Rate		-0.54	14.37	3.73	25.17	1.34	23.34
Buoyancy		-0.04	1.16	0.27	1.60	0.09	1.22
Education, sports and culture	85.76	82.09	99.91	100.89	130.24	130.61	150.83
Medical and public health	27.52	29.8	32.99	36.92	38.58	34.43	63.45
Labour and employment	4.15	4.97	5.16	5.25	6.28	11.06	9
Others	7.82	7.71	4.41	4.73	9.89	11.37	7.94
<b>Economic services</b>	<b>319.11</b>	<b>331.06</b>	<b>328.33</b>	<b>437.39</b>	<b>439.34</b>	<b>481.07</b>	<b>500.3</b>
Growth Rate		3.74	-0.82	33.22	0.45	9.50	4.00
Buoyancy		0.25	-0.07	2.39	0.03	0.65	0.21
Forestry and wild life	199.69	189.63	174.56	154.45	223.71	272.8	274.1
Cooperation	29.38	35.78	35.75	36.52	42.01	49.38	59.1
Non-ferrous mining and mineral industry	21.46	25.09	28.31	30.81	40.32	39.26	45.79
Roads and bridges	14.67	20.37	15.34	20.3	33.17	46.12	46
Others	53.91	60.19	74.37	195.31	100.13	73.51	75.31



But the revenue turned out from social and economic services together comes to 37.87% of non-tax revenue only. Graph 3.8 highlights magnitude of revenue realized from General, social and economic services.

**TABLE 3.16 GROSS COLLECTION OF SELECTED TAXES AND DUTIES VIS-À-VIS BUDGET ESTIMATE AND COST OF COLLECTION**

SI No	Head of Revenue	Year	Budget Estimates	Collection	Cost of Collection	Percentage of cost to Gross collection Kerala	All India Average cost of Collection
1	Tax on Sales, Trade etc	2006-07	7930.38	8563.31	78.21	0.91	0.82
		2007-08	10035.51	9371.76	89.75	0.96	0.83
		2008-09	10616.39	11377.13	102.59	0.90	0.88
		2009-10	12733.94	12770.89	126.59	0.99	NA
		2010-11	15125.69	15833.11	115.61	0.73	NA
2	Stamps and Registration	2006-07	924.63	1470.73	59.06	4.02	2.33
		2007-08	1449.47	1946.08	77.64	3.99	2.09
		2008-09	2320.46	1031.75	82.97	8.04	2.77
		2009-10	2630.3	1812.89	100.7	5.55	NA
		2010-11	2095.93	2477.19	101.56	4.10	NA
3	State Excise	2006-07	944.73	953.07	58.07	6.09	3.3
		2007-08	986.86	1169.25	69.4	5.94	3.27
		2008-09	1299.85	1397.64	72.84	5.21	3.66
		2009-10	1440.52	1514.81	83.31	5.50	NA
		2010-11	1836.21	1699.54	92.51	5.44	NA
4	Taxes on Vehicles	2006-07	730	707.74	21.61	3.05	2.47
		2007-08	835.08	853.17	26	3.05	2.58
		2008-09	1008.64	937.45	30.05	3.21	2.93
		2009-10	958.63	1131.1	33.96	3.00	NA
		2010-11	1301.88	1331.37	35.55	2.67	NA

3.23 Table 3.16 elucidates that revenue collection exceeded budget estimates in most of the years. At the same time, cost of revenue collection in Kerala is far higher than that at the all India level. Gallagher (2004) and Walters and Auriol (2005) found that when cost of collection of taxes in the developed countries come roughly to 1% of tax revenues, case studies indicate it to be around 0.9% to 3.9% in developing countries. Cost of collection in Kerala far exceeds the national and international level of cost needs

serious concern. Through cost effective measures, tax administration has to be strengthened.

Collection of revenue arrears:

3.24 The Committee found the CAG Report no.3 (2011), urging the government to make immediate and serious efforts to collect arrears of revenue so that revenue deficit can be reduced to a considerable extent.

**TABLE 3.17 COLLECTION OF ARREARS (RS IN CRORE)**

Sl No	Department	Amount of arrears as on 31 <sup>st</sup> March 2011	Arrears outstanding more than five years
1	Commercial Taxes	<b>4962.05</b>	1552.46
	a. Individuals, Private firms	<b>3184.95</b>	
	b. GoI Public Sector Units	<b>1344.52</b>	
	c. GoK PSU's	<b>410.30</b>	
	d. Others	<b>22.28</b>	
2	a.Forest	<b>185.04</b>	86.02
	b.Individuals and private companies	<b>163.87</b>	
	c.Others	<b>9.26</b>	
3	Local Fund Audit	<b>115.15</b>	
4	a.Stationery	<b>12.83</b>	
	b.Education	<b>2.79</b>	
	c.Civil Supplies	<b>1.22</b>	
5	Fisheries and Boilers	<b>1.06</b>	0.09
6	Police	<b>82.42</b>	30.49

Table 3.17 highlights that total arrears to be collected as on March 2011 comes to about 17.30% of the total revenue. Arrears outstanding for more than 5 years (Rs. 1678.98 crore) comes to about 5.41 per cent of the total revenue realized for the year 2010-11. Similarly, as the Task Force of the State Planning Board (March 1997) points out when the user charges are rationalized that would be tantamount to reduce the degree of subsidization of government services. Apart from yielding additional revenues, this would also help to improve the quality of services provided by the state.

3.25 In conclusion, it may be stated that revenue mobilization process need complete restructuring and rejuvenation. Poor revenue growth may mainly be attributed to low own-tax buoyancy, declining share of central transfers and declining non-tax revenue mobilization. Own-tax buoyancy is low due to high rate of tax evasion and avoidance, poor compliance, defective tax administration, high cost of collection and corruption. These are endemic issues in the fiscal scenario of Kerala which calls for urgent

restructuring of the system. There are ever-growing new areas which could be identified and brought under tax-net. Tax arrears may be collected through appropriate measures without much delay. Outcome from all major heads of non-tax revenue, mainly general services, social services and economic services recorded very poor rate of growth. Since revenue mobilization is the way to reduce revenue and fiscal deficit, urgent steps may be taken to augment tax and non-tax sources of revenue collection.

# 4

## Structure of Expenditure

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4.1 In this chapter we examine the parameters of expenditure, major items of expenditure on salary to government staff, teaching grant to private aided educational institutions, pension, interest, grant in aid to universities, subsidies and capital expenditure. The chapter also presents suggestions for restructuring expenditure.

### Parameters of Expenditure

4.2 The total expenditure of the state government consists of revenue and capital expenditure which include expenditure on loans and advances. The total expenditure is also classified into plan and non-plan. The trends in total expenditure and the parameters is given in Table 4.1. A trend in the growth rate shows that there had been a spurt in the growth during 2007-08 due to the hike in the salaries and pensions due to pay revision. The parameters like growth rate of expenditure, RR/TE ratio indicate that the trend in expenditure have remained at a steady level. The annual average growth rate of expenditure was 13.7 percent between 2006-2007 and 2010-2011. There is scope for increasing the public expenditure as compared to growth potential of the State at least towards the end of the period.

TABLE 4.1 TOTAL EXPENDITURE- PARAMETERS/VARIABLES

Variables/Basic Parameters	2006-07	2007-08	2008-09	2009-10	2010-11
Total Expenditure (TE) (Rs in crore)	22077	27260	30904	34068	38791
Growth Rate (Percent)	13.1	23.5	13.4	10.2	13.9
TE/GSDP Ratio (Percent)	14.4	15.6	15.4	14.8	14.6
RR/TE ratio (Percent)	82.4	77.4	79.3	76.6	79.9
Buoyancy of Total Expenditure with reference to :					
GSDP	1.1	1.7	0.9	0.7	0.9
RR	0.7	1.5	0.8	1.6	0.7

4.3 The trend in revenue expenditure and its break up into non-plan and plan is given in Table 4.2. There has been a spurt in the growth of revenue expenditure and

non-plan revenue expenditure during 2007-08. Nearly 80 percent of the total expenditure is incurred for non-plan activities. Of the five years, the growth of plan expenditure was negative for two years. This indicates the decline in the availability of resources for annual plan. The structure of expenditure in Kerala is dominated by the non-plan expenditure and a small share is spent either as capital expenditure or plan expenditure. The continuous revenue deficit and a high proportion of spending on non-plan expenditure are the two major critical issues in the state finances.

**TABLE 4.2 REVENUE EXPENDITURE –PARAMETERS/VARIABLES (RS. IN CRORE)**

Variables / Parameters	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Expenditure (RE) <i>Of which</i>	20825	24892	28224	31132	34665
Non Plan Revenue Expenditure (NPRE)	18516	22615	25012	26953	30469
Plan Revenue Expenditure (PRE)	2309	2277	3212	4179	4196
<i>Rate of growth of</i>					
RE (percent)	13.0	19.5	13.4	10.3	11.3
NPRE (percent)	21.8	22.1	10.6	7.8	13.0
PRE (percent)	-28.4	-1.4	41.1	30.1	0.4
Revenue Expenditure as a percent to TE	94.3	91.3	91.3	91.4	89.4
NPRE/GSDP (percent)	12.0	12.9	12.4	11.7	11.5
NPRE as a percent of TE	83.9	83.0	80.9	79.1	78.5
NPRE as a percent of RR	101.8	107.1	102.0	103.2	98.3
<i>Buoyancy of Revenue Expenditure with</i>					
GSDP	1.0	1.4	0.9	0.7	0.7
Revenue Receipts	0.7	1.2	0.8	1.6	0.6

#### Revenue Expenditure Profile

4.4 In this section, we examine the major items of revenue expenditure like salaries to government staff, teaching grant given to private aided educational institutions, pensions, interest and grant-in-aid paid to universities and local self government institutions etc. Table 4.3 gives the major items of revenue expenditure between 2004-05 and 2010-11. Salaries of government staff and teaching grants given to private aided educational institutions witnessed a spurt in the growth rate (more than 17 percent) during the years 2006-07, 2007-08 and 2008-09 due to the hike in the salaries of the staff and payment of arrears. Pensions given to the staff of government and private aided educational institutions also witnessed about 50 percent increase in 2007-08 due to the revision of pensions. During 2010-11, salaries to government staff, teaching grants to private educational institutions and pension to both categories



account for 43 percent of the total revenue expenditure. Interests and other subsidies constitute another 16.28 percent. Thus nearly 58 percent of the revenue expenditure is spent on salary to government staff, teaching grants, pensions and interest. The root cause for continues revenue deficit and instability in finances of the state arises due to the excess expenditure on these items. Due to this situation, the state government faces acute resource crunch to meet development expenditure in core areas of infrastructure, public utilities and public services. A detailed examination of major items of expenditure on salary, teaching grants and pension are attempted below.

**TABLE 4.3 REVENUE EXPENDITURE PROFILE (RS. CRORE)**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Expenditure	17169	18424	20825	24892	28224	31132	34664
Salaries	5346	5581	6560	7693	9064	9799	11038
Pensions	2601	2861	3295	4925	4685	4706	5767
Interest	3613	3779	4190	4330	4660	5292	5690
Repairs & Maintenance	318	401	369	633	858	734	734
Subsidy	171	150	267	219	350	405	624
Devolutions to LSG's	1783	1565	1911	2273	2432	2489	2778
Salary + Pensions+ Interest	11560	12221	14045	16948	18906	19797	22495
Others	3337	4087	4233	4819	6174	2936	4126
Total Expenditure	18048	19528	22077	27259	30903	34068	38790
<b>Growth in Expenditure (%)</b>							
Revenue Expenditure	10.8	7.31	13.03	19.53	13.39	10.30	11.34
Salaries	3.9	4.40	17.54	17.27	17.82	8.11	12.64
Pensions	8	10.00	15.17	49.47	-4.87	0.45	22.56
Interest	8.6	4.59	10.88	3.34	7.62	13.56	7.52
Repairs & Maintenance	14.4	26.10	-7.98	71.54	35.55	-14.45	0
Subsidy	28.9	-12.28	78.00	-17.98	59.82	15.71	54.03
Devolutions to LSG's	3	-12.23	22.11	18.94	7.00	2.34	11.62
Salary +Pensions+ Interest	6.2	5.72	14.93	20.67	11.55	4.71	13.63
Others	22	22.48	3.57	13.84	28.12	-52.44	40.54
<b>Percentage to Total Expenditure</b>							
Salaries	29.62	28.58	29.71	28.22	29.33	28.76	28.46
Pensions	14.41	14.65	14.93	18.07	15.16	13.81	14.87
Interest	20.02	19.35	18.98	15.88	15.08	15.53	14.67
Repairs & Maintenance	1.76	2.05	1.67	2.32	2.78	2.96	0.00
Subsidy	0.95	0.77	1.21	0.80	1.13	1.19	1.61
Devolutions to LSG's	9.88	8.01	8.66	8.34	7.87	7.31	7.16
Salary + Pensions +Interest	64.05	62.58	63.62	62.17	61.18	58.11	57.99
Others	18.49	20.93	19.17	17.68	19.98	8.62	10.64
Total	95.13	94.35	94.33	91.32	91.33	78.19	77.40

## Salary Expenditure

4.5 Number of Staff: The two categories of staff which get same scale of pay, retirement benefits and monthly pensions are government staff recruited through Kerala Public Service Commission and teachers and non-teaching staff appointed by the managements of private aided educational institutions. The salaries and pensions of these two categories are paid from public funds. Of the total staff, 72 percent are government employees and 28 percent are staff in private aided educational institutions (Table 4.4). The categories of staff which get a higher rate of scale of pay and allowances are persons belonged to All India Services (IAS, IPS etc), persons getting University Grants Commission and AICTE scale of pay and judicial officers (Table 4.5). The teachers in arts and science colleges have the largest number of staff in the high paid category of staff. The number of teachers has registered an increase from 10724 in March 2008 to 13544 in March 2012. Among the government departments, the General Education Department has the largest number of staff 170346. The Police Department has the second position and accounts for 11.47 percent of the staff. The Health Department, Higher Secondary, Collegiate Education and Land Revenue rank the third, fourth, fifth and sixth position with regard to the number of the staff. Table 4.6 gives the list of 20 Departments having the largest number of staff.

**TABLE 4.4 NUMBER OF STAFF IN GOVERNMENT DEPARTMENTS AND PRIVATE AIDED EDUCATIONAL**

Category	Number in March 2008	% share	Number in March 2012	% share
Government Departments	357143	70.97	361313	71.87
Private Aided Educational Institutions	146063	29.02	141362	28.12
Total	503206	100	502675	100

**TABLE 4.5 TOTAL STAFF: DIFFERENT CATEGORIES**

Category	Number in March 2008	Number in March 2012	Growth
1. State Government	487196	485757	-0.29
2. Consolidated Pay	746	592	-20.64
3. All India Services	191	197	3.14
4. UGC	10724	13544	26.29
5. AICTE	3928	1877	-52.21
6. Judicial	408	525	28.67
7. Others	13	183	1307.69
Total	503206	502675	-0.10

TABLE 4.6 DEPARTMENTS HAVING LARGEST NUMBER OF STAFF, MARCH 2012

Name of Department	Number of Staff	Percent
1.General Education	170346	33.89
2.Police Department	57665	11.47
3.Health Department	36397	7.24
4.Higher Secondary	27061	5.38
5.Collegiate Education	21456	4.27
6.Land Revenue	15998	3.18
7.Judicial Service Department	12051	2.40
8.Medical Education	11818	2.35
9.Agriculture Department	9233	1.84
10.Public Works Department	9108	1.81
11.Technical Education	8792	1.75
12.Water Resources	8558	1.70
13.Forest	7167	1.43
14.Animal Husbandry	7040	1.40
15.Vicational Higher Secondary	6419	1.28
16.Government Secretariat	5287	1.05
17.Panchayat Department	5183	1.03
18.Rural Development	5068	1.01
19.State Excise	4891	0.97
20.Commercial Taxes	4718	0.94
21.Others	68419	13.61
Total	502675	100

STAFF IN EDUCATIONAL SECTOR

4.6 Since the formation of the state, the policy pursued by the successive governments was to give priority for starting a large number of educational institutions in public sector as well as giving grant-in-aid in the form of salaries to the staff in private aided educational institutions. Without considering the resource availability, present and future financial implications and its impact on the opportunity cost of spending, sanctions were issued for starting educational institutions in public and private aided sectors. This had resulted in continuous increase in teaching and non-teaching staff in the public funded educational sector. According to the budget document, the total staff coming under the various government departments is 246976 in March 2012.

This accounts for 49 percent of the total staff of the government and private educational institutions (Table 4.7). This estimate of staff does not include the teachers and non-teaching staff working in eleven state universities in Kerala. A good number of staff in schools are excess protected staff working in uneconomic schools. There is also considerable scope for reducing the excess staff working in other public and private aided educational institutions. Hence the committee recommended to implement measures to reduce the excess staff in the educational sector.

**TABLE 4.7 TOTAL STAFF IN THE EDUCATIONAL SECTOR**

	March 2012	Percent
Educational Sector		
1. General Education	170346	33.88
2. Higher Secondary Education	27061	5.38
3. Colligate Education	21456	4.26
4. Medical Education Department	11818	2.35
5. Technical Education	8792	1.74
6. Vocational Higher Secondary	6419	1.27
7. Directorate of Ayurveda Medical Education	1042	0.20
8. Commissisionerate of Entrance Examination	42	0.01
Total	246976	49.13
Total Staff of the Government	502675	100

#### SALARY EXPENDITURE OF DEPARTMENTS

4.7 We have seen in the para 4.6 that educational sector account for half of the total staff, whose salary is paid by the state. A head wise breakup of the total salary expenditure for the year 2010-11 shows that educational sector accounts for 51 per cent of the total salary expenditure (Table 4.8). On the other hand, the salary expenditure for medical and public health services was slightly higher than one tenth of the total salary expenditure. The police department which has the responsibility of maintaining law and order in the state account for 9 per cent of the total salary expenditure. The salary expenditure for the item on administration of justice is 2.35 percent. The other heads which accounts for one to two percent of the total salary expenditure are land revenue, agriculture, public works, rural development, animal husbandry, district administration, family welfare and social security and welfare. This pattern of spending of more than half of the salary expenditure on one item of expenditure has serious implications on the availability of adequate staff in other

Departments and activities. Due to lack of adequate staff, important administrative functions connected with land revenue, administration of justice, district administration, police, local self government institutions are not properly executed. The public medical care, public health and family welfare activities are also adversely affected due to inadequate staff. In this context, there is a need to assess the shortage or excess of staff of each department taking into consideration their functions. The committee recommends that steps may be taken to assess the shortage and excess of staff in each department and relocate the staff to improve the functioning of the departments.

**TABLE 4.8 EXPENDITURE ON SALARY FOR 2010-11: MAJOR HEAD WISE**

Major Heads	2010-11	Percent
1.General Education	545242.12	49.23
2.Technical Education	21215.63	1.91
3. Medical and Public Health	126083.05	11.38
4.Police	99102.11	8.94
5.Administartion of Justice	26133.32	2.35
6.Land Revenue	18385.81	1.66
7.Agriculture	19025.25	1.71
8.Public works	17806.93	1.60
9. Forest and Wild life	10784.68	0.97
10.Secretariate - General Services	8756.29	0.79
11.Other Rural Development Programmes	16557.66	1.49
12.Animal Husbandry	14822.51	1.33
13.State Excise	8344.24	0.75
14.Other Adinistrative Services	8383.93	0.75
15.District Administration	12662.64	1.14
16.Taxes on sales, trade etc.	9303.05	0.84
17.Treasury and accounts administration	8553.64	0.77
18.Family Welfare	21122.90	1.90
19.Social security and welfare	18585.28	1.67
20.Labour and Employment	9628.35	0.86
21.Others	86918.07	7.84
Total	1107417.46	100.00

Large Salary Expenditure: The root cause for fiscal deficit

4.8 Table 4.9 gives the salary expenditure of government staff, teaching grants given to private aided educational institutions, and its share to total expenditure. The continuous increase in the expenditure of salary is one of the basic causes for the continuous fiscal deficit of the state government. The salary expenditure of staff and total expenditure on salary including teaching grants more than doubled between 2004-05 and 2010-11. The item, teaching grant to private educational institutions also increased by about 94 percent during the above period. The share of salary expenditure constitute 28.53 percent of the total expenditure. The revision of salary and pensions in every five years is the main reason for the increase in salary expenditure. Due to the

pressure from the politically strong trade unions of government staff and private aided educational institutions, the successive governments in Kerala have been revising the salary and pensions every five years creating huge financial burden to the state. The revision and the following financial commitment of paying arrear salaries and pensions create heavy financial burden for the treasury for about three years. The Government also effect change in DA rates following the DA revision of Central Government at periodic intervals. It may be noted that Government of India revise the salaries of central staff once in 10 years. Taking into consideration the critical finance situation of the State, the committee recommends the revision of salaries and pensions once in 10 years.

4.9 The committee also recommends the reduction of this item of expenditure through e-governance, payment of salaries, pensions, social welfare payments through banks, introduction of email for official communications and other measures. Instead of recruiting permanent staff, some of the subsidiary activities in government offices, educational institutions, hospitals, LSGIs may be outsourced. The activities which may be outsourced are watch and ward, cleaning, gardening, collection of user charges, hiring vehicles, delivery of mails etc. The LSGIs may sub-contract some of their activities like waste disposal, cleaning roads, public places, public lighting, drinking water supply, distribution of benefits, issues of application form etc.

**TABLE 4.9 TREND IN SALARY EXPENDITURE (RS IN CRORE)**

		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1	Total salary expenditure Govt	3514.67	3721.41	4448.43	5188.01	6060.51	6676.443	7513.19
2	Teaching grant of aided Private Educational Institutions	1830.91	1886.37	2137.02	2505.65	3003.3	3123.757	3555.19
3	Total expenditure under Salary	5345.58	5607.78	6585.45	7693.66	9063.81	9800.2	11068.38
4	Total expenditure	18048	19528	22077	27259	30903	34068	38790
5	Percentage of Salary Expenditure (Govt) To Total Expenditure	19.47	19.06	20.15	19.03	19.61	19.60	19.37
6	Percentage of Teaching Grant to Total Expenditure	10.14	9.66	9.68	9.19	9.72	9.17	9.17
7	Total Salary Expenditure to Total Expenditure	29.62	28.72	29.83	28.22	29.33	28.77	28.53

**TEACHING GRANTS TO AIDED EDUCATIONAL INSTITUTIONS**

4.10 A major item of salary expenditure is the teaching grants given to the private educational institutions. The government is paying the salaries and pensions of teachers of private aided educational institutions at par with the similar categories of government from state funds. This is a practice started during the pre-independence period to promote school education. The government approved private aided schools were paid

salaries at par with Government school teachers from 1953. The teachers of the private aided Arts and Science colleges were paid salaries at par with Government college teachers from 1973. The government encouraged the growth of arts and science colleges and other educational institutions by this policy. This had resulted in a continuous increase in schools, Art and Science colleges and other educational institutions in the private aided category.

4.11 Table 4.10 gives the number of the three categories of educational institutions viz., government, private aided and private unaided in Kerala during 2010-11. Kerala has 7277 private aided schools, accounting for 57 percent of the schools in Kerala. The average number of students in standard I in the private LP school is 47. Of the total 2133 aided schools, 29 per cent are uneconomic. The number of private aided higher secondary schools is 686, which form 36 percent of the total schools in the state. The number of private aided arts and science colleges is 150. Seventy nine percent of the arts and science colleges are in the private aided category. Due to the practice of collection of donations for admission of students and appointment of teachers, the private aided system became a lucrative business. And the pressure groups especially the strong social and religious organizations exerted strong pressure to get sanctions for new courses as well as new institutions.

4.12 Table 4.11 gives the number of teachers and non-teaching staff in private aided educational institutions. As on March 2012, the total staff in these institutions comprise of 124301 teachers and 17061 non-teachers. A notable point is that the teachers in Arts and Science Colleges, Engineering Colleges are entitled for UGC or AICTE's pay scales. In Arts and Science Colleges alone, teachers coming under the UGC Scale of pay is 10422 in March 2012. The teaching grants comprising salaries and pensions have created huge financial liability to the state government. Of the total salary expenditure of the state government, one third is paid as salary to the staff of the aided educational institutions (Table 4.12).

4.13 In the private aided sector a lot of wasteful expenditure is there due to the protection of uneconomic schools and protected teachers. A major complaint raised by the social organizations and the general public is the corrupt practices for admission of students in courses and recruitment of teachers. In admission of students merit is not strictly followed in many secondary and higher secondary schools. In the admission of graduate and post-graduate courses, donations are collected for the seats in the management quota. In majority of the schools, arts and science colleges, for recruitment of teachers merit is not the criteria followed. Large sums of money in the form of contributions are collected for appointing the teachers. Though the teachers are paid the

salary, other benefits and pensions at par with the government staff, the service rules of the government staff is not made applicable to them. In this context, the committee feels that there is a need to curtail the growth of new institutions and introduction of new courses in the existing aided institutions. Strict measures may also taken against the existing practice of corruption in the admission of students and appointment of teachers. The Committee feels that there is a need for a basic policy change with respect to starting new institutions and courses in the private aided sector. Instead of starting new institutions in private aided sector, the Government may encourage private unaided sector. The committee recommended that the practice of starting new educational institutions and courses in private aided sector may be discontinued. The existing private educational institutions may be allowed to start new courses in unaided stream.

**TABLE 4.10 GOVERNMENT, AIDED AND UNAIDED EDUCATIONAL INSTITUTIONS IN KERALA (2010-11)**

Category	Government	Private Aided	Private Unaided	Total	Percentage Share of Private Aided
I. Schools (Number)					
1. High School	1066	1429	379	2874	49.72
2. UP School	899	1870	217	2986	62.63
3. LP School	2539	3978	267	6784	58.64
Total	4504	7277	863	12644	57.55
II. 1.Number of students in standard I	92167	188059	43156	323382	58.15
2. Number of students per LP school	36	47	161	48	
III. Number of Teachers	52405	101965	13692	168062	60.67
IV. Protected Teachers	-	-	NIL	2957	
V. Number of uneconomic schools					
1. LPS	1634	1825	NIL	3459	52.76
2. UPS	365	271	NIL	636	42.61
3. H.S	148	37	NIL	185	36.21
Total uneconomic schools	2147	2133	NIL	4280	49.83
Percentage of uneconomic schools	47.66	29.31	NIL	33.85	
VI. Number of Higher Secondary Schools	760	686	461	1907	35.97
VII. Number of Vocational H.S Schools	261	128	-	389	32.90
VIII. Arts and Science Colleges					
1. Number of colleges	39	150	NA	189	79.37
2. Number of Teachers				8880	
3. Number of Guest Lectures	226	1467	NA	1693	86.65
IX. Engineering Colleges	11	3	128	142	2.11
X. Number of Polytechnics	43	6	NIL	49	12.24

Source: State Planning Board, Economic Review 2011, Vol.2.



**TABLE 4.11 NUMBER OF TEACHING AND NON TEACHING STAFF IN PRIVATE AIDED EDUCATIONAL INSTITUTIONS**

Category	Number in March 2008	Number in March 2012	Growth (Percent)
I. Teachers			
1. Schools	117290	112730	-3.88
2. Arts & science colleges	10015	10422	4.06
3. Engineering college & polytechnics	912	925	1.42
4. Ayurveda medical colleges	98	110	12.24
5. Homeo medical colleges	90	114	26.67
Sub Total	128405	124301	-3.19
II. Non Teaching Staff			
1. Schools	10830	10261	-5.25
2. Arts & science colleges	6079	6103	0.39
3. Engineering college & polytechnics	453	459	1.32
4. Ayurveda medical colleges	178	166	-6.74
5. Homeo medical colleges	118	72	-38.98
Sub Total	17658	17061	-3.38
Grand Total (I+II)	146063	141362	-3.21

**TABLE 4.12 SALARY OF GOVERNMENT AND AIDED EDUCATIONAL INSTITUTIONS IN 2010-11**

	2010-11 (Rs.in lakh)	Percent
1.Salary of Staff of Aided Educational Institutions	358408.54	32.36
2.Salary of Staff of Government Educational Institutions	208049.21	18.78
3.Total Salary of Educational Institutions	566457.75*	51.15
4.Total Salary Expenditure of the Government	1107417.46	100.00

\*excluding universities

#### EXPENDITURE ON PENSIONS

4.14 Expenditure on pensions of retired government staff and employees in the private aided educational institutions and others account for about 15 percent of the total expenditure. There are three categories of pensioners viz., service, family and other categories. Service pensioners is a category of pensioners who became eligible for retirement benefits and monthly pensions for their past service. In the case of death of service pensioners, a monthly family pension is paid to the wife or other dependants of the deceased pensioner. Monthly pension is also paid to other categories like ex-members of the Kerala Legislative Assembly, artists, literary persons, scholars and persons participated in the freedom struggle etc. Table 4.13 gives the number of three categories of pensioners viz., service, family and others for the years from 2007-2011. Of the total pensioners 57 per cent is service pensioners, 20 per cent is family pensioners and 23 per cent is other category pensioners in March 2011.

**TABLE 4.13 NUMBER OF PENSIONERS IN KERALA**

	Number on March 2007	Number on March 2008	Number on March 2009	Number on March 2010	Number on March 2011
1.Service Pensioners	235034	249594	245553	237644	251548
2.Family Pensioners	94816	87795	87896	87617	88810
3.Other Categories	105978	103622	95833	100813	98396
<b>Total</b>	<b>435828</b>	<b>441011</b>	<b>429282</b>	<b>426074</b>	<b>438754</b>
<b>Growth (Percent)</b>					
1.Service Pensioners		6.19	-1.61	-3.22	5.85
2.Family Pensioners		-7.40	0.11	-0.31	1.36
3.Other Categories		-2.22	-7.51	5.19	-2.39
<b>Total</b>		<b>1.18</b>	<b>-2.65</b>	<b>-0.74</b>	<b>2.97</b>
<b>Percentage Distribution</b>					
1.Service Pensioners	53.92	56.59	57.20	55.77	57.33
2.Family Pensioners	21.75	19.90	20.47	20.56	20.24
3.Other Categories	24.31	23.49	22.32	23.66	22.42
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

4.15 A person retiring from the service is eligible for a number of benefits such as monthly pension based on the number of years' service, commuted value of pension, gratuities, leave encashment benefits etc. Besides, the monthly pension fairly a good amount will have to be paid to the retired persons at the time of retirement. Table 4.14 gives the various item of expenditure on pension and other retirement benefits. During the year 2006-07 and 2007-08, there has been an increase of nearly 50 per cent of the pension related expenditure on account of pension revision. Between 2006-07 and 2010-11, there had been a substantial growth in the amount of payments in the items namely superannuation and retirement allowances, compassionate allowance, gratuities, family pensions, pensions to the retired employees of private aided educational institutions, legislators, leave encashment benefits and other pensions. Superannuation and retirement allowances of retired government staff accounts for 56 per cent of the total expenditure on pensions. Nearly 15 per cent of total expenditure on pension is spent for giving pension to retired staff of the private educational institutions. Family pension constitutes 10 per cent of the total share of pension expenditure. Commuted value of pensions and gratuities are the other major items of pension expenditure.

4.16 The continuous increase in pension expenditure is a major cause of the financial crisis of the state government and autonomous bodies. Pension expenditure is a major item of expenditure of autonomous bodies like State Universities, Kerala State Road

**TABLE 4.14 EXPENDITURE ON PENSION AND OTHER RETIREMENT BENEFITS (RS.IN LAKH)**

Name	2006-07	2007-08	2008-09	2009-10	2010-11
1.Superannuation and retirement allowances	161300.97	235365.55	242335.78	291333.87	321805.16
2.Commuted value of pension	50624.14	80807.37	58718.84	22581.13	50289.59
3.Compassionate allowances	16.33	20.13	26.70	25.60	336.44
4.Gratuities	32058.15	49982.02	42010.26	22648.20	38011.87
5.Family pension	28919.49	40385.27	41418.78	48797.20	56421.00
6.Contribution to pension and gratuities	17.97	23.78	41.01	9.01	3.40
7.Contribution to provident funds	0.29	0.96	1.51	1.72	2.28
8.Pension to employees of state aided educational institutions	39416.81	61695.51	62459.68	72776.82	85250.04
9.Pension to legislators	339.81	355.24	374.98	1141.79	1230.92
10.Leave encashment benefits	11962.87	18704.77	15609.76	5572.54	17692.35
11.Other pensions	75.01	107.18	102.75	103.07	125.00
12.Other expenditure	4725.90	5005.14	5543.09	5558.64	5481.13
<b>Total</b>	<b>329457.74</b>	<b>492452.92</b>	<b>468643.14</b>	<b>470549.59</b>	<b>576649.18</b>
<b>Growth (Percent)</b>					
1.Superannuation and retirement allowances		45.92	2.96	20.21	10.45
2.Commuted value of pension		59.62	-27.33	-61.54	122.70
3.Compassionate allowances		23.27	32.64	-4.11	1214.21
4.Gratuities		55.91	-15.95	-46.08	67.83
5.Family pension		39.65	2.55	17.81	15.62
6.Contribution to pension and gratuities		32.33	72.45	-78.02	-62.26
7.Contribution to provident funds		231.03	57.29	13.90	32.55
8.Pension to employees of state aided educational institutions		56.52	1.23	16.51	17.13
9.Pension to legislators		4.54	5.55	204.49	7.80
10.Leave encashment benefits		56.36	-16.54	-64.30	217.49
11.Other pensions		42.88	-4.13	0.31	21.27
12.Other expenditure		5.90	10.74	0.28	-1.39
<b>Total</b>		<b>49.47</b>	<b>-4.83</b>	<b>0.40</b>	<b>22.54</b>
<b>Percentage Distribution</b>					
1.Superannuation and retirement allowances	48.95	47.79	51.71	61.91	55.81
2.Commuted value of pension	15.36	16.41	12.53	4.80	8.72
3.Compassionate allowances	0.01	0.01	0.01	0.01	0.06
4.Gratuities	9.73	10.15	8.96	4.81	6.59
5.Family pension	8.78	8.20	8.84	10.37	9.78
6.Contribution to pension and gratuities	0.01	0.01	0.01	0.00	0.00
7.Contribution to provident funds	0.00	0.00	0.00	0.00	0.00
8.Pension to employees of state aided educational institutions	11.96	12.53	13.33	15.47	14.78
9.Pension to legislators	0.10	0.07	0.08	0.24	0.21
10.Leave encashment benefits	3.63	3.80	3.33	1.18	3.07
11.Other pensions	0.02	0.02	0.02	0.02	0.02
12.Other expenditure	1.43	1.02	1.18	1.18	0.95
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Transport Corporation, Kerala State Electricity Board etc. One of the basic causes for the financial crisis of the autonomous bodies is the huge financial burden arising out of pension payments. The state government is giving frequent grant-in aid to meet the

pension payments of Universities and other autonomous bodies. In this context, the recent decision of the state government to switch over from the present system of monthly pension to contributory pension is a welcome thing. Though the decision will not have any immediate impacts in the finances of the government, it will help to achieve financial stability in the future, may be after two or two and a half decade. It will also help to improve the finances of Universities, and other autonomous bodies like KSRTC, KSEB etc.

#### Subsidies

4.17 During the year 2010-11, the government spent Rs.628.83 crores for 28 items as subsidies. Table 4.15 gives the growth in subsidies between 2006-07 and 2010-11. The growth in the amount of subsidies between 2006-07 and 2007-08 is 763 per cent. The subsequent years also witness a continuous increase in the amount of subsidies. During 2010-11, the government gave 25 items of subsidies (Table 4.16). The subsidies given by the government come under the categories of production, market intervention and relief. There is some justification for giving subsidies for increasing production and productivity. Subsidies given for producing films, credit for agriculture production, farming, irrigation, dewatering kayal for cultivation, poultry development, fisheries, handloom and khadi industries comes under the category of production subsidies. There is a case for giving the subsidies in the interest of the producers and production. In a state faces chronic deficit of food grains and other food articles there is a need to give subsidies for market intervention and stabilizing the prices of food articles. However the Committee does not have data to answer the impact of subsidies, leakages and corruption in the distribution. Hence we are not in a position make observations about the above aspects. But there is a steep growth in the item of expenditure. The Committee feels that the steep growth in expenditure is not a desirable thing and needs curtailment in expenditure.

**TABLE 4.15 GROWTH IN EXPENDITURE ON SUBSIDIES**

Year	Amount of Subsidy (Rs.in lakh)	Growth (percent)
2006-07	2336.13	-
2007-08	20165.60	763.20
2008-09	35485.91	75.97
2009-10	44183.01	24.50
2010-11	62683.53	41.87

TABLE 4.16 EXPENDITURE ON SUBSIDIES

Head of Account	2009-10	2010-11	% Share	Growth
1. Grant in Aid to KSFD for payment of subsidy to Malayalam films	101.00	111.10	0.17	10.00
2. Subsidy to KSEB to wards power tariff concessions	-	5400.00	8.61	
3. Subsidy to KSEB to liquidate its revenue deficit	-	4597.00	7.33	
4. National Programme for Biogas development	57.04	91.30	0.14	60.06
5. Continuing medical education and training	1.97	-	-	
6. Subsidy to cooperatives for conducting festival markets	2000.10	7000.00	11.16	249.98
7. Integrated Development for primary agricultural credit societies	11.00	20.35	0.03	85.00
8. Special support scheme for farm sector	6400.00	2600.00	4.14	-59.38
9. Free supply of electricity to small and marginal paddy growers	4092.38	2413.30	3.84	-41.02
10. CSS under crop macro management	63.95	-	-	
11. Punja dewatering by pumps subsidy	549.54	424.06	0.67	-22.83
12. Reimbursement of price difference of ration rice and wheat to the food Corporation of India	19617.86	28350.85	45.22	44.51
13. Grant to Kerala State Civil Supplies Corporation Ltd for market intervention operations	8300.00	7431.00	11.85	-10.47
14. Extended market intervention programme (food)	-	200.00	0.31	
15. Cattle feed subsidy	269.59	448.35	0.71	66.30
16. Rural backyard poultry development scheme (100% CSS)	-	163.52	0.26	
17. Subsidy of Bankable Schemes (fisheries)	30.00	30.00	0.04	0.00
18. Integrated fisheries development project phase II	80.00	50.00	0.07	-37.50
19. Rebate on HSD oil to fishermen	22.74	1.32	0.01	-94.20
20. Interest subsidy for loan from financial institutions	100.00	150.00	0.23	50.00
21. Theeramythri super market	200.00	-	-	
22. Subsidy towards loss incurred by Kerala forest development cooperation by supply of raw material to industries in the state	-	26.57	0.04	
23. State investment subsidy	890.04	845.57	1.34	-5.00
24. Power subsidy to industries	11.95	2.91	0.01	-75.65
25. Rebate on the sale of handloom cloth	484.00	399.98	0.63	-17.36
26. Special rebate on sale of handloom products by the handloom agencies	-	251.56	0.40	
27. Kerala khadi and village industries board -special rebate on retail sale of khadi	550.00	1075.00	1.71	95.45
28. Other schemes of the department of tourism	349.85	599.79	0.95	71.44
<b>Total</b>	<b>44183.01</b>	<b>62683.53</b>	<b>100.00</b>	<b>41.87</b>

SOCIAL SECURITY SCHEMES

4.18 The state government implements ten social security schemes with a view to give financial support to poor and old people. The schemes are unemployment assistance, financial support to poor artists, agricultural workers pension, pension to unmarried women above 50 years, destitute pension, pension to physically and mentally handicapped people, financial help to widows for the marriage of their daughters,

national old age pension, and national service programme. These schemes are monthly pension schemes and money is disbursed through grama panchayats, municipalities and municipal corporations. Among the schemes, destitute pension has the largest number of beneficiaries (482829). The other schemes having largest beneficiaries are agricultural workers pension, disability pension, national old age pension and pension to unmarried women. The total number of beneficiaries in the five pension scheme is 11.44 lakhs (Table 4.17). During the year 2010-11, a sum of Rs.765.95 crore was spent for the ten social security schemes. Table 4.18 give the amount of expenditure on the social security schemes between 2007-08 and 2010-11. Among the schemes, the pension schemes which registered a continuous increase in the above period are pension to unmarried women above 50 years, destitute pension and pension to physically and mentally handicapped.

**TABLE 4.17 NUMBER OF BENEFICIARIES IN SOCIAL SECURITY SCHEMES**

Social Security Schemes	No. of Beneficiaries (2-5-2011)
1. Agriculture workers' pension	209907
2. Destitute (widow) pension	484829
3. Dis-ability pension / physically handicapped pension	207954
4. National old age pension	191946
5. Pension to unmarried women	49701
Total	1144337

4.19 These pensions are mainly meant to provide a support to meet the consumption, health care and other essential needs of the poor and old people. As these beneficiaries are poor people, timely distribution of the pension is crucial thing. But the concerned Departments which are responsible for the release and distribution of the schemes are not taking prompt action in this regard. The committee in its previous report also examined this aspect and noted that the arrears of the pensions were not distributed during 2009-10. During the financial year 2010-11, the government has not succeeded in distributing the pensions on a monthly basis. Information supplied by the grama panchyats reveal that these monthly pension were distributed two to four times in a year in 2010-11. Agricultural workers pension and unemployment assistance are distributed in two times. National old age pension was distributed two to four times in a year. Destitute pension, pension to physically and mentally handicapped pensions were also distributed two to four times in a year. Due to this erratic distribution of the pensions, the poor and old people are not getting money to meet their daily needs in consumption, medical care etc. In the case of distribution of salary and pensions of the government staff the government take steps to distribute it every month in an efficient

manner. But the government and LSGIs are not taking serious steps to distribute social security pensions every month. The committee consider this as a serious lapse on the part of the concerned Departments. The committee also recommends that necessary steps may be taken by the government and LSGI on a priority basis to distribute these pensions every month through banks/e payments.

**TABLE 4.18 EXPENDITURE ON SOCIAL SECURITY SCHEMES (RS.IN LAKH)**

Name of Scheme	2007-08	2008-09	2009-10	2010-11
1. Unemployment Assistance	4861.36	4895.86	4727.86	4692.88
Financial Assistance to men of arts and letters	4.37	1.49	0.60	8.05
3. Agricultural workers pension	16474.00	13612.00	17470.00	20795.13
4. Assistance to poor artists	103.18	131.39	136.74	132.03
5. Pension to unmarried women above 50 years	603.00	880.00	1280.00	2131.33
6. Destitute pension	4594.00	7142.00	13070.00	24536.77
7. Pension to physically and mentally handicapped	3094.00	4632.00	5400.00	8920.46
8. Financial help to widows for their daughters marriage	-	-	-	972.63
9. National old age pension	5299.00	4290.00	5400.00	9061.10
10.National Service Assistance Programme	6553.90	2506.27	2891.53	5345.00
Total	41586.81	38091.01	50376.73	76595.38
Growth (percent)				
1. Unemployment Assistance		0.71	-3.43	-0.74
Financial Assistance to men of arts and letters		-65.90	-59.73	1241.67
3. Agricultural workers pension		-17.37	28.34	19.03
4. Assistance to poor artists		27.34	4.07	-3.44
5. Pension to unmarried women above 50 years		45.94	45.45	66.51
6. Destitute pension		55.46	83.00	87.73
7. Pension to physically and mentally handicapped		49.71	16.58	65.19
8. Financial help to widows for their daughters marriage				
9. National old age pension		-19.04	25.87	67.80
10.National Service Assistance Programme		-61.76	15.37	84.85
Total		-8.41	32.25	52.05

#### GRANTS-IN AID TO UNIVERSITIES

4.20 The government has started a number of state universities to promote higher education. Currently, Kerala has 11 universities. Table 4.19 gives the grant-in-aid paid to universities during 2009-10 and 2010-11. Most of the universities are facing acute financial crisis due to the mounting expenditure on salaries and pensions. The universities heavily rely on the grants-in -aid for paying the salaries and pensions, which

have been increasing due to frequent revision of salaries, pension and DA revisions. Due to financial constraints, the government is not able to meet the entire financial requirements due to the increase of the revisions. The result is that the universities divert their PF, research development and plan funds for meeting the salary, pension and other items of establishment expenditure. Due to resistance from the student organizations, universities are not able to increase the tuition fees, examination fees and other fees. Universities are not taking much steps to curb their growing establishment expenditure.

**TABLE 4.19 GRANTS-IN-AID GIVEN TO UNIVERSITIES (RS IN LAKH)**

Name of University	2009-10	2010-11	Growth (percent)
Kerala Agricultural University	15033	14127.75	-6.02
Kerala University	7931.31	9575.00	20.72
Calicut University	5366.25	6710.00	25.04
Cochin University of Science and Technology	3616.05	4561.00	26.13
Mahatma Gandhi University	3566.35	4553.19	27.67
Kannur University	1112.30	4372.31	293.08
Sree Sankaracharya University of Sanskrit	1499.16	2446.71	63.20
Kerala University of Health and Allied Sciences	-	2150.00	
National University of Advanced Legal Studies	-	170.00	
Kerala Veterinary and Animal Sciences University	-	100.00	
Fisheries university		NA	
Total Grants-in-aid	38124.42	48765.96	27.91

**FINANCIAL POSITION OF KERALA AGRICULTURAL UNIVERSITY (KAU): A CASE STUDY**

4.21 The information supplied by the KAU to the committee gives an alarming picture about the financial situation as well as on the teaching and research activities of the university. The KAU's cited the following things for the acute financial crisis.

1. The annual financial commitment for retirement benefits and pension payments will be about Rs.90 crores. Currently the university has 4329 pensioners and the amount required for the payment of the monthly pension is Rs.60 crores per year. The other retirement benefits to be paid to the retired persons per annum is Rs.30 crore.
2. The retirement benefits of those retired in the year 2010 and 2011 is not paid so far. PF advances have not been paid for the last 12 months.



3. The total accumulated financial liability of the KAU up to 31<sup>st</sup> March 2012 is 218.68 crores (Table 4.20).
4. Due to the financial crisis the university is not able to fill the vacant posts consists of 224 teachers, 743 non-teachers and 1427 labourers (Table 4.21).
5. Due to the inadequate non-plan grants, the plan grant has been utilizing for non-plan expenditure.
6. The research projects funds received from external agencies like ICAR is being diverted for meeting salary, pension and other routine expenditure. This adversely affected the implementation of research projects and research activities.
7. The university heavily relies on the government grants for its survival and account for 93 percent of the total revenue sources (Table 4.22).
8. Salaries and pensions account for about 98.66 percent of the total expenditure (Table 4.22).
9. The university has not making any serious steps to increase the internal sources of revenue.
10. The acute shortage of funds has paralyzed the teaching and research activities in the colleges, research stations, farms and extension activities.
11. The university attributes the unrealistic and inadequate allocation of grant by the government as the major cause for the acute crisis.

4.22 The committee feels that the financial crisis of the KAU is alarming. Immediate action is required to save the university from total collapse. There is a need to reduce the activities of the KAU in the context of the acute crisis by downsizing the staff. The university should give top priority for its core activities of teaching and research. The other subsidiary activities may be reduced. There is a need to curtail the unnecessary and wasteful expenditure. The university may introduce measures to curtail the expenditure by e governance, outsource of subsidiary services, reduce the number of vehicles, use solar energy in the university campus etc. Measures may be implemented to increase the internal revenue sources from all possible items.

4.23 The problem of the KAU is complex and requires the expertise of different category of experts. In the context of the acute crisis, starting new two universities viz., Fisheries University and Kerala Veterinary and Agricultural Science University is an

unwise step. It is likely that the new universities will also have the same fate as in the case of KAU. The committee feels that an expert committee consisting of economists and agricultural scientists should review the working of the three universities namely KAU, Fisheries University and Kerala Veterinary and Agricultural Science University for offering solutions to the crisis. The committee recommends the constitution of an expert committee to review the activities and finance of the above three universities.

**TABLE 4.21 NUMBER OF STAFF AND VACANT POSTS OF KAU IN 2011-12**

	Number	Percent
<b>I. Number of Staff</b>		
1. Teachers	557	25.11
2. Non-teachers	1058	47.70
3. Labourers	603	27.19
Total	2218	100.00
<b>II. Number of Vacant Posts</b>		
1. Teachers	224	9.36
2. Non-teachers	743	31.04
3. Labourers	1427	59.61
Total	2394	100.00
<b>III. Number of Pensioners</b>	4300	

Source: KAU

**TABLE 4.20 FINANCIAL LIABILITIES OF KAU AS ON 31-03-2012**

Items	Rs. in Lakh	Percent
1. Principal amount and interest outstanding to be deposited in PF	9283.87	42.45
2. Pension benefits to be paid	4745.26	21.70
3. Diverted funds to be returned	2271.00	10.39
4. Audit fees to local fund	524.43	2.40
5. Arrears of salary revision, surrender benefits and other arrear payments	5043.44	23.06
Total	21868.00	100.00

Source: KAU

4.24 In the allocation of grant-in aid to universities no criteria or norm is followed by the government. Grants-in aid is allocated arbitrarily without considering the financial position, development requirements, contribution of the university in the area of teaching and research, educational development of backward regions or socially backward category students. In this context, the committee feels that there is a need for constituting a regulatory agency, a State University Grants Commission to evaluate the

**TABLE 4.22 REVENUE AND EXPENDITURE OF KAU IN 2006-07 AND  
2011-12 (RS. IN LAKH)**

	2006-07	2011-12	2011-12 (Percent)	Growth (percent)
I. Revenue				
1. Government Grant	5723	12813	93.31	123.89
2. Internal Resources	781	919	6.69	17.67
Total	6504	13732	100.00	111.13
II. Expenditure				
1. Salary / Wages	4678	10614	63.94	126.89
2. Pensions	2115	5764	34.72	172.53
3. Others	543	221	1.33	-59.30
Total	7336	16599	100.00	126.27
III. Deficit				
1. Yearly	832	2867		244.59
2. Cumulative	6259	17637		181.79

Source: KAU

activities of the universities and recommend the allocation of grant-in aid on a regular basis. The Commission will recommend the allocation of funds after due consideration of all aspects relating to academic activities, financial position, pattern of expenditure, future financial requirements, availability of state funds etc. The Commission will recommend the size of funds to be given to new universities recently started in the state after examining the requirements of the university as well as the fund availability. The committee is of the view that lack of regulation, ensuring financial discipline will lead to total collapse of the universities.

#### DEVOLUTION TO LSGIs

4.25 Devolution to Local Self Government Institutions is treated as revenue expenditure. This is the major source of income of LSGIs for meeting their routine expenditure and performing their civic and mandatory functions. The trend in the growth of the item of expenditure during the past years indicates wide variations. During the year 2009-10, the growth rate was 2.34 percent while in 2010-11, it was 11.62 percent (Table 4.3). This wide fluctuations in the growth rate needs to be examined. A disturbing development is the steady decline in the share of this item of expenditure to total expenditure. It fell from 8.34 percent in 2007-08 to 7.16 percent in 2010-11. In the context of increase in the civic, administrative and development functions of LSGIs, this decline in the share means a reduction of its activities. From the point of view of decentralization of administrative and development functions, the government should

follow a policy of strengthening the Panchayat Raj Institutions by allocating a higher share of resources. The committee recommends a higher share of allocation to LSGIs.

#### GROWTH AND STRUCTURE OF INTEREST PAYMENTS

4.26 Table 4.23 and 4.24 give the growth and structure of interest payments from 2004-05 to 2010-11. During the year 2010-11, the amount of interest payments increased by 7.50 percent. Among the three major categories, the growth in the interest on internal debt increased by 8.48 percent. The interest on small savings, provident fund etc was increased by 7.33 percent and interest on loans of Central Government by half a percent. The committee feels that the steady increase in the interest payments in market loans, other internal debt, provident funds, insurance and pension funds is a serious concern. In this context, the government may follow a policy to increase the revenue mobilization on the one hand and expenditure control on the other, to achieve a reduction in borrowing.

4.27 Between 2004-05 and 2010-11, there was substantial change in the structure of interest payments due to the change in the composition of debt. During the year 2004-05, the interest on internal debt comprising interest on market loans, ways and means advances from RBI, special securities and other internal debt constitute 50.47 percent of the total internal payments. There has been a continuous increase in the share of this item due to mounting internal debt. By 2010-11, it increased to 64.93 percent. But in the case interest on small savings, provident fund etc registered a small decline in the share during the period. The substantial fall in the saving deposits during 2007-08 and 2008-09 is a major cause for the decline in the share of interest on small savings and provident fund. However, during 2009-10, the item registered a sudden increase. Among the three major items, the item which registered a substantial fall in the share is interest on loans and advances from central government. It fell from 18.59 percent in 2004-05 to 7.51 percent in 2010-11.

4.28 The increase in the interest rates of the major items of borrowings also contributed to the growth in interest payments. The average rate of interest of market borrowing was 6.4 percent in 2004-05. It steadily increased to 8.29 percent in 2007-08 and registered a marginal fall since then. But the rate of interest of the item remains at a high level of 7.9 percent in 2010-11. Between 2004-05 and 2010-11, the interest rate of LIC had increased from 8.5 percent to 9.5 percent, GIC from 9 to 9.5 percent, NCDC from 8.5 percent to 10 percent. Except the NABARD loan, the cost of borrowing

of all loans had increased during the above period due to inflationary trends and changes in monetary policy of RBI.

**TABLE 4.23 STRUCTURE OF INTEREST PAYMENT (RS IN LAKHS)**

Interest payments	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Interest on Internal Debt of which	182345	221621	237876	272771	300931	335316.55	363781
a. Interest on market loans	82474	89090	97665	110686	138285	172220.79	200661
b. Interest on ways and means of advances from RBI	2120	1232	1228	1258	461	54	0
c. Interest on special securities issued to small savings fund of the Central Government by State Government	45539	72091	97146	116460	115983	114898	113450
d. Interest on other internal debts	52000	58881	41483	43974	45803	47630	49075
Interest on Small Savings, Provident Funds etc. of which	111748	117054	136227	117247	121516	151309	162408
a. Interest on State provident funds	44914	53738	50068	62421	69962	75330	83655
b. Interest on trusts and endowments	0	0	0	0	0	1	0
c. Interest on insurance and pension fund	5421	7451	8002	9466	11259	11495	15739
d. Interest on other saving deposits	61449	55962	78260	45431	40340	64518	63090
Interest on Loans and Advances from Central Government	67160	41250	43273	42948	43523	42531	42778
a. Interest on loans for State/UT plan schemes	59609	10101	12026	13541	15739	16403	1830
b. Interest on loans for centrally plan schemes	117	106	95	85	74	63	52
c. Interest on loans for centrally sponsored plan schemes	586	619	677	653	635	587	541
d. Interest on loans for non-plan schemes	4527	533	505	477	449	419	391
e. Interest on State plan loans consolidated in terms of the 12th Finance Commission	0	31115	29969	28193	26626	25060	23494
Total Interest Payments	361254	379925	418970	432965	465969	529248	568966

**TABLE 4.24 STRUCTURE OF INTEREST PAYMENT (PERCENTAGE GROWTH RATE)**

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Interest on Internal Debt of which</b>	21.5	7.3	14.7	10.3	11.4	8.5
a. Interest on market loans	8.0	9.6	13.3	24.9	24.5	16.5
b. Interest on ways and means of advances from RBI	-41.9	-0.4	2.5	-63.4	-88.2	-100.0
c. Interest on special securities issued to small savings fund of the Central Government by State Government	58.3	34.8	19.9	-0.4	-0.9	-1.3
d. Interest on other internal debts	13.2	-29.5	6.0	4.2	4.0	3.0
<b>Interest on Small Savings, Provident Funds etc. of which</b>	4.7	16.4	-13.9	3.6	24.5	7.3
a. Interest on State provident funds	19.6	-6.8	24.7	12.1	7.7	11.1
c. Interest on insurance and pension fund	37.4	7.4	18.3	18.9	2.1	36.9
d. Interest on other saving deposits	-8.9	39.8	-41.9	-11.2	59.9	-2.2
<b>Interest on Loans and Advances from Central Government</b>	-38.6	4.9	-0.8	1.3	-2.3	0.6
a. Interest on loans for State/UT plan schemes	-83.1	19.1	12.6	16.2	4.2	-88.8
b. Interest on loans for centrally plan schemes	-9.3	-10.3	-11.4	-12.9	-14.8	-17.1
c. Interest on loans for centrally sponsored plan schemes	5.6	9.3	-3.6	-2.7	-7.6	-7.7
d. Interest on loans for non-plan schemes	-88.2	-5.2	-5.5	-6.0	-6.5	-6.8
e. Interest on State plan loans consolidated in terms of the 12th Finance Commission	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Interest Payments</b>	5.2	10.3	3.3	7.6	13.6	7.5

### Capital Expenditure

4.29 Capital expenditure comprises of capital outlay and loans and advances. Capital outlay is the direct capital expenditure on general, social and economic services by the state government. Loans and advances are also given to public sector entities, co-operatives and government employees. Table 4.25 gives the structure of capital outlay for 2010-11 as well as for the previous years. Roads and bridges continue to account the highest share of outlay during 2010-11 (42 %). The other items having the largest

**TABLE 4.25 MAJOR HEAD WISE CAPITAL OUTLAY STRUCTURE**

	Major Head	2008-09 (Rs. Lakh)	Percent Distributio n	2009-10 (Rs. Lakh)	Percent Distribution	Percent Increase	2010-11 (Rs in kh)	Percent Distributio n	Percent Increase	
	<b>Transport development</b>									
1	Roads and Bridges	58999.81	34.8	83833.97	40.71	42.09	140812	41.86	67.97	
2	Inland Water Transport	1175.62	0.69	1090.88	0.53	-7.21	772.22	0.23	-29.21	
3	Other Transport Services	1453.99	0.86	9033.49	4.39	521.29	3790.79	1.13	-58.04	
	<b>Water resource development</b>									
4	Major and Medium Irrigation	12732.87	7.51	9064.61	4.40	-28.81	16035.27	4.77	76.90	
5	Flood Control Projects	11086.31	6.54	14511.26	7.05	30.89	10475.39	3.11	-27.81	
6	Minor Irrigation	1588.85	0.94	1861.05	0.90	17.13	2719.42	0.81	46.12	
7	Soil and Water Conservation	1347.64	0.79	1320.7	0.64	-2.00	1645.5	0.49	24.59	
	<b>Others</b>									
8	Housing	13010.56	7.67	890.89	0.43	-93.15	8894.42	2.64	898.37	
9	Public Works	5183.5	3.06	6533.71	3.17	26.05	10754.09	3.20	64.59	
10	Ports and Lighthouses	4492.79	2.65	3619.04	1.76	-19.45	15212.62	4.52	320.35	
11	Medical and Public Health	4455.62	2.63	6264.53	3.04	40.60	9879.66	2.94	57.71	
12	Telecommunicati ons & Electronics	3937.95	2.32	11568.84	5.62	193.78	19233.07	5.72	66.25	
13	Welfare of SC,ST & OBC	3128.64	1.85	3786.95	1.84	21.04	7236.62	2.15	91.09	
14	Education, Sports, Art and Culture	3107.36	1.83	4948.42	2.40	59.25	8558.88	2.54	72.96	
15	Fisheries	2979.92	1.76	6887.54	3.34	131.13	8397.7	2.50	21.93	
16	Co-operation	1980.87	1.17	4393.03	2.13	121.77	21105.54	6.27	380.43	
17	Food, Storage and Warehousing	1547.43	0.91	1227.4	0.60	-20.68	1651.16	0.49	34.53	
18	Forestry and Wildlife	1252.11	0.74	1321.92	0.64	5.58	1399.79	0.42	5.89	
19	Tourism	1756.75	1.04	1558.51	0.76	-11.28	3461.18	1.03	122.08	
20	Others	34341.58	20.25	32222.2	15.65	-6.17	44333.33	13.18	37.59	
21	Total	169560.17	100	205938.9	100.00	21.45	336368.7	100.00	63.33	

share are co-operation (6.26 %), telecommunications and electronics (5.72 %), ports and light houses (4.52 %) and major and medium irrigation projects (4.77 %). Between 2008-09 and 2010-11, there had been an increase in the share of expenditure on items namely, roads and bridges, other transport services, public works, ports and light houses, medical and public health, telecommunications and electronics, welfare of SC, ST and OBC, education, sports and arts, fisheries and co-operation. The item which registered the largest increase in the share was roads and bridges. On the other hand, there had been a decline in the share of expenditure of major and medium irrigation projects, flood control, minor irrigation, soil and water conservation, housing, food and storages, forestry and wild life tourism etc. However a low share of capital outlay on important items like other transport services, minor irrigation, soil and water conservation, public works, medical and public health, food and storage, forestry and wild life is a serious concern.

4.30 An analysis of the growth of capital outlay during 2010-11 indicate wide fluctuations on many items of expenditure. On the one side, we can notice substantial growth in expenditure on items like housing, ports and light houses, fisheries and tourism. On the other hand, some of the items like inland water transport, other transport services; flood control etc registered a negative growth. Considering the structure as well as growth trends in capital expenditure, the committee feels that there is a need to change the priorities in capital expenditure. Higher priority should be given to infrastructural items like inland water transport, other transport services, flood control, minor irrigation, soil and water conservation and public works. Priority should also be given to items such as public health, education and sports, food and storage and forestry and wild life (Table 4.26).

4.31 The above analysis may be concluded with the following observations. The structure of expenditure in the state is dominated by non-plan expenditure and a small share is spent either as capital expenditure or plan expenditure. The root cause for the continuous fiscal deficit and resource crunch in the state is the mounting expenditure on four items viz., salaries to government staff, teaching grants given to private aided educational institutions, pensions and interest payments. The large and mounting expenditure on salaries and pensions due to its revisions every five years is a basic cause for the continuous revenue and fiscal deficit. The system of grant-in-aid has resulted in excess educational institutions, excess staff and a lot of wasteful expenditure. About half of the total staff and total salary expenditure are incurred for education sector. There is considerable scope for reducing the excess staff and wasteful expenditure in the sector. In the context of heavy burden of pension payments, the



decision to switch over to contributory pension scheme is a sound decision. Though the state is implementing a number of social welfare schemes for old people and poor people, the pensions are not distributed every month. The critical financial situation of the universities in Kerala needs urgent remedial measures.

# 5

## Plan Expenditure- A Review

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### Introduction

5.1 Development plan is an instrument by which governments intervene in an economy through public expenditure projects and schemes to achieve certain socio-economic objectives. An annual plan is an operational plan consists of a large number of public expenditure projects/schemes implemented through government departments and other public agencies. The annual plan indicates the sum total of development activities proposed and funded by the government through allocation in the state budget. Preparation of financially, technically and economically feasible projects, finding resources, time bound and efficient execution of projects and achievements of physical targets are the important elements in plan performance.

5.2 The bureaucratic practices, rules and regulations relating to project execution, delays in the issue of administrative sanctions, inadequate allotment of resources, problems of land acquisition, lack of coordination of Departments responsible for execution, lack of availability of competent contractors, incompetency of administrators etc lead to poor and inefficient execution of plan projects. In Kerala, a core development issue during the last five and a half decade is the poor implementation of annual plan projects and schemes. There is a wide difference in the budgeted targets and actual spending of plan projects.

5.3 In this chapter, the Committee presents the norms and criteria for the evaluation of plan expenditure of the Departments for the year 2010-11. The Committee conducted a case study of plan expenditure of a few Departments by collecting information for them and also getting explanations from them. The results of the case study and recommendations for improving plan performance are also given in the chapter.

### Norms or criteria for evaluating plan expenditure

#### Norms of Government

5.4 The State government fixed a time frame for spending the total outlay of annual plan for 2010-11. The quarterly target for plan expenditure of government Departments and Local Self Government Institutions (LSGIs) are as follows.

TARGET OF PLAN EXPENDITURE OF GOVERNMENT

Quarter	Percentage of outlay to be spent
April to June (1 <sup>st</sup> quarter)	10
July to September (2 <sup>nd</sup> quarter)	30
October to December (3 <sup>rd</sup> quarter)	30
January to March (4 <sup>th</sup> quarter)	30
Total	100

Committee's criteria

5.5 As mentioned in the introduction, the quality of public expenditure is influenced by its quantum as well as the time profile of its spending. The Committee evaluated the quality of plan expenditure undertaken by various Departments based on the percentage of plan expenditure to outlay and the time profile of expenditure. The criteria used by the Committee for classifying the Departments into 'Very Poor', 'Poor' and 'Good' are given below.

CRITERIA FOR CLASSIFICATION OF DEPARTMENTS INTO VARIOUS CATEGORIES

Sl.no	Criteria	Very poor (any one of the condition)	Poor (any one of the condition)	Good (all two conditions)
1	Total plan expenditure to outlay during 2010-11	Less than 60%	60-80%	More than 80%
2	Spending during March 2011	Above 50%	20-50%	Upto 20%

5.6 The variables used for fixing criteria are the total plan expenditure to outlay during 2010-11 and percentage of spending during March 2011. 'Very poor' Departments are those Departments which are either spending less than 60% plan outlay or above 50% of plan expenditure during March. The 'poor' Departments are those Departments which have spent either 60-80% of plan expenditure or spending 20-50% plan expenditure during March only. The 'good' departments are those which satisfy both the conditionalities of spending more than 80% of plan expenditure and spent only upto 20% during the month of March.

Plan outlay and expenditure

5.7 Table 5.1 gives the Department wise plan outlay and plan expenditure for the year 2010-11. During 2010-11, of the total plan outlay, the amount spent was 86.79%. But there is a wide variation in the plan expenditure between Departments. Of the thirty seven Departments, 10 have spent more than the total plan outlay given in the budget.

**TABLE 5.1 DEPARTMENT LEVEL PLAN OUTLAY AND EXPENDITURE FOR 2010-11**

	Departments	State plan outlay and expenditure (Rs in lakhs)		
		Plan outlay	Expenditure	Percentage of expenditure to plan outlay
1	A.H. & Dairy	14050	13205.82	93.99
2	Agriculture	42630	34524.92	80.99
3	Cooperation	4350	3407.68	78.34
4	Cultural Affairs	3070	2563.17	83.49
5	Legislature	35	20.17	57.63
6	Environment	964	836.66	86.79
7	Finance	11105	11594.56	104.41
8	Fisheries	7981	7782.37	97.51
9	Food, Civil Supplies & Consumer Affiars	641	650.8	101.53
10	Forest	7050	5064.43	71.84
11	GAD	660	655.5	99.32
12	Gen. Edn.	21339	16568.13	77.64
13	Health & FW	19135	19132.29	99.99
14	Higher Edn.	14826	15846.87	106.89
15	Home & Vigilance	5990	2521.56	42.10
16	Housing	3217	2592	80.57
17	Indusries & Commerce	41548	42644.54	102.64
18	IT	14839	20849.99	140.51
19	Labour & rehabilitation	20188	11915.29	59.02
20	Law	75	73	97.33
21	LSGD	339811	277375	81.63
22	NORKA	595	334.42	56.21
23	P & ARD	100	99.98	99.98
24	Planning	4821	4078.76	84.60
25	Ports	17081	15312.02	89.64
26	Power	104700	65894.61	62.94
27	Public Relations	1600	1791.59	111.97
28	PWD	55810	141329.6	253.23
29	Revenue	4835	8830.2	182.63
30	SC/ST Devpt. Dept.	47942	42483.43	88.61
31	Science & Technology	4925	3873.4	78.65
32	Social Welfare	18489	16607.37	89.82
33	Sports & Youth Affairs	9250	3069.27	33.18
34	Taxes	310	443.92	143.20
35	Tourism	9000	12721.25	141.35
36	Transport	5669	3734.01	65.87
37	Water Resources	143869	59669.21	41.47
	<b>Total state plan outlay</b>	<b>1002500.00</b>	<b>870097.82</b>	86.79

The excess spending over the plan outlay is mainly due to accrual of past arrears and additional spending out of MLA funds. The Departments which spent more than the plan outlay are Finance; Food, Civil Supplies and Consumer Affairs; Higher Education; Industries and Commerce; IT, Public Relations, PWD; Revenue; Taxes; and Tourism. On the other hand, six Departments have spent less than 60 percent of the outlay. The

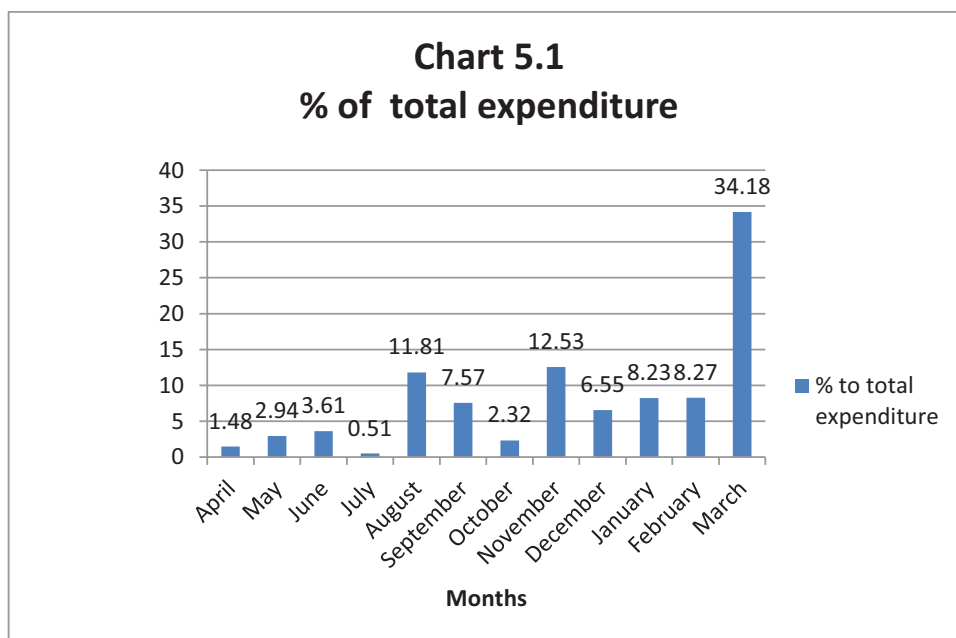
Departments which spent less than 60 percent are Legislature, Home and Vigilance, Labour and Rehabilitation, NORKA, Sports and Youth Affairs; and Water Resources.

Monthwise plan expenditure

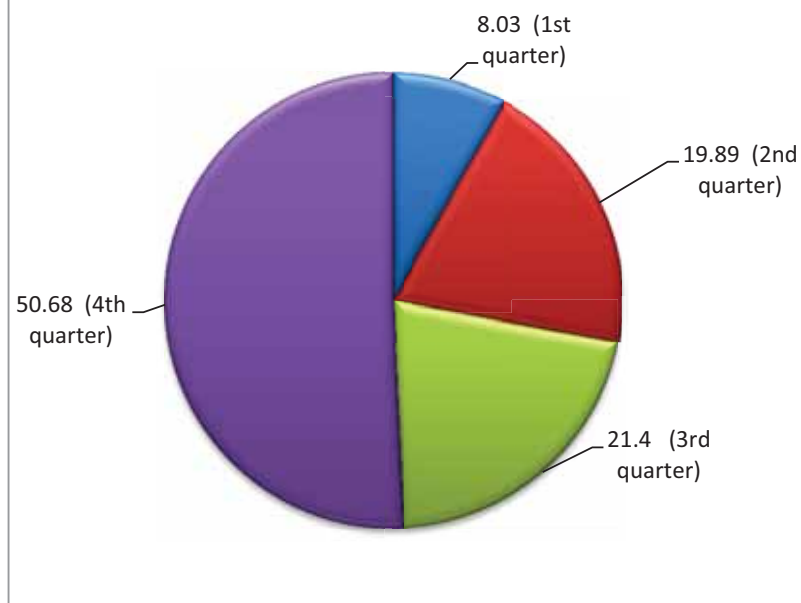
5.8 An examination of the month wise spending of the plan outlay also gives an idea about the pattern of expenditure. Table 5.2 gives the monthwise plan expenditure of government Departments during the year 2010-11. Chart 5.1 and Chart 5.2 pictorially represent the trends in plan expenditure monthwise and quarter wise respectively.

**TABLE 5.2 MONTHWISE PLAN EXPENDITURE OF GOVERNMENT DEPARTMENTS FOR 2010-11**

Month	Total plan expenditure	% to total expenditure
Apr-10	12906.26	1.48
May-10	25612.93	2.94
Jun-10	31453.33	3.61
Jul-10	4479.56	0.51
Aug-10	102758.3	11.81
Sep-10	65856.3	7.57
Oct-10	20150.79	2.32
Nov-10	108990	12.53
Dec-10	56992.26	6.55
Jan-11	71566.14	8.23
Feb-11	71923.73	8.27
Mar-11	297408.2	34.18
<b>Total</b>	<b>870097.8</b>	<b>100.00</b>



**Chart 5.2**  
**Quarterly plan expenditure by**  
**Departments in 2010-11**



5.9 The data reveals that the plan expenditure during the first quarter was only in namesake. During the first quarter between April to June, the target of spending is fixed as 10 percent. But the actual achievement was 8 percent. In the second quarter between July and September, the actual spending was 20 percent as against the targeted expenditure of 30 percent. In the third quarter between October and December, the actual expenditure was 21 percent against the targeted level of 30 percent. In the last quarter between January and March 2011, the actual spending was 51 percent against the targeted level of 30 percent. A disturbing thing is that out of total plan expenditure, 34 percent was spent during the last month of the financial year. This shows that Departments have not succeeded in spending the plan expenditure in a phased manner for ensuring better quality. Postponing the spending to the last quarter and to the last month of the financial year is a common practice of the Departments. The Committee feels that this is a distorted and poor quality spending and needs measures to correct it.

#### Departments and quarterly plan spending

5.10 Many Departments rarely follow the criteria fixed by the Govt. in spending the plan outlay quarter wise. The norm for spending the plan expenditure is spending 10% during the first quarter and 30% of plan expenditure each in remaining quarters. The

following Table 5.3 shows the quarter wise plan expenditure by various Departments during 2010-11.

**TABLE 5.3 DEPARTMENTS AND EXPENDITURE TO TOTAL PLAN EXPENDITURE IN VARIOUS QUARTERS IN 2010-11 (5% LOWER AND UPPER VARIATION FROM THE STIPULATED NORMS)**

<b>Between 5 -15% during the 1<sup>st</sup> quarter</b>	<b>25-35% during the 2<sup>nd</sup> quarter</b>	<b>25-35% during the 3<sup>rd</sup> quarter</b>	<b>25-35% during the 4<sup>th</sup> quarter</b>
A.H. & Dairy	A.H. & Dairy	Finance	NORKA
Agriculture	Agriculture	GAD	
Cultural Affairs	Legislature	Labour & rehabilitation	
Forest	Finance	Law	
Health & FW	NORKA	NORKA	
Home & Vigilance	Power	Planning	
Industries & Commerce	SC/ST Devpt. Dept.	PWD	
NORKA	Sports & Youth Affairs	Revenue	
P & ARD			
Power			
PWD			
SC/ST Devpt. Dept.			

5.11 The Table 5.4 shows the various Departments adhere to the norms of the State in spending the plan outlay with a 5% variation from the norm. Out of 37 Departments, only twelve Departments could adhere to the norm for plan expenditure during the first quarter. The number of Departments which satisfy the norm with 5% variation in the second and third quarters are only eight. Only one Departments ie, NORKA could able to adhere the norm for fourth quarter in plan spending. It implies that except the minor Department such as NORKA, no other Department could maintain the time profile of plan expenditure and by which ensure the quality of public expenditure. This issue has to be viewed seriously and corrective measures have to be taken for averting this situation in future.

#### Classification of Departments based on quality of plan expenditure

5.12 As mentioned in the introduction, the quality of public expenditure is influenced by its quantum as well as the time profile of its spending. A criteria is fixed by using these variables for classifying Departments as 'very poor', 'poor' and 'good' (Table 5.1). The variables used for fixing criteria are the total plan expenditure to outlay and percentage of spending during March 2011.

#### 'Very Poor' Category Departments

5.13 Very poor Departments are those Departments which are either spending less than 60% plan outlay or spending above 50% of plan expenditure during the month of

March only. The Table 5.4 and Table 5.5 show the Departments which satisfy the criteria to be categorised as 'very poor' Departments. The Table 5.6 shows that six Departments could not spend more than 60% of plan outlay during the financial year 2010-11. The Department of Sports and Youth Affairs spent only 33 percent of plan outlay whereas Department of Water Resources and Vigilance spent 41 and 42 percent of plan outlay respectively.

**TABLE 5.4 DEPARTMENTS WHICH SPENT LESS THAN 60% OF PLAN OUTLAY DURING 2010-11**

	Departments	Plan outlay	Expenditure	Percentage of expenditure to plan outlay
1	Legislature	35	20.17	57.63
2	Home & Vigilance	5990	2521.56	42.10
3	Labour & rehabilitation	20188	11915.3	59.02
4	NORKA	595	334.42	56.21
5	Sports & Youth Affairs	9250	3069.27	33.18
6	Water Resources	143869	59669.2	41.47

**TABLE 5.5 DEPARTMENTS WHICH HAVE SPENT ABOVE 50% OF PLAN EXPENDITURE DURING THE LAST MONTH (MARCH) OF 2010-11**

	Departments	Plan outlay	State plan outlay and expenditure (Rs in lakhs)		
			Total expenditure during 2010-11	Expenditure during the last month	Percentage of expenditure to total expenditure
1	Cooperation	4350.00	3407.68	1891.29	55.50
2	Legislature	35.00	20.17	11.35	56.27
3	Forest	7050.00	5064.43	2573.41	50.81
4	Gen. Edn.	21339.00	16568.13	8924.44	53.87
5	Housing	3217.00	2592.00	2334.00	90.05
6	Labour & rehabilitation	20188.00	11915.29	6782.23	56.92
7	Science & Technology	4925.00	3873.40	3873.40	100.00
8	Social Welfare	18489.00	16607.37	12256.11	73.80
9	Taxes	310.00	443.92	325.94	73.42
10	Tourism	9000.00	12721.25	7338.40	57.69



Table 5.6 shows that 10 Departments spent more than 50% of total plan expenditure during the month of March. The Department such as Housing, Labour and Rehabilitation, Science and Technology, Social Welfare and Taxes spent more than 70 percent of total plan expenditure only during March. The Department of Science and Technology spent their plan outlay only during the month of March. This type of skewed distribution of plan expenditure adversely affects the quality of public expenditure.

TABLE 5.6 LIST OF DEPARTMENTS WHICH ARE CLASSIFIED AS VERY POOR

Sl.No.	Departments
1	Cooperation
2	Forest
3	Gen. Edn.
4	Home & Vigilance
5	Housing
6	Labour & rehabilitation
7	Legislature
8	NORKA
9	Science & Technology
10	Social Welfare
11	Sports & Youth Affairs
12	Taxes
13	Tourism
14	Water Resources

5.14 Based on the criteria given in Table 5.1, fourteen Departments are categorised as 'very poor' in plan expenditure and which are listed in Table 5.6. Special measures are required to improve the quality of plan expenditure of these Departments.

'Poor' category Departments

5.15 Departments are also classified as 'poor' based on the criteria listed in Table 5.1. The Table 5.7 and Table 5.8 show the various Departments that satisfied the criteria for classifying as 'poor'.

TABLE 5.7 DEPARTMENTS WHICH HAVE SPENT BETWEEN 60 AND 80% OF PLAN OUTLAY DURING 2010-11

	Departments	State plan outlay and expenditure (Rs in lakhs)		
		Plan outlay	Expenditure	Percentage of expenditure to plan outlay
1	Cooperation	4350	3407.68	78.34
2	Forest	7050	5064.43	71.84
3	Gen. Edn.	21339	16568.13	77.64
4	Power	104700	65894.61	62.94
5	Science & Technology	4925	3873.40	78.65
6	Transport	5669	3734.01	65.87

5.16 Table 5.7 shows that six Departments spent between 60% and 80% of total plan outlay during 2010-11. These Departments are Cooperation, Forest, General Education, Power, Science and Technology and Transport. Department of Power spent only 63 percent of plan outlay whereas Department of Transport spent 66 percent of their plan outlay. Table 5.8 shows the Departments spending between 20 and 50% of total plan

expenditure during the month of March 2011. Sixteen Departments spent between 20 and 50% of total plan expenditure only during the month of March 2011. Department of Public Relation spent nearly 49% of plan expenditure during the month of March. The Department of Cultural Affairs and Department of Ports spent 46% of their plan expenditure during the last month of the financial year.

**TABLE 5.8 DEPARTMENTS WHICH HAVE SPENT BETWEEN 20 AND 50% OF PLAN EXPENDITURE DURING THE LAST MONTH (MARCH) OF 2010-11**

	Departments	Plan outlay	State plan outlay and expenditure (Rs in lakhs)		
			Total expenditure during 2010-11	Expenditure during the last month	Percentage of expenditure to total expenditure
1	Agriculture	42630.00	34524.92	10118.05	29.31
2	Cultural Affairs	3070.00	2563.17	1191.49	46.49
3	Fisheries	7981.00	7782.37	2138.02	27.47
4	Health & FW	19135.00	19132.29	5623.80	29.39
5	Higher Edn.	14826.00	15846.87	3559.48	22.46
6	Home & Vigilance	5990.00	2521.56	1005.91	39.89
7	Industries & Commerce	41548.00	42644.54	10788.13	25.30
8	IT	14839.00	20849.99	8174.43	39.21
9	Law	75.00	73.00	17.99	24.64
10	LSGD	339811.00	277375.03	113068.24	40.76
11	P & ARD	100.00	99.98	31.69	31.70
12	Ports	17081.00	15312.02	7140.12	46.63
13	Power	104700.00	65894.61	15760.59	23.92
14	Public Relations	1600.00	1791.59	869.64	48.54
15	PWD	55810.00	141329.60	49564.90	35.07
16	SC/ST Devpt. Dept.	47942.00	42483.43	10923.93	25.71

5.17 Based on the information given in Table 5.7 and 5.8, the Departments classified as 'Poor' are listed in Table 5.9. There are 16 Departments identified as Poor in plan expenditure for the financial year 2010-11.

TABLE 5.9 DEPARTMENTS WHICH ARE CLASSIFIED AS 'POOR' IN  
PLAN EXPENDITURE

Sl.No.	Departments
1	Agriculture
2	Cultural Affairs
3	Fisheries
4	Health & FW
5	Higher Edn.
6	Industries & Commerce
7	IT
8	Law
9	LSGD
10	P & ARD
11	Ports
12	Power
13	Public Relations
14	PWD
15	SC/ST Devpt. Dept.
16	Transport

#### 'Good' category Departments

5.18 As illustrated in Table 5.1, the 'good' Departments are those Departments which must spent more than 80% of plan outlay and must not spent more than 20% of total plan expenditure during the month of March. Table 5.10 and Table 5.11 show the Departments satisfying the criteria for classifying as 'good' Departments. During 2010-11, twenty five Departments spent more than 80% of plan outlay. Certain Departments such as Finance; Food, Civil Supplies & Consumer Affairs; Higher Education; Industries and Commerce; IT; Public Relations; PWD; Taxes; and Tourism spent more than 100% of plan outlay during 2010-11. The Department of PWD spent 253 percent of total plan outlay during this financial year. Increase in plan expenditure as compared to plan outlay is a good indicator of quality of public expenditure which definitely speeds up the achievement of physical target set in schemes and projects. Along with this, the symmetrical spending of plan outlay enhances the cost efficient coordination and timely monitoring of spending. Table 5.11 shows the Departments which spent only upto 20% of total plan expenditure during the month of March, 2011. During 2010-11, ten Departments spent less than 20% of plan expenditure during the month of March, 2011.

The lowest percentage of expenditure during the month of March was achieved by the Department of General Administration (GAD). It was only 0.52. The Departments such as NORKA, Finance and Planning spent respectively 4.96%, 5.94% and 7.14% of plan expenditure during the month of March.

**TABLE 5.10 DEPARTMENTS WHICH HAVE SPENT MORE THAN 80% OF PLAN EXPENDITURE DURING 2010-11**

	Departments	State plan outlay and expenditure (Rs in lakhs)		
		Plan outlay	Expenditure	Percentage of expenditure to plan outlay
1	A.H. & Dairy	14050	13205.82	93.99
2	Agriculture	42630	34524.92	80.99
3	Cultural Affairs	3070	2563.17	83.49
4	Environment	964	836.66	86.79
5	Finance	11105	11594.56	104.41
6	Fisheries	7981	7782.37	97.51
7	Food, Civil Supplies & Consumer Affairs	641	650.80	101.53
8	GAD	660	655.50	99.32
9	Health & FW	19135	19132.29	99.99
10	Higher Edn.	14826	15846.87	106.89
11	Housing	3217	2592.00	80.57
12	Industries & Commerce	41548	42644.54	102.64
13	IT	14839	20849.99	140.51
14	Law	75	73.00	97.33
15	LSGD	339811	277375.03	81.63
16	P & ARD	100	99.98	99.98
17	Planning	4821	4078.76	84.60
18	Ports	17081	15312.02	89.64
19	Public Relations	1600	1791.59	111.97
20	PWD	55810	141329.60	253.23
21	Revenue	4835	8830.20	182.63
22	SC/ST Devpt. Dept.	47942	42483.43	88.61
23	Social Welfare	18489	16607.37	89.82
24	Taxes	310	443.92	143.20
25	Tourism	9000	12721.25	141.35

**TABLE 5.11 DEPARTMENTS WHICH HAVE SPENT UP TO 20% OF PLAN EXPENDITURE  
DURING THE LAST MONTH (MARCH) OF 2010-11**

	Departments	Plan outlay	State plan outlay and expenditure (Rs in lakhs)		
			Total expenditure during 2010-11	Expenditure during the last month	Percentage of expenditure to total expenditure
1	A.H. & Dairy	14050.00	13205.82	2656.54	20.12
2	Finance	11105.00	11594.56	688.34	5.94
3	Food, Civil Supplies & Consumer Affairs	641.00	650.80	59.24	9.10
4	GAD	660.00	655.50	3.44	0.52
5	NORKA	595.00	334.42	16.60	4.96
6	Planning	4821.00	4078.76	291.37	7.14
7	Revenue	4835.00	8830.20	1007.94	11.41
8	Sports & Youth Affairs	9250.00	3069.27	604.66	19.70
9	Transport	5669.00	3734.01	533.76	14.29
10	Water Resources	143869.00	59669.21	6635.30	11.12

5.19 The 'good' Departments are those which satisfy both the criteria stipulated as in Table:-5.10 and Table 5.11. The Departments which are classified as 'good' are given in Table 5.12. As it is revealed from the Table 5.13, only seven Departments could come up to the status of 'good' Departments with respect to spending the plan outlay during 2010-11. The Departments identified as 'good' are Animal Husbandry and Dairy; Environment; Finance; Food, Civil Supplies and Consumer Affairs; GAD; Planning; and Revenue.

<b>TABLE 5.12 DEPARTMENTS WHICH ARE CLASSIFIED AS 'GOOD' IN PLAN EXPENDITURE</b>	
Sl.No.	Departments
1	A.H. & Dairy
2	Environment
3	Finance
4	Food, Civil Supplies & Consumer Affairs
5	GAD
6	Planning
7	Revenue

Plan Expenditure at LSG level

5.20 A sizeable share of state resources is spent through local self government institutions (LSGs) for economic development. Achievements of physical targets as well as quality of plan expenditure at LSG level are influenced by the spread of public expenditure over the time spectrum of a financial year. LSG institutions are categorised as Panchayats institutions and urban institutions. Panchayat institutions

consist of Village Panchayats, Block Panchayats and District Panchayats. The urban governing institutions are categorised as Municipal bodies and Corporations. Table 5.13 reveals the monthwise plan expenditure at LSG level which composed of Village Panchayats, Block Panchayats and District Panchayats.

**TABLE 5.13 MONTHWISE PLAN EXPENDITURE OF VILLAGE, BLOCK AND DISTRICT PANCHAYATS FOR 2010-11**

Month	Village panchayat	% of expenditure	Block panchayat	% of expenditure	District panchayat	% of expenditure
Apr-10	0	0.00	0	0.00	0	0.00
May-10	526.95	0.46	173.87	0.60	465.7	1.65
Jun-10	1387.5	1.22	533.8	1.85	178.6	0.63
<b>1<sup>st</sup> quarter</b>	<b>1914.45</b>	<b>1.68</b>	<b>707.67</b>	<b>2.45</b>	<b>644.3</b>	<b>2.28</b>
Jul-10	6515.92	5.74	1818.79	6.30	2412.46	8.57
Aug-10	6123.14	5.39	1233.23	4.27	817.72	2.91
Sep-10	12434.91	10.95	3297.69	11.42	3256.91	11.57
<b>2<sup>nd</sup> quarter</b>	<b>25074</b>	<b>22.08</b>	<b>6349.71</b>	<b>21.99</b>	<b>6487.09</b>	<b>23.05</b>
Oct-10	5048.02	4.44	1583.65	5.48	2320.57	8.24
Nov-10	9461.67	8.33	1823.09	6.31	838.01	2.98
Dec-10	4660.44	4.10	2175.61	7.53	-74.82	-0.27
<b>3<sup>rd</sup> quarter</b>	<b>19170.1</b>	<b>16.87</b>	<b>5582.35</b>	<b>19.32</b>	<b>3083.76</b>	<b>10.95</b>
Jan-11	9691.38	8.53	2889.53	10.01	2845.75	10.11
Feb-11	11232.27	9.89	2078.96	7.20	1566.93	5.57
Mar-11	46521.79	40.95	11269.11	39.02	13517.72	48.03
<b>4<sup>th</sup> quarter</b>	<b>67445.4</b>	<b>59.37</b>	<b>16237.6</b>	<b>56.23</b>	<b>17930.4</b>	<b>63.71</b>
Total	113604	100.00	28877.33	100.00	28145.55	100.00

5.21 During the first quarter, the amount of plan expenditure incurred by the Panchayat institutions is very less. Percentage of total plan expenditure during the first quarter by various village panchayats in 2010-11 was only 1.68% while it was 2.45% for Block Panchayats and 2.28% for District Panchayats. During the second quarter, the average spending of plan expenditure was 22.08% for Village Panchayats, 21.99% for Block Panchayats and 23.05% for District Panchayats. Compared to the second quarter, the percentage of total plan expenditure during the third quarter is lower for all Panchayats. It was only 16.87% for Village Panchayats, 19.32% for Block Panchayats and 10.95% for District Panchayats. A bulk of plan expenditure was spent only during the fourth quarter and that too during the month of March, 2011. Out of total plan expenditure, the Village Panchayats spent nearly 59% during the fourth quarter while the spending incurred by the Block and District Panchayats were respectively 56.23% and 63.71% during the same period. Nearly 41 percentage of plan expenditure of Village

Panchayats are spent during the month of March alone while the same figure for Block and District Panchayats are 39% and 48% respectively. This skewed distribution of plan expenditure over the year adversely affects the quality of plan expenditure.

**TABLE 5.14 MONTHWISE PLAN EXPENDITURE OF MUNICIPALITIES AND CORPORATION FOR 2010-11**

Month	Municipalities	% of expenditure	Corporation	% of expenditure
Apr-10	0	0.00	0	0.00
May-10	62.3	0.38	51.09	0.41
Jun-10	278.95	1.72	475.49	3.78
<b>1<sup>st</sup> quarter</b>	<b>341.25</b>	<b>2.1</b>	<b>526.58</b>	<b>4.19</b>
Jul-10	1621.69	10.00	713.91	5.68
Aug-10	789.9	4.87	342.7	2.73
Sep-10	1391.34	8.58	1065.85	8.48
<b>2<sup>nd</sup> quarter</b>	<b>3802.93</b>	<b>23.45</b>	<b>2122.46</b>	<b>16.89</b>
Oct-10	1036.28	6.39	284.76	2.26
Nov-10	874.63	5.39	418.16	3.33
Dec-10	1106.86	6.83	496.5	3.95
<b>3<sup>rd</sup> quarter</b>	<b>3017.77</b>	<b>18.61</b>	<b>1199.42</b>	<b>9.54</b>
Jan-11	916.05	5.65	476.23	3.79
Feb-11	1347.71	8.31	841.32	6.69
Mar-11	6788.93	41.87	7407.06	58.91
<b>4<sup>th</sup> quarter</b>	<b>9052.69</b>	<b>55.83</b>	<b>8724.61</b>	<b>69.39</b>
Total	16214.64	100.00	12573.07	100.00

5.22 Table 5.14 shows the month wise plan expenditure of Municipalities and Corporation during 2010-11. Similar to Panchayats, urban bodies are also spending their plan outlay in a very skewed manner. During the first quarter, Municipalities spent only 2.1% of total plan expenditure while it was 4.19% for Corporations. Percentage of plan expenditure for the second quarter for Municipalities and Corporations were respectively 23.45% and 16.89%. Total plan expenditure for third quarter for Municipalities and Corporations were 18.61% and 9.54% respectively. The lions share of plan expenditure was spent by these urban bodies only during the fourth quarter and that too during the month of March. Municipalities spent 56% of total plan expenditure during the fourth quarter and the month of March accounts for 42% of total plan expenditure. In the case of Corporations, they spent 69% of total plan expenditure during the fourth quarter and during the month of March, the share of total expenditure was 59%. The bunching of plan expenditure by local bodies at the end of the financial year adversely affects the selection, implementation and monitoring of plan schemes and programmes intended for raising the welfare of local people.

## Plan expenditure of Departments- Case studies

5.23 The shortfall in plan expenditure to plan outlay budgeted and delayed implementation of plan schemes and programmes are identified as two vital issues in plan expenditure and for which corrective measures are needed urgently. The plan schemes consist of State government schemes as well as Centrally Sponsored Schemes. To understand the various hurdles in plan implementation, some Departments are studied closely. The Committee decided to make an in depth examination of the projects/schemes above an outlay of Rs 1 crore implemented for the financial year 2010-11 by the Departments under plan headings of Agriculture and Animal Husbandry, Fisheries, Foresty and Wildlife and Rural Development. Two detailed schedules incorporating the probable major issues connected with the various stages of plan implementation were sent to these selected Department heads. Discussions with officials of selected Departments were held during 17-9-2012 to 20-9-2012 at Govt. Guest House, Thycaud. Though these schedules were sent before three months with frequent reminders, no Department furnished the second schedule properly. In spite of these difficulties, the Committee tried the level best to eke out the important factors which led to poor implementation of plan schemes by the Department based on discussion with these officials.

5.24 The selected Departments and their percentage of expenditure to outlay along with quarterwise percentage of expenditure are given in Table 5.15. Except a few institutions running in mission mode, no Department could spend their plan outlay completely. Only the Information Kerala Mission could spend more than 100% of their budgeted plan outlay. However, their share in total plan expenditure of the state is not very significant. The Departments which are directly under the State Government spent less plan outlay compared to the initial target. Among the selected institutions, the lowest spending was registered by Suchitwa Mission followed by Matsyafed and Harbour Engineering. Suchitwa Mission spent only 27% of plan outlay during 2010-11. Matsyfed and Harbour Engineering spent respectively 62% and 65% of plan outlay during the financial year.

5.25 The quarterwise plan expenditure of the selected Departments in percentage reveals that in many selected Departments, a major chunk of the plan expenditure is incurred during the third and fourth quarters. Department of Forest spent nearly 55 percent of plan expenditure during the last quarter alone, while it was 43% for Fisheries Department and Agriculture Department. Here again, only those institutions working in mission mode nature such as Kudumbasree, Kila and IKM spent their plan outlay in a balanced way through out the quarters.



**TABLE 5.15 QUARTERWISE PLAN EXPENDITURE (IN %)**

Sl.No	Name of the Department	Percentage expenditure to plan outlay	Quarterly Expenditure			
			Q1	Q2	Q3	Q4
1	Agriculture	91.22	5.36	26.53	25.05	43.06
2	Kudumbasree	73.35	21.39	24.96	25.01	28.64
3	Suchitwa Mission	27.01	12.96	15.14	8.14	63.76
4	Kerala Land Development Corporation	88.64	24.11	17.79	1.55	56.54
5	Matsya fed	62.17	3.42	53.63	28.94	14.01
6	Harbour Engineering	65.02	10.60	16.29	26.16	46.95
7	Soil survey and soil conservation	92.02	4.18	16.04	37.00	42.78
8	Kila	89.15	9.64	22.25	37.70	30.41
9	State Horticulture Mission	84.49	23.13	13.28	23.27	40.32
10	Rural development	87.57	10.21	21.57	22.61	45.62
11	Kerala Forest Department	62.75	4.38	10.27	29.97	55.38
12	Fisheries	88.85	10.71	34.84	11.17	43.28
13	Information Kerala Mission	108.54	22.62	24.73	26.03	26.62

5.26 Table 5.16 shows the average quarterwise plan expenditure of state schemes and centrally sponsored schemes of selected Departments. Except the Department of Fisheries, Rural Development and Kudumbasree, no Department could able to spent fully the plan outlay earmarked annually for State sponsored schemes during 2010-11. In the case of Centrally sponsored schemes, except for the Department of Agriculture and Soil Survey and Soil Conservation, the percentage of spending was very poor. The lowest percentage of spending for Centrally Sponsored Schemes was registered by Kudumbasree followed by Harbour Engineering and Fisheries. Kudumbasree utilised only 47% of funds for the centrally sponsored schemes during 2010-11 while it was 49% for Harbour Engineering Department.

**TABLE 5.16 AVERAGE QUARTERWISE EXPENDITURE OF STATE SCHEMES AND CENTRALLY SPONSORED SCHEMES OF SELECTED DEPARTMENTS FOR 2010-11**

Sl.No	Name of the Department	Quarter wise plan expenditure (in %)				% of plan expenditure
		Q1	Q2	Q3	Q4	
<b>State sponsored schemes</b>						
1	Agriculture	17.85	17.80	12.92	51.43	85.04
2	Kudumbasree	17.69	27.29	23.17	31.85	183.95
3	Suchitwa Mission	9.64	15.31	5.02	36.69	31.57
4	Kerala Land Development Corporation	14.05	12.43	1.57	71.95	73.02
5	Matsya fed	13.11	19.30	17.23	30.37	72.81
6	Harbour Engineering	4.08	5.77	30.46	59.69	73.52
7	Soil survey and soil conservation	0.08	7.02	16.24	76.66	77.89
8	Kila	1.18	2.73	37.46	40.45	89.15
9	State Horticulture Mission					
10	Rural developmnt	0.74	2.64	14.70	81.92	107.03
11	Kerala Forest Department	6.01	17.13	10.23	66.62	76.56
12	Fisheries	0.93	38.66	11.07	46.12	119.44
13	Information Kerala Mission	22.62	24.73	26.03	26.62	107.87
<b>Centrally sponsored schemes</b>						
1	Agriculture	1.02	21.72	11.24	56.93	113.70
2	Kudumbasree	17.19	18.40	19.85	44.56	47.04
5	Matsya fed	55.71	109.14	35.14	0.00	74.75
6	Harbour Engineering	3.74	5.37	17.52	65.03	48.88
7	Soil survey and soil conservation	5.34	14.61	47.22	32.82	138.90
8	State Horticulture Mission	23.13	13.28	23.27	40.32	84.49
9	Rural developmnt	16.76	24.53	17.58	41.12	85.24
10	Kerala Forest Department	3.05	12.72	33.28	47.62	59.77
11	Fisheries	13.31	11.83	19.78	47.93	77.88

5.27 In the context of plan expenditure, the Centrally Sponsored Schemes (CSS) particularly 100% sponsored schemes by the Centre is a great relief for the state government to mitigate the issue of resource crunch. However, the close scrutiny shows

that many Departments are not able to utilise these centrally sponsored schemes properly. Table 5.17 shows the spending pattern of 100% centrally sponsored schemes of selected Departments for the year 2010-11.

**TABLE 5.17 SPENDING PATTERN OF 100% CENTRALLY SPONSORED SCHEMES DURING 2010-11**

Schemes	Plan outlay	Q1	Q2	Q3	Q4	Total expenditure	Percent of expenditure
<b>Agriculture Department</b>							
Organic farming	50	0	0	0	31.08	31.08	62.16
CDB coconut development	540	0	98.02	129.47	254.53	482.02	89.26
Agri. Mechanisation	20	0	0	0	9.88	9.88	49.40
NBMMP	120	0	61.74	36.05	17.24	115.03	95.86
Seed infrastructure	100	0	0	0	0	0	0.00
<b>Kudumbasree</b>							
BSUP	10200	1012	921.2	990.35	1059.45	3983	39.05
IHSDP	6874	752	715	865	745	3077	44.76
RAY	263.31				11.48	11.48	4.36
<b>Harbour Engineering</b>							
4405-00-104-97-Vizhinjam Fishing Harbour	155	0	0	20.44	51.6	72.04	46.48
4405-00-104-91-Ponnani Fishing Harbour	800	166.93	78.63	303.53	197.81	746.9	93.36
4405-00-104-87-Kayamkulam Fishing Harbour	0.66				0.66	0.66	100.00
4405-00-104-85-Muthalappozhy Fishing Harbour	150	0.012		1.17	52.94	54.122	36.08
4405-00-104-84-Thalai Fishing Harbour	182.62			104.01	62.24	166.25	91.04
4405-00-104-81-Thottappally Fishing Harbour	400	70.3	10.41	53.84	187.52	322.07	80.52
4405-00-104-80-Koyilandy Fishing Harbour	830.41	5.11	291.86	157.27	330.08	784.32	94.45
4405-00-104-79-Dredging of Fishing Harbours	100		1.08	3.36	3.57	8.01	8.01
4405-00-104-78-Modernisation of Fishing Harbours	200				0.39	0.39	0.20
4405-00-104-75-Repairs and Renovation	60					0	0.00
4405-00-104-73-Chettuva Fishing Harbour	300				18.74	18.74	6.25
4405-00-104-72-Cheruvathoor Fishing Harbour	300				92.73	92.73	30.91
<b>Soil Survey and Soil Conservation</b>							
River Valley Project Kabini (90% CSS Scheme) 2402-00102-83 PLAN	156		18.16	74.024	58.506	150.69	96.60
National Watershed Development- Project for Rainfed Areas(NWDPR)	353.37	68.43	110	290.23	171.67	640.33	181.21

(90% CSS Scheme) 2401-00-800-61-13 PLAN							
River Valley Project Kabini (90% CSS Scheme) 2402-00102-83 PLAN	156		18.16	74.024	58.506	150.69	96.60
<b>Rural Development</b>							
Pradhan Mantri Grama Sadak Yojana (PMGSY)	14427	1952.74	3562.43	2345.89	7045.49	14906.55	103.32
Backward Region Grant Fund (BRGF)	4026	0	0	0	2526.86	2526.86	62.76
<b>Kerala Forest Department</b>							
Nilgiri biosphere reserve	63.77	0	0	40.37	-18.88	21.49	33.70
Project Elephant	306.23	0	0	37.33	153.47	190.8	62.31
Agasthyamala biosphere reserve	150	0	0	44.98	-20.9	24.08	16.05
Wetland conservation	75	0	0	0	40.73	40.73	54.31
Integrated development of wildlife habitats outside PAs	500	0	0	9.55	39.29	48.84	9.77
Integrated development of wildlife habitats (Kadalundi Vallikunnu)	19	0	0	0.17	11.69	11.86	62.42
Additional central assistance-expenditure met under contingency fund	469	0	0	0	249.18	249.18	53.13
<b>Fisheries</b>							
Loans to Matsyafed for integrated pilot project for fisheries development (NCDC assisted)	2000	0	0	0	819.75	819.75	40.99

5.28 It is revealed that inspite of 100% centrally sponsored scheme, many Departments are not able to spend more than 50 percent of sanctioned plan outlay. The Department of Agriculture has not spent even a single Rupee from Rs 100 lakhs for the Seed Infrastructure Project. Also, the Department of Agriculture spent only during the last quarter for the centrally sponsored schemes of Organic Farming and Agriculture Mechanisation. Kudumabasree Project of Government of Kerala, spent only 4.31 percent of total sanctioned outlay of Rs 263.31 lakhs for RAY schemes and that too only during the fourth quarter of 2010-11. Department of Harbour Engineering received a large number of CSS during 2010-11. However, their spending performance was very poor for many projects. Out of Rs 200 lakhs allotted for Modernisation of Fishing Harbour, they spent only 0.20 percent. At the sametime, out of Rs 60 lakhs allotted for Repairs and Renovation, they have not spent any amount during 2010-11. Department of Rural Development, spent only around 63 percent from the 100% CSS of Backward Region Grant Fund. Department of Forest also received a large number of 100% CSS during 2010-11. However, their spending performances of these projects are not good. For example, out of sanctioned Rs 500 lakhs for Integrated Development of Wildlife Habitats, they spent only 9.77 percent. All these inferences indicate that even if there is 100% CSS, many Departments are not showing keen interest in efficient and full utilisation of

these allotted funds timely. Urgent steps have to be initiated to tide over this undesirable situation.

#### Administrative sanction and delayed implementation of schemes

5.29 One of the reasons cited for the delayed implementation of plan project is the delay in getting administrative sanction. Selected Departments were asked to give the date of administrative sanction of various projects (if it is necessary) and on that basis the information on administrative sanction is summarised in Table 5.18.

**TABLE 5.18 MONTH OF GETTING OF ADMINISTRATIVE SANCTION**

Months	Percent of Administrative sanction obtained for schemes during 2010-11	
	State Plan Scheme	Centrally Sponsored Scheme
April, 2010	14.9	5.3
May, 2010	20.2	26.3
June, 2010	23.4	5.3
July, 2010	11.7	21.1
August, 2010	7.4	Nil
September, 2010	3.2	5.3
October, 2010	2.1	10.5
November, 2010	8.5	5.3
December, 2010	4.3	Nil
February, 2011	3.2	21.1
March, 2011	1.1	Nil

5.30 In the case of state schemes, only 58.5 percent of State schemes received the administrative sanction during the first quarter. There are certain extreme cases for which the Departments received the administrative sanction even during February and March 2011. In the case of Centrally Sponsored Schemes, the Departments received the administrative sanction only for 36.9 percent schemes during the first quarter. The administrative sanction for 21 percent of CSS was received by the Departments only during February 2011. The Committee feels that the delayed administrative sanction for plan schemes implemented by the Departments is a serious issue leading to delayed and poor implementation of plan schemes. Appropriate measures have to be initiated to avert the recurring of the same issue in future.

#### Factors contributing to poor utilisation of plan funds

5.31 In addition to the delayed administrative sanction as a cause for inefficient implementation of plan schemes, other reasons which are inferred from the discussions with selected Heads of Departments and officials in charge of plan preparation and implementation are the following.

- (1) Delay in passing the State budget not before the month of April. Though the financial year starts from 1<sup>st</sup> April, the State budgets are usually passed after three to four months. The Departments usually wait till the passing of budget to start the processing of schemes, giving for administrative sanction and implementation.
- (2) After passing the budget, a large number of schemes are brought through Supplementary demands which change the priority of plan schemes initially planned. This leads to poor implementation of plan schemes budgeted.
- (3) The publication of plan schemes in the Budget headwise creates confusion about the plan schemes coming under each Department. The headwise summary of plan schemes makes it very difficult to identify which Departments are responsible for which schemes. Until and unless, the plan schemes are categorised Department wise, such inconsistency cannot be resolved.
- (4) Inadequate allocation of funds for major plan schemes result in long delays in execution and cost escalation. This issue is not taken seriously by the Departments.
- (5) Lack of accountability in project formulation, monitoring and implementation of projects in the Department are found rudimentary. In the present situation, no person in the Department is accountable for preparation, monitoring and implementation of plan schemes. In this situation, even if a Department is not spending any plan amount, any action/explanation cannot seek for such irresponsible action on the part of government officials.
- (6) Annual plan document lacks completeness. The annual plan documents gives brief details of plans/schemes of various sectors without sufficient details needed for getting administrative sanction later. Many departments prepare the detailed plan schemes incorporating physical and financial targets and achievements with time scale only after the Annual Plan document is approved by the State government. This leads to delay in getting administrative sanction and consequent delay in implementation of plan schemes. The preparation of plan schemes should start one year ahead of the year of actual implementation. This will leads to speedy as well as efficient implementation of plan schemes.
- (7) Failure to prepare sound or financially, economically and technically viable projects by the Departments is a major reason for poor plan implementation. The lack of quality of plan schemes also leads to delay/non sanctioning of administrative clearance and consequent non utilisation of plan funds. There is no professional body to scrutiny the physical and financial viability of schemes prepared by the Departments either at Department level or State level. The present mechanism for scrutinizing the plan schemes by the State Planning

Board is only in namesake. There is a need for strengthening the present mechanism for scrutinizing and evaluating the viability of schemes. In addition to that, it is also needed a professional project preparation cell at the Department level,

- (8) The delay in implementation of various plan schemes connected with land acquisition is longer. Such schemes not only lead to delay but also cost overrun in future. Thus the availability of land should be ensured before the very beginning of implementation of such schemes.
- (9) One important factor identified for delaying the project implementation is delay in tender procedure and sanctioning. The present tender process is very long and hurdled with lot of formalities. The delay to a great extent can be avoided by e-tendering of plan works.
- (10) Lack of timely revision of the rates for materials and works also adversely affect the time bound implementation of schemes. In some exceptional situation, such as project implementation in difficult terrain and hilly areas ( as in the Forest Department), the State level uniform work contract rates discourage contractors to take up the work, which leads to poor plan spending. In such situation, there should be a provision for flexibility in work rates.
- (11) Lack of availability of competent contractors with modern equipments and skilled labour to execute major public works in different categories of works (roads, bridges, electrical works, water supply, waste disposal and other items of infrastructure) is a major constraint of efficient time bound implementation of schemes.
- (12) In the case of projects like construction and widening of roads, ports, waste disposal, urban infrastructure etc, the public resistance on land acquisition and location of project have also affected the poor plan implementation.
- (13) The delay in physical movements of files and documents leads to delayed administrative sanction and consequent implementation. Had these processes initiated through online transaction between various layers of government, the delay in sanctioning can be reduced to a great extent.
- (14) In many Departments, the plan schemes are implemented through offshoot agencies. For example, many programmes of Department of Fisheries are implemented through the agency of Matsyafed. Similar is the case with other Department such as Agriculture, Rural Development etc. However, the parent Departments have less control over these offshoot agencies and the former is not able to efficiently monitor the activities of the latter.
- (15) Many Departments are not able to implement centrally sponsored schemes fully. One of the reasons cited as non implementation of Centrally Sponsored schemes is the insufficient matching grants from the state budget.

- (16) There is delay in implementing 100% Centrally Sponsored Schemes due to lack of submission of suitable proposals, administrative delays and lack of giving utilisation certificate in time.
- (17) Delay in getting Letter of Credit (LC) and fund release have also delayed the implementation of schemes.
- (18) For major projects, there is a need of getting clearance from different Departments such as Finance, PWD, Fire Service, Health etc, which leads to the delay in the issue of administrative sanction and consequent delay in implementation of schemes.
- (19) In some Departments such as Agriculture, the inefficiency in plan implementation of time bound projects is due to shortage of technically qualified persons.

The foregoing analysis of the chapter highlights the fact that the plan outlay is not spending efficiently in the state. In addition to shortage of actual plan spending from the outlay, a major share of annual spending is bunching towards the last quarter and that too during the month of March. This has serious implications on plan coordination, cost effective implementation and monitoring of schemes. The reasons for poor implementation of plan schemes are multifarious and vary from Department to Department. The identified reasons including state level items such as delay in passing the annual plan schemes after the budget presentation, present pattern of preparing annual schemes sector wise (not mentioning the Departments for execution), delay in administrative sanctions and Letter of Credit, insufficient matching grants to centrally sponsored schemes, lack of a mechanism for monitoring the quality of schemes sanctioned etc and Department level reasons including non accountability of officials for not preparing viable schemes and their implementation, lack of technical expertise, delay in sending utilisation certificate timely etc make the inefficient utilisation of plan funds. The Committee feels that urgent attention has to be given to these factors for improving the quality of plan expenditure in the state.



# 6

## Debt management

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### 6.1 Introduction

In this chapter the broad dimensions of debt and its management aspects are taken up for detailed analysis as mandated by the fiscal responsibility act of the Govt. of Kerala in 2003. It examines the component wise analysis of debt covering the financial/fiscal years (FYs), 2000/01-2010/11. It also deals with the trend in growth rates and shares of four exhaustive categories of debt during the period. The borrowing capacity of the southern states and all Indian states as indicated by its debt-gross state domestic product ratios are compared and assessed to see whether the Debt ratios conform to the thirteenth finance commission recommendations. Next our concern is the debt by instruments and its relationship with interest rate structure. The efficiency of borrowing is then examined from the relationship between concentration of instruments and their interest rates at the aggregate level. It also considers the sustainability indicators and analyse whether the regional economy is debt-stressed or not. Next the efficiency of expenditure is analysed in the case of public investment and public loans using borrowed funds. In this context, the inefficiency cost to exchequer is estimated assuming breakeven condition for borrowed funds. Next we examine the debt-stress prevailing in the economy. Finally we summarise the chapter along with the recommendations for public action.

### 6.2 Debt composition

Here we examine total debt with and without outstanding liabilities and their composition of the state of Kerala for the fiscal period, 2000/01 - 2010/11 in Table 6.1. The Table shows that total debt in the fiscal year ending March 2001 is Rs. 23919 crore which had increased to Rs. 78673 crore in 2011. The increase in the debt is 3.3 times of the initial amount. In the case of total debt including liabilities (D&L), the stock is 3.2 times that of the initial year. This indicates that the liabilities of the state have not shown any substantial increase during the period. The main reason for the behaviour of the liabilities is the ceiling put by the government of Kerala Act in 2003 on

guarantees as Rs. 14000 crore (Second expenditure review committee, second report for the year 2008-2009). It is to be noted here that unreported liabilities due to arrears for contractors and to the suppliers for the goods delivered etc, need proper accounting so that how it affects the debt indirectly as reflected in the revenue deficits can be assessed. We therefore urge the government to report it fully along with the budget documents for future reports as recommended by the Second Report of the First Expenditure Review Committee. This will enable the government in the stabilisation of expenditure in a cost effective way.

### 6.3. Growth rates and shares of Debt composition

Now we examine the growth rates and shares of the composition of debt, four exhaustive categories as given in Table 6.2 and 6. 3. The growth rate of total debt has slowed down after reaching a peak in 2002-03. The same pattern has been observed for internal debt but most of the time recording higher growth rates. The component of debt from the centre has slowed down from 4 % at the initial year to 0.9 % at the end of the period. However the public debt is growing at a rate lower than total debt during the period except towards the end of the period. It may be noted that loans from the central government and public debt has recorded negative growth rates for some years during the period.

**TABLE 6.1 COMPOSITION OF DEBT AND LIABILITIES OF KERALA**

Sl No	Item	AT THE END OF MARCH											Value in 2011/ value in 2001
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
1	Internal Debt	7627	9342	11747	17421	21676	25671	29969	34019	38814	43368	48528	6.4
2	Loans and advances from the Centre	6102	6346	6535	5628	5411	5417	5372	5533	6009	6305	6359	1.0
3	Public Account	12000	13344	15507	16188	16614	16754	16933	18670	21388	25308	27533	2.3
	Of which (i) Small Savings, Provident Fund etc.	10190	11262	12778	14403	14791	14841	14534	15858	18447	21296	23786	2.3
4	Contingency Fund	25	3	25	8	85	98	100	100	94	74	66	2.6
	Total Debt((1+2+3(i))	23919	26950	31060	37452	41878	45929	49875	55410	63270	70969	78673	3.3
	Total Debt and Liabilities (1 +2+3+ 4)	25754	29035	33814	39245	43786	47940	52374	58322	66305	75055	82486	3.2
Source\; Finance Accounts of C&AG(various issues)													

**TABLE 6.2 GROWTH RATES OF DEBT COMPONENTS, KERALA**

Sl No	Item	AT THE END OF MARCH											Mean Growth rate
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
1	Internal Debt		22.5	25.7	48.3	24.4	18.4	16.7	13.5	14.1	11.7	11.9	20.7
2	Loans and advances from the Centre		4.0	3.0	-13.9	-3.9	0.1	-0.8	3.0	8.6	4.9	0.9	0.6
3	Public Account of which Small Savings, Provident Fund etc.		10.5	13.5	12.7	2.7	0.3	-2.1	9.1	16.3	15.4	11.7	9.0
4	Total Debt((1+2+3)		12.7	15.3	20.6	11.8	9.7	8.6	11.1	14.2	12.2	10.9	12.7

**TABLE 6.3. SHARES OF COMPONENTS OF DEBT**

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1	Internal Debt	31.9	34.7	37.8	46.5	51.8	55.9	60.1	61.4	61.3	61.1	61.7
2	Loans and advances from the Centre	25.5	23.5	21.0	15.0	12.9	11.8	10.8	10.0	9.5	8.9	8.1
3	Public Account of which Small Savings, Provident Fund etc.	42.6	41.8	41.1	38.5	35.3	32.3	29.1	28.6	29.2	30.0	30.2
4	Total Debt	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Same as in Table 6.1

Note: 1.Growth rates are annual percentage changes.

The share of internal debt has almost doubled during the period while the other two components declined. This suggests that borrowing is getting concentrated in internal debt. The central share has come down to an insignificant component of 8.1 %. The share analysis clearly indicates that public debt and internal debt are the major sources of borrowing in Kerala.

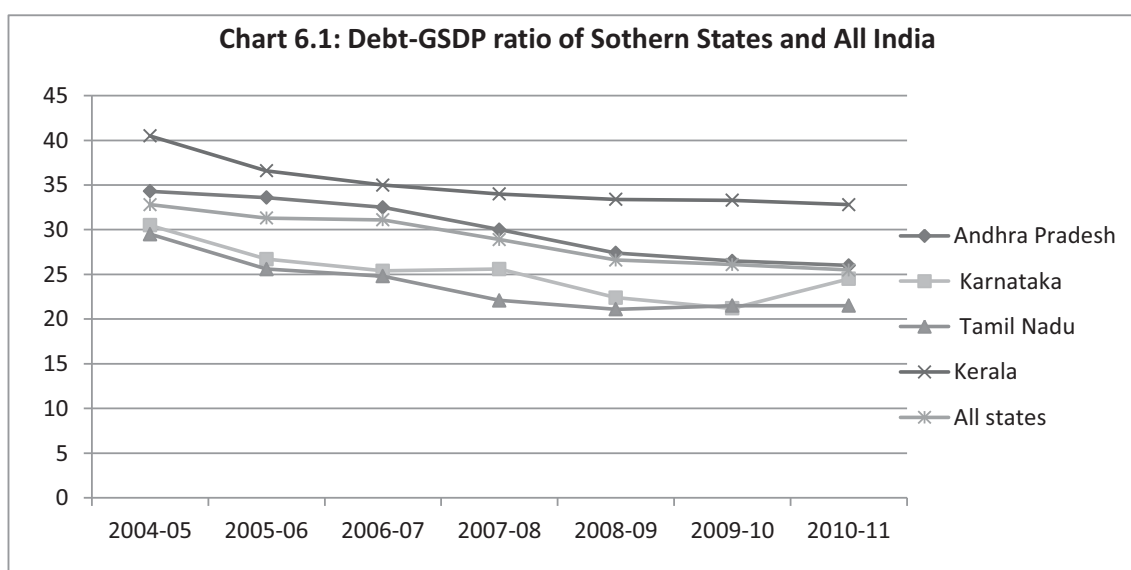
#### 6.4. Debt-gross state domestic product ratios

The analysis of the structure so far has been in terms of nominal values and not free from inflation. More over it does not consider the borrowing capacity of the state. These limitations are overcome by expressing debt as a ratio of state's income specifically as

Debt-Gross State Domestic Product Ratio. Obviously, the value must lie between 0 and 1. In principle, the D/GSDP can take both values, zero and one, but it is rare that an economy takes such extreme values. The Debt-GSDP ratios are reported in Table 6.4 for the southern states (Andhra Pradesh, Karnataka, Kerala and Tamilnadu) and all Indian states as shown in chart 6.1. The chart clearly indicates that Kerala has the highest ratio and Tamilnadu the lowest. Andhra Pradesh comes second highest among the southern states but shows faster decline than Kerala. The gap in the ratio between Kerala and other southern states seems widening after the fiscal year 2006-2007 except for Karnataka. The targeted ratio for Kerala, 29.8 %, as fixed by the 13<sup>th</sup> finance commission by 2013-14 has already been realised by Tamilnadu way back in 2004-05. It is worthwhile to study Tamilnadu for any lessons to be learned in good debt management practices for Kerala.

Table 6.4 Debt-Gross state domestic product ratios of Southern States and All States							
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Andhra Pradesh	34.3	33.6	32.5	30	27.4	26.5	26
Karnataka	30.5	26.7	25.4	25.6	22.4	21.2	24.5
Tamil Nadu	29.5	25.6	24.8	22.1	21.1	21.5	21.5
Kerala	40.5	36.6	35	34	33.4	33.3	32.8
All states	32.8	31.3	31.1	28.9	26.6	26.1	25.5

Source: Reserve Bank of India, Handbook of State Finances 2010



#### 6.5 Cost efficiency of borrowing

The cost efficiency of borrowing has not been considered explicitly in the determination of composition of debt. Now we examine this important dimension, composition and cost-

efficiency, of borrowing using selected financial instruments. The selection is restricted to instruments for which amounts borrowed and the interest structure are readily available. By this criterion, only eight instruments of the debt are available for further analysis. The growth rates and shares of the selected instruments are given in Table 6.5, 6.6 and 6.7.

**TABLE 6.5 DEBT BY INSTRUMENTS, KERALA (RS IN LAKHS)**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Market Loans	960600	1106200	1284733	1648117	2126279	2597310	3074362
LIC	228226	259111	287069	313571	326683	313822	333028
GIC	27393	29864	32187	32361	34410	36315	34077
NCDC	28956	27366	22153	25105	20638	18658	22492
NABARD	52462	34115	55203	69115	82565	106474	133435
Gol	541083	541740	537200	553263	600862	630528	635908
NSSF	704830	969775	1187528	1198202	1187999	1173975	1178143
provident Fund	549808	610498	677836	790485	913816	1005485	1110824
Subtotal	3093358	3578669	4083908	4630219	5293253	5882567	6522270
Total Debt	4187800	4592900	4987500	5541001	6326970	7096945	7867327
Subtotal as a percent of Total Debt	73.87	77.92	81.88	83.56	83.66	82.89	82.90

Source: CAG Reports various issues

From 6.5, the eight instruments contribute 73.87 % of the total debt in 2004FY and 82.90 % in 2010FY. The amount of borrowing from eight instruments has more than doubled (2.2 times) while total debt has almost doubled (1.9 times) during the period. The instrument wise analysis shows the increase in the amount from the initial year to the final year is 14.6 times for LIC, 7.8 times for NCDC and 3.2 times for market loans. Least increase is for NSSF (1.2 times) and Gol (1.2). How do the shares of these instruments behave during the period? This is shown in Table 6.6. The Table clearly indicates that shares are concentrated in market loans followed by NSSF and Gol. However, only the Share of Marker Loans shows an increasing trend. If the state is an efficient borrower, then one would expect a systematic relationship between the interest rate structure and the share of instruments. Let us examine the relationship for the debt from the instruments. The interest rate structure given in Table 6.7 indicates that

**TABLE 6.6 SHARE OF COMPONENTS BY INSTRUMENTS IN KERALA**

Market Loans	31.05	30.91	31.46	35.59	40.17	44.15	47.14
LIC	7.38	7.24	7.03	6.77	6.17	5.33	5.11
GIC	0.89	0.83	0.79	0.70	0.65	0.62	0.52
NCDC	0.94	0.76	0.54	0.54	0.39	0.32	0.34
NABARD	1.70	0.95	1.35	1.49	1.56	1.81	2.05
Gol	17.49	15.14	13.15	11.95	11.35	10.72	9.75
NSSF	22.79	27.10	29.08	25.88	22.44	19.96	18.06
Provident Fund	17.77	17.06	16.60	17.07	17.26	17.09	17.03
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

**TABLE 6.7 INTEREST RATES OF DEBT BY INSTRUMENTS, KERALA**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Market Loans	6.4	7.51	7.96	8.29	7.7	7.8	8
LIC	8.5	8.5	8.5	9.1	9.5	9.5	8.6
GIC	9	9	9	9.1	9.5	9.5	10
NCDC	8.5	8.5	9.12	9.75	10.25	10	7.2
NABARD	6.5	6.5	6.5	6.5	6.5	6.5	6.5
GoI	9	9	9	9	9	9	9
NSSF	9.5	9.5	9.5	9.5	9.5	9.5	9.5
provident Fund	8.5	8.5	8	8	8	8	8
Interest Rate (Weighted Average)	8.03	8.56	8.75	8.83	8.45	8.43	8.38

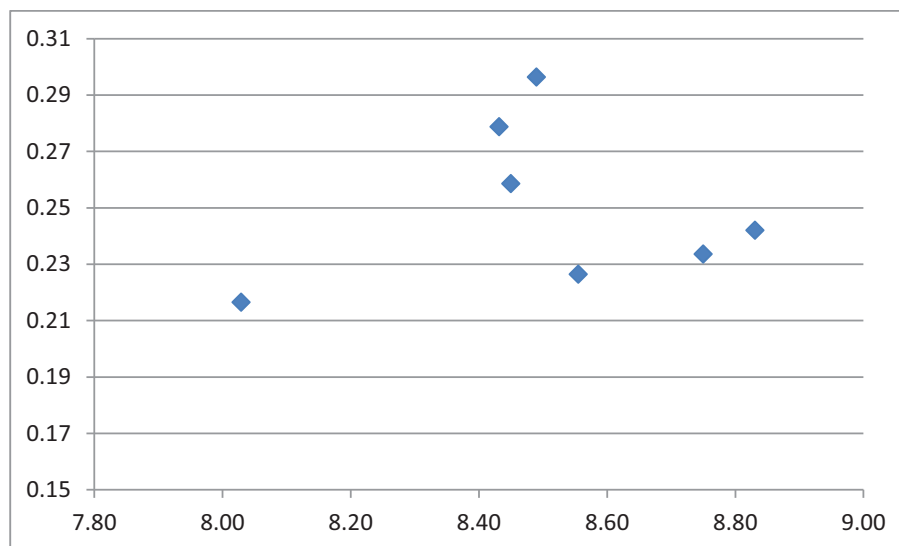
NABARD has the lowest interest rate followed by Market Loans and Provident Fund. The weighted average of the interest rate ranges from 8.03 to 8.75 during the period under consideration. Let us examine the efficiency of borrowing at the aggregate level in the next section.

The relationship is examined for the concentration of instruments and the average interest rate. It may be noted that cost minimising economic agents opt for the instruments with lower cost. In other words, the instrument with highest share will have the lowest interest rate. This would imply inverse relationship between share and interest rate for the instruments. We examine the empirical validity of this hypothesis at the aggregate level. The concentration of instruments is measured using the Hirschman-Herfindahl Index (HHI) from its shares as reported in Table 6.6. HHI is defined as the sum of the square of the shares of all instruments for a given year. By definition, the value of HHI lies between zero and one. If it increases, then the concentration is increasing otherwise non-increasing.

The value of HHI increases from 0.22 in 2004FY to 0.30 in 20101FY, about 37 % increase in the concentration. It has to be related to the average interest rate during the period. The share weighted average rate of interest of the instruments is given in Table 6.8. It increases first and then declines towards the end of the period. If the state is an efficient borrower, then one would expect an inverse relationship between concentration index and average rate of interest. This hypothesis is examined in Chart 6.2 below.

The chart does not support efficient borrowing hypothesis. This result requires further support by statistical inference theory. This is an area of future research by the state.

This has immediate policy implication. If the government resort to cost- efficient borrowing, then repayment of debt will be much lower and net availability of borrowed funds will be more for development spending.



**TABLE 6.8 CONCENTRATION AND AVERAGE INTEREST RATE OF DEBT**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Concentration Index (Hirschman-Herfindahl Index)	0.22	0.23	0.23	0.24	0.26	0.28	0.30
Interest rate(weighted Average)	8.03	8.56	8.75	8.83	8.45	8.43	8.49

Now we investigate the sustainability of debt in the next section.

#### 6.6. Debt sustainability

There are several indicators of debt sustainability. We consider four of them: (1) Domar Gap; (2) Resource Gap; (3) Net availability of borrowed funds; and (4) Burden of interest payments. Domar Gap, the growth of national income minus the interest rate, has increased with fluctuations during the period. It has more than doubled during the period. Since the Domar gap is positive and increasing, the debt is sustainable by this indicator. Next is the resource gap. If the gap is positive, then the debt is sustainable otherwise not. The gap was negative until 2009FY and became positive only in 2010FY. This means that the debt sustainability is satisfied only in the last fiscal/financial year. The net availability of borrowed funds has taken a dip in the year for which the report is concerned and needs further probing since it has occurred when the growth rate is the maximum. Finally burden of interest payments is the lowest for the year and hence

sustainable. This can be attributed to the lower average rate of interest rate on government borrowing.

**TABLE 6.9 SUSTAINABILITY INDICATORS OF DEBT**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
GSDP Growth (GSDPG)	14.0	14.7	12.4	13.9	15.8	14.6	19.2
Average rate of Interest (ARI)	9.11	8.65	8.75	8.22	7.85	7.91	7.07
Domar Gap (GSDPG – ARI)	4.9	6.1	3.6	5.7	7.9	6.7	12.1
Resource Gap (Sufficiency of Non-debt receipts) (Rs. Crore)				(-) 2278	(-) 247	(-) 1525	141
Net Availability of Borrowed funds (Rs. Crore)				1629	3334	2834	2507
Burden of Interest payments (Interest payments/Revenue Receipts) (%)				21	19	20	18

Source: (1) C&AG Report, Volume 1, State finance, March, 2011.

(2) CSO, Government of India.

#### 6.7. Is the state debt- stressed?

The problem of debt-stress is examined by its indicators. We consider two indicators for this purpose. First is the net to gross ratio of borrowed funds. Table 6.10 shows that it has declined from 29.4 % in 2007FY to 3.2 % in 2010FY. This suggests that we now borrow mainly for repayment of debt. If it continues, then debt-servicing becomes difficult and we end up in debt-trap. The other ratio, debt-revenue ratio, started with a non sustainable level (more than 300 %) has come down below the critical level in 2010FY. But it is not stable during the period. This finding along with the observed widening gap in the debt-gsdp ratio between Kerala and the southern states indicate that the state is not free from debt-Stress. But the unstable nature of the ratio and decreasing availability of borrowed funds for capital expenditure may lead the state close to a debt trap. The way out is to augment revenue receipts and increase expenditure efficiency.

**TABLE 6.10 DEBT-STRESS INDICATORS, KERALA**

	2004 FY	2005 FY	2006 FY	2007 FY	2008 FY	2009 FY	2010 FY
Debt/Revenue	310	300	274	262	258	271	254
Debt and Liabilities/ revenue	336	313	288	276	271	288	266
Net borrowing /Gross borrowing				29.4	5.2	3.9	3.2



The committee now examines expenditure efficiency of the government in selected cases below.

#### 6.8 Efficiency of expenditure

The efficiency of public expenditure is referred to as quality of expenditure in the literature. Quality in general refers to output. In such a case, empirical analysis is possible only if output (outcome) measures are defined for the general services, economic services and social services where most of the government expenditure goes. The absence of outcome measures is the major reason for not studying the efficiency of expenditure in the literature. The committee has considered two cases in debt that do not have the limitation: (1) Return from Public investment; and (2) the interest rate received by the government for the Loans and advances given from the borrowed funds.

**TABLE 6.11 RATE OF RETURN FROM PUBLIC INVESTMENTS & INTEREST RATES RECEIVED BY THE GOVERNMENT FROM LOAN AND ADVANCES MADE FROM BORROWED FUNDS**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year (Rs. in crore)	2105.84	2145.04	2392.03	2483.99	3153.1	3328.25	3807.5
Rate of return (Percent)	1.4	0.8	1.3	1.2	1.1	0.8	2.0
Opening balance of Loans & advances by the government (Rs. in crore)	5042	5210	5431	5562	6280	6910	7749
Interest receipts/ outstanding loans and advances (%)	0.6	0.6	0.5	0.9	0.7	0.6	0.7
Average interest rate on government borrowing (%)	8.7	8.3	8.4	7.9	7.5	7.5	7.3

Source: C&AG Report on State Finances

The efficiency of the expenditure by way of public investment is very poor since the rate of return is abysmally low compared with interest rate paid by the government for the borrowed funds. Such investments especially in statutory corporations, government companies, Joint stock companies and co-operatives by the government incur only losses. The cumulative loss during the period is estimated to be of the order of Rs. 963 crore. There is an urgent need for restructuring these companies so that they achieve at least break-even rate. The case of loans and advances given by the government from the borrowed funds is even worse. During the period, the interest received is way below the rate received for the borrowed funds paid by the government. The cumulative loss from such refinancing by the government is estimated to be Rs. 2233 crore for the last five years. This simply shows that introducing financial discipline in public investment

and public lending can reduce the debt considerably leading to lower debt-gsdp ratio and higher growth rates.

#### 6.9. Summary and recommendations

The total debt has increased 3.3 times for the fiscal period, 2000/01-2010/11. In the case of debt and outstanding liabilities slightly less, 3.2 times, during the same period. This is attributable to the cap put by the government act in 2003 on government guarantees. The growth rate of total debt has slowed down after reaching a peak in 2002-03. The same pattern has been observed for internal debt but most of time recording higher growth rates. The component from the centre has slowed down from 4 % in 2000-01 to 0.9 % at the end of the period. However the public debt is growing at a rate lower than total debt during the period except towards the end of the period. It may be noted that loans from the central government and public debt has recorded negative growth rates for some years during the period. The share of internal debt has almost doubled during the period while the other two components declined; suggesting borrowing is concentrated by internal debt. The share analysis clearly indicates that public debt and internal debt are most major source of borrowing in Kerala.

The debt-gross sdp ratios of southern states and all India indicate that Kerala has the highest ratio and Tamilnadu the lowest. Andhra Pradesh comes second highest among the southern states but shows faster decline than Kerala. The gap in the ratio between Kerala and other southern states seems widening after the fiscal year 2006-2007 except for Karnataka. The target of D-GR, 29.8 %, as fixed by the 13<sup>th</sup> finance commission by 2013-14 has already been realised by Tamilnadu way back in 2004-05.

The cost-efficiency of borrowing is tested for eight major instruments which is about 63 % of the total debt. The concentration of instruments in the debt and their weighted of the interest rate do not show any relationship implying inefficiency in the choice of instruments for debt. Of the four indicators of sustainability, three (Domar Gap, Resource Gap and burden of interest payments) them are positive and one negative. The negative indicator, Net availability of borrowed funds, needs further investigation.

Finally, we examine efficient use of borrowed funds for investment and loans and advances made by the government. On both grounds, the government is not able to recover the break-even point. But the loss during the five years is Rs. 3196 crore. The alarming rate of resource waste requires urgent attention of the government.

6.10 Major recommendations emerging from this chapter are:

- The debt tables usually report major source of borrowing with corresponding interest rates. It also contains outstanding liabilities arising from government guarantees. But liabilities accumulated overtime do not have a place in the debt structure. Committee recommends that it should be published along with budget documents so that it becomes an integral part of the debt data hereafter;
- The debt burden of the state is assessed by the ratio of debt to gross state domestic product (DGSD). Comparative analysis of DGSD ratios of the southern states indicates that it is the highest in Kerala and the lowest in Tamilnadu (TN). The ratio of Kerala has neither reached the limit put forth by the 13<sup>th</sup> finance commission nor showed any tendency towards reaching it in the near future. But our neighbour TN, has reached the ratio set for Kerala way back in 2004-2005 and showed the gap in the ratios widening. The Committee recommends the debt management practices of TN be reviewed for any lessons to learn;
- In debt management, the efficiency has two aspects; (1) the cost of borrowing; and (2) returns from the borrowed funds:

(i) In the first case, it implies that debt composition is least cost. But there is hardly any evidence to support this hypothesis in the present structure. Committee recommends cost-minimising criteria for the choice of instruments;

(ii) In the second case, the investment from the borrowed funds must recover its cost of borrowing except from merit goods. If used for refinancing, interest receipts should be equal to interest paid for the borrowed funds. In both cases, evidence suggests that we do not recover even the cost of borrowing. Committee recommends that urgent steps be undertaken for recovering the cost of borrowed funds so that debt-stress can be eliminated. More specifically, it recommends that financial discipline is introduced by restructuring in public enterprises and corporations.

# 7

## 13<sup>th</sup> FC Recommendations and State Finance

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### Introduction

7.1 In the present federal set up, the recommendations of Finance Commissions (FCs) play a crucial role in influencing the state finances. State finances and implementation of state plans are determined a large extent by the devolution of sharable Central taxes, grants and other transfers which are governed by the recommendation of FCs. In addition, the fiscal roadmap fixed by the FCs for the states as conditions for availing the grants and other assistance maintains the fiscal prudence and discipline to state finance. The present chapter is devoted for examining the fiscal implication of 13<sup>th</sup> FC's (TFC) recommendations in the state and projection of fiscal scenario of the state up to 2014-15 to examine whether the state can adhere to the target of fiscal prudence stipulated by the 13<sup>th</sup> FC. In addition, the chapter delves upon the issue of debt sustainability of the state in future.

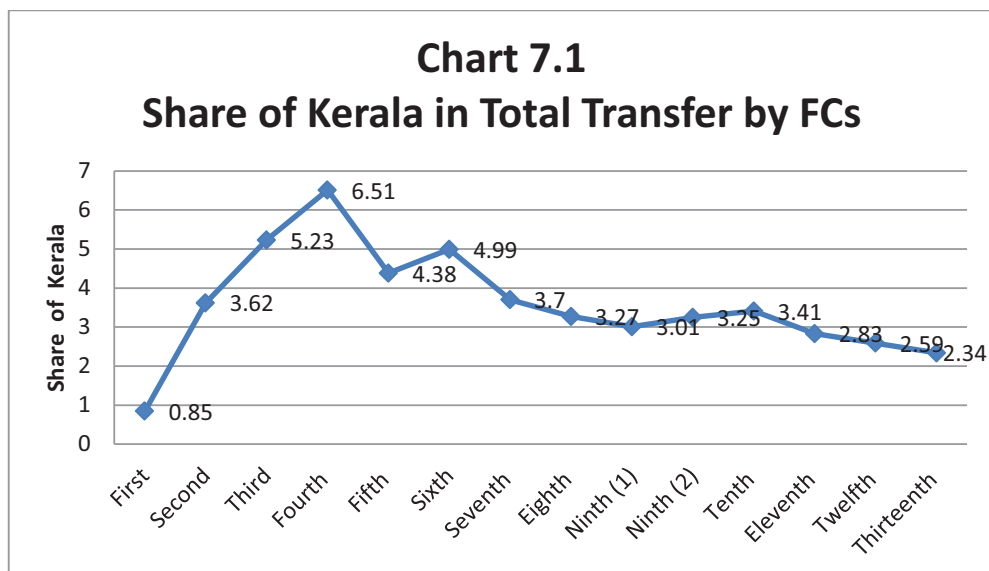
### Finance commissions and share of Kerala in total transfers

7.2 The share of Kerala in total transfers of Central Government (including tax devolution and grants) as recommended by various FCs are given in Table 7.1.

**TABLE 7.1 SHARE OF KERALA IN TOTAL TRANSFERS (TAX DEVOLUTION PLUS GRANTS) AS RECOMMENDED BY VARIOUS FCs**

Finance Commissions	Share of Kerala in total transfer	Deviation from the mean (3.57) across various FCs
First	0.85	-2.72
Second	3.62	0.05
Third	5.23	1.66
Fourth	6.51	2.94
Fifth	4.38	0.81
Sixth	4.99	1.42
Seventh	3.70	0.13
Eighth	3.27	-0.3
Ninth (1)	3.01	-0.56
Ninth (2)	3.25	-0.32
Tenth	3.41	-0.16
Eleventh	2.83	-0.74
Twelfth	2.59	-0.98
Thirteenth	2.34	-1.23

Note: Deviation from mean refers the average of shares recommended by various FCs  
Source: summarised from the Report of 13<sup>th</sup> FC Recommendations



7.3 The Table 7.1 shows that the share of Kerala in total transfers is declining continuously since Eleventh FC. As per the 13<sup>th</sup> FC recommendation, the share of Kerala is 2.34 which is lower than that of the 12<sup>th</sup> FC recommendation. The deviation from the mean share of Kerala across various FCs shows that it is increasing for the state recently. This again indicates the deteriorating fiscal share of Kerala from Central transfers. The Committee strongly feels that this matter has to be viewed seriously and presented at the appropriate forum by the State government to revert the trend.

#### 13<sup>th</sup> FC and devolution of grants to Kerala

7.4 As compared to previous Finance Commissions (FCs), 13<sup>th</sup> FC recommended a large variety of grants to states. Apart from the post-devolution Non-plan Revenue Deficit (NPRD) Grants, the TFC has recommended an unusually large number of conditional and unconditional grants to States. These grants are State specific performance grants, grants for universalisation of elementary education, environment related grants including forest, renewable energy, and water sector management, incentive grants to improve quality of public expenditure, grants for maintenance of roads and bridges and grants for state-specific needs. The grants that are conditional relate to (a) State-specific Grants and other conditional transfers (b) interest relief on loans from the National Savings Scheme Fund (NSSF), and (c) Writing off of loans from the Government of India to States and administered by Ministries/Departments other than the Ministry of Finance, and (d) compensation in the event of loss of revenue when GST is introduced. As these grants and transfers are conditional, the actual utilization of these grants would largely depend on meeting grant-specific conditionalities. The most important condition for eligibility to qualify for these grants/transfers is the

amendment/enactment of Fiscal Responsibility Legislations by the States incorporating the revised roadmap for fiscal consolidation for States.

7.5 In addition to the above conditions, the general category states such as Kerala has to adhere the revised roadmap of fiscal consolidation as suggested by TFC between the financial year 2010-11 and 2014-15. As per the revised roadmap, the state has to bringdown the fiscal deficit to 3 percent of GSDP in 2013-14 and 2014-15 from the present 3.5 percent. The revenue deficit has to be reduced to zero in 2014-15. Compliance with this makes the State eligible for the State-specific Grants. Availing of these funds is paramount importance to the states to comply with the fiscal consolidation roadmap set by TFC.

7.6 The state specific grants under various heads are listed in Table:-7.2. Altogether, the state of Kerala is entitled to receive a grant of Rs 1500/- crore from 2011-12 to 2014-15 under various sectors.

**TABLE 7.2 13TH FC AWARD FOR VARIOUS STATE SPECIFIC GRANTS (RS IN CRORE)**

<b>Sector</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>TOTAL 2010-15</b>
Upgradation of Police	Nil	25.00	25.00	25.00	25.00	100.00
Inland Waterways and Coastal Zone Management	Nil	50.00	50.00	50.00	50.00	200.00
Primitive Tribal Groups	Nil	37.00	37.00	37.00	37.00	148.00
Health Infrastructure	Nil	49.50	49.50	49.50	49.50	198.00
Fisheries	Nil	50.00	50.00	50.00	50.00	200.00
Upgradation of Prisons	Nil	38.50	38.50	38.50	38.50	154.00
Animal Husbandry	Nil	37.50	37.50	37.50	37.50	150.00
Kuttanad Development	Nil	75.00	75.00	75.00	75.00	300.00
Water Bodies	Nil	12.50	12.50	12.50	12.50	50.00
<b>Total</b>		<b>375.00</b>	<b>375.00</b>	<b>375.00</b>	<b>375.00</b>	<b>1500.00</b>

7.7 In addition to the state specific grants, the state will also get an interest relief on loans from NSSF by the State, which is expected to be Rs 329 crore. Loans taken upto 2006-07 and the remaining outstanding of that at the end of 2009-10, will be written off subject to the amendment of FRA, 2003. Loans from Gol to states and administered by ministries/departments other than Ministry of Finance for Kerala was Rs 106 crore as on 31 March 2008.

7.8 One of the main conditionalities for the receipt of 13<sup>th</sup> FC award is the amendment of FRA in the state. This is mainly to bring back fiscal prudence in the state which will have to be imposed through an amendment of the Kerala Fiscal Responsibility Act 2003 at the earliest creating conditions for availing these grants. Though it is late, the state has amended its FRA dated on 8<sup>th</sup> November 2011. The amended FRA included the fiscal roadmap as envisioned in 13<sup>th</sup> FC report. As per the amended FRA, the fiscal target of the state government is given in the following Table 7.3.

**TABLE 7.3 FISCAL TARGET OF THE STATE AS PER THE AMENDED FRA**

Year	Revenue deficit	Fiscal deficit	Total debt liabilities to GSDP
2010-11	Not given	3.33	32.8
2011-12	1.40	3.50	32.3
2012-13	0.90	3.50	31.7
2013-14	0.50	3.00	30.7
2014-15	0.00	3.00	29.8

7.9 The fiscal targets set in the amended FRA are same as stipulated by the 13<sup>th</sup> FC. In addition to these provisions, it is also stated in the amended Act for building up surplus amount of revenue and utilise such amount for discharging liabilities in excess of assets.

Grants received by the state

7.10 The delayed amendment of the FRA in the state delayed the receipts of many grants recommended by the FC. Table 7.4 shows the state specific grants awarded and released for 2011-12.

**TABLE 7.4 STATE SPECIFIC GRANTS AWARD AND RELEASE FOR THE YEAR 2011-12**  
(RS IN CRORE)

Sector	2011-12	Released amount
Upgradation of Police	25.00	25.00
Inland Waterways and Coastal Zone Management	50.00	40.02
Primitive Tribal Groups	37.00	11.55
Health Infrastructure	49.50	49.50
Fisheries	50.00	50.00
Upgradation of Prisons	38.50	38.50
Animal Husbandry	37.50	37.50
Kuttanad Development	75.00	75.00
Water Bodies	12.50	12.50
<b>Total</b>	<b>375.00</b>	<b>339.57</b>

7.11 Among the state specific grants, the state has received lower amount for the sectors of Inland Waterways and Coastal Zone Management and Primitive Tribal Groups from the sanctioned amount. In the Primitive Tribal Groups sector the shortfall is 69 percentage of the sanctioned. The fund sanctioned from the specific grants for each

sector in each year is based on the project proposals submitted for availing these funds. The Committee feels that State has failed to submit adequate project proposals to the Centre for avoiding the lapse of funds due from state specific grants.

7.12 The Table 7.5 shows the details of central loans written off by Central Ministries as part of 13<sup>th</sup> FC recommendations. An amount of Rs 51.18 crores of central loans has been written off based on this recommendation.

**TABLE 7.5 CENTRAL LOANS WRITTEN OFF BY CENTRAL MINISTRIES  
(OUTSTANDING AS ON 31-3-2010)**

Sl.no	Line Ministry	Amount (Rs in lakh)	
		Centrally Sponsored Schemes (CSS)	Centrally Planned Schemes (CPS)
1	Ministry of Commerce	16.67	Nil
2	Ministry of Shipping	202.22	Nil
3	Ministry of Agriculture	4231.70	24.63
4	Ministry of Roads, Transport and Highways	0.26	Nil
5	Ministry of Industries	5.64	Nil
6	Ministry of Power	5.73	Nil
7	Ministry of Water Resources	Nil	278.38
8	Ministry of Urban Development	348.58	4.44
	<b>Total</b>	<b>4810.80</b>	<b>307.45</b>
	<b>Grand Total (CSS+CSP)</b>	<b>5118.25</b>	

7.13 The State is also eligible for interest relief of NSSF loans to the tune of Rs 329.22 crore during the period 2010-15. The Table 7.6 gives the amount of NSSF interest relief for various years. However, the state has not received any amount from this provision so far.

**TABLE 7.6 INTEREST RELIEF ON NSSF LOANS (RS IN CRORES) FOR KERALA**

Year	Interest to be paid with reset rates	Interest Relief
2010-11	1000.91	73.68
2011-12	957.14	70.10
2012-13	993.34	65.96
2013-14	849.55	61.81
2014-15	795.75	57.67
<b>Total</b>	<b>4506.68</b>	<b>329.22</b>

Fiscal projections for the state

7.14 The Committee made an attempt for projecting the fiscal profile of the state of Kerala to examine if the present fiscal policy stance continues, whether the state of



Kerala would be able to adhere to the fiscal restructuring path proposed by the Thirteenth Finance Commission. Two fiscal scenarios are projected. First scenario assumes the constancy of situation on buoyancy of tax revenues and trend projection of other sources of revenue and expenditure as they prevail during 2010-11. The second scenario, which is more realistic in estimate by taking care of the fiscal shock of pay revision of state government employees.

7.15 The following methodology is used for projecting fiscal scenario of Kerala.

- (1) The tax revenues are projected based on their respective buoyancy rates. The other sources of non tax revenue are projected on the basis of compound trend growth rate.
- (2) The expenditure items are projected based on their trend compound growth rate except the interest payments.
- (3) Average interest rate in 2010-11 is 7.25 of outstanding debt which is assumed as given for the projected period.
- (4) The trend growth rate and average buoyancy rate are estimated from the actual data for a period between 2000-01 and 2010-11. The projection period is between 2011-12 and 2014-15.

The fiscal items projected by using the compound growth are based on the following formula.

$$Y = b_0 * (b_1^t) \text{ or } \ln(Y) = \ln(b_0) + (\ln(b_1) * t), \text{ where } t = \text{time point}$$

Where Y = the fiscal variable projected, the compound growth rate,  
 $CGR = 1 - \ln(b_1)$

The buoyancy rate is estimated by regressing the log of tax revenue on the log of GSDP.

7.16 The Table 7.7 shows the estimated average buoyancy rate of various tax sources between the period 2000-01 and 2010-11. Except for Stamp and Registration, the buoyancy level of all taxes is lower than one. Among the tax sources, the buoyancy rate is lowest for Motor Vehicle tax and excise duty. The Committee strongly feels that there is good scope for increasing the revenue receipts from tax sources by raising the buoyancy level through revamping the tax administration of the state.

**TABLE 7.7 TAX BUOYANCY BY TYPE OF TAX  
(2000-01 TO 2010-11)**

Sl.no	Type of tax	Tax buoyancy
1	Own tax	0.967
2	Sales tax	0.935
3	Excise duty	0.823
4	Motor vehicle	0.822
5	Stamp and registration	1.581
4	Other tax	0.626

7.17 The compound growth rate of the important fiscal variables considered are summarised in the following Table 7.8. Compared to non tax revenue, the tax revenue has a higher growth rate. Among the tax revenue sources, similar to buoyancy rate, the compound growth rate is higher for Stamp and Registration duty followed by sales tax. Central transfers registered a higher compound growth rate as compared to many tax and non tax revenue sources. Within the central transfers, the rate of growth of grants is greater than the growth of tax transfers. Among the various revenue expenditures, the growth rate of general services particularly the pension payments recorded a very high growth rate over the decade, which needs a serious examination.

**TABLE 7.8 COMPOUND GROWTH RATE OF FISCAL VARIABLES(2000-01 TO 2010-11)**

	<b>Compound growth rate (%)</b>
<b>Own tax revenue</b>	14.2
i. Sales tax	13.7
ii. Excise duty	11.8
iii. Motor vehicle tax	12.0
iv. Stamp duty and registration	24.2
v. Others	09.6
<b>Non tax revenue</b>	13.3
(i) General services	17.2
(ii) Social service	10.4
(iii) Economic services	8
<b>Central transfers</b>	14
(i) Tax devolution	13.8
(ii) Grants	14.7
<b>Revenue expenditure</b>	14.1
A. General services	11.5
(i) Interest payments	9.2
(ii) Pensions	12.6
(iii) Other general services	13.6
B. Social services	11.4
(i) Education	10.6
(ii) Medical and public health	11.6
(iii) Other social services	15
C. Economic services	6.7
D. Compensation and assignment to LBs	9.6
<b>Capital expenditure</b>	18.5
A. Capital outlay	18.5
(i) General	10.3
(ii) Social	23.9
(iii) Economic	18.1
B. Loans and advances (net)	21.5

7.18 Along with fiscal items, the state GSDP is also projected for estimating the fiscal ratios. The estimated growth rate of nominal GSDP for the state is 15%.

Scenario 1

7.19 Table 7.9 shows the fiscal scenario as percent of GSDP provided the tax buoyancy and compound growth rate of other fiscal variables continue in future as prevailed in 2010-11 without any fiscal shock.

**TABLE 7.9**  
**FISCAL SCENARIO AS PERCENT OF GSDP (SCENARIO 1)**

Items	2010-11	2011-12	2012-13	2013-14	2014-15
<b>I. Revenue</b>					
<b>A. Own tax revenue</b>	7.84	7.83	7.83	7.83	7.85
vi. Sales tax	5.72	5.67	5.62	5.57	5.52
vii. excise duty	0.61	0.60	0.59	0.57	0.56
viii. Motor vehicle tax	0.48	0.47	0.46	0.45	0.44
ix. Stamp duty and registration	0.92	0.99	1.07	1.15	1.23
x. Others	0.11	0.11	0.10	0.10	0.09
<b>B. Non tax revenue</b>	0.70	0.69	0.68	0.67	0.67
i. General services	0.34	0.34	0.34	0.33	0.33
ii. Social service	0.08	0.08	0.08	0.08	0.08
iii. Economic services	0.18	0.18	0.18	0.17	0.17
<b>C. Central transfers</b>	2.65	2.62	2.59	2.56	2.53
i. Tax devolution	1.86	1.84	1.81	1.79	1.77
ii. Grants	0.79	0.78	0.78	0.77	0.76
<b>Total revenue</b>	<b>11.19</b>	<b>11.14</b>	<b>11.10</b>	<b>11.07</b>	<b>11.04</b>
<b>II. Expenditure</b>					
<b>A. Revenue expenditure</b>					
1. General services	5.57	5.42	5.26	5.10	4.95
i. Interest payments	2.05	1.95	1.85	1.76	1.67
ii. Pensions	2.08	2.06	2.01	1.97	1.92
iii. Other general services	1.43	1.41	1.40	1.38	1.36
2. Social services	4.37	4.45	4.24	4.03	3.84
i. Education	2.47	2.38	2.29	2.20	2.12
ii. Medical and public health	0.63	0.61	0.59	0.58	0.56
iii. Other social services	1.27	1.46	1.35	1.26	1.17
3. Economic services	1.57	1.46	1.35	1.26	1.17
4. Compensation and assignment to LBs	1.00	0.95	0.90	0.86	0.82
<b>Total Revenue Expenditure</b>	<b>12.51</b>	<b>12.28</b>	<b>11.75</b>	<b>11.25</b>	<b>10.78</b>
<b>B. Capital expenditure</b>					
1. Capital outlay	1.21	1.25	1.29	1.34	1.38
i. General	0.04	0.04	0.04	0.04	0.04
ii. Social	0.17	0.19	0.20	0.22	0.23
iii. Economic	1.00	1.03	1.05	1.08	1.11
2. Loans and advances (net)	0.26	0.27	0.29	0.31	0.32
<b>Total capital expenditure</b>	<b>1.47</b>	<b>1.53</b>	<b>1.58</b>	<b>1.64</b>	<b>1.70</b>
<b>Revenue deficit</b>	<b>1.33</b>	<b>1.13</b>	<b>0.65</b>	<b>0.18</b>	<b>-0.26</b>
<b>Fiscal deficit</b>	<b>2.79</b>	<b>2.65</b>	<b>2.22</b>	<b>1.82</b>	<b>1.43</b>
<b>Primary deficit</b>	<b>0.74</b>	<b>0.70</b>	<b>0.37</b>	<b>0.06</b>	<b>-0.24</b>
<b>Debt to GSDP ratio</b>	<b>28.40</b>	<b>27.78</b>	<b>27.18</b>	<b>26.59</b>	<b>26.01</b>

7.20 Table 7.9 shows the fiscal parameters as percentage of GSDP. If the present trend as in 2010-11 continues, the state will be able to achieve the fiscal targets as envisioned in the fiscal roadmap of Medium Term Fiscal Plan as well as 13<sup>th</sup> FC report. However, fiscal situation cannot remain constant in a state like Kerala. The state can be affected by various fiscal shocks. One critical fiscal shock immediately after 2010-11 is the additional fiscal commitments arising due to the implementation of revised pay revision package in the state for every five years. Given the 9<sup>th</sup> Pay Commission's award and expenditure commitment arising out of it needs to be incorporated in the fiscal adjustment path to examine whether the state can comply with the revised road map for fiscal consolidation even with an increase in the salary expenditure. Corresponding to the pay revision hike the base level of salary and pension increases and which will have to be taken care of while projecting fiscal parameters. In addition to the normal trend growth of salary and pensions, there is an additional commitment of Rs 7000 crore during 2011-12 the year of implementation for salary arrears and revision. Out of the additional commitment, around 60 percent will be recurred in future as part of increase in the pay package. During the year 2011-12, an accretion of additional debt of nearly Rs 1750 crore created due to the additional commitments on the pay revision. The hike in debt obligation also affects the interest obligation on the part of the state government. The Table 7.10 shows the revised fiscal scenario after taking into account the fiscal shock emanated out of pay revision package.

#### Scenario 2

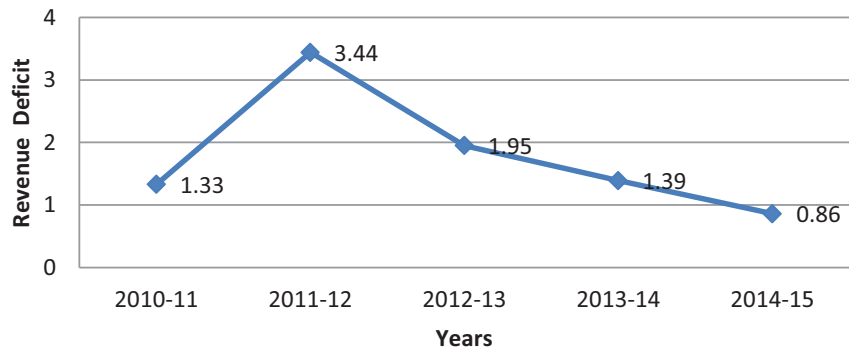
7.21 The Table:-7.10 reveals that the fresh financial commitment creates a shock on prudential fiscal indicators of the state. The state is unlikely to meet the revenue deficit targets if the same pattern of expenditure and resource mobilisation continues. At the same time, the state can meet the fiscal deficit target as stipulated in the revised FRA from 2013-14 onwards. The Debt-GSDP ratio is also within the limit set by the amended FRA. The major reason behind the increasing revenue deficit is the higher growth of revenue expenditure as compared to revenue receipts. Within the revenue expenditure, the increase in expenditure on general services particularly interest payments and pensions create a larger impact on widening the revenue deficit in the state. On the expenditure side, the share of interest payment is significantly high. If the steps for averting the additional debt obligation are not possible, immediate attention should on restructuring portfolio of interest burden of the state. The maintenance of cost effective debt portfolio may help in the long run to redress the burden of interest obligation. The projection of fiscal scenario also highlights that the capital expenditure to GSDP is growing, which is a positive sign for future economic growth of the state. On

the revenue side, the proportion of own tax revenue to GSDP remain almost same in future also. However, the shares of various tax sources undergo changes within the own tax revenue. The share of Stamp and Registration in tax revenue increases whereas the share of sales tax, excise duty and motor vehicle taxes marginally decreases as a proportion of GSDP. The projected shares of non tax revenue as well as central transfers also show a decrease as percentage of GSDP in Kerala, though marginally.

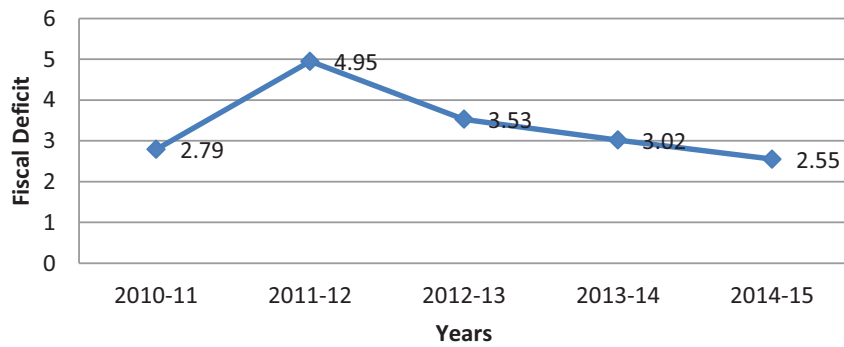
**TABLE 7.10 FISCAL SCENARIO AS PERCENT OF GSDP (SCENARIO 2)**

Items	2010-11	2011-12	2012-13	2013-14	2014-15
<b>I. Revenue</b>					
<b>A. Own tax revenue</b>	7.84	7.84	7.84	7.84	7.84
i. Sales tax	5.72	5.67	5.62	5.57	5.52
ii. excise duty	0.61	0.60	0.59	0.57	0.56
iii. Motor vehicle tax	0.48	0.47	0.46	0.45	0.44
iv. Stamp duty and registration	0.92	0.99	1.07	1.15	1.23
v. Others	0.11	0.11	0.10	0.10	0.09
<b>B. Non tax revenue</b>	0.70	0.69	0.68	0.67	0.67
i. General services	0.34	0.34	0.34	0.33	0.33
ii. Social service	0.08	0.08	0.08	0.08	0.08
iii. Economic services	0.18	0.18	0.18	0.17	0.17
<b>C. Central transfers</b>	2.65	2.62	2.59	2.56	2.53
i. Tax devolution	1.86	1.84	1.81	1.79	1.77
ii. Grants	0.79	0.78	0.78	0.77	0.76
<b>Total revenue</b>	<b>11.19</b>	<b>11.14</b>	<b>11.10</b>	<b>11.07</b>	<b>11.04</b>
<b>II. Expenditure</b>					
<b>A. Revenue expenditure</b>					
1. General services	5.57	6.50	5.93	5.75	5.59
i. Interest payments	2.05	2.05	2.01	1.97	1.92
ii. Pensions	2.08	2.64	2.31	2.23	2.15
iii. Other general services	1.43	1.81	1.60	1.56	1.52
2. Social services	4.37	5.22	4.64	4.38	4.14
i. Education	2.47	2.79	2.50	2.39	2.28
ii. Medical and public health	0.63	0.72	0.65	0.63	0.60
iii. Other social services	1.27	1.68	1.49	1.37	1.26
3. Economic services	1.57	1.74	1.50	1.38	1.27
4. Compensation and assignment to LBs	1.00	1.12	0.99	0.94	0.89
<b>Total Revenue Expenditure</b>	<b>12.51</b>	<b>14.58</b>	<b>13.05</b>	<b>12.46</b>	<b>11.90</b>
<b>B. Capital expenditure</b>					
1. Capital outlay	1.21	1.25	1.29	1.34	1.38
i. General	0.04	0.04	0.04	0.04	0.04
ii. Social	0.17	0.19	0.20	0.22	0.23
iii. Economic	1.00	1.03	1.05	1.08	1.11
2. Loans and advances (net)	0.26	0.27	0.29	0.31	0.32
<b>Total capital expenditure</b>	<b>1.47</b>	<b>1.53</b>	<b>1.58</b>	<b>1.64</b>	<b>1.70</b>
<b>Revenue deficit</b>	<b>1.33</b>	<b>3.44</b>	<b>1.95</b>	<b>1.39</b>	<b>0.86</b>
<b>Fiscal deficit</b>	<b>2.79</b>	<b>4.95</b>	<b>3.53</b>	<b>3.02</b>	<b>2.55</b>
<b>Primary deficit</b>	<b>0.74</b>	<b>2.90</b>	<b>1.52</b>	<b>1.06</b>	<b>0.63</b>
<b>Debt to GSDP ratio</b>	<b>28.40</b>	<b>28.33</b>	<b>27.72</b>	<b>27.12</b>	<b>26.53</b>

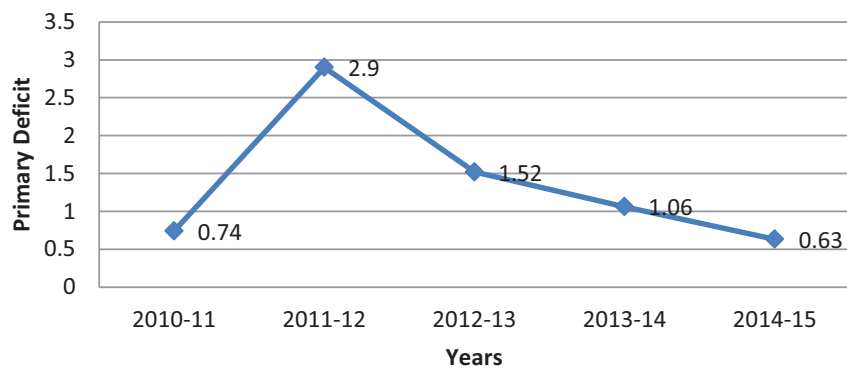
### Chart 7.2 Projected Revenue Deficit

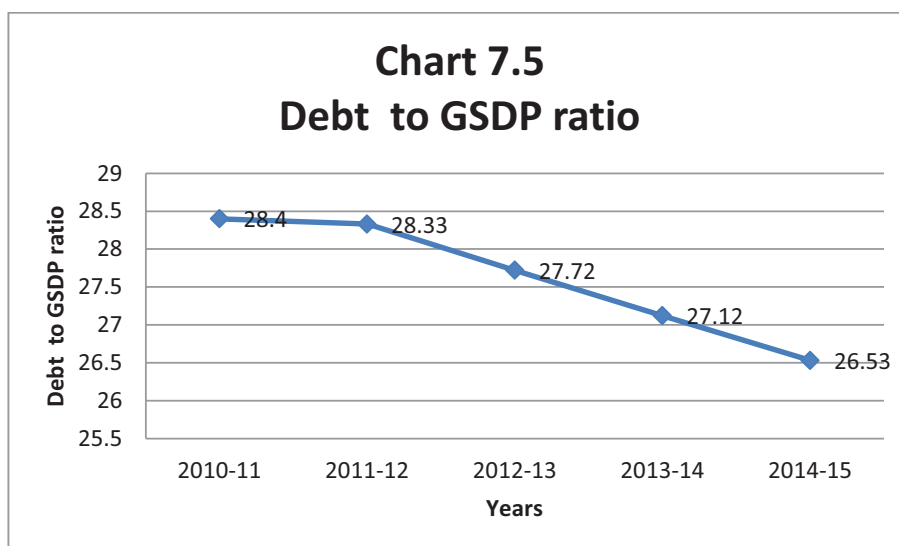


### Chart 7.3 Fiscal deficit



### Chart 7.4 Primary deficit





#### Debt sustainability

7.22 Debt on the part of government is an unavoidable factor in the context of a developing economy. The prudential debt management is a critical factor, which has to take into account the sustainability of debt liability of the government. There are two criteria used to assess the issue of debt sustainability.

- (1) Conventional macro economic theory relies on the Domar formula for arriving at sustainable debt level. Accordingly, a stable and sustainable Debt/GDP ratio is given by

$$SD = F[(1+G)/G]$$

Where, F=Fiscal deficit/GSDP, G=Nominal growth rate of GSDP

- (2) As there is methodological problem of using GSDP as the denominator and also existing close correspondence between GSDP growth and growth of revenue receipt, it is also appropriate to estimate Debt as a percentage of Total Revenue Receipt. As per the Mid Term Review on States' Finance Reforms Facility (2000-01 to 2004-05) by the Ministry of Finance, Govt of India, a stable and sustainable Debt to total revenue receipts work out to 300% for non special category states.

Based on the above criteria, the debt sustainability indices are worked out and given in the following Table 7.11.

**Table 7.11** DEBT SUSTAINABILITY INDICES FOR THE YEAR 2010-11

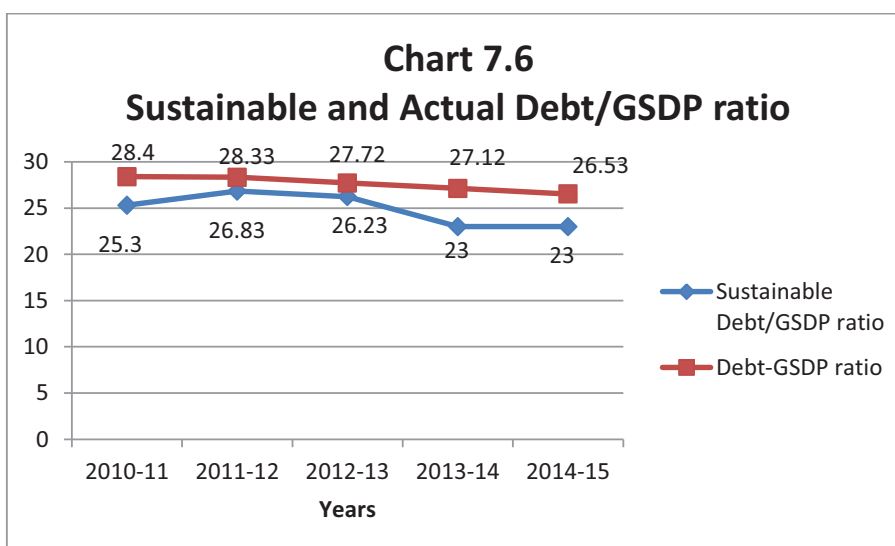
Indicators	Ratio (in%)
Debt/GSDP ratio	28.40
Sustainable Debt/GSDP ratio	25.3
Debt/TRR ratio	227

7.23 As per the first criteria, the sustainable debt ratio for a 3.33% fiscal deficit and 15% nominal GSDP growth rate is 25.3 percent. The present ratio is 28.40 percent which is far greater than the sustainable level. As per the second criteria the ratio of debt to revenue receipt is 227 percent. The Mid Term Review on States' Finance Reforms Facility (2000-01 to 2004-05) by the Ministry of Finance, Govt of India has the view that the states whose ratio of consolidated debt to revenue receipts exceeds 300% can be considered as 'highly stressed' states in terms of debt and debt servicing. In this context, steps will have to be initiated for averting such a situation in the state. The position of state government with respect to debt sustainability would be all the more worse if the guarantee liability of the government to public sector undertaking is also included in the consolidated debt. The debt sustainability index and expected ratios as per the first and second criteria are given in Table 7.12

**TABLE 7.12 DEBT SUSTAINABILITY INDICES FOR 2010-15**

Years	First criteria (in %)		Second criteria (in %)
	Sustainable Debt/GSDP ratio	Debt-GSDP ratio	Debt/TRR
2010-11	25.3	28.4	253.86
2011-12	26.83	28.33	254.32
2012-13	26.23	27.72	249.69
2013-14	23.00	27.12	244.99
2014-15	23.00	26.53	240.21

7.24 Compared to the sustainable debt ratio based on fiscal deficit and GSDP growth rate, the projected ratio is very high. It is the high time for controlling the growth of debt in the state.





## Fiscal target and fiscal administration

7.25 Gearing up of the fiscal administration is the need of the hour for meeting the targets of fiscal parameters as stipulated in the revised FRA and 13<sup>th</sup> FC report. The speedy implementation of fiscal reforms suggested by the 13<sup>th</sup> FC needs an immediate attention. The stock taking of the implementation of state finance reforms as suggested by the 13<sup>th</sup> FC shows a tardy progress. The following Table 7.13 summarises the status of some of the reforms pertaining to state finance suggested by the 13<sup>th</sup> FC, furnished by Dept of Finance, Govt of Kerala. The Committee feels that the State govt has not taken serious steps to implement the various recommendations of 13<sup>th</sup> FC to improve the state finance except the switch over to the New Pension Scheme. The Committee recommends that urgent steps may be taken to implement the recommendations of 13<sup>th</sup> FC in a time bound manner.

**TABLE 7.13 STATUS OF IMPORTANT RECOMMENDATIONS OF 13TH FC IN CONNECTION WITH STATE FINANCE**

Sl.no	Recommendations	Status
1	Ensuring clearance of the accounts of all Public Sector Undertakings (PSUs)	As per the review of Public Enterprises in Kerala 2010-11, brought out by BPE, Audit of Accounts for 2010-11 is in progress in 19 Enterprises. The remaining Enterprises have arrears in audit of their accounts ranging from 2 to 12 years. Finance (PUA) Department have initiated drive to clear the pending audits.
2	Clearing the backlog of PSU accounts	
3	Drawing a road map for closure of non-working PSUs by March 2011	As per the review of Public Enterprises in Kerala 2010-11, 21 Enterprises have been transferred/merged/taken over or remained inactive during the year. Ten enterprises were closed down in the past.
4	Migration to the New Pension System	The state will introduce the New Pension Scheme with effect from 1-04-2013 for all appointments made thereafter, Vide G.O.(P) No.441/2012/Fin dated 8-8-2012
5	Creating comprehensive data on all subsidies	This action related to providing comprehensive data on subsidies, salary and maintenance expenditure as appendices to the Finance Accounts of the State. Action is already initiated
6	Consolidated information on the number of employees at each level along with the commitment on salary	
7	Details of maintenance expenditure	
8	The Medium Term Fiscal Plan (MTFP) should be reformed and made a statement of commitment rather than a statement of intent	This change to be made in the MTFP of GOI
9	Revenue consequences of capital expenditure (RCCE) to be projected in MTFP	Not included at present
10	Fiscal impact of major policy changes to be incorporated in MTFP	This disclosure is to be made in the Central Budget or MTFP
11	Public Private Partnership (PPP)	This disclosure is to be made in the Central

	liabilities to be reported along with MTFP	Budget or MTFP
12	Amending/enacting FRBM Act for taking into account revised fiscal roadmap	The State has amended the FRBM Act in line with the recommendations of 13 <sup>th</sup> FC
13	Strengthening local fund audit departments through capacity building as well as personnel augmentation	180 additional posts has been sanctioned vide G.O(Ms)No.338/2010 Fin on 17-06-2010.
14	Incentivising revenue collection by LSGs through methods such as mandating some or all local taxes as obligatory at non zero rates of levy, by deducting deemed own revenue collection from transfer entitlements of local bodies or through a system of matching grants	As per the recommendations of the 4 <sup>th</sup> SFC, 10% of the Development Fund (Normal share) have been set aside for incentivising the tax effort of the those LSGs which have increased their own revenue by at least 10% over the previous year.
15	Merging Calamity Relief Fund (CRF) into the State Disaster Response Funds (SDRFs)	State has constituted SDRF and the balance as on 31-03-2010 under CRF has been transferred to SDR. The rule have been notified vide G.O.(Ms) 447/2011/ Fin, dated 17-10-2011.
16	Filling the gap of statistical infrastructure gap in the state	Inorder to fill the statistical gap, 13 <sup>th</sup> FC has recommended a grant in aid of Rs 14 crores for the year 2010-15. GOI has released the first installment of Rs 2.8 crore during 2011-12. The CSO has stipulated the milestones to be achieved utilising the grant. The group constituted by MOSPI has approved the action plan submitted by the state.

7.26 The status of implementation of various budgetary reforms suggested by 13<sup>th</sup> FC shows that the state has to a go a long way in budgetary reforms. Along with the budgetary reforms stress should be given for augmenting revenue mobilisation combined with economy in public expenditure.

7.27 To conclude the following observation are made. The share of Central transfers to the state has been declining continuously since the 11<sup>th</sup> FC and that affects adversely the fiscal strength of the State. The delay in amending the FRA, delayed the central transfers of grants to the state. The state is not able to utilise the fund sanctioned annually for various state specific grants, mainly due to non-submission of adequate schemes timely. So far, the state has not received any amount of interest relief of NSSF loan as recommended by 13<sup>th</sup> FC. Adherence to fiscal prudence parameters by the state as stipulated by amended FRA and 13<sup>th</sup> FC recommendation depend greatly on the growth of revenue and expenditure of the state. The buoyancy level of most of the tax sources in Kerala is below one, which adversely affects the revenue mobilisation efforts of Kerala. At the same time, the growth of revenue expenditure particularly the interest and pension payments accentuate the revenue and

fiscal deficits of the state. The fresh financial commitments such as Pay Revision packages create a shock on prudential fiscal indicators of the state. The state is unlikely to meet the revenue deficit targets if the same pattern of expenditure and resource mobilisation continues. At the same time, the state can meet the fiscal deficit target as stipulated in the revised FRA from 2013-14 onwards. In addition, the issue of sustainability of debt is a major concern in the state. Compared to the sustainable level of debt based on the fiscal deficit and potential GSDP growth of the state, the actual debt as percentage of GSDP is higher in the state.

# 8

## Summary and Recommendations

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### Summary

1. The report begins with an overview of the fiscal performance of the Government of Kerala since 2004-05. The tax revenue of the state has been steadily growing in tandem with the growth of the economy during the period 2004-05 to 2010-2011. However, the performance has not been so rosy in the case of non-tax revenue. Though it has been growing, its actual size has been meagre by all standards. At the same time, the share of central transfer has been continuously falling since the 11th Finance Commission. Revenue expenditure of the State has been higher than the revenue receipts, resulting in a revenue deficit of Rs3674 crore at the end of 2010-11. Though the capital expenditure has registered an increase of 283 percent during the period, the absolute size of it was very low. Due to persistent revenue deficit, the state is not in a position to divert sufficient funds for capital formation. As a result of the persistent revenue deficit, the debt burden has been increasing on an alarming scale.
2. Compared to the other States, the performance of the State cannot claim to be satisfactory in respect of most of the fiscal indicators such as debt liability, own tax revenue, capital outlay on a percapita basis. Though Gross State Domestic Product(GSDP) data is looked upon as the yardstick for evaluating the performance of various fiscal indicators, it cannot serve as a sound barometer on account of the frequent changes of the base year of GSDP which may affect the fiscal sustainability indicators.
3. The Third Chapter of the report provides an examination of revenue profile and its mobilisation. The growth of revenue shows a zig-zag trajectory. The sub categories of revenue such as States own tax revenue, non-tax revenue and central transfers show a similar pattern. Compared to the previous year, all categories of revenue showed a marked increase in rate of growth except own non tax in 2010-11. The rate of growth of revenue receipts of Kerala is lower compared to all states' average. It is observed that growth rate of state's own tax revenue showed a fluctuations. An item wise analysis of own tax revenue shows that sales tax, excise duty, stamps and registration registered a substantial growth in 2010-11 while motor vehicles tax, electricity duty and 'others' recorded a decline. The buoyancy of own tax revenue recorded a positive value (greater than one) in 2010-11. A

comparison of rate of growth of own tax revenue of Kerala with southern states over the period from 2005-2011, shows that the state is lagging.

4. Compared to pre VAT period, the rate of growth of Sales tax during the post VAT period (2005-06 onwards) has shown a significant improvement. The share of state's sales tax in total tax revenue was 91.16% during pre VAT period, while it was 94% in the post VAT period. During the post VAT period, the average rate of growth of VAT was 23.73% while that of sales tax was 20%. A comparative analysis of sales tax/VAT growth rate of Kerala and southern states shows that Andhra Pradesh recorded a higher growth rate followed by Karnataka. Though the growth rate is lower, Kerala and Tamilnadu showed a similar trend.
5. An examination of commodity wise tax collection shows that Indian made foreign liquor ranked first in tax contribution in 2010-11 followed by Petroleum products. As construction is an important activity of the state, the rate of growth of sales tax of construction related commodities are examined in detail. Among the construction items cement, iron and steel, paints, tiles and timber recorded a higher growth rate while other items such as sanitary ware recorded a negative growth rate. In the case of tax buoyancy, sanitary ware recorded a negative value while all other items, have a value greater than unity. Though rubber is booming in value of output, its contribution to tax revenue is not up to its potential.
6. The non-tax revenue realized from general, social and economic services is found to be negligible leaving huge untapped potential. Among the non-tax revenue, Lottery is one of the major items. Though it contributes positively to state's exchequer, its net contribution to revenue is low. The cost of collection of taxes in the state is found to be much higher than that of all India average. In short the gap between actual collection of tax revenue and its potential is narrowing down only slowly. The analysis found that the tax evasion and avoidance are major factors contributing to the untapped potential of revenue receipts and its wide fluctuations.
7. The fourth chapter examines the structure of expenditure. The structure of expenditure in the state is dominated by non-plan expenditure and a small share is spent on capital expenditure and plan expenditure. The root cause for the fiscal deficit at a higher level in the State is the mounting expenditure on four items viz., salaries to government staff, teaching grants given to private-aided educational institutions, pensions and interest payments. The large and mounting expenditure on salaries and pensions is due to their revisions every five years, resulting in the continuous revenue and fiscal deficits. Twenty eight percent of the total staff in the State belonged to private-aided educational institutions, who receive salary and pensions at par with the government employees. The system of grants-in-aid has

resulted in excess educational institutions and staff and a lot of wasteful expenditure. About half of the total staff and total salary expenditure are incurred for education sector. There is considerable scope for reducing the excess staff and wasteful expenditure in the sector.

8. The revision of salary and pensions once in five years has been creating heavy burden for the state government, LSGIs and autonomous bodies. In the context of heavy burden of pension payments, the decision to switch over to contributory pension scheme is a welcome decision. There has been a steep increase in the expenditure on subsidies which needs to be reviewed. Though the state is implementing a number of social welfare schemes for elderly and poor people, the beneficiaries are not getting the desired welfare due to payments on an irregular basis, once or twice in a year as of now. This is a serious lapse of the concerned Departments and LSGIs.
9. The universities in Kerala heavily rely on grants-in-aid from the government for meeting their expenditure. Attempts are not being made to raise their internal resources. For example, the financial situation of Kerala Agricultural University is alarming and the university is heading to a total collapse. Financial situation of other universities is not much different from Kerala Agricultural University. The continuous borrowing of the government to meet the fiscal obligation of Universities has also resulted in the substantial growth in debt and interest payments.
10. Chapter 5 of the report examines a detailed analysis on the outlay and expenditure, quality of expenditure and factors affecting the implementation of plan schemes. Development objectives of a state are materialized by implementation of various schemes and projects of annual plans through government departments and other agencies. The quality of these plan expenditure depends to a great extent on preparation of financially, technically and economically feasible projects, time bound and efficient execution of projects and achievements of physical and financial targets. The evaluation of plan expenditure during 2010-11 reveals that at state level only 86.79% of plan spending was materialized with wide variation across Departments. Departments are lagging behind not only with respect to non-utilization of sanctioned funds, but also on bunching of major share of their expenditure to the last quarter and last month of the financial year. This has serious implications on plan coordination, cost effective implementation and monitoring of schemes. Only seven out of 37 major Departments satisfy the norms for 'good' category departments stipulated by the Committee. The picture of plan spending among Local Self Governing Institutions (LSGs) is not dissimilar to that of Departments.

11. Out of selected sample Departments, many are not even utilizing 50 percent of 100% Centrally Sponsored Schemes. The discussion with Heads of selected Departments and other officials helped to throw some light on deciphering causes for delayed/poor implementation of plan schemes. The identified reasons encompass State level as well as Department level. The delay in passing the annual budget, the listing of annual schemes sector wise (not mentioning the Departments for execution) in budget documents, delay in administrative sanctions and Letter of Credit, insufficient matching grants to centrally sponsored schemes, lack of monitoring mechanism for assessing the quality of schemes, etc. need state level corrective measures. At the Department level, the lack of accountability of officials for preparing viable schemes and their implementation, lack of technical expertise, delay in sending utilization certificate etc. makes the inefficient utilization of plan funds.
12. The chapter 6 discusses debt profile of the state and its management problems. The total debt has increased 3.3 times for the fiscal period, 2000-01 to 2010-11. When outstanding liabilities are added, it increases only 3.2 times during the same period. This is attributable to the cap put by the Kerala Ceiling on Government Guarantees Act in 2003 on guarantees. The growth rate of total debt has slowed down after reaching a peak in 2002-03. The total debt is composed of internal debt, loans from Central Govt and other liabilities. The pattern of growth rate of total debt has been observed for the sub category of internal debt, but with higher growth rates most of the time. The growth rate of the loans from the central government has slowed down from 4 % in 2000-01 to 0.9 % in 2010-11. However the growth of other liabilities is lower than that of total debt except towards the end of the period. It may be noted that loans from the central government and other liabilities has recorded negative growth rates for some years during the period. The share of internal debt has almost doubled during the period while the other two components (central and other liabilities) declined. In other words, borrowing is concentrated by internal debt.
13. The Debt-GSDP ratio of the southern states (Andhra Pradesh, Karnataka, Kerala and Tamilnadu) and all Indian states indicate that Kerala has the highest ratio and Tamilnadu the lowest. Andhra Pradesh has the second highest ratio but shows faster decline than Kerala. The gap in the ratio between Kerala and other southern states seems widening after the fiscal year 2006-2007 except for Karnataka. It is very interesting to note that the Debt-GSDP ratio is fast declining in Tamil Nadu relative to Kerala.

14. The cost-efficiency of borrowing is tested for eight major instruments whose share in total debt is about 82.9%. The concentration of instruments in the borrowed funds and the share weighted average of interest rate do not show any relationship implying inefficiency in borrowed funds. Of the four indicators of sustainability, three (Domar Gap, Resource Gap and burden of interest payments) of them support sustainability while the fourth one (net availability of borrowed funds) does not. Yet another question is whether the state is under debt stress or not. The debt stress is assessed by Debt -Revenue ratio and Net-Gross ratio of borrowed funds. The evidence from the former suggests that after reaching the stress at the threshold level of 300% it is coming down but not stable during the period. In the case of Net-Gross ratio of borrowed funds, the state is increasingly borrowing for servicing the accumulated debt indicating debt-stress in the state.
15. Efficient use of borrowed funds is examined in two cases; (1) investment and (2) refinancing. In both cases, the government is not able to recover the break-even returns. The estimated cumulated loss of not getting the break-even return during the five years ending 2010-11 is Rs. 3196 crore. This alarming rate of resource waste requires urgent attention of the government.
16. Chapter seven is mostly concerned with the prediction of fiscal indicators and their sustainability. In the federal set up, the recommendations of Finance Commissions (FCs) play a critical role in determining the size of state finance and plans by way of devolution of sharable Central taxes, grants and other transfers. The share of Central transfers to the state has been declining continuously since the 11<sup>th</sup> FC which affects adversely the fiscal strength of the State. The delay in amending the Fiscal Responsibility Act (FRA) delayed central transfers of grants to the state. The state is not able to utilize the fund sanctioned annually for various state specific grants, mainly due to non-submission of adequate schemes timely.
17. Adherence to fiscal prudence parameters by the state as stipulated by amended FRA and 13<sup>th</sup> FC recommendations depend greatly on the growth of revenue and expenditure of the state. Except for Stamp and Registration, the buoyancy level of most of the tax sources in Kerala is below one, which adversely affects the revenue mobilization efforts of the State. At the same time, the growth of revenue expenditure particularly the interest and pension payments accentuate the revenue and fiscal deficits of the state. The fresh financial commitments such as Pay Revision packages create a shock on prudential fiscal indicators of the state. The state is unlikely to meet the revenue deficit targets if the same pattern of expenditure and resource mobilization continues. At the same time, the state can



meet the fiscal deficit target as stipulated in the revised FRA from 2013-14 onwards.

- 18.** In addition, the issue of sustainability of debt is a major concern in the state. Compared to the sustainable level of debt based on the fiscal deficit and potential GSDP growth of the state, the actual debt as percentage of GSDP is higher in the state. The position of the state government with respect of debt sustainability would be all the more worse if the guarantee liability of the government to public sector undertaking is also included in the consolidated debt. Gearing up of the fiscal administration is the need of the hour for meeting the targets of fiscal parameters as stipulated in the revised FRA and 13<sup>th</sup> FC report. However, the State Govt has not taken serious steps to implement the various recommendations of 13<sup>th</sup> FC to improve the state finances except the switchover to the New Pension Scheme.

## **RECOMMENDATIONS**

### **REVENUE MOBILISATION**

1. The analysis found that the tax evasion and avoidance are major factors contributing to untapped potential and wide fluctuations in revenue receipts. Hence the Committee recommends that the actions such as 'Operation Palakkad Gap 2006-07', 'Operation In and Out 2010-11' etc. may be repeated at frequent intervals without notice. Surveillance cameras weigh bridges etc. may be placed wherever necessary (para 3.12).
2. The study found that tax evasion and avoidance are rampant in the state in such manner such as entering the cargo vehicles through unmanned byroads from the neighbouring state, fully loaded cargos declared as empty, underassessment of granites, marbles etc., malpractices in the book of account of gold traders, diversion of rubber and its products to other states etc. Therefore, the Committee recommends appropriate steps to control distortive tendencies of tax evasion, avoidance and trade diversion (para 3.10 & 3.12)
3. Misclassification of taxes has been observed. The Committee recommends to conduct reconciliation of accounts of tax collection to ensure the recording of transactions under proper heads of accounts (para 3.15 & 3.16).
4. In spite of high potentiality of non-tax revenue (such as land revenue, forest revenue, user charges etc), its collection is much lower than the average of Southern States and all states. The Committee recommends an exhaustive study in this respect by an expert group at the earliest (para 3.20).

5. The study found that review petition and appeals in connection with taxes are prolonged unnecessarily and penalties compromised (such as one time settlement). The Committee recommends that the above process may be expedited (para 3.24).
6. It is found that there is gross underassessment and short levy leading to loss of revenue in many Departments aggregating to Rs 4786.23 Crore. The Committee recommends the elimination of such practices in future (para 3.20).

#### RESTRUCTURING EXPENDITURE

7. The root cause for the higher revenue and fiscal deficit in the state is the mounting expenditure on four items viz., salaries to government staff, teaching grants to private aided educational institutions, pensions and interests. The Committee recommends changes in fiscal policy and priorities in public spending to address this issue especially on the four items (para4.4).
8. The large and mounting expenditure on salaries and pensions due to its revisions in every five years is a basic cause for the continuous revenue and fiscal deficit of the state. Taking into consideration of the critical fiscal situation of the State, the Committee recommends (i) the revision of salaries and pensions once in 10 years as followed by central government; (ii) to reduce the item of expenditure through introduction of e-governance, payment of salaries, pensions, social welfare schemes through banks, introduction of email for official communications etc; (iii) some of the subsidiary activities like watch and ward, cleaning, gardening, transport of officials, delivery of mails etc may be outsourced or given on contract basis without long term financial commitments.( para 4.8)
9. Currently, half of the total staff in the State paid from public funds are in the educational institutions. More than half of the total salary expenditure is incurred on education. This opportunity cost of spending has serious socio-economic consequences. The Committee recommends that wasteful expenditure in these items may be curbed. (para 4.6 & 4.7)
10. The system of grants-in-aid has resulted in excess educational institutions, excess staff and a lot of wasteful expenditure. The Committee recommends (1)the practice of starting new educational institutions and courses in private aided sector may be discontinued;(2)the existing private aided educational institutions may be allowed to start new course only in unaided stream; and (3) for social equity reasons the present system of recruitment in the private aided sector may be reviewed.(para 4.11,4.12 and 4.13)

11. The recent decision of the government to switch over from the present system of statutory defined benefit scheme (pension scheme) to contributory scheme is a sound decision. The Committee recommends that the implementation process may be expedited for achieving fiscal stability in the long run. (para 4.19)
12. Though the state is implementing a number of social welfare schemes, the pensions are not paid monthly and hence the beneficiaries are not getting the desired benefits. The Committee recommends that necessary steps may be taken by the Departments and LSGIs to distribute the pensions every month through banks / e-payment. (para 4.19)
13. The financial situation of Kerala Agricultural University is alarming and the University is heading to a total collapse. This situation has accelerated since the starting of two new universities viz., Fisheries University and Kerala Veterinary and Agricultural Science University from KAU. In order to solve the acute academic and financial problems faced by these universities, an expert study is required. The Committee recommends the constitution of an Expert Committee to review the academic activities and finances of the above three universities. (para 4.21,4.22 and 4.23)
14. The universities in Kerala heavily rely on grants-in-aid from the government and face serious financial problems. In the allocation of grants-in-aid to universities no criteria or norm is followed by the government. It is allocated arbitrarily without considering financial position, development requirements, teaching and research and other vital academic issues. The Committee recommends the constitution of regulatory agency, a State University Grants Commission to evaluate the activities and to allocate grants-in-aid on a regular basis.(para 4.20 and 4.24)

#### PLAN EXPENDITURE

15. The passing of the State budget in June and July, delays the processing of schemes by the Department for further administrative sanction and implementation. The Committee recommends that steps may be taken to pass the budget in March every year (para 5.29).
16. The flooding of supplementary demands for projects subsequent to the State budget distorts the priorities and implementation of original plan activities of the State. The Committee recommends that this practice may be discouraged and the plan proposals in the supplementary demands for grants may be limited to the declaration in the budget speech (para 5.31).

17. The existing practice of grouping plan schemes sector wise/ head wise creates confusion for identifying the Departments responsible for execution of these schemes. The Committee recommends that the name of the Department and the officer responsible for implementing the scheme may be indicated in the budget document of the annual plan (para 5.31).
18. Failure of Departments to prepare financially, economically and technically viable projects in time and to get administrative sanctions at the beginning of the financial year is a basic cause for delay and poor implementation. The Committee recommends that the Departments may take steps to strengthen the project preparation activities with the help of outside experts including retired people and agencies in public and private sectors (para 5.31)
19. The issue of spending of plan outlay fully and bunching of expenditure to the last quarter and last month is a serious issue affecting the quality of public expenditure. The Committee recommends that the existing system of monitoring must be strengthened (para 5.9 & para 5.31).
20. Currently, no accountability is fixed on officers for their lapses for poor plan spending. The accountability of officers at various levels in the Department may be fixed at the level of project formulation, obtaining administrative sanctions, monitoring and implementation. The Committee recommends that appropriate action may be initiated against the officers responsible for these lapses (para 5.31).
21. Currently, there is much delay in the process of submission of detailed project proposals and issue of administrative sanctions. This is due to fact that the initial annual plan document gives only brief details of plans/schemes of various sectors without sufficient details needed for getting administrative sanction later. The Committee recommends that norms or guidelines may be prescribed for project preparation, scrutiny of projects and preparing the plan schemes one year ahead of implementation so as to get the administrative sanctions without hurdles (para 5.31).
22. There is no effective mechanism to scrutinise the physical and financial viability of schemes prepared by Departments initially. The present mechanism for scrutinizing the plan schemes by State Planning Board is only in namesake. The Committee recommends that the present mechanism for scrutinizing and evaluating the viability of schemes at State Planning Board and Departments must be strengthened with professionals (para 5.31).
23. One important factor identified for poor project implementation is the delay in tender procedure and sanctioning. The present tender process is very long and

hurdled with lot of formalities. The Committee recommends urgent need for e-tendering of all plan activities (para 5.31)

24. Lack of timely revision of the rates for materials and works with price variation clause also adversely affect the time bound implementation of schemes. The Committee recommends that in some exceptional situations, such as project implementation in difficult terrain and hilly areas, the rates should be flexible for effective implementation (para 5.31).
25. The delay in physical movements of files and documents across various layers of Govt leads to delayed administrative sanction and consequent implementation. The Committee recommends that e-governance may be urgently initiated in various stages of project formulation, implementation, monitoring and evaluation (para 5.31).
26. In many Departments, the plan schemes are implemented through offshoot agencies without effective control over them. The Committee recommends that monitoring mechanism of the parent departments over the offshoot/subsidiary agencies must be strengthened for achieving increasing accountability of the former (para 5.31).

#### DEBT MANAGEMENT

27. The debt burden of the state is assessed by the ratio of debt to Gross State Domestic Product. Comparative analysis of ratios of southern states indicates that it is the highest in Kerala and the lowest in Tamilnadu (TN). The ratio is widening between Kerala and TN. The Committee recommends the debt management practices of TN be reviewed for any lessons to be learned for Kerala.
28. In debt management, the efficiency of borrowing has two aspects; (1) the cost of borrowing; and (2) rate of returns from the use of borrowed funds. In the first case, it implies that debt composition is least cost. But there is hardly any evidence to support this hypothesis at present. The Committee recommends cost-minimising criteria for the choice of instruments hereafter.
29. If the borrowed funds are used for refinancing of Public Sector Undertakings and similar organisations, interest receipt should be at least equal to interest paid for the borrowed funds by the State except in the case of merit goods. Evidence suggests that the State is not recovering even the cost of borrowing. The Committee recommends that urgent steps may be undertaken to restructuring the PSU's and similar organisations for recovering the cost of borrowed funds

#### 13<sup>TH</sup> FINANCE COMMISSION AND STATE FINANCE

30. The share of Central transfers to the state has been declining continuously since the 11<sup>th</sup> FC and this situation adversely affects the achievement of fiscal targets of

the state. The Committee recommends that this matter has to be viewed seriously and presented at the appropriate forum by the State government to revert the trend (para 7.2).

31. The release of grants of certain state specific sectors by the Centre such as Primitive Tribe is only 31 percent of the sanctioned amount annually. The fund sanctioned from the State specific grants for each sector in each year is based on the project proposals submitted for availing these funds. The Committee recommends that the State has to submit adequate and acceptable project proposals to the Centre in time for obtaining the entire grants awarded (para 7.11).
32. Buoyancy rates estimated for the period between 2000-01 and 2010-11 for taxes in the state such as sales tax, excise duty, motor vehicle taxes are below one and these rates are lower than neighbouring states. The Committee recommends for improving the tax buoyancy by revamping the tax administration (para 7.16).
33. There is widening gap between the sustainable level of debt and actual level of debt in the state and hence the Committee recommends urgent measures to be initiated to avert a possible 'debt stress' situation in the state (para 7.23).
34. It is observed that interest burden is growing and it has serious implications for state finance. The Committee recommends that immediate steps will have to be initiated for restructuring the portfolio of borrowing of the state with least cost objective (para 7.21).
35. The State Government has not taken serious steps to implement the various recommendations of 13<sup>th</sup> FC to improve the state finances except the switch over to the New Pension Scheme. The Committee recommends that urgent steps may be taken to implement the remaining recommendations of 13<sup>th</sup> FC in a time bound manner (para 7.25).

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27. Sri.G.Ananda Padmanabha Pilla,Additional Development Commissioner,Rural Development
28. Sri.L.P.Chithir,Deputy Development Commissioner Programme Officer(H), Rural Development (Suchitwa Mission)
29. Sri.Madhavan,Deputy Director(P&M), Rural Development
30. Sri.J.A.Anil Kumar,Programme Officer (IEC), Rural Development MGNREGS State Cell
31. Sri.A.Mohana Kumar,Additional Development Commissioner, Rural Development
32. Sri.Surendran,Deputy Director,KILA
33. Sri.Benny George,Deputy Director,KILA
34. Sri.Karthikeyan.S,Programme Officer,Kudumbasree
35. Sri.Pradeep S,Research Officer, Kudumbasree
36. Sri.S.Gopakumar, Kudumbasree
37. Sri.K.Anwar Sadath,Director (Technical)
38. Sri.V.N.Krishnan Kutty,Consultant Accounts
39. Sri.K Sivaprasad,Senior Consultant,Suchitwa Mission