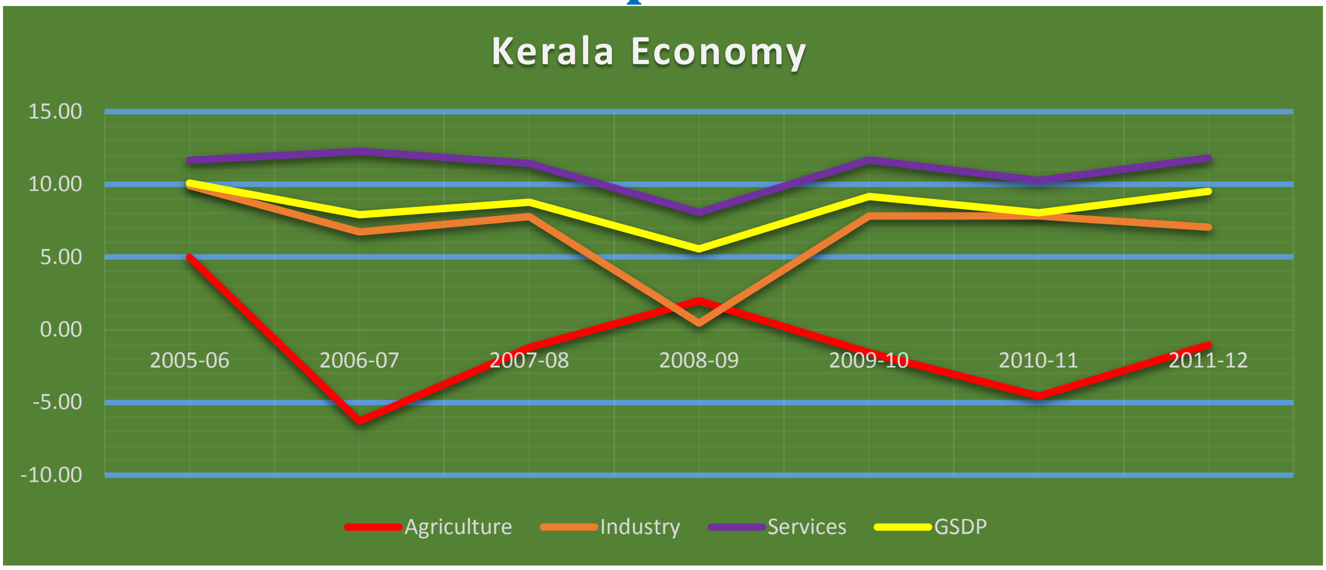
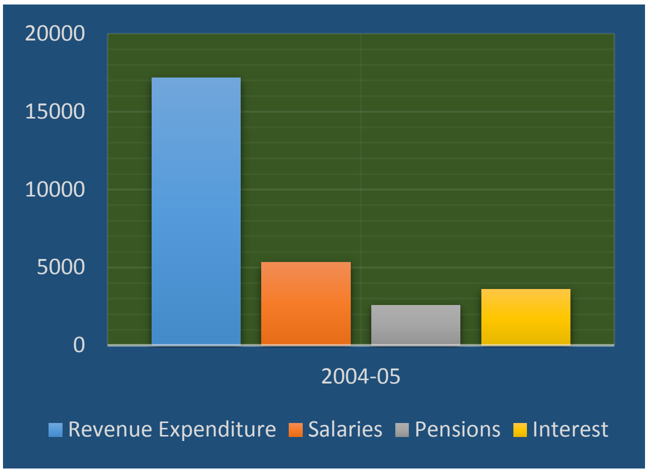
REPORT *of*

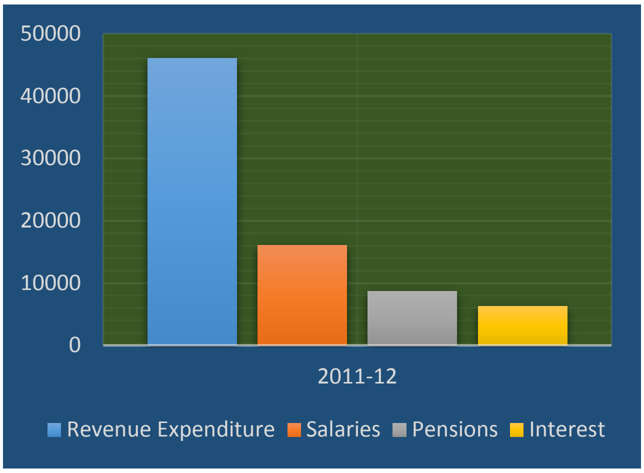
KERALA PUBLIC EXPENDITURE REVIEW COMMITTEE

Third Committee

Second Report 2011-12







GOVERNMENT OF KERALA

DECEMBER 2013

REPORT

KERALA PUBLIC EXPENDITURE REVIEW COMMITTEE

THIRD COMMITTEE

[Constituted as per Gazette Notification No. 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 (Act 29 of 2003)]

Second Report for the Year 2011-12
December 2013

Foreword

This is the second report of the Third Public Expenditure Review Committee constituted under section 6 of the Kerala Fiscal Responsibility Act of 2003 (Act 29 of 2003). The Committee was constituted on 26 April 2012 and its first report for the year 2010-11 was submitted in December 2012.This report pertains to the financial year 2011-12.

In addition to the items discussed in the previous report, the Committee attempted an examination of non tax revenue, plan expenditure of Local Self Governments (LSGI's) and finances of Universities for 2011-12. For analyzing own non tax revenue, the Committee collected data from 23 departments, the majour contributors of non tax revenue and held discussions with them. The Committee also collected data and held discussions with seven Universities in Kerala.

The Committee met frequently 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 of Departments and LSGI's, debt management and implications of the 13 Finance Commission recommendations on Kerala. In the report, we have also given a summary of the recommendations of all previous Kerala Public Expenditure Review Committee reports.

The Committee would like to place on record its appreciation of the support and co-operation extended by Shri V. Somasundaran, Additional Chief Secretary (Finance) for its functioning. The Committee also thanks Shri. D. Anil, Secretary to the Committee and Joint Secretary to Government and Shri. M. Chandra Dhas, former secretary to the Committee for the

excellent services rendered. We place on record our appreciation to the services provided by Shri. S. Abhilash, Assistant Section Officer 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

Contents

List of Abbreviations

BP	Block Panchayat
C&AG	Comptroller and Audit General
CSO	Central Statistical Office
CSS	Centrally Sponsored Schemes
CUSAT	Cochin University for Science and Technology
DP	District Panchayat
FD	Fiscal Deficit
FRA	Fiscal Responsibility Act
GDP	Gross Domestic Product
GFD	Gross Fiscal Deficit
GIC	General Insurance Corporation
GOI	Government of India
GOK	Government of Kerala
GP	Grama Panchayat
GSDP	Gross State Domestic Product
IKM	Information Kerala Mission
KAU	Kerala Agricultural University
KU	Kannur University
LIC	Life Insurance Corporation
LIMS	Lottery Information Management System
LSGI's	Local Self Government Institutions

NABARD	National Bank for Agricultural and Rural Development
NCDC	National Co-operative development Cooperation
NPRD	Non Plan Revenue Deficit
NSDP	Net State Domestic Product
NSSF	National Small Savings Fund
NTR	Non-Tax Revenue
ONB	Open Market Borrowing
PDPPA	Prevention of Destruction of Public property Act
RBI	Reserve Bank of India
RD	Revenue Deficit
SCP	Special Component Plan
SONTR	State Own Non-Tax Revenue
SSUS	Sree Sankaracharya University of Sanskrit
TRR	Total Revenue Receipts
TSP	Tribal Sub Plan
UGC	University Grants Commission
ULB's	Urban Local Bodies
UoC	University of Calicut
UoK	University of Kerala

1 Introduction

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 expenditure. It should also Report three deficits (revenue, fiscal and primary), capital receipts and expenditure, and the various categories of debt and its 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 in unproductive 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 issues in any one Report involves substantial research effort which is beyond the limited resource availability of the Committee. Within this constraint the Report has examined selected issues in various chapters.

1.3 The chapter wise outline of the Report is as follows. The Report has ten chapters. Chapter 2 contains an overview of the State finance. Chapter 3 examines the fiscal profile and revenue mobilisation. Chapter 4 discusses problems and prospects of non-tax revenue. In chapter 5, a detailed analysis is undertaken on expenditure profile of the State. It also contains an analysis of salary, pension and interest payments in the State and its policy implications for reducing the fiscal deficit. Chapter 6 examines the plan expenditure of Departments and Local Self Government Institutions. In Chapter 7 is concerned with debt management and efficiency of allocation of borrowed funds.

Chapter 8 discusses the finances of Universities in Kerala. Chapter 9 is mostly concerned with predictions of the fiscal indicators and their sustainability. The last chapter summarises the Report followed by major recommendations for the consideration of the State Government. A summary of recommendations of earlier KPERC Reports is given as appendix.

2
Overview of the State Finances

Introduction

2.1 Annual Financial statement of the Government presented to the Legislature for its approval is popularly known as the budget. It contains inter alia, the receipts of all kinds comprising taxes, non-taxes and borrowings of the Government during the year and expenditure incurred for administrative and developmental activities. In a federal country like India, the revenue of the State includes not only its own tax and non-tax revenue, but also the transfers from the Central Government. Expenditure in turn comprises the spending on administrative as well as on various developmental activities. Deficit arises when expenditure exceeds revenue. Deficit arising with the revenue expenditure exceeding the revenue receipt of the State is known as revenue deficit. Revenue deficit together with all the borrowings including those for capital expenditure is generally known as fiscal deficit. Balancing of the budget is not necessarily a virtue, in so far as State finance is concerned. Instead, mild doses of deficit financing can stimulate the economy as a whole under certain conditions and accordingly most of the States resort to deficit financing. Nevertheless, deficits become a burden to the State, as it has to pay interest till the debt is repaid. Since the Government is the largest stake holder in the society, budgetary allocations have deeper implications on the economy and the well-being of the people at large.

2.2 Budgetary transactions of any State are conditioned by the performance of the economy. In the globalised 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 (GSDP,) is being used as a barometer for evaluating various indicators pertaining to the financial transactions of the State. Thus, the level of tax, pattern of expenditure, limit to the extent of borrowing etc. are expressed as a quotient to GSDP. If the quotient exceeds certain percentage, the finances would be surpassing the 'Luxman rekha'.

2.3 Kerala, located in 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 total population of the country (2011). Apparently, the State supports proportionately more number of people, against less area of land. However, the State has the appearance of an affluent region with a fast growing economy, as per various statistics prepared by the Department of Economics and Statistics. The GSDP of Kerala has been Rs 326993 crore in 2011-12 at current prices. 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 the national average since 1994-95.

2.4 The Chapter proceeds with; (1) an overview of the financial indicators of the Government since 2004-05; (2) a comparison of the performance of the various indicators of the State finances with those of other States.

An Overview of the Financial Performance since 2004-05

2.5 Since the economy has been growing on a fast rate, possibilities for the sound performance of the State finances are bright. Tables 2.1, 2.2 and 2.3 give the growth rate of various indicators of State finance and the ratio of the same to the GSDP since 2004-05.

2.6 As can be seen from Table 2.1,the revenue receipts of the State went up from Rs 13500 crore in 2004-05 to Rs 38010 crore in 2011-2012. Similarly, State's own tax revenue and non-tax revenue also recorded substantial increase ie: from Rs 8964 crore to Rs 25718 crore and from Rs 819 crore to Rs 2592 crore respectively. While the revenue receipts recorded an increase of 181.55%,

Table 2.1 Profile of State Finances Rs.crore

Items	2004-05 Accounts	2007-08 Accounts	2008-09 Accounts	2009-10 Accounts	2010-11 Accounts	2011-12 Accounts
1	4	5	6	7	8	
A. Revenue Receipts	13500	21107	24512	26109	30991	38010.36
1. State Tax Revenue	8964	13669	15990	17625	21722	25718.6
2. State Non-Tax Revenue	819	1210	1559	1852	1931	2592.19
3. Central Govt. Transfers	3718	6228	6963	6632	7338	9699.58
i). Share of Central Taxes	2405	4052	4276	4399	5142	5990.36
ii). Grant-in- Aid	1313	2177	2687	2233	2197	3709.28
B. Capital Receipts	4680	6154	6232	8000	7807	12284.22
1. Recoveries of Loans	95	45	36	38	44	54.9
2. Other Receipts	0	8	9	49	25	16.05
3. Borrowings and Other Liabilities	4584	6102	6187	7912	7739	12213.54
a. Public Debt (Net)	4038	4211	5271	4850	5214	6905.90
b. Public Account (Net)	546	1891	916	3062	2525	5307.63
C.Total Receipts (A+B)	18180	27261	30744	34109	38798	50294.85
D. Non Plan Expenditure	14094	22711	25441	27283	31510	41754.09
1. On Revenue Account	14063	22614	25012	26953	30469	40717.41
a. Of which Interest Payments	3613	4330	4660	5292	5690	6293.60
2. On Capital Account	25	23	25	157	598	454.52
3.On Loan Disbursements	6	73	404	172	442	581.86
E.Plan Expenditure (including CSS)	3953	4549	5462	6785	7281	9141.99
1. On Revenue Account	3106	2277	3212	4179	4196	5327.21
2. On Capital Account	847	1452	1671	1902	2766	3398.10
3. On Loan Disbursements		820	579	704	319	416.68
F.Total Expenditure (D+E)	18048	27259	30903	34068	38790	50896.08
1. Revenue Expenditure	17169	24892	28224	31132	34665	46044.62
2. Capital Expenditure	878	1475	1696	2059	3364	3852.92
3. On Loan Disbursements		893	984	877	762	998.54
G. Revenue surplus/deficit (A-F(1))	-3669	-3785	-3712	-5023	-3674	-8034.26
H. Fiscal Deficit (A+B(1)+B(2))-F	-4452	-6100	-6346	-7872	-7730	-12814.8
I. Primary Deficit (H)-D(1a)	-839	-1771	-1687	-2579	-2041	-6521.18
J.Total Debt	41878	55410	63270	70969	78673	89418

Source: GoK Budget in Brief Various years

State's own tax revenue and non-tax revenue recorded 186.90 percent and 216.48 per cent respectively. The transfers from the Central Government went up from Rs 3718 crore in 2004- 05 to Rs 9699 crore in 2011-12. In percentage terms, the increase was only 160.86. The Central transfers which have displayed a negative growth in 2009-10 have recorded a positive trend since 2010-11(Table 2.2). The increase was on a significant scale in the case of capital receipts, ie it went up from Rs 4680 crore in 2004-05 to Rs 12284 crore in 2011-12. It recorded an increase of 162.47 percent since 2004-5 .The increase in 2011-12 over the previous year was well over 57 per cent.

Table 2.2 Growth Rate of Fiscal Variables since 2004-05 (%)

	2004-05	2007-08	2008-09	2009-10	2010-11	2011-12	Index of increase in 2011-12 with 2004-05 as the base
Total Revenue	14.26	16.06	16.13	6.52	18.78	22.6.	181.55
Own tax	11.06	14.46	16.98	10.22	23.24	15.91	186.27
Non-tax	21.18	28.99	28.84	18.79	4.26	.34.25	216
Central transfers	27.37	17.35	11.8	-4.76	10.64	32.17	160.87
Capital receipts		52.59	1.26	28.36	2.42	57.34	162.47
Total receipts	11.29	22.68	12.71	10.9	13.74	29.63	181.54
Non-plan	12.54	21.89	12	7.2	15.49	32.51	240.17
Interest	8.5	3.34	7.62	13.56	7.52	10.61	74.20
Plan Expenditure		32	20.07	24.22	7.35	25.56	25.55
Total expenditure	10.62	21.34	13.47	6	19.84	31.2	182
Revenue	10.8	19.53	13.39	10.3	11.35	32.82	168.18
Capital expenditure	6.5	63.32	14.98	21.14	63.38	14.5	338.72
Revenue deficit	-0.37	43.59	-1.97	35.31	26.86	-118	118.46
Fiscal deficit	19.63	59.6	-73	366	1.91	65	187.84
Primary deficit	62.06	321.56	258.32	53.72	30.87	219	-696.21
Total debt	11.7	11.09	14.05	12.16	10.85	13.65	113.52

(Source: GOK; Budget in Brief various years)

Table 2.3 Fiscal Indicators as Percentage GSDP

Sl No	Item	2004-5	2007-8	2008-9	2009-0	2010-1	2011-12
1	**Total Revenue**	**11.32**	**12.05**	**12.09**	**11.24**	**11.19**	12.06
2	Own Revenue	8.20	8.5	8.65	8.38	8.54	8.98
3	From Centre	3.12	3.56	3.43	2.85	2.65	3.08
4	**Total Expenditure**	**14.97**	**15.05**	**14.75**	**13.65**	**13.73**	15.83
5	Revenue	14.40	14.21	13.92	13.4	12.51	14.61
6	Capital	0.57	0.84	0.84	0.26	1.21	1.22
7	**Revenue Deficit**	**3.08**	**2.16**	**1.83**	**2.16**	**1.33**	2.55
8	**Fiscal Deficit**	**3.73**	**3.48**	**3.13**	**3.39**	**2.79**	4.07
9	Interest payments	3.03	2.47	2.3	2.45	2.05	2.00
10	**Primary Deficit**	**070**	**1.01**	**0.83**	**1.11**	**0.74**	2.07
11	**Total Debt**	**35.11**	**31.64**	**31.2**	**30.54**	**28.4**	28.37

(Source: GOK; Budget n Brief various years)

2.7 On the expenditure side, the non -plan component went up from Rs 14094 crore to Rs 41754 crore and the plan component from Rs 3953 crore to Rs 9141 crore. Thus the total expenditure increased from Rs18048 crore in 2004-05 to Rs 50896 crore in 2011-12. The revenue part of the expenditure increased from Rs 17169 crore in 2004-05 to Rs 46044 crore in 2011-12. During the same period, the capital expenditure went up from Rs 878 crore to Rs 3852crore. The overall increase in the expenditure was182.1 percent with 168.18 per cent in the case of revenue component and 338 per cent in the case of capital component respectively during the period (Table 2.2). Throughout the period, the expenditure was moving ahead of revenue. As a result of the increased tempo of expenditure, both the revenue and fiscal deficits have recorded an upward trend. In fact, these two indicators were showing improvement till 2006-07. They began to rise with the fiscal stimulus measures adopted to overcome the adverse impact of the worldwide recession which surfaced during 2008-09. The liberal public expenditure resorted to tide over the impact of recession was instrumental for widening the deficit. With the eventual recovery of the economy, both revenue deficit and fiscal deficit have recorded a fall in 2010-11. However, the picture again became grim in 2011-12. The revenue deficit which was 1.33 per cent of the GSDP in 2010-11 increased to 2.55 in 2011-12 and fiscal deficit from 2.79 per cent to 4.07 per cent respectively. Spurts in deficits of such a magnitude certainly amount to a violation of the roadmap prescribed in the Amendment to the Fiscal Responsibility Act passed by the State Legislature in November 2011.The Act which should have come into force with effect from April 1st 2011, stipulates inter alia, for the reduction of the revenue deficit to 1.4 per cent and fiscal deficit to 3 per cent respectively of the GSDP in 2011-12. By not reducing the deficits, Government has dishonoured an Act of the Legislature even before the ink is dry [1]. C&A.G has also noted that the percentage of increase has been more than the target fixed in the Mid-Term Fiscal plan [2].The sudden spurt is attributed to the revision of the pay and pension of the Government employees. It may be recalled in this connection that we have recommended in the Report for 2010-11 to appoint Pay Commission only once in ten years. Revision of pay scales is adopted for compensating the rise in prices and to ensure a fair share of income with the growth of the economy to the State Government employees. These two requirements of the employees are squarely safeguarded in Kerala. The rise in price is being neutralised with the revision of DA once in six months. Moreover, the State Government employees seem to get a proportionate share of income with the growth of GSDP, the barometer for measuring the growth of the economy. The salary and pension as a ratio to GSDP, has in fact gone up from 6.40 % in 2006-07, when the previous revision was implemented, to 7.58 per cent in 2011-12 with the implementation of the latest revision [3]. Apparently, the grounds for revising the pay and pension scale in every five years are not very strong.

2.8. There was slight improvement in the debt GSDP ratio. The state was 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 itself . In 2011-12, the actual ratio remained more or less the same at 28.37 per cent. Nevertheless, the total debt burden recorded an increase of 113.52 per cent during the period 2004-05 to 2011-12. In turn, Government is bound to pay interest charges on an increasing scale, the volume being Rs 6293 crore in 2011-12. Similarly, slight improvement has taken place in the GSDP/ revenue ratio. While the GSDP went up by 173.92 per cent in 2011-12, the increase of revenue receipt was 181.55 per cent. Though slight improvement has taken place during 2011-12 in comparison with the conditions of 2010-11, the overall financial position still remains bleak with growing debt, and revenue expenditure with very little resource left for capital formation.

2.9 There was slight increase in the volume of capital expenditure including loan disbursement; ie, from Rs 4126 crore in 2010-11 to Rs 4850 crore in 2011-12. However, in percentage terms, there was a fall in the growth rate from 63.38 in 2010-11 to 14.50 in 2011-12. Nevertheless, the increase in capital expenditure was 338.72 percent since 2004-05.Even then, the actual volume was not substantial by any standard. In this connection, the observation of C&AG in the Audit Report of the Finances of Kerala for the year ended 31 March 2011 holds good for 2011-12 also. C&AG observed; “The proportion of expenditure spent 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"[4].Similarly, in 2011-12, the C&AG has pointed out that it is desirable to fully utilise the borrowed funds for the creation of capital assets. However ,the capital expenditure per se , excluding loan disbursement was only Rs. 3852 crore in 2011-12,against the public debt receipts of Rs. 9798 crore. Apparently, only39.3 per cent of the borrowed funds was utilised for capital expenditure against 46.79 percent in 2010-11[5]. Evidently, borrowed funds were utilised for repayment of the existing debt and for meeting part of the revenue expenditure in contravention to the suggestion of C&A.G and also in violation to the provisions of the Amendment to the Fiscal Responsibility Act, which clearly stipulates to "build up surplus amount of revenue and utilise such amount for discharging liabilities in excess of assets"[6].

2.10 The Committee apprehends that the borrowed funds have not been utilised for the purpose for which it should have been utilised. As already mentioned, the economy of the State was recording steady growth during recent years. Similarly, tax collections were moving in tandem with the growth of the economy. When such buoyant conditions prevail, there is no justification for resorting to public borrowings for revenue deficits at an accelerated rate. The Committee feels that the practice of raising resources through public borrowings for meeting revenue deficits amounts to an unsound budgetary management which should be rectified.

2.11 Though the percentage of capital expenditure at 1.22 of the GSDP is very low, the Government of Kerala has invested Rs. 4206.43crore as share capital in various categories of public sector undertakings numbering 141. However, as the C&AG has pointed out, the dividend received was only Rs. 67.44crore which works out to an the average rate of return on these investments at 1.54 per cent only [7]. As a remedial measure, the suggestion of C&AG in 2010-11 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" is very relevant[8].

2.12 Among the different indicators which enter in the picture of State finances, the revenue receipts is perhaps the most important as the other indicators are dependent on it. At the same time, revenue receipts is a better alternative for evaluating the various indicators of State finance ,as it is more accurate than GSDP. Furthermore, in the case of Kerala, the performance of the economy, which is supposed to be reflected in the GSDP, relies by and large , on the remittances for its growth rather than on the vitality of the domestic economy. Accordingly, we have made a Table indicating the ratio of other indicators as a percentage to the revenue receipts.(See Table 2.4)

Table 2.4 Fiscal Indicators as a Ratio to the Revenue Receipts of the State

Fiscal indicator	2004-05	2007-08	2008-9	2009-10	2010-11	2011-12
Revenue (Rs. cr)	13500	21107	24512	26109	30991	39497.51
Rev exp/RR(%)	127.17	117.99	115.14	119	111.75	116.18
Capital exp /R.R(%)	5.05	6.98	6.91	2.29	10.85	12.3
Total exp /RR(%)	132.22	124.91	122.0,5	121.52	122.7	129.08
Rev deficit/ RR(%)	27.17	17.93	13.15	19.29	11.85	20.31
Fiscal deficit/RR%	32.97	28.9	22.48	30.15	24.94	32.5
Total debt/RR(%)	310	262.51	258.11	271.81	253.85	226.84
Total liabilities/RR(%)	323	276.31	270.5	287.46	265.91	236.21

(source: GOK' Budget in Brief, various issues)

2.13 As a ratio to the revenue receipts, the total expenditure has been higher by 29.08 per cent in 2011-12. The revenue expenditure was higher by 16 per cent. The revenue deficit formed 20.31 per cent and fiscal deficit 32.50 per cent respectively in 2011-12. On the other hand, the percentage of all these indicators were lower in 2010-11. Apparently, most of the fiscal indicators were exhibiting negative signals in 2011-12.

2.14 The total liabilities have shown a positive sign with a ratio of 236.21 in 2011-12 against 265.91 per cent in 2010-11. Even then, the proportionately higher rates of deficit, especially relating to revenue does not augur well.

Fiscal Performance of Kerala in Comparison with Other States

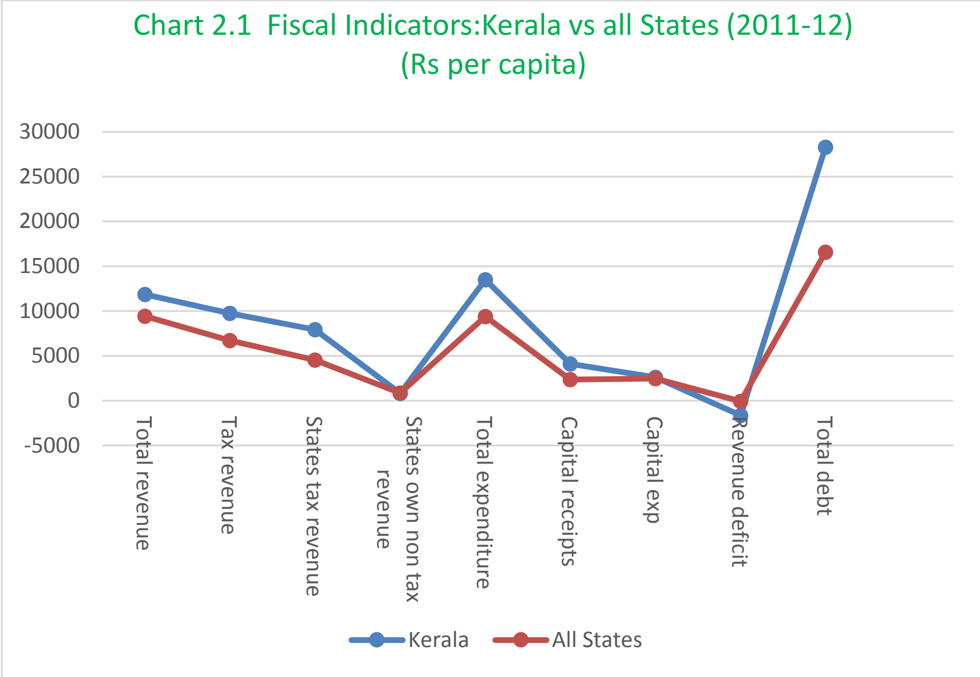
2.15 Being a constituent State unit within the Indian Union, finances of Kerala are conditioned by the policies of the Central Government, and the guidelines of the Reserve Bank of India, subject of course to the economic conditions prevailing in India. Though the States are given a fair amount of autonomy, Central Government is in a position to impose its policies by stipulating conditions for the award of Central aid to the States. By striving to maintain certain amount of uniformity in the financial performances of all the States, Central Government aims at maintaining financial stability in the country as a whole. Nevertheless, there will be wide variations in the financial performances from State to State depending on the size, structure and the policies pursued in the sub regional economy. Tables 2.5 . 2.6 and 2.7 give the comparative picture of the performance of different States in 2011-12.

Table 2.5 Performance of Fiscal Indicators: Kerala Vs All States (Rs per capita)

Fiscal Indicator	Kerala	All States
Total revenue	11850	9432
Tax revenue	9772	6704
States tax revenue	7923	4557
States own non tax revenue	823	879
Total expenditure	13499	9381
Capital receipts	4119	2351
Capital expenditure	2624	2460
Revenue deficit	-1638	-50
Total liablityt	28295	16560

(Source: RBI State Finances; Study of Budgets 2011-12)

2.16 As can be seen from the Table, Kerala's performance has been much better than other States in total revenue, tax revenue, own tax revenue, total expenditure, capital receipts and capital expenditure. However, with a per capita collection of only Rs. 823 against Rs. 879 as the average of all States, Kerala was behind the other States in non-tax revenue. Per capita revenue deficit of Kerala has been higher than the average of all States. As a matter of fact, the per capita revenue deficit has been whopping 32 times higher than to the average of all the States.



2.17 Among the Sates in India, the performance of Kerala during 2011-12 has been comparatively better in respect of tax revenue .In State's own tax revenue, the State 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. 829 against Rs. 879, being the average of all States. By earning more than Rs. 1000, States like Andhra Pradesh, Assam, Chattishgarh, Haryana Himachal Pradesh, Gujarat, Jammu and Kashmir, Punjab, Uttarakhand were well ahead of Kerala. Only three States viz. West Bengal, Tamil Nadu and Karnataka were behind Kerala. Kerala was getting only Rs. 2085 from Central taxes and Rs. 1261as grant- in -aid .Most of the States were getting higher amount of Central taxes and grant- in -aid on a per capita basis. In fact, Kerala's grant-in-aid was the lowest among the States except Gujarat, Punjab and Rajasthan. Kerala has been getting only a proportionately lower share from the central pool since the appointment of the XIth Finance Commission. The weightage given by the XIIIth

Finance Commission to the estimates of per capita income with 2004-05 as the base, adversely affects the interests of Kerala in the devolution of Central taxes.

2.18 Kerala's position is far behind many other States in so far as capital expenditure is concerned. States like Andhra Pradesh, Gujarat, Himachal Pradesh, Jammu and Kashmir, Madhya Pradesh, Tamil Nadu, Uttarakhand, Uttar Pradesh were ahead of Kerala. The per capita capital expenditure of Kerala has been slightly higher at Rs. 2624 against all states average of Rs. 2460. However, the Revenue deficit of Kerala has been higher than that of many other States. While the per capita deficit of Kerala has been as high as Rs. 1638, average per capita deficit of all the States was only Rs. 50.33.The average per capita revenue deficit of all the southern States was also very low in comparison to that of Kerala. Furthermore, the deficit was higher than that of Kerala only in the case of West Bengal, Punjab and Jammu and Kashmir. The per capita liability of Kerala has been higher than that of many other States and the actual volume of liability has been higher than that of Kerala only in the case of two States viz: Himachal Pradesh and Punjab. With a per capita liability of Rs. 28295 in Kerala, the burden of debt is indeed very high which creates debt stress.

Table 2.6 Fiscal performance of important states in 2011-12 on a per capita basis

State	Total revenue	Tax Revenue	State's Tax Revenue	Share of Central tax revenue	Total non tax revenue	states non tax revenue	Grant in aid	Total expenditure	Capital receipts	Capital expenditure	Revenue deficit	total liabilities	GFD
Andhra	11491	8408.12	6306.09	2102.0	3069.2	1444.2	1624.9	11388.4	2918	3005.4	-92.1	18064.4	2102.13
Assam	10525	5417.2	2342.75	3071.2	5125.1	869.7	4258.6	10447.5	1630	1912.7	-96.7	8446.7	1448.46
Bihar	5392	3986.4	1214.84	2775.5	1418.1	100.1	1217.9	5341.4	889	1951.5	-66.2	6610.8	1238.24
Chattisgarh	10846	6660.14	4107.28	2552.8	4189.5	1777.6	2411.5	10010.8	2055.6	3148	-837.9	6934.2	1483.64
Gujarat	10306	8201.39	6873.14	1328.2	2114.9	947.3	1167.6	9929.5	3405	3269	-317'9	26184.1	2112.85
Haryana	13209	9380.67	8291.91	1092.7	3830.7	1783	2043.4	14220.6	4015	1317.5	1009.8	21183.4	3029.41
Himachal	21013	9245.47	6248.18	3007.3	11795.	2671.5	9124.1	20390	4043.8	11708	-673.5	40715.3	2563.88
Jammu	20378	6751.59	3813.69	2937.9	13598.	1472..9	12117.8	11938.4	4394	5724	2436.3	28113	3014.04
Jharkhand	7819	4408.07	2163.23	2242.1	3419.3	1095.2	2324	7644.8	2809	1835	-182	10439.9	1206.49
Karnataka	11195	9299.85	7488.96	1812.5	1889.4	521.8	1367.5	10674.6	2360	3121	-513.6	16492.7	2073.81
Kerala	11850	9772.32	7923.91	1851.4	2085	825.85	1261.2	13498.9	4119	2624	-1638.7	28295.3	3382.62
Madhya	8748	6153.74	3556.61	2588,5	2528.1	962.9	1635.2	7979.9	2525	3800	13498.9	11035.9	1078.11
Maharastra	11151	8876.92	7691.55	1185.4	2274.6	881	1363.6	11335	2993	2266	183.3	22890.4	1840.28
Odissa	9852	6058.66	3195.04	2863.6	3531.2	1192.1	2339	8839.1	829	1838	-751	11325.7	490.78
Punjab	11179	8602.89	7332.13	1270.7	2592	1353.7	1238.3	13212.8	4187	127	2014.4	30054.1	3471.10
Rajasthan	8187	5712.62	3531.04	2183	2465.7	1262	1203	8113.9	1818.7	993	-64.1	15626.6	1121.83
Tamil Nadu	11858	10072.09	8308.61	1762.1	1789.8	768	1020.3	9003.3	3063.9	1882	-74.8	17876	2300.86
Uttarakhand	14818	8328.39	5519.29	2809.1	6053	1028.6	5024.7	14165.4	3541	2176	-217.6	25044.5	2726.47
Uttar Pradesh	6887	9158.05	4532.25	4625.8	3104	1028.6	1895.9	6495.9	2290.6	1211	-710.9	21994.8	935.38
West Bengal	6479	47064.62	2729.36	2035.2	1710	314.2	1395.8	8966.2	3081.8	392	1890.7	23239.5	2375.21
All States	9432	6703.99	4557.57	2146.5	2729	879	1850.3	9381.8	2350.9	2460	-50.3	16560.2	1707.06

(Note: total Liablities include debt+ reserve funds +deposits and advances and contingent funds Source: Reserve Bank of India State Finances: Study of budgets 2011-12)

Table2.7 Indicators of State Finances as a Ratio toGSDP2011-12(%)

NAME OF THE STATE	Total Revenue	Tax Revenue	States ownTax Revenue	Non Tax Revenue	State's Non Tax Revenue	Total Expenditure	capital outlay	Revenue Deficit	Total liabilities
Andhra pradesh	15.0	10.83	8.2	4.10	1.82	14.36	2.64	+0.11	20.5
Assam	26..0	13.98	5.8	14.37	2.88	27.39	9.89	+0.25	20.6
Bihar	23.0	15.08	5.1	6.35	1.13	19.04	4.96	+0.27	25.3
Chattishgarh	20.0	11.83	7.5	7.21	3.17	18.04	3.74	+1.57	9.6
Gujarat	11.65	9.02	7.6	2.64	1.17	11.76	2.78	+0.27	21.8
Haryana	11.0	7.36	6.8	2.98	1.38	11.21	1.5	-0.82	15.4
Himachal Pradesh	23.0	9.66	6.7	12.67	3.16	22.25	2.37	+o.72	41.1
Jammu &Kashmir	39.0	12.04	7.3	12.81	2.59	35.97	11.32	+4.8	45.4
JJharkhand	23.0	12.75	5.5	10.48	2.69	20.13	5.32	+0.45	22.5
Karnataka	15.0	11.64	9.9	2.59	0.78	13.96	2.95	+0.68	17.4
Kerala	13	8.15	8.4	2.02	0.77	13.76	1.17	-1.67	28.2
Madhya Pradesh	18.32	12.72	7.3	5.59	1.93	17.09	2.76	+2.46	22.9
Maharastra	9.78	7.8	6.7	1.93	0.77	9.72	1.79	-0.16	16.4
Odisha	19.0	10.49	6.2	5.59	1.67	16.05	2.5	+1.39	18.3
Punjab	12.0	9.27	7.8	2.91	1.2.	13.69	2.08	-2.24.	29.8
Rajasthan	14.19	9.98	5.79	4.20	1.74	14.10	2.32	+0.11	23.1
Tamil Nadu	13.0	1147	9.4	2.01	0.78	13.46	2.5	+0.08	18.1
Uttarakhand	32.0	8.83	6.26	7.92	1.88	16.40	3.54	+0.23	23.9
Uttar Pradesh	20.0	14.58	7.4	4.85	1.79	18.60	3.6	+1.18	28.9
West Bengal	11.0	8.58	4.6	3.45	0.58	13.48	1.24	-1.5	35.6
total of all states	14.0	9.54	6.48	4.00	1.23	13.31	2.44	+0.23	21.1

(Source:1RBI; State Finances Study of the Budgets 2011-12 ; the figures of Kerala differ from those given in Table 2.3 as the data used for table2.7 are from the budget estimates and not the accounts)

2.19 State's own tax revenue forms the most important indicator in the fiscal performance of any State. The average tax revenue of all the States formed 6.48 percent of the GSDP in 2011-12 .against 8.4 percent in Kerala. The ratios of all the states except the two Southern States Viz :Karnataka,Tamil Nadu were lower than that of Kerala. The average non- tax collection of the states amounted to 1.23per cent of GSDP. With a ratio of 0.77per cent , the position of Kerala has been the lowest except West Bengal. The Committee feels that the scope for improving the collection of non tax revenue in the context of steady growth of the economy of Kerala appears to be very bright. With a ratio of 1.17 per cent, Kerala occupied the lowest rank in respect of capital outlay. As already mentioned, this is an area which calls for further improvement. The total liability of Kerala accounted for 28.2per 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.

Conclusion

2.20 The foregoing overview of the state finances indicates a mixture of positive and negative signals. While the State's own revenue receipts has gone up in tandem with 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 has been in conformity with the roadmap prescribed by the Thirteenth Finance Commission during 2010--11, the upward trend in deficit and debt burden has upset the apple cart in 2011-12. At the same time, the spurt in revenue and fiscal deficits stands as a monumental failure on the part of the Government to implement the provisions of the Fiscal Responsibility (Amendment)Act passed by the Legislature. Similarly ,the Government has failed to take appropriate measures to reduce the deficit as recommended in the earlier reports of KPERC. Apparently, any well-thought out strategy for correcting the disequilibrium in the State finances, seems to be absent. Instead , the approach of the Government (though not in practice) seems to be, to rely on the growth of the economy for reducing the deficit. The reliance on growth of the economy which itself is indebted to the remittances from abroad rather than on the vitality of the domestic base for the sustenance of State finances remains as the Achilles' heel in the entire set up.

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2. *Principal Accountant General,Kerala; Accounts at a Glance 2011-12, p,9*
3. *Report of the Kerala Public Expenditure Review Committee, Dec 2012*
4. *Report of the Comptroller and Auditor General of India on State Finances for the year ended31 March 2011 Report No 1 Government of Kerala Executive Summary p viii*
5. *Principal Accountant General, Kerala Accounts at a Glance 2011-12 . see p,11*
6. *Kerala Fiscal Responsibility Act op cit*
7. *Principal Accountant General Kerala Accounts at A Glance 2011-12, op cit p,35*
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3
Revenue Profile and Mobilization

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,

i. Maintaining the social sector achievements already made,
ii. Attaining sustainable and rapid economic growth, and
iii. Reaching fiscal balance as mandated by the amended Fiscal Responsibility and Budget Management Act, 2003.

It is mandated that States should reach revenue balance and fiscal deficit target of 3% by 2013-14 and to maintain the same position in the years to come. This chapter analyses the revenue position of the State, examines tax and non- tax sources of revenue, structure and pattern of growth of own tax sources of revenue. Further, it examines the huge collection cost of revenue and the issues like large tax evasion, low tax compliance, inordinate delay in settling cases and the growing lethargy in collection of tax 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. However, the situation improved from 2006-07 onwards as a result of the introduction of the better tax administration measures. Previous Government 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.

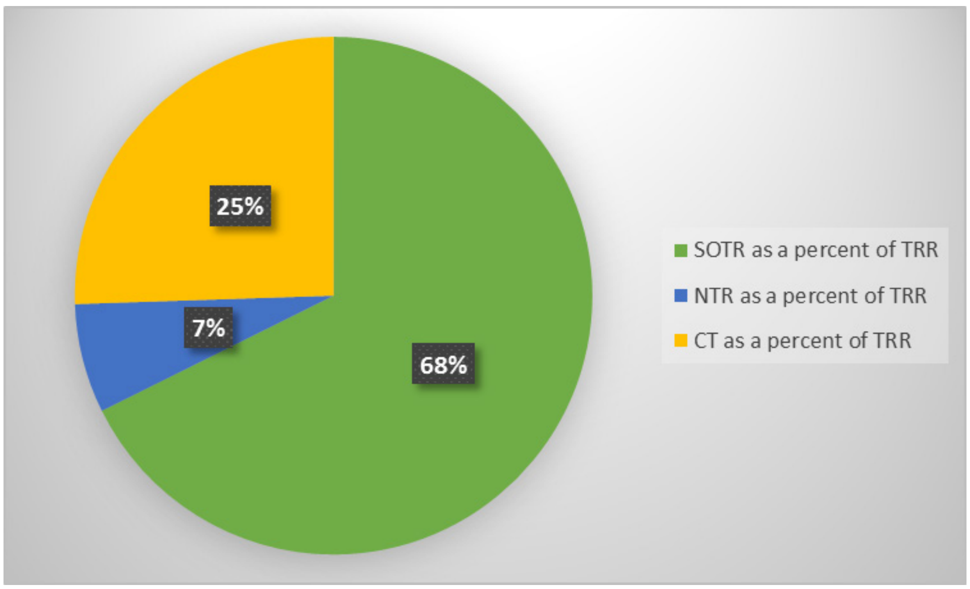
Table 3.1 : Revenue Receipts - Kerala (Rs. In Cr)

Items	2007-08	2008-09	2009-10	2010-11	2011-12	5 yrs average
Revenue Receipts	21107	24512	26109	30991	38010	28145.80
Growth rate	16.06	16.13	6.52	18.7	22.65	16.01
TRR/GSDP	12.05	12.09	11.24	11.19	11.63	11.64
Buoyancy	1.16	1.02	0.45	0.97	1.26	0.97
State's Own Taxes	13669	15990	17625	21722	25718	18944.80
Growth Rate	14.46	16.98	10.23	23.24	18.4	16.66
SOTR as a percent of TRR	64.76	65.23	67.51	70.09	67.66	67.05
Own taxes/GSDP	7.8	7.89	7.58	7.84	7.87	7.80
Buoyancy	1.04	1.08	0.7	1.21	1.08	1.02
State's Own Non Tax	1210	1559	1852	1931	2592	1828.80
Growth Rate	29	28.84	18.81	4.24	34.23	23.02
NTR as a percent of TRR	5.73	6.36	7.09	6.23	6.82	6.45
Own Non tax/GSDP	0.69	0.77	0.8	0.7	0.79	0.75
Buoyancy	2.09	1.83	1.29	0.22	1.91	1.47
Central Transfers	6229	6963	6632	7338	9700	7372.40
Growth Rate	17.37	11.78	-15.63	10.65	32.18	11.27
CT as a percent of TRR	29.5115	28.4065	25.4018	23.6794	25.5196	26.50
Buoyancy	1.25	0.75	-1.07	0.55	1.79	0.65
CT as a percent of GSDP	3.56	3.43	2.85	2.65	2.97	3.09
GSDP (at current	175141	202783	231999	269474	315206	238920.60
Growth rate	13.89	15.78	14.41	16.15	16.97	15.44

3.3 As per Table 3.1, the States own-tax revenue increased from 18.7 percent in 2010-11 to 22.65 percent in 2011-12. In line with this buoyancy also recorded an improvement from 0.97 in 2010-11 to 1.26 in 2011-12. Total revenue receipts GSDP ratio recorded only a slight improvement from 11.19 percent to 11.63 percent in the said period. States own taxes, however, recorded a lower growth rate from 23.24 percent in 2010-11 to 18.4 percent in 2011-12. States own tax revenue as a percentage of total revenue receipts also recorded a decline from 70.09 percent in 2010-11 to 67.66 percent in 2011-12. Own taxes GSDP ratio, on the other hand recorded a slight improvement of 0.3 percent in 2011-12 over 2010-11. Buoyancy of States' own tax registered a slight decline from 1.21 to

1.08 during the period mentioned above. When States own non tax revenue is observed it has recorded a substantial growth of 34.23 percent in 2011-12 over the 4.24 percent of 2010-11. In line with this non tax revenue as percentage of total revenue receipts also improved from 6.23 percent in 2010-11 to 6.82 percent in 2011-12. Buoyancy of non tax revenue improved substantially from 0.22 to 1.91. Central Transfer also recorded a substantial hike of 32.16 percent in 2011-12 over 10.65 percent in 2010-11. Similar hike is noted in its buoyancy too. When one observes the buoyancy of Central Transfers over the years, it was less than one in three out of five years. Central Transfers as percentage of GSDP has also registered an appreciable improvement from 2.65 percent to 2.97 percent during the said period though it was continuously declining from 2007-08 onwards.

Chart 3.1. Composition of Total Revenue Receipts (TRR) in 2011-12



3.4 As per the Chart 3.1. Own tax sources of revenue contributes 68% of the total revenue receipts whereas non tax revenue accounts for 7 % and Central Transfers for 25%.

Revenue Receipts-All States Vs Kerala

3.5 A better picture of revenue mobilization drive of Kerala will be obtained when a comparison is made between Kerala and other States. Hence revenue receipt of Kerala is compared with all States average revenue receipts for various years.

Table 3.2 : Revenue receipts All States vs. Kerala (Rs in Cr.)

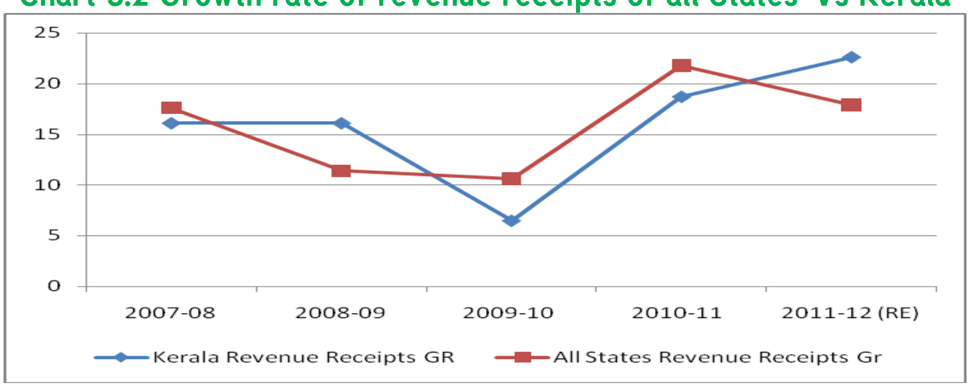
		2007-08	2008-09	2009-10	2010-11	2011-12 (RE)
All States	Revenue Receipts	623748	694657	768140	935347	1141470
	Growth Rate	17.6	11.4	10.6	21.8	17.9
	Tax Revenue	286546	482983	528070	680198	811192
	Growth Rate	13.5	68.6	9.3	28.8	20.5

	Non Tax Revenue	185799	211675	240060	255149	330277
	Growth Rate	17.8	13.9	13.4	6.3	12.1
	Capital Receipts	2310075	196634	239500	238230	284470
	Growth Rate	-4.4	-91.5	21.8	-0.53	19.41
Kerala	Revenue Receipts	21107	24512	26109	30991	38010
	Growth Rate	16.1	16.1	6.5	18.7	22.6
	Tax Revenue	17721	20266	22024	26864	32623
	Growth Rate	16.9	14.4	8.7	22	21.4
	Non Tax Revenue	3386	4246	4086	4127	6965
	Growth Rate	11.7	25.4	-3.8	1	68.7
	Capital Receipts	66612	83198	121053	140108	132736
	Growth Rate	13.4	24.9	45.5	15.74	-5.26

Source: RBI

3.6 In the comparison of annual rate of growth of revenue receipts of Kerala with all States' average (Table 3.2), it is found that the growth rate of Kerala is lower except in 2008-09 and 2011-12.When all State's average rate of growth of tax revenue declined from 21.8% in 2010-11 to 17.9% in 2011-12 that of Kerala improved to 22.6% from 18.7%. Similarly the rate of growth of non-tax revenue of Kerala was a record 68.7% in 2011-12 (from meagre 1% in 2010-11) when all States average registered merely 12.5%. However, capital receipts recorded negative growth of 5.26%in the case of Kerala (15.74% in 2010-11) while all States' average was 19.41 in 2011-12 over -0.53 in 2010-11. Thus the better performance of Kerala in revenue receipts in comparison with all States' average is accounted for by improved tax and non-tax revenue realization in 2011-12 over 2010-11.

Chart 3.2 Growth rate of revenue receipts of all States' Vs Kerala



Source: Table 3.2

The above Chart (Chart 3.2.) reiterates that in 2011-12 revenue mobilization of Kerala is better than that of the all States average except in 2009-10 and 2011-12

Structure and Growth of Own Tax Revenue:

3.7 For any State, structure and growth of own sources of revenue especially tax revenue is very important. Hence let us examine the structure and growth of own tax revenue of Kerala.

Table 3.3 : Structure and growth rate of own tax revenue and selected indicators (Rs. in Cr.)

	2007-08	2008-09	2009-10	2010-11	2011-12
a. Sales Tax/VAT	9372	11377	12771	15833	18939
Growth Rate	9.45	21.39	12.25	23.98	19.62
Buoyancy	0.68	1.36	0.85	1.48	1.15
b. Excise Duty	1169	1398	1515	1700	1883
Growth Rate	22.67	19.59	8.37	12.18	10.79
Buoyancy	1.63	1.24	0.58	0.75	0.64
c. Motor Vehicle Tax	853	937	1131	1331	1587
Growth Rate	20.48	9.85	20.7	17.72	19.2
Buoyancy	1.47	0.62	1.44	1.1	1.13
d. Stamp Duty &Regn.	2028	2003	1896	2552	2987
Growth Rate	33.42	-1.23	-5.34	34.63	17.02
Buoyancy	2.41	-0.08	-0.37	2.14	1
e. Electricity Duty	39	56	25	21	21
Growth Rate	21.88	43.59	-55.36	-17.16	2.75
Buoyancy	1.58	2.76	-3.84	-1.06	0.16
f. Others	208	219	287	285	301
Growth Rate	25.3	5.29	31.05	-0.77	5.8
Buoyancy	1.82	0.34	2.16	-0.05	0.34
Total Own Tax Revenue	13669	15990	17625	21722	25719
Percentage to Total					
a. Sales Tax	68.56	71.15	72.46	72.89	73.64
b. Excise Duty	8.55	8.74	8.6	7.82	7.32
c. Motor Vehicle Tax	6.24	5.86	6.42	6.13	6.17
d. Stamp Duty &Regn.	14.84	12.53	10.76	11.75	11.61
e. Electricity Duty	0.29	0.35	0.14	0.1	0.08
f. Others	1.52	1.37	1.63	1.31	1.17
Total	**100**	**100**	**100**	**100**	**100**
Growth of Own Taxes(%)	14.46	16.98	-2.59	23.25	18.4
Own Tax to GSDP Ratio	7.8	7.89	7.6	8.06	8.16
Buoyancy of own Taxes	1.04	1.08	-0.18	1.44	1.08
GSDP	175141	202783	231999	269474	315206
Growth rate of GSDP	13.89	15.78	14.41	16.15	16.97

Source: Finance Accounts (Various Years)

3.8. Here the major sources of revenue are examined in detail in Table 3.3. It elucidates a fluctuating trend of growth of own tax sources of revenue. Revenue from sales tax recorded 23.98 percent growth and 1.48 buoyancy in 2010-11, where as it could register only 19.62 percent growth and 1.15 buoyancy in 2011-12. In the case of excise duty too, both growth rate and buoyancy did poorer in 2011-12 than in 2010-11. While motor vehicles and stamps and registration recorded positive growth rate and buoyancy, 'others' performed poorer both in 2010-11 and 2011-12.

Own Tax Revenue: Kerala and Southern States

3.9 Performance of Kerala in own tax revenue realization will be better understood if it is compared with Southern States. Following table 3.4. does it.

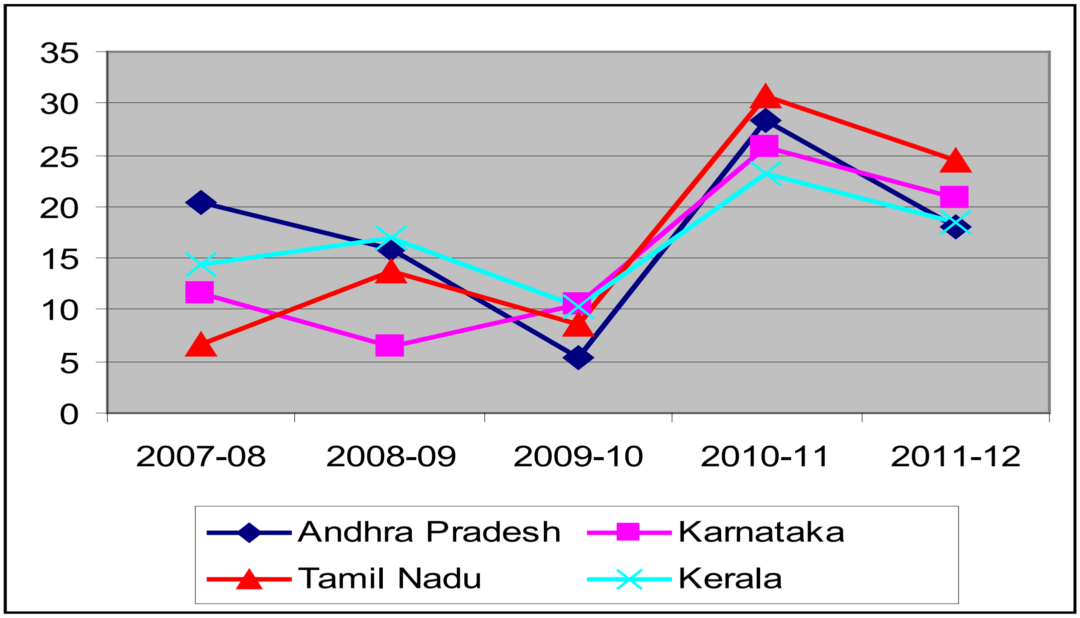
Table 3.4 : Own Tax Revenue – Southern States (Rs. In Cr.)

Items	2007-08	2008-09	2009-10	2010-11	2011-12	5 year average GR.
Andhra Pradesh (Rs. In Cr)	28794	33358	35176	45139	53284	
Growth Rate	20.35	15.85	5.45	28.32	18.04	17.602
Buoyancy	0.96	0.93	0.46	1.43	1.22	
Karnataka(Rs. In Cr)	25987	27646	30579	38473	46476	
Growth Rate	11.53	6.38	10.61	25.82	20.8	15.028
Buoyancy	0.6	0.44	1.21	1.26	1.49	
Tamil Nadu (Rs. In Cr)	29619	33684	36547	47782	59517	
Growth Rate	6.65	13.73	8.5	30.74	24.56	16.836
Buoyancy	0.51	0.95	0.44	1.7	1.92	
Kerala (Rs. In Cr)	13669	15990	17625	21722	25719	
Growth Rate	14.46	16.98	10.22	23.24	18.4	16.66
Buoyancy	1.04	1.08	0.71	1.44	1.08	

Source : RBI

3.10. When 5 year average rate of growth of own tax revenue of Kerala is compared with other Southern States it is found that Kerala lags behind others except Karnataka. Table 3.4 explains this. When Andhra Pradesh champions the premier position, Kerala lies next to Karnataka from the bottom. In the case of Kerala which is called a 'consumer State' this indicates untapped tax potential on the one hand and the alarming rate of tax evasion on the other

Chart 3.3 Own Tax Revenue 5 year average of GR- Southern States



Source: Table 3.4

Chart 3.3 reiterates the fact found in Table 3.4. It may also be added that fluctuation in the rate of growth of own tax revenue of Kerala is lesser compared with other Southern States. Higher rates of growth reflected in all the States from 20010-11 onwards may be attributed to the repercussions of recovery from the global slow down.

3.11 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. Around 90 to 95 percent 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. Let us examine the most important component of own tax revenue namely sales tax revenue.

Structure and Rate of Growth of Sales Tax Revenue

3.12 Structure and rate of growth of sales tax revenue underwent radical changes after the introduction of VAT. This is elucidated by the following tables (Table 3.5 and table 3.6).

Table 3.5 Total Sales Tax Revenue of Kerala : Structure, Growth and Buoyancy

Year	Sales Tax (Rs. In Cr)				
	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
2011-12	18938.83	292.66	8754.38	9803.73	88.06
2000-01 to 2004-05	26820.81	2035.41	24449.66		335.74
2005-06 to 2011-12	83893	3163.63	36918.82	43178.3	632.25
Structure: Percentage Shares					
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	42.00	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	51.70	0.30
2009-10	100	2.29	40.82	56.65	0.23
2010-11	100	1.96	46.75	51.14	0.15
2011-12	100	1.55	46.22	51.77	0.46
2000-01 to 2004-05	100	7.59	91.16		1.25
2005-06 to 2011-12	100	3.77	44.01	51.47	0.75
Annual Growth Rate: Percentage					
2000-01	12.74	24.24	11.73		37.39
2001-02	2.22	-26.89	4.86		-4.01
2002-03	20.32	36.36	18.07		358.07
2003-04	12.13	96.80	6.03		10.14
2004-05	11.84	-48.42	18.58		103.40
2005-06	5.03	34.64	-46.67		90.02
2006-07	21.67	-30.16	17.74	41.74	-49.08
2007-08	9.44	199.18	-14.09	19.70	-96.19
2008-09	21.40	-58.14	50.98	17.29	497.58
2009-10	12.25	-31.13	3.53	23.01	-13.96
2010-11	23.98	5.97	41.99	11.91	-21.20
2011-12	19.62	-5.72	18.27	21.08	275.36
2000-01 to 2004-05	11.85	16.42	11.85		101
2005-06 to 2011-12	16.20	16.38	10.25	22.45	97.51

(Source : Finance Accounts Various Years)

3.13 The credit for improvement in sales tax revenue during the post VAT period is shared equally by both VAT and better tax administration. The above measures have given a new impetus to the mobilisation of tax revenue in general and sales tax revenue including VAT in particular. The average share of sales tax to total sales tax revenue has declined from 91.16% during 2000-01 to 2004-05 to 44.01 percent during 2005-06 to 2011-12. At the same time VAT collection improved from 42% in 2005-06 to 51.77% in 2011-12. Thus sales tax (44.01%) and VAT (51.47%) together make 95.48% of the tax revenue of the State in 2005-06 to 2011-12. Remaining part is contributed partly by Central sales tax (3.77%) and 'others' (0.75%). The average rate of growth during post VAT period was 22.45 percent as compared 10.25% States sales tax.

3.14 As evident from Table 3.5, the share of Central Sales Tax (CST) in total sales tax declined from 8.22 percent in 2000-01 to 1.55% in 2011-12. This decline is due to the introduction of VAT, in which the rate of CST was 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.

Table 3.6 : Tax buoyancy by categories

Year	**Sales Tax**	**Central** Sales Tax	**Sate Sales** Tax	**Trade Tax/** VAT	**Other Receipts**
2007-08	0.68	14.34	-1.01	1.42	-6.93
2008-09	1.36	-3.68	3.23	1.1	31.53
2009-10	0.85	-2.16	0.24	1.6	-0.97
2010-11	1.48	0.37	2.6	0.74	-1.31
2011-12	1.16	-0.34	1.08	1.24	16.23

Source: Table 3.5

3.15 Table 3.6 shows revenue buoyancy after the introduction of VAT. The post-VAT revenue buoyancy is 1.24 under trade tax/VAT in 2011-12; this buoyancy is higher than that recorded by State sales tax (1.08), and Central sales tax (-0.34). Overall sales tax buoyancy which is 1.16 is also lower than that of trade tax/VAT. Tax avoidance, evasion, poor compliance, poor tax administration etc are all contributing to this high leakage. Rigorous and scientific scrutiny of VAT returns and regular auditing to detect irregular practices like under reporting which have become habitual and customary. 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). Vigilence and Anti Corruption Bureau (VACB) found that some traders declare their cargo trucks as empty to evade payment of duty at border check posts. It is found that on an average four thousand cargo trucks enter the State daily through five major check posts - Amaravila, Aryankavu, Valayar, Muthanga and Manjeswaram. Another thousand goods carriers enter Kerala through fifteen minor border check posts. Therefore the committee recommends that with the help of Surveillance Cameras, Powerful Scanners, digitization of Checkposts etc., these corrupt practices may be prevented so that tax revenue growth is substantially improved.

3.16. The revenue buoyancy of the State would definitely change when the State switches over to GST. Under GST many of the services would also be taxed by the State which are now taxed by the centre. Since Kerala being a service sector dominated economy, the revenue buoyancy would be higher under GST. The present low revenue buoyancy may mainly be attributed to widespread tax evasion/avoidance practices. A study by CDS [Rakhe (2003)] found that tax evasion is at the rate of 35% of the potential. This means, without evasion, total sales tax revenue would have been 35% higher at Rs.25567.42 crore instead of Rs.18938.83 crore in 2011-12 which means a revenue loss of 6628.59 crore to the exchequer.

3.17 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 (Table 3.5). 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 from there it has sky rocketed once again to 275.36. This jump, the committee found on enquiry that it was accounted for by wrong booking 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

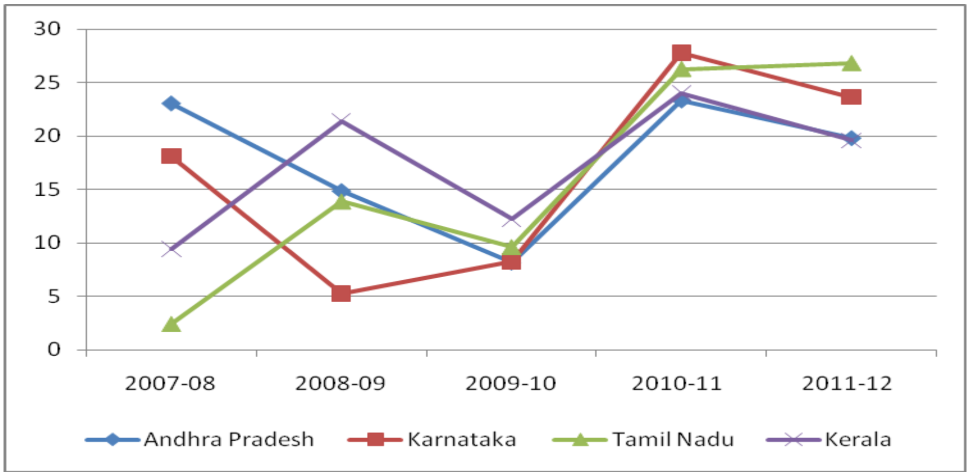
3.18 A comparative analysis of the performance of South Indian States is worth probing. Comparatively higher growth rate of sales tax revenue is recorded by Andhra Pradesh followed by Karnataka. Kerala with 2.75% of the population of India, accounts for 10 to 15% of the national consumption is supposed to record a higher rate of growth of sales tax revenue. Table 3.7 reflects the rate of growth and buoyancy recorded by South Indian States. Severe fluctuations in both rate of growth and buoyancy are recorded. This is indicative of the magnitude of tax evasion and corruption rampant in the commodity taxation across Indian States.

Table 3.7. Sales Tax Revenue - Selected States (Rs. In Cr.)

	2007-08	2008-09	2009-10	2010-11	2011-12	5 year average GR
Andhra Pradesh	1902649	2185166	2364020	2914485	3491000	
Growth Rate	23.01	14.85	8.18	23.29	19.78	17.82
Buoyancy	1.09	0.87	0.70	1.18	1.34	1.04
Karnataka	1389399	1462273	1583267	2023500	2502000	
Growth Rate	18.13	5.25	8.27	27.81	23.65	16.62
Buoyancy	0.95	0.36	0.94	1.36	1.69	1.06
Tamil Nadu	1815636	2067470	2266152	2861400	3628900	
Growth Rate	2.42	13.87	9.61	26.27	26.82	15.80
Buoyancy	0.19	0.96	0.49	1.45	2.09	1.04
Kerala	937176	1137713	1277089	1583590	1893883	
Growth Rate	9.44	21.4	12.25	24	19.59	17.34
Buoyancy	0.68	1.36	0.85	1.49	1.15	1.11

Source: RBI

Chart 3.4. Sales Tax Revenue Growth Rate- Selected States



Source : Table 3.7

3.19 Chart 3.4 reflects unsteady nature of rate of growth of sales tax revenue of Kerala and southern States. Andhra Pradesh stands first followed by Kerala, Karnataka and Tamil Nadu. Average buoyancy of growth is slightly greater than one in the case of all States with very little variations between them.

Per Capita Sales Tax – Southern States

3.20 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

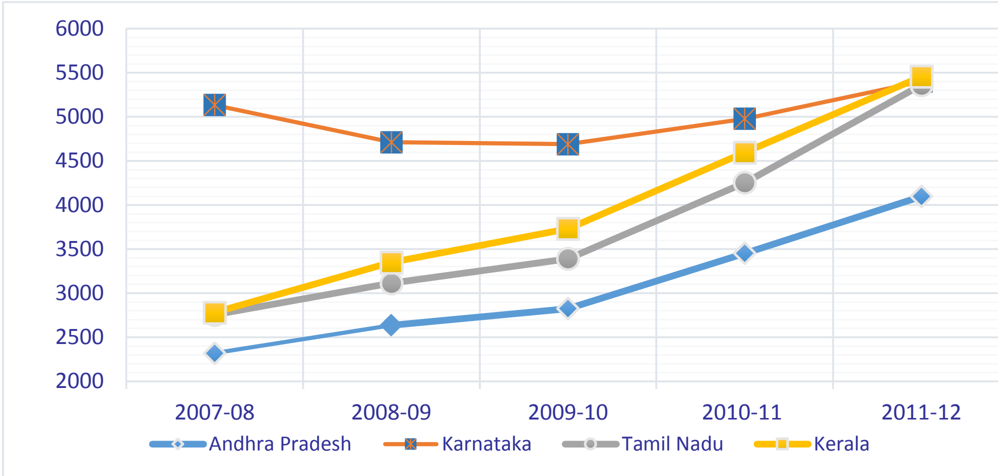
Table 3.8.Per Capita Sales Tax – Selected States Rs.in Crore

	2007-08	2008-09	2009-10	2010-11	2011-12
Andhra Pradesh	2319	2637	2826	3452	4098
Karnataka	5134	4712	4691	4978	5401
Tamil Nadu	2754	3114	3391	4253	5360
Kerala	2781	3350	3732	4595	5457

Source: RBI

As per chart 3.8, Karnataka tops in per capita sales tax (Average 5 years) . Kerala with slightly higher level than Tamil Nadu comes next while Andhra Pradesh ranks lowest.

Chart 3. 5 Per Capita Sales Tax Growth – Selected States



3.21. Chart 3.5 re-affirms the finding of the Table and also underlines 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, States per capita sales tax lags behind that of Karnataka. Reasons behind this may be probed.

Commodity wise Tax Collection

3.22 Since sales tax/value added tax is the major contributor to the State's own revenue, it is relevant to examine the items of commodities which bring substantial share of revenue to the State exchequer. Following Table throws light in this directions.

Table 3.9 Commodity wise Tax Collection (In Rs Crores)

Name of Commodity	2007-08	2008-09	2009-10	2010-11	2011-12	Rank in 2011-12
Petroleum products	2341.29	2670.01	2903.2	3550.52	4109.24	2
IMFL	1997.61	2503.77	2984.9	3775.04	4710.74	1
Motor Vehicles	816.47	712.94	829.56	1602.16	1865.45	3
Rubber	201.52	162.47	195.68	297.81	397.29	5
Medicines	130.15	142.22	155.39	199.33	258.23	7
Jewellery	120.93	143.51	163.04	225.4	302.2	6
Television	58.66	73.02	133.92	181.5	196.32	11
Cosmetics	48.64	52.68	64.29	70.29	78.27	15
Foot Wear	18.22	21.64	27.22	37.68	35.29	18
Grocery	44.06	40.57	52.95	66.07	68.29	16

Tyre & Tubes	21.09	38.3	67.09	80.12	83.06	14
Cooked Food	31.61	38.48	36.35	48.15	51.27	17
Cement	365.56	471.62	502.36	506.87	634.61	4
Iron and Steel	118.35	133.1	156.21	170.28	238.91	8
Paint	90.41	109.54	148.62	144.64	196.85	10
Electrical Goods	83.45	95.39	110.49	92.61	161.68	12
Timber	74.57	58.43	64.78	87.8	119.51	13
Tiles	96.41	116.99	126.81	166.1	234.73	9
Sanitary ware	24.41	16.38	22.92	15.89	18.29	20
Furniture	17.49	24.3	25.75	31.86	35.29	19
Total of 20 items	6700.9	7625.36	8771.53	11350.12	13795.52	
As % of total ST/VAT collection	71.5	67.02	68.68	71.69	72.84	
Total ST/VAT collection	9372	11377	12771	15833	18939	
GSDP in Construction Sector						
(base 2004-05)	21740	23212	28218	33920	39511	

- IMFL-Indian Made Foreign Liquor

Table 3.9 highlights commodity wise tax collection in the State. With tax revenue contribution of 4710.74 crore, Indian made foreign liqueur stands first in 2011- 12 as in 2010-11. Other significant contributors are petroleum products ranks two, motor vehicles three, cement four and rubber ranks five. While jewellery and medicine maintained their position iron and steel and paint improved their position from 9 and 11 respectively in 2010-11 to 8 and 10 in 2011-12.

3.23. Since construction sector continues to be a major contributor to manufacturing sector GSDP, construction sector related items are taken and presented in a separate table viz. tables 3.10 and 3.11.

3.24. Tables 3.10 and 3.11 may be read together.GSDP in construction sector registered positive growth rate all throughout the period under consideration. However, growth recorded from 2009-2010 is indicative of revival from the impact of Global slowdown. Over all average growth rate and buoyancy achieved 14.77 and 1.09 respectively are also moderate . When the performance of indivual items is examined all items except sanitary ware contributed their share to the sales tax revenue. Overall negative growth rate and negative buoyancy registered by sanitary ware is accounted for by the existence of wide spread tax evasion and trade diversion practices in this sector. Sanitary wares are bought from neighboring States like Mahe, Karnataka and Tamil-Nadu and brought to Kerala mainly through Railways and Roadways, evading tax payments. Since five year average buoyancy recorded by tax collection from sanitary ware sales is (-)2.33, the committee recommends that strong action may be taken against sanitary ware dealers as they cause trade diversion and tax evasion whereby State exchequer is devoid of its due share from the construction boom experienced by the State.

Table 3.10 : Growth in Construction Sector GSDP and Construction Sector related goods

Year	GSDP in Construction Sector	Cement	Iron and Steel	Paint	Electrical Goods	Timber	Tiles	Sanitary ware	Furniture
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	21.57	6.52	17.36	35.68	15.83	10.87	8.39	39.93	5.97
2010-11	20.21	0.90	9.01	-2.68	-16.18	35.54	30.98	-30.67	23.73
2011-12	16.48	25.20	40.30	36.10	74.58	36.12	41.32	15.10	10.77
Average	14.77	16.03	20.76	16.48	20.68	19.98	26.62	-2.33	20.41

Source: Finance Accounts (various years)

Table 3.11 : Tax buoyancy with respect to Construction Sector related Goods

	Cement	Iron	Paint	Electrical Goods	Timber	Tiles	Sanitaryware	Furniture
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	0.30	0.80	1.65	0.73	0.50	0.39	1.85	0.28
2010-11	0.04	0.45	-0.13	-0.80	1.76	1.53	-1.52	1.17
2011-12	1.53	2.45	2.19	4.53	2.19	2.51	0.92	0.65
Average	1.09	1.41	1.12	1.40	1.35	1.80	-0.16	1.38

Based on Table 3.10

Tax Collection from Rubber

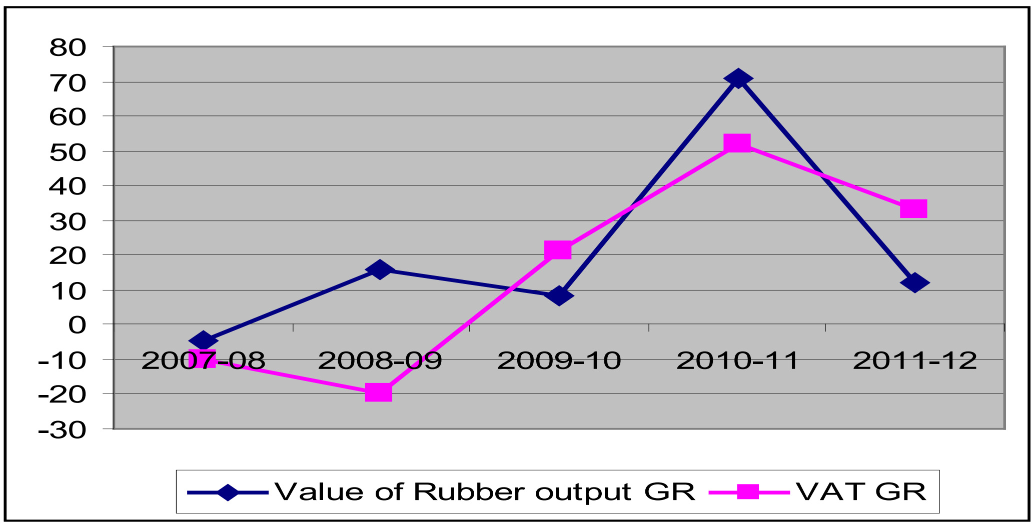
3.25 Rubber crop booms in its performance in area, production and productivity. Among the major items of commodity tax collection, rubber ranks fifth. However, prices realised by rubber is the highest among agricultural commodities. Therefore, tax revenue contributed by rubber sector should increase proportionately But such a contribution is not supported by Table 3.12 and 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)	Value of Output GR	Price (Rs per Tonne)	ST/VAT collected Rs Crore	ST/VAT GR	As % of value of output
2007-08	5.12	7.53	6841	-4.71	90850	202	-9.82	2.95
2008-09	5.17	7.83	7918	15.74	101120	162	-19.8	2.05
2009-10	5.25	7.45	8566	8.19	114980	196	20.99	2.29
2010-11	5.34	7.71	14650	71.02	190030	298	51.94	2.03
2011-12	5.4	7.89	16415	12.05	208050	397	33.3	2.42

Table 3.12 elucidates that rubber recorded sustained, sometimes steep increases in its price all through out while sales tax/ VAT revenue realized from rubber was limping forward. Accelerated increase in the growth rate of value of output is not reflected in the rate of growth of VAT realized in chart 3.6

Chart 3.6 Growth Rate of Rubber and VAT



3.26 When the chart 3.6 is examined, it becomes clear that rate of growth of price of rubber is not accompanied by a commensurate growth in VAT except in 2008-09 and 2011-12. The committee found very high deviation between rate of growth of price of rubber and VAT realized. During the pre VAT period rubber was taxed at 12% which was reduced to 4% in the post VAT period. Normally this should be followed. However tax evasion goes unchecked. Therefore, the Committee recommends to initiate immediate steps to check corruption, tax evasion and trade diversion in consultation with the rubber board.

Table 3.13 : 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	0.9	0.88
		2009-10	12733.94	12770.89	126.59	0.99	0.96
		2010-11	15125.69	15833.11	115.61	0.73	0.75
		2011-12	19427.9	18938.83	166.55	0.88	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	2.47
		2010-11	2095.93	2477.19	101.56	4.1	1.6
		2011-12	3148.42	2906.9	144.85	4.98	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	5.5	3.64
		2010-11	1836.21	1699.54	92.51	5.44	3.05
		2011-12	2059.05	1883.18	144.69	7.68	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	3.07
		2010-11	1301.88	1331.37	35.55	2.67	3.71
		2011-12	1410.73	1587.13	53.26	3.36	NA

3.27 Table 3.13 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 of taxes in Kerala far exceeds the national and international level which needs serious consideration. Therefore the Committee urges to introduce cost effective measures to tax collection.

Collection of revenue arrears

3.28 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 3.14. Collection of Arrears (Rs in Crore)

SI No	Department	Amount of arrears as on 31st March 2012	Arrears outstanding more than five years
1	**Commercial Taxes department**	**5458.64**	1641.14
	a. Individuals, Private firms and private companies	*3274.86*	
	b. Public sector undertakings of GoI	*1915.06*	
	c. GoK PSU's	*266.04*	
	d. Others	*2.68*	
2	**Forest**	**247.56**	**143.25**
	a. Individuals and private companies	*10.69*	
	b. Public sector undertakings of GoI	*48.5*	
	c. GoK PSU's	*184.49*	
	d.Others		
3	**Local Fund Audit**	**657.18**	**136.87**
4	**Police**	**62.28**	**23.58**
	a. Public sector undertakings of GoI	*51.7*	
	b. GoK PSU's	*5.67*	
	c. State Government	*1.3*	
	d. GoI	*3.14*	
	e. Individuals and private companies	*1.47*	
5	**Stationery**	**12.67**	**8.74**
	a. due from Education Dept	*2.89*	
	b. Due from civil supplies	*1.23*	
	c. due from Election Dept	*1.15*	
	d. Various department of GoK	*8 lakh*	
6	**Electrical Inspectorate**	**3663.32**	**1648.77**
	a. GoK PSU's	*3646.06*	
	b. LSGs	*12.99*	
	c.Individuals and private companies	*4.37*	
7	**Excise**	**167.7**	**165.25**
	a.Individuals and private companies	*164.06*	
	b. GoK PSU's	*3.64*	
8	**Labour (entire arrear from Individuals and private companies)**	**0.67**	**0.02**
9	**Port (entire arrear from Individuals and private companies)**	**2.89**	**0.09**
	Total	**10272.9**	**3767.72**

Table 3.14 highlights that total arrears to be collected as on March 2012 comes to about 27.03% of the total revenue receipts in 2011-12 (38010 crore). Arrears outstanding for more than 5 years comes to about 9.9 per cent of the total revenue realized for the year 2011-12.In this context C&AG report urging the Government to make immediate and serious efforts to collect arrears to reduce deficits considerably. The Committee totally endorses this recommendation

3.30 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.

4
Non-Tax Revenue: Problems and Prospects

4.1. Non-tax revenues include all receipts other than taxes and seigniorage♣ and capital receipts from debt issues or asset sales (Dasgupta, 2011). Non-tax revenue includes payments made to the Government that are compulsory and requited (to give something in return for something else) or voluntary whether requited or not. International Monetary Fund's Government statistics manual (2001) includes intergovernmental/ organizational grants and social contributions from employers or employees in non-tax revenue. In or around 2002, roughly 39 percent of revenues of the 166 countries covered there- not just resource rich economies - were from non-tax revenue (World Development Indicators, World Bank, 2003). This indicates the increasing importance of non tax revenue in the fiscal empowerment of Governments. Kerala, with 6.82percent of non tax revenue in 2011-12 as percentage of total revenue receipts, stands behind India (9.32%), and far behind the world average. Therefore it is highly relevant to make an in depth analysis of the factors adversely affecting non tax revenue mobilization in Kerala.

4.2. Non-tax revenues are defined as payments made to the Government for which there is a quid pro quo. Important non-tax sources are all voluntary and requited. In these cases, revenue is a by-product of goods, services or resources that the Government provides. They include revenue from assets, revenue from the sale of goods and services, new or used, and revenue from the sale of licenses and permits for regulated activities. In this context, there are three type of assets from which the Government derives revenues such as:

♣ Seignorage is the profit which arises from issuing a currency. Seignorage is a major source of government revenue in high inflation economies as government can finance its deficits by creating more money.

1. Common property resources like forests, riparian habitats, historical monuments etc. for which Government acts as a custodian and gets revenue by way of fees, pollution permits, royalty etc.. Such revenue is called user charges.

2. Exhaustible or renewable material resources such as mineral deposits and mineral exploration rights upon which Government get royalty and rental payments, and

3. Third category includes income generating assets created from Government investments. Examples of such assets are the capital of public sector undertakings (PSUs), infrastructure capital, equity investments in private concerns, or public-private partnerships and loans provided by the Government.

4.3. The history and pattern of the growth of non-tax revenue of Indian States is not praiseworthy in the global scenario as mentioned earlier. It is far worse in the case of Kerala. But only scant attention is given to understand the problems and prospects of non-tax revenue in the state. This is perhaps the first serious attempt in this direction.

Table 4.1. Structure and Growth of State's Own Non-Tax Revenue (SONTR) of Kerala(Rs. Crore)

Items	Total Revenue Receipts (TRR)	SONTR	Growth Rate of SONTR	SONTR as % of TRR	SONTR as % GSDP	Buoyancy of SONTR
2007-08	21107	1210	29.00	5.73	0.69	2.09
2008-09	24512	1559	28.84	6.36	0.77	1.83
2009-10	26109	1852	18.81	7.09	0.80	1.29
2010-11	30991	1931	4.24	6.23	0.70	0.22
2011-12	38010	2592	34.23	6.82	0.79	1.91
5 Year Average.	**28145**	**1828**	**23.02**	6.44	0.75	1.47

As table 4.1. highlights, the rate of growth of own non tax revenue shows a fluctuating trend. Five year average rate of growth of SONTR is 23.02, where as the SONTR as share of TRR and GSDP are 6.44 and 0.75 respectively. Rate of growth which was 4.24 percent in 2010-11 registered an appreciable growth of 34.23 percent in 2011-12, thanks mainly to the contribution made by general services, especially lottery and also due to the low base in the previous year (4.24%). However, the percentage contribution made by SONTR towards revenue receipts continues to be meagre relative to potential. Given the widening revenue-expenditure gap in states' budget, it is imperative to raise more non-tax revenue. Mobilizing resources through reforms in non-tax sources of revenue of the state can serve the twin purposes of having a rational non-tax revenue structure and generating more resources for faster economic growth and better service delivery. There are over 100 departmental sources of non-tax revenue for each state. This Report is restricted to major heads under administrative (Departmental) non-tax receipts, which are about three-fourths of the State's own non-tax revenue. These are broadly classified under three heads, namely: a) general services b) social services and c) economic services. In addition to these, interest receipts and dividends and profits which are not included in the above three heads are also examined here, with a view to making a comprehensive understanding of non tax sources of revenue.

Structure of Own Non Tax Revenue

4.4 Non-tax receipts under each head and its growth indicators are presented in table 4.2., 4;3, 4.4. and 4.5. Table 4.2. describes the revenue contributed by selected sub-heads of activity under each major head. Table 4.3. furnishes the growth rate of SONTR realized by each such sub-head. Interest receipts recorded a five year average growth rate of 30.1.%. At the same time growth registered in 2011-12 over 2010-11 is (-)20.41%, reason for which may be sought in CAG report 2012.Interest receipts could be made an important source of SONTR; if each loan was prudentially planned and administered efficiently and productively by the Government. *CAG points out that Government failed to recover the interest on loans and advances. In spite of the recommendation of the Public Accounts Committee (PAC 2001-04, 47th report) to evolve a centralized control mechanism in the finance department for the effective monitoring of recovery of loans and interest, it has not been implemented so far. CAG (2012,page 29) notes that "due to the absence of monitoring action on the part of the department, interest and penal interest amounting to Rs.17.02 Crore continued to be outstanding on 31 loans sanctioned between 1979 and 2009"* . CAG (2012) further points out that "non realization of interest on loans sanctioned by Government to various public sector undertakings worked out to be Rs.206.58 crore. There fore the Committee recommends that in order to maintain fiscal prudence the Government should see that all outstanding dues of loans given are promptly collected with the help of a centralized control mechanism evolved in the finance department.

4.5 When the analysis proceeds to dividends and profits, it is noticed that this item recorded a five year average growth rate of 31.9 percent. In 3 out of 5 years, SONTR recorded negative growth rate. In spite of that the five year average is high because of the stupendous growth rate of 176.57% (table 4.3) attained in dividends and profits in the year 2010-11 which could be taken only with 'a pinch of salt'. Again it recorded negative growth in 2011-12 (- 10.63%) because of the decrease under 'dividends from public undertakings' (Finance Accounts, GoK, 2011, p.114). Therefore, it clearly shows that this item is a highly unstable component of revenue.

4.6 When general services in Table 4.2 and 4.3 are taken into account it is observed that this sector made five year average growth rate of 41.41 percent. Comparing to other items listed, the performance of miscellaneous general services was found fabulous with five year average rate of growth of 42.27 and with 85.4% growth in 2011-12. Miscellaneous general services accounted for a substantial increase in 2011-12 mainly due to increase in receipt under 'State Lotteries'[Rs.711 crore), Other receipts'[Rs.46 crore) which includes adjustment on account of write off of outstanding balance of Central loans in terms of the recommendation of XIIIth Finance Commission[Rs.47crore) and Unclaimed Deposits [Rs.4.60crore) (Finance Accounts, GoK, 2012, p.111).Further under miscellaneous general category comes stamps and registration fees which also recorded an increase of 434.crore. Other items with insignificant contribution are also listed under this category which are not mentioned here.

4.7 Items under social services (table 4.2 and table 4.3)recorded five year average growth rate of 14.21%. Year 2011-12 registered 17.44% growth rate which was lower than the 23.33% achieved in the previous year. Social services sector with education, (including medical , technical and university), public health, labour and employment etc., is an area where there is vast potential for mobilizing non-tax revenue. But its percentage contribution declined from 12.21 percent in 2007-08 to 10.48 percent in 2011-12. The message better service delivery through 'better fees and dues payment to Government' has to reach the media, the public and the political stake holders. Any rate/fee /duty hike may be implemented only after examining the requirement and the potential**. Therefore the Committee recommends that necessary steps may be taken to mobilize reasonable amount of resources from each item of social service provided and to improve the quality of such services rendered.**

4.8 When economic services in Table 4.2and 4.3 are examined, what captures our attention first is lowest five year average rate of growth realized by this sector (9.11%) relative to other sectors. Rate of growth achieved by this sector in 2011-12 was (-) 1.63% as against the 4% growth in the previous year. Among the economic services, forestry and wild life and tourism have been significantly contributing to SONTR. However when forestry recorded five year average growth rate of 16.91 percent, tourism recorded only 3.14 percent. Since 'economic services' is directly linked to commodity producing sectors, declining revenue contribution from this sector indicates an ailing economy. Serious steps are needed to revamp and rejuvenate economic services sector for commodity production, employment generation and more non-tax revenue mobilisation.

4.9. Table 4.4 indicates the percentage contribution made by each sector to SONTR. Percentage share of interest receipts grew from 5.75 percent in 2007-08 to 8.87 in 2010-11, then declined to 5.26 percent in 2011-12. Contribution of dividends and profits does not reflect either much improvement or deterioration. When general services improved the share from 43.47 percent in 2007-08 to 62.67 percent in 2011-12, Social services and economic services reduced their shares from 12.21 % to 10.48% and 36.15 % to18.99% percent respectively. While the percentage distribution by major heads is closely examined, it is given to understand that when social and economic services reduced their contribution by 1.73 and17.16 percent respectively general services improved it by 19.2 percent which is only0.31 percent net of the decline in the share of the other two sectors. What emerges is that the seemingly wonderful performance of general services is in fact mainly accounted by the decline in the other two sectors. Final conclusion is that while the performance of all the three sectors is poor in general that of general services is a bit soothing. There fore the Committee urges the Government to initiate steps to revamp non-tax revenue collection measures and to strengthen its role as an agent of distributive justice.

4.10 Table 4.5 represents buoyancy enjoyed by each sector. While interest receipts and dividends and profits registered average buoyancy of -1.20 and -o. 63 respectively, general services, social services and economic services recorded 4.16, 1.03,and -0.10 respectively in 2011-12. Among the major sectors, buoyancy recorded by economic services (-o.10) is the worst. From this, it emerges that the non tax revenue realized from this sector is not in pace with growth in the GSDP. The committee recommends that there is an urgent need of revising the rates appropriately for various economic services provided by the Government so as to boost up the buoyancy rates.

Table 4.2. COMPOSITION OF STATE'S OWN NON-TAX REVENUE OF KERALA (in Rs. crore)

Sl. No	Items	2007-08	2008-09	2009-10	2010-11	2011-12
1	Interest Receipts	69.65	83.69	152.50	171.47	136.49
2	Dividends and Profits	28.63	33.534	27.29	**75.46**	**67.44**
3	**GENERAL SERVICES**					
	i. Public Service Commission	3.11	1.69	2.04	1.92	1.70
	ii) Police	37.11	57.99	35.71	24.39	23.54
	iii) Jails	1.04	0.85	1.29	1.89	2.06
	iv) Stationery and printing	6.11	6.08	8.68	7.69	10.75
	v)Public works	3.28	3.80	6.54	6.59	4.10
	vi)other administrative services	61.85	88.22	99.46	133.67	146.79
	vii)contributions and recoveries towards and pension and other retirement benefits	30.24	31.09	32.88	34.45	60.41
	ii) Mis. General Services (including lottery)	383.33	628.01	817.27	741.74	1375.15
	Sub Total	**526.08**	**817.74**	**1183.7**	**952.33**	**1691.9**
4	**SOCIAL SERVICES**					
	i) Education, Sports, Art and Culture	10088.96	130.24	130.62	150.83	164.96
	ii) Medical and Public Health	36.92	38.58	34.43	63.46	65.19
	iii) Family Welfare	0.14	0.05	0.06	0.03	0.02
	iv) Housing	0.76	3.16	0.99	1.80	1.40
	v) Urban Development	1.18	0.997	5.60	1.65	1.46
	vi) Labour and Employment	5.25	6.28	11.06	9.00	35.76
	vii) Social Security and Welfare	1.47	0.84	1.27	2.61	0.17
	viii) Water Supply and Sanitation	0.004	3.16	0.0024	0.0026	0.0035
	ix) Others	1.09	4.31	3.21	1.61	2.29
	Sub Total	**147.792**	**184.9875**	**187.4764**	**231.2216**	**271.5573**
5	**ECONOMIC SERVICES**					
	i) Crop Husbandry	10.91	15.04	7.88	10.03	11.55
	ii) Animal Husbandry	5.26	2.96	3.10	3.97	4.06
	iii) Fisheries	3.47	4.09	4.37	5.60	6.32

	iv) Forestry and Wildlife	154.45	223.71	272.80	274.10	220.52
	v) Co-operation	36.52	42.01	49.39	59.11	68.33
	vi) Other Agricultural Programmes	0.11	0.07	0.14	0.07	0.10
	vii) Major Irrigation Projects **	5.13	8.50	4.47	3.23	6.54
	viii) Minor Irrigation	2.00	2.93	3.89	4.23	4.97
	ix) Petroleum	0.0068	0.0089	0.0092	0.0076	0.0106
	x) Village and Small Industries	5.84	4.86	2.85	5.89	0.82
	xi) Industries	125.83	16.94	1.65	4.75	0.90
	xii) Ports and Light Houses	2.12	4.56	6.07	10.19	44.06
	xiii) Tourism	4.42	5.27	4.37	4.72	5.53
	xiv)Others	18.51	111.46	120.09	114.02	118.45
	Sub Total	**437.39**	**439.34**	481.07	**500.31**	**492.16**
	Total (1+2+3+4+5)	**1209.55**	**1559.29**	**948.72**	**1930.79**	**2592.18**
	Total Own Non tax Revenue	1210	1559	1852	1931	2592

Source: Finance Accounts (various years).

Table 4.3. Annual Growth Rate of various components of SONTR (based on table 4.2)

	2007-08	2008-09	2009-10	2010-11	2011-12	Average
Interest Receipts	56.08	20.14	82.23	12.44	-20.40	30.1
Dividends and Profits	-5.10	17.12	-18.63	176.57	-10.63	31.9
General Services						
i)Public service commission	-21.77	-45.5	20.4	-5.81	-11.27	-12.79
ii)Police	49.59	56.24	-38.42	-31.71	-3.46	6.45
iii)Jails	-29.49	-18.27	51.17	46.64	8.76	11.76
iv)Stationery and printing	28.1	-0.47	42.66	-11.44	39.91	19.75
v)Public works	28.2	15.73	72.12	0.8	-37.81	15.81
vi)other administrative services	14.85	42.64	12.74	34.39	9.82	22.89
vii)contributions and recoveries towards and pension and other retirement benefits	4.06	2.79	5.83	4.73	75.35	18.55
ii) Mis. General Services (including lottery)	41.22	63.83	30.14	-9.24	85.4	42.27
General Services Total	**34.22**	**55.44**	**44.84**	**-5.1**	**77.65**	**41.41**
Social Services GR						
i) Education, Sports, Art and Culture	0.98	29.1	0.29	15.48	9.37	11.04
ii) Medical and Public Health	11.91	4.5	-10.76	84.31	2.73	18.54
iii) Family Welfare	132.83	-62.35	6.84	-41.81	-36.7	-0.24
iv) Housing	-26.06	315.13	-68.69	82.33	-22.18	56.11
v) Urban Development	-4.56	-16.12	463.74	-70.52	-11.27	72.25
vi) Labour and Employment	1.75	19.62	76.14	-18.64	297.34	75.24
vii) Social Security and Welfare	41.7	-42.97	50.96	105.96	-93.19	12.49
viii) Water Supply and Sanitation	11.11	78940	-99.92	8.33	34.62	15778.8
ix) Others	3.9	294.99	-25.51	-49.97	42.6	53.2
Social Services Total	**3.74**	**25.17**	**1.35**	**23.33**	**17.44**	**14.21**
Economic Services GR						
i) Crop Husbandry	-82.3	589.09	-47.62	27.39	15.12	100.33
ii) Animal Husbandry	-18.15	-43.71	4.84	27.87	2.12	-5.41
iii) Fisheries	17.29	17.8	6.78	37.34	5.36	16.91
iv) Forestry and Wildlife	-11.52	44.84	21.95	0.48	-19.54	7.24

v) Co-operation	2.17	15.03	17.55	19.68	15.6	14.01
vi) Other Agricultural Programmes	165	-29.53	92.37	-51.84	42.77	43.75
vii) Major Irrigation Projects **	5.37	65.57	-47.41	-27.78	102.62	19.67
viii) Minor Irrigation	6.38	46.65	32.69	8.65	17.54	22.38
ix) Petroleum	-32	30.88	3.37	-17.39	39.47	4.87
x) Village and Small Industries	-30.52	-16.7	-41.44	106.87	-86.1	-13.58
xi) Industries	277.97	-86.54	-90.25	187.43	-81.07	41.51
xii) Ports and Light Houses	-8.98	115.07	33.12	67.89	332.23	107.87
xiii) Tourism	-11.8	19.34	-17.2	8.02	17.31	3.14
xiv)Others	-54.26	502	7.74	-5.05	3.88	90.86
Economic Services Total	**33.22**	**0.45**	**9.5**	**4**	**-1.63**	**9.11**
Growth Rate of Own Non-tax Revenue	29	28.84	18.81	4.24	34.23	23.024

Source: Based on Table 4.2

Table 4.4. Percentage distribution of SONTR (Major Heads)

	2007-08	2008-09	2009-10	2010-11	2011-12
Interest Receipts % distribution	5.75	5.36	8.23	8.87	5.26
Dividends and Profits % distribution	2.36	2.15	1.47	3.90	2.60
General Services Total	43.47	52.45	54.21	49.31	62.67
Social Services Total	12.21	11.86	10.12	11.97	10.48
Economic Services Total	36.15	28.18	25.98	25.90	18.99
Total	100	100	100	100	100

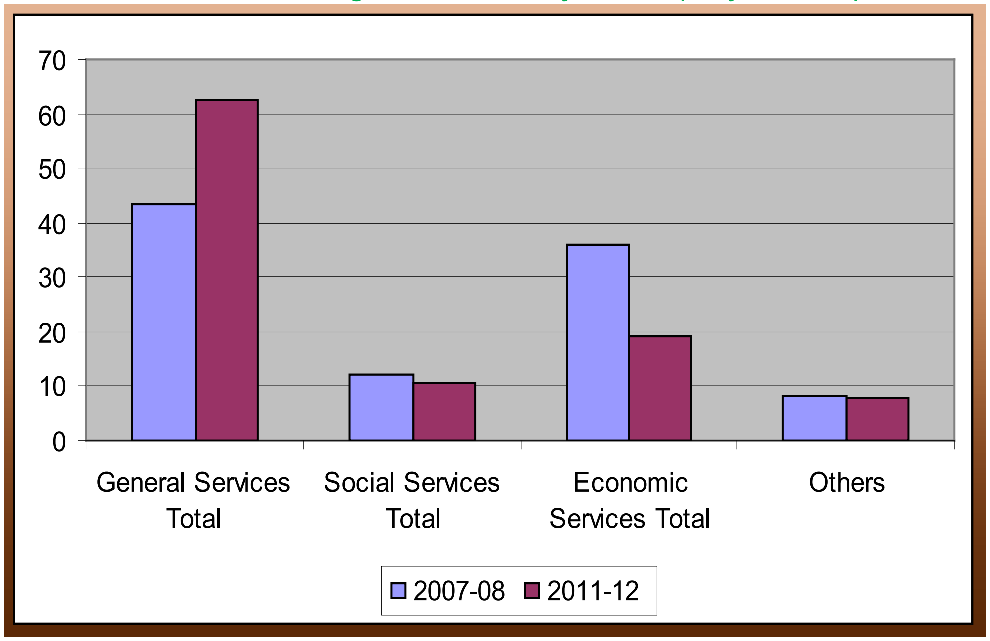
Source: Based on tables 4.2 and 4.3.

Table 4.5. Non Tax revenue - General, social and Economic Services - Buoyancy

	2007-08	2008-09	2009-10	2010-11	2011-12
Interest Receipts	4.04	1.28	5.71	0.77	-1.20
Dividends and Profits	-0.37	1.08	-1.29	10.93	-0.63
General Services Total	2.46	3.51	1.58	-0.32	4.16
Social Services Total	0.27	1.60	0.09	1.44	1.03
Economic Services Total	2.39	0.03	0.66	0.25	-0.10

Source based on table 4.4.

Chart 1. Percentage Distribution of SONTR (Major Heads)



NON-TAX REVENUE - ALL STATES AND KERALA (2007-08) TO 2011-12)

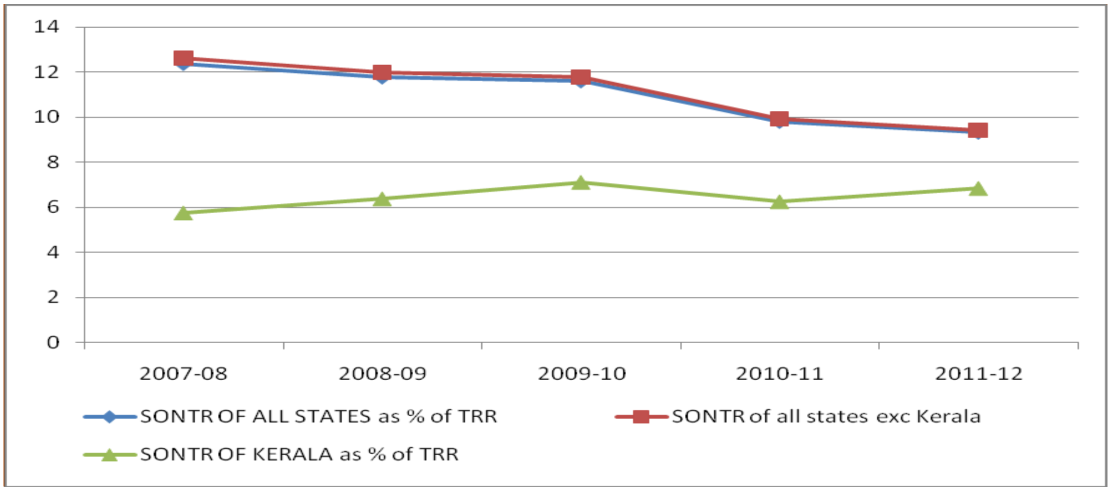
4.11 A comparative analysis of the rate of growth of non-tax revenue of the state with other major states of India is attempted here under.

Table 4.6: Comparative Analysis of States' Own Non-Tax Revenue of All States of India and Kerala

Item	Year	2007-08	2008-09	2009-10	2010-11	2011-12
All States	TRR (in Rs. Crore)	623748	694657	768136	935347	1141469
	SONTR	77178	81751	89089	91652	106388
	SONTR as % of TRR	12.37	11.77	11.60	9.80	9.32
All states excluding Kerala	TRR (except Kerala	602641	670145	742027	904356	1103459
	SONTR(except Kerala)	75968	80192	87237	89721	103796
	SONTR as % of TRR	12.61	11.97	11.76	9.92	9.41
Kerala	TRR	21107	24512	26109	30991	38010
	SONTR	1210	1559	1852	1931	2592
	SONTR as % of TRR	5.73	6.36	7.09	6.23	6.82

Source: RBI

Chart: 2: States' Own Non-Tax Revenue of All-States of India and Kerala



As per the table all states' own non-tax revenue as percentage of total revenue receipts varies from 12.37% in 2007-08 to 9.32% in 2011-12. Even when Kerala's share of own non-tax revenue is excluded from that of all states', there is very little variation in the all state's average rate of growth. As the third row in Table 4.6 exhibits, Kerala's own non-tax revenue as percentage of revenue receipts is much smaller than that of all states average. This indicates poor performance of non-tax revenue collection in Kerala compared with all other states. Chart 4.2 which represents all states' average own non-tax revenue and that of all states' excluding Kerala, coincide with each other showing the insignificant contribution of Kerala towards the total own non-tax revenue of the states.

Comparison of SONTR - Kerala and other States

4.12 With a view to identifying the major non-tax revenue raising states and the departments, disaggregated analysis is undertaken. On analysis it is found that Andhra Pradesh ranks top in Non-tax revenue mobilization.

Table 4.7 SONTR, TRR and GSDP -- Andhra Pradesh and Kerala

States	SONTR (crore)	TRR (Crore)	GSDP (Crore)	SONTR as % of TRR	SONTR as % of GSDP
Andhra Pradesh	11694(crore)	93554(crore)	655181(crore)	12.50	1.78
Kerala	2592(crorel	38010(crore)	315206(crore)	6.82	0.82

Source: Reserve Bank of India

Andhra Pradesh, a South Indian State, with 12.50 % of Own NTR/TRR ratio and 1.78% of SONTR/GSDP ratio ranks first. At the same time, Kerala, with 6.82% of SONTR/TRR ratio and 0.82% of SONTR/GSDP ratio performed far behind in mobilizing non-tax revenue (Table 4.7, Chart 4.3). Also, it is very strange to observe a lower per capita income State is collecting almost double SONTR than a higher per capita income State (Kerala). This means that Kerala has miserably failed to collect its potential SONTR as mentioned in Table 4.8 and chart 4.4.

Chart 4.3: SONTR,TRR aND GSDP -- Andhra Pradesh and Kerala.

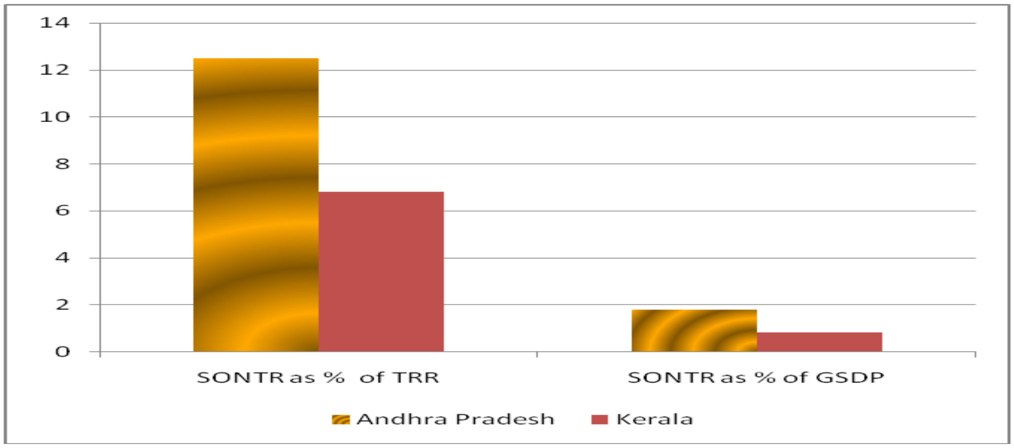
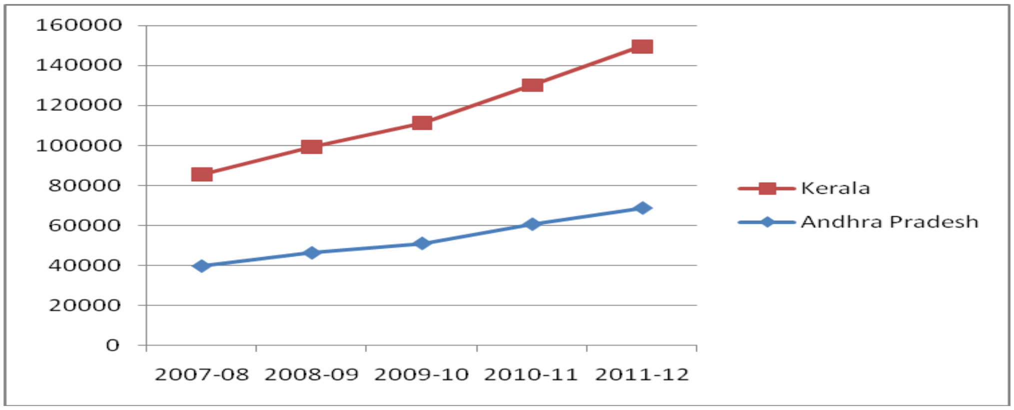


Table 4.8. GSDP Percapita -- Andhra Pradesh and Kerala (various years)

Year	Andhra Pradesh	Kerala
2007-08	39727	45700
2008-09	46345	53046
2009-10	51114	60236
2010-11	60703	69465
2011-12	68790	80924

Chart: 4.4 Comparison GSDP percapita -- Andhra Pradesh and Kerala (various years)



Based on the findings at the All India level and selected states, it is found pertinent to examine at the micro level (department level) factors leading to the low non-tax revenue realization of the state.

NON-TAX REVENUE OF KERALA – A CASE STUDY OF GOVERNMENT DEPARTMENTS

4.13 Methodology Department level survey was done with the help of a comprehensive questionnaire which was served to 79 line departments[1] which were expected to have some potential for non-tax revenue collection. Questions were focused on the type and nature of non-tax revenue that each department is entitled to collect, year of first implementation, current rate of collection per unit, date of last revision of the rates, amount collected in 2011-12 etc.. After examining the data furnished by respondent departments the Committee invited a few top officials from each department with whom the members interacted to get clarifications and to get additional information wherever necessary. Table 4.9 gives a comprehensive account of the non-tax revenue mobilized by respondent departments in the ascending order of the magnitude of revenue collection. While column 3 furnishes the absolute amount collected, column 4 provides the percentage contribution made by each department to the total. When many of the departments have failed to make any significant contribution to non-tax revenue, departments like lotteries, forest, motor vehicles, police, co-operation, ports, mining and geology etc. have made notable contribution in 2011-12.

4.14 The following table furnishes the non tax revenue mobilized by the respondent departments on the basis of their percentage contribution to the SONTR.

Table 4.9. SONTR by Government Departments 2011-12

Rank	Name of Department	Non-tax Revenue (Rs. Crore)	As percentage to total nontax revenue of state
1	Lotteries	1287.08	49.66
2	Forest	217.19	8.38
3	Motor Vehicles	205.29	7.92
4	Police	151.41	5.84
5	Co-operation department	68.33	2.64
6	Ports	43.65	1.68
7	Mining and Geology	41.49	1.60
8	Higher secondary education	22.52	0.87
9	Civil Supplies	18.27	0.70

[1] Government Secretariat has 36 departments and 79-line departments.

10	Medical education	18.26	0.70
11	PWD Roads and Bridges	17.88	0.69
12	Technical Education	14.20	0.55
13	Irrigation	12.80	0.49
14	Electrical Inspectorate	11.34	0.44
15	Printing and Stationary	2.61	0.10
16	Prison	2.31	0.09
17	Museums and zoos	2.16	0.08
18	Industries and Commerce	2.08	0.08
19	VHSE	2.04	0.08
20	Fisheries	2.04	0.08
21	Registration	1.70	0.07
22	Chemical Examiner's Laboratory	1.63	0.06
23	Ayurveda medical education	1.54	0.06
24	Dairy development	0.85	0.03
25	Soil survey and conservation	0.46	0.02
26	Health services	0.31	0.01
27	Vylopilli Samskriti bhavan	0.11	0.00
28	Stationary	0.03	0.00
29	Hydrographer's survey wing	0.02	0.00
30	Homeopathy	0.0018	0.00

Source: Based on primary survey.

Non-Tax Revenue of Selected Departments: Problems and Prospects

4.15 Out of the 79 departments, 30 responded with adequate data while eight of them responded that they have only limited potential. Following analysis covers those departments which have accounted for 78.7% of SONTR. Detailed analysis is confined to the departments which accounts for 78.7% of the SONTR

Lotteries

4.16 Lotteries which comes come under miscellaneous category of general services contribute 49.66% of the total non-tax revenue. Lottery revenue grew from 325 Crore in 2007-08 to 1287.08 Crore in 2011-12. This laudatory growth is because of the innovation of the 'Karunya Lottery' in 2010-11. Net revenue contributed to the treasury was Rs.449.1 Crore (including tax) in 2011-12. Out of the gross revenue generated, 30 to 35% is given as prizes and as commission for 26,000 registered agents. This commission is shared with 1.5

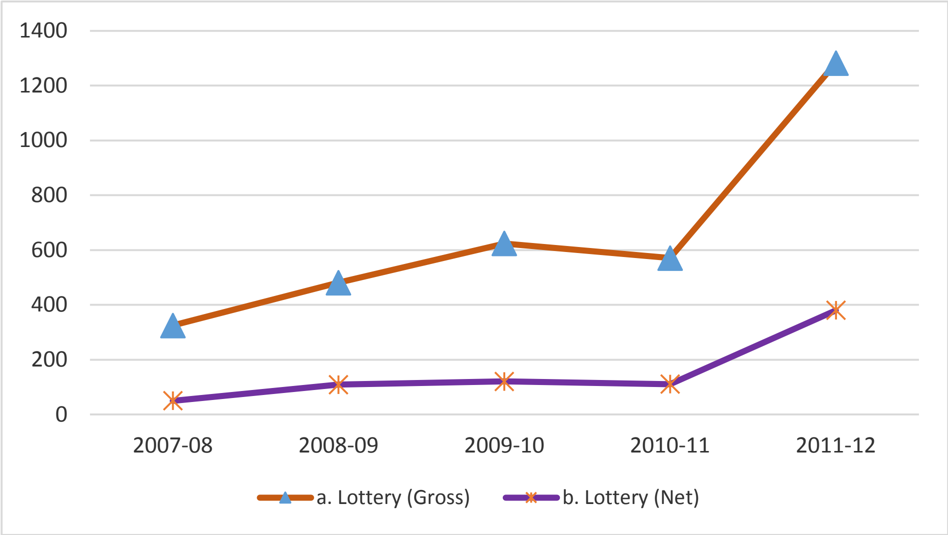
lakh unregistered lottery sub-agents. Thus, lottery, in addition to raising revenue to the Government provides employment opportunities mostly to the poor as their livelihood. The following table gives further details of the revenue generated by the department.

Table 4.10: Revenue from Lottery (Rs. in Cr)

Items	2007-08	2008-09	2009-10	2010-11	2011-12
b. Lottery (Gross)	325	481	624	571	1282
b. Lottery (Net)	50	109	121	111	380
Lottery Expenditure	275	372	503	460	902
Net Lottery Revenue as a %of Lottery Expenditure	18.18	29.3	24.05	24.13	42.13

When we examine the Table 4.10 and chart 4.4 it is clear that Lottery revenue has improved from 571 crores in 2010-11 to 1282 crores in 2011-12. Credit for this substantial improvement in lottery revenue may be given to the change in the lottery policy of the Government and the introduction of Karunya lottery. In the new lottery policy, the sale of other state's lotteries was prohibited in Kerala which also contributed to lottery revenue. Net revenue as percentage of lottery expenditure also improved from 24.13 percent to 42.13 percent, thanks to improved lottery administration and capacity utilisation.

Chart 4.5: Revenue from Lottery (Gross and Net)



As per chart 4, when gross revenue from lottery is Rs 571 crore in 2010-11 net revenue is only Rs 111 crore where as in 2011-12 gross revenue grew to rupees 1282 and net revenue to 380 crore. Though net revenue is increasing its increase is not in pace with increase in gross revenue owing to the disproportionate growth in the expenditure. When 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. Though, there are signs of improvement in lottery administration, it is not with out defects. Directorate of lotteries, which was set up in 1967 computerized the department in 2008, using a web based lottery information management system (LIMS). LIMS has provision for ensuring the genuineness of the ticket before payment of the prizes through "barcode (Secret code) reader". As per rule 9 (9), of the Kerala Paper Lotteries (Regulation) Rules (2005), criminal proceedings can be initiated against those who produce forged tickets. Comptroller and Auditor General has pointed out a few points of inefficiency with regard to lotteries department. CAG detected 118 multiple claims for the period 2008-2011 against 91 prize winning lotteries. It was detected that this occurred because of the non-reading of the barcode of the ticket to ascertain its genuineness.

CAG (2012, pg. 126) pointed out that the department may ensure that provisions for ascertaining the genuineness of the tickets before payment of prizes are strictly observed by the department. CAG also detected the absence of validation controls in LIMS as a result of which the department has distributed 30,262 prizes involving Rs.25.80 lakhs in excess of the number of prizes offered in 66 draws. Mistake in publication of prize winning lottery ticket is also detected by the CAG. Further, repeated winning of prizes by persons from particular addresses residing at 30 households in Mumbai and the probable involvement of fraud was also pointed out by CAG, for appropriate action. Non preparation of scheme-wise and draw-wise accounts of lotteries and the lack of adequate safeguards in handling of cash are some major inefficiency pointed out by CAG. In this context **the Committee recommends that Finance Department has to institute a proper monitoring mechanism on lottery administration and see that it is made more transparent and efficient and to prevent bogus claims.**

Forest

4.17 Second major contributor of non-tax revenue is forest department. Revenue from forest has been fast declining in recent years, although it was a major source of non-tax revenue all throughout the fiscal history of the state. In order to augment revenue mobilization, the Committee makes the following recommendations:

- Ten year working plan or interim plan may be prepared (As per supreme court orders) based on which trees may be earmarked for felling (selective felling). CAG criticized Government for declining forest revenue owing to delay in its approval of working plans of forest divisions and shortage of supply of timber.
- Elephant dragging of timber is essential. Current rate for this is Rs.290 to Rs.336 + variable D.A (Rs.75). This is less than the market rate of manual labour prevailing in Kerala, which also may be raised to near market level.
- Technology up gradation is necessary which will help to replace elephant dragging by power dragging as in Singapore. At the same time elephants cannot be fully exempted as wood stacking can be done only with the help of elephants.
- Auction may be done online in order to avoid ring formation and other malpractices.
- Forest lease rent on land which was fixed way back in 1977 may be hiked.
- Carbon credit may be claimed from the Central Government and funds may be used for the conservation of 'kave', ponds, sanctuaries etc so that environment is protected and tourism is promoted.
- Petty offence fees, penalty etc are to be hiked with a view to conserving and protecting forests for augmenting revenue raising potential.
- "Taungya" system (Koop farming) may be re-introduced to improve rent collection as well as to protect newly planted soft plantation and teak plantation.
- Forest development revenue comes from the price of timber (sales revenue) + VAT at the rate of 5%. Prices of soft and hard timber and other forest products may be monitored and revised periodically to keep it at the market rates, national and international.
- Theft of timber, other forest produces and forest land grab are rampant. What needs is political will on the part of Revenue and Forest ministries to bridle such corruption and tap the non-tax potential.
- In order to protect bio diversity and wildlife and to prevent forest fire, large, shallow, water harvesting ponds may be constructed in forest areas using MGNREGP workers where by the cost of construction could be reduced to the minimum. It would thus boost up potential non-tax revenue from the forests on the one-hand and produce drinking water, feed and fodder to the wild animals.
- Government has to speed up measures to collect arrears due from various sectors. CAG (2012, pg.4) points out that arrears that has to come to Government (forest

department) as on 31 March 2012 is Rs.247.56 Crore (R.184.49 from PSUs of GOK, Rs.48.5 Crore from PSUs of GOI.Rs.10.69 from individuals, private companies etc., the remaining amount from GOI, GOK and forest corporation of Karnataka Government). Out of this 143.25 Crore is outstanding for more than five years.

Motor Vehicles Department

4.18 As per the data provided by the Motor Vehicles Department, it contributes 7.92% of the Own non-tax revenue of the state. Since this department is governed both by the Central and State Governments, its potential to raise non-tax revenue is also limited. While driving license is issued by the Central Government, its duplicate is issued by the State Government. Hence, a hike in the fee for duplicate license would bring revenue, it is learned. When second hand sales of motor vehicles take place, name of the original owner has to be replaced by the new buyer within a month of the deal. At present, most of the sales are executed without satisfying this rule. This has to be enforced compulsorily and a registration fee may be charged according to the market value, brand and age of the car. In order to identify the owners who violate this and skip payment, Government has to insist a scanned photograph of the owner in the R.C. book. Those who buy luxury cars, go for Mahe registration in order to avail themselves of the tax differential existing in Mahe and Kerala. Mahe charges a flat rate of 6%, while Kerala charges varied rates according to the market price of the vehicle i.e., 6% up to 5 lakhs, 8% upto 5-10 lakhs; 10% upto 10 to 15 lakhs; and 15% above 15 lakhs. Mahe registration cars may be detected and shifted to Kerala registration with penal rates. Speed governor should be made compulsory in the case of all varieties of vehicles including two wheelers, trucks, JCBs etc. and those who violate this may be heavily fined. **The Committee recommends for the speedy implementation of laws on speed governor, and immediate steps to detect vehicles registered out side the state**.

Police

4.19 Based on the data on non-tax revenue produced by the police department, it occupies fourth position by accounting for 5.84% of SONTR. Police department has vast potential for raising revenue if intended. Some of the rates are revised by 10% with effect from 17th February 2004. A few were revised way back in 2007 while some in 2012. Rates which were revised in 2004 and 2007 should have to be urgently revised. Police Depaertement recommended a doubling of existing rates. (Items on which rate revision is needed is given in the appendix table 4.1 as produced by the department).

The Committee makes the following recommendations:

- Permit fee for using loud speakers may be raised from the present Rs.50/- to Rs.200/-
- Minimum fine on petty crimes may be raised from Rs.100 to Rs.500.
- Fine amount based on M.V. Act Section 184 may be raised from Rs.300 to Rs.2000
- Vehicles and other valuables without owners, kept in the police station campus may be auctioned immediately after the acquisition.
- Because of the rapid increase in the vehicle population, related petty crimes are on the increase. If more cameras are placed in the road side, more petty crimes can be recorded, and more revenue collected through fines. Consequently, there will be a decline in the number of accidents and other crimes, while revenue mobilization also improves.
- Double the charges collected when police force is deputed for private service.
- Vehicles which are taken under custody on the basis of the Acts (like Abkari act) after completing the necessary preliminary investigations, may be given back to the owner as soon as he remits the stipulated auction amount. If the case is won by the prosecution, amount will be added to the State Treasury and if against, the amount may be returned to the owner.
- All members in the police force may be allowed to use "Hello Kerala" SIM card and mobile phone, so that land phone charges may be kept at the minimum level.
- A fee may be charged on certificates which are provided by the police department like PCCs, Character certificate on loss of, registration certificate etc.
- When a copy of F.I.R. and similar services are rendered, a small amount of fee must be collected.
- All official messages, letters etc. may be send through e-mail in order to reduce the cost
- Police may be allowed to collect a fine from those who violate the 278 IPC Act.
- Fine may be raised on unauthorized sand/quarry mining, etc.
- Smoking in public places may be fined.
- Wending in public places may be fined.
    - A minimum fine of Rs.2000 should be charged on those who throw solid waste in public space.
    - Bank, companies etc. who seek police protection should be charged with a higher fee.

- Police complexes, if they are situated in commercially important areas, rentable portions may be rented out.
- Instead of the accused being taken from the jail to the court, if trial can be done through video conferencing, it will reduce the cost, as vehicles and escort staff is not required and also the risk of escape while taking the accused to the court is reduced.
- Instead of providing permanent staff as sweepers, dobby etc to IPS officers, such services may be given on contract basis or outsourced. This will save the DA/Pension responsibilities, retirement benefits etc. Instead of appointing drivers on a permanent basis, retired Army men or SPOs may be appointed on a contract basis.
- Mobility of police forces has to be improved by providing more vehicles like S.U.V.s(special utility vehicles)
- Provide the police force with modern arms and ammunition replacing the old and outdated ones, for improving crime detection and collection of penalties.
- Recruitment of police constables who have command over ICT skills may be appointed for raising the conviction rates.
- It is observed that after the implementation of prevention of destruction of public property act (PDPPA), during hartal, bandh etc. destruction of public property had come down. This act has to be strictly implemented with a view to reducing destruction of public property to the minimum (see Appendix 4.2)

Police Budgeting

One very important and innovative suggestion muted by the police department is that a portion of the annual budget allocation to the police department may be earmarked for 'police budgeting' of which expenditure budgeting priorities will be decided by the police department. If the Government contributes a portion of the fines and forfeitures collected by the department to its benefit, it will work as incentive for them to charge more petty cases which means better law and order, lesser road accidents and more own non-tax revenue. The Committee approves this incentive mechanism of police budgeting.

Mining and Geology

4.20 Mining and Geology Department, accounts for 1.60 per cent of the non-tax revenue of the State. Though this department has ample opportunities to raise non-tax revenue, it is not being efficiently planned and collected. Authority to exploit major minerals is vested with the Central Government and the rates on these are re-fixed in every three years on the basis of the market value of such minerals. At the same time authority to raise rate of minor minerals is vested with the state Government. But the State Government does not bother to revise these rates periodically, though most of the rates are fixed way back in 1997. Consider the price of river sand fixed as Rs.10/ tonne on 17..11..1997. The same rate still prevails though the market rate per load of sand is Rs.50000 or more now. It could be raised to Rs.100 per tonne. It is estimated that 1500 granite crushers are working in Kerala. But only 160 of them are registered with Mining and Geology department. Hence, even the existing small rates are evaded by unauthorized, unregistered quarry owners. Clay is another mineral resource which at present collects only Rupees 10 per tonne may also be revised to Rs.100 per tonne. Proposed rational rates for the following mining resources are shown in table.**The Committee recommends that measures may be taken to identify the unregistered quarries and bring them under registration with fines with retrospective effect. Further, other rents and rates fixed in 1997 may be reviewed and refixed according to the market prices. A rate hike in every three years, as done by the Central Government, is also recommended.**

Medical Education

4.21 Medical Education department accounts for 0.70% of the SONTR of the State. Take the case of highly subsidized medical education of training allopathy doctors in Kerala. Justice Mohammad Committee has estimated that the actual cost of providing medical education to one student one year is Rs.300,000. But it is just Rs.20000 that is collected from each medical student every year in the Government medical colleges in Kerala. This would mean an implicit subsidy of Rs.2,80,000 per year per student. An annual 5% increase in the fee from the affordable classes in all the medical courses would bring a substantial revenue for improving the quality of medical education.

Technical Education

4.22. In Table 4.9 which assumes eleventh position as contributes of SONTR. This poor performance is because of the existing poor fee structure. While Government and aided engineering colleges charge Rs.6200 per student per semester, private engineering colleges collect fees of Rs.35000 to Rs.100000 per semester. Thus implicit subsidy of Rs.28000 and more per semester is enjoyed by Government engineering students. If the fees in engineering colleges are hiked annually by 5% in every two years from the affordable classes, this would improve the revenue collection of the Government.

Irrigation

4.23. With forty four rivers and large investments in multi-purpose and single purpose dams, Kerala is supposed to raise large amount of revenue from irrigation. But in Kerala from major and medium irrigation projects, revenue accruing to the exchequer is only 0.49% of the total non tax revenue whereas what Andhra collects comes to about 1.37% of its own non tax revenue. This difference is accounted for by various factors. One such factor is the rate prevailing in Kerala which was fixed in 1974. There fore the Committee makes the following recommendations.

- Re-fix irrigation cess which was fixed in 1974
- Find out unauthorized absorption of water for purposes other than irrigation and charge penal rates
- Usufructs may be identified and reasonable rates charged
- Price of tender forms may be hiked
- Water tourism potential may be better tapped wherever possible as sites like Malampuzha- Palakkad, Thekkady-Idukki, Pookode-Wayanad, Kuruva Dweep-Wayanad, Thattekad-Ernakulam, Thenmala-Kollam etc.
- Water conservation may be promoted where ground water recharging will be made possible, which leads to improve the water table and future revenue raising capacity.
- In addition to irrigation Department should also focus on water harvesting and conservation.
- Lift irrigation, drip irrigation etc., may be charged higher rates than floor irrigation
- Revenue authorities have to collect water cess after making joint verification of Irrigation and Land Revenue Departments, only then usufructs will be better identified.
- Discriminatory pricing policy may be adopted in the case of those who use water for industrial/ Commercial purposes.

The Committee found that the enormous potential of water/monsoon tourism is not tapped properly for revenue raising .Therefore necessary steps may be taken to coordinate all water/monsoon tourism locations under a single authority and reap the benefits.

Printing and Stationery

4.24 Printing and stationary department accounts for only 0.10% of the SONTR. Wasteful expenditures are absorbed in the department in the case of printing of Government diary, in printing executive and ordinary diary simultaneously. Ordinary diary is enough to satisfy the demands of all categories and the total number to be printed should also be limited. Printing and Stationary can improve revenue collection through the following measures

- Gazette advertisement which is mandatory in some cases wherein higher amount of advertisement charge may be collected.
- Advertisement fee for all purposes may be doubled, as the demand is inelastic.
- Government diaries and calendars may be sold to the public at an affordable price.
- Open a sales department where important Government publications like budget document, budget in brief etc. are placed for sale

The Committee found that the staff of the printing department is underutilized in spite of that they collect very huge overtime allowances. Since there is underutilized capacity in the department .**The Committee recommends that it be entrusted with the piece work of the Government and public sector undertakings.**

Prison (Jail Department)

4.25 Jail department with three Central jails, one Open Jail and 53 sub jails and other category jails have ample potential for raising revenue. However, no concerted effort or planned attempt was made to augment revenue mobilization. Revenue raised by Jail department during 2011-12 had been Rs.3.41crore. Out of this 24.4% was contributed by central prison, Trivandrum. From this 29.5% was accounted for by Chapathy, Chiken etc., food products produced and marketed by prisoners. Contribution of Central prison, Kannur towards total jail revenue was 8.4% , while that of Viyyur was 11.43%. Nettukaltheri Open Jail, Trivandrum alone raised 47.6% of the total revenue of the Jail department. Major measures resorted to raising more revenue were dairy, crop husbandry, and sale of tender forms. Contribution of other prisons is meager. If the other prisons are also brought under a perspective plan of land and other resource utilization for productive purposes, there will be enormous increase in Jail revenue. (see Appendix table 4.3). The Committee recommends that Micro and Mini enterprises should be designed and run by prisoners which would raise more revenue and would equip them with a source of livelihood once they come out of the jail.

Museum and Zoos

4.26 Museum and Zoos in Kerala have very high potential to raise revenue, provided, they are standardized and properly maintained. Existing rates were all fixed in 2006, which need revision with immediate effect. Substantial hike in rates necessitates standardization of museums and zoos which require:

- Additional infrastructure
- Personnel like Biologist, Veterinary Doctor, each for reptiles, animals, art gallery etc.
- Descriptive sign boards and guides
- Digitized library along with antique library
- Internship facilities for bio-chemistry engineering students especially archeological and Fine Arts students

Napier Museum - The **Napier Museum** is an art and natural history museum - the museum was established in 1855. The achitectural masterpiece, the Napier Museum was designed by Robert Chisholm, the consulting Architect of the Madras Government and completed in 1880 was named after Loard Napier. Napier Museum is a landmark in the city with its unique ornamentation and architectural style with gothic roof and minarets. The Indo-Saracenic structure also boasts a natural air conditioning system. The museum houses a rare collection of archaeological and historic artifacts, bronze idols, ancient ornaments, a temple chariot and ivory carvings. It also contains the Sri Chitra Art Gallery, which contains works from Raja Ravi Varma and Nicholas Roerich, as well as examples of Mughal and Tanjore art. All properties of these centres are to be digitaized and departments open for researchers both domestic and foreign and charge heavy fees. In this museum 1115 pieces of world class super paintings including paintings of Raja Ravi Varma and Tagore are dumped in the stock room for want of space in museum. If sufficiently large space is created and paintings displayed with description and an interpreter, then foreign tourists and researchers would visit and revenue collection will be augmented. Development of herbarium can improve herbal knowledge, provide herbs to medical industry and bring revenue to the exchequer through sale of herbs. **The Committee recommends that Autonomy of Museum may be thought of as an incentive** mechanism to revamp its activities to add to the cultural heritage of the country and to bring more revenue to the Government. Services of National research laboratory for conservation, Lucknow may be utilized to standardize paintings. The Committee feels that the huge revenue raising potential of zoos and museums is not understood properly by the Government. It is high time that the museum is standardized and placed before the public. Napier museum, a world heritage center where classic paintings are kept, may also be standardized and open for the public which will raise the revenue to several hundred multiples.

Vocational Higher Secondary Education (VHSE)

4.27 Vocational higher secondary education on with 2.04 crore SONTR occupies 19th position. In Kerala vocational higher secondary education is a total failure from the students' point of view. Those who enroll in the VHSE, after finishing the course, pursue degree in Arts and Science colleges as the former does not equip them for a job. Hence, VHSE may be restructured as in the Central Government pattern where enrolment is in 9th standard and the course is continued till M.Phil. Only if such vertical progression possibilities exist, VHSE courses would serve the purpose. The Committee recommends either to restructure or to do away with VHSE.

Ayurveda Medical Colleges

4.28 Ayurveda Medical education with 1.54 crore SONTR contribution, assumes 23rd position. This department during this period of global recognition of Ayurveda tradition of Kerala (India) has ample scope of raising more revenue. But the challenge of marketing various Ayurveda services and products across the globe has to be seriously undertaken. International Standardization of services and products would be required to capture overseas market. BAMS fee may be hiked from the current Rs.12000 X 3 years to 20000 X 3 years as the fee collected in the unaided Ayurveda Colleges is Rs.95000 per year for 5 years. Monitoring agency for paramedical courses in Ayurveda may be established under which Yoga certificate course for foreigners with dual pricing (higher for foreign nationals and lower for Indian citizens as practiced elsewhere). Another source of revenue is a hike in the fee for the services rendered by drug standardization unit may be raised from the present Rs.300 to Rs.1000. Another potential source is to link Ayurveda **with tourism,more specifically:**

1. Panchakarma,
2. Ayurveda sports medicine,
3. A hike in Medical certificate fee,
4. Foreignscholars may be attracted to do Ph.D programme in Ayurveda.

The Committee recommends that Panchakarma and similar Ayurveda services may be standardized and popularized and marketed as brand products in the international market.

Health Services

4.29 Health services though a merit good, has vast potential for non-tax revenue using discriminatory prices as the rates are abysmally smaller than the rate in the private sector. Most of the diagnostic rates in the Government sector are 10% of that in the private sector. Only very few come up to 30-37% of that in the private sector. The diagnostic and other rates are those fixed way back as per Government Order 1994. It is enough that SC/ST and BPL categories get all services for no cost. For other categories, a hike in the rates is harmless and the proceeds could be used to provide better services with modern tools, equipment and facilities. Pay ward rates, as given below, are to be rationalized.

Single rooms - Rs.35 Double rooms - Rs.40

These rates in the private sector varies between Rs.500 to Rs.5000. Hence single room rates be fixed at Rs.250 and double room at Rs.400. Even with the current low rates the daily earning is Rs.10000 for public health lab, Thiruvananthapuram. It could be substantially raised by doubling the rates with equity concerns.Every Government hospital or public health laboratory has a huge stock of damaged equipment, furniture etc. which can be auctioned. Activities of hospital development society/ hospital management committee must be monitored and made transparent. A certain portion of the fund collected by them may be set apart for improving services such as hospital waste management, water harvesting, drainage management maintenance of equipments etc.

Other revenue raising measures are:

Medical board fitness fee may be hiked from Rs.200 to Rs.500

Permit fee for sanitation certificate may be substantially raised from the present level. (This certificate is of compulsory nature and is issuedto industries, institutions and enterprises who can afford to pay higher fees. The Committee recommends that rates of all diagnostic services be raised annually on the basis of the Cost of Living Index.

Hydrographer's survey wing (Water Supply and sanitation)

4.30. Water supply and sanitation department which comes under the economic services category does not add anything to the non tax revenue of the state at present while attractive contributions are made by its counter parts in other states. Water Authority strives on the grant given by and the loans guaranteed by the Government. In spite of that it runs on a deficit of Rs.22 crore during in 2011-12. Water authority claims that it is a public utility for which only minimum charges collected from low income domestic consumers. However, introducing discriminatory tariff rates and efficient collection efforts could make it a viable economic entity. This claim is true. But at the same time though it has 8000 permanent employees, it also employs 4000 casual employees for meter reading and other related field works. The Committee recommends that through digitization of meter reading and other field works it can reduce the casual employees to the minimum and reduce costs whereby it can reduce deficits in the short run and balance break even condition in the long run.

Conclusion

4.31 To conclude, it may be stated that non-tax sources of revenue is emerging as an important tool of strengthening fiscal capacity of states across the world. At the same time growth of collection of SONTR has not been satisfactory in the case of Indian states, especially Kerala. Deep rooted corruption, inefficiency and apathy in the bureaucracy which is responsible for non tax revenue collection on the one hand and disgusting attitude of public at large towards compulsory and requited contributions towards the Government on the other, adversely affected SONTR mobilization in the state. Common property resources such as major and minor minerals are excessively exploited without registration and license which causes heavy drain to state exchequer. Similarly, income generating assets created from Government investment, instead of making revenue contributions by way of dividends and profits, drawing down on treasury balances through budgetary allocations and loans and guarantees. While contribution of SONTR by general services is poor, still worse is the case of social and economic services. In short, Kerala with highest human development index among Indian's states, has vast potential to raise non-tax revenue. What is required is a responsible bureaucracy on the one hand and sharpened weapons of non-tax revenue collection on the other.

5
Structure of Expenditure

5.1 In this chapter we examine the parameters of expenditure, major items of expenditure such as salary to government staff, teaching grant to private aided educational institutions, pension, subsidies, social security schemes, interest and capital expenditure. The chapter also presents suggestions for restructuring expenditure.

I. Parameters of Expenditure

5.2 The total expenditure of the State Government consists of revenue and capital which includes that of loans and advances. The total expenditure is also classified into plan and non-plan. The trends in total expenditure and the parameters are given in Table 5.1. The trends in the growth rate of expenditure shows that the year 2011-12 witnessed the highest growth compared to the previous four years. The rate of growth of total expenditure was 31.2 percent in 2011-12. The spurt in the growth of total expenditure is attributed to the increase in expenditure on revision of salary and pensions. The RR/TE ratio indicated a fall in revenue receipts compared to total expenditure. During 2011-12 the rate of growth of state's own taxes was much lower compared to previous year. This is reflected in the buoyancy of total expenditure with reference to GSDP and Revenue Receipts

Table 5.1: Total Expenditure – Parameters / Variables

Parameters / Variables	2007-08	2008-09	2009-10	2010-11	2011-12
Total expenditure (TE) Rs. in crore	27260	30904	34068	38791	50896
Growth Rate (percent)	23.5	13.4	10.2	13.9	31.2
TE/GSDP ratio (percent)	15.6	15.2	14.7	14.0	15.6
Revenue Receipts (RR)/TE ratio (percent)	77.4	79.3	76.6	79.9	74.7
Buoyancy of Total expenditure with reference to:					
GSDP	1.7	0.8	0.7	0.7	1.7
RR	1.5	0.8	1.6	0.7	1.4

5.3 The trend in revenue expenditure and its break up into non-plan revenue expenditure (NPRE) and plan revenue expenditure (PRE) is given in Table 5.2. A review of the revenue expenditure for the year 2011-12 over the previous year indicates the following. Revenue expenditure as percentage of the total expenditure has registered an increase from 89.8 to 90.5 percent. This indicates a higher proportion of spending on this item to maintain the current level of services and to meet the payment of past obligations. The share of non-plan revenue expenditure to total expenditure has also gone up to 80 percent. It is disturbing to note that the non-plan revenue expenditure (NPRE) exceeds the revenue receipts and thus indicating borrowing to meet day to day expenditure. The NPRE as percentage of revenue receipts has gone up to 107 percent. There was considerable difference in the rate of growth of non-plan revenue expenditure and plan revenue expenditure during 2011-12. While the growth rate of NPRE was 33.6 percent, the corresponding rate of PRE was 27 percent. There was negative growth in PRE in 2007-08 and stagnation in plan expenditure in 2010-11 due to lack of resources. From the above it is clear that the steep increase in the non-plan revenue expenditure due to the salary and pension revision has resulted in the non-availability of resources for plan expenditure. Whenever the state revises the salary and pensions, it faces problems in finding resources for plan expenditure. It may be noted that the structure of expenditure in Kerala is dominated by non-plan expenditure and a small share is spent as capital or plan expenditure.

TABLE 5.2: REVENUE EXPENDITURE – PARAMETERS / VARIABLES (RS. IN CRORE)

Parameters / Variables	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue expenditure(RE) of which	24892	28224	31132	34665	46045
Non-plan revenue expenditure (NPRE)	22615	25012	26953	30469	40718
Plan revenue expenditure (PRE)	2277	3212	4179	4196	5327
Rate of Growth of					
RE (percent)	19.5	13.4	10.3	11.3	32.8
NPRE (percent)	22.1	10.6	7.8	13.0	33.6
PRE (percent)	-1.4	41.1	30.1	0.4	27.0
Revenue expenditure as percentage to TE	91.3	91.3	91.4	89.4	90.5
NPRE/GSDP (percent)	12.9	12.3	11.6	11.0	12.5
NPRE as percentage to TE	83.0	80.9	79.1	78.5	80.0
NPRE as percentage to RR	107.1	102.0	103.2	98.3	107.1
Buoyancy of revenue expenditure with					
GSDP	1.4	0.8	0.7	0.6	1.8
Revenue receipts	1.2	0.8	1.6	0.6	1.4

Revenue Expenditure Profile

5.4 In this section, we examine the major items of revenue expenditure such as salaries, pensions, interest, repair and maintenance, subsidies and devolution to the Local Self Government Institutions. The Table 5.3 gives the trends in the item wise expenditure between 2006-07 and 2011-12. During this period revenue expenditure witnessed the highest growth of 32.83 percent in 2011-12. Salaries which comprise salaries to government staff and teaching grants given to private aided educational institutions recorded an unprecedented growth of 45.71 percent during the year. The year also witnessed the highest growth in pension payments, ie., 50.85 percent. This spurt in the growth in salaries and pensions may be attributed to the hike in salaries due to pay revision and the payment of arrears due to it. Another two items of expenditure which registered a substantial increase in 2011-12 are subsidies (62.54%) and grant-in-aid to local bodies (40.27%). There was also a moderate growth in the interest during 2011-12. The expenditure on repairs and maintenance registered a growth of only 2.86 percent in 2011-12. The high growth in expenditure on salaries and pensions has resulted in the increase in its share to total expenditure. The share has increased from 43.33 percent in 2010-11 to 48.69 percent in 2011-12. Due to the increase in expenditure on salaries and pensions, the revenue deficit has increased from Rs.3674 crores in 2010-11 to 8035 crores in 2011-12. The fiscal deficit has increased from Rs.7731 crores to Rs.12815 crores. The root cause for the continuous revenue and fiscal deficit and unstable finance of the state arises mainly due to the very high growth in the expenditure on salaries and pensions. 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 pensions are attempted in the subsequent sections.

Table 5.3: Revenue Expenditure Profile (Rs. crore)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Expenditure	20825	24892	28224	31132	34664	46045
Salaries	6560	7693	9064	9799	11038	16083
Pensions	3295	4925	4685	4706	5767	8700
Interest	4190	4330	4660	5292	5690	6294
Repaires& Maintenance	369	633	858	734	734	755
Subsidy	267	219	350	405	624	1014
Devolutions to LSG's	1911	2273	2432	2489	2778	3897

Sal.+Pensions +Interest	14045	16948	18906	19797	22495	31077
Others	4233	4819	6174	2936	4126	4851
Total Expenditure	22077	27259	30903	34068	38790	50896
Growth in Expenditure (%)						
Revenue Expenditure	13.03	19.53	13.39	10.30	11.34	32.83
Salaries	17.54	17.27	17.82	8.11	12.64	45.71
Pensions	15.17	49.47	-4.87	0.45	22.56	50.85
Interest	10.88	3.34	7.62	13.56	7.52	10.62
Repaires& Maintenance	-7.98	71.54	35.55	-14.45	0.00	2.86
Subsidy	78.00	-17.98	59.82	15.71	54.03	62.54
Devolutions to LSG's	22.11	18.94	7.00	2.34	11.62	40.27
Sal.+Pensions +Interest	14.93	20.67	11.55	4.71	13.63	38.15
Others	3.57	13.84	28.12	-52.44	40.54	17.56
Percentage to Total Expenditure						
Salaries	29.71	28.22	29.33	28.76	28.46	31.60
Pensions	14.93	18.07	15.16	13.81	14.87	17.09
Interest	18.98	15.88	15.08	15.53	14.67	12.37
Repaires& Maintenance	1.67	2.32	2.78	2.15	1.89	1.48
Subsidy	1.21	0.80	1.13	1.19	1.61	1.99
Devolutions to LSG's	8.66	8.34	7.87	7.31	7.16	7.66
Sal.+Pensions +Interest	63.62	62.17	61.18	58.11	57.99	61.06
Others	19.17	17.68	19.98	8.62	10.64	9.53
Total	94.33	91.32	91.33	77.38	79.29	81.72

II. Salary Expenditure

Number of Staff

5.5 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 through treasury. Of the total staff, 72 percent are government employees and 28 percent are staff in private aided educational institutions (Table 5.4). 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 5.5). The teachers in arts and science colleges are 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 12522 in March 2013. Among the government departments, the General Education Department has the largest number of staff 171046 (Table 5.6). The present retirement age of Government staff is 56 years, which is lower by any standard. The Committee feels that the retirement age shall be raised

TABLE 5.4: NUMBER OF STAFF IN GOVERNMENT DEPARTMENTS AND PRIVATE AIDED EDUCATIONAL INSTITUTIONS

Category	Number in March 2008	% share	Number in March 2013	% share
Government Departments	357143	70.97	361603	71.95
Private Aided Educational Institutions	146063	29.02	140954	28.04
Total	503206	100	502557	100.00

TABLE 5.5 : TOTAL STAFF: DIFFERENT CATEGORIES

Category	Number in March 2008	Number in March 2013	Percent change
1. State Government	487196	484893	-0.47
2. Consolidated Pay	746	846	13.40
3. All India Services	191	227	18.84
4. UGC	10724	12522	16.76
5. AICTE	3928	3404	-13.34
6. Judicial	408	535	31.12
7. Others	13	130	900.00
Total	503206	502557	-0.12

Source: Appendix 1 (Details of Staff) Budget 2013-14.

TABLE 5.6 : DEPARTMENTS HAVING LARGEST NUMBER OF STAFF, MARCH 2013

Name of Department	Number of Staff	Percent
1.General Education	171046	34.03
2.Police Department	58684	11.67
3.Health Department	34777	6.92
4.Higher Secondary	27062	5.38
5.Collegiate Education	21455	4.26
6.Land Revenue	16083	3.20
7.Judicial Service Department	12591	2.50
8.Medical Education	12291	2.44
9.Agriculture Department	9226	1.83
10.Public Works Department	9165	1.82
11.Technical Education	8752	1.74
12.Water Resources	8672	1.72
13.Forest	6680	1.32
14.Animal Husbandry	7043	1.40
15.Vicational Higher Secondary	6205	1.23
16.Government Secretariat	5126	1.01
17.Panchayat Department	5997	1.19
18.Rural Development	5067	1.00
19.State Excise	4898	0.97
20.Commercial Taxes	4718	0.93
21.Others	67019	13.33
Total	502557	100.00

STAFF IN EDUCATIONAL SECTOR

5.6 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 in the educational sector is 247888 in March 2013. This accounts for 49 percent of the total staff of the government and private aided educational institutions (Table 5.7). This estimate of staff does not include the teachers and non-teaching staff working in twelve 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. Similarly the practice of appointing teachers belonging to the Collegiate Education Department and who are getting UGC scales of pay to Government Polytechnics involves wasteful expenditure. The Committee feels that the excess staff in the uneconomic schools may be posted in the retirement vacancies.

TABLE 5.7 : TOTAL STAFF IN THE EDUCATIONAL SECTOR

Educational Sector	March 2013	Percent
1. General Education	171046	34.03
2. Higher Secondary Education	27062	5.38
3. Colligiate Education	21455	4.26
4. Medical Education Department	12291	2.44
5. Technical Education	8752	1.74
6. Vocational Higher Secondary	6205	1.23
7. Directorate of Ayurveda Medical Education	1032	0.20
8. Commissisionerate of Entrance Examination	45	0.01
Total	**247888**	**49.32**
Total Staff of the Government	502557	100.00

Source: Appendix 1 (Details of Staff) Budget 2013-14.

SALARY EXPENDITURE OF DEPARTMENTS

5.7 We have seen in the para 5.6 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 2011-12 shows that educational sector accounts for 50.56 per cent of the total salary expenditure (Table 5.8). On the other hand, the salary expenditure for medical and public health services was nearly 11 percent of the total salary expenditure. The police department which has the responsibility of maintaining law and order in the state account for 9.55 per cent of the total salary expenditure. The salary expenditure for the item on administration of justice is 2.10 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 education 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 as well as 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 5.8 : EXPENDITURE ON SALARY FOR 2011-12: MAJOR HEAD WISE

Major Heads	2011-12	Percent
1.General Education	781166.83	48.57
2.Technical Education	32016.77	1.99
3. Medical and Public Health	173016.45	10.75
4.Police	153713.92	9.55
5.Administartion of Justice	33869.59	2.10
6.Land Revenue	29076.68	1.80
7.Agriculture	26653.67	1.65
8.Public works	25735.81	1.60
9. Forest and Wild life	16264.09	1.01
10.Secretariate - General Services	12701.86	0.78
11.Other Rural Development Programmes	25605.31	1.59
12.Animal Husbandry	21957.89	1.36
13.State Excise	13190.73	0.82
14.Other Administrative Services	13098.61	0.81
15.District Administration	19538.08	1.21
16.Taxes on sales, trade etc.	13627.07	0.84
17.Treasury and accounts administration		
18.Family Welfare	30101.99	1.87
19.Social security and welfare	28475.31	1.77
20.Labour and Employment	14485.89	0.90
21.Others	130610.25	8.12
Total	1608193.08	100.00

MOUNTING SALARY EXPENDITURE

5.8 Mounting salary expenditure is one of the basic causes for the continuous fiscal deficit of the state government. Table 5.9 gives the salary expenditure of the government staff, teaching grants given to private aided educational institutions and its share to revenue and total expenditure. During the years 2004-05 and 2005-06, the salary expenditure grew by about 4 percent per annum. But during the subsequent three years it grew by more than 17 percent per annum. During the years 2009-10 and 2010-11, the growth rate was 8 percent and 13 percent respectively. But the expenditure registered an unprecedented level of 45.64 percent in 2011-12 due to the revision of pay scales and the payment of arrear salary. The salary expenditure has increased to 35 percent of the revenue expenditure and 32 percent of the total expenditure in 2011-12. The revision of salary and pension in every five years, the financial commitment of paying arrears due to the revision, used to create heavy financial burden to the treasury for about three years. The frequent revision of DA rates following the DA revision of the central government also contribute to the increase in salary expenditure.

5.9 The Committee in its previous report (for 2010-11) had examined this aspect and gave a number of recommendations to reduce the salary expenditure. The recommendations include revision of salaries and pensions once in 10 years, reduction of administrative expenditure through e-governance, payment of salaries, pension etc through banks, introduction of email for official communication and outsourcing some of the subsidiary activities of government and Local Self Government Institutions. The recommendations of the Committee for the year 2010-11 on this issue is given in Appendix I.

TABLE 5.9: GROWTH IN SALARY EXPENDITURE (RS. IN CRORE)

Year	Salary Expenditure	Growth (percent)	Revenue Expenditure	Share (percent)	Total Expenditure	Share (percent)
2004-05	5346	3.90	17169	31.13	18048	29.62
2005-06	5581	4.40	18424	30.29	19528	28.58
2006-07	6560	17.54	20825	31.50	22077	29.71
2007-08	7693	17.27	24892	30.90	27259	28.22
2008-09	9064	17.82	28224	32.11	30903	29.33
2009-10	9799	8.11	31132	31.47	34068	28.76
2010-11	11038	12.64	34664	31.84	38790	28.46
2011-12	16083	45.64	46045	34.92	50896	31.60

III. TEACHING GRANTS TO PRIVATE AIDED EDUCATIONAL INSTITUTIONS

5.10 A major item of salary expenditure is the teaching grants given to the private aided 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 staff 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 sector.

5.11 Table 5.10 gives the number of schools coming under the government and private aided sector during 2011-12. Kerala has 7161 private aided schools accounting for 61 percent of the total schools which were supported by public funds. In the case of lower primary, upper primary and high schools, majority belonged to the private aided category. Of the 153718 teachers who are paid by the state government, 66 percent belonged to the private aided category. A notable thing is that due to the demographic change of reduction in birth rate, sufficient number of students are not available in the schools especially at lower primary level. Due to this many schools are declared in the category of uneconomic schools, not having the required number of students. Of the private aided schools, one third belongs to the category of uneconomic schools. In the case of lower primary private aided schools, majority belonged to uneconomic category. In this context, measures are needed to reduce the number of teachers and shift the excess teachers to government schools on working arrangement. Besides schools, the private aided sector has 668 higher secondary schools, 128 vocational higher secondary schools, 150 arts and science colleges, 3 engineering colleges and 6 polytechnics.

Table 5.10: GOVERNMENT AND AIDED EDUCATIONAL INSTITUTIONS IN KERALA (2011-12)

Category	Government	Private Aided	Total	Percentage Share of Private Aided
I. Schools (Number)				
1. LP School	2607	3910	6517	59.99
2. UP School	924	1845	2769	66.63
3. High School	1089	1406	2495	56.35
Total	4620	7161	11781	60.78
II. 1.Number of students in standard I	89626	169548	259174	65.41
III. Number of Teachers	52353	101365	153718	65.94
IV. Number of uneconomic schools				
1. LPS	1719	1982	3701	53.55
2. UPS	394	313	707	44.27
3. H.S	158	48	206	23.30
Total uneconomic schools	2271	2343	4614	50.78
Percentage of uneconomic schools	49.15	32.71	36.49	

Source: State Planning Board, Economic Review 2012, Vol.2.

5.12 Table 5.11 gives the number of teachers and non-teaching staff in private aided educational institutions. As on March 2013, the total staff in these institutions comprise of 123894 teachers and 17060 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 10393 in March 2013. 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, 23 percent is spent for paying salaries to the private aided educational institutions (Table 5.12).

Table 5.11: Number of Teaching and Non Teaching Staff in Private Aided Educational Institutions

Category	Number in March 2008	Number in March 2013	Percent Change
I. Teachers			
1. Schools	117290	112383	-4.18
2. Arts & science colleges	10015	10393	3.77
3. Engineering college & polytechnics	912	887	-2.74
4. Ayurveda medical colleges	98	94	-4.08
5. Homeo medical colleges	90	137	52.22
Sub Total	128405	123894	-3.51
II. Non Teaching Staff			
1. Schools	10830	10174	-6.05
2. Arts & science colleges	6079	6084	0.08
3. Engineering college & polytechnics	453	497	9.71
4. Ayurveda medical colleges	178	183	2.80
5. Homeo medical colleges	118	122	3.38
Sub Total	17658	17060	-3.38
Grand Total (I+II)	146063	140954	-3.49

Source: Appendix 1. (Details of Staff) Budget 2013-14.

Table 5.12 : Salary of Government Staff and Aided Educational Institutions in 2011-12

	Rs.in lakh	Percent
Private aided educational institutions	362991.47	22.57
Government educational institutions	450192.13	27.99
Total educational institutions	813183.60*	50.56
Total salary expenditure of government	1608193.08	100.00

*excludes expenditure on medical education

5.13 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. For the admission of students merit is not strictly followed in many secondary and higher secondary schools. For 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 and other aided institutions 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. The Committee which examined this aspect in its previous report for (the year 2010-11) had given a number of suggestions to curtail the growth of new institutions and introduction of new courses in the aided sector. The committee recommended to discontinue practice of starting new educational institutions and courses in private aided sector and to start new courses in unaided stream. The recommendations of the Committee for the year 2010-11 on this aspect is given in Appendix 1 hold good.

IV. EXPENDITURE ON PENSIONS

5.14 Expenditure on pensions of retired government staff and employees in the private aided educational institutions and others accounts for about 17 percent of the total expenditure. There are three categories of pensioners viz., service, family and other categories. Service pensioners are the category of pensioners who become eligible for retirement benefits and monthly pensions for their past service. In the case of death of service pensioner, a monthly family pension is paid to the wife or other dependants of the diseased 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 5.13 gives the number of three categories of pensioners viz., service, family and others for the years from 2007 to 2012. Of the total pensioners 52 per cent is service pensioners, 20 per cent is family pensioners and 28 per cent is other category pensioners in March 2011. During the year 2011-12, there has been a substantial increase in the number of other categories of pensioners

Table 5.13: 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	Number on March 2012
1.Service Pensioners	235034	249594	245553	237644	251548	237780
2.Family Pensioners	94816	87795	87896	87617	88810	93015
3.Other Categories	105978	103622	95833	100813	98396	128637
Total	435828	441011	429282	426074	438754	459432
Growth (Percent)						
1.Service Pensioners		6.19	-1.61	-3.22	5.85	-5.47
2.Family Pensioners		-7.40	0.11	-0.31	1.36	5.78
3.Other Categories		-2.22	-7.51	5.19	-2.39	31.48
Total		1.18	-2.65	-0.74	2.97	4.71
Percentage Distribution						
1.Service Pensioners	53.92	56.59	57.20	55.77	57.33	51.76
2.Family Pensioners	21.75	19.90	20.47	20.56	20.24	20.24
3.Other Categories	24.31	23.49	22.32	23.66	22.42	27.99
Total	100	100	100	100	100	100.00

5.15 A person retiring from the service is eligible for a number of benefits such as monthly pension based on tenure of service, commuted value of pension, gratuities, leave encashment benefits etc. Table 5.14 shows the various items of expenditure on pension and other retirement benefits from 2006-07 to 2011-12. The super annuation and retirement allowances of service pensioners account for major share of the expenditure in 2011-12 (53 percent). Pension to the retired staff of the aided educational institutions is the second major item accounting for 14 percent of the pension expenditure. Commuted value of pension account for 11 percent. Of the pension expenditure, 9 percent is spent on family pension and 7 percent on gratuities. Between 2006-07 and 2011-12, there had been a growth in the share of the pension expenditure on superannuation and retirement allowances, family pension, pension to the retired staff of private aided educational institutions and other items of expenditure. On the other hand, there has been a decline in the share of pension expenditure on commuted value of pension, gratuities and leave encashment benefits.

Table 5.14: Expenditure on Pension and other Retirement Benefits (Rs.in Lakh)

Name	2007-08	2008-09	2009-10	2010-11	2011-12
1.Superannuation & Other retirement benefits	235365.55	242335.78	291333.87	321805.16	462713.17
2.Commuted value of pension	80807.37	58718.84	22581.13	50289.59	99442.56
3.Compassionate allowances	20.13	26.7	25.6	336.44	51.45
4.Gratuities	49982.02	42010.26	22648.2	38011.87	60667.34
5.Family pension	40385.27	41418.78	48797.2	56421	79948.82
6.Contribution to pension and gratuities	23.78	41.01	9.01	3.4	5.03
7.Contribution to provident funds	0.96	1.51	1.72	2.28	2.64
8.Pension to employees of state aided educational institutions	61695.51	62459.68	72776.82	85250.04	124888.75
9.Pension to legislators	355.24	374.98	1141.79	1230.92	529.58
10.Leave encashment benefits	18704.77	15609.76	5572.54	17692.35	25573.53
11.Other pensions	107.18	102.75	103.07	125	289.93
12.Other expenditure	5005.14	5543.09	5558.64	5581.13	15917.51
Total	492452.92	468643.14	470549.59	576749.18	870030.31
Growth (Percent)					
1.Superannuation and retirement allowances	45.92	2.96	20.22	10.46	43.79
2.Commuted value of pension	59.62	-27.33	-61.54	122.71	97.74
3.Compassionate allowances	23.27	32.64	-4.12	1214.22	-84.71
4.Gratuities	55.91	-15.95	-46.09	67.84	59.60
5.Family pension	39.65	2.56	17.81	15.62	41.70
6.Contribution to pension and gratuities	32.33	72.46	-78.03	-62.26	47.94
7.Contribution to provident funds	231.03	57.29	13.91	32.56	15.79
8.Pension to employees of state aided educational institutions	56.52	1.24	16.52	17.14	46.50
9.Pension to legislators	4.54	5.56	204.49	7.81	-56.98
10.Leave encashment benefits	56.36	-16.55	-64.30	217.49	44.55

11.Other pensions	42.89	-4.13	0.31	21.28	131.94
12.Other expenditure	5.91	10.75	0.28	0.40	185.20
Total	49.47	-4.83	0.41	22.57	50.85
Percent Distribution					
1.Superannuation and retirement allowances	47.79	51.71	61.91	55.80	53.18
2.Commuted value of pension	16.41	12.53	4.80	8.72	11.43
3.Compassionate allowances	0.00	0.01	0.01	0.06	0.01
4.Gratuities	10.15	8.96	4.81	6.59	6.97
5.Family pension	8.20	8.84	10.37	9.78	9.19
6.Contribution to pension and gratuities	0.00	0.01	0.00	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	12.53	13.33	15.47	14.78	14.35
9.Pension to legislators	0.07	0.08	0.24	0.21	0.06
10.Leave encashment benefits	3.80	3.33	1.18	3.07	2.94
11.Other pensions	0.02	0.02	0.02	0.02	0.03
12.Other expenditure	1.02	1.18	1.18	0.97	1.83
Total	100.00	100.00	100.00	100.00	100.00

5.16 The growth of pension expenditure is a critical issue in the finances of the state. The annual growth in the items of pension expenditure is shown in Table 5.15. The two major items of pension expenditure viz., super annuation and retirement allowances and pension to the retired staff of private aided educational institutions grew by 44 percent during 2011-12. Commuted value of pension, the third major item of pension expenditure increased by 98 percent. Family pension and gratuities increased by 42 percent and 60 percent respectively. The item of expenditure viz., other pension and other expenditure more than doubled. A review of the growth in the items of expenditure reveals that except, compassionate allowances, pension to legislators and contribution to provident funds, and other items registered an annual growth of more than 42 percent during 2011-12. A major reason attributed to this spurt in the growth is due to the financial commitment arising out of the arrear payments due to hike in pension rates.

Table 5.15: Growth and Share of Pension Expenditure (Rs. in crore)

Year	Pension Expenditure	Growth (percent)	Revenue Expenditure	Share (percent)	Total Expenditure	Share (percent)
2004-05	2601	8.00	17169	15.15	18048	14.41
2005-06	2861	10.00	18424	15.53	19528	14.65
2006-07	3295	15.17	20825	15.82	22077	14.92
2007-08	4925	49.47	24892	19.78	27259	18.06
2008-09	4685	-4.87	28224	16.59	30903	15.16
2009-10	4706	0.45	31132	15.11	34068	13.81
2010-11	5767	22.56	34664	16.63	38790	14.86
2011-12	8700	50.85	46045	18.89	50896	17.09

Mobilizing Funds for Pension Payments

5.17 Pension expenditure is a majour financial problem of state government autonomous bodies and universities. Table 5.15 gives the growth in pension expenditure, its share in revenue and total expenditure between 2004-05 and 2011-12. Pension expenditure registered a growth of 51 percent during the year 2011-12. The expenditure accounts for 19 percent of the revenue expenditure and 17 percent of the total expenditure. The frequent hike of pension rates, the financial commitment of paying pension arrears and the increase in the non-service category pensions have contributed to the steep increase in pension payments. As autonomous bodies like KSRTC, Universities etc have to revise the pension rates at par with government staff, the pension liability is emerging as a major financial problem. Currently, KSRTC and major Universities in Kerala are facing a crisis due to pension payment. In order to mobilize resources for pension payments, the successive governments have not taken any serious steps. However, the Local Self Government Institutions (Grama Panchayat, Municipalities etc.) are contributing 15 percent of the basic pay of the staff to the state government as pension contribution. A few universities in Kerala have created pension fund for mobilizing resources for pension payments. The Kannur University has created a pension fund by remitting 10 percent of the salary of regular employee towards the pension fund. The university utilizes the interest of the fund for meeting pension payments. The Sree Sankaracharya University of Sanskrit has created a pension fund to meet expenditure on pension payments of the retired staff. But due to lack of funds, the university is not making annual contribution to the fund. In many states, the governments are collecting an amount equivalent to 10 percent of the basic pay from the employee as pension contribution. The amount is utilized to create a pension fund to meet pension expenditure. In the contributory pension scheme now in force in the state as well as other states, a pension contribution equivalent to 10 percent of the basic pay of the employee is collected from the employees. The Committee feels that there is sufficient justifications to collect pension contribution from all the staff coming under State Government local bodies Universities and other autonomous bodies.

V. SUBSIDIES

5.18 The government had spent more than Rs. 1000 crores as subsidies in 2011-12. There had been a steep increase in subsidies between 2006-07 and 2011-12 (Table 5.16). Currently government is giving subsidies to 22 items. Table 5.17 gives the item wise subsidies. The major item of subsidy is the food subsidy given to distribute rice and wheat through public distribution system. Nearly 65 percent of the subsidies are spent for this. Procurement of paddy from farmers is the second major subsidy accounting for 11 percent of the total share. Five percent subsidy is given for the Kerala State Civil Supplies Corporation for market intervention and another 5 percent is given for power tariff concessions. Other purpose for which subsidies are given for conducting festival markets for co-operatives, free supply of electricity for small and marginal farmers, solid waste management and fisheries development. A review of the subsidies show that nearly 73 percent spent on market intervention and to distributing the food items at reasonable prices through public distribution system. On the other hand, the subsidies given for production are meagre. Too much emphasis for market intervention and too low priority for production is not a desirable thing. Another issue is the leakage and wasteful spending of subsidies. As the Committee does not have data to answer the leakages, corruption and wasteful spending, we are not in a position to make observation on the above the aspect. But we feel that there is need to examine the leakage, corruption and wasteful expenditure of nearly Rs.1000 crores spent on subsidies. The Committee also feels that the amount of subsidies mentioned above are under estimates. The State Government is providing health education and other services at very low rates.

Table 5.16 : 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
2011-12	100195.40	59.84

Table 5.17 Expenditure on Subsidies

	Head of Account	2010-11	2011-12	Growth	% Share	*Growth*
1	Grant in Aid to KSFDC for payment of subsidy	111.1	116.66	10.00	0.12	5.00
2	Subsidy to KSEB to wards power tariff concessions	5400	5460		5.45	1.11
3	Subsidy to KSEB to liquidate its revenue deficit	4597				-100.00
4	National Programme for Biogas development	91.3	303.62	60.06	0.30	232.55
5	Continuing medical education and training			-100.		
6	Subsidy to cooperatives for conducting festival markets	7000	3000	249.98	2.99	-57.14
7	Integrated Development for primary agricultural credit societies	20.35	24	85.00	0.02	17.94
8	Special support scheme for farm sector	2600		-59.38		-100.00
9	Free supply of electricity to small and marginal paddy growers	2413.3	3661.12	-41.03	3.65	51.71
10	CSS under crop macro management			-100		
11	Punja dewatering by pumps subsidy	424.06	517.69	-22.83	0.52	22.08
12	Reimbursement of price difference of ration rice abd wheat to the food Corporation of India	28350.9	64957.6	44.52	64.83	129.12
13	Grant to Kerala State Civil Supplies Corporation Ltd for market intervention operations	7431	5000	-10.47	4.99	-32.71

14	Extended market intervention programme (food)	200				-100.00
15	Cattle feed subsidy	448.35	599.98	66.31	0.60	33.82
16	Rural backyard poultry development scheme (100% CSS)	163.52			0.00	-100.00
17	Subsidy od Bankable Schemes (fisheries)	30	50	0.00	0.05	66.67
18	Integrated fisheries development project phase II	50		-37.50		-100.00
19	Rebate on HSD oil to fishermen	1.32	1	-94.20		-24.24
20	Interest subsidy for loan from financial institutions	150		50.00		-100.00
21	Theeramythri super market			-100		
22	Subsidy towards loss incurred by Kerala forest development cooperation by supply of raw material to industries in the state	26.57				-100.00
23	State investment subsidy	845.57	969.314	-5.00	0.97	14.63
24	Power subsidy to industries	2.91	2.88946	-75.65		-0.71
25	Rebate on the sale of handloom cloth	399.98	399.91	-17.36	0.40	-0.02
26	Special rebate on sale of handloom products by the handloom agencies	251.56	229.29		0.23	-8.85
27	Kerala khadi and village industries board - special rebate on retail sale of khadi	1075	867.06	95.45	0.87	-19.34
28	Other schemes of the department of tourism	599.79	400	71.44	0.40	-33.31
29	Subsidy to Private parties for Solid waste management		1500		1.50	
30	Compensation to kerala state civil supplies corporation /consumerfed for paddy procurement		10765.2		10.74	
31	Subsidy to Rice Development		105.23		0.11	
32	NCDC assisted integrated fisheries development project phase ii (state share)		1224.83		1.22	
33	suitable components for fishing gear (50%css)		40		0.04	
	Total	62683.5	100195	41.87	100.00	59.84

VI. SOCIAL SECURITY SCHEMES

5.19 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 assistance 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 5.18). During the year 2011-12, a sum of Rs.901.19 crore was spent for the ten social security schemes. Table 5.19 gives the amount of expenditure on the social security schemes between 2007-08 and 2011-12. During 2011-12, the expenditure on social security schemes increased by 24 percent. Agricultural workers pension registered the highest increase followed by pension to physically and mentally handicapped, national old age pension and destitute pension. On the other hand, the pensions which registered a fall in growth rate are unemployment allowance, financial assistance to men of art and letters and financial help to widows for their daughters' marriage.

Table 5.18 : 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

TABLE 5.19: EXPENDITURE ON SOCIAL SECURITY SCHEMES (RS.IN LAKH)

Name of Scheme	2007-08	2008-09	2009-10	2010-11	2011-12
1. Unemployment Assistance	4861.36	4895.86	4727.86	4692.88	3383.10
Financial Assistance to men of arts and letters	4.37	1.49	0.60	8.05	2.51
3. Agricultural workers pension	16474.00	13612.00	17470.00	20795.13	30273.26
4. Assistance to poor artists	103.18	131.39	136.74	132.03	148.29
5. Pension to unmarried women above 50 years	603.00	880.00	1280.00	2131.33	2333.24
6. Destitute pension	4594.00	7142.00	13070.00	24536.77	29057.71
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	869.01
9. National old age pension	5299.00	4290.00	5400.00	9061.10	10737.94
10.National Service Assistance Programme	6553.90	2506.27	2891.53	1622.32	1825.27
Total	41586.81	38091.01	50376.73	72872.70	90119.53
Growth (percent)					
1. Unemployment Assistance		0.71	-3.43	-0.74	-27.81
Financial Assistance to men of arts and letters		-65.90	-59.73	1241.67	-
3. Agricultural workers pension		-17.37	28.34	19.03	45.57
4. Assistance to poor artists		27.34	4.07	-3.44	12.31
5. Pension to unmarried women above 50 years		45.94	45.45	66.51	9.47
6. Destitude pension		55.46	83.00	87.73	18.42
7. Pension to phisically and mentally handicapped		49.71	16.58	65.19	
8. Financial help to widows for their daughters marriage					-10.65
9. National old age pension		-19.04	25.87	67.80	[illegible]
10.National Service Assistance Programme		-61.76	15.37	-43.89	12.50
Total		-8.41	32.25	44.65	23.66

5.20 These pensions are mainly meant to provide 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 reports examined this aspect and recommended for the distribution of pensions on a monthly basis. Information supplied by the grama panchyats reveal that the monthly pensions were distributed two to four times in 2010-11. The Committee notes that the situation has not improved during 2011-12. 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. The committee considers this as a serious lapse on the part of the concerned Departments and LSGIs. The committee recommends that necessary steps needs to be taken by the government and LSGIs on a priority basis to distribute these pensions every month through banks/e payments.

VII. DEVOLUTION OF LOCAL SELF GOVERNMENT INSTITUTIONS (LSGIs)

5.21 LSGIs heavily rely on grant-in-aid from the state government for their non-plan and plan expenditure. The devolution of resources is largely based on the recommendations of the State Finance Commission. Table 5.20 gives the trend in revenue expenditure of the funds given to LSGIs from 2004-05 to 2011-12. A review of the expenditure of LSGIs shows that during the years 2008-09 and 2009-10, the growth rate was very low. In 2010-11, there was an increase in expenditure by 12 percent. On the other hand, there has been a spurt in the growth of expenditure in 2011-12 (40 percent). This can be considered as positive development in the devolution as well as expenditure of LSGIs. But a review of the share of this item to total revenue expenditure of the state gives a different picture. A disturbing development is the decline in the share of this item of expenditure to total revenue and capital expenditure since 2004-05. In the context of increase in civic, administrative and development functions of LSGIs, the decline in the share means a reduction in the availability of resources for local bodies. The substantial growth in expenditure on salary, pensions and interest and the lack of availability of resources may be cited as the main cause for this. Unless steps are taken to curtail the expenditure on the above items, resources won't be available for other development activities, including local level development. The Committee feels that more priority should be given in the allocation of resources to the LSGIs and local level development.

Table 5.20: Devolution to Local Self Government Institutions (LSGIs) (Rs. in crore)

Year	Devolution to LSGIs	Growth (percent)	Revenue Expenditure	Share (percent)	Total Expenditure	Share (percent)
2004-05	1783	3.00	17169	10.38	18048	9.88
2005-06	1565	-12.23	18424	8.49	19528	8.01
2006-07	1911	22.11	20825	9.17	22077	8.66
2007-08	2273	18.94	24892	9.13	27259	8.34
2008-09	2432	7.00	28224	8.61	30903	7.87
2009-10	2489	2.34	31132	7.99	34068	7.31
2010-11	2778	11.62	34664	8.01	38790	7.16
2011-12	3897	40.27	46045	8.46	50896	7.66

VIII. EXPENDITURE ON INTEREST

5.22 Interest is the third major item of expenditure of the state government, after salary and pension. During the year 2011-12, interest payments increased to Rs.6294 crores, an increase of 11 percent compared to the previous year (Table 5.3). Interest accounts for 12 percent of the total expenditure of the state. Increase in public debt and payment of a large amount as interest is one of the critical issues in the state finance. Table 5.21 gives the item wise expenditure of interest viz. internal debt, small savings and provident fund, loans and advances from central government etc. Among the three items of interest, the category which registered a continuous increase during 2007-08 and 2011-12 is the interest on internal debt. Table 5.22 shows the growth of the item wise expenditure of interest.

Table 5.21: Structure of Interest Payment (Rs In Lakhs)

Interest payments	2007-08	2008-09	2009-10	2010-11	2011-12
Interest on Internal Debt of which	272771	300931	335316.55	363781	411895.7
a. Interest on market loans	110686	138285	172220.79	200661	248473.6
b. Interest on ways and means of advances from RBI	1258	461	54	0	0
c. Interest on special securities issued to small savings fund of	116460	115983	114898	113450	113687

the Central Government by State Government					
d. Interest on other internal debts	43974	45803	47630	49075	49037
Interest on Small Savings, Provident Funds etc. of which	117247	121516	151309	162408	175532
a. Interest on State provident funds	62421	69962	75330	83655	96195
b. Interest on trusts and endowments	0	0	1	0	0
c. Interest on insurance and pension fund	9466	11259	11495	15739	18050
d. Interest on other saving deposits	45431	40340	64518	63090	61491
Interest on Loans and Advances from Central Government	42948	43523	42531	42778	41932
a. Interest on loans for State/UT plan schemes	13541	15739	16403	18300	19106
b. Interest on loans for centrally plan schemes	85	74	63	52	42
c. Interest on loans for centrally sponsored plan schemes	653	635	587	541	494
d. Interest on loans for non-plan schemes	477	449	419	391	363
e. Interest on State plan loans consolidated in terms of the 12th Finance Commission	28193	26626	25060	23494	21928
Total Interest Payments	432965	465969	529248	568966	629360

Table 5.22 : Structure of Interest Payments and Growth Rate of Interest Payment

	2007-08	2008-09	2009-10	2010-11	2011-12
Interest on Internal Debt of which	14.7	10.3	11.4	8.5	13.2
a. Interest on market loans	13.3	24.9	24.5	16.5	23.8
b. Interest on ways and means of advances from RBI	2.5	-63.4	-88.2	-100.0	0.0
c. Interest on special securities issued to small savings fund of the Central Government by State Government	19.9	-0.4	-0.9	-1.3	0.2
d. Interest on other internal debts	6.0	4.2	4.0	3.0	-0.1
Interest on Small Savings, Provident Funds etc. of which	-13.9	3.6	24.5	7.3	8.1

a. Interest on State provident funds	24.7	12.1	7.7	11.1	15.0
c. Interest on insurance and pension fund	18.3	18.9	2.1	36.9	14.7
d. Interest on other saving deposits	-41.9	-11.2	59.9	-2.2	-2.5
Interest on Loans and Advances from Central Government	-0.8	1.3	-2.3	0.6	-2.0
a. Interest on loans for State/UT plan schemes	12.6	16.2	4.2	11.6	4.4
b. Interest on loans for centrally plan schemes	-11.4	-12.9	-14.8	-17.1	-19.3
c. Interest on loans for centrally sponsored plan schemes	-3.6	-2.7	-7.6	-7.7	-8.7
d. Interest on loans for non-plan schemes	-5.5	-6.0	-6.5	-6.8	-7.2
e. Interest on State plan loans consolidated in terms of the 12th Finance Commission	0.0	0.0	0.0	0.0	0.0
Total Interest Payments	3.3	7.6	13.6	7.5	10.6

5.23 Between 2007-08 and 2011-12, there was substantial change in the structure of interest payments due to the change in the composition of debt. During the year 2007-08, the interest on internal debt comprising interest on market loans, ways and means advances from RBI, special securities and other internal debt constitute 63 percent of the total interest payments. There has been an increase in the share of this item due to mounting internal debt. By 2011-12, it increased to 65.44 percent. On the other hand, there was a fall in the share of interest on loans and advances from central government. It fell from 10 percent in 2006-07 to 7 percent in 2011-12.

5.24 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.

IX. CAPITAL EXPENDITURE

5.25 Growth of capital expenditure is a precondition for expanding the physical and social infrastructure and capital stock of an economy. It is an indicator of the growth in capital stock which is an essential requirement for accelerating the economic growth and development. 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. Table 5.23 gives the growth and structure of capital outlay during 2010-11 and 2011-12. The table indicates a substantial fall in the growth of capital expenditure during 2011-12. The growth rate fell from 63.33 percent in 2010-11 to 14.54 percent 2011-12. The acute resource crunch arise due to the spurt in expenditure on salaries and pensions may be the principal reason for this. The excessive increase in the expenditure on salaries and pensions reduces the availability of resources on capital expenditure. A disturbing thing was the negative growth of nearly half of the items. Of the 20 items of capital expenditure 9 registered a negative growth during 2011-12. Major items such as roads and bridges, major and medium irrigation, housing, public works, ports and light houses, medical and public health, education, fisheries etc witnessed substantial fall in the growth of capital expenditure. The Committee feels that the low priority given to expenditure on capital items will have far reaching adverse economic consequences in future. The Committee recommends that the state government should give high priority for capital expenditure and increase its allocation.

Table 5.23: Major Head wise Capital Outlay Structure

		2010-11	% Distribution	% Increase	2011-12	% Distribution	% Increase
Transport development							
1	Roads and Bridges	140812	41.86	67.97	166103	43.11	17.96
2	Inland Water Transport	772.22	0.23	-29.21	1539.8	0.40	99.40

3	Other Transport Services	3790.79	1.13	-58.04	3139.65	0.81	-17.18
Water resource development							
4	Major and Medium Irrigation	16035.27	4.77	76.90	13425.39	3.48	-16.28
5	Flood Control Projects	10475.39	3.11	-27.81	3633.8	0.94	-65.31
6	Minor Irrigation	2719.42	0.81	46.12	7659.93	1.99	181.68
7	Soil and Water Conservation	1645.5	0.49	24.59	1362.98	0.35	-17.17
Others							
8	Housing	8894.42	2.64	898.37	1952.35	0.51	-78.05
9	Public Works	10754.09	3.20	64.59	15920.7	4.13	48.04
10	Ports and Lighthouses	15212.62	4.52	320.35	21406.98	5.56	40.72
11	Medical and Public Health	9879.66	2.94	57.71	11765.25	3.05	19.09
12	Telecommunication s & Electronics	19233.07	5.72	66.25	13625	3.54	-29.16
13	Welfare of SC,ST & OBC	7236.62	2.15	91.09	4908.68	1.27	-32.17
14	Education, Sports, Art and Culture	8558.88	2.54	72.96	7951.57	2.06	-7.10
15	Fisheries	8397.7	2.50	21.93	9214.61	2.39	9.73
16	Co-operation	21105.54	6.27	380.43	16865.83	4.38	-20.09
17	Food, Storage and Warehousing	1651.16	0.49	34.53	2704.72	0.70	63.81
18	Forestry and Wildlife	1399.79	0.42	5.89	1900.51	0.49	35.77
19	Tourism	3461.18	1.03	122.08	12230.46	3.17	253.36
20	Others	44333.33	13.18	37.59	67981.12	17.64	53.34
21	**Total**	**336368.7**	**100.00**	**63.33**	**385292.33**	**100.00**	**14.54**

5.26 The above analysis may be concluded with the following observations. During the year 2011-12, the fiscal situation was critical and the state was forced to borrow money for meeting day to day expenditure. The basic cause for the critical fiscal situation is the mounting expenditure on four items viz. salaries to government staff, teaching grants given to private aided educational institution, pensions and interest payments. There has been an unprecedented of increase in salary and pension expenditure during 2011-12. Another aspect is the high expenditure increased for education Nearly half of the total staff and salary expenditure is for one sector education. Lots of public fund are unnecessarily used support uneconomic government and private aided schools and the excess teachers in these institutions. There has been substantial growth in subsidies especially non -produce subsidies. Regarding the social welfare pensions meant for poor and old people, the government and LSGIs failed to distribute it on a monthly basis. The resource crunch has resulted in fall in growth of capital expenditure on items such as roads and bridges, major and medium irrigation, housing, public works, ports and light houses, medical and public health, education, fisheries etc.

6
Plan Expenditure of Departments and Local Self Government Institutions

Introduction

6.1 Development plan is an instrument by which Governments intervene in an economy through public projects and schemes to achieve certain socio-economic objectives. An annual plan is an operational plan which 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 form the important elements in plan performance.

6.2 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 gap in the budgeted targets and actual spending of plan projects. In this chapter, the Committee evaluates the targeted and timely spending of plan outlay of Government Departments and Local Self Government Institutions (LSGIs) in Kerala. As the Centrally sponsored schemes are critical elements for the development of the State, the Committee specifically evaluates the progress in the implementation of these schemes at the Department level. The chapter is subdivided into four parts. The first part evaluates the plan expenditure of Departments during 2011-12. In this part, the effectiveness of plan expenditure is evaluated based on certain norms fixed by the Committee and accordingly the various Departments are categorised into 'very poor', 'poor', 'good' and 'very good'. The second part evaluates the centrally sponsored schemes implemented by various Departments during 2011-12. The third part of the chapter examines the plan expenditure of LSGIs in Kerala. The last part concludes the chapter with the highlight of existing pitfalls in plan expenditure in the State.

Data and methodology

6.3 The important sources of data used in this section are: CPMU of Planning and Economic Affairs Department, Government of Kerala; Information Kerala Mission (IKM), Government of Kerala; Sulekha, web site maintained by the Department of Local Self Government, Government of Kerala; and Report of the Comptroller and Auditor General of India on Local Self Government Institutions for the year ended March 2012. The Department level expenditure and its effectiveness are evaluated with the help of data furnished by CPMU of Planning and Economics Affairs Department. The expenditure of LSGIs is evaluated with the help of data furnished by IKM and Sulekha web site of LSGIs. As different sources of data are used for the evaluation of plan expenditure, inconsistency is found on many occasions.

6.4 The various Departments are categorised into 'very poor', 'poor', 'good' and 'very good' based on the ranks estimated for each Department. Three important norms are used by the Committee for preparing relative ranks of Departments. The norms are: (1) the percentage of annual plan expenditure to outlay (2) the deviation of plan expenditure in each quarter as compared to norm fixed by the State Government and (3) Percentage of plan expenditure during the last month of the financial year ie, during the month of March. As per the Committee view, the quality of plan expenditure increases with respect to increase in plan expenditure to outlay. The increase in deviation of plan expenditure from the norm stipulated by the State reduces the effectiveness of plan spending. Also, the bunching of plan spending during the month of March reduces the quality of spending. Accordingly, separate ranking of each Department for each index is prepared and finally a combined ranking which is sum of individual ranks is prepared for the overall effectiveness in plan expenditure. The aggregate ranks are divided into four quartiles to categorise the Department as 'Very Poor', 'Poor', 'Good' and 'Very Good'. The 'Very Poor' Departments belong in the first quartile while 'Poor', 'Good' and 'Very Good' Departments belong in the second, third and fourth quartiles of aggregate ranks respectively. In addition, the simple techniques such as mean, standard deviation and coefficient of variation are used in the process of evaluation of plan expenditure.

I. Plan outlay and expenditure of Departments

6.5 The State Government fulfills its various development objectives through implementation of annual plan schemes by various Departments. The original allocation provided for the Annual Plan 2011-12 under State Plan sector is Rs 12,000 crores. Inaddition, Rs 1406.28 crore is provided as Central Assistance for Centrally Sponsored schemes and Rs 12 crore towards Special Assistance for Special Component Plan (SCP) and Tribal Sub-plan (TSP). Inadditon to normal State plan schemes, the schemes under the heading of State Plan schemes comprises externally aided project, 13th Finance Commission proposed schemes, Rural Infrastructure Development Fund (RIFD), one time Additional Central Assistance and Food Security proposed. Table 6.1 gives the Department wise plan outlay and plan expenditure for the year 2011-12. During 2011-12, of the total plan outlay, the amount spent accounts for 91.21% with wide variation in the plan expenditure between Departments. Of the thirty seven Departments, seven have spent more than the total plan outlay given in the budget.

Table 6.1 Department level plan outlay and expenditure for 2011-12

	Departments	**State plan outlay and expenditure (Rs in lakh)**		
		Plan outlay	Expenditure	Percentage of expenditure to plan outlay
1	Animal Husbandry	21693	16139.20	74.40
2	Agriculture	62699	52852.18	84.30
3	Cooperation	4400	3402.80	77.34
4	Cultural Affairs	3350	3406.63	101.69
5	Legislature	40	34.69	86.73
6	Environment	1744	1599.57	91.72
7	Finance	11475	14587.72	127.13
8	Fisheries	13647	15435.46	113.11
9	Food, Civil Supplies & Consumer Affairs	8739	7224.21	82.67
10	Forest	7537	7040.20	93.41
11	GAD	110	107.08	97.35
12	Gen. Edn.	22320	15964.61	71.53
13	Health & FW	43887	40271.20	91.76
14	Higher Edn.	17652	20854.04	118.14
15	Home & Vigilance	9636	8785.01	91.17

16	Housing	3154	2223.00	70.48
17	Indusries & Commerce	46603	38493.07	82.60
18	IT	17339	14137.63	81.54
19	Labour & rehabilitation	33419	17785.14	53.22
20	Law	93	90.80	97.63
21	LSGD	359388	340737.92	94.81
22	NORKA	1151	606.31	52.68
23	P & ARD	1511	1511.00	100.00
24	Planning	7823	4553.41	58.21
25	Ports	23081	21956.45	95.13
26	Power	112300	69530.09	61.91
27	Public Relations	2140	3879.29	181.28
28	PWD	68442	181318.08	264.92
29	Revenue	2665	1029.50	38.63
30	SC/ST Devpt. Dept.	69181	65989.17	95.39
31	Science & Technology	4925	3583.58	72.76
32	Social Welfare	24974	19478.82	78.00
33	Sports & Youth Affairs	5350	3275.15	61.22
34	Taxes	495	469.00	94.75
35	Tourism	15300	16242.03	106.16
36	Transport	18349	15941.84	86.88
37	Water Resources	154388	64953.35	42.07
	Total State plan	**1201000**	**1095489.23**	91.21
			Mean	91.15
			S.D	38.88
			C.V	42.65

Source: CPMU of Planning and Economic Affairs Department, Government of Kerala.

6.6 The excess spending over the plan outlay (more than 100%) is mainly due to accrual of past arrears and additional spending out of MLA funds. This is largest in the case of PWD. The Departments which spent more than the plan outlay are Cultural Affairs, Finance, Fisheries, Higher Education, Public Relations, PWD and Tourism. The highest percentage of plan outlay was spent by PWD which comes to 265 percent of budgeted outlay. On the other hand, five Departments have spent less than 60 percent of the outlay. The Departments which spent less than 60 percent are Labour and Rehabilitation, NORKA, Planning, Revenue and Water Resources. The excess abnormal spending (as in the case of PWD) is equally a serious issue, similar to shortfall of spending. The carry over spending from the previous year must be treated separately by the Departments for having a clear picture on annual plan performance. Otherwise a meaningful annual expenditure pattern analysis is not possible.

Month wise plan expenditure

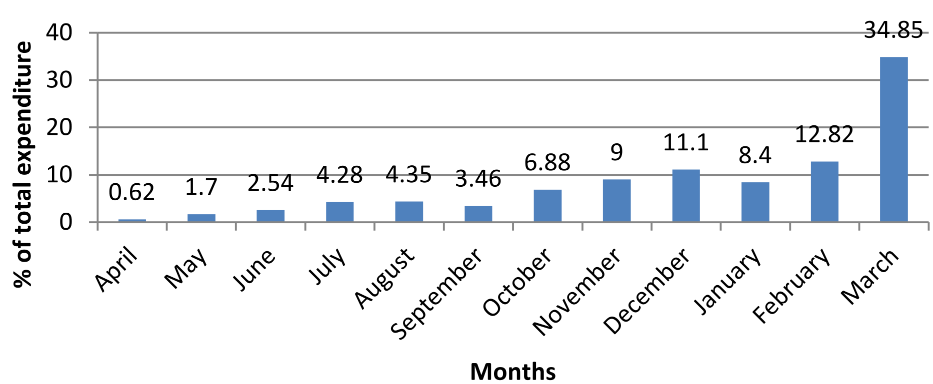
6.7 The pattern of expenditure can be assessed by examining the month wise and quarter wise expenditure of Government Departments. Table 6.2 gives the month wise plan expenditure of Government Departments during the year 2011-12. Chart 6.1 and 6.2 represent the trends in plan expenditure month wise and quarter wise respectively.

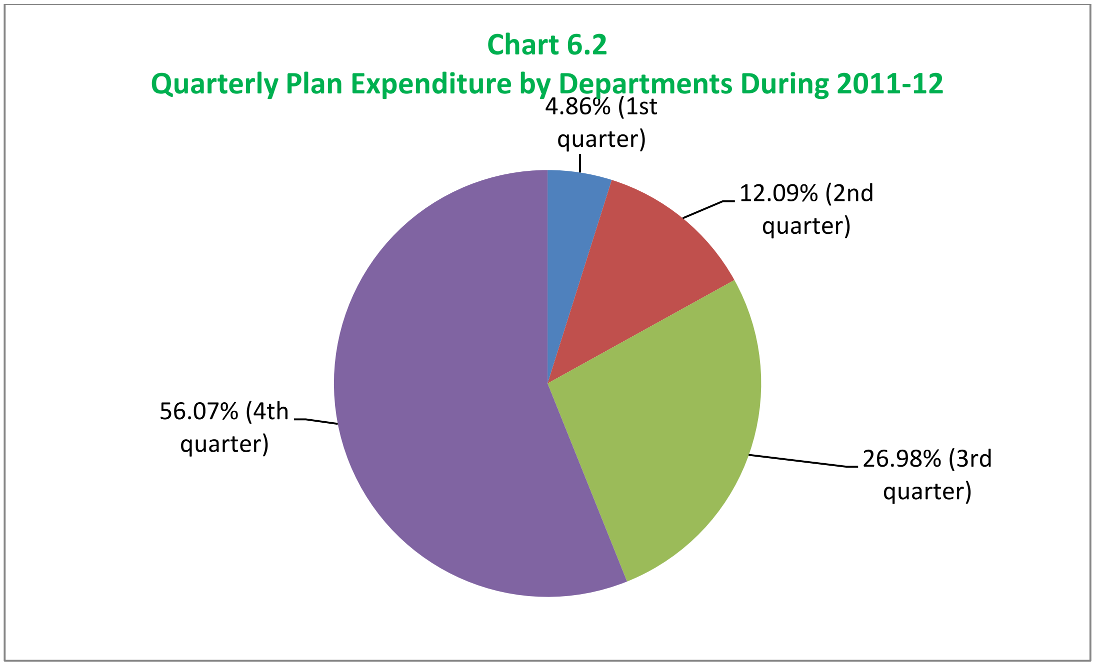
Table 6.2 Month wise plan expenditure of Government Departments for 2011-12

Month	Total plan expenditure	% to total expenditure	Norm fixed by the Government	% difference from norm
Apr-10	6819.02	0.62		
May-10	18631.05	1.70		
Jun-10	27798.96	2.54		
1st quarter	**53249.03**	**4.86**	**10%**	**-51.4**
Jul-10	46860.74	4.28		
Aug-10	47667.13	4.35		
Sep-10	37942.51	3.46		
2nd quarter	**132470.38**	**12.09**	**30%**	**-59.7**
Oct-10	75364.73	6.88		
Nov-10	98588.92	9.00		
Dec-10	121557.77	11.10		
3rd quarter	**295511.42**	**26.98**	**30%**	**-10.07**
Jan-11	92072.48	8.40		
Feb-11	140394.82	12.82		
Mar-11	381791.1	34.85		
4th quarter	**614258.4**	**56.07**	**30%**	**86.9**
Total	1095489.23	100.00	100	

Source: Planning and Economic Affairs (CPMU) Department, Government of Kerala

Chart 6.1
Percentage of Plan Expenditure





6.8 The data reveal that there exists a large variation of plan expenditure month wise, quarter wise at Department level. During the first quarter, between April to June, the target of spending is fixed as 10 percent. But the actual achievement was 4.86 percent. In the second quarter, between July and September, the actual spending was 12.09 percent as against the targeted expenditure of 30 percent. In the third quarter, between October and December, the actual expenditure was 26.98 percent against the targeted level of 30 percent. In the last quarter, between January and March 2011, the actual spending was 56.07 percent against the targeted level of 30 percent. During the first and second quarters, the shortage of expenditure to the norm fixed by the Government was 51.4% and 59.7% respectively. In the third quarter, it reduced to 10.07%. However, in the fourth quarter, the situation had dramatically changed. The percentage of expenditure incurred during the fourth quarter was in excess of 86.9% of actual norm fixed by the Government.

6.9 A disturbing thing is that out of total plan expenditure, 34.85 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 that too 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 which needs corrective measures. The implementing Departments cannot entirely been blamed for this poor quality of plan spending. The time of actual sanctioning and release of funds from Department of Finance is partially held responsible for this. Thus a proper evaluation of bunching of plan spending, data pertaining to the date of actual release of funds from Finance Department must be given along with spending at Department level in the Annual Plan Review prepared by Plan Monitoring Cell of Finance Department.

Evaluation of the quality of plan expenditure at Department level

6.10 The Committee evaluates the existing effectiveness of plan expenditure as compared to the norm fixed by the State Government. At Department level, the Committee identified those Departments which adhere to the norm fixed by the Government on percentage of total plan expenditure quarter wise with 5% variation on either side. Table 6.3 shows the name of the Departments which adhere to the above norm. In the first quarter only six Departments (16% of total) spent between 5-15% of plan expenditure. At the same time, only one Department each namely Agriculture and Power could adhere to the norm of plan expenditure for second and third quarter respectively. During the fourth quarter, only Finance and Power Departments could adhere to the norm fixed for plan expenditure. It implies that majority of the Departments could not satisfy the norms fixed for quarterly expenditure of plan outlay in Kerala.

Table 6.3 Departments and expenditure to total plan expenditure in various quarters in 2011-12 (5% lower and upper variation from the stipulated norms)

Between 5 -15% during the 1st quarter	**25-35% during the 2nd quarter**	**25-35% during the 3rd quarter**	**25-35% during the 4th quarter**
Agriculture	Agriculture	Power	Finance
Legislature			Power
Fisheries			
Forest			
Gen. Edn.			
Higher Edn.			
Power			

6.11 Table 6.4 shows the categorisation of Departments based on percentage of plan expenditure to outlay. The Departments are categorised into three: those spending up to 60%, between 60 and 80% and more than 80% of plan outlay. It shows that five Departments spent less than 60% of plan outlay: the lowest by Revenue followed by Water Resources. Eight Departments spent between 60 and 80% of plan outlay. However, twenty four

Departments (65% of total) spent more than 80 percent of plan outlay during the financial year 2011-12.

Table 6.4 Departments and spending of plan outlay

Spending up to 60% of plan outlay	Spending between 60 and 80% of plan outlay	Spending above 80% of plan outlay
Revenue (38.63)	Sports & Youth Affairs (61.22)	IT (81.54)
Water Resources (42.07)	Power (61.91)	Industries & Commerce (82.6)
NORKA (52.68)	Housing (70.48)	Food, Civil Supplies & Consumer Affairs (82.67)
Labour & rehabilitation (53.22)	Gen. Edn. (71.53)	Agriculture (84.3)
Planning (58.21)	Science & Technology (72.76)	Legislature (86.73)
	Animal Husbandry (74.4)	Transport (86.88)
	Cooperation (77.34)	Home & Vigilance (91.17)
	Social Welfare (78)	Environment (91.72)
		Health & FW (91.76)
		Forest (93.41)
		Taxes (94.75)
		LSGD (94.81)
		Ports (95.13)
		SC/ST Devpt. Dept. (95.39)
		GAD (97.35)
		Law (97.63)
		P & ARD (100)
		Cultural Affairs (101.69)
		Tourism (106.16)
		Fisheries (113.11)
		Higher Edn. (118.14)
		Finance (127.13)
		Public Relations (181.28)
		PWD (264.92)
Note: Figures in the parenthesis show the percentage of plan spending		

6.12 Table 6.5 shows the details of plan expenditure by various Departments during the month of March 2012. Departments are categorised into three groups: those spending up to 20%; between 20 and 50%; and more than 50%. It reveals that out of 37 Departments, only seven Departments spent less than 20% during the month of March. Twenty Departments spent between 20 and 50% and ten Departments spent more than 50%. While Food, Civil Supplies and Consumer Affairs Departments spent nearly 96 percent, P&ARD spent the entire amount during the month of March.

Table 6.5 Plan Expenditure of Departments during the month of march 2012

Spending upto 20% of plan outlay	Spending between 20 and 50% of plan outlay	Spending above 50% of plan outlay
Law (2.53)	Housing (22.49)	Home & Vigilance (50.38)
Planning (7.57)	Higher Edn. (22.71)	Ports (51.8)
Power (11)	NORKA (22.77)	IT (55.09)
GAD (11.89)	Fisheries (23.82)	Sports & Youth Affairs (57.6)
Social Welfare (12.86)	Finance (24.42)	Revenue (58.32)
PWD (16.13)	Animal Husbandry (25.37)	Taxes (70.81)
Gen. Edn. (17.43)	Agriculture (25.61)	Legislature (75.09)
	Labour & rehabilitation (30.08)	Environment (76.54)
	Science & Technology (30.99)	Food, Civil Supplies & Consumer Affairs (96.46)
	Water Resources (31.06)	P & ARD (100)
	Tourism (32.29)	
	Transport (32.33)	
	SC/ST Devpt. Dept. (37.28)	
	Indusries & Commerce (41.86)	
	Forest (42.79)	
	Health & FW (47.05)	
	Cultural Affairs (47.93)	
	Cooperation (48.33)	
	LSGD (48.84)	
	Public Relations (48.93)	

Note: Figures in the paranthesis show the percentage of plan spending

Ranking of Departments based on the quality of plan expenditure

6.13 The Committee used certain criteria for ranking various Departments with respect to quality of plan expenditure during 2011-12. The selected criteria and methodology of ranking of Departments are described already in the introduction. Table 6.6 shows the ranking of Departments as explained in the methodology. While 6th column of the Table shows the aggregate value of all ranks by combining all individual ranks, the 7th column shows the rank of each Department based on the 6th column. Results indicate that the Higher Education, Fisheries and Home are ranked first, second and third respectively. The lowest ranked Departments is Revenue followed by Sports and Youth Affairs, Environment and Food, Civil Supplies and Consumer Affairs.

Table 6.6 Criteria and ranking of Departments with respect to spending of plan outlay during 2011-12

1	2	3	4	5	6	7
Sl.No	Departments	Rank on the basis of % of plan spending	Rank on the basis quarterly expenditure from the norm	Rank on the basis of spending during the month of March	Sum of all ranks (3+4+5)	Final Rank
1	Animal Husbandry	27	4	13	44	11
2	Agriculture	21	2	14	37	6
3	Cooperation	26	18	25	69	28
4	Cultural Affairs	7	23	24	54	18
5	Legislature	20	21	34	75	30
6	Environment	17	34	35	86	35
7	Finance	3	16	12	31	3
8	Fisheries	5	7	11	23	2
9	Food, Civil Supplies & Consumer Affairs	22	27	36	85	34
10	Forest	15	8	22	45	13
11	GAD	10	35	4	49	14
12	Gen. Edn.	29	6	7	42	8
13	Health & FW	16	25	23	64	26
14	Higher Edn.	4	3	9	16	1
15	Home & Vigilance	18	13	28	59	20
16	Housing	30	14	8	52	16
17	Indusries & Commerce	23	10	21	54	18
18	IT	24	22	30	76	31
19	Labour & rehabilitation	34	12	15	61	23
20	Law	9	33	1	43	9
21	LSGD	13	11	26	50	15
22	NORKA	35	20	10	65	27
23	P & ARD	8	33	37	78	32
24	Planning	33	9	2	44	11
25	Ports	12	19	29	60	21
26	Power	31	1	3	35	4
27	Public Relations	2	33	27	62	24
28	PWD	1	29	6	36	5
29	Revenue	37	37	32	106	37
30	SC/ST Devpt. Dept.	11	30	20	61	23
31	Science & Technology	28	36	16	80	33
32	Social Welfare	25	15	5	45	13
33	Sports & Youth Affairs	32	24	31	87	36
34	Taxes	14	28	33	75	30
35	Tourism	6	17	18	41	7
36	Transport	19	26	19	64	26
37	Water Resources	36	5	17	58	19

6.14 The aggregate ranks (column 6) of the above Table are divided into four quartiles to categorise the Department as ‘Very Poor’, ‘Poor’, ‘Good’ and ‘Very Good’. The ‘Very Poor’

Departments belong to the first quartile while ‘Poor’, ‘Good’ and ‘Very Good’ Departments belong to the second, third and fourth quartiles respectively. This categorisation is given in Table 6.7.

Table 6.7 Departments and their relative position in plan spending

	Very Poor	Poor	Good	Very good
1	Legislature	Cooperation	Animal Husbandry	Agriculture
2	Environment	Health & FW	Cultural Affairs	Finance
3	Food, Civil Supplies & Consumer Affairs	Home & Vigilance	Forest	Fisheries
4	IT	Labour & rehabilitation	GAD	Gen. Edn.
5	P & ARD	NORKA	Housing	Higher Edn.
6	Revenue	Ports	Industries & Commerce	Law
7	Science & Technology	Public Relations	LSGD	Power
8	Sports & Youth Affairs	SC/ST Devpt. Dept.	Planning	PWD
9	Taxes	Transport	Social Welfare	Tourism
10			Water Resources	

6.15 The above categorisation captures the performance of Departments only partially. As the evaluation lacks the outcome variables, the Department categorised as ‘good’ or ‘very good’ cannot be relapsed into a complacent mood. Though the Department of Agriculture grouped as ‘very good’ in terms of plan spending, its actual outcome performance was deplorably poor, which is evident from its negative growth during 2011-12. This is a clear case of wastage of plan spending. The performance of Departments without the outcome measure is meaningless and hence along with plan expenditure, the achievement of outcome variables should also be given in the Annual Plan Review prepared by the Government. Also, the Committee strongly feels that the ‘very poor’ and ‘poor’ Departments must take urgent necessary steps for improving the quality of plan expenditure.

II. Evaluation of centrally sponsored schemes of Departments

6.16 Various Departments implement centrally sponsored schemes along with State plan schemes. The Centrally Sponsored schemes (CSS) include schemes fully funded (100% CSS) and partially funded (other CSS). Table 6.8 shows volume of centrally sponsored outlay for various sectors. Out of total State plan outlay, nearly 9% is sponsored by central Government. In some sectors such as Cooperation, the centrally sponsored outlay is greater than State outlay. In irrigation sector, the centrally sponsored outlay is nearly 28 percent of State plan outlay.

Table 6.8 Centrally sponsored outlay by sector wise (Rs in lakh)

Sl. No	Sectors	Total plan outlay	Plan outlay of 100% CSS	Plan outlay of other CSS	Total plan outlay from CSS
1	Agriculture and Allied Services	99500	5478.82 (5.51%)	5598(5.63%)	11076.82 (11.13%)
2	Rural Development	62678		885 (1.14%)	885 (1.14%)
3	Co-Operation	4300	5075 (118.02%)		5075 (118.02%)
4	Irrigation and Flood Control	55103	30 (0.05%)	15400(27.95%	15430 (28%)
5	Power	112300			0
6	Industry and Minerals	63967	85 (0.13%)	800.01(1.25%)	885.01 (1.38%)
7	Transport and Communication	128739		118 (0.09%)	118 (0.09%)
8	Scientific Services and Research	9164	1500 (16.37%)		1500 (16.37%)
9	Social and Community Services	386639	40126.07 (10.38%)	26587.42 (6.88%)	66713.49 (17.25%)
10	Economic Services	9551	1852.53 (19.40%)		1852.53 (19.40%)
11	General Services	11654			0
12	Statement IV A-Plan Assistance to Local Self-Government	257405			0
	Grand Total	**1201000**	**54147.42 (4.51%)**	**49388.43 (4.11%)**	103535.9 (8.62%)

Note: Figures in the parenthesis show the percentage to total plan spending
Source: Planning and Economic Affairs (CPMU) Department, Government of Kerala

617 Table 6.9 shows the percentage of centrally sponsored outlay spent in various sectors. Though some sectors utilised the central outlay more than 100% in 2011-12, some Departments could not spent a sizeable share of it. While irrigation and flood control sector spent 76%, Agriculture and Allied Services sector could spend only 53% of 100% CSS. Many sectors did not spent much from other CSS programmes. Irrigation and flood control sector spent only 3% of other CSS outlay while rural development sector spent only 11% of other CSS outlay. An ironical thing noted here that though the Department of Agriculture performed well in total plan spending, the sector badly performed in the implementation of CSS. The strict conditionalities in CSS spending and its timely accounting and reporting to Central Government, deter these Departments for its efficient utilisation. This itself is an evident for mismanagement and inefficiency prevailing at present in line Departments to carry out the plan schemes particularly CSS. The Committee recommends that the State Planning Board must initiate a special task on equipping all line Departments in all stages of project implementation of CSS.

Table 6.9 Centrally sponsored schemes and its expenditure by sector wise (Rs in lakh)

Sl.No	Sectors	Total plan outlay	Plan outlay of 100% CSS	Expenditure of 100% CSS	Plan outlay of other CSS	Expenditure of other CSS
1	Agriculture and Allied Services	99500	5478.82	2919.33 (53%)	5598	5254.54 (94%)
2	Rural Development	62678			885	94.96 (11%)
3	Co-Operation	4300	5075	3876.21 (76%)		
4	Irrigation and Flood Control	55103	30	32.25 (108%)	15400	448.04 (3%)
5	Power	112300				
6	Industry and Minerals	63967	85	79 (93%)	800.01	937.86 (117%)
7	Transport and Communication	128739			118	355.2 (301%)
8	Scientific Services and Research	9164	1500	0		
9	Social and Community Services	386639	40126.07	35830.33 (89%)	26587.42	43865.26 (165%)
10	Economic Services	9551	1852.53	2657.1 (143%)		
11	General Services	11654				
12	Statement IV A-Plan Assistance to Local Self-Government	257405				
	Grand Total	**1201000**	**54147.42**	**45394.22 (84%)**	**49388.43**	**50955.86 (103%)**

Note: Figures in the parenthesis show the percentage of spending to outlay

Source: Planning and Economic Affairs (CPMU) Department, Government of Kerala

6.18 Within the various sub sectors, there exist wide variations in expenditure on CSS. Most of the 100% CSS in which spending is less than 60% mainly comes under the agriculture and allied services and social and community services (For details refer Annual Plan 2011-12 CPMU GoK) . The schemes such as conservation of threatened breeds of small ruminants, livestock census, wetland conservation, integrated development of wildlife habitats, Indira Gandhi Biodiversity Conservation, Research and Monitoring centre under agriculture and allied services could not spent any amount from the 100% CSS. Also many schemes under social service sector did not spent any amount from 100% CSS. It can be roughly estimated that the State Government missed Rs 87.53 crores by not spending effectively the 100% CSS during 2011-12.

6.19 The Other CSS schemes in which spending less than 60% of sanctioned outlay is spread across various sectors. The Table also highlights that in many Other CSS, even a single rupee is not spent during the financial year 2011-12 such as social service sector (Refer Annual Plan Review 2011-12, CPMU, GoK). The Committee strongly feels that the non utilisation and under utilisation of 100% CSS and Other CSS amounts to a case for mismanagement of resources on the part of State Government and strong corrective measures have to be implemented.

6.20 The Committee found that the lack of preparation and submission of viable schemes, timely monitoring of the implementation of schemes, non-submission of utilisation certificate on time, inadequate provision of State share etc are some of the important factors behind inefficient utilisation of centrally sponsored schemes in the State.

III. Plan expenditure of LSGIs during 2011-12

6.21 A sizeable share of State resources is spent through LSGIs as plan outlay. 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. LSGIs are categorised into Panchayats institutions and urban institutions. Panchayat institutions consist of Grama, Block and District Panchayats. The urban governing institutions are categorised as Municipalities and Municipal Corporations.

6.22 The details of plan outlay and expenditure of LSGIs for 2011-12 are given in Table 6.10. In addition to State transfers of plan funds (including general purpose, SCP and TSP), LSGIs also tap resources through own funds, loans, beneficiary contributions etc. The share of plan funds accounts for 34% of total resources available to LSGIs and share of the same is highest for District Panchayat (47.22%) and lowest for Grama Panchayat (29.44%).

Table 6.10 Plan outlay and expenditure of LSGIs in Kerala (Rs in lakh) during 2011-12

	Outlay		**Expenditure**		**% of Expenditure**	
	Plan fund	**Total fund**	**Plan fund**	**Total**	**Plan fund**	**Total**
Block Panchayat	45158.74 (38.47%)	117390.5	37069.61	71610.16	82.09	61.00
Municipal Corporation	22310.17 (35.05%)	63656.15	15771.94	26545.8	70.69	41.70
District Panchayat	49839.93 (47.42%)	%)105107	36212.81	56355.74	72.66	53.62
Grama Panchayat	139642.5 (29.44%)	477548.2	111818	240830.1	80.07	50.43
Municipality	24827.5 (37.44%)	66304.94	19379.73	34419.07	78.06	51.91
Grand Total	281778.9 (33.95%)	830006.8	220252.1	429760.9	78.16	51.78

Source: (1) Sulekha, Eleventh Five Year Plan 2007-12, http://sulekhaweb.lsgkerala.gov.in
(2) Information Kerala Mission (IKM), Government of Kerala

6.23 There exists a wide variation in utilisation of plan funds among LSGIs. At State level, LSGIs could utilise only 78.16% of plan funds during 2011-12. Among the LSGIs, the utilisation of plan funds is highest for Block Panchayat followed by Grama Panchayat (80.07%) and Municipality (78.06%). The utilisation rate of plan funds is lowest for Municipal Corporation (70.69%). Compared to plan funds, the utilisation level of total funds available at the disposal of LSGIs is still lower (51.65%). Here again, it is lowest for Municipal Corporations (41.64%) followed by Grama Panchayats (50.33%). In spite of better urban infrastructure and administrative set up, the poor resource utilisation of urban local bodies (ULBs) (particularly Municipalities) is indeed a case for callous indifference and dereliction of responsibilities, which defeat the purpose of decentralisation. A detailed investigation is warranted for identifying the reasons that contributing this poor performance of ULBs. The Committee strongly recommends the constitution of a high level committee to look into factors contributing the inefficient plan spending in ULBs and its corrective measures.

6.24 Compared to State plan schemes, the utilisation of funds for CSS is very low. It is only 38.21 (for details refer Sulekha, Eleventh Five Year Plan 2007-12, http://sulekhaweb.lsgkerala.gov.in). The LSGIs are unable to fulfill the conditionalities of central Government in project formulation and implementation in a time bound manner. The important issues in connection with non utilisation of CSS are non-submission of utilisation certificate by LSGIs to Central Government, preparation of viable schemes, lack of proper monitoring mechanism etc. The Committee feels that the underutilization and non utilisation of centrally sponsored schemes particularly 100% CSS is the case for lack of commitment, accountability and inefficiency on the part of LSGIs for the welfare of people.

Monthly and quarterly analysis of plan expenditure among LSGIs

6.25 Table 6.11 reveals the month wise percentage of plan expenditure of LSGIs. It is revealed that the bulk of plan expenditure was spent only during the fourth quarter and that too during the month of March. The percentage of plan spending incurred during the fourth quarter for Grama, Block and District Panchayats are respectively 69%, 67.10% and 72.78% respectively. Also, 50% of this plan spending of Grama Panchayats was spent during the month of March alone while the same figure for Block and District Panchayats are 44% and 53% respectively. The monthly pattern of plan spending of ULBs is also has the same trend. Within LSGIs, this skewed pattern of plan spending is high in ULBs as compared to rural Panchayat Raj Institutions (PRIs). This temporal skewed distribution of plan expenditure adversely affects the quality of plan expenditure. The bunching of plan expenditure by local bodies towards 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. The Committee feels that the issue of skewed distribution of plan expenditure at

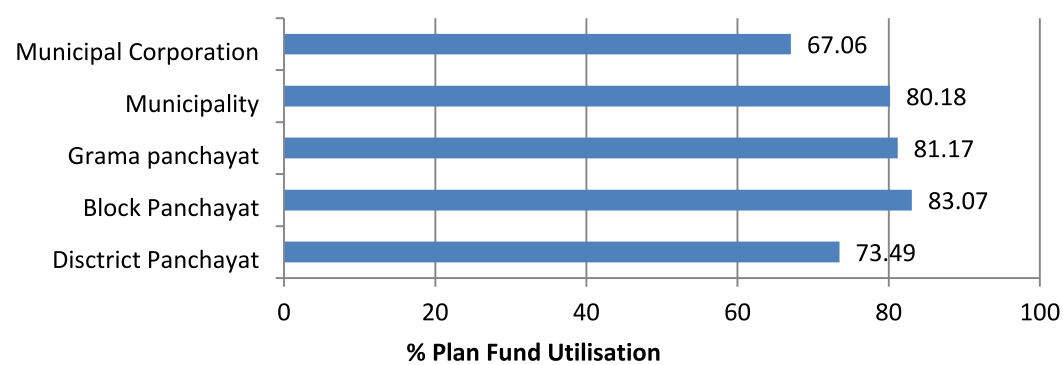
LSGI level must be viewed seriously and corrective steps must be taken to mitigate the issue. Committee recommends a Task Force to be appointed for investigating the above issue thoroughly.

Table 6.11 Monthwise plan expenditure (in %) among LSGIs

Month	Grama Panchayat	Block panchayat	District panchayat	Municipalities	Corporation
Apr-11	0.00	0.00	0.08	0.00	0.00
May-11	0.03	0.01	0.42	0.00	0.00
Jun-11	0.34	0.52	1.48	0.29	0.03
1st quarter	**0.37**	**0.53**	**1.98**	**0.29**	**0.03**
Jul-11	1.25	1.02	3.89	1.98	0.92
Aug-11	4.17	3.24	1.49	3.13	0.73
Sep-11	2.90	4.11	0.42	2.77	0.92
2nd quarter	**8.32**	**8.36**	**5.80**	**7.87**	**2.57**
Oct-11	4.50	7.38	2.86	5.81	1.98
Nov-11	4.14	4.65	2.38	3.74	2.49
Dec-11	13.41	11.98	14.20	8.41	4.14
3rd quarter	**22.06**	**24.01**	**19.44**	**17.97**	**8.61**
Jan-12	8.75	10.23	9.46	7.56	5.32
Feb-12	10.69	12.82	9.34	8.23	9.79
Mar-12	49.80	44.05	53.97	58.08	73.67
4th quarter	**69.25**	**67.10**	**72.78**	**73.87**	**88.78**
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: Planning and Economic Affairs (CPMU) Department, Government of Kerala

Chart 6.3
Plan Fund Utilisation During 2011-12 (%)



Utilisation of plan outlay of district panchayats

6.26 Table 6.12 describes the plan fund allocation and its utilisation of District Panchayats during 2011-12. At State level, the average percentage of plan expenditure of District Panchayats to outlay was 73.49 percent with wide variation. While the highest percentage of District Panchayat plan fund utilisation was recorded by Alappuzha (99.94%), Idukki recorded the lowest utilisation (57.57%). The percentage deviation of plan expenditure of Idukki District Panchayat as compared to the highest performing Panchayat was 73.60%.

Table 6.12
Plan Outlay and Expenditure of District Panchayats during 2011-12

Districts	Plan outlay	Plan expenditure	% spending
Thiruvananthapuram	4527.34	3650.40	80.63
Kollam	4824.23	2963.56	61.43
Pathanamithitta	2031.22	1709.53	84.16
Alappuzha	3143.46	3141.61	99.94
Kottayam	3015.46	1856.77	61.58
Idukki	2980.65	1715.88	57.57
Ernakulam	3399.11	2202.29	64.79
Thrissur	4480.59	3670.82	81.93
Palakkad	6034.22	3830.45	63.48
Malappuram	4623.06	3776.39	81.69
Kozhikode	3402.67	2410.26	70.83
Wayanad	2810.89	1799.47	64.02
Kannur	2880.60	2028.62	70.42
Kasaragode	1686.44	1456.75	86.38
State total	49839.94	36212.8	72.66
		Mean of utilisation	73.49
		S.D of utilisation	12.38
		C.V of utilisation	16.84
		Distance between highest and lowest utilisation units (in %)	73.60

Source: (1) Sulekha, Eleventh Five Year Plan 2007-12, http://sulekhaweb.lsgkerala.gov.in
(2) IKM, Government of Kerala

Utilisation of plan outlay of Block Panchayats- district wise

6.27 Table 6.13 shows the plan outlay and its expenditure of block panchayats during 2011-12. At State level, out of allotted plan outlay, only 83.07 was spent. While Kollam district recorded highest percentage (91.57%) of Block Panchayat plan spending, Palakkad district has the lowest performance (69.29%) in this regard. There exists a wide disparity in plan expenditure of Block Panchayats across. Further analysis indicates that, at individual Block level, the percentage of plan expenditure ranges between 54.9 (recorded in Chowwannur Block in Thrissur District) and 100 percent (Mallapally Block in Pathanamthitta district). The shortage of plan expenditure to outlay of lowest performing Block Panchayat is 82 percent lower than the highest performing one. There exists a high disparity in plan expenditure of Block Panchayats which is evident by the value of coefficient of variation (CV). The highest and lowest variation in plan spending of Block Panchayat was recorded Wayanad and Thiruvananthapuram respectively. Also, out of all Block Panchayats only 22.5 percent spent above 90% of plan outlay. Thus, similar to the underutilization of plan expenditure, the increasing disparity in plan expenditure between regions is also a serious issue, which demands further investigation.

Table 6.13

Average Percentage Expenditure of Plan Outlay of Block Panchayats- District wise, 2011-12

Districts	Mean	Coefficient of variation	Minimum	Maximum	Range as % from minimum
Thiruvananthapuram	91.16	4.09	82.29	95.64	16.22
Kollam	91.57	7.2	75.59	97.61	29.13
Pathanamthitta	88.84	8.24	78.9	100	26.74
Alappuzha	88.85	4.84	81.65	98.15	20.21
Kottayam	82.94	8.5	73.81	95.82	29.82
Idukki	77.89	12.94	65.15	93.39	43.35
Ernakulam	81.62	6.8	70.99	92.62	30.47
Thrissur	82.54	13.89	54.92	98	78.43
Palakkad	69.29	10.21	57.29	81.17	41.68
Malappuram	85.04	8.5	74.69	96.95	29.79
Kozhikode	80.55	8.92	69.67	95.38	36.89
Wayanad	77.58	18.55	56.65	88.27	55.81
Kannur	79.39	13.03	60.82	89.17	46.59
Kasargod	85.6	12.73	67.38	95.92	42.37
State Average	**83.07**	**11.70**	**54.92**	**100.00**	**82.07**

Source: (1) Sulekha, Eleventh Five Year Plan 2007-12, http://sulekhaweb.lsgkerala.gov.in
(2) IKM, Government of Kerala

Utilisation of plan outlay of Grama Panchayats (GP)- district wise

6.28 Table 6.14 shows the summarised picture of plan expenditure of Grama Panchayats at District level. At the State level, the average plan expenditure of Grama Panchayats was only 81.17 percent with wide variation. The average expenditure of Grama Panchayats is highest in Alappuzha (86.5%) followed by Thiruananthapuram Districts (85.98%). The lowest percentage expenditure was recorded in Palakkad District (76.33) followed by Wayanad District (76.61%). At individual GP level within the State, Nelliampathy GP in Palakkad district recorded lowest plan fund utilisation (30.21%) while Aroor GP in Alappuzha District spent the highest percentage of plan outlay (101.18%). It implies that the performance of Nelliampathy GP is 235.92% lower than the best performing Aroor GP. Along with lowest utilisation of plan expenditure, the variation in utilisation between GP is also highest in Palakkad. This situation demands further enquiry. At State level, only 22.3 percent of GPs spent above 90% of plan outlay allotted to them.

Table 6.14 Average Percentage Expenditure of Plan Outlay of Grama Panchayats- District Wise, 2011-12

Districts	Mean	Coefficient of variation	Minimum	Maximum	Range as % from minimum
Thiruvananthapuram	85.98	11.41	51.92	99.42	91.47
Kollam	85.21	8.4	68.8	100	45.35
Pathanamthitta	85.37	10.33	58.29	100	71.56
Alappuzha	86.5	11.81	60.7	101.48	67.18
Kottayam	77.29	17.61	32.34	100	209.21
Idukki	79.79	14.36	47.79	98.78	106.68
Ernakulam	78.76	16.34	46.46	100	115.24
Thrissur	83.86	11.61	56.98	101.23	77.66
Palakkad	76.33	17.51	30.21	97.11	221.48
Malappuram	78.78	12.52	54.51	99.94	83.34
Kozhikode	79.83	11.36	57.03	100	75.35
Wayanad	76.61	14.31	49.32	100	102.76
Kannur	81.88	11.71	46.51	100	115.01
Kasargod	78.8	14.36	52.36	98.56	88.22
State	**81.17**	**13.81**	**30.21**	**101.48**	**235.92**

Source: (1) Sulekha, Eleventh Five Year Plan 2007-12, http://sulekhaweb.lsgkerala.gov.in
(2) IKM, Government of Kerala

Utilisation of plan outlay of Municipalities- district wise

6.29 Table 6.15 shows the average expenditure of plan outlay of various Municipalities within each district. At the State level, Municipalities spent only 80 percent of plan outlay with wide variation across districts. While the highest average percentage of plan expenditure of Municipalities was recorded by Thiruvananthapuram District (87.37%) followed by Kottayam (87.07%), the Thrissur spend the least (68.77%). Data reveals that only 20% of Municipalities spent more than 90% of allotted plan outlay. At individual level, Palakkad Municipality has recorded lowest percentage of plan fund utilisation (43%) followed by Changanassery (46.51%) and Kunnamkulam (46.82%). Not only Municipalities in Palakkad district spend lower plan share, but also its variation between them is high. The distance of plan spending between the lowest and the highest performing Municipalities is highest in Palakkad (132.4%) and the least is in Pathanamthitta.

Table 6.15 Average Percentage Expenditure of Plan Outlay of Municipalities- District Wise, 2011-12

Districts	Mean	Coefficient of variation	Minimum	Maximum	Range as % of minimum
Thiruvananthapuram	87.35	12.89	72.2	99.41	37.67
Kollam	79.82	20.42	62.43	94.76	51.77
Pathanamthitta	84.4	1.22	83.22	85.03	2.17
Alappuzha	74.59	16.2	59.66	85.98	44.12

Kottayam	87.07	13.19	72.57	100	37.8
Idukki	83.59	0	83.59	83.59	0
Ernakulam	85.35	8.46	68.49	96.48	40.87
Thrissur	68.77	22.36	46.82	93.5	99.7
Palakkad	74.2	34.05	43.03	100	132.4
Malappuram	84.96	20.2	53.5	99.54	86.06
Kozhikode	74.09	5.31	71.31	76.88	7.81
Wayanad	78.96	0	78.96	78.96	0
Kannur	74.57	7.2	69.85	84.99	21.68
Kasargod	82.07	19.93	67.15	99.56	48.25
State	80.18	16.44	43.03	100.00	132.40

Source: (1) Sulekha, Eleventh Five Year Plan 2007-12, http://sulekhaweb.lsgkerala.gov.in
(2) IKM, Government of Kerala

Plan fund utilisation of Municipal Corporation

6.30 Table 6.16 shows the plan outlay and expenditure of Municipal Corporations during 2011-12. There are five Municipal Corporations in the State. The average plan expenditure of Municipal Corporations was only 70.59% of outlay with wide variation across them. While Thiruvananthapuram Municipal Corporation spend highest share of plan funds (87.15%), Thrissur Municipal Corporation records the lowest performance (41.29%). The shortfall of plan expenditure of Thrissur as against the highest performing one is as high as 111 percent.

Table 6.16 Plan outlay and expenditure in Municipal Corporation (Rs lakh)

	Plan outlay	Plan expenditure	% of utilisation
Thiruvananthapuram	7972.58	6947.79	87.15
Kollam	3546.63	2713.81	76.52
Ernakulam	3444.56	1998.73	58.03
Thrissur	3408.53	1407.54	41.29
Kozhikode	3937.87	2704.07	68.67
State total	22310.17	15771.94	70.69
		Mean	67.06
		S.D	15.84
		C.V	23.62
		Distance between highest and lowest utilisation units (in %)	111.03

Source: (1) Sulekha, Eleventh Five Year Plan 2007-12, http://sulekhaweb.lsgkerala.gov.in
(2) IKM, Government of Kerala

Among the LSGIs with large number of units (Block Panchayat, Grama Panchayat and Municipalities), the higher variation in spending pattern is recorded by Municipalities and the least by Block Panchayats, which needs a further enquiry.

Least performing LSGI's in Kerala

6.31 The analysis shows that there are many LSGIs of all categories could not utilise even 50% of allotted plan outlay. Table 6.17 summarises the above results.

Table 6.17 Name of LSGIs spending less than 50% of plan outlay/total resources

Type and name of LSG	District	% of plan outlay utilised	% of total resources
Corporation			
Thirssur	Thirssur	41.29	30.05
Municipalities			
Changanassery	Kottayam	46.51	50.48
Kunnamkulam	Thrissur	46.82	25.47
Palakkad	Palakkad	43.03	45.68
Grama Panchayat			
Melukavu	Kottayam	32.36	33.53
Moonilavu	Kottayam	46.44	44.21
Manimala	Kottayam	32.34	36.94
Elappara	Idukki	47.79	16.57
Kadamakudy	Ernakulam	47.69	33.39
Mulavukad	Ernakulam	46.46	43.70
Kottappadam	Palakkad	37.93	37.60
Agali	Palakkad	44.06	35.66
Sholayar	Palakkad	42.84	27.62
Nelliampathy	Palakkad	27.62	11.75
Poothadi	Wayanad	49.32	51.13
Valapattanam	Kannur	46.51	54.59
Source:Sulekha, Eleventh Five Year Plan 2007-12, http://sulekhaweb.lsgkerala.gov.in			

6.32 Among the five Municipal Corporations, the performance of Thrissur was diplorably poor. While Thrissur Corporation spent 41.29% of its plan outlay, it is only 30% in the case of total resources. Among the Municipalities in the State, three of them namely Changanassery, Kunnamkulam and Palakkad spent plan outlay less than 50 percent. However, in Changanessery and Palakkad, the proportion of plan spending is lower than that of total resources. It is the other way round in the case of Kunnamkulam. Out of all Grama Panchayats, twelve Grama Panchayats spent less than 50 percent of plan outlay. While Nelliampathy GP in Palakkad district spent only 27.62% of plan outlay, it is only 11.75% of resources (which composed of plan and other sources). Manimala (32.34%) and Melukavu Grama Panchayats (32.36%) in Kottayam district are two other examples of low performaing LSGIs. Out of the twelve, three of them spent proportionately higher shre of total resources. This difference in spending pattern in plan outlay and total resources needs further investigation. The issue of outliers in plan spending is a serious issue which has to be taken care of very seriously. The Committee feels, among the factors that contribute to the State of outliers, the plausible faactors are lack of timely project preparation, implementation and monitoring etc. The Committee strongly recommends to investigate the above plausible reasons and suggest remedial measures for the improvement of their performance.

Utilisation of SCP and TCP plan funds by LSGIs

6.33 Out of total plan outlay, a significant portion is allocated for the welfare of SC and ST population through Special Component Programmes (SCP) and Tribal Sub Plan (TSP). The details are given Table 6.18 and Chart 6.4 and 6.5. The real impact of these welfare programmes greatly depends on the utilisation of the allotted plan funds. While, fund utilised for SCP is 68.90%, it is 66% for TSP. The disaggregated analysis indicates that ULBs in LSGIs are worst performers in the utilisation of SCP funds with 61.48% and 51.16% for Municipalities and Municipal Corporations respectively. TSP spending is lowest for District Panchayats (59.63%) followed by GP (62.08%) and Municipality (62.47%).

6.34 In addition to the gross underutilization of SCP and TSP funds, there a wide variation in utilising these across LSGIs especially among ULBs. While Vadakara Municipality in Kozhikode District spent only 6.11 percent of SCP plan funds, Attingal, Adoor, Pala and Ottappalam Municipalities spent up to 100 percent of the funds. Not all Municipalities have a provision on the allocation of TSP plan funds. Within the Municipalities which received the TSP funds, there exists disparity in spending. Kottayam Municipality could not spend a single Rupee of allotted TSP fund (Rs 3,01280) during 2011-12. This requires further probing.

6.35 Disparity and underutilization of SCP and TSP are also alarming at GP level. While Alappad GP in Kollam District spent only 1.8% of SCP fund, 36 GPs in different Districts of the State did not spend any TSP plan outlay. Between SCP and TSP funds, the utilisation of TSP fund is worse. This warrants an enquiry on the reasons for non utilisation of SCP and TSP funds. One plausible reason may be that earmarked funds are not relevant to their present pressing needs of the marginalised section. Therefore, the welfare programmes for these vulnerable communities need a through reexamination. To avoid the situation of poor/underutilization of SCP and TSP funds, a built in incentive system in the allocation of plan funds is needed. The Committee urges the Government to initiate immediate proactive action in this regard.

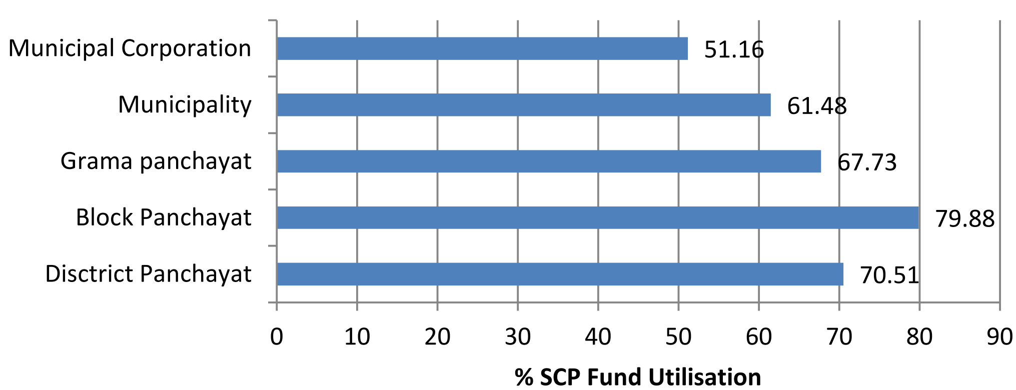
Table 6.18 Utilisation of SCP and TSP at different layers of LSGIs

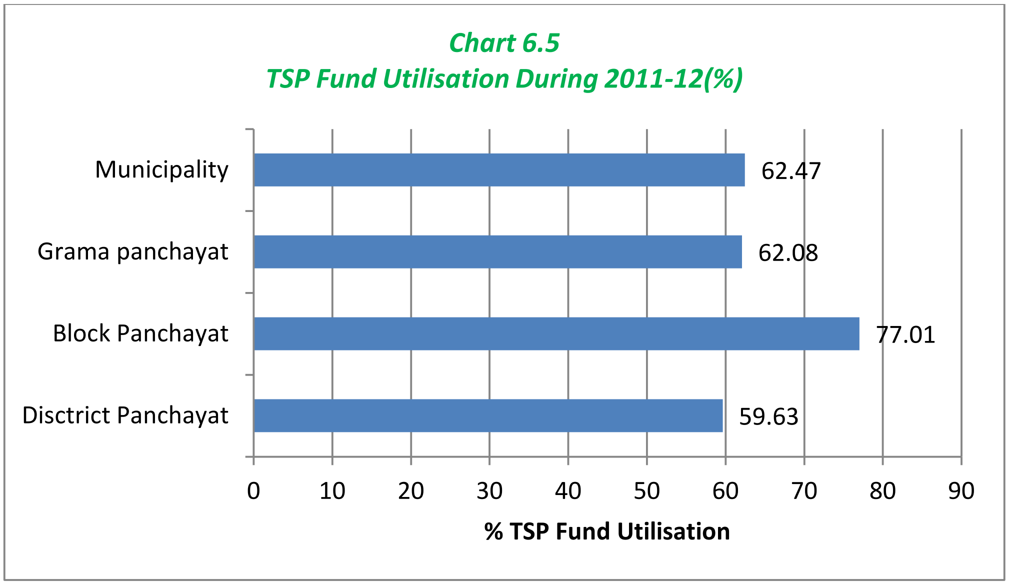
	District Panchayat		Block Panchayat		Grama panchayat		Municipality		Municipal Corporation	
	SCP	TSP	SCP	TSP	SCP	TSP	SCP	TSP	SCP	TSP
Thiruvananthapuram	78.70	61.24	95.02	62.36	74.96	64.63	79.36		66.42	0.00
Kollam	64.88	64.67	95.71	83.33	76.47	66.73	86.10	85.18	40.81	
Pathanamithitta	82.33	82.59	85.10	88.08	77.32	57.78	76.38			
Alappuzha	100.00	106.87	92.85	85.50	73.66	79.36	41.30			
Kottayam	62.79	57.76	76.90	78.59	63.52	48.75	74.15	0.00		
Idukki	49.34	47.69	77.85	70.49	64.72	65.87	72.37			
Ernakulam	62.90	62.33	75.52	57.47	60.49	47.14	58.13	56.03	26.24	
Thrissur	65.32	83.59	76.81	93.27	76.03	75.04	50.21		61.16	
Palakkad	59.51	69.81	68.03	78.30	67.16	67.31	67.23			
Malappuram	84.77	69.56	76.90	91.41	64.55	62.86	67.21	100.0		
Kozhikode	70.99	73.35	82.05	76.15	62.91	74.38	35.30		61.17	
Wayanad	52.96	49.96	60.13	80.81	57.33	69.20	85.15	56.47		
Kannur	78.57	76.44	69.23	70.10	62.15	61.76	43.12			
Kasarkode	90.86	91.93	77.95	98.92	59.68	58.64	71.23	67.35		
State Average	70.51	59.63	79.88	77.01	67.73	62.08	61.48	62.47	51.16	
Minimum	49.34	49.96	22.97	0	1.8	0	6.11	0	26.24	
Maximum	100.00	106.87	100	112.9	110.8	102.1	100	100	66.42	
Range	50.66	56.91	77.03	112.9	109.0	102.1	93.89	100	40.18	
C.V	20.44	20.44	20.66	39.06	25.45	50.95	42.40	51.87	33.30	

Source: (1) Sulekha, Eleventh Five Year Plan 2007-12, http://sulekhaweb.lsgkerala.gov.in
(2) IKM, Government of Kerala

Chart 6.4

SCP Fund Utilisation During 2011-12(%)





Factors contributing inefficient utilisation of plan funds of LSGIs

6.36 The surrender of State plan funds by LSGIs due to the non-implementation of schemes is an area of concern. As per the Report of the Comptroller and Auditor General of India on Local Self Government Institutions for the year ended March 2012, out of Rs 1410.02 crore allotted during 2011-12 under 13 distinct heads, a sum of Rs. 197.27 crore was surrendered. *The major surrender was noticed under Major Head 2217-Urban Development. Out of the total allocation of Rs 210.51 crore under this head, Rs 153.76 crore was surrendered (73 percent) indicating poor utilisation of fund for implementation of State Sponosred Schemes.* Non utilisation of fund was due to delay in approval and slow implementation of projects. In addition to surrender of funds, a large chunk of fund is transferred to Deposit head. *Audit scrutiny of funds transferred to Deposit Head and its utilisation for the period 2006-2012 revealed that Rs 1458.30 crore remained unutilized as at the end of March 2012. The accumulation of fund increased every year from 2006-07 due to non/slow implementation of plan schemes by LSGIs* (C&AG Report on Local Self Government Institutions, No.2, 2013). The Committee feels that the transfer of funds to Deposit Head of LSGIs actually inflate the plan spending and thus, the information on plan spending is misleading and unreliable. This practice is unhealthy and unwarranted and thus the Committee recommends that urgent steps may be initiated to stop this practice and the unspent amount may be forfeited to the State treasury.

6.37 Among the reasons behind the lagged implementation of schemes, the delayed release of funds to LSGIs is the important factor. Monthly transfer credit of fund from Consolidated Fund to Public Account was devised as a means to ensure availability of fund for incurring expenditure by LSGIs. *The State Finance Department was required to transfer fund on the first working day of the month. It was noticed that there was delay in transferring funds ranging from two to 47days in 24 out of 32 transfer of credit made during 2011-12.* (CAG Report on Local Self Government Institutions, No.2, 2013).

6.38 *There were delays in issuing Letters of Authority by the Controlling Officers. Delay ranging from 2 to 81 days was noticed in 96 out of 128 instalments of LSGI funds released during 2011-12.* (AG Report No.2, 2013). The delay in issue of Letter of Authority has resulted in deficiency of fund and consequent delay in implementation of projects.

6.39 Non-release of full amount received by State Government from the Government of India to LSGIs in another issue in this context. As per the AG Report on LSGIs, 2013, the Child Development and Social Welfare Department retained 69 percent of fund reimbursed by GOI to LSGIs towards expenditure on the implementation of Supplementary Nutrition Programme implemented by LSGIs.

6.40 Many items of GOI grants to LSGIs are not released timely. As per the recommendation of the 13th FC, GOI grant to LSGIs has to be released in two tranches within three days of receipt of funds from GOI or in the first week of the months of July and January of every fiscal year if the grant from GOI was not received till then. It was noticed that there was delay in the release of 13th FC grant by State Government to LSGIs. *The second instalment of the Finance Commissin grant was released in March 2012 instead of January 2012.* (AG Report No.2, 2013).

6.41. Spending the plan outlay on non priority sectors also amounts to misutilisation of funds. Production activities account for only 13.36% of plan expenditure of LSGIs during 2011-12. Also, the agriculture and allied sectors accounts for only 10.30 percent of total plan utilisation (for details see Sulekha, Eleventh Five Year Plan 2007-12, http://sulekhaweb.lsgkerala.gov.in). The lower share of development expenditure in production activities is a serious concern and corrective steps will have to be taken in future.

6.42 In addition to low priority to productive activities by LSGIs, the diversion of funds to non-development activities is a serious concern. *During 2011-12, the Controlling Officers under the direction of the Government, deducted Rs 30.02 crore from Development Expenditure Fund and remitted the same to Kerala Water Authority towards arrears of water charges of LSGIs.* (AG Report No.2, 2013). Utilisation of Development Fund for routine non plan expenditures derails the development activities at local level. The Committee strongly recommends that diversion of funds from priority activities to non-priority activities (including non-plan routine expenditures) should be dispensed with.

6.43 The high establishment cost in LSGIs and resultant use of plan funds for the same reduces the fund available for development activities. This situation is very evident in the case of Urban Local Bodies (ULBs). *As against ULBs own revenue and General Purpose Fund totalling Rs 589.08 crore during 2011-12, Rs 679.58 crore was spent towards establishment expenses. Out of Rs 333.84 crore towards Development Fund received from the State Government, Rs 90.50 crore (27.10%) was diverted for incurring establishment expenditure, which had adverse implications on development works.* (AG Report No.2, 2013).

6.44 Public investment in social sector and rural development through major CSSs are made to LSGIs by agencies such as Kudumbasree, KSUDP, Suchitwa Mission etc. The grants for CSSs enjoin upon sanctioning authorities to GOI the responsibility to ensure proper utilisation of grant money. This is to be achieved through receipt of progress reports, utilisation certificate and internal audit of schemes accounts in LSGIs. *Out of Rs 2099 crore released by GOI/State Government, substantial portion of funds amounting to Rs 528.02 crore was lying unspent with Kudumbasree, KSUDP, Suchitwa Mission etc.,* there by defeating the purpose for which the funds were earmarked and released by GOI/State Government. (AG Report No.2, 2013). The Committee recommends that the sub agents receiving funds for CSS must properly monitored and made accountable.

IV. Summary and Conclusion

6.45 The plan outlay is not spending efficiently in the State, both in Departments and LSGIs. 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. There exists a great disparity in plan utilisation among Departments. Many Departments are not adhering to the norm fixed by the State Government in utilising plan funds. A few

Departments even could not spend up to 60 percent of sanctioned plan outlay. Out of 37 Departments, only seven Departments received the status of Very Good Department with respect to plan spending. In the case of Centrally Sponsored schemes also, the performance of many Departments are very unsatisfactory. Many Departments could not utilise even 60% of 100% CSS. No accountability is fixed on officers for lapses for poor plan spending. The plan achievement is not evaluated based on physical outcome. The evaluation of the plan schemes based on the methodology of Research Framework Document (RFD) is yet to be implemented. At LSG level also, performance with respect to quality of spending is very poor. Many LSGIs could not even spend up to 50 percent of plan outlay. In addition to underutilization of sanctioned funds, there exists wide variation in spending among LSGIs. In the case of SCP and TSP, only 69% and 66% respectively of sanctioned funds were spent during 2011-12. Within LSGIs, the performances of urban local bodies (ULBs) are deplorably poor in all aspects. Important identified factors, contributing to the poor implementation plan schemes of LSGIs are: the surrender of plan funds, large scale accumulation of funds in Deposit account, diversion of development funds for non-plan recurring expenditures, high establishment cost, low priority to productive sector activities, under utilisation of funds by State level nodal agencies which are functioning for LSGIs, not adhering to timely preparation and submission of monthly progress reports by LSGIs, delay in issuing Letter of Authority by the Controlling Officers, delayed monthly transfer of credit from Consolidated Fund to Public Accounts and non-release of full amount of grants of GOI to LSGIs by the concerned Departments.

7
Debt Management

Introduction

7.1 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 Government of Kerala in 2003. It examines the component wise analysis of debt covering the financial/fiscal years (FYs), 2007FY-2011FY. 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 whether state as a borrower is rational or not. The hypothesis is studied by examining the cost of borrowing (interest rates) and the amounts borrowed for the major financial instruments used for debt financing. The empirical analysis is undertaken at the disaggregate level. The rationality assumption is also examined in the case of public investment especially in the case of public sector undertakings. It also estimates major sustainability indicators and analyses whether the regional economy is debt-stressed or not. Finally we summarise the chapter along with the recommendations for public action.

Debt composition

7.2 Here we examine total debt with and without outstanding liabilities and their composition of the state of Kerala for the fiscal period, 2007/08 - 2011/12, in Table 7.1. Total debt (hereafter, debt) is defined as the sum total of internal debt, Loans and advances from the central government and public account which includes small savings, Provident fund etc.[3 (i)]. The Table shows that debt in the fiscal year ending March 2008 is Rs. 55410 crore which had increased to Rs. 89418 crore in 2012. The increase in the debt is 1.6 times of the initial amount. In the case of debt including liabilities

(D&L), which is equal to internal debt plus loans and advances from the central government plus public account plus contingency fund, the amount varies from Rs. 58322 crore in 2007FY to Rs. 93211 in 2011FY, an increase of 1.6 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 behavior 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 stabilization of expenditure in a cost effective way.

Growth rates and shares of Debt composition

7.3 Now we examine the growth rates and shares of the composition of debt, four exhaustive categories as given in Table 7.2 and 7. 3. The growth rate of debt has slowed down after reaching a peak in 2008-09 during the period except in the case of internal debt. The component of debt from the centre has slowed down from 3 % at the initial year to 0.6 % at the end of the period. However the public account debt is growing at higher rate than debt during the period except in 2007/08.

Table 7.1 Structure and composition of debt and liabilities of Kerala

Sl No	Item	2007-08	2008-09	2009-10	2010-11	2011-12
1	*Internal Debt*	*34019*	*38814*	*43368*	*48528*	*55397*
	(i)Market Borrowings	*16481*	*21263*	*25973*	*30744*	*38329*
	(ii)Special securities issued to NSSF	*11982*	*11880*	*11740*	*11781*	*11290*
	(iii)Loans from banks and FI's	*5556*	*5671*	*5655*	*6003*	*5867*
2	*Loans and advances from the Centre*	*5533*	*6009*	*6305*	*6359*	*6396*
3	*Public Account*	*18670*	*21388*	*25308*	*27533*	*31339*
	Of which (i) Small Savings, provident Fund etc.	*15858*	*18447*	*21296*	*23786*	*27625*
	(ii)Reserve Funds	*424*	*421*	*297*	*321*	*340*
	(iii)Deposits and Advances	*2388*	*2520*	*2957*	*3425*	*3374*
4	*Contingency Fund*	*100*	*94*	*74*	*66*	*79*
	Total Debt((1+2+3(i))	*55410*	*63270*	*70969*	*78673*	*89418*
	Total Debt and Liabilities (1 +2+3+ 4)	*58322*	*66305*	*75055*	*82486*	*93211*

Source: Finance Accounts ,Various Issues, C&AG

Table 7.2: Growth Rate of major Components of Debt, KERALA

Sl No	Item	2007-08	2008-09	2009-10	2010-11	2011-12
1	*Internal Debt*	*13.5*	*14.1*	*11.7*	*11.9*	*14.2*
2	*Loans and advances from the Centre*	*3.0*	*8.6*	*4.9*	*0.9*	*0.6*
3	*Public Account of which Small Savings, Provident Fund etc.*	*9.1*	*16.3*	*15.4*	*11.7*	*16.1*
	Debt	*11.1*	*14.2*	*12.2*	*10.9*	*13.7*

Source: Same as in Table 7. 1

Table 7.3 Shares of major components of Debt

SI No	Item	2007-08	2008-09	2009-10	2010-11	2011-12
1	*Internal Debt*	61.4	61.3	61.1	61.7	62.0
2	*Loans and advances from the Centre*	10.0	9.5	8.9	8.1	7.2
3	*Public Account of which Small Savings, Provident Fund etc.*	28.6	29.2	30.0	30.2	30.9
4	Debt	100.0	100.0	100.0	100.0	100.0

Source: Same a s in Table 7.1.

7.4 In the share analysis, internal debt and public accounts have increased slightly during the period while that of Central Government has declined. The data clearly indicate that public accounts and internal debt are the major sources of borrowing in Kerala.

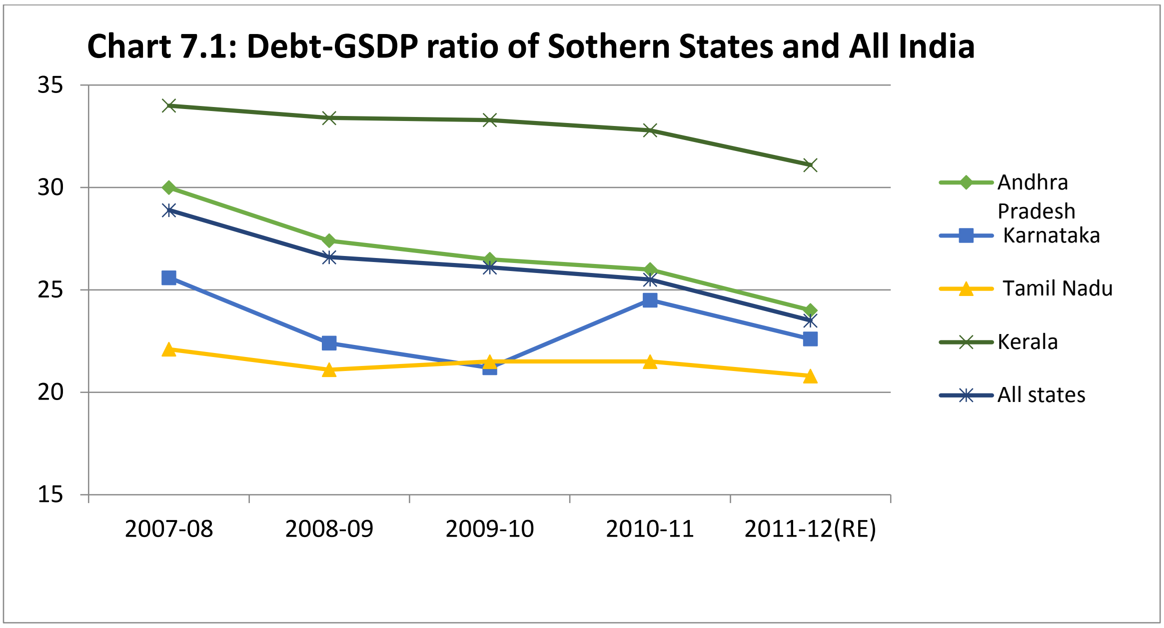
Debt-gross state domestic product ratios

Table 7.4 Debt-Gross state domestic product ratios of Southern States and All States

	2007-08	**2008-09**	**2009-10**	**2010-11**	**2011-12(RE)**
Andhra Pradesh	30	27.4	26.5	26	24
Karnataka	25.6	22.4	21.2	24.5	22.6
Tamil Nadu	22.1	21.1	21.5	21.5	20.8
Kerala	34	33.4	33.3	32.8	31.1
All states	28.9	26.6	26.1	25.5	23.5

Source: RBI handbook on State Finances 2010

7.5 The analysis of the structure so far has been in terms of nominal values and not free from inflation. Moreover it does not consider the borrowing capacity of the state. These limitations are overcome by expressing debt as a ratio of Gross State Domestic Product (D-GSDP). Obviously, the value must lie between 0 and 1. In principle, the ratio can take both values, zero and one, but it is rare that an economy takes such extreme values. The ratios are reported in Table 7.4 for the southern states (Andhra Pradesh, Karnataka, Kerala and Tamilnadu) and all Indian states. The Table shows 6 % reduction in Andhra Pradesh, 3 % in Karnataka, 1.3 % in Tamilnadu and 2.9 % in Kerala. But for all States together in India shows a reduction of 5. 4 % points in the ratio. The highest reduction is for AP and the lowest for Tamilnadu . The comparison becomes more visible in chart 7.1. 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 ratios of Kerala and AP are above whereas Karnataka and Tamilnadu are below the all States ratio. The gap in the ratio between Kerala and other Southern States seems widening after the fiscal year 2008-09 except for Karnataka. The targeted ratio for Kerala, 29.8 %, as fixed by the 13th finance commission by 2013-14 has not been achieved so far by the state. But Tamilnadu has crossed it way back in 2004-05. It is worthwhile to examine the factors contributing to the performance of Tamilnadu with a view to learn, if any, from its performance for Kerala.



The state as a rational borrower: An Empirical Analysis

7.6 Since the State depends more on the market for its borrowing, efficiency of borrowing becomes very relevant. A rational/efficient borrower is always sensitive to the cost of borrowing. This has never been a concern of debt financing in Kerala until now. This hypothesis is examined for the major financial instruments used by the state for deficit financing. The analysis is restricted to instruments for which amounts borrowed and the effective interest rates are readily available. By this criterion, only eight instruments of debt are available for further analysis. The amounts borrowed and its shares of the eight instruments are given in Tables 7.5 and 7.6 respectively.

Table 7.5 Debt by Instruments (Rs Crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Market Loans	16481	21263	25973	30744	38239
LIC	3136	3267	3138	3330	3053
GIC	324	344	363	341	318
NCDC	251	206	187	225	229
NABARD	691	826	1065	1334	1626
GoI	5533	6009	6305	6359	6396
NSSF	11982	11880	11740	11781	11290
Provident Fund	7905	9138	10055	11108	13375
Subtotal	46302	52933	58826	65223	74528
Total Debt	55410	63270	70969	78673	89418
Subtotal/ Debt	83.56	83.66	82.89	82.90	83.35

Source: C&AG Report Various years

From 7.5, the eight instruments contribute 83.6% of the debt in 2007FY and it remains more or less the same until 2011FY. The amount borrowed by all eight instruments has increased by 1.61times during the period. The instrument wise analysis shows the increase in the amount is 2.3 times for market loans, 2.35 times for NABARD followed by provident fund (1. 7 times) and GoI (1.2 times). The least increase is for NCDC (0.91 times) followed by NSSF (0.94 times). How do the shares of these instruments behave during the period? This is shown in Table 7.6.

Table 7.6 :Share of Instruments of Debt in Kerala

	2007-08	2008-09	2009-10	2010-11	2011-12
Market Loans	35.59	40.17	44.15	47.14	51.31
LIC	6.77	6.17	5.33	5.11	4.10
GIC	0.70	0.65	0.62	0.52	0.43
NCDC	0.54	0.39	0.32	0.34	0.31
NABARD	1.49	1.56	1.81	2.05	2.18
GoI	11.95	11.35	10.72	9.75	8.58
NSSF	25.88	22.44	19.96	18.06	15.15
Provident Fund	17.07	17.26	17.09	17.03	17.95
Total	100.00	100.00	100.00	100.00	100.00

Source Table 7.5

7.8 The Table clearly indicates that shares are concentrated in market loans followed by provident fund, NSSF and GoI. However, the shares of Market Loans and provident fund show an increasing trend but GoI a declining trend. If the state is an efficient (rational) borrower, then one would expect a negative relationship between the effective interest rate and the share of instruments. Let us examine the empirical validity of this relationship for the years for which we have information. The effective interest rates of the debt instruments are shown in Table 7.7

Table 7. 7 Effective interest rates of debt by instruments

	2009-10	2010-11	2011-12
Market Loans	7.29	7.08	7.20
LIC	8.38	9.12	8.42
GIC	9.40	9.40	9.39
NCDC	9.41	8.71	10.27
NABARD	7.26	7.21	6.76
GoI	7.08	6.78	6.59
NSSF	9.67	9.66	9.65
Provident Fund	8.24	8.32	8.66
Interest Rate (Weighted Average)	7.98	7.85	7.84

Source Calculated from Finance Accounts of C&AG, various years

7.9 Government of India Loans has the lowest effective interest rate followed by NABARD and Market Loans. The weighted average of the interest rate ranges from 7.84 to 7.98 during the period under consideration.

7.10 The rational borrower hypothesis is examined for two years, 2009-10 and 2011-12, beginning and ending year for which data are available. The scatter plot is given in chart 7.2 and 7.3

Chart 7.2

Share of Debt Instruments and Effective Interest rates in 2009-10

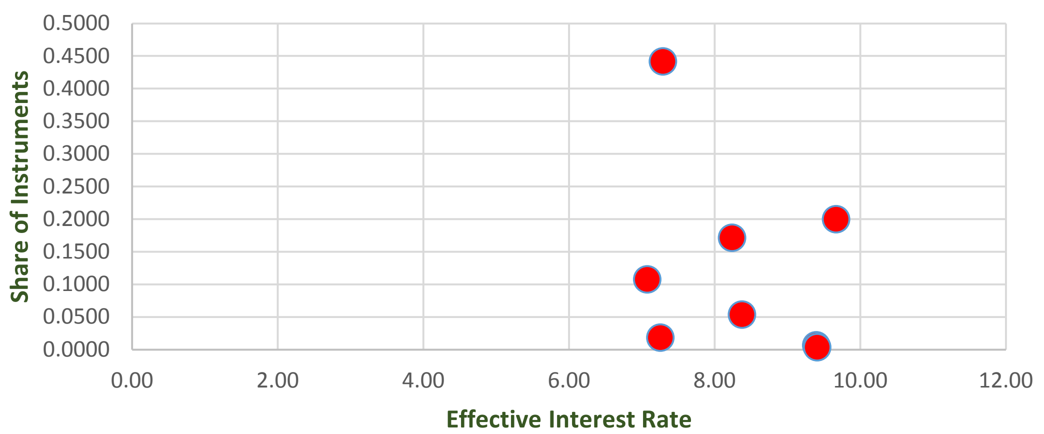
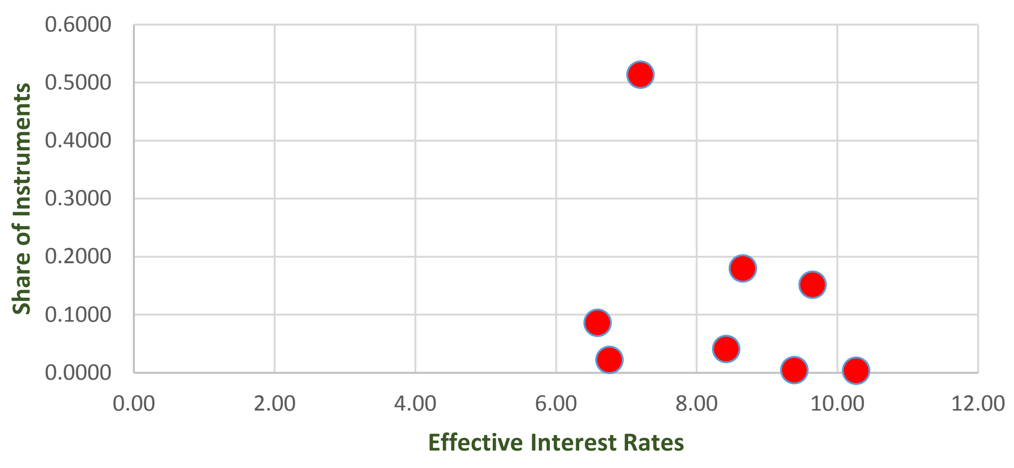


Chart 7.3

Share of Debt Instruments and Effective Interest Rates in 2011-12



7.11 The charts do not support rational (efficient) borrowing hypothesis. This points out the need for further investigation on the behavior of market based instruments, a future area of enquiry. This has immediate policy implication. If the government resort to cost-efficient borrowing, then interest payments will be much lower and net availability of borrowed funds will be more for development spending. Committee, therefore, recommends rational borrowing principles to be followed urgently for market-based loans.

7.12 The financial instruments analyzed indicate that we are not able to channel the huge savings available with the non-resident Indians from Kerala. The magnitude of the remittances through official channels is estimated to be 80,000 crore in 2013. While the major source of Chinese FDI is their Diaspora, it is not even 0.5 % in Kerala in the decade ending 2010. It is high time that we had initiated innovative financial institutions for capturing a share of their saving in a democratic system of governance. Such an institution should rehabilitate the return-migrants, promote high quality skilled migration and promote joint ventures between migrants and host countries. This is an urgent area of the government to concentrate on setting up such a financial institution for NRIs in the next rounds of financial reforms so that present migration-led growth is sustained.

7.13 Next let us concentrate on the rationality in refinancing of borrowed funds. The classic example is the investment in and loans and advances made to public sector undertakings (PSUs).

The Refinancing and Rational Borrower Hypothesis

7.14 Before analyzing the rationality behavior in refinancing , the transparency of the accounts of PSUs needs an evaluation. The first point is that no consistency in the estimates provided by financé accounts and PSUs accounts on equity, loans and guarantees as indicated in Table 7.8 for the year 2011FY.

7.15 Table 7.8 indicating the outstanding equity, loans and guarantees given in Finance accounts versus PSUs records in 2011FY.

Table 7.8
Outstanding equity, loans and guarantees: Finance accounts versus records of PSUs, 2011FY.

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSU,s	Difference
Equity	2984.03	4440.39	1456.36
Loans	4728.61	1440.29	3288.32
Guarantees	4839.92	3315.37	1524.55

Source: CAG report, year ended in March 2012

7.16 The figures from the two sources, Finance accounts and PSU accounts, do not tally as is evident from Table 7.8. The disturbing finding is that PSUs either over-estimate or under-estimate the government figures validated by the CAG. For example, the equity figure of PSUs is 1.5 times that of the CAG whereas it is only 30 % for loans and 70 % on guarantees. The findings suggest a systematic bias in the accounting reported by the PSUs. For the legislative financial control, there is an urgent need for evolving a mechanism not to repeat the bias at least in the future. To ensure comparability, the PSUs should follow the same accounting framework of CAG for finalizing their accounts before the deadline i.e 30th September of the succeeding financial year. To what extent, PSUs follow the dead line.

7.17 The frequency distribution of arrears by years in audit accounts of the PSUs from the Bureau of Public enterprises as shown in Table 7.9.

Table 7.9 The distribution of Arrears by years in Audit Accounts, 2011FY

SI No	No of years in Arrears	No of PSUs
1	12 years	1
2	11 yers	1
3	9 years	1
4	6 years	1
5	5 years	1
6	4 years	6
7	3 years	4
8	2 years	15
9	1 year	26
	Sub Total	56
10	Audit up to date	30
11	Information not available	3
	Total	89

Source: Bureau of Public Enterprises, 2013

7.18 Of the 89 working PSUs only 30 have provided audited figures. This simply means that only 33 % of the PSUs have complete discipline in account keeping. Further, the arrears range from 12 years to one year. Only 21 of the 99 PSUs have finalized their accounts for 2011 according to CAG report. In other words, about 80 % of them do not have any proper record of their spending, a dangerous signal on wasting public resources. This reminds us that PSUs do not follow even the traditional elementary principle of "ആറ്റിൽ കളഞ്ഞാലും അളന്നു കളയണം" in our folk culture. Committee recommends that the government insist on the deadline for finalizing the accounts by 30 September pertaining to the previous financial year failing which the CEOs should be held responsible. Appropriate penalty should be automatically imposed on erring CEOs.

7.19 Let us now examine whether the State behaves rationally in refinancing. Two cases have been examined: (1) rate of return from public investment; and (2) the interest rate received by the government on the loans and advances given by them. The results of the two cases are given in Table 7.10.

Table 7.10 Rate of return & interest rates from loan and advances from PSUs

	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year (Rs. in crore)	2483.99	3153.1	3328.25	3807.5	4206.43
Rate of return (Percent)	1.2	1.1	0.8	2.0	1.6
Opening balance of Loans & advances by the government(Rs. in crore)	5562	6280	6910	7749	8461
Interest receipts/ outstanding loans and advances (%)	0.9	0.7	0.6	0.7	0.2
Average interest rate on government borrowing (%)	7.9	7.5	7.98	7.85	7.84

Source: Report of C&AG on State Finances (various years)

7.20 Since the rate of return from public investment is less than the interest rate of the borrowed funds it does not satisfy the break- even condition. Elementary economic principle says that such PSUs should exit from business unless it produces merit goods. The refinancing of funds as loans and advances is worse than public investment since the rate is not even 1 % as against the interest rate of 7.84% in 2011FY for the borrowed funds. This implies that the loan is virtually interest free for PSUs. According to CAG report ending in March 2012, " As on 31 March 2012, the investment (capital and long term loans) by the state government in 116 PSUs was Rs. 5880.68 crore. This has eroded over the years due to sustained losses and the present net worth … is only (-) Rs. 906.4 crore. CAG, 20012, p.xi)". This simply means that the entire public sector investment is wipe out by the poor performance of the PSUs. It is high time that PSUs had been restructured allowing only viable units be allowed to function excluding those producing merit goods. This recommendation may not become another wild cry like earlier ones on PSUs restructuring.

Let us examine the sustainability of debt next.

Debt sustainability

7.21 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 almost doubled during the period (Table 7.11. Domar gap is positive and increasing, the debt is sustainable by this indicator but with an important caveat that the gap is narrowing down. Moreover, the gap crucially depends on the highly volatile source of growth, the growth based on foreign remittances of NRIs. Next is the resource gap which is the sufficiency of non-debt receipts which is negative in 20011FY. The gap indicates that more borrowing is needed for balancing the budget. Therefore, debt is not sustainable by this criterion. Net availability of borrowed funds has increased in the year for which the report is concerned. But it is sustainable only if more share of the funds is devoted for development spending, 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 7.11 Sustainability indicators of Debt

	2007-08	2008-09	2009-10	2010-11	2011-12
GSDP Growth (GSDPG)	13.9	15.8	14.6	19.2	17.9
Average rate of Interest (ARI)	8.22	7.85	7.91	7.07	7.48
Domar Gap (GSDPG – ARI)	5.7	7.9	6.7	12.1	10.4
Resource Gap (Sufficiency of Non-debt receipts) (Rs. Crore)	(-) 2278	(-) 247	(-) 1525	141	(-)5,084
Net Availability of Borrowed funds (Rs. Crore)	1629	3334	2834	2507	4,426
Burden of Interest payments (Interest payments/Revenue Receipts) (%)	21	19	20	18	17

Source : C&AG Report

Summary and recommendations

7.22 The debt has increased 1.6 times during fiscal period, 2007/08-2011/12. In the case of debt and outstanding liabilities the increase is the same, 1.6 times, during the period. This is attributable to the cap put by the government act in 2003 on government guarantees. The growth rate of debt has slowed down after reaching a peak in 2008FY. The same pattern has been observed for the component, public account, recording higher growth rates most of the time than debt. The component from the Central Government has slowed down from 3 % in 2007FY to 0.6 % in 2011FY. The shares of two components, internal debt and public account, have increased during the period while that of Central Government declined. The share analysis clearly indicates that public account and internal debt are the two major sources of borrowing in Kerala.

7.23 The debt-gross state domestic product ratios of southern states and all Indian states 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. Andhra and Kerala have the ratios above the average of all India states whereas the other two states, Karnataka and Tamilnadu, fall below it. The gap in the ratio between Kerala and other southern states seems widening after the fiscal year 2008/9 except for Karnataka. The target ratio, 29.8 %, as fixed by the 13th finance commission by 2013-14 has already been realised by Tamilnadu way back in 2004FY but not in Kerala even by 2011FY.

7.24 The cost-efficiency of borrowing is tested for eight major instruments which contribute about 84 % of the debt in 2007FY. The effective interest rates of the instruments and their shares do not show any relationship for the two years, 2009FY and 2011FY.The evidence suggests that state is not a rational borrower in its market borrowing.

7.25 Before examining the rational borrowing hypothesis in refinancing and public investments, the accounts of the PSUs, the major beneficiary of refinancing, have been studied. About 80 % of the 119 PSUs do not have audited statements for keeping the transparency of their accounts and do not meet the deadline in finalizing the accounts. As a result, there is very high unreliability in their accounts for any assessment of their performance. The CAG report clearly indicates that in majority of the cases the PSUs do not meet the break-even condition. The refinancing of the government is almost interest free or completely subsidized. Moreover, the net worth of PSUs is negative implying entire public investment is wiped out.

7.26 Of the four indicators (Domar gap, Resource gap, Net availability of borrowed funds and Burden of interest payments) of sustainability, two (resource gap and net availability borrowed funds) are in absolute values. The Domar gap is the difference between the growth of income and the rate of interest which is positive suggesting sustainability. However, the gap has declined in 2011FY over the previous year indicating strains on its sustainability. Resource gap (sufficiency of non-debt receipts) is negative indicating likelihood of borrowing more which may affect adversely the sustainability of debt in the future. Net availability of borrowed funds is high in 2011FY but its impact on sustainability depends on the share spent on development spending. If the past is an indicator, the share is low and the sustainability is likely to be affected negatively. Finally, there is a marginal decline in the burden of interest payment in 2011FY

Recommendations:

- The debt-gross state domestic product ratio of the state is the higher than all Indian states. In order to reach all India average, either debt is to be reduced and/or growth increased. In the present situation, the only possibility is to accelerate growth by linking remittances to the revival of growth in agriculture and/or in manufacturing. Committee recommends that return migrants be rehabilitated in high tech agriculture and in agro-based industries for stimulating growth and reducing the debt-ratio.
- Major components of debt indicate that the State borrow more from the market based instruments now than before. In order to minimise the interest payments, the State should become a rational borrower. Empirical evidence suggests that State is not a rational borrower since borrowing is not based on cost minimising principles. The committee recommends that the government urgently evolve rational borrowing principles in debt financing.
- Accelerating economic growth assumes surplus generated in public investment and from government-.refinancing. The major share of borrowing goes to public sector undertakings (PSUs). Unfortunately, more than 80 % of the PSUs do not produce their certified annual accounts before the deadline of 30 September pertaining to the previous financial year. This reminds us that PSUs do not follow even the traditional elementary principle of "ആറ്റിൽ കളഞ്ഞാലും അളന്നു കളയണം" *(Even if you spill it in a stream, it should be measured)* in our folk culture. Committee recommends that the government insist on the deadline for finalizing the accounts of PSU's by 30 September of succeeding financial year failing which the CEOs should be held responsible. Appropriate penalty should be automatically imposed on erring CEOs.
- In the case of 119 PSUs, the rate of return is below break-even in most of them. Moreover, the borrowed funds from the government are virtually interest free. Further the net worth of PSUs is negative. This simply means that the entire public sector investment is wiped out by the poor performance of the PSUs. It is high time that PSUs had been restructured allowing only viable units to continue in business. Committee recommends that the PSUs should be restructured according to business principles allowing financially feasible units to function. This recommendation should not become another wild cry like earlier ones on PSUs restructuring.
- The debt sustainability depends on growth sustainability. The present migration based growth is highly volatile and needs to be stabilized. The stabilisation is

possible only if the growth is internalized which involves revival of growth in agriculture and in agro-based industries. IT, etc. This requires other dimensions of migration be part of the growth strategy. Such a strategy involves: rehabilitation of return migrants; getting a share of NRI savings for development activities; promoting highly skilled migration; promoting joint-ventures by migrants with host countries, etc. Committee recommends that for sustainable debt-management, the State set up a financial institution in the next rounds of financial reforms for accelerating migration-led growth incorporating other dimension of migration.

8

Finances of Universities: A Review

8.1 The Universities in Kerala heavily rely on the grants of State government for meeting its plan and non-plan expenditure. Due to continuous increase in establishment expenditures like salary, pension and other items on the one hand, inadequate mobilisation of internal resources on the other, the Universities are facing serious financial problems. Some of the Universities like Kerala Agricultural University and Sree Sankaracharya University of Sanskrit are in critical crisis. In this context, the Committee decided to examine the prevailing financial position of the Universities. Here we looked into the sources of receipts, items of expenditure, overall financial position and the consequence of poor finances on development, academic activities, distribution of pension payment and other benefits. For the review of finances, the Committee collected data from seven major Universities in Kerala which receive grants from State Government viz, University of Kerala, University of Calicut, Mahatma Gandhi University (MG University), Kannur University, Cochin University of Science and Technology (CUSAT), Sree Sankaracharya University of Sanskrit (SSUS) and Kerala Agricultural University (KAU). The Committee also discussed the finances of the Universities with Finance Officers and other officials of the Universities. Based on the review, the Committee gives recommendations to improve the finances of the Universities. A review of the finances of individual Universities is presented below. The entire data used in the chapter are supplied by the Universities.

(1) University of Kerala

8.2 University of Kerala, the oldest University in the State, was established as University of Travancore in 1931 by the Government of Travancore. After the formation of the State of Kerala, it was renamed as University of Kerala with state-wide jurisdiction in 1957. Subsequent to the formation of University of Calicut and Mahatma Gandhi Universities, the area of jurisdiction of the University has been limited to Thiruvananthapuram, Kollam, Alappuzha districts and some parts of Pathanamthitta district. Known as the 'Mother University' of the State, the University of Kerala has been engaging in academic teaching, research and extension activities in disciplines like science, technology, humanities and social sciences. The vision of the University of Kerala is to achieve excellence in all areas of academic activities such as teaching, research and extension.

8.3 The University has two campuses viz, Senate House Campus, Palayam and Kariavattom Campus in the outskirt of the Thiruvananthapuram city. The offices of the Vice-Chancellor, Registrar, Controller of Examinations and Finance Officer are located in the Senate House Campus in Palayam. The teaching and research Departments and centres of study of the University are located at Kariavattom campus. The University has 236 affiliated colleges coming under the categories of Government, private aided and private unaided. The University has 42 teaching and research departments offering post-graduate, M.Phil. and Ph.D courses.

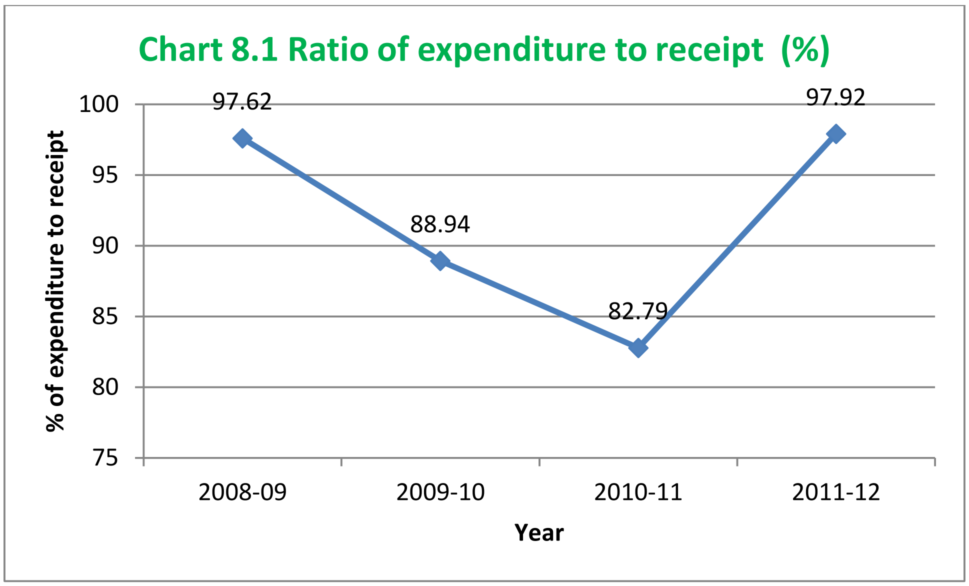
Receipts and Expenditure

8.4 The receipts and expenditure of the University during four years from 2008-09 to 2011-12 are given in Table 8.1. During this period, there had been steady increase in receipts and expenditures in all the years. While total receipts of the University increased from Rs 12351.78 lakh in 2008-09 to Rs 19955.46 lakh in 2011-12, the expenditure rose from Rs 12058.55 lakh to Rs 19541.25 lakh during the same period. Over this period, both receipts and expenditure achieved a growth rate of 62%. The receipts was higher than expenditure in all the years. But it does not mean that the finances are sound as it excludes the net debt and deposit receipts and payments. If we include this item, the University is in deficit. There had been a decline in percentage share of expenditure to receipts followed by an increase in the last year (Chart 8.1). This share has increased from 82.79 in 2010-11 to 97.92 in 2011-12.

Table 8.1

Receipts and Expenditure of University of Kerala (Rs in lakh)

Items	2008-09	2009-10	2010-11	2011-12
1.Receipts*	12351.78	15457.50	17363.78	19955.46
2.Expenditure*	12058.55	13748.46	14376.82	19541.25
3.Percentage of Expenditure	97.62	88.94	82.79	97.92
*Excludes Receipts and Payment in Debt and Deposits				



8.5 Table 8.2 gives the total receipts and its breakup with internal revenue, plan and non-plan grants from State and UGC and scheme funds. A review of the growth of total non-plan and its two components show an increase in 2011-12 as compared to 2010-11. However, the plan grants from State and UGC recorded a negative growth. A notable point is that the growth in the total revenue receipts was lower in the last two years compared to 2009-10. A comparison of major items of receipts between 2008-09 and 2011-12 indicates that there was a rise in the share of internal revenue, fall in the share of non-plan, plan grants and scheme funds with fluctuations. The only positive development was the increase in the share of internal revenue consisting of receipts from general administration, examination, Departments/ Centres and capital receipts in 2011-12.

Table 8.2
Receipts of university of Kerala (Rs in lakh)

Items	2008-09	2009-10	2010-11	2011-12
1.Internal Revenue				
(i)General Administration	819.40	976.68	953.43	986..36
(ii)Examinations	1370.02	1967.08	2597.07	3446.08
(iii)Departments/centers	1836.51	2075.47	1779.30	2013.11
(iv)Capital Receipts	351.04	660.32	872.48	1831.14
Sub Total	4376.97	5679.55	6202.28	8276.69
2.Non plan Grant from state Government	**5885.00**	**7291.31**	**7445.00**	**8934.00**
Total Non-plan(1+2)	**10261.97**	**12970.86**	**13647.28**	**17210.69**
3.State Plan	**600.00**	**650.00**	**2130.00**	**1275.00**
4.UGC plan	**370.37**	**403.23**	**387.13**	**85..22**
Sub Total (3+4)	**970.37**	**1053.23**	**2517.13**	**1360.22**
5.Scheme Funds				
(i)Sate	129.75	531.25	440.52	190.00
(ii)UGC	494.41	476.18	187.63	440.35
(iii)Central Government	336.19	319.17	364.17	575.33
(iv)Others	159.09	106.81	207.05	178.87
Sub Total	**1119.44**	**1433.41**	**1199.37**	**1384.55**
Grant Total	**12351.78**	**15457.50**	**17363.78**	**19955.46**
Growth (Percentage)				
1.Internal Revenue	-	29.75	9.20	33.44
2.Non plan Grant	-	23.89	2.10	20.09
3.Total Non-Plan**(1+2)**	-	26.39	5.21	26.11
4.Total plan	-	8.53	138.99	-45.96
5.Scheme Funds	-	28.04	-16.32	15.43
Grand Total	**-**	**25.14**	**12.33**	**14.92**
Composition(percentage)				
Items	**2008-09**	**2009-10**	**2010-11**	**2011-12**
1.Internal Revenue	35.43	36.74	35.71	41.47
2.Non plan	47.64	47.17	42.87	44.77
3.Total Non plan**(1+2)**	83.08	83.91	78.59	86.274
4.Total Plan	7.85	6.81	14.49	6.82
5.Scheme funds	9.06	9.29	6.90	6.94
Total	**100.00**	**100.00**	**100.00**	**100.00**

8.6 Table 8.3 shows the total expenditure and its break up into revenue, capital and earmarked funds. The trends and patterns of expenditure may be summarised as follows. There has been a continuous increase in all items of revenue expenditure except miscellaneous between 2008-09 and 2011-12. The expenditure on pension more than doubled within a period of three years. The capital expenditure was lower in 2010-11 and 2011-12 compared to 2009-10. The expenditure in earmarked funds witnessed a negative growth in 2010-11. The composition of expenditure underwent a change. While there was an increase in the share of revenue expenditure, the share of capital expenditure and earmarked funds registered a fall with fluctuation.

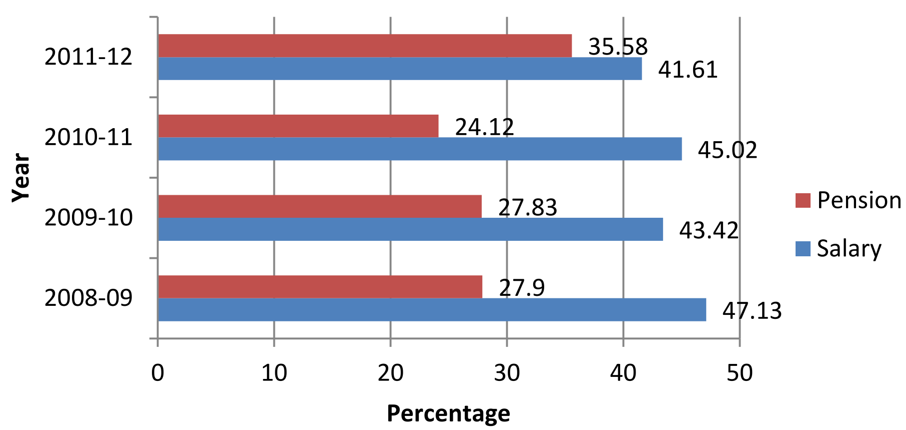
Table 8.3
Expenditure of University of Kerala (Rs in lakh)

Expenditure				
Item	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Part I Non Plan/Plan				
A. General Administration	1448.68	1548.32	1924.17	2549.32
B. Examinations	2164.21	2272.92	2350.55	3167.05
C. Pension / DCRG etc.	3012.85	3302.8	3196.84	6346.7
E. Departments / Centers / Self Financing	3717.78	3862.07	4529.1	5552.96
F. Miscellaneous	455.68	883.38	1252.13	222.05
Total Revenue expenditure	**10799.2**	**11869.49**	**13252.79**	**17838.08**
Part II Works (Capital Expenditure)	**249.48**	**434.22**	**129.8**	**252.82**
Sub Total	**10799.2**	**11869.49**	**13252.79**	**17838.08**
Part III Earmarked Funds				
A. Funds from State Government	155.97	542.73	152.94	222.26
B. Funds from university Grants Commission	395.29	519.33	288.08	457.5
C. Funds from Government of India	305.31	284.2	362.66	640.28
D. Funds from other Agencies	153.3	98.49	190.55	130.31
Total Earmarked Funds	**1009.87**	**1444.75**	**994.23**	**1450.35**
Total Expenditure (other than Debts and Deposits)	**12058.55**	**13748.46**	**14376.82**	**19541.25**
Growth Rate(Percentage)				
Total Revenue Expenditure	-	9.91	11.65	34.60
Works (Capital Expenditure)	-	74.05	-70.11	94.78
Earmarked Funds	-	43.06	-31.18	45.88
Total Expenditure	-	14.01	4.57	35.92
Share(Percentage)				
Total Revenue Expenditure	89.56	86.33	92.18	91.28
Capital Expenditure	2.07	3.16	0.90	1.29
Earmarked Funds	8.37	10.51	6.92	7.42
Total Expenditure (other than Debts and Deposits)	**100**	**100**	**100**	**100**

Salary and pension expenditure

8.7 The two items of expenditure which account for two thirds of the total revenue expenditure are salary and pension (Chart 8.2). The salary and pension expenditure account for 77 percent of the total expenditure of the University during 2011-12. During the same period, salary and pension account for 41.61% and 35.58% of revenue expenditure respectively. During 2011-12, the salary expenditure accounted for 42 percent of the total revenue expenditure of the University (as seen in Chart 8.2). The University has pointed out that it has no control over these items as it follows the State Government pattern. The State Government revises the salary and pensions once in five years and increases Dearness Allowance rates once in six months. The University has no option but to follow these revisions in the case of non teaching staff. In the case of teachers, the Univerisites has to implement UGC pay revisions once in ten years. The financial commitment arising out of UGC revisions are not adequately compensated.

Chart 8.2 Share of salary and pension in revenue expenditure



8.8 Table 8.4 gives the number of staff, salary expenditure, number of pensioners and pension amount between 2005-06 and 2011-12. During this period there had been a decline in the permanent staff of the University. However, the University has 160 teachers and 1217 non-teaching staff during the year 2011-12. A notable aspect is the spurt in the salary expenditure between 2005-06 and 2011-12 which has more than doubled. The growth index shows that while number staff declined by 20 percent, the salary expenditure rose by 109 percent during the period between 2005-06 and 2011-12

Table 8.4
Number of Staff, Salary Expenditure, Number of Pensioners and Pension amount of University of Kerala

	Staff and salary		Pensioners and pension amount		Indices			
	Total no. of staff	Salary amount (Rs lakh)	No. of pensioners	Pension amount (Rs lakh)	Staff	Salary	Pensioners	Pension amount
2005-06	1706	3545.27	1236	1551.31	100.00	100.00	100.00	100.00
2008-09	1575	5089.86	1738	3012.85	92.32	143.57	140.61	194.21
2009-10	1572	5153.92	1832	3302.80	92.15	145.37	148.22	212.90
2010-11	1469	5867.02	1927	3196.84	86.11	165.49	155.91	206.07
2011-12	1377	7421.72	2206	6346.70	80.72	209.34	178.48	409.12

8.9 Pension expenses comprises of the retirement benefits paid at the time of retirement and monthly payment of pensions. The revisions of pension rates every five years and frequent revision in DA rates contribute to the increase in pension payments. The number of pensioners increased from 1236 in 2005-06 to 2206 in 2011-12. Out of 2206 pensioners in 2011-12, 2050 are teachers and 156 are non-teachers. The increase in the number of pensioners in these 5 years was almost double. During this period the pension expenditure increases by more than 4 times. Table 8.4 also gives the growth in the number of pensioners and pension expenditure. The Chart 8.3 highlights that while the number of pensioners increased by 78.48 percent between 2005-06 and 2011-12, the pension expenditure increased by 309 percent during the same period. The mounting expenditure on pension is emerging as the most important financial problem of the University. During 2011-12, the pension expenditure accounts for 35 percent of the total revenue expenditure.

8.10 The index of growth of revenue expenditure, salary and pension payments as given in Chart 8.4 shows that while total revenue expenditure grows by 65 percent during 2008-09 to 2011-12, pension payment increased by 145 percent. This divergence between revenue expenditure and pension payment has been increasing over the time.

Chart 8.3 Index of pensioners and pension amount

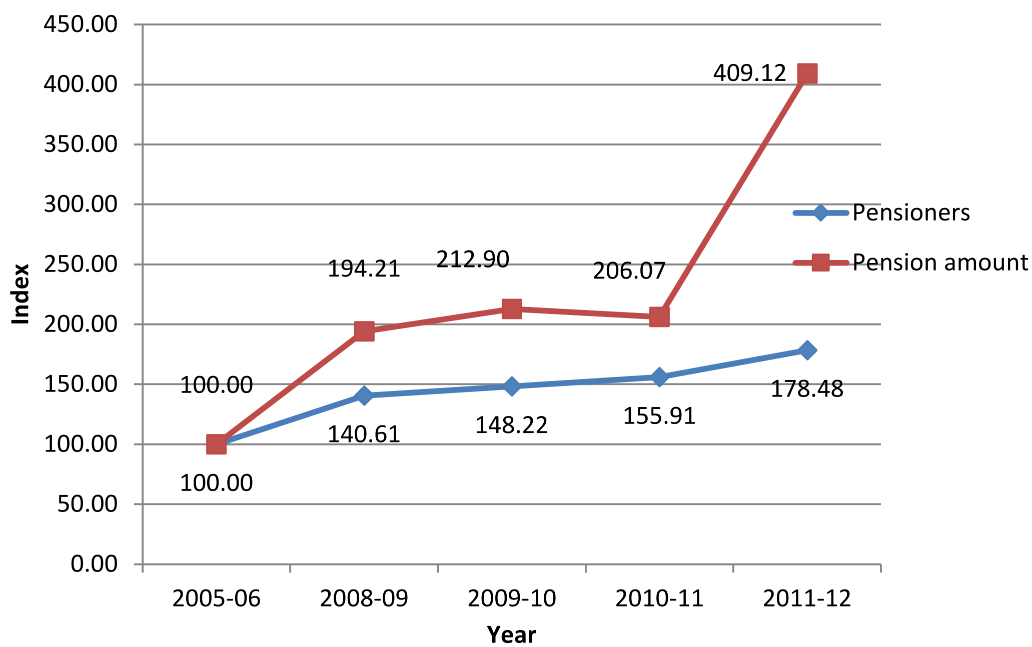
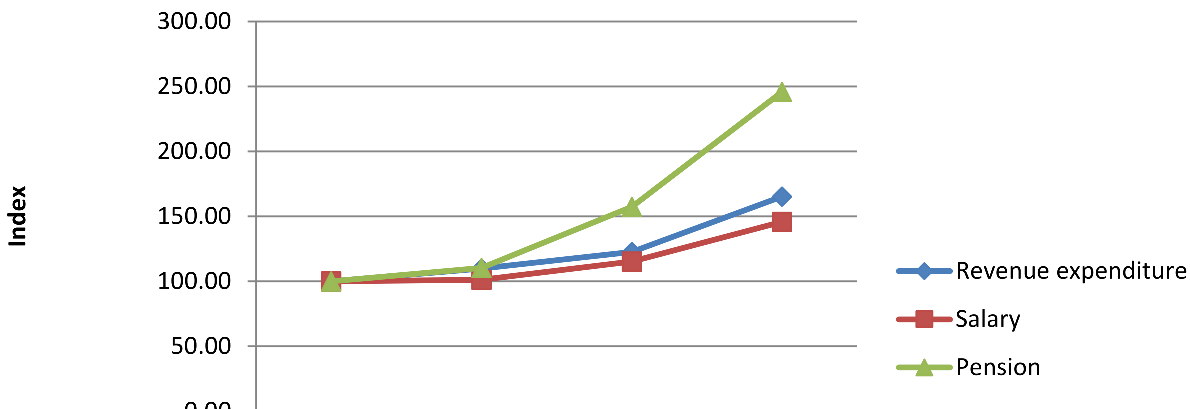


Chart 8.4 Index of revenue expenditure, salary and pension



	2008-09	2009-10	2010-11	2011-12
Revenue expenditure	100.00	109.91	122.72	165.18
Salary	100.00	101.26	115.27	145.81
Pension	100.00	110.27	157.44	245.79

Year

Major financial problems

8.11 Based on the discussion with officials from the University and from the above analysis, the following financial problems emerge.

(1) The Government is giving non-plan grants based on 'deficit filling formula' and it is being utilised for the payment of salary, allowances and pensions. The non-plan grant allotted by the government is insufficient to meet salary and pension payments.

(2) The grants sanctioned from the Government are insufficient to meet the pension payments, which has been escalating year by year. The University is forced to use the internal revenue for meeting pension payments.

(3) Due to inadequate funds for the disbursement of pay and pensions, the University frequently diverts the provident funds for the same payment.

(4) The spurt in the growth in pension expenditure is the major cause for the critical financial situation of the University.

(5) The University has no separate pension fund to meet pension expenditure

(6) The deficit between the examination fees collected and expenditure has widened due to the spurt in the increase in the number of examinations due to semesterisation, conduct of more centralised valuation camps, hike in the remuneration of examiners etc.

(7) Due to inadequate finances, the University is not able to appoint the minimum teaching staff required in the teaching Departments having post-graduate, MPhil and PhD courses. Of the 40 Departments offering post-graduate, M.Phil and Ph.D courses, 33 do not have the required minimum teaching staff of six. It is disturbing to note that 11 Departments have only one or two permanent faculty members. The inadequate number of teachers in the University Departments has adversely affected the quality of teaching of the University.

(8) The University also fails to mobilise adequate internal resources by hiking the various fees and charges (tuition, examination, affiliation fee etc) periodically.

(2) University of Calicut

8.12 The University of Calicut is the largest University in Kerala, established in the year 1968, situated at Thenjipalam in Malappuram with jursidiction spanning over Thrissur, Palakkad, Malappuram and Kozhikode districts. It has 30 Post Graduate Departments and 373 affiliated colleges. In 2011-12, total number staff directly under the University was 1875 which consist of 206 teaching staff and 1669 non-teaching staff.

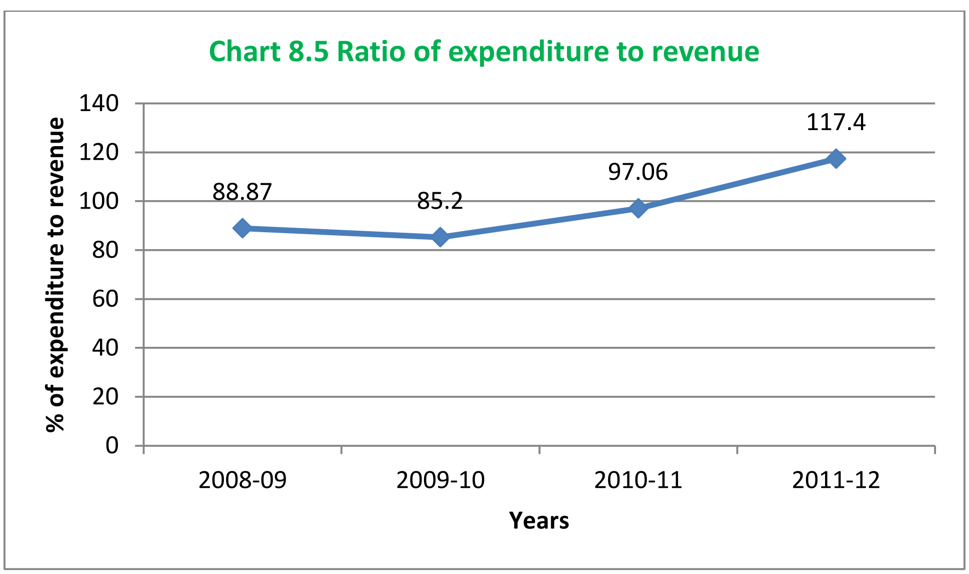
Receipts and Expenditure

8.13 A summary of revenue and expenditure of the University as given in Table 8.5 shows that both revenue and expenditure of the University have been increasing between 2008-09 and 2011-12. While the total receipts of the University increased from Rs 10577.86 lakh to Rs 14356.14 lakh during this period, the expenditure grew from Rs 9401.32 lakh to Rs 16854.91 lakh during the same period. However, the growth of expenditure far exceeds the receipts. While the receipts achieved a growth rate of 35.71% during the period, the expenditure witnessed a whopping growth rate of 79.28%. In some years of the reference period, the absolute amount of expenditure exceeded the receipts. While the percentage of receipts to expenditure was 85.20% during 2009-10, it went up to 117% in 2011-12 (Chart 8.5). The excess of expenditure was being met mainly from Provident Fund account and other saving deposit contributions of employees, which comes under the Debt and Deposit account.

Table 8.5
Receipts and Expenditure of University of Calicut (Rs in lakh)

Items	2008-09	2009-10	2010-11	2011-12
1.Receipts*	10577.86	11840.73	13294.99	14356.14
2.Expenditure*	9401.32	10088.93	12905.43	16854.91
3.Percentage of Expenditure to Receipts	88.87	85.20	97.06	117.40

*Excludes Receipts and Payments in Debt and Deposits



8.14 The details of receipts are given in Table 8.6. The growth rate of total receipts has been declining in the University in 2011-12 as compared to 2010-11, particularly due to decline in plan fund and earmarked scheme funds. The share of plan fund and scheme funds are not very significant in any years of the analysis. They contribute only 7.59 and 6.51 percent respectively during 2011-12. A major share of receipts comes from the non-plan grant support from the State. Its share increased from 40.41 in 2008-09 to 45.20 percent in 2011-12. Internal source of receipts, though a significant component, its share in total receipts has declined from 44.62 in 2009-10 to 40.68 in 2011-12. It shows that the University has been failing its strength of internal resource mobilisation. It is not a desirable outcome.

Table-8.6
Receipts of University of Calicut (Rs in lakh)

Items	2008-09	2009-10	2010-11	2011-12
1.Internal Revenue				
(i)General Administration	872.00	926.93	873.78	790.67
(ii)Examinations	1766.02	2220.31	2191.51	2005.83
(iii)Department/Centers	1964.46	2136.24	2321.40	3044.87
(iv)Capital Receipts	-	-	-	-
Sub Total	**4602.48**	**5283.48**	**5386.69**	**5841.37**
2.Non plan Grant from State Government	**4275.00**	**4916.25**	**5408.00**	**6489.60**
Total Non Plan (1+2)	**8877.48**	**10199.73**	**10794.69**	**12330.97**
3.State Plan	**712.50**	**880.00**	**1302.00**	**1000.00**
4.UGC Plan	**259.35**	**166.85**	**304.43**	**90.00**
Sub Total(3+4)	**971.85**	**1046.85**	**1606.43**	**1090.00**
5.Scheme Funds				
(i)State	87.15	107.50	94.06	53.87
(ii)UGC	345.95	143.72	356.71	515.05
(iii)Central Government	46.53	9.36	98.19	217.75
(iv)Others	248.87	283.54	344.86	148.48
Sub Total	**728.50**	**594.12**	**893.82**	**925.15**
Grand Total	**10577.86**	**11840.73**	**13294.99**	**14356.14**
	Growth (Percentage)			
1.Internal Revenue	-	14.79	1.95	8.44
2.Non Plan Grant	-	15.00	10.00	20.00

3.Total Non Plan(1+2)	-	14.89	5.83	14.23
4.Total Plan	-	7.71	53.45	-32.14
5.Scheme Fund	-	-18.44	50.44	4.62
Grand Total	**-**	**11.93**	**12.28**	**7.98**
Share(Percentage)				
1.Internal Revenue	43.51	44.62	40.51	40.68
2.Non Plan Grand	40.41	41.51	40.67	45.20
3.Total Non plan(1+2)	83.92	86.14	81.19	85.89
4.Total Plan	9.18	8.84	12.08	7.59
5.Scheme fund	6.88	5.01	6.72	6.51
Total	**100.00**	**100.00**	**100.00**	**100.00**

8.15 The details of expenditure as given in Table 8.7 highlight that the revenue expenditure accounts for 87.08% while the capital expenditure was only 7.82% in 2011-12. As compared to the previous year, the revenue expenditure recorded a 36.17 growth rate during 2011-12. It shows that the revenue expenditure has an increasing trend (in percentage share and growth rate) along with declining trend for capital expenditure. The increasing revenue expenditure at the cost of capital expenditure, adversely affects the development activities and consequent fall in the quality of academic operations of the University. The major components of revenue expenditure are salary and pensions.

Table 8.7
Expenditure of University of Calicut (Rs in Lakh)

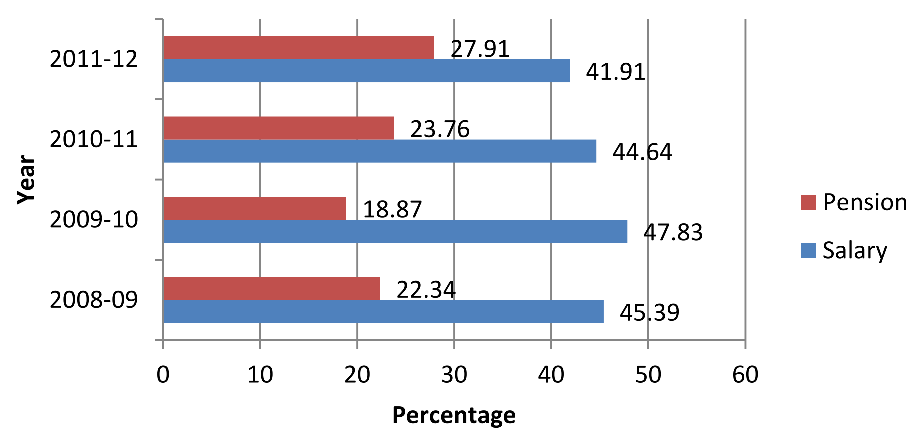
Item	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Part I Non Plan/Plan				
A. General Administration	1278.85	1381.96	1608.29	2142.96
B. Examinations	1959.43	2251.1	2530.52	3303.87
C. Pension / DCRG etc.	1833.86	1602.25	2561.15	4099.14
D. Departments / Centers / Miscellaneous	3134.94	3254.37	4079.16	5131.86
Total Revenue Expenditure	**8207.08**	**8489.68**	**10779.12**	**14677.83**
Part II Works (Capital Expenditure)	**574.75**	**1009.3**	**1425.57**	**1317.93**
Part III Earmarked Funds				
A. Funds from State Government	69.72	95.53	94.26	112.8
B. Funds from university Grants Commission	304.93	266.07	353.42	504.95
C. Funds from Government of India	91.65	71.84	81.35	163
D. Funds from other Agencies	153.15	156.43	171.68	78.36
Total Earmarked Funds	**619.46**	**589.89**	**700.72**	**859.13**

Total Expenditure (other than Part – IV Debts and Deposits)	**9401.32**	**10088.93**	**12905.43**	**16854.91**
Growth (Percentage)				
Item		**2009-10**	**2010-11**	**2011-12**
Total Revenue Expenditure	-	3.44	26.97	36.17
Works (Capital Expenditure)	-	75.61	41.24	-7.55
Earmarked Funds	-	-4.77	18.78	22.6
Total Expenditure	-	7.31	27.91	30.6
Share(Percentage)				
Total Revenue Expenditure	87.30	84.15	83.52	87.08
Capital Expenditure	6.11	10.00	11.05	7.82
Earmarked Funds	6.59	5.85	5.43	5.10
Total Expenditure (other than Pa Debts and Deposits)	**100**	**100**	**100**	**100**

Growth of salary and pension

8.16 Within the revenue expenditure, the important components are salary and pension, which together accounts for 69.83% in 2011-12 as compared to 67.73% in 2008-09 (Chart 8.6). The share of salary and pension out of revenue expenditure is 41.91% and 27.91% respectively during 2011-12.

Chart 8.6 Share of salary and pension in revenue expenditure (in %)



8.17 The number of staff, salary expenditure, number of pensioners and pension amount incurred for them are given in Table 8.8. It highlights the increasing divergence between growth of staffs and their salary expenses. While the number of staff increased only by 7.81 percent between 2005-06 and 2011-12, the salary expenditure grew by 155.16%. Out of total 1875 staff of the University in 2011-12, teaching and non-teaching staff are 199 and 1664 respectively.

Table 8.8
Number of Staff, Salary Expenditure , Number of Pensioners and Pension Amount of University of Calicut

	Staff and salary		Pensioners and pension amount		Indices (base year=2005-06)			
	Total no. of staff	Salary amount (Rs lakh)	No. of pensioners	Pension amount (Rs lakh)	Staff	Salary	Pensioners	Pension amount
2005-06	1728	2410.90	945	1084.66	100.00	100.00	100.00	100.00
2008-09	1497	3724.98	1190	1833.86	86.63	154.51	125.93	169.07
2009-10	1673	4060.83	1280	1602.25	96.82	168.44	135.45	147.72
2010-11	1863	4811.53	1348	2561.15	107.81	199.57	142.65	236.12
2011-12	1875	6151.60	1419	4097.27	108.51	255.16	150.16	377.75

8.18 The major financial liability on the part of the University is the increasing pension burden as shown in Table 8.8. Number of pensioners of University increased from 945 in 2005-06 to 1419 in 2011-12. Out of 1419 pensioners in 2011-12, the number of teachers and non-teachers are 147 and 1272 respectively. As shown in the index, the absolute number of pensioners grew by 50.6 percent between 2005-06 and 2011-12 while the pension payment increased by 277.75%. The divergence between the index of pensioners and pension payment is shown in Chart 8.7. A comparison of revenue expenditure, salary and pension expenses is given in Chart 8.8. It shows that the index growth of pension payment is higher than the revenue expenditure and salary payments. Thus the increasing liability of pension payment would become a real threat for the financial sustainability of the University.

Chart 8.7 Index of pensioners and pension amount

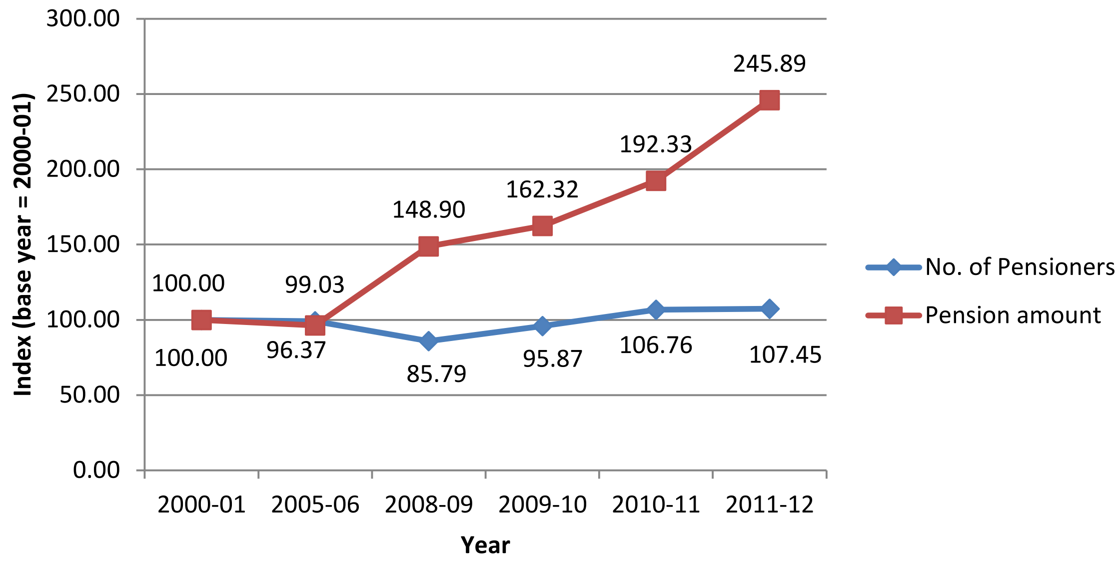
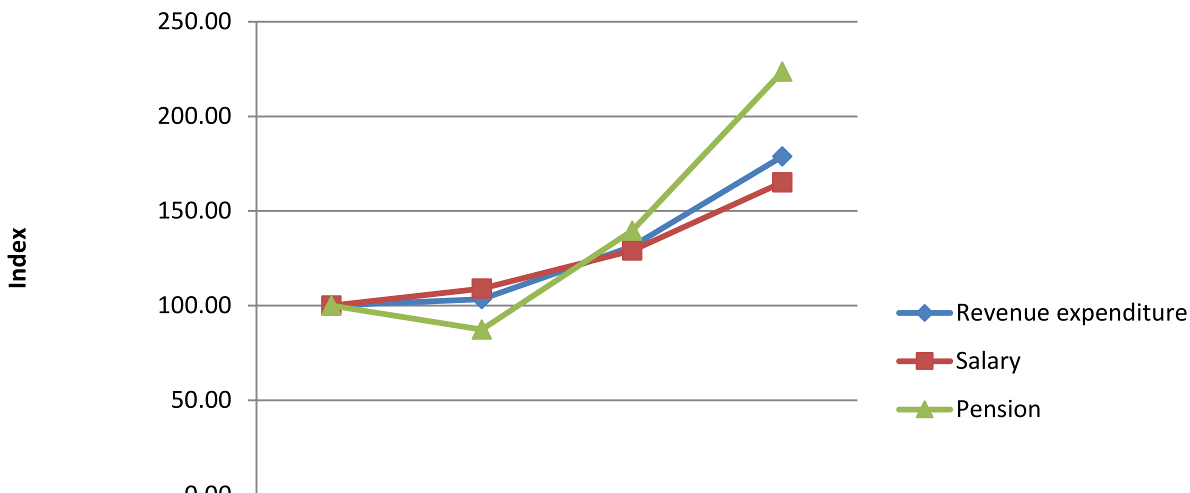


Chart 8.8 Index of revenue expenditure, salary and pension



	2008-09	2009-10	2010-11	2011-12
Revenue expenditure	100.00	103.44	131.34	178.84
Salary	100.00	109.02	129.17	165.14
Pension	100.00	87.37	139.66	223.53

Year

Major financial problems

8.19 The major problems of the University in connection with finance are as follows

(1) The University is facing an unprecedented financial crisis due to continuous deficit in non-plan account. During February and March 2013, the University has almost reached a situation near default in payment of salary and pensions. The crisis has paralysed the activities of University.

(2) According to the University, the major cause for this is the inadequate non-plan grant sanctioned by the Government without taking into consideration the actual financial requirement of salary, pensions, arrears of salary and pensions.

(3) The financial situation worsens whenever there is a revision of pay/pension and enhancement of the DA rates in parity with the State Government Staff.

(4) In the absence of pension fund, all retirement benefits and monthly pensions are paid from the non-plan funds.

(5) The introduction of Choice Based Credit Semester system to degree and other courses have resulted in doubling the number of examinations. Due to this there has been substantial increase in expenditure on these items. Currently the University has to conduct 20,000 examinations in a year.

(6) Funds are not available to conduct repairs of University buildings which are more than 40 years old.

(7) Due to acute scarcity of funds, the University is not in a position to allot adequate funds for academic activities in the teaching Departments. Funds are not available for repairing equipments, purchasing books, conducting seminars and meeting other expenditures of teaching Departments. This has resulted in the deterioration of the quality of teaching and research.

(8) Due to financial problems, two instalments of recent DA arrears have not been remitted in the PF account.

(9) The University has not succeeded in mobilising more resources through timely revision of tuition, examination and other fees.

(10) The University has not taken much effort to introduce E-governance to reduce the administrative and examination staff and expenditure.

3. Mahatma Gandhi University

8.20 Mahatma Gandhi (MG) University was established as per the MG University Act of 1985. The jurisdiction of the University comprises the districts of Kottayam, Ernakulam, Idukki, Pathanamthitta and Kuttanadu Taluk of Alappuzha district. The University has 17 Teaching Departments, seven Academic Centres, five self-financing Department, 8 Nursing Institute under the School of Medical Education. Two Departments of Pharmaceutical Sciences, three centres of School of Technology and Applied Sciences and 12 University Colleges of Teacher Education. It has 127 Arts and Science colleges, 43 Education Training colleges, 27 Engineering Colleges, one Law College, 4 Medical Colleges, 5 Pharmacy Colleges, 7 Dental Colleges, 3 Ayurveda Colleges, 2 Homeo Colleges, 3 Allied Medical Education Colleges and one Music and Fine Arts College. The institutions in connection with medical education are transferred to the newly estblished Arogya University in Thrissur. It has 76 Off Campus Centres, 62 Centres within Kerala, 7 outside Kerala and 7 abroad. It has 163 unaided stream colleges.

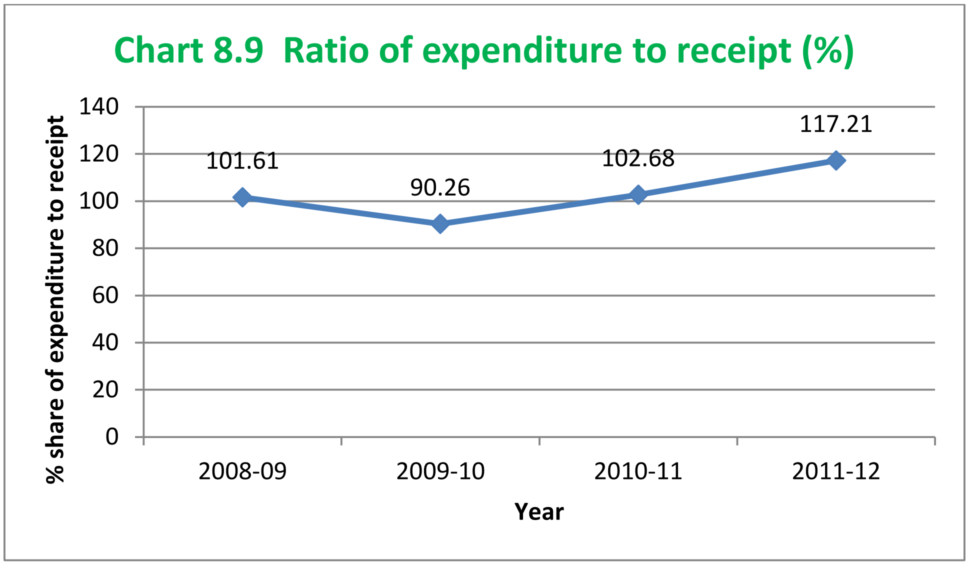
Reciepts and expenditure

8.21 Receipts and expenditue of the University as given in Table 8.9 shows that the growth of expenditure has overtaken the receipts. While the receipts increased from Rs 6635.40 lakh to Rs 11259.79 lakh during 2008-09 to 2011-12, the expenditure grew from Rs 6742.66 lakh to Rs 13197.71 lakh during the same period. The percentage growth rates of receipts and expenditure during this period are 70% and 96% respectively. The expenditure as percentage of revenue was 117.21% in 2011-12 as compared to 101.61% in 2008-09. (Chart 8.9). The excess of expenditure is met from the divertion of provident fund and other related components of Debt and Receipts account.

Table 8.9

Receipts and Expenditure of M.G. University (Rs in Lakh)

Items	**2008-09**	**2009-10**	**2010-11**	**2011-12**
1.Receipts*	6635.40	7783.50	9495.57	11259.76
2.Expenditure*	6742.66	7726.19	9750.16	13197.71
3.Percentage of Expenditure	101.61	90.26	102.68	117.21
*Exclude Receipts and Payments in Debt and Deposits				



8.22 The details of receipts of the University are given in Table 8.10. The important components of revenue are internal, non-plan grants, plan fund from the State and scheme funds from various sources. The total non-plan receipts which consists of internal and non-plan grants accounts for 70% of total resources of the University. The plan fund from the State government has actually declined in 2011-12 as compared to the previous year. The share of internal revenue to the total receipts has witnessed a declining trend in 2011-12 as compared to 2008-09. Its share has declined from 41.66 percent in 2008-09 to 37.10 percent in 2011-12. It implies that the self-reliance of the University in financing its growing expenditure has weakened. The major sources of internal receipts are general administration and examination.

Table 8.10
Receipts Of M.G. University (Rs in Lakh)

Item	2008-09	2009-10	2010-11	2011-12
1.Internal Revenue				
(i)General Administration	818.07	1105.11	1144.83	1399.36
(ii)Examinations	1926.88	2114.59	2172.81	2633.32
(iii)Department/Centers	19.82	110.72	140.01	144.72
(iv)Capital Receipts	0.00	0.00	0.00	0.00
Sub Total	**2764.77**	**3330.42**	**3457.65**	**4177.40**
2.Non-plan Grant from State Government	**2449.00**	**2834.78**	**3099.69**	**3717.60**
Total Non-plan(1+2)	**5213.77**	**6165.20**	**6557.34**	**7895.00**
3.State Plan	**660.00**	**850.00**	**1710.50**	**1244.00**

4.UGC Plan	**243.11**	**0.00**	**310.12**	**627.75**
Sub Total(3+4)	**903.11**	**850.00**	**2020.62**	**1871.75**
5.Scheme Funds				
(i)State	5.63	306.65	259.28	388.72
(ii)UGC	29.29	39.42	164.52	685.49
(iii)Central Government	151.70	135.68	464.63	401.86
(iv)Others	331.90	286.54	29.18	16.94
Sub Total	**518.52**	**768.29**	**917.61**	**1493.01**
Grand Total	**6635.40**	**7783.50**	**9495.57**	**11259.76**
Growth (Percentage)				
1.Internal Revenue	-	20.45	3.82	20.81
2.Non-Plan Grant	-	15.75	9.34	19.93
3.Total Non-Plan	-	18.24	6.36	20.39
4.Total Plan	-	-5.88	137.72	-7.36
5.Scheme Fund	-	48.16	19.43	62.70
Grand Total	**-**	**17.30**	**21.99**	**18.57**
Composition(Percentage)				
1.Internal Revenue	41.66	42.78	36.41	37.10
2.Non-plan Grant	36.90	36.42	32.64	33.01
3.Total Non-Plan	78.57	79.20	69.05	70.11
4.Total Plan	13.61	10.92	21.27	16.62
5.Scheme Fund	7.81	9.87	9.66	13.25
Total	**100.00**	**100.00**	**100.00**	**100.00**

8.23 The details of expenditure are given in Table 8.11. Out of the total expenditure, the share of revenue component was 75.33% in 2011-12 while it was 13.33% for capital expenditure. The growth of revenue expenditure has an increasing trend. As compared to the previous year, the revenue expenditure has recorded a growth rate of 32% in 2011-12. The important items which contributed the hike in revenue expenditure are salary, examination expenses and pension benefits.

Table 8.11

Expenditure of M. G. University (Rs in Lakh)

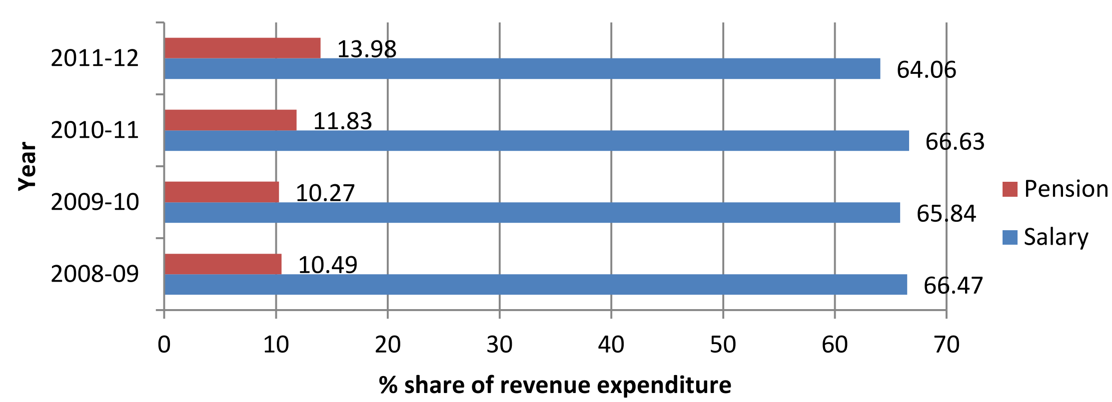
Item	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Part I Non Plan/Plan				
A. General Administration	243.13	311.1	319.89	419.15
B. Examinations	790.04	873.46	1053.09	1443.21
C. Pension / DCRG etc.	565.76	623.87	890.76	1390.56
E. Departments / Centers / Miscellaneous	209.98	267.42	249.01	321.44
F. Salary	3583.68	4000.6	5016.82	6370.48
Total Revenue Expenditure	**5392.59**	**6076.45**	**7529.57**	**9944.84**
Part II Works (Capital Expenditure)	**831.5**	**881.41**	**1302.94**	**1759.82**
Part III Earmarked Funds				
A. Funds from State Government	5.63	306.65	259.28	388.72

B. Funds from University Grants Commission	29.29	39.42	164.52	685.49
C. Funds from Government of India	151.7	135.68	464.63	401.86
D. Funds from other Agencies	331.9	286.54	29.18	16.944
Total Earmarked Funds	**518.53**	**768.3**	**917.62**	**1493.03**
Total Expenditure (other than Debts and Deposits)	**6742.66**	**7726.19**	**9750.16**	**13197.71**
Growth Rates (Percentage)				
Expenditure				
Total Revenue Expenditure	-	12.70	23.91	32.08
Works (Capital Expenditure)	-	6.00	47.82	35.07
Earmarked Funds	-	48.16	19.43	62.7
Total	-	14.58	26.19	35.35
Share (Percentage)				
Total Revenue Expenditure	79.96	78.65	77.23	75.35
Capital Expenditure	12.33	11.41	13.36	13.33
Earmarked Funds	7.69	9.94	9.41	11.31
Total Expenditure (other than Part - IV Debts and Deposits)	**100**	**100**	**100**	**100**

Salary and pension

8.24 Out of total revenue expenditure, the share of salary and pension together accounts for 78% in 2011-12 as compared to 76.96% in 2008-09. During 2008-09, the share of salary and pension as percentage of total revenue expenditure are 64.06 and 13.98% respectively (Chart 8.10).

Chart 8.10 Share of salary and pension in total revenue expenditure (in %)



8.25 The details as given in Table 8.12 shows that inspite of the absence of increase in number of staff, the salary expenditure has increased phenominally. The number of staff increased from 1861 in 2005-06 to 1897 in 2011-12. Out of 1897 staff in 2011-12, the number of teachers and non-teachers are 128 and 1769 respectively. The index of salary expenditure shows that it has witnessed a 185.92 percent increase over the period 2005-06 to 2011-12.

Table 8.12
Number of Staff, Salary Expenditure, Number of Pensioners and Pension Amount of M.G. University

	Staff and salary		Pensioners and pension amount		Indices (Base year =2005-06)			
	Total no. of staff	Salary amount (Rs lakh)	No. of pensioners	Pension amount (Rs lakh)	staff	Salary	Pensioners	Pension amount
2005-06	1861	2228.06	176	215.54	100.00	100.00	100.00	100.00
2008-09	1861	3583.68	340	565.76	100.00	160.84	193.18	262.48
2009-10	1897	4000.60	349	623..87	101.93	179.56	198.30	289.45
2010-11	1897	5016.82	382	890.76	101.93	225.17	217.05	413.27
2011-12	1897	6370.48	452	1390.56	101.93	285.92	256.82	645.15

8.26 There has been an increasing trend in the number of pensioners and pension amounts over the period. However, the disparity in growth rate between them has also grown during this period. The number of pensioners grew from 176 in 2005-06 to 452 in 2011-12. Out of 452 pensioners in 2011-12, the number of teachers and non-teachers are 19 and 433 respectively. The index shows that while the absolute number of pensioners increased by 156 percentage between 2005-06 and 2011-12, the pension expenditure increased by 545 percentage (Chart 8.11). It also shows the divergence between the index of pensioners and pension amount. Chart 8.12 shows a comparison of index growth of revenue receipts, salary and pension payment of the University between 2008-09 and 2011-12. It indicates that while the revenue expenditure grew by 84 percent during this period, the pension payment witnessed a growth of 136.90 percent. Thus the growing pension liability becomes a real financial problem for the University in future.

Chart 8.11 Index of pensioners and pension amount

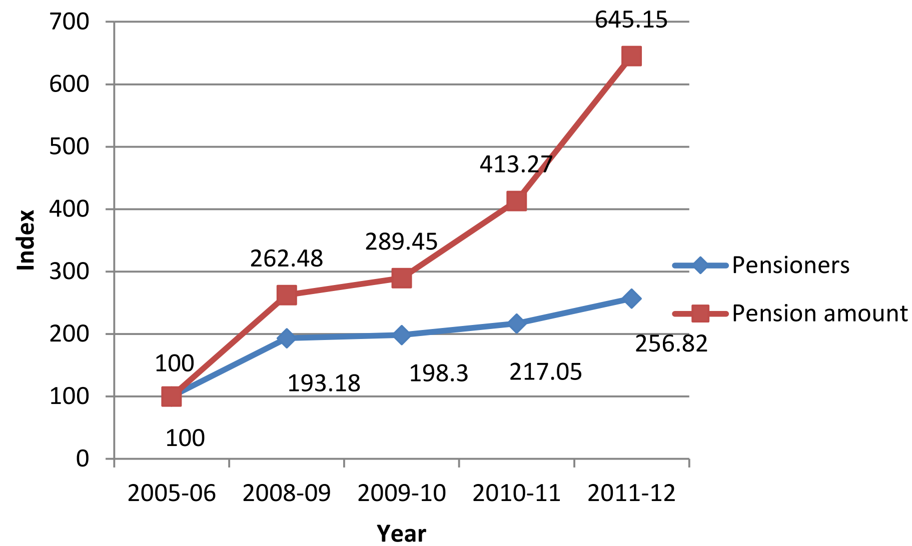
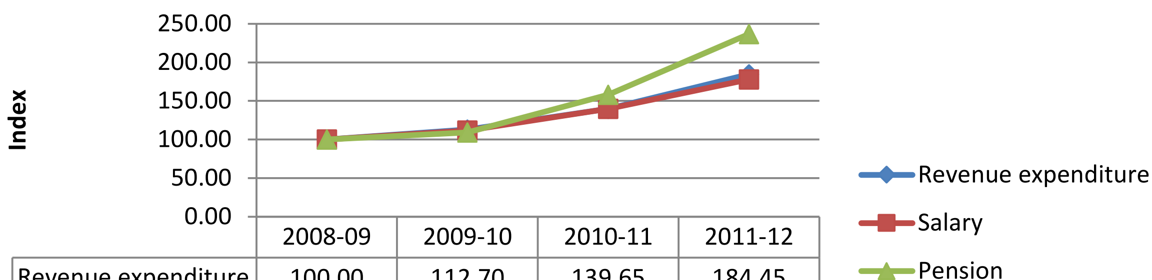


Chart 8.12 Index of revenue expenditure, salary and pension



	2008-09	2009-10	2010-11	2011-12
Revenue expenditure	100.00	112.70	139.65	184.45
Salary	100.00	111.63	139.99	177.76
Pension	100.00	109.29	157.87	236.90

Year

Major financial problems

8.27 The following are some of the major financial problems of the University.

(1) The University is not able to meet the growing expenditure from the non-plan grants received from the State government.
(2) The excess of expenditure is mainly for meeting the salary and pension liabilities. The University is in the verge of financial collapse due to the inability to honour the salary and pension payments.
(3) The University is not able to remit the employees Provident Fund to the Treasury regularly. This is due to the diversion of PF and other saving funds for meeting the salary and pension liabilities.
(4) The existence of large number of Off Campus Centres raises the administrative and other non-plan expenditure of the University. The economically unviable Off-Campus Centres add the financial woes of the University.
(5) The insufficeint non-plan funds affects unfavourably the quality of academic activities such as conducting seminars and workshop, repairing teaching blocks, purchasing books and equipments etc.

(4) University of Kannur

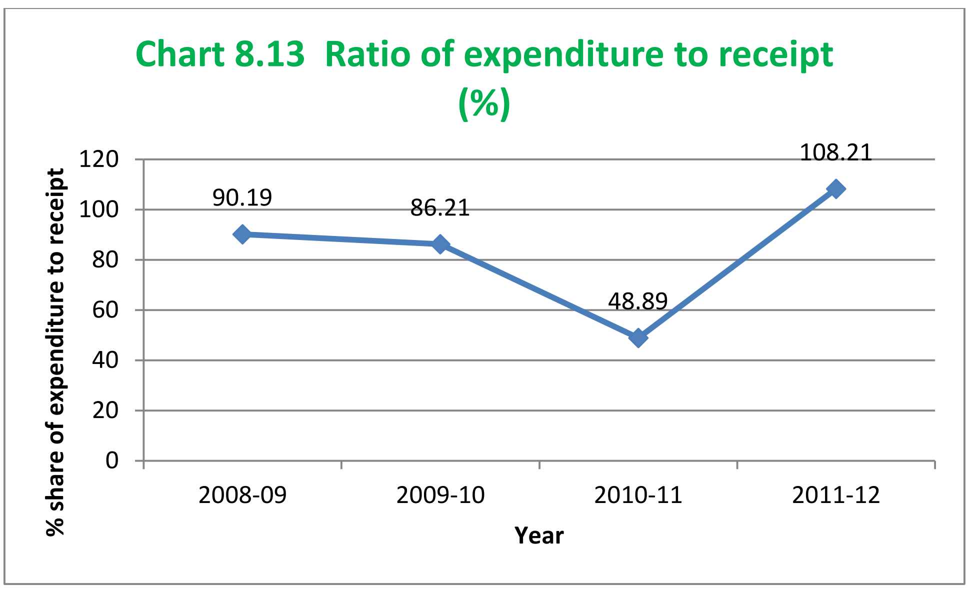
8.28 University of Kannur was established by the Act 22 of 1996 of Kerala Legislative Assembly. The area of Kannur University is Kannur, Wayanad and Kasarkode districts. The University has seven campuses spread across the three districts. There are 27 Government and aided private colleges under the University. In 2011-12, the University had 396 employees, consisting of 50 teaching faculty and 346 non-teaching staff.

Receipts and expenditure

8.29 Receipts of the University increased from Rs 3022.94 lakh in 2008-09 to Rs 4742.99 lakh in 2011-12 showing 57 percentage growth. The expenditure during the same period increased from Rs 2726.44 lakh to Rs 5132.48 lakh shows 88 percent growth.The total receipts and expenditure of the University shows that the former exceeds the latter in all the reference period except in 2011-12. In 2011-12, the expenditure as a percentage of total receipts was 108.21 (Chart 8.13).

Table 8.13
Receipts and Expenditure of Kannur University (Rs in lakh)

Item	2008-09	2009-10	2010-11	2011-12
1.Receipts*	3022.94	3343.36	6610.42	4742.99
2.Expenditure*	2726.44	2882.21	3231.88	5132.48
3.Percenage of Expenditure to Receipts	90.19	86.21	48.89	108.21
*Exclude Receipts and Payment in Debt and Deposit				



8.30 The details of receipts are given in Table 8.14. In 2011-12, the total non-plan components contribute nearly 60 percent while that of plan grant was 35%. The internal revenue mobilised by the University was 42 percent of total revenue in 2011-12. Its share in the total revenue is higher in this University as compared to others. The components of internal revenue are general administration, examination, departments/centres and capital receipts. As compared to other Universities, the source, departments/centres contributes a major share of internal revenue. The component of examination is the second highest source of internal revenue. As compared to the previous year, during 2011-12, the

University witnessed a negative growth rate in all components of receipts, except internal revenue.

Table 8.14
Receipts of Kannur University (Rs in Lakh)

Items	2008-09	2009-10	2010-11	2011-12
1.Internal Revenue				
(i)General Administration	339.49	229.33	251.59	277.35
(ii)Examination	326.75	378.66	655.29	701.11
(iii)Department/Centers	575.23	642.13	783.20	824.72
(iv)Capital Receipt	19.28	80.53	82.11	199.94
Sub Total	**1260.75**	**1330.65**	**1772.19**	**2003.12**
2.Non-plan Grant From State Government	**471.00**	**612.30**	**972.14**	**844.50**
Total Non-plan(1+2)	**1731.75**	**1942.95**	**2744.33**	**2847.62**
3.State Plan	**800.00**	**934.00**	**3440.00**	**1075.00**
4.UGC Plan	**368.96**	**346.74**	**232.17**	**593.82**
Sub Total(3+4)	**1168.96**	**1280.74**	**3632.17**	**1668.82**
5.Scheme Funds				
(i)State	0.00	0.00	30.22	62.52
(ii)UGC	71.20	39.30	71.80	67.99
(iii)Central Government	6.00	0.00	2.53	9.17
(iv)Others	45.03	80.37	129.36	86.87
Sub Total	**122.23**	**119.67**	**233.91**	**226.55**
Grant total	**3022.94**	**3343.36**	**6610.42**	**4742.99**
Growth(Percentage)				
1.Internal Revenue	-	5.54	33.18	12.86
2.Non-plan Grant	-	30	58.76	-13.12
3.Total Non-Plan**(1+2)**	-	12.19	41.24	3.76
4.Total plan	-	9.56	183.59	-54.05
5.Scheme Fund	-	-2.09	95.46	-3.14
Grant Total	**-**	**10.59**	**97.71**	**-28.24**
Composition(Percentage)				
1.Internal Revenue	41.70	39.79	26.80	42.23
2.Non-plan Grant	15.58	18.31	14.70	17.80
3.Total Non-plan**(1+2)**	57.28	58.11	41.51	60.03
4.Total Plan	38.66	38.30	54.94	35.18
5.Scheme Fund	4.04	3.57	3.53	4.77
Total	**100.00**	**100.00**	**100.00**	**100.00**

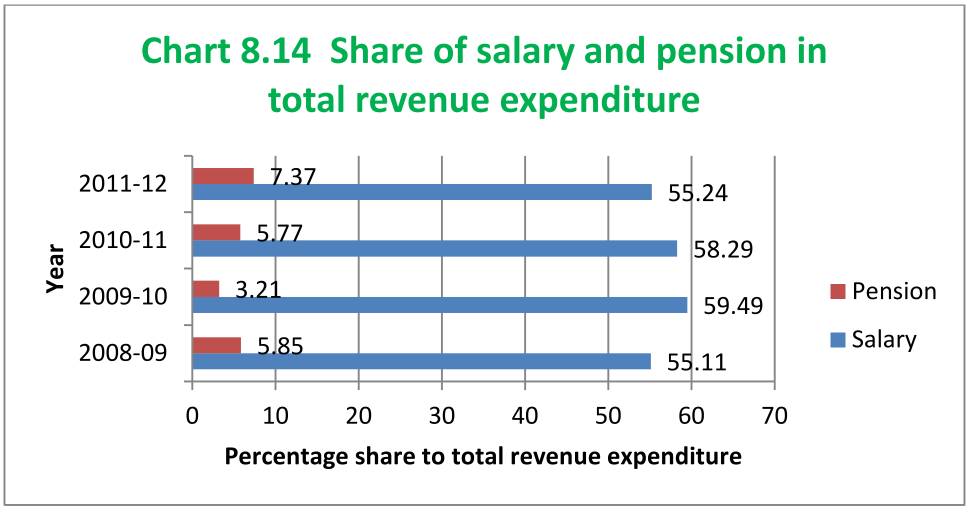
8.31 The details of expenditure are given in Table 8.15. During 2011-12, the share of revenue expenditure was 70.94% while it was only 26.31% for capital expenditure. Except for 2011-12, the share of revenue and capital expenditure to total expenditure remain more or less the same. Within the non-plan revenue expenditure, the items such as general administration and pension/DCRG witnessed a phenomenal increase over the period.

Table 8.15
Expenditure of Kannur University (Rs in lakh)

Item	2008-09	2009-10	2010-11	2011-12
Part I Non Plan/Plan				
A. General Administration	481.96	501.68	655	1059.72
B. Examinations	430.80	504.68	665.6	734.56
C. Pension / DCRG etc.	114.13	64.96	333.37	468.46
E. Departments / Centres / Miscellaneous	923.47	954.02	1089.27	1378.09
Total Revenue Expenditure	**1950.36**	**2025.52**	**2743.24**	**3640.83**
Part II Works (Capital Expenditure)	**687.23**	**746.71**	**360.24**	**1350.5**
Part III Earmarked Funds				
A. Funds from State Government	4.5	3.37	3	9.48
B. Funds from University Grants Commission	42.31	41.96	57.68	65.16
C. Funds from Government of India	-	-	4.3	5.53
D. Funds from other Agencies	18.88	41.02	32.69	27.56
	23.16	23.62	30.69	33.72
Sub Total	**88.85**	**109.97**	**128.4**	**141.15**
Total Expenditure (other than Part - IV Debts and Deposits)	**2726.44**	**2882.21**	**3231.88**	**5132.48**
Growth Rates (Percentage)				
Total Revenue Expenditure	-	3.85	35.43	32.72
Works (Capital Expenditure)	-	8.66	-51.76	274.89
Earmarked Funds	-	23.77	16.75	9.92
Total Expenditure	-	-5.71	-12.23	58.8
Share(Percentage)				
Part I Non Plan/Plan(Total Revenue Expenditure)	71.54	70.28	84.88	70.94
Part II Works (Capital Expenditure)	25.21	25.91	11.15	26.31
Part III Earmarked Funds	3.26	3.82	3.97	2.75
Total Expenditure (other than Part - IV Debts and Deposits)	**100**	**100**	**100**	**100**

Salary and pension

8.32 Out of the total revenue expenditure, salary and pension together accounts for 62.61% in 2011-12. Salary and pension account separately 55.24% and 7.37% respectively during this year (Chart 8.14). As the Kannur University is the recently added one, its pension liability is lower for time being.



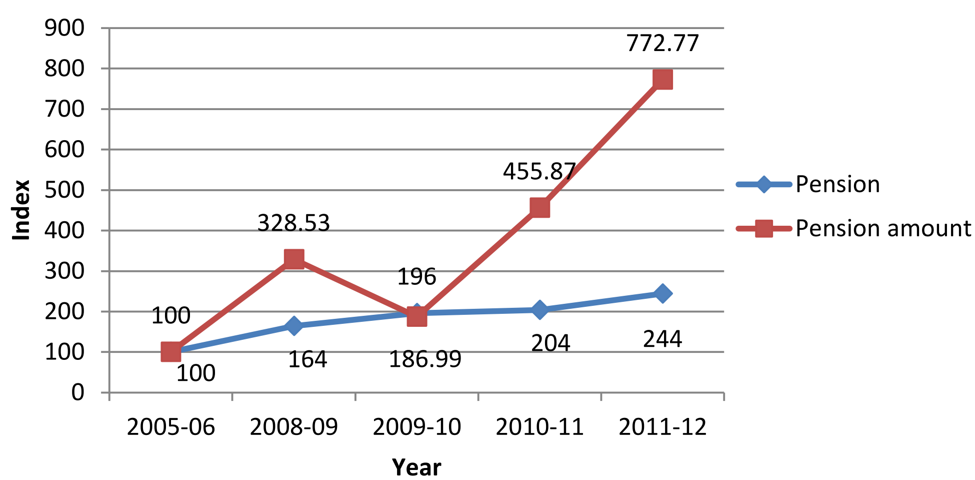
8.33 The number of staff and their salary expenditure are given in Table 8.16. The index number shows the relative growth of staff and salary expenses. The number of staff increased from 305 in 2005-06 to 396 in 2011-12. Out of 396 staff, the teaching and non-teaching employees are 50 and 346 respectively. While the number of staff of the University increased by 29.84 percent between 2005-06 and 2011-12, the corresponding increase in salary expenses is 292.87 percent.

Table 8.16
Number of Staff, Salary Expenditure, Number of Pensioners and Pension amount of Kannur University

	Staff and salary		Pensioners and pension amount		Indices (Base year = 2005-06)			
	Total no. of staff	Salary amount (Rs lakh)	No. of pensioners	Pension amount (Rs lakh)	Staff	Salary	Pensioners	Pension amount
2005-06	305	511.88	4	27.34	100.00	100.00	100.00	100.00
2008-09	351	1074.75	25	34.74	115.08	209.96	164.00	328.53
2009-10	340	1205.03	41	114.13	111.48	235.41	196.00	186.99
2010-11	404	1599.08	49	64.96	132.46	312.39	204.00	455.87
2011-12	396	2011.04	51	158.37	129.84	392.87	244.00	772.77

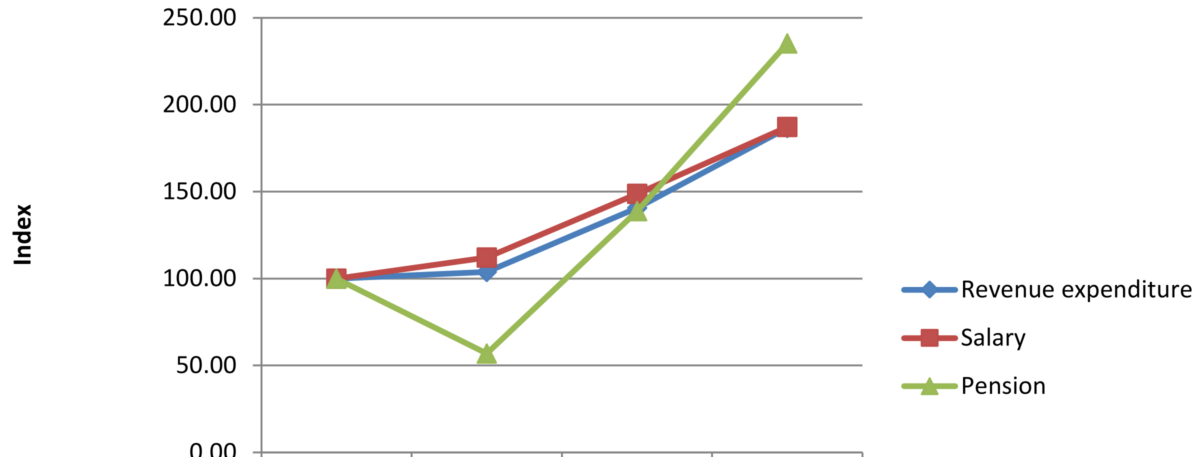
8.34 The details of the number of pensioners and their pension are also shown in Table 8.16. The total number of pensioners increased from 25 in 2005-06 to 61 in 2011-12. Out of 61 pensioners in 2011-12, teachers and non-teachers are 2 and 59 respectively. The index of the number of pensioners and their pension liabilities has widened over the period between 2009-10 and 2011-12. While the number of pensioners increased by 144% during the period between 2005-06 to 2011-12, the pension expenditure has grown to 673%. The continuous growth in pensioners and pension payment would be a critical financial problem for the University in future.

Chart 8.15 Index of pension and pensioners



8.35 A comparison of index of the growth of revenue expenditure, salary and pension as given in Chart 8.16 shows that the pension amount grew at a faster rate as compared to other items, especially in the recent past. While revenue expenditure grew by 87 percent between 2008-09 and 2011-12, it is 135 percent for pension payments. The widening of revenue expenditure and pension payment is a serious financial issue of the University.

Chart 8.16 Index number of revenue expenditure, salary and pension



	2008-09	2009-10	2010-11	2011-12
Revenue expenditure	100.00	103.85	140.65	186.67
Salary	100.00	112.12	148.79	187.12
Pension	100.00	56.92	138.76	235.22

Year

Major financial problems

8.36 The important financial problems of the University are as follows.

(1) Non-plan grant is insufficient to meet salary and pension commitments. Without additional grants from the State, the University will be unable to fulfill the additional salary commitment and arrears due to pay and DA revisions.

(2) In order to make funds available for the payment of retirement benefits and the monthly pension, ten percent of salary of regular employees towards the Pension Fund every year should be remitted till the annual interest is sufficient to meet expenditure. However, yearly remittance towards pension funds is either not being done or only partially done.

(5) Cochin University of Science and Technology (CUSAT)

8.37 Cochin University was established in 1971 as per the New Scientific Policy Resolution adopted by the Centre Government on 4th March 1958. The University of Cochin was later reorganised as Cochin University of Science and Technology (CUSAT) in February 1986.

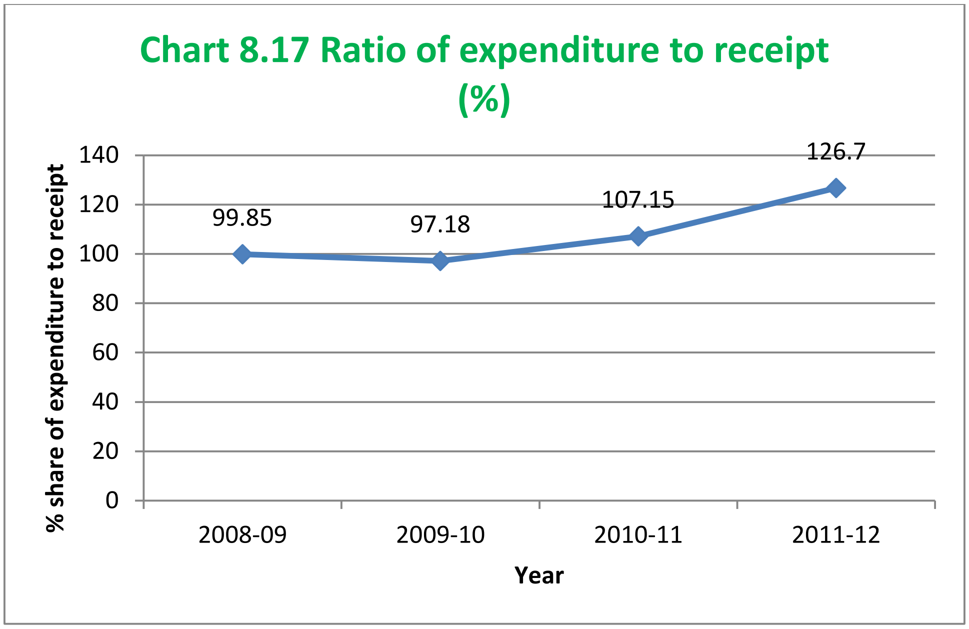
The academic structure comprises nine faculties namely Engineering, Enviromental Studies, Humanities, Law, Marine Sciences, Medical Sciences and Technology, Sciences, Social Sciences and Technololgy. The UGC has selected CUSAT as a centre for excellence in the field of Lasers and Opto-Electronic Sciences for which a new centre, CELOS has been established. The Ministry of HRD, Government of India has adjudged CUSAT to be upgraded to the level of IIT. The University has 180 acre campus at Thrikkara and a Lake side campus at Cochi besides an engineering campus at Pulimkunnu.

Receipts and expenditure

8.38 As shown in the Table, the total receipts of the University has increased from Rs 5979.22 lakh in 2008-09 to Rs 8522.85 lakh in 2011-12. During the same period, the expenditure shows an increase from Rs 5970.28 lakh to Rs 10798.76 lakh. The growth of receipts and expenditure during this period was 42.57% and 80.47% respectively. The disparity between receipts and expenditure has been widening in the University. The percentage of expenditure to receipts was 126.70 during 2011-12 as compared to 99.85 in 2008-09. (Chart 8.17). The excess of expenditure over receipts is mainly met through the adjustment of provident fund and other savings of employees of the University.

Table 8.17
Receipts and Expenditure of Cochin University of Science And Technology (CUSAT) in Rs Lakh

Items	2008-09	2009-10	2010-11	2011-12
1.Receipts	5979.22	7754.50	8142.93	8522.85
2.Expenditure	5970.28	7754.50	8725.63	10798.76
3.Percentage of Expenditure to	99.85	97.18	107.15	126.70
*Excluding Receipts and Payment in Debt and Deposit				



8.39 The details of receipts sourcewise are given in Table 8.18. Out of the total fund, the non-plan component contributes a major share. The shares of non-plan, plan and earmarked schemes are 58.52, 14.07 and 27.39 percentages respectively in 2011-12. Within the non-plan revenue sources, the important components are non-plan grants from the State (34.32%) and internal revenue (24.19%) of the University in 2011-12. The internal source of revenue has a fluctuating trend. In the year 2011-12, the amount of revenue from internal source has declined as compared to the previous year. Within the internal source, the major portion is coming from general administration, which is also declining during the last two years. Among the various sources, funds from earmarked schemes from State, UGC and Central government contribute a significant share in total revenue. However; this source has been witnessing a declining trend in absolute and percentage share for the last two years. The rate of growth of total revenue is also witnessing a declining trend through out the reference period. Thus, the University is supported mainly from the external sources and these sources are witnessing a fall in recent years, which may affect adversely the financial position of University in near future.

Table 8.18 Receipts of CUSAT (Rs in Lakh)				
Items	**2008-09**	**2009-10**	**2010-11**	**2011-12**
1.Internal Revenue				
(i)General Administration	942.45	1216.65	1202.16	1191.29
(ii)Examinations	465.58	576.46	624.81	593.32
(iii)Department/Centers	266.12	296.24	296.13	277.70
(iv)Capital Receipts	0.00	0.00	0.00	0.00
Sub Total	**1674.15**	**2089.35**	**2123.10**	**2062.31**
2.Non-plan Grant from State Government	**1927.00**	**2216.05**	**2438.00**	**2925.60**
Total Non-plan(1+2)	**3601.15**	**4305.40**	**4561.10**	**4987.91**
3.State Plan	**400.00**	**800.00**	**1000.00**	**1200.00**
4.UGC plan	**447.34**	**260.10**	**90.00**	**0.00**
Sub Total(3+4)	**847.34**	**1060.10**	**1090.00**	**1200.00**
5.Scheme Funds				
(i)State	37.13	766.20	1216.12	46.76
(ii)UGC	433.65	266.17	344.36	358.40
(iii)Central Government	974.92	1222.32	595.41	1686.22
(iv)Others	85.00	134.28	335.91	243.53
Sub Total	**1530.70**	**2388.97**	**2491.80**	**2334.91**
Grant Total	**5979.22**	**7754.50**	**8142.93**	**8522.85**
Growth(Percentage)				
1.Internal Revenue	-	24.80	1.61	-2.86
2.Non-plan Grant	-	15.00	10.01	20.00
3.Total Non-plan	-	19.55	5.93	9.35
4.Total plan	-	25.10	2.82	10.09
5.Scheme Fund	-	56.07	4.30	-6.29
Grant Total	**-**	**29.69**	**5.00**	**4.66**
Composition(Percentage)				
1.Internal Revenue	27.99	26.94	26.07	24.19
2.Non-plan grant	32.22	28.57	29.94	34.32
3.Total Non-plan	60.22	55.52	56.01	58.52
4.Total Plan	14.17	13.67	13.38	14.07
5.Scheme Fund	25.60	30.80	30.60	27.39
Total	**100.00**	**100.00**	**100.00**	**100.00**

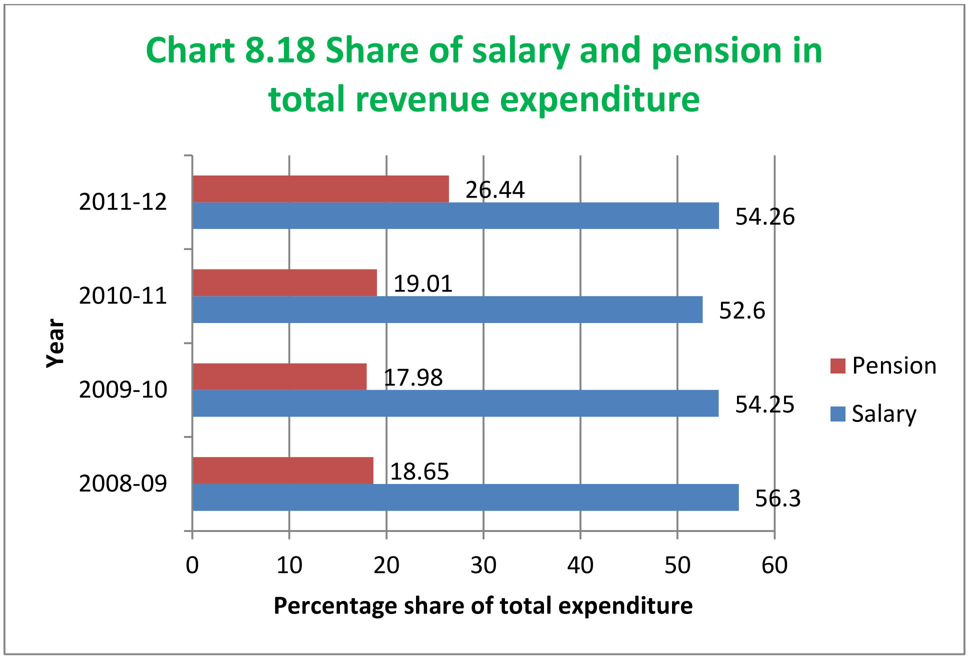
8.40 The details of expenditure are given in Table 8.19. The major component of expenditure is the non-plan revenue expenditure. Its share was 73.18% in 2011-12. The share of earmarked scheme is 22.98% during this year. The share of capital expenditure has a declining trend for the last two years and it is only 3.84% in 2011-12. Out of the revenue expenditure, a significant portion is earmarked for salary, pension and related expenses.

Table 8.19
Expenditure of CUSAT (Rs in lakh)

Item	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Part I Non Plan/Plan				
A. General Administration	1454.5	1495.06	1868.13	2005.16
B. Examinations	492.95	476.68	520.06	640.32
C. Pension / DCRG etc.	816.49	835.3	1195.61	2089.3
E. Departments / Centers / Miscellaneous	1615.04	1838.19	2705.26	3167.97
Total Revenue Expenditure	**4378.98**	**4645.23**	**6289.06**	**7902.75**
Part II Works (Capital Expenditure)	**223.19**	**380.06**	**496**	**414.55**
Part III Earmarked Funds				
A. Funds from State Government			24.61	89.65
B. Funds from University Grants Commission	698.25	1193.63	1177.13	1254.99
C. Funds from Government of India	607.35	1165.93	542.43	1007.43
D. Funds from other Agencies	62.46	151.19	196.36	129.35
Total Earmarked Funds	**1368.07**	**2510.77**	**1940.55**	**2481.43**
Total Expenditure (other than Debts and Deposits)	**5970.28**	**7536.15**	**8725.63**	**10798.76**
Growth Rate (Percentage)				
Expenditure				
Item	**-**	**2009-10**	**2010-11**	**2011-12**
Part I Non Plan/Plan				
Total Revenue Expenditure	**-**	6.08	35.39	25.66
Part II Works (Capital Expenditure)	**-**	70.29	30.51	-16.42
Part III Earmarked Funds	**-**	83.52	-22.71	27.87
Total Expenditure	**-**	26.22	15.78	23.75
Share (Percentage)				
Total Revenue Expenditure	73.35	61.64	72.08	73.18
Capital Expenditure	3.74	5.04	5.68	3.84
Earmarked Funds	22.91	33.32	22.24	22.98
Total Expenditure (other than Debts and Deposits)	**100**	**100**	**100**	**100**

Salary and pension

8.41 Chart 8.18 shows the composition of salary and pension in total revenue expenditure. Out of total revenue expenditure, the share of salary and pension was 80.71% in 2011-12 and it has been increasing over the period. In recent years, both components have been witnessing an increasing trend and this phenomena became a real financial issue of the University.

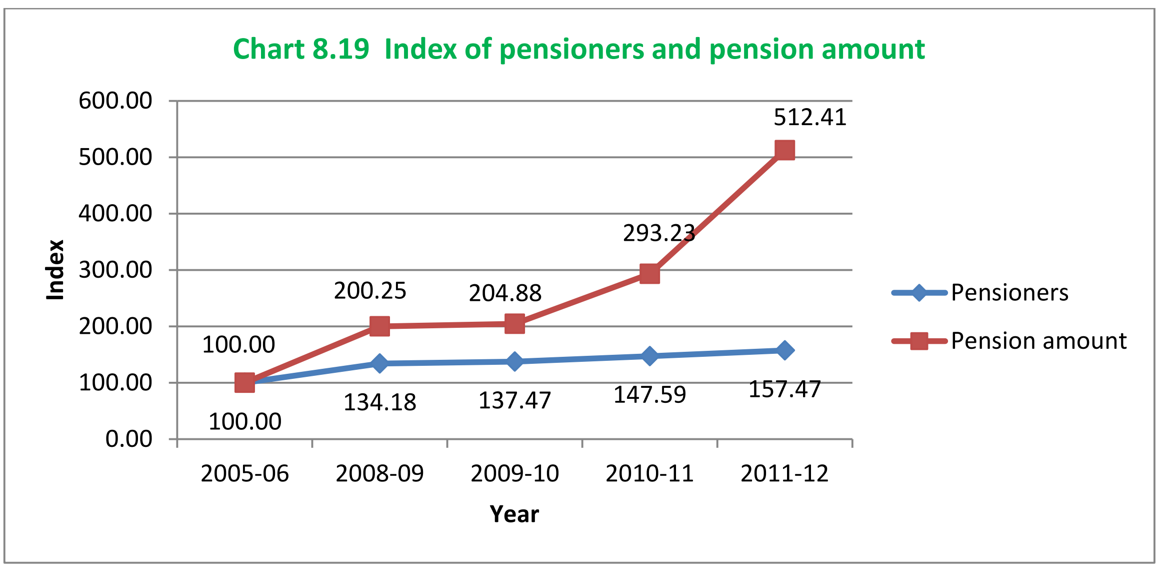


8.42 The details in Table 8.20 show the trends in the number of staff and the salary expenditure. As compared to 2005-06, the number of staff (both teaching and non-teaching) has declined in the University. The number of staff in the University marginally declined from 957 in 2005-06 to 955 in 2011-12. Out of the 955 staff, the teaching and non-teaching employees are 150 and 805 respectively. However, there has been a tremendous spurt in salary expenditure during this period. While the index of staff strength declined though marginally during this period, the salary expenditure grew by 177.90 percent.

Table 8.20
Number of Staff, Salary Expenditure, Pensioners and Pension Amount of CUSAT

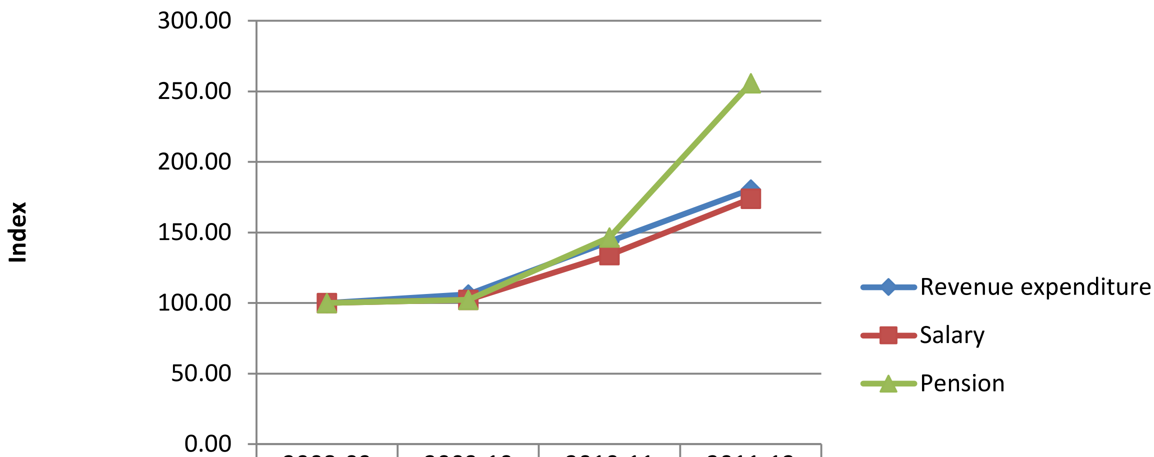
	Staff and salary		Pensioners and pension amount		Indices (Base year = 2005-06)			
	Total no. of staff	Salary amount (Rs lakh)	No. of pensioners	Pension amount (Rs lakh)	Staff	Salary	Pensioners	Pension amount
2005-06	957	1543.15	395	407.74	100.00	100.00	100.00	100.00
2008-09	948	2465.49	530	816.49	99.06	159.77	134.18	200.25
2009-10	935	2519.99	543	835.37	97.70	163.30	137.47	204.88
2010-11	973	3308.03	583	1195.61	101.67	214.37	147.59	293.23
2011-12	955	4288.36	622	2089.30	99.79	277.90	157.47	512.41

8.43 The growth of the number of pensioners and their pensions are also given in the Table. The index highlights that the divergence between growth of pensioners and their pension has been increasing in the University. The number of pensioners increased from 395 in 2005-06 to 622 in 2011-12. Out of this 622 pensioners, teachers and non teachers are 91 and 531 respectively. While the number of pensioners increased by 57 percent from the base year 2005-06, the amount of pension payment grew by 412 percent during the same period. (Chart 8.19).



8.44 Chart 8.20 shows a comparisons of the index of revenue expenditure, salary and pension. It shows that the percentage growth of pension payment is higher than the revenue expenditure and this divergence has been increasing over the time.

Chart 8.20 Index of revenue expenditure, salary and pension



	2008-09	2009-10	2010-11	2011-12
Revenue expenditure	100.00	106.08	143.62	180.47
Salary	100.00	102.21	134.17	173.94
Pension	100.00	102.31	146.43	255.89

Year

Major financial problems

8.45 The important financial problems of the University are as follows.

(1) The annual non-plan grant-in-aid sanctioned by the government is highly inadequate to meet the non-plan expenditure. The grant is not sufficient to meet the routine payment of salary and pension and their increase due to revisions and DA hikes.

(2) In this context, the University has no other option but to borrow from the Provident Fund to meet the payments of salaries and pensions. The amount borrowed from PF was Rs 15 crore during 2010-11, bearing an interest of 8.5 percent.

(3) In the case of non-plan expenditure there is little scope for any reduction as 75 percent of it constitutes salaries and pensions.

(4) Of the non-plan expenditure, another 10 percent is spent for other expenses like water, electricity, taxes, insurances, examination etc.

(5) Among the non-plan expenditure, the share of academic activities is meagre, ie., 15 percent. The lack of fund has adversely affected the quality of academic activities

and facilities (infrastructure, purchase of books, equipments, laboratory facilities etc).

(6) Nearly 50 percent of the teaching posts remain vacant, adversely affecting the quality of teaching. Measures taken to fill the posts are likely to increase the non-plan deficit. Among the non-teaching staff, about 10 percent of the post are vacant.

(7) The Committee fears that the day is not far off when the University fails to pay the monthly pensions to pensioners

(8) The non-plan deficit which was Rs 7.37 crore in March 2011 rose to Rs 31.32 crore in March 2012 is another critical financial problem facing the University.

(9) The University is a unitary one with prime emphasis on post-graduate teaching and research. Due to this, the student intake is limited and has little scope for mobilising resources through revision of tuition, examination and other fees.

(6) Sree Sankara University of Sanskrit

8.46 Sankara University of Sanskrit, Kalady was established in 1993 in the name of the illustrious Indian Philisopher and Saint Jagadguru Sree Sankaracharya in his birth place at Kalady for the promotion and development of study of Sanskrit, Indology, Indian Philosophy and Indian languages. Besides the main Centre at Kalady, there are 8 regional centres in other districts. There are no affiliated colleges and self financing courses under this University. The University offers courses at graduate, post graduate, Mphil and Doctoral levels in various subject areas of Sankrit, Indian Philosophy, Indian languages, Social Science and Fine Arts. There are nine faculties and 23 Departments in the University which are managed by 688 employees.

Receipts and expenditure

8.47 Receipts and expenditure of the University are given in Table 8.21. While total receipts increased from Rs 1690.50 lakh in 2008-09 to Rs 2775.65 lakh in 2011-12, the expenditure grew from Rs 1684.20 lakh to Rs 3535.18 lakh. During this period, the percentage growth of receipts and expenditure are 64.19% and 109.90% respectively. In recent years, the University has been spending more than its normal source of revenue. The percentage of expenditure to receipts was 127.36 percent in 2011-12 (Chart 8.21).

8.48 The details of receipts are given in Table 8.22. The major source of revenue is non-plan receipts, which is composed of internal revenue and non-plan grants from the State government. While, non-plan grants from the State government contributed 61.30 percent of revenue in 2011-12, the share of internal revenue was only 5.06%. As compared to other Universities, the income generating capacity is poorer which may adversely affect its financial strength in future. The growth rate of total receipts of the University witnessed a negative in 2011-12 as compared to the previous year. Both the plan fund and scheme fund of the University have also witnessed a negative growth.

Table 8.21
Receipts and Expenditure of Sree Sankaracharya University Of Sanskrit (SSUS) Rs in lakh

Items	2008-09	2009-10	2010-11	2011-12
1.Receipts*	1690.50	1776.02	3403.33	2775.65
2.Expenditure*	1684.20	1993.34	2500.96	3535.18
3.Percentage expenditure to Receipts	99.62	112.23	73.48	127.36
*Excluding Receipts and Payments in Debt and Deposit				

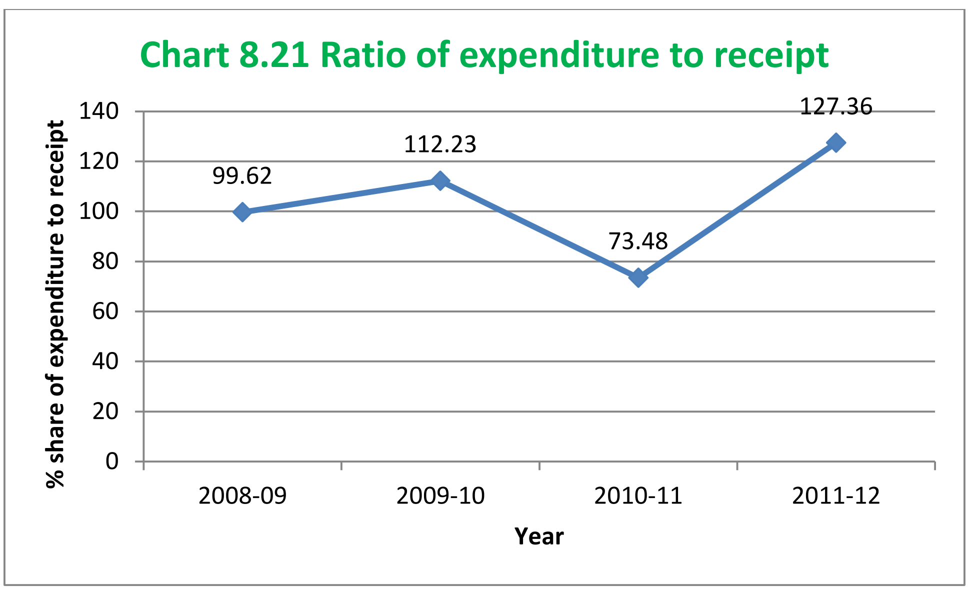


Table 8.22
Receipts of SSUS (Rs in lakh)

Items	**2008-09**	**2009-10**	**2010-11**	**2011-12**
1.Internal Revenue				
(i)General Administration	55.06	95.73	72.41	54.85
(ii)Examination	11.38	9.88	15.41	16.74
(iii)Department/Centers	69.67	55.39	51.27	68.96
(iv)Capital Receipts	0.00	0.00	0.00	0.00
Sub Total	**136.11**	**161.00**	**139.09**	**140.55**
2.Non-plan Grant from State Government	**1121.00**	**1289.16**	**1638.00**	**1701.60**
Total Non-plan(1+2)	**1257.11**	**1450.16**	**1777.09**	**1842.15**
3.State Plan	**250.00**	**230.00**	**445.75**	**710.29**
4.UGC Plan	**66.00**	**0.00**	**375.94**	**90.00**
Sub Total(3+4)	**316.00**	**230.00**	**821.69**	**800.29**
5.Scheme Funds				
(i)State	35.34	27.21	745.87	62.75
(ii)UGC	82.05	68.65	58.68	70.46
(iii)Central Government	0.00	0.00	0.00	0.00
(iv)Others	0.00	0.00	0.00	0.00
Sub Total	**117.39**	**95.86**	**804.55**	**133.21**
Grant Total	**1690.50**	**1776.02**	**3403.33**	**2775.65**
Growth (Percentage)				
1.Internal Revenue	-	18.28	-13.60	1.04
2.Non-plan Grant	-	15.00	27.05	3.88
3.Total Non-plan	-	15.35	22.54	3.66
4.Total Plan	-	-27.21	257.25	-2.60
5.Scheme Funds	-	-18.34	739.29	-83.44
Grant Total	**-**	**5.05**	**91.62**	**-18.44**
Composition(Percentage)				
1.Internal Revenue	8.05	9.06	4.08	5.06
2.Non-plan Grant	66.31	72.58	48.12	61.30
3.Total Non-plan**(1+2)**	74.36	81.65	52.21	66.36
4.Total Plan	18.69	12.95	24.14	28.83
5.Scheme plan	6.94	5.39	23.64	4.79
Total	**100.00**	**100.00**	**100.00**	**100.00**

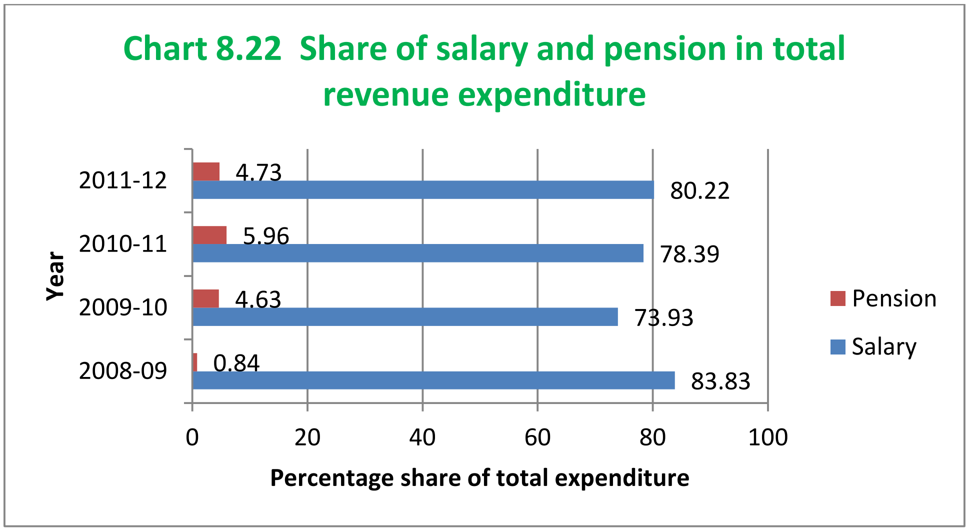
8.49 The expenditure components of the University are given in Table 8.23. The share of revenue expenditure in total expenditure was 85.86 percent while capital and earmarked schemes account for 11.88% and 2.26% respectively in 2011-12. Expenditure pattern highlights that the amount set apart for future expansion is a neglected area as reflected in capital and earmarked schemes and which may affect the quality of courses in the University.

Table 8.23
Expenditure of SSUS (Rs in lakh)

Item	2008-09	2009-10	2010-11	2011-12
Part I Non Plan/Plan				
A. General Administration	630.55	724.12	725.07	1064.83
B. Examinations	14.6	15.79	21.81	22.39
C. Pension / DCRG etc.	15.32	83.27	121.8	151.33
E. Departments / Centers / Miscellaneous	928.01	975.09	1175.06	1796.6
Total Revenue Expenditure	1588.48	1798.27	2043.74	3035.15
Part II Works (Capital Expenditure)	51.77	106.48	197.49	420.12
Part III Earmarked Funds				
A. Funds from State Government	18.16	3.36	228.99	17.54
B. Funds from University Grants Commission	25.79	85.23	30.74	62.37
C. Funds from Government of India				
D. Funds from other Agencies				
Total(Earmarked Fund)	43.95	88.59	259.73	79.91
Total Expenditure (other than Part - IV Debts and Deposits)	1684.2	1993.34	2500.96	3535.18
Growth rates (Percentage)				
Total Revenue Expenditure	-	13.21	13.65	48.51
Part II Works (Capital Expenditure)	-	105.68	85.47	112.73
Part III Earmarked Funds	-	101.57	193.18	-69.23
Total Expenditure (other than Debts and Deposits)		18.35	25.46	41.35
Share (percentage)				
Total Revenue Expenditure	94.32	90.21	81.72	85.86
Capital Expenditure	3.07	5.34	7.90	11.88
Earmarked Funds	2.61	4.44	10.39	2.26
Total Expenditure (other than Part Debts and Deposits)	100	100	100	100

Salary and pension

8.50 Within the revenue expenditure the major category is salary and pension payments. The salary and pension account for 80.22% and 4.73% respectively to the total revenue expenditure in 2011-12 (Chart 8.22).

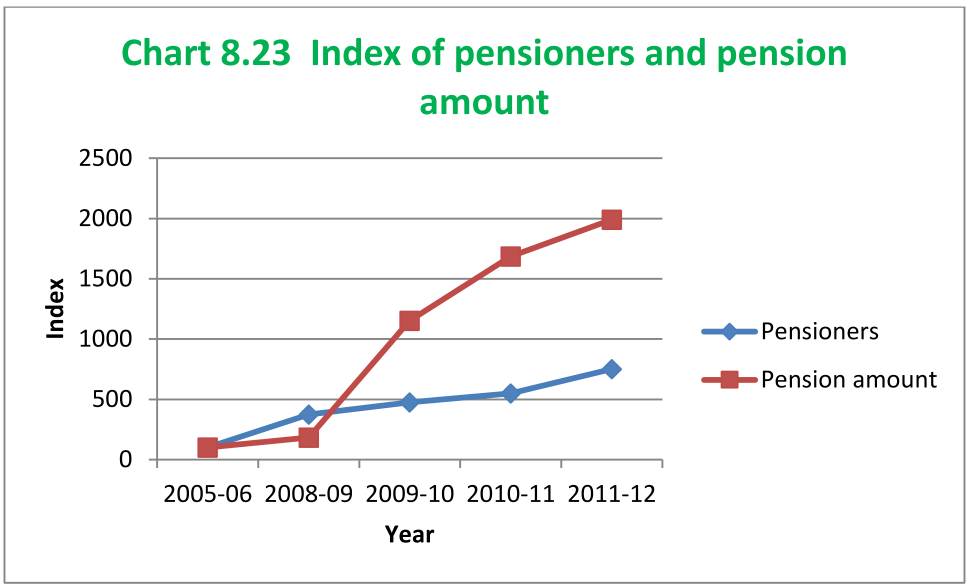


8.51 The details of number of staff and their expenditure are given in Table 8.24. The number of staff increased from 543 in 2005-06 to 675 in 2011-12. Out of 675 staff in 2011-12, teaching and non-teaching employees are 362 and 313 respectively. While the index number of staff increased by 24.31 percent between 2005-06 and 2011-12, the salary expenditure grew by 200 percentages.

Table 8.24
Number of Staff, Salary Expenditure, Number of Pensioners and Pension Amount of SSUS

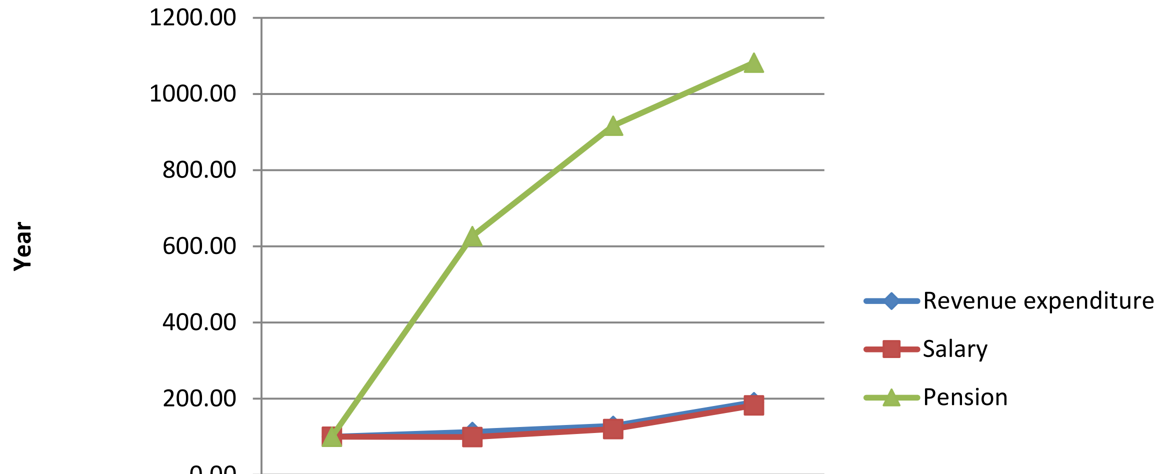
	Staff and salary		Pensioners and pension amount		Indices (Base year = 2005-06)			
	Total no. of staff	Salary amount (Rs lakh)	No. of pensioners	Pension amount (Rs lakh)	Staff	Salary	Pensioners	Pension amount
2005-06	543	809.91	4	7.22	100.00	100.00	100.00	100.00
2008-09	676	1331.68	15	13.28	124.49	164.42	375.00	183.93
2009-10	658	1329.52	19	83.27	121.18	164.16	475.00	1153.32
2010-11	666	1602.01	22	121.71	122.65	197.80	550.00	1685.73
2011-12	675	2434.79	30	143.68	124.31	300.62	750.00	1990.03

8.52 The growth of pensioners and their pension liability is also given in Table 8.24. The data reveals that both the number of pensioners and their liability increase at a very high rate. During the period between 2005-06 and 2011-12, the number of pensioners increased from 4 to 30. Out of 30 pensioners in 2011-12, the teaching and non-teaching employees are 18 and 12 respectively. The divergence between the index of number of pensioners and pension amount has been growing in the University (Chart 8.23). While the number of pensioners increased by 650 percent between 2005-06 and 2011-12, the pension grew by 890 percent. The growth of pension amount would land up the University in grave financial problem in the near future.



8.53 Chart 8.24 shows the differences in the index of revenue expenditure, salary and pension during the period 2008-09 to 2011-12. During this period, while revenue expenditure and salary grew by same percentage, the divergence between revenue expenditure and pension payment has been increasing at a very high rate. While, revenue expenditure grew by 91.07 percent, the pension increased by a whopping 981 percent during this period.

Chart 8.24 Index of revenue expenditure, salary and pension



	2008-09	2009-10	2010-11	2011-12
Revenue expenditure	100.00	113.21	128.66	191.07
Salary	100.00	99.84	120.30	182.84
Pension	100.00	627.04	916.51	1081.95

Year

Major financial problems

8.54 The important financial problems of the University based on the discussion with officials and the above analysis are as follows.

(1) Unlike other Universities in Kerala, Sanskrit University does not have any affiliated colleges nor does it offer any self-financing courses. Hence the internal revenue of this University is meagre.

(2) The University fully depended on the Grant received from the Government for meeting all its expenditure. However, the Grants from the Government over the years were insufficient even for meeting the salary expenditure.

(3) As there is insufficient non-plan grant, the University could not deposit a portion of its Provident Fund (PF) to Treasury from 2008-09 onwards. The University has diverted an amount of Rs 541.84 lakh from the Provident Fund for the payment of salary and allowance. This amounts not only the diversion of funds, but also the loss of interest income that would have been received from the PF. The present deposit in PF will exhaust by the payment of advances and closure of PF accounts

in the near future. Thus the University will have to find resources for payment of PF along with the interest amount (which could have been earned, had the PF amount deposited in Treasury at the right time). This will land up the University in great financial stress and collapse.

(4) The University had created a Pension Fund for meeting expenditure towards the pensionary benefits to retiring staff. But the Fund is now on the verge of being exhausted as the University had to divert a portion of it in order to meet the expenditure towards salary and allowances due to the non availability of sufficient non-plan grants.

(5) Due to insufficiency of fund, the University uses its earmarked fund (including state plan funds and scheme funds) to meet the expenditure towards the payment of salary and pension.

(6) Due to lack of sufficient fund and improper management of finance, the University could not release the arrears to teachers promoted through career advancement scheme. It could not pay the remuneration to the Guest Lecturers as the rate stipulated by the Government and also research fellowship at par with other Universities in Kerala.

(7) As the plan grant is insufficient for the last few years, the University could not provide adequate infrastructure to teaching faculty and students. This adversely affects the quality of academic programmes conducted by the University.

(8) Since the University is unable to enhance the physical and other academic infrastructure including books, equipments etc, it could not get NAAC accreditation till date.

(9) In many regional centres, the number of teaching staff exceeds the number of students. A rationalisation of courses conducted through regional centres, teachers and students is urgently needed.

(7) KERALA AGRICULTURAL UNIVERSITY

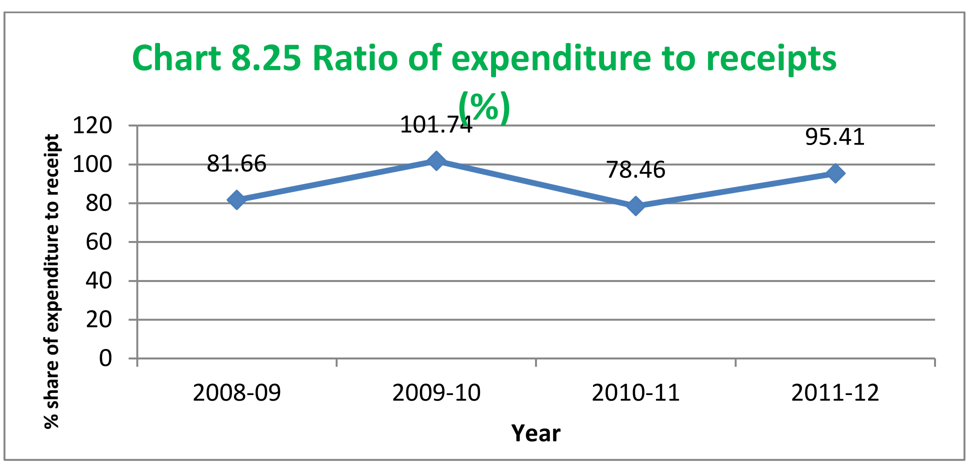
8.55 Kerala Agricultural University (KAU) came into existence on February 24, 1971 by the Act 33 of 1971 of the Kerala State Legislature, entitled the Kerala Agricultural University Act 1971. Kerala Agricultural University has at present 6 Colleges, 6 Regional Research Centres, 23 Research Knowledge Dissemination Centres and 7 Agricultural Research Extention Centres. These Centres and other related activities of the University are managed by 956 non-teaching staff, 544 teachers and 578 labourers. Colleges under this University are directly administered by it. In these colleges, 1368 students were studying for various courses in 2011-12.

Receipts and expenditure

8.56 Revenue and expenditure of the University are given in Table 8.25. While the total receipts of the University increased from Rs 15913.82 lakh to Rs 28548.65 lakh between 2008-09 and 2011-12, the expenditure grew from Rs 12995.98 lakh to Rs 27238.47 lakh. Over this period, the total expenditure grew by 109.59% while the same for receipts was only 79.39%. Here total expenditure excludes the payments in Debt and Deposit Accounts. While the share of expenditure in total receipts of the University is 101.74 percent in 2009-10, it was 95.41 percent in 2011-12 (Chart 8.25).

Table 8.25
Receipts and Expenditure of Kerala Agricultural University (KAU) Rs in Lakh

Items	2008-09	2009-10	2010-11	2011-12
1.Receipts*	15913.82	20490.67	26277.08	28548.65
2.Expenditure*	12995.98	20847.69	20619.38	27238.47
3.Percentage of Expenditure	81.66	101.74	78.46	95.41
*Excluding Receipts and Payments in Debt and Deposits				



8.57 The details of receipts are given in Table 8.26. Out of total receipts in 2011-12, 58.98% of it is contributed by non-plan source. Non-plan revenue consists of internal revenue and non-plan grants received from the State government. While the non plan grants contribute 44.88 percent of total receipts, share of internal sources is only 14.10 percent in 2011-12. The State plan grants and earmarked fund for schemes witnessed a negative growth during 2011-12 as compared to the previous year.

Table 8.26
Receipts of Kerala Agricultural University (KAU) Rs in lakh

Items	2008-09	2009-10	2010-11	2011-12
1.Internal Revenue				
(i)General Administration	-	-	-	-
(ii)Examinations	-	-	-	-
(iii)Department/Centers	2370.50	1184.56	2563.77	4025.49
(iv)Capital Receipts	-	-	577.65	-
Sub Total	2370.50	1184.56	3141.42	4025.49
2.Non-plan Grant from State Govt	6737.00	11758.00	9634.00	12812.80
Total Non-plan(1+2)	9107.50	12942.56	12775.42	16838.29
3.State plan	3025.00	3275.00	3625.00	2704.38
4.UGC Plan	-	-	-	-
Sub Total(3+4)	3025.00	3275.00	3625.00	2704.38
5.Scheme Funds				
(i)State	-	-	768.75	1743.00
(ii)UGC	1896.17	1904.57	5154.10	6903.80
(iii)Central Government	-	-	-	-
(iv)Others	1885.14	2368.53	3953.80	359.18
Sub Total	3781.31	4273.10	9876.65	9005.98
Grant Total	15913.82	20490.67	26277.08	28548.65
Growth (Percentage)				
1.Internal Revenue	-	-50.02	165.19	28.14
2.Non-plan Grant	-	74.52	-18.06	32.99
3. Total Non-plan	-	42.10	-1.29	31.80
4.Total Plan	-	8.26	10.68	-25.39
5.Scheme Fund	-	13.00	131.13	-8.81
Grant Total	-	28.76	28.23	8.64
Composition(Percentage)				
1.Internal Revenue	14.89	5.78	11.95	14.10
2.Non-plan Grant	42.33	57.38	36.66	44.88
3.Total Non-plan(1+2)	57.23	63.16	48.61	58.98
4.Total Plan	19.00	15.98	13.79	9.47
5.Scheme Fund	23.76	20.85	37.58	31.54
Total	100.00	100.00	100.00	100.00

8.58 The details of expenditure (other than debt and deposits) as given in Table 8.27 show that 96.39% of expenditure was revenue expenditure in 2011-12. The capital expenditure has a meagre share of 3.61 during this period. The main contributory items of revenue expenditure are salary and pension payments. In 2011-12, the entire revenue expenditure was incurred for salary and pensions.

Table 8.27
Expenditure of Kerala Agricultural University (Rs in lakh)

Item	2008-09	2009-10	2010-11	2011-12
Part I Non Plan/Plan				
A .General Administration			814.19	1122.14
B. Examinations				
C. Pension / DCRG etc.			3770.26	5763.78
E. Departments / Centers / Miscellaneous			9834.21	13328.45
Total Revenue Expenditure			**14418.66**	**20214.37**
Part II Works (Capital Expenditure)			**475.15**	**756.06**
Part II Earmarked Funds				
A .Funds from State Government				345
B. Funds from University Grants Commission	1776.98	2142.24	2886.66	3384.44
C. Funds from Government of India				
D. Funds from other Agencies	2283.81	1990.79	2838.89	2538.57
E.NSS				
Total Earmarked Funds				
Total Expenditure (other than Part - Debts and Deposits)	**12995.98**	**20847.69**	**20619.38**	**27238.47**
Growth rates (Percentage)				
Part I Non Plan/Plan	-	-	-	-
Total Revenue Expenditure	-	-	-	40.20
Part II Works (Capital Expenditure)	-	-	-	59.12
Part III Earmarked Funds	-	-	-	-
Total Expenditure	-	60.42	-1.1	32.1
Share(Percentage)				
Total Revenue Expenditure	0	0	96.81	96.39
Capital Expenditure	0	0	3.19	3.61
Earmarked Funds				
Total Expenditure (other than Part Debts and Deposits)	0	0	100	100

Salary and pension

8.59 The shares of salary and pension to total revenue expenditure were 71.81% and 27.49% respectively and together they accounted for 100 during 2011-12 (Chart 8.26).

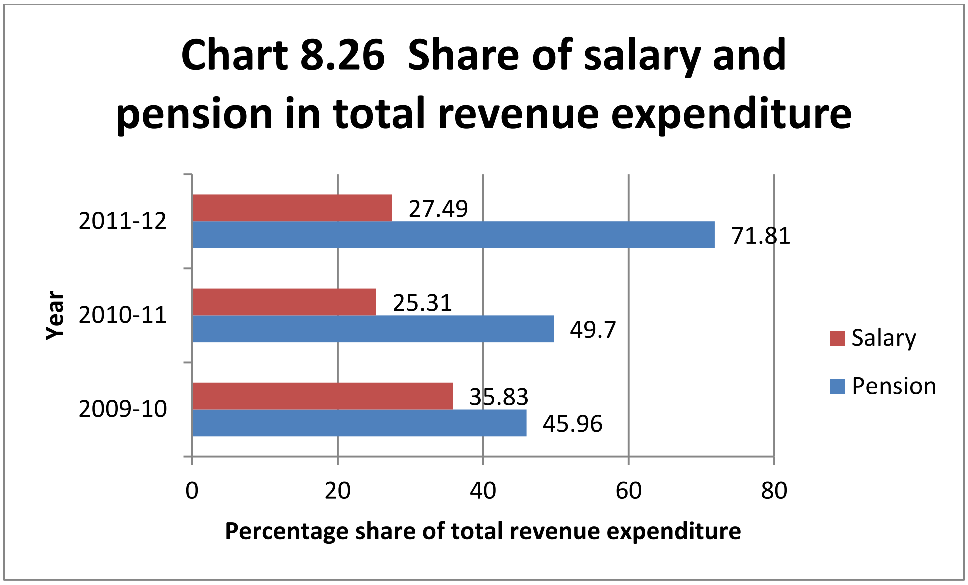
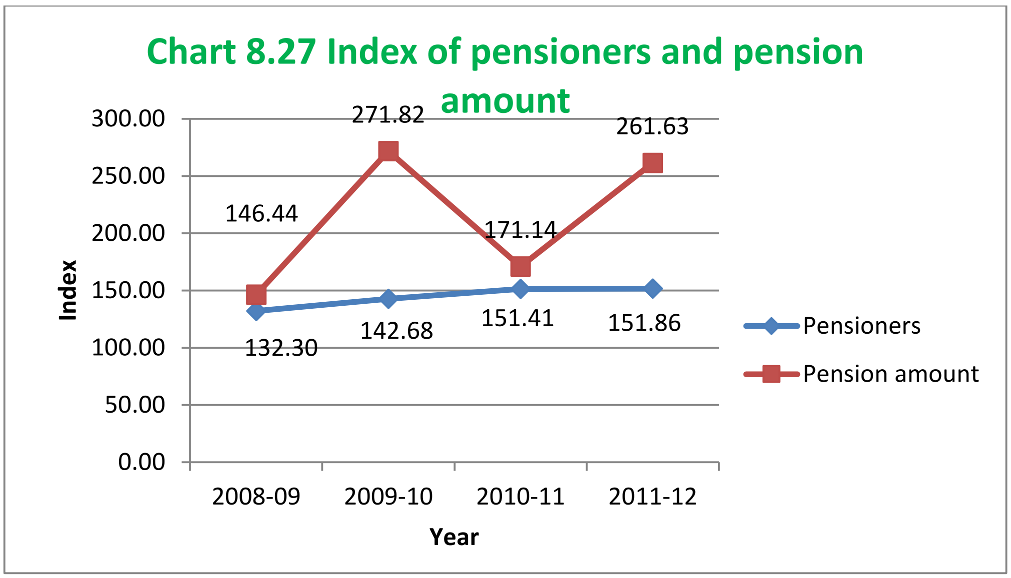


Table 8.28 shows the growth of number of staff and their salary. It is to be noted that the number of staff has been declining in the University since 2005-06 in contrast with the rapid increase in salary. During the period between 2005-06 and 2011-12, the number of staff declined from 1706 to 1377. Out of total number of 1377 staff in 2011-12, teaching and non-teaching employees are 160 and 1217 respectively. While the index of number of staff declined by 14 percent from 2005-06 to 2011-12, the salary expenditure grew by 109 percent.

Table 8.28
Number of Staff, Salary Expenditure, Number of Pensioners and Pension Amount of University of Kerala Agriculture

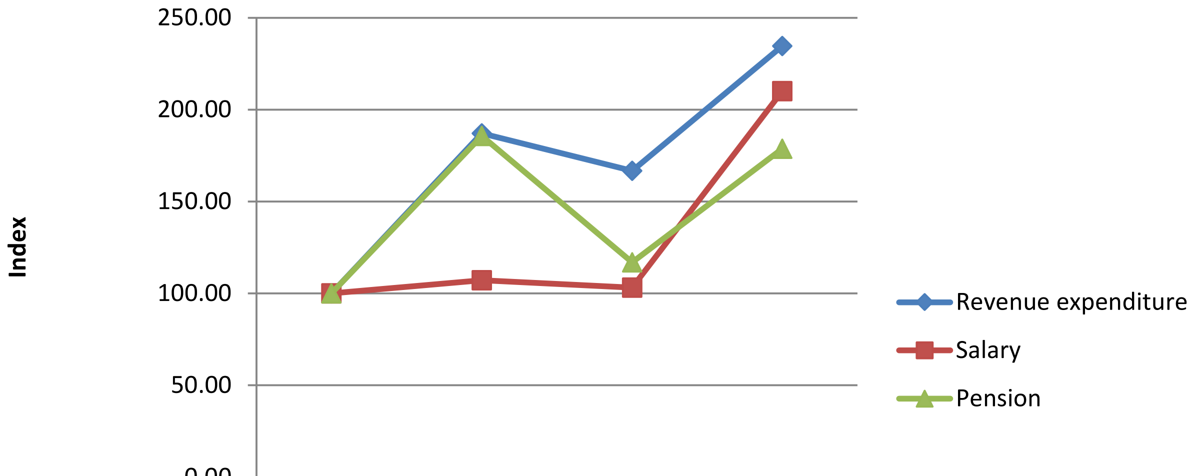
	Staff and salary		Pensioners and pension amount		Indices (Base year= 2005-06)			
	Total no. of staff	Salary amount (Rs lakh)	No. of pensioners	Pension amount (Rs lakh)	Staff	Salary	Pensioners	Pension amount
2005-06	1706	3545.27	2690	2203.00	100.00	100.00	100.00	100.00
2008-09	1575	5089.86	3559	3226.02	92.32	143.57	132.30	146.44
2009-10	1572	5153.92	3838	5988.28	92.15	145.37	142.68	271.82
2010-11	1469	5867.02	4073	3770.26	86.11	165.49	151.41	171.14
2011-12	1377	7421.72	4085	5763.78	80.72	209.34	151.86	261.63

8.60 The details of pensioners and their pension are also given in Table 8.28. The University witnessed increases both in the number of pensioners and pension liability over the period. The total number of pensioners increased from 2690 in 2005-06 to 4085 in 2011-12. Out of 4085 pensioners in 2011-12, the number of teachers, non-teachers and workers were 369, 1566 and 2149 respectively. However, the growth of pension liability surpassed the growth of pensioners. The index as given in the Table 8.28 shows, while the number of pensioners grew by 51.86 percent between 2005-06 and 2011-12, the pension liability increased by 161.63 percent (Chart 8.27).



8.61 Chart 8.28 shows a comparative growth of revenue expenditure, salary and pension in the University between 2008-09 and 2011-12. All these expenditures have witnessed an increase over the period. The lower pension growth as compared to revenue expenditure here is due to the postponement of pension payment by the University. Had the University met the pension payment timely, the percentage growth of pension liability would have surpassed the growth of revenue expenditure.

Chart 8.28 Index of revenue expenditure, salary and pension



	2008-09	2009-10	2010-11	2011-12
Revenue expenditure	100.00	187.07	166.69	234.70
Salary	100.00	107.12	103.23	209.99
Pension	100.00	185.62	116.87	178.67

Year

Major financial problems

8.62 The important financial problems of the University are as follows.

(1) Due to insufficient finance, the University has not been able to pay the pension and other benefits for those retired during the years 2010, 2011 and 2012. The University has a non-plan commitment of Rs 243.71 crore in the form of arrear payment due to salary revision, pension arrears, DA revision, service charge to Local Fund Audit Department etc.

(2) The University has been diverting the money from PF account to non-plan expenditure due to insufficient non-plan grants.

(3) The diversion of funds from plan and earmarked schemes to non plan items such as salary and pension adversely affect the quality of academic activities such as teaching, research and extention activities.

(4) The restriction in the use of plan grant is one of the financial crises faced by the University. This has restricted the autonomy of the Univesrity to plan, design, implement and monitor the schemes.

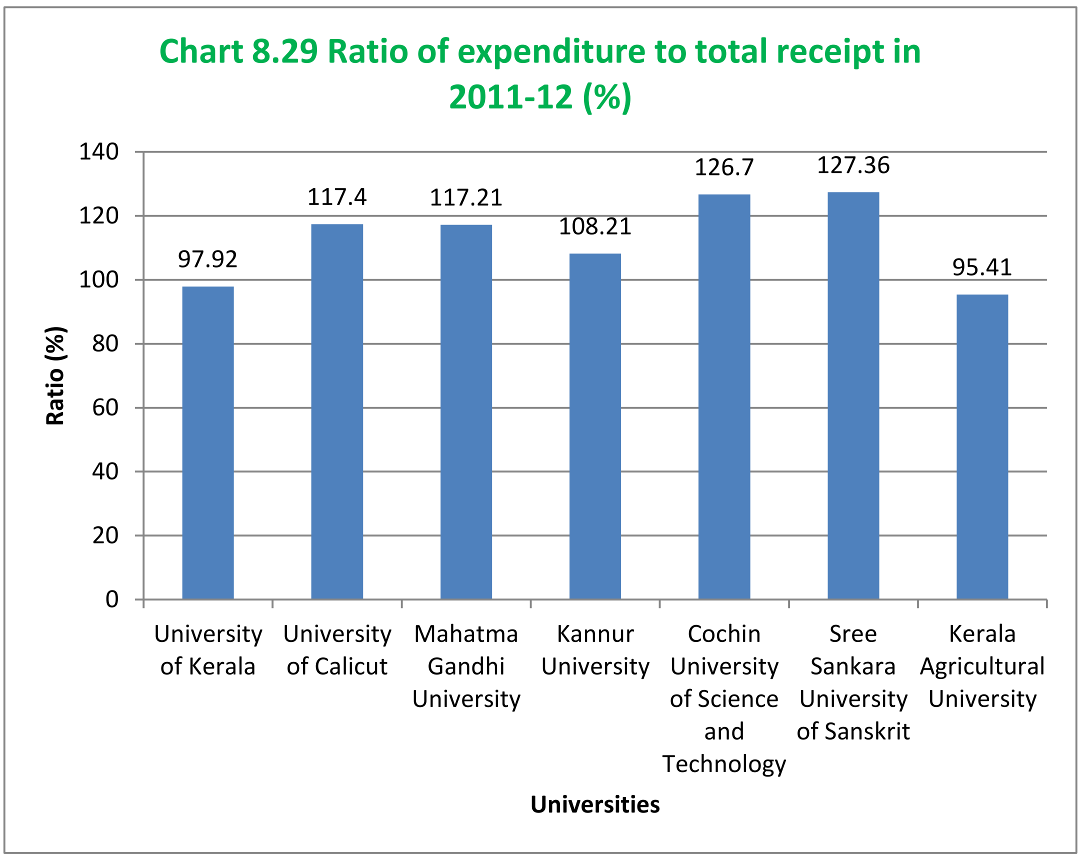
(5) A major section of teaching faculties engage in extension activities rather than in teaching and research. The number of faculty members and students in the University are 544 and 1368 respectively. As compared to students, the faculty strength is very high. A good proportion of faculty members are engaging in those extension activities which would have been managed by other staff in the Agricultural Department. The implementation of Rural Infrastructural Development Fund through this University, not only depriving the valuable time of the UGC academic faculty, but also adversely affect the vital and critical research and development activities in connection with agricultural development of the State. Thus, the existing pattern of activities of the University, not only reduces the time for academic activities of faculties, but also creation of additional financial burden by giving UGC Pay Scale to them for extension activities. This work pattern has to be restructured in order to improve the academic quality of the University.

Highlights of financial position of Universities– A comparative perspective

8.63 Though, all Universities in Kerala face financial problems, some of them, it is acute. The financial position of various Universities is compared here by using certain indicators as given below. Table 8.29 and Chart 8.29 show the ratio of expenditure to total receipts of Universities. It indicates that the expenditure exceeds the total receipts in all the Universities, except for University of Kerala (UOK) and Kerala Agricultural University (KAU) in 2011-12. The position of Sree Sankara University of Sanskrit (SSUS) is the worst followed by Cochin University of Science and Technology (CUSAT). The poor financial position of KAU is not completely revealed from the Table as they have not honored the pension commitment of retired staff for the last few years. As compared to the Universities with unitary nature (such as CUSAT, SSUS and KAU), the status of the affiliated Universities are better.

Table 8.29 Ratio of expenditure to total receipts (%)

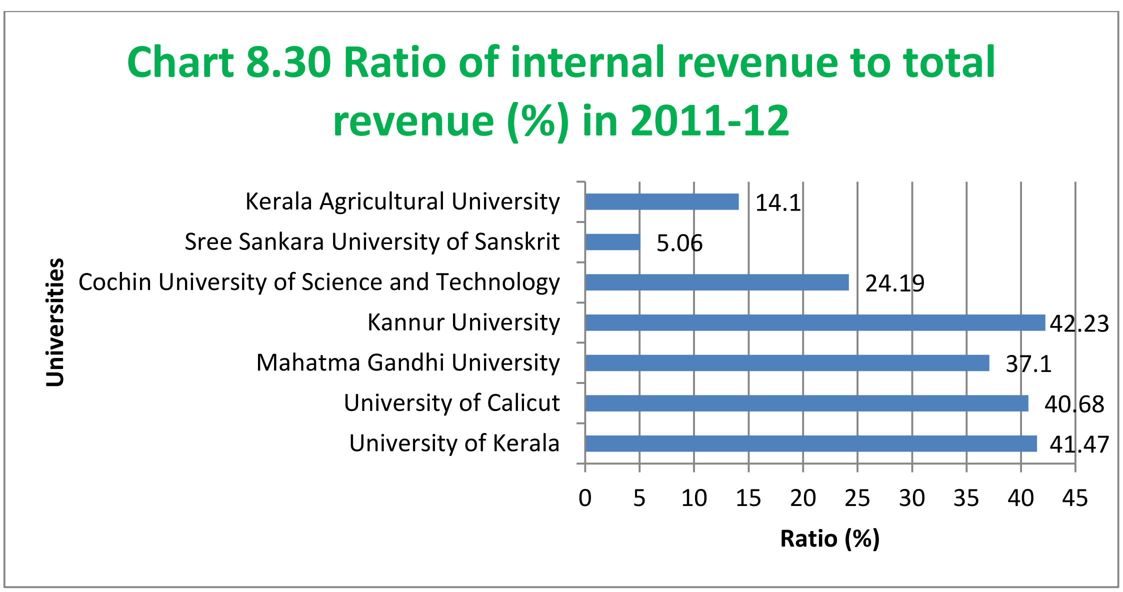
Universities	Years			
	2008-09	**2009-10**	**2010-11**	**2011-12**
University of Kerala	97.62	88.94	82.79	97.92
University of Calicut	88.87	85.20	97.06	117.40
Mahatma Gandhi University	101.61	90.26	102.68	117.21
Kannur University	90.19	86.21	48.89	108.21
Cochin University of Science and Technology	99.85	97.18	107.15	126.70
Sree Sankara University of Sanskrit	99.62	112.23	73.48	127.36
Kerala Agricultural University	81.66	101.74	78.46	95.41



8.64 The ratio of internal revenue to total revenue highlights the financial sustainability of Universities. Table 8.30 and Chart 8.30 reveal the ratio of internal revenue to total revenue of Universities. As shown in the Table, the position of Kannur University (KU) in this respect is the best followed by UOK in 2011-12. Out of total receipts, the share of internal revenue of KU and UOK are 42.33% and 41.47% respectively. The worst performer in this respect is SSAU followed by KAU in 2011-12. Here again, the performance of the affiliated Universities are better as compared to unitary Universities in the State. Among the unitary Universities, the status of CUSAT is the best in the above respect. Chart 8.30 reveals the ratio of internal revenue to total revenue of all the Universities for the year 2011-12.

Table 8.30 Ratio of internal revenue to total revenue (%)

Universities	Years			
	2008-09	**2009-10**	**2010-11**	**2011-12**
University of Kerala	35.43	36.74	35.71	41.47
University of Calicut	43.51	44.62	40.51	40.68
Mahatma Gandhi University	41.66	42.78	36.41	37.1
Kannur University	41.7	39.79	26.8	42.23
Cochin University of Science and Technology	27.99	26.94	26.07	24.19
Sree Sankara University of Sanskrit	8.05	9.06	4.08	5.06
Kerala Agricultural University	14.89	5.78	11.95	14.1

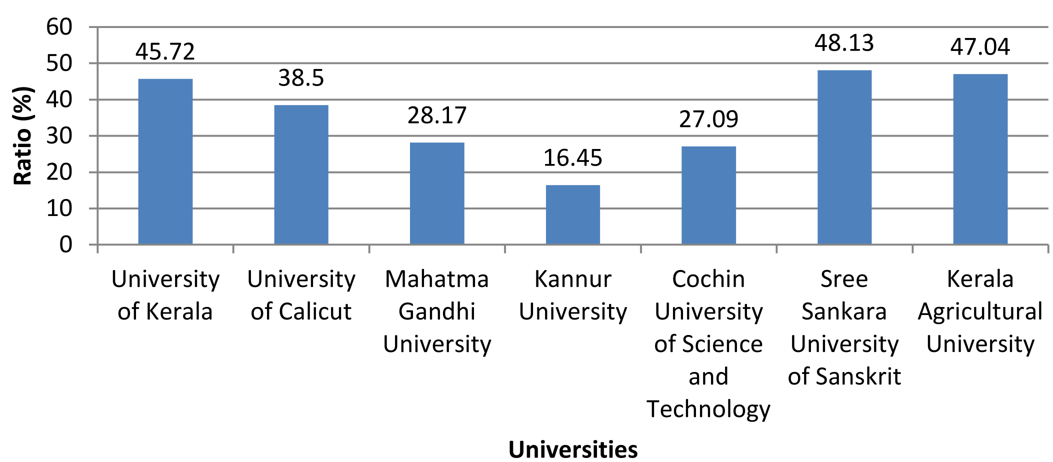


8.65 The non-plan grants from the Government are the main source of revenue for Universities in the State. However, Universities are not receiving adequate non-plan grants to meet their growing expenditure. Table 8.31 and Chart 8.31 show the ratio of non-plan grants to total expenditure. The Universities such as SSUS and KAU received the highest ratio of non-plan grants to expenditure in 2011-12. Except for KAU, the share of non-plan grants to expenditure has declined for all Universities in 2011-12 as compared to the previous year. The declining trend in non-plan grants from the Government would land up these Universities in great financial stress.

Table 8.31 Ratio of non-plan grants to expenditure (%)

Universities	**Years**			
	2008-09	**2009-10**	**2010-11**	**2011-12**
University of Kerala	48.80	53.03	51.78	45.72
University of Calicut	45.47	48.73	41.90	38.50
Mahatma Gandhi University	36.32	36.69	31.79	28.17
Kannur University	17.28	21.24	30.08	16.45
Cochin University of Science and Technology	32.28	29.41	27.94	27.09
Sree Sankara University of Sanskrit	66.56	64.67	65.49	48.13
Kerala Agricultural University	51.84	56.40	46.72	47.04

Chart 8.31 Ratio of non-plan grants to total expenditure (%) in 2011-12

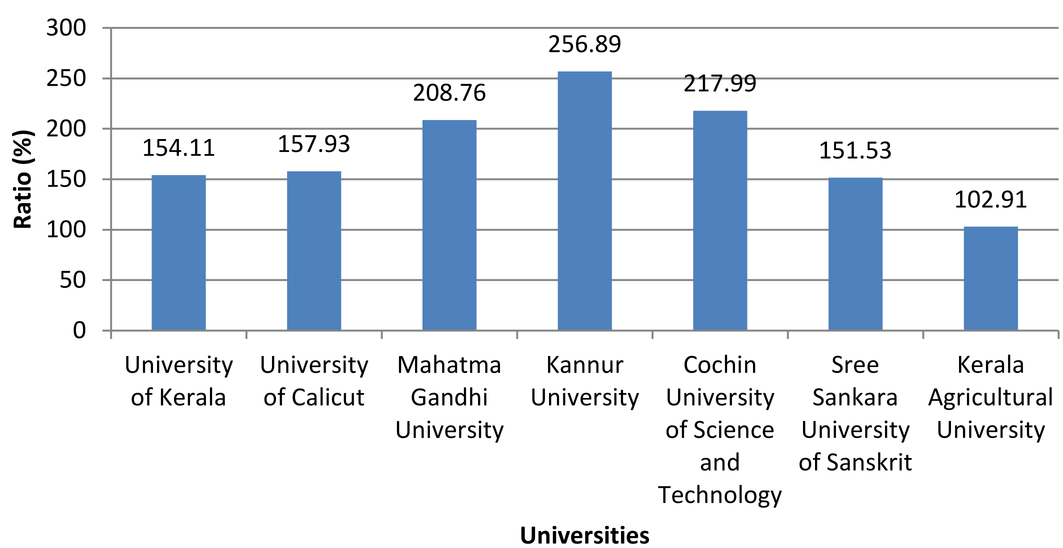


8.66 The non-plan grants are utilised mainly for the payment of salary and pension. However, it is not sufficient to meet the committed salary and pension payments by the Universities for the last several years. Table 8.32 and Chart 8.32 indicate the ratio of salary and pension to non-plan grants. Except in 2009-10 for KAU, the salary and pension payments exceeded to non-plan grants for all the Universities in all the years. The position has been worsening in this respect for all the Universities from 2009-10. The excess of salary and pension to non-plan grants is highest for KU (256%) and Mahatma Gandhi University (MGU) (208.76%) in 2011-12. This is a critical financial problem for all the Universities and if adequate non-plan grants are not given by the Government, the Universities in Kerala would land up in eventual financial collapse in the near future.

Table 8.32 Ratio of salary and pensions to non-plan grants (%)

Universities	Years			
	2008-09	2009-10	2010-11	2011-12
University of Kerala	137.68	115.98	121.74	154.11
University of Calicut	130.03	115.19	136.33	157.93
Mahatma Gandhi University	169.43	163.13	190.59	208.76
Kannur University	235.56	215.44	171.17	256.89
Cochin University of Science and Technology	170.32	151.41	184.73	217.99
Sree Sankara University of Sanskrit	119.98	109.59	105.23	151.53
Kerala Agricultural University	123.44	94.76	100.03	102.91

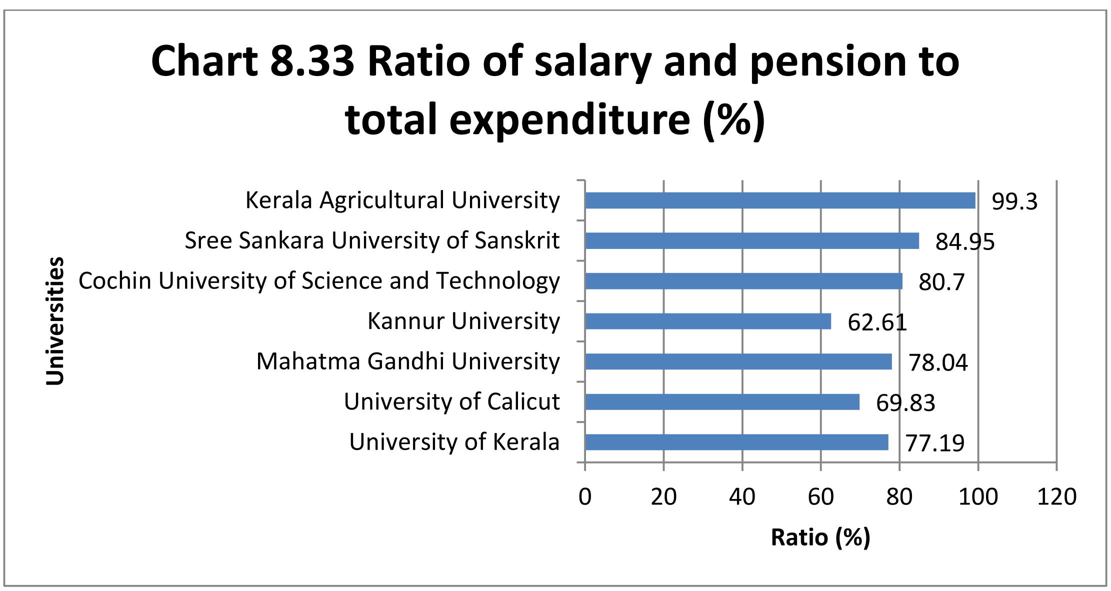
Chart 8.32 Ratio of salary and pension to non-plan grants (%) in 2011-12



8.67 As the major share of expenditure is utilised for routine payments such as salary and pension, the Universities find it very difficult to mobilise enough resources for improving the quality of their academic activities. Table 3.33 and Chart 8.33 show the share of salary and pension payments to total expenditure. Except for KU, the ratio of salary and pension to total expenditure increased for all Universities in 2011-12 as compared to the previous year. In 2011-12, KAU spent almost the entire amount for meeting their salary and pension. In the case of unitary Universities, the share of salary and pension payment in total expenditure is high.

Table 8.33 Ratio of salary and pensions to total expenditure (%)

Universities	**Years**			
	2008-09	**2009-10**	**2010-11**	**2011-12**
University of Kerala	75.03	71.25	69.15	77.19
University of Calicut	67.73	66.71	68.4	69.83
Mahatma Gandhi University	76.96	76.1	78.46	78.04
Kannur University	60.96	62.7	64.06	62.61
Cochin University of Science and Technology	74.95	72.23	71.61	80.7
Sree Sankara University of Sanskrit	84.67	78.56	84.34	84.95
Kerala Agricultural University	-	81.79	75.01	99.3



8.68 The reasons for increase in salary expenditure of the Universities cannot be found exclusively in the growth of the number of staff. In the Universities such as Kerala, CUSAT and KAU, the staff strength has actually declined between 2008-09 and 2011-12. Table 3.34 highlights the index of the number of staff. The highest decline was witnessed in UOK and KAU. However, the Universities such as University of Calicut (UOC), KU, MGU and SSUS, witnessed a positive growth.

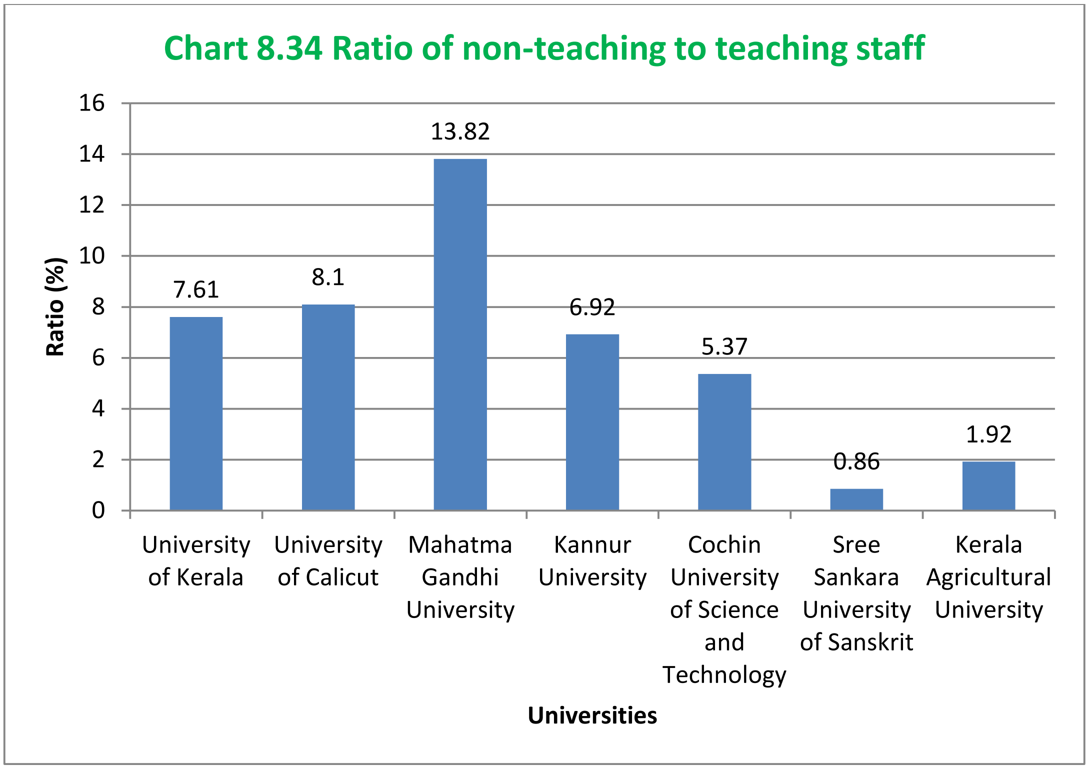
Table 8.34 Index growth of staff (%)

Universities	Years				
	2008-09	2009-10	2010-11	2011-12	Average for 2008-09 to 2011-12
University of Kerala	100.00	92.32	92.15	86.11	80.72
University of Calicut	100.00	86.63	96.82	107.81	108.51
Mahatma Gandhi University	100.00	100.00	101.93	101.93	101.93
Kannur University	100.00	115.08	111.48	132.46	129.84
Cochin University of Science and Technology	100.00	99.06	97.70	101.67	99.79
Sree Sankara University of Sanskrit	100.00	124.49	121.18	122.65	124.31
Kerala Agricultural University	100.00	92.32	92.15	86.11	80.72

8.69 The staff pattern as between teaching and non-teaching varies across Universities in Kerala. Table 3.35 and Chart 8.34 show the ratio of non-teaching to teaching staff. As compared to other Universities, the ratio of non-teaching to teaching staff is highest for MGU throughout the reference years. The ratio of MGU was 13.82 in 2011-12 followed by the UOC (8.10) and UOK (7.61). This ratio is highest for affiliated Universities as compared to unitary Universities. This highlights the need for augmenting the e-governance process of various activities of Universities such as general administration, examination, valuation etc.

Table 8.35 Ratio of non-teaching to teaching staff

Universities	Years			
	2008-09	2009-10	2010-11	2011-12
University of Kerala	-	-	8.30	7.61
University of Calicut	7.65	7.76	8.36	8.10
Mahatma Gandhi University	13.54	13.82	13.82	13.82
Kannur University	5.88	5.42	6.35	6.92
Cochin University of Science and Technology	4.33	4.60	5.16	5.37
Sree Sankara University of Sanskrit	0.89	0.94	0.90	0.86
Kerala Agricultural University	1.73	1.71	1.70	1.92



Summing up

8.70 As the advancement in higher education is the top agenda for the development strategy of the State, an evaluation of the financial position of the Universities is the need of the hour. As the Universities in the State are of either affiliated or unitary, the magnitude and intensity of financial problems varies across them. The majority of Universities are incurring excess expenditure over receipts. The deficit is mainly met from the diversion of provident fund, plan and scheme funds. Therefore, the Universities are unable to remit money to PF account, which results in the loss of interest income. The University such as KAU are not able to honour the salary and pension arrears of staff. Moreover, the internal revenue is not sufficient to meet their routine expenses. In unitary Universities such as SSUS, the possibility of generating internal revenue is very bleak. The Universities in Kerala heavily rely on the grants of State government for meeting its plan and non-plan expenditure. However, in general, the ratio of non-plan grants to total expenditure has been declining over the years. It not only affects adversely the routine administration, but also the quality of academic activities of Universities. Government is providing the non-plan grants to Universities as a 'gap filling' to meet the salary and pension payments. However, the amount granted to the Universities is not sufficient to meet this major item of expenditure. In Universities, the salary and pension payments exceeded the non-plan grants given by the government in 2011-12. In Universities such as Kannur University, MGU and CUSAT, the ratio of salary and pension payments to non-plan grants exceeds 200 percent. The inadequacy of non-plan grants led to the diversion of PF funds, plan and earmarked scheme funds and accumulation of huge arrears of salary and pension. In total expenditure also, the share of the above two items exceeds year after year. In KAU, the entire amount of expenditure was incurred for meeting these two items in 2011-12. The entire financial situation of the Universities highlights the existence of serious financial problems. The insufficient non-plan receipts for meeting their salary and pension liabilities, not only wreck the financial management but also adversely affect the quality and development of higher education. Urgent steps are needed to stop the Universities from sliding towards imminent financial collapse.

9

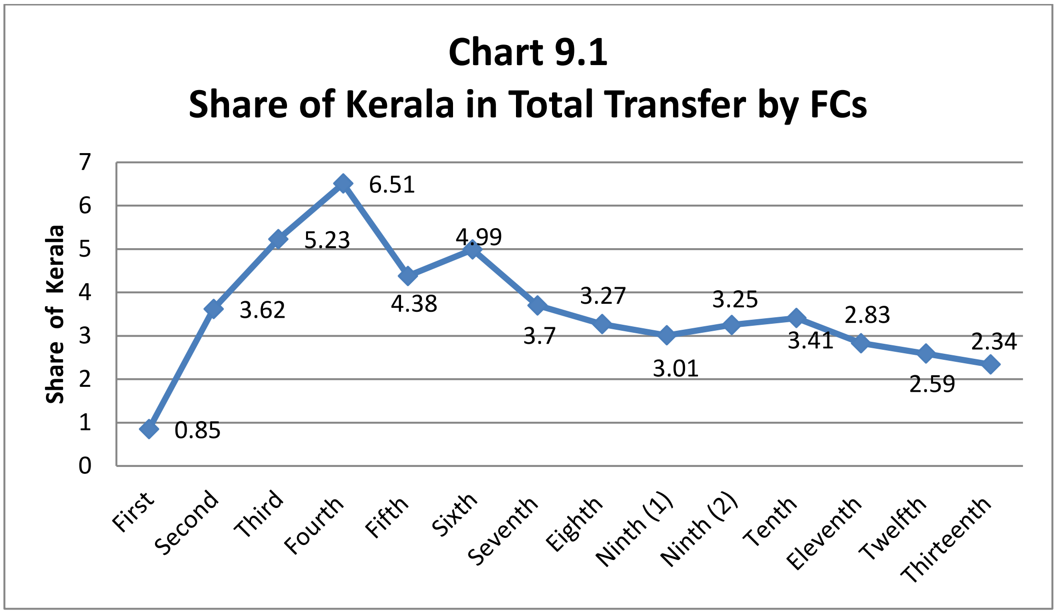
Fiscal Roadmap of 13th FC and the Achievements

Introduction

9.1 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 to a large extent by the devolution of sharable Central taxes, grants and other transfers which are governed by the recommendations 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 disciple to State finance. The present chapter is devoted for examining the fiscal implication of 13th FC's recommendation 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 13th FC.

Declining share of Finance Commissions' transfers to the State

9.2 The State of Kerala has been witnessing a declining trend in Central Government transfers of tax devolution and grants based on the recommendations of various FCs. Chart 9.1 shows that the share of Kerala in total transfers has been declining continuously since Tenth FC. As per the 13th FC recommendations, the share of Kerala is 2.34 which is lower than the 12th FC recommendation. One of the major reasons for the above predicament is the insensitiveness on the part of FCs in considering the unique development features of Kerala while deciding for horizontal distribution of sharable proceeds of the Centre. The fiscal commitments of the State has been increasing due to the second generation development issues such as increasing cost of urban infrastructure including road connectivity, sewerage and drainage facilities, solid waste management etc; cost of lifestyle diseases; increasing morbidity; consequence of demographic dividends such as increasing unemployment among youth particularly educated and welfare issue of elderly population; improving the quality of higher education and research etc. The Committee strongly feels that these issues will have to be taken up with 14th FC deliberations by the State Government to revert the declining trend of fiscal transfer.



13th FC and devolution of grants to Kerala

9.3 13th FC recommended a large number of conditional and unconditional grants in addition to Non-plan Revenue Deficit (NPRD) grants. These grants are related to State specific performance; universalisation of elementary education; environment related issues including forest, renewable energy, and water sector management; incentive for improving the quality of public expenditure; 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 realisation 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. In addition to the amendment of Fiscal Reform and Budgetary Management (FRBM) Act, the State should adhere to the norms fixed in the revised fiscal roadmap.

State specific grants

9.4 The State specific grants under various heads are listed in Table 9.1. Altogether, the State of Kerala is entitled to receive a grant of Rs 1500/- crore from 2011-12 to 2014-15 under various sectors. Under these State specific grants, the largest share is allotted for Kuttanad development followed by fisheries.

Table 9.1
13th FC Award for various State specific grants (Rs in crore)

Sector	2010-11	2011-12	2012-13	2013-14	2014-15	TOTAL 2010-15
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
Total		**375.00**	**375.00**	**375.00**	**375.00**	**1500.00**
Source: Report of 13th Finance Commission, Govt of India						

9.5 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 GoI to States and administered by ministries/departments other than Ministry of Finance for Kerala was Rs 106 crore as on 31 March 2008.

Grants received and utilised by the State

9.6 The delayed amendment of the FRA in the State delayed the receipts of many grants recommended by the FC. The following Table 9.2 shows the outlay and expenditure on various schemes (including State specific and others) from 2010-11. The State has received an amount of Rs 431.64 crores for various schemes during 2011-12 and spent an amount of Rs 325.24 crores. The spending comes to 75% of the outlay. Among the various schemes, the schemes such as inland waterways and coastal zone management, primitive tribal groups and water bodies could not spent a major share of allotted fund. 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 and appropriate project proposals to the Centre for avoiding the lapse of funds due from State specific and other general grants especially in the case of District Innovation Fund (under general grants) and water bodies (under State specific grants).

Table 9.2
Schems of XIIth Finance Commission for the period 2010-11 and 2011-12 (Rs crores)

Sl.No	Name of scheme	2010-11			2011-12		
		Outlay	Expenditure	%	Outlay	Expenditure	%
	General Grants						
1	Forest	12.72	5.23	41	12.72	13.78	108
2	Elementary education	25.00	25.00	100	27.00	27.00	100
3	Incentives grants for Unique Identification Authority	9.92	4.96	50	9.92	9.92	100
4	District Innovation Fund				7.00	0.02	0
	State Specific Grants						
5	Upgradation of police				25.00	25.00	100
6	Inland waterways and coastal zone management				50.00	12.50	25
7	Primitive tribal group				37.00	9.77	26
8	Health infrastructure				49.50	45.29	91
9	Fisheries				50.00	50.00	100
10	Upgradation of prisons				38.50	38.50	100
11	Animal husbandry				37.50	37.50	100
12	Kuttanad development				75.00	55.06	73
13	Water bodies				12.50	0.90	7
	Total	**47.64**	**35.19**	**74**	**431.64**	**325.24**	**75**

Source:-Annual Plan Review, 2011-12, Planning and Economic Affairs (CPMU) Department, Govt of Kerala

9.7 The Table 9.3 shows the details of central loans written off by Central Ministries as part of 13th FC recommendations. An amount of Rs 51.18 crores of central loans has been written off based on this recommendation.

Table 9.3
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
	Total	**4810.80**	**307.45**
	Grand Total (CSS+CSP)	**5118.25**	
Source: Report of 13th Finance Commission, Govt of India			

9.8 The State is also eligible for interest relief of NSSF loans to the tune of Rs 329.22 crores during the period 2010-15 as shown in Table 9.4. However, the State has not received any amount from this provision so far. In spite of amending the FRBM Act as recommended by the FC, the State did not enjoy any financial relief from the Centre. The additional conditionalities put up by the Ministry of Finance of Union Government is that the State not only should amend the FRBM Act, it also satisfies the fiscal norms stipulated in the Act. The ad hoc actions of Ministry of Finance which override the recommendations of FC should be viewed seriously.

Table 9.4
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

Total	4506.68	329.22
Source: Department of Finance, Govt of Kerala		

Fiscal roadmap

9.9 The revised roadmap of fiscal consolidation between the financial year 2010-11 and 2014-15 has been stipulated in amended FRBM Act of 2011. As per the revised roadmap, the State has to bring down the fiscal deficit and revenue deficit to 3 percent and zero percent of GSDP respectively 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 Thirteenth FC. As per the amended FRA on 8th November 2011, the fiscal target of the State Government is given in the following Table 9.5.

Table 9.5
Fiscal target of the State as per the amended FRA

	Targets			Actual		
Year	Revenue deficit/GSDP	Fiscal deficit/GSDP	Total debt liabilities to GSDP	Revenue deficit	Fiscal deficit	Total debt liabilities to GSDP
2010-11	Not given	3.33	32.8	1.36	2.89	29.20
2011-12	1.40	3.50	32.3	2.55	4.07	28.37
2012-13	0.90	3.50	31.7			
2013-14	0.50	3.00	30.7			
2014-15	0.00	3.00	29.8			
Source: (1) Fiscal Responsibility Act, 2011, Govt of Kerala (2) Finance Accounts (for various years), Controller and Auditor General of India.						

9.10 The fiscal targets set in the amended FRA are same as stipulated by the 13th 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. The Table highlights that except in the case of total liabilities to GDP ratio, the State could not achieve other targets such as revenue deficit and fiscal deficit.

Debt liability and growth of fiscal deficit

9.11 The disparity between revenue receipts and total expenditure and the resultant deficit in revenue is managed from capital receipt, which is mainly composed of borrowing and other liabilities. The important components of fiscal deficit are revenue deficit, capital outlay, net lending and miscellaneous capital receipt (MCR). The decomposition of fiscal deficit is given in the following Table 9.6.

Table 9.6 Components of fiscal deficit in Kerala

Components of Fiscal Deficit (Rs Crore)						Percentages			
Years	**Revenue deficit**	**Capital outlay**	**Net lending**	**MCR**	**Fiscal deficit**	**Revenue deficit**	**Capital outlay**	**Net lending**	**MCR**
2004-05	3669	681.75	101.26	0.02	4452	82.41	15.31	2.27	0.00
2005-06	3129	817.33	235.61	0	4182	74.82	19.54	5.63	0.00
2006-07	2638	902.59	283.29	1.94	3822	69.02	23.62	7.41	0.05
2007-08	3785	1474.57	848.31	7.53	6100	62.05	24.17	13.91	0.12
2008-09	3712	1695.59	948.05	9.11	6346	58.49	26.72	14.94	0.14
2009-10	5023	2059.39	838.98	48.96	7873	63.80	26.16	10.66	0.62
2010-11	3674	3363.69	717.61	24.61	7730	47.53	43.51	9.28	0.32
2011-12	7674	3095.7	943.64	16.05	12455	61.61	24.86	7.58	0.13

Source: (1) ***Finance Accounts*** *(for various years), Comptroller and Auditor General of India*
(2) ***State Finances*** *(for various years), Comptroller and Auditor General of India*

9.12 A major portion of fiscal deficit is meant for meeting revenue deficit. The proportion of revenue deficit was 83 percent in 2004-05 and continuously declined up to 48 percent in 2010-11. In 2011-12, the percentage of fiscal deficit (mainly through debt and other liabilities) for meeting revenue liabilities was 62 percent, showing a case of fiscal imprudence on the part of the State. The capital expenditure from the fiscal deficit had declined from 43.51 percent in 2010-11 to 24.86 in 2011-12. Thus along with the quantum of debt, the way by which the debt is used in the economy has to be taken into account while assessing debt sustainability. The increased capital expenditure out of debt receipt is desirable for improving the productive capacity of the economy and for future debt redemption.

Outstanding Consolidated Sinking Fund and debt redemption

9.13 On the basis of the advice given by the Reserve Bank of India, no depreciation fund or sinking fund is maintained for the loans floated by Government from the year 1975. In accordance with the guidelines issued by the Reserve Bank of India, Government have constituted a Consolidated Sinking Fund during the year 2005-06 for redeeming its open market loans. A revised scheme of Consolidated Sinking Fund was constituted during 2007-08 as an Amortisation Fund for redemption of outstanding liabilities in replacement of the existing Scheme of Consolidated Sinking Fund which was operative till the end of the financial year 2006-07. The rate of contribution to the Consolidated Sinking Fund is 0.5 per cent of the outstanding liabilities as at the end of the previous year. The Fund is credited with the contribution from revenue and interest accrued on investment made out of the Fund. However, the amount set apart for the Consolidated Sinking Fund is far less than the required contribution from the revenue account as per the guidelines. In 2011-12, the amount needed for the sinking fund is Rs 4473.15 crore. However, the actual transfer of fund was only Rs 10 crore. The resource gap increases as time elapses and which may adversely affect the redemption of past debt and stability and sustainability of debt.

Table 9.7 Outstanding amount in Consolidated Sinking Fund

	2007-08	2008-09	2009-10	2010-11	2011-12
Outstanding Consolidated Sinking Fund*	369.51	753.70	1092.67	1473.67	1601.44
Required contribution to Consolidated Sinking Fund from revenue account	2770.5	3163.5	3548.45	3933.65	4473.15
Actual contribution to Consolidated Sinking Fund from revenue account	222.52	344.34	276.36	275.00	10.00
Resource gap in sinking fund	2547.98	2819.16	3272.09	3658.65	4463.15

******This include the previous balance plus the additional contribution from revenue account plus the interest earned from the consolidated fund*

Source: Estimated from(1) ***Finance Accounts*** *(for various years), Comptroller and Auditor General of India*
(2) ***State Finances*** *(for various years), Comptroller and Auditor General of India*

Fiscal projections for the State

9.14 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.

9.15 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 2011-12 is 7.1 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 2011-12. The projection period is between 2012-13 and 2014-15.

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

$Y = b0 * (b1^t)$ or $\ln(Y) = \ln(b0) + (\ln(b1) * t)$, where t= time point

Where Y = the fiscal variable projected, the compound growth rate,

CGR= 1-In(b1)

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

9.16 Table 9.8 shows the estimated average buoyancy rate of various tax sources between the period 2000-01 and 2011-12. 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 excise duty and Motor Vehicle tax. 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 9.8
Tax bouyancy by type of tax
(2000-01 to 2011-12)

Sl.no	Type of tax	Tax bouyancy
1	Own tax	0.994
2	Sales tax	0.973
3	Excise duty	0.833
4	Motor vehicle	0.865
5	Stamp and registration	1.525
4	Other tax	0.611

9.17 The compound growth rate of the important fiscal variables considered are summarised in the following Table 9.9. 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 9.9
Compound growth rate of fiscal variables(2000-01 to 2011-12)

	Compound growth rate (%)
Own tax revenue	14.6
i. Sales tax	14.3
ii. Excise duty	12.0
iii. Motor vehicle tax	12.6
iv. Stamp duty and registration	23.3
v. Others	09.2
Non tax revenue	14.2
(i) General services	19.0
(ii) Social service	10.9
(iii) Economic services	07.5
Central transfers	14.2
(i) Tax devolution	13.8
(ii) Grants	15.0
Revenue expenditure	12.7
A. General services	12.1
(i) Interest payments	09.2
(ii) Pensions	13.9
(iii) Other general services	14.2
B. Social services	12.6
(i) Education	11.9
(ii) Medical and public health	13.0
(iii) Other social services	17.2
C. Economic services	07.9
D. Compensation and assignment to LBs	11.5
Capital expenditure	19.4
A. Capital outlay	19.9
(i) General	12.8
(ii) Social	25.1
(iii) Economic	19.5
B. Loans and advances (net)	20.7

9.18 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%.

Projection of fiscal scenario

9.19 Table 9.10 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 2011-12 without any fiscal shock.

Table 9.10

Fiscal scenario as percent of GSDP

Items	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue					
Own tax revenue	7.84	7.87	8.25	8.28	8.31
Sales tax	5.72	5.80	6.04	6.02	6.01
excise duty	0.61	0.58	0.59	0.58	0.56
Motor vehicle tax	0.48	0.49	0.50	0.49	0.48
Stamp duty and registration	0.92	0.91	1.02	1.09	1.17
Others	0.11	0.10	0.10	0.09	0.09
Non tax revenue	0.70	0.79	0.84	0.85	0.86
General services	0.34	0.50	0.54	0.56	0.58
Social service	0.08	0.08	0.08	0.08	0.08
Economic services	0.18	0.15	0.15	0.14	0.13
Interest, dividend and profit	0.09	0.06	0.07	0.07	0.07
Interest reciepts	0.06	0.04	0.04	0.05	0.05
Dividend and profit	0.03	0.02	0.02	0.02	0.02
Central transfers	2.65	2.97	3.09	3.09	3.08
Tax devolution	1.86	1.83	1.90	1.88	1.86
Grants	0.79	1.14	1.20	1.21	1.22
Plan grants	0.62	0.70	0.72	0.70	0.69
a. Grants for State plan schemes	0.34	0.28	0.29	0.29	0.29
b. Grants for CSP, CSS and other special schemes	0.28	0.42	0.43	0.42	0.40
Non plan grants	0.18	0.44	0.48	0.50	0.53
Total revenue(A+B+C+D)	11.19	11.64	12.18	12.21	12.24
Expenditure					
Revenue expenditure					
General services	5.57	6.21	6.45	6.37	6.29
Interest payments	2.05	1.93	2.00	1.96	1.91
Pensions	2.08	2.66	2.76	2.73	2.71
Other general services	1.43	1.62	1.69	1.68	1.67
Social services	4.37	4.97	5.93	5.88	5.84
Education	2.47	2.88	2.94	2.86	2.78
Medical and public health	0.63	0.76	0.78	0.77	0.75
Other social services	1.90	2.08	2.22	2.26	2.31
Economic services	1.57	1.88	1.84	1.73	1.62
Compensation and assignment to LBs	1.00	1.04	1.05	1.02	0.99
Total Revenue Expenditure	12.51	14.09	15.27	15.00	14.74
Capital expenditure					
Capital outlay	1.21	1.18	1.29	1.35	1.41

General	0.04	0.05	0.05	0.05	0.05
Social	0.17	0.18	0.21	0.23	0.25
Economic	1.00	0.95	1.03	1.07	1.11
Loans and advances (net)	0.26	0.29	0.32	0.33	0.35
Total capital expenditure	1.47	1.47	1.60	1.68	1.76
Revenue deficit					
Targeted revenue deficit	-	1.4	0.9	0.5	0
Actual and predicted revenue deficit	1.33	2.46	3.09	2.79	2.50
Fiscal deficit					
Targeted fiscal deficit	3.33	3.5	3.5	3	3
Actual and predicted fiscal deficit	2.79	3.92	4.70	4.47	4.25
Primary deficit	0.74	2.00	2.89	2.51	2.19
Outstanding liabilies					
Targeted debt-GSDP ratio	32.8	32.3	31.7	30.7	29.8
Actual and predicted debt-GSDP ratio	28.40	27.37	28.18	27.57	26.96
GDP at current price	276997	326693	359285	412941	474611

9.20 If the present trend as in 2011-12 continues, the State will not be able to achieve the targets of fiscal and revenue deficits as Stated in the fiscal roadmap of medium term fiscal plan as well as 13th FC. There is bleak possibility in achieving zero percent revenue deficits and 3% fiscal deficits during 2014-15. Also, the fiscal situation cannot remain constant in a State like Kerala. The State can be affected by various fiscal shocks. The possible fiscal shocks of the State are Pay Commission award and its resultant revision on salary, pension and Dearness Allowance, the creation of additional post in aided sector and consequent burden on State exchequer and additional borrowing to meet these revenue expenditure as well as capital expenditure. If the present trend continues, the State may end up with fiscal collapse in the near future. The fiscal management of the State has to take into account these realities while framing fiscal policies.

Chart 9.2
Actual and targeted revenue deficit

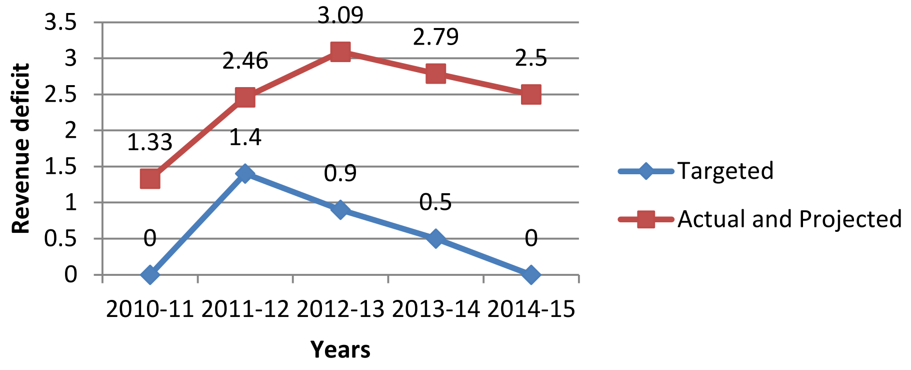


Chart 9.3
Actual and targeted fiscal deficit

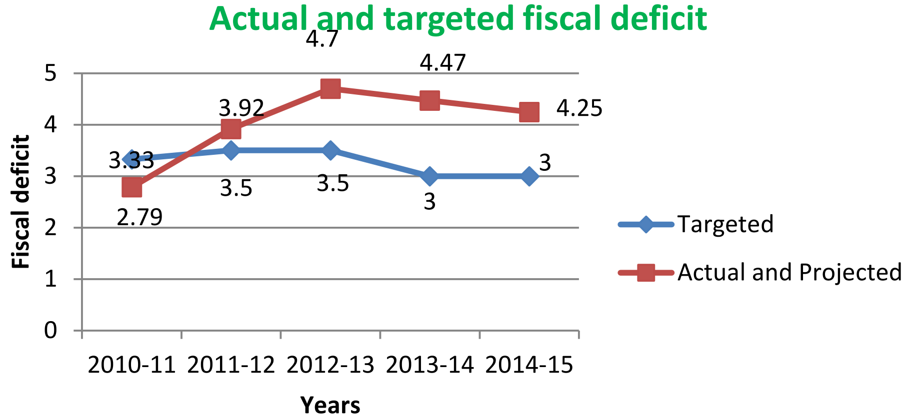
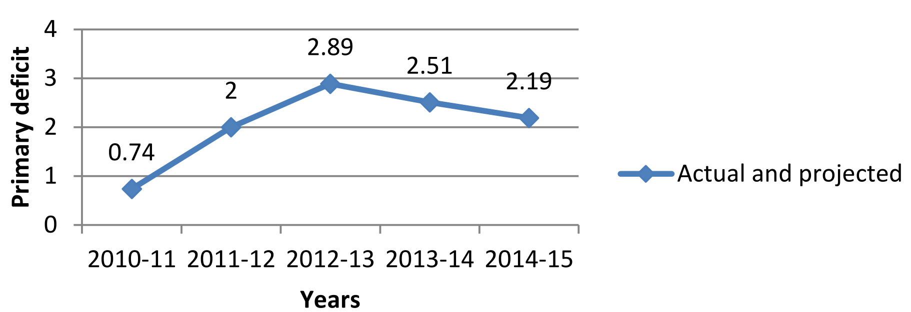
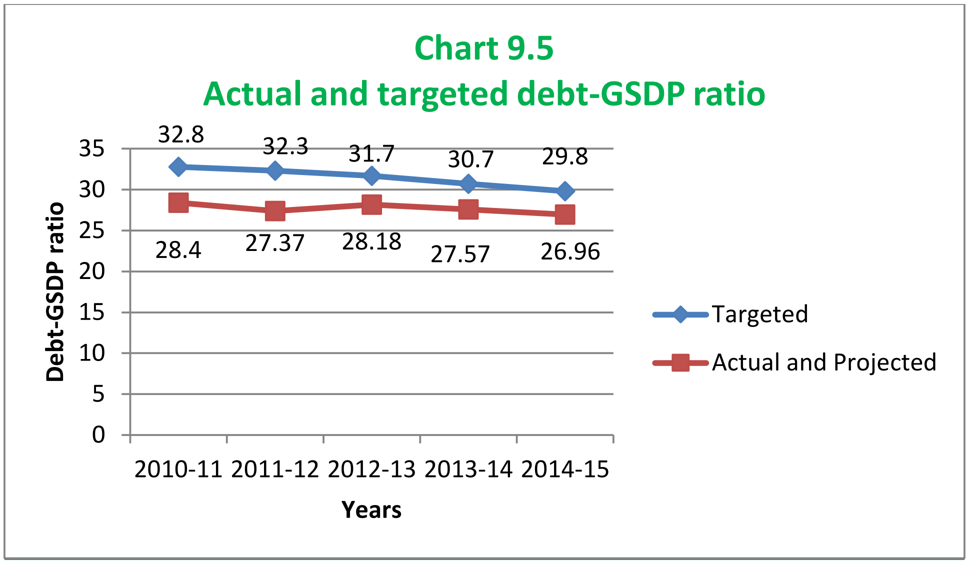


Chart 9.4
Actual and Projected primary deficit





Debt sustainability

9.21 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. The following are the criteria used to assess the issue of debt sustainability.

(1) Debt/GSDP ratio

(2) A measure of stable and sustainable Debt/GSDP ratio (SD) is given by SD=F[(1+G)/G]Where, F=Fiscal deficit/GSDP, G=Nominal growth rate of GSDP

(3) Debt as a percentage of Total Revenue Receipt.

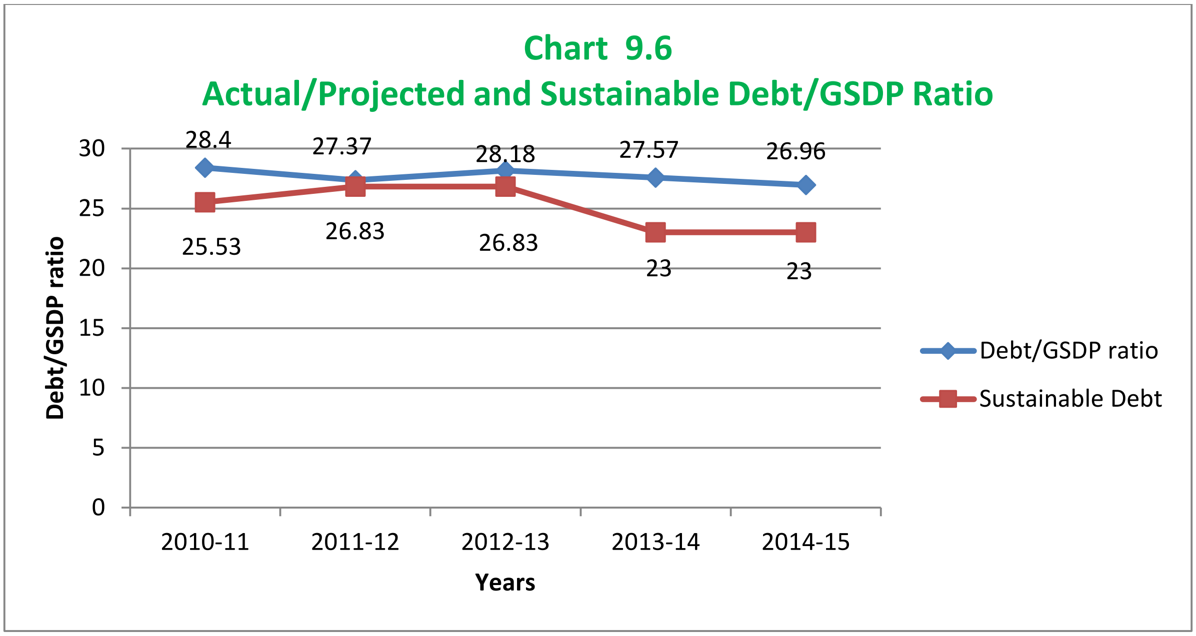
(4) Total debt to State's own revenue resources (Debt/ORR)

9.22 Based on the above criteria, the debt sustainability indices are worked out and given in the following Table 9.11.

Table 9.11
Debt sustainability indices for the year between 2010-11 and 2014-15

	Actual		Projected		
Indicators	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Debt/GSDP ratio (in %)	28.40	27.37	28.18	27.57	26.96
Sustainable Debt/GSDP ratio (in %)	25.53	26.83	26.83	23.00	23.00
Debt/TRR ratio (in %)	254	235	231	226	220
Debt/Own Revenue Receipt (in %)	333	316	310	302	294

9.23 To estimate the sustainable debt level, it is assumed that the average nominal growth rate of GSDP is 15% per annum. The assumed growth rate of GSDP is based on its projected cumulative growth rate which is estimated from the data between 2000-01 and 2011-12. As per the first critieria, the sustainable debt ratio for a 3.50% fiscal deficit and 15% nominal GSDP growth rate for 2011-12 was 26.83 percent. The present ratio is 27.37 percent which is far greater than the sustainable level. The projection also highlights that the actual debt position of the State would continue to be higher than the sustainable level. Chart 9.6 highlights this fact.



9.24 As per the criteria of the ratio of debt to revenue receipt, it is 235 percent in 2011-12. With respect to own revenue receipt (revenue receipt excluding the contribution from the Centre), the ratio of debt in the State during 2011-12 was 316%. The Mid Term Review on States' Finance Reforms Facility (2000-01 to 2004-05) by the Ministry of Finance, Government 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. The State is not very far away from the situation of debt stress. In this context, steps will have to be initiated for averting such a situation in the State. The position of 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. It is high time for controlling the growth of debt in the State by limiting the liabilities.

9.25 Achieving financial stability is the primary concern of financial management. The need of the hour is a multipronged approach emphasizing revenue side, expenditure side and debt liabilities of the State. In the case of revenue, the stress should be given for tapping more non tax revenues, increasing the buoyancy of the tax revenue sources, dismantling administrative hurdles in innovative practices in collecting tax revenue etc. In expenditure side emphasis should be given for controlling unproductive revenue expenditure and enhancing capital expenditure including socially productive items for enhancing growth and financial stability of the State in the future. The State is now paying a price for improper debt management. While initiating measures for debt management, sufficient attention must pay for reducing revenue expenditure component, enhancing the capital outlay out of fiscal deficit, enhancing the rate of return of the borrowed funds, sufficiency of fund transferred from revenue account to Consolidated Sinking Fund etc.

9.26 The implementation of various fiscal reforms suggested by various Committees including Finance Commissions is a major prerequisite for ensuring stability of State finance. The status of implementation of various budgetary reforms suggested by 13th FC shows that the State has to a go a long way in budgetary reforms. The State has not taken serious initiatives to complete fiscal reforms in areas such as completing the audit of all Public Sector Undertakings (PSUs); drawing a roadmap for closing non-working PSUs; creating a comprehensive data bank on all subsidies; audit assets of State Government and related maintenance expenditure; revenue expenditure consequence of capital projects; incorporating the fiscal impacts of major policy changes of State Government in the Medium Term Fiscal Plan (MTFP); reporting the public-private partnership liabilities in the MTFP; Strengthening local fund audit departments through capacity building as well as personnel augmentation, incentivizing 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; and filling the gap of statistical infrastructure gap in the State. 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 13th FC report.

Summing up

9.27 The share of Central transfers to the State has been declining continuously since the 10th FC and that affects adversely the fiscal strength of the State. 13th FC recommended a large number of conditional and unconditional grants in addition to Non-plan Revenue Deficit (NPRD) grants. The State is not able to utilize the funds sanctioned annually for various State specific grants such as inland waterways and coastal zone management, primitive tribal groups and water bodies, 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 13th FC. The non-adherence to fiscal prudence parameters by the State as stipulated by amended FRA and 13th FC recommendations is the reason for not receiving the interest relief on NSSF loan. The buoyancy level of most of the tax sources in Kerala is below one, which adversely affects the revenue mobilisation 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 fiscal projection highlights that achieving the targets of revenue and fiscal deficits is very bleak in the State. The mounting fiscal and revenue deficit of the State will jeopardize the financial strength and stability of the State Government. The actual debt position of the State is projected to be higher than the sustainable debt level of the State. The State is not very far away from the situation of debt stress. The recent increase in the share of revenue deficit in total fiscal deficit is a clear example of fiscal imprudence on the part of the State. The State is not attempting any serious efforts to manage the debt burden in the future particularly with respect to augmenting resources for Consolidated Sinking Fund in the State. In addition, the State is not serious in time bound implementation of fiscal reform measures suggested by 13th FC in improving the strength of State finance.

10
Summary and Recommendations

Summary

Overview of State Finances

1. The report begins with a review of the fiscal performances of the Government of Kerala since 2004-05. Prima facie, conditions of affluence seem to prevail in the State as reflected in the percapita GSDP figures. In tandem with the growth of the economy, tax revenue of the State has also been growing. However, the performance has been grim in the case of non-tax revenue. The State has been able to raise very meagre amount of its potential as non tax revenue. At the same time, the share of Central transfers has been continuously falling as a ratio to GSDP since the report of Eleventh Finance Commission.

2. Revenue expenditure has been moving ahead of revenue receipts resulting in a huge revenue deficit of Rs 8034 crore in 2011-12 which accounted for 2.55 per cent of the GSDP as against only 1.55 per cent in the previous year. Though capital expenditure has recorded an increase of 338 percent during the period, the actual volume was only Rs 3364 crore, not a significant amount as a ratio to GSDP. Due to persistent revenue deficit, the State is not in a position to allot sufficient funds for capital investment. Instead, borrowed funds are being diverted for meeting revenue expenditure. As a result of persistent revenue and fiscal deficits, the volume of debt has been increasing at an alarming scale, resulting in the payment of large amount of money as interest charges

3. Compared to the other States, the performance of the State cannot be regarded as satisfactory in respect of those fiscal indicators like non tax revenue, capital outlay, and revenue deficit and debt liability on a per capita basis. In fact, the per capita revenue deficit of Kerala has been 32 times higher than that of the other

States. The overall fiscal management has not been in conformity to the road map prescribed by the Thirteenth Finance Commission except in respect of the debt - GSDP ratio. By and large, a well thought out strategy for correcting the disequilibrium in the State finances seems to be absent.

Revenue Profile and Mobilization

4. This Chapter analyses the revenue position of the state, examines tax and non- tax sources of revenue, structure and pattern of growth of own tax sources of revenue. Further, it examines the huge collection cost of revenue and the issues like large tax evasion, low tax compliance, inordinate delay in settling cases and the growing lethargy in collection of arrears.

5. When total revenue receipts of 2011-12 is composed of 67% own tax revenue, 6.82 % of non-tax revenue and 26% of Central transfers. When structure and growth of own tax revenue is examined a fluctuating trend of growth is found. Revenue from sales tax recorded 23.98 percent growth and 1.48 buoyancy in 2010-11, whereas it could register only 19.62 per cent growth and 1.15 buoyancy in 2011-12. In the case of excise duty too, both growth rate and buoyancy did poorer in 2011-12 than in 2010-11. While motor vehicles and stamps and registration recorded positive growth rate and buoyancy, 'others' performed poorer both in 2010-11 and 2011-12.

6. When five year average rate of growth of own tax revenue of Kerala is compared with other southern states it is found that Kerala lags behind others except Karnataka. Table 3.4 explains this. When Andhra Pradesh champions the premier position, Kerala lies next to Karnataka from the bottom. In the case of Kerala which is called a 'consumer state' this indicates untapped tax potential on the one hand and the alarming rate of tax evasion on the other.

7. When the structure and growth of sales tax revenue is examined, post VAT period recorded faster rate of growth than the pre VAT period. 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. A comparative analysis of the performance of South Indian States is worth probing. Comparatively higher growth

rate of sales tax revenue is recorded by Andhra Pradesh followed by Karnataka. A consumer State like Kerala, with 2.75% of the population of India, is supposed to record a higher rate of growth of sales tax revenue. In the case of percapita sales tax revenue Karnataka tops. Kerala with slightly higher level than Tamil Nadu comes next while Andhra Pradesh ranks the lowest.

8. When commodity wise tax collection is examined it is found that all items except sanitary ware contributed their share to the sales tax revenue. Overall negative growth rate and negative buoyancy registered by sanitary ware is accounted for by the existence of wide spread tax evasion and trade diversion practices in this sector. Similarly Cost of collection of taxes in Kerala far exceeds the national and international level, which needs serious correction, initiating the cost effective measures to make taxes more productive.

Non Tax Revenue-Problems and Prospects

9. Non-tax revenues includes payments made to the Government that are compulsory and requited. Non-tax revenues are defined as payments made to the Government for which there is a quid pro quo. Given the widening revenue-expenditure gap in states' budget, it is imperative to raise more non-tax revenue. There are over 100 departmental sources of non-tax revenue for each state. These are broadly classified under three heads, namely: a) general services b) social services and c) economic services.

10. In Kerala, when general services improved the share from 43.47 percent in 2007-08 to 62.67 percent in 2011-12, share of social services and economic services declined from 12.21 % to 10.48% and 36.15 % to18.99% percent respectively. While the percentage distribution by major heads is closely examined, it is given to understand that when the share of social and economic services declined by 1.73 and17.16 percent respectively general services improved it by 19.2 percent which is only 0.31 percent net of the decline in the share of the other two sectors. What emerges is that the seemingly wonderful performance of general services is in fact mainly accounted by the decline in the other two sectors. With a view to identifying the major non-tax revenue raising states and the departments, disaggregated analysis is undertaken. On analysis it is found that Andhra Pradesh ranks top in

Non-tax revenue mobilization, whereas Kerala's rank in relatively low among the Indian States

11. It is found pertinent to examine at micro level (department level) factors leading to the low non-tax revenue realization of the state. Department level survey was done with the help of a comprehensive questionnaire which was served to 79 line departments[1] which were expected to have some potential for non-tax revenue collection. When many of the departments have failed to make any significant contribution to non-tax revenue, some departments like lotteries, forest, motor vehicles, police, co-operation, ports, mining and geology etc. have made notable contribution to non-tax revenue collected in 2011-12. Lottery revenue grew from 325 Crore in 2007-08 to 1287.08 Crore in 2011-12. This laudatory growth is because of the innovation of the 'Karunya Lottery' in 2010-11. However, Non preparation of scheme-wise and draw-wise accounts of lotteries, non reading of barcode and the lack of adequate safeguards in handling of cash are some major inefficiencies identified.

12. Revenue from forest has been fast declining in recent years, although it was a major source of non-tax revenue all throughout the fiscal history of the state. Although the motor vehicles department is governed both by the Central and State Governments, its potential to raise non-tax revenue is tremendous. Similarly, Police department has vast potential for raising revenue. Some of the rates are revised by 10% with effect from 17th February 2004. A few were revised way back in 2007 while some in 2012. Rates which were revised in 2004 and 2007 should have to be urgently revised. Though Mining and Geology department has ample opportunities to raise non-tax revenue, it is not being efficiently planned and collected. It is estimated that 1500 granite crushers are working in Kerala. But only 160 of them are registered with Mining and Geology department. Hence, even the existing small rates are evaded by unauthorized, unregistered quarry owners. The medical education for training doctors provides an implicit subsidy of Rs.2,80,000 per year per student. In the case of technical education, while Government and

[1] Government Secretariat has 36 departments and 79-line departments.

aided engineering colleges charge Rs.6200 per student per semester, private engineering colleges collect higher fees. Department of Jail could increase its non tax revenue by way of activities like conducting micro and mini enterprises without affecting the security concerns. Museum and Zoos should be standardized and made a centre for amusement and research. In Ayurveda practices of Kerala have attracted world attention. In the health sector, prevailing diagnostic and other rates are those fixed way back as per Government Order 1994. For the affordable categories, a hike in the rates is harmless and the proceeds could be used to provide better services with modern tools, equipment and facilities.

Structure of Expenditure

13. The fifth Chapter examines the structure of expenditure. Revenue expenditure as percentage to total expenditure has increased to 90.5 percent in 2011-12.This indicates a higher proportion of spending on this item to maintain the current level of services and to meet the payment of past obligations .There was a growth in the share of non-plan revenue expenditure (NPRE) to total expenditure. It increased from 78.5 Percent in 2010-11 to80 percent in 2011-12.It should be pointed out that the structure of expenditure in Kerala is dominated by non-plan expenditure and a small share is spent as capital or plan expenditure. It is disturbing to note that the non-plan revenue expenditure exceeds the revenue receipt indicating borrowing to meet the day today expenditure.

14. During the year 2011-12, the fiscal situation was critical and the state was forced to borrow money for meeting day to day expenditure. The basic cause for the critical fiscal situation is the mounting expenditure on four items viz. Salaries to Government staff, teaching grants given to private aided educational institutions ,pensions and interest payment .There has been an unprecedented of increase in salary expenditure during 2011-12 (46 percentage).The salary expenditure accounted for 35percent of the revenue expenditure and 32 percent of total expenditure in 2011-12.The revision of salary and pensions in every five years, and the financial recommitment of paying arrears due to the revision used to create heavy financial burden to the treasury for about three years . The frequent revisions of DA rates following the DA revisions of the Central Government also contribute to the increase in salary expenditure. A major item of salary expenditure is the teaching grants given to the private aided 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 staff from state funds. Of the total salary expenditure of the state Government, 23 percent is spent for paying salaries to the private aided educational institutions'. In the private aided sector ,a lot of wasteful expenditure is incurred to protect the uneconomic schools and teachers who do not have work .It may be pointed out that out of the total private aided schools,33 percent are uneconomic schools, without sufficient number of students.

15. Pension expenditure is a major financial problem faced by State Government, autonomous bodies and universities. There are three categories of pensioners viz. Service, family and other categories. Pension expenditure registered a growth of 51 percent during the year 2011-12.The expenditure accounts for 19 percent of the revenue expenditure and 17 percent of the total expenditure. The hike of Pension rate once in five years, the financial commitment of paying pension arrears and the increase in the non-services categories pensions have contributed to a steep increase in pension payments. As autonomous bodies like KSRTC, Universities etc have to revise the pension rates at par with Government staff, the pension liability is emerging as a major problem. Currently, KSRTC and some Universities in Kerala are facing acute scarcity of funds for pension payments.

16. Another aspect is the large share of expenditure incurred for education. Nearly half of the total staff and salary expenditure of the Government in education sector. Lots of public funds are unnecessarily used support uneconomic Government and private aided schools and the excess teachers in these institutions. There has been substantial growth in subsidies especially non-productive subsidies. Regarding the social welfare pensions meant for poor and old people, the Government and LSGIs failed to distribute it on a monthly basis. The resource crunch has resulted in fall in growth of capital expenditure on items such as roads and bridges, major and medium irrigation, housing, public works, ports and light towers, medical and public health, education, fisheries etc.

Plan Expenditure of Departments and Local Self Government Institutions

17. In this chapter, the Committee evaluates the effectiveness of spending of plan outlay of government departments and Local Self Government Institutions (LSGIs).

There is a wide gap in the budgeted targets and actual spending of plan projects. During 2011-12, of the total plan outlay, the amount spent accounts for 91.21% with wide variation across Departments. While seven Departments spent more than the budgeted plan outlay, five Departments have spent less than 60 percent of it. The excess abnormal spending (as in the case of PWD) is equally a serious issue, similar to shortfall of spending. Postponing the spending to the last quarter and that too in the last month of the financial year is a common practice of the Departments. The utilisation of plan funds during the last quarter and last month (March) are 56% and 35% respectively. Eleven out of 37 Departments spent more than 50% of plan outlay during the month of March. This is a distorted and poor quality spending which needs corrective measures. Only seven Departments stand as 'very good' with respect to expenditure performance. However, the performance of Departments without the outcome measure is meaningless.

18. Various Departments implement centrally sponsored schemes (CSS) along with state plan schemes. Out of total state plan outlay, nearly 9% is sponsored by central government. Many sectors did not spend much from 100% and other CSS programmes. Most of the 100% CSS in which spending is less than 60% mainly comes under the agriculture and allied services and social and community services. The non- utilisation and under-utilisation of 100% CSS and Other CSS amounts to a case for mismanagement of resources on the part of state government.

19. A sizeable share of state resources is spent through LSGIs as plan outlay. The share of plan funds accounts for 34% of total resources available to LSGIs and share of the same is highest for District Panchayat (47.22%) and lowest for Grama Panchayat (29.44%).While, LSGIs utilises only 78.16% of state plan funds, its spending of CSS was only 38.12%. Among the LSGIs, the utilisation of plan funds is highest for Block Panchayat followed by Grama Panchayat (80.07%) and Municipality (78.06%). The utilisation rate of plan funds is lowest for Municipal Corporation (70.69%). In spite of better urban infrastructure and administrative set up, the poor resource utilisation of urban local bodies (ULBs) (particularly Municipalities) is indeed a case for callous indifference and dereliction of responsibilities, which defeat the purpose of decentralisation. Only 25% of LSGIs of District, Block, Grama, Municipalities and Corporation spent more than 90% of plan outlay. Similar to Departments, the bunching of plan spending by LSGIs during

the last month is a serious problem. Fifty percent of plan spending of Grama Panchayats was incurred during the month of March alone while the same figures for Block and District Panchayats are 44% and 53% respectively. The variation in plan spending between LSGIs is another serious issue. The distance between lowest and highest spending LSGIs is largest for Grama Panchayats. While, Nelliampathy GP in Palakkad district recorded lowest plan fund utilisation (30.21%), it was 101.18% for Aroor GP in Alappuzha.

20. Out of total plan outlay, a significant portion is allocated for the welfare of SC and ST population through Special Component Programmes (SCP) and Tribal Sub Plan (TSP). While, fund utilised for SCP is 68.90%, it is 66% for TSP.The disaggregated analysis indicates that ULBs in LSGIs are worst performers in the utilisation of SCP funds with 61.48% and 51.16% for Municipalities and Municipal Corporations respectively. TSP spending is lowest for District Panchayats (59.63%) followed by GP (62.08%) and Municipality (62.47%). In addition to that there is a wide variation in utilising these across LSGIs especially among ULBs. Vadakara Municipality in Kozhikode District spent only 6.11 percent of SCP plan funds, the reasons for which requires further probing.

21. Important identified factors, contributing to the poor implementation plan schemes of LSGIs are: the surrender of plan funds, large scale accumulation of funds in Deposit account, diversion of development funds for non plan recurring expenditures, high establishment cost, low priority to productive sector activities, under utilisation of funds by State level nodal agencies which are functioning for LSGIs, not adhering to timely preparation and submission of monthly progress reports by LSGIs, delay in issuing Letter of Authority by the Controlling Officers, delayed monthly transfer of credit from Consolidated Fund to Public Accounts and non release of full amount of grants of GOI to LSGIs by the concerned Departments.

Debt Management

22. The debt has increased 1.6 times during fiscal period, 2007/08-2011/12. In the case of debt and outstanding liabilities the increase is the same, 1.6 times, during the period. This is attributable to the cap put by the government act in 2003 on government guarantees. The growth rate of debt has slowed down after reaching

a peak in 2008FY. The same pattern has been observed for the component, public account, recording higher growth rates most of the time than debt. The component from the Central Government has slowed down from 3 % in 2007FY to 0.6 % in 2011FY. The shares of two components, internal debt and public account, have increased during the period while that of Central Government declined. The share analysis clearly indicates that public account and internal debt are the two major sources of borrowing in Kerala.

23. The debt-gross state domestic product ratios of southern states and all Indian states 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. Andhra and Kerala have the ratios above the average of all India states whereas the other two states, Karnataka and Tamilnadu, fall below it. The gap in the ratio between Kerala and other southern states seems widening after the fiscal year 2008/9 except for Karnataka. The target ratio, 29.8 %, as fixed by the 13th finance commission by 2013-14 has already been realised by Tamilnadu way back in 2004FY but not in Kerala even by 2011FY.

24. The cost-efficiency of borrowing is tested for eight major instruments which contribute about 84 % of the debt in 2007FY. The effective interest rates of the instruments and their shares do not show any relationship for the two years, 2009FY and 2011FY.The evidence suggests that state is not a rational borrower in its market borrowing.

25. Before examining the rational borrowing hypothesis in refinancing and public investments, the accounts of the PSUs, the major beneficiary of refinancing, have been studied. About 80 % of the 119 PSUs do not have audited statements for keeping the transparency of their accounts and do not meet the deadline in finalizing the accounts. As a result, there is very high unreliability in their accounts for any assessment of their performance. The CAG report clearly indicates that in majority of the cases the PSUs do not meet the break-even condition. The refinancing of the government is almost interest free or completely subsidized. Moreover, the net worth of PSUs is negative implying entire public investment is wiped out.

26. Of the four indicators (Domar gap, Resource gap, Net availability of borrowed funds and Burden of interest payments) of sustainability, two (resource gap and net availability borrowed funds) are in absolute values. The Domar gap is the difference between the growth of income and the rate of interest which is positive suggesting sustainability. However, the gap has declined in 2011FY over the previous year indicating strains on its sustainability. Resource gap (sufficiency of non-debt receipts) is negative indicating likelihood of borrowing more which may affect adversely the sustainability of debt in the future. Net availability of borrowed funds is high in 2011FY but its impact on sustainability depends on the share spent on development spending. If the past is an indicator, the share is low and the sustainability is likely to be affected negatively. Finally, there is a marginal decline in the burden of interest payment in 2011FY.

University Finances: A Review

27. As the advancement in higher education is the top agenda for the development strategy of the State, an evaluation of the financial position of the Universities is the need of the hour. As the Universities in the State are of either affiliated or unitary, the magnitude and intensity of financial problems varies across them. The majority of Universities are incurring excess expenditure over receipts. The deficit is mainly met from the diversion of provident fund, plan and scheme funds. Therefore, the Universities are unable to remit money to PF account, which results in the loss of interest income. The University such as KAU are not able to honour the salary and pension arrears of staff. Moreover, the internal revenue is not sufficient to meet their routine expenses. In unitary Universities such as SSUS, the possibility of generating internal revenue is very bleak. The Universities in Kerala heavily rely on the grants of State government for meeting its plan and non-plan expenditure. However, in general, the ratio of non-plan grants to total expenditure has been declining over the years. It not only affects adversely the routine administration, but also the quality of academic activities of Universities. Government is providing the non-plan grants to Universities as a 'gap filling' to meet the salary and pension payments. However, the amount granted to the Universities is not sufficient to meet this major item of expenditure. In Universities, the salary and pension payments exceeded the non-plan grants given by the government in 2011-12. In Universities such as Kannur University, MGU and CUSAT, the ratio of salary and pension payments to non-plan grants exceeds 200

percent. The inadequacy of non-plan grants led to the diversion of PF funds, plan and earmarked scheme funds and accumulation of huge arrears of salary and pension. In total expenditure also, the share of the above two items exceeds year after year. In KAU, the entire amount of expenditure was incurred for meeting these two items in 2011-12. The entire financial situation of the Universities highlights the existence of serious financial problems. The insufficient non-plan receipt for meeting their salary and pension liabilities, not only wreck the financial management but also adversely affects the quality and development of higher education. Urgent steps are needed to stop the Universities from sliding towards imminent financial collapse.

Fiscal Roadmap of 13th FC and the Achievements

28. This chapter examines the fiscal implications of 13th FC recommendation for the State and projects the fiscal scenario up to 2014-15 to examine whether the State can adhere to the target of fiscal prudence stipulated by the FC. The State has been witnessing a declining trend in Central Transfers based on the recommendations of various FCs. However, out of the funds received for various State specific and other grants during 2011-12, only 75% was spent. The funds earmarked for schemes such as Inland Waterways and Coastal Zone Management, Primitive Tribal Groups and Water Bodies could not spent a major share of it. Though the State is eligible to receive interest relief of NSSF loans, no amount has been received so far due to inability of the State to reach the fiscal target as stipulated in the FRBM Act. An evaluation of the fiscal targets and their actuals highlights that except in the case of total liabilities to GDP ratio, the State could not achieve revenue and fiscal deficit targets. The growth of revenue expenditure particularly the interest and pension payments accentuates the revenue and fiscal deficits of the State.

29. A significant portion of revenue deficit is met from borrowing which burgeoned the fiscal deficit. The share of revenue deficit in fiscal deficit was 62% while the capital outlay was only 25%. Though a consolidated sinking fund has been in operation for debt redemption, the actual amount set apart annually for this was heavily short of the targets, which made this institutional arrangement a mockery.

30. As fiscal performance depends on the mobilisation of revenue, the buoyancy and rate of growth of tax and non- tax revenue assumes significance. However, except for Stamp and Registration, the buoyancy of all taxes is lower than one. The growth rate of non tax revenue is lower than the tax revenue. The fiscal projection highlights that achieving the targets of revenue and fiscal deficits is very bleak in the State. The mounting fiscal and revenue deficit of the State will jeopardize the financial strength and stability of the State Government. The actual debt position of the State is projected to be higher than the sustainable debt level of the State. The State is not very far away from the situation of debt stress. A prudent fiscal administration by taking into account the economic realities is absent. The State is not serious in time bound implementation of fiscal reform measures suggested by 13th FC in improving the strength of State finance.

Recommendations

Overview of State Finances

1. A clear cut strategy for reducing the deficits seems to be absent with the Government. The spurt in revenue deficit from 1.33 per cent of the GSDP in 2010-11 to 2.55 per cent in 2011-12 that too in total disregard to the Kerala Fiscal Responsibility (Amendment) Act passed by the Legislature in 2011 is a clear indication of the absence of such a strategy. Instead, the approach of the Government seems to be to rely on the growth of the economy for correcting the growing deficits. The Committee strongly recommends the Government to chalk out a well thought out strategy for controlling the spurts in deficits and thereby the growing volume of debt [Para 2.20].

Revenue Profile and Mobilization

2. The Committee found very high deviation between the value of rubber output and VAT realized. During the pre VAT period rubber was taxed at 12% which was reduced to 4% in the post VAT period. However tax evasion goes unchecked. Therefore, the Committee recommends the government to initiate urgent steps in consultation with the Rubber Board. To check corruption, tax evasion and trade diversion [Para 3.26]

3. It is found that rigorous and scientific scrutiny of VAT returns and regular auditing to detect irregular practices like under reporting by traders with the help of sales tax practioners and tax officials which have become habitual and customary. Therefore the Committee suggests to take Rigorous steps to do away with such practices [Para 3.15]

4. Vigilance and Anti-Corruption Bureau (VACB) found that some traders declare their cargo trucks as empty to evade payment of duty at border check posts. It is found that on an average four thousand cargo trucks enter the state daily through five major check posts - Amaravila, Aryankavu, Valayar, Muthanga and Manjeswaram. Another thousand goods carriers enter Kerala through fifteen minor border check posts. Therefore the Committee recommends that with the help of Surveillance Cameras, Powerful Scanners, digitization of Checkposts etc., these corrupt practices should be prevented so that tax revenue growth is substantially improved.[Para 3.15]

5. It is found that as per CAG report total arrears to be collected as on 31st March 2012 comes to Rs.10272.9 crores and arrears outstanding more than five years comes to Rs.3767.72 crores Hence the Committees recommends that urgent steps should be taken to mobilize the arrears with immediate effect [Para 3.29].

Non Tax Revenue

6. In spite of the recommendation of the Public Accounts Committee (2014) Government has not evolved a centralized control mechanism in the finance department for the effective monitoring of recovery of loans and interest. Hence CAG (2012) pointed out non realisation of interest on loans worth Rs.206.58 crore given to public sector undertakings. Therefore the Committee recommends that in order to maintain fiscal prudence the government should see that all outstanding dues of loans given are promptly collected with the help of a centralized control mechanism evolved in the finance department[para 4.4].

7. Social Services sector with education (including medical, technical and university), public health labour and employment etc., with vast potential for non-tax revenue generation, declined its percentage contribution to SONTR from 12.21 per cent in 2007-08 to 10.48 in 2011-12. Therefore the Committee

recommends that necessary steps may be taken to mobilize reasonable amount of user charges, fees, etc., from each item of social service provided and to improve the quality of such services rendered.[Para 4.7].

8. While examining the buoyancy rates of SONTR enjoyed by general, social and economic services it was found that economic services recorded negative buoyancy. Since this sector is directly linked to commodity producing sectors, negative buoyancy reflects either an ailing economy or faulty SONTR system. Therefore The Committee recommends that there is an urgent need of revising the rates appropriately for various economic services provided by the government so as to boost up the buoyancy rates and revenue[Para 4.10]

Lotteries

9. Non reading of the barcode, non preparation of scheme-wise and draw-wise accounts of lotteries and the lack of adequate safeguards in handling of cash are some major inefficiencies identified. Therefore the Committee recommends that Finance Department has to institute a proper monitoring mechanism on lottery administration and see that it is made more transparent and efficient and bogus claims prevented. [para 4.16]

Forest

10. SONTR from 'forest' has been fast declining in the recent years, in spite of its vast potential. The Committee identified certain sources of non tax revenue, based on which it makes the following recommendations.

11. Ten year working plan or interim plan may be prepared (As per Supreme Court orders) based on which trees may be earmarked for felling (selective felling). CAG criticized government for declining forest revenue owing to delay in its approval of working plans of forest divisions and shortage of supply of timber.

12. Elephant dragging of timber is essential. Current rate for this is Rs.290 to Rs.336 + variable D.A (Rs.75). This is less than the market rate of manual labour prevailing in Kerala, which also may be raised to market level. Similarly Technology up gradation is necessary which will help to replace elephant

dragging by power dragging as in Singapore. At the same time elephants cannot be fully exempted as wood stacking can be done only with the help of elephants.

13. Auction may be done online in order to avoid ring formation and other malpractices. Forest lease rent on land which was fixed way back in 1977 may be hiked, many times, based on national/international rates. Carbon credit may be claimed from the Central Government and funds may be used for the conservation of 'kave', ponds, sanctuaries etc so that environment is protected and tourism is promoted. Petty offence fees, penalty etc are to be hiked with a view to conserving and protecting forests for augmenting revenue raising potential. "Taungya" system (Koop farming) may be re-introduced to improve rent collection as well as to protect newly planted soft plantation and teak plantations.

14. Forest development revenue comes from the price of timber (sales revenue) plus VAT at the rate of 5%. Prices of soft and hard timber and other forest products may be monitored and revised periodically to keep it at the market rates, national and international. Theft of timber, other forest produces and forest land grab are rampant. Rigorous steps are needed to end such practices.

15. In order to protect bio diversity and wildlife and to prevent forest fire, large, shallow, water harvesting ponds may be digged in forest areas using MGNREGP workers where by the could be reduced to the minimum. It would thus boost up potential non-tax revenue from the forests on the one-hand and produce drinking water, feed and fodder to the wild animals.

16. CAG (2012, pg.4) points out that arrears that has to come to Government (forest department) as on 31 March 2012 is Rs.247.56 Crore (R.184.49 from PSUs of GOK, Rs.48.5 Crore from PSUs of GOI, Rs.10.69 from individuals, private companies etc. the remaining amount from GOI, GOK and forest corporation of Karnataka Government). Out of this 143.25 Crore is outstanding for more than five years. Immediate steps should be initiated to recover the above mentioned[Para 4.17]

Motor Vehicles Department

17. The Committee recommends a substantial hike in the rates of duplicate license and in the penal rates of traffic rule violation. Similarly compulsory registration

of motor vehicles in the name of the new owner when sale and purchase takes place and a re-registration fee as per the nature and age of the vehicle may be collected. Also recommends to take necessary steps to detect vehicles registered outside the state and to get re-registered in Kerala with penalty. [Para 4.18]

Police

18. Committee make the following recommendations with regard to Police Department:

19. Permit fee for using loud speakers may be raised from the present Rs.50/- to Rs.200/- Minimum fine on petty crimes may be raised from Rs.100 to Rs.200. Fine amount based on M.V. Act Section 184 may be raised from Rs.300 to Rs.1000.

20. Vehicles and other valuables without claims, kept in the police station campus may be auctioned immediately after the acquisition

21. Because of the rapid increase in the vehicle population, related petty crimes are on the increase. If more cameras are placed in the road side, more petty crimes can be recorded, and more revenue collected through fines. Consequently, there will be a decline in the number of accidents and other crimes, while revenue mobilization also improves.

22. Double the charges collected when police force is deputed for private service. Bank, companies etc.

23. Vehicles which are taken under custody on the basis of the Acts (like Abkari act) after completing the necessary preliminary investigations, may be given back to the owner as soon as he remits the stipulated auction amount. If the case is won by the prosecution, amount will be added to the State Treasury and if against, the amount may be returned to the owner.

24. All members in the police force may be allowed to use “Hello Kerala” SIM card and mobile phone, so that land phone charges should be kept at the minimum level. Similarly all official messages, letters etc. should be send through e-mail in order to reduce the cost.

25. Police complexes, if they are situated in commercially important areas, rentable portions may be rented out.

26. Instead of the accused being taken from the jail to the court, if trial can be done through video conferencing, it will reduce the cost, as vehicles and escort staff is not required and also the risk of escape while taking the accused to the court is reduced.

27. Instead of providing permanent staff as sweepers, dobby etc to IPS officers, such services may be given on contract basis or outsourced. This will save the DA/Pension liabilities, retirement benefits etc. Instead of appointing drivers on a permanent basis, retired Army men or SPOs should be appointed on a contract basis.

28. A fee may be charged on certificates which are issued by the police department like PCCs, Character certificate on loss of registration certificate etc. When a copy of F.I.R. and similar services are rendered, cost should be collected. Police may be allowed to collect a fine from those who violate the 278 IPC Act.

29. Fine may be raised on unauthorized sand/quarry mining, etc. Smoking and vending in public places may be fined.

30. A minimum fine of Rs.2000 should be charged on those who throw solid waste in public space, using camera surveillance.

31. Mobility of police forces has to be improved by providing more vehicles like SUV’s (Special Utility Vehicles). Provide the police force with modern arms and ammunition replacing the old and outdated ones, for improving crime detection and collection of penalties.

32. Recruitment of police constables who have command over ICT skills would help raising the conviction rates, reduce cost of administration and improve efficiency and thereby improve revenue realization.
33. It is observed that after the implementation of Prevention of Destruction of Public Property Act (PDPPA), during hartal, bandh etc. destruction of public property had come down. This act has to be strictly implemented with a view to reducing destruction of public property to the minimum and realize revenue by doubling the bale charges.

34. Police department mooted the idea of a 'police budget' earmarking a small portion of the total annual allocations to the department which would permit them to fix certain expenditure priorities with a view to improving the efficiency of the department. The Committee approves this incentive mechanism of police budgeting. [Para 4.19]

Mining and Geology

35. It is learned that 1500 granite crushers are working in Kerala. But only 160 are registered with Mining and Geology department where by huge revenue loss is caused to the exchequer and for ecological balance. The Committee recommends that rigorous measures should be taken to identify the unregistered quarries and bring them under registration, imposing fines with retrospective effect. [Para 4.20]

36. Further, other rents and fees fixed in 1997 should be reviewed and revised according to the market prices. A rate hike in every three years is recommended in the case of minor minerals as done by the Central Government. [Para 4.20].

Medical Education

37. Justice Mohammed Committee estimated the actual cost of providing medical education to one medical student one year is Rs.3, 00,000. But it is only Rs.20, 000 which is collected per student in the Government medical colleges. This would mean an implicit subsidy of Rs.2, 80,000/- per year, per student. Therefore the Committee recommends an annual 5% increase in the fee from the affordable classes in all the medical courses which would bring substantial revenue for improving the quality of medical education.[Para 4.21]

Technical Education

38. While government aided engineering colleges charge Rs.6200 per semester, private sector collects fees ranging from Rs.35, 000 to 1, 00,000 per semester. Hence the Committee recommends a 5% annual increase from the affordable classes both for improving revenue collection and the quality of technical education. [Para 4.22}

Irrigation

39. All rates related to irrigation are found fixed in 1974. Therefore the Committee recommends to re-fix irrigation cess, penal rates for unauthorized absorption of water, identifying usufructs and charge reasonable rates, raise tender forms etc. [Para 4.23]

40. The Committee found that the enormous potential of water/monsoon tourism is not tapped properly for revenue raising .Therefore necessary steps should be taken to coordinate all water/monsoon tourism locations under a single authority and reap the benefits of water tourism.[Pare 4.23]

Printing and Stationery

41. On examination, the Committee found that there is enormous potential for revenue raising if the following measures are adopted. Sales depot where important government publications like various budget documents (which are demanded by teachers, students and researchers), Government Diaries/Calendars should be started. The Committee also found that the staff capacity of the printing department is underutilized. Therefore the Committee recommends that it be entrusted with the piece work of the government and public sector undertakings during lean seasons.[Para 4.24]

Prison (Jail Department)

42. On enquiry, the Committee found that out of the total SONTR realized by Prisons 24.4% was contributed by Central Prison, Trivandrum thanks mainly to the Chapathy, Chicken and other food products produced and marketed by prisoners. Nettukaltheri Open Jail, Trivandrum alone raised 47.6% of the total revenue of Jail Department through dairy, crop husbandry etc. The Committee recommends that Micro and Mini enterprises should be designed and run by prisoners which

would raise more revenue and would equip them with a source of livelihood once they come out of the jail.[Para 4.25]

Museum and Zoos

43. The Committee recommends that Autonomy of Museum should be thought of as an incentive for standardization of Museums, updating infrastructure digitization process etc. After standardization staff like Biologist, Veterinary doctor, each for reptiles, animals, art gallery etc., should be appointed. Also descriptive sign boards should be displayed and guides be appointed. The Committee feels that the huge revenue raising potential of zoos and museums is not understood properly by the Government. It is high time that the museum is standardized and placed before the public, so that its revenue raising potential is properly tapped.[Para 4.26]

44. The Committee also recommends that after the standardization of Museum and Zoos it should be made a centre of internship and research for bio-chemistry and engineering students more particularly archaeological and Fine Arts students for their research to make it a knowledge hub and to earn more revenue .[Para 4.26]

45. The Committee also recommends that development of a herbarium can improve herbal knowledge, provide herbs to medical industry and bring revenue to the exchequer through sale of herbs. .[Para 4.26]

Vocational Higher Secondary Education (VHSE)

46. The Committee recommends that vocational higher secondary education should be merged with higher secondary. .[Para 4.27]

Ayurveda Medical Colleges

47. The Committee found that Ayurveda medical colleges could be made economically viable by way of following steps;

48. Introduce paramedical courses, Yoga, Panchakarma and sports medicine on a dual pricing basis (higher price for foreigners and lower price for nationals)

49. A hike in the fee on services given for drug standardization (from the present Rs.300 to Rs.1000) and medical certificate fee appropriately.
50. Foreign scholars should be attracted to do Ph.D. programme in Ayurveda with reasonable fee .[Para 4.28]

Health services

51. The rates of all diagnostic services should be raised annually on the basis of the Cost of Living Index. Medial board fitness fee should be hiked from Rs.200 to Rs.500 and permit fee for sanitation certificate should also be substantially hiked. .[Para 4.29]

52. Committee also recommends that a certain portion of the fund collected by the Hospital development society be set apart for improving services such as hospital waste management, water harvesting, drainage management etc. [Para 4.29]

Water Supply and sanitation

53. The Committee found that by introducing discriminatory tariff rates and efficient collection efforts Water Authority could be made an economically viable entity. Through digitization of meter reading and other related field works it can reduce the number of casual employees to the minimum and by reducing costs, it can reduce deficits in the short run and reach breakeven condition in the long run. [Para 4.30]

Structure of Expenditure

54. The committee feels that the present retirement age of Government staff (56years) in Kerala is lower compared to other states and central Government. It may be pointed out that the life expectancy in Kerala is highest in the country (Male 71.4 and female 76.3 years).The committee recommends that the retirement age of the Government employees, private aided educational institutions and autonomous bodies like universities should be enhanced from the present 56years to 58 years [Para 5.5].

55. Pension payments' consisting of retirement benefits and monthly pensions is emerging as the most serious financial problems of state Government, autonomous bodies like Universities, KSRTC etc. Currently KSRTC is not able to pay the monthly pension of retired staff on a regular basis. Taking into consideration the present financial situation of Government and autonomous bodies, It may not be possible to sustain the pension payments in future due to lack of funds .Hence the committee feels that there is a need to create a compulsory saving scheme to mobilise funds for payments of pensioners. It is proposed to collect an amount equivalent to the 10 percent of the basic pay of all the staff every month for a period five years. The staff the belonging to the category of 4th grade should be exempted from the scheme. The amount collected from the employees should be returned to them after 5 years or at the time of retirement whichever is earlier with interest rate applicable to PF contributions. The proceeds of the compulsory saving should be exclusively utilised for pension payments. The committee recommends the introduction of a saving scheme for pension payment [Para 5.17].

56. The uneconomic schools having inadequate number of student's accounts for 49 percent of Government and 33percent of private aided schools salaries to the excess teachers are paid without any work. The committee recommended that the excess staff in uneconomic school should be redeployed in the retirement vacancies of Government and private aided schools [Para 5.11].

57. The practice of appointing Government college teachers coming under UGC scales of pay to Government Polytechnic is unhealthy practice and should be discontinued .The committee recommends that separate teaching staff in the scale of pay of polytechnic teachers should be appointed instead of appointing college teachers [para 5.6].

58. An examination of allocation of capital outlay indicates that there has been negative growth in outlay of items like transport service, major and medium irrigation, flood control, soil and water conservation, housing, Telecommunication and electronics, welfare of SC, ST and OBC, education, sports and culture, and co-operation during 2011-12.The committee recommends that priority should be given to allocate more capital outlay also to the above items [Para 5.25].

59. Currently administrative sanctions are issued to start new institutions, Universities, major projects etc, without taking into consideration the initial and future financial commitments and availability of resources. This is on wrong procedure .The committee recommends that administrative sanctions for starting new institutions, projects etc should be issued only after assessing the current and future financial requirements and availability of resource [Para .

60. Due to the introduction of e-governance in Departments, there is a need to reduce the number of staff. Steps have not taken by the Government to assess the staff strength of the Departments in the context of introduction of e-governance. The committee recommends that the Government may take necessary steps to assess the staff strength in the context of introduction of e-governance and redeploying the surplus staff [Para 5.9].

Plan Expenditure of Governments and Local Self Government Institutions

61. The excess abnormal spending over the budgeted outlay (as in the case of PWD) is an equally a serious issue, similar to shortfall of spending. The carry over spending from the previous year must be treated separately by the Departments for having a clear picture on annual plan performance. Otherwise a meaningful annual expenditure pattern analysis is not possible. The Committee recommends that the carry over outlay and its expenditure should be given in the Annual Plan review along with current year annual plan spending.

62. 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 that too 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 which needs corrective measures. The implementing Departments cannot entirely been blamed for this poor quality of plan spending. The time of actual sanctioning and release of funds from Department of Finance is partially held responsible for this. The Committee recommends that the quarter wise release of funds by the Finance Department must be at least in the proportion (10:30:30:30) as stipulated by the Finance Department itself.

63. For a proper evaluation of bunching of plan spending by the Department, the data pertaining to the date of actual release of funds by the Finance Department is required. The Committee recommends that the dates of release of funds by the Finance Department must be given along with the expenditure of the respective Departments in the Annual Plan Review.

64. Though the Department of Agriculture grouped as 'very good' in terms of plan spending, its actual outcome performance was deplorably poor, which is evident from its negative growth during 2011-12. This is a clear case of wastage of plan spending. The performance of Departments without the outcome measure is meaningless and hence along with plan expenditure, the achievement of outcome variables should also be given in the Annual Plan Review prepared by the Government. Also, the Committee strongly feels that the 'very poor' and 'poor' Departments must take urgent necessary steps for improving the quality of plan expenditure.

65. Many sectors did not spent much from CSS programms. The Committee found that the lack of preparation and submission of viable schemes, timely monitoring of the implementation of schemes, non-submission of utilisation certificate on time, inadequate provision of state share etc are some of the important factors behind inefficient utilisation of centrally sponsored schemes in the state. The non utilisation and under utilisation of 100% CSS and Other CSS amounts to a case for mismanagement of resources on the part of state government and strong corrective measures have to be implemented. The Committee recommends that the Department of Planning and Economic Affairs and State Planning Board must initiate a special task on equipping all line Departments in all stages of project implementation of CSS.

66. For preparing the project proposals, the officers should be trained by the State Planning Board or Institute of Management in Government or Centre for Management Development or with the help of professional consultants.

67. To infuse professionalism in State Planning Board, officials from Indian Economic Service must be inducted in top positions of State Planning Board. The Committee recommends that the posts of Division Chiefs and above of the State Planning Board must be recruited after a thorough talent search at national level.

68. Currently no accountability is fixed on officers for their lapses for poor plan spending. The accountability of officers at various levels in the Department should be fixed at the level of project formulation, obtaining administrative sanctions, monitoring and implementation. Appropriate action should be initiated against the officers responsible for their lapses.

69. The physical and financial achievement of the annual plan should be evaluated based on the methodology of Research Framework Document (RFD). This document contains not only the agreed objectives, policies, programmes and projects but also success indicators and targets to measure progress in implementing them. Though, the RFD evaluation approach already initiated, the attempt is yet to be fully implemented. The Committee urges that immediate measures to be taken to implement the RFD for evaluating the plan schemes urgently.

70. The review of the plan performance of LSGIs reveals that the performance of Urban Local Bodies (ULBs) is very poor. The poor resource utilisation of ULBs (particularly Municipalities) is indeed a case for callous indifference and dereliction of responsibilities, which defeat the purpose of decentralisation. A detailed investigation is warranted for identifying the reasons that contributing this poor performance of ULBs. The Committee recommends the constitution of a high level committee to look into the factors contributing the inefficient plan spending in ULBs and its corrective measures.

71. The bunching of plan expenditure by local bodies towards 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. The issue of outliers in plan spending is also a serious issue which has to be taken care of very seriously. The Committee recommends a Task Force to be appointed to investigate the plausible reasons for the above issues and suggest remedial measures for the improvement of their performance.

72. Disparity and underutilisation of SCP and TSP among LSGIs are alarming. Between SCP and TSP funds, the utilisation of TSP fund is worse. This warrants an enquiry on the reasons for non utilisation of SCP and TSP funds. One plausible reason should be that earmarked funds are not relevant to their present pressing

needs of the marginalised section. Therefore, the welfare programmes for these vulnerable communities need a thorough reexamination. To avoid the situation of poor/underutilisation of SCP and TSP funds, a built in incentive system in the allocation of plan funds is needed. The Committee urges the government to initiate immediate proactive action like special incentives in plan allocation by releasing more funds to better performing LSGIs in future.

73. The surrender of state plan funds by LSGIs due to the non-implementation of schemes is an area of concern. In addition to surrender of funds, a large chunck of fund is transferred to Deposit head. The Committee feels that the transfer of funds to Deposit Head of LSGIs actually inflate the plan spending and thus, the information on plan spending is misleading and unreliable. This practice is unhealthy and unwarranted and thus the Committee recommends that urgent steps should be initiated to discontinue this practice and the unspent amount should be returned to the State treasury.

74. Agencies implementing the various centrally sponsored schemes of LSGIs are not preparing the progress, utilisation and audit reports timely and there by defeating the purpose for which the funds were earmarked and released by GOI/State Government. The Committee recommends that the sub-agents such as Kudumbasree, Suchitwa Mission etc receiving funds for CSS must be properly monitored and made accountable.

Debt Management

75. The debt-gross state domestic product ratio of the state is the higher than all Indian states. In order to reach all India average, either debt is to be reduced and/or growth increased. In the present situation, the only possibility is to accelerate growth by linking remittances to the revival of growth in agriculture and/or in manufacturing. Committee recommends that return migrants be rehabilitated in high tech agriculture and in agro-based industries for stimulating growth and reducing the debt-ratio.

76. Major components of debt indicate that the State borrow more from the market based instruments now than before. In order to minimise the interest payments, the State should become a rational borrower. Empirical evidence suggests that

State is not a rational borrower since borrowing is not based on cost minimising principles. The committee recommends that the government urgently evolve rational borrowing principles in debt financing.

77. Accelerating economic growth assumes surplus generated in public investment and from Government-refinancing. The major share of borrowing goes to public sector undertakings (PSUs). Unfortunately, more than 80 % of the PSUs do not produce their certified annual accounts before the deadline of 30 September pertaining to the previous financial year. This reminds us that PSUs do not follow even the traditional elementary principle of "ആറ്റിൽ കളഞ്ഞാലും അളന്നു കളയണം" *(Even if you spill it in a stream, it should be measured)* in our folk culture. Committee recommends that the government insist on the deadline for finalizing the accounts by 30 September failing which the CEOs should be held responsible. Appropriate penalty should be automatically imposed on erring CEOs.

78. In the case of 119 PSUs, the rate of return is below break-even in most of them. Moreover, the borrowed funds from the government are virtually interest free. Further the net worth of PSUs is negative. This simply means that the entire public sector investment is wiped out by the poor performance of the PSUs. It is high time that PSUs had been restructured allowing only viable units to continue in business. Committee recommends that the PSUs restructured according to business principles allowing financially feasible units to function. This recommendation should not become another wild cry like earlier ones on PSUs restructuring.

79. The debt sustainability depends on growth sustainability. The present migration based growth is highly volatile and needs to be stabilized. The stabilisation is possible only if the growth is internalized which involves revival of growth in agriculture and in agro-based industries. IT, etc. This requires other dimensions of migration be part of the growth strategy. Such a strategy involves: rehabilitation of return migrants; getting a share of NRI savings for development activities; promoting highly skilled migration; promoting joint-ventures by migrants with host countries, etc. Committee recommends that for sustainable debt-management, the State set up a financial institution in the next rounds of

financial reforms for accelerating migration-led growth incorporating other dimension of migration.

Finances of Universities: A Review

80. All the seven Universities examined by the Committee have been facing acute financial problems due to the continuous increase in non-plan items of expenditure like salaries, pension, administration and other items. The items of salary, allowances and pension account for three-fourth of non-plan expenditure. The Universities have no control on these items of expenditure because they are forced to revise salary, pension, DA rates whenever the State Government revise them. The Universities have pointed out that the non-plan grants fixed by the Government on incremental basis (percentage increase over the previous year's amount) are highly insufficient to meet the expenditure. The Committee recommends that the Government should allot an amount of non-plan grant by taking into consideration the actual expenditure needed for paying salary, allowances and pensions including their revisions. (Para. 8.62 to 8.68)

81. The continuous increase in pension expenditure is a major cause for the critical financial situation of almost all Universities. The Universities do not have a pension fund to meet pension payment except in Kannur and Sanskrit Universities. Mobilising resources as a corpus fund and paying pension from the interest is not a practical solution. But the Universities can set apart a separate fund as Pension Fund for meeting retirement benefits and monthly pension. The Committee recommends that a separate fund should be set apart in the budget as Pension Fund for making pension payment. The fund should cover the annual requirements for meeting retirement and monthly pension payments. (Para.8.65)

82. Currently the Universities are not taking adequate steps to increase their internal revenues such as tuition, examination and other fees. Serious efforts are not made by the Universities to mobilise scheme funds from UGC, State and Central Government and other funding agencies. The Committee recommends that the Universities should take serious steps to mobilise internal revenue by

effecting periodical hike in various fees. Step should also be taken to mobilise scheme funds. (Para. 8.64)

83. The Universities have reported that the shortage of funds has resulted in the deterioration of quality of teaching, research and overall academic activities of the University. It is reported that nearly 30 to 50 percent of the teaching posts in University teaching Departments are kept vacant. There is an acute shortage of funds to purchase books, equipments, laboratory items, teaching infrastructure, conducting seminars, academic programmes etc. This is a serious concern to be addressed by Universities, Government and Higher Educational Council. The Committee recommends that the Higher Educational Council should review the situation and suggest appropriate steps to improve the quality of academic standards. (Para. 8.64)

84. Similarly for examinations conducted for self financing courses, an examination fee which covers the full cost of conducting the examinations should be charged. The Committee recommends for charging full cost of examination for self financing courses conducted by Universities. (Para. 8.61)

85. For self-financing courses conducted by the Universities, the principle for charging fee must be full cost pricing. As these courses are of temporary in nature, temporary teaching staff on contract basis should be appointed to teach these courses. The Committee recommends that the self-financing courses which do not cover the cost should be discontinued.

86. An important reason for the financial crisis in Kerala Agricultural University is the excess number of teachers who are posted in non-teaching related administration and extension work of mini Research Centers and Stations. The University has 544 teachers and 1368 students with a student-teacher ratio of 2.5. The Committee feels that this is a wrong practice which involves huge waste of resources. The Committee recommends that teachers in the University who are getting UGC or similar scales of Pay should be appointed only to teach graduate, post-graduate and research courses. The teachers should also engage in research by utilising the facilities of all Research Centres and Stations. For the administration of 23 small Research Centres and 7 Stations, a separate category of staff like Research Officers should be appointed. (Para. 8.61)

87. The Universities are currently implementing e-governance in their administration and conduct of examinations. Consequently there is a need to re-fix the staff pattern of non-teaching staff. The Committee recommends that the Universities should take steps to re-fix the non-teaching staff in the context of the introduction of e-governance.

88. Among the Universities studied, the University which faces acute financial problems is SSUS. The University heavily relies on State Government for resources with very little internal resources. The University is using all items of receipts like Provident Fund, earmarked plan grants, scheme funds and pension fund for meeting payments on salary and pension. The Committee feels that the University should take steps to reduce its expenditure through cost cutting measures including the number of teachers and non-teaching staff. The Committee recommends the introduction of e-governance, modernisation of administration and examination system, outsourcing of subsidiary activities like watch and ward, cleaning, gardening, transport and other activities. (Para. 8.46 to 8.53)

89. The SSUS is currently conducts a number of non-Sanskrit related courses in Social Sciences and Languages offered by other Universities in their Main Centre, Kalady and Regional Centers. Majority of the Courses are in the subjects like Hindi, Malayalam, Philosophy, History, Psychology, Economics, Sociology, English etc. These are traditional courses offered by the affiliating Universities in Kerala. The Committee recommends the stoppage of courses which have no demand, reduce the number of traditional courses in Main Centre and Regional Centers and should focus on Sanskrit related courses. (Para. 8.46 to 8.53)

90. Currently the performances of the Universities in all fronts like management of finances, academic activities like teaching, research and extension, conduct of examinations, introduction of e-governance and modernisation of administration and overall academic standards, are poor. Inadequate finance is one of the major reasons for the poor performance. No serious attempts were made to address the finances, academic activities and overall performances, except the appointment of a University Finance Review Committee in 2009. We feel that the recommendations of the University Finance Review Committee to constitute a State University Grants Commission in every five years to review the

University finances and suggest allocation of grants are relevant even now. The Committee recommends the constitution of a State University Grants Commission every five years to review the University finances, academic activities, administration, conduct of examinations, review the staff pattern and suggests norms for the allocation of grants to the Universities. (Para. 8.62 to 8.68)

Fiscal Roadmap of 13th FC and the Achievements

91. The declining share of Central transfers to the State since 10^{th} FC is a serious concern. At the same time the fiscal commitments of the State has been increasing due to the unique second generation development issues such as increasing cost of urbanisation, lifestyle disease, educated unemployment etc. The Committee strongly urges that these issues will have to be taken up with 14^{th} FC by the State Government to revert the declining trend of fiscal transfer. (Para. 9.2)

92. The State is not utilising fully the State specific and other grants received from the Centre due to failure in submitting adequate and appropriate project proposals. The Committee recommends that a Special Task Force would be constituted for preparing viable schemes and projects, specific for utilising Centre's grants. (Para. 9.6)

93. Though the State is eligible for interest relief of NSSF loans to the tune of Rs 329.22 crore from the Centre, no amount has been received yet due to non fulfillment of fiscal norms stipulated in the FRBM Act. This financial loss is due to fiscal imprudence on the part of the State. The Committee strongly recommends that immediate measures will have to be taken for curbing the revenue deficit so as to get the due share from the Centre. (Para. 9.8)

94. In spite of increase in the borrowing, the share of capital outlay has not been growing sizably. The increased capital expenditure out of debt receipt is desirable for improving the productive capacity of the economy and for future debt redemption. The Committee recommends that a maximum ceiling to be fixed for revenue expenditure from the borrowed funds. (Para. 9.12)

95. Except for Stamp and Registration, the buoyancy of all taxes is less than one for period 2000-01 to 2011-12. The State is not able to tap the potential of both tax and non tax sources. The Committee feels that there is good scope for increasing the revenue receipts from tax and non tax sources by raising the buoyancy level through revamping the tax administration of the State. (Para. 9.17)

96. Prudent fiscal administrative reform is the only way to ensure fiscal stability. However, the State has shown reluctance in implementing various fiscal measures as suggested by the 13th FC. The Committee recommends the speedy implementation of the fiscal measures such as auditing all Public Sector Undertakings (PSUs), drawing roadmap for closing non-working PSUs, creating a comprehensive data bank on all subsidies, auditing the assets of State Government and its maintenance expenditure, revenue expenditure consequence of capital projects, incorporating the fiscal impacts of major policy changes of State Government, reporting the public-private partnership liabilities in Medium Term Fiscal Plan, strengthening local fund audit. (Para. 9.26)

Appendix 1
Summary of Recommendations of Previous KPERC Reports

Kerala Public Expenditure Review Committee is a statutory body constituted for a three year period under the Fiscal Responsibility Act of 2003 and the Rules made thereunder. Three Committees have been constituted so far with the third one assuming charge with effect from May 2012.The First Committee with Dr. Indira Rajaraman as Chairperson and Dr.N.J .Kurian as member was appointed in March 2005 and Dr. K. P. Kannan was added as a member at a subsequent date. The Second Committee with Dr.K. K. Subramanian as Chairman and Dr. K. P .Kannan and Dr. Pinaki Chakraborty as members was appointed in Oct 2008 . The Third Committee with Dr.B.A. Prakash as Chairman , Dr. K. Pushpangadan, Dr.K.V.Joseph, Dr. V. Nagarajan Naidu. and Dr. Mary George as members was constituted in May 2012 .So far, seven reports , three each by the First and Second Committees respectively and the seventh by the Third Committee were presented .

Table .A.1 Details of the Seven KPERC Reports.

Sl No.	The Committee which prepared the Report	Financial year of the Report	Date of presentation
1	First Committee	2004–05	May 2006
2	do	2005-06	Nov 2006
3	do	2006–07	Nov 2007
4	Second Committee	2007-08	Dec 2008
5	do	2008-09	June 2010
6	do	2009-10	Feb 2011
7	Third Committee	2010-11	Dec 2012

The important recommendations made in the reports since 2004--05 are as indicated below.

1 General Issues

The current practice by the Government of India of presenting a document tracking the progress of on the going schemes and action taken on the announcements made in the previous budget would be a useful addition to the budget papers presented before the Legislature every year(2004-05).

When the Government issues supplementary demands for grants in the course of the fiscal year, no corresponding revenue source is presently identified. Fiscal prudence demands that additional expenditure should be matched by additional revenue (2004-05).

Though the reports of the KPERC are laid before the Legislature ,no further action is seen taken by the Government on the various recommendations of the Committee .Hence necessary amendments may be made to the KER Act/Rules prescribing tabling of the Reports of the Committee before the Legislative Assembly along with an Action Taken Report (2007- 08).

Since the Public Expenditure Review Committee is a statutory one, the Committee feels that the Government may submit an Action Taken Report while submitting the Report to the Legislative Assembly (2008-09).

The passing of the budget in June and July delays the processing of schemes by the departments for further administrative sanction and implementation. The Committee recommends that steps may be taken to pass the budget in the month of March every year (2010-11).

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 demands for grants may be limited to the declaration of the budget speech (2010-2011).

2 Revenue

(a) Tax Revenue

Incentive measures like Lucky VAT Scheme which encourages customers to insist on proper bills from traders with a lottery coupon for each purchase of Rs 1000or more is a model scheme introduced in any State. It can be extended as an incentive to the to the staff also (2005 06).

Stamp duty rates have exhibited unfortunate volatility resulting from failure to follow up the halving of rates in Dec 2003with fair value fixation, leading to a subsequent restoration of the earlier rates. The Committee suggests redoing the earlier aborted exercise with simultaneous reduction of rates of conveyance and fixation of fair value after careful planning and coordination between Taxes Department and Revenue Department (2005-06).

The Government must take steps to design a Management Information System (MIS) in the Commercial Taxes Department for collecting commodity wise information of collectible taxes. This will help the Government in estimating the leakages and to take appropriate corrective measures for full tax collection (2007-08).

The Government must prepare the VAT manual at the earliest as suggested in the Audit Report of C&AG of India relating to Revenue Receipts for the period 2008-09, Volume 11 pertaining to the Government of Kerala. The Committee also urges the Government to implement the other suggestions contained in the Report that include:

(a) measures to ensure that only genuine appeal cases are entertained;

(b) reduce the discretion of assessing officers while fixing penalty for offences;

(c) effective monitoring and disposal of pending assessments and collection of arrears of pre-VAT within specified time period;

(d) Detection of unregistered dealers to bring them under tax net;

(e) strengthening internal audit system(;2009-2010).

Though steps have been taken for developing an ICT-based information system, the Committee feels that the work is only half done with the result that the advantages of such a system are yet to be realised in full for effective monitoring of tax collection system. A basic register of all tax payers with all their business details along with the tax paid is crucial for effective monitoring of the tax collecting system. Even though electronic filing of taxes has been introduced, such returns can be cross checked only if all the check-posts are computerised and the whole departmental information system brought under a common network. A Centralised Management Information System within the Ministry of Finance will have to be set up to ensure that data received from various sources are collected and stored and are amenable for tabulation and analysis as and when required(2009-2010).

At present there is no mechanism for tracking of imports of goods into Kerala through the railways and airports. This calls for some coordination with the respective cargo handling departments in the Indian railway as well as the airport authority. The practice of bringing goods for personal use with bills that show the payment of Sales Tax/VAT in the places of purchase needs to be subjected to cross verification. This issue should receive the attention of the Government and steps should be taken to estimate the likely value of such imports into Kerala and the resultant revenue loss (2009-2010).

The Government should have a Goods and Services Taxes (GST) cell in the Department of Commercial Taxes that should be ready with a draft bill for GST. Government should commission studies on estimating additional tax base for most recent year and also projections for future. This is because introduction of GST will increase the tax base for the Central as well as State Governments (2009-2010).

Actions such as 'Operation Palakkad Gap, 2006-07', 'Operation In and Out 2010-11' etc. may be repeated at frequent interval without notice. Surveillance cameras, weigh bridges etc; may be placed wherever necessary. Such measures are essential because tax evasion and avoidance are major factors contributing to untapped potential and wide fluctuations in revenue receipts (2010-11).

The Committee found that tax evasion and avoidance are rampant in the State in such manner like (i) the entry of cargo vehicles through unmanned byroads from the neighbouring States fully and loaded cargoes declared as empty,(ii) under assessment of granites ,marbles etc; (iii)malpractices in the accounts of the gold traders,(iv)diversion of rubber and its products to other states etc. Appropriate steps should be taken to control such distortive tendencies of tax evasion, avoidance and trade diversion (2010-11).

The Committee found that review petitions and appeals in connection with taxes are prolonged unnecessarily and penalties compromised such as in one time settlement. The Committee recommends that the above process may be expedited (2010-11).

It is found that loss of revenue due to gross underassessment and short levy in many departments aggregated to Rs 4786.23 crore.The Committee recommends the elimination of such practices in future (2010-11).

Buoyancy rates in the State estimated for the period from 2001to 2010-11 for taxes like sales tax, excise duty, motor vehicles tax, etc, are below one and are lower than in the neighbouring States. The Committee recommends for the increase in tax buoyancy by revamping the tax administration(2010-11).

(b) Non-tax Revenue

Own non-tax revenue of the State amounts to less than ten percent of tax collections and in 2006-07 it recorded zero buoyancy. It is necessary to revive an initiative made in 1997 to raise user charges for public services.

While enhancing the user charges, care should be made for a more equitable distribution of the fiscal burden by levying mainly from the non-poor users of public services(2006-07).

The Committee feels that " The rates for user charges have to be periodically adjusted for inflation and for differential charges levied on the basis of ability to pay" since revenue mobilisation from various non-tax revenue sources is abysmally low and requires attention for improvement. At the same time, the quality of service should be maintained at high level so as to overcome resistance from the users. The Committee also recommends putting in place multiple channels for payment of various user charges by the public (2007-08).

The Committee recommends the State Government to work out a road map by which reasonable rate of return is accrued to Government on its equity capital in public sector enterprises around ten per cent. This is because of the abysmally low return on investment made by State Government from various public sector enterprises (2009-10).

A new cell may be established in the Finance Department for the purpose of collecting department/item wise data on user charges and reviewing the situation periodically with a view to enhancing the rates scientifically. This becomes necessary because the receipts from user charges are very low and the department wise/item wise details are not readily available (; 2008-09).

The Government may explore possibilities of enhancing revenue from other non tax sources such as mining of sand (2008-09).

In spite of high potentiality of non-tax revenue,, its collection is much lower than the average in many other States. The Committee recommends an exhaustive study in this respect by an expert group at the earliest 2010-11).

(c) Central Grants

The Committee understands that there is no effective arrangement in the Finance Department to monitor receipts of funds due to the State from Government of India. The State does not have any mechanism at present to verify whether its due share of Central taxes is in fact received on the basis actual. As this could have far reaching consequences on the State financial resources, Finance Department may take up the matter with the Government of India at appropriate levels as soon as Central finance accounts are published every year (2008-9).

The Committee recommends that Finance Department may institute a necessary mechanism to periodically review the progress of reimbursement in the case of centrally sponsored schemes since there are problems associated in claiming the due assistance from the Centre in respect of centrally sponsored schemes. A cell in the Finance Department would be highly helpful to monitor the progress, fund release and fund utilisation under centrally sponsored schemes (2008-09).

The declining share of Central transfer of tax share and grant-in-aid to the state has to be viewed seriously .Representation at the appropriate forum by the State government is recommended to revert the trend (2010-11).

The release of grants of certain State specific sectors by the Centre such as Primitive Tribe is only 31 per cent 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 (2010-11).

3 Expenditure

(a) Committed Expenditure

There should be a system for reclassification of expenditure as capital and revenue while preparing expenditure statements for PWD ,LSG and similar departments. It is necessary for a proper assessment of revenue deficit and other deficit variables to provide the right perspective for assessing the deficit ratios for improvement in the quality of public expenditure (2007-08).

The Committee does not favour a separate Act specifying the use of Public Account accrual for capital outlay under plan expenditure for the public sector, an issue that was referred to the Committee. This we feel would seriously constrain the fiscal manoeuvrability of the State Government. Further, the Committee also feels that there is no need for, another legislation specifying the use of Public Account accruals when there is already a Fiscal Responsibility .Act specifying the level of fiscal deficit (2008-09).

The Committee suggests the Government to visualize a teacher exchange scheme whereby all the three parties, the teacher, Kerala State and the State buying services of the teacher are better off. It will be useful because there are many States in desperate need of trained teachers (2005-06).

The Committee emphasises the suggestion of first report of KPERC urging the State Government to move away from a defined benefit system to a defined contribution system in the case of pension.(2005-06).

Kerala has not introduced the new Defined Contribution Scheme (DC scheme) in place of the old pay as you go (PAYG) pension scheme . Even if the new DC scheme is introduced for new recruits, there will not have any immediate fiscal gain, as it is a long term (structural) reform. Parametric reforms (which include use of longer averaging periods for calculation of pension benefits, use of lower limit for maximum amount of pension, use of higher discount rate and a more realistic set of life tables to calculate the value of commuted pension ,indexing of pension only to prices and not to real wages, etc.) have been introduced in some State Governments (e.g.Karnataka and Tamil Nadu) and have reduced fiscal burden of the civil service pension . Therefore, the State Government should initiate steps for collection and computerisation of relevant data of pension outgo and make an in-depth study of the alternative profiles of pension outgo so as to arrive at some feasible parametric modifications(reforms) in consultation with the major political parties and employees pensioners' unions (2007-08).

The number of employees retiring is increasing and at the same time the longevity of people increasing because of High Human Development Indices the State has achieved. Government should not retire its physically and mentally healthy, experienced employees at 55 years -an age at which they can perform duties very efficiently-and continue to pay pension for anothe25 or 30 years for doing nothing, leaving a very heavy drain on the exchequer. The remedy lies in giving a lengthier service for which a two-pronged approach is necessary. First is to enhance the age of superannuation of employees and the second is to lower the age limit for appointment to service. Accordingly, the Committee recommended for the enhancement of retiring age from 55to 58 initially and then to 60 years (2007-08).

The Government can create new temporary training posts, speed up recruitment process and enforce reporting of all vacancies to PSC promptly. This is to lessen the impact of enhancing the retirement age on job seekers(2007- 08).

The maximum age limit for applying for jobs can be reduced from 35 to 33 years and finally to 30 years so that the delay in the recruitment process would be drastically reduced and people will more chances to apply for jobs before they become overage. Government can also institute a study on the feasibility of reducing the age of entry into service and extending the retirement age(2007- 08).

The pattern of high growth of revenue expenditure for to two to three years in a block in every five years period is inevitable as long as the State continues with the practice of pay and pension revision once in five years instead of ten years followed by the Central Government and most other States . In the interest of better fiscal management it would be prudent to move towards pay /pension revision once in ten years(2008-09).

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 grant to private educational institutions, pension and interest. The Committee recommends for changes in fiscal policy and priorities in public spending so as to address the issues mainly from the above four items (2010-11).

The large and mounting expenditure on salaries and pensions due to its revision 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; in government offices, can be outsourced or given on contract basis without long term financial commitments(2010-11).

Currently half the total staff in the state and paid from the public funds are in the educational department. The opportunity cost of spending has serious socio-economic consequences. Time is ripe to think of changing the priorities of spending in favour of waste management, urban infrastructure development etc. As an immediate step the Committees' recommendations are (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 courses only in the unaided sector and (3) for social equity reasons the present system of recruitment in the private aided sector may be reviewed (2010-11).

In order to reduce the growing burden of pension, the switch over to contributory pension scheme must be expedited (2010-11).

The Committee recommends that necessary steps may be taken by the Departments and LSGIs to distribute the pensions every month through banks / e-payment. This is because the pensions are not paid monthly and hence the beneficiaries are not getting the desired benefits (2010-11).

The financial position 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 Animal Husbandry 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 (2010-11).

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. It is necessary because at present grants-in -aid is allocated arbitrarily without following any criteria or norm and without considering the financial position, development requirements, contribution of the university in the area of teaching and research, educational development of the backward regions or socially backward category of students (2010-11).

(b)Plan Expenditure

The Committee urges the Government to ensure that increasing share of Public Account Accruals is used for Plan capital spending explicitly to enhance spending on physical infrastructure(2008-09).

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 because the existing practice of grouping plan schemes sector wise/

head wise creates confusion for identifying the Departments responsible for execution of these schemes(2010-11).

Failure of the Departments to prepare financially ,economically and even technically viable projects in time and to get administrative sanctions at the beginning of the financial year is a basic cause for the delay and poor implementation of the projects. 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(2010-11).

The spending the plan outlay 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 plan expenditure must be strengthened(2010-11).

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 sanction, monitoring and implementation. The Committee recommends that appropriate action may be initiated against the officers responsible for these lapses(2010-11).

There is no effective mechanism to scrutinise the physical and financial viability of the plans prepared by the Departments initially .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(;2010-11).

There is no effective mechanism to scrutinise the physical and financial viability of the schemes by the Departments. The present mechanism for scrutinising the plan schemes by the Planning Board is only in namesake. Accordingly ,the Committee suggests that the present mechanism for scrutinizing and evaluating the viability of schemes at State Planning Board and Departments must be strengthened with professionals(2010-11).

The Committee recommends urgent need for e-tendering of all plan activities. It is essential because the present tender process is very long and hurdled with lot of formalities. However ,in some exceptional situations, such as project implementation in difficult terrain and hilly areas, the rates should be flexible for effective implementation(2010-11).

E governance may be urgently initiated in various stages of project formulation, implementation, monitoring and evaluation. Because the delay in physical movements of files and documents across various layers of Govt leads to delayed administrative sanction and consequent implementation.(2010-11).

Monitoring mechanism of the parent departments over the offshoot/subsidiary agencies must be strengthened for achieving increasing accountability of the former2010-11).

4 Working of PSUs and Recovery of Interest.

The repayment of principal and interest to Government by the PSU's , particularly, the statutory bodies in respect of loans availed of by them is in heavy arrears. Besides, the terms and conditions of loans aggregating to Rs 1789.89 crore sanctioned from 1992to 2008 have not been fixed so far by the Government. The Committee recommends that the Government may take steps to fix the terms and conditions of all loans sanctioned to the PSUs without delay. It is because the repayment of principal and interest to Government by the PSUs, particularly the statutory bodies in respect of loans availed by them is in heavy arrears(2007-08).

The Committee recommends the Government to get the performance of SLPEs including statutory bodies (eg;KSRTC, KSEB, KWA) thoroughly examined by professional experts and get their suggestions /recommendations for improving the financial performance of PSUs keeping in perspective the political commitment on the rationale, in the Kerala context(2007- 08).

It is important to highlight the abysmally low return on investment made by the State Government from various public sector enterprises by way of dividends and also very low recovery in terms of interest earnings on loans and advances. The outstanding investment for the fiscal year 2009-10 works out to Rs 3323crore and the dividend earned Rs 27 crore which works out to 0.81 per cent of the total investment. It is important for the State Government to work out a road-map by which a reasonable rate of return is accrued to the Government on its equity capital in the public sector enterprises say, around ten per cent(2009-10).

Interest earned on loans and advances by the Government is quite negligible. Against a loan of Rs7228 crore outstanding as on 31st March 2010,the interest earned is only Rs 48.31crore.This constitutes only 0.67 per cent of the outstanding loans and advances. The Committee recommends that the Finance Dept should monitor the payment of interest and timely repayment of principal loan amount and effective steps to claim the interest against loans advanced(2009-10).

If borrowed funds are used for refinancing of Public sector undertakings and similar organisations , interest receipts should be at least equal to interest paid for the borrowed funds by the State except merit goods. Evidence suggests that the State is not recovering even the cost of borrowing. The Committee recommends that urgent steps may be undertaken for restructuring the PSUs and similar organisation for recovering the cost of borrowed funds 2010-11).

The Committee recommends that the Guarantee Redemption Fund may be operationalised at the earliest. It helps to bring down the outstanding Government guarantees(2008-09).

5 Debt Management

The Committee requires the Government to provide information on the opening and closing of stocks of unreported liabilities for the year 2006-07 with budget documents for the fiscal year 2007-08, as unreported liabilities are accumulated over time, owing to arrears of payments due to contractors for work done and to suppliers for goods delivered. In addition, land acquisition charges in respect of various projects and schemes and other committed items of expenditure are not recorded in any official budget documents (2005-06).

Urgent measures have to be initiated to avert a possible debt stress situation in the State since there is widening gap between the sustainable level of debt and actual level of debt in the state (2010-11).

Comparative analysis of ratios of Southern States indicates that it is the highest in Kerala and lowest in Tamil Nadu. The Committee recommends that the debt management practices of Tamil Nadu be reviewed for any lessons to be learned for Kerala (2010-11).

Cost-minimising criteria for the choice of instruments for debt management to be adopted hereafter as there is hardly any evidence to support the efficiency of debt management in borrowing the funds (2010-11).

6 Deficit

The Committee feels that focus should be on expenditure restructuring and improving expenditure efficiency rather than on arbitrary cuts in expenditure. It is because prescribing year-by-year targets for reducing deficits is rather arbitrary and may turn to be difficult to achieve due to some complex issues involved in expenditure reduction(2007- 08).

Amend the Kerala Fiscal Responsibility Act of 2003 and to eliminate revenue deficit by 2014-15 and cut down fiscal deficit to 3 percent of GSDP by 2013-14(2009-10).

The Committee understands that the Government of Kerala has joined the Consolidated Sinking Fund to help manage its debts repayments. The negative aspect of the investment in the CSF is that it tends to increase other things remaining the same, the revenue deficit of the State Government and hence borrowing. Thus from 2011-12, when the State Government will be under compulsion to reduce the revenue deficit and to bring to zero by 2014-15,it will have to weigh its option either to discontinue the annual investment and to that extent reducing the revenue deficit or continuing the investment to obtain the benefit of Special Ways and Means Advance(WMA).(Whenever the cash balance of the State falls below the mandatory limit with the Reserve Bank, the State becomes eligible for Special WMA at an interest rate one percent below the repo rate.) Considering the huge repayment obligation of the Government , the Committee is of the view that only a small percent of the obligation can be met from the interest earned on the investment in CSF, since the accumulated investment going by the current trend ,will be too small. On the other hand , opting not to invest in the CSF can have a greater positive impact on reducing the revenue and fiscal deficits. The non availability of the Special WMA facility can be more than compensated through improved financial as well as liquidity management. The Committee is therefore of the view that it may not be financially prudent to invest in the CSF when the State is under obligation to eliminate the revenue deficit by 2014-15(2009-2010).

The Committee recommends that Public Account Management should be self-liquidating in nature. The Government has to ensure that utilisation of Public Account accruals should be in such a way that it is spent on productive activities (2008-09).

The Committee strongly feels that the Finance Commission, as an independent arbiter in matters relating to Centre-State fiscal relations should try to protect the fiscal autonomy of the States instead of mailing recommendations which can adversely affect the limited fiscal autonomy enjoyed by them within the existing frame-work of Federal State arrangements in India (2009-10).

The State Government has not taken serious steps to implement the various recommendation of the 13th Finance Commission 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 the Finance Commission in a time bound manner (2010-11).

7 Miscellaneous Issues

It is recommended to establish an MIS located in the Finance Department for collection, processing and updating of all valuable fiscal variables (December 2008).

The Third State Finance Commission had compiled the financial profile with all components of revenue as well as expenditure of each and every LSGI in the State and the voluminous data from which above profile had been compiled is now lying idle in the Finance department without being put to any use .This may be computerised and updated periodically so that the real capital and revenue components in LSG accounts can be identified accurately (2007-08).

The Committee recommends the Government to get the performance of the SLPEs thoroughly evaluated by professional experts and get their recommendations for improving the financial performance of PSUs (2007- 08).

The financial profile of LSG has to be computerised and updated periodically .This will be useful because the real capital and revenue components in LSG accounts can be identified (2007- 08).

Appendix 2
List of Officials Participated in Deliberations

1 Dr. M. Samsuddin, Executive Chairman & Director, Information Kerala Mission

2 Sri.Udaya Bhanu Kandeth, Senior Consultant, Information Kerala Mission

3 Sri.Anil Kumar, Audit Officer, Mining and Geology

4 Sri.Sunil.P.S, Account Officer, Mining and Geology

5 Sri.George.T.M, Joint Director, Lotteries Department

6 Sri.K.R.Gopakumar, Finance Officer, Lotteries Department

7 Sri.M.Prasanna Kumar, Assistant Commissioner (L.R) Commissioner Land Revenue

8 Sri.Savithadutt.T.S , Sr Finance Officer Commissioner of Land Revenue

9 Sri.Thyagarajabalan, Assistant Commissioner, Commercial Taxes

10 Sri.V. Satheesh, Deputy Commissioner, Commercial Taxes

11 Sri.R. Sree Kumar, Deputy Commissioner (Internal Audit) Commercial Taxes

12 Sri.C.S. Mohan Kumar, Senior Finance Officer, Directorate of Technical Education

13 Sri.N. Madhu, Deputy Director, Directorate of Technical Education

14 Sri.N.K.Rajan,Deputy Director (General), Directorate of Technical Educatiion

15 Sri.T.S. Abraham, Senior Finance Officer , Higher Secondary Education Department

16 Dr.Assalatha. G, Joint Director of Medical Education(M)

17 Smt.T.Nita Kumari, Finance Officer , Directorate of Medical Education

18 Sri.Ramachandran Nair.P, Juniior Superintendent, Directorate of Medical Education

19 Sri.S.Sathessan Nair, Sr. Superintendent, Directorate of Ayurveda Medical Education

20 Smt.P.S.Sindhu, Jr. Superintendent t, Directorate of Ayurveda Medical Education

21 Dr.N.Madhuri Devi, Superintendent, Govt Ayurveda College

22 Dr. P.K.Asok, Principal of Govt Ayurveda College

23 Sri.C.M.Saidmohamed, Joint Transport Commissioner, Motor Vechicle Department

24 Sri.P.K.Stephen, Sr. Deputy Transport Commissioner,Motor Vechicle Delpartment

25 Smt.K.Meenakshy, Sr. Superintendent, Directorate of Collegiate Education

26 Smt.G.S.Baby Priya, U.D.C, Directorate of Collegiate Education

27 Sri. Ajith .K, Director (Charge) of Vocational Higher Secondary Education

28 Sri.N.Giridharan Nair, Finance Officer, Vocational Higher Secondary Education

29 Sri.Hassan.C.P, Jr.Superintendent, Vocational Higher Secondary Education

30 Sri.Ajayaghosh.K, Lower Division Clerk, Vocational Higher Secondary Education

31 Sri.S. Sivadas IFS , DCF,Forest Department

32 Sri.K.Sundaran, UDC, Forest Department

33 Sri.N.K.Sivadasan, Jt.IG of Registration, Department of Registration

34 Sri.George joseph, Finance Officer, Department of Registration

35 Smt.K.N.Sumangala Devi, DIG of Registrer, Deparatment of Registration

36 Sri.J.Shibu, Senior Superintendent, Department of Registration

37 Smt.K.Sheela, Senior Finance officer, Prisons Department

38 Smt.VasanthaKumari, Account Officer Prisons Department

39 Sri.Radha Krishna Kurup, Joint Director, Urban Affairs

40 Sri.S.AnilKumar, Audit Officer, Mining and Geology

41 Sri.T.K.Ramakrishnan, Sr.Geologist, Mining and Geology

42 Smt.A.Pathimma Beevi, Senior Superintendent, Museum and Zoo

43 Smt.Krishnapriya.D, Finance Officer, Museum and Zoo

44 Dr.K.Udayavarman, Director of Museum and Zoo

45 Sri.M.F.Abdul Javed , Administrative Officer , Panchayath Department

46 Sri.S.Somashekaran Nair, Sr.Finance Officer, Irrigation Department

47 Sri.M.K.Madana Mohanan Nair, Sr.Finance Officer, Irrigation (Project) Department

48 Sri.Abraham Koshy, Executive Engineer, Irrigation Department

49 Sri.Yogesh Gupta, Inspector General Of Police (Administration) Police Department

50 Sri.J.Christopher Charles Raj, Superintendent of Police, (NRI Cell), Police Department

51 Dr.Sunija, Director of State Public Health Lab

52 Sri.S.RadhKrishnan, Sr.Superintendent, Directorate of Health Service

53 Sri. Anoop Sebastian, Lower Division Clerk, Directorate of Health Service

54 Smt.M.Geethamani Amma, Finance Officer, Printing Department

55 Sri.S.Murukesan, Administrative Assistant, Printing Department

56 Sri.T.T.Joseph George Jolly, Head Computer, Printing Department

57 Sri. Rajesh.K.P, Finance Officer, University of Calicut

58 Sri.Aboobacker Sidheeque.K, Assistant Registrar, University of Calicut

59 Sri.Abraham J.Puthumana, Finance officer, M.G.University, Kottayam

60 Sri.Shajee Jose, Finance Officer, Kannur University

61 Sri. Sebastian Ooseph, Finance Officer, Cochin University (CUSAT)

62 Dr.Joy Mathew, Comptroller, Kerala Agricultural, University

63 Sri.G.Gopakumar, Finance Officer, Kerala University of Health Service

64 Dr. N.Prasanthakumar, Registrar, Sree Sankaracharya University of Sanskrit

65 Sri.T.L.Suseelan, Finance Officer, Sree Sankaracharya University of Sanskrit

66 Sri.P.K.Raju, Finance Officer, University of Kerala

67 Smt.R.Prema Kumari, Asst Director, Plan Co-ordination Division, State Planning Board

68 Smt.R.L.Latha, Deputy Director, Plan Co-ordination Division, State Planning Board

69 Smt.P.Sarojini, Joint Director, Evaluation Division , State Planning Board

70 Sri. K.Natarajan, Joint Director, State Planning Board

71 Sri.Anil.K.Pappachan, Reserch Assistant, Evaluation Division, State Planning Board

72 Sri. Abdul Salam, Assistant Director, State Planning Board

73 Dr.C.S.Venkateshwaran, Associate Professor,GIFT

74 Dr.M.Ramalingam, Associate Professor,GIFT

75 Dr.Jose Sebastian, Associate Professor,GIFT

76 Smt.Anita Kumari.L, Associate Professor,GIFT

77 Sri.V.S.Pradeep, Finance Mananger and Chief Account Officer, Kerala Water Authority