

# CHAPTER I

## FINANCES OF THE STATE GOVERNMENT

### 1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Accounts (**Appendix 1 - Part A**). The Finance Accounts of the Government of Kerala are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Accounts of the State of Kerala. The lay out of the Finance Accounts is depicted in **Appendix 1 – Part B**

#### 1.1.1. Summary of Receipts and Disbursements

**Table 1.1** summarizes the finances of the Government of Kerala for the year 2007-08 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts/disbursements as emerging from Statement – 1 of Finance Accounts and other detailed statements.

**Table 1.1: Summary of receipts and disbursements for the year 2007-08**

*(Rupees in crore)*

2006-07	Receipts	2007-08	2006-07	Disbursements	2007-08		
<b>Section-A: Revenue</b>							
					<b>Non-Plan</b>	<b>Plan</b>	<b>Total</b>
<b>18,186.63</b>	<b>Revenue receipts</b>	<b>21,106.79</b>	<b>20,824.57</b>	<b>Revenue expenditure</b>	<b>22,614.35</b>	<b>2,277.29</b>	<b>24,891.64</b>
11,941.82	Tax revenue	13,668.95	9,723.16	General Services	11,976.99	207.10	12,184.09
937.57	Non-tax revenue	1,209.55	6,478.25	Social Services	6,451.32	1,338.56	7,789.88
3,212.04	Share of Union Taxes/Duties	4,051.70	2,711.88	Economic Services	2,086.77	731.63	2,818.40
2,095.20	Grants from Govt. of India	2,176.59	1,911.28	Grants-in-aid / Contributions	2,099.27	...	2,099.27
<b>2,637.94</b>	<b>Revenue Deficit carried over to Section B</b>	<b>3,784.85</b>					
<b>20,824.57</b>	<b>Total Section - A</b>	<b>24,891.64</b>	<b>20,824.57</b>	<b>Total Section - A</b>	<b>22,614.35</b>	<b>2,277.29</b>	<b>24,891.64</b>
<b>Section-B: Capital</b>							
215.14	Opening Cash Balance	1,039.97		Opening Overdraft from Reserve Bank of India			..
1.94	Miscellaneous Capital Receipts	7.54	902.58	Capital Outlay	22.87	1,451.71	1,474.58
66.10	Recoveries of Loans and Advances	44.85	349.39	Loans and Advances disbursed	73.29	819.87	893.16
			2,637.94	Revenue Deficit brought down from Section A			3,784.85
5,335.53	Public debt receipts*	5,643.66	1,082.73	Repayment of Public Debt*			1432.79
				Appropriation to Contingency Fund			..
2.15	Contingency Fund receipts			Contingency Fund disbursements			80.00
41,868.36	Public Account receipts	48,316.26	41,476.61	Public Account disbursements			46,413.11
...	Closing Overdraft from Reserve Bank of India	...	1,039.97	Cash Balance at end			973.79
<b>47,489.22</b>	<b>Total – Section B</b>	<b>55,052.28</b>	<b>47,489.22</b>	<b>Total – Section B</b>			<b>55,052.28</b>

\* Includes net Ways and Means advances but excludes Overdraft from Reserve Bank of India

Following are the significant changes during 2007-08 over previous year.

- Revenue receipts grew by 16.1 *per cent* (Rs 2,920 crore) relative to the previous year. The increase is mainly contributed by tax revenue (Rs 1,727 crore), State's share of Union Taxes and Duties (Rs 840 crore) and non-tax revenue (Rs 272 crore).
- Revenue expenditure and Capital expenditure increased by 19.5 *per cent* (Rs 4,067 crore) and 63.4 *per cent* (Rs 572 crore) respectively.
- Recoveries of Loans and Advances decreased by Rs 21 crore whereas disbursement of Loans and Advances increased by Rs 544 crore.
- Public Debt Receipts increased by Rs 308 crore mainly due to increase in borrowings from Government of India by Rs 211 crore as against Public Debt Repayment which also increased by Rs 350 crore.
- Cash balance of State decreased by Rs 66.18 crore as a result of aforesaid transactions during 2007-08 from the level of Rs 1039.97 crore in previous year.

### 1.1.2 States Fiscal Position by Key Indicators

The fiscal position of the State Government during the current year as compared to the previous year is given in **Table 1.2**.

**Table 1.2**

(Rupees in crore)

2006-07	Sl. No.	Major Aggregates	2007-08
<b>18,187</b>	<b>1.</b>	<b>Revenue Receipts (2+3+4)</b>	<b>21,107</b>
11,942	2.	Tax Revenue (net)	13,669
938	3.	Non-Tax Revenue	1,210
5,307	4.	Other Receipts	6,228
<b>68</b>	<b>5.</b>	<b>Non-Debt Capital Receipts</b>	<b>53</b>
66	6.	Of which Recovery of Loans	45
<b>18,255</b>	<b>7.</b>	<b>Total Receipts (1+5)</b>	<b>21,160</b>
<b>18,632</b>	<b>8.</b>	<b>Non-Plan Expenditure</b>	<b>22,711</b>
18,516	9.	On Revenue Account	22,615
4,190	10.	Of which Interest Payments	4,330
17	11.	On Capital Account	23
99	12.	On Loans disbursed	73
<b>3,445</b>	<b>13.</b>	<b>Plan Expenditure</b>	<b>4,549</b>
2,309	14.	On Revenue Account	2,277
886	15.	On Capital Account	1,452
250	16.	On Loans disbursed	820
<b>22,077</b>	<b>17.</b>	<b>Total Expenditure (8+13)</b>	<b>27,260</b>
(-) 2,638	<b>18.</b>	<b>Revenue Deficit (-) Revenue Surplus (+) (1-9-14)</b>	(-) 3,785
(-) 3,822	<b>19.</b>	<b>Fiscal Deficit (-)/ Fiscal Surplus (+) (1+5-17)</b>	(-) 6,100
(+) 368	<b>20.</b>	<b>Primary Deficit (-)/ Primary Surplus (+) (19-10)</b>	(-) 1,770

**Table 1.2** shows that Revenue Receipts increased by Rs 2,920 crore (16.1 *per cent*) during 2007-08 while Revenue Expenditure increased by Rs 4,067 crore (19.5 *per cent*) over the previous year which resulted in an increase of Rs 1,147 crore in Revenue Deficit during 2007-08 over the previous year. Given a decrease of Rs 15 crore in non-debt capital receipts and an increase of

Rs 572 crore and Rs 544 crore in capital expenditure and disbursement of loans and advances respectively, the fiscal deficit increased by Rs 2,278 crore in 2007-08 over previous year. Also the Primary Surplus of Rs 368 crore in 2006-07 turned into a primary deficit of Rs 1,770 crore in 2007-08 as a result of increase in fiscal deficit and an increase of Rs 140 crore in interest payments.

## 1.2 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts are analysed over the period of 2002-08 and observations made. In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all states are required to enact the Fiscal Responsibility (FR) Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their FR Acts and in other Statements required to be laid in the legislature under the Act are used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP) is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices.

**Table 1.3: Trend in growth of GSDP**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Gross State Domestic Product (GSDP)* (Rupees in crore)	86,275	96,012	1,07,054	1,18,998	1,32,739	1,48,485
Growth rate of GSDP	11.5	11.3	11.5	11.2	11.5	11.9

\* New GSDP figures with 1999-2000 as base for the years 2002-03 to 2006-07 furnished by the Director of Economics and Statistics in June 2008. Figures for 2005-06 are Provisional Estimates and that for 2006-07 are Quick Estimates. For 2007-08, the projected figures for Revised Estimates 2007-08 in the budget in brief 2008-09 have been adopted.

The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc., with reference to base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure etc., are keeping pace with the change in the base, or these fiscal aggregates are also affected by factors other than GSDP. Audit observations on the Statements of Finance Accounts for the year 2007-08 bring out the trends in the major fiscal aggregates of receipts and expenditure, wherever necessary analyse them and show these in the light of summarized financial position of the Government of Kerala (**Appendix II**), Abstracts of Receipts and Disbursements (**Appendix III**), Sources and Application of funds (**Appendix IV**), and Time series data (**Appendix V**). The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected

terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix I Part C**.

### **1.2.1 The Kerala Fiscal Responsibility Act, 2003**

The State Government enacted the Fiscal Responsibility Act, 2003 which came into force on 5 December 2003 to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, sustainable debt management is consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and for matters connected therewith or thereto. To give effect to the fiscal management principles as laid down in the Act, State Government prescribed the fiscal targets which are as follows:

- reduce revenue deficit to 'NIL' within a period of four years commencing from 1<sup>st</sup> April 2003 and ending on 31<sup>st</sup> March 2007 and generate revenue surplus thereafter.
- to reduce fiscal deficit to two *per cent* of the estimated gross State domestic product within a period of four years commencing from 1<sup>st</sup> April 2003 and ending on 31<sup>st</sup> March 2007.

The Twelfth Finance Commission (TFC) in its report recommended elimination of State's revenue deficit and reduction of fiscal deficit to three *per cent* of GSDP by March 2009. The Medium Term Fiscal Plan for the years 2007-08 to 2009-10 presented to Legislature with the budget for 2007-08 indicated that the elimination of revenue deficit would be pushed back by a year to March 2010 primarily as a result of the financial impact of the Pay Commission award. But the Kerala Fiscal Responsibility Act has not been amended till date taking into consideration either the recommendations of the TFC or the projections made in the medium term fiscal plan.

### **1.2.2 Medium Term Fiscal Policy and Strategy Statement**

As prescribed in the Act, State Government laid the Medium Term Fiscal Policy and Strategy Statement indicating three-year rolling targets for fiscal indicators, medium term fiscal objectives, evaluation of performance against targets fixed for the previous two years, etc., along with the budget for 2007-08 before the Legislature. As per the milestones of outcome indicators mentioned in the statement, the anticipated revenue deficit and fiscal deficit for 2007-08 are Rs 5,251 crore (3.4 *per cent* of GSDP) and Rs 7,425 crore (4.8 *per cent* of GSDP) respectively. However, the year ended with actual revenue deficit of Rs 3,785 crore (2.5 *per cent* of GSDP) and fiscal deficit of Rs 6,100 crore (4.1 *per cent* of GSDP) respectively.

## **1.3 Trends and Composition of Aggregate Receipts**

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from

Public Account. **Table 1.4** shows that the total receipts of the State Government for the year 2007-08 were Rs 75,120 crore. Of these, the revenue receipts were Rs 21,107 crore, constituting 28 *per cent* of the total receipts. The balance came from miscellaneous capital receipts (Rs eight crore), recoveries of loans and advances (Rs 45 crore), borrowings (Rs 5,644 crore: eight *per cent*) and Public Account (Rs 48,316 crore: 64 *per cent*).

**Table 1.4: Trends in Growth and Composition of Aggregate Receipts**

	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Sources of State's Receipts						
<b>I Revenue Receipts</b>	<b>10,634</b>	<b>11,815</b>	<b>13,500</b>	<b>15,295</b>	<b>18,187</b>	<b>21,107</b>
<b>II Capital Receipts</b>	<b>4,047</b>	<b>7,065</b>	<b>6,691</b>	<b>5,875</b>	<b>5,404</b>	<b>5,697</b>
a. Miscellaneous Receipts	04	--	--	--	02	08
b. Recovery of Loans and Advances	77	73	95	52	66	45
c. Public Debt Receipts*	3,966	6,992	6,596	5,823	5,336	5,644
<b>III Contingency Fund Receipts</b>	<b>22</b>	<b>--</b>	<b>92</b>	<b>15</b>	<b>2</b>	<b>...</b>
<b>IV Public Account Receipts</b>	<b>25,528</b>	<b>26,147</b>	<b>33,681</b>	<b>37,779</b>	<b>41,868</b>	<b>48,316</b>
a. Small Savings, Provident Fund, etc	9,834	8,773	7,897	7,777	7,897	9,423
b. Reserve Fund	131	134	358	248	119	442
c. Deposits and Advances	3,864	3,320	2,231	1,602	3,509	4,199
d. Suspense and Miscellaneous	7,496	9,477	18,318	22,379	24,284	26,971
e. Remittances	4,203	4,443	4,877	5,773	6,059	7,281
<b>Total Receipts</b>	<b>40,231</b>	<b>45,027</b>	<b>53,964</b>	<b>58,964</b>	<b>65,461</b>	<b>75,120</b>

\* Excludes Ways and Means advances from Reserve Bank of India

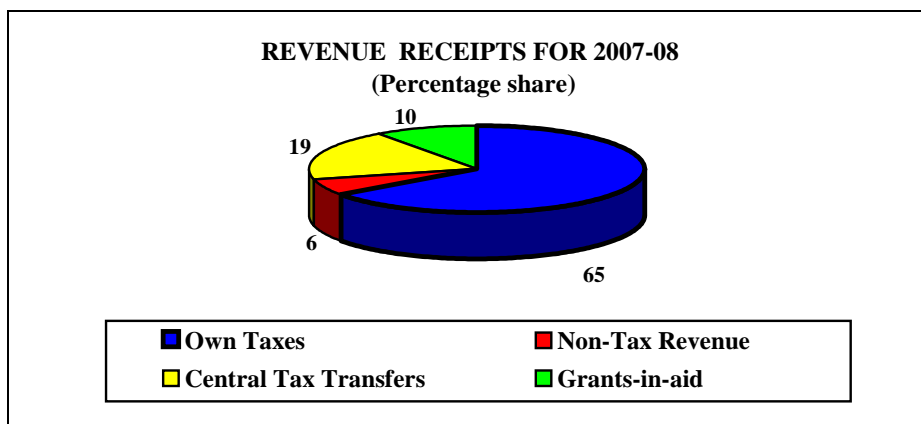
It is observed that though receipts under 'the Suspense and Miscellaneous' and 'Remittances' formed a sizeable portion of total receipts under Public Account during 2005-06 to 2007-08, the net effect of these receipts was not significant due to equally high disbursements.

### 1.3.1 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table 1.5**.

**Table 1.5: Revenue Receipts- Basic Parameters**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Receipts (RR) (Rupees in crore)	10,634	11,815	13,500	15,295	18,187	21,107
Own Taxes ( <i>per cent</i> )	7,303 (69)	8,089 (68)	8,963 (66)	9,779 (64)	11,942 (66)	13,669 (65)
Non-Tax Revenue ( <i>per cent</i> )	678 (06)	807 (07)	819 (06)	937 (06)	938 (05)	1210 (06)
Central tax Transfers ( <i>per cent</i> )	1,715 (16)	2,012 (17)	2,405 (18)	2,518 (17)	3,212 (18)	4052 (19)
Grants-in aid ( <i>per cent</i> )	938 (09)	907 (08)	1,313 (10)	2,061 (13)	2,095 (11)	2176 (10)
Rate of Growth of RR ( <i>per cent</i> )	17.4	11.1	14.3	13.3	18.9	16.1
Revenue Receipt/GSDP ( <i>per cent</i> )	12.3	12.3	12.6	12.9	13.7	14.2
Revenue Buoyancy (ratio)	1.5	1.0	1.2	1.2	1.6	1.4
ROG of Own Taxes	23.3	10.8	10.8	9.1	22.1	14.5
Own Taxes Buoyancy (ratio)	2.0	1.0	0.9	0.8	1.9	1.2
Buoyancy of Revenue Receipts with reference to State' Own Taxes (ratio)	0.75	1.0	1.3	1.5	0.85	1.1
GSDP Growth ( <i>per cent</i> )	11.5	11.3	11.5	11.2	11.5	11.9



### General Trends

Revenue Receipts of the State have increased from Rs 10,634 crore in 2002-03 to Rs 21,107 crore in 2007-08 exhibiting relative stability in the share of its various components. The contribution of the State's own taxes in its total revenue receipts decreased from 69 *per cent* in 2002-03 to 65 *per cent* in 2007-08. The contribution of Central tax transfers has increased from 16 *per cent* in 2002-03 to 19 *per cent* in 2007-08 whereas the contribution of grants-in-aid from Government of India increased marginally from 9 *per cent* in 2002-03 to 10 *per cent* in 2007-08.

### Tax Revenue

The Tax Revenue has increased by 14.5 *per cent* during the current year (Rs 13,669 crore) relative to the previous year (Rs 11,942 crore). Taxes on Sales, Trade, etc., was the major source of State's own tax revenue during the year having contributed 69 *per cent* followed by Stamps and Registration Fees (15 *per cent*), State Excise (9 *per cent*) and Taxes on Vehicles (6 *per cent*). **Table 1.6** shows the trend of tax revenue during 2002-08.

**Table 1.6: Tax Revenue**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Taxes on Sales, Trade, etc	5,343	5,991	6,701	7,038	8,563	9,372
State Excise	663	656	746	841	953	1,169
Taxes on vehicles	513	586	610	629	708	853
Stamps and Registration fees	487	550	775	1,101	1,520	2,028
Land Revenue	38	40	44	44	47	47
Taxes on Agricultural Income	6	9	5	6	10	22
Other taxes*	253	257	82	120	141	178

Taxes on sales, trade etc have increased by 9.4 *per cent* (Rs 809 crore) during 2007-08 over the previous year mainly due to increase in receipts under Value Added Tax (Rs 825.22 crore) and receipts under Central Sales Tax Act (Rs 676.55 crore) partly off-set by decrease in 'Receipts under State Sales Tax Act' (Rs 547.08 crore) and 'Other Receipts' (Rs 146.25 crore). Stamps and Registration fees have increased by 33 *per cent* (Rs 508 crore) during 2007-08 over previous year mainly due to increase in receipt under 'Sale of Judicial

\* Other taxes include Taxes on immovable property other than agricultural land, taxes and duties on electricity, other taxes and duties on commodities and services.

Stamps’ (Rs 24.94 crore), Sale of Non-judicial Stamps (Rs 331.14 crore), ‘Duty on impressing of documents’ (Rs 62.73 crore) and ‘Registration Fees’ (Rs 80.86 crore).

### Non-Tax Revenue

Of non-tax revenue sources, receipts from Forest and Wildlife (13 *per cent*), Industries (10 *per cent*), State Lotteries (27 *per cent*) and Interest Receipts, Dividends and Profits (8 *per cent*) were the principal contributors. Non-tax revenue increased by Rs 272 crore (29 *per cent*) during the year when compared to previous year. The increase was mainly in ‘Other Receipts’ under Industries (Rs 121 crore), State Lotteries (Rs 89 crore), Interest Receipts (Rs 25 crore) and Guarantee fees (Rs 13 crore). However, though the receipts under State Lotteries were Rs 325.25 crore during the year, with equally high expenditure of Rs 274.90 crore, the net yield from lotteries was only Rs 50.35 crore.

### Central Tax Transfers

The Central Tax Transfers increased by Rs 839.66 crore over the previous year and constituted 19.2 *per cent* of revenue receipts. The increase was mainly in the share assigned to States under Corporation Tax (Rs 283.40 crore), Taxes on Income other than Corporation Tax (Rs 254.31 crore), Customs Duties (Rs 139.36 crore), Service Tax (Rs 96.42 crore) and Union Excise Duties (Rs 65.85 crore).

### Grants-in-aid

The Grants-in-aid from Government of India increased from Rs 2,095.20 crore in 2006-07 to Rs 2,176.59 crore in 2007-08. The trends in various components of grants-in-aid from Government of India for the last five years were indicated in **Table 1.7** below:

**Table 1.7: Grants-in-aid received from GOI – Different Components**

	<i>(Rupees in crore)</i>				
	2003-04	2004-05	2005-06	2006-07	2007-08
Non-Plan grants	210.54	379.84	1,260.76	1,092.42	748.65
Grants for State Plan Schemes	369.74	628.45	485.81	630.78	977.67
Grants for Central Plan Schemes	18.21	17.79	18.39	19.64	36.56
Grants for Centrally Sponsored Plan Schemes	309.12	286.72	295.97	352.36	413.71
<b>Total</b>	<b>907.61</b>	<b>1,312.80</b>	<b>2,060.93</b>	<b>2,095.20</b>	<b>2,176.59</b>

The grants under State Plan Schemes increased by Rs 346.89 crore, Centrally Sponsored Schemes by Rs 61.35 crore and Central Plan Schemes by Rs 16.92 crore during 2007-08 as compared to previous year. However, the Non-Plan grants decreased by Rs 343.77 crore in 2007-08 mainly due to decline in grants released to State in lieu of compensation of revenue loss due to introduction of VAT from Rs 426.23 crore in 2006-07 to Rs 123.19 crore in 2007-08. Government of India released during the current year grants for heritage conservation (Rs 6.25 crore); maintenance of Buildings (Rs 25.88 crore); maintenance of roads and bridges (Rs 160.58 crore); Urban Local Bodies and Panchayati Raj Institutions (Rs 226.80 crore) and maintenance of Forests (Rs 4.95 crore) as recommended by the TFC. But under ‘State

Specific Needs' only Rs 25 crore was released against Rs 125 crore recommended.

### Arrears of Revenue

As per the information furnished by 12 Departments of State Government, arrears of revenue pending realisation at the end of 2007-08 were Rs 10,610.15 crore which amounted to 50.27 *per cent* and 77.62 *per cent* of revenue receipts and state's own tax revenue respectively during the current year. The details of pending arrears are given in **Table 1.8** below:

**Table 1.8: Arrears of Revenue**

<i>(Rupees in crore)</i>		
Sl. No.	Department	Amount of arrears as on 31 March 2008
1.	Electrical Inspectorate	2,736.87
2.	Motor Vehicles	680.04
3.	Land Revenue	2,111.84
4.	Local Fund Audit	77.91
5.	Mining and Geology	0.50
6.	Factories and Boilers	0.87
7.	Stationery	11.35
8.	Commercial Taxes	4,425.47
9.	Printing	24.79
10.	Police	58.66
11.	State Excise	355.94
12.	Forestry and Wildlife	125.91
<b>Total</b>		<b>10,610.15</b>

## 1.4 Application of resources

### 1.4.1 Growth of Expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure minor head wise and capital expenditure major head wise. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs 15,705 crore in 2002-03 to Rs 27,260 crore in 2007-08. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.9**.

**Table 1.9: Total Expenditure – Basic Parameters**

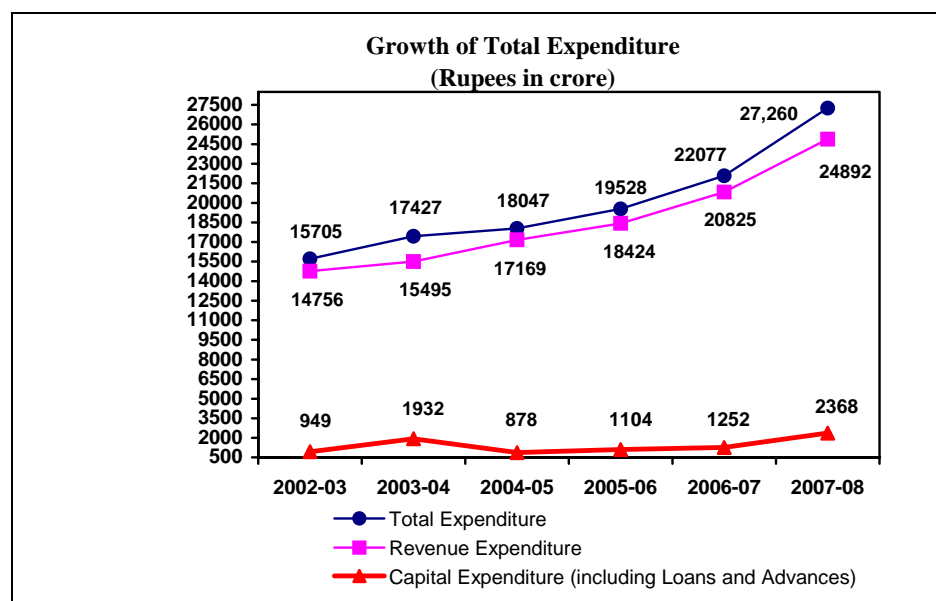
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total Expenditure <sup>⊕</sup> (TE) (Rupees in crore)	15,705	17,427	18,047	19,528	22,077	27,260
Rate of Growth ( <i>per cent</i> )	26.9	11.0	3.6	8.2	13.1	23.5
TE/GSDP Ratio ( <i>per cent</i> )	18.2	18.2	16.9	16.4	16.6	18.4
Revenue Receipts/TE Ratio ( <i>per cent</i> )	67.7	67.8	74.8	78.3	82.4	77.4
<b>Buoyancy of Total Expenditure with reference to:</b>						
GSDP (ratio)	2.3	1.0	0.3	0.7	1.1	2.0
Revenue Receipts (ratio)	1.5	1.0	0.3	0.6	0.7	1.5

The total expenditure increased by 23.5 *per cent* in 2007-08 to Rs 27,260 crore from Rs 22,077 crore in the previous year. The increase in total expenditure

<sup>⊕</sup>Total Expenditure represents revenue expenditure as well as capital expenditure which includes expenditure on loans and advances.



over previous year was mainly due to increase under revenue expenditure (Rs 4,067 crore), capital expenditure (Rs 572 crore) and disbursement of loans and advances (Rs 544 crore). In terms of plan and non-plan expenditure, the plan expenditure increased by Rs 1,104 crore, whereas non-plan expenditure increased by Rs 4,079 crore over the previous year. The ratio of revenue receipts to total expenditure increased from 67.7 per cent in 2002-03 to 77.4 per cent in 2007-08, indicating that about 77 per cent of the State's total expenditure was met from its current revenues, leaving the balance to be financed from non-debt capital receipts and borrowings.



### *Trends in Total Expenditure by Activities*

In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table-1.10**.

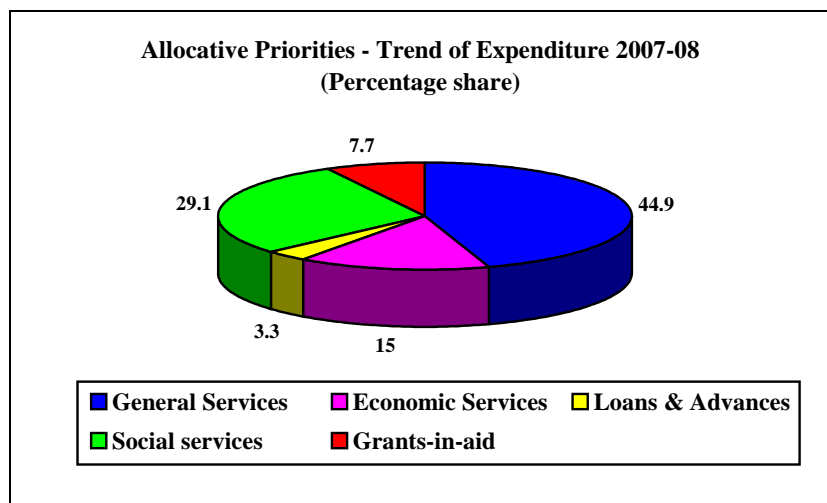
**Table-1.10: Components of Expenditure – Relative Share**

*(in per cent)*

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>General Services</b>	42.7	44.5	45.2	44.2	44.9
Of which Interest payments	45	45	43	43	35
Social Services	29.2	33.1	30.9	29.9	29.1
Economic Services	20.3	21.3	22.5	15.7	15.0
Grants-in-aid	0.4	Nil	Nil	8.6	7.7
Loans and advances	7.4	1.1	1.4	1.6	3.3

The movement of the relative share of the components indicated that the share of Social Services in the total expenditure exhibited relative stability during the period 2003-08 while the share of Economic Services declined from 20.3 per cent to 15 per cent during the same period with minor inter-year variations mainly due to booking of devolution of funds for Plan programmes especially under 'Other Rural Development Programmes' implemented by local bodies under the Head '3604 - Grants-in-aid'. The share of General Services which include interest payments considered as non-developmental accounted for 44.9

per cent of total expenditure in 2007-08 as compared to 42.7 per cent in 2003-04. The increase in the General Services' share during 2007-08 was mainly due to increase in pension payment as a result of revision of pension based on Pay Commission's recommendations and payment of arrears.



#### 1.4.2 Revenue expenditure

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the States infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP, revenue receipts and its buoyancy are indicated in **Table-1.11**.

**Table-1.11: Revenue Expenditure: Basic Parameters**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Revenue Expenditure (RE)</b>	14,756	15,495	17,169	18,424	20,825	24,892
Of which: Non-plan Revenue Expenditure (NPRE)	11,702	13,101	14,063	15,201	18,516	22,615
Plan Revenue Expenditure (PRE)	3,054	2,394	3,106	3,223	2,309	2,277
<b>Rate of Growth (per cent) of RE</b>	26.5	5.0	10.8	7.3	13.0	19.5
NPRE	18.2	12	7.3	8.1	21.8	22.1
PRE	72.9	(-) 21.6	29.7	3.8	(-) 28.4	(-) 1.4
NPRE/GSDP (per cent)	13.6	13.6	13.1	12.8	13.9	15.2
NPRE as per cent of TE	74.5	75.2	77.9	77.8	83.9	83
NPRE as per cent of RR	110	110.9	104.2	99.4	101.8	107.1
<b>Buoyancy of Revenue Expenditure with</b>						
GSDP (ratio)	2.3	0.4	0.9	0.7	1.1	1.6
Revenue Receipts (Ratio)	1.5	0.5	0.8	0.5	0.7	1.2

The revenue expenditure increased by 69 per cent from Rs 14,756 crore in 2002-03 to Rs 24,892 crore in 2007-08. The NPRE showed an increasing trend during the period 2002-08 whereas the PRE showed inter-year variations with a declining trend since 2005-06. The increase of Rs 4,099 crore in NPRE during the current year compared to previous year was mainly due to increase in expenditure under Pension and other Retirement benefits consequent on

revision of pension based on recommendations of State Pay Commission (Rs 1,630 crore), salaries and wages (Rs 1071 crore), devolution of funds to Local Self Government Institutions (LSGIs) based on recommendations of Third State Finance Commission (Rs 187.98 crore), Contribution to 'Consolidated Sinking Fund' (Rs 222.52 crore) and General Education (Rs 595.50 crore). The decrease of Rs 32 crore in PRE was mainly due to decrease in expenditure under Crop Husbandry (Rs 142.57 crore), Roads and Bridges (Rs 99.83 crore), Industry and Minerals (Rs 66.52 crore), Rural Development (Rs 45.38 crore), Water Supply and Sanitation (Rs 31.20 crore), partly offset by increase of expenditure under Urban Development (Rs 167.32 crore) and Social Security and Welfare (Rs 115.3 crore). The actual non-plan revenue expenditure during 2007-08 *vis-à-vis* assessment made by TFC for the year is given below:

**Table-1.12***(Rupees in crore)*

	Assessment made by TFC	Actual Non-plan Revenue Expenditure
Non-plan Revenue Expenditure	19,158	22,615

Actual Non-plan Revenue Expenditure during 2007-08 exceeded the normative assessment made by TFC for the year by Rs 3,457 crore (18 *per cent*). The increase in non-plan revenue expenditure over the assessment made by TFC was mainly due to increased devolution of funds to LSGIs based on recommendation of Third State Finance Commission (Rs 1985 crore) and revision of pension consequent on recommendations of State Pay Commission (Rs 1516 crore).

### 1.4.3 Committed Expenditure

#### 1.4.3.1 Expenditure on Salaries and Wages

The trends in expenditure on salaries and wages both under plan and non-plan heads are presented in **Table 1.13**.

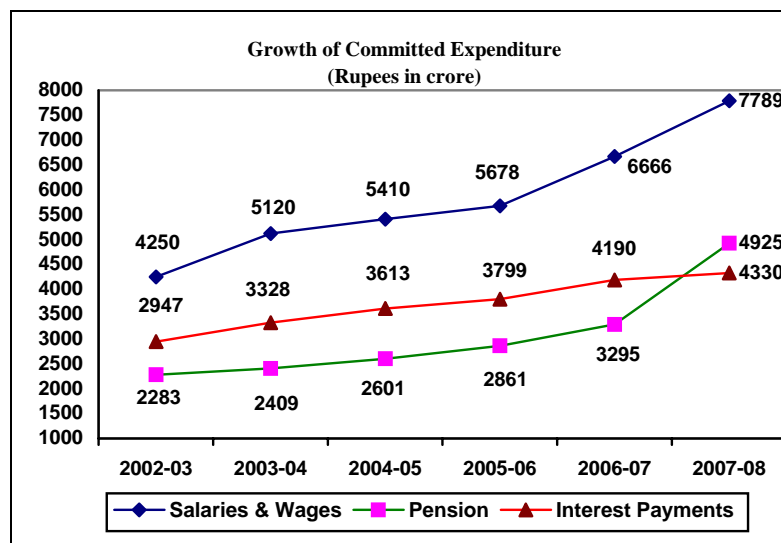
**Table-1.13: Expenditure on Salaries***(Rupees in crore)*

Heads	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Salaries & Wages	5,120	5,410	5,678	6,666	7,789
Of which					
Non-Plan Head	4,886	5,186	5,440	6,391	7,464
Plan Head*	234	224	238	275	325
As <i>per cent</i> of GSDP	5.3	5.1	4.8	5.0	5.2
As <i>per cent</i> of Revenue Receipts	43.3	40.1	37.1	36.7	36.9

Expenditure on salaries under non-plan and plan during 2007-08 is Rs 7,464 crore and Rs 325 crore respectively recording a growth of 16.8 *per cent* and 18.2 *per cent* respectively over the previous year. Salary expenditure during the current year has increased by 16.80 *per cent* over the level of 2006-07 mainly due to disbursement of four instalments (15 *per cent*) of dearness allowance due to the employees during 2007-08. The salary expenditure is about 50 *per cent* of revenue expenditure net of interest and pension payments which is higher than the norm of 35 *per cent* recommended by the TFC. Expenditure under Salaries and Wages for 2007-08 however remained lower

\* Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.

than the projection made by the State Government in Medium Term Fiscal Plan (Rs 8,984 crore).



#### 1.4.3.2 Pension Payments

Table 1.14: Expenditure on Pensions

(Rupees in crore)

Heads	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Pensions	2,409	2,601	2,861	3,295	4,925
As per cent of GSDP	2.5	2.4	2.4	2.5	3.3
As per cent of RR	20.4	19.3	18.7	18.1	23.3

Pension payments increased by 49.5 per cent from Rs 3,295 crore in 2006-07 to Rs 4,925 crore in 2007-08 mainly due to revision of pension based on Eighth Pay Commission recommendations and payment of arrears during 2007-08. With the increase in the number of retirees and improved longevity, the pension liabilities are likely to increase further in future. Pension payments during 2007-08 exceeded the assessment made by TFC (Rs 3,409 crore) as well as the projection made by State Government in Medium Term Fiscal Plan (Rs 4,578 crore).

#### 1.4.3.3 Interest payments

The Twelfth Finance Commission recommended that States should endeavour to keep interest payments as a ratio of revenue receipts to 15 per cent by 2009-10. It was however, observed that interest payments as a percentage of revenue receipts ranged between 20 and 25 per cent during the first three years of the Finance Commission award period.

Table-1.15: Interest payments

(Rupees in crore)

Year	Total Revenue Receipts	Interest Payments	Percentage of Interest payments with reference to	
			Total Revenue Receipts	Revenue Expenditure
2002-03	10,634	2,947	27.7	20.0
2003-04	11,815	3,328	28.2	21.5
2004-05	13,500	3,613	26.8	21.0
2005-06	15,295	3,799	24.8	20.6
2006-07	18,187	4,190	23.0	20.1
2007-08	21,107	4,330	20.5	17.4

The increase in interest payment during 2007-08 was mainly due to more expenditure on 'Interest on Special Securities issued to National Small Savings Fund of the Central Government' (Rs 193.14 crore), Interest on Market Loans (Rs 130.21 crore), State Provident Funds (Rs 123.53 crore) and Interest on Other Internal Debts (Rs 24.91 crore). Interest payment during 2007-08 remained lower than assessment made by TFC (Rs 4,408 crore) and the projection made by State Government in Medium Term Fiscal Plan (Rs 4,778 crore).

#### 1.4.3.4 Subsidies

State Government paid subsidies\* to the extent of Rs 24.18 crore, Rs 23.36 crore and Rs 201.66 crore during 2005-06, 2006-07 and 2007-08 respectively. The huge increase during 2007-08 over the previous year was due to payment of subsidy to Food Corporation of India (Rs 109.81 crore) in respect of rice and wheat distributed to ration card holders of BPL families; subsidy to Kerala State Civil Supplies Corporation (Rs 30.0 crore) for Market Intervention Operations; subsidy to Agricultural farms (Rs 37.67 crore) and enhanced subsidies to co-operatives (Rs 13.05 crore)

## 1.5 Expenditure by Allocative Priorities

### 1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. The higher the ratio of these components to total expenditure and GSDP, the better is the quality of expenditure. **Table 1.16** gives these ratios during 2002-08.

Table 1.16: Indicators of Quality of Expenditure

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Capital Expenditure</b>	699	640	682	817	903	1,475
<b>Revenue Expenditure</b>	14,756	15,495	17,169	18,424	20,825	24,892
<i>Of which</i>						
Social and Economic Services with	8,678	8,024	9,186	9,667	9,190	10,609

\* Source: Finance Accounts 2007-08

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
(i) Salary & Wage Component	N.A	4,071	4,280	4,487	5,198	6,111
(ii) Non-Salary & Wage component	N.A	3,953	4,906	5,180	3,992	4,498
<b>As per cent of Total Expenditure<sup>&amp;</sup></b>						
Capital Expenditure	4.5	4	3.8	4.25	4.2	5.6
Revenue Expenditure	95.5	96	96.2	95.75	95.8	94.4
<b>As per cent of GSDP</b>						
Capital Expenditure	0.8	0.7	0.6	0.7	0.7	1.0
Revenue Expenditure	17.1	16.1	16.0	15.5	15.7	16.8

The revenue expenditure has increased in absolute terms from Rs 20,825 crore in 2006-07 to Rs 24,892 crore in 2007-08 but its percentage to total expenditure decreased from 95.80 per cent to 94.40 per cent during the same period indicating a significant increase in capital expenditure. Salary and wage component of Revenue expenditure under Social and Economic Services increased steadily from Rs 4,071 crore in 2003-04 to Rs 6,111 crore in 2007-08 whereas expenditure under non-salary and wage component showed inter-year variations during the above period. The capital expenditure increased in absolute terms from Rs 903 crore in 2006-07 to Rs 1,475 crore in 2007-08 and its percentage to total expenditure increased from 4.2 per cent to 5.6 per cent during the same period. The sharp increase in Capital Expenditure during 2007-08 over 2006-07 was mainly due to payment of arrears in contractors' bills pertaining to sectors such as Roads and Bridges, Flood Control Projects, Public Works, Minor Irrigation, Major and Medium Irrigation (Rs 440.95 crore) and in Telecommunication and Electronic Industries (Rs 103.10 crore). Capital expenditure as a percentage of GSDP increased from 0.7 per cent in 2006-07 to 1.0 per cent in 2007-08 but it is far below the norm of three per cent recommended by TFC in Restructuring Plan of State Finances. These trends indicate the need for changes in the pattern of expenditure on social and economic services.

### 1.5.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities, etc., have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 1.17** summarizes the expenditure incurred by the State Government in expanding and strengthening the social services in the State during 2002-08.

**Table 1.17: Expenditure on Social Services**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Education, Art and Culture</b>	<b>2,986</b>	<b>3,095</b>	<b>3,280</b>	<b>3,498</b>	<b>3,953</b>	<b>4,563</b>
<b>Revenue Expenditure</b>	2,968	3,080	3,254	3,457	3,917	4,529
<i>Of which</i>						
(a) Salary & Wage Component	..	2,710	2,842	2,954	3,384	3,998
(b) Non-Salary & Wage component	..	370	412	503	533	531
<b>Capital Expenditure</b>	18	15	26	41	36	34
<b>Health and Family Welfare</b>	<b>805</b>	<b>854</b>	<b>921</b>	<b>999</b>	<b>1,138</b>	<b>1,289</b>

<sup>&</sup> Total expenditure does not include Loans and Advances

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Revenue Expenditure</b>	759	832	891	941	1,108	1,242
<i>Of which</i>						
(a) Salary & Wage Component	..	598	629	673	790	918
(b) Non-Salary & Wage component	..	234	262	268	318	324
<b>Capital Expenditure</b>	46	22	30	58	30	47
<b>Water Supply, Sanitation, Housing and Urban Development</b>	<b>484</b>	<b>401</b>	<b>656</b>	<b>616</b>	<b>394</b>	<b>516</b>
<b>Revenue Expenditure</b>	481	399	654	611	376	503
<i>Of which</i>						
(a) Salary & Wage Component	..	13	15	14	18	21
(b) Non-Salary & Wage component	..	386	639	597	358	482
<b>Capital Expenditure</b>	3	2	2	5	18	13
<b>Other Social Services</b>	<b>846</b>	<b>731</b>	<b>1,112</b>	<b>916</b>	<b>1,109</b>	<b>1,557</b>
<b>Revenue Expenditure</b>	830	714	1,080	887	1,077	1,516
<i>Of which</i>						
(a) Salary & Wage Component	..	176	185	198	229	278
(b) Non-Salary & Wage component	..	538	895	689	848	1,238
<b>Capital Expenditure</b>	16	17	32	29	32	41
<b>Total (Social Services)</b>	<b>5,121</b>	<b>5,081</b>	<b>5,969</b>	<b>6,029</b>	<b>6,594</b>	<b>7,925</b>
<b>Revenue Expenditure</b>	5,038	5,025	5,879	5,896	6,478	7,790
<i>Of which</i>						
(a) Salary & Wage Component	..	3,497	3,671	3,839	4,421	5,215
(b) Non-Salary & Wage component	..	1,528	2,208	2,057	2,057	2,575
<b>Capital Expenditure</b>	83	56	90	133	116	135

The expenditure in social sector increased from Rs 5,121 crore in 2002-03 to Rs 7,925 crore in 2007-08. Expenditure on social sector during 2007-08 (Rs 7,925 crore) accounted for 30 per cent of total expenditure and 66 per cent of development expenditure<sup>@</sup>. Education; health and family welfare; and water supply, sanitation, housing and urban development together constituted little more than 80 per cent of total expenditure incurred on social services. Expenditure on Education increased by Rs 610 crore while the expenditure on Health and Family Welfare has shown an increase of Rs 151 crore in 2007-08 over previous year.

Recognizing the need to improve the quality of education and health services, Twelfth Finance Commission recommended that the non-plan salary expenditure under health and education sectors should increase only by five and six per cent respectively while non-salary expenditure under non-plan heads should increase by 30 per cent per annum during the award period. However, trends in expenditure during 2007-08 (taking expenditure under both plan and non-plan heads) reveal that the salary and wage component under education sector increased by 18 per cent over 2006-07 while non-salary and wage component decreased by 0.4 per cent. Similarly under Health and Family Welfare Sector, the salary and wage component during 2007-08 increased by 16 per cent while non-salary and wage component increased by only 2 per cent. The expenditure pattern both in education and health services has not been as per the norms of the Twelfth Finance Commission which needs correction in the ensuing years.

<sup>@</sup> Development Expenditure is defined as the total expenditure made on Social and Economic Services.

### 1.5.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditures required to promote directly or indirectly, productive capacity within the States' economy. The expenditure on Economic Services (Rs 4,102 crore) accounted for 15.6 per cent of the total expenditure (**Table 1.18**). Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed nearly 80 per cent of the expenditure on Economic Services.

**Table-1.18: Expenditure on Economic Sector**

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Agriculture and Allied Activities</b>	<b>684.7</b>	<b>789.3</b>	<b>911.5</b>	<b>1,175.9</b>	<b>1,189</b>
Revenue Expenditure	646.7	756.3	867.5	1,114.2	1,087
<i>Of which</i>					
(a) Salary & Wage Component	290.2	303.6	323.7	382.9	443
(b) Non-Salary & Wage component	356.5	452.7	543.8	731.3	644
Capital Expenditure	38	33	44	61.7	102
<b>Irrigation and Flood Control</b>	<b>338.7</b>	<b>366.2</b>	<b>436.7</b>	<b>331.2</b>	<b>472</b>
Revenue Expenditure	179.7	191.2	228.7	193.4	287
<i>Of which</i>					
(a) Salary & Wage Component	79.8	91.9	101.4	123.1	145
(b) Non-Salary & Wage component	99.9	99.3	127.3	70.3	142
Capital Expenditure	159	175	208	137.8	185
<b>Power &amp; Energy</b>	<b>577.8</b>	<b>61.7</b>	<b>99.6</b>	<b>45.1</b>	<b>36</b>
Revenue Expenditure	577.8	61.7	99.6	45.1	36
<i>Of which</i>					
(a) Salary & Wage Component	0.3	0.4	0.2	0.4	1
(b) Non-Salary & Wage component	577.5	61.3	99.4	44.7	35
Capital Expenditure	...	...	...	...	...
<b>Transport</b>	<b>716.6</b>	<b>815.1</b>	<b>1,118.7</b>	<b>1,078.3</b>	<b>1,598</b>
Revenue Expenditure	455.6	563.1	807.7	630.8	770
<i>Of which</i>					
(a) Salary & Wage Component	73.0	75.5	80.3	98.6	110
(b) Non-Salary & Wage component	382.6	487.6	727.4	532.2	660
Capital Expenditure	261	252	311	447.5	828
<b>Other Economic Services</b>	<b>1,225.5</b>	<b>1,824.5</b>	<b>1,819.2</b>	<b>828.3</b>	<b>807</b>
Revenue Expenditure	1,139.5	1,734.5	1,768.2	728.3	639
<i>Of which</i>					
(a) Salary & Wage Component	130.7	137.9	142.7	172.3	197
(b) Non-Salary & Wage component	1,008.8	1,596.6	1,625.5	556	442
Capital Expenditure	86	90	51	100	168
<b>Total (Economic Services)</b>	<b>3,543.3</b>	<b>3,856.8</b>	<b>4,385.7</b>	<b>3,458.8</b>	<b>4,102</b>
Revenue Expenditure	2,999.3	3,306.8	3,771.7	2,711.8	2,819
<i>Of which</i>					
(a) Salary & Wage Component	574	609.3	648.3	777.3	896
(b) Non-Salary & Wage component	2,425.3	2,697.5	3,123.4	1,934.5	1,923
Capital Expenditure	544	550	614	747	1,283

The expenditure incurred on provision of economic services increased from Rs 3543 crore in 2003-04 to Rs 4102 crore in 2007-08. Expenditure on economic services during 2007-08 accounted for 15 per cent of total expenditure and 34 per cent of development expenditure. Out of the total expenditure on Economic Services during 2007-08, 29 per cent was incurred on Agriculture and Allied Activities, 39 per cent on Transport and 12 per cent



on Irrigation and Flood Control. As compared to 2002-03, significant increase in expenditure was observed during 2007-08 in Agriculture and Allied Activities (52 per cent), Irrigation and Flood Control (66 per cent), and Transport Services (108 per cent).

The trends in revenue and capital expenditure on Economic Services indicate that the capital expenditure increased by 135.8 per cent from Rs 544 crore in 2003-04 to Rs 1283 crore in 2007-08, while the revenue expenditure in fact decreased by 6 per cent from Rs 2999 crore in 2003-04 to Rs 2819 crore in 2007-08 with however wide inter year variations. Within the revenue expenditure, the salary and wage component increased by 56 per cent while non-salary and wage component decreased by 20.7 per cent during this period with inter-year variations.

#### 1.5.4 Financial Assistance to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the six year period 2002-08 is presented in **Table 1.19**.

**Table 1.19: Financial Assistance**

(Rupees in crore)

Bodies/authorities, etc.	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	1,851.08	1,929.60	2,071.80	2,144.52	2,666.63	2,812.88
Municipal Corporations and Municipalities	239.46	230.91	286.96	318.94	385.43	485.85
Zilla Parishads and Other Panchayati Raj Institutions	1,288.76	1,554.39	1,496.21	1,719.53	2,219.28	2,421.93
Development Agencies	33.49	28.67	25.01	14.52	6.15	1.36
Hospital and Other Charitable Institutions	19.84	23.60	28.04	34.28	43.32	53.98
Other Institutions <sup>&amp;</sup>	779.95	1,686.32	798.07	1,307.30	916.46	468.50 <sup>&amp;</sup>
<b>Total</b>	<b>4,212.58</b>	<b>5,453.49</b>	<b>4,706.09</b>	<b>5,539.09</b>	<b>6,237.27</b>	<b>6,244.50</b>
Assistance as percentage of RE	29	35	27	30	30	25

The increase in financial assistance to Zilla Parishads, Municipalities, Corporations, etc., during 2006-08 was due to devolution of funds to Local Bodies based on recommendations of Third State Finance Commission for maintenance of Assets, Expansion and Development and Traditional Functions.

#### 1.5.5 Delay in furnishing utilisation certificates

The financial rules of the Government require that where grants are given for specific purposes, certificates of utilisation should be obtained by the Departmental officers from the grantees and after verification, these should be forwarded to the Accountant General (Accounts and Entitlements) within one year from the date of sanction of assistance unless specified otherwise. As of June 2008, 64 utilisation certificates for Rs 32.24 crore paid as grants during

<sup>&</sup> Other Institutions, *inter alia*, includes Kerala State Road Transport Corporation (Rs 43.21 crore), Kerala Water Authority (Rs 37.58 crore), Kerala State Electronics Development Corporation (Rs 35.39 crore), State Council for Science Technology and Environment (Rs 34.05 crore), etc.

the period 2006-08 had not been received in the Office of the Accountant General (Accounts and Entitlements). Details of department-wise break-up of outstanding UCs are given in **Appendix VI**.

#### **1.5.6 Non-submission of accounts**

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Government/Heads of the Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. As of August 2008, 45 Institutions have not furnished details for the year 2007-08 as shown in **Appendix VII**.

#### **1.5.7 Abstract of performance of the autonomous bodies**

The audit of accounts of 22 bodies in the State has been entrusted to the Comptroller and Auditor General of India. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report and its placement in the Legislature is indicated in **Appendix VIII**.

#### **1.5.8 Misappropriations, losses, defalcations, etc.**

State Government reported 143 cases of misappropriation, defalcation, etc., involving Government money amounting to Rs 7.82 crore up to the period March 2008 on which final action was pending. The department-wise break up of pending cases is given in **Appendix IX**.

#### **1.5.9 Write off of losses, waivers, etc.**

As reported to Audit, losses due to theft, fire and irrecoverable revenue etc., amounting to Rs 25.62 crore in 2,386 cases were written-off/waived during 2007-08 by competent authorities. The relevant details are given in **Appendix X**.

### **1.6 Assets and Liabilities**

In the Government Accounting System, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix II** gives an abstract of such liabilities and the assets as on 31 March 2008, compared with the corresponding position on 31 March 2007. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. **Appendix V** depicts the time series data on State Government finances for the period 2003-2008.

### 1.6.1 Financial results of irrigation works

Statement 3 of the Finance Accounts gives the financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc. In the case of eight irrigation projects, which have been declared commercial, with a cumulative capital outlay of Rs 122.91 crore at the end of 31 March 2008, the revenue realised from them during 2007-08 was Rs 1.18 crore which was one *per cent* of total outlay. After considering the working and maintenance expenses of Rs 26.42 crore and interest charges of Rs 11.16 crore, these projects suffered a net loss of Rs 36.40 crore.

### 1.6.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2008 is given in the **Table 1.20**.

**Table 1.20: Department-wise Profile of Incomplete Projects**

(Rupees in crore)

Department	Number of Incomplete Projects	Initial Budgeted Cost	Cost Over Runs	Revised Total Cost of Projects	Cumulative Actual Expenditure as on 31.3.2008
Major Irrigation Projects (Water Resources Department)	5	127.68	1,461.99	1,589.67	1,248.62
Irrigation and Minor Irrigation Works (Water Resources Department)	11	24.83	10.32	35.15	27.86
Public Works Department (Roads and Bridges)	81	309.23	61.18	370.41	211.44
Public Works Department (Buildings)	35	74.40	12.20	86.60	59.98
Harbour Engineering Department	8	84.26	30.29	114.55	80.29
<b>Total</b>	<b>140</b>	<b>620.40</b>	<b>1,575.98</b>	<b>2,196.38</b>	<b>1,628.19</b>

Source: Details furnished by Departments

As per information made available by the Irrigation Department five\* projects which were commenced between 1974 and 1983 remained incomplete even after incurring Rs 1,248.62 crore as of March 2008. The delay in completion of these projects has also resulted in a huge cost overrun of Rs 1462 crore at the close of the current year. Besides, 135 other capital works on which Rs 379.57\*\* crore were spent up to March 2008 also remained incomplete in Public Works, Harbour Engineering and Water Resources Department involving cost overruns amounting to Rs 114 crore as on 31<sup>st</sup> March 2008. The amount blocked in these projects was 12 *per cent* of the cumulative capital outlay of the State and due to their incompleteness within the stipulated time frame not only the benefits to be accrued to the society are delayed but the cost to the exchequer also increases due to time overruns involved in their completion.

### 1.6.3 Departmental Commercial Undertakings

Activities of *quasi-commercial* nature are performed by departmental undertakings of certain Government departments. These undertakings are required to prepare *pro forma* accounts in prescribed format showing the results of financial operations annually so that Government can assess the

\* Karapuzha, Idamalayar, Muvattupuzha, Banasura Sagar, Regulator-cum-Bridge at Thrithala.

\*\* As per information made available by Departments

results of their working. The department-wise position of arrears in preparation of *pro forma* accounts is given in **Appendix XI**.

#### 1.6.4 Investments and returns

As of 31<sup>st</sup> March 2008, Government invested Rs 2,482.96 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives (**Table 1.21**). The average return on this investment was one *per cent* in the last six years while the Government paid interest at the average rate of 7.9 to 9.4 *per cent* on its borrowings during 2002-2008.

**Table-1.21: Return on Investment**

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on government borrowing*	Difference between interest rate and return
	(Rupees in crore)		(per cent)		
2002-03	2,059.23	9.61	0.5	9.4	8.9
2003-04	2,123.57	20.03	0.9	9.1	8.2
2004-05	2,191.16	29.11	1.3	8.7	7.4
2005-06	2,140.04	18.19	0.8	8.3	7.5
2006-07	2,239.60	30.17	1.3	8.4	7.1
2007-08	2,482.96	28.63	1.2	7.9	6.7

Three statutory Corporations and 57 Government companies with aggregate Government investment of Rs 1,112.59 crore up to 2007-08 were incurring losses and their accumulated loss amounted to Rs 3,636.91 crore as per the latest accounts furnished by these companies (**Appendix XII**). Of the loss making Companies, six Government Companies with an investment of Rs 13.42 crore up to 31 March 2008 were under liquidation and one Government Company with an investment of Rs 1.35 crore was under lockout from June 1993. The major loss making Government Companies/Statutory Corporations are listed in **Table 1.22**.

**Table 1.22: Major loss making Companies/Statutory Corporations**

Sl. No.	Name of Company/Statutory Corporation	Accumulated loss (Rs in crore)
1.	Kerala State Road Transport Corporation	1,422.26
2.	The Kerala State Civil Supplies Corporation	539.32
3.	The Kerala State Cashew Development Corporation Limited	488.70
4.	Kerala State Electronics Development Corporation Limited	207.56
5.	The Kerala Financial Corporation	105.00

There are only few Government Companies which are running on profit. The major Companies which are earning profits and yielding return to the government are listed in **Table 1.23**.

\* Average interest rate is defined as the percentage of interest payment made to average financial liabilities of the State during the year i.e., (Average of opening and closing balances of fiscal liabilities/2) x 100

**Table-1.23: Major profit making Companies***(Rupees in crore)*

Sl.No.	Name of Government Company	Accumulated profit
1.	The Kerala Minerals and Metals Limited	244.45
2.	The Kerala State Financial Enterprises Limited	101.14
3.	The Kerala Agro-Machinery Corporation Limited	74.05
4.	Malabar Cements Limited	65.38
5.	The Rehabilitation Plantations Limited	57.54

### 1.6.5 Loans and advances by State Government

In addition to investments in Co-operative societies, Statutory Corporations and Government Companies, Government has also been providing loans and advances to many of these institutions/organisations. Total outstanding loans and advances as on 31 March 2008, were Rs 6,410 crore (**Table 1.24**). A steep increase in the amount of loans advanced during 2007-08 over the previous year was mainly due to disbursement of loans received from Japan Bank for International Co-operation for Water Supply Project of State Government for Rs 662.18 crore (2007-08) to Kerala Water Authority. Interest received against these loans advanced remained less than one *per cent* during the period 2002-08 and it was 0.9 *per cent* during 2007-08 as against the cost of borrowing of 7.9 *per cent* during the year.

**Table-1.24: Average Interest Received on Loans Advanced by the State Government***(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Opening Balance	3,650	3,823	5,042	5,210*	5,431 <sup>®</sup>	5,562 <sup>§</sup>
Amount advanced during the year	250	1,292	196	287	349	893
Amount repaid during the year	77	73	95	52	66	45
Closing Balance	3,823	5,042	5,143	5,445	5,714	6,410
Net addition	173	1,219	101	235	283	848
Interest Received	24	23	30	31	28	51
Interest received as <i>per cent</i> to outstanding loans and advances	0.6	0.5	0.6	0.6	0.5	0.9
Average interest paid on borrowings by State Government (in <i>per cent</i> ).	9.4	9.1	8.7	8.3	8.4	7.9
Difference between average interest paid and received ( <i>per cent</i> )	(-) 8.8	(-) 8.6	(-) 8.1	(-) 7.7	(-) 7.9	(-) 7.0

### 1.6.6 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) – ordinary and special – from Reserve Bank of India has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by Reserve

\* Difference of Rs 66.55 crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide foot note (b) of Statement 5 of Finance Accounts 2005-06.

<sup>®</sup> Difference of Rs 13.89 crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide foot note (b) of Statement 5 of Finance Accounts 2006-07.

<sup>§</sup> Difference of Rs 152.42 crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide foot note (b) of Statement 5 of Finance Accounts 2007-08.

Bank of India from time to time depending on the holding of Government securities.

Special WMA not exceeding Rs 38.40 crore are given to State Government against marketable securities issued by Government of India. In addition special WMA equivalent to the net incremental annual investment in Consolidated Sinking Fund was also available. After this Ordinary WMA up to a maximum of Rs 350 crore are also allowed. As per the overdraft regulation scheme, no State shall be allowed to run on overdraft for more than fourteen consecutive working days in a calendar year or more than 36 working days in a calendar quarter. The overdraft shall not exceed 100 *per cent* of the Ordinary Ways and Means limit. If the overdraft exceeds this limit continuously for five working days for the first time in a financial year, the Bank will advise the State to bring down the overdraft level. If such irregularity persists on a second or subsequent occasion, payment will be stopped.

Ways and Means Advances and Overdrafts availed, the number of occasions it was availed and interest paid by the State is detailed in **Table 1.25**.

**Table –1.25: Ways and Means and Overdrafts of the State**

*(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Ways and Means Advances (including shortfall)</b>						
Availed in the Year	2,463.36	3,346.77	4,485.31	4,414.09	4,523.30	5,471.25
Outstanding WMAs, if any	283.97	284.70	235.25	Nil	Nil	Nil
Interest Paid	13.23	15.58	13.20	9.62	9.83	10.58
Number of Days	163	156	193	182	165	167
<b>Overdraft</b>						
Availed in the year	5,337.51	4,750.53	4,842.94	1,732.16	1,923.57	1,513.59
Number of Days	196	177	161	61	61	47
Interest Paid	7.54	8.32	8.00	2.70	2.45	2.00
Outstanding overdrafts, if any	164.85	280.64	Nil	Nil	Nil	Nil

The ways and means advances availed were for minimum of 156 days during the period 2002-03 to 2007-08 with inter-year variations. However, the number of days on which overdrafts were availed steadily decreased during the same period from 196 days in 2002-03 to 47 days in 2007-08. No ways and means advances and overdrafts were outstanding at the end of the years from 2005-06 to 2007-08. The closing cash balance of the State increased from Rs (-) 226.64 crore in 2003-04 to Rs 1,039.97 crore in 2006-07 and decreased in 2007-08 to Rs 973.79 crore.

## **1.7 Undischarged Liabilities**

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

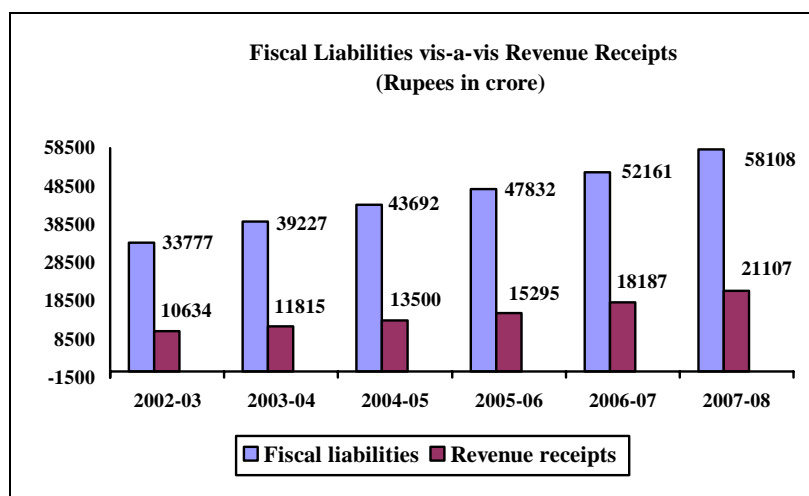
### 1.7.1 Fiscal Liabilities – Public Debt and Guarantees

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of Public Account, include deposits under small savings scheme, provident funds and other deposits.

**Table-1.26** gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

**Table – 1.26: Fiscal Liabilities – Basic Parameters**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities <sup>#</sup> (Rupees in crore)	33,777	39,227	43,692	47,832	52,161	58,108 <sup>#</sup>
Rate of Growth ( <i>per cent</i> )	16.4	16.1	11.4	9.5	9.1	11.4
<b>Ratio of Fiscal Liabilities to</b>						
GSDP ( <i>per cent</i> )	39.2	40.9	40.8	40.2	39.3	39.1
Revenue Receipts ( <i>per cent</i> )	317.6	332	323.6	312.7	286.8	275.3
Own Resources ( <i>per cent</i> )	423.3	441.0	446.6	446.4	405	390.5
<b>Buoyancy of Fiscal Liabilities to</b>						
GSDP (ratio)	1.4	1.4	1.0	0.8	0.8	0.96
Revenue Receipts (ratio)	0.9	1.5	0.8	0.7	0.5	0.71
Own Resources (ratio)	0.7	1.4	1.1	1.0	0.5	0.74



Overall fiscal liabilities of the State increased from Rs 33,777 crore in 2002-03 to Rs 58,108 crore in 2007-08. Fiscal Liabilities of the State

<sup>#</sup> Includes Public Debt (Rs.39,551.79 crore), Small Savings, Provident Funds, etc., (Rs 15,857.78 crore) interest bearing obligations such as depreciation reserve funds, Calamity Relief Fund, etc., (Rs 41.74 crore) and non-interest bearing obligations such as deposits, other earmarked funds, etc. (Rs 2,656.51 crore).

comprised Consolidated Fund liabilities and Public Account liabilities. As at the end of March 2008 the Consolidated Fund liabilities (Rs 39,552 crore) comprised of market loans (Rs 16,481 crore), loans from Government of India (Rs 5,533 crore) and other loans (Rs 17,538 crore). The Public Account liabilities (Rs 18,556 crore) comprises of small savings, Provident Funds, etc., (Rs 15,858 crore), interest bearing obligations (Rs 42 crore) and non-interest bearing obligations like deposits and other earmarked funds (Rs 2,656 crore). The growth rate was 11.4 *per cent* during 2007-08 over previous year. The ratio of fiscal liabilities to GSDP decreased from 39.3 *per cent* in 2006-07 to 39.1 *per cent* in 2007-08. These liabilities stood at 2.8 times the revenue receipts and 4 times the States own resources as at the end of 2007-08. The fiscal liabilities had grown slower than the State's GSDP during 2005-06, 2006-07 and 2007-08. The buoyancy of these liabilities with respect to GSDP during the year was 0.96 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.96 *per cent*.

The State Government had set up a Consolidated Sinking Fund during 2005-06 for amortization of open market loans. A revised scheme of Consolidated Sinking Fund came into effect from 2007-08 according to which Fund is to be utilised as an Amortisation Fund for redemption of all outstanding liabilities. 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 contribution from revenue at the prescribed rate and interest accrued on investment made out of the Fund. The interest accrued and credited in the Fund only will be utilised for redemption of open market loan of Government in 2010-11 and 2011-12 and for redemption of all outstanding liabilities of Government from 2012-13 onwards as per the revised scheme. During the year, State Government contributed Rs 222.52 crore to the Fund. As on 31 March 2008, the outstanding balance in Sinking Fund was Rs 369.51 crore.

### **1.7.2 Status of Guarantees – Contingent liabilities**

Guarantees are contingent liabilities on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. Section 3 of the Kerala Ceiling on Government Guarantees Act, 2003 which came into effect on 5 December 2003 stipulates that the total outstanding Government Guarantees as on the first day of April every year shall not exceed Rs 14,000 crore.

As per the Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2002-03 is given in **Table 1.27**.



Table – 1.27: Guarantees given by the Government of Kerala

*(Rupees in crore)*

Year	Maximum amount guaranteed (Principal only)	Outstanding amount of guarantees (including interest)	Percentage of maximum amount guaranteed to total revenue receipt
2002-03	14,922.61	12,623.38	140
2003-04	15,612.67	14,009.19	132
2004-05	14,783.36	12,315.96	110
2005-06	13,751.80	11,934.69	90
2006-07	12,646.70	9,405.33	70
2007-08	14,871.08	8,317.34	70

Audit scrutiny revealed the following:

- Details of guarantees furnished by Government was incomplete as certain relevant data like dates of sanctions of guarantee and execution of deeds, validity period of guarantee, etc., were not included in many cases and guarantee commission particulars in respect of some institutions having outstanding guarantees were not included in the statement. Thus the data on guarantees maintained by Government was not reliable for ensuring compliance with the provisions in the Kerala Ceiling on Government Guarantee Act, 2003.
- Wide variations were noticed in the outstanding guarantees reported by Finance Department and that reported by some of the institutions indicating that the data maintained by Government is incomplete.
- The arrears of guarantee commission receivable as of March 2008 were Rs 53.80 crore. Out of this, Rs 52.11 crore related to 10 institutions which had arrears exceeding Rupees one crore in each case.
- As per Section 6 of the Act, Government shall constitute a Guarantee Redemption Fund and the guarantee commission charged under section 5 of the Act shall form the corpus of the Fund. But the Fund has not been constituted and consequently the guarantee commission of Rs 216.16 crore collected during 2003-04 to 2007-08 had not been credited to the Fund but treated as non-tax revenue and used for meeting the revenue expenditure of the government.

### 1.7.3 Arrears in payment of contractors' bills

According to information made available by Departmental Officers, the arrears in payment of Contractors' bills as of March 2008 in Public Works, Water Resources and Harbour Engineering Departments amounted to Rs 681.10 crore (0.5 per cent of GSDP).

## 1.8 Debt Sustainability

The debt sustainability is defined as the ability of the State to maintain a constant Debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal

deficit should match with the increase in capacity to service the debt. A prior condition for debt sustainability is the debt stabilisation in terms of Debt-GSDP ratio.

### 1.8.1 Debt Stabilisation

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the Debt- GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt\* rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, Debt-GSDP ratio would be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, Debt-GSDP ratio would be rising and in case it is positive, Debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilisation are indicated in **Table 1.28**.

**Table – 1.28: Debt Sustainability–Interest Rate and GSDP Growth**

(in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Average Interest Rate</b>	9.4	9.1	8.7	8.3	8.4	7.9
<b>GSDP Growth</b>	11.5	11.3	11.5	11.2	11.5	11.9
<b>Interest spread</b>	2.1	2.2	2.8	2.9	3.1	4.0
<b>Quantum Spread (Rs in crore)</b>	609	743	1,098	1,267	1,483	2,086
<b>Primary Deficit (-)/Surplus (+) (Rupees in crore)</b>	(-) 2,043	(-) 2,211	(-) 839	(-) 382	(+) 368	(-) 1,770

**Table 1.28** reveals that quantum spread together with primary deficit has been negative during 2002-03 and 2003-04 which led to an increase in Debt-GSDP ratio during these years. From 2004-05 onwards, the quantum spread together with primary deficit turned positive, indicating the declining trend in Debt-GSDP ratio from 40.8 in 2004-05 to 39.1 in 2007-08. During the current year the decline in debt relative to GSDP was marginal due to sharp increase in fiscal deficit which also turned the primary surplus into deficit during the year.

### 1.8.2 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. Persistent negative resource gap indicates the non-sustainability of debt while positive resource gap strengthens the capacity of the State to sustain the debt. **Table 1.29** indicates the resource gap as defined for the period 2003-2008.

**Table 1.29: Incremental non-debt receipts and total expenditure**  
(Rupees in crore)

Period	Incremental				Resource Gap
	Non-debt receipts	Primary expenditure	Interest payment	Total expenditure	
2002-03	1,604	2,867	458	3,325	(-) 1,721
2003-04	1,173	1,341	381	1,722	(-) 549
2004-05	1,707	335	285	620	(+) 1,087
2005-06	1,752	1,295	186	1,481	(+) 271
2006-07	2,908	2,158	391	2,549	(+) 359
2007-08	2,905	5,043	140	5,183	(-) 2,278

The trends presented in the **Table 1.29** indicate that the incremental non-debt receipts were sufficient to meet the incremental debt service obligations during the period 2002-08 but they were inadequate to finance incremental primary expenditure during 2002-03, 2003-04 and in 2007-08. These were the years in which primary expenditure steeply increased either due to sharp increase in revenue or capital expenditure including loans and advances. The positive resource gap during the three-year period of 2004-07 turned negative in the current year due to increase in Capital Expenditure (Rs 572 crore), Loans and Advances disbursed (Rs 544 crore) and Primary Revenue Expenditure (Rs 3,927 crore) when compared to the previous year.

### 1.8.3 Net Availability of Borrowed Funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal and interest payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, i.e., they are (a) not being used for financing revenue expenditure and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in government revenue.

**Table-1.30** below gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last five years.

**Table-1.30: Net Availability of Borrowed Funds**  
(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Internal Debt*</b>						
Receipt	2,717	6,023	5,114	5,220	5,131	5,227
Repayment (Principal + Interest)	1,377	1,944	2,331	3,194	3,199	3,892
Net Fund Available	1,340	4,079	2,783	2,026	1,932	1,335
Net Fund Available ( <i>per cent</i> )	49	68	54	39	38	26
<b>Loans and Advances from GOI</b>						
Receipt	1,193	968	1,482	603	205	416
Repayment (Principal + Interest)	1,809	2,685	2,371	1,009	683	685
Net Fund Available	(-) 616	(-) 1,717	(-) 889	(-) 406	(-) 478	(-) 269
Net Fund Available ( <i>per cent</i> )	(-) 52	(-) 177	(-) 60	(-) 67	(-) 233	(-) 65

\* Excluding Ways and Means advance from Reserve Bank of India

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Other obligations<sup>@</sup></b>						
Receipt	13,826	12,224	10,483	9,626	11,524	14,063
Repayment (Principal + Interest)	12,664	12,557	11,174	10,658	12,826	13,500
Net Fund Available	1,162	(-) 333	(-) 691	(-) 1,032	(-) 1,302	563
Net Fund Available ( <i>per cent</i> )	8.4	(-) 2.7	(-) 6.6	(-) 10.7	(-) 11.3	4.0
<b>Total liabilities</b>						
Receipt	17,736	19,215	17,079	15,449	16,860	19,706
Repayment (Principal + Interest)	15,850	17,186	15,876	14,861	16,708	18,077
Net Fund Available	1,886	2,029	1,203	588	152	1,629
Net Fund Available ( <i>per cent</i> )	10.6	10.6	7.0	3.8	0.9	8.3

The net fund available on account of internal debt and loans and advances from Government of India and other obligations after providing for the interest and repayment indicate a declining trend except for an increase during 2007-08. Debt redemption ratio being less than unity through the period 2002-08 also reveal the fact that borrowed funds are used to finance the revenue and/or fiscal deficit of the State during the period.

## 1.9 Management of deficits

The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health.

### 1.9.1 Trends in Deficits

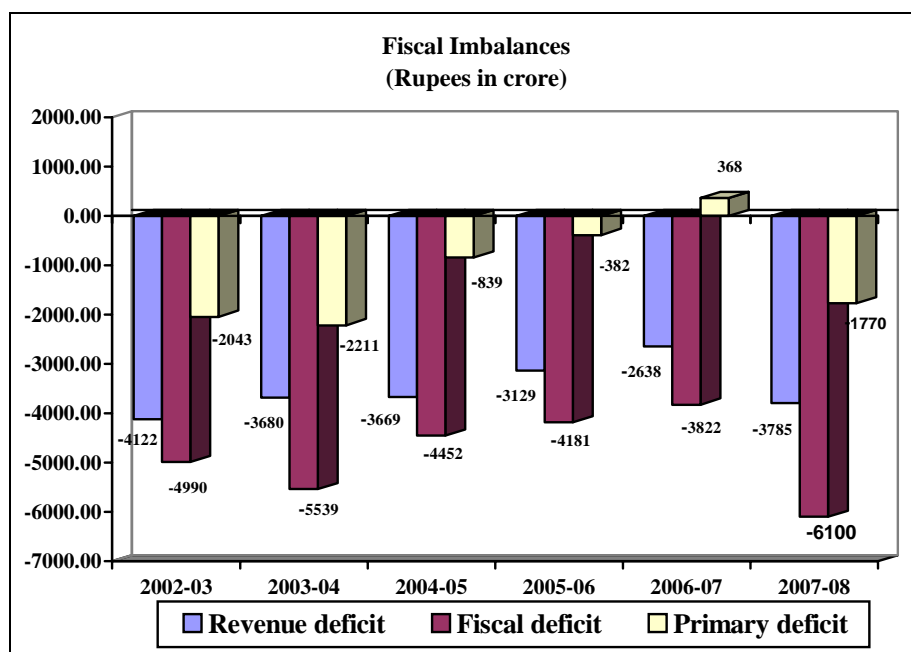
The revenue deficit of the State which indicates the excess of its revenue expenditure over revenue receipts decreased steadily from Rs 4,122 crore in 2002-03 to Rs 2,638 crore in 2006-07 but increased in 2007-08 to Rs 3,785 crore. The marked increase in revenue deficit during the current year was due to a sharp increase in non-plan revenue expenditure (22.1 *per cent*) during the current year when compared to previous year without commensurate increase in revenue receipts (16.1 *per cent*).

The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, decreased from Rs 4,990 crore in 2002-03 to Rs 3,822 crore in 2006-07 but increased in 2007-08 to Rs 6,100 crore. The sharp increase in revenue deficit along with an increase in Capital Expenditure (Rs 572 crore) as well as in Loans and Advances disbursed (Rs 544 crore) led to a sharp increase in fiscal deficit during the year. The Primary deficit of the State showed a declining trend from 2003-04 and became a primary surplus in 2006-07. But it again turned into a deficit of Rs 1,770 crore in 2007-08 primarily due to increase in fiscal deficit during the current year.

<sup>@</sup> Include Small Savings, Provident Funds, interest bearing obligations such as depreciation reserve funds and non-interest bearing obligations such as deposits, other earmarked funds, etc.

Table-1.31: Fiscal Imbalances: Basic Parameters

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue deficit (Rupees in crore)	(-) 4,122	(-) 3,680	(-) 3,669	(-) 3,129	(-) 2,638	(-) 3,785
Fiscal deficit (Rupees in crore)	(-) 4,990	(-) 5,539	(-) 4,452	(-) 4,181	(-) 3,822	(-) 6,100
Primary deficit (-)/ Primary Surplus (+) (Rupees in crore)	(-) 2,043	(-) 2,211	(-) 839	(-) 382	(+) 368	(-) 1,770
RD/GSDP (per cent)	(-) 4.8	(-) 3.8	(-) 3.4	(-) 2.6	(-) 2.0	(-) 2.5
FD/GSDP (per cent)	(-) 5.8	(-) 5.8	(-) 4.2	(-) 3.5	(-) 2.9	(-) 4.1
PD/GSDP (per cent)	(-) 2.4	(-) 2.3	(-) 0.8	(-) 0.3	0.3	(-) 1.2
RD/FD (per cent)	82.6	66.4	82.4	74.8	69	62



### 1.9.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to Fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The ratio of revenue deficit to fiscal deficit declined steadily from 82.4 per cent in 2004-05 to 62 per cent in 2007-08 indicating improvement in the quality of the deficit during the period. As proportion to the GSDP, revenue deficit has come down to 2.0 per cent and fiscal deficit to 2.9 per cent in 2006-07 from 4.8 per cent and 5.8 per cent respectively in 2002-03. But the ratio of RD to GSDP and FD to GSDP increased during 2007-08 to 2.5 per cent and 4.1 per cent respectively.

The bifurcation of the factors leading to primary deficit or surplus of the State reveals that except during 2002-04 the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to

meet the primary expenditure requirement in the revenue account during 2004-08. But the surplus non-debt receipts were not enough to meet the expenditure requirement under capital account during 2004-05, 2005-06 and 2007-08 which resulted in primary deficit. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which to some extent may be desirable to improve the productive capacity of the State's economy.

**Table 1.32: Primary deficit/Surplus – Bifurcation of factors**

(Rupees in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary <sup>@</sup> Expenditure	Non-debt receipts vis-à-vis Primary Revenue Expenditure	Primary deficit (-)/surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2002-03	10,715	11,809	699	250	12,758	(-) 1,094	(-) 2,043
2003-04	11,888	12,167	640	1,292	14,099	(-) 279	(-) 2,211
2004-05	13,595	13,556	682	196	14,434	(+) 39	(-) 839
2005-06	15,347	14,625	817	287	15,729	(+) 722	(-) 382
2006-07	18,255	16,635	903	349	17,887	(+) 1,620	(+) 368
2007-08	21,160	20,562	1,475	893	22,930	(+) 598	(-) 1,770

### 1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-1.33** below presents a summarized position of Government finances over 2002-08, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

**Table-1.33: Indicators of Fiscal Health**

(in per cent)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Resource Mobilisation</b>						
Revenue Receipts/GSDP	12.3	12.3	12.6	12.9	13.7	14.2
Revenue Buoyancy	1.5	1.0	1.2	1.2	1.6	1.4
Own tax/GSDP	8.5	8.4	8.4	8.2	9.0	9.2
Own taxes Buoyancy	2.0	1.0	0.9	0.8	1.9	1.2
<b>Expenditure Management</b>						
Total Expenditure (TE)/GSDP	18.2	18.2	16.9	16.4	16.6	18.4
Revenue Receipts (RR)/ TE	67.7	67.8	74.8	78.3	82.4	77.4
Revenue Expenditure (RE)/TE	94.0	88.9	95.1	94.3	94.3	91.3
Plan Expenditure/TE	25.3	17.9	21.9	22.0	15.6	16.7
Capital Expenditure/TE	4.5	3.7	3.8	4.2	4.1	5.4
Development Expenditure/TE	55.3	49.5	54.4	53.3	45.5	44.1
Buoyancy of TE with RR	1.5	1.0	0.3	0.6	0.7	1.5
Buoyancy of RE with RR	1.5	0.5	0.8	0.5	0.7	1.2
<b>Management of Fiscal Imbalances</b>						
Revenue Deficit (Rs in crore)	(-) 4,122	(-) 3,680	(-) 3,669	(-) 3,129	(-) 2,638	(-) 3,785
Fiscal Deficit (Rs in crore)	(-) 4,990	(-) 5,539	(-) 4,452	(-) 4,181	(-) 3,822	(-) 6,100
Primary Deficit (Rs in crore)	(-) 2,043	(-) 2,211	(-) 839	(-) 382	(+) 368	(-) 1,770
Revenue Deficit/Fiscal Deficit	82.6	66.4	82.4	74.8	69	62
<b>Management of Fiscal Liabilities</b>						
Fiscal Liabilities (FL)/GSDP	39.2	40.9	40.8	40.2	39.3	39.1
Fiscal Liabilities/RR	317.6	332.0	323.6	312.7	286.8	275.3
Buoyancy of FL with RR	0.9	1.5	0.8	0.7	0.5	0.7

<sup>@</sup> Primary expenditure of the State is defined as the total expenditure net of the interest payments and indicates expenditure incurred on the transactions undertaken during the year.

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Buoyancy of FL with Own Resources	0.7	1.4	1.1	1.0	0.5	0.7
Interest spread	2.1	2.2	2.8	2.9	3.1	4.0
Net Funds Available	10.6	10.6	7.0	3.8	0.9	8.3
Return on Investment	0.5	0.9	1.3	0.8	1.3	1.2
Balance from Current Revenue (BCR) (Rs in crore)	(-) 1,811	(-) 1,983	(-) 1,496	(-) 575	(-) 1,332	(-) 2,713
Financial Assets/Liabilities	0.4	0.4	0.4	0.4	0.4	0.4

The trends in ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy and accessibility of State to resources. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP during the current year was 14.2 *per cent*, an increase of a half percentage point over the previous year. During 2002-08, the ratio of own taxes to GSDP hovered within the narrow range of 8.2 and 9.2 *per cent*. The ratio at 9.2 *per cent* in 2007-08 is marginally higher than the budget estimate of 8.9 *per cent* for the year.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and its sustainability in relation to its resource mobilisation efforts. The revenue expenditure as a percentage to total expenditure remained dominant and stable at 94.3 *per cent* during 2005-07, but declined to 91.3 *per cent* in 2007-08. The ratio of capital expenditure to total expenditure as well as to GSDP remained relatively lower during all the years 2002-08. Declining trends in both developmental and plan expenditure as against the dominant and increasing ratio of non-plan expenditure seems to be a serious concern and need attention. Increasing reliance on revenue receipts to finance the total expenditure which amounts to 77 *per cent* during 2007-08 indicates decreasing dependence on borrowed funds. This is also reflected by the decreasing ratio of fiscal liabilities to revenue receipts. But the negligible return on the Government investment and low productivity of capital expenditure continued to be a cause of concern which if continued would not only put strain on the Government budget but may also adversely affect the maintenance, upkeep and efficiency in delivery of social and economic services in the State.

The increase in both revenue and fiscal deficits during 2007-08 indicates deterioration in fiscal position of the State. The consistent negative Balance from Current Revenue (BCR) and deterioration in 2007-08 over previous year reflects that the domestic resources are not available for creation of assets and to meet State plan expenditure requirements. During the period (2002-08), only 40 *per cent* fiscal liabilities of the State have the asset back up reflecting relatively poor assets-liabilities ratio in the State.

### **1.11 Conclusion**

The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit – indicated a marked deterioration in 2007-08 relative to the previous year. The State has failed to achieve the revenue and fiscal deficits targets relative to GSDP laid down under the Rules

framed under the Kerala Fiscal Responsibility Act. The deterioration was, however, observed to be on account of steep increase in Non-plan revenue expenditure as well as increase in both capital expenditure and disbursement of loans and advances relative to the previous year. The increase in NPRE was primarily due to the revision of salaries and pensions on recommendation of the State Pay Commission and enhanced transfers to local bodies on the recommendations of the Third State Finance Commission. The expenditure pattern of the State thus reveals that the revenue expenditure as a percentage to total expenditure ranged between 91 to 94 *per cent* during the period 2006-08 leaving inadequate resources for expansion of services and creation of assets as a result of which only 40 *per cent* of fiscal liabilities of the State has asset backup during the same period. The NPRE component of revenue expenditure at Rs 22,615 crore during 2007-08 exceeded the normative projection of the Twelfth Finance Commission for the State (Rs 19,158 crore). Moreover, within the non-plan revenue expenditure, four components – salary expenditure, pension liabilities, interest payments and subsidies – constitute about 75 *per cent* of NPRE during 2007-08. The continued prevalence of revenue and fiscal deficits indicate the increasing reliance on the borrowed funds, a substantial part of which is being used to meet the current expenditure requirements of the State Government. The increasing fiscal liabilities accompanied with negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances may lead to a situation of unsustainable debt situation in medium to long run unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilise the additional resources both through the tax and non-tax sources in ensuing years.