CHAPTER I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This chapter discusses the financial position of the State Government, based on the analysis of the information contained in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of the State Government. In addition, the chapter also contains a section on the analysis of indicators of financial performance of the Government, based on certain ratios and indices developed on the basis of the information contained in the Finance Accounts and other information furnished by the State Government. Some of the terms used in this chapter are described in Appendix I.

1.2 Financial position of the State

In the Government accounting system, comprehensive accounting of the fixed assets like land and buildings etc., 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 by the Government. *Exhibit I* gives an abstract of such liabilities and the assets as on 31 March 2001 compared with the corresponding position on 31 March 2000. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. It would be seen from *Exhibit* I that while the liabilities grew by 18 *per cent*, the assets increased by only 7 *per cent* during 2000-01, mainly as a result of high (30 *per cent*) growth in the deficit on the Government account. This shows that deterioration in the already worsening financial health of the Government continued during the year without any abatement.

EXHIBIT – I
SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF KERALA AS ON 31 MARCH 2001

(Rupees in crore)

As on 31 March 2000	Liabilities	As on 31 March 2001	
5735.61*	**Internal Debt**		**7627.34**
3958.38	Market Loans bearing interest	4498.41	
0.72	Market Loans not bearing interest	1.86	
580.93	Loans from Life Insurance Corporation of India	884.83	
578.42	Loans from other Institutions	645.35	
571.37*	Special securities issued to National Small Savings Fund of the Central Government	1011.52	
45.79	Ways and Means Advances from Reserve Bank of India excluding Overdrafts	228.28	
Nil	Overdrafts from Reserve Bank of India	357.09	
5902.79*	**Loans and Advances from Central Government**		**6101.89**
273.46	Pre – 1984-85 Loans	243.70	
2312.86	Non-Plan Loans	2256.31	
3260.96	Loans for State Plan Schemes	3543.19	
15.39	Loans for Central Plan Schemes	15.41	
40.12	Loans for Centrally Sponsored Plan Schemes	43.28	
25.00	**Contingency Fund**		**25.00**
8537.66	**Small Savings, Provident Funds, etc.**		**10189.75**
128.65	**Shortfall with Reserve Bank Deposits**		**15.14**
1428.11	**Deposits**		**1718.16**
71.66	**Reserve Funds**		**84.34**
21829.48	**Total**		**25761.62**
As on 31 March 2000	**Assets**	**As on 31 March 2001**	
7357.66	**Gross Capital Outlay on Fixed Assets –**		**7934.86**
1775.43	Investments in share of Companies, Corporation, etc.	1892.22	
5582.23	Other Capital Outlay	6042.64	
3391.04	**Loans and Advances –**		**3544.58**
1242.18	Loans for Power Projects	1267.18	
1946.47	Other Development Loans	2044.11	
202.39	Loans to Government servants and Miscellaneous loans	233.29	
4.56	**Reserve Fund Investments**		**4.56**
2.82	**Advances**		**2.98**
256.75	**Suspense and Miscellaneous Balances**		**312.66**
324.12	**Remittance Balances**		**315.19**
28.50	**Cash-**		**35.70**
15.04	Cash in Treasuries and Local Remittances	21.21	
0.73	Departmental Cash Balance	1.84	
0.20	Permanent Advances	0.20	
12.53	Cash Balance Investments	12.45	
10464.03	**Deficit on Government Accounts –**		**13611.09**
3624.21	(i) Revenue Deficit of the Current year	3147.06	
2.05	(ii) Less: Miscellaneous Capital Receipts	--	
6841.87	Accumulated deficit upto previous year	10464.03	
21829.48	**Total**		**25761.62**

* These balances differ from those in the previous 'Report' due to *pro forma* corrections consequent on opening of a new head of account 'Special Securities issued to National Small Savings Fund of the Central Government' under 'Internal Debt' to accommodate the 'Share of Small Savings Collection' from 1 April 1999.

EXHIBIT II
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2000-01

(Rupees in crore)

Receipts				Disbursements					
1999-2000			2000-01	1999-2000					2000-01
	Section – A: Revenue					**Non-Plan**	**Plan**	**Total**	
7941.75	**1.Revenue Receipts**		**8730.85**	**11565.96**	**1. Revenue Expenditure**	**9937.42**	**1940.49**	**11877.91**	**11877.91**
5193.50	Tax Revenue	5870.25		**4977.05**	**General Services**	**5450.62**	**5.79**	**5456.41**	
530.72	Non-Tax Revenue	659.09		**4206.37**	**Social Services**	**3466.81**	**721.56**	**4188.37**	
1535.22	State's share of Union Taxes and Duties	1585.61		2609.49	Education, Sports, Art and Culture	2479.29	140.94	2620.23	
181.29	Non-plan Grants	118.18		688.04	Health and Family Welfare	543.16	130.73	673.89	
227.23	Grants for State Plan Schemes	220.29		375.16	Water Supply, Sanitation, Housing and Urban Development	70.91	250.79	321.70	
222.43	Grants for Central Plan and Centrally Sponsored Plan Schemes	236.64		10.02	Information and Broadcasting	6.17	3.40	9.57	
51.36	Grants for special plan schemes	40.79		196.01	Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	71.45	120.15	191.60	
				87.77	Labour and Labour Welfare	84.12	4.38	88.50	
				228.80	Social Welfare and Nutrition	200.25	71.17	271.42	
				11.08	Others	11.46	--	11.46	
				2303.87	**Economic Services:**	**964.95**	**1213.14**	**2178.09**	
				768.48	Agriculture and allied activities	459.36	268.81	728.17	
				867.13	Rural Development	71.76	731.79	803.55	
				12.61	Special Areas Programmes	--	11.33	11.33	
				152.09	Irrigation and Flood control	84.92	63.37	148.29	
				1.28	Energy	0.04	1.58	1.62	
				129.10	Industry and Minerals	39.49	50.35	89.84	
				265.65	Transport	254.06	25.75	279.81	
				15.44	Science, Technology and Environment	2.32	11.22	13.54	
				92.09	General Economic Services	53.00	48.94	101.94	
				78.67	**Grants-in-aid and Contributions**	**55.04**	**..**	**55.04**	
3624.21	**II. Revenue Deficit carried over to Section B**		**3147.06**						
11565.96	**Total - Section A**		**11877.91**	**11565.96**					**11877.91**
	Section B:								
(-)2.03	**III. Opening Cash Balance including Permanent Advances and Cash Balance Investment**		**(-) 100.15**		**III. Opening Overdraft from RBI**				**Nil**
2.05	**IV. Miscellaneous Capital Receipts**		**--**	**648.18**	**IV. Capital Outlay**	**(-) 3.82**	**581.02**	**577.20**	**577.20**
				47.27	**General services:**	**1.92**	**37.51**	**39.43**	
				65.94	**Social Services:**	**(-) 0.42**	**57.97**	**57.55**	
				16.16	Education, Sports, Art and Culture	--	15.29	15.29	
				23.03	Health and Family Welfare	--	16.79	16.79	
				7.97	Water Supply, Sanitation, Housing and Urban Development	(-) 0.42*	5.80	5.38	
				..	Information and Broadcasting	--	--	--	
				17.85	Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	--	18.92	18.92	
				0.85	Social Welfare and Nutrition	--	1.10	1.10	
				..	Labour and Labour Welfare	--	--	--	
				0.08	Others	...	0.07	0.07	
				534.97	**Economic Services:**	**(-) 5.32**	**485.54**	**480.22**	
				60.26	Agriculture and allied activities	(-) 5.58*	49.80	44.22	
				..	Rural Development	--	--	--	
				..	Special Areas Programmes	--	--	--	
				169.57	Irrigation and Flood control	--	154.51	154.51	
				..	Energy	--	--	--	
				68.79	Industry and Minerals	--	58.20	58.20	
				222.86	Transport	0.24	181.89	182.13	
				13.49	General Economic Services	0.02	41.14	41.16	

* Minus expenditure is due to receipts and recoveries on capital account more than the debit for the year.

Receipts				Disbursements			
1999-2000			2000-01	1999-2000			2000-01
52.41	**V.Recoveries of Loans and Advances**		**117.14**	**316.63**	**V. Loans and Advances Disbursed**		**270.68**
..	From Power Projects	0.01		44.45	For Power Projects	25.01	
28.59	From Government Servants	37.53		77.59	To Government Servants	68.40	
23.82	From Others	79.60		194.59	To Others	177.27	
	VI. Revenue Surplus brought down		--	**3624.21**	**VI. Revenue Deficit brought down**		**3147.06**
2013.50	**VII. Public Debt Receipts**		**2156.58**	**447.60**	**VII. Repayment of Public Debt**		**422.84**
940.54	Internal Debt other than Ways and Means Advances and Overdraft	1490.98		122.64	Internal Debt other than Ways and Means Advances and Overdraft	138.83	
	Net transactions under Ways and Means Advances excluding overdraft	182.49*		78.02	Net transactions under Ways and Means Advances excluding overdraft	--	
1072.96	Loans and Advances from Central Government	483.11		246.94	Repayment of Loans and Advances to Central Government	284.01	
	VIII. Appropriation from the Consolidated Fund		--		**VIII. Appropriation to Contingency Fund**		--
0.16	IX. Amount transferred to Contingency Fund		--		IX. Expenditure from Contingency Fund		--
20662.30	**X. Public Account Receipts**		**21126.09**	**17791.92**	**X. Public Account Disbursements**		**19218.41**
8768.99	Small Savings and Provident Funds	8018.06		5859.11	Small Savings and Provident Funds	6365.97	
69.65	Reserve Funds	30.49		65.57	Reserve Funds	17.81	
4065.44	Deposits and Advances	3736.44		4236.49	Deposits and Advances	3446.55	
4318.71	Suspense and Miscellaneous	5911.74		4220.31	Suspense and Miscellaneous	5967.65	
3439.51	Remittances	3429.36		3410.44	Remittances	3420.43	
	XI.- Closing Overdraft from Reserve Bank of India		**357.09@**	**(-) 100.15**	**XI. Cash Balance at end**		**20.56**
				15.04	Cash in Treasuries and Local Remittances	21.21	
				(-) 128.65	Deposits with Reserve Bank	(-) 15.14	
				0.93	Departmental Cash Balance including Permanent Advances	2.04	
				12.53	Cash Balance Investment	12.45	
22728.39	**Total – Section B**		**23656.75**	**22728.39**	**Total**		**23656.75**

* Represents receipts : Rs 1978.25 crore and disbursements: Rs 1795.76 crore

@ Overdraft obtained: Rs 3506.13 crore and Overdraft repaid: Rs 3149.04 crore

EXHIBIT III
SOURCES AND APPLICATION OF FUNDS

(Rupees in crore)

1999-2000	Sources		2000-01
7941.75	**1. Revenue receipts**		**8730.85**
52.41	**2. Recoveries of Loans and Advances**		**117.14**
1565.90	**3. Increase in Public debt other than overdraft**		**1733.74**
2.05	**4. Miscellaneous Capital Receipts**		**--**
2870.38	**5. Net receipts from Public account**		**1907.68**
2909.88	Increase in Small Savings, Provident Funds, etc.	1652.09	
(-) 171.05	Increase (+)/Decrease(-) in Deposits and Advances	(+) 289.89	
(+) 4.08	Increase (+)/Decrease(-) in Reserve Funds	(+) 12.68	
(+) 98.40	Net effect of Suspense and Miscellaneous transactions	(-) 55.91	
(+) 29.07	Net effect of Remittance transactions	(+) 8.93	
--	**6. Increase in overdraft**		**357.09**
0.16	**7. Net effect of Contingency Fund transactions**		**--**
98.12	**8. Decrease in closing cash balance**		**--**
12530.77	**Total**		**12846.50**
	Application		
11565.96	**1. Revenue expenditure**		**11877.91**
316.63	**2. Lending for development and other purposes**		**270.68**
648.18	**3. Capital expenditure**		**577.20**
	4. Increase in closing cash balance		**120.71**
12530.77	**Total**		**12846.50**

Explanatory Notes for Exhibits I, II and III:

1. The abridged accounts in the foregoing statements have to be read with comments and explanations in the Finance Accounts.

2. Government accounts being mainly on cash basis, the deficit on Government account, as shown in *Exhibit I*, indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable, depreciation or variation in stock figures, etc., do not figure in the accounts.

3. Suspense and Miscellaneous balances include cheques issued but not paid, payment made on behalf of the State and others pending settlement, etc.

4. There was a difference of Rs 64.72 lakh (net credit) between the figures reflected in the accounts and that intimated by the Reserve Bank of India under "Deposit with Reserve Bank". Only Rs 0.02 lakh had been cleared (September 2001).

EXHIBIT IV

TIME SERIES DATA ON STATE GOVERNMENT FINANCES

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-01
Part A. Receipts					
1. Revenue Receipts	**6145**	**7118**	**7198**	**7942**	**8731**
(i) Tax Revenue	***3898 (63)***	***4501 (63)***	***4650 (65)***	***5194 (65)***	***5870(67)***
Taxes on Agricultural Income	12 (#)	21 (#)	27(01)	14 (#)	4 (#)
Taxes on Sales, Trade, etc.	2772(71)	3084(69)	3367(72)	3854(74)	4344(74)
State Excise	419(11)	544(12)	530(11)	591(11)	689(11)
Taxes on Vehicles	248(06)	302(07)	323(07)	381(07)	395(07)
Stamps and Registration fees	360(09)	331(07)	301(07)	280(06)	341(06)
Land Revenue	22(01)	24(01)	33(01)	35(01)	39(01)
Other Taxes	65(02)	195(04)	69(01)	39(01)	58(01)
(ii) Non Tax Revenue	***514(08)***	***552(08)***	***558(08)***	***531(07)***	***659(08)***
(iii)State's share in Union taxes and duties	***1243(20)***	***1272(18)***	***1382(19)***	***1535(19)***	***1586(18)***
(iv) Grants in aid from GOI	***490(09)***	***793 (11)***	***608(08)***	***682(09)***	***616(07)***
2. Miscellaneous Capital Receipts	**..**	**06**	**02**	**02**	**--**
3. Total revenue and Non debt capital receipts (1+2)	**6145**	**7124**	**7200**	**7944**	**8731**
4. Recovery of Loans and Advances	**64**	**36**	**67**	**53**	**117**
5. Public Debt Receipts	**1050**	**1242**	**1830**	**2014**	**2156**
Internal Debt (excluding Ways & Means Advances and Overdraft)	510	675	837	941	1491
Net transactions under Ways and Means Advances and Overdraft	..	..	124	..	182
Loans and advances from Government of India@	540	567	869	1073	483
6. Total receipts in the Consolidated Fund (3+4+5)	**7259**	**8402**	**9097**	**10011**	**11004**
7. Contingency Fund Receipts Δ	**(-) 22.78**	**35.28**	**(-) 24.68**	**0.16**	**--**
8. Public Account receipts	**8425**	**10803**	**14563**	**20662**	**21126**
9. Total receipts of State (6+7+8)	**15662**	**19240**	**23636**	**30673**	**32130**
Part B. Expenditure/Disbursement					
10. Revenue Expenditure	**6788 (88)**	**8241(86)**	**9228 (90)**	**11566(92)**	**11878(93)**
Plan	*1233(18)*	*1787(22)*	*2111 (23)*	*2056(18)*	*1941(16)*
Non Plan	*5555(82)*	*6454 (78)*	*7117(77)*	*9510 (82)*	*9937(84)*
General Services (incl. Interest payment)	2624(39)	3081 (37)	3536 (38)	4977(43)	5457(46)
Social Services	2691(40)	3083 (37)	3349(36)	4206(36)	4188(35)
Economic Services	1357(20)	1948 (24)	2293(25)	2304(20)	2178(18)
Grants-in-aid and Contributions	116(01)	129(02)	50(01)	79(01)	55(01)
11. Capital Expenditure	**623 (08)**	**739 (08)**	**652 (06)**	**648 (05)**	**577(05)**
Plan	*625(100)*	*750(101)*	*661(101)*	*644(99)*	*581(101)*
Non Plan	*(-) 02(--)*	*(-) 11(-1)*	*(-) 09(-1)*	*04(01)*	*(-) 04 (-01)*
General Services	32(05)	54(07)	55(09)	47(07)	39(07)
Social Services	84(14)	79(11)	80(12)	66(10)	58(10)
Economic Services	507(81)	606(82)	517(79)	535(83)	480(83)
12. Disbursement of Loans and Advances	**341(04)**	**588(06)**	**397(04)**	**317(03)**	**271(02)**
13. Total (10+11+12)	**7752**	**9568**	**10277**	**12531**	**12726**

insignificant.

@ Includes Ways and Means Advances from GOI.

Δ Minus figures due to lapsing of Ordinances which were issued in the previous financial year to augment the corpus.

	1996-97	1997-98	1998-99	1999-2000	2000-01
14.Repayment of Public Debt	**191**	**249**	**334**	**448**	**423**
Internal Debt (excluding Ways and Means Advances and Overdrafts)	25	60	122	123	139
Net transactions under Ways and Means Advances and Overdrafts	..	..	..	78	--
Loans and Advances from Government of India@	166	189	212	247	284
15. Appropriation to Contingency Fund Δ	**(-) 25**	**25**	**(-) 25**	**..**	**--**
16. Total disbursement out of Consolidated Fund (13+14+15)	**7918**	**9842**	**10586**	**12979**	**13149**
17.Contingency Fund disbursements	**10.28**	**0.32**	**0.16**	**..**	**--**
18. Public Account disbursements	**7712**	**9683**	**13293**	**17792**	**19218**
19. Total disbursement by the State (16+17+18)	**15640**	**19525**	**23879**	**30771**	**32367**
Part C. Deficits					
20. Revenue Deficit (1-10)	**643**	**1123**	**2030**	**3624**	**3147**
21. Fiscal Deficit (3+4-13)	**1542**	**2408**	**3010**	**4534**	**3878**
22. Primary Deficit (21-23)	**439**	**1122**	**1564**	**2582**	**1620**
Part D. Other data					
23. Interest Payments (included in revenue expenditure)	**1103**	**1286**	**1446**	**1952**	**2258**
24. Arrears of Revenue✧ (Percentage of Tax & non -Tax Revenue Receipts)	253 (6)	477 (9)	463 (9)	578 (10)	978(15)
25. Financial Assistance to local bodies, etc.	1994	3013	3158	3404	3262
26. Ways & Means Advances/Overdrafts availed (days)	7	41	207	289	363
27. Interest on WMA/Overdraft	0.13	0.31	2.34	5.74	12.97
28. Gross State Domestic Product (GSDP) at current prices	44460	49484	56247*	64799*	75470*
29. Outstanding Debt (year end)	7583	8576	10073	11638	13729
30. Outstanding guarantees (year end)	1949	4091$	5113	7952	9553
31. Maximum amount guaranteed (year end)	5868	6657	9078	11432	12798
32. Number of incomplete projects		43	34	55	104
33. Capital blocked in incomplete projects#		1332	1252	1603	1743

Note: Figures in brackets represents percentages (rounded) to total of each sub-heading.

@ Includes Ways and Means Advances from GOI.

Δ Minus figures due to lapsing of Ordinances which were issued in the previous financial year to augment the corpus.

✧ Source: Paragraph 1.4 of Audit Report (Revenue Receipts) of respective years.

* Figures for 1998-99 and 1999-2000 differ from those in the previous Report consequent on revised figures intimated (November 2001) by the Directorate of Economics and Statistics. The figures for 1999-2000 are provisional and for 2000-01 quick estimates.

$ The figure will differ from Finance Accounts figure, as Rs 799 crore related to 1997-98 could not be included in accounts for want of details.

\# Represents progressive amount blocked in incomplete projects/works at the end of the year based on figures collected from departmental heads.

1.3 Financial operations of the State Government

1.3.1. *Exhibit II* gives the details of the receipts and disbursements made by the State Government. Like previous years, the Revenue expenditure during the year (Rs 11877.91 crore) outpaced the revenue receipts (Rs 8730.85 crore) resulting in revenue deficit of Rs 3147.06 crore. The Revenue receipts comprised tax revenue (Rs 5870.25 crore), non-tax revenue (Rs 659.09 crore), State's share of Union taxes and duties (Rs 1585.61 crore) and grants-in-aid from the Central Government (Rs 615.90 crore). The major constituents of tax revenue were Sales Tax (74 *per cent*), State Excise (11 *per cent*) and Taxes on Vehicles (7 *per cent*). The main source of non-tax revenue continued to be 'State Lotteries' (20 *per cent*) and 'Forestry' (21 *per cent*).

1.3.2 The capital receipts comprised mainly receipts from public debt (Rs 7458.47 crore). Most of the expenditure on capital account was on repayment of public debt (Rs 5367.64 crore). Expenditure on capital outlay and disbursement of loans and advances were Rs 577.20 crore and Rs 270.68 crore respectively. The gross receipts and disbursements in the Public Account were Rs 21126.09 crore and Rs 19218.41 crore respectively. The net effect of the transactions in the Consolidated Fund, Contingency Fund and Public Account was increase in the cash balance from *minus* Rs 100.15 crore to Rs 20.56 crore at the end of the year.

1.3.3 The financial operations of the State Government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in *Exhibit II* and the time series data for the five year period from 1996-97 to 2000-01 given in *Exhibit IV*.

1.4 Sources and application of funds

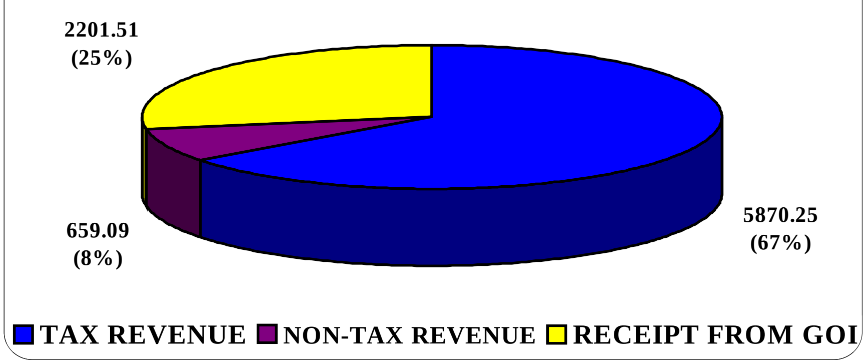
1.4.1 *Exhibit III* gives the position of sources and application of funds during the current and the preceding years. The main sources of funds include the revenue receipts of the Government, capital receipts like recoveries of the loans and advances, public debt and the receipts in the Public Account. These were applied mainly on revenue and capital expenditure and the lending for developmental purposes. Revenue receipts constituted the most important source of fund for the State Government. Its share increased to 67.96 per *cent* during 2000-01 compared to 63.38 *per cent* in 1999-2000. However, the net receipts from the Public Account came down from 22.91 *per cent* in 1999-2000 to 14.85 *per cent* in 2000-01 mainly due to huge drop in receipts and substantial outgo under Small Savings, Provident Funds, etc. compared to previous year. The share of public debt in total receipts went up marginally from 12.5 *per cent* to 13.5 *per cent*.

1.4.2 Funds were applied mainly on revenue expenditure which was 92.5 *per cent* in 2000-01 compared to 92.3 *per cent* in 1999-2000. This led to the revenue deficit. Share of capital expenditure declined during the year from 5.17 *per cent* in 1999-2000 to 4.49 *per cent* of total expenditure in 2000-01. Lending for development purposes also declined from 2.53 *per cent* of total expenditure in 1999-2000 to 2.11 *per cent*. As a result there was no improvement in the rate of growth in assets which remained at 7 *per cent* as that of the previous year.

1.5 Revenue receipts

1.5.1 The revenue receipts consist mainly of tax and non-tax revenues and receipts from Government of India (GOI). While the revenue receipts grew at an average annual rate of 15 *per cent* during 1996-97 and 1997-98, it plunged to one *per cent* in 1998-99. The rate of growth picked up during 1999-2000 and 2000-01 at 10 *per cent* but it is still much lower than the growth rate achieved during 1996-98. The relative share of the three main components of revenue receipts during 2000-01 are shown in the figure – I.

Figure 1
Revenue Receipts (Rupees in crore)



1.5.2 Tax Revenue

Tax revenues constituted the major share (67 *per cent*) of the revenue receipts. During 2000-01, the rate of growth of tax revenue was 13 *per cent* compared to growth of 12 *per cent* in the previous year and that of 15 *per cent* each during 1996-97 and 1997-98. The slight improvement in tax collection during 2000-01 was attributable mainly to increase in collection of Sales Tax (13 *per cent*), State Excise (17 *per cent*) and Stamps and Registration (22 *per cent*) compared to previous year.

Though tax collection by the State improved compared to the previous year, there was heavy shortfall in State's share of Central taxes and duties persistently during 1998-99 to 2000-01. As against the estimated State's share of Rs 2150.19 crore, actual receipts amounted to Rs 1585.61 crore only during the Report year (variation being 26 *per cent*), such shortfall during 1998-99 and 1999-2000 was 27 *per cent* and 23 *per cent* respectively. The wide variation between Budget Estimates and actual receipts of State's share indicated poor tax collection by the Centre. Consequently, the State's fiscal problems got accentuated as its budget proposals were based on estimates of State's share of Central revenue which did not materialise.

Though additional resource mobilisation amounting to Rs 144 crore was anticipated by Government, the actual increase was Rs 74.78 crore (52 *per cent*) only.

1.5.3 Non-tax Revenue

During the past five years the share of non-tax revenue in the total revenues remained stationary at 8 *per cent* except in 1999-2000 when it was 7 *per cent*.

1.5.4 State's share of Union taxes and duties and grants-in-aid from the Central Government

Share of receipts from GOI declined to 25 *per cent* in 2000-01 compared to 28 *per cent* in 1999-2000. Though State's share of union taxes and duties increased marginally by 3 *per cent* during 2000-01 compared to previous year, grants-in-aid from the Central Government showed a negative growth rate of 10 *per cent*. The deceleration in growth rate was due to less contribution to Calamity Relief Fund by GOI (Rs 30.70 crore), less receipt of grants for Other Administrative Services (Rs 36.40 crore) and other grants for University and Higher Education (Rs 25.30 crore).

1.6 Revenue expenditure

1.6.1 Revenue expenditure accounted for most (93 *per cent*) of total expenditure* of State Government and grew during 2000-01 by 3 *per cent* compared to growth of 25 *per cent* in the previous year. The increase in the revenue expenditure was mainly on account of 'Interest payment' (Rs 305.33 crore) and on Pension and Other Retirement Benefits (Rs 121.19 crore). However, the slowing growth in revenue expenditure was achieved mainly by restrictions imposed on treasury payments (except for inevitable payments like salaries, pensions, decretal payments, etc.). Due to such restrictions on payments significant amounts under various grants** were not spent viz. Panchayat (Rs 265.13 crore), Education, Art and Culture (Rs 189.92 crore), Co-operation (Rs 55.82 crore), Urban Development (Rs 49.56 crore), Labour and Labour Welfare (Rs 45.20 crore), Forest (Rs 42.68 crore) and Industries (Rs 21.35 crore). Further there was reduction in assistance given to local bodies and others during the year (Rs 3261.55 crore) compared to previous year (Rs 3413.97 crore) due to non-release of the last instalment of assistance for 'People's Plan Campaign' consequent on shortfall in utilisation of previous instalments.

The share of plan expenditure in the revenue expenditure declined to 16 *per cent* in 2000-01 from 18 *per cent* in 1999-2000, while the share of Non-plan revenue expenditure increased from 82 *per cent* in 1999-2000 to 84 *per cent* during the year. Of the non-plan revenue expenditure salaries constituted 40 *per cent* (Rs 3969 crore) and interest payment 23 *per cent* (Rs 2258 crore) during 2000-01.

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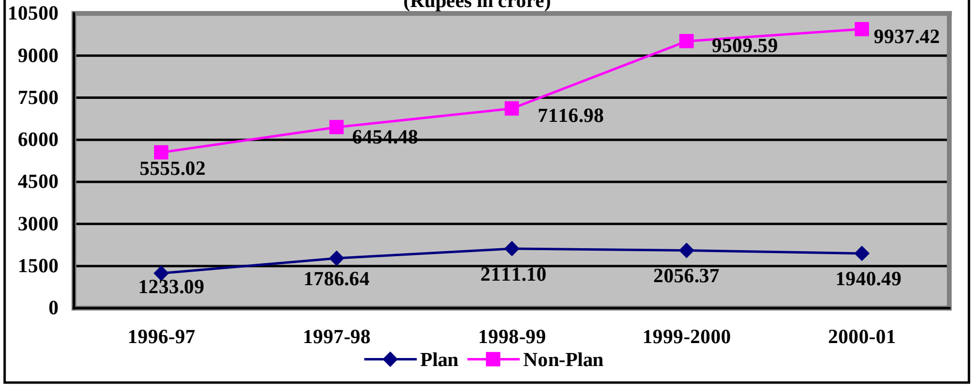
* Total expenditure represents total of Revenue and Capital expenditure (including loans and advances).

** Source: Appropriation Accounts 2000-01.

Figure 2
Growth of Plan and Non-Plan Revenue Expenditure
(Rupees in crore)



1.6.2 Sector-wise analysis shows that the share of 'Economic Services' declined to 18 *per cent* from 20 *per cent* in 1999-2000 whereas that of General Services increased to 46 *per cent* from 43 *per cent* in 1999-2000. The decrease in expenditure on Economic Services was mainly due to less expenditure on Agriculture and allied service and on other Rural Development Programmes. The increase in General Services was due to more expenditure towards Pension and Retirement payments and interest payments. Share of Social Services also decreased to 35 *per cent* from 36 *per cent* in the previous year.

1.6.3 Interest payments

Interest payments increased steeply by 105 *per cent* from Rs 1103.41 crore in 1996-97 to Rs 2257.60 crore in 2000-01. While the interest burden grew at an average annual rate of 15 *per cent* in the three years up to 1998-99, it shot up by 35 *per cent* in 1999-2000. During 2000-01, the rate of growth, however, declined to 16 *per cent*. The interest outgo on Small Savings, Provident Funds, etc. and Internal Debt went up by 167 *per cent* and 135 *per cent* respectively during 1996-2001 as indicated below:

	1996-97	**2000-01**	**Growth and its percentage in brackets**
	(Rupees in crore)		
Small Savings, Provident Funds, etc.	291.06	777.62	486.56 (167)
Internal Debt	318.08	747.71	429.63 (135)

Implication of rising interest payment is discussed in the section on financial indicators *vide* sub para 1.11.3 (ii).

1.6.4 Financial assistance to local bodies and other institutions

The quantum of assistance provided to different local bodies etc., during the period of five years ending 2000-01 was as follows:

(Rupees in crore)

Name of institution/groups	1996-97	1997-98	1998-99	1999-2000	2000-01
Educational institutions (Aided schools, Private colleges, Universities, etc).	984.07	1058.58	1195.01	1603.88	1619.77
Panchayat Raj Institutions	412.38	982.03	1135.51	1021.14	948.74
Municipalities, Corporations, etc	117.24	165.13	174.27	165.94	146.82
Development Agencies	36.19	33.60	34.42	37.40	43.96
Hospitals, Charitable institutions, etc	8.07	7.07	5.30	20.32	19.17
Other institutions	436.37	766.88	613.75	565.27	483.09
Total assistance paid	**1994.32**	**3013.29**#	**3158.26**	**3413.97**	**3261.55**
Percentage of growth over previous year	30	51	5	8	(-) 4
Assistance as a percentage of revenue expenditure	29	31	34	29	27

1.6.5 Loans and Advances by the State Government

The Government gives loans and advances to Government companies, corporations, local bodies, autonomous bodies, co-operatives, non-Government institutions, etc. for developmental and non-developmental activities. The statistical information relating to loans given by the State Government for the last five years as given below indicated that problems of poor return and failure to obtain repayments were not addressed at all and such a slack administration of loans was one of the main reasons for fiscal stress of the Government.

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-01
Opening balance	1973	2249*	2799*	3127*	3391
Amount advanced during the year	341	588	397	317	271
Amount repaid during the year	64	36	67	53	117@
Closing balance	2250	2801	3129	3391	3545
Net addition	277	552	330	264	154
Interest received	17	18	47	20	20

During 1997-2001 the net addition declined to Rs 154 crore from Rs 552 crore while loan repayment remained insignificant.

In respect of loans and advances the detailed accounts of which are maintained by Accountant General (A&E), recovery of Rs 486 crore (principal: Rs 250 crore and interest: Rs 236 crore) was in arrears as on 31 March 2001 from the loanee institutions. The major defaulters were (i) Kerala Water Authority (Rs 367 crore) and (ii) Kerala State Road Transport Corporation (Rs 84 crore). The overdue arrears in repayment of loan and interest relating to local bodies and development authorities amounted to Rs 24 crore (Principal: Rs 12 crore, interest: Rs 12 crore). As the terms and conditions of repayment of loans amounting to Rs 452.96 crore given to Kerala State Electricity Board, Kerala State Road Transport Corporation and Kerala Water

Figures relating to periods since 1997-98 included loan assistance also.

* Differs with the closing balance of the previous year due to *pro forma* corrections carried out during the respective years.

@ Includes Rs 46.92 crore released to KLDC by Government as interest free loan converted as grant-in-aid in February 2001 and Rs 12.25 crore sanctioned to KSRTC as loan converted as grant-in-aid in November 2000.

Authority were not prescribed by Government, the arrears could not be ascertained. Earliest of such loans for which terms and conditions were not prescribed as of March 2001 pertained to 1990-91.

Information furnished by the departments of Agriculture, Fisheries, Social Welfare, Ports, Housing, Food and Industries revealed that outstanding loans pending recovery was Rs 817.79 crore (principal: Rs 335.29 crore, interest: Rs 482.50 crore) as on 31 March 2001. This amount however represents only part of the arrears. Out of 37 departmental officers, who are to maintain the detailed accounts for loans, 19 departmental officers did not furnish the details of overdue arrears (October 2001).

1.7 Capital expenditure

1.7.1 Capital expenditure leads to asset creation. In addition, financial assets arise from moneys invested in institutions or undertakings outside Government i.e. public sector undertakings (PSUs), corporations, etc. and loans and advances.

1.7.2 However, the share of capital expenditure was less than 10 *per cent* of Government expenditure and declined sharply from 8 *per cent* in 1996-97 to 5 *per cent* in 2000-01. Compared to previous year capital expenditure during 2000-01 was down by 11 *per cent*. The low capital expenditure has adverse implications for the State's finances in the long run. This has been further discussed in Para 1.11.

1.8 Quality of expenditure

1.8.1 Government spends money for different activities ranging from maintenance of law and order and regulatory functions to various developmental activities. Government expenditure is broadly classified into Plan and Non-plan and Revenue and Capital. While the Plan and Capital expenditure are usually associated with asset creation, the Non-plan and Revenue expenditure are identified with expenditure on establishment, maintenance and services. By definition, therefore, in general, the Plan and Capital expenditure can be viewed as contribution to the quality of expenditure.

1.8.2 Wasteful public expenditure, diversions of funds and funds blocked in incomplete projects impinge negatively on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account, after booking them as expenditure, can also to be considered as a negative factor in judging the quality of expenditure. As the expenditure was not actually incurred in the concerned year it should be excluded from the figures of expenditure for that year. Another possible indicator is the increase in the expenditure on General services, to the detriment of Economic and Social Services. The following table depicts the trend in these indicators:

	1996-97	1997-98	1998-99	1999-2000	2000-01
1. Of the total Revenue expenditure					
Plan expenditure (*per cent)*	18	22	23	18	16
Non-Plan expenditure (*per cent*)	82	78	77	82	84
2. Of the total Capital expenditure					
Plan expenditure (*per cent)*	100	101*	101*	99	101*
Non-Plan expenditure (*per cent*)	--	(-) 1	(-) 1	1	(-) 1
3. Capital expenditure as a percentage of total expenditure$	8	8	6	5	5
4. Expenditure on General services (*per cent*)					
Revenue	39	37	38	43	46
Capital	5	7	8	7	7
5. Wasteful expenditure and diversion of funds detected during test audit (Rs in crore)	39	217	553	275	461
6. Unremunerative expenditure on incomplete projects (Rs in crore)	N.A.	1332	1252	1603	1743
7. Unspent balances under deposit heads (including treasury public account), booked as expenditure at the time of their transfer to the deposit head (Rs in crore)	487	449	268	232	356@

Huge wastages and diversion of funds and unremunerative expenditure on incomplete projects as well as transfer of unspent balances under Deposit heads contributed to decline in the quality of expenditure during 1996-2001.

1.8.3 The decline in the quality of expenditure has also to be seen in the context of failure to provide for known liabilities in the Budget. The arrears in payment of contractors' bills is a case in point. The liability on contractors' pending bills, accumulated from 1995-96 onwards, amounted to Rs 820 crore[#] as of March 2001 in Public Works, Irrigation, Fisheries, Ports, etc. Departments.

1.9 Financial management

The issue of financial management in the Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent chapters of this report deal extensively with these issues especially as they relate to the expenditure management in the Government, based on the findings of the test audit. Some other parameters, which can be segregated from the accounts and other related financial information of the Government, are discussed in this section.

1.9.1 Investment and return

Investments are made out of the capital outlay by the Government to promote developmental, manufacturing, marketing and social activities. The sector-wise details of investments made and the number of concerns involved were as under:

$ Total expenditure represents total of Revenue and Capital expenditure (including loans and advances).

* Percentage of more than 100 was due to adjustment of minus expenditure in non-plan.

@ Rs 352 crore being balance under PD Account and Rs 4 crore shown in Appendix I of Appropriation Accounts 2000-01.

\# Source: White paper released by Government in June 2001.

(Rupees in crore)

Sector	Number of concerns	Amount invested		Return (percentage)
		As on 31 March 2001	During 2000-01	
(1) Statutory Corporations	4	304.41	17.25	--
(2) Government Companies	94	1162.98	67.09	9.81 (0.84)
(3) Joint Stock Companies	34	8.81	--	0.66 (7.49)
(4) Co-operative Institutions	@	406.89	23.95	0.63 (0.15)
Total		**1883.09**	**108.29**	**11.10 (0.59)**

The returns realised during the last five years by way of dividend and interest were shown below:

Year	Investment at the end of the year *(Rupees in crore)*	Return *(Rupees in crore)*	Percentage of return	Rate of interest on Government borrowing (*per cent*)
1996-97	1266.21	3.90	0.31	13.85 and 13.75
1997-98	1464.23	5.89	0.40	13.05 and 12.30
1998-99	1639.63*	7.08	0.43	12.15 and 12.50
1999-2000	1774.80*	9.95	0.56	11.85 and 12.25
2000-01	1883.09*	11.10	0.59	10.52 and 12

The above table shows that while the Government was borrowing at a high cost from the market, its investments in PSUs etc., yielded negligible returns. As per the accounts rendered for various period from 1982-83 to 2000-01, 3 Statutory Corporations and 57 Government Companies (out of 4 Statutory Corporations and 94 Government Companies) in which Government invested Rs 782.54 crore as of March 2001, were working under loss and the accumulated loss was Rs 2013.09 crore vide Appendix II.

1.9.2 Financial results of irrigation works

The financial results of eight irrigation projects with a cumulative outlay of Rs 119.90 crore at the end of March 2001 showed that revenue realised from these projects during 2000-01 (Rs 1.69 crore) was only 1. 41 *per cent* of total outlay. After reckoning the working and maintenance expenditure (Rs 4.36 crore) and interest charges (Rs 14.81 crore), the schemes suffered a net loss of Rs 17.48 crore (14.58 *per cent* on cumulative expenditure).

1.9.3 Incomplete projects

As of 31 March 2001 there were 104 incomplete projects/works involving Rs 1743 crore including 7 major irrigation projects. The delay in completion of these projects ranged from 1 to 25 years. Out of these, three projects (Kallada, Pazhassi and Kanhirapuzha Irrigation Projects) are languishing since 1961. This showed that the Government was spreading its resources thinly and failed to chalk out a time bound programme to complete the long pending projects.

@ Information not available.

* Excludes Rs 2.13 crore being expenditure (1998-99: Rs 0.13 crore, 1999-2000: Rs 0.50 crore; 2000-01: Rs 1.50 crore) incurred on infrastructure developments for Kannur Airport and Rs 7.00 crore invested in Thiruvananthapuram Airport Development Society in 2000-01.

1.9.4 Arrears of revenue

The arrears of revenue pending collection as on 31 March 2001 based on information furnished by the Departments of Power, Local Fund Audit and Excise was Rs 977.75crore. This figure does not represent the true picture of arrears as the major revenue earning department like Sales Tax did not furnish the information of uncollected revenues for the current year.

1.9.5 Ways and means advances and overdraft

Under an agreement with the Reserve Bank of India, the State Government had to maintain with the Bank a minimum daily cash balance of Rs 166 lakh on all days. If the balance fell below the agreed minimum on any day, the deficiency had to be made good by taking ways and means advances (WMA)/overdraft (OD) from the Bank. In addition, special ways and means advances are also made by the Bank whenever necessary. Recourse to WMA/OD means a mismatch between the receipts and expenditure of the Government and reflects adversely on the financial management in Government.

During 2000-01, ways and means advances (including shortfall) of Rs 1978.25 crore (150 days) and overdraft of Rs 3506.13 crore (213 days) were obtained on which the Government paid interest of Rs 12.97 crore. At the end of the year, ways and means advances (including shortfall) of Rs 228.28 crore and overdraft of Rs 357.09 crore were outstanding. The huge outstanding of Rs 585.37 crore towards ways and means advances and overdrafts and the number of days (363) on which the State had to resort to such recourse is symptomatic of the unsound financial condition of the State which had to resort to extra ordinary measures as mentioned below:

(i) During January – March 2001, the Kerala State Beverages (Manufacturing and Marketing) Corporation Limited raised Rs 300 crore, at the instance of Government, through loans from nationalised banks and deposited in treasury. Only a sum of Rs 250 crore had been repaid by Government as of March 2001. Over and above this, the processing charges (Rs 0.25 crore) and interest charged by the bank (Rs 1.31 crore) on the above loans have yet to be reimbursed (July 2001).

(ii) Apart from this, amounts raised for specific purposes were retained in Government treasury and utilised for replenishing the general cash balance to tide over the difficult ways and means position during the current year as well as the previous year. A few instances are given below:

(a) In 1999, Rs 507 crore was mobilised by floating Investment Bonds under Government guarantee for constituting the Kerala Infrastructure Investment Fund and the funds are retained as part of the Public Account of the State. The bond carries an interest of 13.75 *per cent* per annum with a maturity period of 5 years. No assistance was given for infrastructure project till date (June 2001).

(b) The Co-operative Academy for Professional Education (CAPE) was formed to start new professional colleges in the Co-operative Sector. During

2000-01, Government introduced a new fixed deposit scheme for attracting deposits from Primary Agricultural Credit Societies (PACS) through District Treasuries to mobilise funds to finance the infrastructure creation in CAPE. The deposit would be doubled in a period of 6 ½ years. During the year, a sum of Rs 318 crore was received from PACS. Though Rs 50 crore was sanctioned in February 2001 as grant to the Academy Rs 45 crore was not disbursed due to treasury restrictions.

(c) Over the years 1999 to 2001, Government accepted deposits from 10 District Co-operative Banks at an interest rate of 14 *per cent* to 15 *per cent* per annum. A sum of Rs 505.39 crore was received on this account. The principal as well as the interest amounting to Rs 652 crore has not been repaid as of 31 March 2001.

(iii) It was also noticed that Government loans sanctioned to Public Sector Undertakings were also retained in the latters' treasury savings bank (TSB) accounts without actual release to the loanees. For example, loan of Rs 11.25 crore sanctioned to Kerala State Industrial Development Corporation during 1997-98 to 2000-01 towards share of market borrowings has been retained in their TSB account as of October 2001.

Raising of funds at high rates of interest and their non-productive use created an unjustified extra financial burden on the Government without any corresponding benefit.

1.9.6 Deficit

1.9.6.1 Deficits in Government account is the gap between the receipts and payments. The nature of deficit is an important indicator of the prudence of financial management in the Government. Further, the ways of financing the deficit and the application of the funds raised in this manner, are important pointers of the fiscal prudence of the Government. The discussion in this section relates to three concepts of deficit viz., Revenue Deficit, Fiscal Deficit and Primary Deficit.

1.9.6.2 The Revenue Deficit (RD) is the excess of revenue expenditure over revenue receipts. The Fiscal Deficit (FD) is the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants-in-aid received). Primary Deficit (PD) is Fiscal Deficit less interest payments. Revenue Deficit declined by 13 *per cent* during 2000-01 from that of previous year. *Exhibit V* gives a break-up of the deficit in Government account and how these were financed:

EXHIBIT V
OVER-ALL FINANCIAL TRANSACTIONS OF GOVERNMENT

(Rupees in crore)

CONSOLIDATED FUND				
Receipt	Amount		Disbursement	Amount
Revenue	8730.85	Revenue Deficit: 3147.06	Revenue	11877.91
Miscellaneous capital receipts	--		Capital	577.20
Recovery of loans & advances	117.14		Loans & advances disbursement	270.68
Sub Total	8847.99	Gross fiscal Deficit: 3877.80	Sub Total	12725.79
Public debt	2156.58		Public debt repayment	422.84
Net increase in overdrafts from Reserve Bank of India Total	357.09 11361.66	**A: Deficit in Consolidated Fund: 1786.97**	Total	13148.63
CONTINGENCY FUND				
Amount transferred to Contingency Fund	--	**B: Surplus in Contingency Fund: --**	Expenditure from Contingency Fund	--
PUBLIC ACCOUNT				
Small savings, Provident Funds, etc	8018.06		Small savings, Provident Funds, etc	6365.97
Deposits & advances	3736.44		Deposits & advances	3446.55
Reserve funds	30.49		Reserve funds	17.81
Suspense & miscellaneous	5911.74		Suspense & miscellaneous	5967.65
Remittances	3429.36		Remittances	3420.43
Total Public Account	21126.09	**C: Deficit in Consolidated Fund financed by Public Account: 1907.68**	Total Public Account	19218.41
Increase in cash balance [A-(B+C)] = 120.71				

The exhibit shows that the Fiscal Deficit of Rs 3878 crore was mainly financed by the surplus from Public Account (Rs 1908 crore) and by net proceeds of the public debt. The Revenue Deficit accounted for 81 *per cent* of the Fiscal Deficit. *Exhibit IV* shows that both the deficits increased more glaringly during 1997-98 to 1999-2000 compared to respective previous years. Though the rising trend in both Revenue Deficit and Fiscal Deficit abated during 2000-01, it has to be viewed against the back drop of acute financial stringency faced by Government during the year.

1.9.6.3 Application of the borrowed funds (Fiscal Deficit)

The fiscal deficit represents total net borrowings of the Government. These borrowings are applied for meeting the Revenue Deficit (RD), for making the Capital Expenditure (CE) and for giving loans to various bodies for developmental and other purposes. The relative proportions of these applications would indicate the financial prudence of the State Government and also the sustainability of its operations because continued borrowing for revenue expenditure would not be sustainable in the long run. The following table shows the position in respect of the Government of Kerala for the last five years.

Ratio	1996-97	1997-98	1998-99	1999-2000	2000-01
RD/FD	0.42	0.47	0.67	0.80	0.81
CE/FD	0.40	0.30	0.22	0.14	0.15
Net loans/FD	0.18	0.23	0.11	0.06	0.04
Total	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**

The table would show that borrowed funds are being used increasingly to meet the revenue expenditure reaching an all time high of 81 *per cent* in 2000-01. Consequently, little resources were left to invest on capital expenditure. The application of most of the borrowings to revenue expenditure and lack of emphasis on capital formation indicates a situation of fiscal stress marked by deficit induced borrowings, heavy interest outgo, low capital investment and higher indebtedness.

1.9.7 Guarantees given by the State Government

Guarantees are given by the State Government for due discharge of certain liabilities like repayment of loans, share capital, etc., raised by the statutory corporations, Government companies and cooperative institutions. etc., and payment of interest and dividend by them. They constitute contingent liability of the State. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limits within which Government may give guarantees on the security of the Consolidated Fund of the State.

Exhibit-IV shows the amounts of guarantees outstanding at the end of each year during 1996-2001. There was a significant increase in the amount of outstanding guarantees from Rs 7952 crore at the end of 1999-2000 to Rs 9553 crore for 2000-01 mainly due to guarantees given to Kerala Financial Corporation (Rs 62.52 crore), Kerala State Financial Enterprises Limited (Rs 880.48 crore), Kerala Infrastructure Investment Fund Board (Rs 507.06 crore) and Kerala Industrial Revitalisation Fund Board (Rs 180 crore). While Rs 30.33[*] crore were received as guarantee commission during the year, Rs 53.93 crore of guarantee commission were outstanding recovery in 56 cases as on 31 March 2001.

During the year, Rs 1.65 crore was paid to Kerala State Wood Industries Limited, Nilambur for discharging its loan liabilities with State Bank of India, Kozhikode as a result of invocation of guarantee provided by Government.

1.10 Public Debt and other liabilities

1.10.1 The Constitution of India provides that a State may borrow within the territory of India, upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the State. No law had been passed by the State Legislature laying down any

[*] Included Rs 14.16 crore adjusted against the loan released to Kerala State Electricity Board in March 2001.

such limit. The details of the total liabilities of the State Government as at the end of the last five years are given in the following table.

(Rupees in crore)

Year	Internal debt	Loans and advances from Central Government	Total public debt	Other liabilities[@]	Total liabilities	Ratio of debt to GSDP
1996-97	2970.85	4612.54	7583.39	4785.41	12368.80	0.28
1997-98	3585.12	4990.51	8575.63	5900.64	14476.27	0.29
1998-99	4424.36	5648.14	10072.50	7294.19	17366.69	0.31
1999-2000	5735.61	5902.79	11638.40	10037.43	21675.83	0.33
2000-01	7627.34	6101.89	13729.23	11992.25	25721.48	0.34

During the five year period, the total liabilities of the Government had grown by 108 *per cent*. This was on account of 157 *per cent* growth in internal debt, 32 *per cent* growth in loans and advances from Government of India and 151 *per cent* growth in other liabilities. During 2000-01, Government borrowed Rs 577.52 crore in the open market at interest rates ranging from 10.52 *per cent* and 12 *per cent* per annum. There were also other liabilities incurred by Government because of financial stringency as already commented in para 1.9.5.

The amount of funds raised through Public Debt, the amount of repayment and net funds available are given in the following table:

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-01
Internal debt					
Receipt during the year	623	948	3102	4858	6975[*]
Debt servicing (principal + interest)	456	722	2728	4707	5832
Net funds available (*per cent*)	167(27)	226(24)	374(12)	151 (3)	1143 (16)
Loans & advances from GOI					
Receipt during the year	540	567	870	1073	483
Debt servicing (principal +interest)	661	740	819	951	1016
Net funds available (*per cent*)	(-)121(-22)	(-)173(-23)	51(6)	122 (11)	(-) 533 (- 110)
Other liabilities[@]					
Receipt during the year	4725	6437	9444	12901	11781
Debt servicing (principal + interest)	4180	5669	8424	10817	10604
Net funds available (*per cent*)	545(12)	768(12)	1020(11)	2084 (16)	1177 (10)
Aggregate of net funds available (*per cent)*	591(10)	821(10)	1445(11)	2357 (13)	1787 (9)

Only 10 *per cent* of borrowings was available for investment and other expenditure after meeting the debt servicing obligations during 1996-97 and 1997-98 with marginal improvement in the next two years 1998-99 (11 *per cent*) and 1999-2000 (13 *per cent).* However, during 2000-01 only 9 *per cent* of the net funds was available for other expenditure. Sharp decline under 'Loans and Advances from GOI' during 2000-01 was mainly due to classification of State's share of small savings (Rs 440 crore) under 'Internal Debt' (vide footnote at page 2). As on 31 March 2001, a sum of Rs 11.06 crore was due to be repaid to GOI towards principal and interest on GOI loans. If this had also been paid, the position would be aggravated further. As outstanding debt and liability for debt servicing are increasing

[@] Other liabilities include Small Savings, Provident Funds, Reserve Funds and Deposits, etc.
[*] The huge increase was mainly due to availing of ways and means advances from RBI more frequently during 2000-01 than in the previous years

every year, less and less funds out of fresh borrowings are available for other expenditure.

1.11 Indicators of the financial performance

1.11.1 A Government may either wish to maintain its existing level of activity or increase its level of activity. For maintaining its current level of activity it would be necessary to know how far the means of financing are sustainable. Similarly, if Government wishes to increase its level of activity, it would be pertinent to examine the flexibility of the means of financing. Finally, Government's increased vulnerability in the process. All the State Governments continue to increase the level of their activity principally through Five Year Plans which translate to Annual development plans and are provided for in the State Budget. Broadly, it can be stated that non-plan expenditure represents Government maintaining the existing level of activity, while plan expenditure entails expansion of activity. Both these activities require resource mobilisation, increasing Government’s vulnerability. In short, financial health of a Government can be described in terms of sustainability, flexibility and vulnerability. These terms are defined as follows:

(i) Sustainability

Sustainability is the degree to which a Government can maintain existing programmes and meet existing creditor requirements without increasing the debt burden.

(ii) Flexibility

Flexibility is the degree to which a Government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden.

(iii) Vulnerability

Vulnerability is the degree to which a Government becomes dependent on and therefore vulnerable to sources of funding outside its control or influence, both domestic and international.

(iv) Transparency

There is also the issue of financial information provided by the Government. This consists of Annual Financial Statement (Budget) and the Accounts. As regards the budget the important parameters are timely presentation indicating the efficiency of budgetary process and the accuracy of the estimates. As regards accounts, timeliness in submission for which milestones exist and completeness of accounts would be the principal criteria.

1.11.2 Information available in Finance Accounts can be used to flesh out Sustainability, Flexibility and Vulnerability that can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in Appendix I. *Exhibit VI* indicates the behaviour of these indices/ratios over the period from 1996-97 to 2000-01. The implications of these indices/ratios for the state of the financial health of the State Government are discussed in the following paragraphs.

EXHIBIT VI
FINANCIAL INDICATORS FOR GOVERNMENT OF KERALA

	1996-97	1997-98	1998-99	1999-2000	2000-01
Sustainability					
BCR (Rs in crore)	142	248	(-)437	(-)2069	(-)1704
Primary Deficit (PD) (Rs in crore)	439	1122	1564	2582	1620
Interest Ratio	0.17	0.17	0.19	0.24	0.26
Capital outlay/Capital receipts	0.51	0.64	0.24	0.14	0.17
Total Tax receipts/GSDP	0.12	0.12	0.11	0.10	0.10
State Tax Receipts/GSDP	0.09	0.09	0.08	0.08	0.08
Return on Investment ratio	0.003	0.004	0.004	0.006	0.006
Flexibility					
BCR (Rs in crore)	142	248	(-)437	(-)2069	(-)1704
Capital repayments/Capital borrowings	0.18	0.20	0.20	0.18	0.21
State tax receipts/GSDP	0.09	0.09	0.08	0.08	0.08
Debt/GSDP	0.28	0.29	0.31	0.33	0.34
Vulnerability					
Revenue Deficit (RD) (Rs in crore)	643	1123	2030	3624	3147
Fiscal Deficit (FD) (Rs in crore)	1542	2408	3010	4534	3878
Primary Deficit (PD) (Rs in crore)	439	1122	1564	2582	1620
PD/FD	0.28	0.47	0.52	0.57	0.42
RD/FD	0.42	0.47	0.67	0.80	0.81
Outstanding Guarantees/revenue receipts	0.32	0.46	0.71	1.00	1.09
Assets/Liabilities	0.71	0.67	0.61	0.52	0.47

Note: 1. Fiscal deficit has been calculated as : Revenue expenditure + Capital expenditure + Net loans and advances – Revenue receipt – Miscellaneous capital receipts

2. In the ratio Capital outlay Vs Capital receipts, the denominator has been taken as Internal loans (excluding ways and means advance) + Loans and Advances from Government of India + Net receipts from small savings, PF etc., + Repayments of loans advanced by the State Government – Loans advanced by State Government.

1.11.3 The behaviour of the indices/ratios is discussed below:

(i) Balance from current revenues (BCR)

BCR is defined as revenue receipts minus plan assistance grants minus Non-Plan revenue expenditure. A positive BCR shows that the State Government has surplus from its revenues for meeting Plan expenditure.

The table shows that the State Government had positive BCR during 1996-97 and 1997-98 but from 1998-99 it became negative. The negative BCR steeply increased by nearly five times in 1999-2000. Thus not only the Government had no funds for Plan expenditure, even the current expenditure was being largely met by borrowings.

(ii) Interest ratio

Interest ratio is defined as $$\frac{\textbf{Interest payment-Interest receipts}}{\textbf{Total Revenue Receipts-Interest Receipts}}$$

The higher the ratio the lesser the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts.

In the case of Kerala, the ratio steadily increased from 0.17 during 1996-97 to 0.26 during 2000-01 mainly due to increase in interest payments on market loans, loans from Government of India and Provident Funds. This indicated lesser availability of funds for programme spending with adverse implication on sustainability.

(iii) Capital outlay Vs Capital receipts

This ratio would indicate to what extent the capital receipts are applied for capital formation. A ratio of less than one would not be sustainable in the long term in as much as it indicates that a part of the capital receipt is being diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments are being made from revenue surplus as well. The trend analysis of this ratio would throw light on the fiscal performance of the State Government. A rising trend would mean an improvement in the performance.

In the case of Kerala, the ratio has been less than 1 indicating that part of capital receipts was applied to meet the revenue commitments. The ratio improved from 0.51 during 1996-97 to 0.64 in 1997-98, but it declined sharply thereafter to a low of 0.17 during 2000-01 indicating the tremendous pressure of revenue expenditure on the capital receipts for non-capital purposes. Capital outlay was also not significantly productive as seen from the negligible return from investments, net loss in irrigation works and the locking up of huge amounts in incomplete projects.

(iv) Tax receipts Vs Gross State Domestic Product (GSDP)

Tax receipts consist of State taxes and State's share of Central taxes. The latter can also be viewed as Central taxes paid by people living in the State. Tax receipts suggest sustainability. But the ratio of tax receipts to GSDP would have implications for the flexibility as well. While a low ratio would imply that the Government can tax more, and hence its flexibility, a high ratio may not only point to the limits of this source of finance but also its inflexibility.

Time series analysis shows that in the case of Kerala, this ratio gradually declined from 0.12 in 1996-97 to 0.10 in 1999-2000 and remained static at 0.10 in 2000-01. The ratio of State tax receipts to GSDP which remained static at 0.09 during 1996-98 slipped to 0.08 in 1998-99 and remained stagnant at this level in the subsequent two years 1999-2001. The declining ratios indicated a decline in tax compliance and increased reliance of Government on borrowing to meet the revenue deficit.

(v) Return on Investment (ROI)

The ROI is the ratio of the earnings to the capital employed. A high ROI suggests sustainability. The table reveals that the return on Government's investments in Statutory Corporations, Government companies, joint stock companies and co-operative institutions has been negligible.

(vi) Capital repayments Vs Capital borrowings

This ratio would indicate the extent to which the capital borrowings are available for investment, after repayment of capital. The lower the ratio, the higher would be the availability of capital for investment. In the case of Kerala, this ratio has steadily increased from 18 *per cent* in 1996-97 to 21 *per cent* in 2000-01 mainly due to increasing burden of repayment.

(vii) Debt Vs Gross State Domestic Product (GSDP)

The GSDP is the total internal resource base of the State Government, which can be used to service debt. An increasing ratio of Debt/GSDP would signify a reduction in the Government's ability to meet its debt obligations and therefore increasing risk for the lender. In the case of Kerala, this ratio was on the upswing from 0.28 in 1996-97 to 0.34 in 2000-01, indicating higher levels of indebtedness of the Government.

(viii) Revenue deficit Vs Fiscal deficit

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the revenue expenditure financed by borrowings etc. Evidently, the higher the revenue deficit, the more vulnerable is the State. Since fiscal deficit represents the aggregate of all the borrowings, the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance non-productive revenue expenditure. Thus the higher the ratio the worse off the State because that would indicate that the debt burden is increasing without adding to the repayment capacity of the State.

There was nearly 100 *per cent* increase in the ratio in five years and in the current year 81 *per cent* of the borrowings were applied to revenue expenditure as compared to 42 *per cent* in 1996-97. This is a significantly unfavourable condition and indicates the highly vulnerable financial condition due to Government's dependence on outside resources to finance most of its revenue expenditure.

(ix) Primary deficit Vs Fiscal deficit

Primary deficit is the fiscal deficit minus interest payments. Primary Deficit is sustainable only when the economy grows at a rate higher than the interest rate on the borrowings. If that is not the case, then the sustainability would demand a reduction in primary deficit.

In the case of Government of Kerala, the increase in this ratio from 0.28 in 1996-97 to 0.42 in 2000-01 has to be seen in the light of the fact that an increasingly larger share of the borrowings has been applied for revenue expenditure (RD/FD has gone up from 0.42 to 0.81) and the share of capital expenditure from out of borrowings has come down from 40 *per cent* in 1996-97 to 15 *per cent* in 2000-01 (Para 1.9.6.3).

(x) Guarantees Vs Revenue receipts

Outstanding guarantees, including the letters of comfort issued by the

Government, indicate the risk exposure of a State Government and should therefore be compared with the ability of the Government to pay viz., its revenue receipts. Thus, the ratio of the total outstanding guarantees to total revenue receipts of the Government would indicate the degree of vulnerability of the State Government. Based on the available information, this ratio increased from 0.32 in 1996-97 to 1.09 in 2000-01 indicating that the guarantees are more than the revenue receipts. As many of the institutions, mostly PSUs, for which Government stood guarantee are perennially loss making, the possibility of the lenders invoking the guarantees on loans given to these companies, etc., due to default of loan repayments looms large. Thus the risk exposure of the Government is very high with increased vulnerability of the State's finances.

(xi) Assets Vs Liabilities

This ratio indicates the solvency of the Government. It pertained to only financial assets and liabilities as disclosed in *Exhibit I*. A ratio of more than one would indicate that the State Government is solvent (assets are more than the liabilities) while a ratio of less than one would be a contra indicator. This ratio has shown a secular decline from 0.71 in 1996 - 97 to 0.47 in 2000-01. The continuous decline in the ratio since 1996-97 is indicative of the worsening fiscal management by Government.

(xii) Budget

There was no delay in submission of the budget and its approval during the year. However, due to poor budgeting Government had serious ways and means problems. To get over the cash crunch, Government resorted to restrictions in payments through treasuries, except for salaries, pensions, etc. for the staff. Thus significant amounts of major departments were not spent and even the assistance to local bodies etc. had to be curtailed (vide discussion in paragraph 1.6.1). Chapter II of this Report includes detailed comments on the defective budgeting as evidenced by persistent resumption (surrenders) of significant amounts every year *vis-a-vis* the final grant. During the year 7.8 *per cent* of budgeted funds were not spent. Further, 60 *per cent* of savings were surrendered on the last day of the year.

(xiii) Accounts

A large number of accounting units (Treasury, Public Works and Forest) did not render accounts on due dates and the delay ranged up to 63 days during 2000-01. The number of accounts which were delayed by more than one month was 50. Delayed submission caused delay in finalisation of the accounts of the State Government.

1.11.4 Conclusion

The growth in Revenue Deficit and Fiscal Deficit decelerated during 2000-01 *vis-à-vis* 1999-2000. However, these were achieved by curtailing revenue expenditure on important Government activities. Government also had to avail ways and means advances including overdrafts almost throughout the year and to postpone repayment of Central loans during 2000-01. The State undertakings and other institutions lodged their moneys in treasuries and raised loans from market and kept the amounts in Government accounts to bolster the State's ways and means position. Despite these measures, 81 *per cent* of the borrowing was consumed by revenue expenditure. Due to poor budgeting, Government had to resort to choking the payments in the treasuries. Consequently only staff payments were ensured, and no funds were available to meet the other costs of the programmes. The increasing debt to GSDP ratio indicated little respite from the mounting debt burden despite the decrease in Revenue Deficit and Fiscal Deficit during the year. Thus, the down-slide during 1999-2000 in the financial health of the Government continued in 2000-01. Unless Government improves the budgeting, controls the revenue expenditure and improve its tax compliance, there is little chance of improvement in its financial condition.