Chapter I
Finances of the State Government

Profile of Kerala

The State of Kerala, located at the southern end of the country, accounts for one *per cent* of the total area of the country and about three per *cent* of the population. As indicated in **Appendix 1.1**, in the last ten years, the density of population in Kerala has increased from 819 persons per sq. km to 859 persons per sq. km. The State ranks high in the human development index with a literacy rate of 93.91 *per cent* (highest in the country) and life expectancy at birth of 74 years when compared to the General Category States' average. The infant mortality rate of the State is very low (12 per thousand) as compared to the General Category States' average. The State has also less population below poverty line as compared to General Category States. The State has shown marginally lower economic growth in the past decade as the compound annual growth rate of its Gross State Domestic Product (GSDP) for the period 2001-02 to 2010-11 has been 14.57 *per cent* as compared to 14.68 *per cent* in General Category States. During this period, its population also grew by 4.86 *per cent* only (lowest among General Category States) against 17.56 *per cent* in General Category States. The per capita income compound annual growth rate in Kerala (12.50 *per cent*) has been higher than that of the General Category States (11.32 *per cent*) in the current decade. However, the State has slightly higher urban and rural inequality compared to the All India average.

1.1 Introduction

This chapter is based on the audit of Finance Accounts and makes an assessment of the Kerala Government's fiscal position as on 31 March 2011. It provides a broad perspective of the finances of the Government of Kerala during 2010-11 and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view of the overall trends during the last five years. The structure and form of Government Accounts have been explained in **Appendix 1.2 Part A** and the layout of the Finance Accounts are shown in **Appendix 1.2 Part B**. The methodology adopted for the assessment of the fiscal position of the State and norms/ceilings prescribed by the Kerala Fiscal Responsibility Act, 2003 are given in **Appendix 1.3.** As prescribed in the Act, Government laid its Medium Term Fiscal Policy and Strategy Statement with Medium Term Fiscal Plan for 2010-11 to 2012-13 in the State legislature in March 2010.

1.1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2010-11) *vis-à-vis* the previous year, while **Appendix 1.4** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.1 Summary of Current Year's Fiscal Operations

(₹in crore)

2009-10	Receipts	2010-11	2009-10	Disbursements	2010-11		
Section-A: Revenue					**Non Plan**	**Plan**	**Total**
26109.40	**Revenue receipts**	**30990.95**	**31132.37**	**Revenue expenditure**	**30469.07**	**4195.74**	**34664.81**
17625.02	Tax revenue	21721.69	13935.52	General services	15233.96	184.43	15418.39
1852.22	Non-tax revenue	1930.79	10467.15	Social services	9605.19	2505.61	12110.80
4398.78	Share of Union Taxes/ Duties	5141.85	4240.72	Economic services	2851.76	1505.70	4357.46
2233.38	Grants from Government of India	2196.62	2488.98	Grants-in-aid and Contributions	2778.16	--	2778.16
Section-B: Capital					**Non Plan**	**Plan**	**Total**
48.96	Miscellaneous Capital Receipts	24.61	2059.39	Capital Outlay	598.03	2765.66	3363.69
38.47	Recoveries of Loans and Advances	44.23	876.68	Loans and Advances disbursed	442.43	319.31	761.74
6615.52	Public Debt receipts*	7188.90	1765.06	Repayment of Public Debt*	#	#	1975.03
5.84	Contingency Fund	26.27	26.27	Contingency Fund	#	#	33.92
61313.56	Public Account receipts	73753.97	57271.53	Public Account disbursements	#	#	70558.27
3387.81	Opening Cash Balance	4388.26	4388.26	Closing Cash Balance	#	#	5059.73
97519.56	**Total**	**116417.19**	**97519.56**	**Total**			**116417.19**

Source: Finance Accounts of the State for 2009-10 and 2010-11.

\# Figures for Plan and Non-Plan not available in the Finance Accounts.

* Excluding net transactions under Ways and Means advances and overdraft

The following are the significant changes in fiscal transactions during 2010-11 over the previous year.

- The Revenue receipts grew by 18.7 *per cent* (₹ 4881.55 crore) relative to the previous year. The increase was under tax revenue (₹ 4096.67 crore), State's share of Union taxes and duties (₹ 743.07 crore) and non-tax revenue (₹ 78.57 crore). The increase was offset by decrease of ₹ 36.76 crore in grants-in-aid from the Government of India (GOI). The total of tax revenues collected during 2010-11 (₹ 21721.69 crore) was in line with the normative assessment made by the Thirteenth Finance Commission (ThFC) (₹ 21725.63 crore) for the year but was higher by four *per cent* than the projection made in the Medium Term Fiscal Plan (₹ 20884.23 crore). The State's Own Non-tax revenue (₹ 1930.79 crore) was lower by 16.6 *per cent* than the target fixed in the Medium Term Fiscal Plan (₹ 2314.31 crore) for the year 2010-11.

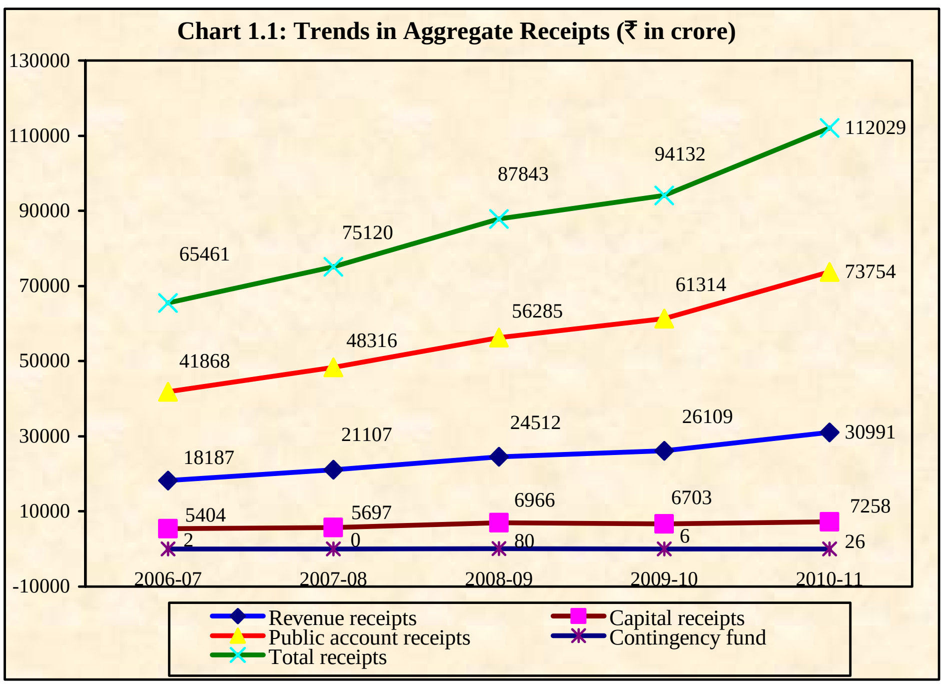
- The Revenue expenditure increased by ₹ 3532.44 crore (11.3 *per cent*) due to increase in expenditure under General Services (₹ 1482.87 crore), Social Services (₹ 1643.65 crore), Economic Services (₹ 116.74 crore) and Grants-in-aid and Contributions (₹ 289.18 crore). Actual Non-Plan Revenue Expenditure during 2010-11 (₹ 30469.07 crore) exceeded the normative assessment made by the ThFC (₹ 28349.37 crore) by 7.5 *per cent.*

- Capital expenditure increased by ₹ 1304.30 crore (63.3 *per cent*) mainly due to increase in expenditure under Economic Services, especially under 'Roads and Bridges' (₹ 569.78 crore), 'Co-operation' (₹ 167.13 crore) and 'Ports and Light Houses' (₹ 115.94 crore).
- Public debt receipts increased by ₹ 573.38 crore due to increase in internal debt receipts by ₹ 774.32 crore offset by decrease in borrowings from GOI by ₹ 200.94 crore. Public debt repayment increased by ₹ 209.97 crore.
- Public Account receipts and disbursements increased by ₹ 12440.41 crore and ₹ 13286.74 crore respectively over the previous year.
- The cash balance of the State as on 31 March 2011 increased to ₹ 5059.73 crore from ₹ 4388.26 crore as on 31 March 2010.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

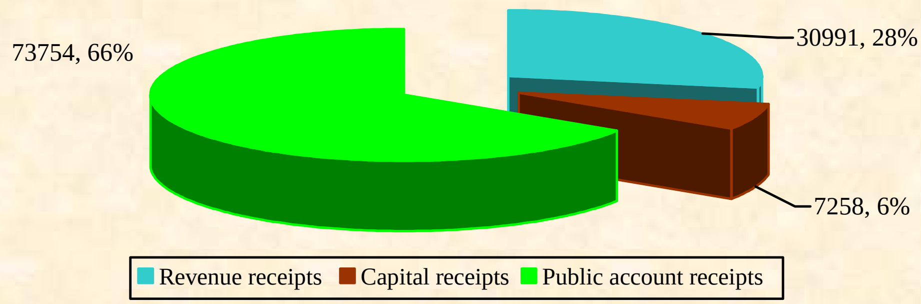
Revenue[1] and capital[2] are the two streams of receipts that constitute the resources of the Government. **Table 1.1** presents the receipts and disbursements of the Government during 2010-11 as recorded in the Finance Accounts 2010-11 while **Chart 1.1** depicts the trends in various components of the receipts of the State during 2006-11. **Chart 1.2** depicts the composition of resources of the State during 2010-11.



[1] Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from GOI.

[2] Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestment, 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 the Public Account.

Chart 1.2: Composition of Aggregate Receipts during 2010-11
(₹ in crore and percentage to total)



The total receipts of the State Government for the year 2010-11 were ₹ 1,12,029 crore. Of these, revenue receipts were ₹ 30,991 crore, constituting 28 *per cent* of the total receipts, capital receipts constituted six *per cent* and Public Account receipts constituted 66 *per cent* of the total receipts.

1.2.2 Funds transferred to State implementing agencies outside the State Budgets

The Government of India (GOI) has been transferring a sizeable quantum of funds directly to the State implementing agencies[3] for the implementation of various schemes/programmes in social and economic sectors for human and social development of the population. As these funds are not routed through the State Budget/State Treasury System, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are understated. To present a holistic picture on the availability of aggregate resources in the State, details of funds directly transferred to the State implementing agencies during 2008-09 to 2010-11 are presented in **Table 1.2**.

Table-1.2: Funds transferred directly to State implementing agencies

(₹ in crore)

Programme/Scheme	Implementing agency in the State	2008-09	2009-10	2010-11
Mahatma Gandhi National Rural Employment Guarantee Scheme	District Rural Development Agencies (Poverty Alleviation Unit)	200.47	467.71	704.23
Pradhan Mantri Gram Sadak Yojana	Kerala State Rural Roads Development Agency	84.02	100.11	146.27
Rural Housing - Indira Awaas Yojana	District Rural Development Agencies (Poverty Alleviation Unit)	156.56	194.71	185.91
Rashtriya Madhyamik Shiksha Abhiyan	Secondary Education Development Society Kerala	Nil	8.93	15.13
Swaranjayanti Gram Swarozgar Yojana	District Rural Development Agencies (Poverty Alleviation Unit)	44.85	44.27	42.62
National Horticulture Mission	Kerala State Horticulture Mission	75.17	Nil	44.00
National Rural Drinking Water Programme	Kerala Water Authority	112.90	152.04	159.83

[3] State implementing agency includes any organisation/institution including non-governmental organisation which is authorised by the State Government to receive funds from the Government of India for implementing specific programmes in the State, e.g. Primary Education Development Society of Kerala for Sarva Shiksha Abhiyan, Kerala State Health and Family Welfare Society for the National Rural Health Mission and Kerala State Rural Roads Development Agency for Pradhan Mantri Gram Sadak Yojana.

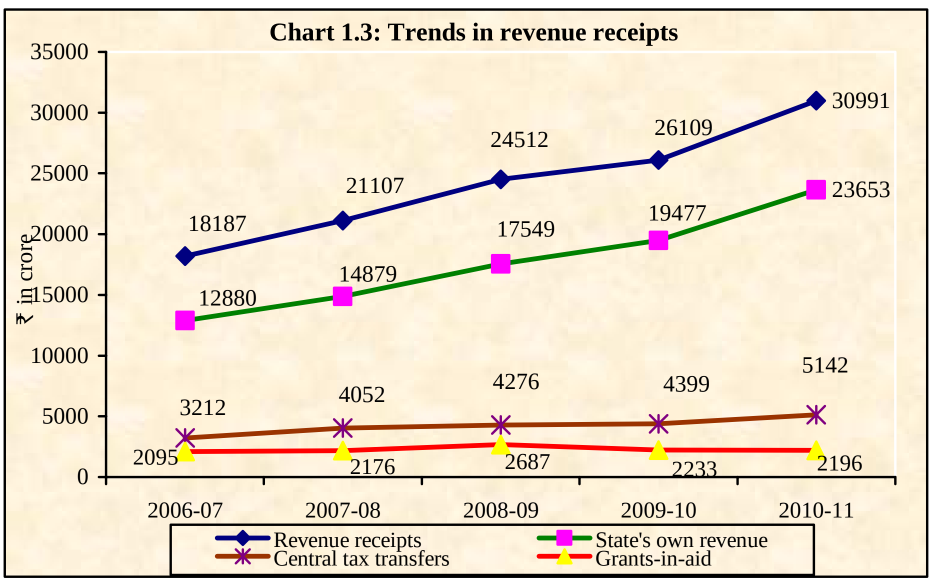
Programme/Scheme	Implementing agency in the State	2008-09	2009-10	2010-11
Sarva Shiksha Abhiyan	Primary Education Development Society of Kerala	108.54	119.90	196.61
Swarna Jayanti Shahari Rozgar Yojana	State Poverty Eradication Mission (Kudumbashree)	10.30	9.50	4.74
Central Rural Sanitation Programme	Suchithwa Mission, Kerala	33.80	25.95	22.86
National Rural Health Mission	State Health and Family Welfare Society	84.96	245.83	236.86
MPs Local Area Development Scheme	District Collectors	35.00	86.00	68.00
Rashtriya Swasthya Bima Yojana	Comprehensive Health Insurance Agency of Kerala	13.71	18.34	52.69
Integrated Watershed Management Programme	District Rural Development Agencies (Poverty Alleviation Unit)	11.46	3.20	16.88
Others[4]		120.37	125.64	267.28
Total		**1,092.11**	**1,602.13**	**2163.91**

Source: Appendix VII of Finance Accounts 2010-11.

The GOI directly transferred ₹ 2163.91 crore to the State implementing agencies during 2010-11. Direct transfer of funds from the GOI to State implementing agencies ran the risk of improper monitoring of utilisation of funds by these agencies. Unless uniform accounting practices are followed by all these agencies, with proper documentation and timely reporting of expenditure, it would be difficult to monitor the end use of these direct transfers.

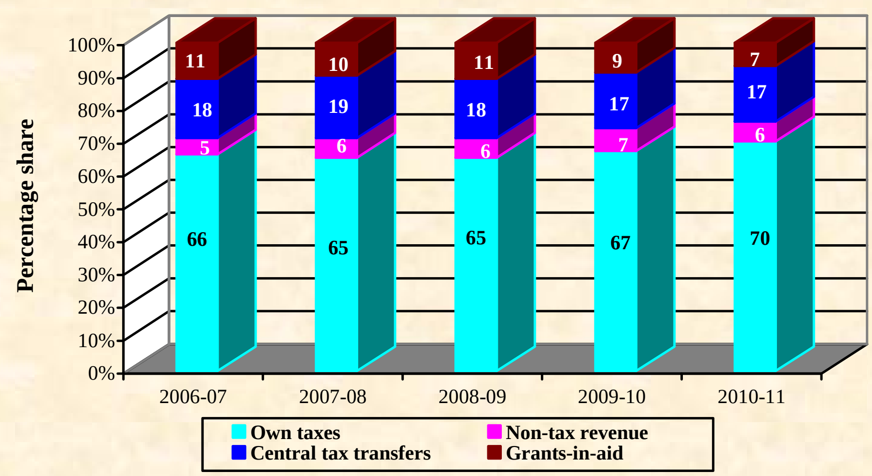
1.3 Revenue Receipts

Statement-11 of the Finance Accounts gives details of the revenue receipts of the Government. The revenue receipts consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The trend and composition of revenue receipts over the period 2006-11 are presented in **Appendix 1.5** and also depicted in **Charts 1.3** and **1.4** respectively.



4 Please see Appendix VII of Finance Accounts – Vol.II for details of individual programme/scheme.

Chart 1.4: Composition of revenue receipts during 2006-2011



The Revenue receipts increased from ₹ 18,187 crore in 2006-07 to ₹ 30,991 crore in 2010-11. The contribution of the State's own taxes under total revenue receipts increased from 66 *per cent* in 2006-07 to 70 *per cent* in 2010-11 whereas the contribution of non-tax revenue increased only marginally from five *per cent* in 2006-07 to six *per cent* in 2010-11. The contribution of grants-in-aid from GOI decreased from 11 *per cent* in 2006-07 to seven *per cent* in 2010-11, whereas the contribution of Central tax transfers decreased marginally from 18 *per cent* in 2006-07 to 17 *per cent* in 2010-11.

During 2001-02 to 2009-10, the compound growth rate of revenue receipts (14.15 *per cent*) was lesser than the growth rate of other General Category States (15.20 *per cent*). This growth rate for the period 2001-02 to 2010-11 increased to 14.63 *per cent* (**Appendix 1.1**).

Revenue receipts collected during 2010-11 at ₹ 30990.95 crore was lower than the projection made in the Medium Term Fiscal Plan (₹ 31180.82 crore) by ₹ 189.87 crore.

The trends in revenue receipts relative to GSDP are presented in **Table 1.3.**

Table 1.3: Trends in revenue receipts relative to GSDP

	2006-07	**2007-08**	**2008-09**	**2009-10**	**2010-11**
Revenue receipts (RR) (₹ in crore)	**18,187**	**21,107**	**24,512**	**26,109**	**30,991**
State's own taxes (₹ in crore)	11,942	13,669	15,990	17,625	21,722
Rates of growth					
Revenue receipts (*per cent*)	18.9	16.1	16.1	6.5	18.7
State's own taxes (*per cent*)	22.1	14.5	17.0	10.2	23.2
RR/GSDP (*per cent)*	11.8	12.1	12.2	11.3	11.7
Buoyancy Ratios[5]					
Revenue Buoyancy w.r.t GSDP	1.5	1.2	1.1	0.4	1.2
State's own tax Buoyancy w.r.t GSDP	1.8	1.04	1.1	0.7	1.5

Source: Finance Accounts and information furnished by department of Economics and Statistics

[5]Buoyancy ratios indicate the elasticity or degree of responsiveness of fiscal variables with respect to a given change in the base variable. For instance, for 2010-11, revenue buoyancy at 1.2 implies that revenue receipts tend to increase by 1.2 percentage points, if the GSDP increases by one *per cent.*

- In 2007-08 and 2008-09, the growth rate of revenue receipts was 16.1 *per cent* each year whereas in 2009-10, the growth rate was only 6.5 *per cent*. However, the growth rate increased to 18.7 *per cent* in 2010-11 which was mainly due to huge increase of ₹ 4097 crore (23.2 *per cent*) in State's own tax revenue compared to the previous year.
- Revenue buoyancy with reference to GSDP showed a declining trend from 2006-07 to 2009-10. However, in 2010-11, it increased to 1.2 as compared to 0.4 in 2009-10 due to high growth of revenue receipts.
- The State's own tax buoyancy with reference to GSDP during 2010-11 was the highest (1.5) during the four years 2007-08 to 2010-11. This was due to sharp increase in growth rate of State's own tax revenue (23.2 *per cent*) during the year compared to the growth rate of GSDP (15.2 *per cent*).

Grants-in-aid from the Government of India

Grants-in-aid from the Government of India decreased by 1.6 *per cent* from ₹ 2233.38 crore in 2009-10 to ₹ 2196.62 crore in 2010-11. The decrease was under 'Grants for State Plan Schemes' (4.2 *per cent*), 'Non-Plan Grants' (24.1 *per cent*) and 'Grants for Central Plan Schemes' (10.8 *per cent*) partly offset by increase under 'Grants for Centrally Sponsored Plan Schemes' (29.2 *per cent*).

Central tax transfers

Central tax transfers increased by 16.9 *per cent* from ₹ 4398.78 crore in 2009-10 to ₹ 5141.85 crore in 2010-11. The increase was mainly under 'Customs' (₹ 283.47 crore), 'Corporation tax' (₹ 199.48 crore) and 'Union Excise Duties' (₹ 158.18 crore).

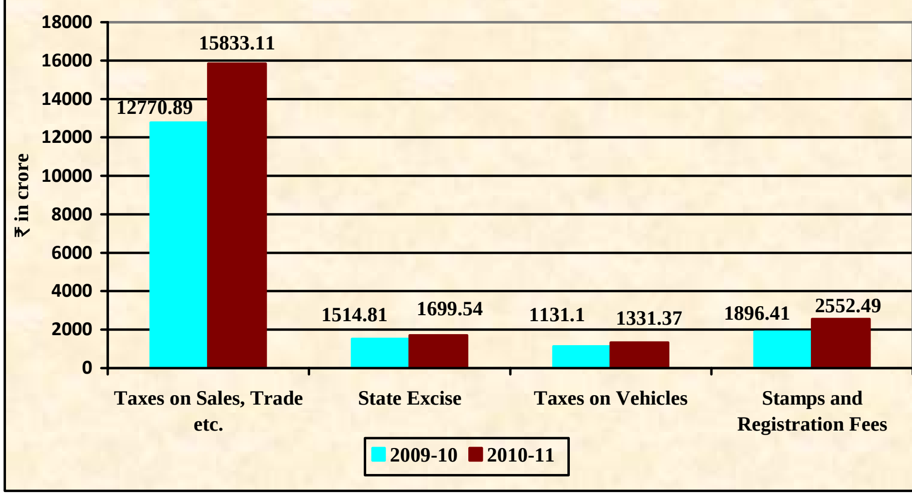
1.3.1 State's own resources

The State's share in Central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts, Central assistance for Plan schemes, etc. The State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The gross collection in respect of major taxes and duties *vis-à-vis* budget estimates, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during 2006-11 are presented in **Appendix 1.6.**

1.3.1.1 Own Tax Revenue

The State's own tax revenue increased by 23.2 *per cent* during the current year (₹ 21,722 crore) as compared to the previous year (₹ 17,625 crore). Component-wise increase is indicated in **Chart 1.5.**

Chart 1.5: Major components of tax revenue during 2009-10 and 2010-11



'Taxes on Sales, Trade etc'., were the major source of the State's own tax revenue during the year (73 *per cent)* followed by 'Stamps and Registration Fees'(12 *per cent*), 'State Excise' (eight *per cent*) and 'Taxes on Vehicles' (six *per cent*).

'Taxes on Sales, Trade etc'., increased by 24 *per cent* (₹ 3062.22 crore) during 2010-11 over the previous year. This increase was mainly due to increase in receipts under 'Receipts under State Sales Tax Act' (₹ 2189.14 crore), 'Value Added Tax' (₹ 861.90 crore) and 'Receipts under Central Sales Tax Act' (₹ 17.48 crore). This was partly offset by decrease in receipts under 'Other Receipts' (₹ 6.30 crore).

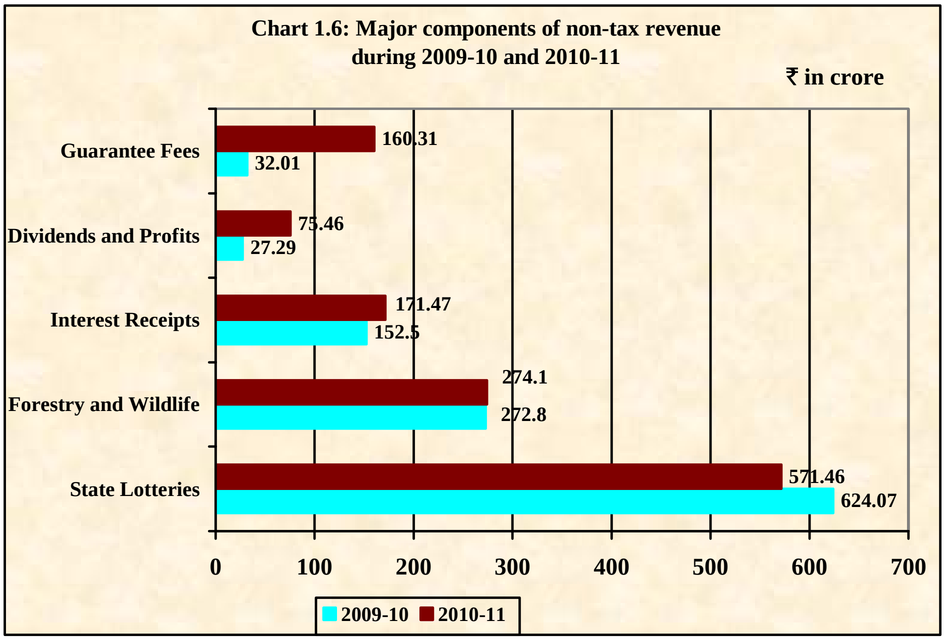
Receipts under 'Taxes on Vehicles' increased by 17.7 *per cent* (₹ 200.27 crore) due to increased receipts mainly under 'Receipts under the State Motor Vehicles Taxation Acts' (₹ 168.41 crore) and 'Receipts under Indian Motor Vehicles Act' (₹ 27.76 crore). Receipts under 'State Excise' increased by 12.2 *per cent* (₹ 184.73 crore) during 2010-11 over the previous year which was mainly under 'Foreign Liquors and Spirits' (₹ 188.80 crore), 'Malt Liquor' (₹ 12.15 crore) partly offset by decrease in receipts under 'Country Fermented Liquors' (₹ 10.57 crore) and 'Other Receipts' (₹ 6.08 crore).

'Stamps and Registration Fees' increased by 34.6 *per cent* (₹ 656.08 crore) during 2010-11 over the previous year due to increase of receipts under 'Sale of Non-Judicial Stamps' (₹ 439.73 crore), 'Fees for registering documents' (₹ 286.41 crore) partly offset by decrease in 'Duty on Impressing of Documents' (₹ 52.05 crore) under 'Stamps-Non-Judicial'.

The total of tax revenues collected during 2010-11(₹ 21,721.69 crore) was in line with the normative assessment made by the ThFC (₹ 21,725.63 crore) for the year but was higher by four *per cent* than the projections made in the Medium Term Fiscal Plan (₹ 20884.23 crore).

1.3.1.2 Non-Tax Revenue

Non-tax revenue increased by ₹ 78.57 crore (4.2 *per cent*) during the current year (₹ 1930.79 crore) over the previous year (₹ 1852.22 crore).



Non-tax revenue sources mainly comprised receipts from 'State Lotteries' (30 *per cent*), 'Forestry and Wildlife' (14 *per cent*) and 'Interest Receipts, Dividends and Profits' (13 *per cent*). The increase was mainly under 'Guarantee Fees' (₹ 128.30 crore), 'Dividends and Profits' (₹ 48.17 crore), 'Other Administrative Services'[6] (₹ 34.21 crore), partly off set by decrease in receipts under 'State Lotteries' (₹ 52.61 crore). Though the receipts under 'State Lotteries' were ₹ 571.46 crore during the year, with an equally high expenditure of ₹ 460.24 crore, the net yield from lotteries was only ₹ 111.22 crore. This was lower than the net yield of ₹ 121.28 crore from lotteries during the previous year. Non-tax revenue realised during 2010-11 under various components *vis-à-vis* the budget estimates of 2010-11 was as in **Table 1.4.**

Table 1.4: Non-tax revenue realised *vis-à-vis* Budget estimates

(₹in crore)

Sl. No.	Component of non-tax revenue	Budget estimates 2010-11	Actuals
1.	Forestry and Wildlife	360.11	274.10
2.	Interest receipts	119.43	171.47
3.	Dividends and profits	41.31	75.46
4.	State Lotteries	694.60	571.46
Overall Non-tax revenue		2314.31	1930.79

Source: Finance Accounts and Annual Financial Statement 2010-2011 of the State Government

Expenditure on tax collection

The expenditure on collection in respect of Stamps and Registration fees, State Excise, Taxes on Vehicles and Sales Tax was higher as compared to the All India average during the period 2006-07 to 2008-09 **(Appendix 1.6)**. It would be prudent to improve the tax administration in order to increase the revenue and thereby reduce the cost of collection.

[6] Includes receipts relating to Fees for Government Audit, Fines and Forfeitures, Service Fees, Reimbursement of election related expenses by Government of India, Guest Houses, Government Hostels, etc.

1.3.2 Loss of revenue due to evasion of taxes, write off/waivers and refunds

Test check of the records of 581 units of commercial taxes, motor vehicles, forest and other departmental offices during 2010-11 revealed under assessment/short levy/loss of revenue aggregating ₹ 4786.23 crore in 3,913 cases. During the course of the year, the departments concerned accepted under assessments and other deficiencies of ₹ 76.24 crore involved in 1,060 cases, of which 379 cases involving ₹ 52.59 crore were pointed out in audit during 2010-11 and the rest in earlier years. The departments collected ₹ 17.63 crore in 796 cases during 2010-11.

The number of refund cases pending at the beginning of the year 2010-11, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2010-11 as reported by the Excise department were as follows:

Table 1.5: Refunds made during the year

(₹ in lakh)

Sl. No.	Revenue Head		Claims outstanding at the beginning of the year	Claims received during the year	Refunds made during the year	Balance outstanding at the end of the year
1.	State Excise	No. of cases	3	7	8	2
		Amount	1.73	60.81	61.25	1.29

Source: Information received from Excise Department.

Information regarding settlement of refund cases relating to Sales Tax, Value Added Tax and Agricultural Income Tax called for from Commercial Taxes Department was not yet received (October 2011).

1.3.3 Revenue arrears

The arrears of revenue as on 31 March 2011 in respect of some principal heads of revenue amounted to ₹ 5358.55 crore, of which ₹ 1678.98 crore was outstanding for more than five years as mentioned in **Table 1.6.**

Table 1.6: Arrears of revenue

(₹ in crore)

Sl. No	Department	Amount of arrears as on 31 March 2011	Arrears outstanding for more than 5 years
1.	Commercial Taxes	4962.05	1552.46
	An amount of ₹ 3184.95 crore was due from individuals, private firms and private companies; ₹ 1344.52 crore was due from Public Sector Undertakings (PSUs) of the Government of India and ₹ 410.30 crore was due from PSUs of Government of Kerala.		
2.	Forest	185.04	86.02
	An amount of ₹ 163.87 crore was due from PSUs of Government of India and ₹ 11.91 crore was due from individuals, private companies etc.		
3.	Local Fund Audit	115.15	
	The arrears represent audit fees due from various local bodies		
4.	Stationery	12.83	9.92
	An amount of ₹ 2.79 crore was due from the Education Department; ₹ 1.22 crore was due from the Director of Civil Supplies and ₹ 1.14 crore was due from the Election Department		
5.	Factories and Boilers	1.06	0.09
	An amount of ₹ 92.47 lakh was due from individuals, private firms and private companies. An amount of ₹ 12.65 lakh is likely to be written off.		

Sl. No	Department	Amount of arrears as on 31 March 2011	Arrears outstanding for more than 5 years
6.	Police	82.42	30.49
	₹ 1.21 crore, ₹ 53.24 crore, ₹ 0.02 crore, ₹ 0.15 crore, ₹ 3.36 crore and ₹ 18.98 crore were due from Government of Tamil Nadu, Southern Railway, Bharat Sanchar Nigam Limited, Postal Department, Airport Authority of India and Kerala State Electricity Board respectively.		
Total		**5358.55**	**1678.98**

Source: Report No.3 of the Comptroller and Auditor General of India (Revenue Receipts), Government of Kerala for the year ended 31 March 2011.

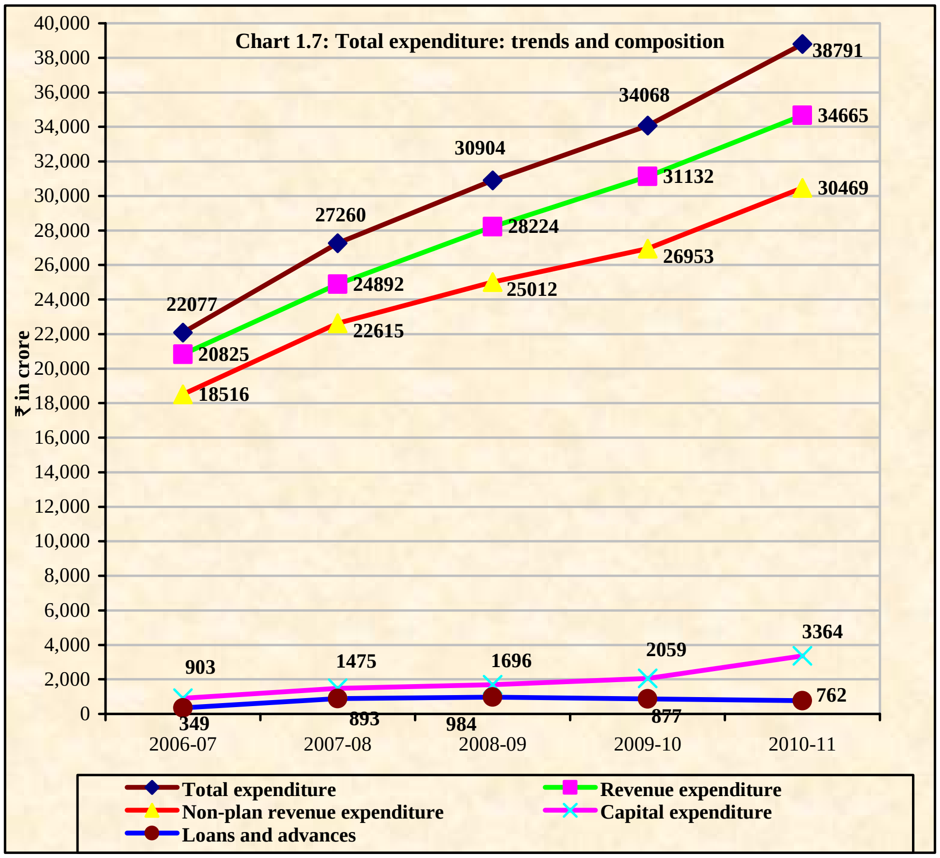
The State Government have to make efforts to realise the arrears of revenue so that revenue deficit can be reduced to a considerable extent.

1.4 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since responsibilities for major expenditure are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

1.4.1 Growth and composition of expenditure

The total expenditure of the State Government consists of revenue expenditure as well as capital expenditure which includes expenditure on loans and advances. The trends in various components of total expenditure-Plan and Non-Plan revenue expenditure, committed expenditure such as salaries and wages, interest payments, pension payments and subsidies, financial assistance to local bodies, etc., are discussed in the succeeding paragraphs. **Chart 1.7** presents the trends in total expenditure of the State Government over a period of five years (2006-11). Its composition, both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.8 and 1.9.**

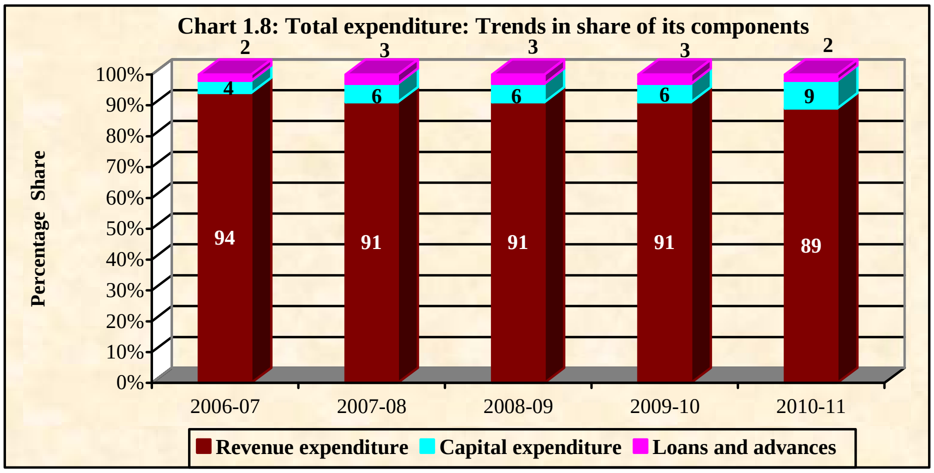


The total expenditure increased by 13.9 *per cent* in 2010-11 to ₹ 38,791 crore from ₹ 34,068 crore in the previous year. The total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.7**. During 2001-02 to 2009-10, the compound growth rate of total expenditure (13.49 *per* cent) was less than the growth rate of other General Category States (13.53 *per* cent). The growth rate for the period 2001-02 to 2010-11 further increased to 13.51 *per* cent **(Appendix 1.1)**.

Table 1.7: Total expenditure – basic parameters

	2006-07	2007-08	2008-09	2009-10	2010-11
Total expenditure (TE) (₹ in crore)	22077	27260	30904	34068	38791
Rate of growth *(per cent)*	13.1	23.5	13.4	10.2	13.9
TE/GSDP ratio *(per cent)*	14.4	15.6	15.4	14.8	14.6
RR /TE ratio *(per cent)*	82.4	77.4	79.3	76.6	79.9
Buoyancy of Total expenditure with reference to:					
GSDP (ratio)	1.1	1.7	0.9	0.7	0.9
RR (ratio)	0.7	1.5	0.8	1.6	0.7

The increase of ₹ 4723 crore (13.9 *per cent*) in total expenditure in 2010-11 over the previous year was mainly on account of increase of ₹ 3,533 crore in revenue expenditure and ₹ 1305 crore in capital expenditure set-off by a decrease of ₹ 115 crore in disbursement of loans and advances.



During the five-year period 2006-11, nearly 89 to 94 *per cent* of the total expenditure constituted revenue expenditure whereas capital expenditure ranged between four and nine *per cent* of the total expenditure during the same period. The revenue expenditure increased in absolute terms from ₹ 20825 crore in 2006-07 to ₹ 34665 crore in 2010-11 but its percentage to total expenditure decreased from 94 to 89 *per cent* during the same period. Capital expenditure increased from ₹ 903 crore in 2006-07 to ₹ 3364 crore in 2010-11 and its percentage to total expenditure increased from four to nine *per cent* during the same period.

Revenue expenditure increased by 11.3 *per cent* (₹ 3533 crore) during 2010-11 when compared to previous year. The increase in revenue expenditure during 2010-11 was mainly due to increase in expenditure under 'Pension and Other Retirement Benefits' (₹ 1062 crore), 'General Education' (₹ 876 crore), 'Interest Payment' (₹ 397 crore), 'Medical and Public Health' (₹ 293 crore), 'Compensation and Assignments to Local Bodies and Panchayati Raj Institutions' (₹ 289 crore), 'Social Security and Welfare' (₹ 192 crore) and 'Police' (₹ 132 crore).

Capital expenditure increased by 63.3 *per cent* (₹ 1305 crore) during 2010-11 when compared to previous year. The increase in capital expenditure during 2010-11 was mainly due to increase in expenditure under 'Roads and Bridges' (₹ 570 crore), 'Co-operation' (₹ 167 crore), 'Ports and Light Houses' (₹ 116 crore) and 'Housing' (₹ 80 crore).

The buoyancy of total expenditure with reference to GSDP was more than one during 2006-07 to 2007-08. However, this ratio declined to less than one during the period 2008-09 to 2010-11 due to decrease in the rate of growth of total expenditure as compared to the rate of growth of GSDP.

Trends in total expenditure in terms of activities

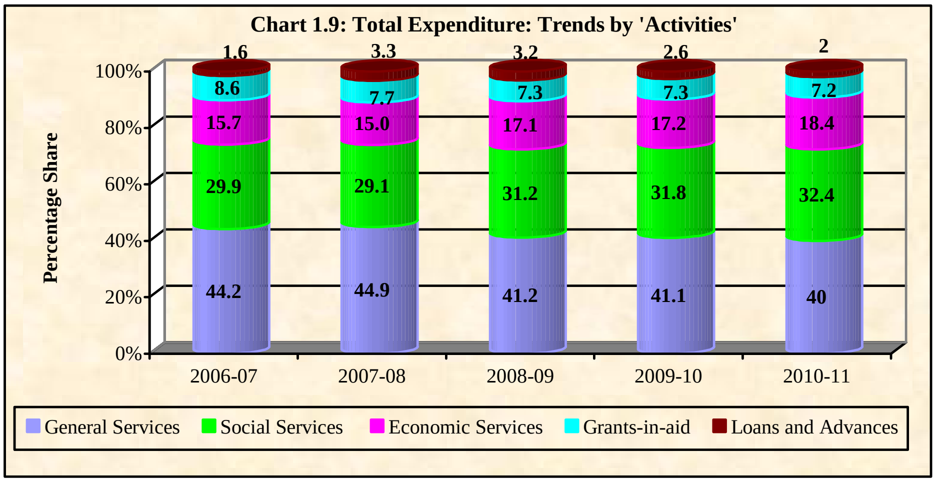
In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, grants-in-aid and loans and advances. Relative shares of these components in the total expenditure are indicated in **Table 1.8**.

Table-1.8: Components of expenditure – relative shares

(in *per cent*)

	2006-07	2007-08	2008-09	2009-10	2010-11
General Services	**44.2**	**44.9**	**41.2**	**41.1**	**40.0**
of which, Interest Payments	19.0	15.9	15.1	15.5	14.7
Social Services	**29.9**	**29.1**	**31.2**	**31.8**	**32.4**
Economic Services	**15.7**	**15.0**	**17.1**	**17.2**	**18.4**
Grants-in-aid	**8.6**	**7.7**	**7.3**	**7.3**	**7.2**
Loans and Advances	**1.6**	**3.3**	**3.2**	**2.6**	**2.0**

The movement of the relative shares of the above components of expenditure indicated that the shares of Social Services and Economic Services in the total expenditure increased during 2010-11 over the previous year. These increases were set off by decrease in the respective shares of General Services, grants-in-aid and loans and advances.



The share of Social Services in total expenditure during 2010-11 increased mainly on account of increase in expenditure under 'Education, Sports, Art and Culture' (₹ 904 crore), 'Health and Family Welfare' (₹ 348 crore) and 'Social Welfare and Nutrition' (₹ 256 crore) whereas the share of Economic Services increased mainly due to increase in expenditure under 'Agriculture and Allied Activities' (₹ 497 crore), 'Transport' (₹ 403 crore) and 'Industry and Minerals' (₹ 202 crore).

In the major 12 schemes[7] (as listed in Annexure to Statement 12 of the Finance Accounts 2010-11), out of ₹ 738 crore released by the Government of India, the State Government released only ₹ 638 crore for the schemes and the balance amount of ₹ 100 crore was lying in the cash balance of the State Government.

[7] Integrated Child Development Services (ICDS), National Programme of Nutritional Support to Primary Education (MDM), Rashtriya Krishi Vikas Yojana, National Rural Health Mission (NRHM), Pre-Matric Scholarship for Minorities, Post-Matric Scholarship and Book Banks for SC Students, Improvement of Agricultural Statistics, Scheme for providing Quality Education in Madrassas (SPQEM), Strengthening of Teachers Training Institutions, Merit-Cum-Means based Scholarship for Minorities for Professional and Technical Courses, Post-Matric Scholarship for Minorities and Rajiv Gandhi Scheme for Empowerment of Adolescent Girls.

Incidence of revenue expenditure

Revenue expenditure is incurred to maintain the current level of services and payment for past obligations and as such, does not result in any addition to the State's infrastructure and service network. Revenue expenditure had the predominant share of around 89 *per cent* in the total expenditure during 2010-11. The overall revenue expenditure, its rate of growth, the ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table 1.9.**

Table 1.9: Revenue expenditure – basic parameters

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue expenditure (RE), *of which*	**20825**	**24892**	**28224**	**31132**	**34665**
Non-plan revenue expenditure (NPRE)	18516	22615	25012	26953	30469
Plan revenue expenditure (PRE)	2309	2277	3212	4179	4196
Rate of Growth of					
RE (*per cent*)	13	19.5	13.4	10.3	11.3
NPRE (*per cent*)	21.8	22.1	10.6	7.8	13
PRE (*per cent*)	(-) 28.4	(-) 1.4	41.1	30.1	0.4
Revenue expenditure as percentage to TE	94.3	91.3	91.3	91.4	89.4
NPRE/GSDP (*per cent*)	12	12.9	12.4	11.7	11.5
NPRE as percentage of TE	83.9	83	80.9	79.1	78.5
NPRE as percentage of RR	101.8	107.1	102	103.2	98.3
Buoyancy of revenue expenditure with					
GSDP (ratio)	1.04	1.4	0.9	0.7	0.7
Revenue receipts (ratio)	0.7	1.2	0.8	1.6	0.6

Source : Finance Accounts

The revenue expenditure increased during 2010-11 by ₹ 3533 crore (11.3 *per cent*) over the previous year. The revenue expenditure during 2010-11 was lesser than the projections made in the Medium Term Fiscal Plan by ₹ 146 crore.

Non-Plan revenue expenditure (NPRE) showed an increasing trend during the period 2006-11, whereas Plan revenue expenditure (PRE) showed inter-year variations with an increasing trend from 2008-09 onwards. NPRE showed an increase of 13 *per cent* in 2010-11 (₹ 3516 crore) over 2009-10. The increase in NPRE during the year compared to the previous year was mainly due to increase in expenditure under Pension and other retirement benefits (₹ 1062 crore), General Education (₹ 762 crore), Interest Payments (₹ 397 crore), Compensation and Assignment to Local Bodies and Panchayati Raj Institutions (₹ 289 crore), Social Security and Welfare (₹ 244 crore), Medical and Public Health (₹ 242 crore), Police (₹ 119 crore) and Power (₹ 100 crore). This was partly offset by decrease in expenditure under Roads and Bridges (₹ 329 crore). Plan Revenue Expenditure (PRE) showed only a marginal increase of ₹ 17 crore in 2010-11 (₹ 4196 crore) when compared to previous year (₹ 4179 crore).

Actual NPRE during 2010-11 (₹ 30469 crore) exceeded the normative assessment made by the Thirteenth Finance Commission (₹ 28349 crore) by ₹ 2120 crore (7.5 *per cent*).

1.4.2 Committed expenditure of the Government

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.10** and **Chart 1.10** present the trends in the expenditure on these components during 2006-11.

Table 1.10: Components of committed expenditure

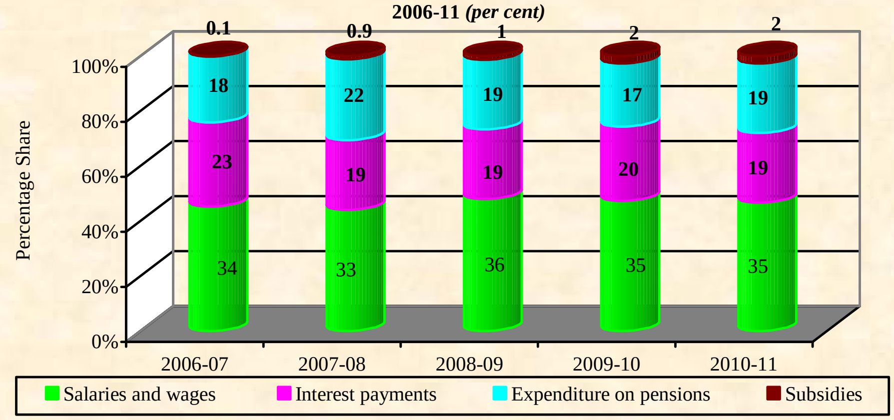
(₹ in crore)

Components of committed expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Salaries* and Wages**,** *Of which*	6638 (36.5)	7757 (36.8)	9146 (37.3)	9894 (37.9)	11427	11178 (36.1)
Non-Plan Heads	6377	7448	8895	9529	NA	10815 (34.9)
Plan Heads**	261	309	251	365	NA	363 (1.2)
Interest Payments (MH 2049)	4190 (23.0)	4330 (20.5)	4660 (19.0)	5292 (20.3)	5786	5690 (18.4)
Expenditure on Pensions (MH 2071)	3295 (18.1)	4925 (23.3)	4686 (19.1)	4706 (18.0)	5427	5767 (18.6)
Subsidies	23	202 (1)	355 (1.4)	442 (1.7)	NA	627 (2.0)
Revenue expenditure	20825	24892	28224	31132	34810	34665
Revenue receipts	18187	21107	24512	26109	31181	30991

* Salaries include teaching grant paid to aided educational institutions like schools and colleges to meet the salaries of their teaching and non-teaching staff.
** The Plan heads also include the salaries and wages paid under Centrally Sponsored schemes
NA: Not available
Figures in the parentheses indicate percentage to revenue receipts

Source: Finance Accounts of the State Government

Chart 1.10: Share of committed expenditure in non-plan revenue expenditure during 2006-11 ***(per cent)***



Expenditure on salaries under Non-Plan heads during 2010-11 was ₹ 10,815 crore, recording a growth of 13.5 *per cent* over the previous year, whereas salaries under Plan during 2010-11 remained at a slightly lower level when compared to the previous year. The salary expenditure will increase further in the coming years due to implementation of the recommendations of the Ninth State Pay Revision Commission.

Pension payments increased by 22.5 *per cent* (₹ 1061 crore) from ₹ 4,706 crore in 2009-10 to ₹ 5,767 crore in 2010-11. In 2010-11 pension payment exceeded the projections made by the State Government in the

Medium Term Fiscal Plan (₹ 5,427 crore) by six *per cent* and the assessment made by the Thirteenth Finance Commission (₹ 5,501 crore) by five *per cent*. Interest payments increased by 7.5 *per cent* during 2010-11 (₹ 5,690 crore) when compared to the previous year (₹ 5,292 crore).

Payment of subsidies increased steeply from ₹ 23 crore in 2006-07 to ₹ 202 crore in 2007-08 and thereafter to ₹ 355 crore in 2008-09, ₹ 442 crore in 2009-10 and ₹ 627 crore in 2010-11. The huge increase in subsidy in 2007-08 over the previous year was mainly due to payment of subsidy to the Food Corporation of India (FCI) in respect of rice and wheat distributed to ration cardholders of BPL[8] families and subsidy to the Kerala State Civil Supplies Corporation for market intervention operations. The increase of ₹ 185 crore in subsidy during 2010-11 over the previous year was mainly due to payment of subsidy to the Kerala State Electricity Board towards power tariff concessions and to liquidate its revenue deficit (₹ 100 crore), enhanced payment of subsidy to Co-operatives for conducting festival markets (₹ 50 crore), enhanced payment of subsidy (₹ 87 crore) to FCI in respect of ration rice and wheat distributed to ration card holders of BPL families. This was partly offset by reduction in payment of subsidy to 'Special Support Scheme for farm sector' (₹ 38 crore).

The ratio of salaries, interest payments, pensions and subsidies to revenue receipts of the State during the current year was 75 *per cent*, a decrease of three percentage points from the previous year.

1.4.3 Financial assistance given by the State Government to local bodies and other institutions

The quantum of assistance provided by the Government as grants and loans to local bodies, educational institutions, Government companies, Welfare Fund Boards, etc during the current year relative to the previous years is presented in **Table 1.11.**

Table 1.11: Financial assistance to local bodies, educational institutions, etc.

(₹ in crore)

Financial Assistance to Institutions	2006-07	2007-08	2008-09	2009-10	2010-11
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	2666.63	2812.88	3306.81	3546.61	4087.83
Municipal Corporations and Municipalities	385.43	485.85	966.99	834.46	901.87
Zilla Parishads and Other Panchayati Raj Institutions	2219.28	2421.93	2600.11	2996.66	3411.65
Development Agencies	6.15	1.36	1.95	2.04	5.25
Hospitals and Other Charitable Institutions	43.32	53.98	56.66	76.40	139.02
Other Institutions[9]	916.46	468.50	658.83	1159.47	1252.58
Total	**6237.27**	**6244.50**	**7591.35**	**8615.64**	**9798.20**
Assistance as percentage of revenue expenditure	30	25	27	28	28

Source: Finance Accounts and information received from the State Government

The financial assistance to local bodies and other institutions increased from ₹ 6237.27 crore in 2006-07 to ₹ 9798.20 crore in 2010-11. As a percentage of

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[8] Below Poverty Line

[9] Other institutions, *inter alia*, include Kerala State Road Transport Corporation (₹ 160 crore), Kerala State Information Technology Mission (₹ 25.07 crore), State Council for Science, Technology & Environment (₹ 44.58 crore), Kerala State Housing Board (₹ 63.49 crore), Kerala Agricultural Workers Welfare Fund Board (₹ 40.45 crore), Kerala State Textile Corporation (₹ 34.56 crore), INFOPARK (₹ 156.18 crore) etc.

revenue expenditure, it ranged between 25 to 30 *per cent* during the period 2006-11. The financial assistance to Zilla Parishads, Municipalities, Corporations, etc., increased by ₹ 482.40 crore to ₹ 4313.52 crore in 2010-11 from ₹ 3831.12 crore in 2009-10 which was mainly due to more devolution of funds to local bodies towards maintenance of assets, expansion and development and traditional functions.

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. Improvement in the quality of expenditure basically involves three aspects, viz., adequacy of public expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure use and its effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 Adequacy of public expenditure

The responsibilities relating to expenditure on the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.12** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2007-08 and 2010-11.

Table 1.12: Fiscal priority of the State in 2007-08 and 2010-11

(in per cent)

Fiscal Priority by the State*	AE/GSDP	DE#/AE	SSE/AE	CE/AE	Education /AE	Health/AE
General Category States' Average (Ratio) 2007-08	16.85	64.28	32.54	16.14	14.64	3.98
Kerala's Average (Ratio) 2007-08	15.56	47.37	31.52	5.41	16.74	4.73
General Category States' Average (Ratio) 2010-11	16.65	64.42	36.75	13.27	17.42	4.35
Kerala 's Average (Ratio) 2010-11	14.62	52.64	32.86	8.67	17.87	5.32

* As *per cent* to GSDP
AE: Aggregate Expenditure DE: Development Expenditure
SSE: Social Sector Expenditure CE: Capital Expenditure.
\# Development expenditure includes Development Revenue Expenditure, Development Capital expenditure and Loans and Advances disbursed.

- In 2007-08 and 2010-11, the State Government spent relatively less as a proportion of its GSDP compared to the General Category States' average.
- In 2007-08 and 2010-11, development expenditure as a proportion of aggregate expenditure has also been lower than the General Category States' average. Developmental expenditure consists of both economic sector expenditure and social sector expenditure.
- Adequate priority has not been given to Social sector during 2007-08 and 2010-11. As far as health sector and education sector's fiscal

priority is concerned, the State has given adequate priority to these sectors.

- The proportion of capital expenditure has been much lower as compared to General Category States during 2007-08 and 2010-11. However, it is observed that the State has shown some improvement in 2010-11 as compared to 2007-08 by increasing expenditure on capital but it is still lower than General Category States' average.
- The Government may consider enhancing the proportion of expenditure on economic and capital sectors in order to create the much needed assets to stimulate growth and give priority to physical capital formation that will further increase the growth prospects of the State by creating durable assets.

1.5.2 Efficiency of expenditure use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods[10]. Apart from improving the allocation towards development expenditure[11], particularly in view of the fiscal space being created on account of decline in expenditure on debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. Development expenditure comprised revenue and capital expenditure including loans and advances in socio-economic services. **Table 1.13** presents the trends in development expenditure relative to the aggregate expenditure of the State during the period 2006-07 to 2010-11. **Chart 1.11** presents component-wise development expenditure during 2006-11. **Table 1.14** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

[10] *Core public goods* are goods which all citizens enjoy in common in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. *Merit goods* are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the Government and therefore, wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

[11] The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into Social Services, Economic Services and General Services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

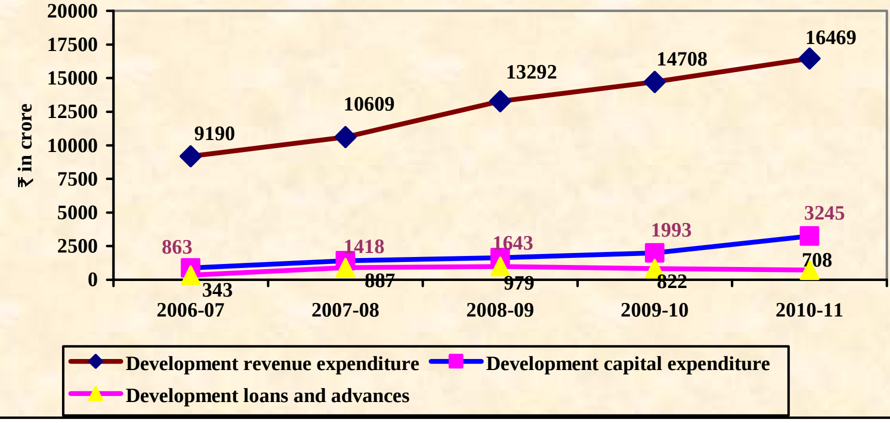
Table 1.13: Development expenditure

(₹ in crore)

Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Development Expenditure (a to c)						
a. Development revenue expenditure	9190 (41.6)	10609 (38.9)	13292 (43.0)	14,708 (43.2)	16,988	16,469 (42.5)
b. Development capital expenditure	863 (3.9)	1418 (5.2)	1643 (5.3)	1,993 (5.9)	3,792	3245 (8.4)
c. Development loans and advances	343 (1.6)	887 (3.3)	979 (3.2)	822 (2.4)	777	708 (1.8)
Figures in parentheses indicate percentage to aggregate expenditure						

Source: Finance Accounts and Annual Financial Statement of the State Government for 2010-11

Chart 1.11: Components of development expenditure



Development expenditure increased by 96 *per cent* (₹ 10026 crore) from ₹ 10396 crore in 2006-07 to ₹ 20422 crore in 2010-11. Development revenue expenditure constituted 81 *per cent* of development expenditure whereas the share of development capital expenditure including loans and advances was only 19 *per cent*.

Development revenue expenditure increased by 12 *per cent* (₹ 1761 crore) from ₹ 14708 crore in 2009-10 to ₹ 16469 crore in 2010-11. The increase was mainly due to increase in expenditure under the accounts heads; 'General Education' (₹ 876 crore), 'Power' (₹ 98 crore), 'Social Security and Welfare' (₹ 192 crore), 'Medical and Public Health' (₹ 293 crore), 'Labour and Employment' (₹ 98 crore), 'Fisheries' (₹ 93 crore) and 'Food Storage and Warehousing' (₹ 92 crore).

Development capital expenditure increased by 62.8 *per cent* (₹ 1252 crore) from ₹ 1993 crore in 2009-10 to ₹ 3245 crore in 2010-11. The increase was mainly due to increase in expenditure under the accounts heads; 'Roads and Bridges' (₹ 570 crore), 'Co-operation' (₹ 167 crore), 'Ports and Light Houses' (₹ 116 crore) and 'Housing' (₹ 80 crore). This was partly offset by decrease in expenditure under 'Water Supply and Sanitation' (₹ 86 crore).

Table 1.14: Efficiency of expenditure in selected Social and Economic Services

(in per cent)

Social/Economic Infrastructure	2009-10			2010-11		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S&W	O&M		S&W	O&M
Social Services (SS)						
General Education	0.4	87.3	…	0.7	86.1	0.1
Health and Family Welfare	3.7	74.8	0.1	4.8	75.8	0.7
Water Supply, Sanitation, Housing and Urban Development	15	3.6	2.5	16.6	3.4	2.6
Total (SS)	3.2	63.4	0.8	3.8	62.8	1.0
Economic Services (ES)						
Agriculture and Allied Activities	8.1	31.8	0.4	13.7	29.4	0.7
Irrigation and Flood Control	46.6	50.1	49.5	47.2	49.4	46.8
Power and Energy	..	0.3		--	0.1	
Transport	43.2	12.9	34.7	64.6	19.9	37.5
Total (ES)	26.0	26.7	12.1	36.0	28.1	10.2
Total (SS+ES)	11.4	52.8	4.1	15.9	53.6	3.4
TE : Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W :Salaries and Wages; O&M: Operations and Maintenance.						

Source: Finance Accounts and information furnished by Accountant General (A&E)

During the current year, the ratio of capital expenditure to total expenditure under Social Services increased to 3.8 *per cent* from 3.2 *per cent* in the previous year. The increase was mainly due to assigning more priority to capital expenditure under 'Water Supply, Sanitation, Housing and Urban Development' where capital expenditure as a percentage of total expenditure increased from 15 *per cent* to 16.6 *per cent* and under 'Health & Family Welfare' where the ratio of capital expenditure to total expenditure increased from 3.7 to 4.8 *per cent*. The percentage of capital expenditure to total expenditure under Economic Services increased from 26 *per cent* in 2009-10 to 36 *per cent* in 2010-11. The higher priority of capital expenditure under Economic Services was mainly under 'Agriculture & Allied Activities' and 'Transport'where capital expenditure as a percentage of total expenditure increased from 8.1 *per cent* and 43.2 *per cent* to 13.7 *per cent* and 64.6 *per cent* respectively.

The share of salaries and wages in revenue expenditure under Social Services decreased from 63.4 *per cent* in 2009-10 to 62.8 *per cent* in 2010-11. But the share of salaries and wages in revenue expenditure under Economic Services increased from 26.7 *per cent* in 2009-10 to 28.1 *per cent* in 2010-11.

1.5.3 Overstatement/understatement of expenditure affecting quality of expenditure

Some types of transactions in Government accounts such as keeping of funds in deposit/treasury savings bank/public sector bank accounts after drawal from the Consolidated Fund, refunds of funds relating to earlier years, etc. would have the effect of overstatement or understatement of expenditure of the relevant years thus affecting the quality of expenditure. The following instances have come to the notice of audit.

- Out of ₹ 28.92 crore booked under the major head '2810-New and Renewable Energy', ₹ 23.14 crore amounting to 80 *per cent* of the expenditure was drawn on the last day of the financial year. The amount was seen credited to treasury savings bank accounts and treasury public account of the Agency for Non-Conventional Energy and Rural Technology. Thus the expenditure under the Major Head '2810' for the year 2010-11 was overstated by ₹ 23.14 crore.

- The Director of Scheduled Castes Development refunded ₹ 6.99 crore under the head '2225-01-911' in May 2010. The amount was the unspent balance out of amounts drawn during 2009-10 for payment of scholarships to students.

1.6 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowings) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market-based resources, the State Government is required to initiate measures to earn adequate returns on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies. The State is also to take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* previous years.

1.6.1 Financial results of irrigation works

In the case of eight irrigation projects, which have been declared commercial, with a cumulative capital outlay of ₹ 123.42 crore as on 31 March 2011, the revenue realised from them during 2010-11 was ₹ 1.18 crore which was less than one *per cent* of the total outlay. After considering the working and maintenance expenses of ₹ 31.69 crore and interest charges of ₹ 10.99 crore, these projects suffered a net loss of ₹ 41.50 crore.

1.6.2 Incomplete projects/works

Department-wise information pertaining to incomplete projects/works (each costing above ₹ one crore) as on 31 March 2011 is given in **Table 1.15**.

Table 1.15: Status of incomplete projects in the State

(₹ in crore)

Sl. No	Name of the department/project	No. of incomplete projects/ works	Initial budgeted cost	Revised cost of projects	Cost over-run	Cumulative actual expenditure as on 31 March 2011
1.	Water Resources Department – (Irrigation project)	32 works (in eight projects)	87.25	586.21 (23 works)	515.75 (23 works)	466.93
2.	Water Resources Department – (Irrigation and Minor Irrigation Works)	39	80.14	41.13 (18 works)	9.85 (18 works)	40.25
3.	Public Works Department – (Roads and Bridges)	95	344.01	121.39 (24 works)	37.29 (24 works)	259.84
4.	Public Works Department – (Buildings)	56	152.50	56.49 (16 works)	19.14 (16 works)	86.19
5.	Harbour Engineering Department	19	219.82	90.82 (5 works)	44.99 (5 works)	263.84
	Total	**241**	**883.72**	**896.04 (86 works)**	**627.02**	**1117.05**

Source: Appendix X of Finance Accounts 2010-11

According to information included in the Finance Accounts, 241 projects/works on which an expenditure of ₹ 1117.05 crore was incurred up to March 2011 were not completed at the end of March 2011 though the stipulated period of completion was over. Further, of the 241 incomplete projects/works, the original cost of 86 projects/works was revised by the Government which resulted in cost overrun amounting to ₹ 627.02 crore as on 31 March 2011. The reasons attributed by the departments for the slow implementation of projects/works were paucity of funds, shortage of technical staff, delay in getting land, changes in alignment, delays in sanctioning revised estimates, court cases, etc.

The amount blocked in these projects/works was five *per cent* of the cumulative capital outlay of the State. Due to non-completion of projects within the stipulated time frame, not only were the benefits to be accrued to the society delayed but the cost to the exchequer also increased due to time overrun involved in their completion.

1.6.3 Investment and returns

As of 31 March 2011, the State Government had invested ₹ 3,807.52 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives **(Table 1.16)**. The average return on these investments was 1.3 *per cent* in the last five years while the Government paid an average interest rate ranging from 7.3 *per cent* to 8.4 *per cent* on its borrowings during 2006-2011.

Table 1.16: Return on investments

Investment/Return/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year (₹ in crore)	2392.03	2483.99	3153.10	3328.25	3807.52
Return (₹ in crore)	30.17	28.63	33.53	27.29	75.46
Return *(per cent)*	1.3	1.2	1.1	0.8	2.0
Average rate of interest on Government borrowing *(per cent)*	8.4	7.9	7.5	7.5	7.3
Difference between interest rate and return *(per cent)*	7.1	6.7	6.4	6.7	5.3

Source: Finance Accounts of the State Government

During 2010-11, the State Government invested ₹ 49.91 crore in Statutory Corporations, ₹ 218.74 crore in Government Companies and ₹ 235.22 crore in Co-operative Banks and Societies. Two Statutory Corporations and 58 Government Companies with aggregate Government investments of ₹ 1623 crore were incurring losses and their accumulated losses amounted to ₹ 3406.81 crore as per the latest accounts furnished by these Companies. Of the loss-making Companies, six Companies with an investment of ₹ 13.42 crore up to 31 March 2011 were under liquidation and one Company with an investment of ₹ 1.35 crore was under lockout from June 1993.

Nine major Companies which had accumulated profits as per the latest accounts furnished by them are listed in **Table 1.17.**

Table 1.17: Major profit making companies

(₹ in crore)

Sl. No	Name of Government Company	Accounts for the year ended	Accumulated profit
1.	Kerala State Electricity Board	2009-10	1486.18
2.	The Kerala Minerals and Metals Limited	2010-11	290.91
3.	Kerala State Beverages (Manufacturing and Marketing) Corporation Limited	2009-10	330.89
4.	Malabar Cements Limited	2009-10	126.42
5.	The Kerala State Financial Enterprises Limited	2009-10	147.87
6.	The Rehabilitation Plantations Limited	2010-11	107.12
7.	The Kerala Agro-Machinery Corporation Limited.	2009-10	74.46
8.	The Plantation Corporation of Kerala Limited	2010-11	120.84
9.	Kerala State Industrial Development Corporation Limited	2010-11	97.42

Source: Annexure 2 of Audit Report (Commercial) for the year ended 31 March 2011

1.6.4 Departmentally managed Commercial Undertakings

Activities of quasi-commercial nature are performed by certain Government departments. There were three[12] departmental commercial undertakings in the State as of March 2011. The department-wise position of the investments made by the Government up to the year for which *pro forma* accounts were finalised, net profit/loss as well as return on capital invested in these undertakings are given in **Appendix 1.7.** The following was observed:

- An amount of ₹ 183.43 crore had been invested by the State Government in these undertakings at the end of the financial year up to which their accounts were finalised.
- One undertaking, viz., the Kerala State Insurance Department earned a net profit of ₹ 11.41 crore against the capital of ₹ 3.18 crore invested by the Government.
- Two loss-making undertakings viz. State Water Transport Department and Text Book Office were incurring losses continuously for more than five years.
- The accumulated losses of the State Water Transport Department were ₹ 150.66 crore as against the total investment of ₹ 158.99 crore.

In view of the heavy losses in the State Water Transport Department and in the Text Book Office, the Government should review their working.

1.6.5 Loans and advances by the State Government

In addition to investments in Co-operative Societies, Corporations and Companies, the Government has also been providing loans and advances to many institutions/organisations. **Table 1.18** presents the outstanding loans and advances as on 31 March 2011 and interest receipts *vis-à-vis* interest payments during the last five years**.**

[12] Kerala State Insurance Department, Text Book Office and State Water Transport Department

Table 1.18: Average interest received on loans advanced by the State Government

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Opening balance	5,431	5,562[13]	6,280[14]	6910[15]	7749
Amount advanced during the year	349	893	984	877	762
Amount repaid during the year	66	45	36	38	44
Closing balance	5,714	6,410	7228	7749	8467
Net addition	283	848	948	839	718
Interest receipts	28	51	48	46	54
Interest receipts as a percentage of outstanding loans and advances	0.5	0.9	0.7	0.6	0.7
Interest payments as a percentage of outstanding fiscal liabilities of the State Government	8.4	7.9	7.5	7.5	7.3
Difference between interest payments and interest receipts (*per cent*)	(-) 7.9	(-) 7.0	(-) 6.8	(-) 6.9	(-) 6.6

Source: Finance Accounts of the State Government.

The total outstanding loans and advances as on 31 March 2011 increased by ₹ 718 crore compared to those of the previous year. The major disbursement of loans during the current year was mainly to the Kerala State Road Transport Corporation (₹ 160 crore), to the Kerala State Co-operative Agricultural and Rural Development Bank Limited (₹ 126 crore) and to the Kerala Water Authority for implementing the Water Supply Project assisted by the Japan International Co-operation Agency (₹ 99 crore). Interest received against these loans remained less than one *per cent* during the period 2006-07 to 2010-11 and was 0.7 *per cent* during 2010-11 as against the cost of borrowing of 7.3 *per cent* during the year.

1.6.6 Cash Balances and investment of cash balances

The cash balances and investments made by the State Government out of the cash balances during the year are shown in **Table 1.19**.

Table 1.19: Cash balances and investment of cash balances

(₹ in crore)

Particulars	As on 1 April 2010	As on 31 March 2011	Increase/ Decrease(-)
Cash balances	**4388.26**	**5059.73**	**671.47**
Investments from cash balances (a + b)	3230.42	3517.46	287.04
a. GOI Treasury Bills	3219.94	3506.98	287.04
b. GOI Securities	10.48	10.48	…
Fund-wise break-up of investments from earmarked balances (a to d)	**1097.23**	**1480.74**	**383.51**
a. Reserve funds bearing interest	…	…	…
b. Reserve funds not bearing interest	1097.23	1480.74	383.51

[13] Difference of ₹ 152.42 crore with reference to the previous year's closing balance was on account of *pro forma* adjustments vide footnote (b) of Statement 5 of the Finance Accounts 2007-08.

[14] Difference of ₹ 130.26 crore with reference to the previous year's closing balance was on account of *pro forma* adjustments vide footnotes b, d and e of Statement 5 of the Finance Accounts 2008-09.

[15] Difference of ₹ 317.93 crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (pp) of Statement No.16 of Finance Accounts 2009-10.

Particulars	As on 1 April 2010	As on 31 March 2011	Increase/ Decrease(-)
c. Deposit bearing interest	…	…	…
d. Deposit not bearing interest	…	…	…
Interest realised during the year on investment of cash balances	95.21	106.58	11.37

Source: Finance Accounts of the State Government

- The cash balance as on 31 March 2011 increased by ₹ 671.47 crore over the previous year.
- The interest realised during the year on investment of cash balances increased by ₹ 11.37 crore as compared to the previous year.

1.6.6.1 Outstanding balances under the head 'Cheques and Bills'

This head is an intermediary accounting head for initial record of transactions which are to be cleared eventually. When a cheque is issued, the functional head is debited and the Major Head-8670-Cheques and Bills is credited. On clearance of the cheque by the bank, the minus credit is given to Major Head 8670-Cheques and Bills by crediting the Major Head- 8675-Deposits with Reserve Bank and thereby reducing the cash balance of the Government. Thus the outstanding balance under the Major Head 8670-Cheques and Bills represents the amount of uncashed cheques.

As on 31 March 2011, there was an outstanding balance (cumulative) of ₹ 1207.72 crore and to this extent, the Government cash balance stood overstated.

1.7 Assets and Liabilities

1.7.1 Growth and composition of assets and liabilities

In the existing 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 1.4** gives an abstract of such liabilities and assets as on 31 March 2011, compared with the corresponding position as on 31 March 2010. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from GOI, receipts from the Public Account and Reserve Funds, the assets mainly comprise the capital outlay and loans and advances given by the State Government and its cash balances.

According to the definition given in the Kerala Fiscal Responsibility Act, 2003, total liabilities means liabilities upon the Consolidated Fund and the Public Account of the State.

1.7.2 Fiscal liabilities

The trends of outstanding fiscal liabilities of the State are presented in **Appendix 1.5.** The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Charts 1.12** and **1.13.**

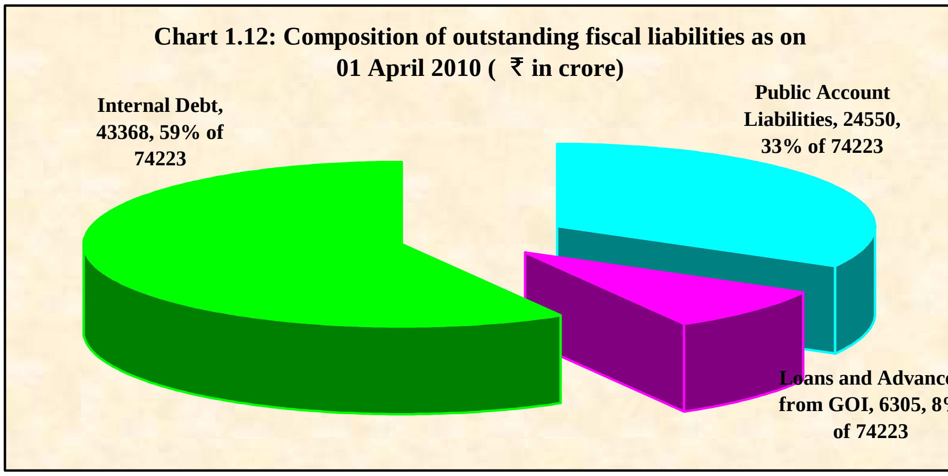


Chart 1.12: Composition of outstanding fiscal liabilities as on 01 April 2010 (₹ in crore)

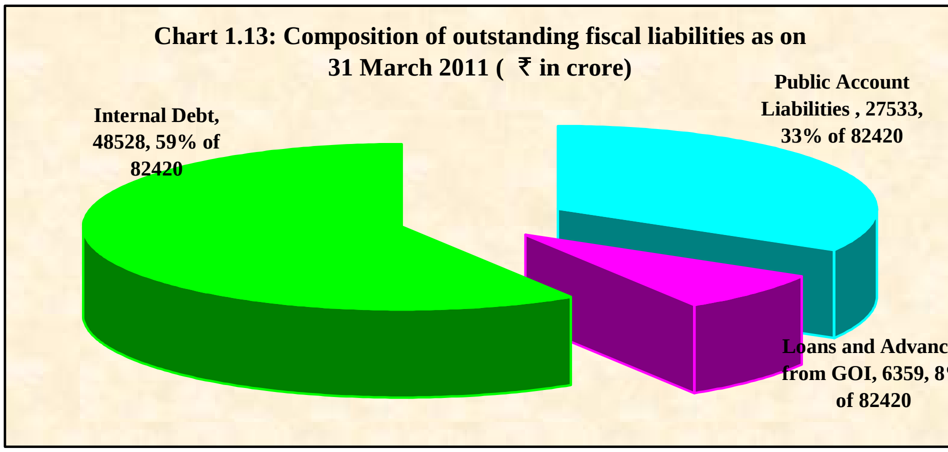


Chart 1.13: Composition of outstanding fiscal liabilities as on 31 March 2011 (₹ in crore)

The overall fiscal liabilities of the State increased from ₹ 74223 crore in 2009-10 to ₹ 82420 crore in 2010-11, a growth rate of 11 *per cent*. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. As at the end of March 2011, the Consolidated Fund liabilities (₹ 54887 crore) comprised Market Loans (₹ 30744 crore), Loans from the Government of India (₹ 6359 crore) and Other Loans (₹ 17784 crore). The Public Account liabilities (₹ 27533 crore) comprised Small Savings, Provident Funds, etc., (₹ 23786 crore)[16], interest bearing obligations (₹ 38 crore) and non-interest bearing obligations like Deposits and other earmarked funds (₹ 3709 crore). The fiscal liabilities which were 32.2 *per cent* of GSDP in 2009-10 decreased to 31.1 *per cent* of GSDP in 2010-11. These liabilities stood at 2.7 times the revenue receipts at the end of 2010-11 compared to 2.8 times at the end of 2009-10. The Thirteenth Finance Commission recommended that the debt stock of the States should be reduced to less than 30 *per cent* of GSDP by 2014-15. In order to achieve this target, the State Government may consider adopting a well-planned strategy to review the stock of fiscal liabilities.

[16] This includes liabilities from the Treasury Savings Bank Account (₹ 4348 crore) and Treasury Fixed Deposits (₹ 6043 crore)

The overall fiscal liabilities of the State include balance under Reserve Funds amounting to ₹ 1801.79 crore (as on 31 March 2011). The details in respect of two of the reserve funds are given in succeeding paragraphs:

(a) State Disaster Response Fund

The State Disaster Response Fund (SDRF) has been set up from 1 April 2010 replacing the existing Calamity Relief Fund. The size of the Fund for Kerala for the year 2010-11 fixed by the Thirteenth Finance Commission was ₹ 131.08 crore, 75 *per cent* of which was to be contributed by the Central Government and 25 *per cent* by the State Government. During the year the Central and the State Governments contributed their share. In addition ₹ 12.78 crore received from the National Disaster Response Fund and ₹ 9.99 crore towards additional contribution made by the State Government were credited to SDRF. As on 31 March 2011, the balance in SDRF was ₹ 37.56 crore after setting off the expenditure for disaster relief operations.

According to the guidelines issued by the Government of India, the accretions to SDRF were to be invested in Central Government dated securities and/or Auctioned Treasury Bills and/or interest earning deposits and Certificates of deposits with Scheduled Commercial Banks. However, no such investments were made by the State Government during 2010-11.

(b) Consolidated Sinking Fund

The State Government had set up a Consolidated Sinking Fund from the financial year 2007-08, according to which the Fund was to be utilised as an Amortisation Fund for redemption of all outstanding liabilities of the Government commencing from the financial year 2012-13. The Fund was to be credited with contributions from revenue at the prescribed rate and interest accrued on investments made out of the Fund. Only the interest accrued and credited in the Fund was to be utilised for redemption of the outstanding liabilities of the Government. The rate of contribution to the Consolidated Sinking Fund was 0.5 *per cent* of the outstanding liabilities as at the end of the previous year. According to this, the State Government had to contribute ₹ 339.59 crore during 2010-11 to the Consolidated Sinking Fund. However, the State Government contributed only ₹ 275 crore to the Fund, which resulted in a shortfall of ₹ 64.59 crore during the year. As on 31 March 2011, the outstanding balance in the Sinking Fund was ₹ 1473.67 crore.

1.7.3 Status of guarantees – contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of default by borrowers for whom the guarantees have 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 ₹ 14,000 crore. As per Section 6 of the Act, the Government was to constitute a Guarantee Redemption Fund. The guarantee commission charged under Section 5 of the Act was to form the corpus of the Fund. However, the Fund had not been constituted and consequently, guarantee commission of ₹ 442.94 crore collected during 2003-04 to 2010-11 had not been credited to the Fund but was treated as non-tax revenue in the relevant years and used for meeting the revenue expenditure of the Government.

The maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2006-07 are given in **Table 1.20.**

Table 1.20: Guarantees given by the Government of Kerala

(₹ in crore)

Guarantees	2006-07	2007-08	2008-09	2009-10	2010-11
Maximum amount guaranteed	12646.70	14871.08	11385.54	10,225.78	12625.07
Outstanding amount of guarantees	9405.33	8317.34	7603.32	7495.00	7425.79
Percentage of maximum amount guaranteed to total revenue receipts	70	70	46	39	41
Criteria as per Kerala Ceiling on Government Guarantees Act, 2003 (Outstanding amount of guarantees as on the first day of April)	14,000	14,000	14,000	14,000	14,000

Source: Finance Accounts of the State Government

The outstanding guarantees at the end of the past five years i.e. 2006-11 ranged between ₹ 7,426 crore and ₹ 9,405 crore, which were well within the ceiling prescribed by the Kerala Ceiling on Government Guarantees Act.

The arrears of guarantee commission receivable as of March 2011 were ₹ 231.90 crore.

1.8 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability[17] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation[18]; sufficiency of non-debt receipts[19]; net availability of borrowed funds[20]; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State

[17] Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP 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 a balance between costs of additional borrowings with returns from such borrowings. It means that the rise in fiscal deficits should match the increase in the capacity to service the debts.

[18] A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or the 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 x rate spread), the debt sustainability condition states that if the quantum spread together with the primary deficit is zero, their debt-GSDP ratio would be constant or their debt would stabilize eventually. On the other hand, if the primary deficit together with the quantum spread turns out to be negative, the debt-GSDP ratio would be rising. In case it is positive, the debt-GSDP ratio would eventually be falling.

[19] 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.

[20] Defined as the ratio of debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

Government securities. **Table 1.21** analyses the debt sustainability of the State according to these indicators for the period of four years beginning from 2007-08.

Table 1.21: Debt sustainability: indicators and trends

(₹ in crore)

Indicators of Debt Sustainability	2007-08	2008-09	2009-10	2010-11
Debt Stabilisation (Quantum Spread + Primary Deficit)	1360	2555	2113	3823
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 2278	(-) 247	(-) 1525	141
Net Availability of Borrowed Funds	1629	3334	2834	2507
Burden of Interest Payments (Interest Payment/Revenue Receipts *percent*)	21	19	20	18
Maturity Profile of debt				
Up to one year	1.65	1.59	1587.67 (3.2)	2566.98 (4.7)
One to three years	4913.86 (12.4)	5852.42 (13.1)	4503.59 (9.1)	5205.33 (9.5)
Three to five years	4863.95 (12.3)	5349.27 (11.9)	5215.70 (10.5)	6260.17 (11.4)
Five to seven years	5447.94 (13.8)	6241.10 (13.9)	6786.36 (13.7)	9314.78 (17.0)
Seven years and above	23385.70 (59.1)	26576.50 (59.3)	27363.90 (55.1)	28162.37 (51.3)
Information not furnished by State Government	938.69 (2.4)	801.97 (1.8)	4216.09 (8.4)	3377.55 (6.1)

Figures in parentheses indicate the percentage to total State debt

Source: Finance Accounts of the State Government

During 2007-08 to 2010-11, the quantum spread together with primary deficit was positive, indicating a declining trend in Debt-GSDP ratio. The resource gap (sufficiency of non-debt receipts) was negative during the period 2007-10 which showed that the incremental non-debt receipts were inadequate to finance incremental primary expenditure and incremental interest burden. However in 2010-11, the resource gap turned positive indicating sufficient capacity of the State to sustain the debt. During 2010-11, the net availability of borrowed funds after providing interest and repayment of principal decreased to ₹ 2507 crore from ₹ 2834 crore in 2009-10. This showed that a larger part of the borrowings was being used for debt redemption (including interest), leaving only a small portion of the borrowed funds to be spent for developmental activities.

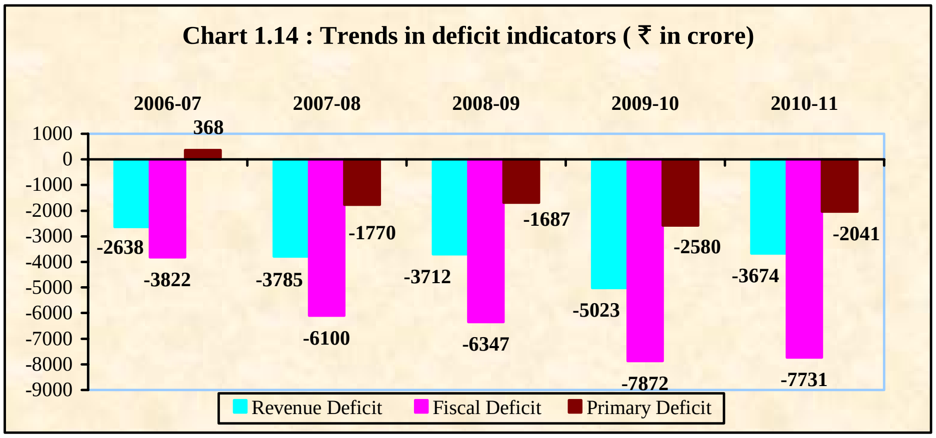
The maturity profile of State debt indicates that the Government will have to repay 37.9 *per cent* of its debt between one and seven years. A well thought out debt management strategy will ensure that no additional borrowings which mature in these critical years are undertaken.

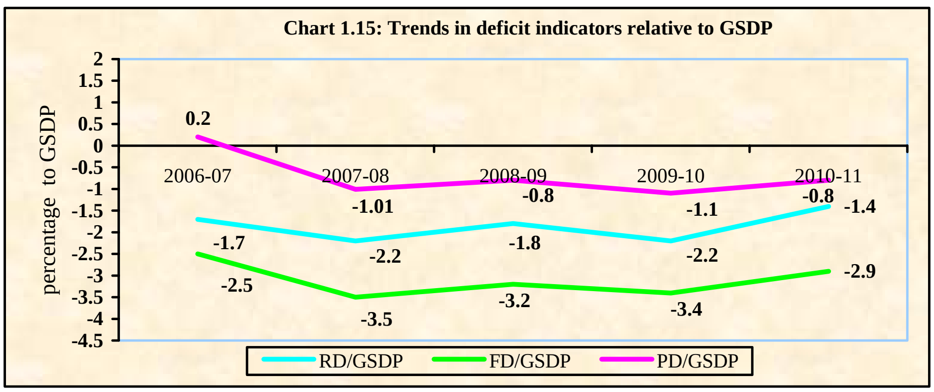
1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. 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. This section presents the trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under the Fiscal Responsibility Act/Rules for the financial year 2010-11.

1.9.1 Trends in deficits

Charts 1.14 and **1.15** presents the trends in deficit indicators over the period 2006-11.





The revenue deficit of the State which indicates the excess of its revenue expenditure over revenue receipts showed inter-year variations during 2006-11. It increased steadily from ₹ 2638 crore in 2006-07 to ₹ 5023 crore in 2009-10 except for a slight decrease in 2008-09. However, it decreased sharply to ₹ 3674 crore in 2010-11. The decrease of 26.9 *per cent* in revenue deficit during the current year compared to the previous year was due to the growth rate of 18.7 *per cent* in revenue receipts compared to the growth rate of 11.3 *per cent* in revenue expenditure.

The fiscal deficit, which represents the total borrowing of the Government and its total resource gap increased steadily from ₹ 3822 crore in 2006-07 to ₹ 7872 crore in 2009-10 but decreased to ₹ 7731 crore in 2010-11. Decrease in revenue deficit (₹ 1349 crore), decrease in non-debt capital receipts (₹ 18 crore) and increase in capital expenditure (₹ 1305 crore) and decrease in disbursement of loans and advances (₹ 115 crore) during the year led to decrease in fiscal deficit by ₹ 141 crore during the year over the previous year.

As a proportion of GSDP, the revenue deficit decreased to 1.4 *per cent* and the fiscal deficit to 2.9 *per cent* in 2010-11 from 2.2 *per cent* and 3.4 *per cent* in 2009-10. The Medium Term Fiscal Plan for the years 2010-11 to 2012-13 envisaged a revenue deficit target of 1.48 *per cent* of GSDP and a fiscal deficit target of 3.49 *per cent* of GSDP for the year 2010-11. The achievement with regard to revenue and fiscal deficit was better than the targets fixed in the Medium Term Fiscal Plan.

Primary deficit decreased from ₹ 2580 crore in 2009-10 to ₹ 2041 crore in 2010-11. Decrease in revenue deficit, fiscal deficit and primary deficit indicate the improved fiscal position of the State during 2010-11.

1.9.2 Components of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.22.** Receipts and disbursements under the components of financing the fiscal deficit during 2010-11 are given in **Table 1.23**

Table 1.22: Components of fiscal deficit and its financing pattern

(₹ in crore)

	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Decomposition of fiscal deficit						
1	Revenue deficit	2638	3785	3712	5023	3674
2	Net capital expenditure	901	1467	1687	2010	3339
3	Net loans and advances	283	848	948	839	718
Total fiscal deficit		**3822**	**6100**	**6347**	**7872**	**7731**
Financing pattern of fiscal deficit*						
1	Market borrowings	1786	3634	4782	4710	4770
2	Loans from Government of India	(-) 46	161	476	297	54
3	Special Securities Issued to National Small Savings Fund	2177	107	(-) 102	(-) 140	42
4	Loans from Financial Institutions	336	309	116	(-) 16	348
5	Small Savings, PF etc	(-) 306	1324	2589	2849	2490
6	Deposits and Advances	428	492	132	437	469
7	Suspense and Miscellaneous	319	118	(-) 85	370	(-) 197
8	Remittances	(-) 4	49	23	57	27
9	Others	(-) 43	(-) 160	72	(-) 31	399
10	**Total (1 to 9)**	**4647**	**6034**	**8003**	**8533**	**8402**
11	Increase (-)/Decrease (+) in Cash Balance	(-) 825	66	(-)1656	(-) 661	(-) 671
12	**Overall deficit**	**3822**	**6100**	**347**	**7872**	**7731**
*All these figures are net of disbursements/outflows during the year.						

Source: Finance Accounts of the State Government

Table 1.23: Receipts and disbursements under components financing the fiscal deficit during 2010-11

(₹ in crore)

	Particulars	Receipt	Disbursement	Net
1	Market borrowings	5500	730	4770
2	Loans from Government of India	362	308	54
3	Special Securities Issued to National Small Savings Fund	390	348	42
4	Loans from Financial Institutions	938	590	348
5	Small Savings, PF etc	16686	14196	2490
6	Deposits and Advances	5638	5169	469
7	Suspense and Miscellaneous	42747	42944	(-) 197
8	Remittances	8132	8105	27
9	Others	577	178	399

	Particulars	Receipt	Disbursement	Net
10	**Total (1 to 9)**	**80970**	**72568**	**8402**
11	Increase (-)/Decrease (+) in Cash Balance			(-) 671
12	**Overall deficit**			**7731**

Source: Finance Accounts of the State Government

During 2006-07 market borrowings and special securities issued to National Small Savings Fund financed a major part of the fiscal deficit. However, during 2007-08 to 2010-11, the special Securities issued to National Small Savings Fund showed a declining trend and the fiscal deficit was financed mainly by market borrowings, provident funds and small savings. The net accretions from other sources in the Public Account such as deposits, suspense, remittance, etc., was also utilised to finance the fiscal deficit.

During 2010-11, the State Government raised ₹ 5500 crore as market loans at an average interest rate of 8.4 *per cent* and ₹ 389.44 crore from special securities issued to NSSF at an interest rate of 9.50 *per cent.* The State Government also received loans amounting to ₹ 414.68 crore from NABARD at an average interest rate of 7.5 *per cent*, ₹ 440 crore from LIC at an interest rate of 9.5 *per cent* and ₹ 83.39 crore from NCDC at interest rates ranging from 9.75 to 11.75 *per cent* during 2010-11. The State Government also received loans amounting to ₹ 361.40 crore from the Government of India during the year for which the details of interest rate on all loans were not available.

The State Government has been mobilising deposits from its employees, pensioners, institutions and general public through treasuries. During 2010-11, the State Government received ₹ 10344.07 crore as deposits through Treasury Saving Bank accounts at an average interest rate of 5 *per cent* and ₹ 2666.20 crore as Treasury Fixed Deposits at interest rates ranging from 7.25 *per cent* and 9.5 *per cent*. The outstanding amount of such deposits as on 31 March 2011 was ₹ 10410.34 crore.

1.9.3 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit 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 States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratios of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of the primary deficit **(Table 1.24)** indicates the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.24: Primary deficit/surplus – bifurcation of factors

(₹ in crore)

Year	Non-debt receipts (NDR)	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Primary revenue deficit (-) / surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2006-07	18255	16635	903	349	17887	(+) 1620	(+) 368
2007-08	21160	20562	1475	893	22930	(+) 598	(-) 1770
2008-09	24557	23564	1696	984	26244	(+) 993	(-) 1687
2009-10	26,196	25,840	2,059	877	28,776	(+) 356	(-) 2580
2010-11	31060	28975	3364	762	33101	(+) 2085	(-) 2041

Source: Finance Accounts of the State Government

Bifurcation of the factors leading to primary deficit or surplus of the State reveals that 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 revenue expenditure[21] requirements during 2006-11. However, the surplus non-debt receipts were not enough to meet the expenditure requirements under the capital account during the period 2006-11 except during 2006-07, which resulted in the 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.

1.10 Conclusion

Oversight of funds transferred directly from the GOI to the State implementing agencies: The Government of India directly transferred ₹ 2163.91 crore to State implementing agencies during the year. Direct transfer of funds from the Government of India to the State implementing agencies ran the risk of inadequate monitoring of utilisation of funds by these agencies in the absence of uniform accounting policies and effective monitoring system **(Para 1.2.2)**.

Pattern of Revenue and Expenditure: Revenue receipts during the year increased by 18.7 *per cent* over the previous year as against 6.5 *per cent* during the previous year. The high growth rate was mainly due to growth rate of 23.2 *per cent* in States' own tax revenue compared to 10.2 *per cent* during the previous year **(Para 1.3)**.

The expenditure pattern of the State reveals that as a percentage of total expenditure the revenue expenditure declined to 89 *per cent* during the year from 91 *per cent* during the previous year whereas capital expenditure increased to nine *per cent* from six *per cent* of the previous year. Non-Plan Revenue Expenditure at ₹ 30469 crore exceeded the normative assessment made by the Thirteenth Finance Commission (₹ 28349 crore) by 7.5 *per cent* **(Para 1.4.1)**. The committed expenditure on salary and wages, pensions, interest payments and subsidies constituted 75 *per cent* of revenue receipts during 2010-11, a decrease of three percentage points compared to the previous year. Such an improvement may be difficult in the coming years after implementation of the recommendations of the Ninth State Pay Commission **(Para 1.4.2)**.

[21] Primary revenue expenditure represents revenue expenditure less expenditure on interest.

Capital expenditure during the year constituted nine *per cent* of the total expenditure and increased by 63.3 *per cent* over the previous year. However, proportion of expenditure spent on capital was much lower as compared to General Category States **(Paras 1.4.1 and 1.5.1)**.

Review of Government investments: The average return on the Government's investment in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives was 1.3 *per cent* in the last five years while Government paid an average interest rate ranging from 7.3 *per cent* to 8.4 *per cent* on its borrowings during this period **(Para 1.6.3)**.

Prudent Cash Management: The cash balance of the State as on 31 March 2011 increased to ₹ 5059.73 crore from ₹ 4388.26 crore as on 31 March 2010. The interest realised during the year on investment of the cash balance increased as compared to the previous year **(Para 1.6.6)**.

Debt Management: Fiscal liabilities at the end of the current year worked out to ₹ 82,420 crore and stood at 31.1 *per cent* of GSDP **(Para 1.7.2)**. During 2010-11 the quantum spread together with primary deficit and the resource gap were positive indicating a declining trend in Debt-GSDP ratio and capacity of the State to sustain the debt **(Para 1.8)**.

Deficits: All the key fiscal parameters, i.e., revenue, fiscal and primary deficits indicated a declining trend in 2010-11 when compared to the previous year. The revenue, fiscal and primary deficits decreased from ₹ 5023 crore, ₹ 7872 crore and ₹ 2580 crore in 2009-10 to ₹ 3674 crore, ₹ 7731 crore and ₹ 2041 crore respectively in 2010-11. The ratio of revenue deficit to fiscal deficit decreased from 63.8 *per cent* in 2009-10 to 47.5 *per cent* in 2010-11 **(Appendix 1.5)**. As a proportion of GSDP, the revenue deficit decreased to 1.4 *per cent* and the fiscal deficit to 2.9 *per cent* in 2010-11 from 2.2 *per cent* and 3.4 *per cent* in 2009-10. The achievement with regard to revenue and fiscal deficit was better than the targets fixed in the Medium Term Fiscal Plan **(Para 1.9.1)**.

1.11 Recommendations

The Government should:

- set up a mechanism to monitor the utilisation of funds directly received by the implementing agencies of the State Government from the Government of India.
- enhance the proportion of expenditure on economic and capital sectors in order to create the much needed assets to stimulate growth;
- take steps to ensure better value for money in investments. Otherwise, high-cost borrowed funds will continue to be invested in projects with low financial returns. Projects which are justified on account of low financial but high socio-economic returns may be identified and prioritized with full justification for channeling high-cost borrowings there;
- review the performance of State Public Sector Undertakings which are incurring huge losses and a revival strategy should be worked out for

those undertakings which can be made viable. Undertakings which are not viable may be closed down;

- adopt a well-planned strategy to review the stock of fiscal liabilities in order to adhere to the target of reducing it to less than 30 *per cent* of GSDP by 2014-15 set by the Thirteenth Finance Commission;
- use borrowed funds as far as possible only for creation of assets and revenue expenditure should be met fully from revenue receipts and
- take measures to increase tax compliance, collection of revenue arrears and pruning the unproductive expenditure to eliminate the deficit as recommended by the Thirteenth Finance Commission.