

## CHAPTER I

### FINANCES OF THE STATE GOVERNMENT

#### Summary

The revenue receipts during the year grew by *14.3 per cent* to Rs 13500 crore from Rs 11815 crore in the previous year. The revenue expenditure during the year grew by only *10.8 per cent* which resulted in a marginal reduction in the revenue deficit which stood at Rs 3669 crore compared to Rs 3680 crore in 2003-04.

During the current year, the contribution of States' own taxes in its revenue receipts declined to *66.4 per cent* from *68.5 per cent* in 2003-04; the contribution of Central tax transfers and grant-in-aid increased to *27.5 per cent* in 2004-05 from *24.7 per cent* in 2003-04. Sales tax was the major source of the State's own tax revenue having contributed *75 per cent* followed by State Excise (*8 per cent*) and Taxes on Vehicles (*7 per cent*).

During the year, revenue expenditure constituted *95.1 per cent* of total expenditure. On an average capital expenditure formed only *4.3 per cent* during the five years 2000-05.

The fiscal liabilities increased by *70 per cent* during 2000-05 and stood at Rs 43697 crore in 2004-05 i.e., *3.2 times* of the revenue receipts. At the end of 2004-05, the fiscal liabilities stood at the level of nearly *44 per cent* of GSDP. These liabilities are cause of concern for sustained growth and development in the medium to long-term basis.

Large revenue and fiscal deficits year after year show continued macro fiscal imbalances. Though it is not uncommon for the State to borrow for widening its infrastructure and for creating income-generating assets, an ever increasing ratio of fiscal liabilities to GSDP with a large revenue deficit could lead the State finances in a debt trap. Government should strive in the years to come to reduce revenue deficit and fiscal deficit by additional resource mobilisation through tax reforms, compression of non-developmental revenue expenditure and prudent debt management in order to achieve the target of zero revenue deficit and fiscal deficit to *two per cent* of GSDP by March 2007 envisaged in the Kerala Fiscal Responsibility Act, 2003.

## **1.1 Introduction**

The Finance Accounts of the Government of Kerala are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, the Contingency Fund and the Public Account of the State Government. The lay out of the Finance Accounts is depicted in Box 1.1

### **Box 1.1 Lay out of Finance Accounts**

Statement No.1 presents the summary of transactions of the State Government – receipts and expenditure, revenue and capital, public debt receipts and disbursements, etc., in the Consolidated Fund, the Contingency Fund and the Public Account of the State.

Statement No.2 contains the summarised statement of capital outlay showing progressive expenditure to the end of 2004-05.

Statement No.3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.

Statement No.4 indicates the summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.

Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.

Statement No. 6 gives the summary of guarantees given by the Government for repayment of loans, etc., raised by the statutory corporations, local bodies and other institutions.

Statement No. 7 gives the summary of cash balances and investments made out of such balances.

Statement No.8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2005.

Statement No.9 shows the revenue and expenditure under different heads for the year 2004-05 as a percentage of total revenue/expenditure.

Statement No.10 indicates the distribution between the charged and voted expenditure incurred during the year.

Statement No.11 indicates the detailed account of revenue receipts by minor heads.

Statement No.12 provides accounts of revenue expenditure by minor heads under non-plan and plan separately and capital expenditure by major heads.

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2004-05.

Statement No.14 shows the details of investment of the State Government in Statutory Corporations, Government Companies, other joint stock companies, co-operative banks and societies, etc., up to the end of 2004-05.

Statement No.15 depicts the capital and other expenditure to the end of 2004-05 and the principal sources from which the funds were provided for that expenditure.

Statement No.16 gives the detailed account of receipts, disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.

Statement No.17 presents detailed account of debt and other interest bearing obligations of the Government of Kerala.

Statement No.18 provides the detailed account of loans and advances given by the Government of Kerala, the amount of loan repaid during the year and the balance as on 31 March 2005.

Statement No.19 gives the details of earmarked balances of reserve funds.

Statements 1 to 8 are Summarised Statements and Statements 9 to 19 are Detailed Statements. Statements 5, 6 and 14 are based on information received from the Heads of Departments and the Finance Department.

## 1.2 Trend of Finances with reference to the previous year

Finances of the State Government during the current year compared to the previous year were as under:

*(Rupees in crore)*

2003-04	Sl. No	Major Aggregates	2004-05
<b>11815</b>	<b>1.</b>	<b>Revenue Receipts (2+3+4)</b>	<b>13500</b>
8089	2.	Tax Revenue	8963
807	3.	Non-Tax Revenue	819
2919	4.	Other Receipts	3718
<b>73</b>	<b>5.</b>	<b>Non-Debt Capital Receipts</b>	<b>95</b>
73	6.	<i>Of which</i> Recovery of Loans and Advances	95
<b>11888</b>	<b>7.</b>	<b>Total Receipts (1+5)</b>	<b>13595</b>
<b>14308</b>	<b>8.</b>	<b>Non-Plan Expenditure (9+11+12)</b>	<b>14094</b>
13101	9.	On Revenue Account	14063
3328	10.	<i>Of which</i> Interest Payments	3613
33	11.	On Capital Account	25
1174	12.	Loans and Advances disbursed	6
<b>3119</b>	<b>13.</b>	<b>Plan Expenditure (14+15+16)</b>	<b>3953</b>
2394	14.	On Revenue Account	3106
607	15.	On Capital Account	657
118	16.	Loans and Advances disbursed	190
<b>17427</b>	<b>17.</b>	<b>Total Expenditure (8+13)</b>	<b>18047</b>
<b>5539</b>	<b>18.</b>	<b>Fiscal Deficit (17-1-5)</b>	<b>4452</b>
<b>3680</b>	<b>19.</b>	<b>Revenue Deficit (9+14-1)</b>	<b>3669</b>
<b>2211</b>	<b>20.</b>	<b>Primary Deficit (18-10)</b>	<b>839</b>

### 1.3 Summary of Receipts and Disbursements for the year

Table 1 summarises the finances of the Government of Kerala for the year 2004-05 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements, Contingency Fund receipts and disbursements and Public Account receipts and disbursements made during the year as emerging from Statement 1 of Finance Accounts and other detailed statements.

Table 1 - Summary of receipts and disbursements for the year 2004-05 (Rupees in crore)

2003-04	Receipts	2004-05	2003-04	Disbursements	2004-05		
<b>Section-A: Revenue</b>							
					<b>Non-Plan</b>	<b>Plan</b>	<b>Total</b>
<b>11815.37</b>	<b>Revenue receipts</b>	<b>13500.49</b>	<b>15495.67</b>	<b>Revenue expenditure</b>	<b>14063.40</b>	<b>3106.01</b>	<b>17169.41</b>
8088.77	Tax revenue	8963.65	7397.93	General services	7832.54	153.27	7985.81
806.98	Non-tax revenue	819.09	5025.21	Social Services	4776.82	1102.58	5879.40
2012.01	Share of Union Taxes/Duties	2404.95	2999.35	Economic Services	1456.68	1850.16	3306.84
907.61	Grants from Govt. of India	1312.80	73.18	Grants-in-aid / Contributions	(-) 2.64	--	(-) 2.64
<b>3680.30</b>	<b>Revenue Deficit carried over to Section B</b>	<b>3668.92</b>					
<b>15495.67</b>	<b>Total Section - A</b>	<b>17169.41</b>	<b>15495.67</b>	<b>Total Section - A</b>	<b>14063.40</b>	<b>3106.01</b>	<b>17169.41</b>
<b>Section-B: Capital</b>							
(-) 103.22	Opening Cash Balance	(-) 226.64	164.85	Opening Overdraft from Reserve Bank of India	280.64		280.64 <sup>#</sup>
--	Miscellaneous Capital Receipts	0.02	639.71	Capital Outlay	24.65	657.09	681.74
72.89	Recoveries of Loans and Advances	95.23	1291.94	Loans and Advances disbursed	6.40	190.09	196.49
			3680.30	Revenue Deficit brought down from Section A	3668.92	--	3668.92 <sup>#</sup>
6992.46	Public debt receipts*	6596.22	2341.25	Repayment of Public Debt*	2277.43	--	2277.43 <sup>#</sup>
				Appropriation to Contingency Fund	75.00	--	75.00 <sup>#</sup>
--	Contingency Fund receipts	91.88	16.88	Contingency Fund disbursements	15.04	--	15.04 <sup>#</sup>
26147.18	Public Account receipts	33681.02	25481.66	Public Account disbursements	33136.43	--	33136.43 <sup>#</sup>
280.64	Closing Overdraft from Reserve Bank of India	--	(-) 226.64	Cash Balance at end	(-) 93.96	--	(-) 93.96 <sup>#</sup>
<b>33389.95</b>	<b>Total - Section B</b>	<b>40237.73</b>	<b>33389.95</b>	<b>Total - Section B</b>	<b>39390.55</b>	<b>847.18</b>	<b>40237.73</b>

\* Includes net ways and means advances but excludes overdraft from Reserve Bank of India

# Bifurcation of plan and non- plan not available

### 1.4 Audit Methodology

1.4.1 Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure and from the statements of the Finance Accounts for the year 2004-05 and wherever necessary, show

these in the light of time series data and periodic comparisons (**Appendix I to IV**). The reporting parameters are depicted in the Box 1.2.

<b>Box 1.2</b> <b>Reporting Parameters</b>
<p>Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The New GSDP series with 1993-94 as base as published by the Bureau of Economics and Statistics Department of the State Government have been used.</p> <p>For tax revenues, non-tax revenues, revenue expenditure, etc., buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.</p> <p>The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in <b>Appendix V</b>.</p>

**1.4.2** The key indicators adopted for analyzing the State finances are (i) Resources by volumes and sources, (ii) Application of resources, (iii) Assets and Liabilities and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

**1.4.3** The accounts of the State Government are kept in three parts viz., Consolidated Fund, Contingency Fund and Public Account. They are defined in Box 1.3.

<b>Box 1.3</b> <b>State Government Funds and the Public Account</b>	
<p><b>Consolidated Fund</b></p> <p>All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled The Consolidated Fund of State established under Article 266(1) of the Constitution of India.</p>	<p><b>Contingency Fund</b></p> <p>Contingency Fund of State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.</p>

### Public Account

Besides the normal receipts and expenditure of the Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursement are made from it.

## State Finances by key indicators

### 1.5 Resources by volumes and sources

**1.5.1** Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources, viz. market loans, borrowings from financial institutions/ commercial banks, etc., and loans and advances from Government of India as well as accruals from Public Account.

**1.5.2** Table 2 shows that the total receipts of the State Government for the year 2004-05 was Rs 53965 crore. Of which, the revenue receipts of the State Government was Rs 13500 crore only, constituting 25 per cent of the total receipts. The balance of receipts came from borrowings, receipts from Contingency Fund and Public Account.

Table 2 – Resources of Kerala

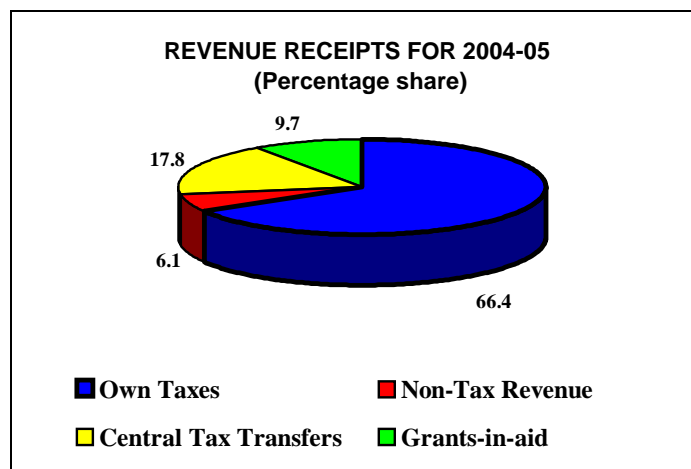
	<i>(Rupees in crore)</i>
<b>I Revenue Receipts</b>	<b>13500.49</b>
<b>II Capital Receipts</b>	<b>6691.47</b>
<i>a</i> Miscellaneous Receipts	0.02
<i>b</i> Recovery of Loans and Advances	95.23
<i>c</i> Public Debt Receipts*	6596.22
<b>III Contingency Fund Receipts</b>	<b>91.88</b>
<b>IV Public Account Receipts</b>	<b>33681.02</b>
<i>a</i> Small Savings, Provident Funds, etc.	7896.44
<i>b</i> Reserve Funds	358.13
<i>c</i> Deposits and Advances	2231.11
<i>d</i> Suspense and Miscellaneous	18318.31
<i>e</i> Remittances	4877.03
<b>Total Receipts</b>	<b>53964.86</b>
* Excludes ways and means advances from Reserve Bank of India	

## Revenue receipts

**1.5.3** Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. The Revenue Receipts of the State consist mainly of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from Government of India. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) and its buoyancy are indicated in Table 3.

**Table 3: Revenue Receipts- Basic Parameters**  
(Values Rupees in crore and others in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Receipts (RR)	8731	9056	10634	11815	13500
Own Taxes	67.2	65.4	68.7	68.5	66.4
Non-Tax Revenue	7.5	6.0	6.4	6.8	6.1
Central tax Transfers	18.2	17.8	16.1	17.0	17.8
Grants-in aid	7.1	10.8	8.8	7.7	9.7
Rate of Growth (ROG) of RR	9.9	3.7	17.4	11.1	14.3
ROG of Own Taxes	13.0	0.9	23.3	10.8	10.8
Revenue Receipt/GSDP	12.5	12.5	13.2	13.1	13.5
Revenue Buoyancy	0.9	1.0	1.5	1.0	1.3
Own Taxes Buoyancy	1.1	0.2	2.0	0.9	0.9
GSDP Growth	11.6	3.7	11.7	11.5	11.3



**1.5.4** Revenue receipts of the State increased from Rs 11815 crore in 2003-04 to Rs 13500 crore in 2004-05; the growth rate being 14.3 *per cent* compared to 11.1 *per cent* in the previous year. The growth rate of revenue receipts was less than 10 *per cent* during 2000-01 and 2001-02 but peaked to 17.4 *per cent* in 2002-03. During 2003-04 and 2004-05, the growth rate declined. The contribution of the State's own taxes in its total revenue receipts decreased from 68.5 *per cent* in 2003-04 to 66.4 *per cent* in 2004-05.

**1.5.5** Sales tax was the major source of State's own tax revenue during the year having contributed 75 per cent followed by State Excise (8 per cent), Taxes on Vehicles (7 per cent) and Stamps and Registration fees (9 per cent). The significant increase in the tax revenue during the year over 2003-04 was mainly on Sales Tax (Rs 710 crore) and State Excise (Rs 90 crore).

**1.5.6** Of non-tax revenue sources, receipts from Forest and Wildlife (24 per cent) and from State Lotteries (19 per cent) were principal contributors. However, though the receipts under State Lotteries were Rs 151.38 crore during the year, with equally high expenditure of Rs 120.83 crore, the net yield from lotteries was only Rs 30.55 crore. The Medium Term Fiscal Reforms Programme agreed to by the Government of Kerala with Government of India provides for improving cost recoveries for Government services by enhancing user charges periodically and bringing new areas of Government services for cost recovery. However, the contribution of non-tax revenue in its total revenue receipts decreased from 7.5 per cent in 2000-01 to 6.1 per cent in 2004-05.

**1.5.7** The contribution of Central taxes assigned to the State in terms of the recommendations of Eleventh Finance Commission, duties and grants-in-aid in the revenue receipts increased from 25.3 per cent in 2000-01 to 27.5 per cent in 2004-05. Both Central tax transfers and grants-in-aid increased during 2004-05 compared to previous year. The significant increase in grants-in-aid from Government of India during the year compared to previous year was mainly due to grants from National Calamity Contingency Fund towards drought relief (Rs 106 crore) and Tsunami relief (Rs 100 crore) and more receipts under Block grants (Rs 253.67 crore) for implementation of State Plan Schemes.

**1.5.8** The sources of revenue receipts under different heads and GSDP during 2000-05 are indicated in Table 4.

**Table 4 – Sources of Receipts: Trends**

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts				Total Receipts	Gross State Domestic product
		Non-Debt Receipts	Debt Receipts	Contingency Fund Receipts	Accruals in Public Account		
2000-01	8731	117	2156	--	21126	32130	69770
2001-02	9056	55	2792	--	18940	30843	72349
2002-03	10634	81	3966	22	25528	40231	80844
2003-04	11815	73	6992	--	26147	45027	90172
2004-05	13500	95	6596	92	33681	53964	100327

## **1.6 Application of resources**

### **Trend of Growth**

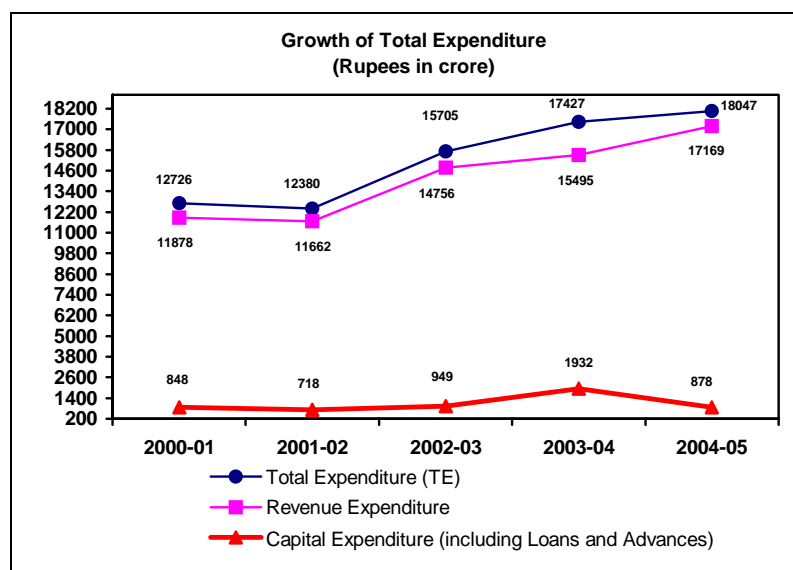
**1.6.1** Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure major head-wise. Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table 5 below:



**Table 5: Total Expenditure – Basic Parameters**  
(Value: Rupees in crore and others in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05
Total Expenditure <sup>Ⓐ</sup> (TE)	12726	12380	15705	17427	18047
Rate of Growth	1.6	(-) 2.7	26.9	11.0	3.6
TE/GSDP	18.2	17.1	19.4	19.3	18.0
Revenue Receipts/TE	68.6	73.2	67.7	67.8	74.8
<b>Buoyancy of Total Expenditure with</b>					
GSDP	0.1	(-) 0.7	2.3	1.0	0.3
Revenue Receipts	0.2	(-) 0.7	1.5	1.0	0.3

**1.6.2** Though the total expenditure during the year increased to Rs 18047 crore, the actual growth rate declined during the year to 3.6 *per cent* from 11 *per cent* in the previous year. There were, however, significant inter-year variations in the growth rates. The ratio of revenue receipts to total expenditure increased from 68.6 *per cent* in 2000-01 to 74.8 *per cent* in 2004-05, indicating that approximately 75 *per cent* of the State's total expenditure was met from its current revenues, leaving the balance to be financed from borrowings.



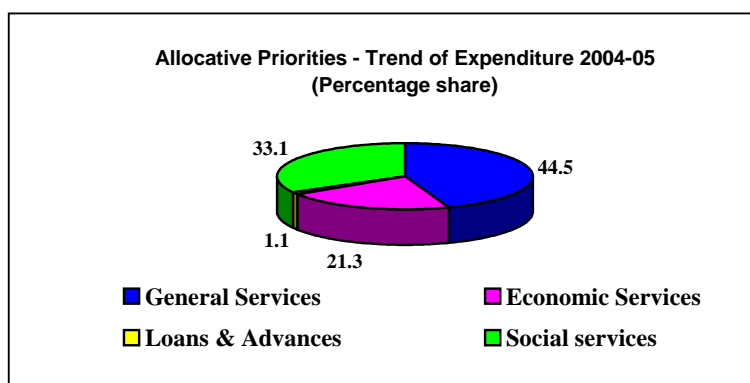
**1.6.3** In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services and loans and advances. The relative share of these components in total expenditure is indicated in Table 6.

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

**Table 6: Components of expenditure – Relative Share (in per cent)**

	2000-01	2001-02	2002-03	2003-04	2004-05
General Services	43.2	45.6	42.8	42.7	44.5
Social Services	33.4	33.4	32.6	29.2	33.1
Economic Services	20.9	19.2	22.6	20.3	21.3
Grants-in-aid	0.4	0.5	0.4	0.4	--
Loans and advances	2.1	1.3	1.6	7.4	1.1

**1.6.4** The movement of the relative share of these components indicated that the share of social services in the total expenditure declined marginally from 33.4 in 2000-01 to 33.1 per cent in 2004-05 and the share of economic services increased from 20.9 to 21.3 per cent during the same period. The share of general services which included interest payments considered as non-developmental accounted for 44.5 per cent of total expenditure in 2004-05 as compared to 42.7 per cent in 2003-04.



### Incidence of Revenue expenditure

**1.6.5** Revenue expenditure is usually incurred to maintain the current level of assets and services. Overall revenue expenditure, its rate of growth, ratio of revenue expenditure to State's GSDP and revenue receipts and its buoyancy with both GSDP and revenue receipts are indicated in Table 7 below:

**Table 7: Revenue Expenditure- Basic Parameters  
(Value: Rupees in crore and others in per cent)**

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Expenditure (RE)	11878	11662	14756	15495	17169
Rate of Growth	2.7	(-)1.8	26.5	5.0	10.8
RE/GSDP	17.0	16.1	18.3	17.2	17.1
RE as per cent of TE	93.3	94.2	94.0	88.9	95.1
RE as per cent of RR	136.0	128.8	138.8	131.2	127.2
<b>Buoyancy of Revenue Expenditure with</b>					
GSDP	0.2	(-) 0.5	2.3	0.4	1.0
Revenue Receipts	0.3	(-) 0.5	1.5	0.5	0.8

**1.6.6** The revenue expenditure during the year increased to Rs 17169 crore from Rs 15495 crore in the previous year, the actual growth rate being 10.8 *per cent* compared to 5 *per cent* in the previous year. The increase in revenue expenditure during the year compared to previous year was due mainly to increase in expenditure on Other Rural Development Programmes (Rs 513.86 crore), Interest Payments (Rs 284.24 crore), Relief on account of Natural Calamities (Rs 209.89 crore), Urban Development (Rs 198.82 crore), Pension and Other Retirement Benefits (Rs 191.94 crore), General Education (Rs 144.29 crore) and Roads and Bridges (Rs 105.34 crore), etc.

**1.6.7** The rate of growth of revenue expenditure which was negative in 2001-02 increased to 26.5 *per cent* in 2002-03. Though it declined in 2003-04, it again increased to 10.8 *per cent* in 2004-05.

**1.6.8** Revenue Expenditure accounted for 95.1 *per cent* of total expenditure during 2004-05. The ratio of revenue expenditure to revenue receipts decreased from 138.8 *per cent* in 2002-03 to 127.2 *per cent* in 2004-05 indicating continued dependence of the State on borrowings for meeting its current expenditure.

### Committed Expenditure

**1.6.9** The committed expenditure on Pension, Interest and Salaries constituted 86 to 99 *per cent* of the revenue receipts during 2000-05 indicating the paucity of resources available for socio-economic developmental activities.

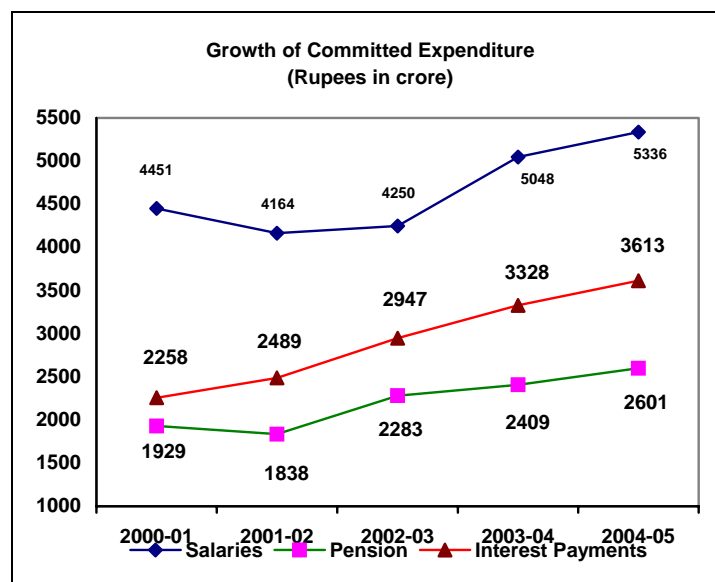
#### ♦ *Huge salary expenditure*

**1.6.10** Salary expenditure during the year increased by 6 *per cent* over the level of 2003-04 and accounted for 40 *per cent* of the revenue of the State during 2004-05 compared to 43 *per cent* in the previous year. Expenditure on salaries had increased by 20 *per cent* from Rs 4451 crore in 2000-01 to Rs 5336 crore in 2004-05. Year-wise break up of expenditure during 2000-05 was as under:-

**Table 8: Salary expenditure**

Year	Salary expenditure <sup>s</sup> (Rupees in crore)	Percentage of salary expenditure with reference to		
		Revenue Receipts	Revenue Expenditure	GSDP
2000-01	4451	51.0	37.5	6.4
2001-02	4164	46.0	35.7	5.8
2002-03	4250	40.0	28.8	5.3
2003-04	5048	42.7	32.6	5.6
2004-05	5336	39.5	31.1	5.3

<sup>s</sup> Figures for 2000-01 and 2001-02 are adopted from 'Budget in brief' of the State Government and figures for 2002-03 to 2004-05 are furnished by the Accountant General (A&E)



◆ *Huge expenditure on pension payments*

1.6.11 Pension payments increased by 34.8 per cent from Rs 1929 crore in 2000-01 to Rs 2601 crore in 2004-05. Year-wise breakup of expenditure during 2000-05 was as under:-

Table 9: Pension payments

Year	Pension payments (Rupees in crore)	Percentage of pension payments with reference to	
		Revenue Receipts	Revenue Expenditure
2000-01	1929	22.1	16.2
2001-02	1838	20.3	15.8
2002-03	2283	21.5	15.5
2003-04	2409	20.4	15.6
2004-05	2601	19.3	15.1

1.6.12 With the increase in the number of retirees and improved longevity, the pension liabilities are likely to increase further in future. The State Government has not constituted any fund to meet the fast rising pension liabilities of the retired State employees.

◆ *Interest payments*

1.6.13 In absolute terms, Interest payments increased by 60 per cent from Rs 2258 crore in 2000-01 to Rs 3613 crore in 2004-05 primarily due to continued reliance on borrowings for financing the fiscal deficit.

Table 10: Interest payments

Year	Interest payments (Rupees in crore)	Percentage of interest payment with reference to	
		Revenue Receipts	Revenue Expenditure
2000-01	2258	25.9	19.0
2001-02	2489	27.5	21.3
2002-03	2947	27.7	20.0
2003-04	3328	28.2	21.5
2004-05	3613	26.8	21.0

**1.6.14** It was observed that interest payments constituted 27 *per cent* of revenue receipts during 2004-05 against 18 *per cent* as recommended by the Eleventh Finance Commission.

### Subsidy

**1.6.15** Subsidy can be defined as the difference between the cost of goods/services provided and realisation from the users. There are two types of subsidies *viz.*, Explicit subsidies and Implicit subsidies. While there is clear identification and budgetary allocation in respect of explicit subsidies, implicit subsidies arise due to non-recovery/short recovery of user charges provided.

**1.6.16** The explicit subsidies, compiled from the accounts for the year 2000-01 to 2004-05 ranged from 0.7 *per cent* to 4.3 *per cent* of revenue expenditure. Major schemes on which explicit subsidies are granted were as follows:

**Table 11: Subsidy**

Schemes/departments to which subsidy was released	Amount of subsidy (Rupees in crore)				
	2000-01	2001-02	2002-03	2003-04	2004-05
Maithri Housing Scheme	22.50	18.84	47.84	40.00	57.70
Kerala State Civil Supplies Corporation for Market Intervention	37.00	33.00	50.00	30.00	30.00
State Investment Subsidy	17.06	21.30	22.98	23.69	18.82
Kerala State Electricity Board (to liquidate the revenue deficit)	--	--	200.00	556.46	--
Free supply of electricity to small and marginal paddy growers	--	--	--	7.97	17.95
Special Rebate to Hanveev and Hantex on sale of accumulated stock	--	--	--	--	2.88
Kerala Khadi and Village Industries Board towards interest subsidy and rebate on sale of khadi	--	--	--	--	4.79
Rebate on sale of handloom cloth	--	--	--	1.50	1.50
Macro management in Agriculture	9.90	24.14	22.39	3.44	4.74
<b>Total</b>	<b>86.46</b>	<b>97.28</b>	<b>343.21</b>	<b>663.06</b>	<b>138.38</b>
Percentage of subsidy with reference to Revenue Expenditure	0.7	0.8	2.3	4.3	0.8

## 1.7 Expenditure by Allocative Priorities

**1.7.1** The actual expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure emerging from Statement 12 of the Finance Accounts reflects the allocative priorities of the State. Higher the ratio of these components to total expenditure, better is deemed to be the quality of expenditure. Table 12 below gives the percentage share of these components of expenditure in State's total expenditure.

**Table 12: Quality of expenditure (per cent to total expenditure\*)**

	2000-01	2001-02	2002-03	2003-04	2004-05
Plan Expenditure	20.3	18.9	24.2	18.6	21.1
Capital Expenditure	4.6	4.6	4.5	4.0	3.8
Development Expenditure	55.4	53.3	56.2	53.4	55.0

\*Total expenditure does not include Loans and Advances

**1.7.2** The capital expenditure showed a steady decline from 4.6 per cent in 2000-01 to 3.8 per cent in 2004-05. Plan expenditure despite its low values in 2000-01 and 2001-02 increased to 24.2 per cent in 2002-03; but further declined in the subsequent years and stood at 21.1 per cent in 2004-05. In the case of developmental expenditure, its ratio to total expenditure also declined marginally from 55.4 per cent in 2000-01 to 55 per cent in 2004-05. This would mean that only 55 per cent of total expenditure got allocated to development over the years. Out of the developmental expenditure (Rs 9826 crore) during the year, Social Services (Rs 5969 crore) accounted for 61 per cent and Economic Services (Rs 3857 crore) accounted for 39 per cent.

**1.7.3** Expenditure on General and Technical Education, Health and Family Welfare, Water Supply, Sanitation, Housing and Urban Development constituted 80.1 per cent of the expenditure on Social Services, as compared to 84.4 per cent in the previous year.

**Table 13: Social Sector Expenditure**

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
General and Technical Education	2584	2443	2926	3031	3205
Health and Family Welfare	691	756	806	855	921
Water Supply, Sanitation, Housing and Urban Development	327	291	484	401	656
<b>Total</b>	<b>3602</b>	<b>3490</b>	<b>4216</b>	<b>4287</b>	<b>4782</b>
As a percentage of expenditure on Social Sector	84.8	84.4	82.3	84.4	80.1

**1.7.4** Similarly, the expenditure on Economic Services (Rs 3857 crore) accounted for 39 per cent of the development expenditure. Of this, Rural Development, Energy and Transport accounted for 56.2 per cent, as compared to 58 per cent in the previous year.

**Table 14: Economic Sector Expenditure**

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Rural Development	804	686	1079	761	1290
Energy	2	12	245	578	62
Transport	462	484	769	717	816
<b>Total</b>	<b>1268</b>	<b>1182</b>	<b>2093</b>	<b>2056</b>	<b>2168</b>
As a percentage of expenditure on Economic Sector	47.7	49.6	58.8	58.0	56.2

## Financial assistance to Autonomous bodies and others

**1.7.5** Autonomous bodies and authorities perform non-commercial functions of public utility services. These bodies/authorities receive substantial financial assistance from the Government. Government also provides substantial financial assistance to other institutions such as those registered under the respective State Co-operative Societies Act, Companies Act, etc. to implement various programmes of the Government. The grants are given by the Government mainly for maintenance of educational institutions, hospitals, charitable institutions, construction and maintenance of schools and hospital buildings, improvement of roads and other communication facilities under municipalities and local bodies.

**1.7.6** The quantum of assistance (grant as well as loan) provided to different bodies during the period of five years ending 2004-05 was as follows:

**Table 15: Financial assistance to Autonomous bodies and others**

*(Rupees in crore)*

Sl. No.	Bodies/authorities, etc.	2000-01	2001-02	2002-03	2003-04	2004-05
1.	Educational Institutions (Aided Schools, Aided Colleges, Universities, etc)	1619.77	1540.40	1851.08	1929.60	2071.80
2.	Municipal Corporations and Municipalities	146.82	131.57	239.46	230.91	286.96
3.	Panchayati Raj Institutions	948.74	858.41	1288.76	1554.39	1496.21
4.	Development Agencies	43.96	13.07	33.49	28.67	25.01
5.	Hospitals and other Charitable Institutions	19.17	17.17	19.84	23.60	28.04
6.	Other Institutions (including statutory bodies)	483.09	360.37	779.95	1686.32**	798.07
	<b>Total</b>	<b>3261.55</b>	<b>2920.99</b>	<b>4212.58</b>	<b>5453.49</b>	<b>4706.09</b>
	Assistance as a percentage of revenue receipts	37	32	40	46	35
	Percentage of assistance to revenue expenditure	27	25	29	35	27

### *Delay in furnishing utilisation certificates*

**1.7.7** The financial rules of the Government require that where grants are given for specific purposes, certificates of utilisation should be obtained by the Departmental officers from the grantees and after verification, these should be forwarded to the Accountant General (Accounts and Entitlements) within one year from the date of sanction of assistance unless specified otherwise. As of June 2005, 65 utilisation certificates for Rs 75.08 crore paid as grants during the period 2000-01 to 2004-05 had not been received in the Office of the Accountant General (Accounts and Entitlements).

\*\* Includes Rs 1158.25 crore being the liability of Kerala State Electricity Board to Central Public Sector Undertakings on power purchase taken over by Government which was treated as loan assistance to the Board during the year for eventual conversion as grant

### ***Delay in submission of accounts by Autonomous Bodies***

**1.7.8** As on 31 March 2005, there were 55 Autonomous bodies (excluding Local Self Government Institutions) which were substantially financed by grants/loans from Government. In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, Government/Heads of Departments are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. The details of 24 institutions which had not furnished annual accounts for the year 2004-05 as of August 2005 are indicated in **Appendix VI**.

**1.7.9** The status of submission of accounts as of August 2005 by autonomous bodies/authorities, audit of accounts of which had been entrusted to the Comptroller and Auditor General of India is indicated in **Appendix VII**.

### **Misappropriations, defalcations, etc.**

**1.7.10** State Government reported 160 cases of misappropriations, defalcations, etc., of Government money amounting to Rs 7.18 crore relating to the period 1963-64 to 2004-05. Final action was pending on all cases at the end of June 2005. The Department-wise break-up of pending cases is given in **Appendix VIII**.

### **Writes off of losses, etc.**

**1.7.11** According to data received from the Departments to Audit as of August 2005, sanctions for writes off of Rs 68.58 lakh in 384 cases and waivers amounting to Rs 12.75 lakh in 41 cases were issued by various authorities during 2004-05. The Department-wise details are given in **Appendix IX**.

## **1.8 Assets and Liabilities**

**1.8.1** The Government accounting system does not attempt a comprehensive accounting of fixed assets, i.e. land, buildings, etc., owned by the Government. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure. Statement 16 read with details in Statement 17 of the Finance Accounts shows the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. **Appendix I** presents an abstract of such liabilities and the assets as on 31 March 2005 compared with the corresponding position on 31 March 2004. While the liabilities in this statement consist mainly of money owed by the State Government such as internal borrowings, loans and advances from the Government of India, small Savings, Provident Funds, Deposits, Reserve Funds, etc., the assets comprise mainly the capital expenditure and loans and advances given by the State Government. The liabilities of the Government of Kerala depicted in the Finance Accounts, however, do not include liabilities like the pension



liabilities payable to serving and retired State employees. **Appendix IV** depicts the Time Series Data on the State Government Finances for the period 2000-05.

### Financial results of irrigation works

**1.8.2** Statement 3 of the Finance Accounts gives the financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc. In the case of eight irrigation projects, which have been declared commercial, with a cumulative capital outlay of Rs 121.44 crore at the end of 31 March 2005, the revenue realised from them during 2004-05 was Rs 1.38 crore which was 1.1 *per cent* of total outlay. After considering the working and maintenance expenses of Rs 21.63 crore and interest charges of Rs 9.25 crore, these schemes suffered a net loss of Rs 29.50 crore.

### Incomplete projects

**1.8.3** As per information made available by the Irrigation Department five\* projects commenced between 1970 and 1983 remained incomplete even after incurring Rs 927.80 crore as of March 2005. Besides, 93 other capital works on which Rs 322.25\*\* crore were spent up to March 2005 also remained incomplete in Public Works, Harbour Engineering and Water Resources Departments. The amount blocked in these projects was 12 *per cent* of the cumulative capital outlay of the State.

### Investments and returns

**1.8.4** Statement 14 of the Finance Accounts shows the details of investment of the State Government in Statutory Corporations, Government Companies, other joint stock companies, co-operative banks and societies, etc. As on 31 March 2005, the Government had invested Rs 2191.16 crore in Statutory Corporations, Joint Stock Companies and Co-operatives. Government's return on this investment was less than one *per cent* except in 2004-05 as indicated in Table 16 below:

**Table 16: Return on Investment**

*(Rupees in crore)*

Year	Investment at the end of the year	Return	Percentage of Return	Average rate of interest on Government borrowing (In <i>per cent</i> )
2000-01	1883.09	12.64	0.7	11.4
2001-02	1945.92	5.26	0.3	9.0
2002-03	2059.23	9.61	0.5	7.2
2003-04	2123.57	20.03	0.9	6.1
2004-05	2191.16	29.11	1.3	6.5

**1.8.5** Apart from the above, as of March 2005 the Government had provided equity participation of Rs 136.10 crore (2000-01: Rs 25 crore, 2001-02: Rs 30 crore, 2002-03: Rs 40 crore and 2003-04: Rs 41.10 crore) to the Kerala

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

\*\* As per information made available by Departments

Infrastructure Investment Fund Board, a statutory body created under the Kerala Infrastructure Investment Fund Act, 1999, though the relevant Act did not envisage equity participation by the Government. The matter is under correspondence with the Government (September 2005).

**1.8.6** Three Statutory Corporations and 59 Government Companies with an aggregate Government investment of Rs 1230.90 crore up to 2004-05 were incurring losses and their accumulated loss amounted to Rs 3260.30 crore as per the latest accounts furnished by these companies (**Appendix X**). Of these, six Government Companies with an investment of Rs 13.42 crore upto 31 March 2005 were under liquidation and one Government Company with an investment of Rs 1.35 crore was under lockout from June 1993.

### Loans and advances by State Government

**1.8.7** In addition to its investment, the Government has also been providing loans and advances to many of these bodies. Statement 5 read with details in Statement 18 of the Finance Accounts shows the loans and advances given by the State Government, repayments made and the balance at the close of the financial year. Total outstanding balance of the loans advanced was Rs 5143 crore as on 31 March 2005 (Table 17). Interest received against these advances was less than one *per cent* during 2004-05 though the Government had been borrowing funds during the year from the market at an average rate of 6.5 *per cent*. Further, in most cases, Government orders sanctioning the loans did not specify the terms and conditions for their repayment.

**Table 17: Average interest received on loans advanced by the State Government**

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Opening Balance	3391	3545	3650	3823	5042
Amount advanced during the year	271	160	250	1292	196
Amount repaid during the year	117	55	77	73	95
Closing Balance	3545	3650	3823	5042	5143
Interest received	20	16	24	23	30
Interest received as <i>per cent</i> to outstanding loans and advances	0.6	0.4	0.6	0.5	0.6
Average rate of interest on Government borrowing	11.4	9.0	7.2	6.1	6.5
Difference between borrowing rate of interest and returns received	(-) 10.8	(-) 8.6	(-) 6.6	(-) 5.6	(-) 5.9

### Commercial activities

#### **1.8.8 Lack of accountability for the use of public funds in Departmental commercial undertakings**

Activities of quasi-commercial nature are performed by the Departmental undertakings of certain Government departments. These undertakings are expected to prepare *pro forma* accounts in the prescribed format annually showing the results of financial operation so that the Government can assess the results of their working. The Heads of Departments in the Government should ensure that the undertakings, which are funded by the budgetary release, prepare the accounts on timely basis and submit the same to the

Accountant General for audit. The Department-wise position of arrears in preparation of such accounts as of June 2005 in respect of these undertakings is indicated in **Appendix XI**.

### Management of cash balances

**1.8.9** It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mis-matches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from the Reserve Bank of India has been put in place. Special WMA not exceeding Rs 38.40 crore are given to Kerala against marketable securities issued by Government of India. After this Ordinary WMA up to a maximum of Rs 315 crore are also allowed. As per the overdraft regulation scheme, no State shall be allowed to run on overdraft for more than fourteen consecutive working days in a calendar year or more than 36 working days in a calendar quarter. The overdraft shall not exceed 100 per cent of the Ordinary Ways and Means limit. If the overdraft exceeds this limit continuously for five working days for the first time in a financial year, the Bank will advise the State to bring down the overdraft level. If such irregularity persists on a second or subsequent occasion, payment will be stopped. Statement 7 of the Finance Accounts gives the summary of cash balances.

**1.8.10** During the year, the State had used ways and means facilities for 193 days as against 156 days during the previous year although it raised borrowings of Rs 1672 crore from the market on six occasions. Resort to overdraft, which is over and above the WMA limits, is all the more undesirable. The State used the overdraft facilities for 161 days during the year as against 177 days during the previous year.

**Table 18: Ways and Means Advances and Overdrafts of the State**

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
<b>Ways and Means Advances<sup>#</sup></b>					
Taken during the year	1978.25	1797.42	2463.36	3346.77	4485.31
Balance outstanding at the end of the year	228.28	228.54	283.97	284.70	235.25
Interest paid	9.49	14.53	13.23	15.58	13.20
Number of days State availed WMA	150	137	163	156	193
<b>Overdraft</b>					
Taken during the year	3506.13	4041.25	5337.51	4750.53	4842.94
Balance outstanding at the end of the year	357.09	275.56	164.85	280.64	Nil
Interest paid	3.48	8.61	7.54	8.32	8.00
Number of days State was in overdraft	213	222	196	177	161

<sup>#</sup> Includes shortfall also

## 1.9 Undischarged Liabilities

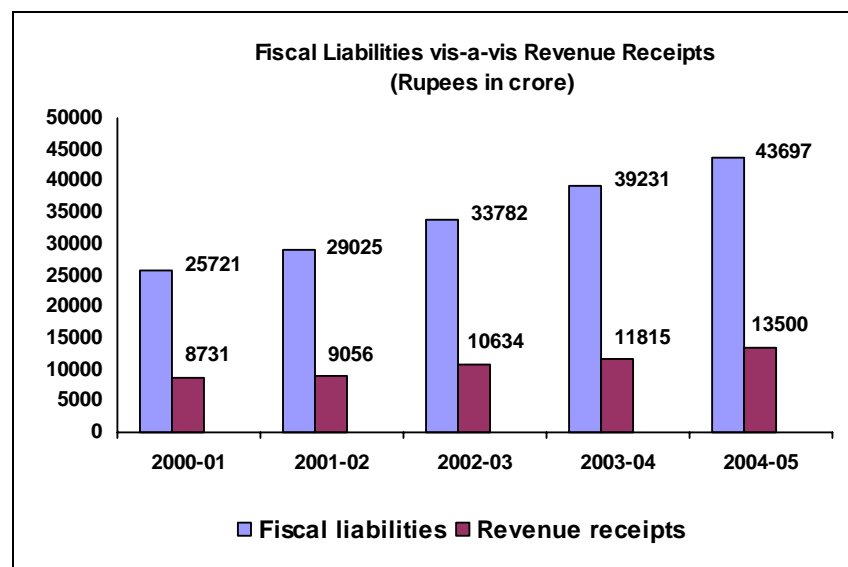
### Fiscal liabilities – public debt and guarantees

**1.9.1** The Constitution of India provides that the State may borrow within the territory of India upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by an Act of Legislature. A State may not raise any loan without the consent of Government of India if there is any outstanding loan for which a guarantee has been issued by GOI. Statement 4 read with Statements 16 and 17 of the Finance Accounts shows the year-end balances under Debt, Deposit and Remittance heads from which the liabilities are worked out.

**1.9.2** Table 19 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and buoyancy of these liabilities with respect to these parameters.

**Table 19: Fiscal Liabilities- Basic Parameters  
(Values Rupees in crore and others in per cent)**

	2000-01	2001-02	2002-03	2003-04	2004-05
Fiscal Liabilities <sup>5</sup>	25721	29025	33782	39231	43697
Rate of Growth	18.7	12.8	16.4	16.1	11.4
<b>Ratio of Fiscal Liabilities to</b>					
GSDP	36.9	40.1	41.8	43.5	43.6
Revenue Receipt	294.6	320.5	317.7	332.0	323.7
Own Resources	394.0	448.8	423.3	441.0	446.7
<b>Buoyancy of Fiscal Liabilities with</b>					
GSDP	1.6	3.5	1.4	1.4	1.0
Revenue Receipt	1.9	3.5	0.9	1.5	0.8
Own Resources	1.3	(-14.2)	0.7	1.4	1.1



<sup>5</sup> Includes Internal Debt, Loans and Advances from GOI., Small Savings, Provident Funds, etc., Reserve Funds (Gross) and Deposits

**1.9.3** The fiscal liabilities of the State increased from Rs 25721 crore in 2000-01 to Rs 43697 crore in 2004-05, an increase of 70 *per cent* during the five year period. These liabilities as ratio to GSDP increased from 36.9 *per cent* in 2000-01 to 43.6 *per cent* in 2004-05 and stood at 3.2 times of its revenue receipts and 4.5 times of its own resources comprising its own tax and non-tax revenue. The fiscal liabilities of the State had grown much faster as compared to its rate of growth of GSDP. These fiscal liabilities, however, do not include the pension liabilities payable to retired State employees, off budget liabilities, risk weighted guarantees/contingent liabilities, power subsidies payable to KSEB, etc.

**1.9.4** Increasing liabilities had raised the issue of sustainability of the finances of the State Government. Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. Debt sustainability with reference to weighted interest rate, GSDP growth rate and interest spread is indicated in Table 20.

**Table 20: Debt Sustainability- Interest Rate and GSDP Growth (in *per cent*)**

	2000-01	2001-02	2002-03	2003-04	2004-05
Weighted Interest Rate	9.5	9.1	9.4	9.1	8.7
GSDP Growth	11.6	3.7	11.7	11.5	11.3
Interest spread	2.1	(-) 5.4	2.3	2.4	2.6

**1.9.5** Another important indicator of debt sustainability is the net availability of the funds after payment of the principal on account of the earlier contracted liabilities and interest. Table 21 below gives the position of the receipts and repayments of public debt over the last five years.

**Table 21: Net availability of Borrowed Funds**

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
<b>Internal Debt<sup>@</sup></b>					
Receipt	1491	2011	2717	6023	5114
Repayment (Principal + Interest)	874	1133	1377	1944	2331
Net funds available	617	878	1340	4079	2783
Net funds available ( <i>per cent</i> )	41	44	49	68	54
<b>Loans and Advances from Government of India</b>					
Receipt	483	781	1193	968	1482
Repayment (Principal + Interest)	1016	1315	1809	2685	2371
Net funds available	(-) 533	(-) 534	(-) 616	(-)1717	(-) 889
Net funds available ( <i>per cent</i> )	(-) 110	(-) 68	(-) 52	(-) 177	(-) 60
<b>Total Public Debt<sup>@</sup></b>					
Receipts	1974	2792	3910	6991	6596
Repayment (Principal + Interest)	1890	2448	3186	4629	4702
Net funds available	84	344	724	2362	1894
Net funds available ( <i>per cent</i> )	4	12	19	34	29

<sup>@</sup> Excluding ways and means advances from Reserve Bank of India

**1.9.6** The net funds available on account of the internal debt and loans and advances from Government of India after providing for the interest and repayments during 2004-05 had reduced to 29 *per cent* from 34 *per cent* in the previous year. Under loans and advances from Government of India the net funds available continued to be negative due to more repayments with a view to reducing the high cost debt of previous years under 'Debt Swap Scheme'.

**1.9.7** The State Government raised market loans of Rs 1671.90 crore during the year. Of this, Rs 355.66 crore was raised at an interest of 7.25 *per cent* through auction sale and Rs 1316.24 crore through tap issue at an average rate of 6.4 *per cent*.

**1.9.8** Under the 'Debt Swap Scheme' introduced by Government of India to enable the States to prepay high cost debt, the State Government raised loans of Rs 467.54 crore from open market at varying interest rates of 5.7 and 6.35 *per cent* during 2004-05. High cost loan of Rs 978.81 crore (Small Savings loans: Rs 137.19 crore; Block loans: Rs 841.62 crore) was repaid to Government of India using Rs 467.54 crore raised through open market borrowing and Rs 511.27 crore by adjustment from the Special Securities issued to National Small Savings Fund of Central Government by the Government of Kerala during the year.

#### Guarantees

**1.9.9** The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment of loans there may be an obligation on the State to honour these commitments. Section 3 of the Kerala Ceiling on Government Guarantees Act, 2003 which came into effect on 5 December 2003 stipulates that the total outstanding Government guarantees as on the first day of April every year shall not exceed Rs 14000 crore.

**1.9.10** Statement 6 of the Finance Accounts gives the summary of guarantees provided by the State Government for repayment of loans, etc., raised by Statutory Corporations, Government Companies, local bodies and other institutions based on statement of guarantees made available by the Finance Department of the Government. The year-wise position of maximum amount guaranteed and the amount of guarantees outstanding as at the end of March of each year from 2001 to 2005 were as under:-

**Table 22: Guarantees provided by the Government**

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees as on March		
		Principal	Interest	Total
2000-01	12797.80	8420.61	1132.56	9553.17
2001-02	14122.46	9745.86	2071.67	11817.53
2002-03	14922.61	10077.97	2545.41	12623.38
2003-04	15612.67	11511.08	2498.11	14009.19
2004-05	14783.36	10775.38	1540.58	12315.96

**1.9.11** The amount of outstanding guarantees increased from Rs 9553.17 crore in 2000-01 to Rs 12315.96 crore in 2004-05 a growth of 28.9 *per cent* during the period. The arrears of guarantee fee receivable from 28 institutions

as on March 2005 were Rs 50.82 crore.

### Unreckoned liabilities

**1.9.12** In addition to the liabilities disclosed through the accounts, the unreckoned liabilities of the nature indicated below increase the vulnerability of the State's financial health in the coming years:

★ **Subsidy payable to Kerala State Electricity Board (KSEB)**

Government agreed (August 1995) to give financial assistance to the KSEB, to avail loan from the Power Finance Corporation Limited, in case the KSEB could not achieve a minimum rate of return of three *per cent* in the year. Based on this, the KSEB had been exhibiting every year the subsidy receivable from Government in their annual accounts from 1995-96. The latest annual accounts of the Board for the year 2004-05 (provisional) showed revenue subsidy of Rs 4325.14 crore (4.3 *per cent* of GSDP) as receivable up to the end of the year from the State Government. Government had not paid any subsidy to the KSEB to cover the revenue gap of the Board for the year 2004-05.

★ **Arrears in payment of Contractors' bills**

According to information made available by Departmental Officers, the arrears in payment of contractor's bills as of March 2005 in Public Works, Water Resources and Harbour Engineering, etc., Departments amounted to Rs 897.95 crore (0.9 *per cent* of GSDP).

## 1.10 Management of deficits

### Fiscal imbalances

**1.10.1** The deficits in the Government accounts represent 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 so raised are applied, are important pointers to the fiscal health.

**1.10.2** The revenue deficit (Statement I of the Finance Accounts) of the State, indicates the excess of its revenue expenditure over revenue receipts. The revenue deficit showed a declining trend during 2003-04 and 2004-05 after a peak of Rs 4122 crore in 2002-03. However, the fiscal deficit decreased to Rs 4452 crore in 2004-05 compared to Rs 5539 crore in 2003-04.

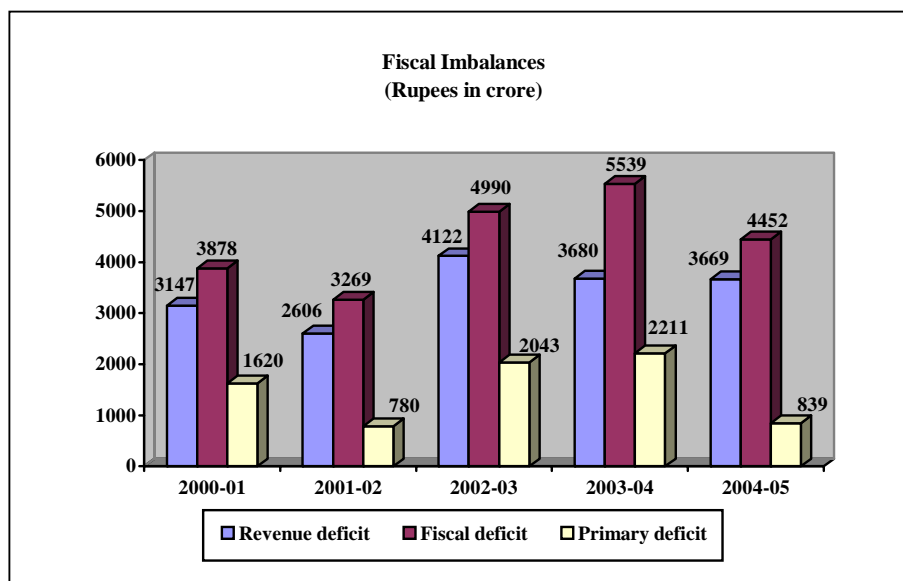
**1.10.3** Section 4 of the 'The Kerala Fiscal Responsibility Act, 2003' which came into effect on 5 December 2003 prescribes that the Government shall reduce the revenue deficit to 'nil' and fiscal deficit to 2 *per cent* of the estimated GSDP within a period of four years commencing from 1 April 2003 and ending on 31 March 2007. With the current level of revenue deficit of Rs 3669 crore and the fiscal deficit hovering around 4.4 *per cent* of GSDP during the current year, the Government should strive to reduce the revenue deficit and fiscal deficit by additional resource mobilisation and compression of revenue expenditure.

1.10.4 Table 23 below indicates the basic parameters of fiscal imbalance.

**Table 23: Fiscal Imbalances- Basic Parameters**  
(Values Rupees in crore and Ratios in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Deficit (RD)	3147	2606	4122	3680	3669
Fiscal Deficit (FD)	3878	3269	4990	5539	4452
Primary Deficit (PD)	1620	780	2043	2211	839
RD/GSDP	4.5	3.6	5.1	4.1	3.7
FD/GSDP	5.6	4.5	6.2	6.1	4.4
PD/GSDP	2.3	1.1	2.5	2.5	0.8
RD/FD	81.2	79.7	82.6	66.4	82.4

1.10.5 Persistent large revenue deficit indicated that the revenue receipts of the State were not able to meet its revenue expenditure and the Government had to borrow funds to meet its current obligations. The ratio of revenue deficit and fiscal deficit had increased from 66.4 per cent in 2003-04 to 82.4 per cent in 2004-05. High ratio of revenue deficit to fiscal deficit indicated that a larger part of borrowings were not being used for asset creation. As proportion to the GSDP, revenue deficit had come down to 3.7 per cent and fiscal deficit to 4.4 per cent in 2004-05 from 4.1 and 6.1 per cent respectively in 2003-04.



### **Recommendations of Eleventh Finance Commission**

#### **Medium Term Fiscal Reforms Programme**

1.10.6 Based on the recommendations of the Eleventh Finance Commission to motivate the States to undertake Medium Term Fiscal Reforms Programme (MTFRP), the GOI set up an Incentive Fund to provide assistance to each State for fiscal performance based on a single monitorable fiscal objective.



Release from the Incentive Fund was to be based on achieving a minimum improvement of five percentage points in the revenue deficit as a proportion of its revenue receipts each year till 2004-05 over the base year 1999-2000.

**1.10.7** The State Government exchanged with the GOI on 4 February 2002 a document of shared fiscal goals and objectives for the years 2000-01 to 2004-05 on the Kerala MTFRP. GOI released Rs 64.44 crore during 2001-03 from the Incentive Fund for adhering to the projections made in the document for the years 2000-01 and 2001-02. In addition, the GOI released Rs 4.61 crore during 2003-04 from the Incentive Fund towards financing the cost of Voluntary Retirement Scheme of five Public Sector Undertakings. Further, according to the agreement, the revenue deficit as a proportion of revenue receipts should achieve a minimum improvement of five percentage points each year from 1999-2000 (base year). Accordingly, as a percentage of revenue receipts, the revenue deficit of 45.60 *per cent* projected during 1999-2000 should have been restricted to 18.04 *per cent*, 9.61 *per cent* and 3.19 *per cent* during 2002-03, 2003-04 and 2004-05 respectively. However, it remained<sup>@</sup> much above the limit specified in the agreement. Hence, the State Government lost Rs 139.43 crore from the Incentive Fund in view of the non-adherence to the projections.

## 1.11 Fiscal Ratios

**1.11.1** The finances of a State should be sustainable, flexible and non-vulnerable. Table 24 below presents a summarised position of the Government Finances during 2000-05, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facets.

**1.11.2** The ratio of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and State's increasing access to resources with increase in GSDP. Both the ratios i.e. revenue buoyancy and revenue receipts to GSDP increased in 2004-05 whereas the ratio of State's own taxes to GSDP declined marginally over the figures of 2003-04. This showed that generation of tax revenue was not commensurate with increase in domestic income.

**1.11.3** Various ratios concerning expenditure management indicate quality of its expenditure and sustainability of these in relation to its resource mobilisation. The ratio of capital expenditure and development expenditure to total expenditure declined in 2004-05 as compared to 2002-03. The ratio of revenue expenditure to total expenditure increased in 2004-05 as compared to 2003-04 which is indicative that most of the expenditure out of total expenditure was incurred on revenue expenditure. About 75 *per cent* of the total expenditure was met out of revenue receipts during 2004-05. All these indicate State's increasing dependence on borrowings for meeting its revenue expenditure and inadequate expansion of its development activities.

<sup>@</sup> 38.8 *per cent* (2002-03), 31.2 *per cent* (2003-04) and 27.2 *per cent* (2004-05)

**1.11.4** Increasing revenue and fiscal deficits indicate growing fiscal imbalances of the State. Similarly the ratio of revenue deficit to fiscal deficit indicates that the application of borrowed funds had largely been to meet current consumption. Though the revenue deficit in absolute terms could be reduced in 2003-04 and 2004-05 and the fiscal deficit in 2004-05 from the level of 2002-03, the ratio of revenue deficit to fiscal deficit increased in 2004-05 to 82.4 per cent from 66.4 per cent in the previous year.

**Table 24: Ratios of Fiscal Efficiency (in per cent)**

Fiscal Ratios	2000-01	2001-02	2002-03	2003-04	2004-05
<b>Resource Mobilisation</b>					
Revenue Receipts/GSDP	12.5	12.5	13.2	13.1	13.5
Revenue Buoyancy	0.9	1.0	1.5	1.0	1.3
Own tax/GSDP	8.4	8.2	9.0	9.0	8.9
Own taxes Buoyancy	1.1	0.2	2.0	0.9	0.9
<b>Expenditure Management</b>					
Total Expenditure (TE)/GSDP	18.2	17.1	19.4	19.3	18.0
Revenue Receipts (RR)/ TE	68.6	73.2	67.7	67.8	74.8
Revenue Expenditure (RE)/TE	93.3	94.2	94.0	88.9	95.1
Plan Expenditure/TE	20.3	18.9	24.2	18.6	21.1
Capital Expenditure/TE	4.6	4.6	4.5	4.0	3.8
Development Expenditure/TE	55.4	53.3	56.2	53.4	55.0
Buoyancy of TE with RR	0.2	(-) 0.7	1.5	1.0	0.3
Buoyancy of RE with RR	0.3	(-) 0.5	1.5	0.5	0.8
<b>Management of Fiscal Imbalances</b>					
Revenue Deficit (Rs in crore)	3147	2606	4122	3680	3669
Fiscal Deficit (Rs in crore)	3878	3269	4990	5539	4452
Primary Deficit (Rs in crore)	1620	780	2043	2211	839
Revenue Deficit/Fiscal Deficit	81.2	79.7	82.6	66.4	82.4
<b>Management of Fiscal Liabilities</b>					
Fiscal Liabilities (FL)/GSDP	36.9	40.1	41.8	43.5	43.6
Fiscal Liabilities/RR	294.6	320.5	317.7	332.0	323.7
Buoyancy of FL with RR	1.9	3.5	0.9	1.5	0.8
Buoyancy of FL with Own Resources	1.3	(-) 14.2	0.7	1.4	1.1
Interest spread	2.1	(-) 5.4	2.3	2.4	2.6
Net Funds Available	4	12	19	34	29
<b>Other Fiscal Health Indicators</b>					
Return on Investment	0.7	0.3	0.5	0.9	1.3
Balance from Current Revenue (BCR) (Rs in crore)	(-) 1704	(-) 1660	(-) 1811	(-)1983	(-) 1496
Financial Assets/Liabilities	0.5	0.4	0.4	0.4	0.4

## **1.12 Conclusion**

**1.12.1** Large revenue and fiscal deficits year after year show continued macro fiscal imbalances. Though it is not uncommon for the State to borrow for widening its infrastructure and for creating income-generating assets, an ever increasing ratio of fiscal liabilities to GSDP with a large revenue deficit could lead the State finances in a debt trap. There has also been decline in net availability of funds for infrastructural development from its borrowings as a larger portion of these funds were being used for debt servicing and on establishment expenditure. The State's continuous declining low return on investment indicates an implicit subsidy and use of high cost borrowing for investments, which yields very little to it. Investments in loss making companies are not sustainable. The balance of current revenue of the State has also continued to be negative. The BCR plays a critical role in determining its plan size and a negative BCR adversely affects the same and reduces availability of fund for additional infrastructure support and other revenue generating investment.

**1.12.2** State Government should strive in the years to come to reduce revenue deficit/fiscal deficit by compressing non-developmental revenue expenditure, additional resource mobilisation through tax reforms and prudent debt management in order to achieve the target envisaged in the Kerala Fiscal Responsibility Act, 2003, *viz.*, zero revenue deficit and fiscal deficit of 2 *per cent* of GSDP by March 2007.