

## CHAPTER I

### FINANCES OF THE STATE GOVERNMENT

#### Summary

The revenue receipts during the year grew by *13.3 per cent* to Rs 15295 crore from Rs 13500 crore in the previous year. The revenue expenditure during the year grew by only *7.3 per cent* which resulted in reduction in the revenue deficit to Rs 3129 crore compared to Rs 3669 crore in 2004-05.

During the current year, the contribution of State's own taxes in its revenue receipts declined to *63.9 per cent* from *66.4 per cent* in 2004-05; the contribution of Central tax transfers and grant-in-aid increased to *30 per cent* in 2005-06 from *27.5 per cent* in 2004-05. Taxes on Sales, trade etc., was the major source of the State's own tax revenue having contributed *72 per cent* followed by Stamps and Registration Fees (*12 per cent*), State Excise (*9 per cent*) and Taxes on Vehicles (*6 per cent*).

During the year, revenue expenditure constituted *94.3 per cent* of total expenditure. On an average capital expenditure formed only *4.2 per cent* during the five years 2001-06.

The fiscal liabilities increased by *66 per cent* during 2001-06 and stood at Rs 48180 crore in 2005-06 i.e., *3.2 times* of the revenue receipts. At the end of 2005-06, the fiscal liabilities stood at the level of nearly *43 per cent* of GSDP. These liabilities are cause of concern for sustained growth and development in the medium to long-term basis.

Though the State Government could reduce the revenue deficit and fiscal deficit during the year compared to the previous year, it should resort to additional resource mobilisation, compression of non-developmental revenue expenditure and proper 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.

## **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 2005-06.

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 2006.

Statement No.9 shows the revenue and expenditure under different heads for the year 2005-06 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 2005-06.

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 2005-06.

Statement No.15 depicts the capital and other expenditure to the end of 2005-06 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 2006.

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)*

2004-05	Sl. No	Major Aggregates	2005-06
<b>13500</b>	<b>1.</b>	<b>Revenue Receipts (2+3+4)</b>	<b>15295</b>
8963	2.	Tax Revenue	9779
819	3.	Non-Tax Revenue	937
3718	4.	Other Receipts	4579
<b>95</b>	<b>5.</b>	<b>Non-Debt Capital Receipts</b>	<b>52</b>
95	6.	<i>Of which</i> Recovery of Loans and Advances	52
<b>13595</b>	<b>7.</b>	<b>Total Receipts (1+5)</b>	<b>15347</b>
<b>14094</b>	<b>8.</b>	<b>Non-Plan Expenditure (9+11+12)</b>	<b>15228</b>
14063	9.	On Revenue Account	15201
3613	10.	<i>Of which</i> Interest Payments	3799
25	11.	On Capital Account	--
6	12.	Loans and Advances disbursed	27
<b>3953</b>	<b>13.</b>	<b>Plan Expenditure (14+15+16)</b>	<b>4300</b>
3106	14.	On Revenue Account	3223
657	15.	On Capital Account	817
190	16.	Loans and Advances disbursed	260
<b>18047</b>	<b>17.</b>	<b>Total Expenditure (8+13)</b>	<b>19528</b>
<b>4452</b>	<b>18.</b>	<b>Fiscal Deficit (17-1-5)</b>	<b>4181</b>
<b>3669</b>	<b>19.</b>	<b>Revenue Deficit (9+14-1)</b>	<b>3129</b>
<b>839</b>	<b>20.</b>	<b>Primary Deficit (18-10)</b>	<b>382</b>

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

Table 1 summarises the finances of the Government of Kerala for the year 2005-06 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 2005-06 (Rupees in crore)**

2004-05	Receipts	2005-06	2004-05	Disbursements	2005-06		
Section-A: Revenue							
					Non-Plan	Plan	Total
13500.49	Revenue receipts	15294.53	17169.41	Revenue expenditure	15200.96	3222.72	18423.68
8963.65	Tax revenue	9778.62	7985.81	General services	8578.20	177.45	8755.65
819.09	Non-tax revenue	936.78	5879.40	Social Services	4765.53	1130.85	5896.38
2404.95	Share of Union Taxes/Duties	2518.20	3306.84	Economic Services	1857.23	1914.42	3771.65
1312.80	Grants from Govt. of India	2060.93	(-) 2.64	Grants-in-aid / Contributions			
3668.92	Revenue Deficit carried over to Section B	3129.15					
17169.41	Total Section - A	18423.68	17169.41	Total Section - A	15200.96	3222.72	18423.68
Section-B: Capital							
(-) 226.64	Opening Cash Balance	(-) 93.96	280.64	Opening Overdraft from Reserve Bank of India			--
0.02	Miscellaneous Capital Receipts	--	681.74	Capital Outlay	(-) 0.57	817.52	816.95
95.23	Recoveries of Loans and Advances	51.50	196.49	Loans and Advances disbursed	26.83	260.29	287.12
			3668.92	Revenue Deficit brought down from Section A	3129.15		3129.15 <sup>#</sup>
6596.22	Public debt receipts*	5823.52	2277.43	Repayment of Public Debt*	1822.45		1822.45 <sup>#</sup>
			75.00	Appropriation to Contingency Fund			--
91.88	Contingency Fund receipts	15.04	15.04	Contingency Fund disbursements	2.15		2.15 <sup>#</sup>
33681.02	Public Account receipts	37779.14	33136.43	Public Account disbursements	37302.28		37302.28 <sup>#</sup>
--	Closing Overdraft from Reserve Bank of India	--	(-) 93.96	Cash Balance at end	215.14		215.14 <sup>#</sup>
40237.73	Total – Section B	43575.24	40237.73	Total – Section B	42497.43	1077.81	43575.24

\* 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 2005-06 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>	
<b>Consolidated Fund</b>	<b>Contingency Fund</b>
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.	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.

### 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 2005-06 was Rs 58964 crore. Of which, the revenue receipts of the State Government was Rs 15295 crore only, constituting 26 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

(Rupees in crore)

<b>I Revenue Receipts</b>	<b>15294.53</b>
<b>II Capital Receipts</b>	<b>5875.02</b>
<i>a</i> Miscellaneous Receipts	--
<i>b</i> Recovery of Loans and Advances	51.50
<i>c</i> Public Debt Receipts*	5823.52
<b>III Contingency Fund Receipts</b>	<b>15.04</b>
<b>IV Public Account Receipts</b>	<b>37779.14</b>
<i>a</i> Small Savings, Provident Funds, etc.	7777.24
<i>b</i> Reserve Funds	248.24
<i>c</i> Deposits and Advances	1602.16
<i>d</i> Suspense and Miscellaneous	22378.43 <sup>#</sup>
<i>e</i> Remittances	5773.07
<b>Total Receipts</b>	<b>58963.73</b>
* Excludes ways and means advances from Reserve Bank of India	

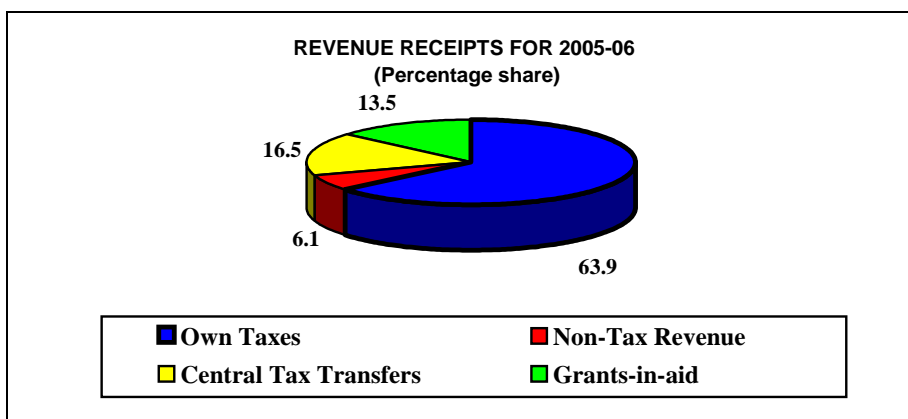
<sup>#</sup> Against suspense and miscellaneous receipt of Rs 22378.43 crore the disbursement during the year was Rs 22003.66 crore.

### 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*)

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Receipts (RR)	9056	10634	11815	13500	15295
Own Taxes	65.4	68.7	68.5	66.4	63.9
Non-Tax Revenue	6.0	6.4	6.8	6.1	6.1
Central tax Transfers	17.8	16.1	17.0	17.8	16.5
Grants-in aid	10.8	8.8	7.7	9.7	13.5
Rate of Growth (ROG) of RR	3.7	17.4	11.1	14.3	13.3
ROG of Own Taxes	0.9	23.3	10.8	10.8	9.1
Revenue Receipt/GSDP	12.5	13.1	13.2	13.4	13.7
Revenue Buoyancy	1.0	1.4	1.1	1.2	1.2
Own Taxes Buoyancy	0.2	1.9	1.1	0.9	0.8
GSDP Growth	3.7	12.1	10.2	12.4	11.0



**1.5.4** Revenue receipts of the State increased from Rs 13500 crore in 2004-05 to Rs 15295 crore in 2005-06; the growth rate being 13.3 *per cent* compared to 14.3 *per cent* in the previous year. The growth rate of revenue receipts was 3.7 *per cent* during 2001-02 but peaked to 17.4 *per cent* in 2002-03. During subsequent years the growth rate declined. The contribution of the State's own taxes in its total revenue receipts decreased steadily from 68.7 *per cent* in 2002-03 to 63.9 *per cent* in 2005-06 whereas contribution of Central tax transfers and grants-in-aid increased from 24.9 *per cent* in 2002-03 to 30 *per cent* in 2005-06.

**1.5.5** Value Added Tax (VAT) System of taxation was introduced in the State from 1<sup>st</sup> April 2005. Taxes on Sales, Trade etc. was the major source of State's own tax revenue during the year having contributed 72 *per cent* followed by Stamps and Registration Fees (12 *per cent*) State Excise (9 *per cent*) and Taxes on Vehicles (6 *per cent*). The significant increase in Stamps and Registration Fees (Rs 326 crore) was due to restoration of rates of Stamp duty and Surcharge to those that prevailed before December 2003. Though receipts under taxes on Sales, Trade etc. showed improvement during 2005-06 compared to previous year, the contribution of this sector in States' own tax revenue declined to 72 *per cent* during 2005-06 from 75 *per cent* in 2004-05. However, Government of India released Rs 456 crore to State Government to cover the revenue loss due to introduction of VAT.

**1.5.6** Of non-tax revenue sources, receipts from Forest and Wildlife (20 *per cent*) and from State Lotteries (25 *per cent*) were principal contributors. However, though the receipts under State Lotteries were Rs 229.57 crore during the year, with equally high expenditure of Rs 171.84 crore, the net yield from lotteries was only Rs 57.73 crore. The Medium Term Fiscal Reforms Programme agreed to (February 2002) 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 6.4 *per cent* in 2002-03 to 6.1 *per cent* in 2005-06.

**1.5.7** While the contribution of Central tax transfers in the revenue receipts decreased from 17.8 *per cent* in 2004-05 to 16.5 *per cent* in 2005-06 the share of grants-in-aid from Government of India in the total revenue receipts showed a considerable improvement during the year to 13.5 *per cent* compared to 9.7 *per cent* in the previous year. The significant improvement in the grants-in-aid was mainly due to release of grants, as a result of implementation of the recommendations of the Twelfth Finance Commission, to cover the deficit on Revenue Account (Rs 470.37 crore), to Urban Local Bodies and Panchayati Raj Institutions (Rs 226.80 crore) and for upgradation of Services and maintenance of forests (Rs 11.74 crore) besides release of grants to cover revenue loss due to introduction of VAT (Rs 456.47 crore).

**1.5.8** The sources of revenue receipts under different heads and GSDP during 2001-06 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		
2001-02	9056	55	2792	--	18940	30843	72402
2002-03	10634	81	3966	22	25528	40231	81146
2003-04	11815	73	6992	--	26147	45027	89461
2004-05	13500	95	6596	92	33681	53964	100531
2005-06	15295	52	5823	15	37779	58964	111633



## 1.6 Application of resources

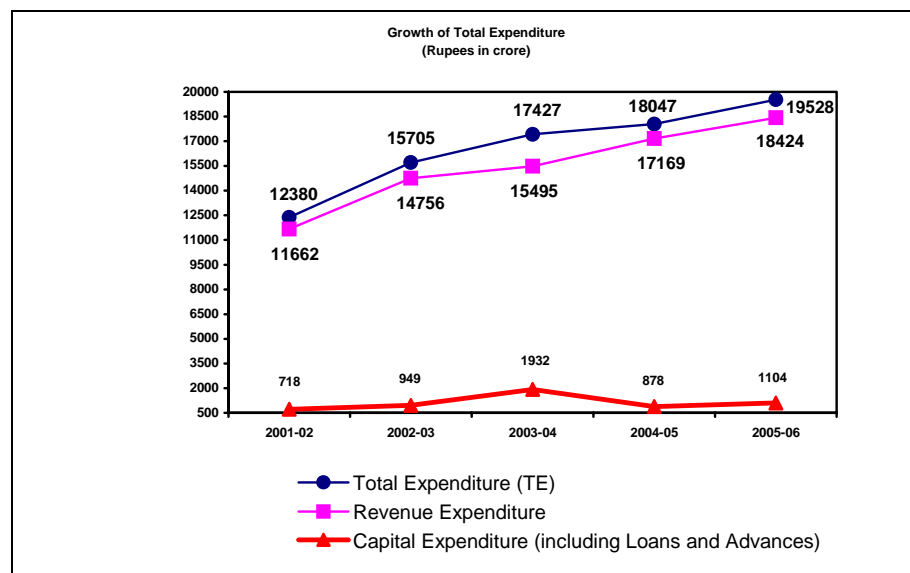
### Trend of Growth

**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*)

	2001-02	2002-03	2003-04	2004-05	2005-06
Total Expenditure <sup>Ⓐ</sup> (TE)	12380	15705	17427	18047	19528
Rate of Growth	(-) 2.7	26.9	11.0	3.6	8.2
TE/GSDP	17.1	19.4	19.5	18.0	17.5
Revenue Receipts/TE	73.2	67.7	67.8	74.8	78.3
<b>Buoyancy of Total Expenditure with</b>					
GSDP	(-) 0.7	2.2	1.1	0.3	0.7
Revenue Receipts	(-) 0.7	1.5	1.0	0.3	0.6

**1.6.2** The total expenditure during the year increased to Rs 19528 crore from 18047 crore in the previous year and the growth rate also increased during the year to 8.2 *per cent* from 3.6 *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 73.2 *per cent* in 2001-02 to 78.3 *per cent* in 2005-06, indicating that about 78 *per cent* of the State's total expenditure was met from its current revenues, leaving the balance to be financed from borrowings.



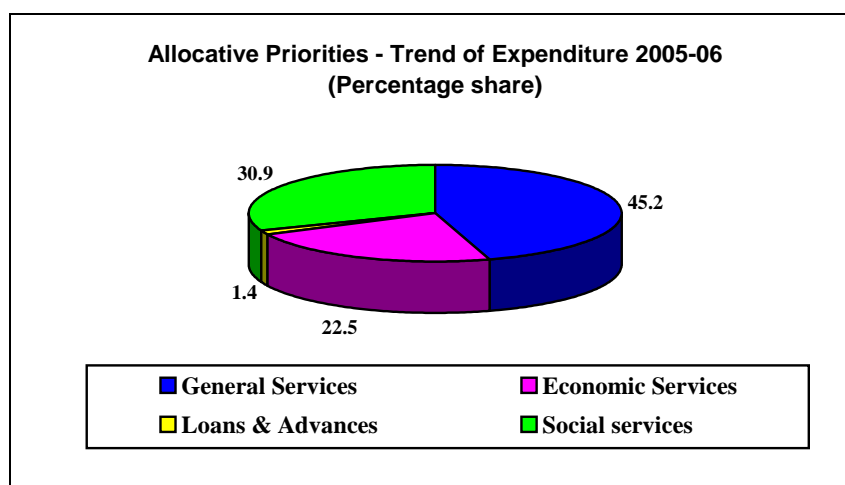
<sup>Ⓐ</sup>Total Expenditure represents revenue expenditure as well as capital expenditure which includes expenditure on loans and advances.

**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.

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

	2001-02	2002-03	2003-04	2004-05	2005-06
General Services	45.6	42.8	42.7	44.5	45.2
Social Services	33.4	32.6	29.2	33.1	30.9
Economic Services	19.2	22.6	20.3	21.3	22.5
Grants-in-aid	0.5	0.4	0.4	--	--
Loans and advances	1.3	1.6	7.4	1.1	1.4

**1.6.4** The movement of the relative share of these components indicated that the share of Social Services in the total expenditure declined from 33.4 per cent in 2001-02 to 30.9 per cent in 2005-06 and the share of Economic Services increased from 19.2 per cent to 22.5 per cent during the same period. The share of General Services which included interest payments considered as non-developmental accounted for 45.2 per cent of total expenditure in 2005-06 as compared to 45.6 per cent in 2001-02.



## 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)**

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Expenditure (RE)	11662	14756	15495	17169	18424
Rate of Growth	(-)1.8	26.5	5.0	10.8	7.3
RE/GSDP	16.1	18.3	17.2	17.1	16.5
RE as per cent of TE	94.2	94.0	88.9	95.1	94.3
RE as per cent of RR	128.8	138.8	131.2	127.2	120.5
<b>Buoyancy of Revenue Expenditure with</b>					
GSDP	(-) 0.5	2.2	0.5	0.9	0.7
Revenue Receipts	(-) 0.5	1.5	0.5	0.8	0.5

**1.6.6** The revenue expenditure during the year increased to Rs 18424 crore from Rs 17169 crore in the previous year, the actual growth rate being 7.3 *per cent* compared to 10.8 *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 Pension and Other Retirement Benefits (Rs 260.41 crore), Roads and Bridges (Rs 241.74 crore), Interest Payments (Rs 186.71 crore), General Education (Rs 177.09 crore), Appropriation for reduction or avoidance of debt for creation of Sinking Funds (Rs 130.59 crore) and Co-operation (Rs 107.96 crore).

**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 and further declined to 7.3 *per cent* in 2005-06.

**1.6.8** Revenue Expenditure accounted for 94.3 *per cent* of total expenditure during 2005-06. The ratio of revenue expenditure to revenue receipts decreased from 138.8 *per cent* in 2002-03 to 120.5 *per cent* in 2005-06 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 80 to 94 *per cent* of the revenue receipts during 2001-06 indicating the paucity of resources available for socio-economic developmental activities.

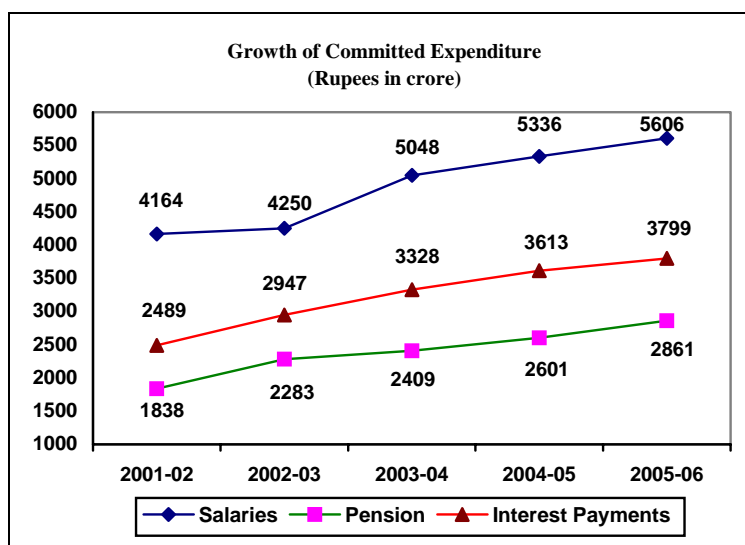
#### ♦ Huge salary expenditure

**1.6.10** Salary expenditure during the year increased by 5 *per cent* over the level of 2004-05 and accounted for 37 *per cent* of the revenue of the State during 2005-06 compared to 40 *per cent* in the previous year. Expenditure on salaries had increased by 35 *per cent* from Rs 4164 crore in 2001-02 to Rs 5606 crore in 2005-06. Year-wise break up of the expenditure during 2001-06 was as under:-

**Table 8: Salary expenditure**

Year	Salary expenditure (Rupees in crore)	Percentage of salary expenditure with reference to		
		Revenue Receipts	Revenue Expenditure	GSDP
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
2005-06	5606*	36.7	30.4	5.0

\* This is inclusive of expenditure booked under object head salaries amounting to Rs 3734.62 crore as given in Appendix V of Finance Accounts and also includes salary of staff of Aided Private Educational Institutions (Rs 1871 crore) which are paid directly by Government.



♦ **Huge expenditure on pension payments**

**1.6.11** Pension payments increased by 56 per cent from Rs 1838 crore in 2001-02 to Rs 2861 crore in 2005-06. Year-wise breakup of expenditure during 2001-06 was as under:-

**Table 9: Pension payments**

Year	Pension payments (Rupees in crore)	Percentage of pension payments with reference to	
		Revenue Receipts	Revenue Expenditure
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
2005-06	2861	18.7	15.5

**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** The Twelfth Finance Commission recommended that States should endeavour to keep interest payments as a ratio of revenue receipts to 15 per cent by 2009-10. It was, however, observed that interest payments as a percentage of revenue receipts ranged between 25 and 28 during the last 5 years.

**Table 10: Interest payments**

Year	Interest payments (Rupees in crore)	Percentage of interest payment with reference to	
		Revenue Receipts	Revenue Expenditure
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
2005-06	3799	24.8	20.6

**1.6.14** In absolute terms, Interest payments increased by 53 *per cent* from Rs 2489 crore in 2001-02 to Rs 3799 crore in 2005-06 primarily due to continued reliance on borrowings for financing the fiscal deficit.

## 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 11 below gives the percentage share of these components of expenditure in State's total expenditure.

**Table 11: Quality of expenditure (per cent to total expenditure\*)**

	2001-02	2002-03	2003-04	2004-05	2005-06
Plan Expenditure	18.9	24.2	18.6	21.1	21.0
Capital Expenditure	4.6	4.5	4.0	3.8	4.2
Development Expenditure	53.3	56.2	53.4	55.0	54.1

\*Total expenditure does not include Loans and Advances

**1.7.2** The capital expenditure showed a decline from 4.6 *per cent* in 2001-02 to 4.2 *per cent* in 2005-06. Plan expenditure despite its low value in 2001-02 increased to 24.2 *per cent* in 2002-03; but further declined in the subsequent years and stood at 21 *per cent* in 2005-06. In the case of developmental expenditure, its ratio to total expenditure increased marginally from 53.3 *per cent* in 2001-02 to 54.1 *per cent* in 2005-06. This would mean that only 54.1 *per cent* of total expenditure got allocated to development over the year. Out of the developmental expenditure (Rs 10415 crore) during the year, Social Services accounted for 58 *per cent* (Rs 6029 crore) and Economic Services accounted for 42 *per cent* (Rs 4386 crore).

**1.7.3** Expenditure on General and Technical Education, Health and Family Welfare, Water Supply, Sanitation, Housing and Urban Development constituted 83.5 *per cent* of the expenditure on Social Services, as compared to 80.1 *per cent* in the previous year.

**Table 12: Social Sector Expenditure**

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
General and Technical Education	2443	2926	3031	3205	3419
Health and Family Welfare	756	806	855	921	999
Water Supply, Sanitation, Housing and Urban Development	291	484	401	656	617
<b>Total</b>	<b>3490</b>	<b>4216</b>	<b>4287</b>	<b>4782</b>	<b>5035</b>
As a percentage of expenditure on Social Sector	84.4	82.3	84.4	80.1	83.5

**1.7.4** Similarly, the expenditure on Economic Services (Rs 4386 crore) accounted for 42 *per cent* of the development expenditure. Of this, Rural Development, Energy and Transport accounted for 58.3 *per cent*, as compared to 56.2 *per cent* in the previous year.

**Table 13: Economic Sector Expenditure**

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Rural Development	686	1079	761	1290	1338
Energy	12	245	578	62	100
Transport	484	769	717	816	1119
<b>Total</b>	<b>1182</b>	<b>2093</b>	<b>2056</b>	<b>2168</b>	<b>2557</b>
As a percentage of expenditure on Economic Sector	49.6	58.8	58.0	56.2	58.3

### 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 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 2005-06 was as follows:

**Table 14: Financial assistance to Autonomous bodies and others**

(Rupees in crore)

Sl. No.	Bodies/authorities, etc.	2001-02	2002-03	2003-04	2004-05	2005-06
1.	Educational Institutions (Aided Schools, Aided Colleges, Universities, etc)	1540.40	1851.08	1929.60	2071.80	2144.52
2.	Municipal Corporations and Municipalities	131.57	239.46	230.91	286.96	318.94
3.	Panchayati Raj Institutions	858.41	1288.76	1554.39	1496.21	1719.53
4.	Development Agencies	13.07	33.49	28.67	25.01	14.52
5.	Hospitals and other Charitable Institutions	17.17	19.84	23.60	28.04	34.28
6.	Other Institutions (including statutory bodies)	360.37	779.95	1686.32**	798.07	1307.30
	<b>Total</b>	<b>2920.99</b>	<b>4212.58</b>	<b>5453.49</b>	<b>4706.09</b>	<b>5539.09</b>
	Assistance as a percentage of revenue receipts	32	40	46	35	36
	Percentage of assistance to revenue expenditure	25	29	35	27	30

\*\* 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 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 2006, 74 utilisation certificates for Rs 113.84 crore paid as grants during the period 2000-01 to 2005-06 had not been received in the Office of the Accountant General (Accounts and Entitlements).

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

**1.7.8** As on 31 March 2006, there were 68 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 38 institutions which had not furnished annual accounts for the year 2005-06 as of August 2006 are indicated in **Appendix VI**.

**1.7.9** The status of submission of accounts as of August 2006 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** Departments of the State Government reported 133 cases of misappropriations, defalcations, etc., of Government money amounting to Rs 6.93 crore relating to the period 1971-72 to 2005-06. Final action was pending on all cases at the end of June 2006. 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 2006, sanctions for writes off of Rs 138.52 lakh in 866 cases and waivers amounting to Rs 50.27 lakh in 142 cases were issued by various authorities during 2005-06. The Department-wise details are given in **Appendix IX**.

<b>1.8</b>	<b>Assets and Liabilities</b>
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**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 2006 compared with the corresponding position on 31 March 2005. 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 2001-06.

### **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 122.92 crore at the end of 31 March 2006, the revenue realised from them during 2005-06 was Rs 1.24 crore which was 1 *per cent* of total outlay. After considering the working and maintenance expenses of Rs 16.85 crore and interest charges of Rs 9.99 crore, these schemes suffered a net loss of Rs 25.60 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 1108.56 crore as of March 2006. Besides, 95 other capital works on which Rs 257.50\*\* crore were spent up to March 2006 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, Societies, etc. As on 31 March 2006, the Government had invested Rs 2140.04 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 15 below:

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

\*\* As per information made available by Departments



Table 15: 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 per cent)
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
2005-06	2140.04	18.19	0.8	7.5

**1.8.5** Three Statutory Corporations and 59 Government Companies with an aggregate Government investment of Rs 860.04 crore up to 2005-06 were incurring losses and their accumulated loss amounted to Rs 3514.24 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 2006 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

**1.8.6** 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 5445 crore as on 31 March 2006 (Table 16). Interest received against these advances was less than one *per cent* during 2005-06 though the Government had been borrowing funds during the year from the market at an average rate of 7.5 *per cent*. Further, in most cases, Government orders sanctioning the loans did not specify the terms and conditions for their repayment.

Table 16: Average interest received on loans advanced by the State Government

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Opening Balance	3545	3650	3823	5042	5210 <sup>*</sup>
Amount advanced during the year	160	250	1292	196	287
Amount repaid during the year	55	77	73	95	52
Closing Balance	3650	3823	5042	5143	5445
Interest received	16	24	23	30	31
Interest received as <i>per cent</i> to outstanding loans and advances	0.4	0.6	0.5	0.6	0.6
Average rate of interest on Government borrowing	9.0	7.2	6.1	6.5	7.5
Difference between borrowing rate of interest and returns received	(-) 8.6	(-) 6.6	(-) 5.6	(-) 5.9	(-) 6.9

### Commercial activities

#### 1.8.7 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

<sup>\*</sup> Difference of Rs 66.55 crore with reference to previous years closing balance was on account of proforma adjustments vide foot note (b) of Statement 5 of Finance Accounts of 2005-06

required 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 2006 in respect of these undertakings is indicated in **Appendix XI**.

### Management of cash balances

**1.8.8** 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 345 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.

**1.8.9** During the year, the State had used ways and means facilities for 182 days as against 193 days during the previous year although it raised borrowings of Rs 1807.80 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 61 days during the year as against 161 days during the previous year.

**Table 17: Ways and Means Advances and Overdrafts of the State**  
(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Ways and Means Advances*</b>					
Taken during the year	1797.42	2463.36	3346.77	4485.31	4414.09
Balance outstanding at the end of the year	228.54	283.97	284.70	235.25	Nil
Interest paid	14.53	13.23	15.58	13.20	9.62
Number of days State availed WMA	137	163	156	193	182
<b>Overdraft</b>					
Taken during the year	4041.25	5337.51	4750.53	4842.94	1732.16
Balance outstanding at the end of the year	275.56	164.85	280.64	Nil	Nil
Interest paid	8.61	7.54	8.32	8.00	2.70
Number of days State was in overdraft	222	196	177	161	61

\* Includes shortfall also.

## 1.9 Undischarged Liabilities

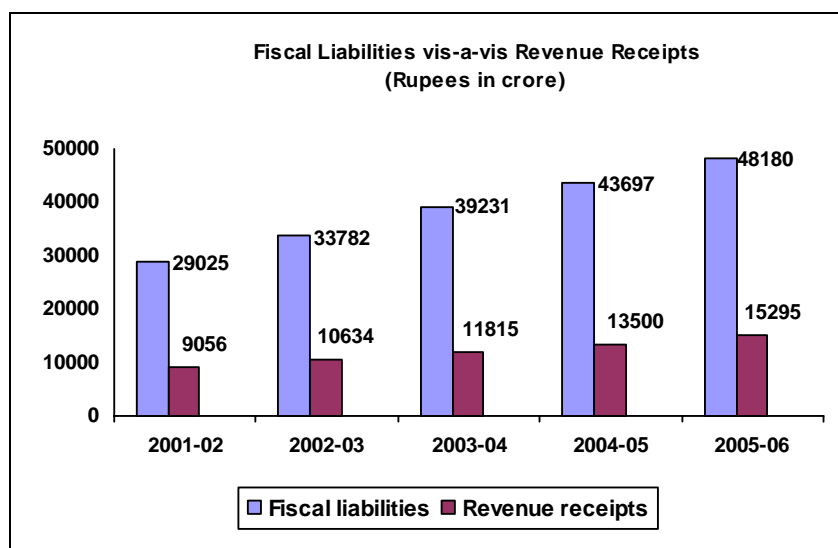
### Fiscal liabilities – public debt and guarantees

**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. 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 18 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 18: Fiscal Liabilities- Basic Parameters**  
(Values Rupees in crore and others in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal Liabilities <sup>s</sup>	29025	33782	39231	43697	48180
Rate of Growth	12.8	16.4	16.1	11.4	10.3
<b>Ratio of Fiscal Liabilities to</b>					
GSDP	40.1	41.6	43.9	43.5	43.2
Revenue Receipt	320.5	317.7	332.0	323.7	315.0
Own Resources	448.8	423.3	441.0	446.7	449.6
<b>Buoyancy of Fiscal Liabilities with</b>					
GSDP	3.4	1.4	1.6	1.0	0.9
Revenue Receipt	3.5	0.9	1.5	0.8	0.8
Own Resources	(-)14.2	0.7	1.4	1.1	1.1



**1.9.3** The fiscal liabilities of the State increased from Rs 29025 crore in 2001-02 to Rs 48180 crore in 2005-06, an increase of 66 *per cent* during the five year period. These liabilities as ratio to GSDP increased from 40.1 *per*

<sup>s</sup> Represents liabilities as disclosed in the Balance Sheet excluding Contingency Fund. *i.e.*, sum of Internal Debt, Loans and Advances from GOI, Small Savings, Provident Funds, etc., Reserve Funds (Gross), Deposits and Suspense and Miscellaneous Balances.

cent in 2001-02 to 43.2 *per cent* in 2005-06 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. During 2001-02 and 2002-03 the fiscal liabilities of the State had grown much faster as compared to its rate of growth of GSDP whereas during 2004-05 and 2005-06 the growth of fiscal liabilities kept pace with GSDP growth. 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 19.

**Table 19: Debt Sustainability- Interest Rate and GSDP Growth (in *per cent*)**

	2001-02	2002-03	2003-04	2004-05	2005-06
Weighted Interest Rate	9.1	9.4	9.1	8.7	8.3
GSDP Growth	3.8	12.1	10.2	12.4	11.0
Interest spread	(-) 5.3	2.7	1.1	3.7	2.7

**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 20 below gives the position of the receipts and repayments of public debt over the last five years.

**Table 20: Net availability of Borrowed Funds**

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Internal Debt <sup>®</sup></b>					
Receipt	2011	2717	6023	5114	5220
Repayment (Principal + Interest)	1133	1377	1944	2331	3207
Net funds available	878	1340	4079	2783	2013
Net funds available ( <i>per cent</i> )	44	49	68	54	39
<b>Loans and Advances from Government of India</b>					
Receipt	781	1193	968	1482	603
Repayment (Principal + Interest)	1315	1809	2685	2371	1009
Net funds available	(-) 534	(-) 616	(-) 1717	(-) 889	(-) 406
Net funds available ( <i>per cent</i> )	(-) 68	(-) 52	(-) 177	(-) 60	(-) 67
<b>Total Public Debt <sup>®</sup></b>					
Receipts	2792	3910	6991	6596	5823
Repayment (Principal + Interest)	2448	3186	4629	4702	4216
Net funds available	344	724	2362	1894	1607
Net funds available ( <i>per cent</i> )	12	19	34	29	28

<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 2005-06 had reduced to 28 *per cent* from 34 *per cent* in

2003-04. 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 1807.80 crore during the year. Of this, Rs 1384.96 crore was raised at interest rates ranging from 7.32 per cent to 7.75 per cent through auction sale and Rs 422.84 crore at 7.77 per cent interest through tap issue.

### Guarantees

**1.9.8** 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.

**1.9.9** 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 amount of outstanding guarantees showed a declining trend since 2003-04. The year-wise position of maximum amount guaranteed and the amount of guarantees outstanding as at the end of March of each year from 2002 to 2006 were as under:-

**Table 21: Guarantees provided by the Government**

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees as on March		
		Principal	Interest	Total
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
2005-06	13751.80	10126.65	1808.04	11934.69

### 1.9.10 Audit scrutiny revealed the following

- Details of guarantees furnished by Government was incomplete as certain relevant data like dates of sanctions of guarantee and execution of deeds, period of guarantee, etc., were not included in many cases and guarantee commission particulars in respect of some institutions having outstanding guarantees were not included in the statement. Thus the data on guarantees maintained by Government was not reliable for ensuring compliance with the provisions in the Kerala Ceiling on Government Guarantees Act, 2003.
- The arrears of guarantee commission receivable from 42 institutions as of March 2006 were Rs.91.58 crore. Out of this, Rs 85.58 crore related to 11 institutions which had arrears exceeding Rs One crore in each case.
- As per Section 6 of the Act, Government shall constitute a Guarantee Redemption Fund and the guarantee commission charged under section 5

of the Act shall form the Corpus of the Fund. But the Fund has not been constituted as of July 2006 and consequently the guarantee commission of Rs 138.95 crore collected during 2003-04 to 2005-06 had not been credited to the Fund. However Rs 33 crore were paid in July and August 2005 in discharge of guarantee liability to Consortium Banks in respect of loan availed by Kerala State Cashew Development Corporation. The amount was met from the Consolidated Fund instead of from the Guarantee Redemption Fund as provided in the Act.

### **Unreckoned liabilities**

**1.9.11** 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 2005-06 (provisional) showed revenue subsidy of Rs 4485.35 crore (4 *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 2005-06.

- **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 2006 in Public Works, Water Resources and Harbour Engineering, etc., Departments amounted to Rs 879.75 crore (0.8 *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. After a peak of Rs 4122 crore in 2002-03 the revenue deficit showed a declining trend during the subsequent three years 2003-04 to 2005-06. However the fiscal deficit showed an increasing trend in the initial two years 2001-02 to 2002-03 and peaked at Rs 5539 crore in 2003-04; but it declined in the subsequent two years.

**1.10.3** The State Government enacted the Fiscal Responsibility Act, 2003 which came into effect on 5 December 2003, to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit, sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term frame work. To give effect to the fiscal management principles as laid down in the Act, State Government prescribed the fiscal targets which are as follows:

- (1) To reduce revenue deficit to 'Nil' within a period of four years commencing from 1 April 2003 and ending on 31 March 2007 and generate revenue surplus thereafter.
- (2) To reduce fiscal deficit to 2 *per cent* of the estimated Gross State Domestic Product (GSDP) within a period of four years from 1 April 2003 and ending on 31 March 2007. The State Government has drawn fiscal correction path for the year 2005-06. Targets and achievements on fiscal correction during 2005-06 are given below.

*(Rupees in crore)*

Sl. No.		Target	Achievement
1	Revenue Deficit	4072.28	3129.15
2	Fiscal Deficit	5171.39	4181.72
3	Fiscal Deficit as a percentage of GSDP	4.60	3.70

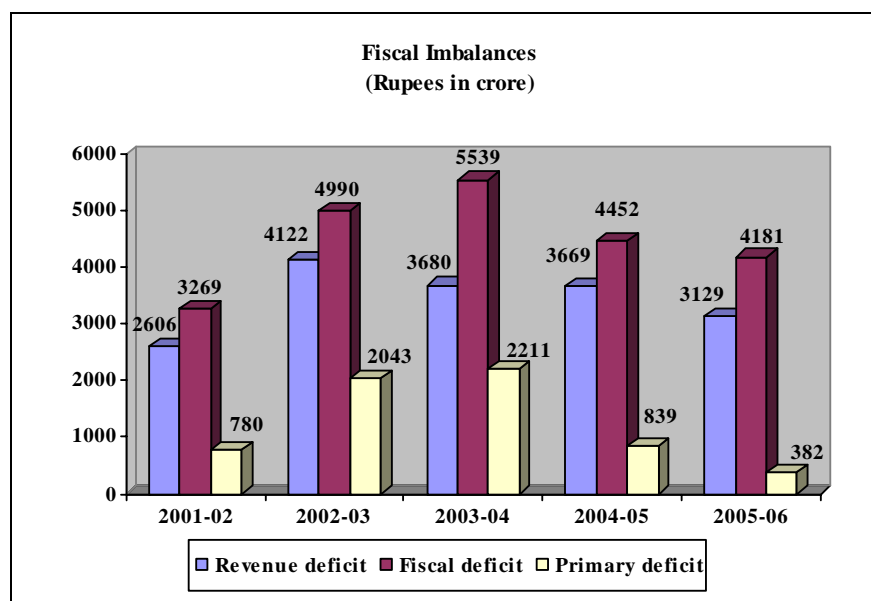
State Government had achieved to reduce revenue and fiscal deficits during the year 2005-06 with reference to the targets set in the Medium Term Fiscal Plan.

**1.10.4** Table 22 below indicates the basic parameters of fiscal imbalance.

**Table 22: Fiscal Imbalances- Basic Parameters**  
(Values Rupees in crore and Ratios in *per cent*)

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Deficit (RD)	2606	4122	3680	3669	3129
Fiscal Deficit (FD)	3269	4990	5539	4452	4181
Primary Deficit (PD)	780	2043	2211	839	382
RD/GSDP	3.6	5.1	4.1	3.7	2.8
FD/GSDP	4.5	6.2	6.1	4.4	3.7
PD/GSDP	1.1	2.5	2.5	0.8	0.3
RD/FD	79.7	82.6	66.4	82.4	74.8

**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 decreased from 82.6 *per cent* in 2002-03 to 74.8 *per cent* in 2005-06. 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 2.8 *per cent* and fiscal deficit to 3.7 *per cent* in 2005-06 from 5.1 *per cent* and 6.2 *per cent* respectively in 2002-03.



## 1.11 Fiscal Ratios

**1.11.1** The finances of a State should be sustainable, flexible and non-vulnerable. Table 23 below presents a summarised position of the Government Finances during 2001-06, 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. All the four ratios, i.e., revenue receipts and states' own taxes to GSDP as well as revenue and own taxes buoyancy increased during the five year period 2001-06.

**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 to total expenditure declined in 2005-06 as compared to 2001-02. Though the ratio of revenue expenditure to total expenditure decreased in 2005-06 as compared to 2004-05, it still indicated that nearly 95 per cent of total expenditure constituted revenue expenditure. Only about 78 per cent of the total expenditure was met out of revenue receipts during 2005-06. The ratio of developmental expenditure to total expenditure also declined during 2005-06 as compared to previous year. All these indicate State's increasing dependence on borrowings for meeting its revenue expenditure and inadequate expansion of its development activities.

**1.11.4** Ratio of revenue deficit to fiscal deficit indicates that the application of borrowed funds had largely been to meet current consumption. The revenue deficit during the three years 2003-04 to 2005-06 was on the decline from the level in 2002-03 whereas the fiscal deficit declined only in 2004-05 and 2005-06. The ratio of revenue deficit to fiscal deficit also decreased in 2005-06 to 74.8 per cent from 82.4 per cent in the previous year.



Table 23: Ratios of Fiscal Efficiency (in per cent)

Fiscal Ratios	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Resource Mobilisation</b>					
Revenue Receipts/GSDP	12.5	13.1	13.2	13.4	13.7
Revenue Buoyancy	1.0	1.4	1.1	1.2	1.2
Own tax/GSDP	8.2	9.0	9.0	8.9	8.8
Own taxes Buoyancy	0.2	1.9	1.1	0.9	0.8
<b>Expenditure Management</b>					
Total Expenditure (TE)/GSDP	17.1	19.4	19.5	18.0	17.5
Revenue Receipts (RR)/ TE	73.2	67.7	67.8	74.8	78.3
Revenue Expenditure (RE)/TE	94.2	94.0	88.9	95.1	94.3
Plan Expenditure/TE	18.9	24.2	18.6	21.1	21.0
Capital Expenditure/TE	4.6	4.5	4.0	3.8	4.2
Development Expenditure/TE	53.3	56.2	53.4	55.0	54.1
Buoyancy of TE with RR	(-) 0.7	1.5	1.0	0.3	0.6
Buoyancy of RE with RR	(-) 0.5	1.5	0.5	0.8	0.5
<b>Management of Fiscal Imbalances</b>					
Revenue Deficit (Rs in crore)	2606	4122	3680	3669	3129
Fiscal Deficit (Rs in crore)	3269	4990	5539	4452	4181
Primary Deficit (Rs in crore)	780	2043	2211	839	382
Revenue Deficit/Fiscal Deficit	79.7	82.6	66.4	82.4	74.8
<b>Management of Fiscal Liabilities</b>					
Fiscal Liabilities (FL)/GSDP	40.1	41.6	43.9	43.5	43.2
Fiscal Liabilities/RR	320.5	317.7	332.0	323.7	315.0
Buoyancy of FL with RR	3.5	0.9	1.5	0.8	0.8
Buoyancy of FL with Own Resources	(-) 14.2	0.7	1.4	1.1	1.1
Interest spread	(-) 5.3	2.7	1.1	3.7	2.7
Net Funds Available	12	19	34	29	28
<b>Other Fiscal Health Indicators</b>					
Return on Investment	0.3	0.5	0.9	1.3	0.8
Balance from Current Revenue (BCR) (Rs in crore)	(-) 1660	(-) 1811	(-)1983	(-) 1496	(-) 575
Financial Assets/Liabilities	0.4	0.4	0.4	0.4	0.4

## 1.12 Conclusion

**1.12.1** Thirty *per cent* of the revenue receipts came from Central tax transfers and grants-in-aid. The mobilisation of States' own tax revenue was not commensurate with increase in domestic income. Eighty *per cent* of revenue receipts were consumed by the committed expenditure viz. salaries, pensions and interest payments.

**1.12.2** 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 from Current Revenue (BCR) 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.

**1.12.3** Though the State Government could reduce the revenue deficit and fiscal deficit during the year compared to the previous year, it should resort to additional resource mobilisation, compression of non-developmental revenue expenditure and proper 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.