

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

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

1.1.1. Summary of Receipts and Disbursements

Table – 1.1 summarises the finances of the Government of Kerala for the year 2006-07 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts/disbursements as emerging from Statement – 1 of Finance Accounts and other detailed statements.

Table 1.1 : Summary of receipts and disbursements for the year 2006-07
(Rupees in crore)

2005-06	Receipts	2006-07	2005-06	Disbursements	2006-07		
Section-A: Revenue							
					Non-Plan	Plan	Total
15,294.53	Revenue receipts	18,186.63	18,423.68	Revenue expenditure	18,516.13	2,308.44	20,824.57
9,778.62	Tax revenue	11,941.82	8,755.65	General Services	9,579.30	143.86	9,723.16
936.78	Non-tax revenue	937.57	5,896.38	Social Services	5,438.12	1,040.13	6,478.25
2,518.20	Share of Union Taxes/Duties	3,212.04	3,771.65	Economic Services	1,587.43	1,124.45	2,711.88
2,060.93	Grants from Govt. of India	2,095.20		Grants-in-aid / Contributions	1,911.28		1,911.28
3,129.15	Revenue Deficit carried over to Section B	2,637.94					
18,423.68	Total Section - A	2,0,824.57	18,423.68	Total Section - A	18,516.13	2,308.44	20,824.57
Section-B: Capital							
(-) 93.96	Opening Cash Balance	215.14	--	Opening Overdraft from Reserve Bank of India			
--	Miscellaneous Capital Receipts	1.94	816.95	Capital Outlay	16.68	885.90	902.58
51.50	Recoveries of Loans and Advances	66.10	287.12	Loans and Advances disbursed	99.04	250.35	349.39
			3,129.15	Revenue Deficit brought down from Section A			2,637.94
5,823.52	Public debt receipts*	5,335.53	1,822.45	Repayment of Public Debt*			1,082.73
			--	Appropriation to Contingency Fund			
15.04	Contingency Fund receipts	2.15	2.15	Contingency Fund disbursements			
37,779.14	Public Account receipts	41,868.36	37,302.28	Public Account disbursements			41,476.61
--	Closing Overdraft from Reserve Bank of India		215.14	Cash Balance at end			1,039.97
43,575.24	Total – Section B	47,489.22	43,575.24	Total – Section B	115.72	1,136.25	47,489.22

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

Following are the significant changes during 2006-07 over previous year.

- Revenue receipts grew by 18.9 *per cent* (Rs 2,892 crore) relative to the previous year. The increase is mainly contributed by tax revenue (Rs 2,163 crore), and State's share of Union Taxes and Duties (Rs 694 crore).
- Revenue expenditure and Capital expenditure increased by 13 *per cent* (Rs 2,401 crore) and 10.5 *per cent* (Rs 86 crore) respectively over the previous year.
- Public Debt Receipts decreased by Rs 488 crore over previous year mainly due to decrease in borrowings from Government of India by Rs 398 crore. The repayments of Public Debt also decreased by Rs 740 crore during 2006-07 over the previous year.
- Public Account disbursements increased by Rs 4,174 crore against an increase of Rs 4,089 crore in Public Account Receipts over previous year resulting in a marginal increase of Rs 85 crore during the year.
- Cash balance of State increased by Rs 825 crore over previous year.

1.1.2 States Fiscal Position by Key Indicators

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

Table 1.2

(Rupees in crore)

2005-06	Sl. No.	Major Aggregates	2006-07
15,295	1.	Revenue Receipts (2+3+4)	18,187
9,779	2.	Tax Revenue (net)	11,942
937	3.	Non-Tax Revenue	938
4,579	4.	Other Receipts	5,307
52	5.	Non-Debt Capital Receipts	68
52	6.	<i>Of which</i> Recovery of Loans	66
15,347	7.	Total Receipts (1+5)	18,255
15,228	8.	Non-Plan Expenditure	18,632
15,201	9.	On Revenue Account	18,516
3,799	10.	<i>Of which</i> Interest Payments	4,190
--	11.	On Capital Account	17
27	12.	On Loans disbursed	99
4,300	13.	Plan Expenditure	3,445
3,223	14.	On Revenue Account	2,309
817	15.	On Capital Account	886
260	16.	On Loans disbursed	250
19,528	17.	Total Expenditure (8+13)	22,077
(-) 3,129	18.	Revenue Deficit (-) Revenue Surplus (+) (1-9-14)	(-) 2,638
(-) 4,181	19.	Fiscal Deficit (-)/ Fiscal Surplus (+) (1+5-17)	(-) 3,822
(-) 382	20.	Primary Deficit (-)/ Primary Surplus (+) (19-10)	(+) 368

Table 1.2 shows that Revenue Receipts increased by Rs 2,892 crore (18.9 *per cent*) during 2006-07 while Revenue Expenditure increased by Rs 2,401 crore (13 *per cent*) over the previous year which resulted in a decline of Rs 491

crore in Revenue Deficit during 2006-07 over the previous year. Given an increase of Rs 16 crore in non-debt capital receipts and an increase of Rs 86 crore and Rs 62 crore in capital expenditure and disbursement of loans and advances respectively, the fiscal deficit declined by Rs 359 crore in 2006-07 over previous year. An increase of Rs 391 crore in interest payment resulted in decline of Rs 750 crore in Primary Deficit from Rs 382 crore in 2005-06 to a primary surplus of Rs 368 crore in 2006-07.

1.2 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts are analysed wherever necessary over the period of 2002-07 and observations are made on their behaviour. In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all states are required to enact the Fiscal Responsibility (FR) Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their FR Acts and in other Statements required to be laid in the legislature under the Act are used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP) is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices.

Table 1.3 : Trend in growth of GSDP

	2002-03	2003-04	2004-05	2005-06	2006-07
Gross State Domestic Product (GSDP)* (Rupees in crore)	85,073	96,883	1,07,909	1,20,564	1,35,768
Growth rate of GSDP	11.3	13.9	11.4	11.7	12.6

* New GSDP figures for the years 2002-03 to 2005-06 with 1999-2000 as base as furnished by the Director of Economics and Statistics in May 2007 have been adopted. Figures for 2004-05 are Provisional Estimates and that for 2005-06 are Quick Estimates. For 2006-07, the projected figures in the budget in brief 2007-08 have been adopted.

The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc., with reference to base represented by GSDP have also been worked out to assess as to whether the mobilization of resources, pattern of expenditure etc., are keeping pace with the change in the base, or these fiscal aggregates are also affected by factors other than GSDP. Audit observations on the Statements of Finance Accounts for the year 2006-07 bring out the trends in the major fiscal aggregates of receipts and expenditure, wherever necessary analyse them and show these in the light of summarized financial position of the Government of Kerala (**Appendix II**), Abstracts of Receipts and Disbursements (**Appendix III**), Sources and Application of funds (**Appendix IV**), and Time series data (**Appendix V**). The overall financial performance of the State Government as a body corporate has been presented

by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix I Part C**.

1.2.1 The Kerala Fiscal Responsibility Act, 2003

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

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

The Twelfth Finance Commission (TFC), however, in its report targets elimination of State's revenue deficit by March 2009 and reduction of fiscal deficit to three *per cent* of GSDP. The Kerala Fiscal Responsibility Act has not been amended till date taking into consideration the recommendations of the TFC.

1.2.2 Fiscal Policy Statement

As prescribed in the Act, State Government laid the Medium Term Fiscal Policy and Strategy Statement indicating three-year rolling targets for fiscal indicators, medium term fiscal objectives, evaluation of performance against targets fixed for the previous two years, etc., along with the budget for 2006-07 before the Legislature.

However, after the elections, the new Government presented a revised budget for the year 2006-07 in June 2006 wherein the targets of revenue deficit and fiscal deficit for 2006-07 were altered. However, no corresponding revision of fiscal indicators was made.

1.2.3 Roadmap to Achieve the Fiscal Targets as laid down in Fiscal Responsibility Act/Rules

Under the Finance Ministry's Scheme "The State's Debt Consolidation and Relief Facility (DCRF) for the period from 2005-06 to 2009-10", the States were advised to develop their 'Own Fiscal Correction Path' in line with the provisions of FR Act for seeking benefits of the debt consolidation under DCRF. No specific Fiscal Correction Path for seeking benefits under DCRF has been furnished by Government though called for. But the State Government in its Medium Term Fiscal Plan presented along with the budget

for 2007-08 indicated the milestones of outcome indicators particularly relating to revenue deficit and fiscal deficit in order to achieve the targets laid down by the TFC. Though the Kerala Fiscal Responsibility Act has not been amended in line with the recommendations of TFC, the medium term fiscal plan expected to achieve zero revenue deficit and also to reduce the fiscal deficit to three *per cent* of GSDP by March 2010. The milestones set for achieving these objectives was as under:

Table 1.4*(Rupees in crore)*

	Actual 2003-04	Actual 2004-05	Actual 2005-06	Revised Estimate 2006-07	Projected 2007-08	Projected 2008-09	Projected 2009-10
Revenue Deficit (Percentage with GSDP)	3,680 (3.8)	3,669 (3.4)	3,129 (2.6)	5,917 (4.4)	5,251 (3.4)	3,625 (2.1)	2,551 (1.3)
Fiscal Deficit (Percentage with GSDP)	5,539 (5.7)	4,452 (4.1)	4,182 (3.5)	8,331 (6.1)	7,425 (4.8)	6,242 (3.6)	5,900 (3.0)

Against the anticipated revenue deficit and fiscal deficit of Rs 5,917 crore (4.4 *per cent* of GSDP) and Rs 8,331 crore (6.1 *per cent* of GSDP) respectively during 2006-07, the year ended with actual revenue deficit of Rs 2,638 crore (1.9 *per cent* of GSDP) and fiscal deficit of Rs 3,822 crore (2.8 *per cent* of GSDP) respectively.

1.2.4 Review of Fiscal Situation

According to Section 6 of Kerala Fiscal Responsibility Act, 2003 Government should constitute a committee called Public Expenditure Review Committee which shall submit an annual review report to the Government during the month of November every year giving full account of each item where deviation from fiscal target occurred during the previous year. Though the Act came into effect on 5 December 2003 the Committee was constituted only in November 2005.

1.3 Trends and Composition of Aggregate Receipts

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table-1.5** shows that the total receipts of the State Government for the year 2006-07 were Rs 65,461 crore. Of these, the revenue receipts were Rs 18,187 crore, constituting 28 *per cent* of the total receipts. The balance came from miscellaneous capital receipts (Rs two crore), recoveries of loans and advances (Rs 66 crore), borrowings (Rs 5,336 crore: eight *per cent*), receipts from Contingency Fund (Rs two crore) and Public Account (Rs 41,868 crore: 64 *per cent*).

Table 1.5: Trends in Growth and Composition of Aggregate Receipts
(Rupees in crore)

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

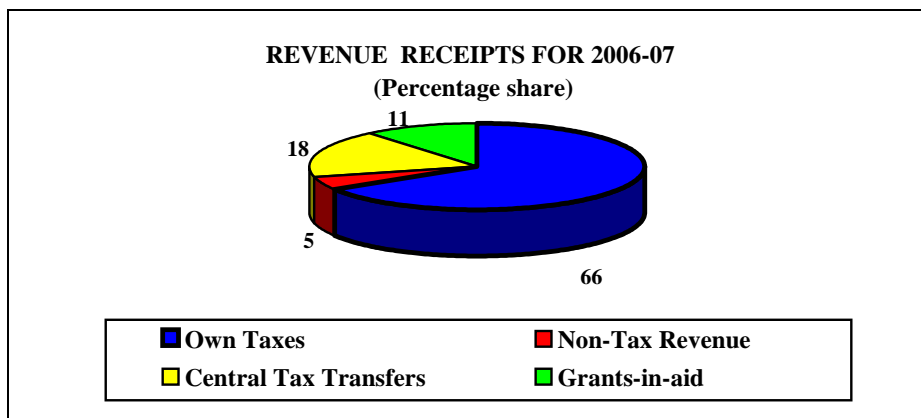
* Excludes Ways and Means advances from Reserve Bank of India

1.3.1 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table-1.6**.

Table 1.6: Revenue Receipts- Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Receipts (RR) (Rupees in crore)	10,634	11,815	13,500	15,295	18,187
Own Taxes (<i>per cent</i>)	7,303 (69)	8,089 (68)	8,963 (66)	9,779 (64)	11,942 (66)
Non-Tax Revenue (<i>per cent</i>)	678 (06)	807 (07)	819 (06)	937 (06)	938 (05)
Central tax Transfers (<i>per cent</i>)	1,715 (16)	2,012 (17)	2,405 (18)	2,518 (17)	3,212 (18)
Grants-in aid (<i>per cent</i>)	938 (09)	907 (08)	1,313 (10)	2,061 (13)	2,095 (11)
Rate of Growth of RR (<i>per cent</i>)	17.4	11.1	14.3	13.3	18.9
Revenue Receipt/GSDP (<i>per cent</i>)	12.5	12.2	12.5	12.7	13.4
Revenue Buoyancy (ratio)	1.5	0.8	1.2	1.1	1.5
Own Taxes Buoyancy (ratio)	2.1	0.8	0.9	0.8	1.8
Revenue Buoyancy with reference to State' Own Taxes (ratio)	0.7	1	1.3	1.5	0.8
GSDP Growth(<i>per cent</i>)	11.3	13.9	11.4	11.7	12.6



General Trends

Revenue Receipts of the State have increased consistently at an annual rate of growth of 15 per cent from Rs 10,634 crore in 2002-03 to Rs 18,187 crore in 2006-07. During 2006-07 the revenue receipts increased by 18.9 per cent. The contribution of the State's own taxes in its total revenue receipts decreased from 68.7 per cent in 2002-03 to 65.7 per cent in 2006-07 whereas contribution of central tax transfers and grants in aid increased from 24.9 per cent in 2002-03 to 29.2 per cent in 2006-07. However, the contribution of non-tax revenue in its total revenue receipts decreased from 6.4 per cent in 2002-03 to 5.1 per cent in 2006-07.

Tax Revenue

The Tax Revenue has increased by 22 per cent during the current year (Rs 11,942 crore) when compared to the previous year (Rs 9,779 crore). 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 (13 per cent), State Excise (8 per cent) and Taxes on Vehicles (6 per cent). **Table 1.7** shows the trend of tax revenue during 2002-07.

Table 1.7 : Tax Revenue

(Rupees in crore)

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

Taxes on sales, trade, etc increased by 22 per cent (Rs 1,525 crore) during 2006-07 as compared to previous year. This steep increase was mainly due to

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

increased collection of Value Added Tax (VAT) and creation of new schedule of goods taxable at 20 per cent as per budget speech of 2006-07.

Non-Tax Revenue

Of non-tax revenue sources, receipts from Forest and Wildlife (19 per cent), State Lotteries (25 per cent), Education, Sports, Art and Culture (11 per cent) and Interest Receipts, Dividends and Profits (8 per cent) were the principal contributors. However, though the receipts under State Lotteries were Rs 236.33 crore during the year, with equally high expenditure of Rs 194.20 crore, the net yield from lotteries was only Rs 42.13 crore.

Central Tax Transfers

The Central Tax Transfers increased by Rs 693.84 crore over the previous year and constituted 17.7 per cent of revenue receipts. The increase was mainly under Corporation Tax (Rs 307.20 crore), Taxes on Income other than Corporation Tax (Rs 118.65 crore), Customs Duties (Rs 135.56 crore) and Service Tax (Rs 122.46 crore).

Grants-in-aid

The Grants-in-aid from Government of India increased from Rs 2,060.93 crore in 2005-06 to Rs 2,095.20 crore in the current year. The increase was mainly under State Plan Scheme (Rs 144.97 crore) and Centrally Sponsored Scheme (Rs 56.38 crore) partly off set by decrease in non-plan grants (Rs 168.34 crore). As per the recommendations of Twelfth Finance Commission (TFC), the Government of India released Rs 575.71 crore during the current year under non-plan grants for heritage conservation (Rs 6.25 crore); State Specific Needs (Rs 143.30 crore); maintenance of Buildings (Rs 25.88 crore); maintenance of roads and bridges (Rs 160.58 crore); Urban Local Bodies and Panchayati Raj Institutions (Rs 226.80 crore); Upgradation of Services and Special Problems (Rs 8 crore) and maintenance of Forests (Rs 4.90 crore).

Arrears of Revenue

As per the information furnished by five Departments of State Government, arrears of revenue pending realization at the end of 2006-07 were Rs 3,261.55 crore. Of these, Rs 118.39 crore was on account of stay ordered by courts. The details are given in the **Table 1.8** below:

Table 1.8: Arrears of Revenue

(Rupees in crore)

Sl. No.	Department	Arrears		Amount stayed by Court	Amount Stayed by Government	Non-recovery due to other reasons
		2005-06	2006-07			
1.	Electrical Inspectorate	#	2,192.18	--	--	2,192.18
2.	Motor Vehicle Department	#	604.32	0.40	0.03	603.89
3.	Local Fund Audit Department	64.93	71.94	--	--	71.94
4.	Mining and Geology Department	0.51	0.52	0.08	0.14	0.30
5.	Excise Department	345.12	392.59	117.91	--	274.68
	Total	410.56	3,261.55	118.39	0.17	3,142.99

Not furnished by the Department

1.4 Application of resources

1.4.1 Growth of Expenditure

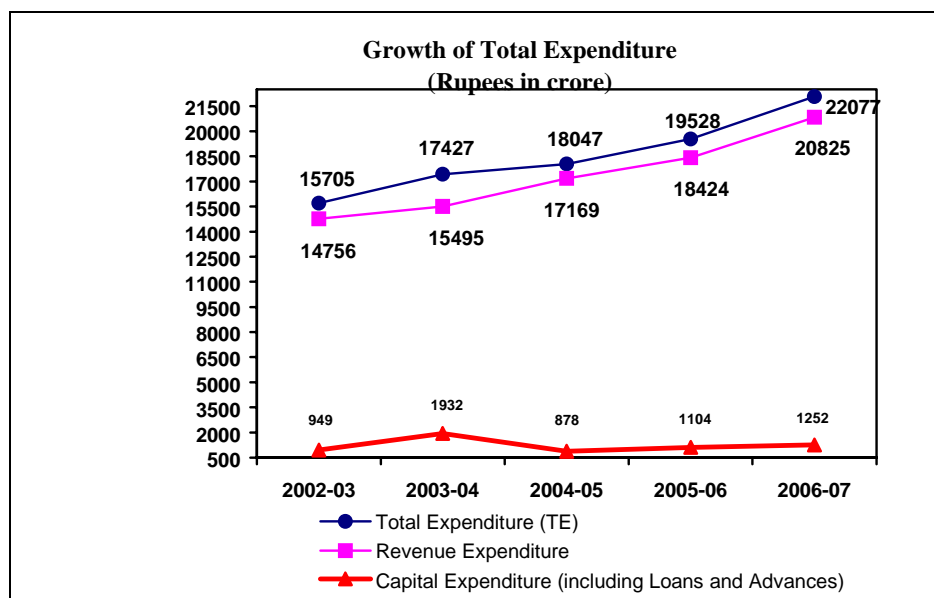
Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs 15,705 crore in 2002-03 to Rs 22,077 crore in 2006-07. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-1.9**.

Table 1.9: Total Expenditure – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Total Expenditure [⊕] (TE) (Rupees in crore)	15,705	17,427	18,047	19,528	22,077
Rate of Growth (per cent)	26.9	11.0	3.6	8.2	13.1
TE/GSDP Ratio (per cent)	18.4	18	16.7	16.2	16.3
Revenue Receipts/TE Ratio (per cent)	67.7	67.8	74.8	78.3	82.4
Buoyancy of Total Expenditure with reference to:					
GSDP (ratio)	2.4	0.8	0.3	0.7	1.04
Revenue Receipts (ratio)	1.5	1.0	0.3	0.6	0.7

The total expenditure during the year increased to Rs 22,077 crore from Rs 19,528 crore in the previous year and the growth rate also increased during the year to 13.1 per cent from 8.2 per cent in the previous year. The increase in total expenditure over previous year was mainly due to increase under revenue expenditure (Rs 2,401 crore), capital expenditure (Rs 86 crore) and repayment of loans and advances (Rs 62 crore). In terms of plan and non-plan expenditure, the plan expenditure decreased by Rs 856 crore, whereas non-plan expenditure increased by Rs 3,405 crore over previous year. The ratio of revenue receipts to total expenditure increased from 67.7 per cent in 2002-03 to 82.4 per cent in 2006-07, indicating that about 82 per cent of the State's total expenditure was met from its current revenues, leaving the balance to be financed from borrowings.

[⊕]Total Expenditure represents revenue expenditure as well as capital expenditure which includes expenditure on loans and advances.



Trends in Total Expenditure by Activities

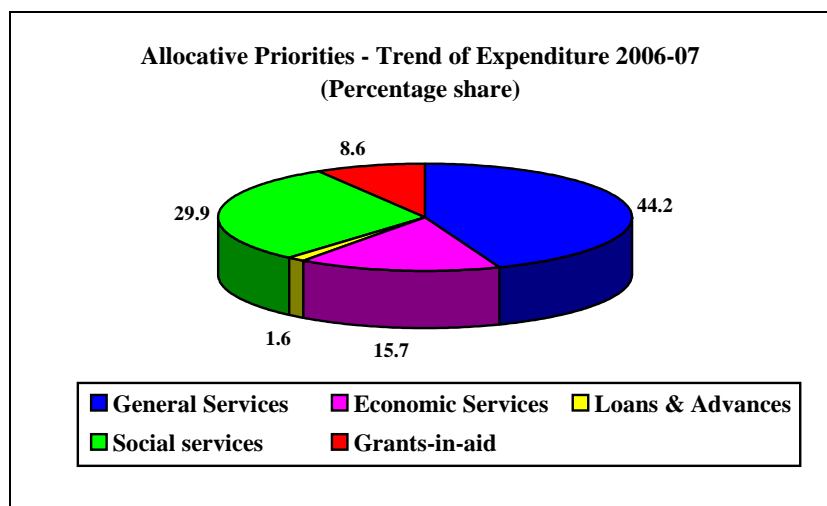
In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table-1.10**.

Table-1.10: Components of Expenditure – Relative Share

(in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07
General Services	42.8	42.7	44.5	45.2	44.2
Of which Interest payments	44	45	45	43	43
Social Services	32.6	29.2	33.1	30.9	29.9
Economic Services	22.6	20.3	21.3	22.5	15.7
Grants-in-aid	0.4	0.4	--	--	8.6
Loans and advances	1.6	7.4	1.1	1.4	1.6

The movement of the relative share of the components indicated that the share of Social Services in the total expenditure declined from 32.6 *per cent* in 2002-03 to 29.9 *per cent* in 2006-07 and the share of Economic Services declined from 22.6 *per cent* to 15.7 *per cent* during the same period. The share of General Services which included interest payments considered as non-developmental accounted for 44.2 *per cent* of total expenditure in 2006-07 as compared to 42.8 *per cent* in 2002-03.



1.4.2 Incidence of Revenue expenditure

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

Table-1.11: Revenue Expenditure: Basic Parameters

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure (RE)	14,756	15,495	17,169	18,424	20,825
Of which: Non-plan Revenue Expenditure (NPRE)	11,702	13,101	14,063	15,201	18,516
Plan Revenue Expenditure (PRE)	3,054	2,394	3,106	3,223	2,309
Rate of Growth (per cent) of RE	26.5	5.0	10.8	7.3	13.0
NPRE	18.2	12	7.3	8.1	21.8
PRE	72.9	(-) 21.6	29.7	3.8	(-) 28.4
NPRE/GSDP (per cent)	13.8	13.5	13	12.6	13.6
NPRE as per cent of TE	74.5	75.2	77.9	77.8	83.9
NPRE as per cent of RR	110	110.9	104.2	99.4	101.8
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	2.3	0.4	0.9	0.6	1.03
Revenue Receipts (Ratio)	1.5	0.5	0.8	0.5	0.7

The revenue expenditure increased by 41 per cent from Rs 14,756 crore in 2002-03 to Rs 20,825 crore in 2006-07. The NPRE has shown increase at an average rate of 13 per cent over the period and continued to share the dominant proportion varying in the range of 79 to 89 per cent of the revenue expenditure. The PRE on the other hand has showed wide inter-year fluctuations during the period. It has shown an increase of 3.8 per cent in 2005-06 and a decline of 28.4 per cent in 2006-07 as compared to the preceding years. The NPRE increased by 21.8 per cent from Rs 15,201 crore in 2005-06 to Rs 18,516 crore in 2006-07 whereas PRE decreased by 28.4 per

cent from Rs 3,223 crore to Rs 2,309 crore during the same period. The increase in NPRE during the current year was mainly due to increase in expenditure under Pension (Rs 434 crore), Interest payments (Rs 391 crore) and salaries and wages (Rs 951 crore). The decrease in PRE was mainly due to decrease in expenditure under Rural Development (Rs 807.22 crore), Urban Development (Rs 148.25 crore), Roads and Bridges (Rs 145.93 crore) partly offset by increase of expenditure under Crop Husbandry (Rs 155.16 crore). The actual non-plan revenue expenditure vis-à-vis assessment made by TFC is given below:

Table-1.12

(Rupees in crore)

	Assessment made by TFC	Actual Non-plan Revenue Expenditure
Non-plan Revenue Expenditure	16,403	18,516

Actual Non-plan Revenue Expenditure during 2006-07 exceeded the normative assessment made by TFC for the year by Rs 2,113 crore. The increase in non-plan revenue expenditure over the assessment made by TFC was mainly due to increase in expenditure under 'Compensation and Assignment to Local Bodies and Panchayati Raj Institutions' (Rs 1,810 crore), Pension payment (Rs 196 crore) and Interest payment (Rs 89 crore).

1.4.3 Committed Expenditure

1.4.3.1 Expenditure on Salaries and Wages

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

Table-1.13 : Expenditure on Salaries

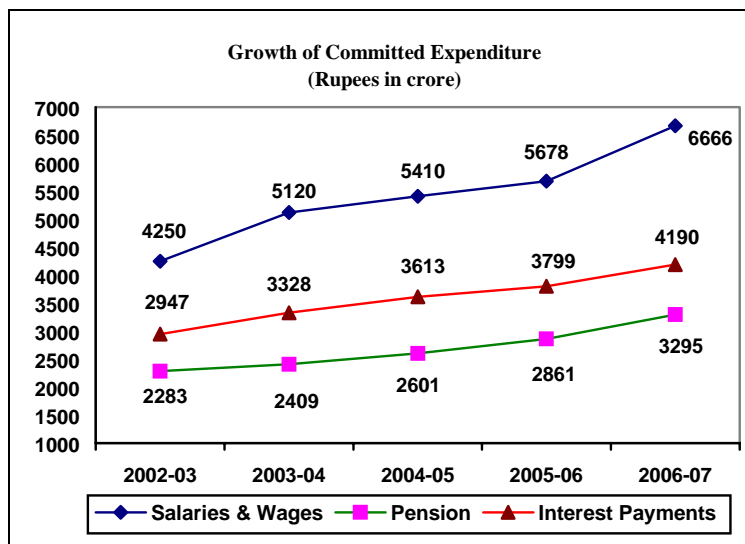
(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Salaries & Wages	4,250 [§]	5,120	5,410	5,678	6,666
Of which					
Non-Plan Head	N.A	4,886	5,186	5,440	6,391
Plan Head*	N.A	234	224	238	275
As per cent of GSDP	5.0	5.3	5.0	4.7	4.9
As per cent of RR	46.0	43.3	40.1	37.1	36.7

Salary expenditure during the year increased by 17.40 per cent over the level of 2005-06. The increase was mainly due to the implementation of Pay Commission award with retrospective effect from 1 July 2004. Expenditure on salaries under non-plan and plan during 2006-07 is Rs 6,391 crore and Rs 275 crore respectively recording a growth of 17 per cent and 16 per cent respectively. The salary expenditure is 50 per cent of revenue expenditure net of interest and pension payments which is higher than the norm of 35 per cent recommended by the TFC. Expenditure under Salaries and Wages for 2006-07 remained lower than the projection made by the State Government in Medium Term Fiscal Plan (Rs 8,076 crore).

[§] Includes Salaries only.

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



1.4.3.2 Pension Payments

Table 1.14 : Expenditure on Pensions

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Pensions	2,283	2,409	2,601	2,861	3,295
As per cent of GSDP	2.7	2.5	2.4	2.4	2.4
As per cent of RR	21.5	20.4	19.3	18.7	18.1

Pension payments increased by 15 per cent from Rs 2,861 crore in 2005-06 to Rs 3,295 crore in 2006-07. The increase in pension payment was mainly due to the revision of pension with retrospective effect from 1 July 2004. With the increase in the number of retirees and improved longevity, the pension liabilities are likely to increase further in future. Pension payments during 2006-07 exceeded the assessment made by TFC (Rs 3,099 crore) but it remained lower than the projection made by State Government in Medium Term Fiscal Plan (Rs 4,056 crore).

1.4.3.3 Interest payments

The Twelfth Finance Commission recommended that States should endeavour to keep interest payments as a ratio of revenue receipts to 15 per cent by 2009-10. It was however, observed that interest payments as a percentage of revenue receipts ranged between 23 and 28 per cent during the last five years.

Table-1.15 : Interest payments

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

The increase in interest payment during 2006-07 was mainly due to more expenditure on 'Interest on Special Securities issued to National Small Savings Fund of the Central Government' (Rs 250.55 crore), Interest on Market Loans (Rs 85.75 crore) and Interest on Other Savings Deposits (Rs 222.98 crore) partly offset by decrease in expenditure under 'Interest on Other Internal Debts (Rs 173.98 crore). Interest payment during 2006-07 exceeded assessment made by TFC (Rs 4,100 crore) but it remained lower than the projection made by State Government in Medium Term Fiscal Plan (Rs 4,433 crore).

1.4.3.4 Subsidies

As per Finance Accounts, State Government paid subsidies to the extent of Rs 23.36 crore during 2006-07 for Arts and Culture, Crop Husbandry, Animal Husbandry, Co-operation, Minor Irrigation, Village and Small Industries, etc., against the target of Rs 124 crore made by Government in the Medium Term Fiscal Plan.

1.5 Expenditure by Allocative Priorities

1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. The higher the ratio of these components to total expenditure and GSDP, the better is the quality of expenditure. **Table 1.16** gives these ratios during 2002-03 to 2006-07.

Table 1.16: Indicators of Quality of Expenditure

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Expenditure	699	640	682	817	903
Revenue Expenditure	14,756	15,495	17,169	18,424	20,825
<i>Of which</i>					
Social and Economic Services with	8,678	8,024	9,186	9,667	9,190
(i) Salary & Wage Component	N.A	4,071	4,280	4,487	5,198
(ii) Non-Salary & Wage component	N.A	3,953	4,906	5,180	3,992
As per cent of Total Expenditure^{&}					
Capital Expenditure	4.5	4	3.8	4.25	4.2
Revenue Expenditure	95.5	96	96.2	95.75	95.8
As per cent of GSDP					
Capital Expenditure	0.8	0.7	0.6	0.7	0.7
Revenue Expenditure	17.3	16	15.9	15.3	15.3

The revenue expenditure increased in absolute terms from Rs 18,424 crore in 2005-06 to Rs 20,825 crore in 2006-07 and its percentage to total expenditure increased marginally from 95.75 per cent to 95.8 per cent over previous year. Though the capital expenditure increased in absolute terms from Rs 817 crore

[&] Total expenditure does not include Loans and Advances

in 2005-06 to Rs 903 crore in 2006-07, as a percentage of total expenditure, it decreased from 4.25 per cent to 4.2 per cent over last year. Both revenue and capital expenditure as a percentage of GSDP remained unchanged at 15.3 per cent and 0.7 per cent respectively when compared to previous year.

1.5.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities, etc., have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 1.17** summarises the expenditure incurred by the State Government in expanding and strengthening the social services in the State during 2002-03 to 2006-07.

Table 1.17: Expenditure on Social Services

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Education, Art and Culture	2,986	3,095	3,280	3,498	3,953
Revenue Expenditure	2,968	3,080	3,254	3,457	3,917
<i>Of which</i>					
(a) Salary & Wage Component		2,710	2,842	2,954	3,384
(b) Non-Salary & Wage component		370	412	503	533
Capital Expenditure	18	15	26	41	36
Health and Family Welfare	805	854	921	999	1,138
Revenue Expenditure	759	832	891	941	1,108
<i>Of which</i>					
(a) Salary & Wage Component		598	629	673	790
(b) Non-Salary & Wage component		234	262	268	318
Capital Expenditure	46	22	30	58	30
Water Supply, Sanitation, Housing and Urban Development	484	401	656	616	394
Revenue Expenditure	481	399	654	611	376
<i>Of which</i>					
(a) Salary & Wage Component		13	15	14	18
(b) Non-Salary & Wage component		386	639	597	358
Capital Expenditure	3	2	2	5	18
Other Social Services	846	731	1,112	916	1,109
Revenue Expenditure	830	714	1,080	887	1,077
<i>Of which</i>					
(a) Salary & Wage Component		176	185	198	229
(b) Non-Salary & Wage component		538	895	689	848
Capital Expenditure	16	17	32	29	32
Total (Social Services)	5,121	5,081	5,969	6,029	6,594
Revenue Expenditure	5,038	5,025	5,879	5,896	6,478
<i>Of which</i>					
(a) Salary & Wage Component		3,497	3,671	3,839	4,421
(b) Non-Salary & Wage component		1,528	2,208	2,057	2,057
Capital Expenditure	83	56	90	133	116

The allocation to social sector increased from Rs 5,121 crore in 2002-03 to Rs 6,594 crore in 2006-07. Expenditure on social sector during 2006-07

(Rs 6,594 crore) accounted for 30 per cent of total expenditure and 66 per cent of development expenditure[@]. Expenditure on Education increased by Rs 455 crore over previous year while the expenditure on Health and Family Welfare has shown an increase of Rs 139 crore over previous year. Recognising the need to improve the quality of education and health services, Twelfth Finance Commission recommended that the non-plan salary expenditure under health and education sectors should increase only by five and six per cent respectively while non-salary expenditure under non-plan heads should increase by 30 per cent per annum during the award period. However, trends in expenditure during 2006-07 (taking expenditure under both plan and non-plan heads) reveal that the salary and wage component under education sector increased by 15 per cent over 2005-06 while non-salary and wage component increased only by 6 per cent. Similarly under Health and Family Welfare Sector, the salary and wage component during 2006-07 increased by 17 per cent while non-salary and wage component increased by 19 per cent. The expenditure pattern both in education and health services has not been as per the norms of the Twelfth Finance Commission which needs correction in the ensuing years.

1.5.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditures as to promote directly or indirectly, productive capacity within the State's economy. The expenditure on Economic Services (Rs 3,458.8 crore) accounted for 15.7 per cent of the total expenditure (Table 1.18). Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed nearly 76 per cent of the expenditure.

Table-1.18: Expenditure on Economic Sector

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Agriculture and Allied Activities	783	684.7	789.3	911.5	1,175.9
Revenue Expenditure	735	646.7	756.3	867.5	1,114.2
<i>Of which</i>					
<i>(a) Salary & Wage Component</i>		290.2	303.6	323.7	382.9
<i>(b) Non-Salary & Wage component</i>		356.5	452.7	543.8	731.3
Capital Expenditure	48	38	33	44	61.7
Irrigation and Flood Control	284	338.7	366.2	436.7	331.2
Revenue Expenditure	152	179.7	191.2	228.7	193.4
<i>Of which</i>					
<i>(a) Salary & Wage Component</i>		79.8	91.9	101.4	123.1
<i>(b) Non-Salary & Wage component</i>		99.9	99.3	127.3	70.3
Capital Expenditure	132	159	175	208	137.8
Power & Energy	245	577.8	61.7	99.6	45.1

[@] Development Expenditure is defined as the total expenditure made on Social and Economic Services.

	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure	241	577.8	61.7	99.6	45.1
<i>Of which</i>					
(a) Salary & Wage Component		0.3	0.4	0.2	0.4
(b) Non-Salary & Wage component		577.5	61.3	99.4	44.7
Capital Expenditure	4
Transport	769	716.6	815.1	1,118.7	1,078.3
Revenue Expenditure	468	455.6	563.1	807.7	630.8
<i>Of which</i>					
(a) Salary & Wage Component		73.0	75.5	80.3	98.6
(b) Non-Salary & Wage component		382.6	487.6	727.4	532.2
Capital Expenditure	301	261	252	311	447.5
Other Economic Services	1,476	1,225.5	1,824.5	1,819.2	828.3
Revenue Expenditure	1,386	1,139.5	1,734.5	1,768.2	728.3
<i>Of which</i>					
(a) Salary & Wage Component		130.7	137.9	142.7	172.3
(b) Non-Salary & Wage component		1,008.8	1,596.6	1,625.5	556
Capital Expenditure	90	86	90	51	100
Total (Economic Services)	3,557	3,543.3	3,856.8	4,385.7	3,458.8
Revenue Expenditure	2,982	2,999.3	3,306.8	3,771.7	2,711.8
<i>Of which</i>					
(a) Salary & Wage Component		574	609.3	648.3	777.3
(b) Non-Salary & Wage component		2,425.3	2,697.5	3,123.4	1,934.5
Capital Expenditure	575	544	550	614	747

Out of total expenditure on Economic Services during 2006-07, 34 per cent on Agriculture and Allied Activities, 31 per cent on Transport and 10 per cent on Irrigation and Flood Control was incurred. As compared to 2002-03, significant increases in expenditure were observed during 2006-07 in Agriculture and Allied Activities (50 per cent), Irrigation and Flood Control (16 per cent), and Transport Services (40 per cent). The salary and wage component in revenue expenditure on Economic Services ranged between 17 and 28 per cent during 2003-04 to 2006-07.

The trends in revenue expenditure and capital expenditure on Economic Services indicate that the revenue expenditure increased steadily from Rs 2,982 crore in 2002-03 to Rs 3,771.70 crore in 2005-06 but decreased to Rs 2,711.8 crore in 2006-07 whereas capital expenditure decreased from Rs 575 crore in 2002-03 to Rs 544 crore in 2003-04 but increased steadily thereafter to Rs 747 crore in 2006-07. The reduction in Revenue Expenditure during 2006-07 compared to previous year was mainly due to decrease in expenditure under other Rural Development Programme (Rs 1,087.48 crore), Roads and Bridges (Rs 177.61 crore) and Co-operation (Rs 151.80 crore), partly offset by increase in expenditure under Crop Husbandry (Rs 191.59 crore) and Food, Storage & Warehousing (Rs 129.71 crore).

1.5.4 Financial Assistance to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the five year period 2002-07 is presented in **Table 1.19**.

Table 1.19: Financial Assistance

(Rupees in crore)

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

Grants-in-aid given to Municipal Corporations and Municipalities increased by 21 per cent and to Zilla Parishads and Panchayati Raj Institutions increased by 29 per cent during 2006-07 as compared to previous year.

1.5.5 Delay in furnishing utilisation certificates

The financial rules of the Government require that where grants are given for specific purposes, certificates of utilisation should be obtained by the Departmental officers from the grantees and after verification, these should be forwarded to the Accountant General (Accounts and Entitlements) within one year from the date of sanction of assistance unless specified otherwise. As of June 2007, 44 utilisation certificates for Rs 58.64 crore paid as grants during the period 2000-01 to 2006-07 had not been received in the Office of the Accountant General (Accounts and Entitlements). Details of department-wise break-up of outstanding UCs are given in **Appendix VI**.

1.5.6 Non-submission of accounts

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Government/Heads of the Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. As of August 2007, 71 Institutions have not furnished details for the year 2006-07 as shown in **Appendix VII**.

[&] Other Institutions inter alia includes Kerala Water Authority (Rs 286.04 crore), Kerala State Transport Project (Rs 100 crore), State Council for Science Technology and Environment (Rs 45.70 crore), Kerala State Housing Board (Rs 48.20 crore), Kerala Road Fund Board (Rs 30 crore), etc.

^{**} Includes Rs 1,158.25 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

1.5.7 Abstract of performance of the autonomous bodies

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

1.5.8 Misappropriations, losses, defalcations, etc

State Government reported 126 cases of misappropriation, defalcation, etc., involving Government money amounting to Rs 6.6 crore up to the period March 2007 on which final action was pending. The department-wise break up of pending cases is given in **Appendix IX**.

1.5.9 Write off of losses,waivers, etc

As reported to Audit, losses due to theft, fire and irrecoverable revenue etc., amounting to Rs 20.25 crore in 598 cases were written-off/waived during 2006-07 by competent authorities. The relevant details are given in **Appendix X**.

1.6 Assets and Liabilities

In the Government Accounting System, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix II** gives an abstract of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. **Appendix V** depicts the time series data on State Government finances for the period 2002-2007.

1.6.1 Financial results of irrigation works

Statement 3 of the Finance Accounts gives the financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc. In the case of eight irrigation projects, which have been declared commercial, with a cumulative capital outlay of Rs 122.91 crore at the end of 31 March 2007, the revenue realised from them during 2006-07 was Rs 1.20 crore which was 1 *per cent* of total outlay. After considering the working and maintenance expenses of Rs 6.23 crore and interest charges of Rs 10.56 crore, these schemes suffered a net loss of Rs 15.59 crore.

1.6.2 Incomplete projects

As per information made available by the Irrigation Department five* projects commenced between 1974 and 1999 remained incomplete even after incurring Rs 1,213.91 crore as of March 2007. Besides, 131 other capital works on which Rs 329.74** crore were spent up to March 2007 also remained incomplete in Public Works, Harbour Engineering and Water Resources Departments. The amount blocked in these projects was 13 per cent of the cumulative capital outlay of the State. The department-wise information pertaining to incomplete projects as on 31 March 2007 is given in the **Table 1.20**.

Table 1.20: Department-wise Profile of Incomplete Projects

(Rupees in crore)

Department	Number of Incomplete Projects	Initial Budgeted Cost	Cost Over Runs	Revised Total Cost of Projects	Cumulative Actual Expenditure as on 31.3.2007
Major Irrigation Projects (Water Resources Department)	5	76.68	1,421.45	1,498.13	1,213.91
Irrigation and Minor Irrigation Works (Water Resources Department)	5	18.06	6.91	24.97	15.07
Public Works Department (Roads and Bridges)	79	269.07	41.07	310.14	143.99
Public Works Department (Buildings)	41	128.41	15.61	144.02	77.03
Harbour Engineering Department	6	72.26	44.71	116.97	93.65
Total	136	564.48	1,529.75	2,094.23	1543.65

1.6.3 Departmental Commercial Undertakings

Activities of *quasi*-commercial nature are performed by departmental undertakings of certain Government departments. These undertakings are required to prepare *proforma* accounts in prescribed format showing the results of financial operations annually so that Government can assess the results of their working. The department-wise position of arrears in preparation of *proforma* accounts is given in **Appendix XI**.

1.6.4 Investments and returns

As of 31 March 2007, Government had invested Rs 2,239.60 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.21**). The average return on this investment was one per cent in the last five years while the Government paid interest at the average rate of 8.3 to 9.4 per cent on its borrowings during 2002-2007.

* Karapuzha, Idamalayar, Muvattupuzha, Banasura Sagar, Regulator-cum-Bridge at Thrithala.
 ** As per information made available by Departments

Table-1.21: Return on Investment

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

Three statutory Corporations and 57 Government companies with aggregate Government investment of Rs 886.45 crore up to 2006-07 were incurring losses and their accumulated loss amounted to Rs 3,779.33 crore as per the latest accounts furnished by these companies (**Appendix XII**). Of these, six Government Companies with an investment of Rs 13.42 crore up to 31 March 2007 were under liquidation and one Government Company with an investment of Rs 1.35 crore was under lockout from June 1993. Four major loss incurring Public Sector Undertakings are given below:

Table 1.22

Sl. No.	Name of the Public Sector Undertakings	Accumulated Loss (Rupees in crore)
1.	Kerala State Road Transport Corporation	1,272.19
2.	Kerala State Civil Supplies Corporation	539.32
3.	Kerala State Electronics Development Corporation	485.63
4.	Kerala State Cashew Development Corporation	447.68

1.6.5 Loans and advances by State Government

In addition to investments in Co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organizations. Total outstanding loans and advances as on 31 March 2007, were Rs 5,714 crore (**Table 1.23**). Interest received against these loans advanced was 0.5 per cent during 2006-07 as against 0.6 per cent in previous year.

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

Table-1.23: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

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

1.6.6 Management of cash balances

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

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

[@] Difference of Rs 13.89 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 2006-07.

Ways and Means Advances and Overdrafts availed, the number of occasions it was availed and interest paid by the State is detailed in **Table 1.24**.

Table –1.24: Ways and Means and Overdrafts of the State

(Rupees in crore)

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

1.7 Undischarged Liabilities

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

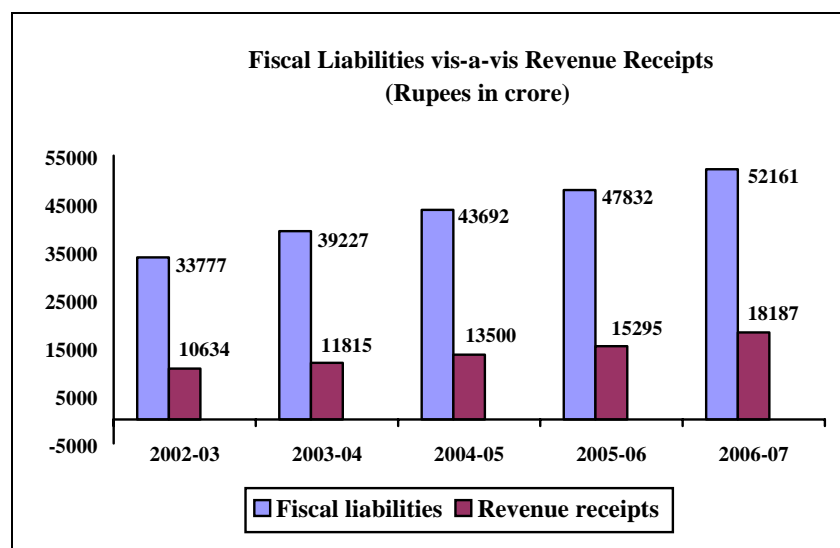
1.7.1 Fiscal Liabilities – Public Debt and Guarantees

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

Table-1.25 gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table – 1.25: Fiscal Liabilities – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities [#] (Rupees in crore)	33,777	39,227	43,692	47,832	52,161
Rate of Growth (<i>per cent</i>)	16.4	16.1	11.4	9.5	9.1
Ratio of Fiscal Liabilities to					
GSDP (<i>per cent</i>)	39.7	40.5	40.5	39.7	38.4
Revenue Receipts (<i>per cent</i>)	317.6	332	323.6	312.7	286.8
Own Resources (<i>per cent</i>)	423.3	441.0	446.6	446.4	405
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	1.5	1.2	1.0	0.8	0.7
Revenue Receipts (ratio)	0.9	1.5	0.8	0.7	0.5
Own Resources (ratio)	0.7	1.4	1.1	1.0	0.5



Overall fiscal liabilities of the State increased from Rs 33,777 crore in 2002-03 to Rs 52,161 crore in 2006-07. Fiscal Liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (Rs 35,341 crore) comprised of market loans (Rs 12,847 crore), loan from Government of India (Rs 5,372 crore) and other loans (Rs 17,122 crore). The Public Account liabilities (Rs 16,820 crore) comprises of small saving, Provident Fund (Rs 14,534 crore), interest bearing obligations (Rs 46 crore) and non-interest bearing obligations like deposits and other earmarked funds (Rs 2,240 crore). The growth rate was 9.1 *per cent* during 2006-07 over previous year. The ratio of fiscal liabilities to GSDP decreased from 39.7 *per cent* in 2005-06 to nearly 38.4 *per cent* in 2006-07. These liabilities stood at 2.9 times the revenue receipts and 4.1 times the States own resources as at the end of 2006-07. The fiscal liabilities had grown slower than the State's GSDP during 2005-06 and 2006-07. The buoyancy of these liabilities with respect to GSDP during the year was 0.7 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.7 *per cent*.

[#] Includes Public Debt (Rs.35,340.92 crore), Small Savings, Provident Funds, etc., (Rs 14,534.27 crore) interest bearing obligations such as depreciation reserve funds, Calamity Relief Fund, etc., (Rs 46.13 crore) and non-interest bearing obligations such as deposits, other earmarked funds, etc. (Rs 2,240.02 crore).

The State Government set up a Consolidated Sinking Fund during 2005-06 for amortization of open market loans. The rate of contribution to the Consolidated Sinking Fund is 1.5 *per cent* of the outstanding balances of market loans as at the end of the previous year. The Fund is credited with contribution from revenue and interest accrued on investment made out of the Fund. During the current year no amount was contributed by State Government to the fund owing to uncertain liquidity position though Rs 150 crore was provided in the budget for appropriation to Sinking Fund. As on 31 March 2007, the outstanding balance in Sinking Fund was Rs 132.54 crore.

1.7.2 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended.

Section 3 of the Kerala Ceiling on Government Guarantees Act, 2003 which came into effect on 5 December 2003 stipulates that the total outstanding Government Guarantees as on the first day of April every year shall not exceed Rs 14,000 crore.

As per the Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2002-03 is given in **Table 1.26**.

Table – 1.26: Guarantees given by the Government of Kerala

(Rupees in crore)

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

Audit scrutiny revealed the following:

- Details of guarantees furnished by Government was incomplete as certain relevant data like dates of sanctions of guarantee and execution of deeds, validity period of guarantee, etc., were not included in many cases and guarantee commission particulars in respect of some institutions having outstanding guarantees were not included in the statement. Thus the data on guarantees maintained by Government was not reliable for ensuring compliance with the provisions in the Kerala Ceiling on Government Guarantee Act, 2003.
- The arrears of guarantee commission receivable as of March 2007 were Rs 192.52 crore. Out of this, Rs 189.06 crore related to 16 institutions which had arrears exceeding Rupees one crore in each case.

- As per Section 6 of the Act, Government shall constitute a Guarantee Redemption Fund and the guarantee commission charged under section 5 of the Act shall form the corpus of the Fund. But the Fund has not been constituted and consequently the guarantee commission of Rs 170.94 crore collected during 2003-04 to 2006-07 had not been credited to the Fund.

1.8 Debt Sustainability

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

1.8.1 Debt Stabilization

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the Debt- GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, Debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, Debt-GSDP ratio would be rising and in case it is positive, Debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilization are indicated in **Table 1.27**.

Table – 1.27: Debt Sustainability–Interest Rate and GSDP Growth

	2002-03	2003-04	2004-05	2005-06	2006-07
Average Interest Rate	9.4	9.1	8.7	8.3	8.4
GSDP Growth	11.3	13.9	11.4	11.7	12.6
Interest spread	1.9	4.8	2.7	3.4	4.2
Quantum Spread (Rs in crore)	551	1,621	1,059	1,486	2,009
Primary Deficit (-)/Surplus (+) (Rupees in crore)	(-) 2,043	(-) 2,211	(-) 839	(-) 382	(+) 368

Table 1.27 reveals that quantum spread together with primary deficit has been negative during 2002-03 and 2003-04 which led to an increase in Debt-GSDP ratio during these years. From 2004-05 onwards, the quantum spread together with primary deficit turned positive, indicating the declining trend in Debt-GSDP ratio from 40.5 in 2004-05 to 38.4 in 2006-07. The ratio of fiscal deficit to GSDP also moved almost in a similar trajectory indicating a decline since 2002-03. These trends indicate that the State is moving towards debt stabilization, which in turn improves the debt sustainability position of the State.

1.8.2 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table 1.28** indicates the resource gap as defined for the period 2003-2007.

Table 1.28: Incremental revenue receipts and revenue expenditure
(Rupees in crore)

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

Persistent negative resource gap indicates the non-sustainability of debt while positive resource gap strengthens the capacity of the State to sustain the debt. The positive resource gap during the last 3 years indicates the increasing capacity of the State to sustain the debt in the medium to long run.

1.8.3 Net Availability of Borrowed Funds

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

Table-1.29 below gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last five years.

Table-1.29: Net Availability of Borrowed Funds

	(Rupees in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Internal Debt*					
Receipt	2,717	6,023	5,114	5,220	5,131
Repayment (Principal + Interest)	1,377	1,944	2,331	3,194	3,199
Net Fund Available	1,340	4,079	2,783	2,026	1,932
Net Fund Available (<i>per cent</i>)	49	68	54	39	38

* Excluding Ways and Means advance from RBI

	2002-03	2003-04	2004-05	2005-06	2006-07
Loans and Advances from GOI					
Receipt	1,193	968	1,482	603	205
Repayment (Principal + Interest)	1,809	2,685	2,371	1,009	683
Net Fund Available	(-) 616	(-) 1,717	(-) 889	(-) 406	(-) 478
Net Fund Available (<i>per cent</i>)	(-) 52	(-) 177	(-) 60	(-) 67	(-) 233
Other obligations[@]					
Receipt	13,826	12,224	10,483	9,626	11,524
Repayment (Principal + Interest)	12,664	12,557	11,174	10,658	12,826
Net Fund Available	1,162	(-) 333	(-) 691	(-) 1,032	(-) 1,302
Net Fund Available (<i>per cent</i>)	8.4	(-) 2.7	(-) 6.6	(-) 10.7	(-) 11.3
Total liabilities					
Receipt	17,736	19,215	17,079	15,449	16,860
Repayment (Principal + Interest)	15,850	17,186	15,876	14,861	16,708
Net Fund Available	1,886	2,029	1,203	588	152
Net Fund Available (<i>per cent</i>)	10.6	10.6	7.0	3.8	0.9

The net fund available on account of internal debt and loans and advances from Government of India and other obligations after providing for the interest and repayment increased from Rs 1,886 crore in 2002-03 to Rs 2,029 crore in 2003-04 and steadily decreased thereafter to Rs 152 crore in 2006-07. The net funds available was 10.6 *per cent* during 2002-03 and 2003-04 and declined drastically in subsequent years and stood at a meagre 0.9 *per cent* in 2006-07.

1.9 Management of deficits

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

1.9.1 Trends in Deficits

The revenue deficit of the State which indicates the excess of its revenue expenditure over revenue receipts decreased steadily from Rs 4,122 crore in 2002-03 to Rs 2,638 crore in 2006-07. The marked reduction in revenue deficit during current year compared to previous year was mainly on account of an increase of Rs 2,892 crore in revenue receipts (18.9 *per cent*) against the increase of Rs 2,401 crore in revenue expenditure (13 *per cent*). The increase in revenue receipts during 2006-07 was mainly on account of increase in State's own taxes (22 *per cent*) and in Central tax transfers (28 *per cent*). On the other hand, a sharp reduction in plan revenue expenditure (28.4 *per cent*) during the current year when compared to previous year resulted in growth in revenue expenditure at a slower rate than the revenue receipts.

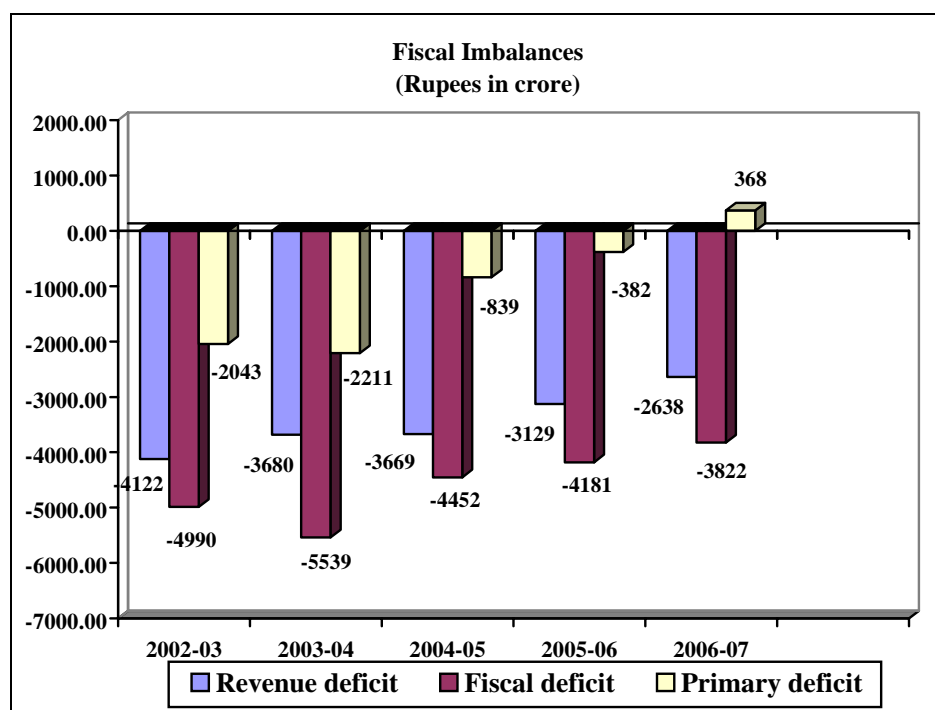
The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, decreased from Rs 4,990 crore in 2002-03 to Rs 3,822

[@] Include Small Savings, Provident Funds, interest bearing obligations such as depreciation reserve funds and non-interest bearing obligations such as deposits, other earmarked funds, etc.

crore in 2006-07. The Primary deficit of the State increased from Rs 2,043 crore in 2002-03 to Rs 2,211 crore in 2003-04 and decreased thereafter to Rs 382 crore in 2005-06. During 2006-07, it turned into primary surplus of Rs 368 crore because of decrease in fiscal deficit (Rs 359 crore) and increase in interest payment (Rs 391 crore).

Table-1.30: Fiscal Imbalances: Basic Parameters

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue deficit (Rupees in crore)	(-) 4,122	(-) 3,680	(-) 3,669	(-) 3,129	(-) 2,638
Fiscal deficit (Rupees in crore)	(-) 4,990	(-) 5,539	(-) 4,452	(-) 4,181	(-) 3,822
Primary deficit (-)/ Primary Surplus (+) (Rupees in crore)	(-) 2,043	(-) 2,211	(-) 839	(-) 382	(+) 368
RD/GSDP (per cent)	(-) 4.8	(-) 3.8	(-) 3.4	(-) 2.6	(-) 1.9
FD/GSDP (per cent)	(-) 5.9	(-) 5.7	(-) 4.1	(-) 3.5	(-) 2.8
PD/GSDP (per cent)	(-) 2.4	(-) 2.3	(-) 0.8	(-) 0.3	0.3
RD/FD (per cent)	82.6	66.4	82.4	74.8	69



1.9.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to Fiscal deficit indicate the extent to which borrowed funds were used for current consumption. The ratio of revenue deficit to fiscal deficit had decreased from 82.6 per cent in 2002-03 to 69 per cent in 2006-07. As proportion to the GSDP, revenue deficit has come down to 1.9 per cent and

fiscal deficit to 2.8 per cent in 2006-07 from 4.8 per cent and 5.9 per cent respectively in 2002-03.

The bifurcation of the factors resulting into primary deficit or surplus of the State reveals that during 2004-05 and 2005-06, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure requirements in the revenue account during 2004-05 and 2005-06. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit during 2004-05 and 2005-06. During 2006-07, the availability of sufficient surplus out of non-debt receipts after meeting the primary expenditure led to the primary surplus.

Table 1.31: Primary deficit/Surplus – Bifurcation of factors
(Rupees in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary deficit (-) /surplus (+) with reference to Primary Revenue Expenditure	Primary deficit (-) /surplus (+) with reference to Capital Expenditure
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2002-03	10,715	11,809	699	250	12,758	(-) 1,094	(-) 2,043
2003-04	11,888	12,167	640	1,292	14,099	(-) 279	(-) 2,211
2004-05	13,595	13,556	682	196	14,434	39	(-) 839
2005-06	15,347	14,625	817	287	15,729	722	(-) 382
2006-07	18,255	16,635	903	349	17,887	1,620	(+) 368

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-1.32** below presents a summarized position of Government finances over 2002-2007, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

Table-1.32: Indicators of Fiscal Health

(in per cent)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07
Resource Mobilisation					
Revenue Receipts/GSDP	12.5	12.2	12.5	12.7	13.4
Revenue Buoyancy	1.5	0.8	1.2	1.1	1.5
Own tax/GSDP	8.6	8.3	8.3	8.1	8.8
Own taxes Buoyancy	2.1	0.8	0.9	0.8	1.8
Expenditure Management					
Total Expenditure (TE)/GSDP	18.4	18.0	16.7	16.2	16.3
Revenue Receipts (RR)/ TE	67.7	67.8	74.8	78.3	82.4
Revenue Expenditure (RE)/TE	94.0	88.9	95.1	94.3	94.3
Plan Expenditure/TE	24.2	18.6	21.1	21.0	15.6
Capital Expenditure/TE	4.5	3.7	3.8	4.2	4.1
Development Expenditure/TE	54.7	49.5	54.4	54.1	45.5
Buoyancy of TE with RR	1.5	1.0	0.3	0.6	0.7
Buoyancy of RE with RR	1.5	0.5	0.8	0.5	0.7

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07
Management of Fiscal Imbalances					
Revenue Deficit (Rs in crore)	(-) 4,122	(-) 3,680	(-) 3,669	(-) 3,129	(-) 2,638
Fiscal Deficit (Rs in crore)	(-) 4,990	(-) 5,539	(-) 4,452	(-) 4,181	(-) 3,822
Primary Deficit (Rs in crore)	(-) 2,043	(-) 2,211	(-) 839	(-) 382	(+) 368
Revenue Deficit/Fiscal Deficit	82.6	66.4	82.4	74.8	69
Management of Fiscal Liabilities					
Fiscal Liabilities (FL)/GSDP	39.7	40.5	40.5	39.7	38.4
Fiscal Liabilities/RR	317.6	332.0	323.6	312.7	286.8
Buoyancy of FL with RR	0.9	1.5	0.8	0.7	0.5
Buoyancy of FL with Own Resources	0.7	1.4	1.1	1.0	0.5
Interest spread	1.9	4.8	2.7	3.4	4.2
Net Funds Available	10.6	10.6	7.0	3.8	0.9
Return on Investment	0.5	0.9	1.3	0.8	1.3
Balance from Current Revenue (BCR) (Rs in crore)	(-) 1,811	(-) 1,983	(-) 1,496	(-) 575	(-) 1,332
Financial Assets/Liabilities	0.4	0.4	0.4	0.4	0.4

The ratios 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 the State's increasing access to resources. The ratio of Revenue Receipts to GSDP and own tax to GSDP increased during 2006-07 while own tax buoyancy during 2003-06 increased from the level of 2003-04 which was less than one to 1.8 in 2006-07.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and its sustainability in relation to its resource mobilization efforts. The revenue expenditure as a *percentage* to total expenditure which remained stable around 94 *per cent* during the period 2002-07 (except in the year 2003-04) indicates the need for changing allocative priorities. The capital expenditure relative to both the total expenditure and GSDP has been relatively low at 4 *per cent* and less than one *per cent* respectively and its quality contents also need improvement. The low buoyancies (less than one *per cent*) of both total and revenue expenditure with revenue receipts implies that either expenditure is constrained by the Government or revenue receipts were unable to stimulate the public expenditure levels in the State. Increasing reliance on revenue receipts to finance the total expenditure which amounts to 82 *per cent* during 2006-07 indicates decreasing dependence on borrowed funds. This is also reflected by the decreasing ratio of financial liabilities to revenue receipts.

A fall in both revenue and fiscal deficits during 2006-07 indicates improvement in fiscal position of the State. The consistent negative Balance from Current Revenue (BCR) and deterioration in 2006-07 over previous year reflects that the adequate domestic resources are not available for creation of assets and to meet state plan expenditure requirements. During the period (2002-07), only 40 *per cent* fiscal liabilities of the State have the asset back up reflecting relatively poor assets liabilities ratio in the State.

1.11 Conclusion

The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit – has shown an improvement in 2006-07

over the previous year. The expenditure pattern of the State however reveals that the revenue expenditure as a *percentage* to total expenditure hovered around 94 *per cent* during the period 2002-07 leaving inadequate resources for expansion of services and creation of assets as a result of which only 40 *per cent* of fiscal liabilities of the State has asset backup during 2006-07. Moreover, within the revenue expenditure, three components – salary expenditure, pension liabilities and interest payments constitute about 68 *per cent* of the revenue expenditure during 2006-07. Further, the non-plan expenditure during 2005-06 and 2006-07 remained higher by Rs 88 crore and Rs 2,113 crore respectively than the normative assessments made by the TFC for the State for these years. These trends in expenditure indicate the need for changing allocative priorities. The continued prevalence of revenue and fiscal deficits in the finance accounts of the State indicates the increasing reliance on the borrowed funds, a substantial part of which is being used to meet the current expenditure requirements of the State government. The increasing fiscal liabilities accompanied with negligible rate of return on government investments and inadequate interest cost recovery on loans and advances might lead to a situation of unsustainable debt situation in medium to long run unless suitable measures are initiated to compress the non plan revenue expenditure and to mobilize the additional resources both through the tax and non tax sources in ensuing years.