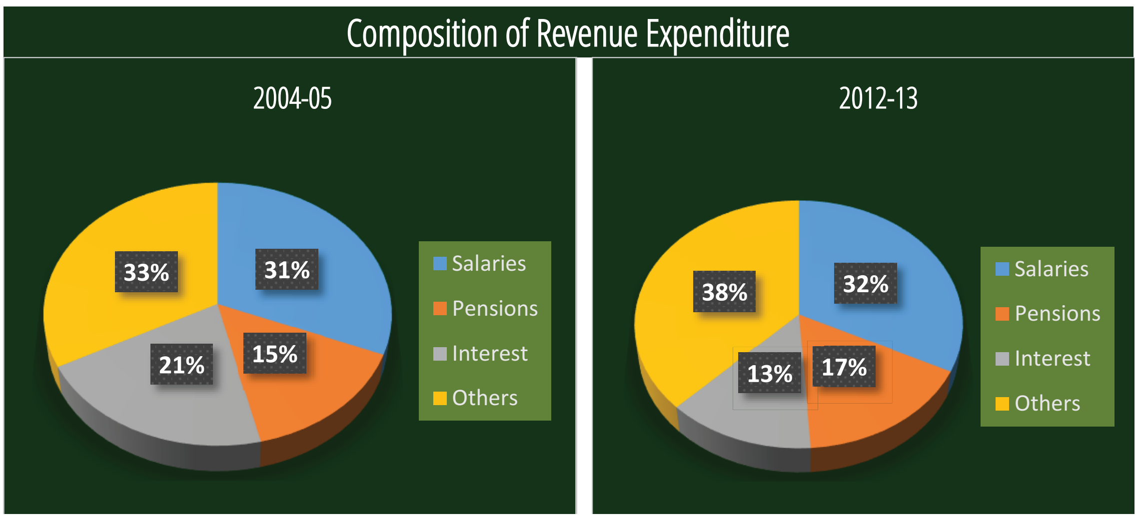
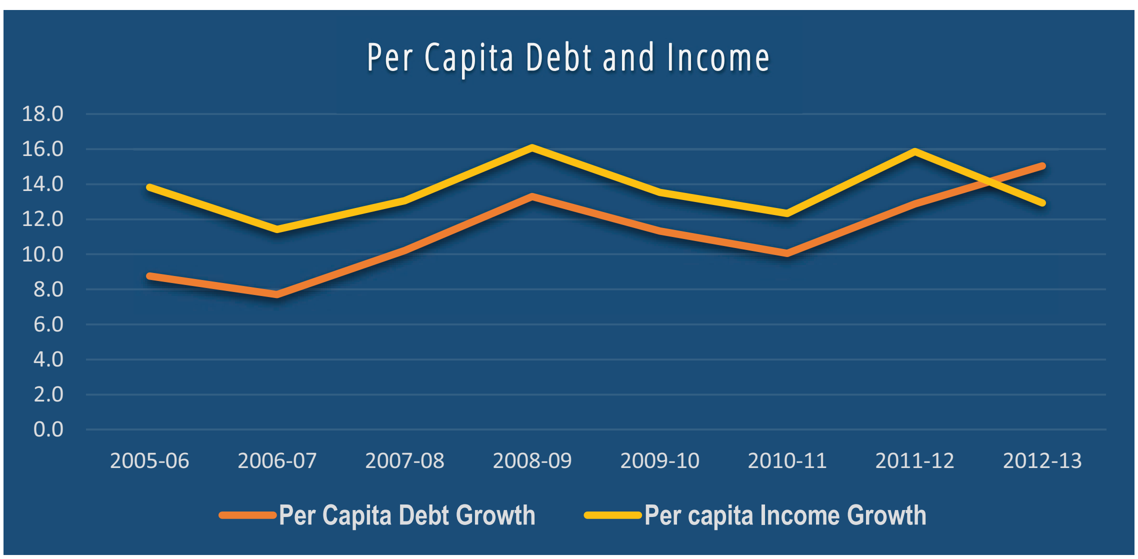
REPORT *of*

THE KERALA PUBLIC EXPENDITURE REVIEW COMMITTEE

THIRD COMMITTEE

THIRD REPORT 2012-13





GOVERNMENT OF KERALA

DECEMBER 2014

REPORT *of*

THE KERALA PUBLIC EXPENDITURE REVIEW COMMITTEE

THIRD COMMITTEE

[Constituted as per Gazette Notification No. GO (P) No 239/12/Fin dated 25.4.2012 (S.R.O. No. 293/2012) as prescribed under section 6 of the Kerala Fiscal Responsibility Act, 2003 (Act 29 of 2003)]

Third Report for the Year 2012-13

December 2014

Foreword

This is the third report of the Third Public Expenditure Review Committee constituted under section 6 of the Kerala Fiscal Responsibility Act of 2003 (Act 29 of 2003). The committee was constituted on 26 April 2012 and its first report for the year 2010-11 was submitted in December 2012. The second report for the year 2011-12 was submitted in December 2013. This report pertains to the financial year 2012-13.

In addition to the items discussed in the previous reports, the Committee attempted a review of the plan expenditure of Government Departments for the year 2012-13. For examining plan expenditure, the Committee collected data from 25 departments, and had discussions with officials of the departments. The Committee also examined the issues of arrears of revenue and uneconomic schools in Kerala.

The Committee met frequently at Thiruvananthapuram before finalizing this report. In this report, the Committee has examined a number of issues on revenue mobilization, collection of arrears of revenue, reduction of revenue expenditure, improving the quality of plan expenditure, debt management and an assessment of fiscal roadmap.

The Committee would like to place on record its appreciation of the support and co-operation extended by Dr.K.M.Abraham, Additional Chief Secretary (Finance) and Shri V. Somasundaran, former Additional Chief Secretary for its functioning. The Committee also thanks Smt. P.A.Shyla, Secretary to the Committee and Joint Secretary to Government and Shri. D.Anil, former secretary to the Committee for the excellent services rendered. We place on record our appreciation to the services provided by Shri. S. Abhilash, Assistant Section Officer for the timely processing of the report.

Dr. B .A. Prakash
Chairman

Dr. K. Pushpangadan
Member

Dr. K.V. Joseph
Member

Dr. Mary George
Member

Dr. V. Nagarajan Naidu
Member

Contents

List of Abbreviations

BP	Block Panchayat
C&AG	Comptroller and Audit General
CSO	Central Statistical Office
CSS	Centrally Sponsored Schemes
DP	District Panchayat
FD	Fiscal Deficit
FRA	Fiscal Responsibility Act
GDP	Gross Domestic Product
GFD	Gross Fiscal Deficit
GIC	General Insurance Corporation
GOI	Government of India
GOK	Government of Kerala
GP	Grama Panchayat
GSDP	Gross State Domestic Product
IKM	Information Kerala Mission
LIC	Life Insurance Corporation
LIMS	Lottery Information Management System
LSGI's	Local Self Government Institutions
NABARD	National Bank for Agricultural and Rural Development
NCDC	National Co-operative development Cooperation
NPRD	Non Plan Revenue Deficit

NSDP	**Net State Domestic Product**
NSSF	**National Small Savings Fund**
NTR	**Non-Tax Revenue**
ONB	**Open Market Borrowing**
PDPPA	**Prevention of Destruction of Public property Act**
RBI	**Reserve Bank of India**
RD	**Revenue Deficit**
SCP	**Special Component Plan**
SONTR	**State Own Non-Tax Revenue**
TRR	**Total Revenue Receipts**
TSP	**Tribal Sub Plan**
UGC	**University Grants Commission**
ULB's	**Urban Local Bodies**

1
Introduction

1.1 The Kerala Fiscal Responsibility Act, 2003 requires the submission of a Review Report in December every year on the financial performance of the State during the previous year. The Report should contain revenue receipts with break-up of State's own tax revenue, non-tax revenue and resources from the Centre. In addition, it should cover revenue expenditure with break-up of interest, salaries, pensions, subsidies, operations and maintenance, devolution to local self-Governments, administrative expenditure and other expenditure. It should also Report three deficits (revenue, fiscal and primary), capital receipts and expenditure, and the various categories of debt and its dimensions. Analysis of these indicators is distributed in different chapters in the report.

1.2 The Act contains the major principles of fiscal management for reducing revenue deficit. Specific principles are: improved budgeting processes, adopting medium term framework for budget planning, linking policy priorities of Government with budgeting, devolution of more services to local self-Government institutions, improving efficiency in expenditure, reduction in unproductive expenditure, reduction in supplementary grants, effective realization of sales tax, cost recovery of services to cover at least part of the current expenses and rationalisation of non-tax revenue with equity concern. Obviously systematic coverage of all the above issues in any one Report involves substantial research effort which is beyond the limited resource availability of the Committee. Within this constraint, the Report has examined selected issues in various chapters.

1.3 The chapter wise outline of the Report is as follows. The Report has eight chapters. Chapter 2 contains an overview of the State finance. Chapter 3 attempts a detailed examination of revenue profile, mobilisation and arrear collection. In chapter 4 an analysis is undertaken on expenditure profile of the State. It also contains an analysis of salary, pension and interest payments in the State and its policy implications for reducing the fiscal deficit. Chapter 5 examines plan expenditure based on the data collected from 25 Departments. Chapter 6 is concerned with debt management, strategies for restructuring public sector undertakings and efficiency of allocation of borrowed funds and Chapter 7 deals with an assessment of fiscal roadmap. The last chapter summaries the Report followed by major recommendations for the consideration of the State Government.

2

Overview of the State Finances

Introduction

2.1 Budget, the Annual Financial Statement of the Government presented to the Legislature for its approval forms the blue print of the economic policy of the Government to be implemented during the next Financial Year(FY).It contains inter alia, the receipts of all kinds comprising taxes, non-taxes and borrowings of the Government during the year and expenditure to be incurred for administrative and developmental activities. Since the Government is the largest stake holder in the society and the promoter of welfare of the citizens, budgetary transactions have deeper implications on the economy of the State and the well-being of the people at large.

2.2 Prudent management of State finances has become a major problem with most of the States during recent years. Very often States fail to raise enough resources to meet the growing demand for various developmental activities resulting in budget deficits. Though balancing of the budget is not necessarily a virtue in so far as State finances are concerned, growing debt burden smacks danger signals, as the State is bound to repay the debt with interest. Imposition of ceiling on the extent up to which deficit can be resorted to , is very often accepted as a sound policy option apparently for the purpose of keeping the deficit within manageable limits . All the States in India have enacted Fiscal Responsibility Acts for ensuring prudent fiscal management and thereby to resist the tendency for resorting to deficit financing.

2.3 Budgetary transactions of any State are conditioned by the performance of the economy. In the globalised world, wherein all the countries are interrelated to each other, global changes would have repercussions on the economy of any State. State policies and financial transactions would have to be modified and adjusted to cope up with the global scenario. In a federal country like India, State finances have to be adjusted on the basis of the guidelines of the Central Government. Since the State finances are conditioned by the performance of the economy, the State Domestic Product (SDP), is also being adopted as a barometer for evaluating various indicators pertaining to the financial transactions of the State. Thus, the level of tax, pattern of expenditure, limit to the extent of borrowing etc are expressed as a quotient to SDP. If the quotient exceeds certain percentage, the finances would be surpassing the 'Luxman rekha'.

2.4 Kerala, located in the south western corner of the Indian sub-continent, is a State covering only 1.2 per cent of the land area of India. On the other hand, the population of the State is well over 2.75 per cent of the total population of the country as a whole. Apparently, the State supports proportionately more number of people against less area of land. However, the State has the appearance of an affluent region with a fast growing economy, as per various statistics prepared by the Department of Economics and Statistics. The Gross State Domestic Product (GSDP) of Kerala has been Rs 349338 crore in 2012-13. It would account for about 3.9 per cent of the GDP of the country. The per capita income of the State has been higher than that of the country as a whole since 1994-95.

2.5 The Chapter proceeds with; (1) an overview of the financial indicators of the Government since 2004-05; (2) a comparison of the performance of the various indicators of the State finance with those of other States.

An Overview of the Financial Performance of Kerala since 2004-05

2.6 Since the economy has been growing on a fast rate, possibilities for managing the State finances on the sound lines are bright. Tables 2.1, 2.2 and 2.3 give the growth rate

Table 2.1 Profile of State Finances

	Accounts					
Items	2004-05	2008-09	2009-10	2010-11	2011-12	2012-13
A. Revenue Receipts	13500	24512	26109	30991	38010	44137
1. State Tax Revenue	8964	15990	17625	21722	25719	30077
2. State Non-Tax Revenue	819	1559	1852	1931	2592	4199
3. Central Govt. Transfers	3718	6963	6632	7338	9700	9862
i) Share of Central Taxes	2405	4276	4399	5142	5990	6841
ii) Grant-in- Aid	1313	2687	2233	2197	3709	3022
B. Capital Receipts	4680	6232	8000	7807	12284	15685
1. Recoveries of Loans	95	36	38	44	55	74
2. Other Receipts	0	9	49	25	16	15
3. Borrowings and Other Liabilities	4584	6187	7912	7739	12214	15597
a. Public Debt (Net)	4038	5271	4850	5214	6906	10457
b. Public Account (Net)	546	916	3062	2525	5308	5140
C.Total Receipts (A+B)	18180	30744	34109	38798	50295	59823
D. Non Plan Expenditure	14094	25441	27283	31510	41754	48380
1. On Revenue Account	14063	25012	26953	30469	40717	46639
a. Of which Interest Payments	3613	4660	5292	5690	6294	7205
2. On Capital Account	25	25	157	598	455	1138
3.On Loan Disbursements	6	404	172	442	582	603
E. Plan Expenditure (including CSS)	3953	5462	6785	7281	9142	10848
1. On Revenue Account	3106	3212	4179	4196	5327	6849
2. On Capital Account	847	1671	1902	2766	3398	3466
3. On Loan Disbursements		579	704	319	417	533
F. Total Expenditure (D+E)	18048	30903	34068	38790	50896	59228
1. Revenue Expenditure	17169	28224	31132	34665	46045	53489
2. Capital Expenditure	878	1696	2059	3364	3853	4603
3. On Loan Disbursements		984	877	762	999	1136
G. Revenue surplus/deficit (A-F(1))	-3669	-3712	-5023	-3674	-8034	-9351
H. Effective Revenue Deficit/ Surplus *			-2972	-1326	-5263	-6246
I. Fiscal Deficit (A+B(1)+B(2))-F	-4452	-6346	-7872	-7730	-12815	-15002
J. Primary Deficit (I-D(1a))	-839	-1687	-2579	-2041	-6521	-7798

Source: GoK Budget in Brief (different years)

Table 2.2 Growth rate of Fiscal Variables since 2004-05 (%)

	2004-05	2008-09	2009-10	2010-11	2011-12	2012-13	Index of increase in 2012-13 with 2004-05 as the base
Total Revenue	14.26	16.13	6.52	18.78	22.6.	16.1	326.94
Own tax	11.06	16.98	10.22	23.24	15.91	16.9	335.50
Non-tax	21.18	28.84	18.79	4.26	.34.25	61.95	512.69
Central transfers	27.37	11.8	-4.76	10.64	32.17	1.68	310.32
Capital receipts		1.26	28.36	2.42	57.34	27.68	
Total receipts	11.29	12.71	10.9	13.74	29.63	18.9	329.05
Non-plan Expenditure	12.54	12	7.2	15.49	32.51	15.86	343.26
Interest	8.5	7.62	13.56	7.52	10.61	14.47	199.41
Plan Expenditure		20.07	24.22	7.35	25.56	18.66	274.42
Total expenditure	10.62	13.47	6	19.84	31.2	16.37	328.16
Revenue expenditure	10.8	13.39	10.3	11.35	32.82	16.16	312.00
Capital expenditure	6.5	14.98	21.14	63.38	14.5	19.45	524.00
Revenue deficit	-0.37	-1.97	35.31	26.86	-118	18.66	255.00
Fiscal deficit	19.63	-73	366	1.91	65	17.07	336.00
Primary deficit	62.06	258.32	53.72	30.87	219	19.56	929.00
Total debt	11.7	14.05	12.16	10.85	13.65	15.87	247.00

Source: GoK Budget in Brief (different years)

Table 2.3 Fiscal Indicators as Percentage GSDP

Sl No	Item	2004-05	2008-09	2009-10	2010-11	2011-12	2012-13
1	Total Revenue	11.32	12.09	11.24	11.19	12.06	12.14
2	Own Revenue	8.2	8.65	8.38	8.54	8.98	9.43
3	From Centre	3.12	3.43	2.85	2.65	3.08	2.71
4	Total Expenditure	14.97	14.75	13.65	13.73	15.83	16.3
5	Revenue	14.4	13.92	13.4	12.51	14.61	14.72
6	Capital	0.57	0.84	0.26	1.21	1.22	1.57
7	Revenue Deficit	3.08	1.83	2.16	1.33	2.55	2.57
8	Fiscal Deficit	3.73	3.13	3.39	2.79	4.07	4.12
9	Interest payments	3.03	2.3	2.45	2.05	2	1.98
10	Primary Deficit	70	0.83	1.11	0.74	2.07	2.14
11	Total Debt	35.11	31.2	30.59	29.83	29.04	29.64

Source: GoK Budget in Brief (different years) of various indicators of State finance and the ratio of the same to the GSDP since 2004-05.

2.7   As can be seen from Table 2.1, the revenue receipts of the State recorded an increase of 326.94 per cent , with the State's own tax revenue and non-tax revenue recording 335.5 per cent and 512.69 per cent respectively during the period 2004-05 to 2012-13. The transfers from the Central Government went up only to 310.62. The Central transfers which have displayed a negative growth in 2009-10 have recorded improved rates of growth in 2010-11 and 2011-12 .However there was   only a marginal growth rate of 1.6 per cent in 2012-13. The increase was on a significant scale in the case of capital receipts which could record an increase of 162.47 percent since 2004-5 .The increase in 2012-13 over the previous year was well over 27.68 per cent.

2.8   On the expenditure side, there was an overall increase of 328.16 per cent since 2004-05 with 311.54 per cent in the case of revenue component and 524.25 per cent in the case of capital component respectively. The growth was 16.37 per cent in 2012-13 against 31.2 per cent in the previous year.

2.9   Throughout the period, the expenditure was moving ahead of revenue .In 2012-13 for instance, the increase in revenue was Rs 6126crore against an increase of Rs 7444 crore in the case of expenditure resulting in the expenditure exceeding revenue to the extent of Rs 1318 crore . It may be recalled in this connection, that major share of the State expenditure goes for meeting salary and pension. At the same time the State Government has been pursuing a policy of creating new establishments and additional posts on the lines of Parkinson's Law (1). The creation of additional establishments and posts, without taking into account the financial liabilities seems to be the main cause for the increased tempo of expenditure over revenue. As a result of such increased tempo of expenditure, the revenue and fiscal and primary deficits have been recording an upward trend. Nevertheless, both revenue and fiscal deficits have recorded a fall in 2010-11. However, the picture again became grim since 2011-12. This was against the roadmap prescribed in the Fiscal Responsibility (Amendment) Act of 2011. (see Table 2.4)

2.10. As indicated in the Table, the revenue deficit which was 1.36 per cent of the GSDP in 2010-11 increased to 2.55 per cent in 2011-12 and to 2.57 per cent in 2012-13 and fiscal deficit from 2.89 per cent to 4.07 per cent and to 4.12 per cent respectively. The increase in 2011-12 was stated to be due mainly to the revision of the pay of Government servants. However the increase in 2012-13 could be due, as mentioned earlier, to the creation of additional posts and establishments. Spurts in deficits of such a magnitude certainly amount to a violation of the roadmap prescribed in the Amendment to the Fiscal Responsibility Act passed by the State Legislature in Nov 2011.The Act which should have come into force with effect from April 1st 2011, stipulates inter alia, for the reduction of the revenue deficit to 0.9 per cent and fiscal deficit to 3.5 per cent respectively of the GSDP in 201-13. By not reducing the deficits, Government has dishonoured an Act of the Legislature even before the ink is dry. Such a stipulation was inserted for the laudable objective of meeting revenue expenditure from current revenue and for utilising borrowed funds solely for investing in productive capital assets of durable nature. Instead, what transpired was the diversion of borrowed funds for meeting revenue deficits and in 2012-13, out of the actual borrowings of Rs 15597 crore , only Rs 4603 crore was utilised for capital expenditure. The balance was utilised for meeting revenue deficit, in violation of the well accepted norm of public spending and the provisions of the Fiscal Responsibility Act. Needless to say, such imprudence in expenditure as C&AG has pointed out creates," growing fiscal imbalance in the State".(P,60) [3]. Presumably, the current difficulties experienced in the State seem to be the outcome of the imbalance created in 2011-12 and 2012-13.The Committee strongly recommends that the practice of raising resources for meeting revenue deficit through public borrowings should be avoided as far as possible.

Table 2.4. Roadmap for Deficits as per the Fiscal Responsibility Act(Indicator as a Ratio

Name of the indicator	2010-11		2011-12		2012-13	
	Prescribed rate	Actual	Prescribed rate	Actual	Prescribed rate	Actual
Revenue Deficit/GSDP		1.36	1.4	2.55	0.9	2.57
Fiscal Deficit/GSDP	3.33	2.89	3.5	4.07	3.5	4.12
Total Debt/GSDP	32.8	29.2	32.3	29.04	31.7	29.64

2.11. There was slight improvement in the debt GSDP ratio. The State was bound to reduce debt/ GSDP ratio to 32.3 per cent by 2010-11.As a matter of fact, it declined to 29.83 per cent by 2010-11 itself. It further declined to 29.04 per cent in 2011-12. However in 2012-13, the actual ratio rose to 29.64 per cent, apparently as the growth of debt has been higher than the growth of GSDP. Altogether, the total debt burden recorded an increase of 247.29per cent during the period 2004-05to 2012-13. In turn, Government has to pay interest charges on an increasing scale, the volume being Rs 7204 crore in 2012-13.

2.12 Another laudable objective of the Fiscal Responsibility Act was to ensure prudent budget management. Such a management seems to be absent. The wide gap between the budget estimates and actual accounts has to be construed as a clear indication of laxity in budget management (see Table 2.5)

Table 2.5 Deviation of certain Fiscal Indicators from Budget Estimates in 2012-13(Rs crore)

Fiscal indicator	Budget estimate	Actual	%of actual	Deviation
Revenue receipts	48142	44137	91.68	-8.32
Revenue expenditure	51605	53489	103.65	+3.65
Rev Deficit	3464	9351	269.97	169.97
Fiscal Deficit	10727	15002	139.86	39.86
Capital Expenditure	6655	4603	69.16	-30.84

Source : Budget in Brief for 2013-14 and 2014-15

2.13 While the expected revenue receipts declined by 8.32 per cent, the expenditure went up by 3.65 per cent. No plausible explanation for the disequilibrium seems to be forthcoming. The deviation between the estimates and the actual has been glaring in the case of revenue deficit-a spurt of more than 169.97 per cent over the estimates .Similarly, the spurt was to the extent of 39.86 per cent in the case of Fiscal deficit. On the other hand, there was a decline of 30.84 per cent in the case of capital expenditure over the estimates .In the light of such mismatch between the estimates and the actual, C&AG hast suggested for a realistic assessment of revenue receipts and revenue expenditure so that achievable goals can be set in the fiscal reform path of the State (4,p,61]

2.14 Though the percentage of capital expenditure at 1.57 of the GSDP is very low, slight improvement has taken place in its growth rate in 2012-13 compared that of 2011-12 .At the same time , the Government of Kerala has invested Rs 4511.crore as share capital in various categories of public sector undertakings. However, as the C& A.G has pointed [5,p,36] out ,the average rate of returns on these investments was 1.3 per cent for the last five years , while the Government paid an average interest rate ranging from 7.1 per cent to 7.5per cent on its borrowings during 2008-13. As a remedial measure, his suggestion of 2010-11 that the “working of State Public Sector Undertakings which are incurring huge losses should be reviewed and a revival strategy should be worked out for those undertakings which can be viable” is very relevant[6].Similarly, the Government has been providing loan assistance to Statutory Corporations, Government Companies, Autonomous bodies etc. The balance at the end March 2013 was Rs 10456.93 crore. Though the institutions are bound to repay the loans with interest in stipulated instalments ,they have defaulted in this regard and arrears in repayment at the end of March 2013 from 68 such organisations was Rs6382.47 crore(principal Rs3745.87and interest Rs 2922.55 crore.) While the amount recovered was only Rs 73.47 , Government provided an amount of Rs 1136 crore as loan in2012-13(7)(CAG 2013 p,21). The Committee feels that the Government should have insisted on the repayment of the arrears before granting further loans.

2.15 Among the different indicators which enter in the picture of State finances, the one on the revenue receipts is perhaps the most important as the other indicators are dependent on it . At the same time, revenue receipts is a better yardstick for evaluating the various indicators of State finance, as it is accurate. The GSDP, the most popular barometer adopted for it, provides only an estimate of the contribution of various sectors of the economy based on certain assumptions, which may not necessarily be authentic. Furthermore, in the case of Kerala, the better performance of the economy, which is supposed to be reflected in the GSDP, depends by and large, on the remittances for its growth rather than on the vitality of the domestic economy. Accordingly, we have made a Table indicating the ratio of other indicators as a percentage to the revenue receipts.(See Table 2.46)

Table 2.6 Fiscal Indicators as a Ratio to the Revenue Receipts of the State

Fiscal indicator	2004-5	2008-9	2009-10	2010-11	2011-12	2012-13
Revenue(Rs cr)	13500	24512	26109	30991	38010	44137
Rev expend/RR(%)	127.17	115.14	119	111.75	116.18	121.09
Capital exp/R.R(%)	5.05	6.91	2.29	10.85	12.3	10.42
Total expend/:RR(%)	132.22	122.0,5	121.52	122.7	129.08	134.19
.Rev deficit/:RR (%t)	27.17	13.15	19.29	11.85	20.31	21.18
Fiscal deficit:/RR%	32.97	22.48	30.15	24.94	32.5	33.99
Total debt/:RR(%)	310	258.11	271.81	253.85	226.84	234.63
Total liabilities:/RR(%)	323	270.5	287.46	265.91	236.21	241.81

2.16 As a ratio to the revenue receipts , the total expenditure has been higher by 34.19 per cent in 2012-13. It was only 29 per cent in 2011-12 The revenue expenditure was higher by 21 per cent.The revenue deficit formed 21.18 per cent and fiscal deficit 33.50 per cent respectively in 201-13.The higher rates of deficit, especially in relation to revenue does not augur well. The total liability was 241.81 in 2012-13 against 236.21 in 2011-12.Thus the percentage of all these indicators were lower in 2011-2. Apparently, most of the fiscal indicators were exhibiting negative signals in 2012-13.

Fiscal Performance of Kerala in Comparison with the Other States

2.17 Being a constituent State unit within the Indian Union, finances of Kerala are conditioned by the policies of the Central Government, and the guidelines of the Reserve Bank of India subject of course to the economic conditions prevailing within India. Though the States are given a fair amount of autonomy, Central Government is in a position to impose its policies by stipulating conditions for the award of Central aid to States. By striving to maintain certain amount of uniformity in the financial performances of all the States, Central Government aims at maintaining financial stability in the country as a whole. Nevertheless, there will be wide variations in the financial performances from State to State depending on the size, structure of the regional economy and the policies pursued by each State. Tables 2.7. 2.8 and 2.9 give the comparative picture of the performance of different States in 2012-13.

Table 2.7 Performance of Fiscal Indicators in 2012-13: Kerala Vs All States (Rs per capita)

Fiscal Indicator	Kerala	All States
Total revenue	14495	11092
Tax revenue	11574	7914
States tax revenue	9520	5465
States own non tax	1338	989
Total expenditure	15518	10929
Capital receipts	4360	2438
Capital outlay	2072	1914
Revenue deficit	-1024	162
Total liabilities	32051	17977

Note 1. The figures are based on Revised budget estimates and not The actual
2. The per capita revenue deficit of Kerala would be Rs 2808 On the basis of Actual Accounts for 2012-13. See Table 2.1

2.18 As can be seen in the Table, Kerala's performance has been much better in comparison with that of the totals of other States in respect of total revenue, tax revenue and own tax revenue ,non-tax revenue ,total expenditure, capital receipts and capital outlay .However, with a per capita Revenue deficit of Rs 1024 against the average per capita surplus Rs 162 of all States ,Kerala's performance has been very miserable .The per capita liability has also been much higher than the average of all the States.

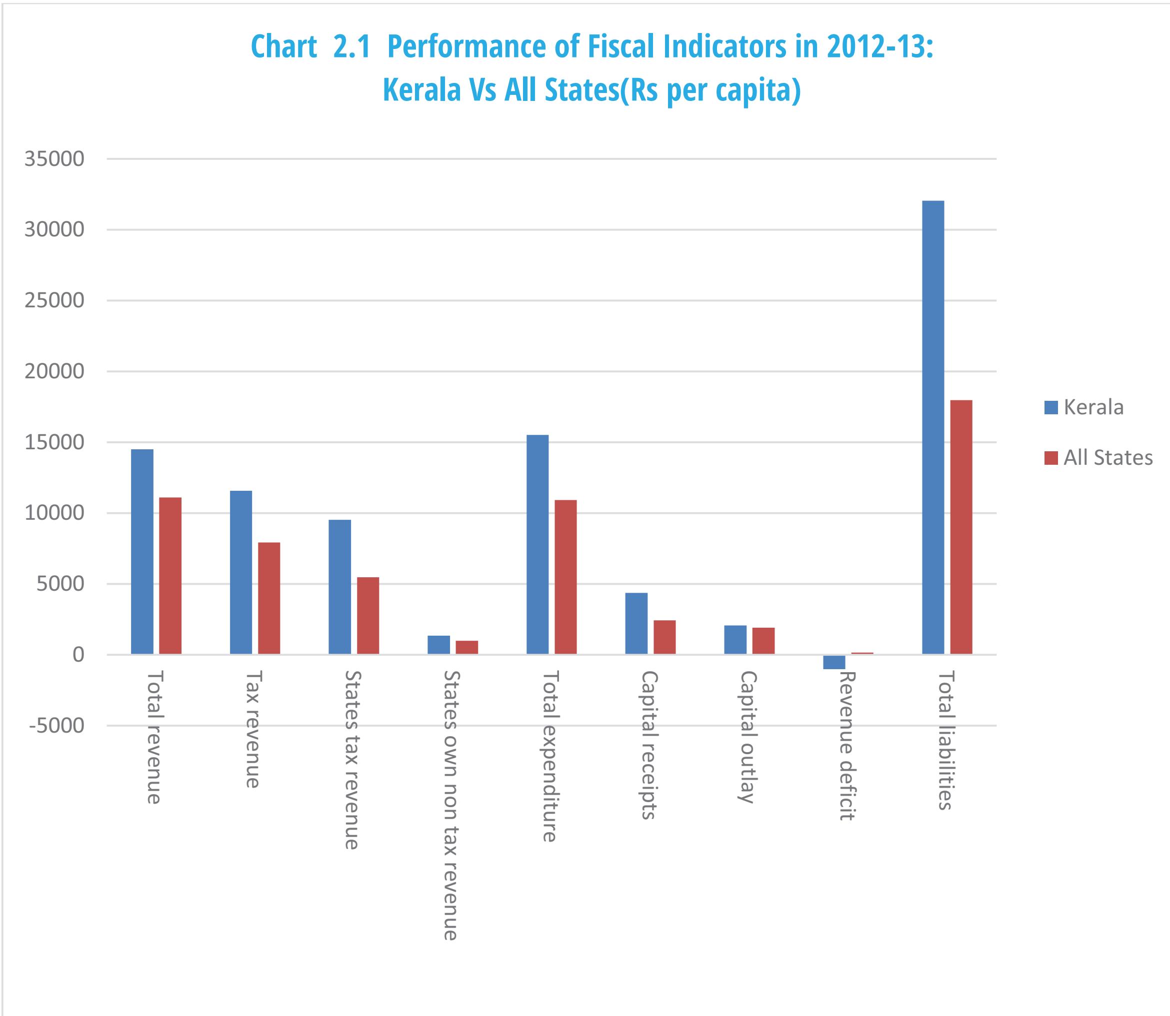


Table 2.8 Fiscal performance of important States in 2012-13 on a per capita basis

State	Total revenue	Tax Revenue	State's Tax Revenue	Central tax revenue	non tax revenue	State's non tax revenue	Grant in aid	Total expenditure	Capital receipts	Capital outlay	Revenue deficit	GFD	Total liabilities
Andhra Pradesh	12943	0.9792	0.7396	2396	3151	1520	1630	12744	3385	2214	-199	249722938	22938
Assam	12676	6170	2661	3545	6240	982	5240	12064	3217	1638	287	1532	9454
Bihar	6424	4767	1585	3181	1657	119.4	1537	6498	1173	1372	748	1654	8242
Chattisgarh	12677	8091	5161	2930	4585	1901	2684	11829	2242	2470	-847	1800	7850
Gujarat	14227	10240	8714	1525	2328	890	1436	11922	4180	3545	-532	3016	27227
Haryana	17950	10853	9600	1250	4096	1924	2158	16204	4075	1849	1356	3213	25797
Himachal Pradesh	24611	10662	7376	3412	13802	2796	11005	24089	3975	2955	-514	2955	42485
Jammu Kashmir	23599	8048	4780	3268	15551	2254	13254	19471	3849	5872	-3728	2224	30776
Jharkhand	9830	4293	2637	2584	4608	1167	3435	8548	1691	2036	-1282	960	10413
Karnataka	13892	10800	8754	2045	3091	621	2470	15374	2475	24351	-151	2494	17651
Kerala	14495	11574	9520	2054	2920	1338	1598	15518	4360	2072	-1024	3846	32051
Madhya Pradesh	9879	7040	4066	2966,	2916	1679	1804	8955	1740	1526	-884	793	11914
Maharastra	12878	10398	8954	1354	2568	985	1583	12875	2721	1694	-2.67.	1746	24041
Odissa	10885	4968	3653	3217	4013	1551	2462	6474	1283	1372	-706	665	11424
Punjab	14187	10235	8779	1456	3941	1774	2166	15912	4608	1635	2458	3389	17281
Rajasthan	9983	6492	4403	2493	3087	1177	1309	9850	2637	1700	-112	1632	16905
Tamil Nadu	113031	11277	8418	1807	1899	928	971	14052	4019	2658	-62.4	2758	20887
Uttarakhand	17041	9230	5990	3240	7810	1502	6301	15831	4872	4504	-712	3188	27128
Uttar Pradesh	7854	6015	3031	2983	1838	691	1147	7576	966	1310	-278	1063	12990
West Bengal	7892	5874	3549	2324	2017	175	1842	10444	2850	705	1457	2290	25330
All States in India	11092	7914	5465	2448	3177	989	2188	10929	2438	1914	162	1929	17977

Source: RBI: Study of State Budgets

2.19 Among the Sates in India, the performance of Kerala during 2012-13 has been comparatively better in respect of tax revenue .In State's own tax revenue, the State has been ahead of all States except Haryana. In respect of non-tax collection also, Kerala has been far ahead of many other States. The per capita collection of non-tax revenue of Kerala has been Rs 1338 against Rs989, being the average of all States. Even then, ,States like Andhra Pradesh , Chattishgarh , Haryana , Himachal Pradesh, Jammu and Kashmir, Madhya Pradesh,Odisha, Punjab, Uttarakhand were well ahead of Kerala. On a per capita basis, Kerala was getting only Rs 2920 as a share from Central taxes and Rs 1261as grant- in –aid .Most of the States were getting higher amount of share of Central taxes and grant- in -aid on a per capita basis. In fact, Kerala's share of grant –in- aid was the lowest among the States except Gujarat, Punjab and Rajasthan. Kerala has been getting only a proportionately lower share from the central pool since the appointment of the XIth Finance Commission. The weightage given by the XIIIth Finance Commission to the estimates of per capita income with 2004-05 as the base adversely affects the interests of Kerala in the devolution of Central taxes. The Committee feels that a new cut-off date with 1994-95 as the base for the calculation of the GDP growth should be introduced as the census data of 1971was adopted as the cut-off date for determining the number of seats in the Parliament.

2.20. The per capita capital outlay of Kerala has been slightly higher at Rs 2072 against all States average of Rs 1914.Nevertheless Kerla's position has been far behind many other States like Andhra Pradesh,Chattisgrah,Gujarat,Himachal Pradesh,Jammu and Kshmir,KarnatakaTamil Nadu and Uttarakhand.However ,the Revenue deficit of Kerala has been higher than that of many other States. While the per capita deficit of Kerala has been as high as Rs1024 on the basis of budget estimates, (on the basis of actual accounts it was much higher) there was a per capita revenue surplus of Rs 162 as the average of all States level. All the southern States had a per capita revenue surplus. Furthermore, the deficit was higher than that of Kerala only in the case of West Bengal , Punjab Jaharkhand ,Jammu and Kashmir and Haryana. The total debt of Kerala has been higher than that of many other States and the actual per capita liability has been higher than that of Kerala only in the case of Himachal Pradesh. With a per capita liability of Rs 32051, the burden of debt is indeed very high.

2.21 A comparison of various fiscal indicators as a ratio to GSDP can also shed light on the performance of each State. State's own tax revenue forms the most important indicator in the fiscal performance of any State. The average tax revenue of all the States formed 6.6 percent of the GSDP in 2012-13. In the case of Kerala, it formed 8.7per cent of the GSDP. The ratios of all the States except three States Viz: Haryana, Karnataka, Tamil Nadu were lower than that of Kerala. Apparently, any further enhancement in tax collection may not be feasible in the case of Kerala. The average non- tax collection of the States amounted to 1.1 per cent of GSDP. With a ratio of 1.2 per cent, the position of Kerala has been higher than many States in this regard. Nevertheless, The Committee feels that the scope for improving the collection of non -tax revenue in the context of steady growth of the economy of Kerala appears to be very bright. With a ratio of 1.97 per cent, Kerala occupied a low rank in respect of capital outlay. Only four States comprising Haryana, Maharastra, Punjab and West Bengal occupied a ranks lower than that of Kerala .As already mentioned, this is an area which calls for further improvement . The total liability of Kerala accounted for 29.4 per cent of the GSDP. It was higher than that of most of the other States. Needless to say, such a high percentage of debt cannot be treated as a positive signal.

Conclusion

2.22 The foregoing overview of the State finances indicates a mixture of positive and negative signals. While the State's own tax revenue receipts has gone up in tandem with the growth of GSDP, the non-tax revenue, though improving, remains rather meagre. On the expenditure side, the revenue expenditure exceeds receipts resulting, on the one hand with very little resources for capital expenditure and on the other,with growing deficit which in turn results in the accumulation of heavy debt. Though the overall fiscal management has been in conformity to the roadmap prescribed by the Thirteenth Finance Commission during2010--11, the upward

Table2.9 Indicators of State Finances as a Ratio to GSDP 2012-13(%)

Name of the State	Total Revenue	Revenue receipts	States ownTax Revenue	State's own Non Tax Revenue	Central Transfers	Revenue expenditure	capital outlay*	Revenue Deficit	Fiscal Deficit	Total Liabilities
Andhra Pradesh	16	14.7	8.4	1.8	4.6	14.5	2.48	-0.2	1.2	22.7
Assam	26..0	26.7	5.7	2.1	18.1	26.1	3.32	-0.6	3.3	20.4
Bihar	22	21.6	5.3	0.9	15.2	21.9	4.72	0.2	5.6	24.8
Chattishgarh	20	20.2	8.2	3.5	9.4	18.8	4.1	-1.3	2.9	12.5
Gujarat	11.65	10.9	7.5	0.8	2.4	10.3	3.19	-0.6	2.6	23.5
Haryana	11	10.8	8.9	1.3	2.4	11.7	1.35	0.9	2.3	18.6
Himachal Pradesh	23	23.2	7	2.9	12.2	22.7	2.73	-0.5	2.8	40.6
Jammu &Kashmir	41	40	8.1	4	31.7	353.7	9.61	-6.3	3.8	52.2
JJharkhand	20	19.9	5.3	2.2	10.2	17.3	4.06	-2.6	1.9	21.1
Karnataka	16	16.2	10.2	0.7	5.2	16.1	2.83	-0'2	2.9	20.6
Kerala	14	13.3	8.7	1.2	3.4	14.2	1.97	0.9	3.1	29.4
Madhya Pradesh	19	19.8	8.2	1.8	9.4	18	2.97	-1.8	2.9	23.9
Maharastra	10	10.5	7.3	0.8	2.4	10.5	1.38	0	1.4	19.7
Odisha	17	17.6	5.9	2.3	9.2	16.5	2.28	-1.1	1.1	18.5
Punjab	13	13.4	8.3	0.9	3.7.	15	1.57	1.6	3.2	31.7
Rajasthan	14.19	14.3	8.3	2.4	5.8	14.2	2.54	-0.2	2.3	24.3
Tamil Nadu	14	13.7	9.9	0.8	3	13.6	2.59	-0.1	2.7	20.2
Uttarakhand	15	15.9	5.6	1	8.7	14.6	3.99	-1.1	3.1	25.3
Uttar Pradesh	21	20.4	7.9	1.5	10.8	19.6	3.4	-0.7	2.8	33.7
West Bengal	12	11.6	5.2	0.2	6.4	13.7	1.03	2.1	3.4	37.5
total of all States	14	13.4	6.6	1.1	5.6	13.2	2.46	-0.2	2.3	21.7

Source: RBI : Study of State Budgets for the year 2012-13 trend in deficit and debt burden since then , has upset the apple cart in 2011-12 and 2012-13. At the same time, the spurt in revenue and fiscal deficits stands as a monumental failure on the part of the Government to implement the provisions of the Fiscal Responsibility (Amendment)Act passed by the Legislature. Similarly, the Government has failed to take appropriate measures to reduce the deficit as recommended in the earlier reports of KPERC. Apparently, any well-thought out strategy for correcting the disequilibrium in the State finances seems to be absent.

2.23 The sudden spurt in the deficit in 2011-12 , as mentioned earlier, was attributed to the revision of the pay and pension of the Government servants. It may be recalled in this connection that we have recommended in the Report for 2010-11 to appoint Pay Commission only once in ten years. Revision of pay scales is adopted for compensating the rise in prices and to ensure a fair share of income with the growth of the economy to the State Government employees. These two requirements of the employees are squarely safeguarded in Kerala. The rise in price is being neutralised with the revision of DA once in six months. Moreover, the State Government employees seem to get a proportionate share of income with the growth of GSDP, the barometer for measuring the growth of the economy. Furthermore, a rise in productivity stands as the basis for any rise in the wage rates. The ground for raising the remuneration of the Government employees on the basis of a rise in productivity seems to be absent in Kerala. Apparently, there is no justification for revising the pay scales of Government employees every five years. The Committee reiterates the suggestion of 2010-11 for the revision of the pay scale of the State Government employees once in ten years as the Central Government does.

2.24 As Stated earlier, the incremental revenue expenditure moves ahead of the incremental revenue receipts on account of the creation of new posts and establishments without making any study on the implications of such posts and establishments on the exchequer.(7). Efforts should be made to bring the incremental level of expenditure on par with the incremental level of revenue by making feasibility studies on the financial implication of the creation of new posts and establishments.

2.25 The persistence of deficits leads to the accumulation of debt which stood at Rs 103563 crore at the end of 2012-13, the repayment of which can cause further burden. Nearly 42 per cent of the debt would become mature within seven years (8). How to raise so much amount of money to repay the matured debt would be a problem confronting the State in the immediate future. C&A.G has also expressed apprehension on the question of repayment.

Notes and reference

1. Parkinson's Law is a concept introduced by Cyril North Parkinson, a British political analyst who maintains that a sufficiently large bureaucracy will generate enough internal work to keep itself busy and to justify its continued existence without commensurate output. Kerala Fiscal Responsibility(Amendment)Act-Act 17 of 2011
2. Re*port of the Comptroller and Auditor General(C&AG) of India on State Finances for the year ended 31March 2013* .(Government of Kerala)p,60
3. *Report of the C&AG for the year ended March 2013 ;op cit* p,61
4. *Report of C&AG for the year ended March 2013; op cit* , p,36
5. Principal Accountant General, Kerala; *Accounts at a Glance 2011-12* ;see, p,16
6. Principal Accountant general, Kerala *Accounts at a Glance 2011-12*,see p,16
7. *Report of C&AG for the year ended March 2013;* op cit, p,51
8. Report of C&AG for the Year ended March 2013 op cit p,51.

3

Revenue Profile and Mobilization

3.1. For any national or sub-national economy, revenue mobilization is the key to economic development. In the state economy of Kerala, revenue mobilization has a few lofty objectives like.

a) Maintaining the social sector achievements already made

b) Attaining sustainable and rapid economic growth, and

c) Reaching fiscal balance as mandated by the amended Fiscal Responsibility and Budget Management Act, 2003.

3.2 It is mandated that states should reach revenue balance and fiscal deficit target of 3% by 2013-14 and to maintain the same position in the years to come. This chapter analyses the revenue position of the state, examines tax and non- tax sources of revenue, structure and pattern of growth of own tax and own non-tax sources of revenue. Further, it examines the huge collection cost of revenue and the issues like large tax evasion, low tax compliance, inordinate delay in settling cases and the growing lethargy in collection of arrears. It also suggests measures for bridling corruption and improving tax collection.

Revenue Receipts

3.3 Though Kerala economy recorded appreciable growth in GSDP in the decade 2000, it was not accompanied by commensurate growth in revenue realization. However, the situation improved from 2006-07 onwards as a result of the introduction of the better tax

Table 3.1. Revenue Receipts 2008-09 to 2012-13(Rs. in Crore)

Items	2008-09	2009-10	2010-11	2011-12	2012-13
Total Revenue Receipts	24512	26109	30991	38010	44137
Growth rate	16.13	6.52	18.70	22.65	16.12
TRR/GSDP	12.09	11.25	11.75	12.34	12.63
Buoyancy	1.02	0.45	1.37	1.35	1.20
State's Own Taxes	15990	17625	21722	25719	30077
Growth Rate	16.98	10.23	23.24	18.40	16.94
SOT as a percent of TRR	65.23	67.51	70.09	67.66	68.14
Own taxes/GSDP	7.89	7.60	8.23	8.35	8.61
Buoyancy	1.08	0.71	1.70	1.10	1.26
State's Non Tax	1559	1852	1931	2592	4199
Growth Rate	28.84	18.81	4.24	34.25	61.97
NTR as a percent of TRR	6.36	7.09	6.23	6.82	9.51
Own Non tax/GSDP	0.77	0.80	0.73	0.84	1.20
Buoyancy	1.83	1.31	0.31	2.05	4.61
Central Transfers	6963	6632	7338	9700	9862
Growth Rate	11.78	-4.75	10.65	32.17	1.68
CT as a percent of TRR	28.41	25.40	23.68	25.52	22.34
Buoyancy	0.75	-0.33	0.78	1.92	0.12
CT as a percent of GSDP	3.43	2.86	2.78	3.15	2.82
GSDP (at current prices)	202783	231999	263773	307906	349338
Growth rate	15.78	14.41	13.70	16.73	13.46

Source: C&AG Finance Accounts (various years)

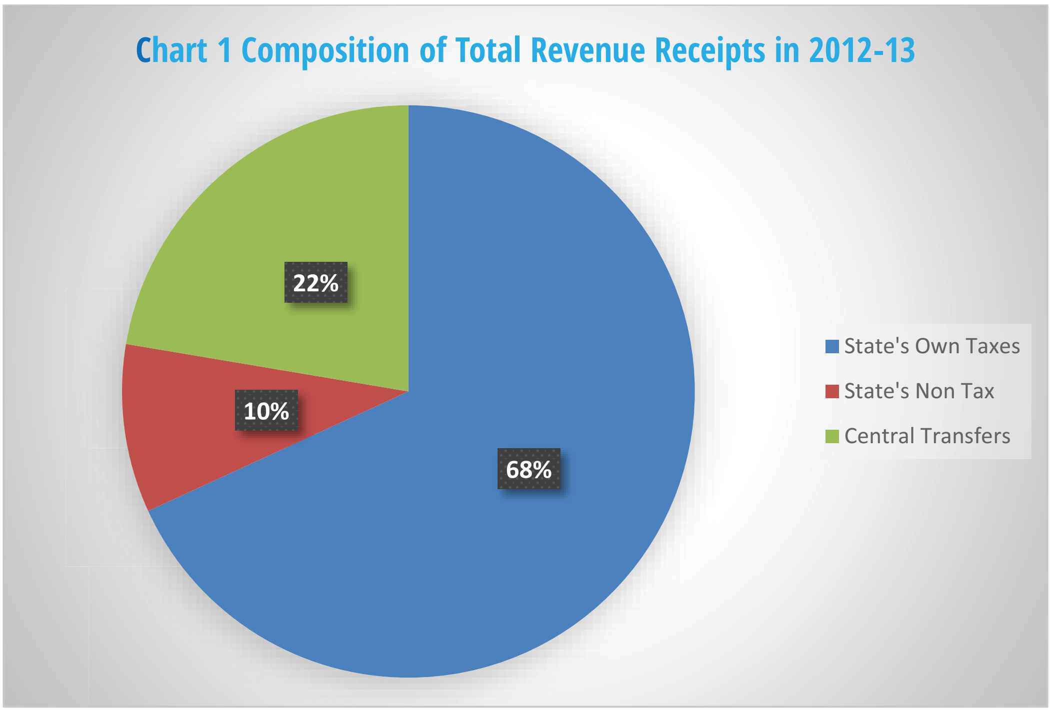
administration measures. Previous LDF Government introduced a series of measures to augment revenue mobilization such as 'Check-post takeovers', introduction of E-governance in the check posts, Computerisation drive in taxation department, etc. The compensation made by the Centre for the loss of revenue incurred as a result of the introduction of VAT also helped to improve Revenue Receipts. Revenue mobilization trend in the recent period may be understood from the following table on revenue receipts.

3.4 As per Table 3.1. when the rate of growth of total revenue receipts is examined from 2008-09 to 2012-13, it is observed that the rate of growth in 2009-10 (6.52%) has been much below that achieved in the preceding and succeeding years. This may be attributed to lower growth rate of tax revenue and a decline in central transfers ((-)4.75%). Further the rate of growth recorded in 2012-13 was found 6.53% less than that recorded in the previous year. Buoyancy recorded in the rate of growth of TRR observed to be higher than unity in all the years except 2009-10.

3.5 During the period under examination, when the rate of growth of states' own tax revenue is observed moderate, though fluctuating, rate of growth is recorded in all the years with 2009-10accounting for the lower (10.23%). This may be one of the reasons behind the poor the rate of growth of total revenue receipts in the same year. Steps to augment tax revenue mobilization may include a broadening of tax base, rationalization of the rate structure, rejuvenation of tax administration, computerization of account of the tax offices and the big dealers, and dissemination of information to the dealers. Since sales tax is the first point levy for many goods, and Kerala is a net importing state, it stands to gain by capturing the value added in the sales process within the state. Buoyancy in growth rate is greater than unity in all the years except 2009-10.

3.6 Non Tax sources of revenue is another important revenue variable to be reckoned with Table 3.1. shows that states' own non tax revenue growth recorded appreciable rate of growth from 2008-09 to 2012-13 except in the year 2010-11 (4.24%). Non tax revenue as percentage of total revenue receipts also improved substantially from 6.82% to 9.51%. Similar improvement is visible in Non tax revenue GSDP ratio which grew from 0.77% in 2008-09 to 1.20% in 2012-13. Buoyancy in the rate of growth was also greater than unity in all the years except 2010-11(0.31%)

3.7 When the contribution of central transfers to total revenue receipts is examined high level volatility is noticed. While it was negative in 2009-10(-4.75%), it was only 1.6% in 2012-13. Central transfers as percentage of TRR shows wide fluctuation. Buoyancy in rate of growth of central transfers also reflects the same trend of fluctuation. When taxation of services is a prerogative of the central Government decline in the share of central transfers, in a state where 70% of the gross state domestic product arises from service sector, is against the principle of equity in central devolution.



Source: Table 3.1

Kerala, with Rs.9578 as per capita states' own tax revenue which is 5th highest among Indian states and is much higher than the all states average of Rs.5469 (Budget in Brief, Table B1, 2014-15) it stands to realize much more if tax leaks are properly plugged.

Revenue receipts – All states Vs Kerala

3.8 A better understanding of revenue mobilization of Kerala will be possible when a comparison is made between Kerala and other states. Hence, revenue receipts of the Kerala is compared with all states average revenue receipts for various years.

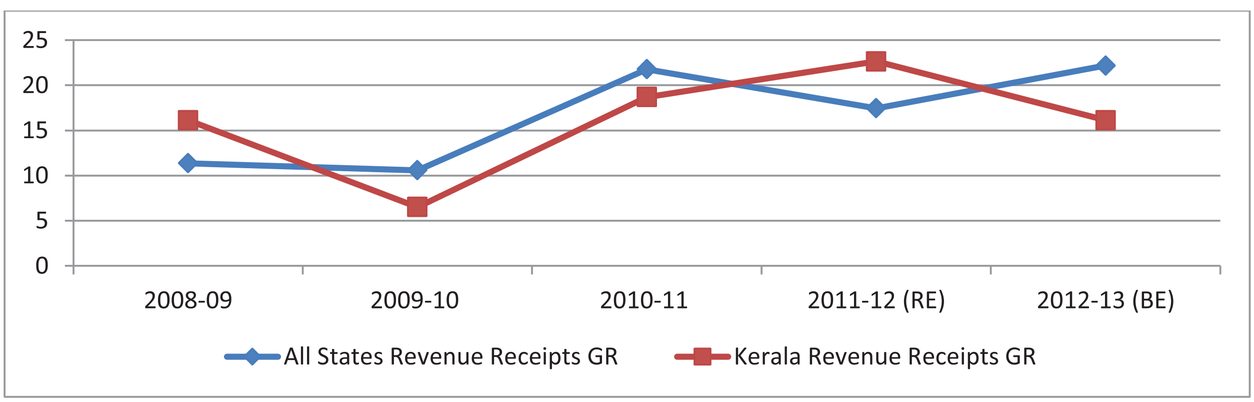
Table 3.2. Revenue Receipts All States Vs Kerala (Rs. in Crores)

		2008-09	2009-10	2010-11	2011-12	2012-13	5 year. Average rate of growth
All States	Revenue Receipts	694657	768136	935347	1098531	1342138	
	Growth Rate	11	11	22	17	22	16.6
	Tax Revenue	482983	528070	680198	812987	987613	
	Growth Rate	10	9	29	20	21	17.8
	Non Tax Revenue	211675	240061	255149	285554	384525	
	Growth Rate	14	13	6	12	35	16.0
Kerala	Revenue Receipts	24512	26109	30991	38010.00	44137	
	Growth Rate	16	7	19	23	16	16.2
	Tax Revenue	22953	24257	29060	35418.00	39939	
	Growth Rate	15	6	20	22	13	15.2
	Non Tax Revenue	1559	1852	1931	2592	4199	
	Growth Rate	29	19	4	34	62	29.6

Source: RBI: Study of State Budgets

3.9. In comparison, it is observed that the rate of growth of total receipts is lower for Kerala in 2009-10 and 2012-13. The same trend is reflected in the rate of growth of tax revenue as well. Though fluctuating in nature, non tax revenue shows an increasing tempo of growth from 2011-12 onwards, which is a green signal in the context of the state of Kerala with immense potential for non tax revenue mobilization.

Chart 3.2. Growth rate of revenue receipts of all states Vs Kerala



Source: Table 3.2

Chart 3.2. highlights that all states' average rate of growth of revenue receipts and tax revenue are higher than that of Kerala. At the same time five year average rate of growth of non tax revenue of Kerala is better than that of the all states' average.

3.10. A broad consumption tax is expected to minimize distortions and unnecessary costs of taxation. In Kerala, though cost of taxation and distortion are high, base is broad and around 90 to 95 percent of the sales-tax revenue comes from sales tax/VAT. After the introduction of VAT in 2005-06, there has been substantial improvement in sales tax revenue collection.

3.11. Let us examine the most important components of own tax revenue namely sales tax revenue. Table 3.3 provides the structure composition and rate of growth of own tax revenue of the state from 2008-09 onwards. Sales tax which accounts for 70 to 75% of the tax revenue performed well with 23.98% growth rate in 2010-11 compared to the preceding and succeeding years. While all components of own tax revenue record high volatility in growth rate it is more violent with stamp duty and registration and electricity duty. Their contribution to the total own tax revenue also varies accordingly. Revenue from stamp duty and registration declined from 12.53% in 2008-09 to 9.77% in 2012-13 and that of electricity duty declined from 0.35% to 0.08%. Volatility is also noticed in the buoyancy of rate of growth of these sources.

Own tax revenue: Kerala and Southern States

3.12 Performance of Kerala is own tax mobilization will be better understood if it s compared with other states. Hence, an attempt is made to strike a comparison between Kerala and southern states. 3.13. Table 3.4. elucidates the performance of own tax revenue in the southern states. As the five year average rate of growth data reveals, Tamil Nadu with 19.5% rate of growth ranks first followed by Kerala with 17.2%. This is not an appreciable rate of growth for Kerala for two reasons. First, Kerala is a consumer state and second around 80% of the consumption goods are imported from other states or countries.

Hence, tax revenue potential is high which might contribute to higher rate of growth of tax revenue than realized.

Table 3.3 : Structure and growth rate of own tax revenue and selected indicators

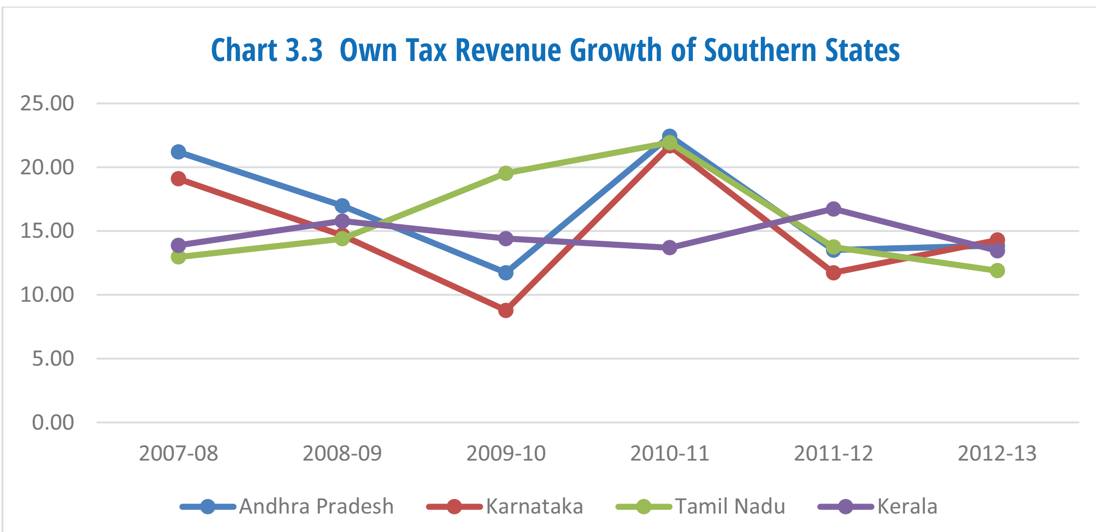
	2008-09	2009-10	2010-11	2011-12	2012-13
a. Sales Tax/VAT	11377	12771	15833	18939	22511
Growth Rate	21.39	12.25	23.98	19.62	18.86
Buoyancy	1.36	0.85	1.75	1.17	1.40
b. Excise Duty	1398	1515	1700	1883	2314
Growth Rate	19.59	8.37	12.18	10.79	22.89
Buoyancy	1.24	0.58	0.89	0.65	1.70
c. Motor Vehicle Tax	937	1131	1331	1587	1925
Growth Rate	9.85	20.70	17.72	19.20	21.27
Buoyancy	0.62	1.44	1.29	1.15	1.58
d. Stamp Duty & Regn.	2003	1896	2552	2987	2938
Growth Rate	-1.23	-5.34	34.63	17.02	-1.63
Buoyancy	-0.08	-0.37	2.53	1.02	-0.12
e. Electricity Duty	56	25	21	21	25
Growth Rate	43.59	-55.36	-17.16	1.40	17.62
Buoyancy	2.76	-3.84	-1.25	0.08	1.31
f. Others	219	287	285	301	364
Growth Rate	5.29	31.05	-0.77	5.69	20.89
Buoyancy	0.34	2.16	-0.06	0.34	1.55
Total	15990	17625	21722	25718	30077
Percentage to Total					
a. Sales Tax	71.15	72.46	72.89	73.64	74.85
b. Excise Duty	8.74	8.60	7.82	7.32	7.69
c. Motor Vehicle Tax	5.86	6.42	6.13	6.17	6.40
d. Stamp Duty & Regn.	12.53	10.76	11.75	11.61	9.77
e. Electricity Duty	0.35	0.14	0.10	0.08	0.08
f. Others	1.37	1.63	1.31	1.17	1.21
Total	**100**	**100**	**100**	**100**	**100**
Growth of Own Taxes(%)	16.98	10.23	23.25	18.40	16.95
Own Tax to GSDP Ratio	7.89	7.60	8.24	8.35	8.61
Yearly buoyancy of Taxes	1.08	0.71	1.70	1.10	1.26
GSDP	202783	231999	263773	307906	349338
Growth rate of GSDP	15.78	14.41	13.70	16.73	13.46

Source: C&AG Finance Accounts (various years)

Table 3.4. Own Tax Revenue – Southern States (Rs. in crore)

	2008-09	2009-10	2010-11	2011-12	2012-13	Average GR
Andhra Pradesh	33358	35176	45140	53283	59875	
Growth Rate	15.85	5.45	28.33	18.04	12.37	16.1
Buoyancy	0.93	0.46	1.26	1.34	0.89	
Karnataka	27646	30579	38473	46475.96	53753.55	
Growth Rate	6.38	10.61	25.82	20.80	15.66	15.9
Buoyancy	0.44	1.21	1.19	1.77	1.10	
Tamil Nadu	33684.37	36547	47782	59517	71254	
Growth Rate	13.73	8.50	30.74	24.56	19.72	19.5
Buoyancy	0.95	0.44	1.40	1.79	1.66	
Kerala	15990	17625	21722	25718	30077	
Growth Rate	16.98	10.23	23.25	18.40	16.95	17.2
Buoyancy	1.08	0.71	1.70	1.10	1.26	

Source: C&AG Finance Accounts (various years)



Source: Table 3.4

Sales Tax Revenue

3.13 Structure and rate of growth of sales tax revenue underwent radical changes after the introduction of VAT. This is elucidated by the following table.3.15 which illustrates the dramatic improvement in sales tax revenue collection after the introduction of VAT. The post VAT period achievement may be shared equally by both VAT and better tax administration. The average share of sales tax to total sales tax/VAT revenue declined from 91.16% in 2000-01 to 2004-05 to 44.02% during 2005-06 to 2012-13. At the same time VAT collection improved from 42% 2005-06 to 52.02% in 2012-13. Thus, sales tax (44.02%) and VAT (52.02%) together makes 96.04% of the tax revenue of the state, during the period between 2005-06 to 2012-13. Remaining part is contributed partly by central sales tax (3.27%) and partly by 'other receipts' (0.69%).

3.14 When the analysis focuses on average growth rate during 2005-06, to 2012-13, an important finding is that when states' sales tax recorded only 44.02%, that recorded by trade tax/VAT is 52.02%. This shows the advantage of VAT system over the earlier sales tax system. However violent fluctuation is noted in the annual rate of growth of state sales tax as well as trade/VAT tax. This indicates high rate of tax evasion and trade diversion. **Hence the Committee recommends that Kerala should move to a tax system which is least distortionary** and better aligned with the tax structures of the neighbouring states and adopt modern tax administration practices to prevent tax evasion and avoidance.

3.15 As evident from Table 3.5 share of central sales tax to total tax revenue of the state declined from 8.22% in 2000-01 to 1.43% in 2012-13. This decline is due to the introduction of Value Added Tax (VAT) in which the rate of central tax is reduced to half. After the introduction of VAT, Sales tax is collected under two statutes – one with regard to the state sales tax act and the other with regard to the trade tax/VAT act. Liquor, petrol, diesel and aviation turbine fuel continue to remain outside the VAT net which fetch more than 40% of the sales tax/VAT revenue in the state. The rest is collected under VAT.

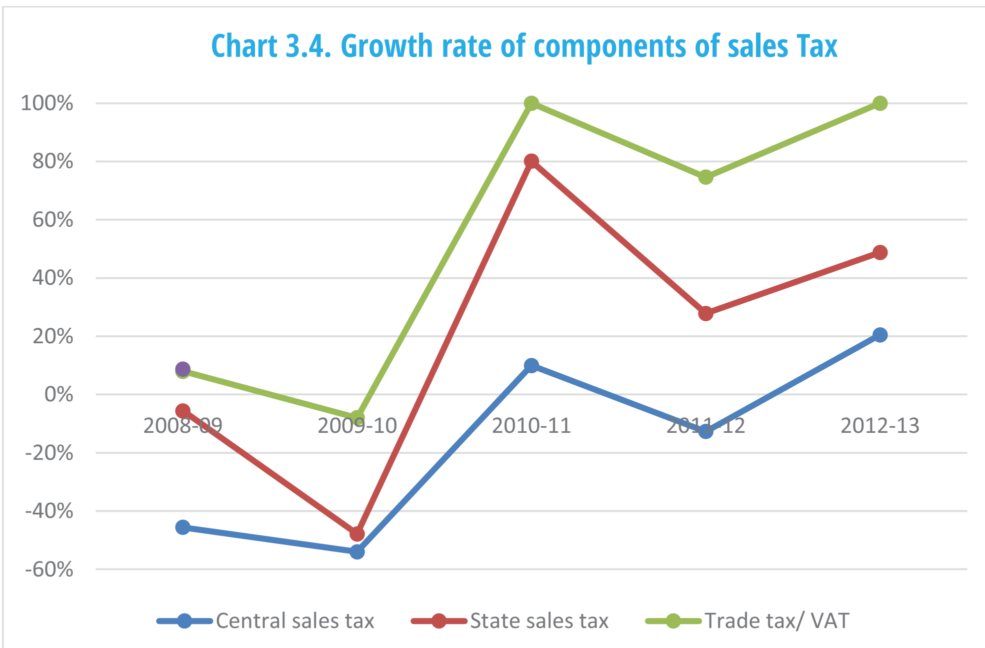
3.16 When buoyancy in rate of growth of sales tax /VAT revenue is examined it is noted that while overall and trade/VAT buoyancy are greater than unity, central sales tax, states sales tax and other receipts have recorded buoyancy less than unity. This indicates substantial revenue leakage from these sources.

Table 3.5. Total Sales Tax Revenue of Kerala: Structure, Growth and Buoyancy

Year	Total	Central sales tax	State sales tax	Trade tax/ VAT	Other receipts
2000-01	4344	357	3971		16
2001-02	4441	261	4165		15
2002-03	5343	356	4917		70
2003-04	5991	700	5214		77
2004-05	6701	361	6183		157
2005-06	7038	486	3297	2956	299
2006-07	8563	340	3882	4190	152
2007-08	9372	1016	3335	5015	6
2008-09	11377	425	5035	5882	35
2009-10	12771	293	5213	7235	30
2010-11	15833	310	7402	8097	23
2011-12	18939	293	8754	9804	88
2012-13	22511	321	9922	12172	97
2000-01 to 2004-05	26821	2035	24450		336
2005-06 to 2012-13	106404	3485	46840	55350	729
Structure: Percentage Shares					
2000-01	100	8.22	91.42		0.37
2001-02	100	5.88	93.78		0.34
2002-03	100	6.66	92.03		1.31
2003-04	100	11.69	87.02		1.29
2004-05	100	5.39	92.26		2.34
2005-06	100	6.91	46.85	42.00	4.24
2006-07	100	3.97	45.33	48.92	1.78
2007-08	100	10.84	35.59	53.51	0.06
2008-09	100	3.74	44.26	51.70	0.30
2009-10	100	2.29	40.82	56.65	0.23
2010-11	100	1.96	46.75	51.14	0.15
2011-12	100	1.55	46.22	51.77	0.46
2012-13	100	1.43	44.07	54.07	0.43
2000-01 to 2004-05	100	7.59	91.16		1.25
2005-06 to 2012-13	100	3.27	44.02	52.02	0.69
Annual Growth Rate: Percentage					
2000-01	12.74	24.24	11.73		37.39
2001-02	2.22	-26.89	4.86		-4.01
2002-03	20.32	36.36	18.07		358.07
2003-04	12.13	96.80	6.03		10.14
2004-05	11.84	-48.42	18.58		103.40
2005-06	5.03	34.64	-46.67		90.02
2006-07	21.67	-30.16	17.74	41.74	-49.08
2007-08	9.44	199.18	-14.09	19.70	-96.19
2008-09	21.40	-58.14	50.98	17.29	497.58
2009-10	12.25	-31.13	3.53	23.01	-13.96
2010-11	23.98	5.97	41.99	11.91	-21.20
2011-12	19.62	-5.72	18.27	21.08	275.36
2012-13	18.86	9.64	13.33	24.15	10.08
2000-01 to 2004-05	11.85	16.42	11.85	NA	101
2005-06 to 2011-12	16.53	15.53	10.64	22.70	86.58

Table 3.6 Tax buoyancy by categories (based on Table 3.5)

	Tax Buoyancy				
	Total	Central sales tax	State sales tax	Trade tax/ VAT	Other receipts
2008-09	1.36	-3.68	3.23	1.10	31.53
2009-10	0.85	-2.16	0.24	1.60	-0.97
2010-11	1.75	0.44	3.07	0.87	-1.55
2011-12	1.17	-0.34	1.09	1.26	16.46
2012-13	1.40	0.72	0.99	1.80	0.75



Source: Table 3.5

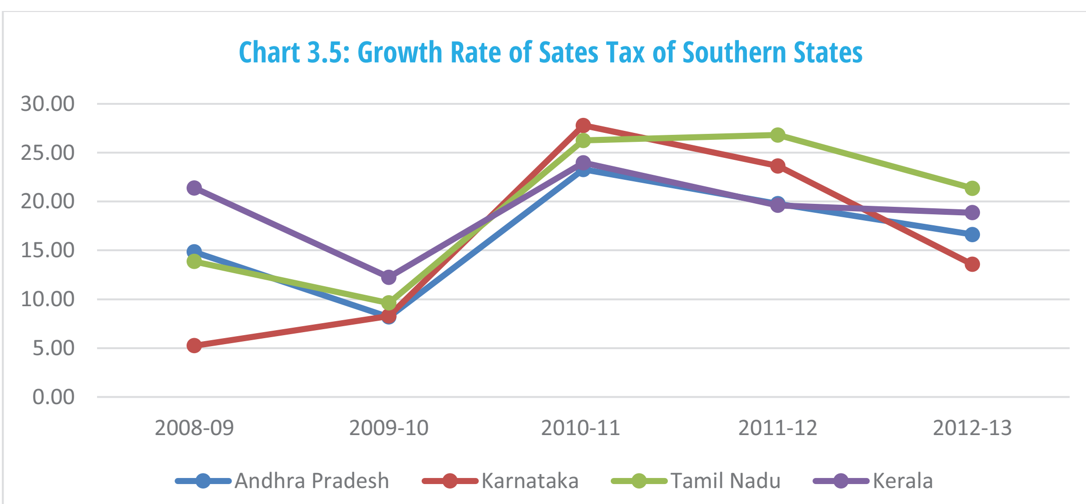
3.17. The Chart 3.4 bears testimony to the violent fluctuations in all the components of sales tax as mentioned above which denotes serious revenue leakage from these sources. Kerala with per capita NSDP of Rs.56115 fairs poorer in sales tax performance in 2012-13 when compared to all states' average percapita NSDP of Rs.39168. (Budget in Brief p.B-27, Table B-15). This indicates poor tax elasticity of sales tax as tax revenue does not increase in commensurate with increase in tax base.

3.7 Sales tax revenue selected states

	2008-09	2009-10	2010-11	2011-12	2012-13	Average GR
Andhra Pradesh	21852	23640	29145	34910	40715	
Growth Rate	14.85	8.18	23.29	19.78	16.63	16.55
Buoyancy	0.87	0.70	1.04	1.46	1.20	
Karnataka	14623	15833	20235	25020	28414	
Growth Rate	5.25	8.27	27.80	23.65	13.57	15.7
Buoyancy	0.36	0.94	1.28	2.02	0.95	
Tamil Nadu	20675	22662	28614	36289	44041	
Growth Rate	13.87	9.61	26.27	26.82	21.36	19.6
Buoyancy	0.96	0.49	1.20	1.95	1.80	
Kerala	11377	12771	15833	18939	22511	
Growth Rate	21.39	12.25	23.98	19.62	18.86	19.22
Buoyancy	1.36	0.85	1.75	1.17	1.40	

Source: worked out from RBI data source

Based on Table 3.7 when average rate of growth of sales tax revenue of south Indian states during 2008-09 to 2012-13 is observed, Tamil Nadu tops with 19.6% while Kerala, with 19.2% is trailing along behind Tamil Nadu, followed by Andhra Pradesh. High volatility is noticed in the buoyancy of rate of growth. This denotes loopholes and leakages that are concomitant of corrupt and weak tax administration.



Source: Table 3.7

3.18 . Chart 3.5. gives a still more clear picture of the rate of growth of sales tax. The nature of the graph reflects the high degree of volatility experienced in the sales tax collection. Same degree of volatility is also revealed by buoyancy as well.

Per capita sales tax – southern States

3.19 Per capita sales tax revenue seems to be a better indicator of tax potential and tax realized. Hence an attempt is made in this direction.

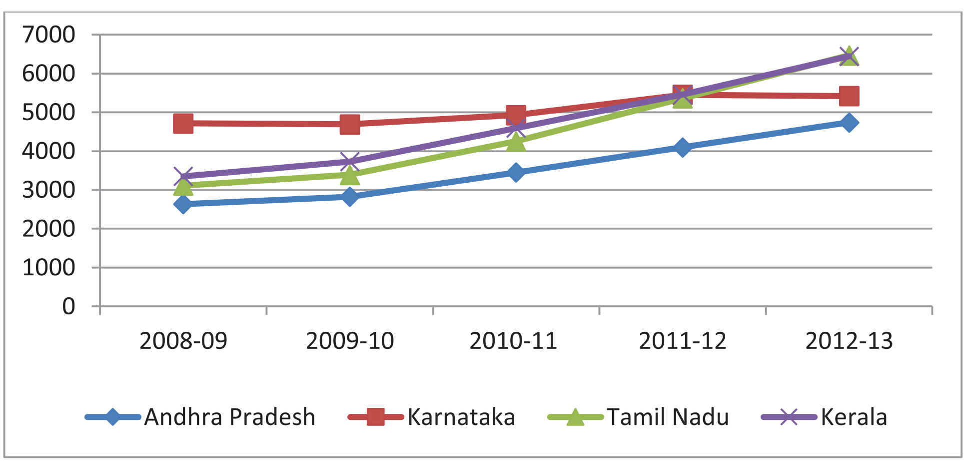
Table 3.8 Percapita sales tax – selected states

	2008-09	2009-10	2010-11	2011-12	2012-13	Average over 5 years	Rank
Andhra Pradesh	2637	2826	3452	4098	4738	3550	4
Karnataka	4712	4690	4927	5452	5417	5039	1
Tamil Nadu	3114	3391	4253	5360	6466	4517	3
Kerala	3350	3732	4594	5457	6442	4715	2

Source: C&AG Finance Accounts (various years) & Population figures from CSO

Table 3.8 examines percapita sales tax revenue among south Indian states. Karnataka with five year average percapita sales tax of Rs.5039 rank is first followed by Kerala with Rs.4715. This is another strong indicator of sales tax leakage in the state. Kerala being a consumer state with higher per capita income than Karnataka, Per capita sales tax ought to be higher here.

Chart 3.6. Percapita sales tax – selected states



Source: Table 3.8

3.20 Chart 3.6 reiterates the percapita distribution of sales tax revenue among south Indian states. Karnataka stands much above others until 2011-2. But in 2012-13 both Tamil Nadu and Kerala stands above Karnataka. However, if five year average is taken Karnataka tops and Kerala follows.

Commodity wise Tax collection

3.21 As per tables 3.9 and 3.10, construction sector registered an average annual growth rate of 13.74%. Among the 8 items related to the construction sector, Tiles with 40.47% average rate of growth, Timber with 22.61% and paint with 18.98% outweighs other items. Fascinatingly, Sanitary ware recorded -1.57% average rate of growth. When tax buoyancy with respect to construction related goods (Table 3.8) is examined, all goods other than sanitary ware recorded buoyancy greater than unity. 'Tiles' sector performs worse with negative tax buoyancy. Negative buoyancy of tiles points to huge trade diversion to the neighboring States like Pondicherry (Mahe), Karnataka and Tamilnadu. Tiles/Electrical etc goods are bought from these markets and brought in through rail/roadways. Low buoyancy of timber and furniture sectors may point to illegal felling of trees and the related timber theft and tax evasion with or without the involvement of the corrupt officials, substitution of timber by other construction materials, etc. Fast declining forest revenue (non-tax) may also be read with this low buoyancy. When commodity wise tax collection is examined, Indian made foreign liquor is found making the single largest contributor from 2009-10 onwards, followed by Petroleum products. Tax revenue based on compounding system from Gold is highly under reported because the initial base is built on information furnished by Gold traders which is not based on physical verification. It is reported that out of total gold imports to India more than 25 % is being consumed in Kerala. Furthermore as per the estimate of Gulati Institute for Taxation Studies (GIFT) the total turnover of Gold in 2012-13 is Rs 18456 crore which should generate a tax revenue of Rs 925 crores at the prevailing tax rate of 5 percent. But the actual tax revenue realized from Gold is only Rs 394 crore (Table 3.9) which is only 43% of the potential. This clearly substantiates that even the prevailing compounding system of tax collection in Gold is based on under reported sales. Therefore the Committee recommends that the system of Compounding should be restructured using

Table 3.9 Commodity wise tax collection (2008-09 to 2012-13) Rs. in crore.

Sl.No.	Name of commodity	2008-09	2009-10	2010-11	2011-12	2012-13	Rank in 2012-13
1	Aluminium	20	20	19	21	23	25
2	Arecanut	17	15	16	19	15	28
3	Bakery Products	10	10	16	19	23	27
4	Biscuits	23	32	53	56	62	19
5	Cardamon	11	17	27	29	32	22
6	Cashew	25	18	30	32	35	21
7	Cement	472	502	498	635	803	4
8	Chemicals	41	41	56	59	72	17
9	Cooked Food	38	36	48	51	60	20
10	Electrical Goods	95	110	134	162	206	11
11	Electronic Goods	42	45	77	92	110	15
12	IMFL	2504	2985	3775	4741	5391	1
13	Iron and Steel	133	156	181	239	310	8
14	Jewellery	144	163	225	302	394	6
15	Machinary	11	13	16	17	23	26
16	Medicines	142	155	219	258	336	7
17	Motor vehicles	713	830	1584	1865	2330	3
18	Petrolium Products	2670	2903	3551	4109	4528	2
19	Paint	110	149	155	197	254	10
20	Rubber	162	196	382	436	490	5
21	Soap	50	58	53	56	65	18
22	Tea	14	27	26	26	29	23
23	Tyre& Tubes	38	67	80	83	108	16
24	Luxury Tax	96	102	112	134	149	13
25	Chicken	100	114	121	93	114	14
26	Timber	58.43	64.78	87.8	119.51	161.84	12
27	Tiles	116.99	126.81	166.1	234.73	300.04	9
28	Sanitaryware	16.38	22.92	15.89	18.29	25.62	24
	Total of 28 items	7872	8979	11726	14104	16450	
	As % of total ST/VAT collection	69.20	70.31	74.06	74.47	73.07	
	Total ST/VAT collection	11377	12771	15833.11	18939	22511.09	
	Total ST/VAT collection	6701	7038	8563	9372	11377	
	GSDP in Construction Sector						
	GSDP in Construction (base 2004-05)	23212	28218	35191	41963	56051	

Source: Department of Commercial Taxes

the following scientific methodology. The estimation must be based on stratified sampling method due to the prohibitive cost of a population study. After the selection of samples sample units should be physically verified by a Special Assessment Wing consisted of officers with integrity. This should be supported by visual identification by placing camera or other surveillance equipment in close proximity of selected Gold sale depots. Existing Gold dealers under compounding should also be brought under the new base. Other major contributors have all to maintain their position intact. Total contribution made by the listed items is Rs.16450 crore which comes to about 73.07%

3.22 Since construction sector continues to be a major contributor to manufacturing sector GSDP, construction sector related items are taken out and presented in a separate table viz; table 3.10, and 3.11.When table 3.10 is analysed construction sector GSDP has recorded appreciable growth all through out especially in 2012-13 with 33.57% while it was only 19.24% in the previous year. When the performance of individual items are observed only ‘Tiles’ recorded negative growth rate of -89.09% growth rate while all other items performed well. When we examine tax buoyancy with regard to construction goods sector, tiles alone recorded negative buoyancy, while sanitary ware recorded abnormally high buoyancy.

Table 3.10 Growth in Construction sector

	2008-09	2009-10	2010-11	2011-12	2012-13
GSDP in Construction Sector	6.77	21.57	24.71	19.24	33.57
Cement	29.01	6.52	-0.96	27.55	26.52
Iron	12.46	17.36	16.11	31.73	29.87
Paint	21.16	35.68	4.11	27.29	29.12
Electrical Goods	14.31	15.83	20.98	20.95	27.16
Timber	-21.64	10.87	35.54	36.12	35.42
Tiles	21.35	8.39	30.98	41.32	-89.09
Sanitaryware	-32.90	39.93	-30.67	15.10	1540.46

Source: Table 3.9

3.23 When table 3.10 is analysed construction sector GSDP has recorded appreciable growth all throughout especially in 2012-13 with 33.57% while it was only 19.24% in the previous year. When the performance of individual items are observed only 'Titles' recorded negative growth rate of (-)89-09% growth rate while all other items performed well. When we examine the table in details in 2010-11, though GSDP of construction sector grew at 24.7%, cement recorded negative growth (-)0.96%. This is shocking because without cement no construction is possible. Then it is left to the taxation department and Government to give a reasonable explanation for this. **Hence the Committee strongly recommends that immediate steps may be taken to observe tax performance of construction sector by plugging all the loop holes. Coordination between check posts, rail routes, port and even Air Cargo (e.g. Italian Marble, Belgium glass etc.) will be necessary to achieve tax compliance.**

Table 3.11. Tax Buoyancy with respect to Construction Sector related Goods

	2008-09	2009-10	2010-11	2011-12	2012-13
Cement	4.29	0.30	-0.04	1.43	0.79
Iron	1.84	0.80	0.65	1.65	0.89
Paint	3.13	1.65	0.17	1.42	0.87
Electrical Goods	2.11	0.73	0.85	1.09	0.81
Timber	-3.20	0.50	1.44	1.88	1.05
Tiles	3.15	0.39	1.25	2.15	-2.65
Sanitaryware	-4.86	1.85	-1.24	0.78	45.88

Source: Table 3.9

Tax Collection from Rubber

3.24 When commodity wise tax collection is examined, rubber is noticed as the 5th largest contributor. Hence, it is found relevant examine the tax potential of rubber sector and tax revenue realized. Rubber ,crop booms in its performance in area, production and productivity during 2012-13. However, price per tone has decelerated slowly in 2012-13. Rubber recorded sustained, sometimes steep increases in its price all throughout until 2012-13. However, Sales tax/VAT revenue realized from rubber had always been less than proportionate to increased value of output.

Table 3.12 : Value of rubber output and VAT

Year	Area (lack h ha)	Production (Lakh tonnes)	Value of Output (Rs. In crore)	Growth Rate of Value of Output	Price (Rs per Tonne)	ST/VAT collected Rs Crore		As % of value of output
2008-09	5.17	7.83	7918	15.74	101120	162	-19.8	2.05
2009-10	5.25	7.45	8566	8.19	114980	196	20.99	2.29
2010-11	5.34	7.71	14650	71.02	190030	298	51.94	2.03
2011-12	5.4	7.89	16415	12.05	208050	397	33.3	2.42
2012-13	5.45	8.00	16542	0.77	19928	490	23.4	2.96

As per the table 3.12, because of the increase in production, inspite of the fall in price, value of output recorded a moderate growth rate 0.77%. This increase in the value of output is not reflected in the tax revenue collected (Rs.490 crore). At the prevailing VAT rate of 5% on rubber, other things being equal, tax revenue collected would have been 827.1 crore. This means that the difference between collectable revenue and actual collection i.e. Rs.337.1 crore is lost by war of tax evasion, tax avoidance and trade diversion. However, tax evasion goes unchecked. It is understood that rubber sheet and latex are smuggled across the border to neighbouring states where tax rate is lower. Therefore, the committee recommends that with a view to checking corruption, tax evasion and trade diversion in the rubber sector steps like tax harmonization (The standardization of tax rates, tax rules and tax definitions throughout neighbouring states), legal action against those who smuggle latex and rubber sheet across the border causing trade diversion and tax avoidance in consultation with the Rubber Board.

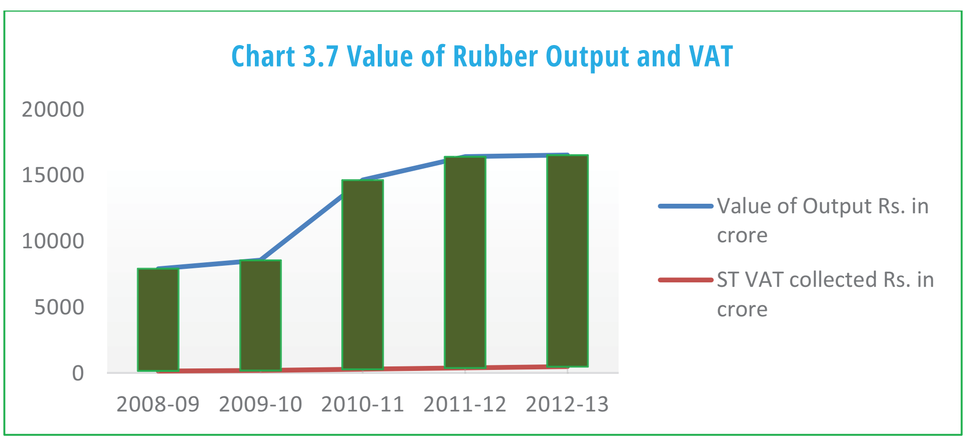


Chart 3.7 gives a clear picture of cleavage between value of rubber output created and the tax revenue realized. **Our finding is that the rate of growth of value of rubber output is not accompanied by commensurate growth in VAT collection**.

Non Tax Revenue

3.25 Non-tax revenues are defined as payments made to the Government for which there is a quid pro quo. Important non-tax sources are all voluntary and requited. In these cases, revenue is a by-product of goods, services or resources that the Government provides. They include revenue from assets, revenue from the sale of goods and services, new or used, and revenue from the sale of licenses and permits for regulated activities. In this context, there are three type of assets from which the Government derives revenues such as a) general services, b) social services and c) economic services. In addition to these, interest receipts and dividends and profits which are not included in the above three heads are also items under non –tax revenue sources. These are also examined along with the other three in the following table.

3.26 Table 3.13 provides data on the non tax revenue contributed by selected sub heads of activity under each major head from 2008-09 to 2012-13

3.27 When Table 3.13 is examined wide fluctuation in annual growth rate of revenue is observed. When overall non-tax revenue recorded a five year average growth rate of 29.6%, general services tops with 47% growth, followed by social services 14.9% and economic services 6.1% growth respectively. What is noteworthy with regard to general services is that 'miscellaneous services' on an average, accounted for 82.2% of the revenue growth under this head. It is thanks to the inclusion of revenue from Lottery under 'miscellaneous' category. Items under social service in Table 3.13 recorded only moderate five year average growth rate of 14.9%. This sector with medical, engineering and university education and public health, labour and employment has vast potential for revenue mobilization. The message that better service delivery through 'better fees and dues payment to Government' has not been taken up by people in Kerala.

Table 3.13 Structure of own Non tax Revenue

	2008-09	2009-10	2010-11	2011-12	2012-13	Average GR over 5 yrs
Interest receipts	84	152	171	136	172	
Growth Rate (Interest Receipts)	20.1	82.23	12.49	-20.4	26.5	24.2
Dividend and profit	34	27	75	67	48	
Growth Rate (Interest Receipts)	(-)5.1	(-)18.63	176.57	(-)10.63	(-)28.4	22.8
Non tax revenue	1559.29	1852.22	1930.79	2592.18	4198.51	
Growth Rate	28.91	18.79	4.24	34.25	61.97	29.63
Buoyancy	1.83	1.30	0.31	2.05	4.61	
General services	817.74	1003.89	952.33	1624.53	3105.98	
Growth Rate	55.44	22.76	-5.14	70.58	91.19	47.0
Buoyancy	3.51	1.58	-0.38	4.22	6.78	
Police	57.99	35.71	24.38	23.54	26.65	
Other Administrative services	88.22	99.46	133.66	146.79	164.66	
Miscelleneous general services	628.01	817.27	741.74	1375.17	2813.57	82.2
Others	43.52	51.45	52.55	79.03	101.1	
Social service	184.99	187.47	231.22	271.55	291.07	
Growth Rate	25.17	1.34	23.34	17.44	7.19	14.9
Buoyancy	1.59	0.09	1.70	1.04	0.53	
Education, sports and culture	130.24	130.61	150.83	164.96	182.77	
Medical and public health	38.58	34.43	63.45	65.19	86.89	
Labour and employment	6.28	11.06	9	35.76	11.97	
Others	9.89	11.37	7.94	5.64	9.44	
Economic services	439.34	481.07	500.3	492.16	580.89	
Growth Rate	0.45	9.50	4.00	-1.63	18.03	6.07
Buoyancy	0.03	0.66	0.29	-0.10	1.34	
Forestry and wild life	223.71	272.8	274.1	220.52	237.33	
Cooporation	42.01	49.38	59.1	68.32	99.98	
Non-ferrous mining and	40.32	39.26	45.79	47.9	53.87	
Roads and bridges	33.17	46.12	46	29.71	45.47	
Others	100.13	73.51	75.31	125.71	144.24	

Source: finance Accounts, GoK

3.28 Economic Services in Table 3.13 stands out with its wide fluctuations and deplorable five year average growth rate of 6%. Forestry and wild life seemed to be the single largest contributor to this sector. Since 'economic services' is directly linked to commodity producing sectors, declining revenue contribution from this sector indicates an ailing economy. **Therefore the committee strongly recommend the Government to take serious measures to revamp crop husbandry, animal husbandry fisheries, village and small scale industries and industries to safe guard commodity producing sectors and mobilize more non tax revenue.**

Table 3.14 Percentage Distribution of SoNTR (Major Heads)

	2008-09	2009-10	2010-11	2011-12	2012-13
General Services Total	52.45	54.21	49.31	62.67	73.98
Social Services Total	11.86	10.12	11.97	10.48	6.93
Economic Services Total	28.18	25.98	25.90	18.99	13.83
Interest Receipts	5.36	8.23	8.87	5.26	4.1
Dividends and Profits	2.15	0.97	1.27	0.78	1.14
Total	100	100	100	100	100

Source : Table 3.13

3.29 Table 3.14 gives account of the percentage distribution of states' own non tax revenue among major heads. General services, while contributed 52.45% of the SONTR, improved its position to 73.98% in 2012-13. Improved contribution from sub-heads like police, jails, miscellaneous general services including Lottery etc., accounted for this commendable revenue growth. Social services reduced its share from 11.86% in 2008-09 to 6.9% in 2012-13. Similarly, economic services share declined from 28.18% in 2008-09 to 13.8% in 2012-13. Contribution by interest receipts, dividends and profits declined from 5.36% to 4.1% and 2.15% to 1.14% respectively. Sheer laxity and negligence on the part of the Governmental machinery may be held responsible for the poor performance of these sectors. The committee recommends that there should be inter departmental co-ordination and supervision by senior officers, regular discussion at officer level, frequent monitoring by senior officers, eradication of red tape, monthly appraisal of each department by the concerned Minister, follow up and rigorous action against erring officers etc., are needed to overcome the bottle necks in tax revenue mobilization.

3.30 Table 3.15 indicates gross and net revenue from Lottery, Lottery expenditure and its annual growth and net lottery revenue as percentage of lottery expenditure. A researcher would be taken aback to see that when gross revenue improved from Rs.481 crore in 2008-

09 to Rs.2673.77 crore in 2012-13, lottery expenditure increased from Rs.372 crore to Rs.2083 crore. Between 2010-11 and 2012-13 lottery expenditure grew by 131% whereas net lottery revenue as percentage of lottery expenditure declined from 42.25% to 28.4%. Plausible explanation for this anomaly may be sought in the 'never mind' attitude of the bureaucrats and their murky relationship with the vested interest group politicians.

Table3.15 Revenue from Lottery

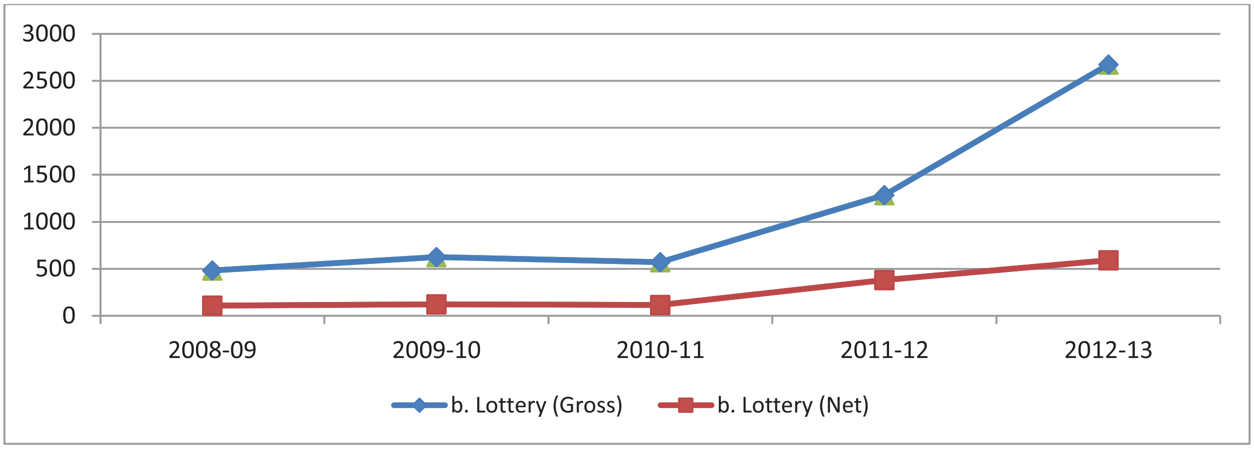
	2008-09	2009-10	2010-11	2011-12	2012-13
b. Lottery (Gross)	481	624	571	1282.74	2673.77
b. Lottery (Net)	109	121	115	381	591
Lottery Expenditure	372	503 (35.21)	457 (-9.1)	902 (97.3)	2083 (131.00)
Net Lottery Revenue as a percent of Lottery Expenditure	29.30	24.12	25.18	42.25	28.39

Source: Finance Accounts, N B: Given in brackets is growth rate of lottery expenditure.

3.31 Comptroller and Auditor General of India in its report on Revenue receipts for the year 2012 has pointed out "system defect" for this abnormal situation. These include (a) non-utilisation of barcode/secret code system (b) absence of validation controls in lottery information management system (LIMS)(c) software certification process is still incomplete due to negligence (d) mistakes in publication of prize winning lottery ticket (e) repeated winning of prizes by persons from particular addresses and (f) lack of adequate safeguards in handling of cash. In this juncture, in order to avoid revenue loss to the Government, **the committee along with CAG, recommends that a time frame for e-payment may be fixed and adequate security measures and necessary facilities may be provided till full-fledged e-payment is established in the department.**

3.32 As per the chart 3.8 , Lottery revenue grew from Rs.481 crore in 2008-09 to 2673.77 crore in 2012-13. However, net revenue as well as tax revenue contributed by lottery did not make a proportionate contribution to state ex-chequer (CAG 2013). Irregularity and inefficiency in the lottery administration is clear from the sky-rocketing increase in the expenditure on lottery (131%).

Chart 3.8 Revenue from Lottery (Gross and Net)



Source: Table 3.15

3.16 Gross Collection of Selected taxes and duties Vis-à-vis Budget Estimate and Cost of collection on (Rs. in cores)

Sl. No	Head of revenue	Year	Budget Estimate	Collection	Expenditure on collection of revenue	Percentage of expenditure to gross collection	All India average percentage of expenditure to gross collection
1	Tax on sales, trade etc.	2008-09	10616.39	11377.13	102.59	0.9	0.88
		2009-10	12733.94	12770.89	126.01	0.99	0.96
		2010-11	15125.69	15833.11	115.61	0.73	0.75
		2011-12	19427.9	18938.83	166.55	0.88	0.83
		2012-13	23450.52	22511.09	162.05	0.72	Not available
2	Stamps (non judicial) and registration fees	2008-09	2320.46	1931.75	82.97	4.3	2.77
		2009-10	2630.3	1812.89	100.7	5.55	2.47
		2010-11	2095.43	2477.19	101.56	4.1	1.6
		2011-12	3148.42	2906.9	144.85	4.98	1.89
		2012-13	3775.71	2862.06	128.73	4.5	Not available
3	State excise	2008-09	1299.85	1397.64	72.84	5.21	3.66
		2009-10	1440.52	1514.81	83.31	5.5	3.64
		2010-11	1836.21	1699.54	92.51	5.44	3.05
		2011-12	2059.05	1883.18	144.69	7.68	2.98
		2012-13	2550.65	2313.95	146.81	6.34	Not available
4	Taxes on vehicles	2008-09	1008.64	937.45	30.05	3.21	2.93
		2009-10	958.63	1131.1	33.96	3	3.07
		2010-11	1301.88	1331.37	35.55	2.67	3.71
		2011-12	1410.73	1587.13	53.26	3.36	2.96
		2012-13	1694.49	1924.62	58.3	3.03	Not available

Source: C&AG Report on State Finances

3.33 Table 3.16 elucidates the variation between budget estimate and actual collection etc. of selected taxes and duties. Between 2008-09 and 2012-13, budget expectation of revenue from tax on sales trade etc., fell short revenue realized. But in 2011-12 and 2012-13 revenue realization went short of budget expectation. CAG 2013 found the following (a) there was no separate sub head for classifying/crediting of VAT receipts received from works con tractors (b) form 10C showing the details of works contracts awarded was not furnished to CTD by PSUs/govt. departments and by private sector (c) 484 works contractors were not registered under the KVAT Act and (d) tax evasion by work contractors. The plausible explanation for this lies on the inefficient tax administration along with corruption.

3.34 In the case of stamps and registration fees, collection fell short of budget expectation except in 2010-11. A study by audit department found under valuation of 820 sale deeds by builders resulted in short levy of stamp duty and registration fee of Rs.13.88 crore and incorrect levy stamp duty. In the case of state excise, collection fell short budget expectation continuously from 2010-11 onwards. Tax revenue from vehicles went ahead of budget expectation in four years including 2012-13 when actual collection was 13.6% higher than the budget expectation. Cost of collection of revenue is lowest under sales /trade tax and highest under excise. Average cost of collection of revenue in each sector is higher in Kerala compared with all India in each year under consideration.

Collection of Arrears – Case Studies

3.35 When the state is facing serious fiscal crisis, arrear position revealed through Budget in Brief 2014-15 (Table A-52) became a bone of contention. Total arrear reported in the Table is Rs.32526.96 crore of which Rs 23026.88 crore is not under any sort of dispute. When the Government came forward with new tax and non tax proposals to tide over the fiscal crisis in the month of August, shortly within six months of the submission of the budget for 2014-15, issue of arrear came to the fore as a heated topic of debate and discussion. It is at this juncture, that the committee whole heartedly decided to go on a fact finding search on the huge arrear reported. The importance of such an effort is that it will shed light on the departments, people and situations which have paved the way for such mounting arrears. As reported by CAG, we found that total arrear to be collected by the Commercial Taxes department is only Rs.6612 crore, whereas Budget in Brief Table mentioned above shows it as Rs 23002.20 crore. Therefore, from the estimated Rs 32526 crore we have to deduced Rs.23002 and add Rs.6612 crore which is equal to Rs.16136 crore. This is the real position which may be incorporated in all the documents Seeing this inconsistence in the figures, the committee decided to undertake a case study of seven departments covered by CAG and three more additional departments.

Table 3.17 Departments (selected) wise Arrears with and without disputes – Collectable and on stay (Rs in crore)

Department	Period	Amount under Dispute	Amount not under dispute	Total Amount	Rank
Commercial taxes	31/3/2013	4710.97 (70.38)	1981.82 (29.10)	6692.79* (100)	1
Electrical Inspectorate	31/3/2013	0	5450.71 (100)	5450.71 (100)	2
Forestry and Wild Life	31/3/2013	97.36 (50.1)	97.07 (49.9)	194.43 (100)	3
Police	31/3/2013	74.91 (47.99)	81.18 (52.01)	156.09 (100)	4
Local fund Audit	31/3/2013	0	25.88 (100)	25.88 (100)	5
Stationery	31/3/2013	0	12.31 (100)	12.31 (100)	6
Port	31/3/2014	2.29 (82.22)	0.48 (17.78)	2.77 (100)	7
Excise	31/3/2013	0.38 (17.76)	1.76 (82.24)	2.14 (100)	8
Labour and skills	31/3/2013	0	0.55 (100)	0.55 (100)	9
Mining and Geology	31/3/2014	0.44 (100)	0	0.44 (100)	10
Total		**4826.35 (38.90)**	**7651.76 (62.00)**	**12538.04** (100)**	

Source: Data from Concerned Departments Note: Values in Bracket shows the percentage distribution of the total amount

*(as per the data given by the Department of Commercial Taxes arrears is Rs.6678.25 crore only.The discrepancy of Rs.14.54 is noted. ** due to the discrepancy of Commercial taxes)

Methodology

3.36 Out of the 37 major Government departments 10 were selected for case study. Arrear of the 10- case study departments is about 77% of the total estimated arrear of 16136 crore. The study intended to examine arrear position, measures adopted by each department to collect it in a time bound manner, percentage collection of each department and bottle-necks in the path of collection etc.

Results

3.37 Table 3.17 provides a summary picture of the arrear position of the ten departments identified for the case study. Commercial taxes department stands first with Rs.6692.79 crore as arrear of which 70.4% is under dispute while the remaining part is collectable immediately, if necessary steps are taken both by the department and the Government.. Electrical Inspectorate comes second with Rs 5450.71 crore all of which is collectable. Discussion with regard to the performance of each department will be done in the order of their arrear position. Thus, when these ten departments together report arrear amount of 12538.04 crore, 38.97% of which is under stay, the rest i.e. 61.02% is collectable. Let us examine them in detail.

1. Commercial Taxes

3.38 Table 3.18 makes a Revenue district-wise analysis of cases with collectable arrears of one crore and above when Ernakulam ranks first in the arrear amount to be collected, Kollam comes first in the total number of cases (189) with collectable amount above Rs. one crore. Most of those who hold arrears in Kollam and Ernakulam are corporate. As the state is heading towards an impending fiscal crisis, commercial taxes department, as per the suggestion of the Government has taken series of steps to augment revenue collection. These include the following suggestions:

- Zonal meetings of the assessing authorities and the intelligence wing.
- Reviewing the performance of each officer
- Disciplinary action against erring officers

- Fixing target for additional demand creation by assessing authorities and close monitoring.
- Preparation of majour stay cases by Advocate General
- The stays granted by Appellate Tribunal and Deputy Commissioner (appeals) vacated.
- The monthly quota of disposal fixed for Deputy Commissioner (Appeals) should be raised from 60 to 75 per month.
- The Inspecting Assistant Commissioners should be directed to intensify the Revenue Recovery proceedings and the same should be closely monitored. District Collectors be apprised of the major pending revenue recovery cases and taction may be initiated.

Table 3.18: District wise cases with collectable Arrears of Rs. One crore and above

Districts	Grand total amount(collectable and stay)	District wise Rank as per the collectable and stay amount	Number of cases	District wise rank of cases
EKM	1139.51	1	69	2
KLM	370.38	2	189	1
TVM	124.81	3	12	6
PGT	103.33	4	9	9
MTY*	85.58	5	25	3
KSD	35.91	6	18	4
PTA	34.48	7	3	13
TSR	33.36	8	10	8
KNR	17.42	9	5	10
KKD	17.4	10	13	5
KTM	14.26	11	10	7
WYD	9.59	12	4	12
MPM	5.38	13	2	15
ALP	3.95	14	4	11
IDKY	2.42	15	3	14
State Total	1997.78	--	--	--

Source: Primary data Mattanchery is treated as a district for tax purposes along with Ernakulam

3.39 Out of the total tax revenue 80-85% comes from around 3000 wholesale dealers. Remaining 15 to 20% comes from registered shops and establishments. Out of them only 3.85 lakhs got registered in line with the Shops and Establishments Act (CAG). Non registration is one of the methods practiced by dealers to evade tax. As per KVAT Act 2003, every dealer with annual turnover not less than Rs.5 lakhs and casual dealers, industrial units, dealers registered under the CST Act, all contractors irrespective of the turn over shall get himself registered. There are around 20 lakhs shops and establishments in Kerala as per the data provided by the Bureau of Economics and Statistics. Out of which only 3.85 lakhs got registered. In this context the Committee recommends that immediate registration drive should be under taken with the help of Department of employment and skill along with surprise physical inspection of shops that are in the shadow of under reporting. The Committee also recommends that turnover level of registration should be reduced from Rs. 10 lakhs to Rs. 5 lakhs as in the case of other states.

3.40 It is found that under-reporting of sales revenue is an important method resorted to avoid tax compliance by traders. Further, they submit input tax reimbursement proposals and use unhealthy means to get it done. The committee feels that irrespective of the size of the turnover, whatever tax is collected from the consumer should be passed on to the Government. People give taxes, not to the trader, but to the Government. a).**Therefore the committee recommends that rigorous measures should be taken to prevent tax leakage between the consumer and the Government and to allow input tax reimbursement only after surprise checking of the sales turnover of the trader.** In order to bring them under tight monitoring replace the present practice of inspecting 0.01% shops by 10% of the total shops. b) **Therefore the committee recommended frequent inspection by vigilance squad to detect cases of under reporting of sales followed by rigorous punishment to the offenders along with charging penal rates which would work as an eye opener to similar offenders.**

3.41 It is also found that whole sale dealers are the king-pins of tax revenue. If their consignments are properly inspected at the check posts, tax evasion can be overly averted. However, it is understood that paid informants are installed in all the major check posts day and night who have intimate connection with some officers. At the moment the squad takes the decision for a surprise inspection, the news will reach the check posts and they will take necessary steps to avert any major set-back to their favoured customers. Thus, there is connivance between check post officials and the big dealers. These officials allow the business law-breakers to escape scot-free. Instead, for the sake of inspection, they harass the small-scale dealers. Better coordination between motor vehicles department and commercial taxes department is needed for integrated check post operation. Sufficient parking bays and yards have to be constructed and the verification process has to be modernized by installing electronic weigh bridges, video cameras, and computers. Check posts should be equipped with cyber connectivity. Proper monitoring of taxable and tax free goods should be possible. Data should be made available to the headquarters and to the units in real time. All these measures will make our check posts “computerized integrated check posts” where foul play is difficult. **Hence the committee recommends that officers with clean image and efficiency must be posted in the major check posts and modernization of check posts and taxes department with cyber forensic lab, computer cell with maximum server capacity and software independent of any outside interference should be introduced.**

3.42 Table 3.19 elucidates the particulars regarding total collectable arrear and its district wise distribution. Ernakulam district with Mattanchery shares 41.4% (Rs.363.1 crore) of the arrear comes first, while Kollam with 29.12% share (Rs.255.43 crore) comes second followed by Palakkad and Thiruvananthapuram. In the case of total amount under stay, the same pattern is followed. Out of the total Rs. 1120.65 crore under stay (Rs.862.02 (79.92%)) is accounted for Ernakulam revenue districts Mattanchery together while Kollam keeps the second position with Rs.114.95 core (10.26%) under stay followed by Thiruvananthapuram. What follows is that the industrial and commercial hubs of Kerala, Ernakulam and Kollam have also become the arrear hub of the State. Therefore, the committee recommends that if arrear collection is to be augmented it should be focused on district like Ernakulam, Kollam, Thiruvananthapuram and Palakkad.

Table 3.19: District wise collectable arrear and stay (cases with Rs. 1 crore and above) Rs. in crore

Districts	Collectable Arrear	Amount as % to total collectable amount	Amount under stay	% to total stay amount	Grand total amount(collect able and stay)
TVM	41.87	4.77	82.94	7.40	124.81
KLM	255.43	29.12	114.95	10.26	370.38
PTA	8.01	0.91	26.47	2.36	34.48
ALP	3.95	0.45	0	0.00	3.95
KTM	8.71	0.99	5.55	0.50	14.26
IDKY	1.33	0.15	1.09	0.10	2.42
EKM	303.37	34.59	836.14	74.61	1139.51
MTY	59.7	6.81	25.88	2.31	85.58
TSR	33.36	3.80	0	0.00	33.36
PGT	95.12	10.84	8.21	0.73	103.33
MPM	5.38	0.61	0	0.00	5.38
KKD	0	0.00	17.4	1.55	17.4
WYD	9.59	1.09	0	0.00	9.59
KNR	15.4	1.76	2.02	0.18	17.42
KSD	35.91	4.09	0	0.00	35.91
Total	877.13	100.00	1120.65	100.00	1997.78

Source: Primary data

2. Electrical Inspectorate

3.43 Electrical Inspectorate comes second in arrear and the whole of which is collectable. The case is examined below.Total arrear pending is Rs. 5450.7 crore which consists of:

1. Kerala State Electricity Board Ltd. Rs.5420.85 crore
2. Thrissur Corporation Rs. 26.64 crore
3. Private and others Rs. 3.21 crore

3.44 Table 3.20. analyses the case of electrical Inspectorate with arrear amount of Rs.5450.7 crore. Though the entire amount is collectable, reconciliation between the Government and electricity board is essential. Every consumer pays a duty of 10% along with electricity charges which should be given to the Government after deducting 1% as distribution cost. It is this due share of Government which accumulated to the tune of Rs.5450.7 crore with 18% interest from 2002-03 to 2012-13. It is felt that since the Power Secretary of Government himself is ex-officio chairman to Electricity Board most often, interest of the Electricity Board is protected against the interest of the electrical inspectorate

(Government). Hence the Committee recommends that the power secretary should be directed by the Government to settle arrears due to Government every year.

Table 3.20 Electrical Inspectorate - Amount of revenue arrears to be realised (Rs in crore)

Years	Amount under Dispute	Amount not under dispute	Total Amount
Up to 2001-02	0	1330.54	1330.54
2002-03	0	100.16	100.16
2003-04	0	52.45	52.45
2004-05	0	266.13	266.13
2005-06	0	273.91	273.91
2006-07	0	460.65	460.65
2007-08	0	395.95	395.95
2008-09	0	531.97	531.97
2009-10	0	490.48	490.48
2010-11	0	530.34	530.34
2011-12	0	510.03	510.03
2012-13	0	508.10	508.10
Total	0	5450.71	5450.71

3.45 As per G O (M.S) 36/08/PD dtd. 19.09.2008 Government have decided to constitute a committee on netting of dues. In the meeting held on 23.03.09 of the committee constituted for reconciliation purpose, it was decided to reconcile the amount of duty payable by the board as on 31.3.08. But final Government orders on netting off is yet to be issued for want of reconciled figures. This is because

1. KSEB has presented to the Chief Electrical Inspector the accounts only upto 3/2011 that too after protracted correspondence.
2. Though KSEB was informed by Electrical Inspectorate department every quarter, of the arrears in finalization of accounts, no remedial measures had been taken. As a result the exact amount of duty could not be assessed. **Hence the committee recommends that process of reconciliation should be completed at the earliest with the initiative of the Power Secretary and should net off the dues.**

2.a. Thrissur Corporation

Table 3.21. Arrears of Thrissur Corporation (Rs. in crore)

Years	Amount under Dispute	Amount not under dispute	Total Amount
Upto 1996-97	0.96	3.58	4.54
1997-98	0.36	0.98	1.34
1998-99	0.01	0.03	0.04
1999-2000	0.10	0.23	0.32
2000-01	0.09	0.20	0.30
2001-02	1.34	2.66	4.00
2002-03	1.10	1.99	3.09
2003-04	0.89	1.44	2.33
2004-05	0.29	0.42	0.72
2005-06	0.61	0.77	1.38
2006-07	0.16	0.18	0.34
2007-08	0.09	0.08	0.17
2008-09	0.93	0.67	1.60
2009-10	0.67	0.36	1.03
2010-11	0.99	0.36	1.34
2011-12	2.83	0.51	3.34
2012-13	0.76	0.00	0.76
Total	12.20	14.44	26.65

Source: Inspectorate of Electricity

3.46 As Table 3.21 illustrates Thrissur Corporation with dues of 26.65 crore to be paid to the Government is a long pending case to be reckoned with. Thrissur Corporation is a licensee of KSEB (Thrissur Municipality bought it in 1974 from M/s. Chandri and Company) which distributes electricity within its permitted coverage area. If its arrear was Rs.4.5 crore upto 1996-97, it has accumulated to Rs.26.6 crore on account of the sheer negligence and 'never mind' attitude of the Corporation.As per Government order 1994, line loss is calculated as 8% whereas Thrissur Corporation demands 14%. The Corporation has been using political pressure of not to pay the arrear to the Government. It is the responsibility of the corporation to forward the electricity duty collected along with the electricity bill from the people to the Government. **The committee feels that fiscal interest of the state is far above the vested political interests and strongly recommends to get the dues cleared through rigorous measures.**

3. Forestry and Wild Life

3.47 Among the respondent departments, Forestry comes third with Rs.194.4 crore as arrears. In addition to this, public sector units together keep an arrear of Rs.239.4crore. Table 3.22 examines the arrear position of the Forest Department out of which 50.1% is under dispute while the remaining 49.9% is collectable. Arrear under dispute include arrears of dis-functioning industries long back like Grasim Industries or Mavoor Rions. Such cases may be finalized through arbitration process.

Table 3.22.Forest Department - Tax and Non tax revenue arrears other than PSUs Rs in Crore

Years	Amount under Dispute	Amount not under dispute	Total Amount
2000-01	3.84	2.62	6.46
2001-02	1.78	1.46	3.25
2002-03	2.13	0.78	2.91
2003-04	2.28	0.64	2.92
2004-05	23.46	0.35	23.81
2005-06	3.82	10.41	14.23
2006-07	23.54	33.07	56.61
2007-08	5.36	8.63	13.99
2008-09	6.06	8.09	14.15
2009-10	7.64	6.06	13.70
2010-11	9.41	8.81	18.22
2011-12	7.61	6.34	13.95
2012-13	0.44	9.81	10.25
Total	97.36	97.07	194.43

Source: Department of forestry and Wildlife

3.48 Forest department would not have much arrear if public sector units were prompt enough to remit the lease rent due to it. Table 3.23 describes the situation. Plantation Corporation of Kerala is the biggest defaulter with Rs.126.5 crore followed by Kerala Electricity Board with Rs.56.4 crore. Lease rent was fixed way back in early 1970's at an abysmal low rate of Rs.1300 per hectare. Subject Committee and Public Accounts Committee (September 2014) have recommended to raise it to Rs. 10,000 per hectare. But so far it is not effected. **Hence the Committee strongly recommends to take necessary**

steps to collect the existing arrears and to raise the lease rent per hectare from Rs.1300 to Rs.10,000.

Table 3.23. Due to Forest Department from Public Sector Units
(Rs. in crore)

Sl No.	Departments	Total up to 2012-13
1	Kerala State Electricity Board	56.42
2	Kerala Forest Development Corp.	5.66
3	Plantation Corporation of Kerala	126.50
4	State Farming Corporation of Kerala	45.55
5	Rehabilitation Plantation Ltd	0.01
6	Oil Palm India (public sector)	0.00
7	Travancore Plywood Industries (liquidated)	0.08
8	Kerala State Wood Industries Nilambur	1.05
9	Hindustan Newsprint Ltd	2.63
10	Grassim Industries (liquidate)	1.02
11	KIP	0.03
12	Forest Industries Travancore	0.28
13	Indian Oil Corporation Ltd	0.00
14	Cochin International Airport Ltd.	0.01
15	Kerala Forest Research Institute	0.00
16	Executive Engineer, Irrigation, Malampuzha	0.00
17	Executive Engineer, Forest Wing	0.01
18	Travancore Cement, Kottayam	0.00
19	Others	0.12
	Total	239.34

4.Police

3.49 Police department with Rs.156 crore arrear reflects the story of poor financial discipline of police force. The following table tells this.

Table 3.26. Police Department - Tax and Non tax arrears (Rs in crore)

Years	Amount under Dispute	Amount not under dispute	Total Amount
2001-02	0.12		0.12
2002-03	0.4		0.4
2003-04	0.5		0.5
2004-05	0.18		0.18
2005-06	2.99		2.99
2006-07	18.14	2.91	21.05
2007-08	7.24	3.85	11.09
2008-09	8.12	9.58	17.7
2009-10	6.64	5.43	12.07
2010-11	7.5	12.48	19.98
2011-12	9.5	24.19	33.69
2012-13	13.59	22.28	35.87
Total	74.92	80.72	155.64

Source: Data from Police Department

3.50 As per table 3.24 out of the total arrear of Rs.156 crore, 48% is under dispute and the remaining 51.7% is collectable. When amount under dispute has a long history starting from 2001-02 arrear that can be collectable has a shorter history starting from 2006-07. Arrear is due from

- Southern Railways: this is the bill of police personnel deployed to railways which is as per rule equally shared by the State Government and the railway. But the railway authority continues the practice of deducting dues of local bodies, PWD etc., from their share payable to police department.
- KSEB is another client with arrear which arises from provision of Police guard to important KSEB installation. Other major sectors of arrear are Central Administrative Tribunal, Debt Recovery Tribunal Welfare Boards, Election Commission, Temples, Passport /Airport office etc., where police personnel are posted. Hence the Committee recommends the Police Department to speed up the recovery of the arrears.

5. Local Fund Department

Table 3.25. Local Fund Department - Tax and Non tax arrears (cumulative) Rs in crore

Years	Amount under Dispute	Amount not under dispute	Total Amount
2000-01	0	6.10	6.10
2001-02	0	7.15	7.15
2002-03	0	7.32	7.32
2003-04	0	8.90	8.90
2004-05	0	11.10	11.10
2005-06	0	15.36	15.36
2006-07	0	16.35	16.35
2007-08	0	17.49	17.49
2008-09	0	21.76	21.76
2009-10	0	21.38	21.38
2010-11	0	21.88	21.88
2011-12	0	25.54	25.54
2012-13	0	25.88	25.88

Source : LFAD

3.51 As per Table 3.25 Local Fund Department has to collect cumulative arrear of Rs.25.88 crore. Local Fund Audit wing has to audit institution like Universities, Housing Board, Orphanages, Local Self Government Institutions, temples coming under the Hindu religious charitable Establishment Act. etc., Audit of LSGIs is freed from payment from 2009 onwards with outstanding arrear of Rs.117 crore. When prestigious institutions delay payment of Audit fee, orphanages like institutions promptly pay because their grant will be released only after getting the Audit Report. **Hence the Committee recommends that issue of audited certificate is given only after getting the fee from concerned institutions.**

5. Stationery Department

3.52 Table 3.26 analyses the arrear position of stationary department. All its arrears are collectable, if there is willingness. Through Entrance examinations, Board examination etc., collect examination fee, they are not paying the dues to the Stationery Department Such supplies should be stopped or priced. The committee recommends that In the case of printing work, printed matter should be released only on full payment.

Table 3.26. Stationery Department - Arrears of revenue (Rs in Crore)

Years	Amount under Dispute	Amount not under dispute	Total Amount
upto 1999-2000	0	5.88	5.88
2000-01	0	0.28	0.28
2001-02	0	0.47	0.47
2002-03	0	0.53	0.53
2003-04	0	0.10	0.10
2004-05	0	0.86	0.86
2005-06	0	0.25	0.25
2006-07	0	0.09	0.09
2007-08	0	0.49	0.49
2008-09	0	0.63	0.63
2009-10	0	0.68	0.68
2010-11	0	0.05	0.05
2011-12	0	0.64	0.64
2012-13	0	1.34	1.34
Total	0	12.31	12.31

Source: Data from Stationery Department

7.Port Department

3.53 Department of Port with an arrear of Rs.2.71 crore is a classic example of poor administration (Table 3.27). Out of the total arrear of Rs. 2.7 crore 82% is committed by two private companies who borrowed money for the construction of two tugs. When tugs were ready, because of poor quality, they were not accepted by Indian Registrar of Shipping. Thus, from 2009-10 onwards Rs.2.22 crore became an arrear. This would not have been happening provided the port officers were vigilant at the time of supervision of ship building. Another amount of arrear of 48 lakhs is committed by port users, godown owners, ship users, ship owners etc. Since Kerala has 17 ports with trade and industrial importance with 590 k.m. sea coast, shipping may be accorded high priority considering the cost of goods transportation in Kerala. **Hence the committee recommends to take urgent steps to recover the amount due in a time bound manner**

Table 3.27. Port - Arrears of revenue
(Rs. in crore)

Years	Amount under Dispute	Amount not under dispute	Total Amount
2001-02	0.00	0.07	0.07
2002-03	0.00	0.01	0.01
2003-04	0.00	0.00	0.00
2004-05	0.00	0.00	0.00
2005-06	0.00	0.00	0.00
2006-07	0.00	0.00	0.00
2007-08	0.00	0.00	0.00
2008-09	0.00	0.00	0.00
2009-10	2.22	0.13	2.35
2010-11	0.00	0.01	0.01
2011-12	0.00	0.01	0.01
2012-13	0.00	0.14	0.14
2013-14	0.00	0.10	0.10
Total	2.22	0.48	2.71

Source: Data from Ports Department

8. Commissionarate of Excise

Table 3.28.Commissionarate of Excise –
Arrears of revenue pending collection (Rs. In crore)

Years	Amount under Dispute	Amount not under dispute	Total Amount
upto 2000-01	0.32	*1.75*	2.07
2001-02	0.01	0.01	0.02
2002-03	0.01	0.00	0.01
2003-04	0.00	0.00	0.00
2004-05	0.00	0.00	0.00
2005-06	0.00	0.00	0.00
2006-07	0.00	0.00	0.00
2007-08	0.00	0.00	0.00
2008-09	0.02	0.00	0.02
2009-10	0.01	0.00	0.01
2010-11	0.00	0.00	0.00
2011-12	0.00	0.00	0.00
2012-13	0.00	0.00	0.00
Total	0.38	1.76	2.14

Source: Data from Commissionarate of Excise

3.54 Table 3.28 examines the arrear position of excise department. Out of the Rs. 2.14 crore arrear 17.7% is under dispute while 82.3 per cent is collectable. In 55 cases bought-in-land at one Rupee per hectare, if sold at the present market value, would fetch Rs. 85 crore. Hence the Committee recommends that instead of introducing amnesty scheme, attached bought-in-land should be auctioned after clearing legal procedures.

9. Labour and Skills Department

3.55 Table 3.29 elucidates the case of Labour department with Rs.1.64 crore arrear, while no amount is under dispute. This arrear is accounted for by shops and establishments, which have to renew registration every year. When some shop or establishment is registered with LSGIs, it is mandatory that information is passed on to the Labour department which seldom happens. It is this discrepancy which causes the growth of arrears. Huge number of shops and establishments are working without registration in

Table 3.29: Labour Department- Arrears
(Rs. In lakhs)

Years	Amount under Dispute	Amount not under dispute	Total Amount
2000-01	0	0.03	0.03
2001-02	0	0.04	0.04
2002-03	0	0.04	0.04
2003-04	0	0.04	0.04
2004-05	0	0.04	0.04
2005-06	0	0.05	0.05
2006-07	0	0.06	0.06
2007-08	0	0.07	0.07
2008-09	0	0.09	0.09
2009-10	0	0.19	0.19
2010-11	0	0.19	0.19
2011-12	0	0.27	0.27
2012-13	0	0.55	0.55
Total	0	1.64	1.64

Source: Data from **Labour and Skills Department**

Kerala, hence the Government does not have any idea about such institutions and they use this opportunity for eroding taxes. Hence the Committee recommends that the

Government to take immediate steps to transfer the mandatory information collected by LSGI's to Labour Department in order to avoid mounting arrears.

10. Mining and Geology Department

Table 3.30. Mining and Geology Department- Arrears under dispute and collectable (Rs. In Crore)

Years	Amount under Dispute	Amount not under dispute	Total Amount
upto 1984-2000	0.07	0	0.07
2000-01	0.08	0	0.08
2001-02	0.00	0	0.00
2002-03	0.00	0	0.00
2003-04	0.00	0	0.00
2004-05	0.01	0	0.01
2005-06	0.01	0	0.01
2006-07	0.00	0	0.00
2007-08	0.00	0	0.00
2008-09	0.00	0	0.00
2009-10	0.05	0	0.05
2010-11	0.00	0	0.00
2011-12	0.00	0	0.00
2012-13	0.17	0	0.17
2013-14	0.05	0.00	0.05
Total	0.44	0.00	0.44

Source: Data from Mining and Geology Department

3.56 Table 3.30 describes the arrear position of Mining and Geology department. Out of the arrear of Rs. 0.44 crore 99.7% is under dispute. One clear example is quarrying in the revenue land. Thahasildar can give short term permit for 250 tons at a time for own use. But misusing this pass, many hundred times of the permitted quantity may be mined on a commercial basis. Thus, Government loses revenue on the one hand and the environment is made sensitive on the other. Hence the committee recommends that quarries in the revenue land should be leased out only on auction, after receiving tenders online and lorries that carry quarry rock, M Sand etc., should be given only electronic pass which is canceled after one use.

4

Structure of Expenditure

4.1 In this chapter we examine the parameters and major items of expenditure such as salary to Government staff, teaching grant to private aided educational institutions, pension, subsides, social security schemes, interest and capital expenditure. The chapter also presents suggestions for restructuring expenditure.

Parameters of Expenditure

4.2 The total expenditure of the State Government consists of revenue and capital which includes that of loans and advances. The total expenditure is also classified into plan and non-plan. The trend in total expenditure and the parameters are given in Table 4.1. The trend in the growth rate of expenditure shows that the year 2012-13 witnessed a growth of 16.4 percent. The spurt in the growth of total expenditure during 2011-12 was attributed to the increase in expenditure on revision of salary and pension. The TE/GSDP ratio indicates that the growth of expenditure was high in 2012-13 compared to previous years. The RR/TE ratio registered a fall, indicating a fall in revenue receipts compared to total expenditure.

4.3 Revenue expenditure is incurred to maintain the current level of services and payment for past obligations and as such, does not result in any addition to the State's infrastructure or capital stock. The trend in revenue expenditure and its break up into non-plan revenue expenditure (NPRE) and plan revenue expenditure (PRE) is given in Table 4.2. A notable aspect is that the revenue expenditure accounted for around 90 percent of the total expenditure during the period between 2008-09 and 2012-13. The share of non-plan revenue expenditure to total expenditure was 79 percent. It is disturbing to note that the non-plan expenditure

Table 4.1
Total Expenditure- Basic parameters

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Total Expenditure(TE) (Rs crore)	27259	30904	34068	38791	50896	59228
Growth Rate	23.5	13.4	10.2	13.9	31.2	16.4
TE/GSDP Ratio (Percent)	15.6	15.2	14.7	14.4	16.1	16.3
Revenue Receipts(RR)/TE ratio (Percent)	77.4	79.3	76.6	79.9	74.7	74.5
Buoyancy of Total Expenditure with reference to :						
GSDP(ratio)	1.7	0.8	0.7	0.9	1.8	1.1
RR(ratio)	1.5	0.8	1.6	0.7	1.4	1.0

(NPRE) exceeds the revenue receipts and thus indicating borrowing to meet day to day expenditure. The NPRE as percentage of revenue receipts has gone up to 106 percent. Another issue in revenue expenditure is the small share of plan expenditure (13 Percent). The structure of expenditure in Kerala is dominated by non-plan expenditure and a small share is spent either as plan or capital expenditure. The high level of fiscal deficit and a higher proportion of spending on non-plan expenditure are the two major critical issues in the State finances.

Revenue Expenditure Profile

4.4 In this section, we examine the major items of revenue expenditure such as salaries, pension, interest, repair and maintenance, subsidies and devolution to the Local Self Government Institutions. The Table 4.3 gives the trends in the item wise expenditure between 2007-08 and 2012-13. During 2011-12 the revenue expenditure increased by 32.8 percent due to payments arising from the pay and pension revision. The increase in the growth of revenue expenditure was 16 percent in 2012-13. The items which registered a high increase in expenditure were

Table4.2
Revenue Expenditure-Parameters/Variables

	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue Expenditure(RE) *Of which (Rs in crores)*	28224	31132	34664	46045	53489
Non Plan Revenue Expenditure (NPRE)	25012	26953	30469	40717	46640
Plan Revenue Expenditure	3212	4179	4196	5327	6849
Rate of growth(in percent)					
RE	13.4	10.3	11.3	32.8	16.2
NPRE	10.6	7.8	13.0	33.6	14.5
PRE	41.1	30.1	0.4	27.0	28.6
Revenue Expenditure as a percent to TE	91.3	91.4	89.4	90.5	90.3
NPRE/GSDP (percent)	12.3	11.6	11.3	12.9	12.8
NPRE as a percent of TE	80.9	79.1	78.5	80.0	78.7
NPRE as a percent of RR	102.0	103.2	98.3	107.1	105.7
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	0.8	0.7	0.7	1.9	1.1
Revenue Receipts (ratio)	0.8	1.6	0.6	1.4	1.0
Total Expenditure (Rs in crores)	30904	34068	38791	50896	59228
Revenue Receipts (Rs in crores)	24512	26109	30991	38010	44137
RR Growth Rate	16.1	6.5	18.7	22.6	16.1
GSDP Growth Rate	15.8	14.4	16.2	17.0	15.3

repair and maintenance (48 percent) and subsidies (25 percent). A notable point was the decline in the growth of expenditure of the Local self Government institutions. Salaries comprising of Government staff and teaching grants given to private aided educational institutions is the major item of total expenditure (29.2 percent). Pension is the second largest item of expenditure accounting for 15 percent of the total expenditure. Interest payment is the third major item of expenditure (12.2 Percent). These three items account

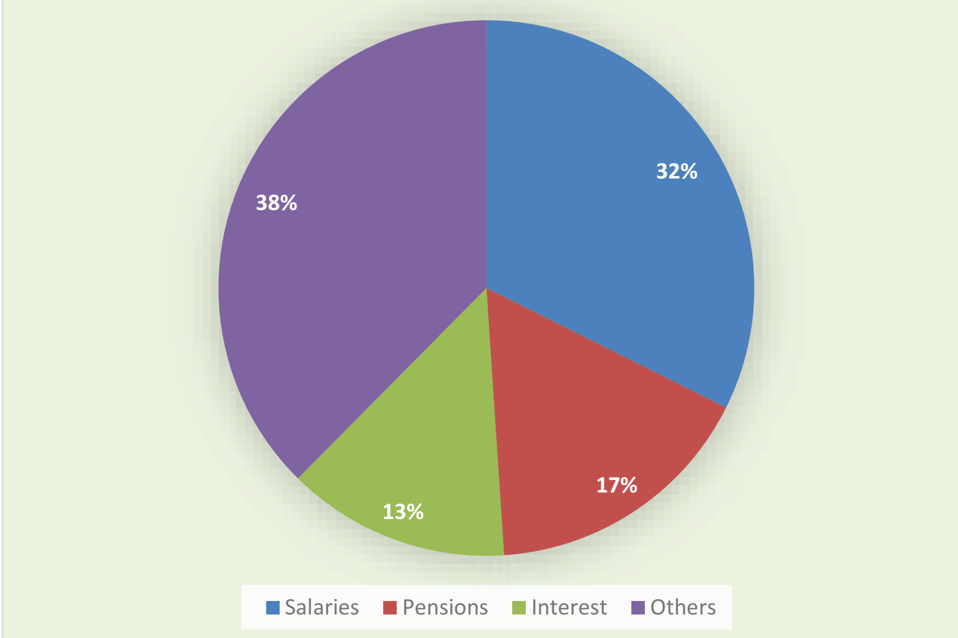
Table4.3

Revenue Expenditure Profile (Rs in Crore)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue Expenditure	24892	28224	31132	34664	46045	53489
Salaries	7693	9064	9799	11074	16082	17314
Pensions	4925	4685	4706	5767	8700	8867
Interest	4330	4660	5292	5690	6294	7205
Repairs & Maintenance	633	858	734	734	755	1118
Subsidy	219	355	442	627	1014	1268
Devolutions to LSG's	2273	2432	2489	2778	3389	4016
Sal.+Pensions+Interest	16948	18409	19797	22531	31076	33386
Others	4819	6170	7670	7994	9811	13701
Total Expenditure	27259	30904	34068	38791	50896	59228
Growth in Expenditure (%)						
Revenue Expenditure	19.5	13.4	10.3	11.3	32.8	16.2
Salaries	17.3	17.8	8.1	13.0	45.2	7.7
Pensions	49.5	-4.9	0.4	22.5	50.9	1.9
Interest	3.3	7.6	13.6	7.5	10.6	14.5
Repairs& Maintenance	71.5	35.5	-14.5	0.0	2.9	48.1
Subsidy	-18.0	62.1	24.5	41.9	61.7	25.0
Devolutions to LSG's	18.9	7.0	2.3	11.6	22.0	18.5
Sal.+Pensions+Interest	20.7	8.6	7.5	13.8	37.9	7.4
Others	13.8	28.0	24.3	4.2	22.7	39.6
Percentage to Total Expenditure						
Salaries	28.2	29.3	28.8	28.5	31.6	29.2
Pensions	18.1	15.2	13.8	14.9	17.1	15.0
Interest	15.9	15.1	15.5	14.7	12.4	12.2
Repairs& Maintenance	2.3	2.8	2.2	1.9	1.5	1.9
Subsidy	0.8	1.1	1.3	1.6	2.0	2.1
Devolutions to LSG's	8.3	7.9	7.3	7.2	6.7	6.8
Sal.+Pensions+Interest	62.2	59.6	58.1	58.1	61.1	56.4
Others	17.7	20.0	22.5	20.6	19.3	23.1
Total	91.3	91.3	91.4	89.4	90.5	90.3

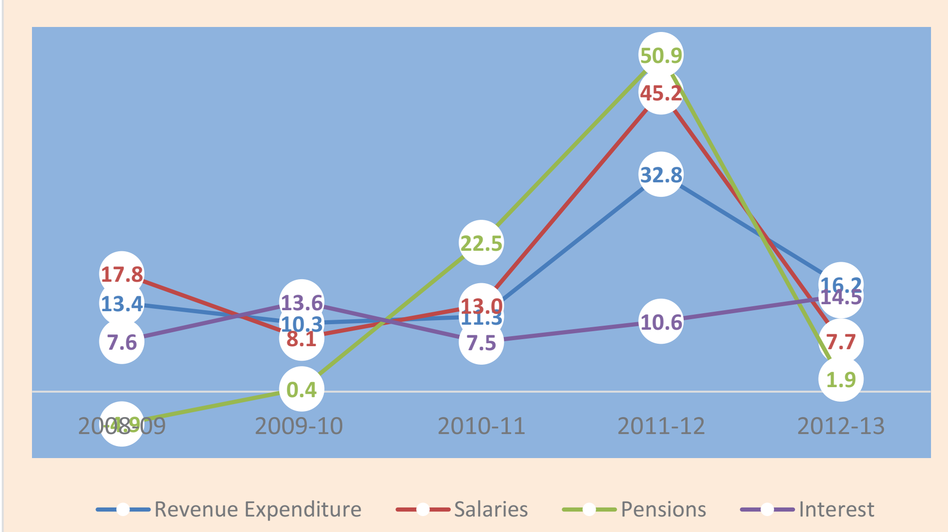
for 56.4 percent of the total expenditure. The root cause for the continuous revenue and fiscal deficit and unstable finances of the State arises mainly due to the large expenditure on salaries, pension and interest. Due to this situation, the Government faces acute resource crunch to meet development expenditure in core areas of infrastructure, public

Chart 4.1 :Composition of Revenue Expenditure



utilities and public services. A detailed examination of major items of expenditure on salary, teaching grants and pension are attempted in the subsequent sections.

Chart 4.2: Growth rate of different components of Revenue Expenditure



Salary Expenditure

Number of staff

4.5 The two categories of staff which get same scale of pay, retirement benefits and monthly pension are Government staff recruited through Kerala Public Service Commission and teachers and non-teaching staff appointed by the management of private aided educational institutions. The salaries and pension of these two categories are paid from public funds through treasury. Of the total staff, 72 percent are Government employees and 28 percent are staff in private aided educational institutions (Table 4.4). The categories of staff which get a higher rate

Table 4.4
Number of staff in Government Departments and Private Aided Educational Institutions

Category	Number in March 2008	% share	Number in March 2013	% share	Number in March2014	% share
Government Departments	357143	70.97	361603	71.95	363992	71.86
Private Aided Educational Institutions	146063	29.02	140954	28.04	142564	28.14
Total	503206	100	502557	100	506556	100.00

of scale of pay and allowances are persons belonged to All India Service (IAS, IPS etc), persons getting University Grants Commission and AICTE scale of pay and judicial officers (Table 4.5).The teachers in arts and science colleges are the largest

Table 4.5
Total Staff: Different Categories

Category	March 2008	March 2014	Percent change
1. State Government	487196	489035	0.38
2. Consolidated Pay	746	876	17.43
3. All India Services	191	238	24.61
4. UGC	10724	14364	33.94
5. AICTE	3928	1497	-61.89
6. Judicial	408	540	32.35
7. Others	13	6	-53.85
Total	503206	506556	0.67

number of staff in the high paid category of staff. The number of teachers has registered an increase from 10724 in March 2008 to 14364 in March 2014. Among the Government departments, the General Education Department has the largest number of staff 172497

(Table4.6). The other departments having second, third and fourth position are Police, Health and Higher secondary.

Table 4.6
Department having Largest Number of Staff March 2014

Name of Department	Number of staff	Percent
1.General Education	172497	34.05
2.Police	56603	11.17
3.Health	34658	6.84
4.Higher Secondary	28861	5.70
5.Collegiate Education	21537	4.25
6.Land Revenue	16348	3.23
7.Judicial Service	12989	2.56
8.Medical Education	12253	2.42
9.Agriculture	9543	1.88
10.Public Works	9152	1.81
11.Technical Education	8825	1.74
12.Water Resource	8341	1.65
13.Forest	6685	1.32
14.Animal Husbandry	7052	1.39
15.Vocational Higher Secondary	6409	1.26
16.Gvernment Secretariat	5306	1.05
17.Panchayat	6152	1.21
18.Rural Development	5067	1.01
19.State Excise	4940	0.98
20.Commercial Taxes	4720	0.93
21.Others	68618	13.55
Total	506556	100.00

Staff in Educational Sector

4.6 Since the formation of the state, the policy pursued by the successive Governments was to give priority for starting a large number of educational institutions in public sector as well as giving grant-in-aid in the form of salaries to the staff in private aided educational institutions. Without considering the resource availability, present and future financial implications and its impact on the opportunity cost of spending, sanctions were issued for starting educational institutions in public and private aided sectors. This had resulted in continuous increase in teaching and non-teaching staff in the public funded educational sector. According to the budget document, the total staff coming under the various

Government departments in the educational sector is 251685 in March 2014. This accounts for 50 percent of the total staff of the Government and private aided educational institutions (Table 4.7).

Table 4.7
Total Staff in the Educational Sector

Educational Sector	March 2014 (Number)	Percent
1.General Education	172497	34.05
2.Higher Secondary Education	28861	5.70
3.Collegiate Education	21537	4.25
4.Medical Education	12253	2.42
5.Technical Education	8825	1.74
6.Vocational Higher Secondary	6409	1.26
7. Ayurveda Medical Education	1258	0.25
8.Commissisionerate of Entrance Examination	45	0.01
Total Educational Sector	**251685**	**49.68**
Total Staff of the Government	506556	100.00

Source: Appendix 1 (Detailed of Staff) Budget 2014-15

This estimate of staff does not include the teachers and non-teaching staff working in thirteen State universities in Kerala. A good number of staff in schools are excess protected staff working in uneconomic schools.

Uneconomic Schools

4.7 According to Kerala Education Act and Rules (KEAR), the minimum student strength of a standard in a school is 25 students. This norm is prescribed for recognition and working of a school. In a Government order in 22nd July 1992 an uneconomic school is defined as follows-"The school where average effective strength per standard is less than 25 has come to be known as an uneconomic school". The minimum number of total students required in the schools is also fixed.

Table 4.8
Norms used to define uneconomic schools

	Norm 1	Norm 2 *
Category of schools with Standard	25 students per standard with a minimum number of students in a school (Effective from 05/06/1971)	15 students per standard with a minimum number of students in a school .(Effective from 06/11/2011)
1 to 4	100	60
1 to 5	125	75
1 to 7	175	105
1 to 10	250	150
5 to 7	75	45
5 to 10	150	90
8 to 10	75	45

*The norm of uneconomic schools is reduced to 15 students per standard with effect from 06/11/2011 to protect the surplus teachers.
Source: Director of Public Instruction

The norm of uneconomic school was reduced to 15 students per standard in 6th November 2011 to protect the surplus teachers (Table 4.8).

4.8 The data on uneconomic schools, based on the norm of 25 students per standard shows that there has been a rapid increase in uneconomic Government schools since 2004-05. (Table 4.9). Nearly 55 percent of the Government schools are uneconomic in 2013-14. The discontinuation of the practice of physical verification of students in the schools for the years 2011-12, 2012-13 and 2013-14 had resulted in the abnormal growth of uneconomic schools. The verification of students using unique identification number (Aadhar) has resulted in widespread malpractices. The number of uneconomic private aided schools based on the norm of 25 students per standard increased from 1416 in 2004-05 to 1988 in 2009-10 and to 2882 in 2013-14. Uneconomic private aided schools account for 40

Table 4.9
Growth in the number of uneconomic Government schools in Kerala (Based 25 students per standard)

Year	Number of Govt. uneconomic schools				Percentage share to total Government schools			
	LP	UP	HS	Total	LP	UP	HS	Total
2004-05	1038 -	252 -	85 -	1375 -	40.7	26.4	8.5	30.6
2005-06	1097 (5.7)	272 (7.9)	88 (3.5)	1457 (6.0)	43.1	28.5	8.8	32.4
2006-07	1194 (8.8)	278 (2.2)	99 (12.5)	1571 (7.8)	46.9	29.1	9.9	34.9
2007-08	1310 (9.7)	299 (7.6)	111 (12.1)	1720 (9.5)	51.4	31.4	11.1	38.2
2008-09	1408 (7.5)	314 (5.0)	117 (5.4)	1839 (6.9)	55.3	33.0	11.6	40.9
2009-10	1501 (6.6)	351 (11.8)	122 (4.3)	1974 (7.3)	59.0	36.8	12.1	43.9
2010-11	1634 (8.9)	365 (4.0)	148 (21.3)	2147 (8.8)	64.4	40.6	13.9	47.7
2011-12	1719 (5.2)	394 (7.9)	158 (6.8)	2271 (5.8)	65.9	42.6	14.5	49.2
2012-13	1834 (6.7)	427 (8.4)	152 (-3.8)	2413 (6.3)	70.4	47.1	13.7	52.2
2013-14	1881 (2.6)	442 (3.5)	207 (36.1)	2530 (4.8)	72.3	51.5	17.9	54.8

(Figures in brackets are growth in percent)
Source: Director of Public Instruction

percent of the total private aided schools. Nearly 60 percent of the Lower Primary, 26 percent of the Upper Primary and 6 percent of High Schools are uneconomic schools. (Table 4.10)

4.9 The rapid growth in uneconomic Government and private aided schools has resulted in steady increase in surplus teachers and wasteful expenditure. Serious efforts were not taken to curb the growth of surplus teachers. Instead, the surplus teachers were protected and salaries were paid by the Government. In order to protect the surplus teachers,

Table 4.10

Growth in the number of uneconomic private aided schools in Kerala (Based 25 students per standard)

Year	Number of aided uneconomic schools				Percentage share to total aided schools			
	LP	UP	HS	Total	LP	UP	HS	Total
2004-05	1127	266	23	1416	28.2	14.2	1.6	19.4
2005-06	1238 (9.8)	193 (-27.4)	31 (34.8)	1462 (3.2)	31.0	10.3	2.2	20.1
2006-07	1381 (11.6)	218 (12.9)	28 (-9.7)	1627 (11.3)	34.6	11.7	2.0	22.3
2007-08	1451 (5.1)	216 (-0.9)	27 (-3.6)	1694 (4.1)	36.4	11.6	1.9	23.3
2008-09	1580 (8.9)	217 (0.5)	25 (-7.4)	1822 (7.6)	39.7	11.6	1.7	25.1
2009-10	1708 (8.1)	244 (12.4)	36 (44.0)	1988 (9.1)	42.9	13.0	2.5	27.3
2010-11	1825 (6.8)	271 (11.1)	37 (2.8)	2133 (7.3)	45.9	14.5	2.6	29.3
2011-12	1982 (8.6)	313 (15.5)	48 (29.7)	2343 (9.8)	50.7	17.0	3.4	32.7
2012-13	2241 (13.1)	430 (37.4)	53 (10.4)	2724 (16.3)	57.4	23.3	3.8	38.1
2013-14	2324 (3.7)	480 (11.6)	78 (47.2)	2882 (5.8)	59.7	26.0	5.5	40.3

(Figures in brackets are growth rate in percent)

Source: Director of Public instruction

Table 4.11

Number of uneconomic schools in 2013-14 (Based on 15 students per standard)

Category of schools	Number of schools			Number of teachers		
	Govt.	Aided	Total	Govt.	Aided	Total
No. of schools with Std. 1 to 4 below 60 pupils	1310	1459	2769	6524	5960	12484
No. of schools with Std. 1 to 7 below 105 pupils	312	205	517	3003	1967	4970
No. of schools with Std. 5 to 7 below 45 pupils	14	109	123	77	603	680
No. of schools with Std. 5 to 10 below 90 pupils	20	7	27	271	88	359
No. of schools with Std. 1 to 10 below 150 pupils	49	33	82	764	542	1306
No. of schools with Std. 8 to 10 below 45 pupils	10	3	13	56	30	86
Total	**1715**	**1816**	**3531**	**10695**	**9190**	**19885**

Source: Director of Public Instruction

Government followed a liberal policy and effected change in the norm of the surplus schools. As per a Government order on 6th November 2011, the student strength in the uneconomic schools was reduced to 15 per standard. This change in the norm of the uneconomic school was made to protect the surplus teachers in the schools. According to the information supplied by the DPI, the total uneconomic schools, based on the norm of 15students per standard, were 3531 comprising 1715 Government schools and 1816 aided schools in 2013-14.The total teachers working in the uneconomic schools based on 15 students per standard was 19885 (Table 4.11).An unhealthy development was the permission given to these uneconomic schools to fill the vacancies arising due to death, resignation, promotion and retirement without assessing the surplus teachers (Order dated 06/06/2012). This has also resulted in the fresh recruitment of teachers in uneconomic schools having 15 students per standard or less.

4.10 The Government has been following a policy to protect the teachers in the schools having only few students. It is reported that in 191 schools, the total student strength in all standards was 10 or below. Of the 191 schools, two schools have no students and 5 have only one student per school. Table 4.12 gives the

Table 4.12

Number of schools having pupils 10 or below

Category of school with Std.	Government	Aided	Total schools
Schools with 1 to 4	65	116	181
Schools with 1 to 7	2	1	3
Schools with 1 to 10	1	0	1
Schools with 5 to 7	0	5	5
Schools with 5 to 10	0	0	0
Schools with 7 to 10	1	0	1
Total	**69**	**122**	**191**

Source: Director of Public Instruction

number of schools having pupils 10 or below. Of the 191 schools, 69 are Government and 122 are private aided schools. Among the schools, 95 percent belonged to the category of lower primary schools. A district wise distribution of schools having pupils 10 or below is shown in Table 4.13. Pathanamthitta has the largest number schools having pupils 10 or below. Alappuzha, Kannur and Eranakulam rank the second, third and fourth position with regard to the number of schools having pupils 10 or below. The total number of teachers working in the schools are 695 consisting of 301 Government teachers and 394 private aided teachers. It is estimated that the Government is incurring an expenditure of about Rs 20.85 crores for supporting the teachers in these schools (Rs 25,000 x 695 teachers x 12 months). This expenditure may be considered as a wasteful expenditure. In this context the Committee recommends that the schools having less than 10 students should be closed and the students will be accommodated in the nearby schools.

Table 4.13
Number of schools having pupils 10 or below

District	Govt.	Aided	Total	Percentage share (%)
Thiruvanthapuram	8	6	14	7.3
Kollam	2	2	4	2.1
Alappuzha	18	16	34	17.8
Pathanamthitta	12	32	44	23.0
Kottayam	6	6	12	6.3
Idukki	1	2	3	1.6
Ernakulam	6	13	19	9.9
Thrissur	3	15	18	9.4
Palakkad	2	5	7	3.7
Mlappuram	1	1	2	1.0
Kozhikode	5	6	11	5.8
Wayanad	0	0	0	0.0
Kannur	3	18	21	11.0
Kasaragod	2	0	2	1.0
Total	**69**	**122**	**191**	**100.0**

Source: Director of Public Instruction

Salary expenditure of departments

4.11 We have seen in the Para 4.6 that educational sector account for half of the total staff, whose salary is paid by the state. A head wise breakup of the total salary expenditure for the year 2012-13 shows that educational sector accounts for 50.59 per percent of the total salary expenditure (Table 4.14). On the other hand, the salary expenditure for medical and public health services was nearly 11 percent of the total salary expenditure. The police department which has the responsibility of maintaining law and order in the state account for 10 percent of the total salary expenditure. The salary expenditure for the item on administration of justice is 2 percent. The other heads which accounts for one to two percent of the total salary expenditure are land revenue, agriculture, public works, rural development, animal husbandry, district administration, family welfare and social security and welfare. This pattern of spending of more than half of the total salary expenditure on education has serious social and economic implications.

4.12 Large allocation of available resources for one item of expenditure is not a sound policy. Instead of starting new universities, higher educational institutions, private aided educational institutions and others in public sector by utilizing public funds, the Government should follow a policy of promoting private investment. A state having large unutilized bank deposits and expert human resources, the sound policy is promotion of private investment in education. The Committee recommends that instead of starting new educational institutions by spending public funds, the Government may promote private sector to start higher educational institutions. (Professional colleges, higher educational institutions in science, technology, management etc)

Table 4.14
Expenditure on Salary for 2012-13: Major head wise (Rs in Lakh)

Major Heads	2012-13	Percent
1.General Education	838300.08	48.42
2.Technical Education	37554.07	2.17
3.Medical and Public Health	189721.69	10.95
4.Police	174260.82	10.08
5.Administaration of Justice	36181.53	2.08
6.Land Revenue	29507.56	1.70
7.Agriculture	27863.32	1.61
8.Public works	26339.51	1.52
9.Forest and Wild life	17483.83	1.01
10.Secretariate-General Services	13663.63	0.78
11.Other Rural Development Programs	27256.31	1.57
12.Animal Husbandry	23676.44	1.36
13.State Excise	13453.43	0.78
14.Other Administrative Services	13403.86	0.77
15.District Administration	19592.86	1.13
16.Taxes on sales, trade etc.	14043.97	0.81
17.Treasury and accounts administration	13597.73	0.78
18.Family Welfare	31843.72	1.84
19.Social security and welfare	33897.10	1.96
20.Labour and Employment	14695.30	0.85
21.Others	135033.56	7.80
Total	**1731369.81**	**100.00**

Surplus staff in nonfunctional offices

4.13 The Committee found that a large number of temporary staff are retained in establishments created for implementing projects, investigation of irrigation and PWD projects, land acquisition etc, which are non-functional. Even after completing the work of the establishments, the staff are retained and salary is being paid. The departments have not taken steps to review the activities of the non-functional establishments and dismantle them. The Committee with the help of Finance department has identified that nearly 18 departments have surplus temporary staff more than 250 per department. The total surplus staff retained by the Department is estimated as 33061.

Table 4.15
Number of temporary surplus staff

Department	No. of temporary post	Percent
Agriculture	4695	14.2
Directorate of medical education	303	0.9
Homeo directorate & Homeo colleges	696	2.1
Police	2244	6.8
Vigilance and Anti-corruption	490	1.5
General education	3304	10.0
Forest and wild life	352	1.1
Economics and Statistics	1039	3.1
Social justice	1394	4.2
Insurance medical services	428	1.3
Insurance department	264	0.8
Irrigation	5778	17.5
PWD	863	2.6
Treasury	1070	3.2
Survey and land record	2999	9.1
Revenue	5072	15.3
High court	770	2.3
Kerala state civil supplies corporation	300	0.9
Others	1000	3.0
Total	33061	100.0

Table 4.15 gives the department wise number of temporary surplus staff retained by the departments. Irrigation department has retained the largest number of staff (5778). It may be noted that the staff appointed for investigation, land acquisition, implementation of projects etc are retained even after the completion of work. The departments such as Revenue, Agriculture, Police, General education and Forest and Wild Life have large number of surplus temporary staff. The Committee feels that the expenditure incurred for paying salaries and other benefits to the 33061 surplus staff is not justifiable. The Committee recommends that steps may be taken to abolish the temporary establishment and terminate the surplus temporary staff.

Mounting salary expenditure

4.14 Mounting Salary expenditure is one of the basic causes for the continuous fiscal deficit of the state Government. Table 4.16 gives the salary expenditure of the

Table 4.16
Growth in Salary Expenditure (Rs in Crore)

Year	Salary Expenditure	Growth (percent)	Revenue Expenditure	Share (percent)	Total Expenditure	Share (percent)
2004-05	5346	3.9	17169	31.1	18048	29.6
2005-06	5581	4.4	18424	30.3	19528	28.6
2006-07	6560	17.5	20825	31.5	22077	29.7
2007-08	7693	17.3	24892	30.9	27259	28.2
2008-09	9064	17.8	28224	32.1	30903	29.3
2009-10	9799	8.1	31132	31.5	34068	28.8
2010-11	11038	12.6	34664	31.8	38790	28.5
2011-12	16083	45.7	46045	34.9	50896	31.6
2012-13	17314	7.7	53489	32.4	59228	29.2

Government staff, teaching grants given to private aided educational institutions and its share to revenue and total expenditure. During the years 2004-05 and 2005-06, the salary expenditure grew by about 4 percent per annum. But during the subsequent three years it grew by more than 17 percent per annum. The expenditure registered an unprecedented level of 45.7 percent in 2011-12 due to the revision of pay scales and the payment or arrear salary. The growth of salary expenditure was 8 percent during 2012-13. The salary expenditure accounts for 32 percent of the revenue expenditure and 29 percent of the total expenditure. The revision of salary and pension in every five years, the financial commitment of paying arrears due to the revision, used to create heavy financial burden to the treasury for about three years. The frequent revisions of DA rates following the DA revision of the central Government also contribute to the increase in salary expenditure.

4.15 The Committee in its earlier report (for 2010-11) had examined this aspect and gave a number of recommendations to reduce the salary expenditure. The recommendations include revision of salaries and pensions once in 10 years, reduction of administrative expenditure through e-governance, payment of salaries, pension etc through banks, introduction of email for official communication and outsourcing some of the subsidiary activities of Government and Local Self Government Institutions (LSGI). The activities which may be outsourced are watch and ward, cleaning, gardening, collection of user charges, hiring vehicles, delivery of mails etc. The LSGIs may sub-contract some of their activities like waste disposal, cleaning roads and public places, public lighting, drinking water supply, distribution of benefits, issue of application forms etc.

Teaching grants to private aided educational institutions

4.17 A major item of salary expenditure is the teaching grants given to the private aided educational institutions. The Government is paying the salaries and pension of teachers of private aided educational institutions at par with the similar categories of Government staff from state funds. This is a practice started during the pre-independence period to promote school education. The Government approved private aided schools were paid salaries at par with Government school teachers from 1953. The teachers of the private aided Arts and Science colleges were paid salaries at par with Government college teachers from 1973.The Government encouraged the growth of arts and science colleges and other educational institutions by this policy. This had resulted in a continuous increase in schools, Arts and Science colleges and other educational institutions in the private aided sector.

4.17 Table 4.17 gives the number of teachers and non-teaching staff in private aided educational institutions. As on March 2014, the total staff in these institutions comprise of 125440 teachers and 17124 non-teachers. Of the total staff in private aided educational institutions, nearly 80 percent are teachers working in schools. Another seven percent of the staff are non-teaching staff in the schools .Though the number of uneconomic schools are increasing rapidly, attempts were not made curtail the number of teachers in the aided schools. Nearly 8 percent teaching staff working in Arts and Science and professional colleges are entitled for UGC or AICTE scale of pay. Another 5 percent of the staff is non-teaching staff in Arts and Science and professional colleges. The teaching grants comprising salaries and pension to the private aided educational institutions have created huge financial liability to the state Government. Of the total salary expenditure of the state Government, 32 percent is spent for paying salaries to aided sector (Table 4.18).

Table 4.17
Number of Teaching and Non-Teaching Staff in Private Aided Educational Institutions

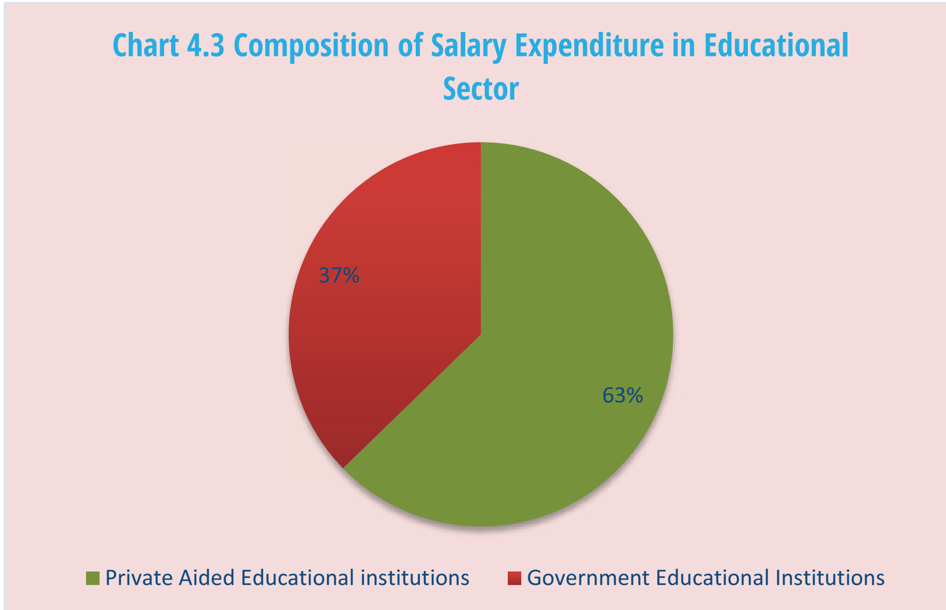
Category	Number in March 2013	Number in March 2014	Share of percent (2014)
1.Teacher			
1.Schools	112383	113935	79.9
2.Arts & Science colleges	10393	10393	7.3
3. Engineering college & Polytechnics	887	895	0.6
4.Ayurveda and medical colleges	94	93	0.1
5.Homeo medical colleges	137	124	0.1
Sub Total	123894	125440	88.0
2.Non Teaching Staff			
1.Schools	10174	10240	7.2
2.Arts & Science colleges	6084	6084	4.2
3.Engineering college & Polytechnics	497	489	0.3
4.Ayurveda medical colleges	183	177	0.1
5.Homeo medical colleges	122	134	0.1
Sub total	17060	17124	12.0
Grand Total (1+2)	**140954**	**142564**	**100.0**

Source: Appendix.1 (Detailed of staff) Budget 2014-15.

Table 4.18
Salary of Government staff and aided educational institutions in 2012-13

	Rs. in lakh	Percent
Private Aided Educational institutions	549412.01	31.73
Government Educational Institutions	326442.14	18.85
Total Educational Institutions	875854.15*	50.59
Total Salary Expenditure of Government	1731369.81	100.00

*Excludes Expenditure on medical, ayurveda and agricultural



Education institutions.

4.18 It is reported that the private aided institutions are doing a number of corrupt practices. A major complaint raised by the social organizations and the general public is the corrupt practices for admission of students in courses and recruitment of teachers. For the admission of students merit is not strictly followed in many secondary and higher secondary schools. For the admission of graduate and post-graduate courses, donations are collected for the seats in the management quota. In majority of the schools, arts and science colleges and other aided institutions, for recruitment of teachers merit is not the criteria followed. Large sum of money in the form of contribution are collected for appointing the teachers. Though the teachers are paid the salary, other benefits and pension at par with Government staff, the service rules of the Government staff is not made applicable to them. The Committee which examined this aspect in its earlier report for (the year 2010-11) had given a number of suggestions to curtail the growth of new institutions and introduction of new courses in the aided sector. The committee recommended to discontinue the practice of starting new educational institutions and courses in private aided sector and to permit new courses only in unaided stream in the existing institutions.

Expenditure on pension

4.19 Expenditure on pension of retired Government staff and employees in the private aided educational institutions and others accounts for 15 percent of the total expenditure. There are three categories of pensioner's viz., service, family and other categories. Service pensioners are the category of pensioners who become eligible for retirement benefits and monthly pensions for their past service. In the case of death of service pensioner, a monthly family pension is paid to the wife or other dependents of the diseased pensioner. Monthly pension is also paid to other categories like ex-members of the Kerala Legislative Assembly, artists, literary persons, scholars and persons who participated in the freedom struggle etc. Table 4.19 gives the number of three categories of pensioner's viz., service, family and others for the years from 2008 to 2013. Of the total pensioners 61 percent is service pensioners, 18 percent is family pensioners and 21 percent is other category pensioners in March 2013. During the year 2012-13 there has been a substantial increase in the number of service pensioners.

Table 4.19
Number of Pensioners in Kerala

	2008	2009	2010	2011	2012	2013
1.Service Pensioners	249594	245553	237644	251548	237780	287551
2.Family Pensioners	87795	87896	87617	88810	93015	83722
3.Other Categories	103622	95833	100813	98396	128637	97768
Total	441011	429282	426074	438754	459432	469041
	Growth (Percent)					
1.Service Pensioners	6.19	-1.62	-3.22	5.85	-5.47	20.93
2.Family Pensioners	-7.40	0.12	-0.32	1.36	4.73	-9.99
3.Other Categories	-2.22	-7.52	5.20	-2.40	30.73	-24.00
Total	1.19	-2.66	-0.75	2.98	4.71	2.09
	Percentage Distribution					
1.Service Pensioners	56.60	57.20	55.78	57.33	51.76	61.31
2.Family Pensioners	19.91	20.48	20.56	20.24	20.25	17.85
3.Other Categories	23.50	22.32	23.66	22.43	28.00	20.84
Total	100	100	100	100	100	100

Table 4.20

Expenditure on pension and other retirement benefits (Rs in crore)

Name	2009	2010	2011	2012	2013
Superannuation & Other	2423.36	2913.34	3218.05	4627.13	4733.41
Commuted value of pension	587.19	225.81	502.90	994.43	890.70
Compassionate allowances	0.27	0.26	3.36	0.51	1.21
Gratuities	420.10	226.48	380.12	606.67	571.83
Family pension	414.19	487.97	564.21	799.49	879.79
Contribution to pension and	0.41	0.09	0.03	0.05	0.22
Contribution to provident funds	0.02	0.02	0.02	0.03	0.00
Pension to employees of state	624.60	727.77	852.50	1248.89	1411.93
Pension to legislators	3.75	11.42	12.31	5.30	7.26
Leave encashment benefits	156.10	55.73	176.92	255.74	219.47
Other pensions	1.03	1.03	1.25	2.90	1.26
Other expenditure	55.43	55.59	55.81	159.18	150.50
Deduct Overpayment	0.00	0.00	0.00	0.00	-0.70
Total	4686.43	4705.50	5767.49	8700.30	8866.89
Growth (Percent)					
Superannuation & Other	2.96	20.22	10.46	43.79	2.30
Commuted value of pension	-27.33	-61.54	122.71	97.74	-10.43
Compassionate allowances	32.64	-4.12	1214.22	-84.71	135.92
Gratuities	-15.95	-46.09	67.84	59.60	-5.74
Family pension	2.56	17.81	15.62	41.70	10.04
Contribution to pension and	72.46	-78.03	-62.26	47.94	335.19
Contribution to provident funds	57.29	13.91	32.56	15.79	-97.73
Pension to employees of state	1.24	16.52	17.14	46.50	13.06
Pension to legislators	5.56	204.49	7.81	-56.98	37.08
Leave encashment benefits	-16.55	-64.30	217.49	44.55	-14.18
Other pensions	-4.13	0.31	21.28	131.94	-56.70
Other expenditure	10.75	0.28	0.40	185.20	-5.45
Total	-4.83	0.41	22.57	50.85	1.91
Percentage Distribution					
Superannuation & Other	51.71	61.91	55.80	53.18	53.38
Commuted value of pension	12.53	4.80	8.72	11.43	10.05
Compassionate allowances	0.01	0.01	0.06	0.01	0.01
Gratuities	8.96	4.81	6.59	6.97	6.45
Family pension	8.84	10.37	9.78	9.19	9.92
Contribution to pension and	0.01	0.00	0.00	0.00	0.00
Contribution to provident funds	0.00	0.00	0.00	0.00	0.00
Pension to employees of state	13.33	15.47	14.78	14.35	15.92
Pension to legislators	0.08	0.24	0.21	0.06	0.08
Leave encashment benefits	3.33	1.18	3.07	2.94	2.48
Other pensions	0.02	0.02	0.02	0.03	0.01
Other expenditure	1.18	1.18	0.97	1.83	1.70
Total	100.00	100.00	100.00	100.00	100.00

4.20 A person retiring from the service is eligible for a number of benefits such as monthly pension based on tenure of service, commuted value of pension, gratuities, leave encashment benefits etc. Table 4.20 shows the various items of expenditure on pension and other retirement benefits from 2008-09 to 2012-13. The superannuation and retirement allowances of service pensioners account for major share of the expenditure in 2012-13 (53 percent). Pension to the retired staff of the aided educational institutions is the second major item accounting for 16 percent of the pension expenditure. Commuted value of pension accounts for 10 percent. Of the pension expenditure, 10 percent is spent on family pension and 6 percent on gratuities. During 2011-12, there had been an unprecedented growth in pension expenditure (51 percent). During 2012-13 the major items which witnessed a substantial increase in expenditure were family pension, pension to employees of state aided institutions and legislators.

Mobilising funds for pension payments

4.21 Pension expenditure is a major financial problem of State Government, autonomous bodies and universities. Table 4.21 gives the growth in pension expenditure, its share in revenue and total expenditure between 2004-05 and 2012-13. Pension expenditure increased from Rs.5767 crore in 2010-11 to Rs.8867 crore in 2012-13. The expenditure accounts for 17 percent of the revenue expenditure

Table 4.21

Growth and Share of pension Expenditure (Rs in Crore)

Year	Pension Expenditure	Growth (percent)	Revenue Expenditure	Share (percent)	Total Expenditure	Share (percent)
2004-05	2601	8.0	17169	15.1	18048	14.4
2005-06	2861	10.0	18424	15.5	19528	14.7
2006-07	3295	15.2	20825	15.8	22077	14.9
2007-08	4925	49.5	24892	19.8	27259	18.1
2008-09	4685	-4.9	28224	16.6	30903	15.2
2009-10	4706	0.4	31132	15.1	34068	13.8
2010-11	5767	22.5	34664	16.6	38790	14.9
2011-12	8700	50.9	46045	18.9	50896	17.1
2012-13	8867	1.9	53489	16.6	59228	15.0

and 15 percent of the total expenditure in 2012-13. The revision of pension rates once in five years, the frequent DA revisions, and increase in number of pensioners have contributed to the steep increase in pension payments. As autonomous bodies like KSRTC, Universities etc have to revise the pension rates at par with Government staff, the pension liability is emerging as a major financial problem to them. Currently, KSRTC and some state universities are facing acute crisis in pension payments. In order to mobilise resources for pension payments, the successive Governments have not taken any serious steps. However, the Local Self Government Institutions (Grama Panchayat, Municipalities etc.) are contributing 15 percent of the basic pay of the staff to the state Government as pension contribution. A few universities in Kerala have created pension fund for mobilising resources for pension payments (The Kannur and Sree Sankaracharya university of Sanskrit). In this context the state Government autonomous bodies like KSRTC, Universities etc may create a pension fund for meeting the expenses connected with payment of retirement benefits and monthly pensions to the retired staff, who comes under the statutory pension scheme.

Subsidies

4.22 The Government spent 1268 crores as subsidies during the year 2012-13. During this year an additional amount of 119 crore was spent as implicit subsidy. There had been a steep increase in subsidy between 2007-08 and 2012-13 (Table 4.22). Currently Government is giving subsides to 13 major items. Table 4.23 gives the item wise subsidies. The major item of subsidy is the food subsidy given to distribute rice and wheat through public distribution system. Nearly 71 percent of the subsidies are spent for this.

Table 4.22
Expenditure on subsidies

Year	Explicit Subsidy (Rs in Crore)	Growth (percent)
2007-08	227.38	-
2008-09	354.86	56.06
2009-10	441.84	24.51
2010-11	626.84	41.87
2011-12	1014.45	61.84
	1267.67	24.96

Table 4.23
Expenditure on Subsidies (Rs in Crore)

Department	Objective/Scheme	2009-10	2010-11	2011-12	2012-13
A. Explicit Subsidy					
Miscellaneous General Services	Interest on HBA availed by MLAs				0.23
Cultural Affairs	Payment of subsidy to Malayalam films	1.01	1.11	1.17	1.28
Power	Subsidy to the KSE Board towards power tariff concessions	0.00	99.97	54.60	75.00
New & Renewable Energy	National project on biogas development	0.57	0.91	3.04	1.85
Health and Family welfare	Continuing medical educaton & training	0.02	0.00	0.00	0.00
Co operation	Subsidy to co-operatives for conducting festival markets & integrated development of primary	20.11	70.20	31.25	71.75
Agriculture - Crop Husbandry	Compensation to kerala state civil supplies corporation / consumerfed for paddy procurement,	105.56	50.13	145.32	132.91
Water Resources- Minor Irrigation	Punja dewatering by subsidy	5.50	4.24	5.18	4.75
Food & Civil Supplies	Re-imbursement of price difference of ration rice and wheat to fci & market intervention operation of	279.18	359.82	699.58	894.97
Dairy Development	Cattle feed subsidy	2.70	4.48	6.00	8.38
Animal Husbandry	Subsidy to rural backyard poultry development scheme	0.00	1.64	0.00	0.00
Fisheries	NCDC assisted integrated fisheries development project & subsidy for bankable schemes	4.33	2.31	14.66	4.50
Transport	Grants to KSRTC	0.00	0.00	0.00	28.00
Forestry & Wild Life	Subsidy towards loss incurred by KFDC	0.00	0.27	0.00	0.00
Industries and Commerce	Entrepreneur support scheme/ state investment subsidy , power subsidy to industries	19.36	25.76	34.65	38.28
Tourism	Incentives for creation of infrastructure facilities and tourism products in private sector	3.50	6.00	4.00	6.00
Urban Development	Subsidy to private parties implementing solid waste management schemes	0.00	0.00	15.00	0.00
Total A:		441.84	626.84	1014.45	1267.67
B. Implicit Subsidy					
	Power Bond Interest/Interest Adjusted or waiver	71.38	61.56	51.69	41.84
Coir Development	Incentive provided to coir cooperatives				34.40
Food & Civil upplies	Handling charges given to retailers under Andyodaya				17.71
Land Revenue	Tax Concessions under various schemes				24.79
Total B		71.38	61.56	51.69	118.74
GRAND TOTAL (A+B):		513.22	688.40	1066.14	1386.41

Procurement of paddy from farmers is the second major item of subsidy accounting for 10 percent of the total share. Six percent subsidy is given for the cooperatives for conducting festival markets and another 6 percent is given for power tariff concessions. Other purpose for which subsides given are punja dewatering, cattle feed, fisheries development, KSRTC services, investment subsidies to industries and tourism development. A review of the subsidies show that nearly 77 is percent spent on market intervention and for distributing the food items at reasonable prices through public distribution system. On the other hand, the subsidies given for production are meager. Too much emphasis for market intervention and too low priority for production is not a desirable thing. Another issue is the leakage and wasteful spending of subsidies. As the Committee does not have data to answer the leakages, corruption and wasteful spending, we are not in a position to make observation on the above aspect. But we feel that there is need toexamine the leakage, corruption and wasteful expenditure of nearly Rs.1268 crore spent on subsidies. The Committee also feels that the amount of subsides mentioned above are under estimates. The State Government is providing health, education and other service at very low rates.

Social security schemes

4.23 The state Government implements seven social security pension schemes with a view to give financial support to poor and old people. The schemes are unemployment assistance, financial support to poor artists, agriculture workers pension, pension to unmarried women

Table 4.24

Social Security Schemes: Monthly rate and number of beneficiaries (2012-13)

Sl. No	Name of scheme	Rate of monthly pension	No. of beneficiaries (2013)
1.	Unemployment Allowance.	120	303691
2.	Financial Assistance to men of arts and letters/Poor	500	_
3.	Agriculture workers pension.	400	209907*
4.	Pension to unmarried women above 50 Yrs.	525	57297
5.	Destitute Pension (Widow).	525	831376
6.	Pension to Physically and mentally handicap.	525	292292
8.	National old age pension.	400	380051
	Total		**2074614**

*Relate to the Year 2011.

Source: *Finance Dept, Notes on Topics, vol 7, presented to FC*
State Planning Board, Economic Review 2013, vol 2

above 50 years, destitute pension, pension to physically and mentally handicapped people and national old age pension. These schemes are monthly pension schemes and money is disbursed through gram panchayaths, municipalities and municipal corporations. Among the schemes, destitute pension has the largest number of beneficiaries (831,376). The other schemes having largest beneficiaries are national old age pension, unemployment allowance, disability pension and agricultural workers pension. The total number of beneficiaries in the seven pension scheme is 20.74 lakh (Table 4.24). During the year 2012-13, a sum of Rs.1331 crore was spent for the social security schemes. Table 4.25 gives the amount of expenditure on the social security schemes for 2011-12 and 2012-13. During 2012-13, the expenditure on social security schemes increased by 51 percent. National old age pension registered the highest increase followed by destitute pension, physically and mentally handicapped and pension to unmarried women. On the other hand, the pension which registered a fall in growth rate are unemployment allowance and agriculture workers' pension.

Table 4.25
Social Security Schemes (Rs in Crore)

Sl. No	Name of Scheme	2011-12	2012-13	Growth (Percent)
1.	Unemployment Allowance.	30.17	29.77	-1.32
2.	Financial Assistance to men of arts and letters/Poor artists.	1.50	1.77	18
3.	Agriculture workers pension.	302.73	269.61	-10.94
4.	Pension to unmarried women above 50 Yrs.	23.33	38.96	66.70
5.	Destitute Pension (Widow).	290.57	544.27	87.31
6.	Pension to Physically and mentally handicap.	114.89	197.26	71.69
7.	Financial help to widows for the marriage their daughter.	8.69	12.34	42.01
8.	National old age pension.	107.37	237.32	121.03
	Total	**879.25**	**1331.30**	**51.41**

Source: Explanatory memorandum of the project for 2014-15.

4.24 These pension payments are mainly meant to provide support to meet the consumption, health care and other essential needs of the poor and old people. As these beneficiaries are poor people, timely distribution of the pension is crucial thing. But the concerned Departments which are responsible for the release and distribution of the schemes are not taking prompt action in this regard. Pensions are distributed in one or two times per year. The Committee in its previous reports examined this aspect and recommended for the distribution of pension on a monthly basis. The Committee notes that the situation has not improved during 2012-13. The Committee considers this as a serious lapse on the part of the concerned Departments and LSGIs. The Committee recommends again that necessary steps needs to be taken by the Government and LSGIs on a priority basis to distribute the pension every month through banks.

Devolution of local self-Government institutions (LSGI's)

4.25 LSGIs heavily rely on grant-in-aid from the state Government for their non-plan and plan expenditure. The devolution of resource is largely based on the recommendations of the State Finance Commission. Table 4.26 gives the trend in

Table 4.26
Devolution to Local Self Government Institutions (LSGIs) (Rs. in crore)

Year	Devolution to LSGIs	Growth (percent)	Revenue Expenditure	Share (percent)	Total Expenditure	Share (percent)
2004-05	1783	3	17169	10.38	18048	9.88
2005-06	1565	-12.23	18424	8.49	19528	8.01
2006-07	1911	22.11	20825	9.18	22077	8.66
2007-08	2273	18.94	24892	9.13	27259	8.34
2008-09	2432	7.00	28224	8.62	30903	7.87
2009-10	2489	2.34	31132	7.99	34068	7.31
2010-11	2778	11.61	34664	8.01	38790	7.16
2011-12	3389	21.99	46045	7.36	50896	6.66
2012-13	4016	18.50	53489	7.51	59228	6.78

revenue expenditure of the funds given to LSGIs from 2004-05 to 2012-13. A review of the expenditure shows that during the year 2012-13, LSGIs incurred an expenditure of Rs.4016 crore and the growth in expenditure was 18.50 percent. This is a reasonably good increase in expenditure. But a review of the share of this item to revenue expenditure and total expenditure of the state gives a different picture. It may be seen from the Table that there had been continuous decline in the share of it in the total expenditure of the state since 2004-05. In this context of increase in civic, administrative and development functions of LSGIs, the decline in the share means reduction in the availability of resources for local bodies. The Committee feels that more priority should be given in the allocation of resources to the LSGIs and local level development.

Expenditure on Interest

4.26 Interest is the third major item of expenditure of the state Government, after salary and pension. During the year 2012-13, interest payment increased to Rs.7205 crore, an increase of 14.5 percent compared to the previous year. Interest accounts for 12 percent of the total expenditure of the state. Increase in public debt and payment of a large amount as interest is one of the critical issues in the state finance. Table 4.27 gives the item wise expenditure of interest viz., internal debt, small saving and provident fund, loans and advances from central Government etc. Among the three items of interest, the category which registered a continuous increase during 2008-09 and 2012-13 was the interest on internal debt.

4.27 Table 4.28 gives the growth of item wise expenditure of interest. Among the items, the market loans registered a continuous increase. The interest on market loan also registered the highest growth between 2008-09 and 2012-13. The growth rate on interest on market loans was 32.6 percent in 2012-13. During the years between 2010-11 and 2012-13, the Government has not availed any ways and means advance. Interest on state

Table 4.27
Interest payments (Rs in Crore)

	2008-09	2009-10	2010-11	2011-12	2012-13
Market Loans	1383	1722	2007	2485	3296
Ways & Means of advances	5	1	0	0	0
NSSF	1160	1149	1135	1137	1090
Other internal debts	458	476	491	490	476
Management of Debt	4	5	6	7	14
Recoveries of Overpayment		0			-7
Total Internal Debt	**3009**	**3353**	**3638**	**4119**	**4868**
State provident funds	700	753	837	962	1143
Trusts and endowments	0	0	0	0	0
Insurance and pension fund	113	115	157	181	212
Other saving deposits	403	645	631	615	584
Recoveries of Overpayment				-2	-1
Total Smal Savings, Provident Funds etc.	**1216**	**1513**	**1625**	**1755**	**1937**
Loans for State/UT plan schemes	157	164	183	191	193
Loans for CPS	1	1	1	0	0
Loans for CSS	6	6	5	5	0
Loans for non-plan schemes	4	4	4	4	3
State plan loans of the 12th FC	266	251	235	219	204
Total Loans and Advances from Central Government	**435**	**425**	**428**	**419**	**400**
Interest on Reserve Funds					
Total Interest Payments	4660	5292	5690		
Total Interest Payments	**4660**	**5292**	**5690**	**6294**	**7205**

provident fund is another item which registered a continuous increase. During 2012-13, the growth rate on interest on state provident fund was 18.8 percent. A major item of interest which indicated a decline was interest on saving deposits. A notable point is the decline in total loans and advances from the central Government and fall in interest payments. In spite of the above changes, the total interest payments increased from 10.6 percent in 2011-12 to 14.5 percent in 2012-13.

Table 4.28
Growth rate of interest

	2008-09	2009-10	2010-11	2011-12	2012-13
Market Loans	24.9	24.5	16.5	23.8	32.6
Ways & Means of advances	-63.4	-88.3			
NSSF	-0.4	-0.9	-1.3	0.2	-4.2
Other internal debts	4.2	4.0	3.0	-0.1	-2.9
Total Internal Debt	10.3	11.4	8.5	13.2	18.2
State provident funds	12.1	7.7	11.1	15.0	18.8
Insurance and pension fund	18.9	2.1	36.9	14.7	17.2
Other saving deposits	-11.2	59.9	-2.2	-2.5	-5.0
Total Smal Savings, Provident Funds etc.		24.5	7.4	8.0	10.4
Loans for State/UT plan schemes		4.2	11.6	4.4	0.8
Loans for CPS	-12.9	-14.9	-17.5	-19.2	-100.0
Loans for CSS	-2.8	-7.6	-7.8	-8.7	-100.0
Loans for non-plan schemes	-5.9	-6.7	-6.7	-7.2	-7.4
State plan loans of the 12th FC	-5.6	-5.9	-6.2	-6.7	-7.1
Total Loans and Advances from Central Government		-2.3	0.6	-2.0	-4.7
Total Interest Payments	7.6	13.6	7.5	10.6	14.5

Capital Expenditure

4.28 Capital expenditure comprises of capital outlay and loans and advances. Capital outlay is the direct capital expenditure on general, social and economic services by the State Government. Loans and advances are also given to public sector entities, cooperatives and Government employees. Table 4.29 gives the structure of capital outlay for 2012-13 as well as for the previous year. Roads and bridges continue to account the highest share of outlay during 2012-13 (43%). The other items having the largest share are other transport services (8.4%), port and light houses (5.7%) and flood control projects (3.3%). During 2012-13, there had been an increase in the share of expenditure on items viz., roads and bridges, other transport services, flood control projects, education, sports, arts and culture. On the other hand, there had been a decline in the share of expenditure of major and medium irrigation projects, minor irrigation, housing, public works, medical and public health, telecommunication, fisheries, cooperation, tourism and other items. However, the very low share of capital outlay (below one percent) on items like inland water transport, soil and water conservation, welfare of SC,ST and OBC, cooperation, forestry and wild life is a serious concern.

4.29 An analysis of the growth of capital outlay during 2012-13 indicate wide fluctuations on many items of expenditure. On the one side, we can notice substantial growth in expenditure on items like roads and buildings, other transport services, flood control projects, soil and water conservation, ports and light houses, education, sports, arts and culture and forestry and wildlife. The items which registered a negative growth are major and medium irrigation, housing, public works welfare of SC, ST and OBC, cooperation and tourism. Considering the structure as well as the growth in capital expenditure the Committee feels that there is a need to change the priorities in capital expenditure. The Committee recommends that higher priority and more allocation of funds should be given to items of expenditure like inland water transport, public works, medical and public health, welfare of SC, ST and OBC, fisheries, forestry and wild life and tourism.

4.30 We may conclude the chapter with following observations. During the year 2012-13, the fiscal situation was critical and the State was forced to borrow money for meeting day to day expenditure. The structure of expenditure in the State is dominated by non-plan expenditure and a small share is spent either as capital expenditure or plan expenditure. The root cause for the continuous fiscal deficit and resource crunch in the state is the mounting expenditure on four items viz., salaries to Government staff, teaching grants given to private aided educational institutions, pension and interest payments. The large and mounting expenditure on salaries and pension due to its revisions every five years is a basic cause for the continuous revenue and fiscal deficit. The system of grant-in-aid has resulted in excess educational institutions, excess staff and a lot of wasteful expenditure. Forty percent of the private aided schools in Kerala are uneconomic. In 122 private aided schools the total student strength is 10 or below. The situation Is not much different in

Table 4.29
Capital Expenditure

		2011-12	% Distribution	% Increase	2012-13	% Distribution	% Increase
Transport development							
1	Roads and Bridges	1661.03	43.11	17.96	1999.35	43.43	20.37
2	Inland Water Transport	15.40	0.40	99.40	17.54	0.38	13.91
3	Other Transport Services	31.40	0.81	-17.18	386.06	8.39	1129.63
Water resource development							
4	Major and Medium Irrigation	134.25	3.48	-16.28	107.63	2.34	-19.83
5	Flood Control Projects	36.34	0.94	-65.31	153.14	3.33	321.43
6	Minor Irrigation	76.60	1.99	181.68	79.83	1.73	4.22
7	Soil and Water Conservation	13.63	0.35	-17.17	20.39	0.44	49.60
Others							
8	Housing	19.52	0.51	-78.05	18.79	0.41	-3.76
9	Public Works	159.21	4.13	48.04	143.57	3.12	-9.82
10	Ports and Lighthouses	214.07	5.56	40.72	264.66	5.75	23.63
11	Medical and Public Health	117.65	3.05	19.09	130.41	2.83	10.84
12	Telecommunications & Electronics	136.25	3.54	-29.16	142.55	3.10	4.62
13	Welfare of SC,ST & OBC	49.09	1.27	-32.17	30.5	0.66	-37.87
14	Education, Sports, Art and Culture	79.52	2.06	-7.10	138.21	3.00	73.81
15	Fisheries	92.15	2.39	9.73	92.11	2.00	-0.04
16	Co-operation	168.66	4.38	-20.09	43.04	0.93	-74.48
17	Food, Storage and Warehousing	27.05	0.70	63.81	27.13	0.59	0.31
18	Forestry and Wildlife	19.01	0.49	35.77	25.64	0.56	34.91
19	Tourism	122.30	3.17	253.36	63.21	1.37	-48.32
20	Others	679.81	17.64	53.34	719.53	15.63	5.84
21	**Total**	3852.92	**100.00**	**14.54**	4603.29	100.00	19.48

Government schools. Instead of taking measures to reduce the surplus teachers in uneconomic schools, the Government has permitted fresh recruitment of teachers in the schools. As half of the total staff and salary expenditure are incurred for educational sector, a better policy option is to promote private investment for starting new higher educational institutions. As payment of retirement benefits and monthly pension has emerged as a major financial problem of State Government, autonomous bodies like KSRTC, universities etc, there is a need to create a pension fund for meeting this item of expenditure. There has been substantial growth of subsides especially non-productive subsides. The resource crunch has resulted in fall in the share of funds given to LSGIs and expenditure on capital items in the total expenditure.

5

Plan Expenditure: A Review

Introduction

5.1 Development plan is an instrument by which governments intervene in an economy through public projects and schemes to achieve certain socio-economic objectives. An annual plan is an operational plan which consists of a large number of public expenditure projects/schemes to be implemented through government departments and other public agencies. The annual plan indicates the sum total of development activities proposed and funded by the government through allocation in the State budget. Preparation of financially, technically and economically feasible projects, finding resources, time bound and efficient execution of projects and achievements of physical targets form the important elements in plan performance.

5.2 In Kerala, a core development issue is the effective implementation of annual plan projects and schemes. There can be a wide gap in the budgeted targets and actual spending of plan projects. In this chapter, the Committee evaluates the targeted and timely spending of plan outlay of Government departments in Kerala. The chapter is subdivided broadly into three parts. The first part evaluates the plan expenditure of Departments during 2012-13. In this part, the effectiveness of plan expenditure is evaluated on the basis of certain norms fixed by the Committee and accordingly the various departments are classified into ‘very poor’, ‘poor’, ‘good’ and ‘very good’. The second part evaluates empirical findings on plan expenditure of major Departments based on the data collected through structured questionnaire. The last part concludes the chapter with the highlight of existing pitfalls in plan expenditure in the state.

Data and methodology

5.3 The important sources of data used in this section are: CPMU of Planning and Economic Affairs Department, Fianance Accounts 2012-13 published by Comptroller and Auditor General of India and primary data collected from Departments by using structured questionnaire.

5.4 Departments are categorised into 'very poor', 'poor', 'good' and 'very good' based on the ranks estimated for the effective implementation of plan schemes by them. Three important norms are used by the Committee for preparing relative ranks of Departments. The norms are: (1) the percentage of annual plan expenditure to outlay (2) the deviation of plan expenditure in each quarter as compared to norm fixed by the state government and (3) Percentage of plan expenditure during the last month of the financial year ie, during the month of March. As per the Committee view, the quality of plan expenditure increases with the increase in plan expenditure to outlay. The increase in deviation of plan expenditure from the norm stipulated by the State reduces the effectiveness of plan spending. Also, the bunching of plan spending during the month of March reduces the quality of spending. Accordingly, separate ranking of each department for each index is prepared and finally a combined ranking, which is sum of individual ranks, is prepared for the overall effectiveness in plan expenditure. The aggregate ranks are divided into four quartiles to categorise the Department as 'Very Poor', 'Poor', 'Good' and 'Very Good'. The 'Very Poor' Departments belong in the first quartile while 'Poor', 'Good' and 'Very Good' Departments belong in the second, third and fourth quartiles of aggregate ranks respectively. In addition, the simple techniques such as mean, standard deviation and coefficient of variation are used in the process of evaluation of plan expenditure.

I. Plan outlay and expenditure of Departments

5.5 The State Government fulfills its various development objectives through implementation of annual plan schemes. During 2012-13, an amount of Rs 16186.60 crores was budgeted for plan expenditure of various Departments in Kerala. Out of this, the amount

Table 5.1 Department level plan outlay and expenditure for 2012-13

	Departments	State plan outlay and expenditure (Rs in lakhs)		
		Plan outlay	Expenditure	Percentage of expenditure to plan outlay
1	Animal Husbandry	24617.00	19499.76	79
2	Agriculture	83224.00	74592.76	90
3	Cooperation	6250.00	5392.55	86
4	Cultural Affairs	6105.00	5177.99	85
5	Legislature	58.00	160.32	276
6	Environment	1250.00	1039.51	83
7	Finance	15070.00	14321.45	95
8	Fisheries	20600.00	19809.27	96
9	Food, Civil Supplies & Consumer Affiars	965.00	736.17	76
10	Forest	11406.00	10525.58	92
11	GAD	2160.00	228.51	11
12	Gen. Edn.	28760.00	30096.81	105
13	Health & FW	50020.00	46249.74	92
14	Higher Edn.	28786.00	30203.07	105
15	Home & Vigilance	11151.50	5788.61	52
16	Housing	4330.00	2006.99	46
17	Industries & Commerce	54745.00	50288.87	92
18	IT	21976.00	15233.38	69
19	Labour & rehabilitation	41756.00	40897.02	98
20	Law	89.00	66.30	74
21	LSGD	462900.00	347539.42	75
22	NORKA	1581.00	933.14	59
23	P & ARD	515.00	115.05	22
24	Planning	13082.50	10579.74	81
25	Ports	27759.00	26781.86	96
26	Power	116541.00	54332.85	47
27	Public Relations	2610.00	2152.21	82
28	PWD	61233.00	182031.85	297
29	Revenue	2320.00	1430.39	62
30	SC/ST Devpt. Dept.	73771.00	81933.57	111
31	Science & Technology	6645.00	5383.95	81
32	Social Welfare	32330.00	43401.49	134
33	Sports & Youth Affairs	9592.00	9581.75	100
34	Taxes	792.00	701.20	89
35	Tourism	17091.00	16505.98	97
36	Transport	28764.00	17851.23	62
37	Water Resources	130155.00	83713.62	64
		1401000.00	**1257283.96**	**90**
			Mean	90.84
			S.D	52.36
			C.V	57.64
Source:Planning and Economic Affairs (CPMU) Department, Govt of Kerala				

set apart for state plan schemes, 100% Centrally Sponsored Schemes (CSS) and other CSS were respectively Rs 14010 crore, Rs 1954.21 crore and Rs 1122.38 crore. The CSS accounts for 13 percent of total plan outlay of the State. Table 5.1 gives the Department wise plan outlay and plan expenditure for the year 2012-13. During 2012-13, of the total plan outlay, the amount spent accounts for 90% while the same figure for 2011-12 was 91.21%. There is a wide disparity in plan spending between Departments. Of the thirty seven Departments, six have spent more than the total plan outlay given in the budget.

5.6 The Departments which spent more than the plan outlay are Legislature, General Education, Higher Education, SC/ST Department, PWD and social welfare. The highest percentage of plan outlay was spent by PWD which goes up to 297 percent of budget outlay as compared to 265 percent during 2011-12. The excess spending of PWD over the budgeted outlay was due to accrual of past arrears, spending out of MLA funds and transfer of funds of other Departments earmarked for public works. At the sametime some Deparments such as GAD, P&ARD and Power spent less than 50% of the outlay.

5.7 Table 5.2 shows the performance of overall plan expenditure of Departments, which include the spending for Other CSS and 100% CSS in addition to State Plan Schemes. Overall, the State could utilise only 87.51% of plan funds. The utilisation of Other CSS and100% CSS are only 74 and 73 percent respectively. No Departments could utilise fully these Centrally sponosored schemes during the year. The Departments such as LSGD, Public Relations and Revenue did not spend even a single rupee from the 100% CSS. In the case of other CSS, the Departments such as GAD, Labour and Rehabilitation and Revenue did not utilise any amount during the year 2012-13. As the State has been reeling under severe financial crisis for the last few years, this underutilisation of CSS calls for serious attention and immediate corrective measures.The Committee suggests that a Task force may be formed for examining the basic reasons for underutilisation of these CSS and taking corrective measures immediately. The Committee also recommends that strong

Table 5.2 Department level spending of aggregate plan outlay (including CSS) for 2012-13

		Other CSS		*100%CSS*		Overall plan expenditure
		Outlay	% Expenditure	Outlay	% Expenditure	% Expenditure
1	Animal Husbandry	1005.00	89	800.00	175	82.51
2	Agriculture	1455.00	81	835.00	93	89.51
3	Cooperation			6100.00	59	72.99
4	Cultural Affairs					84.82
5	Legislature					276.41
6	Environment					83.16
7	Finance					95.03
8	Fisheries	3120.00	89	1800.00	91	94.95
9	Food, Civil Supplies &					76.29
10	Forest	1700.00	69	1476.00	70	87.22
11	GAD	5700.00	0			2.91
12	Gen. Edn.	27655.00	26	8328.49	88	68.83
13	Health & FW	100.00	99	29914.25	77	86.72
14	Higher Edn.	4695.00	48	14236.00	57	85.17
15	Home & Vigilance					51.91
16	Housing	1050.00				37.30
17	Industries & Commerce	2655.25	57	75.00	83	90.23
18	IT					69.32
19	Labour & rehabilitation	4500.00	0	7.75	57	88.41
20	Law					74.49
21	LSGD	7668.00	36	873.38	0	74.31
22	NORKA					59.02
23	P & ARD					22.34
24	Planning	885.84	4	2472.22	107	80.64
25	Ports					96.48
26	Power					46.62
27	Public Relations			523.00	0	68.69
28	PWD	1050.00	71			293.46
29	Revenue	1000.00	0	219.10	0	40.42
30	SC/ST Devpt. Dept.	6181.39	47	23512.04	83	100.82
31	Science & Technology					81.02
32	Social Welfare	19323.00	137	14249.40	51	117.19
33	Sports & Youth Affairs					99.89
34	Taxes	50.00	97			89.06
35	Tourism					96.58
36	Transport	215.00	70			62.12
37	Water Resources	22230.00	146			76.29
		112238.48	**74**	**105421.63**	**73**	87.51
	Mean		61.37		68.19	61.37
	S.D		43.84		44.38	43.84
	C.V		71.44		65.08	71.44

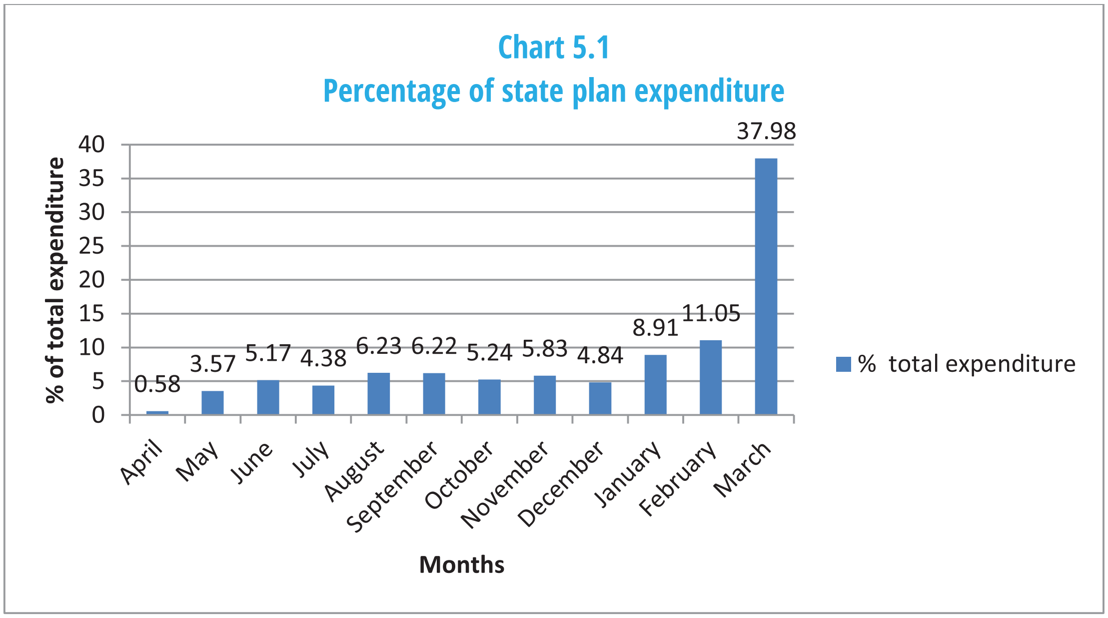
Source: Planning and Economic Affairs (CPMU) Department, Govt of Kerala action may be initiated against those officers who are deliberately responsible for delay in plan implementation and wastage of state resources.

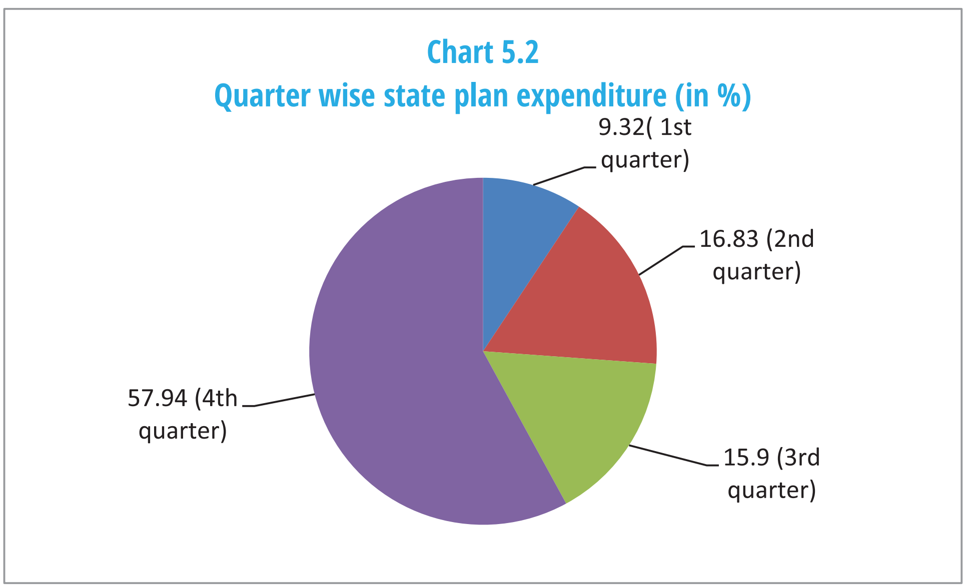
Monthwise plan expenditure

5.8 The pattern of expenditure can be assessed by examining the month wise and quarterwise expenditure of Government Departments. Table 5.3 gives the monthwise State plan expenditure of Government Departments during the year 2012-13. Chart 5.1 and 5.2 represent the trends in plan expenditure monthwise and quarter wise respectively.

Table 5.3 Monthwise plan expenditure of government Departments for 2012-13

Month	Total plan expenditure	% to total expenditure	Norm fixed by the Govt	% difference from norm
Apr-12	7317.75	0.58		
May-12	44843.53	3.57		
Jun-12	65005.03	5.17		
1st quarter	**117166.31**	**9.32**	**10%**	**-6.81**
Jul-12	55051.10	4.38		
Aug-12	78351.15	6.23		
Sep-12	78244.02	6.22		
2nd quarter	**211646.27**	**16.83**	**30%**	**-43.89**
Oct-12	65822.42	5.24		
Nov-12	73351.00	5.83		
Dec-12	60794.71	4.84		
3rd quarter	**199968.13**	**15.90**	**30%**	**-46.98**
Jan-13	112042.54	8.91		
Feb-13	138896.60	11.05		
Mar-13	477564.10	37.98		
4th quarter	**728503.24**	**57.94**	**30%**	**93.14**
Total	1257283.95	100.00	100	
Source:Planning and Economic Affairs (CPMU) Department, Govt of Kerala				





5.9 The data reveal that there exists large variation of plan expenditure monthwise, quarter wise at Department level. Except the first quarter, there was a wide gap between the targeted and actual percentage of plan expenditure of the State at Department level. During the first quarter, between April to June, the target of spending is fixed at 10 percent and the State could nearly achieve the target. In the second quarter, between July and

September, the actual spending was 16.83 percent as against the targeted expenditure of 30 percent. In the third quarter, between October and December, the actual expenditure was 15.9 percent against the targeted level of 30 percent. In the last quarter, between January and March 2012, the actual spending was 57.94 percent against the targeted level of 30 percent. During second and third quarters, the shortfall of expenditure to the norm fixed by the government was 43.89% and 46.98% respectively. However, in the fourth quarter, the situation had dramatically changed. The percentage of expenditure incurred during the fourth quarter was in excess of 93.14% of actual norm fixed by the government.

5.10 As in the previous years, a disturbing factor was the spending of a large chunk of plan expenditure during February and March. The percentage of plan fund utilisation during Februrary and March were 11.05 and 37.98 percent respectively. Postponing the spending to the last quarter and that too the last month of the financial year adversely affected the effectiveness of plan spending and hence it must be viewed seriously and corrective measures must be initiated. One of the reasons behind the delay in implementation of plan schemes as noted by the Committee is the delay in passing of the State budget in June and July. This further delays the processing of schemes by the Department for administrative sanction and implementation. The Committee recommends again that steps may be taken to pass the budget in March every year.

Evaluation of the quality of plan expenditure at Department level

5.11 The Committee has evaluated the existing effectiveness of plan expenditure as compared to the norm fixed by the state government. At Department level, the Committee identified those Departments which adhere to the norm fixed by the Government as a percentage of total plan expenditure quarterwise with 5% variation on either side. Table 5.4 shows the names of the Departments which adhere to the above norm. In the first quarter fourteen Departments (38% of total) spent between 5-15% of plan expenditure. At the sametime, only seven Departments could adhere to the norm of plan expenditure for second and third quarter respectively. During the fourth quarter, only PWD could adhere to the norm fixed for plan expenditure. As compared to previous years, the Public Works

Department (PWD) has improved its efficiency in plan spendng with respect to percentage utilisation of allotted funds as well as to the monthly pattern of spedning over the financial year. However, the majority of Departments could not satisfy the norms fixed for quartely expenditure of plan outlay in Kerala.

Table 5.4 Departments and expenditure to total plan expenditure in various quarters in 2012-13 (5% lower and upper variation from the stipulated norms)

Between 5 -15% during the 1st quarter	25-35% during the 2nd quarter	25-35% during the 3rd quarter	25-35% during the 4th quarter
Animal Husbandry	Animal Husbandry	Agriculture	PWD
Food, Civil Supplies and Consumer Affairs	Higher Education	Health and Family Welfare	
GAD	Labour and Rehabilitation	Higher Education	
Industries and Commerce	P& ARD	IT	
NORKA	Power	NORKA	
Power	PWD	Power	
PWD	Social Welfare	Transport	
SC/ST Department			
Science and Technology			
Social Welfare			
Sports and Youth Affairs			
Tourism			
Transport			
Water Resources			
Source:Planning and Economic Affairs (CPMU) Department, Govt of Kerala			

5.12 Table 5.5 shows the classification of Departments based on percentage of plan expenditure to outlay. The Departments are classified into three: those spending upto 60%, between 60 and 80% and more than 80% of plan outlay. It shows that six Departments spent less than 60% of plan outlay: the lowest by GAD (11%) followed by P&ARD (22%). Eight Departments spent between 60 and 80% of plan outlay. However, twenty three Deparments out of thirty seven (62% of total) spent more than 80 percent of plan outlay during the financial year 2012-13. The Departments which exceeded their plan spending above 100 percent are PWD (297%), Legislature (276%), Social Welfare (134%), SC/ST Development (111%) and Higher Education (105%). The Committee feels that the reasons behind the excess of expenditure over the annual outlay need to be probed in detail.

Table 5.5 Departments and spending of plan outlay

Spending upto 60% of plan outlay		Spending between 60 and 80% of plan outlay		Spending above 80% of plan outlay	
Departments	Plan spending (%)	Departments	Plan spending (%)	Departments	Plan spending (%)
GAD	11	Revenue	62	Planning	81
P & ARD	22	Transport	62	Science & Technology	81
Housing	46	Water Resources	64	Public Relations	82
Power	47	IT	69	Environment	83
Home & Vigilance	52	Law	74	Cultural Affairs	85
NORKA	59	LSGD	75	Cooperation	86
		Food, Civil Supplies & Consumer Affiars	76	Taxes	89
		Animal Husbandry	79	Agriculture	90
				Forest	92
				Health & FW	92
				Industries & Commerce	92
				Finance	95
				Fisheries	96
				Ports	96
				Tourism	97
				Labour &	98
				Sports & Youth	100
				Gen. Edn.	105
				Higher Edn.	105
				SC/ST Devpt. Dept.	111
				Social Welfare	134
				Legislature	276
				PWD	297
Source:Planning and Economic Affairs (CPMU) Department, Govt of Kerala					

5.13 Table 5.6 shows the details of plan expenditure by various Departments during the month of March 2013. Departments are classified into three groups: those spending upto 20%; between 20 and 50%; and more than 50%. It reveals that out of 37 Departments, eight Departments spent less than 20% during the month of March. Fifteen Departments spent between 20 and 50% and fourteen Departments spent more than 50%. The major Departments which spent above 70% of total plan outlay during March are General Education, Information and Public Relation, Revneue, Ports, Finance and Law. The Law Department spent the entire outlay during the month of March.

Table 5.6 Plan Expenditure of Departments during the month of march 2013

Spending upto 20% of plan outlay		**Spending between 20 and 50% of plan outlay**		**Spending above 50% of plan outlay**	
Departments	Plan spending (%)	Departments	Plan spending (%)	Departments	Plan spending (%)
Power	-0.13	Home & Vigilance	22.79	Health & FW	51.38
Planning	8.49	Water Resources	28.03	Environment	54.97
P & ARD	12.46	Sports & Youth Affairs	28.99	IT	57.92
Transport	12.65	Taxes	30.51	Housing	58.54
Labour & rehabilitation	17.53	Science & Technology	32.36	GAD	58.58
Higher Edn.	18.56	Tourism	32.90	Cultural Affairs	59.23
PWD	19.12	Agriculture	34.45	Fisheries	65.94
Animal Husbandry	19.22	SC/ST Dept.	36.71	Cooperation	69.82
		NORKA	38.64	Gen. Edn.	71.73
		Indusries & Commerce	41.72	Information &Public Relations	72.23
		Legislature	42.30	Revenue	90.07
		Forest	47.29	Ports	94.58
		Food, Civil Supplies & Consumer Affiars	47.41	Finance	97.66
		LSGD	47.93	Law	100.00
		Social Welfare	48.21		
Source:Planning and Economic Affairs (CPMU) Department, Govt of Kerala					

Ranking of Departments based on the quality of plan expenditure

5.14 The Committee adopted certain criteria for ranking various Departments with respect to quality of plan expenditure during 2012-13. The selected criteria and methodology of ranking of Departments are described already in the introduction. Table 5.7 shows the ranking of Departments as explained in the methodology. While 6th column of the Table shows the aggregate value of all ranks by combining all individual ranks, the 7th column shows the rank of each department based on the 6th column. Results indicate that the Sports and Youth Affair, SC/ST Development, Toursim and Health and Family Welfare are ranked first, second, third and fourth respectively. The lowest ranked Departments is Revenue followed by GAD, Law, and Power.

5.15 The aggregate ranks (column 6) of the above Table are divided into four quartiles by classifying the Department as ‘Very Poor’, ‘Poor’, ‘Good’ and ‘Very Good’. The ‘Very Poor’ Departments belong to the first quartile while ‘Poor’, ‘Good’ and ‘Very Good’ Departments belong to the second, third and fourth quartiles respectively. This classification is given in Table 5.8.

5.16 As per our norm, out of the thirty seven Departments, only nine Departments could come up to the status of ‘Very Good’ and at the same time seventeen Departments belonged in the category of ‘Poor’ and ‘Very Poor’. In this context, the Committee suggests that the existing monitoring and evaluation mechanism at Secretary level must the strengthened.

Table 5.7 Criteria and ranking of departments with respect to spending of plan outlay during 2012-13

1	2	3	4	5	6	7
Sl.No	Departments	Rank on the basis of % of plan spending	Rank on the basis quarterly expenditure from the norm	Rank on the basis of spending during the month of March	Sum of all ranks (3+4+5)	Final Rank
1	Animal Husbandry	24	16.00	15	55.00	18
2	Agriculture	16	5.00	8	29.00	5
3	Cooperation	18	14.00	31	63.00	24
4	Cultural Affairs	19	7.00	29	55.00	18
5	Legislature	2	27.00	25	54.00	16
6	Environment	20	22.00	36	78.00	31
7	Finance	12	21.00	30	63.00	24
8	Fisheries	10.5	12.00	21	43.50	12
9	Food, Civil Supplies & Consumer Affiars	25	10.00	20	55.00	18
10	Forest	14	37.00	28	79.00	32
11	GAD	37	30.00	32	99.00	36
12	Gen. Edn.	5.5	13.00	24	42.50	11
13	Health & FW	14	8.00	6	28.00	4
14	Higher Edn.	5.5	32.00	9	46.50	13
15	Home & Vigilance	33	11.00	27	71.00	29
16	Housing	35	18.00	33	86.00	33
17	Industries & Commerce	14	19.00	18	51.00	14
18	IT	28	17.00	26	71.00	29
19	Labour & rehabilitation	8	20.00	5	33.00	6
20	Law	27	34.00	37	98.00	35
21	LSGD	26	24.00	19	69.00	28
22	NORKA	32	9.00	22	63.00	24
23	P & ARD	36	1.00	17	54.00	16
24	Planning	22.5	35.00	3	60.50	21
25	Ports	10.5	28.00	2	40.50	9
26	Power	34	23.00	35	92.00	34
27	Public Relations	21	29.00	1	51.00	14
28	PWD	1	31.00	7	39.00	8
29	Revenue	30.5	36.00	34	100.50	37
30	SC/ST Devpt. Dept.	4	6.00	16	26.00	2
31	Science & Technology	22.5	2.00	13	37.50	7
32	Social Welfare	3	15.00	23	41.00	10
33	Sports & Youth Affairs	7	3.00	11	21.00	1
34	Taxes	17	33.00	12	62.00	23
35	Tourism	9	4.00	14	27.00	3
36	Transport	30.5	26.00	4	60.50	21
37	Water Resources	29	25.00	10	64.00	27

Source: Estimated from 'Annual Plan Review', Planning and Economic Affairs (CPMU) Department, Govt of Kerala

Table 5.8 Departments and their relative position in plan spending

	Very Poor	Poor	Good	Very good
1	Environment	Cooperation	Animal Husbandry	Agriculture
2	Forest	Finance	Cultural Affairs	Health & FW
3	GAD	LSGD	Legislature	Labour & rehabilitation
4	Home & Vigilance	NORKA	Fisheries	Ports
5	Housing	Planning	Food, Civil	PWD
6	IT	Taxes	Gen. Edn.	SC/ST Devpt. Dept.
7	Law	Transport	Higher Edn.	Science & Technology
8	Power	Water	Industries &	Sports & Youth Affairs
9	Revenue		P & ARD	Tourism
10			Public Relations	
11			Social Welfare	
Source: Estimated from 'Annual Plan Review', Planning and Economic Affairs (CPMU)				

Plan Expenditure at LSG level

5.17 A sizeable share of State resources is spent through local self governement institutions (LSGs) for economic development. Achievements of physical targets as well as quality of plan expenditure at LSG level are influenced by the spread of public expenditure over the time spectrum of a financial year. LSG institutions are classified into Panchayats institutions and urban institutions. Panchayat institutions consist of village, block and district panchayats. The urban governing institutions are categorised into Municipalities and Corporations. Table 5.9 shows the state outlay allocated to LSGIs and its utilisation. As per the Annual Plan Review prepared by the CPMU of Department of Planning and Economic Affairs, both Village and Block Panchayat utilised more than 95 percent of state fund allotted to them. However, the performance of urban local bodies such as Municipalities and Municipal Corporation were very poor. The percentage of expenditure to outlay for Municipalities and Municipal Corporation were 76.34 and 71.28 percent respectively. As the State is facing certain serious urban developmental issues such as solid waste management, drainage and drinking water facilities etc, the lacklustere performance of urban bodies (inspite of better infrastructure for administration as compared to Panchayat local bodies) in plan implementation is a clear indication of their callous indifference and moral turpitude towards burning social issues. A detailed investigation is warranted for identifying reasons contributing to this poor performance of ULBs. The Committee again recommends for the constitution of a high level committee to look into the factors contributing to the inefficient plan spending in ULBs and to suggest corrective measures.

Table 5.9 Total outlay and expenditure of LSGIs in Kerala during 2012-13 (Rs in lakh)

Name of LSGIs	Total outlay	Total expenditure	% of expenditure to outlay
Village Panchayat	184996.75	178155.16	96.30
Block Panchayat	39858.32	38867.15	97.51
District Panchayat	39858.32	32044.86	80.40
Municipalities	33328.20	25443.64	76.34
Corporations	24758.41	17647.76	71.28
Source: Planning and Economic Affairs (CPMU) Department, Govt of Kerala			

5.18 Table 5.10 reveals the monthwise and quarterwise spending of plan outlay earmarked to Panchayat Raj institutions (PRIs) in Kerala during 2012-13. During the first quarter, the amount of plan expenditure incurred by the Panchayat institutions is very low. Percentage of total plan expenditure during the first quarter by various village panchayats in 2012-13 was only 0.36% while it was 0.45% for Block and 1.22% for District Panchayats. A major share of plan fund of the PRIs was spent during the fourth quarter and that too during the month of March. The percentage of total state plan fund utilised by Village, Block and District Panchayat during the last quarter was respectively 81.72, 82.85 and 70.87. At the sametime the spending during the month of March by Village, Block and District Panchayats were respectively 50.15, 49.94 and 49 percent. This skewed distribution of plan expenditure over the year adversely affects the quality of plan expenditure. The Committee suggests that a monitoring mechanism should be initiated at State Planning Board level/ LSG Department level to ensure the avoidance of this skewed and distorted pattern of plan spending. Also, the State Government should formulate guidelines for effective and time bound implementation of Annual plans and ensure that the annual plan grants of the Local bodies are in accordance with the guidelines.

Table 5.10 Monthwise plan expenditure of village, block and district panchayats for 2012-13

Month	Village panchayat	% of expenditure	Block panchayat	% of expenditure	District panchayat	% of expenditure
Apr-12	0.00	0.00	0.00	0.00	0.00	0.00
May-12	0.00	0.00	0.00	0.00	0.00	0.00
Jun-12	696.81	0.36	190.48	0.45	457.52	1.22
1st quarter	**696.81**	**0.36**	**190.48**	**0.45**	**457.52**	**1.22**
Jul-12	390.18	0.20	219.76	0.52	909.99	2.43
Aug-12	3381.13	1.72	718.88	1.69	1118.34	2.98
Sep-12	1978.17	1.01	359.05	0.84	653.49	1.74
2nd quarter	**5749.48**	**2.93**	**1297.69**	**3.05**	**2681.82**	**7.15**
Oct-12	3665.54	1.87	665.90	1.57	1513.27	4.03
Nov-12	1364.15	0.70	58.48	0.14	119.85	0.32
Dec-12	6449.55	3.29	1432.07	3.37	691.28	1.84
3rd quarter	**11479.24**	**5.85**	**2156.45**	**5.07**	**2324.40**	**6.20**
Jan-13	31344.98	15.99	8072.94	18.99	3358.28	8.95
Feb-13	30559.55	15.59	5918.85	13.92	4842.09	12.91
Mar-13	98325.10	50.15	21230.74	49.94	18380.75	49.00
4th quarter	**160229.63**	**81.72**	**35222.53**	**82.85**	**26581.12**	**70.87**
Total	196080.69	100.00	42511.77	100.00	37508.60	100.00

Source: Estimated from 'Annual Plan Review', Planning and Economic Affairs (CPMU) Department, Govt of Kerala

5.19 Table 5.11 shows the monthwise and quarterwise spending of state plan funds by urban institutions of Municapalities and Municipal Corporation. It reveals that almost 95 percent of funds are utilised during the third and fourth quarter by them. The percentage of plan fund utilised during the fourth quarter by Municipalities and Muncipal Corporation were respectively 70.20 and 67.15. At the sametime, the percentage of amount spent during the month of March by Municipalites and Municipal Corporation were 53.19 and 59.79 respectively. Thus, this bunching of plan expenditure by LSGIs (both rural and urban) at the end of the financial year adversely affects the very purpose of raising the welfare of local people through the plan schemes.

Table 5.11 Monthwise plan expenditure of municipalities and corporation for 2012-13

Month	Municipalities	% of expenditure	Corporation	% of expenditure
Apr-12	0.00	0.00	0.00	0.00
May-12	0.00	0.00	0.00	0.00
Jun-12	144.99	0.48	9.00	0.04
1st quarter	**144.99**	**0.48**	**9.00**	**0.04**
Jul-12	78.03	0.26	74.30	0.35
Aug-12	348.27	1.16	410.43	1.94
Sep-12	320.67	1.07	719.30	3.41
2nd quarter	**746.97**	**2.50**	**1204.03**	**5.70**
Oct-12	2419.25	8.09	1890.23	8.95
Nov-12	137.48	0.46	79.90	0.38
Dec-12	1005.62	3.36	285.23	1.35
3rd quarter	**3562.35**	**11.92**	**2255.36**	**10.68**
Jan-12	2214.83	7.41	454.04	2.15
Feb-12	2871.93	9.61	1098.93	5.20
Mar-12	15902.57	53.19	12626.40	59.79
4th quarter	**20989.33**	**70.20**	**14179.37**	**67.15**
Total	29897.95	100.00	21116.15	100.00
Source: Estimated from 'Annual Plan Review', Planning and Economic Affairs (CPMU) Department, Govt of Kerala				

Plan Expenditure of Departments- A diagnosis

5.20 An assessment was conducted among Departments to gain some insights into various practical issues in connection with plan implementation. Data was collected on the basis of a questionnaire from twenty five Heads of Department. The Committee also held meeting with them.

Nature of schemes implemented under the State plan

5.21 All schemes implemented by the Departments are classified into (i) directly productive schemes, (ii) social overhead capital, (iii) welfare schemes, (iv) training activities and (v) administrative activities. Directily productive activity schemes are those schemes, which directly make some impacts on production such as providing raw materials, creating additional employement etc. Social overhead capitals are those infrastructural facilities which improve the productive capacity of the economy, but not directly, such as roads, bridges etc. Welfare schemes are those activities those are mainly intended for increasing the immediate well being of the citizens such as food security, old age pension etc. Administrative activity schemes are those that improve the administrative efficiency of the organisation, such as introducing e-governance, modernisation of checkpost etc. Table 5.12 shows that out of the total schemes implemented by the Departments, only 2 percent is directly productive. The major part of plan schemes is for developing social overhead capital. This comes to around 53 percent. The respective shares of welfare, training and administrative schemes are 24.2%, 8.4% and 12.4%. The growth of the economy depends largely on the expansion of productive activities, some of which are normally materialised through plan expenditure. However, a major portion of plan outlay in the State is earmarked for welfare, training and administrative activities, which substantially reduce the potential for economic growth of the State indirectly. A proper and scientific classification of schemes based on their impact on the soceity is needed while including them in the annual plan of the State. The Committee recommends that steps may be initiated for prioritisation of schemes on the basis of public investment criteria for attaining a sustainable economic growth while preparing the annual and five year plans of the State. The schemes are also classified into state schemes, centrally sponsored schemes, ongoing and new schemes. Out of all schemes, the percentage of state schemes and CSS are 77 and 13 respectively. The percentages of ongoing and new schemes are 89 and 11 respectively.

Table 5.12 Nature of schemes implemented under state plan in various departments in 2012-13 (in

Sl.No	Department	Type of schemes					
		Directly productive activities	Social overhead capital	Welfare schemes	Training activities	Administ rative activities	Total
1	Animal Husbandry	2.6	68.4		10.5	18.4	100
2	Command Area Development Authority		80.0			20.0	100
3	Commissionarate of civil supplies		20.0	40.0	40.0		100
4	Cyber park		100.0				100
5	Department of Tourism		78.6	7.1		14.3	100
6	Directorate of Social Justice	2.2	13.3	73.3	8.9	2.2	100
7	Forest Department	5.5	72.7	1.8	5.5	14.5	100
8	Ground Water Department		87.5		12.5		100
9	Health Department		44.0	34.0	8.0	14.0	100
10	Industry & commerce	17.6	29.4	2.9	20.6	29.4	100
11	Infopark		100.0				100
12	Investigation & Design Research Board		33.3		8.3	58.3	100
13	Irrigation & Administration Dept.		92.6	3.7	3.7		100
14	IT Mission		64.0		16.0	20.0	100
15	Kerala Public Works Department (National Highway)		88.9		11.1		100
16	Kerala Water Authority		86.0	2.3	2.3	9.3	100
17	KSEB		30.2	52.4	4.8	12.7	100
18	Kuttanad Package		100.0				100
19	Motor Vehicles Department		25.0		25.0	50.0	100
20	Office of the Chief Engineer, Project		100.0				100
21	Port Department		75.0		5.0	20.0	100
22	PWD (Roads & Bridges)		79.5		11.4	9.1	100
23	Scheduled Caste Department	2.5	22.5	57.5	10.0	7.5	100
24	Sheduled Tribe Department	2.2	31.5	51.1	8.7	6.5	100
25	Technopark		100.0				100
	Average %	2.1	52.9	24.2	8.4	12.4	
Source: Data supplied by the Department							

Quarterly spending of plan outlay

5.22 Table 5.13 shows the quarter wise plan expenditure of Departments. On an average, during the first quarter, Departments spent nearly 11 percent of the outlay, while it was 15 percent during the second quarter. The plan spending for 3rd and 4th quarters are 21% and

Table 5.13 Quarterly average plan expenditure (in %) by departments

Department	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
Animal Husbandry	2.38	7.42	13.82	76.37	100
Command Area Development	19.62	20.02	27.04	33.32	100
Commissionarate of civil supplies	9.80	9.24	1.54	79.42	100
Cyber park	40.86	8.24	34.41	16.49	100
Department of Tourism	2.74	9.16	19.07	69.03	100
Directorate of Social Justice	25.66	16.02	17.70	40.62	100
Forest Department	4.50	14.31	18.51	62.69	100
Ground Water Department	8.14	6.66	21.55	63.65	100
Health Department	0.56	2.75	26.26	70.42	100
Industry & commerce	0.00	12.32	13.39	74.29	100
Infopark	0.29	3.71	11.75	84.26	100
Investigation & Design Research	2.15	3.61	13.09	81.15	100
Irrigation & Administration Dept.	17.67	20.01	20.65	41.67	100
IT Mission	20.10	11.68	31.25	36.98	100
Kerala Public Works	23.45	27.87	29.53	19.16	100
Kerala Water Authority	16.57	14.28	26.61	42.54	100
KSEB	4.85	14.85	26.11	54.19	100
Kuttanad Package	26.42	1.92	3.11	68.55	100
Motor Vehicles Department	0.00	8.48	56.53	34.99	100
Office of the Chief Engineer,	18.14	37.11	17.62	27.12	100
Port Department	0.07	0.66	24.62	74.64	100
PWD, Roads & Bridges	11.64	22.94	14.20	51.21	100
Scheduled Caste Department	1.61	6.28	12.05	80.07	100
Sheduled Tribe Department	10.05	13.75	26.99	49.21	100
Total	8.36	12.33	21.09	58.22	100
Source: Data supplied by the Department					

58% respectively. Out of total plan spending, 79% of it was spent during the 3rd and 4th quarter together. The Departments such as Scheduled Caste, Info Park, Investigation of Research Design Board and Animal Husbandry spent largest share of plan outlay during the 4th quarter.

5.23 Table 5.14 shows the quarter wise plan expenditure for various types of schemes. The highest percentage of spending during the 1st quarter was for directly productive activity schemes. At the sametime, the highest share of spending during the 4th quarter was for training and administrative activities. It implies that the quarter wise variation in plan spending is greately influenced by the nature of schemes.

Table 5.14 Quarterly average plan expenditure (in %) for different types o f schemes

Nature of scheme	1st Quarter	2st Quarter	3rd Quarter	4st Quarter
Schemes varying in its impact on the economy				
Directly productive activities	18.24	13.51	19.84	53.85
Social overhead capital	11.11	15.04	24.13	57.26
Welfare schemes	13.72	18.01	27.27	52.31
Training activities	10.35	13.88	22.73	62.38
Administrative activities	6.93	11.32	21.52	66.29
Between state and centrally sponsored schemes				
State scheme	12.22	15.11	24.90	56.12
Centrally sponsored scheme	4.75	15.59	21.06	67.10
CSS with difference in centre's share				
50%	3.99	14.23	23.82	64.23
75%	0.00	0.00	8.80	91.20
90%	22.97	26.46	22.28	39.77
100%	4.07	16.66	15.46	75.57
Ongoing or new scheme				
Ongoing and old	12.21	15.34	24.38	56.09
New	3.04	10.46	21.18	68.79
Source: Data supplied by the Department				

5.24 Schemes implemented by the Departments are categorised into State Schemes and Centrally Sponsored Schemes (CSS) and their corresponding percentage of plan expenditure quarterwise are also shown in Table 5.14. It shows that as compared to CSS, State schemes are better implemented in the State. Only 4.75 percentages of CSS was spent during the first quarter while the same figure for the fourth quarter was 67.10%.

5.25 The CSS which are implemented in the State have different fund sharing pattern between the Centre and the State. During the reference year, the Centre's share of fund for implementing CSS are either 50%, 75%, 90% and 100%. There is no systematic spending pattern for CSS in the State. The Table 5.14 shows that while only 4% of fund for 100% CSS utilised during the 1st quarter, the same figure for 4th quarter was 76%. In the State many CSS are implemented by the Department through various offshoot agencies, and the concerned Departments have no control over them for the timely implementation, auditing the report and preparing utilisation certificate. The Committee again recommends that monitoring mechanism of the parent departments over the offshoot/subsidiary agencies must be strengthened for achieving better accountability of the former.

5.26 There is variation of plan expenditure during various quarters between new and old/ongoing schemes. The largest share of funds of both types of schemes was spent during the fourth quarter. While ongoing schemes spent nearly 56% during 4th quarter, the same figure for new schemes was 69%. Though there is difference in quarter wise fund utilisation between ongoing and new schemes, the difference is not very high. It implies that the ineffective implementation is equally applicable for both new and old schemes.

Spending during the last quarter of the financial year

5.27 Table 5.15 reveals the percentage of total plan expenditure incurred during the last three months of the financial year for different types of schemes. It shows that nearly 36 percent of State schemes and 43 percent of CSS funds are utilised during the month of March alone.

5.28 As compared to new schemes, more plan funds were spent during the month of March for onging or old schemes. Since the sanction for ongoing schemes are already obtained by various Heads of Department, the delayed utilisation of plan funds for these schemes reflects unjustiable indifference on the part of implementing agencies.

5.29 The Table 5.15 highlights that there is a great difference in plan fund utilisation between State schemes and CSS during the last three months of the financial year. The percentage of total expenditure for State schemes and CSS during March are 35% and 43% respectively.

Table 5.15 Average percentage of total expenditure during the last quarter in various months

Nature of scheme	January	February	March
Between State schemes and CSS			
State scheme	11.95	8.58	35.58
Centrally sponsored scheme	11.81	12.53	42.75
Between ongoing and new schemes			
Ongoing and old	10.13	8.70	37.25
New	22.44	15.80	30.54
Between schemes differening their impacts on the economy			
Directly productive activities	6.75	15.92	31.16
Social overhead capital	11.79	11.16	42.61
Welfare schemes	21.69	14.73	41.12
Training activities	15.06	11.66	40.36
Administrative activities	11.92	11.90	51.91
Source: Data supplied by the Department			

5.30 A major share of funds earmarked for schemes pertaining to administrative activities is spent only during the month of March. However, there is not much difference in spending pattern among the schemes classified as social overhead capital, welfare and training activities. In general, a major share of funds of all schemes is spent during the last three months and that too during the month of March.

Administrative sanction for the scheme

5.31 The date of administrative sanction is an important factor for effective utilisation of plan funds. Administration sanctions are needed from the concerned Departments which implements the scheme as well as from the Department of Finance. All new schemes have to obtain the adminstrative sanction. However, the administrative sanction is taken for a large number of ongoing schmes also by Departments.The delay in obtaining administrative sanction and consequent delay in release of funds adversely affect the timely implementation of schemes. Table 5.16 shows the month wise percentage number of administrative sanction given to Heads of Departments. It shows that the largest number of administrative sanctions was given during the month of June and December. It implies that a significant number of sanctions were accorded to various schemes only at the end of 3rd quarter. Even during the month of March ie, the last month of the financial year, administrative sanctions were given for implementing the schemes. The percentage of administrative sanction given for the month of January, February and March were 8.3%, 4.9% and 8.3% respectively.

Table 5.16 Months and administrative sanction (%)

Months	Percent of administrative sanction
April	3.6
May	10.9
June	17.4
July	7.8
August	6.5
September	3.1
October	6.8
November	6.3
December	15.9
January	8.3
February	4.9
March	8.3
Source: Data supplied by the Department	

5.32 Monthwise administrative sanction by types of schemes are given in Table 5.17. It shows that the largest percentge of administrative sanction for ongoing schemes are given during the month of December. Even during the month of March, the sanctions for ongoing schemes are given to various Departments. Also, nearly 11% of sanctions for new schemes were given during the month of March.

Table 5.17 Number of monthswise administrative sanctions (%) for ongoing (or old) and new schemes

Month	Between ongoing and new		Between State schemes and CSS	
	Ongoing and old	New	State schemes	CSS
April	4.3	5.4	4.9	.0
May	11.4	29.7	13.7	17.0
June	17.3	13.5	22.1	15.1
July	7.0	13.5	9.8	3.8
August	7.0	5.4	8.8	.0
September	1.1	8.1	2.9	.0
October	7.6	.0	6.9	1.9
November	4.9	2.7	4.4	3.8
December	29.7	8.1	15.2	54.7
January	4.3	2.7	3.9	1.9
February	2.2	.0	2.0	.0
March	3.2	10.8	5.4	1.9
Total	100	100	100	100
Source: Data supplied by the Department				

5.33 As compared to CSS, State plan schemes normally get administrative sanction much early. In the case of CSS, more than 50% of administrative sanctions were obtained by the concerned Department either during December or after that. Nearly 55 percent of administrative sanction for CSS obtained during the month of December alone. Also, there were a number of incidents that State plan schmes obtained administrative sanction even during the month of March, the last month of the financial year. One of the reason found by the Committee for the delayed administrative sanction is the unviable nature of many schemes prepared by the Department. There is no effective mechanism to scrutinise the physical and financial viability of schemes prepared by Departments initially. The Committee reiterates that the present mechanism for scrutinizing and evaluating the viability of schemes must be strengthened with professionals or professional agencies. The scrutiny of projects and preparing the plan schemes should start one year ahead of implementation so as to get the administrative sanctions at the beginning of the financial year. The Committee recommends that steps may be taken by the Department or Departmental Committee to issue administrative sanction for plan schemes within the first two months of the financial year.

5.34 Largest percentage of administrative sanctions for directly productive activity and social overhead capital schemes are obtained by the respective Department during the month of December. At the same time, the schemes coming under welfare, training and administrative activity received more administrative sanction before the month of December. Inspite of obtaining early administrative sanction to these schemes, their expenditure performance was very poor. Thus, the delay in administrative sanction itself cannot be treated as a sole reason behind poor performance in plan implementation. As there is lack of professionally skilled persons in monitoring the plan schemes at Department level, the Committee reiterates that the Departments may take steps to strengthen the project preparation activities with the help of outside experts including retired people and agencies in public and private sectors. The delay in sending request for administrative sanction by the concerned Department is also noticed here. Hence documentation on the date of sending the request for administrative sanction and release of fund with the actual date of sanctioning must be mentioned by the implementing officers for time bound evaluation of schemes.

Table 5.18 Number of monthswise administrative sanction (%) for various types of schemes

Month	Directly productive activities	Social overhead capital	Welfare schemes	Training activities	Administrative activities
April	.0	.0	8.7	7.7	7.8
May	22.2	13.0	17.4	11.5	15.7
June	11.1	20.3	13.0	34.6	23.5
July	11.1	8.1	10.9	7.7	7.8
August	.0	8.1	4.3	.0	11.8
September	.0	2.4	6.5	.0	.0
October	11.1	5.7	10.9	.0	3.9
November	.0	4.1	8.7	3.8	2.0
December	33.3	30.9	6.5	23.1	19.6
January	11.1	2.4	6.5	3.8	2.0
February	.0	1.6	.0	.0	2.0
March	.0	3.3	6.5	7.7	3.9
Total	100	100	100	100	100
Source: Data supplied by the Department					

Release of funds

5.35 Not only the time of administrative sanction, but also the date of release of funds is also another important factor influencing the efficiency of plan expenditure. Table 5.19 shows the cases of monthwise plan fund released to Departments. It reveals that the largest percent of cases of fund release are reported during the month of March, both for ongoing and new schemes. The percentage of plan funds for ongoing (or old) and new schemes released during the month of March were 33.5% and 23.1% respectively. It is very evident that the bunching of plan spending in the State is mainly caused by the delayed release of funds from the Department of Finance. Thus, along with the concerned implementing Departments, the Department of Finanace is also held responsible for poor plan performance in the State. The Committee recommends that there must a separate monitoring mechanism to ensure the quarter wise release of funds by the Finance Department, to be at least in the proportion (10:30:30:30) as stipulated by the Finance Department itself. Also, for a proper evaluation of bunching of plan spending by the Department, the data pertaining to the date of request by the implementing Departments and actual release of funds by the Finance Department are required. The Committee again recommends that the dates and amounts of release of funds to various schemes by the Finance Department must be given along with the expenditure of the respective Departments in the Annual Plan Review.

5.36 With respect to release of funds, there is not much difference between State plan schemes and CSS. Largest percentage of cases of fund release for both types of plan schemes occured during the month of March. However, nearly 50% of incidents of fund release for CSS occured during the month of March, while it was 27.8% for State plans schemes.

5.37 Table 5.20 shows the monthwise cases of release of funds to various schemes such as directly productive, social overhead capital etc. A major share of number of release of funds for directly productive activities, social overhead capital, training programmes and administrative schemes occured during the month of March. However, the release of funds for welfare schemes took place much earlier as compared to the other schemes.

Table 5.19 Number of monthwise release of funds to ongoing and new schemes (in%)

Month	Between ongoing and new		Between State schemes and CSS	
	Ongoing and old	New	State scheme	CSS
April	1.0	3.8	1.5	.0
May	17.5	7.7	14.1	16.9
June	7.5	3.8	8.1	.0
July	6.0	11.5	6.6	6.8
August	2.0	3.8	3.0	5.1
September	3.5	7.7	5.6	3.4
October	5.5	11.5	6.6	3.4
November	6.5	7.7	7.6	.0
December	5.5	7.7	7.6	3.4
January	8.0	3.8	7.6	5.1
February	3.5	7.7	4.0	6.8
March	33.5	23.1	27.8	49.2
Total	100	100	100	100
Source: Data supplied by the Department				

Table 5.20 Monthwise number of release of funds to various schemes (in%)

Month	Directly productive activities	Social overhead capital	Welfare schemes	Training activities	Administrative activities
April	.0	1.7	.0	.0	2.6
May	.0	10.8	27.5	26.7	7.9
June	22.2	2.5	17.6	.0	5.3
July	.0	6.7	5.9	10.0	7.9
August	22.2	2.5	2.0	3.3	5.3
September	.0	5.0	3.9	3.3	10.5
October	.0	8.3	5.9	3.3	2.6
November	.0	5.0	7.8	3.3	7.9
December	.0	6.7	2.0	6.7	15.8
January	11.1	3.3	15.7	.0	2.6
February	11.1	4.2	2.0	10.0	2.6
March	33.3	43.3	9.8	33.3	28.9
Total	100	100	100	100	100
Source: Data supplied by the Department					

Release of funds and spending on various schemes

5.38 Many Departments could not spend the entire plan amount alloted to various schemes. There are instances in which some Department could not spend even 50 percent of allotted funds to schemes. A detailed analysis was done on those Departments which have given the information on the release of funds and expenditure to various schemes. The results are summarised in the Table 5.21. The Table highlights those schemes of selected Departments for which the spending is less than 50 percent of released funds. The selected Departments are Scheduled Caste, Infopark, Industry and Commerce, Scheduled Tribe, ANERT and IT Mission. There are seven schemes in SC Department where spending is less than 50 percent of released amount. The schemes such as 'Better education to brighter SC students', 'construction of Boys hostel', ' of girl's hostel' and 'general scheme for SC', the SC department did not spent any amount. Many of these schemes are 50% centrally sponsored schemes. Out of released fund of Rs 438 lakh for Swarna Jayanthi Grama Rozgar Yojana, only 2.32% was spent during this year. As it was an ongoing programme, no separate administrative sanction was required for it. Similar is the case with many other schemes of other selected Departments. In case of IT Mission, they did not spent any amount released for the schemes such as 'Innovation Programmes- Formulation of Innovation Zone at Kochi', 'IPV4 to IPV6 Migration', 'Kerala Innovation Warehouse' and 'SGDG other ACA'. The Committee found that the lack of preparation and submission of viable schemes, timely monitoring of the implementation of schemes, non-submission of utilisation certificate on time, inadequate provision of state share etc are some of the important factors behind the inefficient utilisation of centrally sponsored schemes in the state. The non utilisation and under utilisation of 100% CSS and Other CSS amounts to a case for mismanagement of resources on the part of state government and strong corrective measures have to be implemented. The Committee reiterates that a special task to be initiated under the State Planning Board to equip all line Departments and local bodies for preparing and implementing CSS at various stages. Also frequent in-service training must be imparted to the implementing officers for preparing, implementing and evaluating of the schemes, with the help of professional agencies such as Centre for Management Development.

5.39 The underutilisation of the released fund is a serious issue and it is the hightime to investigate the probable reasons behind this and suggest corrective measures. The Committee found that currently, no accountability is fixed on officers for their lapses for poor plan spending. The accountability of officers at various levels in the Department may be fixed at the level of project formulation, obtaining administrative sanctions, monitoring and implementation. The Committee recommends again that appropriate action may be initiated against the officers responsible for these lapses.

5.40 The shortfall in spending of the released amount leads to parking of funds by the concerned Departments without being noticed by higher monitoring authority such as Centre for Plan Monitoring Unit of Department of Finance. The parking of the funds by the concerned Departments and the carry over expenditure to the next financial year must be discouraged. The deviation of spending to the released amount not only amounts to parking of funds but also gives the wrong signal to the monitoring authority, whch actually inflate the progress of plan implementation. Thus the actual progress of plan implementation at Department level is much below to the progress reported by the Plan Monitoring Unit of the State. The Departments must treat the parking and carry over spending from the previous year separately for getting a clear picture on annual plan performance. The Committee again recommends that the carry over outlay and its expenditure should be given in the Annual Plan review along with current year annual plan spending.

Table 5.21 Schmes in which the spending to the released fund is less than 50 percent during 2012-13

Scheme	Released amount (Rs lakh)	Percentage of spending to released amount
Scheduled caste department		
Better education to brighter SC students	20.00	0.00
Boarding grants	25.00	15.36
Construction of Boy's Hostel- SC(50% State share	200.00	0.00
Construction of Girl's Hostels(Post-Matric) Babu	400.00	0.00
Pre-primary education	170.00	10.90
SC's (50% State share)	200.00	0.00
Swarna Jayanthi Grama Rozgar Yojana	438.00	2.32
Infopark		
Land acquisition and infrastructure development –	265.00	3.77
Industry & commerce		
MSME award 2010-11	4.33	0.00
Sheduled Tribe Department		
Construction of Boys Hostel- 50% CSS& SS	499.00	6.61
ANERT		
Resource Assessment of renewable energy	1.00	2.00
IT Mission		
Citizens Call Centre	272.00	26.09
Innovatives Programmes-Formation of Innovation	100.00	0.00
IPV4 to IPV6 Migration-One time ACA	43.00	0.00
Kerala Innovation Warehouse	32.00	0.00
SSDG other ACA	91.00	0.00
State data centre	100.50	31.23
Video Conferencing	225.00	30.42
Source: Data supplied by the Department		

Budgeted outlay and released amount

5.41 Another serious issue is the discripancy between the budgeted outlay and released amount to various schemes. The shortage of released amount to the allotted amount might be a reason behind ineffective plan implementation. The schemes for evaluation are identifed from those departments for which the information on plan outlay and released amount are available. Table 5.22 shows certain schemes under various Departments, for which the released amount is less than 75% of the budgeted outlay in the Annual Plan. Under SC Department, the acutal released outlay for coaching and allied schemes is only

29 percent of annual outlay. This particular schemes is 100% CSS. For the scheme of Health Service under SC department, the released amount was just 13 percent of the annual outlay. For the Department of Public Works, though Rs 100 lakhs are allotted for CRF Bridge scheme, no money was released during this year for its implementation. In addition, no fund was released for the implementation of 50% CSS scheme of construction of Roads of Economic Importance. There were a number of schemes of Department of Forest, for which released outlay was less than 75%. Most of these schemes were either 100% or 50% CSS. The non-availability of funds from the State Government leads to non-implementation of these CSS and consequent lapse of Central funds. There are many other schemes under various Departments where the released fund is less than 10 percent. One of the Departments, which suffered greately with respect to non-release of budgeted outlay, is the IT Department. Many of the schemes prepared by the IT Departments are E-governance project such as KSWAN. Non-release of funds to these types of schemes makes adverse impact on the E-governance programmes of the state. This non-release of funds was mainly due to changes in the priority of Government after the passing of budget and Annual Plans. The supplementary demands after the passing of the budget not only change the priority of the Government, but also derail the original plan implementation of the concerned Departments. As in the previous report, the Committee again recommends that this practice may be discouraged and the plan proposals in the supplementary demands for grants may be limited to the declaration in the budget speech.

Table 5.22 Schemes for which the released amount is less than 75% of budgeted outlay (Rs in lakhs)

Scheme	Initial annual Outlay	Released amount	Percent of release to outlay
Scheduled caste department			
Bharat Darshan (Study tour)	100.00	70.00	70.00
Coaching and allied schemes(100% CSS)	250.00	73.00	29.20
Development of Dependents of SC who were engaged in unclean	30.00	16.50	55.00
Health Service Scheme	250.00	33.00	13.20
Production-cum-Training Centres and Industrial Training Cent	550.00	240.00	43.64
Upgradation of Merit of Scstuidents(100% CSS)	10.00	4.00	40.00
Industry & commerce			
ESS	2540.00	882.19	34.73

Kerala Public Works Department(PWD)			
CRF Bridges (Ordinary Allocation)	100.00	0.00	0.00
CRF Roads & Bridges (ordinary Allocation)	1.00	0.00	0.00
Development of Urban Links of National Highways	411.86	64.26	15.60
Roads of Economic Importance(CSS having 50%)	100.00	0.00	0.00
Command Area Development Authority			
Kanhirapuzha project	210.00	109.23	52.01
Pazhassi project	170.00	55.85	32.85
Motor Vehicles Department			
Establishment of Vehicle Testing Station	540.00	54.49	10.09
Road Safety measures	518.00	4.92	1.00
Introduction of e governance	10.00	0.29	2.90
Sheduled Tribe Department			
Critical Gap filling Scheme / Corpus fund for project based	2300.00	1326.01	57.65
maintenance of comprehensive Date Base-800-18	100.00	14.02	14.02
Model residential school (Kannur, Kasaragod and Kottayam)	1650.00	320.00	19.40
Post matric hostel for tribal children	90.00	4.59	5.10
Special central assistance to TSP (SCA to TSP)	600.00	81.49	13.58
Special programmes for primitive Tribal groups, Adiya & pani	190.00	0.53	0.28
Support to group farm	135.00	58.46	43.30
Vocational training institute	70.00	5.00	7.14
Forest Department			
2406-01-800-61-IFM (75% CSS)	400.00	292.53	73.13
2406-02-110-71 ABR (100% CSS)	72.00	19.68	27.33
2406-02-110-80-NBR (100% CSS)	150.00	17.97	11.98
Choolannur Peacock Sanctuary (50% CSS) 2406-02-110-54	40.00	25.45	63.63
Eco tourism 2406-01-800-91	300.00	194.60	64.87
Eravikulam NP (50% CSS) 2406-02-110-94	160.00	103.72	64.83
Forest resources Survey Cell 2406-01-005-99	20.00	11.00	55.00
Idukki WLS 2406-02-110-90	130.00	95.30	73.31
Mangalavanam BS (50% CSS) 2406-02-110-90	30.00	20.75	69.17
Neyyar GS 2406-02-110-87	150.00	98.13	65.42
Priority Scheme under XIIIFC 2406-01-101-84	3388.00	2317.62	68.41
Project Elephant (100% CSS) 2406-02-110-71	350.00	261.66	74.76
Silent Valley NP (50% CSS) 2406-02-110-91	250.00	168.25	67.30
Training 2406-01-003-99	250.00	129.00	51.60
Wetland Conservation (100% CSS) 2406-02-110-60	120.00	73.84	61.53
Works with assistance from RIDF 4406-010-800-90	600.00	353.22	58.87
Health Department			
Govt. school of nursing for SC/ST Shasthamkotta, Kollam (100%	15.00	6.20	41.33
Iodine Deficiency Disorders Control Programme	60.50	36.84	60.89
Kerala Tele Health Medical Education	10.00	5.00	50.00
Society for medical assistance to poor	400.00	175.00	43.75
Strengthening of institutions under DHS(new Scheme)	450.00	115.30	25.62
Surviliance & Control of communicable diseases	320.00	199.00	62.19

ANERT			
Electrification using renewable energy sources	1800.00	580.00	32.22
Renewable Energy programmes of ANERT	1700.00	1005.00	59.12
Resource Assessment of renewable energy sources	100.00	1.00	1.00
Testing Innovation of lab facilities and other infrastructur	100.00	4.00	4.00
IT Mission			
Citizens Call Centre	472.00	272.00	57.63
e-District (funds includes schemes2,3,4,5)	1268.00	223.00	17.59
Innovatives Programmes-Formation of Innovation Zone at kochi	300.00	100.00	33.33
IPV4 to IPV6 Migration-One time ACA	286.00	43.00	15.03
IT cell of Govt. Secratariate	30.00	0.00	0.00
Kerala E-Governance Awards	10.00	5.00	50.00
KSWAN	540.00	270.00	50.00
PG Diploma in E-Governance	10.00	5.00	50.00
Promotional Campaign	100.00	72.00	72.00
Secretariat Record Digitization	764.00	106.50	13.94
Skill Enhancement of Resource Centre	20.00	5.00	25.00
SPEED IT	22.00	13.50	61.36
SSDG other ACA	729.00	91.00	12.48
State data centre	201.00	100.50	50.00
Video Conferencing	450.00	225.00	50.00
Source: Data supplied by the Department			

Time of release of funds and expenditure

5.42 One of the probable causes behind the delayed implementation of plan schemes is the delayed release of funds from the Department of Finance. An indepth analyis was done on the time of release of funds and expenditure of various Departments for which the Committee could collect the relevant data. The sample Departments and their quarterly receipt of funds and expenditure are summarised in Table 5.23. The information contained in the Table revealed that the Heads of Department such as Commissionarate of Civil Supplies, Industry and Commerce, Scheduled Tribe, Forest, Health and IT received their major share of fund during the 4th quarter of the financial year. The Department of Forest received 95 percent of fund during the 4th quarter. The delayed reciept of fund reduces the efficiency of the process of project implementation. However, some Departments delayed the plan spending inspite of early receipt of funds. For example, SC Department received almost entire fund during the first quarter itself, however, their 71 percent of spending occurs during the 4th quarter. Thus, the delayed and inefficient plan implementation is not only caused by the non release of funds by the Department of Finance, but also due to inept plan implementation practices at Department level.

Table 5.23 Quarter wise fund received and expenditure by sample Department during 2012-13

	1st quarter		2st quarter		3rd quarter		4th quarter	
Departments	% fund received	% expenditure	% fund received	% expenditure	% fund received	% expenditure	% fund received	% expenditure
Commissionarate of civil supplies	20.54	19.75	13.71	13.18	0.44	0.42	65.30	66.65
SC Department	98.21	2.24	0.00	9.24	0.00	17.09	1.79	71.43
Infopark	6.31	0.00	0.00	0.90	67.61	36.45	26.08	62.65
Industry & commerce	2.01	0.00	2.55	0.90	19.85	36.45	75.60	62.65
Command Area Development Authority	18.93	20.11	33.81	19.93	5.22	25.29	42.04	34.67
Motor Vehicles Department	0.00	0.00	0.00	0.07	90.18	90.05	9.82	9.88
Sheduled Tribe Department	5.14	8.95	20.98	15.96	22.17	33.93	51.71	41.16
Forest Department	0.04	5.32	1.49	13.24	3.50	17.42	94.98	64.02
Health Department	0.28	0.35	5.05	1.32	43.72	49.09	50.94	49.23
IT Mission	3.69	14.19	0.00	12.74	21.84	34.82	74.47	38.25
Source: Data supplied by the Department								

Review of progress

5.43 Review meeting on the progress of project implementation is a critical factor for the effective implementation of projects. There are two stages of review, one at the Department level and second at the Minister level. The survey results show that the review meeting by the Head of the Department was held only for 23 percent of cases. At Minister level, the same meeting was held for 21 percent cases (Table 5.24). The Committee reiterates that the tardy implementation of plan schemes including the bunching of expenditure to the last quarter and last month can be resolved to a great extend by strengthening the existing monotoring system.

Table 5.24 Monthwise review of various schemes (in%)

Review level	% cases
Review meeting by the Head of the Department	23
Review meeting by the Minister	21.3
Source: Data supplied by the Department	

Major reasons for delayed plan implementation

5.44 A multiplicity of reasons can be adduced for delay in implementation of schemes. The Table 5.25 summarises the various issues confronted by the Departments while implementing schemes.

Table 5.25 Relative ranks of various reasons for delayed implementation of schemes

Sl.No	Reasons	Relative ranks
1	Delayed administration	2
2	Delay in release of funds	1
3	Insufficient plan outlay	10
4	Restriction in utilisation of funds	4
5	Treasury restriction	11
6	Lack of contractors to takeup the work	3
7	Delay in getting central government share	5
8	Lack of coordination with other Departments	6
9	Outdated schemes	12
10	Technically unviable projects	13
11	Problems connected with land acquisition	7
12	Resistence from the public/political parties	14
13	Delay in purchase procedure	8
14	Delay in receipt of estimate	9
Source: Compiled from the data supplied by the Department		

5.45 The important reasons behind the delayed implementation of schemes are delay in relesase of funds, delay in administrative sanction, unwillingness on the part of contractors for taking up the work, restriction in utilisation of funds, delay in getting Central government share, delay in purchase procedure and delay in receipt of estimates. Most of these issues are connected with two aspects: they are governance and efficient project management. The governance issues can be resolved largely by the speedy and efficient implementation of e-governance at all levels including project planning, sanctioning, release of funds and implementation, tendering (e-tendering) etc. In addition, the Committee once again reiterates that a professional, skilled project management wing should be established at each Department for timely and efficient preparation, implementation, monitoring and evaluation of both State schemes and various Centrally Sponsored Schemes.

6

Debt Management

Introduction

6.1 In this chapter the structure of debt and its management aspects are taken up for detailed analysis as mandated by the Fiscal Responsibility Act of the Government of Kerala in 2003. It examines the composition, growth rates and shares of the major components and instruments of debt covering the financial/fiscal years (FYs), 2008/09 - 20012/13 or 2008FY - 2012FY. The financial year, say, 2008/9 is same as 2008FY and at the end of March 2009. They are used interchangeably throughout this chapter. It also verifies whether debt-gross state domestic product ratio satisfies the limit puts forth by the Thirteenth Finance Commission. The management aspect is not yet subjected to principles in public economics. This is also taken up so that the public resources are optimally utilised. In other words, we empirically verify whether the state is rational in borrowing and lending/spending. The sustainability of debt is also analysed using multiple indicators. Finally we summarise the chapter along with the recommendations for public action.

Structure of Debt

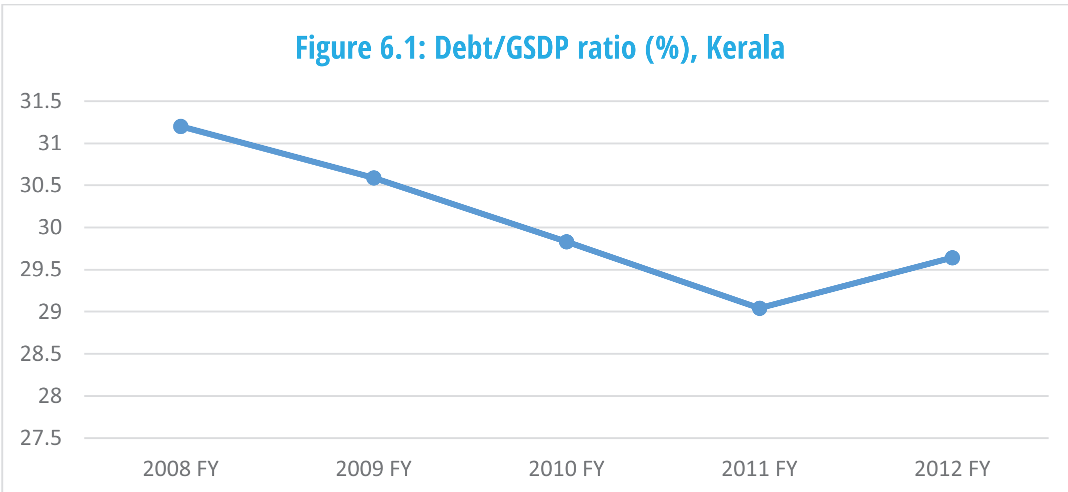
6.2 Here we examine total debt with and without outstanding liabilities and their major components for the State of Kerala for the financial years from 2008/09 to 2012/13 in Table 6.1. Total debt (hereafter, debt) is defined as the sum total of internal debt, loans and advances from the Central Government and public account which includes only small savings, provident fund etc.[3 (i)]. The Table shows that debt in the fiscal/financial year ending March 2009 (2008FY) is Rs. 63270 crore which had increased to Rs. 103561crore in March 2013 (2012FY). The debt has gone up by 1.6 times during the period while the component, market borrowing, more than doubled (2.3 times). The debt and liabilities have grown more or less the same as debt. In other words adding liabilities - reserve funds [3(ii)], deposits and advance [3(iii)], and contingency fund (4) - to debt does not change the growth of debt and liabilities of the state substantially. From Table 6.1, it is clear that the difference between debt, and debt & liabilities is only marginal as indicated by the figures for the initial year, 2008FY, as well as in the final year, 2012FY. The main reason for the behavior of the liabilities is the ceiling put by the Government of Kerala Act in 2003 on guarantees.

Table 6.1: Structure and Composition of Debt and Liabilities of Kerala (Rs in Crore)

Sl No	Item	At the end of March					
		2009	2010	2011	2012	2013	2013 as a ratio of 2009
1	*Internal Debt*	*38814*	*43368*	*48528*	*55397*	*65628*	1.69
	(i)Market Borrowings	*21263*	*25973*	*30744*	*38329*	48810	2.30
	(ii)Special securities issued to NSSF	*11880*	*11740*	*11781*	*11290*	11323	0.95
	(iii)Loans from banks and FI's	*5671*	*5655*	*6003*	*5867*	5496	0.97
2	*Loans and advances from the Centre*	*6009*	*6305*	*6359*	*6396*	*6622*	1.10
3	*Public Account*	*21388*	*25308*	*27533*	*31339*	*36226*	1.69
	Of which (i) Small Savings, Provident Fund etc.	*18447*	*21296*	*23786*	*27625*	*31311*	1.70
	(ii)Reserve Funds	*421*	*297*	*321*	*340*	*401*	0.95
	(iii)Deposits and Advances	*2520*	*2957*	*3425*	*3374*	*4515*	1.79
4	*Contingency Fund*	*94*	*74*	*66*	*79*	*100*	1.06
	Total Debt((1+2+3(i))	*63270*	*70969*	*78673*	*89418*	*103561*	1.64
	Total Debt and Liabilities (1 +2+3+ 4)	*66305*	*75055*	*82486*	*93211*	*108576*	1.64
5	Debt-GSDP ratio	31.2	30.59	29.83	29.04	29.64	0.95

Source: Finance Accounts, C&AG (various years).

6.3 The analysis has been in nominal values so far which is influenced by inflation in the economy. Moreover it does not consider the borrowing capacity of the state. These limitations are overcome by the ratio of debt to Gross State Domestic Product (GSDP). Obviously, the ratio ranges from 0 to 1 but these extreme values are rare in actual world. The ratio for the period is given in Figure 6.1. The Debt-GSDP ratio has declined from 31.3 % in 2008FY to 29 % in 2011FY but increased to 29.6 in 2012 FY.



Source: Table 6.1

The 13th Finance Commission has stipulated that no state can exceed the ratio beyond 29.8 %. The State of Kerala has achieved the condition put forth by the Commission in 2012 FY.

6.4 Now we examine the growth rates of the four major components of debt as given in Table 6.2. The growth rate of debt has accelerated since 2011. The component, internal debt, shows an increasing trend from 2010 onwards. The other two components do not show any trend in the growth rates. However, the growth rate of loans and advances from the Centre has increased while that of public account has decreased from 2011FY to 2012FY.

Table 6.2 Growth Rates of Major Components of Debt,Kerala

Sl No	Item	At the end of March				
		2009	2010	2011	2012	2013
1	*Internal Debt*	*14.1*	*11.7*	*11.9*	*14.2*	*18.5*
2	*Loans and advances from the Centre*	*8.6*	*4.9*	*0.9*	*0.6*	*3.5*
3	*Public Account of which (i) Small Savings, Provident Fund etc.*	*16.3*	*15.4*	*11.7*	*16.1*	*13.3*
4	*Debt*	*14.2*	*12.2*	*10.9*	*13.7*	*15.8*

Source: Same as in Table 6.1

Table 6.3: Shares of Major components of Debt, Kerala

Sl No	Component	At the end of March				
		2009	2010	2011	2012	2013
1	*Internal Debt*	61.3	61.1	61.7	62.0	63.4
2	*Loans and advances from the Centre*	9.5	8.9	8.1	7.2	6.4
3	*Public Account of which Small Savings, Provident Fund etc.*	29.2	30.0	30.2	30.9	30.2
4	Debt	100.0	100.0	100.0	100.0	100.0

Source: Same as in Table 6.2

6.5 In the share analysis, internal debt shows an increasing trend and loans and advances from the Centre a declining trend during the period. Clearly internal debt has become the predominant form of borrowing (both share and growth). In the case of shares of public account it fluctuates around 30 percent during the period.However, share and growth rate of the loans and advances from the Centre moves in the opposite direction during the last two years. In order to resolve this conflict we have used share-weighted growth rate and the results are reported in Table 6.4.

Table 6.4 : Share -Weighted growth rates of major components, Kerala

Sl No		2009	2010	2011	2012	2013
1	*Internal Debt*	8.6	7.2	7.3	8.8	11.7
2	*Loans and advances from the Centre*	0.8	0.4	0.1	0.0	0.2
3	*Public Account of which Small Savings, Provident Fund etc.*	4.8	4.6	3.5	5.0	4.0

Source: Same as in Table 6.1

By this criterion, internal debt has accelerated since 2010. The loans and advances from Centre have decelerated until 2012 but marginally increased in 2013. Public account has declined marginally during the last two years and fluctuates around 4 percent.

The structure of instruments of debt

6.6 The structure of instruments used for debt creation is examined in Table 6.5. The selection of instruments is dictated by the availability of secondary source of data. By this criterion, only eight instruments of debt are available for further analysis. The amounts borrowed and their change during the period, 2008 FY-2012 FY, are given in Table 6.5.

Table 6.5 Debt by Instruments in Kerala (Rs. Crore)

	2009	2010	2011	2012	2013	2013 as a ratio of 2009
Market Loans	21263	25973	30744	38239	48809	2.30
LIC	3267	3138	3330	3053	2777	0.85
GIC	344	363	341	318	296	0.86
NCDC	206	187	225	229	109	0.53
NABARD	826	1065	1334	1626	1807	2.19
GoI	6009	6305	6359	6396	6622	1.10
NSSF	11880	11740	11781	11290	11323	0.95
Provident Fund	9138	10055	11108	13375	15363	1.68
Subtotal	52933	58826	65223	74528	87106	1.65
Total Debt	63270	70969	78673	89418	103561	1.64
Subtotal as a percent of Total Debt	83.66	82.89	82.90	83.35	84.11	1.01

Source: Same as in Table 6.1

The eight instruments together contribute 83.7% of the debt in 2008FY which has increased to 84.1 % in 2012FY. It also indicates that market loans increased their amount by 2.3 times, NABARD by 2.2 times, provident fund by 1.7 times and GoI by 1.1 times from 2008FY to 2012FY. The remaining four instruments (LIC, GIC, NCDC and NSSF) reduced their amounts during the period, the lowest being NCDC. The results on share analysis of the instruments are shown in Table 6.6.

Table 6.6 : Share of Debt by Instruments in Kerala

	2008-09	2009-10	2010-11	2011-12	2012-13
Market Loans	40.2	44.2	47.1	51.3	56.0
LIC	6.2	5.3	5.1	4.1	3.2
GIC	0.7	0.6	0.5	0.4	0.3
NCDC	0.4	0.3	0.3	0.3	0.1
NABARD	1.6	1.8	2.0	2.2	2.1
GoI	11.4	10.7	9.7	8.6	7.6
NSSF	22.4	20.0	18.1	15.1	13.0
provident Fund	17.3	17.1	17.0	17.9	17.6
Total	100.0	100.0	100.0	100.0	100.0

Source: Same as in Table 6.1

6.7 Table 6.6 clearly indicates that shares are concentrated in market loans followed by provident fund, NSSF and GoI. However, the shares of market loans show an increasing trend but NSSF a declining trend during the period. The share of provident fund declines towards the end of the period but its change is 1.7 times during the period. In such situations, the share-weighted growth rate is used for resolving the conflict of performance. The share-weighted growth rates by instruments are given in Table 6.7

Table 6.7: Share-Weighted Growth Rates of Major instruments of Debt

	2008-09	2009-10	2010-11	2011-12	2012-13
Market Loans	11.7	9.8	8.7	12.5	15.5
LIC	0.3	-0.2	0.3	-0.3	-0.3
GIC	0.0	0.0	0.0	0.0	0.0
NCDC	-0.1	0.0	0.1	0.0	-0.1
NABARD	0.3	0.5	0.5	0.5	0.2
GoI	1.0	0.5	0.1	0.0	0.3
NSSF	-0.2	-0.2	0.1	-0.6	0.0
provident Fund	2.7	1.7	1.8	3.7	2.6

Source: Same as in Table 6.1

The share-weighted growth rates of instruments indicate that the major instrument of debt is market loans. NABARD has been stable since 2009 but declined in 2012. Provident fund is fluctuating but has declined in 2012 FY. It may be noted that NSSF has lost its importance in the debt structure.

6.8 The instruments of borrowing do not explicitly include the NRI savings in the portfolio of the Government . Considering the huge amount of savings with them (estimated to be Rs 75,000 crore in remittances and Rs 90,000 crore in bank deposits in 2014), the Government should take initiative to include Diasporas savings as an instrument of debt in the future. Committee recommends that the Government should devise attractive package for the NRIs to become part of deficit financing.

Debt Management: Efficiency Analysis

6.9 There is hardly any study on theory-informed debt management in Kerala. The theory that is relevant here is the efficiency analysis of managing debt. In the present case, one needs to look into two aspects of debt: (1) the efficiency of borrowing; and (2) efficiency of spending / lending. Let us examine the first, the efficiency of borrowing. If the Government is a rational borrower, the efficiency hypothesis implies that shares of instruments of debt and the corresponding interest rate should be negatively related. In other words, higher the interest rate of an instrument, lower its share. This hypothesis has been tested again for the year 2012/13 and the results are in Figure 6.2.

Figure 6.2 : Share of Intruments and effective Interest rates , 2012 FY

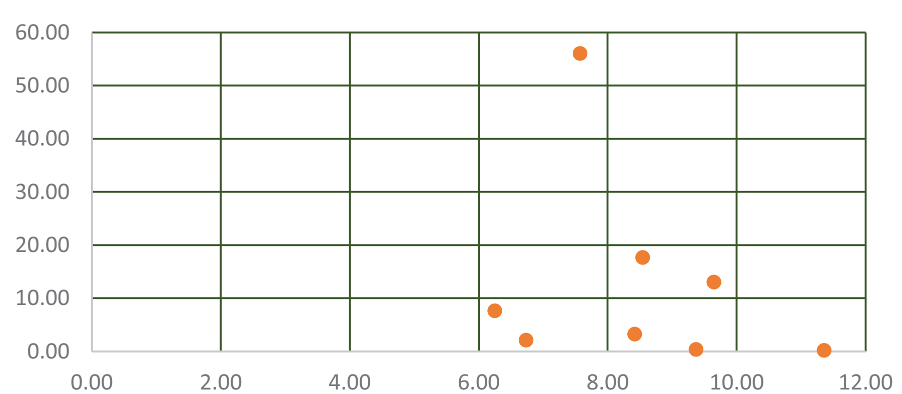


Figure 6.2 does not support the hypothesis as in the previous years that Government practices cost minimization in deficit financing. This has immediate policy implication. If the Government resort to cost-efficient borrowing, then interest payments will be much lower and net availability of borrowed funds will be more for development activities. Committee, therefore, recommends present borrowing mechanism be examined and cost-minimising principles be followed urgently at least for market loans.

Efficiency of Spending: Public Investment and Refinancing

6.10 Efficiency of spending requires that the rate of return from investment should be at least equal to the cost of borrowing (rate of interest) for a rational investor. Otherwise, the cost-minimizing firm should shut down the production unit and exit. This hypothesis needs investigation at the micro-level which is beyond the purview of the Committee. Instead we provide estimate on the rate of return at the aggregate level in Table 6.8. The rate of return is only 15 % of the effective interest rate of the borrowed funds implying 85 % subsidy. The implicit subsidy for the public investment in 2012-13 is estimated to be Rs. 271 crore.

Table 6.8 Rate of Return from Public Investments &Interest Receipts from Loan and Advances by the Government of Kerala

	2008-09	2009-10	2010-11	2011-12	2012-13
Investment at the end of the year (Rs in Crore)	3153	3328	3808	4206	4511
Rate of Return (Percent)	1.1	0.8	2	1.6	1.1
Opening balance of loans and advances by the Government	6280	6910	7749	8461	9394
Interest Receipts as a percentage of Outstanding loans and Advances	0.7	0.6	0.5	0.2	0.2
Average Interest rate on Government Borrowing	7.5	7.5	7.3	7.2	7.1
Rate of Return/Average Interest Rate (%)	14.67	10.67	27.40	22.22	15.49
Interest Receipts/Average Interest Rate (%)	8.85	7.91	7.12	3.40	2.56

Source C&AG Report on State Finances (various years)

6.11 The loans and advances to Public sector undertakings (PSUs) from debt indicate that it has gone up from Rs. 6280 crore in 2008FY to Rs. 9394 crore in 2012FY, an increase of 1.5 times during the period. The interest received by the Government is only 0.2 % as against the effective interest rate of 7. 1% paid by the Government in 2012 FY. The implicit subsidy in this case is Rs. 648 crore in 2012 FY. The cost of inefficiency in public investment and in loans and advances given by the Government from the borrowed funds together is Rs. 919 crore in 2012FY. The committee recommends that the implicit subsidy in the economy especially in public investment and refinancing should be assessed and remedial measures such as restructuring PSUs be initiated by the Government urgently.

6.12 The above analysis shows that the loan is virtually interest free for PSUs. According to CAG report ending in March 2012, " As on 31 March 2012, the investment (capital and long term loans) by the state Government in 116 PSUs was Rs. 5880.68 crore. This has eroded over the years due to sustained losses and the present net worth is only (-) Rs. 906.4 crore. CAG, 20012, p.xi)". This simply means that the entire public sector investment is wiped out by the poor performance of the PSUs. The latest report of CAG (Table 1.1.9;p.13:Audit Repot No.3,PSUs, ending 31 March 2013)on state public sector undertaking estimates that Rs. 1615.7 crore is controllable losses in the year 2012-13 if better management is enforced. This requires restructuring of the PSUs incorporating professionalism, accountability and other modern management practices in the efficient functioning of PSUs. We consider three strategies for the restructuring of PSUs which include the following components among others: (1) merger and modernization, (2) equity participation with labour in the management, and (3) liquidation of non-working companies.

6.13 First strategy is merger and modernization: This strategy is applicable only for the companies with the same activities. We identify three groups of companies for this type of restructuring as given in the Table 6.9 below. Committee recommends that the strategy of merger and modernization should be initiated urgently so that the rate of return on capital and the profitability becomes at a competitive level resulting from economies of scale and scope.

Table 6.9. Companies selected for merger and modernization.

Steel	SIFL SILK Autokast Ltd
Plantation	State Farming Corporation Plantation Corporation of India Rehabilitation Plantations Ltd Aralam Farming Corporation Oil Palm India Ltd
Ceramics	Kerala Ceramics Ltd Kerala Clays & Ceramics LTD

Source: Bureau of Public Enterprises,2014.

6.14. The next strategy is to introduce equity participation with labour in the management of loss making companies. For this form of restructuring, we select top thirteen companies incurring loss (Table 6.10. 0 during the financial year 2102-13

Table 6.10. Top 13 loss making companies for equity participation with labour in the management

SI No	Name of PSU	Accumulated loss (Rs in crore)
1	KSEB	3758.17
2	KSRTC	3014.74
3	KWA	1738.65
4	KSCDC	884.99
5	KSHB	541.55
6	KSEDC	201.66
7	Supplyco	140.05
8	Autokast	110.93
9	KE&AEC	109.7
10	KSD&P	93.12
11	KSTC	90.70
12	KSHDC	58.88
13	Kerala Ceramics	54.46

Source: Bureau of Public Enterprises, 2014.

The top three-KSRTC, KWA, KSEB- are public utilities, and the reforms of these utilities are already debated in special forums and therefore we exclude them from the proposed restructuring scheme, The Committee recommends that equity participation with labour force in the management like in the Japanese type of management should be initiated and experimented without any delay in the remaining ten top loss making companies for minimising future losses.

6.15 The third strategy, the final component in our restructuring scheme, is the liquidation of non-working companies which benefit none at present. According to CAG Audit report in March 2013, there were 16 non-working companies (Table 1..1.11, p.14) having a total investment of Rs. 105.36 crore towards capital (Rs. 47.72 crore) and long term loan (Rs. 57.64 crore). Liquidation process had commenced in four of them and nine of them have been issued closing orders but not yet started (Table 1.1.12, p.14, CAG Audit Report, 2013) liquidation. We single out six of them in Table 6.11 for immediate implementation of liquidation.

Table 6.11. Non-working Companies for Liquidation

SI No	Name of PSU
1	Kerala State Wood industries Ltd
2	Travancore Plywood Industries Ltd
3	Kerala State Detergent and Chemical Ltd
4	Astral Watches ltd
5	Kerala State Salicylate & Chemicals Ltd
6	The Metropolitan Engineering Company Ltd

Source: Bureau of Public Enterprises, 2014.

The Committee recommends that the above six non-working companies should be liquidated for minimizing the loss.

6.16 Two related concerns on the performance of PSUs should be emphasized here as part of efficient management of debt. First is the delay in the finalization of the balance sheets by the PSUs. According to Bureau of Public Enterprises, only 30 out of 93 PSUs have finalized annual accounts for statutory audit. This implies that only 32% of the PSUs keep audited accounts. The remaining 68% of them even do not bother to keep the mandatory requirement of keeping proper accounts. In other words, PSUs do not produce their certified annual accounts before the deadline of 30 September pertaining to the previous financial year. This reminds us that PSUs do not follow even the elementary principle of "ആറ്റിൽ കളഞ്ഞാലും അളന്നു കളയണം" *(Even if you spill it in a stream, it should be measured)* embedded in our folk culture. Committee recommends that the Government insists on the deadline for finalizing the accounts of PSUs by 30 September of succeeding financial year failing which grants should not be released and the CEOs should be made responsible.

6.17 The second related problem in the efficient management is the inconsistency in the financial statements of PSUs with the official records. For example, the estimates provided by finance accounts and the records of PSUs do not tally in the case of outstanding equity, loans and guarantees as indicated in Table 6.12 for the financial year, 2011 FY.

Table 6.12
Outstanding equity, loans and guarantees: Finance accounts versus records of PSUs, 2011FY.

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	2984.03	4440.39	1456.36
Loans	4728.61	1440.29	3288.32
Guarantees	4839.92	3315.37	661

Source: CAG report, March 2012

6.18 The figures from the two sources, Finance accounts and PSU records, do not tally as is evident from Table 6.12. The disturbing finding is that PSUs either over-estimate or under-estimate the Government figures validated by the CAG. The findings obviously indicate systematic bias in the accounting figures reported by the PSUs. For the legislative control over the PSUs, there is an urgent need for evolving an accounting framework that is consistent with the financial account of CAG. The committee recommends that an expert

Committee should be appointed by the Government for evolving uniform accounting frame work for the PSUs.

6.19 Another neglected aspect of refinancing by the government is the guarantee commission of not less than 0.75 % and payable on the actual balance, outstanding interest/penal interest etc. as on 31st march of previous year. The amount due for the Government during 2012-13 was Rs. 122.9 crore, out of which 89.12 crore was outstanding as on 31st March 2013 according to CAG. The committee recommends that the arrears should be collected wherever possible and the commission should be deducted, hereafter, from the sanctioned loans / assistance in future.

Debt sustainability

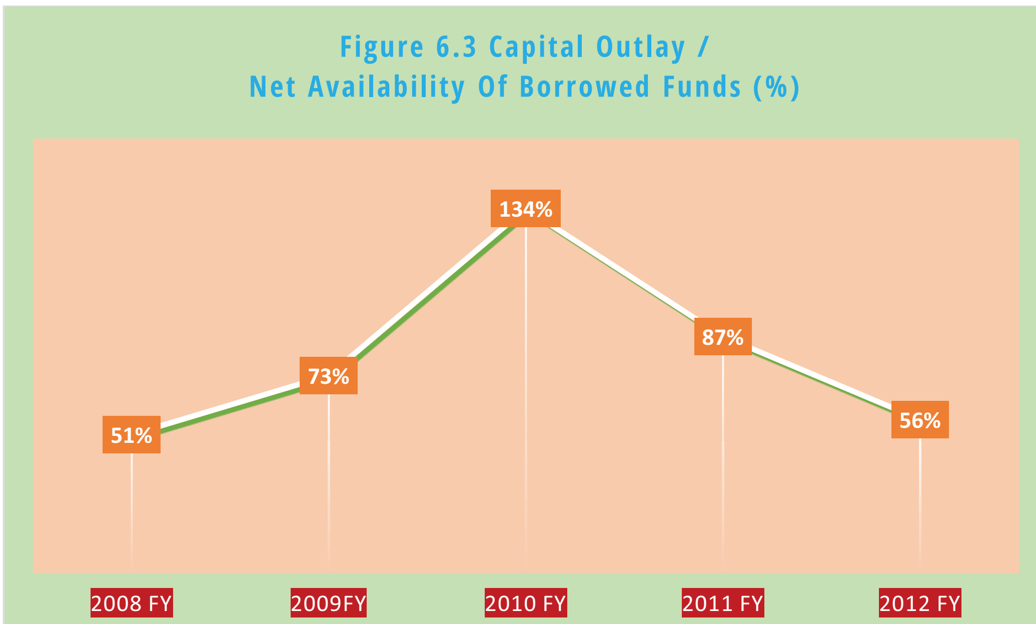
6.20 There are several indicators of debt sustainability. We consider four of them: (1) Domar gap; (2) Resource gap; (3) Net availability of borrowed funds; and (4) Burden of interest payments. Domar Gap, the growth of national income minus the interest rate, has almost doubled during the period (Table 6.10). Since the Domar gap is positive and increasing, the debt is sustainable until 2011FY but declines in 2012FY. This indicates that the sustainability of debt is moving against towards the end of the period.

Table 6.13 Sustainability indicators of Debt

	2008 FY	2009 FY	2010 FY	2011 FY	2012 FY
GSDP Growth rate	15.8	14.4	13.7	16.7	13.5
Average rate of Interest (ARI)	7.5	7.5	7.3	7.2	7.1
Domar Gap (GSDP Growth rate – ARI)	8.3	6.9	6.4	9.5	6.4
Sufficiency of Non-debt receipts	(-)247	(-)1525	141	(-)5,084	(-) 2,187
Net Availability of Borrowed funds	3334	2834	2507	4,426	8154
Burden of Interest payments /Rate of Return (%)	19	20	18	17	16

Source C&AG Report on State Finances.

6.21 Next is the resource gap which is the sufficiency of non-debt receipts which is negative in 20012FY but less than previous year. The gap indicates that more borrowing is needed for balancing the budget. Therefore, debt is not sustainable by this criterion as well. Net availability of borrowed funds (NABF) in the year for which the report is concerned has almost doubled. But it leads to sustainability only if more funds are allocated to development spending particularly in capital formation. This ratio, capital outlay to net availability of borrowed funds, is shown in Figure 6.3 below.



The ratio is declining since 2010FY indicating the increased NABF do not have any impact on capital outlay in state. This indicator does not have any positive effect on sustainability. Finally burden of interest payments is the lowest for the year and hence sustainable. This can be attributed to the lower average rate of interest rate on Government Borrowing.

6.22 The sustainability indicators do not give a uniform result. In majority of the cases, the state is moving towards unsustainability of debt. Committee recommends for sustainability of debt a proportionate increase in capital outlay from the net availability of borrowed funds in future.

7

Fiscal Roadmap: An Assessment

7.1 A prudent and disciplined fiscal management requires a defined fiscal roadmap. The success of such fiscal management depends largely on how effectively the norms fixed in the fiscal roadmap are adhered to. In this context, an attempt is made for a comparison between the target and actual values of fiscal variables as defined in the FRBM Act and 13th FC recommendations. The revised roadmap of fiscal consolidation between the financial year 2010-11 and 2014-15 has been stipulated in amended Fiscal Responsibility and Budget Management (FRBM) Act of 2011. As per the revised roadmap, the state has to bring down the fiscal deficit and revenue deficit to 3 percent and zero percent of GSDP respectively in 2014-15. Compliance with this makes the State eligible for the State-specific Grants. Availing of these funds is of paramount importance to the states to comply with the fiscal consolidation roadmap set by Thirteenth FC. As per the amended FRBM Act on 8th November 2011, the fiscal targets of the State Government are given in Table 7.1.

Table 7.1

Fiscal targets of the state as per the amended FRBM Act

	Targets			Actual		
Year	Revenue deficit/GSDP	Fiscal deficit/GSDP	Total debt liabilities to GSDP	Revenue deficit	Fiscal deficit	Total debt-GSDP ratio
2010-11	Not given	3.33	32.8	1.36	2.89	29.83
2011-12	1.40	3.50	32.3	2.55	4.07	29.06
2012-13	0.90	3.50	31.7	2.68	4.29	29.64
2013-14	0.50	3.00	30.7			
2014-15	0.00	3.00	29.8			
Source: (1) Fiscal Responsibility Act, 2011, Govt of Kerala (2) Finance Accounts (for various years), Controller and Auditor General of India.						

Note: Note: Figures for GDP at current price from 2010-11 to 2012-13 are obtained from CSO and the figures for 2013-14 and 2014-15 are based on projection with a Cumulative growth rate of 14% per annum.

7.2 The fiscal targets in the amended FRBM Act are same as stipulated by the 13th FC. In addition to these provisions, it is also stated in the amended Act for building up surplus amount of revenue and utilise such amount for discharging liabilities in excess of assets. The Table 7.1 highlights that the State could not achieve the targets set for revenue and fiscal deficit. However, the State could achieve the target of total debt-GSDP ratio. The actual values of revenue and fiscal deficit were exceeded by 198 and 23 percent respectively for the year 2012-13.

Components of fiscal deficit

7.3 The difference between revenue receipts and total expenditure resulting in revenue deficit is met from capital receipt, which is mainly composed of borrowing and other liabilities. The important components of fiscal deficit are revenue deficit and capital outlay. The decomposition of fiscal deficit into revenue deficit and capital outlay and their respective percentage shares are given in Table 7.2.

Table 7.2 Components of fiscal deficit in Kerala

	Fiscal deficit and its components (Rs crore)				% share of total fiscal deficit		
Years	Revenue deficit (1)	Capital outlay (2)	Others (3)	Fiscal deficit (1+2+3)	Revenue deficit	Capital outlay	Others
2004-05	3669	681.75	101.25	4452	82.41	15.31	2.27
2005-06	3129	817.33	235.67	4182	74.82	19.54	5.64
2006-07	2638	902.59	281.41	3822	69.02	23.62	7.36
2007-08	3785	1474.57	840.43	6100	62.05	24.17	13.78
2008-09	3712	1695.59	938.41	6346	58.49	26.72	14.79
2009-10	5023	2059.39	790.61	7873	63.80	26.16	10.04
2010-11	3674	3363.69	692.31	7730	47.53	43.51	8.96
2011-12	8034	3095.7	1685.3	12815	61.61	24.86	13.15
2012-13	9351	4603	1048	15002	62.33	30.68	6.99
Source: same as Table 7.1							

7.4 A major portion of fiscal deficit is meant for meeting revenue deficit. The proportion of revenue deficit was 83 percent in 2004-05 and continuously declined up to 48 percent in

2010-11 except during 2009-10. In 2012-13, the percentage of fiscal deficit (mainly through debt and other liabilities) for meeting revenue liabilities was 62 percent, showing a case of fiscal imprudence on the part of the State. The capital expenditure from the fiscal deficit had declined from 43.51 percent in 2010-11 to 30.68 in 2012-13. The unproductive nature of the utilisation of the borrowed fund reduces the repayment capacity of the economy. Thus along with the quantum of debt, the way by which the debt is used in the economy has to be taken into account while assessing debt sustainability. The increased capital expenditure out of debt receipt is desirable for improving the productive capacity of the economy and for future debt redemption.

Fiscal projections for the state

7.5 The Committee made an attempt for projecting the fiscal profile of the state of Kerala to examine if the present fiscal policy stance continues, whether the State would be able to adhere to the fiscal restructuring path proposed in the amended FRBM Act of 2011 and by the Thirteenth Finance Commission.

7.6 The following methodology is used for projecting fiscal scenario of Kerala.

(1) The tax revenues are projected on the basis of their respective buoyancy rates. The sources of non tax revenue are projected on the basis of compound trend growth rate.

(2) The expenditure items are projected on the basis of their trend compound growth rate except the interest payments.

(3) Weighted average interest rate in 2012-13 was 8 percent which is assumed as given for the projected period.

(4) The trend growth rate and average bouyancy rate are estimated from the actual data for a period between 2003-04 and 2012-13. The projection period is between 2013-14 and 2014-15.

The fiscal items projected by using the compound growth are based on the following formula.

$Y = b0 * (b1^t)$ or $\ln(Y) = \ln(b0) + (\ln(b1) * t)$, where t= time point

Where Y = the fiscal variable projected

The compound growth rate,

CGR= 1-ln(b1)

The bouyancy rate is estimated by regressing the log of tax revenue on the log of GSDP.

7.7 Table 7.3 shows the estimated average bouyancy rate of tax sources between the period 2003-04 and 2012-13. It shows that the average bouyancy for the period is above one for all taxes except for 'others'. Among the tax sources, the bouynacy rate is lowest for excise duty and Motor Vehicle tax. The Committee feels that there is good scope for increasing the revenue receipts from tax sources by raising the bouyancy level through revamping the tax administration of the state.

Table 7.3 Tax bouyancy by type of tax (2003-04 to 2013-14)

Sl.no	Type of tax	Tax bouyancy
1	Own tax	1.14
2	Sales tax	1.16
3	Excise duty	1.03
4	Motor vehicle	1.10
5	Stamp and registration	1.14
6	Other tax	0.90
Source: same as Table 7.1		

7.8 The compound growth rate of the important fiscal variables considered are summarised in Table 7.4. Compared to tax revenue, the non tax revenue sources achieved a higher growth rate. Among the tax revenue sources, the compound growth rate is higher for sales tax followed by motor vehicle. Central transfers registered a lower growth rate as compared to many tax and non tax revenue sources. Within the central transfers, the rate of growth of tax transfers is greater than the growth of grants. Among the revenue expenditures, the pension payments recorded a very high growth rate over the decade, which needs a serious examination.

Table 7.4 Compound growth rate of fiscal variables(2003-04 to 2012-13)

	Compound growth rate (%)
Own tax revenue	0.16
i. Sales tax	0.17
ii. Excise duty	0.13
iii. Motor vehicle tax	0.16
iv. Stamp duty and registration	0.14
v. Others	0.09
Non tax revenue	0.23
(i) General services	0.33
(ii) Social service	0.14
(iii) Economic services	0.08
Central transfers	0.12
(i) Tax devolution	0.14
(ii) Grants	0.10
Revenue expenditure	0.15
A. General services	0.14
(i) Interest payments	0.09
(ii) Pensions	0.17
(iii) Other general services	0.18
B. Social services	0.17
(i) Education	0.16
(ii) Medical and public health	0.18
(iii) Other social services	0.19
C. Economic services	0.12
D. Compensation and assignment to LBs	0.14
Capital expenditure	0.26
A. Capital outlay	0.26
(i) General	0.18
(ii) Social	0.30
(iii) Economic	0.30
B. Loans and advances (net)	0.27
Debt	0.12
GSDP	0.14
Source: same as Table 7.1	

7.9 Along with fiscal items, the GSDP is also projected for estimating the fiscal ratios. The estimated growth rate of nominal GSDP for the State is 14%.

Projection of fiscal scenario

7.10 Table 7.4 shows the fiscal scenario as percent of GSDP. If the present trend as in 2012-13 continues, the state will not be able to achieve the targets of fiscal and revenue deficits as stated in the fiscal roadmap of medium term fiscal plan as well as 13th FC. There is bleak possibility in achieving zero percent revenue deficits and 3% fiscal deficits during 2014-15. The revenue deficit to GSDP will reach the level of 2.54 and 2.45 during the year 2013-14 and 2014-15 respectively. The fiscal deficit to GSDP for the year 2013-14 and 2014-15 are 3.96 and 4.01 respectively. The primary deficit will also increase during these years. However, the state may achieve the targeted level of Debt-GSDP ratio. The actual and predicted Debt-GSDP ratios are less than the targeted. However, the difference between the actual and targeted Debt ratio has been declining in the state recently. The trends in actual and targeted values of revenue, fiscal and primary deficits and the Debt-GSDP ratio are shown in Chart 7.1 to 7.4.

7.11 As given in Table 7.5, one of the major reasons behind the growing deficits and resultant fiscal instability is the growing difference between revenue expenditure and revenue reciept. While revenue expenditure as percentage of GSDP grew from 14.84 in 2013-14 to 14.95 in 2014-15, the revenue receipts grew from 12.3 to 12.5 for the above periods. Own revenue- GSDP ratio shows a declining trend in the State. It ratio declined from 8.61 in 2012-13 to 7.99 in 2013-14. All tax revenue sources showing a declining trend during 2013-14 as compared to the previous period. In addition to this, there is every possibility for further worsoning of the financial position as the State is more prone to various fiscal shocks. The possible fiscal shocks of the state are revision of salary and pension in every five years, frequent revision of DA, expansion of private aided sector, interest obligation, creation of additional post and establishment and other administrative expenses. The fiscal management of the state has to take into account these realities while making additional expenditure commitment and framing fiscal policies.

Table 7.5
Fiscal scenario as percent of GSDP

Items	2010-11	2011-12	2012-13	2013-14	2014-15
I. Revenue					
(a) Own tax revenue	8.24	8.35	8.61	7.99	8.13
(i) Sales tax	6.00	6.15	6.44	6.25	6.48
(ii) excise duty	0.64	0.61	0.66	0.49	0.49
(iii) Motor vehicle tax	0.50	0.52	0.55	0.54	0.55
(iv) Stamp duty and registration	0.97	0.97	0.84	0.65	0.66
(v) Others	0.12	0.10	0.11	0.06	0.06
(b) Non tax revenue	0.73	0.84	1.20	1.40	1.51
(i) General services	0.36	0.53	0.89	1.06	1.24
(ii) Social service	0.09	0.09	0.08	0.11	0.11
(iii) Economic services	0.19	0.16	0.17	0.17	0.16
(iv) Interest, dividend and profit	0.09	0.07	0.06	0.06	0.07
(c) Central transfers	2.78	3.15	2.82	2.91	2.86
(i) Tax devolution	1.95	1.95	1.96	1.88	1.88
(ii) Grants	0.83	1.20	0.86	1.04	1.00
Total revenue(A+B+C+D)	11.75	12.34	12.63	12.30	12.50
II. Expenditure					
(a) Revenue expenditure	13.14	14.95	15.31	14.84	14.97
General services	5.85	6.59	6.52	6.34	6.34
(ia) Interest payments	2.16	2.04	2.06	2.08	1.99
(ib) Pensions	2.19	2.83	2.54	2.60	2.67
(ic) Other general services	1.50	1.72	1.92	1.99	2.06
Social services	4.59	5.27	5.40	5.27	5.41
(iia) Education	2.60	3.06	3.01	3.07	3.12
(iib) Medical and public health	0.66	0.80	0.80	0.83	0.86
(iic) Other social services	1.06	1.30	2.39	2.49	2.60
Economic services	1.65	1.99	2.24	1.99	1.96
Compensation and assignment to LBs	1.05	1.10	1.15	1.25	1.25
Total Revenue Expenditure	13.14	14.95	15.31	14.84	14.95
(b) Capital expenditure					
(i) Capital outlay	1.28	1.25	1.32	1.08	1.19
(ii) General	0.04	0.05	0.04	0.04	0.05
(iii) Social	0.18	0.19	0.16	0.18	0.21
(iv) Economic	1.05	1.01	1.11	1.27	1.45
(v) Loans and advances (net)	0.27	0.31	0.30	0.34	0.38
Total capital expenditure	1.55	1.56	1.62	1.42	1.57
Revenue deficit					
Targeted revenue deficit	-	1.40	0.90	0.50	0.00
Actual and predicted revenue deficit	-1.39	-2.61	-2.68	-2.54	-2.45
Fiscal deficit					
Targeted fiscal deficit	3.33	3.50	3.50	3.00	3.00
Actual and predicted fiscal deficit	-2.93	-4.16	-4.29	-3.96	-4.01
Primary deficit	-0.77	-2.12	-2.23	-1.88	-2.03
Outstanding liabilities					
Targeted debt-GSDP ratio	32.80	32.30	31.70	30.70	29.80
Actual and predicted debt-GSDP ratio	29.83	29.06	29.64	29.12	28.61
GDP at current price (Rs crore)	263773	307906	349338	398245.32	453999.67

Note: Figures for GDP at current price from 2010-11 to 2012-13 are obtained from CSO and the figures for 2013-14 and 2014-15 are based on projection with a Cumulative growth rate of 14% per annum.

Chart 7.1
Actual and targeted revenue deficit

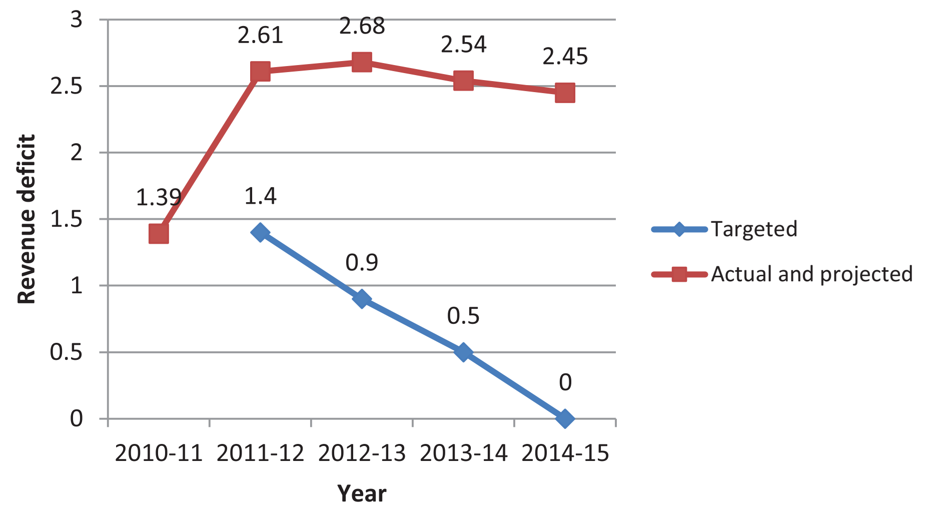


Chart 7.2
Actual and projected fiscal deficit

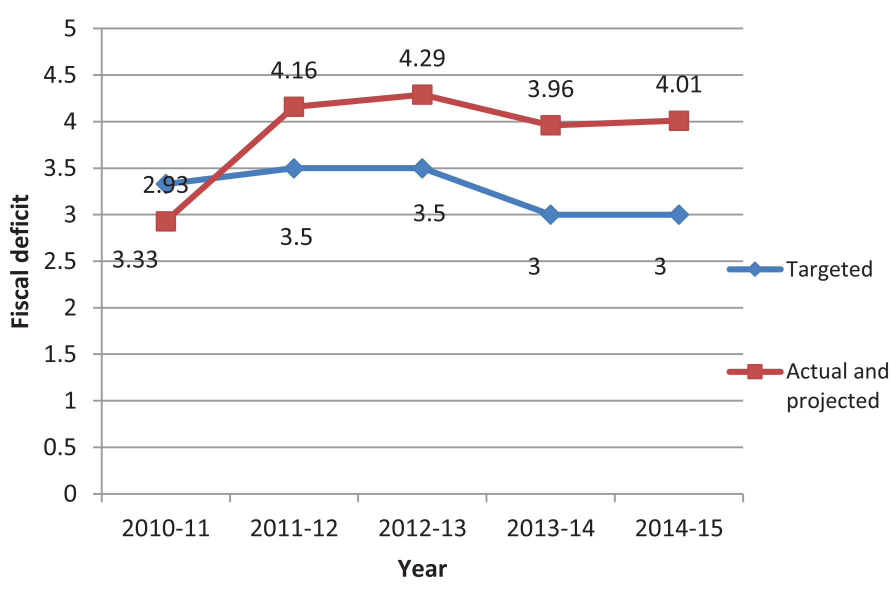


Chart 7.3 Actual and projected primary deficit

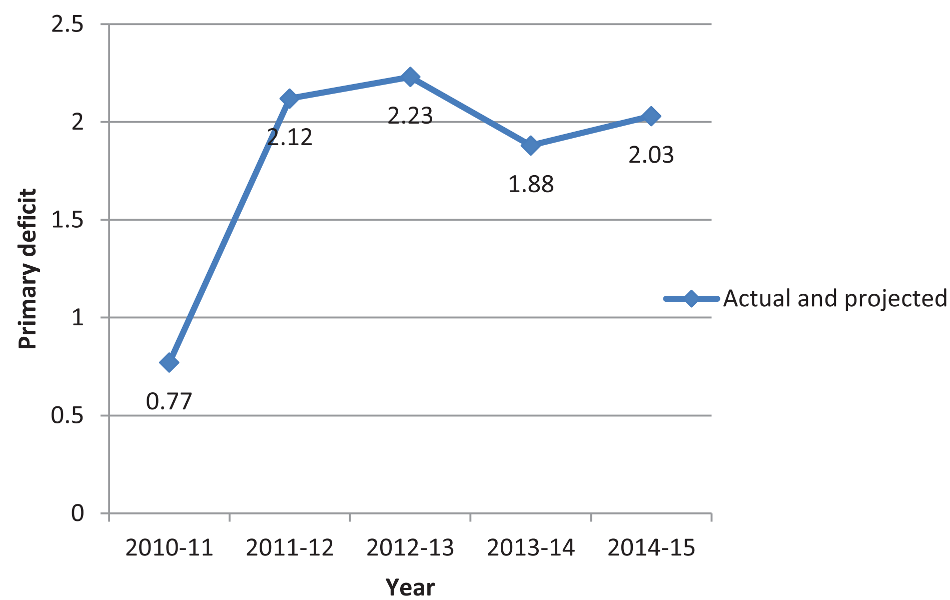
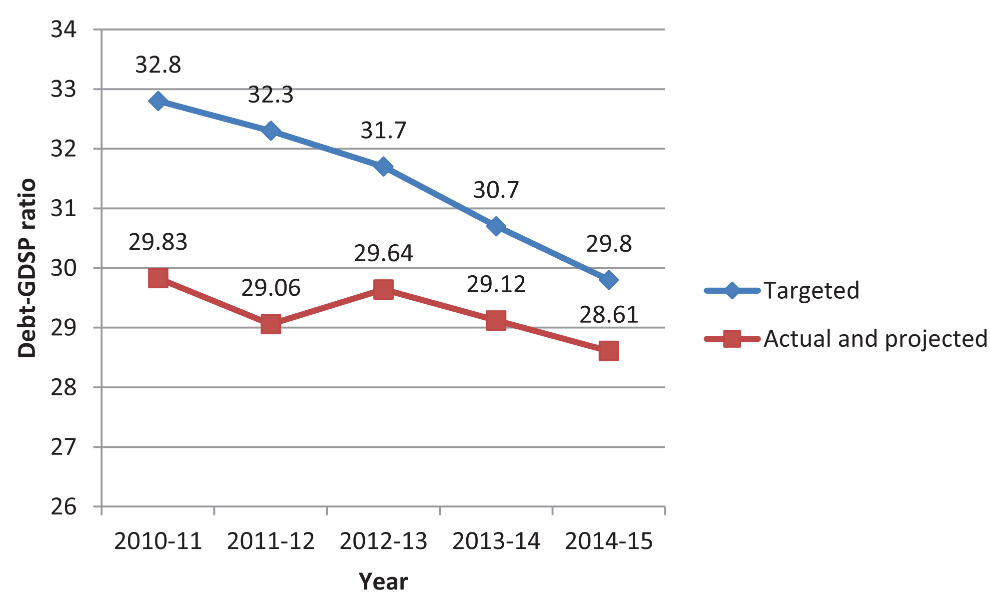


Chart 7.4
Actual and project Debt-GSDP ratio



7.13 Achieving financial stability is the primary concern of financial management. The need of the hour is a multipronged approach emphasizing revenue side, expenditure side and debt liabilities of the state. In the case of revenue, the stress should be given for tapping more non tax revenues, increasing the buoyancy of the tax revenue sources, remove unnecessary stay for tax collection, dismantling administrative hurdles to innovative practices in collecting tax revenue etc. In expenditure side emphasis should be given for controlling non plan revenue expenditure on the one hand and on the other hand enhancing capital expenditure for enhancing growth and financial stability.

8

Summary and Recommendations

Summary

Overview of State Finances

1. In order to ensure sound fiscal consolidation and prudent budget management, the Fiscal Responsibility (Amendment) Act was passed by the Legislature of Kerala in 2011, prescribing a roadmap in respect of deficits and public debt. Though the stipulated debt /GSDP ratio could be maintained the Government of Kerala has miserably failed to keep the deficits within limits. The ongoing fiscal crisis, being experienced in the State seems to be the outcome of the laxity on the part of the State to control deficits as stipulated in the Act. What is needed is to take corrective measures to curb the growth of expenditure ahead of revenue receipts in order to avoid further deterioration in the matter.

Revenue Profile and Mobilization

2. This chapter analyses the revenue position of the state, examines tax and non-tax sources of revenue. Further it examines the huge collection cast of revenue and the issues like tax evasion, low tax compliance, inordinate delay in settling cases and the growing lethargy in collection of arrears. It also suggests measures for bridling corruption and improving tax collection.

3. Though Kerala economy recorded appreciable growth in GSDP in the decade 2000, it was not accompanied by commensurate growth in revenue realization. However the situation improved from 2006-07 onwards as a result of the introduction of the better tax administration measures such as check-post takeovers, introduction of e-governance in the check posts, computerization drive in taxation department, etc.

4. During the period 2008-09 to 2012-13, when the rate of growth of states own tax revenue is observed, moderate though fluctuating rate was recorded in the all the years except 2009-10. When states own taxes account for 68 percent of total revenue receipts of 2011-12, states non-tax revenue accounts for 10 percent and the remaining 22 percent is devolution from the centre. It is observed that all states average rate of growth of total revenue receipts and tax revenue are higher than that of Kerala. Observation in comparison with southern states reveals that Tamilnadu champions first place in the average rate of growth between 2008-09 and 2011-12 at 19.5% followed by Kerala at 17.2%.

5. An analysis of five year average rate of growth of sales tax highlighted that when states sales tax recorded only 44.02%, trade tax/VAT recorded 52.02 percent. An analysis shows that per capita sales tax revenue is the highest in Karnataka while Kerala ranks second.

6. Commodity wise tax collection highlights that as usual highest contribution is made by Indian made foreign liquor followed by petroleum products, motor vehicles, etc. Items under the construction sector recorded average growth of 13.7 percent in the year 2012-13.

7. In the case of states own non-tax revenue, wide fluctuation in annual growth rate is observed. This sector has recorded a five year (2008-09 to 2012-13) average growth rate of 29.6 percent. When percentage contribution of general, social and economic services is observed, general services tops while the others lay behind.

8. When the state is facing serious fiscal crisis, arrear position revealed through Budget in Brief 2014-15 became a bone of contention. Total arrears reported in the table is Rs.32526.96 crore of which Rs 23026.88 crore is not under any sort of dispute. When the Government came forward with new tax and non tax proposals to tide over the fiscal crisis in the month of August shortly within six months of the submission of the budget for 2014-15, issue of arrear came to the fore as a heated topic of debate and discussion. Ten Departments with large arrear amounts are identified. A structured questionnaire was served to them to collect data. Further senior officials from each departments were requested to appear before the Committee for an exhaustive discussion regarding arrear collection. Data analysis reveals the following. Commercial taxes department stands first with Rs.6692.79 crore as arrear of which 70.4% is under dispute while the remaining part is collectable. Electrical Inspectorate comes second with Rs 5450.71 crore without any disputes. These ten departments together report arrear amount of 12538.04 crore, of which 61.02% is collectable without any dispute.

9. The Committee found that under-reporting of sales revenue is an important method resorted to avoid tax compliance by traders. Further, they submit input tax reimbursement proposals and use unhealthy means to get it done. The Committee feels that irrespective of the size of the turnover, whatever tax is collected from the consumer should be passed on to the Government. People give taxes, not to the trader, but to the Government. The Committee also found that whole sale dealers are the king-pins of tax revenue. If their consignments are properly inspected at the check posts, tax evasion can be overly averted. However, it is understood that paid informants are installed in all the major check posts day and night who have intimate connection with some officers. At the moment the squad takes the decision for a surprise inspection, the news will reach the check posts and they will take necessary steps to avert any major set-back to their favoured customers.

Structure of Expenditure

10. The fourth chapter examines the structure of expenditure. During the financial year 2012-13, the total expenditure increased by 16.4 percent. An unhealthy development had been a continuous fall in the share of revenue receipts to total expenditure. Another issue is the high proportion of revenue expenditure to total expenditure (90.3 Percent). The share of non-plan revenue expenditure (NPRE) accounted for nearly 79 percent of total expenditure. It may be pointed out that the structure of expenditure in Kerala is dominated by non-plan expenditure and a small share is spent as capital or plan expenditure.

11. During the year 2012-13, the fiscal situation was critical and the State was forced to borrow money for meeting day to day expenditure. The major causes for the critical fiscal situation are mounting expenditure on four items viz., salaries to Government staff, teaching grants given to private aided educational institutions, pension and interest payment. The expenditure on salaries increased from Rs.11074 Crore in 2010-11 to Rs. 17314 Crore in 2012-13. The salary expenditure accounted for 32 percent of the revenue expenditure. The large and mounting expenditure on salaries and pension due to its revisions every five years is a major cause for continuous revenue and fiscal deficit. The frequent revisions of DA rates following the DA revisions of the Central Government also contribute to the increase in salary expenditure. A major item of salary expenditure is the teaching grants given to the private aided educational institutions. Of the total salary expenditure of the State Government, 32 percent is spent for paying salaries to the private aided educational institutions.

12. Retaining a large number of uneconomic Government and private aided schools has created financial liability to the Government. The percentage of Government uneconomic schools increased from 31 percent in 2004-05 to 55 percent in 2013-14. The percentage of uneconomic private aided schools increased from 19 percent in

2004-05 to 40 percent in 2013-14. In order to protect the existing teachers, the definition of uneconomic schools has reduced from 25 students per standard to 15 students per standard. The schools having a total strength of students 10 or below are also retained (191 schools).The salary expenditure for teachers in the 191 schools having less than 10 students is estimated as Rs. 20.85 Crore per year.

13. The Committee found that 33061 temporary staff are retained in nonfunctional establishments, which had been created for implementing projects, investigation of irrigation and PWD projects, land acquisition etc. In 18 departments the surplus temporary staff exceeds 250 per department. The Committee feels that this is a wasteful expenditure and there is a need to abolish the non-functional offices and terminate the staff.

14. Pension expenditure is a major financial problem faced by State Government, autonomous bodies and universities. There are three categories of pensioners viz., Service, family and other categories. Pension expenditure increased from Rs. 5767 Crore in 2010-11 to Rs.8867 Crore in 2012-13. The expenditure accounts for 17 percent of the revenue expenditure. The hike of pension rate once in five years, the financial commitment of paying pension arrears and the increase in the service category of pensioners have contributed to a steep increase in pension payments. Currently autonomous bodies like KSRTC, Universities etc are heading towards a pension payment crisis.

15. Another aspect is the large share of expenditure incurred for education. Nearly half of the total staff and salary expenditure of the Government are on education. Large allocation of available scarce resources for a single item of expenditure is not a sound policy. There has been substantial growth in subsidies especially non-productive subsidies. Regarding the social welfare pension meant for poor and old people, the Government and LSGIs failed to distribute it on a monthly basis. The resource crunch

has resulted in fall in the share of funds given to LSGIs and expenditure on capital items to total expenditure.

Plan Expenditure: A Review

16. The issue of plan expenditure does not receive desired attention from the Government in spite of its societal significance. The outlay allocated to various schemes has not been utilised effectively in the state. The unscientific and inefficient way of spending of plan outlay recurs every year in the state. At the aggregate level as well as Department level, the plan outlay both for State as well as Centrally Sponsored schemes are underutilised with exception of Department such as PWD. The percentage utilisation of plan funds is low with Centrally sponsored schemes as compared to State schemes. As the State is undergoing a process of financial stress, the underutilisation of 100% CSS really warrants the attention of all stakeholders in the state. Along with underutilisation, the bunching of plan spending during the last quarter and that too during the last month of the financial year adds the gravity of the inefficiency. Similar to the Departments, spending pattern of LSGIs is also inefficient. As compared to Panchayat Raj Institutions such as Village, Block and District panchayat, the performance of urban bodies such as Municipalities and Municipal Corporations is deplorably poor. As the urban areas are beset with so many burning problems, the ineffective and haphazard plan implementation on the part of urban local bodies is a clear case of callous indifference and shirking of Constitutional obligation to the society.

17. The close scrutiny of schemes at Department level further indicates that a major share of funds are earmarked for social overhead capital (such as road), welfare, training and administrative activities. This lopsided allocation deprives the much needed fund for the development of productive activities in the state. The bunching of plan expenditure to the last month is equally applicable for state schemes and centrally sponsored schemes. The onus of inefficient plan implementation cannot be placed completely on

the shoulders of implementing Departments alone. The Department of Finance is also held responsible for this state of affairs. A major part of sanctioning and release of funds from the Department of Finance actually take place either in December or after that. There are many incidents of project sanctioning and release of funds during March, the last month of the financial year. The review of the project implementation is not taking place at the proper time. Also, only a quarter of the entire schemes are being subject to any kind of evaluation process. Timely and transparent outcome evaluation of the implemented schemes under Resource Framework Document (RFD) is the need of the hour. Among various factors which led to the delay and inefficient plan implementation, the cumbersome administrative procedures and inefficient project management are two important factors to be reckoned with. The speedy and comprehensive implementation of e-governance and the constitution of a professional project management cell at Department level might improve the plan performance in the state.

Debt Management

18. The debt has increased 1.6 times during fiscal period, 2008/09-2012/13. In the case of debt and outstanding liabilities the increase is the same, 1.6 times as in debt , during the period. This is attributable to the cap put by the Government Act in 2003 on Government guarantees. The growth rate of debt has slowed down and picked up momentum from 2010 FY onwards. The same pattern has been observed for the component, internal debt, since 2009 FY. The component from the Central Government has slumped in 2011FY but shows a recovery in 2012FY. The share of internal debt shows an increasing trend while that of loans and advances from Centre show a declining trend during the period. The share of public account is stable around 30 % during the period. The movement of growth rate and share of components in the opposite direction is resolved by the share-weighted growth rates of the respective components. By this criterion, the internal debt has accelerated since 2009FY, loans

and advances from Central Government decelerated until 2011FY and increased marginally in 2012FY.The component Public Account does not show any trend

19. The debt-gross state domestic product ratios of Kerala indicate a declining trend but increases marginally in 2012FY. The ratio, the borrowing capacity of the state, is within the limit (29.8%) put forth by the 13th Finance Commission.

20. The structure of eight instruments of debt indicates that maximum increase is recorded by market loans followed by NABARD, Provident fund and GOI. The remaining four instruments (NSSF, LIC, GIC and NCDC) record a decrease during the period. The shares are concentrated in market loans followed by provident fund , NSSF and GOI. The share weighted growth rate indicates that major instrument of debt is market loans. NABARD has been stable since 2008FY but declines in 2012FY. Provident fund shows a fluctuating trend. NSSF is no longer an important component of debt

21. The management of debt is examined for its efficiency of borrowing and spending.The cost-efficiency of borrowing is tested for eight major instruments which contribute about 84 % of the debt in 2012FY. If the Government is a rational borrower, the efficiency hypothesis implies cost-minimising behavior. In such a situation, the shares of the instruments and its effective interest rates should be negatively related. Higher the interest rate, lower its share. The evidence suggests that state is not rational in its market borrowing for the year 2012FY.

22. Efficiency of spending requires that the rate of return from investment should be at least equal to the cost of borrowing (rate of interest) for a rational investor. The rate of return at the aggregate level in 20012FY is only 15 % of the effective interest rate of the borrowed funds. This implies 85 % subsidy on public investment. The implicit subsidy for the public investment in 2012-13 is estimated to be Rs. 271 crore.

23. The loans and advances to Public sector undertakings (PSUs) from debt indicate that it has gone up from Rs. 6280 crore in 2008FY to Rs. 9394 crore in 2012FY, an increase of 1.5 times during the period. The interest received by the Government is only 0.2 % as against the effective interest rate of 7.1 % paid by the Government in 2012FY. The implicit subsidy in this case is Rs. 648 crore in 2012 FY.

24. The total cost of inefficiency in spending is Rs. 919 crore (implicit subsidy of 271 crore on investment plus implicit subsidy of Rs. 648 crore on loans and advances) in 2012 FY.

25. Two more issues exist on the performance of PSUs as part of efficient management of debt. First is the delay in the finalization of the balance sheets by the PSUs. According to Bureau of Public Enterprises, only 30 of out of 93 PSUs surveyed have completed the audited account by the deadline in 2013. This implies that only 32% of the PSUs keep audited accounts. The remaining 68 % of them even do not bother to keep the mandatory requirement of keeping proper accounts. This reminds us that PSUs do not follow even the elementary principle of "ആറ്റിൽ കളഞ്ഞാലും അളന്നു കളയണം" *(Even if you spill it in a stream, it should be measured)* embedded in our folk culture.

26. The CAG report shows that the net worth of public investment is negative and the rate of return is not enough to recover the interest rate on public debt. Therefore the top most priority to generate surplus from PSUs for development activities is to restructure them. Three strategies are recommended: (1) Merger of companies producing same product and services; (2) Equity participation with labour in the management; and (3) liquidation of companies with maximum loss. For the first strategy, we have selection three groups as in Table 6.9. For the second strategy, ten companies were selected as given in Table 6.10. For the liquidation,the third strategy, six non-working companies were selected as given in Table 6.11.

27. Another related management of debt is the discrepancy in the financial statements of PSUs with the official records. The figures provided by finance accounts and the PSUs records do not tally in the case of outstanding equity, loans and guarantees for the financial year, 2011FY. The disturbing finding is that PSUs either over-estimate or under-estimate the Government figures validated by the CAG. The equity figure of PSUs is 1.5 times that of the CAG whereas it is only 30 % for loans and 70 % on guarantees for 2011 FY. The findings suggest a systematic bias in the accounting reported by the PSUs.

28. Of the four indicators (Domar gap, Resource gap, Net availability of borrowed funds and Burden of interest payments) of sustainability, two (resource gap and net availability borrowed funds) are in absolute values. The Domar gap is the difference between the growth of income and the rate of interest which is positive suggesting sustainability. However, the gap has declined in 2012FY over the previous year indicating stress on its sustainability. Resource gap (sufficiency of non-debt receipts) is negative indicating likelihood of borrowing more which may affect adversely the sustainability of debt in the future. Net availability of borrowed funds is high in 2012 FY but its impact on sustainability depends on the share of the funds allotted to development spending particularly on capital outlay. The estimate shows that the rate is declining. This would mean that the sustainability is under stress. Finally, there is a marginal decline in the burden of interest payment in 2012FY. In sum, the sustainability of debt is under stress in 2012FY by majority of its indicators.

Fiscal Roadmap of 13th FC and the Achievements

29. The fiscal variables indicates that the fiscal management in the State is not efficient. The revenue, fiscal and primary deficits are growing in the state. Except in the case of total debt to GSDP ratio, the state could not achieve other targets such as revenue deficit and fiscal deficit. The difference between the actual and targeted values of the above deficits has been widening. A major portion of fiscal deficit is meant for meeting

revenue deficit, which adversely affect the productive capacity of the State. The unproductive utilisation of borrowed funds also reduces the repayment capacity. If the present trend as in 2012-13 continues, the state is unlikely to achieve the targets of fiscal and revenue deficits as stated in the fiscal roadmap of medium term fiscal plan as well as 13th FC. One of the major reasons behind the growing deficits and resultant fiscal instability is the growing difference between revenue expenditure and revenue reciept. The ratio of revenue expenditure to GSDP is growing faster than the ratio of revenue receipt to GSDP. All own taxes as percentage of GSDP showing a declining trend. Achieving financial stability is the primary concern of financial management. The need of the hour is a multipronged approach covering revenue, expenditure and debt liabilities of the state for maintaining financial stability. In the case of revenue, the stress should be given for tapping more non tax revenues, increasing the buoyancy of the tax revenue sources, remove unnecessary stay for tax collection, removing administrative hurdles to innovative practices in collecting tax revenue etc. In the expenditure side emphasis should be given for controlling non plan revenue expenditure in addition to increasing capital expenditure for enhancing growth and financial stability.

Recommendations

Overview of State Finances

1. Prudent budget management seems to be missing in Kerala as manifested from the wide variations between the budget estimates and actual accounts. In the light of such mismatch, C&AG has suggested for realistic assessment of the revenue receipts and revenue expenditure .One of the reasons for such mismatch seems to be the creation of additional posts and establishments in the middle of the financial year without making any study of the impact of such creation on the exchequer. The Committee

recommends that studies should be made before sanctioning new posts and establishments in future.(para 2.2-2.5)

Revenue Profile and Mobilization

States Own Tax Revenue

2. The Committee recommends to take steps to augment tax revenue mobilization by including a broadening of tax base, rationalization of the rate structure, rejuvenation of tax administration, computerization of account of the tax offices and the big dealers, and dissemination of information to the dealers etc. The Committee recommends that Kerala should move to a tax system which is least distortionary and better aligned with the tax structures of the neighbouring states and adopt modern tax administration practices to prevent tax evasion and avoidance (Para 3.5 & 3.14).

Commodity wise Tax Collection

3. Tax revenue based on compounding system from gold is highly under reported because the initial base is built on information furnished by Gold traders which is not based on physical verification. The actual tax revenue realized from Gold is only 43% of the potential revenue as estimated by the Committee. Therefore the Committee recommends that the system of Compounding should be restructured using the following scientific methodology. The estimation must be based on stratified sampling method which should be physically verified by a Special Assessment Wing consisted of officers with integrity. This should be supported by visual identification by placing camera or other surveillance equipment in close proximity of selected gold shops. All existing Gold dealers should be brought under the new compounding base.(Para 3.21)

4. The Committee recommends that immediate steps should be taken to augment tax performance of construction sector by plugging all the loop holes as the collection of tax is low. Coordination between check posts, rail routes, port and even air cargo

should be introduced to achieve tax compliance on goods such as marble, Belgium glass, sanitaryware etc.(Para 3.23)

Tax Collection from Rubber

5. The Committee recommends that with a view to checking corruption, tax evasion and trade diversion in the rubber sector steps like tax harmonization (The standardization of tax rates, tax rules and tax definitions in neighbouring states), legal action against those who smuggle latex and rubber sheet across the border causing trade diversion and tax avoidance in consultation with the Rubber Board should be initiated.(Para 3.24)

Non-Tax Revenue

6. The inter-departmental co-ordination and supervision by senior officers, regular discussion at officer level, frequent monitoring by senior officers, eradication of red tape, monthly appraisal of each department by the concerned Minister, follow up and rigorous action against erring officers etc., are needed to overcome the bottle necks in non-tax revenue mobilization. The Committee recommends for the revamping of Monitoring and Evaluation system in a rigorous way to achieve the above objectives.(Para 3.29)

7. The Committee recommends that a time frame for e-payment may be fixed and adequate security measures and necessary facilities may be provided till full-fledged e-payment is established in the department for improving non-tax revenue collection.(Para 3.31)

8. One of the methods practiced by dealers to evade tax is avoiding registration. As per KVAT Act 2003, every dealer with annual turnover of not less than Rs.5 lakh -casual dealers, industrial units, dealers registered under the CST Act, all contractors irrespective of the turnover - should be registered. There are around 20 lakh shops and establishments in Kerala as per the data provided by the Bureau of Economics and Statistics. Out of which only 3.85 lakh got registered. In this context the Committee recommends that immediate registration drive should be under taken with surprise

physical inspection of shops that are in the shadow of under reporting. The Committee also recommends that turnover level of registration should be reduced from Rs. 10 lakh to Rs. 5 lakh as in the case of other states.(Para 3.39)

9. It is found that under-reporting of sales revenue is an important method resorted to avoid tax compliance by traders. In order to bring shops & establishments under tight monitoring ,the Committee recommends that 10 percent of the total shops should be inspected instead of 0.01% practiced at present.(Para 3.40)

10. The Committee recommends that officers with clean image and efficiency should be posted in the major check posts with modernization and cyber forensic lab in taxes department. Committee further recommends to introduce computer cell with maximum server capacity and software independent of any outside interference.(Para 3.41)

Arrear Collection

11. It is understood that the industrial and commercial hubs of Kerala, Ernakulam and Kollam have also become the arrear hub of the State. Therefore, the Committee recommends that if arrear collection is to be augmented it should be focused on districts like Ernakulam, Kollam, Thiruvananthapuram and Palakkad.(Para 3.42)

12. It is felt that since the Power Secretary to Government himself is the ex officio Chairman of KSEB, most often interest of Electrical Inspectorate is sacrificed in arrear settlement with KSEB. Committee recommends that the power secretary should be directed by the Government to settle arrears of electricity duty due to Electrical Inspectorate every year.(Para 3.44 & 3.45)

13. Thrissur Municipal Corporation has not been remitting the electricity duty collected by them to the Government. The Committee recommends that steps should be taken to recover the electricity duty arrears from Thrissur Corporation.(Para 3.46)

14. In the Forest Department, lease rent was fixed way back in early 1970's at an abysmal low rate of Rs.1300 per hectare. The Subject Committee and Public Accounts Committee (September 2014) have recommended to raise it to Rs. 10,000 per hectare. But so far it is not effected. The Committee also recommends to take necessary steps to collect the existing arrears, if any, and to raise the lease rent per hectare from Rs.1300 to Rs.10,000.(Para 3.48)

15. Arrears of revenue are due to the Police Department from Southern Railways, KSEB, Central Administrative Tribunal, Debt Recovery Tribunal, Welfare Boards, Election Commission, Temples, Passport Office etc, where police personnel are posted. Hence the Committee recommends the Police Department to speed up the recovery of the arrears from the above departments.(Para 3.50)

16. It is observed that prominent institutions delay payment of Audit fee while institutions like orphanages promptly pay because their grant will be released only after getting the audited certificate. Hence the Committee recommends that audited certificate is to be issued only after getting the fee from concerned institutions.(Para 3.51)

17. In 55 cases of arrear due to Excise Department, bought-in-land at one Rupee per hectare, is available. If it is sold at the present market value, it can fetch Rs. 85 crore. Hence the Committee recommends that attached bought-in-land should be auctioned after clearing legal procedures.(Para 3.54)

18. Quarrying in the revenue land causes huge revenue loss to the Government as it is not auctioned but permitted the Thahasildar or Collector to sanction it with discretionary power. Hence the Committee recommends that quarries in the revenue land should be leased out only on auction, after receiving tenders online .The Committee recommends that lorries carrying quarry rock, M Sand etc., should be given electronic pass which can be used only once.(Para 3.56)

Structure of Expenditure

19. The major causes for the higher revenue and fiscal deficit in the State are the mounting expenditure on four items viz., salaries to Government staff, teaching grants to private aided educational institutions, pension and interest. The Committee recommends that the fiscal measures are to be taken on a priority basis to restrict the steep increase in expenditure of these items. (para 4.4)

20. In order to reduce expenditure on staff, the Committee recommends to outsource some of the activities of Government departments and LSGIs. The activities which may be outsourced are watch and ward, cleaning, gardening, collection of user charges, transport of vehicles, delivery of mails, issue of application form etc. Instead of purchasing vehicles and appointing staff for driving, the departments may hire vehicles for official use as practiced by Central Government. The LSGIs may outsource some of their activities like waste disposal, cleaning roads, public places, public lighting, drinking water supply, distribution of benefits, issue of application forms etc. (para 4.15)

21. The Committee found that 33061 temporary staff are retained in non functional establishments, which had been created for implementing projects, investigation of irrigation and PWD projects land acquisition etc. The Committee recommends to abolish the non-functional temporary establishments/offices and terminate the surplus temporary staff. (para 4.13)

22. There has been continuous increase in the number of uneconomic Government and private aided schools. The number of uneconomic Government schools increased from 1375 in 2004-05 to 2530 in 2013-14. During the period the uneconomic private aided schools increased from 1462 to 2882 .In this context, the Committee recommends that Government should not give sanction to start new schools in private aided sector. (para 4.8)

23. The discontinuation of the practice of physical verification of students during the years 2011-12, 2012-13 and 2013-14 has resulted in widespread malpractices and corruption. The verification of students using unique identification number (Aadhar) also led to widespread corruption. The courts which examined the cases of uneconomic schools have not approved the verification of students using Aadhar. The Committee recommends the following methods of verification to identify the uneconomic schools and surplus teachers. (1) Verify the students using the unique identification Numbers (Aadhar) (2) Reintroduce the physical verification of students in the schools as practiced prior to 2011-12 (para 4.8)

24. In uneconomic schools having 15 students or less per standard, permission is given to fill the vacancies arising due to death, resignation, promotion and retirement without assessing the surplus teachers from June 2012.This has resulted in fresh recruitment of permanent staff and excess teachers. The Committee recommends that new recruitment of permanent staff should not be allowed in uneconomic schools. The existing surplus teachers should be redeployed to the schools or temporary teachers on daily wages should be appointed. (para 4.9)

25. The Government is spending an amount of Rs. 20.85 crore as salary expenditure for 191 schools having total student strength of 10 or below. The Committee recommends that the schools having a student strength 10 or below should be closed and the students should be accommodated in the nearby schools. (para 4.10)

26. The Private educational sector comprising private schools, colleges and other educational institutions accounts for 28 percent of the total staff paid by the Government and 32 percent of the total salary expenditure. There is a need to regulate the undesirable growth of the sector and malpractices associated with the recruitment of staff. The Committee recommends that the Government should sanction new private aided institutions or new batches in the existing institutions only to those who

agree to the condition that the recruitment of the staff required will be made by the Kerala Public Service Commission (para 4.5 and 4.17)

27. The Government, autonomous bodies like KSRTC, Universities are heading towards a pension payment crisis. The Committee recommends the creation of pension fund for meeting the expenses connected with payment of retirement benefits and monthly pension to the retired staff who comes under the statutory pension schemes. (para 4.21)

28. Though the State is implementing a number of social welfare schemes, the pensions are not paid monthly and hence the beneficiaries are not getting the desired benefits. The Committee recommends that necessary steps may be taken by the Departments and LSGIs to distribute the pensions every month through banks/e-payments. (para 4.23)

29. Considering the structure as well as the growth in capital expenditure the Committee feels that there is a need to change the priorities in capital expenditure. The Committee recommends that higher priority and more allocation of funds should be given to items of expenditure like inland water transport, public works, medical and public health, welfare of SC, ST and OBC, fisheries, forestry and wild life and tourism. (para 4.29)

Plan Expenditure: A Review

30. Many Departments could not spend a major portion of centrally sponsored schemes (CSS). There is no systematic spending pattern over the financial year for CSS in the State. In the State many CSS are implemented by the Department through various offshoot agencies, and the concerned Departments have no control over them for the timely implementation, auditing the report and preparing utilisation certificate. The following are the recommendations to tackle the issues connected to CSS:

a. The Committee recommends that monitoring mechanism of the parent departments over the offshoot/subsidiary agencies must be strengthened for achieving better accountability of the former (Para 5.25); and
b. The Committee suggests that frequent in-service training must be imparted to the implementing officers for preparing, implementing and evaluating of the schemes, with the help of professional agencies such as IIM, Centre for Management Development, Institute of Management in Government etc. (Para 5.38)

31. One of the reasons behind the delay in implementation of plan schemes as noted by the Committee is the passing of the State budget in June and July. This further delays the processing of schemes by the Department for administrative sanction and implementation. The Committee recommends again that steps may be taken to pass the budget in March every year (Para 5.10).

32. A review of the plan performance by Department wise shows that many belong in the category of 'poor' and 'very poor'. To improve the performance of these Departments, the Committee suggests that the existing monitoring and evaluation mechanism at Secretary level should held periodically (Para 5.16).

33. The skewed distribution of plan expenditure over the year adversely affects the quality of plan expenditure of LSGIs. The Committee suggests that a monitoring mechanism should be initiated at LSG Department level to ensure the avoidance of this skewed and distorted plan spending. Also, the State Government should formulate guidelines for effective and time bound implementation of Annual plans and ensure that the annual plan grants of the Local bodies should be linked with the guidelines (Para 5.18).

34. A major portion of plan outlay in the State is earmarked for welfare, training and administrative activities, which substantially reduce the potential economic growth of the State indirectly. A proper and scientific classification of schemes based on their

impact on the soceity is needed while including them in the annual plan of the State. The Committee recommends that steps may be initiated for prioritisation of schemes on the basis of public investment criteria for attaining a sustainable economic growth while preparing the annual and five year plans of the State (Para 5.21).

35. One of the reasons found by the Committee for the delayed administrative sanction is the unviable nature of many schemes prepared by Departments and LSGI's. The Committee reiterates that the present mechanism for scrutinizing and evaluating the viability of schemes should be strengthened with professionals or professional agencies (Para 5.31& 5.32).

36. The preparation and scrutiny of major plan schemes should start during the preceding financial year so as to get the administrative sanctions at the beginning of the current financial year. The Committee recommends that steps may be taken by the Department or Departmental Committees to issue administrative sanction for plan schemes within the first two months of the financial year (Para 5.33).

37. The delay in sending request for administrative sanction by the concerned Department is noticed by the Committee. Hence the Committee recommends documentation on the date of sending the request for administrative sanction and release of fund with the actual date of sanctioning must be maintained by the implementing officers for time bound evaluation of schemes (Para 5.34).

38. For a proper evaluation of bunching of plan spending by the Department, the data pertaining to the date of request by the implementing Departments and actual release of funds by the Finance Department are required. The Committee again recommends that the dates and amounts of release of funds to various schemes by the Finance Department must be given along with the expenditure of the respective Departments in the Annual Plan Review (Para 5.35).

39. The Committee found that currently, no accountability is fixed on officers for their lapses for poor plan spending. The accountability of officers at various levels in the Department may be fixed at the level of project formulation, obtaining administrative sanctions, monitoring and implementation. The Committee recommends again that appropriate action may be initiated against the officers responsible for these lapses (5.39).

40. The shortfall of spending to the released amount leads to parking of funds by the concerned Departments without being noticed by higher monitoring authority such as Centre for Plan Monitoring Unit of Department of Finance. The Committee again recommends that the carry over outlay and its expenditure should be given in the Annual Plan review along with current year annual plan spending (Para 5.40).

41. A serious issue is the discrepancy between the budgeted outlay and released amount to various schemes. This non-release of funds was mainly due to changes in the priority of Government after the passing of budget and Annual Plans. The supplementary demands after the passing of the budget not only change the priority of the Government, but also derail the original plan implementation of the concerned Departments. As in the previous report, the Committee again recommends that this practice may be discouraged and the plan proposals in the supplementary demands for grants may be limited to the declaration in the budget speech (Para 5.41).

42. The Committee suggests that the governance issues in plan schemes can be resolved largely by the speedy and efficient implementation of e-governance at all levels including project planning, sanctioning, release of funds and implementation, tendering (e-tendering) etc. (Para 5.45)

Debt Management

43. Major components of debt indicate that the State borrow more from the market based instruments now than before. To what extent the huge NRI deposits / remittance

contributes to debt is hardly known. The Committee recommends that innovative instruments be designed for getting a share of deposits of Rs. 90,000 crore and Rs 75,000 crore of remittance from the NRI of Kerala origin. (Para 6.8)

44. Evidence for the last three years suggests that State is not a rational borrower since no relationship exists between shares of instruments and their interest rates during the three years. The Committee recommends that the Government urgently evolve rational borrowing principles in debt financing.(Para 6.9)

45. The inefficiency of spending particularly in public investment and refinancing indicate that Rs. 919 crore is the implicit subsidy in 2012FY. The Committee recommends that the Government should initiate steps to recover at least the interest rate paid by them from the economic units. Committee recommends that the PSUs should be restructured urgently to reduce the implicit subsidy. This recommendation should not become another wild cry like earlier ones on PSUs restructuring.(Para 6.11)

46. The major share of borrowing goes to public sector undertakings (PSUs). Unfortunately, about 70 % of the PSUs do not produce their certified annual accounts before the deadline of 30 September pertaining to the previous financial year. This reminds us that PSUs do not follow even the traditional elementary principle of "ആറ്റിൽ കളഞ്ഞാലും അളന്നു കളയണം" *(Even if you spill it in a stream, it should be measured)* in our folk culture. Committee recommends that the Government insist on the deadline for finalizing the accounts of PSU's by 30 September of succeeding financial year failing which grants should not be released and the CEOs should be held responsible. (Para 6.16)

47. The latest report of CAG shows very poor performance of 114 PSUs as reflected in the rate of return (6.1 %) on capital employed. It is further noted that 16 of them are non-working companies and the controllable losses are Rs. 1615.7 in 2012-13 and net worth negative mainly contributed by the statutory corporations excluding Kerala state

electricity board. The Committee recommends three prong-strategies for restructuring of PSUs: (1) merger and modernization, (2) equity participation with labour in the management, and (3) liquidation of non-working companies. (Para 6.12)

48. First strategy, merger and modernisation, is applicable only for the companies which produce the same product or provide the same services. The Committee identifies three groups of companies (see Table 6.9) and recommend that the strategy of merger and modernisation should be adopted for realising economies of scope and a competitive rate of return. (Para 6.13)

49. The next strategy, the second, is to introduce equity participation with labour in the management of loss making companies. The Committee recommends that equity participation with labour force in the management like in the Japanese type of management should be initiated and experimented without any delay in the ten top loss making companies (excluding the public utilities) (see Table 6.10) .(Para 6.14)

50. The third strategy, the final component in our restructuring scheme, is the liquidation of non-working companies which benefit none at present. According to CAG Audit report in March 2013, there were 16 non-working companies (Table 1..1.11, p.14) having a total investment of Rs. 105.36 crore towards capital (Rs. 47.72 crore) and long term loan (Rs. 57.64 crore). Liquidation process had commenced in four of them and nine of them have been issued closing orders but not yet started (Table 1.1.12, p.14, CAG Audit Report, 2013) liquidation. The Committee recommends that the on-going liquidation process be accelerated and completed within a time frame and identifies six non-working companies (see Table 6.11) for liquidation.(Para 6.15)

51. Another area of inefficient management of public funds is the discrepancy in the accounts kept by the PSUs and financial accounts of CAG. The Committee recommends that a technical group be appointed by the Government to resolve this issue so that

accountability and transparency can be restored particularly in the case of PSUs. (Para 6.17)

52. Another neglected aspect of refinancing by the government is the guarantee commission of not less than 0.75 % and payable on the actual balance, outstanding interest/penal interest etc. as on 31st march of previous year. The amount due for the Government during 2012-13 was Rs. 122.9 crore, out of which 89.12 crore was outstanding as on 31st March 2013 according to CAG. The Committee recommends that the arrears should be collected wherever possible and the commission should be deducted, hereafter, from the loans/assistance sanctioned in future. (Para 6.19)

53. All of the indicators suggest that the sustainability of the State is under stress .Committee recommends that there is a proportional increase in the net availability of borrowed funds to capital outlay (Para 6.22)

Fiscal Roadmap of 13th FC and the Achievements

54. In spite of increase in the borrowing, the share of capital outlay has not been growing sizably. An increase in capital expenditure is desirable for improving the productive capacity of the economy and for future debt redemption. The Committee recommends that a ceiling of 50% to be fixed for revenue expenditure from the borrowed funds (Para 7.4).

55. Prudent fiscal administrative reform is the only way to ensure fiscal stability. The Committee recommends the speedy implementation of the fiscal measures such as auditing all Public Sector Undertakings (PSUs), drawing roadmap for closing non-working PSUs, creating a comprehensive data bank on all subsidies, auditing the assets of State Government and its maintenance expenditure, revenue expenditure consequence of capital projects, incorporating the fiscal impacts of major policy

changes of State Government, reporting the public-private partnership liabilities in Medium Term Fiscal Plan, strengthening local fund audit (Para 7.13).

Appendix 1

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Appendix 2

List of Officials Participated in Deliberations

1. Smt.Deepa Martin, Deputy Director, Director of Public Instruction
2. Sri.V.J.Suresh Kumar, Jr. Superintendent, Director of Public Instruction
3. Smt.Subhalekshmy. R, Accounts Officer, Chief Electrical Inspector
4. Sri.Gopan.K, Sr Superintendent, Chief Electiral Inspector
5. Sri.K. Suresh Babu, Dy.Commissioner of Excise, Excise Department
6. Sri.Shaji.J.Varghese. Excise Circle Inspector, Excise Department
7. Sri.S.Anil Kumar, Audit Officer, Mining & Geology
8. Sri.K.Velappan Nair, Deputy Director, Local Fund Audit Department
9. Smt.Sreeja.K, Audit Officer, Local Fund Audit Department
10. Sri.Shajahan.S, Dy.Controller of Stationery(ADMN) Stationery Department
11. Sri.K.Sreekumaran Nair, Jr.Superintendent, Stationery Department
12. Sri.Varghese Thomas, Finance Officer, Forest Department
13. Sri.K.Sundram, Sr.Clerk, Forest Department
14. Sri.S.Prasannan, Dy Labour Commissioner(HQ) , Commissionerate of Labour
15. Sri.B.Arun, District Labour Officer (HQ), Commissionerate of Labour
16. Smt.G.Leena, Sr. Finance Officer, Police Department
17. Sri.Ajeesh. Clerk , Police Department
18. Sri.Capt.Hari.A.Varrier, Dy.Director of Ports, Ports Department
19. Sri.R.Gopakumar,Finance Officer, Ports Department
20. Sri.C.Lalappan, Joint Commissioner, Commercial Taxes
21. Sri.T.K.Ziavudeen, Joint Commissioner (General), Commercial Taxes

22. Sri.V.J.Gopakumar, Deputy Commissioner (General), Commercial Taxes
23. Smt.J.C.Leela, Joint Director, Treasurey Department
24. Sri.K.Shaji, Chief Mechanical Engineer, Port Department
25. Sri.K.Raveendran, AO, Ports Department
26. Sri. Tomy Joseph, Assistant Director, ST Department
27. Smt.K.Jeaya, Chief Planning officer, SC Development Department
28. Sri. Anil Kumar.C, Research Officer, SC Development Department
29. Dr.S.Sunil Kumar, Assistant Director,(Planning), Animal Husbandry Department
30. Sri.Santhosh.k.John, Kerala Forest Department
31. Smt.Bindu.A.R, Civil Supplyes Department
32. Sri.Udaya Kumar. A , Tourism Department
33. Dr.Srilatha,Dy Director, Planning (DHS) Health and family welfare Department
34. Sri. Alex Paul, Joint transport commissioner, motor vehicle Department
35. Smt. Radhika.K.K, Account Officer, CADA, Head Quarters Thrissur
36. Sri.J.Shaji, Sr.Finance Officer, Irrigation Department, Kuttanad Package
37. Smt.T.Kachana, Finance Officer, Water Resource (CAD) Department
38. Sri.V.S.Pradeep, Finance Manager & Chief Account Officer, Kerala Water Authority
39. Sri.Sajith Kumar.S.S, Dy Account Mangaer, Kerala Water Authority
40. Sri.S.Somasekharan Nair, Sr.Finance Officer, Irrigation Department
41. Sri.M.K.Madana Mohan Nair, Sr.Finance Officer, Irrigation Department(Project-2)
42. Sri.Jose.E.Peters, Finance Officer, Irrigation Department (IDRB)
43. Sri.AnanthaKrishna Pillai.K, Irrigation, Mechanical
44. Sri.K.J.Antony, Additional Secretary, Power Department
45. Smt. Valsala Kumari, Chief Engineer, Corperate Planning KSEB
46. Sri.P.Valsaraj, Director (Technical , Charge) ANERT
47. Sri.K.M.Dharesan Unnithan, Director, EMC
48. Sri. Radhakrishnan.V, Sr. Finance Officer, PWD, NH
49. Sri.P.K.Jayarajan Sr Finance Officer, PWD, RNB
50. Sri. Raveendran.J, Chief Engineer, KSTP, PWD

51. Sri.M.B.Sanu, Finance Officer, KSTP, PWD
52. Smt.K.G.Sreedevi, Assistant Director, Social Justice, Department
53. Smt.Beena P. Nair, Company Secretary and Finance Mangaer, IT Department
54. Smt.Thara Samuel, Joint Secretary, IT Department
55. Smt. Anni Moses, Techno Park, IT Department
56. Smt. Maris Swittens, Finance Officer, KSITM, IT Department