Kerala Public Expenditure Review Committee

Second Committee

Second Report
2008-09

Government of Kerala
June 2010

KERALA
PUBLIC EXPENDITURE
REVIEW COMMITTEE

SECOND COMMITTEE

[Constituted as per Gazette Notification No. 441/08/Fin dated 30-09-2008 (S.R.O. No. 1023/2008) as prescribed under Section 6 of the Kerala Fiscal Responsibility Act, 2003 (29 of 2003)]

SECOND REPORT (2008-09)
JUNE 2010

Foreword

This is the Second Report of the Second Public Expenditure Review Committee (PERC) constituted by the Government of Kerala under section 6 of the Kerala Fiscal Responsibility Act of 2003 (Act o29 of 2003). The Committee was headed by Professor K.K. Subrahmanian and started functioning with the first meeting held at Thiruvananthapuram on 31st October 2008. The first report was submitted on 31st December 2008.

As the work on the Second Report was going on, a sad event occurred with the passing away of Professor Subrahmanian on 16th October 2009. Professor K.P. Kannan, who was a Member of the Committee, was then appointed as the new Chairman on 25th February 2010. Another sad event was the passing away of Sri R. Venkataramanan on 3rd April 2010 who was functioning as Secretary to the Committee.

This Committee would like to place on record its deep sense of gratitude to Professor K.K. Subrahmanian for his guidance and commitment to the work of this Committee and to Sri R. Venkitaramanan for his excellent services in their respective capacities. We also take this opportunity to pay homage to the departed souls.

The audited Finance Accounts for the year 2008-09 was made available to the Committee in the last week of March 2010. Subsequently Sri M. Chandra Dhas, Joint Secretary, Finance Department was nominated as Secretary to the Committee on 21st April 2010. As such the Committee could finalise this Second Report only in the last week of June 2010.

The Committee would like to place on record its appreciation to Dr. P. Prabakaran who, until recently, was the Additional Chief Secretary (Finance) and currently Chief Secretary to the Government of Kerala for his cooperation in facilitating the work of the Committee. We also place on record a special word of thanks and appreciation to Sri L.C. Goyal, Additional Chief Secretary to the Government of Kerala in charge of Finance, for the valuable interaction the Committee had with him as well as his cooperation in facilitating its work.

Sri M. Chandra Dhas, Secretary to the Committee, besides taking care of the logistics, provided the relevant inputs and participated in the meetings to clarify several issues discussed here.

Dr.Pinaki Chakraborty
Member

Dr. K.P. Kannan
Chairman

Thiruvananthapuram
23 June 2010

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Introduction

1.1 The Public Expenditure Review Committee (PERC) is constituted by Government of Kerala in accordance with the provisions in Section 6 of the Kerala Fiscal Responsibility Act, 2003. The term of the Committee is for a period of three years from the date of appointment. The first PERC was constituted by the Government of Kerala on 25th November 2005. The second Committee was appointed on 30th September 2008 and Gazette Notification issued on 3rd October 2008. The Committee is required to submit to the Government of Kerala a review report in December every year on the fiscal performance of the State during the previous year. This is the second Report of the second PERC. The Chairman of the Committee Dr. K.K.Subrahmanian passed away on 16.10.2009. The new Chairman was appointed by Government only on 25 February 2010 vide Gazette Notification No. KLTV (N)/12/2009-2011 of the same date. Besides, the Finance Accounts for 2008-09 was made available to the Committee only during the last week of March 2010. Therefore this Report could be submitted to Government only in the last week of June, 2010 instead of in December, 2009.

1.2 This Report has seven Chapters. Chapter 2 gives an overview of the finances of the State of Kerala and the fiscal profile of the State with reference to key fiscal indicators. It also assesses the State's fiscal performance for the year 2008-09 compared to the previous years, the budget estimates for 2008-09, the Medium Term Fiscal Policy and the targets set in the Kerala Fiscal Responsibility Act 2003. In Chapter 3, we discuss the profile of revenue receipts i.e. tax revenues, non-tax receipts and transfers from the Centre. The pattern of expenditure, both revenue and capital including net loans, is analysed in Chapter 4. The Debt profile of the State is examined in Chapter 5. The Finance Minister had referred to the Committee a recommendation/suggestion from the late Sri K.V. Rabindran Nair, a former Chief Secretary and a former Chairman of the State Finance Commission, regarding the management of the Public Account of the Government of Kerala. We have therefore considered this matter and our assessment is given in Chapter 6. A summary of findings and recommendations is given in Chapter 7.

1.3 The GSDP figures used in this Report are from the revised 1999-00 series as base with 2006-07 final figures. Therefore the percentages with respect to GSDP will differ from those in the previous Reports for all years.

1.4 Unlike earlier Reports, this Report does not have a pre-FRA and post-FRA analysis of the State finances. The Committee thought that for the year 2008-09, it may not make much of a sense to undertake a pre-and post-FRA analysis as fiscal controls were relaxed through various fiscal stimulus measures, both by the Government of India and the Government of Kerala, to deal with the economic down turn due to global economic crisis. It may be worth recalling here that one of the most significant components of the second fiscal stimulus package announced in January 2009 by the Government of India was to allow the States to raise additional market borrowing to the tune of around Rs. 30,000 crore or 0.5 per cent of their respective State GSDP for capital expenditure. Thus, comparison of targets of deficit with pre and post FRA would have given a misleading picture of the State finances due to the relaxation of borrowing norm.

1.5 There was widespread apprehension that the global economic crisis would impact India adversely and might result in a low growth rate that will dampen future prospects for growth. In the case of Kerala also it was feared that it might get impacted much more seriously given its greater integration with the global markets for commodities as well as its dependence on the Gulf economy for employment and remittances. However, the impact was much less than what was feared and the Indian economy managed to register an aggregate growth rate of 6.7 percent in 2008-09 compared to 9.0 percent during the previous year. The Kerala economy, in fact, registered a marginally better performance vis-à-vis the national economy with a growth rate in GSDP of close to 7 percent (6.98) as against a growth rate of 9.79 percent in the previous year. Such a performance could have been partly due to the various stimulus measures and partly due to the continuing inflow of remittances and the absence of any net return migration. All these resulted in a fiscal performance that is even better, though marginally, than the previous year in terms of fiscal imbalances and the quality of the fiscal deficit in Kerala.

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Overview of State Finances and Fiscal Profile

2.1 The fiscal performance of Government of Kerala at a glance during 2008-09 is given in Table 1 below. It shows that compared to 2007-08 there is a marginal improvement in the growth rate of aggregate revenue receipts in 2008-09 despite economic slowdown. Revenue receipt as a percentage of GSDP has also increased marginally from 12.74 to 12.91. At the same time, revenue expenditure as a ratio of GSDP has gone down marginally from 15.02 to 14.87 percent during the same period. The capital expenditure which had registered an impressive 95.19 percent increase in 2007-08 could post a nominal 13.82 percent growth in 2008-09 with the net lending plummeting from 196.82 to just 11.79 percent. However the ratio to GSDP in respect of capital expenditure and capital outlay has remained more or less the same compared to the previous year.

2.2 The decline in the growth rate of revenue expenditure and improvement in the growth of revenues have helped the State, in a way, to bring down its fiscal imbalance during the period under review. The ratios of revenue deficit, fiscal deficit and primary deficit to GSDP have all shown decreases over the previous year. Compared to 2007-08, the revenue deficit has dropped by 0.33 percentage points, fiscal deficit by 0.34 percentage points and primary fiscal deficit by 0.18 percentage points. The decline in revenue expenditure to GSDP ratio also indicates that the impact of the pay and pension revision ordered in March 2006 seems to have been fully absorbed by 2008-09.

Table 1 : Overview of State Finances (Rs. crore)

	2004-05	2005-06	2006-07	2007-08	2008-09	2008-09 BE	2009-10 BE	08-09A/ 08-09 BE (%)
Revenue Receipts	13500	15295	18187	21107	24512	24936	28154	98.30
Growth Rate	14.26	13.30	18.91	16.06	16.13	1.73	12.91	
Revenue Expenditure	17169	18424	20825	24892	28224	28303	31162	99.72
Growth Rate	10.80	7.31	13.03	19.53	13.39	0.28	10.10	
Interest Payment	3613	3799	4190	4330	4660	5144	5312	90.59
Growth Rate	8.56	5.15	10.29	3.34	7.62	10.39	3.27	
Capital Expenditure	783	1053	1186	2315	2635	2259	2672	116.64
Growth Rate	-57.88	34.48	12.63	95.19	13.82	-14.27	18.28	
Capital Outlay	682	817	903	1475	1696	1562	1710	108.58
Growth Rate	6.56	19.79	10.53	63.34	14.98	-7.90	9.48	
Net Lending	101	236	283	840	939	697	962	134.72
Growth Rate	-91.71	133.66	19.92	196.82	11.79	-25.77	38.02	
Revenue Deficit	3669	3129	2638	3785	3712	3367	3008	110.25
Fiscal Deficit	4452	4182	3824	6100	6347	5626	5681	112.82
Primary Fiscal Deficit	839	383	-366	1770	1687	482	369	350.00

As Percent to GSDP

Revenue Receipts	12.24	12.18	12.54	12.74	12.91	13.14	13.91
Revenue Expenditure	15.57	14.67	14.36	15.02	14.87	14.91	15.40
Capital Expenditure	0.71	0.84	0.82	1.40	1.39	1.19	1.32
Capital Outlay	0.62	0.65	0.62	0.89	0.89	0.82	0.84
Net Lending	0.09	0.19	0.20	0.51	0.49	0.37	0.48
Revenue Deficit	3.33	2.49	1.82	2.28	1.96	1.77	1.49
Fiscal Deficit	4.04	3.33	2.64	3.68	3.34	2.96	2.81
Primary Fiscal Deficit	0.76	0.30	-0.25	1.07	0.89	0.25	0.18
GSDP	110260	125588	145009	165722	189841	189841	202400

2.3 There has been a steady improvement in the quality of fiscal deficit for the last five years and it is heartening to note that the trend continues. The ratio of revenue deficit to fiscal deficit, which stood as high as 82 percent in 2004-05, has fallen to 62 percent in 2007-08 and further to 58 percent in 2008-09. The growth in interest payments has increased to 7.62 percent in 2008-09 over 2007-08 compared to 3.34 percent for the previous year. However, the interest payment to GSDP ratio declined during this period

2.4 The fiscal targets prescribed in the Kerala Fiscal Responsibility Act, 2003 were elimination of revenue deficit and reduction of fiscal deficit to 2 percent of GSDP in 2006-07. The Government of Kerala has not been able to achieve these targets so far. Though the Central Government have revised fiscal targets in more liberal terms in view of the economic downturn in the year 2008-09, Kerala's fiscal deficit remained at 3.34 percent of GSDP in 2008-09. It is worth mentioning here that despite not adhering to the FRA targets, the Government of Kerala has been able to bring down the level of fiscal deficits in recent years. This has happened primarily due to the buoyant own tax revenue growth and also an increase in Central transfers due to the high growth in Central taxes up to 2007-08. As the fiscal stimulus package of the Centre revised the FRA target of States to 3.5 percent of GSDP instead of 3 percent, this implies that the State of Kerala was well within its limit of borrowing in the year 2008-09.

2.5 The Medium Term Fiscal Policy of Kerala for 2008-09 had set the targets of revenue deficit of 2.04 percent, fiscal deficit of 3.41 percent and primary fiscal deficit of 0.29 percent of GSDP for the year 2008-09 (BE). The targets achieved are 1.96, 3.34 and 0.89 percent respectively, with significant deviation occurring in the case of primary deficit. In other words, actual revenue and fiscal deficits remained below the budget estimates for the year 2008-09, despite economic slowdown induced sluggishness in the Central revenues and corresponding decline in transfers. This is a remarkable achievement in bringing in greater fiscal prudence and management of Kerala State Finances.

2.6 Let us now look at the fiscal performance with respect to the budget estimates for 2008-09. The total revenue receipt was 98.30 percent of the target of Rs.24,936 crore. The increase in receipts over 2007-08 is 16.13 percent whereas it was 16.06 percent during 2006-07 and 2007-08. This needs to be seen in the light of the apprehensions about the impact of global economic crisis on India. Overall, there has been a steady growth in revenues in recent times. The year to year variations, as percent of GSDP, are given in Table 2, and these fluctuations are coming down over the years reflecting better predictability of the budgetary forecast.

Table 2: Key Fiscal Indicators: Year Wise Differences as Percent to GSDP

	05-06A/ 04-05A	06-07A/ 05-06A	07-08A/ 06-07A	08-09A/ 07-08A	09-10BE/ 08-09A	08-09A/ 08-09BE
Revenue Receipts	-0.07	0.36	0.19	0.18	1.00	-0.22
Revenue Expenditure	-0.90	-0.31	0.66	-0.15	0.53	-0.04
Capital Expenditure	0.13	-0.02	0.58	-0.01	-0.07	0.20
Capital Outlay	0.03	-0.03	0.27	0.00	-0.05	0.07
Net Lending	0.10	0.01	0.31	-0.01	-0.02	0.13
Revenue Deficit	-0.84	-0.67	0.46	-0.33	-0.47	0.18
Fiscal Deficit	-0.71	-0.69	1.04	-0.34	-0.54	0.38
Primary Fiscal Deficit	-0.46	-0.56	1.32	-0.18	-0.71	0.63

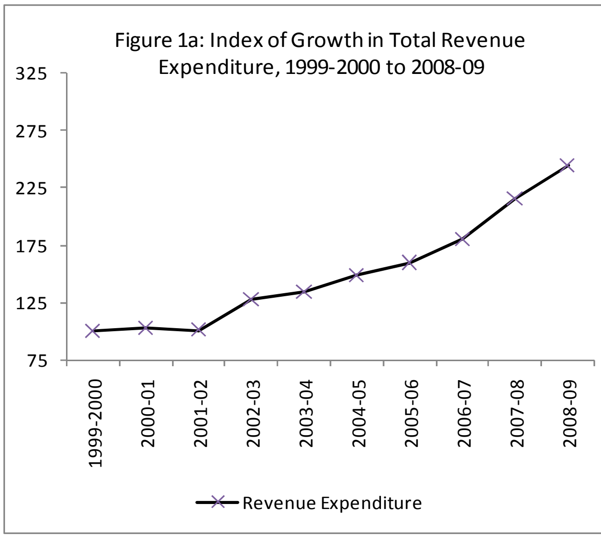
Figure 1a: Index of Growth in Total Revenue Expenditure, 1999-2000 to 2008-09
325
275
225
175
125
75
1999-2000
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
Revenue Expenditure

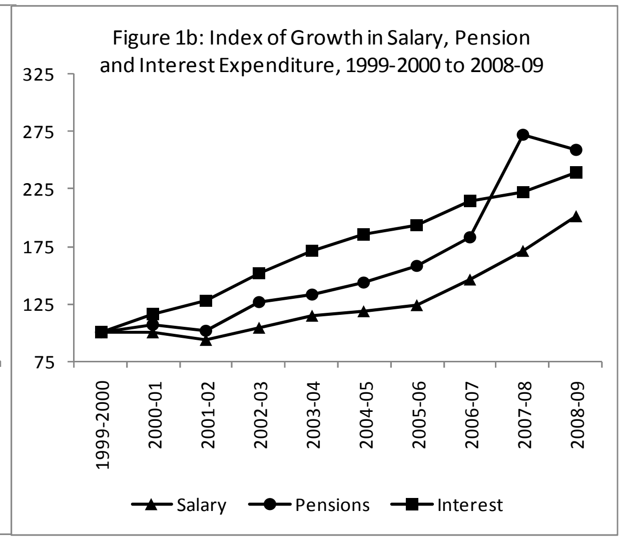
Figure 1b: Index of Growth in Salary, Pension and Interest Expenditure, 1999-2000 to 2008-09
325
275
225
175
125
75
1999-2000
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
Salary
Pensions
Interest

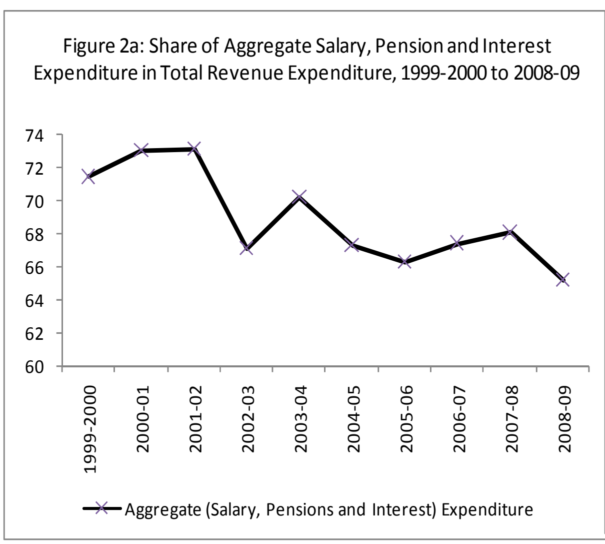
Figure 2a: Share of Aggregate Salary, Pension and Interest Expenditure in Total Revenue Expenditure, 1999-2000 to 2008-09
74
72
70
68
66
64
62
60
1999-2000
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
Aggregate (Salary, Pensions and Interest) Expenditure

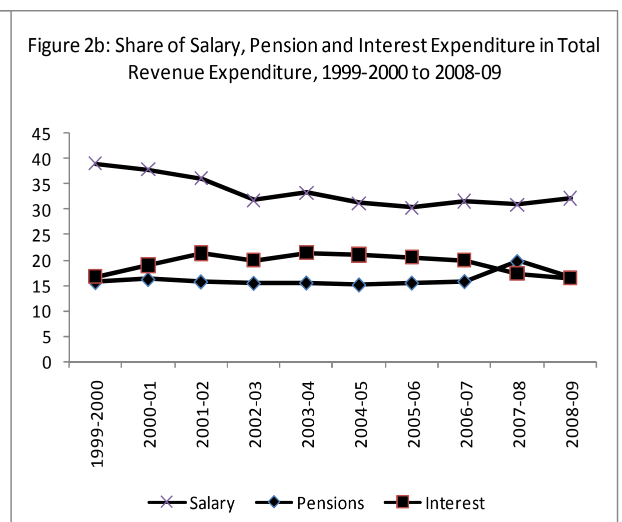
Figure 2b: Share of Salary, Pension and Interest Expenditure in Total Revenue Expenditure, 1999-2000 to 2008-09
45
40
35
30
25
20
15
10
5
0
1999-2000
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
Salary
Pensions
Interest

2.7 In the case of revenue expenditure there is only a minor variation in actuals from the budget estimate of Rs.28, 303 crore for 2008-09; in fact there is a small saving of 0.28 percent. Since salary, pension and interest payments constitute the major components of revenue expenditure there is little scope for any manoeuvring here with a view to compressing expenditure. The growth in total revenue expenditure as well as in the three main components is presented in Figures 1a and 1b. As evident from the Figures 2a and 2b, that salary, interest and pension together constitutes around 70 percent of the total revenue expenditure and its combined share has declined gradually over the years.

2.8 A commendable feature is that capital expenditure has exceeded the budget estimate by nearly 17 percent, notwithstanding the fact that net lending has gone up from the anticipated Rs.697 crore to Rs.939 crore. The growth of net lending in 2008-09 is 12 percent against the 197 percent growth seen during the previous year which was mainly due to the release of a huge loan of Rs.662 crore to the Kerala Water Authority for implementing externally aided water supply projects as observed by the Committee in its previous Report. The deviation in capital expenditure as a percent of GSDP is only 0.2. While revenue deficit in absolute terms has exceeded the target by a marginal 0.18 percent and there is a deviation of 0.38 percent for fiscal deficit in absolute terms. As noted earlier, both these ratios have declined when measured as a percentage of GSDP. But if we consider the fact that the Government of India has revised the borrowing limit of the States for 2008-09 from 3 to 3.5 percent of GSDP, it is a significant achievement that Kerala could contain its fiscal deficit to 3.34 percent. However, the increase in primary deficit needs to be seen in light of the increased capital expenditure. With fiscal deficit gradually coming down increased primary deficit is a clear reflection of the increase in fiscal space for development spending.

3

Revenue Profile

3.1 In the earlier Reports, the revenue profile of the State had been categorised between pre-FRA and post FRA period. However, as mentioned earlier, the Central Government had relaxed its own target of deficit reduction in the face of global economic crisis and the successive stimulus measures introduced to combat it. It needs to be emphasized here that fiscal controls and austerity in the context of economic recession does not make sense, particularly for a State like Kerala, which is much more globally integrated than many other States in the country and the Government of Kerala had to take steps to arrest the ill effects of economic down turn in Kerala through counter cyclical fiscal policy. Hence comparison between pre-FRA and post-FRA periods is not considered relevant any longer and the fiscal stance of the government for the year 2008-09 is judged by the Committee from the perspective of fiscal expansion and growth of the economy rather than contraction.

3.2 Table 3 gives the aggregate picture of the revenue receipts for the last five years. Overall the State has maintained a growth of 16.1 percent in its revenue receipt compared to a growth of 14.6 percent in GSDP indicating a revenue buoyancy of more than one. It is noteworthy that despite the impact of the economic recession, State's own tax has registered a growth rate of 17 percent while the buoyancy remained well above unity. The non-tax revenue has also posted a steady growth of nearly 29 percent. It may be mentioned here that the share of non-tax revenue in total own revenue of the State is a little less than ten percent. However, the growth rate of Central transfers has come down from 17.4 percent in 2007-08 to 11.8 percent in 2008-09, no doubt due to the fall in buoyancy of Central revenues consequent on the economic slowdown. In this context, it needs to be highlighted that enhancing the borrowing limit for the States might have been sufficient enough to cover the fall in central transfers due to the slowdown in the growth of revenues. How much of the additional borrowing could be used to increase government spending still remains an open question for many States.

Table 3: Revenue Receipts (Rs. crore)

Items	Period					Average annual	BE	BE
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-09	2008-09	2009-10
Revenue Receipts	13500	15295	18187	21107	24512		24936	28154
Growth rate	14.3	13.3	18.9	16.1	16.1	16.08	1.7	15
TRR/GSDP	13.5	13.8	12.5	12.7	12.9		13.1	13.9
Buoyancy	1.3	1.0	1.2	1.1	1.1	1.1	0.1	2.2
State's Own Taxes	8964	9779	11942	13669	15990		15781	18228
Growth Rate	10.8	9.1	22.1	14.5	17.0	15.57	-1.3	14.0
Own taxes/GSDP	8.1	7.8	8.2	8.2	8.4		8.3	9.0
Buoyancy	1.0	0.7	1.4	1.0	1.2	1.1	-0.1	2.1
State's Non Tax	819	937	938	1210	1559		1294	1460
Growth Rate	1.5	14.4	0.1	29.0	28.9	17.46	-17.0	-6.4
Own non-tax/GSDP	0.8	0.7	0.6	0.7	0.8		0.7	0.7
Buoyancy	0.1	1.0	0.0	2.0	2.0	1.2	-1.2	-1.0
Central Transfers	3718	4579	5307	6229	6963		7861	8466
Growth Rate	27.3	23.2	15.9	17.4	11.8	16.98	12.9	21.6
GSDP (at current prices)	110260	125588	145009	165722	189841		189841	202400
Growth rate	14.0	13.9	15.5	14.3	14.6	14.55	14.6	6.6

3.3 If we compare the results with the targets set in the budget estimates for 2008-09 it can be seen that the shortfall in total revenue in absolute terms is only 1.7 percent of the targeted Rs.24,936 crore whereas own tax revenue has exceeded the target by 1.3 percent and non-tax revenue by 17 percent. The only significant under-realisation is in Central transfers which is lower by 12.9 percent.

3.4 Then the question that arises is that in the face of declining Central transfers, was it adequate to raise States borrowing limit only by 0.5 percent of respective State GSDP? In this context, it is worth quoting the observations made in an editorial in the *Economic and Political Weekly* (January 17, 2009) that the post-FRA fiscal deficits of the States together have come down to as low as 2.3 percent of GDP in the year 2007-08 (RE) and is expected to be 2.1 percent of GDP as per the 2008-09 (BE). This additional borrowing of 0.5 percent of GSDP, when added to the deficit figures of 2008-09, is much lower than the mandated FRA target of 3 percent of GSDP. In other words, even without violating the FRA, borrowing limits of the States could have been raised to almost one percent of respective GSDP, which in turn would have resulted in an additional fiscal stimulus to the order of around Rs. 30,000 crores to the economy. The other issue is revenue accounts of the States together, which already achieved a surplus in 2006-07 and as per the 2007-08 (RE) and 2008-09 (BE), the surplus is expected to be 0.5 percent of GSDP. Presumably, the rationale for limiting the States' additional borrowing to the level of 0.5 percent is that even if the revenues fall and this revenue surplus is wiped out, States should be able to maintain the level of capital expenditure at the existing level, which in turn means the objective of stimulus is not to increase the capital expenditure but to maintain the status-quo. Additional borrowing for only capital expenditure purpose also means that States should continue to maintain revenue account balance. This is a serious binding constraint. With the possibility of sluggishness of revenues of both Centre and the States, it means States have to cut their revenue expenditures to maintain the revenue balance. In the face of declining growth of central revenues, the problems will be more acute for those States with larger dependence on

Central transfers, especially, the low and the middle income States. Unless sufficient resources are made available to the States at least to maintain the revenue expenditure at the pre-crisis level, States should be allowed to have deficit in their revenue account, of course without violating fiscal sustainability.

3.5 Given this perspective, it needs to be mentioned that the Government of Kerala, has been able to maintain its own revenue growth and also to take various measures to tackle the crisis, still maintaining the level of fiscal deficit at 3.34 percent of GSDP for the year 2008-09 and revenue deficit at 1.96 percent, and these two are lower than the corresponding BE figures of 2008-09.

3.6 If we look at the disaggregated revenue profile, sales tax/VAT accounts for more than 71 percent of State's own tax revenue followed by stamps and registration (12.53 percent), excise duty (8.74 percent) and motor vehicles tax (5.86 percent). Table 4 shows the structure of the State's own taxes. Sales tax/VAT has registered an impressive growth of 21.4 percent over the previous year while that of excise is 19.53 percent. Though revenue from motor vehicle tax has increased to a modest 9.88 percent, it is lower than the anticipated revenue of Rs.1, 009 crore as per the 2008-09 budget estimates. In the case of stamp duty and registration charges there is a negative growth and the shortfall of Rs. 418 crore in the anticipated receipt might be due to the slump in real estate market. But the total growth in own taxes has increased from 14.46 percent in 2007-08 to 16.98 percent in 2008-09 arising mainly out of better sales tax/VAT collection. This is noteworthy, given the overall slowdown in the economy and VAT being a consumption tax.

3.7 With regard to the stamp duty and registration fee, there is a 17 per cent reduction from the budget estimate and an absolute decrease compared to the previous year. This could be mainly due to the impact of the economic crisis on land prices and a reduction in sale transactions. The Committee understands that there is already a system of fixation of fair value of land and reduction in conveyance charges which could improve the revenue collection in coming years. In aggregate the own tax to GSDP ratio has gone up from 8.25 in 2007-08 to 8.42 percent in 2008-09. The buoyancy of own tax has also gone up from 1.01 to 1.17 during the same period. Despite being a crisis year, the improvement in own taxes is due to the various measures introduced in 2007-08 for better tax collection, as reported in detail in the Committee's previous Report.

3.8 The Committee understands that there is no effective arrangement in the Finance Department to monitor receipt of funds due to the State of Kerala from Government of India. For instance, share of Central taxes, on the recommendation of Finance Commission, is released every month based on the original budget estimates of the Centre's tax revenue collection. This is recalculated when the revised estimates are ready towards the end of the financial year. But the actuals are known only on receipt of Finance Accounts from the Controller General of Accounts, as certified by the Comptroller and Audit General of India. The Central Government is required to recalculate the State's share on the basis of actuals and pass on additional funds in the subsequent year, in case there is any increase in the actual tax revenues of the Centre over the Revised Estimates. Similarly if there is any shortfall in the Central revenues, the excess amount already released is recovered. In most of the years, the actual Central revenues are higher than the Original/Revised Estimates in recent years. The State does not have any mechanism at present to verify whether the above exercise is done by the Centre meticulously every year and its due share is in fact received on the basis of actuals. As this could have far reaching consequences on the State's financial resources, Finance Department may take up the matter with the Government of India at the appropriate level as soon as the Central Finance Accounts are published every year to make sure that tax devolution is made based on the actual tax revenue collection of the Centre.

Table 4: Structure of Own Tax Revenues (Rs. crore)

	2004-05	2005-06	2006-07	2007-08	2008-09	2008-09BE	2009-10 BE
a. Sales Tax/VAT	6701	7038	8563	9372	11377	10616	12734
Growth Rate	11.85	5.03	21.67	9.44	21.40	-6.69	19.95
Buoyancy	0.85	0.36	1.40	0.66	1.47	-0.46	3.02
b. Excise Duty	746	841	953	1169	1398	1300	1441
Growth Rate	13.72	12.67	13.33	22.68	19.53	-6.99	10.81
Buoyancy	0.98	0.91	0.86	1.59	1.34	-0.48	1.63
c. Motor Vehicle Tax	610	629	708	853	937	1009	959
Growth Rate	4.10	2.96	12.61	20.55	9.88	7.63	-4.99
Buoyancy	0.29	0.21	0.82	1.44	0.68	0.52	-0.75
d. Stamp Duty & Regn.	775	1101	1520	2028	2003	2421	2729
Growth Rate	4.91	42.05	38.00	33.43	-1.23	20.87	12.71
Buoyancy	0.35	3.03	2.46	2.34	-0.08	1.43	1.92
e. Electricity Duty	10	32	32	39	56	136	47
Growth Rate	-94.74	227.65	0.82	22.72	43.59	142.86	-65.26
Buoyancy	-6.76	16.38	0.05	1.59	3.00	9.82	-9.87
f. Others	121	139	166	208	219	299	185
Growth Rate	4.31	14.80	19.78	25.31	5.29	36.53	-38.29
Buoyancy	0.31	1.06	1.28	1.77	0.36	2.51	-5.79
Total	8964	9779	11942	13669	15990	15781	18093
Percentage to Total							
a. Sales Tax	74.76	71.97	71.71	68.56	71.15	67.27	70.38
b. Excise Duty	8.33	8.60	7.98	8.55	8.74	8.24	7.96
c. Motor Vehicle Tax	6.81	6.43	5.93	6.24	5.86	6.39	5.30
d. Stamp Duty & Regn.	8.65	11.26	12.73	14.84	12.53	15.34	15.08
e. Electricity Duty	0.11	0.32	0.27	0.29	0.35	0.86	0.26
f. Others	1.35	1.42	1.39	1.52	1.37	1.89	1.02
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Growth of Own Taxes (%)	10.82	9.10	22.12	14.46	16.98	15.45	14.65
Own Tax to GSDP Ratio	8.13	7.79	8.24	8.25	8.42	8.31	8.94
Yearly buoyancy of Taxes	0.94	0.65	1.43	1.01	1.17	1.06	2.22
GSDP	110260	125588	145009	165722	189841	189841	202400
Growth rate of GSDP	14.02	13.90	15.46	14.28	14.55	14.55	6.62

3.9 The case of Central assistance through Centrally Sponsored Schemes and State Plan Schemes is no different. The Committee is aware that the primary responsibility for claiming Central assistance in respect of the above schemes, after following for due procedures, rests with the concerned Heads of Departments and Administrative Departments in the State Secretariat. The Committee understands that the due share under these schemes have not been claimed in the past from the Centre on many occasions. Also the fund utilisation remains very low in many of these schemes. However, the nature and design of many of the Centrally Sponsored Schemes are in themselves the reason for Kerala not being able to utilise these schemes efficiently.[1] The Committee recommends that the Finance Department may put in place necessary mechanism to periodically review the progress of reimbursement in such cases. Besides, Government may strictly adhere to a policy of fund release to line departments and other implementing agencies conditional on getting reimbursement of all earlier instalments from the Government of India. Also a Cell could be established in the Finance Department to monitor the progress, fund release and fund utilisation under Centrally Sponsored Schemes. This Cell should be asked to create a centralised data base on all aspects of Centrally Sponsored Schemes running in the State.

3.10 The structure of non-tax revenue is shown in Table 5. The growth rate of non-tax revenues during 2008-09 is 28.90 percent. But as a percentage of GSDP there has been a marginal improvement of 0.11 percent only. The net revenue from lottery has more than doubled during the period under review due to various measures like introduction of new lotteries, attractive restructuring of prize money and vigorous publicity campaign. It would appear from the gross figures that the single largest contributor in this category is the lottery. However, if we take the net figures for lottery, it can be seen that it constitutes only 7 percent of the total non-tax revenues. The earning from forests has registered an increase of more

[1] For example, the Sarva Shiksha Abhiyan funds are to achieve universal primary education. As Kerala have already achieved this objective of SSA much before it was introduced at the national level, the State do not get the transfer under this schemes unlike many other States.

than 45 percent during 2008-09. The non-tax to GSDP ratio continues to be at a very low level of less than one percent.

3.11 The anticipated revenue from non-tax sources during 2008-09 was Rs.1,294 crore but the realisation was 20.48 percent higher. The receipts from user charges are relatively very low. The department wise and item wise details of revenue from user charges are not readily available. The Finance Department may collect these details on a year to year basis and review the situation periodically with a view to enhancing the rates scientifically as recommended in the previous Report. It is learnt that a new Cell has been established in the Finance Department for this purpose. The new Cell may come up with an annual status report in this regard so as to enable the Committee to review the situation. In view of the difficulty in raising the rates of user fees beyond a reasonable limit, Government should also explore possibilities of enhancing the revenue from other non-tax sources such as returns from investment in public sector units, mining of sand, etc. which are abysmally low. This does not mean government services should unduly be subsidised at the cost of quality and in that context, revision of user charges is extremely important, at least it should be indexed to cost.

Table 5 : Structure of Own Non-Tax Revenues (Rs. Crore)

	2004-05	2005-06	2006-07	2007-08	2008-09	2008-09 BE	2009-10 BE
a. Forests	200	190	175	154	224	191	228
b. Lottery (Gross)	151	237	236	325	481	420	475
b. Lottery (Net)	31	65	42	50	109	97	108
c. Interest Receipts	41	46	45	70	84	51	89
d. Education.,Sports,Art & Culture	86	82	100	101	130	139	129
e. Other Admn Services	79	55	54	62	88	70	74
f. Contribn towards pension etc.	17	18	29	30	31	23	31
g. Medical & Public Health	28	30	33	37	39	42	47
h. Cooperation	29	36	36	37	42	43	47
i. Non-ferrous mining & inds.	21	25	28	33	40	38	42
j. Roads & Bridges	15	20	15	20	33	21	23
k. Other Genl. Eco. Services	13	12	18	19	24	21	131
l. Others	140	186	169	322	343	235	145
Total Own Non-Tax Revenues	819	937	938	1210	1559	1294	1460
Percentage to Total							
a. Forests	24.38	20.24	18.62	12.77	14.35	14.78	15.61
b. Lottery (Gross)	18.48	25.33	25.19	26.89	30.88	32.47	32.52
b. Lottery (Net)	3.73	6.99	4.47	4.16	7.00	7.51	7.41
c. Interest Receipts	4.94	4.95	4.76	5.76	5.37	3.96	6.11
d. Education., Sports, Art & Culture	10.47	8.76	10.66	8.34	8.35	10.72	8.83
e. Other Admn Services	9.62	5.85	5.74	5.11	5.66	5.39	5.06
f. Contribn towards pension etc.	2.03	1.91	3.10	2.50	1.99	1.76	2.10
g. Medical & Public Health	3.36	3.18	3.52	3.05	2.47	3.26	3.21
h. Cooperation	3.59	3.82	3.81	3.02	2.70	3.34	3.19
i. Non-ferrous mining & inds.	2.62	2.68	3.02	2.71	2.59	2.90	2.91
j. Roads & Bridges	1.79	2.18	1.64	1.68	2.13	1.65	1.60
k. Other Genl. co. Services	1.62	1.26	1.92	1.53	1.52	1.59	8.94
l. Others	17.09	19.85	18.02	26.63	22.00	18.19	9.91
Total Own Non-Tax Revenues	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Growth Rate	1.50	14.37	0.08	29.01	28.90	6.94	-6.38
Own Non-Tax to GSDP ratio	0.74	0.75	0.65	0.73	0.82	0.68	0.72

4

Expenditure Profile

4.1 The major components of revenue expenditure continue to be salaries (32.1 percent), pensions (16.6 percent) and interest payments (17.7 percent) apart from the mandatory devolution to Local Self Governments (LSGs) (8.6 percent). The combined expenditure of Salaries, Pensions and Interests (SPI) together constitutes 66.4 percent of the total revenue spending. This has remained more or less the same throughout the five year period beginning 2004-05. The major deviations from the budget estimates observed are in respect of pensions, maintenance and subsidy. The main components of the revenue expenditure profile are presented in Table 6.

4.2 The growth in total revenue expenditure during the period under review is 13.4 percent as against 13 percent in 2006-07 and 19.5 percent in 2007-08. The growth rate of salaries has been steady around 17.5 percent since 2006-07.The fiscal year 2007-08 witnessed a huge jump in the growth of pension from 15.2 percent in the previous year to 49.5 percent. This has now been reversed. Obviously the abnormal growth in revenue expenditure has been arrested with the containment of the impact of pay revision largely by 2006-07 and pension revision by 2007-08, the latter taking one more year because of the administrative delays in the process of revising pension in individual cases due to the introduction of ‘one rank-one pension’ policy.

Table 6: Revenue Expenditure Profile (Rs. crore)

	2004-05	2005-06	2006-07	2007-08	2008-09	2008-09 BE	2009-10 BE
Revenue Expenditure	17169	18424	20825	24892	28224	28303	31162
Salaries	5346	5581	6560	7693	9064	9220	10188
Pensions	2601	2861	3295	4925	4685	4569	5006
Interest	3613	3779	4190	4330	4660	5144	5312
Repairs & Maintenance	318	401	369	633	858	526	525
Subsidy	171	150	267	219	350	171	210
Devolutions to LSGs	1783	1565	1911	2273	2432	2430	2668
Sal.+Pensions+Int.	11560	12221	14045	16948	18906	18933	20506
Others	3337	4087	4233	4819	6174	6243	7253
Growth in Expenditure (%)							
Revenue Expenditure	10.8	7.3	13.0	19.5	13.4	13.7	10.4
Salaries	3.9	4.4	17.5	17.3	17.8	19.8	12.4
Pensions	8.0	10.0	15.2	49.5	-4.92	-7.2	-3.4
Interest	8.6	4.6	10.9	3.3	7.6	18.8	6.1
Repairs & Maintenance	14.4	26.1	-8.0	71.5	35.5	-38.7	-0.2
Subsidy	28.9	-12.3	78.0	-18.0	59.8	-51.1	22.8
Devolutions to LSGs	3.0	-12.2	22.1	18.9	7.0	-0.1	9.8
Sal.+Pensions+Int.	6.2	5.7	14.9	20.7	11.6	11.7	6.5
Others	22.0	22.5	3.6	13.9	17.83	29.5	36.0
Percentage to Total Expenditure							
Salaries	31.1	30.3	31.5	30.9	32.1	32.6	32.7
Pensions	15.1	15.5	15.8	19.8	16.6	16.1	16.1
Interest	21.0	20.5	20.1	17.4	16.5	18.2	17.0
Repairs & Maintenance	1.9	2.2	1.8	2.5	3.0	1.9	1.7
Subsidy	1.0	0.8	1.3	0.9	1.2	0.6	0.7
Devolutions to LSGs	10.4	8.5	9.2	9.1	8.6	8.6	8.6
Sal.+Pensions+Int.	67.3	66.3	67.4	68.1	67.0	66.9	65.8
Others	19.4	22.2	20.3	19.4	20.1	22.1	23.3

4.3 This pattern of high growth of revenue expenditure for two to three years in a block of every five year period is inevitable as long as the State continues with the practice of pay and pension revision once in five years instead of 10 years followed by the Central Government and most other States. In a 10 year period, even if the revision of pay and pension is relatively more liberal, the additional expenditure gets adjusted within two or three years, freeing enough resources for expanding capital expenditure for a lengthier period and sufficient fiscal room for manoeuverability. In the interest of better fiscal management it would be prudent to move towards pay/pension revision once in 10 years in line with the rest of the country.

4.4 There has been a sudden jump in the rate of growth of interest payments. The growth rate of interest payment has jumped from 3.3 percent in 2007-08 to 7.6 percent in 2008-09. It is important to examine the various components of interest payments. As evident from Table 7, the highest growth of interest payment is observed in case of market borrowing. The Committee understands that the State Government did not avail of overdraft facility in the fiscal year 2008-09. As evident from Table 7, negative growth of interest on account of ways and means advances and overdrafts reflects improvement in cash management of the State Government.

4.5 A continuing area of concern is that of pension payments. The share of pension has increased from 15 percent in 2004-05 to close to 20 per cent in 2007-08 and then declined to 16.6 in 2008-09. Given the impending pay revision, the increase in the number of pensioners in the coming years, the implementation of one-rank one pension policy and the possible increase in life-expectancy, it is quite possible that the share of pension payments will further increase to a situation where it will either equal the share of salary payments or even exceed it in the not so distant future. Currently, the 4.5 lakh pensioners constitute more than 80 percent of the total number of state employees.

4.6 In this context, the Committee would like to urge the Government to reconsider the recommendations made in the First Report submitted on 31st December 2008 (Chapter 6, Sec.C), the main one being the extension of age of retirement to 60 years in two stages. The Committee is aware of the concerns and anxieties of the educated youth in Kerala who place a high social premium in securing a government job. It is therefore necessary for the State Government to initiate an informed debate and discussion based on the short and long-term implications. The Committee had made a number of suggestions to overcome the short-term transitional issues including filling up of existing vacancies and early recruitment to provide a year's training for new recruits. Not addressing the issue would harm the long-term prospects for government employment because of the limited share of resources for creating new jobs thereby hurting the youth in the long-run.

4.7 As pointed out earlier in Chapter 2, the growth in capital expenditure during 2008-09 was 13.82 percent. This should be seen against an increase of 95.19 percent in the previous year. However the actual capital expenditure in 2008-09 has exceeded for the budget estimate by 14.27 percent. At the same time, the Committee would like to point out that a substantial portion of the borrowed funds is still spent on revenue expenditure given the level of revenue deficit. Though there is a heavy component of revenue expenditure in developmental expenditure in Kerala, it is still important to increase the share of capital expenditure in total government expenditure. This is particularly important due to the unmet gap in physical infrastructure which can only be met through larger capital expenditure by the government.

4.8 A detailed analysis of the sector-wise capital outlay is given in Table 8, while a comparison of net lending between 2007-08 and 2008-09 is shown in Table 9. The total capital outlay has increased by nearly 15 percent. Investment in roads and bridges accounts for 34.80 percent of total outlay even though its share has dropped by 23.19 percent when compared to the previous year. The share of housing sector has also increased from

0.61 percent to 7.67 percent, on account of government assistance to the State Housing Board to discharge its liabilities to HUDCO. Flood control projects have registered an increase of 3.71 percent, mainly due to clearance of arrears of pending bills. The rest are distributed among various other sectors in small shares. Net lending has increased by nearly 12 percent during 2008-09 with loans for economic services gaining 51.58 percent as against a decline of 1.03 percent in the case of social services.

Table 7: Structure of Interest Payment (Rs. In 1000s)

Interest payments	2007-08	2008-09	Growth rate (%)
Interest on Internal Debt of which	27277065	30093096	10.3
a. Interest on market loans	11068564	13828483	24.9
b. Interest on ways and means of advances from RBI	125817	46092	-63.4
c. Interest on special securities issued to small savings fund of the Central Government by State Government	11645964	11598274	-0.4
d. Interest on other internal debts	4397430	4580267	4.2
Interest on Small Savings, Provident Funds etc. of which	11724693	12151553	3.6
a. Interest on State provident funds	6242077	6996190	12.1
b. Interest on trusts and endowments	21	-	-
c. Interest on insurance and pension fund	946592	1125916	18.9
d. Interest on other saving deposits	4543123	4034031	-11.2
Interest on Loans and Advances from Central Government	4294775	4352274	1.3
a. Interest on loans for State/UT plan schemes	1354053	1573907	16.2
b. Interest on loans for centrally plan schemes	8456	7368	-12.9
c. Interest on loans for centrally sponsored plan schemes	65274	63505	-2.7
d. Interest on loans for non-plan schemes	47723	44852	-6.0
e. Interest on State plan loans consolidated in terms of the 12th Finance Commission	2819269	2662642	-5.6
Total Interest Payments	43296533	46596923	7.6

Table 8: Major Head wise Capital Outlay Structure: 2007-08 and 2008-09

	2007-08 (Rs. Lakh)	% Distribution	2008-09 (Rs. Lakh)	% Distribution	% Increase
Transport development					
1 Roads and Bridges	76809.05	52.09	58999.81	34.80	-23.19
2 Inland Water Transport	427.68	0.29	1175.62	0.69	174.88
3 Other Transport Services	1974.55	1.34	1453.99	0.86	-26.36
Water resource development		13.22			
4 Major and Medium Irrigation	12704.34	8.62	12732.87	7.51	0.22
5 Flood Control Projects	4177.66	2.83	11086.31	6.54	165.37
6 Minor Irrigation	1605.25	1.09	1588.85	0.94	-1.02
7 Soil and Water Conservation	1000.14	0.68	1347.64	0.79	34.75
Others					
8 Housing	894.43	0.61	13010.56	7.67	1354.62
9 Public Works	5705.03	3.87	5183.5	3.06	-9.16
10 Ports and Lighthouses	2523.13	1.71	4492.79	2.65	78.06
11 Medical and Public Health	4665.03	3.16	4455.62	2.63	-4.49
12 Telecommunications & Electronics	13882	9.41	3937.95	2.32	-71.63
13 Welfare of SC,ST & OBC	3761.54	2.55	3128.64	1.85	-16.83
14 Education, Sports, Art and Culture	3422.81	2.32	3107.36	1.83	-9.22
15 Fisheries	2730.62	1.85	2979.92	1.76	9.13
16 Co-operation	2860.96	1.94	1980.87	1.17	-30.76
17 Food, Storage and Warehousing	2098.77	1.42	1547.43	0.91	-26.27
18 Forestry and Wildlife	1101.24	0.75	1252.11	0.74	13.70
19 Tourism	1038.76	0.70	1756.75	1.04	69.12
20 Others	4073.96	2.76	34341.58	20.25	742.95
21 Total	**147458**	**100.00**	**169560.17**	**100.00**	**14.99**

4.9 The capital expenditure in Kerala continues to be quite low both as a percentage of GSDP and as a percentage of total expenditure. Of course, given the current classification, not all expenditures that could have a capital outlay dimension are captured, as for example, in the transfer of Plan funds to the Local Self Governments. Even then, the low level of public expenditure on capital account needs to be viewed as a matter of concern given the developmental challenges facing an economy like Kerala especially in the area of augmenting the physical infrastructure. Within the capital expenditure two major items account for one-third of the total expenditure. These are related to transport (mainly roads and bridges) and water resource development (mainly medium and major irrigation and flood control projects). What needs to be ensured is whether such expenditure results in expected benefits to the economy. For example, the quality and durability of roads and bridges and the area irrigated as a result of expenditure in medium and major projects.

Table 9: Loans & Advances (Net): 2007-08 & 2008-09

	2007-08	% Distribution	2008-09	% Distribution	% Increase
Loans for Social Services (Water Supply, Sanitation, Housing and Urban Development)	666.61	78.58	659.72	69.59	-1.03
Loans for Economic Services	199.12	23.47	301.82	31.84	51.58
Loans for Government Servants	-16.85	-1.99	-13.49	-1.42	-19.94
Total	848.31	100.00	948.05	100.00	11.76

5

Debt Management

5.1 The total outstanding debt and liabilities at the end of 2008-09 is Rs.63, 270 crore. The major components of debt are internal debt, loans from Government of India and small savings like Provident Fund, treasury savings and fixed deposits. Internal debt, which occupies 61.35 percent of the total debt stock, consists of special securities issued to NSSF (18.78 percent), negotiated loans from various financing institutions (7.34 percent), open market borrowings (33.61 percent), and others (1.63 percent). Loans from the Government of India constitute 9.5 percent and small savings in the form of Provident Fund contributions and treasury savings and fixed deposits constitute 29.16 percent. The debt and liabilities profile of Kerala is given in Table 10.

Table 10: Debt Profile: Structure, Magnitude and Interest Rate (Rs. crore)

	2004-05	2005-06	2006-07	2007-08	2008-09	2008-09 BE
Internal Debt	21676	25671	29969	34019	38814	38590
of which NSSF	7048	9698	11876	11982	11880	14432
Loans from Centre	5411	5417	5372	5533	6009	5928
PF, Fixed Deposits	14791	14841	14534	15858	18447	17135
Total debt	41878	45929	49875	55410	63270	61653
Growth	11.82	9.67	8.59	11.10	14.19	11.27
Percentage to Total						
Internal Debt	51.8	55.9	60.1	61.4	61.3	62.6
of which NSSF	16.8	21.1	23.8	21.6	18.8	23.4
Loans from Centre	12.9	11.8	10.8	10.0	9.5	9.6
PF, Fixed Deposits	35.3	32.3	29.1	28.6	29.2	27.8
Total debt	100	100	100	100	100	100.0
Debt/GSDP	**38.0**	**36.6**	**34.4**	**33.4**	**33.3**	**32.5**
Interest Rate (%)	**9.11**	**8.65**	**8.75**	**8.22**	**7.85**	**8.42**
GSDP	110260	125588	145009	165722	189841	189841

5.2 The percentages of special securities issued to NSSF and GOI loans in the total debt stock have been coming down over the last few years because net NSSF collection has turned negative and GOI assistance to States no longer includes any loan component as per the recommendations of the Twelfth Finance Commission. Consequently the share of OMBs (open market borrowings) has been gradually increasing. The combined share of OMBs, Provident Fund and small savings is nearly 63 percent by the end of 2008-09 and this trend is likely to continue.

5.3 The growth rate of debt, which was 8.59 percent in 2006-07, has increased to 14.19 percent during the period under review against the projection of 11.27 percent in the budget estimates. More spending through additional borrowings to offset the adverse impact of economic downturn is understandable. Given still very high revenue deficit, diversion of high cost borrowed funds for revenue expenditure can be prevented only by sustained measures to enhance revenue mobilisation further and pruning revenue expenditures wherever possible.

5.4 Debt as a percentage of GSDP was 38 in 2004-05 and has gradually declined to 33.3 percent in 2008-09. The debt /GSDP ratio has to be brought to prudent levels in the medium term.[2] The effective rate of interest has generally been coming down over the last five years. The instrument specific interest rates are given in Table 11. This should release resources through lower interest payment obligations in the medium term.

5.5 One positive outcome of the Kerala Ceiling on Government Guarantees Act is the achievement made in reducing the contingent liabilities ever since the Act came into force in 2003. The ceiling still continues to be Rs.14,000 crore. It may be recalled that the total outstanding guarantees as on 31-03-2004 was Rs.13,996 crore, very close to the limit. This has been gradually coming down over the last five years and has declined from Rs.8,317 crore in 2007-08 to Rs.7,992 crore as on 31st March

[2] The Thirteenth Finance Commission has suggested that in aggregate (at all State level) the debt to GDP ratio should be brought down to 24.3 percent of GDP by the end of 2014-15.

2009. The Committee understands that the Guarantee Redemption Fund, envisaged to be constituted with the modest guarantee fee of 0.75 percent, has not become operational yet. This may be done at the earliest.

Table 11: Instrument Specific Rates of Interest (%)

	2004-05	2005-06	2006-07	2007-08	2008-09
Provident Fund	8.50	8.50	8.00	8.00	8.00
Market Borrowings (Average)	6.40	7.51	7.96	8.29	7.70
NABARD-RIDF	6.50	6.50	6.50	6.50	6.50
LIC	8.50	8.50	8.50	9.10	9.50
NCDC	8.50	8.50	9.12	9.75	10.25
GIC & Subsidiaries	9.00	9.00	9.00	9.10	9.50
Govt. of India Loans	9.00	9.00	9.00	9.00	9.00
NSSF	9.50	9.50	9.50	9.50	9.50
Treasury Fixed Deposits (Average)	7.33	6.67	6.86	8.34	7.50
Treasury Savings Bank	5.50	4.50	4.58	5.00	5.00

6

Utilisation of Accruals Under Public Account

6.1 As per article 266(2) of the Indian Constitution, all money received by the Government other than those to be credited to the Consolidated Fund are accounted under Public Account. Appropriation of legislature is not required for the receipts and disbursements from Public Account. The 'Public Account' incorporates transactions in respect of which, Government functions as a banker and incur a liability to repay the money received or have a claim to recover the amounts paid as direct from transactions relating to the receipts and disbursements on revenue, capital and loan accounts. It also include ''Suspense' and 'Remittance' heads which are operated as mere adjusting heads, pending eventual clearance by either transfer to the final heads of accounts, payment or recovery. The transactions under the Public Account are not included in the Appropriation Act passed under Article 204 of the Constitution. It is however essential to maintain a complete and progressive record of these transactions as they cannot be ignored considering the financial position of government. The management of various receipts and disbursements under Public Account constitute a vital part of the machinery of financial administration. The following are the major components of Public Account in Kerala.

1. Small Savings, Provident Funds, etc.
2. Reserve Funds
3. Deposits and Advances
4. Suspense and Miscellaneous, and
5. Remittances

6.2 Kerala's Small Savings collection has a significant deposit mobilisation through Treasury deposit schemes and forms a significant portion of the total Public Account liabilities.

Structure of Public Account

6.3 The structure of outstanding Public Account liabilities is given in Table 12. As evident from the Table, the major contribution to Public Account comes from State Provident Fund and there has been a gradual increase in its share from 32.87 to 46.68 percent between 2004-05 and 2008-09. The next important component is the "other savings deposits', which include the treasury savings deposits, a unique component of Public Account mobilized through Treasury Savings Bank in Kerala. Its share declined sharply from 50.45 percent in 2004-05 to 38.99 percent in 2008-09. These two components together constituted a little more than 85 percent of the total Public Account liabilities in 2008-09. The Insurance and Pension Fund constituted around 9 percent of the total in 2008-09. The other components are various Reserve Funds, Deposits and Advances, Suspense and Miscellaneous and Remittances. The major deposits are Civil Deposits and Deposits of Local Funds and these two together constituted around 10 percent of total Public Account. In absolute terms, Public Account liabilities have increased from Rs. 16,727.32 crore in 2004-05 to Rs. 19,577.78 crore in 2008-09 constituting around 9.6 percent of GSDP in the same year. The average effective interest rate on these funds worked out to be around 8 percent and the average rate has declined during this period. A small fraction of the Public Account, such as Reserve Funds and Deposits of Local Funds is non-interest bearing liabilities.

6.4 The automatic flow of net surplus of the Public Account in the Appropriation Act and corresponding increase in interest liability is a critical issue in fiscal management in many States including Kerala. It has generally been argued that efforts should be made to discourage the role of government to act as banker so that there is no automatic increase in liabilities for the government through Public Account, although limited Public

Account accrual is inevitable largely from State provident funds contribution and funds of similar nature. The other side of the story is that given the restricted borrowing power of the States, the net surplus from the Public Account provides limited fiscal autonomy beyond the market borrowing limits of the State. However, the issue changes completely if there is rule-based limits on deficits due to Fiscal Responsibility Legislation (FRL). If the fiscal deficit limit is fixed due to FRL, in that case net surplus in the Public Account which is by and large voluntary, can reduce the scope of market borrowing and if the rates of market borrowings are lower than the Public Account liabilities, there is a possibility that entire public debt and liabilities structure of the government may become unusually high cost in nature putting additional fiscal strain on State finances through higher interest obligations. Thus, questions have been raised about how to use the mobilization from Public Account so that these liabilities become self-liquidating in nature.

Table 12: Structure of Public Account in Kerala: 2004-05 to 2008-09
(In percent)

Category	2004-05	2005-06	2006-07	2007-08	2008-09
State Provident Fund	32.87	35.79	40.42	42.36	46.68
Other Savings Deposits	50.45	45.22	39.08	35.02	38.99
Insurance & Pension Funds	5.1	5.99	7.16	7.59	8.55
Civil Deposits	4.3	3.84	4.54	5.55	5.22
Deposits of Local Funds	4.51	4.54	6.63	7.14	7.57
Others	2.76	4.62	2.16	2.33	-7.01
Total	100.0	100.0	100.0	100.0	100.0
In Absolute Amount (Rs. Crore)	16727.32	17058.24	16770.68	18661.91	19577.78
Average Effective Rate of Interest	8.9	7.9	9.2	8.1	7.7

Source: Finance Accounts of the State.

6.5 These concerns have been raised in the context of Kerala State finances as well. The Public Expenditure Review Committee was asked to give views on the suggestion made by Late Sri K V Rabindran Nair, Retired Chief Secretary to the Government of Kerala, about a new Act of the

Assembly which would specify, among other things, the use of net surplus in Public Account only for financing “capital outlays under the State’s Annual Plan, particularly those executed in the public sector.” He also suggested that “In the descending order, preference will be given to projects which can pay back the capital with market rates of interest, those which can pay back with lower rates of interest, those which can ensure minimum dividends, those which can pay back the amount but without interest and those which are of importance from infrastructure point of view though they cannot pay back the capital.”

6.6 According to him, “the main advantage of the new system will be that it will ensure proper funding of capital works in Plan. If at least a part of the funds can generate a return either as interest or as dividend, it will reduce Government’s burden in giving interest for the funds deposited in Public Account. Even if only the capital is paid back, it will be better than the present situation where the funds lose their identity and are spent in general terms (even for meeting revenue deficit). Growth in the size of Public Account will no more be a disturbing factor but an advantage in sound financial management and Plan funding. Schemes like Treasury Savings Bank and State Insurance can then be further developed to their full potential.”

6.7 The Committee deliberated on the issue at length and formulated the views by examining existing parameters of Public Account management and also from the perspective of fiscal autonomy and fiscal management of the State. These parameters are the following:

(i) What is the existing practice of the use of net surplus in the Public Account?

(ii) What is the relative cost of these funds vis-à-vis other debt instruments?

(iii) Would putting restriction on the use of funds for capital outlay under Plan create undue hardship in fiscal management and carrying out expenditure programme, given the limited borrowing powers of the States?

Use of Public Account and Interest Burden: Existing Practice

6.8 As per the Planning Commission guidelines for financing of State Plan, the net accrual under Public Account is now reckoned as one of the resources for financing State plan. This has been included in the formats of Planning Commission to estimate plan resources. The Public Expenditure Review Committee has been given to understand that the entire net surplus from the Public Account is being used for the financing of State Plan in Kerala. The extent to which annual accruals in the preceding years have been used for financing State plan schemes are given in Table 13. It is evident from the Table that due to the fluctuations in the net accrual, the share of it in total plan financing has fluctuated and remained extremely volatile. During 2002-03 to 2008-09, the share fluctuated from as high as 53 percent to -9.0 percent. This is primarily due to heavy draw down from Public Account outstanding in some years and in some years the annual accruals are high. It is evident from Table 13 that during 2002-03 and 2007-08 the net accrual has been much higher than the total plan capital expenditure. However, in 2008-09, due to sharp increase in the capital expenditure and also much lower net accrual from the Public Account, the latter constituted only 54.8 percent of the total Plan capital expenditure.

6.9 It is also to be noted that the share of interest liability on account of Public Account has declined steadily over the years from 33.98 percent in 2002-03 to 26.08 percent in 2008-09. Also, as a percentage of non-plan revenue expenditure, the incidence of interest burden arising out of Public Account liabilities has declined steadily from 8.56 percent in 2002-03 to 4.86 percent in 2008-09 (see Table 14). It may also be noted that the average effective rate of interest on government borrowing is not significantly different than the effective rate of interest on Public Account liabilities in recent years. The weighted average rate of interest on State government securities in the year 2007-08 was 8.2 percent while the average effective rates of interest on Public Account liabilities was 8.1 percent, which has further come down to 7.7 percent in 2008-09 (See Table 12).

Table 13: The Public Account Surplus and Plan Financing

Year	Plan Expenditure (Rs. crore)			Public Account (net) (Rs. crore)	Public Account accrual as % of plan capital exp	Public Account accrual as % of Plan exp
	Revenue	Capital	Total			
2002-03	3054.24	919.26	3973.5	2110.09	229.5	53.1
2003-04	2394.59	724.71	3119.3	665.4	91.8	21.3
2004-05	3106.01	847.17	3953.18	546.24	64.5	13.8
2005-06	3222.72	817.51	4040.23	330.92	40.5	8.2
2006-07	2308.44	885.9	3194.34	-287.56	-32.5	-9.0
2007-08	2277.29	1451.71	3729	1891.23	130.3	50.7
2008-09	3211.86	1670.76	4882.62	915.87	54.8	18.8

Table 14: Interest Burden on Account of Public Account
(Rs. Crores)

Year	Interest payments on Public Account	Total interest payments	Interest on PA as a % of total interest payments	Interest paid on PA as a % of non plan rev. exp.
2002-03	1001.45	2946.77	33.98	8.56
2003-04	1016.32	3328.30	30.54	7.76
2004-05	1117.48	3612.54	30.93	7.95
2005-06	1170.54	3799.25	30.81	7.71
2006-07	1362.27	4189.70	32.51	7.36
2007-08	1172.47	4329.65	27.08	5.18
2008-09	1215.16	4659.69	26.08	4.86

6.10 However, the volatile nature of the Public Account as an item of plan resources can bring in lot of uncertainty in the financing of the State Plan. This volatility is inherent in the Public Account for the reason that whatever amount accrues to the Public Account has to be discharged as and when the claims arise. Since the amount is held as trust in the Public Account, claims have to be honoured as and when they arise and the Government, as the banker to the fund, cannot deny discharging this commitment. If the volatility results in higher net accruals in a particular year, plan financing will not be affected. On the other hand, if the net accruals are less than what is anticipated for the State Plan, the financing of the plan, will be negatively impacted. This can lead to a situation of shortage in plan financing, unless, the revenues grow to the extent of matching shortfall in accruals under the Public Account. If the revenues do not grow commensurately additional borrowings can only cover this shortfall. But given the ceiling on borrowings allowed to the State at the time of finalization of Plan size on individual items of borrowings, it would not be possible to seek additional borrowings from the Centre for compensating the shortfall in Public Account which would imply a forced reduction in plan expenditure.

Fiscal Autonomy and Fiscal Space for Development Spending: The Role of Public Account

6.11 This brings us finally to the question of fiscal autonomy and creation of fiscal space for development spending and for that the use of Public Account accruals. We understand that the Government of Kerala has effectively used and tried to enhance accruals under the Public Account by allowing higher interest rate for treasury savings bank deposits. This is an obvious choice given the limited borrowing powers of the States and when there is little scope to enhance revenues further in the short run. It is important to remind that Kerala's revenues have been buoyant in recent years, which implies that government is not going for easy option by depending on Public Account accruals to finance expenditures. But this can make the debt and liabilities structure high cost in nature. If this happens in perpetuity, the rising interest burden can feed into itself leading to higher and higher revenue deficits. The present government in Kerala came to power in 2006-07 and since then efforts were taken to enhance the accruals in Public Account, especially through Treasury deposits. The interest rates on various forms of treasury deposits are given in Table 15.

Table 15: Interest on Treasury Fixed Deposits Revised to Attract Deposits from Public as Follows (Percent per annum)

Term	2005-06	2006-07	2007-08	2008-09	2009-10
6 months -1 Year	6	7	8.5	6.75	6.75
1 Year-3 Year	6.5	7.5	10.5	7.75	7.75
3 Years and above	7.5	9	11	8	8.5

6.12 Apart from the high interest rates on treasury savings deposits vis-à-vis savings deposits of comparable maturity in commercial banks, interest on Treasury Savings Bank Deposits were also enhanced from 4.5 percent to 5 percent. The Government is also persuading all Welfare Fund Boards to deposit their surplus funds in treasuries as term deposits at the prevailing rate of interest.

6.13 All these efforts of the Government do indicate that net positive Public Account accruals is an important resource and does provide an enhanced fiscal space to the government for financing expenditure and limited fiscal autonomy in the face of restricted market borrowing power. As the government is already using it for financing plan expenditure, there is a direct link between the net accrual and development spending, although, it does not mean that all non-plan expenditure is non-developmental in nature. However, because of the high revenue expenditure intensity of the plan expenditure, a large part of the Public Account accruals is in turn also financing the plan revenue expenditure of the government (See Table 16 for expenditure composition under Plan under revenue and capital expenditure).

Table 16: Composition of Plan Expenditure
(Percent)

	Revenue	Capital	Total
2002-03	76.9	23.1	100
2003-04	76.8	23.2	100
2004-05	78.6	21.4	100
2005-06	79.8	20.2	100
2006-07	72.3	27.7	100
2007-08	61.1	38.9	100
2008-09	65.8	34.2	100

6.14 In this context, the real issue is: should the government use the net accruals only for financing plan capital outlay in the public sector? The Committee is of the view that, limiting the use of Public Account accruals only for financing plan capital outlay of public sector may limit government expenditure programme and flexibility in a considerable manner. At the same time, heavy dependence on these resources at relatively high cost may create greater fiscal strain in terms of higher interest obligations in future. Thus, efforts should be made by the government to use these resources in such a manner that larger share of these accruals become self-liquidating in nature. Also, as the share of capital expenditure under the Plan is on the rise (See Table 16) and if this trend continues, the use of accruals for Plan capital outlay may happen automatically. The Committee is also of the view that as Kerala has a unique method of deposit mobilization through Treasury Savings Bank; efforts should be made to use these resources to meet the deficient physical infrastructure need of the State through larger capital expenditure which would have positive growth implications in the long run. Also, the Committee strongly feels that as the FRL is already putting a cap on the level of fiscal deficit, having another Act specifying the use of Public Account accruals only for Plan capital outlay for the public sector may severely constrain the fiscal flexibility and limited autonomy of the State. However, it is critically important that these funds are used judiciously for productive investment generating financial return in turn making these liabilities self-liquidating in nature.

7

Summary and Recommendations

7.1 There is an improvement in the growth rate of revenue receipts and a downward movement in the growth rate of revenue expenditure in 2008-09 when compared to the previous year. The decline in the growth rate of revenue expenditure has helped the State to bring down its fiscal imbalance during the period under review. The impressive own revenue performance, despite economic recession, is commendable.

7.2 The ratios of revenue deficit, fiscal deficit and primary deficit to GSDP have all shown improvements over the previous year relative to the Budget Estimates for the year 2008-09.

7.3 The impact of the pay and pension revision ordered in March 2006 is seen almost fully absorbed by 2007-08.

7.4 There has been a steady improvement in the quality of fiscal deficit for the last five years and it is heartening to note that the trend continues with the share of revenue deficit in total fiscal deficit coming down every year, including in 2008-09.

7.5 However, the growth in interest payment still remains a matter of concern and has to be arrested in the medium term in order to reign in revenue deficit which has shown an upsurge after 2006-07. The growth of interest payment has been 7.6 percent in the year 2008-09 compared to 3.3 percent in 2007-08.

7.6 If we consider the fact that the Government of India has revised the borrowing limit of the States for 2008-09 from 3 to 3.5 percent of GSDP it is a great achievement that Kerala could contain its fiscal deficit to 3.34 percent. Increased primary deficit only reflects additional fiscal space for development spending.

7.7 Overall, the State has maintained a growth of 16.1 percent in its revenue receipt compared to a growth of 14.6 percent in GSDP. Despite the impact of the economic recession State's own tax has registered a growth rate of 17 percent due to the various measures introduced in 2007-08 for better tax collection. The non-tax revenue has also posted a steady growth of nearly 29 percent. However, the growth rate of Central transfers has come down from 17.4 percent in 2007-08 to 11.8 percent in 2008-09, no doubt due to the fall in buoyancy of Central revenues consequent on the economic slowdown.

7.8 The revenue receipts in respect of motor vehicle tax and stamps and registration fee have fallen by 7.63 percent and 20.87 percent respectively. While the decline in stamp duty could be partly due to a decline in sale transactions in land and buildings, there is need for examining the reasons for the decline in motor vehicle tax.

7.9 The Committee understands that there is no effective arrangement in the Finance Department to monitor receipt of funds due to the State from the Government of India. The State does not have any mechanism at present to verify whether its due share of Central taxes is in fact received on the basis of actuals. As this could have far reaching consequences on the State financial resources Finance Department may take up the matter with the Government of India at the appropriate level as soon as the Central Finance Accounts are published every year.

7.10 There are problems associated in claiming the due assistance from the Centre in respect of Centrally Sponsored Schemes. The Committee recommends that Finance Department may put in place necessary mechanism to periodically review the progress of reimbursement in such cases. Besides, Government may strictly adhere to a policy of fund release to line departments and other implementing agencies conditional on getting reimbursement of all earlier instalments from the Government of India. Also a Cell could be established in the Finance Department to monitor the progress, fund release and fund utilisation under Centrally Sponsored Schemes. This Cell should be asked to create a centralised data base on all aspects of Centrally Sponsored Schemes running in the State.

7.11 The anticipated revenue from non-tax during 2008-09 was Rs.1, 294 crore but the realisation was 20.48 percent more, mainly due to the increase in revenues from forest and lotteries.

7.12 The receipts from user charges are very low and the department wise/item wise details are not readily available. The Finance Department may therefore collect these details on a year to year basis and review the situation periodically with a view to enhancing the rates scientifically. The new Cell established in the Finance Department for this purpose may come up with an annual status report in this regard so as to enable the Committee to review the situation. Government may also explore possibilities of enhancing the revenue from other non-tax sources such as mining of sand.

7.13 On the revenue expenditure side, the major deviations from the budget estimates observed are in respect of pensions, maintenance and subsidy. The high growth in revenue expenditure has been arrested with the containment of the impact of pay revision by 2006-07 and pension revision during the subsequent two years.

7.14 The pattern of high growth of revenue expenditure for two to three years in a block of every five year period is inevitable as long as the State continues with the practice of pay and pension revision once in five years instead of 10 years followed by the Central Government and most other States. In the interest of better fiscal management it would be prudent to move towards pay/ pension revision once in 10 years, as is done in the rest of the country.

7.15 The growth rate of interest payment has jumped from 3.3 percent in 2007-08 to 7.6 percent in 2008-09. However, the Government has been effectively able to manage ways and means and overdraft facilities reflected in the negative growth of interest components on these items.

7.16 The increase in debt stock during the year under review is not positively reflected on the capital expenditure side. A substantial portion of the borrowed funds is still spent on revenue expenditure.

7.17. An area of continuing concern is that of the increasing share of pension payments in the total revenue expenditure. The Committee urges the government to reconsider its recommendations contained in its First Report (Chapter 6, Section C) submitted on 31 December 2008. Not addressing the issue could harm the long-term prospects for government employment because of the limited share of resources for creating new jobs thereby hurting the youth in the long-run.

7.18 The combined share of Open Market Borrowings and small savings is nearly 63 percent by the end of 2008-09 and this trend is likely to continue.

7.19 The growth rate of debt, which was 8.59 percent in 2006-07, has increased to 14.19 percent during the period under review against the projection of 11.27 percent in the budget estimates. Diversion of high cost borrowed funds for revenue expenditure can be prevented only by sustained measures to enhance revenue mobilisation further. The debt /GSDP ratio has to be brought to prudent levels in the medium term.

7.20 One positive outcome of the Kerala Ceiling on Government Guarantees Act is the achievement made in reducing the contingent liabilities ever since the Act came into force in 2003. The ceiling still continues to be Rs.14, 000 crore. The outstanding government guarantees have been gradually brought down from Rs.13, 996 crore in 2003-04 to Rs.7, 992 crore in 2008-09.

7.21 The Committee recommends that the Guarantee Redemption Fund may be operationlised at the earliest.

7.22 The net accruals in Public Account offer limited fiscal autonomy to the State Government in a situation of continuing fiscal deficit and also in the face of restricted borrowing power. If the cost of servicing the Public Account is less than the cost of other sources of borrowing, it further helps the State Government in reducing the overall burden of interest. On the other hand, heavy accruals at a higher rate of interest would make the debt and liability structure high cost in nature leading to faster growth of interest payment.

7.23 The utilisation of Public Account accruals is equally important in that the Government has to ensure that it is spent on productive activities. This could be either in the form of direct financial returns or indirect returns by way of growth in GSDP and consequent increase in revenue. What we therefore recommend is that ultimately the Public Account management should be self liquidating in nature.

7.24 The Committee does not favour a separate Act specifying the use of Public Account accrual for capital outlay under Plan expenditure for the public sector, an issue that was referred to the Committee. This, we feel, will seriously constrain the fiscal manoeuverability of the State Government. Further, the Committee also feels that there is no need for another legislation specifying the use of Public Account accruals when there is already a Fiscal Responsibility Act specifying the level of fiscal deficit.

7.25 Given that the share of capital expenditure in total Plan expenditure is increasing, much of the Public Account accruals are being used to finance the capital component of the Plan expenditure. The Government should ensure that increasing share of the accruals is used for Plan capital spending explicitly to enhance spending on physical infrastructure.

7.26 Since this Public Expenditure Review Committee is a statutory one, the Committee feels that the Government may submit an Action Taken Report while submitting the Report to the Legislative Assembly.

Annexure 1

GOVERNMENT OF KERALA

FINANCE (PLANNING B) DEPARTMENT

NOTIFICATION

G.O.(P) No89/10/Fin **Dated, Thiruvananthapuram, 24.2.2010**

S.R.O.No 189/2010.-In exercise of the powers conferred by section 6(3) of the Kerala Fiscal Responsibility Act 2003(29 of 2003) and sub rules 8(1), 8(4) and 8(5) of the Kerala Fiscal Responsibility Rules 2005, the Government of Kerala hereby appoint Dr. K P Kannan , Member of the Kerala Public Expenditure Review Committee as the Chairman of the Committee.

(BY ORDER OF THE GOVERNOR)

DR P PRABAKARAN
ADDITIONAL CHIEF SECRETARY (FINANCE)

Explanatory Note

(This does not form part of the Notification, but intended to indicate its general purport)

Sri K K Subramanian , who was appointed as Chairman of the Kerala Public Expenditure Review Committee as per Notification No GO(P) No.441/08/Fin dated 30th September 2008,published in the Kerala gazette Extra Ordinary No.2147 dated 3rd October 2008 expired on 16.10.2009.Therefore , as provided under section 6 of the Kerala Fiscal Responsibility Act 2003(29 of 2003) , the Government have decided to appoint Dr.K P Kannan ,member of the Kerala Public Expenditure Review Committee as the Chairman of the Committee .

This Notification is intended to achieve the above object.

Annexure 2

Definitions of the Components under Public Account

1. Small Savings, Provident Funds etc

(a). State Provident Fund

State Provident Fund (PF) comprises of the contribution made by Government servants and certain classes of employees like aided school/college teachers, and panchayat employees. The Government pays interest on the amount deposited and both are booked under the Public Account. The accumulated deposits are paid to the depositors either on the termination of service or a portion can be claimed by them for certain propose defined by the Government after the completion of a particular period of service. The funds accounted for under this head are General Provident Fund.

(b). Treasury Deposits

The State Government is operating a Treasury Savings Bank function through the treasury branches in the State. Individuals, institutions and government agencies are utilizing this facility to park money as time and demand deposits. If a government agency or a department park money received as government assistance such account will not be allowed interest unless under the Centrally Sponsored Schemes (CSS). Norms for the utilisation of funds received under CSS generally stipulates that such money should be kept under interest bearing account till the time of actual utilisation.

2. Reserve Funds

(a). Reserve Funds bearing interest

The transactions relating to the Depreciation Reserve Fund of government commercial departments and undertakings are recorded under this sub-sector.

(b). Reserve Funds not bearing interest

To this sub-sector is recorded the transactions relating to Sinking Fund, Famine Relief Fund, Development and Welfare Funds which include such funds as the Agriculturists Rehabilitation Fund, Kudikidapukar's Fund, and General and other Reserve Funds (which include Hindu Religions and Charitable Endowment Funds). The investments made from these funds are shown separately under a minor head investment account. The following are the details regarding certain important reserve funds.

(i) Sinking Funds and Sinking Fund Investment Account: The Government has created these funds by annual appropriation from revenue to provide against the redemption at the time of maturity. The funds are invested in securities of Government of India and the transactions on account of the same are recorded under this head.

(ii) Hindu Religious and Charitable Endowments Fund: The fund was created by the Government of Madras consequent on the provincialisation of the former Hindu Religious Endowments Boards on the 30th September1951 and constitution of a Department of Government to manage the assets and liabilities of the Board.

3. Deposits and Advances

(a) Civil Deposits:- The transactions brought to account under this head relate mainly to sum, deposited with Government in the daily course of public business by or on behalf of the members of the public. Any department may receive such deposits a large number of them relates to the revenue administration or administration of justice or public works.

(b) Deposits of Local Funds: The Government has permitted the Local Funds and other Local Authorities to deposit their cash balances in the nearest treasuries. These are only in the nature of current accounts for which no interest is paid. The Kerala State Road Transport Corporation Working Fund, Kerala State Electricity Board Working Fund and Panchayat bodies Funds, are some of the major funds, whose cash balances are deposited in treasuries.

4. Suspense and Miscellaneous

(a) Suspense

The transactions recorded under this sub-sector are of a purely temporary character which is subsequently cleared either by cash settlement or adjustment to some final head of account in accordance with the procedure prescribed for each of them. The transactions include departmental adjusting accounts also.

(b) Miscellaneous

This is a general closing account. This head comprises of two different kinds of transactions. One is remittance rendering accounts to the same accounts office. The other transactions are purely book adjustments made within the accounts of the same accounts office which are watched through separate registers maintained by the Reserve Bank of India (RBI).

(i) Adjusting account between Central and State Government: This head records transactions between the Union

Government and the Government of Kerala requiring settlement through the RBI.

(ii) ***Inter- State Suspense account:*** This head records transactions arising in the accounts of Kerala State which are adjustable against balances of other State Governments through the RBI and vice-versa.

5. Remittances

Remittance heads are operated as mere adjusting heads, pending eventual clearance by transfer to the final heads of accounts.