KERALA
PUBLIC EXPENDITURE REVIEW COMMITTEE

[Constituted as per Gazette Notification No. 17950/FRC-2/04/FIN dated 25-11-2005
(S.R.O. No. 1033/2005) as prescribed under Section 6 of the
Kerala Fiscal Responsibility Act, 2003(29 of 2003)]

Third Report
November 2007

Foreword and Acknowledgements

We present the Third Report of the Public Expenditure Review Committee, constituted under section 6 of the Kerala Fiscal Responsibility Act of 2003 (Act 29 of 2003). The annual review report falls due in the month of November each year, by sections 8 and 9 of the Rules pertaining to the Committee. Since the Committee was notified only on 25 November 2005, the First Report was submitted in May 2006. The Second Report was submitted in November 2006.

Before finalising this Third Report, the Committee met on 10 August and 22 October 2007, at Delhi, and visited Trivandrum during the period 29-31 October 2007, so as to meet with senior officers in the Finance, Health, Local Self Government and Public Works Departments of the Government of Kerala, as well as with the Principal Accountant General (Audit), Kerala. We thank Mr. K. Jose Cyriac, Additional Chief Secretary (Finance), Government of Kerala, for attending these meetings with us, and for arranging all of the data and materials requested by us at very short notice. Subsequently, the Committee met again on 15 November 2007 at Delhi.

Mr. R. Venkitaramanan, Additional Secretary (retired), Finance Department, served the Committee admirably as Secretary to the Committee. We thank him.

We also wish to thank Mrs. Promila Rajvanshi of the National Institute of Public Finance and Policy for word processing all three Reports through their several drafts.

There is considerable variation between the provisional accounts (pre-actuals) furnished by the Government and the final audited accounts of the Accountant General, which are released only in November each year. Since the report of this Committee has to be submitted in November, there is very little time to incorporate the final audited figures. Besides, the audit reports of the Comptroller and Auditor General are also usually available for reference only by November. Hence the Committee suggests that the Rules may be amended to make the submission of the report mandatory by the end of December instead of by November every year.

DR. K.P. KANNAN
MEMBER

DR. N.J. KURIAN
MEMBER

DR. INDIRA RAJARAMAN
CHAIRPERSON

23 November 2007
New Delhi

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4/4-528/07

1. INTRODUCTION

The Kerala Public Expenditure Review Committee was constituted by the Government of Kerala on 25 November 2005 in exercise of the powers conferred by Section 6 of the Kerala Fiscal Responsibility Act, 2003. The Committee is required to submit to the Government of Kerala a review report in November every year on the fiscal performance of the State during the previous year.

Since the Committee was constituted in November 2005, the first review report in respect of 2004-05 could be submitted only in May 2006. It covered the fiscal years 2003-04 and 2004-05. The second report submitted in November 2006 covered the year 2005-06. This third report covers the year 2006-07.

The original KFR Act of 2003 covered the period 2003-2007, and set stringent targets for the final year 2006-07 of that fiscal correction horizon. The final targets were a zero revenue deficit, and a fiscal deficit at 2 percent of Gross State Domestic Product (GSDP). In the first two reports, the Committee assumed that these very severe targets would be amended in line with the recommendations of the Twelfth Finance Commission (TFC). Accordingly, the fiscal path of the State was assessed against the more relaxed targets recommended by the TFC, of a zero revenue deficit, and fiscal deficit at 3 percent of GSDP, by 2008-09. The expectations of the Committee were reinforced by the statement in the Revised Budget Speech for 2006-07, presented to the Legislature in June 2006 by the Finance Minister of the newly elected Government, that the KFR Act would be so amended. No such amendment is yet in place.

There are nine Sections in this Third Report of the Committee.

Section 2 on overall fiscal imbalance targets assesses the fiscal correction achieved in 2006-07 relative to the previous two years, with details on the revenue deficit, primary revenue deficit, fiscal deficit and primary fiscal deficit. Section 3 deals with the components of revenue receipts of the State during the pre-FRA period and FRA period. Section 4 focuses on the major constituents of revenue expenditure during the above periods. Section 5 captures the debt profile of the State over 2000-01 to 2006-07.

Section 6 carries an account and assessment of some major moves towards correction of the problem of payment of arrears for works undertaken by the Public Works and Irrigation Departments. Section 7 looks at recent initiatives in the State to improve the efficiency of expenditure in the Public Works and Irrigation Departments.

Section 8 examines the status of public health and waste disposal in the State in view of the outbreaks of debilitating communicable diseases in 2006 and 2007 in some districts of the State.

A summary of the main conclusions and recommendations of the Committee is given in Section 9.

The GSDP figures used in this Report are from the revised series with 1999-00 as base. Therefore percentages with respect to GSDP will differ from those in previous reports of this Committee for all years.

2. OVERALL FISCAL IMBALANCE TARGETS

REVENUE DEFICIT AND PRIMARY REVENUE DEFICIT

According to the statutory provisions in Section 4 of the Kerala Fiscal Responsibility Act, 2003, the revenue deficit (RD) is required to be reduced to zero, and the fiscal deficit (FD) to 2 percent of GSDP by the end of fiscal 2006-07. Neither of these targets has been achieved. Thus the provisions in the original Act stand violated. The State Government is however still free to amend the Act with retrospective effect, in accordance with the recommendations of the Twelfth Finance Commission, in which case the RD needs to be wiped out only by 2008-09 and the FD requires to be reduced to 3 percent of GSDP only by 2008-09.

The RD has recorded a steady and monotonic decline throughout the FRA period, starting from the pre-FRA level of 4.77 percent in 2002-03 (table 2.1), and reaching 1.99 percent of GSDP in 2006-07. If the Act is amended to extend the target year to 2008-09, the required reduction to a zero RD can still be achieved with an annual reduction of one percent in 2007-08 and again in 2008-09. This is not beyond reach, although higher than the correction achieved since 2003-04. However, it has to be kept in mind that the impact of the salary and pension revision ordered in March 2006 has not been fully absorbed during the reporting period as anticipated. The budget for 2006-07 had estimated the revenue deficit at 4.40 percent of the provisional GSDP (4.08 percent of the revised GSDP figure), in part because of the salary and pension revision due.

The primary revenue balance turned from a deficit to a surplus for the first time in 2005-06, and continued to be in surplus during 2006-07, at Rs.1552 crore, representing 1.17 percent of GSDP, an increase by 0.61 percent of GSDP over the previous year. This achievement is to be seen against the budget estimate of a deficit of Rs.987 crore.

Because of administrative delays in the calculation of the revised salary/pension bill, the exact amount of expenditure deferred could not be ascertained by the Committee. The absolute increase in the salary bill in 2006-07 relative to 2005-06 was of the order of Rs.1000 crore, as against an average annual increase of Rs. 210 crore in the two years immediately preceding. The absolute increase in the pension bill in 2006-07 relative to 2005-06 was Rs. 434 crore, as against an average annual increase of around Rs. 225 crore in the two years immediately preceding. Since the administrative delay was largely on account of the switch to a "one rank, one pension" platform, if it is assumed that what was not absorbed in 2006-07 was largely on account of pensions, and amounted to about two third of what was additionally due, the quantum of pension deferment in absolute terms works out to roughly Rs. 416 crore. Another Rs. 85 crore of deferred salary (at an assumed 10 percent of deferment of the incremental salary on account of the pay revision, to 2007-08) rounds off the estimated total deferment at roughly Rs. 500 crore, or about 0.38 percent of GSDP in 2006-07.

Table 2.1: Overall Fiscal Indicators for FRA Period: 2003-07

	Actuals					Diff. (percent/GSDP)				BE		Diff. (percent/ GSDP)
	2002-03	2003-04	2004-05	2005-06	2006-07	03-04A/ 02-03A	04-05A/ 03-04A	05-06A/ 04-05A	06-07A/ 05-06A	2006-07	2007-08	07-08 BE/ 06-07A
Revenue Deficit in Rs. Cr.	4119	3680	3669	3129	2638	-439	-11	-540	-491	5415	5251	2613
RD/GSDP (%)	4.77	3.83	3.43	2.63	1.99	-0.94	-0.41	-0.80	-0.64	4.08	3.57	1.58
Fiscal Deficit in Rs.Cr.	4990	5539	4452	4182	3822	549	-1087	-270	-360	7535	7425	3603
FD/GSDP (%)	5.78	5.77	4.16	3.51	2.88	0.01	-1.61	-0.64	-0.64	5.68	5.05	2.17
RD/FD (%)	82.54	66.44	82.41	74.82	69.02	-16.09	15.97	-7.59	-5.80	71.86	70.72	1.70
Primary Revenue Deficit in Rs.Cr.	1172	352	56	-670	-1552	-820	-296	-726	-882	987	473	2025
PRD/GSDP (%)	1.36	0.37	0.05	-0.56	-1.17	-0.99	-0.31	-0.62	-0.61	0.74	0.32	1.49
Primary Fiscal Deficit in Rs. Cr.	2043	2211	839	382	-368	168	-1372	-457	-750	3107	2647	3015
PFD/GSDP (%)	2.37	2.30	0.78	0.32	-0.28	-0.07	-1.52	-0.46	-0.60	2.34	1.80	2.08
Cap. Exp./GSDP (%)	1.01	1.94	0.73	0.88	0.89	0.93	-1.20	0.15	-0.01	1.60	1.48	0.59
Direct Capital Outlay/GSDP (%)	0.81	0.67	0.64	0.69	0.68	-0.14	-0.03	0.05	-0.01	1.05	0.90	0.22
GSDP in Rs. Cr.	86275	96012	107054	118998	132739	11.29	11.50	11.16	11.55	132739	147000	10.74
	Actuals					Change (percent)				BE		Change (percent)
	2002-03	2003-04	2004-05	2005-06	2006-07	03-04A/ 02-03A	04-05A/ 03-04A	05-06A/ 04-05A	06-07A/ 05-06A	2006-07	2007-08	07-08 BE/ 06-07A
Revenue Account in Rs. Cr.												
Revenue Receipts	10637	11815	13500	15295	18187	11.07	14.26	13.30	18.91	19140	21446	17.92
Revenue Expenditure	14756	15496	17169	18424	20825	5.01	10.80	7.31	13.03	24555	26697	28.20
Capital Expenditure in Rs. Cr.	871	1859	783	1053	1186	113.31	-57.88	34.48	12.63	2120	2174	83.31
Direct Capital Outlay	699	640	682	817	903	-8.44	6.57	19.79	10.53	1399	1320	46.18
Net loan Disbursement	173	1219	101	236	283	605.79	-91.69	133.66	19.92	721	854	201.77
Total Expenditure in Rs. Cr.	15627	17354	17952	19477	22011	11.05	3.45	8.49	13.01	26675	28871	31.17
of which interest in Rs. Cr.	2947	3328	3613	3799	4190	12.94	8.56	5.15	10.29	4428	4778	14.03

Notes: Capital expenditure is obtained from the sum of direct capital outlay, and net loan disbursements (gross disbursements minus loans recoveries). The percentages to GSDP shown for the budget estimates (BE) for 2006-07 are with respect to the revised GSDP estimate for that year, Rs. 132739 crore; percentages with respect to the pre-revised GSDP estimate, Rs. 123000 crore, were higher (those are the percentages in the Second Report of this Committee). Negative figures for deficits indicate a surplus.

It might be noted that the budget estimates for 2007-08 (table 4.1) project an absolute increase over actual expenditure in 2006-07 of Rs. 2424 crore in salaries, and Rs. 1283 crore in pensions, several times higher than the deferment that has been very conservatively estimated here, mainly on account of the policv decision to release withheld instalments of Dearness Allowance (DA) to Government employees during 2007-08, over and above deferred arrears.

Fiscal Deficit and Primary Fiscal Deficit

The fiscal deficit, like the revenue deficit, has also been falling steadily and monotonically, from 5.78 percent of GSDP in 2002-03, to 2.88 percent of GSDP in 2006-07. This was a decline by 0.64 percent from 3.51 percent of GSDP in 2005-06. Here again, the required target of 2 percent of GSDP as per the KFR Act could not be achieved.

Because the proportional decline in the revenue deficit in 2006-07 was greater than the proportional decline in the fiscal deficit, the revenue deficit has come down to 69.02 percent of the fiscal deficit, as against 74.82 percent of the fiscal deficit in 2005-06.

The primary fiscal deficit has also been coming down throughout the FRA period. It stood at 0.32 percent of GSDP in 2005-06, but made a sign transition to a surplus of 0.28 percent in 2006-07.

The deferment of salary/pension to 2007-08 is of relevance here as well, in assessing the improvement in 2006-07 in both the FD, and the sign transition in the primary fiscal balance.

Capital expenditure has gone up from Rs.783 crore in 2004-05 to Rs.1053 crore in 2005-06 and again to Rs. 1186 crore in 2006-07. Every attempt has to be made to sustain this positive trend.

Although the fiscal targets as contemplated in the existing KFR Act 2003 were not achieved in the terminal year of the current FRA period, the improvements in both the RD and FD are impressive. There is a clear improvement in fiscal discipline in the State.

3. REVENUE RECEIPTS

A summary of the revenue receipts during the pre-FRA and FRA periods is available in table 3.1, and the composition of the State's tax and non tax revenues is in table 3.2. The revised budget for 2006-07 had estimated total revenue receipts as Rs.19140 crore but the actual realization was only Rs.18187 crore. Even so, this was an increase by 18.9 percent over that in 2005-06.

The growth rate in the State's own tax revenue has gone up considerably from 9.1 percent in 2005-06 to 22.1 percent in 2006-07, mainly on account of better realization of VAT, stamp duty and registration charges. The average annual growth rate of 13.2 percent in own tax revenue during the FRA period compares well with the 12.0 percent average during the pre-FRA period. However, when normalized by the higher nominal growth of GSDP in the FRA period, the revenue buoyancy in the FRA period was lower, at 1.2 over 2003-07, as against 1.5 over 1999-2003. Receipts from VAT are expected to increase in the coming years in view of the continuing efforts to enforce compliance at check posts through computerization and better management. The Lucky VAT scheme was not a contributor to the revenue success of the VAT in 2006-07. The number of consumers wining prizes was too small to serve as an encouragement. The scheme is expected to be re-launched in December 2007 in a new format. The other revenue sources like excise and motor vehicles have also performed well.

The second report of this Committee noted the volatility in stamp duty revenues resulting from failure to follow up the halving of rates in December 2003 with fair value fixation, leading to a restoration of the earlier rates. The Committee understands that fair value fixation will be achieved in 2007-08, accompanied by reimposition of the lower rates introduced in December 2003. This should place stamp duty on a more equitable and buoyant platform.

The State's own non tax revenue amounts to less than ten percent of tax collections and the growth rate dropped from 14.40 percent in 2005-06 to just 0.1 percent in 2006-07, showing zero buoyancy. An expert committee constituted by the State Government under the chairmanship

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Table 3.1: Revenue Receipts

	Pre-FRA period					FRA Period					
	Annual				Average annual	Annual				Average annual	2007-08
	1999-00	2000-01	2001-02	2002-03	2000-03	2003-04	2004-05	2005-06	2006-07	2003-07	BE
Total Revenue Receipts (Rs. Cr)	7944	8731	9056	10637		11815	13500	15295	18187		21446
Growth rate (%)		9.9	3.7	17.5	**10.2**	11.1	14.3	13.3	18.9	**15.5**	17.9
TRR/GSDP (%)	11.6	12.1	11.7	12.3		12.3	12.6	12.9	13.7		14.6
Buoyancy (%)		1.9	0.5	1.5	**1.3**	1.0	1.2	1.2	1.6	**1.4**	1.7
State's Own Taxes (Rs. Cr)	5194	5870	5923	7303		8089	8964	9779	11942		13790
Growth Rate (%)		13.0	0.9	23.3	**12.0**	10.8	10.8	9.1	22.1	**13.9**	15.5
Own taxes/GSDP (%)	7.6	8.1	7.7	8.5		8.4	8.4	8.2	9.0		9.4
Buoyancy (%)		2.5	0.1	2.0	**1.5**	1.0	0.9	0.8	1.9	**1.2**	1.4
State's Non Tax (Rs. Cr)	533	659	543	681		807	819	937	938		1133
Growth Rate (%)		23.7	-17.6	25.4	**8.5**	18.5	1.5	14.4	0.1	**5.1**	20.8
Own non-tax/GSDP (%)		0.9	0.7	0.8		0.8	0.8	0.8	0.7		0.8
Buoyancy (%)		4.6	-2.4	2.2	1.1	1.6	0.1	1.3	0.0	**0.5**	1.9
Central Transfers (Rs. Cr)	2218	2202	2590	2654		2920	3718	4579	5307		6523
Growth Rate (%)		-0.7	17.6	2.5	**6.2**	10.0	27.3	23.2	15.9	**22.0**	22.9
GSDP (Rs. Cr)	68617	72143	77385	86275		96012	107054	118998	132739		147000
Growth rate (%)		5.1	7.3	11.5	**7.9**	11.3	11.5	11.2	11.5	**11.4**	10.7

Note: VAT was introduced in 2005-06. The State's own tax revenue of Rs. 9779 crore in 2005-06 does not include Rs.456.47 crore received from GOI as VAT compensation which is included under central transfers.

Table 3.2: Composition of States Own Tax Revenue and Non Tax Revenue

	Pre-FRA period					FRA Period					
	Annual				Average annual	Annual				Average annual	2007-08
	1999-00	2000-01	2001-02	2002-03	2000-03	2003-04	2004-05	2005-06	2006-07	2003-07	BE
State's Own Taxes (Rs. Cr)											
a. Sales Tax	3853.54	4344.33	4440.85	5343.15		5991.43	6701.05	7037.97	8563.31		10035.51
b. Excise Duty	591.10	688.94	541.46	663.07		655.91	746.45	841.00	953.07		986.86
c. Motor Vehicle Tax	380.83	394.85	452.18	513.20		585.77	610.47	628.51	707.74		835.08
d. Stamp Duty & Regn Charges	279.65	341.10	394.28	486.53		549.81	775.35	1101.42	1519.93		1524.12
e. Electricity Duty	3.33	14.92	5.18	192.62		189.97	9.62	31.52	31.78		250.01
f. Others	85.06	86.12	89.47	103.97		115.89	120.71	138.20	165.99		158.42
Total SOTR	5194	5870	5923	7303		8089	8964	9779	11941.82		13790
Growth Rate (%)		13.0	0.9	23.3	**12.0**	10.8	10.8	9.1	22.1	**13.2**	19.3
Own ta. as/GSDP (%)	7.6	8.1	7.7	8.5		8.4	8.4	8.2	9.0		9.4
Buoyancy (%)		2.5	0.1	2.0	**1.5**	1.0	1.0	0.8	1.9	**1.2**	1.8
State's Own Non Tax (Rs. Cr.)											
a. Forests	109.88	141.24	113.70	149.57		187.18	199.69	189.63	174.56		268.44
b. Lottery (Gross)	100.82	134.17	121.59	131.69		147.80	151.38	237.28	236.15		251.45
c. Interest Receipts	37.31	36.81	31.08	35.86		32.40	40.50	46.36	44.63		45.55
d. Educatn., Sports, Art & Culture	39.18	44.98	53.56	63.40		81.86	85.76	82.09	99.91		121.57
e. Other Admn Services	40.23	150.86	32.41	45.57		46.10	78.79	54.77	53.86		63.37
f. Contribn towards Pension etc.	23.12	18.87	17.17	19.29		17.08	16.66	17.85	29.06		19.85
g. Medical & Public Health	18.82	20.66	19.85	28.16		27.61	27.51	29.80	32.99		38.00
h. Cooperation	23.49	23.46	21.12	24.49		27.32	29.38	35.78	35.75		38.22
i. Non-ferrous Mining & Inds.	14.57	16.94	16.29	18.76		18.37	21.46	25.09	28.32		33.24
j. Roads & Bridges	18.57	16.91	14.15	20.30		18.68	14.67	20.38	15.35		17.68
k. Other Genl. Economic Services	8.83	11.00	11.25	12.64		12.12	13.29	11.79	18.00		18.36
l. Others	97.95	43.19	91.21	131.53		190.46	139.99	185.96	168.99		217.34
Total SONTR	533	659	543	681		807	819	937	937.57		1133.07
Growth Rate (%)		23.7	-17.6	25.4	**8.5**	18.5	1.5	14.4	0.1	**5.1**	20.9
Own non-tax/GSDP (%)		0.9	0.7	0.8		0.8	0.8	0.8	0.7		0.8
Buoyancy (%)		4.6	-2.4	2.2	**1.1**	1.6	0.1	1.3	0.0	**0.4**	1.9
GSDP (Rs. Cr)	68617	72143	77385	86275		96012	107054	118998	132739		147000
Growth rate (%)		5.1	7.3	11.5	**7.9**	11.3	11.5	11.2	11.5	**11.4**	10.7

of the Chief Secretary ten years ago, in August 1997, submitted a comprehensive report with detailed recommendations to enhance fees/user charges in all departments. Pursuant to the recommendation of the Committee, a separate NTR Cell was created in the Finance Department exclusively for implementation of the recommendations in the report, and fees and user charges in many sectors were revised in consultation with the concerned line departments. However, stiff opposition from some departments led to abolition of the NTR Cell as part of rationalization of man power, leaving the work unfinished. It is necessary to revise the aborted initiative to revise user charges wherever feasible, and in such a manner that it is progressive in the sense of imposing no burden on the poorer sections of society. A similar Committee could perhaps be set up once again to recommend periodic revision of user charges, without affecting the poor, and to identify new sources of non tax revenues. When this is done, the burden of paying for public services will be shifted to that extent from the taxpayer, who may or may not be a user of the service in question, to users of these services. While at all times protecting the poor, a more equitable distribution of the fiscal burden requires greater focus on cost recovery from those users of public services who can afford to pay.

Central transfers grew by 15.9 percent during 2006-07, down from 23.2 percent in 2005-06, largely due to the fact that with the improvement in VAT revenue the State became ineligible for any compensation from the Centre. Transfers from the Centre constitute a little under 30 percent of the total revenue receipts of the State.

4. REVENUE EXPENDITURE

Revenue expenditure which rose by 7.3 percent in 2005-06 over the previous year, further rose by 13 percent in 2006-07 (table 4.1). Salaries and pensions together rose by 16.7 percent, and would have risen further but for the deferment referred to in section 2. The figures for salaries and pensions are aggregated across Government employees, staff of Government aided private educational institutions and those transferred to Local Self Governments. The breakup of these figures is not currently available. The average annual increase in expenditure on salaries and pensions has gone up from 3.3 percent during the pre-FRA period to 9.3 percent in the FRA period. This in itself is merely a reflection of the episode pattern of increases in salaries/pensions.

Table 4.1: Revenue Expenditure

	Pre-FRA period					FRA period					
	Annual				Average annual	Annual				Average annual	BE
Composition	1999-00	2000-01	2001-02	2002-03	2000-03	2003-04	2004-05	2005-06	2006-07	2003-07	2007-08
Total Expenditure (Rs. Cr.)	11563	11878	11662	14756		15496	17169	18424	20825		26697
(%)	100.0	100.0	100.0	100.0		100.0	100.0	100.0	100.0		100.0
Salaries (Rs. Cr.)	4503	4492	4201	4679		5147	5346	5581	6560		8984.46
(%)	38.9	37.8	36.0	31.7		33.2	31.1	30.3	31.5		33.7
Pensions (Rs. Cr.)	1808	1930	1838	2283		2409	2601	2861	3295		4578.22
(%)	15.6	16.2	15.8	15.5		15.5	15.1	15.5	15.8		17.1
Salaries+Pensions (Rs. Cr.)	6311	6422	6039	6962		7556	7947	8442	9855		13562.68
(%)	54.6	54.1	51.8	47.2		48.8	46.3	45.8	47.3		50.8
Interest (Rs. Cr.)	1952	2258	2489	2947		3328	3613	3799	4190		4778.3
(%)	16.9	19.C	21.3	20.0		21.5	21.0	20.6	2C.1		17.9
Sal.+Pensions+Int. (Rs. Cr.)	8263	8680	8528	9909		10885	11560	12241	14045		18340.98
(%)	71.5	73.1	73.1	67.2		70.2	67.3	66.4	67.4		68.7
Annual Increase (%)											
Total Expenditure (Rs. Cr.)	11563	11878	11662	14756		15496	17169	18424	20825		26697
(%)		2.7	-1.8	26.5	**8.5**	5.0	10.8	7.3	13.0	**10.4**	28.2
Salaries (Rs. Cr.)	4503	4492	4201	4679		5147	5346	5581	6560		8984.46
(%)		-0.2	-6.5	11.4	**1.3**	10.0	3.8	4.4	17.54	**8.4**	37.0
Pensions (Rs. Cr.)	1808	1930	1838	2283		2409	2601	2861	3295		4578.22
(%)		6.7	-4.8	24.2	**8.1**	5.5	8.0	10.0	15.2	**11.0**	38.9
Salaries+Pensions (Rs. Cr.)	6311	6422	6039	6962		7556	7947	8443	9855		13562.68
(%)		1.8	-6.0	15.3	**3.3**	8.5	5.2	6.2	16.7	**9.3**	37.6
Interest (Rs. Cr.)	1952	2258	2489	2947		3328	3613	3799	4190		4778
(%)		15.7	10.2	18.4	**14.7**	12.9	8.6	5.1	10.3	**8.0**	14.0
Sal.+Pensions+Int. (Rs. Cr.)	8263	8680	8528	9909		10885	11560	12241	14045		18341
(%)		5.0	-1.7	16.2	**6.2**	9.8	6.2	5.9	14.7	**8.9**	30.6
GSDP (Rs. Cr)	68617	72143	77385	86275		96012	107054	118998	132739		147000
GSDP Growth Rate (%)		5.1	7.3	11.5	**7.9**	11.3	11.5	11.2	11.5	**11.4**	10.7

It so happened that the Eighth Pay Revision Commission of Kerala made its award during the FRA period.

There is the larger issue of public employment discipline, referred to at length in both the first two reports of this Committee. Salaries and pensions together pre-empted 47.3 percent of total revenue expenditure in 2006-07, further projected to increase to 50.8 percent in 2007-08. Since the revenue deficit is at around 2 percent of GSDP in 2006-07, the corresponding pre-emption of totalrevenue receipts is even higher. This is a central failure of fiscal discipline in the State, and rides above such success as may have been achieved in bringing down revenue and fiscal deficits, through better revenue performance. If the very commendable own tax revenue increase of 22.1 percent in 2006-07 is accompanied by a salary/pension hike of 16.7 percent (with some of the increased salary bill deferred to 2007-08), the revenue increase gets largely absorbed by public servants, instead of being spent on services for the public they are meant to serve.

The annual growth in interest liability shot up from 5.1 percent in 2005-06 to 10.3 percent in 2006-07, but because total revenue expenditure increased by 13 percent in 2006-07, the interest claim on total revenue expenditure declined to 20.1 percent.

5. DEBT

Debt as a percentage of GSDP, which had been steadily increasing during the pre-FRA period, began declining marginally after 2004-05 but in 2006-07, it fell sharply by one percent to reach a closing level of 37.6 percent (table 5.1).

This reduction in the debt level as a percent of GSDP is analytically consistent with the sign transition in the primary fiscal balance to a surplus in 2006-07. Although these achievements are commendable, three features need to be noted at this juncture. The first is the enabling basis for debt stabilization provided by the rise in the nominal rate of growth of GSDP, at 11.4 percent over 2003-07 as compared to 7.9 percent over 2000-03. The second is the decline in the rate of interest on loans from the Centre, starting from the debt swap scheme offered by the Centre over 2002-05, and going into the interest rate relief consequent upon the recommendations of the Twelfth Finance Commission, which came into effect from 2005-06. Finally, it has to be

Table 5.1: Composition of Debt

Debt	Pre-FRA period					FRA period					
	Annual				Average annual	Annual				Average annual	BE
Composition	**1999-00**	**2000-01**	**2001-02**	**2002-03**	1999-03	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2003-07**	**2007-08**
Total (Rs. Cr.)	20176	23919	26951	31060		37452	41878	45929	49875		57139
(%)	100.0	100.0	100.0	100.0		100.0	100.0	100.0	100.0		100
Internal Debt (Rs. Cr.)	5735	7627	9342	11747		17421	21676	25671	29969		34558
(%)	28.4	31.9	34.7	37.8		46.5	51.8	55.9	60.1		60.5
of which NSSF (Rs. Cr.)	571	1012	1475	2306		4577	7048	9698	11876		14502
(%)	2.8	4.2	5.5	7.4		12.2	16.8	21.1	23.8		25.4
Loans from Center (Rs. Cr.)	5903	6102	6347	6535		5628	5411	5417	5372		6130.1
(%)	29.3	25.5	23.6	21.0		15.0	12.9	11.8	10.8		10.7
PF, Fixed Deposits (Rs. Cr.)	8538	10190	11262	12778		14403	14791	14841	14534		16451
(%)	42.3	42.6	41.8	41.1		38.5	35.3	32.3	29.1		28.8
Annual Increase (%)											
Total debt (Rs. Cr.)	20176	23919	26951	31060		37452	41878	45929	49875		57139
(%)		18.6	12.7	15.2	**15.5**	20.6	11.8	9.7	8.6	**10.0**	14.6
Internal Debt (Rs. Cr.)	5735	7627	9342	11747		17421	21676	25671	29969		34558
(%)		33.0	22.5	25.7	**27.0**	48.3	24.4	18.4	16.7	**19.8**	15.3
of which NSSF (Rs. Cr.)	571	1012	1475	2306		4577	7048.3	9697.8	11876		14502
(%)		77.2	45.8	56.3	**59.2**	98.5	54.0	40.2	40.2	**37.4**	22.1
Loans from Center (Rs. Cr.)	5903	6102	6347	6535		5628	5411	5417	5372		6130.1
(%)		3.4	4.0	3.0	**3.4**	-13.9	-3.9	0.1	-0.8	**-1.5**	14.1
PF, Fixed Deposits (Rs. Cr.)	8538	10190	11262	12778		14403	14791	14841	14534		16451
(%)		19.3	10.5	13.5	**14.4**	12.7	2.7	0.3	-2.1	**0.3**	13.2
GSDP (Rs. Cr)	68617	72143	77385	86275		96012	107054	118998	132739		147000
(%)		5.1	7.3	11.5	**7.9**	11.3	11.5	11.2	11.5	11.4	10.7
Debt/GSDP (%)	29.4	33.2	34.8	36.0		39.0	39.1	38.6	37.6		38.9
Interest Rate(%)	10.88	10.24	9.79	10.16	**10.27**	9.72	9.11	8.67	8.90	**9.16**	8.91

remembered that the closing debt level, at 37.6 percent in 2006-07, remains marginally above the closing pre-FRA level of 36 percent. What was reversed during the FRA period was therefore merely the sharp rise in the first year, 2003-04.

Internal debt has risen to 60 percent of the total debt stock, as against under 40 percent in the closing stock pre-FRA, with the corresponding decline in share split between loans from the Centre, and Provident Fund and Fixed Deposits, each of which declined by 10 percent in share. The decline in loans from the Centre is because of the change in policy consequent upon the recommendations of the Twelfth Finance Commission, whereby Central loans ceased to be a compulsory component of Central financial assistance to States, starting from 2005-06. This would be commonly observed across all States.

Loans from the NSSF are the most rapidly rising component of total debt in both the pre-FRA and FRA periods, rising at an average of 58 percent since 2003-04, although the annual rate of increase has been brought down considerably, to 40 percent in 2006-07. The interest rate levers on the NSSF are controlled by the Centre, so that this increase in collections is outside the control of the State. The NSSF is the highest cost source of borrowing for the State (table 5.2).

Table 5.2 : Instrument Specific Rates of Interest

(per cent)

	2004-2005	2005-2006	2006-07 (%)
Provident Fund	8.50	8.50	8.00
Market Borrowings (Average)	6.40	7.51	7.96
NABARD-RIDF	6.50	6.50	6.50
LIC	8.50	8.50	8.50
NCDC	8.50	8.50	9.13
GIC & Others	9.00	9.00	9.00
Govt. of India Loans	9.00	9.00	9.00
NSSF	9.50	9.50	9.50
Treasury Fixed Deposits (Average)	7.33	6.67	6.86
Treasury Savings Bank	5.50	4.50	4.58

The achievement of the State in bringing down contingent liabilities has been remarkable throughout the FRA period. The statutory guarantee limit still remains at Rs.14,000 crore. While the total outstanding guarantees in 2003-04 was Rs.13,996 crore, by the end of 2006-07 it was gradually reduced to only Rs. 9495.97 crore out of which the principal portion accounted for Rs.7580.34 crore, and interest for Rs. 1915.63 crore.

6. CLEARANCE OF PUBLIC WORKS DEPARTMENT (PWD) AND IRRIGATION DEPARTMENT ARREARS

The Finance Department has made two creditable moves towards preventing further growth in arrears in payment of bills owed by the Public Works and Irrigation Departments, and for clearance of the stock of arrears outstanding.

The genesis of the problem of arrears (referred to in previous reports of this Committee)[1] is as follows. The Budget Estimate (BE) of the Plan component of the PWD Department, for example, is set by the Planning Department as a consolidated departmental allocation rather than from a yearly sum across project-specific budget requirements over a multi-year horizon extending into the future. The BE for the non-Plan maintenance component likewise is not an aggregation across estimates from a yearly roster of maintenance works.

The lack of a year-wise project-specific financial allocation mechanism has been accommodated in the budgetary process by permitting total authorized sanctions in any year (for projects, or works as they are termed) to amount to a sum 1.5 times the BE figure. Each such sanction is for the total project requirement including spillover beyond the fiscal year in question. However, this excess allocation provision, without downward adjustment for the spillover from preceding fiscal years, grew into a juggernaut of sanctioned expenditures, with bills falling due in any year far exceeding the budgetary provision for that year. These bills remained as unpaid arrears, and the stock of arrears so accumulated mounted over time.

In a commendable move, the Finance Department has introduced during fiscal year 2007-08 a requirement that unutilized sanctions carried forward will be deducted from the authorized

[1] Recommendation 7.9 of the Second Report of this Committee, November 2006, and recommendation 8.12 of the First Report, May 2006.

sanctions for the next fiscal year.[2] This move stands approved as of October 2007. Thus, the factor underlying the growth of arrears has been attacked at source.

There remains the problem of accumulated arrears outstanding. The Finance Department has proposed in October 2007 a scheme for early settlement of pending arrears. Outstandings as of October 2007 fell in the range Rs.1000-1500 crore (the exact sum is not known, because of bills which will fall due from works in the pipeline).

Parity of treatment for pending bills in the stock of arrears meant that seniority in submission of bills had to be honoured, with allegations and litigation over violations of seniority, and High Court orders specifying separate seniority lists for (i) PWD (Roads and Bridges); (ii) PWD (Buildings); and (iii) Irrigation. However, because sanctions for buildings are issued not by the PWD, but by the concerned Administrative Departments for whom buildings are to be built, there was not the same problem of excess authorized sanctions as in the case of roads and bridges. It is estimated that as of October 2007 there were no outstandings in respect of PWD (Buildings).

Further implications of arrears were that expected delays of two years on average were routinely factored into contractors' tender quotations, since an explicit element of these contracts was that no interest would be payable on delays in payment. This has introduced a systematic element of tender excess going up to the maximum permissible under the rules (see section 7). Smaller contractors could access credit only at higher cost than large contractors, resulting in higher cost inflation factors for small maintenance works as compared to larger projects, or delays in execution of smaller works. The seniority system meant that smaller bills had to take their place in the same queue as larger bills. Further implications were that departmentally-supplied materials like bitumen were diverted by contractors to the open market, enabled by the lack of supervision of bitumen stocks and drawals, which functioned as a compensation in kind for delayed payments.

The Finance Department has moved a scheme for early payment of outstanding arrears. In conjunction with the change in configurement of authorized sanctions mentioned above, this will

[2] The decision taken is that the authorized sanctions will be permissible upto 1.5 times the BE, and that spillovers will be deducted from this.

introduce a much-needed dimension to fiscal discipline and improved governance in the system. In order to discharge this liability, the State Government proposes to ask the Centre for permission under Article 293 of the Constitution of India to borrow the extra amount required, if it cannot be met from the limits approved already by the Centre. This scheme also requires the High Court approval which has ordered that state-wide seniority cannot be overlooked under any circumstances, while paying pending bills. It is expected that once borrowing approval is obtained, the arrears can be discharged over a period of six months. The added borrowing will add further to the debt stock in 2007-08.

Contractors will be given the option of immediate payment, at a discount, of bills outstanding. If the value of their contract was inflated to accommodate cost of funds to them at an assured 12 percent over an expected two-year delay, the present value equivalent at a discount rate of 12 percent over the period remaining to realisation[3] should be acceptable to them. But they are being offered as a further inducement a discount rate of 9.5 percent, since that is the rate at which State Governments will borrow to clear the arrears. At this rate of discount, 95.47 percent of the bills will be paid if payment is speeded up by 6 months, 91.32 percent if payment is speeded up by one year. For Irrigation, the normal delay has been estimated at 1 year, since this department exercised more prudence in sanctioning works.

All arrears may not be settled by this scheme since it is driven by a voluntary option exercised by contractors.

The scheme for early payment applies to bills for contracts signed prior to the effective date of operation, as it is expected that they would have inflated their costs by the expected delay. After the scheme comes into operation, the substantial clearance of arrears hoped for, in conjunction with the earlier scheme for adjustments for carry forward of unutilised sanctioned expenditure, will result in expectation of reduced delay, and correspondingly, in lower factors for excess tender quotations.

[3] Two years minus time elapsed from date of submission of the bill.

7. IMPROVING THE EFFICIENCY OF EXPENDITURE BY THE PUBLIC WORKS DEPARTMENT

Section 6 of this report covered the commendable attempts made by the Government of Kerala to contain the growth of arrears of unpaid bills to contractors on works sanctioned by the Public Works and Irrigation departments, and the related initiative to clear the outstanding stock of arrears.

This section deals with ongoing attempts to improve the efficiency of expenditure of these two departments, which hold maintenance and construction responsibility for key elements of publicly provided infrastructure in the State: roads, bridges and irrigation works. The efficiency of expenditure by these departments is an all-important issue.

In an environment where fiscal discipline is sought to be enforced, where the focus in the first instance is on containment of fiscal imbalances, the constraints on expenditure have necessarily to be accompanied by expenditure reforms that improve expenditure efficiency. It is all too easy in such times for departments to blame lack of service delivery on insufficient budgetary allocations. It is especially important to reiterate at this juncture that the new restraints described in the previous section, introduced to contain the total of administrative sanctions to 1.5 times the budgeted expenditure in any fiscal year, after deducting carry forward of unspent prior sanctions, does not in any way curtail departmental flexibility.[4] If the budgetary allocation is insufficient, that is an independent issue, but it cannot be addressed by exceeding budgetary limits and generating growing arrears of unpaid bills.

Several initiatives have been introduced by the State Government to enhance efficiency of expenditure, including a new structure for lower permissible margins for cost overruns on sanctioned expenditures. In order to understand these initiatives, it is necessary to work through the procedural labyrinth surrounding PWD expenditures. Public service especially in departments like Public Works maintenance is all about flexible and immediate response to urgent

[4] There is some degree of delegation of powers for small works up to Rs.15 lakh, with sanction from outside the PWD needed only for expenditures in excess of that limit. Thus, the factor limiting sanctions to 1.5 times budgetary provisions has to apply to the sum across all sanctions, including those issued within the department.

contingencies, so that the key to successful expenditure reform is a control structure that does not curtail flexibility of departmental action.[5]

Expenditure by the PWD and Irrigation Department requires work-specific or project-specific administrative sanction from the concerned Administrative Department with the concurrence of Finance Department. An alternative is approval from the Cabinet, which does not require prior concurrence of the Finance Department. After administrative sanction, a technical sanction is issued by the Chief Engineer, which can exceed the administrative sanction by a factor of 1.15 without requiring revised administrative approval. The basis for these sanctions is a rate schedule maintained by the department. Annual updating of the rate schedule is required in the PWD manual but has not been honoured, frequently for periods running into several years.

The first of the current initiatives is enforcement of annual updating of the rate schedule. Thus, the schedule in effect at the time of writing of this report was issued in April 2007. This has enabled the second of the new initiatives under way, towards revision of permissible margins for cost overruns.

All works require an open tender procedure, although works upto Rs. 3 lakh may be sanctioned without open tender at the discretion of the Chief Engineer.[6] Prior to a first-stage reform in 2004,[7] the permissible cost overrun margins on tendered works were as follows. There was a permissible tender excess over the technical sanction by a factor of 1.35 (and therefore over the original administrative sanction by a factor of 1.15 x 1.35 = 1.5525) without renewal of administrative approval. However, a further Revised Estimate of the cost of the work undertaken was permissible upto 35 percent over the technical sanction. The tender excess rate would then apply to this as well, so the final bill could amount to 1.15 X 1.35 X 1.35= 2.095875 times the authorized sanction without the Finance Department knowing anything about such committed

[5] In order to permit flexibility of response in Public Works, Harbour Engineering, Irrigation and Forest Departments, these departments are granted the freedom all over India to issue cheques without having to go to the Treasury, which is a route that contains expenditures within appropriations. But control is exercised by requiring that cheques be issued only on the basis of a letter of credit issued by the Finance Department.
[6] Through a limited or single tender. The Budget Speech of the Finance Minister (para 13) refers to a report from the Comptroller and Auditor General showing gross misuse of this provision by breaking down large works into small components, each falling under the open tender threshold. Steps have now been taken to correct this; see point 4 below.
[7] By FDGO No. 667/2000/Fin. Dated 22 March 2000.

liabilities. These however were the maximum limits and very rarely would equal the actual commitment in every work. What these wide margins did do was to introduce a large margin of uncertainty into payments due. This was yet another reason for the snowballing of arrears, in addition to the reasons advanced in section 6.

The maximum limits have now been curtailed through a series of notifications started from 2004.[8] The latest position with effect from 11 July 2007[9] is as follows. The technical sanction factor relative to the administrative sanction remains at 1.15, but the tender excess factor has now been curtailed at 1.05 (for works exceeding Rs. one crore); 1.10 (for works over Rs.15 lakh but upto Rs. one crore); and 1.15 (for works upto Rs.15 lakh). The limits are in inverse relation to the size of the project, so that higher tender excess and therefore greater flexibility is enabled for small and urgent works. The same limits apply to the revised estimates also, as a percent of the technical sanction, so that in place of the earlier permissible cost overrun factor of 2.0959 relative to the administrative sanction, the maximum is limited now to 1.2679 for works exceeding one crore.[10] The power of issuing revised estimates, beyond the first-stage tender excess, has also been taken away from the Public Works Department altogether, and is now assumed entirely by the Finance Department.

No tender excess is now permissible for works not commissioned through open tender.[11] This is an important corrective on the practice of evasion of open tender by breaking down larger works into small components, each falling below the non-tenderable cap.

Going beyond the minutiae of these changes, what is being attempted is a curb on cost overruns by closing the gap between authorized sanctions and the final cost of sanctioned works.

While what has been achieved is wholly salutary, a few desirable further improvements may be in order. They are listed below.

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[8] Which have not all been monotonic in terms of direction of movement.

[9] By Finance Department Government Order No. 303/07/Fin. dated 11 July 2007.

[10] The corresponding maximum for works over Rs.15 lakh but upto one crore is 1.3915; and for works upto Rs. 15 lakh it is 1.5209.

[11] By paragraph 6 of the G.O. referred to in the previous footnote, it would appear that unlimited tender excess powers previously given to the Chief Engineer went up to Rs. 4 lakh, beyond the Rs. 3 lakh waiver for open tender, and therefore extending also into the open tender domain.

1. Although it is perfectly legal and permissible presently for works to be sanctioned directly by the Cabinet, without Finance Department concurrence, it is preferable if prior Finance Department concurrence is secured in all cases. It is important from a governance perspective to have a single approval channel, so that multiple approval channels do not work at cross-purposes. The Finance Department carries bureaucratic continuity across political changes of Government.
2. The PWD department has expressed difficulty in annual revision of the rate schedule, which is an important underpinning of the expenditure efficiency improvement under way. The rate schedule has a very large number of items, many of peripheral importance. The schedule could be split into two components, one with a limited number of items which account for all but, say, 5 percent of expenditure on most works, which must be updated every year, and the residual, which could be updated every other year. This will ease the task of annual updating, while at the same time preserving the purpose for which this is done.
3. The labour and materials components of works are still set according to specifications dating back to 1965. Since there has been considerable mechanization since then, the labour component acts as a vehicle for needless cost inflation. There needs to be an immediate revision of these guidelines, followed by a mandatory quinquennial revision.
4. The standards for (heavy) road maintenance have not been revised for thirty years. In the interim, the density of vehicles, and the weight of goods carrying vehicles, has gone up appreciably. The standards adopted by the Indian Roads Congress, a national-level body, are updated every year. It is advisable if the State PWD also adopts these (a beginning seems to have been made in 2006). The heavy maintenance being done as a part of the World Bank aided Kerala State Transport Project (KSTP) is at a cost of Rs. 40 lakh per kilometer. It is estimated that the cost of equivalent heavy maintenance, done through the department without international supervision (as under the World Bank Project) will cost Rs. 35 lakh per kilometer. The gain from this increase in cost, over the Rs. 7 lakh per kilometer of the routine maintenance presently being done, is the longer-lasting nature of the maintenance, and consequently the reduction in the need for repeated repair. Even so, the cost of road maintenance will go up if standards are updated, and this will have to be factored into the non-Plan maintenance budget provision for the PWD. There is at present an agreement with the PWD that 50 percent of the funds available annually for road

maintenance will be reserved for neavy maintenance.[12] This will act also as a curb on misuse of the provision for executing small works without open tendering.

5. Containment of the cost overrun through margin reduction, as implemented so far, is vital and will incentivise annual revision of scheduled rates. However, it has to be supplemented by approval of a multi-year project horizon for every new project (this clearly applies only to the Plan component, not to maintenance (non-Plan) expenditure, which accounts for most of the departmental expenditure, and typically has a horizon of a year or two at most). When this is approved, so that the department has the assurance that forward budgetary commitment exists, authorized sanction can be sought for the work schedule taken one year at a time, at the updated rate schedule for the year in question. If a multi-year project has to be sanctioned in its entirety at time zero, then the permissible margins may be too low to accommodate cost changes by the time of completion of the project.

6. Although any reform of procedures cannot be achieved overnight, the G.O. for margin notifications dated 11 July 2007 cites four previous notifications on margins, dated 22 March 2000, 1 June 2005, 20 July 2005 and 6 March 2006. When a margin schedule and its associated slab structure have been agreed upon between the concerned departments, it is best if it is left untouched for a period of at least five years, so that there is some procedural stability. The new margins effective 11 July 2007 carry the concurrence of the PWD. It is therefore hoped that the notification will remain in effect, and that the PWD will carry out the annual revision of its rate schedule, which is the underpinning of the lowered excess cost margins.

7. It may be a good idea to assign the tasks of estimation and implementation to separate wings of the PWD, as is presently done by the Central Public Works Department of the Union Government.

8. Plan expenditure on new works, as distinct from non-Plan expenditure on maintenance, requires financial provision for test boring and other investigations. There appears to have been some problems arising from the use of external agencies for investigation when in-house departmental provisions existed. The payments that have fallen due have therefore not been honoured by the Finance Department. There is also an issue over investigation

[12] Vide point 2 of the minutes of the meeting held on 14 June 2007 between the Ministers for Finance and Public Works of the State Government.

contracts to external agencies having been assigned for projects without authorized sanction. It is time for the Planning Department and the Public Works Department to arrive at an agreement regarding the conditions under which investigations may be conducted, and the limits applying to expenditures on investigation as a percent of authorized sanctions.

9. A number of irregularities pointed out by the Audit Department are not on account of the rules themselves, but because of non-enforcement of existing rules. Thus, the overall audit assessment suggests that there are many problems that call not so much for systemic reform as for enforcement of existing rules. The need therefore is to establish a few points at which enforcement is ensured. A few examples are suggested below, such that enforcement should normally cause no delay in execution:

    a. The single most important cause of delays in road upgradation and new Plan projects is land acquisition. The PWD manual stipulates that land must be available before works contracts are awarded, but this has been violated in practice. Thus, the delays on account of which high margins for tender excess and revised estimates have been justified in the past can be controlled by requiring evidence of land availability at the time of administrative sanction of project works. It is also necessary to ensure land availability for use of the work proposed, so that it no longer happens that bridges are constructed without the necessary approach roads to use the bridge, because of failure to acquire land leading to the bridge on either side.

    b. Outright violations of tender excess margins have been observed during the audit process. The enforcement point for this can be in the Finance Department, at the point of issue of the letter of credit on the basis of which the PWD issues its cheques. This however is possible only after the approval process within the PWD is fully computerized on a work-specific basis.

10. There is need to bolster financial audit of the Public Works Department with physical inspection so as to terminate practices whereby bills are issued for works that have not been executed.[13]

Given the difficulty of serving the increasing goods traffic through the road network, the time for restoration of the excellent inland waterways network of Kerala, is long overdue. The

[13] This is referred to in the Report of the Comptroller and Audit General (see footnote 6).

departmental responsibility for this is the Inland Water Transport Department, not the PWD. In addition, there is a Public Sector Undertaking, the Kerala Shipping and Inland Navigation Corporation Limited, which operates boats on canals. The World Bank aided KSTP has an inland waterways component as a pilot project. This is a good start.

There is no State agency for cabotage (coastal traffic). Traffic (passenger and freight) does not take place by sea along the coast because of strict rules governing seaworthiness of vessels and crew. The time has come to enable freight traffic by sea in a State with a long and accessible coastline.

8. PUBLIC HEALTH AND WASTE DISPOSAL

In the light of the recent outbreak of Chikungunya and other debilitating fevers, the universally acclaimed achievements of Kerala in the health sector are under serious threat.

This Committee, in its first report in May 2006, had highlighted some of the sectoral issues in education and health. While favourably commenting on the significant achievements in the health sector which are even more spectacular than in education, the Committee noted certain special problems which have emerged in the State. It was felt that the State health system should be strengthened to cope with increasing geriatric ailments, accident and trauma cases, and stress-induced and other psychiatric disorders. Preventive public health measures are the exclusive responsibility of the State Government.

The State has gone through a highly traumatic experience during the last monsoon season. There was a shortage of hospital beds to accommodate patients suffering from unknown fevers even in those districts known for the very best health care facilities. More than a thousand people, mostly elderly, have been reported to have died on account of these fevers. Thousands of victims, though recovered from the fever, remained ill with various aftereffects from this. The debilitating nature of the disease had a severe adverse impact on the State economy and the livelihood of thousands of families. It is in this background that the Committee has decided to revisit the health sector of the State.

Primacy of Public Health Institutions

Primacy of public health institutions needs to be maintained by strengthening Primary Health Centers and higher level Public Health Institutions, epidemiologically and financially. Setting up of epidemiological observatories in all the districts of the State should be considered. A disease-centric approach needs to be replaced by a system-centric approach to health that provides a functional system at all levels. For example, funds should be provided to Panchayat Ward Health and Sanitation Committees to implement preventive measures against further outbreaks of diseases like Chikungunya. Community Workers should be equipped with essential medical kits to handle emergency cases at the local level. There should be emphasis on preventive health care against the prevailing emphasis on curative outpatient care.

One of the major problems in tackling the fever epidemic during the last monsoon was the inability of the State health machinery to identify the bacteria/virus to effectively control/treat the disease. Even after the epidemic season there are only conjectures about the causes of the epidemic.[14] There is an urgent need for strengthening the State Virology Institute. This institute should be linked to the Pathology/Virology and Community Medicine Departments of Medical Colleges besides the Department of Health Services of the Government. The Communicable and Infectious Disease Cells in the Medical Colleges need strengthening. These cells should network with the local hospitals in various activities.

Vector control of mosquitoes and rats should be given priority. There should be mechanisms to continuously monitor the growth and spread of these vectors. For this the full cooperation of the local bodies, civil society, voluntary organizations and, the public at large, is essential. There is need for developing an efficient Health Information System linking the PHCs to the higher level health institutions and authorities up to the office of the Minister of Health. In times of disaster/emergency such a system will reduce the response period considerably, which can save lives and contain the spread of the disease. At the local level there should be networking between public and private hospitals to ensure complementarities in the provision of their services

[14] Chikungunya was more wide spread in Kottayam and Pathanamthitta districts where considerable land area is under Rubber Plantations. During the rainy season the coconut shells used for collecting liquid rubber from the trees get filled with rainwater making them ideal breeding ground for Aedes mosquitoes, the carrier of Chikungunya virus. But this is yet to be scientifically established.

to ensure optimum results. The State Human Development Report also stressed the need for an appropriate regulatory mechanism of the private health sector to sub serve the public interest.[15]

WASTE MANAGEMENT SYSTEM

The solid waste management system in Kerala is far from satisfactory. The three major types of wastes are: domestic waste, industrial waste and hospital biomedical waste. The State Government has to address the issues relating to the disposal of each of these wastes to ensure a sustainable solution.

There are almost a dozen agencies under the various Government departments which are involved in sanitation and waste disposal. However, there is hardly any coordination between them. A Standing Cabinet Committee of Ministers of Local self-Government, Health, Education, Irrigation, Agriculture and Finance is needed to ensure proper coordination. A repeat of the experience of the current year in future with even more severity cannot be ruled out. There is need for disaster preparedness. In such an eventuality the Government should be able to fully involve the private health sector also in the management of the situation. Appropriate legislation can be considered for making the private sector legally bound to ensuring proper disposal of hospital/ biomedical waste.

Municipalities are reported to be dumping their solid wastes in nearby Panchayat areas and other public places beyond their boundaries. There has been severe media criticism about the operations of private agencies wherever they are employed in cleaning private sewage tanks. There were reports about private agencies using the same tankers for cleaning sewage tanks in the night and supplying drinking water during the day. Obviously there is urgent need for correcting these highly objectionable practices by exemplary punishments and rigorous regulation.

The geographically spread out habitations, the humid climate and the long rainy season make waste disposal a serious problem even in rural areas of Kerala. The State has no proper sewage system even in the cities. As a result the waste water and other liquid wastes stagnate in

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[15] Human Development Report, 2005, Planning Board, Government of Kerala (P-163).

the open causing mosquitoes and other disease carrying vectors to grow and multiply freely. Added to this is the problem of massive solid waste generated by households, hospitals and industry which are often dumped in the open. The rotting bio-degradable waste is an ideal breeding ground for rats and other disease carrying insects. Added to this is the lack of civic sense which allows households and institutions to dump waste in public places.

The above situation warrants an efficient public system for sanitation and waste disposal. But such a system simply does not exist in the State. In 2003 the State Government launched a 'Clean Kerala Mission' mostly for solid waste disposal. But this did not result in any significant improvement in the situation. The cities and towns including the State capital continued to experience serious problems.

In a major new initiative in 2005, the Thiruvananthapuram Corporation entrusted the solid waste removal responsibility to the Kudumbashri network of self help groups of women. Against a small payment of Rs. 30/- per month by each household, the members of Kudumbashri collect household waste for onward transmission to the Corporation's waste disposal machinery for final disposal. This arrangement has been working reasonably well since then. Recently Kozhikode Corporation also engaged the Kudumbashri network to clean up that city. The problems of solid waste disposal of other cities and towns including Kochi remain unresolved.

Health is one of the key subjects to be transferred to Local Self Governments under the 73rd and 74th amendments to the Constitution. Kerala is considered to be one of the few States which has successfully effected this transfer. However, after detailed discussions with the officials of the State department of Health the impression gathered by the Committee is that the transfer is incomplete and that the supervisory role of the Local Self Governments has not been fully effected. Accountability is diffused and has adversely affected the functioning of the Public Health System in the State. On account of time constraint the Committee did not get an opportunity to interact with the elected representatives of the Local Self Governments to get their perspectives on the issue. It is imperative that the State Government, at the highest level, looks into this issue to ensure that the transfer regime is truly functional.

Elected representatives of Panchayats and Municipalities should reach out to the people to augment the health service delivery. They should have the mandate to enforce accountability of the local health machinery. Community action is essential for better health delivery, especially in the rural areas. As noted earlier the Panchayat ward Heath and Sanitation Committees should be genuinely empowered to carry out public health activities.

OVERALL OBSERVATIONS

The health sector in Kerala has been passing through a period of severe stress. A major reason for this appears to be over emphasis on curative medical care at the expense of public health. The disease–centric approach and the dominance of the unregulated private sector might have done more harm than good. The bed population ratio of the State at 540 per one lakh population[16] is comparable to that in developed countries. More than two-third of these beds are in the private sector. State Government expenditure on health as a percentage of GSDP has come down from 1.5 percent in 1990-91 to 1.3 percent in 1996-97, and further to 0.5 percent in 2006-07. During the same period the salary component in health expenditure has remained above 60 percent and the drugs component has come down from 25 percent to about 18 percent.[17] In 2006-07, the salary component in the total health budget has further increased to 83 percent.[18] These trends might have continued since then. As a result the non-salary, non-drugs components of health expenditure might have further come down which in turn may have serious adverse implications for preventive and promotive public health care.

There is an urgent need for consolidating the public health care system in Kerala which has been facing several serious problems. They are: the financial crunch on non-salary requirements of maintenance and supplies, scarcity of intermediate functionaries, mismatch of specialists, non-availability of people in certain regions, skewed training and medical education policy and inadequate social control over private facilities. These problems are further aggravated by poor management practices, inability to use available funds, and crumbling infrastructure. As a result the credibility of the public sector health system has been severely eroded.

[16] State Planning Board, 2004, *Economic Review*.
[17] Srivastava D.K, S. Chattopadhyay and P.R. Jena, 1999, "State Fiscal Studies: Kerala", NIPFP (mimeo).
[18] As per budget estimates for 2006-07.

The current health sector crisis has the following manifestations: return of communicable diseases, emergence of several life style diseases, and decline of the public health system. Urgently needed reforms in health sector include: improvement in finances of the public sector in health; increasing efficiency, increasing equity in access, improving quality of care and ensuring accountability in services and finances.

The decentralization process should be carried to its logical conclusion. There should be more need-based reallocation of resources and generation of local resources through community participation. A better relationship between the health workers, elected representatives and the people should be established. Reinforcement of the public health system should ensure social equity in health care.

Three dimensions of the Kerala health sector achievements have made the Kerala model internationally noted. They are high levels of life expectancy and other health indicators even at a modest level of economic development, the universal access to publicly funded health care and narrow disparity in health indices between various groups such as urban-rural, male-female and the rich and the poor. The State Government should take measures to sustain these achievements.

9. CONCLUDING ASSESSMENTS AND RECOMMENDATIONS

9.01 ***Kerala Fiscal Responsibility Act Targets:*** The Act of 2003 covered the period 2003-2007, and set stringent targets for the final year 2006-07 of that fiscal correction horizon. In the first two reports, the Committee assumed that these would be amended in line with the recommendations of the Twelfth Finance Commission (TFC). The expectations of the Committee were reinforced by the statement in the Revised Budget Speech for 2006-07, presented to the Legislature in June 2006 by the Finance Minister of the newly elected Government, that the KFR Act would be so amended. No such amendment has yet been moved in the legislature.

9.02 ***The Revenue Deficit and Fiscal Deficit 2006-07:*** By the statutory provisions in Section 4 of the Kerala Fiscal Responsibility Act, 2003, the revenue deficit is required to be reduced to zero, and the Fiscal Deficit to 2 percent of GSDP by 2006-07. Neither of these targets has been achieved. The revenue deficit was 1.99 percent of GSDP in 2006-07, and the fiscal deficit was 2.88 percent. Thus the provisions in the original Act stand violated. The State Government is however still free to amend the Act with retrospective effect, in accordance with the recommendations of the Twelfth Finance Commission, in which case the revenue deficit needs to be wiped out only by 2008-09, and the Fiscal Deficit requires to be reduced to 3 percent of GSDP only by 2008-09. That fiscal deficit target has already been more than achieved. However, in the case of both deficits, the improvement shown is partially due to deferment of payments on account of salary and pension revision, consequent upon implementation of the recommendations of the Sixth Pay Commission of Kerala. The exact extent of the quantum of the deferment is not known on account of administrative delays in the office of the Accountant General. These deferred payments will fall due in 2007-08. On the assumption that much of the delay was on account of reconfiguring pensions on a "one rank, one pension" platform, the total quantum of deferment is estimated here at Rs 500 crore, around 0.38 percent of GSDP in 2006-07.

9.03 ***Fiscal Correction over the KFR Act horizon 2003-07:*** Independently of the targets prescribed under the Act as it presently stands, the fiscal correction achieved during the period of its operation is impressive. The revenue deficit has recorded a steady and monotonic decline, starting from the pre-FRA level of 4.77 percent in 2002-03, down to 1.99 percent in 2006-07, a reduction by a little over 3 percentage points of GSDP over a four year period. Likewise, the fiscal deficit has been brought down from 5.78 percent of GSDP in 2002-03 to 2.88 percent in 2006-07, a reduction by 2.9 percentage points of GSDP.

9.04 ***The Primary Revenue Surplus 2006-07:*** The primary revenue deficit turned into a surplus for the first time in 2005-06, and continued to be in surplus during 2006-07, at Rs.1552 crore, representing 1.17 percent of GSDP, an increase by 0.61 percent of GSDP over the previous year.

9.05 ***Sign Transition in the Primary Fiscal Deficit:*** The primary fiscal deficit which stood at 0.32 percent of GSDP in 2005-06 has undergone a sign transition to a surplus of 0.28 percent in 2006-07. The significance of the sign of the primary fiscal deficit is that, unless the nominal growth of GSDP exceeds the rate of interest on outstanding liabilities, the percent of debt to GSDP cannot get stabilized as long as the primary fiscal deficit remains positive (i.e., not a surplus).

9.06 ***The Fiscal Deficit and Capital Outlay:*** The decline in the fiscal deficit from 3.51 percent in 2005-06 to 2.88 percent in 2006-07 was achieved despite a rise in capital outlay from Rs.1053 crore in 2005-06 to Rs. 1186 crore in 2006-07. Every attempt has to be made to sustain this positive trend.

9.07 ***The Adjusted Revenue Deficit:*** The first two reports estimated an adjusted revenue deficit after reclassification of certain revenue items of expenditure into the capital account, such as maintenance works by Public Works Department, and annual devolutions to Local Self Governments, portions of each of which go towards capital expenditure. That exercise which was based on assumptions regarding the actual expenditure patterns of Local Self Governments, has not been repeated in this report for 2006-07. The Committee urges the Government of Kerala to make public the data required for further fine-tuning this adjustment procedure, so that it may be based on actuals rather than on assumptions.

9.08 ***Outstanding Performance of Own Tax Revenue:*** The growth rate in own tax revenue was very impressive, at 22.1 percent in 2006-07. This has pulled up the FRA annual rate of increase to 13.2 percent, as against an average of 12 percent during the pre-FRA period. However, when normalized by the higher nominal growth of GSDP in the FRA period, the revenue buoyancy in the FRA period was 1.2 over 2003-07, as against 1.5 over 1999-2003. The Committee would also like to point out that growth in the Kerala economy is led by the service sector in which the State Government's power to tax at present is extremely limited. This needs to be kept in mind and appropriately factored in while designing policies and programmes for increasing own tax revenue.

9.09 ***VAT:*** The outstanding own revenue performance in 2006-07 was principally on account of VAT. After initial teething problems with the VAT, introduced on 1 April 2005, there was a revenue upsurge in 2006-07 as a result of commendable initiatives noted in the second report of this Committee, which included inspections at major check posts. It is expected that computerization and better management will continue to improve compliance at check posts, and with that, the revenue buoyancy from the VAT. Indeed, one of the reasons for the decline in growth of Central transfers to 15.9 percent during 2006-07, down from 23.2 percent in 2005-06, is that with the improvement in VAT collections, the State became ineligible for compensation from the Centre.

9.10 ***Stamp Duty:*** The second report of this Committee noted the volatility in stamp duty revenues resulting from failure to follow up the halving of rates in December 2003 with fair value fixation, leading to a restoration of the earlier rates. The Committee understands that fair value fixation will be achieved in 2007-08, accompanied by reimposition of the lower rates introduced in December 2003. This should place stamp duty on a more equitable and buoyant platform.

9.11 ***Excise Duty and Motor Vehicles Tax:*** The revenue from excise duty and tax on motor vehicles has been steadily increasing during the FRA period.

9.12 ***Own Non Tax Revenue:*** Own Non Tax Revenue of the State amounts to less than ten percent of tax collections and the growth rate dropped from 14.40 percent in 2005-06 to just 0.10 percent in 2006-07, showing zero buoyancy. It is necessary to revive an earlier initiative made in 1997 to raise user charges for public services. Without that, the burden of paying for public services is shifted from users of these services to the taxpayer, who may or may not be a user of the service in question. While at all times protecting the poor from having to pay user charges, a more equitable distribution of the fiscal burden requires greater focus on cost recovery from non-poor users of public services.

9.13 ***Salaries and Pensions:*** The average annual increase in expenditure on salaries has increased from 1.3 percent during the pre- FRA period to 8.4 percent in the FRA period.

This in itself is not perhaps to be deplored, since increases in salaries/pensions are episodic, determined by the timing of Pay Commission salary revisions. It so happened that the Eighth Pay Commission of Kerala made its award during the FRA period, and had a revenue impact in 2006-07, with deferments carried over into 2007-08. There is the larger issue of public employment discipline, referred to at length in both the first two reports of this Committee. Salaries and pensions together pre-empted 47.3 percent of total revenue expenditure in 2006-07, further projected to increase to 50.8 percent in 2007-08. Since the revenue deficit is at around 2 percent of GSDP in 2006-07, the corresponding pre-emption of total revenue receipts is even higher. This is a central failure of fiscal discipline in the State, and rides above such success as may have been achieved in bringing down revenue and fiscal deficits, through better revenue performance. The very commendable own tax revenue increase of 22.1 percent in 2006-07, if accompanied by a salary/pension hike of 16.7 percent, essentially gets largely absorbed by public servants, instead of being spent on services for the public they are meant to serve. A proposal introduced by the Finance Department in 2005 for a pension scheme based on defined contributions was rejected by tne Government. The structural problem with pensions in a State which pegs its retirement age five years below that applicable to Central Government officials, and has life expectancy ten years above the national average, has been covered in previous reports of the Committee, and will not be repeated here.

9.14 ***Debt:*** Fiscal responsibility ultimately gets reflected in the ratio of public debt to GSDP, and thereby in the rating of the State by financial markets. Debt as a percentage of GSDP, which had been steadily increasing during the pre-FRA period, and into the first year of the FRA period, was subsequently stabilized, and brought down in 2006-07 to a closing level of 37.6 percent. This reduction in the debt level is analytically consistent with the sign transition in the primary fiscal balance to a surplus in 2006-07 (para 9.5). Although these achievements are commendable, three features need to be noted at this juncture. The first is the enabling basis for debt stabilization provided by the rise in the nominal rate of growth of GSDP, at 11.4 percent over 2003-07 as compared to 7.9 percent over 2000-03. The second is the decline in the rate of interest on loans from the Centre, starting from the debt swap scheme offered by the Centre over 2002-05, and going into the interest rate relief consequent upon the recommendations of the Twelfth Finance Commission, which came into effect from 2005-06. Finally, it has to be remembered that the closing debt level, at 37.6 percent in 2006-07, remains marginally above the closing pre-FRA level of 36 percent. What was reversed during the FRA period was therefore merely the sharp rise in the first year, 2003-04.

9.15 ***The Structure of Debt:*** Internal debt has risen to 60 percent of the total debt stock, as against under 40 percent in the closing stock pre-FRA, with the corresponding decline in share split between loans from the Centre, and Provident Fund and Fixed Deposits, each of which declined by 10 percent in share. The decline in loans from the Centre is because of the change in policy consequent upon the recommendations of the Twelfth Finance Commission, whereby Central loans ceased to be a compulsory component of Central financial assistance to States, starting from 2005-06. This would be commonly observed across all States.

9.16 ***Debt Stabilisation Prospects:*** Loans from the NSSF are the most rapidly rising component of total debt in both the pre-FRA and FRA periods, rising at an average of 58 percent since 2003-04, although the annual rate of increase has been brought down considerably, to 40 percent in 2006-07. The interest rate levers on the NSSF are controlled by the Centre, so that this increase in collections is outside the control of the State. The NSSF is the highest cost source of borrowing for the State.

9.17 ***Contingent Liabilities:*** The achievement of the State in bringing down contingent liabilities has been remarkable throughout the FRA period. The statutory guarantee limit still remains at Rs.14,000 crore. While the total outstanding guarantees in 2003-04 was Rs.13,996 crore, by the end of 2006-07 it was gradually reduced to Rs. 9495.97 crore, of which the principal accounted for Rs.7580.34 crore, and interest Rs.1915.63 crore.

9.18 ***Clearance of Public Works Department and Irrigation Department Arrears:*** The problem of accumulated arrears on account of unpaid bills originating from the Public Works Department and Irrigation Department has been mentioned in the first two reports of this Committee. The Committee is happy to note two creditable moves, one of which is for clearance of the stock of arrears outstanding. For this, the State Government proposes to ask the Centre for permission under Article 293 of the Constitution of India to borrow the extra amount required, if it cannot be met from the limits approved already by the Centre. It should be noted that such a move will add to the incremental debt in 2007-08. This scheme also requires the High Court approval which has ordered that state-wide seniority cannot be overlooked while paying pending bills. It is expected that once these approvals are obtained, the arrears can be discharged over a period of six months.

9.19 ***Preventing Further Growth of Arrears on Account of Public Works:*** The second move made by the Finance Department during fiscal year 2007-08 is directed towards preventing further growth in arrears, by requiring that unutilized sanctions by these two departments carried forward will be deducted from the authorized sanctions for the next fiscal year. This move stands approved as of October 2007. The genesis of the growth of arrears was the lack of a year-wise project-specific financial allocation mechanism, which was accommodated in the budgetary process by permitting total authorized sanctions in any year (for projects, or works as they are termed) to amount to a sum 1.5 times the BE figure. Each such sanction is for the total project requirement including spillover beyond the fiscal year in question. However, this excess allocation provision, without downward adjustment for the spillover from preceding fiscal years, grew into a juggernaut of sanctioned expenditures, with bills falling due in any year far exceeding the budgetary provision for that year. These bills remained as unpaid arrears, and the stock of arrears so accumulated mounted over time. The new move to deduct unutilized sanctions, while commendable in itself, has to be supplemented by approval of a multi-year project horizon for every new project (this clearly applies only to the Plan component, not to maintenance (non-Plan) expenditure, which accounts for most of the departmental expenditure, and typically has a horizon of a year or two at most). When the department has the assurance that forward budgetary commitment exists, authorized sanction can be sought for the work schedule taken one year at a time. This will enable other efforts underway to improve the efficiency of expenditure in public works (see following para).

9.20 ***Improving the Efficiency of Expenditure on Public Works:*** In an environment where fiscal discipline is sought to be enforced, where the focus in the first instance is on containment of fiscal imbalances, the constraints on expenditure have necessarily to be accompanied by expenditure reforms that improve expenditure efficiency. Several initiatives have been introduced by the State Government to enhance efficiency of expenditure on public works, including a new structure for lower permissible margins for cost overruns on sanctioned expenditures. With effect from July 2007, the earlier permissible cost overrun factor of 2.0959 relative to the administrative sanction has been limited now to 1.2679 for works exceeding Rs. one crore. No tender excess beyond the technical sanction is now permissible for works not commissioned through open tender. This is an important corrective on the practice of evasion of open tender by breaking down larger works into small components, each falling below the non-tenderable cap. The new agreement with the PWD includes a provision that 50 percent of the funds available annually for road maintenance will be reserved for heavy maintenance. This will act also as a curb on misuse of the provision for executing small works without open tendering.

9.21 ***Need for Stability in Notifications:*** Although any reform of procedures cannot be achieved overnight, the G.O. for margin notifications dated 11 July 2007 cites four previous notifications on margins, dated 22 March 2000, 1 June 2005, 20 July 2005 and 6 March 2006. The new margins carry the concurrence of the PWD. It is therefore hoped that the notification will remain in effect for a minimum period of five years. Frequent alterations in notifications lead to departmental expectations that the rules can be altered, instead of adapting departmental functioning to the new rules.

9.22 ***Need for Upgradation of Standards and Rate Schedules:*** Stability in notifications can work only in an environment where standards and rate schedules are frequently upgraded to reflect changing technology and prices. Containment of cost overruns through margin reduction, as implemented so far, will incentivise annual revision of scheduled rates, which is an important underpinning of the expenditure efficiency improvement underway. Annual updating of the rate schedule is required in the PWD manual but was not honoured, frequently for periods running into several years, so justifying the excess cost margins.

The rate schedule presently in place was issued in April 2007. The labour and materials components of works are still set according to specifications dating back to 1965. Since there has been considerable mechanization since then, the labour component acts as a vehicle for needless cost inflation. The standards for (heavy) road maintenance have not been revised for thirty years. In the interim, the density of vehicles, and the weight of goods carrying vehicles, has gone up appreciably.

9.23 ***Systemic Reform versus Enforcement:*** The overall audit assessment suggests that there are many problems that call not so much for systemic reform as for enforcement of existing rules. The need therefore is to establish a few enforcement points, such that control is exercised without delay in execution:

a. The single most important cause of delays in road upgradation and new Plan projects is land acquisition. The PWD manual stipulates that land must be available before works contracts are awarded, but this has been violated in practice. Thus, the delays on account of which high margins for tender excess and revised estimates have been justified in the past can be controlled by requiring evidence of land availability at the time of administrative sanction of project works. It is also necessary to ensure land availability for use of the work proposed, so that it no longer happens that bridges are constructed without the necessary approach roads to use the bridge, because of failure to acquire land leading to the bridge on either side.
b. Outright violations of tender excess margins have been observed during the audit process. The enforcement point for this can be in the Finance Department, at the point of issue of the letter of credit on the basis of which the PWD issues its cheques. This however is possible only after the approval process within the PWD is fully computerized on a work-specific basis.
c. There is need to bolster financial audit of the Public Works Department with physical inspection so as to terminate practices whereby bills are issued for works that have not been executed.

9.24 ***Alternatives to Road Transport*** Given the difficulty of serving the increasing goods traffic through the road network, the time for restoration of the excellent inland waterways network of Kerala, is long overdue. The World Bank aided KSTP has an inland waterways component as a pilot project. This is a good start. Traffic (passenger and freight) does not take place by sea along the coast because of strict rules governing seaworthiness of vessels and crew. There is presently no State agency for cabotage (coastal traffic). The time has come to enable freight traffic by sea in a State with a long and accessible coastline.

9.25 ***Public Health:*** The recent outbreak of chikungunya poses a serious threat to the universally acclaimed achievements of Kerala in the health sector. The State went through a highly traumatic experience during the last monsoon season. More than a thousand people, mostly elderly, are reported to have died. The debilitating nature of the disease had a severe adverse impact on the State economy and the livelihood of thousands of families. Primacy of public health institutions needs to be maintained by strengthening Primary Health Centers and higher level Public Health Institutions, epidemiologically and financially. Setting up of epidemiological observatories in all the districts of the State should be considered. There is an urgent need for strengthening the State Virology Institute at Allepey. This institute should be networked with the Pathology/Virology and Community Medicine Departments of Medical Colleges. The Communicable and Infectious Disease Cells in the Medical Colleges need strengthening. These cells should network with the local hospitals. There is a need for developing an efficient health information system linking the PHCs to the higher level health institutions and authorities upto the office of the Minister of Health. A repeat of the communicable disease episodes of 2006 and 2007 with enhanced severity cannot be ruled out. There is need for disaster preparedness. In such an eventuality the Government should be able to fully involve the private health sector also in management of the situation.

9.26 ***Waste Management System:*** The solid waste management system in Kerala is far from satisfactory. There is hardly any coordination between the various government departments and agencies involved in sanitation and waste disposal. A Standing Cabinet Committee with Ministers of Local Self Government, health, education, irrigation, agriculture and finance is needed to ensure proper coordination. The change in the nature of waste generation even in rural areas, the humid climate and the long rainy season make waste disposal a serious problem. The State has no proper sewage system even in the cities. Sewage and other liquid wastes stagnate in the open causing mosquitoes and other disease carrying vectors to grow and multiply freely. Added to this is the problem of massive solid waste generated by households, hospitals and industry which is often dumped in the open. Rotting bio-degradable waste provides an ideal breeding ground for rats and other disease-carrying insects. An efficient public system for sanitation and waste disposal is urgently called for. The very commendable success in Trivandrum through involvement of Kutumbashree, a network of women from households below the poverty line, could be replicated all over the state.

9.27 ***Local Self Government:*** Kerala is one of the few States which have successfully effected the transfer of health services to Local Self Governments as stipulated under 73rd and 74th amendments to the Constitution. However, after detailed discussions with the officials of the state department of health, the Committee gathers the impression that the transfer is incomplete and that the supervisory role of the Local Self Governments has not been clearly delineated and understood. Accountability is diffused and this has adversely affected the functioning of the public health system in the State. It is imperative that the State Government, at the highest level, looks into this issue to ensure that the transfer regime is truly functional.

9.28 ***Sustaining the Public Health Achievements of Kerala:*** There is an urgent need for consolidating the public health care system in Kerala which has been facing several serious problems. The current health sector crisis has the following manifestations: return of communicable diseases, emergence of several life style diseases, and decline of the public health system. Urgently needed reforms to sustain the achievements of the State in the health sector include: improvement in finances of the public sector in health, increasing the efficiency of the public health delivery system, increasing equity in access, improving quality of care and ensuring accountability.