Report

# COVID-19 Pandemic and Kerala: A Response Strategy

Part - A


**JUNE 2020**

Finance Department
Government of Kerala

# Covid 19 Pandemic and Kerala: A Response Strategy

## Part - A

**Finance Department**
**Government of Kerala**

**JUNE 2020**

Dedicated to all Keralites
who are financially affected by Covid 19

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- **Inputs given by the Officials of various Departments of Government of Kerala**

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# Executive Summary

1. The impact of the Covid -19 pandemic is creating a daunting challenge for the world economy. It is hurting the livelihoods of vulnerable groups, the poor, the informal sector and the micro, small and medium sectors. Government of Kerala, so far, has been in the forefront in containing the Covid spread with its coordinate and innovative approach, both politically and administratively. However, the expenditure commitments of the Government of Kerala especially on medical expenses as well as relief and rehabilitation are increasing exponentially. In the midst of the crisis, identifying additional resources from own tax and non-tax revenue segments for financing additional expenditure has become more challenging than ever before.
2. In this context**,** Government of Kerala has constituted an Expert Committee to conduct a study on the impact of Covid-19 and the consequence of lockdown on the different facets of public finance of the State. The Committee was entrusted with the Terms of References covering the estimation of losses to the State in own tax revenue, central transfers, mobilisation of non-tax revenue, liquidity issues, sectorial impact, inwards remittance and migrant labour issues and expenditure control measures.
3. The entire study is being presented in two parts. The first report (Part - A) deals with the State finances, possibilities of additional revenue mobilisation from tax and non-tax revenue and expenditure rationalisation measures. The second part (Part– B) is under preparation. This report (Report - A) is presented in nine sections including the introduction.
4. Section - 2 deals with our framework of State Finances after Covid-19. The Gulati Institute of Finance and Taxation (GIFT) in their report (May 2020) estimated different components of the state finances - revenue, expenditure and debt components. This report considers the GIFT estimate of revenue loss Rs 33,456 crore as the base point for our discussion. About 59 per cent of the loss is likely to be on account of GST revenues, while another 22 per cent of the fall is likely to be on account of central tax devolution. This adds to a total of 81 per cent of the estimated fall. As both these items are central responsibilities and assuming that borrowing remains unchanged, the State government is left with only the remaining 19 per cent of the revenue receipts to work with as part of its counter-cyclical fiscal strategy.
5. As part of the overall strategy to address the pandemic-induced slowdown, the Government of India has allowed the States to borrow an additional 2 per cent of its GSDP in 2020-21. This was a major demand raised by the Government of Kerala. As a result, Kerala can borrow an additional Rs 18087 crore in the financial year.

6. In this context, the Committee assumes three specific scenarios: one, Kerala can avail of 2 per cent of the GSDP (Rs 18087 crore) as borrowing; two, if it is 1.75 per cent of the GSDP (Rs 15826 crore) and three 1.5 per cent (Rs 13565 crore) as borrowing. Under 2 per cent extra borrowing, Kerala still need to additionally mobilize Rs 15369 crore in 2020-21 in order to keep its budgeted promises unharmed.
7. In Section -3, the committee assesses the Economic package given by the Government of Kerala during the Lockdown period. Kerala was one of the first governments in India to announce an economic revival package in March 2020. The total size of the package announced in March 2020 was of the size of Rs 20,000 crore. Kerala's economic package was rightly praised by many economists. An amount of Rs 4405.38 crore was spent to disburse seven months welfare pensions at one go to 44 lakh families in the State between March 2020 and May 2020. One crore people were provided with at least Rs 1000 per person and the total amount sanctioned till May 2020 was Rs. 1021.4 crore. The community kitchens began functioning from March 25, 2020 in all the 941 panchayats of the State. Till May 2020, Rs 128 crore has been spent for this purpose. People under institutional quarantine are also getting food from the community kitchens; this is delivered to their locations by volunteers. Around 3 lakh migrant workers- called guest workers (*athidhi thozhilalikal*) - in Kerala also received the benefit of the community kitchens. Kerala was the first state which distributed free ration to all categories of ration card holders (pink, yellow, blue and white card holders) The State also initiated steps to distribute free ration to those who did not have ration cards by considering their Aadhar number. Thus, in total, an amount of Rs 6851.78 crore was spent by the Government of Kerala under various schemes above. The coverage of almost the entire population means that the State has, in effect, implemented close to a universal basic income for the bulk of its population, and particularly the vulnerable sections during this period.
8. In section - 4, the committee analyses various expenditure rationalization measures in the wake of Covid -19.The committee came to a conclusion that a true expenditure rationalisation perspective will end up missing the woods for the trees if it does not recognise that any measure in that direction shall necessarily have to grapple with rationalisation of Salaries, Pensions, and Interest (SPI). The ratio of the expenditure on salaries (including the salaries given to the institutions, autonomous bodies and local governments) to the State's Own Revenues for Kerala is 72.95 per cent which on an average 30 per cent more than Tamil Nadu, Gujarat, Karnataka and 10 per cent more than Maharashtra and Punjab. A closer look at the figures of Kerala shows that the higher percentage of Salary in respect of Kerala is primarily due to the fact the State takes the burden of salaries of staff, both teaching and non-teaching, in Aided Educational Institutions (Schools and Colleges). Hypothetically, if the salary to the aided educational institutions is deducted, the state finance would

be fully within the provisions and objectives stated in the Medium-Term Fiscal Framework approved from year to year. Gross Fiscal Deficit would have been contained well within the prescribed maximum of 3 per cent in all the ten previous years. Arguably, it is not wrong to conclude that the major contributing factor of Kerala's uncontrollable revenue expenditure, Revenue Deficit and Fiscal Deficits are due the disproportionate share of salary and pension appropriated to the aided educational institutions.

9. The Committee recommends that a comprehensive functional review should be taken up for all departments in Government. The process essentially would consist of three steps for any unit in a Government Department. They are identification of objectives, functions, and structure. The functional review should consider the need to move manpower to the local levels in view of the much-applauded decentralisation of functions that has happened in the State. This will have to be followed up with functional rationalization based on how the functions are grouped and how much manpower is allocated to each identified function. Overlapping functions across various departments or agencies in Government, and possible decentralisation or de-concentration of the function should be identified. As may be seen, the objectives and requirements of each department vary widely, and this diversity must be adequately captured in the process of functional review.

10. The Committee suggests that the Government may engage a panel of consultancy organisations of international expertise and track record in human resource assessments for conducting the functional studies of Government. A High-Level Committee with the Chief Secretary as chairperson, Law secretary, Secretary (P&ARD) as members and Additional Chief Secretary (Finance) as convenor may be constituted to evaluate the output of these organisations and make recommendations to the Council of Ministers.

11. Pension outflow of the state accounts around 20 per cent of the Revenue Receipts and 17 per cent of the Revenue Expenditure of the State. Increasing the age of retirement has been a point of contention in Kerala. There is a perception that it cuts massively into the employment opportunities of the youth. On the other hand, the number of jobs that Government offers is only in the range of 18000-20000 each year against annual retirements. So, the real loss in terms of employment may not be as substantial as one would expect. The net savings on account of extending the current retirement age from 56 to 60 are analysed by the committee.

12. Raising of pension age from 56 years is clearly a major benefit given to the employees. Though in the short run the Government will be able to defer the payment of retirement benefits but this will substantially increase the medium and longer term burden on the Government in two ways. Firstly, the eligible pension amount would rise for every employee with four increments getting added if it is increased to 60 years. Secondly, with additional 4 years in service, the quantum of pension payable to each employee will also go up.

13. Considering the above burden of the Government, an alternative proposal is suggested by committee. Instead of raising of pension age for all employees as a matter of right, allow only the privilege of re-employment, at the option of the employee, on same pay and allowances as existing on date of retirement of the employee i.e., at the age of 56 years with some conditionality.
14. This committee believes that the goals of expenditure rationalisation should also study in detail the salaries incurred by Government to aided educational institutions. The pros and cons of this should be subjected to detailed review and discussion in the public domain. The Committee recommends that the Government may appoint a High-Level Expert Group comprising of recognized Experts in Education, Finance and Law to submit a report to *inter alia* examine the issues such as system of financing aided educational institutions, the burden on the finances of the State and the benefits the society is getting out of it and framing of new legislative and administrative framework.
15. This committee proposes a Covid-19 Income Support Fund (CISF) to fund the Covid related expenses and relief packages to the needy. This can be financed through voluntary interest-bearing deductions from salaries and pensions of employees. All employees, earning a gross salary over Rs.20,000 in Government / Government Agencies / PSUs and Statutory Corporations/ Government funded Autonomous Bodies may contribute to the Scheme on a voluntary basis. Contributions may be deducted for a period of 12 months from September 2020 to August 2021. Contributions to the CISF shall carry an interest rate of 0.25 per cent more than the rate offered on the Provident Fund from time to time, to make the Scheme attractive to employees. Interest bearing contributions from employees is expected to bring in an amount of approximately Rs.3300 crore and that from pensioners approximately Rs.375 crore over the twelve months beginning September 1, 2020, yielding a total contribution of Rs.3675 crore.
16. Interest expenditure accounts for nearly 18 per cent of the total revenue receipts of the State and 15 per cent of its total revenue expenditure. The Committee recommends: (a) Government of Kerala may initiate steps to discuss with Government of India seeking concessional repayment facilities by way of write-offs/moratoriums/Debt swap accommodation/Debt consolidation and relief activities on its debt burden specifically the portion that the State owes the Centre.(b) Reserve Bank of India may be approached for facilitating a programme for switch/conversion of State Development Loans taken in the past in the manner that is available to Government of India currently and (c) Finance Department should engage Market Advisory Services of premier institutions to firm up arrangements for the programme and to liaise with RBI for the implementation of the same.

17. Section 5 explains the possibilities of additional tax revenue from petrol and Diesel. An Ad valorem and specific tax for petrol and diesel is proposed by the committee as follows:

| **Particulars** | Petrol | Diesel |
|---|---|---|
| Kerala (Existing Rate) | 30.08 per cent Sales Tax plus Rs. 1 per litre additional sales tax plus 1 per cent social security cess | Rs.22.76 per cent Sales Tax plus Rs.1 per litre additional sales tax plus 1 per cent social security cess |
| Kerala (Proposed Rates) | 15 per cent ad valorem plus Rs.11.80 per litre as specific duty plus Rs.1 per litre additional sales tax plus 1% social security cess | 11 per cent ad valorem plus Rs.9 per litre as specific duty plus Rs.1 per litre additional sales tax plus 1% social security cess |

18. It is also suggested to increase the maximum ceiling limits of tax rate for petrol and diesel from the present rate of 44 per cent and 40 per cent to 55 per cent and 50 per cent through appropriate amendment in the schedule of KGST Act 1963. .Additional tax revenue of Rs.2086 crore is estimated due to the revised structure of sales tax rates on Petrol and Diesel.
19. The committee also recommends that whenever there is a base price increase of petrol and diesel due to the increase in crude oil price, the centre and State has to adjust their tax rates (both specific and ad valorem taxes). This combined effort of union and states will protect the final price of the consumer due the specific tax element in the price component. The effect of price fluctuation (both increase and decrease) for crude oil need to be equitably shared by the central, state and consumers. Thought the tax rates of crude oil, petrol, diesel, aviation turbine fuel and natural gas are kept outside the GST ambit, the decisions of the union and State in this regard can be arrived in consensus at the GST council meetings.
20. Section 6 analyses the additional revenue from Stamp Duty and Registration fees. The committee suggests that a calibrated increase in fair value of land accompanied by a small reduction in the stamp duty rates, along with measures such as e-stamping for all documentation combined with the measures already announced in the budget will yield additional revenue of at least Rs 700 crore in the financial year 2020-21.
21. Section 7 focuses on the additional revenue from liquor. Liquor is considered a non-merit good. States raise revenue from liquor by levying excise duty or/and sales tax on its manufacture and sale points. The ostensible reason for heavy duty and taxes is to demotivate the public from irresponsible liquor consumption. As the demand for liquor is inelastic in nature, increase in tax

rates will raise almost assured revenue to the Government. However, the past two years data in Kerala signals to the policy makers that the consumption in terms of quantity (litres) is reducing on year on year basis. The committee suggests that Rs.6452 crore can be collected as the most likely amount by Government of Kerala through a 50 per cent hike in the present rates of Excise Duty and Sales Tax and by the introduction of membership fees for home delivery of liquor on the basis of a five years membership systems to be opted by the interested consumers.

22. Section -8 looks at the additional non-tax revenue from lottery. Through the introduction of high value monthly lottery earmarked for welfare pension, creating an attractive prize structure for all the existing lotteries and other suggestions mentioned by the Committee, a 20 per cent increase in lottery sale is estimated during 2020-21. This will realize Rs.200 Crores as additional net surplus from lottery to the State.

23. Section -9 elucidates on the additional non-tax revenue other than from lottery. Kerala from its formation has been spending more on Education and Health sectors. The average percentage of non-tax revenue to Revenue Expenditure for Education is 1.45 percent and that for Health it is 3.68 percent from 2016-17 to 2020-21. It shows that for every Rs 100 spent by Government on these sectors the user charges collected from these sectors is only Rs.1.45 from education and Rs.3.68 from the health sector. State's own Non-Tax Revenue for the current fiscal year (2020-21) is expected as Rs.2000 crore apart from lottery receipts. By adopting a 5 percent annual increase in line with inflation, along with effective governance initiatives (including collection of arrears) additional revenue of at least Rs.300 crore can be collected.

24. The present system of collection of rent from leased lands were analysed by the Committee. A task force is suggested to function on a mission mode to collect the lease rent arrears along with re-assesment and resumption of land not being used as per lease terms. The Committee suggests fixing the lease rentals based on market rate determined by usage of land as per the master plan in the urban areas. Apart from the revenue generated from leased land, there is considerable scope for resumption of unutilized land with Public Sector Undertakings (PSUs) and other Government institutions. Due to problems in fixing the market value, the committee suggests that instead of market value the lease rent may be fixed on an interim measure based on fair value of the area which is already notified. This can be followed till the market value of various user categories of land in urban areas is ascertained and notified.

# Section-1
# Introduction

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# Introduction

Covid-19, the fifth documented pandemic since the 1918 flu pandemic, is having a devastating impact on the world economy. It has affected human life and livelihood mostly among the vulnerable groups, the poor, informal sector and the micro, small and medium enterprises. It has affected all sectors of the economy and has dealt with a blow to the resource mobilisation efforts of State Government. In Kerala, so far, the Covid 19 spread has been effectively contained by Government of Kerala with its missionary and innovative approach both politically and administratively. The Government of Kerala's response to COVID-19 pandemic was proactive comprehensive and well-coordinated.

However, for the past two weeks the number of Covid cases in Kerala is on the increase and daily affected cases crossing 100 numbers. It started increasing when NRKs started coming from other states and foreign countries. These arrivals are increasing day by day and the infected cases are also on the rise. Government's expenditure commitments especially on medical expenses as well as relief and rehabilitation are also increasing exponentially. For financing such expenditure, identifying additional resources from own tax and non-tax revenue segments has become more challenging than ever before.

It is the utmost priority of the Government of Kerala to develop feasible but effective strategies to lift the State out of this crisis. It is in this context, Government of Kerala were pleased to constitute an Expert Committee to conduct a study on the impact of Covid-19 and the consequence of lockdown on the different facets of public finance of the State. (*Refer Annexure No.1 G.O (Rt) No.2945/2020/Fin. May 5, 2020*).

This Expert Committee was entrusted with the following Terms of References:

1. Assess the impact on Revenues of the State
    a. Loss to the Own Tax Revenues of the State in the immediate and short term and likely projection of Own Tax Revenue collections for the financial year 2020-21, considering specifically the impact on GST /Sales Tax from major items of goods and services
    b. Central transfers, especially tax devolution
    c. Non-Tax Revenue mobilization
    d. Liquidity issues impacting the State's Treasury Management that Government is likely to face during the financial year 2020-21, and suggest specific and significant additional Revenue mobilization measures.
2. Identify the impact of Covid-19 and the lockdown on selected key sectors of the economy that contribute the most to the State's Domestic Product.
3. Identify the likely impact on the State's economy, of the inflow of remittances from non-resident Keralites from abroad and other States and potential delays in their resumption of employment.
4. Identify the likely impact on various sectors of the economy in the event of a sharp outflow of migrant labour from other States.
5. Estimate the effect of additional expenditure obligations during the financial year 2020-21 on account of the recovery measures that must be initiated by Government.
6. Identify selective and significant measures for expenditure control.
7. Identify any specific issues that need to be raised with the Government of India.
8. Any other matter of relevance

The Committee comprises of three members, one Special Invitee and two Expert resource persons. The entire mandate of the Committee is proposed to be deliberated in two reports - Part – A & Part - B.

This report, Part – A, covers the following aspects of the Terms of References

1. Assess the impact on Revenues of the State
    a. Loss to the Own Tax Revenues of the State in the immediate and short term and likely projection of Own Tax Revenue collections for the financial year 2020-21, considering specifically the impact on GST /Sales Tax from major items of goods and services
    b. Central transfers, especially tax devolution
    c. Non-Tax Revenue mobilization
2. Estimate the effect of additional expenditure obligations during the financial year 2020-21 on account of the recovery measures that must be initiated by Government.
3. Identify selected and significant measures for expenditure control.

### Section - 2: State Finance after Covid-19: Our Frame work

This section deals with the status of State finance after covid-19 and estimates various scenarios of tax and non-tax revenue short falls. Three different contingencies are estimated based on the Government of India's latest sanction for increasing the State's borrowing limits by upto 2 per cent

### Section -3: Kerala Economic Package during the Lockdown

The committee also made an overall assessment of the Economic package announced by Government of Kerala during the lock down period such as welfare pension, relief payments, aid through welfare fund boards to labourers, food security to citizens, financial support to health workers and micro-credits scheme for Kudumbashree self-help groups

### Section - 4: Expenditure Rationalisation in the Wake of Covid-19

This section analyses the various expenditure components and discusses the expenditure rationalization in respect of salary, pension and interest.

Functional review at Government level and raising the pension age are suggested. Expenditure rationalisation of salary to aided educational institution is proposed. Debt swapping method to reduce interest burden of the state and revisiting the present lease rent scheme of land are also proposed in this section. With expenditure rationalisation and additional revenue mobilisation an **'Income support Scheme'** for the public is suggested.

## Section - 5: Additional Tax Revenue from Petrol and Diesel

A sales tax package of ad-valorem tax and specific tax for petrol and Diesel is suggested for a sustainable trade-off between the consumer price burden and safeguarding state revenue on petrol and diesel

## Section - 6: Additional Revenue from Stamp Duty and Registration

For augmenting the revenue from stamp duty and registration in the sale of land, streamlining the fair value and stamp duty rates are suggested in this section

## Section - 7: Additional Revenue from Liquor

The need for responsible consumption of non-merit good - liquor- and the scope for additional revenue through sales tax and rationed home delivery through a membership fees system are examined in this section

## Section - 8: Additional Non-Tax Revenue from Lottery

Additional Revenue from lottery through high value and specifically earmarked lottery tickets is suggested in this section

## Section - 9: Additional Non-Tax Revenue of State (other than Lottery)

This last section deals with the need for inflation linked revision of user charges for non-tax revenues other than lottery especially in the areas of education and medical sector.

# Section - 2
## State Finances after Covid-19: Our Framework

# Section 2
# State Finances after Covid-19: Our Framework

The Covid-19 crisis is expected to severely curtail the economic growth rate of the Kerala economy. As is the case worldwide, the prospects of recovery are contingent on how long the lockdown would proceed, how quickly economic activities restart and the extent to normalcy would return in the reopened economy. Estimates for the developed world indicate that economic growth rates in the financial year 2020-21 would be close to -5 per cent. In India, most estimates place the growth rate for 2020-21 to be close to -2 or -3 per cent. This implies an absolute shrinkage of the economy.

Forecasting economic variables in the midst of the pandemic is a tricky affair. The number of unknowns is too large to make realistic forecasting, particularly in countries like India where the quality of economic data continues to be poor. In this report, we rely on two studies to lay out the broad impact of the pandemic on the Kerala economy.

The Kerala State Planning Board (KSPB) undertook a quick assessment of the losses to Kerala economy in April 2020. This study covered March 2020, the first three months of 2020-21 as well as the full financial year of 2020-21. The KSPB report notes that the nature of economic losses can be estimated by two methods. Firstly, the value addition approach, which is used by the Department of Economics and Statistics (DES). This approach estimates shortfall in Gross State Value Added (GSVA) based on person days lost and the consequential production loss in the sector. Based on this approach, the KSPB estimated that the shortfall in value addition for March 2020 was Rs 29,000 crore. The corresponding shortfall for the first quarter of 2020-21 was Rs 80,000 crore.

Secondly, the Input-Output (IO) approach was used. As an IO table for Kerala is not available, the KSPB prepared an IO table by scaling down the IO table for

India (for 2017-18) constructed by Asian Development Bank. This approach used two assumptions. One, in the absence of sector-wise output data at the State level, the ratio of state to national GVA was used as a proxy to estimate the ratio of sector-wise state output to national output. Two, the IO coefficients were assumed to be unchanged and the values of final demand for the year for each sector were manually adjusted to get the same values of GSVA in the IO table for 2019-20. Based on this approach, the direct plus indirect loss in GSVA was estimated to be 7.5 lakh crore for 2020-21.

While the above estimates are subject to assumptions made, they indicate that the losses to the Kerala economy are likely to be massive. It is very likely that the Kerala economy may also grow at negative rate in 2020-21 if economic variables are not revived at the earliest. Such losses also lead to a significant loss of revenues to the government. **(Refer Annexure- 2 for the summary of recommendations of Kerala Planning Board Report)**

The Gulati Institute of Finance and Taxation (GIFT) prepared estimates of the extent of revenue losses due to the pandemic. The GIFT report estimated different components of the state finances i.e., revenue, expenditure and debt components based on the revised estimates of Gross State Domestic Product (GSDP). The finding of our interest from the GIFT report is that the shortfall in revenue receipts of the State in 2020-21 is likely to be Rs 33,456 crore **(Table No. 2.1)**. The total revenue receipts for 2020-21 were estimated in the budget at Rs 114,636 crore. This is likely to fall to Rs 81,181 crore. The GIFT estimates take into account the revenue deficit grant of Rs 15,323 crore allocated to Kerala. Such a fall, if realized, will severely affect the plan and non-plan expenditures of the Government of Kerala as well as eliminate any fiscal space for a stimulus package.**(Refer Annexure - 3 for the summary of recommendations of GIFT Report)**

This report considers the GIFT estimate of revenue loss at Rs 33,456 crore as the starting point for our discussion. About 59 per cent of the loss is likely to be on account of GST revenues, while another 22 per cent of the fall is likely to be on account of central tax devolution. This adds to a total of 81 per cent of the estimated fall. As both these items are central responsibilities, and assuming that borrowing remains unchanged, the state government is left with only the remaining 19 per cent of the revenue receipts to work around as part of its counter-cyclical fiscal strategy.

| **Table No. 2.1** | | |
|---|---|---|
| **Estimated shortfall in revenue receipts of Kerala 2020- 21** | | |
| Item | Revenue shortfall (Rs. in Crore) | Share (Per cent) |
| GST revenue | 19816 | 59.2 |
| Central tax devolution | 7451 | 22.3 |
| Sales tax on alcohol | 1657 | 5.0 |
| Sales tax on petrol and diesel | 1517 | 4.5 |
| Stamp duty and registration | 1292 | 3.9 |
| Motor vehicles tax | 740 | 2.2 |
| Non-tax revenues | 652 | 1.9 |
| Excise duty | 331 | 1.0 |
| **Total** | **33456** | **100.0** |
| *Source: GIFT Report 'Economic and Fiscal Shock of Covid -19 on Kerala" May,2020* | | |

As part of the overall strategy to address the pandemic-induced slowdown, the Government of India has allowed the States to borrow an additional 2 per cent of its GSDP in 2020-21. This was a demand of the Government of Kerala. As a result, Kerala can now borrow an additional Rs18087 crore. However, only 0.5% of the GSDP, or Rs. 4522 crore, is unconditional borrowing. Of the remaining 1.5 per cent, or Rs13565crore, borrowal of 1 per cent (or Rs 9044 crore) is divided into 4 equal parts, each of 0.25 per cent or Rs 2261 crore, and will be allowed if the State agrees to the following conditions.

**1)** The first 0.25 per cent (Rs 2261 crore) will be allowed if the State implements the one nation one ration card system. Here the State has to do two things before December 31st 2020. One, complete Aadhaar seeding of all ration cards and beneficiaries in the State. Two, complete the automation of all fair price shops in the State. If we complete this before December 2020, we can avail of the borrowing immediately.

2) The second 0.25 per cent (Rs 2261 crore) will be allowed if the State implements district-level and licensing reforms as part of Ease of Doing Business (EoDB). Here, the State has to do the following three things. One, it has to complete the first assessment of District Level Business Reform Action Plan as initiated by the Department of Promotion of Industry and Internal Trade (DPIIT). Two, it has to eliminate the requirements of renewal of certificates/approvals/licenses by businesses from multiple State-level authorities as per a list circulated by the DPIIT. Alternatively, States have to provide such renewals in a transparent, online, non-discretionary and automatic manner. Three, States have to implement computerised central random inspection system to avoid what is called "inspection raj" and corruption that prevails within it.

3) The third 0.25 per cent (Rs 2261 crore) will be allowed if a set of reforms in Urban Local Bodies (ULBs) are implemented. One, the State has to notify floor rates for property tax in ULBs in consonance with the prevailing circle rates. Two, the State has to notify floor rates of user charges in the provision of water supply, drainage and sewage that reflects current costs or past inflation. Three, the State will put in place a system of periodic increase in the floor rates of property tax and user charges in line with inflation.

4) The fourth 0.25 per cent (Rs 2261crore) will be allowed if the State undertakes power sector reforms. Three points are listed here. One, 0.05 per cent (Rs 452 crore) will be allowed if aggregate technical and commercial losses of power are reduced as per targets. This will be based on self-declaration of State governments. Two, another 0.05 per cent (Rs 452 crore) will be allowed if the gap between average cost of supply and average revenue realisation is reduced. Three, the remaining 0.15 per cent (Rs 1357 crore) will be allowed if free electricity to farmers in the State are replaced with direct cash transfers under DBT. Here the State has

to (a) formulate the DBT scheme; and (b) implement it in at least one district by 31st December 2020.

The last 0.5 per cent of the borrowing, or Rs 4522 crore, will be allowed if the State completes at least 3 of the 4 reforms listed above (i.e., one nation one ration card scheme; EoDB; reform of ULBs; and power sector reforms).

In this report, given that some of the above conditions may be politically contentious, we assume three specific scenarios: (1) Kerala can avail of 2 per cent of the GSDP (Rs18087 crore) as borrowing; (2) Kerala can avail of 1.75 per cent of the GSDP (Rs15826 crore) as borrowing; and (3) Kerala can avail of 1.5 per cent of the GSDP (Rs13565 crore) as borrowing.

**Table No.2.2**

**Borrowing allowed and deficit in revenue receipts, Kerala, 2020-21 (Rs. in Crore)**

| Scenario | Deficit in Receipts | Borrowing Allowed | Remaining Deficit |
|---|---|---|---|
| Scenario 1 (2% borrowal) | 33456 | 18087 | 15369 |
| Scenario 2 (1.75% borrowal) | 33456 | 15826 | 17630 |
| Scenario 3 (1.5% borrowal) | 33456 | 13565 | 19891 |

*Source: Committee Estimation*

Kerala would need to additionally mobilize at least Rs 15369 crore in 2020-21 in order to keep its budgeted plan and non-plan expenditures intact. If it needs a fiscal stimulus package, more revenues would have to be generated **(Table No.2.2).**This is a ballpark figure that this report works with when it suggests measures to mobilize additional revenues.

# Section - 3

## Kerala's economic package during the lockdown: An assessment

# Section - 3
# Kerala's economic package during the lockdown: An assessment

World over, governments have announced large economic packages to boost the economy, protect jobs, inject liquidity and provide relief to the poor. As in April 2020, the total fiscal support provided by G10 countries amounted to 3.5 per cent of their GDP on an average. This support was higher than what was announced by countries during the global financial crisis of 2008. In addition to fiscal measures, various monetary policy interventions have also been introduced each above 10 percent of GDP in France, Germany, Italy, Japan, and the United Kingdom. According to the IMF, "at the global level, spending and revenue measures amount to $3.3 trillion and loans, equity injections, and guarantees total $4.5 trillion". In other words, about 42 per cent of the total size of economic packages in the developed world comprise of fiscal measures.

The Government of India has announced an economic package of size Rs 20 lakh crore. However, the fiscal component in the economic package in India does not exceed 5-10 per cent. The rest are monetary policy measures.

Kerala was one of the first governments in India to announce an economic revival package in March 2020. The total size of the package announced in March was of the size of Rs 20,000 crore. The disaggregation of the package was as following:

- Seven months of welfare pensions was to be paid in lump sum to the pension-beneficiaries.
- For those BPL households not eligible for welfare pensions, Rs 150 crore was to be set aside for a relief payment of Rs 1,000 per family.
- Rs 100 crore was set aside for providing free food grains to families in need, while Rs 50 crore was set aside for provision of subsidised meals at Rs 20 per meal.

- Rs 500 crore was set aside for a comprehensive health package, where focus was to be on improving public health infrastructure and equipping the state to face the pandemic.
- Loans worth Rs 2,000 crore to be distributed through the Kudumbashree Mission to female Self Help Group (SHGs)
- Rs 2,000 crore was set aside for the expansion of the employment guarantee programme.
- Rs 14,000 crore was set aside to clear all the arrears of the state government till April 2020. This was to be largely pension arrears, welfare assistance to informal workers, deferred bill payments of contractors, and scholarships for students.
- Autos and taxis were given relaxation on payment of fitness charges. Passenger vehicles were also given tax relief.
- There was relaxation in the deadlines of water and electricity bill payment for affected firms.
- Entertainment taxes for cinema halls were reduced.

Kerala's economic package was rightly praised by many economists. In this section, we present an assessment of the progress achieved under the package and its implementation. In effect, we find that the total expenditure till May 2020 has exceeded the proposed amounts in the package under many heads. The last three items are excluded from the assessment, as they do not include any payment out of the government.

### Payment of welfare pensions

We assessed that an amount of Rs 4405.38 crore was spent to disburse seven months welfare pensions at one go to 44 lakh families in the State between March 2020 and May 2020. The pensions were transferred to the beneficiaries through bank accounts or through primary cooperative credit societies at their doorstep.

## Payment of relief

The government identified 14.7 lakh BPL families in the State who were not receiving social welfare pensions. All these households have been paid an amount of Rs 1000 as ex-gratia relief. A total amount of Rs 147 crore was spent towards this purpose.

## Financial aid through Welfare Fund Boards

Relief, both in cash and kind, was disbursed to almost one-third of the population in the State. Till May 2020, about one crore people identified from the most vulnerable to the real needy sections were covered under the cash transfer scheme. These one crore people were provided with at least Rs 1000 per person and the total amount sanctioned till May 2020 was Rs. 1021.4 crore. This covered almost all the workers belonging to the Welfare Fund Boards. The relief covers workers engaged in agriculture, shops, tailoring, cashew, handloom, toddy, plantation, coir, construction, the victims of the endosulphan poisoning and migrant labourers (Table 3.1).

Government of Kerala has also initiated steps for the automation of various social welfare schemes in order to streamline and minimize duplication, or “double dipping” of same type of benefits received by a beneficiary from different departments. Besides the Welfare Fund Boards, there are presently more than 500 social welfare schemes across various departments in Government of Kerala. Currently, many of these schemes are executed manually, some of the schemes are partially automated and very few are fully automated.

Currently, there is no single platform where the details of all the social welfare schemes can be obtained. Automation of all the social welfare schemes across various departments provides visibility to the benefits received by different beneficiaries, and information on whether there is duplication of same type of benefits received by a beneficiary from different departments.

| Table No.3.1 | | | | |
|---|---|---|---|---|
| Financial relief to workers during the Lock-Down (Rs. in Crores) | | | | |
| Sl. No. | Name of the Welfare Fund Board (WFB) | Amount released by | | Total |
| | | Govt. | WFB | |
| 1 | Kerala Building and Other Construction Workers WFB | 0.0 | 200.0 | 200.0 |
| 2 | Kerala Agricultural Workers WFB | 159.0 | 0.0 | 159.0 |
| 3 | Kerala Shops and Commercial Establishments WFB | 38.6 | 12.4 | 51.0 |
| 4 | Kerala Motor Workers WFB | 0.0 | 258.0 | 258.0 |
| 5 | Kerala Tailoring Workers WFB | 63.3 | 9.7 | 73.0 |
| 6 | Kerala Labour WFB | 30.4 | 0.0 | 30.4 |
| 7 | Kerala Unorganized Workers Social Security Board | 27.5 | 16.8 | 44.3 |
| 8 | Kerala Cashew Workers WFB | 10.8 | 0.0 | 10.8 |
| 9 | Kerala Bamboo. Eetta, Pandanus Leaf Workers WFB | 9.1 | 0.0 | 9.1 |
| 10 | Kerala Head Load Workers WFB | 3.5 | 82.5 | 86.0 |
| 11 | Kerala Handloom Workers WFB | 3.0 | 0.0 | 3.0 |
| 12 | Kerala Toddy Workers WFB | 0.0 | 24.3 | 24.3 |
| 13 | Kerala Jewellery Workers WFB | 1.7 | 0.0 | 1.7 |
| 14 | Kerala Beedi and Cigar Workers WFB | 0.0 | 2.1 | 2.1 |
| 15 | Kerala Abkari Workers WFB | 0.0 | 1.4 | 1.4 |
| 16 | Kerala Small Plantation Workers WFB | 8.5 | 0.0 | 8.5 |
| 17 | Kerala Coir Workers WFB | 13.0 | 0.0 | 13.0 |
| 18 | Kerala Lottery Agents and Sellers WFB | 5.0 | 0.0 | 5.0 |
| 19 | Kerala Cultural Activists WFB | 2.0 | 0.0 | 2.0 |
| 20 | Kerala Khadi Workers WFB | 14.0 | 0.0 | 14.0 |
| 21 | Endosulphan Victims | 24.8 | 0.0 | 24.8 |
| 22 | **Total** | **414.2** | **607.2** | **1021.4** |
| **Source:** *Finance Department, Government of Kerala & Quick assessment of the Impact of Covid-19 by Kerala State Planning Board, Appendix. (updated as on March 31,2020)* | | | | |

The objective should be to bring all the social welfare schemes under a single platform, so that the system is fully automated and there is clear visibility of the benefits received by different beneficiaries. Such software should ensure proper identification of beneficiaries, eliminate duplication of benefits, and ensure that the benefits reached the beneficiary and ensure tracking and follow up.

## Food security

The Government of Kerala started community kitchens in urban and rural areas with the support of Local Self-Governments (LSG). The community kitchens began functioning from March 25, 2020 in all the 941 panchayats of the State. The basic motive was that no one and the socially and financially downtrodden in particular, should be in hunger as a result of the lockdown. Kudumbashree was entrusted with leading the programme. Till May 2020, Rs 128 crore has been spent for this purpose. People under institutional quarantine are also getting food from the community kitchens; this is delivered to their locations by volunteers. Around 3 lakh migrant workers- called as guest workers (*athidhi thozhilalikal*) - in Kerala also received the benefit of the community kitchens.

Kerala was the first state which distributed free ration to all categories of ration card holders (pink, yellow, blue and white card holders). The most economically backward families carry the Antyodaya (yellow) card. The pink card holders are below the poverty line (BPL or priority category). The blue and white card holders are in the non-priority category; blue card holders get with subsidy and the white card holders get without subsidy. Free ration was provided to 87.28 lakh ration card holders during the lockdown. The network of more than 14,000 fair price shops played a crucial role here. Irrespective of the income level, a special supply of 15 kg of grains and 3 kg of *atta* were distributed. We have not quantified this amount separately.

The State also initiated steps to distribute free ration to those who did not have ration cards by considering their Aadhar number. Kerala was among the 12 states that have initiated the inter-state portability of ration cards, which has helped to support the migrant/guest workers. The total cost of this initiative amounted to Rs 300 crore.

In addition, the Government of Kerala supplied free food kits worth approximately Rs 1000 each to all ration card holders (87 lakh cards) irrespective of their category. The kit contained 17 items including 2 kg wheat flour, 1 kg each of sugar, salt, green gram, broken wheat, sunflower oil, Urad dal, Bengal gram and sambar parippu, 500 gm of coconut oil, 250 gm of tea powder, 100 gm each of chilli powder, coriander powder, fenugreek, turmeric powder and mustard, two bathing soaps and one washing soap. The feedback has indicated that the quality of each product in the essential food kit was good and could be used for a month in one household. An amount of Rs 850 crore was disbursed for the food kits through the Kerala State Civil Supplies Corporation Ltd.

Thus, in total, an amount of Rs 6851.78 crore was spent by the Government of Kerala under various schemes above. The coverage of almost the entire population means that the State has, in effect, implemented close to a universal basic income for the bulk of its population, and particularly the vulnerable sections during this period.

**Financial support to the health sector**

A package of Rs 500 crore was proposed for health sector. Till May 2020, Rs 200 crore was provided to the Kerala Medical Services Corporation Limited (KMSCL) for the urgent purchase of safety/medical equipment and drugs. These include the purchase of diagnostic equipment including testing kits, reagents, clinical care equipment etc.

**Microcredit to Kudumbashree groups**

The Chief Minister's Helping Hand Loan Scheme (CMHLS), a microcredit facility worth Rs 2000 crore was formulated to enable the Kudumbashree Mission to extend loans to self-help groups of women. Under the scheme, each unit would receive Rs 5000/Rs 10,000/Rs 20,000 as per their financial status. The interest of loans given under this scheme will be borne by the State government. The tenure of the loan will be 36 months with an initial moratorium period of 6 months. The

Director, Kudumbashree Mission has been entrusted to execute an agreement with the State Level Bankers Committee (SLBC) and the Registrar of Co-operative Societies (RCS) to decide on the eligibility of each member in the groups. The implementation is underway.

### Employment Guarantee Scheme

The MGNREGS is a central scheme. Subsequent to the announcement of the State government, the central government has announced (a) a rise in the wage rate by Rs 20 per day; and (b) an increased allocation of Rs 40,000 crore at the national level. The State has been taking measures to ensure that it makes full use of these new announcements.

# Section - 4

## Expenditure Rationalisation in the wake of Covid-19

# Section - 4
# Expenditure Rationalisation in the wake of Covid-19

The thrust of expenditure controls or additional resource mobilisation should not be done simply by balancing the budget and seeing that the Treasury is able to meet the liquidity demands on the exchequer. On an average, 75 per cent of what the State mobilises by way of revenues (including those devolved through the constitutional arrangements of the Finance Commission and that obtained by way of grant transfers from the Centre) are spent on providing salaries and pensions to existing and retired employees of Government and Aided Institutions. The figures of the Government (*Table A-48 of Budget in Brief of Government of Kerala*) would show that this goes to about 9.5-10 lakh employees and pensioners (including family pensioners). Even if one were to allow a conservative estimate of 10 per cent of this number hailing from families where there are more than one employee/pensioner in it, it may reasonably be estimated that approximately 8.6 lakh families obtain salary or pension directly from the Government. Even assuming that there are not less than 86 lakh households (based on ration cards issued up to 2019-20), it would be fair to infer that only 10 per cent of the households come directly under the disbursement umbrella of Government. This concept of equity prompted the Tenth Pay Commission of Kerala to observe the following in its Report:

> "Though the terms of reference do not impose any specific restriction on the Commission on the limits of increase of pay or pension, the basic fact remains that the resources of the State belong to nearly 3.5 crore of people and a rising share of it should not be allotted in favour of government employees and pensioners, totalling around 10 lakhs only."

In the aftermath of the lockdown, the Government of Kerala was the first to immediately ensure a round of financial transfers to 86 lakh individual beneficiaries. This was a deeply needed relief for an economically beleaguered population which had been abruptly deprived of their employment – for some temporarily and for many permanently. In fact, many opine that it was this transfer and the speed at which the relief was dispensed (supplementing the transfer from the Union Government) that set apart Kerala from the rest of the country (see Section 3).

In the wake of COVID-19, it would be gross injustice and negligence to lose sight of the fact that there must be even more equity and fairness in the allocation of resources by Government. New norms of equitable distribution that at the same time does not sacrifice the principles underlying our much-admired model of development have to be devised. It is this perspective that has guided the thinking of this Committee.

### Which Expenditures need Rationalisation?

Expenditure rationalization has been historically perceived in Government, whether at the level of the Union Government, as a simple tweaking of a few items of expenditure here and some imposition of additional constraints to travel or replacement of furniture or attends training or conferences. These, of course, are signals to encourage prudent spending. But they hardly serve to bring about any significant control of expenditure. The Committee feels that any expenditure rationalization should be directed at freeing resources for its reallocation to people in sectors most affected by the pandemic.

The components of revenue expenditure of 17 items (accounts figure for 2018-19) reveal that Salaries, Pensions, and Interest (SPI) accounts for nearly 61 per cent of the Revenue Expenditure. Traditionally, orders of Government that are issued for expenditure rationalization focus on items like Travel Expenses (0.12 per cent), Motor Vehicles (0.03 per cent ), Machinery and Equipment (0.07 per cent ) and Petroleum, Oil and Lubricants (0.07 per cent ). These along with 14 items (other than SPI) account only 7.45 per cent of the total revenue expenditure.. In this analysis, capital expenditure has been excluded from the discussions due to the reason that it accounts for only a miniscule percentage of the total budget. (**Table No. 4.1).**

Even if the entire expenditure on the 14 minor items other than SPI are hypothetically reduced by 50 per cent of its budgeted levels, the savings will be of Rs 4000 crore in a budget with an outlay of revenue expenditure of Rs 1.1 lakh crore during 2020-21. Such drastic reduction would be neither meaningful nor reasonable. It may, in fact, obstruct the administrative effectiveness of the Government significantly.

This brings us to a reasonable conclusion that Economy Orders issued from time to time by Government, though a powerful signalling mechanism to encourage prudent spending and avoid wasteful expenditure, will not accomplish much by way of expenditure rationalisation or expenditure control. Therefore, a true expenditure rationalisation perspective will end up missing the woods for the trees if it does not recognise that any measure in that direction shall necessarily have to grapple with rationalisation of Salaries, Pensions, and Interest.

**Salaries, Pensions and Interest**

Salaries, Pensions and Interest (SPI) expenditure of Government of Kerala as a percentage of the State's Own Revenue (SOR) for the past 11 years reveal that the entire amount raised by the Government by way of taxes and non-taxes is insufficient to meet the expenditure on SPI. SOR excludes money obtained as share of Central Taxes or Grants from Union Government. Similar result is obtained by comparing the SPI with the State's Effective Own Revenue (SEOR), which is obtained by subtracting the gross expenditure incurred on Lotteries such as prize, commission, discount etc. (**Table No.4.2**).

| Table 4.1 | | | | | |
|---|---|---|---|---|---|
| **Major Expenditure - 2018-19** | | | | | |
| Sl. No. | Expenditure | Revenue Expenditure | | Capital Expenditure | |
| | | Rs. in Crores | % | Rs. in Crores | % |
| 1 | Salaries | 31405.69 | 28.47 | 104.68 | 1.07 |
| 2 | Pensions | 19011.94 | 17.23 | 0 | 0.00 |
| 3 | Interest | 16747.92 | 15.18 | 0 | 0.00 |
| 4 | Grant-in-aid | 3047.2 | 2.76 | 0 | 0.00 |
| 5 | Subsidies | 1651.58 | 1.50 | 0 | 0.00 |
| 6 | Minor Works | 78.27 | 0.07 | 0 | 0.00 |
| 7 | Major works | 2.66 | 0.00 | 1242.55 | 12.74 |
| 8 | Scholarships and Stipends | 952.55 | 0.86 | 0 | 0.00 |
| 9 | Contributions | 743.48 | 0.67 | 0 | 0.00 |
| 10 | Wages | 1114.97 | 1.01 | 72.47 | 0.74 |
| 11 | Materials & Supplies | 155.33 | 0.14 | 0 | 0.00 |
| 12 | Machinery & Equipment | 74.96 | 0.07 | 7.07 | 0.07 |
| 13 | Travel Expenses | 136 | 0.12 | 0.29 | 0.00 |
| 14 | Maintenance | 98.61 | 0.09 | 0.01 | 0.00 |
| 15 | Petroleum, Oil & Lubricant | 81.27 | 0.07 | 0.34 | 0.00 |
| 16 | Motor Vehicles | 30.6 | 0.03 | 0.16 | 0.00 |
| 17 | Rent Rates and Taxes | 48.27 | 0.04 | 0.53 | 0.01 |
| 18 | Sub-total of 17 items | 75381.3 | 68.33 | 1428.1 | 14.64 |
| | **Total** | **110316.4** | **100.00** | **9753.43** | **100.00** |
| *Source - Finance Accounts & Budget in Brief 2020-21* | | | | | |

The SPI as a share of the Revenue Receipts and Revenue Expenditure of the State is analysed by taking 11 years figures. On an average, three-quarters of State's collection as Revenue (own tax, non-tax and central share) are used to meet Salaries, Pensions, and Interest. Likewise, the expenditure on this account alone accounts for over 63 per cent of the Revenue Expenditure of the State. (**Table No.4.3**).

| Table No.4.2 | | |
|---|---|---|
| **Salaries, Pensions and Interest (2008-2019)** | | |
| Year | SPI/ SOR (%) | SPI/ SEOR (%) |
| 2008-09 | 104.72 | 106.99 |
| 2009-10 | 102.88 | 105.6 |
| 2010-11 | 96.27 | 98.18 |
| 2011-12 | 109.61 | 113.22 |
| 2012-13 | 97.24 | 103.53 |
| 2013-14 | 99.86 | 109.16 |
| 2014-15 | 89.34 | 111.4 |
| 2015-16 | 112.01 | 112.59 |
| 2016-17 | 106.69 | 120.63 |
| 2017-18 | 115.95 | 133.63 |
| 2018-19 | 107.59 | 123 |
| **Average** | **103.46** | **111.49** |
| *SPI: Salaries, Pensions, and Interest | | |
| SOR: State's Own Revenue | | |
| SEOR: State's Effective Own Revenue i.e. SOR minus expenditure on Lotteries | | |
| *Source: Budget documents & Finance Accounts of the relevant years* | | |

## Salaries

The expenditure on Salaries as a per cent of State's Own Revenues, Revenue Receipts and Revenue Expenditure are analysed. Salaries paid by Government to its employees take away over 50 per cent of the entire revenues mobilised by the State from within it. In terms of all the receipts of the State, Salaries alone account for as much as 37 per cent of the total Revenue Receipts. (**Refer Table No.4.4).**

| Table 4.3 | | |
|---|---|---|
| **Salaries, Pensions, and Interest vis-à-vis Revenue Receipts and Revenue Expenditure** | | |
| Year | SPI/RR (%) | SPI/RE (%) |
| 2008-09 | 74.97 | 65.11 |
| 2009-10 | 76.75 | 64.36 |
| 2010-11 | 73.47 | 65.69 |
| 2011-12 | 81.64 | 67.39 |
| 2012-13 | 75.51 | 62.31 |
| 2013-14 | 76.29 | 62.03 |
| 2014-15 | 73.11 | 59.05 |
| 2015-16 | 68.99 | 63.20 |
| 2016-17 | 73.20 | 60.76 |
| 2017-18 | 80.53 | 66.89 |
| 2018-19 | 72.33 | 60.88 |
| Average | **75.16** | **63.43** |
| SPI: Salaries, Pensions, and Interest RR: Revenue Receipts RE: Revenue Expenditure | | |
| *Source: Budget Documents & Finance Accounts* | | |

| Table 4.4 | | | |
|---|---|---|---|
| **Salaries as a percentage of State's Own Receipts, Revenue Receipts & Revenue Expenditure** | | | |
| Year | S/SOR | S/RR | S/RE |
| 2008-09 | 50.05 | 35.83 | 31.12 |
| 2009-10 | 48.27 | 36.01 | 30.2 |
| 2010-11 | 45.12 | 34.43 | 30.78 |
| 2011-12 | 54.69 | 40.73 | 33.63 |
| 2012-13 | 48.71 | 37.83 | 31.21 |
| 2013-14 | 49.73 | 37.99 | 30.89 |
| 2014-15 | 43.71 | 35.76 | 28.89 |
| 2015-16 | 55.33 | 34.08 | 31.22 |
| 2016-17 | 54.06 | 37.09 | 30.79 |
| 2017-18 | 55.16 | 38.31 | 31.82 |
| 2018-19 | 50.31 | 33.82 | 28.47 |
| **Average** | **50.47** | **36.54** | **30.82** |
| *Source: Budget documents & Finance Accounts* | | | |
| RR: Revenue Receipts RE: Revenue Expenditure SOR: State's Own Revenue | | | |

Comparisons of Salary expenditure of six states (Kerala, Gujarat, Tamil Nadu, Karnataka, Maharashtra, and Punjab) for four financial years (2014-15 to 2017-18) are made. Along with the salaries paid to the employees of Government, Department salaries to various institutions given as Grant-in-aid are also considered. State Governments use their resources to channel financial aid to Local Government institutions, some of the State owned public sector undertakings, autonomous bodies and non-Government organisations. The ratio of the expenditure on Salaries to the State's Own Revenues for Kerala is 72.95 per cent which on an average 30 per cent more than Tamil Nadu, Gujarat, Karnataka and 10 per cent more than Maharashtra and Punjab (**Table No.4.5**).

A closer look at the figures of Kerala shows that the higher percentage of Salary in respect of Kerala is primarily due to the fact the State takes the burden of salaries of staff, both teaching and non-teaching, in Aided Educational Institutions (Schools and Colleges). Hypothetically, if the salary to the aided educational institutions is deducted, the state finance would be fully within the provisions and objectives stated in the Medium-Term Fiscal Framework approved from year to year. Gross Fiscal Deficit would have been contained well within the prescribed maximum of 3 per cent in all the ten previous years. Arguably, it is not wrong to conclude that the major contributing factor of Kerala's uncontrollable revenue expenditure, Revenue Deficit and Fiscal Deficits are due it share of salary and pension appropriated to the aided educational institutions (**Table 4.6**).

| Table 4. 5 | | | |
|---|---|---|---|
| **Salary Expenditures of Six States - 2014-18** | | | |
| STATE | SG/RR | SG/RE | SG/SOR |
| Kerala | 51.26 | 42.87 | 72.95 |
| Gujarat | 30.15 | 31.51 | 40.63 |
| Tamil Nadu | 26.57 | 25.27 | 36.85 |
| Karnataka | 31.08 | 31.27 | 43.62 |
| Maharashtra | 48.84 | 46.53 | 63.59 |
| Punjab | 45.30 | 38.23 | 63.60 |
| RR: Revenue Receipts RE: Revenue Expenditure<br>SOR: State's Own Revenue | | | |
| SG: Salaries + Non-Plan Portion of Grant-in-Aid | | | |
| *Source: Budget Documents and Finance Accounts* | | | |

| Table No.4.6 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Salary on Revenue Expenditure (Rs. in Crores)** | | | | | | | | |
| YEAR | AEI | RD | GSDP | RD/ GSDP (%) | GFD/ GSDP (%) | RD* | RD*/ GSDP (%) | GFD*/ GSDP (%) |
| 2008-09 | 3003.3 | 3711.7 | 254036 | 1.46 | 2.50 | 708.37 | 0.28 | 1.32 |
| 2009-10 | 3123.8 | 5023 | 286651 | 1.75 | 2.75 | 1899.2 | 0.66 | 1.66 |
| 2010-11 | 3555.2 | 3673.9 | 324513 | 1.13 | 2.38 | 118.68 | 0.04 | 1.28 |
| 2011-12 | 5075.7 | 8034.3 | 364048 | 2.21 | 3.52 | 2958.6 | 0.81 | 2.13 |
| 2012-13 | 5546.5 | 9351.4 | 412313 | 2.27 | 3.64 | 3804.9 | 0.92 | 2.29 |
| 2013-14 | 6083.9 | 11309 | 465041 | 2.43 | 3.64 | 5224.7 | 1.12 | 2.33 |
| 2014-15 | 6614.4 | 13796 | 512564 | 2.69 | 3.64 | 7181.6 | 1.4 | 2.35 |
| 2015-16 | 7140.8 | 6316.4 | 561994 | 1.12 | 3.17 | -824.4 | -0.15 | 1.9 |
| 2016-17 | 8613.7 | 15485 | 616357 | 2.51 | 4.29 | 6870.9 | 1.11 | 2.89 |
| 2017-18 | 9646.3 | 16928 | 686764 | 2.46 | 3.91 | 7281.9 | 1.06 | 2.51 |
| AEI: Aided Education Institution | | | | | | | | |
| RD: Revenue Deficit | | | | | | | | |
| GFD: Gross Fiscal Deficit | | | | | | | | |
| RD*: Revenue Deficit excluding Aided Educational Institutions | | | | | | | | |
| GFD*: Gross Fiscal Deficit excluding Aided Educational Institutions | | | | | | | | |
| *Source: Budget Documents and Finance Accounts* | | | | | | | | |

### Functional Reviews in Government

Reducing the strength of the employees in government merely for the sake of expenditure control is neither logical nor fair in the long-term interest of the State. In fact, as the lockdown reminds us, it is the strong employee base of the State at the local level – be it from the State's Health, Local Self Government, Revenue or Police Departments – that served as the strongest instrument in our social and administrative operations to valiantly defend us against the virus.

The growth in number of employees in departments or in aided educational institutions has been less than one per cent per annum (**Table 4.7)**. This cannot be considered excessive in the context of the natural growth of Government functions and demands on it from the public. Therefore, no significant expenditure control as such will come from the blanket reduction of new appointments.

**Table 4. 7**
**Number of Employees**

| Particulars | 2017-2018 | 2018-19 | 2019-20 | 2020-21 | Growth Rate |
|---|---|---|---|---|---|
| Government | 371224 | 374121 | 377065 | 381862 | 0.95 |
| Aided Institutions | 138058 | 136954 | 138574 | 139669 | 0.39 |
| Total | 522184 | 525199 | 529514 | 535641 | 0.85 |

*Source: Pay Commission Reports, Govt. of Kerala*

The 20 largest employing departments in terms of manpower are analysed (**Table 4.8**). The pertinent question is whether the distribution of this number meets the objective of an efficient civil service, responsive to the needs of the times and professionally trained to meet modern day requirements. In charting a revival path in the wake of the pandemic, work styles and work culture will have to change radically. Besides a shift to the digital way of governance, many administrative functions encompassing the gamut of regulatory and licensing controls will have to shift to a citizen centred process based on trust but backed by digital mechanisms to verify and corroborate and prevent fraud. Processes that have worked efficiently decades ago by the department would obstruct now from performing effectively due to the altered roles, work requirements and expectations.

Therefore, expenditure rationalisation will have to arise from finding the imbalances in the deployment of human resources in Government and identifying whether it matches the demand and supply of manpower based on the realigned roles and responsibilities that will have to be catered to. This will include identifying duplication of roles and functions, avoidable and wasteful overheads and then rearrange the organizational patterns to utilize the human resources available most optimally.

This Committee recommends that a comprehensive functional review should be taken up for all departments in Government. The process essentially would consist of three steps for any unit in a department. They are identification of objectives, functions, and structure. The functional review should consider the need to move manpower to the local levels in view of the much-applauded decentralisation of functions that has happened in the State. This will have to be followed up with functional rationalization based on how the functions are grouped and how much manpower is allocated to each identified function. Overlapping functions across various departments or agencies in Government, possible decentralisation or de-concentration of the function should be identified. As may be seen, the objectives and requirements of each department vary widely, and this diversity must be adequately captured in the process of functional review.

| Table 4. 8 | | | |
|---|---|---|---|
| Twenty largest employing departments in Kerala | | | |
| Rank | Department | Regular Employees | |
| | | Numbers | % |
| 1 | General Education (including Aided Schools) | 171434 | 38.9 |
| 2 | Police Department | 58832 | 13.4 |
| 3 | Health Services Department | 36498 | 8.3 |
| 4 | Higher Secondary Education | 30617 | 7.0 |
| 5 | Collegiate Education | 22230 | 5.1 |
| 6 | Land Revenue | 16043 | 3.6 |
| 7 | Medical Education Department. | 14758 | 3.4 |
| 8 | Judicial Services Department | 14183 | 3.2 |
| 9 | Agriculture Department. | 9234 | 2.1 |
| 10 | Technical Education | 8809 | 2.0 |
| 11 | Public Works Department. | 8540 | 1.9 |
| 12 | Animal Husbandry Department. | 7048 | 1.6 |
| 13 | Vocational Higher Secondary | 6263 | 1.4 |
| 14 | Local Self Government Engineering | 5474 | 1.2 |
| 15 | State Excise | 5416 | 1.2 |
| 16 | Forest Department | 5338 | 1.2 |
| 17 | Fire and Rescue Services Department | 4947 | 1.1 |
| 18 | Rural Development Department. | 4903 | 1.1 |
| 19 | Government Secretariat | 4859 | 1.1 |
| 20 | State Goods and Services Tax Department | 4718 | 1.1 |
| Total | | 440144 | 100.0 |
| Source: *State Pay Commission Reports, Govt. of Kerala* | | | |

For expenditure rationalisation, functional review should yield an output that tabulates the manpower for each function as against what has been allocated. The available excess should be reallocated to functions that need additional manpower. To this extent, new recruitment can be identified in the succeeding years. Functional reviews for the entire Government would take time and hence may not yield immediate economic savings that can be diverted to revive the economy immediately. Even if such functional reviews typically can take up to 18 months, the process will yield more sustainable and stable expenditure savings over time.

Government may engage a panel of consultancy organisations of international expertise and track record in human resource assessments for conducting the functional studies of Government. A High-Level Committee with the Chief Secretary as chairperson, Law secretary, Secretary (P&ARD) as members and Additional Chief Secretary (Finance) as convenor may be constituted to evaluate the output of these organisations and make recommendations to the Council of Ministers.

## Pensions

Pensions account on an average for 20 per cent of the Revenue Receipts of the State and 17 per cent of the Revenue Expenditure of the State. Government of India introduced a new restructured defined contributory pension system, namely 'New Pension Scheme' for its employees (except Armed Forces) recruited on or after 01.01.2004. This replaced the system of defined pension scheme that existed prior to that. The State Government then made the scheme applicable to All India Service officers joining the State cadres after 01.01.2004. Subsequently, the State Government adopted National Pension System (NPS) and implemented for all appointments made on or after 01.04.2013.

With the introduction of NPS in Kerala, a major step in Pension Reform was completed. NPS works on a defined contribution basis and has two tiers viz. Tier-I and Tier - II. Contribution to Tier I is mandatory whereas Tier II is optional and at the discretion of the employee. The employee contributes 10 per cent of his/her basic pay and dearness allowance to Tier I against a matching contribution from Government. The entire amount including returns from investment will be kept in Tier I account. The pension funds of employees are managed by Pension Fund Managers nominated by the Pension Fund Regulatory and Development Authority (PFRDA) while records are maintained by National Securities Depository Limited

(NSDL) that functions as the Central Record Keeping Agency (CRA). On exit of the employee from the Scheme, it would be mandatory for the employee to invest 40% of his/her pension wealth to purchase an annuity from Annuity Service Providers (ASPs) which will provide pension for lifetime of the employee. As such, there is not much scope for Government to intervene in the Pension Structure of administration in view of the transition to NPS.

Government employees retire at the age of 56 in Kerala. Kerala along with the State of Jharkhand are the two states with the lowest retirement age for government employees (**Table No.4.9**).

**Table 4.9**

**Retirement age for Government Employees**

| 62 years | 60 years | 59 years | 58 years | 56 years |
|---|---|---|---|---|
| Madhya Pradesh | Govt. of India | Tamil Nadu | Arunachal Pradesh | Jharkhand |
| | Union Territories | | Goa | Kerala |
| | West Bengal | | Kashmir | |
| | Tripura | | Maharashtra | |
| | Karnataka | | Manipur | |
| | Assam | | Mizoram | |
| | Bihar | | Odisha | |
| | Andhra Pradesh | | Haryana | |
| | Meghalaya | | Himachal Pradesh | |
| | Chhattisgarh | | Punjab | |
| | Gujarat | | | |
| | Nagaland | | | |
| | Sikkim | | | |
| | Uttarakhand | | | |
| | Uttar Pradesh | | | |

*Source: Collected from respective States*

Paradoxically, the State which has the highest life expectancy for both genders has among the lowest retirement rates in India. This does create a problem in that nearly 18000-20000 persons, potentially at the peak of their abilities and professional accomplishments, are sending off to retire. There is no doubt a serious social cost and an opportunity cost for society that is involved. (**Table 4.10**)

| Table 4.10 | | | |
|---|---|---|---|
| **Average Life Expectancy** | | | |
| States | Total | Male | Female |
| India | 67.9 | 66.4 | 69.6 |
| Kerala | 74.9 | 72 | 77.8 |
| Jammu & Kashmir | 72.6 | 70.9 | 74.9 |
| Delhi | 73.2 | 72 | 74.7 |
| Uttarakhand | 71.7 | 69.1 | 74.5 |
| Himachal Pradesh | 71.6 | 69.3 | 74.1 |
| Punjab | 71.6 | 69.7 | 73.8 |
| Maharashtra | 71.6 | 69.9 | 73.6 |
| Tamil Nadu | 70.6 | 68.6 | 72.7 |
| West Bengal | 70.2 | 68.9 | 71.6 |
| Haryana | 68.6 | 66.3 | 71.3 |
| Gujarat | 68.7 | 66.6 | 71 |
| Andhra Pradesh | 68.5 | 66.3 | 70.8 |
| Karnataka | 68.8 | 66.9 | 70.8 |
| Rajasthan | 67.7 | 65.5 | 70.2 |
| Bihar | 68.1 | 67.8 | 68.4 |
| Odisha | 65.8 | 64.7 | 67.1 |
| Jharkhand | 66.6 | 66.2 | 66.9 |
| Chhattisgarh | 64.8 | 63.3 | 66.3 |
| Madhya Pradesh | 64.2 | 62.5 | 66 |
| Assam | 63.9 | 62.7 | 65.5 |
| Uttar Pradesh | 64.1 | 62.9 | 65.4 |
| Source: *Census 2011* | | | |

Increasing the age of retirement has been a point of contention in Kerala. There is a perception that it cuts massively into the employment opportunities of the youth. On the other hand, the number of jobs that Government offers is only in the range of 18000-20000 each year against annual retirements. So, the real loss in terms of employment may not be as substantial as one would expect. The net savings on account of extending the current retirement age from 56 all the way to 60 are analysed. (**Table No. 4.11**). The methodology adopted is to take the total number of persons retiring in each year first. The retirement benefits are then projected over the next four years. The salary that would be payable to the employees that are retained on account of increase in retirement age is then subtracted to obtain the net savings for each year. Potential savings could vary from Rs.3700 crore to Rs.16000 crore. It is important to note that Tamil Nadu took the decision to increase retirement age by one year to ease the fiscal stress on the exchequer consequent to the Covid-19 pandemic. This Committee does not make a specific recommendation on the matter of extending the retirement age as this is a policy decision that Government would take. However, it would like to place the various options and the resultant savings for the exchequer to enable Government to take a more informed decision, on how additional funds can be mobilised given the present financial crisis that the state's economy is facing.

**Table 4.11**

**Extension of Retirement Age and Government savings (Rs. in Crore)**

| Period | Employees to retire (Approx.) | Savings (Rs. in Crore) | | | |
|---|---|---|---|---|---|
| | | 1 year | 2 years | 3 years | 4 years |
| 01-04-2020 to 31-03-2021 | 18500 | 3698 | 3698.1 | 3698.1 | 3698.1 |
| 01-04-2021 to 31-03-2022 | 18000 | - | 3834.9 | 3834.9 | 3834.9 |
| 01-04-2022 to 31-03-2023 | 18000 | - | - | 4068.4 | 4068.4 |
| 01-04-2023 to 31-03-2024 | 18800 | - | - | - | 4385.8 |
| Total Net Savings | | 3698 | 7533 | 11601 | 15987 |
| Total net Savings (Round off) | | 3700 | 7500 | 11600 | 16000 |

*Source: Estimated by the Committee*

**Re-employment Scheme for employees - An alternative to raising the pension age of 56 years**

As discussed earlier, raising of pension age from 56 years is clearly a major benefit given to the employees. Though in the short run the Government will be able to defer the payment of retirement benefits but this will substantially increase the medium and longer term burden on the Government in two ways. Firstly, the eligible pension amount would rise for every employee with four increments getting added if it is increased to 60 years. Secondly, with additional 4 years in service, the quantum of pension payable to each employee will also go up.

Considering the above burden of the Government an alternative proposal is suggested by committee. Instead of raising of pension age for all employees as a matter of right, allow only the privilege of re-employment, at the option of the employee, on same Pay and allowances as existing on date of retirement of the employee i.e., at the age of 56 years

**Re-employment to employees will be done based on the following condition only**

**a)** The benefit of re- employment will be available only to employees retiring on or after the announcement of the scheme (*not available to previously retired ones*) and those who at their option agree to re-join immediately i.e.; the day after they reach the age of 56.

**b)** Employees opting for re-employment should agree to deferment of all retirement benefits till the re-employment period is over ie., completion of 60 years

**c)** The employees who opt for the scheme will continue to get the same salary and allowances as on date of retirement but will not be eligible for any increments or promotions. They would be paid any increases in dearness allowance announced by the Government in the form of special pay which will not count towards any retirement benefits.

d) Government should assure to pay interest say 8 per cent (or 1 per cent higher than the bank rate) on the deferred retirement benefits to the employees .

e) Those employees who would like to retire on attaining retirement age of 56 will have to give their option at least 6 months prior to attaining the retirement age. They would be paid all retirement benefits immediately. They will not be able to change the option subsequently.

### Benefits to Employees

Employees will have the option to retire or seek re-employment on terms as above and if they opt for re-employment, will continue to get full pay and allowances as at the time of retirement for up to 4 more years. Though the benefits to them will be less than what they may get on raising retirement age to 60, the benefits would still be considerable and worthy.

### Benefits to Government

1. All savings that the Government wanted to achieve through raising of retirement age will be achieved through this scheme
2. Government can also save payment of 4 increments and additional benefits on promotions to all employees after the age of 56.
3. Government can save on total outgo on pension and other retirement benefits once the employees reach the age of 60. However it would like to pay an interest for the deferred benefits.
4. This benefit can be extended to all State level public sector undertakings and autonomous bodies

### Expenditure Rationalisation and Aided Educational Institutions

This committee believes that the goals of expenditure rationalisation should study in detail the salaries incurred by Government to Aided Educational Institutions. The pros and cons of this should be subjected to detailed review and discussion in the public domain. The form of Aided Educational institutions is quite unique in Kerala. The government prescribes the qualifications required for appointment as teachers in government and recognised private (aided and unaided) schools. At a certain juncture in Kerala's development history, taking the burden of paying the salary and regulating the norms of admission was conceived as a progressive social measure. There has been considerable debate about the merits and demerits of practically nationalising private education in primary, secondary and high school levels and in higher education. But still there are many advantages. This has led to the universalization of education (both school and college levels) and made it more accessible and more affordable - as the quantum of fees levied by the private management of these institutions are tightly regulated and admissions to schools is mostly based on merit. It has also ensured that salaries and wages to teachers and other staff in these institutions are paid in line with prescribed and fair salary levels.

Nonetheless, the criticism is that it has led to extinguishing innovation in education and encouraged corruption and nepotism on the part of some private management and has been one reason why Kerala could not unlock its full potential in education – both at school and college levels.

## General Education

In school education, Kerala continues to rule the roost retaining its number one position consistently. A Report by NitiAayog for 2015-16 as Base Year and 2016-17 as Reference Year has been released under the School Education Quality Index (SEQI) assessment. This assessment uses 30 indicators to assess the relative performance in school education. The comparative scores States are analysed. Out of the 20 large States, 18 improved their overall performance score between 2015-16 and 2016-17. Five of these States (Haryana, Assam, Uttar Pradesh, Odisha, and Gujarat) showed high rates of improvement, with increases of 18.5, 16.8, 13.7, 12.4 and 10.6 per cents respectively. This means that the competitions among the States are fast catching up. (**Table No. 4.12**)

| Table No. 4.12 | | | | | | |
|---|---|---|---|---|---|---|
| **Overall Performance Score (Large States)** | | | | | | |
| States | 2015-16 | 2016-17 | Rank (2015-16) | Rank (2016-17) | Difference in Rank | Difference in Score |
| Kerala | 77.64 | 82.17 | 1 | 1 | - | 4.53 |
| Tamil Nadu | 63.16 | 73.35 | 2 | 2 | - | 10.19 |
| Haryana | 51.04 | 69.54 | 8 | 3 | Up 5 | 18.5 |
| Gujarat | 52.35 | 63.01 | 6 | 4 | Up 2 | 10.66 |
| Himachal Pradesh | 58.12 | 62.78 | 4 | 5 | Down 1 | 4.66 |
| Maharashtra | 58.64 | 62.55 | 3 | 6 | Down 3 | 3.91 |
| Odisha | 47.78 | 60.23 | 13 | 7 | Up 6 | 12.45 |
| Rajasthan | 51.25 | 59.43 | 7 | 8 | Down 1 | 8.18 |
| Punjab | 50.74 | 59.06 | 9 | 9 | - | 8.32 |
| Assam | 39.28 | 56.12 | 15 | 10 | Up 5 | 16.84 |
| *Source: Niti Aayog* | | | | | | |

While reading into the significance of the scores, it should also be borne in mind that Kerala was in the first position in school education historically – long before the system of aided educational institutions was conceived in the 1970s. Furthermore, notwithstanding this very encouraging assessment that places Kerala in the overall lead, there are some intuitions that come out in the details of the assessment. On three very crucial outcome measures viz., in learning outcomes, in providing infrastructure and facilities and in ensuring equity outcomes, the State is only in the fourth, sixth and fifth position, respectively (**Table No.4.13**).

| Table 4.13 | | |
|---|---|---|
| **Incremental Performance in 2016-17 of Kerala** | | |
| Rank | Category | Score |
| 1 | Overall | 76.63 |
| 3 | Outcomes | 75.65 |
| 4 | Learning outcomes | 79.09 |
| 2 | Access outcomes | 88.67 |
| 6 | Infrastructure and facilities for outcomes | 48.87 |
| 5 | Equity outcomes | 66.31 |
| 1 | Governance processes | 79.03 |
| 1 | Governance processes aiding outcomes | 79.03 |
| | | *Source: NitiAayog* |

Therefore, this raises few questions on the rationale of Kerala continuing to bear the burden of paying salaries of aided educational institutions. Is the benefit to school education commensurate with the expenditure that the State is incurring? Is it time to unshackle the sector but with adequate safeguards and regulations to ensure equity and fairness to all the stakeholders? These are pertinent questions, especially in the wake of the expenditure rationalization in a post Covid-19 world. The time has come to seriously address the issue as to whether keeping private aided educational institutions on the budget of the State is what is best for the future of school education in Kerala.

## Higher Education

The comparative ranking of Kerala with other States is provided based on a few criteria of higher education like Gross Enrolment Ratio, availability of universities and colleges per lakh of population. The data is from the Survey released in 2013 by Ministry of Human Resources Development, Government of India. **(Table No 4.14)**

| Table 4.14 | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Comparative Ranking of States in Higher Education** | | | | | | | | | | | | | | |
| 1 | 28 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 16 |
| Universities per 10 Lakh population | | | GER (Male) | | | GER (Female) | | | GER (Total) | | | Colleges per 1 Lakh population | | |
| (Rank) | | | (Rank) | | | Rank | | | (Rank) | | | (Rank) | | |
| HP | 2.62 | 1 | TN | 43.2 | 1 | TN | 36.8 | 1 | TN | 40 | 1 | AP | 5.69 | 1 |
| Uttark. | 1.98 | 2 | AP | 33.3 | 2 | Uttark. | 32.3 | 2 | Uttark. | 31.1 | 2 | Kar. | 5.02 | 2 |
| J&K | 0.88 | 3 | Uttark. | 30.1 | 3 | Haryana | 27.7 | 3 | AP | 29.9 | 3 | HP | 4.21 | 3 |
| Haryana | 0.87 | 4 | Haryana | 28.3 | 4 | AP | 26.4 | 4 | Haryana | 28 | 4 | Haryana | 4.19 | 4 |
| TN | 0.82 | 5 | Maha. | 28.1 | 5 | **Kerala** | **26.0** | **5** | Maha. | 26.3 | 5 | Maha. | 4.06 | 5 |
| Kar. | 0.7 | 6 | Kar. | 24.9 | 6 | HP | 25.1 | 6 | HP | 24.8 | 6 | Raj. | 3.9 | 6 |
| Punjab | 0.68 | 7 | HP | 24.6 | 7 | Maha. | 24.3 | 7 | Kar. | 23.8 | 7 | Uttark. | 3.9 | 7 |
| Chatt. | 0.67 | 8 | Punjab | 22.4 | 8 | J&K | 24 | 8 | Punjab | 23 | 8 | Punjab | 3.45 | 8 |
| Raj. | 0.66 | 9 | MP | 22 | 9 | Punjab | 23.6 | 9 | J&K | 22.8 | 9 | TN | 3.19 | 9 |
| Gujarat | 0.63 | 10 | J&K | 21.8 | 10 | Kar. | 22.7 | 10 | **Kerala** | 22 | 10 | **Kerala** | **3.1** | **10** |
| AP | 0.56 | 11 | Raj. | 20.6 | 11 | UP | 17.2 | 11 | MP | 18.5 | 11 | MP | 2.99 | 11 |
| **Kerala** | **0.5** | **12** | Odisha | 18.3 | 12 | Raj. | 15.5 | 12 | Raj. | 18.2 | 12 | Gujarat | 2.95 | 12 |
| Odisha | 0.45 | 13 | Gujarat | 18.1 | 13 | Odisha | 15 | 13 | UP | 17.4 | 13 | Odisha | 2.6 | 13 |
| MP | 0.45 | 14 | **Kerala** | **18** | **14** | Assam | 14.8 | 14 | Odisha | 16.6 | 14 | J&K | 2.44 | 14 |
| Maha. | 0.39 | 15 | UP | 17.5 | 15 | Gujarat | 14.7 | 15 | Gujarat | 16.5 | 15 | UP | 2.42 | 15 |
| Jhark. | 0.36 | 16 | WB | 15.4 | 16 | MP | 14.6 | 16 | Assam | 14.7 | 16 | Chatt. | 2.31 | 16 |
| UP | 0.29 | 17 | Assam | 14.6 | 17 | WB | 11.8 | 17 | WB | 13.6 | 17 | Assam | 1.55 | 17 |
| Assam | 0.29 | 18 | Bihar | 14 | 18 | Bihar | 10.8 | 18 | Bihar | 12.5 | 18 | WB | 0.99 | 18 |
| WB | 0.28 | 19 | Chatt. | 11 | 19 | Chatt. | 10.1 | 19 | Chatt. | 10.5 | 19 | Jhark. | 0.71 | 19 |
| Bihar | 0.19 | 20 | Jhark. | 10.2 | 20 | Jhark. | 9.5 | 20 | Jhark. | 9.9 | 20 | Bihar | 0.62 | 20 |
| *Source: All India Survey on Higher Education (2011-12)* | | | | | | | | | | | | | | |

The five selected parameters are

1. Universities per 10 Lakh Population
2. Gross Enrolment Ratio (GER) – Male
3. Gross Enrolment Ratio (GER) – Female
4. Gross Enrolment Ratio (GER) – Total
5. Colleges per 1 Lakh Population

Except on the Gross Enrolment Ratio for females, Kerala does not figure in the upper fifty percentile in terms of its rank. The figures for Female GER is indicative of the much more progressive status of women in Kerala – but even here several other States excel Kerala's score in this regard.

The position on Gross Enrolment Ratio based on the All India Survey on Higher Education (2018-19) for all students, Scheduled Caste and Scheduled Tribe Students are separately analysed **(Table No.4.15).** Here too, except for the GER for female, on other groups, Kerala's rank does not reflect its premier position in terms of Human Development Index in the State. In fact, in terms of enrolment of Scheduled Castes and Scheduled Tribes too, the State is lagging several others. Overall, the State's higher expenditure on account its financing private aided colleges too does not have much to show for its outcomes.

| Table 4.15 | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross Enrolment Ratios in Higher Education of States and Union Territories** | | | | | | | | | | | | | | |
| All Categories | | | | | | | | | Scheduled Castes | | | Scheduled Tribes | | |
| S/UT | M | Rank | S/UT | F | Rank | S/UT | Both | Rank | S/UT | Both | Rank | S/UT | Both | Rank |
| Sikkim | 54 | 1 | Chand. | 63.9 | 1 | Sikkim | 53.9 | 1 | Megh. | 142.7 | 1 | Uttark. | 47.8 | 1 |
| TN | 49.8 | 2 | Sikkim | 53.9 | 2 | Chand. | 50.6 | 2 | Mizoram | 132.5 | 2 | UP | 42.6 | 2 |
| Delhi | 43.2 | 3 | Pud. | 51.6 | 3 | TN | 49 | 3 | Manipur | 64.9 | 3 | HP | 39.7 | 3 |
| Pud. | 41.7 | 4 | Delhi | 50 | 4 | Pud. | 46.4 | 4 | TN | 41.6 | 4 | TN | 37.8 | 4 |
| Chand. | 41.6 | 5 | TN | 48.3 | 5 | Delhi | 46.3 | 5 | Sikkim | 36.5 | 5 | Sikkim | 34.4 | 5 |
| Uttark. | 39.2 | 6 | HP | 44.9 | 6 | HP | 39.6 | 6 | Pud. | 35.1 | 6 | ArunP. | 32.3 | 6 |
| AP | 35.8 | 7 | Kerala | 43.2 | 7 | Uttark. | 39.1 | 7 | Delhi | 33.9 | 7 | Tel. | 30.7 | 7 |
| Tel. | 35.8 | 8 | Uttark. | 39.1 | 8 | Kerala | 37 | 8 | Tel. | 33.7 | 8 | AP | 26.4 | 8 |
| HP | 34.7 | 9 | Tel. | 36.5 | 9 | Tel. | 36.2 | 9 | Chand. | 32.7 | 9 | Goa | 26.4 | 9 |
| Manipur | 33.6 | 10 | Goa | 35 | 10 | Manipur | 33.7 | 10 | Mah. | 31.2 | 10 | Mizoram | 25.9 | 10 |
| Mah. | 33.5 | 11 | Punjab | 34.3 | 11 | AP | 32.4 | 11 | Goa | 30.1 | 11 | Assam | 24.3 | 11 |
| Kerala | 30.8 | 12 | Manipur | 33.8 | 12 | Mah. | 32 | 12 | Uttark. | 30 | 12 | Manipur | 23.5 | 12 |
| Arunachal Pradesh . | 29.9 | 13 | Haryana | 32.4 | 13 | J&K | 30.9 | 13 | HP | 29.4 | 13 | Megh. | 23.5 | 13 |
| J&K | 29.6 | 14 | J&K | 32.2 | 14 | Goa | 30.1 | 14 | AP | 28.9 | 14 | Kerala | 23.1 | 14 |
| karnataka | 28.2 | 15 | Mah. | 30.3 | 15 | ArunP. | 29.7 | 15 | Gujarat | 26.9 | 15 | Raj. | 21.3 | 15 |
| Haryana | 26.5 | 16 | ArunP. | 29.5 | 16 | Punjab | 29.5 | 16 | Kerala | 25.9 | 16 | Kar. | 19 | 16 |
| Mizoram | 26.5 | 17 | Kar. | 29.4 | 17 | Haryana | 29.2 | 17 | UP | 24 | 17 | Nag. | 19 | 17 |
| Goa | 26.4 | 18 | AP | 29 | 18 | Kar. | 28.8 | 18 | Punjab | 21.1 | 18 | Bihar | 18.3 | 18 |
| Punjab | 25.5 | 19 | Megh. | 27.7 | 19 | Megh. | 25.8 | 19 | J&K | 21 | 19 | J&K | 17.6 | 19 |

| Table 4.15 Continued | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross Enrolment Ratios in Higher Education of States and Union Territories** | | | | | | | | | | | | | | |
| All Categories | | | | | | | | | Scheduled Castes | | | Scheduled Tribes | | |
| Odisha | 24.2 | 20 | UP | 27.5 | 20 | UP | 25.8 | 20 | Kar. | 21 | 20 | Mah. | 15.2 | 20 |
| UP | 24.2 | 21 | ANI | 26.1 | 21 | Mizoram | 25.7 | 21 | Assam | 20.6 | 21 | Gujarat | 14.9 | 21 |
| Megh. | 23.8 | 22 | Mizoram | 24.8 | 22 | ANI | 23.2 | 22 | D&D | 20.1 | 22 | ANI | 14.4 | 22 |
| Raj. | 23.1 | 23 | Raj. | 23 | 23 | Raj. | 23 | 23 | Haryana | 20 | 23 | Tripura | 14 | 23 |
| Gujarat | 22 | 24 | MP | 21.2 | 24 | Odisha | 22.1 | 24 | Odisha | 20 | 24 | Jhark. | 13.7 | 24 |
| MP | 21.8 | 25 | Odisha | 20 | 25 | MP | 21.5 | 25 | Raj. | 20 | 25 | D&D | 12.8 | 25 |
| Tripura | 21.1 | 26 | Nag. | 19.7 | 26 | Gujarat | 20.4 | 26 | MP | 19.7 | 26 | Odisha | 12.8 | 26 |
| ANI | 20.3 | 27 | Chatt. | 19.2 | 27 | WB | 19.3 | 27 | D&NH | 18.4 | 27 | MP | 11.4 | 27 |
| WB | 20 | 28 | Gujarat | 18.7 | 28 | Tripura | 19.2 | 28 | Chatt. | 18.3 | 28 | Chatt. | 11.3 | 28 |
| Jhark. | 19.5 | 29 | Jhark. | 18.7 | 29 | Jhark. | 19.1 | 29 | Tripura | 17.4 | 29 | WB | 10.2 | 29 |
| Assam | 19.1 | 30 | WB | 18.7 | 30 | Assam | 18.7 | 30 | Jhark. | 15.9 | 30 | D&NH | 5 | 30 |
| Chatt. | 18.1 | 31 | Assam | 18.3 | 31 | Nag. | 18.7 | 31 | WB | 14.1 | 31 | Lak | 4.5 | 31 |
| Nag. | 17.8 | 32 | Tripura | 17.4 | 32 | Chatt. | 18.6 | 32 | Bihar | 10 | 32 | | | |
| Bihar | 15.1 | 33 | D&NH | 12.6 | 33 | Bihar | 13.6 | 33 | | | | | | |
| D&NH | 7.4 | 34 | Bihar | 12 | 34 | D&NH | 9.3 | 34 | | | | | | |
| D&D | 4.2 | 35 | Lak | 11.6 | 35 | Lak | 7.4 | 35 | | | | | | |
| Lak | 3.4 | 36 | D&D | 9.8 | 36 | D&D | 5.5 | 36 | | | | | | |

*Source: All India Survey on Higher Education (2018-19)*

## Constitution of High-Level Expert Group to Study the functions and financing of Aided Educational Institution

In the above context, as a long-term measure of Expenditure Rationalisation, the Committee recommends that the Government may appoint a High-Level Expert Group comprising of recognised Experts in Education, Finance and Law to submit a report to *inter alia* examine the following issues.

1) Study the system of financing Aided Educational Institutions

2) The burden on the finances of the State and the benefits the society is getting out of it

3) Framing of new legislative and administrative framework with special attention to the following:

a) Phasing out the financing of private educational institutions when the existing staff superannuate after a specified date to be determined.

b) Regulate and protect pay and service conditions of staff both teaching and non-teaching in schools and colleges in line with UGC/AICTE norms or conditions in Government owned institutions, both now and in the future.

c) Ensuring reservation for communities as prevailing in Government institutions now in the matter of admission of students to the institutions.

d) Freedom to admit students, but based on accepted principles of fairness and equity, i.e. safeguard affirmative principles in matter of access as is prevailing now.

e) Financial autonomy to Management to levy fees determined based on principles of fairness and the principles lay down by the Supreme Court for the educational sector in several of its verdicts.

f) Ensuring full payment of fees of students by way of need-based scholarships to everyone below the poverty line and partial needs-based scholarships to those above the poverty line depending on the extent of their need especially in higher educations.

g) Institute a line of merit scholarships with 50 per cent support from Government and the rest mobilised by the Private Management from the fees levied.

h) Government subsidy to support a credit line of educational loans availed from Banks and other financing institutions

**Interest bearing deductions from Salaries and Pensions:**

**Covid-19 Income Support Fund (CISF)**

The discussions so far made show that no expenditure rationalisation is possible without addressing the areas of Salaries, Pensions, and Interest. Proposing expenditure control measures on other components like Travel and Office Expenses has only mild effects and does not add up towards any significant resource reallocation.

This committee proposes a Covid-19 Income Support Fund (CISF) to fund the Covid related expenses and relief packages to the needy. We believe this can be financed through interest-bearing deductions from salaries and pensions of employees. The salient features of the proposal area as follows: (**Table Nos. 4.16 & 4.17**):

| TABLE 4.16 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Interest Bearing Contributions to the Covid-19 Income Support Fund from Employees (Rs. in Crore)** | | | | | | | | | | | | | |
| | | Option 1 | | | Option 2 | | | Option 3 | | | Option 4 | | |
| | | Uniform Slab of 20% | | | Slab from 20% by 1.5% | | | Slab from 20% by 2.5% | | | Slab from 20% by 3.5% | | |
| Salary Slab ( Rs) | No. of Employee (Rounded) | DED. | AMT | AER | DED. | AMT | AER | DED. | AMT | AER | DED. | AMT | AER |
| 0 - 20000 | 34700 | 0.00 | 0 | 0.00 | 0.00 | 0 | 0.00 | 0.00 | 0 | 0 | 0.00 | 0 | 0.00 |
| 20000 – 50000 | 414600 | 20.00 | 124.4 | 8.60 | 20.00 | 124.4 | 8.60 | 20.00 | 124.4 | 8.6 | 20.00 | 124.38 | 8.60 |
| 50000 – 75000 | 110500 | 20.00 | 93.9 | 13.60 | 21.50 | 96 | 13.90 | 22.50 | 97.4 | 14.1 | 23.50 | 98.76 | 14.30 |
| 75000 – 100000 | 18500 | 20.00 | 25 | 15.40 | 23.00 | 26.4 | 16.30 | 25.00 | 27.3 | 16.9 | 27.00 | 28.21 | 17.40 |
| 100000 – 125000 | 6410 | 20.00 | 11.9 | 16.40 | 24.50 | 12.9 | 17.90 | 27.50 | 13.7 | 18.9 | 30.50 | 14.38 | 19.90 |
| 125000 – 150000 | 580 | 20.00 | 1.4 | 17.10 | 26.00 | 1.5 | 19.30 | 30.00 | 1.7 | 20.7 | 34.00 | 1.77 | 22.20 |
| 150000 – 175000 | 2100 | 20.00 | 6 | 17.50 | 27.50 | 7 | 20.40 | 32.50 | 7.6 | 22.3 | 37.50 | 8.28 | 24.30 |
| 175000 – 200000 | 1610 | 20.00 | 5.4 | 17.90 | 29.00 | 6.5 | 21.50 | 35.00 | 7.2 | 23.9 | 41.00 | 7.93 | 26.30 |
| 200000 – 225000 | 50 | 20.00 | 0.2 | 18.10 | 30.50 | 0.2 | 22.40 | 37.50 | 0.3 | 25.3 | 44.50 | 0.3 | 28.20 |
| 225000 – 250000 | 0 | 20.00 | 0 | 18.30 | 32.00 | 0.1 | 23.40 | 40.00 | 0.1 | 26.7 | 48.00 | 0.07 | 30.10 |
| 250000 – 275000 | 60 | 20.00 | 0.3 | 18.50 | 33.50 | 0.4 | 24.30 | 42.50 | 0.4 | 28.1 | 51.50 | 0.5 | 32.00 |
| 275000 – 300000 | 5 | 20.00 | 0 | 18.60 | 35.00 | 0 | 25.10 | 45.00 | 0 | 29.5 | 55.00 | 0.05 | 33.80 |
| 300000 – 325000 | 4 | 20.00 | 0 | 18.70 | 36.50 | 0 | 26.00 | 47.50 | 0 | 30.8 | 58.50 | 0.04 | 35.70 |
| 325000 – 350000 | 3 | 20.00 | 0 | 18.80 | 38.00 | 0 | 26.80 | 50.00 | 0 | 32.1 | 62.00 | 0.04 | 37.50 |
| 350000 – 400000 | 2 | 20.00 | 0 | 18.90 | 39.50 | 0 | 27.60 | 52.50 | 0 | 33.5 | 65.50 | 0.03 | 39.30 |
| Above 400000 | | 20.00 | 0 | 19.00 | 41.00 | 0 | 28.40 | 55.00 | 0 | 34.6 | 69.00 | 0.02 | 40.90 |
| Total Monthly Contribution | | | **268.5** | | | **275.4** | | | **280.1** | | | **284.76** | |
| Total Annual Contribution | | | **3222** | | | **3305.6** | | | **3361.4** | | | **3417.2** | |
| *DED: Deductions as % of Basic + DA (Over and above the upper bound of previous slab)* | | | | | | | | | | | | | |
| *TOTAL EMPLOYEES: Approximation of all Government and Government Funded Institutions (approx. 5.9 lakh)* | | | | | | | | | | | | | |
| *AMT: Amount contributed from each slab in each month (Rs. cr.)* | | | | | | | | | | | | | |
| *AER: Average Effective rate of contribution from a person drawing a salary at the mean of the class* | | | | | | | | | | | | | |
| *Source: Committee's Calculation* | | | | | | | | | | | | | |

TABLE 4.17

**Interest Bearing Contributions to the Covid-19 Income Support Fund from Pensioners (Rs. in Crore)**

| | | Option 1 | | | Option 2 | | | Option 3 | | | Option 4 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Uniform Slab of 20% | | | Slab from 20% + by 1.5% | | | Slab from 20% + by 2.5% | | | Slab from 20% + by 3.5% | | |
| Pension Slab (Rs.) | No. of Pensioners (Rounded) | DED. | AMT | AER | DED | AMT | AER | DED. | AMT | AER | DED | AMT | AER |
| 0 - 10000 | 7500 | 0.00 | 0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0 | 0.00 | 0.00 | 0 | 0.00 |
| 10000 - 25000 | 71000 | 0.00 | 0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0 | 0.00 | 0.00 | 0 | 0.00 |
| 25000 - 37500 | 71500 | 0.00 | 0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0 | 0.00 | 0.00 | 0 | 0.00 |
| 37500 - 50000 | 81500 | 20.00 | 10.19 | 4.00 | 20.00 | 10.19 | 4.00 | 20.00 | 10.19 | 4.00 | 20.00 | 10.19 | 4.00 |
| 50000 - 62500 | 30400 | 20.00 | 11.4 | 8.60 | 21.50 | 11.69 | 8.80 | 22.50 | 11.88 | 8.90 | 23.50 | 12.07 | 9.10 |
| 62500 - 75000 | 6800 | 20.00 | 4.25 | 11.10 | 23.00 | 4.51 | 11.80 | 25.00 | 4.68 | 12.20 | 27.00 | 4.85 | 12.70 |
| 75000 - 87500 | 2800 | 20.00 | 2.45 | 12.70 | 24.50 | 2.69 | 14.00 | 27.50 | 2.84 | 14.80 | 30.50 | 3 | 15.60 |
| 87500 - 100000 | 1300 | 20.00 | 1.46 | 13.80 | 26.00 | 1.66 | 15.70 | 30.00 | 1.79 | 16.90 | 34.00 | 1.92 | 18.20 |
| 100000 - 112500 | 300 | 20.00 | 0.41 | 14.70 | 27.50 | 0.48 | 17.20 | 32.50 | 0.53 | 18.80 | 37.50 | 0.58 | 20.50 |
| 112500 - 125000 | 100 | 20.00 | 0.16 | 15.30 | 29.00 | 0.20 | 18.50 | 35.00 | 0.22 | 20.60 | 41.00 | 0.24 | 22.70 |
| 125000 - 137500 | 100 | 20.00 | 0.16 | 13.70 | 30.50 | 0.20 | 16.50 | 37.50 | 0.22 | 18.40 | 44.50 | 0.24 | 20.30 |
| TOTAL MONTHLY CONTRIBUTION | | | **30.5** | | | **31.6** | | | **32.4** | | | **33.1** | |
| TOTAL ANNUAL CONTRIBUTION | | | **365.9** | | | **379.20** | | | **388** | | | **396.9** | |

DED: Deductions as % of Basic + DA (Over and above the upper bound of previous slab)

TOTAL PENSIONERS: Government Pensioners (approx. 3 lakh – excluding Family Pensioners)

AMT: Amount contributed from each slab in each month (Rs. cr.)

AER: Average Effective rate of contribution from a person drawing pension at the mean of the class

*Source: Committee's Calculation*

a. All employees, earning a gross salary over Rs.20,000 per month in Government / Government Agencies / PSUs and Statutory Corporations/Government funded Autonomous Bodies may contribute to the Scheme on a voluntary basis.

b. All Government Pensioners (other than Family Pensioners) earning a pension more than Rs.37500 per month may contribute to the Scheme on a voluntary basis.

c. Appropriate exemption may be given to the employees/pensioners who are Persons with Disabilities, pregnant women, and widows.

d. The contributions to the scheme shall depend on the salary of the employee or the pension of the employee.

e. Various options of deductions examined by the Committee and the assumptions on which they are based are provided. Estimates are based on the slab structure and the Annual Effective Rate for each option proposed.

f. The Contributions to CISF shall commence only after the salary deferral scheme announced by Government ends in September 2020.

g. This proposal is purely voluntary in nature. Hence any nature of compulsion in deduction of salary or pension has to be decided by the Government under this Scheme based on the legal position.

h. Contributions may be deducted for a period of 12 months from September 2020 to August 2021.

i. Contributions to the CISF shall carry an interest rate of 0.25 per cent more than the rate offered on the Provident Fund from time to time, to make the Scheme attractive to employees. Interest shall be calculated on a floating rate basis with reference to the Provident Fund Interest Rate.

j. There shall be a lock-in-period up to March 21, 2023 for the contributions.

k. After the lock-in period, the contributed amount with interest shall be returned to the employee in four quarterly instalments on July 1, 2023, October 1, 2023, January 1, 2024, and April 1, 2024. However, in the case of superannuation or termination of employment, the amount shall be returned in full, with the interest accumulated to date, on April 1, 2023.

l. Employees going on Central Deputation or returning to their parent organisations after deputation in the State Government in Government/ Government Agencies/PSUs and Statutory Corporations/Government funded Autonomous Bodies will be allowed to withdraw their contributions with interest on such date.

m. For all others, other than in the case of premature death, including the employees who superannuate before March 31, 2023, the lock-in period shall apply.

n. The amount received as contributions to the CISF may be maintained in a separate Account in any Nationalised Bank.

o. The contributions from Government Agencies/PSUs/Statutory Corporations/Government funded Autonomous Bodies shall be deducted by the Head of the Agency/Institution and remitted to the CISF Account referred to above.

p. Government shall reimburse the payments incurred by Government Agencies/PSUs/Statutory Corporations/Government Funded Autonomous Bodies by making appropriate provisions in the budget.

q. Government shall constitute a sinking fund maintained in a nationalized bank for the redemption of the liabilities arising of the CISF and shall make contributions into the Sinking Fund on a monthly basis at the rate of not less than Rs.50 crore from September 2020 to March 2023.

s. Interest bearing contributions from Employees is expected to bring in an amount of approximately Rs.3300 crore and that from Pensioners approximately Rs.375 crore over the twelve months beginning September 1, 2020, yielding a total contribution of **Rs. 3675 crore**. **(Option – 2 of Tables 4.16 & 4.17)**

### Interest Expenditure

Interest expenditure accounts for nearly 18 per cent of the total revenue receipts of the State and 15 per cent of its total revenue expenditure. Interest rates are obviously a direct function of the extent Government has financed its expenditure through debt in the past and how much of debt it is availing in the present. So technically, moderating interest rate would have to arise first from a control of the Gross Fiscal Deficit itself. This is not a subject matter that the Committee is addressing.

Therefore, the Committee has only explored possibilities to restructure the debt stock to lower the interest burden. It has looked at the outstanding public debt portfolio of the state and looks at facilitation provided by Central Government in the past which had enabled the states to:

a. Mitigate redemption pressures in the near term
b. Reduce interest burden for outstanding debt
c. Avail write-off of repayments during periods.

The Committee has also examined the option of switch/conversion of GOI dated securities and explore of the suitability of the facility for Kerala State outstanding SDLs. The Committee looked in detail the measures the State could look at for sustainable management of outstanding public debt.

This committee analysed budgeted figures for the public debt outstanding along with budget estimates for the year 2020-21, Current Maturity Profile of Internal Debt and interest profile of Loans from Central Government. **(Table Nos. 4.18, 4.19, 4. 20 and Annexure No.4)**

| Table 4. 18 | | | | | |
|---|---|---|---|---|---|
| **Public Debt Outstanding of Kerala Government - Budget 2020-21 (Rs. in Crore)** | | | | | |
| Particulars | 2017-18 | 2018-19 | 2019-20 BE | 2019-20 RE | 2020-21 BE |
| Internal Debt | 135,500.53 | 150,991.04 | 175,976.05 | 169,573.99 | 192,871.54 |
| Market Loan | 115,734.98 | 129,719.05 | 154,702.97 | 146,751.83 | 168,904.34 |
| Loans from Financial Institutions | 4,624.63 | 4,459.92 | 4,468.72 | 4,244.57 | 3,967.96 |
| LIC | 1,413.18 | 1,145.64 | 880.56 | 880.56 | 647.92 |
| GIC | 190.27 | 171.54 | 153.13 | 153.13 | 135.19 |
| NABARD | 3,021.18 | 3,142.75 | 3,435.03 | 3,210.88 | 3,184.85 |
| Special Securities issued to NSSF | 14,556.54 | 15,607.61 | 16,265.28 | 17,201.33 | 18,799.07 |
| Others | 584.39 | 1,204.45 | 539.08 | 1,376.27 | 1,200.18 |
| Loans and Advances from Centre | 7,483.99 | 7,243.41 | 9,435.37 | 8,647.70 | 9,842.06 |
| Total Public Debt | **142,984.53** | **158,234.44** | **185,411.42** | **178,221.70** | **202,713.61** |
| *Source: Finance Accounts & State Budget Documents* | | | | | |

Table 4. 19

**Detailed Statement on Borrowings and Other Liabilities**

**Maturity Profile of Internal Debt Payable in Domestic Currency (Rs. in Billion)**

| Year | Market Loans | Loan from | | | | Others | Compensation and Other Bonds | Special Securities Issued To NSSF of Central Government | Loan From NCDC | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | LIC | GIC | NABARD (NRCLTO) | Bank | | | | | |
| 2020-21 | 55 | 2.33 | 0.18 | 0.02 | 0 | 0 | 0 | 13.47 | 0.55 | 71.55 |
| 2021-22 | 88.8 | 2 | 0.17 | 0.02 | 0 | 0 | 0 | 13.47 | 0.49 | 104.95 |
| 2022-23 | 115.83 | 1.81 | 0.17 | 0.01 | 0 | 0 | 0 | 13.47 | 0.42 | 131.71 |
| 2023-24 | 128 | 1.2 | 0.15 | 0 | 0 | 0 | 0 | 13.47 | 0.3 | 143.12 |
| 2024-25 | 132 | 0.91 | 0.14 | | 0 | 0 | 0 | 13.47 | 0.28 | 146.81 |
| 2025-26 | 150 | 0.55 | 0.12 | | 0 | 0 | 0 | 12.06 | 0.22 | 162.95 |
| 2026-27 | 173 | 0.18 | 0.11 | | 0 | 0 | 0 | 10.38 | | 183.67 |
| 2027-28 | 110 | 0.08 | 0.11 | | 0 | 0 | 0 | 8.29 | 0 | 118.48 |
| 2028-29 | 135 | 0 | 0.1 | | 0 | 0 | 0 | 5.75 | 0 | 140.85 |
| 2029-30 | 180.73 | 0 | 0.08 | | 0 | 0 | 0 | 4.78 | 0 | 185.59 |
| 2030-31 | 55 | 0 | 0.06 | | 0 | 0 | 0 | 3.38 | 0 | 58.44 |
| 2031-32 | | 0 | 0.05 | | 0 | 0 | 0 | 2.04 | 0 | 2.09 |
| 2032-33 | 75 | 0 | 0.03 | | 0 | 0 | 0 | 0.93 | 0 | 75.96 |
| 2033-34 | 30 | 0 | 0.03 | | 0 | 0 | 0 | 0.84 | 0 | 30.87 |
| 2034-35 | 5 | 0 | 0.02 | | 0 | 0 | 0 | 0.83 | 0 | 5.84 |
| 2035-36 | 19.3 | 0 | 0 | | 0 | 0 | 0 | 0.79 | 0 | 20.09 |
| 2036-37 | | 0 | | | 0 | 0 | 0 | 0.6 | 0 | 0.6 |
| 2037-38 | 45 | 0 | | | 0 | 0 | 0 | 0.6 | 0 | 45.6 |
| 2038-39 | - | 0 | | | 0 | 0 | 0 | 0.28 | 0 | 0.28 |
| 2039-40 | | 0 | | | 0 | 0 | 0 | 0 | 0 | |
| Total | 1497.66 | 14.4 | 1.89 | 0.08 | 0 | 0 | 0 | 145.57 | 3.64 | 1663.23 |

*Source: Finance Accounts & State Budget Documents*

| Table 4.20 | | |
|---|---|---|
| **INTEREST RATE PROFILE OF OUTSTANDING LOANS AND ADVANCES FROM CENTRAL GOVERNMENT** | | |
| Rate of Interest ( Per Cent) | Outstanding as on 31-3-2019 | |
| | Rs. in Lakhs | Share (%) |
| 7.00 to 7.99 | 124212.85 | 17.15 |
| 9.00 to 9.99 | 95727.19 | 13.22 |
| 10.00 to 10.99 | | |
| I 1.00 to 11.99 | 452.28 | 0.06 |
| 12.00 to 12.99 | 935.65 | 0.13 |
| 13.00 to 13.99 | 20.52 | |
| Rates not available with AG (A&E)* | 502992.67 | 69.44 |
| Total | 724,341.16 | 100 |
| **Represents loans under Externally Aided Projects (Back to Back), Rehabilitation (Loans for Social Security and Welfare) etc.* | | |
| *Source: Finance Accounts* | | |

Based on examination of the debt profile of the State, the following measures are suggested by the committee to alleviate the interest and debt burden of the States such as spread the redemption pressures and reduce roll-over risks. Appendix No.4 contains brief notes on the various measures and facilities discussed in this Report.

## 1. Case for a write-off/moratorium

Government of India have advised Banks to extend moratoriums on its loans advanced to give some comfort to borrowers during these stressed times. In fact, many State Governments are facing the gravest stress in the history of independent India. In view of the economic impact that the State is facing as a result of the pandemic, the Committee feels that it should request the Government of India to write-off of a portion of the repayments in the next three years or offer a moratorium for the next three years, for the consolidated loans given the current financial constraints faced by the State.

## 2. Debt Swap Scheme (DSS)

The Committee is of the view that State should address the Central Government to facilitate DSS for the outstanding Central Government loans excluding the EAP amounting to Rs. 2213 crore. The loans having near term redemption may be considered for the scheme. The State could swap selected loans from the portfolio for market borrowings at lower interest rates.

## 3. Debt Consolidation and Relief Facility

The Committee feels that State could also, as another alternative, request the Government of India for a consolidation of Rs 2213 Crore of Central Government Loans to fresh loans of 20-year tenure from Centre at lower rates comparable to prevailing market rates. This could provide significant reduction in the average interest rate paid for the present outstanding loans so consolidated.

## 4. Switch/Conversion of State Development Loans (SDL)

State could explore Switch/Conversion of SDL which are coming up for redemption in the near term. Rescheduling of debt over a longer period will help the State reduce the annual budgetary outgo for states in terms of amortization. The modalities for the switch transaction may be on the same lines as that being pursued for GOI dated securities. The Committee feels that the Government should initiate an immediate dialogue with both the Ministry of Finance and the Reserve Bank of India. The following objectives could be fulfilled through Switch/Conversion of SDLs:

**Debt roll over management**: State Governments will have a window to reassess their debt maturities over a longer time frame and attempt to push out a proportion of securities' maturity point

**Enhance liquidity:** By suitably selecting the source security and destination security for the switch operation, the States' ability to increase the number of outstanding securities in an existing tranche of securities will enhance liquidity of that tranche.

**Pricing & Curve:** Additional liquidity will enable better price discovery for fresh issuances over the longer term and smoothen the existing debt curve.

**Optimize cash outflows:** In a market where interest rates are tending lower, it provides an avenue for States to attempt to exchange a proportion of high cost debt securities with lower cost debt securities and also extend tenure for certain proportion of short-term maturities. Thus, this would enable spreading of the redemption pressures and near-term cash outflows towards interest servicing.

A preliminary analysis of the outstanding SDLs of the State of Kerala indicates that about **Rs 27963 crore** of outstanding SDLs will have to be redeemed in the next 3 years, the same may be considered for switching to destination SDLs of longer term. (**Table No.4.21**) For destination securities, State could consider reissue of securities at appropriate maturities considering the appetite of the investors so that the best pricing may be obtained. While investors of SDLs such as Pension Funds and Insurance Companies would ideally look for longer maturity, banks/financial institutions/mutual funds would look for securities with medium term maturity, given the lower duration so that they could ensure their portfolio's interest rate risks are manageable.

| Table No. 4. 21 | | | | | |
|---|---|---|---|---|---|
| **Maturity Profile of Outstanding State Development Loans (SDL) of Kerala** | | | | | |
| Coupon (%) / Residual Maturity (Year) | 0 - 3 Year | 3-May Year | 5-Jul Year | 7-Oct Year | Oct-20 Year |
| | Rupees in Crores | | | | |
| **5% < X < 6%** | 500 | 500 | 500 | 0 | 0 |
| **6% < X < 7%** | 0 | 0 | 1500 | 1471 | 500 |
| **7% < X < 8%** | 0 | 2000 | 19300 | 18602 | 9500 |
| **8% < X < 9%** | 23513 | 10800 | 11500 | 23500 | 8930 |
| 9% < X < 10% | 3950 | 14700 | 0 | 0 | 0 |
| *Source: Finance Accounts, Govt. of Kerala* | | | | | |

The Committee recommends that an Advisory Group may be engaged by Finance Department to draw up a plan for Switch/Conversion of SDL and liaise with the Reserve Bank of India for facilitating this market operation.

## Summary of recommendations

### Salaries

Long term expenditure stabilisation will arise only after optimising the deployment of human resources in Government, as salaries and pensions account for the major share of the State's expenditure leaving precious little for its development role. The Committee recommends that Government may engage a panel of experts to conduct functional reviews. A High-Level Committee at the Government level may be constituted to study and make recommendations to the Council of Ministers.

### Pensions

The Committee has analysed the different option of savings that will result from increasing retirement age by one to four years and estimates that this could range from Rs.3700 crore per annum to Rs.16000 crore over four years.

## Covid-19 Income Support Fund Scheme (CISF)

The committee proposes a Covid-19 Income Support Fund Scheme (CISF). This will bring from salary an additional recourse of Rs.3300 crore from and from pension an additional recourse of Rs.375 crore over the twelve months beginning September 1, 2020, yielding a total contribution of Rs.3675 crore.

## High-level Expert Group to study the functions and financing of Aided Educational Institutions

The Committee recommends that Government may appoint a High-Level Expert Group comprising of recognized Experts in Education, Finance and Law to submit a report on reforming of Government financing of Aided Educational Institutions in the State.

## Reduction in Interest burden

The Committee recommends the following:

- **a)** Government of Kerala may initiate steps to discuss with Government of India seeking concessional repayment facilities by way of write-offs/moratoriums/ Debt swap accommodation/Debt consolidation and relief activities on its debt burden on the portion that the State owes the Centre.
- **b)** Reserve Bank of India may be approached for facilitating a programme for switch/conversion of State Development Loans taken in the past in the manner that is available to Government of India currently.
- **c)** Finance Department should engage Market Advisory Services of premier institutions as arrangements for the programme and to liaise with RBI for the implementation of the same.

# Section – 5

## Additional Tax Revenue from Petrol and Diesel

# Section – 5
# Additional Tax Revenue from Petrol and Diesel

Petrol and Diesel are the non-GST goods and a mainstay of state revenues. As a state subject, sales tax is levied on such goods either through Sales Tax Act or Value Added Tax Act (effective from 1-4-2005). In Kerala, it is levied by Kerala General Sales Tax Act (KGST) 1963. This Act puts an upper ceiling rate in its schedule - 44 per cent for petrol and 40 per cent for diesel. As per Section 10 of the said Act, Government has to issue relevant notification, as and when it is required, for reducing or hiking the tax rates of petrol and diesel within the ceiling prescribed in the Schedule. Normally states implement these changes in order to stabilise their tax revenue vis-à-vis the retail price in the context of changes in the crude oil price (base price) and the central levies.

The current KGST rate on petrol is 30.08 per cent and for diesel it is 22.76 per cent. In addition, an additional sales tax of Re.1 per litre (Specific Tax) and a Social Security Cess of 1 per cent are also collected on sale of both the goods. In total, the effective KGST rate of petrol is 32.11 per cent and for diesel is 24.67 per cent for end consumers. This effective rate of Kerala is lower when compared to some of the southern States like Tamil Nadu (Petrol – 34 per cent and Diesel 25 per cent) and Telengana (Petrol – 35.2 per cent and Diesel 27 per cent) ***(Table No.5.1).*** Kerala's tax revenue from petrol and diesel in the year 2018-19 was Rs.7805 crore. It constitutes 15 per cent of own tax revenue and 40 per cent of the revenue from non-GST goods (when compared to liquor).

The price break-up of petrol and diesel consist of the components of basic price, excise duty, transportation charge, taxable value, sales tax, additional sales tax, social security cess and dealer commission. The price of the petrol and diesel are mainly dependent on the price of the crude oil basket. If the price of India crude oil decreases, it should reflect in the commensurate reduction of the retail price of the petrol and diesel. The basic price, which reflects based on the crude oil price, came down by Rs 10,000 per 1000 litres on May 5, 2020. This should have been reflected in the retail price had the central government instantly not raised the existing Excise duty (Specifically the Special Excise duty and Cess) duty from Rs.22.98 to Rs.32.98 per litre. This increase in the excise duty is done by the central government in order to generate more revenue from these two goods. This instant increase in the excise duty to fill the price gap resulted in no change in the retail price of petrol and diesel. Thus, the benefits of the price reduction in crude oil have not been passed to the public in terms of proportionate reductions in price. After having appropriated the benefit of the decline in international oil prices, in the immediate past, the Central Government has now passed on the liability of recent increases in international price on to the consumers through daily increases while retaining the central duties at Rs 32.98 per litre.

In an ideal situation, the impact of price decrease in the crude oil price can be shared by three stakeholders involved in the goods. These are the Union Government by increasing the excise duty, the state governments by increasing the sale tax rates and thirdly by reducing the retail price burden on the public. Both the Governments under the cooperative federalism ideally can transfer a portion of the benefit as price reduction to consumer and the other portion as proportionate increase in their respective taxes, i.e., excise duty and sales tax.

In the present situation of covid-19 financial crisis, the Union government appropriated the price reduction of crude oil almost entirely without giving an opportunity to the state governments to augment its revenue by increasing the sales tax rate while maintaining the present retail price.

During March 2019, the global price for Indian crude oil import basket was $66.74 per barrel. This was reduced during February 2020 to $54.63 per barrel, during

March 2020 to $33.36 per barrel and further to a bottom level during April 2020 to US$19 per barrel, but this figure has now increased to US$30.60 in May, 2020. The original fall in global prices should have translated into a reduction of Rs 15-20 per litre in the retail prices of petrol and diesel. As mentioned earlier, Government of India has enhanced excise duty by Rs. 13 per litre to appropriate the benefit of the decline in international oil prices.

The price of India Crude Oil basket had come down to rock bottom by 74 per cent during the last one year. Despite this huge reduction the retail price more or less remained unchanged during the period. For example, in the case of petrol, the entire benefit of reduction in the international price has been appropriated by Government of India by increasing in the case of Petrol the special additional excise duty and road cess (to Rs. 12 per litre and Rs. 18 per litre respectively). These are not even a part of the divisible pool and are not devolved to states through the Finance Commission's formula.

**Table No.5.1**

**Prevailing State-wise Tax Rates of Petrol and Diesel**

| Sl. No. | State/UT | Sales Tax/VAT (Ad Valorem and Specific Tax | |
|---|---|---|---|
| | | Petrol | Diesel |
| 1 | Andaman & Nicobar Islands | 6% | 6% |
| 2 | Andhra Pradesh | 31% VAT + Rs.2.76/litre VAT | 22.25% VAT + Rs.3.07/litre VAT |
| 3 | Arunachal Pradesh | 20.00% | 12.50% |
| 4 | Assam | 32.66% or Rs.22.63 per litre whichever is higher as VAT | 23.66% or Rs.17.45 per litre whichever is higher as VAT |
| 5 | Bihar | 26% or Rs 16.65/Litre whichever is higher (30% Surcharge on VAT as irrecoverable tax) | 19% or Rs 12.33/Litre whichever is higher (30% Surcharge on VAT as irrecoverable tax) |
| 6 | Chandigarh | Rs.10/KL cess +22.45% or Rs.12.58/Litre whichever is higher | Rs.10/KL cess + 14.02% or Rs.7.63/Litre whichever is higher |
| 7 | Chhattisgarh | 25% VAT + Rs.2/litre VAT | 25% VAT + Rs.1/litre VAT |
| 8 | Dadra and Nagar Haveli and Daman and Diu | 20% VAT | 15% VAT |

| Table No.5.1 *Continued* | | | |
|---|---|---|---|
| **Prevailing State-wise Tax Rates of Petrol and Diesel** | | | |
| Sl. No. | State/UT | Sales Tax/VAT (Ad Valorem and Specific Tax | |
| | | Petrol | Diesel |
| 9 | Delhi | 30% VAT | Rs.250/KL air ambience charges + 30% VAT |
| 10 | Goa | 25% VAT + 0.5% Green cess | 18% VAT + 0.5% Green cess |
| 11 | Gujarat | 17% VAT+ 4% Cess on Town Rate & VAT | 17% VAT + 4 % Cess on Town Rate & VAT |
| 12 | Haryana | 25% or Rs.15.20/litre whichever is higher as VAT+5% additional tax on VAT | 16.40% VAT or Rs.9.20/litre whichever is higher as VAT+5% additional tax on VAT |
| 13 | Himachal Pradesh | 25% or Rs 15.50/Litre-whichever is higher | 14% or Rs 9.00/Litre-whichever is higher |
| 14 | Jammu & Kashmir | 24% MST+ Rs.5/Litre employment cess, Reduction of Rs.0.50/Litre | 16% MST+ Rs.1.50/Litre employment cess |
| 15 | Jharkhand | 22% on the sale price or Rs. 15.00 per litre , whichever is higher + Cess of Rs 1.00 per Ltr | 22% on the sale price or Rs. 8.37 per litre , whichever is higher + Cess of Rs 1.00 per Ltr |
| 16 | Karnataka | 35% sales tax | 24% sales tax |
| 17 | Kerala | 30.08% sales tax+ Rs.1/litre additional sales tax + 1% cess | 22.76% sales tax+ Rs.1/litre additional sales tax + 1% cess |
| 18 | Ladakh | 24% MST+ Rs.5/Litre employment cess, Reduction of Rs.2.5/Litre | 16% MST+ Rs.1/Litre employment cess , Reduction of Rs.0.50/Litre |
| 19 | Lakshadweep | Nil | Nil |
| 20 | Madhya Pradesh | 33 % VAT + Rs.3.5/litre VAT+1%Cess | 23% VAT+ Rs.2/litre VAT+1% Cess |
| 21 | Maharashtra – Mumbai, Thane &Navi Mumbai | 26% VAT+ Rs.10.12/Litre additional tax | 24% VAT+ Rs.3.00/Litre additional tax |
| 22 | Maharashtra (Rest of State) | 25% VAT+ Rs.10.12/Litre additional tax | 21% VAT+ Rs.3.00/Litre additional tax |
| 23 | Manipur | 36.50% VAT | 22.50% VAT |
| 24 | Meghalaya | 31% or Rs17.60/Litre-whichever is higher (2% surcharge leviable only on advalorem tax) | 22.5% or Rs12.50/Litre-whichever is higher (2% surcharge leviable only on advalorem tax) |
| 25 | Mizoram | 25% VAT | 14.5% VAT |

| Table No.5.1 *Continued* | | | |
|---|---|---|---|
| **Prevailing State-wise Tax Rates of Petrol and Diesel** | | | |
| Sl. No. | State/UT | Sales Tax/VAT (Ad Valorem and Specific Tax | |
| | | Petrol | Diesel |
| 26 | Nagaland | 25.00% VAT +5% surcharge + Rs.2.00/Litre as road maintenance cess +Rs.6.00/Litre as Covid cess | 14.50% VAT+ 5% surcharge + Rs.2.00/Litre as road maintenance cess+Rs.5.00/Litre as Covid cess |
| 27 | Odisha | 32% VAT | 28% VAT |
| 28 | Puducherry | 28% VAT | 21.80% VAT |
| 29 | Punjab | Rs.2050/KL (cess)+ Rs.0.10 per Litre (Urban Transport Fund) +23.30% VAT+10% additional tax on VAT | Rs.1050/KL (cess) + Rs.0.10 per Litre (Urban Transport Fund) + 15.15% VAT+10% additional tax on VAT |
| 30 | Rajasthan | 38% VAT+Rs 1500/KL road development cess | 28% VAT+ Rs.1750/KL road development cess |
| 31 | Sikkim | 25.25% VAT+ Rs.3000/KL cess | 14.75% VAT + Rs.2500/KL cess |
| 32 | Tamil Nadu | 15% + Rs.13.02 per litre | 11% + Rs.9.62 per litre |
| 33 | Telangana | 35.20% VAT | 27% VAT |
| 34 | Tripura | 25% VAT+ 3% Tripura Road Development Cess | 16.50% VAT+ 3% Tripura Road Development Cess |
| 35 | Uttar Pradesh | 26.80% or Rs 18.74/Litre whichever is higher | 17.48% or Rs 10.41/Litre whichever is higher |
| 36 | Uttarakhand | 25% or Rs.17/litre whichever is higher as VAT | 17.48% VAT or Rs.9.41/litre whichever is higher as VAT |
| 37 | West Bengal | 25% or Rs.13.12/litre whichever is higher as sales tax+ Rs.1000/KL cess- Rs.17/KL exemption (20% Additional tax on VAT as irrecoverable tax) | 17% or Rs.7.70/litre whichever is higher as sales tax + Rs 1000/KL cess – Rs 290/KL sales tax rebate (20% Additional tax on VAT as irrecoverable tax) |
| (As per details provided by OMCs) | | | |
| Note: For Petrol & Diesel, VAT/Sales Tax at applicable rates is also levied on dealer's commission in Arunachal Pradesh, Delhi, Gujarat, Haryana, Madhya Pradesh, Punjab, Rajasthan, Chandigarh, Puducherry, Andaman & Nicobar, Meghalaya, Dadar Nagar Haveli and Daman & Diu. | | | |
| *Source: Petroleum Planning and Analysis Cell, (PPAC) Ministry of Petroleum and Natural Gas, Government of India (Rate as on 1-6-2020)* | | | |

## Oil Marketing Companies and Basic price margin

As per the Petroleum Planning and Analysis Cell (PPAC), Ministry of Petroleum and Natural Gas, Government of India, the basic price for Petrol as on 01.06.2020 is Rs. 17.96 per litre on which the excise duty of the Government of India is Rs 32.98 per litre, freight Rs. 0.32, dealer's commission Rs. 3.56 and VAT/ST Rs. 16 (average for States), which builds up to a retail price of Rs. 71. The basic price of Rs. 17.96 per litre fixed by the Oil Marketing Companies (OMC) is on the basis of Trade Parity Price (TPP) of Petrol (or diesel) in the international market. TPP is determined by an 80 per cent weightage to the prevailing import price of petrol and a 20 per cent weightage to the Export price of Petrol. Based on the international prices, the TPP of petrol should be Rs. 10-11 per litre, which means that the OMC's were probably still holding a margin of at least Rs.7 per litre even after the Government of India fully filled the gap by increasing excise duty .But this basic price figure has subsequently increased to Rs 22.11 per litre as on 16.6.2020 based on the current TTP.

In this context, it is worthwhile to mention the price change made by Government of Kerala during 2018 in the context of price increase in the international market. The Government of Kerala had reduced the rate of tax on Diesel from 24.52% to 22.76% and for Petrol from 31.8% to 30.08% under the Kerala General Sales Tax Act, 1963 by amending the notification no. SRO 319/2005 with effect from 1st June 2018, as per notification No. 345/2018. This notification was issued to give relief to the consumers in light of increase in International Price of crude oil. In the recent past, in the backdrop of the financial crises caused by the Covid 19 pandemic, most states have increases notified in VAT/ST rates on fuel to buffer their public finances. For example, Tamil Nadu has (dated 03/05/2020) changed its existing Sales Tax/VAT duty structure on petrol and diesel in the following manner:

| Particulars | Petrol | Diesel |
|---|---|---|
| Tamil Nadu (existing rate) | 34 per cent | 25 per cent |
| Tamil Nadu (from 03/05/2020) | 15 per cent ad valorem plus Rs.9.62 per litre as specific duty | 11 per cent ad valorem plus Rs.13.02 per litre as specific duty |

Similarly, other states like Delhi, Assam, Nagaland etc. have hiked rates during 01/05/2020. States like Maharashtra, Tamil Nadu, Telangana, Andhra Pradesh and Karnataka, on an average, have ST rates that are 5 percent higher than Kerala. State's VAT / ST rates on fuel are shown in Table 5.1.

Given that the international oil prices have come down significantly, the existing sales tax rate structure of Government of Kerala may need to be changed to protect our revenues especially in view of the present financial crisis faced by the Government of Kerala due to Covid-19.

## Towards a new Sales Tax Rate structure for petrol and Diesel

The existing rate of Sales Tax, based mainly on ad-valorem rates, needs to be revisited in the context of fluctuation in the basic price and excise duty policy of Central Government and the low international oil prices in the medium terms. A combination of ad valorem and specific duty (certain percentage of ad-valorem and fixed tax as certain rupees per litre) is proposed.

### Petrol

For petrol, four scenarios of tax structure in combination of ad valorem and fixed tax with possible impact on retail price, tax revenue, and effective tax rate are calculated **(Table No.5.2).** In Scenario 1, 15 per cent ad valorem with Rs. 7.8 per litre specific tax is applied on the present base price of Rs.18386.30. The effective tax rate under this case is 32.4 per cent which resulted only with a slight increase in price (Re. 0.03) per litre followed with Rs.30.13 tax revenue gain per 1000 litres. In

Scenario 2, the above same rates applied on the future reduced base price Rs.11386.30 (a decline of Rs.7000). This has resulted in an effective rate of 35.11 per cent, Rs.8.03 price reduction per litre in retail price and Rs.1030.37 revenue loss per 1000 litres.

In Scenario 3, 15 per cent ad valorem with Rs. 11.8 per litre specific tax is applied on the present base price of Rs.18386.30. This calculation has resulted in 40.24 per cent of effective rate with Rs.4.07 increase in retail price and Rs.4070.13 revenue gain per 1000 litres. The same tax rates are applied in the Scenario 4 wherein it ended up at 44.18 per cent effective rate, Rs.3009.63 revenue gain and Rs.3.99 reduction in retail price.

**Based on the above analysis, the committee suggests introducing the Scenario 3 for petrol with immediate effect and continuing the same rate as explained in Scenario 4 till the base price gets reduced by Rs.7000 per thousand litres.**

| Table No. 5.2 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **PETROL - Ad Valorem and Specific Tax in Four Scenarios (In Rupees)** | | | | | | | |
| Sl. No. | Particulars | As on 1/05/2020 | As on 7/05/2020 | Scenario 1: 15.00 per cent + Rs.7.8 per litre | Scenario 2: 15.00 per cent + Rs.7.8 per litre (Rs.7000 basic price decline) | Scenario 3: 15.00 per cent + Rs.11.8 per litre | Scenario 4: 15.00 per cent + Rs.11.8 per litre (Rs.7000 basic price decline) |
| 1 | Basic Price | 28386.30 | 18386.30 | 18386.30 | 11386.30 | 18386.30 | 11386.30 |
| 2 | Excise Duty | 22980.00 | 32980.00 | 32980.00 | 32980.00 | 32980.00 | 32980.00 |
| 3 | Transportation Charge | 160.03 | 160.03 | 160.03 | 160.03 | 160.03 | 160.03 |
| 4 | Taxable Value | 51526.33 | 51526.33 | 51526.33 | 44526.33 | 51526.33 | 44526.33 |
| 5 | *Ad Valorem Sales Tax (%)* | *30.08* | *30.08* | *15.00* | *15.00* | *15.00* | *15.00* |
| 6 | *Specific Sales Tax (Rs.)* | *0.00* | *0.00* | *7800.00* | *7800.00* | *11800.00* | *11800.00* |
| 7 | Ad Valorem Sales Tax | 15499.12 | 15499.12 | 7728.95 | 6678.95 | 7728.95 | 6678.95 |
| 8 | Specific Sales Tax | 0.00 | 0.00 | 7800.00 | 7800.00 | 11800.00 | 11800.00 |
| 9 | Additional Sales Tax | 1000.00 | 1000.00 | 1000.00 | 1000.00 | 1000.00 | 1000.00 |
| 10 | Total: 7+8+9 | 16499.12 | 16499.12 | 16528.95 | 15478.95 | 20528.95 | 19478.95 |
| 11 | Cess - 1% on Row 10 | 164.99 | 164.99 | 165.29 | 154.79 | 205.29 | 194.79 |
| 12 | Price | 68190.44 | 68190.44 | 68220.57 | 60160.07 | 72260.57 | 64200.07 |
| 13 | Commission | 3223.56 | 3223.56 | 3223.56 | 3223.56 | 3223.56 | 3223.56 |
| 14 | Retail Price | 71414.00 | 71414.00 | 71444.13 | 63383.63 | 75484.13 | 67423.63 |
| 15 | Price per litre | 71.41 | 71.41 | 71.44 | 63.38 | 75.48 | 67.42 |
| 16 | Tax Revenue - Row. 10+11 | 16664.11 | 16664.11 | 16694.24 | 15633.74 | 20734.24 | 19673.74 |
| 17 | Tax Revenue - Gain/fall | 0.00 | | 30.13 | -1030.37 | 4070.13 | 3009.63 |
| 18 | Price change | 0 | 0 | 0.03 | -8.03 | 4.07 | -3.99 |
| 19 | Eff: Tax Rate - Row16/4*100 | 32.34 | 32.34 | 32.40 | 35.11 | 40.24 | 44.18 |

*Source: Committee's Estimation*

## Diesel

Similar analysis is done in the case of diesel also. In Scenarios 1 & 2, 11 per cent ad valorem rates with Rs 6000 per 1000 litres are applied on the existing base price and reduced base price **(Table No.5.3).** In the Scenario 1, it resulted in 25.02 per cent effective tax rate, a slight increase in retail price per litre (Rs. 0.02) and a margin of revenue gain of Rs.21.14 per thousand litres. In Scenario 2, it ended up with 27.24 per cent effective rate, Rs 7.76 per litre reduction in retail price and Rs 756.56 revenue loss per 1000 litres.

In Scenarios 3 & 4, 11 per cent ad valorem rates with Rs 9000 per 1000 litres are applied on the existing base price and reduced base price. In Scenario -3, 30.98 per cent effective rate with Rs.3.05 per litre price increase and Rs.3051.14 per thousand litres tax revenue gain depicted. In the Scenario -4, 34.15 per cent effective rate, with Rs.4.73 reduction in retail price but with a revenue gain of Rs.2273.44 is projected.

***Based on the above analysis, the committee* suggests introducing *the Scenario 3 for diesel with immediate effect and continuing the same rate as explained in Scenario 4 till the base price is reduced by Rs.7000 per thousand litres.***

The above analysis of petrol and diesel is done with the basic assumption that the Government of India will not further increase the excise duty in near future due to further reduction in the base price.

| Table No. 5.3 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **DIESEL - Ad Valorem and Specific Tax in Four Scenarios ( In Rupees)** | | | | | | | |
| Sl. No. | Particulars | As on 1/05/2020 | As on 7/05/2020 | Scenario 1: 11.00 per cent + Rs.6 per litre (Existing price structure) | Scenario 2: 11.00 per cent + Rs.6 per litre (Rs.7000 basic price decline) | Scenario 3: 11 per cent + Rs.9 per litre (Rs.7000 basic price decline) | Scenario 4: 11 per cent + Rs.9 per litre (Rs.7000 basic price decline) |
| 1 | Basic Price | 31852.36 | 18852.36 | 18852.36 | 11852.36 | 18852.36 | 11852.36 |
| 2 | Excise Duty | 18830.00 | 31830.00 | 31830.00 | 31830.00 | 31830.00 | 31830.00 |
| 3 | Transportation Charge | 160.03 | 160.03 | 160.03 | 160.03 | 160.03 | 160.03 |
| 4 | Taxable Value | 50842.39 | 50842.39 | 50842.39 | 43842.39 | 50842.39 | 43842.39 |
| 5 | *Ad Valorem Sales Tax (%)* | *22.76* | *22.76* | *11.00* | *11.00* | *11.00* | *11.00* |
| 6 | *Specific Sales Tax (Rs.)* | *0.00* | *0.00* | *6000.00* | *6000.00* | *9000.00* | *9000.00* |
| 7 | Ad Valorem Sales Tax | 11571.73 | 11571.73 | 5592.66 | 4822.66 | 5592.66 | 4822.66 |
| 8 | Specific Sales Tax | 0.00 | 0.00 | 6000.00 | 6000.00 | 9000.00 | 9000.00 |
| 9 | Additional Sales Tax | 1000.00 | 1000.00 | 1000.00 | 1000.00 | 1000.00 | 1000.00 |
| 10 | Total: 7+8+9 | 12571.73 | 12571.73 | 12592.66 | 11822.66 | 15592.66 | 14822.66 |
| 11 | Cess - 1% on Row 10 | 125.72 | 125.72 | 125.93 | 118.23 | 155.93 | 148.23 |
| 12 | Price | 63539.84 | 63539.84 | 63560.98 | 55783.28 | 66590.98 | 58813.28 |
| 13 | Commission | 2163.90 | 2163.90 | 2163.90 | 2163.90 | 2163.90 | 2163.90 |
| 14 | Retail Price | 65703.74 | 65703.74 | 65724.88 | 57947.18 | 68754.88 | 60977.18 |
| 15 | Price per litre | 65.70 | 65.70 | 65.72 | 57.95 | 68.75 | 60.98 |
| 16 | Tax Revenue - Row. 10+11 | 12697.45 | 12697.45 | 12718.59 | 11940.89 | 15748.59 | 14970.89 |
| 17 | Tax Revenue - Gain/fall | 0.00 | 0.00 | 21.14 | -756.56 | 3051.14 | 2273.44 |
| 18 | Price change per litre | 0 | 0 | 0.02 | -7.76 | 3.05 | -4.73 |
| 19 | Eff:: Tax Rate Row.16/4*100 | 24.97 | 24.97 | 25.02 | 27.24 | 30.98 | 34.15 |
| *Source: Committee's Estimation* | | | | | | | |

## Additional Resource Mobilization (ARM)

Based on the 2018-19 (accounts) turnover for petrol and diesel, a conservative turnover is estimated for 2020-21 by adding 1 per cent increase in each year. The estimated turnover for the year 2020-21 for petrol is Rs.12442 and for Diesel is Rs.18354 Crore **(TableNo.5.4).** It is also assumed that the estimated turnover will remain same in all the four scenarios. From the estimated turnover, gross tax revenue and additional revenue in each of the four scenarios are calculated. **As recommended by the committee the ideal situation is scenario 3 and when the base price gets reduced, the scenario 4 can be implemented without any change in the tax structure. The additional revenue from scenario 3 is Rs.2086 crore *(Petrol Rs. 983 crore and Diesel Rs.1103 crore)*. If the base price reduces to the extent of Rs.7000, as explained in Scenario - 4, with the same tax structure and rates, the additional revenue increases to Rs.3158 crore (*Petrol Rs. 1473 crore and Diesel Rs.1685 crore)***

| Table No.5.4 | | | | | |
|---|---|---|---|---|---|
| **Additional Revenue Mobilisation from Petrol and Diesel** | | | | | |
| **PETROL** | | | | | |
| Particulars | Turnover (Rs. in Crore)* | Effective Tax Rate ( Per centage) | Tax (Rs. in Crore) | Price Per Litre (Rs.) | Increase in Tax Revenue (Rs. in Crore) |
| As on 1/05/2020 | 12442 | 32.34 | 4024 | 71.41 | 0 |
| As on 7/05/2020 | 12442 | 32.34 | 4024 | 71.41 | 0 |
| Scenario -1 | 12442 | 32.40 | 4031 | 71.44 | 7 |
| Scenario -2 | 12442 | 35.11 | 4368 | 63.38 | 345 |
| Scenario -3 | 12442 | 40.24 | 5007 | 75.48 | 983 |
| Scenario -4 | 12442 | 44.18 | 5497 | 67.42 | 1473 |
| **DIESEL** | | | | | |
| Ason 1/05/2020 | 18354 | 24.97 | 4583 | 65.70 | 0 |
| As on 7/05/2020 | 18354 | 24.97 | 4583 | 65.70 | 0 |
| Scenario -1 | 18354 | 25.02 | 4592 | 65.72 | 9 |
| Scenario -2 | 18354 | 27.24 | 5000 | 57.95 | 417 |
| Scenario -3 | 18354 | 30.98 | 5686 | 68.75 | 1103 |
| Scenario -4 | 18354 | 34.15 | 6268 | 60.98 | 1685 |
| Additional Revenue - Petrol and Diesel | | | | | |
| Scenario 1 | | | | | 17 |
| Scenario 2 | | | | | 761 |
| Scenario 3 | | | | | 2086 |
| Scenario 4 | | | | | 3158 |
| Note: Actual Turnover of Petrol is Rs.12197 Crore and of Diesel is Rs.18172 crore during 2018-19. Turnover for 2020-21 is estimated as 2 per cent increase from 2018-19 | | | | | |
| Note: No change in the total turnover is assumed in all the three scenarios | | | | | |
| *Source: Committee's Estimation from Tables 5.2&5.3* | | | | | |

## Recommendations

**Based on the above discussion, the Ad valorem duty and specific duty for petrol and diesel is proposed by the committee as follows:**

| Particulars | Petrol | Diesel |
|---|---|---|
| Kerala (Existing Rate) | 30.08 per cent Sales Tax plus Rs. 1 per litre additional sales tax plus 1 per cent social security cess | Rs.22.76 per cent Sales Tax plus Rs.1 per litre additional sales tax plus 1 per cent social security cess |
| Kerala (Proposed Rates) | 15 per cent ad valorem plus Rs.11.80 per litre as specific duty plus Rs.1 per litre additional sales tax plus 1% social security cess | 11 per cent ad valorem plus Rs.9 per litre as specific duty plus Rs.1 per litre additional sales tax plus 1% social security cess |

It is also suggested to increase the maximum ceiling limits of tax rate for petrol and diesel from the present rate of 44 per cent and 40 per cent to 55 per cent and 50 per cent through appropriate amendment in the schedule of KGST Act 1963. This will safeguard the effective tax rate in case of Scenario 4 or beyond. **Additional tax revenue of Rs.2086 crore is estimated due to the revised structure of sales tax rates on Petrol and Diesel.**

The committee also recommends that whenever there is a base price increase of petrol and diesel due to the increase in crude oil price, the centre and State has to adjust their tax rates (both specific and ad valorem taxes). This combined effort of union and states will protect the final price of the consumer due the specific tax element in the price component. The effect of price fluctuation (both increase and decrease) for crude oil are to be equitably shared by the central, state and consumers. Thought the tax rates of crude oil, petrol, diesel, aviation turbine fuel and natural gas are kept outside the GST ambit, the decisions of the union and State in this regard can be arrived in consensus at the GST council meetings.

# Section – 6

## Additional Revenue from Stamp Duty and Registration Fees

# Section 6
# Additional Revenue from Stamp Duty and Registration Fees

Stamp Duty and Registration fees are the two major source of income for the Registration Department of Government of Kerala. On an average, these account for 7 per cent of the total own tax revenue of the State. Stamp duty is collected by the Department from registered and unregistered documents. Around 80 per cent of stamp duty revenue is coming from the sale of land within the state. Currently, the rate of Stamp Duty is 8 per cent on the value of document or the fair value of the property whichever is higher. Apart from the stamp duty, a 2 per cent registration fee is also collected for the transaction of immovable property and it is 1 per cent for partitions, settlements etc. Fee is also collected for services such as encumbrance certificate, certified copy, special marriage, chits etc. which are negligible compared to immovable property.

The analysis of revenue from Stamp duty and registration fees vis-à-vis own tax revenue of the state during 2014-15 to 2020-21 are made. They have increased with 8.23 per cent growth rate during 2015-16 and registered only a growth rate of 4.48 per cent in 2016-17 due to demonetization. During 2017-18, they increased to 14.83 per cent and slumped to 6.97 per cent during 2019-20 as per the revised estimate. The budgeted estimates of 2020-21 assume a growth rate of 10 per cent **(Table No.6.1)**.

| Table No.6.1 | | | | | | |
|---|---|---|---|---|---|---|
| **Stamp Duty and Registration Fees in State's Own Tax Revenue** | | | | | | |
| Year | State's Own Tax Revenue (SOTR) | | Stamp Duty and Registration fee (SD &R) | | SD & D on SOTR (%) | Growth Rate (%) |
| | Rupees in Crore | Index | Rupees in Crore | Index | | |
| 2014-15 | 35232.5 | 100.0 | 2659.02 | 100.0 | 7.5 | |
| 2015-16 | 38995.15 | 110.7 | 2877.73 | 108.2 | 7.4 | 8.23 |
| 2016-17 | 42176.38 | 119.7 | 3006.59 | 113.1 | 7.1 | 4.48 |
| 2017-18 | 46459.61 | 131.9 | 3452.56 | 129.8 | 7.4 | 14.83 |
| 2018-19 | 50644.1 | 143.7 | 3693.17 | 138.9 | 7.3 | 6.97 |
| 2019-20(RE) | 55671.18 | 158.0 | 3914.76 | 147.2 | 7.0 | 6.00 |
| 2020-21(BE) | 67420.01 | 191.4 | 4306.24 | 161.9 | 6.4 | 10 |
| *Source: Calculated from the data from Budget-in-Brief* | | | | | | |

## Number of Documents and Revenue

The transaction of immovable property in terms of number of documents registered and tax revenue generated for the four-year period (2016-2020) are analysed. The number of documents registering on year-on-year basis shows a downward trend while the revenue shows an upward trend. The fair value of land increased by 10 per cent during 2018 and 2019 and this is the main reason for the higher growth in revenue collection. The decline in trend during 2019, as the Department officials opine, is due to General Elections. In 2019-20, there is a short fall of 46,937 documents and also revenue declined by Rs.97.43 crore from the previous year. This may be attributed due to Covid-19 lockdown during the fag end of the financial year **(TableNo.6.2)**. The number of documents reported during March for the four-year period also shows a sharp fall in March 2020 **(TableNo.6.3)**. Overall, the revenue from sale of immovable property (Land and Building) constitutes 82.2 per cent whereas it is 17.8 per cent only from partitions and settlements deeds (**Table No.6.4**).

| Table No.6.2 | | | | | | |
|---|---|---|---|---|---|---|
| **Stamp Duty and Registration: No. of Document and Revenue Collection** | | | | | | |
| Year | No of Documents | | | Stamp Duty and Registration | | |
| | Number | Index | Growth Rate (%) | Rs.in Crores | Index | Growth Rate (%) |
| 2016-17 | 869240 | 100.0 | | 2653.71 | 100.0 | |
| 2017-18 | 898599 | 103.4 | 3.38 | 3159.95 | 119.1 | 19.08 |
| 2018-19 | 878270 | 101.0 | -2.26 | 3316.07 | 125.0 | 4.94 |
| 2019-20 | 831333 | 95.6 | -5.34 | 3218.64 | 121.3 | -2.94 |

*Source: Department of Registration*

| Table No. 6.3 | | | Table No.6.4 | |
|---|---|---|---|---|
| Documents Registered | | | Revenue Collection | |
| Month & Year | Documents | | Type | Share (%) |
| | Number | Index | Sale | 82.2 |
| March 2017 | 100067 | 100.0 | Settlement | 5.5 |
| March 2018 | 108706 | 108.6 | Partition | 1.5 |
| March 2019 | 97586 | 97.5 | Gift | 1.5 |
| March 2020 | 58836 | 58.8 | Others | 4.2 |

Source: *Registration Department, Govt. of Kerala*

## Revenue augmentation

The revenue from stamp duty normally increase proportionately based on the registered value of the property and the rate of stamp duty. The undervaluation of registration of sale of immovable property is done by the public mainly due to two reasons. These are (1) to conceal the source of finance and further to escape from paying income tax to central government and/or (2) to avoid the stamp duty payment towards State government. Due to the predominance of undervaluation of property registration in Kerala, Government of Kerala had initiated several steps to reverse it. In 2010, Government of Kerala introduced fair value system as a benchmark for registration. Subsequently, through field study it was felt that fair value notified were far below the actual market value of land. Then, in 2014 the fair value of land was raised by 50 percent compared to 2010. During 2018, fair value was further increased by 10 per cent based on the fair value of 2014. In the year 2019, the fair value was again raised by 10 per cent based on the fair value of 2018. The Budget announced for the fiscal year 2020-21 increased the fair value by 10 per cent expecting a revenue increase of 200 crore.

Any official increase in the price of the land as fair value will usually affect the realty market. These are official floor values and it creates a strong benchmark to fairly negotiate the transaction value. Hence, a yearly revision of fair value of land actually works as a catalyst to boost the overall worth of the realty market in Kerala and also reduces undervaluation. As the transaction value of the land increases due to increase in fair value, public start investment in it as a long-term investment which leads to more vibrant transaction and registrations. This normally increases the stamp duty revenue to the Government provided the stamp duty rate is moderate enough to encourage compliance.

During 2010-11, 2013-14 and 2014-15 the stamp duty rates were revised. Currently the rate of stamp duty is fixed at 8 percent in Kerala irrespective of area. (Common for Panchayat, Municipality and Corporation) In addition, there are 2 per cent registration fees. Kerala has one of the highest rates of stamp duty and registration fees compared to other Southern States and Maharashtra **(Table No.6.5).**

A decrease in the rate of stamp duty and registration was attempted by the Registration Department in the year 2013-14. It ended up in a fall in number of deeds by 108302 in the year 2013-14 with a decline in collection of stamp duty and registration fees from Rs.2747.55 crore in 2012-13 to Rs.2353.47 crore in 2013-14. This experience gives a lesson that a mere reduction in rate of stamp duty and registration fees will not end up in increase in revenue unless it is tied with corresponding increase in the fair value of land **(Table No. 6.6).**

| Table No.6.5 | | |
|---|---|---|
| **Stamp and registration fees for Kerala, Southern States and Maharashtra** | | |
| States | Stamp Duty | Registration Fees |
| Kerala | 8% | 2% |
| Tamil Nadu | 7% | 1% |
| Andhra Pradesh | 5% | 1.50% |
| Karnataka | 7.68%<br>(5% stamp duty + surcharge + cess) | 1% |
| Maharashtra | 4% in rural area<br>5% other places | Rs. 1000 up to Rs.10,000. Thereafter Rs.10 for every Rs. 1000 rupees subject to a maximum of Rs.30,000 |

Source: *Collected from the respective States*

| Table 6.6 | | | |
|---|---|---|---|
| **Revenue fall due to reduction in Stamp Duty and Registration Fees** | | | |
| Financial Year | Rs in Crores | No. of sale deeds | Rate of Duty |
| 2012-13 | 2747.55 | 729319 | 7%. 8% & 9% |
| 2013-14 | 2353.47 | 621017 | 5%. 6% & 7% |
| Shortfall | 394.08 | 108302 | |

Source: *Registration Department*

The purchase and sale of immovable property depends on the needs of the people and the income level. For a hassle free and fair registration of immovable property a trade-off between the fair value of the land and stamp duty rate is necessary. **An ideal situation of revenue augmentation is a high fair value with an affordable stamp duty and registration fees.** The rate of stamp duty can be reduced by having a field study of the revenue expectations. Increase in fair value and corresponding reduction in rates could reduce undervaluation and evasion to a greater extent and ensure compliance.

Increase in fair value tied with a gradual reduction of stamp duty and registration fee to improve compliance will augment revenue to the Government. Registration fee need to be reduced only for property sale, while the rates for others should be kept at the present rate of 2 per cent in order to protect the present revenue. Based on the above arguments, three scenarios are worked out for the next five year period 2020-25 **(Table No. 6.7).**

**Scenario-1**: Every year 10 per cent increase in fair value with 0.75 per cent decrease in the stamp duty (i.e., from the present 8 per cent) and 0.25 per cent decrease from registration fees (i.e., from the present 2 per cent). This will end up in -12.69 per cent revenue loss for 5 years period. Hence this is not advisable.

**Scenario-2**: Every year 10 per cent increase in fair value with 0.75 per cent decrease in the stamp duty (i.e., from the present 8 per cent) and no change in the registration fees from 2 per cent. This will end up in 11.73 per cent revenue gain for 5 years period. This is not also desirable when compared with the Scenario 3.

**Scenario-3**: Every year 20 per cent increase in fair value with 0.75 per cent decrease in the stamp duty (i.e., from the present 8 per cent) and 0.25 per cent decrease from registration fees (i.e., from the present 2 per cent). This will end up in 22.52 per cent revenue gain for 5 years period. This is advisable as the best method option to adopt.

**Hence, in order to implement the Scenario-3, apart from the budgetary increase of 10 per cent in fair value done during the current year, an additional increase of 10 per cent is also suggested by the committee during 2020-21. This needs to be followed by a 20 per cent increase in the fair value every year along with 0.75 per cent decrease in the stamp duty (i.e. from the present 8 per cent) and 0.25 per cent decrease from registration fees (i.e. from the present 2 per cent) till 2024-25.**

| Table 6.7 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Revenue from stamp duty and registration fees in different scenarios- 2020-25** | | | | | | | | |
| Year | Fair value increased by 10% each year | Rate of stamp duty (%) | Stamp duty | Rate of Registration Fee (%) | Registration fee | Total | Annual Growth (%) | Cumulative increase |
| Scenario 1 | | | | | | | | |
| 10 per cent increase in Fair Value,<br>Stamp Duty 0.75 per cent decrease in every year,<br>and 0.25 per cent decrease in the Registration Fees. | | | | | | | | |
| 2020-21 | 100000 | 8 | 8000 | 2 | 2000 | 10000 | | |
| 2021-22 | 110000 | 7.25 | 7975 | 1.75 | 1925 | 9900 | -1.00 | -1 |
| 2022-23 | 121000 | 6.5 | 7865 | 1.5 | 1815 | 9680 | -2.22 | -3.22 |
| 2023-24 | 133100 | 5.75 | 7653 | 1.25 | 1664 | 9317 | -3.75 | -6.97 |
| 2024-25 | 146410 | 5 | 7321 | 1 | 1464 | 8785 | -5.71 | -12.69 |
| Scenario 2 | | | | | | | | |
| 10 per cent increase in Fair Value,<br>Stamp Duty 0.75 per cent decrease in every year,<br>and No Change in the Registration Fees. | | | | | | | | |
| 2020-21 | 100000 | 8 | 8000 | 2 | 2000 | 10000 | | |
| 2021-22 | 110000 | 7.25 | 7975 | 2 | 2200 | 10175 | 1.75 | 11.00 |
| 2022-23 | 121000 | 6.5 | 7865 | 2 | 2420 | 10285 | 1.08 | 12.08 |
| 2023-24 | 133100 | 5.75 | 7653.3 | 2 | 2662.0 | 10315 | 0.29 | 12.38 |
| 2024-25 | 146410 | 5 | 7320.5 | 2 | 2928.2 | 10249 | -0.65 | 11.73 |
| Scenario 3 | | | | | | | | |
| 20 per cent increase in Fair Value,<br>Stamp Duty 0.75 per cent decrease in every year,<br>and 0.25 per cent decrease in the Registration Fees. | | | | | | | | |
| 2020-21 | 100000 | 8 | 8000 | 2 | 2000 | 10000 | | |
| 2021-22 | 120000 | 7.25 | 8700 | 1.75 | 2100 | 10800 | 8.00 | 8.00 |
| 2022-23 | 144000 | 6.5 | 9360 | 1.5 | 2160 | 11520 | 6.67 | 14.67 |
| 2023-24 | 172800 | 5.75 | 9936.0 | 1.25 | 2160 | 12096 | 5 | 19.67 |
| 2024-25 | 207360 | 5 | 10368 | 1 | 2074 | 12442 | 2.86 | 22.52 |

*Source: Committee Estimate based on Registration Department's suggestions*

| Table No.6.8 | | |
|---|---|---|
| **Expected Additional Revenue from Stamp Duty and Registration - Budget 2020-21** | | |
| Sl.No. | Actions taken based on budget 2020-21 | Expected Revenue (Rs in Crores) |
| 1 | Valuation of buildings other than flats at CPWD rates- Amendment in Section 28C | 225 |
| 2 | Agreements relating to Deposit of Title Deeds compulsory registration - Amendment in Section 17 and 89 of Registration Act | 75 |
| 3 | Fair value Increase of land by 10% | 200 |
| Total Estimated Additional Revenue | | 500 |

## 1. Amendments in the Kerala Stamp Act

**Para 37 of Budget speech** - Amendment in Section 2(d) and Serial number 22A in the schedule of Kerala Stamp Act, which seeks to amend the definition and rationalize the existing stamp duty rates for amalgamation of companies to that of Tamil Nadu and Karnataka. As the data of amalgamation of companies is not available with the department, the revenue impact could not be assessed.

**Status of Amendment - Amendment to come into effect through Kerala Finance Bill, 2020.**

***Para 243 of Budget speech*** - Amendment in Section 28C - There were no guidelines available for valuation of buildings other than flats and apartments. This had caused evasion of tax by undervaluing building value in deeds. So it was proposed to introduce an amendment in section 28C of the Act to assess the value of the buildings in deeds as per Central PWD norms.

**Additional revenue of Rs.225 Crore is expected.**

*Status of Amendment - Amendment came into effect through Kerala Finance Bill, 2020.*

## 2. Amendment in the Registration Act

***Para 247 of Budget speech -*** Amendment in Section 17 and 89 of Registration Act - Agreements relating to Deposit of Title Deeds are not compulsorily for registration. Banks grant loans after executing the agreements relating to deposit of title deeds. Hence, the majority of the agreements are not registered and the revenue from this area cannot be accounted for. In order to make the registration agreements mandatory, a suitable amendment is proposed to be made in Section 17 of the Registration Act.

Additional revenue of Rs.75 crore is expected to reflect in the income of the department.

Status of Amendment -Draft bill is submitted to the Government.

## 3. Other proposals for Additional Revenue Mobilization under the Stamp Act in Budget 2020

***Para 244 of Budget speech*** - It is proposed to increase the existing fair value of land in Kerala by 10%.

Additional revenue of Rs.200 crores is expected

Present Status - Taxes Department has issued notification.

***Para 225 of Budget Speech***- Implementation of large-scale projects will raise the market value of surrounding land. Hence notified land near such large-scale projects will be valued at a maximum of 30 per cent above the declared fair value.

Present Status - Not notified in any areas.

## 4. Steps proposed to improve the revenue collection

a. Lease agreements up to one year are not compulsorily for registration. So, there is a trend to stamp the lease deeds with lesser stamp duty. Since they do not come before the department for registration, there is no mechanism to check them. The

District Registrars have power to inspect public offices. While they inspected local bodies, it was found that most of the lease deeds submitted there for obtaining licenses for shops and other leases deeds between the Secretary of the local body and private persons are not duly stamped. It may be due to the ignorance of provisions of Stamp Act by the officials of local bodies. Some lease deeds which are over one year are not registered. Unduly stamped instruments cannot be accepted as evidence and cannot be acted upon.

So, facilities may be introduced in the PEARL software of Registration Department for generating and stamping lease and other agreements. A standard template may be made available and the parties can either go with that or edit and use it. Once the agreement is confirmed in PEARL, then stamp duty can be paid by e-stamp. When the parties select the nature of the document the proper stamp may be displayed on screen and they can pay using digital payment methods. At first it may be introduced for all agreements and lease in the State of Kerala or local body or Public Sector undertakings as one party.

Following procedure is suggested

a) The parties of the agreement are to login in the PEARL portal.
b) Enter the name address and other required details.
c) Select the nature of the document.
d) They can view the standard template of the instrument. It can be confirmed or edited according to the requirements and confirmation.
e) Pay the required stamp duty by e-stamp.
f) Take print out and sign the agreement.

b. E-stamping may be introduced for stamping the agreements relating to deposit of title deeds. Each bank can be given a login and they can have their own customized templates. It may ensure proper stamping and the tax will be accountable to the government. The procedure suggested above may be adopted.

c. In the current budget speech, it was proposed to value the buildings other than flats and apartments by CPWD norms. At present, valuation certificate issued by approved Valuer is used for this. The accuracy of the certificate is not known. So, valuation software similar to 'PRICE' software of Kerala PWD may be developed and integrated to PEARL. This will benefit the public to get the valuation quickly without any middleman. Department can ensure that the building is properly valued, and tax is not evaded.
d. Adjudication of Stamp duty: At present the adjudication of stamp duty of instruments by Collectors is not subject to review or revision. Any person who is aggrieved by the decision of the collector has no other option but to pay the stamp duty as ordered by the Collector. If any Collector missed in adjudicating the stamp duty of any instrument and thereby causes revenue loss to the government, there is no option left before the government to recover the deficit duty from the concerned party. In the light of the above, a provision for revision is highly essential for recovering the tax lost through error in assessing the stamp duty and for the public to appeal against any arbitrary decision of the Collector. States like Maharashtra, Karnataka, etc. have incorporated provision for revision in their respective state Acts. Similar provision can also be seen in the Indian Stamp (Amendment) Bill 2014, which is pending before Parliament. In Kerala Stamp Act, provision for review is needed for effective collection of tax.
e. Serial number 5(e) of the schedule in the Kerala Stamp Act provides as follows:

   "(e) [Agreement] If relating to Rupees 500 per contract advertisement on mass media, made for promotion of any product; or programme or event with an intention to make profit or business out of it; or conferring exclusive rights of telecasting, broadcasting or exhibition of an event or a film.

At present Rs. 500 stamp duty is only charged for the agreements worth of Crores. So, contracts which have value of Rs.1 crore and above may be charged with a stamp duty of 0.01% with an upper cap of Rs 10,000. The liability of stamp duty is only Rs 1000 per crore.

i. Serial number 5(f) of the schedule in the Kerala Stamp Act provides as follows

(f) [Agreement]. If relating to public works or service level agreements. One rupee for every rupees 1,000 or part thereof on the amount agreed in the contract subject to a minimum of rupees 200 and a maximum of rupees one lakh". For the agreements relating to public works of Rs. 100 crore and above, the upper limit may be enhanced from existing 1 lakh to 2 lakhs.

## 5. Strengthening the e-stamping system

Some of the States in India have implemented e-stamping through Stock Holding Corporation of India (SHCIL). The public can pay stamp duty and e-stamp paper printouts are available from banks. In the FAQ published on the website of Stock Holding Corporation, it is seen that e-Stamping is currently operational in the States/UTs of Gujarat, Karnataka, NCT Delhi, Assam, Tamil Nadu, Rajasthan, Himachal Pradesh, Uttarakhand, UT of Dadra & Nagar Haveli, UT of Daman & Diu, Puducherry, Uttar Pradesh, Chhattisgarh, Jharkhand, Jammu & Kashmir, Punjab, Chandigarh, Odisha and Andhra Pradesh.

In Kerala e-stamping is implemented by the Registration department with the help of the e-treasury. The software is developed by NIC. E-stamping is mandatory for documents having stamp duty above rupees one lakh. Documents that are chargeable with a duty up to one lakh can be stamped with either e-stamp or impressed stamps. Presently e-stamping up to one lakh has not been enabled in the portal of the Registration department for registration of documents. So, the public cannot generate e-stamps up to Rs 1 lakh. E-stamping below one lakh is now used for KIIFB-KSFE NRI Chits ('*Pravasi Chitt*').

Moreover, scarcity of stamp papers noticed during lock down period and Government also has to bear expenses for printing impressed stamps from the security press and their transportation to the state.

In the view of above, facility for e-stamping up to one lakh may be enabled in the portal. At present the existing system may also run in parallel till the system is fully implemented

## Benefits

a) Public can stamp documents easily. Non availability of stamps will not affect the registration process.

b) It can be generated in minutes; it is tampering proof and the government can get real time statistics of the revenue collection.

c) The companies outside the state which take part in tenders and other agreements in the state need not travel to Kerala and buy stamps.

d) Government's policy is to improve ease of doing business in the state. To aid that, the government has declared in the current budget that smart contracts will be introduced in the state. E-stamp up to one lakh is inevitable for that.

e) Government can gain by way of reduced expenses in printing, transportation and storage of physical stamps (impressed stamps).

## Limitation

Vendors may claim that this will affect their jobs and hence the present system may be allowed to continue and leave the option to public. However, enabling them to play a role in the e-stamping process will nullify their opposition in this regard.

## 6. Revenue from deposit of title deeds

Stamp duty for agreements relating to deposit of title deeds is 0.1 per cent with an upper cap of Rs 10.000. Stamp duty for its release deed is 0.1 per cent with an upper cap of Rs. 1000 per cent

From the SLBC records it is found that there are about 6500 bank branches in the State. If each branch gives 50 loans in a year then there will be 3,25,000 loans per year. Also release of previous loans has to be stamped. Suppose an average stamp duty per loan is estimated at Rs 3000, then additional revenue of Rs.75 crore can be expected after considering the error factor and chance of reduction in rate and exemption.

## 7. Additional Revenue from fair value hike in the budget

Total revenue obtained from sale deeds in 2019-20 is about Rs.2650 crore. This is collected as per the present 10 per cent of the value (8 per cent stamp duty and 2 per cent fees). From this the total value of sale documents is calculated as Rs 26500 Crores. If a 10 per cent hike in value of documents is made then the total value will be Rs. 26500 +Rs.2650 = Rs 29150 crore. Then the estimated total revenue during 2020-21 will be Rs. 2915 crore. Additional revenue of Rs 265 Crore (2915-2650) can be expected. Further, charging stamp duty on the fair value of the land for settlement deeds, partition, release deeds, gift deeds will fetch additional revenue of 50 crore. By considering these two factors in the budget 2020-21 a very conservative amount of Rs.200 crore is budgeted as additional revenue from stamp duty and registration fees.

**Total Additional Revenue estimated by the Committee**

The additional revenue estimated through the budget for 2020-21 (Table No.6.8) is Rs. 500 crore. Over and above this, a further increase in the fair value price as discussed in the scenario-3 will fetch minimum additional revenue of Rs.200 crore. In total, a conservative estimate of Rs. 700 crores is estimated as additional revenue from Stamp Duty and Registration during 2020-21.

The committee suggest that a calibrated increase in fair value of land accompanied by a small reduction in the stamp duty rates, along with measures such as e-stamping for all documentation combined with the measures already announced in the budget is expected to yield additional revenue of at least Rs 700 crore in the financial year 2020-21.

# Section - 7
## Additional Revenue from Liquor

# Section -7
# Additional Revenue from Liquor

Liquor is considered a non-merit good. States raise revenue from liquor by levying excise duty or/and sales tax on its manufacture and sale points. The ostensible reason for heavy duty and taxes is to demotivate the public from irresponsible liquor consumption. As the demand for liquor is inelastic in nature, increase in tax rates will raise almost assured revenue to the Government. However, the past two years data in Kerala signals to the policy makers that the consumption in terms of quantity (litres) is reducing on one year on year basis.

During 2018, in order to finance expenditure after the unprecedented floods, Government of Kerala had affected an overall 10 per cent rate hike in the excise duty on liquor (through 6 different slabs with minimum burden on the moderately priced liquor brands) for 100 days and it fetched on additional revenue of Rs.310 crores. The increase in the excise duty/sales tax of liquor will have a dual effect. Firstly, it reduces the consumption of liquor and incentivizes the majority to be responsible drinkers and secondly, it protects the State's revenue collection for effective funding of welfare measures.

The tax revenue from liquor consists of Sales Tax, Excise Duty, Gallonage Fee and License Fee. The past 36 years collection from these taxes shows 12.3 times increase in the first 12 years period (1984-85 to 1995-96), 4.7 times increase in the second 12 years (1996-97 to 2007-08) and 3.2 times increase in the third 12 years (2008-19) period (**Table No. 7.1**). On an average, during the third 12 years period, the revenue share from liquor on State own tax revenue was 23.7 per cent with a downward aberration of 3.7 per cent during 2019-20 **(Table No. 7.2)**. The Sales Tax share on turnover has increased from 50.7 per cent during 2015-16 to 66.2 per cent during 2019-20, whereas the Excise Duty share remained almost steady around 14 per cent during this five year period. The share of other miscellaneous taxes like Surcharge, Rehabilitation cess, Turnover tax, Social Security cess, Medical cess, Excise duty, Import fee, Gallonage fee and licence fee and Kist reduced considerably from 19.3 per cent to 5.2 per cent during the five year period. It also reveals that for every Rs.100 sale of liquor the State gets 85 per cent as tax revenue **(Table No. 7.3)**

The analysis of consumption of liquor in terms of quantity (cases in lakhs) reveals that the Indian Made Foreign Liquor (IMFL) shows around 5 per cent decline during the last five years (2015-16 to 2019-20) when compared to the first five years (2010-11 to 2014-15). On the other hand, Beer consumption in terms of quantity showed a 32 per cent increase with a recorded high consumption during 2015-16 & 2016-17 due to shift in the liquor policy with restriction in Bar sales of hard liquors during that period (**Table No.7.4**).

**Table No. 7.1**

**Sales Tax, Excise Duty, Gallonage Fee, License Fee etc.**

| Year | Rs in Crore | Index | Year | Rs in Crore | Index | Year | Rs in Crore | Index |
|---|---|---|---|---|---|---|---|---|
| 1984-85 | 25.63 | *100* | 1996-97 | 611.19 | *2385* | 2008-09 | 3621.15 | *14129* |
| 1985-86 | 30.86 | *120* | 1997-98 | 753.48 | *2940* | 2009-10 | 4260.27 | *16622* |
| 1986-87 | 40.06 | *156* | 1998-99 | 847.56 | *3307* | 2010-11 | 5232.53 | *20416* |
| 1987-88 | 40.74 | *159* | 1999-00 | 903.56 | *3525* | 2011-12 | 6292.48 | *24551* |
| 1988-89 | 57.35 | *224* | 2000-01 | 1025.93 | *4003* | 2012-13 | 7240.89 | *28252* |
| 1989-90 | 78.33 | *306* | 2001-02 | 1310.17 | *5112* | 2013-14 | 7575.77 | *29558* |
| 1990-91 | 92.07 | *359* | 2002-03 | 1468.16 | *5728* | 2014-15 | 8283.79 | *32321* |
| 1991-92 | 112.59 | *439* | 2003-04 | 1622.3 | *6330* | 2015-16 | 9787.05 | *38186* |
| 1992-93 | 133.00 | *519* | 2004-05 | 1824.04 | *7117* | 2016-17 | 10353.7 | *40397* |
| 1993-94 | 179.72 | *701* | 2005-06 | 2055.71 | *8021* | 2017-18 | 11024.2 | *43013* |
| 1994-95 | 215.58 | *841* | 2006-07 | 2424.49 | *9460* | 2018-19 | 12426.1 | *48483* |
| 1995-96 | 315.51 | *1231* | 2007-08 | 2914.1 | *11370* | 2019-20 | 11709.9 | *45688* |

*2018-19 RE & 2019-20 BE, 2019-20 figure (up to 29 February 2020)*

*Source: Computed from the data from Kerala State Beverages Corporations Ltd.(KSBC)*

| Table No. 7.2 | | | | | |
|---|---|---|---|---|---|
| **Liquor vis-à-vis SOTR** | | | | | |
| Year | Sales Tax, Excise Duty, Gallonage Fee, License Fee etc. | | State's Own Tax Revenue (SOTR) | | SOTR on Liquor (%) |
| | Rs in Crore | Index | Rs in Crore | Index | |
| 2008-09 | 3621.15 | 100 | 15990 | 100 | 22.65 |
| 2009-10 | 4260.27 | 118 | 17625 | 110 | 24.17 |
| 2010-11 | 5232.53 | 144 | 21722 | 136 | 24.09 |
| 2011-12 | 6292.48 | 174 | 25719 | 161 | 24.47 |
| 2012-13 | 7240.89 | 200 | 31996 | 200 | 22.63 |
| 2013-14 | 7575.77 | 209 | 31995 | 200 | 23.68 |
| 2014-15 | 8283.79 | 229 | 35233 | 220 | 23.51 |
| 2015-16 | 9787.05 | 270 | 38995 | 244 | 25.10 |
| 2016-17 | 10353.65 | 286 | 42176 | 264 | 24.55 |
| 2017-18 | 11024.22 | 304 | 46460 | 291 | 23.73 |
| 2018-19 | 12426.13 | 343 | 50644 | 317 | 24.54 |
| 2019-20 | 11709.94 | 323 | 55671 | 348 | 21.03 |
| *2018-19 RE & 2019-20 BE, 2019-20 figure (up to 29 February 2020)* | | | | | |
| *Source: Computed from the data from KSBC* | | | | | |

| Table No. 7.3 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Turnover and Tax of Liquor in Kerala (Rs in crores)** | | | | | | | | | | |
| Particulars | 2015-16 | | 2016-17 | | 2017-18 | | 2018-19 | | 2019-20 | |
| | Rs in Crore | % | Rs in Crore | % | Rs in Crore | % | Rs in Crore | % | Rs in Crore | % |
| Turnover (Sales) | 11577.29 | 100 | 12134.1 | 100 | 12937.1 | 100 | 14508.2 | 100 | 13712.4 | 100 |
| Sales Tax | 5875.46 | 50.7 | 6178.9 | 50.9 | 6632.51 | 51.3 | 9567.48 | 65.9 | 9073.1 | 66.2 |
| Surcharge | 681.49 | 5.9 | 714.8 | 5.9 | 769.36 | 5.9 | 0 | 0.0 | 0.0 | 0.0 |
| Rehabilitation Cess | 293.72 | 2.5 | 308.73 | 2.5 | 331.61 | 2.6 | 0 | 0.0 | 0.0 | 0.0 |
| Turnover Tax | 579.01 | 5.0 | 606.2 | 5.0 | 647.06 | 5.0 | 732.65 | 5.0 | 692.5 | 5.0 |
| Social Security Cess | 593.08 | 5.1 | 623.75 | 5.1 | 669.51 | 5.2 | 0 | 0.0 | 0.0 | 0.0 |
| Medical Cess | 58.64 | 0.5 | 61.67 | 0.5 | 66.31 | 0.5 | 0 | 0.0 | 0.0 | 0.0 |
| Total to CTD /GST Dept. | 8081.4 | 69.8 | 8494.05 | 70.0 | 9116.36 | 70.5 | 10300.1 | 71.0 | 9765.6 | 71.2 |
| Excise Duty | 1682.93 | 14.5 | 1836.69 | 15.1 | 1885.62 | 14.6 | 2100.48 | 14.5 | 1921.7 | 14.0 |
| Import Fee | 12.56 | 0.1 | 13.07 | 0.1 | 9.81 | 0.1 | 13.04 | 0.1 | 11.6 | 0.1 |
| Gallonage Fee | 1.50 | 0.0 | 1.51 | 0.0 | 1.4 | 0.0 | 1.45 | 0.0 | 0.0 | 0.0 |
| License Fee | 0.23 | 0.0 | 0.23 | 0.0 | 0.23 | 0.0 | 0.23 | 0.0 | 0.2 | 0.0 |
| Kist | 8.43 | 0.1 | 8.1 | 0.1 | 10.8 | 0.1 | 10.8 | 0.1 | 10.8 | 0.1 |
| Total to Excise Department | 1705.65 | 14.7 | 1859.6 | 15.3 | 1907.86 | 14.7 | 2126 | 14.7 | 1944.4 | 14.2 |
| Total to State Exchequer | 9787.05 | 84.5 | 10353.7 | 85.3 | 11024.2 | 85.2 | 12426.1 | 85.6 | 11709.9 | 85.4 |
| *2018-19 RE & 2019-20 BE, 2019-20 figure (up to 29 February2020)* | | | | | | | | | | |
| *Source: Computed from the data from KSBC* | | | | | | | | | | |

Further, the figures of quantity of sale during the three months of November 2019 to January 2020 shows that the three products – Brandy, Rum and Beer constitute around 57 per cent of total consumption of all brands of liquor **(Table No.7.5).**

**Table No. 7.4**

**Liquor Sales in Kerala - Quantity ( in Lakh Litres)**

| Particulars | | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|
| IMFL | Cases in Lakhs | 201.75 | 205.41 | 208.51 | 216.34 | 205.22 |
| | Index | 100.0 | 101.8 | 103.4 | 107.2 | 101.7 |
| BEER | Cases in Lakhs | 154.2 | 150.13 | 115.42 | 121.12 | 106.87 |
| | Index | 100.0 | 97.4 | 74.9 | 78.5 | 69.3 |

*Source: Computed from the data from KSBC*

**Table No. 7.5**

**Average Sales in Quantity (November 2019 to January 2020)**

| Items | | Caskets (No. and %) | | Bulk Litre (quantity and %) | | Landed Cost | | Excise Duty | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Rs. in Crore | % | Rs. in Crore | % |
| IMFL | Brandy | 945943 | 20.02 | 8496259 | 20.51 | 59.66 | 21.68 | 92.55 | 26.17 |
| | Whisky | 35468 | 0.75 | 319441 | 0.77 | 3.60 | 1.31 | 4.48 | 1.27 |
| | Rum | 798122 | 16.89 | 7166264 | 17.30 | 44.58 | 16.20 | 69.08 | 19.53 |
| | Gin | 773 | 0.02 | 6925 | 0.02 | 0.05 | 0.02 | 0.07 | 0.02 |
| | Wine | 19895 | 0.42 | 179165 | 0.43 | 3.02 | 1.10 | 0.09 | 0.03 |
| | Vodka | 78503 | 1.66 | 704430 | 1.70 | 5.96 | 2.17 | 8.54 | 2.41 |
| | Sub-Total | 1878704 | 39.76 | 16872483 | 40.73 | 117.00 | 42.53 | 175.00 | 49.48 |
| BEER | Beer | 964471 | 20.41 | 7645074 | 18.46 | 37.29 | 13.56 | 3.82 | 1.08 |
| FMFL | | 3236 | 0.07 | 31022 | 0.07 | 3.96 | 1.44 | 0.06 | 0.02 |
| **Total** | | **4725115** | **100.00** | **41421063** | **100.00** | **275.13** | **100.00** | **353.70** | **100.00** |

*Source: Computed from the data from KSBC*

On May 13, 2020, Government of Kerala increased the sales tax rate to 237 per cent for IMFL having landed cost below Rs.400 per case and 247 per cent for IMFL with landed cost above Rs.400 per case. A 35 per cent increase from the Sales Tax from earlier rate has resulted in 11 per cent overall increase in the MRP price of all brands of liquor in Kerala. **(Refer Tables 7.6 &7.7)**

| Table No. 7.6 | |
|---|---|
| **Excise Duty and Sales Taxes on Liquor** | |
| Revised as per Govt. order dated May 13, 2020 by Government of Kerala | |
| Excise Duty on Indian Made Foreign Liquor (IMFL) | |
| Rs.235 and above but below Rs.250 | 21% of purchase cost / case / PL (Rs.354.30 per case) |
| Rs.250 and above but below to 300 | 22.5% of purchase cost / case / PL (Rs.455.55 per case) |
| Rs.300 and above but below Rs.400 | 22.5% of purchase cost / case / PL (Rs.607.43 per case) |
| Rs.400 and above but below Rs.500 | 23.5% of purchase cost / case / PL (Rs.793.05 per case) |
| Rs.500 and above but below Rs.1000 | 23.5% of purchase cost / case / PL (Rs.1586.18 per case) |
| Rs.1000 and above | 23.5% of purchase cost / case / PL subject to a maximum of Rs.237 per PL (Rs.1600 per case) |
| Excise Duty on Beer | Rs.5 per bulk litre (Rs.39 per case) for within the state supply - Paid by Brewery |
| | Rs.5 per bulk litre (Rs.39 per case) for outside state supply - Paid in advance by KSBC |
| IMFL Import Fee | Rs.5 per PL (Rs.33.75 per case) paid in advance by KSBC |
| Beer Import Fee | Rs.2 per bulk litre (Rs.15.60 per case) paid in advance by KSBC |
| Excise Duty on Foreign Made Foreign Liquor (FMFL) AND Foreign Made Wine (FMW) | |
| Excise Duty on FMFL | Rs.87.70 per proof litre (Rs.592 per case) paid in advance by KSBC |
| Excise Duty on FMW | Rs.1.25 per bulk litre (Rs.11.25 per case) paid in advance by KSBC |
| Sales Tax Rate | |
| IMFL | 1) 237% for IMFL with landed cost below Rs.400 per case<br>2) 247% for IMFL with landed cost above Rs.400 per case.<br>Remitted after Sale by KSBC |
| Beer | 112% Remitted after Sale by KSBC |
| Wine | 90% Remitted after Sale by KSBC |
| FMFL | 80% Remitted after Sale by KSBC |
| FMW | 37% Remitted after Sale by KSBC |
| Turnover Tax (TOT) | 5% Paid by KSBC on Sales Turnover basis |
| Cess on TOT | 1% Paid by KSBC on Sales Turnover basis |

*Source: Computed from the data from KSBC*

| Table No. 7.7 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Price Increase due to Revision in Sales Tax Rates** | | | | | | | |
| NO. | Pack | Item Name | Revised Sales Tax % | Old MRP | New MRP | Price Increase | |
| | | | | | | Rs. | % |
| 1 | 750 | NO.1 MCDOWELL'S BRANDY | 247.00 | 560.00 | 620.00 | 60.00 | 10.71 |
| 2 | 750 | NO.1 HONEYBEE BRANDY | 247.00 | 560.00 | 620.00 | 60.00 | 10.71 |
| 3 | 750 | MCDOWELL'S NO.1 CELEBRATION LUXURY XXX RUM | 247.00 | 520.00 | 580.00 | 60.00 | 11.54 |
| 4 | 750 | OLD MONK SELECTXXX PREMIUM RUM | 247.00 | 770.00 | 850.00 | 80.00 | 10.39 |
| 5 | 750 | ROYAL ARMS PREMIUM VSOP BRANDY | 247.00 | 710.00 | 780.00 | 70.00 | 9.86 |
| 6 | 750 | MCDOWELL'S GREEN LABEL "THE RICH BLEND' WHISKY | 247.00 | 660.00 | 730.00 | 70.00 | 10.61 |
| 7 | 750 | J B BRANDY | 247.00 | 410.00 | 460.00 | 50.00 | 12.20 |
| 8 | 750 | MAGIC MOMENTS PREMIUM GRAIN VODKA | 247.00 | 910.00 | 1010.00 | 100.00 | 10.99 |
| 9 | 750 | CLASSIC GRANDEE MATURED XXX RUM | 247.00 | 510.00 | 560.00 | 50.00 | 9.80 |
| 10 | 750 | MANSION HOUSE FRENCH BRANDY | 247.00 | 820.00 | 910.00 | 90.00 | 10.98 |
| 11 | 750 | MGM ORANGE KIZ VODKA | 247.00 | 550.00 | 620.00 | 70.00 | 12.73 |
| 12 | 750 | RADICO MORPHEUS XO BLENDED RARE BRANDY | 247.00 | 1110.00 | 1230.00 | 120.00 | 10.81 |
| 13 | 750 | GOLCONDA BRANDY | 247.00 | 500.00 | 560.00 | 60.00 | 12.00 |
| 14 | 750 | OFFICER'S CHOICE DELUXE BRANDY | 247.00 | 640.00 | 710.00 | 70.00 | 10.94 |
| 15 | 750 | OFFICER'S CHOICE XXX RUM | 247.00 | 650.00 | 720.00 | 70.00 | 10.77 |
| 16 | 750 | EVERYDAY GOLD XXX RUM | 247.00 | 500.00 | 550.00 | 50.00 | 10.00 |
| 17 | 750 | XO OLD PORT RUM | 247.00 | 510.00 | 570.00 | 60.00 | 11.76 |
| 18 | 750 | OLD PEARL NO.1 MATURED XXX RUM | 247.00 | 530.00 | 590.00 | 60.00 | 11.32 |
| 19 | 750 | JAMAICAN MAGIC RUM | 247.00 | 490.00 | 540.00 | 50.00 | 10.20 |
| 20 | 750 | BACARDI LIMON ORIGINAL CITRUS RUM | 247.00 | 1290.00 | 1440.00 | 150.00 | 11.63 |
| 21 | 750 | WHITE MISCHIEF CLASSIC INDIAN BRANDY | 247.00 | 580.00 | 640.00 | 60.00 | 10.34 |
| 22 | 750 | DIAMOND DELUXE XXX RUM | 247.00 | 460.00 | 510.00 | 50.00 | 10.87 |
| 23 | 750 | MORMANDY'S DADDY WILSON PURE BLENDED RUM | 247.00 | 560.00 | 630.00 | 70.00 | 12.50 |

| Table No. 7.7 Continued | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Price Increase due to Revision in Sales Tax Rates** | | | | | | | |
| NO | Pack | Item Name | Revised Sales Tax % | Old MRP | New MRP | Price Increase | |
| | | | | | | Rs. | % |
| 24 | 750 | KYRON PREMIUM BRANDY FRENCH BLEND | 247.00 | 1100.00 | 1220.00 | 120.00 | 10.91 |
| 25 | 750 | BAGPIPER DELUXE XXX RUM | 247.00 | 540.00 | 600.00 | 60.00 | 11.11 |
| 26 | 750 | MC OCR PREMIUM RUM | 247.00 | 540.00 | 600.00 | 60.00 | 11.11 |
| 27 | 750 | MCDOWELL'S VSOP DELUXE BLENDED BRANDY | 247.00 | 810.00 | 900.00 | 90.00 | 11.11 |
| 28 | 750 | NICOL'S BLACK & GOLD FRENCH BRANDY VSOP | 247.00 | 1090.00 | 1210.00 | 120.00 | 11.01 |
| 29 | 750 | SIGNATURE RARE AGED WHISKY | 247.00 | 1270.00 | 1410.00 | 140.00 | 11.02 |
| 30 | 750 | DSP BLACK DELUXE WHISKY | 247.00 | 880.00 | 980.00 | 100.00 | 11.36 |
| 31 | 750 | MCDOWELL'S CAESAR GENUINE BLENDED BRANDY | 247.00 | 1080.00 | 1200.00 | 120.00 | 11.11 |
| 32 | 750 | PEACE MAKER RUM | 247.00 | 460.00 | 510.00 | 50.00 | 10.87 |
| 33 | 750 | SMIRNOFF VODKA | 247.00 | 1170.00 | 1300.00 | 130.00 | 11.11 |
| 34 | 750 | HERCULES SPECIAL RESERVE 3'X' RUM | 247.00 | 680.00 | 750.00 | 70.00 | 10.29 |
| 35 | 750 | RADICO 8 PM BERMUDA XXX RUM | 247.00 | 460.00 | 510.00 | 50.00 | 10.87 |
| 36 | 750 | MCDOWELL'S NO.1 RESERVE WHISKY | 247.00 | 900.00 | 1000.00 | 100.00 | 11.11 |
| 37 | 750 | BACARDI GUAVA ORIGINAL GUAVA RUM | 247.00 | 1390.00 | 1550.00 | 160.00 | 11.51 |
| 38 | 750 | JOLLY ROGER PREMIUM XXX RUM | 247.00 | 820.00 | 910.00 | 90.00 | 10.98 |
| 39 | 750 | JOHARS XXX RUM | 247.00 | 460.00 | 510.00 | 50.00 | 10.87 |
| 40 | 750 | OFFICER'S CHOICE PRESTIGE WHISKY | 247.00 | 620.00 | 690.00 | 70.00 | 11.29 |
| 41 | 750 | JOHARS FINE BRANDY | 247.00 | 460.00 | 510.00 | 50.00 | 10.87 |
| 42 | 750 | PAPILLON RESERVE BRANDY | 247.00 | 770.00 | 850.00 | 80.00 | 10.39 |
| 43 | 750 | BAGPIPER GOLD PREMIUM WHISKY | 247.00 | 880.00 | 980.00 | 100.00 | 11.36 |
| 44 | 750 | LOUIS VERNANTXO BLENDED PREMIUM BRANDY | 247.00 | 1180.00 | 1310.00 | 130.00 | 11.02 |
| 45 | 750 | LEGEND RARE BRANDY | 247.00 | 650.00 | 720.00 | 70.00 | 10.77 |
| **Total Values** | | | | **33010.00** | **36650.00** | **3640.00** | **11.03** |
| Average Values | | | | **733.56** | **814.44** | **80.89** | **11.03** |

*Source: Computed from the data from KSBC*

## Proposal for Additional Revenue Mobilization

In spite of the increase in Sales Tax rate, the MRP of liquor in Kerala when compared with the Tamil Nadu rates is lower. Considering the prevailing prices of liquor in the neighboring states, it is suggested to consider an increase in the excise duty and sales tax to fund the mounting expenses of the State due to the economic crisis, at least for a period of one or two years.

Due to prolonged impact of Covid-19 on the economy, the excise duty and sales tax collected during 2019-20 is expected to be unchanged during 2020-21 fiscal year. With this as a base, revenue after lockdown i.e., between June 2020 and March 2021 is calculated. From this, three scenarios of excise duty and sale tax increase are proposed for IMFL for the current fiscal year. The rate increase of other items like beer, wine FMFL and FMW have not been taken into account due to their negligible share in the consumption as discussed earlier.

At a 50 per cent increase from the existing rates of excise duty and sales tax additional revenue of Rs. 4580 crore is expected. With 75 per cent and 100 per cent increases, additional revenues of Rs.6870 crore and Rs.9160 crore are expected respectively (**Refer Table 7.8**).

**Table No. 7.8**

**Additional Revenue Expected due to Increase in Excise Duty and Sale Tax**

| Excise Duty 2019 – 2020 (Rs) | Estimated Excise Duties - June 1, 2020 - March 31, 2021 (Rs) | Proposed Increase in Excise Duty | | |
|---|---|---|---|---|
| | | Scenario -1 | Scenario -2 | Scenario -3 |
| | | 50% | 75% | 100% |
| 1921 | 1600 | 800 | 1200 | 1600 |
| Sales Tax 2019 – 2020 (Rs) | Estimated Sales Tax - June 1, 2020 - March 31, 2021 (Rs) | Proposed Increase in Sales Tax | | |
| | | Scenario -1 | Scenario -2 | Scenario -3 |
| | | 50% | 75% | 100% |
| 9073 | 7560 | 3780 | 5670 | 7560 |
| Expected Additional Revenue | | 4580 | 6870 | 9160 |

Source: *Committee's Estimate*

## Additional Revenue by Membership Fees through home delivery of liquor

The Supreme Court on May 8, 2020 had given legal sanction for States for online sales and home delivery of liquor during lockdown period or beyond in order to facilitate social distancing. Through this sanction, a new facility can be opened up by selling liquor to the consumers' doorsteps. This will reduce the heavy rush and long queue in the KSBC outlets and the rush in Bar hotels and thereby considerably aid in ensuring physical distancing among drinkers in public places. In this context, an outline of a scheme for resource mobilisation through home delivery of beverages is suggested.

In Kerala, liquor is sold through the retail outlets of KSBC and through bar outlets of hotels/restaurants. On an average, the liquor sales through these channels are in the ratio of Outlet: Bar as 60:40. *[Source: A Study on the Socioeconomic Factors Influencing Liquor Consumption Habits of Keralites: Hareesh. N. Ramanathan (2010)]*. As per the existing Abkari policy, the possession limits for alcoholic beverages are 3 litres for IMFL and 3.5 litres for Beer and Wine (**Refer Table No.7.9**).

**Table No. 7.9**

**Possession Limit of Liquor***

| Particulars | Limit (In litres)# |
|---|---|
| Toddy | 1.5 |
| Indian Made Foreign Liquor (IMFL) | 3 |
| Beer | 3.5 |
| Wine | 3.5 |
| Indian Made Foreign Liquor (FMFL) | 2.5 |
| Coco Brandy | 1 |

**As per GO(P) No.17/2012 Dated. 14/02/2012, Government revised the maximum possession Limit of Liquor*

*#Ex-Servicemen/Defence Personnel can possess their quota of liquor subject to production of ID Card Bill regarding the issue of liquor or Certificate from the Canteen officer who issued the liquor.*

*Source: Excise Department, Government of Kerala*

The National Family Health Survey-4 conducted during 2015-2016 estimated that in Kerala, 37 per cent of men in the age group of 15-49 years consume alcohol. It was also estimated in the survey that 53.8 per cent of the consumers are from among people employed in Government, Private Sector and Business persons. By taking the Census 2010 figures, the consumers of alcohol are estimated as 40 lakhs. Out of this, 65 per cent will depend on outlets and bars and around 30 per cent are estimated as the potential population who would prefer home delivery of liquor. Thus, around 12 lakh consumers are estimated to expect home delivery of liquor on payment of some user charge or fees **(Refer Table No.7.10).**

From the estimated 12 lakh people, a monthly user charge named as membership fees (like that of club membership fees) can be collected on compounded yearly/five yearly/10 year basis. The membership fees can be collected in two categories as – Ordinary Membership fees as Rs.100 per month and Premium Membership (with more facility) fees of Rs.500 per month. The different scenarios of ordinary and premium membership fees that the potential consumers would opt are calculated and revenues are estimated. The most likely revenue option is the following: 60 per cent population opting for ordinary and 40 per cent opting for premium membership fees. If all of them opt for 10 years membership, the additional revenue expected will be Rs.3744 crore. Alternatively, if they opt for 5 years, the revenue will be half i.e., Rs.1872 crore **(Table No.7.11).** The membership fees do not include the delivery and transport charges, which should be paid directly by the consumer. Platforms like Swiggy, Zomato, other home delivery systems will invariably create more anytime/part-time job opportunities for youngsters. The membership fee is subject to 18 per cent GST and the amount should be collected on tax exclusive basis i.e., Membership Fees plus 18 per cent GST.

| Table No. 7.10 | | | |
|---|---|---|---|
| **Consumers opt for home delivery of Liquor by paying One Time Membership Fees - Estimate** | | | |
| Age | Population (Male) | Percentage of population that consumes liquor | |
| | | Percentage | Numbers |
| Up to 49 | 8344161 | 37 | 3087340 |
| 50 - 69 | 2937086 | 37 | 1086722 |
| NA | 11281247 | NA | 4174061 |
| Estimated population consume liquor (rounded) | | | 4000000 |
| Estimated population prefer Retail Shops of KSBC/Bars - 65% | | | 2600000 |
| Estimated Population consume Toddy and Country liquor - 5% | | | 200000 |
| Estimated Population prefer Fee Based Home Delivery - 30% | | | 1200000 |

*Source: Estimated based on the National Family Health Survey -4, 2015-16*

| Table No. 7.11 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Membership Fees for Home Delivery Estimated Additional Revenue under different scenarios** | | | | | | | |
| Membership Fee (Per month) (Rs) | | Consumer Options Different Scenario - [(Ordinary (O) and Premium (P)] | | | | | |
| | | 0 - 80% | 0 - 75% | 0 - 70% | 0 - 65% | 0 - 60% | 0 - 55% |
| | | P - 20% | P - 25% | P - 30% | P - 35% | P - 40% | P - 45% |
| Ordinary | 50 | 576 | 540 | 504 | 468 | 432 | 396 |
| Premium | 200 | 576 | 720 | 864 | 1008 | 1152 | 1296 |
| Total | | 1152 | 1260 | 1368 | 1476 | 1584 | 1692 |
| Ordinary | 75 | 864 | 810 | 756 | 702 | 648 | 594 |
| Premium | 300 | 864 | 1080 | 1296 | 1512 | 1728 | 1944 |
| Total | | 1728 | 1890 | 2052 | 2214 | 2376 | 2538 |
| Ordinary | 100 | 1152 | 1080 | 1008 | 936 | 864 | 792 |
| Premium | 400 | 1152 | 1440 | 1728 | 2016 | 2304 | 2592 |
| Total | | 2304 | 2520 | 2736 | 2952 | 3168 | 3384 |
| Ordinary | 100 | 1152 | 1080 | 1008 | 936 | 864 | 792 |
| Premium | 500 | 1440 | 1800 | 2160 | 2520 | 2880 | 3240 |
| Total | | 2592 | 2880 | 3168 | 3456 | 3744 | 4032 |

*Source: Committee's Estimate*

The implementation and operationalization of the home delivery membership scheme may be entrusted to Kerala State Beverages Corporation Ltd. The amount mobilised by them after deducting 5 per cent administration overhead can be transferred to Government exchequer as Special Dividend Payment.

**Table No. 7.12**

**Estimated Additional Resource Mobilisation from Liquor**

| | |
|---|---|
| Hike in Excise Duty and Sales Tax (50 per cent) | 4580 |
| One Time Membership Fees - for Home Delivery (five years compounding) (Rs 3744 for ten years compound) | 1872 |
| Total | 6452 |

*Source: Committee's Estimate*

**Recommendation:**

The committee suggests that Rs.6452 crore can be collected as the most likely amount by Government of Kerala through a 50 per cent hike in the present rates of Excise Duty and Sales Tax and by the introduction of membership fees for home delivery of liquor on the basis of a five years membership systems to be opted for by the interested consumers **(Table No.7.12).**

# Section – 8

# Additional Non-Tax Revenue from Lottery

# Section 8
# Additional Non-Tax Revenue from Lottery

Government of Kerala, as the first of its kind in India, introduced lottery during 1967 with Re one per ticket. During the first year itself, the Government could collect Rs.20 lakhs and after paying prizes (first prize of Rs.50000) and commissions to agents could net out Rs.14 lakhs as non-tax revenue for its welfare activities. The second structural change in the lotteries came during the period 2000 to 2005 in which the Government of Kerala could legally restrict the intrusion of other State Paper Lotteries along with their private players and was also able to ban Online Lotteries in Kerala.

State's non-tax revenue constitutes around 18 per cent of state's own revenue. The non-tax revenue of State comes from education, health, interest, dividends and profits, forestry and **gross receipt from sale of lottery tickets**. Among these, the single major contributor of non-tax revenue in Kerala is Lotteries. It contributes 80 per cent of the own non-tax revenue of the state. Though gross contribution of lotteries is high, the net contribution of lotteries after considering all the expenses is around 20 per cent only *(This may further shrink during 2020-21 onwards due to increase in the GST rate from 12 per cent to 28 per cent w.e.f 1-3-2020)*. The net surplus from lottery sale has increased by five times during the past 10 years. **(Table No.8.1)**

## Revenue loss from lottery during lock-down period

Gross receipt from lottery sales in Kerala consist of prize money, commission, discount, administrative expenses, net surplus and Goods and Services Tax. (GST revised w.e.f 1-3-2020). It can be estimated that around 8 per cent on total price is profit (Net Non-Tax Revenue) and State GST 14 per cent (Tax Revenue) **(Table No.8.2)**

| Table No.8.1 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Gross and Net Receipts of Lotteries** | | | | | | | |
| Year | Gross Revenue | | Expenditure | | Net Revenue | | Share of Net in Gross Revenue (%) |
| | Rs in Crores | Index | Rs. in Crores | Index | Rs. in Crores | Index | |
| 2011-12 | 1282.7 | 100 | 901.73 | 100.0 | 381.01 | 100.0 | 29.7 |
| 2012-13 | 2673.8 | 208.4 | 2082.5 | 230.9 | 591.26 | 155.2 | 22.1 |
| 2013-14 | 3795.7 | 295.9 | 3202.7 | 355.2 | 593.04 | 155.6 | 15.6 |
| 2014-15 | 5444.9 | 424.5 | 4485.2 | 497.4 | 959.66 | 251.9 | 17.6 |
| 2015-16 | 6271.4 | 488.9 | 5122.9 | 568.1 | 1148.5 | 301.4 | 18.3 |
| 2016 - 17 | 7283.3 | 567.8 | 5992.5 | 664.6 | 1290.8 | 338.8 | 17.7 |
| 2017 - 18 | 9034.2 | 704.3 | 7627.6 | 845.9 | 1406.5 | 369.2 | 15.6 |
| 2018-19 | 9264.7 | 722.3 | 7819.2 | 867.1 | 1445.4 | 379.4 | 15.6 |
| 2019-20 | 9401.91 | 733.0 | 8736.9 | 968.9 | 1802 | 473.0 | 19.2 |
| 2020-21(BE) | 11570.0 | 902.0 | 9472.8 | 1050.5 | 2096.9 | 550.4 | 18.1 |

*Source: Budget in Brief, various issues, Government of Kerala*

| Table No.8.2 | | |
|---|---|---|
| **Components of Lottery Share** | | |
| Sl. No. | Components | Share (%) |
| 1 | Prize Money – to be disbursed to the winners of the lottery based on daily lot | 58.5 |
| 2 | Commissions, Discounts & Prize incentives to be disbursed to the Agents | 29.5 |
| 3 | Miscellaneous Expenses – Printing & Administration expenses including the Salary to the entire staff of the Lottery Department | 4.0 |
| 4 | Profit – treated as Net Non-Tax Revenue to the State | 8.0 |
| 5 | Total Value ( excluding GST) | 100.0 |
| 6 | CGST – Central Goods and Services Tax – 14% (effective from 1-3-2020) for the Union Govt. | 14.0 |
| 7 | SGST – State Goods and Services Tax – 14% ( effective from 1-3-2020) for the State Government | 14.0 |
| 8 | Total Value (including GST) | 128.0 |

*Source: Calculated from the data from Lottery Department, Government of Kerala*

The price per lottery ticket was revised as Rs. 40 from 1 March 2020 and kept as uniform for all the seven weekdays daily lots. On an average, everyday 90 lakh tickets are sold in Kerala and the total Gross Revenue including GST per day is Rs. 36.0 Crores (90 lakhs tickets x Rs.40 per ticket). The daily bifurcation of the gross value of Rs. 36 Crores is apportioned based on the percentage share. The Net

Non-Tax Revenue to the State from Lottery for a day is Rs. 2.25 Crores and Tax Revenue (GST) for the State is Rs. 3.94 Crores. **(Table No. 8.3)**

During lockdown period due to Covid-19, lottery sale was stopped from 22 March 2020 to 20 May 2020 (60 days). For estimating the revenue loss during this period to the State, Net surplus, State GST and around 75 per cent of miscellaneous component as the administrative expense shares are taken. In total, revenue loss for the 60 days period comes to Rs. 371.7 crore **(Table No. 8.4)**. Apart from the above, the loss of income from lottery as commission & incentives as the main livelihood for one lakh agents and sub-agents in Kerala comes to Rs. 7888.5 crore (Rs. 8.30 crore x 95 days days) during the 95 days zero sales period.

**Table No.8.3**

**Component Share of Lottery Sale Per Day**

| Sl. No. | Components | Amount (Rs. in Crores) |
|---|---|---|
| 1 | Prize Money – to be disbursed to the winners of the lottery based on daily lot | 16.45 |
| 2 | Commissions, Discounts & Prize incentives to be disbursed to the Agents | 8.30 |
| 3 | Miscellaneous Expenses – Printing & Administration expenses including the Salary to the entire staff of the Lottery Department | 1.12 |
| 4 | Profit – treated as Net Non-Tax Revenue to the State | 2.25 |
| 5 | Total Value ( Before GST) | 28.12 |
| 6 | CGST – Central Goods and Services Tax – 14% (effective from 1-3-2020) for the Union Govt. | 3.94 |
| 7 | SGST – State Goods and Services Tax – 14% (effective from 1-3-2020) for the State Government | 3.94 |
| 8 | Total Value ( After GST) | 36.00 |

Source: *Calculated from data provided by Lottery Department*

| Table No. 8.4 | | |
|---|---|---|
| **Revenue Loss from Lottery to State due to Stoppage of Sales** | | |
| Sl. No. | Components | Revenue Loss per day (Rs. in Crores) |
| 1 | Loss in Net Non-Tax Revenue to the State | 2.25 |
| 2 | Loss in SGST – State Goods and Services Tax – 14% | 3.93 |
| 3 | Loss in the contribution to the Salary component of Lottery Department employees – estimated as 75% of the miscellaneous Expenses ( Rs.1.125 crore x 0.75) | 0.01 |
| 4 | Total Revenue Loss per day | 6.19 |
| 5 | Total Net – Non-Tax Revenue & GST Loss for 95 days* | 588.53 |
| *Lottery sales from March 22, 2020 to June 30, 2020 are almost zero. Hence the loss is calculated for 95 days | | |
| **Source:** *Estimated by the Committee* | | |

## Suggestions to strengthen the Department and improve the Revenue

In the above backdrop, as a Government Department managing Rs.10000 crore revenue in a year and contributing 80 per cent of the own non tax revenue to Kerala exchequer, the committee recommends the following for better functioning and revenue augmentation.

**Sale of Kerala Lottery in other States:** The possibilities of organizing Government of Kerala lotteries in other states based on a well thought out Memorandum of Understanding (MoU) with them is suggested. Territorial expansion may be explored in the states having potential market for lotteries.

1. **Agency License Fees:** As a *res-extra-commercium* (outside the business and commerce), lotteries can only be conducted strictly as per the terms and conditions of Government. The agents involved in them need to be properly monitored. Hence it is suggested to categorize the agents according to their **Daily Per Lot Ticket purchase capacity** as follows:

1. Class A agents - Purchase above 40,000 tickets
2. Class B agents - Purchase above 30,000 up to 40000 tickets

3. Class C agents - Purchase above 20,000 up to 30000 tickets
4. Class D agents - Purchase above 10,000 up to 20000 tickets
5. Class E agents - Purchase less than 10,000 tickets

It is proposed to collect a fixed amount as agency license. Fee on a progressive slab basis from all class of agents could be fixed except from Class E agents.

2. **Other Relevant Fees**: The proposal for increase in shop registration fees, agency registration fee and renewal fee are pending for legal approval from Law Department. The speedy approval of such proposal is suggested.
3. **Streamlining the Discount Rate:** Reduction of discount rate for agents other than E Category is suggested to further channelize the money for welfare activities of State.
4. **Large number of small denomination Prizes:** All the daily lotteries can be made attractive competitively by including a greater number of small denomination prizes which is a long pending demand of agents.
5. **High value monthly lottery:** Creating publicity like *"Amma Keralam Nanma Keralam Bhagya Keralam"* is suggested to announce monthly (12 months) Big Bumper Ticket having per ticket cost of Rs 500 with different look and feel. This can be done after getting suggestions from the agents. The tickets may be sold to all people of Kerala across the Globe if it is possible by incorporating the support of Loka Kerala Sabha and celebrities. **The net revenue from these may be earmarked for special purpose like Expatriate welfare, Welfare Pension etc.**
6. **Ticket Sale Kiosks**: To start Kiosk for sale of lottery tickets in malls different premises/buildings etc.
7. **Market Research Wing:** A separate Market Research Wing within the Lottery Department is suggested to analyse the market trends. The handpicked officials from the lottery department can be trained in professional marketing and can be deployed for the study of market and to contribute in the planning of new schemes.

**8. Up-gradation of the Security Design Lap:** Lottery Tickets need to be designed confidentially like currency notes after incorporating all the security features into tickets. The security design lab presently functioning in the department checks and issues reports on a test case basis further approved by C-DIT. But the security design lab lacks the authority and know-how to release such forensic reports. Hence it is suggested to upgrade the security design lab of lottery department as a valid forensic design lab acceptable to police and legal authorities with state-of-the-art equipment and infrastructure.

**9. Legal and Enforcement Wing:** Though Taxes Secretary is the authority to permit the sale of Lotteries in Kerala, there is no system at present within the lottery department to examine the documents thus submitted, conducting court cases and monitoring lottery trade in Kerala including those of our own. Hence, a separate Legal & Enforcement Wing within the Lottery Department is suggested and qualified and trained officials within the department and/or police department and/or law department can be deployed.

**10. Strengthening the IT manpower and Infrastructure:** As a Department which largely employs IT tools in its transactions a competent IT Team of professionals for Software, Hardware, Networking, Server Infra and Power management needs to be developed. State-of-the-art IT Hardware equipment like dedicated server, computer equipment's etc. need to be acquired.

**11. State-of-the-Art office:** At present, district level office spaces are inadequate. Sufficient office spaces at the district level should be hired on competitive basis and sufficient infrastructure should be provided.

**12. State of the Art Printing Press:** Presently due to the low capacity of the printing press lottery tickets are not printed in time. Hence a state-of-the-art printing press at the Department level can be started with IBA accreditation for the timely printing of quality tickets.

**13. ISO Standardization:** Eventually, the Lottery Department should be raised to a level of professional body by getting accreditation with ISO Standardization.

**Additional Revenue from Lottery**

Through the introduction of high value monthly lottery earmarked for welfare pension, rationalizing the attractive prize structure for all the existing lotteries and other suggestions mentioned by the committee, a 20 per cent increase in lottery sale is estimated during 2020-21 which will realize Rs.200 Crores net surplus of Additional Revenue to the State

# Section - 9

## Additional Non-Tax Revenue of the State (other than Lottery)

# Section 9
# Additional Non-Tax Revenue of the State (other than Lottery)

Government of Kerala collects around 18 per cent of state's own revenue from State's Own Non- tax Receipts (SONTR). This revenue in the form of user-charges is collected through all the wings of the Government Departments. It can be broadly classified under four major divisions. These are (a) Interest receipts, dividends and profits (b) General Services (c) Social Services and (d) Economic Services. All the receipts of the non-tax revenue under these four classifications are of 'net revenue' except the receipt from lottery which is 'gross revenue'. From the gross receipt of lottery, net revenue is appropriated after paying the prize money, commission and discount etc. (Details of the lottery are dealt elsewhere in this report).

The collection of entire non-tax revenue for the past five years reveals that during 2016-17 and 2017-18 the growth rate in the same remained around 15 per cent. But during the year 2018-19 it slumped to 5.2 per cent and during the latest year it slides down further to negative growth rate of - 0.28 per cent. The past five years' average annual compounded growth rate is 8.67 per cent **(Table No.9.2).** This sluggish collection of the user-charges by the various departments of needs to be carefully examined and remedial measures has to be taken.

It is the constitutional duty of every national or sub-national Governments to provide adequate and comprehensive welfare/services to their citizens. The States' spending is sourced through three streams. They are Tax, Non-tax i.e., user charges and Grants from Central Government. As these three sources are insufficient, the State depends heavily on borrowings with an assurance of long-term repayment along with accrued interest by the sources from the future tax and non-tax revenue sources. As there is no *quid-pro-quo* in tax revenue, the public's general behaviour is to evade or avoid it as far as possible. This behavior of avoidance or evasion is not outwardly present in various user-chargers/fees as 'something in return' is transparent. Nevertheless, the public may unwilling or reluctant for paying the user-charges if the quid-pro-quo is sub-standard or not cost-effective when compared to other services in the market.

It is in this context that the share and growth rates in collection charges of various components of the user-charges collected by Government for the past five years period are analysed under four major divisions **(Table 9.1 & 9.2)**

| Table No.9.1 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Component-wise Share of Own Non-Tax Receipts in Kerala** | | | | | | | | | | | | |
| Sl. No. | Particulars | 2015-16 | | 2016-17 | | 2017-18 | | 2018-19 | | 2019-20 | | Average Share (%) |
| | | Rs.in Crore | Share (%) | Rs.in Crore | Share (%) | Rs.in Crore | Share (%) | Rs.in Crore | Share (%) | Rs.in Crore | Share (%) | |
| 1 | Interest Receipts | 105.03 | 1.25 | 143.51 | 1.48 | 144.50 | 1.29 | 132.38 | 1.12 | 72.01 | 0.61 | 1.13 |
| 2 | Dividends & Profits | 90.23 | 1.07 | 96.37 | 0.99 | 126.48 | 1.13 | 132.12 | 1.12 | 100.33 | 0.85 | 1.03 |
| 3 | Interest Receipts, Dividends and Profits - A | 195.27 | 2.32 | 239.88 | 2.47 | 270.98 | 2.42 | 264.50 | 2.24 | 172.34 | 1.47 | 2.16 |
| 4 | Public Service Commission | 2.44 | 0.03 | 3.00 | 0.03 | 3.29 | 0.03 | 4.99 | 0.04 | 5.74 | 0.05 | 0.04 |
| 5 | Police | 70.26 | 0.83 | 54.82 | 0.57 | 82.64 | 0.74 | 73.03 | 0.62 | 92.15 | 0.78 | 0.71 |
| 6 | Jails | 2.60 | 0.03 | 3.01 | 0.03 | 14.91 | 0.13 | 4.05 | 0.03 | 7.75 | 0.07 | 0.06 |
| 7 | Stationery & Printing | 20.48 | 0.24 | 22.13 | 0.23 | 26.12 | 0.23 | 28.61 | 0.24 | 23.09 | 0.20 | 0.23 |
| 8 | Public Works | 13.82 | 0.16 | 7.65 | 0.08 | 9.79 | 0.09 | 9.25 | 0.08 | 11.95 | 0.10 | 0.10 |
| 9 | Other Administrative Services | 309.72 | 3.68 | 363.63 | 3.75 | 163.15 | 1.46 | 175.45 | 1.49 | 148.26 | 1.26 | 2.19 |
| 10 | Contributions & Recoveries towards pension & other Retirement benefits | 64.28 | 0.76 | 131.81 | 1.36 | 148.80 | 1.33 | 120.72 | 1.02 | 104.75 | 0.89 | 1.08 |
| 11 | Miscellaneous General Services *(Including Lotteries)* | 6405.00 | 76.02 | 7477.93 | 77.09 | 9166.98 | 81.85 | 9430.64 | 80.03 | 9778.53 | 83.22 | 79.95 |
| 12 | General Service -B | 6888.59 | 81.76 | 8063.98 | 83.13 | 9615.69 | 85.86 | 9846.75 | 83.57 | 10172.22 | 86.57 | 84.35 |
| 13 | Education, Sports, Art & Culture | 243.63 | 2.89 | 282.35 | 2.91 | 257.78 | 2.30 | 256.73 | 2.18 | 237.55 | 2.02 | 2.42 |
| 14 | Medical & Public Health | 151.12 | 1.79 | 218.22 | 2.25 | 181.53 | 1.62 | 335.07 | 2.84 | 240.33 | 2.05 | 2.13 |
| 15 | Family Welfare | 0.04 | 0.00 | 0.28 | 0.00 | 0.12 | 0.00 | 0.21 | 0.00 | 0.20 | 0.00 | 0.00 |
| 16 | Water Supply & Sanitation | 0.00 | 0.00 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

| Table No.9.1 continued | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Component-wise Share of Own Non-Tax Receipts in Kerala** | | | | | | | | | | | | |
| Sl. No. | Particulars | 2015-16 | | 206-17 | | 2017-18 | | 2018-19 | | 2019-20 | | Average Share (%) |
| | | Rs.in Crore | Share (%) | Rs.in Crore | Share (%) | Rs.in Crore | Share (%) | Rs.in Crore | Share (%) | Rs.in Crore | Share (%) | |
| 17 | Housing | 1.84 | 0.02 | 2.66 | 0.03 | 3.19 | 0.03 | 3.51 | 0.03 | 4.13 | 0.04 | 0.03 |
| 18 | Urban Development | 4.76 | 0.06 | 3.70 | 0.04 | 4.47 | 0.04 | 7.51 | 0.06 | 9.65 | 0.08 | 0.06 |
| 19 | Information & Publicity | 0.30 | 0.00 | 0.39 | 0.00 | 0.14 | 0.00 | 0.11 | 0.00 | 0.25 | 0.00 | 0.00 |
| 20 | Labour & Employment | 24.60 | 0.29 | 25.22 | 0.26 | 29.87 | 0.27 | 33.03 | 0.28 | 34.25 | 0.29 | 0.28 |
| 21 | Social Security & Welfare | 1.54 | 0.02 | 6.18 | 0.06 | 6.78 | 0.06 | 0.18 | 0.00 | 0.17 | 0.00 | 0.03 |
| 22 | Other Social Services | 0.73 | 0.01 | 0.57 | 0.01 | 0.32 | 0.00 | 0.32 | 0.00 | 0.40 | 0.00 | 0.00 |
| 23 | Social Service - C | 428.56 | 5.09 | 539.56 | 5.56 | 484.22 | 4.32 | 636.67 | 5.40 | 526.93 | 4.48 | 4.95 |
| 24 | Crop Husbandry | 9.31 | 0.11 | 9.48 | 0.10 | 10.54 | 0.09 | 18.51 | 0.16 | 11.63 | 0.10 | 0.11 |
| 25 | Animal Husbandry | 5.49 | 0.07 | 6.37 | 0.07 | 7.07 | 0.06 | 8.12 | 0.07 | 9.30 | 0.08 | 0.07 |
| 26 | Dairy Development | 0.99 | 0.01 | 1.28 | 0.01 | 1.08 | 0.01 | 1.34 | 0.01 | 1.49 | 0.01 | 0.01 |
| 27 | Fisheries | 11.10 | 0.13 | 12.72 | 0.13 | 17.02 | 0.15 | 17.63 | 0.15 | 23.26 | 0.20 | 0.15 |
| 28 | Forestry & Wild life | 283.04 | 3.36 | 296.85 | 3.06 | 245.42 | 2.19 | 287.21 | 2.44 | 255.02 | 2.17 | 2.59 |
| 29 | Co-operation | 159.50 | 1.89 | 146.64 | 1.51 | 194.82 | 1.74 | 186.57 | 1.58 | 202.38 | 1.72 | 1.68 |
| 30 | Other Agricultural Programmes | 0.12 | 0.00 | 0.11 | 0.00 | 0.12 | 0.00 | 0.06 | 0.00 | 0.04 | 0.00 | 0.00 |
| 31 | Other Rural Developmental Programmes | 3.31 | 0.04 | 3.64 | 0.04 | 5.34 | 0.05 | 8.40 | 0.07 | 10.14 | 0.09 | 0.06 |
| 32 | Other Special Area Programmes | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 33 | Major Irrigation | 5.87 | 0.07 | 5.35 | 0.06 | 6.24 | 0.06 | 8.92 | 0.08 | 6.87 | 0.06 | 0.06 |
| 34 | Medium Irrigation | 6.80 | 0.08 | 5.68 | 0.06 | 6.99 | 0.06 | 10.74 | 0.09 | 30.15 | 0.26 | 0.11 |

| Table No.9.1 Continued | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Component-wise Share of Own Non-Tax Receipts in Kerala** | | | | | | | | | | | | |
| Sl. No. | Particulars | 2015-16 | | 206-17 | | 2017-18 | | 2018-19 | | 2019-20 | | Average Share (%) |
| | | Rs.in Crore | Share (%) | Rs.in Crore | Share (%) | Rs.in Crore | Share (%) | Rs.in Crore | Share (%) | Rs.in Crore | Share (%) | |
| 35 | Minor Irrigation | 6.03 | 0.07 | 5.75 | 0.06 | 7.09 | 0.06 | 5.48 | 0.05 | 6.99 | 0.06 | 0.06 |
| 36 | Petroleum | 0.01 | 0.00 | 0.01 | 0.00 | 0.01 | 0.00 | 0.02 | 0.00 | 0.09 | 0.00 | 0.00 |
| 37 | Village & Small Industries | 4.25 | 0.05 | 4.54 | 0.05 | 7.06 | 0.06 | 7.60 | 0.06 | 7.06 | 0.06 | 0.06 |
| 38 | Industries | 0.73 | 0.01 | 0.76 | 0.01 | 0.73 | 0.01 | 0.68 | 0.01 | 0.73 | 0.01 | 0.01 |
| 39 | Nonferrous Mining & Metallurgical Industries | 149.54 | 1.77 | 144.25 | 1.49 | 158.62 | 1.42 | 178.45 | 1.51 | 170.95 | 1.45 | 1.52 |
| 40 | Other Industries | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 41 | Port & Light Houses | 63.11 | 0.75 | 74.43 | 0.77 | 28.05 | 0.25 | 53.82 | 0.46 | 30.68 | 0.26 | 0.47 |
| 42 | Roads & Bridges | 103.41 | 1.23 | 65.67 | 0.68 | 58.86 | 0.53 | 31.26 | 0.27 | 31.46 | 0.27 | 0.55 |
| 43 | Inland Water Transport | 7.66 | 0.09 | 6.76 | 0.07 | 7.21 | 0.06 | 7.06 | 0.06 | 8.35 | 0.07 | 0.07 |
| 44 | Other Transport Services | 0.90 | 0.01 | 0.44 | 0.00 | 0.17 | 0.00 | 0.04 | 0.00 | 0.05 | 0.00 | 0.00 |
| 45 | Other Scientific Research | 6.74 | 0.08 | 2.60 | 0.03 | 6.03 | 0.05 | 4.03 | 0.03 | 6.91 | 0.06 | 0.05 |
| 46 | Tourism | 6.16 | 0.07 | 5.15 | 0.05 | 7.06 | 0.06 | 8.79 | 0.07 | 8.54 | 0.07 | 0.07 |
| 47 | Civil Supplies | 5.15 | 0.06 | 8.05 | 0.08 | 5.25 | 0.05 | 138.48 | 1.18 | 5.59 | 0.05 | 0.31 |
| 48 | Other General Economic Services | 73.88 | 0.88 | 50.02 | 0.52 | 47.96 | 0.43 | 52.09 | 0.44 | 51.20 | 0.44 | 0.52 |
| 49 | Economic Service - D | 913.07 | 10.84 | 856.56 | 8.83 | 828.73 | 7.40 | 1035.31 | 8.79 | 878.89 | 7.48 | 8.54 |
| 50 | Other Own Non-Tax Receipts – E ( B +C + D) | 8230.23 | 97.68 | 9460.10 | 97.53 | 10928.63 | 97.58 | 11518.74 | 97.76 | 11578.04 | 98.53 | 97.84 |
| 51 | Total Own Non-Tax Receipts F ( A +E) | 8425.49 | 100.00 | 9699.98 | 100.00 | 11199.61 | 100.00 | 11783.24 | 100.00 | 11750.37 | 100.00 | 100.00 |

*Source: Finance Accounts. C&AG (For 2019-20 preliminary accounts) (Various issues)*

| Table No.9.2 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Component-wise Growth Rate of Own Non-Tax Receipts in Kerala** | | | | | | | | | | | | |
| Sl. No | Particulars | 2015-16 | | 206-17 | | 2017-18 | | 2018-19 | | 2019-20 | | Average Annual Compounded Growth rate (%) |
| | | Rs.in Crore | Growth Rate (%) | Rs.in Crore | Growth Rate (%) | Rs.in Crore | Growth Rate (%) | Rs.in Crore | Growth Rate (%) | Rs.in Crore | Growth Rate (%) | |
| 1 | Interest Receipts | 105.03 | | 143.51 | 36.63 | 144.50 | 0.69 | 132.38 | -8.39 | 72.01 | -45.60 | -9.01 |
| 2 | Dividends & Profits | 90.23 | | 96.37 | 6.80 | 126.48 | 31.25 | 132.12 | 4.46 | 100.33 | -24.07 | 2.69 |
| 3 | Interest Receipts, Dividends and Profits - A | 195.27 | | 239.88 | 22.85 | 270.98 | 12.96 | 264.50 | -2.39 | 172.34 | -34.85 | -3.07 |
| 4 | Public Service Commission | 2.44 | | 3.00 | 22.77 | 3.29 | 9.81 | 4.99 | 51.68 | 5.74 | 15.00 | 23.83 |
| 5 | Police | 70.26 | | 54.82 | -21.98 | 82.64 | 50.75 | 73.03 | -11.63 | 92.15 | 26.18 | 7.02 |
| 6 | Jails | 2.60 | | 3.01 | 15.83 | 14.91 | 394.45 | 4.05 | -72.85 | 7.75 | 91.52 | 31.37 |
| 7 | Stationery & Printing | 20.48 | | 22.13 | 8.07 | 26.12 | 18.04 | 28.61 | 9.51 | 23.09 | -19.28 | 3.05 |
| 8 | Public Works | 13.82 | | 7.65 | -44.68 | 9.79 | 28.09 | 9.25 | -5.51 | 11.95 | 29.09 | -3.58 |
| 9 | Other Administrative Services | 309.72 | | 363.63 | 17.41 | 163.15 | -55.13 | 175.45 | 7.54 | 148.26 | -15.50 | -16.82 |
| 10 | Contributions & Recoveries towards pension & other Retirement benefits | 64.28 | | 131.81 | 105.08 | 148.80 | 12.89 | 120.72 | -18.87 | 104.75 | -13.24 | 12.99 |

| Table No.9.2 Continued | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Component-wise Growth Rate of Own Non-Tax Receipts in Kerala** | | | | | | | | | | | | |
| Sl. No | Particulars | 2015-16 | | 206-17 | | 2017-18 | | 2018-19 | | 2019-20 | | Average Annual Compounded Growth rate (%) |
| | | Rs.in Crore | Growth Rate (%) | Rs.in Crore | Growth Rate (%) | Rs.in Crore | Growth Rate (%) | Rs.in Crore | Growth Rate (%) | Rs.in Crore | Growth Rate (%) | |
| 11 | Miscellaneous General Services *(Including Lotteries)* | 6405.00 | | 7477.93 | 16.75 | 9166.98 | 22.59 | 9430.64 | 2.88 | 9778.53 | 3.69 | 11.16 |
| 12 | General Service -B | 6888.59 | | 8063.98 | 17.06 | 9615.69 | 19.24 | 9846.75 | 2.40 | 10172.22 | 3.31 | 10.24 |
| 13 | Education, Sports, Art & Culture | 243.63 | | 282.35 | 15.89 | 257.78 | -8.70 | 256.73 | -0.41 | 237.55 | -7.47 | -0.63 |
| 14 | Medical & Public Health | 151.12 | | 218.22 | 44.40 | 181.53 | -16.81 | 335.07 | 84.58 | 240.33 | -28.27 | 12.30 |
| 15 | Family Welfare | 0.04 | | 0.28 | 637.63 | 0.12 | -57.58 | 0.21 | 74.60 | 0.20 | -5.20 | 50.86 |
| 16 | Water Supply & Sanitation | 0.00 | | 0.01 | 210.53 | 0.00 | -66.10 | 0.00 | -35.00 | 0.00 | -53.85 | -25.04 |
| 17 | Housing | 1.84 | | 2.66 | 44.32 | 3.19 | 20.02 | 3.51 | 9.96 | 4.13 | 17.82 | 22.39 |
| 18 | Urban Development | 4.76 | | 3.70 | -22.19 | 4.47 | 20.76 | 7.51 | 67.87 | 9.65 | 28.51 | 19.32 |
| 19 | Information & Publicity | 0.30 | | 0.39 | 30.76 | 0.14 | -63.89 | 0.11 | -20.79 | 0.25 | 128.67 | -3.83 |
| 20 | Labour & Employment | 24.60 | | 25.22 | 2.51 | 29.87 | 18.46 | 33.03 | 10.59 | 34.25 | 3.69 | 8.63 |
| 21 | Social Security & Welfare | 1.54 | | 6.18 | 300.23 | 6.78 | 9.84 | 0.18 | -97.35 | 0.17 | -7.18 | -42.66 |
| 22 | Other Social Services | 0.73 | | 0.57 | -22.57 | 0.32 | -43.09 | 0.32 | -0.06 | 0.40 | 22.65 | -14.27 |
| 23 | Social Service - C | 428.56 | | 539.56 | 25.90 | 484.22 | -10.26 | 636.67 | 31.49 | 526.93 | -17.24 | 5.30 |

| Table No.9.2 Continued | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Component-wise Growth Rate of Own Non-Tax Receipts in Kerala** | | | | | | | | | | | | |
| Sl. No | Particulars | 2015-16 | | 206-17 | | 2017-18 | | 2018-19 | | 2019-20 | | Average Annual Compounded Growth rate (%) |
| | | **Rs.in Crore** | **Growth Rate (%)** | **Rs.in Crore** | **Growth Rate (%)** | **Rs.in Crore** | **Growth Rate (%)** | **Rs.in Crore** | **Growth Rate (%)** | **Rs.in Crore** | **Growth Rate (%)** | |
| **24** | Crop Husbandry | 9.31 | | 9.48 | 1.84 | 10.54 | 11.19 | 18.51 | 75.61 | 11.63 | -37.20 | 5.71 |
| **25** | Animal Husbandry | 5.49 | | 6.37 | 16.08 | 7.07 | 10.97 | 8.12 | 14.94 | 9.30 | 14.48 | 14.10 |
| **26** | Dairy Development | 0.99 | | 1.28 | 29.22 | 1.08 | -15.78 | 1.34 | 23.92 | 1.49 | 11.66 | 10.78 |
| **27** | Fisheries | 11.10 | | 12.72 | 14.67 | 17.02 | 33.74 | 17.63 | 3.62 | 23.26 | 31.93 | 20.33 |
| **28** | Forestry & Wild life | 283.04 | | 296.85 | 4.88 | 245.42 | -17.33 | 287.21 | 17.03 | 255.02 | -11.21 | -2.57 |
| **29** | Co-operation | 159.50 | | 146.64 | -8.06 | 194.82 | 32.86 | 186.57 | -4.23 | 202.38 | 8.47 | 6.13 |
| **30** | Other Agricultural Programmes | 0.12 | | 0.11 | -5.35 | 0.12 | 9.78 | 0.06 | -53.02 | 0.04 | -31.13 | -23.86 |
| **31** | Other Rural Developmental Programmes | 3.31 | | 3.64 | 9.83 | 5.34 | 46.91 | 8.40 | 57.19 | 10.14 | 20.79 | 32.30 |
| **32** | Other Special Area Programmes | 0.00 | | 0.00 | | 0.00 | | 0.00 | | 0.00 | | |
| **33** | Major Irrigation | 5.87 | | 5.35 | -8.80 | 6.24 | 16.66 | 8.92 | 42.86 | 6.87 | -22.90 | 4.05 |
| **34** | Medium Irrigation | 6.80 | | 5.68 | -16.46 | 6.99 | 23.03 | 10.74 | 53.66 | 30.15 | 180.70 | 45.10 |
| **35** | Minor Irrigation | 6.03 | | 5.75 | -4.65 | 7.09 | 23.27 | 5.48 | -22.63 | 6.99 | 27.49 | 3.77 |
| **36** | Petroleum | 0.01 | | 0.01 | -7.89 | 0.01 | 28.57 | 0.02 | 136.67 | 0.09 | 332.86 | 86.63 |
| **37** | Village & Small Industries | 4.25 | | 4.54 | 6.89 | 7.06 | 55.54 | 7.60 | 7.73 | 7.06 | -7.15 | 13.56 |
| **38** | Industries | 0.73 | | 0.76 | 3.94 | 0.73 | -3.21 | 0.68 | -7.00 | 0.73 | 7.30 | 0.10 |

| Table No.9.2 Continued | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Component-wise Growth Rate of Own Non-Tax Receipts in Kerala | | | | | | | | | | | | |
| Sl. No | **Particulars** | 2015-16 | | 206-17 | | 2017-18 | | 2018-19 | | 2019-20 | | Average Annual Compounded Growth rate (%) |
| | | Rs.in Crore | Growth Rate (%) | Rs.in Crore | Growth Rate (%) | Rs.in Crore | Growth Rate (%) | Rs.in Crore | Growth Rate (%) | Rs.in Crore | Growth Rate (%) | |
| 39 | Nonferrous Mining & Metallurgical Industries | 149.54 | | 144.25 | -3.54 | 158.62 | 9.96 | 178.45 | 12.50 | 170.95 | -4.20 | 3.40 |
| 40 | Other Industries | 0.00 | | 0.00 | | 0.00 | | 0.00 | | 0.00 | | |
| 41 | Port & Light Houses | 63.11 | | 74.43 | 17.95 | 28.05 | -62.31 | 53.82 | 91.87 | 30.68 | -43.00 | -16.50 |
| 42 | Roads & Bridges | 103.41 | | 65.67 | -36.49 | 58.86 | -10.37 | 31.26 | -46.88 | 31.46 | 0.64 | -25.73 |
| 43 | Inland Water Transport | 7.66 | | 6.76 | -11.77 | 7.21 | 6.63 | 7.06 | -1.96 | 8.35 | 18.20 | 2.18 |
| 44 | Other Transport Services | 0.90 | | 0.44 | -51.15 | 0.17 | -61.48 | 0.04 | -76.48 | 0.05 | 18.84 | -52.11 |
| 45 | Other Scientific Research | 6.74 | | 2.60 | -61.36 | 6.03 | 131.54 | 4.03 | -33.14 | 6.91 | 71.41 | 0.63 |
| 46 | Tourism | 6.16 | | 5.15 | -16.34 | 7.06 | 37.12 | 8.79 | 24.45 | 8.54 | -2.83 | 8.52 |
| 47 | Civil Supplies | 5.15 | | 8.05 | 56.25 | 5.25 | -34.86 | 138.48 | 0 | 5.59 | -95.96 | 2.05 |
| 48 | Other General Economic Services | 73.88 | | 50.02 | -32.29 | 47.96 | -4.12 | 52.09 | 8.60 | 51.20 | -1.70 | -8.76 |
| 49 | Economic Service - D | 913.07 | | 856.56 | -6.19 | 828.73 | -3.25 | 1035.31 | 24.93 | 878.89 | -15.11 | -0.95 |
| 50 | Other Own Non-Tax Receipts - E ( B +C + D) | 8230.23 | | 9460.10 | 14.94 | 10928.63 | 15.52 | 11518.74 | 5.40 | 11578.04 | 0.51 | 8.91 |
| 51 | Total Own Non-Tax Receipts F ( A +E) | 8425.49 | | 9699.98 | 15.13 | 11199.61 | 15.46 | 11783.24 | 5.21 | 11750.37 | -0.28 | 8.67 |

*Source: Finance Accounts. C&AG (For 2019-20 preliminary accounts) (Various issues)*

### Division – A. Interest Receipt, Dividends and Profits

Interest Receipt, Dividend and Profits constitute around 2.16 per cent share of the total own non-tax receipts. The AACGR (Average Annual Compounded Growth Rate) of past five years (2015-20) shows negative growth rate of -3.07 per cent. The entire receipts under this division come mainly from the State's own public sector undertakings to Government exchequer. Increase in revenue under this head mainly depends on the profitability of PSUs.

### Division - B Receipt from General Services

Under General Service the receipts are from public service commission, police, jail, stationery and printing, public works, administrative services, contributions and recoveries towards pension, miscellaneous service (which includes receipt from lottery). From all these, the Government of Kerala collect a share of 84.35 per cent of the total SONTR. The lion share (around 80 per cent) of this being collected from lottery and it is dealt in Section 8 of this report.

The AACGR of general services to SONTR is 10.24 per cent. During the five year period it has considerably reduced from the peak of 19.24 per cent during the year 2017-18 to 2.4 per cent in the subsequent year. The potential user-charge collections of departments like police, jail, public works etc. are less than 1 per cent of the total.

### Division C- Receipt from Social Service

Social service consists of education, sports, culture, medical and political heath, family welfare, Water supply, Housing, urban development etc. Past five years (2015-2020) figures reveals a share of 4.95 per cent contribution to total SONTR. Government of Kerala has been spending substantial amount on education and health. The AACGR taken for the five year gives a growth of 5.3 per cent.

### Division D – Receipt from Economic Services

The share of Economic Services on total ONTR is 8.54 per cent. It consists of receipts from 24 sub-divisions which include crops, Animal husbandry, Dairy development, Fisheries, Irrigation and Tourism. The AACGR of this division shows a negative rate of -0.95.

### Overall trend of receipts from Stat's Own Non- Tax revenue

1. The average five years revenue share on the total shows that out of 45 sub-divisions of non-tax revenue, 9 items shows nil share of revenue collection, 22 items show less than 0.5 per cent share, 3 items show a share between 0.5 per cent to 1 per cent, 5 items show a share between 1 per cent to 2 per cent, 4 items show a share between 2 per cent to 2.75 per cent and 1 item (which includes lottery) shows the lion's share i.e., 80 per cent.
2. AACGR of revenue collection for five years shows that, out of 45 sub-division 16 show a negative growth rate, 9 shows less than 5 per cent growth rate, 5 shows a growth rate between 5 per cent and 10 per cent and the balance 15 give a more than 10 per cent growth rate.

### Revenue expenditure and non-tax revenue from Education and Health

Kerala from its formation has been spending more on Education and Health sectors. The average percentage of Non-tax revenue to Revenue Expenditure for Education is 1.45 percent and that for Health is 3.68 percent from 2016-17 to 2020-21. It shows that for every Rs 100 spent by Government on these sectors the user charges collected from these sectors is only Rs.1.45 from education and Rs.3.68 from the health sector **(Table No.9.3).**

| Table 9.3 | | | | | | |
|---|---|---|---|---|---|---|
| **Revenue expenditure and Non-Tax Revenue from Education and Health in Kerala (in crores)** | | | | | | |
| | Education | | | Medical, Public Health and Family Welfare | | |
| Year | Revenue Expenditure (RE) | Non-Tax Revenue (NTR) | Percentage of NTR on RE | Revenue Expenditure (RE) | Non-Tax Revenue (NTR) | Percentage of NTR on RE |
| 2016-17 | 17061.09 | 282.35 | 1.65 | 6662.02 | 218.22 | 3.28 |
| 2017-18 | 18514.86 | 257.78 | 1.39 | 6872.01 | 181.53 | 2.64 |
| 2018-19 | 18968.26 | 256.73 | 1.35 | 7261.34 | 335.07 | 4.61 |
| 2019-20 | 18970.24 | 267.56 | 1.41 | 7362.95 | 261.78 | 3.56 |
| 2020-21 | 20495.50 | 294.51 | 1.44 | 8017.32 | 347.65 | 4.34 |
| *Figures of 2019-20 are Revised Estimate and 2020-21 are Budgeted Estimate* | | | | | | |
| *Actual receipt in 2019-20 is Rs.237.56 crores for Education and Rs.240.33 crores for Health* | | | | | | |
| *Source: Finance Accounts. C&AG (For 2019-20 preliminary accounts) (Various issues)* | | | | | | |

The above discussion shows that the major factor behind the low proportion of non-tax revenue on the total revenue of the state is due to the low proportion of **cost of recovery rate** from each division and sub-division. Kerala's cost recovery rate is much lower than the other major states in India.

## Suggestions

### Introducing a cost visible subsidy method

At present the element of subsidy is being inherent in the provision of each public good/service is invisible or not evident to the public who consumes or uses them. As a result, due to lack of awareness of public finance, they take it for granted or consider the subsided cost as the real cost. Moreover, the public is not at all aware the source of revenue by which the subsidised good or service is funded. This can be addressed by initiating some of the measures as outlined below:

**Showing explicitly the actual cost, subsidy and amount recovered**

Showing the actual cost, the amount of subsidy and the amount recovered from the public in each of the public good/service is suggested. This will create a continual awareness among public about the value and cost of public goods/service they use or avail from Government. This is indirectly felt by the public through the intervention on health sector made by Government of Kerala for mitigating the Covid pandemic. The entire medical and public health related cost has been offered free to public by Government of Kerala whereas it is charged at much higher rates by the private hospitals in and outside Kerala.

One example to make explicitly the provision of subsidy viable to the public can be given in education. Every student pursuing on MBBS or any professional course or any course in Government/aided College should be informed (by giving a Government receipt) of the actual cost, less subsidised cost not recovered from the student, but backed by taxpayers' money, and the fees recovered amount from him/her as follows:

.

| Total fees | Rs. 10000 |
|---|---|
| Less subsidy financed by taxpayer's money | Rs 9000 |
| Net amount recovered as fees | Rs. 1000 |

The total fees mentioned in the receipt note should be at cost basis only. This would compel the authorities of the Government to provide better quality goods and service to the public also.

## Making the public aware of subsidy element

Though most of the crucial public goods are made available to the public at subsidized costs, the public are not aware of this component. The Government should give adequate publicity to make this known to the public at large. It will also create awareness among the public about the level of subsidy inherent in various public services. Indirectly, public awareness will also help in facilitating periodic revision of the rates through indexing based on inflation trends as the public are updated about the gradual increase in the costs. Such an exercise will also help in fostering greater acceptance among the public about the need for and relevance of the periodic revision of rates. The role of the Public Relations Department is crucial in this regard.

### Additional Revenue from Non-Tax Revenue (other than lottery)

The major sources of non-tax revenue are from Forest, Fee from Education and Service charges from Health Sector (other than lottery). Though a 5 per cent hike was announced in two budgets, 2018-19 and 2019-20, all departments/divisions concerned have not implemented the same. This is mainly due to the delay in incorporating or implementing amendment in the relevant Acts/Rules for seamless collection of increased fees, fines and penalties. This may lead to various procedural and governance issues. Department level speedy execution with the support of law department is to be done in a time bound manner.

The tuition fees charged in government and government aided institutions which are very low compared to the self-financing institutions, may be gradually increased, especially for higher education, by about 10 per cent during current year and thereafter to be indexed to inflation on yearly basis.

Similarly, in the health care sector also there is the scope for revising the fees in government hospitals at least by 10 per cent during current year and thereafter to be indexed to inflation on a yearly basis.

Special fees may also be charged for taking of water from canals, rivers, public ponds for commercial purposes like construction of flats, buildings, road tarring etc. Fine charged by the Police Department for the violation of the traffic offenses traced out in cameras are also to be similarly increased. All the increase in user charges should be indexed to inflation/cost of living index with wide media coverage.

**Recommendations**

Non-Tax Revenue for the current fiscal year (2020-21) is expected as Rs.2000 crore apart from lottery receipts. By adopting a 5 percent annual increase in line with inflation, along with effective governance initiatives (including collection of arrears) additional revenue of at least Rs.300 crore can be collected.

## Revisiting the Lease Land Rents

As the State Subject, Land is the most priced asset in the possession of State Government. State Government and its agencies own substantial assets in terms of land occupied by public institutions, leased out to individuals and institutions, as land (*Poramboke*) occupied by others and lying unencumbered. Land prices in urban and rural India both have risen considerably for the past years. Urban land prices across the urban centre (FARs of the world are far higher than even what the economic value of the land (i.e. potential future earnings) justifies.

The Housing Price Index published by RBI for ten selected cities reflects that Kochi ranks second over the ten-year period of housing prices (reflective of land prices) **(Table No.9.4)** This trend seems to hold correct for all major cities and towns in Kerala. Kerala has the highest density of population (859 persons) next to Bihar and West Bengal (Niti-Ayog). Given this density of population in Kerala and the fact that a significant portion of land is subject to restrictions of Coastal Regulation Zone or in ecologically sensitive zones with more or less uniform spread of population across the State, the urban-rural variation in terms of land price is much less.

| Table No. 9.4 | | | | | |
|---|---|---|---|---|---|
| **Rise in Housing prices - Quarter on Quarter (2010-2020 - Q3)** | | | | | |
| Mumbai | Delhi | Bangalore | Ahmedabad | Lucknow | Kolkata |
| 2.86% | 3.33% | 3.00% | 3.04% | 4.06% | 3.53% |
| Chennai | Jaipur | Kanpur | Kochi | All India | |
| 2.85% | 1.73% | 1.92% | 3.58% | 2.92% | |
| Source: *RBI – Housing Price Index 2010-2020* | | | | | |

Government has revenue land of 15.78 lakh hectares, 36104 hectares of excess land and 4.57 lakhs of Poramboke in its possession. Revenue Department in Government of Kerala has leased out 3413.3 hectares of land. Tata Tea Company enjoys a special grant covering 29952.51 hectares.

In a revival strategy for the State in the wake of Covid-19, leveraging on lease land is highly critical to Government. In Kerala, Government land can be assigned to individuals/ institutions/body corporates absolutely or subject to restrictions or conditions prescribed. Government Land can also be leased to different institutions / individuals/body corporates with conditions attached. The Acts and Rules governed for this include the Kerala Land Conservancy Act 1957, Kerala Land Conservancy Rules 1958, Land Assignment Act 1960, Land Assignment Rules 1964, Assignment of Land within Municipal and Corporation Areas Rules 1995, Kerala Paddy and Wetland Act 2018 and Kerala Paddy and Wetland Rules 2018.

Government had formulated a land management policy in 1994 (*vide GO (MS) No. 222/94 RD dated 04 May 1994, GO (MS) No. 189/95/RD dated 22 March 1995, GO(MS) No. 280/2011/RD dated 27 July 2011*).

The salient aspects of the policy laid down were the following:

1. Land falling under various categories should be identified with reference to the registers maintained in the revenue offices at various levels.

2. Wherever terms of lease have expired, action to be taken to revise the lease rent with reference to the current market value.
3. Where the land leased has not been utilised for the purpose for which it was leased out, such lands shall be resumed to Government.
4. Effective action to be taken to manage, administer or dispose of the land escheated to Government.
5. Unauthorised occupations in Government lands should be evicted promptly
6. Revenue records pertaining to government lands should be made up to date.
7. Public lands should be inspected regularly

However, this policy has not been effectively followed with the seriousness it deserves. In the aftermath of the economic crisis caused by Covid-19, this policy should be revisited and effectively enforced to raise more resources and to conserve the wealth of Government land.

## Lease Rental Structure

### Under Kerala Land Assignment Rules

Government of Kerala *[G.O (Ms) No. 1026/85/RD dated 19th December 1985*] had revised the lease rent of Government land from 10 per cent to 15 per cent of market value for individuals or institutions purely of commercial nature. Subsequently Government [*GO (Ms.) No. 96/2016/RD dated 6th February 2016*] had ordered to revise the lease rent of Government land as 5 per cent of the market value for individuals or institutions purely of commercial nature and 0.5 per cent to 3 per cent of market value for individuals or institutions of non-commercial and non-profitable nature. Lease rent arrear demands are raised based on the higher rates. A one-time settlement scheme that was also declared in the budget speech 2019-20 to settle the lease rent arrears was formulated and notified. (*G.O.(P) No.17/2020/RD 15 February 2020 (SRO 129/2020*)

## Land within Municipal and Corporation Areas

Government of Kerala [*G.O. (P) No. 126/2004/RD dated 14th May, 2004*] had fixed the lease rent of the Government land as 10 per cent of the market value for individuals or institutions purely of commercial nature and 2 per cent to 5 per cent of market value for individuals or institutions of non-commercial and non-profitable nature. Subsequently, Government [*G. O. (P) No. 64/2016/RD dated 28th January, 2016*] had revised the lease rent of Government land as 5 per cent of the Market value for individuals or institutions purely of commercial nature and 0.5 per cent to 3 per cent of market value for individuals or institutions of non-commercial and non-profitable nature. Lease rent arrear demands are raised based on the higher rates. One-time settlement scheme is declared to settle the lease rent arrears (*G.O. (P) No. 16/2020/RD 15thFebruary 2020*).

It is estimated that more than 26,000 Hectare of land is leased (*Audit Report, CAG 2014*) by Government to different institutions/individuals/body corporates. The period of lease has been fixed as maximum three years for urban areas and two to ten years for rural areas based on the use for which it is leased. But the collection of leased land rent is not commensurate with the land leased. Further there several violations of lease conditions which call for resumption of land. There are also instances of defective calculation of rent as well are rates of rent. The eviction of encroachments from Government land is not effective. The arrears of leased rent in 2017 (*Reply of the Hon. Minister (Revenue) in the Legislative Assembly dated 10.8.2017)* was calculated as Rs.318.40 Crores from Revenue land and Rs. 278.66 Crores from 61565 Hectares of Forest Land.

## Committee's Recommendations

### 1. Collection of Lease Rent arrears

The Committee recommends that concerted efforts need to be made to collect the arrears using the provisions of the Kerala Revenue Recovery Act 1968 [*as envisaged in G.O.(P) No.17/2020/RD 15th February 2020 (SRO 129/2020) and G.O. (P) No.*

*16/2020/RD 15th February 2020 (SRO 137/2020)*] to collect the dues. For this purpose, a special Task Force in the Revenue Department should be constituted supported by a panel of competent lawyers to defend Government in case of litigation that may arise. Tax Force should also consider the revision of land rates for different categories of land use in the urban areas.

**2. Re-assessment of land already in Use**

A special task force in the Revenue Department under Principal Secretary (Revenue) with the Commissioner for Land Revenue as the Convenor is suggested to be constituted to re-assess the use of land already leased with three officers of the rank of Deputy Collectors and with necessary support staff comprising Tahsildars, Village Officers, Surveyors and others. All land that has not been put to use as envisaged in the original terms of the lease shall be resumed by Government. Criteria for resumption for various classes of land are suggested below:

| Type of Land | Criteria for resumption |
|---|---|
| Agricultural Land | If 50% of the land has been left un utilised as on 1.1.2020 |
| Educational, Welfare Institutions | If the Floor Area Ratio (FAR) is less than 0.5 (excluding grounds reserved for sports in educational institutions), and no application for utilisation has been filed with the appropriate Government agency as on 1.1.2020 (e.g. building construction permit), then the rest of the land should be demarcated under supervision of the Special Task Force and resumed |
| Other Institutions | If FAR is less than 1 and no application for utilisation has been filed in the appropriate agency Government as on 1.1.2020, then the rest of the land should be demarcated under supervision of the Special Task Force and resumed |

### 3. Lease rental System based on Market rate and Usage of Land

On the lease rentals, there is one key issue that the state has not so far addressed. It is the issue of land value and its link with the permitted usage of the land as per the master plan or zone plan, at least the urban areas. For example, the Delhi Development Authority (DDA) in Delhi has separate rates for commercial, residential and institutional uses and for areas to be kept as green, i.e. for play grounds etc. separate, concessional license fees are taken. The current rates in this regard are tabulated below:

| Schedule of Market Rates of Land in Delhi | | | |
|---|---|---|---|
| Locality | Rates per Square Meter w.e.f 1.4.1998 | | |
| | Commercial | Residential | Institutional |
| Central Delhi | 18,480.00 | 57,960.00 | 2,200.00 |
| *Source: Land and Development Office (LSDO), Govt. of India, Website* | | | |

The Government of Kerala can adopt such changes in the rules to avoid continuously accumulating arrears that remain on paper but cannot be recovered as these are being currently fixed in an arbitrary and un-reasonable manner. An organization running a playground, tennis court, golf course etc. cannot be expected to pay 5 per cent of market value of land as rental for an area being kept as green and used for sports activities. It is unreasonable to place these areas on the same footing as a commercial activity running in the similar area. For each such usage, rent fixation has to be done on a different market rate determined by the permitted usage of the land.

Unless the land rates are fixed for different categories of land usage, the rental arrears will continue to be unrealistic, unreasonable and any measures to recover such arbitrarily fixed rentals can only lead to litigation.

## 4. Leased land with Public Sector Undertakings

Apart from the revenue generated from leased land there is considerable scope for resumption of unutilized land with Public Sector Undertakings (PSUs) and other Government institutions. A concerted effort must be made to identify this land and resumed by Government. Where there is no immediate scope of utilizing this land and the PSU has no credible expansion plan, the land should be identified by resumption. The Special Task Force referred to above can be entrusted with the task.

Such resumed parcels of land can be used for commercial purposes for creation of employment as well as generation of income to Government. Assuming a 50 per cent success in collecting arrears of lease, it is possible to raise an additional amount of Rs.300 crore. If 10 per cent of leased land both of Revenue and Forest can be recovered through resumption, it will be possible to unlock exploitable economic potential of nearly 2000 hectares of land in Kerala. This could be valued financially at Rs. 2000 to Rs. 4000 crores at prevailing average land prices in the State.

## 5. Lease Rent based on Fair Value instead of Market Value

Due to problems in fixing the market value, the committee suggests that instead of market value the lease rent may be fixed, on an interim measure based on fair value of the area which is already fixed. As the data of fair value is available and used widely for Stamp duty fixation purpose, taking a certain percentage of fair value for lease rent will reduce ambiguity. To illustrate, in Municipal and Corporation areas the existing lease rent of 5 per cent of the Market value for individuals or institutions purely used commercial nature and 0.5 per cent to 3 per cent of market value for individuals or institutions of non-commercial and non-profitable nature can be applied on the basis of the ratified fair value. This can be followed till the market value of various user categories of land in certain areas is ascertained and notified.

# Annexures

# Annexure No.1

GOVERNMENT OF KERALA

**Abstract**

Finance Department - Study on the impact of COVID-19 - Constitution of Expert Committee - Orders issued.

**FINANCE (PLANNING - A) DEPARTMENT**

**G.O.(Rt) No.2945/2020/Fin.** **Dated, Thiruvananthapuram, 05/05/2020**

## ORDER

Covid-19 has severely disrupted livelihoods and economic activity all over the world. Consequent to the lockdown following the COVID-19 pandemic, economic activities in most sectors in Kerala have also come to a grinding halt. The unprecedented slowdown both in the formal and informal sectors has crippled the demand for goods and services, which in turn makes economic recovery even more challenging. Sharp contractions are already observed in the core sectors of the economy which point to the scale of damage that Covid-19 and the lockdown are inflicting. Thus, the situation that Government must face is a combination of unprecedented loss or reduction in employment, income and output coupled with severe shortfalls in its revenues.

2. It is the utmost priority of Government to develop a meaningful and effective strategy to lift the State out of this crisis and put it on a sustainable and resilient track of recovery. To this end, the Government of Kerala are pleased to constitute an Expert Committee which will conduct a study on the impact of Covid-19 and the consequent lockdown measures on the public finances of the State and on the various sectors of its economy.

3. The Terms of Reference of the Committee shall be the following:

1) Assess the impact on Revenues of the State:

   a) Loss to the Own Tax Revenues of the State in the immediate and short term and likely projection of Own Tax Revenue collections for the financial year 2020-21, considering specifically the impact on GST, Sales Tax from major items of goods and services

   b) Central transfers, especially tax devolution

   c) Non-Tax Revenue mobilisation

   d) Liquidity issues impacting the State's Treasury Management that Government is likely to face during the financial year 2020-21, and suggest specific and significant additional Revenue mobilisation measures.

2) Identify the impact of Covid-19 and the lockdown on selected key sectors of the economy that contribute the most to the State's Domestic Product.

3) Identify the likely impact on the State's economy, of the inflow of remittances from non-resident Keralites from abroad and other States and potential delays in their resumption of employment.

4) Identify the likely impact on various sectors of the economy in the event of a sharp outflow of migrant labour from other States.

5) Estimate the effect of additional expenditure obligations during the financial year 2020-21 on account of the recovery measures that must be initiated by Government.

6) Identify selective and significant measures for expenditure control.

7) Identify any specific issues that needs to be raised with the Government of India.

8) Any other matter of relevance.

4. The Committee shall have the following composition:

i. Dr. K.M. Abraham CFA, Former Chief Secretary to Government of Kerala
ii. Shri. Rajesh Kumar Singh IAS, Additional Chief Secretary (Finance) **[Convenor of the Committee]**
iii. Shri. R. Ramakumar, Member, Kerala State Planning Board

5. Government are pleased to nominate Dr. D. Shyjan, Head of Department of Economics, University of Calicut, Director, John Mathai Centre, Thrissur as special invitee to the Committee.

6. Government are also pleased to constitute an Expert Resource Group with the following members to assist the Committee in its work.

i. Dr. N. Ramalingam, Associate Professor, Gulati Institute of Taxation
ii. Dr. L. Anitha Kumary, Associate Professor, Gulati Institute of Taxation

7. The Committee may co-opt other expert members into the Expert Resource Group to contribute to the deliberations, as it deems fit. The Committee may hold discussions, if found necessary, with representative stakeholders from different sectors of the economy.

8. The Committee may submit its final report within three months. An interim report may be submitted within a month.

9. The Committee will function under the purview of Finance Department.

**(By Order of the Governor)**

**RAJESH KUMAR SINGH**
**ADDITIONAL CHIEF SECRETARY (FINANCE)**

To

The Principal Accountant General (A&E), Kerala,Thiruvananthapuram.

The Accountant General (G&SSA), Kerala,Thiruvananthapuram.
The Accountant General (E&RSA), Kerala, Thiruvananthapuram.
The Director of Treasuries, Thiruvananthapuram.
The Officials concerned.
The Nodal Officer, www.finance.kerala.gov.in.
Stock File/Office Copy.

Forwarded / By order

Section Officer

# Annexure No. 2

**Report on "Quick Assessment of the Impact of the Covid-19 Pandemic and Lockdown on Kerala's Economy" by Kerala State Planning Board May 2020**

## Abstract

A quick and preliminary assessment of losses in the Kerala economy as a result of the pandemic and consequent lockdown across the country is made in Kerala State Planning Board Report published during May 2020.

The general reference period of the Assessment is the **lockdown period from March 25, 2020 to May 3, 2020**. Moreover, the assessment periods of different sectors differs and are specified individually.

The report is presented in two sections.

**Section -1 - State Income – Short fall in State Gross Value Added as a result of Covid-19 pandemic- Some Preliminary Estimate**

The study estimated the shortfalls to gross value added to Kerala's economy from March 2020 and in the first quarter of 2020-21. (April, May & June 2020). An 80 per cent loss in the monthly value addition during the lock down period is assumed.

During the month of march 2020, the report estimated Rs.29,000 crore shortfall in value addition due to 10 days of loss in production and slower economic activity. An estimate of Rs.80,000 crore of loss is made during the first quarter of 2020-21 (April, May and June). This is calculated with an assumption of 5 per cent production increase during 2020-21 than the previous year.

**Sector II – Sector-wise Assessments**

**Estimates of Losses in Agriculture -Reference period: March and April 2020**

The total losses in the crop husbandry sector in agriculture including plantation crops are estimated at Rs.1570.75 crore. Losses for agricultural labourers due to loss of wages estimated at about Rs.200.30 crore. Total loss in agriculture sector is Rs. 1771.05 crore

**Future Strategies recommended by State Planning Board**

▪Lesser dependence on other States for food and food crops ▪ Self-sufficiency in vegetable production ▪Special Agricultural Zones ▪ Reforms in agricultural marketing system ▪E.auction plat form for spices etc.▪Attracting Youth into agriculture▪ Labour banks for agriculture labourers ▪Demand to Central

Government for agricultural relief package ▪ Crop loans and loans for plantation crops ▪.Banning imports of Rubber at least for one year ▪Removal of Plantation tax and Agricultural Income Tax ▪Crop advisory services during the crisis period ▪Popularize Good Agricultural Practices (GAP) ▪Centralised -automated system of reporting and recording data

**Estimates of Losses in Animal Husbandry**
**Reference Period: March and April 2020**

The total losses in the animal Husbandry Sector are estimated at about Rs.181.0 crore. The loss in different sub-sectors estimated by the State Planning Board

**Future Strategies**

▪Self-sufficiency in production of egg and meat ▪Self-sufficiency in milk production and value added commodities from milk such as cheese and yogurt. Urgent need of fodder and feed plan for its livestock sector ▪Initiate modern milk powder plant in Kerala ▪Initiate a study on marketing and supply chain in the milk, meat and egg sectors of the State.▪ Review of the bio-security measures in the livestock units of the State

**Estimates of Losses in Fisheries: Reference Period: March and April 2020**

The fish worker population of Kerala has historically been associated with lower economic standards of living than the general population. They were facing multiple problems even before the onset of the Covid 19 pandemic. In two previous years, cyclones and floods brought down the number of days of work. The total loss in the fisheries sector is estimated at Rs.1371 crore.

**Future Strategies**

▪Modernisation and institutionalisation of supply chains for inland and marine fisheries in the State ▪ Effective utilisation of the plan fund allocation under inland aquaculture which is already substantial. ▪ Augmentation of institutional credits ▪Improvement in the dissemination of information to trawlers ▪ Supply of quality fish seed, fresh water prawn and brackish water shrimp and fish and seed material for culture of mussel, oyster and crab. ▪Improve marketing linkages for non-conventional varieties like clams, mussels and oysters ▪Explore opportunities in Mariculture as the future of Indian marine fisheries ▪Kerala with its highly conducive climatic conditions has ample scope for the development of ornamental fisheries including its exports ▪Brackish water areas in Kerala are either left unused or used unscientifically. Development of strategy for optimum utilization of these potential resources▪Vannamei culture has not become popular in Kerala and hence initiatives may be taken for promoting Vannamei culture among farmers. Kerala's share in national exports has been around 14 per cent. ▪Cage culture technology has been developed and demonstrated successfully for species like Asian sea bass

(Latescalcarifer) and Etroplus.Leasing suitable sites, bank finance and governmental support through subsidy assistance is to be made ▪ The present insurance schemes including its premium amount need to be liberalised and norms have to be made farmer-friendly.

**Impact of Covid-19 on Industry and Trade**

The total loss of wages or earnings by the self-employed and casual workers in Kerala is estimated by Planning Board is **Rs.350 Crores per day**. (Estimation based on the assumption that the size of the workforce in 2020 remains the same as it has been in 2018).Based on this the total loss of wages and earnings in the state during the period between March to June 2020 is estimated as Rs.15000 crore. The short fall in manufacturing GVA in Kerala during the period from March to June 2020 is estimated as Rs.8000 crore. The short fall in Trade, hotel and restaurants in Kerala during the period from March to June 2020 is estimated to Rs.17000 crore.

**The Way forward**

▪Assistance from the Banking System ▪ Goods and Services Tax- Speedy process in the refund of GST to enterprises ▪ Relief from payments - Reliefs in payment for the renewal of number of licenses in local bodies, due to Kerala State Electricity Board, monthly rents etc. ▪Drive for Technological Upgrading and value addition▪ Opportunities in Food and Agro-processing ▪Opportunities in Health, Pharmaceutical Research and Medical Equipment manufacturing ▪ Speedy implementation of various schemes of Department of Industries and Commerce already announced in the Budget 2020-21.

**Estimates of Losses in the Tourism Sector**
**Reference Period: March and September 2020**

The last three years have been extremely stressful to the tourism industry in Kerala. In 2018, he sector was adversely affected by Nipah virus scare and the massive flood. During its recovery the flood occurred 2019 affected it. Subsequently, the Government of Kerala with the full cooperation and initiative from the tourism industry worked together to rebrand the State's tourism sector. The measures were successful and the tourist arrival showed an increasing trend during 2019..But the third blow of Covid-19 has devastated the tourism sector and the impact will of long term than of any other industry. The planning Board has estimated the total losses in the tourism sector as Rs.20000 crore.

**Future Strategies**

The key to addressing the issues in the tourism industry is to survive in the short-run (one year) and revive in the medium-run (three years). By survival it is referred to the protection of existing firms and jobs to the extent possible

**Survival in the short-run:** In the short run, Kerala should aim to bring together a consortium of banks and other financial institutions to ensure the availability of liquidity in the sector.

**Revival in the Medium Term:** The medium term strategy should be to revive the sector after the period of travel restrictions and health advisories.The Government should initiate special schemes to assist the tour operators, hotels, resorts and homestays in market development.

**Long term Strategy:** The long term strategy is to focus more on the goals specified in the 13th Five year plan document. The objective was to double the arrival of foreign tourists, increase the arrival of domestic tourists by 50 per cent and crate some 400000 jobs in the sector by 2021-22.

**Estimate of loss in Transport:** The estimation of the net income loss per day is estimated to be Rs.241 crore based on the partial usage of the certain types of passenger and goods transport during the lock down period as part of relaxation. Around 24.2 lakh people will be affected directly and indirectly because of the lock down in transport sector.

**Policy Intervention**

▪Concessions and relaxation in tax, insurance and documentation compliance ▪Interest deferment in loans, more period for moratorium, easy sanction of working capital and interest free loans ▪Improvement in the quality of public transport covering stage carriages and Intermediate Public Transport (IPT) mode ▪Optimization of goods transport by providing relaxation for operating during day time at least for one year ▪ Promotion of non-motorized transport system. ▪Reducing the incidence of private vehicle

**Impact of Covid-19 in the IT Sector**

The IT sector in Kerala is heavily export oriented and hence likely to suffer serious loss of income from its markets in Europe, United States and the Gulf regions.The companies most immediately affected are those associated with airlines, hotels, tourism and entertainment and event management sectors. The total decline in earnings is estimated to Rs.4500 crore in the first three quarters of 2020-21. A large part of the IT ecosystem in Kerala consists of firms that have turnover of less than Rs.5 crore per annum. These have been severely affected by the collapse of demand.

**Policy Recommendations**

▪Rent waiver of Government of Kerala software parks for the smaller companies ▪Waiver of Electricity charges ▪Bill discounting, extended period of moratoriums and interest waivers and easy lending. ▪GST waiver at the national level ▪Liberal central Government assistance to IT firms ▪IT sector should actively encourage in the execution of Government and public sector contracts.

**Impact in Power Sector**

The power sector has been declared an essential service under the lockdown. Since the Kerala State Electricity Board (KSEB) and other institutions of the energy and power sector are also in the public sector in Kerala, there has been no loss of employment and wages in this sector.

**Policy Recommendations**

▪Waiver in electrify Charges for a variety of consumers, based on their requests and vulnerability. ▪Central Government need to revoke the "must run" status of renewable energy sources for six months period may be further extended if lockdown or restrictions on economic activity continue. ▪Covid-19 pandemic has been declared to be a force majeure event by the Ministry of Finance, Government of India. Hence the KSEB in consultation with the Government of Kerala may notify force majeure with respect of PPA on select basis keeping in mind the State requirement of peak power demand.

**Impact on Labour and Employment**

Total number of persons days of employment lost (registered, non-registered and plantations) is 213 million during the lock down period. Hence, the grand total wage income loss for 10.2 million workers for a period of 21 days is estimated to be Rs.12,976 crore (including plantation) .Government has already sanctioned around Rs.1000 crore as financial aid to the registered workers in the welfare boards.

**Way forward**

▪Efforts to be taken to bring all the workers under the welfare Boards▪Distribute yet another instalment of financial aid to all registered workers in the welfare board ▪Need to arrange loans to small and medium industries and enterprises free of interest or with subsidized interest ▪Bring all the scattered welfare board under three or four head in tandem with the NIC classification of economic activity. ▪Retain some of the migrant workers in the State in order to man the labour shortage sectors like hotel, restaurants and construction sectors ▪To manage and monitor the migrant workers the role of LSGD may be enhanced particularly for providing better accommodation.▪Currently 50 per cent of the labour cess is to be recovered. Hence it may be helpful if government transfer the responsibility of collection of Building and other construction cess to the LSGD. ▪Extend moratorium over loan repayment from six months to one year.

**Impact on Women's Employment**

Women form a significant part of the informal workforce in the State and are also crucial to homestead economy and home based work. Large proportion of household survives on the small earnings of the women employee in the family. In many families women are the sole earners and the household expenses are met with their hard work and the little money they earn. So it is important to restore the work in a better way through some organizational or technology change to enhance their livelihoods.

**Way forward**

▪MNREGS works are to be resumed with full protocols of social distancing. ▪Explore possibilities of women specific employment ▪MSME's should at least recruit 50 per cent as women workers ▪Government Department having women specific fund should utilised effectively and timely. ▪Some space in industrial park should be reserved for women ▪Women in Kudumbashree and Neighbourhood Groups should be allowed to withdraw some amount from their thrift amount kept in banks. ▪Support units of Kudumbashree – government department purchasing their products, more working capital, restoration of loss in stocks etc▪All the employers of domestic workers should be asked to pay their wages during lock down period. ▪Workers not covered under *Karunya Arogya Suraksha Padhati* should be brought under its purview ▪Income support scheme for self-employment activities ▪At present there is no welfare fund board for employees under *Desiya Sambadhya Padhadhi Agents*. Around 90 per cent of them are employees. They should be properly brought under the any of the existing board.▪ Financial assistance for women having beauty parlours with low interest rate or help through Kudumbashree

**Impact on Remittances and NRKs**

According to Reserve Bank of India, Kerala receives 19 per cent of the country's total remittances. The World Bank in April 2020 has forecasted a decline in remittances to India to the tune of 23 per cent in 2020 as against 5.5 per cent only in 2019. The total loss in terms of remittances of the State during January and February 2020 is estimated as Rs. 2399.97 crore. The impact of Covid-19 on remittances and through that on final demand is not accounted in the total estimation of loss in this report.

**Policy Intervention**

▪Adequate measures must be taken to absorb and reintegrate the return migrants in the state labour market. ▪The policy interventions should be in the three stage: Rehabilitation, Re-integration and Re-emigration. ▪Measures to extent the loan and interest repayment period moratorium, health insurance for return migrants, skill enhancement for effective induction in Kerala labour market ▪Scale up the financial assistance to the NORKA Department.

# Annexure No. 3

**"Economic and Fiscal Shock of Covid - 19 on Kerala: Socio Economic Response and Macro Economic Recovery" May 2020. A study by GIFT (Gulati Institute of Finance and Taxation)**

## Abstract


The study conducted by Gulati Institute of Finance and Taxation (GIFT) estimated Rs.1.62 lakh crore (18.5 per cent of GSVA) with a nominal growth rate of -8.56 per cent and real growth rate of -13.56 per cent as the loss of Kerala economy during the year 2020-21 by considering the staggering effect up to 6 months of Covid 19 .

The revenue shortfall on each category of taxes in Kerala is estimated. The study estimated the loss of revenue receipts to the tune of Rs.34533 crores compared to the Budget estimate for 2020-21 based on the lock down period up to May 17, 2020

The study estimated an increase of revenue deficit and fiscal deficit which comes to Rs.48656.89 crores (6.11 per cent) from Rs.15201.37 (1.55 per cent) budgeted and Rs62750.8 crores(7.87 crores) from Rs.29295.28 crores(3 per cent) respectively during the year 2020-21 Debt in Kerala will increase from Rs.292086.90 to Rs.325542.42 crores in 2020-21 .. The study considered the revenue deficit grant allotted by Fifteenth Finance Commission during the year 2020-21 and worked out the revenue deficit and fiscal deficit after considering it. There is a decrease of revenue deficit from Rs.48656.89 crores (6.11 per cent) to Rs.33333.89 crores (4.18 per cent). Fiscal deficit will reduce from Rs.62750.8 crores to Rs 47427.8 crores. Outstanding debt will be decreased from Rs.325542.42 crores to Rs.310219.42 crores after considering the revenue deficit grant.

The study presented the broad contours of stimulus including social protection for immediate reviving the economy. The recommendations of the study include recommendations to state government comprises of measures for additional resource mobilization and economy measures, and recommendations to the Union government to be taken up by the state government.

Major recommendations of the GIFT study as follows:

## Recommendations to State Government

### Additional resource mobilisation

**1. Pension Deferment Scheme:**
Government of Kerala has implemented the Salary deferment scheme. In sync with above, a pension deferment Scheme for those receiving pension above Rs.20000 is proposed. The monthly pension expenditure comes to Rs.1900 Crores for 5,38,313 pensioners .

**2. Debt Swap Scheme**
The annual interest payment comes to Rs.19850 Crores during 2020-21(BE). This commitment is being met with an average interest burden ranging from 8 - 9 per cent. But the present market rate hovers around 5-6 per cent only. As the part of long term Public Expenditure Management (PEM) the Government of Kerala may think of a debt swapping scheme on a regular basis, with the help of professional experts, for reducing the yearly interest burden to a larger size.

**3. Excise or Sales Tax enhancement for Liquor**
During the 2018 flood Government of Kerala enhanced the special rates of excise duty by 10 per cent (in 6 different slabs with minimum burden on the moderately priced liquor brands) leading to an additional revenue of around Rs.310 crores for the period of 100 days. In the eve of Covid-19, it is suggested that the same special rates, may be imposed from 15 May 2020 till March 2021 (11months).In the current context a further increase of 20 per cent Sales tax rate is proposed which could increase additional revenue while discouraging consumption.

**4. Streamlining welfare payments**
The state's firm commitment to the poor and vulnerable has resulted in an elaborate social protection scheme. However, the system as it exists today requires a detailed review and streamlining which could save the Government at least Rs.1,200 crore in a year.

**5. Paid Service at Government Hospitals for the Affordable**
It is also possible to explore the possibility of offering paid services for the affordable by the Government Hospitals after the general working time.. The revenue thus generated could be shared between the doctors and meeting the hospital's own expenditure

**6. Revision of Lease Rent**
The high price of land in the state means that the asset value of government land is also high. The lease rent levied on government land need to be revised in line with the market values.

**7. Hike in Service Charges**
Service charges and rates of saleable items in various departments have to be increased by 25 per cent and there after indexed with inflation

**8. Review of Post creation in Aided School**
Around 15000 posts in aided school are created. It is time to review the created posts with the actual work load and any excess post created need to be dispensed with. Necessary amendments need to be made in the Kerala Education Rules.

**9. Review of Post creation in Higher Education Institutions**
Similar to aided school there is also room for reviewing the process of post creation in higher education institutions considering the work load.

**10. Re-deployment of excess Staff**
There are many departments which are having excess staff that needs to be redeployed urgently to the Local Governments especially when the LGs are assuming ever increasing role at present.

**11. Reviewing deputation/work arrangement**
There is the need for reviewing of deputation/work arrangement of various departments through appropriate mechanism.

**12. Streamlining the capital expenditure**
Streamlining of all the capital expenditure like purchase of vehicles, building construction work for various departments, autonomous bodies, and public sector undertakings is called for.

**13. Reviewing the Non-Plan Expenditure**
Non-plan expenditure such as fuel, travel , foreign tours, hiring of buildings, telephone , mobile phones, internet etc. are to be reviewed and at least 10 to 20 per cent cut need to be done overboard.

**14. Universal short term credit Scheme**
Self-employed, small business, micro enterprises and lower income groups are to be provided with easy credit on personal security with interest subsidy through co-operative banks.

**15. KIIFB**
Considering the relevance of pump-priming for the Covid ravaged economy, initiatives of the KIIFB need to be strengthened such that the pursuit for economic recovery is not staggered by infrastructure constraints.

**16. Interest on pay revision arrear**
In the last pay revision implementation, arrears were distributed within a period of three years with **interest** rate of 8 per cent. This created additional financial burden to the state. Such practices are to be done away with.

**17. Travel coupons for State employees**
In order to promote domestic tourism in Kerala, employees of government, public sector, and autonomous institutions may encouraged to visit important tourist destinations in Kerala by giving concessional travel coupons by adjustment in said amount in their salary payments.

**18. Database of migrant workers**

The collection and maintenance of data on migrant workers, monitoring their habitats, registration of all non-formal workers both regular and casual as potential recipients of welfare support. The changed circumstances demand a presence of the state as the ultimate guarantor of welfare benefits to all people under its watch from "cradle to grave".

**Recommendations to the Union Government**

**19. Welfare of migrant labour**

Kerala has been a major contributor to make India one of the largest remittance receivers in the world ($82.2 billion to India out of $707 billion to the world in 2019). As per Article 28 and 81 of the Union List, it is the responsibility of the Union government to look after the health and welfare of the migrants – the costs of their transportation, quarantine and treatment. We recommend the Union government to fulfil this responsibility, or compensate the states adequately if it wishes to delegate responsibility.

**20. Supporting the State's Revival Packages**

The lockdown till 17 May 2020 and the prolonged shutdown of establishments in many sectors would call for a massive stimulus package. Our conservative estimate calls for an immediate stimulus package of Rs 17,000 crore to revive the Kerala economy. The Union Government may either transfer the money directly to the producers of goods and services and the workers, or give it to the state government for onward transfer to the establishments.

**21. Subsidised Credit Scheme**

In addition, the credit limits of the producers may be raised and interest may be paid for the first six months fully and at the rate of 50 per cent for the next six months by the Union Government.

**22. Flexibility in FRBM**

The additional fiscal deficit to be raised by the state governments have to be borne by the Union Government or the FRBM limits may be kept in abeyance for the next three years and states be allowed to raise money from the market to cover the fiscal deficit.

**23. Resubmission of Memorandum to 15$^{th}$ FC**

The 15$^{th}$ Finance Commission has submitted its report covering the year 2020-21. All the states before had submitted their memorandum to the 15th FC for their forthcoming report covering the five years period 2021-2026. In the context of present pandemic the report submitted earlier needs to be revised. The states may be requested to re-submit their memorandum after considering the fiscal shock.

**24. State GST Revenue Gap Fund**

As per the GST compensation to State Act, the shortfall in the State GST collection will be compensated from the fund of GST Cess collected by the Central Government. Inadequate collection and availability of fund in the GST cess accounted in wider gap and delayed release of GST compensation to States by the Centre. We suggest to the 15th Finance Commission and to GST Council to recommend for setting up of a **"State GST Revenue Gap Fund**" at the Central level so to settle the State GST revenue gap over and above the compensation cess.

# Annexure No: 4

# Debt Swap Scheme (DSS)

*(Refer Appendix Tables 1 to 3)*

To alleviate the interest and debt burden of the States, measures were implemented by the Central Government in early 2000s. The schemes/facility primarily offered by Centre in this regard are:

- Debt Swap Scheme (DSS) (2002-03 – 2004-05)
- Debt Consolidation and Relief Facility (DCRF), introduced during 2005-06, based on the recommendations of the $12^{th}$ Finance Commission, providing debt relief through debt consolidation.

The DSS was in operation from 2002-03 to 2004-05 and capitalised on the prevailing low interest regime, to enable states to prepay high cost loans contracted from the central government, through low cost market borrowings and proceeds from small savings. Accordingly, these loans were swapped with additional market borrowings of the states (allocated under the DSS in addition to the normal borrowing allocations) and their net small savings proceeds (up to specified limits) at the prevailing interest rates, over a period of three years ending in 2004-05.
Of the total debt swapped between 2002-03 and 2004-05 amounting to **Rs 1020.3 billion**, about Rs **535.7** billion (52.5 per cent) was financed through additional market borrowings at interest rates below **6.5 per cent**, i.e., **at less than half the earlier cost**, and the remaining **Rs 483.9 billion** (47.4 per cent) was financed through the issue of special securities to the NSSF at interest rates fixed at 9.5 per cent, i.e., at less than three-fourths of the earlier rate of 13 per cent.

**The benefits of DSS are:**

- The average interest on the debt stock aggregated across states showed a decline from 10.4 per cent in 2001-02 to 9.6 per cent by 2004-05.
- DSS ipso-facto, debt neutral as it involved the swapping of one form of debt with another.
- Interest savings on account of lower interest payments helped reduce the pressure on the states' revenue account and, thereby, on their overall borrowing requirements

**Debt Consolidation and Relief Facility (DCRF)**

**DCRF** recommended by the FC-XII, had two components of relief, viz., debt consolidation and debt write-off. Debt consolidation provided for consolidation of all central loans (from the Ministry of Finance) contracted by the states until March 31, 2004 and outstanding as on March 31, 2005 into fresh loans for 20 years to be repaid in 20 equal installments carrying a lower interest rate of 7.5 per cent, subject to the condition that the state government concerned enacted its FRBM Act

Repayments due from states during the period 2005-06 to 2009-10 on these loans were eligible for write-off. The quantum of debt write-off was linked to the absolute amount by which the revenue deficit was reduced in each successive year during the award period. The debt write-off scheme was also linked to absolute reduction of the revenue deficit with a set of conditionality. There was also a requirement that the fiscal deficit should be capped at the absolute amount in 2004-05.

The scope of the DCRF excluded two categories of loans, *viz.,* loans in the form of the NSSF's investment in state government special securities and central loans given to state governments for centrally-sponsored schemes/ central plan schemes through central ministries/ departments other than the Ministry of Finance. Twenty-six states availed of debt consolidation during the period 2005-06 to 2009- 10

The debt consolidation resulted in interest relief amounting to Rs.186.9 billion to these states during the period 2005-06 to 2009-10. As regards the debt relief component, a total benefit of Rs.197.3 billion accrued to the states by the end of 2009-10.Reflecting the impact of the DCRF in terms of debt write-off and interest relief on outstanding central loans, there has been a significant reduction in the average interest rate paid on outstanding debt since 2004-05.

## Switch/Conversion of GOI dated securities

Switches are being actively used by the RBI since 2014 to manage duration and redemption pressures on GOI dated securities. With a view to have flexibility to increase the frequency of switch operations and to provide greater clarity to market participants about such operations in advance, the RBI announced a monthly switch operation for G-Secs on the third Monday of every month while announcing the Central Government's borrowing calendar for the first half of 2020.

On a cumulative basis approximately Rs.3.26 lakh crore worth of G-Secs spread across different tranches have been switched by RBI over the period of 2015 to 2020 .These operations by RBI have enabled the Central Government to roll over debt maturities and also take advantage of the downward bias in the G-Sec markets.

# Appendix Table No. 1

**Table VI.5: State-wise amounts adjusted under the Debt Swap Scheme (DSS) during 2002-03 to 2004-05**

(Amount in ₹ billion)

| States/Year | Outstanding high cost loan as on March 31, 2002 | Outstanding high cost loans/ Outstanding debt as at end-March 2002 (Per cent) | 2002-03 | | | 2003-04 | | | 2004-05 | | | Total Debt swapped till March, 2005. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Debt swapped | | | Debt Swapped | | | Debt Swapped | | | |
| | | | AOMB | SSL | Total | AOMB | SSL | Total | AOMB | SSL | Total | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| **I. Non-Special Category (NSC) States** | | | | | | | | | | | | |
| 1 Andhra Pradesh | 68.93 | 14.2 | 8.27 | 3.34 | 11.61 | 16.62 | 10.73 | 27.35 | 14.76 | 19.49 | 34.25 | 73.21 |
| 2 Bihar | 49.83 | 14.6 | 5.97 | 1.91 | 7.88 | 12.18 | 6.21 | 18.39 | 9.10 | 9.20 | 18.30 | 44.58 |
| 3 Chhatisgarh | 12.45 | 15.3 | 1.49 | 0.61 | 2.10 | 2.93 | 2.03 | 4.96 | 1.07 | 3.58 | 4.65 | 11.72 |
| 4 Goa | 3.74 | 9.9 | 0.45 | 0.21 | 0.66 | 1.20 | 1.42 | 2.62 | 0.00 | 0.78 | 0.78 | 4.06 |
| 5 Gujarat | 95.64 | 19.9 | 11.47 | 5.98 | 17.45 | 21.73 | 19.43 | 41.16 | 12.49 | 25.50 | 37.99 | 96.60 |
| 6 Haryana | 31.63 | 17.8 | 3.79 | 1.51 | 5.30 | 7.51 | 5.12 | 12.63 | 5.69 | 8.51 | 14.20 | 32.13 |
| 7 Jharkhand | 16.87 | 16.9 | 2.05 | 1.16 | 3.21 | 2.66 | 4.13 | 6.79 | 2.28 | 2.47 | 4.75 | 14.75 |
| 8 Karnataka | 50.78 | 16.2 | 6.09 | 2.22 | 8.31 | 11.97 | 8.20 | 20.17 | 10.88 | 17.06 | 27.94 | 56.42 |
| 9 Kerala | 28.72 | 9.7 | 3.44 | 1.18 | 4.62 | 6.71 | 4.94 | 11.65 | 4.68 | 5.11 | 9.79 | 26.06 |
| 10 Madhya Pradesh | 34.32 | 13.2 | 4.11 | 1.77 | 5.88 | 7.86 | 7.22 | 15.08 | 3.98 | 8.29 | 12.27 | 33.22 |
| 11 Maharastra | 154.34 | 19.6 | 0.00 | 0.00 | 0.00 | 36.27 | 28.98 | 65.25 | 18.46 | 63.01 | 81.47 | 146.71 |
| 12 Odisha | 32.28 | 11.5 | 3.87 | 0.88 | 4.75 | 6.45 | 2.31 | 8.76 | 3.08 | 5.35 | 8.43 | 21.94 |
| 13 Punjab | 59.76 | 16.7 | 7.17 | 2.75 | 9.92 | 14.40 | 10.13 | 24.53 | 12.80 | 6.34 | 19.14 | 53.59 |
| 14 Rajasthan | 57.81 | 13.9 | 6.93 | 3.41 | 10.34 | 10.96 | 8.32 | 19.28 | 11.56 | 16.80 | 28.36 | 57.98 |
| 15 Tamil Nadu | 57.49 | 14.7 | 6.89 | 2.53 | 9.42 | 13.41 | 11.36 | 24.77 | 9.36 | 23.66 | 33.02 | 67.21 |
| 16 Uttar Pradesh | 160.98 | 16.8 | 14.48 | 5.73 | 20.21 | 30.88 | 17.98 | 48.86 | 15.86 | 26.91 | 42.77 | 111.82 |
| 17 West Bengal | 154.13 | 23.2 | 0.00 | 0.00 | 0.00 | 33.65 | 21.42 | 55.07 | 23.35 | 13.33 | 36.69 | 91.76 |
| **Total NSCS** | **1069.67** | **16.6** | **86.47** | **35.18** | **121.65** | **237.40** | **169.92** | **407.32** | **159.39** | **255.40** | **414.79** | **943.76** |
| **II. Special Category (SC) States** | | | | | | | | | | | | |
| 1 Arunachal Pradesh | 1.47 | 18.6 | 0.18 | 0.02 | 0.20 | 1.10 | 0.11 | 1.21 | 0.00 | 0.05 | 0.05 | 1.45 |
| 2 Assam | 19.26 | 16.1 | 2.31 | 0.62 | 2.93 | 4.57 | 3.59 | 8.16 | 2.43 | 3.33 | 5.76 | 16.85 |
| 3 Himachal Pradesh | 20.31 | 20.2 | 2.44 | 0.46 | 2.90 | 5.16 | 1.73 | 6.89 | 4.35 | 3.15 | 7.50 | 17.30 |
| 4 Jammu & Kashmir | 14.95 | 15.5 | 1.77 | 0.00 | 1.77 | 3.89 | 1.96 | 5.85 | 3.20 | 2.29 | 5.49 | 13.11 |
| 5 Manipur | 1.52 | 8.1 | 0.18 | 0.02 | 0.20 | 1.08 | 0.06 | 1.14 | 0.00 | 0.05 | 0.05 | 1.39 |
| 6 Meghalaya | 1.43 | 9.4 | 0.17 | 0.03 | 0.20 | 0.77 | 0.15 | 0.92 | 0.00 | 0.23 | 0.23 | 1.35 |
| 7 Mizoram | 1.08 | 6.3 | 0.13 | 0.02 | 0.15 | 0.66 | 0.08 | 0.74 | 0.00 | 0.08 | 0.08 | 0.96 |
| 8 Nagaland | 1.20 | 6.4 | 0.14 | 0.02 | 0.16 | 0.87 | 0.04 | 0.91 | 0.00 | 0.03 | 0.03 | 1.10 |
| 9 Sikkim | 0.66 | 7.1 | 0.00 | 0.01 | 0.01 | 0.45 | 0.07 | 0.52 | 0.06 | 0.09 | 0.15 | 0.67 |
| 10 Tripura | 3.09 | 10.9 | 0.37 | 0.16 | 0.53 | 1.28 | 0.44 | 1.72 | 0.00 | 0.80 | 0.80 | 3.05 |
| 11 Uttarakhand | 8.53 | 17.0 | 5.84 | 0.65 | 6.49 | 9.75 | 1.28 | 11.03 | 0.00 | 1.82 | 1.82 | 19.34 |
| **Total SCS** | **73.50** | **15.2** | **13.53** | **2.01** | **15.54** | **29.57** | **9.51** | **39.08** | **10.04** | **11.92** | **21.96** | **76.57** |
| **Grand Total** | **1143.17** | **16.5** | **100.00** | **37.19** | **137.19** | **266.97** | **179.43** | **446.40** | **169.43** | **267.32** | **436.75** | **1020.34** |

AOMB: Additional Open Market Borrowings. SSL: Small Savings Loans

**Source :** Ministry of Finance, GoI

## Appendix Table No. 2

**Table VI.7: State-wise Debt Relief and Interest Relief on account of the DCRF**

(₹ billion)

| State | 2005-06 to 2009-10 | | |
|---|---|---|---|
| | Debt Consolidation | Debt Relief | Interest Relief |
| 1 | 2 | 3 | 4 |
| **I. Non-Special Category (NSC) States** | | | |
| 1 Andhra Pradesh | 140.6 | 25.9 | 25.2 |
| 2 Bihar | 77.0 | 7.7 | 12.7 |
| 3 Chhattisgarh | 18.7 | 4.7 | 3.1 |
| 4 Goa # | 4.0 | 0.4 | 0.6 |
| 5 Gujarat | 94.4 | 17.3 | 16.7 |
| 6 Haryana | 19.3 | 2.9 | 3.0 |
| 7 Jharkhand * | 21.0 | 3.1 | 2.1 |
| 8 Karnataka | 71.7 | 14.3 | 13.1 |
| 9 Kerala | 41.8 | 2.5 | 7.0 |
| 10 Madhya Pradesh | 72.6 | 18.2 | 13.2 |
| 11 Maharashtra | 68.0 | 13.6 | 9.9 |
| 12 Odisha | 76.4 | 19.1 | 9.6 |
| 13 Punjab | 30.7 | 3.7 | 6.0 |
| 14 Rajasthan | 61.7 | 9.3 | 8.9 |
| 15 Tamilnadu | 52.7 | 13.2 | 9.1 |
| 16 Uttar Pradesh | 212.8 | 31.9 | 39.1 |
| 17 West Bengal $ | 86.3 | 0.0 | 0.0 |
| **Total NSCS** | **1149.6** | **187.8** | **179.3** |
| **II. Special Category (SC) States** | | | |
| 1 Arunachal Pradesh | 4.0 | 0.4 | 0.7 |
| 2 Assam | 21.1 | 4.2 | 1.6 |
| 3 Himachal Pradesh | 9.1 | 1.2 | 1.6 |
| 4 J&K | 15.2 | 0.0 | 1.0 |
| 5 Manipur | 7.5 | 1.5 | 0.3 |
| 6 Meghalaya # | 3.0 | 0.4 | 0.4 |
| 7 Mizoram # | 2.6 | 0.3 | 0.4 |
| 8 Nagaland | 3.2 | 0.3 | 0.6 |
| 9 Sikkim $ | 1.1 | 0.0 | 0.0 |
| 10 Tripura | 4.4 | 0.9 | 0.8 |
| 11 Uttarakhand | 2.6 | 0.3 | 0.3 |
| **Total SCS** | **73.9** | **9.5** | **7.6** |
| **III. Grand Total** | **1223.5** | **197.3** | **186.9** |

# Consolidation effective from 2006-07.
* Consolidation effective from 2007-08.
$ Consolidation effective from 2010-11, under recommendations of 13th Finance Commission.
**Source**: Indian Public Finance Statistics 2011-12, MoF, GoI.

| Appendix Table No. 3 | | |
|---|---|---|
| **Financial Year** | **Switch / Conversion of G-Secs** | |
| | No. of Securities | Face Value of Switched Securities (Rupees in Crore) |
| **2014-15** | 2 | 30,228 |
| **2015-16** | 3 | 37,300 |
| **2016-17** | 5 | 40,150 |
| **2017-18** | 3 | 41,059 |
| **2018-19** | 8 | 28,059 |
| **2019-20** | 16 | 149,877 |
| | | *Source: RBI & CCIL* |