

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

Profile of Kerala

The State is located at the southern end of the country, sharing borders with Tamil Nadu and Karnataka. In terms of geographical area, Kerala is ranked 21st in the country with an area of 38,863 sq.km. While the State is having a population of 3.34 crore (12th in the country), it remains the third most densely populated State with a density of 859 persons per sq.km. As indicated in **Appendix 1.1**, the State's population increased from 3.18 crore in 2001 to 3.34 crore in 2011 recording a decadal growth of five *per cent*. The State's percentage of population below the poverty line is less than the all-India average. The State's Gross State Domestic Product (GSDP) in 2012-13 at current prices was ₹3,63,305 crore. The State's literacy rate increased from 90.92 *per cent* (as per 2001 census) to 93.91 *per cent* (as per 2011 census). The per capita income of the State at current prices (Economic Review 2012) stands at ₹90,816 against the country average of ₹68,491. General data relating to the State is given in **Appendix 1.1**.

Gross State Domestic Product (GSDP)

GSDP is the market value of all officially recognized final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important indicator of the State's economy as it indicates the standard of living of the State's population. The trends in the annual growth of India's GDP at current prices are indicated below:

Table 1.1: Trends in annual growth of GDP and GSDP (at current prices)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
India's GDP (₹ in crore)	5303567	6108903	7266967	8353495	9461013
Growth rate of GDP (percentage)	15.75	15.18	18.96	14.95	13.26
State's GSDP (₹ in crore)	202783	231999	269474	315206	363305
Growth rate of GSDP (percentage)	15.78	14.41	16.15	16.97	15.26

Source : figures furnished by Economics and Statistics Department

During the last two years, the GSDP growth rate of the State was better than the growth rate of GDP of the country. This indicates the better economic performance of the State during the above period.

1.1 Introduction

This chapter is based on the audit of Finance Accounts and makes an assessment of the Kerala Government's fiscal position as on 31 March 2013. It provides a broad perspective of the finances of the Government of Kerala during 2012-13

and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view of the overall trends during the last five years. The structure and form of Government Accounts have been explained in **Appendix 1.2 Part A** and the layout of the Finance Accounts is shown in **Appendix 1.2 Part B**. The methodology adopted for the assessment of the fiscal position of the State and norms/ceilings prescribed by the Kerala Fiscal Responsibility Act, 2003 are given in **Appendix 1.3**. As prescribed in the Act, the Government laid its Medium Term Fiscal Policy and Strategy Statement with Medium Term Fiscal Plan for 2012-13 to 2014-15 in the State legislature in March 2012.

1.1.1 Summary of Current Year's Fiscal Transactions

The **Table 1.2** presents the summary of the State Government's fiscal transactions during the current year (2012-13) vis-à-vis the previous year (2011-12), while **Appendix 1.4** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.2: Summary of Fiscal operations in 2012-13

(₹ in crore)

Receipts	2011-12	2012-13	Disbursements	2011-12	2012-13		
					Non-plan	Plan	Total
Section –A:Revenue							
Revenue Receipts	38010.36	44137.30	Revenue Expenditure	46044.62	46639.41	6849.33	53488.74
Tax Revenue	25718.60	30076.61	General Services	20300.02	22718.03	68.58	22786.61
Non-tax Revenue	2592.18	4198.51	Social Services	16223.86	14565.47	4312.02	18877.49
Share of Union Taxes/ Duties	5990.36	6840.65	Economic Services	6131.66	5339.69	2468.73	7808.42
Grants from Government of India	3709.22	3021.53	Grants-in-aid and contribution	3389.08	4016.22		4016.22
Section-B : Capital and Others							
Miscellaneous Capital Receipts	16.05	14.81	Capital Outlay	3852.92	1137.63	3465.66	4603.29
Recoveries of Loans and Advances	54.90	73.61	Loans and Advan- ces disbursed	998.54	533.06	603.09	1136.15
Public Debt Receipts	9798.96	13261.19	Repayment of Public Debt	2893.06			2804.08
Contingency Fund	33.92	20.80	Contingency Fund	20.80			..
Public Account Receipts	95829.74	105879.64	Public Account disbursements	91200.26			100455.82
Opening Cash Balance	5059.73	3793.46	Closing Cash Balance	3793.46			4692.73
Total	148803.66	167180.81	Total	148803.66			167180.81

(Source : Finance Accounts for the respective years)

The following are the major changes in fiscal transactions during 2012-13 over the previous year

- The Revenue receipts grew by 16 *per cent* relative to previous year. The increase in revenue receipts (₹6,126.94 crore) was contributed by increase in tax revenue by ₹4,358.01 crore, non-tax revenue by ₹1,606.33 crore and Share of Union Taxes/Duties by ₹850.29 crore. This increase was partly offset by decrease in Grants from Government of India by ₹687.69 crore. Though the total tax revenue collected during 2012-13 (₹30,076.61 crore) was higher than the normative assessment (₹28,355.99 crore) made by the Thirteenth Finance Commission (ThFC), it was less than the projections made (₹32,122 crore) in the Medium Term Fiscal Plan (MTFP) for the year. However, non-tax revenue collection for the year (₹4,198.51 crore) was higher than the projections in ThFC report (₹2,187.16 crore) and MTFP (₹3,495 crore).
- The Revenue expenditure increased by ₹7,444.12 crore (16 *per cent*) due to increase in expenditure under General Services (₹2,486.59 crore), Social Services (₹2,653.63 crore), Economic Services (₹1,676.76 crore) and Grants-in-aid and Contributions (₹627.14 crore). Crucially, the actual Non-plan revenue expenditure for 2012-13 (₹46,639.41 crore) exceeded the normative assessment made by the ThFC (₹34,752.86 crore) by ₹11,886.55 crore (34 *per cent*).
- Capital expenditure increased by ₹750.37 crore (19 *per cent*) mainly due to increase in expenditure under major heads ‘Other Transport Services’ (₹354.66 crore) and ‘Roads and Bridges’ (₹338.31 crore).
- Public debt receipts increased by ₹3,462.23 crore due to increase in internal debt receipts by ₹3317.08 crore and increase in borrowings from GOI by ₹145.15 crore.
- Public Account receipts and disbursements increased by ₹10,049.90 crore and ₹9,255.56 crore respectively over the previous year.
- The cash balance of the State increased by ₹899.27 crore from ₹3,793.46 crore as on 31 March 2012 to ₹4,692.73 crore as on 31 March 2013.

1.1.2 Review of the fiscal situation

The State Government enacted the Kerala Fiscal Responsibility Act, 2003 which came into force on 5 December 2003 to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit and sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and for matters connected therewith or thereto. As per the stipulation in the Kerala Fiscal Responsibility Act, 2003, a Medium Term Fiscal Policy (MTFP) and Strategy Statement is to be prepared, covering fiscal targets fixed for ensuing three financial years, and submitted along with the budget documents to

the State Legislature. The State has resumed its fiscal consolidation efforts with the amendment to Kerala Fiscal Responsibility Act 2003, incorporating target put forth by the ThFC in the revised roadmap for fiscal consolidation.

Accordingly, major fiscal variable targets set by the State Government in budget estimates for 2012-13 and corresponding targets given in the ThFC report are detailed below;

Table 1.3: Comparison of fiscal variable targets

Fiscal variables	2012-13		
	Targets fixed by ThFC	Targets fixed in BE	Actual Ratio
Revenue deficit/ GSDP	0.9	0.89	2.6
Fiscal deficit/ GSDP	3.5	2.74	4.1
Outstanding Debt to GSDP	31.7	25.86	29.9

Source : ThFC report and budget documents for 2012-13

According to the Act, the Government is committed to reduce the revenue deficit to 'nil' within a period of four years commencing on the 1 April 2011 and ending with the 31 March 2015 by reducing the revenue deficit in the years 2011-12, 2012-13, 2013-14 and 2014-15 in the order of 1.4 *per cent*, 0.9 *per cent*, 0.5 *per cent* and zero *per cent*, respectively, of the GSDP. The Government is also committed to reduce the fiscal deficit to 3 *per cent* of the estimated GSDP within a period of three years commencing on the 1 April, 2011 and ending with the 31 March, 2014 by maintaining the fiscal deficit at a level not exceeding 3.5 *per cent* of the gross state domestic product in the years 2011-12 and 2012-13 and reducing it to 3 *per cent* in 2013-14.

It was observed that the State could not achieve the revenue/fiscal deficit targets set in the revised fiscal consolidation path stipulated in the ThFC report as well as that estimated in the budget documents. Disproportionate growth of revenue expenditure together with non-realisation of estimated revenue collection led to increase in revenue/fiscal deficit and consequent non-achievement of fiscal targets. However, State's Debt-GSDP ratio was well within the target fixed by the ThFC.

1.1.3 Budget estimates and actual

As per Article 202 of the Constitution of India, the Governor of the State shall, cause to be laid before the House of the Legislature of the State a statement of the estimated receipts and expenditure of the State for a financial year. This estimated statement of receipt and expenditure for a financial year named in the Constitution as the 'Annual Financial Statement' is commonly known as 'Budget'. The budget is Government's most important economic policy tool, that translates Government's policies, political commitments, and goals into decisions on how much revenue to raise, how it plans to raise it and how to use these funds to meet the State's competing needs. A budget system that functions well is crucial to developing sustainable fiscal policies and economic growth.

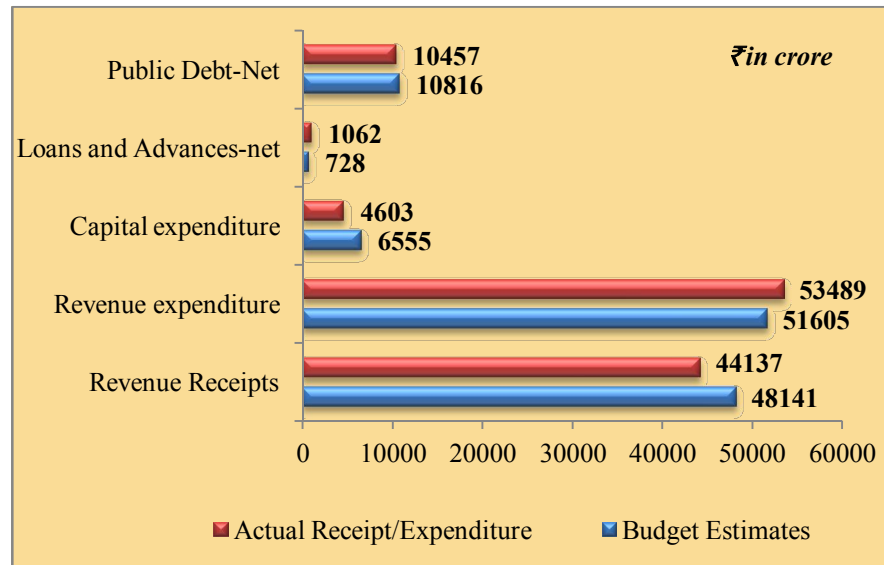
Comparison of State’s budget estimates vis-à-vis actuals for the year 2012-13 is detailed in **Table 1.4** and **Chart 1.1** given below:

Table 1.4: Budget estimates and actual for 2012-13

(₹ in crore)

Particulars	Budget Estimate	Revised Estimate	Actual
Revenue Receipts	48141	48269	44137
Revenue Expenditure	51605	51676	53489
Revenue Deficit	3464	3407	9352
Capital Expenditure	6555	6903	4603
Loans and Advances (Net) ¹	(-)728	(-)1057	(-)1062
Public Debt (Net) ²	10816	10754	10457
Public Account (Net) ³	176	482	5424

Chart 1.1: Budget estimation vis-à-vis actuals



During the year revenue receipts were lower than the estimated amount as receipts in respect of tax revenue and grants-in-aid were much lower than the amount estimated by the State Government. However, non-tax revenue collection was higher than the estimated amount. Similarly, Revenue expenditure and loans and

¹ Minus figure was due to loan disbursement more than loan repayment

Particulars	Receipt	Expenditure	Net
2. Public Debt	13261	2804	10457
Internal Debt	12709	2478	10231
Loans & Advances from GOI	552	326	226
3. Public Account	105880	100456	5424
Small Savings	23821	20135	3686
Reserves	382	528	(-) 146
Deposit and Advances	7840	6699	1141
Suspense	64132	63420	712
Remittances	9705	9674	31

advances (net) were higher than the estimated amount and capital expenditure was less than the estimated amount. Wide variation in estimates and actuals, in respect of tax-revenue and revenue expenditure led to disproportionate growth of revenue deficit during the year.

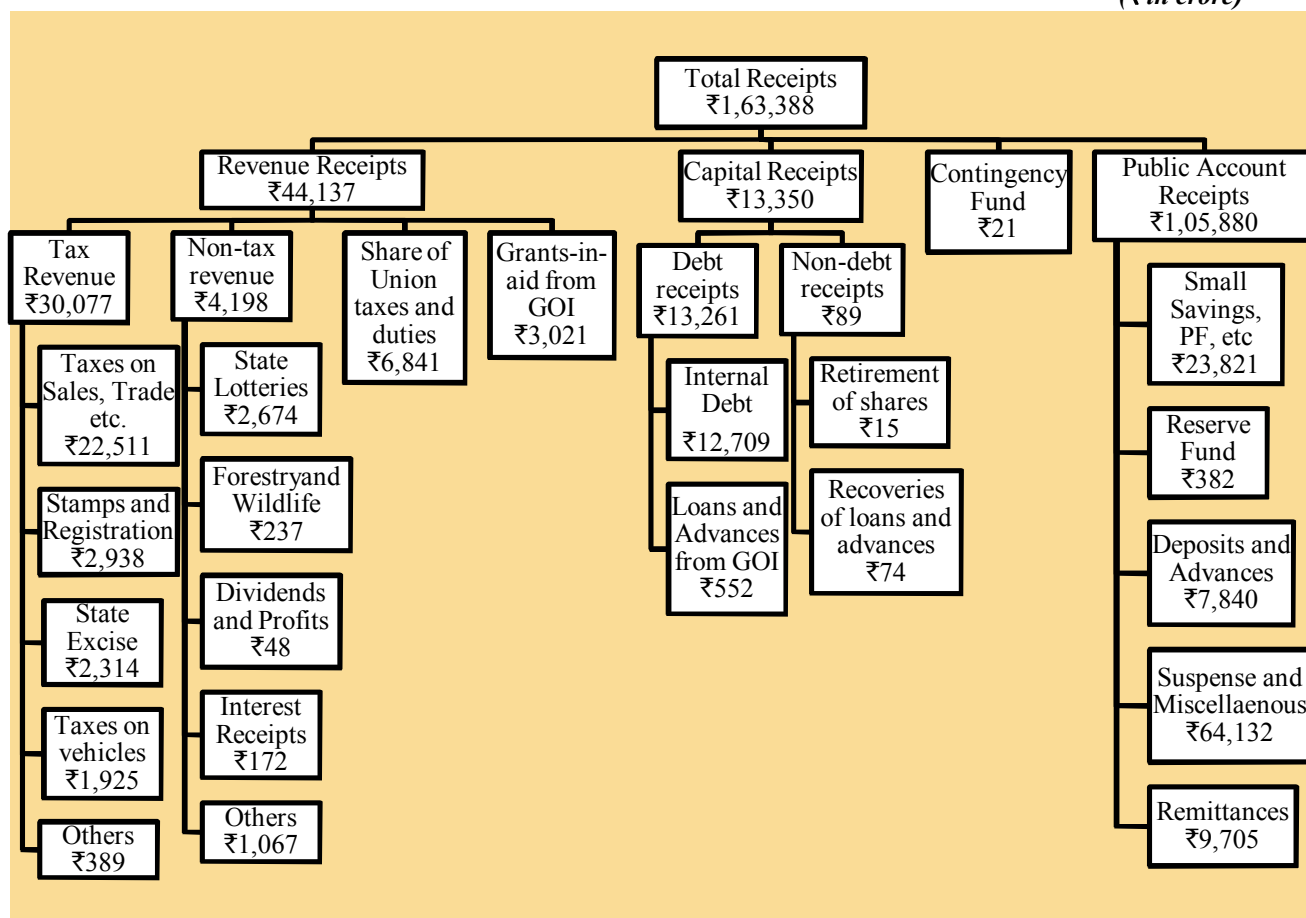
1.2 Resources of the State

1.2.1 Resources of the State as per the Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of Tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from other financial institutions/commercial banks) and loans and advances from GOI. Besides the funds available in the Public Accounts after disbursement is also utilized by the Government to finance its deficit. **Chart 1.2** depicts the composition of resources of the State during the current year.

Chart 1.2 : Composition of receipts

(₹in crore)



Total receipts⁴ of the State Government increased from ₹87,843 crore in 2008-09 to ₹1,63,388 crore in 2012-13, recorded an increase of 86 per cent during the last five years. Public Account receipt has the major share in total receipts of the State Government and it was ranged between 64 to 67 per cent during the last five years. Trend in total receipt during the last five years is given in **Chart 1.3** and composition of total receipt during 2012-13 is given in **Chart 1.4**.

Chart 1.3: Trend in total receipts during the last five years(₹ in crore)

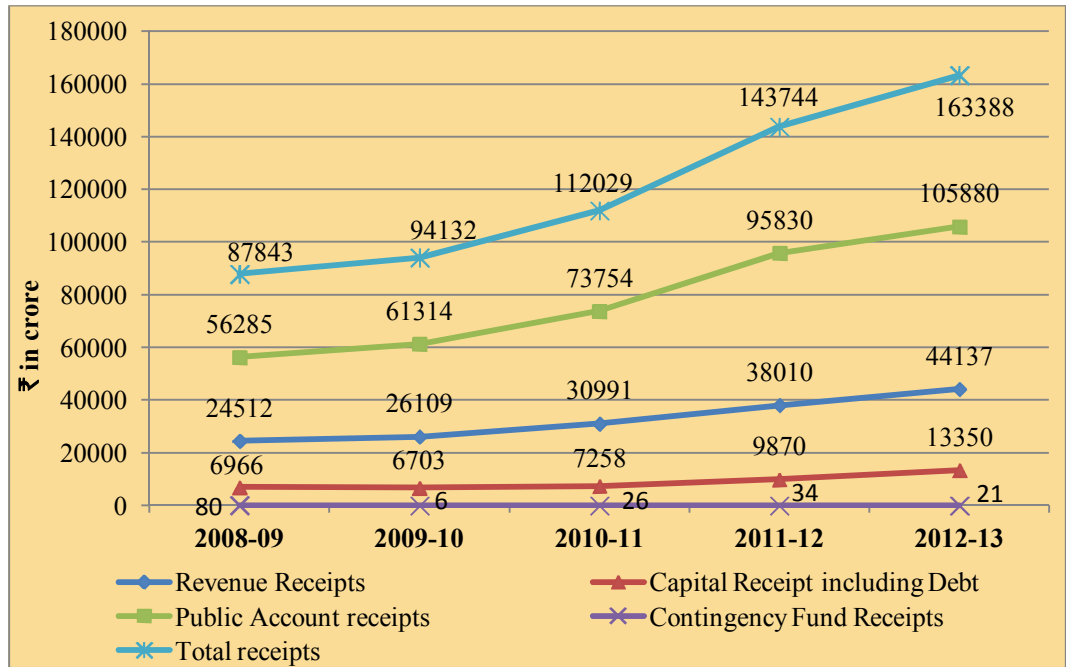
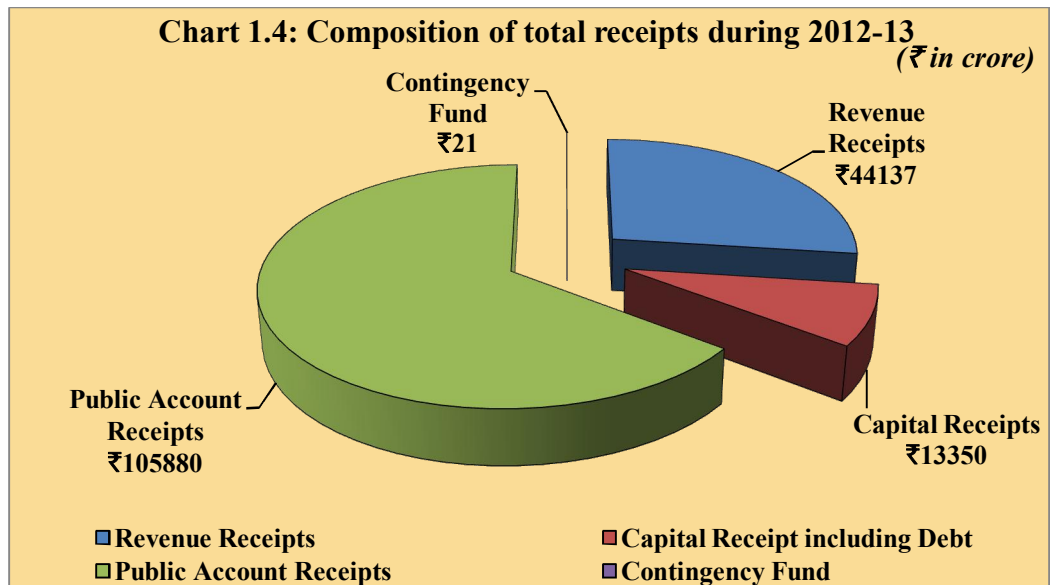


Chart 1.4: Composition of total receipts during 2012-13 (₹ in crore)



⁴ Consists of Revenue receipts, Capital receipts including Debt receipts and Public Account receipts.

1.2.2 Funds transferred to State Implementing Agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to the State implementing agencies⁵ for implementation of various schemes/programmes in social and economic sectors, which are recognized as critical. In the present system these funds are not routed through the State Budget/State Treasury System and hence do not find mention in the Finance Accounts of the State. As such, the Annual Finance Accounts of the State does not provide a complete picture of the resources under the control of the State Government. To present the holistic picture on availability of aggregate resources, funds directly transferred to State implementing agencies, implementing 12 major centrally sponsored schemes, are presented in **Table 1.5**.

Table 1.5: Funds transferred directly to State implementing agencies

(₹ in crore)

Sl. No.	Programme/scheme and implementing agency	Un-utilised balance as on 1 April 2012	GOI release during 2012-13	State release	Other receipts	Amount utilised	Balance as on 31 March 2013
1.	Mahatma Gandhi National Rural Employment Guarantee scheme-District Rural Development Agencies (Poverty Alleviation Unit)	85.81	1311.18	21.02	14.65	1416.35	16.31
2.	Pradhan Mantri Gram Sadak Yojana-Kerala State Rural Roads Development Agency	187.84	1.50	0.00	0.00	57.00	132.34
3.	Rural Housing-Indira Awaas Yojana-District Rural Development Agencies (Poverty Alleviation Unit)	62.52	153.44	53.02	37.41	218.31	88.08
4.	Rashtriya Madhyamik Shiksha Abhiyan-Secondary Education Development Society Kerala	33.10	15.27	30.00	0.10	21.09	57.38
5.	Ajeevika-District Rural Development Agencies (Poverty Alleviation Unit)	0.00	35.86	6.56	0.00	20.66	21.76
6.	National Horticulture Mission-Kerala State Horticulture Mission	4.83	35.00	11.00	0.00	41.02	9.81
7.	National Rural Drinking Water Programme-Kerala Water Authority	0.25	249.04	31.73	3.67	246.77	37.92
8.	Sarva Shiksha Abhiyan-Primary Education Development Society of Kerala	189.19	134.49	128.03	31.96	429.70	53.97

⁵ State implementing agencies include any organization/institution including Non-Governmental organization which is authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State.

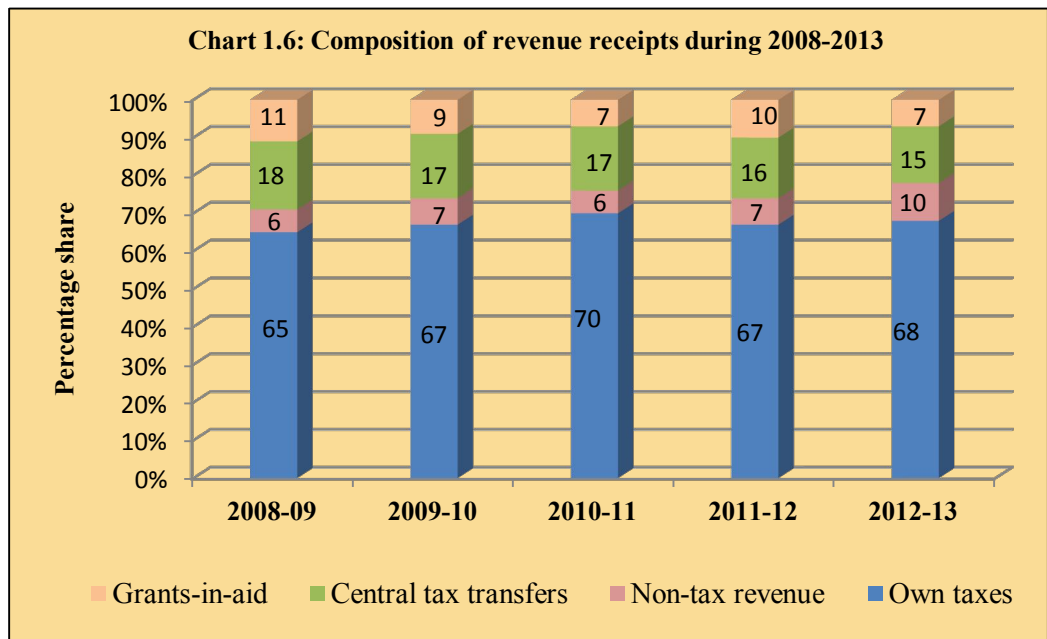
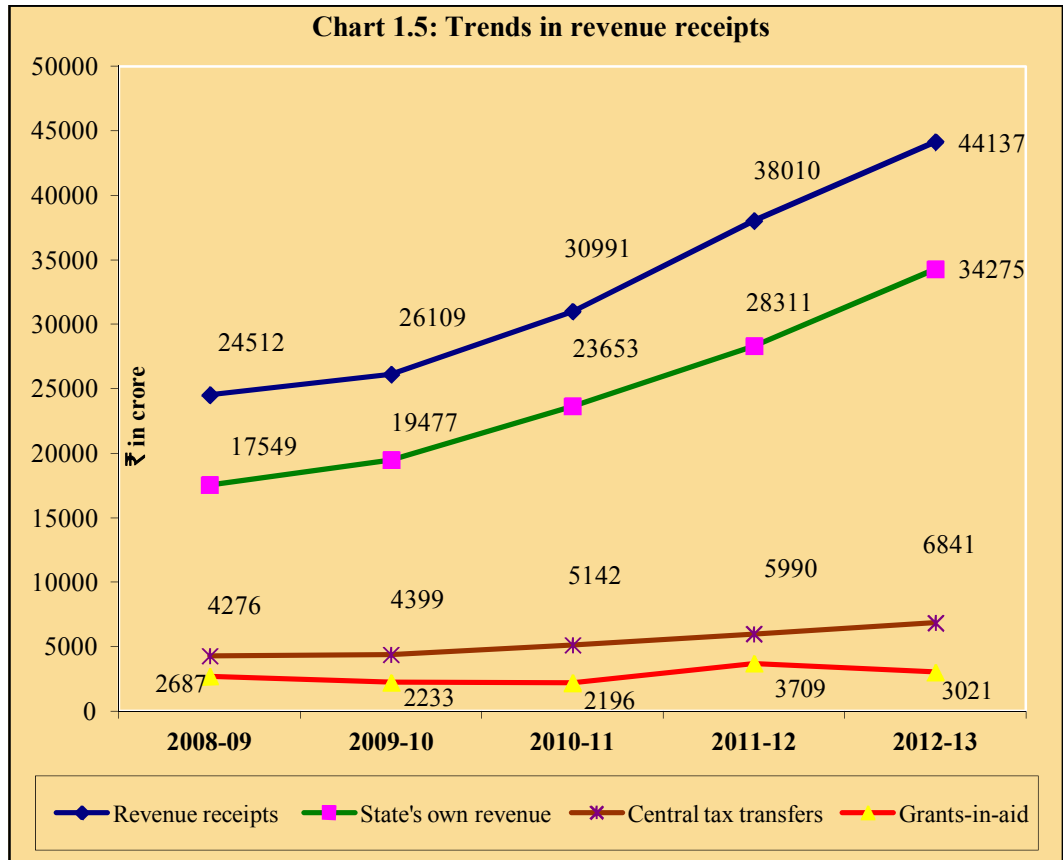
Sl. No.	Programme/scheme and implementing agency	Un-utilised balance as on 1 April 2012	GOI release during 2012-13	State release	Other receipts	Amount utilised	Balance as on 31 March 2013
9.	Swarna Jayanthi Shahari Razgar Yojana-State Poverty Eradication Mission (Kudumbashree)	25.19	32.28	11.85	7.83	23.39	53.76
10.	National Rural Health Mission State Health and Family Welfare Society	117.79	196.87	234.18	0.00	537.11	11.73
11.	Rashtriya Swasthya Bima Yojana-Comprehensive Health Insurance Agency of Kerala	0.00	118.56	95.00	0.00	213.56	0.00
12.	Integrated Watershed Management Programme-District Rural Development Agencies (Poverty Alleviation Unit)	2.01	5.77	0.58	0.00	5.92	2.44
Total		708.53	2289.26	622.97	95.62	3230.88	485.50

Source : Information furnished by respective implementing agencies

As per the information furnished by these implementing agencies, an amount of ₹485.50 crore remaining un-utilised (March 2013) with them. Due to inadequate monitoring on the part of State Government on these direct transfers, there was risk of improper utilisation of funds by implementing agencies. Unless uniform accounting practices are followed by all these agencies, with proper documentation and timely reporting of expenditure, it would be difficult to monitor the end use of these direct transfers.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, share of central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2008-13 are presented in **Appendix 1.5** and also depicted in **Charts 1.5** and **1.6** respectively.



The revenue receipts of the State increased by 80 per cent during the last five years (2008-2013). Though, during the same period State's own revenue recorded an increase of 95 per cent, increase in Central tax transfers (60 per cent) and

Grants-in-aid and contributions from GOI (12 *per cent*) was not to that extent. As shown in **Chart 1.6**, during 2012-13, the share of Central tax transfers and Grants-in-aid and contributions from GOI in revenue receipts decreased by one and three percentage points respectively, as compared to previous year (2011-12).

During 2003-04 to 2011-12, the compounded annual growth rate of revenue receipts (15.20) was less than the growth rate of other General Category States (17.48). This growth rate for the period 2003-04 to 2012-13 was 15.77 *per cent* (**Appendix 1.1**).

Revenue collected (₹44,137 crore) during the year was lower than the projections made (₹48,141 crore) in the Medium Term Fiscal Plan by ₹4,004 crore (eight *per cent*).

The trends in revenue receipts relative to GSDP are presented in **Table 1.6**.

Table 1.6: Trends in Revenue receipts relative to GSDP during 2008-13

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue Receipts (RR) (₹ in crore)	24512	26109	30991	38010	44137
Rate of growth of RR (<i>per cent</i>)	16.1	6.5	18.7	22.6	16.1
State's own tax revenue (₹ in crore)	15990	17625	21722	25719	30077
Rate of growth of own tax revenue (<i>per cent</i>)	17.0	10.2	23.2	18.4	16.9
RR/GSDP (<i>per cent</i>)	12.1	11.3	11.5	12.1	12.1
Revenue buoyancy w.r.t GSDP	1.0	0.5	1.2	1.3	1.1
State's Own Tax Buoyancy w.r.t GSDP	1.1	0.6	1.4	1.08	1.1
Revenue Buoyancy with reference to State's own taxes	0.95	0.64	0.80	1.23	0.95

Source : Finance Accounts and information furnished by the Economics and Statistics Department

- The growth rate of revenue receipts has shown an increasing trend during 2009-12. However, it decreased from 22.6 *per cent* in 2011-12 to 16.1 *per cent* in 2012-13 due to decrease in receipts, in respect of central tax transfers and grants-in-aid from GOI.
- Revenue buoyancy with reference to GSDP was above one during the last three years (2010-13), indicating that growth rate of revenue receipts was better than the growth rate of GSDP in the State.
- The State's own tax buoyancy with respect to GSDP was also more than one during 2010-13 indicating own tax growth was better than GSDP growth.

1.3.1 State's own resources

As the State's share in central taxes and grant-in-aid is determined on the basis of recommendations of the Finance Commission, the State's performance in mobilization of resources was assessed in terms of its own resources comprising own tax and non-tax sources.

The States actual tax and non tax receipts for the year 2012-13 vis-à-vis assessment made by Thirteenth Finance Commission and Medium Term Fiscal Plan are given in the **Table 1.7** below:

Table 1.7: Projections and realization of revenue

(₹ in crore)

Particulars	ThFC projection	Budget estimates and MTFP projection	Actual
Tax Revenue	28356	32122	30077
Non-tax Revenue	2187	3495	4198

Source : ThFC report, Budget documents and Finance Accounts

The total of tax revenues collected during 2012-13 (₹30,077 crore) was six *per cent* more than the normative assessment made by the ThFC (₹28,356 crore) for the year but it was six *per cent* less than the projections made by the Government in Medium Term Fiscal Plan and Annual Budget estimates (₹32,122 crore). However, non-tax revenue collection was higher than normative assessment made by ThFC and projections in Annual budget and MTFP, due to increased receipts under State Lotteries.

1.3.1.1 Tax Revenue

The State's own tax revenue increased by 16.9 *per cent* from ₹25,719 crore to ₹30,077 crore during the current year. The gross collections in respect of major taxes and duties, during the last five years are given in **Table 1.8**:

Table 1.8: Components of State's own Tax Revenue during 2008-13

(₹ in crore)

Revenue Head	2008-09	2009-10	2010-11	2011-12	2012-13
Taxes on Sales, Trade etc.	11377	12771	15833	18939	22511
Stamps and Registration fees	2003	1896	2552	2987	2938
State Excise	1398	1515	1700	1883	2314
Taxes on vehicles	937	1131	1331	1587	1925
Land Revenue	48	54	56	61	122
Taxes on Agricultural income	12	28	47	43	19
Other Taxes	215	230	203	219	248
Total	15990	17625	21722	25719	30077

Source : Finance Accounts of respective years

'Taxes on Sales, Trade etc.', was the major source of the State's own tax revenue during the last five years and its share increased from 71 *per cent* (2008-09) to 75 *per cent* (2012-13). 'Stamps and Registration fees' (10 *per cent*), 'State Excise' (eight *per cent*) and 'Taxes on Vehicles' (six *per cent*) were the remaining major source of State's own tax revenue.

‘Taxes on Sales, Trade etc.’ increased by 19 *per cent* (₹3,572 crore) during 2012-13 over the previous year. This increase in revenue was mainly under ‘Value Added Tax’ (₹2,368 crore) and ‘Receipts under State Sales Tax Act’ (₹1,167 crore).

Receipts under ‘State Excise’ increased by 23 *per cent* (₹431 crore) during 2012-13 over the previous year. The increase was mainly under ‘Foreign Liquors and Spirits’ (₹584 crore). This was partly offset by decrease in receipts under ‘Country Fermented Liquors’ (₹109 crore) and ‘Malt Liquor’ (₹47 crore).

Receipts under ‘Taxes on Vehicles’ increased by 21 *per cent* (₹337 crore) due to increased receipts under ‘Receipts under the State Motor Vehicles Taxation Act’ (₹324 crore).

1.3.1.2 Non-tax revenue

Collection under non-tax revenue increased by 62 *per cent* from ₹2,592 crore in 2011-12 to ₹4,198 crore in 2012-13. Major components of non-tax revenue, during the last five years are detailed in **Table 1.9**.

Table 1.9: Composition of non-tax revenue during 2008-13

(₹ in crore)					
Revenue Head	2008-09	2009-10	2010-11	2011-12	2012-13
Interest receipts	51	153	172	136	172
Dividends and profits	35	27	75	67	48
State Lotteries	420	624	571	1283	2674
Forestry and Wildlife	191	273	274	221	237
Other non-tax receipts	862	775	839	885	1067
Total	1559	1852	1931	2592	4198

Source : Finance Accounts of respective years

State’s non-tax revenue sources mainly comprised receipts from ‘State Lotteries’ (64 *per cent*), ‘Forestry and Wildlife’ (six *per cent*), ‘Dividends and profits’ (one *per cent*) and ‘Interest Receipts’ (four *per cent*). During 2012-13 substantial increase in revenue was recorded under ‘State Lotteries’ (₹1391 crore). Increase was also recorded under ‘Interest Receipts’ (₹36 crore) and ‘Forestry and Wildlife’ (₹16 crore). Though the receipts under ‘State Lotteries’ (₹2,674 crore) recorded an increase of 108 *per cent* over the previous year, with an equally high expenditure (₹2,083 crore) during the current year the net yield from lotteries was only ₹591 crore, which was higher by ₹210 crore than the net yield of ₹381 crore of the previous year.

1.3.2 Grants-in-aid from Government of India

Grants-in-aid from the Government of India decreased by ₹688 crore (18.54 *per cent*) from ₹3,709 crore in 2011-12 to ₹3,021 crore in 2012-13. The decrease was mainly under ‘Non-plan grants’ (₹776 crore) and ‘Grants for Centrally sponsored

schemes' (₹157 crore). This decrease was partly offset by increase in 'Grants for State plan schemes' (₹259 crore). Trends in receipt of grants-in-aid from GOI are detailed in **Table 1.10**.

Table 1.10: Status of Grants-in-aid received from Government of India

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Non-plan grants	589	646	490	1433	657
Grants for State plan schemes	1376	975	934	904	1163
Grants for central plan schemes	48	48	43	74	60
Grants for Centrally sponsored schemes	674	564	729	1298	1141
Total	2687	2233	2196	3709	3021
Percentage of increase over previous year	23.46	(-)16.90	(-)1.66	68.90	(-)18.55
Total grants as a percentage of Revenue Receipts	11	9	7	10	7

Source : Finance Accounts of respective years

Grants from Central Government for State Plan schemes showed declining trend, during the period from 2008-09 to 2011-12. However, it increased by ₹259 crore during 2012-13 mainly due to receipt of Additional Central Assistance of ₹123 crore, for State annual plan under 'Jawaharlal Nehru Urban Renewal Mission-Urban Infrastructure Development for Small and Medium Towns'.

1.3.3 Central Tax transfers

Central tax transfers increased by ₹851 crore (14.2 per cent) from ₹5,990 crore in 2011-12 to ₹6,841 crore in 2012-13. The increase was mainly under 'Service tax' (₹284 crore), 'Taxes on income other than corporation tax' (₹273 crore), 'Union Excise Duties' (₹100 crore), 'Corporation tax' (₹99 crore) and 'Customs' (₹98 crore).

1.3.4 Efficiency in Tax collection

The expenditure on tax collection in respect of four major revenue sources of the State was more than all India average during the period 2008-12 (except for Taxes on sales, trade etc (2010-11) and Taxes on vehicles (2009-10 and 2010-11)). Details are given in **Appendix 1.6**. However, the percentage of expenditure to gross collection in respect of State's major source of revenue i.e. Taxes on Sales, Trade etc. showed a declining trend during the last five years (except during 2009-10 and 2011-12).

1.3.5 Revenue forgone

During the year, the Government has allowed remission of stamp duty charges amounting to ₹4.55 crore in 12 cases in the public interest. Also during the year, the State Government has written off liabilities pertaining to individuals, amounting to ₹0.34 crore in 28 cases.

1.4 Receipt and Utilisation of Thirteenth Finance Commission Award for the first three years of award period (2010-13)

1.4.1 Introduction

The Thirteenth Finance Commission (ThFC) was constituted by the President of India under Article 280 of the Constitution to make recommendations for the period 2010-2015. The Commission has the mandate to recommend the principles which should govern the grants-in-aid of revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States, which are in need of assistance under Article 275 of the Constitution of India. For the award period (2010-11 to 2014-15), the Commission has recommended an amount of ₹6715.56⁶ crore, under various sectors. Of this, ₹3,112.70 crore was due to the State for the first three years (2010-2013). A review of the receipt and utilisation of ThFC award amount for three years period was conducted to assess:-

- Whether the award amount for the first three years has been actually received, if not reason for the shortfall;
- Whether amount received as Grant has been provided in the annual budget for utilisation by respective implementing departments;
- Whether the amount provided in the budget has been utilized fully;
- Whether the utilisation of award amounts was for the purposes for which they were actually provided; and
- Whether there existed effective monitoring and evaluation system.

Audit findings

1.4.2 Release of award amount by Government of India

During the period 2010-11 to 2012-13, the State Government received an amount of ₹2,222.15 crore, out of an award amount of ₹3112.70 crore, resulting in a short-release of ₹890.55 crore (details are given in **Appendix 1.7**). Sector-wise short-release and specific reasons for the same are as follows:

(i) Environment related grants

As against an amount of ₹67.76 crore due for the forest related activities, the State had received ₹59.29 crore resulting in a short-release of ₹8.47 crore. Central-State Finance Commission Cell⁷ stated that shortfall in receipt was due to non-achievement of projected Non-plan revenue expenditure (NPRE) during 2010-11, under the major head 2406-Forestry and Wildlife. In response to Audit's observations, Government replied that non-achievement of projected NPRE was due to booking of forest grant (as per earlier direction of GoI) on the plan side. Government reply cannot be accepted because the booking of ThFC grant under plan or non-plan would not alter the actual NPRE as the net of grant (after

⁶ Includes interest relief of ₹329.22 crore for the loan taken from National Small Savings Fund.

⁷ Cell functioning in the Kerala Government secretariat to monitor the receipt of Finance Commission award.

deducting the ThFC grant utilized from NPRE) alone was considered for ascertaining NPRE.

Under water sector management, grant was for meeting non-salary expenses like maintenance of major, medium and minor irrigation schemes, in addition to normal assistance of the State. The grant was to be released in two equal instalments. The conditions for release were:-

- The State should set up an independent Water Regulatory Authority and notify by 31 March 2012.
- The State should achieve the recovery rate as projected by the ThFC.

Non-adherence to the above two conditions resulted in shortfall of ₹44 crore in the first three years.

(ii) Improving outcomes

For improving justice delivery⁸ an amount of ₹84.03 crore was due to the State in the first three years. However, the State received ₹42.02 crore, resulting in a shortfall of ₹42.01 crore. This was due to under-utilisation of amount released during the first year.

An amount of ₹29.76 crore was due to the State under incentive grant for UID; against this, release was only ₹4.96 crore, resulting in shortfall of ₹24.80 crore. The release was based on the progress of enrolment of 'Below Poverty Line' beneficiaries. Slow pace in enrolment contributed to the shortfall.

For improving Statistical systems at district and state level, ₹8.40 crore was awarded and the State received only ₹2.80 crore due to non-achievement of milestones (resulting in under-utilisation of first instalment) fixed by the Finance Commission.

(iii) Maintenance of Roads and Bridges

This grant is provided for maintenance of roads and bridges, and the yearly release was in single instalment during the month of July. The release was based on the condition that the NPRE of a particular year should reach the NPRE projected to the ThFC. As the NPRE (₹552.27 crore) for the year 2010-11 was below the projected NPRE (₹574.12 crore), the award amount (₹232 crore) for the year 2012-13 was not released to the State. The Department attributed the shortfall in expenditure to delayed settlement of work bills and stated that the expenditure would be booked during the earlier part of the next year.

(iv) Grant for capacity building

ThFC has awarded an amount of ₹20 crore (₹ four crore in each year) to undertake measures to build capacity amongst those handling response and creating awareness amongst people for effective disaster response. Out of the

⁸ Speedy disposal of cases by holding morning/evening/shift courts, enhancing support to Lok Adalath, providing additional funding to State Legal Service Authorities, etc.

award amount of ₹12 crore (for the first three years), the State received only ₹ eight crore, resulting in a short-release of ₹ four crore (award amount for 2012-13). This was due to low utilisation of grant released in the first two years.

(v) Local Bodies Grant

An amount of ₹1,206.50 crore was due to the State Government as Basic Grant and Performance Grant. The State had received ₹1,023.76 crore resulting in a shortfall of ₹182.74 crore. The shortfall in receipt was due to delayed transfer of funds to Local Self Government Institutions by the State Government.

(vi) State Specific Grants

In respect of State Specific Grants, instructions issued by Ministry of Finance stipulate that 2/3rd of the first year release was to be utilized for getting second year release. Owing to short utilisation of first release, against the award amount of ₹750 crore, ₹346.93 crore was not released by the Government of India. Sector-wise short-release is as follows:

Table 1.11: Short-release of funds under State Specific Grants

(₹ in crore)				
Sl. No.	Name of the Sector	Award amount by ThFC	Amount released by GOI	Shortfall in receipt
1.	Inland water ways/coastal zone management	100.00	40.02	59.98
2.	Primitive tribal group	74.00	11.55	62.45
3.	Health infrastructure	99.00	49.50	49.50
4.	Fisheries	100.00	50.00	50.00
5.	Animal Husbandry	75.00	37.50	37.50
6.	Kuttanad Development	150.00	75.00	75.00
7.	Water bodies	25.00	12.50	12.50
Total		623.00⁹	276.07	346.93

Source : Compiled from Detailed Appropriation Accounts and information furnished by departments

In the case of inland water ways/coastal zone management and primitive tribal groups, apart from the condition mentioned above, submission of working plan for lesser amount also contributed to the short-release.

1.4.3 Allocation of ThFC Grant to implementing agencies and its utilisation

For the efficient utilisation of ThFC grant, amount received by the State Government has to be provided in the budget and released to the implementing offices/agencies in time. Audit scrutiny revealed that ThFC grant received by the State Government during the first three years has been included in the budget for respective years for utilisation by implementing offices/agencies. However,

⁹ There was no shortfall in receipt under upgradation of police (₹50 crore) and up-gradation of prisons (₹77 crore)

under-utilisation of the above allocation was noticed in some sectors as detailed below:

Table 1.12: Utilisation of funds released

(₹ in crore)

Sl. No.	Name of the Sector	Amount received	Amount utilised	Amount not utilised
	Environment related grants			
1.	Water sector management	44.00	39.20	4.80
	Improving outcomes			
2.	Improving justice delivery	42.02	12.56	29.46
3.	Improving statistical systems at district and state level	2.80	1.90	0.90
4.	Data base for employees and pensioners	2.50	...	2.50
	State specific grants			
5.	Inland waterways/coastal zone management	40.02	26.29	13.73
	Total	131.34	79.95	51.39

Source : Information furnished by departments

Delay in awarding the work was stated as the reason for under-utilisation of budget allocation in water sector management. As regards improving justice delivery, the Registrar General of High Court, Ernakulam stated that practical difficulties experienced for setting up morning/evening courts, non-arrangement of training to judicial officers due to delay in construction of State Judicial Academy, etc. are the reasons for under utilization of funds released. In respect of improving statistical systems at district and state level, delay in getting administrative sanction for the action plan and non-completion of activities, particularly surveys and studies proposed by ThFC, attributed to under utilisation of released grant. Procedural delay was the reason stated for reduced utilisation of budget allocation in the case of Inland waterways/coastal zone management.

1.4.4 Parking of funds in Treasury Savings Bank and other commercial bank accounts

When an amount was drawn from the treasury, it was shown as expenditure in Government account. However, it was noticed that, an amount ₹51.71 crore shown as expenditure, was actually parked in Treasury Savings Bank (TSB) account, maintained as part of Public Account, or in other commercial bank accounts. Instances are detailed below:

(i) Incentive grant for UID

State may use the incentive, to directly assist the intended beneficiary or create convenient facilities for them such that the cost of registration is minimal to Below Poverty Line beneficiaries. Audit scrutiny revealed that entire release of ₹4.96 crore was kept in fixed deposit (State Bank of Travancore) as the Kerala IT Mission failed to utilize the fund for intended purpose. The Director, Kerala State IT Mission stated that non-utilisation of fund was due to non-identification of beneficiaries.

(ii) Upgradation of infrastructure for police force

An amount of ₹24.40 crore was given (from November 2011 to January 2012) to Kerala Police Housing Construction Corporation for constructing community police resource centres, tourist protection and police assistance centres, etc. It was noticed that out of the above amount, an amount of ₹10.71 crore remained unutilized and was kept in the Public Account of Kerala Police Housing Construction Corporation (December 2013), maintained in the Treasury. However, the utilisation certificate for entire amount was given to GOI.

(iii) Fisheries

Under fisheries sector, for development of Model fishing villages by constructing houses and providing water supply, sanitation and power, an amount ₹50 crore was released (December 2011) to Deputy Directors (Fisheries) of eight districts and to Managing Director, Kerala State Coastal Area Development Corporation (₹ five crore). It was proposed to construct 284 houses in each of 11 Model villages. As the list of beneficiaries was finalized only at the end of 2012, ₹34.21 crore only could be paid (December 2013) to beneficiaries. As a result, ₹15.79 crore remained unutilized in the TSB accounts of various District Officers. However, the utilisation certificate for entire amount of ₹50 crore was given to GOI.

(iv) Animal Husbandry

To strengthen the animal husbandry sector, including constitution of hi-tech dairy complexes, commercial layer farm and setting up of pharmaceutical production unit an amount of ₹37.50 crore was drawn by the Director of Dairy Development and disbursed as given below:

Table 1.13: Utilisation of funds released under Animal Husbandry*(₹ in crore)*

Amount received by	Purpose	Amount released	Amount utilized
Director of Animal Husbandry	Calf protection programme, Multi speciality complex at Kudappanakunnu, Pharmaceutical division at Veterinary Biological Institute, Palode, Hi-tech dairy complexes at Vithura and Kuriottumala	26.12	15.93
Managing Director, Kerala Livestock Development Board	Hi-tech dairy complex at Dhoni, Palakkad	5.38	0.00
MD, Kerala State Poultry Development Corporation	Hi-tech layer farm at Kudappanakunnu	3.00	0.10
Director of Dairy Development	Automation in milk collection in dairy co-operatives	3.00	1.22
Total		37.50	17.25

Source : Information furnished by departments

Delayed execution of these components resulted in blocking up of ₹20.25 crore in TSB account.

Thus, an amount of ₹51.71 crore shown as expenditure in Government account is actually blocked up in TSB account/commercial banks. While submitting the utilisation certificate to GOI, actual utilisation of the amount was not ensured. Amounts certified as fully utilized were parked in TSB accounts. In response to audit observations, the Principal Secretary, Finance Department stated (August 2013) that a proposal for engaging Finance Inspection Wing to inspect departmental offices to detect parking of funds to overstate utilisation was under consideration.

1.4.5 Utilisation of award amount for unintended purposes

District Innovation Fund was aimed at increasing the efficiency of capital assets already created and the investment was to be used for filling the vital gaps in public infrastructure already available in the district, which was not being fully utilised for want of a relatively small investment. ThFC awarded an amount ₹14.00 crore (₹ one crore for each district and the release of funds would be in two instalments in 2011-12 and 2014-15) and the first instalment of ₹ seven crore was received by Government of Kerala in 2011-12. Audit noticed that in Palakkad and Thiruvananthapuram districts, the funds were not utilized for the purpose, covered under the guidelines, as stated below:

- In Thiruvananthapuram District, the entire amount of ₹50 lakh was utilized for establishment of DC suite project¹⁰, for which estimate was ₹100.03 lakh. The award was intended for capital assets already created and not for new projects.
- In Palakkad District, the entire fund of ₹50 lakh was used for construction of play area including galleries in Indoor stadium, Palakkad.

As the funds are to be used to fill in vital gaps in public infrastructure already available in the district which is not fully utilized for want of relatively small investments, utilisation of funds for bigger projects was irregular.

1.4.6 Monitoring and submission of utilisation certificate

As per the guidelines a State level empowered committee headed by Chief Secretary to the State government was constituted to monitor utilization of grants for its stated objectives. Though the committee was convened in every quarter to ensure proper utilisation of the award amount, audit noticed some deficiency in ensuring timely utilisation of funds. Due to deficient utilisation of funds an amount of ₹890.55 crore (29 per cent) was not received till 2012-13.

1.5 Capital Receipts

Capital receipts comprise miscellaneous capital receipts, recovery of loans and advances released to institutions/organizations and public debt receipts. Trends in receipts under capital sector during the period 2008-13 are detailed in **Table 1.14**.

¹⁰ Office automation programme to provide speedy and efficient service to the public

Table 1.14: Trends in growth and composition of Capital Receipts*(₹ in crore)*

Sources of State's Receipts	2008-09	2009-10	2010-11	2011-12	2012-13
Capital Receipts (CR)					
Miscellaneous Capital Receipts	9	49	25	16	15
Recovery of Loans and Advances	36	38	44	55	74
Public Debt Receipts	6921	6616	7189	9799	13261
Internal Debt Receipts	6153	6053	6828	9392	12709
Loans and Advances from GOI	768	563	361	407	552
Total CR	6966	6703	7258	9870	13350
Rate of growth of debt capital receipts (per cent)	22.6	(-)4.4	8.7	36.3	35.3
Rate of growth of non-debt capital receipts (per cent)	(-)15.1	93.3	(-)20.7	2.9	25.4
Rate of Growth of GSDP(per cent)	15.8	14.4	16.2	17.0	15.3
Rate of growth of CR (per cent)	22.3	(-)3.8	8.3	36.0	35.3
Buoyancy of Debt receipts w.r.t GSDP	1.4	(-)0.3	0.5	2.1	2.3

Source : Finance Accounts of respective years

In Capital receipts share of 'Miscellaneous Capital receipts' and 'Recovery of loans and advances' was less than one *per cent* during the last five years (except during 2009-10). During the period share of 'Internal Debt' in Public Debt receipts increased from 89 *per cent* in 2008-09 to 96 *per cent* in 2012-13. Internal Debt mainly comprised Open Market Borrowings of the State and growth rate shown by debt capital receipts in last two years was mainly due to increased open market borrowing in these years. During the last two years buoyancy of debt receipts with respect to GSDP was more than two due to increased market borrowings.

1.5.1 Proceeds from disinvestment

As of March 2013, the State Government had an amount of ₹4,511.03 crore as investment in Statutory Corporations, Government Companies, Joint Stock companies and Co-operatives. During the year, ₹14.75 crore was received from retirement of capital/disinvestment of shares of co-operative societies/banks and accounted under Miscellaneous Capital Receipts.

1.5.2 Recoveries of loans and advances

During the year, the State Government had released an amount of ₹1,136.15 crore as loans and advances to various institutions/organizations and at the end of March 2013 an amount of ₹10,456.93 crore was outstanding under this head. Against this balance, principal amount recovered was ₹73.47 crore, which was only 0.7 *per cent* of the outstanding balance under loans and advances. As per the details furnished by the Departments (Finance Accounts 2012-13), the repayment arrears from various loanee entities as of March 2013 was ₹6382.47 crore (Principal: ₹3,745.87 crore and Interest: ₹2,636.60 crore), which indicate that State Government's receipts under loans and advances were much less than the amount actually due.

1.5.3 Debt receipts from internal sources

Public Debt receipts of the State Government increased (35 per cent) from ₹9,799 crore in 2011-12 to ₹13,261 crore in 2012-13. This includes, Open Market Borrowing (₹11,583 crore), Special Securities issued to National Small Savings Fund (₹630 crore) and Loans from Financial Institutions (₹496 crore).

Consequent on resetting of interest rates on National Small Savings Fund loans for 2010-11 and 2011-12, as per recommendations of the ThFC, ₹6.90 crore was credited back to Government Account during 2012-13.

1.5.4 Loans and advances from GOI

During the year the State Government received ₹552 crore from GOI as Loans for State Plan schemes and this was 35.6 per cent more than the receipt (₹407 crore) during the previous year.

1.6 Public Accounts Receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances, etc. which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266(2) of the Constitution. Here the Government acts as banker. The balance after disbursements is the fund available with the government for use.

Table 1.15: Net receipts under Public Account heads

(₹ in crore)

Resources under various heads	2008-09	2009-10	2010-11	2011-12	2012-13
Public Account receipts					
a. Small Savings, Provident Fund etc.	5531.33	2849.29	2489.94	3839.05	3685.54
b. Reserve Fund	381.59	328.42	407.21	146.93	-145.58
c. Deposits and Advances	131.91	436.87	468.89	-51.47	1140.93
d. Suspense and Miscellaneous	-85.04	370.14	-197.30	852.37	712.44
e. Remittances	23.45	57.31	26.92	-157.40	30.49
Total	5983.24	4042.03	3195.66	4629.48	5423.82

Compared to previous year, overall net receipts under public account increased by ₹794.34 crore during 2012-13 from ₹4,629.48 crore to ₹5,423.82 crore. Substantial increase was noticed under Deposit and Advances (₹1,192.40 crore) and Remittances (₹187.89 crore). This was partly offset by decrease in other sectors. However, net accretions in the above Public Account heads were the main source of fund to the State Government, for meeting its fiscal gap during the last five years.

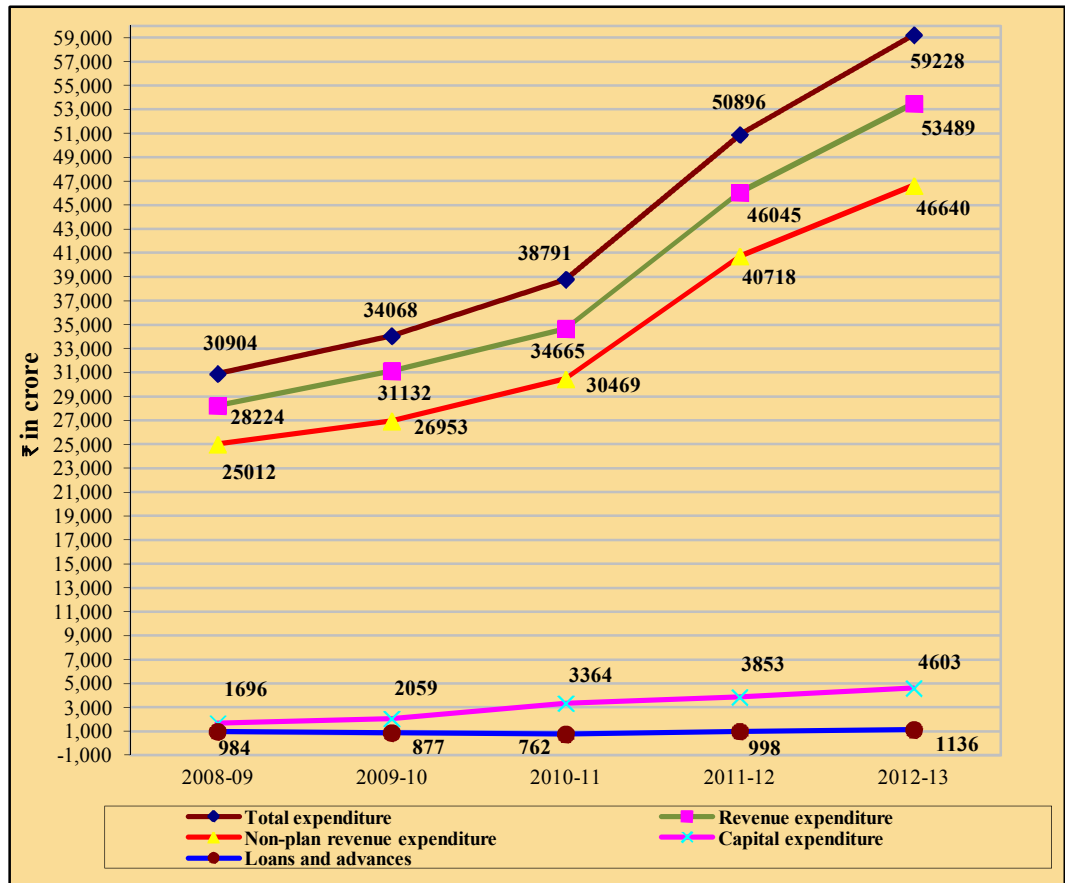
1.7 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially the expenditure directed towards development of social sector.

1.7.1 Growth and Composition of Expenditure

The total expenditure of the State Government consists of revenue expenditure as well as capital expenditure which include expenditure on loans and advances. The trends in various components of total expenditure-Plan and Non-Plan revenue expenditure, committed expenditure such as salaries and wages, interest payments, pension payments and subsidies, financial assistance to local bodies, etc., are discussed in the succeeding paragraphs. **Chart 1.7** presents the trends in total expenditure of the State Government over a period of five years (2008-13).

Chart 1.7: Total expenditure: trends and composition



The total expenditure increased by 16.4 per cent in 2012-13 to ₹59,228 crore from

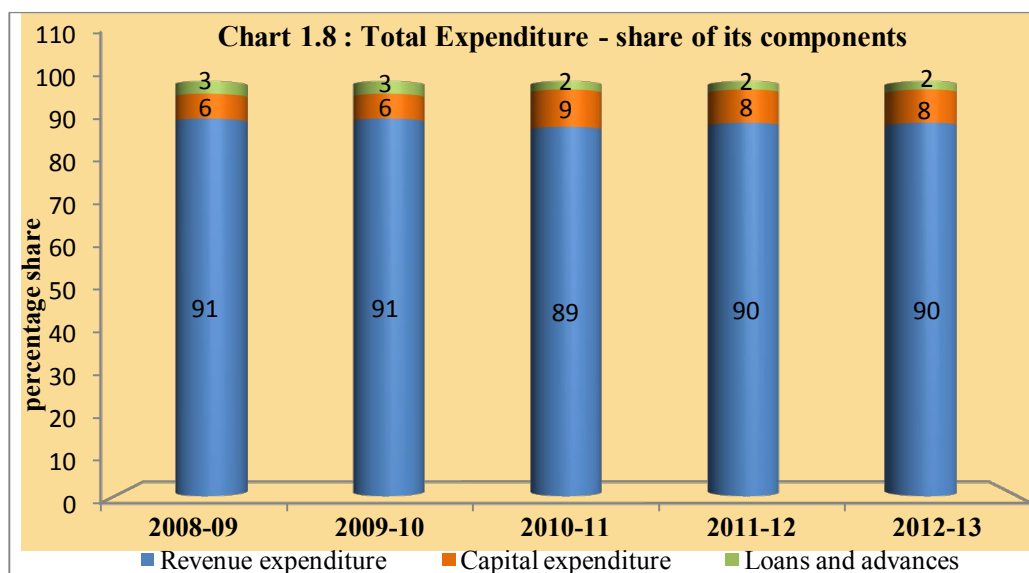
₹50,896 crore in the previous year. The total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.16**. During 2003-04 to 2011-12, the compounded annual growth rate of total expenditure (13.96 per cent) was less than the growth rate of other General Category States (14.15 per cent). For the period 2003-04 to 2012-13 the growth rate of the State was further increased to 14.56 per cent (**Appendix 1.1**).

Table 1.16: Total expenditure – basic parameters

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Total expenditure (TE) (₹ in crore)	30904	34068	38791	50896	59228
Rate of growth (per cent)	13.4	10.2	13.9	31.2	16.4
TE/GSDP ratio (per cent)	15.2	14.7	14.4 ^(*)	16.1 ^(*)	16.3
RR/TE ratio (per cent)	79.3	76.6	79.9	74.7	74.5
Buoyancy of TE with reference to:					
GSDP (ratio)	0.8	0.7	0.9 ^(*)	1.8 ^(*)	1.1
RR (ratio)	0.8	1.6	0.7	1.4	1.0

(*) change in figures is due to adoption of new series of GSDP figures

The increase (₹8,332 crore) of total expenditure during 2012-13 was on account of increase of ₹7,444 crore in revenue expenditure, ₹750 crore in capital expenditure and ₹138 crore in disbursement of loans and advances. Decreasing trend in ratio between revenue receipt and total expenditure, during last three years, indicates the widening gap in receipt and expenditure amounts of the State Government. Buoyancy of the total expenditure with respect to GSDP and revenue receipt was more than one during 2011-12 and declining of this ratio during 2012-13 was a positive indicator. The composition of the total expenditure is depicted in **Chart 1.8**.



During the five-year period 2008-13, the share of revenue expenditure ranged between 89 to 91 *per cent* of the total expenditure whereas the share of capital expenditure ranged between six and nine *per cent* of the total expenditure. The revenue expenditure increased in absolute terms from ₹28,224 crore in 2008-09 to ₹53,489 crore in 2012-13 but its percentage to total expenditure remained almost static during the last five year period. Capital expenditure increased from ₹1,696 crore in 2008-09 to ₹4,603 crore in 2012-13 and its percentage in total expenditure increased from six *per cent* to eight *per cent*.

1.7.2 Trends in total expenditure in terms of activities

In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, grants-in-aid and loans and advances. Relative shares of these components in the total expenditure are indicated in **Table 1.17**.

Table 1.17: Components of expenditure – relative shares

Particulars	<i>(in per cent)</i>				
	2008-09	2009-10	2010-11	2011-12	2012-13
General Services	41.2	41.1	40.0	40.2	38.7
<i>of which, Interest Payments</i>	15.1	15.5	14.7	12.4	12.2
Social Services	31.2	31.8	32.4	33.0	32.8
Economic Services	17.1	17.2	18.4	18.1	19.8
Grants-in-aid	7.3	7.3	7.2	6.7	6.8
Loans and Advances	3.2	2.6	2.0	2.0	1.9

The movement of the relative shares of the above components of expenditure indicated that the shares of Economic Services in the total expenditure increased during 2012-13 over the previous year. This increase was set off by the decreases in General and Social Services.

The share of Economic Services in total expenditure during 2012-13 increased mainly on account of increase in expenditure under sub sectors ‘Transport’ (₹1,440.21 crore), ‘Agriculture and allied activities’ (₹576.17 crore), ‘Irrigation and Flood control’ (₹213.93 crore) and ‘Rural Development’ (₹107.77 crore).

1.7.3 Revenue Expenditure

Revenue expenditure increased by 16 *per cent* (₹7,444 crore) during 2012-13 when compared to previous year. The increase in revenue expenditure during 2012-13 was mainly due to increase in expenditure under the major heads ‘Miscellaneous General Services¹¹’ (₹1,185 crore), ‘Interest Payments’ (₹911 crore), ‘General Education’ (₹886 crore), ‘Compensation and Assignments to Local Bodies and Panchayati Raj Institutions’ (₹627 crore), ‘Social Security and Welfare’ (₹524 crore), ‘Roads and Bridges’ (₹483 crore), ‘Medical and Public

¹¹ Includes ₹1,181 crore towards expenditure under ‘State Lotteries’

Health' (₹316 crore), Crop Husbandry (₹252 crore), 'Police' (₹250 crore), 'Labour and Employment' (₹236 crore), 'Pension and Other Retirement Benefits' (₹167 crore), etc.

1.7.3.1 Incidence of revenue expenditure

Revenue expenditure is incurred to maintain the current level of services and payment for past obligations and as such, does not result in any addition to the State's infrastructure and service network. During the last five years Revenue expenditure had the predominant share of around 90 per cent in the total expenditure. The overall revenue expenditure, its rate of growth, the ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table 1.18**.

Table 1.18: Revenue expenditure – basic parameters

	(₹ in crore)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue expenditure (RE)	28224	31132	34665	46045	53489
Non-plan revenue expenditure (NPRE)	25012	26953	30469	40718	46640
Plan revenue expenditure (PRE)	3212	4179	4196	5327	6849
Rate of Growth of					
RE (<i>per cent</i>)	13.4	10.3	11.3	32.8	16.2
NPRE (<i>per cent</i>)	10.6	7.8	13.0	33.6	14.5
PRE (<i>per cent</i>)	41.1	30.1	0.4	27.0	28.6
Revenue expenditure as percentage to TE	91.3	91.4	89.4	90.5	90.3
NPRE/GSDP (<i>per cent</i>) ^(*)	12.3	11.6	11.3	12.9	12.8
NPRE as percentage of TE	80.9	79.1	78.5	80.0	78.7
NPRE as percentage of RR	102.0	103.2	98.3	107.1	105.7
Buoyancy of revenue expenditure with					
GSDP (ratio) ^(*)	0.8	0.7	0.7	1.9	1.1
Revenue receipts (ratio)	0.8	1.6	0.6	1.5	1.0

Source : Finance Accounts

(*) change in figures is due to adoption of new series of GSDP figures

The revenue expenditure increased during 2012-13 by ₹7,444 crore (16.2 per cent) over the previous year. This was ₹1,884 crore more than the projections (₹51,605 crore) made in the Medium Term Fiscal Plan.

In absolute terms Non-Plan revenue expenditure (NPRE) and Plan revenue expenditure (PRE) showed an increasing trend during the period 2008-13. NPRE showed an increase of 14.5 per cent in 2012-13 and this was very less when compared to growth rate (33.6 per cent) shown in 2011-12. The actual NPRE for 2012-13 (₹46,640 crore) exceeded the normative assessment made by the ThFC (₹34,753 crore) by ₹11,887 crore (34 per cent).

During the year, Plan Revenue Expenditure (PRE) showed a higher growth (28.6 *per cent*) rate, when compared to NPRES and it increased by ₹1,522 crore.

As in the previous year, buoyancy of revenue expenditure with respect to GSDP was more than one, indicating that growth rate of revenue expenditure was more than the growth rate of GSDP. However, it declined from 1.9 *per cent* to 1.1 *per cent* which is a good indicator

1.7.3.2 Expenditure on salaries, wages, interest payments, pension, etc.

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.19** and **Chart 1.9** present the trends in the expenditure on these components during 2008-13.

Table 1.19: Components of Committed Expenditure

Components of committed expenditure	2008-09	2009-10	2010-11	2011-12	2012-13	
					BE	Actuals
Salaries* and Wages,	9,146	9894	11,178	16,229	16,919	17,505
Non-plan head	8,895	9,529	10,815	15,681	16,415	16,939
Plan heads**	251	365	363	548	504	566
Interest payments (MH 2049)	4,660	5,292	5,690	6,294	7,234	7,205
Expenditure on pensions (MH 2071)	4,686	4,706	5,767	8,700	8,178	8,867
Subsidies	355	442	627	1,014	769	1,268
Total	18,847	20,334	23,262	32,237	33,100	34,845
Revenue Expenditure	28,224	31,132	34,665	46,045	51,605	53,489
Revenue Receipts	24,512	26,109	30,991	38,010	48,141	44,137
Percentage of committed expenditure to Revenue Expenditure	67	65	67	70	64	65
Percentage of committed expenditure to Revenue Receipts	77	78	75	85	69	79
* Salaries include teaching grant paid to aided educational institutions like schools and colleges to meet the salaries of their teaching and non-teaching staff.						
**The plan heads also include the salaries and wages paid under Centrally Sponsored schemes						

During the current year, the percentage of State's committed expenditure with respect to Revenue Expenditure and Revenue Receipt has decreased, compared to previous year. However, consumption of 79 *per cent* of the Revenue receipts for committed expenditure was high when compared to the State's estimation of 69 *per cent*.

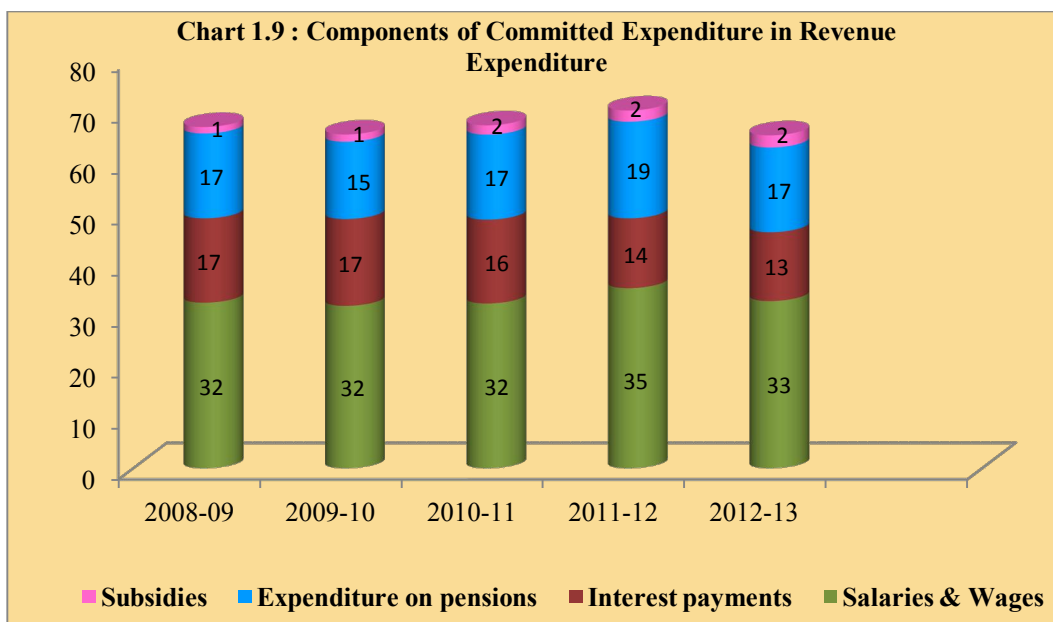


Chart 1.9 shows that share of salaries/wages and pensions in revenue expenditure remained static during last five years, though there was slight increase in 2011-12 due to implementation of recommendations of Ninth State Pay Revision Commission. However, share of interest payments in revenue expenditure showed a declining trend during the last five years.

During 2011-12, expenditure on salaries under Non-plan and Plan heads increased to ₹16,939 crore and ₹566 crore respectively from ₹15,681 crore and ₹548 crore in the previous year. Similarly, pension payment also increased from ₹8,700 crore to ₹8,867 crore during the year. Expenditure on pension exceeded the projections made in the Medium Term Fiscal Plan (₹8,178 crore) by ₹689 crore.

Interest payments increased by 14.5 *per cent* during 2012-13, (₹7,205 crore) when compared to the previous year (₹6,294 crore). This was mainly due to increase in interest payment on 'Market Loans' availed by the State Government. However, expenditure on interest payments was in line with the projections made by the State Government in the Medium Term Fiscal Plan (₹7,234 crore).

1.7.3.3 Subsidies

In any welfare State, it is not uncommon to provide subsidies/subventions to disadvantaged sections of the society. Subsidies are dispensed not only explicitly but also implicitly by providing subsidized public service to the people. Budgetary support to financial institutions, inadequate returns on investments and poor recovery of user charges from social and economic services provided by the Government fall in the category of implicit subsidies. As an exhaustive statement of implicit subsidies given by the State Government could not be compiled easily from the accounts, information collected from Finance department in respect of department-wise implicit subsidy provided during 2012-13 is given in **Table 1.20**.

Table 1.20: Implicit subsidies given in 2012-13*(₹ in crore)*

Name of the Department	Purpose	Expenditure incurred
Coir Development Department	Incentive provided to coir co-operatives based on their production	34.40
Food and Civil Supplies Department	Handling charges given to retailers under Antyodaya Annapoorna scheme	17.71
Land Revenue Department	Tax concessions given under various items	24.79
Total		76.90

Source : Information furnished by Finance Department, Government of Kerala

As per Finance Accounts an amount of ₹1,268 crore was given as explicit subsidy during 2012-13. It mainly includes amount given to Food Corporation of India in respect of reimbursement of price difference of ration rice and wheat (₹640 crore), for Paddy procurement through Kerala State Civil Supplies Corporation (₹120 crore), to Kerala State Civil Supplies Corporation Limited for market intervention (₹135 crore) and towards special support schemes for farm sector (₹95 crore).

1.7.4 Capital Expenditure

Capital expenditure increased by 19 per cent (₹750 crore) during 2012-13 and the increase was mainly under 'Roads and Bridges' (₹338 crore), 'Civil Aviation' (₹174 crore), 'Flood control projects' (₹117 crore), 'Other Transport services' (₹355 crore), etc. This increase was partly offset by decrease in expenditure mainly under 'Co-operation' (₹126 crore), 'Industries and Minerals' (₹93 crore) and 'Urban Development' (₹83 crore).

1.7.5 Financial assistance by State Government to Local Bodies and other institutions

The quantum of assistance provided by the Government as grants and loans to local bodies, educational institutions, Government companies, Welfare Fund Boards, etc during the current year relative to the previous years is presented in Table 1.21.

Table 1.21: Financial assistance to local bodies, educational institutions, etc.*(₹ in crore)*

Financial Assistance to Institutions	2008-09	2009-10	2010-11	2011-12	2012-13
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	3306.81	3546.61	4087.83	5605.77	6204.36
Municipal Corporations and Municipalities	966.99	834.46	901.87	1073.78	1177.77
Zilla Parishads and Other Panchayati Raj Institutions	2600.11	2996.66	3411.65	4203.98	5279.31
Development Agencies	1.95	2.04	5.25	5.50	5.15

Financial Assistance to Institutions	2008-09	2009-10	2010-11	2011-12	2012-13
Hospitals and Other Charitable Institutions	56.66	76.40	139.02	144.46	153.33
Other Institutions ¹²	658.83	1159.47	1252.58	1065.96	896.42
Total	7591.35	8615.64	9798.20	12099.45	13716.34
Assistance as percentage of revenue expenditure	27	28	28	26	26

Source: Finance Accounts and information received from the State Government

The financial assistance to local bodies and other institutions increased from ₹7,591.35 crore in 2008-09 to ₹13,716.34 crore in 2012-13. During 2012-13, financial assistance to Educational Institutions, Panchayati Raj institutions, etc. increased by ₹1,616.89 crore compared to the previous year. As a percentage of revenue expenditure it was 26 per cent as in the previous year.

1.8 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. Improvement in the quality of expenditure basically involves three aspects, viz., adequacy of public expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure use and its effectiveness (assessment of outlay-outcome relationships for select services).

1.8.1 Adequacy of public expenditure

The responsibilities relating to expenditure on the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.22** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2009-10 and 2012-13.

¹² Other institutions, *inter alia*, include Kerala State Road Transport Corporation (₹175 crore), Kerala Sports Council (₹34.89 crore), Kerala Water Authority (₹18.25 crore) State Council for Science, Technology & Environment (₹98.10 crore), Welfare fund for Cashew workers (₹35.78 crore), Kudumbasree (₹84.17 crore), Kerala Khadi and Village Industries Board (₹11.50 crore), Kerala State Information Technology Mission (₹26.30 crore), etc.

Table 1.22: Fiscal priority of the State in 2009-10 and 2012-13

<i>(in per cent)</i>						
Fiscal Priority by the State*	AE/ GSDP	DE[#]/ AE	SSE/ AE	CE/ AE	Education/ AE	Health/ AE
General Category States' Average, 2009-10	17.06	66.05	35.73	14.96	16.19	4.24
Kerala's Average, 2009-10	14.68	49.02	31.79	6.04	17.04	5.04
General Category States' Average, 2012-13	15.93	65.79	32.77	13.23	17.23	4.47
Kerala's Average, 2012-13	16.30	54.24	33.74	7.77	17.52	5.48
<p>* As per cent to GSDP AE: Aggregate (Total) Expenditure DE: Development Expenditure SSE: Social Sector Expenditure CE: Capital Expenditure.</p> <p># Development expenditure includes Development Revenue Expenditure, Development Capital expenditure and Loans and Advances disbursed (Social and Economic sector). General category States exclude Delhi, Goa and Puducherry.</p>						

- Though, during 2009-10 the State's aggregate expenditure as a proportion of its GSDP was less comparing to General Category States, it was higher than the General category state's proportion in 2012-13.
- In 2009-10 and 2012-13, development expenditure as a proportion of aggregate expenditure has been lower than the General Category States' average. Developmental expenditure consists of both economic sector expenditure and social sector expenditure.
- Though the State has not been given adequate priority to Social sector during 2009-10, it was better than the General Category States during 2012-13. As far as health sector and education sector's fiscal priority is concerned, the State has the better statistics compared to General Category States.
- The proportion of capital expenditure has been much lower as compared to General Category States during 2009-10 and 2012-13. However, it is observed that the State has shown some improvement in 2012-13 as compared to 2009-10 by increasing expenditure on capital but it is still lower than General Category States' average.

The Government may consider enhancing the proportion of expenditure on capital sector in order to create the much needed assets to stimulate growth and give priority to physical capital formation that will further increase the growth prospects of the State by creating durable assets.

1.8.2 Efficiency of expenditure use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Government to take appropriate expenditure rationalisation measures and lay

emphasis on provision of core public and merit goods¹³. Apart from improving the allocation towards development expenditure¹⁴, particularly in view of the fiscal space being created on account of decline in expenditure on debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. Development expenditure comprised revenue and capital expenditure including loans and advances in socio-economic services. **Table 1.23** presents the trends in development expenditure relative to the aggregate expenditure of the State during the period 2008-09 to 2012-13. **Chart 1.10** presents component-wise development expenditure during 2008-13.

Table 1.23: Development expenditure

(₹ in crore)

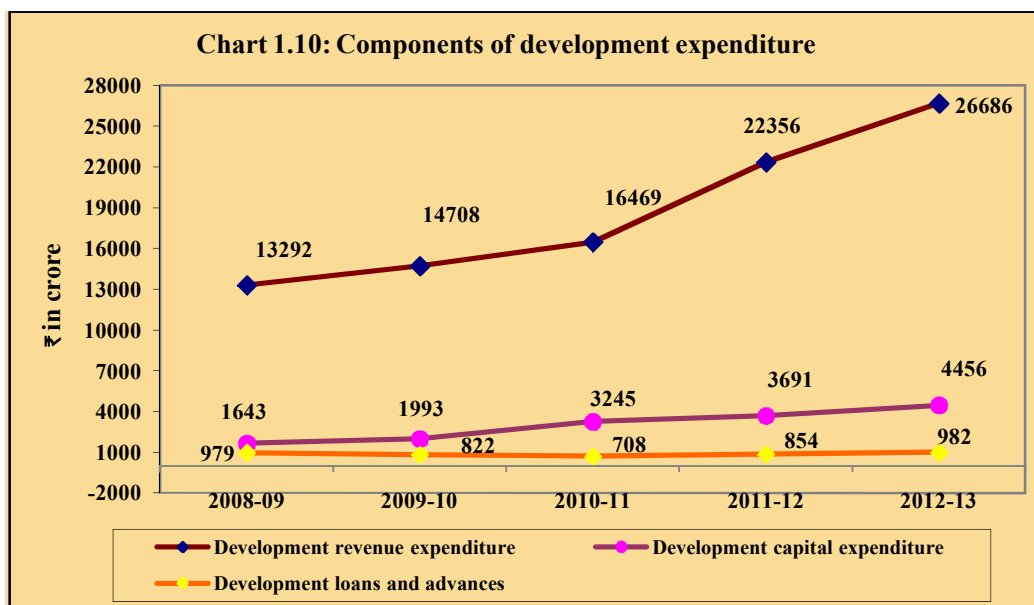
Components of Development Expenditure	2008-09	2009-10	2010-11	2011-12	2012-13	
					BE	Actuals
Development Expenditure (a to c)						
a. Development revenue expenditure	13,292 (43.0)	14,708 (43.2)	16,469 (42.5)	22,356 (43.9)	26,578	26,686 (45.1)
b. Development capital expenditure	1,643 (5.3)	1,993 (5.9)	3,245 (8.4)	3,691 (7.3)	6,495	4,456 (7.5)
c. Development loans and advances	979 (3.2)	822 (2.4)	708 (1.8)	854 (1.7)	665	982 (1.7)
Total Development expenditure	15,914	17,523	20,422	26,901	33,738	32,124
Figures in parentheses indicate percentage to aggregate expenditure						

Source: Finance Accounts and Annual Financial Statement of the State Government for 2012-13

¹³ *Core public goods* are goods which all citizens enjoy in common in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc.

Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the Government and therefore, wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

¹⁴ The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into Social Services, Economic Services and General Services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.



Development expenditure increased by 102 per cent (₹16,210 crore) from ₹15,914 crore in 2008-09 to ₹32,124 crore in 2012-13. Development revenue expenditure during 2012-13 constituted 83 per cent of development expenditure whereas the share of development capital expenditure, including loans and advances was only 17 per cent.

Development revenue expenditure increased by 19.4 per cent (₹4,330 crore) from ₹22,356 crore in 2011-12 to ₹26,686 crore in 2012-13. The increase was mainly due to increase in expenditure under the sub-sectors ‘General Education’ (₹886 crore), ‘Social Security and Welfare’ (₹524 crore), ‘Roads and Bridges’ (₹483 crore), ‘Medical and Public Health’ (₹316 crore) and ‘Crop Husbandry’ (₹252 crore).

Development capital expenditure increased by 20.7 per cent (₹765 crore) from ₹3,691 crore in 2011-12 to ₹4,456 crore in 2012-13. The increase was mainly due to increase in expenditure under the accounts heads; ‘Roads and Bridges’ (₹338 crore), and ‘Other Transport Services’ (₹355 crore).

Details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services are given in **Table 1.24**.

Table 1.24: Efficiency of expenditure in selected Social and Economic Services

Social/Economic Infrastructure	2011-12			2012-13		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S&W	O&M		S&W	O&M
Social Services (SS)						
General Education	0.2	89.2	(*)	0.6	86.9	0.0
Health and Family Welfare	4.1	73.9	0.1	4.0	72.0	0.3
Water Supply, Sanitation, Housing and Urban Development	13.4	5.9	2.3	7.2	4.9	3.1
Total (SS)	3.4	67.0	0.7	2.8	62.2	0.8
Economic Services (ES)						
Agriculture and Allied Activities	9.5	28.4	0.1	5.4	25.2	0.1
Irrigation and Flood Control	40.6	66.1	32.7	41.4	51.8	48.3
Power and Energy	0.1	0.3		0.0	0.3	
Transport	58.3	16.2	39.5	59.7	12.0	37.2
Total (ES)	32.4	29.5	10.6	32.1	24.7	11.8
Total (SS+ES)	13.7	56.7	3.4	13.9	51.3	4.0
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations and Maintenance.						

(*) insignificant

The ratio of capital expenditure to total expenditure under Social Services decreased from 3.4 *per cent* in the previous year to 2.8 *per cent* in the year 2012-13. However, ratio of capital expenditure to total expenditure under General Education sector increased from 0.2 *per cent* in the previous year to 0.6 *per cent* in 2012-13 indicating State's more investment in the sector. In all other sectors the ratio was less than the previous year.

The percentage of capital expenditure to total expenditure under Economic Services also decreased from 32.4 *per cent* in 2011-12 to 32.1 *per cent* in 2012-13. However, this percentage increased in 'Irrigation and Flood Control' and 'Transport' sectors due to more expenditure in Flood control projects and Transport.

During 2012-13, the share of salaries and wages in revenue expenditure decreased from 67 *per cent* to 62.2 *per cent* and 29.5 *per cent* to 24.7 *per cent* in Social Services and Economic Services respectively, compared to previous year.

1.9 Financial Analysis of Government Expenditure and Investments

In the post-Fiscal Responsibility and Budget Management framework, the State is expected to keep its fiscal deficit (and borrowings) not only at low levels but also meet its capital expenditure/ investment (including loans and advances) requirements from its own sources of revenue. In addition, in a transition to complete dependence on market-based resources, the State Government is required to initiate measures to earn adequate returns on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies. The State is also required to take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* previous years.

1.9.1 Financial results of irrigation works

In the case of eight irrigation projects, which have been declared commercial, with a cumulative capital outlay of ₹136.27 crore as on 31 March 2013, the revenue realised from them during 2012-13 was ₹2.07 crore, which was only 1.5 *per cent* of the total outlay. After considering the working and maintenance expenses of ₹40.20 crore and interest charges of ₹12.81 crore, these projects suffered a net loss of ₹50.94 crore (as detailed in Appendix IX to Finance Accounts).

1.9.2 Incomplete projects/works

Department-wise information pertaining to incomplete projects/works (each costing above ₹ one crore) as on 31 March 2013 is given in **Table 1.25**.

Table 1.25: Status of incomplete projects in the State

(₹ in crore)

Sl. No	Name of the department/project	No. of incomplete projects/works	Initial budgeted cost	Cumulative actual expenditure as on 31 March 2013
1.	Water Resources Department – (Irrigation and Minor Irrigation Works)	16	37.24	20.38
2.	Public Works Department – (Roads)	86	285.15	184.98
3.	Public Works Department – (Bridges)	32	163.57	104.35
4.	Public Works Department – (Buildings)	75	263.65	166.62
5.	Harbour Engineering Department	6	59.49	62.73
	Total	215	809.10	539.06

Source: Appendix X of Finance Accounts 2012-13

According to information included in the Finance Accounts, 215 projects/works

on which an expenditure of ₹539.06 crore was incurred up to March 2013 were not completed at the end of March 2013 though the stipulated period of completion was over. Delay in completion of projects/works may result in cost overrun.

1.9.3 Investment and returns

As of 31 March 2013, the State Government had invested ₹4,511.03 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives (**Table 1.26**). The average return on these investments was 1.3 *per cent* in the last five years while the Government paid an average interest rate ranging from 7.1 *per cent* to 7.5 *per cent* on its borrowings during 2008-2013.

Table 1.26: Return on investments

(₹ in crore)

Investment/Return/Cost of Borrowings	2008-09	2009-10	2010-11	2011-12	2012-13
Investment at the end of the year (₹ in crore)	3153.10	3328.25	3807.52	4206.43	4511.03
Return (₹ in crore)	33.53	27.29	75.46	67.44	48.15
Return (<i>per cent</i>)	1.1	0.8	2.0	1.6	1.1
Average rate of interest on Government borrowing (<i>per cent</i>)	7.5	7.5	7.3	7.2	7.1
Difference between interest rate and return (<i>per cent</i>)	6.4	6.7	5.3	5.6	6.0

Source: Finance Accounts of the State Government

During 2012-13, the State Government invested ₹0.50 crore in Statutory Corporations, ₹ 224.38 crore in Government Companies and ₹ 84.40 crore in Co-operative Banks and Societies. Two Statutory Corporations and 45 Government Companies with aggregate Government investments of ₹1,751.53 crore were incurring losses and their accumulated losses amounted to ₹ 3,829.63 crore as per the latest accounts furnished by these Companies.

As per the latest accounts finalized by the companies/statutory corporations, three statutory corporations and 36 Government companies are running on profits. Of these, ten major companies which had accumulated profits above ₹100 crore are listed in **Table 1.27**.

Table 1.27: Major profit making companies

			(₹ in crore)
Sl. No.	Name of Government Company	Accounts for the year ended	Accumulated profit
1.	Kerala State Electricity Board	2012-13	2208.32 ¹⁵
2.	The Kerala Minerals and Metals Limited	2012-13	577.25
3.	Kerala State Beverages (Manufacturing and Marketing) Corporation Limited	2010-11	550.87
4.	Malabar Cements Limited	2011-12	188.99
5.	The Kerala State Financial Enterprises Limited	2010-11	171.13
6.	The Rehabilitation Plantations Limited	2012-13	138.40
7.	The Kerala Agro-Machinery Corporation Limited.	2011-12	100.12
8.	The Plantation Corporation of Kerala Limited	2012-13	132.40
9.	Kerala State Industrial Development Corporation Limited	2012-13	126.91
10.	Kerala Industrial Infrastructure Development Corporation	2012-13	124.87

Source: Annexure 2 of Audit Report (Commercial) for the year ended 31 March 2013

1.9.4 Loans and advances by the State Government

In addition to investments in Co-operative Societies, Statutory Corporations and Government Companies, the Government has also been providing loans and advances to many institutions/organisations. Table 1.28 presents the outstanding loans and advances as on 31 March 2013 and interest receipts *vis-à-vis* interest payments during the last five years.

Table 1.28: Average interest received on loans advanced by the State Government
(₹ in crore)

Quantum of Loans/Interest Receipts/Cost of Borrowings	2008-09	2009-10	2010-11	2011-12	2012-13
Opening balance	6,280 ¹⁶	6910 ¹⁷	7749	8461 ¹⁸	9394 ¹⁹
Amount advanced during the year	984	877	762	998	1136
Amount repaid during the year	36	38	44	55	74

¹⁵ As per the notification issued by the Central Electricity Regulatory Commission, electricity utility of every State has to show a return of 15.5 *per cent* return on equity. In compliance with this, the accounts of KSEB for the year 2012-13 showed an accumulated profit of ₹2208.32 crore whereas the operations resulted in accumulated loss of ₹7,118.56 crore.

¹⁶ Difference of ₹130 crore with reference to the previous year's closing balance was on account of *pro forma* adjustments vide footnotes (b), (d) and (e) of Statement no.5 of the Finance Accounts 2008-09.

¹⁷ Difference of ₹318 crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (pp) of Statement no.16 of Finance Accounts 2009-10.

¹⁸ Difference of ₹ six crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (Z) of Statement no.16 of Finance Accounts 2011-12.

¹⁹ Difference of ₹10 crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (q) of Statement no.16 of Finance Accounts 2012-13.

Quantum of Loans/Interest Receipts/Cost of Borrowings	2008-09	2009-10	2010-11	2011-12	2012-13
Closing balance	7228	7749	8467	9404	10456
Net addition	948	839	718	943	1062
Interest receipts	48	46	44	23	19

Source: Finance Accounts of the State Government.

The total outstanding loans and advances as on 31 March 2013 increased by ₹1,062 crore compared to those of the previous year. The major disbursement of loans during the current year was mainly to the Kerala State Housing Board for the settlement of dues with Housing Development Finance Corporation (₹265 crore), to the Kerala Water Authority for implementing the Water Supply Project assisted by the Japan International Co-operation Agency (₹257 crore) and to the Kerala State Road Transport Corporation (₹175 crore). Interest received against these loans remained less than one *per cent* during the period 2008-09 to 2012-13 and was 0.2 *per cent* during 2012-13 as against the cost of borrowing of 7.1 *per cent* during the year.

1.9.4.1 Defaulters on loan repayment

Government has been providing loan assistance to Statutory Corporations, Government Companies, Autonomous Bodies/Authorities etc., and the same was treated as assets in the Government accounts. As per Finance Accounts, outstanding balance at end of March 2013 was ₹10,456.93 crore. Though the institutions/organizations have the liability to repay the loan in stipulated installments, they have defaulted in this regard and arrears in repayment at the end March 2013 from 68 institutions/organizations was ₹6,382.47 crore (Principal: ₹3,745.87 crore and Interest : ₹2,636.60 crore). More than 83 *per cent* of the above arrears pertains to four institutions/organizations viz. Kerala Water Authority (₹2,922.55 crore), Kerala State Electricity Board (₹1,536.21 crore), Kerala State Road Transport Corporation (₹459.97 crore) and Kerala State Cashew Development Corporation (₹395.32 crore). In spite of this arrears in repayment, ₹771.83 crore was released to 18 institutions/organizations (defaulted loanees) during the current year, from whom repayment of earlier loans are in arrears. This includes Kerala State Housing Board (₹267.59 crore), Kerala Water Authority (₹256.91 crore) and Kerala State Road Transport Corporation (₹175 crore).

It was also observed that State Government released 81 loans to 19 institutions/organizations amounting to ₹939.42 crore, during the period from 1990-91 to 2009-10, without specifying the terms and conditions for repayment. In order to provide a true and fair status to the balance sheet of the State Government, Government needs to take effective steps to reduce these non-performing assets.

1.9.5 Cash Balances and investment of cash balances

The cash balances and investments made by the State Government out of the cash balances during the year are shown in **Table 1.29**.

Table 1.29: Cash balances and investment of cash balances

(₹ in crore)

Particulars	As on 31 March 2012	As on 31 March 2013	Increase/ Decrease(-)
Cash balances	3793.46	4692.73	899.27
Investments from cash balances (a + b)	2709.85	3201.71	491.86
a. GOI Treasury Bills	2702.62	3194.48	491.86
b. GOI Securities	7.23	7.23	...
Fund-wise break-up of investments from earmarked balances (a to d)	1608.50	1402.19	(-)206.31
a. Reserve funds bearing interest
b. Reserve funds not bearing interest	1608.50	1402.19	(-)206.31
c. Deposit bearing interest
d. Deposit not bearing interest
Interest realised during the year on investment of cash balances	82.38	123.38	41.00

Source: Finance Accounts of the State Government

- The cash balance as on 31 March 2013 increased by ₹899.27 crore over the previous year.
- The interest received during the year on investment of cash balances also increased by ₹41 crore as compared to the previous year.

1.9.5.1 Outstanding balances under the head 'Cheques and Bills'

This head is an intermediary accounting head for initial record of transactions which are to be cleared eventually. As per accounting rules, when a cheque is issued, the functional head is debited and the Major Head-8670-Cheques and Bills is credited. On clearance of the cheque by the bank, the minus credit is given to Major Head 8670-Cheques and Bills by crediting the Major Head- 8675-Deposits with Reserve Bank and thereby reducing the cash balance of the Government. Thus, the outstanding balance under the Major Head 8670-Cheques and Bills represents the amount of uncashed cheques.

As on 31 March 2013, there was an outstanding balance (cumulative) of ₹2,340.88 crore and to this extent, the Government cash balance stood overstated.

1.10 Assets and Liabilities

1.10.1 Growth and composition of assets and liabilities

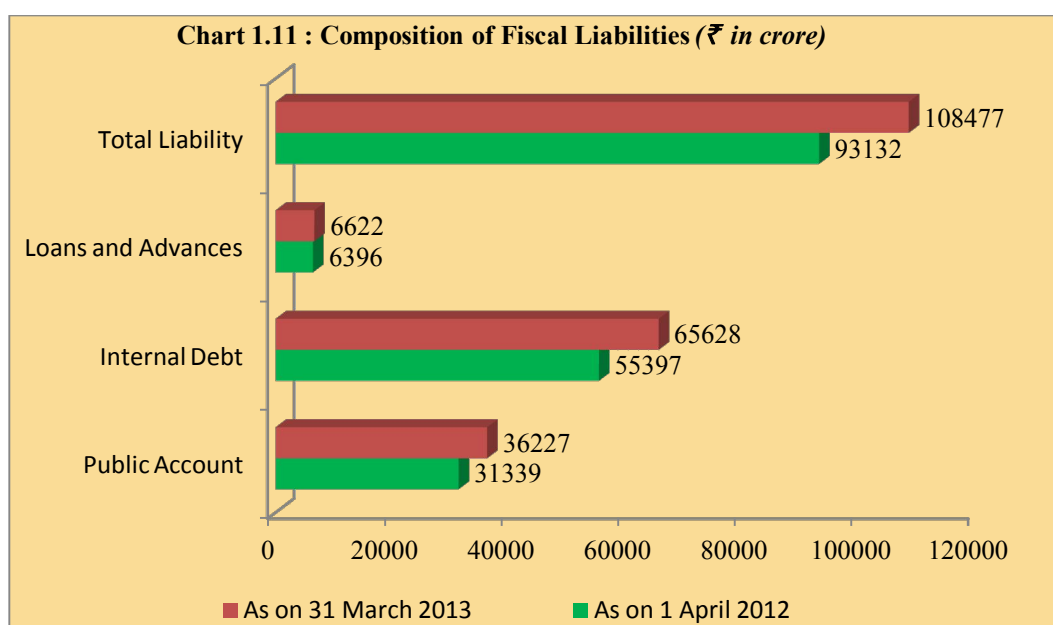
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the

Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and assets as on 31 March 2013, compared with the corresponding position as on 31 March 2012. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from GOI, receipts from the Public Account and Reserve Funds, the assets mainly comprise the capital outlay and loans and advances given by the State Government and its cash balances.

According to the definition given in the Kerala Fiscal Responsibility Act, 2003, total liabilities mean liabilities upon the Consolidated Fund and the Public Account of the State. The ratio of financial liabilities *vis-à-vis* assets, indicates that 60 *per cent* of liabilities are without any backup due to unbridled increasing revenue expenditure.

1.10.2 Fiscal liabilities

The trends of outstanding fiscal liabilities of the State are presented in **Appendix 1.5**. The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Charts 1.11**.



The overall fiscal liabilities of the State increased from ₹93,132 crore in 2011-12 to ₹1,08,477 crore in 2012-13, a growth rate of 16 *per cent*. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. As at the end of March 2013, the Consolidated Fund liabilities (₹72,250 crore) comprised Market Loans (₹48,810 crore), Loans from the Government of India (₹6,622 crore) and Other Loans (₹16,818 crore). The Public Account liabilities (₹36,227 crore) comprised Small Savings, Provident Funds,

etc., (₹31,311 crore)²⁰, interest bearing obligations (₹112 crore) and non-interest bearing obligations like Deposits and other earmarked funds (₹4,804 crore). The fiscal liabilities which were 29.5²¹ *per cent* of GSDP in 2011-12 increased to 29.9 *per cent* of GSDP in 2012-13. As in the previous year, fiscal liabilities stood at 2.5 times the revenue receipts. As per the Kerala Fiscal Responsibility (Amendment) Act, 2011 the State has to reduce the State's total debt liabilities to 29.8 *per cent* of the estimated GSDP within a period of four years commencing on the 1 April 2011 and ending with the 31 March 2015 by reducing the total debt liability in the years of 2011-12, 2012-13, 2013-14 and 2014-15 to the order of 32.3 *per cent*, 31.7 *per cent*, 30.7 *per cent* and 29.8 *per cent* respectively of the gross state domestic product. During 2012-13 the percentage of State's fiscal liabilities to GSDP (29.9) was much better than the target (31.7) fixed in the Kerala Fiscal Responsibility (Amendment) Act, 2011.

The overall liabilities of the State include balance under Reserve Funds amounting to ₹1803.14 crore (as on 31 March 2013). The details in respect of two of the reserve funds are given in succeeding paragraphs:

(a) State Disaster Response Fund

The State Disaster Response Fund (SDRF) has been set up from 1 April 2010 replacing the existing Calamity Relief Fund. At the beginning of the year there was ₹44.48 crore as opening balance in the Fund. The size of the Fund for Kerala for the year 2012-13 fixed by the ThFC was ₹144.51 crore, 75 *per cent* (₹108.38 crore) of which was to be contributed by the Central Government and 25 *per cent* (₹36.13 crore) by the State Government. During the year the Government of India contributed ₹100.68²² crore and the State Government contributed its matching contribution (25 *per cent*). In addition to the yearly contribution the State Government had received an amount of ₹109.69 crore from National Disaster Response Fund (March 2012) towards relief on account of Flood/Landslide of 2011 which has been credited to the Fund during 2012-13. After setting off the expenditure for disaster relief operations (₹176.21 crore), the balance in SDRF as on 31 March 2013 was ₹112.20 crore.

According to the guidelines issued by the Government of India, the accretions to SDRF were to be invested in Central Government dated securities and/or Auctioned Treasury Bills and/or interest earning deposits and Certificates of deposits with Scheduled Commercial Banks. However, no such investments were made by the State Government so far.

²⁰ This includes liabilities from the Treasury Savings Bank Account (₹6,876 crore) and Treasury Fixed Deposits (₹5,992 crore).

²¹ Change in figure is due to adoption of new series of GSDP figures.

²² Balance contribution of ₹7.70 crore was received in April 2013.

(b) Consolidated Sinking Fund

The State Government had set up a Consolidated Sinking Fund from the financial year 2007-08, according to which the Fund was to be utilised as an Amortisation Fund for redemption of all outstanding liabilities of the Government commencing from the financial year 2012-13. The Fund was to be credited with contributions from revenue at the prescribed rate and interest accrued on investments made out of the Fund. Only the interest accrued and credited in the Fund was to be utilised for redemption of the outstanding liabilities of the Government. As per paragraph 5 of revised model scheme for the constitution and administration of Consolidated Sinking Fund of Kerala, the rate of contribution to the Consolidated Sinking Fund was 0.5 per cent of the outstanding liabilities as at the end of the previous year. According to this, the State Government had to contribute ₹ 465.66 crore during 2012-13 to the Consolidated Sinking Fund. However, the State Government has not contributed any amount to the Fund, during the current year.

During 2012-13, an amount of ₹340.05 crore was utilized (from the interest receipts of re-investment of accretion in the fund) during the year for repayment of loans availed from National Co-operative Development Corporation and Life Insurance Corporation of India. The balance outstanding in the Sinking Fund as on 31 March 2013 was ₹1,387.63 crore.

1.10.3 Status of guarantees – contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of default by borrowers for whom the guarantees have been extended. Section 3 of the Kerala Ceiling on Government Guarantees Act, 2003 which came into effect on 5 December 2003 stipulates that the total outstanding Government Guarantees as on the first day of April every year shall not exceed ₹14,000 crore. As per Section 6 of the Act, the Government was to constitute a Guarantee Redemption Fund. The guarantee commission charged under Section 5 of the Act was to form the corpus of the Fund. However, the Fund had not been constituted and consequently, guarantee commission of ₹510.28 crore collected during 2003-04 to 2012-13 had not been credited to the Fund but was treated as non-tax revenue in the relevant years and used for meeting the revenue expenditure of the Government.

The maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2008-09 are given in **Table 1.30**.

Table 1.30: Guarantees given by the Government of Kerala

Guarantees	2008-09	2009-10	2010-11	2011-12	2012-13
Maximum amount guaranteed	11,385.54	10,225.78	12,625.07	11332.11	11482.25
Outstanding amount of guarantees	7,603.32	7,495.00	7,425.79	8277.44	9099.50
Percentage of maximum amount guaranteed to total revenue receipts	46	39	41	30	26
Criteria as per Kerala Ceiling on Government Guarantees Act, 2003 (Outstanding amount of guarantees as on the first day of April)	14,000	14,000	14,000	14,000	14000

(₹ in crore)

Source: Finance Accounts of the State Government

The outstanding guarantees at the end of the past five years i.e. 2008-13 ranged between ₹7,426 crore and ₹9,099 crore, which were well within the ceiling prescribed by the Kerala Ceiling on Government Guarantees Act.

The State Government guaranteed payment of minimum dividend of 3.5 per cent on the share capital up to ₹10 crore and 7.5 per cent on the share capital beyond ₹10 crore in respect of Kerala Financial Corporation. The total payment made by Government towards subvention to the Kerala Financial Corporation was ₹2.52 crore of which ₹0.002 crore only has been received (March 2013).

During the year an amount of ₹35.75 crore was received as guarantee commission and ₹159.89 crore was due as arrears in this regard as of March 2013.

1.11 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability²³ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation²⁴; sufficiency of non-debt receipts²⁵; net availability of

²³ Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between costs of additional borrowings with returns from such borrowings. It means that the rise in fiscal deficits should match the increase in the capacity to service the debts.

²⁴ A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or the cost of public borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt x Interest spread), the debt sustainability condition states that if the quantum spread together with the primary deficit is zero, the debt-GSDP ratio would be constant or that debt would stabilize eventually. On the other hand, if the primary deficit together with the quantum spread turns out to be negative, the debt-GSDP ratio would be rising. In case it is positive, the debt-GSDP ratio would eventually be falling, which is a positive sign.

²⁵ Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

borrowed funds²⁶; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State Government securities. **Table 1.31** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2008-09.

Table 1.31: Debt sustainability: indicators and trends

(₹ in crore)

Indicators of Debt Sustainability	2008-09	2009-10	2010-11	2011-12	2012-13
Debt Stabilisation (Quantum Spread ²⁷ + Primary Deficit)	3136(*)	1981(*)	4565(*)	1556(*)	(-)160
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 247	(-) 1,525	141	(-)5,084	(-)2187
Net Availability of Borrowed Funds	3,334	2,834	2,507	4,426	8154
Burden of Interest Payments (Interest Payment/Revenue Receipts <i>per cent</i>)	19	20	18	17	16
Maturity Profile of debt					
Up to one year	1.59	1587.67 (3.2)	2566.98 (4.7)	2154.64 (3.5)	2569.25 (3.6)
One to three years	5852.42 (13.1)	4503.59 (9.1)	5205.33 (9.5)	8401.13 (13.6)	5791.05 (8.0)
Three to five years	5349.27 (11.9)	5215.70 (10.5)	6260.17 (11.4)	9100.09 (14.7)	9100.72 (12.6)
Five to seven years	6241.10 (13.9)	6786.36 (13.7)	9314.78 (17.0)	13156.00 (21.3)	13181.39 (18.2)
Seven years and above	26576.50 (59.3)	27363.90 (55.1)	28162.37 (51.3)	24240.81 (39.2)	36932.83 (51.1)
Maturity profile details not furnished by State Government	801.97 (1.8)	4216.09 (8.4)	3377.55 (6.1)	4740.42 (7.7)	4674.95 (6.5)

Figures in parentheses indicate the percentage to total State debt

Source: Finance Accounts of the State Government

(*) change in figure is due to adoption of new series of GSDP figures

During 2008-09 to 2010-11, the quantum spread together with primary deficit was positive and increased from ₹3,136 crore to ₹4,565 crore (though decreased to ₹1,981 crore in 2009-10) indicating a declining trend in Debt-GSDP ratio. However, it decreased steadily from 2010-11 to 2012-13 and became negative in 2012-13 showing rising trend of Debt-GSDP ratio. The resource gap (sufficiency of non-debt receipts) was negative during the period 2008-13 (except during 2010-11) which showed that the incremental non-debt receipts were inadequate to finance incremental primary expenditure and incremental interest burden.

²⁶ Defined as the ratio of debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

²⁷ Quantum spread = Debt x Interest spread.

During 2012-13, total borrowed funds under ‘Public Debt’ was ₹13,261 crore (including open market borrowings of ₹11,583 crore). After providing for interest and repayment of principal, the net availability was only ₹5,204 crore. Similarly, the accumulations in ‘Public Account’ (Small savings, Provident Fund, Reserve Fund, Deposit Account, etc. which were used by the State for bridging the fiscal resource gap), were ₹32,853 crore during the year. Under this sector, net availability of funds after disbursement with interest was only ₹2,950 crore. As the non-debt receipt of the State was also insufficient, some portion of this borrowing was also used for bridging revenue deficit. Consequently, State Government was left with ₹8,154 crore, for developmental activities from the total borrowings.

The maturity profile of State debt indicates that the Government will have to repay 42.4 *per cent* of its debt between one and seven years. A well thought out debt management strategy will ensure that no additional borrowings which mature in these critical years are undertaken.

1.12 A Study on Market Borrowings of the State

1.12.1 Introduction

Governments resort to borrowing when the resources available are insufficient to meet their commitments. Open Market Borrowing (OMB) is one of the preferred sources of borrowing as it provides attractive terms and is flexible enough to meet Government’s requirement over a longer term and when there is strong demand for Government securities in the market.

State Governments are empowered to borrow funds from various sources under the provisions of Article 293 of the Constitution of India, subject to any statutory limits prescribed by State Governments. No such statutory limit has been prescribed in Kerala so far. The only restriction for the State is that it requires permission of the Government of India (GOI) for its borrowings under the provisions of Article 293(3) of the Constitution.

The study on OMB was conducted to assess:

- the efficiency of the State Government in assessing resource requirements before resorting to open market borrowing;
- effectiveness in utilisation of borrowed funds; and
- debt sustainability status of the State Government.

1.12.2 Borrowing process

The resources required and the size for annual plans are determined by the State Government and submitted to the Planning Commission for approval. The proposal includes estimated requirement of market borrowing also, as it is one of the major sources for financing the plan expenditure. Once the Planning Commission approves the Plan size and associated borrowings, proposal for market borrowings and borrowings from Financial Institutions (FIs) are sent to

Ministry of Finance, GOI for their approval. For the funds to be raised from the market, Finance Department of Government of Kerala prepares a borrowing schedule (months in which funds are required) and the funds are arranged through the Reserve Bank of India (RBI), on the dates decided by RBI in consultation with the State Government. Before raising each tranche of loan from the market, the State Government has to obtain sanction from Ministry of Finance (GOI) for raising the loan. The borrowing is carried out in a phased manner throughout the year based on actual requirement of funds and market conditions. The method of issuance of market loans has, however, migrated from the administratively controlled system to an auction based system²⁸ for all the states since 2006-07. A uniform 10 year period is followed for all the market loans taken by State Government, without any call option.

1.12.3 Untimely borrowings leading to surplus cash balance

As per the agreement with Reserve Bank of India, the State Government has to maintain a minimum cash balance of ₹1.66 crore with the Bank. If the balance falls below the agreed minimum on any day, the deficiency is made good by taking ordinary and special ways and means advances/overdrafts from time to time. On any day, if the cash balance is found in excess of the stipulated minimum, excess cash balance will be invested by Reserve Bank in Government of India securities (short/long term Treasury Bills) under the directions of the State Government.

Open market borrowings of the State Government made through Reserve Bank of India are invested in 14-day Treasury Bills on the subsequent day of auction, if the cash balance of the State is found to be in excess of the stipulated minimum. Audit scrutiny of daily statement of cash balances maintained in Finance Department revealed that funds borrowed from the market at higher interest were retained in low interest bearing Treasury Bills for long periods, indicating improper assessment of need to borrow. A few instances noticed during the scrutiny of daily balance statements for the period from 2010-11 to 2012-13 are given below:

- State Government had raised an amount of ₹1000 crore from open market on 16 March 2011 at an interest rate of 8.36 *per cent* when there was cash balance investment in 14-day Treasury Bills (interest five *per cent*) in excess of ₹3000 crore. It was also noticed that, during the period up to the next borrowing on 24 August 2011 the balance in Treasury Bills was less than ₹1000 crore only on nine days. Replying to audit observation, Principal Secretary (Finance) stated that, as the Government departments have the tendency to withdraw huge amounts during the fag end of the financial year, the accumulations in the Treasury Bills would drain out before the end of April. However, in the above instance there were more

²⁸ In administratively controlled system, rate of the interest of the State Development Loan is fixed by the State Government, whereas in auction based system it is as per the offer of the investor.

than ₹1000 crore lying in Treasury Bills for a substantial period even after April.

- Government have raised ₹1000 crore (8.85 *per cent*), ₹2000 crore (8.92 *per cent*), ₹1000 crore (8.80 *per cent*), ₹1000 crore (8.93 *per cent*) and ₹850 crore (8.93 *per cent*) on 18 July 2012, 8 August 2012, 25 October 2012, 21 November 2012 and 19 December 2012 respectively. While making all the above borrowings the State had more than ₹1000 crore invested in Treasury Bills²⁹. Principal Secretary stated that State Government opted to borrow in batches instead of bulk borrowing. This was done to avail loan with lower interest rate. However, the fact remains that while staggering the borrowings, the Government could have considered the balance available in the Treasury Bills as well as actual requirement of funds, to avoid accumulation of high cost borrowing in low-interest earning deposits.
- The State Government had borrowed ₹2500 crore in January 2013 (₹1000 crore on 9 January 2013 and ₹1500 crore on 23 January 2013). After these borrowings, the balance in the Treasury Bills shot up to more than ₹3500 crore and remained at this high level till the end of March 2013. The Principal Secretary stated that going for OMB at the end of the year proves costly as there is heavy demand from all the other States for market borrowing. This leads to interest rate going up. However, if the borrowings are made for meeting the future requirements, Government could have invested the surplus cash in long term securities. As this was not done to optimize interest burden, the action of the State Government in undertaking borrowings when substantial amounts were already invested in Treasury Bills, was injudicious.

The above cited instances point towards the need for a more efficient and well-thought out plan to streamline the borrowing schedules and subsequent fund management to optimize the interest burden of the Government.

1.12.4 Market borrowing component in Public Debt

The Public Debt of the State consists of market borrowings, loans and advances from Government of India and loans from other financial institutions like Life Insurance Corporation of India, General Insurance Corporation, National Bank for Agriculture and Rural Development, National Co-operative Development Corporation, etc. Following the recommendations of the Twelfth Finance Commission, the Central Government dis-intermediated State Government borrowing from 2005-06 onwards, resulting in sharp decline in the inflows of loans from the Centre in the subsequent years. Loans from the National Small Savings Fund which formed a substantial source of the funding between 2003-04 and 2006-07, declined substantially thereafter. Consequently, there has been significant increase in market loans raised by the State Government from 2007-08

²⁹ Interest on Treasury Bills investment is five *per cent*.

onwards to finance its developmental activities. The share of market borrowing in Public Debt increased significantly during the last five years as shown below:

Table 1.32: Share of market borrowing in Public Debt

(₹ in crore)

Year	Market Borrowing(MB)	Weighted average interest	Public Debt ³⁰ (PD)	Percentage of MB in PD
2008-09	5516	7.70	6921	79.70
2009-10	5456	8.22	6616	82.47
2010-11	5500	8.42	7189	76.51
2011-12	8880	8.81	9799	90.62
2012-13	11583	8.85	13261	87.35

Source : Finance Accounts for respective years

It was observed that:

- During the five year period, substantial increase was noticed in the share of market loan component in public debt (ranged between 76 and 90 per cent) indicating State's over dependence on open market borrowing. In 2003-04, this was only 27.62 per cent, thus showing more than three times increase in the share of market loan during the last 10 year period.
- Since the rate of interest and subscription by Financial Institutions depend on market conditions including liquidity, dependence on a single source for its financial requirements is fraught with the risk of non-availability of funds at advantageous rates at the required time due to possible adverse financial conditions in the market. It was noted that the weighted average interest rate on market loans has shown an increasing trend over the years, mainly due to increased dependence on market borrowing by the state governments.
- Over the years, net accretions to National Small Savings Fund (NSSF) have come down and this has resulted in reduced availability of loan to the State Government from NSSF. Consequently, the State Government had opted for additional open market borrowing, in lieu of the shortfall under NSSF.

1.12.5 Investment of Borrowed funds

Generally, borrowed funds are to be utilized for creation of capital assets as the revenue generated from these assets are to be utilized for servicing of the debt. Notification specifying the auction for open market loans disclosed the objective of the loan as 'loan for development activities of the State'. However, the State Government has not raised any open market loan during the last five years for any specific project.

Prudent financial management requires utilisation of borrowed funds for generating income sufficient at least to meet the interest payments on the debt. In

³⁰ Receipts under Major heads 6003 and 6004

the State, only a small portion of the annual borrowing of market loans were invested in such assets like investments in PSUs and loans to various bodies as shown in the **Table 1.33**:

Table 1.33: Investment of borrowed funds in revenue generating assets
(₹ in crore)

Year	Market Borrowing	Investment in revenue generating assets			Percentage of total investment to Market borrowing
		Share capital	Loan	Total	
2008-09	5516	279	984	1263	22.90
2009-10	5456	187	877	1064	19.50
2010-11	5500	504	762	1266	23.02
2011-12	8880	409	998	1407	15.84
2012-13	11583	309	1136	1445	12.48
Total	36935	1688	4757	6445	17.45

Source : Finance Accounts and Audit Report on State Finances for respective years

It was also seen that the income earned by way of dividend and interest on the investments including loans made out of the borrowed funds was insignificant compared to the interest liability of the state on the borrowed funds as shown in the **Table 1.34**:

Table 1.34: Return on investments from revenue generating assets
(₹ in crore)

Year	Outstanding Market Borrowings	Interest paid on market borrowings	Return on investment		
			Dividend	Loan+ interest	Total
2008-09	21263	1383	34	84	118 (9)*
2009-10	25973	1722	27	84	111 (6)
2010-11	30744	2007	75	88	163 (8)
2011-12	38239	2485	67	78	145 (6)
2012-13	48810	3296	48	93	141 (4)
Total		10893	251	427	678 (6)

* Figures in brackets are percentage w.r.t to total interest paid on market borrowings

Source : Finance Accounts and Audit Report on State Finances for respective years

Audit scrutiny revealed the following:-

- During the last five years, the State Government had received only ₹678 crore as dividend/interest on loan against ₹10,893 crore paid as interest on funds borrowed from open market. Thus, State's revenue generation out of investment of borrowed funds was only six *per cent* of its liability towards open market loan, indicating that the bulk of borrowed funds did not generate any income for servicing the debt.
- During 2008-13, out of the ₹4851.62 crore (loan: ₹3912.57 crore and Investment: ₹939.05 crore) released/made as loan/investment to State owned PSUs, ₹1222.41 crore (loan: ₹1014.11 crore and Investment:

₹208.30 crore) was in Government Companies/Statutory Corporations having huge negative net worth at the end of March 2012. As such, no revenue can be expected from these investments in the near future.

- Major institutions like Kerala State Road Transport Corporation (Accumulated loan balance: ₹665.76 crore), Kerala Water Authority (Accumulated loan balance: ₹2666.98 crore) and Kerala State Housing Board (Accumulated loan balance: ₹886.26 crore) with a past history of loan defaults, received ₹2845.03 crore as loan and ₹124 crore as investment during 2008-13.

Though, the negligible return on investments of these funds was repeatedly commented in Audit Reports, no action has been taken by the Government to ensure that adequate returns are received on such assets.

Despite defaults in loan repayments and deficient functioning of these PSUs, Government continued to provide further funds to such undertakings without safeguarding its financial interest. As the funds invested under capital heads do not generate any significant returns to cover the cost of servicing of debt, the increasing expenditure on servicing of debt is being met from other sources, thus pushing up the revenue/fiscal deficit further.

1.12.6 Net availability of borrowed funds

It was found in audit that a significant portion of borrowed funds had to be used for repayment of previous outstanding loan, including interest. The net availability of borrowed funds for financing development activities was as shown below:

Table 1.35: Net availability of borrowed funds

(₹ in crore)

Year	Market Borrowing	Borrowings Repaid	Interest	Funds Available(*)	Percentage of funds available for developmental activities
2008-09	5516	734	1383	3399	62
2009-10	5456	746	1722	2988	55
2010-11	5500	729	2007	2764	50
2011-12	8880	1384	2485	5011	56
2012-13	11583	1012	3296	7275	63

Source : Finance Accounts for respective years

() Borrowing less repayment and interest payments*

The loan repayment burden coupled with ever increasing interest payments due to increased borrowing in recent years would reduce the net availability of borrowed funds significantly in coming years. Though the State's market borrowing recorded an increase of over 100 per cent during the last five years, net availability of funds did not show any significant increase and remained practically stagnant, ranging between 50 and 63 per cent of the borrowings. Audit

observed that substantial portion of the borrowed funds are being used for financing revenue deficit/servicing of debt, instead of being invested in development activities. Principal Secretary stated that increasing Revenue deficit is a concern for the State and this situation is a result of increasing non-plan revenue expenditure coupled with average growth in revenue receipts.

1.12.7 Maturity profile of Open Market Borrowing – fiscal pressure on the State from 2017-18

Open market borrowings of the State increased considerably after 2007-08. As these loans are taken for a maturity period of 10 years, repayment would start from 2017-18 onwards. Maturity profile of the open market borrowings outstanding as on 31 March 2013 for the next 10 years is given below:

Table 1.36: Maturity profile of market borrowings

Maturity Period	Amount going to mature (₹ in crore)	Percentage of total loan
Upto one year	1426	3
One to three years	3538	7
Three to Five years	6911	14
Above Five years	36935	76
Total	48810	100

Source : Compiled from Finance Accounts

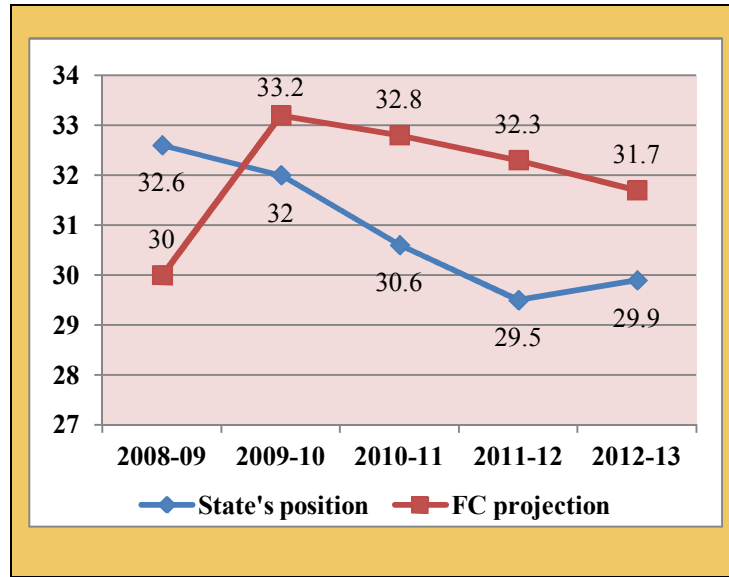
The huge annual repayments becoming due from 2018-19 onwards is likely to put considerable fiscal pressure on the resources of the State. This points towards the need for effective action to raise additional resource through revenue generation, reduce revenue/fiscal deficit and thus contain the ever increasing debt to manageable limits. The Principal Secretary stated that as long as the Gross State Domestic Product (GSDP) grows, the debts can easily be repaid. It would become a threat only if the economy slows down. However, as things stand today, the huge annual repayment from 2018-19 would pose a serious threat to the annual fiscal situation unless the economic growth as envisaged is sustained.

1.12.8 Fiscal sustainability indicators

(i) Debt-GSDP ratio

The Debt-GSDP ratio represents the final outcome of all the budgetary transactions, particularly the borrowings contracted to finance fiscal deficits over the years, and is an important indicator of required fiscal correction. Ratio of fiscal liability to GSDP showed a declining trend during 2008-12. However, during 2012-13, it was increased to 29.9 per cent from 29.5 per cent in the previous year. Trend in Debt-GSDP ratio, during the last five years is shown in **Chart 1.12**.

Chart 1.12: Debt-GSDP ratio comparison

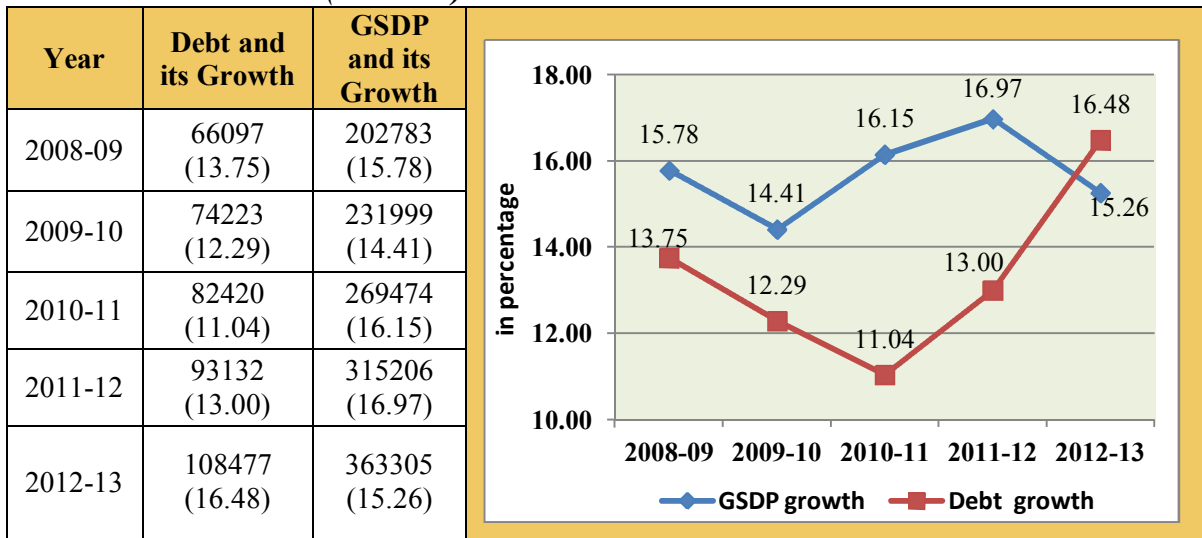


(ii) Growth rate of GSDP and Debt

One of the indicators of debt sustainability is that growth rate of debt should be less than the nominal growth rate of GSDP. It was observed that State's debt showed lesser growth rate than that of GSDP during the first four years. However, during 2012-13 it was higher than GSDP growth as shown below;

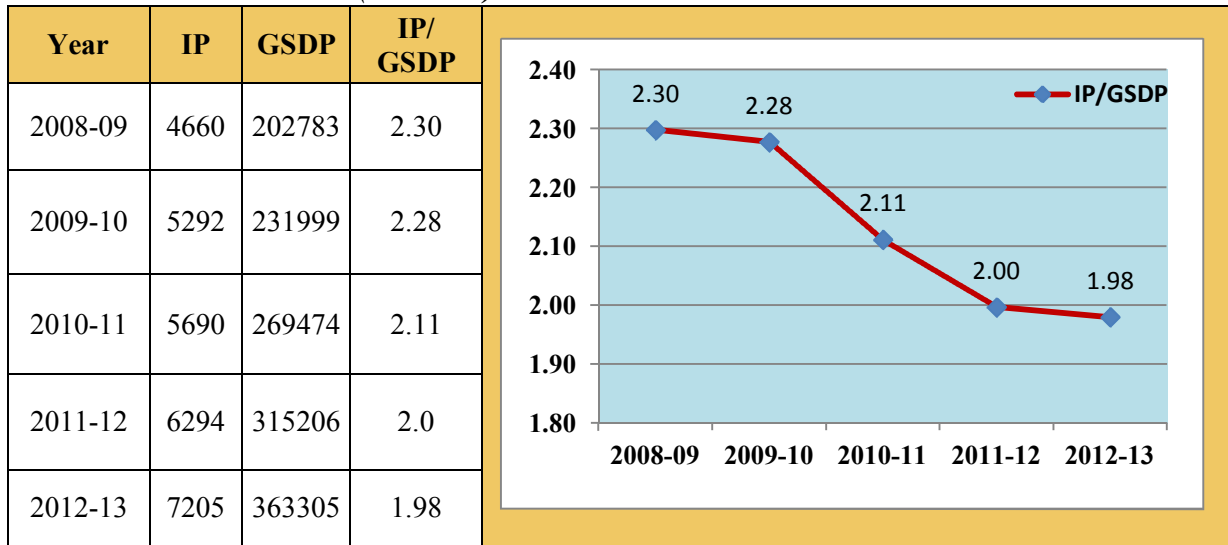
Chart 1.13: Growth of GSDP and Debt

(₹ in crore)



(iii) Interest payments to GSDP

Expected behaviour of this indicator is that it should decline over a period time. In such a situation, debt liability of the State is considered at a manageable level. Ratio of interest payments to GSDP showed a declining trend during the last five years as shown below:

Chart 1.14: Interest payments (IP) to GSDP*(₹in crore)***(iv) Interest payments to Revenue Expenditure and Revenue Receipts**

Burden of interest payments will increase with more and more borrowing. However, comparatively less growth rate of interest payments (when compared with Revenue Expenditure and Revenue Receipts) indicates better debt sustainability path for the State. Percentages of interest payments with reference to Revenue Expenditure and Revenue Receipts over a period of five years ending 2012-13 are given in **Charts 1.15** and **1.16** respectively.

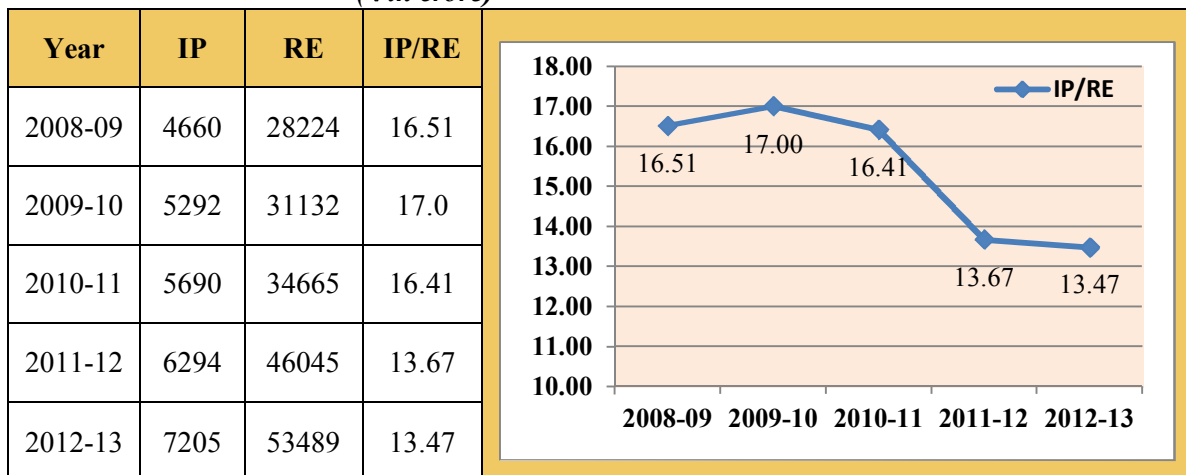
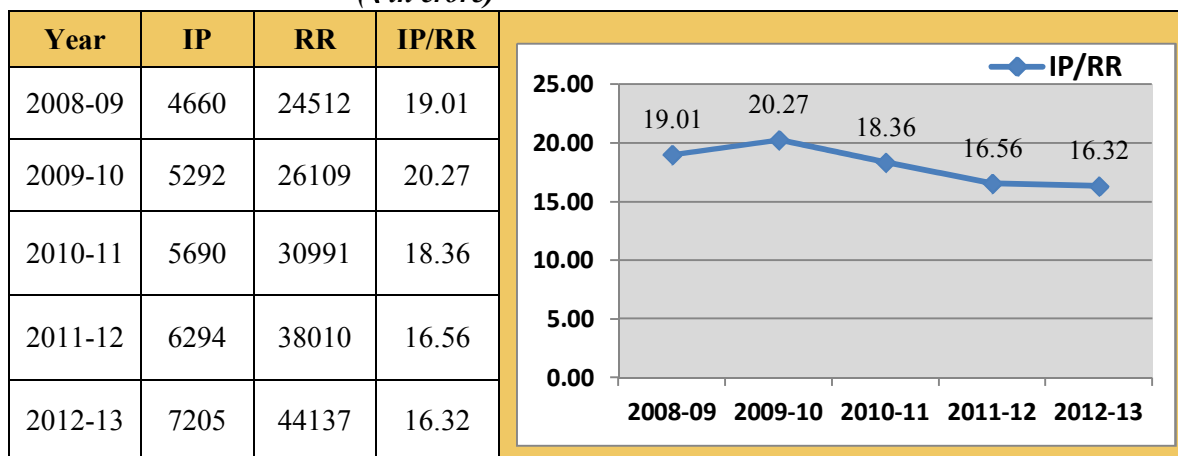
Chart 1.15: Interest payments (IP) to Revenue Expenditure(RE)*(₹in crore)*

Chart 1.16: Interest payments (IP) to Revenue Receipts (RR)

(₹ in crore)



In absolute terms interest payments during last five years showed an increase of 55 *per cent*. However, the percentage of interest payments to revenue expenditure and revenue receipts showed a declining trend during the last four years, which is a good indicator.

Despite these indicators, the future does not portend a better picture for the State, as the three key fiscal parameters i.e. revenue, fiscal and primary deficits showed enormous increase during the last two years, due to disproportionate growth of revenue expenditure and non-realisation of anticipated revenue receipts. Coupled with this, huge annual repayments of open market borrowing due from 2017-18 onwards will place considerable fiscal burden on the State Finances. With increasing reliance on market borrowings, high interest liability will also add to this pressure.

1.12.9 Efficiency in Debt Redemption initiatives

In accordance with the guidelines issued by the Reserve Bank of India, Government of Kerala constituted a Consolidated Sinking Fund (CSF) during 2005-06 for redeeming its open market loans. A revised scheme of CSF was constituted during 2007-08 as an Amortization Fund for redemption of outstanding liabilities in replacement of the existing scheme of CSF which was operative till the end of the year 2006-07. An amount of ₹132.54 crore outstanding in the Fund at the end of March 2007 was merged with the new Fund.

The Fund was to be credited with contributions made by Government each year amounting to not less than 0.5 *per cent* of the outstanding liabilities at the end of the previous year. The accretions to the Fund are invested in Government of India Securities by RBI in consultation with the State Government. Interest from the investments made out of the Fund upto the year 2011-12 and accumulated in the Fund can be utilized for redemption of outstanding liabilities from the year 2012-13 and the contributions forming corpus of the Fund will remain intact.

Audit scrutiny revealed the following:-

- As per the provisions of the Fund Rules, the State had to contribute an amount of ₹1950.84 crore till March 2013. Against this, the contribution was only ₹1128.12 crore resulting in a shortfall of ₹822.72 crore.
- Till 2011-12, an amount of ₹340.68 crore was credited to the Fund as interest on investments made out of the Fund. Out of this, ₹340.05 crore has been utilized during 2012-13, for repayment of loans availed from NCDC and LIC.

The Fund may not serve the intended purpose at the current rate of contribution as the interest income generated from the investment of the Fund is too meagre to meet the repayment liabilities in the coming years. The Principal Secretary stated that contribution to the Fund is not advisable in the case of Kerala as the State has to invest in CSF from the Funds Borrowed. The return on Sinking Fund is just seven *per cent*, while the interest on borrowings would be minimum nine *per cent*, hence a loss of two *per cent* accrues with every contribution made in the Fund and, therefore maintaining the fund would not be good economics.

1.12.10 Conclusion

The State Government borrowed ₹36,935 crore from the open market during the five year period 2008-09 to 2012-13. Instances of raising open market loans even when government had substantial investments in short term treasury bills have been noticed. During the last five years, the State Government could invest only 17 *per cent* of the market borrowing in revenue generating assets and Government's return on this investment was mere six *per cent* of the total interest paid on market borrowing during the period. Substantial portion of borrowed funds were provided as loans or investments in PSUs having negative net worth with no returns. Despite huge increase in market borrowings, net availability of the funds for development after meeting the debt servicing obligations did not show any significant increase. The huge annual repayments becoming due from 2018-19 onwards are likely to put considerable fiscal pressure on the resources of the State. The Consolidated Sinking Fund constituted in 2005-06 to finance repayments of the fiscal liabilities from 2012-13 onwards may not serve the intended purpose in view of the low rate of contribution and shortfall in making even the prescribed contribution to the Fund.

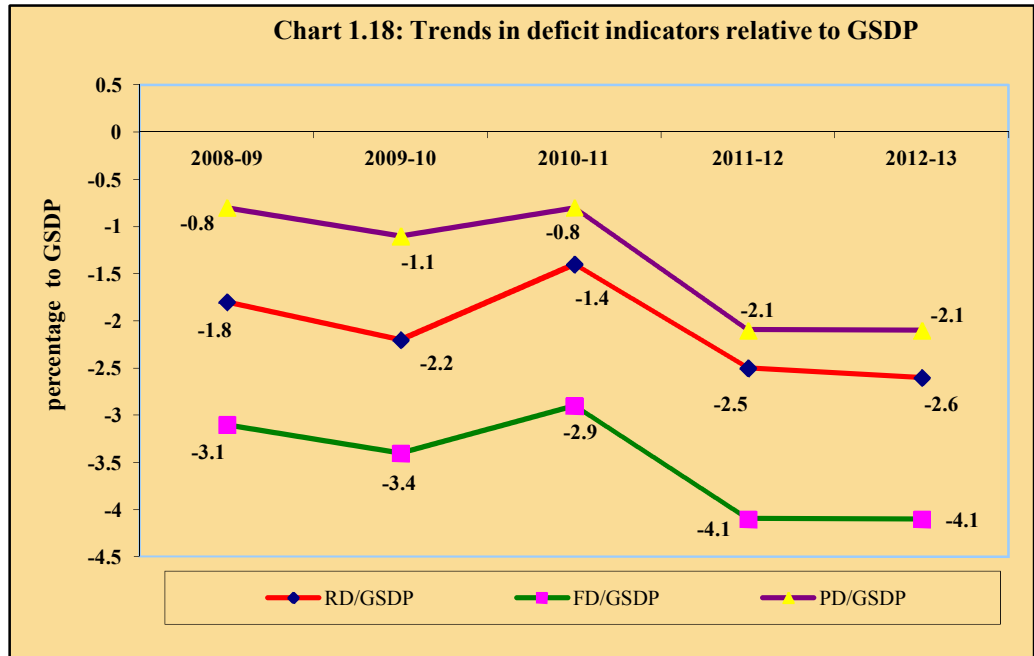
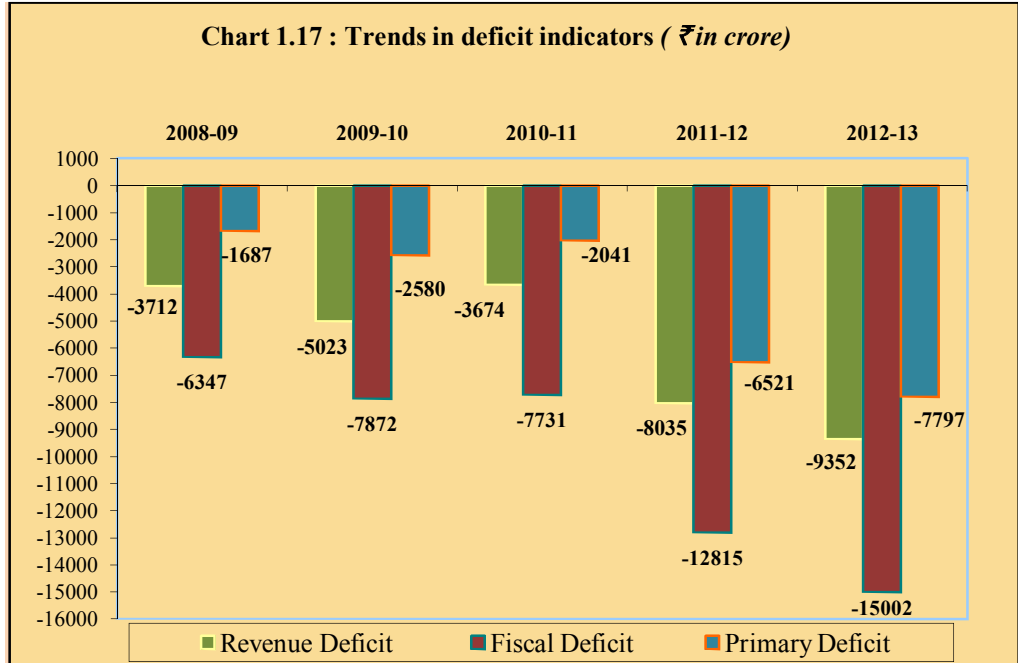
1.13 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources are raised and applied are important pointers to its fiscal health. This section presents the trends, nature, magnitude and the

manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under the Fiscal Responsibility Act/Rules for the financial year 2012-13.

1.13.1 Trends in deficits

Charts 1.17 and 1.18 presents the trends in deficit indicators over the period 2008-13.



The revenue deficit of the State which indicates the excess of its revenue expenditure over revenue receipts showed an increasing trend during the last five years (except during 2010-11). Revenue deficit of State increased from ₹3,712 crore in 2008-09 to ₹9,352 crore in 2012-13.

The fiscal deficit, which represents the total borrowing of the Government and its total resource gap also increased during the last five years (except during 2010-11). It increased from ₹6,347 crore in 2008-09 to ₹15,002 crore in 2012-13.

During the last five years, more than 4.5 times increase was noticed in the case of primary deficit and it increased from ₹1,687 crore in 2008-09 to ₹7,797 crore in 2012-13. Increase in revenue deficit, fiscal deficit and primary deficit indicate the disproportionate growth of expenditure with regard to revenue realization.

As a proportion of GSDP, the revenue deficit (1.4 per cent) and fiscal deficit (2.9 per cent) in 2010-11 were the lowest during the last five year period. These percentages increased to 2.6 per cent and 4.1 per cent respectively in 2012-13. These were more than the targets fixed (0.89 per cent and 2.74 per cent) in the Medium Term Fiscal Plan for 2012-13 to 2014-15.

1.13.2 Components of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.37**. Receipts and disbursements under the components of financing the fiscal deficit during 2012-13 are given in **Table 1.38**.

Table 1.37: Components of fiscal deficit and its financing pattern

(₹ in crore)

Particulars		2008-09	2009-10	2010-11	2011-12	2012-13
Decomposition of fiscal deficit						
1.	Revenue deficit	3712	5023	3674	8035	9352
2.	Net capital expenditure	1687	2010	3339	3837	4588
3.	Net loans and advances	948	839	718	943	1062
Total fiscal deficit		6347	7872	7731	12815	15002
Financing pattern of fiscal deficit*						
1.	Market borrowings (net)	4782	4710	4770	7496	10571
2.	Loans from Government of India	476	297	54	36	226
3.	Special Securities Issued to National Small Savings Fund	(-) 102	(-) 140	42	(-)491	32
4.	Loans from Financial Institutions	116	(-) 16	348	(-)7	(-)118
5.	Small Savings, PF etc	2589	2849	2490	3839	3686
6.	Deposits and Advances	132	437	469	(-)52	1141
7.	Suspense and Miscellaneous	(-) 85	370	(-) 197	852	712
8.	Remittances	23	57	27	(-)157	31
9.	Others	72	(-) 31	399	32	(-)379
10.	Total (1 to 9)	8003	8533	8402	11548	15902
11.	Increase (-)/Decrease (+) in Cash Balance	(-)1656	(-) 661	(-) 671	1267	(-)900
12.	Overall deficit	6347	7872	7731	12815	15002

*All these figures are net of disbursements/outflows during the year.

Source: Finance Accounts of the State Government

Table 1.38: Receipts and disbursements under components financing the fiscal deficit during 2012-13

(₹ in crore)

Sl. No.	Particulars	Receipt	Disbursement	Net
1.	Market borrowings	11583	1012	10571
2.	Loans from Government of India	552	326	226
3.	Special Securities Issued to National Small Savings Fund	630	598	32
4.	Loans from Financial Institutions	410	528	-118
5.	Small Savings, PF etc	23821	20135	3686
6.	Deposits and Advances	7840	6699	1141
7.	Suspense and Miscellaneous	64132	63420	712
8.	Remittances	9705	9674	31
9.	Others	489	868	-379
10.	Total (1 to 9)	119162	103260	15902
11.	Increase (-)/Decrease (+) in Cash Balance			-900
12.	Overall deficit			15002

Source: Finance Accounts of the State Government

Table 1.37 reveals that during the last five years market borrowings and net accretions in Public Account (especially in Small Savings, PF etc.) are the main source utilized by the State Government to finance the fiscal deficit. During 2012-13, ninety five *per cent* of the fiscal deficit was financed through net Market borrowings (₹10,571 crore) and accretions in the Small Savings, PF, etc. (₹3,686 crore).

During 2012-13, the State Government raised ₹11,583 crore as market loans at an average interest rate of 8.86 *per cent*, loans amounting to ₹410.02 crore from NABARD at an interest rate of 7.35 *per cent* and ₹85.77 crore from NCDC at interest rates of 12.90 *per cent*. The State Government also received loans amounting to ₹552.30 crore from the Government of India during the year for which the details of interest rate on all loans were not available.

The State Government has been mobilising deposits from its employees, pensioners, institutions and general public through treasuries. During 2012-13, the State Government received ₹16,722.38 crore as deposits through Treasury Saving Bank accounts at an average interest rate of five *per cent* and ₹1,714.84 crore as Treasury Fixed Deposits at interest rates ranging between 7.25 *per cent* and 9 *per cent*. The balance of such deposits as on 31 March 2013 was ₹12,868.71 crore.

1.13.3 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds

were used for current consumption. Further, persistently high ratios of revenue deficit to fiscal deficit also indicate that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of the primary deficit (**Table 1.39**) indicates the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.39: Primary deficit/surplus – bifurcation of factors*(₹ in crore)*

Year	Non-debt receipts (NDR)	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Primary revenue deficit (-)/surplus (+)	Primary deficit (-)/surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2008-09	24,557	23,564	1,696	984	26,244	(+) 993	(-) 1,687
2009-10	26,196	25,840	2,059	877	28,776	(+) 356	(-) 2,580
2010-11	31,060	28,975	3,364	762	33,101	(+) 2,085	(-) 2,041
2011-12	38,081	39,751	3,853	998	44,602	(-) 1,670	(-) 6,521
2012-13	44,226	46,284	4603	1136	52,023	(-) 2,058	(-) 7,797

Source: Finance Accounts of the State Government

The bifurcation of the factors leading to primary deficit or surplus of the State reveals that during the period from 2008-09 to 2010-11 non-debt receipts (NDR) of the State were enough to meet the primary revenue expenditure³¹ of the State. However, during the last two years NDR was not sufficient to meet the primary revenue expenditure indicating disproportionate growth of primary revenue expenditure with respect to NDR.

1.14 Conclusion

Revenue Receipts : During the current year, the State's Revenue receipts (₹44,137 crore) increased by 16 *per cent* over the previous year. There was increase in Tax revenue (₹4,358 crore) and Non-tax revenue (₹1606 crore) during the year. Though State's tax revenue collected (₹30,077 crore) during 2012-13 was higher than the normative assessment (₹28,356 crore) made by ThFC it was less than the projections made (₹32,122 crore) in Medium Term Fiscal Plan for the year.

Revenue Expenditure : The revenue expenditure increased by 16 *per cent* during the year. Of the total expenditure of ₹59,228 crore during 2012-13, share of revenue expenditure was more than 90 *per cent* (₹53,489 crore). More than 65 *per cent* of the Revenue expenditure was incurred on salaries, wages, pension payments, interest payments and subsidies.

³¹ Primary revenue expenditure represents revenue expenditure less expenditure on interest.

Capital Expenditure : During the year Capital expenditure (₹4,603 crore) increased by ₹750 crore (19 per cent) over the previous year and it accounted for eight per cent of the total expenditure of the State. However, proportion of Capital expenditure was much lower as compared to General Category States.

Investment and returns : As of 31 March 2013, the State had invested ₹4,511.03 crore in Statutory Corporations, Government companies, Joint Stock Companies and Co-operatives. The average return on these investments was 1.3 per cent during the last five years, while the Government paid an average interest rate ranging from 7.1 per cent to 7.5 per cent on its borrowings during the same period.

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, increase in non-developmental expenditure like salaries, interest payments, pension and subsidies year after year reduces the net availability of funds from the borrowings for infrastructure development. The State's low return on investments indicates an implicit subsidy and use of high cost borrowings for investments, which yields low return and is not sustainable.

Loans and Advances : Outstanding loans and advances given by the State Government to Statutory Corporations, Government companies and Co-operative Societies at the end of March 2013 was ₹10,456 crore, recording an increase of ₹1062 crore over the previous year. Arrears in repayment of loan as on 31 March 2013 from 68 institutions was ₹6,382.47 crore, which includes interest amounting to ₹2,636.60 crore.

Deficit : All the key fiscal parameters, ie revenue, fiscal and primary deficits increased during 2012-13 when compared to previous year. The revenue, fiscal and primary deficit increased to ₹9,352 crore, ₹15,002 crore and ₹7,797 crore in 2012-13 from ₹8,035 crore, ₹12,815 crore and ₹6,521 crore respectively in 2011-12. The ratio of revenue deficit to fiscal deficit reduced from 62.7 per cent in 2011-12 to 62.3 per cent in 2012-13. As a proportion of GSDP, the revenue deficit stood at 2.6 per cent and fiscal deficit at 4.1 per cent, which was far off from the target fixed in the Kerala Fiscal Responsibility (Amendment) Act, 2011.

Increasing revenue and fiscal deficit shows growing fiscal imbalance of the State. Similarly, increase in the ratio of revenue deficit and fiscal deficit indicates that the application of borrowed funds has largely been to meet current expenditure.

Debt Management : Fiscal liabilities at the end of the current year worked out to ₹1,08,477 crore and stood at 29.9 per cent of GSDP in 2012-13, which was below the target of 31.7 per cent fixed in the Kerala Fiscal Responsibility (Amendment) Act, 2011. The net availability of borrowed funds (including market borrowings) after providing interest and repayment of principal was ₹8,154 crore against ₹4,426 crore in 2011-12. As the non-debt receipt of the State was also

insufficient, some portion of this borrowing was used for bridging fiscal gap. Consequently, the State was left with only ₹5,204 crore for developmental activities from the total borrowings of ₹13,261 crore. The maturity profile of State shows that the State will have to repay 42.4 *per cent* of its debt between one and seven years.

There has been a decline in net availability of funds from its borrowings as large portion of these funds are being used for debt servicing. The ratio of financial assets to liabilities has also deteriorated indicating the greater part of liabilities was without an asset backup. The Balance from Current Revenue (BCR) which plays a critical role in determining its plan size and a negative BCR adversely affects the same and reduces the availability of funds for additional infrastructure requirement.

Monitoring of funds transferred directly from the GOI to the State implementing agencies : Government of India directly transferred ₹2,289.26 crore to the 12 implementing agencies of the State during the year and at the end of March 2013 an amount of ₹485.50 crore was remaining un-utilised with these implementing agencies. But transfer of funds from Government of India to the state implementing agencies directly ran the risk of inadequate monitoring of utilisation of funds by these agencies in the absence of uniform accounting procedures and effective monitoring system.

1.15 Recommendations

- Realistic assessment of Revenue Receipts and Revenue Expenditure may be made, so that achievable goals can be set in the fiscal reform path of the State.
- Management Information Systems may be established and existing Central Plan Scheme Monitoring System may be utilized effectively for real time accounting and monitoring of funds transferred directly to State Implementing agencies of Central sector schemes.
- The Government may review the low return from investments in Government companies/Statutory corporations/Public Sector Undertakings and huge arrears in repayment of loans released to them for giving true and fair status to the balance sheet of the State Government.
- Statutory contributions to Reserve Funds may be made so as to meet the possible future liability, envisaged while constituting the Funds. The State Government should also ensure re-investment of fund balances for possible accretions to the fund balance.