

EXECUTIVE SUMMARY

Background

The State is located at the southern end of the country, sharing borders with Tamil Nadu and Karnataka. Geographical area wise, Kerala is ranked 21st in the country with an area of 38,863 sq.km. The State has a population of 3.34 crore (12th in the country) and it is ranked as the third most densely populated State with a density of 860 persons per sq.km. The decadal growth rate of population was five *per cent* (3.18 crore in 2001 to 3.34 crore in 2011), which is the lowest rate among Indian States. The literacy rate of Kerala (94 *per cent*) is the highest among the Indian States. Gross State Domestic Product (GSDP) in 2014-15 of the State at current prices was ₹4,51,483 crore. The per capita income (2014-15) of the State at current prices stands at ₹1,27,577.

About the Report

This Report of the Finances of the Government of Kerala is being brought out with a view to assess objectively, the financial performance of the State during 2014-15 and to provide the State Government and the State Legislature with timely inputs based on audit analysis of financial data. In order to give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the State Government in the budget estimates of 2014-15. Based on the audited accounts of the Government of Kerala for the year ended March 2015, this Report provides an analytical review of the Annual Accounts of the State Government. This Report is structured in three Chapters.

Chapter 1 is based on the audit of Finance Accounts and makes an assessment of the Kerala Government's fiscal position as on 31 March 2015. It provides an insight into trends in committed expenditure, borrowing pattern and quality of expenditure, besides giving comparison on State's expenditure with other General Category States.

Chapter 2 is based on the audit of Appropriation Accounts and gives a Grant-by-Grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter 3 is an inventory of the Kerala Government's compliance with various reporting requirements and financial rules. The report also compiles the data compiled from various Government departments/organizations in support of the findings.

Audit findings and recommendations

Chapter I : Finances of the State Government

Overall financial status: State Government enacted Kerala Fiscal Responsibility (Amendment) Act, 2011, which came into force from 8 November 2011 with revised targets for fiscal stability by progressive elimination of revenue deficit and sustainable debt management. But non-realisation of estimated revenue

receipt (estimated in the budget) led to non-achievement revenue and fiscal deficit targets envisaged in the Act during the last four years. All the three fiscal parameters, viz. primary, revenue and fiscal deficits increased during the last four years, which also indicated reduced growth of receipts compared to expenditure.

The resource gap (gap between incremental non-debt receipts and incremental total expenditure) was positive only in 2010-11 and since then it was negative, which indicated that incremental non-debt receipts were inadequate to finance incremental primary expenditure and incremental interest burden. The bifurcation of the factors leading to primary deficit of the State reveals that since 2011-12 non-debt receipts (NDR) of the State were not enough to meet the primary revenue expenditure of the State. This indicates that even for meeting primary expenditure, Government has to depend on borrowed funds since 2011-12.

Receipts and Expenditure : Major share of State's total receipts (₹79,306 crore) was Revenue receipts (₹57,950 crore) which included ₹35,232 crore of own tax revenue. While revenue receipt recorded a growth rate of 18 *per cent*, growth rate of own tax revenue was only 10 *per cent*. Capital receipts increased by ₹1,545 crore due to increase in Public Debt receipts (₹1,516 crore).

As in the previous year taxes on Sales, Trade, etc was the main source of tax revenue of the State. However, revenue from State Excise decreased during 2014-15 as in 2013-14. Income from State Lotteries (₹5,445 crore) was the major source of revenue under non-tax Revenue, but equally high expenditure towards payment of prize, commission, etc., resulted in net yield of ₹960 crore only.

Total expenditure of the State almost doubled during the last five years and share of revenue expenditure in total expenditure was above 90 *per cent* during the last four years and it was highest (93.5 *per cent*) during 2014-15. This shows low priority of the State Government in other areas like Capital Expenditure.

In revenue expenditure, share of non-plan revenue expenditure was the maximum (above 86 *per cent* during the last five years) and over 60 *per cent* of the revenue expenditure was incurred on salaries, wages, pension payments and interest payments. In this, liability on interest payments showed a higher growth due to mounting liability in open market borrowings.

Quality of Expenditure: Though, above 50 *per cent* of the total expenditure was incurred on development expenditure, major share of it was for revenue expenditure which indicated low priority for capital development expenditure. As of 31 March 2015, the State Government had invested ₹6,085.13 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives and against this investment average return during the last five years was 1.5 *per cent* while the Government paid an average interest rate ranging from 7.1 *per cent* to 7.3 *per cent* on its borrowings. Similarly, repayment during the year against the outstanding loans and advances (₹12,332 crore) released by the State Government was ₹151 crore (principal: ₹124 crore and interest: ₹27 crore) only.

Debt Management: Fiscal liabilities of the State increased from ₹1,24,081 crore in April 2014 to ₹1,41,947 crore at the end of March 2015. This liability as a percentage of GSDP was 31.4 *per cent* which is higher than the target (29.8 *per cent*) fixed in the Kerala Fiscal Responsibility (Amendment) Act, 2011. Share of market loans in overall fiscal liabilities increased and it was more than 50 *per cent* at the end March 2015. The debt maturity profile of the State shows that 44.1 *per cent* (₹42,362.01 crore) of the debt has to be repaid within seven years.

As the non-debt receipts of the State were insufficient, some portion of the borrowed funds was used for bridging the revenue gap. During 2014-15, total borrowed funds under 'Public Debt' was ₹18,509 crore (including open market borrowings of ₹13,200 crore). After providing for interest and repayment of principal, the net availability was only ₹5,365 crore.

Review on receipt and utilisation of Thirteenth Finance Commission Award : The State received (₹5,476.30 crore) 82 *per cent* of the Award amount including additional amount of ₹241.26 crore towards performance and incentive grant and utilised ₹5,098.34 crore. Substantial short release of award amount (around ₹100 crore) was noticed in three schemes (Maintenance of roads and bridges, Water sector management and Improvement of justice delivery) due to non-adherence to various conditions attached with release of grants.

Review on maintenance of loan accounts by the administrative departments: The outstanding loan released by Industries department as on 31 March 2015 stands at ₹2,020.91 crore. During 2011-2013 an amount of ₹297.61 crore was disbursed to 21 public sector undertakings (PSUs) and conditions for repayment were not fixed by the department in respect of loan amounting to ₹103.79 crore given to five PSUs. The department did not initiate any steps to segregate and reconcile the loans disbursed to PSUs through a common head of account on account of clearing VR liabilities resulting difference in the loan balances maintained by the department and in Finance Accounts.

Deficiencies in maintenance and reconciliation of loan account by co-operation department resulted in a difference of ₹201.68 crore between the departmental loan balance and that in the Finance Accounts.

Chapter II

Financial Management and Budgetary Control

During the year overall savings out of the total budget allocation of ₹1,03,604.32 crore was ₹20,157.97 crore. Overall savings increased from 18.2 *per cent* in the last year to 19.5 *per cent* in 2014-15 indicating increasing deficiency in the budgetary process. Persistent savings of ₹100 crore or more of the budget provision for the last three years was noticed in four Grants/Appropriation. Substantial savings in two Grants (Urban Development and Irrigation) was due to unrealistic assessment of budgetary requirement by the departmental officers and the Finance department ignoring the expenditure of the schemes of previous years.

Excess expenditure of ₹192 crore was noticed under one appropriation-‘Debt Charges’ (in revenue section), which requires regularisation under Article 205 of the Constitution along with excess expenditure for the years 2011-12 to 2013-14 amounting to ₹1,818.86 crore. Appropriation control weakness at the levels of Chief Controlling Officer, Drawing and Disbursing Officer, Treasury Officer and Finance Department was noticed which led to excess expenditure in schemes test-checked in Audit. In view of the final savings, supplementary allocations obtained in 22 Grants under Revenue (voted) section could have been avoided as the additional budget allocations were sought for all the existing schemes.

Director of Technical Education (the estimating officer) had not taken due care in the realistic preparation of budget estimates and in reconciliation of departmental figures with that booked by Principal Accountant General (A&E) which led to budgetary failures.

Chapter III

Financial Reporting

At the end of March 2015 accounts were due from 12 autonomous bodies/authorities who received grant-in-aid during the year 2013-14. Finalisation of accounts of Text Book office is in arrears from 2003-04 and also decision on preparation of *pro forma* accounts for the period from 1987-88 to 2003-04 is pending with the Government. The State Government reported 114 cases of misappropriation, defalcation, etc., involving Government money amounting to ₹7.15 crore up to the period June 2015 on which final action was pending.