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. Geographical area-wise, Kerala is ranked 22nd in the country with an area of 38,863 sq.km. The State has a population of 3.58 crore (12th in the country) and 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 6.20 *per cent* (3.37 crore in 2007 to 3.58 crore in 2016), which is lowest among Indian states. The literacy rate of Kerala (94 *per cent*) is the highest among the Indian states. Gross State Domestic Product (GSDP) in 2016-17 of the State at current prices was ₹6,55,205 crore. The per capita income (2016-17) of the State at current prices stands at ₹1,83,039. 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	2012-13	2013-14	2014-15	2015-16	2016-17
India's GDP (₹ in crore)	99,44,013	1,12,33,522	1,24,45,128	1,36,82,035	1,51,83,709
Growth rate of GDP (percentage)	13.83	12.97	10.79	9.94	10.98
State's GSDP (₹ in crore)	4,12,313	4,65,041	5,26,002	5,88,337	6,55,205
Growth rate of GSDP (percentage)	13.26	12.79	13.11	11.85	11.37

Source: Figures furnished by Economics and Statistics Department, Government of Kerala

Though the growth rate of GSDP declined from 13.11 *per cent* in 2014-15 to 11.37 *per cent* in 2016-17, growth rate of GSDP was higher as compared to the growth rate of GDP during last three years.

1.1 Introduction

This chapter is based on the audit of Finance Accounts and makes an assessment of the fiscal position of the Government of Kerala as on 31 March 2017. It provides a broad perspective of the finances of the State during 2016-17 along with analysis of the critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The structure and form of Government Accounts are 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 is given in **Appendix 1.3 Part A.** As per the Kerala Fiscal Responsibility Act, 2003, the State Government has to present a Medium Term Fiscal Policy and Strategy Statement with Medium Term Fiscal Plan, along with the budget document. The Medium Term Fiscal Plan for 2016-17 to 2018-19 was presented in the State Legislature in July 2016. It is included as **Appendix 1.3 Part B** of this Report.

1.1.1 Summary of Fiscal Transactions during the current year

Table 1.2 presents the summary of the State Government's fiscal transactions during the current year (2016-17) *vis-à-vis* the previous year (2015-16). **Appendix 1.4** (**Part A** and **Part B**) 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 2016-17 ***(₹in crore)***

Receipts	2015-16	2016-17	Disbursements	2015-16	2016-17		
Section –A: Revenue					Non-plan	Plan	Total
Revenue Receipts	**69032.66**	**75611.72**	**Revenue Expenditure**	**78689.47**	**77603.96**	**13492.35**	**91096.31**
Tax Revenue	38995.15	42176.37	General Services	36084.68	41013.94	181.39	41195.33
Non-tax Revenue	8425.49	9699.98	Social Services	27603.29	23991.38	9773.34	33764.72
Share of Union Taxes/Duties	12690.67	15225.02	Economic Services	11098.42	7117.73	3537.62	10655.35
Grants from Government of India	8921.35	8510.35	Grants-in-aid and Contribution	3903.08	5480.91		5480.91
Section-B : Capital and Others							
Miscellaneous Capital Receipts	**28.08**	**30.24**	**Capital Outlay**	**7500.04**	**1180.30**	**8945.65**	**10125.95**
Recoveries of Loans and Advances	**152.63**	**292.24**	**Loans and Advances Disbursed**	**842.25**	**785.04**	**375.25**	**1160.29**
Public Debt Receipts	**19658.74**	**23857.89**	**Repayment of Public Debt**	**6060.73**			**7706.01**
Contingency Fund	**0.00**	**0.00**	**Contingency Fund**	**0.00**			**0.00**
Public Account Receipts	**168623.44**	**190627.84**	**Public Account Disbursements**	**162824.67**			**179910.43**
Opening Cash Balance	**1651.00**	**3229.39**	**Closing Cash Balance**	**3229.39**			**3650.33**
Total	**259146.55**	**293649.32**	**Total**	**259146.55**			**293649.32**

Source: Finance Accounts for 2015-16 and 2016-17

Following are the significant changes noticed during 2016-17 compared to the previous year.

- Though the revenue receipt of the State showed an increase of ₹ 6,579.06 crore, its growth rate (9.53 *per cent*) was much less than the growth rate

(19.12 *per cent)* of 2015-16. During 2016-17, State's own tax revenue and State's share of union taxes and duties recorded an increase of ₹ 3,181.22 crore and ₹ 2,534.35 crore respectively, compared to last year.

- Revenue expenditure of the State recorded an increase of ₹12,406.84 crore (increase of 15.77 *per cent* over the previous year), due to the increase in expenditure on General Services by ₹ 5,110.65 crore, Social Services by ₹ 6,161.43 crore and Grants-in-aid and Contributions to Panchayati Raj Institutions by ₹ 1,577.83 crore. This increase was partly offset by the decrease in expenditure on Economic Services by ₹ 443.07 crore.
- Capital expenditure increased by ₹ 2,625.91 crore showing a growth of 35.01 *per cent* over the previous year.
- Net accretions in the Public Account showed considerable increase (₹ 10,717.41 crore) compared to 2015-16 (₹ 5,798.77 crore) due to increase in net accumulations under Small Savings, Provident Fund, etc.
- Cash balance position of the State slightly increased from ₹ 3,229.39 crore at the end of 2015-16 to ₹ 3,650.33 crore at the end of 2016-17.

1.1.2 Review of fiscal situation

The State Government enacted the Kerala Fiscal Responsibility Act, 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. This Act came into force on 5 December 2003. Based on the recommendations of Thirteenth Finance Commission, the State amended Kerala Fiscal Responsibility Act and Kerala Fiscal Responsibility (Amendment) Act, 2011, came into force from 8 November 2011 with revised fiscal targets, which were to be adhered to by the year 2014-15.

The Fourteenth Finance Commission recommended a set of rules for the State relating to fiscal targets and annual borrowing limits.

- Fiscal deficit of the State will be anchored to an annual limit of 3 *per cent* of GSDP. The State will be eligible for flexibility of 0.25 *per cent* over and above this for any given year for which the borrowing limits are to be fixed if their debt-GSDP ratio is less than or equal to 25 *per cent* in the preceding year.
- State will be further eligible for an additional borrowing limit of 0.25 *per cent* of GSDP in a given year for which the borrowing limits are to be fixed if the interest payments are less than or equal to 10 *per cent* of the revenue receipts in the preceding year.
- The two options under these flexibility provisions can be availed of by a State either separately, if any of the above criteria is fulfilled, or simultaneously if both the above stated criteria are fulfilled. Thus, a State can have a maximum fiscal deficit-GSDP limit of 3.50 *per cent* in any given year.

- The flexibility in availing the additional limit under either of the two options or both will be available to a State only if there is no revenue deficit in the year in which borrowing limits are to be fixed and in the immediately preceding year.
- If a State is not able to fully utilise its sanctioned borrowing limit of 3 *per cent* of GSDP in any particular year during the first four years of our award period (2015-16 to 2018-19), it will have the option of availing this un-utilised borrowing amount only in the following year but within the award period.

The first two years of the Fourteenth Finance Commission award period are already over and the State is yet to amend the Fiscal Responsibility Act by re-fixing the targets for the Finance Commission period. In this regard, Finance Department stated (December 2017) that the process of amending the Act is in progress.

In the Medium Term Fiscal Plan (MTFP) statement presented in the State Legislature along with the presentation of Budget for the year 2016-17, the State fixed targets for all the fiscal variables. **Table 1.3** shows the targets and its achievement at the end of the year.

Table 1.3: Comparison of fiscal variable targets

Fiscal variables	MTFP targets	Revised target as per budget 2017-18	Status at the end of the year
Revenue Deficit/GSDP	1.98	2.10	2.36
Fiscal Deficit/GSDP	3.51	3.54	4.04
Debt liability/GSDP	26.82	27.27	28.96

The above table shows that the State neither achieved the original target fixed in MTFP nor the revised target fixed subsequently. Moreover, as per the recommendations of Fourteenth Finance Commission, State has to anchor the fiscal deficit-GSDP ratio at three *per cent* and Debt-GSDP ratio less than or equal to 25 *per cent*, to have the extra flexibility of 0.25 *per cent* on borrowing limit. Since the State failed to achieve both the targets, State became ineligible for the increased borrowing limit.

1.1.3 Accuracy of estimation in Budget documents

The estimated statement of receipts and expenditure for a financial year mentioned in the Constitution as the 'Annual Financial Statement', commonly known as 'Budget', is prepared according to Article 202 of the Constitution of India and placed before the State Legislature by the Government. The budget is Government's most important economic policy tool, that translates Government's policies, commitments, goals into decisions on plans to raise the estimated revenue and how to use these funds to meet the State's competing needs. A budget system that functions well is crucial in developing sustainable fiscal policies and economic growth.

Comparison of State's budget estimates *vis-à-vis* actuals for the year 2016-17 is detailed in **Table 1.4**.

Table 1.4: Budget estimates and actuals for 2016-17 ***(₹in crore)***

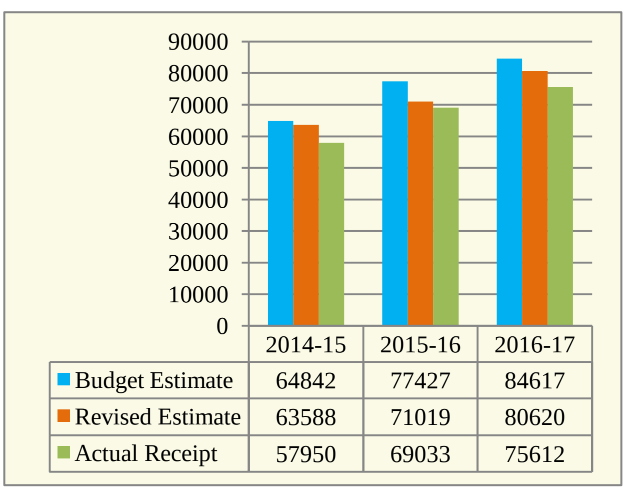
Particulars	Budget Estimate	Revised Estimate	Actual
Revenue Receipts	84,616.85	80,620.09	75,611.72
Revenue Expenditure	97,683.10	94,555.63	91,096.31
Revenue Deficit	13,066.25	13,935.53	15,484.59
Capital Expenditure	9,572.92	8,748.48	10,125.95
Loans and Advances (Net)	(-)532.78	(-)810.33	(-)868.05
Public Debt (Net)	17,926.14	17,749.87	16,151.88
Public Account (Net)	4,502.37	5,399.67	10,717.41

Source: Budget in brief for 2017-18 and Finance Accounts for 2016-17

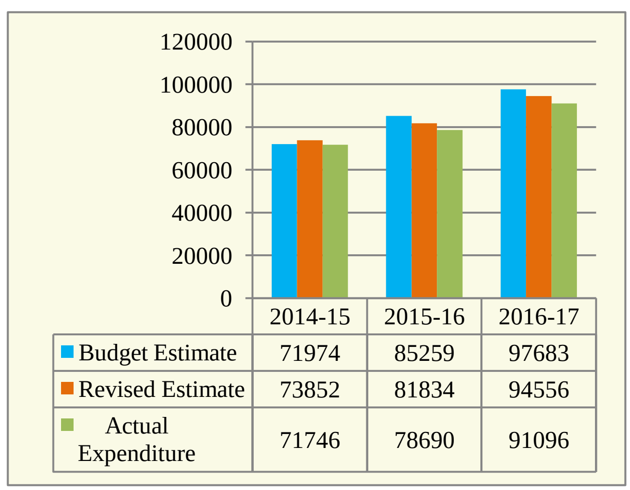
The revised estimate needs to be more accurate than the original budget estimate as it was done after analysing the receipts and expenditure of the first six months of the financial year. However, it was observed that revenue receipt was short by ₹ 5,008 crore with respect to revised estimate and short by ₹ 9,005 crore with respect to original estimate. Apart from revenue receipts, substantial variation was noticed in the case of net Public Account receipts. Against the estimation of ₹ 5,400 crore, net receipt was ₹ 10,717 crore and major accumulation was noticed under Savings Bank Deposits and Fixed and Time Deposits, in this section. The comparison of last three years budget estimates, revised estimates, actuals in respect of revenue receipt and revenue expenditure is given in **Chart 1.1**.

Chart 1.1 : Comparison of budget estimates and actuals

Revenue Receipts (*₹in crore*)



Revenue Expenditure (*₹in crore*)



1.1.4 Status of new schemes announced in the budget speech

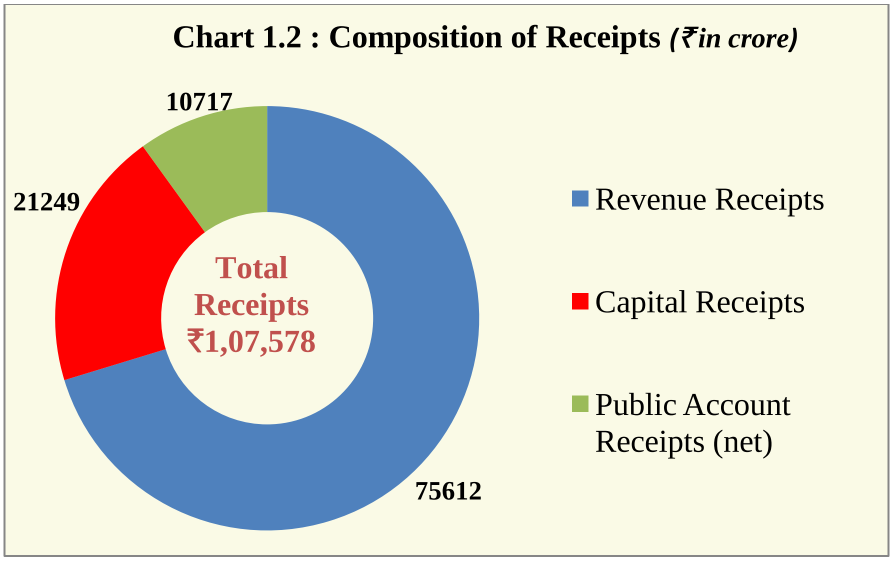
A Special Investment Plan scheme was introduced by State Government while presenting the budget speech for the year 2016-17 with the objective to finance large projects like roads, bridges, buildings and infrastructure parks and others. Expenditure of ₹ 2,500 crore was expected during 2016-17 from the Special Investment Plan. Eighteen new initiatives were also announced in the Budget Speech. Audit observed that funding for nine schemes with an outlay of ₹ 865 crore was to be made from the Special Investment Plan scheme (funds through Kerala Infrastructure Investment Fund Board - KIIFB). Funding for the remaining nine schemes with an outlay of ₹ 55.25 crore was to be met from the budgetary allocation provided by State Government. Though an amount of ₹ 865 crore was expected to be incurred during 2016-17 for the nine schemes through KIIFB, no amount was incurred in any of these schemes till November 2017.

In respect of nine schemes, which were to be funded through State budget, ₹ 22.43 crore was expended in only two schemes during 2016-17.

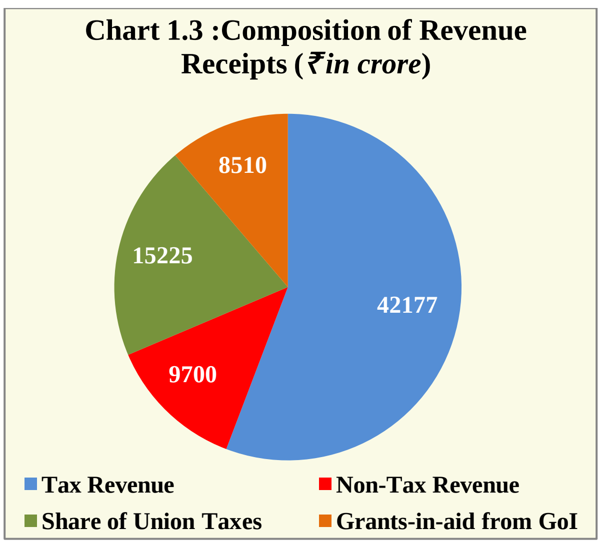
1.2 Resources of the State

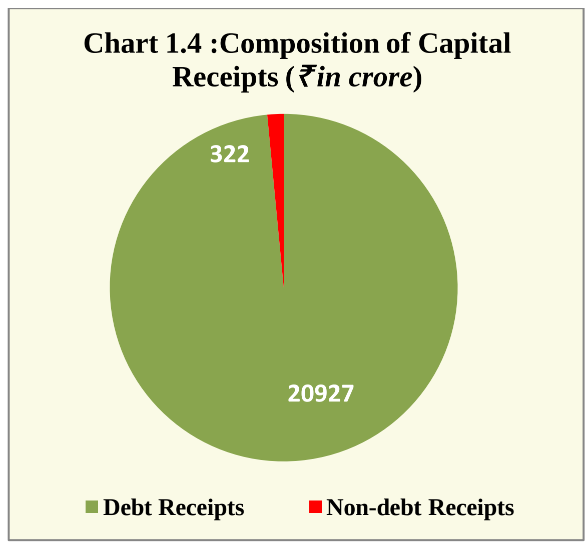
1.2.1 Resources of the State as per the Annual Finance Accounts

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 of 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. The funds available in the Public Accounts after disbursement are also utilised by the Government to finance its deficit. **Charts 1.2**, **1.3** and **1.4** depict the composition of resources of the State during the current year.



Note: Under Capital Receipts, transactions under 'Ways and Means advances' was excluded and under Public Accounts only net receipts was considered.

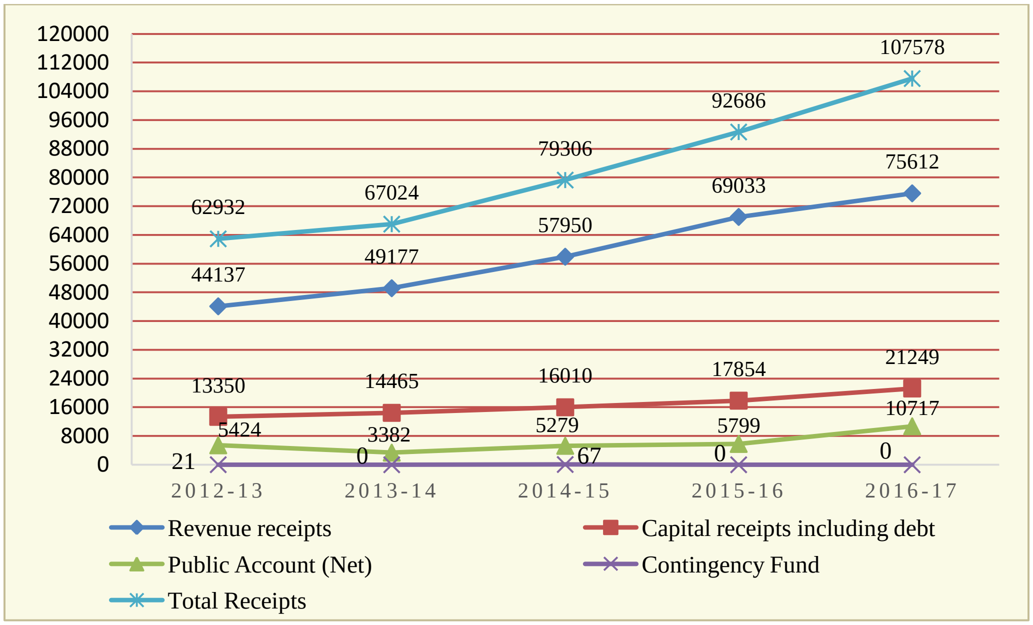




Capital Receipts of the State includes Debt Receipts and Non-debt receipts. Debt receipts consist of loans raised by the State from various sources (open market sources and financial institutions) and loans received from Government of India. Non-Debt receipts are receipts from Miscellaneous capital receipts (disinvestment of shares) and recovery of Loans and Advances disbursed by the State Government. Total receipts[1] of the State Government increased from ₹ 62,932 crore in 2012-13 to ₹ 1,07,578 crore in 2016-17, showing an increase of 70.94 *per cent* during the last five years. Trend in total receipts and its components during the last five years is given in **Chart 1.5**.

[1] Consists of Revenue receipts, Capital receipts (including Debt receipts but excluding Ways and Means advances) and Public Account receipts.

Chart 1.5: Trends in total receipts during the last five years *(₹in crore)*



1.2.2 Receipt and utilisation of Government of India flagship programme

State level implementing agencies are implementing flagship programmes of Government of India and sizeable amounts are passed on to them through State budget. Details of Central funds received and passed on to the implementing agencies along with the State shares during 2016-17 are given in **Appendix1.6**. An amount of ₹ 3,509.34 crore (GoI share: ₹ 2,403.74 crore and State share: ₹ 1105.60 crore) was released to the implementing agencies for 12 flagship programmes of GoI and at the end of March 2017, an amount of ₹ 697.74 crore remained unutilised with these agencies. The major portion of the unutilised balance belongs to Indira Awas Yojana (₹ 236.97 crore), National Rural Health Mission (₹108.47 crore), National Rural Drinking Water Programme (₹89.92 crore) and Rashtriya Madhyamik Shiksha Abhiyan (₹76.16 crore).

Though the system of direct release of funds to state level implementing agencies of GoI flagship programme was dispensed by GoI from 2014-15 onwards, GoI continues to release funds directly to implementing agencies without routing through State budget. As per Appendix VI of Finance Accounts 2016-17, an amount of ₹ 2,861.44 crore (schemes having total release more than ₹ 5 crore) was released by GOI directly to implementing agencies for 19 GoI schemes. Information collected from 11 implementing agencies for 16 schemes revealed that ₹ 20.74 crore out of ₹ 2,008.31 crore released to these agencies by GoI remained unutilised at the end of October 2017.

1.3 Revenue Receipts

Statement No. 14 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own tax and non-tax revenues, share of central tax transfers and grants-in-aid from GoI.

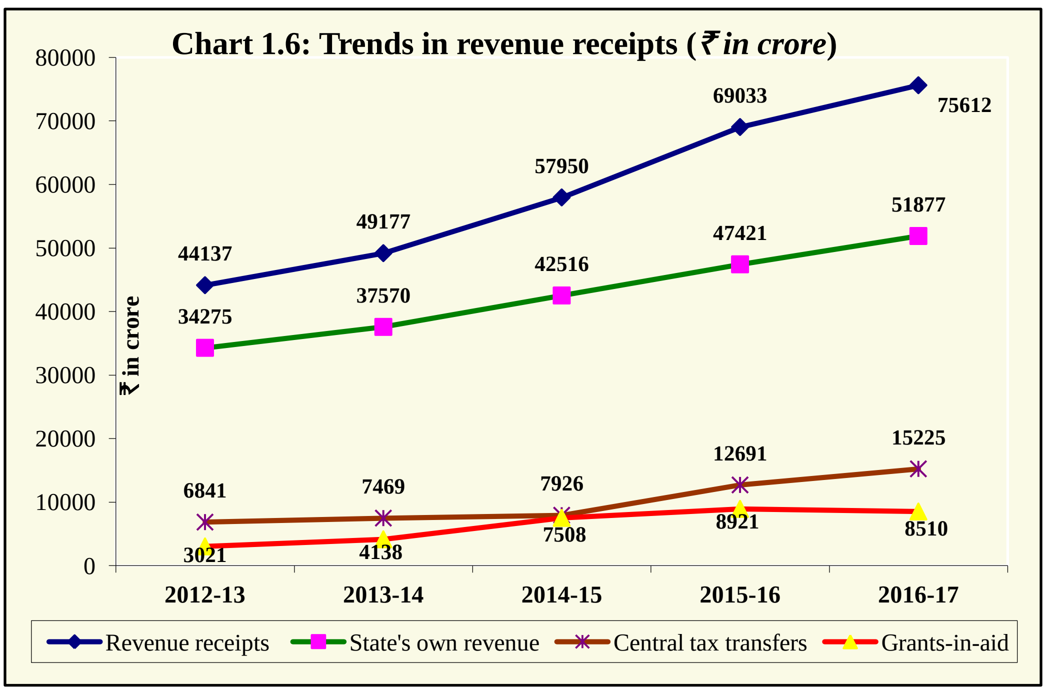
During the last five years (2012-2017), revenue receipts of the State increased from ₹ 44,137 crore in 2012-13 to ₹ 75,612 crore in 2016-17, recording a growth of 71 *per cent*. Over these years State's own receipts (tax and non-tax) was the major component of the revenue receipts, but there was steady decline in its share in revenue receipts during the last five years from 78 *per cent* in 2012-13 to 69 *per cent* in 2016-17. This was mainly due to increase in the share of other components like central tax receipts and grants-in-aid from GoI and also due to reduced growth rate of State's own tax revenue, compared to the growth rate of revenue receipts. Share of own tax receipt in revenue receipt also showed decreasing trend during the last five years (decreased from 68 *per cent* in 2012-13 to 56 *per cent* in 2016-17-**Table 1.6**). The trend of revenue receipts over the period 2012-2017 is presented in **Appendix 1.5** and also depicted in **Chart 1.6**.

As per Medium Term Fiscal Plan (MTFP) (**Appendix 1.3 Part B**), projected revenue receipts of the State during 2016-17 was ₹84,093 crore but the actual realisation was ₹ 75,612 crore. Variations in components of revenue receipts are shown in the **Table 1.5**:

Table 1.5 : Comparison of MTFP projections with amount realized *(₹in crore)*

Components	Own Tax Revenue	Non-tax Revenue	Resources from GoI
MTFP projection	47,614	11,360	25,644
Amount realised	42,177	9,700	23,735

Table 1.5 shows that the State could not collect/receive revenue as estimated in the MTFP and the major shortfall occurred in the realisation of State's own taxes.



Compounded annual growth rate of the State for the two periods, i.e. 2007-08 to 2015-16 and 2015-16 to 2016-17 in respect of revenue receipts was compared with General Category States and it was observed that though in the first period State's average was better than that of General Category States, it was not so in the second period. **(**Details are given in **Appendix 1.1).**

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 2012-2017

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue Receipts (RR) (₹*in crore*)	44,137	49,177	57,950	69,033	75,612
Rate of growth of RR (*per cent*)	16.12	11.42	17.84	19.13	9.53
State's own tax revenue (₹*in crore*)	30,077	31,995	35,232	38,995	42,177
Rate of growth of own tax revenue (*per cent*)	16.94	6.38	10.12	10.68	8.16
Percentage of own tax revenue in RR	68	65	61	57	56
GSDP	4,12,313	4,65,041	5,26,002	5,88,337	6,55,205
Rate of Growth of GSDP	13.26	12.79	13.11	11.85	11.37
RR/GSDP (*per cent*) *	10.70	10.57	11.02	11.73	11.54
Revenue buoyancy w.r.t GSDP*	1.22	0.89	1.36	1.61	0.84
State's Own Tax Buoyancy w.r.t GSDP*	1.28	0.50	0.77	0.90	0.72

Source: Finance Accounts and information furnished by the Economics and Statistics Department, Government of Kerala

**Change in ratio with respect to the previous Report was due to adoption of revised GSDP figures*

- The above table shows that during the last five year period, the State had the lowest revenue receipt growth rate (9.53 *per cent*) in 2016-17. Percentage of own tax revenue in revenue receipt also steadily decreased from 68 *per cent* in 2012-13 to 56 *per cent* 2016-17. This indicated reduced growth rate of own tax revenue compared to other components of revenue receipts. During the last two years, state received ₹7,990 crore as post devolution revenue deficit grant, based on the recommendations of Fourteenth Finance Commission, which also resulted in increase of other components of revenue receipts.
- Revenue receipt as a percentage of GSDP decreased during the year compared to previous year and revenue buoyancy with GSDP was the lowest during the last three years period. Buoyancy less than one in 2016-17 indicated that revenue receipt of the State is not growing in pace with GSDP.
- Buoyancy of own tax revenue with GSDP is also the lowest during the last three years period.

1.3.1 Own resources of the State

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

Taxes collected and grants-in-aid received from GoI during the last five years are given in **Table 1.7**:

Table 1.7: Resources of the State during last five years ***(₹in crore)***

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Tax Revenue	30,077	31,995	35,232	38,995	42,177
Non-tax Revenue	4,198	5,575	7,284	8,426	9,700
Share of Union taxes /Duties	6,841	7,469	7,926	12,691	15,225
Grants-in-aid from Government of India	3,021	4,138	7,508	8,921	8,510
Total Revenue Receipts	**44,137**	**49,177**	**57,950**	**69,033**	**75,612**

Source: Finance Accounts of respective years

Table 1.7 shows that all the revenue resources (except State's own tax revenue) of the State doubled during the five year period. However, State's own tax revenue increased only by 40 *per cent* during the same period. State Government need to address this reduced growth as own tax revenue is the main source of revenue of the State.

1.3.1.1 Tax Revenue

The State's own tax revenue increased from ₹ 38,995 crore in 2015-16 to ₹ 42,177 crore in 2016-17, recording a growth rate of 8.16 *per cent*. This was much less than the growth rate (10.68 *per cent*) shown in 2015-16. Decrease in growth rate (8.84 *per cent*) was also noticed in Taxes on Sales, Trade, etc., compared to the growth rate shown in 2015-16 (10.14 *per cent*). Various components of State's own tax revenue are given in **Table 1.8**.

Table 1.8: Components of own tax revenue ***(₹in crore)***

Revenue Head	2012-13	2013-14	2014-15	2015-16	2016-17
Taxes on Sales, Trade etc.	22,511	24,885	27,908	30,737	33,453
Stamps and Registration fees	2,938	2,593	2,659	2,878	3,007
State Excise	2,314	1,942	1,777	1,964	2,019
Taxes on Vehicles	1,925	2,161	2,365	2,814	3,107
Land Revenue	122	89	139	182	124
Taxes on Agricultural income	19	22	9	2	2
Other Taxes	248	303	375	418	465
Total	**30,077**	**31,995**	**35,232**	**38,995**	**42,177**

Source: Finance Accounts of respective years

During the last five years, two major tax sources, *viz*. Taxes on Sales, Trade etc. and Taxes on vehicles increased by 48.61 *per cent* and 61.40 *per cent* respectively. But, Stamps and Registration fees increased by only 2.35 *per cent* and State Excise showed a negative growth rate (12.75 *per cent*) during the five years period.

As in the previous year, 'Taxes on Sales, Trade etc.' was the single largest source of the State's own tax revenue and it increased by ₹ 2,716 crore during 2016-17. This increase was mainly under 'Value Added Tax (VAT) Receipts' (₹1,431crore) and 'Receipts under the State Sales Tax Act' (₹ 1,256 crore).

Tax revenue under 'Taxes on Vehicles' also recorded an increase of ₹ 293 crore during 2016-17 and this was due to 'Receipts under the State Motor Vehicles Taxation Act' (₹355 crore) and 'Receipts under Indian Motor Vehicles Act' (₹ 93 crore). This increase was partly offset by decrease in 'Other Receipts' (₹ 155 crore).

1.3.1.2 Non-tax Revenue

Receipts under 'State Lotteries' is the major source (75 *per cent*) of non-tax revenue of the State for the last five years and its share in non-tax revenue increased from 64 *per cent* in 2012-13 to 75 *per cent* in 2016-17. During the five year period, receipts from State Lotteries also recorded an increase of 172 *per cent*. Major sources of non-tax revenue of the State are given in **Table 1.9**.

Table 1.9: Components of non-tax revenue *(₹ in crore)*

Revenue Head	2012-13	2013-14	2014-15	2015-16	2016-17
Interest receipts	172	149	102	105	144
Dividends and profits	48	101	74	90	96
State Lotteries	2,674	3,796	5,445	6,271	7,283
Forestry and Wildlife	237	330	300	283	297
Other non-tax receipts	1,067	1,199	1,363	1,677	1,880
Total	**4,198**	**5,575**	**7,284**	**8,426**	**9,700**

Source: Finance Accounts of respective years

Though the receipts under State Lotteries was ₹ 7,283 crore, an equally high expenditure of ₹ 5,992 crore on distribution of prizes, agent commission, etc. reduced the net yield to ₹ 1,291 crore during the year.

1.3.2 Grants-in-aid from Government of India

Grants-in-aid from the GoI decreased by ₹ 411 crore (4.61 *per cent*) from ₹ 8,921 crore in 2015-16 to ₹ 8,510 crore in 2016-17 as detailed in **Table 1.10**.

Table 1.10: Status of Grants-in-aid received from Government of India *(₹ in crore)*

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Non-plan grants	657	1,679	1,984	5,178	5,250
Grants for State plan schemes	1,163	1,154	4,929	3,406	2,727
Grants for central plan schemes	60	87	158	170	71
Grants for Centrally sponsored schemes	1,141	1,218	437	167	462
Total	**3,021**	**4,138**	**7,508**	**8,921**	**8,510**

Source : Finance Accounts of respective years

Table 1.10 shows that there was considerable reduction in grant released for State plan schemes and central plan schemes. However, Grants for centrally sponsored schemes increased by ₹ 295 crore. This was mainly under 'Other Urban Development Schemes' (₹257 crore). Out of ₹5,250 crore received as 'Non-plan Grants', ₹3,350 crore was 'Post Devolution Revenue Deficit Grant' based on the recommendations of Fourteenth Finance Commission to cover the revenue deficit of the State Government.

1.3.3 Efficiency in Tax collection

The average expenditure on tax collection in respect of four major revenue sources of the State compared with all India average, during the last five years, is given in **Appendix 1.7**. It shows that State had better average on the tax collection expenditure compared to all India average during the period from 2012-13 to 2015-16 in respect of two revenue sources, *viz*. Tax on Sales, Trade, etc. (except during 2015-16) and Taxes on Vehicles. However, in respect of other two major revenue sources, *viz*. Stamps (Non-judicial) and Registration fees and State Excise, the average tax collection expenditure of the State was much higher than the all India average from 2012-13 to 2015-16.

1.4 Capital Receipts

Capital receipts comprise of Miscellaneous Capital Receipts, Recovery of Loans and Advances released to Government institutions and Public Debt Receipts. Trends in receipts under capital sector are detailed in **Table 1.11**.

Table 1.11: Trends in growth and composition of capital receipts *(₹in crore)*

Sources of Receipts	2012-13	2013-14	2014-15	2015-16	2016-17
Capital Receipts (CR)					
Miscellaneous Capital Receipts	**15**	**19**	**28**	**28**	**30**
Recovery of Loans and Advances	**74**	**104**	**124**	**153**	**292**
Public Debt Receipts[2]	**13,261**	**14,342**	**15,858**	**17,673**	**20,927**
Internal Debt Receipts	12,709	13,950	15,106	17,142	20,075
Loans and Advances from GoI	552	392	752	531	852
Total CR	**13,350**	**14,465**	**16,010**	**17,854**	**21,249**
Rate of growth of debt capital receipts (*per cent*)	35.33	8.15	10.57	11.45	18.41
Rate of growth of CR (*per cent*)	35.26	8.35	10.68	11.52	19.02
Rate of Growth of GSDP (*per cent*)[(*)]	13.26	12.79	13.11	11.85	11.37
Buoyancy of Debt receipts w.r.t GSDP	2.66	0.64	0.81	0.97	1.62

Source: Finance Accounts of respective years

(*) change in figures with respect to previous Report is due to adoption of revised GSDP figures

Table 1.11 shows that growth rate of debt capital receipt was the highest during the last four years, which indicated increase in borrowings of the State in 2016-17. Similarly, buoyancy of debt receipts with respect to GSDP was 1.62, which indicated that growth rate of Government's borrowings was higher than growth rate of GSDP.

1.4.1 Proceeds from disinvestment

As of March 2017, the State Government invested ₹7,240.03 crore in Statutory Corporations, Government Companies, Joint Stock companies and Co-operatives and received ₹30.24 crore from retirement of capital/disinvestment of shares of

[2]Transactions under 'Ways and Means Advances' are excluded as they are not actual capital receipts.

co-operative societies/banks and accounted for under Miscellaneous Capital Receipts.

1.4.2 Recoveries of loans and advances

During the year, the State Government released an amount of ₹1,160.29 crore as loans and advances to various institutions and an amount of ₹13,877.94 crore was outstanding under this head at the end of March 2017. Against this balance, principal amount recovered was ₹166.52 crore, which was around one *per cent* of the outstanding balance under loans and advances. During the year, State had also written off loans and advances amounting to ₹125.72 crore, which were found irrecoverable and the same were accounted as receipt under loans and advances.

1.4.3 Public Debt receipts

Public Debt receipts of the State Government consist of funds raised from internal sources and loans and advances from GoI. As shown in Table 1.11, internal debt receipts was the main source of public debt receipts and it was around 95 *per cent* during the last five years. Internal Debt includes Open Market Borrowings, other borrowings from financial institutions like National Bank for Agriculture and Rural Development (NABARD), National Co-operative Development Corporation (NCDC), etc. and Special Securities issued to National Small Savings Fund (NSSF). Composition of Internal Debt during the last five years is given in **Table 1.12**.

Table 1.12: Composition of Internal Debt ***(₹in crore)***

Sources of Internal Debt	2012-13	2013-14	2014-15	2015-16	2016-17
Open Market Borrowings	11,582.99	12,800.00	13,200.00	15,000.00	17,300.00
NABARD	410.02	501.25	551.37	600.00	827.89
NCDC	0.00	0.00	222.16	39.13	47.79
NSSF	630.04	565.14	1,132.10	1,455.20	1,861.22
Others	85.84	83.85	0.00	47.25	37.72
Total	**12,708.89**	**13,950.24**	**15,105.63**	**17,141.58**	**20,074.62**

Though, open market borrowings was the main source for borrowing of the State, there was considerable increase in the loans raised from other sources like NABARD and NSSF. Consequently, share of open market borrowings in Internal Debt reduced from 92 *per cent* in 2013-14 to 86 *per cent* in 2016-17. However, Internal Debt of the State Government recorded an increase of 58 *per cent* during the last five years.

1.5 Public Account 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/trustee for custody of public money, since these transactions are mere pass-through transactions. The net transactions under Public Account covering the period 2012-13 to 2016-17 are indicated in **Table 1.13**.

Table 1.13: Net receipts under Public Account heads ***(₹in crore)***

Resources under various heads	2012-13	2013-14	2014-15	2015-16	2016-17
Public Account receipts					
a. Small Savings, Provident Fund etc.	3,685.54	4,231.86	3,764.77	8,332.07	12,931.64
b. Reserve Fund	-145.58	78.02	66.00	64.90	162.22
c. Deposits and Advances	1,140.93	187.43	1,364.50	-3,280.29	105.65
d. Suspense and Miscellaneous	712.44	-946.60	57.90	774.28	-2,169.09
e. Remittances	30.49	-168.48	25.95	-92.19	-313.01
Total	**5,423.82**	**3,382.23**	**5,279.12**	**5,798.77**	**10,717.41**

Source : Finance Accounts of respective years

The above table shows that during 2016-17, an amount of ₹10,717.41 crore was added to the existing balance of the Public Account. This was ₹4,918.64 crore more than net additions (₹5,798.77 crore) during 2015-16. Substantial net addition of ₹12,931.64 crore under the sector 'Small Savings, Provident Fund, etc.', was mainly due to the accumulations of ₹9,361.60 crore occurred under '8031-102-State Savings Bank Deposits' and ₹2,938.13 crore under '8009-State Provident Fund'. These accumulations under public account are utilised by the State Government for covering their fiscal deficit.

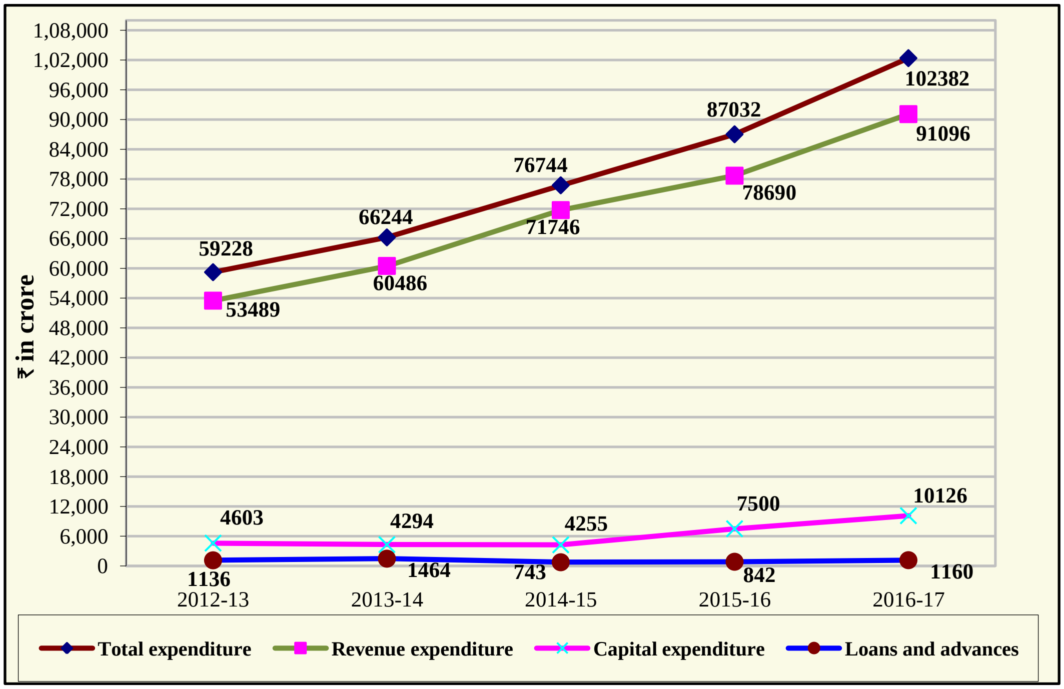
1.6 Application of Resources

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.

1.6.1 Growth and Composition of Expenditure

The trends in total expenditure (aggregate of revenue, capital and loans and advances expenditure) and 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 (2012-13 to 2016-17).

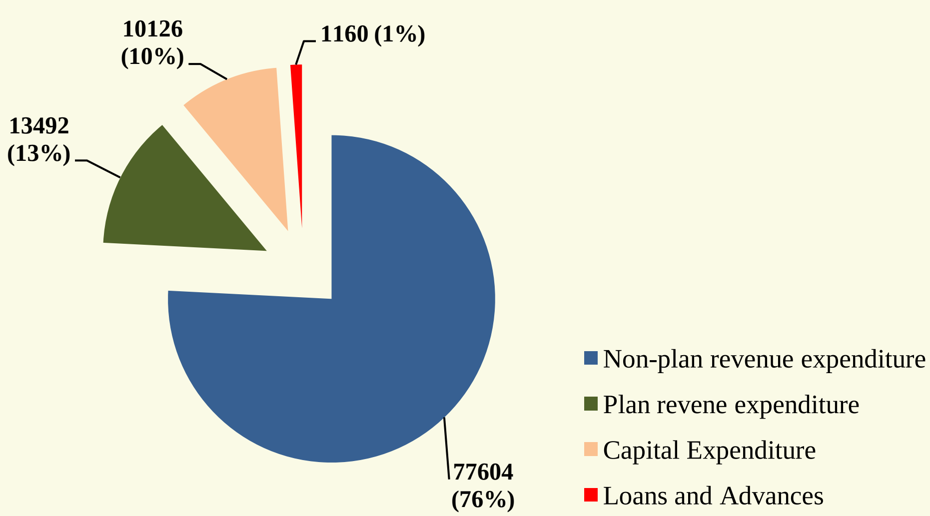
Chart 1.7: Total expenditure: trends and composition



During the last five years, the total expenditure of the State increased by 73 *per cent* from ₹59,228 crore in 2012-13 to ₹1,02,382 crore in 2016-17. While revenue expenditure recorded a growth of 70 *per cent*, capital expenditure recorded a growth of 120 *per cent* due to increased spending of the State during the last five years.

Total expenditure of the State for 2016-17 was ₹1,02,382 crore, out of which, ₹91,096 crore (89 *per cent*) was revenue expenditure. Composition of total expenditure during 2016-17 is given in **Chart 1.8** below.

Chart 1.8 :Composition of Total Expenditure *(₹in crore)*



The total expenditure, its annual growth rate, the ratio of expenditure to the GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are given in **Table 1.14**.

Table 1.14: Total expenditure – basic parameters

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Total expenditure (TE) (₹ in crore)	59,228	66,244	76,744	87,032	1,02,382
Rate of growth (*per cent*)	16.37	11.85	15.85	13.41	17.64
Revenue Receipts (RR) (₹ *in crore*)	44,137	49,177	57,950	69,033	75,612
Rate of growth of RR (*per cent*)	16.12	11.42	17.84	19.13	9.53
GSDP	4,12,313	4,65,041	5,26,002	5,88,337	6,55,205
Rate of growth of GSDP	13.26	12.79	13.11	11.85	11.37
TE/GSDP ratio (*per cent*)(*)	14.36	14.24	14.59	14.79	15.63
Revenue Receipt/TE ratio (*per cent*)	74.52	74.24	75.51	79.32	73.85
Buoyancy of TE with reference to:					
GSDP (ratio) (*)	1.23	0.93	1.21	1.13	1.55
RR (ratio)	1.02	1.04	0.89	0.70	1.85

(*) change in figures with respect to previous Report is due to adoption of revised GSDP figures

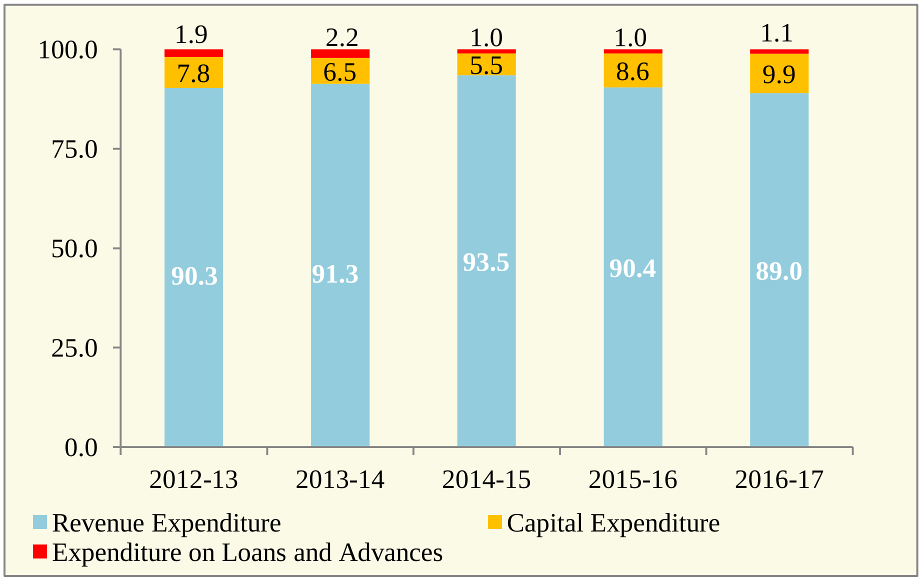
Table 1.14 shows that

- Growth rate of total expenditure in 2016-17 was the highest during the last five year period. Similarly, ratio between total expenditure and GSDP was also the highest in 2016-17, during last five years period.
- Ratio between revenue receipt and total expenditure indicate the sufficiency of revenue receipt for meeting total expenditure. In 2015-16, revenue receipt of the State was sufficient to meet 79.32 *per cent* of the total expenditure but it reduced to 73.85 *per cent* in 2016-17 due to increased growth of total expenditure as well as reduced growth of revenue receipts.
- During the last three years, the Buoyancy of the total expenditure with respect to GSDP was more than one, which indicated higher growth rate of total expenditure compared to GSDP during 2014-2017. Further, the growth rate of total expenditure in 2016-17 was 1.55 times of GSDP, which is the highest during last five years.
- Buoyancy of total expenditure with revenue receipt showed declining trend during the period 2014-16, which was a positive indicator. But, in 2016-17, it increased to 1.85 indicating increased growth rate of total expenditure compared to revenue receipt. This needs to be addressed.

While compounded annual growth rate of total expenditure of the State for the period 2007-08 to 2015-16 was lower than that of General Category States, it was higher during the period 2015-16 to 2016-17. **(**Details are given in **Appendix 1.1)**

Trend in share of various components of total expenditure is given in **Chart 1.9**.

Chart 1.9: Share of various expenditure in total expenditure



1.6.2 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 different components of total expenditure are given in **Table 1.15**.

Table 1.15: Components of expenditure – relative shares *(in per cent)*

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
General Services	**38.72**	**40.39**	**41.13**	**41.76**	**40.44**
of which, Interest Payments	12.16	12.48	12.73	12.77	11.84
Social Services	**32.82**	**32.60**	**32.05**	**32.91**	**34.24**
Economic Services	**19.76**	**17.30**	**17.51**	**19.88**	**18.83**
Grants-in-aid	**6.78**	**7.51**	**8.34**	**4.45**	**5.36**
Loans and Advances	**1.92**	**2.20**	**0.97**	**0.97**	**1.13**

Table 1.15 reveals that:

- While relative share of General Services and Economic Services in total expenditure decreased, share of Social Services increased during 2016-17. Similarly, share of Grant-in-aid to LSGIs also increased from 4.45 *per cent* in 2015-16 to 5.36 *per cent* in 2016-17.
- During 2016-17, share of interest payments in total expenditure was the lowest during the five year period.
- Relative share of loans and advances in total expenditure increased marginally due to increase in release of loans and advances by the State Government.

1.6.3 Revenue Expenditure

During 2016-17, revenue expenditure recorded an increase of ₹12,406 crore (15.77 *per cent*), compared to the previous year and this was highest increase during the last five year period in terms of value. The increase in revenue expenditure was mainly due to increase in expenditure under the major heads 'General Education' (₹2,988 crore),'Pension and Other Retirement Benefits'(₹2,214 crore), 'Compensation and Assignments to Local Bodies and Panchayati Raj Institutions' (₹1,578 crore), 'Medical and Public Health' (₹1,103 crore),'Interest Payments' (₹1,006 crore) and 'Social Security and Welfare' (₹924 crore), etc.

1.6.3.1 Incidence of revenue expenditure

During the last five years, the share of revenue expenditure in total expenditure, to maintain the current level of services and payment for past obligations was between 89 and 94 *per cent* and it showed a declining trend during the last two years. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table 1.16**.

Table 1.16: Revenue expenditure – basic parameters *(₹ in crore)*

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue expenditure (RE)	**53,489**	**60,486**	**71,746**	**78,690**	**91,096**
Non-plan revenue expenditure (NPRE)	46,640	53,412	61,464	66,611	77,604
Plan revenue expenditure (PRE)	6,849	7,074	10,282	12,079	13,492
Rate of Growth of					
RE (*per cent*)	16.17	13.08	18.62	9.68	15.77
NPRE (*per cent*)	14.54	14.52	15.08	8.37	16.50
PRE (*per cent*)	28.57	3.29	45.35	17.48	11.70
Revenue expenditure as percentage to TE	90.31	91.31	93.49	90.42	88.98
NPRE/GSDP (*per cent*) (*)	11.31	11.49	11.69	11.32	11.84
NPRE as percentage of TE	78.75	80.63	80.09	76.54	75.80
NPRE as percentage of RR	105.67	108.61	106.06	96.49	102.63
Buoyancy of revenue expenditure with					
GSDP (ratio) (*)	1.22	1.02	1.42	0.82	1.39
Revenue receipts (ratio)	1.00	1.15	1.04	0.51	1.65

Source: Finance Accounts of respective years

(*) change in figures with respect to previous Report is due to adoption of revised GSDP figures

Table 1.16 reveals the following;

- Though there was considerable increase in growth rate of RE and NPRE compared to previous year, growth rate of PRE decreased considerably. This indicates Government's expenditure during 2016-17 was more inclined towards committed liabilities. However, decreasing trend of RE as a percentage of TE was seen from 2015-16.

- Non-Plan Revenue Expenditure as a percentage of GSDP was steady during the last five years and also its percentage with respect to TE was declining from 2014-15, which is a positive sign. However, NPRE as a percentage of RR was above 100, which indicated that State's revenue receipts were not sufficient to meet its NPRE for 2016-17.

- Although the increase in revenue receipts was less than the projection made in the MTFP, yet the Revenue Expenditure increased, which is of serious concern as the Revenue deficit was also increasing.

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

The trends of the committed expenditure of the State Government during 2012-13 to 2016-17 is given in **Table 1.17**.

Table 1.17: Components of committed expenditure *(₹ in crore)*

Components of committed expenditure	2012-13	2013-14	2014-15	2015-16	2016-17	
					Budget estimate	Actual Expenditure
Salaries* and Wages	**17,505**	**19,554**	**21,621**	**23,757**	**29,371**	**28,373**
Non-plan head	16,939	18,954	20,977	23,075	28,763	27,610
Plan heads**	566	600	644	682	608	763
Interest payments (MH 2049)	**7,205**	**8,265**	**9,770**	**11,111**	**12,630**	**12,117**
Expenditure on pensions (MH 2071)	**8,867**	**9,971**	**11,253**	**13,063**	**15,503**	**15,277**
Subsidies	**1,268**	**1,279**	**1,252**	**1,372**	**1,808**	**1,731**
Total	**34,845**	**39,069**	**43,896**	**49,303**	**59,312**	**57,498**
Revenue Expenditure	**53,489**	**60,486**	**71,746**	**78,690**	**97,683**	**91,096**
Revenue Receipts	**44,137**	**49,177**	**57,950**	**69,033**	**84,617**	**75,612**
Percentage of committed expenditure to Revenue expenditure	65	65	61	63	61	63
Percentage of committed expenditure to Revenue receipts	79	79	76	71	70	76

* 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

Source: Finance Accounts of respective years

The share of committed expenditure in revenue expenditure was the same as in the previous year. However, compared to previous year, its percentage with respect to revenue receipts increased. Though Government estimated to spend 70 *per cent* of the revenue receipts for committed expenditure, it was exceeded by six percentage points.

While interest payments showed a reduced growth rate (9 *per cent*) compared to previous year (14 *per cent*), pension payments increased by 17 *per cent* compared to previous year's 16 *per cent*. However, interest payments and pension payments consumed 16 *per cent* and 20 *per cent* respectively of revenue receipts which is a matter of concern for the State Government.

1.6.4 Subsidies

The subsidies (₹1,731 crore) given during 2016-17 were ₹359 crore more than subsidies (₹1,372 crore) given in the previous year. These mainly included amount given to Food Corporation of India in respect of reimbursement of price difference of ration rice and wheat (₹806 crore), for Paddy procurement through Kerala State Civil Supplies Corporation (₹487 crore), grant to Kerala State Civil Supplies Corporation Limited for market intervention (₹200 crore) and subsidy to Co-operatives for conducting festival markets (₹53 crore).

1.6.5 Financial assistance to Local Bodies and Other Institutions

The 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 1.18**.

Table 1.18: Financial assistance to local bodies, educational institutions, etc. *(₹ in crore)*

Financial Assistance to Institutions	2012-13	2013-14	2014-15	2015-16	2016-17
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	6,204.36	6,934.56	7,769.01	8,409.89	9,602.98
Municipal Corporations and Municipalities	1,177.77	1,358.09	1,836.39	1,405.77	2,756.55
Zilla Parishads and Other Panchayati Raj Institutions	5,279.31	6,421.60	8,423.74	7,767.62	7,775.98
Development Agencies	5.15	6.42	6.23	5.91	14.73
Hospitals and Other Charitable Institutions	153.33	94.19	305.76	407.60	812.18
Other Institutions[3]	896.42	1,323.46	1,602.60	2,104.35	2,927.71
Total	**13,716.34**	**16,138.32**	**19,943.73**	**20,101.14**	**23,890.13**
Assistance as percentage of revenue expenditure	26	27	28	26	26

Source: Finance Accounts and information received from the State Government

The financial assistance to local bodies and other institutions increased from ₹13,716.34 crore in 2012-13 to ₹23,890.13 crore in 2016-17. The table above

[3] Major institutions under 'Other institutions' are Kerala Water Authority (₹461.81 crore), Loans to Kerala State Road Transport Corporation (₹305 crore), Suchitwa Mission (₹138.48 crore), Kudumbasree (₹130 crore), State Council for Science, Technology & Environment (₹128.80 crore), Kerala Social Security Mission (₹112.18 crore), Kerala Road Fund Board (₹105 crore), Kerala Veterinary and Animal Sciences University (₹101.06 crore), Kerala State Information Technology Mission (₹55.71 crore), Loans to Kerala Industrial Infrastructure Development Corporation (₹52.65 crore) and Kerala Sports Council (₹40.97 crore).

shows that though the aggregate financial assistance increased during 2016-17 compared to 2015-16, the percentage of assistance with reference to revenue expenditure remained unchanged during the last two years. Substantial increase was noticed in the release of Grants in respect of Urban Local Bodies and Educational institutions.

1.7 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 involves whether adequate funds were provided for public expenditure (i.e. adequate provisions for providing public services) and whether the fund was spent efficiently and effectively to achieve the intended objectives.

1.7.1 Adequacy of public expenditure

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 total expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.19** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2012-13 and 2016-17.

Table 1.19: Fiscal priority of the State in 2012-13 and 2016-17 *(in per cent)*

Fiscal Priority by the State	TE/ GSDP	DE#/ TE	SSE/ TE	CE/ TE	Education/ TE	Health/ TE
General Category States' Average, 2012-13	14.80	70.00	38.20	13.70	17.70	4.60
Kerala, 2012-13	14.36	54.24	33.74	7.77	17.52	5.48
General Category States' Average,2016-17	16.70	70.90	32.20	19.70	15.20	4.80
Kerala, 2016-17	15.63	53.77	34.30	9.89	16.66	5.85

TE: Total Expenditure DE: Development Expenditure,
SSE: Social Sector Expenditure CE: Capital Expenditure.
\# Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed (Social and Economic sector).

Table 1.19 shows that;

- In 2012-13, State's share of Development expenditure, Social Sector expenditure and Capital expenditure in Total expenditure was much less than that of General Category States. However, State's share of social sector expenditure in total expenditure in 2016-17 was higher than that of General Category States.
- In 2016-17 State's share of expenditure on education and health in total expenditure was higher than that of General Category States, indicating State Government's priority in these services.

- In respect of development expenditure and capital expenditure, while General Category States improved their position in 2016-17 compared to 2012-13, State could improve its position only in capital expenditure. Drop in share of development expenditure in total expenditure needs to be addressed.

1.7.2 Efficiency of expenditure

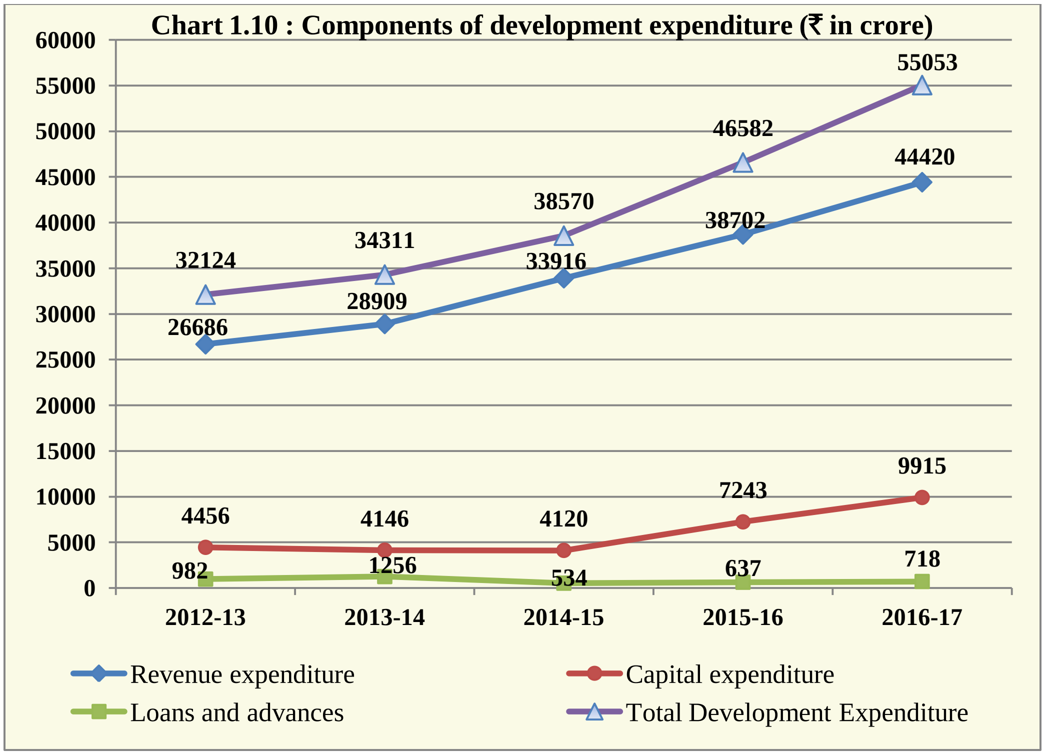
It is important for the State to take appropriate expenditure rationalisation measures and incur public expenditure on development heads from the point of view of social and economic development. Development expenditure comprised of revenue expenditure, capital expenditure and loans and advances in socio-economic services. **Table 1.20** presents the trends in development expenditure relative to the total expenditure of the State during last five years. **Chart 1.10** presents component-wise development expenditure during 2012-13 to 2016-17.

Table 1.20: Development expenditure ***(₹in crore)***

Components of Development Expenditure	2012-13	2013-14	2014-15	2015-16	2016-17
Development Expenditure (a to c)					
a. Revenue expenditure	26,686 (45.06)	28,909 (43.64)	33,916 (44.19)	38,702 (44.47)	44,420 (43.39)
b. Capital expenditure	4,456 (7.52)	4,146 (6.26)	4,120 (5.37)	7,243 (8.32)	9,915 (9.68)
c. Loans and advances	982 (1.66)	1,256 (1.90)	534 (0.70)	637 (0.73)	718 (0.70)
Total Development Expenditure	**32,124 (54.24)**	**34,311 (51.80)**	**38,570 (50.26)**	**46,582 (53.52)**	**55,053 (53.77)**
Total Expenditure	**59,228**	**66,244**	**76,744**	**87,032**	**1,02,382**

Source: Finance Accounts of respective years
Figures in parenthesis are its share in total expenditure

During 2016-17, growth rate of total expenditure was 17.64 *per cent* but the growth rate of development expenditure was 18.19 *per cent*, which is encouraging. Though 53.77 *per cent* of total expenditure was utilised for development expenditure, major share (43.39 *per cent*) was that of revenue expenditure, which indicated predominance of revenue expenditure items in development expenditure. However, the share of capital expenditure in total development expenditure during last two years showed an increasing trend, which is positive indicator on development expenditure of the State (**Table 1.20**).



Development expenditure increased from ₹32,124 crore in 2012-13 to ₹55,053 crore in 2016-17, recording an increase of 71 *per cent* in five years. During the last three years, share of revenue expenditure in development expenditure showed a declining trend (declined from 88 *per cent* in 2014-15 to 81 *per cent* in 2016-17), which is an encouraging factor.

Revenue expenditure on development sector increased by 66 *per cent* during the last five years, increased from ₹26,686 crore in 2012-13 to ₹44,420 crore in 2016-17. The increase of ₹5,718 crore in 2016-17 was mainly due to increase in expenditure under Social Services (₹6,162 crore), which was partly offset by decrease in expenditure under Economic Services (₹444 crore).

In Social Services, this increase was mainly under the sub-sectors ‘Education, Sports, Art and Culture’ (₹2,941 crore), ‘Health and Family Welfare’ (₹1,179 crore) and ‘Social Welfare and Nutrition’ (₹901 crore).

Capital expenditure on development sector increased by ₹2,672 crore mainly due to increase of ₹2,414 crore under Economic sector in 2016-17 over the previous year. Increase in Economic Sector was mainly under the sub-sectors ‘Other General Economic Services’ (₹1,524 crore), ‘Transport’ (₹259 crore) and ‘Other rural development programmes’ (₹191 crore).

1.7.3 Incomplete projects/works

Department-wise information pertaining to incomplete projects/works (each costing above ₹ one crore) as on 31 March 2017 is given in **Table 1.21**.

Table 1.21: 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 2017
1.	Irrigation Department – (Irrigation and Minor Irrigation Works)	11	108.62	76.00
2.	Public Works Department – (Roads)	68	373.47	244.83
3.	Public Works Department – (Bridges)	50	523.22	357.28
4.	Public Works Department – (Buildings)	94	384.97	261.37
5.	Harbour Engineering Department	3	34.34	34.94
	Total	**226**	**1,424.62**	**974.42**

Source: Appendix IX of Finance Accounts 2016-17

As per the Finance Accounts 2016-17, there was a delay in completion of 226 projects/works and this would result in time overrun and cost overrun, besides denying the desired benefit to the beneficiaries.

1.8 Financial Analysis of Government Investments, Loans and Advances

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. 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.

1.8.1 Investment and returns

During 2016-17, the State Government invested ₹7,240.03 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives **(Table 1.22)**. The average return on these investments was 1.35 *per cent* in the last five years while the Government paid an average interest rate of 7.18 *per cent* on its borrowings during 2012-13 to 2016-17.

Table 1.22: Return on investments

Investment/Return/Cost of Borrowings	2012-13	2013-14	2014-15	2015-16	2016-17
Amount of Investment (₹ in crore)	4,511.03	5,623.61	6,085.13	6,733.85	7,240.03
Return (₹ in crore)	48.15	100.58	74.18	90.23	96.37
Return *(per cent)*	1.07	1.79	1.22	1.34	1.33
Average rate of interest on Government borrowing *(per cent)*	7.15	7.11	7.35	7.35	6.92
Difference between interest rate and return *(per cent)*	6.08	5.32	6.13	6.01	5.59

Source: Finance Accounts of the State Government

During 2016-17, State Government invested ₹55.29 crore in Statutory Corporations, ₹582.32 crore in Government Companies, ₹81.63 crore in Co-operative Banks and Societies. Progressive expenditure on investments was decreased (due to reclassification of investments) by ₹241.33 crore under Government companies and decreased (due to disinvestment of shares) by ₹29.59 crore under Co-operative banks and societies.

1.8.2 Loans and advances by the State

In addition to investments in Co-operative Societies, Statutory Corporations and Government Companies, the Government also provides loans and advances to many institutions. **Table 1.23** presents the outstanding loans and advances as on 31 March 2017 and interest receipts during the last five years.

Table 1.23: Details of loans and advances during the last five years *(₹in crore)*

Quantum of Loans/Interest Receipts/Cost of Borrowings	2012-13	2013-14	2014-15	2015-16	2016-17
Opening balance	9,394[4]	10,360[5]	11,713[6]	12,320[7]	13,010
Amount advanced during the year	1,136	1,464	743	842	1,160
Amount repaid during the year	74	103	124	152	292[8]
Closing balance	10,456	11,721	12,332	13,010	13,878
Net addition	1,062	1,361	619	690	868
Interest receipts	19	21	27	32	31

Source: Finance Accounts of the State Government.

[4] 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.
[5] Difference of ₹96 crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (p) of Statement no.16 of Finance Accounts 2013-14.
[6] Difference of ₹eight crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (o) of Statement no.18 of Finance Accounts 2014-15.
[7] Difference of ₹12 crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (q) of Statement no.18 of Finance Accounts 2015-16.
[8] Includes ₹126 crore being the irrecoverable loans written off.

The total outstanding loans and advances as on 31 March 2017 increased by ₹868 crore compared to those of the previous year. The major disbursement of loans and advances during the current year was to the Kerala State Road Transport Corporation (₹305 crore) and House building advance to State Service Officers (₹427 crore). Interest received against these loans remained less than one *per cent* during the period 2012-13 to 2016-17 and was 0.22 *per cent* during 2016-17 as against the average cost of borrowing of 6.92 *per cent* during the year.

1.8.2.1 Defaulters on loan repayment

Government provides loan assistance to Statutory Corporations, Government Companies, Autonomous Bodies and Authorities etc., and the same was treated as assets in the Government accounts. As per Finance Accounts, an amount of ₹13,878 crore was outstanding as loan at the end of March 2017. Also, at the end of March 2017, 83 institutions defaulted in repayment of loans advanced to them and arrears in respect of this were ₹10,579 crore (Principal: ₹6,656 crore and Interest: ₹3,923 crore). About 87 *per cent* of the above arrears pertained to five institutions *viz*., Kerala Water Authority (₹4,127 crore), Kerala State Electricity Board Limited (₹1,760 crore), Kerala State Road Transport Corporation (₹1,668 crore), Kerala State Housing Board (₹1,421 crore) and TEXFED (₹210 crore). During the year, State Government also released loans to 13 institutions amounting to ₹434 crore whose previous loan repayments are in arrears.

It was also observed that State Government released 81 loans to 19 institutions amounting to ₹84.55 crore during the period from 1991-92 to 2005-06, without specifying the terms and conditions for repayment. In order to provide a true and fair picture of the State Government accounts, Government needs to reduce the arrears in recovery of loans released.

1.8.3 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 1.24**.

Table 1.24: Cash balances and Investment of cash balances ***(₹ in crore)***

Particulars	As on 31 March 2016	As on 31 March 2017	Increase(+)/ Decrease(-)
(a) General Cash balances			
Cash in Treasuries and other banks	5.43	37.23	31.80
Deposit with Reserve Bank	(-)45.88	(-)91.73	(-)45.85
Remittances in transit -Local	1.07	6.80	5.73
Total (a)	**(-) 39.38**	**(-) 47.70**	**(-) 8.32**
(b) Investments from cash balances			
GoI Treasury Bills	1,631.60	1,939.35	(+) 307.75
GoI Securities	5.15	5.15	-
Total (b)	**1,636.75**	**1,944.50**	**(+)307.75**
(c) Investments in earmarked funds			
Reserve funds not bearing interest	1,630.37	1,751.94	(+)121.57
Total (c)	**1,630.37**	**1,751.94**	**(+)121.57**

Particulars	As on 31 March 2016	As on 31 March 2017	Increase(+)/ Decrease(-)
(d) Departmental cash balances including Permanent advances	**1.65**	**1.59**	**(-)0.06**
Total Cash Balance - (a) to (d)	**3,229.39**	**3,650.33**	**(+)420.94**
Interest realised during the year on investment of cash balances	**40.85**	**78.32**	**37.47**

Source: Finance Accounts of the State Government

Table 1.24 shows that cash balance of the State, at the end of March 2017, increased by ₹420.94 crore compared to the closing balance at the end of March 2016. This was due to the increase in investments under GoI Treasury Bills (₹307.75 crore) and investments in earmarked funds (₹121.57 crore). The interest realised on investment of cash balance also increased by ₹37.47 crore, compared to the previous year.

1.8.3.1 Outstanding balances under the head 'Cheques and Bills'

This head is an intermediary accounting head for initial recording 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 un-encashed cheques.

As on 31 March 2017, there was an outstanding balance (cumulative) of ₹755.37 crore. This represents expenditure originally booked under different major heads of Consolidated Fund, which did not result in any cash outflow till the end of March 2017.

During the audit of treasuries, AG (A&E) observed that 70 pay order cheques (drawn between March 2010 and November 2016) for ₹96.68 lakh in 16 treasuries remained un-encashed. Since these cheques remained un-encashed, the amount booked against these cheques in Consolidated Fund will over-state the expenditure till it is encashed.

1.9 Assets and Liabilities

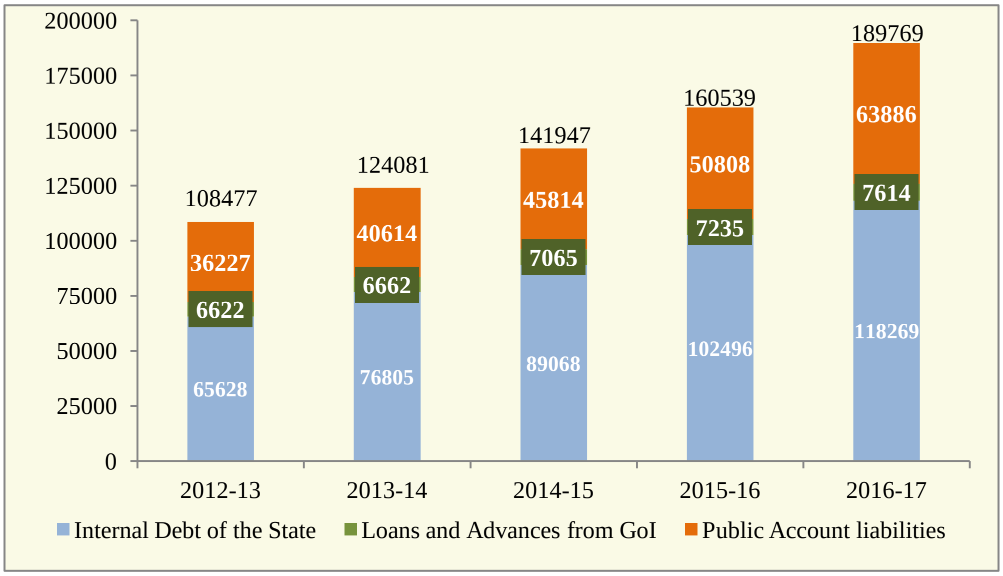
1.9.1 Growth and composition of assets and liabilities

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 Part B** gives an abstract of such liabilities and assets as on 31 March 2017, compared with the corresponding position as on 31 March 2016. 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 of the capital outlay and loans and advances given by the State Government and its cash balances.

1.9.2 Fiscal liabilities

The trends of outstanding fiscal liabilities of the State are presented in **Appendix 1.5**. The composition of fiscal liabilities during the last five years are presented in **Chart 1.11**.

Chart 1.11: Composition of Fiscal Liabilities (₹ *in crore*)



The overall fiscal liabilities of the State increased from ₹1,08,477 crore in 2012-13 to ₹1,89,769 crore in 2016-17, thus, recording an increase of 75 *per cent* during the five year period. During the period from 2012-13 to 2015-16 the growth rate of fiscal liabilities was steadily declining (declined from 16.5 *per cent* in 2012-13 to 13.1 *per cent* in 2015-16), but it increased to 18.2 *per cent* in 2016-17. Incidentally, it was much higher than the growth rate of GSDP (11.37*per cent*), which is a matter of concern.

Fiscal liabilities of the State comprised of Consolidated Fund liabilities and Public Account liabilities. Consolidated Fund liabilities (₹1,25,883 crore) comprised of Market Loans (₹99,532 crore), Loans from the Government of India (₹7,614 crore) and Other Loans (₹18,737 crore). The Public Account liabilities (₹63,886 crore) comprised of liabilities under Small Savings, Provident Funds, etc., (₹60,571 crore)[9], interest bearing obligations (₹118 crore) and non-interest bearing obligations like Deposits and other earmarked funds (₹3,197 crore).

The overall liabilities of the State include balance under Reserve Funds amounting to ₹2,174.28 crore (as on 31 March 2017). The details in respect of two of the reserve funds are given in succeeding paragraphs:

[9] This includes liabilities under Savings Bank Deposits (₹15,535 crore) and Fixed and Time Deposits (₹15,341 crore).

(a) State Disaster Response Fund

The State Disaster Response Fund (SDRF) was set up on 1 April 2010 replacing the existing Calamity Relief Fund. At the beginning of the year, there was ₹72.52 crore as opening balance in the Fund. The size of the Fund for Kerala for the year 2016-17 (fixed by the Fourteenth Finance Commission) was ₹194 crore, 75 *per cent* (₹145.5 crore) of which was to be contributed by the Central Government and 25 *per cent* (₹48.5 crore) by the State Government. During the year, an amount of ₹194 crore was credited to the Fund. After setting off the expenditure for disaster relief operations to the extent of ₹150.66 crore, the balance in SDRF as on 31 March 2017 was ₹115.86 crore.

According to the guidelines issued by the Government of India, SDRF shall be kept in the Public Account of the State on which the State should pay interest to the Fund at the rate applicable to overdrafts under the Overdrafts Regulation Scheme of RBI. This was not done and also interest payable on the un-invested balances of the earlier years was also not estimated by the Government and credited to the Fund so far (December 2017). Non-transfer of interest amount resulted in under-statement of revenue expenditure and also reduced balance under SDRF.

(b) Consolidated Sinking Fund

The State Government set up a Consolidated Sinking Fund with effect 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 0.50 *per cent* of the outstanding liabilities at the end of the previous year. According to this, the State Government had to contribute ₹802.69 crore during 2016-17 to the Consolidated Sinking Fund. However, the State Government did not contribute any amount to the Fund, during the current year. Non-contribution resulted in under-statement of revenue expenditure and also reduced reserve fund for future amortization of loan liability.

As per the guidelines of the fund, the balance at credit of the Fund is required to be invested in the Government of India Securities. During the year, an amount of ₹121.57 crore was received as interest from the investment made out of the fund. At the beginning of the year, ₹1,615.81 crore was available and with the interest received on investment, the outstanding balance at the end of year was ₹1,737.38 crore.

1.9.3 Status of guarantees – contingent liabilities

Guarantees are contingent liabilities 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 (Amendment) Act, 2015[10] 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 ₹21,000 crore. The maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2012-13 are given in **Table 1.25**.

Table 1.25: Guarantees given by the Government of Kerala ***(₹ in crore)***

Guarantees	2012-13	2013-14	2014-15	2015-16	2016-17
Maximum amount guaranteed	11,482.25	12,275.21	13,123.30	13,712.77	20,204.10
Outstanding amount of guarantees	9,099.50	9,763.36	11,126.87	12,438.52	16,245.56
Percentage of maximum amount guaranteed to total revenue receipts	26	25	23	20	27
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	21,000	21,000

Source: Finance Accounts of the State Government

The above table shows that there was steady increase in the outstanding guarantees at the end of each of last five years and it increased from ₹9,099.50 crore in 2012-13 to ₹16,245.56 crore in 2016-17. As a percentage of revenue receipts, the guaranteed amount showed steady decline from 26 *per cent* in 2012-13 to 20 *per cent* in 2015-16, but it increased to 27 *per cent* in 2016-17.

As per Section 6 of the Act, the Government has 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 was not constituted and consequently, guarantee commission of ₹854.08 crore collected during 2003-04 to 2016-17 was not 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. Non-constitution of Guarantee Redemption Fund resulted in under-statement of revenue expenditure to that extent.

During the year, an amount of ₹101.30 crore was received as guarantee commission and as of March 2017, ₹120.03 crore was due as arrears in this regard.

[10] Kerala Ceiling on Government Guarantees Act, 2003 was amended in 2015 and ceiling on outstanding Government guarantee at the end of the year was revised from ₹14,000 crore to ₹21,000 crore.

1.10 Debt Management

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability of the State. This section analyses sustainability of overall debt liability of the State Government in terms of growth rate of debt and GSDP, Debt-GSDP ratio, Debt-RR ratio, impact of growing debt on interest payments, etc. These indicators for the last five years are given in **Table 1.26**.

Table 1.26: fiscal liability sustainability: indicators and trends ***(₹ in crore)***

Indicators of Debt Sustainability	2012-13	2013-14	2014-15	2015-16	2016-17
Outstanding Debt of the State	1,08,477	1,24,081	1,41,947	1,60,539	1,89,769
Growth rate of Debt	16.48	14.38	14.40	13.10	18.21
Gross State Domestic Product(GSDP)	4,12,313	4,65,041	5,26,002	5,88,337	6,55,205
Growth rate of GSDP	13.26	12.79	13.11	11.85	11.37
Debt-GSDP ratio (*per cent*)	26.31	26.68	26.99	27.29	28.96
Debt-Revenue Receipt ratio	2.46	2.52	2.45	2.33	2.51
Average interest[11] paid on outstanding debt	7.15	7.11	7.35	7.35	6.92
Percentage of interest paid on revenue Receipt	16.32	16.81	16.86	16.10	16.03
Per capita debt of the State	32,478	37,150	42,499	45,095	53,008

Source: Finance Accounts of respective years

Table 1.26 showed a decreasing trend in growth rate of debt from 2012-13 to 2015-16, but it increased to 18.21 *per cent* in 2016-17.

The adjoining States of Tamil Nadu and Karnataka had Debt-GSDP ratio of 21.82 and 19.81 *per cent* respectively but that of Kerala was increasing. During the last five years, it increased from 26.31 *per cent* in 2012-13 to 28.96 *per cent* in 2016-17, which is worrisome. Moreover, the per capita debt of Kerala for the year 2016-17 (₹53,008) was higher as compared to Tamil Nadu (₹39,305) and Karnataka (₹36,222).

Interest payments as a percentage of revenue receipt showed a decreasing trend during the last two years, which indicated that State's interest liability was not growing with increase in debt liability.

1.10.1 Public Debt management

Public debt of the State comprises of debt raised from internal sources as well as loans and advances received from Government of India. Over the years, loans raised from open market has been the main source for the State Government to meet its fiscal needs. Loans raised by the State Government during the last five

[11] Average interest rate = Interest paid/average of opening and closing balance of debt for the year

years, repayments made with interest and net amount available from the resources are given in **Table 1.27**.

Table 1.27: Net resources available in Public Debt ***(₹ in crore)***

Description	2012-13	2013-14	2014-15	2015-16	2016-17
Public Debt					
Internal Debt					
Open Market Borrowings	11,583	12,800	13,200	15,000	17,300
Loans from Financial Institutions	410	501	552	600	828
Special securities issued to NSSF	630	565	1,132	1,455	1,861
Others	86	84	222	87	86
Total Internal Debt	**12,709**	**13,950**	**15,106**	**17,142**	**20,075**
Loans and Advances from GOI	552	392	752	531	852
Total Public Debt Receipts	**13,261**	**14,342**	**15,858**	**17,673**	**20,927**
Total Public Debt Payments	**2,804**	**3,126**	**3,191**	**4,075**	**4,775**
Total interest paid on Public Debt	**5,255**	**6,151**	**7,301**	**8,358**	**9,416**
Net Debt available	**5,202**	**5,065**	**5,366**	**5,240**	**6,736**

Source: Finance Accounts of respective years

Table 1.27 shows that though the total public debt receipt increased from ₹13,261 crore in 2012-13 to ₹20,927 crore in 2016-17, there was not much increase in the net debt available with the State for its development activities. Also, during 2016-17, almost 68 *per cent* of the loans raised by the State Government was utilised for servicing debt, since the State had no surplus revenue to meet this liability. Status of State's non-debt receipt against total expenditure in last five years is given in **Table 1.28**.

Table 1.28: Incremental non-debt receipts and total expenditure ***(₹ in crore)***

Year	Non-Debt Receipt	Growth compared to last year	Total Expenditure	Growth compared to last year	Resource Gap
2012-13	44,226	6,145	59,228	8,332	-2,187
2013-14	49,300	5,074	66,244	7,016	-1,942
2014-15	58,102	8,802	76,744	10,500	-1,698
2015-16	69,214	11,112	87,032	10,288	824
2016-17	75,934	6,720	1,02,382	15,350	-8,630

Source: Finance Accounts of respective years

The resource gap (gap between incremental non-debt receipts and incremental total expenditure) was negative from 2012-13 to 2016-17, except in 2015-16 which indicated that incremental non-debt receipts were inadequate to finance incremental primary expenditure and incremental interest burden. Though the resource gap decreased from 2012-13 to 2015-16, it increased considerably in 2016-17.

Table 1.29: Maturity profile of Public Debt ***(₹in crore)***

Debt maturing	2012-13	2013-14	2014-15	2015-16	2016-17
Upto one year	2,569.25 (3.56)	2,674.90 (3.21)	3,289.26 (3.42)	3,751.61 (3.42)	5,682.54 (4.51)
One to three years	5,791.05 (8.01)	6,829.83 (8.18)	9,139.85 (9.51)	12,243.13 (11.16)	13,331.80 (10.59)
Three to five years	9,100.72 (12.60)	12,058.34 (14.45)	13,265.26 (13.80)	13,284.34 (12.11)	16,677.73 (13.25)
Five to seven years	13,181.39 (18.24)	13,165.08 (15.77)	16,667.64 (17.34)	22,808.05 (20.78)	26,786.58 (21.28)
Seven years and above	36,932.83 (51.12)	44,048.78 (52.77)	48,958.69 (50.93)	52,857.95 (48.17)	58,456.21 (46.44)
Maturity profile details not furnished by State Government	4,674.95 (6.47)	4,689.63 (5.62)	4,812.26 (5.00)	4,785.90 (4.36)	4,948.00 (3.93)

Source: Finance Accounts of respective years

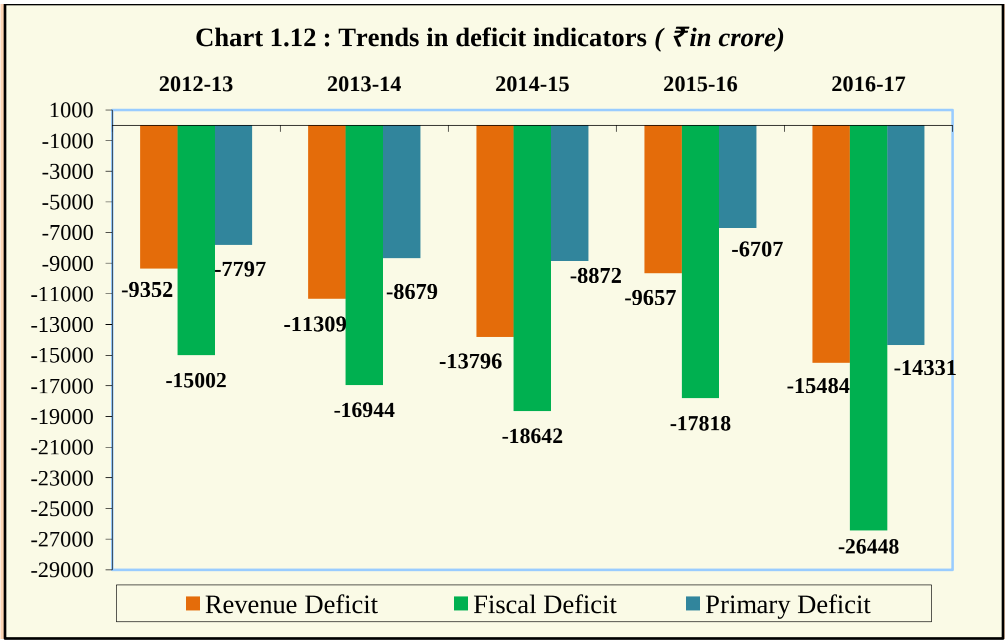
The debt maturity profile of the State given in the **Table 1.29** shows that 28.35 *per cent* of the debt amounting to ₹35,692.07 crore has to be repaid within five years. Also about 50 *per cent* (₹62,478.65 crore) of the debt has to be repaid by March 2024 (within seven years). Steep increase in State Government's open market borrowings occurred from 2007-08 onwards and this will have adverse impact on State finances from 2017-18 onwards. State Government has to ensure additional revenue resources and well thought out debt strategy to meet this debt burden.

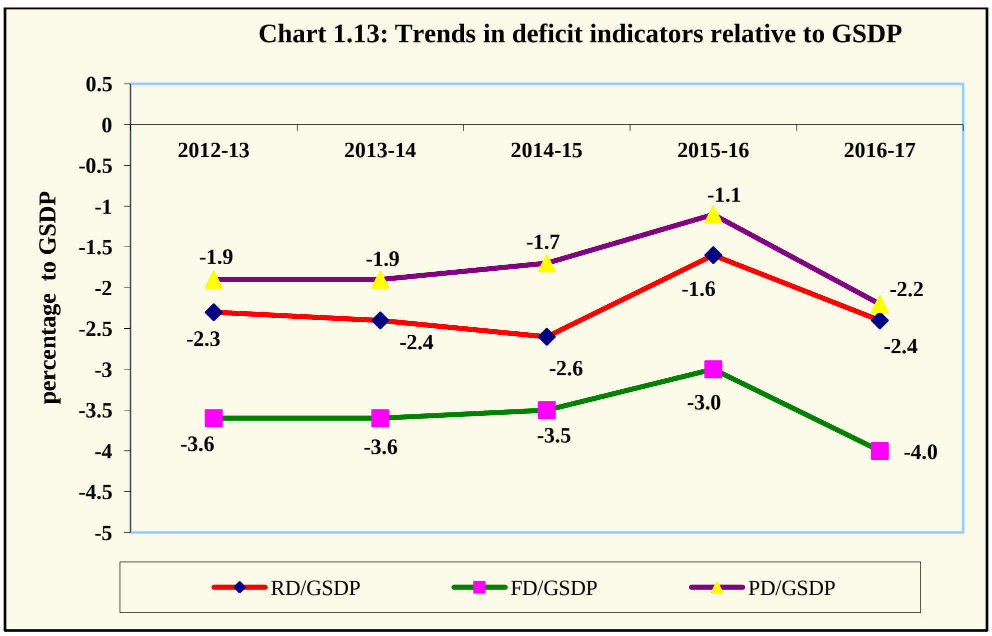
1.11 Fiscal Imbalances

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 2016-17.

1.11.1 Trends in deficits

Charts 1.12 and **1.13** present the trends in deficit indicators over the period 2012-17.





The revenue deficit of the State, which indicates the excess of its revenue expenditure over revenue receipts, increased steadily since 2012-17 (except during 2015-16) indicating increased growth of revenue expenditure over revenue receipts. Based on the recommendations of Fourteenth Finance Commission, during 2016-17, GoI released an amount of ₹3,350 crore as Post Devolution Revenue Deficit Grant. However, revenue deficit increased from ₹9,657 crore in 2015-16 to ₹15,484 crore in 2016-17. This indicates that State Government could not control revenue deficit even after receipt of substantial assistance from GoI.

The fiscal deficit, which represents the total borrowings of the Government increased during the last five years (except during 2015-16). It increased from

₹15,002 crore in 2012-13 to ₹18,642 crore in 2014-15, but reduced to ₹17,818 crore in 2015-16 due to receipt of Post Devolution Revenue Deficit Grant. However, fiscal deficit increased to ₹26,448 crore in 2016-17, even after receipt of ₹3,350 crore as Post Devolution Revenue Deficit Grant. Primary deficit also increased considerably during the five years period from ₹7,797 crore in 2012-13 to ₹14,331 crore in 2016-17.

As a proportion of GSDP, primary, revenue and fiscal deficits were lowest during 2015-16, but increased during 2016-17 due to increased growth of expenditure with respect to revenue receipt. Consequently, none of the target set in Medium Term Fiscal Plan (**Appendix 1.3**) could be achieved.

1.11.2 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 1.30**. Receipts and disbursements under the components of financing the fiscal deficit during 2016-17 are given in **Table 1.31**.

Table 1.30: Components of fiscal deficit and its financing pattern ***(₹in crore)***

Particulars		2012-13	2013-14	2014-15	2015-16	2016-17
Decomposition of fiscal deficit						
1.	Revenue deficit	9,352	11,309	13,796	9,657	15,484
2.	Net capital expenditure	4,588	4,275	4,227	7,472	10,096
3.	Net loans and advances	1,062	1,360	619	689	868
Total fiscal deficit		**15,002**	**16,944**	**18,642**	**17,818**	**26,448**
Financing pattern of fiscal deficit*						
1.	Market borrowings	10,571	11,373	11,777	12,886	14,686
2.	Loans from Government of India	226	40	402	169	379
3.	Special Securities Issued to National Small Savings Fund	32	(-)42	525	731	972
4.	Loans from Financial Institutions	(-)118	(-)77	(-)69	(-)64	107
5.	Small Savings, PF, etc.	3,686	4,231	3,765	8,332	12,932
6.	Deposits and Advances	1,141	188	1,365	(-)3,280	105
7.	Suspense and Miscellaneous	712	(-)946	58	774	(-)2,169
8.	Remittances	31	(-)168	26	(-)93	(-) 313
9.	Others	(-)379	(-)68	164	(-)59	170
10.	**Total (1 to 9)**	**15,902**	**14,531**	**18,013**	**19,396**	**26,869**
11.	Increase (-)/Decrease (+) in Cash Balance	(-)900	2,413	629	(-)1,578	(-) 421
12.	**Overall deficit**	**15,002**	**16,944**	**18,642**	**17,818**	**26,448**
*All these figures are net of disbursements/outflows during the year.						

Source: Finance Accounts of respective years

Table 1.31: Receipts and disbursements under components financing the fiscal deficit during 2016-17 ***(₹ in crore)***

Sl. No.	Particulars	Receipt	Disbursement	Net
1.	Market borrowings	17,300	2,614	14,686
2.	Loans from Government of India	852	473	379
3.	Special Securities Issued to National Small Savings Fund	1,861	889	972
4.	Loans from Financial Institutions	828	721	107
5.	Small Savings, PF, etc.	61,708	48,776	12,932
6.	Deposits and Advances	3,286	3,181	105
7.	Suspense and Miscellaneous	1,21,717	1,23,886	(-)2,169
8.	Remittances	3,587	3,900	(-) 313
9.	Others	415	245	170
10.	**Total (1 to 9)**	**2,11,554**	**1,84,685**	**26,869**
11.	Increase (-)/Decrease (+) in Cash Balance	3,229	3,650	(-) 421
12.	**Overall deficit**			**26,448**

Source: Finance Accounts of the State Government

Table 1.30 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 of the State Government to finance the fiscal deficit. During 2016-17, net market borrowings (₹14,686 crore) and net accretions in Small savings, PF, etc., (₹12,932 crore) were used for financing the fiscal deficit of the State.

During 2016-17, the State Government raised ₹17,300 crore as market loans at a weighted average interest rate of 7.58 *per cent*, loans amounting to ₹827.89 crore from NABARD at an interest rate of 5.25 *per cent* to 5.50 *per cent*, ₹1,861.22 crore from National Small Savings Fund at an interest rate of 9.50 *per cent* and ₹47.79 crore from NCDC at an interest rate of 10.61 *per cent*. The State Government also received loans amounting to ₹852.14 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 mobilised deposits from its employees, pensioners, institutions and general public through treasuries. During 2016-17, the State Government received ₹41,495.18 crore as deposits through Treasury Saving Bank accounts at an average interest rate of five *per cent* and ₹12,233.61 crore as Treasury Fixed Deposits at interest rates ranging between 7.50 *per cent* and 9.50 *per cent*. The balance of such deposits as on 31 March 2017 was ₹30,876.64 crore. This is ₹9,361.60 crore more than the previous year's balance. The above increased accumulation also resulted in non-achievement of fiscal liability-GSDP ratio set for the year.

1.11.3 Quality of deficit

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 1.32)** indicates the extent to which the deficit was increased on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.32: 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 (-)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2012-13	44,226	46,284	4,603	1,136	52,023	(-) 2,058	(-) 7,797
2013-14	49,300	52,221	4,294	1,464	57,979	(-) 2,921	(-) 8,679
2014-15	58,102	61,976	4,255	743	66,974	(-) 3,874	(-) 8,872
2015-16	69,214	67,579	7,500	842	75,921	1,635	(-) 6,707
2016-17	75,934	78,979	10,126	1,160	90,265	(-) 3,045	(-) 14,331

Source: Finance Accounts of respective years

The bifurcation of the factors leading to primary deficit of the State revealed that during 2012-13 to 2016-17, non-debt receipts (NDR) of the State were not enough to meet the primary revenue expenditure[12] of the State (except during 2015-16). Though the position showed an improving trend from 2012-13 to 2015-16, it worsened during 2016-17. Government had to depend on borrowed funds even for meeting primary expenditure during 2016-17.

1.12 Management of loans raised from financial institutions

1.12.1 Introduction

Article 293 (1) of the Constitution of India empowers State Governments to borrow, within the territory of India upon the security of the Consolidated Fund of the State within such limits, if any, as may be fixed from time to time. Using such powers, State Government raise loans from financial institutions like National Bank for Agriculture and Rural Development (NABARD), Life Insurance Corporation of India (LIC), National Co-operative Development Corporation (NCDC), General Insurance Corporation (GIC), Housing and Urban Development Corporation (HUDCO), etc., for supporting the plan programme of the State. The departmental officers are responsible for maintaining the records relating to scheme-wise borrowings and arranging prompt repayment of principal and interest thereon.

The records relating to loans raised from Life Insurance Corporation of India, General Insurance Corporation, National Co-operative Development Corporation

[12] Primary revenue expenditure represents revenue expenditure less expenditure on interest.

and National Bank for Agriculture and Rural Development are being maintained by Finance Department and loan raised from Housing and Urban Development Corporation is being maintained by Director of Scheduled Tribes Development Department (STDD). Audit was conducted covering the period from 2012-13 to 2016-17 in Finance Department and Directorate of Scheduled Tribes Development to assess whether:

- the accounting of the loans was correctly done; and
- the loans raised were released to implementing department/agency through budget for intended purposes.

During the last five years (2012-17) the State Government raised an amount of ₹3454.40 crore from three[13] financial institutions and ₹3264.33 crore was outstanding[14] at the end of March 2017. Records of the Finance Department, STDD and financial institutions were test-checked in audit and noticed some deficiencies in accounting of the receipts as well as repayments, which are discussed in the succeeding paragraphs.

Audit observations

1.12.2 Discrepancies in the accounting of loans

1.12.2.1 Loan account of National Co-operative Development Corporation

Accounting of the loans availed from NCDC is the responsibility of Finance Department of the State Government and audit observed a difference of ₹45.03 crore between the books of NCDC (₹250.35 crore) and Finance Accounts (₹295.38 crore) at the end of March 2017. Reasons for this difference was analysed in audit as detailed below:

- Loans raised from NCDC coming under Credit Linked Capital investment subsidy scheme (Central Sector Scheme) comprises of loan as well as subsidy amount. As the subsidy is back-ended[15], it shall be initially provided as interest free loan, which shall be converted into subsidy after the entire term loan (excluding subsidy) is repaid along with interest and on fulfilment of all the norms, guidelines and conditions laid down under the scheme. Since the initial accounting of loan and subsidy was done under the loan head of account '6003-108', Finance Department has to propose for transfer of the subsidy amount and based on this, Accountant General (A&E) has to carry out account adjustment. Test-check of 17 out of 50[16] subsidy linked loans (loan amount ₹8.25 crore and subsidy: ₹0.68 crore) revealed that Finance department did not propose account adjustment for the subsidy portion of ₹0.68 crore. Consequently, it remained unadjusted in the loan account.

[13] NCDC: ₹478.86 crore, NABARD: ₹2890.54 crore and HUDCO: ₹85 crore.

[14] NCDC: ₹295.38 crore, NABARD: ₹2883.95 crore and HUDCO: ₹85 crore.

[15] Subsidy portion is the last component of the amount availed and benefit of it would be available only if loan portion was repaid as per the terms and conditions.

[16] Loans completely repaid during audit period.

- Loans sanctioned by NCDC are directly transferred to the current account of the State Government maintained in the State Bank of Travancore (now State Bank of India) and Finance Department had to withdraw and remit it to the State Treasury for accounting under Government accounts. Loan amount of ₹0.46 crore credited in the bank account of the State on 8 January 2015 was transferred to Government account (6003-108) on 9 January 2015 by the Finance Department. However, Finance Department repeated this action again on 14 January 2015 without the receipt of any amount from NCDC, which led to overstatement of loan balance in Government account to the tune of ₹0.46 crore.

It was observed that ₹21.38 crore related to subsidy amount in respect of loans released during 2012-17, which would be due for transfer between 2020 and 2025. The remaining difference (₹22.51 crore[17]) needs to be reconciled by the Finance department. The matter was referred to Government in October 2017 and reply was awaited (January 2018).

1.12.2.2 Loan account of Housing and Urban Development Corporation

During the year 2014-15, State Government permitted the Director of Scheduled Tribes Development Department to avail ₹135 crore from HUDCO as loan for the housing scheme of homeless tribes and HUDCO released the loan in three instalments. The first instalment of ₹50 crore was released in March 2015 by demand draft and the same was credited to the Treasury Savings Bank Account of the Director without routing through Government accounts. Consequently, the loan balance of the State was understated by ₹50 crore in Finance Accounts. Even after two years, no effort was made to rectify the mistake though repeatedly pointed out by Accountant General (A&E/Audit).

Finance Department replied (November 2017) that sanction was accorded for effecting the account adjustment and action was being taken to allocate sufficient budget provision in the ensuing Supplementary Demands for Grants.

1.12.3 Deficiencies noticed in payment of interest on loans

1.12.3.1 National Co-operative Development Corporation loan

In May 2012, State Government sought details of outstanding loans from NCDC for pre-closure of loans and NCDC informed that pre-closure of outstanding loans (in the case of credit linked subsidy schemes) would entail refund of the subsidy assistance by State Government. When Government pre-closed outstanding loan of ₹152.56 crore, which had interest rate above 10.25 *per cent* on 5 November 2012, NCDC requested (November 2012) the State Government to refund the subsidy amount of ₹4.09 crore related to the projects for which funds were released. Subsequently, the State Government informed (December 2012) NCDC that the pre-payment of loans in respect of subsidy linked schemes (₹19.05 crore out of ₹152.56 crore) was not intended and informed their willingness to re-avail loan on the schemes for which advance refund was made on the existing terms

[17] ₹22.51 crore = ₹45.03 crore – (₹21.38 crore + ₹0.46 crore + ₹0.68 crore).

and conditions. Consequently, NCDC further released the subsidy linked loan amounting to ₹19.05 crore on 13 February 2013. In November 2013, Finance Department made an avoidable payment of ₹61.21 lakh as interest to NCDC for the intervening period (5 November 2012 to 13 February 2013). The matter was referred to Government in October 2017 and reply was awaited (January 2018).

1.12.3.2 Housing and Urban Development Corporation loan

HUDCO released loan amount of ₹97.25 crore in two instalments (March 2015 and January 2016) to the Director of Scheduled Tribes Development and the due date for payment of interest was fixed as the last dates of February, May, August and November of every year. For belated payments, HUDCO charges compound interest and penal interest @ 8.75/9.25 *per cent* and 3 *per cent* respectively. Director of ST Development was effecting interest payments based on the demand sent by HUDCO and made 10 quarterly interest payments till June 2017 and it was observed that nine out of 10 payments were made belatedly and this attracted compound interest and penal interest as detailed in **Appendix 1.8**. Consequently, an additional burden of ₹5.07 lakh was to be borne by the State Government for the total delay of 133 days, which occurred during the period from May 2015 to June 2017. The department did not ensure budgetary allocation for arranging payment of interest on due dates, which led to delayed payment to HUDCO and additional expenditure to the State Government.

Audit further noticed that HUDCO demanded excess penal and compound interest due to wrong depiction of date of actual payment. Non-verification of demands raised by HUDCO at department level resulted in excess payment of ₹ 25,580 towards compound and penal interest for 11 days out of ₹ 5,07,088.

Finance Department replied (November 2017) that the lapse was due to administrative failure and that necessary directions have since been issued to the Administrative Department to take urgent action for avoiding similar instances in future.

1.12.4 Non/delayed utilisation of loans raised

In order to have optimum benefit of the loan availed, Finance Department has to transfer the funds to Government account (from the current account of the agency bank) immediately and release it to needy department for implementation of the scheme. However, delay ranging from one to ten months was noticed in transfer of nine NCDC loans amounting to ₹3.21 crore availed during 2013-16. Consequently, utilisation of funds for intended purposes was also delayed to that extent.

As part of modernisation of four textile mills, NCDC approved (₹154.49 crore) the proposals of the State Government and released an amount of ₹86.88 crore in two instalments (March 2015 and July 2015), based on the State's request to release the loan, promoter contribution and subsidy portion of the amount sanctioned by NCDC as advance to the textile mills. NCDC released this advance with the condition that the same should be provided to the spinning mills within one month of the receipt of the same. However, even after two years, Industries

Department released only ₹55.36 crore to beneficiary mills (that too with a delay of 8 to 24 months) and ₹31.52 crore (36 *per cent*) remained unutilised and blocked up with Government as on September 2017. The Director of Handloom and Textiles replied that the funds were released as per budget provision available in each year and in accordance with the release order of Government of Kerala. However, Government should have ensured timely budgeting and release of funds as the funds were obtained based on State Government's specific request.

Out of ₹135 crore released by HUDCO, State Government did not release ₹37.75 crore to STDD. Out of ₹97.25 crore available with STDD, ₹12.46 crore remained blocked in Special Treasury Savings Bank account as of July 2017. This matter was referred to Government in October 2017 and reply was awaited (January 2018).

1.13 Conclusion and Recommendations

Fiscal position of the State

In 2016-17, fiscal position of the State deteriorated as compared to 2015-16 in terms of three key fiscal parameters *viz.*, revenue, fiscal and primary deficits, which were at the higher side during 2016-17. Revenue deficit increased from ₹9,657 crore in 2015-16 to ₹15,484 crore in 2016-17 and fiscal deficit increased from ₹17,818 crore in 2015-16 to ₹26,448 crore in 2016-17. State did not achieve any of the targets fixed in its Medium Term Fiscal Plan. During the year, revenue receipts were insufficient to meet its non-plan revenue expenditure, indicating insufficiency of revenue receipts for routine expenditure of the State. Incremental non-debt receipts during the year were inadequate to finance incremental primary expenditure and incremental interest burden, which indicated inadequacy of resources to meet primary expenditure. As per the recommendation of the Fourteenth Finance Commission, Fiscal deficit to GSDP ratio was to be anchored at 3 *per cent* but it was 4 *per cent* during 2016-17 indicating increased growth of expenditure with respect to the growth of GSDP.

State Government needs to control the fiscal deficit to make it eligible for benefits recommended in Fourteenth Finance Commission Report.

Revenue resources

Revenue receipts of the State increased from ₹44,137 crore in 2012-13 to ₹75,612 crore in 2016-17, recording a growth of 71 *per cent* during last five years. However, revenue receipt recorded lowest growth rate of 9.53 *per cent* in 2016-17. State's own tax revenue, being the main source of revenue in revenue receipts also recorded lowest growth rate (8.16 *per cent*) in 2016-17. Though, State's share of Union taxes and duties and Grants-in-aid from GoI doubled during last five years, there was considerable reduction in grant released for State plan schemes and Central plan schemes. Receipts from State Lotteries was the main source of non-tax revenue and it was more than 75 *per cent* during 2016-17.

Government needs to address the decreasing trend in growth of its own tax revenue and measures should be taken to improve the same.

Revenue Expenditure

Revenue Expenditure of the State increased from ₹78,690 crore in 2015-16 to ₹91,096 crore in 2016-17 recording a growth of 15.77 *per cent* over the previous year. Though Plan and Non-plan Revenue expenditure were increasing, revenue expenditure as a percentage of total expenditure showed a declining trend during the last two years which indicated shifting of Government's priority towards capital expenditure. As in the previous year, share of committed expenditure in revenue expenditure was 63 *per cent* and it consumed more than 76 *per cent* of the revenue receipt. When interest payments showed a reduced growth rate compared to previous year, pension payments showed increased growth rate. Interest payments and pension payments consumed 16 *per cent* and 20 *per cent* respectively of revenue receipts and is a matter of concern for the State Government.

Quality of expenditure

Though share of capital expenditure in total expenditure increased during last two years, it was on the lower side compared to General Category States in 2016-17. State's share of expenditure on health and education sector in total expenditure was more than General Category States, but the share of capital expenditure and development expenditure in total expenditure was less than that of General Category States. Though the State Government invested ₹7,240.03 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives, average return on these investments was 1.35 *per cent* in the last five years while the Government paid an average interest rate of 7.18 *per cent* on its borrowings during 2012-13 to 2016-17. The interest receipt on loans and advances given by State Government was 0.22 *per cent* during 2016-17 against the average cost of borrowing of 6.92 *per cent*. At the end of the year, 83 institutions defaulted in repayment of loans advanced to them and arrears in respect of this was ₹10,579 crore (Principal: ₹6,656 crore and Interest: ₹3,923 crore).

State needs to improve its expenditure on Capital section to match the status of General Category States. Also steps should be taken to reduce arrears in repayment of loan.

Reserve Funds and liabilities

Consolidated Sinking Fund was constituted with the aim to amortize the outstanding liabilities of Government, but Government did not contribute to the fund. Similarly, Government has to constitute a Guarantee Redemption Fund for crediting guarantee commission collected for meeting future liability arising out of guarantees given by the Government. Guarantee Redemption Fund has not been constituted so far and guarantee commission of ₹854.08 crore collected during 2003-04 to 2016-17 was not credited to the Fund. State Disaster Response Fund had accumulated balance of ₹115.86 crore by the end of March 2017. As per the guidelines, Government has to credit interest at the rate applicable to overdrafts under the Overdraft Regulation Scheme of RBI. This was not done and also interest payable on the un-invested balances of the earlier years was not estimated by the Government.

Steps should be taken to credit the interest payable to State Disaster Response Fund without further delay.

Debt Management

As per the recommendations of Fourteenth Finance Commission Debt-GSDP ratio has to be less than 25, but during the last five years it showed an increasing trend (from 26.31 in 2012-13) and it was 28.96 in 2016-17 due to disproportionate growth of debt with respect to GSDP. Almost 68 *per cent* of the loans raised during 2016-17 was used for servicing the debt. Maturity profile of the State showed that 28.35 *per cent* of the debt amounting to ₹35,692.07 crore has to be repaid within five years and about 50 *per cent* (₹62,478.65 crore) by March 2024 (within seven years).

Management of loans raised from financial institutions

State Government has been raising loans from financial institutions and it is the responsibility of departmental officers to arrange for prompt re-payment of loans and to maintain the records relating to receipt and repayment of loans. Absence of proper accounting system and monitoring of receipt and repayment of NCDC loan resulted in accumulation of subsidy portion in loan head of account. Negligence of Finance Department resulted in avoidable payment of ₹61.21 lakh as interest to NCDC on non-existent loans.

First instalment of ₹50 crore received during 2014-15, for the housing scheme to homeless tribes was omitted to be reckoned under Government accounts for the last two years. Laxity on the part of Scheduled Tribes Development Department resulted in avoidable payment of compound and penal interest amounting to ₹5.07 lakh during 2015-2017.

Finance Department should introduce a comprehensive accounting system for NCDC loans and prepare repayment schedules to avoid excess payments and timely transfer of subsidy portion to revenue account.

Scheduled Tribes Development Department may ensure budgetary allocation at the beginning of the year to avoid payment of compound and penal interest.