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 3.60 crore (12th in the country) and is ranked as the third[1] most densely populated State with a density of 860 persons per sq.km. The decadal growth rate of population was 6.0 *per cent* (3.40 crore in 2008 to 3.60 crore in 2017), which is the second lowest[2] among Indian states. The literacy rate of Kerala (94 *per cent*) is the highest[3] among the Indian states. Gross State Domestic Product (GSDP) in 2017-18 of the State at current prices was ₹6,86,116 crore. 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 and that of the State at current prices are indicated below:

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

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
India's GDP (₹ in crore)	1,12,33,522	1,24,67,959	1,37,64,037	1,52,53,714	1,67,73,145
Growth rate of GDP (percentage)	12.97	10.99	10.40	10.82	9.96
State's GSDP (₹ in crore)	4,65,041	5,12,564	5,61,546	6,21,700	6,86,116
Growth rate of GSDP (percentage)	12.79	10.22	9.56	10.71	10.36

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

Though the growth rate of GSDP declined from 10.71 *per cent* in 2016-17 to 10.36 *per cent* in 2017-18, growth rate of GSDP was higher as compared to the growth rate of GDP during the last year.

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 2018. It provides a broad perspective of the finances of the State during 2017-18 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

[1] As per Census Info India 2011 Final Population Totals (furnished by Economic Adviser, Office of the C&AG of India, New Delhi)
[2] Furnished by Economic Adviser
[3] Economic Survey 2017-18 (January 2018), Vol.II, Page A 155 (furnished by Economic Adviser)

Medium Term Fiscal Policy and Strategy Statement with Medium Term Fiscal Plan, along with the budget document. The Medium Term Fiscal Plan for 2017-18 to 2019-20 was presented in the State Legislature in March 2017. 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 (2017-18) *vis-à-vis* the previous year (2016-17). **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 2017-18 (*₹in crore*)

Receipts	2016-17	2017-18	Disbursements	2016-17	2017-18		
Section –A: Revenue					Non-plan	Plan	Total
Revenue Receipts	**75611.72**	**83020.14**	**Revenue Expenditure**	**91096.31**	**83766.61**	**16181.74**	**99948.35**
Tax Revenue	42176.37	46459.61*	General Services	41195.33	45105.47	418.30	45523.77
Non-tax Revenue	9699.98	11199.61	Social Services	33764.72	23450.43	12425.84	35876.27
Share of Union Taxes/ Duties	15225.02	16833.08**	Economic Services	10655.35	8013.48	3337.60	11351.08
Grants from Government of India	8510.35	8527.84***	Grants-in-aid and Contribution	5480.91	7197.23		7197.23
Section-B : Capital and Others							
Miscellaneous Capital Receipts	**30.24**	**29.28**	**Capital Outlay**	**10125.95**	**755.19**	**7993.68**	**8748.87**
Recoveries of Loans and Advances	**292.24**	**350.98**	**Loans and Advances Disbursed**	**1160.29**	**159.77**	**1380.82**	**1540.59**
Public Debt Receipts	**23857.89**	**30233.77**	**Repayment of Public Debt**	**7706.01**			**13132.10**
Contingency Fund	**0.00**	**0.00**	**Contingency Fund**	**0.00**			**0.00**
Public Account Receipts	**190627.84**	**215992.46**	**Public Account Disbursements**	**179910.43**			**207174.17**
Opening Cash Balance	**3229.39**	**3650.33**	**Closing Cash Balance**	**3650.33**			**2732.88**
Total	**293649.32**	**333276.96**	**Total**	**293649.32**			**333276.96**

Source: Finance Accounts for 2016-17 and 2017-18
** including SGST ₹12,007.69 crore, ** including CGST ₹239.88 crore & IGST ₹1,699.96 crore, ***including compensation for loss of revenue arising out of implementation of GST ₹1,772 crore*

Following are the significant changes noticed during 2017-18 compared to the previous year.

- During 2017-18, the revenue receipts of the State increased by ₹7,408.42 crore with a growth rate of 9.80 *per cent* when compared to previous year. This was mainly due to increase in receipts under 'State's own tax revenue' (₹4,283.24 crore), 'non- tax revenue' (₹1,499.63 crore) and 'State's share of Union taxes and duties' (₹1,608.06 crore) compared to last year.
- Revenue expenditure of the State recorded an increase of ₹8,852.04 crore (increase of 9.72 *per cent* over the previous year), due to the increase in expenditure on General Services by ₹4,328.44 crore, Social Services by ₹2,111.55 crore, Grants-in-aid and Contributions to

Panchayat Raj Institutions by ₹1,716.32 crore and Economic Services by ₹695.73 crore.

- Capital expenditure decreased by ₹1,377.08 crore showing a decline in growth of 13.60 *per cent* over the previous year.
- Recoveries of Loans and Advances increased by ₹58.74 crore (20.10 *per cent*) and Disbursement of Loans and Advances increased by ₹380.30 crore (32.78 *per cent*).
- Public Account receipts and disbursements increased by ₹25,364.62 crore (13.31 *per cent*) and ₹27,263.74 crore (15.15 *per cent*) respectively.
- Cash balance position of the State decreased from ₹3,650.33 crore at the end of 2016-17 to ₹2,732.88 crore at the end of 2017-18.

The trends of Revenue Receipts (RR)/Revenue Expenditure (RE)/Capital Expenditure (CE) relative to GSDP at current prices (with base year 2011-12) are presented in **Table 1.3**.

Table 1.3: Trends in Revenue Receipts/Revenue Expenditure/Capital Expenditure relative to GSDP

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18	Average
GSDP						
GSDP at current prices (₹in crore)	4,65,041	5,12,564	5,61,546	6,21,700	6,86,116	
Revenue receipts (RR) relative to GSDP						
RR (₹in crore)	49,177	57,950	69,033	75,612	83,020	
Rate of growth of RR *(per cent)*	11.42	17.84	19.13	9.53	9.80	13.54
RR/GSDP	10.57	11.31	12.29	12.16	12.10	11.69
Revenue expenditure (RE) relative to GSDP						
RE (₹in crore)	60,486	71,746	78,690	91,096	99,948	
Rate of growth of RE (in *per cent*)	13.08	18.62	9.68	15.77	9.72	13.37
RE/GSDP	13.01	14.00	14.01	14.65	14.57	14.05
Capital expenditure (CE) relative to GSDP						
CE (₹in crore)	4,294	4,255	7,500	10,126	8,749	
Rate of growth of CE (in *per cent)*	(-)6.71	(-)0.91	76.26	35.01	(-)13.60	18.01
CE/GSDP	0.92	0.83	1.34	1.63	1.28	1.2

Source: Finance Accounts of respective years

Revenue receipts, revenue expenditure and capital expenditure as a percentage of GSDP increased from 2013-14 to 2016-17 but decreased thereafter in 2017-18 indicating their lower growth in 2017-18 when compared to growth of GSDP.

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. The State Government amended its Fiscal Responsibility Act from time to time keeping in view the fiscal parameters prescribed by successive Finance Commissions.

Based on the recommendations of the Fourteenth Finance Commission, the State Government amended Kerala Fiscal Responsibility Act by enacting the Kerala Fiscal Responsibility (Amendment) Act, 2018 on 31 March 2018 with revised fiscal targets for the Finance Commission period. According to the Act, the Government shall eliminate revenue deficit completely during the period from 2017-18 to 2019-20 and shall maintain the fiscal deficit to 3 *per cent* of GSDP during the period from 2017-18 to 2019-20.

Major fiscal variables provided in the budget based on the recommendations of the Fourteenth Finance Commission (FFC) and as targeted in Kerala Fiscal Responsibility (Amendment) Act, 2018 along with actuals thereof are given in **Table 1.4**.

Table 1.4: Comparison of fiscal variable targets

Fiscal variables	Targets for 2017-18				Actuals
	FFC	KFR Act[4]	MTFP[5]	Revised BE	
Revenue Deficit (₹in crore)		0[6]	16,043	13,080	16,928
Fiscal Deficit/GSDP (in *per cent*)	3.00	3.00	3.44	3.31	3.9
Total outstanding debt of the Government to GSDP (in *per cent*)	30.40	30.40	27.68	30.71	31.27
Interest payment/revenue receipts	14.37		14.57	15.32	18.21

Source: Fourteenth Finance Commission Report and Budget documents

The above table shows that the State could not achieve the targets fixed in KFR Act or in MTFP or the revised target fixed subsequently. Increase in revenue deficit indicates that the State may not be able to eliminate revenue deficit by 2019-20 as prescribed in KFR Act. Non achievement of the fiscal targets needs to be attended by the State Government.

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 2017-18 is detailed in **Table 1.5**.

[4] Kerala Fiscal Responsibility (Amendment) Act, 2018
[5] Medium Term Fiscal Plan 2017-18
[6] Eliminate revenue deficit during 2017-18 to 2019-20

Table 1.5: Budget estimates and actuals for 2017-18 (₹*in crore)*

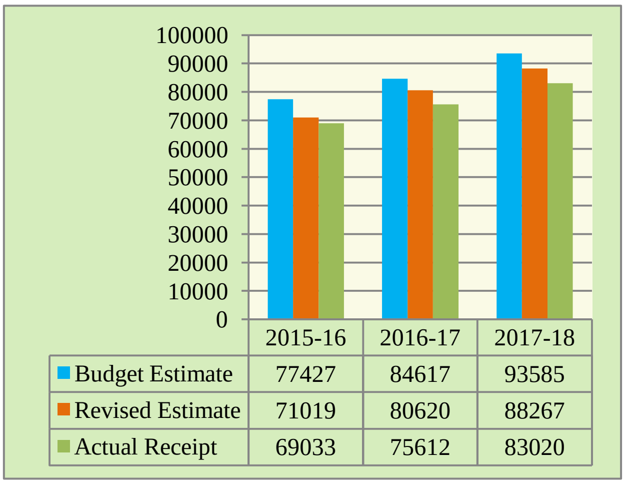
Particulars	Budget Estimate	Revised Estimate	Actual
Revenue Receipts	93,584.74	88,266.85	83,020.14
Revenue Expenditure	1,09,627.88	1,01,346.49	99,948.35
Revenue Deficit	16,043.14	13,079.64	16,928.21
Capital Expenditure	9,057.48	8,668.19	8,748.87
Loans and Advances (Net)	692.71	1,061.60	1,189.61
Public Debt (Net)	21,227.95	20,404.00	17,101.67
Public Account (Net)	4,050.70	1,677.54	9,739.36

Source: Budget in brief for 2018-19 and Finance Accounts for 2017-18

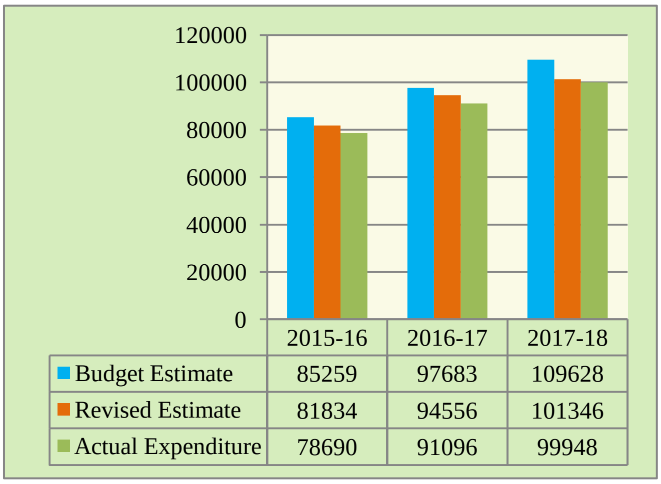
The revised estimate needs to be more accurate than the original budget estimate as it was done after analysing the receipts and expenditure of the first six months of the financial year. However, it was observed that actual revenue receipts was short by ₹5,246.71 crore with respect to revised estimate and short by ₹10,564.60 crore with respect to original estimate. Apart from revenue receipts, substantial variation was noticed in the case of net Public Account accretions. Against the revised estimation of ₹1,677.54 crore, net accretions under 'Public Accounts' was ₹9,739.36 crore mainly due to increase in net accretions under 'Small Savings, PF etc.' (₹3,275.32 crore) and 'Suspense and Miscellaneous' (₹4,558.05 crore) when compared to revised estimates. 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 implementation of new initiatives announced in the budget speech

State Government introduced a Special Investment Plan scheme 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 by raising funds through Kerala Infrastructure Investment Fund Board (KIIFB). KIIFB came into existence on 11.11.1999, under Section 4 of Kerala Infrastructure Investment Fund Act 1999 (Act 4 of 2000), to manage the Kerala Infrastructure Investment Fund. The Fund was constituted for investments in various infrastructure projects in the State. The Kerala Infrastructure Investment Fund (Amendment) Act, 2016 came into force on 19 August 2016. As per the Amendment Act State Government will make budget provisions in the annual budget towards the fund to defray the expenses incurred for payment of annuity or other repayment obligation and to meet operational and administrative expenses of KIIFB.

Funding for eight schemes with an outlay of ₹615 crore was to be made from Special Investment Plan Scheme during 2016-17. It was announced in the Budget Speech 2017-18 that construction works worth ₹20,000 crore were being announced from KIIFB during the year 2017-18. No projects were funded through KIIFB during 2016-17 as the projects were in planning stage. Audit analysed the new initiatives announced in the budget speech for the years 2016-17 and 2017-18 which were proposed to be funded through KIIFB. The status of implementation of the schemes to be funded through KIIFB are given in **Table 1.6**.

Table 1.6: New initiatives to be funded through KIIFB

(₹ in crore)

Year	Schemes announced in the Budget Speech		Scheme for which project proposals were submitted to KIIFB by departments concerned		Projects approved by KIIFB		Funds released by KIIFB during 2017-18	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
2016-17	8	615	6	1,192.13	4	722.78	1	47.47
2017-18	18	14,960	11	6,553.58	6	4,228.61	1	0.36
Total	**26**	**15,575**	**17**	**7,745.71**	**10**	**4,951.39**	**2**	**47.83**

Source: Information furnished by KIIFB

Even though 26 schemes estimating to cost ₹15,575 crore were proposed to be funded through KIIFB during 2016-17 and 2017-18, funds amounting to ₹47.83 crore in respect of two schemes alone has been released by KIIFB during the period.

Apart from the above schemes, 182 road works, 69 bridges and flyovers and 41 Water Supply schemes were also intended to be implemented with the investment from KIIFB amounting to ₹9,881 crore during 2017-18. Of these 292 works, the implementing institutions submitted project proposals for 55 works. Out of 55 works, three were sanctioned by KIIFB for ₹175.91 crore and ₹21.08 crore has been released (November 2018) till date.

Audit also scrutinised nine new schemes under seven departments for which ₹162.50 crore was announced in the budget speech 2017-18, which were to be funded through the State Budget. Audit observed that an amount of ₹109.92 crore was incurred in respect of five[7] schemes (out of nine) during 2017-18.

[7] i. Barrier free scheme to introduce facilities in offices to enable differently abled persons (Social Justice Department), ii. Biometric instruments in ration shops (Civil Supplies Department), iii. Valsalyanidhi – a social security scheme linked with insurance policy for girls belonging to Scheduled Caste (Scheduled Caste/Scheduled Tribes Development Department), iv. Health Insurance Scheme for Government employees and pensioners (Finance Department) and v. Formation of 'Loka Kerala Sabha' (Cultural Affairs Department)

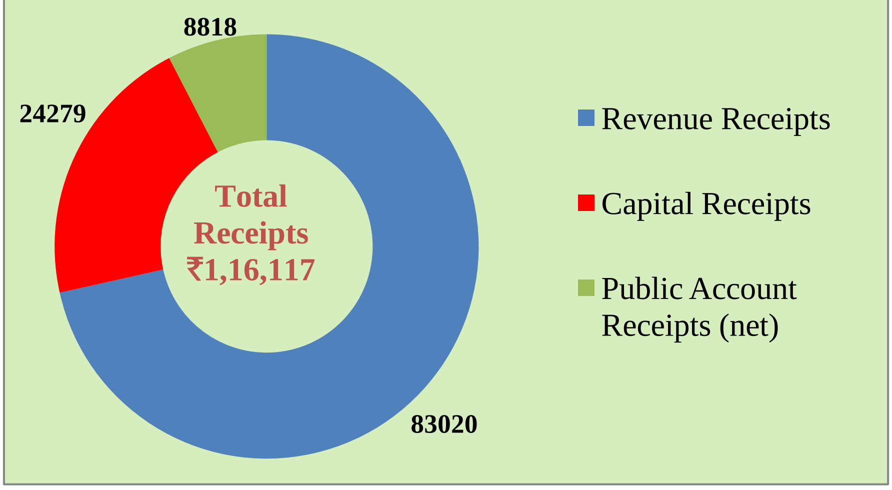
Four[8] other schemes were not implemented due to reasons such as non availability of suitable land, waiting for model plan for implementing the scheme, etc.

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.

Chart 1.2 : Composition of Receipts ***(₹in crore)***



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

[8] i. Autism Park for extending support to children suffering from difficulties of autism (General Education Department), ii. Starting of a school at Edamalakkudy (SC/ST Development Department), iii. Construction of Cultural Complex in memory of ONV (Cultural Affairs) and iv. 'Aswas' rental housing scheme (Housing Department)

Chart 1.3 :Composition of Revenue Receipts (₹*in crore*)

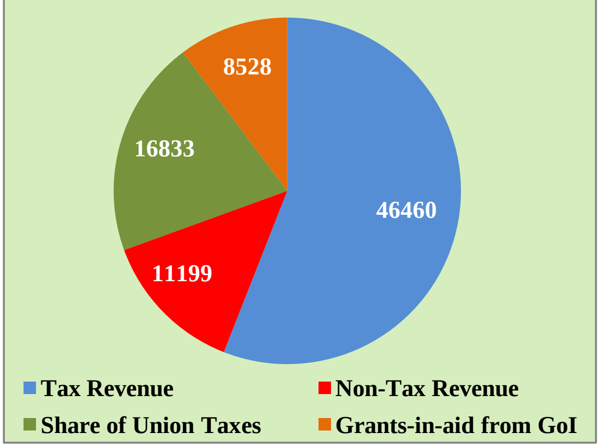
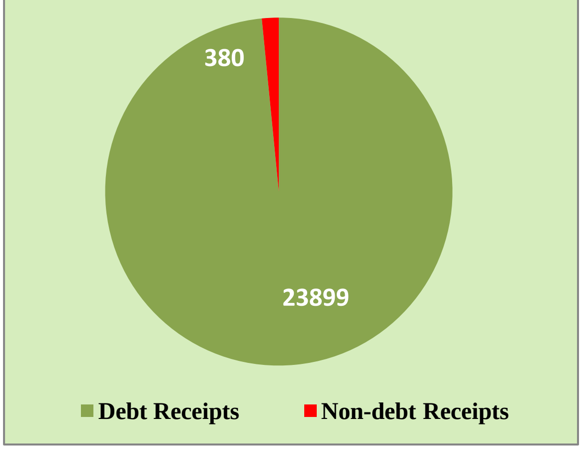
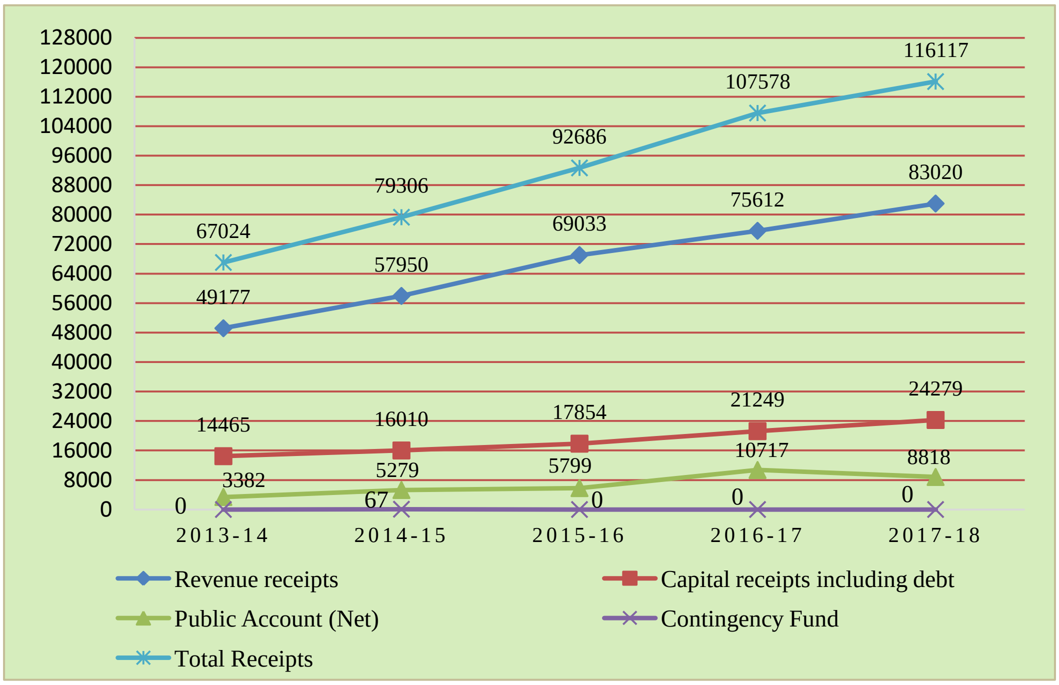


Chart 1.4 :Composition of Capital Receipts (₹*in crore*)



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[9] of the State Government increased from ₹67,024 crore in 2013-14 to ₹1,16,117 crore in 2017-18, showing an increase of 73.24 *per cent* during the last five years. Trend in total receipts and its components during the last five years are given in **Chart 1.5**.

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



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

1.2.2 Direct transfer of Central Scheme Funds to Implementing Agencies in the State (Funds routed outside State Budget)

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 transferring funds directly to the State implementing agencies for implementation of various schemes/programmes which are recognized as critical. As these funds are not routed through the State Budget, the Annual Finance Accounts do not capture the flow of these funds and to that extent the State's receipts and expenditure as well as other fiscal variables/parameters derived from them are understated.

To present a holistic picture on the availability of aggregate resources, details of funds directly transferred to the State Implementing agencies during 2015-16 to 2017-18 for seven GoI schemes are presented in **Table 1.7**. The details of funds transferred directly to State Implementing Agencies outside State Budget are included in Appendix VI of Finance Accounts by capturing data from the website of Controller General of Accounts (CGA) (unaudited figures).

Table 1.7: Funds transferred directly to State Implementing Agencies

(₹ in crore)

Sl. No.	Name of GoI scheme	Implementing Agency/ Recipient in the State	2015-16	2016-17	2017-18
1.	Metro Projects	Kochi Metro Rail Limited	643.96	634.00	303.91
2.	Food subsidy for decentralized Procurement of food grains under NFSA	Kerala State Civil Supplies Corporation Limited	…	…	782.06
3.	e-courts- Phase II	Registrar General, High Court of Kerala	…	…	313.74
4.	National Aids and STD control	Kerala State AIDS Control Society	…	26.40	26.76
5.	Swadesh Darshan	Kerala Tourism Development Corporation	…	38.49	56.03
6.	National Mission on Food Processing	Kerala Industrial Infrastructure Development Corporation, Kerala State Industrial Development Corporation, Meat Products of India Limited, etc.	4.43	34.18	30.64
7.	Mahatma Gandhi National Rural Employment Guarantee Scheme	Mahatma Gandhi National Rural Employment Guarantee Fund Society, Kerala	364.98	1,797.61	1,652.04
8.	Others		1,498.33	1,192.28	2,077.21
	Total		**2,511.70**	**3,722.96**	**5,242.39**

Source: Finance Accounts for the year 2017-18

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.

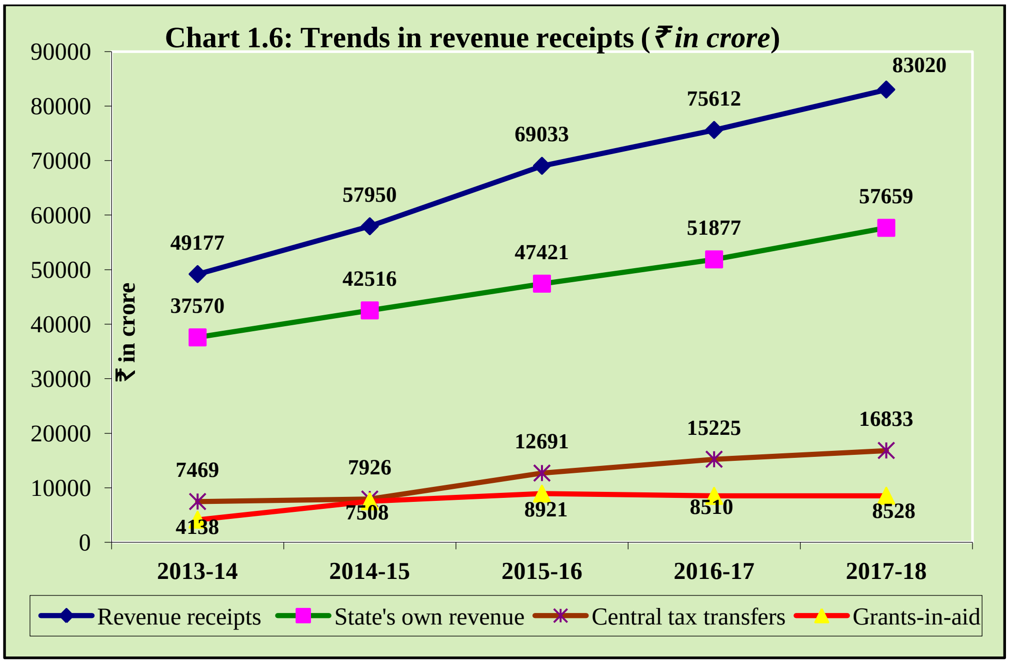
During the last five years (2013-14 to 2017-18), revenue receipts of the State increased from ₹49,177crore in 2013-14 to ₹83,020 crore in 2017-18, recording a growth of 69 *per cent*. Over these years State's own receipts (tax and non-tax) was the major component of the revenue receipts, but there was a decline in its share in revenue receipts during the last five years from 76 *per cent* in 2013-14 to 70 *per cent* in 2017-18. This was due to reduced growth rate of State's own tax revenue, compared to the growth rate of revenue receipts. Share of own tax receipts in revenue receipts also showed decreasing trend during the last five years (decreased from 65 *per cent* in 2013-14 to 56 *per cent* in 2017-18-**Table 1.9**). The trend of revenue receipts over the period 2013-14 to 2017-18 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 2017-18 was ₹93,584 crore but the actual realisation was ₹83,020 crore. Variations in components of revenue receipts are shown in the **Table 1.8**.

Table 1.8: Comparison of MTFP projections with amount realized *(₹in crore)*

Components	Own Tax Revenue	Non-tax Revenue	Resources from GoI
MTFP projection	53,411	12,038	28,135
Amount realised	46,460	11,199	25,361

Table 1.8 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 period 2008-09 to 2016-17 and 2016-17 to 2017-18 in respect of revenue receipts was compared with General Category States and it was observed that though State's growth rate was equal to that of General Category States during 2008-09 to 2016-17, it was below the General Category States' growth rate during 2016-17 to 2017-18. **(**Details are given in **Appendix 1.1)**.

The trends in revenue receipts relative to GSDP are presented in **Table 1.9**

Table 1.9: Trends in revenue receipts relative to GSDP during 2013-2018

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue Receipts (RR) (₹ *in crore*)	49,177	57,950	69,033	75,612	83,020
Rate of growth of RR (*per cent*)	11.42	17.84	19.13	9.53	9.80
State's own tax revenue (₹ *in crore*)	31,995	35,232	38,995	42,177	46,460
Rate of growth of own tax revenue (*per cent*)	6.38	10.12	10.68	8.16	10.15
Percentage of own tax revenue in RR	65	61	57	56	56
GSDP(₹ *in crore*)	4,65,041	5,12,564	5,61,546	6,21,700	6,86,116
Rate of Growth of GSDP	12.79	10.22	9.56	10.71	10.36
RR/GSDP (*per cent*) *	10.57	11.31	12.29	12.16	12.10
State's own tax/GSDP (*per cent*)	6.88	6.87	6.94	6.78	6.77
Revenue buoyancy w.r.t GSDP*	0.89	1.75	2.00	0.89	0.95
State's Own Tax Buoyancy w.r.t GSDP*	0.50	0.99	1.12	0.76	0.98

*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 the growth rate of revenue receipts during 2017-18 was 9.80 *per cent* when compared to the growth rate of 11.42 *per cent* in 2013-14. Percentage of own tax revenue in revenue receipts steadily decreased from 65 *per cent* in 2013-14 to 56 *per cent* in 2017-18. This indicated reduced growth rate of own tax revenue compared to other components of revenue receipts.

- Revenue receipts as a percentage of GSDP declined during the last two years. Buoyancy of revenue receipts with GSDP was less than one in 2016-17 and 2017-18 which indicated that revenue receipts of the State is not growing in pace with GSDP in the last two years.

- Buoyancy of own tax revenue with GSDP was also less than one during the period 2013-2018 (except during 2015-16) indicating low growth rate of own tax revenue when compared to the growth in GSDP.

- Own tax revenue as percentage of GSDP was better for Kerala State (6.77 *per cent*) during 2017-18 when compared to the neighbouring States of Tamil Nadu (6.57 *per cent*) and Karnataka (6.65 *per cent*).

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 1.10.**

Table 1.10: Resources of the State during last five years ***(₹ in crore)***

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Tax Revenue	31,995	35,232	38,995	42,177	46,460
Non-tax Revenue	5,575	7,284	8,426	9,700	11,199
Share of Union taxes /Duties	7,469	7,926	12,691	15,225	16,833
Grants-in-aid from Government of India	4,138	7,508	8,921	8,510	8,528
Total Revenue Receipts	**49,177**	**57,950**	**69,033**	**75,612**	**83,020**

Source: Finance Accounts of respective years

Table 1.10 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 45 *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 ₹42,177 crore in 2016-17 to ₹46,460 crore in 2017-18, recording a growth rate of 10.15 *per cent*. This was higher than the growth rate (8.16 *per cent*) in 2016-17. Various components of State's own tax revenue are given in **Table 1.11**.

Table 1.11: Components of own tax revenue *(₹ in crore)*

Revenue Head	2013-14	2014-15	2015-16	2016-17	2017-18
Taxes on Sales, Trade etc.	24,885	27,908	30,737	33,453	24,578
State Goods and Services Tax					12,008
Stamps and Registration fees	2,593	2,659	2,878	3,007	3,453
State Excise	1,942	1,777	1,964	2,019	2,240
Taxes on Vehicles	2,161	2,365	2,814	3,107	3,663
Land Revenue	89	139	182	124	162
Taxes on Agricultural income	22	9	2	2	3
Other Taxes	303	375	418	465	353
Total	**31,995**	**35,232**	**38,995**	**42,177**	**46,460**

Source: Finance Accounts of respective years

Goods and Services Tax (GST): State Government implemented the Goods and Services Tax (GST) Act which became effective from 1 July 2017. According to GST (Compensation to States) Act 2017, Central Government will compensate the States for loss of revenue arising on account of implementation of GST for a period of five years. The compensation payable to the State shall be calculated for every financial year after the receipt of final revenue figures, as audited by the CAG of India. A base year (2015-16) revenue figure of taxes subsumed under GST was finalized for each state under GST Act. In case of the State of Kerala, the revenue was ₹16,821.37 crore during the base year (2015-16).

The projected revenue for the year in a State shall be calculated by applying the projected growth rate (14 *per cent* per annum) over the base year revenue of that State. For the State of Kerala, the projected revenue for the year 2017-18 (1 July 2017 to 31 March 2018) in accordance with the base year figure was ₹16,398 crore (₹21,861.05 crore for the year 2017-18). Revenue figure under GST for the year 2017-18 has been depicted in Finance Accounts as per nature of receipts i.e., State Goods and Services Tax (SGST), Input Tax Credit cross utilization of SGST and IGST (Integrated Goods and Services Tax), Apportionment of IGST-transfer-in of Tax component to SGST and Advance apportionment from IGST. Against the projected revenue of ₹16,398 crore, the revenue receipt of the State Government under GST during the year 2017-18 is given in **Table 1.12**.

Table 1.12: Pre-GST and SGST collected, provisional apportionment of IGST and compensation of IGST received from Government of India against the projected revenue of the State for the period from July 2017 to March 2018

(₹ in crore)

Month	Revenue to be projected	Pre GST taxes collected[10]	SGST collected[11]	Provisional apportionment of IGST	Total amount received	Compen-sation received[12]	Deficit(+)/ Surplus(-)
	1	2	3	4	5 (2+3+4)	6	7=[1-(5+6)]
July and August 2017	3644	1793.08	535.72	…	2328.80	810	505.20
September and October 2017	3644	288.53	1546.84	2037.85	3873.22	395	-624.22
November and December 2017	3644	227.17	1192.92	1597.33	3017.42	0	626.58
January and February 2018	3644	237.50	1311.56	2371.72	3920.78	567	-843.78
March 2018	1822	-85.97	619.60	794.16	1327.79	0	494.21
Total	**16398**	**2460.31**	**5206.64**	**6801.06**	**14468.01**	**1772**	**157.99**

Source: Data furnished by AG(ERSA)

As seen from Table 1.12, against the projected revenue of ₹16,398 crore during July 2017 to March 2018, the receipt was ₹16,240.01 crore under the new tax regime, which worked out to a growth of 12.90 *per cent* as against the projected growth of 14 *per cent*.

Advance apportionment of IGST and its adjustment against GST compensation: According to Section 7 of the Goods and Services Tax (Compensation to States) Act, 2017, the compensation payable to a State for the loss of revenue due to implementation of GST has to be provisionally calculated and released at the end of every two months period, and shall be finally settled for every financial year after the receipt of final revenue figures, as audited by the Comptroller and Auditor General of India. The GoI has to also apportion Integrated Goods and Service Tax (IGST)[13] to State Governments under Section 17 of the IGST Act, 2017.

The State Tax Division, Department of Revenue, Ministry of Finance (GoI) released (February 2018) ₹736 crore to Kerala towards advance apportionment of IGST from the balances in IGST account lying with Government of India with the condition that this amount would be adjusted in the year 2018-19 from the regular apportionment of IGST in ten equal installments starting from April 2018. However, instead of adjusting the IGST advance apportionment of ₹736 crore with the next year's regular IGST apportionment, GoI adjusted the amount against the bi-monthly compensation due to the State for November and December 2017 and did not release compensation for this bi-monthly period. The lump sum adjustment of apportionment amount against the compensation payable to the State negated the advantage of advance apportionment of ₹736 crore to the State.

[10] Includes VAT&CST (net of refund) and revenue from the taxes subsumed in GST by excluding VAT and CST on petroleum products and liquor. Figures are based on data available in Finance Accounts 2017-18.

[11] Figures are based on VLC data/ Finance Accounts

[12] Figures for compensation are provisional

[13] IGST would be levied and collected by Government of India on inter-state supply of goods and services. IGST shall be apportioned between Union and States.

1.3.1.2 Non-tax Revenue

Receipts under 'State Lotteries' is the major source of non-tax revenue of the State for the last five years and its share in non-tax revenue increased from 68 *per cent* in 2013-14 to 81 *per cent* in 2017-18. During the five year period, receipts from State Lotteries also recorded an increase of 138 *per cent*. Major sources of non-tax revenue of the State are given in **Table 1.13**.

Table 1.13: Components of non-tax revenue *(₹in crore)*

Revenue Head	2013-14	2014-15	2015-16	2016-17	2017-18
Interest receipts	149	102	105	144	144
Dividends and profits	101	74	90	96	126
State Lotteries	3,796	5,445	6,271	7,283	9,034
Forestry and Wildlife	330	300	283	297	245
Other non-tax receipts	1,199	1,363	1,677	1,880	1,650
Total	**5,575**	**7,284**	**8,426**	**9,700**	**11,199**

Source: Finance Accounts of respective years

Though the receipts under State Lotteries was ₹9,034 crore, an equally high expenditure of ₹7,628 crore on distribution of prizes, agent commission, etc. reduced the net yield to ₹1,406 crore during the year.

1.3.2 Grants-in-aid from Government of India

Grants-in-aid from the GoI increased marginally by ₹18 crore from ₹8,510 crore in 2016-17 to ₹8,528 crore in 2017-18 as detailed in **Table 1.14**.

Table 1.14: Status of Grants-in-aid received from Government of India *(₹in crore)*

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Non-plan grants*	1,679	1,984	5,178	5,250	…
Grants for State plan schemes*	1,154	4,929	3,406	2,727	…
Grants for central plan schemes*	87	158	170	71	…
Grants for Centrally sponsored plan schemes*	1,218	437	167	462	…
Centrally sponsored schemes**	…	…	…	…	3,213
Finance Commission Grants**	…	…	…	…	3,182
Other Transfer/Grants to States**	…	…	…	…	2,133
Total	**4,138**	**7,508**	**8,921**	**8,510**	**8,528**

Source: Finance Accounts of respective years

** Not operational from 1.4.2017 consequent on merger of Plan and non-plan classification by GoI*

*** New sub major heads opened for fresh transactions w.e.f.1.4.2017*

As part of structural reforms GoI had dispensed distinction between Plan and Non-plan classification from the year 2017-18 onwards and introduced new sub major heads and minor heads for accounting grant-in-aid. State Government received ₹1,529 crore as 'Post Devolution Revenue Deficit Grant' based on the recommendations of Fourteenth Finance Commission to cover the revenue deficit of the State Government during 2017-18. State also received ₹1,772 crore under 'Other Transfer/Grants to States' as compensation of loss of revenue arising out of implementation of GST.

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 1.6**. It shows that in respect of 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 2013-14 to 2016-17. Expenditure on collection in respect of Taxes on Vehicles was better than the All India average of expenditure on tax collection except during 2016-17.

1.4 Receipt and utilization of Fourteenth Finance Commission Award for the first three years of award period (2015-2018)

The Fourteenth Finance Commission (FFC) was constituted by the President of India under Article 280 of the Constitution to make recommendations on i) the distribution between the Union and the States of the net proceeds of taxes, ii) the sums to be paid to the States which are in need of assistance by way of grants-in-aid and iii) the measures needed to augment the Consolidated Fund of a State to supplement the resources of Local Bodies for the period 2015-2020. The Finance Commission had recommended grants-in-aid amounting to ₹17,966.71 crore for three purposes *viz*., Local Self Government, Disaster Management and Post-devolution Revenue Deficit during the award period 2015-2020. A review of the receipt and utilisation of FFC award amount for the period 2015-16 to 2017-18 was conducted to assess whether: -

- the stipulated award amount has been released by Government of India (GoI) year-wise, if not, reasons for the shortfall
- the amount received has been utilised in full and for the intended purposes

Grants recommended by FFC and funds actually received by State Government are shown in **Table 1.15**.

Table 1.15: Grants recommended by Fourteenth Finance Commission and actually received by State Government

(₹in crore)

Particulars	Award amount for 2015-2020	Award amount for the first three years 2015-2018	Amount released for the first three years	Shortfall in release
Local Self Government	7681.96	3603.83	3352.03	251.80
Disaster Management	765.75	437.25	437.25	Nil
Post-devolution Revenue deficit grant	9519	9519	9519	Nil
Total	**17966.71**	**13560.08**	**13308.28**	**251.80**

Source: Report of FFC and GoI release orders

During the period 2015-16 to 2017-18, State Government received an amount of ₹13,308.28 crore out of the award amount of ₹13,560.08 crore resulting in short release of ₹251.80 crore.

Audit findings

1.4.1 Delay in release/non-release of Grant for LSGIs

FFC recommended financial assistance to Local Self Government Institutions (LSGIs) in the form of Basic Grant and Performance Grant. Basic Grant is provided to support LSGIs for delivering basic civic services including water supply, sanitation including septic management, sewage and solid waste management, storm drainage, maintenance of community assets, roads, footpaths, street lighting, burial and cremation grounds and any other basic services within the functions assigned to LSGIs under relevant legislations. Performance Grant was designed to serve the purpose of ensuring reliable audited accounts and data of receipts and expenditure and improvement in own revenues of LSGIs. Audit noticed delay in release of grant/non-release of basic as well as performance grant as detailed below:

- GoI releases basic grant in two equal instalments in the month of June and October every fiscal year for LSGIs. According to the guidelines issued (October 2015) by GoI for the release and utilization of grants for local bodies, the first instalment of basic grant was to be released unconditionally and subsequent instalments were to be released on receipt of the Utilization Certificates (UC) for the previous instalments in the prescribed format. Audit noticed delay in release of basic grant by GoI and delay in furnishing UC by State Government in the first two years 2015-16 and 2016-17 as detailed in **Table 1.16**.

Table 1.16: Delay in releasing basic grants and furnishing UC by State Government

	Release of basic grant by GoI		Date of furnishing UC
	Date	Amount (₹in crore)	
2015-16			
1st instalment	13.07.2015	392.71	30.3.2016
2nd instalment	02.06.2016	392.71	16.08.2016
2016-17			
1st instalment	16.01.2017 (RLBs[14]) 17.02.2017 (ULBs[15])	300.30 243.47	02.03.2017 27.03.2017
2nd instalment	31.03.2017 (RLBs) 21.06.2017 (ULBs)	300.31 243.47	19.05.2017 18.07.2017

Source: Information collected from Finance Department

As shown in Table 1.16 State Government submitted UC for the first instalment of basic grant for 2015-16 only on 30 March 2016. Subsequently, the second instalment of basic grant of ₹392.71 crore was released by GOI only in June 2016 instead of October 2015 resulting in delay of seven months.

In 2016-17 also, the release of first installment of basic grant was delayed by six and seven months for RLBs (₹300.30 crore) and ULBs (₹243.47 crore) respectively. The release of second installment was delayed by four and seven months for RLBs (₹300.31 crore) and ULBs (₹243.47 crore) respectively. The delay in furnishing UC by State Government in 2015-16 delayed the release of basic grant for the first two years 2015-16 and 2016-17.

Finance Department replied (July 2018) that procedural delay involved in preparation and approval of UCs resulted in the delay in furnishing UC.

- As per the guidelines, performance grant for the year 2016-17 was to be released by GoI in October 2016. Performance Grant of ₹222.49

[14] Rural Local Bodies
[15] Urban Local Bodies

crore for 2016-17 due for release in October 2016 was released by GoI in January 2017 for ULBs (₹143.71 crore) and in March 2017 for RLBs (₹78.78 crore). Further, as per guidelines, the State Government has to design a detailed procedure/scheme for disbursal of the Performance Grant and notify it by March 2016 and furnish the details of the scheme to GoI. However, the State Government issued the notification and furnished the information to GoI only in October 2016. Due to delay in issuing the notification, the release of Performance Grant for 2016-17 was delayed by five months and three months for RLBs and ULBs respectively. Local Self Government (FM) Department replied (August 2018) that delay in notification was due to the delay in completion of annual audit of accounts of LSGIs for the year 2013-14 and 2014-15.

- Ministry of Panchayati Raj, GoI forwarded a revised scheme (September 2017) for disbursal of Performance Grant for the period 2017-18 to 2019-20 under FFC to State Government for notifying the same by State Government. The State Government was also directed to collect data towards the performance of LSGIs in the State and to send the information to GoI by 31 October 2017 for receipt of Performance Grant for 2017-18. However, the State Government notified the revised scheme and furnished the requisite information to GoI only by the end of March 2018. Hence, Performance Grant amounting to ₹251.80 crore for the year 2017-18 due for release in October 2017 has not been released by GoI during the year. Local Self Government (FM) Department replied (August 2018) that the delay occurred due to modifications suggested by GoI in the scheme/guidelines.

1.4.2 Incorrect allotment of Performance Grant to LSGIs

The FFC recommended that 10 *per cent* and 20 *per cent* of the allocated amount be released to RLBs and ULBs respectively as Performance Grant, on fulfillment of stipulated conditions such as submission of audited accounts relating to the year not earlier than two years preceding the year in which the RLBs/ ULBs seek to claim the Performance Grant, increase in own revenue over the preceding year, etc. In addition, ULBs must measure and publish the Service Level Benchmarks relating to basic urban services each year for the award period and make it publicly available. After disbursement of Performance Grant to the eligible RLBs or ULBs, the undisbursed amount, if any, should be distributed on equitable basis among all the eligible RLBs or ULBs.

During the year 2016-17, GoI released Performance Grant of ₹222.49 crore to LSGIs. It was observed that the State Government authorized (April, November 2016 and January 2017) the Performance Grant for the year 2016-17 to all RLBs and ULBs without insisting on compliance with the eligibility criteria.

As per FFC recommendation, the Performance Grant due for the ineligible local bodies was to be distributed among eligible ones. Since the State Government released the amount of Performance Grant to all the RLBs and ULBs, without insisting on conditions of eligibility, it was later found that the eligible LSGIs received lesser amounts than their due share. In order to compensate them, Government released an amount of ₹33.26 crore from Consolidated Fund to eligible RLBs and ULBs in April 2017 and July 2017 respectively.

Thus, the release of Performance Grant to all the RLBs and ULBs without following the FFC guidelines resulted in an extra expenditure of ₹33.26 crore for the State Government.

The Finance Department replied (September 2018) that the State Government had already authorized the Performance Grant to LSGIs during 2016-17 before the receipt of instructions from GoI regarding eligibility. The reply is not acceptable as the instructions regarding eligibility criteria for release of Performance Grant were clearly stated in the guidelines for release and utilization of FFC grant issued by GoI in October 2015.

1.4.3 Under-utilisation of funds by LSGIs

The State Government received an amount of ₹3,352.02 crore as FFC grant from GoI for LSGIs during 2015-16 to 2017-18. Out of this, an amount of ₹2,906.18 crore was utilised by LSGIs leaving an unspent balance of ₹445.84 crore with State Government as shown in **Table 1.17**.

Table 1.17: Funds remaining unutilized by LSGIs *(₹ in crore)*

Year	Grant released by FFC	Expenditure incurred by LSGIs	Funds remaining unutilised
2015-16	392.71	940.16	(-)547.45
2016-17	1,702.74	782.59	920.15
2017-18	1,256.57	1,183.43	73.14
Total	**3352.02**	**2906.18**	**445.84**

Source: GoI release orders and Detailed Appropriation Accounts

The funds remaining unutilised had lapsed at the end of each financial year. As per orders of Government of Kerala (March 2015) the allotted funds not drawn by 31 March of a particular year was to be provided to LSGIs through additional authorization/supplementary demands for grants (SDG) along with the second allotment in July of the subsequent year. However, it is seen that the lapsed amount has not been authorized to LSGIs till date.

The Finance Department replied (July 2018) that the unspent balances were not reauthorised under SDG as the LSGIs failed to utililse even the budget provision of respective years. The reply is not acceptable as retention of GoI grants by State Government will defeat the purpose of local bodies grants.

1.4.4. Utilisation of State Disaster Response Fund for inadmissible works

State Disaster Response Fund (SDRF) was created under Section 48(1) (a) of the Disaster Management Act, 2005 and is managed by State Government. The objective of SDRF is to provide immediate relief to victims of natural disasters. As per guidelines issued by Ministry of Home Affairs (MoHA) (July 2015), 12[16] disasters were eligible for assistance from SDRF. Lightning, coastal erosion and strong wind were declared as state-specific disasters eligible for assistance from SDRF from 1 April 2015. Paragraph 18 of the

[16] Drought, flood, cyclone, earthquake, fire, tsunami, hailstorm, landslide, avalanche, cloud burst, pest attack, frost/cold wave

guidelines stipulates that the provision for preparedness/mitigation should not be part of SDRF and the same is to be met from normal budgetary heads/State Plan funds. However, scrutiny of records[17] revealed that SDRF was utilised for events which did not conform to the SDRF guidelines/norms as detailed below:

1.4.4.1 Road works under flood relief

As per the revised list of items for assistance from SDRF issued by MoHA (April 2015), only repair/restoration work of damaged roads (immediate nature) such as filling up of breaches and potholes, use of pipe for creating waterways, etc., can be met from SDRF. A total of 816 road works amounting to ₹41.76 crore were carried out in Thiruvananthapuram and Kollam Districts using funds from SDRF during the period from 2015-16 to 2017-18. Audit scrutinized records of 81 out of 816 road works involving ₹3.92 crore. Audit scrutiny revealed that the entire expenditure of ₹3.92 crore was inadmissible as the works done were regular road maintenance/ improvement works like conversion of earthen road to concrete road, metaling and tarring of roads, repair of roads damaged due to cabling work, concreting of footpath etc., and not for the type of urgent works permissible under SDRF norms like filling up of breaches and potholes etc. The details are shown in **Appendix 1.7**.

Government replied (October 2018) that SDRF was utilized for repairs and restoration of roads damaged during floods. The reply is not acceptable as the expenditure incurred was for regular maintenance works of roads, restoration of damages caused by routine inundation due to rain etc and not for repair works of immediate nature permitted under SDRF guidelines and norms.

1.4.4.2 Works executed under drought relief

As per the revised list of items for assistance from SDRF issued by MoHA (April 2015), emergency supply of drinking water as part of relief measure and repairs/restoration (immediate nature) of damaged infrastructure can be met from SDRF. However, audit scrutiny revealed that SDRF was utilised for inadmissible drought relief activities in selected districts during 2015-16 as detailed in **Table 1.18**.

Table 1.18: Inadmissible drought relief activities ***(₹ in lakh)***

Sl. No.	Name of Collectorate	Amount spent from SDRF	Purpose for which spent
1	Thiruvananthapuram	30.70	Drought preparedness activities such as pond renovation, setting up of water Kiosks, well renovation, rain water recharge pit etc.
2	Kollam	45.21	
3	Thiruvananthapuram	48.89	New pipeline works, pipeline extension and inter connection works, re-laying of pipeline and other maintenance works.

Source: Information collected from respective District Collectorates

Government replied (October 2018) that the funds released under SDRF were utilised for providing relief to the drought affected people and meeting the urgent relief measures due to the onset of drought in the Districts and not for drought preparedness activities alone. The reply is not acceptable as SDRF

[17] Government Secretariat, Thiruvananthapuram Collectorate and Kollam Collectorate

could not be utilized for drought preparedness activities. Expenditure incurred for new pipeline works, pipe line extension and inter-connection works, etc., are also inadmissible as these are new works and not assets damaged due to any notified disaster.

1.4.5 Non-provision of interest by the State Government

As per guidelines on Constitution and Administration of SDRF issued by MoHA, State Governments shall constitute SDRF in the Public Account under the Reserve Fund bearing interest under the major head '8121-General and other Reserve Fund.' The guidelines stipulate that immediately upon receipt of Government of India's share, the State Government would transfer the amount, along with their share to the Public Account Head within 15 days of receipt of GoI share. Any delay will require the State Government to release the amount, with interest, at Bank rate of RBI, for the number of days of delay. It is seen that there was delay ranging from 41 to 132 days in issuing Government Orders by Disaster Management Department for transferring the funds received from GoI along with State share to SDRF account.

However, the State had not provided any interest for the delay in transferring GoI funds to SDRF Account. The interest liability works out to ₹6.64 crore calculated at average bank rate of RBI of seven *per cent* prevailing during the period.

Disaster Management Department replied (September 2018) that earnest efforts would be taken to issue Government Orders on time to transfer credit the GoI fund to SDRF account in future. The existing interest liability is yet to be credited to SDRF.

1.5 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 1.19**.

Table 1.19: Trends in growth and composition of capital receipts *(₹in crore)*

Sources of Receipts	2013-14	2014-15	2015-16	2016-17	2017-18
Capital Receipts (CR)					
Miscellaneous Capital Receipts	**19**	**28**	**28**	**30**	**29**
Recovery of Loans and Advances	**104**	**124**	**153**	**292**	**351**
Public Debt Receipts[18]	**14,342**	**15,858**	**17,673**	**20,927**	**23,899**
Internal Debt Receipts	13,950	15,106	17,142	20,075	23,454
Loans and Advances from GoI	392	752	531	852	445
Total CR	**14,465**	**16,010**	**17,854**	**21,249**	**24,279**
Rate of growth of debt capital receipts (*per cent*)	8.15	10.57	11.45	18.41	14.20
Rate of growth of CR (*per cent*)	8.35	10.68	11.52	19.02	14.26
Rate of Growth of GSDP (*per cent*)(*)	12.79	10.22	9.56	10.71	10.36
Buoyancy of Debt receipts w.r.t GSDP	0.64	1.03	1.20	1.72	1.37

Source: Finance Accounts of respective years

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

Table 1.19 shows that total capital receipts increased from ₹14,465 crore in 2013-14 to ₹24,279 crore in 2017-18. Debt receipts had a predominant share in capital receipts which ranged between 98 and 99 *per cent* during 2013-14 to 2017-18. The growth rate of debt receipts decreased from 18.41 *per cent* in 2016-17 to 14.20 *per cent* in 2017-18. The buoyancy of debt receipts with reference to GSDP was 1.37 during 2017-18 which indicated that the growth rate of Governments borrowings was greater than the growth rate of GSDP.

1.5.1 Proceeds from disinvestment

As of March 2018, the State Government invested ₹8,211.47 crore in Statutory Corporations, Government Companies, Joint Stock companies and Co-operatives and received ₹29.28 crore from retirement of capital/disinvestment of shares of co-operative societies/banks and accounted for under Miscellaneous Capital Receipts.

1.5.2 Recoveries of loans and advances

During the year, the State Government released an amount of ₹1,540.59 crore as loans and advances to various institutions and an amount of ₹15,066.84 crore was outstanding under this head at the end of March 2018. Against this balance, principal amount recovered was ₹350.68 crore, which was around two *per cent* of the outstanding balance under loans and advances.

1.5.3 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 1.19, internal debt receipts was the main source of public debt receipts and it was around 97 *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 1.20**.

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

Table 1.20: Composition of Internal Debt *(₹in crore)*

Sources of Internal Debt	2013-14	2014-15	2015-16	2016-17	2017-18
Open Market Borrowings	12,800.00	13,200.00	15,000.00	17,300.00	20,500.00
NABARD	501.25	551.37	600.00	827.89	600.00
NCDC	0.00	222.16	39.13	47.79	180.42
NSSF	565.14	1,132.10	1,455.20	1,861.22	2,123.08
Others	83.85	0.00	47.25	37.72	50.00
Total	**13,950.24**	**15,105.63**	**17,141.58**	**20,074.62**	**23,453.50**

Source: Finance Accounts of respective years

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 NCDC and NSSF. Consequently, share of open market borrowings in Internal Debt reduced from 92 *per cent* in 2013-14 to 87 *per cent* in 2017-18.

1.6 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 2013-14 to 2017-18 are indicated in **Table 1.21**.

Table 1.21: Net receipts under Public Account heads *(₹in crore)*

Resources under various heads	2013-14	2014-15	2015-16	2016-17	2017-18
Public Account receipts					
a. Small Savings, Provident Fund etc.	4,231.86	3,764.77	8,332.07	12,931.64	7,206.84
b. Reserve Fund	78.02	66.00	64.90	162.22	308.98
c. Deposits and Advances	187.43	1,364.50	(-)3,280.29	105.65	265.91
d. Suspense and Miscellaneous	(-) 946.60	57.90	774.28	(-) 2,169.09	1,202.53
e. Remittances	(-) 168.48	25.95	(-) 92.19	(-) 313.01	(-) 165.97
Total	**3,382.23**	**5,279.12**	**5,798.77**	**10,717.41**	**8,818.29**

Source: Finance Accounts of respective years

The Table 1.21 shows that during 2017-18, an amount of ₹8,818.29 crore was added to the existing balance of the Public Account. Substantial net addition of ₹7,206.84 crore under the sector 'Small Savings, Provident Fund, etc.', was mainly due to the accumulations of ₹2,023.45 crore occurred under '8031-102-State Savings Bank Deposits' and ₹4,272.75 crore under '8009-State Provident Fund'. These accumulations under public account are utilised by the State Government for covering their fiscal deficit.

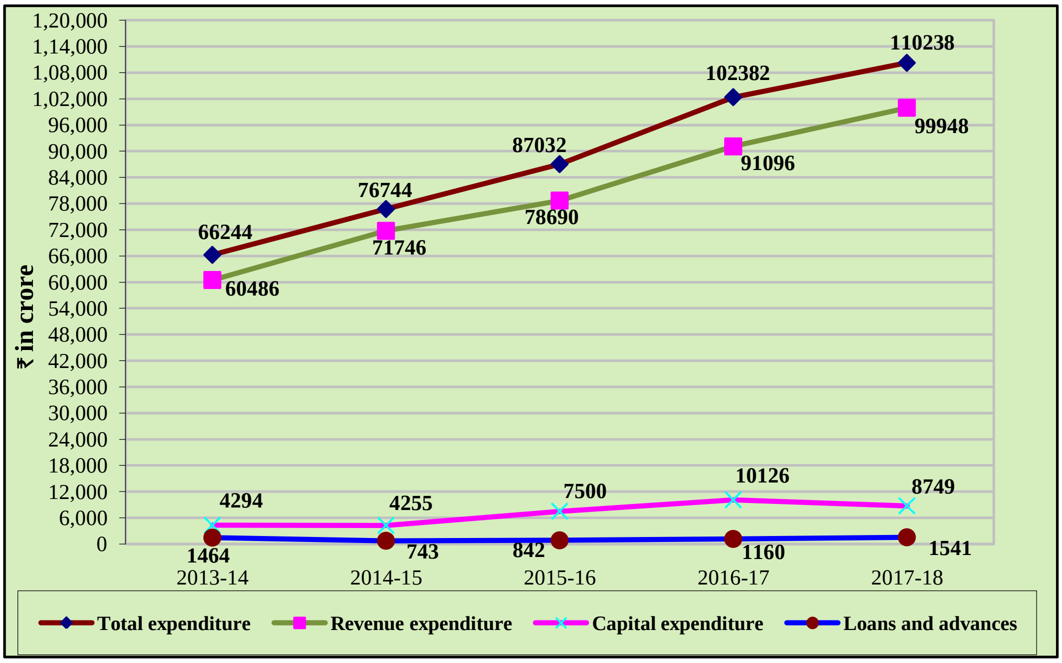
1.7 Application of Resources

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

1.7.1 Growth and Composition of Expenditure

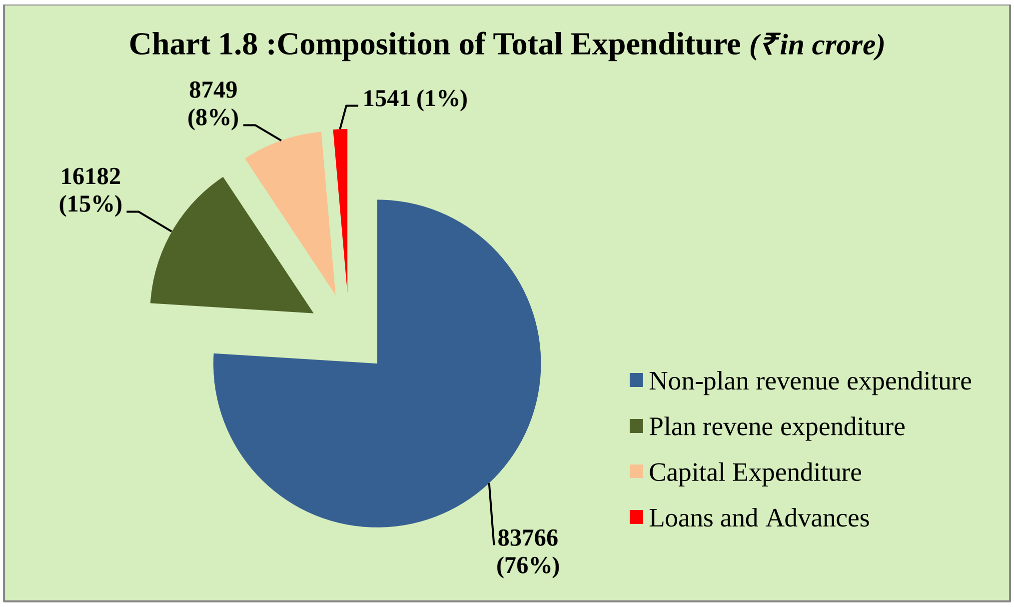
The trends in total expenditure (aggregate of revenue, capital and loans and advances expenditure) and various components of total expenditure-Plan and Non-Plan revenue expenditure, committed expenditure such as salaries and wages, interest payments, pension payments and subsidies, financial assistance 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 (2013-14 to 2017-18).

Chart 1.7: Total expenditure: trends and composition



During the last five years, the total expenditure of the State increased by 66 *per cent* from ₹66,244 crore in 2013-14 to ₹1,10,238 crore in 2017-18. While revenue expenditure recorded a growth of 65 *per cent*, capital expenditure recorded a growth of 104 *per cent* during the same period.

Total expenditure of the State for 2017-18 was ₹1,10,238 crore, out of which, ₹99,948 crore (91 *per cent*) was revenue expenditure. Composition of total expenditure during 2017-18 is given in **Chart 1.8**.



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 1.22**.

Table 1.22: Total expenditure – basic parameters

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Total expenditure (TE) (₹ in crore)	66,244	76,744	87,032	1,02,382	1,10,238
Rate of growth (*per cent*)	11.85	15.85	13.41	17.64	7.67
Revenue Receipts (RR) (₹*in crore*)	49,177	57,950	69,033	75,612	83,020
Rate of growth of RR (*per cent*)	11.42	17.84	19.13	9.53	9.80
GSDP(₹*in crore*)	4,65,041	5,12,564	5,61,546	6,21,700	6,86,116
Rate of growth of GSDP	12.79	10.22	9.56	10.71	10.36
TE/GSDP ratio (*per cent*)(*)	14.24	14.97	15.50	16.47	16.07
Revenue Receipt/TE ratio (*per cent*)	74.24	75.51	79.32	73.85	75.31
Buoyancy of TE with reference to:					
GSDP (ratio) (*)	0.93	1.55	1.40	1.65	0.74
RR (ratio)	1.04	0.89	0.70	1.85	0.78

Source: Finance Accounts of respective years

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

Table 1.22 shows that

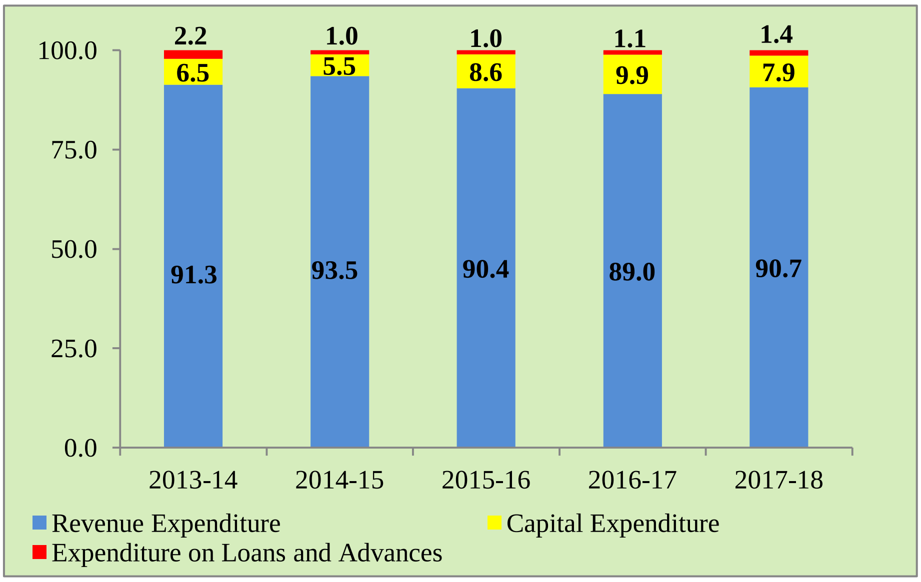
- Growth rate of total expenditure in 2017-18 was the lowest during the last five-year period. The lower growth rate was mainly due to negative growth rate (-14 *per cent*) in Capital Expenditure in 2017-18.
- Ratio between revenue receipt and total expenditure indicate the sufficiency of revenue receipt for meeting total expenditure. In 2016-17, revenue receipt of the State was sufficient to meet 73.85 *per cent* of the total expenditure which improved marginally to 75.31 *per cent* in 2017-18 due to increased growth of revenue receipts when compared to the growth rate of total expenditure.
- The Buoyancy of the total expenditure with respect to GSDP also declined in 2017-18. It was also the lowest during the five year period. In 2017-18, it was less than one, which indicated lower growth rate of total expenditure compared to GSDP.

- Buoyancy of total expenditure with revenue receipt also declined in 2017-18.

Compounded annual growth rate of total expenditure of the State for the periods 2008-09 to 2016-17 and 2016-17 to 2017-18 was higher than that of General Category States. (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



1.7.2 Trends in total expenditure in terms of activities

In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, grants-in-aid and loans and advances. Relative shares of different components of total expenditure are given in **Table 1.23**.

Table 1.23: Components of expenditure – relative shares *(in per cent)*

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
General Services	**40.39**	**41.13**	**41.76**	**40.44**	**41.54**
of which, Interest Payments	12.48	12.73	12.77	11.84	13.72
Social Services	**32.60**	**32.05**	**32.91**	**34.24**	**33.82**
Economic Services	**17.30**	**17.51**	**19.88**	**18.83**	**16.71**
Grants-in-aid	**7.51**	**8.34**	**4.45**	**5.36**	**6.53**
Loans and Advances	**2.20**	**0.97**	**0.97**	**1.13**	**1.40**

Source: Finance Accounts of respective years

Table 1.23 reveals that:

- While relative share of General Services in total expenditure increased, share of Social Services and Economic Services decreased during 2017-18 when compared to 2016-17. Similarly, share of Grants-in-aid also increased from 5.36 *per cent* in 2016-17 to 6.53 *per cent* in 2017-18.

- During 2017-18, share of interest payments in total expenditure was the highest during the five-year period.
- Relative share of loans and advances in total expenditure increased during 2017-18 due to increase in release of loans and advances by the State Government.

1.7.3 Revenue Expenditure

During 2017-18, revenue expenditure recorded an increase of ₹8,852 crore (9.72 *per cent*), compared to the previous year. The increase in revenue expenditure was mainly due to increase in expenditure under the major heads 'Pension and Other Retirement Benefits'(₹4,661 crore), 'Interest Payments'(₹3,003 crore), 'Compensation and Assignments to Local Bodies and Panchayati Raj Institutions' (₹1,716 crore), 'General Education'(₹1,355 crore), 'Roads and Bridges' (₹986 crore) and 'Social Security and Welfare' (₹893 crore) etc.

1.7.3.1 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 93 *per cent* and it showed an increasing trend during 2017-18. 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 1.24**.

Table 1.24: Revenue expenditure – basic parameters *(₹ in crore)*

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue expenditure (RE)	**60,486**	**71,746**	**78,690**	**91,096**	**99,948**
Non-plan revenue expenditure (NPRE)	53,412	61,464	66,611	77,604	83,766
Plan revenue expenditure (PRE)	7,074	10,282	12,079	13,492	16,182
Rate of Growth of					
RE (*per cent*)	13.08	18.62	9.68	15.77	9.72
NPRE (*per cent*)	14.52	15.08	8.37	16.50	7.94
PRE (*per cent*)	3.29	45.35	17.48	11.70	19.94
Revenue expenditure as percentage to TE	91.31	93.49	90.42	88.98	90.67
NPRE/GSDP (*per cent*) (*)	11.49	11.99	11.86	12.48	12.21
NPRE as percentage of TE	80.63	80.09	76.54	75.80	75.99
NPRE as percentage of RR	108.61	106.06	96.49	102.63	100.90
Buoyancy of revenue expenditure with					
GSDP (ratio) (*)	1.02	1.82	1.01	1.47	0.94
Revenue receipts (ratio)	1.15	1.04	0.51	1.65	0.99

Source: Finance Accounts of respective years

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

Table 1.24 reveals the following:

- There was considerable decrease in growth rate of NPRE in 2017-18 compared to previous year which attributed to onward decrease in the growth rate of RE, whereas growth rate of PRE increased considerably.
- Revenue expenditure as a percentage of total expenditure ranged between 89 *per cent* and 93 *per cent* during the five year period which

indicated inadequacy of resources for expansion of services and creation of assets.

- The share of Revenue expenditure in Total Expenditure increased from 88.98 *per cent* in 2016-17 to 90.67 *per cent* in 2017-18 indicating lower priority assigned for capital expenditure during the year.
- NPRE as a percentage of RR was above 100, which indicated that State's revenue receipts were not sufficient to meet its NPRE for 2017-18

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

The trends of the committed expenditure of the State Government during 2013-14 to 2017-18 is given in **Table 1.25**.

Table 1.25: Components of committed expenditure ***(₹in crore)***

Components of committed expenditure	2013-14	2014-15	2015-16	2016-17	2017-18	
					Budget estimate	Actual Expenditure
Salaries* and Wages	**19,554**	**21,621**	**23,757**	**28,373**	**32,397**	**32,243**
Interest payments (MH 2049)	**8,265**	**9,770**	**11,111**	**12,117**	**13,632**	**15,120**
Expenditure on pensions (MH 2071)	**9,971**	**11,253**	**13,063**	**15,277**	**18,174**	**19,938**
Subsidies	**1,279**	**1,252**	**1,372**	**1,731**	**1,967**	**1,584**
Total	**39,069**	**43,896**	**49,303**	**57,498**	**66,170**	**68,885**
Revenue Expenditure	**60,486**	**71,746**	**78,690**	**91,096**	**1,09,628**	**99,948**
Revenue Receipts	**49,177**	**57,950**	**69,033**	**75,612**	**93,585**	**83,020**
Percentage of committed expenditure to Revenue expenditure	65	61	63	63	60	69
Percentage of committed expenditure to Revenue receipts	79	76	71	76	71	83

* Salaries include teaching grant paid to aided educational institutions like schools and colleges to meet the salaries of their teaching and non-teaching staff.

Source: Finance Accounts of respective years

The share of committed expenditure in revenue expenditure increased from 63 *per cent* in 2016-17 to 69 *per cent* in 2017-18 and it was highest during the five year period. Similarly, the percentage of committed expenditure with respect to revenue receipts at 83 *per cent* during 2017-18 was also the highest during the five year period. The high proportion of committed expenditure to revenue receipts indicates that the State has limited flexibility in allocation of its resources for new schemes. Medium term correction on the expenditure side is required to moderate such committed expenditure

While interest payments showed a growth rate of 25 *per cent* in 2017-18 when compared to 9 *per cent* growth in previous year, pension payments increased by 31 *per cent* compared to previous year's 17 *per cent.* Interest payments and pension payments consumed 18 *per cent* and 24 *per cent* of revenue receipts respectively which is a matter of concern for the State Government.

1.7.4 Implementation of National Pension System

Government of India introduced (August 2003) National Pension System (NPS) for new entrants to Central Government service, replacing the then existing system of defined benefit pension, General Provident Fund and gratuity.

The GoI established Pension Fund Regulatory and Development Authority (PFRDA) on 10 October 2003 to develop and regulate the Pension Funds under the NPS. PFRDA has appointed National Securities Depository Limited (NSDL) as the Central Record Keeping Agency to maintain the records of contribution and its deployment in various pension fund schemes for the employees and to issue Permanent Retirement Account Number (PRAN) to NPS subscribers.

State Government introduced National Pension System in July 2009 to All India Service (AIS) officers recruited to Kerala Cadre on or after 01.01.2004 and to the State Government employees in January 2013 appointed on or after 01.04.2013. According to the scheme, the employees have to contribute 10 per cent of the basic pay and dearness allowance and Government has to make an equal contribution to the pension account.

Audit analysed the implementation of NPS among AIS officers and State Government employees and audit observations in this regard are summarised below:

1.7.4.1 Non- payment of backlog contribution by AIS officers

State Government implemented National Pension System (NPS) in July 2009 to the All India Service (AIS) Officers recruited to Kerala cadre on or after 01.01.2004.

Even though National Pension System has been made effective from 01.01.2004 for the AIS officers, the deduction of contribution commenced only from the month of February 2014 for want of setting up of required infrastructure for online transfer of the contribution amounts to the trustee bank and data transfer to NSDL. Government issued guidelines and accounting procedure only in January 2015 for the realisation of backlog contribution in respect of the AIS officers recruited to Kerala Cadre from 1.1.2004 to 31.5.2014.

As per the provisions and modalities for the realisation of backlog contribution in respect of AIS Officers issued in May 2016, the officers concerned were to submit service details, pay particulars, details of NPS contributions already remitted etc. to Finance Department. Service particulars would be verified by the Administrative Departments concerned and pay particulars and NPS remittance details would be verified by the Director of Treasuries. After scrutiny of the details and verification reports, State Nodal Officer of Finance (NPS Cell) would issue orders for the realisation of backlog contribution in respect of each officer.

As per the records maintained in the Government Secretariat, Government of Kerala, there are 82 AIS officers in Kerala cadre who joined service during the backlog period from 1.1.2004 to 31.5.2014, and are hence eligible for backlog contribution of NPS arrears. Government issued final Orders for the realisation of backlog contribution in respect of 33 officers and information received from 13 officers are pending scrutiny with Finance Department.

Details in respect of the remaining 36 All India service officers for backlog contribution have not been submitted to Finance department till date as shown in **Appendix 1.8**.

The matter was brought to the notice (November 2018) of the Finance Department and the reply is awaited (February 2019).

1.7.4.2 Non- payment of interest for the matching Government share for backlog contribution in respect of State Government Employees

State Government implemented National Pension System (NPS) in January 2013 to the State Government employees appointed on or after 01.04.2013. However, the deduction towards NPS commenced only from February 2014.

Government vide GO issued in January 2015 allowed interest applicable as per GPF (Kerala) Rules 2011 to the State Government Employees for the matching Government Contribution in respect of the backlog contribution made by the Employees with effect from 1.4.2013 to 31.5.2014 subject to their date of appointment. However, it was seen that State Government had not given any interest towards the matching Government share in respect of eligible Government employees till date.

Finance department replied that no interest was given to backlog contribution of employees as none of the DDOs have submitted any document to the concerned treasuries for claiming interest on Government contribution.

The reply is not tenable as department failed to take any further action for payment of interest on the matching Government contribution.

1.7.4.3 Delay in transfer of funds to NSDL and non-payment of interest for the delay in respect of AIS Officers

As per Government instructions issued in December 2013, the Treasury Officer has to transfer the funds credited under 8342-00-117 to the trustee bank of NSDL on the same day of credit.

Government issued final orders for realisation of back log contribution, in case of 33 AIS officers in the state, of which 10 cases pertained to four treasuries of Thiruvanathapuram District. Audit scrutinized two out of seven cases in two treasuries (District Treasury Thiruvanathapuram and Sub Treasury Vellayambalam) and observed that there was delay of 27 to 41 months in transfer of funds to NSDL as shown in **Appendix 1.9**.

However, no interest was paid for the delayed transfer of funds to NSDL in both these cases.

In the light of the above observations in the two test checked cases audit could not rule out the possibility of similar deficiencies in the remaining cases.

The Finance Department replied (September 2018) that the delay in transfer of funds was due to administrative reasons and interest was paid only up to May 2014 as per instructions in G.O dated 14 January 2015. The reply is not tenable as Government is required to pay interest to the Officers till the date of transfer of funds to NSDL.

1.7.4.4 Non recovery of NPS subscription from the pay revision arrears

Consequent on the implementation of Tenth Pay Revision Commission recommendations State Government Employees were given pay revision arrears in four instalments during 2017-19. As per the Government instructions contained in G.O dated 07.01.2013, the NPS contributions were to be recovered from the pay and DA of employees at the rate of 10 *per cent.* However, a scrutiny of the records relating to recovery of NPS subscription from the pay revision arrears disbursed up to April 2018 (first three instalments), conducted in the offices of the Sub Treasury Officer, Vellayambalam, Thiruvananthapuram (Treasury Department), Commissioner of Land Revenue, Thiruvananthapuram and the Assistant Commissioner of State Goods and Services Tax Department, Thiruvananthapuram revealed that subscription towards NPS was not deducted from the bill for the drawal of Pay revision arrears of employees.

Similarly, a scrutiny of records in three offices test checked[19], relating to the payment of pay revision arrears to AIS Officers, consequent on the implementation of Seventh Central Pay Commission recommendations, revealed that NPS contributions were not recovered from pay revision arrears paid to three AIS Officers.

Finance Department replied (August 2018) that NPS contributions were not recovered from Pay revision arrears of State Government employees as the Pay revision arrears were credited to GPF account of employees as per the instructions contained in G.O dated 13.10.2014.

The reply is not tenable as the pay revision arrears should have been credited to GPF after deducting NPS subscription at prescribed rates.

Short transfer to NSDL would inevitably lead to bankruptcy of the NPS corpus and eventual failure of the scheme itself. Similar irregularity in management of employee provident fund by a private company would render them liable to penal action.

1.7.4.5 Mismatch between Government contribution and employee contribution credited to the deposit head

The amount deducted from the salary in respect of officials would be transfer credited to the Head of account '8342-00-117' under the relevant sub heads. The Treasury Officer would draw the amount of matching Government contribution equivalent to the contribution in respect of officials by debiting the Head of account '2071-01-117' and transfer credit the same to the relevant sub heads under Head of account '8342-00-117'.

On a scrutiny, it is observed that there is mismatch between Government servant's contribution credited to the relevant sub head under '8342-00-117' and matching Government contribution debited to the Major head '2071-01-117' during the period. It is also observed that there is mismatch in the amount of Government contribution debited to the head of account '2071-01-117' and the amount transfer credited to the corresponding public account head '8342-00-117' as shown in **Table 1.26**.

[19] Police Headquarters, Thiruvananthapuram; Government Secretariat, Thiruvananthapuram and Corporation of Thiruvananthapuram

Table 1.26: Mismatch between employee contribution and matching Government contribution (***₹ in lakh)***

Category	Period to which subscri-ption relates	Employee/ AIS Officers contribution credited to 8342-00-117	Matching Government contribution debited to 2071-01-117	Matching Government contribution transfer credited to Public account 8342-00-117	Difference between employee contribution and matching Government contribution
1	2	3	4	5	6 (3-5)
AIS Officers	2010-18	247.86	244.65	217.67	30.19
State Government employees	2014-18	38939.51	38673.34	38967.07	27.56
Backlog contribution by State Government Employees	2014-18	4064.95	4251.09	4069.69	4.74

Source: Finance Accounts of respective years, VLC data

The Director of Treasuries attributed the mismatch in employee contribution and corresponding Government contribution to wrong debit afforded to the head of account '8342-00-117' by most of the treasuries instead of debiting the Government contribution under '2071-01-117'. It was also replied that action was being taken to reconcile the differences pointed out.

1.7.4.6 Mismatch between debit and credit under the deposit head '8342-00-117' resulting in adverse balance

The employees' contribution and the matching Government contribution under NPS are initially credited under '8342-00-117' and subsequently transferred to the trustee bank of National Securities Depository Limited (NSDL) by clearing the deposit head '8342-00-117'.

An analysis of Treasury wise accumulation of balance under '8342-00-117' indicated mismatch between the amounts credited and debited under various sub heads below the head of account resulting in adverse balance under the deposit head of account in four treasuries as shown in **Table 1.27**.

Table 1.27: Amount credited and debited under the deposit head 8342-00-117 up to the end of 2017-18 (in ₹)

Name of Treasury	Credit	Debit	Balance
District Treasury, Kattakkada	21,38,43,985	21,38,53,827	-9,842
District Treasury, Alappuzha	28,17,08,411	28,18,74,891	-1,66,480
District Treasury, Kottayam	40,33,72,681	4,37,142,841	-3,37,70,160
District Treasury, Irinjalakuda	21,70,33,221	21,71,47,364	-1,14,143

Source: Information collected from Finance Department

The Director of Treasuries attributed the adverse balance to erroneous deduction of employee contribution and Government contribution from the same deposit head of account, instead of debiting the Government contribution under the revenue major head of account '2071-01-117'. It was also stated that action was being taken to rectify the mismatch in figures.

1.7.4.7 Non- subscription under NPS

A registration for Permanent Retirement Account Number (PRAN) is mandatory to avail benefits of NPS. Unique Permanent Retirement Account

Number (PRAN) is allocated to each subscriber under the NPS Scheme at the time of joining the scheme.

The officers appointed on or after 1.4.2013 and who are under the purview of NPS have to apply to the District Treasury Officer (DTO) concerned for allotment of PRAN. The DTO will generate the PRAN forms of the officer concerned. After verification, the official will submit the duly filled/signed PRAN form in duplicate to the DTO who will affix his seal and signature in the form and forward it to NSDL. On receipt of PRAN kit from NSDL, the DTO would forward the kit to the respective DDO/Appointing authority. The DDO/Appointing authority will make necessary entry of the PRAN in SPARK[20] and distribute the kit to the employee concerned

Audit scrutiny of SPARK data base revealed that 1,09,657 employees had joined service during the period from April 2013 to July 2018. Out of the employees who joined service, 34,262 employees have not been allotted with PRAN as on 31.07.2018. It was also seen that NSDL had allotted PRAN to 79,806 State Government employees, rejected 1938 applications and 768 applications were pending as on 31.10.2018.

The Finance Department has been requested to reconcile the difference between the SPARK database and figures furnished by NSDL. It was also found that there is no mechanism in Treasuries Department to watch the prompt recovery of NPS contribution from the due dates in respect of AIS Officers and State Government Employees covered under the scheme.

It was further observed that no monthly statement on the yield derived from the investment of the fund is being received from the National Pension Trust.

The finance department replied that instructions had been issued to the Director of Treasuries to take necessary steps to create a fruitful mechanism in the department to watch the prompt recovery of NPS contribution. It was further replied that request had been given to National Pension Trust, New Delhi to furnish monthly statement on the yield delivered from the investment of the fund.

1.7.5 Subsidies

The subsidies (₹1,584 crore) given during 2017-18 were ₹147 crore less than the subsidies (₹1,731 crore) given in the previous year. The main items of subsidies given during 2017-18 included amount given to Food Corporation of India in respect of reimbursement of price difference of ration rice and wheat (₹784 crore), for Paddy procurement through Kerala State Civil Supplies Corporation (₹325 crore), grant to Kerala State Civil Supplies Corporation Limited for market intervention operations (₹200 crore), State Investment Subsidy (₹54 crore) and subsidy to Co-operatives for conducting festival markets (₹52 crore).

1.7.6 Financial assistance to Local Bodies and Other Institutions

The assistance provided by the Government as grants and loans to local

[20] SPARK (Service and Payroll Administrative Repository for Kerala) is an integrated personnel, payroll and accounts information system for all the employees in Government of Kerala. The system caters to the personnel Administration, Pay roll and other Accounts activities of Government Establishments.

bodies, educational institutions, Government companies, Welfare Fund Boards, etc., during the current year relative to the previous years is presented in **Table 1.28**.

Table 1.28: Financial assistance to local bodies, educational institutions, etc.

(₹ in crore)

Financial Assistance to Institutions	2013-14	2014-15	2015-16	2016-17	2017-18
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	6,934.56	7,769.01	8,409.89	9,602.98	16,511.23
Municipal Corporations and Municipalities	1,358.09	1,836.39	1,405.77	2,756.55	3,178.62
Zilla Parishads and Other Panchayati Raj Institutions	6,421.60	8,423.74	7,767.62	7,775.98	11,335.87
Development Agencies	6.42	6.23	5.91	14.73	20.91
Hospitals and Other Charitable Institutions	94.19	305.76	407.60	812.18	686.29
Other Institutions[21]	1,323.46	1,602.60	2,104.35	2,927.71	3,196.28
Total	**16,138.32**	**19,943.73**	**20,101.14**	**23,890.13**	**34,929.20**
Assistance as percentage of revenue expenditure	27	28	26	26	35

Source: Finance Accounts and information received from the State Government

The financial assistance to local bodies and other institutions increased from ₹16,138.32 crore in 2013-14 to ₹34,929.20 crore in 2017-18. The table above shows that the percentage of assistance with reference to revenue expenditure at 35 *per cent* during 2017-18 was also highest in the five year period. Substantial increase was noticed in the release of Grants in respect of Educational institutions and Zilla Parishads and Other Panchayat Raj Institutions during 2017-18.

1.7.7 Non-compliance of existing Accounting Standards

Ministry of Finance, Government of India had notified three accounting standards viz., 'Indian Government Accounting Standards (IGAS) 1 – Guarantees given by Government', 'IGAS 2 – Accounting and Classification of Grants-in-aid' and 'IGAS 3 – Loans and Advances made by Governments'.

IGAS 2 prescribes the principles for accounting and classification of Grants-in-aid in the Financial Statements of Government. Paragraph 10 of IGAS 2 stipulates that Grants-in-aid that are in the form of pass-through grants, from the Union Government to the State Government to be disbursed to ultimate grantee shall be classified and accounted for as revenue expenditure in the Financial Statements of both Union Government and State Governments irrespective of the purpose for which such grants are to be spent by the ultimate grantee. Government of India (GoI) was transferring grants-in-aid for the scheme Pradhan Mantri Gram Sadak Yojana (PMGSY) directly to the implementing agency Kerala State Rural Roads Development Agency till 2013-14. From 2014-15 onwards, grants-in-aid from GoI for PMGSY were

[21] Major institutions under 'Other institutions' are Kerala State Road Transport Corporation (₹835 crore), Kerala Water Authority (₹531.44 crore), Kudumbasree (₹166 crore), Suchitwa Mission (₹136.61 crore), State Council for Science, Technology & Environment (₹133.91 crore), Kerala Road Fund Board (₹100 crore), Kerala Social Security Mission (₹99.56crore), Kerala Industrial Infrastructure Development Corporation (₹66.36 crore), Kerala State Cashew Development Corporation (₹65 crore) & Kerala Urban Development Finance Corporation (₹55.70 crore).

routed through State budget for onward transfer to Kerala State Rural Roads Development Agency. State Government received ₹650.99 crore as grants-in-aid from GoI under the scheme during the period 2014-15 to 2017-18. However, the grants-in-aid received from GoI under PMGSY during the period 2014-2018 was classified as capital expenditure in the Financial Statement of State Government violating the provisions of IGAS 2.

Government replied (March 2019) that steps would be taken in 2019-20 to classify the expenditure of the grants-in-aid received from the Government of India pertaining to the PMGSY in the revenue side in the detailed budget estimates and demands for grants.

1.8 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. Improvement in the quality of expenditure 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.

1.8.1 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 1.29** analyses the fiscal priority of the State Government with regard to Development Expenditure, Social Sector Expenditure and Capital Expenditure during 2013-14, 2016-17 and 2017-18.

Table 1.29: Fiscal priority of the State in 2013-14, 2016-17 and 2017-18

(in per cent)

Fiscal Priority by the State		TE/ GSDP	DE#/ TE	SSE/ TE	CE/ TE	Education/ TE	Health/ TE
Kerala	2013-14	14.20	51.80	33.40	6.5	18.0	5.50
	2016-17	16.47	53.77	34.30	9.89	17.00	5.85
	2017-18	16.10	51.90	33.90	7.90	17.30	6.00
General Category States' Average	2013-14	14.70	66.50	37.60	13.60	17.20	4.50
	2016-17	17.30	70.80	35.70	15.30	15.20	4.50
	2017-18	16.10	67.90	36.70	14.40	15.50	4.90
Karnataka	2017-18	13.60	76.46	38.44	20.06	12.60	4.55
Tamil Nadu	2017-18	13.64	62.45	34.31	10.38	15.21	5.36

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).

Source: Information furnished Economic Adviser and based on Finance Accounts

Table 1.29 shows that:

- In all the three years, 2013-14, 2016-17 and 2017-18, Development Expenditure (DE) as a proportion of Total Expenditure (TE) was lower than General Category States' average. Development Expenditure consists of both Economic Sector Expenditure and Social Sector Expenditure.

- Adequate fiscal priority has not been given to Social Sector (except Health and Education Sector) during 2013-14, 2016-17 and 2017-18 when compared to General Category States.
- Even though Development Expenditure (DE) as percentage of Total Expenditure (TE) decreased in 2017-18 when compared to previous year Education Expenditure/TE and Health Expenditure / TE showed a marginal increase during the year. The decrease in DE/TE was mainly due to decrease in share of Economic Services in TE from 19.47 *per cent* in 2016-17 to 17.89 *per cent* in 2017-18.
- The proportion of Capital Expenditure in Total Expenditure has been much lower as compared to General Category States during all the three years. Government may consider enhancing the proportion of expenditure on capital sector in order to create much needed assets to stimulate growth and give priority to physical capital formation.
- Total Expenditure under 'Irrigation' and 'Agriculture and Allied Activities' decreased by 4 *per cent* and 7 *per cent* respectively during the year when compared to the previous year.

During 2017-18, Capital Expenditure as percentage of GSDP was lower for Kerala State (1.28 *per cent*) when compared to Tamil Nadu (1.42 *per cent*) and Karnataka (2.73 *per cent*).

1.8.2 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 1.30** 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 2013-14 to 2017-18.

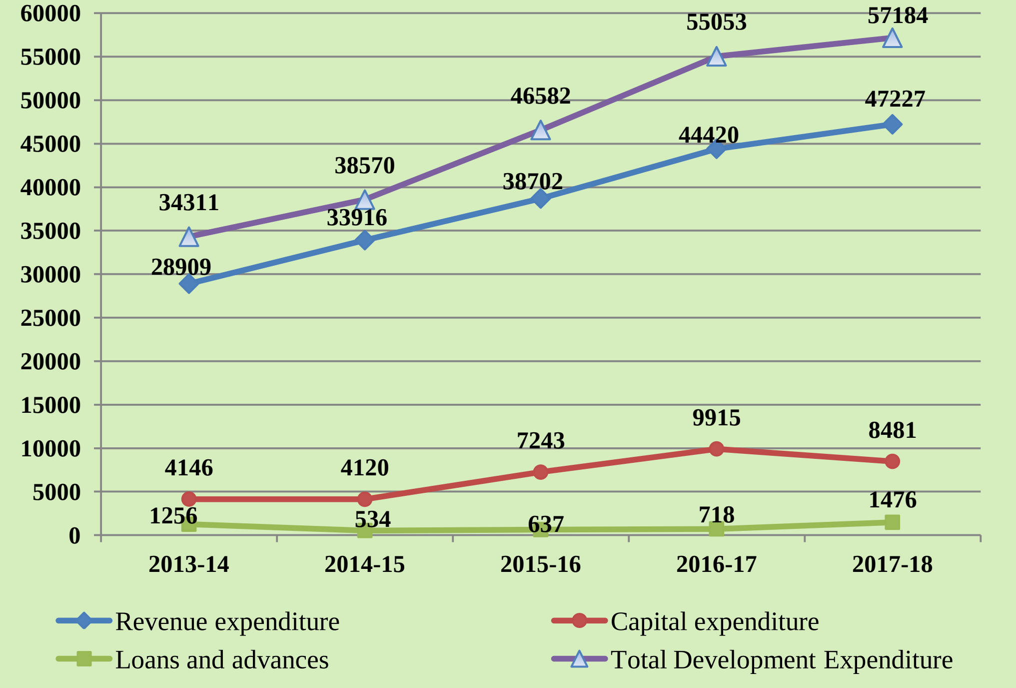
Table 1.30: Development expenditure ***(₹ in crore)***

Components of Development Expenditure	2013-14	2014-15	2015-16	2016-17	2017-18
Development Expenditure (a to c)					
a. Revenue expenditure	28,909 (43.64)	33,916 (44.19)	38,702 (44.47)	44,420 (43.39)	47,227 (42.84)
b. Capital expenditure	4,146 (6.26)	4,120 (5.37)	7,243 (8.32)	9,915 (9.68)	8,481 (7.69)
c. Loans and advances	1,256 (1.90)	534 (0.70)	637 (0.73)	718 (0.70)	1,476 (1.34)
Total Development Expenditure	**34,311 (51.80)**	**38,570 (50.26)**	**46,582 (53.52)**	**55,053 (53.77)**	**57,184 (51.87)**
Total Expenditure	**66,244**	**76,744**	**87,032**	**1,02,382**	**1,10,238**

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

During 2017-18, growth rate of total expenditure was 7.67 *per cent* but the growth rate of development expenditure was 3.87 *per cent only*, which is a matter of concern. Though 51.87 *per cent* of total expenditure was utilised for development expenditure, major share (82.58 *per cent*) was that of revenue expenditure, which indicated predominance of revenue expenditure items in development expenditure. However, capital expenditure in absolute terms and its share in total development expenditure during last year showed a declining trend, which is not a positive indicator on the development expenditure of the State (**Table 1.30**).

Chart 1.10 : Components of development expenditure (₹ in crore)



Development expenditure increased from ₹34,311 crore in 2013-14 to ₹57,184 crore in 2017-18, recording an increase of 67 *per cent* in five years. During the year, share of revenue expenditure in development expenditure increased whereas the share of capital expenditure decreased indicating low fiscal priority given to capital expenditure.

Revenue expenditure on development sector increased by 63 *per cent* during the last five years from ₹28,909 crore in 2013-14 to ₹47,227 crore in 2017-18 and it increased by ₹2,807 crore during 2017-18 over the previous year. The increase in 2017-18 was due to increase in expenditure under Social Services (₹2,111 crore) and under Economic Services (₹696 crore).

In Social Services, this increase was mainly under 'General Education' (₹1,355 crore), 'Social Security and Welfare' (₹893 crore), and 'Medical and Public Health' (₹380 crore).

Capital expenditure on development sector decreased by ₹1,434 crore mainly due to decrease of expenditure of ₹1547 crore under Economic sector in 2017-18 over the previous year partly offset by increase of expenditure of ₹113 crore under Social Sector. Decrease in Economic Sector was mainly under the sub-sectors 'Other General Economic Services' (₹1,265 crore), 'Transport' (₹143 crore), 'Irrigation and Flood Control' (₹130 crore) and 'Other rural development programmes' (₹100 crore). The development capital expenditure of ₹8481 crore, included ₹1043 crore released to KIIFB during 2017-18. Out of which only ₹444 crore was released by KIIFB for 22 projects during 2017-18 and the balance amount of ₹599 crore was retained by KIIFB.

1.8.3 Incomplete projects/works

Department-wise information pertaining to incomplete projects/works (each costing above ₹one crore) as on 31 March 2018 is given in **Table 1.31**.

Table 1.31: 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 2018
1.	Irrigation Department – (Irrigation and Minor Irrigation Works)	13	140.18	88.65
2.	Public Works Department – (Roads including NH)	101	617.88	349.99
3.	Public Works Department – (Bridges)	54	706.36	503.97
4.	Public Works Department – (Buildings)	129	459.25	230.88
5.	Harbour Engineering Department	3	34.34	34.94
	Total	**300**	**1,958.01**	**1,208.43**

Source: Appendix IX of Finance Accounts 2017-18

As per the Finance Accounts 2017-18, there was a delay in completion of 300 projects/works and this would result in time overrun and cost overrun, besides denying the desired benefit to the beneficiaries.

1.9 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.

1.9.1 Investment and returns

As of March 2018, the State Government had invested ₹8,211.47 crore in Statutory Corporations (3 nos.), Government Companies (working 101 nos., non working 17 nos.) Joint Stock Companies (39 nos.) and Co-operatives **(Table 1.32)**. The average return on these investments was 1.44 *per cent* in the last five years while the Government paid an average interest rate of 7.24 *per cent* on its borrowings during 2013-14 to 2017-18.

Table 1.32: Return on investments

Investment/Return/Cost of Borrowings	2013-14	2014-15	2015-16	2016-17	2017-18
Amount of Investment (₹ in crore)	5,623.61	6,085.13	6,733.85	7,240.03	8,211.47
Return (₹ in crore)	100.58	74.18	90.23	96.37	126.48
Return *(per cent)*	1.79	1.22	1.34	1.33	1.54
Average rate of interest on Government borrowing *(per cent)*	7.11	7.35	7.35	6.92	7.48
Difference between interest rate and return *(per cent)*	5.32	6.13	6.01	5.59	5.94

Source: Finance Accounts of the State Government

During 2017-18, State Government invested ₹38.46 crore in Statutory Corporations, ₹666.71 crore in Government Companies, ₹141.27 crore in Co-operative Banks and Societies. Progressive expenditure on investments was increased (due to conversion of loan into equity) by ₹22.13 crore under Government companies and decreased (due to proceeds of retirement of share capital transferred to capital receipts) by ₹29.28 crore under Co-operative banks and societies. Out of the total investment of ₹8,211.47 crore, ₹33.87 crore was in 17 non-working companies.

1.9.2 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 1.33** presents the outstanding loans and advances as on 31 March 2018 and interest receipts during the last five years.

Table 1.33: Details of loans and advances during the last five years *(₹in crore)*

Quantum of Loans/Interest Receipts/Cost of Borrowings	2013-14	2014-15	2015-16	2016-17	2017-18
Opening balance	10,360[22]	11,713[23]	12,320[24]	13,010	13,877
Amount advanced during the year	1,464	743	842	1,160	1,541
Amount repaid during the year	103	124	152	292[25]	351
Closing balance	11,721	12,332	13,010	13,878	15,067
Net addition	1,361	619	690	868	1,190
Interest receipts	21	27	32	31	38

Source: Finance Accounts of the State Government.

The total outstanding loans and advances as on 31 March 2018 increased by ₹1,190 crore compared to those of the previous year. The major disbursement of loans and advances during the current year was to Pariyaram Medical College (₹116 crore), and to Kerala State Road Transport Corporation (₹835

[22] 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.

[23] 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.

[24] 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.

[25] Includes ₹126 crore being the irrecoverable loans written off.

crore). Interest received against these loans remained less than one *per cent* during the period 2013-14 to 2017-18 and was 0.25 *per cent* during 2017-18 as against the average cost of borrowing of 7.48 *per cent* during the year.

1.9.2.1 Arrears in 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 ₹15,067 crore was outstanding as loan at the end of March 2018. Also, at the end of March 2018, repayment of loans advanced to 67 institutions were in arrears from 1960-61 to 2016-17 amounting to ₹12,604 crore (Principal: ₹8,015 crore and Interest: ₹4,589 crore). About 87 *per cent* of the above arrears pertained to six institutions *viz*., Kerala Water Authority (₹4,313 crore), Kerala State Electricity Board Limited (₹1,762 crore), Kerala State Road Transport Corporation (₹2,031 crore), Kerala State Housing Board (₹1,608 crore), Kerala Industries Infrastructure Development Corporation (₹633 crore), and Kerala State Cashew Development Corporation Ltd (₹632 crore). During the year, State Government also released loans to 25 institutions amounting to ₹1,061 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.

1.9.3 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 1.34**.

Table 1.34: Cash balances and Investment of cash balances ***(₹ in crore)***

Particulars	As on 31 March 2017	As on 31 March 2018	Increase(+)/ Decrease(-)
(a) General Cash balances			
Cash in Treasuries and other banks	37.23	34.16	(-)3.07
Deposit with Reserve Bank	(-)91.73	(-)80.81	10.92
Remittances in transit -Local	6.80	2.57	(-)4.23
Total (a)	**(-) 47.70**	**(-)44.08**	**3.62**
(b) Investments from cash balances			
GoI Treasury Bills	1,939.35	885.88	(-)1,053.47
GoI Securities	5.15	5.15	--
Total (b)	**1,944.50**	**891.03**	**(-) 1053.47**
(c) Investments in earmarked funds			
Reserve funds not bearing interest	1,751.94	1,885.66	133.72
Total (c)	**1,751.94**	**1,885.66**	**133.72**
(d) Departmental cash balances including Permanent advances	**1.59**	**0.27**	**(-)1.32**
Total Cash Balance - (a) to (d)	**3,650.33**	**2,732.88**	**(-)917.45**
Interest realised during the year on investment of cash balances	**78.32**	**47.66**	**(-)30.66**

Source: Finance Accounts of the State Government

Table 1.34 shows that cash balance of the State, at the end of March 2018, decreased by ₹917.45 crore compared to the closing balance at the end of March 2017. This was due to the decrease in investments under GoI Treasury Bills (₹1,053.47 crore) partly offset by increase in investments in earmarked funds (₹133.72 crore). The interest realised on investment of cash balance also decreased by ₹30.66 crore, compared to the previous year.

1.9.3.1 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 2018, there was an outstanding balance (cumulative) of ₹1,263.29 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 2018.

1.10 Assets and Liabilities

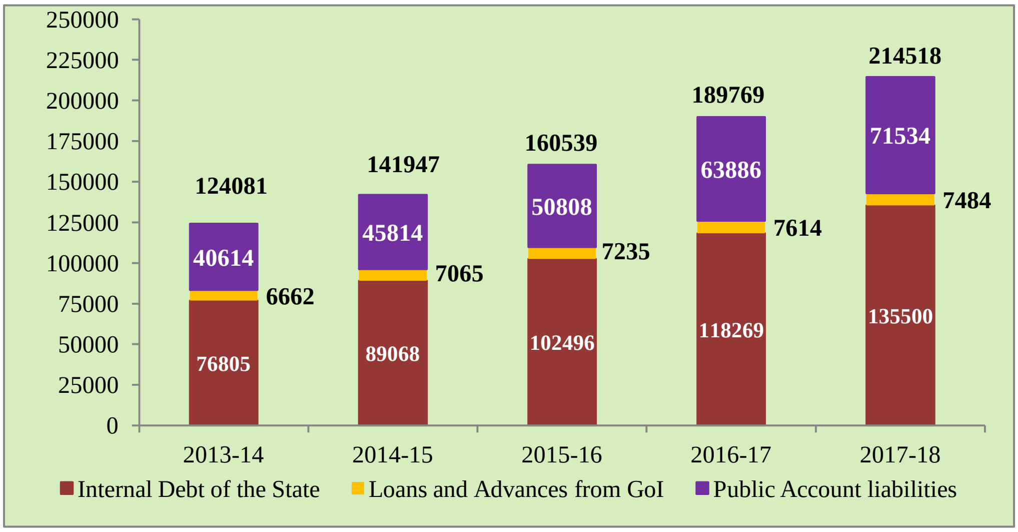
1.10.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4 Part B** gives an abstract of such liabilities and assets as on 31 March 2018, compared with the corresponding position as on 31 March 2017. 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.

1.10.2 Fiscal liabilities

The trends of outstanding fiscal liabilities of the State are presented in **Appendix 1.5**. The composition of fiscal liabilities during the 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 ₹1,24,081 crore in 2013-14 to ₹2,14,518 crore in 2017-18, thus, recording an increase of 73 *per cent* during the five year period. During 2017-18, the growth rate of fiscal liabilities was 13.04 *per cent* and it was the lowest during the five-year period. However, the growth rate of fiscal liabilities was higher than the growth rate of GSDP (10.36 *per cent*) during the year, which is a matter of concern.

Fiscal liabilities of the State comprised of Consolidated Fund liabilities and Public Account liabilities. Consolidated Fund liabilities (₹1,42,984 crore) comprised of Market Loans (₹1,15,735 crore), Loans from the Government of India (₹7,484crore) and Other Loans (₹19,765 crore). The Public Account liabilities (₹71,534 crore) comprised of liabilities under Small Savings, Provident Funds, etc., (₹67,778 crore)[26], interest bearing obligations (₹288 crore) and non-interest bearing obligations like Deposits and other earmarked funds (₹3,468crore).

1.10.3 Reserve Funds

The balances under Reserve Funds was ₹2,483.26 crore as on 31 March 2018. The details in respect of two of the major Reserve Funds (balance ₹2,159.35 crore) are given in succeeding paragraphs.

1.10.3.1 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 ₹115.86 crore as opening balance in the Fund. The size of the Fund for Kerala for the year 2017-18 (fixed by the Fourteenth Finance Commission) was ₹204 crore, 75 *per cent* (₹153 crore) of which was to be contributed by the Central Government and 25 *per cent* (₹51crore) by the State Government. During the year, an amount of ₹204 crore was credited to the Fund. An amount of ₹164.72 crore received from National Disaster Response Fund during the year was also credited to the fund. After setting off the expenditure

[26] This includes liabilities under Savings Bank Deposits (₹9,339 crore) and Fixed and Time Deposits (₹23,560 crore).

for disaster relief operations to the extent of ₹197.50 crore, the balance in SDRF as on 31 March 2018 was ₹287.08 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. Non-transfer of interest amount resulted in under-statement of revenue expenditure and also reduced balance under SDRF.

1.10.3.2 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 ₹948.84 crore during 2017-18 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 to the extent of ₹948.84 crore 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 ₹134.89 crore was received as interest from the investment made out of the fund. At the beginning of the year, ₹1,737.38 crore was available and with the interest received on investment, the outstanding balance at the end of year was ₹1,872.27 crore.

1.10.4 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[27] 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 2013-14 are given in **Table 1.35**.

[27] 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.

Table 1.35: Guarantees given by the Government of Kerala ***(₹ in crore)***

Guarantees	2013-14	2014-15	2015-16	2016-17	2017-18
Maximum amount guaranteed	12,275.21	13,123.30	13,712.77	20,204.10	25,104.33
Outstanding amount of guarantees	9,763.36	11,126.87	12,438.52	16,245.56	17,356.47
Percentage of maximum amount guaranteed to total revenue receipts	25	23	20	27	30
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	21,000	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 ₹12,275.21 crore in 2013-14 to ₹25,104.33 crore in 2017-18. As a percentage of revenue receipts, the guaranteed amount increased from 27 *per cent* in 2016-17 to 30 *per cent* in 2017-18.

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 ₹975.29 crore collected during 2003-04 to 2017-18 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 ₹121.22 crore was received as guarantee commission and as of March 2018, ₹81.46 crore was due as arrears in this regard.

1.10.5 Off-budget borrowings

The borrowings of the State Government are governed by Article 293 (1) of the Constitution of India. The State Government stand as guarantor for loans availed by Government Companies/Corporations/Societies. These Companies/ Corporations borrow funds from market/financial institutions for implementation of various State Plan programmes projected outside the State budget. The borrowings of these concerns ultimately turn out to be the liabilities of the State Government termed 'off-budget borrowings'.

State Government resorted to off-budget borrowings through Kerala Infrastructure Investment Fund Board (KIIFB) for mobilising funds for various infrastructure projects in the State during 2017-18. The State Government guarantees the payment of principal and interest of the loans raised by KIIFB as per section 9(1) of Kerala Infrastructure Investment Fund Act, 1999. KIIFB borrowed funds amounting to ₹100.80 crore from NABARD during 2017-18 and paid an interest of ₹2.65 crore to NABARD. Though the off-budget borrowings amounting to ₹100.80 crore add to the liabilities of the State, it was not captured in the Finance Accounts of the State.

1.11 Debt Management

1.11.1 Debt Profile

The revenues of the Government are of two types *viz.*, current revenues, which are termed as revenue receipts, realized through administration of taxes, user charges and grants received from GoI and capital receipts that comprise of borrowings, non-debt receipts and surplus from Public Accounts.

Table 1.36 gives details of outstanding fiscal liabilities of the Government under Consolidated Fund and Public Account compared with the per capita liability.

Table 1.36: Debt profile of the State ***(₹ in crore)***

Borrowings	2013-14	2014-15	2015-16	2016-17	2017-18
Open market loans	60,183	71,960	84,846	99,532	1,15,735
Loans from financial institutions	4,804	4,735	4,670	4,777	4,625
Special securities issued to NSSF	11,281	11,806	12,537	13,509	14,557
Others	537	567	443	451	583
GoI loans	6,662	7,065	7,235	7,614	7,484
Public Account Borrowings	40,614	45,814	50,808	63,886	71,534
Total Fiscal Liabilities	1,24,081	1,41,947	1,60,539	1,89,769	2,14,518
Population (in crore)	3.34	3.34	3.56	3.58	3.60
Per capita debt (in ₹)	37,150	42,499	45,095	53,008	59,588

Source: Finance Accounts of respective years

The per capita debt ratio increased significantly from ₹37,150 in 2013-14 to ₹59,588 in 2017-18.

1.11.2 Debt sustainability

Debt sustainability implies State's ability to service the debt in future. 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, net debt available to the State etc. These indicators for the last five years are given in **Table 1.37**.

Table 1.37: Debt sustainability: indicators and trends ***(₹ in crore)***

Indicators of Debt Sustainability	2013-14	2014-15	2015-16	2016-17	2017-18
Outstanding Debt* of the State	83,467	96,133	1,09,731	1,25,883	1,42,984
Growth rate of Debt*	15.53	15.17	14.14	14.72	13.58
Gross State Domestic Product (GSDP)	4,65,041	5,12,564	5,61,546	6,21,700	6,86,116
Growth rate of GSDP	12.79	10.22	9.56	10.71	10.36
Debt*-GSDP ratio (*per cent*)	17.95	18.76	19.54	20.25	20.84
Debt-Revenue Receipt ratio	1.70	1.66	1.59	1.66	1.72
Average interest[28] paid on outstanding debt	10.62	10.88	10.79	10.29	11.25
Burden of Interest payments(Interest	16.81	16.86	16.10	16.03	18.21

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

Indicators of Debt Sustainability	2013-14	2014-15	2015-16	2016-17	2017-18
payment/ Revenue Receipts) Ratio					
Debt Repayment/Debt Receipts**	21.80	20.12	23.06	22.82	28.44
Net Debt available ** (₹ in crore)[29]	5,065	5,366	5,240	6,736	6,164

** excluding Public Account liabilities   **excluding Ways and Means Advances*
Source: Finance Accounts of respective years

The rate of growth of outstanding debt was 13.58 *per cent* in 2017-18 which was almost two *per cent* points lower than the growth rate for 2013-14.

Interest payment on debt totaling ₹15,120 crore constituted 18.21 *per cent* of revenue receipts during 2017-18 when compared to 16.03 *per cent* in the previous year. The increase in Interest Payment/Revenue Receipts ratio during 2017-18 was due to increased interest payment (24.78 *per cent*) when compared to increase in revenue receipts (9.80 *per cent*) during the year. Since significant portion of borrowed funds were used for repayment of borrowings and interest thereon, the net debt available with State for development activities was only ₹6164 crore (26 *per cent*) during 2017-18.

The maturity profile of the State Debt is shown in **Table 1.38**.

Table 1.38: Maturity profile of Public Debt ***(₹in crore)***

Debt maturing	2013-14	2014-15	2015-16	2016-17	2017-18
Up to one year	2,674.90 (3.21)	3,289.26 (3.42)	3,751.61 (3.42)	5,682.54 (4.51)	6,980.49 (4.88)
One to three years	6,829.83 (8.18)	9,139.85 (9.51)	12,243.13 (11.16)	13,331.80 (10.59)	13,373.47 (9.35)
Three to five years	12,058.34 (14.45)	13,265.26 (13.80)	13,284.34 (12.11)	16,677.73 (13.25)	22,907.53 (16.02)
Five to seven years	13,165.08 (15.77)	16,667.64 (17.34)	22,808.05 (20.78)	26,786.58 (21.28)	28,437.13 (19.89)
Seven years and above	44,048.78 (52.77)	48,958.69 (50.93)	52,857.95 (48.17)	58,456.21 (46.44)	66,308.08 (46.38)
Maturity profile details not furnished by State Government	4,689.63 (5.62)	4,812.26 (5.00)	4,785.90 (4.36)	4,948.00 (3.93)	4,977.82 (3.48)

Source: Finance Accounts of respective years

The debt maturity profile of the State given in the **Table 1.38** shows that 30.25 *per cent* of the debt amounting to ₹43,261.49 crore has to be repaid within five years. Also, 50.14 *per cent* (₹71,698.62 crore) of the debt has to be repaid by March 2025 (within seven years). State Government has to ensure additional revenue resources and well thought out debt strategy to meet this debt burden.

1.12 Resumption of funds from Special Treasury Savings Bank Accounts during the fag end of 2017-18

As per Rule 37 of Kerala Treasury Code, Treasury Savings Bank Account is being maintained in the Treasuries. Kerala inherited the system of Treasury Savings Scheme from the erstwhile Travancore Administration. The object of the Government in establishing Treasury Savings Bank Scheme was to provide a ready means for the deposit of savings and to encourage thrift.

[29] Net Debt available to the State = Public debt receipt during the year - repayment of principal amount - payment of interest amount (excluding Ways and Means Advances)

Subsequently, funds released for various purposes from the Consolidated Fund such as grants-in-aid, loans and investments to State PSUs & Statutory Corporations, funds for Centrally Sponsored Schemes, funds set aside for specific purposes arising out of special enactment etc., were also credited to the Special Treasury Savings Bank Account(STSB) on the basis of various Government orders. The Government also instructed the Public Sector Undertakings/Autonomous Bodies/Institutions and Welfare Fund Boards to deposit their own funds in the Treasuries.

There are two categories of TSB accounts maintained in the Treasury *viz.*, Individual TSB Accounts (Pensioners Savings Bank A/c, Employees Treasury Savings Bank A/c etc.) and Institutional TSB Accounts (Social Security Pension A/c, STSB A/c, Treasury Public A/c etc.). Over a period of time, large quantum of funds got accumulated in these TSB Accounts. At the beginning of the financial year 2017-18 the balance outstanding under the head Savings bank deposits (8031-00-102-99) was ₹15,534.64 crore. During 2017-18 an amount of ₹8,611.64 crore was resumed from STSB accounts of various Government Departments and State PSUs and credited to the Consolidated Fund by the State Government, of which audit identified lapsable funds of ₹2,542.56 crore and non-lapsable funds amounting to ₹485.64 crore. In respect of remaining ₹5,583.44 crore resumed, audit could not segregate lapsable and non-lapsable funds, as this was credited back to a single common Head of Account '2075-00-911-99' in the revenue section instead of crediting it back to the original heads from which they were drawn. Circumstances which led to the resumption of huge funds and its impact on State Finances are detailed below.

Government of India (GoI) determines the Net Borrowing Ceiling (NBC) of States for each year in line with the recommendations of Finance Commission. NBC covers all sources of borrowings including Open Market Borrowings, Negotiated Loans from financial institutions, National Small Savings Fund loans, Central Government loans and other liabilities arising out of public account transfers under small savings, provident funds, reserve funds, deposits, etc., as reflected in Statement 6 of State's Finance Accounts.

GoI determined ₹18,524 crore (March 2017) as provisional NBC for 2017-18 for the State of Kerala. GoI gave consent (April 2017) to State Government to raise OMB (Open Market Borrowings) amounting to ₹14,000 crore for the first three quarters of 2017-18 on the basis of Borrowing Statement[30] furnished by State Government (March 2017). Later, GoI determined (August 2017) the NBC for the State of Kerala for the year 2017-18 as ₹20,402 crore (3 *per cent* of revised GSDP estimates published by CSO as on 01 August 2017). On the basis of revised NBC, State Government requested (September 2017) for consent for raising an additional OMB of ₹2,000 crore for the first three quarters of 2017-18 and furnished a new Borrowing Statement to GoI. Government of India consent (September 2017) was not given for the above proposal as State Government did not have sufficient borrowing space available for first nine months of 2017-18 and also due to the fact that State

[30] For getting consent of GoI for raising OMB, State Government has to furnish a Borrowing Statement showing estimates of liabilities arising out of all source of borrowings and repayments thereof in the format prescribed by GoI.

Government had over-borrowed ₹5,843[31] crore in 2016-17 beyond Net Borrowing ceiling of ₹18,524 crore fixed for that year. In order to get the consent of GoI for Open Market Borrowings for the last quarter of the Financial year, State Government revised (December 2017) the Borrowing Statement furnished in September 2017 by reducing Net Public Account accretions by ₹5,500 crore. This reduction in Public Account accretions was proposed by State Government by resuming funds parked in the Treasuries in Special Treasury Savings Bank Accounts (STSB)[32] by various Government Departments and State owned PSUs under 'Other Public Accounts' into the Consolidated Fund of the State. This enabled the State Government to depict a reduction in net accretions in the revised Borrowing Statement under Public Accounts from ₹3500[33] crore to (-)₹2000 crore thereby increasing the State's entitlement for OMB to that extent.

As per the revised borrowing statement, State became eligible for Open Market Borrowings amounting to ₹6,500 crore for the last quarter of 2017-18. Overall, State Government raised ₹20,500 crore as Open Market Borrowings during 2017-18.

State Government resumed an amount of ₹8,611.64 crore (January 2018 and March 2018) to the Consolidated Fund during 2017-18 from Special Treasury Saving Bank Accounts under 'Public Accounts'; of which an amount of ₹313.42 crore was refunded back to Government departments/ PSUs during 2017-18. The net resumption from Public Accounts to the Consolidated Fund was ₹8,298.22 crore, including ₹7,812.58 crore, ₹347.05 crore and ₹138.59 crore under Revenue, Capital and Loan heads respectively. Resumption of funds to the Consolidated Fund resulted in decrease of Revenue Deficit (₹7812.58 crore) Capital and Loan (₹485.64 crore) and Fiscal Deficit (₹8298.22 crore). A scrutiny of resumption of funds revealed the following.

1.12.1 Resumption and credit back of funds to a common head of account '2075-00-911-99'

As per Para 3.10 and 4.3 of General Directions contained in List of Major and Minor Heads (LMMH) of Controller General of Accounts, Recoveries of Overpayments pertaining to previous year(s) under Revenue Expenditure are to be recorded under the distinct minor head 'Deduct Recoveries of Overpayments (code 911)', below the concerned Major/ Sub Major head and in the case of Capital Expenditure 'Deduct-Receipts and Recoveries on Capital Account' are to be opened, wherever necessary below the relevant minor head under various Capital Major/Sub Major heads where the expenditure was initially incurred. During the fag end of 2017-18, State Government resumed an amount of ₹5583.44 crore originally debited under various Revenue, Capital and Loan heads of account and credited back the resumed amounts to a common head of account '2075-00-911-99 Miscellaneous General Services-

[31] Due to over borrowing in 2016-17, NBC of State in 2017-18 was reduced by ₹5,843 crore from ₹20,402 crore to ₹14,559 crore (December 2017).

[32] Government departments and state owned PSUs parked their unutilised plan funds in STSB accounts under Public Account at the fag end of every financial year to avoid lapse of funds which in turn resulted in accumulation of funds in public account adversely affecting the borrowing capacity of State Government.

[33] ₹3500 crore was the net Public Accounts accretions as per the Borrowing Statement furnished by Government of Kerala in September 2017.

Deduct Recoveries of Overpayments' under the Revenue section by deviating from the prescribed accounting provisions. As such the amount resumed could not be shown against the original heads of accounts/ entities against which the expenditure was originally debited in Finance Accounts. Subsequently, the key financial indicators of the State for the year 2017-18, like Revenue Deficit, Liabilities, Plan/ Non Plan Expenditure etc., were artificially understated/ overstated to the extent of deviation in accounting.

1.12.1.1 Resumption of funds originally debited under Loan Heads of account

A test check of records relating to resumption of funds revealed that funds amounting to ₹70.97 crore parked in STSB accounts of 11 PSUs originally debited under loan heads of account were resumed and credited back to the head of account '2075-00-911-99-Deduct Recoveries of Overpayments' as shown in **Table 1.39**.

Table 1.39: Resumption of funds originally debited under loan head of account

(₹ in crore)

Sl. No.	Name of PSU	Amount resumed	Head of account under which expenditure originally debited	Refunded later	
				Amount	Month of refund
1.	Kerala State Drugs and Pharmaceuticals Limited	13.65	6857-02-190-99	13.65	May, August 2018
2.	The Kerala Ceramics Limited	4.71	6860-60-190-94	4.71	June 2018
3.	Kerala State Textile Corporation Limited	9.56	6860-01-190-95	5.00	May, June 2018
4.	Traco Cable Company Limited	4.26	6858-01-190-98	4.26	June 2018
5.	Kerala State Co-operative Textile Federation Limited	22.19	6851-00-109-74	19.15	March, May, August 2018
6.	Steel Industrials Kerala Limited	4.61	6858-60-190-99	…	…
7.	Steel Industrial and Forgings Limited	2.11	6858-60-190-84	…	…
8.	Travancore Titanium Products Limited	5.41	6853-60-190-97	…	…
9.	United Electrical Industries Limited	1.40	6858-01-190-94	…	…
10.	Keltron Component Complex Limited	2.64	6885-60-190-95	…	…
11.	Handicrafts Development Corporation of Kerala Limited	0.43	6851-00-190-98	…	…
	Total	**70.97**		**46.77**	

Source: Government orders and information collected from respective institutions

The resumption and credit back of funds originally debited under loan heads of account to the Revenue Expenditure head of account '2075-00-911-99-Deduct Recoveries of Overpayments' resulted in understating of Revenue Expenditure by ₹70.97 crore. The loan account of these PSUs were also overstated to that extent.

During 2018-19, State Government refunded ₹46.77 crore out of ₹70.97 crore to five PSUs by debiting loan heads of account.

1.12.1.2 Resumption of funds originally debited under Capital Heads of account

A test check of records relating to resumption of funds revealed that funds amounting to ₹87.97 crore parked in STSB accounts in 10 cases originally debited under Capital heads of account were resumed and credited back to the head of account '2075-00-911-99-Deduct Recoveries of Overpayments' as shown in **Table 1.40.**

Table 1.40: Resumption of funds originally debited under Capital Heads of account

(₹ in crore)

Sl. No.	Name of PSU/scheme	Amount resumed	Head of account under which expenditure originally debited	Refunded later	
				Amount	Month of release
1.	Kerala Rail Development Corporation Limited	41.73	5075-60-190-93	25.98	August 2018
2.	Kerala Rapid Transit Corporation Limited	2.32	5075-60-190-95	…	…
3.	Kerala Small Industries Development Corporation	4.02	4851-00-101-90	1.32	September 2018
4.	Vision Varkala Infrastructure Development Corporation Limited	2.85	5452-01-190-05	2.24	April & July 2018
5.	Handicrafts Development Corporation of Kerala Limited	1.00	4851-00-104-99	…	…
6.	Kerala Irrigation Infrastructure Development Corporation Limited	0.98	4701-80-800-88 5452-01-101-99 4700-22-800-90	0.98	July 2018
7.	Kerala State Film Development Corporation Limited	2.33	4202-04-190-99	2.25	April 2018
8.	MLA SDF fund maintained by District Collector, Thiruvananthapuram	20.47*	4250-00-800-99	…	…
9.	MLA SDF fund maintained by District Collector, Kollam	7.77	4250-00-800-99	…	…
10.	Kerala State Co-operative Textile Federation Limited	4.50	4851-01-195-92 4860-01-195-92	…	…
	Total	**87.97**		**32.77**	

Source: Government orders and information collected from respective institutions

*₹11.25 crore out of ₹20.47 crore resumed was credited back to '2053-00-911-99'

The resumption and credit back of funds originally debited under capital heads of account to the Revenue Expenditure head of account '2075-00-911-99-Deduct Recoveries of Overpayments' resulted in understating of Revenue Expenditure by ₹87.97 crore. The Capital account of these PSUs/schemes are also overstated to that extent.

During 2018-19, State Government refunded ₹32.77 crore out of ₹87.97 crore to four PSUs by debiting Capital heads of account.

1.12.2 Resumption of non-government funds of PSUs/Departments parked in STSB accounts

A test check of records relating to resumption of funds revealed that, State Government had resumed and credited back non-government funds amounting to ₹102.20 crore to the Consolidated Fund of State during 2017-18 as detailed below. Crediting of Non-Government money to Consolidated Fund of State is irregular.

1.12.2.1 Resumption and credit back of non-government funds to Revenue Expenditure heads of account

Non-Government funds parked in STSB accounts of nine PSUs/departments amounting to ₹73.53 crore were resumed and credited back to Revenue expenditure head of account '2075-00-911-99 Deduct Recoveries of Overpayments' as shown in **Table 1.41**.

Table 1.41: Credit back of non-government funds to head of account '2075-00-911-99'

(₹in crore)

Sl. No.	Name of institution/particulars of fund	Amount resumed to '2075-00-911-99'	Refunded later	
			Amount	Month of release
1.	Kerala Plantation Corporation Limited	2.48	2.48	August 2018
2.	Oil Palm India Limited	3.28	3.28	May 2018
3.	Steel Industries Kerala Limited	0.90	…	…
4.	Balasanthwanam[34]	1.22	1.22	June 2018
5.	Puttingal Disaster Fund[35]	2.46[36]	2.46	May 2018
6.	Group Personal Accident Insurance premium amount[37]	15.78[38]	14.61	August 2018
7.	KINFRA	6.23	6.23	September 2018
8.	Kerala State Information Technology Mission	32.38[39]	…	…
9.	Comprehensive Health Insurance Agency	8.80[40]	7.62	May 2018
	Total	**73.53**	**37.90**	

Source: Government orders and information collected from respective institutions

During 2018-19, State Government refunded ₹37.90 crore[41] out of ₹73.53 crore to seven PSUs/departments by debit to revenue heads of account '2075-00-800-72 Refund of amounts resumed from the idling STSB accounts'.

1.12.2.2 Resumption and credit back of non-government funds to Capital expenditure heads of account

State Government resumed non-government funds amounting to ₹0.27 crore from STSB account held by Kerala Small Industries Development Corporation (SIDCO) and credited back to capital head of account '4851-00-190-05-Investment in Public Sector and Other Undertakings'. State Government later

[34] A scheme introduced for the treatment of child cancer patients in the Regional Cancer Centre, Thiruvananthapuram using the voluntary donation from employees of the State Government/ PSUs/Autonomous Bodies, etc.

[35] Maintained in a non-interest bearing Special Treasury Savings Bank Account in the name of Additional Chief Secretary, Finance Department for depositing the contributions received from the public and other organisations in connection with the 'Puttingal Temple Fire Tragedy' in Kollam District.

[36] ₹1.29 crore out of ₹2.46 crore resumed to '2052-00-911-99'.

[37] Maintained in STSB account held by Director of Insurance for depositing subscription collected towards payment of Group Personal Accident Insurance premium amount.

[38] ₹1.16 crore out of ₹15.78 crore resumed to '2235-60-911-99'.

[39] ₹20 crore out of ₹32.38 crore resumed to '3451-00-911-99'

[40] ₹7.62 crore out of ₹8.8 crore resumed to 2230-01-911-99

[41] Of this ₹6.23 crore relating to KINFRA was refunded through the Capital head '4885-60-800-89(P)-Implementation of Projects under ASIDE (Assistance to States for Developing Export Infrastructure and Allied Activities)'

refunded (September 2018) ₹0.27 crore to SIDCO in 2018-19 by wrongly debiting it under loan head of account '6851-00-190-88 – Loans to Kerala State Palmyrah Products Workers Welfare Corporation Limited' instead of booking the refund against the capital head of account of SIDCO.

1.12.2.3 Resumption and credit back of non- government funds to Loan heads of Account

- During January 2018, State Government resumed non-government funds amounting to ₹17.81 crore parked in STSB accounts of two[42] PSUs and credited back to loan head of account. As no loan amounts were outstanding against these PSUs, Finance Accounts showed adverse balance against these entities in their loan accounts for the year 2017-18. State Government refunded ₹17.81 crore in 2018-19 to these PSUs (April 2018 and August 2018) by debiting revenue head of account '2075-00-800-72-(02)-Refund of amounts resumed from the idling STSB accounts' instead of debiting the loan head of the PSU concerned.
- Similarly, State Government resumed non-government funds amounting to ₹10.59 crore parked in STSB account of Kerala Industrial Infrastructure Development Corporation (KINFRA) and credited back to loan head of account. State Government refunded ₹10.59 crore to the PSU in 2018-19 (September 2018) under capital head of account - '4885-60-800-89(P) - Implementation of Projects under ASIDE (Assistance to States for Developing Export Infrastructure and Allied Activities)' instead of debiting the loan head of the PSU concerned which resulted in wrong depiction of capital expenditure in Government accounts.

1.12.3 Resumption of funds from River Management Fund and Quarry Safety Fund

River Management fund[43] and Quarry Safety fund[44] are two funds maintained by District Collectors in Special Treasury Savings Bank accounts as stipulated in Kerala Protection of River Banks and Regulation of Removal of Sand Rules, 2002 and Kerala Minor Mineral Concession Rules, 2015 respectively. Revenue realized through sale of river sand, fines imposed for illegal sand mining, etc., are being credited to River Management Fund and the fund is being utilized for meeting expenditure connected with river bank protection works and for meeting establishment related activities. Revenue realized through royalty collected from every quarrying permit holder or lessee are being credited to Quarry Safety Funds. The fund is intended to be utilized for meeting expenditure in connection with protection work of abandoned quarries. As part of resumption of funds kept in STSB accounts, State

[42] Kerala Plantation Corporation Limited (₹4.5 crore) and Oil Palm India Limited (₹13.31 crore)

[43] As per Rule 22 (4) of the Kerala Protection of River Banks and Regulation of Removal of Sand Rules, 2002, all the amount available towards River Management Fund are to be kept in Treasury Savings Bank account of District Collectors.

[44] Rule 63(3) of Kerala Minor Mineral Concession Rules, 2015 stipulates that the entire amount available towards Quarry Safety Fund are to be kept in Treasury Savings Bank accounts of District Collectors.

Government resumed ₹129.24 crore from these two funds in March 2018 (₹108.47 crore from River Management Fund maintained by 10 District Collectorates and ₹20.78 crore from Quarry Safety fund maintained by nine District Collectorates) to the consolidated fund. The resumption of River Management Fund and Quarry Safety Fund maintained in Treasury Savings Bank accounts of District Collectors to the consolidated fund, in violation of provisions of relevant rules is irregular and defeated the intended objectives for which the funds were created.

1.12.4 Resumption of GoI share released for Centrally Sponsored Scheme (CSS)

State Government resumed an amount of ₹394 crore from STSB account of Cochin Smart Mission Limited including ₹194 crore being the GoI share released for Centrally Sponsored Scheme (CSS) 'Smart City Mission' for development of Kochi city by crediting back to head of account '2217-05-911-99- Deduct Recoveries of Overpayment' and '2075-00-911-99 Deduct Recoveries of Overpayments'. The resumption of grants received from GoI for implementation of Centrally Sponsored Schemes to Consolidated Fund of State is irregular.

Though the State Government resumed funds from the STSB accounts for increasing State's entitlement to open market borrowings during the last quarter of 2017-18, the consequent increased market borrowing was used mainly for financing the revenue expenditure. Decrease in capital expenditure (14 per cent) during the year 2017-18 compared to the previous year did not justify the requirement for enhancement in market borrowings.

1.13 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources are raised and applied are important pointers to its fiscal health. This section presents the trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under the Fiscal Responsibility Act/Rules for the financial year 2017-18

1.13.1 Trends in deficits

Charts 1.12 and **1.13** present the trends in deficit indicators over the period 2013-18.

Chart 1.12 : Trends in deficit indicators (₹*in crore)*

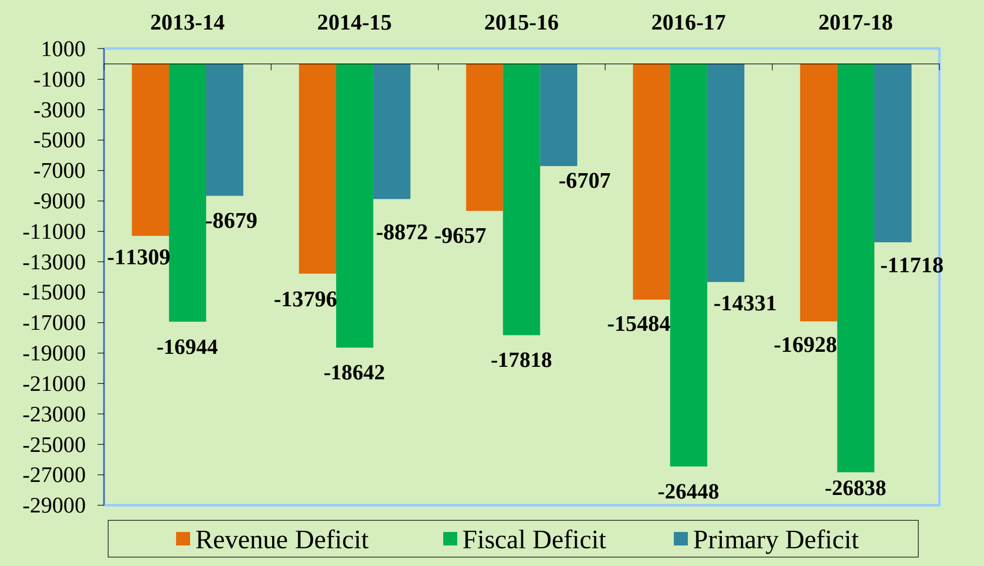
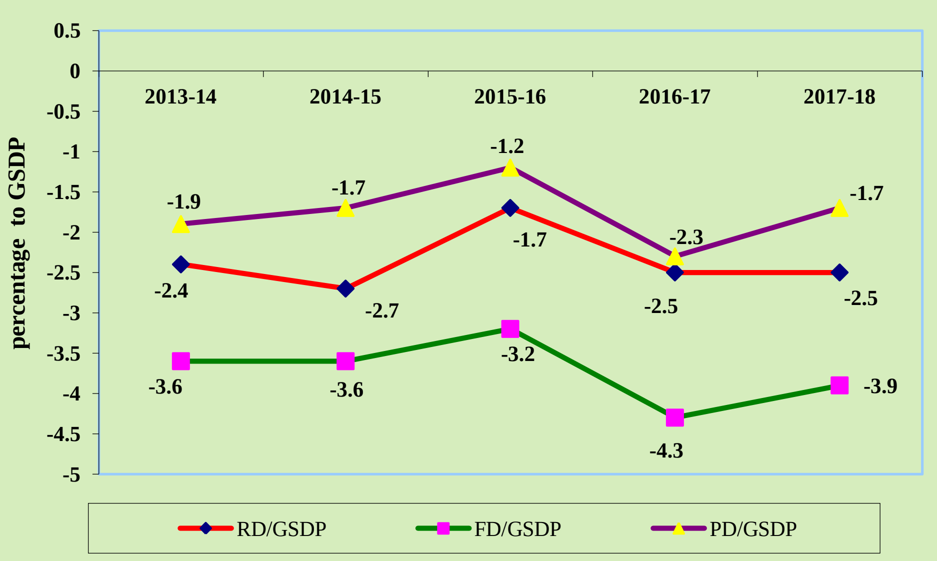


Chart 1.13: Trends in deficit indicators relative to GSDP



The revenue deficit of the State, which indicates the excess of its revenue expenditure over revenue receipts, increased steadily during 2013-18 (except during 2015-16) indicating increased growth of revenue expenditure over revenue receipts. Based on the recommendations of Fourteenth Finance Commission, during 2017-18, GoI released an amount of ₹ 1,529 crore as Post Devolution Revenue Deficit Grant. However, revenue deficit increased from ₹15,484 crore in 2016-17 to ₹16,928 crore in 2017-18. This indicates that State Government could not control revenue deficit even after receipt of substantial assistance from GoI. However, revenue deficit as percentage of revenue expenditure showed a marginal reduction from 17 *per cent* in 2016-17 to 16.94 *per cent* in 2017-18. Borrowings to meet revenue deficit year after year would not augur well for the State Finances in the long run.

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

₹16,944 crore in 2013-14 to ₹26,838 crore in 2017-18. Fiscal deficit increased by ₹390 crore (1.50 *per cent*) during the year when compared to the previous year. The ratio of FD to GSDP showed an improvement from 4.3 *per cent* in 2016-17 to 3.9 *per cent* in 2017-18.

Primary deficit decreased from ₹14,331 crore in 2016-17 to ₹11,718 crore in 2017-18 mainly due to huge increase in interest payment (₹3,003 crore) during the year.

As per the targets contained in Kerala Fiscal Responsibility (Amendment) Act 2018, revenue deficit of the state would be eliminated completely during 2017-18 to 2019-20 and fiscal deficit would be maintained at three *per cent* of GSDP during 2017-18 to 2019-20. However, none of these targets could be achieved during the year.

1.13.2 Components of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit had undergone a compositional shift as reflected in the **Table 1.42**. Receipts and disbursements under the components of financing the fiscal deficit during 2017-18 are given in **Table 1.43**.

Table 1.42: Components of fiscal deficit and its financing pattern ***(₹in crore)***

Particulars		2013-14	2014-15	2015-16	2016-17	2017-18
Decomposition of fiscal deficit						
1.	Revenue deficit	11,309	13,796	9,657	15,484	16,928
2.	Net capital expenditure	4,275	4,227	7,472	10,096	8,720
3.	Net loans and advances	1,360	619	689	868	1190
Total fiscal deficit		**16,944**	**18,642**	**17,818**	**26,448**	**26838**
Financing pattern of fiscal deficit*						
1.	Market borrowings	11,373	11,777	12,886	14,686	16,203
2.	Loans from Government of India	40	402	169	379	(-)130
3.	Special Securities Issued to National Small Savings Fund	(-)42	525	731	972	1,048
4.	Loans from Financial Institutions	(-)77	(-)69	(-)64	107	(-)19
5.	Small Savings, PF, etc.	4,231	3,765	8,332	12,932	7,207
6.	Deposits and Advances	188	1,365	(-)3,280	105	266
7.	Suspense and Miscellaneous	(-)946	58	774	(-)2,169	1,203
8.	Remittances	(-)168	26	(-)93	(-)313	(-)166
9.	Others	(-)68	164	(-)59	170	309
10.	**Total (1 to 9)**	**14,531**	**18,013**	**19,396**	**26,869**	**25,921**
11.	Increase (-)/Decrease (+) in Cash Balance	2,413	629	(-)1,578	(-)421	917
12.	**Overall deficit**	**16,944**	**18,642**	**17,818**	**26,448**	**26,838**
*All these figures are net of disbursements/outflows during the year.						

Source: Finance Accounts of respective years

Table 1.43: Receipts and disbursements under components financing the fiscal deficit during 2017-18 ***(₹ in crore)***

Sl. No.	Particulars	Receipt	Disbursement	Net
1.	Market borrowings	20,500	4297	16,203
2.	Loans from Government of India	445	575	(-)130
3.	Special Securities Issued to National Small Savings Fund	2,123	1,075	1,048
4.	Loans from Financial Institutions	830	849	(-)19

Sl. No.	Particulars	Receipt	Disbursement	Net
5.	Small Savings, PF, etc.	85,771	78,564	7,207
6.	Deposits and Advances	3,264	2998	266
7.	Suspense and Miscellaneous	1,22,352	1,21,149	1,203
8.	Remittances	4,089	4,255	(-)166
9.	Others	516	207	309
10.	**Total (1 to 9)**	**2,39,890**	**2,13,969**	**25,921**
11.	Increase (-)/Decrease (+) in Cash Balance	3,650	2733	917
12.	**Overall deficit**			**26,838**

Source: Finance Accounts of the State Government

Table 1.43 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 2017-18, net market borrowings (₹16,203 crore) and net accretions in Small savings, PF, etc., (₹7,207 crore), were mainly used for financing the fiscal deficit of the State.

During 2017-18, the State Government raised ₹20,500 crore as market loans at a weighted average interest rate of 7.62 *per cent*, loans amounting to ₹600 crore from NABARD at an interest rate of 4.75 *per cent* to 5.0 *per cent*, ₹2123.08 crore from National Small Savings Fund at an interest rate of 8.40 *per cent* and ₹180.42 crore from NCDC at an interest rate of 10.29 *per cent*. The State Government also received loans amounting to ₹444.76 crore from the Government of India during the year.

The State Government mobilised deposits from its employees, pensioners, institutions and general public through treasuries and accounted it under '102-State Savings Bank Deposits' below '8031- Other Savings Deposits'. During 2017-18, the State Government received ₹60,519.46 crore as deposits through Treasury Savings Bank accounts at an average interest rate of 4.50 *per cent* and ₹14,414.12 crore as Treasury Fixed Deposits at interest rates ranging between 7.0 *per cent* and 9.0 *per cent*. The balance of such deposits as on 31 March 2018 was ₹32,900.10 crore. This is ₹2,023.45 crore more than the previous year's balance. These accumulations under Savings Bank Deposit was utilised by the State Government for financing their fiscal deficit.

1.13.3 Investment of borrowed funds in Government Treasury by PSUs

Government of Kerala has to maintain a minimum daily cash balance of ₹1.66 crore with Reserve Bank of India. Any shortfall in daily cash balance is made good by taking special and ordinary ways and means advances. If the cash balance falls below the stipulated minimum even after availing the special and ordinary ways and means advances, RBI extends overdrafts facility to the State Government. As per the Overdraft Regulation Scheme 2003, no State shall be allowed to run on overdraft for more than 14 consecutive working days.

According to the directions (November 1997) issued by the Finance Department, Government of Kerala all Public Sector Undertakings (PSUs) were to deposit their surplus/reserve funds in Government Treasuries. The interest rates fixed during 2017-18 for treasury savings bank deposit and treasury fixed deposits (for a period of below one year) were 4.5 *per cent* and 7.0 *per cent* respectively.

Audit scrutiny revealed that two PSUs invested funds in treasuries by borrowing from other banks as detailed below.

- The Finance Department directed (December 2017) Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (Bevco) to set apart a liquidity reserve of ₹1000 crore and to deposit the same as fixed deposit in Government treasury. As Bevco did not have surplus funds to deposit in treasury, Bevco borrowed (December 2017) ₹1000 crore (₹750 crore from Canara Bank and ₹250 crore from Federal Bank) at an interest rate of 7.95 *per cent* and deposited (December 2017) in treasury as fixed deposit at the rate of seven *per cent* interest per annum for six months. The difference in interest was to be reimbursed by Government of Kerala. Based on further directions of the Finance Department, Bevco pre-closed (28 March 2018) the fixed deposit and deposited the proceeds with Kerala Transport Development Finance Corporation Limited till 2 April 2018. As directed (January 2018) by Government of Kerala, Treasury Director paid interest at the rate of 7.95 *per cent* for the deposits made by Bevco. Thereafter, the fund was re-deposited (3 April 2018) as fixed deposit in treasury. The fixed deposits were closed between May-June 2018 and loans availed from Canara Bank and Federal Bank were repaid.
- Similarly, based on Government directions, Kerala State Financial Enterprises Limited (KSFE) borrowed funds from different banks throughout the years from 2014-15 to 2017-18 and deposited the amounts in Government treasury for periods ranging from five days to 90 days. The details are given in **Table 1.44**.

Table 1.44: Details of deposits in Treasuries by KSFE during 2014-2018

Year	Amount borrowed (*₹ in crore*)	Interest rate (in *per cent*)	Period of deposit
2014-15	575	11.50 to 11.70	Five to 47 days
2015-16	885	11.25 to 13	15 to 85 days
2016-17	470	11 to 11.40	55 to 90 days
2017-18	1,705	7.25 to 8.90	90 days
Total	**3,635**		

Source: Information furnished by KSFE

KSFE replied (November 2018) that they had not incurred any monetary loss due to the above borrowings. Bevco replied (November 2018) that Government is reimbursing the interest incurred by the Corporation.

Audit observed that action of State Government in mobilising funds borrowed by PSUs for meeting the ways and means requirement is not in order. Further, Government had incurred additional burden by payment of interest at higher rates than those fixed by Government for treasury deposits.

1.13.4 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 1.45)** 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 1.45: 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)
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
2017-18	83,400	84,828	8,749	1,541	95,118	(-) 1,428	(-)11,718

Source: Finance Accounts of respective years

The bifurcation of the factors leading to primary deficit of the State revealed that during 2013-14 to 2017-18, non-debt receipts (NDR) of the State were not enough to meet the primary revenue expenditure[45] of the State (except during 2015-16). Primary deficit which was 8,679 crore in 2013-14 increased to ₹11,718 crore in 2017-18.

1.14 Conclusion and Recommendations

Fiscal position of the State

Revenue deficit increased from ₹15,484 crore in 2016-17 to ₹16,928 crore in 2017-18 and fiscal deficit increased from ₹26,448 crore in 2016-17 to ₹26,838 crore in 2017-18. The ratio of fiscal deficit to GSDP improved from 4.3 *per cent* in 2016-17 to 3.9 *per cent* in 2017-18. State did not achieve any of the targets fixed in its Medium Term Fiscal Plan or Kerala Fiscal Responsibility Act during 2017-18. 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 3.9 *per cent* during 2017-18.

State Government needs to control the revenue and fiscal deficit so as to achieve the targets fixed in KFRA and by Fourteenth Finance Commission.

Revenue resources

Revenue receipts of the State increased from ₹49,177 crore in 2013-14 to ₹83,020 crore in 2017-18, recording a growth of 69 *per cent* during last five years. State's own tax revenue, being the main source of revenue in revenue receipts increased by 45 *per cent* only during the period and its share in revenue receipts also decreased from 65 *per cent* in 2013-14 to 56 *per cent* in 2017-18 indicating low growth rate of tax revenue when compared to other components of revenue receipts. Receipts from State Lotteries was the main source of non-tax revenue and it constituted 81 *per cent* of non-tax revenue during 2017-18.

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

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 ₹60,486 crore in 2013-14 to ₹99,948 crore in 2017-18 recording a growth of 65 *per cent* during the five year period. Revenue expenditure as a percentage of total expenditure increased during 2017-18 indicating low priority of Government towards capital expenditure. Share of committed expenditure in revenue expenditure increased from 63 *per cent* in 2016-17 to 69 *per cent* in the current year and it consumed 83 *per cent* of the revenue receipts during the year. Interest payments and pension payments consumed 18 *per cent* and 24 *per cent* respectively of revenue receipts and is a matter of concern for the State Government.

Quality of expenditure

Capital Expenditure of the State decreased by ₹1,377 crore during the year and its share in total expenditure decreased from 10 *per cent* in 2016-17 to 8 *per cent* in 2017-18. 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 ₹8,211.47 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives, average return on these investments was 1.44 *per cent* in the last five years while the Government paid an average interest rate of 7.24 *per cent* on its borrowings during 2013-14 to 2017-18. The interest receipt on loans and advances given by State Government was 0.25 *per cent* during 2017-18 against the average cost of borrowing of 7.48 *per cent*. At the end of the year, repayment of loans advanced to 67 institutions were in arrears amounting to ₹12,604 crore (Principal: ₹8,015 crore and Interest: ₹4,589 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 during 2017-18. 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 ₹975.29 crore collected during 2003-04 to 2017-18 was not credited to the Fund. State Disaster Response Fund had accumulated balance of ₹287.08 crore by the end of March 2018. As per the guidelines, Government has to credit interest to the fund 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 fund of 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

Open market Loans had a major share (54 *per cent*) in the total fiscal liabilities of the State. The net debt available with State for development activities was only ₹6164 crore (26 *per cent* of public debt receipts) during 2017-18.

Maturity profile of the State showed that 30.25 *per cent* of the debt amounting to ₹43,261.49 crore has to be repaid within five years and 50.14 *per cent* (₹71,698.62 crore) by March 2025 (within seven years).