

Executive Summary

Back ground

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 3.56 crore (14th in the country) and is ranked as the fifth most densely populated State with a density of 860 persons per sq.km. The decadal growth rate of population was 6.05 *per cent* (3.35 crore in 2011 to 3.56 crore in 2021), which is the second lowest among Indian states. The literacy rate of Kerala (94 *per cent*) is the highest among the Indian states. The Gross State Domestic Product (GSDP) in 2020-21 of the State at current prices was ₹7,58,942 crore.

The Report

Based on the audited accounts of the Government of Kerala for the year ended 31 March 2021, this Report provides an analytical review of the finances of the State Government. The Report is structured in four chapters.

Chapter I - Overview: This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of Government Accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/surplus.

Chapter II – Finances of the State – This Chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2016-17 to 2020-21, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.

Chapter III – Budgetary Management – This Chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.

Chapter IV – Quality of Accounts and Financial Reporting Practices - This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.

The Report also includes appendices of additional data collected from several sources in support of these findings.

Audit findings

Fiscal position

The fiscal position of the State is viewed in terms of three key fiscal parameters – Revenue Deficit, Fiscal Deficit and the ratio of Outstanding Debt to GSDP.

The revenue deficit of the State increased steadily from 2016-17 to 2018-19 and decreased in 2019-20. However, it increased by ₹11,334.25 crore (78.19 per cent) from ₹14,495.25 crore in 2019-20 to ₹25,829.50 crore in 2020-21.

The State did not achieve any of the targets fixed in its Medium-Term Fiscal Plan or the Kerala Fiscal Responsibility Act during the year 2020-21. The fiscal deficit to GSDP ratio was to be anchored at 3 per cent as per KFR Act, 2003, As per State Government accounts, the ratio of fiscal deficit to GSDP increased from 4.17 per cent in 2016-17 to 5.40 per cent in 2020-21. Though the GoI allowed an additional borrowing of 2 per cent thereby increasing the overall borrowing to 5 per cent against which the State registered a fiscal deficit to GSDP ratio of 5.40 per cent during 2020-21. On post audit analysis it was concluded that the Revenue and Fiscal deficit of the State were understated by ₹244.85 crore and ₹9,471.59 crore respectively thereby increasing the fiscal deficit to GSDP ratio to 6.65 per cent in 2020-21.

The outstanding debt of the State ranged between 29.89 and 39.87 per cent of GSDP during the period from 2016-17 to 2020-21, which was consistently above the norm of 29.67 per cent of GSDP prescribed by KFR Act, 2003. The back to back Loan (₹5,766 crore) received from GoI in lieu of GST compensation has not been considered as Debt for working out the indicator.

In the year 2020-21, the overall debt of the State including the outstanding liability of off budget borrowings is ₹3,24,855.06 crore. The effective overall debt of the State would be ₹3,19,089.06 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

(Chapter I)

Finances of the State

The State Government registered an increase of 8.19 per cent in its Revenue Receipts during 2020-21 compared to the previous year.

Revenue resources

Revenue receipts of the State increased from ₹75,611.72 crore in 2016-17 to ₹97,616.83 crore in 2020-21, recording a growth of 29.10 per cent during the last five years. The State's own tax revenue, being the main source of revenue in revenue receipts increased by only 13.00 per cent during the period and its share in revenue receipts decreased from 55.78 per cent in 2016-17 to 48.82 per cent in 2020-21 indicating poor collection of tax revenue during the pandemic period.

Revenue Expenditure

Revenue Expenditure of the State increased from ₹91,096.31 crore in 2016-17 to ₹1,23,446.33 crore in 2020-21 recording a growth of 35.51 *per cent* during the five-year period. Revenue expenditure as a percentage of total expenditure ranged between 88 and 92 *per cent* during the period showing predominance of revenue expenditure in total expenditure. Share of committed expenditure in revenue expenditure was 55.64 *per cent* during 2020-21 and it consumed 70.37 *per cent* of the revenue receipts during the year. During 2020-21, interest payments consumed 21.49 *per cent* of revenue receipts.

Quality of Expenditure

Capital Expenditure of the State increased from ₹10,125.95 crore in 2016-17 to ₹12,889.65 crore in 2020-21 recording a growth of 27.29 *per cent* during the five-year period. The State Government invested ₹10,064.70 crore in Statutory Corporations, Government Companies, other Joint Stock Companies and Co-operatives, average return on these investments was 1.34 *per cent* in the last five years while the Government paid an average interest rate of 7.33 *per cent* on its borrowings during 2016-17 to 2020-21. The interest receipt on loans and advances given by State Government was 0.23 *per cent* of outstanding loans and advances during 2020-21 against the average cost of borrowing of 7.31 *per cent*. During the year the Government invested ₹315.41 crore in loss making institutions and ₹146.37 crore in institutions whose net worth is completely eroded.

Reserve Funds and liabilities

The Consolidated Sinking Fund was constituted with the aim to amortise the outstanding liabilities of the Government, but the Government did not contribute to the fund during 2020-21. Similarly, the Government has to constitute a Guarantee Redemption Fund for crediting guarantee commission collected for meeting future liabilities arising out of guarantees given by the Government. The Guarantee Redemption Fund has not been constituted so far and guarantee commission of ₹1,467.16 crore collected during 2003-04 to 2020-21 was not credited to the Fund. The State Disaster Response Fund (SDRF) had an accumulated balance of ₹646.47 crore by the end of March 2021. As per the guidelines issued by GoI, accretions to SDRF have to be invested in GoI Securities/Treasury Bills by the State Executive Committee constituted for the management of the fund. However, this was not done.

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 the State for development activities was only ₹10,631.94 crore (16.62 *per cent* of public debt receipts) during 2020-21

considering the exclusion of ₹5,766 crore received as back to back loan in lieu of GST compensation.

Off- Budget Borrowings

The State Government resorted to off-budget borrowings amounting to ₹9,273.24 crore during 2020-21.

Off-budget borrowings by the State Government have the effect of bypassing the Net Borrowing Ceiling (NBC) of the State by routing loans outside State budget through Government owned or controlled Companies/ statutory bodies despite being responsible for repayment of such loans. Such borrowings naturally have impact on the Revenue Deficit and Fiscal Deficit and thus, have the effect of surpassing the targets set for fiscal indicators under 'The Kerala Fiscal Responsibility Act, 2003' (as amended from time to time). Creating such liabilities, without disclosing them in the budget, raises questions both of transparency, and of inter-generational equity.

These off-budget borrowing will have an impact of increasing the liabilities of the State Government, leading to a debt trap over a period of time. As these borrowings are not disclosed in the budgets the Legislature is unaware of creation of such liabilities.

Debt Sustainability

The ratio of Public Debt to GSDP of the State increased from 20.43 *per cent* in 2019-20 to 27.07 *per cent* in 2020-21 (effective increase is 26.31 *per cent* considering the exclusion of back to back loans). Similarly, the ratio of interest payments to total revenue receipts of the State increased from 21.30 *per cent* in 2019-20 to 21.49 *per cent* in 2020-21.

(Chapter II)

Budgetary Management

Variations between the total grants/appropriation and expenditure incurred led to savings which indicates improper scrutiny of budget estimates at various levels of Government and poor budget management.

The supplementary demands for grants obtained in cases where the final expenditure either did not come up to the level of original grants or no expenditure was incurred even after obtaining supplementary demands for grants shows laxity on the part of departmental officers in assessing actual requirement of funds.

Excess, unnecessary or insufficient re-appropriation indicated that departmental officers failed in assessing actual requirement of funds in heads of accounts under their control.

Excess expenditure requiring regularisation indicates inadequate expenditure control.

(Chapter III)

Quality of Accounts and Financial Reporting Practices

There was persistent trend of cess/royalty/fund not being credited to Consolidated Fund of the State.

There were cases of regulators maintaining 'Fund' outside Public Account of the State (Funds of the Kerala State Electricity Regulatory Commission).

Twelve utilisation certificates for ₹22.44 crore were not received by the AG(A&E).

Non reconciliation with respect to PD Accounts is fraught with the risk of misuse of public funds.

Autonomous bodies (23 numbers) were to render annual accounts to C&AG. The arrears in submission of accounts ranged from one to seven years.

There were delays in initiating departmental action, fixing liability, issuing orders of recovery, etc, in respect of cases of misappropriation/loss of public money.

(Chapter IV)