CHAPTER I
FINANCES OF THE STATE GOVERNMENT

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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 21st in the country with an area of 38,863 sq.km. The State has a population of 3.34 crore (12th in the country) and it is ranked as the third most densely populated State with a density of 860 persons per sq.km. The decadal growth rate of population was five *per cent* (3.18 crore in 2001 to 3.34 crore in 2011), which is the lowest rate among Indian states. The literacy rate of Kerala (94 *per cent*) is the highest among the Indian states. Gross State Domestic Product (GSDP) in 2014-15 of the State at current prices was ₹4,51,483 crore. The per capita income (2014-15) of the State at current prices stands at ₹1,27,577. General data relating to the State is given in **Appendix 1.1**.

Gross State Domestic Product (GSDP)

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

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

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
India's GDP (₹ in crore)	72,48,860	83,91,691	93,88,876	1,04,72,807	1,15,09,810[1]
Growth rate of GDP (percentage)	18.66	15.77	11.88	11.54	..
State's GSDP (₹ in crore)[2]	2,63,773	3,12,677	3,47,841	3,96,282	4,51,483[3]
Growth rate of GSDP (percentage)	13.70	18.54	11.25	13.93	13.93

Source : Figures furnished by Economics and Statistics Department

During the last five years, highest growth of GSDP was during 2011-12 and it came down to 11.25 *per cent* during 2012-13. However, during the last two years GSDP showed a steady growth of 13.93 *per cent* and it was better than GDP growth of the country during the last two years.

1.1 Introduction

This chapter is based on the audit of Finance Accounts and makes an assessment of the fiscal position of the Government of Kerala as on 31 March 2015. It

[1] This figure does not include GSDP figures of Goa, Andaman and Nicobar Islands and Chandigarh

[2] Change in figures with respect to previous Report is due to adoption of revised GSDP figures

[3] As per information furnished vide letter No.S1(3)9817/2014/DES dated 17 December 2014

provides a broad perspective of the finances of the State during 2014-15 along with analysis of the critical changes in the major fiscal aggregates relative to the previous year, keeping in view of the overall trends during the last five years. The structure and form of Government Accounts have been explained in **Appendix 1.2 Part A** and the layout of the Finance Accounts is shown in **Appendix 1.2 Part B**. The methodology adopted for the assessment of the fiscal position of the State and norms prescribed by the Kerala Fiscal Responsibility Act, 2003[4] are given in **Appendix 1.3.** As prescribed in the Act, the Government submitted its Medium Term Fiscal Policy and Strategy Statement with Medium Term Fiscal Plan for 2014-15 to 2016-17 in the State Legislature in January 2014.

1.1.1 Summary of Fiscal Transactions during the current year

The **Table 1.2** presents the summary of the State Government's fiscal transactions during the current year (2014-15) vis-à-vis the previous year (2013-14). **Appendix 1.4** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.2: Summary of fiscal operations in 2014-15

(₹in crore)

Receipts	2013-14	2014-15	Disbursements	2013-14	2014-15		
Section –A:Revenue					Non-plan	Plan	Total
Revenue Receipts	**49176.93**	**57950.47**	**Revenue Expenditure**	**60485.50**	**61463.84**	**10282.59**	**71746.43**
Tax Revenue	31995.01	35232.50	General Services	26605.09	31298.99	133.76	31432.75
Non-tax Revenue	5575.03	7283.69	Social Services	20979.88	17825.01	5893.10	23718.11
Share of Union Taxes/Duties	7468.68	7926.29	Economic Services	7929.06	5941.84	4255.73	10197.57
Grants from Government of India	4138.21	7507.99	Grants-in-aid and Contribution	4971.47	6398.00		6398.00
Section-B : Capital and Others							
Miscellaneous Capital Receipts	**19.19**	**28.17**	**Capital Outlay**	**4294.33**	**374.05**	**3880.54**	**4254.59**
Recoveries of Loans and Advances	**103.75**	**123.74**	**Loans and Advances Disbursed**	**1464.17**			**743.09**
Public Debt Receipts	**14461.18**	**18509.17**	**Repayment of Public Debt**	**3244.81**			**5842.77**
Contingency Fund		**67.39**	**Contingency Fund**	**67.39**			**..**
Public Account Receipts	**124374.44**	**141521.71**	**Public Account Disbursements**	**120992.20**			**136242.59**
Opening Cash Balance	**4692.73**	**2279.82**	**Closing Cash Balance**	**2279.82**			**1651.00**
Total	**192828.22**	**220480.47**	**Total**	**192828.22**			**220480.47**

Source : Finance Accounts for 2013-14 and 2014-15

[4] Amended Act, Kerala Fiscal Responsibility(Amendment)Act, 2011 came into force on 8 November 2011

Following are the significant changes noticed during 2014-15 compared to the previous year.

- Revenue receipt grew by 17.8 *per cent* (increase of ₹8,773.54 crore) and revenue expenditure grew by 18.6 *per cent* (increase of ₹11,260.93 crore) over the previous year. Reduced growth of revenue receipt compared to revenue expenditure led to the increase in revenue deficit by ₹2487.39 crore, during the year.
- Though, the debt receipts of the State increased from ₹14,461.18 crore in 2013-14 to ₹18,509.17 crore in 2014-15, capital expenditure of the State decreased from ₹4294.33 crore in 2013-14 to ₹4254.59 crore in 2014-15. This shows that additional borrowings were not utilised for capital purposes. Expenditure on Loans and Advances was also ₹721.08 crore less than the previous year.
- Cash balance of the State also decreased over the previous year by ₹628.82 crore, mainly due to reduction in investment under treasury bills.

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, came into force on 5 December 2003. Based on the recommendations of Thirteenth Finance Commission, the State had amended Kerala Fiscal Responsibility Act and Kerala Fiscal Responsibility (Amendment) Act, 2011 came into force from 8 November 2011 with revised fiscal targets. Comparison of the fiscal targets envisaged in the Act *vis-à-vis* its achievements are given in **Table 1.3**.

Table 1.3: Comparison of fiscal variable targets

Year	Revenue Deficit/GSDP		Fiscal Deficit/GSDP		Debt liability/GSDP	
	Target	Achievement	Target	Achievement	Target	Achievement
2011-12	1.4	2.6	3.5	4.1	32.3	29.8
2012-13	0.9	2.7	3.5	4.3	31.7	31.2
2013-14	0.5	2.9	3.0	4.3	30.7	31.3
2014-15	0.0	3.1	3.0	4.1	29.8	31.4

Source : Budget documents of respective years

The above table shows that the State had not achieved the fiscal targets fixed in the Kerala Fiscal Responsibility (Amendment) Act, 2011 except for Debt-GSDP ratio for the years 2011-12 and 2012-13. Non-achievement of the fiscal targets needs to be attended to 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 House of the 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 2014-15 is detailed in **Table 1.4**.

Table 1.4: Budget estimates and actuals for 2014-15

(₹in crore)

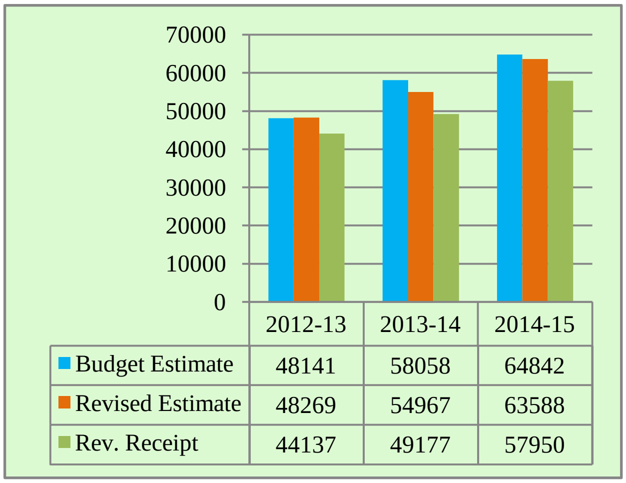
Particulars	Budget Estimate	Revised Estimate	Actual
Revenue Receipts	64842.34	63588.32	57950.47
Revenue Expenditure	71974.04	73852.30	71746.43
Revenue Deficit	7131.70	10263.98	13795.96
Capital Expenditure	6636.38	5062.76	4254.59
Loans and Advances (Net)	655.43	697.32	619.35
Public Debt (Net)	13721.86	13721.86	12666.40
Public Account (Net)	821.16	2266.70	5283.41

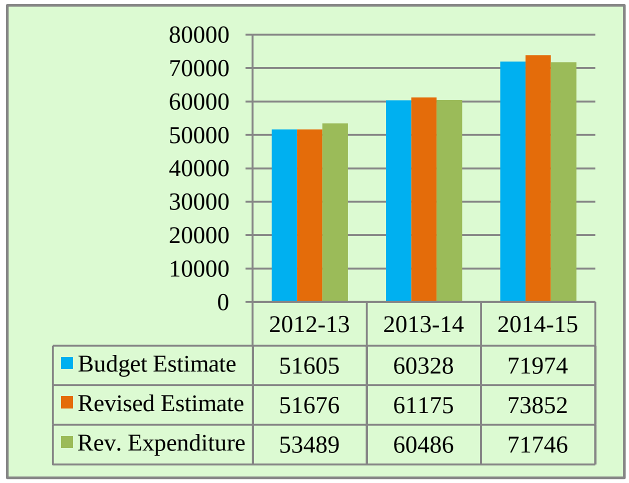
Source : Budget in brief for 2015-16 and Finance Accounts for 2014-15

The revised estimation needs to be more accurate than the original budget estimation as it was done after analysing the receipts and expenditure of the first six months of the financial year. However, the above table reveals that actual revenue receipt of the State was less than the revised estimate and consequently, revenue deficit was over ₹3,500 crore more than the revised estimate. The situation was the same in all the three previous years as shown in **Chart 1.1**.

Chart 1.1 : Comparison of budget estimates and actuals

Revenue Receipts (₹ *in crore*) **Revenue Expenditure (₹ *in crore*)**





Short realisation of revenue receipts was analysed in Audit and observed the following;

(i) Revenue Receipts

State Government estimated a revenue of ₹64,842.34 crore in its original budget and subsequently reduced to ₹63,588.32 crore while presenting the revised estimate. However, State could realise only ₹57,950.47 crore, resulting in a shortfall of ₹5,637.85 crore. Head-wise shortfall is given in **Table 1.5**.

Table 1.5: Budget estimates and actual for 2014-15

(₹ in crore)

Revenue source	Budget Estimate	Revised Estimate	Actuals	Percentage
Taxes on Sales, Trade, etc.	31913.47	29135.41	27908.33	96
State Excise	3208.36	1977.11	1777.42	90
Motor Vehicles	2799.82	2742.20	2364.95	86
Stamps and Registration	3733.67	3788.75	2659.02	70
Other Taxes	812.17	641.24	522.78	82
Tax Revenue	42467.49	38284.71	35232.50	92
Non-Tax Revenue	6337.47	7883.45	7283.69	92
Share of Central taxes	9365.36	7926.29	7926.29	100
Grant-in-aid from GoI	6672.02	9493.87	7507.99	79
Total Revenue Receipt	64842.34	63588.32	57950.47	91

Source : Budget documents for 2014-15 and 2015-16 and Finance Accounts for 2014-15

The above table shows that major shortfall was under Grant-in-aid from Government of India and it was ₹1,985.88 crore less than the amount anticipated by the State Government. Though the tax-revenue realisation was more than 90 *per cent*, realisation under stamps and registration was only 70 *per cent* of the estimation. Out of the shortfall of ₹3,052.21 crore noticed under tax revenue, the major shortfalls were ₹1,227.08 crore in respect of Taxes on Sales, Trade, etc., and ₹1,129.73 crore in respect of Stamps and Registration.

(ii) Plan proposals and achievements

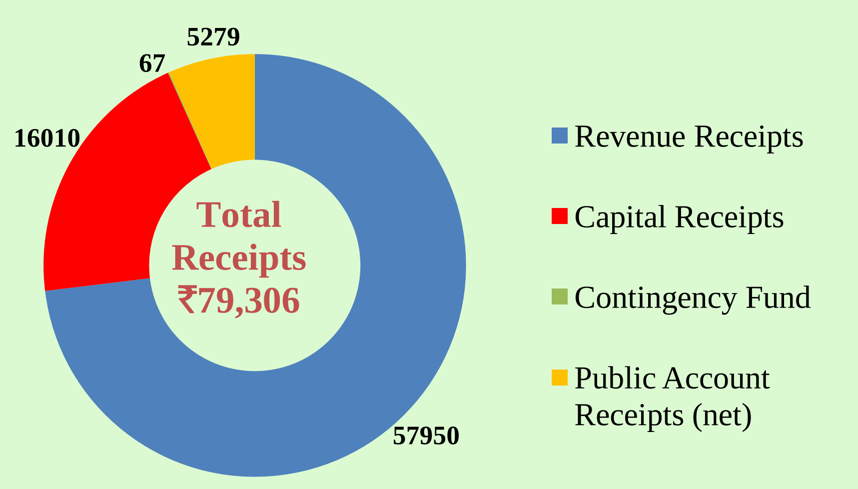
The estimated plan outlay of the State Government submitted before Planning Commission for the year 2014-15 was ₹20,000 crore, which included schemes for ₹15,300 crore implemented through various departments and ₹4,700 crore implemented through Local Self Government Institutions (LSGIs). Against the target of ₹15,300 crore, the plan utilisation was ₹14,407 crore through various departments.

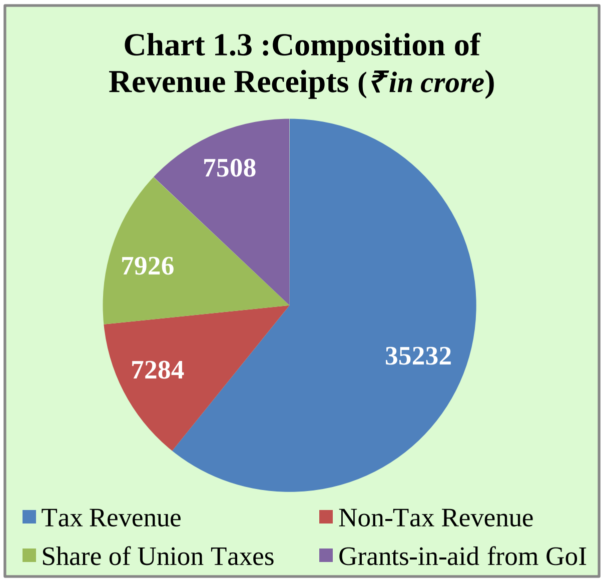
1.2 Resources of the State

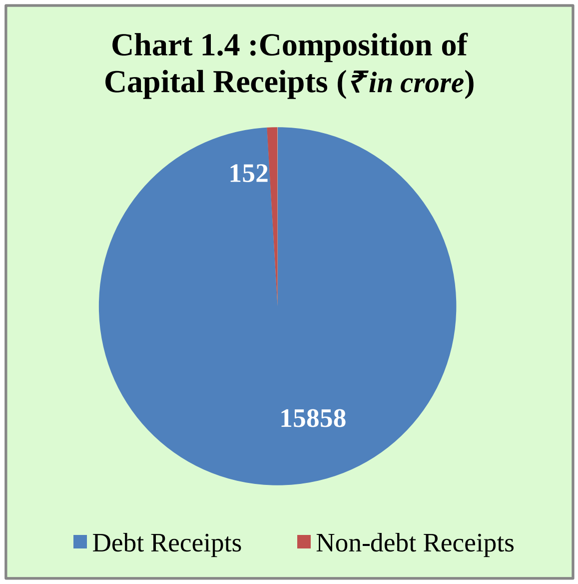
1.2.1 Resources of the State as per the Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of Tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from other financial institutions/commercial banks) and loans and advances from GoI. 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)***



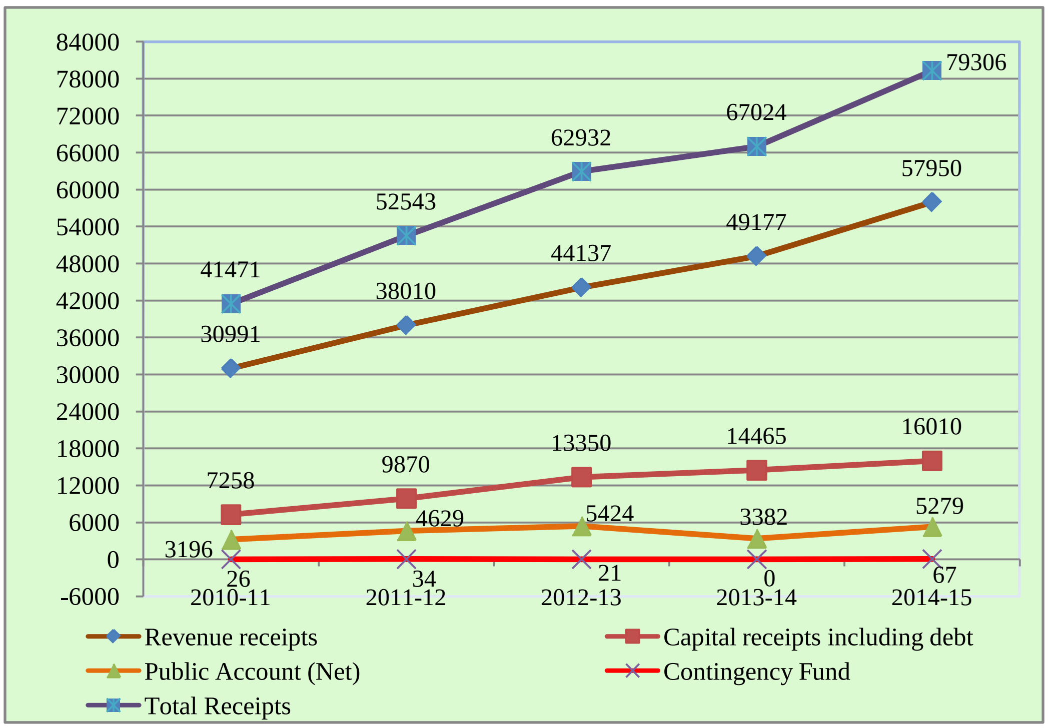




Note: Under Capital Receipts, transactions under 'Ways and Means advances' are excluded and under Public Accounts only net receipts are considered.

Total receipts[5] of the State Government increased from ₹41,471 crore in 2010-11 to ₹79,306 crore in 2014-15, showing an increase of 91.2 *per cent* during the last five years. Trend in total receipts and its components during the last five years is given in **Chart 1.5.**

Chart 1.5: Trend in total receipts during the last five years



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

1.2.2 Receipt and utilisation of Government of India flagship programmes

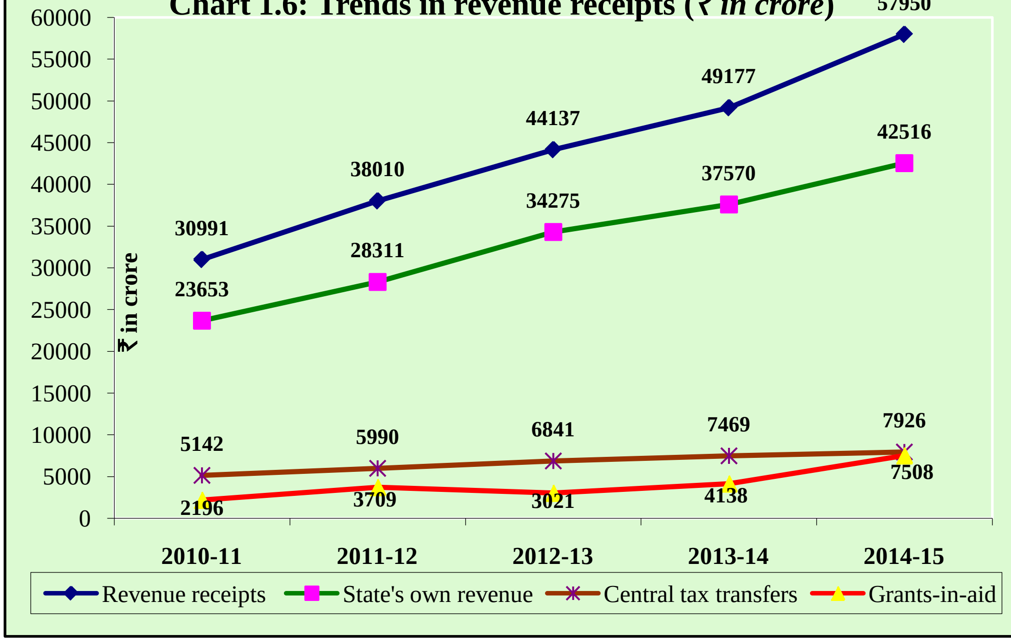
Sizeable amounts were received by State level implementing agencies for implementing flagship programmes of Government of India. The State level implementing agencies were receiving funds directly from GoI till March 2014 and from 2014-15, the system has been changed and the funds have been received as Grant-in-aid to the State Government from GoI and the State Government releases these funds to the implementing agencies through State Budget. The implementing agencies in respect of 12 flagship programmes of GoI received ₹3,058.80 crore (GoI share: ₹2,646.51 crore and State share: ₹412.29 crore) and unutilised balance of ₹461.53 crore was noticed at the end of the financial year as given in **Appendix 1.6**. The major portion of the unutilised balance belong to Indira Awas Yojana (₹74.57 crore), Sarva Shiksha Abhiyan (₹133.62 crore) and National Rural Health Mission (₹91.92 crore).

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.

Revenue receipts of the State recorded an increase of 87 *per cent* and State's own receipts, the major component of the revenue receipts, also recorded an increase of 80 *per cent* during the period from 2010-11 to 2014-15. Other components, Central Tax receipts and grants-in-aid from GoI had 54 *per cent* and 242 *per cent* growth rate respectively and high growth rate shown in respect of Grant-in-aid from GoI was mainly due to increase of ₹3,370 crore during 2014-15 on account of transfer of funds for flagship programmes of GoI through State Budget. The trends of revenue receipts over the period 2010-15 are presented in **Appendix 1.5** and also depicted in **Chart 1.6**.

Chart 1.6: Trends in revenue receipts (*₹ in crore*)



It is worth to note that the Compounded Annual Growth Rate (CAGR) in respect of revenue receipts of the State for the period from 2005-06 to 2013-14 was slightly lower (15.72 *per cent*) than that of General Category States (15.76 *per cent*) and it was higher (17.84 *per cent*) than the growth rate of other General Category States (16.10 *per cent*) for the period from 2013-14 to 2014-15 (**Appendix 1.1**).

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

Table 1.6: Trends in revenue receipts relative to GSDP during 2010-2015

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue Receipts (RR) (₹ *in crore*)	30,991	38,010	44,137	49,177	57,950
Rate of growth of RR (*per cent*)	18.7	22.6	16.1	11.4	17.8
State's own tax revenue (₹ *in crore*)	21,722	25,719	30,077	31,995	35,232
Rate of growth of own tax revenue (*per cent*)	23.2	18.4	16.9	6.4	10.1
RR/GSDP (*per cent*)	11.7	12.2	12.7	12.4	12.8
Revenue buoyancy w.r.t GSDP*	1.4	1.2	1.4	0.8	1.3
State's Own Tax Buoyancy w.r.t GSDP*	1.7	1.0	1.5	0.5	0.7

Source : Finance Accounts and information furnished by the Economics and Statistics Department
**Change in ratio with respect to the previous Report was due to adoption of revised GSDP figures*

- The above table shows that the State had better growth in revenue receipts (17.8 *per cent*) and in State's own taxes (10.1 *per cent*) when compared with the previous year.
- During last four years, share of revenue receipt in GSDP was above 12 *per cent*, indicating consistent growth of revenue receipt with respect to GSDP.
- Buoyancy of revenue receipts with respect to GSDP indicates the growth of revenue receipts with respect to growth of GSDP. A ratio above one indicates that State's revenue receipts has better growth rate than that of GSDP. However, buoyancy ratio of State's own tax with respect to GSDP (0.7) shows that State's own tax is not growing compared to the growth of GSDP. Table also shows a deteriorating trend in the growth rate of State's own tax during the last five years, though the position was slightly better during 2014-15.

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 mobilization of resources was assessed in terms of its own resources comprising own tax and non-tax sources.

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

Table 1.7: Resources of the State during last five years

(₹in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Tax Revenue	21722	25719	30077	31995	35232
Non-tax Revenue	1931	2592	4198	5575	7284
Grant-in-aid from Government of India	2196	3709	3021	4138	7508
Share of union taxes /Duties	5142	5990	6841	7469	7926
Total Revenue Receipt	**30991**	**38010**	**44137**	**49177**	**57950**

Source : Finance Accounts of respective years

The State's non-tax revenue collection and grant-in-aid from GoI have increased substantially during the last five years. Increase in non-tax revenue was due to increase in receipts under State Lotteries during the last five years. Though, the tax revenue was the main source of revenue of the State, its increase was only 62 *per cent* as against an increase of 87 *per cent* in revenue receipts during the last five years period.

1.3.1.1 Tax Revenue

The State's own tax revenue increased from ₹31,995 crore in 2013-14 to ₹35,232 crore in 2014-15. This increase was 10 *per cent* as compared with six *per cent* growth shown during 2013-14 and details are given in **Table 1.8**.

Table 1.8: Components of own tax revenue

Revenue Head	Actuals for 2013-14 (₹ in crore)	BE for 2014-15 (₹ in crore)	Actuals for 2014-15 (₹ in crore)	Percentage decrease w.r.t BE	Percentage increase w.r.t last year	Share in total tax revenue
Taxes on Sales, Trade etc.	24885	31913	27908	13	12	79
Stamps and Registration fees	2593	3734	2659	29	3	8
State Excise	1942	3208	1777	45	(-)8	5
Taxes on Vehicles	2161	2800	2365	16	9	7
Land Revenue	89	170	139	18	56	(*)
Taxes on Agricultural income	22	26	9	65	(-)59	(*)
Other Taxes	303	616	375	39	24	1
Total	**31995**	**42467**	**35232**	**17**	**10**	**100**

Source : Finance Accounts of respective years and Budget documents for 2014-15 (*)insignificant

In the previous year 'Taxes on Sales, Trade etc.' was the major source of the State's own tax revenue. Compared to 2013-14, increase in this tax revenue during 2014-15 was ₹3,023 crore and this increase was mainly under 'Receipts under State Sales Tax Act' (₹1,716 crore) and under 'Value Added Tax receipts' (₹1,092 crore).

Decrease in tax receipt was noticed under State Excise consecutively for the past two years. As in the previous year, the decrease in revenue was mainly under 'Foreign Liquors and Spirits' (₹106 crore) and 'Malt Liquor' (₹62 crore).

1.3.1.2 Non-tax Revenue

Receipt under 'State Lotteries' has been major source (75 *per cent*) of non-tax revenue of the State. Overall 31 *per cent* increase was noticed in non-tax revenue as detailed in **Table 1.9**.

Table 1.9: Components of non-tax revenue

(₹ in crore)

Revenue Head	2013-14	2014-15	Percentage Increase during the year	Share in total Non-tax Revenue
Interest receipts	149	102	(-) 32	1
Dividends and profits	101	74	(-) 27	1
State Lotteries	3796	5445	43	75
Forestry and Wildlife	330	300	(-) 9	4
Other non-tax receipts	1199	1363	14	19
Total	**5575**	**7284**	**31**	**100**

Source : Finance Accounts of respective years

The net yield from State lotteries was only ₹960 crore as there was an equally high expenditure (₹4,485 crore) due to distribution of prizes, agent commission, etc., during the year.

1.3.2 Grants-in-aid from Government of India

Grants-in-aid from the Government of India increased by ₹3,370 crore (81 *per cent*) from ₹4,138 crore in 2013-14 to ₹7,508 crore in 2014-15 as detailed in **Table 1.10**. The increase was mainly under 'Grants for State plan schemes' (₹3,775 crore), 'Non-plan grants' (₹305 crore) and 'Grants for Central plan schemes' (₹71 crore). This increase was partly offset by decrease in receipt under 'Grants for Centrally sponsored schemes' (₹781 crore).

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

(₹ in crore)

Particulars	2013-14	2014-15	Increase during the year	Percentage increase during the year	Share in total grant-in-aid
Non-plan grants	1679	1984	305	18	26
Grants for State plan schemes	1154	4929	3775	327	66
Grants for central plan schemes	87	158	71	82	2
Grants for Centrally sponsored schemes	1218	437	(-)781	(-)64	6
Total	**4138**	**7508**	**3370**	**81**	**100**

Source : Finance Accounts of respective years

Substantial increase of ₹3,775 crore noticed under 'Grants for State Plan schemes' was due to release of central funds through State budget from 2014-15, which was released directly to State implementing agencies till 2013-14.

1.3.3 Efficiency in Tax collection

The expenditure on tax collection in respect of four major revenue sources of the State compared with all India average, during the last five years, is given in **Appendix 1.7**. It shows that during the period from 2010-11 to 2013-14 (except during 2011-12), expenditure of the State on collection of tax on Sales, Trade, etc., and taxes on vehicles was less than that of all India average. In the case of Stamps (Non-judicial) and Registration and State Excise, expenditure of tax collection was higher than that of all India average.

1.4 Capital Receipts

Capital receipts comprise miscellaneous capital receipts, recovery of loans and advances released to institutions/organizations and public debt receipts. Trends in receipts under capital sector are detailed in **Table 1.11**.

Table 1.11: Trends in growth and composition of capital receipts

(₹ in crore)

Sources of Receipts	2013-14	2014-15
Capital Receipts (CR)		
Miscellaneous Capital Receipts	**19**	**28**
Recovery of Loans and Advances	**104**	**124**
Public Debt Receipts[6]	**14342**	**15858**
Internal Debt Receipts	13950	15106
Loans and Advances from GoI	392	752
Total CR	**14465**	**16010**
Rate of growth of debt capital receipts (*per cent*)	8.2	10.6
Rate of Growth of GSDP(*per cent*)	13.93(*)	13.93
Rate of growth of CR (*per cent*)	8.4	10.7
Buoyancy of Debt receipts w.r.t GSDP	0.6(*)	0.8

Source : Finance Accounts of respective years

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

Internal Debt mainly comprised Open Market Borrowings of the State and growth rate shown by debt capital receipts was mainly due to increase in open market borrowings (₹400 crore) and Special securities issued to National Small Savings Fund (₹567 crore). The growth rate of debt capital receipt and capital receipts increased when compared to the previous year mainly due to the increase in internal debt receipt of the State Government. Buoyancy[7] of debt receipts with

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

[7] Buoyancy ratio is the comparison of growth rates of two parameters. Ratio equal to one indicates both parameters are growing at same pace and less than one indicates first parameter growing with less pace than the other and *vice versa.*

respect to GSDP also has shown an increase when compared to 2013-14 but it remains less than one (0.8) which is a good indicator as the Government's borrowing pace was less than that of GSDP.

1.4.1 Proceeds from disinvestment

As of March 2015, the State Government had invested ₹6,085.13 crore in Statutory Corporations, Government Companies, Joint Stock companies and Co-operatives and received ₹28.17 crore from retirement of capital/disinvestment of shares of co-operative societies/banks and accounted for under Miscellaneous Capital Receipts.

1.4.2 Recoveries of loans and advances

During the year, the State Government had released an amount of ₹743.09 crore as loans and advances to various institutions and at the end of March 2015, an amount of ₹12,332.50 crore was outstanding under this head. Against this balance, principal amount recovered was ₹123.74 crore, which was only one *per cent* of the outstanding balance under loans and advances.

1.4.3 Debt receipts from internal sources

Public Debt receipts of the State Government increased by ₹1,516 crore (10.6 *per cent*) from ₹14,342 crore in 2013-14 to ₹15,858 crore in 2014-15. This includes, Open Market Borrowing (₹13,200 crore), Special Securities issued to National Small Savings Fund (₹1,132 crore), Loans from Financial Institutions (₹551 crore) and Loans and Advances from Government of India (₹752 crore).

1.5 Public Accounts Receipts

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

Table 1.12: Net receipts under Public Account heads

(₹in crore)

Resources under various heads	2010-11	2011-12	2012-13	2013-14	2014-15
Public Account receipts					
a. Small Savings, Provident Fund etc.	2489.94	3839.05	3685.54	4231.86	3764.77
b. Reserve Fund	407.21	146.93	-145.58	78.02	66.00
c. Deposits and Advances	468.89	-51.47	1140.93	187.43	1364.50
d. Suspense and Miscellaneous	-197.30	852.37	712.44	-946.60	57.90
e. Remittances	26.92	-157.40	30.49	-168.48	25.95
Total	**3195.66**	**4629.48**	**5423.82**	**3382.23**	**5279.12**

Source : Finance Accounts of respective years

The above table shows that during 2014-15 an amount of ₹5,279.12 crore has been added to the existing balance of the Public Account. This was ₹1,896.89 crore more than additions (₹3,382.23 crore) during 2013-14. As in the previous year net additions to the sector 'Small Savings, Provident Fund, etc.', was the major addition to the Public Account followed by 'Deposits and Advances' amounting to ₹1,364.50 crore. These funds are utilised by the State Government for covering their fiscal deficit.

1.6 Receipt and Utilisation of Thirteenth Finance Commission Award

1.6.1 Introduction

The Thirteenth Finance Commission (ThFC) was constituted by the President of India under Article 280 of the Constitution to make recommendations for release of funds to the States for the period 2010-15.The Commission has the mandate to recommend the principles which should govern the release of grants-in-aid to revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance under Article 275 of the Constitution of India.

1.6.2 Release of Award amount by Government of India

The Commission had recommended an amount of ₹6700.72 crore for the award period 2010-11 to 2014-15 which included ₹6371.50 crore towards grants-in-aid and ₹329.22 crore towards interest relief for the loan taken from National Small Savings Fund. Against the grant-in-aid of ₹6371.50 crore recommended for the implementation of 21 approved schemes under 7 sectors, Government of India (GoI) had released an amount of ₹5235.04 crore (82 *per cent*) during the period 2010-2015. In addition, the State had received ₹241.26 crore[8] resulting in a total central release of ₹5476.30 crore during the award period. Out of the above, the State received ₹792.06 crore towards performance grant as it fulfilled the nine conditions stipulated for the release of the performance grant to local bodies.

A review of the receipt and utilisation of ThFC award was conducted to assess:-

- whether the entire award amount has actually been received, if not, reasons for the shortfall and
- whether the amount received has been utilised in full and for the intended purposes.

Audit observations

Audit scrutinised the records of the implementing departments/agencies of ThFC

[8] Local bodies performance grant (forfeited share of non-performing states) - ₹167.07 crore, local bodies basic grant (over and above the award amount) - ₹23.31 crore, incentive grant for renewable energy capacity addition - ₹12.50 crore, incentive for reduction of infant mortality rate -₹38.38 crore

award amount and observed short release of funds by GoI, under-utilisation of funds received, non-achievement of objectives etc., by the State Government departments as detailed in the following paragraphs:

1.6.3 Short release of Award amount by GoI

ThFC had recommended grants for 21 schemes under seven sectors and the grants were to be released in installments subject to fulfilment of the conditions attached to each grant. There were short releases in respect of 20 schemes amounting to ₹1136.46 crore (18 *per cent* of the total award) and the short releases ranged between eight and 90 *per cent* as detailed in **Appendix 1.8**. Substantial (around ₹100 crore) short releases from GoI were noticed in the following three schemes, due to non-adherence to various conditions attached with release of grants.

(i) *Maintenance of roads and bridges*

(ii) *Water sector management*

(iii) *Improvement of justice delivery*

1.6.4 Additional burden on State budget

The annual installments of ThFC award were provided through State budget every year to the concerned Departments/agencies for implementing programmes/ schemes approved under perspective plan and annual action plans. In anticipation of releases by GoI, State provided additional funds to the extent of ₹462.98 crore (**Appendix 1.9**) for the implementation of 14 schemes. In respect of 5 schemes (₹300.48 crore) no recorded reasons were available for the non-release of funds by GoI though utilisation certificates were submitted in time by the implementing departments. In respect of the remaining nine schemes, implementing departments failed to receive ₹162.5 crore (out of ₹462.98 crore) due to non-compliance of the conditions attached to the grants/non-submission of UCs in time. Further, GoI confirmed (7 July 2015) that no further release would be made under ThFC award.

1.6.5 Utilisation of grants

During the five year period (2010-2015), the State Government had budgeted all the amount received from GoI as ThFC grant and released[9] to Departments/ implementing agencies for utilisation. Audit observed that against the GoI release of ₹5476.30 crore, ₹377.96 crore remained blocked up with Government (₹89.39 crore) and implementing agencies (₹288.57 crore), under 17 schemes, at the end of the award period without being utilised for the intended purposes. Non/under-utilisation of funds due to procedural delay, defective planning, delay in implementation etc., resulted in blockage/surrender of funds with/by implementing agencies as detailed in **Appendix 1.10**.

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[9] Except ₹12.50 crore received (March 2015) from GoI as incentive for 'Renewable Energy' has not been released so far.

1.6.6 Status of implementation of envisaged schemes

Release of Finance Commission grants were linked with specific objectives like improving service delivery, maintenance and upkeep of capital assets, etc. For claiming the annual installments, conditions attached to the grants were to be fulfilled. The schemes were implemented as per the perspective plan for the entire award period as well as the annual action plans approved by the State Level Empowered Committee. Audit scrutiny revealed non-achievement of objectives in the following five schemes:-

Table 1.13: Achievement of objectives of ThFC award

Scheme and objectives	Audit observation
1. Incentive grant for issuing UID- Intended to enroll 49.6 lakh[10] BPL beneficiaries into the UID programme.	The first installment of ₹4.96 crore out of the total grant of ₹49.60 crore released to Kerala State Information Technology Mission, Trivandrum remained unutilised due to inability to link UID data with BPL data. In May 2014, ₹2.64 crore out of the above was transferred to District Collectors to disburse the funds through Local Self Government Institutions and this also remained unsuccessful. Consequently, further installments (₹44.64 crore) of central assistance were not received.
2. Database of Employees and pensioners- Preparation of a database of all employees, pensioners and family pensioners in the State.	The work was entrusted to Finance (IT-SF) Department and the first installment (₹2.50 crore out of ₹10 crore) was released in September 2010 with a condition to complete the work in three years. Department failed to complete it within the award period, which resulted in non-release of ₹7.50 crore.
Finance Department stated (October 2015) that data of pensioners drawing pension from treasuries is almost complete and those drawing through banks are in progress. The delay in rolling out the software is due to the complexities involved and the unorganized nature of the present system.	
3. Improvement of justice delivery - a) Setting up of Morning/Evening/ Shift/Weekend/Special Magistrate Courts – To clear the backlog of cases by increasing the court working hours using the existing infrastructure by holding morning/ evening courts and to relieve pressure on judicial time.	Government of Kerala accorded (February 2010 and January 2012) sanction for establishment of 74 evening courts. The High Court of Kerala found that the scheme was not practical as the Judicial Officers were already overburdened and hence only five evening courts were established. In view of the slow/no progress in establishment of evening courts GoI provided (January 2012) flexibility to include other types of Temporary Special Courts and hence 27 Special Temporary First Class Magistrate Courts were established (June 2014). However, delay in establishment of courts led to non-achievement of objectives as well as non-receipt of balance GoI assistance amounting to ₹47.2 crore.

[10] Planning Commission data (2004-05)

Scheme and objectives	Audit observation
b) Conservation of Heritage Court Buildings - Restoration and conservation of Heritage Court Buildings in the State.	Out of ten works identified, four works were entrusted (February 2011) to Archaeology Department and the works were not completed till the end of the award period. Remaining works proposed for awarding to Hindustan Pre Fab Limited were also not completed. Hence GoI assistance of ₹8.49 crore, earmarked for conserving heritage building under ThFC was not received.
c) Establishment of District Alternate Dispute Resolution Centres - Award amount given to Kerala Legal Services Authority (KELSA) to set up (for constructing physical infrastructure) Alternate Dispute Resolution Centres (ADR) for speedy settlement of cases outside court through mediation, conciliation, arbitration, etc.	KELSA/Government identified 10 out of 17 sites targeted and completed only six ADRs. One work was in progress and the remaining three works were pending commencement due to higher estimate/ pending sanction from Archaeological Survey of India/Government. For the remaining seven sites, Government has not identified land and consequently central assistance of ₹11.42 crore was not received and intended benefit was not derived during the award period.
State Specific Schemes	
4. Upgradation of Police Department - Award amount (₹100 crore) was to be utilised for enhancing the efficiency, effectiveness and capacity of the department by establishing centres for Senior Citizen Protection, Foreigners Facilitation, Tourist Protection, Community Police Resource Centres and Dormitories.	Work was entrusted to Kerala Police Housing Construction Corporation. Delay in awarding works, identifying sites, non-adherence to the time schedule, etc., resulted in completion of 135 works (53 *per cent*) out of 254 civil works by spending ₹50.08 crore (out of ₹78.40 crore released to the agency) Construction of State Senior Citizens Service Bureau (₹ 0.20 crore) completed in October 2013 was given to Kerala Police Pensioners' Welfare Association in March 2015 instead of utilising it for the intended purpose. Four out of the ten buildings completed for District Senior Citizen Bureaux (₹ 0.35 crore) have not been put to use for want of lift facility, electricity connection, etc. An expenditure of ₹1.50 crore incurred (March 2013) on the implementation of electronic beat system also did not materialise till the end of award period. This was due to the failure on the part of the department to ensure successful installation before releasing full amount of the contract.

Scheme and objectives	Audit observation
5. Ecosan toilets (Kuttanad Development) - Scheme to provide individual high level household toilets at Kuttanad area for sanitation coverage in the area	An amount of ₹ three crore out of ₹5.93 crore was released to Suchitwa Mission (the implementing agency) in two instalments during 2011-2013. After conducting a pilot study, the scheme was abandoned due to delay in identifying a suitable technology. In August 2014 the amount was transferred to Central Warehousing Corporation for construction of a godown (for storage of paddy) and the same also remained unutilised till date (December 2015).

1.6.7 Submission of Utilisation Certificate and Monitoring mechanism

The State had constituted State Level Empowered Committee/High Level Monitoring Committee/State Executive Committee headed by the Chief Secretary to the State Government and the Secretaries of the departments concerned as members for effective monitoring of the implementation of schemes under ThFC award. The committees met on a quarterly basis and monitored both physical and financial targets as stipulated. However, Audit noticed the following deficiencies.

Sarva Shiksha Abhiyan, the implementing agency of the scheme 'Elementary Education' had not complied with the instructions of GoI to maintain separate accounts for expenditure incurred under ThFC award to track the utilisation in accordance with the norms. Non-maintenance of separate accounts for ThFC grant made it difficult to ensure proper utilisation of funds for intended purposes.

Utilisation Certificates were to be forwarded to GoI after the utilisation of the funds for the intended purposes. However, in the following cases, UCs were forwarded without utilising funds for intended purposes.

- Director, Dairy Development Department reported (6 January 2015) that ₹74.90 crore received for the scheme Animal Husbandry was fully utilised. Audit noticed that an amount of ₹9.47 crore out of the above remained unutilised with the implementing departments/implementing agency at the end of the award period.

- Director General of Prisons and Correctional Services reported (21 March 2015) that ₹115.50 crore received for Upgradation of Prisons was reported as fully utilised. Audit noticed that an amount of ₹15.63 crore out of this was remaining blocked up with PWD/implementing department.

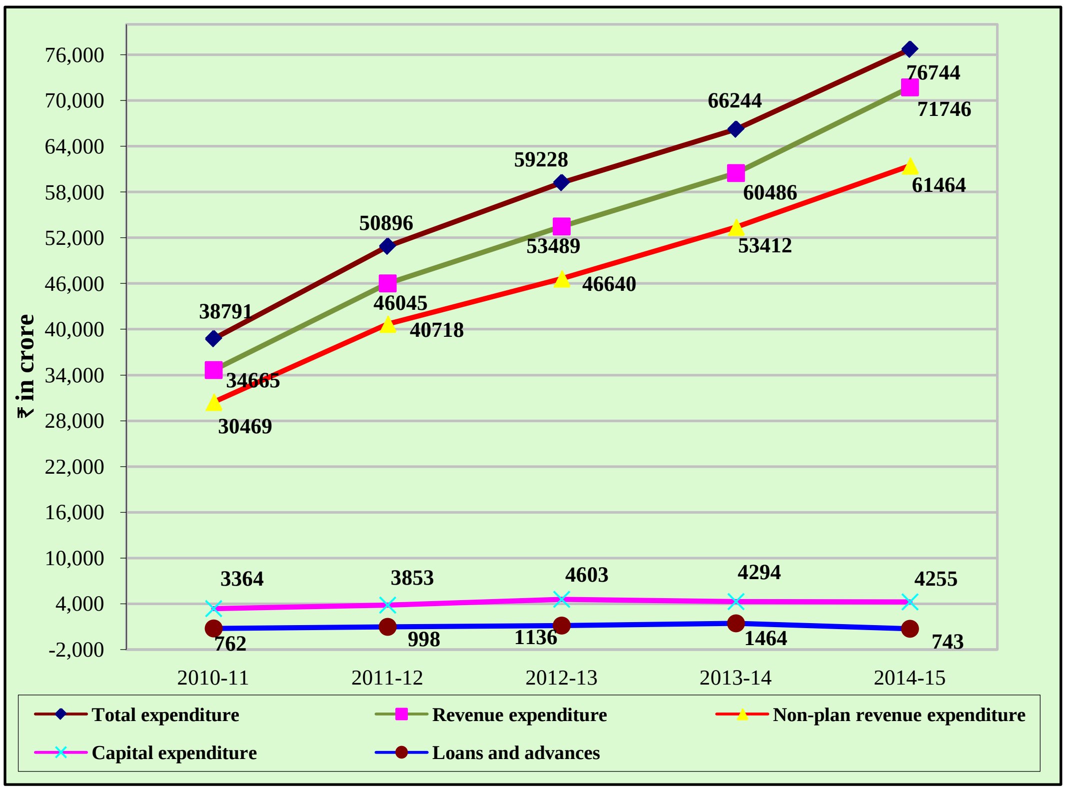
1.7 Application of Resources

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 (2010-2015).

Chart 1.7: Total expenditure: trends and composition



The total expenditure of the State recorded an increase of 98 *per cent* during the last five years from ₹38,791 crore in 2010-11 to ₹76,744 crore in 2014-15. Its increase during the last one year was ₹10,500 crore (16 *per cent*). The total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are given in **Table 1.14**.

Table 1.14: Total expenditure – basic parameters

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Total expenditure (TE) (₹ in crore)	38791	50896	59228	66244	76744
Rate of growth (*per cent*)	13.9	31.2	16.4	11.8	15.9
TE/GSDP ratio (*per cent*)	14.7(*)	16.3(*)	17.0(*)	16.7	17.0
RR/TE ratio (*per cent*)	79.9	74.7	74.5	74.2	75.5
Buoyancy of TE with reference to:					
GSDP (ratio)	1.0(*)	1.7(*)	1.5(*)	0.8	1.1
RR (ratio)	0.7	1.4	1.0	1.0	0.9

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

Out of the three components of total expenditure, the increase in revenue expenditure was ₹11,260 crore (18.6 *per cent*) and the other two components (Capital expenditure and expenditure on loans and advances) showed a decreasing trend indicating that the expenditure on development activities of the State was poor. Also, during 2010-2015, the inadequate growth rate of capital expenditure (26 *per cent*) and expenditure on loans and advances (negative growth) indicated Government's low priority towards development activities.

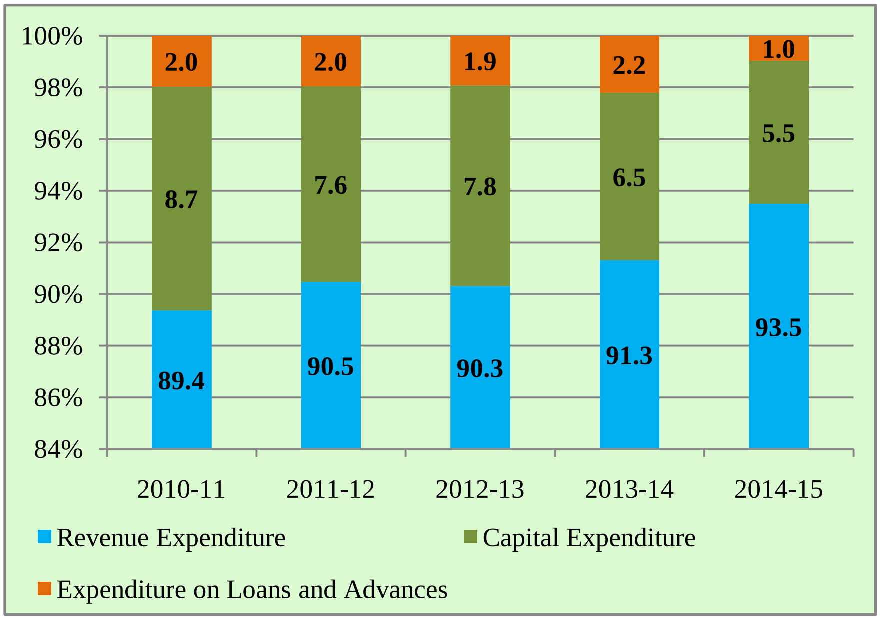
- During the period from 2010-11 to 2013-14, ratio between revenue receipt and total expenditure showed a declining trend, indicating the widening gap between receipt and expenditure of the State. However, the position slightly improved during 2014-15 and revenue receipts was sufficient to meet three fourth of the total expenditure of the State.

- The Buoyancy of the total expenditure with respect to GSDP was more than one during the last five years except during 2013-14 which is not a good indicator.

- Buoyancy of total expenditure with revenue receipt was also less than one during 2014-15 indicating that the growth of revenue receipt was not keeping pace with total expenditure.

Trend of share of various components of total expenditure is given in **Chart 1.8**.

Chart 1.8 : Share of various expenditure in total expenditure



During 2005-06 to 2013-14, State's compounded annual growth rate of total expenditure (16.50 *per cent*) was more than the growth rate of other General Category States (15.23 *per cent*). However, it (15.85 *per cent*) was less than General Category States (19.32 *per cent*) during 2013-14 to 2014-15. **(**Details are in **Appendix 1.1)**.

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 1.15**.

Table 1.15: Components of expenditure – relative shares

(in per cent)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
General Services	**40.0**	**40.2**	**38.7**	**40.4**	**41.1**
of which, Interest Payments	14.7	12.4	12.2	12.5	12.7
Social Services	**32.4**	**33.0**	**32.8**	**32.6**	**32.0**
Economic Services	**18.4**	**18.1**	**19.8**	**17.3**	**17.5**
Grants-in-aid	**7.2**	**6.7**	**6.8**	**7.5**	**8.4**
Loans and Advances	**2.0**	**2.0**	**1.9**	**2.2**	**1.0**

Table 1.15 reveals that:

- Relative shares of three components in total expenditure showed that expenditure on General services has been increasing steadily during the last three years whereas its expenditure on Social and Economic services has been decreasing. This shows increasing commitment on running Government machinery at the expense of development services.

- Share of interest payments in total expenditure also increased during the last three years indicating burden on payment of interest due to increase in borrowings.
- There was an increasing trend in State's devolution of funds (Grant-in-aid) to Panchayati Raj institutions since 2011-12 and it was the highest during 2014-15.

1.7.3 Revenue Expenditure

Revenue expenditure increased by 18.6 *per cent* (₹11,260 crore) during 2014-15 when compared to previous year. The increase in revenue expenditure was mainly due to increase in expenditure under the major heads 'Rural Employment' (₹1,600 crore), 'Interest Payments' (₹1,504 crore), 'Compensation and Assignments to Local Bodies and Panchayati Raj Institutions' (₹1,427 crore), 'Miscellaneous General Services[11]' (₹1,321 crore), 'Pension and Other Retirement Benefits' (₹1,281 crore), 'General Education' (₹1,026 crore), etc.

1.7.3.1 Incidence of revenue expenditure

During the last five years, the share of Revenue expenditure to maintain the current level of services and payment for past obligations increased from 89.4 *per cent* in 2010-11 to 93.5 *per cent* in 2014-15. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table 1.16.**

Table 1.16: Revenue expenditure – basic parameters

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue expenditure (RE)	**34665**	**46045**	**53489**	**60486**	**71746**
Non-plan revenue expenditure (NPRE)	30469	40718	46640	53412	61464
Plan revenue expenditure (PRE)	4196	5327	6849	7074	10282
Rate of Growth of					
RE (*per cent*)	11.3	32.8	16.2	13.1	18.6
NPRE (*per cent*)	13.0	33.6	14.5	14.5	15.1
PRE (*per cent*)	0.4	27.0	28.6	3.3	45.3
Revenue expenditure as percentage to TE	89.4	90.5	90.3	91.3	93.5
NPRE/GSDP (*per cent*) (*)	11.6	13.0	13.4	13.5	13.6
NPRE as percentage of TE	78.5	80.0	78.7	80.6	80.1
NPRE as percentage of RR	98.3	107.1	105.7	108.6	106.1
Buoyancy of revenue expenditure with					
GSDP (ratio) (*)	0.8	1.8	1.4	0.9	1.3
Revenue receipts (ratio)	0.6	1.4	1.0	1.1	1.0

Source : Finance Accounts

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

[11] Includes ₹1,283 crore towards expenditure under 'State Lotteries'

Table 1.16 reveals the following;

- During the last five years, RE and NPRE have shown 100 *per cent* growth. NPRE showed a steady growth of around 15 *per cent* and the average growth rate of RE was around 16 *per cent* during the last three years. Substantial increase (₹3,208 crore) noticed in PRE during 2014-15 was due to release of plan funds meant for GoI flagship schemes through State Budget.
- The buoyancy of RE with GSDP and RR was more than one which is not a good indicator since the increased growth rate of RE would force the State Government to depend on other sources to meet its RE.
- Though, NPRE as percentage of GSDP and TE were steady during the last four years, its ratio with RR was not so encouraging.
- NPRE as percentage of RR was more than 100 since 2011-12, indicating insufficiency of State's RR to meet NPRE during the last four years.

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

The trends of the committed expenditure of the State Government during 2010-2015 is given in **Table 1.17.**

Table 1.17: Components of committed expenditure

(₹in crore)

Components of committed expenditure	2010-11	2011-12	2012-13	2013-14	2014-15	
					BE	Actuals
Salaries* and Wages,	**11178**	**16229**	**17505**	**19554**	**23399**	**21621**
Non-plan head	10815	15681	16939	18954	22513	20977
Plan heads**	363	548	566	600	886	644
Interest payments (MH 2049)	**5690**	**6294**	**7205**	**8265**	**9598**	**9770**
Expenditure on pensions (MH 2071)	**5767**	**8700**	**8867**	**9971**	**11370**	**11253**
Subsidies	**627**	**1014**	**1268**	**1279**	**977**	**1252**
Total	**23262**	**32237**	**34845**	**39069**	**45344**	**43896**
Revenue Expenditure	**34665**	**46045**	**53489**	**60486**	**71974**	**71746**
Revenue Receipts	**30991**	**38010**	**44137**	**49177**	**64842**	**57950**
Percentage of committed expenditure to Revenue expenditure	67	70	65	65	63	61
Percentage of committed expenditure to Revenue receipts	75	85	79	79	70	76

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

**The plan heads also include the salaries and wages paid under Centrally Sponsored schemes

Source : Finance Accounts of respective years

The share of committed expenditure in Revenue expenditure and percentage of committed expenditure with respect to Revenue Receipt have decreased when compared with 2013-14 which is a good indicator.

During 2014-15, expenditure on salaries and pensions showed growth rate of 10.6 *per cent* and 12.9 *per cent* respectively and this was less than the growth rate shown by revenue expenditure (18.6 *per cent*). However, expenditure growth on interest payments (18.2 *per cent*) was higher than growth rate shown during 2013-14 (14.7 *per cent*) due to increase in interest liability on mounting open market borrowings.

Though, the expenditure on pension was less than the projections made in the Medium Term Fiscal Plan (₹11,370 crore), it was more than the projections (₹8,054 crore) made before Thirteenth Finance Commission (ThFC) by ₹3,199 crore. Expenditure on interest payments exceeded the projections in Medium Term Fiscal Plan and that made before ThFC by ₹172 crore and ₹646 crore respectively.

1.7.4 Subsidies

The subsidy of ₹1,252 crore given during 2014-15 was almost the same as in the previous year (₹1,279 crore). It mainly includes amount given to Food Corporation of India in respect of reimbursement of price difference of ration rice and wheat (₹742 crore), for Paddy procurement through Kerala State Civil Supplies Corporation (₹215 crore), grant to Kerala State Civil Supplies Corporation Limited for market intervention (₹70 crore) and subsidy to the Kerala State Electricity Board towards Power Tariff Concessions (₹50 crore).

1.7.5 Financial assistance to Local Bodies and Other Institutions

The assistance provided by the Government as grants and loans to local bodies, educational institutions, Government companies, Welfare Fund Boards, etc., during the current year relative to the previous years is presented in **Table 1.18**.

Table 1.18: Financial assistance to local bodies, educational institutions, etc.

(₹ in crore)

Financial Assistance to Institutions	2010-11	2011-12	2012-13	2013-14	2014-15
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	4087.83	5605.77	6204.36	6934.56	7769.01
Municipal Corporations and Municipalities	901.87	1073.78	1177.77	1358.09	1836.39
Zilla Parishads and Other Panchayati Raj Institutions	3411.65	4203.98	5279.31	6421.60	8423.74
Development Agencies	5.25	5.50	5.15	6.42	6.23
Hospitals and Other Charitable Institutions	139.02	144.46	153.33	94.19	305.76

Financial Assistance to Institutions	2010-11	2011-12	2012-13	2013-14	2014-15
Other Institutions[12]	1252.58	1065.96	896.42	1323.46	1602.60
Total	**9798.20**	**12099.45**	**13716.34**	**16138.32**	**19943.73**
Assistance as percentage of revenue expenditure	28	26	26	27	28

Source: Finance Accounts and information received from the State Government

The financial assistance to local bodies and other institutions increased (104 *per cent*) from ₹9,798.20 crore in 2010-11 to ₹19,943.73 crore in 2014-15. During 2014-15, financial assistance to all categories except Development agencies increased over the previous year and it shows a steady increase of one *per cent* every year since 2012-13 as a percentage of revenue expenditure.

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 spent efficiently and effectively to achieve the intended objectives.

1.8.1 Adequacy of public expenditure

The responsibilities relating to expenditure on the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. Low fiscal priority (ratio of expenditure under a category to total expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.19** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2011-12 and 2014-15.

[12] Other institutions, *inter alia*, include Kerala Water Authority (₹414.13 crore), Loans to Kerala State Road Transport Corporation (₹266.42 crore), Infopark-Technopark-Land acquisition (₹113.77 crore), State Council for Science, Technology & Environment (₹97.96 crore), Vegetable and Fruit Promotion Council of Kerala (₹59.34 crore), Kerala Sports Council (₹44.98 crore), Contribution to fishermen welfare fund (₹43.23 crore), Welfare fund for Cashew workers (₹41.66 crore), Kerala State Information Technology Mission (₹26.79 crore), Loans to Urban Development Finance Corporation (₹25.00 crore), etc.

Table 1.19: Fiscal priority of the State in 2011-12 and 2014-15

(in per cent)

Fiscal Priority by the State*	TE/ GSDP	DE#/ TE	SSE/ TE	CE/ TE	Education/ TE	Health/ TE
General Category States' Average, 2011-12	15.98	65.39	36.63	13.23	17.10	4.68
Kerala's Average, 2011-12	16.28	52.85	34.06	9.53	18.31	5.69
General Category States' Average, 2014-15	16.49(@)	69.12	36.50	14.01	16.23	5.04
Kerala's Average, 2014-15	17.00	50.26	32.16	6.51	16.42	5.51

* As *per cent* to GSDP

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).

(@) Based on 17 States except Goa and Puducherry

Share of expenditure of Kerala on Education and Health in Total Expenditure was better than the General Category States during 2011-12 and 2014-15, indicating State Government's priority in these services. However, the share of State's Development expenditure, Capital Expenditure and Social Sector Expenditure in Total Expenditure decreased and it was also less than that of General Category States during 2011-12 and 2014-15. There was improvement in Capital Expenditure of General Category States but, the share of Capital Expenditure of Kerala decreased from 9.53 *per cent* to 6.51 *per cent* in three year's time. This drop needs to be attended to. Similarly, the General Category States improved their share of Development Expenditure in Total Expenditure but Kerala failed to achieve any improvement in Development Expenditure.

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, capital expenditure and loans and advances in socio-economic services. **Table 1.20** presents the trends in development expenditure relative to the total expenditure of the State during last five years. **Chart 1.9** presents component-wise development expenditure during 2010-2015.

Table 1.20: Development expenditure

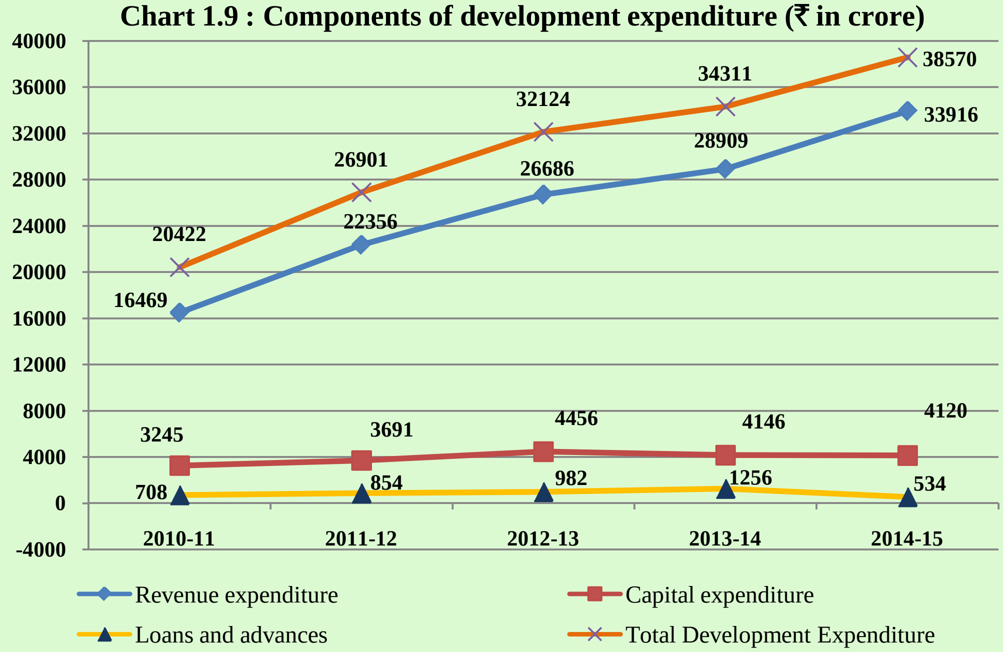
(₹ in crore)

Components of Development Expenditure	2010-11	2011-12	2012-13	2013-14	2014-15
Development Expenditure (a to c)					
a. Revenue expenditure	16469 (42.5)	22356 (43.9)	26686 (45.1)	28909 (43.6)	33916 (44.2)
b. Capital expenditure	3245 (8.4)	3691 (7.3)	4456 (7.5)	4146 (6.3)	4120 (5.4)
c. Loans and advances	708 (1.8)	854 (1.7)	982 (1.7)	1256 (1.9)	534 (0.7)
Total Development Expenditure	**20422 (52.6)**	**26901 (52.9)**	**32124 (54.2)**	**34311 (51.8)**	**38570 (50.3)**
Total Expenditure	**38791**	**50896**	**59228**	**66244**	**76744**

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

While total expenditure showed a growth rate of 15.8 *per cent*, the growth rate of development expenditure was only 12.4 *per cent*. Though 50.3 *per cent* of the share of total expenditure was utilised for development expenditure, 44.2 *per cent* was for development revenue expenditure, which indicated that bulk of the development expenditure was incurred on revenue expenditure items. Also, **Table 1.20** shows that share of development expenditure in total expenditure decreased during the last three years and this was due to decrease in expenditure under development capital expenditure.

Chart 1.9 : Components of development expenditure (₹ in crore)



Development expenditure increased by 89 *per cent* (₹18,148 crore) from ₹20,422 crore in 2010-11 to ₹38,570 crore in 2014-15. However, in 2014-15, 88 *per cent* of the development expenditure was incurred on revenue expenditure, which was four *per cent* more than last year.

Revenue expenditure on development increased by 17 *per cent* (₹5,007 crore) from ₹28,909 crore in 2013-14 to ₹33,916 crore in 2014-15. The increase was due to increase in expenditure under Social Services (₹2,738 crore) and Economic Services (₹2,269 crore). In Social Services, this increase was mainly under the sub-sectors 'Education, Sports, Art and Culture' (₹1080 crore), Social Welfare and Nutrition(₹719 crore) and 'Health and Family Welfare' (₹528 crore). In Economic Services, increase was mainly under Rural Development (₹1664 crore) and Agriculture and Allied Activities (₹429 crore).

Capital expenditure on development showed a declining trend since 2012-13. In 2014-15, capital expenditure on development was ₹26 crore less than the previous year.

1.8.3 Incomplete projects/works

Department-wise information pertaining to incomplete projects/works (each costing above ₹ one crore) as on 31 March 2015 is given in **Table 1.21**.

Table 1.21: Status of incomplete projects in the State

(₹ in crore)

Sl. No	Name of the department/project	No. of incomplete projects/ works	Initial budgeted cost	Cumulative actual expendi-ture as on 31 March 2015
1.	Irrigation Department – (Irrigation and Minor Irrigation Works)	15	167.61	114.40
2.	Public Works Department – (Roads)	90	566.43	360.21
3.	Public Works Department – (Bridges)	49	327.20	199.75
4.	Public Works Department – (Buildings)	69	339.55	218.87
5.	Harbour Engineering Department	6	59.49	65.77
	Total	**229**	**1460.28**	**959.00**

Source: Appendix IX of Finance Accounts 2014-15

As per the Finance Accounts 2014-15, there was a delay in completion of the 229 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 31 March 2015, the State Government had invested ₹6,085.13 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives **(Table 1.22)**. The average return on these investments was 1.5 *per cent* in the last five years while the Government paid an average interest rate ranging from 7.1 *per cent* to 7.3 *per cent* on its borrowings during 2010-2015.

Table 1.22: Return on investments

Investment/Return/Cost of Borrowings	2010-11	2011-12	2012-13	2013-14	2014-15
Investment at the end of the year (₹ in crore)	3807.52	4206.43	4511.03	5623.61	6085.13
Return (₹ in crore)	75.46	67.44	48.15	100.58	74.18
Return *(per cent)*	2.0	1.6	1.1	1.8	1.2
Average rate of interest on Government borrowing *(per cent)*	7.3	7.2	7.1	7.1	7.3
Difference between interest rate and return *(per cent)*	5.3	5.6	6.0	5.3	6.1

Source: Finance Accounts of the State Government

During 2014-15, the State Government invested ₹65.35 crore in Statutory Corporations, ₹ 241.57 crore in Government Companies, ₹165.79 crore in Co-operative Banks and Societies and ₹4.20 crore in other Joint Stock 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 has also been providing loans and advances to many institutions. **Table 1.23** presents the outstanding loans and advances as on 31 March 2015 and interest receipts during the last five years**.**

Table 1.23: Average interest received on loans advanced by the State

(₹in crore)

Quantum of Loans/Interest Receipts/Cost of Borrowings	2010-11	2011-12	2012-13	2013-14	2014-15
Opening balance	7749	8461[13]	9394[14]	10360[15]	11713[16]
Amount advanced during the year	762	998	1136	1464	743
Amount repaid during the year	44	55	74	103	124
Closing balance	8467	9404	10456	11721	12332
Net addition	718	943	1062	1361	619
Interest receipts	44	23	19	21	27

Source: Finance Accounts of the State Government.

The total outstanding loans and advances as on 31 March 2015 increased by ₹619 crore compared to those of the previous year. The major disbursement of loans during the current year was given to the Kerala State Road Transport Corporation (₹266 crore), Kerala Water Authority for implementing the Water Supply Project assisted by the Japan International Co-operation Agency (₹53 crore) and Kerala Urban and Rural Development Finance Corporation (₹25 crore). Interest received against these loans remained less than one *per cent* during the period 2010-11 to 2014-15 and was 0.2 *per cent* during 2014-15 as against the cost of borrowing of 7.3 *per cent* during the year.

1.9.2.1 Defaulters on loan repayment

Government has been providing 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 ₹12,332.50 crore was outstanding as loan at the end of March 2015. Also, at the end of March 2015, 71 institutions defaulted in repayment of loans advanced to them and arrears in respect of this was ₹8,794.71 crore (Principal: ₹5,276.61 crore and Interest: ₹3,518.10 crore). About 86 *per cent* of the above arrears pertain to five institutions viz., Kerala Water Authority (₹3,613.30 crore), Kerala State Electricity Board (₹1,747.64 crore), Kerala State Road Transport Corporation (₹925.45 crore), Kerala State Housing Board (₹915.23 crore) and Kerala State Cashew Development Corporation (₹367.24 crore).

It was also observed that State Government released 101 loans to 29 institutions amounting to ₹150.80 crore, during the period from 1991-92 to 2013-14, without specifying the terms and conditions for repayment. In order to provide a true and

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

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

[15] 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.

[16] 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.

fair status to the balance sheet of the State Government, Government needs to take effective steps to reduce these non-performing assets.

1.9.3 Review on maintenance of loan accounts by the Administrative Departments

State Government has been sanctioning loans to various Public Sector Undertakings, Autonomous bodies, Co-operative Societies, etc., and loan account details of some[17] of these institutions are maintained in the office of the Principal Accountant General (A&E) (PAG) and the rest are maintained by departmental officers. At the end of March 2015, an amount of ₹12,332.50 crore was outstanding as loan of which detailed accounts of ₹8,832.57 crore is maintained by PAG and the balance amounting to ₹3,499.93 crore is maintained by departmental officers.

Objective of the audit was to assess whether the departmental officers are maintaining detailed accounts of all the loans released to institutions and bodies under their administrative control and the consolidated details of these loans match with the loan account details given in the Finance Accounts prepared every year.

Industries and Co-operation are the two major departments releasing loans to various institutions under them and an amount of ₹2,515.65 crore (out of ₹3,499.93 crore) is outstanding as loan against these two departments in the Finance Accounts for 2014-15. Hence, the audit was focused on the efficiency in maintenance of loan accounts in these two departments.

Audit observations

1.9.3.1 Industries Department

Director of Industries and Commerce is disbursing loans to various PSUs under Industries Department as well as to small industrial units for promoting small scale industries. The outstanding balance of loan released by Industries Department stands at ₹2,020.91 crore.

The audit of maintenance of loan account in industries department revealed the following:

- PSUs receive substantial amount of loan every year and the conditions for repayment of loan vary from loan to loan and have to be repaid with effect from the first anniversary of its disbursement. During the period 2011-2013, loan amounting to ₹297.61 crore was disbursed to 21 PSUs and it was seen that conditions for repayment were not fixed by the department in respect of the loan of ₹103.79 crore given to five[18] institutions. The

[17] Mainly Kerala Water Authority, Kerala State Road Transport Corporation, Kerala State Housing Board and Kerala State Electricity Board

[18] Autokast Limited, Kerala State Electronics Development Corporation Limited, Kottayam Integrated Powerloom Industrial Co-operative Society, Kerala Industrial Infrastructure Development Corporation and Kerala State Cashew Development Corporation

principal and interest amounts due for the remaining ₹193.82 crore at the end of March 2015 was ₹96.60 crore (₹63.47 crore and ₹33.13 crore). Against this, the repayment was only ₹6.30 crore (including interest amount of ₹98.64 lakh) as on 31 March 2015. It was also seen that sanctioning of loan without specifying repayment condition is being continued indicating that the department paid ₹21.50 crore out of ₹239.92 crore loans during 2013-14 without specifying the conditions for repayment.

- Article 237 of Kerala Financial Code Volume-I stipulates that departmental officers should keep up-to-date records of loans disbursed by them. However, loans disbursed to a few PSUs through a common head of account (eg. head of account for 'Rehabilitation of sick PSUs', 'Loans to PSUs for clearing VR liabilities') were not segregated correctly while recording it in the registers of department resulting differences in the loan balances maintained by the department and in Finance Accounts. The department did not initiate any steps to reconcile the same.

  Article 266 of KFC Volume-I and Government instructions issued from time to time stipulate that the departmental officers concerned should furnish annually a reconciled loan balance with figures in the books of PAG and furnish a certificate to that effect in respect of each year's account to the PAG. This was not done by the Directors[19] which resulted in difference in departmental figures and figures booked in Finance Accounts. The Director of Industries stated that action would be taken to reconcile the figures.
- Land in industrial estates was assigned to entrepreneurs and the value of the land was treated as loan to these entrepreneurs. Though the repayment was accounted for in PAG's books, non-accounting of principal loan amount in Government accounts resulted in adverse balance of ₹27.88 crore in the Finance Accounts.
- Article 265 of Kerala Financial Code Volume-I stipulates that it is the duty of the departmental authorities concerned to take the necessary steps to write off the accounts under the sanction of the competent authority and to advise the PAG to make necessary adjustment in the accounts when any advance is ascertained to be irrecoverable. Irrecoverable advances written off will be registered by the departmental authorities concerned in a separate record so that any recovery eventually found to be possible may be made. Out of the outstanding loan amount of ₹ 1593.19 crore (as per Finance Accounts) with PSUs, ₹ 90.99 crore (as on March 2015) pertains to 15 non-working PSUs. Though liabilities of eight non-working PSUs were transferred to other working PSUs (as per Government orders) and orders were issued to write off interest and penal interest of loans outstanding, no adjustment was made in the Finance Accounts or in the departmental records.

[19] Director of Industries and Commerce, Director of Handloom and Textiles and Director of Coir Development.

- Under Coir Development Sector, Government had issued orders to convert loan balance amounting to ₹57.91 crore[20] (including interest and penal interest) into share capital. However, no adjustment in accounts was made in Finance Accounts for want of budget provision and required information from the department, though the orders were issued in September 2007 and March 2010.

Audit also observed the following deficiencies in monitoring loan account by departmental officers:

- The software developed in 2004-05 and upgraded to web based loan monitoring system in 2010-11 by Industries Department to monitor the loans granted by the department was ineffective and the department continued to follow manual system. The department uses the software for generation of demand notices but Audit noticed that the demand notices generated using the software were not correct. The department did not take any action to rectify the deficiencies and to use the computerised loan management system. The department stated that action is being taken to rectify the mistakes.
- Loans released to small scale industrial units under Industries and Commerce and Handloom and Textile sectors and their recovery are to be monitored by respective Directors of the sector. This was not done as they were not maintaining data relating to the release and recovery of loans made by the head of the departments.
- As per the instructions issued by Government, further loans should not be granted to the institutions who are in default of repayment of earlier loan instalment/interest of the loan availed. However, this provision was violated and loans amounting to ₹257.11 crore was released to six[21] institutions continuously from 2012-13 to 2014-15.

1.9.3.2 Co-operation Department

Registrar of Co-operative Societies is the head of the Department and disburses loans to apex societies, federal societies and primary societies. There are around 15 apex and federal societies and more than 10,000 primary societies in the State, concentrated in sectors like banking, agriculture, housing, education, health, etc. The Registrar is drawing and disbursing financial assistance to these societies in the form of grant, share capital and loan. Different kinds of loans are being disbursed through the Registrar with varying conditions of repayment.

Audit observed that departmental loan balance (₹293.06 crore) was ₹201.68 crore less than the figure appeared (₹494.74 crore) in the Finance Accounts. Reasons for the discrepancies were analysed in audit and certain deficiencies noticed in the maintenance of loan account by department are given below:

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[20] GO (MS) No.55/2010/ID dated 12.03.2010, GO (MS) No.124/2007/ID dated 17.09.2007 and GO (MS) No.125/2007/ID dated 17.09.2007

[21] Travancore Cements Limited Kottayam, Kerala Automobiles, Autokast Limited, United Electrical Industries Limited, Kerala Electrical and Allied Engineering Company Limited and Kerala Industrial Infrastructure Development Corporation.

- An amount of ₹125.53 crore was sanctioned as interest free loan to Kerala State Co-operative Agricultural and Rural Development Bank Limited during 2010-11 to clear the guarantee commission due from the bank to Government. Subsequently, vide GO dated 30 March 2013, Government permitted to write off this loan in two equal installments in the years 2012-13 and 2013-14. But the State Government did not provide necessary budget allocation to adjust the amount and clear the loan account. Registrar of Co-operative Societies stated that the matter was referred to Government for regularisation.
- In order to have a proper record of assistance given to apex and federal societies, the detailed accounts are to be maintained by the Registrar/Joint Registrar (General)[22]. As and when a loan amount is sanctioned to a society, the details such as the name of society, the amount of loan sanctioned, the head of account from which the amount was drawn, the terms and conditions of loan, instalments of principal and interest amount due to be paid by the loanee entity up to the last installment, etc., are to be entered in the register. But such a register is not being maintained in the Registrar's Office/Joint Registrar (General) to monitor payment of loan amount by the loanees. Due to non-maintenance of individual account, scrutiny of apex/federal society-wise loan details was not possible in Audit. The Registrar of Co-operative Societies stated that the certified statements from concurrent auditors were collected from respective institutions for ensuring the correctness of the Demand Collection Balance statements in respect of Apex/federal societies.

  The reply of the Registrar is not acceptable as he is not keeping any records to verify the correctness of the statements furnished by the co-operative institutions.
- Wrong classification of accounts was noticed in two instances (₹90,000) of repayment made by primary societies under the control of Assistant Registrar (General) and it was yet to be reconciled.

1.9.3.3 Impact of the improper maintenance of loan account

Improper maintenance of loan account by departmental officers would give following adverse impact to the financial status of the Government;

Non-reconciliation of departmental figures with booked figures in Finance Accounts would hinder the assessment of exact financial position of the State. In the absence of accurate loan details, departments could not calculate principal loan amount and interest thereon. Consequently, amount due to the Department/State could not be assessed accurately and thereby financial status of the State could not be projected accurately. Loans released by the Government are treated as assets in the financial statements for the year. Non-maintenance of proper records would weaken the system of loan recovery in departments and assets of the Government will remain as non-performing.

[22] At district level

1.9.4 Cash balances and investment of cash balances

The cash balances and investments made by the State Government out of the cash balances during the year are shown in **Table 1.24**.

Table 1.24: Cash balances and investment of cash balances

(₹ in crore)

Particulars	As on 31 March 2014	As on 31 March 2015	Decrease
Cash balances	**2279.82**	**1651.00**	**628.82**
Investments from cash balances (a + b)	**764.31**	**147.05**	**617.26**
a. GoI Treasury Bills	757.08	141.90	615.18
b. GoI Securities	7.23	5.15	2.08
Fund-wise break-up of investments from earmarked balances (a to d)	**1511.72**	**1507.44**	**4.28**
a. Reserve funds bearing interest			
b. Reserve funds not bearing interest	1511.72	1507.44	4.28
c. Deposit bearing interest			
d. Deposit not bearing interest			
Interest realised during the year on investment of cash balances	**78.39**	**44.16**	**34.23**

Source: Finance Accounts of the State Government

Table 1.24 shows substantial reduction in State's cash reserve during 2014-15 and decrease in investment in GoI Treasury bills and securities.

1.9.4.1 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 2015, there was an outstanding balance (cumulative) of ₹1,501.60 crore. This represents expenditure originally booked under different major heads of Consolidated Fund, which has not resulted in any cash outflow till the end of March 2015.

1.10 Assets and Liabilities

1.10.1 Growth and composition of assets and liabilities

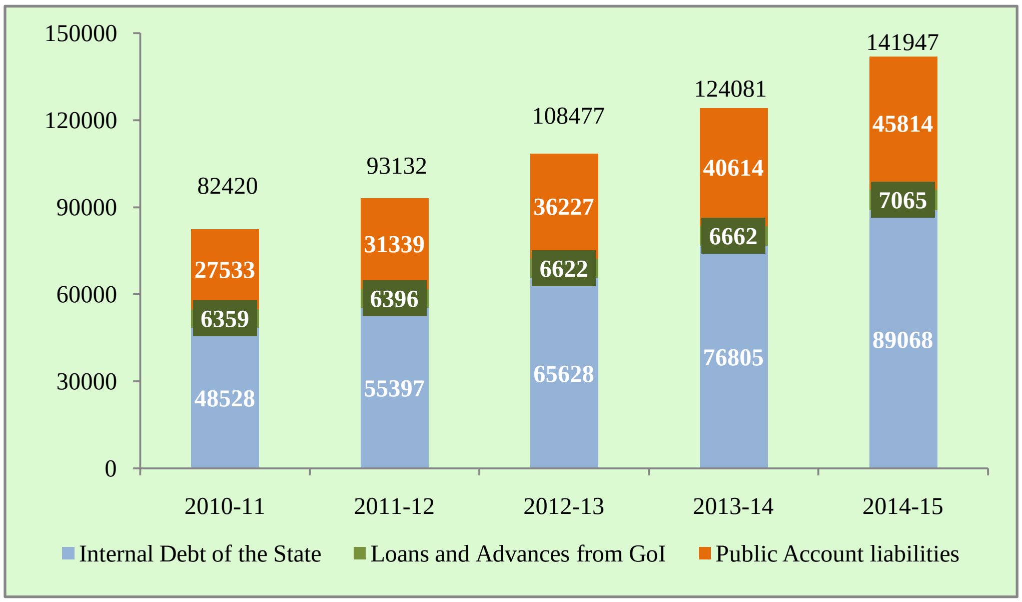
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the

Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and assets as on 31 March 2015, compared with the corresponding position as on 31 March 2014. 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 1.10.**

Chart 1.10 : Composition of Fiscal Liabilities (₹*in crore*)



The overall fiscal liabilities of the State increased from ₹82,420 crore in 2010-11 to ₹1,41,947 crore in 2014-15, thus recorded an increase of 72 *per cent* during the five year period. During the last two years, fiscal liabilities of the State increased by 14.4 *per cent*, which was higher than the growth rate of GSDP (13.9 *per cent*) of these years. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. At the end of March 2015, the Consolidated Fund liabilities (₹96,133 crore) comprised Market Loans (₹71,960 crore), Loans from the Government of India (₹7,065 crore) and Other Loans (₹17,108 crore). The Public Account liabilities (₹45,814 crore) comprised of Small Savings, Provident Funds, etc., (₹39,307 crore)[23], interest bearing obligations (₹22 crore) and non-interest bearing obligations like Deposits and other earmarked funds (₹6,485 crore). During the year, fiscal liabilities as a

[23] This includes liabilities from the Treasury Savings Bank Account (₹8,378 crore) and Treasury Fixed Deposits (₹7,520 crore).

percentage of GSDP was 31.4 *per cent* against 31.3[24] *per cent* in the previous year. This is higher than the target fixed (29.8 *per cent*) in the Kerala Fiscal Responsibility (Amendment) Act, 2011. As in the previous year, fiscal liabilities stood at 2.5 times of the revenue receipts. However, Finance Department informed (December 2015) that considering the updated GSDP figure (₹4,96,886 crore), Debt-GSDP ratio is 28.6 *per cent* and it is well within the target.

The overall liabilities of the State include balance under Reserve Funds amounting to ₹1947.16 crore (as on 31 March 2015). The details in respect of two of the reserve funds are given in succeeding paragraphs:

(a) State Disaster Response Fund

The State Disaster Response Fund (SDRF) was set up on 1 April 2010 replacing the existing Calamity Relief Fund. At the beginning of the year, there was ₹77.73 crore as opening balance in the Fund. The size of the Fund for Kerala for the year 2014-15 fixed by the ThFC was ₹159.33 crore, 75 *per cent* (₹119.50 crore) of which was to be contributed by the Central Government and 25 *per cent* (₹39.83 crore) by the State Government. During the year, the State Government credited ₹159.33 crore to the Fund. After setting off the expenditure for disaster relief operations to the extent of ₹215.15 crore, the balance in SDRF as on 31 March 2015 was ₹21.91 crore.

According to the guidelines issued by the Government of India, the accretions to SDRF were to be invested in Central Government dated securities and/or Auctioned Treasury Bills and/or interest earning deposits and Certificates of deposits with Scheduled Commercial Banks. However, no such investments were made by the State Government so far (October 2015).

(b) Consolidated Sinking Fund

The State Government had 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 0.5 *per cent* of the outstanding liabilities at the end of the previous year. According to this, the State Government had to contribute ₹620.40 crore during 2014-15 to the Consolidated Sinking Fund. However, the State Government did not contribute any amount to the Fund, during the current year.

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

[24] Change in figure is due to adoption of new series of GSDP figures.

₹113.21 crore was received as interest from the investment made out of the fund. At the beginning of the year ₹1,497.16 crore was available and with the interest received on investment, the outstanding balance at the end of year was ₹1,610.37 crore. Out of this, ₹1,492.88 crore was re-invested in Government securities, leaving an un-invested balance of ₹117.49 crore in the Fund.

1.10.3 Status of guarantees – contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of default by borrowers for whom the guarantees have been extended. Section 3 of the Kerala Ceiling on Government Guarantees Act, 2003 which came into effect on 5 December 2003 stipulates that the total outstanding Government Guarantees as on the first day of April every year shall not exceed ₹14,000 crore. As per Section 6 of the Act, the Government 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 had not been constituted and consequently, guarantee commission of ₹663.95 crore collected during 2003-04 to 2014-15 had not been credited to the Fund but was treated as non-tax revenue in the relevant years and used for meeting the revenue expenditure of the Government.

The maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2010-11 are given in **Table 1.25**.

Table 1.25: Guarantees given by the Government of Kerala

(₹ in crore)

Guarantees	2010-11	2011-12	2012-13	2013-14	2014-15
Maximum amount guaranteed	12,625.07	11,332.11	11,482.25	12,275.21	13,123.30
Outstanding amount of guarantees	7,425.79	8,277.44	9,099.50	9,763.36	11,126.87
Percentage of maximum amount guaranteed to total revenue receipts	41	30	26	25	23
Criteria as per Kerala Ceiling on Government Guarantees Act, 2003 (Outstanding amount of guarantees as on the first day of April)	14,000	14,000	14,000	14,000	14,000

Source: Finance Accounts of the State Government

The outstanding guarantees at the end of the past five years i.e. 2010-2015 ranged between ₹7,426 crore and ₹11,127 crore, which were well within the ceiling prescribed by the Kerala Ceiling on Government Guarantees Act, 2003.

During the year, an amount of ₹80.83 crore was received as guarantee commission and as of March 2015, ₹237.37 crore was due as arrears in this regard.

1.11 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability of the State. The sustainability of debt of the State Government in terms of sufficiency of non-debt receipts[25]; net availability of borrowed funds[26]; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State Government securities for the period of five years beginning from 2010-11 is analysed and given in **Table 1.26**.

Table 1.26: Debt sustainability: indicators and trends

(₹ in crore)

Indicators of Debt Sustainability	2010-11	2011-12	2012-13	2013-14	2014-15
Sufficiency of Non-debt Receipts (Resource Gap)	141	(-)5084	(-)2187	(-)1942	(-)1698
Net Availability of Borrowed Funds	2507	4426	8154	7350	8110
Burden of Interest Payments (Interest Payment/Revenue Receipts *per cent*)	18	17	16	17	17
Maturity Profile of debt					
Up to one year	2566.98 (4.7)	2154.64 (3.5)	2569.25 (3.6)	2674.90 (3.2)	3289.26 (3.4)
One to three years	5205.33 (9.5)	8401.13 (13.6)	5791.05 (8.0)	6829.83 (8.2)	9139.85 (9.5)
Three to five years	6260.17 (11.4)	9100.09 (14.7)	9100.72 (12.6)	12058.34 (14.4)	13265.26 (13.8)
Five to seven years	9314.78 (17.0)	13156.00 (21.3)	13181.39 (18.2)	13165.08 (15.8)	16667.64 (17.4)
Seven years and above	28162.37 (51.3)	24240.81 (39.2)	36932.83 (51.1)	44048.78 (52.8)	48958.69 (50.9)
Maturity profile details not furnished by State Government	3377.55 (6.1)	4740.42 (7.7)	4674.95 (6.5)	4689.63 (5.6)	4812.26 (5.0)

Figures in parenthesis indicate the percentage to total State debt
Source: Finance Accounts of the State Government

The resource gap (gap between incremental non-debt receipts and incremental total expenditure) was positive only in 2010-11 and since then it was negative, which indicated that incremental non-debt receipts were inadequate to finance incremental primary expenditure and incremental interest burden. However, the

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

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

positive aspect in respect of the resource gap was that it has been coming down from ₹5,084 crore in 2011-12 to ₹1,698 crore in 2014-15.

During 2014-15, total borrowed funds under 'Public Debt' was ₹18,509 crore (including open market borrowings of ₹13,200 crore). After providing for interest and repayment of principal, the net availability was only ₹5,365 crore. Similarly, the accumulations in 'Public Account' (Small savings, Provident Fund, Reserve Fund, Deposit Account, etc., which were used by the State for bridging the fiscal resource gap), were ₹46,979 crore during the year. Under this sector, net availability of funds after disbursement with interest was only ₹2,745 crore. As the non-debt receipt of the State was insufficient, some portion of this borrowing was also used for bridging revenue deficit. Consequently, State Government was left with ₹8,110 crore for developmental activities from the total borrowings and this was only 12.4 *per cent* of the fiscal liability accumulated during 2014-15.

The debt maturity profile of the State given in the **Table 1.26** shows that 26.7 *per cent* of the debt amounting to ₹25,694.37 crore has to be repaid within five years. Also 44.1 *per cent* (₹42,362.01 crore) of the debt has to be repaid within seven years. Steep increase in State Government's open market borrowings have started from 2007-08 onwards and this will have adverse impact on State finances from 2017-18 onwards. State Government has to ensure additional revenue resources to meet this debt burden.

1.12 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 2014-15.

1.12.1 Trends in deficits

Charts 1.11 and **1.12** present the trends in deficit indicators over the period 2010-2015.

Chart 1.11 : Trends in deficit indicators (*₹in crore)*

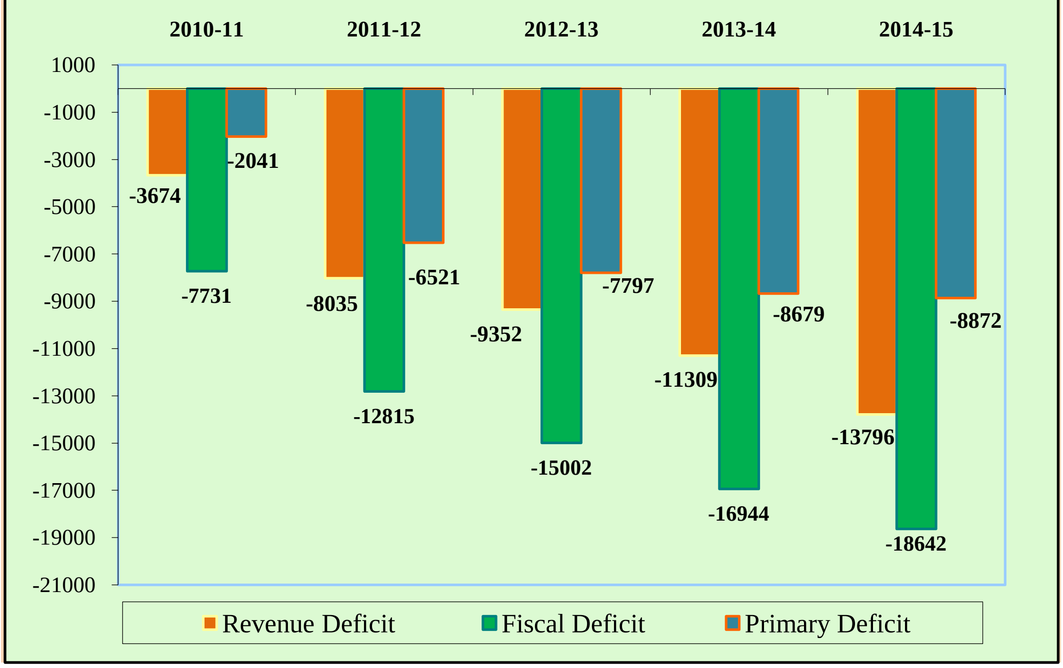
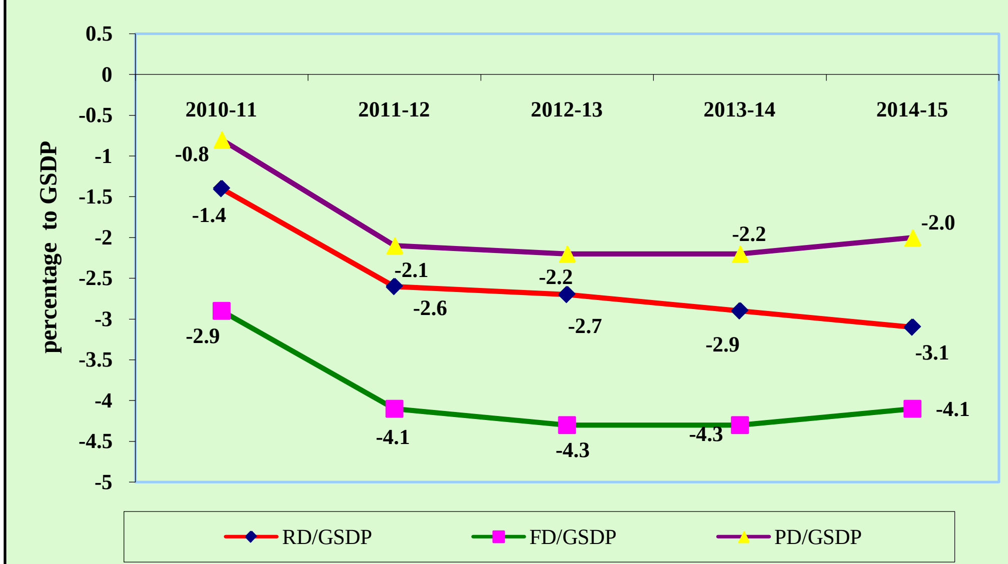


Chart 1.12: Trends in deficit indicators relative to GSDP



The revenue deficit of the State which indicates the excess of its revenue expenditure over revenue receipts, increased steadily since 2010-11 indicating disproportionate growth of revenue expenditure or low growth rate of revenue receipts. Revenue deficit increased from ₹3,674 crore in 2010-11 to ₹13,796 crore in 2014-15, contrary to State's targets (reduce revenue deficit to 'Nil' by 2014-15) envisaged in Fiscal Responsibility (Amendment) Act, 2011. The fiscal deficit, which represents the total borrowings of the Government and its total resource gap also increased steadily during the last five years. It has been worsening each year from ₹7,731 crore in 2010-11 to ₹18,642 crore in 2014-15.

More than four times increase was also noticed in primary deficit, since 2010-11 and it increased from ₹2,041 crore in 2010-11 to ₹8,872 crore in 2014-15. Increase in revenue deficit, fiscal deficit and primary deficit indicate the disproportionate growth of expenditure with regard to revenue receipts.

As a proportion of GSDP, the revenue deficit (1.4 *per cent*) and fiscal deficit (2.9 *per cent*) in 2010-11 were the lowest during the last five year period. These percentages increased to 3.1 *per cent* and 4.1 *per cent* respectively in 2014-15. These were more than the targets fixed ('Nil' and 3 *per cent*) in the Kerala Fiscal Responsibility (Amendment) Act, 2011 and (1.53 *per cent* and 3.1 *per cent*) in the Medium Term Fiscal Plan for 2014-15 to 2016-17.

1.12.2 Components of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.27.** Receipts and disbursements under the components of financing the fiscal deficit during 2014-15 are given in **Table 1.28.**

Table 1.27: Components of fiscal deficit and its financing pattern

(₹ in crore)

Particulars		2010-11	2011-12	2012-13	2013-14	2014-15
Decomposition of fiscal deficit						
1.	Revenue deficit	3674	8035	9352	11309	13796
2.	Net capital expenditure	3339	3837	4588	4275	4227
3.	Net loans and advances	718	943	1062	1360	619
Total fiscal deficit		**7731**	**12815**	**15002**	**16944**	**18642**
Financing pattern of fiscal deficit*						
1.	Market borrowings	4770	7496	10571	11373	11777
2.	Loans from Government of India	54	36	226	40	402
3.	Special Securities Issued to National Small Savings Fund	42	(-)491	32	(-)42	525
4.	Loans from Financial Institutions	348	(-)7	(-)118	(-)77	(-)69
5.	Small Savings, PF, etc.	2490	3839	3686	4231	3765
6.	Deposits and Advances	469	(-)52	1141	188	1365
7.	Suspense and Miscellaneous	(-) 197	852	712	(-)946	58
8.	Remittances	27	(-)157	31	(-)168	26
9.	Others	399	32	(-)379	(-)68	164
10.	**Total (1 to 9)**	**8402**	**11548**	**15902**	**14531**	**18013**
11.	Increase (-)/Decrease (+) in Cash Balance	(-) 671	1267	(-)900	2413	629
12.	**Overall deficit**	**7731**	**12815**	**15002**	**16944**	**18642**
*All these figures are net of disbursements/outflows during the year.						

Source: Finance Accounts of the State Government

Table 1.28: Receipts and disbursements under components financing the fiscal deficit during 2014-15

(₹ in crore)

Sl. No.	Particulars	Receipt	Disbursement	Net
1.	Market borrowings	13200	1423	11777
2.	Loans from Government of India	752	350	402
3.	Special Securities Issued to National Small Savings Fund	1132	607	525
4.	Loans from Financial Institutions	551	620	(-)69
5.	Small Savings, PF, etc.	35108	31343	3765
6.	Deposits and Advances	11248	9883	1365
7.	Suspense and Miscellaneous	86167	86109	58
8.	Remittances	8708	8682	26
9.	Others	580	416	164
10.	**Total (1 to 9)**	**157446**	**139433**	**18013**
11.	Increase (-)/Decrease (+) in Cash Balance	2280	1651	629
12.	**Overall deficit**			**18642**

Source: Finance Accounts of the State Government

Table 1.27 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 2014-15, 83 *per cent* of the fiscal deficit was financed through net Market borrowings (₹11,777 crore) and accretions in the Small Savings, PF, etc. (₹3,765 crore).

During 2014-15, the State Government raised ₹13,200 crore as market loans at an average interest rate of 8.78 *per cent*, loans amounting to ₹551.37 crore from NABARD at an interest rate of 7 *per cent* to 7.5 *per cent*, ₹1132.10 crore from National Small Savings Fund at an interest rate of 9.5 *per cent* and ₹222.16 crore from NCDC at an interest rate of 12.47 *per cent*. The State Government also received loans amounting to ₹752.47 crore from the Government of India during the year for which the details of interest rate on all loans were not available.

The State Government has been mobilising deposits from its employees, pensioners, institutions and general public through treasuries. During 2014-15, the State Government received ₹24,553.04 crore as deposits through Treasury Saving Bank accounts at an average interest rate of five *per cent* and ₹3,920.06 crore as Treasury Fixed Deposits at interest rates ranging between 7.25 *per cent* and 9.25 *per cent*. The balance of such deposits as on 31 March 2015 was ₹15,899.66 crore. This is ₹1,199.01 crore more than the previous year's balance

1.12.3 Quality of deficit

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratios of revenue deficit to fiscal deficit also indicate that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of the primary deficit **(Table 1.29)** indicates the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.29: Primary deficit/surplus – bifurcation of factors

(₹ in crore)

Year	Non-debt receipts (NDR)	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Primary revenue deficit (-)/surplus (+)	Primary deficit (-)/ surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2010-11	31060	28975	3364	762	33101	(+) 2085	(-) 2041
2011-12	38081	39751	3853	998	44602	(-) 1670	(-) 6521
2012-13	44226	46284	4603	1,136	52023	(-) 2058	(-) 7797
2013-14	49300	52221	4294	1,464	57979	(-) 2921	(-) 8679
2014-15	58102	61976	4255	743	66974	(-) 3874	(-) 8872

Source: Finance Accounts of the State Government

The bifurcation of the factors leading to primary deficit of the State reveals that since 2011-12, non-debt receipts (NDR) of the State were not enough to meet the primary revenue expenditure[27] of the State. This indicates that even for meeting primary expenditure, Government has to depend on borrowed funds since 2011-12.

1.13 Conclusion

Fiscal status of the State : Revenue receipts of the State increased (17.8 *per cent*) from ₹49,177 crore in 2013-14 to ₹57,950 crore in 2014-15. But, slightly higher increase (18.6 *per cent*) in revenue expenditure (from ₹60,486 crore in 2013-14 to ₹71,746 crore in 2014-15) has resulted in increase of revenue deficit during the year. During the year, revenue receipts had better growth rate than GSDP (13.93 *per cent*), but growth rate of State's own tax revenue (10.1 *per cent*) was less than GSDP. Hence, State could not control revenue deficit as anticipated in the budget estimates.

Total expenditure (aggregate of revenue, capital and loans and advances expenditure) of the State doubled during the last five years. But the increase in expenditure on Capital projects during the five year period was not encouraging. Substantial portion of the total expenditure continued to be on revenue expenditure and its share increased from 89.4 *per cent* in 2010-11 to 93.5 *per cent* in 2014-15, which is also not an encouraging factor. In revenue expenditure, more than 85 *per cent* was spent on non-plan revenue expenditure and during the last

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

four years, revenue receipt of the State was not even sufficient to meet non-plan revenue expenditure.

Expenditure comparison with General Category States: Share of State's expenditure in total expenditure in respect of Education and Health was better than General Category States during 2011-12 and 2014-15. But the State's performance was poor in other areas like Capital Expenditure, Development Expenditure and Social Sector Expenditure when compared to General Category States. The General Category States improved their expenditure in Capital Expenditure and Development Expenditure, but the expenditure of the State in both these areas dropped considerably.

Quality of Expenditure: The Development expenditure recorded an increase of 89 *per cent* during the five year period, but more than 85 *per cent* of it was incurred on development revenue expenditure which is not a good indicator.

Financial analysis of Government investment, loans and advances: Return on investments in Government companies/Statutory Corporations continued to be poor and current level of recovery on Loans and Advances disbursed was also very low. A review conducted on maintenance of loan account details by departmental officers revealed absence of proper record maintenance with departmental loan disbursing authorities and this would weaken the system of loan recovery in departments.

Debt position : As in the previous year, debt liability recorded an increase of 14.4 *per cent* and increased from ₹1,24,081 crore in 2013-14 to ₹1,41,947 crore in 2014-15. This liability as a percentage of GSDP was 31.4 *per cent* which is higher than the target (29.8 *per cent*) fixed in the Kerala Fiscal Responsibility (Amendment) Act, 2011. Since 2011-12, the resource gap (gap between incremental non-debt receipts and incremental total expenditure) was negative, which indicated that the incremental non-debt receipts were inadequate to finance incremental primary expenditure and incremental interest burden of the State.

1.14 Recommendations

- Efforts should be made to enhance the State's own tax revenue in coming years as the revenue resources are insufficient to meet the primary revenue expenditure of the State. Government may review the reasons for non-realisation of revenue estimated in budget documents and ensure anticipated tax revenue to meet its increasing revenue expenditure.

- Loan account maintenance system in the departments may be reviewed and appropriate steps may be taken to safeguard the loss of State's revenue by way of repayment of loan and its interest.