CHAPTER I
FINANCES OF THE STATE GOVERNMENT

Profile of Kerala

The State is located at the southern end of the country, sharing borders with Tamil Nadu and Karnataka. Geographical area-wise, Kerala is ranked 22nd in the country with an area of 38,863 sq.km. The State has a population of 3.63 crore (12th in the country) and is ranked as the third[1] most densely populated State with a density of 860 persons per sq.km. The decadal growth rate of population was 6.23 *per cent* (3.42 crore in 2009 to 3.63 crore in 2019), which is the second lowest[2] among Indian states. The literacy rate of Kerala (94 *per cent*) is the highest[3] among the Indian states. The Gross State Domestic Product (GSDP) in 2018-19 of the State at current prices was ₹7,81,653 crore. The General data relating to the State is given in **Appendix 1.1**.

Gross State Domestic Product (GSDP)

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

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

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
India's GDP (₹ in crore)	1,24,67,959	1,37,71,874	1,53,62,386	1,70,95,005	1,90,10,164
Growth rate of GDP (percentage)	10.99	10.46	11.55	11.28	11.20
State's GSDP (₹ in crore)	5,12,564	5,61,994	6,34,871	7,00,532	7,81,653
Growth rate of GSDP (percentage)	10.22	9.64	12.97	10.34	11.58

Source: Ministry of Statistics and Programme Implementation website as on 1.8.2019

The State's GSDP increased by 11.58 *per cent* in 2018-19, which was higher than the growth rate of GDP during the year (11.20 *per cent*).

1.1 Introduction

This chapter is based on the audit of the Finance Accounts and makes an assessment of the fiscal position of the Government of Kerala as on 31 March 2019. It provides a broad perspective of the finances of the State during 2018-19 along with analysis of the critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The structure and form of Government Accounts are explained in **Appendix 1.2 Part A** and the layout of the Finance Accounts is shown in **Appendix 1.2 Part B**. The methodology adopted for the assessment of the fiscal position of the State is given in **Appendix 1.3 Part A.** As per the Kerala Fiscal Responsibility Act, 2003, the State Government has to present a Medium Term Fiscal Policy and Strategy Statement with a Medium Term

[1]As per Census of India 2001 (Population Projection 2001-2026, Table 14) (furnished by Economic Adviser, Office of the C&AG of India, New Delhi)
[2] Furnished by Economic Adviser
[3] Economic Survey 2018-19, Vol.II, Page A 164 (furnished by Economic Adviser)

Fiscal Plan, along with the budget document. The Medium Term Fiscal Plan for 2018-19 to 2020-21 was presented in the State Legislature in February 2018. It is included as **Appendix 1.3 Part B** of this Report.

1.1.1 Summary of Fiscal Transactions during the current year

Table 1.2 presents the summary of the State Government's fiscal transactions during the current year (2018-19) *vis-à-vis* the previous year (2017-18). **Appendix 1.4**(**Part A** and **Part B**) provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.2: Summary of fiscal operations in 2018-19 (*₹in crore)*

Receipts	2017-18	2018-19	Disbursements	2017-18	2018-19		
Section –A: Revenue					Non-plan	Plan	Total
Revenue Receipts	**83020.14**	**92854.47**	**Revenue Expenditure**	**99948.35**	**96425.83**	**13890.56**	**110316.39**
Tax Revenue	46459.61	50644.10*	General Services	45523.77	49883.54	943.59	50827.13
Non-tax Revenue	11199.61	11783.24	Social Services	35876.27	29160.17	9050.60	38210.77
Share of Union Taxes/ Duties	16833.08	19038.17**	Economic Services	11351.08	8483.40	3896.37	12379.77
Grants from Government of India	8527.84	11388.96***	Grants-in-aid and Contribution	7197.23	8898.72		8898.72
Section –B: Capital and Others							
Miscellaneous Capital Receipts	**29.28**	**46.50**	**Capital Outlay**	**8748.87**	**652.00**	**6778.54**	**7430.54**
Recoveries of Loans and Advances	**350.98**	**210.54**	**Loans and Advances Disbursed**	**1540.59**	**994.04**	**1328.85**	**2322.89**
Public Debt Receipts	**30233.77**	**33445.92**	**Repayment of Public Debt**	**13132.10**			**18195.99**
Contingency Fund	**0.00**	**0.00**	**Contingency Fund**	**0.00**			**0.00**
Public Account Receipts	**215992.46**	**254069.02**	**Public Account Disbursements**	**207174.17**			**242890.37**
Opening Cash Balance	**3650.33**	**2732.88**	**Closing Cash Balance**	**2732.88**			**2203.15**
Total	**333276.96**	**383359.33**	**Total**	**333276.96**			**383359.33**

Source: Finance Accounts for 2017-18 and 2018-19
** including SGST of ₹21,014.71 crore, ** including CGST of ₹4,699.14 crore & IGST of ₹375 crore, ***including compensation for loss of revenue arising out of implementation of GST of ₹2,884 crore*

Following are the significant changes noticed during 2018-19 when compared to the previous year.

- During 2018-19, the revenue receipts of the State increased by ₹9,834.33 crore with a growth rate of 11.85 *per cent* when compared to the previous year. This was mainly due to increase in receipts under 'State's own tax revenue' by ₹4,184.49 crore (9.01 *per cent*),'Grants-in- aid from GoI by ₹2,861.12 crore (33.55 *per cent*), 'State's share of Union taxes and duties' by ₹2,205.09 crore (13.10 *per cent*) and 'non-tax revenue' by ₹583.63 crore (5.21 *per cent*) compared to last year.

- Revenue expenditure of the State recorded an increase of ₹10,368.04 crore (increase of 10.37 *per cent* over the previous year), due to the increase in expenditure on General Services by ₹5,303.36 crore (11.65 *per cent*), Social Services by ₹2,334.50 crore (6.51 *per cent*), Grants-in-aid and Contributions to Panchayati Raj Institutions by ₹1,701.49 crore (23.64 *per cent*) and Economic Services by ₹1,028.69 crore (9.06 *per cent*).
- Capital expenditure decreased by ₹1,318.33 crore showing a decline in growth of 15.07 *per cent* over the previous year.
- Recoveries of Loans and Advances decreased by ₹140.44 crore (40.01 *per cent*) whereas Disbursement of Loans and Advances increased by ₹782.30 crore (50.78 *per cent*).
- Public Debt receipts increased by ₹3,212.15 crore (10.62 *per cent*) mainly due to more receipts under 'internal debt' (including ways & means advances from the Reserve Bank of India) by ₹3,204.75 crore (10.76 *per cent*). Public Debt repayment increased by ₹5,063.89 crore (38.56 *per cent*) mainly due to more repayment of internal debt (including ways & means advances from Reserve Bank of India) by ₹4,946.05 crore (39.39 *per cent*) and more repayment of Loans and Advances to Government of India by ₹117.84 crore (20.50 *per cent*)
- Public Account receipts and disbursements increased by ₹38,076.56 crore (17.63 *per cent*) and ₹35,716.20 crore (17.24 *percent*) respectively.
- The Cash balance position of the State decreased from ₹2,732.88 crore at the end of 2017-18 to ₹2,203.15 crore at the end of 2018-19.

1.1.2 Review of the 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. This Act came into force on 5 December 2003. Since then the State Government has amended the Fiscal Responsibility Act twice keeping in view the fiscal parameters prescribed by successive Finance Commissions.

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

Major fiscal variables provided in the budget based on the recommendations of the Fourteenth Finance Commission (FFC) and as targeted in the Kerala Fiscal Responsibility (Amendment) Act,2018 along with actual thereof are given in **Table 1.3**.

Table 1.3: Comparison of fiscal variable targets

Fiscal variables	Targets for 2018-19				Actual
	FFC	KFR Act[4]	MTFP[5]	Revised BE	
Revenue Deficit (₹in crore)	-	0[6]	12,860	13,027	17,462
Fiscal Deficit/GSDP(in *per cent*)	3	3	3.10	3.06	3.45
Total outstanding debt of the Government to GSDP(in *per cent*)	30.01	30.01	30.70	30.49	30.91
Interest payment/revenue receipts	13.78	-	14.53	15.63	18.04

Source: Fourteenth Finance Commission Report and Budget documents

The above table shows that the State could not achieve any of the targets fixed in the KFR Act or in the MTFP or the revised targets fixed subsequently. The State Government needs to control the various fiscal parameters so as to achieve the targets fixed in KFR Act, MTFP and by the Fourteenth Finance Commission.

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 the 'Budget', is prepared according to Article 202 of the Constitution of India and placed before the State Legislature by the Government. The budget is the 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 the State's budget estimates *vis-à-vis* actual for the year 2018-19 is detailed in **Table 1.4**.

Table 1.4: Budget estimates and actuals for 2018-19
(*₹in crore*)

Particulars	Budget Estimate	Revised Estimate	Actual
Revenue Receipts	1,02,801.24	1,00,006.58	92,854.47
Revenue Expenditure	1,15,661.05	1,13,033.57	1,10,316.39
Revenue Deficit	12,859.81	13,026.98	17,461.92
Capital Expenditure	10,330.31	9,810.71	7,430.54
Loans and Advances (Net)	804.97	887.01	2,112.35
Public Debt (Net)	22,288.87	19,191.16	15,249.93
Public Account (Net)	1592.53	4,058.70	11,734.65

Source: Annual Financial Statement 2019-20 and Finance Accounts for 2018-19

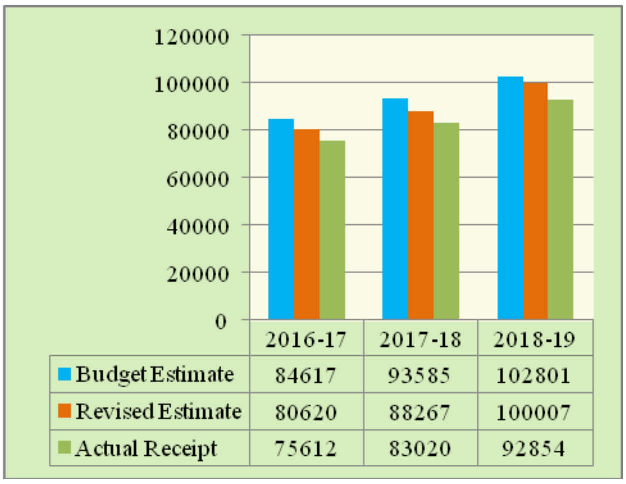
The revised estimate needs to be more accurate than the original budget estimate as it was done after analysing the receipts and expenditure of the first six months of the financial year. However, it was observed that actual revenue receipts were short by ₹7,152.11 crore with respect to the revised estimate and short by ₹9,946.77 crore with respect to the original estimate. Own tax revenue collected during 2018-19 (₹50,644.10 crore) was short by ₹7,944.34 crore (13.56 *per cent*) with respect to original estimate and short by ₹2,466.48 crore (4.64 *per cent*) with respect to revised estimate. Non tax revenue

[4] Kerala Fiscal Responsibility (Amendment) Act, 2018
[5] Medium Term Fiscal Plan 2018-19
[6]Eliminate revenue deficit during 2017-18 to 2019-20

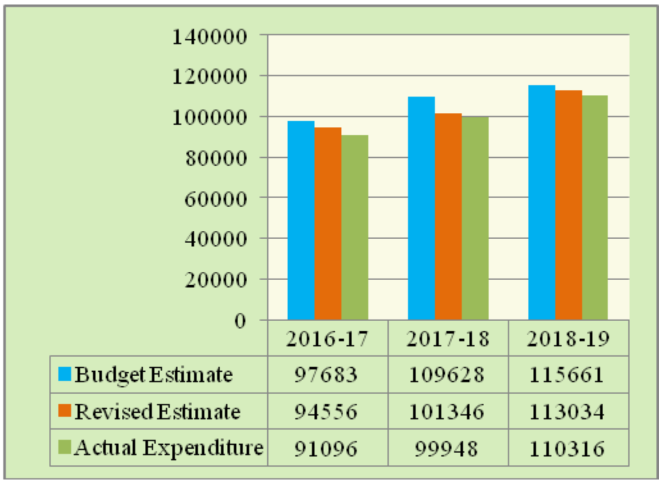
collected during 2018-19 (₹11,783.24 crore) was short by ₹2,487.90 crore (17.43 *per cent*) with respect to original estimate and short by ₹1,208.73 crore (9.31 *per cent*) with respect to revised estimate. The actual revenue deficit was more by ₹4,602.11 crore with respect to the original estimate and ₹4,434.94 crore with respect to the revised estimate. Apart from these, substantial variation was noticed in the case of net Public Account accretions. Against the revised estimation of ₹4,058.70 crore, net accretions under 'Public Accounts' were ₹11,734.65 crore mainly due to increase in net accretions under 'Small Savings, PF etc.'(₹3,264.87 crore), 'Suspense and Miscellaneous' (₹2,138.64 crore) and 'Reserve Funds' (₹2,123.28 crore) when compared to the revised estimates. The comparison of the last three years' budget estimates, revised estimates, actuals in respect of revenue receipt and revenue expenditure is given in **Chart 1.1**.

Chart 1.1 : Comparison of budget estimates and actuals

Revenue Receipts (*₹in crore*)



Revenue Expenditure(*₹in crore*)



1.1.4 Status of implementation of new initiatives announced in the budget speech

While presenting the budget for 2018-19, 14 new schemes were announced for implementation by 12 institutions/departments during the year 2018-19 with budget allocation of ₹188 crore. Audit observed that an amount of ₹18.47 crore was incurred in respect of five[7] schemes. Nine schemes were not implemented during 2018-19 due to reasons such as non receipt of revised administrative sanction, not identifying the transaction advisor for mobilizing funds, non receipt of communication from government etc. Further, of these nine schemes, no budget provision was made in respect of seven[8] schemes. Thus, the majority of the schemes announced in the budget speech were not implemented during the year.

[7]Carbon neutral Wayanad ; Young innovators programme; Skill delivery platform Kerala; Industrial Park; Kerala Co-operative Bank

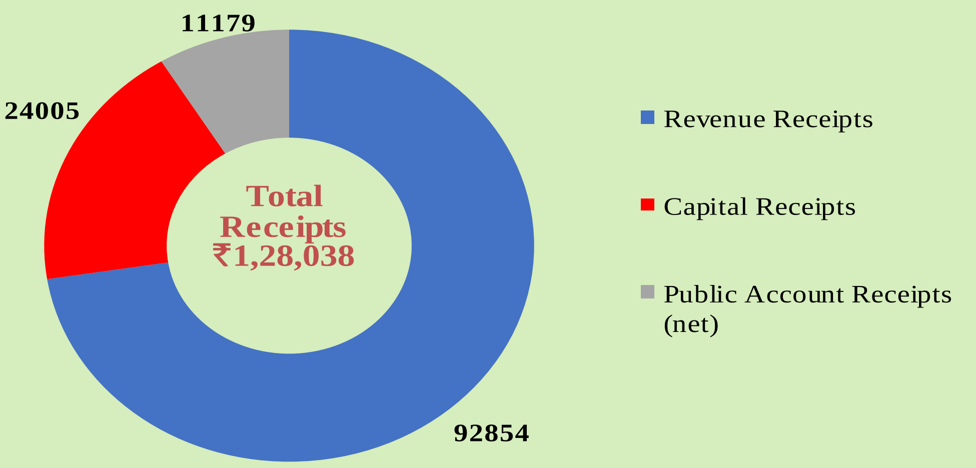
[8] Women friendly village; Fibre mills; Pollution control plant; Construct injectable factory; Cancer medicine factory; Kerala Arab Cultural study Center; Company in model of CIAL.

1.2 Resources of the State

1.2.1 Resources of the State as per the Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of Tax revenues, Non-tax revenues, State's share of union taxes and duties and Grants-in-aid from the Government of India (GoI). Capital receipts comprise of miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from other financial institutions/commercial banks) and loans and advances from GoI. The funds available in the Public Accounts after disbursement are also utilised by the Government to finance its deficit. **Charts 1.2**, **1.3** and **1.4** depict the composition of resources of the State during the current year.

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



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

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

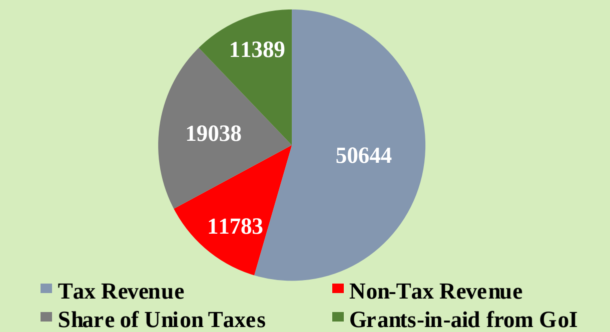
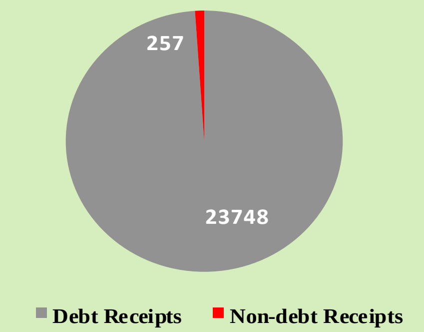


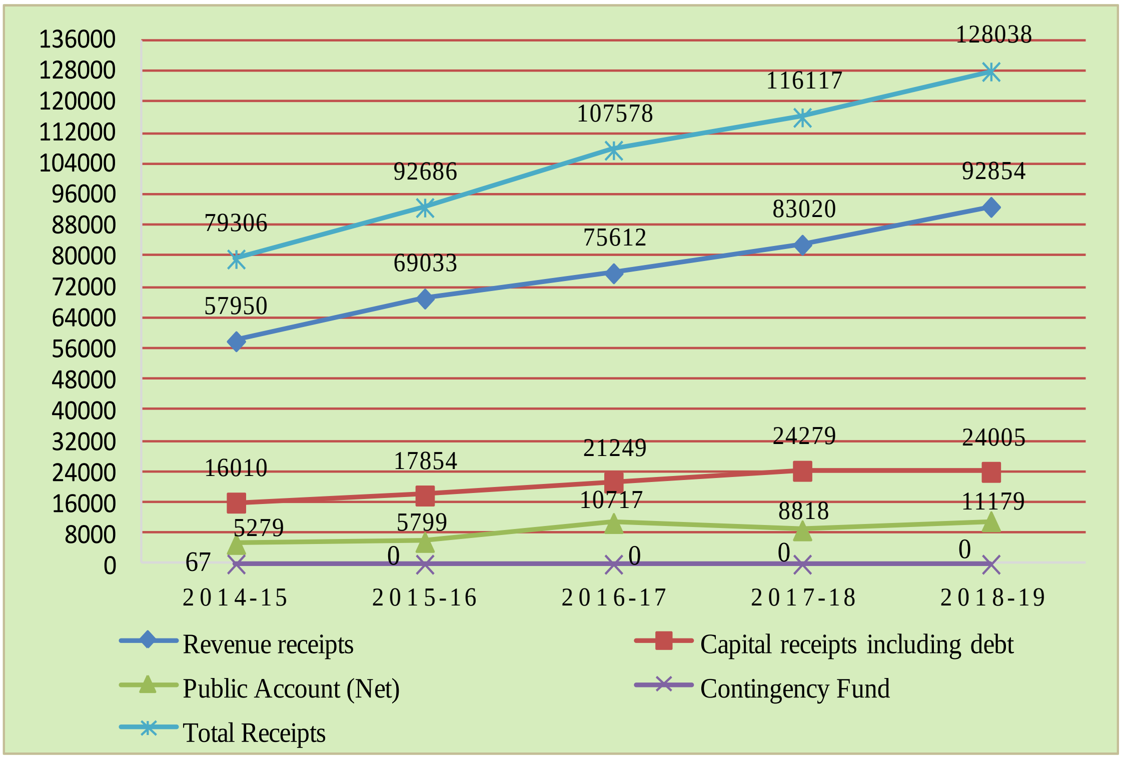
Chart 1.4 :Composition of Capital Receipts (₹ *in crore*)



Capital Receipts of the State include Debt Receipts and Non-debt receipts. Debt receipts consist of loans raised by the State from various sources (open market sources and financial institutions) and loans received from the

Government of India. Non-Debt receipts are receipts from Miscellaneous capital receipts (disinvestment of shares) and recovery of Loans and Advances disbursed by the State Government. Total receipts[9] of the State Government increased from ₹79,306 crore in 2014-15 to ₹1,28,038 crore in 2018-19 showing an increase of 61.45 *per cent* during the last five years. Trend in total receipts and its components during the last five years are given in **Chart 1.5**.

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



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

Though the system of direct release of funds to state level implementing agencies of the GoI flagship programmes was dispensed by GoI from 2014-15 onwards, GoI continues transferring funds directly to the State implementing agencies for implementation of various schemes/programmes which are recognized as critical. As these funds are not routed through the State Budget, the Annual Finance Accounts do not capture the flow of these funds and to that extent the State's receipts and expenditure as well as other fiscal variables/parameters derived from them are understated.

To present a holistic picture on the availability of aggregate resources, details of funds directly transferred to the State Implementing agencies during 2015-16 to 2018-19 for seven GoI schemes are presented in **Table 1.5**. The details of funds transferred directly to the State Implementing Agencies outside the State Budget are included in Appendix VI of the Finance Accounts by capturing data from the website of Controller General of Accounts (CGA) (unaudited figures).

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

Table 1.5: Funds transferred directly to State Implementing Agencies

(₹in crore)

Sl. No.	Name of GoI scheme	Implementing Agency/ Recipient in the State	2015-16	2016-17	2017-18	2018-19
1.	Metro Projects	Kochi Metro Rail Limited	643.96	634.00	303.91	58.68
2.	Food subsidy for decentralized Procurement of food grains under NFSA	Kerala State Civil Supplies Corporation Limited	…	…	782.06	620.22
3.	Pradhan Mantri Matru Vandana Yojana	Directorate of Social Justice, Kerala	…	…	51.51	32.09
4.	National AIDS and STD control programme	Kerala State AIDS Control Society	…	26.40	26.76	27.63
5.	Swadesh Darshan	Kerala Tourism Development Corporation	…	38.49	56.03	39.30
6.	MP's Local Area Development Scheme	District Collectors	127.50	157.50	95.00	115.00
7.	Mahatma Gandhi National Rural Employment Guarantee Scheme	Mahatma Gandhi National Rural Employment Guarantee Fund Society, Kerala	364.98	1,797.61	1,652.04	2051.57
8.	Others		1,375.26	1,068.96	2,275.08	2,015.62
	Total		**2,511.70**	**3,722.96**	**5,242.39**	**4,960.11**

Source: Finance Accounts of respective years

1.3 Revenue Receipts

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

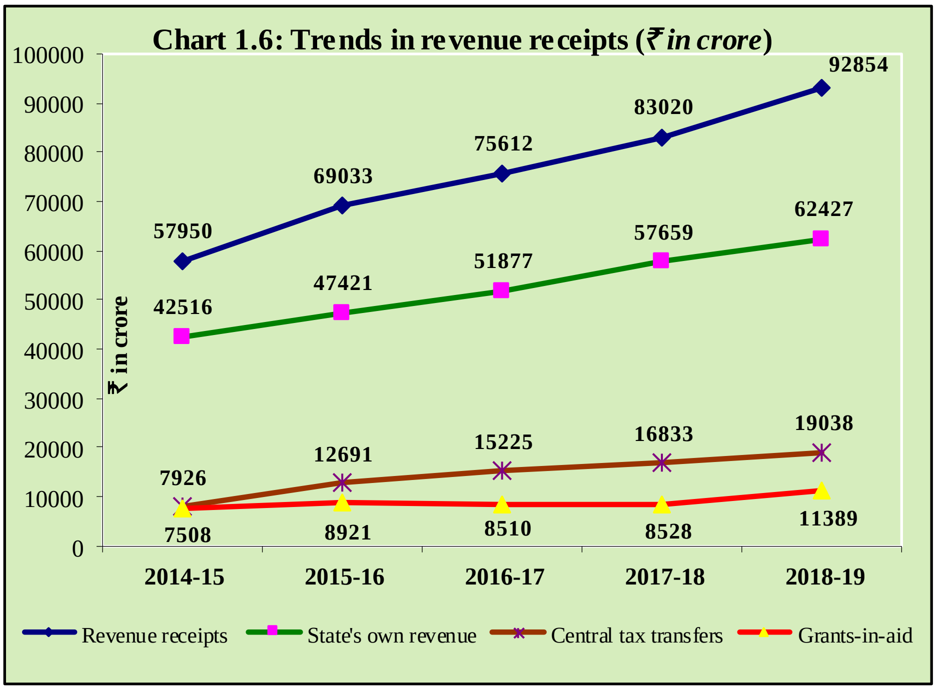
During the last five years (2014-15 to 2018-19),revenue receipts of the State increased from ₹57,950 crore in 2014-15 to ₹92,854 crore in 2018-19, recording a growth of 60 *per cent*. Over these years, the State's own receipts (tax and non-tax) were the major component of the revenue receipts, but there was a decline in their share in the revenue receipts during the last five years from 73 *per cent* in 2014-15 to 68 *per cent* in 2018-19. This was mainly due to the reduced growth rate of the State's own tax revenue during the period. The trend of revenue receipts over the period 2014-15 to 2018-19 is presented in **Appendix 1.5** and also depicted in **Chart 1.6**.

As per the Medium Term Fiscal Plan (MTFP) (**Appendix 1.3 Part B**), the projected revenue receipts of the State during 2018-19 were ₹1,02,801 crore but the actual realisation was ₹92,854 crore. Variations in components of revenue receipts are shown in the **Table 1.6**.

Table 1.6: Comparison of MTFP projections with amount realized *(₹in crore)*

Components	Own Tax Revenue	Non-tax Revenue	Resources from GoI
MTFP projection	58,588	14,271	29,942
Amount realised	50,644	11,783	30,427

Table 1.6 shows that the State could not collect/receive revenue as estimated in the MTFP and the major shortfall occurred in the realisation of the State's own taxes.



The Compounded annual growth rate of the State for the period 2009-10 to 2017-18 and 2017-18 to 2018-19 in respect of revenue receipts was compared with General Category States and it was observed that though the State's growth rate was higher than that of General Category States during 2009-10 to 2017-18, it was below the General Category States' growth rate during 2017-18 to 2018-19. **(**Details are given in **Appendix 1.1**).

The trends in revenue receipts relative to GSDP are presented in **Table 1.7**

Table 1.7: Trends in revenue receipts relative to GSDP during 2013-2018

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue Receipts (RR) (₹ *in crore*)	57,950	69,033	75,612	83,020	92,854
Rate of growth of RR (*per cent*)	17.84	19.13	9.53	9.80	11.85
State's own tax revenue (₹ *in crore*)	35,232	38,995	42,177	46,460	50,644
Rate of growth of own tax revenue (*per cent*)	10.12	10.68	8.16	10.15	9.01
Percentage of own tax revenue in RR	61	57	56	56	55
GSDP (₹ *in crore*)	5,12,564	5,61,994	6,34,871	7,00,532	7,81,653
Rate of Growth of GSDP	10.22	9.64	12.97	10.34	11.58
RR/GSDP (*per cent*) *	11.31	12.28	11.91	11.85	11.88
State's own tax/GSDP (*per cent*)	6.87	6.94	6.64	6.63	6.48
Revenue buoyancy w.r.t GSDP*	1.75	1.98	0.73	0.95	1.02
State's Own Tax Buoyancy w.r.t GSDP*	0.99	1.11	0.63	0.98	0.78

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

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

- The above table shows that the growth rate of revenue receipts during 2018-19 was 11.85 *per cent* when compared to the growth rate of 17.84 *per cent* in 2014-15. Percentage of own tax revenue in revenue receipts steadily decreased from 61 *per cent* in 2014-15 to 55 *per cent in* 2018-19.

- The Revenue receipts as a percentage of GSDP slightly increased during 2018-19 compared to the previous year. Buoyancy of revenue receipts with GSDP was also more than one during the year which indicated that the revenue receipts of the State have grown in pace with GSDP during 2018-19.

- Buoyancy of own tax revenue with GSDP was less than one during the period 2014-2019 (except during 2015-16) indicating low growth rate of own tax revenue when compared to the growth in GSDP.
- Own tax revenue as a percentage of GSDP was better for Kerala State (6.48 *per cent*) during 2018-19 when compared to the neighbouring state of Tamil Nadu (6.34 *per cent*) but is lower than that of the other neighbouring state of Karnataka (6.88 *per cent*).

1.3.1 Own resources of the State

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

Taxes collected and grants-in-aid received from GoI during the last five years are given in **Table 1.8**.

Table 1.8: Resources of the State during last five years*(₹in crore)*

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Tax Revenue	35,232	38,995	42,177	46,460	50,644
Non-tax Revenue	7,284	8,426	9,700	11,199	11,783
Share of Union taxes /Duties	7,926	12,691	15,225	16,833	19,038
Grants-in-aid from Government of India	7,508	8,921	8,510	8,528	11,389
Total Revenue Receipts	**57,950**	**69,033**	**75,612**	**83,020**	**92,854**

Source: Finance Accounts of respective years

Table 1.8 shows that State's own tax revenue has the lowest growth rate during the five year period when compared to the other components of revenue receipts and its share in revenue has come down from 61 *per cent* in 2014-15 to 55 *per cent* in 2018-19. The State Government needs to address this reduced growth as own tax revenue is the main source of revenue of the State.

1.3.1.1 Tax Revenue

The State's own tax revenue increased from ₹46,460 crore in 2017-18 to ₹50,644 crore in 2018-19, recording a growth rate of 9.01 *per cent*. This was lower than the growth rate (10.15 *per cent*) in 2017-18. Various components of the State's own tax revenue are given in **Table 1.9**.

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

Revenue Head	2014-15	2015-16	2016-17	2017-18	2018-19
Taxes on Sales, Trade etc.	27,908	30,737	33,453	24,578	19,226
State Goods and Services Tax				12,008	21,015
Stamps and Registration fees	2,659	2,878	3,007	3,453	3,693
State Excise	1,777	1,964	2,019	2,240	2,521
Taxes on Vehicles	2,365	2,814	3,107	3,663	3,709
Land Revenue	139	182	124	162	203
Taxes on Agricultural income	9	2	2	3	1
Other Taxes	375	418	465	353	276
Total	**35,232**	**38,995**	**42,177**	**46,460**	**50,644**

Source: Finance Accounts of respective years

State Goods and Service Tax was the major component in tax revenue during 2018-19 comprising 42 *per cent* of the tax revenue. This was followed by taxes on sales, trade etc. (38 *per cent*), Taxes on Vehicles (7 per cent), Stamps and Registration fees (7 *per cent*) and State Excise (5 *per cent*).

Goods and Services Tax (GST):

With automation of the collection of Goods and Services Tax (GST) having taken place, it is essential for Audit to transition from sample checks to a comprehensive check of all transactions, to fulfil the CAG's Constitutional mandate of certifying the Accounts. The required access to data is yet to be provided. Not having access to the data pertaining to all GST transactions has come in the way of comprehensively auditing the GST receipts. The accounts for the year 2018-19 are, therefore, certified on the basis of test audit as was done when records were manually maintained, as a one-time exception.

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

The projected revenue for the year in a State shall be calculated by applying the projected growth rate (14 *per cent* per annum) over the base year revenue of that State. For the State of Kerala, the projected revenue for the year 2018-19 in accordance with the base year figure was ₹24,921.60 crore (₹16,821.37 x 1.14 x 1.14 x 1.14). The Revenue figure under GST for the year 2018-19 has been depicted in the Finance Accounts as per the nature of receipts i.e., State Goods and Services Tax (SGST), Input Tax Credit cross utilization of SGST and IGST (Integrated Goods and Services Tax), Apportionment of IGST-transfer-in of Tax component to SGST and Advance apportionment from IGST. Against the projected revenue of ₹24,921.60 crore, the revenue receipt of the State Government under GST during the year 2018-19 is given in **Table 1.10**.

Table 1.10: Pre-GST and SGST collected, provisional apportionment of IGST and compensation of IGST received from Government of India against the projected revenue of the State for the period from April 2018 to March 2019 *(₹ in crore)*

Month	Revenue to be projected	Pre GST taxes collected[10]	SGST collected[11]	Provisional apportionment of IGST	Total amount received	Compen-sation received[12]	Deficit(+)/ Surplus(-)
	1	2	3	4	5 (2+3+4)	6	7=[1-(5+6)]
April & May 2018	4153.60	110.55	1718.72	(-)147.20	1682.07	330.00	2141.53
June & July 2018	4153.60	105.33	973.38	1788.00	2866.71	67.00	1219.89
August & September 2018	4153.60	97.98	1979.38	(-)336.80	1740.56	780.00	1633.04
October & November 2018	4153.60	68.32	2058.26	631.04	2757.62	1033.00	362.98
December 2018 & January 2019	4153.60	72.77	1663.20	378.63	2114.60	195.00	1844.00
February & March 2019	4153.60	2.86	9887.40	420.70	10310.96	479.00	(-)6636.36
Total	**24921.60**	**457.81**	**18280.34**	**2734.37**	**21472.52**	**2884.00**	**565.08**

Source: Data furnished by AG (ERSA)

As seen from **Table 1.10**, against the projected revenue of ₹24,921.60 crore during April 2018 to March 2019, the receipt was ₹24,356.52 crore under the new tax regime, which worked out to a growth of 11.42 *per cent* as against the projected growth of 14 *per cent*. The growth rate of revenue under GST during 2018-19 (11.42 *per cent*) is showing a declining trend when compared to 2017-18 (12.90 *per cent*) requiring higher amount of compensation from Government of India.

1.3.1.2 Non-tax Revenue

Receipts under 'State Lotteries' is the major source of non-tax revenue of the State for the last five years and its share in non-tax revenue ranged between 74 *per cent* and 81 *per cent* during 2014-15 to 2018-19 and it was 79 *per cent* in 2018-19. During the five-year period, receipts from State Lotteries also recorded an increase of 70 *per cent*. Major sources of non-tax revenue of the State are given in **Table 1.11**.

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

Revenue Head	2014-15	2015-16	2016-17	2017-18	2018-19
Interest receipts	102	105	144	144	132
Dividends and profits	74	90	96	126	132
State Lotteries	5,445	6,271	7,283	9,034	9,265
Forestry and Wildlife	300	283	297	245	287
Other non-tax receipts	1,363	1,677	1,880	1,650	1,967
Total	**7,284**	**8,426**	**9,700**	**11,199**	**11,783**

Source: Finance Accounts of respective years

Though the receipts under State Lotteries was ₹9,265 crore, an equally high expenditure of ₹7,589 crore on distribution of prizes, agent commission, etc. was incurred reducing the net yield to ₹1,676 crore during the year. The net

[10]Includes VAT&CST (net of refund) and revenue from the taxes subsumed in GST by excluding VAT and CST on petroleum products and liquor. Figures are based on data available in Finance Accounts 2018-19.

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

[12]Figures for compensation are provisional

yield from lotteries have increased progressively from ₹960 crore in 2014-15 to ₹1,676 crore in 2018-19.

1.3.2 Grants-in-aid from Government of India

Grants-in-aid from the GoI increased by ₹2,861 crore (33.55 *per cent)* from ₹8,528 crore in 2017-18 to ₹11,389 crore in 2018-19 as detailed in **Table 1.12**.

Table 1.12: Status of Grants-in-aid received from Government of India*(₹in crore)*

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Non-plan grants	1,984	5,178	5,250	…	…
Grants for State plan schemes	4,929	3,406	2,727	…	…
Grants for central plan schemes	158	170	71	…	…
Grants for Centrally sponsored Plan schemes	437	167	462	…	(-)1
Centrally sponsored schemes	…	…	…	3,213	3,771
Finance Commission Grants	…	…	…	3,182	1,646
Other Transfer/Grants to States	…	…	…	2,133	5,973
Total	**7,508**	**8,921**	**8,510**	**8,528**	**11,389**

Source: Finance Accounts of respective years

The major increase in grants-in-aid from GoI during 2018-19 when compared to the previous year occurred under Other Transfer/Grants to States (₹3,840 crore). The increase was mainly under 'Grants towards contribution to NDRF' (₹2,740 crore) and 'Compensation for loss of revenue arising out of implementation of GST'(₹1,112 crore).

1.3.3 Efficiency in Tax collection

The average expenditure on tax collection in respect of four major revenue sources of the State compared with all India average, during the last five years, is given in **Appendix 1.6**. It shows that during the period 2014-15 to 2017-18, the average tax collection expenditure of the State was much higher than the all India average in respect of two major revenue sources, viz. Stamps (Non-judicial) and Registration fees (60 to 133 *per cent higher than all India average*) and State Excise (239 to 577 *per cent higher than all India average*). During 2015-16 to 2017-18, expenditure on collection was also higher than the all India average in respect of VAT, GST etc. (11 to 25 *per cent higher than all India average*). During 2014-15 and 2015-16, expenditure on collection was lower than the all India average in respect of taxes on vehicles (32 to 38 *per cent lower than all India average*) which became higher than the all India average in 2016-17 and 2017-18 (30 to 48 *per cent higher than all India average*).

1.4 Collection and utilisation of various Cess

A cess is an additional tax levied by the Government to raise funds for a specific purpose. A study was conducted by Audit to examine the collection and utilisation of various cess, and to ascertain whether:

- Cess collected has been properly accounted in the Government Accounts
- Cess collected has been utilised for the intended purpose.

Based on the substantial collection over the years, the following categories of cess were selected for detailed study:

- Building and Other Construction Workers Welfare Cess
- Medical Cess
- Rehabilitation Cess
- Social Security Cess

The following points were noticed during the course of audit

1.4.1 Building and Other Construction Workers Welfare Cess

The Government of India (GoI) introduced 'The Building and Other Construction Workers' Welfare Cess Act, 1996' for the levy and collection of a cess at one *per cent* on the cost of construction of the building and other construction works incurred by employers[13] . GoI framed 'The Building and Other Construction Workers Welfare Cess Rules' in March 1998. As per Rule 5 of these Rules, the cess collected is to be transferred to the Building and Other Construction Workers Welfare Board (Board) to augment its resources to provide safety, health and various welfare measures[14] to the building and other construction workers.

In Kerala, the cess collected by the State Government departments is being remitted directly to the special treasury saving bank (STSB) account of the Board at District Treasury, Thiruvananthapuram. The Public Sector undertakings, quasi-Government institutions and Central Government institutions remit the cess collected through demand drafts (DDs)/ cheques or deposit the same in the savings bank account of the Board opened for the purpose. The Labour department collects cess in respect of private employers and remits the cess collected directly to the Board by way of DDs.

The year-wise position of the receipt and utilisation of cess by the Board for the period 2013-14 to 2018-19 is detailed in **Table 1.13**:

Table 1.13: Year-wise receipt and utilisation of Building and Other Construction Workers' Welfare Cess by Board *(₹ in crore)*

Year	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Opening Balance	762.69	841.72	940.06	1138.12	1259.88	1069.62
Building cess Received by Board	**136.38**	**175.31**	**189.11**	**203.58**	**192.45**	**248.95**
Interest on investment/other receipts	98.97	108.23	212.60	185.41	35.04	77.88
Total	998.04	1125.26	1341.77	1527.11	1487.37	1396.45
Amount utilised[15]	**156.32**	**185.20**	**203.65**	**267.23**	**417.75**	**449.79**
Amount unspent (Closing Balance)	841.72	940.06	1138.12	1259.88	1069.62	946.66

Source: Details collected from Building and Other Construction Workers' Welfare Board

[13] Employer, in relation to an establishment means the owner thereof and includes
(i) Head of department where work carried out by Government department
(ii)Chief executive officer where work carried on behalf of local authority/ other establishment
(iii) Contractor where work carried out by contractor

[14] Pension, Assistance during accidents, Housing loans, Group insurance scheme, Assistance for Education, Medical expenses, maternity benefit etc.

[15] The Board is providing welfare benefits and Pension benefits to 19,89,368 registered members and 2,88,248 Pensioners (as on 31 March 2019) respectively.

The State Government introduced a new procedure in July 2017 for determining the workers' welfare cess based on the plinth area of the buildings, which made the assessment easier and simpler. This enabled the assessing officers to assess significantly higher number of building workers' cess cases and issue assessment orders, resulting in higher cess collection in 2018-19. The utilisation of cess increased from 2017-18 onwards due to revision in the rates of pension and marriage assistance given by the Board. An amount of ₹946.66 crore (including other receipts) is remaining unutilised with the Board as on 31 March 2019. The expenditure over and above the cess amount collected each year is met from the unspent balances of the previous years and other receipts of the Board.

1.4.1.1 Arrears of cess pending collection with the Labour department

The details of overall collection of cess from 14 District Labour offices in respect of private employers during 2014-15 to 2018-19 is as follows:

Table 1.14: **Details of arrears of cess pending collection** ***(₹ in crore)***

Sl No.	Year	No. of assessed cases	Total amount of cess due	No. of cases in which cess collected	Total cess collected	Balance cess to be collected
1	2014-15	23579	68.55	15981	56.67	11.88
2	2015-16	20996	61.91	14038	49.15	12.76
3	2016-17	9503	36.19	5600	23.47	12.72
4	2017-18	25073	73.81	12067	48.02	25.79
5	2018-19	43506	122.42	27814	77.63	44.79
	Total	**122657**	**362.88**	**75500**	**254.94**	**107.94**

Source: Details collected from office of the Labour Commissioner, Kerala

Audit noticed that every year, a huge amount of cess was pending from private employers.

The Labour Commissionerate attributed (December 2019) the huge arrears to the large number of building owners[16] living abroad and unavailability of adequate details of building owners received from Taluk offices. The reply is not tenable as Labour Officers could have taken steps to obtain the details of building owners from Local Bodies that issue building permits /building numbers after completion of construction.

In reply to the Audit observation the Board stated (November 2019) that a proposal was sent to the Government to make necessary amendments in the Kerala Building Rules so as to ensure that Local Bodies issue building permits to applicants only after remitting 50 *per cent* of the cess amount and issue the completion certificate only after remitting the full amount to the Board.

1.4.1.2 Non-endorsement by the Assessing Officers of the orders of assessment to the Board

As per Rule 7 (1) and (2) of the Cess Rules 1998, the Assessing Officer[17], on receipt of information in Form I from an employer, shall make a scrutiny of

[16] As per Section 2(1)(J) of Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996, an employer also includes an individual who employs such workers in any building or construction work in relation to his own residence and such construction cost being more than Rupees Ten lakh.

[17] Assessing Officer means a Gazetted Officer of a State Government or an officer of a local authority holding an equivalent post to a Gazetted Officer of the State Government appointed by such State Government for assessment of Cess under the Act.

such information furnished, and if he is satisfied about the correctness of the particulars so furnished, shall make an order of assessment within a period not exceeding six months from the date of receipt of such information, indicating the amount of cess payable by the employer. He shall endorse a copy thereof to the employer, to the Board and to the cess collector and dispatch such order within five days of the date on which such order is made. The order shall *inter alia* specify the amount of cess due, cess already paid by the employer or deducted at source and the balance amount payable and the date, consistent with the provision of Rule 4, by which the cess shall be paid to the cess collector. The State Government had assigned (March 1999) Assistant Labour Officers of all the districts as Assessing Officers for assessment of cess.

Audit noticed that the orders of assessment in respect of private employers were not being forwarded by the Assessing Officers to the Board resulting in the inability of the Board to verify the demand, collection, balance in respect of cess to be collected, penalty to be imposed for non-payment of cess within the specified time etc.

Five[18] District Labour Offices replied that they were not sending the assessment orders to the Board due to shortage of manpower and lack of stamps/ stationery. The replies are not tenable as the Assessing Officers are required to endorse the order of assessment to the Board in accordance with Rule 7 of Cess Rules, 1998.

1.4.1.3 Excessive collection charges paid to the Labour Department by the Board

As per Section 3(3) of the Cess Act 1996, the proceeds of the cess collected shall be paid by the State Government to the Board after deducting the cost of collection, which should not exceed one *per cent* of the amount collected.

The Labour department deducts one *per cent* of such amount collected by the Collection Officers and remits it to the treasury under head of account '0230-00-800-90-other receipts-other items Labour department'. Even after deducting one *per cent* of the cess collected towards cost of collection, the District Labour Offices are demanding postage and stationery charges from the Board. Consequently, the Board is making payment to District Labour offices towards postage and stationery charges incurred for collection of cess which is over and above the limit of one *per cent* cost of collection stipulated under the Act. This had resulted in an excess expenditure of ₹99 lakh to the Board towards cost of collection from 2011-12 onwards.

The Board replied (November 2019) that it had accorded sanction for the payment of stationery and stamp charges on the condition that the amount shall subsequently be reimbursed to the Board by the Labour department. However, the Labour department had not given any reimbursement to the Board till date.

The State Government instructed the Board (November 2019) to continue meeting the expenses towards stamp and stationery till proper heads of account were opened by the Government for accounting the collection and utilisation of one *per cent* service charge collected. The directions issued by

[18] District Labour Offices at Kannur, Ernakulam, Thrissur, Kasaragod, Idukki.

the Government in this regard are also in contravention of the provisions of the Building and Other Construction Workers' Welfare Cess Act, 1996.

1.4.1.4 Non-recovery of cess due to time barred cheques/ demand draft

The cess is being remitted to the Board by employers in the form of DDs/cheques. Audit noticed delayed receipt of DDs/cheques resulting in them becoming time barred. Even though online remittance of cess was introduced from 2015-16, employers are remitting the cess in the form of DDs/cheques. The details of time barred DDs/cheques sent for revalidation from 2013-14 to 2018-19 are as follows:

Table 1.15: **Details of time barred DDs/ cheques**

Sl No	Year	DDs/cheques sent for revalidation		DDs/cheques revalidated		DDs/cheques not yet revalidated	
		No. of DDs/ cheques	Amount (₹ in lakh)	No. of DDs/ cheques	Amount (₹ in lakh)	No. of DDs/ cheques	Amount (₹ in lakh)
1	2013-14	2378	34.38	1878	29.75	500	4.63
2	2014-15	10202	456.23	7347	405.21	2855	51.02
3	2015-16	8218	300.72	8170	300.62	48	0.10
4	2016-17	7896	323.15	5994	302.95	1902	20.20
5	2017-18	584	85.34	137	2.37	447	82.97
6	2018-19	339	224.99	86	149.84	253	75.15
	Total	**29,617**	**1,424.81**	**23,612**	**1190.74**	**6005**	**234.07**

Source: Details collected from Building and Other Construction Workers' Welfare Board

Audit observed that 6,005 DDs/cheques for ₹2.34 crore pertaining to the period from 2013-14 to 2018-19 are pending revalidation.

The Board replied (November 2019) that notices had been issued to the concerned DDOs to revalidate the DDs/cheques. It was also stated that a list of defaulters was being prepared by the Board and would be sent to the Assessing Authorities for appropriate action.

1.4.2 Medical Cess

The State Government introduced Medical cess[19] in 2012, which is to be deducted at a rate of one *per cent* on the tax payable under the Kerala General Sales Tax Act (KGST[20]) by the Kerala State Beverages Corporation Limited (KSBCL) on sale of foreign liquor in order to provide generic medicines free of cost to the patients of Government Hospitals who are not income tax payers. The cess amount was to be transferred to the Kerala Medical Services Corporation Limited (KMSCL) for implementing the scheme. A distinct receipt head of account '0040-00-102-93-Medical Cess on Sales Tax Payable by Kerala State Beverages Corporation Limited' was opened for booking the Medical cess collected. The transfer of Medical cess to KMSCL was to be booked under head of account '2210-80-190-96(NP)-Transfer proceeds of Medical cess on sales tax to KMSCL'. An amount of ₹307.02 crore was collected as Medical cess during the period 2012-13 to 2017-18 as shown below. The cess has been discontinued[21] from 2018-19.

[19] As per sub section 2(A), section 8 of Kerala Finance Act, 2012(Act 16 of 2012)
[20] As per clause(b) of sub-section(1) of section 5 of the Kerala General Sales Tax Act, 1963
[21] As per sub section 2(A), section 11 of Kerala Finance Act, 2018(Act 5 of 2018)

Table 1.16: **Year wise details of Medical Cess collected** ***(₹in crore)***

Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Medical cess collected by KSBCL	26.02	44.03	50.14	58.75	61.75	66.33	Nil	307.02

Source: Details collected from KSBCL

Out of ₹307.02 crore collected as medical cess during the period 2012-13 to 2017-18, only an amount of ₹30 crore had been released to KMSCL till date (July 2019).

The Health and Family Welfare department replied (January 2020) that no specific proposals for release of Medical cess were received from KMSCL. The reply is not tenable as the Health and Family Welfare department, being the administrative department, is responsible for ensuring the release of medical cess to KMSCL collected over the years and no specific proposal needs be obtained from KMSCL. Moreover, an amount of ₹277.02 crore collected as Medical cess from 2012-13 onwards is lying unutilised with the Government.

1.4.3 Rehabilitation Cess

The State Government introduced Rehabilitation cess[22] in 2014 at the rate of five *per cent* on the tax payable under Kerala General Sales Tax Act (KGST[23]) by Kerala State Beverages Corporation Limited (KSBCL) on the sale of foreign liquor for the purpose of rehabilitation of bar hotel workers who had lost employment pursuant to the closure of bar hotels as per Abkari policy of 2014-15. A distinct receipt head of account '0040-00-102-92 'Rehabilitation Cess on Sales Tax Payable by Kerala State Beverages Corporation' was opened for booking the rehabilitation cess collected.

KSBCL collected and remitted ₹1,059.04 crore as rehabilitation cess during the period from 2014-15 to 2017-18 as shown below. The cess has been discontinued[24] from 2018-19.

Table 1.17: **Year wise collection and utilisation of Rehabilitation cess*(₹in crore)***

Year	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Rehabilitation Cess Collected by KSBCL	124.92	293.75	308.74	331.63	Nil	1,059.04
Amount Utilised	8.73	1.43	5.92	2.93	11.98	30.99

Source: Details collected from KSBCL

Audit noticed that out of the rehabilitation cess of ₹1,059.04 crore collected during the period from 2014-15 to 2017-18, ₹8.73 crore (0.8 *per cent*) has been distributed as financial assistance to 5851 displaced bar hotel workers till date. The State Government decided (September 2015) to utilise the cess amount for a new scheme 'Subodham' to achieve the objective of addiction free Kerala. The State Government introduced another new scheme 'Vimukthi' (October 2016) replacing 'Subodham' to conduct awareness campaigns against alcoholism and drug abuse by giving emphasis on abstinence, de-addiction and rehabilitation activities. The rehabilitation cess

[22] As per sub-section (2A) of section 9 of 'The Kerala Taxation Laws (Amendment) Act, 2014'
[23] As per clause (b) of subsection (1) of section 5 of the Kerala General Sales Tax Act, 1963
[24] As per sub section 2(A), section 11 of Kerala Finance Act, 2018(Act 5 of 2018)

collected was expended for activities under 'Subodham' and 'Vimukthi' involving an expenditure of ₹1.43 crore[25] and ₹20.83 crore[26] respectively.

As the utilisation of rehabilitation cess for rehabilitation of bar hotel workers who were rendered jobless consequent to Abkari policy of 2014-15 was meagre, a writ petition was filed by the displaced bar hotel workers in the Hon'ble High Court to intervene in the matter.

In compliance with orders dated November 2017 of Hon'ble High Court, the State Government formulated and finalised a scheme 'Suraksha Swayam Tozhil Padhathi' in January 2019 to rehabilitate the displaced bar hotel workers by utilizing the rehabilitation cess collected. The scheme is still in the initial stages of implementation.

The failure of the State Government to implement a scheme for the rehabilitation of the displaced bar hotel workers even after a lapse of more than four years since the introduction of rehabilitation cess had resulted in huge amount of cess collected (₹1,028.05 crore) remaining unutilised.

1.4.4 Social Security Cess

The State Government introduced Social Security cess[27] in 2008 at a rate of one *per cent* on the tax payable by Kerala State Beverages Corporation Limited (KSBCL[28]) on sales of foreign liquor under Kerala General Sales Tax Act (KGST), and other dealers[29] on sale of various goods under KGST/ Kerala Value Added Tax Act (KVAT) to provide and finance a 'Comprehensive Social Security Scheme'**.** The rate of cess was amended to six[30] *per cent* in 2011 and ten[31] *per cent* in 2012 on the tax payable by KSBCL. KSBCL has been exempted from collecting the Social Security cess from 2018-19[32].

Audit noticed that an amount of ₹3,448.41 crore was collected as Social Security cess by KSBCL and credited to Government as revenue receipts along with sales tax collected during the period 2008-09 to 2017-18 as shown below.

[25] Activities under 'Subodham': ₹1.43 crore (2015-16)

[26] Activities under 'Vimukthi' :₹5.92 crore (2016-17), ₹2.93 crore(2017-18) and ₹11.98 crore(2018-19)

[27] As per Section 6(1) of Kerala Finance Act of 2008(Act 21 of 2008)

[28] Dealer at section 5(1)(b) of KGST Act, 1963

[29] Tax payable by dealers under sections 6 and 8 of the Kerala Value Added Tax Act(KVAT), 2003 (30 of 2004) and section 5 and section 7 of the Kerala General Sales Tax (KGST) Act, 1963(15 of 1963)

[30]The rate of cess was amended to six per *cent*, for tax payable by dealers under section 5(1)(b) of the KGST Act vide Kerala Finance Act, 2011 and the rate for rest of the dealers remained the same.

[31] As per Kerala Finance Act 2012, the rate of cess was amended to 10 *per cent* for tax payable by dealers under section 5(1) (b) of the KGST Act and the rate of tax payable by rest of the dealers under section 5 and section 7 of KGST Act remained the same. However, dealers under section 6 and 8 of the KVAT Act, 2003 were omitted.

[32] As per section 11 of Kerala Finance Act, 2018(Act 5 of 2018) Petroleum Companies and dealers of Petroleum products, dealers of Opium etc. alone are liable to pay Social Security Cess at a rate of one *per cent* of tax payable under KGST from 2018-19 onwards

Table 1.18: Year wise details of Social Security Cess collected *(₹in crore)*

Year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Social Security Cess collected by KSBCL	3.45	25.65	32.64	169.03	407.63	440.29	501.48	587.50	617.49	663.25	3,448.41

Source: Details collected from KSBCL

The details of cess remitted by other dealers in respect of sale of other goods had not been received from the Commissionerate of Taxes.

It was seen that the State Government had not opened a separate head of account for the cess collected, but had booked the amount collected along with Sales Tax, making it difficult to ascertain the amount of actual cess collected over the years. It is also seen that the State Government had not framed any rules/ guidelines for implementation of the 'Comprehensive Social Security Scheme' till date. Consequently, the Social Security cess collected over the years was not utilised for the intended scheme for which it was collected.

The Finance Department replied (December 2019) that a separate head of account for Social Security cess would be opened after Rules are formulated for the implementation of the scheme. The reply is not tenable as Government has failed to frame rules for implementation of the scheme even after a lapse of more than ten years since the introduction of Social Security cess in 2008.

1.5 Capital Receipts

Capital receipts comprise of Miscellaneous Capital Receipts, Recovery of Loans and Advances released to Government institutions and Public Debt Receipts. Trends in receipts under capital sector are detailed in **Table 1.19**.

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

Sources of Receipts	2014-15	2015-16	2016-17	2017-18	2018-19
Capital Receipts (CR)					
Miscellaneous Capital Receipts	**28**	**28**	**30**	**29**	**47**
Recovery of Loans and Advances	**124**	**153**	**292**	**351**	**211**
Public Debt Receipts[33]	**15,858**	**17,673**	**20,927**	**23,899**	**23,748**
Internal Debt Receipts	15,106	17,142	20,075	23,454	23,296
Loans and Advances from GoI	752	531	852	445	452
Total CR	**16,010**	**17,854**	**21,249**	**24,279**	**24,006**
Rate of growth of debt capital receipts (*per cent*)	10.57	11.45	18.41	14.20	(-)0.63
Rate of growth of CR (*per cent*)	10.68	11.52	19.02	14.26	(-)1.12
Rate of Growth of GSDP (*per cent*)(*)	10.22	9.64	12.97	10.34	11.58
Buoyancy of Debt receipts w.r.t GSDP	1.03	1.19	1.42	1.37	(-)0.05

Source: Finance Accounts of respective years

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

Table 1.19 shows that total capital receipts increased from ₹16,010 crore in 2014-15 to ₹24,279 crore in 2017-18 but decreased thereafter to ₹24,006 crore in 2018-19. Debt receipts had a predominant share in capital receipts which

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

ranged between 98 and 99 *per cent* during 2014-15 to 2018-19. The growth rate of debt receipts decreased from 14.20 *per cent* in 2017-18 to (-) 0.63 *per cent* in 2018-19. The decrease in public debt receipts during 2018-19 was due to decrease of ₹158 crore in internal debt receipts of State Government during the year.

1.5.1 Proceeds from disinvestment

As of March 2019, the State Government invested ₹8,545.35 crore in Statutory Corporations, Government Companies, Joint Stock companies and Co-operatives and received ₹45.97 crore from retirement of capital/disinvestment of shares of co-operative societies/banks and accounted for under Miscellaneous Capital Receipts.

1.5.2 Recoveries of loans and advances

During the year, the State Government released an amount of ₹2,322.89 crore as loans and advances to various institutions and an amount of ₹17,275.38 crore was outstanding under this head at the end of March 2019. Against this balance, the principal amount recovered was ₹210.14 crore, which was 1.2 *per cent* of the outstanding balance under loans and advances. Government have also written off an amount of ₹0.40 crore as irrecoverable loans and advances during the year.

1.5.3 Public Debt receipts

Public Debt receipts of the State Government consist of funds raised from internal sources and loans and advances from GoI. As shown in **Table 1.19**, internal debt receipts were the main source of public debt receipts and they ranged from 95 to 98 *per cent* of public debt receipts during the last five years. Internal Debt includes Open Market Borrowings, other borrowings from financial institutions like National Bank for Agriculture and Rural Development (NABARD), National Co-operative Development Corporation (NCDC), etc. and Special Securities issued to National Small Savings Fund (NSSF). The composition of Internal Debt during the last five years is given in **Table 1.20**.

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

Sources of Internal Debt	2014-15	2015-16	2016-17	2017-18	2018-19
Open Market Borrowings	13,200.00	15,000.00	17,300.00	20,500.00	19,500
NABARD	551.37	600.00	827.89	600.00	625.85
NCDC	222.16	39.13	47.79	180.42	53.78
NSSF	1,132.10	1,455.20	1,861.22	2,123.08	2,370.24
Others	0.00	47.25	37.72	50.00	745.76
Total	**15,105.63**	**17,141.58**	**20,074.62**	**23,453.50**	**23,295.63**

Source: Finance Accounts of respective years

Though open market borrowings were the main source of borrowing of the State, there was considerable increase in the loans raised from other sources like NSSF etc.

The Government transferred (September 2018) the principal portion of the outstanding House Building Advance granted to State Government employees from 2009-10 onwards to two banks viz, Federal Bank Limited and Punjab National Bank. A total of 13,925 accounts involving ₹745.76 crore were assigned to the banks with an interest rate of 8.45 *per cent* with one year reset. The Government, on behalf of the employees, would be remitting the EMI to the banks. The State Government received an amount of ₹745.76 crore from the two banks on account of transfer of principal portion of housing loans to the banks. This amount and its monthly repayments thereon by the State Government had been accounted under Internal Debt- loans from other institutions.

1.6 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as Small Savings, Provident Funds, Reserve Funds, Deposits, Suspense, Remittances, etc., which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266(2) of the Constitution. Here, the Government acts as banker/trustee for custody of public money, since these transactions are mere pass-through transactions. The net transactions under Public Account covering the period 2014-15 to 2018-19 are indicated in **Table 1.21**.

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

Resources under various heads	2014-15	2015-16	2016-17	2017-18	2018-19
Public Account receipts					
a. Small Savings, Provident Funds etc.	3,764.77	8,332.07	12,931.64	7,206.84	9,619.21
b. Reserve Funds	66.00	64.90	162.22	308.98	1,981.02
c. Deposits and Advances	1,364.50	(-) 3,280.29	105.65	265.91	392.17
d. Suspense and Miscellaneous	57.90	774.28	(-) 2,169.09	1,202.53	(-)762.23
e. Remittances	25.95	(-) 92.19	(-) 313.01	(-) 165.97	(-)51.52
Total	**5,279.12**	**5,798.77**	**10,717.41**	**8,818.29**	**11,178.65**

Source: Finance Accounts of respective years

The Table 1.21 shows that during 2018-19, an amount of ₹11,178.65 crore was added to the existing balance of the Public Account. Substantial net addition of ₹9,619.21 crore under the sector 'Small Savings, Provident Funds, etc.', was mainly due to the accumulations of ₹6,759.16 crore under '8031-102-State Savings Bank Deposits' and ₹2,191.99 crore under '8009-State Provident Funds'. These accumulations under public account are utilised by the State Government for covering its fiscal deficit. As State Government didn't have sufficient borrowing space on account of substantial accretions in public account, the GoI gave consent to raise Open Market Borrowing amounting to ₹3,200 crore only as against ₹5,000 crore requested by the State for the last quarter of the financial year 2018-19.

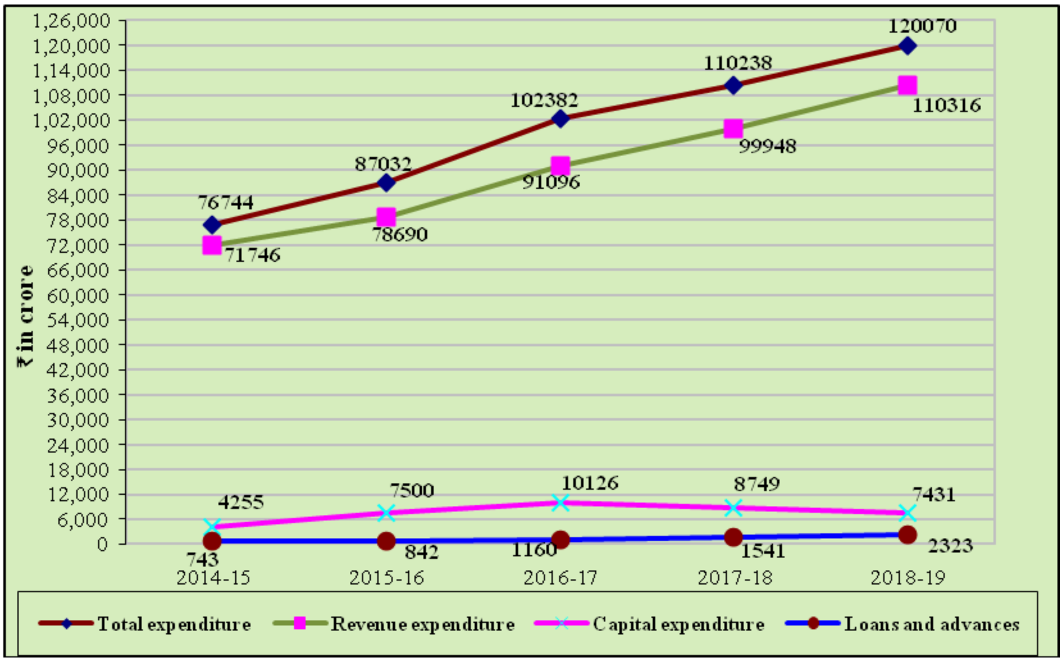
1.7 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted to the State Governments. 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 (2014-15 to 2018-19).

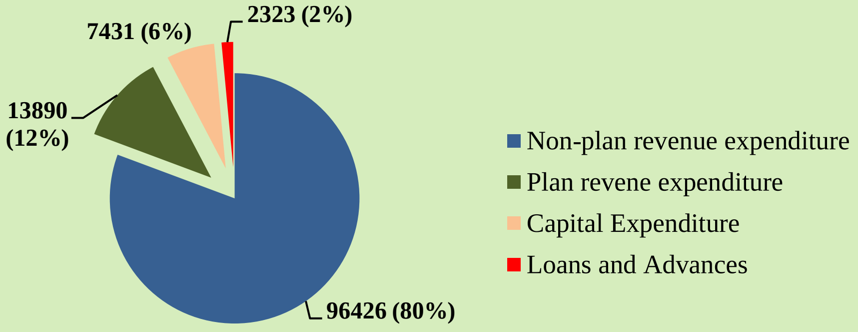
Chart 1.7: Total expenditure: trends and composition



During the last five years, the total expenditure of the State increased by 56 *per cent* from ₹76,744 crore in 2014-15 to ₹1,20,070 crore in 2018-19. While revenue expenditure recorded a growth of 54 *per cent* as compared to 2014-15, capital expenditure recorded a growth of 75 *per cent* during the same period.

Total expenditure of the State for 2018-19 was ₹1,20,070 crore, out of which,₹1,10,316 crore (92 *per cent*) was revenue expenditure. Composition of total expenditure during 2018-19 is given in **Chart 1.8**.

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



The total expenditure, its annual growth rate, the ratio of expenditure to the GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are given in **Table 1.22**.

Table 1.22: Total expenditure – basic parameters

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Total expenditure (TE) (₹ in crore)	76,744	87,032	1,02,382	1,10,238	1,20,070
Rate of growth (*per cent*)	15.85	13.41	17.64	7.67	8.92
Revenue Expenditure (₹ in crore)	71,746 (18.62)	78,690 (9.68)	91,096 (15.77)	99,948 (9.72)	1,10,316 (10.37)
Capital Expenditure (₹ in crore)	4,255 (-0.91)	7,500 (76.26)	10,126 (35.01)	8,749 (-13.60)	7,431 (-15.06)
Disbursement of Loans and advances (₹ in crore)	743 (-49.25)	842 (13.32)	1,160 (37.77)	1,541 (32.84)	2,323 (50.75)
Revenue Receipts (RR) (*₹in crore*)	57,950	69,033	75,612	83,020	92,854
Rate of growth of RR (*per cent*)	17.84	19.13	9.53	9.80	11.85
GSDP (₹ in crore)	5,12,564	5,61,994	6,34,871	7,00,532	7,81,653
Rate of growth of GSDP	10.22	9.64	12.97	10.34	11.58
TE/GSDP ratio (*per cent*)(*)	14.97	15.49	16.13	15.74	15.36
Revenue Receipt/TE ratio (*per cent*)	75.51	79.32	73.85	75.31	77.33
Buoyancy of TE with reference to ;					
GSDP (ratio) (*)	1.55	1.39	1.36	0.74	0.77
RR (ratio)	0.89	0.70	1.85	0.78	0.75

Source: Finance Accounts of respective years
(*) change in figures with respect to previous Report is due to adoption of revised GSDP figures

Figures in parenthesis represents rate of growth

Table 1.22 shows that

- Growth rate of total expenditure during the last two years was very low when compared to 2014-15 to 2016-17 period. The lower growth rate was mainly due to negative growth rate of capital expenditure in 2017-18 (-14 *per cent*) and 2018-19 (-15 *per cent*)
- Ratio between revenue receipts and total expenditure indicate the sufficiency of revenue receipts for meeting total expenditure. In 2017-

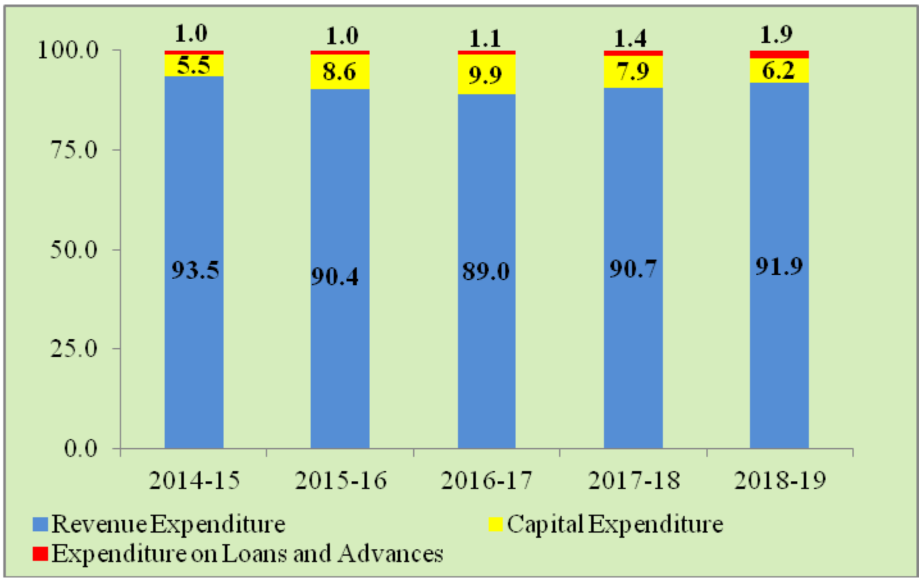
18, revenue receipts of the State were sufficient to meet 75.31 *per cent* of the total expenditure which improved marginally to 77.33 *per cent* in 2018-19 due to increased growth of revenue receipts when compared to the growth rate of total expenditure. Even though growth rate of revenue receipts increased during the year, revenue expenditure constituted 91.88 *per cent* of total expenditure whereas revenue receipts collected was only 77.33 *per cent* of total expenditure which indicated insufficiency of revenue receipts in meeting total expenditure during the year.

- The buoyancy of the total expenditure with respect to GSDP was less than one during 2017-18 and 2018-19 which indicated lower growth rate of total expenditure compared to GSDP during the last two years.
- The buoyancy of total expenditure with respect to revenue receipts also declined in 2017-18 and 2018-19.

Compounded annual growth rate of total expenditure of the State was higher than that of General Category States for the period 2009-10 to 2017-18 whereas it was lower than the General Category States during the period 2017-18 to 2018-19. (Details are given in **Appendix 1.1)**

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

Chart 1.9: Share of various expenditure in total expenditure



1.7.2 Trends in total expenditure in terms of activities

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

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

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
General Services	**41.13**	**41.76**	**40.44**	**41.54**	**42.50**
of which, Interest Payments	12.73	12.77	11.84	13.72	13.95
Social Services	**32.05**	**32.91**	**34.24**	**33.82**	**33.31**
Economic Services	**17.51**	**19.88**	**18.83**	**16.71**	**14.85**
Grants-in-aid	**8.34**	**4.45**	**5.36**	**6.53**	**7.41**
Loans and Advances	**0.97**	**0.97**	**1.13**	**1.40**	**1.93**

Source: Finance Accounts of respective years

Table 1.23 reveals that:

- While relative share of General Services in total expenditure increased, share of Social Services and Economic Services decreased during 2018-19 when compared to 2017-18. Share of Grants-in-aid increased from 6.53 *per cent* in 2017-18 to 7.41 *per cent* in 2018-19.
- During 2018-19, share of interest payments in total expenditure was the highest during the five-year period.
- Relative share of loans and advances in total expenditure increased during 2018-19 due to increase in release of loans and advances by the State Government.

1.7.3 Revenue Expenditure

During 2018-19, revenue expenditure recorded an increase of ₹10,368 crore (10.37 *per cent*), compared to the previous year. The increase in revenue expenditure was mainly due to increase in expenditure under the major heads ‘Miscellaneous General Services’ (₹ 4,291 crore), ‘Relief on Account of Natural Calamities’(₹ 2,758 crore), ‘Compensation and Assignments to Local Bodies and Panchayati Raj Institutions’ (₹1,701 crore),‘Interest Payments’(₹1,628 crore), and ‘Urban Development’ (₹ 1,155 crore).

1.7.3.1 Incidence of revenue expenditure

During the last five years, the share of revenue expenditure in total expenditure, to maintain the current level of services and payment for past obligations was between 89 and 93 *per cent* and it showed an increasing trend during the last two years. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table 1.24**.

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

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue expenditure (RE)	**71,746**	**78,690**	**91,096**	**99,948**	**1,10,316**
Non-plan revenue expenditure (NPRE)	61,464	66,611	77,604	83,766	96,426
Plan revenue expenditure (PRE)	10,282	12,079	13,492	16,182	13,890
Rate of growth of					
RE (*per cent*)	18.62	9.68	15.77	9.72	10.37
NPRE (*per cent*)	15.08	8.37	16.50	7.94	15.11
PRE (*per cent*)	45.35	17.48	11.70	19.94	(-)14.16
Revenue expenditure as percentage to TE	93.49	90.42	88.98	90.67	91.88
NPRE/GSDP (*per cent*) (*)	11.99	11.85	12.22	11.96	12.34
NPRE as percentage of TE	80.09	76.54	75.80	75.99	80.31
NPRE as percentage of RR	106.06	96.49	102.63	100.90	103.85
Buoyancy of revenue expenditure with					
GSDP (ratio) (*)	1.82	1.00	1.22	0.94	0.90
Revenue receipts (ratio)	1.04	0.51	1.65	0.99	0.88

Source: Finance Accounts of respective years

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

Table 1.24 reveals the following:

- Though there was considerable increase in the growth rate of NPRE in 2018-19 compared to the previous year, PRE showed a negative growth rate during the year.
- Revenue expenditure as a percentage of total expenditure ranged between 89 *per cent* and 93 *per cent* during the five year period which indicated inadequacy of resources for expansion of services and creation of assets.
- The share of Revenue expenditure in total expenditure increased from 90.67 *per cent* in 2017-18 to 91.88 *per cent* in 2018-19 indicating lower priority assigned for capital expenditure during the year.
- NPRE as a percentage of RR was above 100, which indicated that State's revenue receipts were not sufficient to meet its NPRE during 2018-19.
- Since revenue receipts are not sufficient to meet NPRE, recourse to borrowed funds has to be taken for meeting PRE which is not a good indicator of a prudent fiscal path.

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

The trends of the committed expenditure of the State Government during 2014-15 to 2018-19 are given in **Table 1.25**

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

Components of committed expenditure	2014-15	2015-16	2016-17	2017-18	2018-19	
					Budget estimate	Actual Expenditure
Salaries* and Wages	**21,621**	**23,757**	**28,373**	**32,243**	**32,635**	**32,521**
Non-plan head	20,977	23,075	27,610	31,395	31,827	31,670
Plan heads**	644	682	763	848	808	851
Interest payments (MH 2049)	**9,770**	**11,111**	**12,117**	**15,120**	**14,938**	**16,748**
Expenditure on pensions (MH 2071)	**11,253**	**13,063**	**15,277**	**19,938**	**18,221**	**19,012**
Subsidies	**1,252**	**1,372**	**1,731**	**1,584**	**1,777**	**1,663**
Total	**43,896**	**49,303**	**57,498**	**68,885**	**67,571**	**69,944**
Revenue Expenditure	**71,746**	**78,690**	**91,096**	**99,948**	**1,15,661**	**1,10,316**
Revenue Receipts	**57,950**	**69,033**	**75,612**	**83,020**	**1,02,801**	**92,854**
Percentage of committed expenditure to Revenue expenditure	61	63	63	69	58	63
Percentage of committed expenditure to Revenue receipts	76	71	76	83	66	75

* 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 decreased from 69 *per cent* in 2017-18 to 63 *per cent* in 2018-19. Similarly, the percentage of committed expenditure with respect to revenue receipts decreased from 83 *per cent* during 2017-18 to 75 *per cent* in 2018-19.

While interest payments showed a growth rate of 11 *per cent* in 2018-19 pension payments decreased by 5 *per cent* during the year compared to the previous year. Interest payments consumed 18 *per cent* of revenue receipts which is a matter of concern for the State Government.

1.7.4 Subsidies

The subsidies (₹1,663 crore) given during 2018-19 were ₹79 crore more than subsidies (₹1,584 crore) given in the previous year. The main items of subsidies given during 2018-19 included Ration subsidy (₹934 crore), amount for Paddy procurement through Kerala State Civil Supplies Corporation (₹285 crore), grant to Kerala State Civil Supplies Corporation Limited for market intervention operations (₹125 crore), subsidy to Co-operatives for conducting festival markets (₹68 crore) and State Investment Subsidy (₹55 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 1.26**.

Table 1.26: Financial assistance to local bodies, educational institutions, etc. *(₹ in crore)*

Financial Assistance to Institutions	2014-15	2015-16	2016-17	2017-18	2018-19
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	7,769.01	8,409.89	9,602.98	16,511.23	11,532.60
Municipal Corporations and Municipalities	1,836.39	1,405.77	2,756.55	3,178.62	3,287.46
Zilla Parishads and Other Panchayati Raj Institutions	8,423.74	7,767.62	7,775.98	11,335.87	10,426.56
Development Agencies	6.23	5.91	14.73	20.91	16.93
Hospitals and Other Charitable Institutions	305.76	407.60	812.18	686.29	696.91
Other Institutions[34]	1,602.60	2,104.35	2,927.71	3,196.28	5,526.36
Total	**19,943.73**	**20,101.14**	**23,890.13**	**34,929.20**	**31,486.82**
Assistance as percentage of revenue expenditure	28	26	26	35	29

Source: Finance Accounts and information received from the State Government

The financial assistance to local bodies and other institutions increased from ₹19,943.73 crore in 2014-15 to ₹34,929.20 crore in 2017-18 but declined thereafter to ₹31,486.82 crore in 2018-19. The table above shows that the percentage of assistance with reference to revenue expenditure was 29 *per cent* during 2018-19. Substantial decrease was noticed in the release of Grants in respect of Educational institutions and Zilla Parishads and Other Panchayat Raj Institutions during 2018-19 whereas assistance to other institutions increased during 2018-19 compared to the previous year.

1.7.6 Non-compliance of existing Accounting Standards

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

IGAS 2 prescribes the principles for accounting and classification of Grants-in-aid in the Financial Statements of Government. Paragraph 10 of IGAS 2 stipulates that Grants-in-aid that are in the form of pass-through grants, from the Union Government to the State Government to be disbursed to the ultimate grantee shall be classified and accounted for as revenue expenditure in the Financial Statements of both Union Government and State Governments irrespective of the purpose for which such grants are to be spent by the ultimate grantee. The Government of India (GoI) was transferring grants-in-aid for the scheme Pradhan Mantri Gram Sadak Yojana (PMGSY) directly to the implementing agency *viz.*, Kerala State Rural Roads Development Agency till 2013-14. From 2014-15 onwards, grants-in-aid from GoI for PMGSY were routed through the State budget for onward transfer to Kerala State Rural Roads Development Agency. The State Government released ₹53.02 crore received as grants-in-aid from GoI under the scheme during 2018-19 to Kerala State Rural Roads Development Agency and classified it as capital

[34]Major institutions under 'Other institutions' are Kerala Infrastructure Investment Fund Board (₹1,600.68 crore), Kerala State Road Transport Corporation (₹1,056.35 crore), Kerala Road Fund Board (₹366.93 crore), Kerala Water Authority (₹359.02 crore), Kudumbasree (₹188.62 crore), State Council for Science, Technology & Environment (₹117.37 crore), Kerala Social Security Mission (₹106.55 crore), Kerala State Information Technology Mission (₹103.57 crore) and Kerala Agricultural Workers' Welfare Fund Board (₹100 crore).

expenditure in the Financial Statement of State Government violating the provisions of IGAS 2.

The Government replied (February 2020) that steps had been taken to classify the expenditure of the grants-in-aid received from the Government of India pertaining to PMGSY as revenue expenditure during 2019-20.

1.8 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. Improvement in the quality of expenditure involves whether adequate funds were provided for public expenditure (i.e. adequate provisions for providing public services) and whether the fund was spent efficiently and effectively to achieve the intended objectives.

1.8.1 Adequacy of public expenditure

Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. Low fiscal priority (ratio of expenditure under a category to total expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.27** analyses the fiscal priority of the State Government with regard to Development Expenditure, Social Sector Expenditure and Capital Expenditure during 2014-15, 2017-18 and 2018-19.

Table 1.27: Fiscal priority of the State in 2014-15, 2017-18 and 2018-19(in *per cent*)

Fiscal Priority by the State		TE/ GSDP	DE#/ TE	SSE/ TE	CE/ TE	Education/ TE	Health/ TE
Kerala	2014-15	14.97	50.26	32.16	5.54	17.07	5.51
	2017-18	15.74	51.87	33.98	7.94	17.27	5.98
	2018-19	15.36	49.79	33.46	6.19	16.19	6.05
General Category States' Average	2014-15	15.99	68.51	36.15	14.02	16.54	4.92
	2017-18	16.05	67.84	36.66	14.38	15.45	5.09
	2018-19	16.05	67.04	36.59	14.28	14.99	5.07
Karnataka	2018-19	14.45	75.95	39.41	19.24	12.06	4.66
Tamil Nadu	2018-19	13.70	61.22	34.74	10.66	14.85	5.48

TE: Total Expenditure DE: Development Expenditure,
SSE: Social Sector Expenditure CE: Capital Expenditure.

\# Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed (Social and Economic sector).

Source: Information furnished by Economic Adviser and based on Finance Accounts

Table 1.27 shows that:

- In all the three years, 2014-15, 2017-18 and 2018-19, Development Expenditure (DE) as a proportion of Total Expenditure (TE) for the State was lower than General Category States' average. Development Expenditure consists of both Economic Sector Expenditure and Social Sector Expenditure.
- Adequate fiscal priority has not been given to Social Sector (except Health and Education Sectors) during 2014-15, 2017-18 and 2018-19 when compared to General Category States.

- Development Expenditure (DE) as a percentage of Total Expenditure (TE) for the State decreased in 2018-19 when compared to the previous year. Education Expenditure/Total Expenditure also decreased during the year whereas Health Expenditure / Total Expenditure showed a marginal increase during the year.
- The proportion of Capital Expenditure in Total Expenditure for the State was much lower as compared to General Category States during all the three years. The Government may consider enhancing the proportion of expenditure on capital sector especially in the Development Sectors (which had declined during the current year by 15 *per cent* over the previous year) in order to create much needed assets to stimulate growth and give priority to physical capital formation.

1.8.1.1 Capital Expenditure

Capital expenditure had declined by 15 *per cent* during the current year. The decrease was mainly under Economic Services Sector (23 *per cent*) and General Services Sector (26 *per cent*).

Under General Services Sector, the reduction in capital expenditure was witnessed mainly under the sub sectors- 'Police' (30 *per cent*) and 'Public Works' (29 *per cent*). Though capital expenditure under 'Public Works' and 'Police' sub sectors had decreased during the current year, it contributed to the major share of capital expenditure in the General Services (95 *per cent*).

Under Social Services Sector, the major share of capital expenditure was incurred by sub sectors, 'Water Supply, Sanitation, Housing and Urban Development' (35 *per cent*) followed by 'Education, Sports Art and Culture (26 *per cent*) and 'Health and Family Welfare' (14 *per cent*).

Under Economic Services Sector, the reduction in capital expenditure was witnessed mainly under the sub-sectors 'Irrigation and Flood Control' (50 *per cent*), 'Industry and Minerals' (50 *per cent*) and 'Other Rural Development Programmes' (39 *per cent)*. The major share of capital expenditure was incurred under the sub-sectors 'Transport' (41 *per cent*) followed by 'General Economic Services' (32 *per cent*) and 'Agriculture and Allied Activities' (11 *per cent)*.

Capital expenditure incurred by various Public Sector Undertakings in Kerala during 2018-19 amounted to ₹148 crore. The major share of Capital Expenditure was incurred in 'Kerala Social Security Pension Ltd' (₹100 crore), 'Kerala Rail Infrastructure Development Corporation Ltd' (₹42 crore) and 'Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited' (₹30 crore) towards share capital contribution/capital grants.

The details of capital expenditure incurred in various PSUs for the period 2014-15 to 2018-19 are given in **Appendix 1.7**.

1.8.2 Efficiency of expenditure

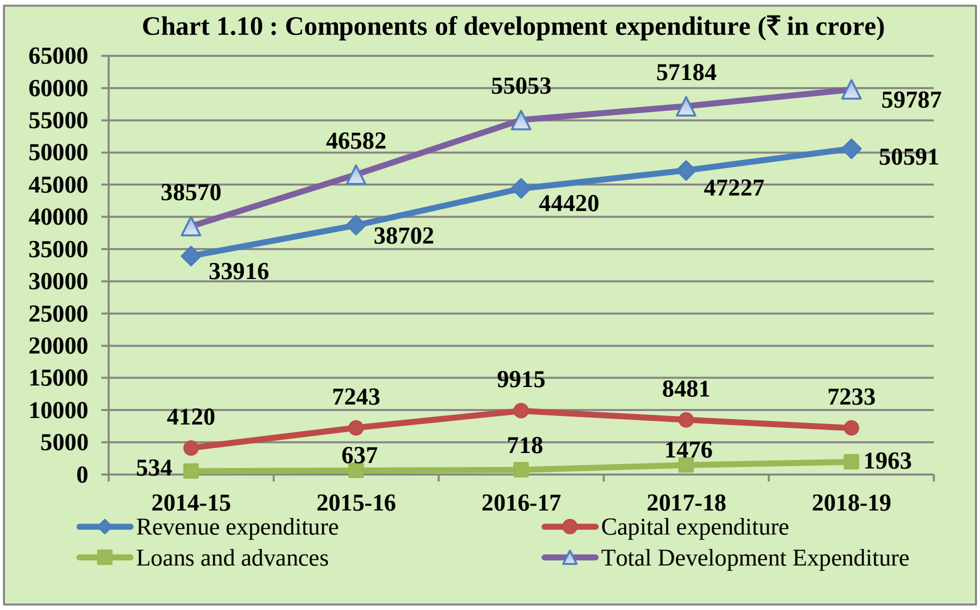
It is important for the State to take appropriate expenditure rationalisation measures and incur public expenditure on development heads from the point of view of social and economic development. Development expenditure comprised of revenue expenditure, capital expenditure and loans and advances in socio-economic services. **Table 1.28** presents the trends in development expenditure relative to the total expenditure of the State during last five years. **Chart 1.10** presents component-wise development expenditure during 2014-15 to 2018-19.

Table 1.28: Development expenditure ***(₹ in crore)***

Components of Development Expenditure	2014-15	2015-16	2016-17	2017-18	2018-19
Development Expenditure (a to c)					
a. Revenue expenditure	33,916 (44.19)	38,702 (44.47)	44,420 (43.39)	47,227 (42.84)	50,591 (42.13)
b. Capital expenditure	4,120 (5.37)	7,243 (8.32)	9,915 (9.68)	8,481 (7.69)	7,233 (6.02)
c. Loans and advances	534 (0.70)	637 (0.73)	718 (0.70)	1,476 (1.34)	1,963 (1.64)
Total Development Expenditure	**38,570 (50.26)**	**46,582 (53.52)**	**55,053 (53.77)**	**57,184 (51.87)**	**59,787 (49.79)**
Total Expenditure	**76,744**	**87,032**	**1,02,382**	**1,10,238**	**1,20,070**

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

The share of development expenditure in total expenditure is showing a declining trend during the last two years which is a matter of concern. During the period 2014-15 to 2018-19, the share of revenue expenditure in development expenditure ranged from 81 to 88 *per cent*, which indicated predominance of revenue expenditure items in development expenditure. Capital expenditure in absolute terms and its share in total development expenditure during the last two years showed a declining trend, which is not a positive indicator on the development expenditure of the State (**Table 1.28**).



Development expenditure increased from ₹38,570 crore in 2014-15 to ₹59,787 crore in 2018-19, recording an increase of 55 *per cent* in five years. During 2018-19, share of revenue expenditure in development expenditure increased whereas the share of capital expenditure decreased indicating low fiscal priority given to capital expenditure.

Revenue expenditure on development sector increased by 49 *per cent* during the last five years from ₹33,916 crore in 2014-15 to ₹50,591 crore in 2018-19 and it increased by ₹3,364 crore (7 *per cent*) during 2018-19 over the previous year. The increase in 2018-19 was due to increase in expenditure under Social Services (₹2,335 crore) and under Economic Services (₹1,029 crore).

In Social Services, this increase was mainly under 'Relief on account of Natural Calamities'(₹2,758 crore), 'Urban Development'(₹1,155 crore), 'Medical and Public Health'(₹680 crore) and 'General Education'(₹348 crore). The main increase in expenditure in Economic Services was under 'Other Agricultural Programmes' (₹199 crore), 'Fisheries'(₹179 crore), 'Roads and Bridges'(₹175 crore),'Secretariat Economic Services'(₹172 crore) etc.

Capital expenditure on development sector decreased by ₹1,248 crore mainly due to decrease of expenditure of ₹1,626 crore under the Economic sector in 2018-19 over the previous year partly offset by increase of expenditure of ₹378 crore under the Social Sector. Decrease of expenditure in the Economic Sector was mainly under the sub-sectors 'Transport' (₹1,197 crore), 'Irrigation and Flood Control' (₹273 crore), 'Industry and Minerals'(₹ 271 crore) and 'Other rural development programmes' (₹199 crore), partly offset by increase of expenditure under 'General Economic Services'(₹440 crore). The development capital expenditure of ₹7,233 crore, included ₹1,601 crore released to KIIFB during 2018-19 as petrol cess and share of motor vehicle tax.

1.8.3 Incomplete projects/works

Department-wise information pertaining to incomplete projects/works (each costing above ₹one crore) as on 31 March 2019 is given in **Table 1.29**.

Table 1.29: Status of incomplete projects in the State *(₹in crore)*

Sl. No	Name of the department/project	No. of incomplete projects/ works	Initial budgeted cost	Cumulative actual expenditure as on 31 March 2019
1.	Irrigation Department – (Irrigation and Minor Irrigation Works)	20	414.57	252.09
2.	Public Works Department – (Roads including NH)	118	767.38	402.79
3.	Public Works Department – (Bridges)	40	624.92	425.67
4.	Public Works Department – (Buildings)	89	283.26	168.21
5.	Harbour Engineering Department	3	34.34	43.47
	Total	**270**	**2,124.47**	**1,292.23**

Source: Appendix IX of Finance Accounts 2018-19

As per the Finance Accounts 2018-19, there was delay ranging from one to 27 years in completion of 270 projects/works and this would result in time overrun and cost overrun, besides denying the desired benefit to the beneficiaries.

1.9 Financial Analysis of Government Investments, Loans and Advances

In the post-Fiscal Responsibility and Budget Management framework, the State is expected to keep its fiscal deficit (and borrowings) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements from its own sources of revenue. In addition, in a transition to complete dependence on market-based resources, the State Government is required to initiate measures to earn adequate returns on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* previous years.

1.9.1 Investment and returns

As of March 2019, the State Government had invested ₹8,545.35 crore in Statutory Corporations (3 nos.), Government Companies (working 101 nos., non-working 16 nos.) Joint Stock Companies (40 nos.) and Co-operatives **(Table 1.30)**. The average return on these investments was 1.40 *per cent* in the last five years while the Government paid an average interest rate of 7.29 *per cent* on its borrowings during 2014-15 to 2018-19.

Table 1.30: Return on investments

Investment/Return/Cost of Borrowings	2014-15	2015-16	2016-17	2017-18	2018-19
Amount of Investment (₹ in crore)	6,085.13	6,733.85	7,240.03	8,211.47	8,545.35
Return (₹ in crore)	74.18	90.23	96.37	126.48	132.12
Return *(per cent)*	1.22	1.34	1.33	1.54	1.55
Average rate of interest on Government borrowing *(per cent)*	7.35	7.35	6.92	7.48	7.34
Difference between interest rate and return *(per cent)*	6.13	6.01	5.59	5.94	5.79

Source: Finance Accounts of the State Government

During 2018-19, the State Government invested ₹5.60 crore in Statutory Corporations, ₹362.11 crore in Government Companies,₹150.17 crore in Co-operative Banks and Societies. Progressive expenditure on investments was increased by ₹1.61 crore under Government companies and decreased by ₹45.97 crore (due to proceeds of retirement of share capital transferred to capital receipts) under Co-operative banks and societies. Out of the total investment of ₹8,545.35 crore, ₹33.87 crore was in 16 non-working companies and ₹ 2,897.66 crore was in 55[35] loss making Companies and two loss making Corporations.

1.9.2 Loans and advances by the State

In addition to investments in Co-operative Societies, Statutory Corporations and Government Companies, the Government also provides loans and advances to many institutions. **Table 1.31** presents the outstanding loans and advances as on 31 March 2019 and interest receipts during the last five years.

Table 1.31: Details of loans and advances during the last five years*(₹in crore)*

Quantum of Loans/Interest Receipts/Cost of Borrowings	2014-15	2015-16	2016-17	2017-18	2018-19
Opening balance	11,713[36]	12,320[37]	13,010	13,877	15,163[38]
Amount advanced during the year	743	842	1,160	1,541	2,323
Amount repaid during the year	124	152	292[39]	351	211[40]
Closing balance	12,332	13,010	13,878	15,067	17,275
Net addition	619	690	868	1,190	2,112
Interest receipts	27	32	31	38	41

Source: Finance Accounts of the State Government.

[35] Major loss making Companies /Corporations include Kerala State Electricity Board (₹9776.61 crore) , Kerala State Road Transport Corporation (₹ 5041.08 crore), The Kerala State Cashew Development Corporation Ltd (₹1120.38 crore) , Kerala State Electronic Development Corporation Ltd (₹211.90 crore), Kerala Electrical and Allied Engineering Company Ltd (₹185.74 crore), Autokast Ltd. (₹162.68 crore), Kerala State Textile Corporation Ltd.(₹161.79 crore.) The figures in parenthesis represent the accumulated loss.

[36]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.

[37] Difference of ₹12 crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (q) of Statement no.18 of Finance Accounts 2015-16.

[38] 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. 18 of Finance Accounts 2018-19.

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

[40]Includes ₹ 0.40 crore being the irrecoverable loans written off

The total outstanding loans and advances as on 31 March 2019 increased by ₹2,112 crore compared to those of the previous year. The major disbursement of loans and advances during the current year was to Kerala State Road Transport Corporation (₹1,056 crore), Pariyaram Medical College (₹163 crore) and to Bharat Petroleum Corporation Limited (₹110 crore). Interest received against these loans remained less than one *per cent* during the period 2014-15 to 2018-19 and was 0.24 *per cent* during 2018-19 as against the average cost of borrowing of 7.34 *per cent* during the year.

1.9.2.1 Arrears in loan repayment

The Government provides loan assistance to Statutory Corporations, Government Companies, Autonomous Bodies and Authorities etc., and the same is treated as assets in the Government accounts. As per Finance Accounts, an amount of ₹17,275 crore was outstanding as loan at the end of March 2019. Also, at the end of March 2019, repayment of loans advanced to 70 institutions were in arrears from 1960-61 to 2017-18 amounting to ₹13,723 crore (Principal: ₹8,740 crore and Interest: ₹4,983 crore). About 86 *per cent* of the above arrears pertained to six institutions *viz.*, Kerala Water Authority (₹4,440 crore), Kerala State Electricity Board Limited (₹1,768 crore), Kerala State Road Transport Corporation (₹2,512 crore), Kerala State Housing Board (₹1,719 crore), Kerala Industries Infrastructure Development Corporation (₹704 crore), and Kerala State Cashew Development Corporation Ltd (₹668 crore). The State Government accorded sanction (February 2017) to convert loans amounting to ₹713.22 crore outstanding as on 31 March 2007 in respect of Kerala Water Authority as capital contribution of KWA. For this, provision had been made in SDG in June 2019 for making necessary pro forma correction for conversion of loan into capital contribution of Kerala Water Authority.

It was also observed that the State Government released 81 loans to 19 institutions amounting to ₹84.55 crore during the period from 1991-92 to 2005-06, without specifying the terms and conditions for repayment.

In order to provide a true and fair picture of the State Government accounts, the Government needs to reduce the arrears in recovery of loans advanced.

1.9.3 Cash balances and Investment of cash balances

The cash balances and investments made by the State Government out of the cash balances during the year are shown in **Table 1.32**.

Table 1.32: Cash balances and Investment of cash balances*(₹in crore)*

Particulars	As on 31 March 2018	As on 31 March 2019	Increase(+)/ Decrease(-)
(a) General Cash balances			
Cash in Treasuries and other banks	34.16	34.16	
Deposit with Reserve Bank	(-)80.81[41]	(-)52.17	28.64
Remittances in transit -Local	2.57	0.20	(-)2.37
Total (a)	**(-)44.08**	**(-)17.81**	**26.27**

[41] There was a difference of ₹57.15 crore (debit) under the head 'Deposit with Reserve Bank' between the figures reflected in the accounts (credit item ₹52.17 crore) and that communicated by the Reserve Bank of India (credit item ₹4.98 crore). The difference of ₹57.15 crore (debit) is under reconciliation.

Particulars	As on 31 March 2018	As on 31 March 2019	Increase(+)/ Decrease(-)
(b) Investments from cash balances			
GoI Treasury Bills	885.88	187.86	(-)698.02
GoI Securities	5.15	1.67	(-)3.48
Total (b)	**891.03**	**189.53**	**(-)701.50**
(c) Investments in earmarked funds			
Reserve funds not bearing interest	1,885.66	2,031.93	146.27
Total (c)	**1,885.66**	**2,031.93**	**146.27**
(d) Departmental cash balances including Permanent advances	**0.27**	**(-)0.50**	**(-)0.77**
Total Cash Balance - (a) to (d)	**2,732.88**	**2,203.15**	**(-)529.73**
Interest realised during the year on investment of cash balances	**47.66**	**37.13**	**(-)10.53**

Source: Finance Accounts of the State Government

Table 1.32 shows that the cash balance of the State at the end of March 2019, decreased by ₹529.73 crore compared to the closing balance at the end of March 2018. This was mainly due to the decrease in investments under GoI Treasury Bills (₹698.02 crore) partly offset by increase in investments in earmarked funds (₹146.27 crore). The interest realised on investment of cash balance also decreased by ₹10.53 crore, compared to the previous year.

1.9.3.1 Outstanding balances under the head 'Cheques and Bills'

This head is an intermediary accounting head for initial recording of transactions which are to be cleared eventually. As per accounting rules, when a cheque is issued, the functional head is debited and the Major Head-8670-Cheques and Bills is credited. On clearance of the cheque by the bank, the minus credit is given to Major Head 8670-Cheques and Bills by crediting the Major Head- 8675-Deposits with Reserve Bank and thereby reducing the cash balance of the Government. Thus, the outstanding balance under the Major Head 8670-Cheques and Bills represents the amount of un-encashed cheques.

As on 31 March 2019, there was an outstanding balance (cumulative) of ₹1,036.93 crore. This represents expenditure originally booked under different major heads of the Consolidated Fund, which did not result in any cash outflow till the end of March 2019.

1.10 Assets and Liabilities

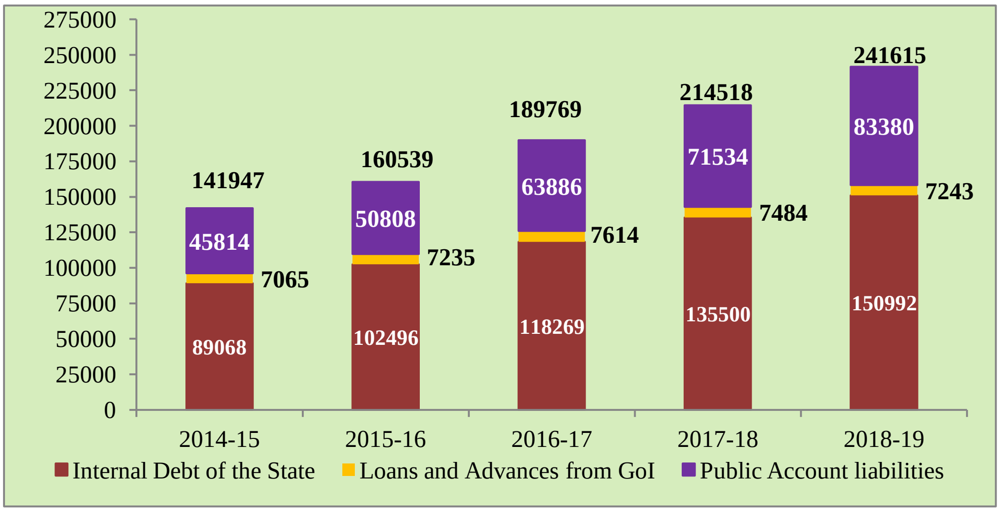
1.10.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4 Part B** gives an abstract of such liabilities and assets as on 31 March 2019, compared with the corresponding position as on 31 March 2018. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from GoI, receipts from the Public Account and Reserve Funds, the assets mainly comprise of the capital outlay and loans and advances given by the State Government and its cash balances.

1.10.2 Fiscal liabilities

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

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



The overall fiscal liabilities of the State increased from ₹1,41,947 crore in 2014-15 to ₹2,41,615 crore in 2018-19, thus recording an increase of 70 *per cent* during the five year period. During 2018-19, the growth rate of fiscal liabilities was 12.63 *per cent* and it was the lowest during the five-year period.

Fiscal liabilities of the State comprised of Consolidated Fund liabilities and Public Account liabilities. Consolidated Fund liabilities (₹1,58,235 crore) comprised of Market Loans (₹1,29,719 crore), Loans from the Government of India (₹7,243 crore) and Other Loans (₹21,273 crore). The Public Account liabilities (₹83,380 crore) comprised of liabilities under Small Savings, Provident Funds, etc., (₹77,397 crore)[42], interest bearing obligations (₹2,114 crore) and non-interest bearing obligations like Deposits and other earmarked funds (₹3,869 crore).

1.10.3 Reserve Funds

The balance under Reserve Funds was ₹4,464.28 crore as on 31 March 2019. The details in respect of two of the major Reserve Funds (balance ₹4,132.52 crore) are given in succeeding paragraphs.

1.10.3.1 State Disaster Response Fund

The State Disaster Response Fund (SDRF) was set up in 2010-11 replacing the existing Calamity Relief Fund. At the beginning of 2018-19, there was ₹287.08 crore as opening balance in the Fund. The size of the Fund for Kerala for the year 2018-19 (fixed by the Fourteenth Finance Commission) was ₹214 crore, 90 *per cent* (₹192.60 crore) of which was to be contributed by the Central Government and 10 *per cent* (₹21.40 crore) by the State Government. During the year, an amount of ₹233.17 crore was credited to the Fund (Central

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[42] This includes liabilities under Savings Bank Deposits (₹8,873 crore) and Fixed and Time Deposits (₹30,785 crore).

Share of ₹192.60 crore, State Share of ₹ 21.40 crore and arrears of interest on un-invested balance in the Fund kept under Public Accounts for the period 2010-11 to 2014-15 amounting to ₹19.17 crore provided by the State Government). An amount of ₹2,904.85 crore received from National Disaster Response Fund during the year was also credited to the fund. After setting off the expenditure for disaster relief operations to the extent of ₹1,311.12 crore, the balance in SDRF as on 31 March 2019 was ₹2,113.98 crore.

According to the guidelines issued by the Government of India, the accretions to SDRF are to be invested in GoI securities/ Treasury Bills/ interest earning deposits with scheduled commercial Banks by the State Executive Committee constituted for the management of the fund. However, this was not done till date.

1.10.3.2 Consolidated Sinking Fund

The State Government set up a Consolidated Sinking Fund with effect from the financial year 2007-08, according to which the Fund was to be utilised as an amortisation fund for redemption of all outstanding liabilities of the Government commencing from the financial year 2012-13. The Fund was to be credited with contributions from revenue at the prescribed rate and interest accrued on investments made out of the Fund. Only the interest accrued and credited in the Fund was to be utilised for redemption of the outstanding liabilities of the Government. As per paragraph 5 of revised model scheme for the constitution and administration of the Consolidated Sinking Fund of Kerala, the rate of contribution to the Consolidated Sinking Fund was 0.50 *per cent* of the outstanding liabilities at the end of the previous year. According to this, the State Government may contribute ₹1,072.59 crore during 2018-19 to the Consolidated Sinking Fund. However, the State Government did not contribute any amount to the Fund, during the current year. The State Government stated that as it is continuously running in revenue deficit, the contribution to Consolidated Sinking Fund (CSF) can materialise only from borrowed funds. Government also stated that the yield on Consolidated Sinking Fund investment as against the cost of borrowings would give a negative carry and hence it is not prudent to contribute to CSF, given the high cost of borrowings. However, audit observes that non-contribution to the Consolidated Sinking Fund has reduced the reserve fund for future amortization of loan liability.

As per the guidelines of the fund, the balance at the credit of the Fund is required to be invested in the Government of India Securities. During the year, an amount of ₹146.27 crore was received as interest from the investment made out of the fund. At the beginning of the year, ₹1,872.27 crore was available and with the interest received on the investment, the outstanding balance at the end of year was ₹2,018.54 crore.

1.10.4 Status of Guarantees – Contingent Liabilities

Guarantees are contingent liabilities on the Consolidated Fund of the State in cases of default by borrowers for whom the guarantees have been extended. The maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2014-15 are given in **Table 1.33**.

Table 1.33: Guarantees given by the Government of Kerala *(₹in crore)*

Guarantees	2014-15	2015-16	2016-17	2017-18	2018-19
Maximum amount guaranteed	13,123.30	13,712.77	20,204.10	25,104.33	46,795.99
Outstanding amount of guarantees	11,126.87	12,438.52	16,245.56	17,356.47	26,834.65
Percentage of maximum amount guaranteed to total revenue receipts	23	20	27	30	50

Source: Finance Accounts of the State Government

As per the Kerala Ceiling on Government Guarantee Act, 2003 amended with effect from April 2018, the outstanding Government guarantee during the year should not exceed five *per cent* of the State GSDP for the year. The outstanding guarantee as on 31 March 2019 (3.4 *per cent*) was well within the limit of five *per cent* of GSDP. The above table shows that there was steady increase in the outstanding guarantees at the end of each of the last five years and it increased from ₹11,126.87 crore in 2014-15 to ₹26,834.65 crore in 2018-19. As a percentage of revenue receipts, the guaranteed amount increased from 23 *per cent* in 2014-15 to 50 *per cent* in 2018-19.

As per Section 6 of the Act, the Government has to constitute a Guarantee Redemption Fund. The guarantee commission charged under Section 5 of the Act was to form the corpus of the Fund. However, the Fund was not constituted and consequently, guarantee commission of ₹1,099.79 crore collected during 2003-04 to 2018-19 was not credited to the Fund but was treated as non-tax revenue in the relevant years and used for meeting the revenue expenditure of the Government. Non-crediting of guarantee commission collected to the Guarantee Redemption Fund resulted in under-statement of revenue expenditure to that extent.

During the year, an amount of ₹124.50 crore was received as guarantee commission and as of March 2019, ₹228.38 crore was due as arrears in this regard.

1.10.5 Off-budget borrowings

Entity through whom off-budget borrowings being resorted to

The Kerala Infrastructure Investment Fund Board (KIIFB) is a statutory body constituted (November 1999) and controlled by the State Government under the Kerala Infrastructure Investment Fund Act to manage the Kerala Infrastructure Investment fund with the objective of providing investment for critical and large infrastructure projects in Kerala. The State Government guarantees the payment of principal and interest of the loans raised by Kerala Infrastructure Investment Fund Board as per section 10(1) of the Kerala Infrastructure Investment Fund (Amendment) Act, 2016. KIIFB borrowed / raised funds amounting to ₹3,106.57 crore from financial institutions till 2018-19 by issue of bonds etc. and paid interest amounting to ₹17.07 crore till 2018-19 on these borrowings as shown in **Table 1.34**.

Table 1.34: Details of funds raised/ borrowed by KIIFB and its utilisation

(₹ in crore)

Name of institution from where funds borrowed	Borrowed amount		Amount Repaid	
	2017-18	2018-19	Principal	Interest
NABARD	100.80	100.00	Nil	2.65 (2017-18) 9.51 (2018-19)
Term Loan from Banks		750.00	Nil	4.80 (2018-19)
Amount raised through Masala Bonds		2,150.00	Nil	Nil
Amount raised through KSFE Bonds		5.77	Nil	0.11 (2018-19)
Total	**100.80**	**3,005.77**		**17.07**

Source: Details furnished by KIIFB

KIIFB had incurred an expenditure of ₹1,511.67 crore for various Government approved infrastructure projects till 2018-19. Ironically, KIIFB had also 'paid' guarantee fee to the State Government amounting to ₹24.06 crore (for the loan raised up to 2018-19) from the moneys it had received from the Government.

Every year the State Government sets apart petroleum cess and a share of Motor Vehicle Tax collected and transfers it to KIIFB through a regular budget provision under capital account. As per section 8 of the Kerala Infrastructure Investment Fund (Amendment) Act, 2016, the share of Motor vehicle taxes to be paid is 10 *per cent* for the first year (2016-17) and increased by 10 *per cent* every year up to 50 *per cent* of the tax in the fifth year. The State Government confirmed to Audit that the servicing of principal and interest of loans raised by KIIFB would be done by the share of taxes and petroleum cess. The State Government has set apart ₹3,372.85 crore to KIIFB as petroleum cess and share of motor vehicle tax till 2018-19 as shown in the **Table 1.35** given below:

Table 1.35: Details of funds received from State Government

(₹ in crore)

Particulars	2015-16	2016-17	2017-18	2018-19	Total
Petroleum cess	Nil	448.10	421.19	501.82	1,371.11
Share of Motor Vehicle Tax	Nil	281.43	621.45	1,098.86	2,001.74
Grand Total					**3,372.85**

Source: Details furnished by KIIFB

In addition to petroleum cess and share of Motor Vehicle Tax, the State Government had also provided funds amounting to ₹2,498.41 crore to KIIFB as corpus fund (2015-16 - ₹873.85 crore and 2016-17 - ₹1,624.56 crore). KIIFB stated that the above fund would not be utilized for normal project funding and would be used to service debt under exigent circumstances.

Non Adherence to Constitutional Provisions

The borrowings of the State Government are governed by Article 293(1) of the Constitution of India, the guiding principle of which is that the State Government is free to borrow money *within the territory of India* upon security of the Consolidated Fund of the State, and the limits on such borrowings can be regulated under Article 293(3) of the Constitution of India. The State Government is, therefore, required to furnish to GOI the financial statements showing the estimates of receipts and repayments of all sources of borrowings including Open Market Borrowings, other liabilities arising out of Public Account transfers etc, based on which the GOI gives the consent for raising loans and fixes the borrowing ceiling for the State Government. In respect of Kerala the limit fixed for 2018-19 was 3 *per cent* of the estimated GSDP.

KIIFB's borrowings, represent off-budget borrowings, which bypasses the limits set on Government borrowings under Article 293 of the Constitution of India. These borrowings are not taken into the disclosure statements in the budget documents or in the accounts. Hence such borrowings do not have legislative approval.

Further, from Table 1.34 above, it is observed that the maximum amount of borrowings is done from Masala bonds, which are, by their very nature, *external commercial borrowings*. However, entry 37 of List I of the 7th Schedule of Constitution of India gives the powers of raising foreign loans only to the Central Government. The entire repayment is being done through Government's own revenue resources and therefore, such foreign borrowings are, for all practical purposes, borrowings of the State Government. Hence, they appear to be in violation of the provisions of the Indian Constitution and encroachment by the State on the powers of the Centre. The approval given by RBI to KIIFB to issue Masala bonds is also questionable because its permission has allowed the State Government to route its own foreign borrowings through KIIFB. If this model were to be followed by other States as well, then the external liabilities of the country would increase substantially, without the Central Government even knowing that such liabilities are being created. The purpose and intent of Entry 37 in List I would be defeated.

Direct Liability of the State

A State may have a number of PSUs, ABs etc, who may also borrow from the market; repayments of these borrowings and interest thereon are a charge on the income of the concerned PSUs/ABs. However, depending on the financial health of the PSUs/ABs, such borrowings may sometimes have to be against Government guarantees. Such guarantees are obviously in the nature of contingent liabilities. It is for this reason that the relevant Acts of most States prescribe a maximum limit or extent to which Government guarantees may be given. In the case of Kerala, the Kerala Ceiling on Government Guarantee Act, 2003, amended w.e.f. April 2018, provides a limit of five *per cent* of GSDP. However, even in cases where Government guarantees are given, the basic presumption is that the PSU/AB would be able to repay the borrowed sum along with interest from its own sources of revenue. That is why it is not considered fully as the State's liabilities, but only a contingent liability, because the State would have to discharge the liability *only in the contingency that the PSU/AB fails to discharge its debt obligation*. It may be noted that a guarantee can be treated as contingent liability only when the borrowing entity generates its own resources and is expected to repay the borrowings from such resources; only in the contingency of the borrowing entity failing to repay does it become the liability of the State as the guarantor. The meaning of the English word 'contingent' in this case is very clear, and brings into focus the nature of the liability.

As a corollary, if the PSU/AB has no sources of income and has to depend on flow of funds from the State Government to meet its debt obligation, then such liability is obviously fully the liability of the State. In other words, if the resources of the PSU/AB are to come from revenue raised by the Government by way of taxes and cesses, raised on the tax-raising authority of the State, and the PSU/AB has no income of its own, then *there is nothing contingent about the liability*; the liability is tied up to the revenue resources of the State and is, therefore, a direct charge on the State revenues. It is obvious that there is nothing 'contingent' about a liability which has to be repaid in this manner.

Merely because the borrowing is not reflected in the budget of the State, does not, in such cases, at all detract from the fact that such borrowings have to be totally and fully repaid by the State Government. In fact, such borrowings are no different from the borrowings reflected in the budget, in so far as the liability of the State is concerned; these may be off budget borrowings, but the liability created on the State Government itself is real and complete.

Conclusion

KIIFB's response was that the Government was providing guarantee for principal and interest for the loans received by KIIFB and therefore the borrowings of KIIFB can be termed as contingent liabilities. It would become a liability on the Government only when there is default by KIIFB. KIIFB also stated that it can comfortably repay its liabilities using the petroleum cess and share of Motor Vehicle Tax being received every year from the Government

It is surprising that the Government of Kerala should seek to treat the borrowings of KIIFB as contingent liabilities. If any state government borrows money in the name of any PSU/AB, which has no independent source of income, and the loan is to be repaid by setting apart a share of the Governments own resources, then for that reason, the loan is not a contingent liability but a liability on its own income, directly and fully as explained above. As the Government of Kerala chooses to raise funds in the name of KIIFB, and the debt is to be discharged from the Government's own revenue, such as cess on petroleum and a part of the motor vehicle tax, then the State Government has definitely created a liability on its own revenue resources. This is a classic case of off budget borrowings, which (i) bypasses the limits set on Government borrowings under Article 293 of the Constitution of India and (ii) violates the provision of Entry 37 of List I. In fact, such borrowings for all practical purpose, represent fiscal deficit of the State and should be treated as such. Creating such liabilities, without disclosing them in the budget, raises questions both of transparency, and of inter-generational equity. Merely because the borrowing is not shown in the budget does not mean that the liability of discharging it from the State revenues will disappear.

1.11 Debt Management

1.11.1 Debt Profile

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

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

Table 1.36: Debt profile of the State

(₹in crore)

Borrowings	2014-15	2015-16	2016-17	2017-18	2018-19
Open market loans	71,960	84,846	99,532	1,15,735	1,29,719
Loans from financial institutions	4,735	4,670	4,777	4,625	4,460
Special securities issued to NSSF	11,806	12,537	13,509	14,557	15,608
Others	567	443	451	583	1,205
GOI loans	7,065	7,235	7,614	7,484	7,243
Public Account Borrowings	45,814	50,808	63,886	71,534	83,380
Total Fiscal Liabilities	1,41,947	1,60,539	1,89,769	2,14,518	2,41,615
Population (in crore)	3.34	3.56	3.58	3.60	3.63
Per capita debt (in ₹)	42,499	45,095	53,008	59,588	66,561

Source: Finance Accounts of respective years

The per capita debt increased significantly from ₹42,499 in 2014-15 to ₹66,561 in 2018-19.

1.11.2 Debt sustainability

Debt sustainability implies the State's ability to service the debt in future. Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability of the State. This section analyses sustainability of overall debt liability of the State Government in terms of growth rate of debt and GSDP, Debt-GSDP ratio, net debt available to the State etc. These indicators for the last five years are given in **Table 1.37** below.

Table 1.37: Debt sustainability: indicators and trends

(₹ in crore)

Indicators of Debt Sustainability	2014-15	2015-16	2016-17	2017-18	2018-19
Outstanding Debt* of the State	96,133	1,09,731	1,25,883	1,42,984	1,58,235
Growth rate of Debt*	15.17	14.14	14.72	13.58	10.67
Gross State Domestic Product (GSDP)	5,12,564	5,61,994	6,34,871	7,00,532	7,81,653
Growth rate of GSDP	10.22	9.64	12.97	10.34	11.58
Debt*/GSDP ratio (*per cent*)	18.76	19.53	19.83	20.41	20.24
Debt-Revenue Receipt ratio	1.66	1.59	1.66	1.72	1.70
Average interest[43] paid on outstanding debt	10.88	10.79	10.29	11.25	11.12
Burden of Interest payments(Interest	16.86	16.10	16.03	18.21	18.04

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

Indicators of Debt Sustainability	2014-15	2015-16	2016-17	2017-18	2018-19
payment/ Revenue Receipts) Ratio					
Debt Repayment/Debt Receipts**	20.12	23.06	22.82	28.44	35.78
Net Debt available ** (₹in crore)[44]	5,366	5,240	6,736	6,164	3,168
Maturity profile (in years) (₹in crore)					
Up to one year					6948.14 (4.39)
One to three years					16,870.66 (10.66)
Three to five years					26,865.91 (16.98)
Five to seven years					30,372.21 (19.19)
Seven years and above					70,013.73 (44.25)
Maturity profile details not furnished by State Government					7,163.79 (4.53)

** excluding Public Account liabilities **excluding Ways and Means Advances*
Figures in parenthesis are percentage of total public debt
Source: Finance Accounts of respective years

- The rate of growth of outstanding debt was 10.67 *per cent* in 2018-19 which was 4.5 *per cent* points lower than the growth rate for 2014-15.
- Interest payment on debt totaling ₹16,748 crore constituted 18.04 *per cent* of revenue receipts during 2018-19 when compared to 18.21 *per cent* in the previous year. The decrease in Interest Payment/Revenue Receipts ratio during 2018-19 was due to lower growth of interest payment (10.77 *per cent*) when compared to increase in revenue receipts (11.85 *per cent*) during the year. Since a significant portion of borrowed funds was used for repayment of borrowings and interest thereon, the net debt available with the State for development activities was only ₹3,168 crore (13 *per cent*) during 2018-19.
- The debt maturity profile of the State given in the Table above shows that 32.03 *per cent* of the debt amounting to ₹50,684.71 crore has to be repaid within five years. Also 51.22 *per cent* (₹81,056.92 crore) of the debt has to be repaid by March 2026 (within seven years). The State Government has to ensure additional revenue resources and formulate a well thought out debt strategy to meet this debt burden.

Domar's approach towards debt stability

Public debt sustainability refers to sustainability of the Government's debt without the threat of a default. Therefore, to examine debt sustainability, it becomes important to study the growth in the debt and also assess the fiscal balance (especially primary balance) being generated which would worsen or improve the debt situation.

The public debt sustainability of Kerala was analysed based on Domar's model. E.D. Domar (1944) explained that a continuous Government borrowing results in an ever rising public debt, the servicing of which will

[44] Net Debt available to the State = Public debt receipt during the year - repayment of principal amount - payment of interest amount (excluding ways and means advances)

require higher taxes which would destroy the economy. Hence, he assumed that the indebtedness degree needs to converge to a finite value, in order to avoid further increasing of the tax burden. Thus, Domar model concludes that for sustainability of public debt, the real growth of economy should remain higher than the real interest rates. The conditions to ensure the stability of public indebtedness are indicated in the **Table 1.38** given below.

Table 1.38 : The dynamics of public debt depending on the interest rate, the growth rate of GDP and the primary budget balance

g-r (g: real economic growth rate; r: real interest rate)	s <0 (primary deficit)	s >0 (primary surplus)
g-r>0 (strong economic growth)	public debt will converge to a stable level greater than zero	public debt will converge to a stable level less than zero leading to public savings
g-r<0 (slow economic growth)	public debt will increase indefinitely, without converging to a stable level	undefined situation

An analysis of Public Debt Sustainability based on Domar model in respect of Kerala is shown in the **Table 1.39** given below.

Table 1.39: Public Debt Sustainability-real growth and real interest

Year	Real Growth (g)	Real Interest (r)	g-r	Primary deficit (-)/ Surplus (+) (s) (₹ in crore)	Remarks
2015-16	7.44	3.15	4.29	(-) 6,707	As g-r >0 and s<0; public debt will converge to a stable level
2016-17	7.56	2.82	4.74	(-) 14,331	
2017-18	7.27	1.49	5.78	(-) 11,718	
2018-19	7.46	2.44	5.02	(-) 10,210	
Real Growth rate calculated for Real GDP Real Interest rate calculated as interest rate minus inflation					

As the economic growth rate had exceeded the interest rate on government loans, Public debt may not increase indefinitely and may converge to a stable level.

However, an area of concern remains with the present debt position. Debt raised is not utilized for servicing its capital obligations but is used mainly for servicing its debt liabilities and financing the revenue deficit. The fiscal deficit had been contained (fiscal deficit increased by just 2 *per cent* in the last two years) by compressing capital expenditure. Less expenditure on the capital sector may lead to decline in the real growth rate in the near future, in that case, as per the Domar model, the debt may increase indefinitely without converging to a stable level.

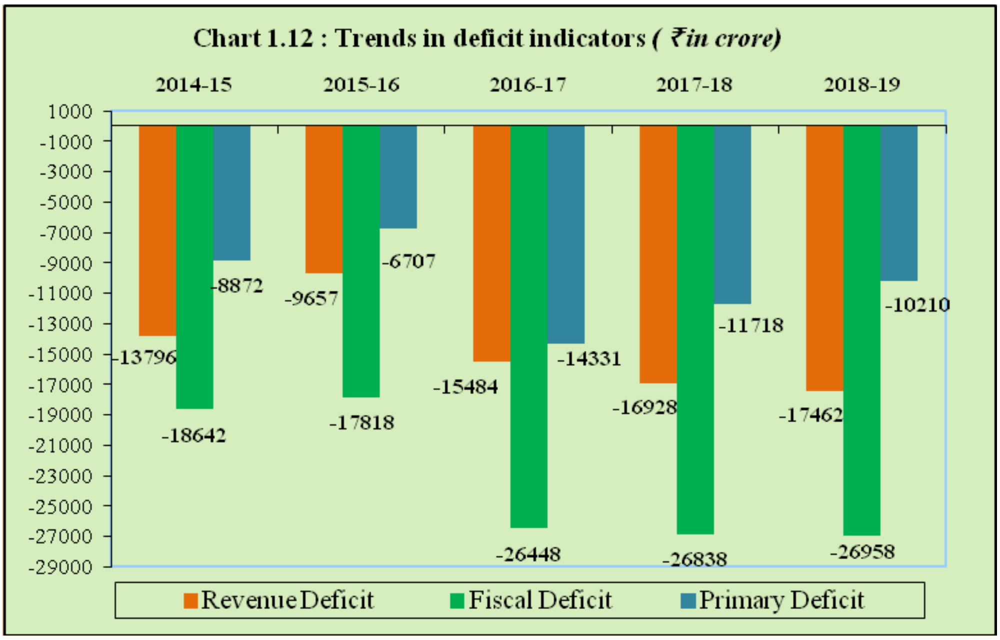
Moreover, other factors such as public account liabilities and force majeure events[45] and/or any other un-inventoried losses of revenue also have to be reckoned in assessing the debt sustainability/stability of the State[46].

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 2018-19.

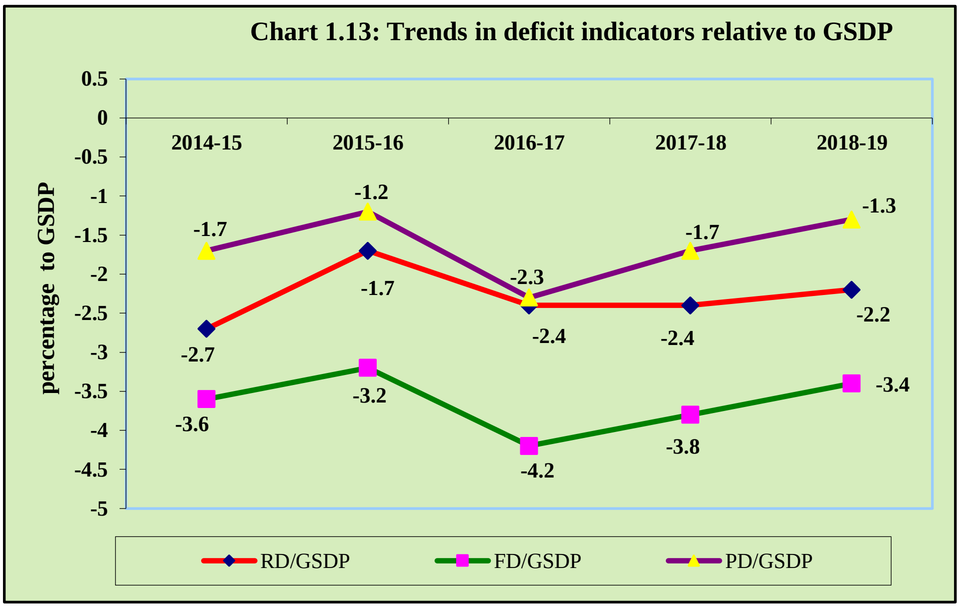
1.12.1 Trends in deficits

Charts 1.12 and **1.13** present the trends in deficit indicators over the period 2014-19



45 Like current Coronavirus crisis & its effect on GSDP.

46 As these cannot be anticipated or determined statistically, they have not been factored in the analysis.



The revenue deficit of the State, which indicates the excess of its revenue expenditure over revenue receipts, increased steadily during 2014-19 (except during 2015-16) from ₹13,796 crore in 2014-15 to ₹17,462 crore in 2018-19 indicating increased growth of revenue expenditure over revenue receipts. Revenue deficit increased by 3.2 *per cent* (₹534 crore) during the year when compared to the increase of 9.3 *per cent* in the previous year. However, ratio of revenue deficit to GSDP showed an improvement from 2.4 *per cent* in 2017-18 to 2.2 *per cent* in 2018-19. Revenue deficit as percentage of revenue expenditure also showed a reduction from 16.94 *per cent* in 2017-18 to 15.83 *per cent* in 2018-19. Borrowings to meet the revenue deficit year after year would not augur well for the State Finances in the long run.

The fiscal deficit, which represents the total borrowings of the Government also increased during the last five years (except during 2015-16) from ₹18,642 crore in 2014-15 to ₹26,958 crore in 2018-19. The fiscal deficit increased by ₹120 crore during the year when compared to the previous year. The ratio of FD to GSDP showed an improvement from 3.83 *per cent* in 2017-18 to 3.45 *per cent* in 2018-19 but was still higher than the target of 3 *per cent* set by Fourteenth Finance Commission for the year.

GoI fixed Net Borrowing Ceiling of Kerala for 2018-19 at ₹22,353 crore in March 2018 (3 *per cent* of estimated GSDP of ₹7,45,089 crore for 2018-19). On the basis of NBC of ₹22,353 crore for 2018-19, State Government furnished borrowing statement for 2018-19 to GoI in March 2018 showing the estimates of receipts and repayments of all sources of borrowings including Open Market Borrowings (OMB), Negotiated Loans from Financial Institutions, National Small Savings Fund loans, Central Government loans and other liabilities arising out of Public Account transfers under Small Savings, PFs, Reserve Funds, Deposits etc. in the prescribed format for getting consent from GoI for raising OMB during 2018-19. As per the borrowing statement, the net accretions under Public Accounts during 2018-19 was estimated as ₹3,500 crore but the actual net accretions under Public Accounts worked out to ₹11,846 crore. These over borrowings under Public Accounts have resulted in fiscal deficit exceeding limit of three *per cent* fixed by GoI. When compared with the target of three *per cent* for fiscal deficit/GSDP fixed by Fourteenth Finance Commission for 2018-19, the targets in respect of FD/GSDP set by the State in Medium Term Fiscal Policy and revised Budget estimates for 2018-19 were 3.10 *per cent* and 3.06 *per cent* respectively. However actual FD/GSDP ratio worked out to 3.45 *per cent* during 2018-19.

Primary deficit decreased from ₹11,718 crore in 2017-18 to ₹10,210 crore in 2018-19 mainly due to increase in interest payment (₹1,628 crore) during the year.

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

1.12.2 Components of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit had undergone a compositional shift as reflected in the **Table 1.40**. Receipts and disbursements under the components of financing the fiscal deficit during 2018-19 are given in **Table 1.41.**

Table 1.40: Components of fiscal deficit and its financing pattern (*₹in crore)*

Particulars		2014-15	2015-16	2016-17	2017-18	2018-19
Break down of fiscal deficit						
1.	Revenue deficit	13,796	9,657	15,484	16,928	17,462
2.	Net capital expenditure	4,227	7,472	10,096	8,720	7,384
3.	Net loans and advances	619	689	868	1190	2,112
Total fiscal deficit		**18,642**	**17,818**	**26,448**	**26,838**	**26,958**
Financing pattern of fiscal deficit*						
1.	Market borrowings	11,777	12,886	14,686	16,203	13,984
2.	Loans from Government of India	402	169	379	(-) 130	(-)240
3.	Special Securities Issued to National Small Savings Fund	525	731	972	1,048	1,051
4.	Loans from Financial Institutions	(-)69	(-)64	107	(-)19	455
5.	Small Savings, PF, etc.	3,765	8,332	12,932	7,207	9,619
6.	Deposits and Advances	1,365	(-)3,280	105	266	392
7.	Suspense and Miscellaneous	58	774	(-)2,169	1,203	(-)762
8.	Remittances	26	(-)93	(-) 313	(-)166	(-)52
9.	Others	164	(-)59	170	309	1,981
10.	**Total (1 to 9)**	**18,013**	**19,396**	**26,869**	**25,921**	**26,428**
11.	Increase (-)/Decrease (+) in Cash Balance	629	(-)1,578	(-) 421	917	530
12.	**Overall deficit**	**18,642**	**17,818**	**26,448**	**26,838**	**26,958**

*All these figures are net of disbursements/outflows during the year.

Source: Finance Accounts of respective years

Table 1.41: Receipts and disbursements under components financing the fiscal deficit during 2018-19 (₹ *in crore)*

Sl.No.	Particulars	Receipt	Disbursement	Net
1.	Market borrowings	19,500	5,516	13,984
2.	Loans from Government of India	452	692	(-)240
3.	Special Securities Issued to National Small Savings Fund	2,370	1,319	1,051
4.	Loans from Financial Institutions	1,425	970	455
5.	Small Savings, PF, etc.	1,06,577	96,958	9,619
6.	Deposits and Advances	3,020	2,628	392
7.	Suspense and Miscellaneous	1,38,790	1,39,552	(-)762
8.	Remittances	2,382	2,434	(-)52
9.	Others	3,300	1,319	1,981
10.	**Total (1 to 9)**	**2,77,816**	**2,51,388**	**26,428**
11.	Increase (-)/Decrease (+) in Cash Balance	2,733	2,203	530
12.	**Overall deficit**			**26,958**

Source: Finance Accounts of the State Government

Table 1.40 reveals that during the last five years, market borrowings and net accretions in Public Account (especially in Small Savings, PF, etc.) are the main sources of the State Government to finance the fiscal deficit. During 2018-19, net market borrowings (₹13,984 crore) and net accretions in Small savings, PF, etc., (₹9,619 crore) were mainly used for financing the fiscal deficit of the State.

During 2018-19, the State Government raised ₹19,500 crore as market loans at a weighted average interest rate of 8.34 *per cent*, loans amounting to ₹625.85 crore from NABARD at interest rates of 4.75 *per cent* to 5.25 *per cent*, ₹2,370.24 crore from National Small Savings Fund at an interest rate of 8.20 *per cent* and ₹53.78 crore from NCDC at interest rates of 10.25 to 11.20 *per cent*. The State Government also received loans amounting to ₹745.76 crore from Federal Bank (₹369.22 crore) and Punjab National Bank (₹376.54 crore) during the year by transferring the principal portion of outstanding House Building Advance granted to State Government employees at an interest rate of 8.45 *per cent*. The State Government also received loans amounting to ₹452.17 crore from the Government of India during the year.

The State Government mobilised deposits from its employees, pensioners, institutions and general public through treasuries and accounted them under '102- State Savings Bank Deposits' below '8031- Other Savings Deposits'. During 2018-19, the State Government received ₹78,877.30 crore as deposits through Treasury Saving Bank accounts at interest rates ranging from 4 *per cent* to 4.5 *per cent* and ₹18,171.08 crore as Treasury Fixed Deposits at interest rates ranging between 6.50 *per cent* and 9.0 *per cent*. The balance of such deposits as on 31 March 2019 was ₹39,659.25 crore. This is ₹6,759.15 crore more than the previous year's balance. These accumulations under Savings Bank Deposit were utilised by the State Government for financing its fiscal deficit.

1.12.3 Quality of deficit

The ratio of revenue deficit to fiscal deficit and the break down 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 break down of the primary deficit **(Table 1.42)** indicates the extent to which the deficit was increased on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.42: Primary deficit/surplus – break down of factors *(₹ in crore)*

Year	Non-debt receipts (NDR)	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Primary revenue deficit (-)/surplus (+)	Primary deficit (-)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2014-15	58,102	61,976	4,255	743	66,974	(-) 3,874	(-) 8,872
2015-16	69,214	67,579	7,500	842	75,921	1,635	(-) 6,707
2016-17	75,934	78,979	10,126	1,160	90,265	(-) 3,045	(-) 14,331
2017-18	83,400	84,828	8,749	1,541	95,118	(-) 1,428	(-)11,718
2018-19	93,112	93,568	7,431	2,323	1,03,322	(-)456	(-)10,210

Source: Finance Accounts of respective years

The bifurcation of the factors leading to primary deficit of the State revealed that during 2014-15 to 2018-19, non-debt receipts (NDR) of the State were not enough to meet the primary revenue expenditure[47] of the State (except during 2015-16). Primary deficit which was ₹8,872 crore in 2014-15 increased to ₹10,210 crore in 2018-19.

1.13 Conclusion and Recommendations

Fiscal position of the State

The Revenue deficit increased from ₹13,796 crore in 2014-15 to ₹17,462 crore in 2018-19 and the fiscal deficit increased from ₹18,642 crore in 2014-15 to ₹26,958 crore in 2018-19. The ratio of fiscal deficit to GSDP improved from 3.6 *per cent* in 2014-15 to 3.4 *per cent* in 2018-19. The State did not achieve any of the targets fixed in its Medium Term Fiscal Plan or the Kerala Fiscal Responsibility Act during 2018-19. As per the recommendation of the Fourteenth Finance Commission, fiscal deficit to GSDP ratio was to be anchored at 3 *per cent* but it was 3.4 *per cent* during 2018-19.

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

Revenue resources

Revenue receipts of the State increased from ₹57,950 crore in 2014-15 to ₹92,854 crore in 2018-19, recording a growth of 60 *per cent* during the last five years. The State's own tax revenue, being the main source of revenue in revenue receipts increased by only 44 *per cent* during the period and its share in revenue receipts also decreased from 61 *per cent* in 2014-15 to 55 *per cent* in 2018-19 indicating a low growth rate of tax revenue during the period.

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

Receipts from State Lotteries was the main source of non-tax revenue and it constituted 74 to 81 *per cent* of non-tax revenue during 2014-15 to 2018-19.

The Government needs to address the decreasing trend in growth of its own tax revenue and take measures to improve the same.

Revenue Expenditure

Revenue Expenditure of the State increased from ₹71,746 crore in 2014-15 to ₹1,10,316 crore in 2018-19 recording a growth of 54 *per cent* during the five-year period. Revenue expenditure as a percentage of total expenditure ranged between 89 to 93 *per cent* during the period showing predominance of revenue expenditure in total expenditure. Share of committed expenditure in revenue expenditure was 63 *per cent* during 2018-19 and it consumed 75 *per cent* of the revenue receipts during the year. Interest payments consumed 18 *per cent* of revenue receipts during 2018-19 and is a matter of concern for the State Government.

Quality of expenditure

Capital Expenditure of the State increased from ₹4,255 crore in 2014-15 to ₹7,431 crore in 2018-19 recording a growth of 75 per cent during the five year period. However, capital expenditure is showing a declining trend during the last two years as it decreased by ₹1,377 crore (14 *per cent*) in 2017-18 and further decreased by ₹1,318 crore (15 *per cent*) in 2018-19 showing low priority of the Government towards capital expenditure. The State's share of expenditure on the health and education sectors in the total expenditure was more than General Category States, but the share of capital expenditure and development expenditure in total expenditure was less than that of General Category States. Though the State Government invested ₹8,545.35 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives, average return on these investments was 1.40 *per cent* in the last five years while the Government paid an average interest rate of 7.29 *per cent* on its borrowings during 2014-15 to 2018-19. The interest receipt on loans and advances given by State Government was 0.24 *per cent* during 2018-19 against the average cost of borrowing of 7.34 *per cent*. At the end of the year, repayment of loans advanced to 70 institutions were in arrears amounting to ₹13,723 crore (Principal: ₹8,740 crore and Interest: ₹4,983 crore).

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

Reserve Funds and liabilities

The Consolidated Sinking Fund was constituted with the aim to amortize the outstanding liabilities of the Government, but the Government did not contribute to the fund during 2018-19. Similarly, the Government has to constitute a Guarantee Redemption Fund for crediting guarantee commission collected for meeting future liabilities arising out of guarantees given by the Government. The Guarantee Redemption Fund has not been constituted so far and guarantee commission of ₹1,099.79 crore collected during 2003-04 to 2018-19 was not credited to the Fund. The State Disaster Response Fund (SDRF) had an accumulated balance of ₹2,113.98 crore by the end of March 2019. As per the guidelines issued by GoI, accretions to SDRF have to be invested in GoI Securities/Treasury Bills by the State Executive Committee constituted for the management of the fund. However, this was not done.

Off-budget Borrowing

KIIFB borrowed / raised funds amounting to ₹3,106.57 crore from financial institutions till 2018-19 by issue of bonds etc., which were to be re-paid from the petroleum cess and part of motor vehicle tax set apart by the Government of Kerala from its own revenue resources for transfer to KIIFB. This included an amount of ₹ 2,150 crore raised through Masala Bonds in foreign countries.

Since KIIFB has no source of income, the borrowings by KIIFB for which State Government stood as a guarantor, may ultimately turn out to be a direct liability of the State Government. Any servicing of these debts by the State Government would entail surpassing the FFC and KFR fiscal deficit target of 3 *per cent* (in the current year it already stands at 3.45 *per cent*) and the debt-GSDP ratio of 30 *per cent* (in the current year it stands at 30.91 *per cent*). Further, such off budget borrowings are not in accordance with Article 293 (1) of the Constitution of India.

Debt Management

Open market Loans had a major share (54 *per cent*) in the total fiscal liabilities of the State. The net debt available with the State for development activities was only ₹3,168 crore (13 *per cent* of public debt receipts) during 2018-19.

Debt maturity profile of the State showed that 32.03 *per cent* of the debt amounting to ₹50,684.71 crore has to be repaid within five years and 51.22 *per cent* (₹81,056.92 crore) by March 2026 (within seven years).