EXECUTIVE SUMMARY

Background

The State is located at the southern end of the country, sharing borders with Tamil Nadu and Karnataka. Geographical area-wise, Kerala is ranked 22nd in the country with an area of 38,863 sq.km. The State has a population of 3.58 crore (12th in the country) and it is ranked as the third most densely populated State with a density of 860 persons per sq.km. The decadal growth rate of population was 6.20 *per cent* (3.37 crore in 2007 to 3.58 crore in 2016), which is the lowest rate among Indian states. The literacy rate of Kerala (94 *per cent*) is the highest among the Indian states. Gross State Domestic Product (GSDP) of the State in 2016-17 at current prices was ₹6,55,205 crore. The per capita income (2016-17) of the State at current prices stands at ₹1,83,039.

About the Report

This Report of the Finances of the Government of Kerala is being brought out with a view to assess objectively, the financial performance of the State during 2016-17 and to provide the State Government and the State Legislature with timely inputs based on audit analysis of financial data. In order to give a perspective to the analysis, an effort is made to compare the achievements with the targets envisaged by the State Government in the budget estimates of 2016-17. Based on the audited accounts of the Government of Kerala for the year ended March 2017, this Report provides an analytical review of the Annual Accounts of the State Government. This Report is structured in three Chapters.

Chapter 1 is based on the audit of Finance Accounts and makes an assessment of the Kerala Government's fiscal position as on 31 March 2017. It provides an insight into trends in committed expenditure, borrowing pattern and quality of expenditure, besides giving comparison on State's expenditure with other General Category States.

Chapter 2 is based on the audit of Appropriation Accounts and gives a Grant-by-Grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter 3 is an inventory of the Kerala Government's compliance with various reporting requirements and financial rules. The report also compiles the data compiled from various Government departments/organizations in support of the findings.

Audit findings and recommendations

Chapter I: Finances of the State Government

Overall financial status

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

Revenue resources of the State

Revenue receipts of the State increased from ₹69,033 crore in 2015-16 to ₹75,612 crore in 2016-17 and recorded a growth of 9.53 *per cent*, which was the lowest growth rate shown during the last five years period. State's own tax revenue, being the main source of revenue in revenue receipts also recorded lowest growth rate (8.16 *per cent*) in 2016-17. Though, State's share of Union taxes and Duties and Grants-in-aid from GoI doubled during last five years, there was considerable reduction in grants-in-aid released for State plan schemes and Central plan schemes. Though the receipts under State Lotteries was ₹7,283 crore (75 *per cent* of Non-tax revenue) an equally high expenditure of ₹5,992 crore on distribution of prizes, agent commission, etc. reduced the net yield to ₹1,291 crore during the year.

Revenue expenditure of the State

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

Quality of expenditure

Though share of capital expenditure in total expenditure increased during last two years, it was on the lower side compared to General Category States in 2016-17. State's share of expenditure on health and education sector in total expenditure was more than General Category States, but the share of capital expenditure and development expenditure in total expenditure was less than that of General Category States. The average return on investment made by State Government was 1.35 *per cent* in the last five years while the Government paid an average interest rate of 7.18 *per cent* on its borrowings. The interest receipt on loans and advances given by State Government was 0.22 *per cent* during 2016-17 against the average cost of borrowing of 6.92 *per cent*.

Reserve Funds and liabilities

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

Debt management

As per the recommendations of Fourteenth Finance Commission, Fiscal Liability-GSDP ratio was to be less than 25 *per cent*, but during the last five years it showed an increasing trend (from 26.31 in 2012-13 to 28.96 in 2016-17) due to increased growth of fiscal liability with respect to GSDP. Almost 68 *per cent* of the loans raised during 2016-17 was used for servicing the debt. Maturity profile of the State shows that about 50 *per cent* of the debt (₹ 62,478.65 crore) is to be repaid by March 2024.

Management of loans raised from financial institutions

Departmental Officers are responsible for arranging prompt re-payment of loans and to maintain the records relating to receipt and repayment of loans raised from financial institutions. Deficiencies in loan accounting, repayment and monitoring was noticed in respect of loans raised from NCDC and HUDCO.

Chapter II: Financial Management and Budgetary Control

The overall savings of ₹ 20,460.29 crore (15.49 *per cent*) in 2016-17 against the total budget allocation of ₹1,32,058 crore was 5.13 *per cent* less than the savings noticed during 2015-16 (20.62 *per cent*). Persistent savings exceeding ₹ 100 crore, which was more than 25 *per cent* of the total budget provision were noticed in two Grants under revenue section and three grants and one appropriation in capital section. Excess expenditure of ₹ 141.17 crore in 2016-17 under eight Grants is to be regularized under Article 205 of the Constitution along with excess expenditure of ₹ 1,048.39 crore relating to previous years (2011-12 to 2015-16). Supplementary provisions aggregating to ₹ 1,238.23 crore obtained in 11 Grants/ Appropriations proved unnecessary as the expenditure did not come up to the level of even the original provisions. During 2016-17, 16 *per cent* of the total budget allocation was surrendered at the end of the financial year, which includes four grants and one appropriation having surrender more than ₹ 1,000 crore. Unnecessary and injudicious re-appropriations indicated that departmental officers failed in assessing actual requirement of funds in heads of account under their control. Excess payment of pension and non-settlement of advances by drawing and disbursing officers were noticed in Inspection of Treasuries.

Chapter III: Financial Reporting

The audit of accounts of autonomous bodies, which was entrusted to the Comptroller and Auditor General of India under Sections 19 (2), 19 (3) and 20 (1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, are pending from 2011-12 onwards (2011-12 onwards for one institution, 2012-13 onwards for two, 2013-14 onwards for one and 2014-15 onwards for six institutions) due to delay in submission of accounts.

The funds released to District Collectors for implementing various programmes were accumulated in Treasury Savings Bank accounts or Nationalised banks without refunding the unutilised balance.